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1. INTRODUCTION

1.1 BACKGROUND

The Hon'ble Appellate Tribunal for Electricity in its judgment dated 21st October 2011 in Appeal No. 121 of 2010 and I.A. No. 83 of 2010 had directed the Hon'ble Uttar Pradesh Electricity Regulatory Commission (hereinafter referred to as the 'Hon'ble Commission') to initiate the true-up exercise upto FY 2006-07 immediately in respect of the distribution companies namely Paschimanchal Vidyut Vitran Nigam Limited ('PVVNL' or 'Meerut Discom' or 'Meerut'), Dakshinanchal Vidyut Vitran Nigam Limited ('DVVNL' or 'Agra Discom' or 'Agra'), Purvanchal Vidyut Vitran Nigam Limited ('PuVVNL' or 'Varanasi Discom' or 'Varanasi'), Madhyanchal Vidyut Vitran Nigam Limited ('MVVNL' or 'Lucknow Discom' or 'Lucknow') and Kanpur Electricity Supply Company Limited (KESCO) and Uttar Pradesh Transmission Corporation Limited (UPPTCL).

Further the Hon'ble UPERC in an order dated 29th March 2012 in respect of hearing held on 27th March 2012 in the matter of Aggregate Revenue Requirement (ARR) and Tariff for FY 2010-11, FY 2011-12 and FY 2012-13 by the State owned distribution companies namely – DVVNL, PVVNL, MVVNL, PuVVNL and KESCO and the state owned transmission utility namely UPPTCL directed the distribution and transmission licensees to file the true-up petitions upto FY 2007-08. The relevant extract of the Hon'ble Commission's order is reproduced below:

"The Commission also directs all the Petitioners to file individual detailed True-up Petitions upto FY 2007-08 along with copies of audited accounts accompanied with schedules and CAG report for each of the previous financial years."

Accordingly, Kanpur Electricity Supply Company Limited (hereinafter referred to as the 'Petitioner' or 'KESCO') is hereby making this detailed true-up petition for the financial years 2000-01 to 2007-08. It is pertinent to mention that the Hon'ble Commission has not formulated any specific regulations in respect of preparation of true-up petitions. The current true-up petition has been broadly guided by the principles embodied in the UPERC (Terms and Conditions of Distribution Tariff) Regulations 2006 and UPERC (Terms and Conditions of Transmission Tariff) Regulations 2006 issued on 6th October 2006.

Further, the tariff filing formats issued as part of UPERC (Terms and Conditions of Distribution Tariff) Regulations 2006 and UPERC (Terms and Conditions of Transmission Tariff) Regulations 2006 contain only one format namely 'Format S9 – Truing up of Past Accounts' in respect of truing-up computations. The Petitioner has accordingly duly filled up this format.

1.2 SCHEME OF THE PETITION

The structure of this petition is as follows:

Chapter 1 Introduction

This section contains a brief background and rationale of the true-up submissions; structure of the petition is also described in this section

Chapter 2 True-up Philosophy

This section contains the broad true-up philosophy adopted by the Petitioner in claiming

the variation of each component of ARR, identification of treatment of controllable and uncontrollable expenses and the basis of sharing of efficiency gains and losses

Chapter 3 True-up Petition for FY 2000-01

This section provides the true-up computation of FY 2000-01.

Chapter 4 True-up Petition for FY 2001-02

This section provides the true-up computation of FY 2001-02.

Chapter 5 True-up Petition for FY 2002-03

This section provides the true-up computation of FY 2002-03.

Chapter 6 True-up Petition for FY 2003-04

This section provides the true-up computation of FY 2003-04.

Chapter 7 True-up Petition for FY 2004-05

This section provides the true-up computation of FY 2004-05.

Chapter 8 Actual Results for FY 2005-06

As no tariff order for FY 2005-06 was issued, no true-up computations have been prepared.

Chapter 9 True-up Petition for FY 2006-07

This section provides the true-up computation of FY 2006-07.

Chapter 10 True-up Petition for FY 2007-08

This section provides the true-up computation of FY 2007-08.

Chapter 11 Summary of Truing up and Calculation of Carrying Cost

This section summarises the true-up computations for the years 2000-01 to 2007-08 and computes the carrying cost on such trued up amounts.

Chapter 12 Prayers

2. RATIONALE AND PHILOSOPHY

2.1 RATIONALE FOR TRUING UP

Although the Hon'ble Commission has not issued any specific regulations in respect of the procedure, manner and framework of preparation and filing of true-up petition, the UPERC (Terms and Conditions of Distribution Tariff) Regulations provide the basis and rationale for filing of such true-up petition.

Regulation 2.1.5 provides:

"The Commission may broadly classify costs incurred by licensee as controllable and non- controllable. Uncontrollable costs shall include (but not limited to) fuel cost, increase in interest rates, increase in cost on account of inflation, taxes & cess, variation in power purchase unit costs including on account of hydrothermal mix in case of adverse natural events. Till the implementation of Multi-year tariff framework, the Commission may set annual targets for all controllable costs. These targets shall be used for computing aggregate revenue requirement. However, for checking the prudence of various costs incurred by the distribution licensee, the Commission may link them to appropriate indices/rates like consumer price index(CPI), wholesale price index (WPI) and bank rates etc." (Emphasis supplied)

Further Regulation 2.1.6 provides:

"All non-controllable costs as checked by the Commission with due diligence and prudence shall be allowed as pass-through while determining the ARR of the distribution licensee."

'Regulation 2.4 – Amendment in Tariffs' provide:

1. *"No tariff or part of any tariff may ordinarily be amended, more frequently than once in any financial year, except in respect of any changes expressly permitted under the terms of any fuel surcharge.*
2. *In case of distribution of electricity in the same area by two or more distribution licensees, the Commission may, for promoting competition among distribution licensees, fix maximum ceiling of tariff for different category of consumers for retail sale of electricity.*
3. *Subject to other provisions of these regulations, the ARR determined by the commission for any financial year shall be trued up on the basis of actual financial and operational results. Any deficit or surplus arising out of such true up shall be adjusted while determining the tariff for the subsequent years.*

Provided that the Commission may allow higher expenditure actually incurred by the licensee in any financial year on account of non controllable factors i.e. factors beyond the control of licensee after due verification of such expenses and prudence check.

Provided further that the profit arising out of improvement in operational efficiency such as over achievement of loss reduction target, better collection efficiency, saving in O & M Expenditure etc. shall be shared between the distribution licensee and the consumers as specified in Para 4.11 of these regulations." (Emphasis supplied)

2.2 IDENTIFICATION OF TREATMENT OF CONTROLLABLE AND UNCONTROLLABLE EXPENSES

The Petitioner understands that the Tariff Regulations have stipulated a mechanism of classification of controllable and uncontrollable expenses and the treatment of sharing of gains and losses thereof. In this regard, the classification of expenses as per the Petitioner is submitted in the table below:

Table 1: Controllable and Uncontrollable factors proposed by the Petitioner

Particulars	Treatment of expenses	Petitioner's Remarks
Power Purchase Cost	Controllable	Controllable to the extent of approved T&D loss levels, quantity mix and price variance is uncontrollable
O&M Expenditure	Controllable	Uncontrollable only to the extent when they arise due to factors such as increase in statutory levies, taxes, changes due to requirement of other utilities, departments and other bodies such as municipal authorities, changes in accounting policies, etc
Interest on Loans	Uncontrollable	Interest cost is uncontrollable as the interest rate regime is determined by various external factors.
Other Finance Charges	Uncontrollable	Constitutes of components such as guarantee fees, bank charges which are imposed by Government, financial institutions, etc and are uncontrollable
Interest on Working Capital	Controllable	Controllable as worked out on normative basis.
Depreciation and Advance Against Depreciation	Uncontrollable	Uncontrollable as depreciation is towards replacement cost of assets and AAD is to ensure cash flows to meet loan repayments
Income Tax	Uncontrollable	It is a statutory requirement
Return on Equity	Uncontrollable	Computed based on the principles outlined by the Commission in the Tariff Regulations
Non-Tariff Income	Uncontrollable	Controllable to the extent of recurring portion of non-tariff income

2.3 SHARING OF EFFICIENCY GAINS AND LOSSES

The basis of sharing of efficiency gains and losses can be traced to 'Regulation 4.11 – Profit Sharing' of the UPERC (Terms and Conditions of Distribution Tariff) Regulations 2006 which has been reproduced below:

- 1. The licensee will be allowed an approved return for the ensuing financial year.*

2. However, if the licensee makes more profit than the approved return on account of improved performance by way of reduction of Distribution Losses, better collection efficiency etc., the Commission may treat the profit beyond the approved return in the following manner:

- (i) Licensee shall be entitled to retain 50% of the additional profit earned on account of operational efficiencies
- (ii) 25% shall be credited to the licensee's contingency reserve.
- (iii) The remaining 25% shall be passed on to the consumers by way of reduction in ARR. (Emphasis Supplied)

The Petitioner has accordingly computed the efficiency gains in respect of controllable expenses

2.4 RATIONALE AND PHILOSOPHY

This section summarises the philosophy adopted by the Petitioner for claiming true-up of various components of ARR. For the sake of brevity, the rationale and principles for claiming the true-up are mentioned in this section without repeating them in the succeeding chapters where year wise true-up computations have been presented

2.4.1 POWER PURCHASE EXPENSES

In various tariff orders of the state distribution companies namely DVVNL, MVVNL, PuVVNL and PVVNL, the Hon'ble Commission while approving the power purchase quantum has conducted an in-depth analysis for each source of power both within and outside the state with respect to its availability, rate, etc. The same has been done considering the long term allocation of allocated and unallocated power from State owned/ Central State Sector generating Stations in the relevant financial years, new generating capacities proposed in State owned /Central Sector generating Stations, indicated availability by various generators, and past availability trends and other information in absence of specific indication by some generators.

In certain years, the Hon'ble Commission has adopted the principles of merit order dispatch schedule for working out the power procurement plan to minimise the cost of power procurement.

However, in all years from FY 2000-01 to 2007-08, the state of Uttar Pradesh faced power deficit situation and also resorted to load shedding. The demand supply gap is depicted in the chart below:

Table 2: Demand Supply Gap over the years (MW)

Particulars	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Demand	5425	5663	5337	5583	6021	6417	6721	7479	8008	8692	8904
Supply	4571	4996	4221	4629	4808	5129	5696	6138	6371	6821	7529
Gap	854	667	1116	954	1213	1288	1025	1341	1637	1871	1375

The application of merit order principle on entire power purchase, thus, becomes a redundant exercise. The Hon'ble Commission has approved T&D loss targets in each tariff order for the Petitioner. The Petitioner has considered the following philosophy for computing the allowable power purchase cost:

- The Petitioner has first calculated the allowable power purchase input which has been calculated by grossing up the actual energy sales by the approved T&D loss target of the relevant financial year.

-
- The allowable power purchase cost has been computed by multiplying the derived allowable power purchase input by the actual power purchase rate as per audited accounts.

Thus to sum up the philosophy of the Petitioner, the efficiency target of T&D loss level has been considered as controllable parameter whereas the quantity mix and price variance has been considered as uncontrollable parameter.

The above principle for computing the allowable power purchase cost for true-up purposes has been applied consistently for the financial years 2000-01 to 2007-08.

2.4.2 O&M EXPENSES

The O&M expenses comprise of employee cost, repairs & maintenance (R&M) cost and administrative & general (A&G) cost. The Hon'ble Commission in the tariff orders has considered each component of O&M expenses separately by identifying the factors affecting them.

For the purposes of true-up petition, the employee costs, A&G expenses and R&M expenses have been considered as controllable expenses except for that portion of expenses which arise due to factors such as increase in statutory levies, taxes, changes due to requirement of other utilities, departments and other bodies such as municipal authorities, changes in accounting policies, etc.

In cases, where the Petitioner has been able to restrict the employee expenses, A&G expenses and R&M expenses below the levels approved in the tariff order; the Petitioner has retained efficiency gains to the extent of 50% on such savings in line with Regulation 4.2 of the UPERC (Terms and Conditions of Distribution Tariff) Regulations 2006.

2.4.3 INTEREST AND FINANCE CHARGES

The expenditures towards interest on long term loans, interest on working capital and finance charges have been claimed under this head. Interest cost is uncontrollable as the interest rate regime is determined by various external factors. Finance charges constitutes of components such as guarantee fees, bank charges which are imposed by Government, financial institutions, etc and are uncontrollable. Actual interest on working capital as per audited accounts has been claimed in the true-up petition.

The Petitioner has claimed the actual expenses incurred under these heads and has not claimed any efficiency gains on this account.

2.4.4 RETURN ON EQUITY

The Petitioner has not claimed any return on equity as it will further increase the gap and put extra burden on the consumers.

2.4.5 DEPRECIATION

In the tariff orders, the Hon'ble Commission has approved depreciation expense on the basis of the projected gross fixed asset balances after a prudence check on the capital investment proposed by Petitioner. The depreciation has been allowed at the rates as per the Ministry of Power notifications in the initial years and thereafter in line with the UPERC (Terms and Conditions of Distribution Tariff) Regulations

2006 which also prescribe depreciation rates as per the Ministry of Power notification No. S.O. 265(E) dated 27th March 1994. In some years where asset class wise details of capitalisation were not available, the Hon'ble Commission has allowed weighted average depreciation rates on composite basis.

For the purposes of true-up petitions, the depreciation expense has been computed on the actual gross fixed asset base using the same depreciation rates which were used by the Hon'ble Commission in the tariff order for the relevant financial year.

2.4.6 PROVISION FOR BAD AND DOUBTFUL DEBTS

The Hon'ble Commission has not allowed any amounts towards Provision for Bad and Doubtful Debts even though the UPERC (Terms and Conditions of Distribution Tariff) Regulations 2006 provide for allowing 2% provision in respect of revenue receivables

The Petitioner submits that such expenses are legitimate business expenses and are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues is considered as a normal commercial practice.

The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year for distribution business.

2.4.7 PRIOR PERIOD EXPENSES

There are certain expenses and incomes which are omitted to be accounted for in one or more financial years. The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India and Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' provides that when such omissions or errors are detected they should be accounted for in the relevant year in which they are detected.

Accordingly, the Petitioner has accounted for such transactions in the true-up computations strictly as per its audited accounts.

2.4.8 NON TARIFF INCOMES

In the audited accounts, the delayed payment surcharge has been included as part of Other Incomes. However for the purposes of the true-up petition, delayed payment surcharge has been included as part of revenue from sale of power.

3. TRUE-UP PETITION FOR FY 2000-01

3.1 TRUE-UP SUMMARY FOR FY 2000-01

The Petitioner submits that the audited accounts of KESCo for FY 2000-01 have been enclosed as per Annexure-2. The Petitioner seeks true-up of expenses for the year 2000-01 as per the audited accounts as applicable for various heads of expenditure

The following table summarises the truing up computations for 2000-01 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 3: True Up Summary for FY 2000-01

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses	429.89	524.54	470.86	0	-	-	470.86
Net Employee Expenses	37.07	45.84	45.84	0	-	-	45.84
Net A&G Expenses	1.95	1.29	1.29	0.66	0.16	0.16	1.62
Repair and Maintenance Expenses	7.93	12.01	12.01	0	-	-	12.01
Net Interest on Long Term Loans	15.40	15.49	15.49	-	-	-	15.49
Finance Charges	6.45	32.50	32.50	0	-	-	32.50
Interest on Working Capital	16.23	-	-	0	-	-	-
Depreciation	12.48	19.97	20.13	0	-	-	20.13
Prior Period Expenses	0.25	3.54	3.54	0	-	-	3.54
Other Misc Expenses	-	-	-	0	-	-	-

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Provision for Bad and Doubtful Debts	-	20.81	16.34	0	-	-	16.34
Total Net Expenditure with Provision	527.65	675.99	618.01	0.66	0.16	0.16	618.33
Add: Return on Equity	-	-	-	-	-	-	-
Add: Provision for Contingency Reserve	1.30						
Add: Taxes on incomes and profits	7.63						
Less: Non-tariff Incomes	3.35	3.39	3.39	-	-	-	3.39
Annual Revenue Requirement	533.23	672.61	614.62	0.66	0.16	0.16	614.95
Revenue at Current Tariff	545.42	595.14	595.14	-	-	-	595.14
GoUP Subsidy			-	-	-	-	-
Net Revenue Gap/(Surplus)	(12.19)	77.47	19.48	0.66	0.16	0.16	19.81

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2000-01 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

3.1.1 POWER PURCHASE COSTS

In the tariff order for FY 2000-01, the Hon'ble Commission approved the power purchase cost of Rs. 429.89 crore towards a projected purchase of 2219 MU. The Petitioner humbly submits that the actual power purchase in FY 2000-01 was 2368.554 MU at a value of Rs. 524.54 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2000-01 is Rs. 470.86 crore as depicted in the table below:

Table 4: Allowable Power Purchase Cost for FY 2000-01

Particulars	Unit	FY 2000-01	
		Approved	Actuals
Power Purchase	MU	2,219	2,369
Energy Sales	MU	1,660	1,591
T&D Loss	%	25.19%	32.85%
Power Purchase cost as per audited accounts	Rs Crore		524.54
Average Power Purchase Cost as per audited accounts	Rs/kWh		2.21
Allowable Power Purchase Input	MU		2,126.16
Allowable Power Purchase Cost (at average rate)	Rs Crore		470.86

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 524.54 crore, the allowable power purchase cost is Rs. 470.86 crore only.

3.1.2 OPERATION AND MAINTENANCE EXPENSES

3.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2000-01 is Rs. 45.84 crore against the approved expenses of Rs. 37.07 crore as per the table below:

Table 5: Approved Vs Actual Employee Expenses for FY 2000-01

(All figures in Rs Crore)

Particulars	FY 2000-01	
	Approved	Actuals
Gross Employee Expenses	37.07	46.77
Less: Employee Expenses Capitalised	-	0.93
Net Employee Expenses	37.07	45.84

The sub-element of the employee costs for FY 2000-01 as per audited accounts are provided below

Table 6: Details of Actual Employee Expenses for FY 2000-01

Particulars	Actuals
Salaries & Allowance	23.93
Dearness Allowance	10.80
Other Allowance	5.37
Staff Welfare Exp	0.35
Contribution to Pension, Gratuity and other funds	6.31

Particulars	Actuals
Gross Employee Expenses	46.77
Less: Employee Expense Capitalized	0.93
Net Employee Expenses	45.84

The Petitioner requests the Hon'ble Commission to consider the Employee expenses as per its audited accounts.

3.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2000-01 is Rs. 1.29 crore against the approved expenses of Rs. 1.95 crore as per the table below:

Table 7: Approved Vs Actual A&G Expenses for FY 2000-01

(All figures in Rs Crore)

Particulars	FY 2000-01	
	Approved	Actuals
Gross A&G Expenses	1.95	1.35
Less: A&G Expenses Capitalised	-	0.06
Net A&G Expenses	1.95	1.29

The sub-element of the administrative and general expenses for FY 2000-01 as per audited accounts are provided below:

Table 8: Details of Actual A&G Expenses for FY 2000-01

Particulars	Rs. Crore
Rent, Rates, Taxes and Insurance on Property	0.02
Telephone, Postage & Telegraph	0.23
Legal & Consultancy Charges	0.46
Audit Fees	0.00
Conveyance, Travelling & Vehicle Running Exp.	0.10
Fees & Subscription	0.26
Printing & Stationery	0.19
Advertisement Expenses	0.08
Misc. Expenses	0.02
Gross A&G Expenses	1.35
Less: A&G Expense Capitalisation	0.06
Net A&G Expenses	1.29

The actual A&G expenses are below the approved expenses, thereby making the Petitioner eligible for efficiency gains as described in Section 2.3. Thus the net entitlement towards A&G expenses is Rs. 1.62 crore against the approved expenses of Rs. 1.95 crore.

3.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2000-01 is Rs. 12.01 crore against the approved expenses of Rs. 7.93 crore. The sub-element of the R&M expenses for FY 2000-01 as per audited accounts are provided below:

Table 9: Break-up of the Actual R&M Expenses for FY 2000-01

Particulars	Rs Crore
Plant & Machinery	1.55
Buildings	2.26
Other Civil Works	0.00
Lines Cables net works etc.	8.20
Furniture & Fixture	0.00
Total R&M Expenditure	12.01

The Petitioner requests the Hon'ble Commission to consider the R&M Expense as per its audited accounts.

3.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, discount to consumers, etc.

Table 10: Approved Vs Actuals Interest and Finance Charges for FY 2000-01
(All Figures in Rs Crore)

Particulars	Approved	Actuals
A) Interest on Long Term Loans		
Approved Institutional Loans	15.40	15.49
Total Gross Interest on Long Term Loans	15.40	15.49
Less: Interest Capitalization/IDC		
Net Interest on Long Term Loans	15.40	15.49
B) Interest on Working Capital		
Interest on Working Capital	16.23	-
Total Interest on Working Capital	16.23	-
C) Finance Charges		
Bank Charges	-	0.001
Discount to Consumers on sale of energy	5.41	24.67
Provision of Interest on G.P.F.Balances	-	6.77
Interest on Consumer Security Deposits	1.04	1.07
Total Finance Charges	6.45	32.50
Total Interest and Finance Charges (A+B+C)	38.08	47.99

The Petitioner humbly submits that against the approved expenses of Rs. 38.08 crore, the actual expenses are only Rs. 47.99 crore.

3.1.4 DEPRECIATION

In the tariff order for FY 2000-01, the Hon'ble Commission had approved a depreciation expense of Rs. 12.48 crore on a gross fixed asset base of Rs. 248 crore.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 19.97 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5

The entitlement towards depreciation has been computed as Rs. 20.13 crore as provided in the table below:

Table 11: Allowable Depreciation for FY 2000-01

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings	17.73	0.00	(0.73)	18.46	7.67%	1.39
Plants & Machinery	33.77	0.51	-	34.28	7.67%	2.61
Transformers	10.28	-	-	10.28	7.67%	0.79
Transmission Lines	188.57	3.68	0.14	192.11	7.67%	14.60
Furniture & Fixtures	-	-	0.76	0.76	7.67%	0.03
Office Equipments	10.02	0.00	4.71	5.31	7.67%	0.59
Vehicles	-	-	(3.22)	3.22	7.67%	0.12
Grand Total	260.37	4.20	1.66	264.43		20.13

Thus the Petitioner seeks a variation of Rs. 7.65 crore for FY 2000-01 being the difference between the allowable depreciation of Rs. 20.13 crore and the approved depreciation of Rs. 12.48 crore.

3.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2000-01. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods"

In the audited financial statements for FY 2000-01, there has been recognition of Rs 3.54 crore of prior period expenses, thereby increasing the eligible true-up by Rs 3.54 crore.

The following table provides the detailed break-up of the prior period items for FY 2000-01 as per audited accounts

Table 12: Prior Period Items for FY 2000-01 as per Audited Accounts

Particulars	Rs Crore
Repair & Maintenance	0.01
Depreciation	0.19

Particulars	Rs Crore
Interest & Financial Charges	1.58
Employee Cost	1.76
Miscellaneous Expenses	0.00
Total	3.54

3.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of 'Other Miscellaneous Expenses'. The Petitioner submits that the actual Other Miscellaneous expenses for the FY 2000-01 is Rs. 0.001 crore against the approved expenses of Rs. 0.25 crore.

Table 13: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Approved	Actuals
Preliminary Expenses Written off	-	0.001
Other charges	0.25	-
Total	0.25	0.001

The Petitioner humbly submits that such expenses may be allowed in true-up petition

3.1.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The tariff order for FY 2000-01 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The following table provides the computations of the proposed entitlement towards Provision for Bad and Doubtful Debts for FY 2000-01

Table 14: Allowable Provision for Bad and Doubtful Debts for FY 2000-01

(All Figures in Rs Crore)

Particulars	FY 2000-01
Total Revenue Receivables from Retail Sales	817.02
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	16.34

Accordingly, the Petitioner humbly submits that Rs. 16.34 crore may be allowed as Provision for Bad and Doubtful Debt for FY 2000-01

3.1.8 PROVISION FOR CONTINGENCY RESERVE

No amount is being claimed towards the provision for contingency reserve in the true-up application.

3.1.9 TAXES ON INCOMES AND PROFITS

No amount is being claimed towards taxes on incomes and profits in the true-up application.

3.1.10 REVENUE SIDE TRUING UP

3.1.10.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 545.42 crore for FY 2000-01. The audited accounts have reported the actual revenue from sale of power to be Rs. 595.14 crore (out of which Rs. 17.71 crore is towards delayed payment surcharge) towards electricity sales of 1590.551 MU.

3.1.10.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2000-01 is Rs. 3.39 crore against the projection of Rs. 3.35 crore in the tariff order.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections wherein the net revenue gap has been computed at Rs. 19.48 crore before considering any efficiency gains. The Petitioner is also entitled for efficiency gains of Rs. 0.33 crore; thereby the net entitlement under the true-up for FY 2000-01 is Rs. 19.81 crore.

4. TRUE-UP PETITION FOR FY 2001-02

4.1 TRUE-UP SUMMARY FOR FY 2001-02

The Petitioner submits that the audited accounts of KESCo for FY 2001-02 have been enclosed as per Annexure-3. The Petitioner seeks true-up of expenses for the year 2001-02 as per the audited accounts as applicable for various heads of expenditure

The following table summarises the truing up computations for 2001-02 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 15: True Up Summary for FY 2001-02

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses	460.80	537.15	517.94	0	-	-	517.94
Net Employee Expenses	48.20	43.29	43.29	4.91	1.23	1.23	45.75
Net A&G Expenses	1.70	2.65	2.65	0	-	-	2.65
Repair and Maintenance Expenses	10.52	16.06	16.06	0	-	-	16.06
Net Interest on Long Term Loans	13.20	16.57	16.57		-	-	16.57
Finance Charges	6.80	19.64	19.64	0	-	-	19.64
Interest on Working Capital	-	-	-	0	-	-	-
Depreciation	19.17	20.30	20.68	0	-	-	20.68
Prior Period Expenses	-	(1.93)	(1.93)	-	-	-	(1.93)
Other Misc Expenses	-	0.00	0.00	0	-	-	0.00
Provision for Bad and Doubtful Debts	-	36.63	20.98	0	-	-	20.98

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Total Net Expenditure with Provision	560.39	690.37	655.89	4.91	1.23	1.23	658.34
Add: Return on Equity	2.60	-	-	-	-	-	-
Less: Non-tariff Incomes	5.49	4.42	4.42	-	-	-	4.42
Annual Revenue Requirement	557.50	685.95	651.46	4.91	1.23	1.23	653.91
Revenue at Current Tariff	598.06	596.54	596.54	-	-	-	596.54
GoUP Subsidy	9.00	-	-	-	-	-	-
Net Revenue Gap/(Surplus)	(49.56)	89.41	54.92	4.91	1.23	1.23	57.38

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2001-02 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

4.1.1 POWER PURCHASE COSTS

In the tariff order for FY 2001-02, the Hon'ble Commission approved the power purchase cost of Rs. 460.80 crore towards a projected purchase of 2,400 MU. The Petitioner humbly submits that the actual power purchase in FY 2001-02 was 2,575.95 MU at a value of Rs. 537.15 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2001-02 is Rs. 517.94 crore as depicted in the table below:

Table 16: Allowable Power Purchase Cost for FY 2001-02

Particulars	Unit	FY 2001-02	
		Approved	Actuals
Power Purchase	MU	2,400	2,576
Energy Sales	MU	1,650	1,708
T&D Loss	%	31.25%	33.71%
Power Purchase cost as per audited accounts	Rs Crore		537.15
Average Power Purchase Cost as per audited accounts	Rs/kWh		2.09
Allowable Power Purchase Input	MU		2,483.82
Allowable Power Purchase Cost (at average rate)	Rs Crore		517.94

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 537.15 crore, the allowable power purchase cost is Rs. 517.94 crore only.

4.1.2 OPERATION AND MAINTENANCE EXPENSES

4.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2001-02 is Rs. 43.29 crore against the approved expenses of Rs. 48.20 crore as per the table below:

Table 17: Approved Vs Actual Employee Expenses for FY 2001-02

(All figures in Rs Crore)

Particulars	FY 2001-02	
	Approved	Actuals
Gross Employee Expenses	48.20	45.93
Less: Employee Expenses Capitalized	-	2.63
Net Employee Expenses	48.20	43.29

The sub-element of the employee costs for FY 2001-02 as per audited accounts are provided below

Table 18: Details of Actual Employee Expenses for FY 2001-02

Particulars	Actuals
Salaries & Allowance	22.90
Dearness Allowance	10.16
Other Allowance	5.53
Staff Welfare Exp	1.21

Particulars	Actuals
Contribution to Pension, Gratuity and other funds	6.13
Gross Employee Expenses	45.93
Less: Employee Expense Capitalized	2.63
Net Employee Expenses	43.29

The actual employee expenses are below the approved expenses, thereby making the Petitioner eligible for efficiency gains as described in Section 2.3. Thus the net entitlement towards employee expenses for FY 2001-02 is Rs. 45.75 crore against the approved expenses of Rs. 48.20 crore.

4.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2001-02 is Rs. 2.65 crore against the approved expenses of Rs. 1.70 crore as per the table below:

Table 19: Approved Vs Actual A&G Expenses for FY 2001-02

Particulars	FY 2001-02 <i>(All figures in Rs Crore)</i>	
	Approved	Actuals
Gross A&G Expenses	1.70	2.84
Less: A&G Expenses Capitalized	-	0.18
Net A&G Expenses	1.70	2.65

The sub-element of the administrative and general expenses for FY 2001-02 as per audited accounts are provided below

Table 20: Details of Actual A&G Expenses for FY 2001-02

Particulars	Rs Crore
Rent, Rates, Taxes and Insurance on Property	0.58
Telephone, Postage & Telegraph	1.01
Legal & Consultancy Charges	0.32
Audit Fees	0.01
Conveyance, Travelling & Vehicle Running Exp.	0.06
Fees & Subscription	0.27
Printing & Stationery	0.24
Advertisement Expenses	0.33
Misc. Expenses	0.02
Gross A&G Expenses	2.84
Less: A&G Expense Capitalisation	0.18
Net A&G Expenses	2.65

The Petitioner requests the Hon'ble Commission to consider the A&G expenses as per its audited accounts.

4.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2001-02 is Rs. 16.06 crore against the approved expenses of Rs. 10.52 crore. The sub-element of the R&M expenses for FY 2001-02 as per audited accounts are provided below

Table 21: Details of Actual R&M Expenses for FY 2001-02

Particulars	Rs Crore
Plant & Machinery	4.01
Buildings	2.43
Other Civil Works	0.00
Lines Cables net works etc.	9.63
Furniture & Fixture	0.00
Total R&M Expenditure	16.06

The Petitioner requests the Hon'ble Commission to consider the R&M expenses as per its audited accounts.

4.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, etc.

Table 22: Approved Vs Actuals Interest and Finance Charges

(All Figures in Rs Crore)

Particulars	Approved	Actuals
A) Interest on Long Term Loans		
State Govt Loans	13.20	15.72
Interest on Loan from UPPCL	-	0.85
Total Gross Interest on Long Term Loans	13.20	16.57
Less: Interest Capitalisation		
Net Interest on Long Term Loans	13.20	16.57
B) Interest on Working Capital		
Interest on Working Capital		
Total Interest on Working Capital	-	-
C) Finance Charges		
Debentures/Bonds	5.70	-
Bank Charges	-	0.00
Discount to Consumers on sale of energy		18.49
Interest on Consumer Security Deposits	1.10	1.15
Total Finance Charges	6.80	19.64
Total Interest and Finance Charges (A+B+C)	20.00	36.21

The Petitioner humbly submits that against the approved expenses of Rs. 20.00 crore, the actual expenses are Rs. 36.21 crore.

4.1.4 DEPRECIATION

In the tariff order for FY 2001-02, the Hon'ble Commission had approved a depreciation expense of Rs. 19.17 crore on a gross fixed asset base of Rs. 262 crore.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 20.30 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5.

The entitlement towards depreciation has been computed as Rs. 20.68 crore as provided in the table below:

Table 23: Allowable Depreciation for FY 2001-02

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings	18.46	0.22	-	18.68	7.68%	1.43
Plants & Machinery	34.28	5.42	-	39.70	7.68%	2.84
Transformers	10.28	-	-	10.28	7.68%	0.79
Transmission Lines	192.11	3.89	-	196.00	7.68%	14.90
Furniture & Fixtures	0.76	0.01	-	0.77	7.68%	0.06
Office Equipments	5.31	0.02	-	5.34	7.68%	0.41
Vehicles	3.22	-	-	3.22	7.68%	0.25
Grand Total	264.43	9.56	-	273.99		20.68

Thus the Petitioner seeks a variation of Rs. 1.51 crore for FY 2001-02 being the difference between the allowable depreciation of Rs. 20.68 crore and the approved depreciation of Rs. 19.17 crore.

4.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2001-02. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods"

In the audited financial statements for FY 2001-02, there has been recognition of Rs 3.55 crore of prior period incomes and prior period expenses of Rs 1.63 crore, thereby reducing the eligible true-up by Rs. 1.93 crore.

The following table provides the detailed break-up of the prior period items for FY 2001-02 as per audited accounts

Table 24: Prior Period Items for FY 2001-02 as per Audited Accounts

(All Figures in Rs Crore)

Particulars	Actuals
Expenses	
Interest & Financial Charges	0.49
Employees Cost	0.58
Rent, Rates & Taxes	0.56
Sub Total of Prior Period Expenditures	1.63
Income	
Repair & Maintenance	0.01
Depreciation	0.19
Interest & Financial Charges	1.58
Employee Cost	1.76
Miscellaneous Expenses	0.01
Sub Total of Prior Period Incomes	3.55
Net Prior Period (Income) / Expenditure	(1.93)

4.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of 'Other Miscellaneous Expenses' and the impact of such expenses is only Rs. 0.001 crore in FY 2001-02.

Table 25: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Approved	Actuals
Preliminary Expenses Written off	-	0.001
Total	-	0.001

The Petitioner humbly submits that such expenses may be allowed in true-up petition

4.1.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The tariff order for FY 2001-02 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The following table provides the computations of the proposed entitlement towards Provision for Bad and Doubtful Debts for FY 2001-02

Table 26: Allowable Provision for Bad and Doubtful Debts for FY 2001-02

(All Figures in Rs Crore)

Particulars	FY 2001-02
Total Revenue Receivables from Retail Sales	1,048.76
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	20.98

Accordingly, the Petitioner humbly submits that Rs. 20.98 crore may be allowed as Provision for Bad and Doubtful Debt for FY 2001-02

4.1.8 RETURN ON EQUITY

No amount is being claimed towards return on equity in the true-up petition.

4.1.9 REVENUE SIDE TRUING UP

4.1.9.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 598.06 crore for FY 2001-02. The audited accounts have reported the actual revenue from sale of power to be Rs. 596.54 crore (out of which Rs. 28.36 crore is towards delayed payment surcharge) towards electricity sales of 1,707.63 MU.

4.1.9.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2001-02 is Rs. 4.42 crore against the projection of Rs. 5.49 crore in the tariff order.

4.1.9.3 REVENUE SUBSIDY FROM GOUP

In the tariff order for FY 2001-02, the Hon'ble Commission had projected the revenue subsidy from GoUP to be Rs. 9.00 crore. However no subsidy was received by the Petitioner in FY 2001-02.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections wherein the net revenue gap has been computed at Rs. 54.92 crore before considering any efficiency gains. The Petitioner is also entitled for efficiency gains of Rs. 2.45 crore; thereby the net entitlement under the true-up for FY 2001-02 is Rs. 57.38 crore.

5. TRUE-UP PETITION FOR FY 2002-03

5.1 TRUE-UP SUMMARY FOR FY 2002-03

The Petitioner submits that the audited accounts for FY 2002-03 have been enclosed as Annexure-4. The Petitioner seeks true-up of expenses for the year 2002-03 as per the audited accounts as applicable for various heads of expenditure

The following table summarises the truing up computations for 2002-03 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 27: True Up Summary for FY 2002-03

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	('c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses	400.17	464.63	408.82	0	-	-	408.82
Net Employee Expenses	44.60	45.10	45.10	0	-	-	45.10
Net A&G Expenses	1.69	2.17	2.17	0	-	-	2.17
Repair and Maintenance Expenses	10.85	16.51	16.51	0	-	-	16.51
Net Interest on Long Term Loans	3.17	16.88	16.88		-	-	16.88
Finance Charges	8.59	15.81	15.81	0	-	-	15.81
Interest on Working Capital	-	-	-	0	-	-	-
Depreciation	20.91	21.04	21.36	0	-	-	21.36
Prior Period Expenses	-	12.71	12.71	0	-	-	12.71
Provision for Bad and Doubtful Debts	-	36.07	25.74	0	-	-	25.74

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Total Net Expenditure with Provision	489.98	630.94	565.11	-	-	-	565.11
Add: Return on Equity	-	-	-	-	-	-	-
Less: Non-tariff Incomes	35.93	3.43	3.43	-	-	-	3.43
Annual Revenue Requirement	454.05	627.51	561.68	-	-	-	561.68
Revenue at Current Tariff	512.08	488.50	488.50	-	-	-	488.50
GoUP Subsidy	-	-	-	-	-	-	-
Net Revenue Gap/(Surplus)	(58.03)	139.01	73.18	-	-	-	73.18

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2002-03 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

5.1.1 POWER PURCHASE COSTS

In the tariff order for FY 2002-03, the Hon'ble Commission approved the power purchase cost of Rs. 400.17 crore towards a projected purchase of 2,084.20 MU. The Petitioner humbly submits that the actual power purchase in FY 2002-03 was 2,217.10 MU at a value of Rs. 464.63 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2002-03 is Rs. 408.82 crore as depicted in the table below:

Table 28: Allowable Power Purchase Cost for FY 2002-03

Particulars	Unit	FY 2002-03	
		Approved	Actuals
Power Purchase	MU	2,084	2,217
Energy Sales	MU	1,338	1,252
T&D Loss	%	35.80%	43.51%
Power Purchase cost as per audited accounts	Rs Crore		464.63
Average Power Purchase Cost as per audited accounts	Rs/kWh		2.10
Allowable Power Purchase Input	MU		1,950.76
Allowable Power Purchase Cost (at average rate)	Rs Crore		408.82

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 464.63crore, the allowable power purchase cost is Rs. 408.82 crore only.

5.1.2 OPERATION AND MAINTENANCE EXPENSES

5.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2002-03 is Rs. 45.10 crore against the approved expenses of Rs. 44.60 crore as per the table below:

Table 29: Approved Vs Actual Employee Expenses for FY 2002-03

(All figures in Rs Crore)

Particulars	FY 2002-03	
	Approved	Actuals
Gross Employee Expenses	45.65	46.68
Less: Employee Expenses Capitalized	1.05	1.58
Net Employee Expenses	44.60	45.10

The sub-element of the employee costs for FY 2002-03 as per audited accounts are provided below

Table 30: Details of Actual Employee Expenses for FY 2002-03

Particulars	Rs Crore
Salaries & Allowance	21.74
Dearness Allowance	10.87
Other Allowance	5.98
Staff Welfare Exp	2.07
Contribution to Pension, Gratuity and other funds	6.03

Particulars	Rs Crore
Gross Employee Expenses	46.68
Less: Employee Expenses Capitalized	1.58
Net Employee Expenses	45.10

The Petitioner requests the Hon'ble Commission to consider the Employee expenses as per its audited accounts.

5.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2002-03 is Rs. 2.17 crore against the approved expenses of Rs. 1.69 crore as per the table below:

Table 31: Approved Vs Actual A&G Expenses for FY 2002-03

Particulars	FY 2002-03	
	Approved	Actuals
Gross A&G Expenses	1.76	2.32
Less: A&G Expenses Capitalized	0.07	0.14
Net A&G Expenses	1.69	2.17

The sub-element of the administrative and general expenses for FY 2002-03 as per audited accounts are provided below

Table 32: Details of Actual A&G Expenses for FY 2002-03

Particulars	Rs Crore
Rent, Rates, Taxes and Insurance on Property	0.03
Telephone, Postage & Telegraph	1.20
Legal & Consultancy Charges	0.22
Audit Fees	0.01
Conveyance, Travelling & Vehicle Running Exp.	0.05
Fees & Subscription	0.28
Printing & Stationery	0.37
Advertisement Expenses	0.13
Misc. Expenses	0.03
Gross A&G Expenses	2.32
Less: A&G Expenses Capitalisation	0.14
Net A&G Expenses	2.17

The Petitioner requests the Hon'ble Commission to consider the A&G expenses as per its audited accounts.

5.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2002-03 is Rs. 16.51 crore against the approved expenses of Rs. 10.85 crore. The sub-element of the R&M expenses for FY 2002-03 as per audited accounts are provided below

Table 33: Details of Actual R&M Expenses for FY 2002-03

Particulars	Rs Crore
Plant & Machinery	6.21
Buildings	0.66
Lines Cables net works etc.	9.64
Furniture & Fixture	0.00
Total R&M Expenses	16.51

The Petitioner requests the Hon'ble Commission to consider the R&M expenses as per its audited accounts.

5.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, etc.

Table 34: Approved Vs Actuals Interest and Finance Charges

(All Figures in Rs Crore)

Particulars	Approved	Actuals
A) Interest on Long Term Loans		
Interest on PF Loan	3.17	-
Interest on Loans to UPPCL	-	16.04
Interest on Loans to PFC	-	0.84
Total Gross Interest on Long Term Loans	3.17	16.88
Less: Interest Capitalisation		
Net Interest on Long Term Loans	3.17	16.88
B) Interest on Working Capital		
Interest on Working Capital		
Total Interest on Working Capital	-	-
C) Finance Charges		
Bank Charges	-	0.00
Discount to Consumers on sale of energy	7.38	6.35
Interest on Consumer Security Deposits	1.21	1.92
Interest on Electricity Duty	-	5.99
Interest on Loan from UPPCL	-	1.55
Total Finance Charges	8.59	15.81
Total Interest and Finance Charges (A+B+C)	11.76	32.69

The Petitioner humbly submits that against the approved expenses of Rs.11.76 crore, the actual expenses are Rs. 32.69 crore.

5.1.4 DEPRECIATION

In the tariff order for FY 2002-03, the Hon'ble Commission had approved a depreciation expense of Rs. 20.91 crore on a gross fixed asset base of Rs. 281.11crore.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 21.04 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5

The entitlement towards depreciation has been computed as Rs. 21.36 crore as provided in the table below:

Table 35: Allowable Depreciation for FY 2002-03

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings	18.68	-	-	18.68	7.68%	1.43
Plants & Machinery	39.70	3.76	-	43.46	7.68%	3.19
Transformers	10.28	-	-	10.28	7.68%	0.79
Transmission Lines	196.00	4.54	-	200.54	7.68%	15.23
Furniture & Fixtures	0.77	0.02	-	0.79	7.68%	0.06
Office Equipments	5.34	0.04	-	5.38	7.68%	0.41
Vehicles	3.22	-	0.11	3.11	7.68%	0.24
Grand Total	273.99	8.36	-	282.24		21.36

Thus the Petitioner seeks a variation of Rs. 0.45 crore for FY 2002-03 being the difference between the allowable depreciation of Rs. 21.36 crore and the approved depreciation of Rs. 20.91 crore.

5.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2002-03. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods"

In the audited financial statements for FY 2002-03, there has been recognition of Rs 12.71 crore of prior period expenses, thereby increasing the eligible true-up by Rs 12.71 crore.

The following table provides the detailed break-up of the prior period items for FY 2002-03 as per audited accounts

Table 36: Prior Period Items for FY 2002-03

(All Figures in Rs Crore)

Particulars	Actuals
Interest & Financial Charges	4.32
Employee Cost	8.39
Total	12.71

5.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of 'Other Miscellaneous Expenses' and the impact of such expenses is only Rs. 0.001 crore in FY 2002-03.

Table 37: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Approved	Actuals
Preliminary Expenses Written off	-	0.001
Total	-	0.001

The Petitioner humbly submits that such expenses may be allowed in true-up petition

5.1.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The tariff order for FY 2002-03 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The following table provides the computations of the proposed entitlement towards Provision for Bad and Doubtful Debts for FY 2002-03

Table 38: Allowable Provision for Bad and Doubtful Debts for FY 2002-03

(All Figures in Rs Crore)

Particulars	FY 2002-03
Total Revenue Receivables from Retail Sales	1,286.93
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	25.74

Accordingly, the Petitioner humbly submits that Rs. 25.74 crore may be allowed as Provision for Bad and Doubtful Debt for FY 2002-03

5.1.8 REVENUE SIDE TRUING UP

5.1.8.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 512.08 crore for FY 2002-03. The audited accounts have reported the actual revenue from sale of power to be Rs. 488.50 crore (out of which Rs. 37.72 crore is towards delayed payment surcharge) towards electricity sales of 1,252.34 MU.

5.1.8.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2002-03 is Rs. 3.43 crore against the projection of Rs. 35.93 crore in the tariff order.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections. The net entitlement under the true-up for FY 2002-03 is Rs. 73.18 crore.

6. TRUE-UP PETITION FOR FY 2003-04

6.1 TRUE-UP SUMMARY FOR FY 2003-04

The Petitioner submits that the audited accounts for FY 2003-04 have been enclosed as Annexure- 5. The Petitioner seeks true-up of expenses for the year 2003-04 as per the audited accounts as applicable for various heads of expenditure.

The following table summarises the truing up computations for 2003-04 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 39: True Up Summary for FY 2003-04

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses	389.40	452.92	331.41	0	-	-	331.41
Net Employee Expenses	43.10	44.36	44.36	0	-	-	44.36
Net A&G Expenses	2.00	2.94	2.94	0	-	-	2.94
Repair and Maintenance Expenses	11.90	18.89	18.89	0	-	-	18.89
Net Interest on Long Term Loans	-	2.00	2.00	0	-	-	2.00
Finance Charges	1.40	14.21	14.21	0	-	-	14.21
Interest on Working Capital	-	-	-	0	-	-	-
Depreciation	21.70	17.67	18.09	-	-	-	18.09
Prior Period Expenses	-	36.06	36.06	0	-	-	36.06
Other Misc Expenses	-	0.00	0.00	0	-	-	0.00
Provision for Bad and Doubtful Debts	-	58.56	27.48	0	-	-	27.48

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Total Net Expenditure with Provision	469.50	647.61	495.44	-	-	-	495.44
Add: Return on Equity	-	-	-	-	-	-	-
Less: Non-tariff Incomes	-	7.47	7.47	-	-	-	7.47
Annual Revenue Requirement	469.50	640.13	487.96	-	-	-	487.96
Revenue at Current Tariff	490.00	430.08	430.08	-	-	-	430.08
GoUP Subsidy	-	-	-	-	-	-	-
Net Revenue Gap/(Surplus)	(20.50)	210.05	57.88	-	-	-	57.88

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2003-04 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

6.1.1 POWER PURCHASE COSTS

In the tariff order for FY 2003-04, the Hon'ble Commission approved the power purchase cost of Rs. 389.40 crore towards a projected purchase of 2,023 MU. The Petitioner humbly submits that the actual power purchase in FY 2003-04 was 2,346.76 MU at a value of Rs. 452.92 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2003-04 is Rs. 331.41 crore as depicted in the table below:

Table 40: Allowable Power Purchase Cost for FY 2003-04

Particulars	Unit	FY 2003-04	
		Approved	Actuals
Power Purchase	MU	2,023	2,347
Energy Sales	MU	1,368	1,161
T&D Loss	%	32.38%	50.52%
Power Purchase cost as per audited accounts	Rs Crore		452.92
Average Power Purchase Cost as per audited accounts	Rs/kWh		1.93
Allowable Power Purchase Input	MU		1,717.16
Allowable Power Purchase Cost (at average rate)	Rs Crore		331.41

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 452.92 crore, the allowable power purchase cost is Rs. 331.41 crore only.

6.1.2 OPERATION AND MAINTENANCE EXPENSES

6.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2003-04 is Rs. 44.36 crore against the approved expenses of Rs. 43.10 crore as per the table below:

Table 41: Approved Vs Actual Employee Expenses for FY 2003-04

(All figures in Rs Crore)

Particulars	Approved	Actuals
Gross Employee Expenses	44.50	45.92
Less: Employee Expense Capitalized	1.40	1.57
Net Employee Expenses	43.10	44.36

The sub-element of the employee costs for FY 2003-04 as per audited accounts are provided below

Table 42: Details of Actual Employee Expenses for FY 2003-04

Particulars	Rs Crore
Salaries & Allowance	38.87
Staff Welfare Exp	0.86
Contribution to Pension, Gratuity and other funds	6.19
Gross Employee Expenses	45.92
Less: Employee Expense Capitalized	1.57
Net Employee Expenses	44.36

The Petitioner requests the Hon'ble Commission to consider the Employee expenses as per its audited accounts.

6.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2003-04 is Rs. 2.94 crore against the approved expenses of Rs. 2.00 crore as per the table below:

Table 43: Approved Vs Actual A&G Expenses for FY 2003-04

<i>(All figures in Rs Crore)</i>		
Particulars	Approved	Actuals
Gross A&G Expenses	2.00	3.06
Less: A&G Expense Capitalisation	-	0.11
Net A&G Expenses	2.00	2.94

The sub-element of the administrative and general expenses for FY 2003-04 as per audited accounts are provided below

Table 44: Details of Actual A&G Expenses for FY 2003-04

Particulars	Rs Crore
Rent, Rates, Taxes and Insurance on Property	0.79
Telephone, Postage & Telegraph	1.21
Legal & Consultancy Charges	0.35
Audit Fees	0.01
Conveyance, Travelling & Vehicle Running Exp.	0.07
Fees & Subscription	0.00
Printing & Stationery	0.46
Advertisement Expenses	0.06
Misc. Expenses	0.10
Gross A&G Expenses	3.06
Less: A&G Expense Capitalisation	0.11
Net A&G Expenses	2.94

The Petitioner requests the Hon'ble Commission to consider the A&G expenses as per its audited accounts.

6.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2003-04 is Rs. 18.89 crore against the approved expenses of Rs. 11.90 crore. The sub-element of the R&M expenses for FY 2003-04 as per audited accounts are provided below

Table 45: Details of Actual R&M Expenses for FY 2003-04

Particulars	Rs Crore
Plant & Machinery	10.80
Buildings	2.10
Lines, Cables, Networks etc.	6.00
Furniture & Fixture	0.00

Particulars	Rs Crore
Total R&M Expenditure	18.89

The Petitioner humbly submits that actual R&M expenses of Rs. 18.89 crore may be allowed to in the true-up.

6.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, etc.

Table 46: Approved Vs Actuals Interest and Finance Charges for FY 2003-04

Particulars	<i>(All Figures in Rs Crore)</i>	
	Approved	Actuals
A) Interest on Long Term Loans		
Interest on Secured Loans to PFC	-	1.97
Interest on State Government Loan (UPPCL)	-	0.03
Total Gross Interest on Long Term Loans	-	2.00
Less: Interest Capitalisation		
Net Interest on Long Term Loans	-	2.00
B) Interest on Working Capital		
Interest on Working Capital	-	-
Total Interest on Working Capital	-	-
C) Finance Charges		
Bank Charges	-	0.00
Discount to Consumers on sale of energy	-	4.64
Interest on Consumer Security Deposits	1.40	1.82
Interest on Electricity Duty	-	7.74
Total Finance Charges	1.40	14.21
Total Interest and Finance Charges (A+B+C)	1.40	16.20

The Petitioner humbly submits that against the approved expenses of Rs. 1.40 crore, the actual interest and finance charges are Rs. 16.20 crore.

6.1.4 DEPRECIATION

In the tariff order for FY 2003-04, the Hon'ble Commission had approved a depreciation expense of Rs. 21.70 crore on a gross fixed asset base of Rs. 298.2 crore.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 17.67 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5

The entitlement towards depreciation has been computed as Rs. 18.09 crore on a consolidated basis as provided in the table below:

Table 47: Allowable Depreciation for FY 2003-04

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings	18.68	-	-	18.68	6.26%	1.17
Plants & Machinery	43.46	-	-	43.46	6.26%	2.72
Transformers	10.28	1.78	-	12.07	6.26%	0.70
Transmission Lines	200.54	10.89	-	211.43	6.26%	12.89
Furniture & Fixtures	0.79	0.02	-	0.81	6.26%	0.05
Office Equipments	5.38	0.74	-	6.11	6.26%	0.36
Vehicles	3.11	-	0.04	3.08	6.26%	0.19
Grand Total	282.24	13.43	-	295.63		18.09

Thus the Petitioner humbly submits that the allowable depreciation is only Rs. 18.09 vis-a-vis the approved depreciation of Rs. 21.70 crore.

6.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2003-04. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods"

In the audited financial statements of KESCo for FY 2003-04, there has been recognition of Rs. 23.20 crore of prior period incomes and prior period expenses of Rs. 59.26 crore, thereby increasing the eligible true-up by Rs 36.06 crore.

The following table provides the detailed break-up of the prior period items for FY 2003-04 as per audited accounts

Table 48: Prior Period Items for FY 2003-04 as per Audited Accounts

(All Figures in Rs Crore)

Particulars	Actuals
Prior Period Expenses	
Employee Cost	2.91
Surcharge on Power Purchase	50.75
Repair and Maintenance	5.45
Other Administrative Expenses	0.01
Loss on Sale of Vehicles	0.08

Particulars	Actuals
Trade Tax	0.08
Sub Total of Prior Period Expenditures	59.26
<hr/>	
Prior Period Income	
Sale of Energy Relating to Earlier Year	11.78
Amortization of consumer contribution on Fixed assets	9.96
Rent of Sub-Stations	0.41
Depreciation Written Back	0.40
Expenses Written Back	0.65
Sub Total of Prior Period Incomes	23.20
<hr/>	
Net Prior Period (Income) / Expenditure	36.06

6.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of 'Other Miscellaneous Expenses' and the impact of such expenses is only Rs. 0.001 crore in FY 2003-04.

Table 49: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Approved	Actual
Preliminary Expenses	-	0.001

The Petitioner humbly submits that such expenses may be allowed in true-up petition

6.1.7 PROVISION FOR BAD AND DOUBTFUL DEBT

The tariff order for FY 2003-04 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The Petitioner submits that its claim towards provision for bad and doubtful debts for FY 2003-04 is Rs. 27.48 crore as per the table below:

Table 50: Allowable Provision for Bad and Doubtful Debts for FY 2003-04

(All Figures in Rs Crore)

Particulars	FY 2003-04
Total Revenue Receivables from Retail Sales	1,374.17
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	27.48

6.1.8 REVENUE SIDE TRUING UP

6.1.8.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 490 crore for FY 2003-04. The audited accounts have reported the actual revenue from sale of power to be Rs. 430.08 crore (out of which Rs. 21.71 crore is towards delayed payment surcharge) towards electricity sales of 1,161.19 MU.

6.1.8.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2003-04 is Rs. 7.47 crore. No amounts towards non tariff incomes were allowed in the tariff order.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections. The net entitlement under the true-up for FY 2003-04 is Rs. 57.88 crore.

7. TRUE-UP PETITION FOR FY 2004-05

7.1 TRUE-UP SUMMARY FOR FY 2004-05

The Petitioner submits that the audited accounts for FY 2004-05 have been enclosed as Annexure-6. The Petitioner seeks true-up of expenses for the year 2004-05 as per the audited accounts as applicable for various heads of expenditure

The following table summarises the truing up computations for 2004-05 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 51: True Up Summary for FY 2004-05

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses	399.70	482.34	369.95	0	-	-	369.95
Net Employee Expenses	43.90	44.20	44.20	0	-	-	44.20
Net A&G Expenses	2.00	3.14	3.14	0	-	-	3.14
Repair and Maintenance Expenses	11.70	18.41	18.41	0	-	-	18.41
Net Interest on Long Term Loans	10.20	-	-	-	-	-	-
Finance Charges	1.60	15.24	15.24	0	-	-	15.24
Interest on Working Capital	-	-	-	0	-	-	-
Depreciation	22.10	10.96	13.79	-	-	-	13.79
Prior Period Expenses	-	26.30	26.30	0	-	-	26.30
Other Misc Expenses	-	1.28	1.28	0	-	-	1.28
Provision for Bad and Doubtful Debts	-	123.64	31.25	0	-	-	31.25
Total Net Expenditure with Provision	491.20	725.52	523.57	-	-	-	523.57

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Add: Return on Equity	-	-	-	-	-	-	-
Less: Non-tariff Incomes	32.00	9.92	9.92	-	-	-	9.92
Annual Revenue Requirement	459.20	715.59	513.64	-	-	-	513.64
Revenue at Current Tariff	527.58	441.32	441.32	-	-	-	441.32
GoUP Subsidy	-	-	-	-	-	-	-
Net Revenue Gap/(Surplus)	(68.38)	274.28	72.33	-	-	-	72.33

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2004-05 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

7.1.1 POWER PURCHASE COSTS

In the tariff order for FY 2004-05, the Hon'ble Commission approved the power purchase cost of Rs. 399.70 crore towards a projected purchase of 2,107.23 MU. The Petitioner humbly submits that the actual power purchase in FY 2004-05 was 2,318.94 MU at a value of Rs. 482.34 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2004-05 is Rs. 369.95 crore as depicted in the table below:

Table 52: Allowable Power Purchase Cost for FY 2002-03

Particulars	Unit	FY 2004-05	
		Approved	Actuals
Power Purchase	MU	2,107	2,319
Energy Sales	MU	1,465	1,237
T&D Loss	%	30.47%	46.67%
Power Purchase cost as per audited accounts	Rs Crore		482.34
Average Power Purchase Cost as per audited accounts	Rs/kWh		2.08
Allowable Power Purchase Input	MU		1,778.62
Allowable Power Purchase Cost (at average rate)	Rs Crore		369.95

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 482.34 crore, the allowable power purchase cost is Rs. 369.95 crore only.

7.1.2 OPERATION AND MAINTENANCE EXPENSES

7.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2004-05 is Rs. 44.20 crore against the approved expenses of Rs. 43.90 crore as per the table below:

Table 53: Approved Vs Actual Employee Expenses for FY 2004-05

Particulars	FY 2004-05	
	Approved	Actuals
Gross Employee Expenses	44.60	45.53
Less: Employee Expenses Capitalized	0.70	1.33
Net Employee Expenses	43.90	44.20

The sub-element of the employee costs for FY 2004-05 as per audited accounts are provided below

Table 54: Details of Actual Employee Expenses of KESCo for FY 2004-05

Particulars	Rs Crore
Salaries & Allowance	34.54
Other Allowance	4.16
Staff Welfare Exp	0.66
Earned Leave Encashment	0.32
Contribution to Pension, Gratuity and other funds	5.84

Particulars	Rs Crore
Gross Employee Expenses	45.53
Less: Employee Expense Capitalized	1.33
Net Employee Expenses	44.20

The Petitioner humbly submits that actual Employee expenses of Rs. 44.20 crore may be allowed to it in the true-up.

7.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2004-05 is Rs. 3.14 crore against the approved expenses of Rs. 2.00 crore as per the table below:

Table 55: Approved Vs Actual A&G Expenses of KESCo for FY 2004-05

(All figures in Rs Crore)

Particulars	FY 2004-05	
	Approved	Actuals
Gross A&G Expenses	2.00	3.24
Less: A&G Expenses Capitalized	-	0.10
Net A&G Expenses	2.00	3.14

The sub-element of the administrative and general expenses for FY 2004-05 as per audited accounts are provided below

Table 56: Details of Actual A&G Expenses for FY 2004-05

Particulars	Rs Crore
Rent, Rates, Taxes and Insurance on Property	0.69
Telephone, Postage & Telegraph	1.10
Legal & Consultancy Charges	0.37
Audit Fees	0.01
Conveyance, Travelling & Vehicle Running Exp.	0.16
Fees & Subscription	0.23
Printing & Stationery	0.50
Advertisement Expenses	0.17
Misc. Expenses	0.02
Gross A&G Expenses	3.24
Less: A&G Expense Capitalisation	0.10
Net A&G Expenses	3.14

The Petitioner requests the Hon'ble Commission to consider the A&G expenses as per its audited accounts.

7.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2004-05 is Rs. 18.41 crore against the approved expenses of Rs. 11.70 crore. The sub-element of the R&M expenses for FY 2004-05 as per audited accounts are provided below

Table 57: Details of Actual R&M Expenses for FY 2004-05

Particulars	Rs Crore
Plant & Machinery	10.16
Buildings	2.69
Lines Cables net works etc.	5.43
Vehicles	0.00
Furniture and Fixtures	0.01
Office Equipments	0.12
Total R&M Expenditure	18.41

The Petitioner requests the Hon'ble Commission to consider the R&M expenses as per its audited accounts.

7.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, etc.

Table 58: Approved Vs Actuals Interest and Finance Charges for 2004-05

(All Figures in Rs Crore)

Particulars	Approved	Actuals
A) Interest on Long Term Loans		
Interest on State Government Loan (UPPCL)	10.20	0.40
Total Gross Interest on Long Term Loans	10.20	0.40
Less: Interest Capitalization/IDC		0.40
Net Interest on Long Term Loans	10.20	-
B) Interest on Working Capital		
Interest on Working Capital		
Total Interest on Working Capital	-	-
C) Finance Charges		
Bank Charges	-	0.001
Discount to Consumers on Sale of Energy	-	4.14
Interest on Consumer Security Deposits	1.60	1.72
Interest on Electricity Duty	-	9.38
Total Finance Charges	1.60	15.24
Total Interest and Finance Charges (A+B+C)	11.80	15.24

The Petitioner humbly submits that against the approved expenses of Rs.11.80 crore, the actual expenses are Rs. 15.24 crore.

7.1.4 DEPRECIATION

In the tariff order for FY 2004-05, the Hon'ble Commission had approved a depreciation expense of Rs. 22.10 crore on a gross fixed asset base of Rs. 293.50 crore for KESCO.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 10.96 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5

The entitlement towards depreciation has been computed as Rs. 13.79 crore as provided in the table below:

Table 59: Allowable Depreciation for FY 2004-05

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings						
a. Residential Colonies	9.84	0.03	-	9.88	4.64%	0.46
b. Office Building	0.73	-	-	0.73	4.64%	0.03
c. Building Containg at Sub-stations	8.11	-	-	8.11	4.64%	0.38
Plants & Machinery						
a. Plant & Machinery	56.88	22.94	22.37	57.45	4.64%	2.65
b. Lines, Cables, Networks etc.	210.06	3.07	-	213.14	4.64%	9.82
c. Office Equipments	6.11	0.01	0.71	5.42	4.64%	0.27
d. Computers	0.01	0.08	-	0.09	4.64%	0.00
Furniture & Fixtures	0.81	0.01	-	0.82	4.64%	0.04
Vehicles	3.08	-	-	3.08	4.64%	0.14
Grand Total	295.63	26.15	23.08	298.70		13.79

Thus the Petitioner humbly submits that the allowable depreciation is Rs. 13.79 crore only against the approved depreciation of Rs. 22.10 crore in FY 2004-05.

7.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2004-05. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

“Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods’

In the audited financial statements for FY 2004-05, there has been recognition of Rs 9.34 crore of prior period incomes and prior period expenses of Rs 35.64 crore, thereby reducing the eligible true-up by Rs 26.30 crore.

The following table provides the detailed break-up of the prior period items for FY 2004-05 as per audited accounts

Table 60: Prior Period Items for FY 2004-05

Particulars	Actuals
Prior Period Expenses	
Administrative Expenses	0.01
Misc. Income From Consumers Written Back	5.74
Operating Expenses	0.28
Interest and Finance Charges	29.60
Sub Total Prior Period Expenses	35.64
Prior Period Income	
Expenses Related to Employees Cost Written Back	9.34
Sub Total Prior Period Income	9.34
Net Prior Period Income/Expenditure	26.30

7.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of ‘Other Miscellaneous Expenses’ and the impact of such expenses is only Rs. 1.281 crore in FY 2004-05.

Table 61: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Approved	Actual
Preliminary Expenses	-	0.001
Provision For Loss on Obsolescence of Store	-	1.280
Total	-	1.281

The Petitioner humbly submits that such expenses may be allowed in true-up petition

7.1.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The tariff order for FY 2004-05 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The Petitioner submits that its claim towards provision for bad and doubtful debts for FY 2004-05 is Rs. 31.25 crore as per the table below:

Table 62: Allowable Provision for Bad and Doubtful Debts for FY 2004-05

Particulars	FY 2004-05
Total Revenue Receivables from Retail Sales	1,562.66
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	31.25

7.1.8 REVENUE SIDE TRUING UP

7.1.8.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 527.58 crore for FY 2004-05. The audited accounts have reported the actual revenue from sale of power to be Rs. 441.32 crore (out of which Rs. 16.89 crore is towards delayed payment surcharge) towards electricity sales of 1,236.71 MU.

7.1.8.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2004-05 is Rs. 9.92 crore against the projection of Rs. 32.00 crore in the tariff order.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections. The Petitioner submits that the net entitlement under the true-up for FY 2004-05 is Rs. 72.33 crore

8. AUDITED RESULTS FOR FY 2005-06

As no tariff order for FY 2005-06 was issued, no true-up computations have been prepared. However the audited accounts for FY 2005-06 have been enclosed as per Annexure-7.

9. TRUE-UP PETITION FOR FY 2006-07

9.1 TRUE-UP SUMMARY FOR FY 2006-07

The Petitioner submits that the audited accounts for FY 2006-07 have been enclosed as Annexure-8. The Petitioner seeks true-up of expenses for the year 2006-07 as per the audited accounts as applicable for various heads of expenditure

The following table summarises the truing up computations for 2006-07 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 63: True Up Summary for FY 2006-07

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses	495.76	605.06	522.13	0	-	-	522.13
Net Employee Expenses	48.90	42.81	42.81	6.09	1.52	1.52	45.86
Net A&G Expenses	2.28	3.05	3.05	0	-	-	3.05
Repair and Maintenance Expenses	12.47	14.68	14.68	0	-	-	14.68
Net Interest on Long Term Loans	4.10	-	-	-	-	-	-
Finance Charges	4.02	22.89	22.89	0	-	-	22.89
Interest on Working Capital	-	0.03	0.03	0	-	-	0.03
Depreciation	17.75	10.20	21.69	-	-	-	21.69
Prior Period Expenses	-	0.13	0.13	0	-	-	0.13
Other Misc Expenses	-	0.72	0.72	0	-	-	0.72

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Provision for Bad and Doubtful Debts	-	33.23	39.50	0	-	-	39.50
Total Net Expenditure with Provision	585.28	732.80	667.62	6.09	1.52	1.52	670.66
Add: Return on Equity	-	-	-	-	-	-	-
Less: Non-tariff Incomes	1.25	8.87	8.87	-	-	-	8.87
Annual Revenue Requirement	584.03	723.93	658.75	6.09	1.52	1.52	661.80
Revenue at Current Tariff	668.00	583.30	583.30	-	-	-	583.30
GoUP Subsidy	-	-	-	-	-	-	-
Net Revenue Gap/(Surplus)	(83.97)	140.63	75.45	6.09	1.52	1.52	78.49

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2006-07 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

9.1.1 POWER PURCHASE COSTS

In the tariff order for FY 2006-07, the Hon'ble Commission approved the power purchase cost of Rs. 495.76 crore towards a projected purchase of 2,613.37 MU. The Petitioner humbly submits that the actual power purchase in FY 2006-07 was 2,510.62 MU at a value of Rs. 605.06 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2006-07 is Rs. 522.13 crore as depicted in the table below:

Table 64: Allowable Power Purchase Cost for FY 2006-07

Particulars	Unit	FY 2006-07	
		Approved	Actuals
Power Purchase	MU	2,613	2,511
Energy Sales	MU	1,817	1,506
T&D Loss	%	30.47%	40.00%
Power Purchase cost as per audited accounts	Rs Crore		605.06
Average Power Purchase Cost as per audited accounts	Rs/kWh		2.41
Allowable Power Purchase Input	MU		2,166.53
Allowable Power Purchase Cost (at average rate)	Rs Crore		522.13

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 605.06 crore, the allowable power purchase cost is Rs. 522.13 crore only.

9.1.2 OPERATION AND MAINTENANCE EXPENSES

9.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2006-07 is Rs. 42.81 crore against the approved expenses of Rs. 48.90 crore as per the table below:

Table 65: Approved Vs Actual Employee Expenses for FY 2006-07

(All figures in Rs Crore)

Particulars	KESCo	
	Approved	Actuals
Gross Employee Expenses	48.90	52.56
Less: Employee Expenses Capitalized	-	9.75
Net Employee Expenses	48.90	42.81

The sub-element of the employee costs for FY 2006-07 as per audited accounts are provided below

Table 66: Details of Actual Employee Expenses for FY 2006-07

Particulars	Rs Crore
Salaries & Allowance	42.22
Other Allowance	2.46
Staff Welfare Exp	0.62
Earned Leave Encashment	0.10
Contribution to Pension, Gratuity and other funds	7.16
Gross Employee Expenses	52.56

Particulars	Rs Crore
Less: Employee Expense Capitalized	9.75
Net Employee Expenses	42.81

The actual employee expenses are below the approved expenses, thereby making the Petitioner eligible for efficiency gains as described in Section 2.3. Thus the net entitlement towards employee expenses for FY 2006-07 is Rs. 45.86 crore against the approved expenses of Rs. 48.90 crore.

9.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2006-07 is Rs. 5.19 crore against the approved expenses of Rs. 22.80 crore as per the table below:

Table 67: Approved Vs Actual A&G Expenses for FY 2006-07

(All figures in Rs Crore)

Particulars	FY 2006-07	
	Approved	Actuals
Gross A&G Expenses	2.28	3.54
Less: A&G Expenses Capitalized	-	0.49
Net A&G Expenses	2.28	3.05

The sub-element of the administrative and general expenses for FY 2006-07 as per audited accounts are provided below

Table 68: Details of Actual A&G Expenses for FY 2006-07

Particulars	Rs Crore
Rent, Rates, Taxes and Insurance on Property	0.72
Telephone, Postage & Telegraph	0.60
Legal & Consultancy Charges	0.33
Audit Fees	0.04
Conveyance, Travelling & Vehicle Running Exp.	1.02
Fees & Subscription	0.38
Printing & Stationery	0.22
Advertisement Expenses	0.11
Misc. Expenses	0.11
Other Debits to Revenue A/c	0.01
Gross A&G Expenses	3.54
Less: A&G Expense Capitalisation	0.49
Net A&G Expenses	3.05

The Petitioner requests the Hon'ble Commission to consider the A&G expenses as per its audited accounts.

9.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2006-07 is Rs. 14.68 crore against the approved expenses of Rs. 12.47 crore. The sub-element of the R&M expenses for FY 2006-07 as per audited accounts are provided below

Table 69: Details of Actual R&M Expenses for FY 2006-07

Particulars	Rs Crore
Plant & Machinery	8.03
Buildings	2.25
Lines, Cables, Network etc.	4.30
Furniture & Fixture	0.00
Office Equipments	0.10
Total R&M Expenses	14.68

The Petitioner requests the Hon'ble Commission to consider the R&M expenses as per its audited accounts.

9.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, etc.

Table 70: Approved Vs Actual Interest and Finance Charges for 2006-07

(All Figures in Rs Crore)

Particulars	Approved	Actuals
A) Interest on Long Term Loans		
Interest on Loans from PFC	2.73	2.72
Interest on State Government Loan (UPPCL)	1.37	0.62
Total Gross Interest on Long Term Loans	4.10	3.34
Less: Interest Capitalization/IDC		3.34
Net Interest on Long Term Loans	4.10	-
B) Interest on Working Capital		
Interest on Working Capital		0.03
Total Interest on Working Capital	-	0.03
C) Finance Charges		
Bank Charges		0.03
Discount to Consumers on Sale of Energy		5.29
Interest on Consumer Security Deposits	4.02	3.70
Interest on Electricity Duty		13.87
Total Finance Charges	4.02	22.89
Total Interest and Finance Charges (A+B+C)	8.12	22.92

The Petitioner humbly submits that against the approved expenses of Rs.8.12 crore, the actual expenses are Rs. 22.92 crore.

9.1.4 DEPRECIATION

In the tariff order for FY 2006-07, the Hon'ble Commission had approved a depreciation expense of Rs. 17.75 crore on a gross fixed asset base of Rs. 332.78 crore.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 10.20 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5.

The entitlement towards depreciation has been computed as Rs. 21.69 crore as provided in the table below:

Table 71: Allowable Depreciation for FY 2006-07

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings						
a. Residential Colonies	9.88	-	-	9.88	7.15%	0.71
b. Office Building	0.73	-	-	0.73	7.15%	0.05
c. Building Containg at Sub-stations	8.11	1.15	-	9.26	7.15%	0.62
Plants & Machinery						
a. Plant & Machinery	57.77	34.91	32.35	60.33	7.15%	4.22
b. Lines, Cables, Networks etc.	215.09	0.41	-	215.50	7.15%	15.39
c. Office Equipments	5.44	0.13	-	5.57	7.15%	0.39
d. Computers	0.11	0.01	-	0.13	7.15%	0.01
Furniture & Fixtures	0.84	0.05	-	0.89	7.15%	0.06
Vehicles	3.16	-	-	3.16	7.15%	0.23
Grand Total	301.13	36.67	32.35	305.45		21.69

Thus the Petitioner seeks a variation of Rs. 3.94 crore for FY 2006-07 being the difference between the allowable depreciation of Rs. 21.69 crore and the approved depreciation of Rs. 17.75 crore.

9.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2006-07. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods"

In the audited financial statements for FY 2006-07, there has been recognition of Rs 0.10 crore of prior period incomes and prior period expenses of Rs. 0.23 crore, thereby increasing the eligible true-up by Rs. 0.13 crore.

The following table provides the detailed break-up of the prior period items for FY 2006-07 as per audited accounts

Table 72: Prior Period Items for FY 2006-07

Particulars	Rs Crore
Prior Period Expenses	
Employees Cost	0.16
Operating Expenses	0.07
Sub Total of Prior Period Expenses	0.23
Prior Period Income	
Interest on Consumers Security Deposits	
Operating Expenses Written Back	0.10
Sub Total of Prior Period Incomes	0.10
Net prior Period Income/Expenditure	0.13

9.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of 'Other Miscellaneous Expenses' and the impact of such expenses is only Rs. 0.72 crore in FY 2006-07.

Table 73: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Actual
Provision for Loss on Obsolescence of Store	0.66
Provision for Fringe benefit tax for F.Y. 2005-06	0.03
Provision for Fringe benefit tax for F.Y. 2006-07	0.03
Total	0.72

The Petitioner humbly submits that such expenses may be allowed in true-up petition

9.1.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The tariff order for FY 2006-07 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further

submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The Petitioner submits that its claim towards provision for bad and doubtful debts for FY 2006-07 is Rs. 39.50 crore as per the table below:

Table 74: Allowable Provision for Bad and Doubtful Debts for FY 2006-07

Particulars	FY 2006-07
Total Revenue Receivables from Retail Sales	1,974.84
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	39.50

9.1.8 REVENUE SIDE TRUING UP

9.1.8.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 668.00 crore for FY 2006-07. The audited accounts have reported the actual revenue from sale of power to be Rs. 583.30 crore (out of which Rs. 7.43 crore is towards delayed payment surcharge) towards electricity sales of 1,506.32 MU.

9.1.8.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2006-07 is Rs. 8.87 crore against the projection of Rs. 1.25 crore in the tariff order.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections wherein the net revenue gap has been computed at Rs. 75.45 crore before considering any efficiency gains. The Petitioner is also entitled for efficiency gains of Rs. 3.04 crore; thereby the net entitlement under the true-up for FY 2007-08 is Rs. 78.49 crore.

10. TRUE-UP PETITION FOR FY 2007-08

The Petitioner submits that the audited accounts for FY 2007-08 have been enclosed as Annexure-9. The Petitioner seeks true-up of expenses for the year 2007-08 as per the audited accounts as applicable for various heads of expenditure.

The following table summarises the truing up computations for 2007-08 for approval by the Hon'ble Commission. The Petitioner also provides the details of truing up in the subsequent paragraphs:

Table 75: True Up Summary for FY 2007-08

(All figures in Rs Crore)

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	('c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Power Purchase Expenses (including transmission charges)	668.55	671.48	559.94	0	-	-	559.94
Net Employee Expenses	50.60	90.64	90.64	0	-	-	90.64
Net A&G Expenses	8.37	3.77	3.77	4.60	1.15	1.15	6.07
Repair and Maintenance Expenses	10.79	31.39	31.39	0	-	-	31.39
Net Interest on Long Term Loans	6.57	-	-	-	-	-	-
Finance Charges	7.38	22.65	22.65	0	-	-	22.65
Interest on Working Capital	4.77	0.18	0.18	0	-	-	0.18
Depreciation	32.23	10.05	24.67	-	-	-	24.67
Prior Period Expenses	-	0.67	0.67	0	-	-	0.67
Other Misc Expenses	-	0.04	0.04	0	-	-	0.04
Provision for Bad and Doubtful Debts	-	22.61	42.51	0	-	-	42.51
Total Net Expenditure with Provision	789.26	853.47	776.45	4.60	1.15	1.15	778.75
Add: Return on Equity	-	-	-	-	-	-	-

Particulars	Approved	Actuals as per audited accounts	Entitlement in true-up petition	Deviation	Share of Efficiency Gain transferred to Contingency Reserve	Share of Efficiency Gain shared with Consumers	Net Entitlement
(a)	(b)	(c)	(d)	(e)	(f=e*25%)	(g=e*25%)	(h=d+e-f-g)
Less: Non-tariff Incomes	2.89	15.18	15.18	-	-	-	15.18
Annual Revenue Requirement	786.37	838.30	761.27	4.60	1.15	1.15	763.58
Revenue at Current Tariff	705.92	581.67	581.67	-	-	-	581.67
GoUP Subsidy	-	-	-	-	-	-	-
Net Revenue Gap/(Surplus)	80.45	256.63	179.61	4.60	1.15	1.15	181.91

The Petitioner requests the Hon'ble Commission to allow truing up for FY 2007-08 as provided in the aforementioned table. The Petitioner is detailing the rationale for truing up of some of the key issues in the subsequent paragraphs.

10.1.1 POWER PURCHASE COSTS (INCLUDING TRANSMISSION CHARGES)

In the tariff order for FY 2007-08, the Hon'ble Commission approved the power purchase cost of Rs. 668.55 crore towards a projected purchase of 2,615.61 MU. The Petitioner humbly submits that the actual power purchase in FY 2007-08 was 2,633.27 MU at a value of Rs. 671.48 crore. Considering the philosophy described in Section 2.4.1 for claiming true-up towards power purchase cost; the allowable power purchase expenses in FY 2007-08 is Rs. 559.94 crore as depicted in the table below:

Table 76: Allowable Power Purchase Cost for FY 2007-08

Particulars	Unit	FY 2007-08	
		Approved	Actuals
Power Purchase	MU	2,616	2,633
Energy Sales	MU	1,858	1,560
T&D Loss	%	28.97%	40.77%
Power Purchase cost as per audited accounts	Rs Crore		671.48
Average Power Purchase Cost as per audited accounts	Rs/kWh		2.55
Allowable Power Purchase Input	MU		2,195.83
Allowable Power Purchase Cost (at average rate)	Rs Crore		559.94

Accordingly, the Petitioner submits that against the actual power purchase cost of Rs. 671.48 crore, the allowable power purchase cost is Rs. 559.94 crore only.

10.1.2 OPERATION AND MAINTENANCE EXPENSES

10.1.2.1 EMPLOYEE EXPENSES

The Petitioner submits that the actual net employee expenses for the FY 2007-08 is Rs. 90.64 crore against the approved expenses of Rs. 50.60 crore as per the table below:

Table 77: Approved Vs Actual Employee Expenses for FY 2007-08

(All figures in Rs Crore)

Particulars	FY 2007-08	
	Approved	Actuals
Gross Employee Expenses	59.53	92.31
Less: Employee Expenses Capitalized	8.93	1.67
Net Employee Expenses	50.60	90.64

The sub-element of the employee costs for FY 2007-08 as per audited accounts are provided below

Table 78: Details of Actual Employee Expenses for FY 2007-08

Particulars	Rs Crore
Salaries & Allowance	76.25
Other Allowance	1.67
Staff Welfare Exp	1.08
Earned Leave Encashment	0.14
Contribution to Pension, Gratuity and other funds	13.17
Gross Employee Expenses	92.31

Particulars	Rs Crore
Less: Employee Expense Capitalized	1.67
Net Employee Expenses	90.64

The Petitioner requests the Hon'ble Commission to consider the Employee expenses as per its audited accounts.

10.1.2.2 ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

The Petitioner submits that the actual net administrative and general expenses for the FY 2007-08 is Rs. 3.77 crore against the approved expenses of Rs. 8.37 crore as per the table below:

Table 79: Approved Vs Actual A&G Expenses for FY 2007-08

(All figures in Rs Crore)

Particulars	FY 2007-08	
	Approved	Actuals
Gross A&G Expenses	9.85	3.79
Less: A&G Expenses Capitalized	1.48	0.02
Net A&G Expenses	8.37	3.77

The sub-element of the administrative and general expenses for FY 2007-08 as per audited accounts are provided below

Table 80: Details of Actual A&G Expenses for FY 2007-08

Particulars	Rs Crore
Rent, Rates, Taxes and Insurance on Property	0.70
Telephone, Postage & Telegraph	0.41
Legal & Consultancy Charges	0.43
Audit Fees	0.04
Conveyance, Travelling & Vehicle Running Exp.	1.37
Fees & Subscription	0.23
Printing & Stationery	0.31
Advertisement Expenses	0.15
Misc. Expenses	0.08
On Line Billing	0.06
Other Debits to Revenue A/c	0.01
Gross A&G Expenses	3.79
Less: A&G Expense Capitalisation	0.02
Net A&G Expenses	3.77

The actual A&G expenses are below the approved expenses, thereby making the Petitioner eligible for efficiency gains as described in Section 2.3. Thus the net entitlement towards A&G expenses for FY 2007-08 is Rs. 6.07 crore against the approved expenses of Rs. 8.37 crore.

10.1.2.3 REPAIR AND MAINTENANCE (R&M) EXPENSES

The Petitioner submits that the actual R&M expenses for the FY 2007-08 is Rs. 31.39 crore against the approved expenses of Rs. 10.79 crore. The sub-element of the R&M expenses for FY 2007-08 as per audited accounts are provided below

Table 81: Details of Actual R&M Expenses for FY 2007-08

Particulars	Rs Crore
Plant & Machinery	24.57
Buildings	2.26
Lines Cables net works etc.	4.48
Furniture & Fixture	0.00
Office Equipments	0.08
Total R&M Expenses	31.39

The Petitioner requests the Hon'ble Commission to consider the R&M expenses as per its audited accounts.

10.1.3 INTEREST AND FINANCE CHARGES

The Petitioner in the table below has provided the details in respect of interest on long term loans, interest on working capital and finance charges pertaining to expenditures like bank charges, finance charges, interest on consumer security deposit, etc.

Table 82: Approved Vs Actual Interest and Finance Charges for 2007-08

(All Figures in Rs Crore)

Particulars	Approved	Actuals
A) Interest on Long Term Loans		
GoUP- APDRP	1.30	0.62
Interest on Loans from PFC	7.24	4.96
Total Gross Interest on Long Term Loans	8.54	5.58
Less: Interest Capitalisation	1.97	5.58
Net Interest on Long Term Loans	6.57	-
B) Interest on Working Capital		
Interest on Working Capital	4.77	0.18
Total Interest on Working Capital	4.77	0.18
C) Finance Charges		
Bank and Finance Charges	0.15	0.29
Discount to Consumers on sale of energy	2.29	2.80
Interest on Consumer Security Deposits	4.94	3.41
Interest on Electricity Duty		16.15
Total Finance Charges	7.38	22.65
Total Interest and Finance Charges (A+B+C)	18.72	22.83

The Petitioner humbly submits that against the approved expenses of Rs.18.72 crore, the actual expenses are Rs. 22.83 crore.

10.1.4 DEPRECIATION

In the tariff order for FY 2007-08, the Hon'ble Commission had approved a depreciation expense of Rs. 32.23 crore on a gross fixed asset base of Rs. 444.95 crore.

The Petitioner submits that the actual depreciation expense as per audited accounts is Rs. 10.05 crore. However the same depreciation has been accounted for considering the depreciation rates prescribed by the Companies Act, 1956. For the purposes of this true-up petition, the Petitioner has computed the depreciation expense on the actual GFA base and at the regulatory rates applicable for the relevant year as described in the true-up philosophy in Section 2.4.5.

The entitlement towards depreciation has been computed as Rs. 24.67 crore as provided in the table below:

Table 83: Allowable Depreciation for FY 2007-08

(All Figures in Rs Crore)

Particulars	Opening GFA	Additions to GFA	Deductions to GFA	Closing GFA	Depreciation Rates considered	Allowable Depreciation
Buildings						
a. Residential Colonies	9.88	0.08	-	9.95	7.91%	0.78
b. Office Building	0.73	-	-	0.73	7.91%	0.06
c. Building Contains at Sub-stations	9.26	-	0.08	9.18	7.91%	0.73
Plants & Machinery						
a. Plant & Machinery	60.33	6.42	-	66.75	7.91%	5.03
b. Lines, Cables, Networks etc.	215.50	6.44	-	221.94	7.91%	17.30
c. Office Equipments	5.57	0.02	-	5.59	7.91%	0.44
d. Computers	0.13	0.04	-	0.17	7.91%	0.01
Furniture & Fixtures	0.89	0.01	-	0.90	7.91%	0.07
Vehicles	3.16	-	-	3.16	7.91%	0.25
Grand Total	305.45	13.01	0.08	318.38		24.67

Thus the Petitioner humbly submits that the allowable depreciation is Rs. 24.67 crore only against the approved depreciation of Rs. 32.23 crore in FY 2007-08.

10.1.5 PRIOR PERIOD EXPENSES

The financial statements of the Petitioner are prepared in compliance with Generally Accepted Accounting Principles (GAAP's) and Accounting Standards issued by Accounting Standards Board of Institute of Chartered Accountants of India.

There are certain prior period items which have been identified and incorporated in the audited financial statements for 2007-08. As per Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods"

In the audited financial statements for FY 2007-08, there has been recognition of Rs 0.03 crore of prior period incomes and prior period expenses of Rs. 0.69 crore, thereby increasing the eligible true-up by Rs 0.67 crore.

The following table provides the detailed break-up of the prior period items for FY 2007-08 as per audited accounts

Table 84: Prior Period Items for FY 2007-08

Particulars	Rs Crore
Prior Period Expenses	
Employees Cost	0.05
Operating Expenses	0.10
Interest and Financial Charges	0.54
Sub Total of Prior Period Expenses	0.69
Prior Period Income	
Operating Expenses Written Back	0.03
Sub Total of Prior Period Incomes	0.03
Net Prior Period Income/Expenditure	0.67

10.1.6 OTHER MISCELLANEOUS EXPENSES

There are certain other expenses which cannot be claimed under any specific head of the ARR. Such minor expenses have been bundled together under the nomenclature of 'Other Miscellaneous Expenses' and the impact of such expenses is only Rs. 0.037 crore in FY 2007-08.

Table 85: Other Miscellaneous Expenses

(All Figures in Rs Crore)

Particulars	Rs Crore
Provision for Fringe benefit tax for F.Y. 2007-08	0.03
Total	0.03

The Petitioner humbly submits that such expenses may be allowed in true-up petition.

10.1.7 PROVISION FOR BAD AND DOUBTFUL DEBTS

The tariff order for FY 2007-08 did not allow any amounts towards Provision for Bad and Doubtful Debts. The Petitioner humbly submits that such expenses are legitimate business expenses. It is further submitted that provision for bad & doubtful debts are accepted accounting principle even in sector like Banking where the provisioning of un-collectable dues are considered as a normal commercial practice.

Section 2.4.6 describes the philosophy of the Petitioner while claiming such expenses in this true-up petition. The entitlement towards provision for bad and doubtful debts has been computed at 2% of the closing revenue receivables as per audited accounts of the relevant financial year.

The Petitioner submits that its claim towards provision for bad and doubtful debts for FY 2007-08 is Rs. 42.51 crore as per the table below:

Table 86: Allowable Provision for Bad and Doubtful Debts for FY 2007-08

Particulars	Rs Crore
Total Revenue Receivables from Retail Sales	2,125.58
% of Provision for Bad and Doubtful Debts	2%
Provision for Bad and Doubtful Debts	42.51

10.1.8 REVENUE SIDE TRUING UP

10.1.8.1 REVENUE FROM SALE OF POWER

The Hon'ble Commission had projected revenue from sale of power of Rs. 705.92 crore for FY 2007-08. The audited accounts have reported the actual revenue from sale of power to be Rs. 581.67 crore (out of which Rs. 13.76 crore is towards delayed payment surcharge) towards electricity sales of 1,559.70 MU.

10.1.8.2 NON TARIFF INCOMES

The Petitioner submits that the actual non tariff incomes earned by it in FY 2007-08 is Rs. 15.18 crore against the projection of Rs. 2.89 crore in the tariff order.

The Petitioner requests the Hon'ble Commission to consider the revenue side true-up and expense side true-up as per the aforementioned sections wherein the net revenue gap has been computed at Rs. 179.61 crore before considering any efficiency gains. The Petitioner is also entitled for efficiency gains of Rs. 2.30 crore; thereby the net entitlement under the true-up for FY 2007-08 is Rs. 181.91 crore

11. CARRYING COST ON UNDER-RECOVERED AMOUNTS

The Petitioner humbly submits that it should be eligible for carrying cost on the under-recovered amount computed as a result of the truing up exercise as such amounts are in the nature of deferred payments.

In this regard, it is noteworthy of mentioning the APTEL judgment in Appeal No. 117 of 2008 filed by Reliance Infrastructure Ltd - Distribution Business (RInfra-D) against the MERC's Order dated June 4, 2008 on APR Petition for FY 2007-08.

The relevant extract of the said Judgment regarding carrying cost is reproduced as under:

“47. As the MERC Regulations deploy the Short Term Prime Lending Rate of State Bank of India for working out interest on Working Capital there is no reason why the same yardstick is not used when it comes to applying interest rate on deferred payments. The licensee shall have to arrange the amount of deferred payment in the same way as the Working Capital. We, therefore, direct the Commission to allow Short Term Prime Lending Rate of SBI for deferred payments and incorporate the same while carrying out the truing up exercise for the year 2008-09.”

Accordingly, the Petitioner submits that it has computed the carrying cost on the yearly under-recovered amount based on the applicable SBI PLR rate as approved by the Hon'ble Commission in the years 2000-01 to 2009-10 in various tariff orders and at the same rate of 11.75% for FY 2010-11 to 2012-13 which the Hon'ble Commission had approved in the last tariff order for FY 2009-10.

Considering the fact that under the normal tariff determination exercise for the nth year, the Commission carries out the final truing up requirement for (n-2)th year and allows the impact of the same in the tariff for the nth year, the Petitioner has adopted the same philosophy while computing the carrying cost.

The Petitioner requests the Hon'ble Commission to allow carrying cost to the tune of Rs. 402.97 crore as per carrying cost computations shown in the Table below:

Table 87: Carrying Cost on Under-Recovered Amount for the years 2000-01 to 2012-13

(Figures in Rs Crore)

Particulars	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	Total
Eligible True-up as per Petitioner	19.81	57.38	73.18	57.88	72.33	0.00	78.49	181.91						
Rate of Interest	15%	15%	15%	15%	9.25%	9.25%	7.50%	12.50%	12.50%	11.75%	11.75%	11.75%	11.75%	
<u>Computation of Carrying Cost</u>														
Carrying Cost for FY-01			2.97	2.97	1.83	1.83	1.49	2.48	2.48	2.33	2.33	2.33	2.33	25.35

Particulars	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	Total
Carrying Cost for FY-02				8.61	5.31	5.31	4.30	7.17	7.17	6.74	6.74	6.74	6.74	64.84
Carrying Cost for FY-03					6.77	6.77	5.49	9.15	9.15	8.60	8.60	8.60	8.60	71.71
Carrying Cost for FY-04						5.35	4.34	7.24	7.24	6.80	6.80	6.80	6.80	51.37
Carrying Cost for FY-05							5.42	9.04	9.04	8.50	8.50	8.50	8.50	57.50
Carrying Cost for FY-07									9.81	9.22	9.22	9.22	9.22	46.70
Carrying Cost for FY-08										21.37	21.37	21.37	21.37	85.50
Total Carrying Cost														402.97

12. PRAYERS

The Petitioner respectfully prays the Hon'ble Commission to:

- a) Admit this Petition
- b) Grant and expeditious hearing of the Petition
- c) Allow final true-up of expenses for the financial years 2000-01 to 2007-08 based on the audited accounts for various heads of expenditures and as per the rationale given in this Petition
- d) Allow carrying cost on the final trued up amount as per the computations and rates provided by the Petitioner.
- e) Suitably amend the tariffs for FY 2012-13 by including the net gap determined in this petition in the revenue gap of FY 2012-13 so that the Petitioner may recover the amounts so trued up.
- f) Permit recovery of expenses understated/ not considered in this Petition subsequent to the submission of this petition.
- g) Condone any inadvertent omissions / errors / short comings and permit the applicant to add /change /modify / alter this Petition and make further submissions as may be required at later stages
- h) Pass such orders as Hon'ble Commission may deem fit and proper and necessary in the facts and circumstances of the case, to grant relief to the petitioner.