

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION HYDERABAD

Present

Sri Justice G. Bhavani Prasad, Chairman

Dr P. Raghu, Member

Sri P. Rama Mohan, Member

Dated: November 07, 2015

In the matter of

**True Up of Transmission Business for the Second Control Period
FY2009-10 to FY2013-14**

O.P. No.13 of 2015

Transmission Corporation of Andhra Pradesh Ltd.

Applicant

The true up application made by Transmission Corporation of Andhra Pradesh Ltd (APTransco) in respect of transmission business for the second control period FY2009-10 to FY2013-14 came up for consideration before the Commission. Upon following the procedure prescribed for determination of such true up as per Terms and Conditions for Determination of Tariff for Transmission of Electricity Regulation, 2005 (Regulation 5 of 2005) and after hearing Sri P. Shiva Rao, learned Standing Counsel, Sri Dinesh Parchuri, Director/Finance/APTransco and Sri P. Sathya Moorthy, Director/Finance & Commercial/APGENCO for the petitioners, and Sri Bhushan Rastogi for FTAPCCI, Sri M. Venugopala Rao/Senior Journalist, Sri Cherukuri Venugopala Rao and Sri Valluri Satya Prasad, stakeholders and after careful consideration of the material available on record, the Commission, in exercise of the powers vested in it under Regulation 5 of 2005, the Electricity Act, 2003 (Act No. 36 of 2003), the Andhra Pradesh Electricity Reform Act, 1998 (Act 30 of 1998) and all other powers hereunto enabling, hereby passes the following:

ORDER

Background

1. The Transmission Corporation of Andhra Pradesh (APTransco or Licensee) has been granted the License for transmission and bulk supply of electricity in the erstwhile undivided Andhra Pradesh state on January 31, 2000 by the Andhra Pradesh Electricity Regulatory Commission (erstwhile Commission) under the Andhra Pradesh Electricity Reform Act, 1998. Pursuant to various reforms and Electricity Act 2003, APTransco in course of time has evolved as the State Transmission Utility (STU) in the said undivided state with effect from June 9, 2005.
2. The erstwhile Commission has framed the Regulation 5 of 2005 introducing the Multi Year Tariff Regulatory (MYT) framework that governs the transmission business/activity in which the licensee files the Aggregate Revenue Requirement (ARR) and proposed Tariff for each year of the Control Period. The erstwhile Commission accordingly used to determine the ARR and Transmission Tariff for each year of the control period ahead of the commencement of the Control Period for the entire control period. Further, the provisions for true up of ARR after completion of the Control Period are also provided in the said Regulation.
3. Pursuant to the Andhra Pradesh Reorganization Act 2014, the Government of Andhra Pradesh has constituted the Andhra Pradesh Electricity Regulatory Commission (APEREC or the Commission) for the residual state of Andhra Pradesh on 01-08-2014. The Commission has adopted all the regulations, orders, directions etc. issued by the erstwhile Commission for the newly formed Andhra Pradesh State through the Andhra Pradesh Electricity Regulatory Commission (Adaptation) Regulation, 4 of 2014. Consequent to the bifurcation of the State, the APTransco's jurisdiction under the license is also limited to the newly formed Andhra Pradesh State.
4. The erstwhile Commission has issued 3 MYT Orders and also carried out the true up of ARR/Revenue for the first Control Period in its Tariff Order for third Control Period issued on May 9, 2014 in O.P. No. 62 of 2013. The three MYT Orders are;
 - a) FY2006-07 to FY2008-09: First Control Period - 3 Years
 - b) FY2009-10 to FY2013-14: Second Control Period - 5 Years and
 - c) FY2014-15 to FY2018-19: Third Control Period - 5 Years

5. Meanwhile, the Licensee has completed the second control period ending with FY2013-14 and upon the availability of audited accounts and also on directions from the Commission, it has filed the application for true up for the second control period with the Commission on March 16, 2015 with the following items/requests as per the revised submissions of the petitioner at the time of final hearing:
- a) The claim of excess ARR true up amount (ARR - Revenue) of ₹ 622 cr. compared with that approved in the tariff order for second control period of five years from FY2009-10 to FY2013-14,
 - b) The claim of ₹ 287 cr. (46.11 percent) share in ₹ 622 cr. (total ARR- total revenue) variation that relates to newly formed Andhra Pradesh State and
 - c) Request for permission to recover ₹ 287 cr. from the two distribution licensees located in newly formed Andhra Pradesh State (transmission users).

Regulatory Provisions for True Up

6. Multiyear tariff principles that aim at regulating the transmission business and incentivising the transmission licensee for better performance have been incorporated in Regulation 5 of 2005. As per this Regulation, the licensee shall file the ARR for each year of the control period which will be examined and approved by the Commission. The transmission licensee shall file for corrections of controllable and uncontrollable items of ARR approved for a control period after completion of the control period.
7. The ARR approved for each year of the Control Period shall become the basis for determination of transmission tariff through which the approved ARR for each year will be recovered by the transmission licensee from the users of transmission system, primarily the electricity distribution licensees in accordance with clause 17 read with clause 10 of Regulation 5 of 2005.
8. Clause 17 of Regulation 5 of 2005 reads as follows;

CORRECTIONS FOR “UNCONTROLLABLE” ITEMS AND “CONTROLLABLE ITEMS AND SHARING OF GAINS/LOSSES OF “CONTROLLABLE” ITEMS

The Transmission Licensee shall file its proposals for pass-through as well as sharing of gains/losses on variations in “uncontrollable” items of ARR and “controllable” items (indexed to external parameters) in accordance with clause 10 of this Regulation.

9. Clause 10 of Regulation 5 reads as follows;

MULTI-YEAR TARIFF FRAMEWORK AND APPROACH

10.1 The multi-year tariff framework shall be based on the following approach, for calculation of ARR and expected revenue from tariff and charges.

10.2 Base Year:- Values for the Base Year of the Control Period will be determined based on the audited accounts available, best estimate for the relevant years and other factors considered appropriate by the Commission, and after applying the tests for determining the controllable or uncontrollable nature of various items. The Commission will normally not revisit the performance targets even if the targets are fixed on the basis of base values of un-audited accounts.

10.3 Targets:- Targets will be set for items that are deemed by the Commission as “controllable”. Trajectory for specific variables may be stipulated by the Commission where the performance of the applicant is sought to be improved upon through incentives and disincentives.

10.4 Controllable and Uncontrollable items of ARR:- The expenditure of the Transmission Licensee considered as “controllable” and “uncontrollable” shall be as follows:

TRANSMISSION BUSINESS

ARR Item	“Controllable” / “Uncontrollable”
Operation & Maintenance expenses	Controllable
Return on Capital Employed	Controllable
Depreciation	Controllable
Taxes on Income	Uncontrollable
Non-tariff income	Controllable

10.5 Pass-through of gains and losses on variations in “uncontrollable” items of ARR:- The Transmission Licensee shall be eligible to claim variations in “uncontrollable” items in the ARR for a Control Period in the filings for the subsequent Control Period

depending on the availability of data as per actuals with respect to effect of uncontrollable items:

Provided that the Commission shall allow the financing cost on account of the time gap between the time when the true-up becomes due and when it is actually allowed and the corrections shall not be normally revisited.

- 10.6 Gains and losses on variations in “controllable” items of ARR:- The Transmission Licensee in its filings for a Control Period shall present a statement of gains and losses for each controllable item of the ARR for the previous control period. The gains and losses for each item shall be presented after adjusting for any variations, if any, on account of uncontrollable factors with details thereof.
 - 10.7 For the purpose of sharing gains and losses with the users, only aggregate gains or losses for the Control Period as a whole will be considered. The Commission will review the gains and losses for each item of ARR and make appropriate adjustments wherever required.
 - 10.8 Notwithstanding anything contained in this Regulation, the gains or losses in the controllable items of ARR on account of *force majeure* factors shall be passed on as an additional charge or rebate in ARR over such period as may be specified in the Order of the Commission.
10. The Commission has decided to consider the application made by the transmission licensee, while deeming its submission to be in accordance with clause 17 of Regulation 5 of 2005, for corrections with regard to controllable and uncontrollable items of ARR approved for each year of the second control period. The application for true up made by APTransco is taken on file as O.P. No. 13 of 2015.

Public Notice of True up Application

11. If the licensee's proposals are approved, then a sum of `622 cr. shall be collected from transmission users, i.e., distribution companies which may pass on such additional cost to retail consumers by including it in their ARR which would be recovered through retail tariff. Hence, the primary stakeholders connected to this application for true up are distribution licensees and retail consumers of electricity. To elicit the views/objections/suggestions of all stakeholders, the Commission has directed the licensee to publish a 'public notice' in one English and one Telugu newspaper (in Telugu) on April 30, 2015 (see Annexure-01).
12. In compliance of this direction, the licensee has caused the publication of public notice on May 5, 2014 (Annexure-02) as directed by the Commission indicating, inter alia a) the availability of the copies of the filing for true up in print and electronic form and b) views/objections/suggestions on the filings to be submitted to the Commission by 5.00 p.m. on May 31, 2015. The said filings are also made available for the stakeholders on the websites of licensee and the Commission. However, the Commission has not received any views/objections/suggestions from the stakeholders before and even after the due date.

Stakeholders' Views/Objections/Suggestions on True up Filings

13. The Commission on 23-09-2015 while fixing the hearing date on 09-10-2015 for public hearing on true up application made by APTransco has provided one more opportunity to the stakeholders for filing views/objections/suggestions on or before the date of public hearing. The Commission has placed these notices on the website of the Commission and directed APTransco to place the same on its website also. In response to the notice of public hearing, the following five persons have submitted similar views/objections/suggestions separately on the true up filings by 09-10-2015.
 - (i) Sri Penumalli Madhu, Secretary, CPI(M)
 - (ii) Sri M.A. Gafoor, Member, CPI(M)
 - (iii) Sri Ch. Narasinga Rao, CPI(M)
 - (iv) Sri A. Punna Rao, Convener, Praja Energy Audit Cell
 - (v) Sri M. Venugopala Rao, Senior Journalist

The Commission has heard the stakeholders on 09-10-2015 and directed APTransco to furnish its response to stakeholders' views/objections/suggestions and posted the matter for further hearing to 17-10-2015. APTransco has provided its response to stakeholders' views/objections/suggestions during the public hearing on 17-10-2015. The Commission has dealt with these objections hereunder appropriately to the extent they are related to true up aspects of transmission business for the second control period:

13.1 Statistical legerdemain

Views/Objections/Suggestions: The utility has resorted to statistical legerdemain to buttress unsustainable claims of `619 cr. and if the true up claim is approved as filed, it will lead to imposition of additional burden on consumers in the next annual tariff revision.

APTransco's Response: The licensee has filed the true up claims in accordance with the Regulation 5 of 2005 that stipulate the provisions for true up and without the true up as claimed in the application, the licensee will be under heavy financial burden. Further, the revenue from transmission charges as filed for true up is net off `400 cr. rebate and concession extended to DISCOMs during FY2013-14.

Commission's View: The licensee is provided an opportunity for seeking correction of controllable and uncontrollable variations of ARR items by the provisions of Regulation 5 of 2005 and the Commission has endeavored to carry out the corrections within the limits of the regulatory provisions.

13.2 Capital Investment

Views/Objections/Suggestions: The actual capital expenditure is significantly less than the capital expenditure approved by the Commission during the second control period and thus the actual tariff fixed by the Commission is higher to this extent and the licensee collected the same from distribution companies. By collecting higher tariff, despite failure to add assets, regulated rate base and confining to limits of expenditure as determined by the Commission in the tariff order, the licensee is now claiming higher return on capital employed including return on equity than what has been due to it.

APTransco's Response: Target expenditure for the second control period was set considering high growth and demand. APTransco is facing problem in completing the

projects in time due to Right of Way (ROW), land acquisition for laying lines and constructing substations. Consequence of underinvestment is the reduction of ROCE by ₹ 605 cr. in the true up application compared with the ROCE approved in Tariff Order. APTransco has claimed the ROCE as per clause 13.1 of Regulation 5 of 2005 based on actuals.

Commission's View: The impact of lower capital investment has been factored in the filing by licensee and the Commission has considered the same in accordance with the regulatory provisions. The Regulated Rate Base has been corrected accordingly as explained in this Order. Thus, any undue advantage vis-à-vis tariff fixed and the investment made is avoided.

13.3 Type of Assets

Views/Objections/Suggestions: If part of the assets were created for rendering service to Non-DISCOM consumers like Lift Irrigation Schemes(LIS), claims of APTransco for weighted average cost of capital on that part of regulated rate base should not be permitted to be collected from DISCOMs.

APTransco's Response: The capital expenditure on LIS schemes is funded by GoAP and the depreciation on these assets is not claimed as expenditure in true up claims. The network LIS schemes are useful for DISCOMs for supply of power to LIS projects.

Commission's View: As per the regulatory provisions, the capital expenditure funded by consumer contribution and government grants are excluded from RRB calculations and depreciation is not allowed on the assets funded by these sources as expenditure. This should address the concern of the stakeholders with regard to its inclusion in RRB calculations.

13.4 Lower Regulated Rate Base

Views/Objections/Suggestions: The Regulated Rate Base(RRB) is lower by ₹ 6024 cr. on actual terms during the second control period compared with the approval of the Commission which confirms that APTransco is not entitled to about ₹ 610 cr. ROCE at 11% weighted average cost of capital.

APTransco's Response: The RRB is calculated as per the actual audited accounts and the licensee is entitled to ROCE on RRB for the second control period.

Commission's View: Lower RRB is consequence of lower capital expenditure and is also partly due to non capitalization of ongoing capital works. The Commission has

recomputed the RRB after detailed examination of the capital expenditure and other items as per audited accounts for the second control period.

13.5 Depreciation

Views/Objections/Suggestions: The licensee has computed the depreciation in accordance with rates announced by Ministry of Power (MOP) despite the stipulation to compute the same at the rates announced by CERC in accordance with Regulation 5 of 2005. The licensee filed neither the reasons nor justification for adopting the rates notified by MOP.

APTransco's Response: The erstwhile Commission has provided a broader interpretation on clause 25(2) of Regulation 5 of 2005 that stipulates the depreciation to be calculated as per CERC notification. The erstwhile Commission has allowed the depreciation to be computed as per MOP rates for the transmission tariff determination for third control period i.e. FY2014-15 to 2018-19. Accordingly, licensee requested the Commission for usage of MOP rates for computing depreciation for the second control period.

Commission's View: The depreciation for the second control period is computed based on CERC rates while determining the revenue requirement for transmission business and transmission tariff for the second control period. As a logical corollary, propriety and reason demand a consistent approach at the time of true up also and hence the method of computation cannot be changed as requested by the licensee despite its approval for the third control period by the erstwhile Commission.

13.6 O&M Costs

Views/Objections/Suggestions: The increase in O&M cost by ₹ 545 cr. during the second control period compared with what was approved in tariff order is mainly on account of wage revision. However, the O&M cost should have been within the limits permitted in the context of lesser capital expenditure than the approved expenditure during the second control period. Since the wage revision has been effected with the approval of the Government of Andhra Pradesh (GoAP), the excess O&M expenditure shall be provided by GoAP to APTransco. It is further stated that a reasonable limit on O&M expenditure is imminent in this context.

APTransco's Response: The O&M cost has increased due to wage revision in FY2010-11 which is uncontrollable. Though the imminent wage revision is mentioned in the application for the determination of transmission tariff for the second control period, the wage cost was based on actuals of FY2005-06 only excluding wage revision. However, for third control period, the employee cost was allowed as per actuals since

they were essentially drawn by pay revision rather than by employee numbers and was external to operating environment. It may be observed that the O&M cost approved for FY2009-10 is ₹ 281 cr. whereas the actual O&M cost is only ₹ 278 cr. Due to extraneous reason, the O&M cost has increased and the licensee is in deficit of ₹ 545 cr. for the second control period.

Commission's View: O&M cost is a controllable item for the purpose of true up which consists of a)employee cost, b)repairs and maintenance expenditure and c)administrative and general expenses. Of the three, the employee cost is subject to wage revisions from time to time based on applicable agreements with employee unions and general economic and policy environment that dictate decisions in this regard from time to time. The questions whether prudent limits have been observed in periodical wage revision and whether any subjectivity and imprudence in wage revision resulted in abnormal and unjustified increase in wages at different levels do not appear to be questions which legitimately fall within the scope of the present enquiry. Even otherwise, in the absence of any detailed data and information to conclusively indicate the unreasonableness of the wage revision in question, the Commission cannot close its eyes to the factum of the licensee paying such increased wages during the relevant period. Hence, while expressing no opinion herein on the jurisdiction of the Commission to determine any limits on O & M expenditure including wage revision, it is suffice to state that there is no material available on record as of now to refuse to take into account the wage revision that occurred during the relevant period. Hence, whether the wage revision is considered to be on account of *force majeure* factors as done by the erstwhile Andhra Pradesh Electricity Regulatory Commission in the Transmission Tariff Order for the 3rd Control Period or not, the considerations governing such determination under Clause 10.8 of the Regulation 5 of 2005 in passing on such expenditure cannot be considered to be absent. Directing the State Government to meet the increased wage bill is not within the purview of this Commission.

13.7 Taxes

Views/Objections/Suggestions: APTransco has claimed the taxes to the tune of ₹ 497 cr. which includes deferred tax of ₹ 194 cr. which is one of the reasons for revenue deficit for the second control period. The licensee instead of refunding the higher tariff collected from DISCOMs inflated the annual profits on which avoidable corporate taxes are paid or proposed to be paid. Calculations at 35% corporate tax reveal the tax to be only about ₹ 210 cr. for the second control period and the excess

shall not be allowed. It is further stated that the licensee is not entitled to claim the tax on non-tariff income that originates from lift irrigation schemes.

APTransco's Response: Licensee has paid taxes on the book profits computed as per the income tax provisions. The true up claim by APTransco has to be allowed (including tax) to match the net tariff revenue. The tax paid on non-tariff income shall also be allowed as the income is included in the true up application. Deferred tax is temporary difference between taxes computed in company accounting and income tax accounting and exclusion of this item in computation of true up will be unfair. Further, the Commission has admitted the actual tax amounts as true up for the first control period for FY2006-07 to FY2008-09 in its MYT Order for third control period FY2014-15 to FY2018-19.

Commission's View: The expenditure on account of taxes paid has been limited to equity portion of ROCE approved in this order for the second control period strictly in accordance with the Regulation that will insulate the taxes paid on other income from being paid as part of true up expenses, thus duly protecting the interests of the stakeholders.

13.8 Non Compliance/Suggested Course Correction

Views/Objections/Suggestions: The Commission has provided a procedure in the tariff order for the second control period to handle the revenue/cost variations during the course of second control period if the variation between the cost and revenue is more or less than 10 percent. There is nothing on record that shows that the Licensee had followed the observations/directions of the Commission in this regard. Had APTransco followed these observations/directions periodically and got appropriate directions or orders from the Commission, the excess charges collected from DISCOMs would have been returned or adjusted, inflating of profits and paying of avoidable taxes thereon would have been avoided, other deviations or violations would have been noticed and corrected. For this gross contempt of regulatory process, the Commission may consider penalizing APTransco, if permissible and if the Commission deems it fit.

APTransco's Response: Para 76 and 77 of the Tariff Order for second control period are pertinent only when licensee is in a situation of surplus. On the contrary, the licensee is in deficit due to extraneous reasons and the licensee faced deficit majorly due to other expense item incurred in the last year of the second control period and so refilling was not considered necessary. Licensee has always endeavored to comply with regulations and orders and has acted to limit cost overrun. Some may not have been feasible due to operational and extraneous reasons. The licensee has been providing

Revenue and Expense information to the Commission on quarterly basis and the licensee might have complied with the Order only partially because of operational difficulty. Licensee seeks the intervention of the Commission on such issues and requests to consider them in the context of overall performance of the licensee.

Commission's View: The stakeholders have highlighted the non compliance with the Commission's observation/direction with regard to variations and the licensee has attempted to respond to the issue by highlighting the difficulties. In any view, any non compliance with the directions or orders of the Commission is actionable under different provisions and is not the subject matter of the present enquiry. For the present purpose, such of the revenue variations as are open to be considered under the Regulation alone are taken into account.

13.9 Contribution to Employee Terminal Benefits

Views/Objections/Suggestions: APTransco claim of ₹ 650.82 cr. terminal benefit provision shall not be allowed in the true up since the purpose of true up is to compensate for variations of the past period but not to cover the future payment requirements which may or may not materialize and giving consent to such provisions would lead to imposition of additional burden on power consumers in advance.

APTransco's Response: In FY2013-14, a provision for terminal benefit such as pension, gratuity, earned leave (EL) encashment of ₹ 650.82 cr. was provided which is not considered in MYT for second control period. The terminal benefits have been debited in the accounts for FY2013-14 and for arranging/clearing this liability, licensee has to have the resources which could be possible only by way of pass through in true up for second control period and therefore the amount has been claimed as expenditure in true up which ultimately has to be claimed through tariff only.

Commission's View: The Commission has disallowed the provision as the amounts are neither related to the second control period and nor actually paid to the trusts as explained in this Order.

13.10 MYT Regulatory Framework

Views/Objections/Suggestions: The claimed objectives of MYT regulatory framework are to minimize risks for utilities and consumers, promote efficiency, appropriate reduction of system losses, attract investments, predictability of consumer tariffs, etc, are belied with the experience of APTransco in the second control period. Failure to invest approved amounts, increase in O&M expenses, and payment of avoidable taxes has led to collection of excess tariff from DISCOMs and also seeking true up of ₹ 619 cr.

for the second control period which are indicators of the irrelevance of MYT regulatory framework. The Commission is requested to dispense with MYT order and direct APTransco/Discoms to file their true up claims annually based on their audited accounts.

APTransco's Response: The efficiency could be observed from the reduction of the loss levels, the transmission loss reduced from 4.5% in FY2010-11 to 3.37% in FY2014-15. However, the licensee could not complete some of the projects due to extraneous reasons such as difficulty in getting Right of Way (RoW), acquiring land, etc. Consequent to this, the RRB is less compared with the Tariff Order and the licensee has taken this into consideration in true up claims. The reduction in ROCE was offset by increase in O&M and other expenses during the second control period.

Commission's View: The Commission will examine the issue of relevance of the present MYT framework as raised by stakeholders separately outside this Order, as provided by clauses 22 and 23 of Regulation 5 of 2005.

Transmission Tariff Order for Second Control Period

14. The erstwhile Commission for undivided AP State has issued the Transmission Tariff Order (TTO) for second control period in O.P.No.21 of 2008 on 20-03-2009. The transmission tariff for each year of the second control period has been determined by the erstwhile Commission as described hereunder;
 - a) The gross ARR for each year of the control period consists of i) Return on Capital Employed (ROCE), and ii) Expenditure relating to transmission business/activity,
 - b) The Commission, after consulting the stakeholders, has approved the ARR for each year of the second control period based on filings made by the licensee,
 - c) Non Tariff Income, income originating from sources other than levy of the tariff by the transmission licensee, has been deducted from the gross ARR to compute the net ARR, and
 - d) The net ARR was then divided with the capacities (kW) of the transmission users to compute the tariff for each year of the second control period to arrive at the transmission tariff.

15. For the second control period, the erstwhile Commission has approved the ARR at ₹ 6037.96 cr. which is expected to be met by the licensee through ₹ 126.30 cr. of non tariff income and ₹ 5911.66 cr. tariff income. The ARR approved and the expected revenue for each year of the second control period and total for the period are given in the table below (for details see Annexure-03);

Table 1: ARR, Revenue and Revenue Gap as per Tariff Order for Second Control Period

ARR/Revenue	APERC, Tariff Order (₹ cr.)					
	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Gross ARR	813.39	973.76	1241.01	1430.37	1579.43	6037.96
Return on Capital	304.78	396.62	538.14	622.27	691.66	2553.47
Expenditure	508.61	577.14	702.87	808.10	887.77	3484.49
2. Revenue/Income	813.39	973.76	1241.01	1430.38	1579.42	6037.96
Non Tariff Income	25.26	25.26	25.26	25.26	25.26	126.30
Tariff Revenue	788.13	948.50	1215.75	1405.12	1554.16	5911.66
3. Revenue Gap(2-1)	0.00	0.00	0.00	0.00	0.00	0.00

(Note: Figures are rounded off)

16. As per the methodology explained *supra*, the costs, capacities (on which the unit tariff will be levied) and revenues (product of capacities and unit transmission tariff) are approved for each year of the second control period *ex ante* (i.e. for future 5 year period). However, the actual costs, capacities and revenues would vary from the approved levels as the approvals are based on estimates made by licensee and approved by the Commission. Regulation 5 of 2005 provides principles to deal with such variation on completion of the control period for transmission business as explained *supra*.
17. The Commission, having decided to consider the application for true up, has undertaken the detailed examination of the true up application made by the licensee for second control period in accordance with the principles laid down in clause 10 of Regulation 5 of 2005.

Summary of Filings

18. The licensee in accordance with these regulatory provisions has filed the actual ARR and revenue at ₹ 6888.05 cr. and ₹ 6266.15 cr. respectively for the second control period. As per the ARR and revenue filed, the licensee is left with a revenue deficit at ₹ 621.90 cr. for the second control period. It is also to be noticed that the licensee has revenue surplus for two years and revenue deficit for the remaining three years of the five year control period. The summary of licensee's filings is given in the table below (for details

see Annexure-04);

Table 2: ARR, Revenue and Revenue Gap as per True up Application for Second Control Period

ARR/Revenue	True up Filings (₹ cr.)					
	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Gross ARR	957.13	1119.76	1288.51	1385.76	2136.89	6888.05
Return on Capital	332.39	361.96	373.74	419.53	459.22	1946.84
Expenditure	624.74	757.80	914.77	966.23	1677.67	4941.21
2. Revenue/Income	852.71	1013.87	1398.71	1642.05	1358.81	6266.15
Non Tariff Income	67.03	94.53	176.67	196.68	89.87	624.78
Tariff Revenue	785.68	919.34	1222.04	1445.37	1268.94	5641.37
3. Revenue Gap(1-2)	-104.42	-105.89	110.20	256.29	-778.08	621.90

(Note: Figures are rounded off)

19. The revenue gap worked out by the licensee is for the erstwhile undivided AP state as it relates to second control period of five years from FY2009-10 to FY2013-14 much before the bifurcation of the State. The licensee opines that:

Considering change in energy infrastructure environment of Andhra Pradesh post state bifurcation, as per clause 3 of transmission tariff order dated 9th May, 2014, the relevant true up must be computed for residual AP.

As the true up is a revenue deficit amount that needs to be collected from DISCOMs, the division of amount is performed *in the ratio of revenues of state Transco i.e. in the ratio of power capacity in the states.*

20. The licensee states that as per GO MS 53 dated 28th April 2008, the power allocated to DISCOMs (APSPDCL and APEPDCL) now falling in residual state of Andhra Pradesh is 38.07 percent. After considering that two districts, Anantapur and Kurnool, would be moving to APSPDCL, the new power capacity allocation for the residual state of Andhra Pradesh is placed at 46.11 percent.
21. At this new ratio of power capacity of 46.11%, the true up amount for the state of residual Andhra Pradesh has been worked out at `287 cr. ($\text{`621.90} \times 0.4611$) for the second control period. The licensee prays the Commission to approve this amount in order to collect the same from two distribution companies (APSPDCL and APEPDCL) as per their share of entitlement through their ARRs. The licensee proposes to pass this true up amount to DISCOMs, i.e. transmission users during FY2015-16.
22. The Commission has undertaken detailed scrutiny of the filings made by licensee vis-à-vis

the audited accounts of the licensee and in accordance with the true up provisions contained in Regulation 5 of 2005 for the second control period. The Commission has recomputed a) Return on Capital Employed and b) Expenditure, based on which the ARR for each year of the second control period has been revised as discussed hereunder;

Return on Capital Employed

23. The return on capital employed (ROCE) is computed based on Regulated Rate Base (RRB). The RRB is derived by deducting the accumulated depreciation and consumer contributions from the value of gross fixed assets and adding the working capital requirements for each year of the control period plus the change in RRB during each year. The RRB computed in this manner for a year broadly refers to the owner's capital used and useful in the transmission business during that year without any reference to financing pattern of RRB.
24. To provide the return on RRB, the actual cost of debt is computed from the licensee's debt profile to compute the average cost of debt (COD) and return on equity (ROE) is normally considered on discretion basis looking at the current financial market and risk pattern. Using, a normative debt equity ratio, the weighted average cost of capital (WACC) is computed for an year and this WACC is applied on RRB to compute the ROCE and this ROCE is considered as expense item of transmission business.
25. The erstwhile Commission has approved the RRB for each year of the second control period which totaled to ₹ 22213.38 cr. and computed the ROCE on approved RRB using the WACC at 11% for different years which totals to ₹ 2553.47 cr. for the second control period (for details see Annexure-03).
26. Minor corrections have been carried out to the value of fixed assets filed by licensee in the true up application after considering/analysing the audited accounts of the licensee for each year of the second control period. Consequent to these corrections, the fixed assets and additions during the year have undergone minor changes compared with the true up filings. The licensee has underinvested about ₹ 6885.15 cr. compared with the approvals in the Tariff Order for the second control period.

Table 3: Original Cost of Fixed Assets (₹ cr.)

Financial year	Original Cost of Fixed Assets			Variation Over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	6384.67	6399.30	6398.67	-0.63	14.00
2010-11	8282.97	7111.23	7110.22	-1.01	-1172.75
2011-12	9706.49	7850.06	7849.05	-1.01	-1857.44
2012-13	10647.55	8980.25	8979.24	-1.01	-1668.31
2013-14	11926.89	9727.26	9726.24	-1.02	-2200.65
Total	46948.57	40068.10	40063.42	-4.68	-6885.15

27. The licensee has computed the depreciation using the rates notified by Ministry of Power (MoP), Government of India and incorporated the same into the RRB and expenditure calculations whereas clause 15.2 of Regulation 5 of 2005 stipulates that the depreciation shall be computed at the rates notified by CERC from time to time. The depreciation amounts computed at rates notified by MoP will result in higher depreciation compared with the depreciation amount computed using rates notified by CERC.
28. The erstwhile Commission has adopted depreciation rates notified by CERC and approved the depreciation expenses while determining the ARR for transmission business and transmission tariff for the second control period. It will be erroneous and self contradictory if the depreciation computation for true up are based on depreciation rates notified by MoP (as requested and filed by the licensee) against initial approval of depreciation in Tariff Order based on depreciation rates notified by CERC; it can in no sense represent true up of depreciation amount. There are no special or exceptional circumstances or reasons projected by the licensee or available on record to depart from the Regulation which prescribes that CERC rates shall be generally followed. It is just and appropriate to compute the depreciation based on CERC rates for true up for second control period. Hence, the Commission has decided not to deviate from clause 15.2 of Regulation 5 of 2005 in this regard and adopted the depreciation amounts at rates notified by CERC for each year of the second control period. The depreciation amount as per this procedure computed by licensee and approved by the Commission is placed at ₹ 1649.67 cr. which is less by ₹ 203 cr. compared with the licensee's true up filings and by ₹ 243.74 cr. compared with the depreciation approved in tariff order for the entire second control period.

Table 4: Depreciation (₹ cr.)

Financial year	Depreciation			Variation Over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	250.94	316.82	272.29	-44.53	21.35
2010-11	292.23	337.22	287.28	-49.94	-4.95
2011-12	387.84	377.38	327.55	-49.83	-60.29
2012-13	459.78	390.25	363.66	-26.59	-96.12
2013-14	502.62	431	398.89	-32.11	-103.73
Total	1893.41	1852.67	1649.67	-203.00	-243.74

29. The Commission has noticed that the consumer contributions to fixed assets have gone up compared with estimated value of consumer contributions in the tariff order. The licensee states that such increase in consumer contributions during the second control period is primarily on account of Government contribution towards fixed assets for lift irrigation schemes (LIS). They further stated that increase in consumer contributions is one time event and unlikely to recur in future. The Commission concurs with the licensee with regard to these claims on contributions, and has taken the value of this item as filed by the licensee in its true up application.
30. The Commission has ensured that the consumer contributions are deducted from the gross value of fixed assets to ensure that the licensee will not get return on user capital contributions, grants, etc. in accordance with clause 13 of the Regulation 5 of 2005. The Commission also ensured that the depreciation amounts on user capital contributions, grants, subsidy etc. are excluded from the computations of the revenue requirement for true up purpose. These measures should address the concern expressed by stakeholders in this regard as explained *supra*.
31. The other item in the RRB calculations is the working capital which has been computed at 45 days equivalent of approved net O&M cost in the tariff order for each year of the second control period. The licensee also calculated the value of working capital at 45 days equivalent of revised O&M cost included in its true up filings as per clause 13 of Regulation 5 of 2005. The Commission has altered this claim as the Commission did not accept the O&M cost as filed by the Licensee for each year of the second control period as detailed in this Order, *infra*.

32. The Commission has recomputed the RRB while incorporating the above mentioned changes with regard to fixed assets and depreciation into the RRB calculations filed by the licensee for true up. The revised RRB for the second control period is computed at ₹ 17727.63 cr. which is less by ₹ 5485.75 cr. compared with RRB approved in the tariff order and is higher by ₹ 538.1 cr. compared with the filings made by the licensee for true up for the second control period. The reduction in RRB for the second control period compared with the approval given in the tariff order is primarily on account of failure of the licensee to invest anticipated amounts approved in the tariff order. The details are given in the table below:

Table 5: Regulated Rate Base (₹ cr.)

Financial year	Regulated Rate Base			Variation of RRB over	
	Approved in Tariff Order	As per True up Filings	APERC Verified	True up Filings	Over Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	2770.69	3108.67	3133.91	25.24	363.22
2010-11	3605.64	3263.85	3331.35	67.51	-274.29
2011-12	4892.20	3296.50	3410.01	113.51	-1482.19
2012-13	5657.01	3579.60	3727.77	148.17	-1929.24
2013-14	6287.84	3940.92	4124.59	183.67	-2163.25
Total	23213.38	17189.53	17727.63	538.1	-5485.75

33. The licensee has computed the WACC using the debt equity ratio at 75:25 as approved in the Tariff Order with actual cost of debt ranging from 9.59% to 10.96% against 10% cost of debt and 14% Return on Equity as approved in the Tariff Order for the second control period. The resultant WACC is computed in the range of 10.69%-11.72% against 11% approved in the tariff order for the second control period. It may be observed that the WACC is lower for one year and higher for the remaining years compared with the WACC approved in Tariff Order for the second control period. The licensee has computed the return on capital employed using the WACC computed by it and requested the same to be approved for the purpose of true up. The relevant information is given in the table below:

Table 6: Weighted Average Cost of Capital (percent)

Financial year	Tariff Order			True Up Filings			WACC Variation over Tariff Order
	Cost of Debt	Return on Equity	WACC	Cost of Debt	Return on Equity	WACC	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8=7-4)
2009-10	10.00%	14.00%	11.00%	9.59%	14.00%	10.69%	-0.31%
2010-11	10.00%	14.00%	11.00%	10.12%	14.00%	11.09%	0.09%
2011-12	10.00%	14.00%	11.00%	10.45%	14.00%	11.34%	0.34%
2012-13	10.00%	14.00%	11.00%	10.96%	14.00%	11.72%	0.72%
2013-14	10.00%	14.00%	11.00%	10.87%	14.00%	11.65%	0.65%
WACC=(0.75xCost of Debt)+(0.25 x Return on Equity)							

34. The ROCE as per clause 10.4 of Regulation 5 of 2005 is a controllable item of ARR and the Commission could not find any reason for considering it as an uncontrollable item of ARR and adopt WACC as computed and filed by the licensee in its true up application for the second control period. The licensee has also not furnished the reasons for variation in cost of debt from the approved levels for different years of control period. The licensee should have controlled the cost of debt and reduced the actual WACC to achieve efficiency in management of its finances. Instead, the licensee's average cost of debt is higher than the cost of debt approved in Tariff Order and thus the actual WACC is higher than the WACC approved in Tariff Order for second control period. Hence, the Commission has decided to adopt 11% WACC as approved in the Tariff Order for each year of the second control period for the purpose of true up.
35. The Commission, having computed the RRB and WACC as explained above, has recomputed the return on capital employed for each year of the second control period which totals to ₹1950.04 cr. The return on capital employed computed by the Commission based on true up application is less by ₹603.44 cr. compared with the return on capital employed approved in the Tariff Order and is more by ₹3.19 cr. compared with the return on capital employed computed by licensee in its true up application made for the second control period. The details are given in the table below:

Table 7: Return on Capital Employed

Financial year	Return on Capital Employed			Variation over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	304.78	332.39	344.73	12.34	39.95
2010-11	396.62	361.96	366.45	4.49	-30.17
2011-12	538.14	373.74	375.1	1.36	-163.04
2012-13	622.27	419.53	410.05	-9.48	-212.22
2013-14	691.66	459.22	453.7	-5.52	-237.96
Total	2553.47	1946.84	1950.04	3.19	-603.44

Expenditure

36. The net expenditure approved in the Tariff Order for second control period is ₹ 3484.49cr. whereas the net expenditure claimed by licensee in its true up application is higher by ₹ 1456.72 cr. at ₹ 4941.21 cr. for the total second control period. The main reasons for such higher claim on expenditure are (a) increase in O&M cost, (b) taxes paid and (c) one time contribution to employee terminal fund requirements. The Commission has dealt with the expenditure items for the purpose of true up in the following manner;
37. The O&M expenditure consists of employee cost, repair and maintenance cost and administration and general expenses. In the Tariff Order, it has been presumed that the O&M cost will increase by 10.57% per annum during the second control period. Now the licensee claims higher net O&M cost stating that major O&M expenditure relates to wage cost and allowances. The salaries of employees have been revised upwards in FY2010-11 due to which the O&M expenses are considerably higher than expenses as estimated by the Commission in the Tariff Order.
38. During the proceedings on true up application, the Commission has noticed the following from submissions of the licensee with regard to wage cost increase during the second control period.

- a) The wage cost is the major item of O&M cost and thus increase in wage cost is primarily responsible for increase in O&M expenses during the second control period.
 - b) The agreement with employee unions is binding on the licensee for revision of wages periodically and thus the increase in wage cost is exogenous to the operative business environment of APTransco and it shall be treated as such for true up.
 - c) Repeated queries to APTransco in this regard have led the Commission to conclude that the licensee, in the given state of affairs in wage fixation, has no substantial control over wage levels.
39. The Commission concludes that the increase in wage cost could not be controlled by the licensee on account of factors beyond its control and if the licensee is left with higher wage cost without compensation (while considering wage cost as controllable), it may lead to practical injustice to the licensee's finances. In these circumstances, the Commission has decided to compensate the licensee for the actual wage cost for the true up of ARR for second control period in exercise of the powers vested in it as per clauses 25.1 and 25.2 of Regulation 5 of 2005. With the true up of wage cost and after treating the other two components of O&M cost (R&M and A&G) as controllable in the absence of any data or material to justify any higher expenditure than approved in the Tariff Order, the true up of O&M expenses is placed at `1829.5 cr. for the second control period. The O&M cost approved by the Commission for the purpose of true up is higher by `238.4 cr. compared with the O&M cost approved in the tariff order. The O&M cost as per tariff order, true up claim and true up claim now approved by the Commission for each year of the second control period are given in the table below:

Table 8: Operation and Maintenance Expenditure (₹ cr.)

Financial year	O&M Cost			variation over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	257.67	231.03	257.67	26.64	0
2010-11	284.92	345.43	335.86	-9.57	50.94
2011-12	315.03	410.93	371.35	-39.58	56.32
2012-13	348.33	478.9	410.61	-68.29	62.28
2013-14	385.15	472.35	454.01	-18.34	68.86
Total	1591.1	1938.64	1829.5	-109.14	238.4

40. With regard to depreciation as expenditure for each year of the second control period, the Commission has not accepted the calculations and claims made by licensee based on MOP rates as explained *supra*. Accordingly, the Commission has adopted the depreciation expenditure computed in accordance with depreciation rates/schedule notified by CERC. The depreciation cost approved by the Commission is less by ₹ 203 cr. compared with the true up claim made by the licensee for the second control period.
41. The licensee has claimed the true up expenditure on account of taxes at ₹ 496.58 cr. against 'nil' provision in the Tariff Order. As per clause 10.4 of Regulation 5 of 2005, the expenditure on account of taxes on income is an uncontrollable item and thus the licensee is eligible to claim variations on this account in its true up filings. This expense shall be limited to tax on equity component of RRB as per clause 16 of Regulation 5 of 2005 as it reflects the owner's capital in transmission business. Accordingly, the Commission has computed the return on equity (after splitting the RRB approved for the second control period) and limited the taxes on income to the income tax payable on this amount for each year of the control period which totals to ₹ 207.05 cr. for the second control period. The taxes on income approved by the Commission is less by ₹ 289.53 cr. compared with amount in the true up filings made by the licensee for the second control period. The taxes on income as per tariff order, true up claim and approved by the Commission for each year of the second control period are given in the table below:

Table 9: Taxes on Income (₹ cr.)

Financial year	Taxes on Income			Variation over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	0.00	76.62	37.28	-39.34	37.28
2010-11	0.00	75.15	39.63	-35.52	39.63
2011-12	0.00	125.83	38.73	-87.1	38.73
2012-13	0.00	98.85	42.34	-56.51	42.34
2013-14	0.00	120.13	49.07	-71.06	49.07
Total	0.00	496.58	207.05	-289.53	207.05

42. The licensee has claimed a huge one time expenditure of ₹ 650.82 cr. for the purpose of contribution to employee terminal benefit funds. As per the filings, APTransco wishes to appropriate ₹ 650.82 cr. during FY2013-14 to meet provision for terminal benefits such as Pension & Gratuity, Gratuity and EL Encashment.
43. The Commission has examined this issue in detail and found that the regular contributions to such funds as per actuarial studies are part of O&M cost approved for each year by the Commission during the second control period. It is further noticed that such contributions flow to trusts as per actuarial studies and the proposed provision of ₹ 650.82 cr. is in addition to the regular contributions during the second control period. It appears that such contributions may limit the payment requirements for this purpose in future. No justification or permissibility have been shown by the licensee to consider such onetime huge contribution to pension funds by the licensee to be the one that should be met from the current revenue requirement which will undoubtedly lead to tariff shocks. Hence, the Commission cannot accept such proposed huge contribution of ₹ 650.82 cr. at one time towards future employee terminal benefits as part of wage cost which is included in O&M cost in any year of the second control period. Hence, the Commission has not approved this expenditure item for true up for the second control period. In an exercise for True up, the Regulation does not provide any scope for considering any future contingencies or anticipated payments. Only the consequences of events that have actually happened will be the subject matter of such a post event enquiry. The actuary values of terminal

benefits and leave encashment liabilities as on 31-03-2014 were stated to have been made for the first time only by the actuary report dated 27-05-2014.

44. The Commission, in accordance with the above reasoning with regard to expenditure items, has computed the total net expenditure based on true up application at ₹ 3686.22cr. which is less by ₹ 1255 cr. compared with ₹ 4941.22 cr. net expenditure filed by the licensee in true up application for the second control period. However, the computed net expenditure is higher at ₹ 201.7 cr. compared with the net expenditure approved in Tariff order at ₹ 3484.52 cr. for the second control period. The net expenditure as per tariff order, true up claim and approved by the Commission for each year of the second control period are given in the table below:

Table 10: Net Expenditure for Second Control Period (₹ cr.)

Financial year	Net Expenditure			Variation over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	508.62	624.74	567.24	-57.5	58.62
2010-11	577.15	757.80	662.77	-95.03	85.62
2011-12	702.87	914.77	737.63	-177.14	34.76
2012-13	808.11	966.23	816.61	-149.62	8.5
2013-14	887.77	1677.67	901.97	-775.7	14.2
Total	3484.52	4941.21	3686.22	-1254.99	201.7

45. The Commission, having computed ROCE and Expenditure for the second control period, has computed the aggregate revenue requirement for each year of the second control period which totals to ₹ 5636.26 cr. against ₹ 6037.99 cr. approved in Tariff Order and ₹ 6888.05 cr. filed by the licensee in the true up application for the second control period. The summary ARR as per tariff order, true up claim and approved by the Commission for each year of the second control period are given in the table below:

Table 11: ROCE, Expenditure and ARR for Second Control Period (₹ cr.)

Financial Year	Tariff Order			True Up Application			APERC approved		
	ROCE	Net Exp	ARR	ROCE	Net Exp	ARR	ROCE	Net Exp	ARR
2009-10	304.78	508.62	813.39	332.39	624.74	957.13	344.73	567.24	911.97
2010-11	396.62	577.15	973.76	361.96	757.80	1119.76	366.45	662.77	1029.22
2011-12	538.14	702.87	1241.01	373.74	914.77	1288.51	375.10	737.63	1112.73
2012-13	622.27	808.11	1430.37	419.53	966.23	1385.76	410.05	816.61	1226.66
2013-14	691.66	887.77	1579.42	459.22	1677.67	2136.89	453.70	901.97	1355.67
Total	2553.47	3484.52	6037.96	1946.84	4941.21	6888.05	1950.04	3686.2	5636.26

46. The summary of ARR as per tariff order, true up claim and approved by the Commission for each year of the second control period are given in the table below:

Table 12: Summary of ARR and Variations (₹ cr.)

Financial year	ARR			Variation over	
	Approved in Tariff Order	As per True up Filings	APERC approved	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	813.39	957.13	911.97	-45.16	98.58
2010-11	973.76	1119.76	1029.22	-90.54	55.46
2011-12	1241.01	1288.51	1112.73	-175.78	-128.28
2012-13	1430.37	1385.76	1226.66	-159.10	-203.71
2013-14	1579.42	2136.89	1355.67	-781.22	-223.75
Total	6037.96	6888.05	5636.26	-1251.79	-401.70

Revenue

47. The licensee gets revenue from two sources; a) income from sources other than tariff such as interest income, penalty, and supervision charges, etc. and b) levy of transmission tariff on transmission users. As mentioned earlier in this order, such revenue is an estimate for each year of the control period and the actuals may vary from these estimates on account of changes in capacity on which transmission charges are levied and other variations that cause changes in estimated non tariff income.
48. As per the Tariff Order, the estimated total income is ₹ 6037.96 cr. whereas the actual revenue is ₹ 6266.15 cr. as per true up application. Though there is slippage of revenue from tariffs, the non tariff income has gone up significantly. The licensee states that the higher non tariff income has originated from supervisory works taken up during the control period with regard to lift irrigation schemes.
49. Though there is no mention of true up of revenue in Regulation 5 of 2005, the Commission has to take a broader view in this regard; the Commission having accepted the higher wage cost as deserving consideration despite its classification as controllable item, any additional income arising on account of transmission business shall be taken into account for the purpose of true up. This would be so since 100 percent of the ARR/cost of transmission business is underwritten through tariff revenue from consumers. Hence, the Commission has to include the revenue items also in the true up calculations under clause 25 of Regulation 5 of 2005 and accept the actual revenue as filed by the licensee for each year of the second control period. With regard to slippage in tariff revenue compared with the revenue approved in Tariff Order, it is claimed to have occurred mostly on account of discounts/rebates to the DISCOMs to a tune of ₹ 400 cr. during the second control period. The revenue details as per tariff order, true up claim and approved by the Commission for each year of the second control period are given in the table below:

Table 13: Revenue during the Second Control Period (₹ cr.)

Financial Year	Tariff Order			True Up Application			APERC Approved		
	NTI	Tariff	Total	NTI	Tariff	Total	NTI	Tariff	Total
2009-10	25.26	788.13	813.39	67.03	785.68	852.71	67.03	785.68	852.71
2010-11	25.26	948.5	973.76	94.53	919.34	1013.87	94.53	919.34	1013.87
2011-12	25.26	1215.75	1241.01	176.67	1222.04	1398.71	176.67	1222.04	1398.71
2012-13	25.26	1405.12	1430.38	196.68	1445.37	1642.05	196.68	1445.37	1642.05
2013-14	25.26	1554.16	1579.42	89.87	1268.94	1358.81	89.87	1268.94	1358.81
Total	126.30	5911.66	6037.96	624.78	5641.37	6266.15	624.78	5641.37	6266.15

50. The summary of revenue as per tariff order, true up claim and approved by the Commission for each year of the second control period are given in the table below;

Table 14: Revenue Variations during Second Control Period - Comparison (₹ cr.)

Financial year	Revenue			Variation over	
	Approved in Tariff Order	As per True Up Filings	APERC Verified	True up Filings	Tariff Order
(1)	(2)	(3)	(4)	(5)=(4-3)	(6)=(4-2)
2009-10	813.39	852.71	852.71	0.00	39.32
2010-11	973.76	1013.87	1013.87	0.00	40.11
2011-12	1241.01	1398.71	1398.71	0.00	157.70
2012-13	1430.38	1642.05	1642.05	0.00	211.67
2013-14	1579.42	1358.81	1358.81	0.00	-220.61
Total	6037.96	6266.15	6266.15	0.00	228.19

51. The Commission, after computing the ARR and Revenue in accordance with paras 45 and 49 above, now computes the revenue gap taking the ARR and Revenue into account for true up for each year of the second control period. As per the computation of the Tariff Order, there is no revenue gap for the licensee for each year of the second control period. However, on actual basis, the licensee claims variation in revenue gap for each year of the second control period and the Commission after evaluation of the filings made by licensee in this regard, has removed these variations through providing the true up for

each year of the second control period as detailed hereunder.

52. The revenue gap as per the true up filings is placed at ₹ 621.90 cr. whereas as per the Commission's approval, the revenue surplus is placed at ₹ 629.88 cr. for the second control period. The year wise summary as per filings and Commission's approval are given in the table below (details are given in Annexure-05).

Table 15: Revenue Gap (-) / Revenue Surplus during Second Control Period (₹ cr.)

Financial Year	True Up Application			Commission Approved		
	ARR	Revenue	Revenue Gap	ARR	Revenue	Revenue Gap
2009-10	957.13	852.71	-104.42	911.97	852.71	-59.26
2010-11	1119.76	1013.87	-105.89	1029.22	1013.87	-15.36
2011-12	1288.51	1398.71	110.20	1112.73	1398.71	285.98
2012-13	1385.76	1642.05	256.29	1226.66	1642.05	415.39
2013-14	2136.89	1358.81	-778.08	1355.67	1358.81	3.14
Total	6888.05	6266.15	-621.90	5636.26	6266.15	629.88

53. As per clause 10.5 of Regulation 5 of 2005, the licensee is provided for carrying cost of true up amounts for uncontrollable items on account of the time gap between the time when the true-up becomes due and when it is actually allowed. Hence, the Commission has decided to compute the carrying cost up to 01-04-2016 on amounts due to APTransco on account of taxes approved in this Order at 10% per annum (being the cost of debt approved by the Commission in the Tariff Order) at ₹ 41.41 cr. for the second control period. Accordingly, the Commission finalizes the true up cost for entire second control period by deducting carrying cost from ₹ 588.47 cr. (₹ 629.88 - ₹ 41.41) surplus for the second control period.
54. At 46.11%, the new ratio of power sharing as proposed by the licensee in its true up application, the Commission computes the true up amount for residual Andhra Pradesh state at ₹ 271.34 cr. for the second control period. The amount is to be paid by APTransco to the two DISCOMs during FY2016-17 by way of adjustment towards transmission charges payable by them being transmission users. As the relief claimed in the petition by the petitioner is confined to the two distribution companies in the residual State of Andhra Pradesh, the consideration herein is also confined to the

petitioner and the two distribution companies within the residual State of Andhra Pradesh and more so, as no other person has placed before the Commission any claim or view or objection or suggestion concerning the volume or manner of true up as transmission user or stakeholder in spite of two public notices. The above conclusions are thus arrived at in the best interests of the petitioner and also the stakeholders namely the distribution companies and the consumers evenly balancing their interests to the extent permitted by the mandatory provisions of Regulation 5 of 2005.

55. Therefore, the request of the petitioner Transmission Corporation of Andhra Pradesh Limited for a true up of ₹ 287 cr. (deficit) for FY2009-10 to FY2013-14 towards the 46.11% share of residual State of Andhra Pradesh against the Southern Power Distribution Company of Andhra Pradesh Limited and Eastern Power Distribution Company of Andhra Pradesh Limited is not accepted. The petitioner is found liable to refund an amount of ₹ 271.34 cr. towards the 46.11% share of the residual State of Andhra Pradesh to the two distribution companies in proportion to their utilization of the services of the petitioner and such refund shall be given effect to by the petitioner in the form of adjustment in the transmission charges that become payable by the Southern Power Distribution Company of Andhra Pradesh Limited and the Eastern Power Distribution Company of Andhra Pradesh Limited respectively during the FY2016-17 at 50% of the transmission charges that become payable each month, till such liability is totally discharged. It is open to the petitioner to pursue any reliefs to which it is entitled regarding the income-tax paid for the FY2009-10 to FY2013-14 in consequence of the implementation of this order of refund. The petition is ordered accordingly.

This Order is signed on 7th day November, 2015

Sd/-
P. Rama Mohan
Member

Sd/-
P. Raghu
Member

Sd/-
Justice G. Bhavani Prasad
Chairman

Annexure-01: Direction to Licensee with regard to public notice.



ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

#11-4-660, 4th Floor, Singareni Bhavan, Red Hills, Hyderabad 500 004
Phone Nos.(040)-23397381/ 399 / 556 Fax No.(040) - 23397378 website www.aperc.gov.in

From
The Commission Secretary,
#11-4-660, 4th Floor, APERC,
Singareni Bhavan, Hyderabad – 500 004

To
The Chairman and Managing Director,
APTransco, Vidyut Soudha,
Khairatabad, Hyderabad

Lr. No. APERC / Secy/ F:T-5/2015

Dated:30-04-2015

Sir,

Sub:- APERC – Filing of True-up for 2nd control period by the Transmission Licensee – Calling for views / objections / suggestions – Publication – Reg.

Ref:- Lr.No. HRD&PIg/DE/PIg&RAC/ADE/RAC/APERC/D.No.16/2015 Date:16-03-2015.

* * *

The above mentioned filing received vide letter cited above, seeking approval of the Commission for True-up for Transmission business for the 2nd control period, is taken on the file of the Commission as O.P. No 13 of 2015.

2. APTransco is directed to publish a 'Public Notice' in the given format in one English newspaper (in English) and one Telugu newspaper (in Telugu), having wide circulation in the State of Andhra Pradesh on or before 05-05-2015. The copies of the said filing should also be made available to the public free of cost.

dc

Encl: Format of Public Notice

dc

Yours faithfully,

30.4.2015
Commission Secretary (I/c)

**BEFORE THE HONOURABLE
ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION**

11-4-660, 4th Floor, Singareni Bhavan, Lakdi-ka-pool, Red Hills, HYDERABAD-500004
Phone Nos. (040)23397381/3007556 Fax No. (040) 23397378 website: www.aperc.gov.in

In the matter of True-up Transmission Business for 2nd Control Period

PUBLIC NOTICE

1. Notice is hereby given to all that the Transmission corporation of A.P. Ltd. (APTRANSCO), being the Transmission-Licencee and SLDC operator has filed petition for True-up for the 2nd MYT control period (FY-2009-10 to 2013-14) for its Transmission Business and the same is taken on file of the Commission as O.P. No. 13 of 2015.

2. As per the said filing of APTRANSCO, the total amount to be trued up for 2nd Control Period is Rs. 819 Cr. for the undivided State of Andhra Pradesh, as shown below.

Transmission Business: Variations in ARR and Revenue for 2nd Control Period (Rs. Cr.)

Item	APERC	Actuals	Difference
1. Expenditure	3702	5341	1638
O & M Costs	1789	2334	545
O & M Carrying Costs	19	0	(-) 19
Depreciation	1893	1853	(-) 40
Taxes	0	497	497
Special Appropriation	0	0	0
Other Expenses	0	657	657
2. Expenses Capitalised	217	404	187
IDC Capitalised	0	0	0
O&M Expenses Capitalised	217	404	187
3. Net Expenditure (1-2)	3485	4937	1452
4. Return on Capital Employed (ROCE)	2553	1948	(-) 605
5. Gross ARR / Expenditure (3+4)	6038	6885	847
6. Total Revenue	6038	6266	228
Non - Tariff Income	126	625	499
Revenue from Tariff	5912	5641	(-) 271
7. Surplus / Deficit (6-5)	0	(-) 819	(-) 819

3. Copies of the said filing are available in the office of the Executive Director (HRD & Planning), APTRANSCO, Vidyut Soudha, Hyderabad and in the offices of Chief Engineer, APTRANSCO (Zonal offices) at Visakhapatnam, Vijayawada and Cuddapah. Interested persons may inspect / peruse the said filing and take note thereof, during the office hours at any of the above mentioned offices free of cost. The said filing is also available on www.aptransco.gov.in and www.aperc.gov.in. A copy of the said filing can also be obtained from the office of Executive Director (HRD & Planning), APTRANSCO, Vidyut Soudha, Hyderabad - 500 082.

4. Andhra Pradesh Electricity Regulatory Commission (APERC) invites views / objections / suggestions from interested persons/ stakeholders in respect of the above mentioned petition filed by APTRANSCO. Views / Objections / Suggestions, if any, on the filing of APTRANSCO may be submitted to the Secretary, APERC, #11-4-660, 4th Floor, Singareni Bhavan, Red Hills, Lakdi-ka-pul, Hyderabad - 500 004, either in person or through post / e-mail commn-secty@aperc.gov.in, so as to reach the said office on or before 5.00 PM on 31-05-2015.

5. Views / Objections/ suggestions should be duly signed and carry full name and postal address of the person (s) sending the views / objections. If the views / objections are submitted on behalf of any organization or any category of consumers, it should be mentioned accordingly; if the objector wants to be heard in person, it may also be specifically mentioned accordingly.

Place : Hyderabad, Date : 05-05-2015

Chairman and Managing Director
APTRANSCO

R.D. No. 03/15

Annexure-03: Tariff Order Summary for Second Control Period (₹ cr.)

S.No	Items	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1	Assets (1.1 + 1.2)	6384.67	8282.97	9706.49	10647.55	11926.89	46948.57
1.1	Opening balance of OCFA	5653.11	6384.67	8282.97	9706.49	10647.55	40674.79
1.2	Additions during the year	731.56	1898.3	1423.52	941.06	1279.34	6273.78
2	Depreciation (2.1 + 2.2)	2621.41	2913.64	3301.48	3761.27	4263.89	16861.69
2.1	Opening balance	2370.47	2621.41	2913.64	3301.49	3761.27	14968.28
2.2	Depreciation during the year	250.94	292.23	387.84	459.78	502.62	1893.41
3	Consumer Contribution (3.1 + 3.2)	962.47	1038.16	1039.04	1039.04	1039.04	5117.75
3.1	Opening balance	611.36	962.47	1038.16	1039.04	1039.04	4690.07
3.2	Additions during the year	351.11	75.69	0.88	0	0	427.68
4	Working Capital (4.1 + 4.2)	34.65	39.66	43.63	50.41	52.23	220.58
4.1	O&M (45 days Net O&M Expenses)	34.65	39.66	43.63	50.41	52.23	220.58
4.2	O&M Stores Inventory	0	0	0	0	0	0.00
5	Change in Rate Base (1.2 - 2.2 -3.2)/2	64.76	765.19	517.4	240.64	388.36	1976.35
6	Regulated Rate Base (1.1-2.1-3.1+4+5)	2770.69	3605.64	4892.2	5657.01	6287.84	23213.38
7	Capital Structure						
7.1	Debt,(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
7.2	Equity,(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
8	Cost of Funds (percent)						
8.1	Cost of Debt, (percent)	10.00%	10.00%	10.00%	10.00%	10.00%	
8.2	Return on Equity,(percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
9	*WACC((7.1 x 8.1) + (7.2 x 8.2))	11.00%	11.00%	11.00%	11.00%	11.00%	
10	Return on Capital Employed, (6 X 9)	304.78	396.62	538.14	622.27	691.66	2553.47
11	Expenditure (11.1 +.... +11.6)	535.16	617.38	745.56	872.86	930.98	3701.94
11.1	Operation & Maintenance Cost	281.09	321.69	353.89	408.85	423.68	1789.20
11.2	O&M Carrying Costs	3.13	3.47	3.83	4.24	4.68	19.35
11.3	Depreciation	250.94	292.23	387.84	459.78	502.62	1893.41
11.4	Income Tax/taxes	0.00	0.00	0.00	0.00	0.00	0.00
11.5	Other Expenses	0.00	0.00	0.00	0.00	0.00	0.00
11.6	Terminal benefits	0.00	0.00	0.00	0.00	0.00	0.00
12	Expenses Capitalized (12.1 + 12.2)	26.55	40.24	42.69	64.76	43.21	217.45
12.1	IDC Capitalized	0.00	0.00	0.00	0.00	0.00	0.00
12.2	O&M Expenses Capitalised	26.55	40.24	42.69	64.76	43.21	217.45
13	Net Expenditure (11-12)	508.61	577.14	702.87	808.10	887.77	3484.49
14	Aggregate Revenue Requirement(ARR) (10+13)	813.39	973.76	1241.01	1430.37	1579.43	6037.96
15	Total Revenue (15.1 + 15.2)	813.39	973.76	1241.01	1430.37	1579.42	6037.96
15.1	Non Tariff Income	25.26	25.26	25.26	25.26	25.26	126.30
15.2	Revenue from Transmission Tariff	788.13	948.50	1215.75	1405.12	1554.16	5911.66
16	Net Revenue Gap (15-14)	0.00	0.00	0.00	0.00	0.00	0.00

Annexure-04: True up Filings Summary for Second Control Period (₹ cr.)

S.No	Item	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1	Assets (1.1 + 1.2)	6399.30	7111.23	7850.06	8980.25	9727.26	40068.10
1.1	Opening balance of OCFA	5819.91	6399.30	7111.23	7850.06	8980.25	36160.75
1.2	Additions during the year	579.39	711.93	738.83	1130.19	747.01	3907.35
2	Depreciation (2.1 + 2.2)	2729.27	3066.49	3443.87	3834.12	4265.12	17338.87
2.1	Opening balance	2412.45	2729.27	3066.49	3443.87	3834.12	15486.20
2.2	Depreciation during the year	316.82	337.22	377.38	390.25	431.00	1852.67
3	Consumer Contribution (3.1 + 3.2)	481.69	790.57	1168.68	1342.52	1500.38	5283.84
3.1	Opening balance	435.42	481.69	790.57	1168.68	1342.52	4218.88
3.2	Additions during the year	46.27	308.88	378.11	173.84	157.86	1064.96
4	Working Capital (4.1 + 4.2)	28.48	42.59	50.66	59.04	58.23	239.00
4.1	O&M (45 days Net O&M Expenses)	0.00	0.00	0.00	0.00	0.00	0.00
4.2	O&M Stores Inventory	0.00	0.00	0.00	0.00	0.00	0.00
5	Change in Rate Base (1.2 - 2.2 - 3.2)/2	108.15	32.92	-8.33	283.05	79.08	494.86
6	Regulated Rate Base (1.1 - 2.1 - 3.1+4+5)	3108.67	3263.85	3296.50	3579.60	3940.92	17189.53
7	Capital Structure						
7.1	Debt,(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
7.2	Equity,(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
8	Cost of Funds (percent)						
8.1	Cost of Debt, (percent)	9.59%	10.12%	10.45%	10.96%	10.87%	
8.2	Return on Equity,(percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
9	*WACC((7.1 x 8.1) + (7.2 x 8.2))	10.69%	11.09%	11.34%	11.72%	11.65%	
10	Return on Capital Employed, (6 X 9)	332.39	361.96	373.74	419.53	459.22	1946.84
11	Expenditure (11.1+... +11.6)	673.31	832.20	1005.32	1055.40	1778.78	5345.01
11.1	Operation & Maintenance Cost	279.60	419.83	501.48	568.07	573.46	2342.44
11.2	O&M Carrying Costs	0.00	0.00	0.00	0.00	0.00	0.00
11.3	Depreciation	316.82	337.22	377.38	390.25	431.00	1852.67
11.4	Income Tax/taxes	76.62	75.15	125.83	98.85	120.13	496.58
11.5	Other Expenses	0.27	0.00	0.63	-1.77	3.37	2.50
11.6	Terminal benefits	0.00	0.00	0.00	0.00	650.82	650.82
12	Expenses Capitalized (12.1 + 12.2)	48.57	74.40	90.55	89.17	101.11	403.80
12.1	IDC Capitalized	0.00	0.00	0.00	0.00	0.00	0.00
12.2	O&M Expenses Capitalised	48.57	74.40	90.55	89.17	101.11	403.80
13	Net Expenditure (11-12)	624.74	757.80	914.77	966.23	1677.67	4941.21
14	Aggregate Revenue Requirement(ARR) (10+13)	957.13	1119.76	1288.51	1385.76	2136.89	6888.05
15	Total Revenue (15.1 +15.2)	852.71	1013.87	1398.71	1642.05	1358.81	6266.15
15.1	Non Tariff Income	67.03	94.53	176.67	196.68	89.87	624.78
15.2	Revenue from Transmission Tariff	785.68	919.34	1222.04	1445.37	1268.94	5641.37
16	Net Revenue Gap(15-14)	-104.42	-105.89	110.20	256.29	-778.08	-621.90

Annexure-05: True up amount approved by APERC for Second Control Period (₹ cr.)

S.No	Item	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1	Assets (1.1 + 1.2)	6398.67	7110.22	7849.05	8979.24	9726.24	40063.42
1.1	Opening balance of OCFA	5819.91	6398.67	7110.22	7849.05	8979.24	36157.09
1.2	Additions during the year	578.76	711.55	738.83	1130.19	747.00	3906.33
2	Depreciation (2.1 + 2.2)	2684.74	2972.02	3299.57	3663.23	4062.12	16681.68
2.1	Opening balance	2412.45	2684.74	2972.02	3299.57	3663.23	15032.01
2.2	Depreciation during the year	272.29	287.28	327.55	363.66	398.89	1649.67
3	Consumer Contribution (3.1 + 3.2)	481.68	790.56	1168.67	1342.52	1500.38	5283.81
3.1	Opening balance	435.42	481.68	790.56	1168.68	1342.52	4218.86
3.2	Additions during the year	46.26	308.88	378.11	173.84	157.86	1064.95
4	Working Capital (4.1 + 4.2)	31.77	41.41	45.78	50.62	55.97	225.55
4.1	O&M (45 days Net O&M Expenses)	31.77	41.41	45.78	50.62	55.97	225.55
4.2	O&M Stores Inventory	0.00	0.00	0.00	0.00	0.00	0.00
5	Change in Rate Base [(1.2 - 2.2 - 3.2)/2]	130.11	57.70	16.59	296.35	95.13	595.86
6	Regulated Rate Base (1.1 - 2.1 - 3.1 + 4 + 5)	3133.91	3331.35	3410.01	3727.77	4124.59	17727.63
7	Capital Structure						
7.1	Debt(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
7.2	Equity(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
8	Cost of Funds (percent)						
8.1	Cost of Debt (percent)	10.00%	10.00%	10.00%	10.00%	10.00%	
8.2	Return on Equity (percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
9	WACC((7.1 x 8.1) + (7.2 x 8.2))	11.00%	11.00%	11.00%	11.00%	11.00%	
10	Return on Capital Employed (6 X 9)	344.73	366.45	375.10	410.05	453.70	1950.04
11	Expenditure (11.1 + + 11.5)	593.79	703.01	780.32	881.37	945.18	3903.67
11.1	Operation & Maintenance Cost	284.22	376.10	414.04	475.37	497.22	2046.95
11.2	Depreciation	272.29	287.28	327.55	363.66	398.89	1649.67
11.3	Income Tax/taxes	37.28	39.63	38.73	42.34	49.07	207.05
11.4	Other Expenses	0	0	0	0	0	0
11.5	Terminal benefits	0	0	0	0	0	0
12	Expenses Capitalized (12.1+12.2)	26.55	40.24	42.69	64.76	43.21	217.45
12.1	IDC Capitalized	0	0	0	0	0	0
12.2	O&M Expenses Capitalised	26.55	40.24	42.69	64.76	43.21	217.45
13	Net Expenditure (11-12)	567.24	662.77	737.63	816.61	901.97	3686.22
14	Aggregate Revenue Requirement (ARR)(10+13)	911.97	1029.22	1112.73	1226.66	1355.67	5636.26
15	Total Revenue (15.1 + 15.2)	852.71	1013.86	1398.71	1642.05	1358.81	6266.14
15.1	Non Tariff Income	67.03	94.52	176.67	196.68	89.87	624.77
15.2	Revenue from Transmission Tariff	785.68	919.34	1222.04	1445.37	1268.94	5641.37
16	Net Revenue Gap(15-14)	-59.26	-15.36	285.98	415.39	3.14	629.88
17	Carrying cost @ 10% per annum						41.41
18	True up amount (16-17)						588.47
19	APTRANSCO share (46.11%)						271.34