pstcl
PUNJAB STATE TRANSMISSION CORPORATION LIMITED

PUNJAB STATE TRANSMISSION CORPORATION LIMITED
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To

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

Memo No. 429 /CAO(F&A)/MYT-II/APR-1A
Dated: 17/2/2021

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

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

In response to letter under reference please find enclosed herewith the reply of the objections raised by Steel Furnace Association of India (Objection No. 3) on subject cited petition filed by PSTCL before PSERC.

DA/As Above (12 Copies)

CAO (Finance & Audit),
PSTCL, Patiala.

CC:
Sh. Harish Anand, Steel Furnace Association of India Ltd Dhandari Industrial Focal Point, Ludhiana – 141010.

DA/As Above

30/2/2021

OBJECTION No 3
Steel Furnace Association of India

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

Objection 1:

Balance sheets and ARR are designed for two different purposes and should not be mixed

The Board is regularly filing its revised revenue requirement based on actual Balance Sheet figures without excluding the portion of expenditure disallowed by the Commission based on certain provisions of the Act and Regulations while passing Tariff Order. Therefore, the Board should be directed to file a separate Income & Expenditure Account along with Balance Sheet based on costs as approved by the Commission from year to year so that a clear picture may emerge and a comparison may be drawn between the actual/audited expenditure and approved expenditure of the Board.

Reply 1:

PSTCL submits it has filed its tariff petition as per PSERC MYT regulations, 2014 and 2019. PSTCL has considered the same methodology as adopted by the Hon'ble Commission in previous Tariff Orders for computation of ARR.

Objection 2:

Subsidized agriculture consumption to be capped

The power supplied to agriculture sector has been growing consistently at very high rate. Providing the power at the subsidized rate, which is far less than the actual cost of power purchase) will lead to serious financial crisis for the Board and ultimately seriously affects the interest of industrial consumers in the State, which are already reeling under recession.

Therefore, it is imperative to cap the maximum amount of power year wise & approved by the commission that can be supplied to agriculture sector at subsidized rate inclusive of additional consumption for new connections projected in a year.

Reply 2:

It is submitted that the comment is regarding supply of power to agriculture consumers which relates to PSPCL. PSTCL is in the business of transmission of energy and therefore it has no comments to offer.

Objection 3:

Closing down old GGSSTP plant to create demand supply balance to reduce overall average cost of supply

As demand for electricity is not likely to see significant increase overall in the State though some segments like LS segment may grow by 6%-7%, it is desirable to reduce the power generation cost to the extent possible. In this regard, it is submitted that GGSSTP, which is very old plant and two units out of 4 units are already closed, may be shut down permanently. As admitted by PSPCL also that 4 units (Commissioned during 1988 to 1993) shall remains operational only partially mainly to cater paddy season demand and cost about Rs.1380 crore and average power cost is Rs.12/unit. It would help saving Rs.1000 crore even after fully adjusting the employee cost for the transition period of one or two year. The discom may be asked to submit detailed program for the same.

MOD operation of PSPCL Plants

It is also found that GGSSTP plant's variable cost as approved by PSERC is lower but when power is to be scheduled on monthly MOD basis, the variable cost of GVK plant is found to be lower. As a result, power is drawn from GVK power plant. The comparison seems to be drawn between GGSSTP plant variable cost as worked out by PSPCL and not as approved by PSERC at the time of MOD. For some months, the same situation is observed for GHTP also. Comparison of variable cost as approved by PSERC for IPPs & State Discom in Tariff Orders, as presented by PSPCL in ARR and as declared by PSPCL in monthly MOD for different thermal plants is given hereunder:

MOD Comparison

As per monthly MOD data being issued by CE/PPR					
Month	Nabha Power Rajpura –IPP	Talwandi Sabo Power – IPP	GVK –Goindwal Sahib IPP	GHTP Lehra Mohabbat – PSPCL	GGSTP Ropar – PSPCL
2019-20					
Nov 19	3.10	3.43	4.04	4.42	4.98
Dec 19	2.96	3.62	3.67	4.44	3.87
Jan 20	2.76	3.57	4.13	4.22	4.23
Feb 20	2.87	3.41	4.13	4.18	4.23
Mar 20	3.00	3.33	4.13	4.17	4.23
2020-21					
Apr 20	3.00	3.33	4.13	4.17	4.23
May 20	2.93	3.42	4.14	4.17	4.21
Jun 20	2.96	3.14	3.88	4.21	4.25
Jul 20	3.02	3.36	3.94	4.05	4.18
Aug 20	2.91	3.32	3.76	4.10	4.19
Sep 20	2.90	3.41	3.68	3.95	4.20
Oct 20	2.97	3.47	3.95	4.21	4.22
Nov 20	2.98	3.61	3.69	4.08	4.21

As per MOD for IPPs and as per TO issued by PSERC for 2020-21 for PSPCL plants					
Month	Nabha Power Rajpura –IPP	Talwandi Sabo Power – IPP	GVK –Goindwal Sahib IPP	GHTP Lehra Mohabbat – PSPCL	GGSTP Ropar – PSPCL
2019-20					
Nov 19	3.10	3.43	4.04	3.72	3.24
Dec 19	2.96	3.62	3.67	3.72	3.24
Jan 20	2.76	3.57	4.13	3.72	3.24
Feb 20	2.87	3.41	4.13	3.72	3.24
Mar 20	3.00	3.33	4.13	3.72	3.24
2020-21					
Apr 20	3.00	3.33	4.13	3.84	3.79
May 20	2.93	3.42	4.14	3.84	3.79
Jun 20	2.96	3.14	3.88	3.84	3.79
Jul 20	3.02	3.36	3.94	3.84	3.79
Aug 20	2.91	3.32	3.76	3.84	3.79
Sep 20	2.90	3.41	3.68	3.84	3.79
Oct 20	2.97	3.47	3.95	3.84	3.79
Nov 20	2.98	3.61	3.69	3.84	3.79
As per MOD for IPPs and Tables 7,8, 14 and 15 of Tariff Order 2020-21					

As per ARR for 2021-22 submitted by PSPCL					
Month	Nabha Power Rajpura –IPP	Talwandi Sabo Power – IPP	GVK –Goindwal Sahib IPP	GHTP Lehra Mohabbat – PSPCL	GGSTP Ropar – PSPCL
2019-20 (TU)	3.03	3.52	3.69	3.72	3.24
2020-21 (H1)	2.92	3.37	3.80	3.58	3.69
2020-21 (H2	2.90	3.41	3.63	3.52	3.59
20-21 (H1+H2)	2.92	3.37	3.80	3.54	3.62
2021-22 (Proj)	3.20	3.73	3.81	3.43	3.76
Format D3 page 310, 312, 315, 317,319 and tables 7 & 35					

Therefore, to end this confusion, it is submitted that PSPCL may not be given fixed charges for the same. After a stabilization period of one or half year of relocating power sourced from

GGSSTP to elsewhere (GVK or power purchase from outside or other stations), even GVK power cost be compared with other options and sourced only if it is competitive. It is learnt that GVK plant is a negotiated tariff plant and need to be continued based on competitive power bidding only. Cheaper power from other sources may be explored to reduce the power cost of Discom.

In the same spirit, Rs. 43.5 crore expenses claimed as capital expenditure (table 11, page 45 of the ARR) for GGSSTP in FY 19-20 may also be disallowed.

Reply 3:

It is submitted that the objection relates to PSPCL (State Generating Company). PSTCL is in the business of transmission of energy and therefore it has no comments to offer.

Objection 4:

Diversion fund figure to be updated

The diversion of funds happened in the past need to be continuously updated based on new facts and information. Such exercise is required to ensure that no more funds raised for capital purpose are diverted toward meeting revenue requirement of the Board. It is submitted to the Commission to ensure that such expenses are not claimed in the ARR of the Board. A detail investigation in this regard is required to work out the exact amount of diversion to be disallowed for ARR purpose to safeguard the interest of the consumers. Besides that, PSPCL has claimed additional Rs. 15628 crore as new equity converting UDAY loan of GOP into equity raising the total equity of GOP to Rs 21709 crore and Return on the same is sought @15.5% for generation business and 16% for Distribution business. In our view, it is highly preposterous and also against the MYT regulations related to Return on Equity. In order dated 26th May 2006 and related appeal no 4 of 2005, APTEL has dealt with diversion of funds by PSERC based on net fixed assets, which are financed through equity and loans. Accordingly, APTEL has calculated net fixed assets at Rs. 7646.58 crore after excluding consumer contribution and grant and subsidy towards cost of capital. Against this, loan and equity amount claimed by PSPCL was Rs 11828.48 crore for FY 2003-04 and thus a diversion of funds to the tune of Rs. 4181.90 crore was found by APTEL. Assuming that in the last 15 years, Hon'ble Commission has disallowed about Rs.700-800 crore per annum, there would be total diversion of funds to the tune of Rs. 11250 crore out of Rs.15628 crore addition in equity shown in its Balance sheet by PSPCL. Remaining Rs.4378 crore (15628-11250) would be maximum amount eligible for loan consideration under UDAY scheme for ARR and tariff determination purpose. As per UDAY scheme, 25 % (Rs.1095 crore) of loan taken over by Government of Punjab from Discom should come as equity and remaining as a grant to Discom. Assuming Rs.4378 as total loan taken by government, which may be eligible for return of equity of Rs.1095 crore for ARR may fetch Rs.170 crore as return on equity at the most and there would be no interest on remaining amount which would be adjusted as grant as per MOU under UDAY scheme. Diversion of funds may be trued up based on APTEL formula to correct the above estimate and only thereafter the interest on existing loan should be allowed.

Interest on working capital be given as per MYT regulations

Reply 4:

It is submitted that the comments given by the objector is with respect to conversion of loans to grants under UDAY Scheme. It is submitted that UDAY (Ujwal Discom Assurance Yojana) scheme is applicable to the Distribution Companies of all states. PSTCL is in the business of transmission of energy and therefore it has no comments to offer.

Objection 5:

True up of FY 2019-20

I. T& D losses as approved for FY 2019-20 in Tariff order June 2020 stands out as 11.54% plus 2.5% against 14.69% claimed by PSPCL. Against approved sale of 12116 MU, PSPCL has shown agriculture consumption at 11538 MU for FY 2019-20. It is prayed to the commission to independently validate the above sales and T&D loses as lower sales to AP consumers results into lower subsidy due from government and higher T&D losses could be loaded on other consumer categories.

II. In para 2.10.3 of the ARR2021-22, page no 44, PSPCL has claimed expenses made on RSD dam of Rs.333.39 crore against payment made to Water resources department. It is submitted that only capitalized cost, which is approved by Commission should be considered for ARR purpose and Discom may take the matter with Government for payment made and interest thereon. The burden of the same should not be passed on to the consumers. Moreover, expenditure and interest on loan taken during construction are to become capital Cost of the project to be trued up on commissioning of the project and such expenditure cannot count towards capital Investment till commissioning. It is also submitted here that as per knowledge of the undersigned, sharing of capital cost of Irrigation Projects having power component between PSPCL and Irrigation wing had been disputed at the time of commissioning of RSD also and the matter went to APTEL also. As such this aspect be kept in view since such projects have very high capital cost and per unit generation cost in initial years will work out to be very high if costs are not appropriately apportioned. In this context, it is also brought out that MOP has allowed issuance of Hydro Energy Certificates for Large Hydro Projects commissioned after 8.3.2019 for excess generation beyond meeting the now introduced Hydro Purchase Obligation. The fixed price for HEC for 2020-21 will be Rs 5.50 per HEC with 5% escalation every year. Shahpur Kandi Project will also be eligible post commissioning for HPO and PSPCL needs to follow up the project for early commissioning of the project otherwise PSPCL shall also have to purchase HEC.

III. PSPCL incurred Rs.849 crore on system improvement and system augmentation (refer para 2.10.4, page 44 of the ARR) as capital expenditure. We request the same must be vetted and approved only after due diligence as commission has approved only Rs.188.67 crore after adjusting consumer contributions/central government scheme (loan to be converted into grants) as per table 19 of T.O. June 2020.

IV. Interest on long term borrowing claimed by PSPCL is Rs.684.29 crore against approved 798.93 crore. PSPCL sought recovery based on actual. However, it is submitted that expenses incurred should be approved in the framework of MYT regulations, task completed and not based on actual incurred, which may be referred also.

V. Interest paid on GPF as Rs. 87.47 crore is claimed by PSPCL in para 2.16.1, page 50 on actual basis. It is submitted that GPF amount was available with PSPCL and should have been adjusted in Working Capital and WC requirement need to be reduced.

VI. Interest on security consumption claimed as Rs. 155.65 crore in para 2.18.1. It is prayed that it must be verified that whether the same has been credited to consumers or not.

VII. Return on equity should be approved as per MYT regulations on an equity of Rs.6081 crore. Detailed comments on UDAY loan converted into equity is dealt above separately. It is also pertinent to note that even Rs.6081 equity is also under challenge in Supreme Court, so allowing return on equity on Rs.6081 is also contentious.

VIII. In para 2.22.1, Rs.167 crore claimed as other debits in ARR on actual basis. It is submitted that ARR is meant for specific purpose and not necessarily reflect actual expenses incurred. Therefore, such expenses must be approved as per MYT regulations and no specific regulations is quoted under which such expenses are claimed, these need to be disallowed.

IX. Non-tariff income is claimed by Discom after excluding delayed payment surcharge and rebates as Rs. 459 crore against 1029 crore approved by Hon'ble Commission, which is not correct. Therefore, all incomes which are collected from consumers and related to billing must be accounted for while approving annual revenue requirement.

Reply 5:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 6:

Sale of surplus power

A detailed note on sale of surplus power should be prepared and submitted for stake holders reference purpose and need to be vetted by Hon'ble Commission before allowing them as part of ARR.

Reply 6:

The objection on sale of surplus power relates to PSPCL. PSTCL is in the business of transmission of energy and therefore it has no comments to offer.

Objection 7:

Comments on APR for FY 2020-21 and revised estimate for ARR 2021-22

Comments made in earlier paragraphs, which are general in nature and also relevant must be considered for APR 2021-21 and ARR2021-22 revised estimates also. To avoid duplicity, same are not reproduced hereunder but are essentially integral part of our observations for APR of 2020-21 and FY 2021-22 also. Other specific submissions are made hereunder:

i. In para 3.9.9, page 85 of the ARR FY 2021-22, PSPCL has mentioned that power is being transmitted to PSPCL for which it is not under obligation to buy. Therefore, PSPCL must take up matter with NPCIL/concerned authority appropriately and not to pay any such charge. Therefore, amount claimed by PSPCL should be excluded from power purchase cost on this account.

ii. Detail comments are made on interest and finance charges claimed by PSPCL in earlier paragraphs. It is submitted that only normative working capital loan to be allowed after deducting Security consumption amount and GPF amount & interest thereon be given.

iii. It is pertinent to note that interest rate @11.5% projected by PSPCL is very high. It is submitted that PSPCL may try to substitute the same with advance against future.

Reply 7:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 8:

Voltage Rebate for 66 KV consumers:

T&D losses for 66 KV consumers as per open access regulations worked out in Tariff order June 2020 are 4.17% (1.69+2.48) against total T&D losses of about 14%. In addition to T&D loss, the 66 KV consumer has to be compensated for the investment and operating cost of the 66/11 KV transformer and switchyard. The voltage wise cost of supply worked out by PSERC for 66 KV industry is Rs 5.81 and for 11 KV industry as Rs 6.36 indicating a difference of 55 paisa per unit (Annexure iv, T.O. 2020). However the rebate being given to consumers connected at 66 KV is only 25 paisa per unit. Voltage rebate need to be enhanced appropriately and fixed in percentage terms as per pattern of Voltage Surcharge being charged on percentage.

Since Voltage Surcharge for consumers eligible for 66 KV but getting supply at 11 KV have to pay 10% Voltage Surcharge, Similarly, Voltage rebate for 66 KV consumers should also be 10%.

Reply 8:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 9:

Fix industrial Tariff as per category wise cost of supply

The Board has submitted the category wise cost of supply. We appreciate the Board on this account to come up with category wise cost of supply as well as related cross subsidy earned/given to each segment of consumers. Therefore, it is also prayed to the commission to reduce the cross-subsidy burden on LS consumers and fix the tariff based on category wise cost of supply, tariff of the LS consumers may be rationalized and tariff for subsidized class may be increased. It is also submitted that assumptions for category wise cost of supply basis have been fixed many years back. It is submitted that the same should be revisited to revise the category wise cost of supply.

Reply 9:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 10:

T&D losses

We would like to appreciate reduction in T&D losses achieved by PSPCL, however, we request the honorable commission to verify the same independently. PSPCL has calculated the Kandy Area agriculture supply as per PSERC pattern which is appreciated.

It is our submission that PSPCL may be asked to finish the work of separating the supply of power to agriculture from mixed feeders to independent feeders in fixed time period and not in "Future" as claimed by Discom. Here, we would like to mention that T&D losses are very high in selected regions as also pointed out by PSERC time and again. It is submitted that same also need to be reduced drastically.

Reply 10:

It is submitted that all the above comments are with respect to T&D loss and supply to Agriculture consumers which is related to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 11:

Power purchase cost

PSPCL is bearing the fixed charges of Anta and Auriya power stations but the generation at these plants is very costly. PPAs for these stations were executed on 31.10.1994. The useful life of the gas-based projects is 25 years and thus PPA term is already over by 30.10.2019. PSPCL and GOP should clearly intimate the MOP and NTPC that it will not extend the PPA for these two stations.

PSPCL may associate Haryana, Himachal and other beneficiaries of these plants which are also surplus in power. The matter needs to be flagged in CEA also that these plants may be retired after their useful life is over.

Reply 11:

It is submitted that all the above comments are with respect to power purchase cost which is related to PSPCL Petition. PSTCL has no comments to offer in this regard

Objection 12:

Depreciation charges

Though, we do not wish to comment specific on depreciation charges claimed by PSPCL for FY2021-22 and FY2020-23. However, we would like to submit that Hon'ble Commission may kindly look into the matter of those fixed assets which have completed their life. Such assets need to be identified and shown separately and no depreciation on such assets to be allowed for ARR determination purpose.

In the light of above, interest cost should be approved accordingly, which would be substantial lower than interest claimed by them.

Reply 12:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 13:

Return on equity

PSPCL has equity base of Rs 6081.43 Cr as per FRP approved by GOP while PSEB was bifurcated into PSPCL and PSTCL on 16.4.2010. Though the matter regarding conversion of Consumer Contribution and Govt Subsidies into equity has not been approved by APTEL, still the matter is under litigation in Supreme Court and PSERC is granting ROE on Rs 6081.43 Cr. APTEL had observed that the Govt can hold any amount as equity in PSPCL (and PSTCL) but ROE needs to be granted only on actually subscribed and paid up equity only i.e. cash money which has been infused need to be counted as equity for the purpose of ROE. Regarding return on equity of about Rs.3900 crore. (ref. Balance-sheet page 65) should be treated as equity and return on the same should be given only if the equity is injected in cash in the PSPCL otherwise there is no logic of giving return on equity on this amount also.

Since the UDAY scheme was up to 31.3.2020, PSPCL has proposed in Para 4.17 of ARR to convert the loan amount of Rs 15628.26 Cr as GOP equity in PSPCL thereby increasing GOP equity from 6081.43 cr to 21709.69 cr. It is also proposed to recover ROE on this loan converted equity amount of Rs 15628.26 @ 15.77% which works out to Rs 2448 Cr. Thus by simply maneuvering the entry of loan amount to equity, consumers will be asked to pay 2448 Cr requiring increase of tariff of about 52 paisa per unit across the board on this account alone in 2021-22. Consumers will have to pay 59 paisa per unit including taxes to GOP. This is clearly against the interest of the consumers and PSERC should not allow it.

Reply 13:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 14:

Employee cost

We have reiterated many times that employee cost is growing consistently and also acknowledge that the same cannot be capped due to manifold reasons. This is our submission that only reasonable cost be passed through ARR and remaining must be taken over by Government as PSPCL employees are government employees and must get their dues as per Government rules and regulation, but the same should not be used as an excuse to increase the ARR and cost of power for consumers.

Reply 14:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 15:

Subsidy and interest thereon due from government not fully accounted for

PSPCL has not separately worked out the liability of GOP for nonpayment of subsidy and is also manipulating the interest on delayed payment of subsidy of GOP by accounting it in Non-Tariff Income thereby loading it on the consumers rather than seeking recovery of the same from GOP. The GOP subsidy and interest on the delayed payments need to be charged from GOP.

Reply 15:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard

Objection 16:

Overdue receivables

As per ARR page 181, table of outstanding dues from government offices shows outstanding of Rs.2381 crore as on 30th Sept 2020. We fully support PSERC suggestion that prepaid meters to be installed in government offices. If possible then the outstanding due from government should be deducted from the Government loans given to PSPCL or the Government equity be reduced by Rs.2381 crore plus due interest for delay payments and return on equity be reduced by the same amount. This should be left to the government as how to deal with these outstanding amount of various government offices.

Similarly, it is also humbly suggested that a detailed MIS system to be developed to track such accounts where power is regularly supplied but payment is not received. Such account holders may be pursued suitably to pay due bill amount to PSPCL.

Reply 16:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 17:

On page 116 of the ARR, under the heading of directives for FY2020-21 ending sept 2020, in directive no 6.1 related to reduction in T&D losses, areas/zone wise T&D losses are given showing very high losses in West Punjab, South Punjab and Boarder areas. It is submitted that the losses from these areas need to be separated and be loaded on tariff announced for these areas in form of special cess for theft. Also, cross subsidy burden on rest of states domestic/industrial consumers be separated.

Reply 17:

It is submitted that all the above comments are with respect to T&D loss which is related to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 18:

Security (Consumption)

Presently interest on Security is at RBI rate which is only around 4.5% whereas we have to take working capital loan at 9-10%. There is provision of pre-paid meter in Supply Code. PSPCL should spell out the road map for introducing Pre-Paid meters for industry. If PSPCL is not ready, then consumers be allowed the facility to submit Bank Guarantee for Security (Consumption) and the cash deposited for Security be refunded.

Reply 18:

It is submitted that all the above comments are with respect to PSPCL Petition. PSTCL has no comments to offer in this regard.

Objection 19:

Return on equity claimed by PSTCL should not be allowed on increased equity as no fresh equity is infused in the PSTCL

PSTCL had equity of Rs 605.38 Cr as per FRP which continued up to 2016-17. PSTCL considered funding of Capital Expenditure with normative 30% equity and 70% funding in 1st MYT control period starting from 2017-18 using a loop hole in MYT regulations and Hon'ble Commission also allowed normative funding of Capex through equity (Paper Adjustment) and loan. However, ARR figures revealed that PSTCL is funding this equity through loans or purported redeployment of Return on Equity earned during the period.

whereas this Return on Equity actually belonged to the GOP which has invested equity in PSTCL. Further, the paid up, issued and subscribed share capital as on 31.3.18, 31.3.19 as well as on 31.3.20 remained same i.e. Rs 605.88 Cr as per relevant note 17 of the Annual Financial Statements of the respective years.

Thus, neither there is any approval of GOP to invest in equity nor have equity shares been issued to GOP on account of investment. The Profit and loss statement of Annual Financial Statements of PSTCL for 2017-18, 2018-19 and 2019-20 supplied with the ARRs state that the company has incurred net profit of Rs 4.03 Cr in the year 2017-18 and net loss of 8.23 Cr and 34.96 Cr in the years 2018-19 and 2019-20 respectively. Balance sheets state that the paid-up equity capital of PSTCL for the year 2017-18 to 2019-20 remain the same i.e. 605.88 Cr. There are no free reserves as per Note 18 of the Annual Financial Statement but only General and Capital Reserves.

However, as per tariff order 2020-21, while allowing True up for 2017-18, Hon'ble Commission allowed addition in equity of 96.92 Cr (30% of capex) raising the equity of GOP from 605.88 Cr to 702.80 Cr without any cash flow. This was objected to by stake holders as the amount was not invested in cash by GOP and funding was through redeployment of ROE or raising loan. ROE could be retained by a company to meet losses, if in loss or to pay dividends, if in profit. It was evident that the system is being mis-utilised by the Licensee to earn about 7% of difference of interest rate of loan (8 to 9%) and ROE rate of 15.5%. Accepting the sentiments of consumers, similar demand in true up of 2018-19 seeking equity addition of 73.58 Cr was rejected by PSERC. Now in the true up of 2019-20, PSTCL has again raised demand for addition of Rs 2.16 Cr in the equity based on the actual/trued up capex. We request the Hon'ble Commission to increase the capex loan of PSTCL by Rs 96.92 Cr (If justified) + 2.16 Cr = Rs 99.08 Cr and withdraw the equity permitted in 2017-18 and grant relief to consumers. This will bring down the ARR by about 8 Cr.

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

PSTCL has to realise that the ROE is being retained by it and not being paid to GOP which has invested the equity. It should result in profit equivalent to ROE amount in the balance sheet of PSTCL whereas it has incurred losses indicating that it is over expanding or working inefficiently and investments are not giving returns as projected. Instead of controlling its expenditure and operating efficiently, it is trying to manipulate the loop holes of the system to earn extra money through ROE which is ultimately going to raise the Tariff for consumers and also the subsidy of GOP. The tariff in Punjab including ED+IDF is already among the highest in the country and still higher tariff will force the consumers to consume less and industry will close down resulting in lower revenue and more increase in tariff.

Reply 19:

PSTCL would like to submit that the Regulations provide for funding of capital expenditure as per normative debt: equity ratio of 70:30. Return on Equity approved for respective year is nothing, but profit approved in regulatory books. For funding of capital expenditure, PSTCL may utilize Return on Equity approved for previous year and re-invest in transmission business. The consideration of audited accounts for funding of capital expenditure would not be appropriate as actual accounts and regulatory accounts are different. The audited accounts include interest charges towards long term loan as well as short term loans/working capital loans. However, in the ARR, interest on working capital loan is approved on normative basis. PSTCL would like to submit that it has liberty to invest its profit which is as per applicable MYT Regulations. PSTCL has considered the funding of Capital Expenditure entirely through loans in FY 2019-20 in this

Petition which is in line with the methodology adopted by Hon'ble Commission in Truing-up of FY 2018-19.

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

CAO (Finance & Audit),
PSTCL, Patiala