

ORISSA ELECTRICITY REGULATORY COMMISSION

**BIDYUT NIYAMAK BHAWAN,
UNIT – VIII, BHUBANESWAR – 751 012**

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Present : Shri D. C. Sahoo, Chairperson
Shri B. C. Jena, Member
Shri S.K. Jena, Member

CASE NOS.138, 140, 142 & 144 of 2004

DATE OF HEARING : 27.01.2005, 19.01.2005,
22.01.2005 & 24.01.2005

DATE OF ORDER : 26.02.2005

IN THE MATTER OF : Applications for approval of Annual Revenue Requirement and Retail Supply Tariff under Section 62 and other applied provisions of the Electricity Act, 2003 read with related provisions of OERC (Terms and Conditions for determination of Tariff) Regulations, 2004 and OERC (Conduct of Business) Regulations, 2004 and other Tariff related matters for the year 2004-05.

ORDER

This order is initiated on the applications filed by the DISTCOs, namely, Central Electricity Supply Company of Orissa Ltd.(for short, CESCO), North-Eastern Electricity Supply Company of Orissa Ltd.(for short, NESCO), Western Electricity Supply Company of Orissa Ltd.(for short, WESCO), Southern Electricity Supply Company of Orissa Ltd.(for short, SOUTHCO), holder of the Orissa Distribution and Retail Supply Licence, 1/1999, 3/1999, 4/1999 and 2/1999 registered as Case Nos.138, 140, 142 & 144 of 2004, respectively, for determination of their Annual Revenue Requirements (ARR) and fixation of Retail Supply Tariffs for the Financial Year (FY) 2004-05. A Brief history of the case is as follows:

1 PROCEDURAL HISTORY

- 1.1 CESCO, NESCO, WESCO and SOUTHCO submitted their applications before the Commission on 31.12.03 under the provision of OER Act, 1995 for determination of ARR. After due scrutiny, the Commission passed an order dated 14.06.2004 to call for objections from the intending objectors. Accordingly, public notice was published in one leading English and one Oriya newspaper on 16.06.2004 and 17.06.2004. After such publication, the Commission received objections from different objectors. One of the objectors, Orissa Consumers'

Association, Cuttack, challenged the tariff application before the Hon'ble High Court of Orissa in WP(C) No.7160 of 2004 on the allegation that after enactment of the Electricity Act, 2003, the Commission, without enacting the Regulations, could not determine the tariff as prayed for by the licensees. The Hon'ble Court, while upholding the validity of the Regulations and tariff applications partly allowed the writ application to the extent that the Regulations came into force not on the date of their publication in the official gazette but on the dates when Gazette publications were put to sale and became available to the general public. Accordingly, the public notices dated 14.06.2004 & 24.06.2004 were quashed by the Hon'ble Court. The Commission thereafter thought it prudent to require fresh tariff applications from the licensees in conformity with the several observations of the Hon'ble High Court and issue fresh public notices of such tariff applications. Hence, CESCO submitted its fresh application before the Commission on 09/20.11.04, and NESCO, WESCO and SOUTHCO submitted their fresh applications on 28.10.04. After receipt of such fresh applications, due publications were made in one leading English and one Oriya newspaper on 02.12.2004 inviting objections. The licensees were also instructed to file their rejoinder to the suggestions and objections by 31.12.2004.

- 1.2 The utilities are required to file the ARR applications for the ensuing financial year with the Commission before 30th November in accordance with Regulation 53 of OERC (Conduction of Business) Regulations, 2004 and Regulation 5 of OERC (Terms and Conditions for determination of Tariff) Regulation, 2004. CESCO submitted its ARR application for the FY 2004-05 on 09/20.11.2004, NESCO, WESCO, and SOUTHCO submitted their ARR applications for the FY 2004-05 on 28.10.2004. The aforesaid licensees also proposed revision of RST.
- 1.3 The tariff applications for the year 2004-05 were filed under Section 62 of the Electricity Act, 2003 read with OERC (Terms and Conditions for determination of Tariff) Regulation, 2004 and OERC (Conduct of Business) Regulation, 2004. The Commission decided to take into consideration the revenue requirement and tariff application for the year 2004-05 along with revenue requirement and tariff applications for the year 2005-06 through a combined hearing. Further, the Commission has also decided to dispose of the following tariff related matters along with the aforesaid Revenue Requirement and Retail Supply Tariff Applications during the ensuing Tariff hearing.
 - i) NESCO's application for recognition of Regulatory Assets for the past losses from 1999-2000 to 2002-2003 registered as case no. 135/04
 - ii) NESCO's application for special tariff for "Power Intensive Industries" for loads with contract demand of 25 MVA and above and less than 100 MVA, registered as case no.40/2004.
 - iii) Application of NESCO to keep in abeyance the implementation of Availability Based Tariff (ABT) till suitable meters for EHT & HT consumers are in position and suitable infrastructure is physically available on the ground and completion of 100% consumer metering, registered as combined case no. 65/2004.

- iv) Review petition filed by the Department of Energy, Govt. of Orissa, for review of the orders of the Commission dt.28.06.2003 passed in case no. 61/2002, allowing Rs.94.10 crore to GRIDCO in which operation of BST & RST effective from 01.04.2004 (for FY 2003-04) was stayed vide the Commission's order dt.27.12.2003 in case no.167/2003.

These applications were taken up along with tariff hearing inasmuch as the questions raised in those applications were tariff related. However, the orders in respect of those applications have been passed separately.

- 1.4 Based on such paper publications, the Commission received 18 Nos. of objections against CESCO, 18 Nos. of objections against NESCO, 21 Nos. of objections against WESCO & 15 Nos. of objections against SOUTHCO.

The objectors against CESCO were : (1) M/s COSBOARD Industries Ltd., New Industrial Estate, Phase - II, Jagatpur, Cuttack, (2) Orissa Chamber of Housing Developers Association Ltd., 777, Sahid Nagar, Bhubaneswar, (3) Mr. R.P. Mohapatra, 775, Jayadev Vihar, Bhubaneswar, (4) M/S H.M. Electricals (P) Ltd. B/11 & B/12, New Industrial Estate, Jagatpur., (5) Coastal Orissa Steel Manufacturers' Assn. Aditya Complex, Chauliagang, Cuttack-753003, (6) M/s Aditya Steel Industries Ltd., Telengapentha, Cuttack, (7) M/s Aditya Alloys Ltd., Telengapentha, Cuttack, (8) District Small Scale Industries Association, Industrial Estate, Cuttack, (9) Orissa Small Scale Industries Association, Ajay-Binay Bhawan, Industrial Estate, Cuttack-753010, (10) Orissa Consumers' Association, Debajoyti Upobhokta Kalyan Bhawan, Biswanath Lane, Cuttack-753002, (11) Utkal Chamber of Commerce & Industry, N/6, IRC Village, Nayapalli, Bhubaneswar, (12) Confederation of Indian Industry, 8, Forest Park, Bhubaneswar, (13) East Coast Railway, B-2, Rail Vihar, Chandrasekharapur, Bhubaneswar, (14) Bharat Sanchar Nigam Ltd. Telecom Electrical Circle, Bhubaneswar, (15) Industrial Promotion & Investment Corporation of Orissa Ltd. (IPICOL), Janpath, Bhubaneswar, (16) Industries Department, Govt. of Orissa, (17) State Public Interest Protection Council, Talatelenga Bazar, Cuttack, (18) Xavier Institute of Management, Bhubaneswar.

The objectors against NESCO were : (1) Jindal Stainless Limited, 50-HIG, BDA, Jaydev Vihar, Bhubaneswar-751 013, (2) S.E. Railway, Garden Reach, Kolkata-700 043, (3) Rohit Ferro Tech Pvt. Ltd., 620-A, Saheed Nagar, Bhubaneswar, (4) Ferro Alloys Corpn. Ltd., GD-2/10, Chandrasekharapur, Bhubaneswar-751023, (5) Balasore Alloys Limited, Balgopalpur-756020, Balasore, Orissa, (6) The Industrial Development Corporation of Orissa Ltd., (7) The Tata Iron & Steel Co. Ltd., 273 Bhouma Nagar, Unit-IV, Bhubaneswar-751001, (8) Orissa Small Scale Industries Association at Ajay-Binay Bhawan, Industrial Estate, Cuttack-753010, (9) MSP Steels (P) Ltd., Haladiguna, P.O. Gobardhan, Dist. Keonjhar, (10) Utkal Chamber of Commerce and Industry Ltd., Plot No. 1/1-C, Jayadev Vihar, Nayapalli, Bhubaneswar-15, (11) IDCOL Ferro Chrome & Alloys Ltd. Jajpur Road, (12) Orissa Consumer's Association, Debajoyti Upobhokta Kalyan Bhawan, Biswanath Lane, Cuttack-753002, (13) East Coast Railway, O/o the

Chief Electrical Engineer,B-2, Rail Vihar, Chandrasekharpur, Bhubaneswar – 751023, (14) Orissa Sponge Iron Manufacturers' Association, Plot No. 532, Satya Nagar, Bhubaneswar-751 007, (15) Bharat Sanchar Nigam Ltd. Telecom Electrical Circle, Bhubaneswar, (16) Industrial Promotion and Investment Corporation of Orissa Limited, IPICOL House, Janpath, Bhubaneswar-22, (17) Industries Department, Govt. of Orissa., (18) State Public Interest Protection Council, Talatelenga Bazar, Cuttack.

The objectors against WESCO were : (1) Organisation for Regional Imbalance& Social Justice of Society, Panitanki Road, Modipada, Sambalpur 768002, (2) Rourkela Steel Plant Retired Employees' Association, 'D' Block in front of NAC Market, Koel Nagar, Rourkela-769014, (3) M/s OCL India Limited, Rajgangpur-770017, (4) M/s Larsen & Toubro Limited Kanskahal Works: PO. Kanskahal-770034, Dist-Sundargarh, Orissa, (5) S.E. Railway, Garden Reach, Kolkata-700 043, (6) M/s Scan Spongiron Ltd, B-2, Jagannath Complex, Udit Nagar, Rourkela, Dist-Sundargarh – 770017, (7) M/s Scan Steel Ltd, Main Road, Rajgangpur, Dist-Sundargarh – 770017, (8) M/s Shrishti Ispat Ltd, Main Road, Rajgangpur, Dist-Sundargarh – 770017, (9) SAIL, Rourkela Steel Plant, Rourkela, (10) Sambalpur District Consumers Federation, Balaji Mandir Bhawan, Khetrajpur, Sambalpur-768003, (11) M/s Orissa Consumers' Association, Debajoyti Upobhokta Kalyan Bhawan, Biswanath Lane, Cuttack-753002, (12) Sundargarh District Employers' Association, AL-1, Basanti Nagar, Rourkela-12, (13) Neepaz Metaliks (P) Ltd., H-3, Civil Township, Rourkela-769004, (14) Shri R.P. Mahapatra, Plot No. 775(Pt), Lane-3, Jayadev Vihar, Bhubaneswar-13, (15) Utkal Chamber of Commerce and Industry Ltd., Plot No. 1/1-C, Jayadev Vihar, Nayapalli, Bhubaneswar-15, (16) Orissa Small Scale Industries Association, Ajaya-Binaya Bhawan, Industrial Estate, Cuttack-753010, (17) Orissa Sponge Iron Manufacturers' Association, Plot No. 532, Satyanagar, Bhubaneswar-751007, (18) Bharat Sanchar Nigam Ltd. Telecom Electrical Circle, Bhubaneswar, (19) M/s Industrial Promotion and Investment Corporation of Orissa Ltd., IPCOL House, Janpath, Bhubaneswar-22, (20) Industries Department, Govt. of Orissa, (21) State Public Interest Protection Council, Talatelenga Bazar, Cuttack.

The objectors against SOUTHCO were : (1) M/s Jeypore Sugar Co, Ltd., Ramakrishna Buildings, 239, Anna Salai, P.B. No. 730, Channai-600 006, (2) Ganjam District Electricity Consumers Protection Association, Hinjilicut - Ganjam-761102, (3) Shri R.P. Mahapatra, Plot No. 775(Pt), Lane-3, Jayadev Vihar, Bhubaneswar-751 013, (4) Jayshree Chemicals Ltd., PO-Jayshree, Ganjam-761025, (5) Orissa Small Scale Industries Association, Ajay-Binay Bhawan, Industrial Estate, Cuttack-753010, (6) Utkal Chamber of Commerce & Industry Ltd., (UCCI),N/6, IRC Village, Nayapalli,Bhubaneswar-751 015, (7) Sri Prabhakar Dora,Co-Operative Colony, 3rd lane, Rayagada, PO/PS/Dist-Rayagada, (8) East Coast Railway, O/o the Chief Electrical Engineer,B-2, Rail Vihar, Chandrasekharpur, Bhubaneswar – 751023, (9) Industrial Promotion and Investment Corporation of Orissa Ltd., IPCOL House, Janpath, Bhubaneswar-751 022, (10) Orissa Consumers' Association, Debajoyti Upobhokta Kalyan Bhawan, Biswanath Lane, Cuttack-753002, (11) Bharat Sanchar Nigam Ltd. Telecom

Electrical Circle, Bhubaneswar, (12) Berhampur Cold Storage Pvt. Ltd. Factor: Phulta, Via Konisi, Berhampur, (13) Industries Department, Govt. of Orissa, (14) State Public Interest Protection Council, Talatelenga Bazar, Cuttack, (15) Military Engineering Services.

- 1.5 In response to the letter No.JD(F)-175/04/2193 dated 30.12.2004, the representative from Energy Department, Govt. of Orissa, attended the public hearing.
- 1.6 The Commission issued public notices in leading local Oriya and English daily newspaper on 31.12.2004 fixing the date of hearing for 27.01.2005, 19.01.2005, 22.01.2005 and 24.01.2005 at 11 AM respectfully for hearing in the hearing hall at the Commission's office. The said publication included the names of all the valid objectors against the four licensees directing them to appear personally or through their authorised representatives or duly constituted attorney before the Commission on the date and time mentioned for public hearing in the public notices.
- 1.7 The public hearing on the four licensees proposed Annual Revenue Requirement and Retail Supply Tariff for the year 2004-05 were held in the hearing hall of the Commission at Bhubaneswar on 27.01.2005, 19.01.2005, 22.01.2005 and 24.01.2005 respectively. The objectors or their authorised representatives and the representatives of licensees participated in the said hearing. The Commission heard all the objectors.
- 1.8 The original petitions registered as Case No.138, 140, 142 and 144 of 2004 dated 29.11.2004 are being disposed of by this order of the Commission respectively.
- 1.9 The representative of Orissa Consumers' Association, Cuttack had alleged that the filing was not supported by affidavit as required under Regulation-12 of OERC (Conduct of Business) Regulations, 2004. In this regard the Appendix-2, as prescribed in the Regulation, reveals that the format of affidavit should consist of three parts. The affidavit provided by the licensee in support of the tariff application is found to be in accordance with the first two parts of the prescribed formats for affidavit found in the regulation. As regards the third part of the affidavit, as sworn in by the licensee, the same does not confirm to the third part of the prescribed affidavit. The Commission is of the opinion that the object of the third part of the prescribed affidavit has been made out in the sworn affidavit of the first two parts. That being so the Commission does not find any serious discrepancy between the sworn affidavit and the prescribed format of the affidavit and as such, the above objector's allegation is also devoid of any merit.
- 1.10 In the course of the hearing, the representative of Orissa Consumers' Association, Cuttack alleged that the tariff applications were not maintainable on the ground that the applications of four licensees were not accompanied with the prescribed fee. The Commission clarifies that though the Regulation 10 (5) of OERC (Conduct of Business) Regulation, 2004 postulates that the applicant licensees are to pay the fees fixed by the Commission while presenting the tariff application, no

fees has been prescribed by the Commission as yet. Accordingly, four licensees have not rightly paid any fees while presenting the tariff applications to OERC.

- 1.11 The representative of Orissa Consumers' Association, Cuttack had also questioned how the Commission would take up a number of other applications on different subjects along with the tariff applications as mentioned in the Public Notice issued by the licensee. The Commission is of the view that the additional subject, which has been clubbed for decision along with the present tariff application, include the issues relating to the RST Order of 2003-04. The Commission had earlier decided to dispose of the Review Petitions filed by the Department of Energy, Govt. of Orissa, for review of the orders of the Commission dt.28.06.2003/12.11.2003 passed in Case nos. 9/2003 of CESCO, 63/2002 of NESCO, 64/2002 of WESCO & 62/2002 of SOUTHCO. This order had allowed Rs.94.10 crore to GRIDCO the operation of which was stayed vide the Commission's order dt.27.12.2003 in Case no.171/2003 of CESCO, 169/2003 of NESCO, 170/2003 of WESCO and 168/2003 of SOUTHCO respectively. Since this matter was tariff related and had bearing on the tariff decisions for 2004-05, the Commission had decided to club the matter along with the tariff petitions of four DISTCOs for 2004-05.
- 1.12 The representative of Orissa Consumers' Association, Cuttack had stated that DISTCOs had not filed ARR from 1st of April to 31st March 2007 by December 2003 for LTTS as per the direction of the Commission. The Commission clarifies that the LTTS applies to the four distribution and retail supply licensees in the state, namely CESCO, NESCO, SOUTHCO and WESCO. As per the LTTS order of the Commission dtd. 18.06.2003, only the DISTCOs shall file ARR and tariff proposals for 2004-05 by 31st December 2003, along with the LTTS filing for a period of 3 years i.e. from 2004-05 to 2006-07. In this tariff filing, the Commission has received ARR & tariff proposals for the years 2004-05 and 2005-06. In the absence of their filings as directed, the Commission is going ahead with finalisation of the Multi Year Tariff (MYT) principles from FY 2004-05 to FY 2006-07 based on the filings and the inputs from the participants during the course of public hearing.
- 1.13 One of the objectors assailed impartiality of the Commission on the ground (a) that on the issue of power cut at Soro Division of NESCO, it took no action against NESCO even though its own inquiry confirmed alleged laches and negligence on the part of NESCO and (b) that 6 SLPs each were filed by OERC and GRIDCO through a common counsel alleging identical facts and law. As to the ground (a), the Commission took no action against NESCO because Hon'ble High Court in seisin on the matter and the inquiry were conducted as per the order of the High Court and the inquiry report was submitted to the High Court. As to the ground (b), the Commission moved the Supreme Court against the order of the High Court directing the Commission to show cause why the contempt proceeding shall not be initiated. GRIDCO also moved to the Supreme Court assailing the order of the Hon'ble High Court, as to the facts and circumstances which led to issue of the aforesaid show cause notice. There was no conflict of interest between the Commission and GRIDCO. In the circumstances, the

Commission has not thought it improper to engage the same counsel that GRIDCO had engaged. Even though GRIDCO raised certain points in its written objection in response to Commission's notice, none appeared on behalf of the objector to press these points at hearing.

- 1.14 One of the objectors complained that the representation of the objectors at the public hearing has been limited whimsically by the Commission. The Commission has never limited the number of objectors and has afforded sufficient opportunity to all the objectors, including the present objector even though he remained absent on all the four days of the public hearing of four DISTCOs and yet the Commission has taken its written objection into consideration.

2 **ARR & RETAIL SUPPLY TARIFF PROPOSAL FOR 2004-05**

- 2.1 The Distribution Licensees in Orissa namely, Central Electricity Supply Company of Orissa Ltd. (CESCO), North Eastern Electric Supply Company (NESCO), Western Electric Supply Company (WESCO) and Southern Electric Supply Company (SOUTHCO) are carrying out the Business of distribution and retail supply of electricity in their licensed areas as detailed below:

Table-1

Sl. No.	Name of DISTCO	License No.	Licensed Areas (Districts)
1.	CESCO	1/1999	Puri, Khurda, Nayagarh, Cuttack, Denkanal, Jagatsinghpur, Angul, Kendrapara.
2.	NESCO	3/1999	Mayurbhanj, Keonjhar, Bhadrak, Balasore and major part of Jajpur.
3.	WESCO	4/1999	Sambalpur, Sundargarh, Bolangir, Bargarh, Deogarh, Nuapara, Kalahandi, Sonepur and Jharsuguda.
4.	SOUTHCO	2/1999	Ganjam, Gajapati, Kandhamal, Boudh, Rayagada, Koraput, Nawarangpur and Malkangiri.

- 2.2 The profile of the DISTCOs ending 31st March, 2004 is given in tabular form which portrays an overview of their current activities.

Table : 2

Item	Unit	CESCO	NESCO	WESCO	SOUTHCO
Total consumer strength	nos.	8,23,880	4,35,409	4,34,573	4,35,563
Total input	MU	3,899.57	2645.79	3,784.180	1,607.40
Total billing	MU	2,348.94	1490.60	2,307.714	924.830
Total billing to consumers	Rs. Crore	691.63	379.39	648.85	260.46

- 2.3 The comparative figures of consumption at different voltage levels as well as energy purchase in MU for FYs 2002-03 to 2004-05 taken from the DISTCOs' filings are indicated below to serve as an indicator of pattern of consumption.

Table : 3
Energy Sale & Purchase (MU)

	CESCO			NESCO			WESCO			SOUTHCO		
Category	FY 02-03	FY 03-04	FY 04-05 (Proj.)	FY 02-03	FY 03-04	FY 04-05 (Proj.)	FY 02-03	FY 03-04	FY 04-05 (Proj.)	FY 02-03	FY 03-04	FY 04-05 (Proj.)
LT	1451.09	1478.27	1748.94	585.74	602.55	674.23	774.82	732.04	775.35	586.04	561.59	597.94
HT	362.33	384.73	440.52	359.05	320.65	291.36	308.18	378.12	492.50	200.38	213.28	228.07
EHT	497.18	485.93	376.40	460.18	576.40	685.47	987.25	1197.55	1311.50	160.52	149.95	155.81
Total Sale	2310.60	2348.93	2565.86	1404.97	1490.59	1651.06	2070.25	2307.71	2579.35	946.94	924.82	981.82
Energy purchase	4055.79	3899.58	4140.00	2396.12	2645.79	2778.58	3354.74	3784.18	4028.00	1555.97	1607.40	1630.00
Overall distribution loss (%)	43	39.00	38.00	41.00	43.66	40.58	38.29	39.02	35.96	39.14	42.46	39.77

- 2.4 The individual DISTCO highlighted its projection for sale of energy during FY 2004-05 as follows:

2.4.1 CESCO

2.4.1.1 CESCO submitted that sale under LT categories in FY 2004-05 had been projected taking into account the actual consumption during FY 2003-04 and 3 years CAGR. CESCO has projected 18% rise in LT category, as compared to the consumption in LT category in FY 2003-04.

2.4.1.2 CESCO has projected 15% rise for HT category of consumers in FY 2004-05 as compared to FY 2003-04. The consumption has been projected based on past trends and other factors such as additional load from existing and new consumers etc.

2.4.1.3 CESCO has projected negative rise in EHT category in FY 2004-05. They stated that the declining trend in EHT consumption is due to decrease in consumption pattern of M/s Nav Bharat considerably due to use of CPP by the industries.

2.4.2 NESCO

2.4.2.1 NESCO expects a growth rate of 14.00% in consumption in the domestic category for FY 2004-05. The Licensee has estimated growth of 4.41% for FY 2004-05 in respect of commercial

consumption. Consumption in respect of irrigation shall experience a positive growth of the order of 5% during 2004-05.

2.4.2.2 In respect of HT consumers, NESCO expects a negative growth rate of 9% for FY 2004-05 due to change in consumer category of TISCO, Joda.

2.4.2.3 EHT consumption is expected to register a growth rate of 21% during 2004-05 with an estimated sale of 685.471 MU.

2.4.3 WESCO

2.4.3.1 WESCO estimates growth rate of 7.04% in consumption in domestic category for FY 2004-05 based on the expected addition to consumer strength. They also expect 2.15% rise in consumption in commercial category due to increase in consumption by the existing consumers as well as growth in consumers' strength. It also estimates growth rate of 5% in consumption in respect of irrigation consumers.

2.4.3.2 WESCO estimates 30.25% rise in consumption in HT during FY 2004-05 category based on the trend for FY 2003-04 due to the enhanced load by the existing consumers and new HT consumers.

2.4.3.3 The estimated growth rate in consumption is 9.51% in respect of EHT consumers during FY 2004-05 as compared to FY 2003-04.

2.4.4 SOUTHCO

2.4.4.1 SOUTHCO expects a growth rate of 7.23% in domestic category, 4.90% in commercial consumption and 5.00% in irrigation consumption for FY 2004-05.

2.4.4.2 In respect of HT consumers, SOUTHCO expects growth in consumption to the tune of 6.94% during FY 2004-05. They expect the rise due to enhanced consumption by the existing consumers.

2.4.4.3 EHT sale for SOUTHCO is expected to register a nominal growth rate of 3.91% in consumption during 2004-05 due to expected growth in existing and prospective consumers.

2.5 Voltage class-wise and major LT consumer class-wise energy off-take during the period from FY 2002-03 to 2004-05 are presented in Tables-4 and 5 below:

Table : 4
Voltage Class-Wise Growth in consumption (MU)

Company		LT	HT	EHT	Total
CESCO	2002-03	1451.09	362.33	497.18	2310.60
	2003-04	1478.27	384.73	485.93	2348.93
	% Rise	2	6	(-) 2	2
	2004-05	1748.94	440.52	376.40	2565.86
	% Rise	18	15	(-) 23	9
NESCO	2002-03	585.74	359.049	460.180	1404.969
	2003-04	602.55	320.65	567.40	1490.60
	% Rise	2.87	-11.97	23.30	6.00
	2004-05	674.23	291.36	685.47	1651.06
	% Rise	12.00	-9.14	21.00	11.00
WESCO	2002-03	774.82	308.18	987.25	2070.25
	2003-04	732.04	378.12	1197.55	2307.71
	% Rise	(-) 5.52	22.69	21.30	11.47
	2004-05	775.35	492.50	1311.50	2579.35
	% Rise	5.92	30.25	9.52	11.77
SOUTHCO	2002-03	586.043	200.377	160.520	946.940
	2003-04	561.590	213.277	149.950	924.817
	% Rise	(-) 4.17	6.44	(-) 6.58	(-) 2.34
	2004-05	597.942	228.068	155.812	981.822
	% Rise	6.47	6.94	3.19	6.16

Table : 5
Major LT Consumer Category-wise Load Growth (In MU)

	Domestic	General Purpose	Irrigation	Pub. Lighting	LT industries (S) Supply	LT industries (M) Supply	Specified Pub. Purpose	P.W. Works> 100 kw
CESCO								
Con. 02-03 (MU)	1036.72	231.61	33.55	15.57	41.25	34.99	23.19	34.21
Con. 03-04 (MU)	1040.83	244.91	34.13	16.18	41.91	39.08	28.77	32.47
Growth rate assumed (%)	0.40	5.32	1.76	3.81	1.70	10.26	19.24	-5.44
Con. 04-05 (MU)	1254.61	276.56	46.66	20.62	46.53	45.19	21.16	37.61
Growth rate assumed (%)	20.5	12.9	36.7	27.4	11.0	15.6	(-) 26.5	15.8
NESCO								
Con. 02-03 (MU)	444.92	53.97	34.79	6.14	20.10	12.18	6.81	0.31
Con. 03-04 (MU)	473.81	54.06	23.51	6.25	18.94	12.50	6.27	0.31
Growth rate assumed (%)	6.00	0.00	-32.00	2.00	-6.00	3.00	-8.18	0.00
Con. 04-05 (MU)	540.14	56.446	24.68	6.44	19.51	12.88	6.58	0.318
Growth rate assumed (%)	14.00	4.00	5.00	3.00	3.00	3.00	4.94	2.00

WESCO								
Con. 02-03 (MU)	526.53	99.74	53.40	7.11	26.79	28.16	13.12	5.61
Con. 03-04 (MU)	491.38	91.59	50.57	7.78	24.71	33.42	11.28	5.67
Growth rate assumed (%)	-6.68	-8.17	-5.30	9.53	-7.77	18.66	-13.99	1.23
Con. 04-05 (MU)	525.97	93.56	53.09	7.94	25.45	35.56	11.85	5.8
Growth rate assumed (%)	7.0	2.2	5.0	2.0	3.0	6.4	5.0	2.2
SOUTHCO								
Con. 02-03 (MU)	421.10	77.64	17.55	8.33	20.65	19.87	11.89	0.34
Con. 03-04 (MU)	405.64	76.92	15.73	7.85	17.42	19.96	9.04	0.36
Growth rate assumed (%)	-4.00	-1.00	-10.00	-6.00	-16.00	0.00	-24.00	6.00
Con. 04-05 (MU)	434.97	80.69	16.52	8.01	17.94	20.88	9.49	0.38
Growth rate assumed (%)	7.0	5.0	5.01	2.0	3.0	5.0	5.0	5.0

2.6 Distribution Loss, Collection Efficiency and AT&C Loss

2.6.1 Business Plan

2.6.1.1 As directed by the Commission all DISTCOs filed their business plan which was heard on 28th and 29th of October, 2004. During hearing, the DISTCOs tried to substantiate their claims to consider FY 2003-04 as a base year. NESCO, WESCO and SOUTHCO requested the Commission to adopt a pragmatic view for determination of future AT&C loss reduction target considering the vast geographical area, scattered consumer base, poor paying capacity, frequent occurrence of natural calamities and lack of retail price elasticity. It has been submitted that in case, stiff AT&C loss reduction target is considered by the Commission as compared to targeted reduction in AT&C loss projected for the FY2004-05, it will not be possible to achieve the same in spite of their best efforts and undertaking all the planned investments. As such, the cash flow of the Company will severely be affected. However, NESCO, WESCO and SOUTHCO are of the opinion that the AT&C loss reduction of around 3% per annum is reasonable.

2.6.1.2 CESCO in their filing stated that the shortfall in achievement of reduction in losses as compared to targets specified by the Hon'ble Commission and in the Kanungo Committee report was primarily attributable to factors like, slow progress of investments due to delay in receipt of APDRP and World Bank funds, non-availability of funds for capital investments and maintenance of distribution network, natural calamities, etc. Moreover, both, Kanungo Committee and the OERC have assumed that the Government Departments and undertakings shall make payments to CESCO in

regular manner. However, in reality this has not happened and consequently, the reduction in losses as suggested by Kanungo Committee and the OERC, could not be achieved by CESCO. Hence, the technical and commercial losses have remained at almost constant level. The massive rural electrification has also added to increase in AT&C loss for the FY 2004-05.

2.6.1.3 AT&C Loss figures furnished by the DISTCOs are given in table-6 below:

Table : 6
Distribution Loss, Collection Efficiency and AT&C Loss

	CESCO			NESCO			WESCO			SOUTHCO		
Segment	02-03	03-04	04-05 (Proj)	02-03	03-04	04-05 (Proj)	02-03	03-04	04-05 (Proj)	02-03	03-04	04-05 (Proj)
Overall distribution loss (%)	43	39	38	41	43.66	40.58	38.29	39.02	35.96	39.14	42.46	39.77
Collection efficiency (%)	79	81	82	83	93.69	94	84	88.26	89.29	81.00	86.91	88.00
AT&C Loss (%)	55	51	49	51	47.16	44.14	48.16	46.1	42.82	50	50.47	46.99

2.7 NESCO, WESCO and SOUTHCO have devised the following measures for reduction of AT&C loss.

2.7.1 Consumer Metering

2.7.1.1 Large scale metering, rectification of erroneous bills and removal of ghost consumers.

2.7.1.2 Deployment of meter checking squad. In absence of speedier judicial remedies, the violation of law continues. Under these circumstances, NESCO, WESCO and SOUTHCO have appealed for continuation of Load Factor Billing.

2.7.2 Regularisation and Spot Billing

2.7.2.1 Regularisation of unauthorised consumers.

2.7.2.2 Heightening of vigilance activities by deployment of squads.

2.7.2.3 Verification of meter readings in doubtful cases.

2.7.2.4 Deployment of different groups for reassessment of load, prevention of by-pass and tampering of meters etc.

2.7.2.5 Mass checking by the executives in specific areas.

2.7.2.6 Installation of check meters in the premises of LT/HT industrial consumers.

2.7.2.7 Provision of installation cubicles and XLPE cable to curb theft by HT industrial consumers.

2.7.2.8 Provision of audit meters for a group of industries in the same area or vicinity and deployment of guards on the spot to prevent tampering/damage of meters.

2.8 Apart from the above, NESCO, WESCO and SOUTHCO have undertaken the following measures:

2.8.1 APDRP scheme

Works under, the APDRP scheme have been launched to provide meters to feeders and transformers at various voltage level. The scheme includes strengthening and upgradation of the existing distribution network as well as installation of new lines and sub-stations, reconductering etc.

2.8.2 Energy Audit

Meters at all the 33 kV feeders and 11 kV feeders have already been installed. For conducting Energy Audit, senior officers have been deployed for energy audit purpose. The resultant analysis has facilitated to pin point high loss prone areas.

2.8.3 Outsourcing of Revenue Collection in Rural Areas

Outsourcing of Revenue Collection by introduction of input based franchisees in rural areas is being promoted in line with the spirit of Electricity Act 2003.

2.8.4 Data sources

NESCO, WESCO and SOUTHCO have already furnished Audited Accounts upto September, 2003 as per Companies Act and Accounts upto March, 2004 have been audited as per Income Tax Rules.

2.8.5 PMU works

Measures under PMU works have been taken for installation of new sub stations and line including up-gradation and renovation of the existing network. The Scheme has, however, been closed on 30.06.04.

2.9 Steps taken by CESCO as loss reduction measures

2.9.1 Detection and Regularisation of unauthorised consumers and use of Spot Billing in the entire area of CESCO.

2.9.2 Regularisation of unauthorised consumers.

2.9.3 CESCO has provided meters to all un-metered consumers.

- 2.9.4 Continuation of de hooking squads.
- 2.9.5 Verification of meter readings in doubtful cases.
- 2.9.6 Vigilance activities by deployment of squads.
- 2.10 **Apart from the above, CESCO has undertaken the following measures**
 - 2.10.1 Set and monitor loss reduction targets at the division level.
 - 2.10.2 Introduction of meter reading cards and check meter readings frequently on a sample basis.
 - 2.10.3 Installation of Automatic Meter Reading (AMR) instrument to measure the exact consumption of electricity energy and other parameters from a remote place of all HT consumers.
 - 2.10.4 Emphasis on formation of village committees in rural areas.
 - 2.10.5 Focus on implementation of commercial procedures and implementation of the billing calendar, accurate meter reading, timely bill preparation, proper bill distribution, effective complaint redressal and credit control activities across all divisions.
- 2.11 **Energy Audit**

The energy audit will be undertaken after completion of installation of meters.
- 2.12 **Outsourcing of Revenue Collection in Rural Areas**

Appointment of franchisee as pilot study.
- 2.13 **APDRP scheme**

CESCO has undertaken Distribution System up-gradation and modernization program under APDRP Scheme. The Scheme involves a capital outlay of Rs. 296.73 crores, which includes metering, new lines and sub-stations, re-conductoring, renovation and modernization of existing sub-stations. Meters have been procured for all the 33 KV feeders, 11 KV Feeders and Distribution transformers under APDRP Scheme and the installation of meters are under progress. Meters under APDRP scheme have been procured. Installation of meters is under progress.
- 2.14 **Data sources**

Strengthening MIS including software and systems for monitoring and detection of illegal abstraction of energy.
- 2.15 **PMU Works**

Measures under PMU works have been taken for installation of new sub stations and lines including up-gradation and renovation of existing network. The Scheme has been closed on 30.06.04.

2.16 Inputs in Revenue Requirement

The main constituent of Revenue Requirement is power purchase cost which varies with the change in BST. The other part is the cost of distribution which is almost fixed in nature and mainly comprises expenses on account of employees, administration and general expenses, repair and maintenance expenses, depreciation, loans and outstanding dues, interest on loans and power bonds, appropriation to contingency reserve, past losses and provision for bad and doubtful debts. In addition, the DISTCOs are expected to earn a reasonable return on its equity capital based on the methodology prescribed by the Commission. The cost of power purchase includes the cost of energy lost on account of technical and commercial losses of the distribution system. The DISTCOs are also required to meet the cost of capital of new investments needed to improve system reliability and quality of power supply. The DISTCOs are to recover all these revenue expenditures from the consumers at the rate determined by the Commission for the concerned period. A summary of aggregated revenue requirement and the proposed revenue gap of the DISTCOs at existing tariff for FY 2004-05 is given in table-7 below.

Table : 7
Summary of Annual Revenue Requirement for 2004-05

DISTCOs	Rs. in Crore			
	CESCO	NESCO	WESCO	SOUTHCO
FY	04-05	04-05	04-05	04-05
Power Purchase Cost	550.620	349.36	542.30	204.19
Employee cost	117.92	63.76	65.92	61.27
A & G expenses	19.78	9.97	13.61	8.93
Repair & maint. Expenses	33.43	24.95	22.94	17.33
Provision for Bad Doubtful debt	19.346	0	0	0
Depreciation	54.360	16.55	15.23	11.44
Interest	36.662	37.27	35.33	36.27
Interest on Security Deposit	0	0	0	0
Carrying cost on past losses @10%	0	62.50	53.60	40.97
Contribution to Contingency Reserve	0	1.73	1.59	1.20
TOTAL	832.13	566.09	750.52	381.60
Previous loss	638.679	0	0	0
Total Revenue Requirement	1470.80	566.09	750.52	381.60
Reasonable Return	11.64	10.55	7.78	6.02
Amortisation of Regulatory Assets	0	0	0	0
Annual Revenue Requirement	1482.44	576.64	758.30	387.62
Revenue Generation based on existing tariff	744.31	388.01	646.64	237.50
Revenue gap	738.13	188.63	111.66	150.12

2.17 SUMMARY OF TARIFF PROPOSAL FOR FY 2004-05

2.18 CESCO :

- 2.18.1 Based on estimated revenue requirement and revenue at existing tariff, the revenue gap for FY 2004-05 works out to Rs.716.34 crore. CESCO has projected the revenue gap considering the revenue collection at existing tariff.
- 2.18.2 CESCO states that the revenue generation from sale of power on proposed tariff would be Rs.934.60 crore.
- 2.18.3 CESCO has proposed that the Revenue Gap may be treated as a Regulatory Asset and be allowed to recover it in the next three years (FY 2006 to FY 2008) and the interest cost on account of the regulatory asset be allowed to be recover as a pass through in the Tariff.
- 2.18.4 CESCO has left matter in respect of fixing the rate of interest for carrying this asset on the Commission for each year.

2.19 NESCO, WESCO & SOUTHCO :

- 2.19.1 Based on estimated Revenue Requirement and Revenue at the existing tariff, the revenue gap for FY 2004-05 had been worked out by NESCO, WESCO and SOUTHCO. NESCO, WESCO and SOUTHCO further submit that the revenue gap had been projected considering the revenue collection at the existing tariffs by applying the proposed collection efficiency as the concept of AT&C loss has been adopted.
- 2.19.2 The average tariff increase required to bridge the entire revenue gap works out to be too high. It will result in sudden tariff shock to consumers. Further, in line with the principle of gradual reduction in cross subsidy, the tariffs for subsidising categories cannot be increased substantially. To bridge the entire revenue gap, NESCO, WESCO and SOUTHCO propose to bridge the revenue gap partly through the retail supply tariff increase and balance gap is to be made up by other measures such as reduction in Bulk Supply Tariff, subsidy from State Government and/or any other appropriate mechanism.
- 2.19.3 NESCO, WESCO and SOUTHCO are of the opinion that with the changed circumstances, the bulk supply tariff can be reduced substantially which can be utilised to bridge the revenue gap to certain extent. The reduction in Bulk Supply Tariff is envisaged mainly due to:
- Increase in Non Tariff Income of GRIDCO through trading of power.
 - Reduction in Cost of Power Purchase from Central Generating Stations due to revision in generation norms by CERC.
 - Reduction in Cost of Power Purchase from OPGC.

- Receipt of Incentive from NTPC on account of Bond Issued by Orissa Govt. against the past dues of NTPC upto 30.09.2001.
- Refund on account of excess payment to NTPC in absence of approved tariff of NTPC ER Stations by CERC with effect from 01.04.2000.

2.20 Tariff Rationalisation

2.21 Reduction in Cross Subsidy

2.21.1 The tariff did not reflect the cost of supply during OSEB regime, rather it was related to the paying capacity of the consumers and the Govt. would provide subsidy to the Electricity Sector. This has led to significant distortion in the rate structures and consumption patterns. Increasing costs of the Utilities have resulted in abnormal rise in the industrial tariffs making captive generation lucrative. The tariff disparity has also crept in collusion and theft leading to inefficient and wasteful consumption by the subsidized consumer groups.

2.21.2 The new regulatory regime attempts to address all these issues to restore the financial viability of the Utilities while improving the quality of supply to the consumers to acceptable levels. On the basis of the tariffs awarded by the Hon'ble Commission during previous years, the process of reduction in the cross-subsidies in the Sector have been initiated. The Commission, while setting the tariffs, has adopted the LT level, HT level and EHT level cost of supply as the benchmark for estimation of the prevalent cross-subsidies.

2.21.3 Based on similar philosophy, NESCO, WESCO and SOUTHCO and CESCO have designed the category-wise tariffs based on estimated LT level, HT level and EHT level cost of supply for the ensuing year and have attempted to reduce the cross subsidies. As an attempt to reduce the cross-subsidy, CESCO has proposed higher average tariff rise for subsidized category than that of subsidising category. The movement average tariff towards cost of supply for subsidised categories is provided in the table annexed herewith. However, CESCO has proposed to raise demand charges and no hike in energy charges in case of HT and EHT consumers.

2.22 Recovery from Fixed / Demand Charges

The DISTCOs submit that with the existing tariff structure, only a meagre portion of the revenue is recovered through the fixed/demand charges and prayed for moderate increase in percentage as higher fixed charges impact the small consumers adversely.

2.23 Change in Tariff Structure

The Commission in its Tariff Order dated 19.01.2001 has approved lower tariffs to the HT and EHT categories of consumers having higher load factor. NESCO,

WESCO and SOUTHCO submit that uniform tariffs should be charged irrespective of the load factor as the additional power purchase requires procurement of this additional power at the rate higher than the average rate linked to UI charges. Hence, the DISTCOs have proposed for uniform rates which would be independent of Load Factor.

2.24 Consideration of Power Factor while computing of Load Factor

Under existing regulation, the power factor @ 0.9 is being multiplied to compute KW. The DISTCOs submit that the power factor may be calculated considering 0.9 or actual power factor / actual KW reading or Contract Demand in KW whichever is higher while computing the load factor in case, the slab tariff continues.

2.25 Rebate on Prompt Payment

The Hon'ble Commission in its BST Order dated 28-6-2003 vide clause 5.45 approved that the Licensee can avail a rebate of 2% for prompt payment of BST bill within 48 hours of presentation of BST Bills. Further, it may be mentioned that in the RST Order dated 28-6-2003 vide clause 7.4.2, the Hon'ble Commission had directed to pay the rebate to all consumers except domestic, commercial, 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 of BST bills within three working days from the date of presentation of the BST bill.

2.26 Load Factor Billing

Though, the Commission in its Order dated 28.06.2003 notified on 12.11.2003 has issued directive for discontinuance of the load factor billing, NESCO, WESCO and SOUTHCO requested the Commission to extend the continuation of load factor billing up to 30.09.2005.

2.27 Special Incentive Tariff to Power Intensive Industry maintaining High Load Factor

2.27.1 NESCO pointed out that the Commission in its Order dated 22.03.2000, in case no.1 of 2000 stated that "any special agreement proposing grant of concessional tariff to three industrial consumers of a particular category shall not be compatible with the prevailing tariff order of the Commission. We may, however, observe that decision for creating a sub-category under Power Intensive Industries for prescribing a lower tariff may be taken during the next annual requirement exercise and the consequential tariff proceedings." The licensee requested the Commission to consider and to create sub-categories under "Power Intensive Industries" for industries as mentioned below and allow special tariff as proposed in this ARR and tariff application:

1. CD \geq 25 MVA but < 50 MVA
2. CD \geq 50 MVA but < 100 MVA
3. CD of 100 MVA and above.

2.27.2 The petitioner further submitted that in order to keep these EOUs competitive in the International Market, special tariff should be considered.

2.27.3 The petitioner further appealed to the Commission to allow special tariff to the Ferro Alloys Industries having Contract Demand between 25 MVA and 50 MVA and 50 MVA and 100 MVA separately.

2.28 CESCO made the following submissions:

- CESCO proposed revision of reconnection charges for FY 2005 as given in tabular form below:
- ◆ CESCO proposes that a service charge may be levied on the consumer for dishonored cheques. @ Rs.200/- for LT service and Rs. 1000 /- for HT service for every returned cheque.
- ◆ CESCO proposes to collect one time deposit of Rs.1500/- from single phase domestic and General purpose consumers (less than 100KW) for providing the service connection alongwith materials. No meter rent will be charged to such consumers. However such consumer is required to pay the security deposit as per prevailing rate.
- ◆ CESCO proposes to give single point power supply to all apartments, market complexes, colonies of different departments and developers.
- ◆ The reconnection charges are sought to be revised as follows:

Table : 8

Connection Type	Charges (Rs.)
Single Phase Domestic	100
Single Phase Other Consumer	200
3 Phase Line	400
HT & EHT line	2000

2.29 **Category wise Tariffs**

The average existing and proposed tariff for LT, HT and EHT Categories have been indicated in Annexures attached herewith.

2.30 **PRAYER**

2.30.1 In the aforesaid facts and circumstances, NESCO, WESCO and SOUTHCO pray 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 2004-05.
- Approve the category wise tariffs to bridge the revenue gap.
- In case increase in retail tariffs is not sufficient to bridge the entire revenue gap, the revenue gap shall be bridged by other measures such as reduction in BST and/or Government Subsidy.
- Approve creation of Regulatory Asset for the actual for the actual cash losses during the last four years FY 1999-00 to FY 2002-03.
- Consider actual AT & C loss in FY 2003-04 as base level for setting future AT & C loss reduction trajectory.
- Consider the revenue gap which may accumulate in case of delay in effecting the proposed tariff for the whole year in the subsequent annual revenue requirement and tariff application of the licence.
- Any other relief, order or direction which the Hon'ble Commission deems fit be also issued.

2.30.2 Apart from above, NESCO made the following special appeal:

- Consider to create a sub-category under power intensive industries under different slabs for industries with load of 25 MVA and above with a guaranteed minimum load factor of 80%.

2.30.3 In the aforesaid facts and circumstances, CESCO prays that the Hon'ble Commission may be pleased to:

- Take the accompanying Revised ARR and Tariff Application on record.
- Approve the Annual Revenue Requirement for FY 2004-05.
- Approve the category wise tariffs as per Annexure including other charges to bridge the revenue gap.
- Allow a voltage wise loss stipulation for computing revenue requirement.
- Allow the past losses as regulatory assets to be set off in future years through Tariff along with interest to be decided by the Commission.
- In case increase in tariffs are not sufficient to bridge the entire revenue gap, the revenue gap shall be bridged by other measures such as reduction in BST and/or Govt. subsidy.
- Consider actual AT&C loss in FY 2003-04 as base level for setting future AT&C loss reduction.
- Any other relief, order or direction which the Hon'ble Commission deems fit be also issued.

3 **OBJECTIONS AND QUERRIES RAISED DURING THE HEARING PROCESS**

3.1 The Commission has considered all the issues raised by the participants in their written petitions as well as the oral submissions during the public hearing process. Some of the objections were found to be of general nature whereas others were specific to the proposed Revenue Requirement and Tariff filing for the financial year 2004-05. Based on their nature and type, these objections have been categorised broadly as indicated below:

3.2 **Procedural simplicity and inexpensiveness**

3.2.1 The Commission was requested to introduce a simplified and comparatively inexpensive procedure for submission of any application with the Commission.

3.2.2 Contents of the application should be advertised in the newspaper or the licensees may be directed to supply copies to the objectors free of cost. Besides the Commission should dispense with filing of objections through affidavit and that too in six copies. There was a request to the Commission not to call upon the objector to serve the copies of their objection to the licensee, as it has become costlier.

3.2.3 Some objectors submitted that the licensees should make the copy of application available to the consumers under intimation to the Commission *under affidavit*.

3.3 **Inconsistency in the Data Base**

3.3.1 Objectors in general were critical about the data inconsistency found in the ARR and Tariff filing of all the licensees. Some objectors complained about lack of information and transparency in the filing of the licensees with a request to the Commission to direct the licensees for supply of balance-sheets.

3.3.2 Some objectors pointed out that the licensee is under the obligation to submit audited reports and utilise the audited figures for the purpose of submission of tariff filing which need to be checked.

3.3.3 There was a request to furnish the application afresh following the principles of multi-year tariff.

3.4 Sales Forecast

- 3.4.1 Some objectors pointed out that there is no nexus between purchase of power and sale of units. The projection of sales figure by DISTCOs are inaccurate as a larger number of meters measuring the consumption, are defective and also the consumer metering is awaiting completion. In the absence of authenticated data, the implementation of LTTS would result in unequitable tariff and the licensees would make super-normal profit.
- 3.4.2 Doubts were raised about the accuracy of the sales projections submitted by the licensees which they said had no basis and are imaginary. He opined that the sales should be higher than those projected and sales projections should be higher than those projected.

3.5 Distribution Loss

- 3.5.1 Some objectors stated that the higher distribution loss projected by NESCO, WESCO and SOUTHCO for FY 2003-04 is enigmatic. They had projected higher distribution loss in FY 2003-04 as compared to FY 2002-03 irrespective of their nature of consumption, consumer mix, geographical location etc. While CESCO has not joined the bandwagon in this regard. There is consistency in figures submitted by CESCO. All the data furnished by the DISTCOs are manipulative in nature and not based on audit report. There was vehement objection to the proposal of the licensees to consider FY 2003-04 as the base year for the purpose of calculating distribution loss.
- 3.5.2 Some objectors pointed out that in CESCO area, the HT and EHT industrial consumers consume 32% against 36% HT and EHT consumption in the State. He further submitted that in SOUTHCO area, the industrial consumers consume 23% out of total sale of SOUTHCO. Hence, the actual loss for CESCO and SOUTHCO, according to him, up to FY 2003-04 shall be above 50% and 43.95% respectively. The benchmark for distribution loss as fixed by the Commission for CESCO and SOUTHCO for FY2003-04 is 25.94% and 23% respectively. The licensees have mentioned nowhere in their application that achievement of the targeted reduction in loss is beyond their control. The Govt. is not doing their duties in loss reduction process. Therefore, the Commission was requested not to pass on the higher loss to consumers.
- 3.5.3 Many of the objectors suggested that the computation of transmission and distribution loss should be done only considering the input at HT and excluding EHT consumption as DISTCOs bill the EHT consumers at EHT implying zero loss to DISTCO for supply at EHT.
- 3.5.4 The objectors expressed their deep concern over the non-achievement of benchmarks fixed by OERC as yardstick of performance and efficiency by the DISTCOs despite huge investment for improvement and extension of

power sector during post-reform period. The load growth is much below the expectation.

3.5.5 Sri G. N. Agarwal requested the Commission that distribution loss should be calculated subtracting the sale to INDAL as the supply to INDAL is made at EHT having no loss.

3.5.6 The objectors in general were very vehement in their approach about the inefficiency of DISTCOs in bringing down T&D loss in spite of repeated orders of the Commission and were unanimous that the Commission under no circumstances should review the T&D loss figure based on the audit report of licensees but should stick to its own order.

3.6 Collection Efficiency

3.6.1 The objectors said unanimously against the inefficiency of the licensees in collecting the revenue billed. They requested the Commission not to accept their plea of the assumed collection efficiency of the licensees. The consumers should not pay for the inefficiency of the licensees on this account. The objectors further stated that the amount which could not be collected during the concerned period, might have been collected, at least a part there of, by the licensees during the subsequent period. They requested the Commission to direct the licensees to furnish the past period collection and current collection separately. Some objectors pointed out that the Govt. dues cannot be termed as non-collectible/ bad debt.

3.7 AT&C Loss

3.7.1 Objectors were of the opinion that AT&C could be the criteria for measurement of performance but not for the purpose of revenue requirement.

3.7.2 One objector mentioned that the least AT&C loss and the highest billing efficiency of a model division should be taken into account as a reference for calculation of AT&C loss.

3.7.3 It categorically pointed out by an objector with the help of numerical calculations that if the benchmarks fixed by the Commission are taken into account to evaluate the Aggregated Revenue Requirement for the financial year 2004-05 of the licensees, there would be surplus in revenue instead of deficit which would, in turn, reduce the Tariff. He also highlighted that the Commission had fixed the AT&C loss based on Kanungo Committee's recommendations. He requested the Commission not to consider higher AT&C loss projected by the licensees than the benchmarks fixed by the Commission.

3.8 Performance Standard of the Licensees

3.8.1 Objectors highlighted that the standard of performance and the guaranteed performance furnished by the licensees are not tenable. In practice, the

consumers are not getting the supply at the rated voltage of 230 volt and urged the Commission to institute an independent inquiry to check the correctness of the statement submitted under affidavit. It was emphasised that the licensees should arrange for interaction with the consumers to understand their problems.

- 3.8.2 Other objectors expressed their views regarding poor performance of the licensees, such as, erroneous billing, delay in rectification of the erroneous bills, harassment of consumers.
- 3.8.3 Objectors complained about unscheduled and frequent interruptions in supply, voltage variation and frequency excursion beyond the prescribed limit.
- 3.8.4 Railways pointed out that this type of supply affects adversely on their equipment as well as their performance and requested the Commission to direct the licensee to ignore the over shooting of MD not attributable to them requiring feed extension.

3.9 Consumer, Feeder and Transformer Metering

- 3.9.1 Some objectors stated that the licensees have neither completed 100% consumer metering nor feeder and transformer metering till date, despite the Commission's directive in its last tariff order to complete the same within the time frame fixed by the Commission on the pretext of uneven flow of fund.
- 3.9.2 Some objectors also mentioned that the plea of poor flow of fund for completion of consumer metering is not tenable as the licensee is at liberty to allow the consumers to procure meters of their own. The licensee is reluctant to intimate the cost of meter, even on request. The Commission should direct the licensee to intimate the cost of meters, if asked for or alternatively they should display this in their offices for knowledge of the consumers.
- 3.9.3 Objector from SOUTHCO area stated that in the event of the meter being supplied by the consumer, the licensees advise the consumer to get the meter tested from Govt. Testing Laboratory and to furnish the test report to them inspite of having the adequate testing arrangement of their own. The objector prayed to the Commission to direct the licensee to arrange for testing of the meter purchased by the consumer and collection of the certificate from the testing authority by the licensees.
- 3.9.4 Objector from SOUTHCO area mentioned that Elimi meters are being fitted instead of China meters due to their scarcity, as intimated by the Licensees. The Elimi meters had registered bad performance. The Commission should advise the licensees to install China meters. The Commission should direct the licensee not to recover the cost of the meter in the form of the meter rent from the consumers beyond its landed cost.

- 3.9.5 Objector from WESCO stated that the licensees have ceased the system of meter- checking.
- 3.9.6 There was a suggestion to the Commission to advise the DISTCOs to install pre-paid meters.
- 3.9.7 Some objectors urged the licensees to recover the cost of meter in ten equal installments and the meter rent should be determined after taking into account depreciation.

3.10 Load Factor Billing

Some objectors stated that the licensees should strictly observe the Commission's order with regard to stoppage of load factor billing w.e.f. 01.04.2004, Whereas, the licensees have prayed the Commission for extension of load factor billing upto 30th September, 2005. In spite of having full consumer metering, as submitted by CESCO, load factor billing still continues in case of defective meters which is in contravention of the relevant Regulation framed by OERC. If the Commission at all considers their prayer, the L.F. Billing is to be done considering 0.1 instead of 0.2 for LT domestic consumers and 0.15 instead of 0.3 for LT general purpose consumers. In case of tampered meters, the Commission should direct the licensees to follow Section 126 (1) of the Act.

3.11 Incentive for Power Factor improvement

- 3.11.1 Some objectors requested the Commission to restore the incentive for improvement in Power Factor from 90% and onwards which would compensate the expenditure incurred by the consumers owing to installation of Capacitor Bank in their system.
- 3.11.2 Some objectors opined that the incentive for power factor improvement should be at par with penalty imposed on the industrial consumers having low power factor.
- 3.11.3 Some objectors pointed out that other states allow 5% rebate as incentive for maintaining high power factor.

3.12 Special Tariff

- 3.12.1 The objectors requested the Commission to introduce special tariff for higher load factor to the tune of 90% irrespective of the load demand by the industry.
- 3.12.2 It was expressed by the objectors that special tariff @ Rs.2.05/unit for the contract demand of 100 MVA and above is purely ornamental as there has been practically no consumer drawing such a huge demand of load further adding that SOUTHCO's proposal does not envisage any special tariff.
- 3.12.3 The objectors indicated that the grading of tariff should be based on mainly load factor for a particular bandwidth ranging from 50% onwards. Some other objectors asked for graded tariff for the industries ranging

from 10 MVA and above. The objectors stressed upon the need for introduction of special tariff in the interest of overall improvement of industrial health of the State.

3.12.4 An objector appealed to the Commission to advise SOUTHCO for continuance of the special tariff they are enjoying till now. Most of the objectors represent unanimously requested the Commission to consider the NESCO's proposal for special tariff for power intensive industries. This will encourage industrial consumption at EHT, improve financial health of the utility and reduce overall T&D loss.

3.12.5 Some objectors prayed for bringing down tariff for HT category having lower loss level and to introduce single part tariff for power intensive industries drawing power at HT and EHT even for a contract demand as low as 1 MW.

3.12.6 Objector stated that WESCO has been subsidising INDAL by providing special tariff @ Rs.1 82 per unit.

3.13 Revision of RST & Poor Quality of Service

3.13.1 The objectors unanimously mentioned that since pre-reform period the tariff has been revised ten times bringing about enhancement in RST tariff to the tune of four times up to 2002. But there has been steady deterioration in quality of services which has reached low ebb. Although, they are reimbursing the employees cost, R&M expenditure, etc., the licensees are grossly neglecting repair and maintenance of lines, sub-stations etc.

3.13.2 It was indicated that there was around 90 to 100 times tripping in three months period in the supply provided by WESCO and that voltage has gone down to 25/26 KV at 33 KV lines.

3.14 Failure of Power Sector Reform in Orissa

3.14.1 One objector pointed out that non-performance by the licensees is attributable to non-compliance of the recommendations made by Kanungo Committee, duly accepted by Govt. of Orissa. He expressed that no real benefit had been derived from the Reform in Power Sector launched seven years back.

3.14.2 The objectors pointed out that in absence of efficient, economical and competitiveness among the DISTCOs in Orissa, the power sector reform has been defeated.

3.15 Remunerative Norms to be followed by the licensees

3.15.1 An objector desired to know the number of applications the present licensees had received division-wise and year-wise from various consumers for supply of power at LT/HT/EHT. He also urged to be

apprised of division-wise estimates sanctioned for supply following remunerative norms bifurcated into Govt./Private consumers. In this context, he intimated the Commission that the licensees are not following the statutory norms, as a result of which consumers applying for new installations are facing harassment.

- 3.15.2 A builders' representative stated that the builders do encounter problems in taking supply during construction. In case the builder has applied for power supply beyond 70 kw, they are asked to take the supply at HT and bear all cost towards new sub-station, HT line etc. instead of estimating the same adopting remunerative norms. The licensee inflates the cost of deposit work by 35% over 1998 rate, causing abnormal delay in approval/permission and execution of the work. The Commission should allow the consumer to execute the work under the licensee's supervision after due approval of the estimate by the Commission. He also stressed upon the reluctance on the part the licensee to furnish the bill in respect of execution of deposit works.

3.16 Security Deposit

- 3.16.1 Some objectors stated that the licensees are asking the consumers for producing the documents towards security deposit, they have deposited with the licensee while taking the supply. In most of the cases, the consumers being the recipient of supply earlier, are unable to produce them. It is incumbent upon the licensees to keep in safe custody records relating to security deposit based on which the interest is to be calculated and security deposit remitted to the licensee in the month of May 2005 for FY 2004-05 as per provision of Regulation 21 of OERC Distribution (Condition of Supply) Code, 2004.
- 3.16.2 Some objectors requested the Commission to direct the licensees to calculate the amount of security deposit in accordance with the Regulation, 2004 framed by OERC and not as per their sweet will. One year extension for making Regulation does not imply that interest payment could be delayed on this plea. It should be paid considering the date on which or Act, 2003 came into force i.e., 10.6.2003. He prayed the Commission to direct the licensees to incorporate the interest component in the energy bill as a separate item and should be programmed in the computer for making the computation easier. He further prayed to the Commission to notify the bank rate in the event of change of the same and direct the licensees to pay interest on Security Deposit to the consumers at the revised rate. The Commission should direct SOUTHCO to pay interest on security deposit at PLR rate on annual basis as per Reg.21 of OERC Distribution (Condition of Supply) Code, 2004.
- 3.16.3 Railways requested the Commission to exempt them from paying the security deposit and direct the licensee to refund/ adjust the same lying with the licensee.

- 3.16.4 One objector stated that WESCO is realising additional security deposit for every enhancement of contract demand in respect of any old connection by applying load factor formula treating such connection as a new one which is a gross violation of the Commission's directive. He appealed to the Commission to direct WESCO to refund their excess security deposit.

3.17 Delayed Payment Surcharge (DPS)

- 3.17.1 The objectors iterated that DPS @2% per month, which comes to 24% per annum, is too high. They clarified that the Commission levied such a high percentage in earlier orders due to the fact that the prevailing borrowing rate was around 18% at that time. However, due to decline in borrowing rate, the same logic for maintaining DPS @2% per month does not hold good. They further indicated that the defaulted consumers are penalised twice i.e. loss on account of rebate and at the same time becomes liable to make additional payment as penalty. Some of the objectors proposed to levy DPS at the prevailing PLR of the bank rate which, they feel, would be a reasonable penalty in case of delay in payment.
- 3.17.2 There was a suggestion that the DPS should be maximum 2% more than the bank rate.
- 3.17.3 One of the objectors prayed to the Commission to exempt the Govt. consumers to pay DPS in the interest of the State's development.
- 3.17.4 The objectors, in this context, quoted the Commission's order against Case No.61/2002 – "the monthly charges as calculated with other charges and surcharge on account of delayed payment, if any, shall be payable by the retail and distribution licensee within 30 days from the date of bill". In view of above, the objectors prayed to the Commission to allow the grace period of 30 days to retail consumers. The industrial consumers also joined hands with other objectors on this issue.
- 3.17.5 Railways requested the Commission to direct the licensee to pay DPS in case the legitimate demand due to Railways got inordinately delayed by the licensee.
- 3.17.6 Most of the industrial objectors appealed to the Commission for allowing three working days, instead of two working days for enabling them to avail of the prompt payment rebate.
- 3.17.7 One of the objectors requested the Commission to allow the industries 30 or at least 20 days for making payments.

3.18 Reduction of Railway Traction Tariff

- 3.18.1 Railways representative prayed to the Commission to reduce the traction tariff which, he feels is high. A lion share of the revenue earned, is to be spent to meet the energy bills and no fund is left with them for

development work. He appealed to the Commission to keep in view the verdict of the Hon'ble Apex Court on cross subsidy for determination of Railway Traction Tariff. He solicited introduction of single part tariff and their long pending issue regarding time period of integration.

- 3.18.2 Further it was stated that WESCO's tariff proposal is not in conformity with the Electricity Act, 2003 which envisages "Tariff progressively reflects cost of supply and also reduces and eliminates cross-subsidies within the period to be specified by the appropriate Commission". He requested the Commission to reduce the traction tariff. He appealed to the Commission to reconsider the time period of integration from existing 15 minutes to 30 minutes for measurement of SMD as it is in vogue in some of the states.

3.19 Monthly Minimum Fixed Charges

The objectors urged that the monthly minimum fixed charges should be realised from the consumers consuming paltry energy. For others, it should be adjusted with their monthly energy bills.

3.20 Contract Demand

- 3.20.1 One objector pointed out that SOUTHCO is billing to the consumers as per the contract demand irrespective of the actual maximum demand registered in the meter whereas WESCO is billing at the actual. The Commission indicated that the method adopted by SOUTHCO is in line with the Commission's Order. However, the Commission viewed that SOUTHCO should ask the consumers, who might not be aware of the excess payment they are making, to reduce their contract demand to avoid such excess payment in future, if any.
- 3.20.2 One objector highlighted that higher consumption incentive is nullified due to overdrawl of contract demand. He urged for introduction of higher incentive for higher consumption. He requested the Commission to waive penal provision on contract demand for excess drawl. He further added that the demand charge @ Rs. 200/- is too high. He requested the Commission to reduce or eliminate the same. The Commission advised the objector to enhance the contract demand, if the actual drawl exceeds contract demand frequently.
- 3.20.3 One objector intimated that failure in hydel generation in WESCO area affects the supply of power in the state which is a common phenomena, but the charges are not reduced therefor.
- 3.20.4 One objector requested for abolition of minimum contract demand.
- 3.20.5 Representative of industries pointed out that CESCO has forbidden the SSI consumers to draw power during peak hours.

3.21 Arrear Dues and Bad Debt

- 3.21.1 One objector indicated to the Commission that when GRIDCO transferred liabilities and assets to DISTCOs, it was envisaged that arrear 50% of dues collected by the DISTCOs should be remitted to GRIDCO. The objectors wanted to know the status of collection of arrear dues lying with the DISTCOs and the amount remitted to GRIDCO on this account so far and conduct an enquiry to find out the amount of money collected not deposited with GRIDCO.
- 3.21.2 The objectors pointed out that the inefficiency in collection has been embedded in the ARR filing of NESCO, WESCO and SOUTHCO as they have furnished the same on the basis of AT&C loss instead of normal accounting practice of provision for bad and doubtful debt. CESCO, on the other hand, has projected 15% of the incremental debt as provision for bad and doubtful debt in their ARR filing. The objectors requested the Commission not to consider any of the above propositions for determination of tariff.
- 3.21.3 One objector raised the query as to whether the delayed payment by the Govt. should be treated as Bad Debt.

3.22 Past Losses/Regulatory Asset

- 3.22.1 The objectors were categorical not to accept the prayer of the licensees for admitting Regulatory Asset as a recognition of their past loss. They expressed that the licensees had not furnished item-wise and year-wise break up of past losses to facilitate the Commission to understand whether these were controllable or not. Moreover, they doubted authenticity of these figures.
- 3.22.2 An objector stated that the entire matter being an enigma, should be rejected outright along with their proposal for carry forward charge on Regulatory Asset as a pass through in the Tariff.
- 3.22.3 An academic stated that the inclusion of accumulated past losses in the tariff is beyond the accounting principles. However, he suggested that the Commission may allow it partly and ask the licensees for detailed analysis.

3.23 Asset Register

- 3.23.1 Objectors mentioned that the licensees are yet to submit their Asset Registers and prayed to the Commission that in absence of Asset Registers, they should not be allowed depreciation on Assets.
- 3.23.2 An objector pointed out that the life of a machine being considered as 25 years, higher rate of depreciation should not be allowed.

3.24 BST Dues to GRIDCO

The objectors highlighted that the licensees are not paying the BST dues in time to GRIDCO and consequently, losing the rebate thereon, although they have been collecting dues against the RST Bills from the consumers, thus depriving the consumers from lower power purchase cost.

3.25 Interest on Loans and Bonds

3.25.1 Some objectors stated that due to non-payment of the BST dues to GRIDCO, arrears are being piled. The arrears BST dues have been securitised in the form of NTPC Power Bonds and interest is being paid on them. He requested the Commission not to pass on the interest in tariff as the consumers have already paid their dues to the licensees and the default of the licensees to pay BST bills in time, should not be loaded on the consumers.

3.25.2 One objector mentioned that interest on borrowing has drastically gone down, the benefit of which could be availed of by the licensees in the form of swapping of loans.

3.25.3 An objector stated that interest on loans constitutes a major part of expenditure. He suggested for restructuring of the loan by retiring loans bearing higher rate of interest.

3.26 Audited Accounts

3.26.1 The objectors expressed that the audited accounts from FY 2000-01 to FY 2003-04, being the measuring rod for determination of tariff, are yet to be submitted by the licensees. They appealed to the Commission to reject the applications on this ground.

3.26.2 An objector emphasised on introducing regulatory accounting process without waiting for statutory audit report.

3.27 Investment by the licensees

3.27.1 The objectors pointed out that the licensees especially NESCO, WESCO and SOUTHCO are reluctant to pump money into electricity sector. On the other hand, they are incurring expenditure and leading a lavish life. Shri R.P. Mohapatra stated that GRIDCO and CESCO have exceeded all the boundaries as far as unproductive expenditure is concerned.

3.27.2 An objector pointed out that the licensees, in the name of safety, are incurring expenditure which sometimes are higher than the cost of assets to be safeguarded.

3.27.3 An objector pointed out that instead of giving them nominal return, a debt equity ratio of 70:30 may be considered and follow the concept of Return

on Capital which may inspire the licensees to infuse capital into the power sector. He stated that the reasonableness of the investment is to be judged.

3.27.4 Sri G. Pujari pointed out that the investment of WESCO in this sector is Rs.48 crore i.e. 10% of the assets transferred which is even much less than the consumer's contribution (Rs.149 crore) in the form of security deposit. The objectors appealed to the Commission to direct the licensees to invest in electricity sector for the improvement of their financial health and at the same time to discard the extravagant expenditure.

3.27.5 Sri R. P. Mohapatra pointed out that the licensees are computing HT loss as 8% on uniform basis. He stated that there is justification for providing guard against meter tampering at HT. He informed the Commission that CESCO intends to incur huge expenditure towards inspection fees, hire charges for vehicle, etc. including a sum of Rs. 337.47 lakh for watch and ward whereas the other DISTCOs have asked for much less amount.

3.28 Categorisation of Consumers

3.28.1 BSNL submitted that they have been awarded the status of Industrial Undertaking by the Finance Act, 2002-03 vide sub-clause III (a) below Item No-III, Clause (aa) of Section 72 (a), Sub-section 7. As the business of Telecommunication is coming under the purview of Industries, they appealed to the Commission to consider them as Industrial Consumer.

3.28.2 Berhampur Cold Storage Pvt. Ltd. alleged that the licensee had considered the spare motors/equipment while determining their contract demand. Thus, the load factor on inclusion these equipment, cannot be more than 50%. The cold storage units being susceptible to fluctuating weather conditions and power failure, spare motors/equipment are kept to meet the eventuality. The objector appealed to the Commission to consider them as Agro-Industrial Consumer as they deal with agriculture products.

3.28.3 Objectors requested to treat fabrication industries under industry(s) instead of general purpose for the purpose of tariff determination.

3.28.4 Some objectors urged to include Hotels under industrial tariff as per IPR.

3.28.5 The Military Engineering Services prayed to the Commission to recategorise them as domestic consumer instead of general purpose.

3.28.6 One objector stated that the industrial colonies should come under domestic tariff.

3.29 Govt. subsidy

Some objectors pointed out that subsidy on account of rural electrification, energisation of L.I. points and kutir-joyti program are not paid by the Govt. They also mentioned that inter-state tariff comparison is not relevant as 50% of power is available from the cheaper source like hydro and pit head thermal plants.

3.30 Fixation of Tariff

- 3.30.1 Industries urged to fix the tariff commensurate with the paying capacity of the consumers. They requested the Commission to provide for Tariff concession @ 25% for off-peak hours consumption as well as to levy single part tariff on actual consumption / minimum free units for SSI Units having load up to 100 kw.
- 3.30.2 IPICOL appealed to the Commission to provide attractive Industrial Tariff for rapid industrialisation of the State. They pointed out that surplus power could be better utilised for industrialisation instead of trading with the same outside the State as the Govt. of Orissa has estimated revenue earnings from the upcoming industries to the tune of Rs.2,600 cr. which need to be encouraged by offering an attractive tariff for industrial growth.
- 3.30.3 Govt. representative stated that the Commission ought to venture for gradual reduction of cross-subsidy as per the Act.
- 3.30.4 Representative of mini-steel industries appealed to the Commission not to discriminate while fixing tariff for large industries, power intensive industries and mini-steel plants using the same raw materials, identical power consumption per MT and having similar finished product.
- 3.30.5 The objectors highlighted that as per the Sovan Kanungo Committee recommendations as accepted by the Govt., the power tariff should not be enhanced for five years. They were of the opinion that the proposed tariff hike would be an undue favour extended to the licensees. They requested the Commission to link the tariff with the quality of supply and services rendered by the licensees. The objectors appealed to the Commission for introduction of peak and off peak tariff for improvement of the system and reduction in tariff.
- 3.30.6 There was a request for uniform tariff for all consumers. There should not be any tariff rise as the licensees are operating much below the benchmarks, laid down by the Commission. 27MW load with a guaranteed load factor of 90% should be allowed special tariff @ Rs. 1.82 per unit. The tariff for street light and water supply should not be enhanced.
- 3.30.7 There was a request to keep the tariff within the reasonable limit failing which captive generations would troop in.
- 3.30.8 Sponge Iron Companies appealed to the Commission to revise the tariff downward.
- 3.30.9 There was a prayer for uniform BST.
- 3.30.10 IDCOL Ferro Chrome & Alloys Ltd. requested the Commission not to discriminate in tariff between IDCOL and other ferro-chrome alloys and industries.

3.31 Single point supply to flats, market complex, etc. proposed by CESCO

- 3.31.1 Sri R. P. Mohapatra criticised the proposal of CESCO for offering single point supply to ownership residential flats, market complex, etc. He mentioned that CESCO had not indicated any reason behind such proposal. He stated that out of vast consumer strength of CESCO, hardly 5% belongs to the above categories. He further pointed out that the licensees are duty bound as per licence condition to provide power supply to the individual consumers. In fact, in absence of a single owner, as is the case for flat and market complex, the licensees should not give single point supply.
- 3.31.2 Sri Mohapatra further mentioned that the licensee gives illegal connection to builders for distribution of power which is in contravention of Sections 12 & 13 to the Electricity Act, 2003. He referred to Section 5 of the Electricity Act, 2003 which envisages local distribution/franchisee in rural areas. He further added that the licensees can not entrust the job of distribution to the society.

3.32 General

- 3.32.1 Organisation representative consumers in their written submission intimated the followings:
 - 3.32.2 To minimise the power drawal bills, power cuts in disguise of interruption are being resorted to. The State having surplus power, should not have power cuts.
 - 3.32.3 Non provision of fuse at the pole facilitates the unauthorised consumers for excess drawal, besides giving rise to accident.
 - 3.32.4 The licensees have retained the past employees and have engaged considerable number of persons against heavy payment resulting in increase in the administrative overheads.
 - 3.32.5 None of the DISTCOs has been able to meet the challenge of hooking.
 - 3.32.6 The OERC has never examined the tariff application of the licensees right from the beginning.
 - 3.32.7 There exists serious doubts as regards impartiality of OERC in its present set up. In support, there are a series of factual data like (a) it is conspicuously silent over the power cut issue at Soro Division of NESCO, although confirmed through its own enquiry (b) without complying with the Order of Hon'ble Orissa HC, the OERC and GRIDCO had filed not only six identically S. L. Ps. before the Apex Court, but also interestingly the counsel on record was the same for both the parties.
- 3.33 M/s H. M. Electrical, in their written filing, had intimated that CESCO, after placement of order for supply of distribution transformers, a part of which has

already been executed and payment received, has changed the technical specifications.

- 3.34 Some objectors urged that bills, documents of the licensee should be in Oriya. They prayed further the qualified unemployed persons engaged in business under the patronage of Govt. should be brought to domestic category. One of the members of Bijuli Adalat should be nominated amongst the registered electricity consumers' association and some free units of electricity should be provided to the senior citizens.
- 3.35 The Commission highlighted at the fag end of all the hearings that a very few objectors deliberated upon the review petition filed by the Deptt. of Energy, GOO for review of the orders of the Commission dated 28.06.2003 in Case No.61/2002 allowing GRIDCO to realise Rs.94.10 crore in shape of hike in RST for FY 2003-04 effective from 01.04.2004.

4 REPLIES MADE BY THE LICENSEES

At the outset, all the Chief Executive Officers (CEOs) of the licensees individually gave presentation showing their revenue requirements for FY 2004-05, their achievements they expect during the year and the proposed planning to augment not only the network alone, but also the business as a whole. The objections raised by the objectors on some issues, were general in nature and specific objections were also raised by some of them in respect of the licensee against his submission to the Commission for ARR and revision of Tariff. The Commission during hearing also solicited some clarifications on the queries raised by the objectors. The CEOs of CESCO, NESCO, WESCO and SOUTHCO in respect of the queries made by the objectors and the Commission have replied as under:

4.1 Inconsistency in the Data Base

The CEOs of NESCO, WESCO and SOUTHCO clarified that the figures submitted in the business plan were unaudited ones. However, subsequently the audited figures were available and based on audited accounts, the tariff filings have been made. Hence, the difference in figures has cropped up.

4.2 Legality of acceptance of the filing

The CEOs of DISTCOs responded that the actual figures are culled from the audited accounts and the projections for the prospective years are based on those figures and not arbitrarily. Hence, the allegation of submission regarding false data under affidavit, does not hold good.

4.3 Sales forecast

The CEOs of DISTCOs indicated that the sales forecast have been projected for LT category based on Compounded Annual Growth Rate (CAGR) principle/ past trend. For load growth under HT and EHT category, two factors, viz. enhancement of consumption by the existing consumers and the expected load to

be taken by the prospective consumers have been taken into account. Hence, the data furnished, are not fictitious.

4.4 Distribution loss

4.4.1 NESCO, WESCO and SOUTHCO categorically stated that the enhancement in distribution loss for the FY 2003-04 as compared to FY 2003-04 is attributable to rectification of erroneous bills. CEO, CESCO pointed out that method for loss calculation is erroneous. He further added that the sale has been enhanced due to adoption of correct method and OERC's benchmark. As a loss reduction measure, CESCO intends to make proper survey on industrial feeders.

4.4.2 In response to the objectors' query regarding the loss which was 49% during GRIDCO period, subsequently fixed by the World Bank to 39% and the loss remaining almost stagnant during 1996-2004. DISTCOs pointed out that by merely providing a few vehicles and deployment of minuscule number of security guards, theft of electricity, pilferage etc. can not be curtailed. Separate Police stations with Special Court (s) for this purpose, as has been done in Andhra Pradesh, should be provided to arrest the theft of electricity. CESCO pointed out that the rural electrification is a mandate from Govt. of India as per the Act. In fact, till date, the rural people think that the electricity is a free commodity.

4.5 Collection efficiency

NESCO, WESCO and SOUTHCO indicated that collection efficiency has improved by providing spot billing which provides for monthly collection. Regarding the improvement towards the efficiency in billing/collection, DISTCOs intimated that energetic steps have been taken for its improvement. In this context, the Commission advised the licensees to accept account payee cheque only as a precautionary measure against fraud. As regards discrimination in disconnection of power supply in case of Govt. connections due to default in payment, CEO, CESCO replied that they had already effected such disconnection barring emergency services like hospitals, but the supply had to be restored within a short period under pressure.

4.6 AT&C loss

CEO, CESCO pointed out that during the regime of AES, ATC loss which was 61% had gone down to 57% in the subsequent period. All the DISTCOs were of unanimous opinion that due to non-receipt of World Bank and APDRP fund from the Government of Orissa in time, the substantial progress in metering and augmentation of distribution network could not be achieved which in turn, had retarded the loss reduction programme. In this context, CESCO pointed out that AT&C loss will further increase due to rural electrification which is a mandate from Govt. of India as per the Act.

4.7 Performance standard of the licensees

With regard to a specific query raised by one objector, about meter malfunctioning, CEO, SOUTHCO stated that Elimi meters purchased against the World Bank Fund with five years' guarantee. The meters had developed teething problems in software which was subsequently rectified by the suppliers free of cost and has been performing well at present. Regarding frequency of tripping of distribution lines, SOUTHCO submitted that record of tripping is maintained in a register round the clock. He however, mentioned that for LT substations, there is no such system of recording the data round the clock. Only in the event of failure of the LT sub-station, the failure is only recorded. In response to the complaint lodged by South Eastern Railways regarding the low voltage and power interruption, WESCO clarified that it is due to the fact that the S.E.Railways are fed from Rajgangpur sub-station which is at a distant place from the point of supply.

4.8 Consumer, feeder and transformer metering

Metering in respect of consumers, feeders and transformers has been undertaken under APDRP scheme and also under World Bank Funding. The installation of meters including the Energy Audit Meters, is being carried out simultaneously. Echoing the query raised by one of the objectors about the huge number of un-metered consumers, the Commission asked CEO, SOUTHCO how they are billing the un-metered consumers. In response, SOUTHCO submitted that most of the un-metered consumers fall under the Kutir-Joyti category. However, he intimated that action has already been initiated to provide meters to them also. All the licensees in this context, further intimated that in case of doubt in consumption recorded in a meter, necessary investigation is carried out.

4.9 Load factor billing

In response to the prayers made by NESCO, WESCO and SOUTHCO for continuance of Load Factor Billing in respect of defective metered/un-metered consumers, the Commission stated that Load Factor Billing had been discarded vide Tariff Order for FY 2003-04.

4.10 Incentive for power factor improvement

In response to the prayer of the objectors for restoration of the incentive scheme for considering 0.9 as power factor for computation of load factor, the CEOs opposed it saying that the load factor goes up as the denominator is reduced for such assumption and thus causes loss of revenue in this process. They also urged that in order to maintain good power factor of the system, the industrial consumer should have almost unit power factor and in no case it should go below 90%. Hence, there is no justification to incentivise the consumers with power factor above 90% at the cost of the licensees. They also indicated that some consumers do over compensation in their system, thereby injecting VAR into the grid. In

order to check such practice, provision for imposition of penalty should be made in such cases.

4.11 Special tariff

4.11.1 In reply to the query of the objectors regarding introduction of special tariff for industries having higher consumption, the licensees welcomed the suggestion of the objector for introduction of special tariff for new and existing power intensive industries to be considered by the Commission/State Govt. by way of grant/subsidy to the licensee to recover the loss of corresponding revenue.

4.11.2 In this context, the Commission asked the licensees why they are opposing the introduction of ABT which has already been incorporated in the Commission's tariff order for FY 2003-04. The licensees replied that due to non-installation of requisite meters, the implementation of the same is not feasible at the moment.

4.12 Revision of RST & Poor Quality of Service

CEO, WESCO categorically indicated that no RST revision had taken place since last three years which, if evaluated considering the inflation rate, in real terms the tariff has gone down. Regarding quality of services, all the DISTCOs mentioned that they are very keen to render quality services to the consumers, but they are not able to do so due to paucity of fund.

4.13 Failure of Power Sector Reform in Orissa

The licensees pointed out that that the power situation has improved dramatically since reform. CEO, CESCO stated that AES being a multi-national company, fled leaving Orissa distribution sector high and dry, as they could not manage the adverse situation. As per agreement of handing over the business, old people in the sector remained and their performance cannot be expected to rise over night. Hence, progress could be expected commensurate with the ground realities. Further, to the query of the objectors regarding the violation of Kanungo Committee's Recommendation, CEO, CESCO responded that Kanungo Committee also recommended that to bring the reform back on rail, the World Bank and the DFID should come forward to fill the revenue gap with an interim financing estimated at Rs.3240 crore. The licensees indicated that for improvement in quality of power supply and less interruptions, they have proposed for installation of more number of 33/11 KV sub-stations, distribution transformers, LT line with AV conductors and introduction of spot billing machine for serving EC bills on monthly basis to all consumers.

4.14 Remunerative Norms to be followed by the licensee

4.14.1 In reply to the query of the objectors, the licensees categorically stated that they are following the remunerative norms.

- 4.14.2 SOUTHCO, in response to the specific query of one objector in his licensed areas, furnished the division-wise details indicating the number of application sanctioned in each division under the remunerative scheme.

4.15 Security deposit

- 4.15.1 In response to the appeal of Railways for exemption of providing security deposit, the Commission pointed out that there is no such provision in the Act.
- 4.15.2 In response to the allegation of other objectors regarding the excess amount charged towards security deposit by the licensees in some cases, the licensees stated that the matter would be investigated and if found true, necessary steps would be taken for their refund.
- 4.15.3 In response to the allegation of M/s Jeypore Sugar Company Ltd., CEO, SOUTHCO pointed out that they are no longer their consumer as there is neither any agreement with them nor they have deposited any money towards security deposit thereof. However, representative of Jeypore Sugar stated that Rs.50 lakh towards security deposit has been remitted to SOUTHCO.
- 4.15.4 Regarding the date of calculating the interest on security deposit, the licensees pointed out that this is payable from the date of enactment of Regulation, 2004 and not from the appointed date i.e. 10th June, 2003 on which the Act came into operation. They further mentioned that the Act has empowered the State Commission to frame regulations within a period of one year from the date of appointment.

4.16 Delayed payment surcharge

- 4.16.1 In response to the query made by the objectors regarding increasing the period for availing rebate by the bulk consumers, the licensees stated that they are liable to pay within the same period on presentation of the bill for availing the rebate. However, if the Commission/GRIDCO extends the time limit for availing rebate, they would share the benefit on the same line with consumers.
- 4.16.2 Regarding the query raised by the objectors, in respect of the period for making payment by the domestic, general purpose, and other like categories of consumers, the licensees stated that sufficient time is provided to the consumers to make payment within due date. However, they kept studied silence regarding the percentage leviable as DPS.
- 4.16.3 CEO, CESCO requested the Commission that the consumers are to pay the security charges because the licensee has to provide security for the check meters installed in the premises of consumers and arrest theft and pilferage of energy.

4.17 Monthly Minimum Fixed Charges

4.17.1 The licensees stated that fixed charges are to be borne by the licensees irrespective of drawal by any of the consumers. They opined that the status quo may be maintained so as to facilitate the licensees to recover a part of their fixed expenses.

4.17.2 The licensees highlighted that due to super cyclone and other unavoidable factors, many industries had become sick. The licensees pointed out that minimum charges for providing lighting load as security measure to these industries, are needed.

4.18 Contract Demand

In response to the allegation made by some objectors, CEO, SOUTHCO pointed out that they are charging demand charges to the consumers in accordance with the existing tariff order. The Commission advised them to ask the concerned consumers whether they are willing to reduce their contract demand commensurate with the actual consumption of energy.

4.19 Arrears Due and Bad Debt

4.19.1 Shri U.K. Panda replied as under to the query raised by one objector regarding violation of the provisions under the transfer scheme, 1998 by DISTCOs as far as sundry debtors and obsolete stocks are concerned.

It was stipulated on the scheme that any collection out of old standing arrears would be shared equally between licensee and GRIDCO. He pointed out that as per Regulation, the collections made from consumers are first adjusted against current arrears and the balance against dues and the licensees have not collected any amount towards old arrears. He further stated that collection of arrears made by them is out of the good debtors which was transferred by the DISTCOs to GRIDCO along with matching current liability.

In respect of obsolete stocks, he stated that in conformity with the accepted best accounting principles, provision for obsolete stock is made as to exhibit the actual and usable stocks and spares. Similar provision was made under the transfer scheme. Any realisation of such obsolete stock will be to the credit of the licensee and should be duly recognised while determining the ARR.

4.19.2 CEO, WESCO mentioned that out of two transfer schemes i.e. in the year 1996 and 1998, the DISTCOs are concerned with the transfer scheme of 1998 only.

4.20 Past losses/Regulatory Asset

4.20.1 The licensees stated that they have incurred huge loss since privatisation of the sector and requires compensation to turn around the sector. In this

context, they quoted the recommendation of Kanungo Committee for an assistance of Rs.3240 crore by DFID/World Bank for making the sector financially viable.

4.21 Asset Register

4.21.1 In response to the objectors' query, WESCO stated that they have furnished the asset register upto 31.03.1999.

4.21.2 NESCO and SOUTHCO stated that they are going to submit the same shortly.

4.21.3 CESCO intimated that the asset register is under scrutiny. He further intimated that out of 29 accounting units of CESCO, the asset register of 19 accounting units are already complete. The works are in progress for balance 10 accounting units. He further stated that the asset register would be submitted within a month.

4.22 BST Dues to GRIDCO

The DISTCOs stated that they are running short of fund due to the following factors:

- Non-implementation of the recommendation of Kanungo Committee to keep in abeyance the impact of upvaluation of assets from FY 1999-00.
- Non-availability of cost reflective tariff.
- Non-recognition of realistic loss level while determining tariff.

Consequently, GRIDCO failed to make payment to generators in time.

4.23 Interest on Loans and Bonds

4.23.1 GRIDCO have securitised its outstanding power purchase dues with NTPC and the interest on such securitisation has been considered by the Hon'ble Commission in their BST tariff order FY 2003-04.

4.23.2 They further stated that the GRIDCO loan from PFC/REC availed by GRIDCO, has been passed on the licensees by GRIDCO w.e.f. 01.04.1999 through an agreement. There was a back to back arrangement with the DISTCOs wherein DISTCOs were expected to service these loans to GRIDCO and GRIDCO in turn to service these loans to PFC/REC. They intimated that due to poor financial condition of the licensees the loan servicing could not be done in time to GRIDCO and consequently, GRIDCO failed to service the same with PFC/REC. They further indicated that the Commission had allowed 8.5% interest in the past on such loan as against 13.837% as per the terms of loan agreement. The licensees urged that the payment of interest on such PFC/REC loan should be allowed in the ARR of GRIDCO and recovered through BST. The licensees further submitted that GRIDCO loan should be restructured and securitised with

zero percent interest and the loan to be repaid over a period of ten years with moratorium of three years.

4.23.3 In respect of World Bank loan the licensee calculated interest @13% as per project implementation agreement with Govt. of Orissa considering 30% of loan as grant and balance 70% as loan. The moratorium period and repayment period of the World Bank loan has been considered as per World Bank's stipulation and communicated to Govt. of Orissa. The licensees vehemently objected saying that the GOO is not agreeable to consider 30% loan as grant to the DISTCOs.

4.23.4 As regards NTPC power bonds, the licensees stated that they issued bonds worth Rs.167 crore in favour of GRIDCO w.e.f. 01.10.2000 with interest @12.5% per annum payable half yearly with repayment period of seven years including a moratorium period of four years. The securitisation was made by the licensees in terms of a tripartite minutes of discussion signed (MOD) amongst them, GRIDCO and NTPC. It was further agreed in the MOD that the recommendation of the Montek Singh Ahluwalia Committee for securitisation of the dues payable to NPTC will also be made available to this bond as and when such recommendations was accepted by GOI. Due to various reasons beyond the control of the licensee, it was not possible for the licensees to service the bonds.

4.23.5 Under the APDRP scheme, 50% of the project cost from APDRP fund and 50% as counterpart funding is made. Out of APDRP fund 50% is to be provided by the licensee by GOI through GOO as loan @12% per annum and balance 50% as grant. The entire counterpart funding is to be arranged by the licensee from other sources. The licensees stated that although they have obtained sanction from REC towards counterpart funding but difficulties crept in to comply with the security conditions stipulated by REC. This causes delay in implementation of the APDRP.

4.24 Audited Accounts

NESCO, WESCO and SOUTHCO intimated that they have already submitted the audited accounts for the period upto 2002-03 and audited accounts for the period as per Tax Audit for FY 2003-04. CESCO intimated that due to non-cooperation by the auditor namely, M/s Love Lock Lwis, they could not furnish up to date audited accounts to the Commission. However, necessary measures have already been taken to furnish the same at the earliest.

4.25 Government subsidy

4.25.1 The licensees welcomed the suggestions by the objectors for compensating the operational loss on account of rural electrification and kutir jyoti by Govt. of Orissa by way of grant/subsidy to the licensees and requested the Commission and the State Govt. to consider this proposal.

- 4.25.2 They also stated that the Govt. from the standpoint of socio-economic consideration, should protect certain class of consumers from stiff hike in tariff, if desired, by way of awarding subsidy/grant to the respective licensees.
- 4.26 Single point supply to flats, market complex, etc. proposed by CESCO**
- 4.26.1 CEO, CESCO stated that builders get supply on authorisation by the owners.
- 4.26.2 He pointed out that although the meters are locked in a room on the ground floor of the apartments, the duplicate key of the room is kept with the society. Hence, the scope of tampering with the meters cannot be obviated.
- 4.26.3 He further intimated that a number of apartments are being constructed in Bhubaneswar and Cuttack. As per the present procedure, CESCO is providing individual connection to each of the occupants of the apartment and separate connection is given for the general purpose like running of lift, common lighting, pump etc. The society formed by the apartment owners deposit the cost of power with CESCO for the common purpose consumption.
- 4.26.4 He emphasised that the purpose of providing single point of power supply to all apartments and market complexes is to facilitate the all the owners to pay their dues to the society within their premises and avoid the torture of standing in CESCO's collection counter.
- 4.27 General**
- 4.27.1 CESCO pointed out that although GRIDCO earned Rs.25 crore in first eight months, but in their application, they have shown it as nil.
- 4.27.2 WESCO pointed out that emergency power supply is to be addressed by the Commission.
- 4.28 Observation of State Advisory Committee (SAC)**
- 4.28.1 The SAC constituted under Section 87 of the Electricity Act, 2003 met for the third time on 2nd February 2005 to deliberate on the tariff related issues pending before the Commission. The discussion related to the review application pending before the Commission for the FY 03-04, the Annual Revenue Requirement and Tariff Application for the FY 05-06, of all licensees. Further, application of WESCO, NESCO, SOUTHCO for recognition of regulatory assets for the past losses from 99-00 to 02-03, application for special tariff for Power Intensive Industries, implementation of Availability Based Tariff were discussed.
- 4.28.2 Members in general, were concerned about the consumer services offered by the licensees and wanted them to be more consumer friendly through

awareness campaign, interaction with consumer groups and licensee's staff, training of lower level functionaries of licensees for handling consumer grievances. Other suggestions included simplification of the procedures for tariff filing for larger participation of objectors including supply of application free of cost, publication of gist of notices in local languages.

- 4.28.3 Members offered their views on host of issues like cross subsidy in tariff, bench marking of T&D loss, correctness of data filing, improvement in metering, accuracy in load forecast, penalty for non-performance by the employees, linking tariff to performance, payment of interest on security deposit, additional security deposit, increase in AT&C Loss on account of rural electrification, determination of peak and off-peak tariff.
- 4.28.4 In addition views were expressed regarding segregation of past losses and allowing only uncontrollable losses as pass through in tariff, benefit from trading of power & UI charges to be set off against past losses and the issue of revisiting past losses on receipt of audit reports.
- 4.28.5 Early clearance of govt. dues, revisiting of distribution loss, collection efficiency, AT&C loss were also some of the major issues deliberated. Minutes of the meeting among the SAC members have been circulated and the Commission have given due consideration to these views expressed by the hon'ble members in the present tariff order.

5 COMMISSION'S OBSERVATIONS

On detailed scrutiny and examination of the Revenue Requirement and the RST applications for the financial year 04-05 alongwith clarifications submitted by the licensees before the Commission, the written and oral submission of the objectors and the views of the members of the State Advisory Committee, the Commission passes the order as detailed below:

5.1 Multi Year Tariff (MYT)

- 5.1.1 The Commission in its tariff order dt.19.04.02 approved to set in motion a MYT regime effective from April, 2003 for FY 03-04. In para 10.2 of the LTTS order dt. 18.06.2003, it has been stipulated that, the base year for applicability of LTTS shall be FY 02-03 and FY 03-04 is the transitional year in the MYT regime of 03-04 to 06-07. The control period in LTTS order was set to begin from first April, 2003 and to end on 31st March, 2007. The tariff for 03-04 and 04-05 could not be finalised in time due to legal complications. The FY 04-05 stated to be the second year of the control period (03-04 to 06-07) is almost coming to a close leaving hardly two more years for any kind of long term planning. Therefore, the Commission decides that the control period set forth in LTTS order to expire by 06-07 need to be extended by one more year for an objective assessment of LTTS at the end of three years from 04-05.

5.1.2 The audited figures are available for the FY 2002-03 in respect of WESCO, NESCO & SOUTHCO. This provides authenticated information, among other things, about T&D loss & Collection Efficiency which were not available earlier. The Commission while finalising the Revenue Requirement of FY 2004-05 will stipulate various parameters up to the end of the revised control period i.e. FY 2007-08 which will be reviewed each year during ARR determination.

5.2 T&D Loss

5.2.1 The management of WESCO, NESCO and SOUTHCO was handed over to the private companies with effect from 01.04.99 & in case of CESCO it was handed over from 01.09.99. It is worthwhile to re-captulate the target set in various orders & actual achievement with regard to reduction of T&D loss and improvement of collection efficiency in the post privatisation era between FY 98-99 to FY 03-04.

5.2.2 The OERC vide their the Tariff Orders for FY 2002 - 03 and FY 2003-04, fixed the target of T&D loss reduction at the rate of 5% per annum and improvement in Collection Efficiency at 85%, for FY 02 as against 76% recommended by Kanungo Committee which was to go up at the rate of 2.5% per annum to reach a level of 97.5% by FY-07.

5.2.3 The T&D loss and collection efficiency reported in the audit report/Management Account during the period from 1999-2000 to 2003-04 of the DISTCOs & the assessed AT & C loss are given below:

Table – 9

	1999-00	2000-01	2001-02	2002-03	2003-04
NESCO					
Distribution Loss (%)	43.35	44.44	51.00	41.38	43.66
Collection Efficiency (%)	79.37	82.12	74.34	81.46	88.11
AT&C Loss (%)	55.04	54.38	63.57	52.25	50.36
WESCO					
Distribution Loss (%)	44.17	43.20	46.44	38.29	39.02
Collection Efficiency (%)	83.36	79.32	79.95	85.40	88.26
AT&C Loss (%)	53.46	54.94	57.18	47.30	46.17
SOUTHCO					
Distribution Loss (%)	41.84	42.52	40.47	39.14	42.44
Collection Efficiency (%)	78.75	83.32	79.29	82.55	84.15
AT&C Loss (%)	54.20	52.10	52.80	49.76	51.56
CESCO					
Distribution Loss (%)	45.68	44.89	48.81	43.03	39.76
Collection Efficiency (%)	70.58	74.93	71.04	78.92	81.18
AT&C Loss (%)	61.66	58.70	63.64	55.04	51.10

- 5.2.4 The achievement by the Distribution Utilities with regard to the transmission and distribution loss reduction, improvement in collection efficiency and the resultant AT & C loss indicates that the DISTCOs have completely failed to stick to the target set forth by the Commission in spite of scrupulous monitoring and review by the Commission right upto the divisional level. The objectors during the course of tariff hearing without exception have lambasted the DISTCOs for their inefficiency & incapability to carry out the orders of the Commission. The objectors have strongly refuted the idea of treating AT & C loss for determination of revenue requirement except as a measure of performance indicator of the licensees for the purpose of calculation of incentive and penalty at the year end. They hold the view that the concept of transmission and distribution loss should be utilised as an instrument for determination of number of units to be sold to various consumers from year to year and for determination of expected revenue from the charges.
- 5.2.5 The DISTCOs, on the other hand, have ascribed a litany of reasons for which they have not been able to attend the parameters set forth by the Commission and Kanungo Committee and prayed that unless the aforesaid parameters are revisited by the Commission, it will lead to a state of complete financial bankruptcy as the figures approved by the Commission at the time of setting the tariff order were not based on the audited accounts but on presumptive calculation of energy purchase and sale which are found to be at variance, necessitating the Commission to have re-examination of the figures based on the available audited figures.
- 5.2.6 Some of the members of the SAC in their deliberations in connection with the tariff proposals for 04-05 and 06 were equally vehement in their criticism and stated categorically that the distribution loss, collection efficiency as decided by the Commission during the previous tariff orders should not be revised in order to burden the consumers on account of the inefficiency and mismanagement of the distribution licensees.
- 5.2.7 The Commission takes into consideration the views expressed by the objectors during the course of the tariff hearing, the viewpoints of members of the SAC, the observation of the GRIDCO and GOO, the initial projections made by the staff appraisal report of the World Bank in 1996, the recommendation of the Kanungo Committee and its own tariff order from year to year and at the same time the audit reports now available upto the year 02-03 of WESCO, NESCO, SOUTHCO in addition to the loss levels prevalent in various utilities inside the country.
- 5.2.8 The Commission takes into consideration the views of the GOO presented to the Commission in the proceedings of the tripartite meeting dt.15.01.04 accepting the concept of carry over of past losses on account of fixation of unrealistic loss level by the Commission in its previous tariff orders.

- 5.2.9 The staff appraisal report of the World Bank in 1996 envisaged a very high growth of load at EHT in the Orissa system that could have contributed to the deceleration of the overall loss of the power system in Orissa. The projected loss level would have been much higher in the Staff Appraisal Report, had the current level of EHT consumption been taken into account.
- 5.2.10 It is also a fact that the analysis of the OSEB T&D loss by the Accountant General, did confirm that the level of T&D loss is far higher than what was being projected by OSEB upto the year 95-96 as the OSEB had the luxury of estimating the unmetered consumption of domestic and other classes of consumers and project a level of loss much lower than the actual. Besides, the GOO provided subvention to OSEB to ensure a minimum return of 3% on its net fixed asset after meeting all expenses on account of operation, maintenance, depreciation, interest as per Section 59 of the Supply Act, 1948, which is totally absent today.
- 5.2.11 The Distribution Companies in the past had failed to produce the audited reports which could have thrown light and helped the Commission in fixing loss target at the time of determination of tariff. Even, the pilot study for determination of T&D loss took a very long time to be completed. The pilot study is far from satisfactory, from which no definite assessment could be made. The audit report now available with us throws enough light on the status of performance of all these utilities that draws our attention for revisit of the loss figures, collection efficiency etc. which could be compared with figures of other utilities in the country to work out a realistic level of loss and collection efficiency.
- 5.2.12 Coming to the level of reduction in distribution loss, the Commission had prescribed the reduction of losses at the level of 5% per annum in accordance with the recommendations made by the Kanungo Committee, through public hearing of tariff proceedings.
- 5.2.13 All the licensees, namely, WESCO, NESCO, SOUTHCO and CESCO have submitted actuals of T & D loss against the target set forth by the Commission and have expressed their inability to reach the target recommended by the Kanungo Committee citing several reasons including their incapacity to make any investment due to lack of surplus revenue as well as the absence of any kind of support from the government like anti theft measures by establishment of special police stations and special courts, as envisaged in the Electricity Act, 2003.
- 5.2.14 The Commission has been persistently carrying out the revenue and performance review of the distribution companies on bi-monthly basis including the performance of the divisions for each of the four distribution licensees particularly with regard to the installation of meters at the premises of the consumers, metering of distribution transformers, feeders and energy audit to prevent pilferage of energy, accountability fixed at the

appropriate level for billing and collection improvement and loss reduction. During the last review of the Distribution Companies upto September 04, it was noted that meters have been fixed in the premises of the consumers to the extent of more than 90% and 81% in feeders. However, it is observed, that they have not achieved appropriate reduction in the level of distribution loss, primarily because the meters which they reported to be as working are either not working or tampered or bypassed or large scale hooking from bare overhead lines continues. This causes serious concern. They have not yet been able to set up full proof energy audit cell, monitoring input and output at the distribution transformers to assess the loss & fix accountability & responsibility against errant officials. The special courts have not been established about which the DISTCOs are continuously complaining. Establishment of such institutions with support of the state alone can prevent hooking from direct lines by unscrupulous consumers. The licensees should put in place an effective monitoring mechanism for assessment of loss for supply from each distribution transformer & continue with their efforts for prevention of theft & un-authorised abstraction of power from over headlines.

5.2.15 The percentage of transmission and distribution loss including energy unaccounted for in the state and union territories (published in the economic survey of 03-04 by Government of India) in the table below depicts loss levels of states in the year 92-93 and 01-02. The figures indicate very unsatisfactory level of loss prevalent throughout the country including Orissa. So much so, there are 16 states with loss percentage varying between 33.83% to 62.35% as on 01-02.

5.2.16 Percentage Transformation, Transmission & distribution

5.2.17 Losses (including energy unaccounted for) in states/Uts

Table :10

(Per cent)

Rank	State	1992-93	2001-02
1	Daman & Diu	15.67	7.52
2	Lakshadweep	18.72	10.94
3	Pondicherry	15.31	12.00
4	Tamil Nadu	17.3	16.06
5	Meghalaya	11.62	22.66
6	Chandigarh	26.21	24.97
7	Goa	21.85	25.18
8	Himachal Pradesh	19.98	25.55
9	Jharkhand	-	26.39
10	Andhra Pradesh	20.65	26.81
11	Gujarat	22.2	26.87
12	D&N Haveli	17.98	27.22
13	Punjab	19.61	27.70
14	A & N Insland	23.62	29.20
15	West Bengal	17.53	31.67

16	Sikkim	22.55	31.73
17	Kerala	22.77	32.21
18	Uttaranchal	-	32.39
19	Chhattisgarh	-	33.75
All India		21.8	33.98
20	Karnataka	19.62	33.83
21	Maharashtra	18.51	37.28
22	Uttar Pradesh	24.68	37.62
23	Haryana	26.78	39.22
24	Tripura	30.64	40.38
25	Assam	21.41	42.78
26	Rajasthan	22.71	43.06
27	Delhi	24.02	43.97
28	Madhya Pradesh	22.52	44.55
29	Orissa	25.87	47.34
30	Jammu & Kashmir	48.13	48.85
31	Mizoram	29.04	49.77
32	Bihar	17.15	51.70
33	Nagaland	27.26	52.32
34	Arunachal Pradesh	32.32	53.58
35	Manipur	22.35	62.35
Source:DMLF Division, CEA (General Review)			

- 5.2.18 A comparison of T&D loss between 1992-93 and 2001-02 shows upward mobility of T&D loss figures in at least 16 out of the 35 states where, reform and restructuring of the power sector has been implemented. This is perhaps due to adoption of improved method of loss assessment including installation of meters in the consumer premises, feeders and transformers and withdrawal of subsidy/subvention available to those utilities from the Government which provided them a cushion to report lower level of loss on account of consumption by unmetered consumers.
- 5.2.19 Audit reports for the past four years i.e., from 1999-00 to 2002-03 are available in respect of WESCO, NESCO and SOUTHCO which reflect level of loss much higher than what was approved in the tariff orders. During the course of our review, the Commission observe that a good percentage of consumers today have been provided with meters. The Kanungo Committee which was constituted to suggest midcourse correction for power sector reform in Orissa had adopted a loss figure of 42.21% in transmission and distribution only excluding the loss in EHT transmission system. From the year 01-02 onwards, the OERC have been adopting the loss figures recommended by Kanungo Committee, which was based on the submission by the Distribution Companies. It is most unfortunate to observe that the Distribution Companies have miserably failed to live upto their own expectation of reduction of the loss level they projected in the year 01-02 before the Kanungo Committee. Therefore,

taking all these factors into consideration, it has now become imperative to fix very firmly the target for reduction of loss to be scrupulously followed by the Distribution Companies.

- 5.2.20 It will not be out of place to go through the extract of the National Electricity Policy issued by the Government of India published in February, 2005 on Transmission and Distribution loss is reproduced below:

“5.8.10 It would have to be clearly recognised that power sector will remain unviable until T&D losses are brought down significantly and rapidly. A large number of states have been reporting losses of over 40% in the recent years. By any standards, these are unsustainable and imply a steady decline of power sector operations. Continuation of the present level of losses would not only pose a threat to the power sector operations but also jeopardize the growth prospects of the economy as a whole. No reforms can succeed in the midst of such large pilferage on a continuing basis.

The state governments would prepare a five year plan with annual milestones to bring down these losses expeditiously. Community participation, effective enforcement, incentives for entities, staff and consumers, and technological upgradation should form part of campaign efforts for reducing these losses. The Central Government will provide incentive based assistance to states that are able to reduce losses as per agreed programmes.

5.4.6 A time-bound programme should be drawn up by the State Electricity Regulatory Commission (SERC) for segregation of technical and commercial losses through energy audits. Energy accounting and declaration of its results in each defined unit, as determined by SERCs, should be mandatory not later than March 2007. An action plan for reduction of the losses with adequate investments and suitable improvements in governance should be drawn up. Standards for reliability and quality of supply as well as for loss levels shall also be specified, from time to time, so as to bring these in line with international practices by the year 2012.”

- 5.2.21 The DISTCOs purchase power from the bulk supply and transmission licensee, i.e. GRIDCO. The EHT consumers are directly fed through EHT lines, where as other consumers are served through 33 KV, 11 KV and LT supply. The Energy Billing Centre (EBC) of GRIDCO integrates the total power drawn from a particular grid substation through EHT, 33 KV and 11 KV.
- 5.2.22 The Transmission and Distribution network of all the DISTCOs more or less are similar in nature as they have been created out of a single entity i.e. OSEB obviously, there can not be any large variation in the level of

technical loss. The variance of T&D loss amongst the DISTCOs is attributable to EHT load and commercial losses.

5.2.23 The proposal submitted by NESCO, WESCO and SOUTHCO are very conservative for loss reduction. As such, they have to attain higher loss reduction. CESCO has proposed 38% distribution loss in 2004-05, which is found to be more than 39%.

5.2.24 Therefore for fixation of target for T & D loss levels the Commission have examined transmission and distribution loss level in various electrical utilities throughout the country and also examined the performance of Orissa utilities for the last five years as found from their audit report/management account as indicted in the Table:9. We have considered the loss level under OSEB/GRIDCO in 1996-99 at the time of transfer of assets to GRIDCO/DISTCOs. We have also examined the prevalent loss level of CESCO an undertaking being managed by an administrator appointed by OERC since August, 2001.

5.2.25 The Commission, therefore, directs that all the DISTCOs should reduce the transmission and distribution loss each year at least @ 3% per annum.

5.2.26 The targeted T&D loss reduction for the Control period, as proposed by the DISTCOs and as approved by the Commission is given in the table below:

Table :11

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NESCO						
ARR		43.66	40.58	36.63		
Approval	41.38	43.66	38.00	35.00	32.00	29.00
WESCO						
ARR		39.02	35.96	32.65		
Approval	38.29	39.02	34.00	31.00	28.00	25.00
SOUTHCO						
ARR		42.47	39.77	37.30		
Approval	39.14	42.44	39.00	36.00	33.00	30.00
CESCO						
ARR		39.76	38.00	34.00		
Approval	43.03	39.76	39.00	36.00	33.00	30.00

5.3 Expected revenue for the FY 2004-05 based on the anticipated sale at the existing tariff

5.3.1 Anticipated Energy Purchase (MU), Distribution Loss (%) & Anticipated Energy Sale (MU) as proposed by the Distribution licensees are as tabulated below.

Table : 12

ITEMS	NESCO	WESCO	SOUTHCO	CESCO
	2004-05	2004-05	2004-05	2004-05
Power Purchase (MU)	2778.584	4028	1630	4140
Distribution Loss (%)	40.58%	35.96%	39.77%	38.00%
Anticipated Sale (MU)	1651.06	2579.35	981.82	2565.86

5.3.2 Determination of quantum of energy to be sold

5.3.2.1 The quantum of energy to be sold will be determined after deducting the units deemed to have been lost in distribution applying the bench-mark loss level, as adopted by the Commission.

5.3.2.2 The Anticipated Energy Sale (MU) has been computed applying Distribution Loss (%) on the Energy to be purchased (MU) as tabulated below.

Table :13

ITEMS	NESCO	WESCO	SOUTHCO	CESCO
	2004-05	2004-05	2004-05	2004-05
Power Purchase (MU)	2955.05	4028.60	1613.31	3872.88
Distribution Loss (%)	38.00	34.00	39.00	39.00
Anticipated Sale (MU)	1832.13	2658.88	984.12	2362.46

5.3.3 Category wise projected sale at voltage level

5.3.4 The projected sale at EHT and HT based on the load growth has been kept at the same level, as proposed by the Distribution licensees. The quantum of sale at LT has been arrived at after deducting the proposed sale at HT & EHT from the total sale as tabulated below.

(I) As proposed by the Licensees**Table : 14**

ITEMS	NESCO	WESCO	SOUTHCO	CESCO
	2004-05	2004-05	2004-05	2004-05
Anticipated Sale (MU)	1651.06	2579.35	981.82	2565.86
LT	674.23	775.35	597.94	1748.94
HT	291.36	492.50	228.07	440.52
EHT	685.47	1311.50	155.81	376.40

(II) As approved by OERC

Table :15

ITEMS	NESCO	WESCO	SOUTHCO	CESCO
	2004-05	2004-05	2004-05	2004-05
Anticipated Sale (MU)	1832.13	2658.88	984.12	2362.46
LT	855.30	854.88	600.24	1545.54
HT	291.36	492.50	228.07	440.52
EHT	685.47	1311.50	155.81	376.40

5.3.5 The category wise sale at LT

The category wise sale at LT has been computed by apportionment of the differential figure at LT (i.e the difference between the approved total sale and approved sale at HT & EHT) amongst all the categories under LT.

5.3.6 Expected Revenue from the existing Tariff

The Expected Revenue based on anticipated consumption at the existing tariff has been arrived at based on the said anticipated sale. In respect of NESCO, the revenue from the Power Intensive Industries in HT & EHT has been computed based on the prevailing tariff from 1st April, 2004 – 09th December, 2004 and on reduced tariff i.e. 216 p/u and 221 p/u at EHT and HT respectively from 10th December, 2004 up to 31st March, 2005 as tabulated below:

Table : 16

LICENSEE	SALE (MU)	NET TOTAL REVENUE AFTER REBATE - (10P/U)(RS. CR)	Av. Tariff (p/u) (NET)	Av. Tariff (p/u)- LT (NET)	Av. Tariff (p/u)-HT (NET)	Av. Tariff (p/u)-EHT (NET)
WESCO	2658.88	739.87	278.26	240.82	353.12	274.56
NESCO	1832.13	472.64	257.97	216.96	347.34	271.16
SOUTHCO	984.12	272.08	276.47	239.68	303.92	378.00
CESCO	2362.46	672.85	284.81	252.59	349.64	341.24
TOTAL	7837.59	2157.44	275.27	240.07	343.18	289.93

5.4 Collection Efficiency

5.4.1 The Collection Efficiency worked out by the three Distribution Companies and presented to the Commission for the year 03-04 was examined. It is observed that while calculating the collection efficiency for 03-04 except WESCO (in ARR), none of the distribution companies have taken into consideration the billing on account of meter rent, overdrawl penalty, delayed payment surcharge and have not deducted the discount to the consumers on account of rebate as reflected in the Audit Report to arrive at the billed amount. Once this discrepancy is rectified, the collection

efficiency for the year 03-04 as projected by WESCO, NESCO and SOUTHCO are required to be revised. However, in case of CESCO, in the absence of audit report, the figures as compiled in the management account have been accepted as 81% for the year 03-04 subject to revision, if required on receipt of audited figures.

- 5.4.2 During the course of public hearing on tariff, the CEO, CESCO submitted that inspite of best efforts, arrears against the Government consumers could not be mopped up and it has become an invidious task to disconnect vital installations like water supply in urban areas, hospitals, to cause inconvenience to a large section of the community. Non realisation of Government dues by CESCO has been contributing to a low level of collection efficiency and higher AT & C loss.
- 5.4.3 He also pointed out that the power sector reform in Orissa ushered in cosmetic transformations by handing over assets and liabilities along with all the staff of OSEB/GRIDCO lock, stock, and barrel. It is the mindset of the employees and officers of such organisation that engender the difficulty in the effective implementation of the reform. Adequate steps have not been taken in the reform era to educate and train these employees for improving consumer services.
- 5.4.4 For the purpose of determination of collection efficiency, a few samples were picked up from the recent tariff orders of Karnataka, Uttranchal, Uttar Pradesh, Andhra Pradesh, Jharkhand and Delhi, which shows that the level of collection efficiency has varied between 75% and 100%, an extract of which is given below:

Table :17
COLLECTION EFFICIENCY OF OTHER STATES

	FY-01	FY-02	FY-03	FY-04	All Figures in % Reference
KERC	111.97 (incl.FRP Adjustment)	91.53			Para 3.2 of Tariff Order 2003
UERC		75.23	79.60		Para 1.3.1.3 of Tariff Order 2003-04
UPERC			79.00	82.00	Para 4.17 of Tariff Order 2003-04
APERC	100.00	96.40	98.00		Para 302 of Tariff Order 2003-04
JERC			89.00		Para 4.35 of Tariff Order 2003-04
<u>DERC</u> Central East South East North West	87.90 90.50 88.70				Para 4.3.1.2 of Tariff Order 2003-04

- 5.4.5 The fixation of collection efficiency has a bearing on the working capital to be permitted to the licensees for carrying out their business which has been highlighted in LTTS order of 18th June, 2003(Case No.8/2003, Para 5.6.7), quoted below:

“5.6.7 FINANCING COSTS OF SHORT TERM LOANS/CASH CREDITS FOR WORKING CAPITAL

5.6.7.1 The Commission shall allow interest on approved short-term loans/cash credits based on the forecast for requirements of short-term loans/cash credits to meet working capital requirements.

5.6.7.2 Working Capital proposed by the Commission shall cover the shortfall in cash collections beyond the target set for collection efficiency during the control period. This shortfall shall be determined after considering the provisioning for bad and doubtful debt as laid down in para 5.6.3 above. This is a departure from the Sixth Schedule of the Electricity (Supply) Act, 1948, which defines working capital only in terms of cash in bank and stores.

5.6.7.3 No adjustments in the Annual Revenue Requirements shall be made for variations in actual and forecast values of interest costs on short-term loans/cash credits.”

For the purpose of LTTS network and financing costs and aggregate technical and commercial (AT & C losses are considered as control level). ”

- 5.4.6 The Commission also have taken the view while determining the LTTS principles in para 4.2 of the aforesaid order that *"any financial loss arising from the performance falling short of the target in these years will, normally, not be recoverable to tariffs. Similarly any financial gain arising from performing better than targets will not be adjusted against revenue requirement, and licensees will retain such gains during the control period."*

- 5.4.7 Determination of collection efficiency of the utilities requires an analysis of the revenue requirement permitted to them from year to year. In accordance with the OERC (Terms & Conditions for Determination of Tariff) Regulation, 2004, the expenditures should cover the following items:

- (i) Cost of Power Purchase
- (ii) Financing Costs
- (iii) Working capital, which will include O & M expenditure for one-month amount equivalent to 1/6th approved annual requirement.
- (iv) O&M expenditure.
- (v) Provision for bad debt
- (vi) Depreciation
- (vii) Return on Equity

- 5.4.8 Out of 100% of the revenue requirement as a prudent industrial practice 2.5 % could be excluded towards bad debt leaving 97.5% to include all the cash and non cash expenditures like depreciation as well as return on equity. The Commission in the LTTS order dated 18th June, 2003 has specified return on equity to be calculated at 16% of the equity base. In fact, this ROE works out to around 1.2 to 2.1% of the revenue requirement for the FY 03-04 as approved by OERC. Once, we exclude the bad debt 2.5% and the permitted ROE, the balance amount will cover other expenses including depreciation. The following examples illustrate the issue.

Table :18

	(% of Revenue Requirement)			
FY-03-04	NESCO	WESCO	SOUTHCO	CESCO
Bad debt	2.5%	2.5%	2.5%	2.5%
ROE	2.12%	1.15%	1.77%	1.48%
Total	4.63%	3.65%	4.27%	3.98%
Balance	95.37%	96.35%	95.73%	96.02%

- 5.4.9 NESCO, if collects 95.37% of the Revenue Requirement, it will be in a position to meet the requirements of the business except the return on equity and bad debt. WESCO with a ROE of 1.15% will be required to attain higher level of collection efficiency of 96.35% to meet all expenses of business including depreciation but excluding ROE. So also the case with SOUTHCO & CESCO unless their collection efficiency reaches 95.73% to 96.02% respectively, they can not meet the full business cost.
- 5.4.10 No Company has been able to achieve collection efficiency of 95.4% plus in the past years for which the Commission had approved the concept of carrying charges for financing the gap between the permitted collection efficiency & the collectable revenue excluding bad debt on pragmatic considerations. For example, if the collection efficiency is fixed at 90%, then the shortfall from the revenue Requirement above 90% can be treated as additional working capital to be financed by the licensee to carry out the running of the business. For this investment, the licensee shall be allowed the carrying charges at appropriate bank rate for a period of two years beyond the financial year to which the claim pertains as the Electricity Act gives margin for collection of arrears upto two years. This target is attainable provided the utility collects the entire revenue requirement except the bad debt of 2.5%.
- 5.4.11 If the utility is efficient enough to collect the revenue beyond the level of 90% there will be reduction in the requirement of additional working capital and the saving in carrying charges comes as an incentive to the

investors & gives them an additional return over and above the permitted ROE.

- 5.4.12 If they collect below 90% the extent of shortfall will be financed by the investors and in the process, they will be losing return on equity. Utilities collecting in excess of 97.5% earn additional revenue over and above the permitted ROE which should incentivise them to reduce the bad debt.
- 5.4.13 In-fusion of additional working capital binds the utility down to collection of revenue in excess of the normative collection efficiency fixed so as to get back the principal of the additional working capital early.
- 5.4.14 Fixation of parameters for collection efficiency will thus have an impact on determining the working capital requirements as well as incentives which could be earned by the licensees for better performance.
- 5.4.15 An understated performance level fixation can deprive the consumers of legitimate benefits. On the contrary an ambitious fixation of target may not be helpful for sound financial running of the business by the licensee. In view of this, it is extremely important that a balance approach has to be adopted allowing reasonable level of comfort both to the consumer as well the licensee in the best interest of power sector in Orissa.
- 5.4.16 The dismal performance of the distribution licensees can not be a criteria for fixation of lower benchmarks for the future years. In this context, it is interesting to notice that some of the utilities outside Orissa under the state sector have achieved collection efficiency as high as 100% whereas the privatised licensees in Orissa have registered collection efficiency varying between 81% and 88%. This is highly un-satisfactory and it is expected that these distribution licensees shall put in their best efforts to achieve the target set forth by the Commission for which performance is being linked to penalty and incentive.
- 5.4.17 The break up of the number of consumers, pattern of consumption, is given in the table below:

Table :19

Licensees	No. of consumers as on 01.04.04			% of consumption & billing during April-Sept, 2004		
	LT	HT	EHT	LT	HT	EHT
NESCO	435011	390	8	36.32	18.69	44.99
WESCO	434247	312	14	28.15	23.14	48.72
SOUTHCO	435472	79	12	63.15	20.53	16.32
CESCO	823389	481	10	65.33	18.85	15.82

- 5.4.18 As evident and from the table, the scale of high percentage of billing at LT is tilted in favour of CESCO and SOUTHCO, whereas, the percentage of billing at HT and EHT together is the highest in case of WESCO (71.86%) followed by NESCO (63.68%).
- 5.4.19 Taking this factor into consideration, the billing efficiency has been fixed in respect of DISTCOs.
- 5.4.20 Verification of records and submission by NESCO indicate a level of collection efficiency at 92% for the current year. Their target for collection is fixed at 93% for FY 05-06 and 94% for the next two years.
- 5.4.21 As, WESCO has a higher component of EHT load and they have achieved 90.23% collection efficiency upto December, 2004, they should be in a position to reach 94% collection efficiency @2% each year (over 90% rounded) and reach 96% during the year 2007-08.
- 5.4.22 Collection efficiency of SOUTHCO upto December, 04 in the current year is 89.00%. SOUTHCO like CESCO has predominant LT load. Thus, SOUTHCO should raise its level of collection efficiency @ 2% per annum to attain 91% in 2005-06, 93% in 2006-07 and 94% in 2007-08.
- 5.4.23 In respect of CESCO, audited figures are not available and based on the management account, the collection efficiency is 81.18% for the year 2003-04. Their collection efficiency can definitely register significant improvement in urban and semi-urban areas coupled with realisation of arrear Govt. dues. Upto December, 04, the collection efficiency is reported to be 82%. CESCO in the ARR filing had proposed 82% collection efficiency for 2004-05. Taking this yardstick, it will not be impossible to achieve 83% collection efficiency in the current year as three months are left to be covered. As such the target for collection efficiency in respect of current year has been pegged up to 83%. CESCO is being assigned the target of collection efficiency of 92% at the rate of 3% per annum by the year 07-08.
- 5.4.24 Collection Efficiency will be calculated on the basis of current year 's billing and current year's collection. This must be exhibited accordingly in the bills.
- 5.4.25 Based on the above observations, the collection efficiency as approved by the Commission along-with the projections are given in the table below:

Table :20

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NESCO						
ARR		93.69	94.00	93.00		
Approval	81.46	88.11	92.00	93.00	94.00	94.00
WESCO						
ARR		88.26	89.29	89.68		
Approval	85.40	88.26	90.00	92.00	94.00	96.00
SOUTHCO						
ARR		86.91	88.00	91.72		
Approval	82.55	84.15	89.00	91.00	93.00	94.00
CESCO						
ARR		81.00	82.00	83.00		
Approval	78.92	81.18	83.00	86.00	89.00	92.00

5.4.26 While we fix the level of collection efficiency as stated above, we are conscious of the fact that the distribution licensees have been still complaining about the non- receipt of government funds and dues of the PSUs thereby seriously jeopardizing the level of collection efficiency. We do hope that the government departments and PSUs shall pay the dues of the distribution companies on regular basis so that other consumers are not burdened. This is more relevant in the context of non-payment of any kind of subsidy to the electricity sector by GOO which brings the entire burden of meeting the financial requirements by the consumers alone. The licensees in fulfillment of their license obligations should not discriminate among consumers. It should take appropriate action for recovery of Government dues including timely disconnection of defaulting Government consumers to reach the target of collection efficiency, as fixed by the Commission.

5.5 AT& C Loss

5.5.1 The Commission has perused the written and oral presentations made by the four Distribution Companies as well as the GOO and GRIDCO. All the Distribution Companies, GRIDCO and GOO have different perception about AT & C loss reduction.

5.5.2 This composite figure AT&C loss reflects collection efficiency & T&D loss for which the Commission had conducted threadbare analysis of the individual element. However, the Commission agrees with the objectors' view expressed in the last public hearing held on 17th, 19th, 22nd, 24th and 27th January, 2005 as well as with the views of the members of the SAC that the AT&C loss shall serve as an indicator for the purpose of payment of incentive with reference to measurement of performance, penalty and not for the purpose of determination of revenue requirement.

- 5.5.3 As we have already approved the level of collection efficiency & distribution loss in respect of four DISTCOs, the level of AT&C loss from year to year is presented in a tabular form giving the proposed and approved figures from 04-05 to 07-08.

Table - 21

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NESCO						
ARR		47.22	44.14	41.06		
Approval	52.25	50.36	42.96	39.55	36.08	33.26
WESCO						
ARR		46.18	42.82	39.60		
Approval	47.30	46.18	40.60	36.52	32.32	28.00
SOUTHCO						
ARR		50.00	46.99	42.49		
Approval	49.76	51.56	45.71	41.76	37.69	34.20
CESCO						
ARR		51.21	49.18	45.22		
Approval	55.04	51.10	49.37	44.96	40.37	35.60

- 5.5.4 The sale at EHT along with total sale has been projected by the various distribution companies. The loss at EHT is considered zero as distribution companies purchases power at EHT bus. Non maturing of EHT loads during the first five years has created havoc in various estimates proposed in the Staff Appraisal Report of World Bank in April, 1996. To be fair to everybody, the Commission directs that any wide fluctuation in EHT consumption will be given due consideration at the time of revenue requirement from year to year while re-estimating, if deemed necessary the AT&C loss levels for performance measurement.

- 5.5.5 The AT&C loss shall be the criteria for determining the performance of the distribution companies that provides them the latitude for improvement in either or both in distribution loss and collection efficiency. However, the distribution loss need to be taken into consideration in assessing sale from year to year while determining the Annual Revenue Requirement.

5.5.6 **Incentive for improved AT&C loss**

After having determined the AT&C loss up to FY 07-08 for the purpose of measurement of performance of different distribution companies, we would like to observe that there could be possibilities when the DISTCOs perform better and improve upon the parameters fixed by the Commission and earn incentives. To allay the apprehension of the consumers about runaway profit earned by the DISTCOs, the Commission would stick to the provisions regarding treatment of profit more than the approved return

on account of improved performance in Clause 5, sub-clause 5(H) of OERC (Terms & Conditions for Determination of Tariff) Resolution, 2004 which is quoted hereunder:-

"Profit Sharing: (a) *the licensee will be provided with an approved return at the beginning of the period under review. (b) However, the licensee, if it makes more profit than the approved return on account of improved performance, the Commission shall treat the profit beyond the approved return in the following manner;*

- (i) *In case, one-third amount to be declared by the licensee as dividends to the shareholders, is not paid out as dividend, it shall be eligible to be treated as part of equity to that extent and earn returns on the same. Any future declaration of dividend from this shall lead to commensurate decrease in the equity base for the purpose of returns.*
- (ii) *One-third amount to be returned back to consumers by way of reduction in the consumer bills as rebate.*

One-third amount shall be kept as tariff balancing reserve, which shall be used to reduce sharp rise in ARR in future years. The Commission may allow a part of the total reserve to be returned back to the consumers every 3 years by way of reduction in ARR. The amount in tariff balancing reserve shall not be eligible to be treated as part of equity and would not earn any return for the shareholders. Any return earned on this reserve shall be added back to this reserve."

5.6 Summary of revenue requirement of DISTCOs for FY 2004-05

- 5.6.1 For the FY 2004-05, the Commission will consider the cost of power purchase on a realistic basis as projected by the distribution companies.
- 5.6.2 The estimate for purchase of power for a financial year is worked out in accordance with clause 5 sub-clause(4)(a) of OERC (Terms & Conditions of Tariff) Regulations, 2004, which is quoted below:

"The quantum of power purchase for the ensuing financial year shall be estimated on the basis of actual purchase made during the previous financial year(s), actuals to the extent available for the current year and any projections for the balance period of the current year with appropriate adjustments for any abnormal variations during the period. The licensee through appropriate documentation shall justify all the abnormal deviations. This quantity will be evaluated at the price based on the power purchase agreements, bulk supply agreements etc. consented by the Commission."

5.7 Power Procurement

5.7.1 Method of determination of Power Purchase

5.7.1.1 The current financial year 04-05 is coming to an end for which the Commission is in a position to obtain the actual purchase of power by these companies from GRIDCO upto December, 04. Looking at the consumer mix and consumption pattern of CESCO and SOUTHCO, it will be prudent to extrapolate their consumption upto December, 04 and estimate the full quantum of energy purchase for the year 04-05.

5.7.1.2 As far as CESCO is concerned, there has been continuous decline in drawl of energy in the past years attributable to switch over of Nava Bharat Alloys to its own CPP, closure of Oswal Industries Ltd. and Fertilizer Corporation of India and no other addition of EHT consumers during the period under review. CESCO covers mostly the coastal belts of Orissa with urban, semi-urban and rural conglomerates. In case of CESCO, out of 8.24 lakh of consumers, 491 consumers belonging to HT & EHT category consume 20.36% of the total power purchased by CESCO. In case of SOUTHCO, out of 4.36 lakh consumers, only 91 under HT & EHT category consume 22.22% of the total power purchased by SOUTHCO. In both CESCO & SOUTHCO more than 99% of the consumers receive power supply at LT where there is hardly any variation in load pattern. For the purpose of load estimation during the last 3 months of 2004-05, it would be quite appropriate to consider the consumption trend of the first nine months of the current financial year and adopt the same on an average basis for the whole year.

5.7.1.3 WESCO and NESCO do have a higher component of industrial consumption, as compared to the other two utilities and due to industrial rejuvenation pattern of consumption in case of mineral based & sponge iron industries at EHT/HT categories of consumers are on the rise as seen from the consumption reports furnished by these Distribution Companies. The Commission consider the level of consumption in the month of December in respect of WESCO, NESCO and prorate it to determine the total consumption for the last quarter of financial year 04-05. Thus, the total consumption for 04-05 has been determined by combining the current year's consumption of past nine months & projection for the last quarter of 04-05. On the aforesaid principle, the quantum of consumption by each of the DISTCOs has been estimated, as indicated below:

Table : 22
Purchase of Power by DISTCOs during 2004-05

(Figures in MU)

AGENCY	FY 2003-04 (Actual)	DISTCOS' Proposal in RST(2004-05)	Actual From 4/04 to 12/04	Commission's Approval (2004- 05)
CESCO	3,899.57	4140.00	2904.66	3872.88
NESCO	2,636.74	2778.58	2207.72	2955.05
WESCO	3,784.16	4028.00	2982.56	4028.60
SOUTHCO	1,608.67	1630.00	1209.98	1613.31
TOTAL DISTCOs	11929.14	12576.58	9304.92	12469.84

5.8 Determination of Simultaneous Maximum Demand (SMD) in MVA

5.8.1 The Commission has examined the monthly demand for power (in MVA) by the DISTCOs from GRIDCO's system. The SMD billing to DISTCOs for the first nine months of the current financial year is given in the table below:

Table :23
Actual Demand Billed By GRIDCO (In MVA) During 2004-05

DISTCO	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Nov-04	Dec-04
CESCO	655.32	658.59	655.58	658.90	690.62	698.35	689.23	678.41	661.74
NESCO	418.02	413.44	437.35	445.38	446.08	441.83	465.82	472.92	467.12
WESCO	617.08	599.77	601.16	635.67	617.82	643.92	635.42	635.32	651.21
SOUTHCO	286.63	286.23	258.66	262.12	278.62	273.99	278.82	286.46	272.36
TOTAL	1977.04	1958.04	1952.75	2002.07	2033.14	2058.08	2069.28	2073.11	2052.43

5.8.2 BST contains a component of demand charge, which is calculated on the basis of average system demand of the distribution companies. An analysis of demand of CESCO indicates that it has varied between 655.32 and 698.35 MVA during first nine months of the current financial year. The average SMD of the first nine months of the current year of CESCO works out to 671.86 MVA. It may be remembered that while estimating energy the average of the past nine months were extrapolated for the whole year of 2004-05. The same philosophy is applied here for estimation of demand of CESCO. The Commission, therefore, approves

the average demand of 671.86 MVA to be maintained by CESCO for the year 2004-05. On the same analogy, the average SMD of 275.99 MVA for SOUTHCO is considered for determination of BST for 2004-05.

- 5.8.3 The assessment of energy consumption for NESCO and WESCO for the last three months of 2004-05 have been projected on the basis of December, 2004 drawl as explained in the preceding paragraph. Applying the same logic the average SMD of December 2004 at 467.12 MVA for NESCO and 651.21 MVA for WESCO are approved for 2004-05. Accordingly, the total estimated SMD for the four companies is worked out at 2066.18 MVA as presented in the table below:

Table :24
Demand in MVA

DISTCO	Proposal by DISTCO in RST	Proposal by GRIDCO in ARR	Demand in Dec-04	Average from 4/04 to 12/04	Minimum (4/04 to 12/04)	Maximum (4/04 to 12/04)	Commission Approval for 2004-05
CESCO	707.27	670.00	661.74	671.86	655.32	698.35	671.86
NESCO	460.00	430.00	467.12	445.33	413.44	472.92	467.12
WESCO	640.00	615.00	651.21	626.37	599.77	651.21	651.21
SOUTHCO	280.30	280.00	272.36	275.99	258.66	286.63	275.99
TOTAL	2,087.57	1,995.00	2,052.43	2,019.55	1,927.19	2,109.11	2,066.18

- 5.8.4 Cost of Power Purchase constitute a significant component in the revenue requirement of the DISTCOs. Based on the SMD and the estimated energy purchase the cost of power for the four DISTCOs at the current BST rate is given in the table below :

Table :25
COST OF POWER PURCHASE OF DISTCOS

	CESCO	NESCO	WESCO	SOUTHCO	ORISSA
Demand (MVA)	671.86	467.12	651.21	275.99	2,066.18
Energy MU	3,872.88	2,955.05	4,028.60	1,613.31	12,469.84
Energy Charge P/U	92.00	86.00	96.50	84.00	91.00
Demand charge @Rs.200/- Month (Crs)	161.25	112.11	156.29	66.24	495.88
Energy charge (Crs)	356.30	254.13	388.76	135.52	1,134.72
Total cost of power(crore)	517.55	366.24	545.05	201.76	1,630.60

6 FINANCIAL ISSUES

6.1 Operation & Maintenance Expenses

6.1.1 The operating expenses for distribution and retail supply may be considered under the following heads:-

- (i) Employees Cost
- (ii) Administration & General Expenses
- (iii) Repair and Maintenance Expenses
- (iv) Less expenses capitalized

6.1.2 The Commission had spelt out in para 5.6.2 of the LTTS order dtd.18.06.2003, the parameters to be adopted for O&M costs, an extract of which is given below:-

"5.6.2.1 These comprise the Wages and Salaries, Repairs and Maintenance and Administrative and General expenses and prudential norms of provisioning for bad debts. With regard to O&M Costs, the Commission shall determine the Base Year Values for the Control Period and these values shall be based on the audited accounts for FY 2002-03.

5.6.2.2 For Wages and Salaries during the Control Period, the base year values of Basic Pay and Dearness Allowance escalated for annual salary increments and inflation based on Govt. notification shall be allowed. Provisioning for terminal liabilities like pension and gratuity liabilities, based on a periodic actuarial valuation in line with the prevailing Accounting Standards issued by ICAI, shall be allowed.

5.6.2.3 For Repairs and Maintenance, 5.4% applied on the opening gross asset value shall be allowed.

5.6.2.4 For Administrative and General Expenses, the base year value escalated by 7% every year for the control Period.

5.6.2.5 No adjustments in the Annual Revenue Requirements shall be made on account of actual values being different from these Performance Targets for the O&M costs during the Control Period."

6.1.3 The aforesaid principles have been followed in determining the various elements of O&M expenses for the year 2004-05.

6.1.4 The Commission has already received the audited accounts of WESCO, NESCO and SOUTHCO for the purpose of tax-audit for the FY 2003-04. As the tax audit figures are available for the FY 2003-04, the Commission will treat these figures as the base year values for the control period for

determination of expenditures during the subsequent years in respect of WESCO, NESCO and SOUTHCO. In the absence of audited account of CESCO, the Commission has decided to treat the values approved in the tariff order of 03-04 as the base year figures for determination of expenditures for FY 04-05.

6.2 Employees Cost

6.2.1 Major components of Employees Cost proposed by four DISTCOs for the FY 2004-05 as per their latest filing are given in table below.

Table :26

Rs. in crore				
Particulars	WESCO	NESCO	SOUTHCO	CESCO
Basic Pay	28.43	27.82	27.06	65.55
Dearness Allowance	18.48	18.08	17.45	31.15
H.R.A.	4.53	5.29	2.98	11.02
Other	4.41	4.06	2.62	6.95
Terminal benefit (Pension & Gratuity)	11.76	10.01	11.16	3.25
Total	67.61	65.26	61.27	117.92
Less capitalized	1.69	1.51	-	-
Net	65.92	63.75	61.27	117.92

6.2.2 The actual expenditure for 2003-04 based on the annual accounts prepared for Tax Audit purposes for WESCO, NESCO and SOUTHCO and the figure approved by the Commission in the tariff order for 03-04 are given in table below:

Table-27

Rs. in crore							
Particulars	WESCO		NESCO		SOUTHCO		CESCO
	Actual	Approved	Actual	Approved	Actual	Approved	Approved
Basic Pay	26.67	28.55	22.68	25.79	24.09	25.94	52.40
DA	15.29	17.42	12.85	15.72	13.65	15.70	31.72
HRA	4.40	4.28	3.86	4.46	3.65	2.00	7.62
Others	2.66	4.48	2.67	3.84	2.69	1.71	10.22
Terminal benefit	10.32	8.96	7.62	7.56	8.73	7.57	6.90
Total	59.34	63.69	49.68	57.37	52.81	52.92	108.86
Less capitalized	1.91	2.90	1.42	1.20	-	-	-
Net	57.43	60.79	48.26	56.17	52.81	52.92	108.86

- 6.2.3 From the table it emerges that expenditure under the head “Basic Pay” for the FY 2004-05 as approved by the Commission is more than the actuals in case of WESCO, NESCO and SOUTHCO.
- 6.2.4 The Commission in accordance with earlier orders allows 3% escalation over the basic pay towards normal annual increment in respect of all DISTCOs.
- 6.2.5 As regards DA, the State Govt. Notification on DA rate from time to time are given below.

Table :28

With effect from	DA (%)
01.01.2001	43
01.7.2001	45
01.01.2002	49
01.7.2002	52
01.01.2003	55
01.7.2003	59
01.01.2004	61

- 6.2.6 In the past years, there has been a periodic rise in DA on 1st of January and 1st of July of each year. With an anticipated half yearly rise in DA @ 3% the annual average DA rate may be around 64%. The Commission approves the D.A. rate of 64% over the Basic pay for the FY 2004-05.
- 6.2.7 An uniform method of estimating one month salary (Pay+DA) in a span of two year period is adopted for estimating the encashment of leave salary. All other allowance claimed by the licensees are found reasonable except some minor adjustment in case of CESCO. While projecting the figures of other allowances Commission escalates the amount by 5.4% over approved figure of 2003-04 to factor in average rise of W.P.I. and C.P.I.

6.3 Terminal Benefits

- 6.3.1 WESCO, NESCO and SOUTHCO have claimed terminal benefits based on actuarial valuation. The actuary has ascertained the actuarial value of gratuity and pension as on 30.9.2002 and fixed rates for contribution for 2003-04 as under:

Table : 29

	WESCO	NESCO	SOUTHCO
Gratuity	4.36%	4.33%	4.29%
Pension	18.69%	17.47%	18.81%

6.3.2 The Commission views that provisioning for terminal liabilities like pension and gratuity based on periodic actuarial valuation should be done in line with prevailing Accounting Standard issued by the ICAI. The same should be done by an independent actuary to be appointed by the Commission from time to time.

6.3.3 Provisions of the Clause (ii) para 28 of Accounting Standard 15 issued by ICAI dealt in Annual actuarial valuation is produced below:

“In case the liability for retirement benefits is funded through creation of a trust, the cost incurred for the year should be determined actuarially. Such actuarial valuation should normally be conducted at least once in every three years. However, where the actuarial valuations are not conducted annually, the actuary’s report should specify the contributions to be made by the employer on annual basis during the inter-valuation period. This annual contribution (which is in addition to the contribution that may be required to finance unfunded past service cost) reflects proper accrual of retirement benefit cost for each of the years during the inter-valuation period and should be charged to the statement of profit and loss for each such year. Where the contribution paid during a year is lower than the amount accrued liability as certified by the actuary, the shortfall should be charged to the statement of profit and loss for the year. Where the contribution paid during a year is in excess of the amount required to be contributed during the year to meet the accrued liability as certified by the actuary, the excess should be treated as a pre-payment.”

6.3.4 CESCO has claimed the terminal benefit on cash outflow basis and the Commission approves the same. The Commission calculates the terminal benefits of WESCO, NESCO and SOUTHCO based upon the rate of contribution given by actuary. However, these are subject to final determination by the independent actuary to be appointed by the Commission.

6.3.5 A statement showing details of employees cost proposed by the licensees and approved by the Commission for 2004-05 are given below :

Table : 30

Rs. in crore

Sl. No.	Particulars	WESCO		NESCO		SOUTHCO		CESCO	
		Prop.	App.	Prop.	App.	Prop.	App.	Prop.	App.
1	Salaries	28.43	27.47	27.82	23.36	27.06	24.81	65.54	53.97
2	Overtime	-	-	-	-	-	-	0.01	0.01
3	DA	18.48	17.58	18.08	14.95	17.45	15.88	31.15	34.54
	Sub Total (1 to 3)	46.91	45.05	45.90	38.31	44.51	40.69	96.70	88.52
4	Other allowance	1.01	1.01	0.42	0.42	0.44	0.44	1.82	1.18
5	Bonus	-	-	-	-	-	-	-	-
6	Total Emoluments (1 to 5)	47.92	46.07	46.32	38.73	44.95	41.13	98.52	89.70
7	Reimbursement of medical expenses	0.85	0.82	0.90	0.90	0.81	0.81	1.97	1.59
8	Leave Travel Concession	-	-	0.06	0.06	-	-	0.55	-
9	Reimbursement of HR	4.53	4.53	5.29	3.98	2.98	2.98	11.02	7.85
10	Interim relief of Staff	-	-	-	-	-	-	0.09	0.10
11	Encashment of Earned Leave	1.95	1.88	1.99	1.60	0.53	1.70	1.97	3.69
12	Honourarium	-	-	-	-	-	-	0.08	-
13	Payment under workmen compensation Act	0.20	0.20	0.08	0.08	0.06	0.06	1.21	1.21
14	Ex-gratia	-	-	-	-	0.04	0.04	-	-
15	Other Staff Costs	-	-	0.22	0.22	-	-	2.41	-
16	Total Other Staff Costs	7.53	7.43	8.54	6.84	4.43	5.59	16.06	14.44
17	Staff Welfare Expenses	0.38	0.38	0.39	0.39	0.73	0.73	0.09	0.10
18	Terminal Benefits	8.77	8.42	8.02	6.69	9.25	7.65	3.25	3.25
19	Gratuity	2.99	2.88	1.99	1.66	1.91	1.75	-	-
	Total (6+16+17+18+19)	67.61	65.18	65.26	54.31	61.27	56.85	117.92	107.49
	Less : Employees cost capitalized	1.69	1.68	1.51	1.25	-	-	-	-
	Net Employees Cost	65.92	63.50	63.75	53.06	61.27	56.85	117.92	107.49

6.4 Administration & General Expenses

- 6.4.1 The A&G expenses include expenses on communication, professional charges, property related expenses, conveyance and travelling, training, other expenses and material related expenses.
- 6.4.2 The Commission has examined the licensee's proposal on A&G Expenses & take into consideration the tax audit figures under the head of A& G expenses for the year 03-04 for WESCO, NESCO and SOUTHCO. Since the audited figures in respect of CESCO are not available the Commission considers the approved figures in the tariff order of 03-04 as its base.
- 6.4.3 Objectors in general expressed concern about rising trend in A&G expenses and requested that this expenditure should be kept under control. There was general dissatisfaction about expenditure proposed under the head of vehicles and travels.
- 6.4.4 The Commission appreciates introduction of innovative schemes particularly those, which are participative, consumer friendly like introduction of spot billing system, Advance Meter Reading Techniques. But at the same time, Commission observes that the benefit accruing on account of introducing the scheme should offset the expenditure proposed to be incurred. The tangible benefits like improvement in percentage of billing and collection, reduction in bad debt, reduction of transmission and distribution loss, etc. should have been projected along with the proposed expenditure.
- 6.4.5 The Commission in its order on LTTS have set out the principle of calculation of A&G expenses @7% over the base year value every year for the control period putting a limit on the expenditure. The A&G expenses as proposed by DISTCOs and approved by the Commission are indicated in the table below:

Table :31

Rs. in crore								
	WESCO		NESCO		SOUTHCO		CESCO	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
A&G expenses	13.61	12.51	9.97	7.86	8.93	8.22	19.55	9.82

6.5 Repair & Maintenance (R&M)

- 6.5.1 The Commission in its order on LTTS have set forth the principle of calculation of Repair & Maintenance Expenses @ 5.4% on the value of opening gross fixed asset.
- 6.5.2 WESCO, NESCO & SOUTHCO have estimated the R&M expenses @ 5.4% on the value of the opening gross fixed asset, whereas CESCO has proposed a hike of 5% over the estimated figure of 2003-04.

6.5.3 The Commission allows R&M expenses @ 5.4% on the value of gross fixed asset, as at the beginning of the year for each of the licensees.

6.5.4 The gross fixed asset as on 01.4.96 and year wise addition to fixed asset, as approved by the Commission upto 2003-04 has been worked out in table 41 under para 6.10.4 Accordingly, R&M expenditure has been calculated and given in the table below :

Table :32

Rs. in crore

Particulars	WESCO		NESCO		SOUTHCO		CESCO	
	Prop.	App.	Prop.	App.	Prop.	App.	Prop.	App.
Gross fixed asset as on 31.3.2004	424.94	319.99	461.96	327.06	321.20	245.38	N.A.	591.647
% of R&M	5.4	5.4	5.4	5.4	5.4	5.4	N.A.	5.4
Repair & Maintenance for 2004-05	22.94	17.28	24.945	17.66	17.33	13.25	33.43	31.95

6.6 Interest on Loan

6.6.1 The source wise interest on loan proposed by the four DISTCOs are given in the table below:

Table :33

Rs. in crore

Source	WESCO	NESCO	SOUTHCO	CESCO
GRIDCO loan	11.02	8.01	10.31	21.71
World Bank loan	15.23	11.03	9.57	12.28
NTPC Bond	8.76	14.20	11.05	-
APDRP Net of 50% grant	-	-	1.59	2.67
REC/PFC (Counter Part Funding)	-	3.66	2.25	-
Other Bridge Loan	0.31	0.37	1.49	-
Total	35.32	37.27	36.26	36.66

6.6.2 CESCO in its filing has not given the detailed break up of interest on loan from different sources. However, this break up was obtained from their soft copy available to the Commission at a later date.

6.7 GRIDCO back to back loan (PFC/REC etc.)

6.7.1 At the time of reform and restructuring distribution assets were transferred from GRIDCO to the DISTCOs. Project related loans taken by GRIDCO for the purpose of creation of distribution assets from PFC, REC were also transferred to the DISTCOs. However, GRIDCO continued to serve the lenders for the loans taken for both transmission and distribution assets.

On the other hand, distribution companies were bound by Subsidiary Loan Agreement to service the transferred loans through back to back arrangement.

- 6.7.2 DISTCOs propose that the project related asset loan may be recovered through bulk supply tariff. The revenue requirement of DISTCOs takes into consideration the bulk supply tariff as well as the cost of distribution. Once the project related loan liabilities are not serviced through the back to back agreement, it will have the impact of raising the revenue requirement of GRIDCO. This in turn will raise the bulk supply tariff. With rise in BST, the input cost of DISTCOs will go up but it will be neutralised due to non-service of interest payment by back to back arrangement to GRIDCO for asset loans. The net effect of income and expenditure on DISTCOs remains the same. It has the advantage of up front monthly recovery of these loan elements through BST rate as LC is already in place.
- 6.7.3 Therefore, the Commission directs for appropriate amendment in the Subsidiary Loan Agreement & GRIDCO to service the interest liability to PFC, REC and other institutions for the asset loan taken for TRANSCO and DISTCOS.
- 6.7.4 Now, GRIDCO will be reimbursed for the interest on DISTCO related loan through BST. Obviously, the net effect on DISTCO for servicing of asset related loan remains unchanged, but asset loans differ from company to company. With the same rate of interest on project related loan, liabilities were different from company to company. With recovery through BST, it is likely that a company with high asset loan may get an undue profit unless a differential BST is in place. Naturally, this aspect is to be taken into consideration while designing the tariff.
- 6.7.5 The revenue requirement of GRIDCO for the year 2004-05 will take into account the total interest liabilities on asset related loans. In case of DISTCOs, the interest liability of asset related loans will not be taken into consideration for the purpose of revenue requirement calculation.
- 6.7.6 The summary of back to back loan as per GRIDCO and as per DISTCOs is given in the table below:

Table :34
Summary of back to back loan including GRIDCO portion of IBRD loan
(Position as on 31.03.2004)

Rs. in crore						
Source	WESCO	NESCO	SOUTHCO	Reliance Total	CESCO	Total
As per GRIDCO	138.81	94.64	134.36	367.81	307.62	675.43
As per DISTCOs	129.60	94.31	121.31	245.22	255.46	500.68
Difference	9.21	0.33	13.05	22.59	52.16	74.75

Note : Back to back loan of GRIDCO does not include cash support of Rs.174 crore availed by CESCO.

6.7.7 The Commission in their previous orders directed the DISTCOs as well as GRIDCO to reconcile the loan amount. But they failed to reconcile the same till date. The Commission viewed it seriously and direct the licensees to reconcile the same by 31.03.2005 and submit the joint reconciliation statement.

6.8 World Bank Loan

6.8.1 The Commission had held in the past that the State Government shall on lend the World Bank loans on terms available to them from the Government of India to DISTCOs treating 70% as loan and 30% as grant. Any change in the arrangement will unduly affect the consumers of the state.

6.8.2 The Commission approves the same and allows it to be passed on to tariff. The proposals subscribed by the DISTCOs and approved by the Commission for the FY 2004-05 are indicated in table below:

Table :35

Rs. in crore

Source	WESCO		NESCO		SOUTHCO		CESCO	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
Interest	15.23	11.04	11.03	11.27	9.57	9.57	20.46	20.46
Less capitalised	-	-	-	-	-	6.45	8.18	8.18
Net	15.23	11.04	11.03	11.27	9.57	3.12	12.28	12.28

6.9 Re-securitisation of NTPC Bonds

6.9.1 WESCO, NESCO and SOUTHCO have given adequate justification for reassignment of NTPC bond of Rs.400 crore issued by these companies earlier to GRIDCO at a rate of 12.5% per annum interest. There was stipulation during the reassignment that this amount will be dealt with subsequently as per recommendation of Ahluwalia Committee. The proposed securitisation as per Ahluwalia Committee will permit GRIDCO and DISTCOs by way of receipt of incentives from NTPC. It also provides a longer time for repayment of the amount. to avail the incentives for benefiting power sector in Orissa in terms of one time settlement of NTPC dues recommended by the Ahluwalia Committee. GRIDCO has no objection to the proposal of rescheduling the NTPC bonds provided the same is acceptable to NTPC as well as the guarantor the Government of Orissa.

- 6.9.2 The reassignment of these bonds to GRIDCO will require the guarantee of the Government of Orissa for which adequate safeguard need to be incorporated to ensure that the public exchequer under no circumstances is put in an embarrassing situation of servicing these liabilities in the event of failure on the part of WESCO, NESCO or SOUTHCO to meet their obligation of repayment of principal along with interest. It is a fact that resecuritisation of these bonds in favour of GRIDCO will be a great boon to the power sector in Orissa due to reduction in interest rate from 12.5% to 8.5% and associated incentives. These relief will directly benefit the consumers in the state.
- 6.9.3 The sum and substance of the proposal is that GRIDCO/GOO should accept the proposal for restructuring of NTPC bonds with tenure of 15 years including a moratorium period of five years with effect from 01.10.2001 with an interest rate of 8.5% per annum. The interest incentive to be received by GRIDCO from NTPC should be adjusted against reconciled outstanding BST dues of DISTCOs.
- 6.9.4 GRIDCO would service the restructured NTPC bonds on half-yearly basis, whereas DISTCOs shall make payment on this account on a monthly basis. Moreover, GRIDCO shall be entitled to recover the interest and the principal on such bonds by way of first charge over the revenue collection. There will be a back to back arrangement by which the three DISTCOs will service these bonds to GRIDCO.
- 6.9.5 At any point of time energy dues of DISTCOs are pending with the State Government for payment. This can be used as a fall back arrangement in the worst scenario of DISTCOs failing to clear this portion dues for payment. The priority of payment of current dues by DISTCOs to GRIDCO shall be in the following order:
- (a) Interest payment of Securitisation of NTPC Bonds.
 - (b) BST bills
 - (c) Salaries etc.
- 6.9.6 The Commission would therefore advise the Government to accept the proposal to benefit the end-users of electricity on account of the reliefs that would be available if securitisation shall be done in line with the one time settlement scheme approved by the Government of India to be made effective from 01.10.2001 i.e., the date of which the Government of Orissa securitised the outstanding NTPC dues amounting to Rs.1102 crore excluding these bonds worth Rs.400 crore with similar tenure.
- 6.9.7 The Commission in line with earlier orders calculates the interest at 8.5% and for 2004-05 approves the amount against each of three DISTCOs as give in table below:

Table :36**Rs. in crore**

Source	WESCO		NESCO		SOUTHCO	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
NTPC Bond	8.76	8.76	14.20	14.20	11.05	11.05

6.10 Accelerated Power Development Reform Programme (APDRP)

6.10.1 The DISTCOs have proposed the following amount of loan/grant to be received during 2004-05.

Table :37**Rs. in crore**

Source	Loans	Grant	Total
WESCO	65.72	21.91	87.63
NESCO	75.75	25.25	101.00
SOUTHCO	79.50	26.50	106.00
CESCO	111.27	37.09	148.36

6.10.2 During the course of hearing, the Commission enquired about the amount of loan and grant actually received upto December 2004 and amount really spent under APDRP scheme during 2004-05.

6.10.3 The DISTCOs in their reply revised the quantum of loan received/to be received during FY 2004-05. The revised figures are as under:-

Table :38**Rs. in crore**

Source	Loans	Grant	Total
WESCO	21.96	21.91	43.87
NESCO	25.45	25.45	50.90
SOUTHCO	26.50	26.50	53.00
CESCO	37.09	-	37.09

6.10.4 CESCO has given the sanction order and date of reimbursement of loan Rs.37.09 crore received towards the end of financial year 2003-04. Other DISTCOs have not produced the sanction order and date of reimbursement of loan. As such, the Commission allows interest on APDRP loan only to CESCO. Regarding other DISTCOs, the impact of interest will be dealt with on receipt of concrete proof. As such, no interest on APDRP loan for the year 2004-05 has been allowed WESCO, NESCO & SOUTHCO.

6.10.5 Thus, interest on loan proposed by DISTCOs and approved by the Commission for the financial year 2004-05 is summarised below:

Table :39**ANNUAL INTEREST****Rs. in crore**

Source	WESCO		NESCO		SOUTHCO		CESCO	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
GRIDCO loan	11.02	0.00	8.01	0.00	10.31	0.00	21.71	0.00
World Bank – Net of capitalisation	15.23	11.04	11.03	11.27	9.57	3.12	12.28	12.28
APDRP	0.00	0.00	3.66	0.00	3.84	0.00	2.67	4.45
Power Bond	8.76	8.76	14.20	14.20	11.05	11.05	0.00	0.00
Total	35.01	19.80	36.90	25.47	24.46	14.17	36.66	16.73

6.11 Depreciation

6.11.1 For the FY 2004-05, the four DISTCOs have claimed the following amount towards depreciation calculated at pre-92 rate, as prescribed by Govt. of India.

Table :40**Rs. in crore**

Year	WESCO	NESCO	SOUTHCO	CESCO
2004-05	15.23	16.55	11.44	54.36

6.11.2 The depreciation was being calculated at post-94 rate as prescribed by Govt. of India on asset base that was revalued on 01.4.96. The Commission, in order to neutralize the impact of revalued cost on the tariff, had directed in the tariff order dtd.19.4.2002 to calculate depreciation at pre-92 rate which is substantially low as compared to post-94 rate linked to the life of the assets. The intention was to balance the interest of the consumers as well as the licensees. This would avoid front loading of the tariff but at the same time would ensure necessary cash flow for the licensee for loan repayment and funds for asset replacement.

6.11.3 The Commission have extensively dealt in the tariff order dated 23.06.2003 the subject of asset valuation and calculation of depreciation and treats the asset base as on 01.04.1996 of WESCO, NESCO, SOUTHCO and CESCO as Rs.139.867 crore, Rs.137.89 crore, Rs.122.41 crore and Rs.188.697 crore respectively.

6.11.4 A table showing the Gross Book Value of asset as on 01.04.1996 and year-wise addition upto 2003-04 for the four DISTCOs are given in below:

Table :41**Rs. in crore**

Particulars	WESCO	NESCO	SOUTHCO	CESCO
Gross Book Value as on 01.04.1996	139.867	137.89	122.41	188.697
Addition 1996-97	13.74	13.54	12.02	18.53
1997-98	16.84	16.6	14.74	22.72
1998-99	0	0	0	0
1999-00	53.32	41.11	37.53	87.16
2000-01	19.90	26.83	13.80	79.27
2001-02	19.58	30.85	19.26	57.73
2002-03	21.31	30.55	7.64	52.18
2003-04	35.43	29.69	17.98	85.36
Total	319.99	327.06	245.38	591.647
Average rate (%)	3.76	3.76	3.76	3.76
Depreciation	12.03	12.30	9.23	22.25

6.11.5 The weighted average rate of depreciation is 3.76% as per the tariff order dated 24.06.2003. The depreciation of assets as worked out and indicated in the table.

6.12 Provision for Bad & doubtful debts

6.12.1 WESCO, NESCO & SOUTHCO have estimated the expected revenue from the current FY 2004-05 on the basis of cash collected by them. They have been pleading for acceptance of the concept of AT&C loss for the purpose of determination of revenue by them for each financial year and claim the gap between the revenue requirement and the cash collected for subsequent recovery. Permitting recovery of this uncollected revenue through revenue requirement will have the impact of raising the tariff substantially and unnecessarily penalising the paying consumer and affording incentive to non-paying consumer for the inefficiency of the distribution licensee. The objectors in general during the course of public hearing were unanimous that AT&C loss concept may serve as an indicator for measurement of overall performance of a licensee but should not be considered for the purpose of determination of revenue gap. In support of their contention, they have stated that AT&C loss measures both the T&D loss as well as the collection efficiency. Any amount uncollected during a particular year cannot be fully written off towards bad and doubtful debts as electricity is a continuing business and neither the consumer nor the licensee can afford to dispense with the services. The licensee collects the money with delayed payment surcharge as per the tariff orders in vogue. It is expected that only a small component of the total revenue would fall under the category of bad and doubtful debt

unless the licensees are indulgent enough to pursue about collection and disconnection of power supply.

6.12.2 It has been a prudent industrial practice to consider 2.5% towards bad and doubtful debt in a business like electricity which also flows from the observation by A.G. (Audit), Orissa that the provision for bad and doubtful debt in a year shall not exceed 15% of the incremental debtor, which incidentally works out to 2.5% of the revenue from the sale of power. This has been a standard practice followed right from, the date of OSEB and in the reform scenario there is no reason why this level of 2.5% should be enhanced. On the other hand, the Commission expects that the distribution utilities will improve upon the collection efficiency and reduce bad debt which directly will constitute an incentive to the DISTCOs and will raise the percentage of return on their equity.

6.12.3 The LTTS sets out principles on provision of bad and doubtful debt. The extract of LTTS order is reproduced below:

"5.6.3.1 The Commission shall allow 2.5% of the total annual revenue billings from sale of power as prudential norm for provisioning of bad and doubtful debts to Licensees for the Control Period. The Performance Standards in relation to the collection efficiency have been arrived at after considering this provisioning requirement.

5.6.3.2 The provisioning of bad and doubtful debts shall be on the revenue from sale of electricity forecast and shall be subject to adjustment in the Annual Revenue Requirements on account of any changes to be made to the forecast of sale of electricity on the basis of actuals."

6.12.4 As such, the Commission allows 2.5% of gross sales towards provision for bad and doubtful debt in respect of four DISTCOs.

6.13 Past losses and Regulatory Asset

6.13.1 The three DISTCOs WESCO, NESCO and SOUTHCO have filed on application before the Commission praying to consider past cash losses and its amortisation through recovery on tariff. For 2004-05, the company requests to recover interest @10% per annum on regulatory asset till the asset is amortised fully. The amount of regulatory asset on the basis of cash loss and the carrying charges is indicated in the table below:

Table :42

Particulars	Rs. in crore		
	WESCO	NESCO	SOUTHCO
Regulatory asset	536	625	409.72
Carrying cost	53.60	62.50	40.97

6.13.2 CESCO has proposed Rs.638.68 crore of past loss to be recovered during 2004-05 but has not given any detailed calculation. Hence, the Commission disallows the same. As regards the regulatory asset of WESCO, NESCO and SOUTHCO filed before the Commission, the same will be subsequently addressed.

6.14 Return on Equity

6.14.1 The four DISTCOs have proposed the return on equity to be included in their revenue requirement. In accordance with OERC Terms and Conditions for Determination of Tariff) Regulation, 2004, the Commission shall provide a reasonable return to the investors to attract capital. The Return on Equity may be linked to the RBI bank rate plus a margin for the investment risk in the power sector.

6.14.2 This aspect was examined while approving the tariff order for the FY 03-04 and in the LTTS order passed by the Commission wherein it has been provided that 16% return on equity shall be allowed to the licensees while determining the revenue requirement.

6.14.3 The Commission examined the annual accounts of WESCO, NESCO and SOUTHCO for FY 03-04 and the account of 99-00 in respect of CESCO. The position of share capital for each of the companies as taken from the aforesaid accounts are given below:

Table : 43

Rs. in crore	
Name of the Company	Share Capital
WESCO	48.65
SOUTHCO	37.66
NESCO	65.91
CESCO	72.72

6.14.4 After allowing a return of 16% on equity, the proposed and approved figures are given in the table below:

Table :44

Rs. in crore				
Particulars	WESCO	NESCO	SOUTHCO	CESCO
Amount proposed by Distcos	7.78	10.55	6.03	11.64
Amount approved by the Commission	7.78	10.55	6.03	11.64

6.15 Miscellaneous receipts

6.15.1 The miscellaneous receipts proposed by the licensees in form No.F-13 are given in the table below:

Table :45

Rs. in crore			
WESCO	NESCO	SOUTHCO	CESCO
3.16	4.18	5.03	27.79

6.15.2 The Miscellaneous receipts of WESCO, NESCO and SOUTHCO contain only the meter rent. But in case of CESCO, the miscellaneous receipts include the meter rent as well as DPS. The Commission is of the view that the DPS is an integral part of miscellaneous revenue and considers it reasonable to be included in the miscellaneous receipts. On verification from the tax audit report 2003-04, it is revealed that DPS for WESCO, NESCO and SOUTHCO are Rs.5.83 crore, Rs.8.96 crore and Rs.4.93 crore respectively. In view of the above, the Commission approves the miscellaneous receipt as shown in the table below:

Table :46

Rs. in crore				
Particulars	WESCO	NESCO	SOUTHCO	CESCO
Meter rent	3.16	4.18	5.03	
DPS	5.83	8.96	4.93	27.79
Total	8.99	13.14	9.96	27.79

6.16 Revenue requirement

6.16.1 In the light of above discussion, the Commission approves the revenue requirement of 2004-05 of four DISTCOs, is given in Annexure-A.

6.16.2 An extract of the revenue requirement, expected revenue and revenue gap for FY 04-05 approved by the Commission is given below:

Table:47

Rs. in crore						
Name of the Company	Revenue Requirement		Expected Revenue		GAP	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
WESCO	755.14	687.45	739.50	739.87	-15.64	52.42
NESCO	572.45	493.30	457.23	472.64	-115.22	-20.66
SOUTHCO	382.60	306.35	294.88	272.08	-87.72	-34.27
CESCO	1454.42	706.46	716.52	672.85	-737.90	-33.61
Total	3164.61	2193.56	2208.13	2157.44	-956.48	-36.12

TARIFF HIKE

- 7.1.1 The Electricity Act, 2003 envisages a tariff structure that would bring about efficiency and economy in the supply and consumption of electricity. The Electricity Act, 2003, also aims at a tariff that would reflect cost, insurance of efficiency and elimination of inter-class and intra-class subsidies.
- 7.1.2 It is the duty of the Commission to scrutinise the claims of licensee with a fine tooth-comb and allow properly/prudently incurred expenditure for revenue requirement. But after we do so, Revenue Requirement finally determined has to be realised through tariff. This is the position in Law and has to be appreciated by the consumers of all categories. Keeping the above objective in view, the Commission has gone ahead in deciding the various parameters regarding determination of revenue requirement of the licensees in an endeavor to strike a balance between the interests of end consumers on one hand and financial viability of the licensees on the other.
- 7.1.3 Only one full month of the current financial year shall be available if the existing tariff is revised for implementation by the licensee. The tariff and revenue requirement application for the financial year 05-06 is also before the Commission to be disposed of in accordance with section 64(III) of the Electricity Act, 2003. The Commission, therefore, decides that it will be administratively convenient if the uncovered gap as determined in the foregoing paragraphs for the year 04-05 is carried forward to the ensuing financial year and disposed of while finalising the revenue requirement and the tariff for 2005-06. Issues raised during the course of public hearing which could not be addressed in this order will be suitably dealt with in the tariff order of 2005-06.
- 7.1.4 The Commission had decided to dispose of certain tariff related matters along with the Revenue Requirement and Retail Supply Tariff Application for the year 04-05 and 05-06 during the tariff hearing. One such case is NESCO's application for special tariff for "Power Intensive Industries" for loads with contract demand of 25MVA and above and less than 100 MVA. This was registered as Case No.40/2004.
- 7.1.5 In this connection, extracts of Commission's order in case No.114 of 2004 is quoted below:-

"13. Fact remains that the Ferro Alloys Units during the OSEB regime and GRIDCO till 31.03.1999 enjoyed a special tariff by way of allocation of least cost NTPC power to them with wheeling charges. The said arrangement was cancelled after the distribution companies were privatized. Retail Supply Tariff as determined by the Commission was made applicable to them. According to the Ferro Alloys Units, power being a raw material for their product, the high cost tariff made their

business unviable. So taking these aspects into consideration NESCO entered into an agreement giving a concessional tariff to these units which were subsequently approved by the Commission based on a directive from the Hon'ble High Court of Orissa.

14. The arrangement of power supply under the provisions of the special agreement continues till date including the terms and conditions of tariff as mutually agreed by the parties without the approval of the Commission for which the gap between the normal tariff and special tariff is being absorbed by NESCO in their business interest. The CEO, NESCO submitted that they shall have no objection if the Commission agrees to accept the special tariff for the purpose of calculation of revenue requirement when approved.

As has been observed by the Commission while disposing the Case No.40 of 2004 dt.10.05.2004, issue of special tariff for power intensive industries will be decided in the general tariff hearing for FY 2004-05 which is yet to take place. Therefore, the Commission orders as follows: -

15. The case of the petitioners is allowed in part. Without expressing our opinion as against the notices issued by M/s. NESCO to all the four petitioners, we would direct that the terms, conditions and tariff contained in those agreements shall continue from the date proposed for termination of the agreement till final disposal of the tariff matter by the Commission for the FY 2004-05”.

- 7.1.6 The issue was discussed at length during the course of public hearing. As indicated in the paras above, the special arrangement for supply of power to the power intensive industries is continuing since 1999. NESCO have expressed their unwilling to continue further and issued notice for termination of the agreement from 9th December, 2004. The Commission as a special case allows the special arrangement to continue upto 31st March, 2005. For the purpose of calculation of revenue requirement, the rate at which NESCO has been supplying power shall be the tariff effective from 10th December, 2004 to 31st March, 2005 for the consumers under NESCO who had entered into Special Agreement.
- 7.1.7 The existing Retail Supply Tariff shall continue unchanged until further orders.

**Sd/-
(S.K. Jena)
Member**

**Sd/-
(B.C. Jena)
Member**

**Sd/-
(D.C. Sahoo)
Chairperson**