pstcl
PUNJAB STATE TRANSMISSION CORPORATION LIMITED

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To

Mawana Sugars Ltd,
Unit: Siel Chemical Complex. Village Saadargarh Post Box No. 52
Rajpura Town, Dist. Patiala.

Memo No. 546 /CAO(F&A)/MYT-IIA
Dated: 10/02/2020

Subject: **Comments on PSTCL's Petition for True up for FY 2018-19, Review of FY 2019-20 and MYT for Control Period from FY 2020-21 to FY 2022-23.- Objection No 1**

Ref: **Your office Letter no. SCC/Elect/01-20/1078.dated 28.01.2020.**

In response to letter under reference please find enclosed herewith the reply of the Comments raised on subject cited petition filed by PSTCL before PSERC.

0/ CAO (Finance & Audit),
PSTCL, Patiala.

DA/As Above

547
10/02/2020

CC:
The Dy. Registrar, PSERC w.r.t. their office memo no. PSERC/Reg/2635 dated 31.01.2020.

DA/As Above

OBECTION NO.1

Replies to Suggestions and Objections

Name of Stakeholder: Mawana Sugars Ltd. (SIEL Chemical Complex or SCC)

PSTCL submits the para-wise replies to comments submitted by the above referred Stakeholders as under:

PRELIMINARY SUBMISSIONS

1. The Hon'ble Commission has approved 15.5% return on equity SINCE 2010-11 purportedly as per SERC Regulations as per the FRP approved by GOP increasing the cost of assets by their revaluation and merging the Consumer Contribution, Subsidies and Grants with GOP equity leading to increase in the equity share capital of PSTCL from Rs.328.50 Cr. To Rs.605.88 Crore as per FRP and ROE has been increased from Rs.45.99 Cr. To Rs.93.91 Cr. i.e. an increase of 204% in both the figures without any fresh investment or infusion of cash by GOP. Similar is the case of PSPCL where the equity base has been increased from 2617.61 Crore to 6081.43 Crore which has led to increase of ROE from 405.73 Crore to 942.62 Crore i.e. an increase of 232%. This matter was appealed in APTEL and Hon'ble Tribunal has already directed PSERC to reconsider the issue vide judgment dated 17.12.2014 in Appeal No.168 and 142 of 2013 as under:-

   "48. We direct the State Commission to adjust the excess amount of ROE in the impugned order from the FY 2011-12 onwards in the ARR/True up for the year to provide relief to the consumers."

   "Issue No. (iii) Relating to return on equity, Consumers Contributions Grants, Subsidies etc.

   50.3 The findings of this Tribunal in Appeal no.46 of 2014 shall squarely apply to the present case. The State Commission shall re-determine the ROOE as per our directions and the excess amount allowed to the distribution licensee with carrying cost shall be adjusted in the next ARR of the respondent no.2.

As the PSPCL has filed Appeal in Supreme Court and the order of APTEL is under stay, we request the Commission to record our objection on the issue and the tariff orders from 2011-12 will be subject to review as per the orders of the Supreme court.

Reply

Preliminary Submissions

1. On this issue PSERC will take a call as and when Judgement of the case is received.

2 PSPCL and PSTCL were constituted in 04/2010 as successor companies to PSEB and since then Transmission losses are being assumed as 2.5% on notional basis. PSTCL sated in MYT ARR for 2017-18 to 2019-20 that the Transmission Losses during the period July 2016 to March 2016 varying between 2.76 to 7.09. There were large scale variations and PSTCL was directed to stabilize the data and Hon'ble Commission ordered as under:-

> As such, the Commission proves the Transmission losses at 2.5%, 2.40% and 2.30% for FY 2017-18, FY 2018-19 and FY 2019-20 respectively. The Commission would revisit the Transmission losses during review/true up for FY 2017-18, FY 2018-19 and FY 2019-20, on the basis of stabilized transmission loss data full year.

In the ARR for 2018-19, PSTCL submitted the Transmission Loss of 2.80% for 2017-18 and 2.60% for 2018-19 for approval. In the Tariff Order for 2018-19, Commission decided for 2017-18 (RE), 2018-19 (Proj) as under:-

> The Commission observes that although PSTCL has completed Intra-State Boundary metering cum Transmission Level Energy Scheme, the data is yet to be stabilized. The Commission observes that it is allowing the Capital Investment Plan as projected/asked for by PSTCL since last many years and in Petition No.44 of 2016 for approval of Capital Investment Plan of PSTCL for MYT Control Period has allowed 338.29 crore and 258.01 crore for FY 2017-18 and FY 2018-19 respectively, which is almost as per the projections made by PSTCL. Thus, there is no reason to deviate from its earlier targets for transmission loss. As such, the Commission provisionally retains the transmission loss level at 2.50% for FY 2017-18 and 2.40% for FY 2018-19, as approved in the Tariff Order for FY 2017-18.
>
> Therefore, the Commission is of the view that the actual transmission loss could not be assesses in the absence of truly stabilized data. As such, the Commission retains the Transmission loss at 2.50% as approved in Tariff order for FY 2017-18.
>
> RE 2018-19 and Projections 2019-20.

As the baseline figure of transmission loss of PSTCL is yet to be ascertained, the Commission is of the view that it would not be fair to fix the trajectory for reduction of transmission loss. As, such, the commission approves the transmission losses on the basis of stabilized transmission loss data for the full year during true up for these years.

Now PSTCL in its ARR for 2018-19 (True up), 2019-20 (RE) and projections for MYT Control Period FY 2021 to 2023 has proposed to take Transmission Loss as 2.86% as per Actuals for 2018-19 and 3% for 2019-20 to 2022-23.

It is pointed out with regard to ARR for the current year as under:-

a) PSTCL has taken input energy at Punjab Periphery for 2018-19 (Table-3) as 58824.90 MUs. However, PSPCL in its ARR (Table 10) has worked out the energy input at state periphery as 55235.38 MUs. Further PSPCL has not provided the category wise sales figures for 2018-19 in Annexure D5 (Page 238 to 240). PSPCL has claimed actual T&D loss of 14.17% for 2018-19. The data needs to be reconciled and loss figures of either PSPCL or PSTCL are wrong and need to be authenticated.

REPLY

2(a) PSTCL submitted the Energy input, energy output and transmission loss for FY 2018-19 and FY 2019-20 (H1). PSTCL has submitted the reconciliation of energy submitted by PSTCL and PSPCL.

Q2(b) PSTCL has not achieved the set targets in spite of the approval of capital investment plan as requested by PSTCL. This means that returns on Investment will not be available as per projections in the Capital Investment Plan and inefficiency of PSTCL will be transferred to consumers without any of their fault.

REPLY

2(b) The Capital expenditure is based on actual capital expenditure incurred by PSTCL during FY 2018-19. The difference in actual capital expenditure and approved is always there due to change of priorities and there is no inefficiency of PSTCL for which cost is transferred to consumers.

c) In the table 17 (actual of H1) , Transmission Loss for the month of May 2019 has been worked out as 1.67% for input energy of 5408503 Mwh. However, for the month of July 19, the transmission loss is 2.31% when the input energy is maximum i.e. 7697685 Mwh. There is inconsistency in the figures indicating less loss for more flow in one case and the opposite with the other which needs to be investigated.

d) In Annexure-II of Reply to Deficiency of ARR 2020-21, the data for Trans loss for 2018-19 indicates that there are some factual errors like very low loss level f 2.09% for Oct 18 for 5076006 MWH, Loss of 4.66% and 3.29% for the month of April 18 and Feb 2019 through quantum of electricity transmitted is almost same.

e) PSTCL has submitted loss level of other states to justify claim of higher loss. However, no such comparison can be made in such a fashion. There may be other states not mentioned by PSTCL which may be having lower loss levels. In any case, there are many factors affecting the loss levels and no parallels can be drawn in such a way.

We strongly object to the proposal of PSTCL to keep the loss level at 3% for next 4 years and not proposing any trajectory in-spite of the Capital Investment Plan of 247.16 Cr in 2019-20 (Table 20) and 705.26 Cr., 731.48 Cr and 677.30 Cr for the MYT period. PSTCL has no other business than to transmit power and all investment is to optimally design, operate and maintain the 220/132 KV grid system so as to reduce the losses. Therefore, Hon'ble Commission is requested to link the investment with improvement in Transmission losses and define the trajectory of loss reduction so that consumers get some relief.

REPLY of c,d,e

The transmission losses of PSTCL depend on the utilization of system which is mainly done by PSPCL. PSTCL has developed the 400 KV system in 2012 which was having an ideal capacity to meet future growth. Resulting into higher transmission losses due to some ideal system at that time. With increase in loading of this system in past years the available system has got fully loaded & as such the transmission losses have come down to the lowest level. Now to meet the projected load of 2023 of Peak Demand of 15200 MVA & Stringent N-1 criteria laid by CEA and NRLDC while allowing ATC/TTC Limit, 400 KV system is required to be added which shall rather give rise to the transmission losses marginally and as such the losses have been kept to the initial position of 3% which is much better than the average transmission losses of Northern Region which are beyond 3.5% as presented in Capital Investment Plan.

3. It is seen that PSTCL has some reservation on value of GFA to be taken for calculation of Employee cost which have been brought out on Page 18-19 f ARR for 2018-19 and subsequently for other years. PSTCL has raised issues with regard to MYT Regulations to work out higher normative Employee Cost and then has justified its actual employee cost. However, PSPCL has not raised any such issue in its Generation, Distribution and Retail Supply ARR. This issue was also raised by PSTCL last year also Page 24 of the ARR of last year but has not been agreed to by PSERC. This needs to be dealt strictly as per MYT regulations and if PSTCL has some issue with Regulations, it may file a separate plea for amendment in Regulations.

REPLY

3. PSTCL on page No. 18 of ARR has suggested the methodology of computation of normative employee cost of each year as per MYT Regulations. PSTCL submitted that the normative Employee expenses to be permitted should be at gross level only, as the expense capitalization depends on capital projects undertaken and staff or employees of PSTCL dedicated to such project execution. There is marginal difference in normative employee cost works out as per Hon'ble Commission's methodology and methodology proposed by PSTCL. PSTCL requests to approve Normative employee cost based on methodology proposed in present Petition.

4 PSTCL is considering funding of Capital Expenditure with normative 30% equity and 70% funding. We also find from the ARR figures that PSTCL has stated that it is funding this equity through redeployment of Return on Equity earned during the period. However, Return on equity belongs to the GOP which has invested equity in PSTCL. Further, the paid up, issued and subscribed share capital as on 31.03.208 and 31.03.2019 remains same i.e. Rs.605.38 Cr as per Note 17 of the Annual Financial Statement 2018-19. Thus neither there is any approval of GOP to invest in equity nor have equity shares been issued to GOP on account of investment.

The Profit and loss statement of Annual Financial Statement of PSTCL for 2019-20 supplied with the ARR states that the company has incurred net loss of 6.89 crore in the year 2018-19. Balance sheet states that the paid up equity capital of PSTCL for the year 2017-18 and 2018-19 remain the same i.e.605.88 Cr. There are no free reserves as per Note 18 of the Annual Financial Statement and there is no change in General and Capital reserves and the Profit and loss account show reduction for the loss incurred. Thus there is no source of infusing equity. It is evident that the equity is being financed through loans in the ARR only and not in the books of the company and system is being mis-utilised by the licensee to earn about 7% of difference of interest rate of loan (8 to 9%) and ROE rate of 15.5%.

It is also seen that through PSTCL has been granted ROE of Rs.17.60 Cr. For 2018-19 in TO 2019-20 (Table 3.32) whereas overall there is loss of Rs.6.95 Cr. As per Profit & Loss statement. The equity of PSTCL remains the same. Thus ROE has been used partly to meet the expenditure of PSTCL. Cash flow statement of Annual Financial Statement of Annual Financial Statement 2018-19 stated that the cash available with PSTCL on 01.04.2018 was 9.42 Cr and on 31.03.2019 it reduced to Rs.6.09 Cr. Equity invested for capital expenditure for 2018-19 is stated as Rs.73.58 Cr (Table 10). Thus PSTCL has carried out jugglery of figures in stating that it is redeploying ROE whereas it is simply conversion of loans of capital investment into equity to gain differential of interest and ROE.

PSTCL has to raise that it is being paid ROE of 93.91 Cr which is being retained by it and not being paid to GOP which has invested the equity. It should result in profit of Rs.93.91 Cr in the balance sheet of PSTCL whereas it has incurred a loss of Rs.6.95 Cr indicating that it is over expanding by around 99 Cr. Instead of controlling its expenditure and operating efficiently, it is trying to manipulate the loop holes of the system to earn extra money through ROE which is ultimately going to raise the Tariff for consumers and also the subsidy of GOP. The tariff in Punjab is already among the highest in the country and still higher tariff will force the consumers to consume less and industry will close down resulting in lower revenue and more increase in tariff. ROE in Para 2.11 needs to be granted only on the Equity

REPLY

4. PSTCL submits that, in the present Petition, it has considered the funding of capital expenditure as per normative debt: equity ratio of 70:30. PSTCL submits that Return on Equity approved for respective year is nothing but profit approved in regulatory books. For funding of capital expenditure, it will utilise Return on Equity approved for previous year and re-invest in transmission business. The consideration of audited accounts for funding of capital expenditure would not be appropriate as actual accounts and regulatory accounts are different. The audited accounts include interest charges towards long term loan as well as short term loans/working capital loans. However, in ARR, interest on working capital loan is approved on normative basis. Hence, for funding of capital expenditure, the amount of

equity is available in terms of accumulated reserves and surplus through Return on equity approved for previous years.

OTHER ISSUES

(a) As per Balance Sheet for 2018-19, PSTCL has other Equity (Reserves and Surpluses) of Rs. 2248.36 CR and equity of Rs.605.88 Cr. Which works out to 3.71 times the equity amount whereas Reserves and surplus are not earning any revenue for PSTCL or the consumers. Therefore, PSTCL should explore liquidation of some portion of equity back to GOP so that the burden of ROE is reduced and Tariffs could be lowered.

REPLY

a) PSTCL is considering reserves and surpluses created after 16.04.2010 for ROE purpose.

(b) PSTCL has proposed capital Expenditure of Rs.366.39 Cr (Table 20) for 2019-20 against Approved Capital Investment of 227.28 Cr. In Tariff Order. Similarly Capital Investment for 2nd MYT control period (Table 33) is proposed as under:-

	2020-21	**2021-22**	**2022-23**
PSTCL	705.26	730.48	677.30
SLDC	24.23	16.35	12.45
Total	729.49	746.83	689.75

PSTCL already has Transformation capacity of 37686 MVA at 220 and 132 KV levels (Annexure B of reply to Def. dated 26.12.2019) on 30.09.2019 against contracted Long Term Generation capacity plus own generating plants last paddy is 13633 MW in 2019 out of which some load directly connected to Power Plant switchyards and private plants connected on 66/33KV was served on the generation voltages as well. In view of huge transformation capacity Investment Plan needs to be reviewed critically for pay back as the assets created will require operation and maintenance and interest pay-out etc. but may not be used to their capacity.

c) The Capital expenditure proposed for MYT period needs to be revised as per CIP approved by PSERC . Similarly the figures of Capitalization also needs to be revised.

REPLY

B) & C) PSTCL has considered CIP as per the approved numbers.

(d) Regulation 19.2 of MYT Regulations 2019 reproduced in Para 4.7 of ARR is very clear that Sub Reg (d) is subject to Sub Reg (b) and (c) and paid up capital will include investment from share premium and free reserves for the purpose of equity subject to normative debt equity i.e. only paid up equity will be considered and if it will be 30% or actuals whichever is lower. PSERC is requested to implement the provision in true letter and spirit and do not allow conversion of loan into equity under these Regulations as has been done in table 34 and reject the addition of equity during the year in Table 35.

REPLY

d) PSTCL has claimed as per PSERC Regulations, final decision has to be taken by Hon'ble Commission.

(e) Para 4.9 of ARR: Licensee has to understand that the exercise of ARR nd determination of tariff is not an exercise to recover each and every expenditure from the consumers but only legitimate and justified revenue requirement. PSTCL has to realize that the ultimate tariff payable by consumers cannot be increased infinitely and it has to be competitive with regard to neighbouring states. The Income tax Liability for the year is to be restricted to ROE amount only as Regulations provide Post Tax ROE. This is the situation in CERC Regulations for Generation and Transmission business. For all other incomes, Licensee is to pay the income tax out of such incomes. Further Income Tax is payable on actual basis and not on advance basis in ARR as per 2nd provision below Regulation 23.1. We request that the arguments put forth by PSTCL for income tax on additional incomes other than ROE be rejected out rightly. Further any such claim must be supported by relevant regulations and no such claim be put forward if it is not covered under regulations.

REPLY

e) In the present Petition, PSTCL submitted the income tax as per the provisions of MYT Regulations, 2019. PSTCL submits that provisions of the regulations limit the income tax to ROE, however, additional income tax may come on account of efficiency gains and allowance of past revenue gaps in such year at the time of True up. PSTCL craves leave to submit such actual tax liability in True-up of respective year and requests the Hon'ble Commission to allow the same on actual basis.

(f) In table 38, opening balance need to be taken as approved by the Hon'ble Commission after considering disallowance of certain loans in the previous tariff order.

REPLY

f) Aggrieved by decision of disallowance of loans in previous Orders, PSTCL sought an appeal before Hon'ble APTEL. Hence, in consistency with that approach, PSTCL has considered the such loans in opening balance.

g) Para 4.15: Non-Tariff income need to be increased on normative basis.

REPLY

g) Non-tariff income is considered based on the actual non-tariff income submitted in the Petition for true-up for FY 2018-19. The same approach is adopted in past Orders of the Commission. PSTCL requests to consider the same income for projection.