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BEFORE

UTTARANCHAL ELECTRICITY REGULATORY COMMISSION

In the Matter of:

Tariff Order Dated 08.09.2003

AND

In the Matter of:

Application dated 27.11.2003 filed by Uttaranchal Power Corporation Ltd.

AND

In the Matter of:

Uttaranchal Power Corporation Limited
Urja Bhawan, Kanwali Road,
Dehradun ……… Applicant

Coram

Sh. Divakar Dev Chairman

Date of Order: 8th December 2003

1. Background

(1) Uttaranchal Power Corporation Ltd. (UPCL) had filed their Aggregate Revenue Requirement (ARR) for the year 2003-04 before this Commission on 14.05.2003 and the same was admitted on 04.06.2003 as Petition No. 1-ARR/2003.

(2) The Commission passed a detailed order on the ARR and Tariff proposals of UPCL on 08.09.2003 after considering the UPCL's projected expenditure and income, the

responses received from other stakeholders and other relevant facts. In the Order the Commission dealt with certain uncertainties and other aspects in the Revenue Requirements of UPCL both on account of pendency of issues pertaining to division of assets and liabilities between Uttar Pradesh Power Corporation Limited (UPPCL) and UPCL and also the absence of proper data and details from UPCL. In this regard paragraphs 4.8 and 5.2 of the Order dated 08.09.2003 passed by the Commission read as under:

a) Para 4.8 of the tariff order

"Transitional Contingency Reserve

In spite of Commission's best efforts to fill up the information gaps which existed in the original filing of the Petitioner, uncertainties with regard to certain items due to non-finalisation of division of assets and liabilities between UPPCL and UPCL still exist. Further, the claims of the Petitioner for certain items such as investments and capitalisation details have either not been substantiated with supporting documents or are without the approval of the Commission. As and when these uncertainties are cleared/deficiencies are removed, the Commission may, subject to analysis of prudence, allow the expenses for meeting such liabilities. However, the Commission is not in favour of having frequent tariff revisions or giving a tariff shock to consumers by first lowering the rates without taking into account any such liability and then suddenly imposing a heavy burden of these liabilities when they materialise. The Commission has, therefore, made a provision of Transitional Contingency Reserve to meet the liabilities due to such uncertainties. This is only a temporary reserve for the current year and shall not be required in subsequent years."

b) Para 5.20 of tariff order dated 08.09.2003.

"Transitional Contingency Reserve

As already discussed in Chapter 4 on Commission's Approach, the Commission has approved a lump sum provision of Rs. 188.77 Crore as a Transitional Contingency Reserve for meeting unforeseen liabilities.

A total sum of Rs. 188.77 Crore will be set aside during the year in a separate account and the same will be termed as Transitional Contingency Reserve. This would comprise of at least Rs. 80 Crores of old arrears to be realised in the year out of past receivables and *the balance of surplus of revenue over expenses allowed for the year. The Petitioner shall not transfer money from this account without prior approval of the Commission. As and when any contingent liability, other than those already covered in the Order under various heads of expenses, arises, the Petitioner shall discharge the liability, to the extent permitted by the Commission, from this reserve after getting approval from the Commission. A monthly Status Report of this Transitional Contingency Reserve will be sent to the Commission."*

(3) Subsequent to the issue of the order by the Commission on 08.09.2003 the following developments have taken place:

a) A scheme for division of assets and liabilities between UPPCL and UPCL, which had been under negotiation was finalized and agreed to between the officers of the two corporations on 12.10.2003.

b) On 16.10.2003 the State Government issued a letter to the Commission, *inter-alia*, providing for certain policy directions in terms of section 108 of the Electricity Act, 2003.

(4) Aggrieved by the order of the Commission UPCL filed Writ Petition No. 941 of 2003 (M/B) before the Hon'ble High Court of Uttaranchal. The Hon'ble High Court passed an order on 21.11.2003 in Writ Petition of UPCL directing as under:

"a) By 27th November 2003, petitioner will supply to the Regulatory Commission the following documents:-

(i) *Provisional Balance Sheet of the corporation for the accounting year ending 31st March 2003.*

(ii) *Statement of actual loans availed up to 30th September 2003.*

(iii) *Cash flow statement up to 31st March 2003.*

(iv) *Half yearly cash flow from 1st April 2003 up to 30th September 2003. In case such half yearly cash flow statement is not available up to 30th September 2003 then petitioner is directed to give such statement up to such date up to which such statement is ready, that is between 1st April 2003 to 30th September 2003 and for the balance they will submit monthly trial balance. The corporation will also give reasons as to why cash flow statement is not ready up to 30th September*

2003, in case they are not available. For example, if cash flow statement is available up to 31st August 2003 then the corporation will submit cash flow statement up to 31st August 2003 duly certified and for the balance period of one month of September 2003, the corporation will submit monthly trial balance for September 2003.

b) The Regulatory Commission is directed to hear the parties on 2nd December 2003. In this hearing the State Government will file an affidavit as to whether they are ready to take over the interest liability of Rs. 11.91 crores; whether, they are going to give subsidy to the petitioner to the extent of Rs. 25 crore and whether, the State Government is to take over interest liability of the petitioner to the extent of Rs. 49.94 crores on old dues payable by the petitioner to Central Power Stations?

c) After taking into account the cost of the Transfer Scheme; the impact of the policy directives issued by the State Government; the decision of the State Government to levy or not to levy the cess including royalty; the stand of the State Government on subsidy and take over of interest liability and after taking into account the figures given in the provisional balance sheet; the cash flow statement/ monthly trial balance up to 30th September, 2003 and the statement of actual loans availed by the Corporation, the Regulatory Commission will decide the matter and pass a supplementary order by 8th December 2003."

(5) Pursuant to the above, an application seeking orders of the Commission on the proposed revisions to the Revenue Requirement was filed by UPCL on 27.11.2003. UPCL, amongst others, filed the following documents alongwith this application:

a) Draft Balance Sheet of the Corporation for the year ending 31st March 2003

b) Statement of actual loans availed upto 30th September 2003

c) Cash Flow Statement of the Company's head office for 2003-04 upto 30th September 2003; and

d) Monthly trial balances (MTB) for August 2003 filed on 01.12.2003.

(6) On examination of the above documents filed by UPCL, the Commission found that:

a) The Balance Sheet as on 31.03.2003 does not have the UPCL Board's approval or any other certification. It is, therefore, at the best a draft Balance Sheet prepared by the

Company's accounts department and to that extent authenticity of figures given therein is not beyond question.

b) For the year 2003-04 half yearly Cash Flow Statements for the company have not been furnished. Instead Cash Flow Statements only of the Head Office have been given, which only show transfer of funds from Head Office to field units and not the expenditure actually incurred by the Company.

c) Absence of Cash Flow Statements has been mitigated to some extent by monthly trial balances (MTBs) upto August 2003.

(7) As directed by the Hon'ble High Court, the State Government filed an affidavit on 02.12.2003. The State Government had also written a letter dated 01.12.2003 to the Commission. In this letter, the State Government stated as under:

> *"The Government of Uttaranchal has signed a Tripartite Agreement with R.B.I. and Government of India agreeing inter- alia, to take over the CPSU dues in the spirit of the Ahluwalia report and to see that the newly formed UPCL is not unduly burdened with past dues. It was agreed that the dues will be converted into long term loans to be repaid by State Government. The State Government had since then issued bonds and have therefore agreed to pay the principal and interest on the dues. Thus the liability of Rs. 572 crores of CPSU dues and the interest thereof stand shifted from UPCL to the State Government, notwithstanding the figures shown in the transfer Scheme of UPCL. "*

(8) The above position was again confirmed in the affidavit filed on 02.12.2003 as under:

> *"That Govt. of Uttaranchal has issued bonds with regard to old CPSU dues amounting to Rs. 572 crores and thereby agreed to pay the principal and interest on the dues. This fact has been communicated to UERC and UPCL vide letter no. 160/484/IX-3-URJA/ARR/03 dated 01-12-2003."*

(9) On other issues, the State Government have clarified as under:

a) The State Government do not propose to take over the responsibility for repayment of UP Government's dues devolving on UPCL as a result of the Transfer Scheme

b) The State Government do not propose to take upon itself the responsibility for UPCL's share of UPPCL's dues towards employee's provident fund.

c) The State Government do not propose to give any subsidy to UPCL during the current year.

d) The Government have increased the royalty rates from 5.5 paise / unit to 10 paise / unit effective 20.09.2003.

e) The issue of imposing cess (duty) is under active consideration of the State Government.

(10) The State Government had already taken over the liability of Rs. 24 Crore due on account of pension and gratuity liabilities of the employees by their letter dated 21.10.2003. This was also confirmed by UPCL during the hearing before the Hon'ble High Court.

(11) The Commission heard the concerned parties i.e. UPCL and the State Government on 02.12.2003. Subsequent to the hearing UPCL filed another affidavit replying to some of the queries raised during the hearing.

(12) The Commission has examined the application made by UPCL, the affidavit filed on behalf of the State Government, the impact of the Transfer Agreement agreed to between the officers of UPCL and UPPCL, the effect of Government's policy directives and other aspects raised by the UPCL and the State Government. Based on the material available on record, the Commission is passing this order supplementary to the earlier order dated 08.09.2003.

(13) For the purposes of determining the revised Revenue Requirements of the UPCL consequent to the Transfer Agreement finalized and agreed between the officials of UPPCL and UPCL on 12.10.2003, the Commission will proceed on the terms contained in the Transfer Agreement and the Commission will not go into the merits of the terms agreed. The merits of the various components of the transfer scheme agreed to between the officials of the two Corporations and the implications thereof should be done by UPCL's Board and the State Government. However, some unusual features of the Transfer Agreement have come to the Commission's notice and the same are listed in this order so that they can be looked into with greater care by the UPCL's Board and the State Government. The matter mentioned herein below which relates to increase in the Gross Fixed Assets (GFA) have additional and long term financial implications on the

electricity sector in the State. The Commission in exercise of its function to aid and advise the State Government under section 86 of the Electricity Act, 2003 and section 10 of the Adaptation Order recommends to the State Government to consider the impact of the Transfer Scheme including the matters specifically mentioned hereunder and make the corrections warranted.

(14) The value of the Gross Fixed Assets (GFA) as on 09.11.01 as per the Provisional Balance Sheet as on 31.03.2002 was Rs. 478.86 Crore, the same was projected as Rs. 817.6 Crore in the ARR based on the draft transfer scheme and now the value of the same agreed to in the transfer agreement is Rs. 1058.18 Crore. It is not clear that such steep increase in the value is on account of any additional assets being now transferred to Uttaranchal or on account of the earlier figures having been underestimated or for that matter on account of revaluation of the assets. Since the value of GFA has substantial bearing on the licensee's costs not only for this year but also in future, clarity on this account is crucial for their proper estimation.

(15) The other aspects, mentioned in the Transfer Agreement, which relate to transfer of Rs. 127.10 Crore from UPPCL to UPCL on account of contribution to employees provident fund trust relating to the period before 14.01.2000. On the date of unbundling of the erstwhile UPSEB, it owed a total amount of Rs 1634.49 Crore to the Employee's Provident Fund Trust, which on unbundling was distributed between the three successor companies of UPSEB. UPPCL's share of this amount was Rs. 1338.72 Crore. UP Government vide their order date 16.07.03 decided that this entire sum of Rs 1634.49 Crore will be paid by the UP Government. The Transfer Scheme envisages transfer from UPPCL to UPCL of liability of Rs 127.10 Crore out of UPPCL's total liability to the employee's trust for which responsibility for payment has already been taken over by the UP Government. Accordingly, Rs. 127.10 Crore liability transferred by UPPCL to UPCL, under the Transfer Agreement, needs to be validated.

(16) Notwithstanding the same, for purposes of this order the Commission will proceed with the values as reflected in the Transfer Agreement between UPPCL and UPCL.

2. Impact of the Transfer Scheme

(17) As has been stated above the value of GFA as on 09.11.2001 when division of assets and liabilities between UPPCL and UPCL was effected as per Government of India's

notification under section 63(4) of the Uttar Pradesh Re-organisation Act, 2000 (Re-organisation Act) was Rs. 478.86 Crore. This was indicated to be Rs. 817.6 Crore in the ARR filed by UPCL and has now been further revised to Rs. 1058.18 Crore. This change in the value of opening GFA in turn necessitates revision of the depreciation amount, repairs and maintenance cost and in the Capital Base of UPCL on which return is to be allowed. Similarly, outstanding loans and dues have a direct bearing on the interest cost of the licensee and change in their values in turn necessitates revision of the interest cost allowed for the year. These issues are being taken up for consideration hereafter.

2.1 Depreciation

(18) Depreciation was claimed by UPCL at the weighted average rate of 7.87%. Many Regulatory Commissions, including CERC, have been considering the depreciation based on the fair life of the assets, in which case the rate of depreciation is much less. However, fo r the purposes of the tariff for the year 2003-04, the Commission, for want of sufficient data, had proceeded on the basis of weighted average rate of 7.87% as claimed by the UPCL, the Commission will however review the deprecation rate to be allowed in future. Also, there are other related issues such as classification of assets, details of financing, agewise analysis etc., which have bearing on the depreciation. These aspects will also be considered in the tariff hearing for the financial year 2004-05. UPCL will be required to furnish complete details of its assets in future ARR filings.

(19) The depreciation has now been claimed at a still higher rate of 7.88%, which has been provisionally approved and is shown in Table 1 below. UPCL has till date not furnished any details of the works completed and capitalized during 2002-03 inspite of the Commission asking for the same and pointing out specifically in the tariff order dated 08.09.2003 (para 5.12). However, since the draft balance sheet as on 31.03.2003 furnished by UPCL shows capitalization of Rs. 63.18 Crore, the Commission is provisionally accepting this value for calculating UPCL's depreciation cost. Marginal reduction in the capitalization figure for 2001-02 has been made by UPCL in the draft balance sheet and the same has also been accepted. Accordingly, depreciation for the year 2003-04, allowed by the Commission subject to such correction as may be required next year, is shown in Table 1.

Table 1: GFA & Depreciation details

S. No.	Particulars	As per Tariff Order dated 08.09.03	Proposed by UPCL on 27.11.03	Approved by the Commission
1	Opening GFA as on 09.11.01	478.86	1058.18	1058.18
2	Net additions during 09.11.01 to 31.03.02	28.48	25.80	25.80
3	*GFA as on 31.03.2002*	*507.34*	*1083.98*	*1083.98*
4	Net additions during 2002-03	0.00	63.18	63.18
5	***GFA as on 31.03.2003***	***507.34***	***1147.16***	***1147.16***
6	Depreciation on account of value of opening GFA as on 09.11.2001 (Impact of the transfer scheme)	*37.69	#83.40	83.40
7	Depreciation on account of recognizing investments/additions in GFA till 31.03.2003	*2.24	#7.01	7.01
8	***Total Depreciation for 2003-04***	***39.93***	***90.41***	***90.41***

*Calculated at 7.87% as proposed by UPCL in its ARR proposal.

#Calculated at the rate of 7.881% now proposed by UPCL.

2.2 Repair & Maintenance Expenses

(20) In the ARR, UPCL had claimed Repairs & Maintenance (R&M) expenses for financial year 2003-04 at the rate of 1.5% of opening balance of gross fixed assets for transmission works and 2.5% of opening balance of gross fixed assets for distribution works. In absence of proper classification of assets, UPCL had distributed the total GFA in the proportion of 30% and 70% between the Transmission and Distribution assets respectively. In its Order dated 08.09.2003, the Commission had accepted the above proportion and applied them for estimating these expenses for the financial year 2003-04 on Gross Fixed Assets of Rs. 507.34 Crore as then accepted by the Commission in its original Order. The value of GFA as on 01.04.2003, on giving effect to the transfer Scheme, will be Rs. 1,147.16 Crore. The Repairs & Maintenance Expenses for the financial year 2003-04 on the above revised value of the GFA are given in Table 2.

Table 2: Repairs & Maintenance Expenses (Rs. in Crore)

Particulars	Claimed by UPCL on 27.11.03	Approved by the Commission
Value of GFA as on 01.04.2003	1147.16	1147.16
Transmission Assets @ 30%	344.15	344.15
Distribution Assets @ 70%	803.01	803.01
Repair & Maintenance on Transmission Assets @ 1.5% p.a	5.16	5.16
Repair & Maintenance on Distribution Assets @ 2.5% p.a	20.08	20.08
Total Repairs & Maintenance Expenses	***25.24***	***25.24***

(21) While the Repairs & Maintenance expenses of the UPCL for the year claimed as Rs. 25.24 Crore have been accepted, it may be pointed out here that all districts of the State are covered by Central Government's APDRP Scheme under which heavy investments are being made for strengthening and upgradation of the distribution network. These investments should result in reduced requirement for repairs and maintenance and in turn in reduction in such expenditure.

2.3 Capital Base & Reasonable Return

(22) As per Sixth Schedule of the Electricity (Supply) Act, 1948, the Capital Base for a year of account is required to be calculated at the end of the year of account. As such, the calculations given by UPCL and those approved by the Commission for the year 2003-04 are based on the projected values of components of Capital Base as on 31.03.2004. Earlier, UPCL had estimated the Capital Base as Rs. 67.66 Crore and against this the Commission determined the Capital Base as Rs. 8.80 Crore, as set out in table 5.24 of the tariff order dated 08.09.2003 (Para 5.18.2.8). UPCL has now estimated its Capital Base at the end of financial year 2003-04 at Rs. 259.06 Crore. Based on it, UPCL has computed the reasonable return to be allowed at Rs. 41.82 Crore. Individual elements of the Capital base are discussed below.

2.3.1 Original Cost of Fixed Assets

(23) UPCL has proposed a value of Rs. 1540.61 Crore based on the value of GFA in the Transfer Scheme, capitalization so far and capitalization schedule for investments during the current year. The Commission is unable to validate the additions proposed during

the year as UPCL has not provided any schedule for capitalization to be undertaken by it during the financial year 2003-04. The Commission, therefore, allows the claimed value provisionally and directs UPCL to submit the periodical capitalization schedule while submitting the ARR for future filings.

2.3.2 Consumer contributions

(24) Consumer contributions to the extent of Rs. 45.57 Crore based on a value of Rs. 42.37 Crore in the draft balance sheet for 2002-03 and additions thereon of Rs. 3.2 Crore have been claimed by UPCL and the same have been accepted by the Commission.

2.3.3 Capital Works in Progress (CWIP)

(25) The closing balance from the draft Balance Sheet as on 31.03.2003 indicates a CWIP of Rs. 60.95 Crore. UPCL has estimated an adjustment of Rs. 8.20 Crore in its submission and has claimed this value at Rs. 52.75 Crore. The Commission allows the capital-works-in-progress as claimed by UPCL.

2.3.4 Average of Cash, Bank balance & stores:

(26) UPCL has assumed the closing balances of cash in hand and at bank and stores as on 31st March 2003 as the average balance of cash, bank & stores. However, the Sixth Schedule of the Electricity (Supply) Act, 1948 restricts the cash and bank balance to one quarter of the annual expenditure specified therein. Accordingly, the Commission has worked out the permissible amount of the cash and bank balances as Rs.36.08 Crore. Further the Commission has accepted the average value for stores as Rs. 73.66 Crore, as claimed by UPCL. Thus, the admissible value on account of cash and stores taken together works out to Rs. 109.74 Crore.

2.3.5 Accumulated Depreciation

(27) The Commission has accepted the amount claimed by UPCL as accumulated depreciation in the draft Balance Sheet as on 31-03-2003 which is Rs. 598.86 Crore.

2.3.6 Loans from Government and approved institutions

(28) UPCL has shown an amount of Rs. 473.51 Crore under this head. While calculating this amount, UPCL has not accounted for the Govt. of UP loans of Rs. 67.72 Crore accruing to

it from the transfer scheme and the disbursements of Rs. 215.57 Crore from the State Government, under schemes pertaining to District Plan, State Plan, MNP, APDRP, PMGY. The Commission has included these loans from Government and approved institutions and the revised figure, therefore, is Rs. 755.80 Crore.

2.3.7 Consumer Security Deposits

(29) UPCL has shown Rs. 52.25 Crore as the consumer's security deposit at the end of financial year 2003-04 which the Commission accepts.

2.3.8 Grants

(30) UPCL has shown grants of Rs. 364.71 Crore based on the draft Balance Sheet for 2002-03 and the grants already received and expected to be received during the financial year 2003-04. The Commission has accepted this value.

2.3.9 Capital Base Computation

(31) Based on the position given above, the Commission has calculated the Capital Base which is depicted in Table 3.

Table 3: Capital Base determination for 2003-04 (Rs. Crore)

Particulars	Proposed	Approved
Gross Fixed Assets	*1540.61*	*1,540.61*
Less: Consumer Contribution	*45.57*	*45.57*
Net Value of Gross Fixed Assets (1-2)	1495.04	1495.04
Capital Works in Progress	52.75	52.75
Average of cash, bank balance & Stores	200.60	109.74
Sub-Total (A)	***1,748.39***	***1,657.53***
Accumulated Depreciation	598.86	598.86
Government & other organisational Loans		
GoUP Loans	-	*67.72*
REC Old Loans	*230.64*	*230.64*
IDBI	*8.93*	*8.93*
HDFC	*0.22*	*0.22*
PFC	*3.50*	*3.50*
CBI-Working Capital	*10.24*	*10.24*
GPF Liability	*127.10*	*127.10*
Distt. Plan	-	*49.10*
State Plan	-	*16.15*
MNP	-	*107.50*

Table 3: Capital Base determination for 2003-04 (Rs. Crore)

Particulars	Proposed	Approved
APDRP	-	*35.66*
PMGY	-	*6.16*
REC	*52.88*	*52.88*
NABARD	*40.00*	*40.00*
Total Loans	473.51	755.80
Consumer's Security Deposits	52.25	52.25
Grants	364.71	364.71
Sub-total (B)	***1,489.33***	***1771.62***
Capital Base (A-B)	***259.06***	***(114.09)***

Note: As a result of State Government assuming the CPSU liability of Rs. 572 Crore there will be an impact on GFA as the value of assets had been stated at Rs. 1540.61 Crore in the Transfer scheme based on the assumption that the CPSUs liabilities will be discharged by UPCL. If the liabilities are to be taken out of the Transfer Scheme, the value of the assets may have to be correspondingly revised. The Commission will consider the above aspect in the next tariff.

2.3.10 Reasonable Return

(32) UPCL is not entitled to any return on the Capital Base as the same is negative. However, it gets a return of 0.5% on loans from the Government and other approved sources, which works out to Rs. 3.78 Crore. The total reasonable return to UPCL thus works out to Rs. 3.78 Crore as shown in Table 4.

Table 4: Reasonable Return for 2003-04 (Rs. Crore)

Item	Proposed	Approved
16% on Capital Base		Nil
0.5% of borrowings from organisations or institutions approved by the State Govt.		3.78
Reasonable Return	41.82	3.78

2.4 Interest Payable

(33) UPCL has now claimed total liability of Rs. 151.62 Crore under the head interest charges. This consists of three segments:

a) Interest on Loans arising out of Transfer Scheme of Rs. 129.60 Crore.

b) Interest on Loans already taken by UPCL after the transfer of business to it Rs. 16.67 Crore.

c) Interest on Loans expected to be received by UPCL during rest of the Financial Year 2003-04 of Rs. 5.35 Crore.

(34) Of the above, interest liability amounting to Rs. 129.60 Crore arising out of the Transfer Scheme is being discussed here and the other two items will be dealt with while examining the impact of Government's policy directives. The details of the claim of Rs. 129.60 Crore are given in Table 5.

2.4.1 Interests disallowed

(35) The Commission's reasons for disallowing some of the claims of UPCL are discussed below:

REC Old Loans

(36) UPCL has claimed a sum of Rs. 23.32 Crore by way of interest on old rescheduled loans of REC. As had been already discussed in the Commission's Order dated 08.09.2003, these loans have been re-scheduled in such a way that interest payable during the initial 16 months starting from January, 2003 is to be adjusted against payments made earlier to REC. Fresh payment of instalments of interest will begin only in the month of May 2004. Since no amount is required to be paid during financial year 2003-04, the Commission had disallowed this expenditure of Rs. 23.32 Crore. This position has not changed in any way due to finalization of the Transfer Scheme and remains the same. Hence, the interest liability of Rs. 23.32 Crore is not being allowed.

CPSU's Old Dues

(37) UPCL has also shown an amount of Rs. 572.00 Crore due to CPSUs on which the interest expenditure has been claimed as Rs. 45.76 Crore. As stated in paragraph (7) above, the State Government has taken over this liability. The Commission, therefore, has not allowed this claimed interest expenditure of Rs. 45.76 Crore.

Interest on compounding of interest

(38) UPCL has also claimed interest of Rs. 16.51 Crore as interest on compounding of the interest during the year. The transfer scheme does not envisage such compounding of

interest and levy of fresh interest on the same. No details of this have been furnished. During the hearing the Commission asked the licensee as to how this liability is arising from the Transfer Scheme. No basis for the same was given by UPCL. In absence of any such stipulation in the Transfer scheme or any other agreement to this effect, the Commission is unable to accept this claim and is disallowing the same.

Interest on defaults in payment of power purchase dues prior to 08.11.2001:

(39) UPCL has claimed a total of Rs. 16.63 Crore as interest payable on power purchase dues for the period prior to 09.11.2001, the date when UPPCL's business of supply and distribution of electricity in Uttaranchal was transferred to UPCL. These dues comprise of Rs. 7.84 Crore payable on liability on CPSU's from 01-10-2001, Rs. 7.36 Crore due to UPRVUNL and Rs. 1.43 Crore due to UPJVNL till 08-11-2001. It may be recalled that from 01.04.2001 to 08.11.2001 UPCL was selling electricity in the State as an agent of UPPCL. In the hearing on 02.12.2003 UPCL confirmed that during the above period the arrangement existing between the two Corporations was that the cost of power purchased was to be paid by UPPCL and the revenue realized for Uttaranchal area by UPCL was to be passed on to UPPCL after deducting staff and administrative expenses. Under this arrangement some amount has already been paid by UPCL to UPPCL and another Rs. 86.88 Crore is to be paid now under the transfer scheme. Such being the case if UPPCL has defaulted in payment for power purchase by it, the interest or other liability, arising therefrom is required to be borne by UPPCL, particularly when the entire surplus revenue realised for this period is being passed on to UPPCL, nor does the Transfer Scheme stipulate payment of such interest. The Commission is not satisfied that the interest claimed on this account is a valid expenditure of the UPCL and is therefore disallowing the same.

Interest on consumer deposit

(40) Of the above, interest on consumers deposits that was claimed by UPCL was only Rs. 1.16 Crore. The Commission has increased the interest rate payable on such deposits from 3% to 6% and the interest payable on this account has been revised upwards to Rs. 2.95 Crore.

2.4.2 Interest on GPF liabilities

(41) Interest of Rs. 11.44 Crore has been claimed on liabilities due to the employees provident fund trust. To avoid any problems in payments to employees, the Commission is provisionally accepting this liability. However, as has been pointed out earlier in this order the entire amount due to the employees provident fund trust as on 14.01.2000 i.e. the date of unbundling of UPSEB has been assumed by the UP Government. Bonds for the above amount were to be issued to the successor entities including UPPCL. There is no reason why UPPCL should retain Government bonds for this entire amount and only transfer this liability of Rs. 127.10 Crore to UPCL. UPCL instead of claiming their share of these Government bonds has been asking the Uttaranchal Government to take over this liability, which they have declined to do. This liability having been fully provided for by UP Government, question of it being taken over now again by Uttaranchal Government should not have arisen. UPCL should therefore negotiate with UPPCL for taking over from UPPCL bonds of the corresponding value so that in future this liability can be discharged from the same.

2.4.3 Total Interest

(42) The position of expenses claimed as interest and of those allowed by the Commission is given in Table 5.

Table 5: Details of interests(Rs. Crore)

Sl. No.	Name of the Institution	Interest Claimed by UPCL	Interest Allowed by the Commission
1	Liabilities due at the time of transfer		
2	REC (Old Loans)	23.32	0.00
3	IDBI	1.07	1.07
4	PFC	0.39	0.39
5	HDFC	0.03	0.03
6	CBI (Working Capital)	1.38	1.38
7	GPF Liabilities (due to Power Sector Employees Trust)	11.44	11.44
9	CPSUs Liabilities as on 30.09.01 as per Triparties Agreement	45.76	0.00
10	Dues payable to UPPCL		
11	CPSU dues from 01.10.2001 to 08.11.2001	7.84	0.00
12	UPRVUNL dues till 08.11.2001	7.36	0.00
13	UPJVNL dues till 08.11.2001	1.43	0.00
14	Govt of UP Loans (Share of UPCL)	11.91	11.91
15	Security Deposits from Consumers	1.16	2.95
16	Interest due on compounding of the interest due during the year	16.51	0.00
17	***TOTAL***	***129.60***	***29.17***
18	*Less already allowed in the tariff order dated 08.09.2003*	*-3.51*	*-3.51*
19	***Additional liability***	***126.09***	***25.66***

2.5 Expenses Capitalised

(43) The licensee, in the submissions made on 27.11.2003, has not submitted the details of expenses capitalized. The expenditure so capitalized is required to be excluded from the total expenses approved by the Commission so that the same expenses are not passed on to the consumers once as revenue expenditure and again as return on Capital Base. In the ARR petition, UPCL had indicated the amount of establishment, administration and interest capitalized as Rs. 48.17 Crore. However, in the affidavit filed by the licensee in the Hon'ble High Court dated October 31, 2003, it had stated that as per the agreed transfer scheme the amount capitalized out of the total expenses is Rs. 42.96 Crore. The Commission has accepted this figure and excludes Rs. 42.96 Crore from the total expenses claimed.

2.6 Total Impact of the Transfer Scheme

(44) To sum up, finalization of the Transfer Scheme between the two Corporations has increased UPCL's costs during the year 2003-04.

Table 6 : Impact of Transfer Scheme

S.No.	Particulars	Approved in Order dated 08.09.2003	Now Approved	Impact
1	Depreciation	39.93	90.41	50.48
2	Repairs & maintenance	17.18	25.24	8.06
3	Reasonable return	2.77	3.78	1.01
4	Interest on loans	-	26.22	26.22
5	Interest on security deposits	3.51	2.95	-0.56
6	Total	63.39	148.6	85.21
7	Less: Revenue expenses capitalized	---	-42.96	-42.96
8	***Total***	***63.39***	***105.64***	***42.25***

3. Impact of Government's Policy Directives & Affidavit filed on 02.12.2003

(45) As has been stated above subsequent to passing of the tariff order dated 08.09.2003 the State Government issued the letter dated 16.10.2003 and amongst others issued certain policy directions in exercise of its powers under section 108 of the Electricity Act, 2003. The State Government have written to the Commission and also filed an affidavit clarifying their position on the issues listed out in Hon'ble high Court's order. The impact of Government's letters dated 16-10-2003 and 01-12-2003 and the affidavit filed on 02-12-2003 is in the following areas:

a) Interest on Government of UP loans and GPF liability taken over in the Transfer Agreement will have to be provided for.

b) Since power purchase from micro and small hydro projects has been given priority over the merit order, the power purchase cost estimated in the tariff order needs to be revised.

c) The schemes already included in the State's Plan and budget to be recognized with consequential impact on the interest liability.

(46) Item (a) above has already been dealt with in paras 41 & 42 above. This leaves items (b) & (c) which are discussed below.

3.1 Power Purchase Cost

The Commission in its tariff order dated September 8, 2003 has determined the cost of power purchased for State's requirement based on the monthly merit order of available stations. The Commission had required the licensee to purchase power from Small Hydro stations and IPP's as per the merit order. Accordingly, in the merit order of dispatch the entire power purchased from these stations was to be utilized for trading outside the state. On October 16, 2003 the Government of Uttaranchal directed the Commission under section 108 of the Electricity Act, 2003 to take action for ensuring purchase of power from such stations, ahead o f the merit order. The Commission, accordingly, have considered the power purchases from Hydro stations upto 25 MW ahead of the merit order while providing for consumption within the State. Table 7 gives comparative position of the original and the revised availability apportionment for purchase of power by UPCL.

Table 7: Availability Apportionment and Power Purchase Cost based on Merit Order

Source	As Per Tariff Order			As per Government directions			
	Availability (MU)	For consumption within the State (MU)	For trading (MU)	For consumption within the State (MU)	For trading (MU)	Total Cost (Rs. Crore)	Avg Cost (Rs. / unit)
UJVNL	***3,070***	***2,983***	***87***	***2,957***	***113***	***236.54***	***0.80***
NHPC	***256***	***205***	***51***	***205***	***51***	***34.95***	***1.71***
Salal - stage II	37	37	-	37	-	2.65	0.71
Tanakpur	17	17	-	17	-	1.90	1.14
Tnkpr Free Power	51	-	51	-	51	-	
Chamera	76	76	-	76	-	10.02	1.32
Uri	75	75	-	75	-	20.37	2.72
NTPC	***1,785***	***713***	***1,072***	***667***	***1,118***	***78.76***	***1.18***
Singrauli	730	558	172	539	191	55.07	1.02
Auriya	151	5	146	-	151	-	
Rihand	283	94	189	77	206	13.59	1.76
Anta	103	9	94	8	94	1.25	1.48
Dadri Gas	173	-	173	-	173	-	
Unchahar I	242	29	213	24	218	5.95	2.43
Unchahar II	103	17	86	17	86	2.90	1.70
NPC	***115***	***-***	***115***	***-***	***115***	***-***	
NAPP	115	-	115	-	115	-	
RAPP	-	-	-	-	-	-	
Others	***72***		***72***	***72***	***-***	***14.33***	
IPPs	26		26	26	-	6.50	2.50
EREB	-	-	-	-	-	-	
Small Hydro Plants	46		46	46	-	7.83	1.70
Tra nsmission Charges (PGCIL)						13.89	
Total	***5297.88***	***3900.11***	***1397.77***	***3900.11***	***1397.77***	***378.46***	***0.97***

(47) The revised power purchase now is Rs. 378.46 Crore in comparison with the earlier approved costs of Rs. 370.68 Crore. The impact of Government's directive in this regard is, therefore, Rs. 7.78 Crore on the power purchase cost. The licensee in its submission dated November 27, 2003 has made other changes like the price payable to UJVNL, pooling of prices of all Central Generating Stations and has abandoned the merit order for purchase of power stipulated in the tariff order dated 08.09.2003. By making these changes, UPCL has projected additional expenditure of Rs. 60.56 Crore on this account. These issues had been considered and decided by the Commission in the order dated 08-09-2003. The Commission rejects all such additional claims made by the UPCL.

3.2 Income from Trading

(48) The income from trading activities estimated by the Commission in the tariff order dated 08.09.2003 was Rs. 13.77 Crore. Due to the Government's directive relatively costlier power produced by micro and small hydel plants which was earlier earmarked for trading is now to be used for supply to consumers in the State and corresponding quantity of cheaper power meant for consumption within the State now becomes available for trading purposes. As a result trading income goes up by approximately Rs. 7.78 Crore and licensee's share of the same increases to Rs. 14.94 Crore resulting in increase in trading income of Rs. 1.17 Crore.

3.3 Interest on Loans for New Projects

(49) It may be recalled that in the Tariff order dated 08.09.2003, the Commission had recognized investments pertaining to;

a) All projects taken up before 31.03.2002

b) All projects taken up under APDRP & PMGY schemes

c) All projects having an outlay of less than Rs. 2.5 Crore

(50) For other investments, the Commission had stipulated prior scrutiny and approval before recognizing them for the purpose of taking into account interest on loans taken for such projects. In the letter dated 16-10-2003, the State Government had stated as under in regard to the investment:

"In context with the allocation approved by the Planning Commission, Government of India, the State Government every year allots the money from different sources towards the development

works under State Plan. Accordingly, being the State Government Policy decision in reference to budget passed by the Hon'ble State Assembly, I have been directed to issue policy directions under section 108 of the Electricity Act, 2003 to recognize the made allocation / investments made by Uttaranchal Power Corporation under District / State Sector, REC & MNP etc. schemes, so that the Commission may like to take further action accordingly."

(51) The Commission, in the order dated 08-09-2003, had not rejected the consideration of any of the investments proposed by UPCL. In para 4.8 of the Tariff Order, the Commission stated that the claims of UPCL for certain items such as investments have either not been substantiated with supporting documents or are without approval of the Commission. The letter from the State Government can not be interpreted to mean that investments should be allowed without UPCL substantiating the same. The Commission has, therefore, no issue on allowing investments as per the letter of the State Government subject to the investment being substantiated.

(52) As per information obtained from the State Government release of funds to the UPCL for new projects during 2002-03 and 2003-04 has been given in Tables 8 & 9.

Table 8: Details of funds for Uttaranchal Power Corporation Ltd. (Rs. In Crore)

Details of Scheme	2002-03			2003-04		
	Budget Provision	Release		Budget Provision	Release	
		Grant	Loan		Grant	Loan
District Plan	25.70	----	1.50	40.00	----	----
State Plan	25.70	---	1.50	0.00	--	----
PTW Energisation	3.25	3.25	----	3.25	0.81 0.58 1.86	----
PMGY(RE)	2.00	13.75	2.93 0.90	----	3.60	0.45
MNP (RE)	75.00	----	20.00 13.00 37.00	35.00	----	----
APDRP	81.33	13.50 3.15 73.02	1.00 0.85 8.11	233.00	67.50	4.50 3.00
NABARD	----	----	----	40.00	----	----
REC	25.00	----	27.88	25.00	----	----
TOTAL	***232.28***	***106.67***	***114.67***	***376.25***	***74.35***	***7.95***

Table 9: Loans received by UPCL

Loans released in		
	2001-02	27.33
	2002-03	114.67
	2003-04	7.95
Total loans released		***149.95***
Or say		***150.00***

(53) Apart from Rs. 150 Crore of loans availed so far by UPCL after 09.11.2001, UPCL has projected borrowing of another Rs. 156.70 Crore during the current year, which is being accepted for the present. This makes UPCL's total liability on account of new loans as Rs. 307.45 Crore and the interest on the same works out to Rs. 22.74 Crore (Rs. 17.39 Crore on loans already received and Rs. 5.35 Crore on loans yet to be received). In the tariff order dated 08.09.2003 the Commission had allowed interest cost on this account of Rs. 5.50 Crore. Therefore, the additional impact arising out of Government's directive pertaining to new investments for the current year works out to Rs. 17.24 Crore.

3.4 Total Impact of Policy Directives & Affidavit filed by Government

(54) To sum up the impact of letter issued by the State Government on 16.10.2003 is as given in Table 10.

Table 10 : Impact of Government Letter & Affidavit (Rs. in Crore)

S.No.	Particulars	Approved in Order dated 08.09.2003	Now Approved	Impact
1	Power Purchase	370.68	378.46	7.78
2	Interest on loans	5.5	22.74	17.24
3	*Sub-total*	*376.18*	*401.20*	*25.02*
4	Trading Income	-13.77	-14.94	-1.17
5	***Total***	***362.41***	***386.26***	***23.85***

(55) The Commission directs UPCL to substantiate the investments allowed with supporting documents.

4. Total Impact of Transfer Scheme & Government Letter

(56) The total impact of the Transfer Scheme and Government's policy directives on UPCL's costs during the year 2003-04 as admitted by the Commission is as given in Table 11.

Table 11 : Total Impact of Transfer Scheme & Government Letter (Rs. in Crore)

S.No.	Particulars	Impact of Transfer Scheme	Impact of Government letter	Total Impact
1	Depreciation	50.48		50.48
2	Repairs & Maintenance	8.06		8.06
3	Reasonable Return	1.01		1.01
4	Interest on loans	26.22	17.24	43.46
5	Interest on security deposits	-0.56		-0.56
6	Power Purchase	--	7.78	7.78
7	*Sub-total (A)*	*85.21*	*25.02*	*110.23*
8	Less:			
9	Revenue expenses capitalized	42.96		42.96
10	Trading Income	--	1.17	1.17
11	*Sub-total (B)*	*42.96*	*1.17*	*44.13*
12	***Net Impact (A-B)***	***42.25***	***23.85***	***66.10***

(57) The Commission has calculated the permissible increase in expenditure on account of finalization of the Transfer Scheme on a provisional basis and is allowing the UPCL to earmark these additional revenue requirements in the Transitional Contingency Reserve. This is being done as the financial year 2003-04 has already been for more than 8 months and the next ARR filing is due shortly. The claims provisionally allowed as setout under various head are subject to the condition the UPCL shall substantiate the same in due course. If UPCL fails to do so, the Commission will after hearing UPCL take appropriate view of the matter after hearing all concerned.

(58) The summary of the claims allowed by the Commission in the order dated 08.09.2003, the claims made by the UPCL in the application date 27.11.2003 (based on Transfer Scheme and Government of Uttaranchal letter dated 16.10.2003) the additional claims now approved by the Commission are given in Annexure.

5. Validation of Other Estimates

(59) In view of the fact that draft balance sheet as on 31.03.2003 and MTBs for the year 2003-04 upto August, 2003 have now become available, the Commission has utilized this opportunity to validate the estimates with respect to other cost elements like employee cost and administrative expenses and of the estimated revenue as made earlier in the Tariff Order. The same is as given below.

5.1 Cost Estimates

5.1.1 Employee Cost

(60) Comparative position of different components of expenditure is given in Table 12.

Table 12: Employee Cost

Particulars	As per the MTB for 2002-03	As per the Draft Balance Sheet for 2002-03	Approved in the order for 2003-04	As per the MTB till Aug., 03	Annualised cost for FY 03-04 based on the MTBs.
Basic Salaries	49.59	49.51	**52.56**	20.48	**49.15**
Overtime	-	-	**-**	-	**-**
Dearness Allowance	24.72	24.95	**26.21**	10.52	**25.25**
Other allowances	4.44	4.48	**4.71**	2.10	**5.04**
Bonus / Ex-gratia	3.54	2.73	**3.75**	0.03	**0.07**
Medical expenses re-imbursement	0.30	0.34	**0.32**	0.15	**0.36**
Leave travel assistance	0.03	0.03	**0.03**	0.01	**0.02**
Interim Relief	0.01	0.03	**0.01**	0.02	**0.05**
Earned leave encashment	4.79	8.17	**5.07**	2.41	**5.78**
Leave Salary contribution	0.00	0.00	**0.01**	0.00	**0.00**
Payment under workmen's compensation Act	0.31	0.28	**0.32**	0.06	**0.14**
Staff welfare expenses/Others	0.19	0.12	**0.20**	0.06	**0.14**
Employee cost	87.92	90.64	**93.20**	35.84	**86.00**

(61) It will be seen from the above table that the expenditure on employees inclusive of bonus, leave travel assistance and leave encashment approved in the tariff order was Rs. 93.20 Crore against Rs. 90.64 Crore shown in the draft balance sheet for 2002-03 and against Rs. 86 Crore projected on the basis of actual expenditure shown in the MTBs for the first five months of the current financial year. The actual expenditure of the year 2002-03 and the estimated expenditure of the current year based on first five months

actual expenditure, both are less than the amount already provided and these figures confirm the earlier estimates. Further the entire staff expenditure of around Rs. 90 Crore is easily payable from the minimum assured revenue of Rs. 204 Crore estimated in para 8.2.2 of the tariff order dated 08.09.2003. In other words UPCL's liability towards staff expenditure is more than adequately covered in the tariffs approved on 08.09.2003.

5.2 Administrative & General Expenses

(62) The comparative position of various administrative costs approved by the Commission in the original tariff order and that as reflected in the draft balance sheet for the year 2002-03 and MTBs for the current year up to August 2003 is given in Table 13.

Table 13: Administrative and General (A&G) Expenses (Rs. Crore)

Item	As per MTB for 2002-03	As per Draft Balance Sheet for2002-03	Approved in the Order for2003-04	As per the MTB till Aug., 03	Annualised Cost for FY2003-04 based on MTB
Rent, Rates & Taxes	0.16	0.16	**0.16**	0.05	**0.12**
Insurance	0.05	0.05	**0.05**	0.02	**0.05**
Telephone, Postage & Telegrams, Telex charges	0.73	0.73	**0.75**	0.36	**0.86**
Legal charges	0.11	0.11	**0.11**	0.07	**0.17**
Audit fees	0.01	0.01	**0.01**	0.00	**0.00**
Consultancy charges	0.51	2.54	**0.53**	0.05	**0.12**
Technical fees	-	-	**-**	-	**-**
Other Professional charges.	0.06	0.07	**0.06**	0.28	**0.67**
Honorarium	0.00	0.00	**0.00**	0.00	**0.00**
Conveyance and traveling	1.74	1.79	**1.80**	0.84	**2.02**
Other expenses	4.14	4.28	**4.26**	1.34	**3.22**
Material related expenses	-	-	**-**	-	**-**
License Fees	1.87	1.87	**3.11**	3.01	**3.01**
Total A&G Charges	***9.38***	***11.61***	***10.84***	***6.02***	***10.22***

(63) It will be seen from the above figures that the expenditure already allowed by the Commission is higher than the expenditure projected on the basis of UPCL's expenditure till August 2003 and is only marginally less than the expenditure shown in the draft balance sheet for 2002-03 but that is on account of steep rise of more than Rs. 2 Crore in the consultancy charges over the MTB figures up to 31.03.2003. These figures of actual expenditure in 2002-03 and the likely expenditure during 2003-04 confirm the estimation made under this head in the Tariff Order dated 08.09.2003. In any case the A&G

expenses during the first year would have been high on account of non-recurring expenses in setting up new establishments.

5.3 Cash Balances

(64) The cash available with UPCL in FDR's and bank accounts is given in Table 14.

Table 14: Cash Balances

S.No.	Particulars	As on 09.11.01	As on 31.03.02	As on 31.03.03
1	Cash Balance in FDR's & bank accounts	45.50	350.14	598.92
2	Unutilized loans & grants	Nil	44.74	135.41
3	Net Cash Balance (1-2)	45.50	305.40	463.51
4.	Unrealized arrears	629.25	611.81	919.04*

* As submitted before Hon'ble High Court

(65) It will be seen from above that:

a) Company's cash balances have been steadily going up at an exceptionally high rate.

b) While the exact figures are not available the estimated cash balances as on 30.09.2003 are around Rs. 650 Crore.

c) The Company has been generating surplus from its operations and this is on account of high retail tariffs inherited from UP. Comfortable cash position is already leading to complacency and in turn decrease in efficiency as result of which un realized sales arrears have gone up by as much as Rs. 289.79 Crore since UPCL took over the operations from UPPCL on 09.11.2001 till 31.03.2003.

d) It is disturbing that with huge cash balances lying in the banks UPCL has been taking more loans than can be utilized and that too at high interest rates and keeping the surplus in banks earning lower interest. The cost of imprudent fund management is being passed on to the consumers through tariffs in the form of interest expenditure.

5.4 Provision for Bad & Doubtful Debts

(66) UPCL in its original ARR had sought a provision of Rs. 32.76 Crore for bad and doubtful debts. UPCL, who has been agitating this point and questioning Commission's decision in this regard, had a total provision of Rs. 282 Crore for bad and doubtful debts as on

31.03.2003, which has not been utilized during the current or previous years. The view taken by the Commission was that since UPCL had not written off any dues so far out of the provisioning which already exist, UPCL's Board of Directors should adopt a transparent policy for identifying and writing off bad and doubtful debts before further provisioning is to be considered. Availability of substantial provisioning and its non-utilization by UPCL only reinforces Commission's earlier decision of not allowing further provisioning for tariff purpose till such debts are written off.

5.5 Non Tariff Income

(67) The Commission has estimated a total non-tariff income of Rs. 57.3 Crore, which it had taken into account in its order dated 08.09.2003. Components of this were income from investments and income from trading and miscellaneous income. Their position is discussed below:

5.6 Income from trading

(68) The Commission has estimated income from trading at Rs. 13.77 Crore. As per the arrangement existing between the State Government and UPCL 15% income from trading of surplus power is to be retained by UPCL and balance 85% to be passed on to Government. In case of free power available to Government from CGS and IPPs, UPCL purchases the same at a predetermined rate and trading income on such power is not shared but retained entirely by UPCL. In the submission made to the Commission on 27.11.2003 Rs. 42.42 Crore are shown payable as income from trading to the State Government based on which UPCL's share of trading income upto 30.09.2003 works out to Rs. 7.49 Crore and for the year the figures would be Rs. 14.98 or say 15 Crore, which is clearly higher than the income estimated by the Commission.

5.7 Income from Investments

(69) In the tariff order, the Commission had estimated interest income from investment at Rs. 25.34 Crore. The interest earned on FDRs during year 2002-03 was Rs. 26.5 Crore. This was based on UPCL's FDRs of Rs. 460.79 Crore as on 31.03.2003. As per the submissions now made the amount invested in FDRs as on 30.09.2003 has gone up further to Rs. 493.16 Crore. Looking at the actual interest income of last year and at the fact that the amount invested in the FDRs is higher than what the Commission had assumed, the

interest income on the same is likely to be higher than Rs. 25.34 Crore estimated by the Commission.

(70) Position of incomes on account of miscellaneous other charges is expected to be substantially higher than what had been estimated by the Commission. The position of total non-tariff income for the year is given in Table 15.

Table 15 : Non-tariff Income

Particulars	Approved in tariff order	As per the MTB till August 03	Annualised for the whole year
Meter Rent	3.40	7.04	16.9
Miscellaneous charges from consumers	0.29	0.07	0.17
DPS	5.07	11.49	24.13
Income from investments*	25.34	10.52 (received in cash)	25.31
Income fro staff welfare activities	0.05	0.01	0.02
Income miscellaneous receipts	2.81	0.94	2.26
Income from trading*	13.77	7.49	14.97
TOTAL	***50.73***	***37.56***	***83.75***

*Figures have been taken as per the submissions of UPCL made on 27.11.2003 for the period ending on 30th September 2003.

5.8 Loss Reduction

(71) The Commission had estimated UPCL's technical and commercial loss to be 46.17%, which is unacceptably high and includes substantial portion of commercial loss arising out of thefts and pilferages. 1% loss in energy results in revenue loss of around Rs. 9 Crore annually. On October 12, 2002 a Memorandum of Agreement (MOA) was signed between UPCL, Government of India and the State Government in which amongst other things UPCL agreed to loss reduction target of 3% for the year 2003-04 and 4.62% for the year 2004-05. On the strength of this MOA financial assistance of Rs. 362 Crore was sanctioned to UPCL under APDRP scheme. In the ARR, UPCL had shown actual loss reduction of 3.66% during 2002-03. In view of UPCL's own commitments for 2003-04 and 2004-05 made in the MOA, his claimed reduction in the year 2002-03, 4% overall reduction in technical and commercial losses stipulated in the Tariff order is reasonable.

5.9 Contingency Reserve

(72) Position of excess of UPCL's revenue over expenditure for the year, is given in Table 16.

Table 16: Contingency Reserve

Particulars	As per MTB till Aug., 03	Total
Tariff Income	263.51	573.58
Add: Non-Tariff Income	37.56	83.75
Efficiency Improvement	-	31.67
Past Arrears		80.00
Excess Royalty Accounted for in first six months		8.37
Rebate for timely payment for power purchased	3.85	7.62
Total Revenue (Rs. in Crore)	***304.92***	***704.99***
Total Expenses allowed by the Commission		564.88
Rebate for timely payment of bills		6.86
Excess interest on working capital		0.78
Total Expenditure		***572.52***
Surplus of Revenue over Exp		**132.47**
Collection from unrealized arrears		80.00
Total excess revenue		**212.47**

(73) The above table clearly shows that the excess of UPCL's revenue over income which had been estimated at Rs. 188.77 Crore in the Tariff Order is actually likely to be even higher based on the trends up to August 2003. This figure is now likely to be Rs. 212.47 Crore.

5.10 Other (Unaccounted) Non-tariff Income

(74) Non tariff income accruing on some other accounts which had not been shown in the ARR and, therefore, not accounted for in the tariff order is given below:

Reimbursement for payment to employees and pensioners made by UPCL for the period when terminal benefit account of both the corporation were maintained by UP Employees Trust as shown in the Transfer Scheme	Rs. 47.22. Crore
Payments received from PSEB on reconciliation of accounts (As per MTB)	Rs. 7.13 Crore
UI charges for the current year already received till August 2003 (As per MTB)	Rs. 17.09 Crore
TOTAL	**Rs. 71.44 Crore**

(75) It will be seen from above that the non-tariff income for the year which was estimated as Rs. 50.73 Crore is now likely to be as high as around Rs. 155 Crore. Taking this also into account, the surplus of Rs. 188.77 Crore estimated earlier is likely to be Rs. 283.91 (212.47+71.44) Crore.

6. Conclusion

(76) As has been stated in the order, the total impact of the Transfer Scheme and Government's policy directives on Petitioner's costs during the year 2003-04 is as given below :

a)	Increase due to Transfer Scheme	Rs. 42.25 crore
b)	Increase due to Government's policy directives	Rs. 23.85 crore
c)	Total increase in expenses	Rs. 66.10 crore

(77) Against the above additional requirement, the original Tariff Order dated 08-09-2003 had provided for Transitional Contingency Reserve of Rs. 188.77 crore to meet such additional expenditure. (para 5.20).

(78) Therefore, the Commission has come to the conclusion that the additional expenditure of the Petitioner arising out of the developments discussed above can very be easily met from the reserve that has already been created for this purpose (Para 4.8 of the Tariff order) with substantial balance remaining in it at the end of the year. How this balance unutilized amount should be used in future is an issue which the Commission proposes to address in due course. In the meantime the Commission, does not see any need, whatsoever, for revising the retail tariffs for the year 2003-04 which it had approved in its original Tariff Order dated 08.09.2003.

(Divakar Dev)
Chairman

Annexure

Summary Table

Sl. No.	Particulars	As claimed in the ARR filed on 14.05.2003	As per Tariff Order dated 08.09.2003	As claimed by UPCL in the application dated 27.11.2003	Difference	As approved by the Commission in this order	Additional amount allowed in this Order	Amount not allowed by the Commission in this order
1	2	3	4	5	6=5-4	7	8=7-4	9=6-8
1	Depreciation	83.7	39.93	90.41	50.48	90.41	50.48	-
2	Interest	132.67	5.50	151.62*	146.12	48.97	43.47	102.65
3	Return on Capital	16.63	2.77	41.82	39.05	3.78	1.01	38.04
4	Repair and Maintenance	37.42	17.18	25.23	8.05	25.23	8.05	-
5	Power Purchase	389.8	370.68	431.24	60.56	378.46	7.78	52.78
6	Total	660.22	436.06	740.32	304.26	546.84	110.78	193.47
7	Interest on Consumer Security Deposit	0.67	3.51		-3.51	2.95	-0.56	-2.95
8	Total including Interest on Consumer Security Deposit	660.89	439.57	740.32	300.75	549.79	110.22	190.52
9	Less:							
10	Expenses Capitalised	48.17		42.96	42.96	42.96	42.96	-
11	Net Expenses	612.72	439.57	697.36	257.79	506.83	67.26	190.52

Note: UPCL has included Rs. 1.16 crores as interest on Consumer Security Deposit while quoting the figure of Rs. 151.62 crores, but has not considered it while quoting the comparative amount in the Tariff Order. In the Tariff Order the Interest on Consumer Security Deposit is Rs. 3.51 crores as against NIL shown by the licensee. Further the Commission has allowed Rs. 17.25 crores on loans taken after 08.11.2001 and Rs. 25.66 Crore against liabilities arising out of Transfer Scheme as against the licensee's claim of Rs. 151.62 Crore for additional interest due to the transfer Scheme. The Commission had already allowed Rs. 9.01 Crore in the Tariff Order, hence the total disallowance in Rs. 99.71 Crore including Consumer Security Deposit.