



**West Bengal State Electricity Distribution
Company Limited**



Application seeking
Annual Performance Review for 2017-18

Submitted to the
**HON'BLE WEST BENGAL ELECTRICITY REGULATORY
COMMISSION**

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RUPEES

Rs.10

INDIA NON JUDICIAL



पश्चिम बंगाल WEST BENGAL
BEFORE THE NOTARY PUBLIC

27AB 574823

BEFORE THE HONOURABLE WEST BENGAL
ELECTRICITY REGULATORY COMMISSION

Filing No. _____

Case No. _____

IN THE MATTER OF: Annual Performance Review (APR) of West Bengal State Electricity Distribution Company Limited (WBSEDCL) for the year 2017-18 as per regulation 2.6 of West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2011 as amended.

And

IN THE MATTER OF: West Bengal State Electricity Distribution Company Limited, Vidyut Bhawan, Block DJ, Sector – II, Bidhannagar, Kolkata – 700 091

B. N. SAHA
NOTARY

Bikash Bhawan
North Block, 1st Floor
Bidhannagar, Kolkata
West Bengal

Sudipta Ghosh
Chief Engineer (Regulation)
Regulation Department
WBSEDCL

06 DEC 2018

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I, Sri Sudipta Mukhopadhyay, son of Late Deb Kumar Mukhopadhyay, aged 55 years residing at 2 Kundan Bye Lane, Liluah Howrah – 711204 do solemnly affirm and say as follows:

1. I am the Chief Engineer (Regulation)(Officiating) of the West Bengal State Electricity Distribution Company Limited, petitioner in the above matter, and am duly authorised by the said petitioner to make this affidavit for and on its behalf.
2. The statements made in chapters 1 to 3 herein now shown to me and marked with the letter "A" with Annexure-I to IV of Volume-I and Volume-II are true to my knowledge and nothing material has been concealed from the statements so made.

Solemnly affirm at Kolkata on this 6th day of December'2018 that the contents of this affidavit are true to my knowledge, no part of it is false or nothing material has been concealed there from and misleading material included therein.

Sudipta Mukhopadhyay
Chief Engineer (Regulation)
Regulation Department
WBS

B. N. SAHA
NOTARY
Bikesh Bhawan
North Block, Gr. Floor
Bdhanagar, Kolkata
West Bengal

Identified by me
[Signature]
Advocate

Solemnly Affirmed
&
Declared Before me
a Identification of Advocate

[Signature]
B. N. SAHA
NOTARY

06 DEC 2018



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Application seeking Annual Performance Review for 2017-18

**BEFORE THE HON'BLE WEST BENGAL ELECTRICITY
REGULATORY COMMISSION**



Filing No. _____

Case No. _____

IN THE MATTER OF: Application seeking Annual Performance Review
for annual fixed charges for the year 2017-18 under
regulation 2.6 of the West Bengal Electricity
Regulatory Commission (Terms and Conditions of
Tariff) Regulations, 2011 as amended.

AND

IN THE MATTER OF: West Bengal State Electricity Distribution Company
Limited, Vidyut Bhavan, Block – DJ, Sector – II,
Bidhannagar, Kolkata – 700 091.

THE APPLICANT ABOVE NAMED RESPECTFULLY SUBMITS

West Bengal State Electricity Distribution Company Limited

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Sudipto Choudhury
Chief Engineer (Regulation)
Regulation Department
WBSEDCL



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Abbreviations

A&G	Administrative and General
APR	Annual Performance Review
APTEL	Appellate Tribunal for Electricity
BRGF	Backward Region Grant Fund
CCC	Customer Care Center
CTU	Central Transmission Utility
ERPC	Eastern Region Power Committee
FPPCA	Fuel and Power Purchase Cost Adjustment
IVRS	Interactive Voice Response System
MCSU	Mobile Consumer Service Unit
MPLS	Multiprotocol Label Switching
MYT	Multi Year Tariff
NTESC	M/s New Town Electric Supply Co.
O&M	Operation and Maintenance
R&M	Repair and Maintenance
R-APDRP	Restructured Accelerated Power Development and Reform Programme
RGVY	Rajiv Gandhi Grameen Vidyutikaran Yojana
SOP	Standards of Performance
STU	State Transmission Utility
VPN	Virtual Private Network
WBERC	West Bengal Electricity Regulatory Commission
WBSEB	West Bengal State Electricity Board
WBSEDCL	West Bengal State Electricity Distribution Company Limited
WBSETCL	West Bengal State Electricity Transmission Company Limited
ZCC	Zonal Call Center

*Sudipto Bhattacharya*Chief Engineer (Regulation)
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1. Introduction



1.1. Preamble

- 1.1.1 This section presents the background and reasons for filing this Application.

1.2. Introduction

- 1.2.1 WBSEDCL is deemed to be a licensee under the Act in terms of fifth proviso to Section 14 of the Act. WBSEDCL is presently engaged in the business of Generation of solar and hydro-electricity and Distribution of electricity within the area of supply of WBSEDCL in the state of West Bengal.
- 1.2.2 The Hon'ble West Bengal Electricity Regulatory Commission has issued the West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2011 (hereinafter referred as tariff Regulation) which has come into effect from 29th April, 2011. The said Tariff Regulations, 2011 were further amended by notifying the West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) (Amendment) Regulations, 2012 in the extra ordinary edition of The Kolkata Gazette dated 27th August, 2012 and West Bengal Electricity Regulatory Commission (Terms and Conditions of Tariff) (Amendment) Regulations, 2013 in the extra ordinary edition of The Kolkata Gazette dated 30th July, 2013.
- 1.2.3 As per the provisions stipulated in Regulation 2.6 of the Tariff Regulations, the licensee shall be subjected to an Annual Performance Review (hereinafter referred to as "APR") covering annual fixed costs, which are not covered under the process of Fuel and Power Purchase Cost Adjustment (hereinafter referred to as "FPPCA"). The relevant



provisions of the Tariff Regulations are reproduced below for reference.

"2.6.1 The generating company / licensee shall make an application seeking an annual performance review for fixed cost, incentives as per Schedule-10 and effects of gain sharing for the concerned period as per Schedule - 9B for an ensuing year or the base year with statutory audited data and a copy of the audited Annual Accounts for that year by November of the immediate next ensuing year of each such ensuing year or base year, as the case may be. The generating company or licensee shall provide such related information for APR as per the format for tariff application limited to the year under review for the purpose of assessing the reasons and extent of any variation in the performance from the approved projection. A comparative statement showing the different elements of fixed cost as approved in the tariff order of the concerned ensuing year as well as the actual audited figure against such element shall be given."

- 1.2.4 According to the above regulatory provision, the timeline for filing of the APR Application for 2017-18 was 30th November 2018. WBSEDCL in its letter no. REG/SERC/268 dated 28th November 2018 prayed for extension of such timeline for filing of APR Application in view of proposed financial restructuring scheme, which is currently under consideration of the Govt. of West Bengal. On prayer of WBSEDCL, the Hon'ble Commission as per its order dated 6th December 2018 has extended the last date of submission of the APR Application for 2017-18 up to 31st January 2019. However, WBSEDCL hereby submits the APR Application for 2017-18 on 7th December 2018 without considering any impact of the proposed restructuring scheme.

Sudipto Chakraborty
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1.3. Submission by WBSEDCL to the Hon'ble Commission

- 1.3.1 WBSEDCL hereby submits the Application as per provisions of the Tariff Regulations framed under section 62 of the Act seeking an Annual Performance Review for the annual fixed charges for the year 2017-18 and based on Audited Annual Accounts for the said year.
- 1.3.2 Such APR Application has been furnished with necessary related information as per format for tariff application for the purpose of assessing the reasons and extent of variation in the performance from the approved projection. This APR Application consists of six (6) volumes of submissions as follows.
- (i) APR Application;
 - (ii) Volume-I – Data Formats and other supporting documents having Annexure-I to IV;
 - (iii) Volume-II – Compliance report having Annexure-1 to 54;
 - (iv) Appendix-I - Copy of the Audited Annual Report & Accounts of WBSEDCL for 2017-18;
 - (v) Appendix-II - Copies of the Audited Annual Accounts of Pension Fund, Gratuity Fund, Contributory Provident Fund and General Provident Fund Trustee Board of WBSEDCL for 2017-18;
 - (vi) Appendix-III - Copies of rate revision orders for different outsourcing contracts marked as Annexure-I to Annexure-V;
 - (vii) Appendix-IV – Copies of supporting documents for new loans drawn during 2017-18;
 - (viii) Appendix-V – Copies of Lease Rental Bills and LOAs, Cost Audit Report for 2017-18, and Income Tax Assessments for AY 2015-16 and AY 2016-17.

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2. Annual Performance Review for 2017-18



2.1 Introduction

- 2.1.1 This section outlines the performance of WBSEDCL for the year 2017-18. In line with the provisions of the Tariff Regulations, WBSEDCL hereby submits the Application for APR for the year 2017-18, comparing the audited actual fixed costs for 2017-18 with those admitted by the Hon'ble Commission vide the Tariff Order for 2017-18.
- 2.1.2 The Board of Directors of WBSEDCL has approved the Annual Accounts of WBSEDCL for the period from April 2017 to March 2018 on 06.09.2018 after the Independent Statutory Auditors M/s De & Bose have audited the Accounts. The Comptroller and Auditor General of India, vide report dated 27.09.2018 has completed the Audit of WBSEDCL Annual Accounts. The Audited Annual Report & Accounts of WBSEDCL for 2017-18 is enclosed as Appendix-I of this APR Application. WBSEDCL hereby proposes to review its fixed costs based on the Audited Annual Accounts.
- 2.1.3 As per para 1.2.1.(iii) of WBERC MYT regulations, 2011:
- '... "Accounts" means regulatory accounts as may be specified by the Commission and till such time these are specified by the Commission, the said accounts shall be the accounts as maintained in accordance with the Companies Act, 1956 (1 of 1956) or the relevant statutes or repealed statutes under which the licensee or the generating company is incorporated or created but subject to such deviations as specified in these regulations and / or prescribed in the rules made under sub-section (1) of section 69 of the Electricity Supply Act, 1948;'*



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The Companies Act 2013 has replaced the Companies Act 1956 after receiving the assent of the President of India on 29.08.2013.

Hence, as per Rule 4, of Section 133 of Companies Act 2013:

"The following companies shall comply with the Indian Accounting Standards (Ind AS) for the accounting periods beginning on or after 1st April, 2016, with the comparatives for the periods ending on 31st March, 2016, or thereafter, namely:

a) Companies whose equity or debt securities are listed or are in the process of being listed on any stock exchange in India or outside India and having net worth of rupees five hundred crore or more;

b) Companies other than those covered by sub-clause (a) of clause (ii) of sub-rule (1) and having net worth of rupees five hundred crore or more;

c) Holding, subsidiary, joint venture or associate companies of companies covered by sub-clause (a) of clause (ii) of sub-rule (1) and sub-clause (b) of clause (ii) of sub-rule (1) as the case may be;..."

2.1.4 In the light of above, the financial statements of WBSEDCL have been prepared to comply in all material aspects with Indian Accounting Standards (Ind AS) notified under Section 133 of the Companies Act, 2013, Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) Amendment Rules, 2016 and other relevant provisions of the Companies Act.

2.1.5 The financial statements up to 2015-16 were prepared in accordance with generally accepted accounting principles in India (Previous GAAP) to comply with the Accounting Standards specified under Section 133 of the Companies Act, 2013 as applicable.



- 2.1.6 The financial statements for 2016-17 are the first financial statements of the Company under Ind AS. In Note 55 of the Audited Annual Accounts of 2016-17- "First-time adoption of Ind AS", an explanation of how the transition from previous GAAP to Ind AS has affected the Company's financial position, financial performance and cash flows was provided.
- 2.1.7 The accounting policies set out as per Ind AS, have been applied in:
- Preparation of an opening Ind AS balance sheet at 1 April 2015 (the Company's date of transition).
 - The comparative information presented in these financial statements for 2015-16, with recasting profit and loss account & balance sheet for the year 2015-16.
 - Preparing the financial statements from 2016-17 onwards.
- 2.1.8 In the light of above, adoption of Ind AS (as against GAAP) has impacted the annual accounts, notes and explanations thereof, in the following ways:
- Difference in presentation of certain account balances;
 - Difference in valuation of assets and liabilities, and recognition of income and expenditures; and
 - Difference in opening balances as compared to their closing balances in the previous financial year.
- 2.1.9 Due to b and c above, the net financial impact, in the current financial statements for 2017-18 has been considered in this APR Application for 2017-18. Relevant balance portions of the net financial impact will be amortized in the future financial statements of WBSEDCL as per provisions of Ind AS. Accordingly, adjustments will be considered in the APR Applications for the respective future years.





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2.2 Central Transmission Utility (CTU) charges

- 2.2.1 Comparison of actual Central Transmission Utility charges (hereinafter referred to as "CTU charges") for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 1: CTU charges for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
PGCIL charges	66,447	60,325
PGCIL arrear dues		3,906
NVVN Ltd (Reimbursement for interstate transfer of solar power)		670
Less: Rebate for timely payment		-17
Add: Transmission Charge pertaining to purchase of short-term power		9,131
Total CTU charges	66,447	74,015

- 2.2.2 Such CTU charges are paid to the Central Transmission Utility (i.e. PGCIL in this case) by WBSEDCL for using the transmission network of PGCIL for wheeling of power purchased by WBSEDCL from various entities. Such CTU charges are as per charges approved by the Central Electricity Regulatory Commission (hereinafter referred to as "CERC").
- 2.2.3 As per the Audited Annual Accounts of WBSEDCL for 2017-18, the CTU Charges in 2017-18 is Rs. 74,015 lakh, which includes PGCIL charges of Rs. 60,325 lakh, PGCIL arrear dues of Rs. 3,906 lakh, NVVN Ltd (reimbursement of interstate transfer of solar power) of Rs. 670 lakh (refer Note No. 32(B) of the Audited Annual Accounts of 2017-18), less rebate of Rs. 17 lakh for timely payment of central



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transmission charges (refer Note No. 32.3 of the Audited Annual Accounts of 2017-18).

2.2.4 In addition, Rs. 9,131 lakh is paid by WBSEDCL in 2017-18 as Open Access charge for purchase of short-term power through traders and power exchanges (refer Auditor Certificate in Annexure-II of Volume-I containing break-up of power purchase cost mentioned in the Audited Annual Accounts). Such Open Access charge is transmission charge in nature and a fixed cost item as per the Tariff Regulations. Hence it has not been considered in the Application for FPPCA for 2017-18 and such cost paid is now considered as part of the CTU charges in this APR Application for 2017-18 (refer para 7(j) of FPPCA Application of 2017-18).

2.2.5 So, Rs. 74,015 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as CTU charges in the APR for 2017-18.

2.3 System operation charges payable to POSOCO (Power System Operation Corporation Limited)

2.3.1 Comparison of actual POSOCO charges for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 2: POSOCO charges for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
POSOCO charges	543	301
Less: POSOCO (Arrear dues)		(330)
Total POSOCO charges	543	(29)

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WBSEDCL



- 2.3.2 Such POSOCO charges are paid by WBSEDCL to POSOCO on account of integrated operation of the national power grid while the power purchased by WBSEDCL from various entities is wheeled across the central transmission grid. Such charges are payable as determined by CERC. For the year 2017-18, WBSEDCL has a net receivable of Rs. 29 Lakhs from POSOCO, on account of arrears due to the tune of Rs. 330 Lakhs from POSOCO to WBSEDCL.
- 2.3.3 As per the Audited Annual Accounts of WBSEDCL for 2017-18, the POSOCO charges in 2017-18 is Rs. (29) lakh (refer Note No. 32(B) of the Audited Annual Accounts of 2017-18), which may be considered by the Hon'ble Commission as the system operation charges payable/ (receivable) to POSOCO in the APR for 2017-18.

2.4 Eastern Region Power Committee (ERPC) charge

- 2.4.1 Comparison of actual Eastern Region Power Committee charge (hereinafter referred to as "ERPC charge") for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 3: ERPC charge for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
ERPC charge	16	16

- 2.4.2 Such ERPC charge is paid by WBSEDCL, it being a member of ERPC for safe and secure operation of the Eastern Regional power grid.
- 2.4.3 As per the Audited Annual Accounts of WBSEDCL for 2017-18, the ERPC charge in 2017-18 is Rs. 16 lakh (refer Note No. 32(C) of the

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WBSEDCL



Audited Annual Accounts of 2017-18), which may be considered by the Hon'ble Commission as the ERPC charge in the APR for 2017-18.

2.5 State Transmission Utility (STU) charges

- 2.5.1 Comparison of actual State Transmission Utility charges (hereinafter referred to as "STU charges") for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 4: STU charges for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
WBSETCL charges	1,22,130.76	1,14,904

- 2.5.2 Such STU charges are paid to the State Transmission Utility (i.e. WBSETCL in this case) by WBSEDCL for using the transmission network of WBSETCL for transmitting power purchased/generated by WBSEDCL. Such STU charges are as per tariff order for WBSETCL for 2017-18 as approved by the Hon'ble Commission.
- 2.5.3 In this context, it has been noted that other state distribution licensees on regular basis are using state transmission network without any long term agreement to avoid payment of STU charge on such usage. Instead, these distribution licensees are making short term booking of STU, thus paying $\frac{1}{4}^{\text{th}}$ of such STU charge as per regulation. The reference for the same is attached as Annexure-III of Volume-I of this APR Application. Hence, the above matter is brought to the knowledge of the Hon'ble Commission so that necessary amendment of regulations can be taken up to avoid incidence as stated above.



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- 2.5.4 As per the Audited Annual Accounts of WBSEDCL for 2017-18, transmission charges paid to WBSETCL in 2017-18 is Rs. 1,14,904 lakh, (refer Note No. 32(B) of the Audited Annual Accounts of 2017-18).
- 2.5.5 Such STU charges of Rs. 1,14,904 lakh, incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as STU charges in the APR for 2017-18.
- 2.5.6 The above amount of Rs. 1,14,904 lakh has been charged by WBSETCL based on Tariff Order for 2016-17, as the Tariff Order for 2017-18 has been issued after 31.03.2018. The Hon'ble Commission in WBSETCL's Tariff Order for 2017-18 has determined WBSEDCL's STU charges for 2017-18 to be Rs. 1,22,130.76 lakh to be payable in eight (8) equal monthly instalments from July 2018 onwards. Hence, such instalment payments made by WBSEDCL will be accounted as 'arrear' in WBSEDCL's books of account for 2018-19. Accordingly, WBSEDCL will claim such charges in the APR Application for 2018-19.

2.6 State Load Despatch Centre (SLDC) charges

- 2.6.1 Comparison of actual SLDC charges for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 5: SLDC charges for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
SLDC charges	1,862.3	1,659
SLDC charges (arrear dues)		1
Total	1,862.3	1,660



2.6.2 Such SLDC charges are paid by WBSEDCL to West Bengal SLDC on account of safe and secure operation of the state power grid. The state grid is utilized for wheeling of the power purchased by WBSEDCL from various entities. The SLDC charges are paid as per the rate determined by the Hon'ble Commission.

2.6.3 As per the Audited Annual Accounts of WBSEDCL for 2017-18, the total SLDC charges in 2017-18 is Rs. 1,660 lakh, which includes SLDC charges of Rs. 1,659 lakh and SLDC arrear dues of Rs. 1 lakh (refer Note No. 32(D) of the Audited Annual Accounts of 2017-18).

2.6.4 Such SLDC charges of Rs. 1,660 lakh, incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the SLDC charges in the APR for 2017-18.

2.7 Reactive Energy (VARH) charge

2.7.1 Comparison of actual VARH charges for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 6: VARH charges for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
VARH charges	0	1,526

2.7.2 ERLDC claims VARH charges from West Bengal SLDC on weekly basis as per VARH drawal at various Inter State Transmission Services (ISTS) inter connection points at high and low voltage as per CERC Indian Electricity Grid Code (IEGC) Regulations, 2010. West Bengal SLDC in turn raises invoices to all the distribution licensees of the state

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including WBSEDCL. Such VARH charges are paid by WBSEDCL to West Bengal SLDC.

However, as per regulation no. 4.6.1(a) of IEGC, 2010 regulations *'Reactive Power Compensation and/or other facilities shall be provided by STUs and users connected to ISTS as far as possible in the low voltage systems close to the load points thereby avoiding the need for exchange of Reactive Power to/ from ISTS and to maintain ISTS voltage within the specified range'.*

Further as per 4.6.1 (b) of IEGC, 2010 regulations,

'...The users and STUs shall provide information to RPC and RLDC regarding the installation and healthiness of the reactive compensation equipment on regular basis. RPC shall regularly monitor the status in this regard.'

Hence, it must be noted that VARH charges being incurred by WBSEDCL is not a case of inefficiency from the end of WBSEDCL.

2.7.3 As per the Audited Annual Accounts of WBSEDCL for 2017-18, the total VARH charges in 2017-18 is Rs. 1,526 lakh (refer Note No. 32€ of the Audited Annual Accounts of 2017-18).

2.7.4 Such VARH charges of Rs. 1,526 lakh, incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the VARH charges in the APR for 2017-18 as these are uncontrollable in nature.

2.8 Interest on Bonds for creation of Pension Fund

2.8.1 Comparison of actual interest on Bonds for creation of Pension Fund for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

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Table 7: Interest on Bonds for creation of Pension Fund for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Interest on Pension Trust Bond	10,404	11,806



- 2.8.2 As per the Audited Annual Accounts of 2017-18, Rs. 11,806 lakh is paid by WBSEDCL to the Pension Trust fund as interest on bond for creation of Pension Fund in 2017-18 (refer Note No. 34 (IV) of the Audited Annual Accounts of 2017-18). Copy of the audited accounts of the Pension Trust Fund for 2017-18 is enclosed as Appendix-II of this APR Application.
- 2.8.3 The Hon'ble Commission for the same period vide the Tariff Order for 2017-18 admitted an amount of Rs. 10,404 Lakh as interest on Pension Trust Bond. During the year, redemption of Rs. 30,600 Lakh has been incurred on Pension Trust Bonds (refer Note No. 15(B)(vi) of the Audited Annual Accounts of 2017-18). The same had been projected as one time redemption in the beginning of the year. However, the redemption has happened in 12 equal installments over the entire year. Due to the assumption of one time repayment at the beginning of the year, the projected interest on pension bond is slightly higher than the actual interest expense.
- 2.8.4 Thus, interest on pension trust bond of Rs. 11,806 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the interest on pension trust bond in the APR for 2017-18.
- 2.9 Interest on consumers' security deposits**
- 2.9.1 Comparison of actual amount of interest on consumers' security deposits for 2017-18 against that admitted by the Hon'ble Commission



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for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 8: Interest on consumers' security deposits for 2017-18

Particulars	2017-18 (Admitted)	2017-18 (Actual)
Interest on consumers' security deposits	11,500	15,438

Rs. Lakh

- 2.9.2 As per the Audited Annual Accounts of 2017-18, actual interest incurred in 2017-18 on security deposits from consumers is Rs. 15,438 lakh (refer Note No. 34(V) of the Audited Annual Accounts of 2017-18).
- 2.9.3 WBSEDCL in its Tariff Petition for 2017-18 projected the Interest on consumers' security deposits as Rs. 11,500 lakh based on the following justification:

Quote from WBSEDCL Tariff Petition for 2017-18:

"Para 6.10 As per Regulation 4.1 of the WBERC (Miscellaneous Provisions) Regulations, 2013, the amount of security deposit to be submitted by a consumer depends on the prevailing tariff for the concerned consumer category... Since the category wise tariff for the year FY 18 is not known, WBSEDCL has considered the interest on security deposit's Year-on-Year growth rate of 6% in FY 16 over FY 15 for projecting for FY18. However, actual interest on consumer security deposit will be claimed at actuals in the APR Petition for the respective ensuing year."

Accordingly, the Hon'ble Commission in the Tariff Order for 2017-18 admitted the amount of Rs. 11,500 lakh as claimed by WBSEDCL as interest on consumers' security deposits for 2017-18. Further, in para



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5.11 of Tariff Order 2017-18 dated 4th July, 2018, the Hon'ble Commission states *"The entire amount is allocated to distribution function. During truing up the amount on this head will be allowed on actual basis as per Regulation 5.6.5.3."*



- 2.9.4 In compliance to the directives of the Hon'ble Commission in para 5.13 of the Tariff Order for 2017-18, an auditor certificate, certifying the break-up of security deposit from consumers, interest incurred on consumer security deposits, and utilization of security deposit for 2017-18, is enclosed as Annexure-14A of Volume-II of this APR Application.
- 2.9.5 The interest on consumers' security deposits of Rs. 15,438 lakh accounted for by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the interest on consumers' security deposits in the APR for 2017-18.

2.10 Carrying cost of regulatory asset

- 2.10.1 In paragraph 8.2.2 (b) of the Tariff Policy, the carrying cost of regulatory asset has been recommended. Relevant portion of Tariff Policy is reproduced below:

"Tariff Policy

8.2.2. The facility of a regulatory asset has been adopted by some Regulatory Commissions in the past to limit tariff impact in a particular year. This should be done only as exception, and subject to the following guidelines:

- a. The circumstances should be clearly defined through regulations, and should only include natural causes or force majeure conditions. Under business as usual conditions, the opening balances of uncovered gap must be covered through transition financing arrangement or capital restructuring;*



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- b. Carrying cost of Regulatory Asset should be allowed to the utilities;
- c. Recovery of Regulatory Asset should be time-bound and within a period not exceeding three years at the most and preferably within the control period;
- d. The use of the facility of Regulatory Asset should not be repetitive;
- e. In cases where regulatory asset is proposed to be adopted, it should be ensured that the return on equity should not become unreasonably low in any year so that the capability of the licensee to borrow is not adversely affected."



2.10.2 This provision is consistent to the Electricity Act 2003 on the ground that such cost is an entitled amount to WBSEDCL as a reasonable and recoverable cost. The relevant part of the Section 61 of the Electricity Act 2003 is reproduced herein below:

"61. The Appropriate Commission shall, subject to the provisions of this Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the following namely:-

- (a) The principles and methodologies specified by the Central Commission for determination of the tariff applicable to generation companies and transmission licensees;
- (b) The generation, transmission, distribution and supply of electricity are conducted on commercial principles;
- (c) The factors which would encourage competition, efficiency, economical use of the resources, good performance and optimum investments;
- (d) Safeguarding of consumers interest and at the same time, recovery of the cost of electricity in a reasonable manner;

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- (e) The principles rewarding efficiency in performance;
- (f) Multi year tariff principles;
- (g) That the tariff progressively reflects the cost of supply of electricity and also, reduces and eliminates cross-subsidies within the period to be specified by the Appropriate Commission;
- (h) The promotion of co-generation and generation of electricity from renewable sources of energy;
- (i) The National Electricity Policy and tariff policy;



Provided that the terms and conditions for determination of tariff under the Electricity (Supply) Act, 1948, the Electricity Regulatory Commission Act, 1998 and the enactments specified in the Schedule as they stood immediately before the appointed date, shall continue to apply for a period of one year or until the terms and conditions for tariff are specified under this section, whichever is earlier."

- 2.10.3 Such provision of tariff policy is also recognizable under Tariff Regulations framed by Hon'ble WBERC.
- 2.10.4 While considering the APR Application of WBSEDCL, Hon'ble Commission is under obligation to allow the carrying cost of the regulatory asset created and the licensee cannot be burdened with the cost of financing the regulatory asset created by the Hon'ble WBERC.
- 2.10.5 For that the huge regulatory asset and the cost of financing such revenue shortfall in WBSEDCL's business also severely affects its credibility and thereby affects its ability to raise loans from financial institutions. WBSEDCL respectfully submits that the expenses incurred by it for the purpose of distribution of electricity are in the nature of pass through costs. Such costs are required to be borne by the consumer as the cost for availing supply of electricity. The same



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cannot be allowed to be under-charged every year, in contrast to the spirit of cost reflective tariffs to be implemented as stipulated by Tariff Policy.

- 2.10.6 Moreover in case no. OP NO. 1 of 2011 dated 11th Nov 2011, the Hon'ble Appellate Tribunal for Electricity (hereinafter referred to as the "Hon'ble APTEL") has also directed to pass the carrying cost of regulatory asset and such order has been accepted by all quarters. The relevant para of the OP No. 1 of 2011 is reproduced herein below:

"65 (iv) In determination of ARR/tariff, the revenue gaps ought not to be left and Regulatory Asset should not be created as a matter of course except where it is justifiable, in accordance with the Tariff Policy and its Regulations. The recovery of the Regulatory Asset should be time bound and within a period not exceeding three years at the most and preferably within the Control Period. Carrying cost of Regulatory Asset should be allowed to the utilities in the ARR of the year in which the Regulatory Assets are created to avoid problem of cash flow to the distribution licensee."

- 2.10.7 Thus in line with the Tariff Policy, Electricity Act 2003 and above referred order of the Hon'ble APTEL, the carrying cost is being claimed hereunder which shall be considered in the APR for the year 2017-18 so that WBSEDCL may carry out its business in a reasonable and efficient manner.
- 2.10.8 Further it is submitted that Tariff Regulation provides that interest on working capital shall be based in the Short term Prime Lending Rate (PLR) of SBI as on the 1st April of the year preceding the ensuing year. It may also be noted that this Hon'ble APTEL in Appeal no. 173 of 2012 dated 18th December 2013 held that:

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"Para 4(iii) Rate of interest on working capital for FY 2011-12 and 2012-13.

13. The State commission has erroneously allowed rate of interest on working capital at 11.75% for FY 2011-12 and 2012-13. The State commission should have allowed the interest rate of 13% for FY 2011-12 and 14.75% for FY 2012-13, based on SBI Prime Lending Rate as on 1st April of the respective year in accordance with its MYT Tariff Regulations."



2.10.9 Accordingly, the SBI PLR of 1st April 2016, i.e. 14.05% has been considered for computation of carrying cost of the regulatory assets for 2017-18 which may be considered in the APR for 2017-18. The details are given below:

- a) As per the APR Application of WBSEDCL for 2013-14 submitted on 30th November 2014, the Hon'ble Commission is yet to publish the order. As per the APR Application, the net amount of Rs. 3,66,267 lakh is recoverable from the consumers after taking into consideration both the FPCCA and APR for 2013-14.

Furthermore, the Government of West Bengal vide letter no. 148-PO/O/VS/55-30/2016 dated 05.09.2016 sanctioned to WBSEDCL grant of Rs. 2,64,709 lakh against regulatory receivables. Out of this grant amount, the Hon'ble Commission in the Tariff Order for 2016-17 made adjustment of Rs. 1,65,488 lakh against balance regulatory assets of WBSEDCL, and stated that the balance grant amount of Rs. 99,221 lakh will be adjusted subsequently against APR and FPCCA claims for the year 2013-14 onwards. Relevant extracts are provided below:

"Para 2.2 ... The balance amount of grant of Rs. 99221.00 lakh (Rs. 264709.00 lakh – Rs. 165488.00 lakh) will be adjusted

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subsequently against any recoverable amount through APR and FPPCA claim for the year 2013 – 2014 onwards.”

The Government of West Bengal has released the entire grant amount to WBSEDCL by FY 2017-18 (refer Note No. 12.8 of the Audited Annual Accounts of 2017-18). Hence, the amount of Rs. 99,221 lakh is now adjusted from the total claim of Rs. 3,66,267 lakh for computation of carrying cost.

The computation of such carrying cost has been done for 2017-18 and is enclosed as Annexure-IV of Volume-I of this APR Application.

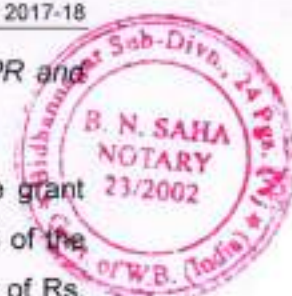
So the carrying cost for the above stated amount to be claimed in this APR application is Rs. 44,490 lakh during 2017-18.

- b) As per the APR Application of WBSEDCL for 2014-15 submitted on 30th November 2015, the Hon'ble Commission is yet to publish the order. As per the APR Application, the net amount of Rs. 2,87,421 lakh is recoverable from the consumers after taking into consideration both the FPPCA and APR for 2014-15. As a result WBSEDCL had to bear the carrying cost on the above amount for 2017-18.

The computation of such carrying cost has been done for 2017-18 and is enclosed as Annexure-IV of Volume-I of this APR Application.

So the carrying cost for the above stated amount to be claimed in this APR application is Rs. 40,383 lakh during 2017-18.

- c) As per the APR Application of WBSEDCL for 2015-16 submitted on 30th November 2016, the Hon'ble Commission is yet to publish the order. As per the APR Application, the net amount of Rs. 4,27,098





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lakh is recoverable from the consumers after taking into consideration both the FPCCA and APR for 2015-16. As a result WBSEDCL had to bear the carrying cost on the above amount for 2017-18.



The computation of such carrying cost has been done for 2017-18 and is enclosed as Annexure-IV of Volume-I of this APR Application.

So the carrying cost for the above stated amount to be claimed in this APR application is Rs. 60,007 lakh during 2017-18.

- d) As per the APR Application of WBSEDCL for 2016-17 submitted on 30th November 2017, the Hon'ble Commission is yet to publish the order. As per the APR Application, the net amount of Rs. 2,89,199 lakh is recoverable from the consumers after taking into consideration both the FPCCA and APR for 2016-17. As a result WBSEDCL had to bear the carrying cost on the above amount for 2017-18.

The computation of such carrying cost has been done for 2017-18 and is enclosed as Annexure-IV of Volume-I of this APR Application.

So the carrying cost for the above stated amount to be claimed in this APR application is Rs. 40,632 lakh during 2017-18.

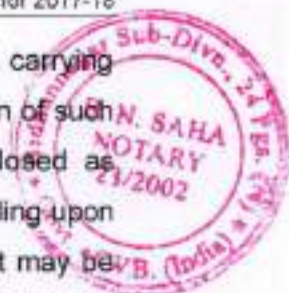
- e) In the APR order for 2012-13 the Hon'ble Commission disallowed Rs. 70,682.76 lakh and withheld Rs. 8,091.08 lakh for non-compliance of the directive. The above disallowed amount consists of carrying cost of Rs. 14,850 lakh. WBSEDCL further submits that it has filed an Appeal before the Hon'ble APTEL against such disallowance and withholding of such amount in the APR Order of the Hon'ble Commission for 2012-13. WBSEDCL had to bear the

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carrying cost on the total amount excluding the claimed carrying cost i.e. Rs. 63,924 lakh during 2017-18. The computation of such carrying cost has been done for 2017-18 and is enclosed as Annexure-IV of Volume-I of this APR Application. Depending upon the final decision of the Hon'ble APTEL the carrying cost may be adjusted by the Hon'ble Commission in the subsequent Tariff Orders.



So, the carrying cost for the above stated balance regulatory asset is Rs. 8,981 lakh during 2017-18.

- f) As per this APR Application for 2017-18, the net amount of Rs. 3,04,018 lakh is recoverable from the consumers after taking into consideration both the FPCCA and the APR of 2017-18 before release of regulatory asset of the earlier orders and carrying cost. As a result, WBSEDCL had to bear the carrying cost on the above amount of APR application for 2017-18.

The computation of such carrying cost has been done for the year 2017-18 and is enclosed as Annexure-IV of Volume-I of this APR Application.

So, the carrying cost for the above stated amount to be claimed in this APR Application is Rs. 21,357 lakh during 2017-18.

- g) Thus total carrying cost against regulatory asset and arrear amount as stated from (a) to (f) above becomes Rs. 2,15,851 lakh which may be considered for release in the APR for 2017-18.

2.11 Expenditure for Rates and Taxes

- 2.11.1 Comparison of actual expenditure for Rates and Taxes for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

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Application seeking Annual Performance Review for 2017-18

Table 9: Rates and Taxes for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Rates and Taxes	8,064.35	14,220



2.11.2 As per the Audited Annual Accounts of 2017-18, the expenditure for Rates and Taxes in 2017-18 is Rs. 14,220 lakh (refer Note No. 36.1 of the Audited Annual Accounts of 2017-18). The expenditure for Rates and Taxes includes service tax amounting Rs. 4,719 lakh, Good & Services Tax (GST) amounting Rs. 9,190 lakh and Taxes payable to local authorities amounting Rs. 311 lakh. GST is levied w.e.f. 01.07.2017 by replacing prevailing multiple cascading taxes including service tax. Such service tax and GST are paid by WBSEDCL to the Government as per rates notified by the Government. Hence, Rates and Taxes is an uncontrollable expense for WBSEDCL.

2.11.3 WBSEDCL in its Tariff Petition for 2017-18 projected Rates and Taxes as Rs. 14,407 lakh based on the following approach:

Quote from WBSEDCL Tariff Petition for 2017-18:

"Para 6.2 The CAGR for Rates and Taxes was 37% from Rs. 4092 lakh in FY 14 to Rs. 7678 lakh in FY16. Accordingly, Rates & taxes for future years is increased at a CAGR of 37% from FY16 figure."

In the said petition, WBSEDCL also stated that any impact of GST will be claimed at actuals in the APR Application. Relevant extracts are provided below:

Quote from WBSEDCL Tariff Petition for 2017-18:

"Para 6.2 ... The Government of India is planning to levy the Goods and Service Tax (GST) from the beginning of FY 2017-18 impacting



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the expenditure on rates and taxes. However currently the impact of GST on rates and taxes cannot be assessed as the proposed GST rates for various types of goods and services are not available. Any impact of GST on rates & taxes will be claimed at actuals in the APR petition of the respective ensuing year as "Taxes on Income, Duties, Levies, cess, etc." are uncontrollable in nature as per the WBERC (Terms and Conditions of Tariff) Regulations."



- 2.11.4 The Hon'ble Commission in the Tariff Order for 2017-18 inappropriately projected the Rates and Taxes for 2017-18 by considering such Rates and Taxes to be dependent on distribution line length, and applying a degree of sensitivity of Rates and Taxes expenditure to distribution line length. Further, an annual escalation rate for the ensuing year was applied based on an empirical formula. WBSEDCL submits that such Rates and Taxes are actually determined as per rates fixed by the government based on the nature of the services provided, and cannot be assumed to be sensitive only to distribution line length. Instead of applying empirical formulas that do not reflect the true / actual scenario, the Hon'ble Commission should evaluate merit of the case keeping in consideration the uncontrollable nature of Rates and Taxes. WBSEDCL has filed an Appeal before the APTEL against the WBERC's Tariff Order for FY 2014-15 wherein WBERC adopted the same approach of sensitivity parameters for projecting expenses. In the said Appeal, WBSEDCL has made submission against WBERC's adoption of arbitrary methodology for expense projection. The above matter is still sub judice under the APTEL. Hence, WBSEDCL now maintains its stand against Hon'ble Commission's empirical projection methodology and requests the Hon'ble Commission to allow the entire claimed amount of Rates and Taxes for 2017-18, as this is an uncontrollable expense.

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- 2.11.5 The Hon'ble Commission in the Tariff Order for 2017-18 directed WBSEDCL to furnish the amount of taxes along with the respective expenditure heads instead of representing the taxes under head Rates and Taxes. Relevant extracts are provided below:

Quote from Tariff Order for 2017-18:

"Para 5.3.1(d)(xi) ...Accordingly WBSEDCL, while submitting APR for 2017-18, shall furnish amount incurred towards tax associated for procurement of goods and services separately in the respective expenditure head against which it has been incurred and submit the same under the head of such specific head of expenditure with which such tax is associated. Such taxes related to procurement of goods and services, shall not be considered under the head of Rates & Taxes while assessing Rates & Taxes for APR 2017-18. Instead it will be considered in the respective expenditure head for which it has been incurred while assessing the particular expenditure incurred under that head in the APR 2017-18."

The response to the above directive is provided in Annexure-3 of Volume-II of this APR Application.

- 2.11.6 In view of the above, Rates and Taxes of Rs. 14,220 lakh paid by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the expenditure for Rates and Taxes in the APR for 2017-18, the expenditure being uncontrollable in nature.

2.12 Interest on capital borrowings

- 2.12.1 Comparison of actual interest on capital borrowings (net of capitalization) for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.



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Application seeking Annual Performance Review for 2017-18

Table 10: Interest on borrowings for 2017-18

Particulars	2017-18 (Admitted)	Rs. Lakh
		2017-18 (Actual)
Interest on borrowing	47,053.73	34,247



- 2.12.2 WBSEDCL has borrowed from REC Ltd., PFC Ltd., and other financial institutions to carry out capital works that include electrification works of un-electrified areas, upgradation and strengthening works of the sub-transmission and distribution systems of WBSEDCL. Such capital borrowings have been made for system improvement and network expansion for the purpose of meeting the needs of the ever-increasing consumer base. WBSEDCL has paid interest to the lenders on account of such borrowings as per different applicable interest rates for different loans. Such interest rates are fixed by the lenders, and WBSEDCL does not have any control on the same.
- 2.12.3 As per the Audited Annual Accounts of 2017-18, the interest on capital borrowings (net of capitalization) in 2017-18 is Rs. 34,247 lakh, (refer Note No. 34(A)(I) of the Audited Annual Accounts of 2017-18).
- 2.12.4 WBSEDCL in its Tariff Petition for 2017-18 projected interest on capital loan as Rs. 49,096 lakh. The actual interest for 2017-18 has been lower because of lesser capital expenditure and lesser amount of loan funding than projected.
- 2.12.5 In the light of above, such amount of Rs. 34,247 lakh paid by WBSEDCL in 2017-18 as the interest on capital borrowings may be admitted by the Hon'ble Commission in the APR for 2017-18, the expenditure being uncontrollable in nature.

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2.13 Other finance charges

- 2.13.1 Comparison of actual expenses under head 'Other finance charges' for 2017-18 (excluding the impact of Ind AS) against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 11: Other finance charges for 2017-18 (excluding impact of Ind AS)

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual) (excluding impact of Ind AS)
Other finance charges	2,420	1,371

- 2.13.2 As per the Audited Annual Accounts of 2017-18, Other finance charges in 2017-18 include Bank charges of Rs. 1,371 lakh (refer Note No. 34(B) of the Audited Annual Accounts of 2017-18). The bank charges include collection charges borne by WBSEDCL in the events of payments made by the contractors and consumers through RTGS and NEFT mode, and cash deposits by the Customer Care Centers (CCC) at non-home branches. The bank charges also include bank commission, brokerage, guarantee fees, LC charges, commitment charges, service fee, stamp duty fee etc. Hence, such bank charges is uncontrollable in nature.

2.13.3 Impact of Ind AS

- 2.13.3.1 As mentioned in Para 2.1.6, the financial statements for the year 2016-17 are the first financial statements of WBSEDCL under Ind AS. Also, in the Annual Accounts of 2016-17, an opening Ind AS balance sheet at 01.04.2015 (the Company's date of transition) was



provided, and financial statements for 2015-16 were recast as per Ind AS.

- 2.13.3.2 In preparing opening Ind AS balance sheet for 01.04.2015, the assets and liabilities were recast as per provisions of Ind AS. Under Ind AS, all financial liabilities are required to be recognized at fair value. Accordingly, WBSEDCL has recognized liability for purchase of power and liability for capital supplies/ works at their fair value using amortized cost or effective interest rate. The resultant interest expense/ income has been recognized in profit or loss account. Further, under previous GAAP, transaction costs incurred towards origination of borrowings were charged to profit or loss as and when incurred. Under Ind AS 109, transaction costs incurred towards origination of borrowings are required to be deducted from the carrying amount of borrowings on initial recognition. These costs are recognized in the profit or loss over the tenure of the borrowing as part of the interest expense by applying the effective interest rate method. The net financial impact of such changes were considered in WBSEDCL's APR Application for 2016-17 (refer Para 2.24.2 and Data Form 1.21 of WBSEDCL's APR Application for 2016-17) and such net financial impact was reduced from the net revenue recoverable for 2016-17. The net financial impact is shown in the table below (refer Note 55B of the Audited Annual accounts for 2016-17).

Table 12: Impact of Ind AS as at 01.04.2015 (already considered in APR Application for 2016-17)

Rs. Lakh		
Sr. No.	Particulars	Impact
1.	Fair Valuation of bonds	(320)
2.	Liability of Purchase of Power A/C	(42,513)



Sr. No.	Particulars	Impact
3.	Liability for Capital supplies / works	(5,231)
	Total impact	(48,064)



2.13.3.3 Thereafter, the financial statements for 2015-16 were recast, and the resultant net financial impact, as shown in the below table, was added to the net revenue recoverable for 2016-17 (refer Para 2.13.7, 2.13.8 and 2.24.4, and Data Form 1.21 of WBSEDCL's APR Application for 2016-17).

Table 13: Impact of Ind AS on 2015-16 (already considered in APR Application for 2016-17)

Rs. Lakh

Sr. No.	Particulars	Impact
1	Transaction cost on Capital bond	16
2	Notional interest expense on liability for Purchase of Power	14,039
3	Notional interest expense on liability for Capital Supplies/ Works	1,115
	Total impact	15,170

2.13.3.4 Similarly, the net impact for 2016-17, as shown in the below table, was also added to the net revenue recoverable for 2016-17 (refer Para 2.13.2 and Data Form 1.17c of WBSEDCL's APR Application for 2016-17).

Table 14: Impact of Ind AS on 2016-17 (already considered in APR Application for 2016-17)

Rs. Lakh

Sr. No.	Particulars	Impact
1	Transaction Cost on capital bonds	16
2	Interest expense on liability for Purchase of Power	15,268

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 WBSEDCL



Sr. No.	Particulars	Impact
3	Interest expense on liability for Capital supplies/ works	1,235
	Total impact	16,519

2.13.3.5 As mentioned in Para 2.13.8 of WBSEDCL's APR Application for 2016-17, relevant balance portions of the net financial impact will be amortized in the future financial statements of WBSEDCL as per provisions of Ind AS. Accordingly, adjustments will be considered in the APR Applications for the respective future years.

2.13.3.6 In view of the above and as per the Audited Annual Accounts for 2017-18, the net impact of Ind AS as considered in this APR Application for 2017-18 (refer Note No. 31 and 34 of the Audited Annual Accounts of WBSEDCL for 2017-18) is shown in the following table. As can be seen in the following table, additional notional interest incomes of Rs. 1,104 lakh and Rs. 7,091 lakh have been recognized in WBSEDCL's Audited Accounts for 2017-18 as a result of fair valuation of additional liability for purchase of power and liability for capital supplies/ works respectively using amortized cost or effective interest rate.

Table 15: Impact of Ind AS on 2017-18 (considered in this APR Application for 2017-18)

		Rs. Lakh
Sr. No.	Particulars	Impact
1	Transaction Cost on capital bonds	17
2	Interest expense on liability for Purchase of Power	11,618
3	Interest expense on liability for Capital supplies/ works	1,367
4	Less: Interest accrued on non-current Power Purchase liability	(1,104)

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 Chief Engineer (Regulation)
 Regulation Department
 WBSEDCL



Sr. No.	Particulars	Impact
5	Less: Interest accrued on non-current Capital Liability	(7,091)
	Total impact	4,807

2.13.3.7 Hence, Rs. 4,807 lakh is also considered as Other finance charges in this APR Application. Relevant balance portions of the net financial impact will be amortized in the future financial statements of WBSEDCL as per provisions of Ind AS. Accordingly, adjustments will be considered in the APR Applications for the respective future years.

2.13.4 Hence, total Other finance charges post adoption of Ind AS is Rs. 6,178 lakh (=Rs. 1,371 lakh + Rs. 4,807 lakh) as depicted in the following table:

Table 16: Total other finance charges for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Other finance charges (excluding impact of Ind AS)	2,420	1,371
Impact of Ind AS on Other finance charges	0	4,807
Total other finance charges (including effects of adoption of Ind AS)	2,420	6,178

2.13.5 As indicated in the previous table, Other finance charges (excluding Ind AS impact) is well below the amount admitted by the Hon'ble Commission. Due to the impact of Ind AS, Other finance charges has increased beyond the admitted amount. In this respect, WBSEDCL made the following submission in its Tariff Petition for 2017-18:

Quote from WBSEDCL's Tariff Petition for 2017-18:

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 Chief Engineer (Regulation)
 Regulation Department
 WBSEDCL



"Para 8 ...Accordingly WBSEDCL is in the process for implementation of the Ind AS. The Ind AS accounting standards are different from the prevailing Indian Generally Accepted Accounting Principles (GAAP). Implementation of the Ind AS will thus cause shift in the accounting standards for WBSEDCL, which in turn will result in changes in the financial statements of WBSEDCL for 2015-16 onwards.

The projections submitted by WBSEDCL in this MYT Petition for FY18 are based on the historical figures for 2012-13 to 2015-16 that have been accounted as per the Indian GAAP. Implementation of the Ind AS will cause the projected figures to change. In consideration of the aforementioned fact, the Hon'ble Commission is humbly requested to consider the adjustment, if any, of the admissible amount, caused by the implementation of the Ind AS, in the APR Application for the respective ensuing year."

- 2.13.6 In light of the above submission and due to the fact that Other finance charges is uncontrollable in nature, the other finance charges of Rs. 6,178 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the other finance charges in the APR for 2017-18.

2.14 Depreciation

- 2.14.1 Comparison of actual depreciation for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 17: Depreciation for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Depreciation	68,055	92,750



- 2.14.2 As per the Audited Annual Accounts of 2017-18, depreciation in 2017-18 is Rs. 92,750 lakh (refer Note No. 35 of the Audited Annual Accounts of 2017-18).
- 2.14.3 As per requirement of Ind AS, the amortization value on Government grants (Rs. 23,424 lakh) and Consumers' contributions towards Capital Assets (Rs. 8,251 lakh), earlier recognized as deductions from depreciation (under GAAP), has been recognized as income under the head 'Other income' in audited accounts of 2017-18 (refer Note No. 31 of Audited Annual Accounts for 2017-18 and Para 2.1.8 of this APR Application). Such amortization will be passed on to consumer through 'Other income', and hence, this amount has not been reduced from total depreciation of the year (Refer Note No. 31.1 of Audited Annual Accounts for 2017-18).
- 2.14.4 After removing the impact of Ind AS (i.e. deducting the amount recognized under the head 'Other income'), net depreciation amounts to Rs. 61,075 lakh.

Table 18: Depreciation for 2017-18 (including and excluding impact of Ind AS)

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Depreciation (including impact of Ind AS)	68,055	92,750
Less: Government Grants		23,424
Less: Contribution towards Capital Assets		8,251
Depreciation (excluding impact of Ind AS)	68,055	61,075

- 2.14.5 It can be seen from the above table that the depreciation for 2017-18 (excluding the impact of Ind AS) is below the amount admitted by the

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Hon'ble Commission, Due to the impact of Ind AS, Depreciation has increased beyond the admitted amount. In this respect, WBSEDCL made the following submission in the Tariff Petition for 2017-18:

Quote from WBSEDCL's Tariff Petition for 2017-18:

"Para 8 ...Accordingly WBSEDCL is in the process for implementation of the Ind AS. The Ind AS accounting standards are different from the prevailing Indian Generally Accepted Accounting Principles (GAAP). Implementation of the Ind AS will thus cause shift in the accounting standards for WBSEDCL, which in turn will result in changes in the financial statements of WBSEDCL for 2015-16 onwards.

The projections submitted by WBSEDCL in this MYT Petition for FY18 are based on the historical figures for 2012-13 to 2015-16 that have been accounted as per the Indian GAAP. Implementation of the Ind AS will cause the projected figures to change. In consideration of the aforementioned fact, the Hon'ble Commission is humbly requested to consider the adjustment, if any, of the admissible amount, caused by the implementation of the Ind AS, in the APR Application for the respective ensuing year."

- 2.14.6 In consideration of the above, depreciation of Rs. 92,750 lakh in 2017-18 may be considered by the Hon'ble Commission as Depreciation in the APR for 2017-18. Detailed calculation of gross depreciation of Rs. 92,750 lakh is provided in Form B of Annexure-I in Volume-I this APR Application.

2.15 Interest on Working Capital

- 2.15.1 As per the Tariff Regulations, Working Capital of WBSEDCL for the year 2017-18 has been computed in the Form 1.17(b) of Annexure-I of Volume-I of this APR Application and such Working Capital for 2017-



18 is Rs. 1,82,717 lakh. This Working Capital requirement of WBSEDCL is fully met from the security deposit of permanent consumers as per directive of the Hon'ble Commission. Hence, interest on Working Capital is not claimed in the APR for 2017-18.

2.16 Employee cost

- 2.16.1 Comparison of actual employee cost for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 19: Employee cost for 2017-18

Particulars	Rs. Lakh	
	2016-17 (Admitted)	2016-17 (Actual)
Total employee cost	1,34,260	1,05,440

- 2.16.2 As per the Audited Annual Accounts of 2017-18, the actual employee cost (net of capitalization, excluding service tax/ GST on staff welfare expenses, and including 'Compensation injuries on death/damages - staff) incurred by WBSEDCL in 2017-18 is Rs. 1,05,440 lakh (refer Note No. 33 and 36(D) of the Audited Annual Accounts for 2017-18). Break-up of the employee cost is provided in Form 1.17h of Annexure-I in Volume-I of this APR Application.
- 2.16.3 The employee cost for 2017-18 has decreased from that of 2016-17 mainly due to the following reasons:
- The employee strength of WBSEDCL has reduced from 14171 as on 31st March, 2017 to 13596 as on 31st March, 2018. The numbers exclude the employees of WBSEDCL under deputation to WBSETCL.



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- b) Employee terminal benefit expenses have decreased to Rs. 45,747 lakh in 2017-18 from Rs. 73,867 lakh in 2016-17 on the basis of actuarial valuation (refer Note No. 33 of the Audited Annual Accounts for 2017-18).

- 2.16.4 The actual employee cost of Rs. 1,05,440 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as employee cost in the APR for 2017-18.

2.17 Operation and Maintenance expenses for generation

- 2.17.1 Comparison of claimed Operation and Maintenance expenses (hereinafter referred to as "O&M expenses") for generation business for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 20: O&M expenses for generation for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Claimed)
O&M expenses for generation	4,942.59	4,947

- 2.17.2 The Hon'ble Commission in the Tariff Order for 2017-18 has admitted Rs. 4,942.59 lakh as the total O&M expenses for Rammam, Jaldhaka, Small Hydro, and PPSP power plants. The same amount is claimed in this APR Application.
- 2.17.3 In addition to the above, WBSEDCL has appointed contractor for Design & Engineering, Manufacturing / Procurement, Supply, Installation, Testing & Commissioning and five (5) years' Comprehensive O&M of the 10 MW Teesta Canal Bank Solar PV

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 Regulation Department
 WBSEDCL



Plant. After final commissioning of the above plant, WBSEDCL as per LOA terms has first taken over the plant from the appointed contractor and then handed over the plant to the contractor on 11.03.2017 for comprehensive O&M for five (5) years. WBSEDCL pays O&M fee to the contractor for such comprehensive O&M as per the contractual price schedule. However, such O&M payment made by WBSEDCL for 2017-18 is not claimed in this APR Application, as the expense is not borne by WBSEDCL and the O&M payment is made from the grant fund dedicated for this solar plant. The grant fund covers comprehensive O&M expenses for five (5) years from the date of handover of the plant. After completion of five (5) years, i.e., after 10.03.2022, WBSEDCL will have to incur O&M expense for the Teesta Canal Bank Solar PV Plant.

- 2.17.4 In addition to making such O&M payments, WBSEDCL has incurred Rs. 4 lakh as A&G expenses for carrying out field and office works for setting up solar power plant at different locations of the state and supervision of works associated to the on-going and completed projects. Break-up of such A&G expenses has been provided in Data Form 1.12 – Solar in Volume-I of this APR Application.
- 2.17.5 In view of the above, the Hon'ble Commission may now consider allowing Rs. 4 lakh as O&M expenses for Solar plants in the APR for 2017-18.
- 2.17.6 Accordingly, the total claimed O&M expenses for WBSEDCL's generation functions becomes Rs. 4,947 lakh (=Rs. 4,942.59 lakh + Rs. 4 lakh) for 2017-18. The details are provided in Data Form 1.12 of Volume-I Annexure-I of this APR application.



2.17.7 In view of the above, it is submitted before the Hon'ble Commission to allow Rs. 4,947 lakh as generation O&M expenses in the APR for 2017-18.

2.18 Operation & Maintenance expenses and Outsourcing expenses for distribution

2.18.1 Operation & Maintenance (O&M) expenses for distribution consists of Repair and Maintenance expenses (hereinafter referred to as "R&M expenses") for distribution and Administrative and General expenses (hereinafter referred to as "A&G expenses") for distribution. Comparison of actual R&M expenses, A&G expenses, and Outsourcing expenses for distribution business for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 21: R&M, A&G, and Outsourcing expenses for distribution for 2017-18

Rs. Lakh		
Particulars	2017-18 (Admitted)	2017-18 (Actual)
R&M expenses for distribution	32,423.72	25,608
A&G expenses for distribution	15,070.01	12,576
Outsourcing expenses for distribution	50,783.80	52,342
Total	98,277.53	90,526

2.18.2 The actual R&M expense, A&G expense, and Outsourcing expense for WBSEDCL's distribution business in 2017-18 are Rs. 25,608 lakh, Rs. 12,576 lakh, and Rs. 52,342 lakh respectively. Details of such expenses have been provided in Form 1.15 and Form 1.17 of Annexure-I in Volume-I of this APR Application.



- 2.18.3 WBSEDCL supplies electricity to around 1.8 crore consumers spread across almost the entire area of the state of West Bengal. With the increasing population and economic growth of the state and growing demand for electricity, WBSEDCL has to augment and strengthen its distribution network to increase the spread of its supply as well as to ensure quality supply of electricity to comply with the standards of the SOP Regulations.
- 2.18.4 WBSEDCL undertakes network expansion and strengthening works under various programs like the Restructured Accelerated Power Development and Reform Programme (R-APDRP), Integrated Power Development Scheme (IPDS), Strengthening and Extending Electricity Distribution Network (SEEDN), National Electricity Fund (interest subsidy) Scheme, Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY), Backward Region Grant Fund (BRGF), Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY), West Bengal Rural Household Electrification Programme (WBREP), etc.
- 2.18.5 Such project works have resulted in increase in the consumer base and distribution line length of WBSEDCL. The same is summarized in the following table.

Table 22: Growth in the distribution network and consumer strength in 2017-18

Particulars	Unit	As on 31 st Mar, 2017	As on 31 st Mar, 2018	Growth
Distribution line length	ckm	563826	578217	14391
Consumer strength	no.	17424638	18112995	688357

- 2.18.6 WBSEDCL undertakes repair and maintenance activities to maintain its ever-growing network and to ensure network reliability and

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availability to comply with the SOP Regulations. Further, the areas served by WBSEDCL includes remote areas such as the island of Sundarban in South 24 Parganas, jungle areas of Paschim Midnapore / Purulia / Bankura, hilly areas of Darjeeling, etc., where the geographical characteristics results in challenges in carrying out repair and maintenance works.

- 2.18.7 Furthermore, to cope with the rapid increase of network and consumer base, WBSEDCL has outsourced activities in areas like HT & LT line maintenance, O&M of 33/11 KV substations, meter reading and bill distribution, collection, call center, security, etc. with respect to the distribution business to ensure quality power supply and customer service. Outsourced manpower are engaged in these areas as a cost-efficient alternative as illustrated in the following table.

Table 23: Indicative annual average cost per manpower for WBSEDCL staffs vis-à-vis outsourced manpower in 2017-18

Particulars	Average annual salary cost per manpower (Rs.)
WBSEDCL staffs in the fields of outsourced activities ¹	4,29,025
Outsourced manpower ²	2,05,840
Annual cost saving per manpower	2,23,185

- 2.18.8 In addition, WBSEDCL incurs A&G expenses to provide necessary administrative support that are needed to facilitate execution of repair

¹ The indicative annual average cost for WBSEDCL staff engaged in the fields of outsourced activities (Class-3 & Class-4 staffs of WBSEDCL are engaged in such activities) is obtained by dividing the total actual salary cost of Class-3 & 4 (Technical & Non-technical) manpower of WBSEDCL in 2017-18 by average of opening and closing numbers of such manpower for 2017-18

² The indicative annual average cost for outsourced manpower is obtained by dividing the total actual outsourcing cost in 2017-18 by the average of opening and closing numbers of outsourced manpower for 2017-18



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and maintenance works across the entire command areas of WBSEDCL.

2.18.9 All the aforementioned types of expenses are linked to the core distribution activities of WBSEDCL. The outsourced activities are of the same nature as the R&M and A&G activities. Hence the outsourcing expenditure is considered along-with the distribution O&M expenses for justification purpose in this APR Application. Sum of the actual O&M and Outsourcing expenses for distribution function of WBSEDCL for 2017-18 is Rs. 90,526 lakh, which is lower than the admitted figure of Rs. 98,277.53 lakh.

2.18.10 The total O&M and outsourcing expenditure for distribution activities has increased from 2016-17 to 2017-18. A comparison is shown in the table below.

Table 24: Comparison of distribution O&M and outsourcing expenses for 2016-17 and 2017-18

Particulars	2016-17 (Rs. lakh)	2017-18 (Rs. lakh)
R&M expenses for distribution	17,557	25,608
A&G expenses for distribution	13,508	12,576
Outsourcing expenses for distribution	48,277	52,342
Total O&M and outsourcing expenses for distribution	79,342	90,526

2.18.11 As can be seen from the above table, R&M expense and Outsourcing expense have increased from 2016-17 to 2017-18. Reasons behind such increase are provided below:

2.18.11.1 Reasons behind increase in R&M expenses:

- The expense for 'Lines, Cables, Network etc.' has increased from Rs. 5,828 lakh in 2016-17 to Rs. 9,896 lakh in 2017-18

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(refer Note No. 36 (B) of Audited Annual Accounts of WBSEDCL for 2017-18). As per requirement of Ind AS-16, if any inventory is expected to be used during more than one period and is held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, the inventory is to be treated as Fixed Asset. In case of WBSEDCL, inventory like cable, conductor, etc. are expected to be used for more than one year. Hence, although these inventories have been used for repair and maintenance purpose by WBSEDCL, these have been considered under Fixed Assets instead of R&M expense. During 2017-18, such inventory items with useful life of more than one year and used for repair and maintenance purpose has been Rs. 2,733 lakh less compared to that for 2016-17. This is the main reason behind increase of expenses for 'Lines, Cables, Network etc.' from 2016-17 to 2017-18.

- The expense for 'Office Equipments' has increased from Rs. 3,601 lakh in 2016-17 to Rs. 7,141 lakh in 2017-18 (refer Note No. 36 (B) of Audited Annual Accounts of WBSEDCL for 2017-18). This expense has increased mainly because of costs incurred by WBSEDCL for additional licenses of SAP-ERP, upgradation of SAP-ERP and ESRI software, and Annual Technical Support of SAP-ISU software during 2017-18.

2.18.11.2 Reason behind increase in Outsourcing expenses:

- As indicated in Para 2.18.3 to 2.18.7 of this APR Application, expenses related to the outsourcing activities have increased due to increased O&M activities to match with the growth and requirements of the increased consumer base & supply network.

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- Further to the above, as indicated in Para 2.18.7 and Table 23 of this APR Application, WBSEDCL has engaged manpower through outsourced agencies as a cost-efficient alternative. Contractual rates of outsourced manpower for HT and LT line maintenance, Substation O&M, and Call Centre are determined based on the minimum wages as notified by the Government of West Bengal from time to time (please refer Appendix-III: Copies of Rate Revision Orders for Outsourcing Contracts). Outsourced manpower are deployed for Security, spot billing, and bill collection, contractual rates for which are fixed through competitive bidding. In consideration of this, WBSEDCL considers outsourcing expenses under the category of manpower costs. WBSEDCL has filed an Appeal (Appeal No. 206 of 2014) before the APTEL against WBERC's APR Order for FY 2012-13 wherein, WBSEDCL has made submission on the manpower-nature of the outsourcing expenses. The above matter is still sub judice under the APTEL. Hence, WBSEDCL now maintains its stand to consider its outsourcing expenses under manpower costs.

2.18.12 The Hon'ble Commission in the Tariff Order for 2017-18 inappropriately projected the O&M expense and Outsourcing expenses for 2017-18 by considering such expenses to be dependent on distribution line length and consumer strength, and applying a degree of sensitivity of these expenses to distribution line length and consumer strength. Further, an annual escalation rate for the ensuing year was applied based on an empirical formula. WBSEDCL submits that such expenses depend upon many other factors like geographic profile & spread of the area of supply, consumer base, age of assets, market demand-supply conditions, damages caused by natural

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disaster, government policies and orders, etc., and cannot be assumed sensitive only to distribution line length and consumer strength. Instead of applying empirical formulas that do not reflect the true / actual scenario, the Hon'ble Commission should evaluate merit of the case keeping in consideration the uncontrollable factors that influence these expenses. WBSEDCL has filed an Appeal before the APTEL against the WBERC's Tariff Order for FY 2014-15 wherein WBERC adopted the same approach of sensitivity parameters for projecting expenses. In the said Appeal, WBSEDCL has made submission against WBERC's adoption of arbitrary methodology for expense projection. The above matter is still sub judice under the APTEL. Hence, WBSEDCL now maintains its stand against Hon'ble Commission's empirical projection methodology and requests the Hon'ble Commission to allow the entire claimed amount of O&M expenses and Outsourcing expenses for 2017-18.

- 2.18.13 In view of the above, the R&M, A&G and Outsourcing expenses of Rs. 25,608 lakh, Rs. 12,576 lakh, and Rs. 52,342 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the R&M expenses, A&G expenses, and Outsourcing expenses for distribution in the APR for 2017-18.

2.19 Expenditure for Complaint Management Mechanism

- 2.19.1 Comparison of actual expenditure for Complaint Management Mechanism for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

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WBSEDCL

**Table 25: Complaint Management Mechanism expenditure for 2017-18**

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Complaint Management Mechanism expenditure	297.98	378

- 2.19.2 Expenditure for complaint management mechanism includes expenses associated with toll free telephone for registering grievances at ZCC-s, SMS charges for forwarding grievances to mobile vans, rental charges of Interactive Voice Response System (hereinafter referred to as "IVRS"), separate telephone facility at each CCC, and anti-theft toll free telephone facility.
- 2.19.3 As per Audited Annual Accounts of WBSEDCL for 2017-18, the expenditure for Complaint Management Mechanism in 2017-18 is Rs. 378 lakh (refer Note No. 36(A) of the Audited Annual Accounts of 2017-18).
- 2.19.4 WBSEDCL's number of consumers has grown by 4% from 2016-17 to 2017-18, and the Complaint Management expense has increased by 5% during the same period (Rs. 360 lakh in 2016-17 to Rs. 378 lakh in 2017-18). As this expense is governed by the tariffs charged by the telecom operators and growth in the number of consumers, WBSEDCL submits that such expenditure for Complaint Management Mechanism, being dependent on external factors such as use of the CMM facility by consumers, be accordingly considered uncontrollable and be considered in its entirety by the Hon'ble Commission for allowance in this APR Application.
- 2.19.5 The Hon'ble Commission in the Tariff Order for 2017-18 inappropriately projected the expenditure for Complaint Management



Mechanism for 2017-18 by considering such expenses to be dependent on consumer strength only, and applying a degree of sensitivity of such expenses to consumer strength. Further, an annual escalation rate for the ensuing year was applied based on an empirical formula. WBSEDCL submits that such expenses are governed by the rates charged by telecom operators, and cannot be assumed to be sensitive only to consumer strength for a random degree of sensitivity value. Instead of application of empirical formulas that do not reflect the true market scenario, the Hon'ble Commission may evaluate merit of the case considering the uncontrollable nature of this expense. WBSEDCL has filed an Appeal before the APTEL against the WBERC's Tariff Order for FY 2014-15 wherein WBERC adopted the same approach of sensitivity parameters for projecting expenses. In the said Appeal, WBSEDCL has made submission against WBERC's adoption of arbitrary methodology for expense projection. The above matter is still sub judice under the APTEL. Hence, WBSEDCL now maintains its stand against Hon'ble Commission's empirical projection methodology and requests the Hon'ble Commission to allow the entire claimed amount of expenses for Complaint Management Mechanism for 2017-18, as this is an uncontrollable expense.

- 2.19.6 Thus, the actual expenditure for Complaint Management Mechanism of Rs. 378 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the expenditure for Complaint Management Mechanism in the APR for 2017-18.

2.20 Expenditure for lease rental line

- 2.20.1 Comparison of actual expenditure for lease rental line for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.



Table 26: Lease rental line expenditure for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Lease rental line expenditure	2,225.60	2,290



- 2.20.2 As part of setting up the Complaint Management Mechanism as per requirement of the SOP Regulations, WBSEDCL has been utilizing the Multiprotocol Label Switching (MPLS) Virtual Private Network (VPN) connectivity for establishing and maintaining the communication network. Telecom operators receive charges from WBSEDCL for providing the connectivity, and these charges are recognized under the head 'Lease rental line expenditure'.
- 2.20.3 As per Audited Annual Accounts of WBSEDCL for 2017-18, the expenditure for lease rental line in 2017-18 is Rs. 2,290 lakh (refer Note No. 36(A) of the Audited Annual Accounts of 2017-18).
- 2.20.4 The Hon'ble Commission in the Tariff Order for 2017-18 inappropriately projected the expenditure for lease rental line for 2017-18 by considering such expenses to be dependent on distribution line length only, and applying a degree of sensitivity of such expenses to distribution line length. Further, an annual escalation rate for the ensuing year was applied based on an empirical formula. WBSEDCL submits that this expense is governed by the rates charged by telecom operators and hence is uncontrollable in nature. This expense cannot be assumed to be sensitive only to distribution line length for a random degree of sensitivity value. Instead of applying empirical formulas that do not reflect the true market scenario, the Hon'ble Commission may evaluate merit of the case considering the uncontrollable nature of the expense. WBSEDCL has filed an Appeal before the APTEL against



the WBERC's Tariff Order for FY 2014-15 wherein WBERC adopted the same approach of sensitivity parameters for projecting expenses. In the said Appeal, WBSEDCL has made submission against WBERC's adoption of arbitrary methodology for expense projection. The above matter is still sub judice under the APTEL. Hence, WBSEDCL now maintains its stand against Hon'ble Commission's empirical projection methodology and requests the Hon'ble Commission to allow the entire claimed amount of Lease rental line expenditure for 2017-18, as this is an uncontrollable expense.

- 2.20.5 In view of above, the actual lease rental expenditure for maintaining the MPLS VPN connectivity of Rs. 2,290 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the lease rental expenditure in the APR for 2017-18.

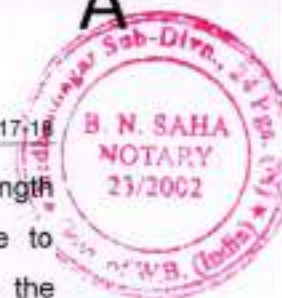
2.21 Expenditure for Insurance

- 2.21.1 Comparison of actual expenditure for Insurance for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 27: Insurance expenditure for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Insurance expenditure	1,003.17	831

- 2.21.2 As per the Audited Annual Accounts of 2017-18, the expenditure for insurance in 2017-18 is Rs. 831 lakh (refer Note No. 36(C) of the Audited Annual Accounts of 2017-18).
- 2.21.3 The Hon'ble Commission in the Tariff Order for 2017-18 inappropriately projected the expenditure for insurance for 2017-18 by



considering such expense to be dependent on distribution line length only, and applying a degree of sensitivity of such expense to distribution line length. Further, an annual escalation rate for the ensuing year was applied based on an empirical formula. WBSEDCL submits that such expense is governed by the policies and premiums charged by the insurance service providers, and types and valuations of the items being insured. This expense is thus uncontrollable in nature, as also recognized by the Tariff Regulations. Hence, this expense cannot be assumed to be sensitive only to distribution line length. Instead of application of empirical formulas that do not reflect the true market scenario, the Hon'ble Commission may evaluate merit of the case considering the uncontrollable nature of this expense.

2.21.4 Hence, insurance expenses of Rs. 831 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as the expenditure for Insurance in the APR for 2017-18.

2.22 Comparison of total Operation and Maintenance Expenses as admitted by the Hon'ble Commission in Para 5.3.8 of Tariff Order for 2017-18 against the actual expenses for the corresponding heads as incurred by WBSEDCL in 2017-18 is shown in the following table.

Table 28: Total Operation and Maintenance Expenses for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Operation & Maintenance for Generation	4,942.59	4,947
Repair & Maintenance for Distribution	32,423.72	25,608
Administrative & General Expense for distribution	15,070.01	12,576
Lease Rental Line	2,225.60	2,290
Complaint Management Mechanism	297.00	378



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Particulars	2017-18 (Admitted)	2017-18 (Actual)
Insurance	1,003.17	831
Rates & Taxes	8,064.35	14,220
Outsourcing function for Distribution related to O&M		
(a) Excluding manpower related cost & hiring of vehicle	22,995.72	52,342
(b) Limited to manpower related cost & vehicle hiring cost	27,788.08	
Total	1,14,811.22	1,13,192



2.23 From the above table it can be seen that the total Operation and Maintenance Expense of Rs. 1,14,811.22 lakh as admitted by the Hon'ble Commission in Para 5.3.8 of Tariff Order for 2017-18 is higher than the actual amount incurred by WBSEDCL in 2017-18 of Rs. 1,13,192 lakh as claimed in this APR Application. In view of this, the said actual expense of Rs. 1,13,192 lakh may be considered by the Hon'ble Commission for admittance in the APR for 2017-18.

2.24 Bad debt

2.24.1 The Hon'ble Commission in the Tariff Order for 2017-18 did not consider any amount under the head bad debt for 2017-18. No Bad debt actually has been written off during 2017-18 as per the Audited Annual Accounts.

2.25 Other expenses

2.25.1 WBSEDCL submits that such expenditure related to death / damage / injuries is contingent in nature and can never be predicted by WBSEDCL in its application. The Hon'ble Commission in the Tariff Order for 2017-18 did not consider any amount under the head 'Other expenses' for 2017-18. Also such expense is not incidental to the

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normal course of distribution business and cannot be held as part of the O&M expenses in any way.



- 2.25.2 As per the Audited Annual Accounts of 2017-18, the other expenses in 2017-18 is Rs. 1,785 lakh (Rs. 1,521 lakh on the account of Loss on Demolition or Retirement of Fixed Assets, Rs. 34 lakh on account of loss on obsolescence of inventory, Rs. 230 lakh on account of compensation injuries on death/ damages to outsiders (refer Note No. 36(D) of the Audited Annual Accounts of 2017-18)).
- 2.25.3 For the safety of outsiders, awareness programs are organized at regular intervals. Even after such safety program, complete removal of cases of accident is very difficult as the distribution network of WBSEDCL with overhead bare conductors is wide-spread throughout the state, including difficult terrain and remote rural areas.
- 2.25.4 Other expenses also include Rs. 1,521 Lakhs on the account of loss on demolition/ retirement of Fixed Assets (refer Note No. 36(D) of the Audited Accounts of 2017-18). This expenditure occurs when a depreciable asset is taken out of service prior to expiring of its life.
- 2.25.5 WBSEDCL hereby submits that regulators like MERC and GERC have been approving such 'Other Expenses' as a separate line item at the time of truing up of distribution licensees. MERC while truing up of MSEDCL for 2014-15 approved the entire claimed amount of 'Compensation for injuries, death to others' of Rs. 6 crore and 'Loss on obsolescence of Fixed Assets' of Rs. 10 crore. GERC while truing up of UGVCL for 2016-17 approved the entire claimed amount of 'Miscellaneous Losses (Includes compensation for Injury, death damage – Outsiders, Loss on sale of scrap, HBA written off etc.)' of Rs. 2.37 crore.

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- 2.25.6 In view of the above, expenses of Rs. 1,785 lakh incurred by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as other expenses in the APR for 2017-18.

2.26 Special allocation

- 2.26.1 The Hon'ble Commission in the Tariff Order for 2017-18 did not consider any amount under the head 'Special allocation' for 2017-18. WBSEDCL hereby submits that no expense has been claimed under the head 'Special Allocation' in 2017-18.

2.27 Return on Equity

- 2.27.1 The Hon'ble Commission in the Tariff Order for 2017-18 admitted post-tax Return on Equity (hereinafter referred to as "ROE") of Rs. 37,236.21 lakh for the year 2017-18.
- 2.27.2 The Hon'ble Commission in the Tariff Regulations has directed to compute ROE on pre-tax basis, and the actual income tax will be allowed separately subject to final assessment. Relevant extracts of the Tariff Regulations are provided below:

Quote from WBERC Tariff Regulations 2011:

"Regulation 5.6.1.1 ... Such return on equity shall be calculated on the pre-tax basis and actual income tax liability related to the core business only will be allowed separately on actual payment basis subject to final assessment."

- 2.27.3 In accordance with the above regulatory provision, the pre-tax grossed up ROE has been computed for 2017-18 in Form 1.22 of Annexure-I in Volume-I of this APR Application, as per provisions of the Tariff Regulations. Such ROE for 2017-18 becomes Rs. 45,536 lakh, and may be considered by the Hon'ble Commission as ROE in the APR for 2017-18.



- 2.27.4 In terms of Regulation 2.8.6.1 of the Tariff Regulations, disallowance of excess power purchase cost is limited to an amount equal to the summation of ROE and net UI charges (i.e. Deviation Settlement Mechanism charges) receivables where net UI charges receivables amount over the year ≥ 0 . Accordingly, disallowance of excess power purchase cost of the FPPCA application for 2017-18 may now be limited to this amount of ROE, i.e. Rs. 45,536 lakh.

2.28 Interest on Normative Loan

- 2.28.1 The Hon'ble Commission in the Tariff Order for 2017-18 did not consider any amount under the head 'Interest on Normative Loan' for 2017-18.
- 2.28.2 The actual equity addition for WBSEDCL's generation business in 2017-18 has been Rs. 4,393 lakh (refer Note No. 13.3 of Audited Annual Accounts of WBSEDCL for 2017-18). The normative equity addition computed based on generation asset capitalization is Rs. 2,795 lakh for 2017-18.
- 2.28.3 As per Regulation 5.4.2 of WBERC Tariff Regulations 2011, "...Where equity employed is more than 30% the amount of equity shall be limited to 30% and the balance amount shall be considered as normative loan capital." Accordingly, the normative loan for 2017-18 is Rs. 1,598 lakh (=Rs. 4,393 lakh – Rs. 2,795 lakh).
- 2.28.4 As per Regulation 5.6.4.2(ii) of WBERC Tariff Regulations 2011, "Interest on normative loan capital shall be allowed at weighted average rate of interest on borrowings..." Accordingly, the Interest on Normative Loan for 2017-18 is Rs. 76 lakh. The calculation of normative loan and Interest on Normative Loan for 2017-18 are provided in Form 1.20(a), Form 1.20(b) and Form C of Annexure-I in Volume-I of this APR Application.



- 2.28.5 Therefore, the amount of Rs. 76 lakh may be considered by the Hon'ble Commission as the Interest on Normative Loan in the APR for 2017-18.

2.29 Minimum Alternate Tax

- 2.29.1 The Hon'ble Commission in the Tariff Order for 2017-18 admitted Minimum Alternate Tax (MAT) of Rs. 7,946.80 lakh for the year 2017-18. WBSEDCL submits that in this APR Application, ROE is claimed on pre-tax grossed up basis, and hence MAT is not claimed separately by WBSEDCL in this APR Application.
- 2.29.2 Further, the Income Tax assessments for the Assessment Year 2015-16 and Assessment Year 2016-17 are attached as Appendix-V of this application.

2.30 Deviation Settlement Mechanism (DSM) / Unscheduled Interchange (UI) charges payable

- 2.30.1 The Hon'ble Commission in the Tariff Order for 2017-18 did not consider any net Deviation Settlement Mechanism (hereinafter referred to as "DSM") charges or Unscheduled Interchange (hereinafter referred to as "UI") charges receivable or payable for FY 2017-18.
- 2.30.2 UI is presently termed as Deviation as per provisions of the CERC Deviation Settlement Mechanism Regulations, 2014. The said regulations have come into force on 17th February, 2014. According to Regulation 14(1) of the CERC Deviation Settlement Mechanism Regulations, 2014, the CERC Unscheduled Interchange Charges Regulations will stand repealed once the CERC Deviation Settlement Mechanism Regulations come into force. Deviation as per the CERC Deviation Settlement Mechanism Regulations, 2014 is defined as:



'Deviation' in a time-block for a seller means its total actual injection minus its total scheduled generation and for a buyer means its total actual drawal minus its total scheduled drawal.

2.30.3 In order to bridge the demand-supply gap during real time operation and in order to ensure uninterrupted supply of electricity to its consumers, a total of 931.773 MU of energy has been drawn from the grid and 122.201 MU of energy has been injected into the grid as Deviation / UI during the year 2017-18. Such injection and drawal of Deviation / UI has been done in accordance to the prevailing regulations without violating the grid discipline. As per Note 32 (A) of the Audited Annual Accounts of WBSEDCL for 2017-18, the net DSM / UI charges payable is Rs. 27,268 lakh, which includes DSM / UI charges payable of Rs. 27,271 lakh (refer Note No. 32 (A) of the Audited Annual Accounts of 2017-18) less DSM / UI charges arrear of Rs. 3 lakh (refer Note No. 32 (A) of the Audited Annual Accounts of 2017-18).

2.30.4 WBSEDCL in its Tariff Petition for 2017-18 did not consider any net DSM charges payable for 2017-18 and stated that the same will be considered on actual basis in the APR Application. Relevant extracts are provided below:

Quote from WBSEDCL's Tariff Petition for 2017-18:

"Para 6.15 ... WBSEDCL has not considered any provision for Net DSM charges payable for the year FY18 as these are uncontrollable in nature. However, Net DSM charges payable will be considered on actual basis in the APR of respective year."

2.30.5 In view of the above, expenses of Rs. 27,268 lakh incurred by WBSEDCL in FY 2017-18 may be considered by the Hon'ble



Commission as DSM / UI charges payable or cost of energy drawn as
Deviation / UI in the APR for FY 2017-18.



2.31 Income from non-tariff sources

- 2.31.1 Comparison of actual income from non-tariff sources for FY 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for FY 2017-18 is shown in the following table.

Table 29: Income from non-tariff sources for FY 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Income from non-tariff sources	48,507.47	99,080

- 2.31.2 As per requirement of Ind AS, the amortization value on Government grants (Rs. 23,424 lakh) and Consumers' contributions towards Capital Assets (Rs. 8,251 lakh), earlier recognized as deductions from depreciation (under GAAP), has been recognized as income under the head 'Other income' in audited accounts of 2017-18 (refer Note No. 31 of Audited Annual Accounts for 2017-18 and Para 2.1.8 of this APR Application). Such amortization will be passed on to consumer through 'Other income'. This amount has not been reduced from total depreciation of the year (refer Para 2.14.3 of this APR Application).
- 2.31.3 Similarly, Re-measurements of post-employment benefit obligations of Rs. 9,752 earlier recognized as a deduction from Employee expense (under GAAP), has been recognized as income under the head 'Other comprehensive income' in audited accounts of 2017-18 (refer Note No. 39 of Audited Annual Accounts for 2017-18 and Para 2.1.8 of this APR Application). Under Ind AS, re-measurements of actuarial gains and losses and the return on plan assets (excluding amounts included in



the net interest expense on the net defined benefit liability) are recognized in other comprehensive income instead of profit or loss (Refer Note No. 55 of Audited Annual Accounts of 2016-17).

- 2.31.4 Relevant balance portions of the net financial impact will be amortized in the future financial statements of WBSEDCL as per provisions of Ind AS. Accordingly, adjustments will be considered in the APR Applications for the respective future years.
- 2.31.5 For 2017-18, the total income from non-tariff sources is Rs. 99,080 lakh as computed in Form 1.26 of Annexure-I in Volume-I of this APR Application, includes the following:
- (a) Rs. 17,098 lakh as delayed payment charges from consumers (refer Note No. 30 of the Audited Annual Accounts of 2017-18);
 - (b) Rs. 24,360 lakh as meter rent (refer Note No. 30 of the Audited Annual Accounts of 2017-18);
 - (c) Rs. 3,491 lakh as Reconnection / Disconnection fees (refer Note No. 30 of the Audited Annual Accounts of 2017-18);
 - (d) Rs. 328 lakh as income from wheeling charges (refer Note No. 30 of the Audited Annual Accounts of 2017-18);
 - (e) Rs. 176 lakh as other miscellaneous charges from service to consumers premises (refer Note No. 30 of the Audited Annual Accounts of 2017-18);
 - (f) Rs. 1,385 lakh as Interest Income from banks on Fixed Deposits and Other Deposits (refer Note No. 31(A) of Audited Annual Accounts of 2017-18);
 - (g) Rs. 37,892 lakh as other income (refer Note No. 31 of the Audited Annual Accounts of 2017-18 and Form 1.26 of Annexure-I in Volume-I of this APR Application);



(h) Rs. 9,752 lakh as other comprehensive income – re-measurements of post-employment benefit obligation (refer Note No. 39 of the Audited Annual Accounts of 2017-18);

(i) Rs. 4,598 lakhs as interest received on account of tariff revision (refer Note No. 32(H) of the Audited Annual Accounts of 2017-18).

2.31.6 In view of the above, the total income from non-tariff sources of Rs. 99,080 lakh earned by WBSEDCL in 2017-18 may be considered by the Hon'ble Commission as income from non-tariff sources in the APR for 2017-18.

2.32 Benefits from sale of power to persons other than the consumers and licensees

2.32.1 The Hon'ble Commission in the Tariff Order for 2017-18 stated that the benefits from sale of power to person other than the consumers and licensee of the Hon'ble Commission will be passed on to the consumers / licensees on actual basis through APR of the concerned year only instead of tariff order on projection basis.

2.32.2 Accordingly, the net benefits from sale of power to person other than the consumers and licensee during 2017-18 has been computed in the Data Form 1.24 of Annexure-I in Volume-I of this APR Application. As per the computations, such benefits for 2017-18 is Rs. 18,584 lakh.

2.32.3 This benefit may be shared by the Hon'ble Commission as per provisions of Regulation 5.15.2 (iv) of the Tariff Regulations. Accordingly, the Hon'ble Commission may consider to allow a benefit of Rs. 9,292 lakh (being 50% of the total benefits from sale of power to person other than the consumers and licensee) to be shared by WBSEDCL.

2.33 Interest credit on depreciation



- 2.33.1 Comparison of actual computed interest credit on depreciation for 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for 2017-18 is shown in the following table.

Table 30: Interest credit on depreciation for 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Interest credit on depreciation	4,539.07	4,057

- 2.33.2 WBSEDCL has computed the interest credit on depreciation for 2017-18 in Form 1.17(g) of Annexure-I in Volume-I of this APR Application, and value for the same is Rs. 4,057 lakh, which may be considered by the Hon'ble Commission as interest credit on depreciation in the APR for 2017-18.

2.34 Repayment of Bonds for Pension Fund

- 2.34.1 Comparison of actual repayment Bonds for Pension Fund for FY 2017-18 against that admitted by the Hon'ble Commission for the same period vide the Tariff Order for FY 2017-18 is shown in the following table.

Table 31: Repayment of Bonds for Pension Fund for FY 2017-18

Particulars	Rs. Lakh	
	2017-18 (Admitted)	2017-18 (Actual)
Repayment of Bonds for Pension Fund	15,300	30,600

- 2.34.2 WBSEDCL in its Tariff Petition for 2017-18 projected principal repayment of Rs. 30,600 lakh for the Pension Trust Bond. The actual principal repayment for 2017-18 has been Rs. 30,600 lakh (refer SI.



No. 4 of Note 15.8 of WBSEDCL's Audited Annual Accounts for 2017-18).

- 2.34.3 Hence, the amount of Rs. 30,600 lakh may be considered by the Hon'ble Commission as the Repayment of Bonds for Pension Fund in the APR for 2017-18.
- 2.35 From the Form E of Annexure-I of Volume-I of this APR Application, net admissible fixed cost for 2017-18 comes to Rs. 7,79,830 lakh as per the Tariff Regulations.
- 2.36 WBSEDCL submits that the amount recoverable through APR Application for 2017-18 after adjustment of variable cost as per FPPCA Application for 2017-18 becomes Rs. 3,04,018 lakh. The break-up of such recoverable amount is given in the following table.

Table 32: Total Amount recoverable through APR Application for 2017-18 after adjustment of variable cost as per FPPCA Application for 2017-18

Sl. No.	Item	Unit	Amount	
1	Variable cost as per FPPCA application for 2017-18	Rs. lakh		13,19,246
2	Net fixed cost as per APR application for 2017-18	Rs. lakh		7,79,830
3	Total realisable sales revenue for 2017-18 [(1) +(2)]	Rs. lakh		20,99,076
4	a1) Revenue from sale of power as per Annual Accounts 2017-18	Rs. lakh	18,95,841	
	a2) Less: Revenue from sale of power to persons other than licensees or any consumers and power swap out as per Annual Accounts 2017-18	Rs. lakh	(1,00,783)	
5	Net sales revenue for 2017-18 [4(a1)+4(a2)]	Rs. lakh		17,95,058



Sl. No.	Item	Unit	Amount	
6	Net revenue recoverable for 2017-18 [(3) - (5)]	Rs. lakh		3,04,018

- 2.37 Hence Rs. 3,04,018 lakh may now be considered for release during the issuance of APR Order for 2017-18.
- 2.38 The Hon'ble Commission is humbly requested to allow the consequential impact of APR in respect of WBPDC, WBSETCL, CESC, DPL, DPSC and impact of FCA in respect of CESC, DPL, DPSC for 2017-18.
- 2.39 While WBSEDCL has submitted necessary details in the APR Application, it seeks the opportunity to file supplemental information, if so required, at a later date. WBSEDCL has incurred legitimate expenditure, which is reflected in the Audited Annual Accounts of 2017-18. So such expenditure may be allowed by the Hon'ble Commission as per the APR Application for 2017-18.
- 2.40 The Hon'ble Commission is humbly requested not to reject or disallow any part of the APR Application made by WBSEDCL or any claims arising there from without allowing WBSEDCL to prove prudence of such expenditure.
- 2.41 WBSEDCL has made every effort to meet the information requirements prescribed by the Hon'ble Commission. Notwithstanding the same, WBSEDCL, however, agrees to make available any further information, as and when asked for by the Hon'ble Commission.
- 2.42 Impact of APR of 2017-18 may preferably be distributed between energy charge and fixed / demand charge for recovery from sale to



consumers and licensees subject to other conditions of the Tariff Regulations in the Tariff Orders for subsequent years.

- 2.43 The Hon'ble Commission in the Tariff Order for 2014-15 introduced new methodology for estimation of expenditure and provided directives for future admittance. The Hon'ble Commission in the Tariff Order for 2017-18 has continued with the same approach for expense projection. WBSEDCL submits that it has filed an Appeal before the Hon'ble APTEL aggrieved by such directives of the Hon'ble Commission in the Tariff Order for 2014-15, which is affecting the liquidity position of WBSEDCL and in future may result in disallowance of legitimate expenditure during truing up. Depending upon the final decision of the Hon'ble APTEL in the said Appeal, WBSEDCL reserves its right to again approach the Hon'ble Commission.
- 2.44 Due to significant disallowances in the APR Orders for 2011-12 and 2012-13 by the Hon'ble Commission, the financial net worth of WBSEDCL has been significantly eroded. This is hampering WBSEDCL's ability to provide quality service to its consumers. In this regard, WBSEDCL submits that it has filed Appeals before the Hon'ble APTEL aggrieved by and contesting such disallowances by the Hon'ble Commission in the APR Orders for 2011-12 and 2012-13. Depending upon the final decision of the Hon'ble APTEL in the said Appeals, WBSEDCL reserves its right to again approach the Hon'ble Commission.

- 2.44 Due to significant disallowances in the APR Orders for 2011-12 and 2012-13 by the Hon'ble Commission, the financial net worth of WBSEDCL has been significantly eroded. This is hampering WBSEDCL's ability to provide quality service to its consumers. In this regard, WBSEDCL submits that it has filed Appeals before the Hon'ble APTEL aggrieved by and contesting such disallowances by the Hon'ble Commission in the APR Orders for 2011-12 and 2012-13. Depending upon the final decision of the Hon'ble APTEL in the said Appeals, WBSEDCL reserves its right to again approach the Hon'ble Commission.

Sudipta Choudhury
Chief Engineer (Regulation)
Regulation Department
WBSEDCL



3. Prayer

WBSEDCL respectfully prays to the Hon'ble Commission:

- (a) To admit this Application seeking Annual Performance Review of 2017-18.
- (b) To approve net fixed cost of Rs. 7,79,830 lakh for 2017-18 in respect of WBSEDCL.
- (c) To approve an amount of Rs. 3,04,018 lakh as recoverable after adjustment of variable cost as per FPPCA application for 2017-18 in respect of WBSEDCL.
- (d) To pass an order as the Hon'ble Commission may deem fit and proper keeping in mind the facts and circumstances of the case.
- (e) With an ultimate aim to achieve the Central Government's goal of 24x7 power for all, the Hon'ble Commission may consider to allow the legitimate expenditure items as claimed by WBSEDCL in this APR Application.