N/70/2013

BEFORE THE KARNATAKA ELECTRICITY REGULATORY COMMISSION, BENGALURU

Dated : 7th January, 2016

Present:

Sri M.K. Shankaralinge Gowda	Chairman
Sri H.D. Arun Kumar	Member
Sri D.B. Manival Raju	Member

Review Petition No.5 / 2013

BETWEEN:

Karnataka Power Transmission Corporation (KPTCL),
Kaveri Bhavan,
Bengaluru- 560 001 .. **PETITIONER**

[Represented by Just Law, Advocates]

AND:

1) Bangalore Electricity Supply Company Limited,
K.R.Circle,
Bengaluru - 560 001

2) Mangalore Electricity Supply Company Limited,
Paradigm Plaza,
A B Shetty Circle,
Mangaluru 575 001

3) Chamundeshwari Electricity Supply Corporation Limited,
No.927, L.J.Avenue,
Commercial Complex,
New Kantharaj Urs Road,
Saraswathipuram,
Mysuru – 570 009.

4) Hubli Electricity Supply Company Limited,
Navanagar,
P.B.Road,
Hubballi – 580 025.

5) Gulbarga Electricity Supply Company Limited,
Station Road,
Kalaburagi - 585 102. .. **RESPONDENTS**

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ORDERS

1) The petitioner, in the above petition, has sought for the relief of reviewing the Tariff Order dated 6th May, 2013, for the FY12 passed by the Commission and determination of the O & M expenses, as per the actuals and not on normative basis.

2) In support of the relief sought it is submitted that, the petitioner had filed an application on 19.11.2012, for Annual Review of Performance (APR) for the FY12 under the MYT principles. In the said filing, the O & M expenses computed by the petitioner as per norms were Rs.371.66 Crores as against the actual O & M expenses of Rs.611.88 Crores resulting in a huge gap of Rs.240.22 Crores. It is submitted that in its application for APR, the petitioner had brought to the notice of the Commission that the CERC norms prescribed, the O & M expenses of Rs.41 lakhs per 220 KV bay as against Rs.63 lakhs prescribed by this Commission's norms. In view of the significant difference between the two, the petitioner had requested for adoption of the O & M expenses as per actuals instead of on the norms. It is further submitted that, in the Commission's Tariff Order dated 06.05.2013, the O & M expenses were bifurcated into controllable and uncontrollable expenses and a total amount of Rs.535.39 Crores, was allowed for FY12 without considering request of the petitioner to adopt the CERC norms.

3) The learned counsel for the petitioner while reiterating the grounds as made out in the petition has furnished calculation of actual expenditure on bays and lines, information regarding factors contributing to increase in expenditure, extract of the O & M expenses allowed in a few other States and relevant extract of the CERC Regulations.

4) On issue of notice to the Respondents, after admitting the petition, Respondent-1 and Respondent - 3 have filed the objections.

5) Respondent – 1 and Respondent – 2 have submitted that instead of the inflation rate of 5.49% adopted by the Commission, the CERC notified rate of 9.22% may be adopted for the Computation of the O & M expenses. Based on this rate the revised O & M expenses of Rs.574.31 Crores may be allowed.

6) We have heard the learned counsel for the Petitioner and considered the pleadings of the petitioner and the Respondents – 1 and 2 as well as documents provided by the petitioner. We note that the CERC norms applicable to computation of O & M expenses in respect of transmission system, ordinarily would apply to Power Grid Corporation of India and interstate transmission assets maintained by it, are not comparable with the Petitioner's assets. Thus we do not find any merit in the petitioner's prayers for adoption of the CERC norms in computation of the O & M expenses.

7) We find that norms fixed in other States for computation of the O & M expenses in respect of transmission systems vary from one to another, understandably depending on the transmission network existing there. The petitioner has stated that the transmission network of the Andhra Pradesh utility, which has been allowed a lower O & M expenses, is not comparable to the petitioner's network. However, the petitioner states that transmission utility of Gujarat has been allowed a higher O & M expenses without highlighting that the network in Gujarat is also not comparable to the petitioner's network. We do not consider them to be relevant in computation of the O & M expenses of the petitioner.

8) In the case of a transmission licensee the allowable O & M expenses, which are classified as 'Controllable expenses' are determined as per the provisions of the KERC MYT Regulations, the extract of which are as below:

"3.11 Operation and Maintenance Expenses:

3.11.1 In the case of existing Transmission Licensee, the Licensee in its filing shall submit the consolidated O & M expenses for the base year of the Control Period and for the two years preceding the Base year. The O & M expenses for the base year shall be determined based on the latest audited accounts, best estimates of Licensee of the actual O & M expenses for relevant years and other factors considered relevant. The O & M expenses for the Base year, if required, will be used for projecting the expenses for each year of the Control period. The

Licensee shall also propose determination of the admissible O & M expenses on the basis of per ckt-km of lines and per bay of substation for the base year and appropriate Inflation Factor for operation and maintenance expenses for the first control period

3.11.2 The O & M expense per ckt-km of lines and substation bay for the Base year and the subsequent year shall be determined on the basis of actual O & M cost of lines and substations to be filed by the Licensee."

9. Thus in Multi Year Tariff approach, as adopted in the State, the normative O & M expenses for the FY12 had been computed based on the actual O & M expenses of the base year, number of bays and circuit Kilometers of transmission lines and the inflation factor. While allowing the O & M expenses, the Commission had considered the actual number of bays of 18340 nos. and 30539 Ckt.kms of lines as reported by the KPTCL (petitioner). Accordingly, the normative allowable O & M expenses were worked out at Rs.384.67 Crores and an additional amount of Rs.150.72 Crores was approved by the Commission as uncontrollable employee cost. The total O & M expenses allowed after the APR for the FY12 were Rs.535.39 Crores. While doing so the Commission has not considered the petitioner's request for adopting the CERC method of allowing the O & M expenses as per the actuals. Apart from certain employee cost, the O&M expenses are controllable and hence, the MYT Regulations stipulate for adoption on normative basis so as to ensure that the licensee carries on its business efficiently and the consumers are burdened with any unnecessary expenses that may have been incurred by the licensee. Therefore, the same ground which has been raised by the petitioner during APR of the FY12 and not considered favorably by the Commission cannot be now made as a ground for review of the Commission's Order on the APR of the FY12.

10. Now we proceed to examine the request of Respondent -1 and Respondent -2 to consider inflation rate of 9.22% as notified by the CERC in computation of the O & M expenses of the petitioner for the FY12. We note that, the CERC has notified rate of 5.49% for escalation of transmission charges based on the indices for the previous 12 years. The Commission has been adopting rates so notified, consistently for all Control Periods. The rate of 9.22%, as notified by the CERC pertains to inflation for one year based on the monthly indices of the same year.

This is not based on the actual indices for the previous years and therefore is not applicable for computation of the O & M expenses which are computed as per the Regulations referred to earlier.

11. For the foregoing reasons, we pass the following:

<u>ORDER</u>

The review petition is rejected.

Sd/-	Sd/-	Sd/-
(M.K. SHANKARALINGE GOWDA) CHAIRMAN	(H.D. ARUN KUMAR) MEMBER	(D.B. MANIVAL RAJU) MEMBER