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PUNJAB STATE TRANSMISSION CORPORATION LIMITED

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Regd. Office: PSEB Head Office, The Mall Patiala-147001,Punjab, India.

Corporate Identity Number: U40109PB2010SGC033814 (www.pstcl.org)

(Office of Chief Accounts Officer (Finance & Audit), ARR Section

3rd Floor, Shakti Sadan, Patiala)

Fax/Ph. No.0175-2970183 Email : fa@pstcl.org

To

The Dy. Registrar,
Punjab State Electricity Regulatory Commission,
Site No. 3, Madhya Marg,
Sector-18A, Chandigarh.

Memo No. 427 /CAO(F&A)/MYT-II/APR-1A

Dated: 17/2/2021

Subject: **Petition for True up for FY 2019-20, APR for FY 2020-21 & revised ARR for FY 2021-22 (Petition no. 44/2020) : Objections thereof.**

Ref: **Your office memo no. PSERC/Reg./476 dated 08.02.2021.**

In response to letter under reference please find enclosed herewith the reply of the objections raised by Nahar Spinning Mills Ltd. (Objection No. 1) on subject cited petition filed by PSTCL before PSERC.

O/C CAO (Finance & Audit),
PSTCL, Patiala.

DA/As Above (12 Copies)

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17/2/2021

CC:

Sh. Pritpal Singh (Advisor), Nahar Spinning Mills Ltd. Nahar Tower, Industrial Area-A, Ludhiana – 141003 (INDIA).

DA/As Above

OBJECTION No 1

Nahar Spinning Mills Pvt Ltd.

Comments on Petition no. 44 of 2020 filed by PSTCL for True up for FY 2019-20, Annual Performance Review of FY 2020-21 and Revised ARR and Tariff Determination for FY 2021-22 filed before the Commission appeared in Tribune and Punjab Keseri dated 01-01-2021 respectively

Objection 1:

At the outset we appreciate the proposal of PSTCL to seek capital expenditure for 2020-21 and 2021 22 in Table 39 as per approval in MYT order last year. The self-discipline of the PSTCL in controlling the expenditure needs to be followed by PSPCL also.

Reply 1:

No Comments

Objection 2:

PSTCL were constituted in 4/2010 as successor company to the then PSEB and since then Transmission losses for PSTCL system were being assumed as 2.5% on notional basis as boundary metering scheme was under implementation. In the ARR 2017-18 for MYT period of 2017-18 to 2019-20, PSTCL stated that the Transmission Losses during the period July 16 to March 16 varied between 2.76 to 7.09. Keeping in view the large-scale variations and data being yet to be firmed up, Hon'ble Commission ordered as under: -

2017-18 to 2019-20

As such, the Commission approves the Transmission losses at 2.5%, 240% 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 for 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 as under:

2017-18 (RE) 2018-19 (Proj.)

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 PSTCZ 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

In the ARR for 2019-20, Transmission loss of 3.12% (actual), 2.80% (RE) and 2.70% (Proj) for 2017-18, 2018-19 and 2019-20 respectively were submitted for approval of PSERC. Hon'ble Commission after analysing the data decided as under:

> *<u>True Up 2017-18</u>*
>
> *Therefore, the Commission is of the view that the actual transmission loss could not be assessed in the absence of truly stabilised data. As such, the Commission retains the transmission loss at 2.50% as approved in Tariff order for FY 2017-18.*
>
> *<u>RE 2018-19 and Projections 2019-20</u>*
>
> *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 loss level of 2.50% for FY 2018-19 and for FY 2019-20 and it would re-visit the transmission losses on the basis of stabilized transmission loss data for the full year during true up for these years.*

Continuing with its earlier approach and in its ARR for the last year i.e., 2018-19 (True-up), 2019-20 (RE) and Projections for MYT Control Period FY2021 to 2023 submitted Transmission Loss as 2.86% as per Actuals for 2018-19 and 3% for 2019-20 to 2022-23 for approval. Hon'ble Commission decided in TO 2020-21 as under:

> *<u>True up of 2018-19</u>*
>
> *"...PSTCL has changed the methodology of calculating the transmission losses from net input/output of energy to gross input/output of energy after the first quarter of FY 2018-19. Therefore, the above losses in different months are based on different methodologies. As the true picture of losses for the whole year is not yet available, the Commission decides to consider the transmission loss level of 2.50% for true-up of FY 2018-19, as approved in the Tariff Order for FY 2019 20."*
>
> *<u>RE for 2019-20</u>*
>
> *The Commission observes that the actual Transmission loss reported by PSTCL till December of FY 2019-20 is coming to 2.22%. Since losses in the lean months (Jan-March) are observed to be comparatively higher, the Commission decides to provisionally retain the transmission loss level at 2.50% as approved in the Tariff Order of FY 2019-20, The transmission losses for FY 2019-20 shall be revisited based on the data of actual losses for the full year during the True Up of the year:*
>
> *<u>Projections for MYT period FY 2020-21, 2021-22 and 2022-23</u>*
>
> *In the Business Plan Order including the Capital Investment Plan dated 03rd December 2019, the Commission has approved the Transmission loss trajectory of reduction of 0.02% every year for 2nd MYT Control Period. The Commission stated that the Transmission losses for the Control Period shall be specified accordingly on the basis the actual losses for FY 2019-20.*

The actual losses of FY 2019-20 were not available and accordingly, based on the transmission loss level of 2.50% approved for FY 2019-20 in this Tariff Order, the Commission decided to provisionally set the trajectory in Table 83 for 2nd MYT period as 2.48%, 2.46% and 2.44% for FY 2020-21, 2021-22 and 2022-23 respectively.

Now, PSTCL in the current ARR has submitted the actual Transmission Loss as 2.217% for 2019-20 and 2.143% for first 6 months of 2020-21. However, spite of actuals being available PSTCL has still proposed to retain the trajectory levels of 2.48% and 2.46% for 2020-21 and 2021-22 respectively.

We request the Hon'ble Commission that keeping in view the actual month wise transmission losses for 18 months as submitted by PSTCL, the transmission loss trajectory for the 2nd control period of 2020-21 to 2022-23 may be revisited and after deciding the same in view of capital expenditure sought and approve the ARR with revised targets accordingly.

We also request for revisiting the provisional loss levels approved by the Hon'ble Commission since 2010-11 and grant relief to consumers. Consumers were made liable for coal washing charges of PSPCL along with interest for previous period and on the same principles, they are entitled to relief on this count.

Reply 2:

Regulation 54.2 and 54.3 provides for filing of Transmission Loss trajectory for the Control Period by the Licensee and accordingly approval of the Commission for the Control Period.

In accordance with the above provision, the Hon'ble Commission has already approved a trajectory for transmission loss for the Control Period FY 2020-21 to FY 2022-23 in MYT Order dated 01 June 2020.

PSTCL would like to submit that as per meeting held on dated 22.01.2021 in Hon'ble PSERC Chandigarh, the netting of energy is required to be considered at I-T (Interstate PSTCL) & G-T (Generating-PSTCL) Boundary points for calculation of PSTCL Transmission Losses. In addition to it, the import energy at PSTCL-PSPCL Boundary Points (T-D) has also been considered in Input energy of PSTCL. Accordingly, SLDC have revised PSTCL's Transmission Losses for FY 2019-20, 2020-21. The Revised figures are as follows:

Month	**FY 2019-20**	**FY 2020-21**
April	3.41	2.29
May	2.09	2.43
June	3.32	2.38
July	2.65	2.48
August	2.44	2.45
September	1.95	2.57
October	2.67	2.44
November	3.13	2.58

December	3.15	2.51
January	3.19	
February	2.57	
March	2.38	
Aggregate Losses for FY	**2.694**	**2.47 (April 20-Dec. 20)**

Thus, PSTCL would like to submit that its trajectory of Transmission Losses submitted in the Petition for FY 2020-21 and FY 2021-22 are justified and request the Hon'ble Commission to approve the same as per petition.

Objection 3 & 4:

The equity of GOP in PSTCL was Rs 605.38 Cr as per FRP between 2010-11 and 2016-17. PSTCL proposed funding of Capital Expenditure with normative 30% equity and 70% funding in 1st MYT control period starting from 2017-18 by manipulating MYT regulations though ARR figures dearly showed that PSTCL will raise funds for this equity contribution through loans or alleged reinvestment of Return on Equity of the previous period. It was pointed out that this ROE belongs to the GOP to which this equity belongs. Further, the issued and subscribed share capital as on 31.3.18, 31.3.19 and 31.3.20 remained same i.e. Rs 605.88 Cr in the Annual Financial Statements of the respective years. Thus, neither there was any investment in equity nor equity shares were issued to GOP. The Profit and Loss statement for these 3 years supplied with the ARRs indicated that PSTCL incurred net profit of Rs 4.03 Cr during 2017-18 and net loss of 8.23 Cr and 34.96 Cr during 2018-19 and 2019-20 respectively. There are no free reserves as per Annual Financial Statements. In spite of objections of stake holders, tariff order 2019-20 revealed that Hon'ble Commission allowed addition in equity of 96.92 Cr (30% of capex) in True up of 2017-18 raising the equity of GOP from 605.88 Cr to 702.80 Cr without any cash flow. This is clearly wrong as the amount was not invested in cash by GOP and funding was through redeployment of profit of Rs 4.03 Cr earned during the year and balance thro' loan. It is evident that the 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%. ROE could be retained by a company to meet losses, if in loss or to pay dividends, if in profit. Accepting the sentiments of consumers, similar demand in true up of 2018-19 seeking equity addition of 73.58 Cr was rejected by PSERC.

Now in the true up of 2019-20, PSTCL has again raised demand for addition of Rs 2.16 Cr in the equity based on the actual/trued up capex. We request the Hon'ble Commission to reject the argument of PSTCL and allow this amount in the capex loan of PSTCL. We also submit that normative equity of PSTCL be withdrawn while truing up the Capital Investment Plan for 1st MYT period since this is only paper adjustment and not appearing in the Balance Sheet of 2019-20. This will give relief to consumers as the ARR will be down by about 8 Cr. Hon'ble Commission lowered the Interest on Security (Consumption) of consumers from SBI rate plus 2% to RBI rate to lower the ARR of PSPCL though the interest was ultimately paid upfront by consumers in tariff and received back at the close of year. However, here PSERC has allowed PSTCL to earn Rs 8 Cr per year merely by relocating the figures from Loan to equity and this amount is just being retained by PSPCL for meeting approved expenditure without regulatory 1 scrutiny. Moreover, the practice which was illegal beyond and after MYT period cannot become legal for one year.

In this regard we submit that 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.

PSTCL has to realise that the ROE is being retained by it and not being paid to GOP which has invested the equity. It should result in profit equivalent to ROE amount in the balance sheet of PSTCL whereas it has incurred losses indicating that it is over expanding or working inefficiently and investments are not giving returns as projected. Instead of controlling its expenditure and operating efficiently, it is trying to manipulate the loop holes of the system to earn extra money thro' ROE which is ultimately going to raise the Tariff for consumers and also the subsidy of GOP. The tariff in Punjab including ED+IDF 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.

PSERC is therefore requested to implement the provisions in true letter and spirit and do not allow conversion of loan into equity under these Regulations.

Reply 3 & 4:

PSTCL would like to submit that the Regulations provide for funding of capital expenditure as per normative debt: equity ratio of 70:30. Return on Equity approved for respective year is nothing, but profit approved in regulatory books. For funding of capital expenditure, PSTCL may utilize 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 the ARR, interest on working capital loan is approved on normative basis. The amount claimed until FY 2018-19 has been from reinvestment of amount of return on equity it earned in previous years. PSTCL would like to submit that it has liberty to invest its profit which is as per applicable MYT Regulations. PSTCL has considered the funding of Capital Expenditure entirely through loans in FY 2019-20 in this Petition which is in line with the methodology adopted by Hon'ble Commission in Truing-up of FY 2018-19.

With regards to the addition of Rs. 2.16 Crore in Equity balance, it is submitted that the addition in Equity is due to the Truing-up of Capital Expenditure for First Control Period, which is to be claimed in the Truing-up of last year of Control Period as per the Regulations.

Objection 5:

As per Balance Sheet for 2019-20, PSTCL has Other Equity (Reserves and Surpluses) of Rs 2212.12 Cr and Equity of Rs 605.88 Cr, which works out to 3.65 times the equity amount. Consumers are being made to pay 15.5% ROE on 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 5:

PSTCL would like to submit that the Return on Equity for FY 2019-20 as claimed in the Petition is on the basis of Closing Equity of last year as approved in Truing-up Order by the Hon'ble Commission. Comparing the Regulatory Equity with the actual Equity in Audited Accounts is not the right approach. The Hon'ble Commission has been approving Return on Equity of 15.5% on the Regulatory Equity of 605.88 Crore as per Regulations, which has no linkage to the Other Equity in the books of Accounts as mentioned by the Objector.

PSTCL is entitled to claim ROE on the Regulatory Equity approved by the Hon'ble Commission irrespective of whether there is any 'Other Equity' available in the books of Accounts or not.

Objection 5(b):

The input energy at Punjab Periphery for 2019-20 (Table 16) has been indicated as 62463.77 MUS. However, PSPCL in its ARR (Table D6) has worked out the energy input at state periphery as 57140.39 MUS. PSPCL has claimed combined actual T&D Loss of 14.69% for 2018-19 though separate Loss Levels have been approved for the utilities individually. This needs to be looked into and Energy availability need to counted as per actual or approved trajectory separately for Transmission and distribution system.

Reply 5 (b):

It is submitted that the energy input of 62463.77 MUs measured at Punjab periphery for FY 2019-20 (Table 16) is submitted in the Petition on the basis of actual metered energy measured at all interface / injection points of state periphery.

Objection 6:

Total Transmission Capacity calculated as 13228.30 MW at Page 364 for 2020-21 is wrong and should be 11997.29 MW.

Reply 6:

PSTCL submits that 11997.29 MW is the Transmission Capacity with PSPCL at the end of FY 2019-20 as shown on Page 361 of the Petition. The Transmission capacity with PSPCL is expected to increase to 13228.30 MW in FY 2020-21 and 12876.33 MW in FY 2021-22 as shown on page 364 and page 367 respectively. The actual Transmission capacity for FY 2020-21 and FY 2021-22 can only be submitted at the time of Truing-up of respective years.

Objection 7:

The total contracted capacity of PSPCL in the year 2021-22 is given as 12876.33 MW in Table T 22. However, transformation capacity of PSTCL on 31.3.2020 is 37708.67 MVA which is 2.8 times the peak demand of 13600 MW met so far and 2.9 times of the contracted capacity. capital investment plan of PSTCL need to be reviewed and either it should be commensurate with the reduction trajectory of Transmission loss to give relief to consumers. PSTCL/SLDC may also be directed to carry out TTC and ATC studies for the state system to determine the safe transfer capacity and publish it on web site.

Reply 7:

The objection with respect to Transformation Capacity of 37708.67 MVA against peak demand of 12876.33 MW is not tenable as the same has not been supported by any technical reasons. The transformation capacity of PSTCL is on lesser side as compared to the LGBR Report and National Power Portal as shown in the following table.

Description	LGBR Report of FY 2020-21 & National Power Portal	PSTCL
Transformation Capacity in the end of FY 2019-20	9,67,893 MVA	37708.67 MVA
Demand Met	1,82,533 MW	13600 MW

From the above comparison we can conclude that transformation capacity to peak demand ratio can be much higher to meet the demand. Transmission networks are not linear in nature and transmission capacities are planned keeping in mind all the variables of present and future. In addition to this, Transmission networks are planned to maintain (n-1) criteria, which specifies that alternate supply shall be available at all times if main supply is disrupted. So, transformation ratio always far outstrips peak demand or contracted capacity.

Objection 8:

As brought out on Page 30-31 and 59 of current ARR, PSTCL has some reservation on net or gross employee cost for calculation of Employee cost. 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 but was not agreed to by PSERC and as submitted by PSPCL in these paras of ARR, PSTCL has approached APTEL on the issue. PSERC is requested to implement MYT regulations as these have attained finality and matter need to be perused vigorously in APTEL.

It is also submitted that Hon'ble Commission should also file SLP's in Hon'ble Supreme Court in cases where its orders are reversed by APTEL as is being done by the PSPCL/PSTCL who are approaching Supreme Court against PSERC.

Reply 8:

It is submitted that PSTCL has worked out the normative O&M expenses (including employee expenses) for FY 2019-20, on the basis of MYT Regulations, 2014 amended from time to time, while it has claimed the normative O&M expenses for FY 2020-21 and FY 2021-22 in line with the provisions of MYT Regulations, 2019.

PSTCL has claimed the actual O&M expenses (including employee expenses) in Truing-up of FY 2019-20, since it is lower than the normative O&M expenses which is computed in line with the Regulations. The approach is in accordance with the methodology adopted by the Hon'ble Commission in previous Truing-up Orders.

CAO (Finance & Audit),
PSTCL, Patiala.