

1 EXECUTIVE SUMMARY

1.1 Overall Approach to the Present Filing

Historical Perspective

The Tata Power Company Limited (“Tata Power”) is a company established in 1919. On April 1, 2000, The Tata Hydro-Electric Power Supply Company Limited (established in 1910) and The Andhra Valley Power Supply Company Limited (established in 1916) were merged into Tata Power, to form one unified entity. Consequent to the merger, the licenses of the above mentioned companies were also merged and Tata Power was granted a license by the Government of Maharashtra (GoM) for the supply of energy to the public in its Mumbai License Area and to supply energy in bulk to Distribution Licensees, vide resolution No: IEA – 2001/ CR-10509/NRG-1, dated July 12, 2001.

Post enactment of the Electricity Act and the license regulations notified by this Hon’ble Commission, Tata Power as a deemed Licensee has submitted its license for modifications as may be necessary to bring it in conformity with EA 2003.

Tata Power has been recognized as a deemed Transmission Licensee (“Tata Power-T”) by this Hon’ble Commission under the EA 2003.

As per the Tariff Regulations and the orders by the Hon’ble Commission, the first control period ends on 31st March 2010 and the second Control Period is due to commence from 1st April 2010. However, as per the directions of the Hon’ble Commission dated 1st December 2009, Tata Power – T had filed the details the Annual Performance Review (for FY 2009-10) of the Transmission Business of Tata Power (Tata Power –T) which includes (i) Truing up of the performance for FY 2008-09, (ii) Annual review of the performance for FY 2009-10 and (iii) the projected Aggregate Revenue Requirement for FY 2010-11. The Hon’ble Commission had issued an order for APR for FY 2009-10 and ARR for FY 2010-11 on 3rd September 2011.

The Hon’ble Commission thereafter issued the MYT Regulations 2011 on 4th February 2011. As per paragraph 7.1 of these MYT Regulations, a Transmission Licensee such as Tata Power –T is required to file a Business Plan for the control period of five financial years commencing from 1st April 2011 to 31st March 2016. Further as per Paragraph 9.2 of the MYT Regulations, the Business plan needs to be approved prior to the filing of a MYT petition. The paragraph 9.2 of the MYT Regulation read as under.

9.2) *The trajectory stipulated by the Commission in the order on Business Plan submitted by the applicant, shall be incorporated by the applicant in its forecast of Aggregate*

Revenue Requirement and/or expected revenue from tariff and charges under Regulation 8.

However the Hon'ble Commission in its order dated 23rd February 2011 has kept the above clause in abeyance. In our humble submission therefore, the approval of the Business Plan by the Hon'ble Commission need not precede the filing of the MYT petition. The Hon'ble Commission further in its Letter No MERC/Tariff /20112012/00948 directed Tata Power –T to submit its final truing up for FY 2009-10 and provisional truing up for FY 2010-11. In compliance with the same, Tata Power –T is filing this petition.

The Business Plan for the Control Period would be filed separately for the approval of the Hon'ble Commission.

Overall Approach to the Present Filing

The Hon'ble Commission has notified the regulations relating to Terms and Conditions of Multi-Year Tariff for the Generation, Transmission and Distribution business in August 2005 ("Tariff Regulations"). In line with the same, Tata Power had filed the Multi-year Tariff Petition for first control period for consideration of the Hon'ble Commission in the formats laid down for providing information relating to past, current and future performance.

Accordingly, the Truing up for FY 2009-10 and Annual Performance Review FY 2010-11 is filed in accordance Tariff Regulations 2005 and considering the tariff orders issued by the Hon'ble Commission.

True-up for FY 2009-10

Tata Power - T, in the APR petition of FY 2009-10 for its Transmission business had submitted the performance for FY 2009-10 based on the actual performance for the first half of the year, i.e. April 2009 to September 2009 and the revised estimated performance for the second half of the year, i.e. October 2009 to March 2010.

The Hon'ble Commission in its APR order dated 3rd September, 2010 had carried out provisional truing – up based on actual performance of H1 of FY 2009 – 10 and estimates for H2 of FY 2009-10.

Tata Power - T for the present filing is submitting the actual performance of the transmission function for FY 2009-10 for various operational and cost related parameters. Additionally, for certain elements like the Interest on Long Term Debts, Interest on Working Capital and Return on Equity, the computations would be based on the normative principles approved by the Hon'ble Commission in various regulations and orders and also the stand

taken by the Hon'ble Appellate Tribunal for Electricity in its judgement dated 15th July 2009 and 14th February 2011.

Annual Performance Review of FY 2010-11

As specified in the Tariff Regulations 2005, the Hon'ble Commission shall undertake the Annual Review of the performance of licensee (Tata Power - T) for the current financial year based on the actual performance of the first half of the current year and estimated performance of the second half of the current year with the approved forecast for such year. However, in our humble submission, as FY 2010-11 has elapsed, the Hon'ble Commission may carry out truing up of FY 2010-11 also.

As the FY 2010-11 has concluded, Tata Power – T is filing this Annual Performance Review petition for the transmission function for the year FY 2010-11 based on the actual performance.

The Hon'ble Commission had issued the tariff order for FY 2010-11 on 3rd September 2010 making the Tariff applicable from 1st September 2010. Accordingly, the tariff through the order dated 3rd September 2010 would be applicable till further tariff determination takes place by the Hon'ble Commission.

Allocation of Assets and Costs

For the purpose of the filing, the functional segregation of costs is based on segregation of information currently available with Tata Power. The cost data is captured by Tata Power across Generation, Transmission Distribution, Supply, Head Office (HO) and Support Service (SS) functions ("Functional Areas"). Further Tata Power also maintains an Asset Register that gives the asset details existing on 31st March for these functional areas.

The basis of allocation of the assets and costs for Head Office and Support Services to Generation, Transmission and Distribution including Supply functions ("Basic Areas") is same as that used in the previous filings and has been discussed in detail in **Section 2.4**.

Further the Hon'ble Commission in the previous order had allocated the expenditure of Load Control Centre (LCC) to the various business areas of Generation, Transmission and Distribution i.e Basic Areas and include this allocation in the O&M expenditure of the respective business areas since the expenditure is largely of O&M nature. Accordingly, as done in the previous filing for APR FY 2009-10, Tata Power has allocated the expenditure of this LCC to the various Basic Areas in the following proportions and included the same in the O&M expenditure as described below.

Table 1-1: Allocation of LCC Expenditure

Business Area	Share
Generation	29%
Transmission	50%
Distribution	21%

1.2 Impact of Hon'ble ATE Judgement dated 14th February 2011

The Tariff Order of Tata Power-T for FY 2009-10 was issued by the Hon'ble Commission on 28th May 2009 (Case 112 of 2008). In the said order, the Hon'ble Commission had carried out the truing up of the expenditure for FY 2007-08, provisional Truing up for FY 2008-09 and approved the Annual Revenue Requirement for FY 2009-10. The Hon'ble Commission had disallowed certain quantum of expenditure under different heads for the three years. Tata Power-T had filed an Appeal (Appeal 174 of 2009) against the said tariff order with the Hon'ble Appellate Tribunal for Electricity (ATE).

Subsequently Tata Power-T had filed its APR petition for FY 2009-10 in December 2009 wherein it had reserved its right to claim the dis-allowed expenditures subject to receiving a favourable judgment from the Hon'ble ATE.

The Hon'ble ATE passed an order on 14th February 2011 in the matter of Appeal No.174 of 2009 filed by Tata Power-T while upholding Tata Power-T's stand on the various issues filed in the said appeal. This section discusses the Hon'ble ATE's order on various issues and the amounts entitled to be recovered by Tata Power-T consequent to the Hon'ble ATE's order.

1.2.1 Entitlement of Normative Interest on Working Capital

Tata Power-T, in its Appeal No. 174 of 2009 in the Hon'ble ATE had contended that Interest on Working Capital was a normative expense entitlement similar to the interest expense incurred on the normative debt for funding its Capital expenditure and any difference between the normative interest on working capital and actual interest on working capital should not be treated as efficiency gains to be shared with consumers. The Hon'ble ATE has upheld Tata Power-T's stand on the issue. The extract of the said judgment has been provided in **Section 3.2.1**. The Hon'ble ATE has not put any condition or any requirement of further scrutiny on the amounts that have been claimed such the study of the cash flow statements. Since, the Hon'ble ATE has established the principle clearly, we humbly request the Hon'ble Commission to restore the said amounts earlier passed on to consumers /distribution licensees.

Accordingly, Tata Power-T is entitled to recover the entire amount of Interest on Working Capital passed on as efficiency gain to consumers / licensees for the year FY 2006-07 and FY

2007-08. The Table below summarizes the amount to be restored to Tata Power-T for FY 2006-07, FY 2007-08 and FY 2008-09.

Table 1-2: Entitlement Sharing of Efficiency Gains on Interest on Working Capital

Particulars	<i>Rs Crores</i>			
	FY 2006-07	FY 2007-08	FY2008-09	Total
Normative Interest on Working capital approved by MERC	4	5	7	16
Actual Interest incurred by Tata Power-T	0	1	2	4
Amount treated as Efficiency Gain by MERC	4	4	4	12
<i>Amount Passed on to Distribution Licensees</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>4</i>
Entitlement restored due to ATE's judgment	1	1	1	4

1.2.2 Disallowances of Administrative and General expenses towards Tata Brand Equity Expenses

In this matter also, the Hon'ble ATE has allowed the appeal in favour of Tata Power-T. However, the Hon'ble Commission has already allowed Brand Equity for FY 2007-08, FY 2008-09 and FY 2009-10 in its Tariff Order dated 3rd September 2010 in Case No. 97 of 2009. Therefore, Tata Power-T has not sought any additional recovery on account of Brand Equity expenditure for the said years.

1.2.3 Wrongful treatment of Income Tax

The Hon'ble ATE in its judgement in Appeal No 174 of 2009, in the above issue has directed the Hon'ble Commission to consider incentive as well as efficiency gains along with Return on Equity as a part of Regulatory profit before tax and not Return on Equity alone while also directing that tax computation should the same should be grossed up for tax. Further, since the Hon'ble ATE has already laid down the principles for the above issue, we wish to humbly submit that the Hon'ble Commission may apply the principle laid down in the Hon'ble ATE's judgment for the year FY 2008-09 also.

As per the Hon'ble ATE's judgement, the Return on Equity needs to be replaced by Regulated Profit Before Tax based on the income less permissible expenses. We have in the Annexure I: Income Tax Computation Methodology demonstrated that the tax reimbursement may be either computed by (i) either Grossing up the RoE (as shown in the table that is following) or (ii) by first computing the Regulated Profit Before Tax and then computing the tax. Both the approaches would lead to the same results. Tata Power-T has adopted the former approach for calculating Income Tax.

In light of the aforementioned Hon'ble ATE's order, the Hon'ble Commission is requested to consider the same as given in the table below.

Table 1-3: Additional Entitlement of Income Tax

Particulars	All values in Rs Crs	
	FY2007-08	FY2008-09
Revised Income Tax calculated based on Hon'ble ATE Judgement	38	40
Income Tax as approved by MERC	23	25
Amount Disallowed by MERC	14	15
Entitlement restored due to ATE's Judgement	14	15

1.2.4 Revenue Gap/ Surplus of FY 2007-08 and FY 2008-09

The Hon'ble ATE has in the order of 15th February 2011 (in Appeal No 173 of 2009) established the principle of claiming interest on deferred recovery. The Hon'ble Commission has not been considering any interest on Gap/Surplus after truing up for passing it on to the consumer in the subsequent years. In view of the Hon'ble ATE's judgement, it is necessary to compute the Carrying cost on Gap/(Surplus) from the respective years till these are recovered. The summary of the Gap/(Surplus) approved by the Hon'ble Commission after truing up of FY 2007-08 and FY 2008-09 is as given in the table below:

Table 1-4: Additional Entitlement of Income Tax

Particulars	Rs. Crores	
	FY 2007-08	FY 2008-09
Approved Revenue Gap/ (Surplus) for various years	(4)	(25)

The interest computations on these amounts are given below.

Table 1-5: Carrying Cost for Additional Entitlement of Income Tax

				Rs. Crores		
Amount Eligible for Carrying Costs ---->				FY 2007-08	FY 2008-09	Total
Interest year	Rate of Interest (%)	Months of Interest for amounts due for the two years				
		FY 2007-08	FY 2008-09			
FY 2007-08	12.48%	0		0	0	
FY 2008-09	12.79%	12		(1)	0	
FY 2009-10	11.87%	12	12	(0)	(3)	
FY 2010-11	12.24%	12	12	(1)	(3)	
FY 2011-12	13.23%	6	6	(0)	(2)	
Total Interest				(2)	(8)	(10)

1.2.5 Summary of Recoverable Amount

The Hon'ble Commission had disallowed these amounts for FY 2006-07, FY 2007-08 and FY2008-09 and considered the impact of the same in the determination of the tariff for FY 2009-10 and FY 2010-11 without interest. If these amounts are to be recovered in the year

FY 2011-12, interest for 4-5 years would accrue. As these items are largely revenue based, this interest has been calculated based on the State Bank of India PLR. Accordingly the recoverable amount including interest on account of effect of Hon'ble ATE's Judgement in Appeal No. 174 of 2009 works out to **Rs 35.75 Crores**.

Hence, in our humble submissions, we request the Hon'ble Commission to consider restoration of these earlier dis-allowed entitlements along with the carrying costs as indicated in the table below:

Table 1-6: Amount Recoverable from the Transmission System Tariff

S. No		Particulars/issue				Rs. Crores			
						FY 2006-07	FY 2007-08	FY 2008-09	
1	Sharing of gains on Interest on Working Capital					1	1	1	
2	Wrongful Treatment of Income Tax						14	15	
3	Total Recoverable Amount (1+2)					1	15	16	
4	Total Interest on Recoverable Amount (as worked out below)					1	7	5	
	Interest year	Rate of Interest (%)	Months of Interest for the amounts due in the following four years						
			FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10			
4.a.	FY 2006-07			-	-	-	-	-	
4.b.	FY 2007-08	12.48%	12		-	-	0.16	-	
4.c.	FY 2008-09	12.79%	12	12		-	0.17	1.98	
4.d.	FY 2009-10	11.87%	12	12	12		0.15	1.84	
4.e.	FY 2010-11	12.24%	12	12	12	12	0.16	1.90	
4.f.	FY 2011-12	13.23%	6	6	6	6	0.09	1.03	
5	Total Recovery including Interest (3+4)					2.03	22.23	21.06	
6	Total Amount eligible for Recovery							45.33	
7	Add: Interest on Gap/Surplus not allowed for FY 2007-08 and FY 2008-09							(9.57)	
8	Total amount to be recovered							35.75	

1.3 Performance for FY 2009-10

1.3.1 O&M Expenditure

- **Employee Cost**

The total Employee related expenses for FY 2009-10 were **Rs. 55 Crores** as against Rs. 57 Crores approved by the Hon'ble Commission.

- **A&G Expenses:**

The A&G expenses for FY 2009-10 were Rs. **29 Crores** which is lower than the expenses approved by the Hon'ble Commission. As regards the A&G expenses which relate to the Capex schemes (consultant's fees, travelling etc), they are directly debited to the schemes i.e. they are capitalized. The actual A&G expenses are lower on account of lower allocation of corporate A&G expenses allocable to Tata Power-T.In the year FY 2009-10, the A & G expenditure towards the Basic Area of Distribution had gone up substantially. As a result, a

larger share of allocable HO&SS A&G expenditure was allocated to distribution business resulting in lower A&G expenses allocation to Tata Power - T.

- **R&M Expenses:**

The total R&M expenses are Rs. **11 Crores** as against Rs. 12 Crores approved by the Hon'ble Commission. The R&M expenses are lower than the expenses approved by the Hon'ble Commission.

- **O&M Expenditure as a whole:**

The O&M expenditure for FY 2009-10 was **Rs. 96** . The Overall O&M expenditure approved by the Hon'ble Commission is **Rs. 101 Crores** during APR of FY 2009-10. The summary of the O&M expenditure is tabulated below:

Table 1-7: O&M Expenditure – FY 2009-10

Particulars	Rs. Crores	
	Approved by Commission	FY 2009-10 (Actuals)
Employee Expenses	57	55
A&G Expenses (incl brand equity)	32	29
R&M Expenses	12	11
Total	101	96

1.3.2 Capital Expenditure and Capitalization

The actual capital expenditure for FY 2009-10 was Rs. 32 Crores and actual capitalisation along with Interest during construction and expenses capitalised was **Rs. 167 Crores**.

1.3.3 Interest and Finance Charges

The Interest costs have been captured under the following three heads:

- Interest on Debt
- Interest on Working Capital
- Other Finance Charges

- **Interest on Debt**

In addition to the interest on normative loans for the previous years (70% of Capex of FY 2003-04 and 70% of capitalisation of FY 2004-05 and FY 2005-06), Tata Power has availed

loans from IDFC-1 (Rs. 450 Crores), IDBI-1 (Rs. 400 Crores) and IDBI-2 (Rs. 300 Crores) for funding the expenditure of FY 2006-07 to FY 2009-10. Considering these terms and interest rates of these loans, the interest charges for FY 2009-10 work out to Rs. **28 Crores** vis-à-vis **Rs. 19.85 Crores** approved by the Hon'ble Commission.

- **Interest on Working Capital**

The Interest on working capital has been computed based on the elements specified in the tariff regulations by the Hon'ble Commission.

For the purpose of computations the interest on working capital for FY 2009-10, an interest rate of 13.00% has been considered based on the short term PLR of SBI prevailing at the time of filing of the APR Petition for FY 2009-10.

The total Interest on Working Capital of Tata Power - T for FY 2009-10 works out to Rs. **7 Crores** as against Rs. 5.46 Crores approved by the Hon'ble Commission.

- **Other Finance Charges**

The other finance charges are to the tune of Rs. **0.35 Crores** as against Rs. 0.12 Crores approved by the Hon'ble Commission in the APR order for FY 2009-10.

1.3.4 Depreciation

Tata Power - T has computed the depreciation by applying the rates specified under the MERC (Terms & Conditions of Tariff), 2005. Based on the same, the Depreciation for FY 2009-10 was **Rs. 32 Crores** which was same as approved by the Hon'ble Commission.

1.3.5 Return on Equity

Based on the capitalised expenditure and the Debt: Equity norm of 70:30, the Return on Equity at the rate of 14% works out to **Rs. 70 Crores** for FY 2009-10 as against **Rs. 66 Crores** approved by the Hon'ble Commission.

1.3.6 Income Tax for FY 2009-10 for Tata Power – T

Based on the approach adopted for calculation of Income Tax in the Impact of Hon'ble ATE order, the Income Tax for Tata Power-T for FY 2009-10 works out to **Rs. 41 Crores.** as against **Rs. 24 Crores** approved by the Hon'ble Commission.

1.3.7 Statutory Appropriations

The contribution to Contingency Reserves has been computed at **0.50%** of GFA in line with the stand taken by the Hon'ble Commission in the 2009-10 APR Order dated 3rd September 2010. The statutory appropriation for FY 2009-10 works out to **Rs. 6 Crores** as against **Rs. 2.94 Crores** approved by the Hon'ble Commission in 2009-10 APR Order.

1.3.8 Non Tariff Income

For FY 2009-10, Tata Power - T has a non-tariff income of **Rs. 12 Crores** as compared to **Rs. 10.50 Crore** as approved by the Hon'ble Commission. The Non Tariff Income comprises the Recurring items of Rs. 6.84 Crores and Non-Recurring items Rs. 5.44 Crores .

1.3.9 Load Control Centre Cost of Tata Power

The share of LCC Expenditure which is now included in the O&M Cost works out to Rs. 3.00 Crores for Tata Power –T as given in the table below.

Table 1-8: Sharing of Costs FY 2009-10

Business Area	FY 2009-10
Generation	1.72
Transmission	3.00
Distribution	1.27

As LCC has historically being a part of Tata Power –T, the share of Tata Power –G and Tata Power –D would subtracted from the ARR of Tata Power-T.

1.3.10 Incentive on Transmission Availability

The Availability of the Transmission System of Tata Power for FY 2009-10 as certified by SLDC was **98.85 %**. The incentive on the basis of the actual availability works out to **Rs. 2.31 Crores** as follows:

1.3.11 Annual Revenue Requirement and Net Revenue Recoverable for FY 2009-10

Based on the various costs as outlined above, the revised Annual Revenue Requirement of Tata Power - T for FY 2009-10 works out to **Rs. 267 Crores** as given below.

Table 1-9: Annual Transmission Charges - FY 2009-10

(Rs. Crores)			
Particulars	Approved by Commission	FY 2009-10 (Actuals)	Difference
O&M Charges (After apportioning LCC Expenditure to Generation and Distribution)	98	93	5.5
Interest on Long-term Loan	20	28	(7.8)
Interest on Working Capital	5	7	(1.8)
Other Finance Charges	0.12	0.35	(0.2)
Depreciation	32	32	0.1
Return on Equity	66	70	(3.7)
Income Tax	24	41	(16.9)
Statutory Appropriations	3	6	(3.4)
Annual Transmission Charges	249	277	(28.2)
Add: Incentive	-	2	(2.3)
Total Transmission Charges	249	279	(30.5)
Less: Non Tariff Income	11	12	(1.8)
Net Aggregate Revenue Requirement from Transmission Tariff	238	267	(28.7)

1.3.12 Sharing of Gains and Losses in FY 2009-10

Tata Power-T in this submission has presented the actual expenditure on account of various heads of expenditure and the reasons for the variations of the same.

The treatment to various heads of Expenditure has been explained in **Section 4.13**. Based on the classification and the reasons given therein, most items of expenditure for FY 2009-10 are uncontrollable except for the O&M expenditure.

- **Gains and loss in O&M Expenditure**

The Sharing of gains and loss for Tata Power - T has been worked out on the basis of the Tariff Regulations outlined and also the categorisation of expenses. Based on the same, the gain to be passed on Distribution Licensee and the Net Entitlement to Tata Power-T work out to Rs. 2 Crores and Rs. 96 Crores respectively.

1.3.13 Revenue from Transmission Business

The Revenue for FY 2009-10 was derived from two Tariff orders viz. order dated 26th May 2008 and order dated 28th May 2009 each applicable for part of the year . The total revenue earned for FY 2008-09 works out to **Rs. 198 Crores** as given in the table below:

Table 1-10: Revenue for FY 2009-10

Rs. Crores				
Period	Tariff Order Applicable	Transmission Charges recovered per Month	No. of Months	Total Revenue
Apr-09 to May-09	26th May 2008	20.69	2	41
Jun-09 to Mar-10	28th May 2009	15.65	10	157
FY 2009-10				198

1.3.14 Net Annual Transmission Charges and Gap for FY 2009-10

The break-up of the expenses for FY 2009-10 along with the adjustments on account of sharing of gains and losses is as follows:

Table 1-11: Net Annual Transmission Charges and Gap – FY 2009-10

Rs. Crores					
Sr. No.	Particulars	Approved	FY 2009-10 (Actuals)		Net Entitlement (Including Transfer to Reserves) after Impact of Gains / (Loss) from Controllable factors
			Entitlement as per the Regulations	Efficiency Gains / (Loss) from Controllable factors shared with Consumers	
I	Revenue				210
	-Transmission Charges				198
	- Other Income	11			12
II	Expenditure				
1	Operation & Maintenance Expenses (After apportioning LCC Expenses to Generation and Distribution)	98	98	2	96
2	Depreciation, including advance against depreciation	32	32		32
3	Interest on Long-term Loan Capital	20	28		28
4	Interest on Working Capital	5	7		7
5	Other Finance Charges	0	0		0
6	Incentive	-	2		2
7	Statutory Appropriations/ Contingency Reserve	3	6		6
8	Income Tax	24	41		41
9	Return on Equity	66	70		70
10	Total Expenditure	249	285		283
III	Pure (Gap) / Surplus for FY 2009-10 (I - II)				(73)

As can be seen from the table above, the pure gap for FY 2009-10 is **Rs. (73) Crores** which is computed as the difference between the Revenue earned for FY 2009-10 and the expenditure of FY 2009-10 alone. However the revenues (through Tariff) earned in FY 2009-10 are designed to recover the past arrears/surplus in addition to the ARR of FY 2009-10 alone. Hence to correctly determine the gap for FY 2009-10, it is necessary to adjust the past Gaps/Surplus from the pure gap worked out above. The resultant net (Gap)/Surplus for FY 2009-10 accordingly works out to **Rs. (47) Crores**.

Table 1-12: Net (Gap)/Surplus– FY 2009-10

Sr. No.	Particulars	Amt
1	Pure (Gap)/Surplus for FY 2009-10	(73)
2	Add: Revenue (Gap) / Surplus for FY 2008-09 [after truing up of the year]- Tariff Order dated 3rd Sep 2010	25
3	Net (Gap)/Surplus	(47)

1.4 Performance for FY 2010-11

This section deals with the performance of FY 2010-11, which also takes into consideration, APR filed by Tata Power – T for FY 2009-10, APR Order dated 3rd September and the Hon’ble ATE’s order dated 14th February 2011, in the matter of Appeal No. 174 of 2009. The actual performance of Tata Power – T for FY 2010-11 is given in the following paragraphs of this chapter. Further, the status of compliance for the various directives given by the Hon’ble Commission is discussed in **Chapter 8**.

1.4.1 Revenue

Tata Power has billed the State Transmission Utility based on the Hon’ble Commission’s order dated 28th May 2009 applicable till August 2010 and order dated 3rd September 2010 which is applicable from 1st September 2010. Accordingly, Tata Power-T has considered revenue on proportionate basis for FY 2010-11. The total revenue for FY 2010-11 therefore works out Rs. **251** Crores.

Table 1-13: Revenue for FY 2010-11

(Rs. Crore)				
Period	Tariff Order Applicable	Transmission Charges recovered per month	No. of Months	Total Revenue
Apr 10 - Aug 10	28th May 2009	15.65	5	78
Sep 10 - Mar 11	3rd September 2010	24.73	7	173
FY 2010-11				251

1.4.2 Capital Expenditure & Capitalisation

The Capital Expenditure and Capitalization for FY 2010-11 is **Rs. 229.47 Crores** and **Rs. 129 Crores** respectively. The breakup of the capitalization for FY 2010-11 is provided below:

1.4.3 O&M Expenditure

- **Employee Cost**

The total employee related expenses for FY 2010-11 are **Rs. 59 Crores** which is in line with that approved by the Hon'ble Commission.

- **A&G Expenses**

The A&G Expenses for FY 2010-11 are **Rs. 31 Crores** which are lower than **Rs. 33 Crores** approved by the Hon'ble Commission.

- **R&M Expenses**

The total R&M Expenses are Rs. **15 Crores** against **Rs. 12 Crores** approved for FY 2010-11 by the Hon'ble Commission. The justification for higher R&M Expenses have been given in

- **O&M Expenditure as a whole**

The O&M Expenditure for FY 2010-11 is Rs. **105.27 Crores** as against Rs. **107 Crores** approved by the Hon'ble Commission. Tata Power – T requests the Hon'ble Commission to approve the same.

Table 1-14: O&M Expenses – FY 2010-11

Particulars	Approved by Commission	Rs. Crores		
		FY 2010-11 H1 (Actuals)	FY 2010-11 H2 (Actuals)	FY 2010-11 (Actuals)
Employee Expenses	61.32	28	31	59.25
A&G Expenses (incl brand equity)	33.31	16	15	31.31
R&M Expenses	12.46	6	9	14.71
Total	107	50	56	105.27

1.4.4 Depreciation

The Depreciation for FY 2010-11 is **Rs. 38 Crores** as against Rs. 38 Crores approved by the Hon'ble Commission.

1.4.5 Interest and Finance Charges

- **Interest on Debt**

In addition to loans considered for financing the capitalisation from FY 2003-04 to FY 2009-10, Tata Power –G has taken new loans for (i) financing the capitalisation in FY 2010-11 and (2) Re finance the normative loans taken in the previous years and (3) refinancing the IDBI- 2 loan at improved terms as explained in the previous chapter. The details of the new loans taken for funding the capitalisation for FY 2010-11 have been presented in **Section 5.7**.

Considering the terms and interest rates of Existing and New loans, the interest charges for FY 2010-11 work out to **Rs 36.59 Crores** vis-à-vis Rs. 30.08 Crores approved by the Hon'ble Commission.

- **Interest on Working Capital**

The Interest on working capital has been computed based on the elements specified in the Tariff Regulations by the Hon'ble Commission. The Interest rate specified in the Tariff Regulations (Short term Prime Lending Rate of the State Bank of India) has been varying across the year. However, for the purpose of estimating the interest on working capital for FY 2010-11, an interest rate of 11.75% (SBI PLR), which was the rate existing at the time of filing of the APR petition for FY 2010-11, has been considered in line with the provisions of the Regulation. The total Interest on Working Capital of Tata Power-T for FY 2010-11 works out to Rs **6.77** Crores as against **Rs. 5.68 Crores** approved by the Hon'ble Commission.

- **Other Finance Charges**

An amount of Rs. **0.5** Crores has been provided towards this expenditure for FY 2010-11 on account of payment of finance charges.

1.4.6 Return on Regulatory Equity

Based on the opening balance of regulated equity, capitalised expenditure and the Debt: Equity norm of 70:30, the Return on Regulated Equity for FY 2010-11 works out to **Rs. 76 Crores** as against Rs. **73 Crore** approved by the Hon'ble Commission.

1.4.7 Incentive

Tata Power – T has achieved transmission system availability of 98.71% for FY 2010-11 which is higher than the target availability of 98% and therefore is eligible for an incentive. The incentive computation based on the actual availability works out to **Rs. 2.08 Crores**.

1.4.8 Income Tax

Tata Power - T has computed Income Tax based on the findings of the Hon'ble ATE which have been discussed earlier. Such methodology was adopted for computation of Income Tax for FY 2009-10. Tata Power – T has now computed the income tax for FY 2010-11 using the methodology as used for FY 2009-10 based on which the Income Tax for FY 2010-11 works out to **Rs 30 Crores** as against Rs. 30.97 Crores approved by Hon'ble Commission in ARR order.

1.4.9 Statutory Appropriations

Tata Power-T has considered this appropriation towards contingency reserve at **0.50%** of the original value of assets, as allowed under the tariff regulations. Accordingly, the Statutory Appropriation has been provided at **Rs. 7 Crores** as against Rs. 3.39 Crores approved by the Hon'ble Commission.

1.4.10 Non Tariff Income

Tata Power-T has estimated a Non Tariff Income for FY 2010-11 of **Rs. 13 Crores** composed of following Recurring Items of Rs. 6 Crores and Non- Recurring Items of Rs. 7 Crores.

1.4.11 Allocation of Costs pertaining to Tata Power Load Control Centre

The allocation of costs of Load Control Centre for Tata Power-G and Tata Power-D works to be **Rs. 1.5 Crores** and **Rs. 1.2 Crores** respectively.

1.4.12 Aggregate Revenue Requirement

Based on the various costs as outlined above, the revised Aggregate Revenue Requirement of Tata Power-T for FY 2010-11 is as given below:

Table 1-15: Annual Transmission Charges for FY 2010-11

Particulars	Approved by Commission	FY 2010-11 (Actuals)	(Rs. Crores)
			Difference
O&M Charges (After apportioning LCC Expenditure to Generation and Distribution)	104	103	(1)
Interest on Long-term Loan	30	37	7
Interest on Working Capital	6	7	1
Other Finance Charges	-	0.5	0
Depreciation	38	38	(1)
Return on Equity	73	76	3
Income Tax	31	30	(1)
Statutory Appropriations	3	7	4
Annual Transmission Charges	285	297	12
Add: Incentive		2	2
Total Transmission Charges	285	299	14
Less: Non Tariff Income	11	13	2
Net Aggregate Revenue Requirement from Transmission Tariff	275	287	13

1.4.13 Sharing of Gains & Losses in FY 2010-11

Based on the classification and the reasons given in the Section 4.13, most of the items of expenditure for FY 2010-11 are uncontrollable except for O&M expenditure.

- **O&M Expenditure**

The Hon'ble Commission has approved an expenditure of Rs. 107.09 Crores which includes an amount towards expenses of Tata Brand Equity. The Actual Expenditure against this was Rs. 105.27 Crores. Accordingly, the loss to be shared with Distribution Licensees works out to Rs. 0.61 Crores and the Net Entitlement works out to Rs. 106.48 Crores.

1.4.14 (Gap)/Surplus for FY 2010-11

Considering the revenues from the transmission charges as approved by the Hon'ble Commission in its orders dated 3rd September 2010 and 28th May 2009 and Non Tariff Income, the (Gap)/Surplus for FY 2010-11 works out to **Rs. (36) Crores**. The Computation of the gap is as under:

Table 1-16: Net Annual Revenue Requirement and Gap – FY 2010-11

(Rs. Crore)					
Sr. No.	Particulars	Approved	Entitlement as per the Regulations	Efficiency Gains / (Loss) from Controllable factors shared with consumers	Net Entitlement after impact of Gains / (Losses) from Controllable factors
I Revenue					264
	Transmission Charges				251
	Other Income (Non Tariff)	11	13		12.79
II Expenditure					
1	Operation & Maintenance Expenses (After apportioning LCC Expenditure to Generation and Distribution)	104	104	1	103
2	Depreciation, including advance against depreciation	38	38		38
3	Interest on Long-term Loan Capital	30	37		37
4	Interest on Working Capital	6	7		7
5	Other Finance Charges	-	0.46		0.46
6	Incentives	-	2		2
7	Statutory Appropriations/ Contingency Reserve	3	7		7
8	Income Tax	31	30		30
9	Return on Equity	73	76		76
10	Total Expenditure	286	301	1	300
IV Pure Surplus/ (Gap) - (I - II)					(36)

1.4.15 Cumulative (Gap)/ Surplus for FY 2010-11

As can be seen from the table above, the pure gap for FY 2010-11 is **Rs. (36) Crores** which is computed as the difference between the Revenue earned for FY 2010-11 and the expenditure of FY 2010-11 alone. However the revenues (through Tariff) earned in FY 2010-11 are designed to recover the past arrears/surplus in addition to the ARR of FY 2010-11 alone. Hence to correctly determine the gap for FY 2010-11, it is necessary to adjust the past Gaps/Surplus in the pure gap worked out above. The resultant net (Gap)/Surplus for FY 2010-11 accordingly works out to **Rs. (43) Crores** as given in the table below.

Table 1-17: Net Annual Revenue Requirement and Gap – FY 2010-11

Particulars	Rs. Crores
	FY 2010-11
Pure Surplus/ (Gap)	(36)
Add: Impact of Hon'ble ATE's Order (please see Row No 17 in the table on Page 93 of 101 in Tariff Order dated 3rd Sept 2010)	(7)
Net Revenue (Gap)/ Surplus for FY 2010-11	(43)

1.5 Total Recoveries of the Past Period

This section summarises the past recoveries along with the interest costs that are required to be recovered in FY 2011-12.

The recoveries of the past periods along with the interest upto FY 2011-12 have been computed and presented in the table below. The same works out to **Rs 138 Crores**.

Table 1-18: Past Recoveries along with the interest costs

				Rs. Crores		
				Principal Amount	Interest upto FY 2012	Total Recovery in FY 2011-12
Impact of ATE Order dated 14th February						
1	2011			36		
2	Gap/(Surplus) of FY 2009-10			47		
3	Gap/(Surplus) of FY 2010-11			43		
4	Interest on Gap/(Surplus) of FY 2009-10		Month	Rate		
	- For FY 2010-11		12	12.24%	6	
	- For FY 2011-12		6	13.23%	3	
5	Interest on Gap/(Surplus) of FY 2010-11		Month	Rate		
	- For FY 2010-11		0	12.24%	-	
	- For FY 2011-12		6	13.23%	3	
6	Total			126	12	138

We request the Hon'ble Commission to kindly permit the above recoveries through a suitable adjustment in the Tariff.