



**ORDER**

**OF THE**

**WEST BENGAL ELECTRICITY REGULATORY COMMISSION**

**IN CASE NO:**

**APR-1/ 07-08**

**IN RE THE APPLICATION OF CESC LIMITED FOR ANNUAL  
PERFORMANCE REVIEW OF THE FINANCIAL YEAR 2006-07 IN  
TERMS OF REGULATION 2.6 OF THE WEST BENGAL  
ELECTRICITY REGULATORY COMMISSION (TERMS AND  
CONDITIONS OF TARIFF) REGULATIONS, 2007, AS AMENDED.**

**DATE:26.09.2008**



## CHAPTER – 1 INTRODUCTION

- 1.1 On introduction of the Multi Year Tariff (MYT) procedure under the West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2007 (referred to as the “Tariff Regulations” hereinafter) notified under No. 31/WBERC dated 09.02.2007, the West Bengal Electricity Regulatory Commission (referred to as “the Commission” hereinafter) determined the tariff of CESC Limited (CESC in short) for the first single year control period, i.e., the financial year 2007-08 by an order dated 26.07.2007 in case No. TP-30/07-08. The base year, as defined in the Tariff Regulations, was the financial year 2006-07. In terms of the provisions contained in the regulation 2.6 of the Tariff Regulations, the generating companies or the licensees, as the case may be, are subject to an Annual Performance Review (APR in short) for the base year for carrying out the adjustment arising out of such review in the manner as specified therein. Accordingly, CESC submitted its application for the same on 31<sup>st</sup> March, 2008 providing the requisite data/information in the specified proforma along with the copy of its audited annual accounts for the concerned year. The application was admitted by the Commission for processing and the same was numbered as APR-1/07-08.
- 1.2 The APR is to cover the annual fixed charges allowed to the licensee, incentives and the effect of gain sharing as per Schedule -10 and Schedule - 9B to the Tariff Regulations. No element of performance incentive or gain sharing on account of achieving better operational norms, however, was considered for CESC while fixing tariff for the year 2006-07. Moreover, the incentives and the sharing of gains in terms of the referred schedules to the Tariff Regulations are made allowable for the years 2008-09 onwards. In terms of the Commission’s Tariff Regulations, 2005, however, sharing of gains with the consumers of the gains derived from sale of electricity to persons other than the consumers and licensees of the Commission as also from auxiliary services will be considered in APR.
- 1.3 The APR for the base year 2006-07 is, therefore, the review of the different factor elements of fixed charges, categorized as controllable and uncontrollable, allowed to the applicant through the Aggregate Revenue Requirements (ARR) for the year 2006-07 vis-à-vis the actuals as per audited accounts. The Tariff Regulations (vide regulation 2.5.1) provides that the variations out of uncontrollable factors of expenses are to be passed through the tariff in an appropriate manner as may be decided by



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the Commission. The variations arising out of the controllable factors shall, however, be on the accounts of the licensee.

- 1.4 The referred application of CESC for the year 2006-07, i.e., the base year for the first single year control period 2007-08 under the Multi Year Tariff (MYT) approach is being viewed in the subsequent parts of this order.



## CHAPTER-2

### APR OF FIXED CHARGES FOR THE YEAR 2006-07

2.1 The uncontrollable elements of fixed charges are those elements where variations of actuals with the projections/ARR of the concerned year are caused by the factors beyond the control of the generating company or the licensee. The amount of actual expenses / charges under different accounts is, therefore, to be considered for carrying out the positive or negative adjustments, as the case may be. The review of the each of such uncontrollable head of fixed charges with reference to the ARR and the actuals based on the audited accounts of the applicant is being taken up hereunder one by one.

#### 2.2 Employee Cost

CESC Limited was allowed a total amount of Rs 25361 lakh in the tariff for the year 2006-07 towards employee cost which includes salaries, wages, bonus, contribution to P.F. etc. as well as staff welfare expenses. The total amount of expenses incurred on this uncontrollable head of account was 27826 lakh necessitating a positive adjustment of Rs 2465 lakh. The Commission admits the said excess claim and allocates the same to different generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below in the table.

<b>Rs. in lakh</b>						
<b>Employee Cost</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
25361.00	1608.86	2238.37	1508.91	1973.60	20496.26	27826.00

#### 2.3 Water Charges

The cess / expenses paid for getting water supply to the generating stations of CESC Limited are uncontrollable as categorised in the Tariff Regulations. The actual expenses



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in this regard came to Rs 579 lakh as against an amount of Rs 370 lakh considered in the tariff order for 2006-07. The Commission, therefore, admits the excess expenditure amounting to Rs. 579 lakh in APR for 2006-07 and allocates the admitted amount to generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown in the following table.

<b>Rs. in lakh</b>					
<b>Water Charges</b>					
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>				
	<b>Budge Generating Station</b>	<b>Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>
370.00	3.00	165.00	148.00	263.00	579.00

#### **2.4 Coal & Ash Handling Expenses**

An amount of Rs 1667.00 lakh was allowed towards uncontrollable heads of coal and ash handling charges in the tariff for 2006-07. As we get from the submission, a total amount of Rs 1145.00 was spent on this score. The Commission admits the said expenditure of Rs 1145.00 lakh with a negative adjustment of Rs 522.00 lakh and allocates the admitted amount of Rs.1145.00 lakh to different generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below in the table.

<b>Rs. in lakh</b>					
<b>Coal and Ash Handling</b>					
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>				
	<b>Budge Generating Station</b>	<b>Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>
1667.00	396.00	531.00	178.00	40.00	1145.00



## 2.5 Operation and Maintenance Expenses

The expenses allowed in the tariff order for 2006-07 under different heads of Operation and Maintenance Expenses (O & M expenses) and the reported amount of actual expenses incurred against each of such heads are as under: --

Rs. in lakh			
SI No.	Head of Expenses	As per Tariff Order	Actual Expenses
1.	Repairs & Maintenance (including cost of consumables)	16263	17579
2.	Rent, Rates & Taxes	868	986
3.	Legal & Professional Charges	500	397
4.	Audit fees and expenses	55	58
5.	Others Administrative & General expense	6655	7148
<b>Total</b>		<b>24341</b>	<b>26168</b>

APR being introduced under the Tariff Regulations, and controllable/uncontrollable items being identified under the Tariff Regulations only, Operation and Maintenance expenses have been considered as controllable item. As rent and lease charges, legal charges, Auditor's expenses, cost of repair and maintenance including consumables, insurance and Administrative and General expenses are elements of Operation and Maintenance expenses, all these elements have been clubbed together under the head of O & M expenses for consideration. As the actual expenses in 2006-07 under the head O & M are more than the amount allowed in the tariff for 2006-07 the Commission admits O & M expenses at the same level as allowed in the tariff order for 2006-07 and allocates the admitted amount to the generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below:



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<b>Rs. in lakh</b>						
<b>Operation and Maintenance Expense</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
24341.00	5565.07	2463.30	1424.45	1351.05	13537.13	24341.00

## 2.6 Taxes on Income

The payment of taxes on income is an uncontrollable item of expenses. The Commission allowed an amount of Rs 1368 lakh on this account through the tariff for the concerned year subject to further adjustment on actual payments. An additional amount of Rs 247 lakh is found payable to CESC Limited on the basis of actual payments made in this regard as per the audit certificate submitted. Commission admits Rs 1615 lakh in APR for 2006-07 and allocates the admitted amount to the generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below:

<b>Rs. in lakh</b>						
<b>Taxes On Income</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
1368.00	705.37	63.87	67.07	16.15	762.54	1615.00

## 2.7 Interest on borrowings

The Commission allowed Rs 15594 lakh towards interest on borrowed capital in the tariff for 2006-07 which is inclusive of Rs. 1346 lakh for interest on temporary financial accommodation. . The amount was exclusive of the portion of such interest and charges



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required to be capitalized along with the cost of capital works-in-progress. This amount also excludes an amount of Rs 527 lakh towards interest disallowed by the Commission on account of capital cost-over-run in the existing two units of Budge Budge power station. CESC Limited in its application for APR 2006-07 has preferred a claim of Rs. 18037 lakh in Form – E towards interest. CESC Limited, however, has not made any claim separately on account of interest on normative debt. Infact this Rs. 18037 lakh is the sum of the amount of interest on borrowings of Rs. 15594 lakh and interest on working capital of Rs. 2443 lakh as allowed in the tariff order for 2006-07. They have further made a mention of Rs. 1346 lakh under the head of Interest on Temporary Accommodation in Form -1.17(a), but has not claimed any amount in the summarized revenue requirement in Form – E. Thus CESC Limited has confined its claim to the amount allowed in the tariff order. On scrutiny of Schedule-12 of the audited annual accounts of CESC Limited paid in 2006-07, it is observed that actual interest for 2006-07 is Rs. 16787 lakh after due adjustment for capitalization. The Commission feels it prudent to admit the interest on borrowings on actual basis after reducing Rs. 527 lakh being portion of interest on disallowed capital cost of existing two units of Budge Budge power station. Thus, the admitted amount which comes to Rs. 16260 lakh which is allowed to the generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below:

<b>Rs. in lakh</b>						
<b>Interest on borrowings</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
15594.00	8144.16	569.84	598.39	144.19	6803.42	16260.00



## **2.8 Other Finance Charges**

The Commission allowed Rs 540 lakh in the tariff order for 2006-07 as other finance charges. CESC Limited has claimed Rs 3214 lakh in APR for 2006-07. As per break up of expenses submitted by CESC Limited in Form No. 1.17 (c) in the application for APR for 2006-07, it is observed that the actual amount allowable is Rs 852 lakh. The Commission, therefore, admits the amount of Rs 852 lakh in APR for 2006-07 and allocates the same to the generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below in the table:

**Rs. in lakh**

<b>Other Finance Charges</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
540.00	304.10	157.98	90.76	75.84	223.32	852.00

## **2.9 Interest on Consumers' Security**

In regard to interest on consumers' security deposits, it has been observed that the actual expenditure incurred by CESC Limited was Rs 3948 lakh as against Rs 3006 lakh allowed by the Commission through ARR for the concerned year. The Commission therefore admits Rs 3948 lakh in APR for 2006-07 and allocates the expenses under the distribution system head.

## **2.10 Foreign Exchange Rate Variations (FERV)**

The Foreign Exchange Rate Variation (FERV) is categorized as uncontrollable head of expenses. An amount of Rs 2515 lakh was allowed in the tariff. The actual expenditure on this account came to Rs 2307 lakh. The Commission admits Rs 2307 lakh in APR for 2006-07 and the said expense is allocated for Budge Budge generating station only.



## **2.11 Interest on working capital**

Although the amount of Rs 2443 lakh has been prayed for CESC Limited as interest on working capital on normative basis but since no borrowing has been identified specifically in the submission or in the books of accounts, any claim on this score is not admitted by the Commission. Moreover, Commission admits the interest for 2006-07 on actual basis, so even if any borrowing has been made to meet the working capital requirement, the interest of the same has been covered through the admittance of actual interest on borrowing in the APR for 2006-07. Hence, the Commission feels that there is no need to provide any amount separately towards interest on working capital. The total amount allowed in the tariff order towards interest on working capital, therefore, is adjusted negatively.

## **2.12 Depreciation**

Depreciation has been categorized as a controllable item of fixed charges, vide item at 5<sup>th</sup> row of the Table 2.5-1 of the Tariff Regulations. CESC Limited is to charge depreciation following the methods and rates specified in regulation 4.6.2 read with Annexure-A to the Commission's Tariff Regulations, 2005 and as such, the amount of the chargeable depreciation on the original cost of assets already in use at the time of the submission of the tariff application can precisely be worked out and to that extent it is controllable. But the amount of depreciation chargeable on the value of the fixed assets subsequently capitalized during the year or withdrawn from the operation may vary with the projected amount depending on the variations on the projected capitalization/withdrawal. In case of CESC Limited for the year 2006-07, the amount of depreciation allowed was Rs 16362 lakh. The actual amount of chargeable depreciation for the aforesaid year came to Rs. 15794 lakh. The variation of Rs 568 lakh on this account is found mainly due to difference for an amount of Rs 6385 lakh between the projected original cost of depreciable assets and actual such cost. The projected total original cost of depreciable fixed assets was Rs 454978 lakh as against which the actual of such cost came to Rs 448593 lakh. Considering all the related facts, the Commission admits Rs 15794 lakh in APR for 2006-07, being the actual amount of depreciation charges in the audited accounts and allocates the same to the generating stations and



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distribution system in proportion to the value of gross fixed assets as shown in the table given below:

<b>Rs. in lakh</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>Depreciation</b>					
	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
16362.00	8044.75	164.29	52.27	99.21	7433.48	15794.00

### **2.13 Advance Against Depreciation**

To facilitate the repayment of loans, an amount of Rs 10048 lakh was allowed to CESC Limited in the tariff order for 2006-07 in terms of the regulation 4.6.3.1 read with regulation 4.5.2 of the Commission's Tariff Regulations, 2005. As is seen from the submission, CESC Limited's entitlement for having advance against depreciation based on the actual amount of loan repayments made and the actual amount of depreciation charged during the year is as under:

<b>Rs. in lakh</b>		
(i)	Repayment of Loan as per Form 1.17 (e) in the application for APR for 2006-07	27252
	Less: Principal amount attributable to disallowed Loans for Budge Budge power plant	842
	Balance	26410
(ii)	Depreciation admitted in APR for 2006-07	15794
(iii)	Additional fund requirement to effect loan repayment (i-ii)	10616
(iv)	The ceiling of advance against depreciation ( <i>vide</i> regulation 4.5.2 of the Commission's Tariff Regulations, 2005)	14666
(v)	Allowable advance against depreciation (lower of iii & iv)	10616

The allowable advance against depreciation of Rs. 10616 lakh, as worked out above, is admitted in APR for 2006-07 and allocated to the generating stations and distribution system based on the principle of allocation adopted by the Commission in its order dated



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12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below in the table.

<b>Rs. in lakh</b>						
<b>Advance Against Depreciation</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
10048.00	5407.30	110.43	35.14	66.69	4996.44	10616.00

#### **2.14 Bad Debts**

Bad Debts has not been specifically categorized as controllable or uncontrollable element of fixed cost in the concerned Table 2.5-1 of the Tariff Regulations and the Commission needs to take a decision on it. The regulation 4.8 of the Commission's Tariff Regulations, 2005 provides for allowing a provision for Bad and Doubtful Debts as actually had been written off in the latest available audited accounts subject to a ceiling of 0.5 % of the annual gross sales revenue. As seen from the audited accounts for the year 2006-07, the actual amount charged in the books in this regard was Rs 1327 lakh. The earnings from the sale of electricity during the year was for a total amount of Rs 248432 lakh and 0.5 % of that comes to Rs 1242 lakh. Going by the provisions of the Commission's Tariff Regulations, 2005, the Commission admits the amount of Rs 1242 lakh in the APR for 2006-07 and allocates the same under the distribution system head.

#### **2.15 Lease Rental**

The Commission allowed Rs 1569 lakh in the tariff order for 2006-07 on lease rental. Actual audited expense preferred by CESC Limited towards lease rental is Rs 1572 lakh for 2006-07. The Commission admits the actual expenditure of Rs. 1572 lakh in APR for 2006-07 and allocates the same to Southern and Titagarh generating stations and distribution system based on the principle of allocation adopted by the CESC Limited in



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the tariff application for second control period covering the years 2008-09, 2009-10 and 2010-11. Such allocations are shown below in the table.

Rs. in lakh						
As allowed in Tariff Order for 2006-07	Lease Rental					
	As Admitted in APR for 2006-07					
Budge Budge Generating Station	Titagarh Generating Station	Southern Generating Station	New Cossipore Generating Station	Distribution System	Total	
1569.00	-----	156	70	-----	1346	1572.00

## 2.16 Reserve for Unforeseen Exigencies

CESC Limited was allowed an amount of Rs 1249 lakh in tariff for 2006-07 towards reserve for unforeseen exigencies computed @ 0.25% of the value of projected gross fixed assets at the beginning of the financial year 2006-07 under the provisions of regulation 4.9 of the Commission's Tariff Regulations, 2005. The actual amount of such reserve created for the year 2006-07 was Rs 1225 lakh as per audited accounts. Opening cost of the fixed assets of the year 2006-07 is shown as Rs. 493809 lakh in Form 1.18 of the application for APR of CESC Limited and, therefore, the ceiling for the reserve for unforeseen exigencies as per the Commission's Tariff Regulations, 2005 comes to Rs 1234.52 lakh. The Commission, therefore, admits Rs. 1225 lakh in APR for 2006-07 being the actual amount of reserve created as shown in the books of accounts and allocates the same to the generating stations and distribution system in proportion to the corresponding opening fixed assets for the year 2006-07 as shown below.

Rs. in lakh						
As allowed in Tariff Order for 2006-07	Reserve For Unforeseen Exigencies					
	As Admitted in APR for 2006-07					
Budge Budge Generating Station	Titagarh Generating Station	Southern Generating Station	New Cossipore Generating Station	Distribution System	Total	
1249.00	535.03	48.44	50.87	12.26	578.40	1225.00



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Income from such investments of Reserve for Unforeseen Exigencies shall be reinvested for the same purpose and shall be shown separately in the application of APR or tariff, as the case may be, supported by necessary audited data for any year. Moreover, this income should not be considered under income from non-tariff sources for the determination of Net Aggregate Revenue Requirement in APR or tariff for any year.

#### **2.17 Return on Equity Base**

Equity base for allowing returns to the licensees at the specified rate is an uncontrollable factor in terms of the Tariff Regulations. CESC Limited was allowed return on the projected average equity base of Rs 137013 lakh @ 14% amounting to Rs 19182 lakh. The actual average equity base for the year came to Rs 136707 lakh and accordingly CESC Limited has preferred the allowable return @ 14%, which comes to Rs 19139 lakh. The Commission admits Rs 19139 lakh in APR for 2006-07 and allocates the same to the generating stations and distribution system based on the proportion of corresponding value of fixed assets as shown below.

Rs. in lakh						
<b>Return On Equity</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
19182.00	8359.15	756.88	794.81	191.51	9036.65	19139.00

#### **2.18 Intangible Asset Written Off**

An amount of Rs 72 lakh was allowed in the tariff order for 2006-07 towards Intangible Assets written off. CESC Limited has claimed Rs 72.00 Lakh in its application of APR for 2006-07. As per schedule 11 of CESC Limited's audited accounts, Rs 71 lakh was written off in the books and hence the Commission admits the claim to that extent only. Hence, a negative adjustment is required to be made for Rs 1.00 lakh. The allocation of



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the admitted amount to the generating stations and distribution system has been made based on the principle of allocation adopted by the Commission in its order dated 12.02.2007 determining the wheeling charge payable to CESC Limited during 2006-07. Such allocations are shown below in the table.

<b>Rs. in lakh</b>						
<b>Intangible Asset Written Off</b>						
<b>As allowed in Tariff Order for 2006-07</b>	<b>As Admitted in APR for 2006-07</b>					
	<b>Budge Budge Generating Station</b>	<b>Titagarh Generating Station</b>	<b>Southern Generating Station</b>	<b>New Cossipore Generating Station</b>	<b>Distribution System</b>	<b>Total</b>
72.00	36.17	0.74	0.24	0.44	33.41	71.00

## 2.19 Other Non-Tariff Income

In terms of the Tariff Regulations, non-tariff income is a controllable factor. That means any variation in the amount of non-tariff income considered during determination of ARR and tariff for a year is not subject to adjustment in APR for that year. The Commission, however, feels that non-tariff income should be an uncontrollable factor in line with the provisions of sections 41 and 51 of the Electricity Act, 2003 and therefore should be adjusted accordingly in APR. The Commission, therefore, in exercise of the power conferred by regulation 6.4 of the Tariff Regulations, is making such adjustment for meeting the ends of justice. Non-tariff income as allowed in the tariff order for 2006-07 was Rs 6604 lakh. Actual other income as per schedule 10 of the audited accounts of CESC Limited is Rs 9266 lakh. It is further observed from the submission of CESC Limited that the aforesaid actual other income of Rs. 9266 lakh might have included the elements of Rs. 162 lakh as income from other auxiliary services as submitted in Form 1.24 in APR application and Rs. 142 lakh from sale of scrapped asset as submitted in Form 1.20 (b) in APR application. Commission deals with this Rs. 162 lakh separately in this order under benefits passed on to consumers and thus actual other income for this purpose has been reduced to that extent to Rs. 9104 lakh. Further regarding sale of



scrapped asset, Commission is of the opinion that the amount received towards sale of scrapped asset is required to be matched with the written down value (gross value less upto date accumulated depreciation) of the scrapped asset to arrive at profit or loss on sale of fixed asset and accordingly is to be treated as income or expenses. From the Schedule of fixed asset (Schedule 5 of the audited annual accounts of CESC Limited) reveals that in 2006-07 the gross value of asset retired is Rs. 2318 lakh and accumulated depreciation on the same is of Rs. 736 lakh, thus the written down value of retired asset is Rs. 1582 lakh. It is not, however, exactly known the value of asset sold to arrive at the net gain or loss from the sale of fixed asset. Since the value of asset scrapped on aggregate basis is higher than the sale value of scrapped asset, The Commission has decided to further exclude Rs. 142 lakh from actual other income of CESC Limited to arrive at Rs. 8962 lakh for 2006-07. Although CESC Limited has preferred the amount allowed in the tariff order to be accepted as non-tariff income in APR for 2006-07, the Commission admits Rs 8962 lakh in APR for 2006-07 as per the actuals worked out as mentioned above. The allocation of admitted non-tariff income to generating stations and distribution system has been made based on the nature and source of income as shown in the table below.

Other Non-Tariff Income						
As allowed in Tariff Order for 2006-07	As Admitted in APR for 2006-07					
	Budge Budge Generating Station	Titagarh Generating Station	Southern Generating Station	New Cossipore Generating Station	Distribution System	Total
6604.00	1411.87	255.78	173.28	146.76	6974.31	8962.00

## 2.20 Adjustments relating to Income from Auxiliary Services (other business)

One-third of the estimated net income of Rs.144 lakh of the CESC Limited from the advertisement on the face of the supply bills was considered in the concerned tariff order for passing on to the consumers. The amount so passed on came to Rs 48 lakh in the tariff order 2006-07. Such revenue earnings are categorized as uncontrollable in terms of



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the Tariff regulation. It is seen from the submission that the income of auxiliary services comes to about Rs 162 lakh and expenses attributable to such auxiliary services stands to Rs 60 lakh. Thus net income from other business in actual stands to Rs 102 lakh. Though in the tariff order for 2006-07, one-third of such net income of Rs.48 lakh was allowed to be passed on to the consumers, but CESC suggested 40% of such benefit to be passed on to the consumers in line with the Tariff Regulations. Accordingly Commission admits Rs 41 lakh in APR for 2006-07 in this regard.



## CHAPTER-3

### AMOUNT ADJUSTABLE IN ANNUAL PERFORMANCE REVIEW

3.1. Based on the foregoing analyses and admission of the adjustments under different uncontrollable factors/elements of fixed charges, the Commission now proceeds to sum up the findings as to ascertain the total amount adjustable under the Annual Performance Review (APR) for the year 2006-07. In the statement below, the figures in respect of expenses/factors being controllable in nature and to the extent applicable as per the Tariff Regulations have been extracted from the tariff order for the concerned year. The expenses/elements of fixed charges defined/considered as uncontrollable have been taken after carrying out adjustments under the respective heads as explained in the previous chapter.

		Amount in Rs. in lakh	
		As per tariff order	As found admissible in APR
A.	Fixed charges		
1.	Employee cost	25361.00	27826.00
2.	Coal & Ash Handling	1667.00	1145.00
3.	Water Cess	370.00	579.00
4.	O & M Expenses		
	(a) Rent, Rates & Taxes	868.00	
	(b) Legal charges	500.00	
	(c) Audit fees	55.00	
	(d) Other Administrative & General charges	6655.00	
	(e) Consultancy Fees		
	(f) Insurance		
	(g) Repairs & Maintenance charges Including cost of consumables	16263.00	
	Total O & M Expenses	24341.00	24341.00
5	Interest & Other Finance Charges		
	(a) Interest and Finance charges on borrowed capital	15594.00	16260.00
	(b) Foreign Exchange rate variation	2515.00	2307.00
	(c) Interest on consumers' Security Deposits	3006.00	3948.00
	(d) Interest on working capital	2443.00	0.00
	(e) Other Finance Charge	3214.00	852.00
6	Bad Debts	1123.00	1242.00
7.	Depreciation	16362.00	15794.00
8.	Advance against depreciation	10048.00	10616.00
9.	Write off of Intangible Assets	72.00	71.00
10	Taxes on Income	1368.00	1615.00
	Lease Rental	1569.00	1572.00
11	Return	19182.00	19139.00
12.	Reserve for unforeseen Exigencies	1249.00	1225.00
13.	<b>Gross Fixed Charges for 2006-07</b>	<b>126810.00</b>	<b>128532.00</b>
	Less      Income from Non-tariff sources	6604.00	8962.00



***Order on APR of CESC Limited for 2006-07***

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Less	Benefits to consumers from auxiliary services	48.00	41.00
Less	Expenses attributable to auxiliary services	72.00	60.00
Total Deduction		6724.00	9063.00
	Net Fixed Charges for 2006-07 before benefits passed on to the consumers for sale of power to the persons other than the consumers and licensees of the Commission	120086.00	119469.00

- 3.2 In terms of FPPCA order for CESC Limited *vide* Commission's Order dated 29.11.2007 in Case No. FPPCA-15/07-08, the benefits required to be passed on to the consumers is Rs. 5583.53 lakh out of the total gain of Rs 9305.89 lakh derived from sale of electricity to persons other than the consumers and licensees of the Commission.
- 3.3 In terms of FPPCA order for CESC Limited *vide* the Commission's Order dated 29.11.2007 in Case No. FPPCA-15/07-08, no performance incentive has been allowed to CESC Limited for 2006-07 for the reasons mentioned in the aforesaid order.
- 3.4 After adjusting the benefits to be passed on to the consumers for sharing of gain, as shown in paragraph 3.2, with the Net Fixed Charges for 2006-07 as found admissible in APR, as shown in paragraph 3.1, the Adjusted Net Fixed Charges determined in APR for 2006-07 now stands as below:

Sl. no.	Particulars	Rs in lakh
1.	Net Fixed Charges for 2006-07 found admissible in APR as shown in paragraph 3.1	119469.00
2.	Benefits to be passed on to the consumers as shown in paragraph 3.2	(-) 5583.53
3.	Adjusted Net Fixed Charges for 2006-07 determined in APR	113885.47

- 3.5 Out of the above amount of Rs 113885.47 lakh admitted in APR for 2006-07 as the Adjusted Net Fixed Charges for 2006-07, as shown in the table in paragraph 3.4, Rs 40693.03 lakh, Rs 7086.84 lakh, Rs 4846.32 lakh, Rs 4107.40 lakh, and Rs 57151.88



lakh are allocated to Budge Budge Generating Station, Titagarh Generating Station, Southern Generating Station, New Cossipore Generating Station and distribution system respectively based on the aggregate of different heads for generating stations and distribution system as discussed in Chapter-2 of this order.

- 3.6 During 2006-07, the revenue realized from the consumers is Rs. 236576.00 lakh, as per CESC Limited's submission in Form 1.25 of the application for APR. The variable cost realizable by CESC Limited for 2006-07 is Rs. 119581.73 lakh based on actual variable cost of 186.14 paisa/kWh as determined by the Commission in its Order dated 29.11.2007 in Case No. FPPCA-15/07-08 for FPPCA for 2006-07 and actual sales of 6424.29 MU to the consumers during that year.
- 3.7 Based on the Adjusted Net Fixed Charges of CESC Limited for 2006-07 determined in APR as shown in paragraph 3.4, the variable cost of CESC Limited determined by the Commission in FPPCA for 2006-07 and actual sales revenue realized by CESC Limited during 2006-07, the amount of excess recovery from the consumers of CESC Limited works out as under:

SI No	PARTICULARS	Amount in Rs in Lakh
1	VARIABLE COST ALLOWED IN FPPCA FOR 2006-07=	119581.73
2	ADJUSTED NET FIXED COST ALLOWED IN APR=	113885.47
3	TOTAL REALIZABLE SALES REVENUE IN 2006-07(1+2)=	233467.20
4	ACTUAL SALES REVENUE REALISED IN 2006-07=	236576.00
5	<b>AMOUNT OF EXCESS RECOVERY (4-3)=</b>	<b>3108.80</b>

- 3.8 Thus CESC Limited is required to refund this excess recovery of Rs. 3108.80 lakh to its consumers. As the above refundable amount of Rs. 3108.80 lakh has been computed taking into consideration the adjustments of both the variable costs and fixed costs, the order dated 29.11.2007 of the Commission in Case No. FPPCA-15/07-08 stands modified and CESC Limited is not required to refund any amount in terms of that order.



**Order on APR of CESC Limited for 2006-07**

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- 3.9 In terms of the Tariff Regulations, there shall be negative adjustment of the entire refundable amount of Rs 3108.80 lakh or part thereof with the ARR of 2008-09 or that of any other ensuing year of CESC Limited, as may be decided by the Commission. The allocations of this refundable amount of Rs. 3108.80 lakh to Budge Budge Generating Station, Titagarh Generating Station, Southern Generating Station, New Cossipore Generating Station and distribution system are Rs. 1110.82 lakh, Rs. 193.45 lakh, Rs. 132.29 lakh, Rs. 112.12 lakh and Rs. 1560.12 lakh respectively in proportion to the allocations made to the generating stations and distribution system as shown in paragraph 3.5.
- 3.10 The instant order is based on the careful consideration of the facts and figures brought by CESC Limited in its application for APR in the specified formats and in its audited statement of accounts. This, being the first year of such APR and for carrying out adjustments accordingly, there may still remain some grey areas on which CESC Limited may differ. The Commission permits CESC Limited to submit its representations on those areas through the application for APR for the next base year, *i.e.*, 2007-08. At the same time, the Commission may also, *sou-moto*, take up any further adjustment, if so found necessary on the basis of subsequent revelation of the related facts and figures.

Sd/-  
(R. P. Samaddar)  
Member

Sd/-  
(Prititosh Ray)  
Member

Dated: 26.09.2008