**DAMODAR VALLEY CORPORATION**
**COMMERCIAL DEPARTMENT**
**DVC TOWERS : V I P ROAD ,KOLKATA- 700 054.**

**Tel. No: 033-2355-7041/6041** **FAX: 033-2355-2129**

*Ref No.*: Coml/Tariff /Objection- JCADVC/361 Date: 25.08.2020

To
The Secretary
Jharkhand State Electricity Regulatory Commission
New Police Line Road, Opposite to C.M.House
Kanke Road, Ranchi-834008
Phone No. - 0651-2285906 & Fax No. - 0651-2285907

Sub: Reply on the Comments/Objection/Suggestions made in the public hearing conducted by Hon'ble JSERC on 17th and 18th August 2020 related to DVC's tariff applications.

Sir,

Attached please find the response from Damodar Valley Corporation (DVC) on the Comments / Objections / Suggestions made during the instant public hearing conducted by Hon'ble Jharkhand State Electricity Regulatory Commission (JSERC) related to DVC's tariff applications.

Enclo: As stated

Yours faithfully

Rakshit

(M.C. Rakshit)
Chief Engineer (Commercial)

Copy to:

1. The Joint Secretary, Association of DVC HT Consumers of Jharkhand (JCADVC), Kalyani Apartment, 1st Floor, Gandhi Chowk, Giridih – 815301 (Jharkhand)
   E-mail: jcadvc@gmail.com
   ---------------------- attention Shri Pramod Kumar Agarwal.

DVC's responses to the Respondents' objections raised at JSERC Hearing dated 17.08.2020 and 18.08.2020 regarding truing-up for FY 17-18 and FY 18-19, APR for FY 19-20 and ARR for FY 20-21 for DVC's distribution and retail supply activity in the State of Jharkhand

## A. Responses to objections raised by Mr. Bhushan Rastogi of M/S Mercados representing the Association of DVC HT Consumers of Jharkhand

DVC has already submitted its reply before the Hon'ble JSERC vide letter nos. Coml/Tariff /JSERC Public Reply/ 133, dated 08.06.2020 to the objections received from the Association of DVC HT Consumers of Jharkhand vide letter no. ADHCJ/JSERC/06/2020-21 dated 30.05.2020 and letter no. ADHCJ/JSERC/07/2020-21 dated 30.05.2020 regarding true-up for FY 2017-18 and FY 2018-19, APR for FY 2019-20 and ARR for FY 2020-21 for DVC's distribution and retail supply activity in Jharkhand.

The same objections have been again raised by the said objector in the public hearing dated 17.08.2020 and 18.08.2020. Issue-wise replies on the objections raised are as follows;

1. <u>Own generation cost:</u>

    a) <u>**Objection**: DVC has considered the ARR for its T&D system based on the CERC's true-up order for 2009-14 period, instead of considering the ARR as per CERC orders dt. 09.08.2019 and 05.02.2020 for 2014-19 period</u>

    *DVC's reply:*

    i. The provisional tariff orders for 2014-19 period for DVC's entire T&D system was yet to be issued by CERC by the time DVC filed the petitions before Hon'ble JSERC.

    ii. 2013-14 was the latest year for which AFC for entire T&D system was available.

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iii. Therefore, DVC has considered the AFC for FY 2013-14 as per CERC's 2009-14 true-up order.

iv. DVC has filed 2014-19 true up petitions to CERC for T&D system, for which hearing was conducted and additional replies were also submitted by DVC. Hon'ble JSERC is requested to consider T&D AFC as per 2014-19 true up orders to be issued by CERC.

v. Hon'ble JSERC in the order dt. 18.05.2018 (para 7.38) stated that fixed costs will be subjected to true-up based on final CERC orders.

b) **Objection**: DVC has projected the fixed and energy costs for its own generating stations and T&D systems for FY 2019-20 and FY 2020-21 considering an escalation of 2.5% instead of considering the same fixed charges as on 31.03.2019 and normative energy charges as per CERC Tariff Regulations 2019.

*DVC's reply:*

i. The 2.5% escalation considered by DVC is in line with JSERC's approach in its order dt. 18.05.2018 order (para 7.38).

ii. CERC in its Tariff Regulations 2019 has also considered an escalation of ~3% in normative O&M expenses.

iii. Considering these, DVC's approach of 2.5% escalation is appropriate.

c) **Objection**: Contribution to Pension and Gratuity Fund and Sinking Fund to be linked to PAF.

*DVC's reply:*

i. Hon'ble APTEL in its judgment dt. 23.11.2007 decided in favour of full recovery of P&G and Sinking Fund amounts from

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consumers through tariff. This judgment was upheld by Hon'ble Supreme Court vide order dt. 23.07.2018.

ii. CERC in its Tariff Regulations provides for PAF-linked Capacity Charge computation based on five stipulated AFC components. Those AFC components don't include P&G or Sinking Fund.

iii. For Working Capital computation, P&G, Sinking fund, etc. are not considered as receivables by CERC and only the five stipulated AFC components are considered. Thus recovery of P&G Fund and Sinking fund liabilities of DVC cannot be treated at par with normal elements of AFC viz. (a) Return on equity, (b) Interest on loan, (c) Depreciation, (d) O&M expenditure and (e) Interest on Working Capital etc.

iv. CERC treats P&G, Sinking fund as additional elements of Fixed Charges (an example is the order dt. 08.04.2019 in petition no 331/MP/2018, where ash disposal expenses was treated as additional item in para-29). Such additional elements are not considered for computation of IWC. Recovery of additional elements are in full without factoring in PAFM/PAFY.

v. Hon'ble APTEL in judgment dt. 23.03.2016 in appeal no 255 of 2014 stated that no part of the CERC-determined AFC is required to be re-determined by the State Commission.

vi. Other state regulators like Chhattisgarh, Haryana also in their regulations and tariff orders did not link P&G / terminal liabilities to Availability.

vii. Hon'ble JSERC in its order dt. 19.04.2017 did not link P&G and Sinking Fund with PAF/TAF.

viii. WBERC in its order dt. 19.06.2020 also followed the same approach.

ix. Considering the above, Hon'ble JSERC is requested to allow full recovery of the P&G and Sinking Fund as claimed by DVC.

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d) **Objection**: DVC considered NAPAF at 83% for some of the stations, whereas CERC in the Tariff Regulations 2014 allowed 83% NAPAF for the first three years (i.e. from FY 2014-15 to FY 2016-17) and 85% for the next two years (i.e. FY 2017-18 and FY 2018-19).

*DVC's reply:*

i. For FY 2018-19, FY 2019-10 and FY 2020-21, DVC has considered NAPAF as per CERC tariff orders for 2014-19 period and CERC Tariff Regulations 2019.

ii. For FY 2017-18, there was some inadvertent mistake by DVC while considering the NAPAF of the stations. However, while computing the Own Generation cost of DVC for FY 2017-18 vide order dt. 28.05.2019 (Ref Table-31), Hon'ble JSERC has correctly applied the NAPAF for all the stations. Therefore, DVC humbly requests Hon'ble JSERC to adopt NAPAF figures for determining the ARR as directed by CERC. DVC has already submitted this reply in its earlier letter to Hon'ble JSERC dated 8th June 2020 against the objections raised by the objector.

e) **Objection**: The projected Ex-Bus Energy figures for DVC's generating stations do not correspond to projected PAF figures for respective stations.

*DVC's reply:*

i. PAF for generating stations have been proposed by DVC for FY 2019-20 & 2020-21 as could be envisaged based on readiness or healthiness of the generating station equipment, fuel availability, availability of network etc. Truing up will be done based on actual PAF, which is also a function of the aforesaid parameters at actuals. For the period FY2017-18 and 2018-19 PAF have been considered at actuals.

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ii. Ex-bus Energy for its generating stations have been estimated by DVC based on equipment maintenance schedule, retirement plan of old units and expected demand of consumers and beneficiaries. The actual ex-bus energy while truing up will depend on real-time energy demand-supply situation, grid availability, grid frequency, firm commitment to beneficiaries, power surrendered by beneficiaries (if any), real-time availability of the generating station.

iii. Hence PAF and Ex-bus energy are influenced by separate factors.

iv. PAF and Ex-bus Energy may also differ as DVC has to maintain spinning reserve for meeting exigencies.

v. CERC in its Tariff Regulations also provides for separate definitions for PAF and PLF. To be precise Ex-bus energy is directly related to PLF and not with PAF since PAF is determined in terms of Power (in MW).

vi. Therefore, Hon'ble JSERC is humbly requested to consider the PAF and Ex-Bus Energy projections as claimed by DVC.

2. **Objection**: DVC's claim of Interest on Temporary Financial Accommodation is not in accordance to the JSERC Regulations. Delayed Payment Surcharge is applicable to JBVNL only and not HT consumers, and hence Interest on Temporary Financial Accommodation should also not be levied on HT Consumers.

*DVC's reply:*

i. Temporary Financial Accommodation is required to fund the deferred / delayed payment by the consumers.

ii. There are multiple APTEL judgments supporting such claim (e.g. APTEL judgment in Appeal No. 117 of 2008 between Reliance Infrastructure Ltd. vs. MERC – para 47; Appeal No. 153 of 2009 between North Delhi Power Ltd. vs. DERC – para

25; Appeal No. 177 & 178 of 2012 between BSES Rajdhani Power Ltd. vs. DERC).

iii. WBERC in its tariff regulations also provides for such component.

iv. The Temporary Financial Accommodation is used to fund the deferred / delayed payment for all firm consumers of DVC (including JBVNL). Since the entire Delayed Payment Surcharge (including that from JBVNL) is deducted from the ARR to arrive at the Net ARR for Jharkhand distribution activity of DVC, hence the entire Temporary Financial Accommodation (including that due to JBVNL) is claimed as part of the ARR by DVC.

v. Hon'ble JSERC is requested to allow DVC's claim for Temporary Financial Accommodation in line with that already approved in the tariff order dated 28.05.2019.

3. **Objection:** Hon'ble JSERC provides for Working Capital at 1% of the revenue which is adequate. There is no need to deviate from Hon'ble JSERC's approach in the previous orders.

*DVC's reply:*

i. CERC determines Working Capital for the Generation and Transmission activities of DVC only and not for distribution activity.

ii. In order to manage its distribution activities, DVC has to maintain (a) separate manpower to deal with various technical / non-technical issues, safety / security requirements related to power supply, (b) repair and maintenance work related to consumer power supply, (c) arrangements for data communication, meter reading, billing, collection, (d) IT-based monitoring and data acquisition systems, etc.

iii. Additional rolling fund is required for these activities. These are not served by Normative O&M or Normative Working Capital requirements by CERC.

iv. DVC has also substantiated its Working Capital needs based on computation of Net Working Capital as per Accounts (Net Working Capital = Net Current Assets – Net Current Liabilities) and submitted justifications to Hon'ble JSERC vide reply dt. 03.03.2020 (for 18-19).

v. If DVC's working capital requirements for distribution activity of DVC are not considered, it will remain unrecovered and will put financial stress on DVC.

vi. Therefore, Hon'ble JSERC is requested to consider DVC's claim of Working Capital and Interest thereon.

4. **Objection:** All heads of Non-Tariff Income (as per DVC's Annual Accounts) should be considered for deduction by Hon'ble JSERC (similar to Hon'ble JSERC's approach for JBVNL, JUSCO etc.). Hon'ble JSERC can seek audited accounts for DVC's distribution business to understand the quantum of Non-Tariff Income for DVC's distribution business.

*DVC's reply:*

i. Hon'ble JSERC in different tariff orders of DVC has already settled that only the Delayed Payment Surcharge accounts for Non-Tariff Income so far as the distribution activity of DVC is concerned.

   Hon'ble JSERC's order references:

   - Para 5.33, 5.34, 6.28 to 6.30 and 7.31 to 7.33 of Order dt. 22.11.2012 (for 2006-07 to 2012-13).
   - Para 6.69 of Order dt. 04.09.2014 (for 2013-14 to 2015-16).
   - Para 5.50 – 5.55 and 6.45-6.46 of Order dt. 19.04.2017.

ii. Item-wise justifications for the different heads of income (except Delayed Payment Surcharge) as per DVC's Audited Annual Accounts were already provided to Hon'ble JSERC vide DVC's letter no. Coml./Tariff/JSERC/Addl. Info 19-20/1977 dt. 23.05.2019. There, DVC explained that those other heads of income are not incidental to the distribution activity of DVC and are not to be considered as Non-Tariff Income.

iii. WBERC in order dt. 24.08.2015 (para 3.8.6 and 4.10), 25.05.2015 and 19.06.2020 also considered only the Delayed Payment Surcharge as the Non-Tariff Income.

iv. CERC in Tariff Regulations 2019 has not included even the Delayed Payment Surcharge from Generation / Transmission business under 'Non-Tariff Income'.

v. Therefore Hon'ble JSERC is requested to consider only the Delayed Payment Surcharge as Non-Tariff Income as claimed by DVC.

vi. Regarding separate accounts for Distribution business of DVC, Hon'ble APTEL in judgment dt. 23.11.2007 recognizes DVC's T&D system as a single inseparable entity and considered to be "deemed unified inter-state transmission network" (para 111). Further, Hon'ble Supreme Court in order dt. 23.07.2018 (para 55) says activity-wise separate accounts is not necessary to be maintained by DVC. Accordingly, DVC does not maintain separate accounts for its distribution activity.

5. **Objection:** T&D Loss is controllable. Hon'ble JSERC should maintain T&D loss levels of DVC at originally approved value as per past order / past approach.

*DVC's reply:*

i. Hon'ble APTEL in judgment dt. 23.11.2007 recognizes DVC's T&D system as a single inseparable entity and considered to

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be "deemed unified inter-state transmission network" (para 111).

ii. Hon'ble JSERC in Tariff Regulations 2015 specifies target of distribution loss only and not T&D loss.

iii. DVC's T&D loss has never crossed the 5% distribution loss target.

iv. JSERC in order dt. 28.05.2019 approved T&D loss for FY 2017-18 to FY 2019-20 at 3.23% based on actual figures for FY 2016-17, and also said that actual loss is not finalized (para 6.5) and shall be subject to truing up (para 6.36).

v. DVC has submitted actual T&D losses for FY 2017-18 and FY 2018-19, and has provided justification for the same (vide letter no. Coml./Tariff/JSERC/Addl. Info 18-19/145, dtd. 17.03.2020). Main reason for increase of loss from FY 2016-17 level was the increase of proportion of sale at lower voltage (LT and 33 KV) in the overall sales mix of DVC from FY 2016-17 to FY 2018-19. Change of sales mix is beyond the control of DVC.

vi. DVC's projection of T&D loss for FY 2019-20 and FY 2020-21 has been based on the actual figures for FY 2017-18 and FY 2018-19. DVC has put its best endeavor to contain the T&D loss.

vii. Therefore, Hon'ble JSERC is requested to consider actual T&D loss for FY 2017-18 and FY 2018-19 and projected T&D loss for FY 2019-20 and FY 2020-21 as claimed by DVC.

6. **Objection:** There is calculation error by DVC while claiming power purchase cost from KBUNL for FY 2017-18, wherein the claim should be Rs. 8.37 Cr instead of Rs. 9.56 Cr.

*DVC's reply:*

i. DVC has already furnished before Hon'ble JSERC its detailed justification along with copies of power purchase bills substantiating the KBUNL power purchase cost of Rs. 9.56 Cr for FY 2017-18 in its reply to the Hon'ble JSERC's letter no. JSERC/Case (Tariff) No. 07 of 2019/135 dt. 18.07.2019.

ii. Jurisdiction of Scheduling of KBUNL was under Bihar SLDC from its COD (18.03.2017) till 31.03.2018. During this period, due to some operational inexpediency, Bihar SLDC never communicated the KBUNL DC to respective states except Bihar. Hence, DVC could not avail energy from this station for the same period.

iii. However, KBUNL continued to raise bill for fixed charge for the above mentioned period as it was declaring its DC to Bihar SLDC. DVC has disputed those Bills and the matter is pending before CERC.

iv. However, DVC recognized the provisional liability for the fixed charge bills raised during the same period amounting to Rs. 9.56 Crore in the Annual Accounts of FY 2017-18. Accordingly, DVC has claimed the cost of Power Purchase i.r.o KBUNL it its ARR for FY 2017-18.

v. Hon'ble JSERC is humbly requested to consider DVC's claim.

7. **Objection:** The projected rate of power purchase from Power exchanges as considered by DVC is high.

*DVC's reply:*

i. Objector's approach of considering the average exchange price to compare the power purchase rate is flawed.

ii. While the average price of power from IEX during the period from Sep '2019 to Nov '2019 was around 276.4 paisa/KWh, the hourly price at the IEX varied from 94.1 paisa/KWh to 607.2 paisa/KWh during the said period.

iii. Purchase of power from the Exchange is contingent in nature, which means that when needed, DVC is compelled to

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purchase power at whatever price prevailing at the Exchange in order to ensure uninterrupted supply to its consumers.

iv. Therefore, it will be unjustified to consider the average Exchange price for estimating the Exchange power purchase cost for DVC.

v. Hon'ble JSERC is requested to allow the Exchange purchase rate as claimed by DVC.

8. **Objection:** Revenue from sale of power to be considered on bill basis instead on realization basis

*DVC's reply:*

i. For computation of Revenue Gap / Surplus, DVC has proposed the following:

a) For JBVNL, the actual realized amount to be considered given the huge outstanding dues from JBVNL.

b) For other consumers, the entire billed amount to be considered since the gap between billed and realized amount is fairly less.

ii. DVC requests Hon'ble JSERC to devise a suitable procedure to help DVC to recover the payment shortfall of JBVNL without putting any unjustified burden on other consumers and also to make it a regulatory binding for JBVNL.

9. **Objection:** Disproportionate tariff hike proposed by DVC for demand charges and energy charges

*DVC's reply:*

i. Entire fixed cost of DVC's generating stations (proportionate to utilization) and T&D system has been proposed to be recovered through demand charge without merging any part of it in the energy charge.

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ii. If Demand Charge is set at a lower level it acts as a deterrent to improvement in load factor, there by causing reduced recovery.

iii. Incorrect load assessment and improper load management by the consumers result into unnecessary blocking of the capacity of the licensee at different sub-stations by means of hike in Contract Demand. This is evident from low load factor. In such a case, only a part of the Fixed Cost gets recovered and recovery of energy charge is low.

iv. While estimating the proposed Energy Charges and Demand Charges for DVC's HT consumers in Jharkhand for FY 2020-21, DVC attempted to keep the Energy Charges and Demand Charges for individual consumer categories within +/- 20% of the average Energy Charges or Demand Charges in line with the National Tariff Policy guidelines.

v. Hon'ble JSERC is requested to consider DVC's claim for demand and energy charges.

10. **Objection:** Hon'ble JSERC should allow Voltage Rebate and LF Rebate for consumers who are approved by DVC to pay arrears in installments

*DVC's reply:*

i. The installments were offered to those consumers because of their financial conditions. Allowing rebate to those same consumers will not be appropriate. Hence DVC requests this Hon'ble Commission to maintain the same terms & conditions for rebate as that allowed in the previous order dated 28.05.2019.