

**ODISHA ELECTRICITY REGULATORY COMMISSION  
BIDYUT NIYAMAK BHAWAN,  
UNIT – VIII, BHUBANESWAR – 751 012**

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**Present : Shri S.P Nanda, Chairperson  
Shri K.C. Badu, Member  
Shri B.K. Misra, Member**

**Case Nos. 29, 30 & 31 / 2007  
and  
Case Nos. 6, 7 & 8 / 2012**

**In the matter of : Truing up in respect of WESCO, NESCO, SOUTHCO, CESU and  
GRIDCO & OPTCL**

**Date of Hearing: 25.02.2012, 28.02.2012 & 24.02.2012  
and  
22.02.2012, 23.02.2012 & 27.02.2012**

**Date of Order : 19.03.2012**

**ORDER**

1. WESCO, NESCO and SOUTHCO in their ARR application for FY 2012-13 have prayed to approve the ARR for 2012-13 including amortization of assets on account of truing up exercise up to financial year 2010-11 and uncovered gap for 2011-12 by truing up.
2. In Suo motu Case Nos. 68, 69, 70 & 71 of 2007 regarding receivable audit, Commission on 20.09.2010 passed the following orders:  
*“(iv) Once the Case No 68,69,70,71 are disposed of, Commission will take up the Case No. 29,30,31 of 2007 (Truing up for hearing).”*
3. The Commission disposed of the Case Nos. 68, 69, 70 & 71 in their order dtd. 14.01.2011 relating to the receivable audit. The Commission in the said Order observed that a separate hearing will be conducted to dispose of the matter of truing up in Case Nos. 29, 30, 31 of 2007.
4. The three Distribution Companies, WESCO, NESCO & SOUTHCO in their Appeal Nos. 147, 148 & 149 of 2011 filed with Appellate Tribunal have sought the following relief.  
*“To direct OERC to determine the principle of truing up front.”*
5. Commission accordingly decided that in order to finalise the truing up, such exercise be taken up by 3<sup>rd</sup> week of October of the financial year subject to submission of audited accounts by 1<sup>st</sup> week of October by the licensees. Commission in Letter No. 1640 dated 06.09.2011 directed all the Licensees, DISCOMs, GRIDCO, and OPTCL to submit the annual Accounts of 2010-11 by 1<sup>st</sup> week of October 2011. In response to the letter of the Commission, only WESCO, NESCO & SOUTHCO filed the audited accounts with the Commission by the scheduled date. OPTCL filed its Audited Accounts for 2010-11 on 24.12.2011, GRIDCO on 10.02.2012 and CESU on

25.02.2012. Due to delay in submission of audited accounts by few licensees it was not possible on the part of the Commission to pass order on true up by 3<sup>rd</sup> week of October, 2011 as decided earlier.

6. In view of the position indicated above, Commission decided to hear the case on truing up of all the Licensees on the dates scheduled for hearing of ARR & Tariffs for 2012-13 of the respective licensees. All the licensees were directed to file their submission along with the audited accounts for 2010-11 (only CESU & GRIDCO), so that the matter would be heard on the dates fixed for hearing of ARR & Tariff of 2012-13 of the respective companies.
7. All the Licensees filed their submission on the truing up till 31.3.2011. The Commission registered separate Case Nos. 6, 7 & 8 / 2012 for GRIDCO, OPTCL and CESU respectively.

#### **WESCO**

8. WESCO in their submission have submitted that they have filed their views on truing up in the ARR filing for FY 2012-13. They have submitted that in the provisional true up made till FY 2009-10 by the Commission, WESCO has surplus revenue of Rs. 871.93 cr. based on the truing up exercise till FY 2009-10. However, WESCO has submitted that instead of surplus revenue they have a negative gap of Rs. 481.19 cr. till FY 2009-10 based on the audited account. Further considering the audited account for the year 2010-11 the total negative gap till FY 2010-11 is Rs. 637.60 cr. WESCO has, therefore, prayed to consider the negative gap of **Rs. 637.60 cr.** till FY 2010-11 while finalizing the truing up exercise in the ARR for FY 2012-13.

#### **NESCO**

9. NESCO in their submission have submitted that they have filed their views on truing up in the ARR filing for FY 2012-13. They have submitted that in the provisional true up made till FY 2009-10 by the Commission, NESCO has surplus revenue of Rs. 359.57 cr. based on the truing up exercise till FY 2009-10. However, NESCO has submitted that instead of surplus revenue they have a negative gap of Rs. 623.84 cr. till FY 2009-10 based on the audited account. Further considering the audited account for the year 2010-11 the total negative gap till FY 2010-11 is Rs. 708.79 cr. NESCO has, therefore, prayed to consider the negative gap of **Rs. 708.79 cr.** till FY 2010-11 in the ARR for FY 2012-13.

#### **SOUTHCO**

10. SOUTHCO in their submission have submitted that they have filed their views on truing up in the ARR filing for FY 2012-13. They have submitted that in the provisional true up made till FY 2009-10 by the Commission, SOUTHCO has gap of Rs. 223.12 cr. based on the truing up exercise till FY 2009-10. However, SOUTHCO has submitted that instead of negative gap of Rs. 223.12 cr. they have higher negative gap of Rs. 865.83 cr. till FY 2009-10 based on the audited account. Further considering the audited account for the year 2010-11 the total negative gap till FY 2010-11 is Rs. 927.60 cr. SOUTHCO has, therefore, prayed to consider the negative gap of **Rs. 927.60 cr.** till FY 2010-11 in the ARR for FY 2012-13.

#### **CESU**

11. CESU in its submission have claimed a negative gap of Rs. 259.75 cr. for true up based on the audited account for the year 2009-10 and 2010-11. CESU has also

submitted that the Commission had earlier allowed a negative gap of Rs. 319.53 cr. up to FY 2008-09 in the earlier Tariff Order. After adjusting an amount of Rs. 2.24 cr. towards gap allowed by the Commission in the FY 2009-10 and 2010-11, CESU prayed that the total negative gap of **Rs. 577.04 cr.** (Rs. 259.75 cr. + Rs. 319.53 cr. – Rs. 2.24 cr.) till FY 2010-11 may be allowed while finalizing the truing up exercise for FY 2012-13.

#### **GRIDCO**

12. GRIDCO in its submission with regard to truing up expenses up to 2010-11 submitted that the Commission while passing the ARR and BSP Order of GRIDCO for FY 2011-12 on 18.03.2011 against the Case No. 144/2010 has already enunciated the principles of truing up and accordingly have undertaken truing up exercise of GRIDCO based on audited account up to 2009-10. In the said Order dated 18.03.2011 from Para 492-495 such truing up along with principles have been addressed.
13. GRIDCO has submitted that in the said Order dtd. 18.03.2011 at Para 478 the Commission approved Regulatory Assets amounting to Rs.1414.31 Cr. towards bridging the cash deficit to meet the required power purchase cost of FY 2009-10 to be recovered in phased manner over a period of six years spanning from FY 2010-11 to 2015-16. Accordingly Rs. 325.75 Cr. on this account as Regulatory Assets is to be appropriated in the ARR of 2012-13. GRIDCO has, therefore, submitted that in line with the existing approval of Regulatory Assets, the above sum of Rs. 325.75 cr. towards past liabilities relating to power purchase cost may be allowed in the ARR of 2012-13.
14. GRIDCO has also carried out truing up exercise based on the audited accounts for FY 2010-11 and accordingly has projected a negative gap of Rs. 2266.59 cr. towards shortfall in revenue over the amount approved by OERC in previous ARR and BSP orders. GRIDCO in their submission stated that the following parameters were adopted in undertaking truing up exercise.
  - (a) Power Purchase cost on actual basis.
  - (b) Employee cost on actual basis.
  - (c) R&M cost on actual basis.
  - (d) A&G cost as per actual subject to the limit approved in the ARR.
  - (e) Interest on loan amount on actual basis except interest on loan from State Govt.
  - (f) Depreciation as per actual reflected in the audited account.
15. GRIDCO has, therefore, prayed to approve the proposed amount of **Rs.2266.59 cr.** as pass through expenses up to FY 2010-11 in the ARR and BSP Order for FY 2012-13.

#### **OPTCL**

16. OPTCL in its submission with regard to truing up expenses up to 2010-11 submitted that the Commission while passing the ARR and Transmission Tariff Order of OPTCL for FY 2011-12 on 18.03.2011 in Case No.145/2010 has already enunciated the principles of truing up and accordingly have undertaken truing up exercise of OPTCL based on audited accounts from 2006-07 to 2009-10. In the said order dated 18.3.2011 at Para 334 such truing up along with principles has been addressed.

17. OPTCL in their ARR application for FY 2012-13 has claimed pass through expenses of Rs.205.81 cr. as truing up cost incurred over and above the cost allowed by the Commission for the last five financial years starting FY 2006-07 to FY 2010-11. OPTCL in their fresh submission on truing up has modified its claim from Rs. 205.81 cr. to Rs.215.02 cr. based on the truing up exercise undertaken from FY 2006-07 to FY 2010-11. The following principles were followed by OPTCL for truing up based on audited accounts for the FY 2010-11.
- (i) Employee cost is considered on the basis of audited accounts including terminal benefits.
  - (ii) Repair and Maintenance cost is considered as per audited accounts.
  - (iii) Administration and General cost including GCC (Grid Co-Ordination Committee) expenses is considered as per audited actual. It is submitted that lack of sufficient funds towards A&G expenses would adversely affect efficient functioning of OPTCL.
  - (iv) Interest on loan is considered as per audited figure.
  - (v) Depreciation is considered as approved by the Hon'ble Commission in respective years.
  - (vi) Provision for doubtful debt is considered for the inter-State wheeling of power @ 7.50 paise per unit over and above an amount of 10 paise per unit as the amount is not likely to be received. Hence, provision for doubtful debt has been reduced from the income to arrive at the actual revenue for truing up.
  - (vii) Provision towards contingency reserve is considered as per audited figure.
  - (viii) Return on Equity is considered as per CERC norm.
  - (ix) Miscellaneous receipt is considered as per audited figure.

OPTCL, therefore, prayed to approve the proposed amount of **Rs.215.02 cr.** as pass through expenses in the ARR and transmission tariff for FY 2012-13 on account of truing up expenses.

18. The Commission heard the licensees on the truing up matter along with their ARR filing on the respective dates of hearing. The written submissions made have also been taken into record and duly considered on its merit.

#### **Commission's Observations**

19. For the first time the Commission had carried out truing up exercise in the Tariff Order for 2007-08 and the Commission has been carrying out the truing up exercise of the licensees in the successive Tariff Orders based on the latest available audited accounts. As a part of truing up exercise, the Commission had recomputed the ARR for each financial year based on the audited account and norms for efficiency parameters as laid down by the Commission in their Order for the approval of Business Plan of DISCOMs & OPTCL.

In the following paragraphs details of the principles adopted in truing up exercise have been discussed.

## Truing up of DISCOMs

20. The following table summarises the principles adopted by Commission in regard to cost of power purchase, distribution losses and sales for the purpose of truing up.

**Table - 1**

	FY-00	FY-01	FY-02	FY-03	FY-04	FY-05	FY-06	FY-07	FY-08	FY-09	FY-10	FY-11
Power Purchase and its Cost	As per the audited accounts, power purchase costs accepted in full											
Distribution Losses	Audited Distribution losses accepted	Distribution losses to the Kanungo Committee	Audited Distribution Losses accepted for true-up; same as the benchmark accepted in the Business Plan order dtd. 28.02.2005 (from the FY 2002-03 & 2003-04)	Benchmark losses as per the Business Plan Order dtd. 28.02.2005 accepted for true-up (for FY 2004-05 to 2007-08)					Benchmark losses as per the Business Plan Order dtd. 20.03.2010, considered for true-up (for FY 2008-09 to 2010-11)			
Sales	As per Audited Accounts	Saleable Energy Determined as per Actual Power purchase and Distribution Loss filed by the DISCOMs to Kanungo Committee	Saleable Energy Determined as per the Actual Power Purchase and benchmark Distribution losses as per the Business Plan dtd.28.02.2005 which is same as audited figure	Saleable Energy Determined as per the Actual Power Purchase and benchmark Distribution losses as per the Business Plan Order dtd. 28.02.2005					Saleable Energy Determined as per the Actual Power Purchase and benchmark Distribution losses as per the Business Plan Order dtd. 20.03.2010			

## Employee Cost

21. The Commission while carrying out the truing up exercise has considered the actual audited employee expenses as per the audited accounts of the licensee. The Commission in the Multi-Year Tariff Order dtd.28.02.2011 for DISCOMs stated the following:

*“Wages and salaries during the control period would include the base year values of Basic Pay, Grade Pay and dearness allowance escalated for annual salary increments and inflation based on Govt. Notification. Terminal liabilities would be provided based on a periodic actuarial valuation in line with the prevailing Indian accounting standards. The financial impact of any award by Govt. Of India/Govt. Of Orissa shall be taken care of in subsequent year in truing up.”*

The Commission had followed the principle set out in the Multi-Year Tariff (MYT) Order while undertaking truing up exercise.

## Repair and Maintenance Cost

22. The Commission has, in the past, allowed R&M expenses on an established norm the quantum of which has been far more than what DISCOMs have been incurring. The Commission continues to press the importance to carry out R&M on a regular and schedule basis and would continue to allow expenses in the same norms. However, the amount unutilised in the past is being adjusted during truing up. The Commission in its LTTS (Long Term Tariff Strategy) Order dtd.12.11.2003 and subsequently in its MYT Order dtd.28.02.2011 allowed the R&M expenses @ 5.4% of Gross Fixed Assets (GFA).

## **Administration and General Expenses**

23. The Commission in its MYT Order dtd.28.02.2011 have outlined the following principle:

*“A&G expenses were allowed @ 7% escalation over the base year value in ARR during the first control period. DISCOMs in their submission have submitted to link it to CPI and WPI in proportion of 60:40 on actual A&G expenses. A&G should also be allowed for undertaking various initiatives towards loss reduction measures and growth due to RGGVY programme. The Commission in this regard observes that A&G expenses should be incurred prudently and only for the activities required for the purpose incidental to the activity and functions of the DISCOMs. The Commission, however, in addition to the normal A&G expenses of 7% also allows additional expenses for activities such as IT automation, call center and expenses toward energy police station. In view of the submissions and facts the Commission would continue to allow normal Administrative and General Expenses @7% escalated over the base year value during the second control period also. In addition to above Commission would also allow expenses in addition to the normal A&G expenses for special measures undertaken by the DISCOMs towards reduction of AT&C losses and improving collection efficiency, after prudent check.*

*No adjustment in ARR shall be made on account of actual values being different from these performance targets for the O & M costs during the control period.”*

The Commission therefore decide to consider the approved A&G expenditure for the purpose of truing up.

## **Bad & Doubtful Debts**

24. Bad & Doubtful debts are allowed as a percentage of sales revenue. During the previous control period i.e. 2002-03 to 2007-08, the Commission have allowed Bad & Doubtful debts 2.5% on the sales revenue. During the 2<sup>nd</sup> control period i.e. 2008-09 to 2012-13 the Commission have allowed bad and doubtful debts in the ARR as follows:

FY 2008-09	2.5% of the total annual revenue billing
FY 2009-10	2% of the total annual revenue billing
FY 2010-11	2% of the total annual revenue billing on HT and LT sales.
FY 2011-12	1% of the total annual revenue billing on HT and LT sales. (As per MYT order dated 28.02.2011)
FY 2012-13	1% of the total annual revenue billing on HT and LT sales. (As per MYT order dated 28.02.2011)

The Commission in truing up exercise has followed the same principle i.e. provision for bad and doubtful debt is determined as a percentage approved by the Commission in different ARR as a percentage to the sales revenue computed for truing up exercise.

## **Depreciation**

25. The Hon'ble High Court of Odisha in its order dtd.28.02.2003 and modified order dtd.14.03.2003 directed that depreciation is to be calculated on the pre-upvalued assets at pre-1992 rates as notified by the Govt. of India. Based on this for the purpose of truing up, the Commission has accepted actual depreciation till FY 2000-01 and then as per Hon'ble High Court directives from FY 2001-02 till 2010-11.

### Interest Chargeable to Revenue

26. The Commission has accepted the actual cost of financing for all the loans approved by the Commission for the purpose of truing up. Regarding interest on loan on NTPC Power bonds the Commission did not allow interests from the year 2008-09 till date, since the case is being sub-judice in the Hon'ble Supreme Court in CA No.759 of 2007 and CA No.D-4688 of 2011.

### Computation of the revenue of DISCOMs

27. As a part of truing up exercise the Commission has considered the annual revenue based on the distribution loss accepted by the Commission for truing up exercise. The revenue determined by OERC is the same as the audited accounts of the licensee for the financial years 1999-00, 2000-01, 2002-03 and 2003-04. For the year 2001-02 the revenue computed by OERC is based on the distribution loss projected to Kanungo Committee by the DISCOMs. The saleable unit arrived is then multiplied with the average rate of billing as computed from the audited data. From the year 2004-05 till 2010-11 the saleable unit is arrived based on the normative distribution loss as per the efficiency parameters set out in the Business Plan for the control period. The saleable unit thus arrived is multiplied with the average rate of billing as computed from the audited data filed by the licensee to arrive at the revenue billed for the purpose of truing up.

### Miscellaneous Revenue

28. For the purpose of truing the miscellaneous receipt as shown in the audited account has been considered for the purpose of truing up excluding DPS and over-drawl penalty.
29. With above observation the summary of Truing up exercise for the four DISCOMs is depicted in the table below:

**Table -2**

**(Rs. In Crore)**

WESCO	1999- 00	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11
Gap in Revenue Requirement	(10.12)	(27.64)	23.27	(9.93)	65.68	(37.98)	(20.87)	57.05	168.77	(115.66)	63.73	(28.22)
Gap in Revenue from Sale of Power	(11.88)	(53.41)	(10.76)	(14.72)	(65.79)	18.41	31.80	(16.48)	(19.69)	283.51	216.91	381.22
Total Gap (for the year)	(22.00)	(81.05)	12.51	(24.65)	(0.11)	(19.56)	10.92	40.57	149.08	167.85	280.64	353.00
Add: Approved gap in ARR allowed by the Commission	0.26	30.27	(3.66)	61.01	48.30	52.42	112.40	66.88	0.05	24.83	(38.90)	2.33
Gap considered for True up	(21.74)	(50.78)	8.85	36.36	48.19	32.86	123.32	107.45	149.13	192.68	241.74	355.33
Cumulative Gap(+/-)	(21.74)	(72.52)	(63.66)	(27.30)	20.89	53.75	177.07	284.52	433.65	626.33	868.07	1223.39
NESCO	1999- 00	2000- 01	2001- 02	2002- 03	2003- 04	2004- 05	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2010- 11
Gap in Revenue Requirement	(35.25)	29.37	23.79	30.23	85.86	(53.10)	(3.78)	94.69	26.78	13.15	(47.85)	25.25
Gap in Revenue from Sale of Power	(19.46)	(72.36)	(16.17)	(14.39)	(72.66)	7.39	80.48	(16.85)	60.28	54.68	214.54	143.72
Total Gap (for the year)	(54.71)	(42.99)	7.62	15.84	13.20	(45.72)	76.70	77.85	87.06	67.83	166.70	168.98
Add: Approved gap in ARR allowed by the Commission	(11.08)	(10.44)	(90.90)	(37.76)	(34.51)	(19.18)	(22.31)	(7.78)	0.08	1.45	0.37	11.12
Gap considered for True up	(65.79)	(53.43)	(83.28)	(21.92)	(21.31)	(64.90)	54.39	70.07	87.14	69.28	167.07	180.10
Cumulative Gap(+/-)	(65.79)	(119.23 )	(202.51 )	(224.43)	(245.74)	(310.6 4)	(256.2 5)	(186.1 9)	(99.05)	(29.77)	137.29	317.39

SOUTHCO	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Gap in Revenue Requirement	4.60	14.27	29.56	40.38	37.14	(45.88)	37.38	29.86	8.53	(37.17)	(26.83)	(39.40)
Gap in Revenue from Sale of Power	(34.66)	(33.61)	(11.28)	(45.34)	(26.65)	(6.36)	(17.02)	(5.26)	38.91	105.00	92.31	166.86
Total Gap (for the year)	(30.06)	(19.34)	18.28	(4.96)	10.49	(52.24)	20.35	24.60	47.44	67.83	65.48	127.46
Add: Approved gap in ARR allowed by the Commission	(25.91)	(31.11)	(53.13)	(13.38)	(49.33)	(34.27)	(15.60)	(51.34)	(3.78)	0.06	0.68	1.31
Gap considered for True up	(55.97)	(50.45)	(34.85)	(18.34)	(38.84)	(86.51)	4.75	(26.74)	43.66	67.89	66.16	128.77
Cumulative Gap(+/-)	(55.97)	(106.42)	(141.27)	(159.61)	(198.45)	(284.96)	(280.21)	(306.94)	(263.28)	(195.39)	(129.23)	(0.46)
CESU	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Gap in Revenue Requirement	(100.98)	(16.48)	12.90	34.94	35.54	12.75	11.39	(57.18)	110.94	(60.35)	(65.45)	(226.21)
Gap in Revenue from Sale of Power	(50.14)	(54.29)	(32.91)	(201.63)	(102.30)	18.14	96.72	91.76	51.69	124.34	196.66	544.13
Total Gap (for the year)	(151.12)	(70.77)	(20.01)	(166.69)	(66.76)	30.88	108.11	34.58	162.63	63.99	131.22	317.92
Add: Approved gap in ARR allowed by the Commission	(21.52)	(15.96)	(10.01)	98.06	7.57	(33.61)	(8.62)	(7.76)	3.06	3.01	0.80	1.43
Gap considered for True up	(172.64)	(86.73)	(30.02)	(68.63)	(59.19)	(2.73)	99.49	26.82	165.69	67.00	132.02	319.35
Cumulative Gap(+/-)	(172.64)	(259.37)	(289.39)	(358.02)	(417.22)	(419.94)	(320.45)	(293.63)	(127.94)	(60.93)	71.08	390.43

The details of the calculation on different elements of their ARR as trued up have been indicated in annexure-1.

30. Regarding direction given by Hon'ble ATE in respect of truing up dtd. 08.11.2010, the Commission in its Tariff Order dated 18.3.2011 for FY 2011-12 stated as follows:

*“496. WESCO, NESCO and SOUTHCO in Appeal Nos. 52, 53 & 54 of 2007 challenged the determination of Retail Supply Tariff in respect of the FY 2007-08 by the Commission before Hon'ble ATE. The Hon'ble ATE in its judgment dtd. 8<sup>th</sup> November, 2010 directed the following regarding truing up exercise and amortization of regulatory assets.*

*“37. (vi) The last issue is relating to the Truing up and amortization of regulatory assets. The truing up cannot be a process where the projections are compared with the projections. According to the Appellants, they had undertaken the audit of the past receivables as per the guidelines of the State Commission and submitted the same to the Commission in the month of March 2008. We, therefore, direct the State Commission to revisit this issue after taking into account the audit of the past receivables of the Appellants.”*

- 497. The Commission has taken note of the observation made by the Hon'ble ATE in the said order while approving the ARR of Licensee for FY 2011-12. The Commission in this regard has however preferred Civil Appeal against the above judgement of the Hon'ble ATE before the Hon'ble Supreme Court in the appeal, CA no. D 4688 of 2011.*

- 498. In this regard the Commission earlier observed the following in Para 478 of the RST Order for FY 2010-11.*

*“478. In line with the earlier order of the Commission holds the opinion that the outcome of the order on receivable audit has some bearing on the income*



*of GRIDCO and hence decides to undertake final truing up exercise after the pronouncement of the final order on receivable audit for DISCOMs.”*

*“499. The Commission in the mean time has pronounced the final order on receivable audit in Case Nos. 68, 69, 70 & 71 of 2007 dtd. 14.01.2011 and has directed following for compliance of DISCOMs.*

*“21. To summarise the Commission decides and directs as follows:*

- i. The Commission decides in principle to consider the following receivable as bad debt completely:*
  - (a) Receivables of all LD/permanently disconnected consumers.*
  - (b) Receivables of ghost consumers*
- ii. Licensees are directed to furnish consumer-wise list of all LD, PDC and ghost consumers in a soft copy along with hard copy duly certified by concerned SDOs and respective auditors.*
- iii. The list should be submitted to the Commission on or before 28.02.2011.*
- iv. The final truing up exercise in respect of bad debt shall be carried out after the licensees submit the data within the scheduled date as stated above.”*

*500. As per the above direction of the Commission the DISCOMs were required to submit the requisite information by 28.02.2011. On the basis of receipt of such information the Commission would have decided on the quantum of non-recoverable amount for each DISCOM to be written off and finalization of the truing up exercise in the ARR for FY 2011-12 towards bad and doubtful debt. However no DISCOM has filed the requisite information within the date line given by the Commission. SOUTHCO has in-fact prayed for extension of time for submission of such information. In view of such a scenario the quantum of non-receivable up to 31st March, 2005 cannot be finalised in terms of the order of the Commission in this regard dated 14.01.2011 and therefore the truing up in this ARR is approved on provisional basis.”*

31. SOUTHCO, WESCO & NESCO filed appeal before the Hon’ble ATE challenging the order of the Commission dtd.18.3.2011 vide Appeal Nos. 147, 148, 149 of 2011. They have in their appeal mentioned that OERC has (i) set unrealistic distribution loss target (ii) disallowed employee expenses (iii) disallowed A&G expenses (iv) Truing up exercise not done regularly (v) allowed inadequate tariff to meet the approved cost.
32. In regard to truing up exercise the petitioners alleged that OERC has failed to carry out the truing up exercise for the purpose and continue to do so on a provisional basis since last four years, thereby postponing the truing up expenses though the same appearing on the face of the record and thereby causing grave prejudice to the DISCOMs. Further, they alleged that in absence of clear principles and guidelines, truing up is done on a provisional basis leading to regulatory uncertainty and as a result the DISCOMs are unable to recover the cost.
33. In this regard, the Commission would like to state that on the basis of provisional truing up exercise amortisation of regulatory assets have been allowed from 2006-07

onwards. Therefore, question of postponing truing up expenses does not arise. In para 491 of the RST Order for FY 2011-12 the Commission stated the following:

*“491. The Commission in last four successive tariff orders had undertaken truing up exercise of cost and revenue of DISCOMs based on audited accounts available with the Commission. The first truing up was taken in the RST order of 2007-08 wherein provisional true of ARR with audited accounts was done for the years FY 1999-2000 to FY 2005-06. Subsequently in the RST orders of FY 2009-10 further true up was extended up to the FY 2007-08 for WESCO, NESCO & SOUTHCO and up to FY 2006-07 for CESU. The Commission based on these provisional true up exercise has also been granting amortization of regulatory assets every year to the DISCOMs who have landed up with negative Regulatory Asset, while finalizing their ARR. Based on the earlier true up Commission has allowed in successive ARR, amortization of regulatory assets in the following manner:-*

**Table - 88**

**(Rs. in crore)**

<b>Year</b>	<b>WESCO</b>	<b>NESCO</b>	<b>SOUTHCO</b>	<b>CESU</b>
2006-07	-	41.36	31.91	
2007-08	-	41.36	31.91	43.23
2008-09	-	65.00		118.00
2009-10	-		19.00	151.00
<b>Total amortization allowed</b>		<b>147.72</b>	<b>82.82</b>	<b>312.23</b>

It would thus be revealed from the above table that, the Commission has allowed in total amortization of regulatory assets to the tune of Rs.147.72 cr., Rs.82.82 cr. & Rs.312.23 cr. to NESCO, SOUTHCO and CESU respectively. No amortization of regulatory assets has been allowed to WESCO as it has landed with positive regulatory assets as per the truing up exercise.

34. The allegations of DISCOMs that there have been no clear principles and guidelines for truing up is not only untrue but also misleading. Right from the beginning in the RST order for FY 2007-08 when the first truing up exercise was undertaken for DISCOMs, the principles of truing up were enumerated in RST Order itself. Subsequently in RST Order 2009-10 and 2011-12, the principle adopted for the purpose of true up have been discussed in Para 401 of the Tariff Order 2009-10 and Para 493 of Tariff Order for FY 2011-12. Commission categorically rejects the claim of the R-Infra managed DISCOM's proposal that for truing up of exercise the actual revenue collected need to be considered for determination of the gap in revenue as per the actual distribution loss made by DISCOMs, instead of benchmark distribution loss approved in the Business Plan order and subsequently adopted in the MYT order and ARR approval order. Commission do not find any justification to deviate from truing up principle being followed with effect from financial year 2004-05 onwards. Accordingly, the Commission determine the cumulative gap as on 31.03.2011 of various DISCOMs as under:

(Rs. cr.)

Cumulative gap as on 31.3.2011			
Name of DISTCOMs	Proposed by DISCOM	Commission's approval	Remarks
WESCO	(-)637.60	1223.39	The difference between DISCOMs proposal and Commission's approval is attributed mainly due to DISCOM's not able to achieve the targeted distribution loss approved by the Commission mainly due to billing inefficiency.
NESCO	(-)708.79	317.39	
SOUTHCO	(-)927.60	(-)0.46	
CESU	(-)577.04	390.43	

35. As regards to the second allegation of R-Infra managed DISCOMs that the truing up exercise being provisional Commission would like to make it clear that this is because of the fact that order on receivable audits have not been finalized by DISCOM till 14.01.2011. In the meantime order on receivable audit have been finalized and the Commission observed the following in the RST Order FY 2011-12 at Para 498 to 501 which is reproduced below:

*“498. In this regard the Commission earlier observed the following in Para 478 of the RST Order for FY 2010-11.*

*“478. In line with the earlier order of the Commission holds the opinion that the outcome of the order on receivable audit has some bearing on the income of GRIDCO and hence decides to undertake final truing up exercise after the pronouncement of the final order on receivable audit for DISCOMs.”*

*“499. The Commission in the mean time has pronounced the final order on receivable audit in Case No. 68, 69, 70 & 71 of 2007 dtd.14.01.2011 and has directed following for compliance of DISCOMs.*

*“21. To summarise the Commission decides and directs as follows:*

- v. The Commission decides in principle to consider the following receivable as bad debt completely:*
  - (c) Receivables of all LD/ permanently disconnected consumers.*
  - (d) Receivables of ghost consumers*
- vi. Licensees are directed to furnish consumer-wise list of all LD, PDC and ghost consumers in a soft copy along with hard copy duly certified by concerned SDOs and respective auditors.*
- vii. The list should be submitted to the Commission on or before 28.02.2011.*
- viii. The final truing up exercise in respect of bad debt shall be carried out after the licensees submit the data within the scheduled date as stated above.”*

500. As per the above direction of the Commission the DISCOMs were required to submit the requisite information by 28.02.2011. On the basis of receipt of such information the Commission would have decided on the quantum of non-recoverable amount for each DISCOM to be written off and finalization of the truing up exercise in the ARR for FY 2011-12 towards bad and doubtful debt. However no DISCOM has filed the requisite information within the date line given by the Commission. SOUTHCO has in-fact prayed for extension of time for submission of such information. In view of such a scenario the quantum of non-receivable up to 31st March, 2005 cannot be finalised in terms of the order of the Commission in this regard dated 14.01.2011 and therefore the truing up in this ARR is approved on provisional basis.

“501. The Commission on the basis of the truing up exercise allows the amortization of Regulatory assets to SOUTHCO and CESU in the ARR of 2011-12 who have landed up with negative Regulatory Assets, in the following manner:

**Table – 94**

	<b>(Rs. Crore)</b>			
<b>Year</b>	<b>WESCO</b>	<b>NESCO</b>	<b>SOUTHCO</b>	<b>CESU</b>
<i>Amortization of Regulatory Assets for FY 2011-12</i>	<i>Nil</i>	<i>Nil</i>	<i>35.00</i>	<i>7.30</i>

*In view of the above observation of the Commission and basing upon compliance thereof from the DISCOMs the order on final truing up would be pronounced along with the ARR for the ensuing year i.e. FY 2012-13.”*

36. All the DISCOMs submitted the consumer-wise list of all LDC (Long Disconnected Consumer), PDC (Permanently Disconnected Consumer) and ghost consumers certified by concerned SDOs and the respective auditors on the following dates.

WESCO	-	17.3.2011
NESCO	-	19.12.2011
SOUTHCO	-	17.3.2011
CESU	-	12.5.2011

37. The analysis of figures of PDC and ghost consumers as on 31.3.2005 filed by the licensee is given below:

**Table - 3**

	<b>(Rs. in crore)</b>
<b>Name of the company</b>	<b>Outstanding in respect of PDC &amp; Ghost consumers as on 31.3.2005</b>
<b>WESCO</b>	155.39
<b>NESCO</b>	222.45
<b>SOUTHCO</b>	124.75
<b>CESU</b>	147.86

In line with the Order dtd. 14.01.2011, the Commission decides that the above amount be adjusted against the provision towards bad and doubtful debts allowed for the purpose of truing up. A table showing provision allowed by the Commission up to 31.03.2005, total amount of PDC and ghost consumers allowed by the Commission,

difference, regulatory gap as per true up exercise and approved regulatory gap after adjustment of the PDC and ghost consumers are depicted in the table below:

**Table - 4**

**(Rs. in Cr.)**

<b>Name of the Company</b>	<b>Provision for bad debt allowed by Commission in tariff order upto 2004-05</b>	<b>Total amount PDC and Ghost consumers upto 2004-05</b>	<b>Difference to be adjusted in the True up</b>	<b>Regulatory Gap as per Truing up Exercise upto 2010-11 (para 30 of Table-2)</b>	<b>Approved Gap after adjustment of the PDC and Ghost consumers upto 2010-11</b>
WESCO	88.86	155.39	-66.53	1223.39	1156.86
NESCO	59.57	222.45	-162.88	317.39	154.51
SOUTHCO	40.65	124.75	-84.10	-0.46	-84.56
CESU	104.01	147.86	-43.85	390.43	346.58
<b>Total</b>	<b>293.09</b>	<b>650.45</b>	<b>-357.36</b>	<b>1930.75</b>	<b>1573.39</b>

It is seen from the above table that only SOUTHCO is entitled for amortisation of Regulatory assets since it is posted with the negative gap of Rs.84.56 cr. other three companies are not entitled to get any regulatory assets as they have posted positive gap.

Hence, the Commission allowed an amount of Rs.9 cr. towards amortization regulatory assets in respect of SOUTHCO for the FY 2012-13 and the balance would be considered in the subsequent truing up and ARR.

38. The Commission would like to clarify that the adjustment of PDC and Ghost consumers from the provision of bad and doubtful debts is only limited to truing up exercise. The licensee are directed not to write off the bad debt on account of PDC and ghost consumers from their consumer ledger unless the clear picture of the debtors as a result of implementation of One Time Settlement Scheme by the DISCOMs come out.

#### **Truing up of GRIDCO**

39. The Truing up of GRIDCO has been under taken up to the financial year 2010-11 based on the audited account made available to the Commission. The principles used by Commission in regard to truing up of GRIDCO is summarized below:
- Power Purchase cost is allowed on actual basis.
  - Employees cost is allowed on actual basis
  - R&M cost is allowed on actual basis.
  - A&G cost is allowed as per actuals subject to the limit approved in the ARR.
  - Interest on loan amount is allowed on actual basis except interest on loan from State Govt.
  - Depreciation is allowed as per actuals upto the FY 2000-01. From 2001-02 onwards, depreciation is calculated in line with Hon'ble High Court order i.e. at pre-upvalued cost of asset and pre-92 rate notified by Govt. of India.

- (vii) Income from interest payable by WESCO, NESCO & SOUTHCO on bond value of Rs.400 crore shown in audited accounts for the FY 2006-07 has not been considered in truing up exercise since the matter is sub-judice.

40. With above observation the summary of Truing up exercise for GRIDCO is depicted in the table below:

**Table - 5**

<b>Financial Year</b>	<b>Gap in Revenue Requirement</b>	<b>Gap in Revenue from sale of power</b>	<b>Total Gap (for the Year)</b>	<b>Add: Approved gap in ARR allowed by the Commission</b>	<b>Gap considered for true up</b>	<b>Cumulative Gap(+/-)</b>
1996-97						-295.00
1997-98	-310.15	-5.86	-304.29	0.68	-303.61	-598.61
1998-99	-236.10	-420.39	-656.49	0.19	-656.30	-1254.91
1999-00	-230.33	244.14	13.81	-30.91	-17.10	-1272.01
2000-01	-359.42	194.43	-164.99	0.00	-164.99	-1437.00
2001-02	13.74	65.61	79.35	43.59	122.94	-1314.06
2002-03	-297.86	-264.11	-561.97	0.00	-561.97	-1876.03
2003-04	-79.79	586.13	506.34	0.00	506.34	-1369.69
2004-05	-73.19	322.13	248.94	217.35	466.29	-903.40
2005-06	-403.92	384.32	-19.60	15.72	-3.88	-907.28
2006-07	-175.47	723.02	547.55	-504.52	43.03	-864.25
2007-08	149.93	902.41	1052.34	-464.86	587.48	-276.77
2008-09	-410.14	938.76	528.62	-410.05	118.57	-158.20
2009-10	-1006.67	348.83	-657.84	-882.85	-1540.69	-1698.89
2010-11	-589.29	827.73	238.44	-806.15	-567.71	-2266.60

The above table of truing up exercises reveals a negative gap of Rs. 2266.60 cr. by the end of 31.3.2011 which did not include the special appropriation allowed by the Commission in different tariff orders. The Commission, therefore, approves the amount of Rs. 2266.60 cr. to be amortized over a period of six years. This amount is inclusive of Rs.1414.31 cr. allowed as amortisation in the tariff order for the FY 2011-12. The details of the calculation on different elements of their ARR as trued up have been indicated in annexure-2.

### **Truing up of OPTCL**

41. The Truing up of OPTCL has been under taken up to the financial year 2010-11 based on the audited account made available to the Commission. The principles used by Commission in regard to truing up of OPTCL is summarized below:

- The truing up exercise of OPTCL is undertaken from the year 2006-07 to 2010-11 based on the audited data available to the Commission.
- The past losses for FY 2005-06 based on audited data has been taken into consideration in the transmission tariff order for the year 2007-08 & 2008-09 vide para 5.11.1 and 342 respectively.
- Employees cost is allowed on the basis of audited figure except terminal benefit. Terminal benefit is allowed as approved by the Commission in tariff order of the respective years or actuals whichever is less.

- (iv) Repair and maintenance cost is allowed as per audited figure.
  - (v) A&G cost is allowed as per audited figure or approved by the Commission whichever is less.
  - (vi) Interest on loan is allowed as per audited figure except interest on loan for Govt. Bond value (zero coupon bond).
  - (vii) Depreciation is allowed as approved by the Commission in respective years.
  - (viii) Provision towards contingency reserve is allowed as per audited figure.
  - (ix) Miscellaneous receipt is allowed as per audited figure.
42. With above observation the summary of Truing up exercise for OPTCL is depicted in the table below:

**Table – 6**

**(Rs. in Cr.)**

<b>FY</b>	<b>Cost of Transmission Charges approved in the ARR</b>	<b>Cost of Transmission Charges considered for true up based on audited account</b>	<b>Revenue from Wheeling Charges approved in ARR</b>	<b>Revenue from Wheeling Charges (audited)</b>	<b>Revenue from Wheeling Charges (True up)</b>	<b>Difference in Transmission Charges (Col 2-3)</b>	<b>Difference in Revenue (Col 6-4)</b>	<b>Total Difference Considered for True up (Col 7 + 8)</b>	<b>Cumulative True up</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
2006-07	333.27	323.01	333.27	355.34	355.34	10.26	22.07	32.33	32.33
2007-08	373.73	334.70	373.73	399.76	399.76	39.03	26.03	65.06	97.39
2008-09	376.57	308.07	376.57	678.93	413.15	68.50	36.58	105.08	202.47
2009-10	394.15	375.68	394.15	305.16	438.06	18.47	43.91	62.38	264.85
2010-11	480.93	431.90	480.93	405.19	538.08	49.03	57.15	106.18	371.03

The above table of truing up exercises reveals a positive gap of Rs.371.03 cr. by the end of 31.3.2011. The details of the calculation on different elements of their ARR as trued up have been indicated in Annexure-3. The Commission, therefore, do not consider any amortization towards regulatory assets in respect of OPTCL.

43. Accordingly, the Case Nos. 6, 7 & 8 / 2012 and Case Nos. 29, 30 & 31 / 2007 are disposed of.

Sd/-  
**(B.K. Misra)**  
**Member**

Sd/-  
**(K.C. Badu)**  
**Member**

Sd/-  
**(S.P. Nanda)**  
**Chairperson**