

Before Maharashtra Electricity Regulatory Commission, Mumbai

**Objections / Comments in response to public notice dt. 7th Feb 2004 in the matter of
ARR application by M/s. BSES for FY 2003-04 and 2004-05**

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1. Introduction:

The performance review of BSES ('Reliance Energy' and the BSES are interchangeably used) is being undertaken for the first time since constitution of MERC in 1999. After several occasions of deciding tariff for MSEB, this is the first occasion when MERC will be deciding tariff of a private utility. We welcome this opportunity and look forward to this evaluation of performance.

Especially when smaller utilities come to the commission, the commission's dual responsibility comes in sharp focus. It is natural that utilities would promote their interest. It is then commission's duty to look after not just interest of consumers in the area of the said utility but also ensure economy and efficiency for the sector as a whole (for the whole of the state).

Some of the issues relating to BSES are linked to its interaction with TPC (Tata Power Company). To a limited extent these are considered in this submission. Some of these would be taken up in the submission on the ARR of TPC.

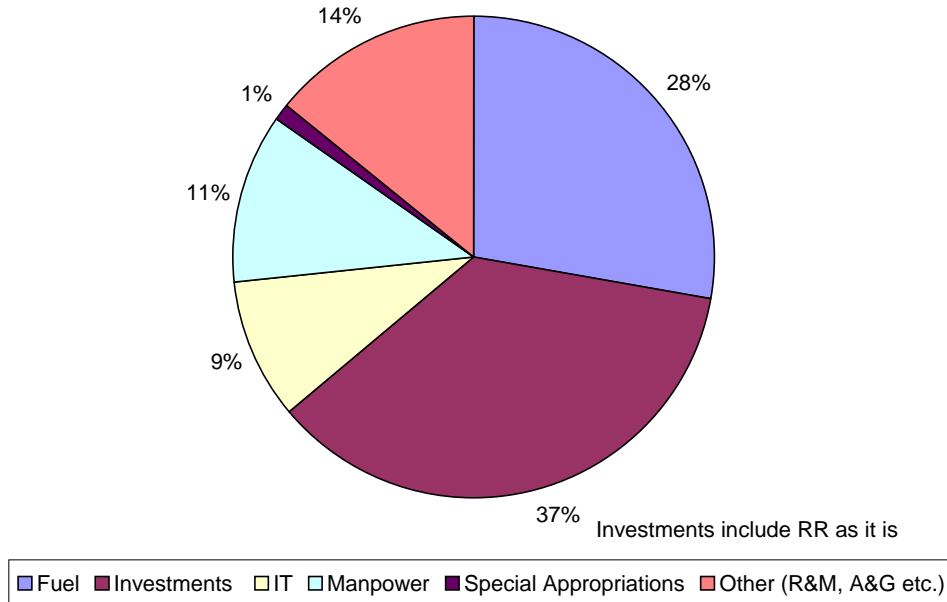
2. Major Cost Components of BSES ARR:

Figure 1 shows the break-up of major cost components in the BSES ARR excluding the power purchase cost which is part of cost components of TPC. The TPC tariff is being separately decided by MERC. The investment related costs shown in the figure includes the depreciation, interest charges as well as the reasonable return. All these costs are primarily dependent on the capital investments made by the licensee. In

addition the IT (Income Tax) is also dependent on the profit and hence linked to investments.

Figure 1

Cost components of BSES ARR FY 04-05 (excluding PP)



From the above figure it is clear that:

- Profit + IT + Depreciation + Interest = 46% of the ARR of BSES.
- The fuel cost and manpower costs = 28% and 11% respectively.

The investments, fuel and manpower components account for 85% of the ARR. Hence, we urge the MERC to evaluate the reasonableness of these three cost components in detail, especially the investments. Our observations on these and other related issues are provided in the subsequent paragraphs of this submission.

3. Profit and Income Tax

The BSES has projected a sharp increase in its profit and the Tax on profit. This amount was **47 Paisa /unit** sold in FY 01-02. This is projected to **increase to 75 paisa/u.** The increase as well as the base numbers, both are very large. (In case of MSEB the return allowed is just 11 Paisa/unit.) The BSES expenses excluding power purchase and depreciation are just Rs 1056 Cr against its Profit + Tax amount of Rs 486 Cr (FY 04-05)! It needs serious questioning whether such increase is warranted and in the interest of consumers.

4. Amount of Capital Investments

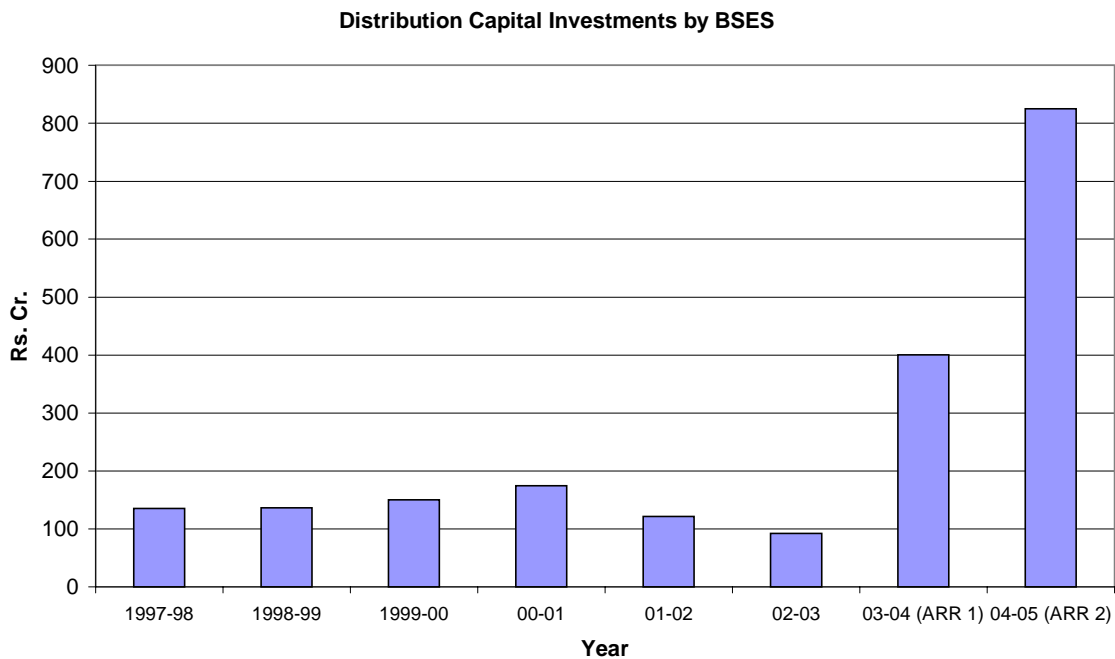
A large portion of BSES profit is due to the increase in investments it is proposing. BSES is proposing to invest Rs 400 and 825 Cr in the present and the coming year. (FY 03-04, Y 04-05).

4.1 Trend of Investments by BSES

A surprising facet of Capital Expenditure proposed by BSES is the sharp rise in the capital expenditure in years under consideration. Figure 2 compares the proposed investment rate of BSES with the past trend. One wonders the reasons for such a sharp increase in just two years.

In light of earlier observation, that a significant part of consumer tariff is on account of capital investments by licensees, the reasonability of investments proposed by licensees needs to be evaluated in detail and the cost: benefit of the same needs to be validated.

Figure 2: Capital Expenditure by BSES



Comparison of components of proposed investment plan with the past trend is also revealing. Table 1 shows investments proposed for a sample of 7 major heads, in the two ARR with the average investment for these heads in the preceding five years.

Table 1: Comparison of BSES's proposed and historical investments

| Component | Pre- ARR 5 Yr. Average | ARR Average (FY 03-04, 04-05) |
|-------------------------|-----------------------------------|--|
| Receiving station | 12 | 46 |
| Capacitors | 1 | 10 |
| 11 KV underground mains | 14 | 46 |
| Services | 13 | 26 |
| DTs | 5 | 32 |
| 11 KV Switchgears | 6 | 17 |
| Land and building | 18 | 30 |

Note: @ - This line item includes only land for the receiving station and customer care centres and is separate from the proposed investment of 86.5 Cr. under the head employee benefits and corporate office.

The rationale behind such increase in expenses on these heads and the likely benefits of this to consumers need to be thoroughly and scheme wise evaluated. In ARR BSES has claimed that such large investments are essential to meet load growth, improve reliability, and consumer satisfaction. These justifications are quite vague and hence detailed scrutiny of validity of such claims and the cost benefit of these schemes need to be evaluated. The MERC should permit these investments only if they stand the test of 'prudence' and 'usefulness'.

4.2 Comparison of proposed investments by BSES with DISCOMS in other states

A comparison of investments being planned by other distribution utilities is attempted here. Investments/ unit of energy input in the system can be a useful parameter to compare different distribution companies at the gross level. Table 2 compares the proposed investments by a number of distribution companies in the country.

Table 2: Comparison of Capital Investments by various DISCOMs in the country

| Company | Year | Ref. | Investment Rs. Cr. | Energy Input MU | Investments Rs. (Lakh) / MU |
|----------------------|----------------|-------------|-------------------------------|----------------------------|--|
| AP Eastern | 2002-03 | TO 02-03 | 124 | 5468 | 0.23 |
| AP North | 2002-03 | TO 02-03 | 155 | 7219 | 0.21 |
| AP South | 2002-03 | TO 02-03 | 170 | 8731 | 0.19 |
| AP Central | 2002-03 | TO 02-03 | 357 | 14949 | 0.24 |
| KAR BESCO | 2002-03 | TO 03 Annex | 164 | 12324 | 0.13 |
| KAR MESCOM | 2002-03 | TO 03 Annex | 170 | 5416 | 0.31 |
| KAR HESCO | 2002-03 | TO 03 Annex | 125 | 5461 | 0.23 |
| KAR GESCOM | 2002-03 | TO 03 Annex | 94 | 3708 | 0.25 |
| Delhi BSES Rajadhani | 2003-04 | TO June 03 | 423 | 7966 | 0.53 |
| Delhi BSES Yamuna | 2003-04 | TO June 03 | 335 | 5280 | 0.63 |
| Delhi North Delhi | 2003-04 | TO June 03 | 287 | 5452 | 0.53 |
| BSES (Mumbai) | 2004-05 | ARR | 650 | 6480 | 1.00 |

The above table clearly shows that the investment proposed by BSES is way too high than planned by other DISCOMs in the country. Here it is essential to note that, (1) The system in Delhi has been in bad state and the urgent need for large investments in Delhi is well known. While the BSES Mumbai system is known to be in good shape. Historical investments of BSES are high compared to other utilities. Despite this BSES is planning nearly double the investment in Mumbai. (2) Other utilities in reforming states do not have a very hard capital constraint. This points to a tendency of BSES to invest large amounts in distribution assets, which is unprecedented in the country.

4.3 Profit Maximizing Utility under Cost Plus Regulation

It is well known that under “Cost Plus” regulation, utilities tend to over invest – also called ‘Gold Plating’. In 1960 Averch and Johnson provided analytical support for the assertion that rate of return regulation causes inefficient production because of the overuse of capital. (Averch, H. and Johnson, L. L. “Behavior of the Firm under Regulatory Constraint.” *The American Economic Review*, Vol. 52, No. 5 (December 1962), pp. 1053-1069.) The utilities have an incentive to use more capital in production than would be dictated by cost minimization principle. Utility increases its profits by the substitution of capital for the other inputs.

Dr Petersen H. Craig (Utah State University) in it article “An Empirical test of regulatory effects” 2001, says: “Another way to look at the result is that the excess return (on capital), $S - P_k$, where S is the allowed return and P_k is the cost of capital, as a subsidy granted to the use of capital.” Because capital is subsidized the firm makes an inefficient decision.

To maintain overall economy, minimise cost, and protect public interest, proper control on investment is key to regulate utilities under the cost-plus regulation. Hence, MERC has to take very cautious approach while approving capital expenditure and passing on its costs to consumers - to be paid in future years.

4.4 Examples of Proposed Investments with Questionable Appropriateness

The BSES submission on Cost:Benefit analysis of the proposed investments has lot of deficiencies. Hence, it is not possible to identify the prudence of many of the investments.

Higher reliability of supply and better consumer service are often cited as reasons for the investments. BSES has a fairly good track record of reliable power supply. And unfortunately is has not clearly demonstrated to what extent the proposed investments will increase the reliability i.e. to what extent interruptions would reduce etc. In this context, a few observations about the capital investments by BSES are presented. Following list is only indicative.

4.4.1 Technical Distribution loss v/s Investment

In ARR for FY 03-04, on page 129 BSES says “Any reduction in Capital Expenditure will result in higher technical losses than the proposed level of 9.92%”. This implies that the expenditure of 400 Cr is essential to reduce technical loss from 10.31% to 9.92% (saving of about 27.15 MU). At a tariff of Rs 4.0 /unit the simple pay back of investment would be over 35 years!

Moreover, not all capital investments even in strengthening of Distribution system always reduce losses. One such example: In the explanation of CapEx, BSES shows large investment for ‘New Receiving Station to cater System Growth’. Several of these substations would not be fully loaded at the projected growth even in year 2007-08 (as per BSES data). Even without capacity addition, some of the transformers would be loaded only to the extent of 75 - 80% in year 2007-08. In such case addition of transformation capacity will lead to part loaded transformers and may actually increase losses, increase the tariffs and yield no benefits.

4.4.2 BSES Proposal for New Office Headquarters:

In the FY 04-05 ARR, BSES has proposed an expenditure of Rs. 36.50 Cr. towards ‘BSES Corporate Office Complex’. This is surprising considering that just about 5 years back BSES had constructed a new Corporate Office Building, (ref. Annual report 1998-99). One wonders the usefulness of such investment from the consumer perspective. Similarly, Rs 50 Crore investment for staff quarters is an investment with questionable benefits.

4.4.3 Metering

BSES is proposing investment of Rs 160 crore for metering in the coming two years. Metering is no doubt important. We would like to know more about whether BSES is planning to check the existing meters (with simple and quick method such as “Accu-check” or other such on-line testing instruments) or carry out blanket replacement. We wish to understand the comparative economics of the two.

4.4.4 Special Services (Premium Services, Back-up for Large Consumers)

Under Premium services, BSES is planning to offer special feeders to consumers with usage of more than 500 u/month. Usefulness and purpose of this scheme is unclear from the ARR. The cost of this is included in ARR but the likely addition of revenue is not included (it being difficult to estimate). Another example of premium service is - Rs 33.7 Cr allocated for giving back-up services for large consumers. We wonder what is the benefit of such expenses to general consumers.

These are premium services, and they should be stand-alone services – without a burden on other consumers. Their cost should not be loaded in the ARR.

4.4.5 Transmission Line

The largest chunk of 174 Cr Transmission expenditure is Rs 166 Cr 220 KV Gas Insulated Switchgear sub-station at Chembur. The justification for this expenditure given in the ARR – “at times load shedding become essential to avoid complete failure” - seems insufficient for such a large expenditure. We would like to know the number of instances when this has happened in the past two years, actual load shed (MVA and %), and if there was any special event at that time that cannot be termed as usual. We would also like to know if utility has searched for alternate and lower cost options to this investment? The MERC should check if the grid in Mumbai is so weak to need such a large expenditures on different heads.

4.4.6 SCADA and Distribution Management System (DMS)

The expenses of SCADA and distribution management are quite large and its benefits to consumers need to be carefully scrutinized by the commission. The note on SCADA indicates a cost of Rs 120 Cr (~ \$ 25 Mn) for the three components of SCADA (DMS, Primary communication back-bone, and automation equipment at the secondary level). [Refer the note given by BSES – ‘SCADA/DMS Implementation Plan for primary and secondary network’]

It needs to be noted that the SCADA expenses in the past three years (FY 00-01 to 02-03) have been Rs 97 Crore. In FY 03-04 these costs have been scattered under different headings. Under SCADA head the projected expenses are Rs 27.8 Cr and 59 Cr. for the two years. In addition the head of “Information Technology’ for FY 2004-05, has a cost of Rs 36 Cr for communication cost of DMS. Moreover, it appears (prima-facie) that some of the switchgear and substation equipment is being changed due to its incompatibility with SCADA and DMS. **Hence, direct and indirect cost of the SCADA, DMS may be much larger than Rs 120 Cr.**

It is also noticed that earlier SCADA commissioned about 5 years ago is being replaced, as it is outdated. This points to the short life of such investment and limited utility.

There is a mention of Reliance Info-tech in the ARR. BSES should clarify if it has any tie up with Reliance Info-tech and if so specify details of their arrangement and the likely implications of such plan.

4.5 Prayer to the Commission

Considering the fact that BSES is requesting permission for a very large investment and decisions relating to capital investments have long-term implications on consumer tariffs, we request the commission to take a very caution approach on this aspect.

As per BSES's own claim its system is one of the best in the country – the system was upgraded and maintained for last several years with a capital expenditure of Rs 135 Cr / year. This amount is the average capital expenditure for last five years. **Hence, we request MERC to adopt a benchmark and allow Capital Expenditure equal to this benchmark. We request MERC to adopt BSES's own benchmark of Rs 135 Cr/year for the next two years – and allow Rs 270 Cr as investment for two years.**

5. Sourcing of Capital Investment and Normative Capital Structure

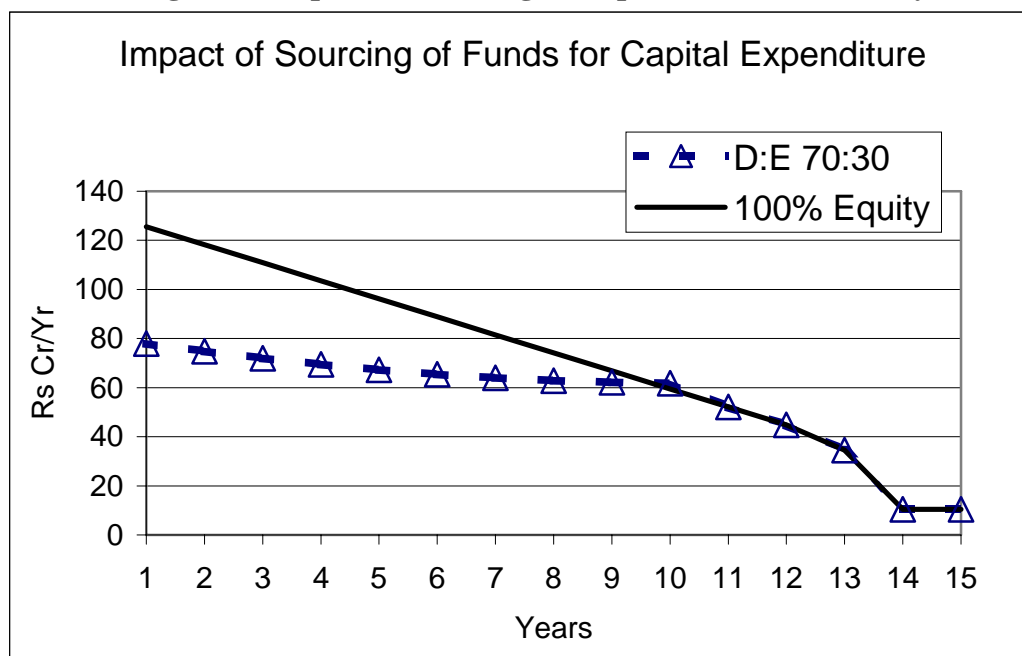
It is well known that that sourcing of investment has a large impact on the tariff. And the prudent sourcing is a good mix of debt and equity. To a question about how is sourcing of funds decided, the BSES has given a general answer. The answer clearly indicates that consumer interest has not been the criteria for the decision. While this may be natural for a private utility, it is the duty of the Commission to protect consumer from such behaviour of utilities.

5.1 Impact of Sourcing of Funds for Capital Expenditure in Future:

This sub-section shows the impact of sourcing of funds, and uses numbers just to illustrate the point. It is without prejudice to our stand and prayer to the commission that the Capital Expenditure of only Rs 270 Crore be allowed to BSES for the next two years.

BSES has sought permission for capital expenditure of Rs 400 Cr in FY 2003-04. BSES also wants to raise this capital through internal resources. In such case, the tariff will be much higher than if the capital was sourced through a mix of loan and equity (say 70:30 ratio). Figure 3 shows the consumer payment (revenue requirement) for the above-mentioned investment under the two scenarios mentioned above.

Figure 3: Impact of Sourcing of Capital on Consumer Payments



Return on equity is assumed as 16%, and the IT rate of 39%. Since BSES has AAA rating, the debt is assumed to be sourced at an interest rate of SBI PLR. It is worth noticing that BSES is nearly a debt free company and can easily obtain debt.

It is clear that consumers pay much higher tariff if investment is done purely from equity.

The consumers would pay Rs 247 Cr extra, for such an investment, over the 15 year period just due to bad decision relating to Debt:Equity composition.

If the allowed capital expenditure is Rs 135 Crore / year - then for the two year's Capital Expenditure program, the sourcing of funds would lead to a difference in consumer payment of Rs 166 Cr over the next decade.

We request MERC to ensure that all further capital investment, is done in a manner such that debt:equity ratio of 70:30 (or even higher) is maintained for the power utility business in Mumbai. Or the 70:30 ratio is considered normative for calculation of tariff purposes.

5.2 Normative Debt:Equity Ratio for Capital

It is very clear that the BSES has been following an imprudent Debt:Equity structure. Resulting in a very large tariff burden on consumers. Prudence norm has to be applied as a good regulatory practice.

For example, in FY 2003-04, the company is proposing a 'Net Fixed Assets' of Rs 1714 (net of depreciation and consumer deposits). BSES ARR desires that all of this be considered as its equity. But the prudence norm would imply that a 70:30 or similar ratio be used for calculating the Reasonable return, IT and interest that goes in the ARR.

As per BSES proposal the Reasonable Return (profit) and the Income Tax on profit works out to be approximately Rs 414 Cr. If a norm of 70:30 of Debt:Equity is considered (with a debt at 6.5% interest) then the Profit, IT and interest on loan would work out at Rs 207 Cr.

Hence application of proper norm of debt:Equity is applied today, it would save consumers nearly Rs 200 crore. We urge MERC to adopt this approach – and stop the continuing loss of consumers.

5.3 Prayer to the Commission

Allow all future capital investment in a manner that debt:equity ratio of 70:30 (or even higher) is maintained for the power utility business in Mumbai.

This way, consumers will save nearly Rs 67 Crore over the next decade per Rs 100 crore of investment (through internal accruals) – at no direct loss to the company.

Apply prudence norm (of D:E ratio of 70:30) to the present capital structure. This would save consumers nearly Rs 200 crore per year.

6. Fuel

Apart from Investments and the Capital structure, the next important contributor to the tariff is the fuel cost. We have taken note of BSES point that the DTPS (Dahanu Thermal Power Station) cannot burn a high calorific value coal (beyond say 4200 Kcal/kg).

6.1 Choice of Coal Blending

There are two options to achieve the desired calorific value of coal – blending of washed coal and imported coal (85:15 ratio) or blending of Indian raw coal and imported coal (60:40 ratio). Both options give the desired calorific value of coal. But as shown in the following table option 2 results in savings of approximately Rs 35 Cr/year. The saving is about 7.7% of BSES coal cost. The saving comes from the fact that the raw coal is cheaper than washed coal (in terms of Rs/1000 Kcal).

| | Rs/kg | Kcal/Kg | Rs/1000 KCal | Case 1 | Case 2 |
|-----------------------|-------|---------|--------------|--------|--------|
| Indian Washed | 2.08 | 4000 | 0.52 | 85% | |
| Indian-Raw | 1.75 | 3525 | 0.50 | | 60% |
| Imported | 2.16 | 5200 | 0.42 | 15% | 40% |
| | | | Kcal/Kg | 4180 | 4195 |
| | | | Rs/Ton | 2092 | 1913 |
| Saving (Rs/Ton) | | 178.5 | | | |
| Coal usage (M Ton/yr) | | 2 | | | |
| Saving (Rs Cr/yr) | | 35.7 | | | |

If the calorific Value of imported coal is around 5400 Kcal/kg (at the same cost) then the saving increases and the blending mix changes to 65:35 (Raw : Imported Coal).

6.2 Request for Information

We request BSES to give clarification as to what part of DTPS (mills, other coal handling parts or the boiler itself) is incapable of handling or burning the high calorific value coal.

In table of coal prices (A 9) the coal washing charges are shown as Rs 229/ton for year 2002-03, were as the summary of agreement with coal washary indicates a cost of Rs 95/ton. We request BSES to clarify if the reason for this difference is on account of loss of material during washing.

6.3 Payer to the Commission:

In response to the Prayas petition dated 27th August 2002 (case no. 16/2002), the honourable MERC, in its order dated 1st November 2002 ordered that “*Both the TPC and BSES are ordered to submit their method for charging FCA along with monthly details for review, from August 1999*”. Unfortunately, no further action on this has been taken since then. Hence, we urge the MERC to evaluate the reasonableness of fuel costs and FAC charged by both these utilities since the MERC’s order dt. 1st November 2002 on Prayas petition, and any unreasonable or inefficient expenses on this account should be dis-allowed by means of reduction in the approved ARR for FY 04-05 (in addition to any reduction in the ARR projections made by licensees)¹.

7. T&D Loss

The Distribution loss of BSES (below 33/22 kV) is around 13%. In some cities in AP the distribution losses have come down below this value in a short period of time. So there is some scope for BSES to reduce losses especially considering the well-invested network of BSES, compared to other urban distribution companies in the country. We request MERC to specify a target loss level to BSES.

It also needs a mention that the CEA, to our knowledge does not have a separate norm for urban utility with large underground cabling.

We wish to complement BSES for a high recovery of nearly 99%.

8. TPC / BSES / MSEB Arrangement and Supply Reliability of Mumbai

We have assumed that for the next three odd years there is need for reliable supply to Mumbai up to the extent of having islanding facility for Mumbai – by that period the whole of the Western grid is expected to be fairly stable. Two situations merit attention in this context. (1) Tripping of generation unit of TPC / BSES and (2) Collapse of Western Grid. These are discussed below.

8.1 Stand-by provided by MSEB

The situation of unit tripping in Mumbai is presently being managed through spare capacity in Mumbai & the stand-by supply from MSEB. We see a need for continuing this arrangement. This arrangement is quite different than the Un-scheduled Interchange (under ABT regime). MSEB assures supply even at the cost of load shedding to its consumers. From the overall economic perspective, we feel that this arrangement should be continued. This would avoid need for separate reserve capacity for Mumbai. MERC should design appropriate tariff for this service by MSEB.

If MERC or the TPC / BSES do not want such stand-by arrangement to continue, then we urge MERC to ensure that a strict reporting procedure is laid down – to avoid political and public pressure on MSEB to continue supplying this service – without being

¹ The very fact that in its order dt. 1st November 2002 the MERC ordered that data since August 1999 be subjected to review implies that the reasonableness of the fuel cost would be evaluated since August 1999, and any unreasonable costs since August 1999 would have to be returned to consumer.

compensated for it. MSEB may supply stand-by support (at UI charges) only in situation when there is no load shedding in MSEB area. Within seven days of any instance of such stand-by support by MSEB the concerned officer of MSEB should report to MERC (on affidavit) that this directive was complied.

As mentioned in MSEB submission on this issue, there is an element of cross-subsidy in stand-by charge. And such cross subsidy between zones/areas is usual even in the reforming states (it is usually applied in the form of differential Bulk Supply Tariff). It may be advisable to separate out the tariff for stand-by charges from the cross-subsidy. The stand-by charges may be applied to the two utilities and the cross-subsidy charge may be applied to all consumers of Mumbai (a pass through for the two utilities).

8.2 Islanding and TPC Generation

If the islanding is to survive in case of Western Grid failure, then Mumbai Island should be self sufficient in power generation and the plants should be actually generating at that time. This implies that the TPC plants need to be generating power. Since, BSES is planning to purchase large chunk of power from TPC, it may be worth having a PPA between them. This will solve several problems – as discussed below. It goes without saying that MERC should rationalise the TPC costs before asking BSES to do this.

8.3 TPC Tariff to BSES

If a PPA with rationalised tariff (having two part tariff) is done by two utilities, it will remove several problems.

- Since, the fixed cost and variable cost would be separately given in TPC tariff, the plant dispatch will have closer association with merit-order dispatch.
- TPC should not object BSES not backing down the Dahanu plant. This may also reduce / eliminate the need for BSES investments planned for “DTPS Power Absorption”.
- The large variation in output of TPC plants is un-avoidable due to the high variable cost. MERC should set some limit for maximum backing down of TPC thermal (oil fired) plants.
- Tariff for reactive power exchange: One of the weakness in the ABT / UI tariff is the fixed tariff for reactive power over drawal. As the UI energy charge is indexed to frequency, the reactive power tariff should be indexed to voltage levels. Since in Maharashtra we are in the process of applying ABT tariff principles, we should incorporate this aspect in that tariff.

9. Miscellaneous Issues

This section deals with some of the miscellaneous issues in BSES ARR.

- IT calculations: We request BSES to give exact working of the IT calculations for the past 3 years and the coming two years. The formula given in Annex 49 seem to contain some errors and the numbers for DTPS and distribution assets seem to have got interchanged.
- We request MERC to correct forecast in ARR with the help of actual data for in FY 03-04 in terms of correctness of sales growth, DTPS generation etc.
- We request MERC to scrutinise increase in expenses under non-specific (general) heads such as ‘Miscellaneous’ and ‘Other Admin Charges’.
- We also request MERC to scrutinize the sharp increase in manpower cost of BESE.
- We request the commission to disallow the cost of DG sets and back-up facilities for the coming as well as in the previous years. This is one of the few disallowances we are requesting MERC that pertain to the past years.
- Full merging of FCA into base tariff is a good method followed by MERC and this should be continued.
- FCA charge formula should be approved by MERC and separate filing (with supporting evidence) should be submitted by utilities before changing the FCA. The FCA calculations should also be put up on utility web site.
- Before issuing tariff order, we request MERC to call a meeting of Commission Advisory Committee if MERC is considering any major changes or innovation (like regulatory liability / asset). This would give all stakeholders a chance to reflect on the proposal under MERC’s consideration and would be an important opportunity for the Commission to seek feedback from all stakeholders on such important issues.

10. Comments on BSES Prayer

- BSES has requested MERC to allow it to recover shortfall in ARR in the previous years. First, the responsibility for not coming to MERC lies with BSES. Second, despite this, we would support this plea. But the shortfall, as calculated by BSES cannot be taken for granted for recovery. The MEC should apply its norms for BSES performance and re-calculate if there has been shortfall or over-charging – implying opening up the past years for regulatory scrutiny.

11. Main Prayers to the Commission

Based on the evidence and analysis submitted in above paragraphs, we urge the MERC to kindly consider our prayers (mentioned above and the main prayers re-iterated below) while deciding on the ARR proposals of TPC and BSES.

1. We request MERC to adopt BSES's own track record as a benchmark for Capital Expenditure and allow Capital Expenditure of Rs 270 Cr/year for the next two years – instead of Rs 1,225 Cr.
2. Apply prudence norm (of D:E ratio of 70:30) to the present capital structure of BSES. This would save consumers nearly Rs 200 crore per year.
3. To allow any further capital investment to be done only in a manner that debt:equity ratio of 70:30 (or even higher) is maintained for the power utility business in Mumbai. For investment of each Rs 100 crore, this would imply consumer saving of Rs 67 Crore over the next decade.
4. Evaluate the reasonableness of fuel costs and FAC charged since MERC's order dt. 1st November 2002 in the matter of case no. 16/2002, and any unreasonable or inefficient expenses on this account are disallowed.
5. Set a T&D loss target suitable for BSES situation.
6. Continue stand-by arrangement with MSEB while adjusting its charges.
7. Convert TPC Bulk Supply tariff to a Two-part tariff separating fuel and fixed cost.

2nd March 2004
