

बिहार ग्रिड कम्पनी लिमिटेड
(संयुक्त उपक्रम बिहार स्टेट पावर (होल्डिंग) कं० लि० एवं पावरग्रिड)
BIHAR GRID COMPANY LIMITED
(Joint Venture of Bihar State Power (Holding) Co. Ltd. & POWERGRID)



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CIN : U40100BR2013PLC019722

Ref: JV/PT/BG/Comml/BERC/TP/Case-19/2021 /11C6

Date: 07/02/2022

To,

The Secretary,
Bihar Electricity Regulatory Commission,
Vidyut Bhavan – II, Bailey Road,
Patna - 800021

Ref: BERC-Case No. 19/2021

Letter no. BERC Tariff Case No.- 19/2021-106 Patna, dated 02-02-2022

Sub: 4th Additional submission / response based on comments from M/s BIA in Tariff Petition for True-up Petition for FY 2020-21, APR for FY 2021-22, ARR for FY 2022-23 to FY 2024-25 and Transmission Charges for FY 2022-23.

Dear Sir,

This is in reference to the aforementioned case no. 19/2021 for assessment of Tariff Petition filed by BGCL for True-up for FY 2020-21, APR for FY 2021-22, ARR for FY 2022-23 to FY 2024-25 and Transmission Charges for FY 2022-23.

BGCL response has been sought by Hon'ble Commission vide above referred letter dtd 02.02.2022 based on comments/suggestion/objection received from Bihar Industrial Association (BIA) Patna vide letter dtd 01.02.2022. The response of BGCL is provided as index.

You are requested to consider the additional submission for processing of the subject Tariff Petition.

Thanking you,

Yours faithfully,

(Rajesh)
GM (O&M, Commercial)
BGCL, Patna

Encl. As above

Replies to Suggestions/ Objections of BIA to the Tariff
Petition filed by BGCL for the FY 2022-23

1. High Rate of Tariff

The Petitioner submits that the Hon'ble Commission in accordance with the BERC Tariff Regulations 2018 and Tariff Regulations 2021 specify the norms for the operational parameters like Transmission loss, Transmission Availability etc. which the Petitioner needs to comply with. The actual operational parameters are presented before the Hon'ble Commission and the public on yearly basis in the tariff Petition. It is further submitted that the ARR is determined on yearly basis on the provisions contained in the above mentioned Regulations and the operational norms approved by the Hon'ble Commission in the MYT Order.

2. Line losses

The facts and numbers put forth by the Objector pertains to the petitions filed by DISCOMs i.e. NBPDC and SBPDCL and not BGCL. BGCL further submits that since it is established for the purpose of strengthening of the transmission network, it had undertaken several transmission projects in the state since inception and is continuously striving to cater to the load demand of the DISCOMs. It needs to be appreciated that for the FY 2020-21, the transmission loss as well as transmission availability of the BGCL network has been 1.27% and 99.76% availability which are within the norms stipulated by the Hon'ble Commission. It is further mentioned that as the assets starts to age, the components of depreciation and interest charges would reduce which would result into reducing trajectory of ARR. The projects entrusted to BGCL are essential for the State of Bihar as per the load study survey carried out by STU, CTU & CEA.

3. Excess ARR approved

BGCL submits that the ARR is dependent on the Capitalization of the assets under WIP. Therefore, based upon the actual physical progress of the assets under WIP, the

Ranjan

Petitioner has estimated Capitalization for the FY 2021-22 and FY 2022-23 and thereby the ARR is projected in line with the provisions of the BERC Tariff Regulations 2018 and BERC Tariff Regulations 2021. The Petitioner further submits that few assets planned to be capitalized during the FY 2020-21 as per the earlier submissions could not attain Capitalization in actual on account of reasons beyond the control of the Petitioner. The key reasons attributable to such delay include the time required for land acquisition, local law, order issues and unprecedented rainfall/floods in certain areas and the COVID pandemic & subsequent lockdowns. In view of the same, the estimated capitalization was high, which resulted higher ARR estimation compared to the Trued up ARR which is proposed to be duly adjusted along with carrying cost during the Tariff determination for FY 2022-23.

4. Norms for Truing up exercise

The Petitioner submits that the Regulation 14 of the Tariff regulations 2018 wrt True up of Expenses states as under:

"13. True-up and Annual Performance Review

13.1 The Commission shall True-Up expenses of the previous year either as part of the Tariff order or issue Order/s for True-Up of expenses preceding the Tariff order of ensuing year:

(a) An order for True-Up of expenses shall be issued on annual basis.

(b) An order for True-Up of expenses shall be on the basis of expense estimates made in the beginning of the year under consideration, actual expenses booked in the audited books of accounts of the Transmission Licensee or SLDC for the year, and after prudence check of data by the Commission.

(c) Where audited books of account are not available at the time of true-up, provisional books of annual (regulatory) accounts duly approved by the Board of Directors of the applicant company shall be used for the provisional Trueup process.

(d) The Commission shall undertake review of estimates of expenses for the current year as a part of the tariff order on the basis of the actual expenses incurred during the period April – September of the current year and corresponding figures in the order for Annual Revenue Requirement (ARR) of the current year approved by the Commission.

.....
....."

Sanjay

The above Regulation depicts that True up does not imply approval of actual expenditure but the True up is done on the basis of expense estimate at the beginning of the year, actual expenses as per Books of Accounts and prudence check. The Objector's interpretation of the True up in this regard is therefore erroneous.

For the True up of FY 2020-21, the Petitioner submits that it has claimed the expense items of the ARR as per the provisions of the Tariff regulations 2018 and in line with the approach adopted by the Hon'ble Commission in the past Orders. Allowing Truing up based on the Audited Accounts would defeat the very purpose of having the Tariff Regulations at the first place as the expenses accrued by the Licensees would lose the Regulatory oversight. The allowance of normative expense ensures that the expenses allowed to the Licensees are in accordance with the prevailing market conditions and prudent. It is pertinent to state that the onus of deviation from the normative expenses is upon the Licensee and Gain/ Loss sharing over the same is admissible based upon whether the expense is controllable or uncontrollable in nature.

5. Analysis of ARR

- A. **R&M Expenses:** It is submitted that since a majority of Capital works pertaining to Part 1 & 2 of 2 and supplementary are under progress, the Petitioner is constrained to propose new norms for computation of O&M Expenses and has claimed O&M Expenses based on the actual expenses as per the Audited Accounts. It is further submitted that although the assets of BGCL are new but the R&M Expenses are directed towards upkeep and maintenance of the transmission system, so that healthiness of infrastructure may be ensured to enhance availability and life of the infrastructure.
- B. **A&G Expenses:** Objector has rightly said that A&G Expenses covers travel, telephone & vehicle expense and as per audited account expenditure for the same is 1.59 Crore only and rest 6 Crore expenditure pertains to other A&G Expenses such as licence fee, insurance coverage, electricity expense, office rent, office & meeting expense, advertisement expense, audit, legal & petition fee etc.



- C. **Depreciation:** The depreciation has been claimed by the Petitioner as per the BERC MYT Regulations 2018 and methodology adopted by the Hon'ble Commission. Further, as far as excess depreciation is concerned, the Petitioner has considered the same as part of True up Surplus and has adjusted the same alongwith carrying cost in the ARR for FY 2022-23. It is further submitted that petitioner is following regulations to claim depreciation only upto 90% of the asset value and not beyond that. Furthermore, the rate of depreciation considered by the Petitioner in the Books of Accounts is as per the BERC MYT Tariff Regulations 2018 and the same shall be admitted upto the 90% of the asset value.
- D. **Interest & Finance charges:** The Petitioner has claimed Interest and Finance charges as per the opening GFA and capitalization achieved during the year which includes IDC also. The above claim is in accordance with the provisions of the BERC Tariff Regulations. The Objector's statement that depreciation, interest charges are in excess is erroneous and merits no consideration.
- Further, in respect to increase in Interest & Finance charges upto FY 22-23, the petitioner submits that the projects entrusted to BGCL are capitalizing and GFA is increasing year on year and accordingly Interest & Finance charges are also in increasing trend. As estimated by petitioner all projects are expected to be completed by FY 22-23 and accordingly, Interest & Finance charge will also start decreasing as already claimed for FY 23-24 & FY 24-25.
- E. **Return on Equity:** The petitioner has claimed ROE as per the BERC Tariff Regulations on the GFA base that has attained capitalization. At this point, it is relevant to point out the provisions of the National tariff Policy 2016:
- "a) Return on Investment**
- Balance needs to be maintained between the interests of consumers and the need for investments while laying down rate of return. Return should attract investments at par with, if not in preference to, other sectors so that the electricity sector is able to create adequate capacity. The rate of return should be such that it allows generation of reasonable surplus for growth of the sector."*

Sanjay

To ensure fairness to both the investors and the consumers, the return allowed should be commensurate with the returns available from alternate investment opportunities having comparable risk. In view of the above principles and the prevalent macroeconomic scenario across the state, the Hon'ble Commission has duly allowed for 15% of Rate of Return on Equity (post tax rate).

- F. **Incentive for Transmission losses & Availability:** The Objector's submission that Transmission infrastructure is double of the requirement is erroneous in the face of record and merits no consideration by the Hon'ble Commission. BGCL submits that the transmission lines/ sub-stations planned for construction in the transmission area of BGCL are as planned and approved by CEA, considering the projected power demand for ensuing years and strengthening of the transmission system in the state of Bihar. The capital investments in transmission network are planned based on peak demand forecast and future variable generation capacity additions to the grid. Further, on a long run, the investments made today shall benefit the consumers to bring down the transmission charges and it will help the utility to provide reliable and quality supply. Also, transmission network is designed to meet N-1 criteria to ensure redundancy and grid stability of the power system. In view thereof and in line with the BERC Tariff Regulations 2018, BGCL has claimed Transmission availability factor and transmission loss incentive for the True up for FY 2020-21.

The Contribution to Contingency Fund is claimed by the Petitioner based on the Tariff Regulations 2018 and Tariff Regulations 2021. It is emphasized that since the state of Bihar is frequently affected by natural disasters (especially floods), there is a need of a fund which shall ensure that in future, in case of any natural calamity, the burden of expenditure/ capex (if any) (by way of Tariff hike) on account of restoration of transmission assets not fall upon the consumers of the state.

Sanjay



Bihar Industries Association

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No.V-14/ 76

February 01, 2022

The Sr. G.M. (O&M/ Commercial)

Bihar Grid Company Limited

2nd Floor, Alankar Place

Boring Road

Patna-800001

Dear Sir,

Sub: Objections/Suggestions on Tariff Petition filed by BGCL before Hon'ble Bihar Electricity Regulatory Commission.

We enclose herewith a copy of Suggestions/ Objections, we are going to file before Hon'ble Bihar Electricity Regulatory Commission on the above captioned subject. This is for your kind information and record.

Thanking you,

Yours faithfully,

(Anil Kumar Sinha)

Secretary

Encl: As above.





Bihar Industries Association

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CIN-U91200BR1947NPL000317

No.V-14/

January 31, 2022

To

The Hon'ble Chairman,
Bihar Electricity Regulatory Commission
Vidyut Bhawan - II,
Patna 800021.

Sub: Suggestions/Objections on the Tariff petition of BGCL for F/y 2022-23.

Case No. 19 / 2021

Bihar Industries Association (BIA) Objectors.

Respected Sir,

In compliance of notice, inviting suggestions and objections on the tariff petition of BGCL and other Transmission companies for F/y 2022-23, Bihar Industries Association (BIA) files suggestions and objections as described below :-

1. High Rate of Tariff :-

Bihar Industries Association submits that tariff of the industrial and commercial categories of consumers are high and stringent compared to the other states like Gujarat, Jharkhand, Orissa, etc. We understand that such high rates may be due to the following reasons:-

- i. Higher power purchase cost i.e. manufacturer cost in commercial term.
- ii. Higher Transmission charges i.e. C&F charges in commercial term.
- iii. Line loss i.e. losses in transportation in commercial term.
- iv. Billing efficiency below hundred percent.
- v. Collection efficiency below hundred percent.

If the efficiency and economy is enforced by the DISCOMS and Regulated by regulatory commission, the prices can be brought down. Therefore we object allowing of the above stated items liberally and suggest that Hon'ble commission should not allow the ARR with liberal views. Otherwise the commercial and industrial activities in the state may go down.



2. Line losses :-

This is one of the expenditure which can be brought down by technical financial and administrative measures. BEREC may be kind enough to consider the following data regarding power losses in Transmission and Distribution system in Bihar.

Fy 2022 – 23

| Sr. No. | Particulars | NBPDCL | SBPDCL | Total |
|---------|-------------------------|----------|----------|-----------|
| 1 | Unit purchased (Mu) | 18720.30 | 21976.19 | 40696.49 |
| 2 | Unit Sale (Mu) | 13779.38 | 16055.00 | 29834.38 |
| 3 | Loss of unit (Mu) (1-2) | 4940.92 | 5921.19 | 10,862.11 |

It is evident from above that 10,862.11 Mu of power is lost in carrying the power from the manufacture to the retail customers as proposed by Discoms in 2022-23. In financial terms, it can be calculated by applying the average cost of power inclusive of cost of power purchase and Transmission cost as provided in the table 15 of the tariff petition of SBPDCL which is at Rs 5.18 per unit. Thus, the financial loss on power purchase & transmission to DISCOMS will be :-

Rs 5.18 per unit x 10,862.11 Mu = Rs 5626.57 crs. This proves that about rupees six (6) thousands crores is lost as a line loss.

In view of the facts stated above, Hon'ble BEREC would appreciate that the transmission charges in the state of Bihar is abnormally high. The commission should itself realise that since the inception of the BGCL the tariff rate has increased in the transmission sector in the state compared to other state. It is therefore requested that BEREC may be kind enough to take appropriate action to reduce the above losses so that the power purchase cost and transmission cost may be minimized.

3. Excess ARR Approved :-

From the public notice it is apparent that the Hon'ble Commission has allowed excess amount to be recovered from the consumer during Fy 2020-21 and Fy 2021-22 as detailed below :-

In the Fy 2020-21 ARR of Rs 513.51 crs was approved against which the Actual ARR comes to only Rs 338.05 Crs. This shows that Hon'ble BEREC has allowed recovery of excess amount of Rs 175.46 crs which has resulted in increase of the distribution tariff. Further in the year Fy 2021-22, this commission approved Rs 541.71 crs vide order dated 12.03.2021 which has come down to Rs 486.19 crs in the revised estimates. Therefore, in the year Fy 2021-22 too, Rs 55.52 crs was allowed as excess recovery. The above facts shows that the commission is liberal in approving higher amount of ARR. Due to higher ARR, the consumers in Bihar have to pay excess amount which has led to higher electric tariffs.



Therefore, we object to the allowing of excess ARR and suggest that Hon'ble Commission should allow only reasonable cost as per provision of section 61 (d) of the Act. Hon'ble Commission should consider that it has also duty of safeguarding of consumer's interest.

4. Norms for Truing up exercise :-

Bihar Industries Association and other general public understand that the Truing-up exercise is done by the commission to approve the actual expenditure. Estimation can be done only for coming or ensuing year and current running years. However, both the transmission licensees, BGCL and BSPTCL, are claiming employee expenses, A&G expenses, R&M expenses, depreciation, interest on loan, return on equity, Etc. on normative basis for the previous year i.e. FY 2020-21. If the truing-up of ARR will be done on normative basis then what is the aim and object of truing up exercise? What will be use of Audited Annual Accounts? Truing-up exercise should be done strictly on the basis of actual figures and the commission has to take care that it should not be in excess of the norms.

So we object to the allowing of the expenditures on normative basis in the truing-up exercise. Also the revised estimate (RE) i.e. APR should be based on six months of actual expenditure from April to September. We therefore suggest that the commission may be kind enough to allow the actual expenses in the truing up exercise within the limit of norms.

5. Analysis of ARR :-

| BGCL | | | | Rs Crs | |
|---------|----------------------------------|------------|---------|------------------|------------|
| Sr. No. | Particulars | Fy 2020-21 | | Fy 2021-22 | Fy 2022-23 |
| | | Approved | Claimed | | |
| 1 | Employee Expense | 9.41 | 11.29 | 11.97 | 12.69 |
| 2 | R & M Expense | 12.43 | 20.46 | 14.73 | 25.69 |
| 3 | A & G Expense | 3.93 | 7.68 | 7.87 | 8.06 |
| 4 | Depreciation | 162.27 | 95.40 | 150.01 | 187.19 |
| 5 | Interest | 214.48 | 131.88 | 193.23 | 252.52 |
| 6 | Int. On working capital | 4.04 | 2.61 | 3.31 | 4.43 |
| 7 | ROE | 110.68 | 78.11 | 115.52 | 154.25 |
| 8 | Contingency reserve | Zero | 4.72 | Zero | Zero |
| 9 | Incentive for Tr availability | Zero | 2.56 | Zero | Zero |
| 10 | Incentive for Tr. Loss reduction | zero | 2.48 | Zero | Zero |
| 11 | ARR (Total) | 513.51 | 338.05 | 486.19 541.71 | 646.07 |



A. R & M Expenses :-

The entire infrastructure created by BGCL is new. However, BERC is still allowing annual R&M expenses and in the year F/y 2020-21, it has reached to Rs 20.46 crs. It appears that this has been exaggerated to reach near the allowable ARR of Rs 513.51 crs.

B. A & G Expenses :-

A&G expenses covers mainly travelling cost, telephone cost, vehicle cost, etc. Under this head, Rs 8.06 crs has been booked every year which translates to Rs 67.00 lakhs per month.

Is it appropriate to allow such huge amount as A&G expenses, mainly on Travelling allowance? This has also to be kept in mind that now the meetings, discussions are held in virtual mode and as such claiming such huge amount is not justified and proper.

C. Depreciation :-

The commission has been pleased to encourage BGCL by granting depreciation of exaggerated amount of Rs 66.87 (162.27-95.41) crs in the F/y 2020-21 and Rs 31.91 crs (181.92-150.01) crs in F/y 2021-22. From the above it is evident that the BERC has not considered for safe guarding the interest of the consumer. In the previous two years, excess amount as depreciation was recovered.

We request the Hon'ble Commission to fix the life of the plant and the residual value of the asset to calculate the cost of depreciation. To show the transparency and safeguard public interest, BERC should explain the basis for allowing rate of annual depreciation in the tariff order.

We therefore object and once again pray the BERC to justify the amount of depreciation allowed under straight line method treating the plant life of seventeen (17) years.

D. Interest & Finance charges :-

Similar to that of depreciation, interest cost is also allowed in excess. Interest during construction is onetime payment but that has been capitalized. During f/y 2020-21, allowed depreciation is about double the actual audited figures. In the year Fy 22-23 the interest charges have been sharply increased to Rs 252.52 crs. We understand that allowing creation of asset by paying such huge amount of interest and return on equity will lead to sharp increase in the tariff.

We do not understand about the benefit of appointing two licensees for transmission of electricity in the state and suggest a merger of the two so that operational efficiencies can be achieved.



E. Return on Equity (ROE) :-

If BGCL is not able to reduce the tariff in the state, there is no justification for allowing them ROE of fifteen (15) percent plus Income Tax. If the BGCL has surplus money, they should invest in bank instead of realising it from the consumer in shape of ROE. We suggest that ROE should be allowed only at par with ROE claimed by BSPTCL i.e. 10%.

F. Incentive for Transmission losses & Availability :-

Hon'ble BERC would appreciate that to increase the cost of expenditure, BGCL has claimed incentive on account of reduction in transmission losses and maintaining hundred percent availability of transmission system.

BGCL has claimed the following incentives for F/y 2020-21

| | |
|--|-------------|
| i. Contingency reserve | Rs 4.72 crs |
| ii. Incentive for Tr. Availability..... | Rs 2.56 crs |
| iii. Incentive for Tr. Loss reduction..... | Rs 2.48 crs |
| Total | Rs 9.76 crs |

In the above context Bihar Industries Association comments are as below :-

i. Contingency reserve :-

Is it justified to allow a separate fund to be used in a emergency situation? BGCL is a company earning ROE of more than Rs Hundred (100) crores from the consumers of Bihar. There is no dearth of fund to the BGCL, still they are creating a reserve fund. Bihar Industries Association objects the creation of contingency Reserve fund.

ii. Transmission Availability :-

If the Transmission infrastructure is double of the requirement by investing thousands of crores of rupees every year, then the Hon'ble Commission should realise that it will not be proper to allow incentive amount for maintaining availability to evacuate the half of the power of the capacity. The capacity is just double of the requirement so incentive should not be allowed.

iii. Transmission loss Reward :-

Transmission losses claimed is as stated below :-

| STU | Fy 2020-21 | Fy 2021-22 | Fy 2022-23 |
|--------|------------|------------|------------|
| BSPTCL | 2.92% | 3.92% | 3.50% |
| BGCL | 1.27% | 2.0% | 2.0% |
| Total | 4.19% | 5.92% | 5.50% |

We request the Hon'ble Commission to consider whether the transmission loss of 4 to 5 percent can be treated as reward able loss?



In the facts and circumstances mentioned above, Bihar Industries Association objects to creation of contingency reserve fund, allowing of incentive for hundred percent transmission availability and reduction of transmission losses.

In conclusion, Bihar Industries Association prays Hon'ble BERC to allow the expenses of

- I. BGCL and BSPTCL in a reasonable manner so that the state transmission charges may be brought comparable to other states, and
- II. Also to assess the benefit of appointing multiple transmission license in the state.

And for this we shall ever pray.




(Anil Kumar Sinha)
Secretary