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PUNJAB STATE TRANSMISSION CORPORATION LIMITED
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No 3544/ARR-603 Dt 14/12/15

To,

The Secretary,
Punjab State Electricity Regulatory Commission,
S.C.O. No.220-221, Sector-34-A,
Chandigarh.

Subject: Reply on Comments/Objections of PSERC on PSTCL Petition for ARR 2016-17.

Ref: Your D.O. No. PSERC/Tariff/T/193/9114, dated 07.12.15.

The point wise reply to the above referred letter is as under:-

1. **Audit Report**

   i. The comments on Comptroller and Auditor General of India on the audited accounts of FY-2013-14 have been received on 24.11.15. The same alongwith the replies of the Management on the comments of Statutory Auditor and CAG of India will be submitted to the Hon'ble Commission after approval of the Board of Directors (BoDs). Meeting of BoDs is scheduled to be held in the last week of December-2015.

   ii. Cost Audit reports for FY-2012-13 and FY-2013-14 are enclosed as Annexure-I (Page No 10 to 96) and Annexure-II (Page No 97 to 182).

   iii. Comments of Board of Directors of PSTCL on the Independent Auditors report & CAG Report for FY 2012-13 are enclosed as Annexure-III (Page No 183 to 190).

2. **Employees Cost**

   i. Head wise detail of employees cost for STU and SLDC for H2 of FY 2015-16 and FY 2016-17 is enclosed as Annexure-IV-A (for STU) (Page No 191) and Annexure-IV-B (for SLDC) (Page No 192).

   ii. Reconciliation of Employees Cost claimed in the ARR Petition vis a vis Audited accounts is as under:-

(Rs. In Crore)

	FY 2012-13	FY 2013-14
Employees Cost as per Audited Accounts	300.12	339.44
Add:- Outsourced Cost of Manpower	8.19	16.59
Employee Cost as per ARR Petition	**308.32**	**356.03**

The reason for claiming the outsourced cost of man power under the head employees cost is as under:-

After unbundling of the erstwhile PSEB on 16.4.2010 PSTCL recruited personnel during FY 2012-13. However, huge vacancies still remained to be filled up which were required both for existing and additional Transmission System. PSTCL Management took the decision to fill up the vacant posts of Skilled/Semi-skilled/Un-skilled, Data Entry Operators and Drivers through PESCO to man the various posts. In order to safeguard the assets of the Corporation of Grid Sub-Stations and the offices, security has been provided by outsourced Security personnel through PESCO. It is pertinent to mention that the security expenses were not included in the trued up figure of FY 11-12. Had above mentioned employees been recruited on permanent basis, the cost would have been claimed as employees cost and the same would have been much more than the cost actually incurred/claimed.

iii) Reasons for increase in over time payment, telephone allowance and outsourced cost of man power are as under:-

The company has changed its accounting policy on expenses in respect of payment of overtime charges which have now been accounted for on accrual basis. Thus a provision of overtime of Rs. 2,16,05,737/- has been made in FY 2013-14. Due to change of policy overtime payments have shown a substantial increase from the previous year.

Apart from the above, telephone mobile allowance was allowed to the employees falling under Group B, C & D as per Finance circular no. 01/2013 dated 04.01.2013 issued by PSPCL from the prospective date of issue of circular. Due to this there is a substantial increase in telephone mobile allowance in FY 2013-14.

iv) List of employees deployed for each line and Substation during FY-2012-13 to FY-2014-15 is enclosed as per Annexure-V (Page No.193 to 203) Employees deployed in FY-2015-16 and FY-2016-17 will be provided at the time of true up.

3. Repair & Maintenance:-

i Head wise detail of Repair & Maintenance expenses for H2 of FY-2015-16 and FY-2016-17 is enclosed as per Annexure VI-A (for STU) (Page No 204) and Annexure-VI-B (for SLDC) (Page No 205).

ii Substantial increase in 'Hydraulic works and Civil Works' under R&M expenses for STU for FY 13-14 over previous year is only 25 lacs which is a meager one as it has been incurred to meet the Civil works requirement during the year.

4. Administrative & General (A&G) expenses:-

i Head wise detail of Administrative & General (A&G) expenses for H2 of FY-2015-16 and FY-2016-17 is enclosed as per Annexure VII-A (for STU) (Page No 206) and Annexure-VII-B (for SLDC) (Page No 207).

Reconciliation of A & G Expenses claimed in the ARR Petition vis a vis Audited accounts is as under:-

(Rs. in Crore)

	FY 2012-13	FY 2013-14
A & G Expenses as per Audited Accounts	18.91	38.34
Less:- Outsourced Cost of Man Power	(-) 8.19	(-) 16.59
Balance	**10.72**	**21.75**
Add:- Lease Rental(included in Finance Cost as per Audited Accounts)	0.77	0.41
A & G Expenses as per ARR Petition	11.49	22.16

It is further mentioned that outsourced cost of man power is included in A&G expenses as per audited accounts which has not been claimed as A&G expenses in the ARR Petition rather is claimed as Employee Cost.

ii

a) The amount of Rent, Rates & Taxes has been substantially increased in FY 2013-14 due to imposition of Property Tax by Govt. of Punjab as per amendment in Municipal Corporation Act through notification dated 22.11.2013 on all the properties. Apart from this a house tax liability under this head of Rs. 3.89 crore was also created during FY 2013-14 as per the order of the court by the P&M Division Mahilpur regarding disputed outstanding amount of house tax.

b) The increase in Conveyance & Travel charges is not substantial as it has increased from Rs.6.48 Crore to Rs.7.20 crore i.e. Rs. 72 lac over the year.

c) Expenses on Training:-

PSTCL has provided training to the new staff (officer/officials) recruited by PSTCL in the FY 2013-14. The most of the expenditure incurred on training is relating to the new staff. The details of major expenditure incurred on different trainings of Rs. 0.65 crore is enclosed as per Annexure-VIII (Page No 208. Due to this substantial increase was recorded in the expenses on training in FY 2013-14 against the previous year.

d & e) There is no such substantial increase in contingency expenses and other expenses.

f) Increase in freight expenses is normal.

g) Material related expenses and purchase related expenses combinedelly during FY 13-14 has not increased substantially over the previous year.

5. Depreciation Expenses:

I. The reconciliation statement regarding difference in depreciation in Note 12 & Note 26 in FY 2012-13 is enclosed as per Annexure-IX (Page No 209). Similarly the reconciliation statement regarding difference in depreciation of Plant & Machinery is enclosed as per Annexure-X (Page No 210).

II. The reconciliation statement regarding difference in depreciation in Note 11 & Note 24 in FY 2013-14 is enclosed as per Annexure-XI (Page No 211). Similarly the reconciliation statement regarding difference in depreciation of Plant & Machinery is enclosed as per Annexure-XII (Page No 212).

III. The opening balance sheet as notified by State Govt. on 24.12.2012 includes some of the fixed assets under sub heads at nil value with value of accumulated depreciation resulting in negative balances of such sub-heads of fixed assets. Similarly, division have certain assets with values and accumulated depreciation on which depreciation is being charged but these assets under some heads are not appearing in the opening balance sheet. The differences as mentioned above are being reconciled. The negative balance showing as at 31.03.2013 have been got rectified in FY- 2013-14 resulting a net debit W.D.V under this head as on 31.03.2014

IV. The company has policy/instructions regarding accounting for replacement of Assets/Transformers which provides for adjustment of value of old assets. Steps have been taken to ensure that concerned accounting units comply with above policy/instructions. The adjustment made on account of damaged transformers sold/disposed off in FY 2013-14 amounting to Rs. 10.44 crore was provided to the Statutory auditor. The detail of which is enclosed as per Annexure-XIII (Page No 213).

V. The finalization of Annual Accounts of FY 2012-13 is based on the Significant Accounting Policies as approved by the Board of Directors. Similarly the annual accounts of FY 2013-14 have been finalized on the basis of same significant accounting policy. The policy for depreciation provides as under:

"Depreciation is provided on straight line method (SLM) at the rates specified in the Schedule XIV to the Companies Act, 1956. In respect of the depreciable assets for which no rate has been specified (including the assets of SLDC), rates notified by CERC are adopted."

The rates of depreciation as per the Companies Act in respect of fixed assets except 3 no. items for which no rates have been prescribed in Companies Act namely (i) Communication Equipment – Radio & High Frequency (ii) Communication Equipment – Telephone Lines & Telephones (iii) Air Conditioning Plant – Portable **are same as those of rates prescribed in CERC Regulations.**

In respect of rates of depreciation of aforesaid three items the same has been taken as CERC rates. **As such the depreciation at CERC rates shall be the same as the depreciation calculated by PSTCL while finalizing the accounts of FY 2012-13 & FY 2013-14.**

Further As per Regulation 27(I)(d) of the PSERC Regulation the "Depreciation for generation and transmission assets shall be calculated annually as per straight-line method over the useful life of the asset at the rate of depreciation specified by the Central Electricity Regulatory Commission from time to time.

Provided that the total depreciation during the life of the asset shall not exceed 90% of the original cost".

PSTCL is charging deprecation upto 90% of the original cost of fixed assets by adopting PSERC Regulations.

As per the provisions of new Companies Act 2013, PSTCL has taken the following policy for charging of depreciation from the FY 2014-15 onwards (as approved by Board of Directors), which is as under:

"In line with Part B of Schedule II to Companies Act 2013, with effect from 1st April 2014, depreciation is provided as per PSERC (Terms & Conditions for determination of Tariff) Regulations, 2005 (as amended in 2012). In accordance with PSERC Regulations, 2005, depreciation is calculated annually based on Straight Line Method at rates specified in Appendix II of CERC (Terms & Conditions of Tariff) Regulations, 2014.

The fixed assets are depreciated up to 90% of the original cost after taking 10% as residual value of assets. However, the leasehold assets are fully amortized over the entire lease period as per the terms of the lease agreement."

VI. Steps have been taken to prepare the details of concerned accounting units relating to these heads and its reconciliation at the division level.

6. **Interest & Finance Charges:-**

The Audit certificate of capital expenditure of FY 14-15 can be submitted only after completion of the statutory audit of that year, which is in progress.

7. **Capital Work in Progress:-**

I. The details of Capital Work in Progress (Work wise) including advances to suppliers/contractors are available at the unit level. However, there is difference in the amount parked to different units as per details provided by PSPCL with the figures available in the record of different accounting units as on 16.04.2010. The process of reconciliation of the same is going on.

II & III. The reconciliation of debit balance of Rs. 3.55 crore as advances to suppliers and contractors which include Rs. 2.58 crore being amount parked as on 16.04.2010 is in process. The compilation of the details of Capital work in progress by the concerned accounting units are also in progress, which will be provided later on.

8. **Tax on Income:-**

The statutory auditor has pointed out in its report regarding overstatement of profit by Rs. 24.56 crore on the basis of following items:

Item No.	**Details**	**Rs. in Crores**
4	For making no provision regarding difference in value of store	4.01
10	For making no provision regarding Losses under investigation	0.09
14	For making no provision regarding obsolete and unserviceable stores	3.30
17	For making no provision regarding overtime payments	1.76
18	For making no provision regarding arrear of salary (01.01.2006 to 31.10.2009)	15.40
	Total	**24.56**

PSTCL has made the provisions of following items in FY 2013-14 in compliance to the observations of statutory auditors as per the figures stands under these items on that date (i.e. as on March 2014):-

Sr. No.	Details	Rs. in Crores
1 (a)	Provision for difference in value of store – Rs 1.66 crore	4.01
1 (b)	Un-reconciled value of stock relating to the period prior to 01.04.1986 Written off – Rs 2.35 crore	
2	Provision for Losses under investigation	0.07
3	Provision for obsolete items and unserviceable stores	5.61
	Total	**9.69**

Apart from the above regarding item no. 17 for the provision of overtime –All expenses are accounted for on accrual basis except leave travel concession, medical reimbursements, TA/DA claims, arrears of salary and overtime payments which are accounted for on payment basis in the year these are paid. From FY 2013-14, company has changed its accounting policy on overtime charges as mentioned in point no. 2 (III) of the above said reply.

Similarly regarding item no. 18, arrears of salary (01.01.2006 to 31.10.2009) – As per significant Accounting Policy No.8 (Expenses), as stated above the arrears of salary are accounted for on payment basis in the year these are paid. Accordingly, no provision has been made in the books of accounts.

Further in this regard it is submitted that PSTCL has paid tax on income under the MAT provisions of Income Tax Act under section 115 JB in FY 2012-13 & also in FY 2013-14. According to the MAT provisions of income tax, if the above said provisions were made in FY 2012-13 even then the expenditure of these provisions would not have been admissible for tax purpose on the income of the company. So company has not paid any excess tax on these items. Moreover, the effect to the items on which statutory auditors have not given any quantification in the report of FY 2012-13, no quantification can be calculated by the company also.

9. **Prior period Income:-**

FY 2012-13:

					Amount in Rs.
Sr.	**Details**	**Prior to 16.04.10**	**2010-11**	**2011-12**	**Total Amount**
1	Finance Cost – Lease rentals of prior period relating to Civil works division Jalandhar	------	21,85,788	------	21,85,788
2	Depreciation Cost				
I	Plant & Machinery	------	------	2,26,18,581	2,26,18,581
ii	Building	1,70,590	3,21,960	------	4,92,550
iii	Lines & Cables	------	32,74,508	69,00,390	1,01,74,898
	Total	1,70,590	35,96,468	2,95,18,971	3,32,86,029
3	R&M Cost				
i	Plant & Machinery	------	------	23,500	23,500
ii	Building	------	------	2,63,463	2,63,463
	Total	------	------	2,86,963	2,86,963
4	A&G Cost – Travelling Expenses	------	------	5,60,303	5,60,303

FY 2013-14:

					Amount in Rs.
Sr.	**Details**	**2010-11**	**2011-12**	**2012-13**	**Total Amount**
1	Depreciation Cost				
i	Plant & Machinery	------	------	1,98,913	1,98,913
ii	Lines & Cables	33,72,574	1,05,92,277	1,10,66,748	2,50,31,599
iii	Furniture	8,801	20,251	------	29,052
	Total	33,81,375	1,06,12,528	1,12,65,661	2,52,59,564
2	R&M Cost – Building	------	------	28,55,478	28,55,478

ANNEXURE-B

I. **Technical:**

The confirmation by CE/SLDC that Transmission System availability has been determined as per applicable Tariff Regulations/CERC Regulations is enclosed as per Annexure-XIV (Page No.214).

DA/As above

14/12/15

Financial Advisor,
PSTCL, Patiala

14/12/15

14/12