ORISSA ELECTRICITY REGULATORY COMMISSION

BIDYUT NIYAMAK BHAWAN,
UNIT – VIII, BHUBANESWAR – 751 012
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Present : Shri B. K. Das, Chairperson
Shri S. K. Jena, Member

CASE NOS.57, 58, 59 & 60 of 2006
AND
CASE NO. 61 OF 2006 & 47 OF 2006

DATE OF HEARING : **08.02.2007, 09.02.2007, 12.02.2007 & 13.02.2007**

DATE OF ORDER : **23.03.2007**

IN THE MATTER OF : Applications for approval of Annual Revenue Requirement and Retail Supply Tariff under Section 62 & 64 and other applied provisions of the Electricity Act, 2003 read with relevant 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 FY 2007-08.

O R D E R

The Commission initiated proceedings on the filing of Annual Revenue Requirement (ARR) and Retail Supply Tariff Applications (RST) of deemed Distribution Licensees Central Electricity Supply Utility of Orissa (CESU), (Western Electricity Supply Company of Orissa Ltd. (WESCO), North-Eastern Electricity Supply Company of Orissa Ltd. (NESCO), Southern Electricity Supply Company of Orissa Ltd.(SOUTHCO). After commencement of the Electricity Act, 2003 and according to the first proviso of the Section 14 of the said Act, M/s WESCO, NESCO and SOUTHCO are operating in the State of Orissa as deemed distribution licensees and supplying power to the consumers in their respective area of supply. In exercise of power u/s.16 of the Electricity Act, 2003, the Commission vide its order dtd.27.10.2006 has determined the license conditions of the aforesaid deemed distribution licensees.

The Commission has revoked the license of the erstwhile CESCO w.e.f. 01.04.2005 and has appointed Chief Executive Officer and Administrator (CEO&A) to manage the affairs of the Central Zone Electricity Distribution and Retail Supply Utility. On 08.09.2006, the Commission in exercise of the power u/s.22 of the

Electricity Act, 2003 had framed Central Electricity Supply Utility of Orissa (Operation and Management) Scheme, 2006 (amended on 13.10.2006) for the operation and management of former licensee CESCO's undertaking. Under the said Scheme, a legal entity named Central Electricity Supply Utility of Orissa (CESU) with a Management Board was constituted and the assets, liabilities, rights, proceedings and manpower as well as the license for distribution and supply of electricity held by CESCO has been devolved and vested on CESU. In exercise of power u/s.16 of the Electricity Act, 2003, the Commission vide its order dtd.27.10.2006 has determined the license conditions for deemed distribution licensee CESU.

By this common order, the Commission disposes of the aforesaid ARR and RST applications of the above mentioned deemed Distribution Licensees.

1 PROCEDURAL HISTORY

1.1 As per OERC (Conduct of Business) Regulations, 2004 and OERC (Terms & Conditions for Determination of Tariff) Regulations, 2004, the Distribution Licensees/Utilities/Deemed Distribution Licensees are required to file their Annual Revenue Requirement (ARR) and Retail Supply Tariff Application (RST) on or before 30th November in the prescribed format for ensuing financial year. Accordingly, all the deemed distribution licensees (CESU, WESCO, NESCO & SOUTHCO) filed their Annual Revenue Requirement (ARR) and revision of Retail Supply Tariff (RST) Applications for FY 2007-08 on 30.11.2006.

1.2 The said ARR & RST applications were duly scrutinized, admitted and registered as Case Nos.57/2006 (CESU), 58/2006 (WESCO), 59/2006 (NESCO) and 60/2006 (SOUTHCO).

1.3 The Commission directed the applicants to publish the ARR & Tariff Applications in the prescribed format in the leading and widely circulated Oriya and English newspapers in order to invite objections/suggestions from the general public. The said public notices were also posted in the Commission's website. The Commission had also directed the applicants to file their respective rejoinder to the objections filed by the objectors.

1.4 In response to the said public notices, the Commission received objections/ suggestions from the following persons/ associations/ institutions/ organisations:

1.4.1 On the CESU's application: -

(1) State Public Interest Protection Council, Tall Telengabazar, Cuttack, (2) Orissa Consumers' Association, & FOCO, Biswanath Lane, Cuttack, (3) Shri Kiran Kumar Panda, 266, Kharavela Nagar, Unit-III, Bhubaneswar, (4) M/s Rawmet Ferrous Industries Pvt. Ltd., N-1/A-28, IRC Village, Nayapalli, Bhubaneswar, (5) East Coast Railway, O/o the Chief Electrical Engineer, B-2, Rail Vihar, Chandrasekharpur, Bhubaneswar, (6) Confederation of Indian Industry (CII), 8, Forest Park, Bhubaneswar, (7) M/s Jayshree Chemicals Ltd.,

Po : Jayshree, Ganjam, (8) All Orissa Layer Farmers Association, N-3/69, Nayapalli, BBSR, (9) BSNL, Electrical Circle, 92, Saheed Nagar, Bhubaneswar, (10) M/s Reliance Communications Ltd., 6th Floor, Fortune Tower, CS Pur, BBSR, (11) Cuttack Muncipal Corporation, Choudhury Bazar, Cuttack, (12) M/s Utility Regulation Research Centre, Xavier Institute of Management, Bhubaneswar, (13) Utkal Chamber of Commerce & Industry, N/6, IRC Village, Nayapalli, Bhubaneswar, (14) Mr. R.P. Mohapatra, 775, Jayadev Vihar, Bhubaneswar, (15) M/s Bhusan Steel and Strips Ltd., At-Narendrapur, Meramundali, Dhenkanal, (16) Bajrangbali Alloys (P) Ltd., Malgodown, Cuttack, (17) M/s Auro Ispat (India) Pvt. Ltd., Auroshree, 13/14 Govind Vihar, Bomikhal, Bhubaneswar.

1.4.2 On the WESCO's application: -

(1) M/s Larsen & Toubro Limited Kansbahal Works: PO. Kansbahal, Dist-Sundargarh, Orissa, (2) State Public Interest Protection Council, Talengabazar, Cuttack, (3) M/s Orissa Consumers' Association & FOCO, Biswanath Lane, Cuttack, (4) S.E. Railway, Garden Reach, Kolkata, (5) M/s Sambalpur District Consumers Federation, Balaji Mandir Bhavan, Khetrajpur, Sambalpur, (6) Sudargarh District Employers' Association, AL-1, Basanti Nagar, Roukela, (7) Shri R.P. Mahapatra, Plot No. 775(Pt), Lane-3, Jayadev Vihar, Bhubaneswar, (8) Utkal Chamber of Commerce and Industry Ltd., N/6, I.R.C. Village, Nayapalli, Bhubaneswar, (9) M/s Reliance Communications Ltd., 6th Floor, Fortune Tower, CS Pur, BBSR, (10) M/s Scan Steel Ltd, Main Road, Rajgangpur, Sundargarh, (11) M/s Scan Steel Ltd., Q.1, Civil Township, Rourkela, (12) BSNL, Electrical Circle, 92, Saheed Nagar, BBSR, (13) All Orissa Layer Farmers Association N-3/69, Nayapalli, Bhubaneswar.

1.4.3 On the NESCO's application: -

(1) State Public Interest Protection Council, Tala Telengabazar, Cuttack, (2) Life Line Club, Soro, Balasore, (3) Kansa Bansa Sanskrutika Parishad, Soro, Balasore, (4) Ferro Alloys Corpn. Ltd., GD-2/10, Chandrasekharpur, Bhubaneswar, (5) Orissa Consumer's Association & FOCO, Biswanath Lane, Cuttack, (6) East Coast Railway, Rail Vihar,Chandrasekharpur, Bhubaneswar, (7) S.E. Railway, Garden Reach, Kolkata, (8) The Tata Iron & Steel Co. Ltd., 273 Bhouma Nagar, Unit-IV, Bhubaneswar, (9) Balasore Alloys Limited , Balgopalpur-756020, Balasore, Orissa, (10) IDCOL Ferro Chrome & Alloys Ltd. Jajpur Road, Jajpur, (11) Parikshita Swain, 258P, Cuttack Road, Bhubaneswar, (12) M/s Reliance Communications Ltd., 6th Floor, Fortune Tower, CS Pur, BBSR, (13) Jindal Stainless Limited, 50-HIG, BDA, Jaydev Vihar, Bhubaneswar, (14) The Utkal Chamber of Commerce & Industry, N/6, IRC Village, Nayapalli, Bhubaneswar, (15) Shri R.P. Mahapatra, Plot No. 775 (Pt), Lane-3, Jayadev Vihar, Bhubaneswar, (16) BSNL, Electrical Circle, 92 Saheed

Nagar, BBSR, (17) All Orissa Layer Farmers Association N-3/69, Nayapalli, Bhubaneswar.

1.4.4 On the SOUTHCO's application: -

(1) State Public Interest Protection Council, Telengabazar, Cuttack, (2) Grahak Panchayat, Friends Colony, Parlakhemundi, (3) Orissa Consumers' Association & FOCO, Biswanath Lane, Cuttack, (4) East Coast Railway, O/o the Chief Electrical Engineer, B-2, Rail Vihar, Chandrasekharpur, Bhubaneswar, (5) Dy. Electrical Inspector, Govt. of Orissa, Gajapati Nagar, Berhampur, Ganjam, (6) Prabhakar Dora, 3rd line, Cooperative Colony (Vidya Nagar), Rayagada, (7) M/s Jayashree Chemicals Ltd., Ganjam, (8) BSNL, Electrical Circle, 92, Saheed Nagar, BBSR, (9) Utkal Chamber of Commerce & Industry, N/6, IRC Village, Nayapalli, Bhubaneswar, (10) M/s Reliance Communications Ltd., 6th Floor, Fortune Tower, CS Pur, BBSR, (11) Shri R.P. Mahapatra, Plot No. 775(Pt), Lane-3, Jayadev Vihar, Bhubaneswar, (12) All Orissa Layer Farmers Association N-3/69, Nayapalli, Bhubaneswar.

1.5 The dates for hearing were fixed and it was duly notified in the leading English and Oriya daily newspapers mentioning the list of objectors. The Commission issued notice to the Govt. of Orissa represented by Department of Energy to send their authorised representative to take part in the ensuing tariff proceedings.

1.6 In exercise of the power u/s.94(3) of the Electricity Act, 2003, in order to protect the interest of the consumers, the Commission for the first time appointed Nabakrushna Choudhury Centre for Development Studies, Chandrasekharpur, Bhubaneswar the premier Govt. of Orissa's Institute as Consumer Counsel for objective analysis of the licensee's Annual Revenue Requirement and tariff proposal. The consumer counsel submitted its report to the Commission and its representative putforth its analysis & views on the matter in the presence of all the parties present during the proceeding.

1.7 In its consultative process, the Commission conducted a public hearing at its premises on 08.02.2007 for CESU, 09.02.2007 for SOUTHCO, 12.02.2007 for NESCO & 13.02.2007 for WESCO. The Commission heard the applicants, objectors, consumer counsel and the representative of the Government.

1.8 Along with the ARR and Tariff Applications of the Distribution Licensees, the Commission also heard the parties on the following matters.

1.8.1 Grant of special concessional tariff for Military Engineering Services (MES) registered as case No.61/2006 and determination of incentive tariff for large industries (M/s Cosboard Industries Ltd. registered as case No.47/2006) have been dealt in this order.

1.8.2 The cases relating to approval of Open Access Charges for Distribution Licensees were listed along with the ARR & Tariff applications, but on

the request of the applicants and the objectors, it was decided to adjourn the matter to a future date for a separate extensive hearing.

2 ARR & RETAIL SUPPLY TARIFF PROPOSAL FOR 2007-08

2.1 The Distribution Licensees in Orissa namely, CESU, NESCO, SOUTHCO and WESCO 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	Licensed Areas (Districts)
1.	CESU	Puri, Khurda, Nayagarh, Cuttack, Denkanal, Jagatsinghpur, Angul, Kendrapara.
2.	NESCO	Mayurbhanj, Keonjhar, Bhadrak, Balasore and major part of Jajpur.
3.	SOUTHCO	Ganjam, Gajapati, Kandhamal, Boudh, Rayagada, Koraput, Nawarangpur and Malkangiri.
4.	WESCO	Sambalpur, Sundargarh, Bolangir, Bargarh, Deogarh, Nuapara, Kalahandi, Sonepur and Jharsuguda.

2.2 A statement of Energy Sale, Purchase and Overall Distribution loss from FYs 2004-05 to 2007-08 for the four DISTCOs is given in tabular form below:

Table - 2
Distribution Loss

		2004-05 (Approved)	2005-06 (Approved)	2006-07 (Estt.)	2007-08 (Estt)
CESU	Energy Sale (MU)	2252.350	2392	2706.34	3189.70
	Energy Purchased (MU)	3849.310	4184.50	4778.83	5233.11
	Overall Distribution Loss %	41	43	43	39
NESCO	Energy Sale (MU)	1809.182	2144.21	2692.22	3322.67
	Energy Purchased (MU)	2985.677	3407.57	3990	4760
	Overall Distribution Loss %	39.40	37.08	32.53	29.99
SOUTHCO	Energy Sale (MU)	960.00	1003.16	1038.31	1109.94
	Energy Purchased (MU)	1613.43	1702.16	1800	1855.00
	Overall Distribution Loss %	40.50	41.07	42.32	40.16
WESCO	Energy Sale (MU)	2577.250	2605.276	3000.00	4140

	Energy Purchased(MU)	4051.009	4188.506	4600.00	6000
	Overall Distribution Loss %	36.38	37.80	34.78	31.00

2.3 **AT&C Loss**

2.3.1 The System Loss, Collection Efficiency and target fixed by OERC in reference to AT&C Loss for the four DISTCOs since FY 2004-05 and onwards are given as under :-

Table - 3
AT&C Loss

		2004-05 (Approved)	2005-06 (Approved)	2006-07 (Estimated)	2007-08 (Estimated)
CESU	Dist. Loss (%)	41	43	43	39
	Collection Efficiency (%)	84	89	89	92
	AT&C Loss (%)	51	49.4	49	44
	OERC Target (AT&C Loss %)	49.37	44.96	40.37	35.60
NESCO	Dist. Loss (%)	39.40	37.08	32.53	29.99
	Collection Efficiency (%)	91	92	94	94
	AT&C Loss (%)	45.00	42.11	36.58	34.19
	OERC Target (AT&C Loss %)	42.96	39.55	36.08	33.26
SOUTHCO	Dist. Loss (%)	40.5	41.07	42.32	40.16
	Collection Efficiency (%)	91	91	93	94
	AT&C Loss (%)	45.86	46.37	46.36	43.75
	OERC Target	45.71	41.76	37.69	34.20
WESCO	Dist. Loss (%)	36.38	37.8	34.78	31
	Collection Efficiency (%)	92.06	94	94	95
	AT&C Loss (%)	41.43	41.53	38.69	34.45
	OERC Target	40.60	36.52	32.32	28

2.3.2 Non-fulfillment of the target has been attributed by the DISTCOs to slow progress in investment due to delay in receipt of APDRP and World Bank funds, natural calamities, massive rural electrification programme, non-establishment of special courts and special police stations, non-availability of requisite funds owing to Escrow mechanism, non-payment of dues by govt. departments and public sector undertakings.

2.4 **Metering**

2.4.1 CESU have submitted that they had provided meters to all un-metered consumers. They have also intimated that the 33 kv and 11 kv feeder

metering have been completed and installation of meters to distribution transformers is in progress.

2.4.2 NESCO, SOUTHCO and WESCO stated that they inherited a system in which more than 70% of consumers were un-metered or had defective meters. The billing data bases were defective. They have intimated that they had initiated various measures, such as, installation of meters, formation of meter checking squads to detect tampered meters. An effort to sanitise the billing data base has also led to the discovery of fresh cases of non-functioning meters. NESCO, SOUTHCO and WESCO have submitted that they have completed 100% feeder metering. NESCO has achieved 89% in consumer metering during 2006-07 whereas WESCO has completed 100% of consumer metering.

2.5 Detection and Regularisation of unauthorised consumers

2.5.1 CESU have submitted that they have deployed ex-military personnel for de-hooking unauthorised connections and disconnection of non-paying consumers as a result of which a large number of unauthorised consumers are coming forward for regular connection.

2.5.2 MRT squads have been deployed for vigilance activities, like, review of loads, checking of by-passing and tampering of meters, obtaining check meter reading and raising penal bills. CESU submitted that twenty numbers of MRT squad each headed by an Engineer are operating in the divisional level to take care of anti theft measures.

2.5.3 Teams have been deployed for verification of meter readings in case of doubtful cases.

2.6 Spot Billing Roll Out Plan

NESCO, SOUTHCO & WESCO have submitted that they have carried out spot billing in 6 divisions, 4 sub-divisions and 7 divisions, respectively in their own areas of operation. WESCO & SOUTHCO have proposed to cover all consumers under the umbrella of spot billing by the end of FY 2007-08 whereas NESCO proposes to cover 50% of its consumer by this time. On the other hand, CESU have stated that they have covered all the areas of their operation under spot billing.

2.7 APDRP Scheme

All the distribution companies have submitted unequivocally that they had undertaken up-gradation and modernization programme under Govt. of India sponsored APDRP scheme. The capital outlay, in this regard, in respect of NESCO, SOUTHCO & WESCO during the FY 2006-07 was in order of Rs.24.15 crore, Rs.31.90 crore and Rs.16.14 crore, respectively. Further, they have proposed expenditure under this head for FY 2007-08 to be Rs.56.91

crore, Rs.69.29 crore and Rs.58.26 crore, respectively. On the other hand, CESU has planned to avail 112.85 crore under APDRP scheme from PFC for the year 2006-07 and Rs.74.18 crore for the year 2007-08 for renovation and modernisation of existing and new 33/11 substations, 11/.4 KV substations. All the DISTCOs have submitted that the capital outlay envisages metering, the new lines, substations, conductoring, renovation and modernisation of the existing substations.

2.8 Energy Audit

2.8.1 CESU has submitted that energy audit pilot project along with consumer indexing has been operating in the CDD-I, Cuttack where the loss level is very high. Gradually the other area of CESU is being taken up for energy audit and consumer indexing. The meters at all the 33/11 KV feeders have been installed. The energy audit would be conducted after completion of distribution transformer metering.

2.8.2 NESCO, SOUTHCO & WESCO have categorically stated that they have initiated suitable measures for conducting energy audit. NESCO has completed the metering of 473 feeder meters and 11625 distribution transformers and 55 nos. of 33 KV feeders.

2.8.3 SOUTHCO has completed the metering of 584 feeders and 8993 distribution transformers. Currently energy audit is being carried out on monthly basis of 33 KV feeders (116 nos.).

2.8.4 NESCO, SOUTHCO & WESCO have intimated that energy audit in the 2nd phase would be conducted on 11 KV and LT level by including pre-dominantly domestic feeders and transformers. They have also proposed consumer indexing, consumer and network survey, painting of electrical address on poles, DTR at consumer premises. To determine and assess the AT&C loss, they have proposed for monthly energy accounting for 11 kV downwards.

2.8.5 NESCO, SOUTHCO & WESCO have given the estimated cost for conducting energy audit as under :-

Table – 4
Cost Estimate of Energy Audit

Details	**NESCO**		**SOUTHCO**		**WESCO**	
	Numbers	Estimated cost (Rs. Lac)	Numbers	Estimated cost (Rs. Lac)	Numbers	Estimated cost (Rs. Lac)
Total no. of consumers	184928	83.22	271000	121.95	177665	79.95
Total no. of poles	132110	19.82	204363	30.65	227406	34.11
Total no. of DTRs	2863	68.71	6324	12.65	3425	82.20
Total		171.75		165.25		196.26

2.9 Special Police Stations & Special Courts

NESCO and SOUTHCO have submitted that one police station each in their area have already started functioning and another four special police stations likely to start functioning very shortly. NESCO and SOUTHCO have estimated an amount of Rs.1.29 crore, Rs.1.24 crore respectively towards expenses of special police stations under A&G head. No police station has yet started functioning in WESCO area. One police station at Sambalpur is likely to start functioning very shortly and licensee has estimated an amount of Rs.1.03 crore towards this under the head of A&G expenses.

2.10 Data Sources

NESCO, SOUTHCO and WESCO have scrupulously complied with the information requested of the Commission for submitting the ARR and tariff for the year 2007-08. The accounts upto September, 2005 has been duly audited as per Companies Act whereas accounts upto March, 2006 has been audited as per Income Tax rules. Copies of both the audited accounts have already been furnished to OERC. As such, the licensees, submit that the data furnished by them in the application are authentic and reliable.

2.11 Revenue Requirement

2.11.1 Sales Forecast

The four distribution utilities have forecasted their sales figures for the year 2007-08 as detailed below with reasons for sales growth.

Table – 5

Licensee/ Utility	LT Cons (MU) 2007-08 (Estt.)	% Rise above FY 06-07	Remarks	HT Cons (MU) 2007-08 (Estt.)	% Rise above FY 06-07	Remarks	EHT Cons (MU) 2007-08 (Estt.)	% Rise above FY 06-07	Remarks
CESU	1836.70	18	Actual cons. during FY 2005-06 & 3 years CAGR	743.16	16	Past trend & load growth expected	609.84	19	Load growth from existing & new consumers
NESCO	882.844	13	Impact of RE programme & growth from existing & new consumers	658.374	16.93	Trend of 2005-06 & growth from existing & new consumers	1791.453	33	Trend of FY 2005-06 & growth from existing & five new consumers
SOUTHCO	677.408	10.75	Impact of RE programme & growth from existing & new consumers	245.092	2.46	Trend of 2005-06 & growth from existing & new consumers	187.443	Nil	
WESCO	890.0	13.23	Impact of RE programme & growth from existing & new consumers	1560.00	26.42	Trend of 2005-06 & growth from existing & new consumers	1690	72.45	Trend of FY 2005-06 & growth from existing & new consumers

2.12 Inputs in Revenue Requirement

2.12.1 Power Purchase Expenses

Power purchase expenses have been estimated by 4 DISTCOs based upon distribution loss, present demand charges and energy charges. The DISTCOs have prayed to the Commission to suitably adjust the revenue requirement in the event of revision of BST.

2.12.2 Employees' Expenses

The employees' charges have been evaluated by the DISTCOs as a percentage rise (different for individual distribution company) over and above the previous year. This includes normal annual increment of the employees, anticipated enhancement on dearness allowance, merger of 50% DA with basic pay, emoluments for fresh recruits and key personnel in technical and commercial activities and disbursement of

terminal benefits. NESCO, SOUTHCO & WESCO have projected the cost of terminal benefits based upon the actuarial valuation study.

2.12.3 **Administrative & General Expenses**

NESCO, SOUTHCO & WESCO have proposed enhancement of A&G expenses to the extent of 7% and CESU as 10% over and above the approved A&G expenses for the FY 2006-07. In addition, NESCO, SOUTHCO and WESCO have projected extra A&G expenses under different heads for the FY 2007-08 as tabulated below :-

Table – 6
Additional A&G Cost

(Rs. in crore)

Sl.No	Description	NESCO	SOUTHCO	WESCO
1	Energy Audit	1.71	1.65	1.96
2	Spot Billing in all Divisions	1.72	1.97	2.28
3	Fringe Benefit Tax for 2006-07 & 2007-08	1.17	0.45	0.70
4	Expense of customer care	0.72	0.31	0.43
5	Energy police station	1.28	1.24	1.02
6	Manpower assessment study	0.09	0.09	0.09
7	Franchisee of collection	-	0.35	-
	Total	**6.71**	**6.07**	**6.50**

2.12.4 **Repair & Maintenance (R&M) Expenses**

2.12.4.1 All four DISTCOs have estimated Repair and Maintenance Expenses @ 5.4% of Gross Fixed Assets (GFA) at the beginning of the year.

2.12.4.2 NESCO, SOUTHCO and WESCO have requested the Commission to direct GRIDCO to release Rs.28.94 crore, Rs.23.14 crore and Rs.28.16 crore respectively for the FY 2007-08 from the escrow account for meeting R&M expenses.

2.12.5 **Provision for Bad & Doubtful Debts**

2.12.5.1 CESU has made provision towards provisions for bad and doubtful debts to the tune of Rs.10.91 crore @15% on the incremental debtor.

2.12.5.2 NESCO, SOUTHCO and WESCO submitted that due to past losses and huge liability, it would be difficult for them to arrange working capital and the situation would worsen if

the Commission does not recognise the short fall in collection efficiency. In order to make good the loss of short fall in collection efficiency, the licensees have considered the amount equivalent to the collection inefficiency as bad and doubtful debts while estimating the ARR for FY 2007-08. Considering the proposed collection efficiency of 94% for both NESCO and SOUTHCO and 95% for WESCO for FY 2007-08, they have considered for bad and doubtful debts to the extent of 6%, 6% and 5% respectively as part of ARR for FY 2007-08.

2.12.6 **Depreciation**

All the four DISTCOs have adopted straight-line method for computation of depreciation at pre-92 rate.

2.12.7 **Loans and Outstanding Dues**

NESCO, WESCO and SOUTHCO have submitted that the Commission had passed an order approving their business plan on 28th February, 2005 against case no. 115 of 2004. Subsequently, a clarificatory order on the same subject was also issued on 20th July, 2006. The method of treatment on pass loans and outstanding dues has been elaborated therein as well as in the RST order for FY 2004-05 , 2005-06&2006-07.

2.12.8 **Loan from GRIDCO**

CESU have submitted that during loan reconciliation with GRIDCO, the interest payable has been finalized @ 13.87% for FY 1999-00 to 2002-03 and @ 8.5% for FY 2003-04 and no interest will be charged from the year 2004-05 onwards. No interest has been calculated on Rs. 174.00 Cr. provided by GRIDCO towards cash support.

2.12.9 **Power Bond**

2.12.9.1 WESCO, NESCO & SOUTHCO issued bonds worth Rs.400 crore in favour of GRIDCO to be assigned to NTPC w.e.f 1st October, 2000 @ 12.5% interest. The Commission in its last tariff order has allowed interest @ 8.5% (tax free) on those bonds as per the recommendation of Alhuwalia Committee. The Commission in its order advised the Govt. to pass on the benefits to the end users of electricity on account of the reliefs that would be available if securitisation shall be effected in line with the one time settlement scheme approved by the Govt. of India to be made effective on 01.10.2001. But, GOO has not yet communicated its decision. As a result, the licensee while proposing their revenue requirement have calculated the interest impact @ 12.5% per annum w.e.f. 1st October, 2000 onwards. The interest liability for the year

2007-08 along with differential interest for the past years i.e. (12.5% - 8.5%), as projected by the three DISTCOs on this account amounts to Rs.36.05 crore, Rs.50.00 crore and Rs.28.86 crore for WESCO, NESCO and SOUTHCO respectively.

1.10.9.2 They have defaulted on interest payment towards NTPC bonds and requested the Commission to allow it through amortisation of regulatory assets. The total liability on this account has been worked out by DISTCOs as Rs.103 crore (WESCO) Rs.167 crore (NESCO) & Rs.130 crore (SOUTHCO)

2.12.10 **GRIDCO BST Outstanding Dues**

The Commission in its order dtd. 28th February, 2005 while approving the business plan of NESCO, SOUTHCO & WESCO had mentioned that the securitisation of BST outstanding dues to GRIDCO payable by DISTCO would be at 0% interest rate and the amount to be securitised for each DISTCO will be the date preceding when each company would start paying 100% BST bills of GRIDCO. Accordingly, NESCO, SOUTHCO & WESCO have not considered any interest on BST outstanding dues in the ARR for FY 2007-08. Further, the Commission in the said order opined that State Government and Govt. undertaking's dues to the DISTCOs shall be adjusted before securitising the outstanding BST dues of GRIDCO. Subsequently, OERC in its supplementary order (Case No.115/2004) dtd.20.07.2006 directed for payment of securitised BST and loan outstanding in equal monthly instalments for a period of ten years.

2.12.11 **APDRP Assistance**

2.12.11.1 The CESU has submitted that the Power Finance Corporation Ltd, New Delhi has sanctioned a loan amount of Rs.148.37 crore out of which , CESU have drawn Rs.35.52 crore up to FY 2005-06. In the current year 2006-07 an sanction amount of Rs. 112.85 crore with interest @ 10.50% has been agreed by Power Finance Corporation Limited, New Delhi under APDRP Scheme. In the ensuing year 2007-08, an amount of Rs. 74.18 Crore has been estimated and proposal has been submitted to Power Finance Corporation Limited , New Delhi under APDRP Scheme.

2.12.11.2 In the ensuing year, NESCO, SOUTHCO & WESCO have estimated Rs.56.91 crore, Rs.67.58 crore and Rs.58.25 crore, respectively to be received under APDRP Scheme. As per the scheme, out of 50% of the amount received from the State Government, 50% is to be treated as grant and balance 50% as loan @ 12% interest per annum and the balance

50% of the sanctioned amount is to be treated as counterpart funding to be availed from REC @ 10.75% per annum.

2.12.12 **Payment of Past Statutory Dues & Pressing Creditors**

NESCO, SOUTHCO & WESCO have submitted that the outstanding statutory dues as on 31st March, 2006 worked out to be Rs.39.06 crore (NESCO), Rs.32.53 crore (SOUTHCO) and Rs.31.19 crore (WESCO) for the year 2007-08. In addition, payment to the previous creditors had been estimated as Rs.8.00 crore (NESCO), Rs.8.5 crore (SOUTHCO) and Rs.7.00 crore (WESCO).

2.12.13 **Interest Capitalized**

NESCO, SOUTHCO & WESCO have shown the interest on loan outstanding at the beginning of the year as revenue expenses as a part of ARR. The interest on loan to be drawn during the ensuing year for capital works has been capitalized. The total interest estimated for financial year 2007-08 for WESCO, NESCO and SOUTHCO are Rs.60.04 crore, Rs.82.99 crore and Rs.51.51 crore respectively.

2.12.14 **Escrow Mechanism to facilitate the cash flow**

NESCO, SOUTHCO & WESCO have alleged that despite the directives from the Commission, GRIDCO is not allowing them to make payment from the escrow account in the order priorities fixed by the Commission. They have reiterated that GRIDCO has started adjusting the surplus amount lying in the escrow account against the past outstanding BST dues and not allowing them to make payment to other lenders including NTPC. In view of above, the three licensees pray to be the Commission for issuance of necessary directives to GRIDCO in this regard.

2.12.15 **Interest on Security Deposit**

NESCO, SOUTHCO & WESCO have submitted that the interest on security deposits @ 6 percent per annum (Bank rate) for FY 2007-08 have been worked out to be Rs.7.25 crore (NESCO), Rs.3.34 crore (SOUTHCO) & Rs.10.04 crore (WESCO).

2.12.16 **Non-Tariff Income**

NESCO, SOUTHCO & WESCO have proposed non-tariff income for FY 2007-08 to the tune of Rs.3.17 crore lakh, Rs.4.29 crore and Rs.3.00 crore respectively. However, NESCO has proposed to abolish meter rent for all categories and hence not considered any income from meter rent.

2.12.17 **Past Losses and Regulatory Assets**

The licensees have proposed to amortise the Regulatory assets in FY 2007-08 as given below:

Table – 7
Amortisation of Regulatory Assets in FY 2007-08

(Rs in Crore)

Sl. No	Description	NESCO	SOUTHCO	WESCO
1.	Repayment of NTPC Bonds	167.00	130.00	103.00
2.	Outstanding accumulated interest on NTPC bonds	51.91	51.56	-
3.	Past Statutory Dues and Pressing Creditors	47.06	41.03	38.00
	Total	**265.97**	**222.59**	**141.00**

2.12.18 **Truing up of Revenue Gap for FY 2006-07**

Considering the variation between estimated revenue and actual expenditure during FY 06-07 due to reasons beyond the control of the DISTCOs, NESCO, SOUTHCO & WESCO have requested the Commission to allow truing up of uncovered gap of Rs.95.00 crore (NESCO), Rs.116.00 crore (SOUTHCO) and Rs.61.00 crore (WESCO) to be considered with the revenue gap of the FY 2007-08 in the ARR for FY 2007-08.

2.12.19 **Return on Equity**

CESU, NESCO, SOUTHCO & WESCO have claimed ROE @16% on equity capital the amount being Rs.11.63 crore (CESU), Rs.10.55 crore (NESCO), Rs.6.03 crore (SOUTHCO) and Rs.7.78 crore (WESCO), respectively.

2.13 **Summary of ARR and Revenue Gap**

The proposed revenue requirement for four DISTCOs have been projected in tabular form below:

Table – 8
Proposed Revenue Requirement of DISTCOS For 2007-08

(Rs. in crore)

A.	Expenditure	CESU	NESCO	SOUTHCO	WESCO	TOTAL
	Cost of Power Purchase	753.57	651.71	242.74	948.12	2596.14
	Employee costs	168.36	101.07	98.23	109.44	477.1
	Repair & Maintenance	54.95	28.94	23.14	28.16	135.19
	Administrative and General Expenses	16.46	17.78	20.72	23.77	78.73

	Provision for Bad & Doubtful Debts	10.91	51.08	18.22	61.24	141.45
	Other expenses					
	Depreciation	49.62	19.22	15.43	18.56	102.83
	Interest Chargeable to Revenue	58.01	71.74	46.73	60.04	236.52
	Carrying cost on Regulatory asset	0.00	11.25	4.79	9.66	25.7
	Sub-Total	1111.88	952.79	470.00	1258.99	3793.66
	Less: Expenses capitalised	0.00	2.02	4.47	2.60	9.09
	Less: Prior period expenses (Debit, credit)					
	Total expenses	1111.88	950.77	465.53	1256.39	3784.57
B.	**Special appropriation**					
	Amortization of Regulatory Asset		265.97	222.59	141.20	629.76
	Previous Losses	907.90	94.68	116.97	61.17	1180.72
	Repayment of principal					
	Contingency reserve	0.0	2.01	1.61	1.96	5.58
	Total	907.90	362.66	341.17	204.33	1816.06
C.	Return on equity	11.63	10.54	6.03	7.78	35.98
	TOTAL (A+B+C)	**2031.41**	**1323.97**	**812.73**	**1468.5**	**5636.61**
D.	**Less Miscellaneous Receipt**	10.87	3.17	4.29	3.00	**21.33**
E.	**Total Revenue Requirement**	2020.54	1320.80	808.44	1465.50	5615.28
F.	**Expected Revenue (Full year)**	909.07	851.43	303.68	1224.86	32.89.04
G.	**GAP (+/-)**	**-1111.47**	**-469.37**	**-504.76**	**-240.64**	**-2326.2**

2.14 Tariff Proposal

2.14.1 CESU, based on estimated revenue requirement at the existing tariff, the revenue gap for FY 2007-08 comes to Rs.203.57 crore excluding past losses. CESU has submitted that the revenue gap has been projected considering the revenue collection at existing tariff. The revenue generation from sale of power on proposed tariff will be Rs.1057.67 crore which still results in revenue gap of Rs.65.84 crore. To avoid a tariff shock CESU has proposed that the revenue gap after allowing the proposed tariff may be bridged by reduction in BST and/or providing with Govt. subsidy.

2.14.2 Based on estimated revenue requirement at the existing tariff, the revenue gap for FY 2007-08 for NESCO, SOUTHCO and WESCO works out to be Rs.469.37 crore, Rs.504.76 crore and Rs.240.64 crore, respectively which includes revenue gap of last year and amortisation of regulatory asset. They have proposed to bridge the revenue gap through combination of Grant/Subsidy from State Government, Reduction in Bulk Supply Tariff and/or Increase in Retail Supply Tariff in an appropriate manner. The Licensees further submit that no special tariff should be allowed to the industries having their own CPP. The Licensees further submit that the Open Access Charges Regulations 2005 is a new concept for the State of Orissa and hence the determination of these charges requires a detailed examination and a separate study. Hence, impact due to open access on revenue requirement may be separately considered.

2.15 Tariff Rationalisation

2.15.1 Reduction in Cross-subsidy

The Commission, while setting tariffs, has adopted the LT, HT and EHT level cost of supply as benchmark for assessment of quantum of subsidies. Accordingly, CESU has designed the category-wise tariffs on the said formula for the ensuing year to reduce the cross-subsidies. CESU has proposed a hike of 16.35% in tariff for the ensuing year. On the other hand, NESCO, SOUTHCO & WESCO have submitted that as they have not proposed any substantial tariff increase for any category, they have not attempted to reduce the cross-subsidies in the current tariff application.

2.15.2 Recovery from Fixed/Demand Charges

2.15.2.1 NESCO, SOUTHCO & WESCO have proposed similar demand charges for consumers having contract demand of 70 KVA and above availing power supply in HT. They have also asked for fixation of monthly minimum fixed charges/demand charges for LT industrial (S), LT industrial (M) and public water works in terms of KVA instead of KW for arresting the

low power factor as well as for compensating for higher drawl in KVA demand.

2.15.2.2 **Payment of Demand Charges by Captive Power Plants**

The same licensees have submitted that in several occasions, there are additional burden on account of payment of Simultaneous Demand Charges (SMD) by the Distribution Licensee to the Transmission Licensee due to drawl of Power by CPPs without any load management on emergency basis during peak hours. To avoid such unforeseen Cost, it is proposed that Hon`ble Commission may kindly consider the demand charges @ 120% of the demand charges applicable to the respective tariff category on the Maximum Demand recorded in the Meter of CPPs consumers along with the applicable Energy Charges for CPPs. However the minimum demand charges concept i.e. 80% of the Contract Demand should not be made applicable to the CPP's. CESU has also asked for demand charges for power supply to CPPs.

2.15.3 **Change in Tariff Structure**

2.15.3.1 **Tariff for medium industrial consumers**

SOUTHCO & NESCO proposed that the tariffs for Medium Industries may be considered at par with general purpose consumers so that it will indirectly incentivise them to take connection at HT to avail the benefit of tariff.

2.15.3.2 **Monthly Minimum Fixed Charge for consumers to contract demand <100 MVA**

SOUTHCO and NESCO proposed that the Monthly Minimum Fixed Charges for such consumers shall be levied at Contract Demand or Maximum Demand whichever is higher.

2.15.3.3 **Connection Charges**

SOUTHCO and NESCO have proposed to revise the connection charges from Rs.500 to Rs.1000 for single phase domestic/general purpose consumers considering the escalation in cost of materials over the years and actual labour component into account.

2.15.3.4 **Reconnection charges**

CESU, NESCO and SOUTHCO have asked for increase in reconnection charges so that it will act as a deterrent to non-paying consumers.

Table – 9

Proposed Re-Connection charges for FY-07-08

(In Rupees)

Connection Type	CESU	NESCO	SOUTHCO
Single Phase Domestic Consumer	250	75	75
Single Phase Other Consumer	500	150	150
3 Phase LT Consumer	2500	300	300
HT & EHT Consumer	5000	1500	1500

2.15.3.5 **Delayed Payment Surcharge for LT consumers**

CESU has proposed DPS @1.25% for all LT consumers whereas NESCO and SOUTHCO have prayed for DPS to be applicable only to LT industrial (S) consumer.

2.15.3.6 **Rebate on prompt payment**

NESCO and SOUTHCO have prayed for approval of rebate of 2% to the licensee for prompt payment of BST bill within three working days from the date of presentation of the BST bill.

2.15.3.7 **Single Point Supply to Apartment Buildings**

CESU proposes to give single point supply to all the apartments in its operational areas to have better control and management.

2.15.3.8 **Service Charge for bounced cheque**

CESU submitted that when cheques given by the consumers are returned by the bank for any reason, a service charge of **Rs.200/- for LT** supply and **Rs.1000/- for HT & EHT** supply for every return cheques will be collected from the consumer.

Table – 10
PROPOSED TARIFF SCHEDULE OF CESU for FY-2007-08

Sl. No.	Category of Consumers	Voltage of Supply	Demand Charge (Rs/KW/ Month)/ (Rs/KVA/ Month)	Energy Charge (P/KWh)	Customer Service Charge (Rs./ Month)	Monthly Minimum Fixed Charge for first KW or part (Rs.)	Monthly Fixed Charge for any additional KW or part (Rs.)	Rebate (P/KWh)	DPS Per Month
	LT Category								
1	Domestic								
1.a	Kutir Jyoti < 30U/month	LT				30.00			
1.b	Others					20.00	20.00		
	(Consumption <= 100 units/month)	LT		250				10	1.25%
	(Consumption >100, <=200 units/month)	LT		300					
	(Consumption >200 units/month)	LT		325					
2	General Purpose <100 KW					20.00	20.00	10	1.25%
	(Consumption <=100 units/month)	LT		350					
	(Consumption >100, <=300 units/month)	LT		450					
	(Consumption >300 units/month)	LT		500					
3	Irrigation Pumping and Agriculture	LT		120			20.00	10	1.25%
4	Public Lighting	LT		330		75.00	75.00	1%	1.25%
5	L.T.Industrial (S) Supply	LT		350		50.00	50.00	10	1.25%
6	L.T.Industrial (M) Supply	LT		350		100.00	100.00	1%	1.25%
7	Specified Public Purpose	LT		350		100.00	100.00	1%	1.25%
8	Public Water Works <100 kW	LT		320		100.00	100.00	1%	1.25%
9	Public Water Works >= 100KW	LT		320	100.00	100.00	100.00	1%	1.25%
10	General Purpose >=100kw	LT		320	100.00	100.00	100.00	1%	1.25%
11	Large Industry	LT		320	100.00	100.00	100.00	1%	1.25%
	HT Category								
12	Bulk Supply - Domestic	HT	50.00	300	500.00			10	1.25%
13	Irrigation Pumping and Agriculture	HT	30.00	100	500.00				
14	Specified Public Purpose	HT	50.00	320	500.00			1%	1.25%
15	General Purpose<110 kva	HT	100.00	320	500.00			1%	1.25%
16	H.T.Industrial (M) supply	HT	50.00	320	500.00			1%	1.25%
17	General Purpose >=110 kva	HT	250.00	320	500.00			1%	1.25%

18	Public Water Works	HT	250.00	320	500.00			1%	1.25%
19	Large Industry	HT	250.00	320	500.00			1%	1.25%
20	Power Intensive Industry	HT	250.00	320	500.00			1%	1.25%
21	Ministeel Plant	HT	250.00	320	500.00			1%	1.25%
22	*Emergency Supply to CPP*	HT	250.00	400	500.00			1%	1.25%
23	Railway Traction	HT	250.00	320	500.00			1%	1.25%
24	Colony Consumption	HT	250.00	230				1%	1.25%
	EHT Category								
25	General Purpose	EHT	250.00	290	1,000.00			1%	1.25%
26	Large Industry	EHT	250.00	290	1,000.00			1%	1.25%
27	Railway Traction	EHT	250.00	290	1,000.00			1%	1.25%
28	Heavy Industry	EHT	250.00	290	1,000.00			1%	1.25%
29	Power Intensive Industry	EHT	250.00	290	1,000.00			1%	1.25%
30	Ministeel Plant	EHT	250.00	290	1,000.00			1%	1.25%
31	*Emergency Supply to CPP*	EHT	250.00	380	1,000.00			1%	1.25%
32	Colony Consumption	EHT	250.00	230					
	D.C. Services								
33	Domestic	LT							
34	General Purpose >=100 KW	LT							
35	L.T.Industrial (S) Supply	LT							
	Any other provision :-								
	Consumption in excess of 50% & upto 60% by EHT and HT Consumer shall be payable @ 210 paise/Kwh & 220paise/Kwh respectively and Consumption above 60% by EHT & HT consumer shall be payable @ 160 paise/Kwh & @180 paise/Kwh respectively.								

2.15.3.9 WESCO, NESCO and SOUTHCO have not proposed any revised tariff schedule for FY 2007-08.

2.15.3.10 **Loss reduction action plan for FY 2007-08**

WESCO, NESCO and SOUTHCO have submitted that they have initiated various measures like continuous monitoring of meter readings, de-hooking of unauthorised consumers, bringing new consumers to the billing fold, curbing theft in HT Category through strict and round the clock vigilance and installation of cubicles and check meters, and launching special drives. CESU has submitted the following action plan for achieving target distribution loss.

- Focus on implementation of commercial procedures.
- CESU has proposed for installation/replacement of 33 and 11 KV breakers for maintaining quality of supply.
- Providing meters to all unmetered consumers and consumers having defective meters and proper installation quality.
- Frequent checking of meters through MRT squads.

- Emphasize on rural areas by formation of village committees and thus involving the general consumers.
- Introduction of meter reading cards with check meter reading at the division level.
- Technological upgradation of sub-stations and SCADA for distribution. Engagement of a Consultant for this purpose is under process.

2.15.4 **Prayer**:

WESCO, NESCO and SOUTHCO have the following prayers to the Commission.

- Take the accompanying ARR and Tariff Petition on record.

- Approve the Annual Revenue Requirement for FY 2007-08 including amortisation of regulatory assets and truing up of uncovered gap for FY 2006-07.

- Bridge the Revenue Gap through combination of reduction in BST, grant/ subsidy from the State Government of Orissa and/or increase in Retail Supply Tariff.

- SOUTHCO's consumption mix is skewed towards LT consumption, the SOUTHCO is incurring huge loss as compared to other DISCOMs. Even if Distribution losses are reduced hypothetically by 20 %, still SOUTHCO will end up in incurring losses. Therefore there is an urgent need for substantial reduction in BST for SOUTHCO.

- Any other relief, order or direction which the Commission deems fit be also issued.

2.15.5 **CESU has the following prayer:**

- Accept the accompanying ARR and Tariff Application of the Utility .

- Approve the Annual Revenue Requirement (ARR) of the Utility for the FY 2007-08.

- Approve the category wise tariffs 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.

- Direct / order that, in case increases 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 Government subsidy.

- Consider actual AT& C loss in FY 2006-07 as base level for setting future AT& C loss reduction.

- Allow the proposed tariff to be effective from April-01, 2007.

- Grant any other relief as deems fit and proper in the eyes of laws.

3 OBJECTIONS AND QUERRIES RAISED DURING THE HEARING PROCESS

At the outset of the hearing licensees were allowed to give a power point presentation regarding their ARR and tariff application for the FY 2007-08. Subsequently, Director (Tariff) raised certain queries and observation regarding the same application. Next, representative of Nabakrushna Choudhury Centre for Development Studies, Bhubaneswar who has been appointed as consumer counsel put up certain queries and objection regarding ARR and tariff filing. Followed by him the objectors made many comments regarding the submission of the licensees. The Commission has considered all the issues raised by the participants in their written as well as oral submissions during the public hearing. 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 2007-08. Based on their nature and type, these objections have been categorised broadly as indicated below:

3.1 Nabakrushna Choudhury Centre for Development Studies

In accordance with section 94(3) of Electricity Act, 2003 which stipulates that the appropriate Commission may authorize any person as it deems fit to represent the interest of consumers in the proceedings before it. The Commission for the first time has engaged Nabakrushna Choudhury Centre for Development Studies as consumer counsel for receiving quality inputs/feed back on the tariff matters in the interest of different sections of consumer for the FY 2007-08. Dr. Sibalal Meher of the Centre presented and analysis of the applications in the light of Kanungo Committee Report and some of the important observations are as follows:

a) Past losses should not be allowed to pass through as revenue gap in all the four DISTCOs.

b) Licensees should concentrate on reducing the distribution loss on the supply of existing consumers and there should not be any distribution loss on the new demand. No licensee has adhered to the

recommendation of Kanungo Committee for distribution loss reduction at an average rate of 5% per year, and improvement in collection efficiency of Distribution Companies (DISTCOs) to reach 95% by the year 2005-06

c) Per unit employee cost of CESU is higher than that of WESCO and NESCO. There is large scope for reduction of A&G expenses.

d) No return on equity should be given to DISTCOs as such a practice would violate the very basic principles of finance, i.e. the capital increases/decreases due to the profit/losses of the business. Ignoring the loss (accumulated loss) and allowing return on the equity would have negative effect on the sector in general and consumers in particular. When the licensee gets return on the equity there is an incentive for more equity financing.

e) DISTCOs are making little effort to collect the outstanding arrears. If these arrears could be collected then the deficit would be reduced drastically and there would not be any need to raise tariff. The Company instead of taking effective steps for collection seems to be asking for escrow relaxation to carry out their operation and maintenance works.

3.2 Utility Regulation Research Centre (URRC), XIMB, Bhubaneswar

3.2.1 Prof. D.V. Ramana of URRC during hearing for CESU raised the following questions:

- Why the sale could not take place?
- What was the price quoted by the parties and who were the parties?
- What are the implications of the transfer of assets and liabilities to CESU on the ARR? Were the assets transferred to CESU at book value or revalued value?

3.2.2 He also observed that both billing and collection efficiency of the licensee is very low. He remarked that the quality of information is questionable due to non-availability of asset register and unaudited accounts. He requested the commission to allow interest on normative basis or make a shift to the weighted cost of capital. As capital base of the utility is negative, the return on equity should not be allowed. Rather weighted average cost of capital should be allowed. At the same time he said that the return on capital employed should be normative using D/E ratio 70:30.

3.3 Legality of the ARR and tariff application

One objector stated that the application for determination of ARR as well as fixation of tariff as filed by the DISTCOs is illegal. That the law contemplate that the Commission has to determine licensee revenue for the purpose of fixing the tariff first, but not on composite application which is confusing and would be in contravention of law. The objector further stated that for fixing the

RST, the BST to be determined first and then the RST should be fixed. Again the licensee has filed this application in question to confuse the consumer public without disclosing the purpose for such filing. He again reiterated that the licensees have failed to provide to details as required under the regulation to the Commission for consideration his application as such the application may be rejected. He further submitted that object and purpose of the law is that the licensee shall carry on the operation in a most efficient and economical manner and not loss basis and that the licensee has breached the said mandate and conditions of the licensee as such the application may question be rejected. Some objector stated that as licensees do not have upto date audited accounts hence their application for ARR may not be allowed.

3.4 **Procedural simplicity and inexpensiveness**

One objector stated that the procedure/method adopted by the Commission be made simple and inexpensive. Regulation to that effect is suitably framed to enable the public to file the purposeful objection and effectively participate in the disposal of the application by the licensee as he has suggested in the earlier objection to tariff application of licensees.

3.5 **Review of operations of the year 2005-06 & 2006-07 (Estt) and Performance Estimates in FY 2007-08**

3.5.1 The objectors in general stated that the distribution licensees had not improved its efficiency and standard of service, performance and had not reduced T&D losses etc. as directed from time to time for which the Commission should not penalise consumer to make good of loss of licensee for its maladministration, inefficiency, corruption, mismanagement, unnecessary expenses, etc. They highlighted that the rural Orissa is deprived of getting uninterrupted power supply. The supply in rural areas is at low voltage. Under such circumstances, the tariff should not be raised. The objector demanded the supply at low voltage should be treated as no power. One objector pointed out that the Commission should ask the licensee regarding the nexus between power purchase and power sold as a result of which margin of earning derived out of such a deal. The revenue shortfall should be bridged by improving the performance and not by way of enhancement in tariff. The objectors also alleged that the accounts of the DISTCOs have not been audited for the period from FY 2004-05 onwards. As such, the filing is based on imaginary and manipulated statements.

3.5.2 The objectors requested the Commission to examine/scrutinize:

i) Whether the DISTCOs have complied with the direction of the Commission issued in the earlier orders and regulations?

ii) Whether they are following least cost power purchase as directed by the Hon'ble High Court by its order dated 03.02.2003?

iii) Whether distribution loss has been brought down as per the direction of the Commission?

iv) Whether consumption of energy by all consumers are measured by meter or by defect free meter to assess the accurate consumption.

v) Whether employees have been made accountable to their gross negligence in attending to consumer complaints and the licensee has made efforts to break the utility nexus between the employees and consumers?

vi) Whether distribution/energy loss at each division and sub-divisional level is taken into account by licensee and who is responsible/accountable for the same.

vii) Whether the licensees have followed power purchase agreement faithfully?

viii) Whether they follow the complaint handling procedure in true spirit?

3.5.3 Some objectors stated that the quality of service provided by the licensee is very poor. The licensee's local office is reluctant to render any assistance or to provide any information to the consumers as and when asked for.

3.5.4 One objector stated that all the DISTCOs are engaged in undertaking organised power cuts, low voltage supplies and erratic services. There exists absolutely no justification in enhancing the tariff rates so long as such unscrupulous acts are not redressed properly.

3.5.5 Another objector stated that defective/old outdated lines and towers are their resulting into fatal accidents including wild life.

3.5.6 The same objector stated that there is no proper account of replaced materials including wires and conductors, cables, towers etc.

3.5.7 One objector stated that there is frequent power interruption in WESCO's area. As a result, the industries are adversely affected.

3.6 Distribution Loss

The objectors stated that the target for distribution loss as recommended by the Kanungo Committee, duly accepted by the Commission and Govt. of Orissa has not been achieved by the DISTCOs. Even their own commitment in the business plan duly approved by the Commission has not been adhered to. Huge investment made through PMU and APDRP project in the past year has not resulted in reduction of distribution loss. Every year, they merely come forward with enhanced loss figures as compared to the benchmark fixed by the Commission. In this context, the objectors pointed out that the true performance of DISTCOs relating to distribution loss is camouflaged by

adding the zero loss energy sold at EHT. EHT consumers having zero loss should not be included for computation of overall loss. The performance parameters should be only on HT & LT loss. One objector raised doubt on the authenticity of the loss figures furnished by the licensees and categorically opined that it is vague and fictitious. He urged the Commission that if additional power beyond the Commission's approved figure is purchased at a higher rate, the consumers should not be burdened with such high cost power. Different bench marks for distribution losses given for different DISTCOs are technically absurd. Since the system of distribution are almost similar in all DISTCOs, DISTCOs having higher percentage of EHT sale should be less distribution loss as distribution loss in EHT is zero

3.7 **AT&C Loss**

The objectors pointed out that the DISTCOs have failed squarely to boost up their collection efficiency. One objector stated that amounts not collected cannot be treated as bad debt and AT&C concept should not be implemented as it hides the inefficiency of the licensee. The licensee should exhibit the collection separately for current and arrears.. One objector demanded spot billing/spot collection should be introduced every where to decrease the AT&C loss. An objector alleged that unscrupulous employees of the licensees in connivance with the consumers are reducing the amount in bills. He further stated that the benchmark fixed by OERC with regard to AT&C loss should be strictly followed. The base line data should be checked in line with the National Tariff Policy.

3.8 **Metering**

Some objectors alleged that 100% metering of consumers as claimed by the licensee is false. In this context, they informed the commission that the licensees are still going on with unmetered/defective metered supply. The rent is collected from the meters by the licensee but licensee fails to repay the capital investment of meters and interest on it monthly and passing that financial burden to the consumers through its ARR and ultimately it reflects on the tariff. Meter should be sent for testing to only govt. controlled laboratories. Cuttack Municipal Corporation stated that there is no metering for street light purposes. They further demanded that street light consumption should be limited to 10 hrs instead of 11hrs. He alleged that street light consumers have not been metered in order to recover more amount than the actual energy consumed. One objector stated that meter rent is still being collected after the complete recovery of the meter price.

3.9 **Spot Billing Roll Out Plan**

The objectors pointed out that in spot billing system, there is no scope for knowing the tariff for the units they have consumed or the amounts of interest on security deposit they are going to receive. The objectors appealed to the

Commission that in such a system, the rear side of the bill should contain the necessary information.

3.10 Energy Audit

The objectors reiterated that the licensees are flouting the Commission's order by adopting dilly-dallying tactic in installation of meters inspite of Commission's clear-cut direction for completion of metering and commencement of energy audit -distribution transformer-wise. The objectors alleged that the DISTCOs were reluctant to comply with the Commission's directive on the apprehension that the actual loss in distribution would be revealed.

3.11 Administrative & General Expenses

The objectors stated that the consumers should not be required to bear any cost incurred by the licensees for verification of consumer ledger. The entire cost should be to the account of the DISTCOs. They further alleged that DISTCOs incurring huge expenditure on A&G cost, rents, legal expenses and auditor's fees etc.

3.11.1 Provision for Bad & Doubtful Debts

The objectors pointed out that the Reliance Energy Limited Controlled DISTCOs, namely, NESCO, SOUTHCO and WESCO should have maintained records with regard to write-off of bad debt as on 01.04.1996 and 01.04.1999 and 50% of the arrear amount collected should be passed on to GRIDCO.

3.11.2 Interest on Security Deposit

One objector demanded consumer security deposit should be equal to one month's actual consumption since the bills are paid on 16th of the consecutive month. Security deposit may be allowed to be furnished through bank guarantee or revolving letter of credit. Customer security deposit should carry interest @ 15% per annum. It is proposed that security deposit in shape of bank guarantee may be accepted in lieu of cash. Alternatively bills may be raised fortnightly which will require security deposit equal to one month. Interest on security deposit should be given on present PLR which is higher than the last year. Security deposits of the consumers should be taken into account while analyzing deficit in the fund flow. Interest on security deposit has not been shown in ARR. One objector observed that the consumers of WESCO have provided a capital of Rs.167.44 crore in shape of security deposit which is more than 3 times the share capital of the petitioner company.

3.11.3 Rural Electrification under MNP & RGGVY

One objector said that all of the licensees have intently avoided complying with agreed terms to undertake rural electrification programme as a result of which the state has suffered loss. One objector

pointed out that the fund under MNP had been mis-utilized by the licensees. This needs investigation.

3.12 Tariff Rationalisation

3.12.1 Reduction in Cross-subsidy

3.12.1.1 The objectors stated that if the cross-subsidy is reduced then only the tariff could be rationalised. In this context, they stated that the subsidising categories of consumers are supposed to know the quantum of cross subsidy they are paying. The objectors pointed out that the licensees had not filled up the Commission's format in this regard. Bench mark for gradual reduction of cross-subsidy may be fixed from this year to achieve zero level by 2009-10.

3.12.2 Recovery from Fixed/Demand Charges

3.12.2.1 One of the objectors stated that there should be proportionate reduction in demand charges, as WESCO could not meet the demand. The demand charges may be calculated prorata if the total interruption and intimated shutdown exceeds 60 hour of the month. There should be no imposition of time limit for reduction of contract demand.

3.12.2.2 One objector stated that the demand charges on HT/EHT consumers may be reduced to Rs.150/KVA and short fall if any may be covered by imposing demand charge from LT consumers

3.12.2.3 One objector stated that the demand of DISTCOs regarding emergency power supply to CPP taking into consideration both demand charge and energy charge should be rejected. When CPP generates power it gives benefit like better voltage condition improved system power factor. Hence, a holistic approach should be taken. He further stated that Phasing of contract demand should be properly viewed because if industry deviates from phased demand due to reason beyond its control then that is being treated as reduction in contract demand.

3.12.3 Change in Tariff Structure

3.12.3.1 One objector stated that increase in reconnection charges should reflect the cost to the licensee. He further stated that the proposed imposition of demand charges on the CPPs / generating station for emergency drawal is without any backup data. Drawal of emergency power by the CPPs / generating station is not known to make any increase in SMD.

Another objector mentioned that there should not be any increase in demand charge of HT consumers having contract demand less than 110 KVA as proposed by the DISTCOs.

3.12.3.2 The EHT consumers intending for extension has to bear the cost for such extension in addition to the cost for installation of sub-station in his own premises. For drawing power, he has to obtain clearance from GRIDCO/OPTCL and has to pay various charges and the respective DISTCO only by forwarding the application to GRIDCO for power supply and executing the agreement, earns exorbitant profit. Hence, the cost of such extension should be borne by DISTCOs following the remunerative norms specified in Appendix-1 of the Distribution Code, 2004.

3.12.4 **Category wise Tariff**

Some objectors requested the Commission to modify/add certain stipulations in the tariff order of 2006-07 as below:

ii) Consumption ratio or load factor should be calculated on the basis of recorded demand and not on the basis theoretical contract demand.

iii) The average rate realization from domestic category of consumers is more than the special tariff consumers who are using electricity to earn profit

iv) A lower load factor upto 50% may be prescribed for the period of annual maintenance which will be jointly decided the licensee and consumers.

v) The guaranteed load factor up 80% should be calculated on the basis of power on hours.

vi) Load factor may be computed for peak and off-peak hours separately. The over all load factor may be computed by integrating the above data.

vii) The consumption of energy of different voltage should be based on the actual trend since the past data is available for about ten years.

viii) It is requested to charge tariff at domestic rate for use of power for industrial colony consumption because domestic rate is charged upto 10% of the total energy consumption.

ix) WESCO may be directed allow incentive if the power factor is maintained at a level of 90% or higher instead of 95% as is in the last order.

x) It is requested to allow 1% rebate if the bill amount to be paid within 15 days of the receipt of the same for HT consumer.

xi) Special tariff @50% of the normal rate may be charged for off peak hour's consumption instead of rebate of 10 paise/unit.

xii) There should not be penalty for excess use of electricity upto 20% of contract demand during peak hours.

xiii) Special single-part tariff similar to INDAL may be allowed to small consumers having contract demand of 1 MW and above.

xiv) Calculation of LF incentive on the contract demand may be implemented and should not be penalized for over drawl if it is clubbed with higher LF (above 50%).

xv) While fixing tariff the electricity tariff in the neighbouring states may be taken into account.

xvi) The guaranteed monthly load factor should be reduced to 70%. Alternatively, a lower discount may be allowed for guaranteed monthly load factor of 70%.

xvii) The load factor should be calculated based on the actual maximum demand or 80% of the contract demand, whichever is higher.

xviii) The power factor for the purpose of computation of energy consumed should be 0.9. Power factor should be calculated upto two decimal points.

xix) Higher power factor results in definite financial advantage to the DISTCOs in the form of lower demand charges, reduced losses and increase in the system capacity to supply power. Hence, no further benefit should be allowed.

xx) The power intensive industries should be given a flat rate tariff instead of load factor tariff.

xxi) There should be single part tariff with 90%, 80%, 70% LF instead of three years tariff till 2007-08. Incentive tariff should not be for a fixed period.

xxii) NESCO has been billing the industry on MWM basis which makes the power factor low.

xxiii) CGP should have no demand charge. It can be reimbursed when SMD goes up.

3.13 DPS & Rebate

DPS for LT industrial (S Consumer) should be waived. One objector stated that around 85% to 90% of LT consumers are paying within due date. Only 10% pay later with DPS. Hence, the onus of credit for better collection should not go to the licensee. 2% rebate as given by GRIDCO to the licensees should be passed on to the consumers. The objectors further demanded that seven days time should be given to the industries to avail rebate.

3.14 **Remunerative Norms**

One objector requested the Commission to check whether the DISTCOs had instructed all the divisions in their respective areas to follow the remunerative norms while preparing the estimate for extension of the electrical installations for power supply.

3.15 **Manpower Position**

Some objectors stated that there is acute shortage of manpower in DISTCOs. They are banking upon contractual employees more for which system performance has been going down day by day.

3.16 **S.E. Railways & E.C. Railways**

The objectors from railways pointed out that the concerned DISTCOs take meter readings only and nothing else for supplying power to railways. The power comes from GRIDCO, the bulk supplier, through OPTCL, the transmission licensee. As such, they should be allowed to take power at the prevailing BST rate in addition to transmission charges thereon. They categorically indicated that the nature of Railway load is such that it cannot exceed load factor of 50% even in the busiest track. Their load is distributive in nature taking power from different load points. Keeping the above factor in view, they appealed to the Commission for allowing combined maximum demand. They pleaded that the Commission may pass order for ignoring the rise in maximum demand during feed extension from one TSS to another in emergency. OERC should adopt single part tariff for railway traction and energy charge thereon should be reasonably fixed keeping in view the cost of supply. Power factor penalty should be leviable if it falls below 85% instead of 90% like neighbouring SEB. Power factor incentive should start from 85% and above to justify the installation of costly equipment like capacitor bank.

3.17 **Reliance Communication Ltd.**

The Reliance Communication Ltd submitted that they should be charged as IT and ITES industries at industrial rate instead of general purpose category. This prayer should be granted in the light of State Information and Technology Policy, 2004.

3.18 **BSNL Telecom, Electrical Circle, Bhubaneswar**

BSNL stated that power is supplied to them to be substantially utilized as motive force for industrial purpose and without supply of power it is not possible to run the telecom services. Supreme Court, Finance Act 2002 have declared business of providing telecommunication services as industrial undertaking. Hence BSNL should be charged under industrial category instead of general purpose category.

3.19 **Orissa Layer Farmers Association, Bhubaneswar**

Poultry is a food product as rice and wheat. Pumping of water is required by them as other plant. The poultry units should be charged at par with

agricultural tariff. Since Govt. of Orissa has classified poultry under agriculture.

3.20 **Open Access for interested Consumers**

Many objectors demanded that they are interested in taking power supply from a supplier other than the area distribution licensees. Hence, open access may be provided to them.

3.21 **Military Engineering Service (MES)**

The representative from MES highlighted that some of the States had considered concessional tariff for MES. They demanded that rebate should be extended for the period of five days .He also requested the Commission to fix a reduced maximum demand as maximum demand occurs 4/5 times in a year. During hearing the Commission directed MES to obtain clarification with regard to applicability of Electricity Act, 2003 to the Ministry of Defence.

3.22 **M/s COSBOARD Industries**

The above company submitted that distorted electricity tariff, particularly for the HT consumers, is a major contributing factor in making this company a sick industries. It is therefore essential that heavy element of cross-subsidy which should be reduced. It is necessary that a discounted special tariff be allowed to the objector @Rs.2.07 paise/unit (which includes the 16% return on equity of distribution company) in addition to the meter rent and customer charges.

3.23 **Issues raised during OERC Staff Presentation**

During hearing Director (Tariff) made a presentation relating to ARR and Tariff filing for each DISTCOs. Some of the important issues raised during the presentation can be summarised as follows:

3.23.1 **CESU:**

- CESU is required to submit the schedule of the provisional account for FY 2005-06 such as employees cost, R&M, A&G, Bad debt and other misc. expenses and revenue details, etc. which has not been submitted in their filing.
- The reason for proposing higher amount of employee cost and R&M expenses for 2007-08 as against the approved figure for FY 2006-07 needs to be explained.
- It may be justified as to why the past losses of Rs.907.90 crore proposed for the FY 2007-08 may be allowed and if so how far it is reasonable.
- Position of Accounts need to be explained.
- Investment details have not been specified.
- Capital Works In Progress - capability of huge investment proposal has not been justified.
- Action plan for settlement and collection of arrears outstanding with the consumers have not been spelt out.

- No Action Plan for establishment of Special Police Station & Special Court has been given.
- What is the cause for reduction of HT average revenue billed p/u between (April'05-March'06) & (April'05-Jan'06)? Financial Impact on account of reduced unit rate at HT works out to Rs.0.66 Cr. . This needs to be clarified by the Licensee.
- Analysis indicates that the billing in HT/EHT is higher through the years than the rise in BST bill, but there is high Distribution loss and poor collection efficiency at LT.
- Whether continuance of special tariff to be allowed.
- What is the progress of collection of receivables that would ensure timely payment of arrears to GRIDCO to meet its debt servicing obligations?
- What are the steps being taken by the DISTCO towards computation of collections into arrear and current?
- From analysis it can be seen that DISTCO during their period of operation starting from 1999-00 to 2005-06, in fact has accumulated huge arrears which is yet to be collected.
- Audited accounts for the FY 2004-05 & 2005-06 are wanting.

3.23.2 **NESCO:**

- Bifurcation of the amount towards cost of power purchase and cost of transmission for FY 2007-08 has not been furnished. The same may be submitted.
- The reason for making higher provision in employee cost and A&G expenses proposed for FY 2007-08 as against the approved for FY 2006-07 appeared in the tax audit report needs to be justified.
- It may be justified as to why the amortization of regulatory asset and truing up of revenue gap for the FY 2006-07 be allowed and if so how far it is reasonable.
- What is the cause of declining expenditure in R&M? Non utilisation of the approved amount towards R&M is affecting Quality of Supply & increasing interruption.
- Why the Gap Between the approved and actual figures of various heads of expenditures has not been adjusted in the Revenue Requirement filing?
- In the audited A/C upto FY 2005-06, the licensee has made huge amount of provision towards Bad & doubtful debt as against the normative level of 2.5% on sale revenue approved by the Commission. This results an inflated loss for the year. The reason of higher provision has neither been explained nor supplied by audited data.
- Whether increase/decrease in energy consumption has got direct link with SMD.
- What is the cause for reduction of HT/EHT average revenue billed p/u between (April'05-March'06) & (April'05-Jan'06)? Financial

Impact on account of reduced unit rate at HT & EHT works out to Rs. 6.25 Cr. and 3.6 cr. respectively. This needs to be clarified by the Licensee.

- Analysis indicates that the billing in HT/EHT is much higher through the years than the rise in BST bill whereas, the growth in LT is at much lower side, which indicates incremental Distribution loss and poor collection efficiency at LT.
- Whether continuance of special tariff to be allowed.
- Up-to-date status of actuarial valuation report for determining the terminal liability may be stated.
- What is the basis of estimation of SMD adopted? Why there is difference between the estimate in SMD between DISTCO and GRIDCO?
- Audited accounts for the FY 2004-05 & 2005-06 are wanting.

3.23.3 **SOUTHCO**

- For computation of consumption ratio, whether higher of MD/CD or Max. Demand or Contract demand is to be considered.
- Man power deployment (Both Executive & Non Executive) for reducing AT & C Loss
- The reason for making higher provision in employee cost and A&G expenses proposed for FY 2007-08 as against the approved for FY 2006-07 appeared in the tax audit report needs to be justified.
- It may be justified as to why the amortization of regulatory asset and truing up of revenue gap for the FY 2006-07 be allowed and if so how far it is reasonable.
- What is the cause of declining expenditure in R&M? Non utilisation of the approved amount towards R&M is affecting Quality of Supply & increasing interruption.
- In the audited A/C upto FY 2003-04, the licensee has made huge amount of provision towards Bad & doubtful debt as against the normative level of 2.5% on sale revenue approved by the Commission. This results an inflated loss for the year. The reason of higher provision has neither been explained nor supplied by audited data
- Whether increase/decrease in energy consumption has got direct link with SMD.
- Capital Works In Progress - capability of huge investment proposal has not been justified.
- What is the cause for reduction of LT/ HT/EHT average revenue billed p/u between (April'05-March'06) & (April'05-Jan'06)? Financial Impact on account of reduced unit rate at LT, HT & EHT works out to Rs. 6.89 Cr., 2.04 and 0.96 cr. respectively. This needs to be clarified by the Licensee.
- Analysis indicates that the billing in HT/EHT is much higher through the years than the rise in BST bill whereas, the growth in

LT is at much lower side, which indicates incremental Distribution loss and poor collection efficiency at LT.

- Why an amount of Rs.1.65 crore shall be allowed towards A&G for conducing Energy Audit. The benefit on account of Energy Audit has not been quantified.
- What is the basis of estimation of SMD adopted? Why there is difference between the estimate in SMD between DISTCO and GRIDCO?
- The performance of DISTCO with regard to conducting receivable audit during the period of operation as directed by the Commission is very poor, which would have revealed the correct position of collectible and non-collectible arrear by now.
- Audited accounts for the FY 2004-05 & 2005-06 are wanting.

3.23.4 **WESCO:**

- For computation of consumption ratio, whether higher of MD/CD or Max. Demand or Contract demand is to be considered.
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- What is the basis of estimation of SMD adopted? Why there is difference between the estimate in SMD between DISTCO and GRIDCO?
- The reason for making higher provision in employee cost and A&G expenses proposed for FY 2007-08 as against the approved for FY 2006-07 appeared in the tax audit report needs to be justified.
- What is the cause of declining expenditure in R&M? Non utilisation of the approved amount towards R&M is affecting Quality of Supply & increasing interruption
- In the audited A/C upto FY 2005-06, the licensee has made huge amount of provision towards Bad & doubtful debt as against the normative level of 2.5% on sale revenue approved by the Commission. This results an inflated loss for the year. The reason of higher provision has neither been explained nor supplied by audited data.
- Whether increase/decrease in energy consumption has got direct link with SMD.
- Capital Works In Progress - capability of huge investment proposal has not been justified.
- Whether the past losses be treated as regulatory asset and allowed in tariff along with carrying charges?
- Whether the interest cost an account of the regulatory asset should be allowed to be recovered as a pass through.
- What is the cause for reduction of LT/HT/EHT average revenue billed p/u between (April'05-March'06) & (April'05-Dec,05) ? Financial Impact on account of reduced unit rate at LT, HT & EHT works out to Rs.13.6 crore, Rs.7.23 crore and Rs.19.76 crore respectively. This needs to be clarified by the Licensee.

- Analysis indicates that the billing in HT/EHT is much higher through the years than the rise in BST bill whereas, the growth in LT is negative which indicates incremental Distribution loss and poor collection efficiency at LT.
- Whether approval has been received from the Commission for the proposed expenditure of Rs 54.31 cr. on APDRP head? If so what is the means of servicing this capital? What are the expected efficiency gains?
- The performance of DISTCO with regard to conducting receivable audit during the period of operation as directed by the Commission is very poor, which would have revealed the correct position of collectible and non-collectible arrear by now.
- Why the Gap Between the approved and actual figures of various heads of expenditures has not been adjusted in the Revenue Requirement filing?
- Audited accounts for the FY 2004-05 & 2005-06 are wanting.

4 REPLIES MADE BY THE LICENSEES

The objections raised by the objectors on certain issues, were general in nature and specific objections were also raised by some of them in respect of the licensees against their submission of ARR and revision of tariff to the Commission for the FY 2007-08. The Commission during hearing also solicited some clarifications on the queries raised by the objectors. The representative of SOUTHCO, NESCO and CEO of CESU and WESCO responded to the queries made by the objectors and the Commission as under:-

4.1 Legality of the ARR and Tariff Application

4.1.1 In reply to the objections raised by one objector regarding the modalities for filing the tariff application, the CEOs or their representative stated that licensee has submitted it's application for approval of Annual Revenue Requirement and Retail Supply Tariff for the Financial year 2007-08,under Section 62 and other applicable provisions of the Electricity Act 2003 and in conformity with the provisions of OERC (Terms and conditions for determination of Tariff) Regulations,2004 and OERC (Conduct of Business)Regulations 2004.

4.1.2 Applicability of RTI Act

Regarding applicability of RTI Act, SOUTHCO stated that they have challenged the same in Hon'ble High Court, Orissa, Cuttack. Hon'ble High court has been pleased to give the interim stay in favour of the Licensee.

4.1.3 Audited accounts

DISTCOs submitted that the Audited Accounts as per Companies Act upto September 2005 and Tax Audit Accounts upto March 2006 have been submitted.

4.2 Review of operations of the year 2005-06 & 2006-07 (Estt) and Performance Estimates in FY 2007-08

4.2.1 In response to the allegation of the objectors regarding improvement in performance, CEO's/representative stated that they have ensured improvement of quality of power supply with less interruption and better voltage by installing a large number of 33/11 KV sub-stations, distribution transformers, LT line with AB conductors.

4.2.2 NESCO replied that they are not indulging in power cuts except when there is system constraint or non availability of power from OPTCL/GRIDCO. The low voltage in many areas is also attributable due to system constraints of OPTCL. From the period of OSEB days long LT lines (even 2 to 3 Kms long lines) & undersized conductors, contribute towards low voltage. NESCO is trying to upgrade the system to improve the situation.

4.2.3 Regarding huge R&M expenses CESU opined that the utility is incurring huge expenditure for providing infrastructure and maintenance of the same for the benefit of the consumers and providing them with the adequate electrical power as per the requirement. The proposed R&M expenses is reasonable. Commenting on the huge employee cost the CEO, WESCO stated that due to merger of 50% of the DA component with basic salary with effect from 1st Apr-06 the employee cost has increased substantially. On the same issue, NESCO stated that in addition to this, additional D.A doses approximately @ 8% p.a. and terminal liability like pension, gratuity and leave encashment also is a major contributor for increase. in employee cost .

4.2.4 Keeping in view the constraints encountered, CESU is of the opinion that most of the standards of performance prescribed by the Commission are achieved except a few areas. Adequate steps are being taken by CESU to achieve and maintain the standards of performance fixed by the OERC in such areas.

4.2.5 WESCO submitted that Energy auditing has already started in all 33 KV feeders and 70 nos of 11Kv feeders. Apart from the above 1193 Distribution transformer under WESCO are being audited. Action is being taken to reduce the losses where the overall loss is very high. CESU replied that Energy Audit work of all 33KV feeders has already started and the reasonably high line loss in certain feeders are being attended to. Energy Audit of 11KV feeders where metering has already been completed is also taken up. Besides Energy Audit for more than 300 Distribution Transformers are being done at the present. The Licensee has given priority for replacement of all defective consumer meters in these transformers.

4.3 Distribution Loss, Collection Efficiency and AT&C Loss

4.3.1 WESCO, NESCO & SOUTHCO stated that they are taking various steps for reduction of distribution loss such as installation of Audit Metering for industrial consumers, Energy Audit, Feeder Metering, System Improvement Work, regularization of unauthorized consumers through consumer camps, vigilance checking, introduction of monthly spot billing in urban areas, putting parallel meters, giving HT supply through metering cubicles and XLPE cables for HT consumers.

4.3.2 CEO, CESU stated categorically in this connection, that the Licensee has taken adequate steps like upgradation of conductors and transformers, repair of existing 33 & 11 KV breakers and other labour intensive works like tree cutting etc. This has substantially resulted in reduction of T & D loss though the approved benchmark level has not been reached. Similarly all efforts are being made for reduction of AT&C loss which has reduced from 49 % during Financial Year 2005 – 2006 to 43 % during FY 2006-07 (up to December 2006). The licensee is committed to reduce it further and more efforts are given by way of arranging deployment of additional squads for achieving higher collection percentage.

4.3.3 The licensees submitted that the concept of AT&C depicts the overall performance of licensee in the areas of metering, billing and collection which has been approved by the Commission in the earlier order. In Delhi the concept of AT&C is operative for last five years.

4.4 Metering

4.4.1 Supply and installation of meters clause (56) (1):- SOUTHCO stated that they are ready for issuing test certificate whenever its own meters are replaced or installed. The Regulations provides the option to the consumer for getting his meter- checked at Licensee's end or at Govt. standard laboratories as per his choice. It is not possible for ensuring the testing of meters in Govt. laboratories as rules allows the Licensee also for testing the meters in accredited testing laboratories.

4.4.2 The CESU submits that even though 100% metering has already been achieved for all categories of consumers; due to high rate of breakdown of old electro magnetic meters around 90,000 Single Phase meters are presently in defective status. 1,40,000 Static Single Phase meters are being procured; out of which 10,000 meters have already been arrived in store and replacement of defective meters taken up. 3ph Static meters for other categories are also being procured and all defective meters in that category will be replaced as soon as possible.

4.4.3 CEO, CESU further stated that licensee has taken adequate steps to stop the collection of meter rent from the consumer once landed cost of meter is fully recovered as per the orders of the Commission

4.5 **Spot Billing Roll Out Plan**

CEO, CESU and WESCO so also representative of NESCO and SOUTHCO stated that spot billing in Rural and Urban areas has helped the consumers to get their bills in time. They will cover most of their geographical area by spot billing in the coming years.

4.6 **Energy Audit**

Regarding energy audit, CEO, CESU stated that metering of feeders, Distribution Transformers are in progress. Energy audit work has been allotted to M/S Datagen for CDD I, Cuttack on pilot basis, which is under progress. The tender has been floated for taking up energy audit work in urban areas of CESU. The valuation is under process. SOUTHCO stated that priority is being given to make DTR wise consumer indexing and energy auditing in a phased manner and to ensure remedial measures for reducing the losses.

4.7 **APDRP Scheme**

Regarding APDRP, during hearing Commission wanted to know the investment details and directed that this to be filed. Commission further wanted to know the loan servicing plan of NESCO for APDRP. NESCO replied that the Commission has already approved the capital expenditure under APDRP head while approving the ARR application in the earlier years. They further stated that out of Rs.56.91 crore capital expenditure proposed by NESCO under APDRP head during the FY 2007-08, Rs.28.455 crore will be funded through Govt. of Orissa as 50% loan and 50% grant, the balance of Rs.28.455 crore will be funded through counter part funding from REC. The capital servicing obligations will srart after a moratorium period of 5 years and 3 years for loan from Govt. of Orissa and loan from REC respectively.

4.8 **Administrative & General Expenses**

4.8.1 In response to the query raised by the objectors regarding extravagant expenditure on account of deployment of vehicles, the licensees stated that for enhancement of collection, vehicles are being deployed.

4.8.2 Regarding huge employees cost, licensees stated that due to merger of 50% of the DA component with basic salary with effect from 1st Apr-

06 the employee cost has increased substantially. In addition to this there is substantial increase in salary of non-executives on account of revision of Wage Board from 1 Apr 2000. Again additional D.A doses approximately @ 8% p.a. and terminal liability like pension, gratuity and leave encashment also is a major contributor for increase of employee cost.

4.8.3 Replying the basis for provision of bad and doubtful debt NESCO replied Higher provisions have been made based on the following principle such as analysis carried out for individual consumers under EHT/HT and doubtful amount provided for in accounts. For non Govt. LT Class of consumers, arrears prior to six months has been considered as bad and doubtful debts.

4.9 Interest on Security Deposit

4.9.1 While responding to the allegation raised by the objectors regarding the rate of interest payable on security deposit @ 6%, licensees stated that the same is being paid in conformity with the OERC Distribution (Conditions of Supply) Code, 2004 and RST order for FY 2006-07.

4.9.2 Bank guarantee against security deposit should not be allowed to the consumers as it will be very difficult to monitor the expiry date of the Bank Guarantee and its renewal. Further, the Commission has already permitted payment of annual interest on Security Deposit to consumers.

4.9.3 Security deposit amount from a consumer is collected to cover at least two months energy bill, which will be adjusted in case of default of non-payment of the bill by the consumer. Hence there is no relation between Security Deposit and Share Capital. Thus, the ratio calculated for comparison is not relevant in this context WESCO stated that during initial period of privatization all the DISCOMs were running with cash crunch situation, hence the security deposit received during that period was utilized towards normal repair & maintenance of the distribution system. Presently the licensee is paying @ 6% p.a. interest on the security deposit amount as per the Electricity Act.

4.10 Rural Electrification

The Distribution Licensees have never disagreed to undertake rural electrification programme. In fact different programmes for village electrification are being carried out as per the directions of State Government.

4.11 South Eastern Railways and East Coast Railways

4.11.1 Railways, have objected to charging demand charges without considering the extra loads during the feed extension period. The Railways resort to feed extension over a different supply zone during breakdowns in 132KV supply. The Railway Authorities have pointed out that such breakdowns are not due to reasons related to the

Railways; hence they may be compensated by ignoring such high demands. Licensees clarified that they have equally no control over such breakdowns. So penalty as per the supply regulations and tariff orders are levied. The issue being not related to the consumer and the Licensee alone but also M/s OPTCL may share the liability as the licensee is paying higher SMD charges.

4.11.2 Regarding computation of SMD, WESCO replied that Railways have got seven traction points situated at various locations and has got individual identity as consumers. Different consumers at different locations cannot be integrated as one consumers for billing purposes. Hence the proposal is not acceptable to the licensees.

4.11.3 WESCO stated that the existing provisions regarding overdrawal penalty for maximum demand is required to be maintained to guard against the understatement of contract demand by consumers. Overdrawal attracts additional burden for system stability and reliability thereby affecting all other consumers apart from distorting power procurement planning. Thus overdrawal charge is essential to discourage consumers from overdrawal especially when the ABT system is in vogue. Exemption has already been given by OERC for consideration of overdrawal up to the extent of 120% during off peak hours.

4.11.4 WESCO submitted that further relaxation in the power factor for incentive will not only discourage the consumers for reaching higher power factor but also will affect demand and energy consumption. Accordingly, power factor incentive above 90% instead of 95% should not be allowed by the commission.

4.11.5 The statement given by SE Railway that DISTCOs are procuring bulk power supply from GRIDCO on single-part tariff is not true.

4.12 Consumers' Classification

Licensees stated that M/s Reliance Communication Ltd, Bhubaneswar & M/s BSNL Ltd., wanted to be treated under industrial categories instead of charging under GP tariff. In this connection, the licensees' submit that Clause – 80 of Chapter–VIII of the Orissa Electricity Regulatory Commission (OERC) Distribution (conditions of supply) Code – 2004 has classified the consumers into various categories and fixed different tariff. According to the above regulation M/s Reliance Communication Ltd,. and BSNL Ltd. are being charged at GP Tariff as they fall under classification of general purpose. These consumers are using electricity significantly in their offices and telephone exchange buildings for lighting and air-conditioning purposes. The power is hardly used as drive force in prime movers for industrial production purposes. So their proposal for applicability of industrial tariff is against the provisions of OERC Distribution Code 2004.

4.13 All Orissa Layers Farmers Association

Regarding All Orissa Layers Farmers Association demand for including them in agricultural tariff. Licensees replied that although Government of Orissa has declared the poultry farm as agriculture, in a poultry farm electricity used for pumping water is not for agricultural purposes but for layers, which forms only a part of the total electricity requirement. The major power consumed in a poultry farm is towards hatcher and lighting of bulbs for maintaining temperature. Since the purpose of poultry units is purely commercial, tariff for poultry units in agriculture category is not at all justified and the proposal should be rejected by the Commission.

4.14 Special Police Station and Special Courts

WESCO submitted that it may be true that existing laws relating to theft of electricity are sufficient, but as everybody knows, due to non existence of police stations for unauthorized use of electricity, theft cases are not being disposed off quickly. As a result, the theft of electricity is not coming down and even people do not hesitate to hook the line in broad day light. Accordingly creation of special police stations in every district is a must. The objection of the consumers that transferring the cost is illegal and unethical is not true. The reduction of losses due to theft of energy will neutralize the expenditure and genuine consumers will derive benefit by way of reduction in tariff, quality and stable supply.

4.15 Category-wise tariff

4.15.1 Computation of Load Factor

Regarding confusion of calculation of load factor NESCO stated that the same has been addressed and Commission in its tariff order dated 23.3.06 vide clause no. 6.39 in page 222. Therefore, there should not be any doubt about the contract demand / Maximum demand recorded (whichever is higher) is to be considered for calculating load factor.

4.15.2 **Computation of Load Factor on Annual basis**

In response to the proposal made by the objectors about calculation of the load factor annually, NESCO stated that some consumers draw power more than their contract demand in KVA during off peak hours to avail of the benefit of drawing additional 20% of contract demand without paying over drawl penalty to make good the shortfall in load factor for less drawl in the previous period. He disagreed with the proposal saying that this may heed to negative impact in the ARR of NESCO. WESCO replied that the Commission has already allowed load factor incentive beyond 50%. The amount lost due to the above is being passed on to the Consumers while fixing the tariff. As such any further incentive on load factor will have an adverse affect on the Consumers.

4.15.3 **Calculation of Load Factor considering 0.9 as P.F.**

Regarding calculation of load factor considering 0.9 as power factor, NESCO highlighted that no regulation stipulates that the load factor shall be calculated by multiplying 0.9 power factor. He submitted that NESCO is calculating load factor based on the OERC Regulation 2(gg) and review order dated 20.04.2005.

4.15.4 **Power Factor Incentive**

WESCO stated that to maintain good power factor of the system, an industrial consumer should have almost unity power factor and in no case it should be below 90%. In order to achieve unity power factor, the commission has provided incentive for improvement of power factor above 95% upto 100% which is quite reasonable. Further relaxation in the power factor for incentive will not only discourage the consumers for reaching higher power factor but also will affect demand and energy consumption. Accordingly, power factor incentive above 90% instead of 95% should not be allowed by the Commission. NESCO further stated that Power Factor incentive to be calculated for achievement of 1% rather considering the decimal.

4.15.5 **Computation of Load Factor excluding Plant Annual Maintenance Shut Down/ Non-Supply by GRIDCO/OPTCL**

4.15.5.1 Regarding the exclusion of annual maintenance shut down period from calculation of load factor, the licensees stated that the consumers' annual maintenance depend on their plant requirements and varies from industry to industry. They further highlighted that the load factor achieved by the consumers even during annual shut down periods remains above 80%. As such, there is no valid ground for considering the omission of annual maintenance shut down period from calculation of load factor.

4.15.5.2 Regarding the deduction of no. of hours from calculation of load factor in case of non-supply by GRIDCO/OPTCL, the licensees submitted that had there been no consideration of the above non-supply of power, the consumption slab for availing of incentive tariff would have been on higher side or withdrawn.

4.15.6 **Concession on TOD Tariff**

WESCO replied that concession given by OERC on TOD tariff to the consumer has already resulted in loss of revenue of around Rs.50 lacs per month to WESCO. Further Concession on TOD will result in more loss on revenue and the tariff on other category of consumers will also be affected. Moreover it is not out of place to mention here that WESCO is not getting any incentive with regard to energy consumption during off peak hours. Therefore the proposal may be rejected.

4.15.7 **Industrial Colony Consumption**

WESCO stated that the industries availing 10% of their consumption towards colony consumption is an incentive by the Commission. Beyond 10% consumption, they are to pay at industrial rate which is still less than the prevailing rate of domestic category consumers.

4.15.8 **Calculation on KWM basis**

Regarding the KWM, it is to mention here that the existing Meter is having KW, KwH, KVAh reading. Thus NESCO is billing based on the KW reading to avoid the multiplication of normative power factor to find out the normative KW for computation of load factor. In principle this is widely accepted and no error in billing.

4.15.9 **Phasing of Contract Demand**

NESCO maintained that for phasing of contract demand, the consumer has to apply to the distribution licensee. Once they are permitted, they execute the agreement accordingly. In case they want to deviate from the phased demand due to reasons beyond their control, they should get the approval prior to availing power supply. Again the regulation provides the minimum period of 5 years to recover the infrastructure cost from the New consumers as there is a chance of non consumption by the petitioner after installation of own CPP.

4.15.10 **Demand Charges for C.P.P.**

Licensees stated that in case of outage of CPP due to system disturbances, they require start up power which will effect the SMD for the entire month even if the drawal of power is half an hour for which distribution licensee will have to pay to OPTCL without charging the same to the concerned CPP. This may put the DISTCOs into financial burden. To avoid such unforeseen cost, it has been proposed to the

Commission for considering the demand charge @ 120% of the demand charges applicable to the respective tariff category on the maximum demand recorded by the meter of the CPP. However, the minimum demand charge concept i.e. 80% of CD should not be applicable to the CPPs.

4.15.11 **Open Access**

Regarding Open Access WESCO replied that M/s GRIDCO purchases power from different generating stations and sells to distribution companies through M/s OPTCL which has got transmission license. M/s WESCO is purchaser of bulk power from M/s GRIDCO and sells power in its area of license. The energy billed to HT / EHT Consumers is from the energy meter installed by WESCO & not from M/s GRIDCO meters. However in the regime of open access, a consumer has got option to purchase power from other agencies in accordance with the regulations framed by the regulatory commission. Again regarding same subject CESU stated that M/s Jayshree Chemicals Ltd of Berhampur and M/s Bajarangabali Alloys Pvt. Ltd, Cuttack have emphasized for permission to avail power supply in open access system. The Licensee will allow Open Access to the intending consumers as per the modalities and phasing of such Open Access already approved and published by the Commission.

4.16 **Rebate & Penalty**

4.16.1 Regarding over drawl penalty CEO, CESU stated that such penalty had been levied on consumers exceeding the contract demand in line with OERC's RST order for FY 2006-07.

4.16.2 Regarding rebate, CEO CESU pointed out that part of the rebate obtained from GRIDCO, is transferred to consumers. Regarding DPS, CEO CESU pointed out that it is levied on the consumers as per the direction of the Commission envisaged in the RST order for FY 2006-07 He further stated that DPS has not been estimated and adjusted in subsequent years.

4.16.3 WESCO stated that the existing provisions regarding overdrawal penalty for maximum demand is required to be maintained to guard against the understatement of contract demand by consumers. Overdrawal attracts additional burden for system stability and reliability thereby affecting all other consumers apart from distorting power procurement planning. As regards the proposal for providing incentive from 40% instead of 50% on base level load factor, CEO, CESU stated that it comes under the purview of the Commission.

4.17 **Military Engineering Services (MES)**

With regard to the Commission's querry during hearing, MES clarified as follows:

"The Ministry of Power, Govt. of India vide letter No.25/19/2004-R&R dated 26 July, 2004, had recognized MES as a sub-ordinate organisation of Ministry of Defence and awarded 'Deemed Licensee' status to MES. Prior to awarding deemed licensee status to MES, all the issues involved under different Sections/Clauses of Electricity Act, 2003 had been taken into consideration by Ministry of Power, Govt. of India. Hence all the provisions of Electricity Act, 2003 are applicable to MES".

NESCO replied that Classification of Consumer Categories is as per Regulation 80 of OERC (Condition of Supply) Code, 2004. Licensee is not in favour of creating separate category for defence as it is against the objective of tariff rationalisation. WESCO stated that MES though has a choice in the Open access system where it can purchase power from different source other than the distribution licensee observing the formalities as determined by the Commission. SOUTHCO averred that as per deposition of consumer, 70% of total load is domestic, but the actual physical mix of load is yet to be determined. Even if consumer's load is determined at that level it shall still be classified under G.P tariff as per regulation.

4.18 **M/s COSBOARD Industries**

CESU replied that the petitioner filed a writ application before the Hon'ble High Court i.e. W.P.(C) No.7959 of 2006 challenging tariff order in case No.47 of 2005. The said writ application was disposed of by order dated 31.07.2006; wherein, the petitioner has submitted that he has no longer interested to challenge the tariff order passed by the OERC and as per the order of the Hon'ble High Court the representation has been filed before this Commission about the cross-subsidy. When the tariff order is not the subject matter of challenge, the question of giving any subsidy and to charge the consumer other than the tariff is not permissible.

4.19 **Observation of Govt. of Orissa**

Department of Energy, Govt. of Orissa vide its letter No.R&R.II.22/06(pt)/891 dated 01.02.2007 and through its representative during hearing stated that *"Govt. of Orissa are continuing its subsidy withdrawl policy. It is the responsibility of the DISTCOs to bring down the distribution loss and AT&C losses as per OERC business plan, failing which the DISTCOs should meet the non-achievable target by means of their own financial arrangements. Besides, the Commission may also consider that there should not be any tariff hike till 2009. There should be continuance of tariff without any hike and if any extra expenditure is required to be incurred, it may be met by the DISTCOs by way of reduction of distribution losses, AT&C losses and improvement of collection efficiency."*

5 COMMISSION'S OBSERVATION

5.1 Introduction to RST order for FY 2007-'08

5.1.1 The Commission, for the determination and approval of the ARR for the Distcos for FY 2007-'08, continues to follow the same principles in line with the long term tariff principles enunciated by the Commission in its LTTS order. For the purpose of tariff setting for FY 2007-'08, the Commission has followed the principles laid down in its terms and conditions of tariff as well as the LTTS order, and continues to be guided by the provisions of the National Tariff Policy as well other statutory notifications and directives, while giving due considerations to the complexities of the Orissa Power Sector.

5.1.2 The submissions of the Distcos have been considered for the estimation of the energy to be procured by GRIDCO for supply to the Distcos. The SMD has been computed based on the actual demand for the period from April, 2006 to January,2007 and keeping in mind the significant additions to HT and EHT load projected by the Distcos for FY 2007-'08.

5.1.3 As earlier laid down by the Commission in its LTTS framework and subsequently dealt with in its order approving the business plan of the Distcos, the Commission continues to use the benchmark loss trajectory as laid out in the business plan for the period from FY 2002-'03 to FY 2007-'08. However, as a part of the truing-up exercise, the Commission has recognised the distribution loss levels of the past years from FY 1999-'00 to FY 2000-'01 based on audited annual accounts of the Distcos. For the year 2001-'02, the Commission has used the submissions made to the Kanungo Committee by the Distcos as the benchmark while truing-up for the year. At the end of the Control Period in FY 2007-'08, the Distribution loss levels, along with the review of other parameters, would also be reviewed.

5.1.4 On the securitisation of the bonds to NTPC, and the servicing of these bonds, the Commission had in the past allowed interest to be recovered at 8.5%, in line with the terms and conditions of the One-Time Settlement Scheme propagated by the Alhuwalia Committee. Following this, the Commission has already written to the Govt. of Orissa, seeking its views and decision on the securitisation of this bond of Rs. 400 crores under the OTS scheme. Though as indicated by GRIDCO, the negotiations between NTPC and GRIDCO are still underway, there is no response on this issue till date. The Commission has considered servicing of these bonds at 8.5% as part of the ARR for FY 2007-08 subject to final outcome of the decision of the Hon'ble Appex Court.

5.1.5 The Commission has been regularly truing-up critical elements of the Distcos' ARR over the past, like for example, power purchase costs and distribution losses. However, as part of this ARR and tariff

determination exercise for FY 2007-'08, the Commission has carried out a comprehensive truing-up exercise for the Distcos for the period from FY 1999-'00 to FY 2005-'06, based on the audited annual accounts available with the Commission for WESCO, NESCO and SOUTHCO, and till FY 2003-'04 for CESCO.

5.1.6 In the past, the licensees have been projecting a considerably lower level of Miscellaneous receipts, when compared to actual figures available as per audited accounts As a part of this truing-up exercise, miscellaneous receipts have also been trued-up on the basis of annual audited accounts. Going forward, the Commission has projected the miscellaneous receipts for FY 2007-'08 on a realistic basis, in line with past audited figures, and after adjusting for the effect of removal of DPS.

5.1.7 The truing-up exercise undertaken by the Commission for the Distcos takes into account all the past regulatory gaps as well as the gaps arising out of variations from audited accounts, into consideration for determining the total amount for truing-up keeping in view the regulatory orders passed. The individual ARR components being trued-up have been discussed separately under the section for truing-up in the main text of this order.

5.2 An extract from the tariff Order FY 2006-07 for better understanding of the principle involved

6.1 For determination of tariff, the State Commission, among other things, shall be guided by National Electricity Policy (NEP), National Tariff Policy (NTP) in terms of Section 61(i) of the Electricity Act, 2003. In conformity with Section 3 of the Electricity Act, Govt. of India has already notified the NEP on 12th Feb.'05 followed by NTP on 6th Jan.'06. The NEP chalks out a vision of self-sustainable power sector by ensuring recovery of cost of service from the consumers, competitiveness in distribution, a minimum level of support to render the electricity affordable for consumers of very poor category, reduction of cost subsidies progressively and gradually, etc. The objectives of NTP are to :-

(a) Ensure availability of electricity to consumers at reasonable and competitive rates;
(b) Ensure financial viability of the sector and attract investments;
(c) Promote transparency, consistency and predictability in regulatory approaches across jurisdictions and minimize perceptions of regulatory risks;
(d) Promote competition, efficiency in operations and improvement in quality of supply.

6.2 The determination of Annual Revenue Requirement (ARR) and Tariff is a statutory obligation of the Commission by which the Commission carves out the roadmap for continued development of the electricity sector by balancing the conflicting interests of various stakeholders. In fact, the measures taken by this

Commission since its inception have been vindicated in the aims and objectives of NEP and NTP.

6.3 Multi Year Tariff

According to the NTP, the MYT framework with a control of 3 to 5 years is to be adopted for any tariffs to be determined from April 1, 2006. The Commission in its order dated 8th June, 2003 and 12th November, 2003 in Case No.8/2003 had set forth the Long Term Tariff Strategy (LTTS) for implementation. The Business Plan approved by the Commission vide its order dated 28.02.2005 in Case No.115 of 2004 in respect of all the distribution licensees acts as a sequel to LTTS. The five year control period encompassing FY 2003-04 to 2007-08 has been envisaged in the Business Plan. The relevant extract of LTTS principles is reproduced below :-

"4.LTTS PRINCIPLES

The LTTS sets out the principles by which the Annual Revenue Requirements of the Licensees will be determined for each of the Control Period. The Retail Supply Tariffs and Bulk Supply Tariffs will continue to be awarded through the Commissions Orders on ARR filings/ Tariff Proposals during these years of the Control Period, i.e., for the years FY 2003-04, FY 2004-05, FY 2005-06 and FY 2006-07.

Tariffs are essentially a risk-sharing mechanism. Efficient risk allocation principles dictate that in order to minimize the overall costs, only those risks should be allocated to the Licensee where it is best placed to manage and mitigate them. It is important to be sensitive to the fact that the Licensees had urged before the Commission that their risk bearing capacity stands greatly reduced. Therefore the risk elements that are allocated to Licensees (Controllable) should be such that that they are directly within the control of the Licensees or can be managed by the Licensees and have significant impact on the system performance and financial stability. The LTTS seeks to incentivise licensees to reduce "Controllable Costs". For the purpose of the LTTS, network and financing costs and Aggregate Technical & Commercial (AT&C) losses are considered as "Controllable". Any financial loss arising from the performance falling short of the targets in these areas will, normally, not be recoverable through 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.

The gains or losses arising from factors that are not under the control of the Licensees shall be deemed as "Uncontrollable" and will be recoverable through tariffs in the ensuing year(s) of the Control Period as special appropriation. These primarily relate to fuel cost changes that affect the cost of power purchase, inflation, exchange rate variations, etc that may affect networking and financing costs. If and

where uncontrollable elements/costs are forecasted for the computation of revenue requirement, corresponding adjustments to reflect actual values will be made in the ensuing year(s) revenue requirement. The forecasts should be done with adequate due-diligence so as to reasonably reflect expected normal business operations in electricity sector in Orissa. There are also a number of uncontrollable risk events arising out of force majeure conditions changes in the laws of the land, judicial pronouncements, Government policies and directions, and economy-wide influences, which have cost implications. These too will be recoverable through tariff of future year(s), to the extent they are not covered by Governmental subventions.

Comprehensive, timely and reliable data capable of independent verification is an essential requirement under the LTTS framework. Reliable and timely information will help the Commission effectively design the LTTS framework and the Performance Targets as well as make appropriate adjustments allowed under these Principles. The Licensees must take steps and set up systems and procedures to ensure availability of timely and reliable data.

Standards for quality of supply and consumer service will be monitored closely and penalties for not achieving the targets will be introduced in a phased manner."

6.4 The retail supply tariff is being determined based upon ARR and tariff proposal filed by the licensees for the FY 2006-07 and in accord with the LTTS principles. Apart from the cost of power purchase, the revenue requirement covers the network costs as depicted below :-

6.4.1 O&M Costs comprise wages and salaries, repairs and maintenance, administrative and general expenses, provision for bad debts based on prudential norms.

(a) The emoluments shall take into account incremental effects of dearness allowance based upon Govt. notification from time to time and annual increments. Provision for terminal benefits based on a periodic actuarial valuation shall be allowed.

(b) For Repair &Maintenance, 5.4% on the opening gross asset value shall be allowed.

(c) For Administrative and General expenses, the base year value escalated by 7% every year shall be allowed during the control period.

(d) No adjustment in the ARR shall be effected on account of the differential value between actual value and the targeted performance for the O&M cost during the control period.

6.4.2 The Commission shall allow 2.5% of the total annual revenue billings from sale of power as the prudential norm for provisioning of bad and doubtful debt during the control period.

***6.4.3 Financing costs**: The financing costs on the approved capital investment plan for ongoing and future investment shall be allowed by the Commission. The licensee can be allowed to retain the saving in financing cost owing to effective implementation of the project in financial and physical terms. Similarly, financial losses on account of time and cost over runs will be to the account of the licensee. However, the licensee shall present its case to the satisfaction of the Commission on both saving and losses.*

6.4.4 The Deptt. of Energy Notification No.1068/E dated 29.01.03 envisages that "The effect of up-valuation of assets of OHPC and GRIDCO indicated in notification No.52010 dated 01.04.96 and No.5207 dt.01.04.1996 would be kept in abeyance from the financial year 2001-02 prospectively till 2005-06 or the sector turns around, whichever is earlier to avoid re-determination of tariff for past years and also re-determination of asset of various DISTCOs. For this purpose, depreciation would be calculated at pre-92 norms notified by the GOI." As such, the depreciation shall be calculated for the assets at pre-1992 norms.

6.4.5 The Commission in its letter No.460 dtd.22.03.2005 had advised the state Govt. in terms of section 86 of the Electricity Act, 2003 to keep in abeyance the up-valuation of assets as well as moratorium on debt servicing to the state government for a period of five years beyond FY 2005-06 i.e. till FY 2010-11 as the sector has not so far turned around. The Govt. was reminded in the matter vide Commission's letter No.1968 dt.16.12.2005 to accept its recommendations to avoid a tariff shock to the consumers. The projected additional liability on this account could have a adverse impact on the consumer tariff. Till date, the Govt.'s decision has not been received. The Govt. representative during the course of public hearing indicated that at least return on equity on 25% of the asset of old OHPC stations and the principal on loans taken by the OHPC for construction of UIHEP may be considered by the Commission as a pass through.

6.4.6 The objectors unanimously were in disagreement with the aforesaid view of the Govt. They further submitted as there has been no sectoral turn around and the CERC regulations do not permit such recovery, effect of up-valuation should not be considered while determining tariff for FY 06-07. The CERC (Terms and Conditions of Tariff) Regulations, 2004 notified on 26th March, 2004 at para 56(II)(a)(I) stipulates that the value base for the purpose of depreciation shall be the historical cost of the asset. In OERC regulation, it has also been prescribed for the purpose of tariff determination and the rate of depreciation could be linked to the useful life of the asset, calculated on straight-line method. This is in line with the CERC regulation also. In view of this, the Commission could continue calculate depreciation on the basis of historical cost.

6.4.7 Any variation between the projected and actual cost of assets for calculation of depreciation shall be adjusted at the end of Control Period to reflect the actual assets at the corresponding period.

6.4.8 Interest on long-term capital investment is to be allowed in the revenue requirement based on the forecast capital investment plan. Any adjustment in the ARR shall be made for variation in actual and forecast value of interest cost for loans at the end of the Control Period.

6.4.9 Working capital proposed by the Commission shall cover the shortfall in cash collection beyond the target set for collection efficiency during the control period. This shortfall shall be determined after considering the provisions for bad and doubtful debt.

6.4.10 The Commission shall allow 16% return on equity of the DISTCOs.

6.4.11 The most significant component in the revenue requirement of the licensee is the cost of power purchase. The extract of paragraphs 6 & 8 on sales and power purchase as well as the revised forecast of LTTS order is quoted below :-

"6. SALES AND POWER PURCHASE

6.1 The Commission shall approve an annual retail electricity sales forecast for each of the Licensees for the Control Period. The sales forecast shall be made consumer category-wise and slab-wise. At the beginning of the Control Period, the Commission will also approve the forecast of power purchase and power purchase costs for each year of the Control Period. The forecasts should be done with due diligence so as to reasonably reflect expected normal business operations in electricity sector in Orissa. These forecasts would not normally undergo annual revision, except in the case of variations in excess of 10% in the quantum of purchase of electricity. This will encourage the licensee to attract subsidising consumers and to improve the sales mix by conversion of consumption in the LT categories to the HT categories through the introduction of LT-less distribution systems, thereby reducing the overall system losses.

8. REVISED FORECASTS

8.1 The Commission may consider stipulating submissions based on revised forecasts for power purchase, power purchase costs and electricity sales for the Control Period at each ARR/Tariff Proposal filing, subject to para 6.1 above. The Commission shall, however examine these forecasts for reasonableness and consistency before approving the Annual Revenue Requirement of the licensees.

8.2 The Commission may consider using these revised forecasts instead of the forecast approved at the beginning of the Control

Period, if after examination of all relevant information the Commission is convinced that there are reasonable grounds for revision."

6.4.12 An analysis of the submission made by the DISTCOs, especially NESCO and WESCO reveals that there is a wide variation between the figures approved for purchase of power and their projections for FY 2006-07 because of a substantial rise in sale of power to HT & EHT categories which was not foreseen by the licensees at the time of preparation of Business Plan. It has been our commonplace practice for the last few years to assess the requirement of power purchase for the ensuing year based on the actual purchase for the last completed financial year and for the first half of the current financial year. This principle has stood the test of time and it is also in conformity with the National Tariff Policy which, inter alia, provides that a utility shall be allowed all prudently incurred expenses towards the cost of power purchase.

6.4.13 The LTTS order also provides for pass through of uncontrollable costs arising out of force- majeure conditions.

6.4.14 The LTTS also lays down the axiom that the losses and gains arising on account of sale of any surplus power to any entity outside the State shall not constitute a part of licensee's revenue requirement.

6.5 The Commission also is very much concerned about the supply of reliable and quality power of specified standards in an efficient manner and at reasonable rates to the consumers of the State as spelt out in the NTP. The Commission has already determined and notified the standards of performance of the licensee with respect to quality, continuity and reliability of service to all classes of consumers in its Regulation, 2004. ***The Commission has also fixed the deadline as 15th October, 2005 for payment of compensation by the DISTCOs for failure to maintain the desired standards of performance expected from them****.*

6.6 The Commission has also specified that the AT&C loss shall be the criteria for determination of the performance of the DISTCOs that provide them the handle for improvement in the field of distribution loss and the collection efficiency. However, the distribution loss will be taken into consideration in assessing sale to consumers by the DISTCOs from year to year while determining the ARR. ***This principle is being adopted mutatis mutandis for the year 2006-07.***

6.7 The NTP provides that AT&C loss reduction should be incentivised by linking return in a MYT framework to an achievable trajectory. The Commission has approved a plan for incentive for improved AT&C loss in the approved Business Plan, the extract of which is reproduced below :-

(xi)(c) ***Incentive for improved AT&C loss***

After having determined the AT&C loss from the Business Plan period 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 than the parameters fixed by the Commission and earn incentives. To ally 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) Regulation, 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."

5.3 The Commission has been reviewing the status of metering of 33/11 KV feeders, distribution transformers and consumers at the end of every two months. The progress as reported by the DISTCOs are as under:

Table – 11

Status of Metering position as on 30th September2006

Items	**CESU**	**NESCO**	**WESCO**	**SOUTHCO**	**TOTAL**
Feeder Metering Position					
No. of 33 KV feeders	125	57	87	159	428
No. of 33 KV feeder metering	122	55	87	159	423
No. of 11 KV feeders	584	418	417	425	1,844
No. of 11 KV feeder metering	584	382	417	425	1,808
No. of 33 / 11 kv transformers	347	236	242	211	1,036
No. of 33/11 kv transformer metering	81	-	-	30	111
No. of distribution transformers	17,204	14,415	13,756	9,904	55,279
No. of distribution transformer metering	4,677	11,625	12,558	8,993	37,853
Consumer Metering Position					
Total number of consumers	917,308	506,954	455,344	485,569	2,365,175
Total number of meters	917,308	449,133	445,485	478,408	2,290,334
Tootal No. of working meters	819,667	346,599	434,711	453,457	2,054,434
Percentage of working meters (%)	89%	77%	98%	95%	90%

5.4 The Commission is not satisfied with the performance of DISTCOs especifically with respect to energy audit. The huge investment that has gone into the metering of all these installations should not go waste due to the inaction on the part of the licensees to monitor the outputs and take corrective measures, wherever necessary, for effective reduction of technical and commercial losses. The licensees must carry out energy audit including the distribution transformer, consumer indexing and pole scheduling to localise the loss level at every distribution transformer area and pinpoint the person or person responsible for such losses. **Apart from correct metering for reduction of commercial loss, the licensee also shall take remedial steps for reduction of technical losses through relocation of substations, up-gradation of transformer capacity, re-conductoring and other system improvement works.**

5.5 **The Commission, however, will carry out circle-wise independent assessment of the various performance parameters by March, 2008 through a group of independent professionals which hitherto could not be carried out.**

5.6 The National Tariff Policy envisages that the Commission shall also institute a system of independent scrutiny of financial and technical data submitted by the licensee. In fact, during the course of the last public hearing it was revealed that around Rs.320.91 crore reportedly have been spent towards R&M by the DISTCOs during 1999-2006. Objections are being frequently raised by the consumer groups as well as the objectors during the course of public hearing on the poor quality of maintenance being undertaken by the licensees. **The Commission shall, therefore, be satisfied with the quality of maintenance work. The Commission contemplates engagement of a team of professionals for carrying out an in-depth study in this regard.**

5.7 The Electricity Act aims at a cost reflective tariff which has been well nigh impossible because of high incidence of cross subsidization within the consumer classes. The impact of cost reflective tariff on common consumers can be mitigated by providing subvention to GRIDCO so that the rise in the BST can be restricted. Such a measure will reduce the revenue requirement of GRIDCO as well as of the distribution licensees to have the benefit of lower BST. Alternatively, Govt. may offer subsidy to certain deserving categories of consumers for some years to come.

5.8 The Govt. was requested to intimate the quantum of subsidies or subventions to be provided, as stipulated in section 65 of the Electricity Act, 2003. OERC can factor in the same as input for the tariff design and offset an anticipated tariff shock. In his response the Govt. representative submitted that, "Govt. of Orissa are continuing its subsidy withdrawal policy. It is the responsibility of DISTCOs to bring down the distribution loss and AT&C losses as per OERC Business Plan failing which the DISTCOs should meet the non-achievable target by means of their own financial arrangement".

5.9 As recognised in the NTP, the tariff setting has to be such as to progressively reflect the efficient and prudent cost of supply of electricity. Consumers below poverty line and consuming below a specified level, say 30 units per month, may receive a special support through cross-subsidy. Tariffs for such designated group of consumers will be at least 50% of the average cost of supply. This provision may be examined after a period of five years.

5.10 The weighted average cost of supply estimated for the financial year 2007-08 is 295 paise per unit. OERC has prescribed the tariff for Kutir Jyoti consumers consuming upto 30 units per month at a flat rate of Rs.30 per month. Computed with reference to current tariff for a domestic consumer consuming 30 units per month, the total charge exclusive of meter rent payable by him comes to Rs.62.00 per month. This includes Rs.20 towards monthly minimum fixed charge and Rs.42.00 towards EC @ 140 paise per unit.

Keeping this in view, the charge payable by Kutir Jyoti has been kept at Rs.30 per month which is 50% of the corresponding class of domestic consumers.

5.11 The NTP envisages that the tariff shall be within plus or minus of 20% of the average cost of supply by the end of 2010-11. With the price level of 295 paise per unit, the tariff of the subsidising category should not be lower than 235 paise per unit and should not go beyond 353 paise per unit by 2010-11 at the current price level.

5.12 The Commission has been following the two part tariff featuring separate fixed and variable charges for all consumers with contract demand of 100 KVA or above. On the other hand, a consumer with CD 100 MVA has been allowed a single part tariff of 200 paise per unit at a load factor of 80% and power factor of 0.9 to provide a stable load to the grid and continuous flow of revenue to the licensees. This rate may require revision as discussed at appropriate place.

5.13 Consumers with CD less than 100 KVA and below are essentially covered under single part tariff because of absence of meters of appropriate configuration for recording maximum demand. As such, meters are not cost effective for very small loads. In case of such consumers, MMFC is realised to cover the expenses in connection with metering, billing, meter reading and attending to consumer complaints.

5.14 The Commission has also accepted the principle of Time of Day tariff since 01.04.2005 providing a rebate @ 10 paise per unit on consumption during the off-peak hours. The Commission has defined the peak hour as between 7 A.M. to 10.A.M. and 6 P.M. to 10 P.M. **As such, the TOD tariff shall be applicable from 10 P.M. to 6 A.M. of the next day.**

5.15 As envisaged in the NTP for giving incentive for metered consumption the **Commission's earlier order of billing only on the basis of meter reading instead of load factor shall remain in force. Metering and billing in the absence of meter will be regulated in accordance with the provision of OERC Distribution (Conditions of Supply) Code, 2004.**

5.16 According to NTP, pass through of past losses or profits should be allowed to the extent caused by uncontrollable factors. During the transition period, controllable factors should be to the account of the utilities and the consumers as determined under the MYT framework. It further lays down that the facility of regulatory asset to limit tariff impact in a particular year should be done only as an exception.

5.17 While the Commission accepts the axiom enshrined in the NTP, it has to take into a pragmatic view with respect to recovery of regulatory assets. The high level of subsisting Transmission and Distribution losses imposes restrictions on raising the consumer tariff. With progressive reduction of T&D loss and efficiency gains, the regulatory assets accumulated till date can be distributed over a number of years to avoid a tariff shock to the consumers in the same breath can provide a comfort to the distribution utilities. **In view of the foregoings, the Commission decides to allow a portion of the accumulated**

regulatory asset of NESCO, SOUTHCO and CESU determined in the process of truing-up exercise, for recovery through tariff for FY 2007-08. Further, as WESCO, has been carrying a huge cash surplus, they are required to pay off the outstanding dues owed to GRIDCO.

5.18 The ensuing year's revenue requirements have been determined following the principles enunciated above along with the relevant issues that have been raised by the objectors and the staff of the Commission. Valuable suggestions made by them have been given due consideration. We do not find it appropriate to comment on each one of the objections. The objections and suggestions especially with respect to financial aspects and tariff design have been dealt with by us in the latter part of this order. This, however, does not preclude us to dwell upon subjects unrelated to revenue requirement/tariff.

5.19 On detailed scrutiny and examination of the Revenue Requirement and the Retail Supply Tariff applications for the financial year 2007-08 along with clarifications submitted by the licensees before the Commission, the written and oral submission of the objectors ,the Commission determines the various elements for computation of the revenue requirement as detailed below:

5.20 **Determination of quantum of energy to be purchased**

The Commission had approved the power purchase figures for 2007-08 in respect of the distribution licensees in the Business Plan. The licensees have now projected purchase figures for the FY 2007-08 which are at variance with the approved figures. Hence, the quantum of power to be purchased for the FY 2007-08 has been assessed based on the actual purchase for the FY 2005-06 and quantum of power purchased from April, 2006 to December, 2006 and the expected addition of load projected by the licensees subject to prudence check.

5.20.1 **Power Purchase**

The quantum of power to be purchased for the FY 2007-08 in respect of the four distribution companies have been assessed as under:

WESCO

Power purchase by WESCO from 4/06 to 11/06	:	3041 MU
Actual Purchase in Dec, 06	:	408.94 MU
Prorating for 4 months i.e. Dec,06 to March,07 at Dec,o6 level of consumption - 408.94x4	:	1635.8 MU
Expected annual drawl at the above rate (3041+1635.8):		4676.8 MU
Additional load growth projected at EHT/HT	:	820 MU
Total expected drawl 4676.8+820=	:	5496MU
Business Plan figure for 07-08	:	4263 MU
Proposed drawl by licensee for 07-08	:	6000 MU
Hence approved for 07-08	:	5496 MU

NESCO

Power purchase by NESCO from 4/06 to 11/06	:	2548 MU
Actual Purchase in Dec, 06	:	347 MU

Prorating for 4 months i.e. Dec,06 to March,07 at Dec,o6 level of consumption - 347x4	:	1388 MU
Expected annual drawl at the above rate (2548+1388):		3936 MU
Additional load growth projected at EHT/HT	:	718 MU
Deduction of Jindal consumption due to change of CD during 2006-07	:	553 MU
Addtion of Jindal consumption due to change of CD in 2007-08	:	396 MU
Total expected drawl 3936+718-553+396	:	4497MU
Business Plan figure for 07-08	:	3320 MU
Proposed drawl by licensee for 07-08	:	4760 MU
Hence approved for 07-08	:	4497 MU

SOUTHCO

Power purchase by SOUTHCO from 4/06 to 11/06	:	1211.3 MU
Actual Purchase in Dec, 06	:	150.3 MU
Prorating for 4 months i.e. Dec,06 to March,07 at Dec,o6 level of consumption - 150.3X4	:	601.2 MU
Expected annual drawl at the above rate(1211.3+601.2):		1812.5 MU
Additional load growth projected at EHT/HT	:	5.1 MU
Total expected drawl 1812.5+5.1	:	1818 MU
Business Plan figure for 07-08	:	1920 MU
Proposed drawl by licensee for 07-08	:	1855 MU
Hence approved for 07-08	:	1818 MU

CESU

Power purchase by CESU from 4/06 to 12/06	:	3473 MU
Actual Purchase in Jan, 07	:	377 MU
Prorating for 3 months i.e. Jan,07 to March,07 at Jan'07 level of consumption- 377X3 MU	:	1131 MU
Expected annual drawl at the above rate (3473+1131):		4604 MU
Additional load growth projected at EHT/HT	:	238MU
Total expected drawl 4604+238=	:	4842MU
Business Plan figure for 07-08	:	4050 MU
Proposed drawl by licensee for 07-08	:	5233.11MU
Hence approved for 07-08	:	4842 MU

5.21 Distribution Loss, Collection Efficiency and AT&C Loss

5.21.1 The parameters approved for the Control Period ending 2007-08 in respect of T&D loss, Collection Efficiency and AT&C loss as approved by the Commission in the Business Plan are reproduced below.

Table - 12

Distribution Loss (%)

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

Table - 13

Collection Efficiency (%)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NESCO	81.46	88.11	92.00	93.00	94.00	94.00
WESCO	85.40	88.26	90-00	92.00	94.00	96.00
SOUTHCO	82.55	84.15	89.00	91.00	93.00	94.00
CESCO	78.92	81.18	83.00	86.00	89.00	92.00

Table -14

AT & C Loss (%)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
NESCO	52.25	50.36	42.96	39.55	36.08	33.26
WESCO	47.30	46.18	40.60	36.52	32.32	28.00
SOUTHCO	49.76	51.56	45.71	41.76	37.69	34.20
CESCO	55.04	51.10	49.37	44.96	40.37	35.60

5.21.2 The T&D losses approved by the Commission is a potent instrument of regulation for controlling the actions to be taken by the licensees for reducing them. It cannot and should not be what the licensee states to be actual. The actual loss is incapable of exact assessment until 100% correct metering is in position. What the Commission has allowed was based on the Commission's business plan order decided in a public hearing with due participation of all the stakeholders including the distribution licensee. Accordingly The quantum of energy to be sold will be determined after deducting quantum of loss in distribution, applying the bench-mark loss level, as approved by the Commission in the Business Plan where the variation remains within 10% of the ceiling limit between the percentage of sale at EHT level, as approved in the Business Plan and the projections for 2007-08 and reassessed where the variation is more than 10% at EHT.

5.21.3 The quantum of energy to be sold at different voltage level i.e. at EHT, HT & LT and the levels of distribution loss to be applied for determination of expected revenue is worked out as under:

5.21.4 **SOUTHCO**: In case of SOUTHCO, the projected sale at EHT and HT is 185 MU and 229 MU as against 219.34 MU and 275.9 MU respectively projected in the Business plan for 07-08.

5.21.5 **CESU**: In case of CESU, the projected sale at EHT and HT is 636 MU and 723 MU as against 448.5 MU and 534.4 MU respectively projected in the Business plan for 07-08.

5.21.6 **WESCO, NESCO & CESU**

5.21.6.1 In case of WESCO the projected EHT sale is 1690 MU as against 1557.7 MU projected in the Business plan. In case of NESCO the projected sale at EHT is 1752 MU as against 1064.5 MU projected in Business Plan.

5.21.6.2 At HT in case of WESCO, the projected sale for 07-08 is 1446 MU as against 739.8 MU projected in the Business Plan. In case of NESCO the projected sale at HT is 666 MU against 440.57 indicated in the Business Plan.

5.21.6.3 Thus, Business Plan projection of EHT/HT sale for WESCO, NESCO and CESU has gone haywire owing to spurt in load growth for these categories of consumers.

5.21.7 While computing the overall distribution loss in the Business Plan, sale to EHT, HT and LT were together taken into consideration. In Orissa, generation, transmission and distribution activities have been separated in the post reform era. Special mention need to be made that, trading including Bulk Supply have been separated from Transmission in terms of Section 39 of the Electricity Act, 2003. Transmission lines act only as the carrier of power from generating sources to the DISTCOs. Energy input to the DISTCOs is measured at GRID substations and at metering points of the EHT consumers. Thus, for EHT users DISTCOs point of purchase from Transco and delivery to the consumer is supposed to take place at the same metering point. Thus, any sale at EHT by DISTCOs carries a stamp of zero loss. Distribution Loss in respect of NESCO, SOUTHCO and CESU has been calculated excluding sale at EHT level as indicated below as the variation is more than 10%.

Table – 15

Sl.No.		WESCO	NESCO	SOUTHCO	CESU
1	Actual sale at LT from April, 06 to December,06	558.8MU	565.72MU	453.98MU	1139MU
2.	Prorating for whole year (06-07) estimated LT sale	745.1MU	754.3MU	605.3MU	1519MU
3	Proposed Sale at LT as per licensee for 2007-08	890.0MU	882.84MU	677.41MU	1836.69MU
4.	Sale as per Business Plan at LT for 2007-08	900.03MU	856.17MU	848.74MU	1852.11MU
5.	Dist. Loss as per Business Plan at L.T.	48.56%	47.7%	34.1%	33.4%
6.	Current level of loss at LT (from4/06 to12/06) assuming Loss at HT @8%	65.5%	58.8%	52.5%	52.8%
6.	Estimated power purchase	5496 MU	4497.0 MU	1818.0 MU	4842 MU
9.	Sale at EHT as approved	1690 MU	1752.0 MU	185.0 MU	636.0 MU
	Input at HT	3806MU	2745MU	1634 MU	4206 MU
7.	Business Plan loss for HT+LT in 2007-08	Not applicable	42.61%	33. 9%	33.74%
8.	Sale at HT & LT applying Business Plan loss at HT+LT	Not applicable	1575.36 MU	1080.0 MU	2787.06 MU
10.	Sale at HT as approved	1446 MU	666.0 MU	229.0 MU	723.0 MU
11.	Balance sale at LT approved	986.2 MU	909.3 MU	850.9 MU	2064.1 MU

5.21.8 **WESCO**: In case of WESCO the percentage variation in EHT sale is within 10% from the approved quantum of sale as per Business Plan for FY 2007-08. Hence the overall percentage of Distribution Loss (25%) approved in the Business Plan has been accepted. The projected sale at EHT has been kept at the same level, as proposed by the Distribution licensee. The quantum of sale at LT has been arrived at after deducting the approved sale at HT & EHT from the total sale arrived at applying the bench-mark loss level on the quantum of power purchase as mentioned above.

Approved quantum of Power Purchase : 5496 MU
Over all distribution loss as per Business Plan for FY 2007-08 = 25%

Estimated total quantum of sale =5496-(1-25%) = 4122.2 MU
Approved quantum of sale at EHT+HT =1690+1446 = 3136 MU
Balance sale at LT approved = 4122.2-3136 = 986.2 MU

5.22 **Over all Distribution Loss (%) & AT&C Loss (%) approved for the FY 2007-08**

Table – 16

Financial Year		WESCO	NESCO	SOUTHCO	CESU	ALL ORISSA
2006-07	Distribution Loss	33.75%	31.51%	33.00%	33.00%	
2007-08	Distribution Loss	25.0 %	26.0 %	30.4 %	29.3%	27.1
	Collection Efficiency	96.0%	94.0%	94.0%	92.0%	
	AT&C Loss	28.0%	30.4%	34.6%	35.0%	

Table - 17

ITEMS	NESCO (07-08)	NESCO (06-07)	WESCO (07-08)	WESCO (06-07)	SOUTHCO (07-08)	SOUTHCO (06-07)	CESU (07-08)	CESU (06-07)	TOTAL (07-08	TOTAL (06-07)
Power Purchase (MU)	**4497.0**	**4169.0**	**5496.0**	**4600.0**	**1818.0**	**1750.0**	**4842.0**	**4164.0**	**16653.00**	**14683.0**
Sale (MU)										
EHT	1752.0	1320.0	1690.0	1000.0	185	192.7	636.0	395.9	4263	2908.6
HT	666.0	568.0	1446.0	1286.0	229	247.0	723.0	589.8	3064	2690.7
LT	909.3	967.5	986.2	761.7	850.9	732.8	2064.1	1804.2	4810.5	4266.1
TOTAL	**3327.3**	2855.5	**4122.2**	3047.7	1264.9	1172.5	**3423.1**	2789.9	12137.5	9865.5

5.22.1 For the purpose of computation of expected revenue from sale of power it is necessary to know the per unit average revenue realizable from each class of consumer to be multiplied by the number of units sold for arriving at energy charges. To this the revenue realized from demand charge is also to be added along with other charges as per the tariff regulation. It is found that the distribution licensee are compiling and furnishing the average rate p/u figure from each class of consumer voltage wise which merely includes demand charge, energy charge and other charge. It is a fact that there cannot be substantial change in the per unit collection in revenue unless there is some abnormal change or change in tariff structure. In view of that the Commission for the purpose of calculation of expected revenue takes into consideration the average revenue form April to December 2006-07 as the base for estimation purpose. The representative of WESCO, NESCO and SOUTHCO were directed in the public hearing to submit each individual bill of HT & EHT consumers for the FY 2006-07 so that the Commission would be able to verify the average rate per unit approved in the tariff order and the actual average per unit to find out inaccuracies if any between the two figures. They are supposed to submit

within a period of one week which they have not done. Therefore the Commission is convinced that determination of expected revenue per unit based on actual figures submitted by the licensee to be adopted for the next FY is a reasonably good measure of assessment of expected revenue and goes on to determine on the aforesaid basis as the licensees have failed to establish to the contrary.

5.22.2 The computation of expected revenue based on the Actual Average Revenue (P/U) as reported by the licensees and the anticipated additional revenue due to tariff revision is given below:

Table – 18 (A)

	WESCO 2007-08 Sale (MU)	**Average Revenue (P/U) - from April,06 to December ,06**	**Net Revenue (Rs. cr) (2007-08)**	**WESCO 2006-07 Sale (MU)**	**Average Revenue (P/U)- From April,05 to December,05**	**Net Revenue (Rs. cr) (2006-07)**
EHT	1690	335	566.15	1000	350.5	350.5
HT	1446	326	471.396	1286	328	421.8
LT	986.2	223	219.923	761.7	248.5	189.2
TOTAL	4122.2	305	1257.47	3047.7	305.8	961.5
Additional Revenue			34.45			
Total Revenue		313.40	1291.92			

Table – 18 (B)

	NESCO 2007-08 Sale (MU)	**Average Revenue (P/U) - from April,06 to December,06**	**Net Revenue (Rs. cr) (2007-08)**	**NESCO 2006-07 Sale (MU)**	**Average Revenue (P/U) - from April,05 to January,06**	**Net Revenue (Rs. cr) (2006-07)**
EHT	1752	256	448.512	1320	271.8	358.7
HT	666	336	223.776	568	347.5	197.4
LT	909.3	225	204.5925	967.5	216.2	209.1
TOTAL	3327.3	264	876.8805	2855.5	270.6	765.2
Additional Revenue			26.60			
Total Revenue		271.53	903.48			

Table – 18 (C)

	SOUTHCO 2007-08 Sale (MU)	Average Revenue (P/U) - from April,06 to December,06	Net Revenue (Rs. cr) (2007-08)	SOUTHCO 2006-07 Sale (MU)	Average Revenue (P/U)- From April,05 to January,06	Net Revenue (Rs. cr) (2006-07)
EHT	185	388	71.78	192.7	415.7	80.1
HT	229	328	75.112	247	334.4	82.6
LT	850.9	245	208.4705	732.8	254.6	186.6
TOTAL	1264.9	281	355.3625	1172.5	300.4	349.3
Additional Revenue			4.55			
Total Revenue		284.53	359.91			

Table – 18 (D)

	CESU 2007-08 Sale (MU)	Average Revenue (P/U)- From April,06 to January,07	Net Revenue (Rs. cr) (2007-08)	CESU 2006-07 Sale (MU)	Average Revenue (P/U)- From April,05 to January,06	Net Revenue (Rs. cr) (2006-07)
EHT	636	339	215.604	395.9	338.6	134.1
HT	723	363	262.449	589.8	373.3	220.2
LT	2064.1	260	536.666	1804.2	262.7	473.9
TOTAL	3423.1	296.44	1014.72	2789.9	297.7	828.1
Additional Revenue			14.92			
Total Revenue		300.79	1029.64			

Table – 18 (E)

	ALL ORISSA 2007-08 Sale (MU)	Average Revenue (P/U)	Net Revenue (Rs. cr) (2007-08)	ALL ORISSA 2006-07 Sale (MU)	Average Revenue (P/U)	Net Revenue (Rs. cr) (2006-07)
EHT	4263	305.43	1302.05	2908.6	317.47	923.38
HT	3064	337.05	1032.73	2690.7	342.63	921.91
LT	4810.5	243.15	1169.65	4266.1	248.21	1058.89
TOTAL	12137.5	288.73	3504.43	9865.5	294.38	2904.18
Additional Revenue			80.52			
Total Revenue		295.36	3584.95			

5.22.3 **The Commission reemphasises that the norms for Distribution loss, as determined by the Commission, are binding on the licensee and as such, any loss of revenue on account of non-achieving the above normative parameters will not be a pass through in tariff.**

5.23 **Calculation of Billing Efficiency**

The Commission directs the licensee to calculate billing efficiency for the financial year based on current billing and collection. The collection out of current billing and outstanding arrears needs to be separately recorded.

5.24 **Consumer Classification and Tariff**

5.24.1 The price of electricity should progressively reflect the cost of supply in accordance with Section 61(g) of the Electricity Act, 2003. The cost of supply can be fairly determined with reference to the investment made, quantum of connected load, timing of supply and voltage at which it is supplied. Hence, electricity price has to be related to these factors. Secondly, the purpose of classification by Industries Department and other departments of Govt. are for different purposes like preferential treatment in financing, taxes, etc. which have no relevance for determining price of electricity. Thirdly, electricity charges are to be non-discriminatory. As such, it may not be possible to synchronize the pricing of electricity with classification decided by the Industries Department.

5.24.2 Similarly, representative from BSNL pleaded that, BSNL should be classified under the industrial category, since the Finance Act 2002/03 envisages that, the business of telecom, services, whether basic or network and including radio paging, domestic satellite services, network of traffic, broad band network and internet services come within the ambit of industrial undertakings. We have considered the forceful submissions put forth by the representative and observe that, the said provision under the Finance Act, has been stipulated for the

purpose of income tax and is not applicable to consumer classification under the OERC Distribution (Condition of Supply) Code, 2004. Besides, BSNL is engaged in commercial activities and has to be classified under appropriate G.P. category. Representative of Reliance Communication Ltd. argued for allowing industrial tariff to them as in the case of IT and ITES Services. The Commission feels that their case is similar to that of BSNL which is to be included in GP tariff.

5.24.3 Very forceful presentations were made on behalf the Layer Farmer's Associations requesting a tariff at par with irrigation & agriculture. They are being classified under general purpose category which is much higher than the agricultural tariff. They requested that they should be allowed tariff applicable to irrigation, pumping and agricultural classes of consumers. Under the present provisions of the Supply Code they can not be classified under the irrigation and agriculture category. But there is sufficient strength in their argument for rationalising said category and fitting it into an appropriate category by amendment to the Supply Code which will benefit them in the form of reduction of tariff. Similar consideration can also be given to horticulture, pisciculture, floriculture and other agricultural related activities which could benefit a large section of the general consumers of the state and help additional consumption of electricity which is necessary after massive rural electrification is undertaken by the state as a matter of National Policy. In view of this, we direct that appropriate amendment be brought to the Supply Code to take care of the various consumer groups' interest. This amendment needs to be made within the next quarter of the coming year.

5.25 **Railway Traction Tariff**

5.25.1 The Railways agitated the same issues which they have raised at the tariff filing 06-07. The question of providing a reasonable tariff for Railway Traction raised by the Railways was also considered by OERC. The Commission would like to clarify that the railway traction tariff in Orissa is at par with HT or EHT tariff structure depending upon the voltage of supply. Railway traction tariff is lower in Orissa, as compared to many other states. Therefore, railways should have no grouse on this account.

5.25.2 The rationale behind railways claim for a single part tariff which is applicable for emergency power supply to captive power plants being intermittent in nature and to very large industrial consumers with a contract demand of 100 MVA and above with a guaranteed off-take at 80% is not sustainable as railways do not belong to any such category. Besides, every other consumer with contract demand of 100 KVA and above availing power supply at HT/EHT is covered under two part tariff following the principle of economic rationality for recovery of fixed and variable charges separately.

5.25.3 Railways pleaded that payment of maximum demand charges for each of traction substation could be replaced by a system of simultaneous maximum demand recording in contiguous substation. It may be mentioned that the railway traction supply is given by different licensees from the EHT network of the OPTCL and billing is done for the supply made against agreements executed between the supply licensees and the consumer. Since separate agreements are executed for individual traction loads, it will not be possible to adopt SMD for billing on the basis of simultaneous maximum demand recorded in contiguous substations.

5.25.4 Railways suggested that in case of feed extension due to power failure and the maintenance of line and substation by OPTCL the over drawl penalty should be ignored. As per Regulation 5 of OERC (Licensees' Standards of Performance) Regulation, 2004, the railways are entitled for compensation from DISTCOs for its failure to meet the guaranteed standard of performance. Hence, the Commission feels if overdrawl penalty is ignored then it will incentivise railways twice which is unacceptable.

5.25.5 Railways pleaded that payment of maximum demand charges from each of traction substation could be replaced by a system of simultaneous maximum demand recording in contiguous substation. It may be mentioned that the railway traction supply is given by different licensees from the EHT network of the OPTCL and billing is done for the supply made against agreements executed between the supply licensees and the consumer. Since separate agreements are executed for individual traction loads, it will not be possible to adopt SMD for billing on the basis of simultaneous maximum demand recorded in contiguous substations.

5.25.6 Railways demanded that minimum guaranteed consumption for non-utilization of electricity should not be charged if entire expenditure for transmission and distribution is borne by the railways in case of railway buildings. It is clarified that demand charges are collected for reservation of capacity by the supplier in the power station, even if, the entire expenditure for transmission and distribution is borne by the railways as in the case of railway buildings hence, they have to pay for the demand charges.

5.25.7 Railways suggested that the Colony consumption the tariff should be same to that of industrial colony but instead they are charged @ general purpose tariff. It is to be mentioned here that as per Regulation 80(1) of OERC Distribution (Conditions of Supply) Code, 2004 domestic category does not cover residential colonies attached to the industrial establishment where power supply is drawn through meter of the industrial establishment which means the industrial colony is a category by itself. As railways do not come under industrial category this type of tariff for their colony is not applicable.

5.25.8 Railways suggested for availing traction power supply from GRIDCO instead of availing in from DISTCOs. It is clarified that in the regime of open access, railways can have option to purchase power from any agencies other than the licensees in accordance with the relevant Regulation.

5.25.9 Regarding waiver of security deposit for Railways the Commission feels that as per Regulation 19(1) of OERC Distribution (Condition of Supply) Code, 2004 any person entering into an agreement with the licensee for supply of power shall have to deposit the security money. Railways being a consumer cannot be exempted from this provision of the Regulation. Moreover railways are also getting interest on the security deposit.

5.25.10 To the averment of Railway that Art.287 of the Constitution of India lays down that price of electricity for railways should be less by the amount of tax than the price charged to consumers of a substantial quantity of electricity, the Commission clarify as follows. Electricity duty is determined by the State Govt. and collected by the DISTCOs on behalf of the Govt. Any relief on this account comes under purview of the State Govt. The Commission only determines tariff for electricity sold by the DISTCOs.

5.26 Uniform Retail Tariff

Most of the objectors advocated in favour of uniform retail tariff throughout the state. Historically, uniform tariffs have been adopted in Orissa, and in many states of India, despite significant cost differences to serve different jurisdictional areas as defined in the licence conditions. The Commission feels that though cost-based tariff is more efficient, it would be desirable to give some more time to shift away from the uniform retail tariff. **Accordingly, for the year 2007-08, the Commission decides to adopt uniform Retail Tariff for all distribution licensees.**

5.27 Charging of Security Deposit by licensee

5.27.1 Some of the objectors pleaded that,

5.27.1.1 The licensee should pay interest on security deposit to the consumers at the prime lending rate at which nationalized banks normally lend money to it on Cash Credit Account and similar other facilities during the year. In accordance with our OERC regulation interest have to be paid at bank rate notified by RBI.

5.27.1.2 Bank Guarantee be accepted in lieu of cash Security Deposit to reduce the burden on consumers. OERC Regulation provides for cash security deposit and there is no provision for acceptance of bank guarantee in lieu of cash.

The issues raised by the objector with regard to security deposit are addressed in the Supply Regulation which are to be followed both by the licensee and the consumers..

5.28 **Demand charge in case of power cut**

Some of the objectors pleaded that demand charge should be calculated on pro-rata basis for the actual period of power availability. Alternatively, demand charge may be exempted if there is power interruption for more than 50 hours in a month. The Commission clarifies that in accordance with clause 85 (3) of OERC Distribution (Conditions of Supply) Code, 2004, during statutory power-cuts and power restrictions imposed by the licensee for a period exceeding sixty hours in a month, the monthly demand charges shall be prorated in accordance with the period and quantum of demand restrictions so imposed. In all other cases, the consumer is liable to pay the full demand charges. This also conforms to the provision under Regulation 110 of the OERC Distribution (Condition of Supply) Code, 2004. **However, consumers otherwise affected can claim compensation from the licensee in accordance with OERC (Licensees Standard of Performance) Regulation, 2004.**

5.29 **Remunerative Norm for availing power supply**

Some of the objectors pleaded that the licensees are not following the remunerative norm for providing new connections. Remunerative norms as stipulated in the OERC Distribution (Conditions of Supply) Code, 2004 for availing new connection is binding both on the consumers and licensee which has to be strictly followed. Affected consumers should approach the appropriate Grievance Handling Mechanism for enforcement of their rights.

5.30 **Meter Rent**

5.30.1 NESCO has proposed for abolition of meter rent. Objectors have been complaining that the licensees are continuing to charge the meter rent even after recovery of the entire cost of the meter. On this issue, the Commission would like to reiterate its own order passed in Case No.139, 141, 143 and 145 of 2005 dt.22.03.2005 which is as under :

"8.33.16 56.(1) The licensee shall supply the meter (unless the consumer elects to supply the same), cut-out/ MCB / CB / load limiter to consumers at the time of providing new service connection or at any other time as required.

(2) In case of new connection/replacement of meter, the consumer, in accordance with Sections 55 and regulations framed under Section 73of the Act, may himself procure the meter either from the vendors certified by the licensee conforming to licensee's technical specifications or requests the licensee to supply the meter and charge meter rent as per the tariff order. The licensee shall calibrate such meter at consumer's cost and seal the meter. The consumer shall have the option to get the meter calibrated in any standard testing laboratory of the Electrical Inspector.

Alternatively, consumer may choose to pay the full cost of the meter provided by the licensee. No meter rent shall be chargeable in such cases."

5.30.2 Therefore, meter rent and the cost of metering / lease should be maintained separately from the general revenue and expenses of the licensee. The consumer has to be allowed to exercise first option to purchase an appropriate meter. If the consumer intends to take the meter on hire, the licensee can charge meter rent. **The licence is directed to allow the consumer to own the meter by paying its legitimate cost if he/she so desires, in one instalment or can pay meter rent till the landed cost is recovered.** In such a case, if the meter becomes defective or lost, the case should be dealt with in accordance with provisions under OERC (Condition of Supply) Code, 2004.

The Commission is concerned about the complaint that absence of records for old meters which creates a problem about last date up to which the meter rent could be recovered. CEO, CESU during course of the hearing submitted that they had stopped collecting rent in such cases if rent has been collected upto 40 months. The Commission accepts this suggestion and directs that wherever records are not available collection of meter rent shall be stopped in case the rent has already been collected for the last 40 months.

5.30.3 The monthly rent only for the meter as per the existing rate shall be charged from the consumers to whom meter has been supplied by the licensee. The scale of meter rent including associated equipment applicable to various classes of consumers is given below:-

	Type of Meter	**Rent in Rupees**
1.	Single phase electro-magnetic Kwh meter	15/-
2.	Three phase electro-magnetic Kwh meter	30/-
3.	Three phase electro-magnetic trivector meter	800/-
4.	Trivector meter for Railway Traction	800/-
5.	Single phase Static Kwh meter	35/-
6.	Three Phase Static Kwh meter	100/-

7. Three phase Static Trivector meter 800/-
8. Three phase Static Bivector meter 800/-

We observe that there are delays for testing of meters leading to delay in extending new connection to the consumers. Besides that CEA Regulation provides for accredition of meter testing laboratories. The licensees should take into consideration the CEA directives in the matter and suitably strengthen their meter testing laboratories so that they can handle repair, replacement of defective meters which will reduce the number of consumer complains on that account.

5.31 **Special Tariff for different HT/EHT consumers**

Many steel industries wanted a special tariff. A study of the tariff structure at HT/EHT would show that, the tariff structure is fully rationalised. The rates are uniform for consumers with contract demand 110 KVA and above receiving power either at HT/EHT except for the emergency power supply to the captive power plants and for consumers with CD 100 MVA and above. It includes consumers like general purpose, public water works and sewerage, pumping, large industry, power intensive industry, mini steel plant, railway traction and heavy industries. The per unit rate of electricity is equal for such category of consumers provided that the power factor and Consumption Ratio remains same at HT or EHT. This is an indicator of moving towards cost based tariff structure. In fact, all HT/EHT categories can be rolled into one but for the differentiation in electricity duty imposed by the Govt. **For the reasons explained above, the Commission, therefore, does not consider it necessary to differentiate between various classes of consumers except where it is a legacy for the past for some specific reasons.**

JCL, Ganjam submitted that they are a loss making concern employing thousands of employees but cannot continue to sustain their operation unless they are given a lower tariff comparable to that has been allowed to the industries under special tariff category. In case that is not permitted they may be allowed the facility of open access from CESU. Withdrawal from SOUTHCO of a consumer and permitting open access from CESU will certainly have an adverse impact on the financial help of SOUTHCO.

SOUTHCO has been granted a bulk supply price much lower than the price they were charged during the FY 06-07 compared to other licensees. This should incentivise their functioning and SOUTHCO and JCL should work out a special agreement so that JCL continues as a consumer of SOUTHCO to the mutual advantage of both.

5.32 **Incentive for Higher Consumption**

5.32.1 Some objectors proposed to withdraw the condition of not reducing contract demand during next 3 years to entitle a consumer to avail load factor incentive at different slabs. The purpose for giving incentive on

higher consumption was to encourage consumption so as to maximise the capacity utilisation with a future action plan for assessment of energy requirement and revenue realisation for a definite period. Predictability of the consumption pattern would help to sustain a stable tariff regime. Flexibility of reduction of CD would make the planning process for future requirement of energy and revenue realisation unpredictable. Therefore, those who are willing to avail of this benefit should be prepared not to reduce their contract demand for a period of three years effective from 01.04.2005.

5.32.2 Some objectors suggested that, for the purpose of computation of incentive for higher consumption, load factor should be calculated based on the Maximum Demand in place of MD or CD, which ever is higher. In this context, it may be clarified that Load Factor has been defined in the OERC Regulation following the standard practice in industry. The objective of incentive tariff is to encourage the best utilisation of the existing capacity. When the maximum demand is less than the contract demand then there is no full utilisation of the capacity created. It is, therefore, necessary that, a suitable mechanism be inbuilt to the tariff structure so that the highest utilisation capacity takes place at the lowest possible cost. As such, the Commission does not find it justifiable to link the definition of load factor with the concessional incentive tariff.

5.32.3 The incentive calculation for the purpose of entitlement of incentive is not to be based on "load factor" but on the basis of ratio defined as follows: -

$$\text{Consumption Ratio (CR)} = \frac{\text{Actual consumption during a given period (P)}}{\text{(Maximum Demand or Contract Demand whichever is higher in KVA) x (No. of hours during P) x 0.9}}$$

where KW = KVA x 0.9

The reason for adoption of this formula is that consumers are found to be defaulter achieving higher level of consumption and yet become eligible for Concessional tariff by keeping the maximum demand sufficiently low (in the denominator) of the ratio defined for "load factor" in para (2) (y) of the OERC Distribution (Condition Supply Code), 2004.

This would defeat the purpose of providing for Concessional tariff, viz, achieving higher level of consumption.

5.32.4 The tariff structure now prescribed for allowing concessional incentive tariff may have to be redesigned when we move away from the present practice of determination of consumption ratio to load factor system as provided in the regulation. This needs no repetition that the expected revenue of the distribution licensees as well as the charges payable by the consumers were suitably worked out in the concessional incentive tariff keeping consumption ratio in view. At a future date, the Commission may dispense with the minimum stipulation period of 3 years as stipulated for availing benefit of incentive tariff and do away with the consumption ratio and accordingly redesign a tariff on slab rate basis so that consumers who are not getting the benefit of concessional incentive tariff may get that benefit.

5.33 **Incentive for HT/EHT consumer**

Some objectors pleaded for reduction of incentive for the first slab from 50% to 40%. **For the reasons explained in the forgoing paragraph there is no justification of allowing incentive from the level of 50% to 40% for the year 2007-08.**

5.34 **Special Tariff for Industries with Contract Demand of 100 MVA and above**

The Commission in the tariff order for FY 2003-04 had approved a rate of 200 paise/unit for consumption by industries with a contract demand of 100 MVA and above and maintaining a guaranteed monthly off take of 80%. This tariff should be applicable provided the consumer is willing to avail these tariffs at least for a period of 5 years on pay and take basis. These consumers will not pay monthly Demand Charge and shall pay only a consolidated Energy Charge. They will have to restrict their maximum demand within the contracted capacity. In case the maximum demand exceeds the contracted capacity, Demand Charge as applicable to the relevant consumer category will be payable only on the maximum demand in excess of the contract demand. The Commission while approving the continuance of the said tariff would like to say that the input cost of power purchase is going up from year to year. The Commission directs that for FY 2007-08 after taking into consideration the rise in annual bulk supply price and the annual inflation into consideration fixes this at 215 paise/unit for the year 2007-08 subject to change as may be necessary from year to year.

5.35 **Incentive for higher consumption to HT and EHT group of consumers :**

1. **The existing provision of incentive tariff for HT and EHT consumers was examined.**
2. **The Commission also analysed the expected load growth for HT and EHT consumers for the ensuing FY 2007-08. It is observed that there will be substantial rise in HT and EHT consumption over the period 06-07 and certainly much higher figure than the actual figures of 05-06.**

3. **The Commission took cognizance of the input cost of power procurement from GRIDCO by the distribution companies through payment of bulk supply price.**
4. **The Commission had also directed that the incentive shall be available to those of the consumers who will not reduce their contract demand during the next three financial years starting from FY 2005-06.**
5. **The overall bulk supply price for the FY 2005-06 by GRIDCO to DISTCOs was 120.85 paise per unit which included a transmission charges of 25 paise per unit. Essentially the energy price per unit for sale of power by GRIDCO to DISTCOs for that year works out to 95.85 paise per unit. For the ensuing year 2007-08 the overall power purchase price of DISTCOs is 135.66 paise excluding the transmission charges payable over and above this. A comparison of bulk power purchase cost between 05-06 and 07-08 indicates that there has been a price rise to the tune of (135.66 – 95.85) = 39.81 paise per unit) for DISTCOs. Applying a transmission loss of 5% for EHT transmission the difference in purchase price is 41.90 paise per unit which is in excess over and above the purchase price of 05-06.**
6. **We have rationalised tariff structure for the FY 07-08 with the objective of resource realization from the consumers who are being supplied power at a reasonably low price. Due to higher sale at HT and EHT consumers sale of power @150/180 paise per unit at EHT, 170/200 paise per unit at HT would amount to a subsidy from the general pull of consumers to these consumers as they continue to pay at a lower rate for the proportionate energy they are billed at that rate because the purchase price has gone up by 42 paise per unit from the time this rate was fixed in FY 05-06. Continuance of this rate would not only mean subsidies for these group but also loss of revenue which has to be mopped up by distributing it among other classes.**
7. **Ordinarily, power to this group should have been supplied @ 290 paise per unit (EHT) /300 paise per unit (HT) apart from demand charges. By allowing this incentive they have been supplied power at a lower rate on several grounds discussed in the appropriate tariff order. At that point of time lower capacity utilization of NTPC power station and absence of evacuation facility needed supply of power at a lower cost to encourage lesser use of costly captive power.**
8. **Today, the situation is different. Evacuation facility is strengthened. With intra-state and inter-state tie up there is demand for harnessing the captive generation.**
9. **There has been a growth of industrial activity in the state requiring higher quantum of purchase from costly generating sources both inside and outside to meet the needs of the industrial consumers raising the weighted average price per unit of supply. We have also seen that the industries with captive generating plant have contracted with GRIDCO supply of power @ 202 paise per unit. At least such of**

the industries should not purchase power at the present applicable rate causing a loss to the supplier.

10. **Keeping all these factors in view, the Commission directs that the HT and EHT consumers shall pay the energy charges effective from 01.04.07 at the rates indicated in the table below :**

Table – 19

	HT	**EHT**
Consumption upto 50%	**300 p/u**	**290 p/u**
>50% = <60%	**225 p/u**	**202 p/u**
>60%	**220 p/u**	**202 p/u**

5.36 We are also conscious that even with the change in the slab rate, the overall tariff for such consumers' remains well within the inflationary trend of around 5.5% over the FY 06-07 for consumers availing power at 80% Consumption Ratio. In the incentive scheme at present tariff they pay around 279 paise per unit inclusive of demand charges. Applying an inflation of 5.5% for FY 2006-07 this requires additional rise of around 16 paise per unit. While designing the above slab we have kept in mind so that consumers availing incentive tariff pay not more than 15 to 16 paise per unit. An illustrative example is given below

Table – 20
At HT

	Total Rate at revised tariff	Total Rate at existing tariff	**Rise P/U**	**Rise (%)**
Consumption Ratio (%)	per KWH	per KWH		
	(P/KWH)	(P/KWH)		
80%	**308.68**	**293.05**	**15.63**	**5.3%**
75%	314.59	301.26	13.33	4.4%
70%	321.34	310.63	10.71	3.4%
65%	329.14	321.45	7.69	2.4%
60%	338.24	334.07	4.17	1.2%
55%	348.53	346.26	2.27	0.7%
50%	360.88	360.88	0.00	0.0%

Table – 21
AT EHT

	Total Rate at revised tariff	Total Rate at existing tariff	**Rise P/U**	**Rise (%)**
Consumption Ratio (%)	per KWH	per KWH		
	(P/KWH)	(P/KWH)		
80%	**295.05**	**279.302**	**15.75**	**5.6%**
75%	301.26	287.922	13.33	4.6%
70%	308.34	297.773	10.57	3.6%
65%	316.53	309.141	7.38	2.4%
60%	326.07	322.402	3.67	1.1%
55%	337.35	335.348	2.00	0.6%
50%	350.88	350.883	0.00	0.0%

We would like to conclude that even the rate so arrived at are far lower than the normal tariff applicable to the consumer who operate upto 50% .

5.37 **Method of Determination of Incentive**

5.37.1 Incentive shall be available to those consumers who will not reduce their contract demand during the three financial years from 2005-06.

5.37.2 It is necessary that the method of determination of incentive should be clearly understood.

5.37.3 For the purpose of determination of eligibility for incentive tariff percentage of consumption shall be with reference to contract demand or the maximum demand whichever is higher (e.g. CD or MD X PF X number of hours in a month).

5.37.4 The ratio of the total number of units consumed during a given period to the total number of units that would have been consumed had the contract demand or the maximum demand whichever is higher was maintained through out the same period as indicated above, exceeds 50%, of the total consumption the consumer will be entitled to get the benefit of incentive.

5.37.5 Demand Charges as applicable would be chargeable in addition to the above.

5.38 **EHT Consumer**

5.38.1 Consumption in a month calculated on the basis of the contract demand or maximum demand whichever is higher upto 50% shall be payable @ 290 paise/unit for consumers availing power at EHT.

5.38.2 In addition to the above all consumption in excess of 50% but upto and including 60% shall be payable @ 202 paise/unit for consumers availing power at EHT.

5.38.3 When the consumption exceeds 60% in a month all such excess consumption shall be payable @ 202 paise/unit for consumers availing power at EHT in addition to the charges indicated above.

5.39 **HT Consumer**

5.39.1 Consumption upto 50% shall be payable @ 300 paise/unit for consumers availing power at HT.

5.39.2 In addition to the above all consumption in excess of 50% but upto and including 60% shall be payable @ 225 paise/unit for consumers availing power at HT.

5.39.3 When the consumption exceeds 60% in a month all such excess consumption shall be payable @ 220 paise/unit for consumers availing power at HT in addition to the charges indicated above.

5.40 **Special Tariff for Power Intensive Industries covered under Special Agreement.**

5.40.1 There exist 4 Ferro Alloys industries drawing power from NESCO under special agreements namely 1) Balasore Alloys, 2) Charge-Chrome Plant, (TISCO), Bamnipal, 3) FACOR, Bhadrak, 4) Ferro-Chrome Plant, Jajpur. The arrangement has been existing since pre-reform days when OSEB was supplying power; and the agreements were being entered into with the suppliers as and when the occasion arose: when GRIDCO became the supply licensee and thereafter when NESCO became the supply licensee. These Ferro-Alloys industries also came in the category of Power Intensive Industries, vide Regulation 80(13), and were entitled to normal concession rate available under incentive tariff if they satisfied conditions laid down there for in this order. Over and above, that these industries have been enjoying special tariff under the aforesaid agreements. The rationale of such special agreement-based tariff has been that these were export oriented units and unless a viable tariff was provided they would not be able to compete in international market and they would close down with consequential loss of revenue of NESCO from high-consumption customers. For some year the shortfall of agreement rate from the general tariff rate for Power Intensive Industries was being absorbed by NESCO as a condition for allowing special tariff and nothing of it was being passed onto the consumers of the State. Subsequently at the request of the licensee these industries have been allowed special tariff structure by the Commission. But there has been a serious impact on the revenue stream of the power sector due to continuance of this type of special agreement allowed. The other condition has been that the special agreement-based tariff would be applicable only for a guaranteed off-take of 80%.

5.40.2 The incentive formula based on "Load Factor" in clauses 4(a) & 4(b) of the Special Agreement pertains to tariff. It therefore follows that in revising the tariff the Commission may revise the incentive formula as well as the concession formula for Special Agreement-based tariff. Hence the Commission directs that the consumption level for the purpose of entitlement to Special Agreement-based tariff will be based, not on "load factor" but on "consumption ratio" defined as follows: -

$$\text{Consumption Ratio (CR)} = \frac{\text{Actual consumption during a given period (P)}}{\text{(Maximum Demand or Contract Demand whichever is higher in KVA) x (No. of hours during P) x 0.9}}$$

where KW = KVA x 0.9

5.40.3 For the year 2007-08 NESCO has proposed that no special tariff should be allowed to the industries having their own CPP. In the changed scenarios as explained under the incentive tariff for HT and EHT consumers the Commission relooks to the matter basing on the present prevailing cost of power between the normal tariff applicable to EHT/HT consumers and the special tariff allowed earlier there could be revenue gap to the tune of around Rs.50 crore per annum with consumption of about 1000 MU. Hence, in the public interest the Commission revises the tariff of the industries covered under the special agreement. The Commission, therefore without upsetting the existing tariff structure of power intensive industries at HT and EHT directs that the industries covered under special agreement will be allowed a discount of 25% on the energy charges up to 50% of consumption ratio as defined earlier.

5.40.4 However, the overall monthly charge shall be limited to 245 p/u where overall rate exceeds 245 p/u.

5.40.5 As ordered in the tariff order for FY 2005-06 this special agreement shall remain in force up to 31.03.2008.

5.40.6 The Commission had taken into consideration the appeal made by the consumers to calculate the incentive based on the annual consumption figures. The conditions envisaged a monthly guaranteed off take of 80% implying that when a consumer consumes at a level less than 80% the payment has to be made as if the utilization has been upto the level of 80%. There could be certain months in which the level of consumption may be below 80% and some months above 80%. The consumption above the level of 80% helps the consumer to get a lower tariff per unit. An averaging of the consumption over the whole year may enable a consumer to reach the level of 80% but at the same time may deprive them of lower tariff for the months during which they were operating at a level higher than 80%. The profit or loss on this account can be anybody's guess. In view of the above stated facts we do not agree with the submission made by these consumers and would not like to depart from the principle based on which this incentive scheme has been devised.

5.41 **Incentive Tariff & Over Drawl Penalty**

On the issue of exemption from overdrawl penalty by consumers availing incentive tariff, the Commission would like to observe that Incentive Tariff has been designed for better capacity utilisation. Unplanned overdrawl will burden the system and may affect other consumers connected to the system like dip in voltage and tripping of feeders, besides putting the utilities in difficulty in the ABT regime when they are required to give a 15 minutes day ahead schedule of their demand. The intension of the Over Drawl Penalty is to alert the consumers to predict a realistic demand so that the DISTCOs in turn will be in a position to project their estimated demand to GRIDCO. **Hence, Incentive tariff should not be linked with Over Drawl Penalty which is on a different footing. However we take into consideration that we have allowed drawal by the industries during off peak hours to draw upto 120% of their contract demand without levy of any penalty. In view of that for the purpose of determination of incentive calculation the demands recorded in hours other than off peak hours shall be the basis for calculation of incentive.**

5.42 **Period of Agreement**

Some objectors brought to the notice of the Commission the following issues:

5.42.1 The validity of agreement for power supply may be reduced to one year from the present duration of 5 years.

The above matters relate to the provisions under OERC Distribution (Conditions of Supply) Code, 2004. The provision in Form 3 under Regulation 15 stipulates that

"the agreement shall commence from the date of its execution and shall continue to be in force until the expiry of five years from the date of supply, and thereafter shall so continue until the same is determined by

either party giving to the other, two calendar month's notice, in writing, of its intention to terminate the Agreement."

5.42.2 The above codal provisions have been incorporated keeping in view the financial viability of the utility for the investment made. In case the agreement is executed for only one year the recovery cost will be quite high and the tariff will unaffordable if the commercial viability norms are applied. Besides no utility will be able to prepare perspective plan for growth and development on a long term sustainable basis.

5.42.3 There should be no imposition of time limit for reduction of contract demand. With regard to the reduction of contract demand the issue discussed in the above para should apply within the framework of OERC Distribution Conditions of Supply Code, 2004.

5.42.4 There should be EXIT clause in the power supply agreement fixed for five years.

5.42.5 Some industries pleaded for an exit clause in the supply agreement. When an industry enters into an agreement, a scheme of revenue earning is planned for the utility to meet the obligation of recovery of cost of capital employed. The whole objective of any investment should not be made infructuous due to abrupt withdrawal through termination of an agreement. It needs to be emphasised that industries want this kind of arrangement with electrical industry saddled with burden of universal service obligation. The codal provision should therefore only apply which has been adopted with due deliberation.

5.42.6 Nonadherence of phasing of contract demand beyond the control of the consumer. Some consumers pleaded that the benefit of reduction in contract demand should be allowed to them if they do not adhere to the phasing of contract demand entered with the licensee due to reasons beyond their control without insisting the codal provisions for reduction of contract demand. The licensees on the other hand pleaded that when investments have been made for giving power supply to such industries and if they failed to draw the desired load as agreed it puts the licensee to great financial loss which obviously will have to be allowed to pass through in tariff to be shared by other consumers. It is, therefore, very much appropriate that for the failure of such consumers all other consumers need not be burdened. The Commission very much concurs the view forwarded by the licensee. Before entering into an agreement the consumers should have given due consideration to the investment to be met by a public utility service. We direct that if it could be established that there shall be absolutely no financial liability on account of such rephasing of contract demand the licensee may give due consideration with mutual agreement. In case of HT and EHT consumers investment if any made by the OPTCL should also be taken into consideration.

5.42.7 The third issue is temporary enhancement of contract demand to meet the short term requirement of an industries. This should essentially be addressed by following wherever possible the conditions of short term

open access regulation to access power from sources other than the lincence of its area of supply. In case the same consumer wishes to avail power supply from the licensee where it is situated the ideal condition should be to allow the normal tariff without incentive applicable for such classes of consumers.

5.42.8 **Issue of Street Light**

Cuttack Municipality submitted during hearing that for the purpose of billing an average working hour of 10 hours should be adopted for street lights and metering arrangement should be provided for all street lights. The Commission time and again have directed that meters have to be provided for all consumers of electricity. The municipality shall have entered into an agreement with the licensee for power supply. They should insist for meters. Once metering is completed this problem of 10 hours or 11 hours will not arise. Therefore, all the licensees are directed to take up metering for street lighting as such loads are on the increase. Until metering is in place the Commission directs that billing should be done assuming 11 hours burning time taking the average use of summer and winter seasons.

5.42.9 **Single Point Supply to Apartment building**

CESU in its application submitted that single point power supply to all apartments and market complexes, colonies of different departments and developers may be allowed. No individual connection may be provided by CESU to the above category of consumers. Some of the objectors pleaded in favour of individual supply to all occupants of the apartments. The Commission clarifies that in accordance with the provision under the OERC Distribution (Conditions of Supply) Code, 2004 supply to lawful occupier/owner of the flats should be provided in case the concerned owner/occupier desires to receive power at a single point and also the concerned occupier/owner cannot be denied the individual connection, if they so desire.

5.43 **Exclusion of annual maintenance shutdown period from calculation of Consumption Ratio**

Some of the objectors submitted that, annual maintenance shutdown period should be excluded from calculation of Consumption Ratio for the purpose of incentive tariff with guaranteed minimum off take at a load factor of 80%. In this context, the Commission observes that, in order to avail Consumption Ratio incentive, the consumer should take adequate steps to run his industry efficiently so that down time is minimised. 80% guaranteed minimum off take has been considered leaving a gap of 20% towards any shut down on account of annual maintenance. In view of this we do not consider it necessary to allow any relaxation if the industry fails to complete their normal annual maintenance work within this scheduled allowance of 20% of the days in a year. But there could be instances when the industries may require capital maintenance or to attend to major breakdown and repairs requiring long duration of repairs. Such period of maintenances may be excluded from the purview of compulsory 80% monthly

payment subject to prudence check by the licensee with mutual consent of both the parties. Hence, extension of any further benefit in this regard will not be appropriate. **The Commission further directs that non-availability of power supply due to failure on the part of the licensee shall have to be dealt with in accordance with OERC (Licensees' Standard of Performance) Regulation, 2004.**

5.44 **Computation of Consumption Ratio should be made for peak and off peak hours separately and the overall load factor be computed integrating the above data.**

Regarding above suggestion of some objectors it is to be stated that the Regulation does not differentiate the maximum demand in off peak period and the peak period for computation of the consumption ratio. However the special tariff designed by the Commission takes care of all these elements. The question of non-consideration of off peak maximum demand is addressed earlier.

5.45 **Industrial Colony Consumption**

On the issue of energy consumption in Industrial colony limiting to maximum of 10% to be included in the first slab of 50% for incentive calculation and removal of the ceiling limit of 10% of total consumption for the colony consumption charging at domestic rate it is observed that as per Regulation 80 i.e. 'classification of consumer' in the OERC Distribution (Condition of Supply) Code, 2004, the domestic category does not include residential colonies attached to industrial establishment where power supply is drawn through the meter of the industrial establishment. **The Commission does not approve any change in the existing pattern of billing of colony consumption, as proposed by the objectors.**

5.46 **Military Engineering Services (MES), Ministry of Defence**

5.46.1 In the Retail Supply Tariff for the year 2006-07, the Commission on the basis of Ministry of Power, Govt. of India letter dated 26.07.2004, took the view that MES should be a deemed distribution licensee under Sec.14 of the Act.

It now appears that the approach of MES is legally misconceived. By virtue of S.184, the provisions of the Act do not apply to MES and therefore the question of MES being a licensee or deemed licensee does not arise. The power supply to MES is purely in the realm of contract as a consumer. We have taken into consideration the request of MES to alow them a concessional tariff as they are being as G.P. consumers with mixed loads. To reduce their financial burden they can segregate their domestic consumers and avail a single point supply at HT with a considerable lower tariff. The rest of the loads can be covered under GP Tariff with reduced contract demand.

5.47 **Cosboard**

The National Tariff policy deals with the subject of Cross-Subsidy in following terms

"For achieving the objective that the tariff progressively reflects the cost of supply of electricity, the SERC would notify roadmap within six months with a target that latest by the end of year 2010-2011 tariffs are within ± 20% of the average cost of supply. The road map would also have intermediate milestones, based on the approach of a gradual reduction in cross subsidy.

For example if the average cost of service is Rs.3 per unit, at the end of year 2010-2011 the tariff for the cross subsidized categories excluding those referred to in para 1 above should not be lower than Rs 2.40 per unit and that for any of the cross-subsidising categories should not go beyond Rs 3.60 per unit."

The present level of cross-subsidy is well within the target of ±20% of the average cost of supply. In other words what is required to be achieved by the end of the year 2010-2011 has been already achieved but the Commission finds that reduction or elimination of cross-subsidy in the present tariff fixation would entail the LT consumers of Orissa being burdened with much heavier tariff that they can sustain, especially in the absence of Govt. subsidy/subvention which is not forthcoming. This year's tariff does not therefore admit of any reduction in cross-subsidy.

The Cosboard has in Case No.47/2006 sought for allowing a discount tariff at the rate of 2.07p/u by eliminating cross –subsidy in its individual case. In a tariff design the Commission has to follow principles for general application and it is not possible to give specific relief to individual consumers. This would amount to discrimination in terms of S.62(3) of the Act and violation of Article 14 of the Constitution of India. Even in Cosboard's individual case it appears that it is getting power supply as a "Large Industry" category having 80% consumption ratio at the rate of 2.93p/u, as against the average cost of supply @Rs.2.95 p/u in the State. Thus Cosboard is itself subsidized, provided it operates efficiently enough so as to achieve 80% consumption ratio.

5.48 **Tariff Hike**

5.48.1 The recurring objection against tariff increase has been the constraint of affordability. The domestic consumers have urged to leave them out of tariff increase because they cannot afford and they cannot pass on the burden which the commercial and industrial consumers can do. On the other hand, commercial and industrial consumers have pleaded that their products cannot be competitive and therefore their tariff should be reduced rather than increased. As such, the industrial consumers pleaded for reduction in cross subsidy. Each category has pleaded that tariff, if increased, should be for other categories. We cannot fully ignore the affordability factor because safeguarding interest of consumers is one of the parameters in tariff fixation. But affordability cannot be the prime consideration Section 61(d) of the Electricity Act, 2003 envisages safeguarding of consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner. Further, Tariff Policy stipulates that, the Regulatory Commissions need to strike the right balance between

the requirements of the commercial viability of distribution licensees and consumer interests.

5.49 **Rural Electrification**

5.49.1 The Commission is aware of the fact that the State Government has taken up Rural Electrification work in a massive scale in consonance with the national agenda to achieve 100% Rural Electrification and providing electricity to all households by 2012. While extending power facilities to every nook and corner of the State necessary precautionary measures have to be taken to avoid further loss to the power system. In fact, extension of lines would mean additional technical loss apart from commercial loss which can be prevented by taking the following measures as detailed below:-

5.49.1.1 Off grid supply/distributed generation should be encouraged in remote villages situated away from GRID.

5.49.1.2 In case the electrification is done by extending the grid supply then the extension should be on High Voltage Distribution System (HVDS) by extending the HT lines up to the load centre of the village. Then LT distribution can be done by installing small capacity transformers like 10 KVA, 16 KVA, 25 KVA to cater to the needs of the villagers. Service connections can be extended directly from the LV side of the transformers to the consumer's premises. If necessary, Aerial Bunched Conductors (ABC) can be used for extending LT supply to distant points which cannot be reached through normal service connection wires.

5.49.1.3 Village Committee may be set up to look after load development, load management, billing and collection in the village.

5.49.1.4 On the LV side of the transformer, a meter is to be installed which will record the total energy supplied by the transformer. The village committee can be billed based on this meter reading on a suitable consolidated tariff to be approved by OERC depending on the mix of load in the village. Franchisee(s) or village committee(s) shall be entrusted with billing, collection and regularisation of unmetered connection to improve billing and collection efficiency in rural areas and achieving loss reduction in the process giving priority to the village panchayats to be the Franchisee. Even 11 KV feeders can be handed over to the franchisee(s) whose remuneration can be fixed beyond a certain benchmark of performance. Franchisees do not need a distribution licence as provided under the 7th proviso of section 14 of the Electricity Act, 2003.

5.49.1.5 The extension of lines in the village should be done only after firm commitment from the consumers by way of giving advance security deposit/paying for the cost of extension etc.

5.49.1.6 The capital investment required for rural electrification will be fully funded by the State Govt. through various GOI sponsored schemes such as RGGVY, APDRP, PMGY, MPLAD, MLALAD etc. as 90% capital subsidy to DISTCOs.

5.49.1.7 The Commission is of the view that aforesaid precautionary measures will reduce commercial loss substantially. **The Commission, therefore, directs DISTCOs to adopt measures mentioned above while taking up rural electrification work.**

6 FINANCIAL ISSUES

6.1 Operation & Maintenance Expenses

The operation and maintenance 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

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."

The aforesaid principles have been followed in determining the various elements of O&M expenses for the year 2007-08.

6.1.1 Employees Cost

6.1.1.1 Major components of Employees Cost proposed by four DISTCOs for the FY 2007-08 as per their latest filing are given in the table below.

Table - 22

(Rs. in crore)

Particulars	**WESCO**	**NESCO**	**SOUTHCO**	**CESU**
Basic Pay + D.P.	48.72	45.65	50.32	71.10
Dearness Allowance	17.97	16.42	12.58	21.33
H.R.A.	7.57	8.88	8.28	8.53
Other	7.90	3.36	4.72	20.04
Terminal benefit (Pension & Gratuity)	27.28	26.76	22.34	47.36
Total	109.44	101.07	98.24	168.36
Less capitalized	2.60	2.02	Nil	NIL
Net	106.84	99.05	98.24	168.36

6.1.1.2 The audited data for WESCO, NESCO and SOUTHCO prepared for Income Tax purposes are available up to the year 2005-06. In case of CESU the audit report is available up to the year 2003-04.

6.1.1.3 The Commission keeping in view the proposal submitted by the licensee in this respect as well as the trend of past expenditure has to be satisfied that the expenditure to be incurred should be reasonable, realistic and prudent. For this purpose, an analysis of the total employees cost approved by the Commission and audited figures of the past years is given in the table below.

Table – 23

(Rs. Crore)

Year	WESCO		NESCO		SOUTHCO		CESU	
	Approved	Audited	Approved	Audited	Approved	Audited	Approved	Audited
1999-00	48.62	54.01	39.84	44.61	43.87	44.30	82.75	97.92
2000-01	56.92	55.17	46.26	46.47	46.26	45.61	89.37	99.58
2001-02	56.86	57.09	49.60	51.88	47.53	47.34	93.27	95.31
2002-03	58.16	58.66	51.11	52.22	48.53	47.58	95.63	89.91
2003-04	60.79	59.49	56.17	49.68	52.92	48.40	108.86	97.83
2004-05	65.18	68.22	54.31	52.51	56.85	48.55	107.49	NA
2005-06	69.06	77.79	61.12	66.51	63.73	61.22	113.30	NA
2006-07	76.78	-	67.98	-	66.72	-	113.10	-

6.1.1.4 The expenditure for 2005-06 based on the accounts prepared for Tax Audit purposes for WESCO, NESCO and SOUTHCO and the provisional figure for the year 2005-06 as available in the filing in respect of CESU are given in the table below:

Table - 24

(Rs. in crore)

Particulars	**WESCO 2005-06**	**NESCO 2005-06**	**SOUTHCO 2005-06**	**CESU 2005-06**
Basic Pay	29.72	26.81	25.08	41.84
DA	17.95	15.91	15.60	27.86
HRA	4.51	4.17	4.09	7.05
Others	2.10	2.36	2.00	10.53
Terminal benefit	23.51	17.26	14.45	28.78
Total	77.79	66.51	61.22	116.06
Less capitalized	0.77	1.38	Nil	Nil
Net	77.02	65.13	61.22	116.06

6.1.1.5 As regards DA, the State Govt. Notification on DA rate from time to time is given below.

Table - 25

With effect from	**DA (%)**	**Notified by GoO**	**Notified by GoI**
01.01.2005	67% (As per GoO order dtd. 15.09.2006 the DA equivalent to 50% of Basic Pay has been merge with Basic Pay w.e.f 01.04.2006)	17%	17%
01.07.2005	-	21%	21%

01.01.2006	-	-	24%
01.07.2006	-	-	29%
01.01.2007	DA rise anticipated	-	32%*
01.07.2007	DA rise anticipated	-	35%*

(*) Anticipated by the Commission.

6.1.1.6 The Government of Orissa notified the merger of 50% of DA to the Basic Pay as Dearness Pay (DP) w.e.f. 01.04.2006. The DA rate at the time of merger was 67% which was reduced to 17% after the merger. The Government of Orissa notified another dose of DA @ of 4% raising it to 21%. The DA of 21% is to be calculated on the Basic Pay plus Dearness Pay. The Government of Orissa has not revised the DA since 01.07.2005. However, Government of India as has released two more doses of DA as on 1.1.2006 and 01.07.2006 raising it to 24% and 29% respectively. With an anticipated half yearly rise in DA @ 3% the annual average DA rate may reach 35% as emerges from the figures in the table above given in asterisks. The Commission calculates D.A. @35% over the Basic pay + Dearness Pay for the FY 2007-08.

6.1.1.7 The three DISTCOs namely, WESCO, NESCO and SOUTHCO in their revised filing has assumed extra cost due to induction of additional manpower as per detailed below:

Table - 26

	WESCO	**NESCO**	**SOUTHCO**
No. of employees to be inducted during 2007-08	593	200	684
Annual Cost (Rs. crore)	1.43	0.71	1.81

6.1.1.8 CESU in its reply to query has submitted that they have inducted 2430 contract employees over and above of their regular employees. The extra cost on this account is projected at Rs.7.94 Crs. for the year 2007-08.

Table : 27

Employees Table				
Particulars	WESCO	NESCO	SOUTHCO	CESU
Employees as on 01.04.1999				
Total no of Employees as on 31.03.2005	NA	4201	NA	7010
Total no. employees retired or otherwise during FY 2005-06	NA	184	NA	NA
No of personal approved during 2005-06	NA	114	NA	NA
Total no of employees as on 31.03.2006	5083	4131	3931	6794
Total no. of employees likely to be retired or otherwise during 2006-07	NA	221	NA	200 (Apprx.)
No of person appointed during 2006-07	NA	318	NA	NA
Total No. of employees as on 31.03.2007	NA	4228	3736	NA
Proposed recruitment during 07-08	593	200	684	600
Expected retirement during 2006-07	NA	174	221	NA
Total no of employees likely as on 31.03.2008	4717	4254	4199	NA

6.1.1.9 While the no. of employees to be recruited could vary from the estimated number every utility can spell out the number of employees due for superannuation in the next financial year. WESCO, SOUTHCO and CESU have not supplied the data either due to casualness or prefer to suppress information putting the Commission in difficulty for estimation of terminal benefits. CESU has not submitted the audited account from 2004-05 onwards. Therefore for the purpose of projecting the employees cost for 2007-08, Commission has considered the approved figure of its own order of 2006-07 as the base numbers. The staff strength of CESU as on 31.03.2003 was 7729 which has declined to 7010 by 31.03.2005 and 6794 as on 31.03.2006 due to retirement and otherwise. The data regarding the number of employees for 2006-07 onwards is not available. Basing on the past trend the Commission considered reduction of the number of employees due to retirement or otherwise to 200 during the year 2006-07 and accordingly the number of employees as on 31.03.2007 were calculated at 6594. The basic pay as found from the approved figure for 2006-07 has been prorated for the FY 2007-08 corresponding to the reduced number. Thereafter, appropriate escalation factor have been applied to determine the basic pay for FY 2007-08. For the other three companies viz. WESCO, NESCO and SOUTHCO the basic pay available in the audited account of 2005-06 and the reduction in the number of employees shown in their filing has been considered to determine the basic pay for the year 2007-08.

6.1.1.10 The Commission, in accordance with earlier orders, allows 3% escalation over the basic pay on year to year basis towards

normal annual increment in respect of all DISTCOs treating the audited figures as the base for determination of the basic pay for 2007-08.

6.1.1.11 The extra expenses due to induction of additional manpower cause strain on the financial position of licensees. The Commission before allowing such an addition would like to be satisfied about the prudence of the proposal.

6.1.1.12 The Commission from time to time have been insisting for induction of additional manpower to carry out energy audit on sustained basis for reduction of commercial losses of the utility. The licensee is also being repeatedly directed to fill up the vacancies due to retirement and attrition so as not to affect the services to the consumer.

6.1.1.13 Medical reimbursement has been allowed @3% of the basic pay. House rent allowance expressed as a percentage of the basic pay as ascertained from the audit report has been applied for determination of HRA for the year 2007-08.

6.1.1.14 **Terminal Benefits**

6.1.1.14.1 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.

6.1.1.14.2 Provisions of the Clause (ii) para 28 of Accounting Standard 15 issued by ICAI dealt in Annual actuarial valuation are 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."

As reported by the DISTCOs the corpus fund is not sufficient to meet the actual terminal liabilities. The treatment of discharge of terminal liabilities are booked to expenses as part of employees cost. WESCO, NESCO and SOUTHCO have claimed terminal benefits based on actuarial valuation conducted by M/S K.A. Pandit.

6.1.1.14.3 As mentioned in the last tariff order, the Commission, vide order No.1761 dt.20.10.2006, awarded the contract of valuation of the terminal liabilities of the employees and pensioners of OPTCL, WESCO, NESCO, SOUTHCO and CESU to an independent actuary. The actuary has sent the final report during February of 2007 in respect of all the companies. The valuation of pension payment of retired employees in respect of SOUTHCO could not be valued due to non-submission of necessary information to the actuary. Similarly, the liability on account of unutilized leave for CESU was not valued by the independent actuary due to non-submission of required information by CESU. A table showing the liabilities ascertained by the actuary as on 31.3.2006 is indicated below:-

Table – 28

	OPTCL	WESCO	NESCO	SOUTHCO	CESU	Total
No. of Existing Employees	4,586	4,654	4,134	3,600	6,547	23,521
No. of Existing Pensioners	6,116	1,020	1,096	NA	1482	9714
Total	10,702	5,674	5,230	3,600	8,029	33,235
Pension Liability of existing employees	207.65	155.21	121.82	124.66	247.75	857.09

Gratuity Liability of Existing Employees	27.15	31.96	17.81	22.82	32.34	132.08
Leave	31.51	27.67	20.56	21.60	NA	101.34
Pension in Payment	377.23	78.59	52.51	NA	96.68	605.01
Total	643.54	293.43	212.70	169.08	376.77	1,795.52

6.1.1.15 In the year 1998-99, GRIDCO carried out an actuary valuation for quantification of the terminal liabilities of employees of its transmission as well as its distribution business as on 31.3.1999 as mandated by the transfer notification dt.28.11.1998 by an independent actuary. Although the valuation was disputed by DISTCOs, the Commission in principle accepted the audited figures of GRIDCO. According to the report of the actuary the total terminal liabilities as on 31.3.1999 are given as under:-

Table – 29

		OPTCL	WESCO	NESCO	SOUTHCO	CESU	Total
No. of Employees	Existing	5,974	5,562	4,599	4,674	8,608	29,417
	Retired	4,493	NA	NA	NA	NA	4,493
	Total	10,467	5,562	4,599	4,674	8,608	33,910
Pension of the existing employees		74.28	44.85	42.83	42.63	83.02	287.61
Gratuity		23.74	16.20	15.42	14.85	29.37	99.58
Leave		6.01	4.10	3.90	3.76	7.43	25.20
Pension in Payment		80.04	-	-	-	-	80.04
Total		184.07	65.15	62.15	61.24	119.82	492.43

6.1.1.16 From the above tables it is observed that the fund requirement has gone up by more than three times over a period of 7 years which is surprising, given the fact that there has been a constant reduction of employee numbers as a result of superannuation and subsequent abolition of posts. The Commission has no expertise to dis-agree with the results of this actuarial valuation. The Commission agrees with the principle that pension, gratuity liability should be met from the earning of corpus fund only in full and the corpus fund should be created by the companies by regular contributions to the fund based on actuarial valuation. The Commission, in their previous order, has allowed terminal benefits to the licensees which the companies are supposed to pass on to the trust for the trusts to invest as per the guidelines issued by Govt of India. But the Commission has

no information regarding the investment position of the corpus of the trusts of different companies. Only GRIDCO in its filing has submitted the investment position as on 28.2.2007. Further, licensees failed to submit the information regarding the reduction in the number of employees, induction of new employees and its impact on employees cost etc. In view of above the Commission is not convinced to allow the terminal benefit liability based on the valuation of actuary, unless detailed information regarding the corpus of the trust fund up to 31.3.2006, and the details of the employees are finally ascertained and submitted to the Commission. Further, the Commission needs to verify the official receipts from the trust duly acknowledging the contribution from the licensees towards the trust fund from time to time. Till such time, the Commission provisionally allows an amount towards payment of terminal liabilities in proportion of the total of basic pay and DA, similar to the proportion allowed in the previous tariff order for FY 2006-07. The Commission directs the licensees to submit the up-to-date investment position of the trust in different bond or securities and the year-wise cash outgo towards payment of pension and gratuity made by the licensees towards retiring employees by 30.6.2007.

6.1.1.17 The Commission in the year 2006-07 has allowed certain amount towards terminal benefit (pension + gratuity + leave salary) on a pay & DA base. The same proportion is applied to the approved pay and DA of the licensees to determine the terminal benefit for the FY 2007-08.

Table – 30

Rs. Crore

	Basic Pay + DP	**DA**	**Total**	**Terminal Benefits 2007-08 (Approval)**	**2006-07 (Approval)**
OPTCL	57.04	19.68	**76.70**	55.38	47.42
WESCO	44.56	15.60	**60.16**	16.36	14.25
NESCO	43.66	15.28	**58.94**	15.30	11.38
SOUTHCO	37.93	13.28	**51.28**	13.97	11.49
CESU	65.07	22.77	**87.84**	18.28	16.49

6.1.1.18 The statement of total employees cost proposed by the DISCOMs and approved by the Commission is given below:-

Table - 31
Total Employees Cost

(Rs. in crore)

Sl. No	Particulars	WESCO			NESCO			SOUTHCO			CESU		
		Appr. 06-07	Prop. 07-08	App. 07-08	Appr. 2006-07	Prop. 07-08	App. 07-08	Appr. 06-07	Prop. 07-08	App. 07-08	Appr. 06-07	Prop. 07-08	App. 07-08
1	Basic Pay + DP	29.60	47.29	44.56	24.77	44.94	43.66	23.80	48.51	37.93	44.77	71.10	65.07
2	Addl. Emp. Cost	6.23	1.43	1.43	8.43	0.71	0.71	8.77	1.81	1.81	6.00	7.94	7.94
3	DA	22.79	17.97	15.60	19.07	16.42	15.28	18.32	12.58	13.28	34.47	21.33	22.77
4	Other allowance	1.11	1.11	1.16	0.46	1.08	1.08	-	0.72	0.72	2.12	7.11	0
5	Bonus	-	0.09	0.09	-	0.07	0.06	-	0.03	0.03	-	0.10	0.10
6	Total Emoluments (1 to 5)	59.73	67.89	62.79	52.74	63.22	60.79	51.23	63.65	53.77	87.36	107.58	95.88
7	Reimbursement of medical expenses	0.89	1.42	1.34	0.74	1.33	1.31	0.71	1.56	1.14	1.34	3.39	1.95
8	Leave Travel Concession	-	0.96	0.96	0.07	-	-	-	0.90	0.90	-	0.69	0.69
9	Reimbursement of HR	4.67	7.57	6.77	3.99	8.88	6.79	3.91	8.28	6.19	7.16	8.53	8.53
10	Interim relief of Staff	-			-			-			0.10	0.11	0.11
11	Encashment of Earned Leave	2.18	2.72	-	1.83	-	-	1.76	0	0	3.30	0	0
12	Honourarium	-	-	-	-			0.02			0.10	0.11	0.11
13	Payment under workmen compensation Act	0.20	0.15	0.15	0.10	0.10	0.10	0.13	0.13	0.13	0.14	0.15	0.15
14	Ex-gratia	-	0.50	0.50	-			-	0.01	0.01	-	0.01	0.01
15	Other Staff Costs	-			0.10	0.10	0.10	0.15	0.14	0.14	0.28	0.30	0.30
16	Total Other Staff Costs(7 to 15)	7.94	13.31	9.72	6.83	10.41	8.30	6.68	11.02	8.51	12.44	13.29	11.85
17	Staff Welfare Expenses	0.42	0.95	0.95	0.48	0.68	0.68	0.55	1.23	1.23	0.11	0.12	0.12
18	Terminal Benefits (Pension+Gratuity+Leave)	9.79	19.84	16.36	7.65	20.72	15.30	7.92	12.64	13.97	13.19	33.61	18.28
19	Gratuity and unutilized leave	2.28	7.44	-	1.90	6.05	-	1.81	9.70	-	-	13.75	-
20	Total (6+16+17+18+19)	80.16	109.43	89.88	69.60	101.07	85.07	68.18	98.24	77.48	113.10	168.35	126.14

21	Less : Employees cost capitalized	3.38	2.60	2.60	1.62	2.02	1.70	1.46	-	-	-	-	-
22	Net Employees Cost	76.78	106.83	**87.28**	67.98	99.05	**83.37**	66.72	98.24	**77.48**	113.10	168.35	**126.14**

Note: Commission observed that the new employees should be recruited at the prevalent market rate so as to retain the best persons available. However, more reliance shall be made to obtain the services through out-sourcing rather than increasing permanent liabilities. Permanent employees should be recruited through out-sourcing in phases.

6.1.2 **Administration & General Expenses**

6.1.2.1 The A&G expenses include expenses on communication, professional charges, property related expenses, conveyance and travelling, training, other expenses and material related expenses.

6.1.2.2 The Commission has examined the licensee's proposal on A&G expenses & verified the same with the audited figures under this head for past years. It is revealed that the actual expenditure incurred by the licensees is always more than the figures approved by the Commission.

6.1.2.3 The Commission in its order on LTTS have set out the principle of calculation of A&G expenses @7% escalation over the base year progressively. In addition to the normal A&G expenses, the licensee have submitted additional expenses to be incurred by them on account of cost of special police stations and special courts, energy audit, spot billing in all divisions, manpower assessment study, customer care, fringe benefit tax, etc. The Commission, after careful study, has allowed the expenses such as the cost of maintenance of special police stations and special courts, expenses on customer care and fringe benefit tax. For expenses towards customer care, the DISTCOs in their filing have stated that this expense would be met for opening of customer care centres to enhance customer relationship. The Commission lays emphasis on the customer care which is an important facet of the consumer management. Consumers are mainly concerned if the utilities provide them with high quality and reliable electricity on a continuous basis and good customer service. Efforts should be drawn by the utilities to provide avenues for consumer participation and care. The Commission therefore directs the utilities to undertake the following activities in this regard.

- Open of commercial call centres to deal with all kinds of bill and meter related complaints.

- Fully network consumer care centres for quick redressal of consumer complaints.
- To provide help lines for resolving all bill and meter related complaints 24 hours of day.
- Facility for interactive voice recording system for reporting theft harassment and safety issues.
- To open consumer relation cell and online consumer complaint cells.

6.1.2.4 The expenses under the head customer care should be prudently used to buy necessary infrastructure such as state of art computers, phone systems and support besides training for the employees. The progress on customer care measures would be routinely monitored by the Commission during quarterly performance reviews. The Commission therefore approves the amount submitted by the licensees in their filing under this head.

6.1.2.5 As regards expenditure on energy audit the Commission observes that expenses on engagement of additional employees has been allowed under the head employees cost. These additional employees should be engaged for conducting energy audit. Therefore, we do not consider it necessary to allow any further expenditure for the energy audit under the A&G.

6.1.2.6 Additional expenditure for spot billing does not appear to be justified as this is intended to replace the existing system of billing on which expenditure is being incurred from the current A&G head. However, the expenditure under this head will be permitted, as and when the companies come out with the details of such expenditure subsequently.

6.1.2.7 The A&G expenses for FY 2007-08 as proposed by DISTCOs and approved by the Commission are indicated in the table below:

Table - 32

(Rs. in crore)

	WESCO			**NESCO**			**SOUTHCO**			**CESU**		
	Appr 06-07	Prop. 07-08	Appr. 07-08	Appr 06-07	Prop. 07-08	Appr. 07-08	Appr 06-07	Prop. 07-08	Appr. 07-08	Appr 06-07	Prop. 07-08	Appr. 07-08
Normal A&G expenditure	14.32	17.28	15.32	9.01	11.06	9.64	9.41	14.65	10.07	11.25	22.53	14.03
Additional Expenditure on:												
Receivable Audit	0.43	-	-	0.44	-	-	0.44	-	-	0.83	-	-
Special Police	1.03	1.03	1.03	1.03	1.29	1.29	1.03	1.24	1.24	1.03	-	-

Stations												
Spot Billing in all Divisions	-	2.29	-	-	1.73	-	-	1.97	-	-	-	-
Manpower assessment study	-	0.09	-	-	0.09	-	-	0.09	-	-	-	-
Energy Audit	-	1.96	-	-	1.71	-	-	1.65	-	-	-	-
Fringe benefit tax	-	0.70	0.70	-	1.18	1.18	-	0.45	0.45	-	-	-
Customer care	-	0.43	0.43	-	0.72	0.72	-	0.32	0.32	-	-	-
Franchise collection	-	-	-	-	-	-	-	0.35	-	-	-	-
Total	15.78	23.78	**17.48**	10.48	17.78	**12.83**	10.88	20.72	**12.08**	13.11	22.53	**14.03**

6.1.3 **Repair & Maintenance (R&M)**

6.1.3.1 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 which the four DISTCOs followed suit.

6.1.3.2 The permitted and actual expenditure of the various companies over the years is given in the table below:

Table - 33

(Rs. in crore)

Years	**WESCO**		**NESCO**		**SOUTHCO**		**CESU**	
	Apprvd.	Audited	Apprvd.	Audited	Apprvd.	Audited	Apprvd.	Audited
99-00	14.43	15.90	14.22	16.19	12.63	13.39	19.05	24.01
00-01	14.43	10.25	14.22	11.02	12.63	7.31	19.57	19.92
01-02	13.62	10.12	16.32	7.02	15.57	9.29	23.43	15.60
02-03	15.33	8.04	14.62	5.65	16.82	6.43	22.11	25.04
03-04	16.89	16.27	17.59	8.84	16.38	9.93	24.12	21.22
04-05	17.28	12.85	17.66	11.13	13.25	8.43	31.95	NA
05-06	24.25	10.20	24.48	11.03	17.35	5.85	41.31	NA
Total	**116.23**	**83.63**	**119.11**	**70.88**	**104.63**	**60.63**	**181.54**	**105.79**

6.1.3.3 As emerged from the above statistical particulars, the licensees reportedly spent Rs.320.93 crore as against Rs.521.51 crore

approved by the Commission during 1999-00 to 2005-06. The Commission is concerned about the quality of maintenance and the complaints about quality of supply. The veracity of expenditure with truing up under the head R & M would be taken up at the end of the control period i.e. 2007-08. The licensees are directed to submit the copies of the purchase order and store document from 1999 to 31.03.2006 for verification of the expenditure under this head. This may be submitted by 31.05.2007.

6.1.3.4 The gross fixed asset as on 01.4.2007 for 2007-08 as approved by the Commission are given below :-

Table - 34

(Rs. in crore)

Particulars	**WESCO**	**NESCO**	**SOUTHCO**	**CESU**
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	16.60	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	85.09
2001-02	19.58	30.63	20.72	67.25
2002-03	21.31	30.55	7.64	127.01
2003-04	35.14	28.63	12.60	88.42
2004-05	71.74	55.09	39.78	40.80
2005-06	17.71	29.60	13.79	45.51
Total	409.15	410.47	295.03	771.19

6.1.3.5 For the year 2006-07, addition of assets proposed by four DISTCOs and approved by the Commission for calculation of R&M are given as under:

Table - 35

(Rs. in crore)

	WESCO		**NESCO**		**SOUTHCO**		**CESU**	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
Addition of assets	31.90	31.90	52.93	41.97	59.09	45.25	36.96	36.96

Table – 36

(Rs. in crore)

Particulars	WESCO		NESCO		SOUTHCO		CESCO	
	Prop.	**App.**	**Prop.**	**App.**	**Prop.**	**App.**	**Prop.**	**App.**
Gross fixed asset as on 01.04.2007	521.44	441.05	535.95	452.44	428.49	340.28	921.92	808.15
% of GFA	5.4	5.4	5.4	5.4	5.4	5.4	-	5.4
Repair & Maintenance for 2007-08	28.16	**23.82**	28.94	**24.43**	23.14	**18.38**	54.95	**43.64**

6.2 **Interest on Loan**

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

Table - 37

(Rs. in crore)

Source	WESCO	NESCO	SOUTHCO	CESU
GRIDCO loan	0.00	0.00	0.00	0.00
World Bank loan	11.53	11.57	9.09	39.24
NTPC Bond	36.05	50.00	28.07	0.00
Carrying cost (NTPC bond and default in securitization obligations)	-	11.26	4.79	0.00
APDRP Net of 50% grant	1.76	2.34	2.20	6.30
REC/PFC (Counter Part Funding APDRP)	3.10	3.49	2.87	18.76
Interest on security deposit	10.05	7.25	3.34	6.07
Other interest and finance charges	-	-	3.40	-
Total interest	62.48	85.91	54.55	70.37
Less Interest Capitalised	2.44	2.92	3.04	12.36
Total	60.04	82.99	51.51	58.01

6.2.1 **GRIDCO back to back loan (PFC/REC etc.)**

6.2.1.1 The Commission in its order dtd. 22.03.2005 has stated that the revenue requirement of GRIDCO for the FY 2004-05 will take into consideration the total interest liability on account of assets transferred to the distribution companies relating to PFC and REC. In case of DISTCOs, the interest liability of asset related loans shall not be taken into consideration for the purpose of revenue requirement calculation from 2004-05 onwards.

6.2.1.2 The Commission, in its order, directed the DISTCOs as well as GRIDCO to reconcile their back to back loan amount. Except CESCO, the other three DISTCOs have reconciled the principal amount of loan outstanding as on 31.03.2005.

6.2.1.3 The summary of back to back loan as per DISTCOs and GRIDCO is given below.

Table - 38
Summary of back to back loan including GRIDCO portion of IBRD loan
(Position as on 31.03.2005)

(Rs. in crore)

Source	WESCO	NESCO	SOUTHCO	CESCO	Total
As per GRIDCO	138.46	94.64	134.36	307.61	675.07
As per DISTCOs	138.46	94.64	134.36	277.68	645.14
Difference	NIL	NIL	NIL	29.93	29.93

Note :

1. Back to back loan of GRIDCO does not include cash support of Rs.174 crore availed by CESU.
2. CESU and GRIDCO shall complete the reconciliation within a period of two month and report compliance.

6.2.2 **World Bank Loan**

6.2.2.1 In line with the Commission's previous order, the licensees have calculated the interest on World Bank Loan @ 13%, considering 30% of loan as grant and balance 70% as loan.

6.2.2.2 The loan balance (Net of 30% grant) projected by the DISTCOs along with the interest for the FY 2007-08 is depicted in the table below:

Table - 39

(Rs. in crore)

	Loan as on 31.3.2007	Repayment Due 2007-08	Loan as on 31.3.2008	Interest Due 2007-08
WESCO	90.96	9.10	81.86	11.53
NESCO	91.28	9.13	82.15	11.57
SOUTHCO	72.59	7.26	65.33	9.09
CESU	213.90	Nil	213.90	39.24
Total	468.73	25.49	443.24	71.43

6.2.2.3 In case of CESU the loan balance appearing in Form-3 is verified. It is found that the loan balance of Rs.213.90 crores includes an amount of Rs.9.39 crores of GRIDCO portions of IBRD loan. Since this loan has already been considered in the subsidiary loan agreement, this has to be taken out from the total World Bank loan. The interest approved is calculated taking into account the loan opening balance, repayment during the year and loan closing balance on an average basis of 13% rate of interest on 70% loan component. The Commission approves the interest impact in line with the previous order as indicated below:

Table – 40

(Rs. in Crore)

WESCO	NESCO	SOUTHCO	CESCO
11.23	11.27	8.97	26.59

6.2.3 **Re-securitisation of NTPC Bonds**

6.2.3.1 WESCO, NESCO & SOUTHCO issued bonds worth Rs. 400 crore in favour of GRIDCO to be assigned to NTPC w.e.f 1st October, 2000 @ 12.5% interest. The Commission in its last tariff order has allowed interest @ 8.5% (tax free) on those bonds as per the recommendation of Alhuwalia Committee. The Commission in its order advised the Govt. to pass on the benefits to the end users of electricity on account of the reliefs that would be available if securitisation shall be effected in line with the one time settlement scheme approved by the Govt. of India to be made effective on 01.10.2001. But, GOO has not yet communicated its decision. As a result, the licensee while proposing their revenue requirement have calculated the interest impact @ 12.5% per annum w.e.f. 1st October, 2000 onwards. The interest liability for the year 2007-08 along with differential interest for the past years i.e. (12.5% - 8.5%), as projected by the three DISTCOs on this account amounts to Rs.36.05 crore, Rs.50.00 crore and Rs28.07 crore for WESCO, NESCO and SOUTHCO respectively. As detailed in the Commission's order for FY-07, the Commission is waiting for the response of the Govt. of Orissa on the proposal to re-securitise the bonds of Rs.400 crores issued to GRIDCO by the DISTCOs, which have been in turn endorsed to NTPC, under the one-time securitization scheme under the Alhuwalia Committee recommendations.

6.2.3.2 The Commission has also pursued this matter with GRIDCO, which is currently negotiating with NTPC on the re-securitisation of these bonds.

6.2.3.3 The Commission has perused the directions of the Hon'ble ATE on this issue. GRIDCO has filed appeal against the order Hon'ble ATE to the Hon'ble Supreme Court. Pending judgement of Hon'ble Supreme Court in this matter the Commission assess the interest @8.5% on the loan amount of Rs.400 crore as applicable for NTPC tax free bonds. Accordingly, the Commission approves the interest @ 8.5% on the aforesaid loan as detailed below:-

Table - 41

(Rs. in crore)

Source	**WESCO**		**NESCO**		**SOUTHCO**	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
NTPC Bond	39.91	8.76	64.71	14.20	50.35	11.05

6.2.4 **Accelerated Power Development Reform Programme (APDRP)**

6.2.4.1 The DISTCOs have proposed to avail the following amount of APDRP loan during 2006-07 and 2007-08.

Table - 42

(Rs. in crore)

Year	Availed up to 2005-06		For the year 2006-07		For the year 2007-08		Up to 2007-08		Interest	
	GoO	REC/ PFC	GoO	REC/ PFC	GoO	REC/ PFC	GoO	REC/ PFC	GoO	REC/ PFC
WESCO	5.48	1.82	1.87	12.86	14.56	29.13	21.91	43.82	1.76	3.10
NESCO	6.36	6.20	6.04	12.08	14.23	28.45	26.63	46.79	2.34	3.49
SOUTHCO	6.63	1.00	6.62	10.92	13.25	41.08	26.50	53.00	2.20	2.87
CESU	37.09	35.52	-	112.85	-	74.18	37.09	222.55	6.30	18.76

6.2.4.2 During the course of hearing the Commission enquired about the actual receipts of loan as on December, 2006 and the capital expenditure undertaken by the licensees. In their reply the licensees furnished details of the source of APDRP loan along with their utilization as per the details given below:-

Table - 43

(Rs. in Crore)

Licensee	**Receipt**				**Expenditure**
	Govt. of Orissa		PFC/REC	Total	
	Loan	Grant			
WESCO	5.47	5.48	3.68	14.63	30.18
NESCO	6.36	6.37	7.48	20.21	25.26
SOUTHCO	6.63	6.62	2.75	16.00	12.37
CESU	37.09	-	35.52	72.61	38.19

6.2.4.3 For computing the interest impact on loans from REC/PFC and GoO, the Commission takes into consideration the actual expenditure of APDRP up to 31.12.2006. The capital expenditure reported to be incurred by the WESCO and NESCO, is more than the source of funding. In case of SOUTHCO the capital expenditure is only 3.63 crores less than the receipt where as in case of CESU it is 34.42 crores less than

the receipt. After taking into account such a pattern of investment during the current year i.e. 2006-07, the Commission considers to allow the interest impact on loans proposed to be availed from GoO as well as from PFC/REC up to 2006-07, in case of WESCO, NESCO and SOUTHCO subject to the scheme being approved by the Commission. CESU has not utilised major portion of the Government loan for capital expenditure. The amount of loan is unutilised and kept in bank on which CESU is earning interest. Commission, therefore, does not consider to allow interest on such unutilised portion of Govt. loan. As such, the Commission allows interest impact on loans availed from PFC/REC upto 31.12.2006.

6.2.4.4 During 2007-08, loans proposed to be drawn against APDRP projects will be utilised to create assets which may become operational by end of the financial year. Accordingly, the interest approved by the Commission is for FY 07-08 given in the table below:

Table - 44

(Rs. in Crore)

	Interest
WESCO	2.46
NESCO	1.66
SOUTHCO	1.83
CESU	3.37

6.2.5 **Interest on Security Deposit**

6.2.5.1 Some of the objectors have asked for a higher rate of interest on Security Deposit than the prevailing rate of 6% per annum. As per Regulation 21 of the OERC Distribution (Conditions of Supply Code) 2004, the rate of interest on security deposit is prescribed at the bank rate notified by the RBI provided that the Commission may direct the higher rate of interest from time to time by notification in official Gazette. The bank rate as notified by the RBI prevailing now is 6%. The rate of interest on security deposit is accordingly fixed at the prevailing rate of 6% per annum. The WESCO, NESCO, SOUTHCO & CESU have made provision towards interest on security deposit for Rs.10.05 crore, Rs.7.25 crore, Rs.3.34 crore & Rs.6.07 crore respectively for the year 2007-08. On the other hand, the Commission holds the view that the interest earned on account of security money available with them shall be taken into account while determining the miscellaneous receipts. At this

stage, it is difficult to work out the quantum of interest so earned on the security money deposited in different financial instruments. Keeping this in view, the Commission at present approves the interest outgo on security deposit as proposed by DISTCOs.

The total interest on loan proposed by the DISTCOs and approved by the Commission for the year 2007-08 is summarised below:

Table - 45
Total Annual Interest

(Rs. in crore)

	WESCO			NESCO			SOUTHCO			CESU		
	Appr 06-07	**Prop. 07-08**	**Appr. 07-08**	**Appr 06-07**	**Prop. 07-08**	**Appr. 07-08**	**Appr 06-07**	**Prop. 07-08**	**Appr. 07-08**	**Appr 06-07**	**Prop. 07-08**	**Appr. 07-08**
GRIDCO loan	-	-	-	-	-	-	-	-	-	-	-	-
World Bank loan	11.22	11.53	11.23	11.27	11.57	11.27	8.97	9.09	8.97	26.58	39.24	26.59
NTPC Bond	8.76	36.05	8.76	14.20	50.00	14.20	11.05	28.07	11.05	-	-	-
Carrying cost (power bond and default in securitization obligations)	-	9.66	-	-	11.26	-	-	4.79	-	-	-	-
APDRP Net of 50% grant	-	1.76	0.88	-	2.34	0.76	-	2.20	1.59	-	6.30	-
REC/PFC (Counter Part Funding APDRP)	-	3.10	1.58	-	3.49	0.90	-	2.87	0.24	-	18.76	3.37
Total APDRP	3.82	4.86	2.46	4.04	5.83	1.66	4.96	5.07	1.83	13.44	25.06	3.37
Interest on security deposit	9.94	10.05	10.05	7.10	7.25	7.25	4.24	3.34	3.34	5.22	6.07	6.07
Other interest and finance charges	-	-	-	-	-	-	-	3.40	-	-	-	-
Total interest	33.74	62.48	32.50	36.61	85.91	34.38	29.22	54.55	25.19	45.24	70.37	36.03
Less Interest Capitalised	2.31	2.44		2.26	2.92	-	2.45	3.04	-	7.02	12.36	-
Interest chargeable to revenue	31.43	69.70	32.50	34.35	82.99	34.38	26.77	51.51	25.19	38.22	58.01	36.03

6.3 Depreciation

6.3.1 For the FY 2007-08, the four DISTCOs have claimed the following amount towards depreciation. WESCO, NESCO & SOUTHCO, CESU have calculated depreciation at Pre-92 rate on the up-valued asset base plus asset addition after 01.04.1996.

6.3.2 The depreciation amounts claimed by the four DISTCOs are given as under.

Table - 46

(Rs. in crore)

Year	WESCO	NESCO	SOUTHCO	CESU
2004-05	18.56	19.22	15.43	49.62

6.3.3 The Commission have extensively dealt with the matter in the last tariff order considering the book value of the fixed asset as on 1.04.1996. The Commission adopts the same principle for determination of depreciation for FY 2007-08.

6.3.4 The year-wise asset addition after 01.04.1996 and up to 1998-99 are based on the audited data of GRIDCO. From 1999-2000 to 2004-05, the same is based on the Audited Annuals accounts in respect of WESCO, NESCO & SOUTHCO. For the year 2005-06 the figure is based on tax audited accounts. In case of CESU data up to 2003-04 are based on the audited report and for the year 2004-05 and 2005-06 the figure are based on tariff filing with the Commission.

6.3.5 The gross book value as on 01.04.1996 and year wise asset addition thereafter till FY 2005-06 and during FY 2006-07 are depicted in the earlier tables.

6.3.6 The Commission directs the licensees to abide by the license conditions with regard to the submission of capital expenditure programme for each year costing more than Rs.5 crore in time for approval.

6.3.7 The Commission calculated the depreciation on the approved asset base at Pre–92 rate. The classification of assets has been done proportionately based on the statutory audited accounts, tax audited accounts and tariff filling submitted by DISTCOs. Accordingly, the Commission approves the following amount for the year 2007-08 under the head depreciation.

Table - 47

(Rs. in crore)

Year	WESCO	NESCO	SOUTHCO	CESU
Asset as on 01.04.2007	441.05	452.44	340.28	808.15
Depreciation for FY 2007-08	16.54	17.13	12.85	30.22

6.3.8 The Commission directs the licensees to submit the fixed asset register upto the FY 2005-06 by 30.06.2007.

6.4 Provision for Bad & doubtful debts

6.4.1 WESCO, NESCO & SOUTHCO have estimated @ 5%, 6% & 6% of the billed amount respectively towards provision for Bad & doubtful debt. CESU has calculated the same @ 15% on incremental debtor.

6.4.2 WESCO, NESCO & SOUTHCO in their filing, have submitted that the gap between the billing and collection efficiency may be allowed as bad debt, since it is difficult for the licensee to arrange working capital fund.

6.4.3 The Commission examined submission of DISTCOs. Further analysis of the audited accounts of three DISTCOs viz. WESCO, NESCO & SOUTHCO reveals that the licensees do not exercise prudence while estimating provision towards bad and doubtful debts.

6.4.4 The Commission in their last order observed that provision for bad and doubtful was of very tall order on all counts. A comparative statement of the bad debt provision as per the annual accounts vis-à-vis approval is given in the table below:

Table – 48

(Rs. in Crore)

	Annual account (1999-2000 to 2005-06)	**Approved (1999-2000 to 2005-06)**	**Excess Provision**
WESCO	464.06	110.04	354.02
NESCO	327.26	72.74	254.52
SOUTHCO	222.09	48.65	173.44
CESU	134.30	121.18	13.12

6.4.5 At the cost of repetition the Commission again expresses its deep concern about the manner companies are maintaining the annual accounts without adhering to the norms directed by the Commission. The Commission in its previous order has directed the licensees to carry out the consumers' receivable audit. But till date no substantial progress has been made in this regard. The Commission also takes into account the vehement objections raised by various objectors cutting a cross the cross-section of society during the hearing about the non-availability of audited accounts. The Commission views it seriously and redirects to complete the audit within 30.09.2007. It is to be noted that penal action may be initiated in addition to other actions as contemplated in the act, rule and regulations if the same is not with complied with.

6.4.6 In line with the LTTS principle, the Commission allowed in the past 2.5% of the total sales revenue towards provision for bad and doubtful debts. The Commission now accepts the same principle and approves the

following amount towards provision for bad and doubtful debt for the year 2007-08.

Table – 49

(Rs. in Crore)

	Proposed	**Approved**
WESCO	61.24	32.30
NESCO	51.09	22.59
SOUTHCO	18.22	9.00
CESU	10.91	25.74

6.5 Carrying Cost

In line with our tariff order of 06-07 the Commission in its Business Plan had approved the concept of carrying charges for financing the gap between the permitted collection efficiency and collectible revenue excluding bad debt on pragmatic consideration. For the FY 2007-08, the Commission has approved the collection efficiency of WESCO, NESCO, SOUTHCO and CESU at 96%, 94%, 94% and 92% respectively. Out of 100% revenue requirement 2.5% is excluded towards bad and doubtful debt leaving a margin of 97.5%. The difference between the approved collection efficiency and the revenue excluding bad debt as stated above works out to 1.5%, 3.5%, 3.5% and 5.5% for WESCO, NESCO, SOUTHCO and CESU respectively. The Commission calculates the working capital requirement and allows interest rate of 10% on this working capital towards carrying charges and approves an amount of Rs.1.94 crore, Rs.3.16 crore, Rs.1.26 crore and Rs.5.66 crore for WESCO, NESCO, SOUTHCO and CESU, respectively.

6.6 Past Losses, Regulatory Assets and Truing up mechanism

6.6.1 WESCO, NESCO and SOUTHCO have submitted to the Commission to recognize, acknowledge and accept the regulatory assets claimed by them on account of inadequate retail supply tariff, unrealistic distribution loss, non-recognition of collection efficiency (AT&C concept), prudent expenses in excess of revenue requirement, procurement of higher quantity of power and the price variance in power purchase, reduction of sell to consumers and denial of clear-profit with respect to the revenue requirement approved by the Commission.

6.6.2 The licensees in their tariff application stated that the quantum of securitised liabilities does not fully represent the regulatory assets on the asset side of the balance sheet. Moreover, as observed by the Commission that the securitsised outstanding liabilities should be wiped out from the current assets is not possible because the non-collection of receivable is attributable to the issues such as legacy of non-payment of dues, culture of

the society, theft in the system and tariff not being cost reflective. They have also stated that it is a common practice of all SEBs to raise Bogus Bill at the year end to show lower distribution losses as a result the books of SEBS carry huge non-realisable and bogus receivables. Therefore, the licensees have requested the Commission to recognise, acknowledge and accept regulatory assets claimed by the licensees and allow amortisation of regulatory assets through recovery of tariff in future years to service the non-asset bearing liabilities. For the purpose of filing the licensees have included amortisation of regulatory assets to the extent of actual liabilities towards repayment of NTPC bonds and payments of past statutory dues and creditors. The amortisation of regulatory assets claimed by WESCO, NESCO AND SOUTHCO for the year 2007-08 are Rs.141.20 crores, Rs.265.97 and Rs.222.59 respectively.

6.6.3 The items expenditure and the income in the ARR is on the projections made on the basis of actual data of previous year and for the first six months of the current year and the expenditure expected to be incurred in the next six months in the current year. It is therefore obvious that the projections made and the actual position may vary. So, the issue is whether all the variances between the approved ARR and the actual need the truing up exercise.

6.6.4 The Regulatory accounts such as approval of income and expenditure in the Annual Revenue Requirement are obviously different from the audited profit and loss account and the balance sheet of the utility. The Commission as a regulator approves the items of income and expenditure on certain prudent measures and it is not binding upon it to consider the audited profit and loss account of the utility. The Regulatory accounts and the profit and loss account are prepared on different parameters and objectives. The Commission in its LTTS order dtd. 18.06.2003 has set right the principles of controllable and uncontrollable costs. As part of this order the Commission has clearly indicated the condition in which the truing up would be taken up. Those items of expenditure which is controllable in nature but varies with the approved amount of expenditure do not carry its legal claim for truing up. On the other hand, the Commission may consider the items of uncontrollable expenditure which arises due to force majeure conditions and there is a large variation in demand and supply of electricity in excess of 10% in case EHT. If any such event occur during control period, the commission shall conduct a complete review on the entire tariff structure and formulate the way of mitigating the impact The LTTS order also spelt out to undertake review of the licensees performance during control period under certain conditions and may make modification to the LTTS ,if found appropriate by the commission. In line with this, the commission, in its tariff order for 2006-07, also recomputed the distribution loss because of an abnormal variation in the change in the sales mix for the HT&LT category In the aforesaid LTTS order the Commission has set the base year as 2003-04 for a control period of 5 years.

6.6.5 The Commission in its tariff order FY 2006-07 has recognised the various amounts of regulatory gaps/surplus allowed for each of the four DISTCOs from FY 1999-00 onwards. The Commission has allowed amortisation of regulatory assets in Retail Supply Tariff Order 2006-07. The Commission has allowed a partial amortisation of regulatory gaps in the case of NESCO and SOUTHCO to the extent of 41.36 crores and 31.91 respectively as a past through in the ARR.

6.6.6 For the FY 2007-08, the Commission has carried out a comprehensive truing-up exercise for the period from FY 1999-'00 to FY 2005-'06 for WESCO, NESCO and SOUTHCO and till FY 2003-'04 for CESU, based on the audited annual accounts filed by the licensees before the Commission. As a part of the truing up exercise, the Commission has recomputed the ARR for each financial year based on the audited accounts and norms for efficiency parameters as laid out by the Commission in its order for the approval of the Business Plans of the DISTCOs, and considered the audited annual revenue till FY 2000-'01, and recomputed revenue on the basis of the efficiency benchmarks for the following years from FY 2001-'02 to FY 2005-'06. The Commission, in the following paragraphs discusses in detail the principles used for this truing-up exercise.

6.6.7 **Truing-up of Distribution Losses**

6.6.7.1 Immediately post unbundling of the OSEB in 1996, the Commission, during its first tariff order, tried to ascertain the actual losses to form the basis for future ARR determination as well as to set an efficiency benchmark for the future years. However, due to the lack of proper metering, absence of robust data and MIS, and audited information, the Commission accepted the loss level of 35%, which was filed by GRIDCO in FY 1997-'98. Since then, the Commission continued to stick to this loss level, because of the inability of the licensees to furnish actual audited information to challenge this level of losses.

6.6.7.2 Following the report of the Kanungo Committee in 2001-'02, the Commission accepted, for the year FY 2001-'02, the actual distribution losses and collection efficiency figures, based on the Distcos' own submissions to the Kanungo Committee, and formed it as the basis of computation of the Distcos' ARR. In addition, the Commission also recognised the Distcos' long standing demand of accepting cost of power on the basis of information submitted by the Distcos. Accepting the need to recognise the cost of power purchase in full, the Commission in FY 2001-'02, began to accept the cost of power purchase in full, as laid down in the Regulation, ensuring that there is no loss on this account to the Distcos. Till date, the Commission has been following the same principle in allowing the power purchase costs in the ARR.

6.6.7.3 As a part of this true-up exercise, the Commission has accepted the actual audited loss figures for FY 1999-'00 and FY 2000-'01 for the truing-up exercise. For FY 2001-'02, the Commission has taken into account the actual information filed by the Distcos before the Kanungo Committee. As part of the Business Plan finalisation and subsequent approval by the Commission, the Commission has, for all the four Distcos, accepted the actual audited distribution loss figures for FY 2002-'03 and FY 2003-'04. For the truing up exercise, the Commission has accepted the actual audited distribution loss figures for FY 2000-'03 and FY 2003-'04, and followed the approved benchmark efficiency parameters for FY 2004-'05 and FY 2005-'06 as per the Business Plan order.

6.6.8 **Truing-up of Power Purchase costs**

6.6.8.1 Cost of Power Purchase is the single largest cost component in the cost structure of the Distcos' ARR, accounting for about 70% of the total costs. In the past, due to the failure of DISTCOs to attain the approved loss levels till FY 2001-'02, there has been considerable losses on this account faced by the Distcos. This gap was recognised and accepted by the Commission as early as in FY 2001-'02, when we changed the principle of ARR determination, by accepting the Power Purchase cost at realistic level and then computing the total sales, based on the benchmark of Distribution Losses.

6.6.8.2 The following table summarises the various principles used by the Commission in regarding to accepting the Cost of Power Purchase, Distribution Losses and Sales for the purpose of truing-up.

Table – 50

	FY-00	**FY-01**	**FY-02**	**FY-03**	**FY-04**	**FY-05**	**FY-06**
Power Purchase Cost	Accepted as per Audited Accounts		As per the audited accounts, power purchase costs accepted in full				
Distribution Losses	Audited Distribution losses accepted		Distribution losses as per Kanungo Committee filing	Audited Distribution Losses accepted for true-up; same as the benchmark accepted in the Business Plan order		Benchmark losses as per the Business Plan targets accepted for true-up	
Sales	As per Audited Accounts		Estimated, as per Actual Power purchase and D-Loss as filed by the Distcos	Estimated as per the Actual Power Purchase Costs and benchmark Distribution losses as per the Business Plan		Estimated as per the Actual Power Purchase Costs and benchmark Distribution losses as per the Business Plan	

6.6.9 **Truing-up of Operations & Maintenance expenses**

6.6.9.1 The Commission, as part of this truing-up exercise, has accepted the actual audited expenses incurred by the Distcos in the case of employee

expenses, administrative & general expenses and repairs & maintenance expenses for the period from FY 1999-'00 to FY 2005-'06. However, the expenditure included under the head of A&G relating to DPS, provision for contingencies, etc have not been considered in this provisional truing-up exercise.

6.6.10 **Provision for Bad & Doubtful Debts**

6.6.10.1 The Commission had clearly laid out the principles for computing and allowing the provisioning for bad & doubtful debts for the purpose of ARR and tariff determination. The Commission had laid down that provisioning for bad & doubtful debts would as per the norm of 2.5% on the total annual sales revenue estimated for the year. The same principle has been allowed during the truing-up exercise.

6.6.10.2 The Distcos have been piling up huge receivables from consumers since privatisation, which they have not been able to collect on a timely basis. The Distcos have been regularly asking for recognition of bad & doubtful debts of a significantly large amount than the benchmark, citing ghost consumers, etc. The Commission has been directing the Distcos to carry out an audit of the past receivables, based on which the Commission can take a decision on the authenticity and the chances of recovery of these massive arrears. However, till date, there has been little or no progress on this audit.

6.6.10.3 Inability to collect, without proper justification or audit is not acceptable to the Commission as a prudent excuse to allow for higher provisioning. The Distcos are best placed to manage consumer arrears by detecting and preventing theft and ghost billing, disconnection, etc.

6.6.11 **Depreciation**

6.6.11.1 Following the directive of the Hon'ble High Court, the Commission has been directed to compute and allow for depreciation on the basis of depreciation rates notified in 1992, based on the original cost of assets (after discounting the effect of up-valuation carried out in 1996 as part of the reform process) for the purpose of determination of ARR and fixation of tariff.

6.6.11.2 Based on this, for the purpose of truing-up, the Commission has accepted actual depreciation till FY 2000-'01, and then as per the Hon'ble High Court's directive from FY 2001-'02 onwards till FY 2005-'06.

6.6.12 **Interest chargeable to Revenue**

6.6.12.1 The Commission has accepted actual cost of financing, for all loans approved by the Commission, for the purpose of truing-up. However, based on the previous orders of the Commission on the Business Plan of the Distcos and the restructuring of past liabilities, the amount pertaining to DPS payable to GRIDCO, has not been allowed as a part of truing-up.

6.6.13 **Summary of Truing up Requirements**

6.6.13.1 The following tables give the year-wise truing-up requirements for each of the four Distcos for the period from FY 1999-'00 till FY 2005-'06, except for CESU, where the truing-up fro FY 2005-'06 could not be carried out because on non-availability of audited information.

Table – 51
Table showing the year-wise Truing-up requirement for WESCO

(All Figures in Rs. Crores)

Financial Year	ARR based on Audited Accounts	ARR considered for truing-up	Total Revenue considered for Truing-up	Truing-up Requirment
(1)	(2)	(3)	(4)	(5) = (4) - (3)
FY 1999-'00	474.95	435.48	412.13	(23.35)
FY 2000-'01	564.07	504.44	452.63	(51.81)
FY 2001-'02	619.91	530.62	538.39	7.77
FY 2002-'03	655.40	550.27	601.93	51.66
FY 2003-'04	704.96	610.51	652.38	41.87
FY 2004-'05	768.28	723.30	758.28	34.98
FY 2005-'06	802.85	749.60	872.64	123.04
Total Truing-up Requirement				**184.17**

-ve denotes shortfall in Revenue; +ve denotes a surplus

Table – 52
Table showing the year-wise Truing-up requirement for NESCO

(All Figures in Rs. Crores)

Financial Year	ARR based on Audited Accounts	ARR considered for truing-up	Total Revenue considered for Truing-up	Truing-up Requirment
(1)	(2)	(3)	(4)	(5) = (4) - (3)
FY 1999-'00	406.87	369.35	304.50	(64.85)
FY 2000-'01	436.83	382.01	328.13	(53.88)
FY 2001-'02	470.31	409.29	325.78	(83.51)
FY 2002-'03	503.00	378.89	366.87	(12.02)
FY 2003-'04	477.79	405.55	387.34	(18.22)
FY 2004-'05	576.64	542.68	480.03	(62.66)
FY 2005-'06	583.96	548.84	590.05	41.20
Total Truing-up Requirement				**(253.94)**

-ve denotes shortfall in Revenue; +ve denotes a surplus

Table – 53
Table showing the year-wise Truing-up requirement for SOUTHCO

(All Figures in Rs. Crores)

Financial Year	ARR based on Audited Accounts	ARR considered for truing-up	Total Revenue considered for Truing-up	Truing-up Requirment
(1)	(2)	(3)	(4)	(5) = (4) - (3)
FY 1999-'00	291.35	261.77	204.82	(56.95)
FY 2000-'01	316.91	272.70	221.71	(50.99)
FY 2001-'02	332.83	282.17	249.62	(32.55)
FY 2002-'03	347.46	273.58	265.24	(8.34)
FY 2003-'04	338.91	289.87	261.36	(28.51)
FY 2004-'05	360.19	345.16	265.72	(79.43)
FY 2005-'06	317.52	308.93	305.26	(3.67)
Total Truing-up Requirement				**(260.44)**

-ve denotes shortfall in Revenue; +ve denotes a surplus

Table – 54
Table showing the year-wise Truing-up requirement for CESU

(All Figures in Rs. Crores)

Financial Year	ARR based on Audited Accounts	ARR considered for truing-up	Total Revenue considered for Truing-up	Truing-up Requirment
(1)	(2)	(3)	(4)	(5) = (4) - (3)
FY 1999-'00	651.26	641.13	462.30	(178.83)
FY 2000-'01	657.70	670.53	569.29	(101.24)
FY 2001-'02	742.59	744.71	711.79	(32.92)
FY 2002-'03	702.43	700.25	639.92	(60.33)
FY 2003-'04	769.70	724.99	662.97	(62.02)
FY 2004-'05	-	-	-	-
FY 2005-'06	-	-	-	-
Total Truing-up Requirement				**(435.34)**

-ve denotes shortfall in Revenue; +ve denotes a surplus

6.6.13.2 The Truing-up exercise carried out by the Commission is on a provisional basis only. The Commission intends to hold a meeting of all stakeholders like the DISTCOs, GRIDCO and OPTCL subsequently in the financial year FY 2007-'08 to discuss and debate the principles and quantum of truing-up for the licensees before freezing on these numbers. However, given the huge quantum of truing-up requirement, the

Commission provisionally has allowed the following amount towards truing-up for the FY 2007-'08:

Table – 55
Truing-up amounts allowed by the Commisison of rhe DISTCOs in FY 2007-'08
(Rs. Crores)

	WESCO	NESCO	SOUTHCO	CESU	Total
Truing-up allowed in FY 2007-'08 ARR	-	41.36	31.91	43.23	**116.50**

6.7 Truing up of Employee's cost for FY 2006-07

The Commission is aware that during the FY 2006-07 the liability on account of employee cost would have gone up because of merger of 50% DA in the pay, which has not been considered while approving the employee cost for FY 2006-07. Considering the impact of merger of DA to Dearness pay, the employee cost of 2006-07 is reassessed again and given in the following table:

Table - 56
Employee's Cost

Sl.No.	Particulars	WESCO		NESCO		SOUTHCO		CESU	
		Appr. 2006-07	App. RE	Appr. 2006-07	App. RE	Appr. 2006-07	App. RE	Appr. 2006-07	App. RE
1	Basic Pay + DP	29.60	44.18	24.77	42.39	23.80	36.82	44.77	65.09
2	Addl. Emp. Cost	6.23	3.01	8.43	3.36	8.77	3.73	6.00	6.00
3	DA	22.79	12.81	19.07	12.29	18.32	10.68	34.47	18.87
4	Other allowance	1.11	1.11	0.46	0.46	-	-	2.12	2.12
5	Bonus	-	-	-	-	-	-	-	-
6	Total Emoluments (1 to 5)	59.73	61.11	52.74	58.50	51.23	51.23	87.36	92.08
7	Reimbursement of medical expenses	0.89	1.33	0.74	1.27	0.71	1.10	1.34	1.95
8	Leave Travel Concession	-	-	0.07	-	-	-	-	-
9	Reimbursement of HR	4.67	6.97	3.99	6.83	3.91	6.05	7.16	8.54
10	Interim relief of Staff	-	-	-	-	-	-	0.10	0.10
11	Encashment of Earned Leave	2.18	-	1.83	-	1.76	-	3.30	-
12	Honourarium	-	-	-	-	0.02	0.02	0.10	0.10
13	Payment under workmen compensation Act	0.20	0.20	0.10	0.10	0.13	0.12	0.14	0.14
14	Ex-gratia	-	-	-	-	-	-	-	-
15	Other Staff Costs	-	-	0.10	0.10	0.15	0.15	0.28	0.28

16	Total Other Staff Costs(7 to 15)	7.94	8.50	6.83	8.30	6.68	7.45	12.44	11.11
17	Staff Welfare Expenses	0.42	0.42	0.48	0.48	0.55	0.55	0.11	0.11
18	Terminal Benefits (Pension+Gratuity+Leave)	9.79	15.39	7.65	14.22	7.92	12.83	13.19	17.63
19	Gratuity and unutilized leave	2.28	-	1.90	-	1.81	-	-	-
20	Total (6+16+17+18+19)	80.16	85.41	69.60	81.50	68.18	72.06	113.10	120.93
21	Less : Employees cost capitalized	3.38	0.75	1.62	1.63	1.46	-	-	-
22	Net Employees Cost	76.78	84.66	67.98	79.87	66.72	72.06	113.10	120.93

6.8 **The Commission for the purpose of revenue requirement for FY 2007-08 allows an amount of Rs.7.88 crore, Rs.11.89 crore, Rs.5.34 crore and Rs.7.83 crore to WESCO, NESCO, SOUTHCO and CESU respectively towards truing up of the employees cost for FY 2006-07.**

6.9 **Return on Equity**

6.9.1 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 infuse capital. To make it lucrative, the Return on Equity may be linked to the RBI bank rate plus a margin for the investment risk in the power sector. 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.

6.9.2 The Commission examined the annual accounts of WESCO, NESCO and SOUTHCO for FY 2005-06 and the account of 2003-04 in respect of CESCO. The position of share capital for each of the companies as taken from the aforesaid accounts are given below:

Table - 57

(Rs. in crore)

Name of the Company	Share Capital
WESCO	48.65
SOUTHCO	37.66
NESCO	65.91
CESU	72.72

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

Table - 58

(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

6.10 **Miscellaneous receipts**

6.10.1 The miscellaneous receipts proposed by the licensees for the FY 2007-08 are given in the table below:

Table - 59

(Rs. in crore)

WESCO	**NESCO**	**SOUTHCO**	**CESU**
3.00	3.17	4.29	10.87

6.10.2 On verification from the tax audit report for the FY 2005-06 (latest report available to the Commission), it is revealed that the miscellaneous receipts of WESCO, NESCO and SOUTHCO excluding DPS amount to Rs.22.06 crore, Rs.22.93 crore and Rs.14.53 crore, respectively.

6.10.3 The licensees have not indicated the extent of earning of interest on account of security deposit available with them. The licensee shall indicate such earning and submit to the Commission in subsequent tariff filings. The interest earning will be set off against the interest payment to work out the net impact on the revenue requirement due to payment of interest on security deposit. The Hon'ble ATE in their judgement dtd. 13.12.2006 have pronounced to consider the miscellaneous receipt as proposed by the DISTCOs in their ARR filing. After a careful study in light of the ATE observation, Commission observed that the actual miscellaneous receipt of the DISTCOs are much more than the proposed receipts filed in the ARR. The miscellaneous receipt are towards meter rent, commission for collection of ED, miscellaneous charges, interest on loans and advances, interest on bank deposit, DPS, overdrawl penalty and other miscellaneous receipts. Since the nature of receipts of DPS and over drawl penalty is not certain, the Commission excludes these amounts form miscellaneous receipts while considering the ARR. For this purpose the Commission relied on the latest audit report (i.e. Tax Audit Report for 2005-06) and approves the same. The miscellaneous receipts approved by the Commission are shown in the table below:

Table - 60

(Rs. in crore)

WESCO	NESCO	SOUTHCO	CESU
22.06	22.93	14.53	13.37

6.11 **Revenue requirement**

6.11.1 In the light of above discussion, the Commission approves the revenue requirement of 2007-08 of four DISTCOs, as shown in Annexure-A.

6.11.2 An extract of the revenue requirement, expected revenue at the existing tariff and revenue gap for FY 2007-08 approved by the Commission is given below:

Table - 61

(Rs. in crore)

Name of the Company	Revenue Requirement		Expected Revenue		GAP	
	Prop.	Appr.	Prop.	Appr.	Prop.	Appr.
WESCO	1014.24	1291.86	875.98	1291.92	-138.26	0.06
NESCO	1054.92	903.39	664.25	903.48	-390.67	0.09
SOUTHCO	646.12	363.69	303.91	359.91	-342.21	-3.78
CESU	1659.44	1026.58	745.98	1029.64	-913.46	3.06
Total	4374.72	3585.52	2590.12	3584.95	-1784.60	-0.57

6.12 **Treatment of Surplus Revenue and Revenue Gap**

The Commission hereby directs that the surplus revenue in case of DISTCOs shall be maintained by the company in its own fund and shall not be utilised for any other purpose or shall not be transferred to any other account without specific approval of the Commission.

7 DETERMINATION OF TARIFF

a) The determination of tariff by the Commission has been done after examination of all details based on the records submitted by the Licensees, written and oral representations of the objectors.

b) The electricity tariff in Orissa has not undergone any change from 01.02.2001 to 31.03.2007 due to regulatory control. This in turn means decline in tariff in real terms as the inflation effect has been absorbed in the efficiency gain achieved by the licensees to the benefit of all groups of consumers. Another landmark development is the abolition of minimum charge for classes of consumers and introduction of a monthly minimum

fixed charge for the low voltage group of consumers to recover expenses related to meter reading, billing and consumer service.

c) The tariff structure as it exists for different voltage of supply are summarised below.

7.1 **LT supply upto 100 KW/110 KVA**

7.1.1 Kutir Jyoti consumers : Monthly Fixed Charge (Rs./ Month)

7.1.2 Other classes of consumers :

(a) Energy Charge (Paise/unit)
(b) Monthly Minimum Fixed Charge (MMFC) (Rs./KW/ Month)

7.1.3 **LT supply with connected load 110 KVA and above**

(a) Demand Charge (Rs./KVA)
(b) Energy Charge (Paise/unit)
(c) Customer Service Charge (Rs./Month)

7.1.4 **HT Consumers :**

(a) Demand Charge (Rs./KVA, Rs./KW)
(b) Energy Charge (Paise/unit)
(c) Customer Service Charge (Rs./Month)

7.1.5 **EHT Consumers**

(a) Demand Charge (Rs./KVA)
(b) Energy Charge (Paise/unit)
(c) Customer Service Charge (Rs./Month)

7.1.6 **DC Services**

7.1.6.1 Same as LT Supply for consumers with CD less than 100 KW.

In the last tariff order of the Commission, it was directed that, to maintain uniformity in the Supply voltage, the DC system operating in Cuttack and other places needs to be phased out and converted to AC system. In its Action taken report, CESU has reported that, DC system operating in Cuttack city has been discontinued and converted to AC system. Hence, DC tariff shall be dispensed with effective from 01.04.2007 for CESU.

7.2 Consumers covered under two-part tariff are not required to pay the MMFC but are to pay Demand Charge and Customer Service Charge. Consumers covered under single-part tariff and liable to pay MMFC will neither pay the Demand nor the Customer Service Charge.

7.3 In addition, certain other charges like power factor penalty, incentive, prompt payment rebate, meter rent, delayed payment surcharge, over drawal penalty/incentive, tariff for special class of consumers, other miscellaneous

charges, etc. are payable in cases and circumstances mentioned in the later part of this order.

7.4 The details of charges applicable to various categories of consumers classified under OERC Distribution (Condition of Supply) Code, 2004 are discussed hereafter.

7.5 **Tariff for Consumers Availing Power Supply at LT**

7.5.1 **Monthly Minimum Fixed Charge (MMFC) for consumers with contract demand of less than 110 KVA**

7.5.1.1 The MMFC is payable by the consumers with contract demand less than 110 KVA supplied power at LT. This is intended to meet a component of the fixed cost incurred in the system for meeting the consumer's load and also to recover the expenses on maintenance of meter, meter reading, preparation of bills, delivery of bills, collection of revenue and maintenance of customer accounts.

7.5.1.2 The Commission decides that the existing rate of MMFC should continue without change. Accordingly, the rates applicable to all such customers are given below:

Table - 62

Sl. No	Category of Consumers	Monthly Minimum Fixed Charge for first KW or part(Rs.)	Monthly Fixed Charge for any additional KW or part(Rs.)
	LT Category		
1	Kutir Jyoti	30	
2	Domestic (other than Kutir Jyoti)	20	10
3	General Purpose LT (<110 KVA)	30	20
4	Irrigation	20	10
5	Public Lighting	20	10
6	LT Industrial (S) Supply	40	30
7	LT Industrial (M) Supply	80	50
8	Specified Public Purpose	50	50
9	Public Water Works	50	50

7.5.1.3 Consumers with connected load of less than 110 KVA are provided with simple energy meters which record energy consumption and not the maximum demand. The OERC Distribution (Condition of Supply) code, 2004, provides that

"contract demand for loads of 110 KVA and above shall be as stipulated in the agreement and may be different from the connected load. Contract Demand for a connected load below 110 KVA shall be the same as connected load. **However in case of installation with static meter/meter with provision of recording demand, the recorded demand rounded to nearest 0.5 KW shall be considered as the contract demand requiring no verification" irrespective of the agreement. Therefore, for the purpose of calculation of MMFC the above shall form the basis.**

7.6 **Energy Charge**

7.6.1 **Consumers with connected load less than 110 KVA**

7.6.1.1 The estimated overall average cost of supply for FY 2007-08 for the State as a whole is 295 paise/unit.

7.6.2 **Domestic**

7.6.2.1 The Commission is conscious of affordability consideration for non-Kutir Jyoti consumers with connected load of 1 KW and below.

7.6.2.2 Keeping this in view the Energy Charge for supply for domestic consumers availing low tension supply shall be as under :-

Domestic consumption slab		**Energy charge**
First 100 Units	-	140 paise per unit
Next 100 units	-	230 paise per unit
Balance units of consumption	-	310 paise per unit

7.6.3 The Kutir Jyoti consumers will only pay the monthly minimum fixed charge @ Rs.30/- per month.

7.6.4 In accordance with the provision under the OERC Distribution (Condition of Supply) code, 2004, initial power supply shall not be given without a correct meter. **Load factor billing has been done away with effect from 1st April, 2004, as stipulated in the Commission's RST order for FY 2003-04**.

7.6.5 **General Purpose LT (<110KVA) :** The Commission reviewed the existing tariff structure and decided to continue the existing rates which are as follows :

Slab		**Energy charge**
First 100 units	-	320 paise/unit
Next 200 units	-	410 paise/unit
Balance units	-	450 paise/unit

7.6.6 **Irrigation :** The Commission decides that the Energy Charge for this category will remain unchanged i.e. 110 paise/unit for supply at LT.

Consumers in the irrigation category availing power supply at HT will pay 100 paise/unit.

7.6.7 The Commission, in keeping with its objective of rationalisation of tariff structure by progressive introduction of a cost-based tariff, has linked the Energy Charge at different voltage levels to reflect the cost of supply. While determining Energy Charge, the principle of higher rate for supply at low voltage and gradually reduced rate as the voltage level goes up has been adopted. The following tariff structure as is existing has been adopted for all loads at LT.

Voltage Of Supply	**Energy Charge**
LT	320 paise/unit

The above rate shall apply to the following categories :

1) Public lighting
2) LT industrial(S) supply
3) LT industrial(M) supply
4) Specified public purpose
5) Public water works and sewerage pumping < 110 KVA
6) Public water works and sewerage pumping => 110 KVA
7) General purpose => 110 KVA
8) Large Industries

7.6.8 **The rate of tariff as determined above is reflected in Annex-B.**

7.7 **Tariff for consumers availing power supply at LT with CONTRACT DEMAND 110 KVA and above.**

7.7.1 **Customer Service Charge**

7.7.2 The Commission examined the present level of Customer Service Charge being levied on the consumers with connected load of 110 KVA and above and decided to continue with the existing level of Customer Service Charge.

Table - 63

Category	**Voltage of Supply**	**Customer Service Charge (Rs./month)**
Public Water Works (>=110KVA)	LT	30
General Purpose (>=110KVA)	LT	30
Large Industry	LT	30

7.8 **Demand Charges**

7.8.1 The Commission examined the existing level of Demand Charge of Rs.200/KVA/month payable by the consumers with a contract demand of

110 KVA and above. The Commission studied the Demand Charges for similarly placed consumers of other utilities. After examination of the details the Commission has decided not to change the present rate of Demand Charge of Rs.200/KVA/month payable by the consumers with contract demand of 110 KVA and above which shall be payable in addition to the energy charge. The Commission took into consideration the submission of licensees to raise the demand charge for consumers with 75 KVA at HT to Rs.200/KVA. Since most of the consumer with CD 75 KVA to 110 KVA are under the medium industry and pay Rs.50/KW of contract demand raising that Rs.200/KVA for those availing at HT would be discriminatory. Besides consumers availing power at HT help reduction of T&D loss.

Voltage of Supply	**Demand charge**
LT	Rs.200/ KVA/month

7.9 Tariff for HT & EHT Consumers

7.9.1 Customer Service Charge for consumers with contract demand of 110 KVA and above

The licensee is vested with the obligation of providing service to a consumer once connected to the power system of the licensee and incurs an expenditure for meeting the cost of meter reading, preparation of bills, delivery of bills, collection of revenue and maintenance of customer accounts etc. The licensee is bound to meet these expenses irrespective of the level of consumption of the consumer. The customer service charges as existing hitherto for remains unchanged as per details in the table below:

Table - 64

Category	Voltage of Supply	Customer service charge (Rs./month)
Bulk Supply (Domestic)	HT	250
Irrigation	HT	250
Specified Public Purpose	HT	250
General Purpose (HT <110KVA)	HT	250
HT Industrial (M) Supply	HT	250
General Purpose (=>110KVA)	HT	250
Public Water Works	HT	250
Large Industry	HT	250
Power Intensive	HT	250
Mini Steel Plant	HT	250
Emergency Supply to CPPs	HT	250
Railway Traction	HT	250
General Purpose	EHT	700
Large Industry	EHT	700

Railway Traction	EHT	700
Heavy Industry	EHT	700
Power Intensive Industry	EHT	700
Mini Steel Plant	EHT	700
Emergency Supply to CPPs	EHT	700

7.9.2 **Demand Charge for consumer with contract demand of 110 KVA and above**

7.9.2.1 The Commission examined the existing level of Demand Charge of Rs.200/KVA/month payable by the consumers with a contract demand of 110 KVA and above. The Commission studied the Demand Charges for similarly placed consumers of other utilities. After thorough examination, the Commission has decided not to change the present rate of Demand Charge of Rs.200/KVA/month payable by the consumers with contract demand of 110 KVA and above. The class of consumers and the voltage of supply to whom this charge shall be applicable are listed below.

HT Category

General Purpose (=>110 KVA)
Public Water Works
Large Industry
Power Intensive Industry
Mini Steel Plant
Railway Traction

EHT Category

General Purpose
Large Industry
Railway Traction
Heavy Industry
Power Intensive Industry
Mini Steel Plant

7.9.3 Consumers with contract demand 110 KVA and above are billed on two part tariff on the basis of reading of the demand meter and the energy meter. They are also allowed to maintain loads in excess of their contract demand. The Demand Charge reflects the recovery of fixed cost payable by the consumer for the reservation of the capacity made by the licensee

for the consumers. To insulate the licensee from the risk of financial uncertainty due to non-utilisation of the contracted capacity by the consumer it is necessary that the consumer pays at least a certain amount of fixed cost to the licensee. To arrive at that cost the Commission studied the pattern of demand recorded by the demand meters of all such consumers of the licensee for the period from April, 2006 to September, 2006. The Commission after taking into consideration this aspect have decided that **the existing method of billing the consumer for the Demand Charge on the basis of the maximum demand recorded or 80% of the contract demand, whichever is higher should continue**. The method of billing of Demand Charge in case of consumers without a meter or with a defective meter shall be in accordance with the procedure prescribed in OERC Distribution (Conditions of Supply) Code, 2004.

7.9.4 As per the OERC Distribution (Conditions of Supply) Code, 2004, for contract demand above 70 KVA but below 555 KVA supply shall be at 3-phase, 3-wire, 11 kV. However, these consumers connected prior to 01.10.95 may be allowed to continue to receive power at LT. But there are some consumers in the category of domestic, irrigation, specified public purpose, general purpose (<110KVA) and HT Industrial (M) Supply who have availed power supply at HT. **For such types of consumers the Commission have decided to allow the existing Demand Charge to continue as indicated below** :-

Category	**(Rs./KW)**
Domestic	10
Irrigation	30
Specified public purpose	50
General purpose (<110KVA)	50
HT Industrial (M) Supply	50

7.9.5 **However in case of installation with static meter/meter with provision of recording demand, the recorded demand rounded to nearest 0.5 KW shall be considered as the contract demand requiring no verification irrespective of the agreement.** Bills should be raised for these categories of consumers on the basis of their contract demand/connected load calculated in kW.

7.10 **Energy Charge for consumer with contract demand of 110 KVA and above**

7.10.1 The Commission, aiming at rationalisation of tariff structure by progressive introduction of a cost-based tariff, has related the Energy Charge at different voltage levels to reflect the cost of supply. While determining Energy Charge, the principle of higher rate for supply at low voltage and gradually reduced rate as the voltage level goes up has been adopted. The following existing tariff structure has been adopted for all loads of 110 KVA and above.

VOLTAGE OF SUPPLY	ENERGY CHARGE
HT	300 paise/unit
EHT	290 paise/unit

7.10.2 However, the Commission has made certain exception to the above provision in respect of domestic and irrigation consumers availing power at HT.

7.10.3 **HT Supply for Domestic (Bulk) and Irrigation :** With a view to avoiding steep rise in tariff in respect of domestic (bulk supply) and irrigation category availing power at HT, the Energy Charge is fixed at @ 230 paise/unit and @ 100 paise/unit respectively.

7.11 **Industrial Colony Consumption** : Since the purpose of incentive scheme is to encourage higher consumption by the EHT & HT consumers, the Commission after reviewing the scheme, directs that, the units consumed for the colony shall be separately metered and the total consumption shall be deducted from the main meter reading and billed @ 230 paise/unit for supply at HT and EHT. For the energy consumed in colony in excess of 10% of the total consumption, the same shall be billed at the rate of Energy Charge applicable to the appropriate class of industry.

7.12 **Emergency power supply to CPPs/Generating stations**

Industries owning CPP / Generating Stations have to enter into an agreement with the concerned DISTCOs subject to technical feasibility and availability of required quantum of power/energy in the system as per the provision under the OERC Distribution (Condition of Supply) Code, 2004. For them, (i) a flat rate of 420 paise/kwh at EHT and 440 paise/kwh at HT would apply (ii) while for others who draw only 25% of capacity of highest unit would pay @ 380 paise/kwh and 400 paise/kwh at EHT and HT respectively. If on verification it is established that SMD of DISTCOs has increased because of overdrawl by the CGP, Demand Charge @Rs.200/KVA shall be payable over the excess of contract demand for that industry in addition to the energy charges in case of (i) above.

7.13 **Peak and off-peak tariff**

7.13.1 Section 62(3) of the Electricity Act, 2003 mandates as follows:

"The Appropriate Commission shall not, while determining the tariff under this Act, show undue preference to any consumer of electricity but may differentiate according to the consumer's load factor, power factor, voltage, total consumption of electricity during any specified period or the time at which the supply is required or the geographical position of any area, the nature of supply and the purpose for which the supply is required."

7.13.2 Further in accordance with the provision of para 7(a) (i) of OERC (Terms and Conditions for Determination of Tariff) Regulation, 2004, a differential tariff for peak and off-peak hours is essential to promote

demand side management. The Commission may encourage the distribution licensee to move towards separate peak and off-peak tariffs. Accordingly, the Commission decides that Off-peak hours for the purpose of tariff shall be treated from 10.00 PM to 6.00 AM. Three phase Consumers barring those mentioned at (i), (ii), (iii) and (iv) below having static meters, recording hourly consumption with a memory of 30 days and having facility for downloading printout drawing power during off-peak hours shall be given a discount at the rate of 10 paise per unit of the energy consumed during this period. This discount, however, will not be available to the following categories of consumers.

i) Consumers covered under special agreement.
ii) Consumers with CD of 100 MVA and above.
iii) Public Lighting Consumers.
iv) Emergency supply to captive power plants.

7.13.3 The load curve of the Orissa Power system indicates wide variation between peak and off peak hours.

7.13.4 One significant finding is the ratio between off peak load and peak load of the Orissa system.

7.13.5 Ordinarily, ratio of 1:2 between peak to off peak appears to be ideal indicating very effective utilization of the existing capacity. This ratio is much higher than 1.2 for all the months of the year. Higher demand at peak load means high loss. Tariff structure shall encourage shifting of loads from peak hours to off peak hours. This may be possible either through bonus or penalty mechanism subject to availability of static meter with TOD facilities. In the present tariff structure there is a provision of reduced tariff in the off peak hour as an incentive. There is no disincentive for drawl at peak hours. In Orissa static meters are supposed to be available with connected load 10 KW and above. This, of course, need to be confirmed.

7.13.6 Further analysis indicates that the EHT groups of consumers generally are shifting the load from peak hours to off peak hours. That kind of segregation is not available for HT consumers. But, the combined load of HT consumers and area load comprising all low voltage consumers indicates that more or less the peak and off peak load are same. This is precisely because total domestic & large part of commercial loads and other loads at low voltage generally maximize their drawal during peak hour. The total units sale at low voltage is around 40%. Licensees will have to be incentivatised for installation of static meters even in case of low voltage loads. In efficient utilisaiton of the existing network shall have to be addressed by having distinct peak and off peak tariff for most of the consumers. It will also help demand side management.

7.13.7 Therefore the commission directs that the licensees shall maintain and submit the peak and off peak drawl of each of the HT consumers before the next tariff filing.

7.13.8 The licensees shall also submit a report to the Commission indicating the status of availability of static meters with TOD facilities for low voltage consumer before the next tariff hearing.

7.14 Incentive for improvement in power factor

7.14.1 Some of the objectors pleaded for restoring incentive for improvement in power factor from 90% and above and penalty at the same rate for low power factor. The Commission examined the desirability of continuing with the present method of incentives permissible to the consumers for improvement in power factors. On examination of financial liabilities and considering similar provisions adopted by other Commissions, the Commission directs that incentive for maintenance of high power factor shall be given as a percentage of the monthly Demand Charge and Energy Charge and shall be applicable to the HT/EHT consumers who are liable to pay power factor penalty. The rate of this incentive will be 0.5% for every 1% rise above **95%** upto and including 100% on the monthly Demand Charge and Energy Charge.

7.14.2 **Power Factor Penalty**

7.14.2.1 The Commission also orders for continuance of the power factor penalty as a percentage of monthly Demand Charge and Energy Charge on the following categories of consumers:

i) Large Industries
ii) Public Water Works (110 KVA and above)
iii) Railway Traction
iv) Power Intensive Industries
v) Heavy Industries
vi) General Purpose Supply
vii) Specified Public Purpose (110 KVA and above)
viii) Mini Steel Plants
ix) Emergency supply to CPP

7.14.2.2 **Rate of Power Factor Penalty :-**

ii) 0.5 for every 1% fall from 90% upto and including 60% plus
iii) 1% for every 1% fall below 60% upto and including 30% plus
iv) 2% for every 1% fall below 30%

7.15 **Other Charges**

The Commission authorises levy of other charges by the licensees as given below:-

7.15.1 **Over drawl during off peak hours: As per the existing tariff provisions, there is no penalty for overdrawal out side the peak hours upto 120% of the contract demand. The Commission has decided that the existing facility now available to the consumers will continue in the interest of a stable frequency regime by providing load during the off-peak hours.**

7.15.2 **Penalty for overdrawal of power above the contract demand:** The existing rate of penalty, however, will continue for overdrawal during peak hours. When the maximum demand exceeds the contract demand during peak hours, such excess demand is liable for a penalty and payable at the prescribed rate of Demand Charge. For this purpose 'the peak hours' is defined as 0700 hrs to 1000 hrs and 1800 hrs to 2200 hrs.

7.15.3 **Metering on LT side of Consumers Transformer :** Transformer loss, as computed below has to be added to the consumption as per meter reading.

Energy loss = 730 X KVA rating of the transformer/100.
Loss in demand = 1% of the rating of the transformer (for two part tariff)

7.15.4 **Incentive for prompt payment**

Some of the large consumers pointed out that rebate period of 3 days is very short and consumers may not be able to avail the rebate due to paucity of time. NESCO, WESCO, SOUTHCO and CESU in their RST applications for 2007-08 have estimated the rebate on account of prompt payment within 3 days of presentation of bill and rebate of 10 paise/unit for payment within 7 days during the FY 2007-08 as indicated under.

Table - 65
Proposed Rebate (Rs. crore) for the FY 2007-08
At Existing Tariff

	Prompt Payment Rebate @1%
NESCO	5.34
WESCO	7.50
SOUTHCO	1.35
CESU	3.06

7.15.5 Hence, it is expected that to avail such heavy amount of rebate, consumers should put in extra efforts and make payment of bills in time.

7.15.6 The Commission examined the existing method of incentive and its financial implication. The Commission has decided to grant incentive for early and prompt payment as below.

a) A rebate of 10 paise/unit shall be allowed on energy charges if the payment of the bill (excluding arrears and electricity duty) is made by the due date indicated in the bill in respect of the following categories of consumers.

LT: Domestic, General purpose < 110 kva, Irrigation and LT Industrial (S), Public Water Works and Sewerage Pumping

HT: Bulk supply domestic, General purpose <110 kva and irrigation, Public Water Works and Sewerage Pumping

b) Consumers other than those mentioned at para 'a' above shall be entitled to a rebate of 1% (one percent) of the amount of the monthly bill (excluding arrears and electricity duty), if payment is made within 3 <u>working days</u> of presentation of the bill.

7.15.7 **Delayed Payment Surcharge:** The Commission has examined the present method and rate of DPS and has decided that if payment is not made within the due date, Delayed Payment Surcharge shall be charged for every day of delay at 1.25% per month on the amount remaining unpaid (excluding arrears on account of DPS) in respect of categories of consumers as mentioned below:

i) Large industries
ii) LT/HT Industrial (M) Supply
iii) Public Water Works
iv) Railway Traction
v) Public Lighting
vi) Power intensive industries
vii) Heavy industries
viii) General Purpose Supply >=110 KVA
ix) Specified Public Purpose
x) Mini Steel Plants
xi) Emergency supply to CPP

7.15.8 **Customer Charge:** As indicated in **Annex-B** there shall be no change in the existing rate of customer charge.

7.15.9 **Re-connection Charge:** The existing rates of reconnection charge as below shall continue:-

Single Phase Domestic Consumer	Rs.50/-
Single Phase other consumer	Rs.100/-
3 Phase line	Rs.200/-
HT & EHT line	Rs.1000/-

The Commission does not approve of the proposal for enhancement of reconnection charges as proposed by the licensees.

7.15.10 **Rounding off of consumer billed amount to nearest rupee**

The Commission directs for rounding off of the electricity bills to the nearest rupee and at the same time directs that the money actually collected should be properly accounted for.

7.15.11 **Charges for Temporary Supply**

7.15.11.1 The tariff for the period of temporary connection shall be at the rate applicable to the relevant consumer category.

7.15.11.2 **Connection temporary in nature shall be provided with pre-paid meters to avoid accumulation of arrears in the event of dismantling of the temporary connection etc.**

7.15.12 **New Connection Charges for LT**

The Commission in its previous tariff orders had directed that prospective small consumers requiring new connections upto and including 3 KW load should pay a flat charge of Rs.500/-. This was intended to do away with the vexatious practice of preparation of estimate in respect of small consumers. However, preparation of estimate for connection above 3 KW load was envisaged in these orders. **The Commission directs that, the above provision of a flat charge of Rs.500/- for prospective small consumers requiring new connections upto and including 3 KW load will continue without any change.**

7.15.13 **Fuel Surcharge Adjustment Formula**

The Commission has already prescribed a fuel surcharge adjustment formula for the distribution licensee in the OERC (Conduct of Business) Regulations, 2004, which shall continue to be valid.

7.16 Consumer Services

7.16.1 **Information to Consumers on Billing and Payment**

7.16.1.1 Umpteen number of complaints have been received from the consumers about erroneous billing and incorrect entry of revenue receipts. To become customer friendly, the onus lies on the licensees to keep the consumers abreast of the conditions of working of the meter, the pattern of consumption, the monthly payments, etc. This assumes significance, as the licensees have to work out the interest on security deposit

every year and credit the interest accrued thereon to consumer's account as on 1st of May of every year.

7.16.1.2 **Consumer Arrears: The licensees are directed to exhibit separately arrears in respect of each consumer as at the beginning of each financial year**.

7.16.2 **Information about Consumer Billing & Collection**

7.16.2.1 Information on billing and collection of vital nature can be shared with the consumers, by way of statement of meter reading, billing and payment by the consumers for a period of last twelve months. Every time one makes payment, a money receipt on the date of payment can be issued. The licensees are advised to develop suitable mechanism to achieve this which will go a big way in achieving a consumer friendly environment.

7.16.2.2 Use of technology for updating information is the order of the day. All the licensees should gear up their machineries to provide networking of collection from the consumers within their license areas as well as provide accessibility to consumers to get themselves appraised of the status of billing and collection at least for a period of past twelve months.

7.16.2.3 The Commission with a view to boost up collection efficiency, directed the DISTCOs to introduce the Spot billing system. Spot billing system introduced by CESU is yielding positive results. It is reported by CESU that the introduction of spot billing has improved billing, helped identification of ghost consumers, improved collection and liquidity position. NESCO, WESCO & SOUTHCO are yet to complete 100% spot billing for all of their consumers. **The Commission directs that all the above three licensees shall complete spot billing early for their consumers. The Commission also expects the licensees to adopt for spot collection preferably through account payee checks to improve their collection efficiency.**

7.16.2.4 This is most deplorable inasmuch as after five years of privatisation of the DISTCOs, the licensees are not rising to the occasion to collect the bills which they are serving to the consumers and are persistently failing to take measures as directed by the Commission for improvement in billing and collection. In this context, it is very much essential that spot billing and spot collection should be introduced as proposed above.

7.16.2.5 **The Commission has decided to allow a rebate of 10 p/u for consumers covered under rural water supply category for payment within the due date.**

7.16.2.6 Frequent theft of conductor cannot be a ground for denial of power supply for the vulnerable sections of the consumers, many of whom are not aware about their own rights. Besides, the Commission have been allowing operation and maintenance expenses which also covers theft of conductors and burning of transformers. **The licensees must take adequate steps for removal of the conductors and keep it in safe custody during off season as well as during disconnection of power supply due to non payment. These must be refixed during the working season or after reconnection of power supply due to disconnection**. **Under no circumstances, the LI points and other consumer supplies shall remain defunct on the ground of theft of conductors or disconnection of power supply.** At the same time, collection of revenue from such kind of consumers as well as disconnection must be promptly followed up by the licensees. The licensee shall take up the help of the village committees and consumer associations for prevention of theft.

7.16.2.7 **Replacement of burnt transformers**: During the course of public hearing, some objectors raised the issue that in case of burning of the distribution transformer, the legitimate consumers are being deprived of power supply due to non-replacement of such transformer, as almost all the licensees are bent upon collection of 30% of the outstanding dues of all the consumers of the area. **The Commission directs that, in case of burning of transformer the licensees should not deprive the legitimate consumers for getting power supply and they should take timely action for replacement of the transformer and at the same time must ensure that no unauthorised and defaulted consumer remains connected to such transformers for power supply.**

It is observed that the number of transformers are failing due to overloading. Hence, the licensees are directed to take adequate steps to avoid burning of transformer due to overloading/ unbalance loading and for other reasons through regular monitoring.

7.17 The Consumer Satisfaction Survey

As stipulated in the Commission's LTTS order, a Consumer Satisfaction Survey is intended to bring out several aspects of performance and service that are not easy to capture through the first initiative of obtaining information of select quality parameters from the licensee. The Commission is extremely concerned

about the quality of supply that should be available to all classes of consumers through out the State for which the Commission would like to elicit the views from the consumers on quality of service and also make them aware of their rights regarding performance standards to be made available to them by the licensee. **The Commission, therefore, has taken the initiative of putting in place a system and procedure to take feed back directly from the retail consumers including industrial consumers and Govt. Departments.**

7.18 **Special Court & Special Police Station**

7.18.1 According to the Section 153 of the Electricity Act, 2003, the State Government may, for the purposes of providing speedy trial of offences, constitute as many Special Courts as may be necessary for such area or areas, as may be specified in the notification. The distribution companies have projected huge cost on this account for the FY 2007-08 and have proposed to allow the same in the ARR. But no action plan for establishment of Special Police Stations and Special Courts have been devised/submitted by the DISTCOs. It was opined in the SAC Meeting that, the cost for same should be borne by the State Govt. without burdening the electricity consumers as this will improve the financial viability of the power sector.

7.19 **Loss reduction through People's Participation**

7.19.1 It is now reported by the distribution companies that 97% of the consumers have been provided with meters. Out of which 90% are reported to be in working order. The Commission have been insisting for consumer/feeder/transformer (C-F-T) metering for correct assessment of technical losses and billing to the consumers on the basis of correct meters. It was thought that addition of meters in the system would help reduction of Transmission and Distribution Loss which is possibly not happening to the extent anticipated.

7.19.2 Our concern is that in spite of reported level of metering in feeders, transformers and at consumer end there has not been perceptible decline in the level of transmission and distribution loss. Unless the transmission and distribution loss is tackled appropriately, balancing of revenue requirement will continue to pose a problem for which all stakeholders i.e. the consumers, the licensee and the state government should come together to find a solution possibly in line with the framework envisaged in section 5 of the Electricity Act, 2003 for bulk purchase of power and management of local distribution in rural areas, Panchayat Institutions, Users Associations, Cooperative Society, Non–Government Organisation or Franchisees. The licensees should make a move in this direction.

7.20 The Commission does not approve the licensees' calculation of revenue requirement and proposal for tariff for FY 2007-08.

7.21 The tariff schedule of various classes of consumers, as approved by the Commission is at Annex-B.

7.22 While parting with the above matter, it will be appropriate to mention here that during course of hearing relating to tariff matters, the Petition of Military Engineering Services (Ministry of Defence) for grant of Separate Category of tariff for Military Engineering Services (Ministry of Defence) was heard. While taking care of such application of MES, the matter has been dealt with in the order.

7.23 At the request of the licensees the Commission has decided to conduct a separate hearing on determination of open access charges and the dates will be notified later.

7.24 The financial viability of DISTCOs are dependent upon

(I) Reduction of transmission and distribution loss
(II) Improvement of collection efficiency
(III) Realisation of arrear receivables of consumers
(IV) Satisfactory consumer service

7.24.1 The Commission has been insisting for energy audit, spot billing, spot collection, monitoring and fixation of accountability at all levels for reduction of T&D loss. The distribution companies have failed to collect current bills served on the consumers for which huge uncollectible arrears are piling up from year to year. They are only asking for relaxation of escrow mechanism by GRIDCO. They are not disconnecting power supply for non paying consumers putting a burden on the honest and paying consumers. Arrear receivables of all DISTCOs taken together are around Rs.2400 crore by 31st of March, 2006. They have not been able to sanitize the correctness of billing and come to a definite figure about the exact collectable amount. A 10% collection out of arrears would have wiped out the problem liquidity faced by the distribution licensees.

7.24.2 Intervention of Information Technology at all levels starting from fuse calls to billing, collection, monitoring of consumer complaints, new connection, reconnection, disconnection, spot billing, spot collection, schedule and un-schedule break down, complaints relating to meters and internal management of stores and HRD can be an efficient tool. It calls for suitable technological up-gradation and design of an IT enabled system so that the quality of service and the financial viability can be improved upon. The licensees are directed to come out with a comprehensive action plan for IT intervention at all levels within a period of two months of the next financial year.

7.24.3 Lack of adequate and appropriately trained manpower is at the sources of inefficient consumers' service. The Commission should be appraised about the HRD plan and it's development programme by the licensees while they come up with proposal for IT Development Programme.

7.24.4 Commercial loss is a matter of great concern. It's reduction can make the sector self sustainable and reduction of theft can be possible only with

public participation particularly in rural areas. We are of the firm view that participation of panchayats as franchisee for distribution licensees for billing, collection and loss reduction could be put to effective use. For that purpose we may have to give preference to the Gram Panchayats giving them an incentive for reduction of loss and improvement of collection efficiency. The licensees should come forward with an appropriate action plan within the next two months about the engagement of franchisee in their respective areas after due consultation with various authorities. WESCO model happens to be a good model for introduction of franchisee throughout the State giving the liberty to select a franchisee operator giving preference to the concerned Gram Panchayats.

7.24.5 We have already stated that the truing up figures of GRIDCO and DISTCOs are provisional subject to finalization after discussion with all the stakeholders. DISTCOs, GRIDCO, OPTCL are directed to file their comments within 15th May 05 regarding the figures indicated in the order about truing up figures. The Commission will review the submission of the licensees before finally freezing the figures. If required their could be an amendment to the existing tariff structure without any further public hearing after taking into consideration the truing up figures.

7.25 The existing Retail Supply Tariff along with the modifications as stipulated in the order shall be effective from 1st April, 2007 and shall be in force until further orders.

The applications of M/s NESCO, WESCO, SOUTHCO and CESU are disposed off accordingly.

Sd/-	**Sd/-**
(S.K. Jena)	**(B.K. Das)**
Member	**Chairperson**