



1. EXECUTIVE SUMMARY

1.1 Introduction

The Tata Power Company Limited (Tata Power) is a company established in 1919. On April 1, 2000, The Tata Hydro-Electric Power Supply Company Limited (established in 1910) and The Andhra Valley Power Supply Company Limited (established in 1916) were merged into Tata Power, to form one unified entity. Consequent to the merger, the licenses of the above mentioned companies were also merged and Tata Power was granted a license by the Government of Maharashtra (GoM) for the supply of energy to the public in its Mumbai License Area and to supply energy in bulk to Distribution Licensees, vide resolution No: IEA –2001/ CR-10509/NRG-1, dated July 12, 2001. Tata Power - T has been recognized as a deemed Transmission Licensee by this Hon'ble Commission under EA 2003.

This document details the Annual Performance Review (for FY 2008-09) and Tariff Application of the Transmission Business of Tata Power - T and includes (i) Truing up of the performance of FY 2007-08 (ii) Review of the performance of FY 2008-09 (iii) Projected performance of FY 2009-10.

1.2 Overall Approach for Present Filing

The key aspects of the approach to the filing are stated below:

1.2.1 True-up for FY 2007-08

Tata Power - T for the present filing is submitting the actual performance of the transmission function of Tata Power for various operational and cost related parameters for the year FY 2007-08. Additionally, for certain elements like the interest on working capital, and return on equity, the computations would be based on the normative principles approved by the Hon'ble Commission in various regulations and orders.

1.2.2 Annual Performance Review Filing for FY 2008-09 and Revised Estimates for FY 2009-10

As directed by the Hon'ble Commission, Tata Power - T is submitting the Annual Performance Review petition for the transmission function for the year FY 2008-09 based on the actual performance of the function during the first half of the year and revised estimates for the second half of the year. Similarly, Tata Power - T is also submitting the revised estimates for the FY 2009-10 based on the performance in the previous year.

1.2.3 Tariff Proposal

The Hon'ble Commission has directed in their Orders dated 27th June, 2006 and 29th September, 2006 on Transmission Pricing Framework for the State of Maharashtra that the Transmission Tariff applicable for use of Intra-State Transmission system (InSTS) shall be in accordance with the key principles laid out in the MYT Order wherein the tariff for the use of the composite transmission system in Maharashtra shall be computed based on pooled costs and then recovered from the various Transmission System Users (TSUs) in proportion of 'contribution to co-incident peak demand' (CPD) by each TSU.

The present tariff filing for FY 2008-09 details the revised Annual Revenue Requirement of Tata Power - T for the year. However, Tata Power - T does not propose a Tariff Proposal for transmission as the Transmission Tariff is to be determined on a "Composite Basis" for the state as whole.

1.2.4 Approach for the Filing

The present filing for the Annual Performance Review and Tariff filing is based on the principles enumerated by the Hon'ble Commission in the regulations and the relevant previous Tariff Orders (Tariff order for FY 2006-07, MYT Order for FY 2007-08 to FY 2009-10 and Annual Performance Review of 2007-08). Tata Power - T had also filed an appeal in May 2007 with Hon'ble Appellate Tribunal challenging the MERC's Tariff order dated 3rd October 2006 and order dated 22nd March 2007 on Review petition on the order of 3rd October 2006. The Hon'ble Appellate Tribunal for Electricity (ATE) issued its judgement on 12th May 2008 on the said appeal and directed Hon'ble Commission to revise the ARR in the light of the directions and consider the impact in the next truing up exercise. The Hon'ble Commission in para 1.3 of the APR order dated 26th May, 2008 has mentioned that Tata Power - T should submit the impact of the ATE's judgement on Tata Power - T along with the proposal for recovery in the APR petition for FY 2008-09. Accordingly, Tata Power - T has included the impact of ATE's judgement and the proposed recovery method in the APR petition for FY 2008-09.

1.3 Performance of FY 2007-08

This section summarises the performance for FY 2007-08 based on the audited accounts for the year. The various components are detailed below:

1.3.1 Operation and Maintenance Expenditure

The actual performance with regards to the various components of O&M expenditure is explained in the sections below:

1.3.1.1 Employee Cost

The total employee related expenses for the year FY 2007-08 were Rs. 55 Crores against Rs. 60 Crores approved by the Hon'ble Commission. The lower employee expense in FY 2007-08 were primarily on account of higher attrition of employees during the year due to the increasing demand of professionals and skilled persons in this industry. Further the vacancies created on account of retirements in the previous years were yet to be filled up which resulted in further lowering of employee expenses by another Rs. 2 Crores.

Tata Power - T would like to submit to the Hon'ble Commission that to meet the requirement of the new transmission project, new employees are being recruited. Hence costs are expected to be higher in FY 2008-09 and FY 2009-10.

1.3.1.2 Administrative & General Expenses

The A&G expenses for FY 2007-08 were Rs. 26 Crores which is in line with the expenses approved by the Hon'ble Commission. The A&G expenses are almost equal to that approved by the Hon'ble Commission after considering the disallowed expenditure for Brand Equity. Tata Power - T wishes to submit that since it has appealed in the ATE against the Hon'ble Commission's stand on the dis-allowance of Brand Equity expenditure, it reserves the right to claim the same in the event of receipt of a favourable decision by the ATE.

1.3.1.3 Repairs & Maintenance

The total R&M expenses were Rs. 9 Crores against Rs. 12 Crores approved by the Hon'ble Commission. The lower R&M expense was primarily on account of deferral of some planned expenditures on account of constraints faced due to manpower shortage. The deferred R&M expenditure will need to be incurred to execute the deferred activities in FY 2008-09 and 2009-10.

1.3.1.4 O&M Expenditure as a whole:

The O&M expenses for FY 2007-08 were Rs. 91 Crores as against Rs. 98 Crores approved by the Hon'ble Commission during provisional truing up for FY 2007-08 which excludes the expenses towards Brand Equity and Brand Promotion. Tata Power - T reserves the right to claim the expenditure in the event of receipt of a favourable decision from the ATE.

Since the total O&M Expenditure for the year is less than the amount approved by the Hon'ble Commission, we request the Hon'ble Commission to approve the same.

1.3.2 Capital Expenditure

The actual capital expenditure in FY 2007-08 was Rs. 62 Crores as against Rs. 129 Crores approved by the Hon'ble Commission. Similarly, the actual capitalisation during FY 2007-08 was Rs. 51 Crores as against Rs. 94 Crores approved by the Commission. The summary of the actual capital expenditure and the capitalisation during FY 2007-08 is as given below:

Table 1-1: Summary of Actual Capital Expenditure - FY 2007-08

Particulars	FY2007-08			
	Approved by Commission	Actual #	Approved by Commission	Actual
	Capital Expenditure		Capitalisation	
Existing Schemes (Carry Forward Schemes)				
<i>Non-DPR Schemes</i>		12		16
<i>DPR Schemes</i>		35		26
Total Carry Forward Schemes	-	47	-	42
New Schemes				
Non-DPR Cases		11		7
DPR Cases		3		-
Total New Schemes	-	13	-	7
HO & SS Allocation Inclng Contingency Provision		2		2
Total Transmission	129	62	94	51

Incl. IDC

1.3.3 Interest on Debt

In addition to the interest on normative loans for the previous years (70% of Capex of FY 2003-04 and 70% of capitalisation of FY 2004-05 and FY 2005-06), the Interest and Finance Charges for the year FY 2007-08 have been computed based on the 70% of the expenditure capitalised in the year FY 2006-07 and FY 2007-08. Tata Power has raised a loan of Rs. 450 Crores from IDFC to fund its capital expenditure on the following terms:

Tenor:	3 year moratorium + 9 years
Repayment:	35 quarterly instalment of Rs. 5.65 Cr & 36th instalment of Rs. 252.25 Cr.
Interest rate:	Benchmark rate (5 years G-Sec Rate) + 1.45% p.a. (payable monthly) (Subject to minimum of 8.90%)

Considering the above, interest rate of 8.9% has been assumed for FY 2007-08, the interest charges for FY 2007-08 are computed at Rs. 5 Crores vis-à-vis Rs. 6 Crores approved by the Hon'ble Commission. The lower interest charges are on account of lower capitalization of assets as compared to the quantum approved.

1.3.4 Interest on Working Capital

The normative Interest on Working Capital of Tata Power - T for FY 2007-08 works out to Rs. 5 Crores considering an interest rate of 11.5% as against Rs. 5 Crores approved by the Hon'ble Commission.

The actual working capital requirements of Tata Power - T are funded through a mix of actual borrowings and through funds provided by the Corporate through internal accruals. Tata Power - T has however borrowed money on short term basis to meet its working capital needs of all the functions together. The total interest paid by Tata Power for such short term loan works out to Rs. 25.92 Crores. The share of Tata Power-T on the basis of the normative Working Capital share in total working capital in Tata Power Operations works out to Rs. 1 Crores.

With regards to the balance requirement, the same has been funded through Corporate funds (Internal accruals). This component of financing through Corporate funds (Internal accruals) also is entitled to interest as the Corporate incurs a carrying cost for such 'internal cash' or funds as usage of this cash denies an opportunity to earn income through interest on deposits in money markets.

Tata Power – T also submits that the Tariff regulations provide guidelines for computation of Interest on working capital on “Normative Basis” and do not prescribe or stipulate any pre condition for funding the working capital through actual loans. Further, it is submitted that the treatment given for Normative loans for financing Capital Expenditure may be extended to the financing of Working Capital.

In view of the above, we submit that the Interest on actual working capital requirement at normative interest rates (SBI PLR) should be considered as part of interest expenses for the computation of gains and losses on account of interest on working capital. Tata Power - T requests the Hon'ble Commission to reconsider its stand directed in the earlier tariff order dated 26th May 2008, and approve the above methodology for computing gains and losses on account of working capital.

In case of Tata Power-T, the Interest on Actual Working Capital for FY 2007-08 worked out on the above basis is Rs. 2 Crores.

1.3.5 Other Finance Charges

There was an income of Rs. (0.19) Crores as against the approved other financial charges of Rs. 0.02 Crores estimated at the time of the filing and as approved by the Hon'ble Commission in the order.

1.3.6 Depreciation

The Depreciation for the year FY 2007-08 was Rs. 27 Crores has been maintained at the level approved by the Hon'ble Commission. Tata Power –T would however like to submit that, while the computation of depreciation has been carried out in line with the principles adopted by the Hon'ble Commission in its previous order, Tata Power – T has appealed against the same in the ATE.

1.3.7 Return on Equity

Based on the capitalised expenditure and the Debt: Equity norm of 70:30, the return on equity at the interest rate of 14% works out to Rs. 58 Crores for FY 2007-08 as against the approved quantum of Rs. 59 Crores. The actual return on equity capital is lower on account of lower capitalization of assets during the year as compared to the approved Capitalization of assets.

1.3.8 Income Tax

The Hon'ble Commission has in Case No. 64, 65 & 66 of 2007 has ruled the following:

“The Commission agrees with RInfra submission that normative interest on loan and normative interest on working capital are not actual expenses and hence, will not be eligible as deductible expenses while computing the income tax.”

Tata Power - T has incorporated the above ruling in the tax workings. Based on this ruling and various provisions under the Income Tax Act, the tax for the FY 2007-08 has been separately computed for Tata Power - T for FY 2007-08 which is Rs. 37 Crores as compared to Rs. 33 Crores approved by the Hon'ble Commission.

1.3.9 Statutory Appropriations

The statutory appropriation for FY 2007-08 was Rs. 2 Crores as compared to Rs. 5.23 Crores approved in the APR for FY 2007-08.

1.3.10 Non Tariff Income

For FY 2007-08, Tata Power - T had a non-tariff income of Rs. 13 Crores which is higher than the approved income. The Non Tariff Income comprises of Recurring income of Rs. 6 Crores and Non-Recurring income of Rs. 7 Crores.

1.3.11 Incentive on Transmission Availability

The incentive payable based on the Availability of the Transmission System of Tata Power - T works out to Rs. 3 Crores.

1.3.12 Annual Transmission Charges for FY 2007-08

Based on the various costs as outlined above, the revised Annual Revenue Requirement of Tata Power - T for FY 2007-08 based on the actual performance is as given below:

Table 1-2: Annual Revenue Requirement for FY 2007-08

Particulars	Approved by Commission	FY2007-08 (Actuals)	Rs. Crores
			Difference
Operation & Maintenance Expenses	98	91	(8)
Interest on Long-term Loan	6	5	(1)
Interest on Working Capital	5	5	0
Other Finance Charges	0	(0)	(0)
Depreciation	27	27	0
Income Tax	33	37	4
Statutory Appropriations	5	2	(3)
Return on Capital Base	59	58	(1)
Annual Transmission Charges	234	225	(9)
Incentive		3	3
Total Transmission Charges	234	228	(6)
Less: Non-Tariff Income	9	13	4
Net Revenue Recoverable	225	215	(10)

1.3.13 Sharing of Gains & Losses in FY 2007-08

Based on methodology suggested by the Hon'ble Commission, the various heads of expenditures have been categorised into two viz. (i) controllable and (ii) uncontrollable.

After such categorisation, the gains and loss for controllable expenditure has been computed.

1.3.13.1 Gains and loss in O&M Expenditure

The computation of the gains/losses and also the net Entitlement on account of the Controllable Expenditure is as given in the Table below:

Table 1-3: Gains and loss due to variation in O&M costs – FY 2007-08

Sr. No.	Particulars	Rs. Crores
1	Approved O&M Expenditure for FY 2007-08	98
2	Actual O&M Expenditure without Brand Equity	91
3	Uncontrollable Expenditure	:
4	Actual without Uncontrollable Expenditure (2-3)	91
5	- Amount passed on to the Distribution Licensees (1/3rd of Gain/Loss) (1/3rd *(1)-(4))	3
6	Transfer to Reserve (1/3rd of Gain/Loss) (1/3rd *(1)-(4))	3
7	Net Entitlement (3)+(4)+ {2/3rd * (1-4)}	96

1.3.13.2 Gains & Losses on account of interest on Working Capital

Based on the reasoning given under section 1.3.4 and 4.4.2, Tata Power - T requests the Hon'ble Commission to kindly consider the gains and losses arising out of Interest on Working Capital as worked out in the table below:

Table 1-4 : Gains/Loss from Interest on Working Capital

Sr. No.	Particulars	Rs. Crores
1	Normative interest Working Capital as per approved norms	5
2	Actual Interest on Working Capital	2
3	Uncontrollable Expenditure	0
4	Actual without Uncontrollable Expenditure (2-3)	2
5	- Amount passed on to the Distribution Licensees (1/3rd of	1
6	Transfer to Reserve (1/3rd of Gain/Loss) (1/3rd *(1)-(4))	1
7	Net Entitlement (3)+(4)+ {2/3rd * (1-4)}	4

1.3.14 Revenue from Transmission Business

The Revenue from Transmission Business was Rs. 212 Crores as approved by the Hon'ble Commission in the MYT Order dated 2nd April 2007.

1.3.15 Net Annual Transmission Charges and Gap for FY 2007-08

In summary, the break-up of the expenses for FY 2007-08 along with the adjustments on account of sharing of gains and losses is as follows:

Table 1-5: Net Annual Transmission Charges and Gap– FY 2007-08

		Rs. Crores			
Sr. No.	Particulars	FY 2007-08			
		Approved	Entitlement as per the Regulations	Efficiency Gains / (Loss) from Controllable factors shared with Consumers	Net Entitlement (Including Transfer to Reserves) after Impact of Gains / (Loss) from Controllable factors
I Revenue					224
	-Transmission Charges				212
	- Other Income				13
II Expenditure					-
1	Operation & Maintenance Expenses	98	98	3	96
2	Depreciation, including advance against depreciation	27	27		27
3	Interest on Long-term Loan Capital	6	5		5
4	Interest on Working Capital	5	5	1	4
5	Other Finance Charges	0	(0)		(0)
6	Incentive	-	3	-	3
7	Statutory Appropriations/ Contingency Reserve	5	2		2
8	Income Tax	33	37		37
9	Return on Equity	59	58		58
10	Total Expenditure	234	236	4	232
III Gap/(Surplus)					8

Tata Power - T requests the Hon'ble Commission to kindly approve the above Expenditure, Revenue and the gap/Surplus arising there from for FY 2007-08.

1.4 Performance of FY 2008-09

This section deals with the performance for FY 2008-09, which takes into consideration, ARR filed by Tata Power - T for FY 2007-08, APR order issued by the Hon'ble Commission dated 26th May 2008, the actual performance for H1 FY 2008-09 (Apr 2008 – September 2008) and the estimated performance for H2 FY 2008-09 (October 2008 – March 2009).

1.5 Revenue

Tata Power -T has billed the State Transmission Utility based on the Hon'ble Commission's order for Rs. 17.64 Crores per month (considering an amount of Rs. 211.72 Crores approved for FY 2007-08 in the MYT order) for period of 2 months and Rs. 20.69 Crores (based on annual amount of Rs. 248.28 Crores approved for FY 2008-09 in the APR Order) for the remaining part of the year. The total estimated revenue for FY 2008-09 therefore works out Rs. 242 Crores.

1.6 Capital Expenditure

The capital expenditure for FY 2008-09 is now expected to be Rs. 340 Crores as against the approved expenditure of Rs. 332 Crores as projected in the APR submission for FY 2007-08. Similarly, the capitalisation proposed during the year is Rs. 175 Crores as against Rs. 123 Crores approved by the Hon'ble Commission. The summary of the revised capital expenditure and the proposed capitalisation is as given below:

Table 1-6: Summary of Revised Capital Expenditure - FY 2008-09

Particulars	FY2008-09			
	Approved by Commission	Revised Estimates #	Approved by Commission	Revised Estimates
	Capital Expenditure		Capitalisation	
Existing Schemes (Carry Forward Schemes)				
Non-DPR Schemes	19	35	30	30
DPR Schemes	272	125	64	101
Total Carry Forward Schemes	291	160	95	130
New Schemes				
Non-DPR Cases	25	27	22	17
DPR Cases	11	148	-	23
Total New Schemes	36	175	22	40
HO & SS Allocation Inclng Contingency Provision	6	5	6	5
Total Transmission	332	340	123	175

Incl. IDC

1.7 Annual Revenue Requirement for Tata Power - T

Based on the Capital Cost and the consequent Capitalised Expenditure, Equity Component and Normative Debt, the Annual Fixed charges of Tata Power - T have been determined in accordance with the Tariff Regulations outlined thereof.

The above Annual Revenue Requirement is netted off for Non-Tariff Income and the cost of the Load Control Centre allocated to the Tata Power-G and Tata Power-D as emerging to determine the net ARR for Tata Power - T.

1.7.1 Operation and Maintenance Expenditure

The revised estimated performance with regards to the various components of O&M expenditure is explained in the sections below:

1.7.1.1 Employee Cost

The total employee related expenses for the year FY 2008-09 are estimated at Rs. 60 Crores against Rs. 56 Crores approved by the Hon'ble Commission. Tata Power - T had also submitted revised estimates of Rs.60 Crores in their APR submission of FY 2007-08.

The reasons for deviation in employee expenses from the amount approved for the year FY 2008-09 in the Tariff Order is primarily on account of higher retirement benefits being booked based on actuarial valuation as against the earlier estimated provisions. Further, the number of employees is expected to be higher as filling up of vacancies which were pending in the previous year is in progress. Also, additional recruitment is in progress to focus on the execution of the transmission projects in the pipeline. Hence, it is expected that the expenditure will increase on account of salaries and manpower related expenses.

It may be noted that the estimates for FY 2008-09 are also equal to that approved by the Hon'ble Commission for the previous year (Rs.60 Crores for FY 2007-08). The Hon'ble Commission may please consider an increase in the employee expenses and approve the estimated amount on account of the reasons stated above.

1.7.1.2 A&G Expenses:

The A&G Expenses for FY 2008-09 are estimated at Rs. 29 Crores (excluding brand equity) against Rs. 27 Crores approved for FY 2008-09 by the Hon'ble Commission. Tata Power - T had also submitted revised estimates of Rs.31 Crores in their APR submission of FY 2007-08. The deviation from the amount approved for the year FY 2008-09 in the Tariff Order are on account of various controllable /uncontrollable factors like increase in Way Leave Rates by MbPT, increase in Cost of security services on account of increase in rates as well as enhanced security for preventing thefts, increase in Insurance costs, provision for AS 15 write-off which was not provided in previous year and provision for contingencies. After considering the uncontrollable expenditure given above and superimposing this on the Approved expenditure by the Hon'ble Commission, the estimated expenditure would be within the sum so arrived at.

1.7.1.3 R&M Expenses

The total R&M Expenses are estimated to be about Rs. 12 Crores and hence, are expected to be maintained within the levels approved by the Hon'ble Commission.

1.7.1.4 O&M Expenditure as a whole:

The O&M Expenses for FY 2008-09 are expected to be about Rs. 101 Crores as against Rs. 96 Crores approved by the Hon'ble Commission. The reasons for increase in O&M expenditure over that approved by the Hon'ble Commission have been indicated in the paragraphs above for the individual elements of O&M expenditure. Tata Power - T requests

the Hon'ble Commission to approve the same after taking into consideration the various uncontrollable factors that have contributed to the increase.

1.7.2 Depreciation

The Depreciation for the year FY 2008-09 is estimated at Rs. 28 Crores as against Rs. 31.Crores approved by the Hon'ble Commission. The depreciation for FY 2008-09 does not include the depreciation on account assets capitalised during the year. However, as mentioned earlier, Tata Power – T has filed an appeal in the ATE in the matter and hence reserves its right to seek appropriate adjustments in the approved cost in case of favourable dispensation by the ATE in the matter.

1.7.3 Interest on Debt

In addition to the interest on normative loans for the previous years (70% of Capex of FY2003-04 and 70% of capitalisation of FY2004-05 and FY 2005-06) and actual loans for FY 2006-07, FY 2007-08 and for the year FY 2008-09 for 70% of the expenditure to be capitalised in the respective years have been considered. For financing this expenditure, Tata Power - T has raised the following two loans:

- **IDFC Loan**

Tata Power – T had raised a loan of Rs. 450 Crores from IDFC in previous years to fund its capital expenditure on the following terms:

Tenor:	3 year moratorium + 9 years
Repayment:	35 quarterly instalment of Rs. 5.65 Cr & 36th instalment of Rs. 252.25 Cr.
Interest rate:	Benchmark rate (5 years G-Sec Rate) + 1.45% p.a. (payable monthly) (Subject to minimum of 8.90%)

As can be seen from the above table, the interest rate is liable to vary over a period of time and the bank has sought to reset the interest rate to 13% from 29th September 2008 for a period of one year. Accordingly, Tata Power – T has considered an average rate of 10.95% (average of 8.9% and 13%) for the year FY 2008-09.

- **IDBI Loan**

Tata Power has taken another loan to the extent of Rs 400 Crores to finance the Capital Expenditure in the Licensed Area from IDBI. The brief terms of payment are as follows:



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Tenor:	3 year moratorium + 10 years
Repayment:	5% of the loan amount would be repaid every year for the first nine years and balance in 10 th year.
Interest rate:	BPLR (-) 2.76% p.a payable monthly. The interest rate would be fixed on date of disbursement.

The various quantum of disbursement in the year FY 2008-09 under the said loan is as follows

Table 1-7: IDBI Loan & Interest Rates FY 2008-09

Month of Disbursement	Quantum of Disbursement (Rs Cr)	Net Rate of Interest (%)
End Mar-08	200.00	10.50%
Aug-08	92.00	11.50%
Oct-08	84.00	14.00%
Total	376.00	11.53%

Hence an average rate of 11.53% percent has been considered for capitalisation in FY 2008-09. Considering above, the interest charges for FY 2008-09 are estimated at Rs. 14 Crores vis-à-vis Rs. 13 Crores approved by the Hon'ble Commission.

In the above computations of interest rates, the quantum of IDBI loan is being utilised for all the three functions viz Tata Power-G, Tata Power-T and Tata Power-D. Based on the capitalisation considered for the three functions, the quantum of Rs 400 Crores of IDBI loan may not be sufficient. Hence Tata Power-T may have to borrow additionally (including other sources) to finance its Capital Expenditure in the year FY 2008-09. Pending finalisation of additional loans, for the purpose of estimation of interest for the year, it is assumed that the additional loans would be available at the terms considered above. The impact of actual loans on the interest cost would be included during the Truing up of FY 2008-09.

1.7.4 Interest on Working Capital

The Interest on working capital has been computed based on the elements and the norms specified in the tariff regulations by the Hon'ble Commission considering an interest rate of 12.75% (SBI PLR), which was the rate existing at the time of filing of the ARR petition for FY 2008-09. The total Interest on Working Capital of Tata Power - T for FY 2008-09 works out to Rs. 6 Crores.

Tata Power has taken short term loans during first six months of FY 2008-09 from various sources. The total interest paid by Tata Power for such short term loan works out to Rs. 7 Crores for the first half of the year. Hence, the interest on such short term loans for the year has been estimated to be Rs. 15 Crores. The share of Tata Power - T on the basis of the normative Working Capital share in total working capital in Tata Power Operations works out to Rs. 1 Crores.

Notwithstanding the above actual interest payments, as discussed in the section 1.3.4 and 4.4.2, Tata Power - T submits that the Interest on actual working capital requirement at normative interest rates (SBI PLR) should be considered for computing the gains and losses under this head. Accordingly, Tata Power - T has computed the interest on actual working capital at Rs. 30 Crores.

Tata Power - T again requests the Hon'ble Commission to reconsider its stand directed in the earlier tariff order dated 26th May 2008, and approve the methodology proposed for computing gains and losses on account of working capital.

1.7.5 Other Finance Charges

An amount of Rs. 1 Crores has been provided towards this expenditure for the year FY 2008-09 on account of payment of finance charges.

1.7.6 Return on Regulatory Equity

Based on the open balance of equity, capitalised expenditure and the Debt: Equity norm of 70:30, the return on equity for FY 2008-09 is estimated to be Rs. 63 Crores against an approved amount of Rs. 63 Crores by Hon'ble Commission.

1.7.7 Income Tax

Tata Power - T has incorporated the ruling of the Hon'ble Commission in Case No. 64, 65 & 66 of 2007 in the tax workings. The income tax as per the provisions of the IT Act 1961 and after accounting for Tax savings on Notional Debt works out to Rs. 42 Crores as against the approved amount of Rs. 30 Crores.

1.7.8 Statutory Appropriations

The Statutory Appropriation has been provided at Rs. 3 Crores as against Rs. 3 Crores approved by the Hon'ble Commission for FY 2008-09 in line with the provisions of the Tariff Regulations.

1.7.9 Non Tariff Income

Tata Power - T has estimated a Non Tariff Income for FY 2008-09 at Rs. 9 Crores composed of Recurring Items of Rs. 6 Crores and Non-recurring Items of Rs. 3 Crores.

1.7.10 Annual Transmission Charges for FY 2008-09

Based on the various costs as outlined above, the revised Annual Revenue Requirement of Tata Power - T for FY 2008-09 is as given below:

Table 1-8: Revised Annual Transmission Charges - FY 2008-09

	Rs. Crores	
Particulars	Approved by Commission	FY 2008-09 Revised Estimates
O&M Charges	96	101
- Employee Expenses	56	60
- Administration & General Expenses	27	29
- Repairs & Maintenance	13	12
Interest on Long-term Loan	13	14
Interest on Working Capital	6	6
Other Finance Charges	-	1
Depreciation	31	28
Return on Equity	63	63
Income Tax	30	42
Statutory Appropriations	3	3
Less: Non-Tariff Income	9	9
Less: Load Control Centre Cost allocated to Tata Power - G and Tata Power - D	-	4
Annual Transmission Charges	233	244

1.7.11 Sharing of Gains & Losses in FY 2008-09

Based on the classification and the reasons given in Section 4.12, most items of expenditure for FY 2008-09 are uncontrollable except for certain expenditure in the O&M expenditure and Interest on Working Capital. The total impact of uncontrollable factors is about Rs. 1 Crores. Tata Power - T requests the Hon'ble Commission to kindly consider the same in the computation of gains and Losses for FY 2008-09.

1.7.11.1 O&M Expenditure

Certain increases in expenditure under this head were on account of reasons that are beyond the control of Tata Power - T. The expenditure due to such uncontrollable factors has been added to Approved Expenditure to arrive at the gains and loss:

Table 1-9: Gains and loss due to variation in O&M costs – FY 2008-09

		Rs. Crores
Sr. No.	Particulars	Revised Estimates
1	Approved O&M Expenditure for FY 2008-09	96
2	Revised Estimates of O&M Expenditure	101
3	Uncontrollable expenditure out of estimates expenses	1
4	Revised Controllable expenditure (2 - 3)	99
5	Losses/ (Gains) - (4-1)	3
6	Passed on to consumers (1/3rd)	1
7	Net Entitlement (1 + 3 + 6)	98

1.7.11.2 Interest on working capital

The computation of sharing of Interest on working capital is provided in the table below:

Table 1-10: Gains / loss due to variation in Interest on Working Capital – FY 2008-09

Sr. No.	Particulars	Rs. Crores
1	Normative interest Working Capital as per approved norms	6
2	Actual Interest on Working Capital	1
3	Uncontrollable Expenditure	-
4	Actual without Uncontrollable Expenditure (2-3)	1
5	Amount passed on to the Distribution Licensees (1/3rd of Gain/Loss) (1/3rd *(1)-(4))	2
6	Transfer to Reserve (1/3rd of Gain/Loss) (1/3rd *(1)-(4))	2
7	Net Entitlement (3)+(4)+(5)+(6)	4

1.7.12 Allocation of Costs pertaining to Tata Power Load Control Centre

The Tata Power Company, through its generating plants in Trombay, Khopoli, Bhira, and Bhivpuri (Tata Power-G) supplies power to the Distribution licensees in Mumbai namely BEST, Rlnfra and Tata Power's Distribution business (Tata Power-D). Further, it also operates transmission assets (Tata Power - T) to transmit its energy generated as well as power purchased from various parts of the country. Tata Power transmission network is interconnected with MSETCL and Rlnfra system at various points. Tata Power's Load Control Centre (LCC) is responsible for carrying out various functions of Tata Power G, T, and D.

Also, Tata Power's LCC acts as a single point contact for coordinating with SLDC and other utilities. Currently, the expenditure incurred on account of LCC operation is part of Tata Power's Transmission budget. This section outlines the methodology for allocation of the expenditure incurred for maintaining the LCC and its infrastructure amongst Generation, Transmission and Distribution businesses of Tata Power.

In the petition for APR- FY 2007-08, it was submitted that about Rs. 66 Lakhs (a portion of the employee costs) was allocable for carrying out the SLDC function. As the SLDC is setting up the Sub-Load Despatch Centre for monitoring the operation of Mumbai, in this section, it assumed that such portion of the employee cost and efforts would now be apportioned to the three functions of the Tata Power i.e. Tata Power – G, Tata Power – T and Tata Power – D. The costs would be allocated based on the nature of expenses.

The allocation of LCC Costs to Tata Power – G, T and D would be as indicated in Table below:

Table 1-11: Allocation of LCC Costs to Tata Power – G, T & D – FY 2008-09

Rs. Crores					
Item No.	LCC Expenditure item	Total Amount	Tata Power-G Allocation	Tata Power-T Allocation	Tata Power-D Allocation
1	Total O&M	4.66			
1a	Employee Expenses	3.73	1.14	1.15	1.44
1b	A&G	0.32	0.09	0.22	0.02
1b	R&M	0.61	0.17	0.42	0.03
2	Interest on Normative Loans	0.37	0.10	0.25	0.02
3	Interest on Working Capital	0.14	0.04	0.10	0.01
4	Depreciation	0.78	0.21	0.53	0.04
5	Return on Equity	0.64	0.17	0.43	0.03
6	Income Tax	0.41	0.11	0.28	0.02
7	Total	7.00	2.03	3.37	1.60

1.7.13 Net Annual Transmission Charges and Gap for FY 2008-09

In summary, the revenue, break-up of the expenses for FY 2008-09 along with the adjustments on account of sharing of gains and losses and the resultant gap is as follows:

Table 1-12: Net Annual Transmission Charges – FY 2008-09

Rs. Crores		
Particulars	Approved by Commission	FY 2008-09 Revised Estimates
O&M Charges	96	101
- Employee Expenses	56	60
- Administration & General Expenses	27	29
- Repairs & Maintenance	13	12
Interest on Long-term Loan	13	14
Interest on Working Capital	6	6
Other Finance Charges	-	1
Depreciation	31	28
Return on Equity	63	63
Income Tax	30	42
Statutory Appropriations	3	3
Less: Non-Tariff Income	9	9
Less: Load Control Centre Cost allocated to Tata Power - G and Tata Power - D	-	4
Annual Transmission Charges	233	244

Tata Power - T requests the Hon'ble Commission to kindly approve the above ARR for FY 2008-09.

1.8 Gap / (Surplus) for FY 2008-09

Considering the revenues from the transmission charges as approved by the Hon'ble Commission in its order dated 26th May 2008, Non Tariff Income, approved expenditure, uncontrollable expenditure and sharing of gains and loss, the income exceed the Net Annual Revenue Required; thereby creating a revenue surplus of Rs. 2 Crores. The computation of the gap is given in table below:

Table 1-13: Net Annual Revenue Requirement and Gap FY 2008-09

		FY 2008-09			Rs. Crores
Sr. No.	Particulars	Approved	Entitlement as per the Regulations	Efficiency Gains / (Loss) from Controllable factors shared with Consumers	Net Entitlement (Including Transfer to Reserves) after Impact of Gains / (Loss) from Controllable factors
I Revenue					252
	-Transmission Charges				242
	- Other Income				9
II Expenditure					
1	Operation & Maintenance Expenses	96	96	(1)	98
2	Depreciation, including advance against depreciation	31	28		28
3	Interest on Long-term Loan Capital	13	14		14
4	Interest on Working Capital	6	6	2	4
5	Other Finance Charges	-	1		1
6	Statutory Appropriations/ Contingency Reserve	3	3		3
7	Income Tax	30	42		42
8	Return on Equity	63	63		63
9	Less: LCC Costs allocated to Tata Power-G & Tata Power-D	-	4		4
10	Total Expenditure	242	249	0	250
III Gap/(Surplus)					2

Considering that these values are still an estimate for the coming six months of FY 2008-09, Tata Power - T is not seeking any revision for the estimates for the year. Tata Power - T however reserves the right to seek revisions after the determination of the actual amount for the whole year i.e. during the truing up process.

1.8.1 Annual Incentive for Tata Power – T

Tata Power - T would like to submit that unlike other businesses such as Tata Power-G and Tata power-D, for Tata Power - T the Annual Fixed Charges that are approved by the Hon'ble Commission are pooled with the approved Annual Fixed Charges of the other Transmission Licensees of Maharashtra. This total pooled amount is then shared by the

distribution licensees of the state on some basis such as co-incident peak demand. Hence if the incentive demand (for Availability greater than 98%) is raised by a Transmission Licensee, it is not entertained by the STU (who maintains the contribution and disbursement of the pool) as there is no inflow to pay this amount. The only way to claim such incentive for FY 2008-09 is through the ARR of the year FY 2010-11. The Hon'ble Commission would appreciate that there is a considerable delay in payment without any cogent reason for the same.

Tata Power - T therefore requests the Hon'ble Commission to kindly direct the STU to bill the Distribution Licensee immediately for the incentive raised (by the Transmission Licensee) at the end of the year. The sharing of the incentive raised by the Transmission Licensee may be in the same ratio as the sharing of the Transmission Charges by the Distribution Licensee.

1.9 Estimated Annual Performance for FY 2009-10

This section presents the estimated Annual Revenue Requirement of Tata Power - T for FY 2009-10.

1.9.1 Capital Expenditure

The Annual Transmission Charges of Tata Power - T for FY 2009-10 are determined based on the past investments and the investments and capitalisation in the year 2008-09.

The energy requirement in the city has been rising at a rate of about 5%. To cater to this increasing load the transmission system needs upgradation and augmentation.

Tata Power - T has planned for the following investments for FY 2009-10:

Table 1-14: Proposed Capital Expenditure for FY 2009-10

Particulars	Rs. Crores	
	FY 2009-10	
	Capital Expenditure	Capitalisation
Carry Forward Schemes		
DPR Cases	624	287
Non DPR Cases	22	21
Total Carry Forward	646	308
New Schemes		
DPR Cases	33	10
Non DPR Cases	24	21
Total New Schemes	58	31
HOSS Allocation	10	6
Total	714	345

1.9.2 Annual Transmission Charges

Based on the Capital Cost, (and consequent Capitalised Expenditure, Equity Component and Normative Debt) Annual Transmission charges of Tata Power- T have been determined in consonance with the Tariff Regulations outlined thereof.

The non-tariff income, the LCC cost allocated to Tata Power – G and Tata Power – D are netted out from the above determined annual revenue requirement to arrive at the Annual revenue requirement of Tata Power -T for the year FY 2009-10.

1.9.3 O&M Expenditure

The various components of O&M expenditure are explained in the sections below:

1.9.3.1 Employee Costs

The employee costs projected for FY 2009-10 are Rs. 66 Crores as compare to Rs. 48 Crores approved by the Commission. The main reasons for the deviations from that approved amount include AS- 15 R impact as discussed in the petition for APR- FY 2007-08, and marginal increase in employee expenses on account of normalising of manpower (Rs. 1.5 Crores).

The reasons for increase in employee expenditure estimated in FY 2008-09 have been provided earlier. Considering the same, the increase (Rs. 4 Crores) over the estimated expenditure of FY 2008-09 (Rs. 60 Crores) is justified as the same is required to meet the inflation. Hence Tata Power - T request the Hon'ble Commission to consider and approve the above increase the above expenses for FY 2009-10.

1.9.3.2 A&G Expenses

The projected A&G Expenses for FY 2009-10 are Rs. 33 Crores and are higher than the amount approved in the MYT by Rs. 5 Crores and by Rs. 4 Crores as compared to the revised estimates for FY 2008-09. The main reason for deviations include impact of Increase in Way leave fees expenses charged by MbPT, contingency provision, etc.

1.9.3.3 R&M Expenses

The estimated R&M expenses for the FY 2009-10 are Rs. 15 Crores and have been maintained within the levels approved by the commission.

1.9.3.4 O&M Expenditure as a whole

The Operations and maintenance expenses estimated for the year 2009-10 is as given below:

Table 1-15: O&M Expenses - FY 2009-10

Particulars	Rs. Crores			
	FY 2008-09 Approved by Commission (APR Order)	FY 2008-09 Revised Estimates	FY 2009-10 Approved by Commission (MYT Order)	FY 2009-10 Revised Estimate
Employee Expenses	56	60	48	66
Administration & General Expense	27	32	28	37
Less: Brand Equity		(3)		(3)
Repair and maintenance	13	12	15	15
Total	96	101	91	115

Tata Power - T requests the Hon'ble Commission to approve the same while taking into consideration the various uncontrollable factors that have contributed to the increase.

1.9.4 Interest on Debt

In addition to the interest on normative loans for the previous years (70% of Capex of FY 2003-04 and 70% of capitalisation of FY 2004-05 and FY 2005-06), actual loans for FY 2006-07 and FY 2007-08, estimates for FY 2008-09, the interest on 70% of the expenditure to be capitalised in FY 2009-10 is considered for the purpose of computation of Interest on debt.

- **IDFC Loan**

Tata Power had raised a loan of Rs. 450 Crores from IDFC to fund its current capital expenditure on the following terms:

Tenor:	3 year moratorium + 9 years
Repayment:	35 quarterly instalment of Rs. 5.65 Cr & 36th instalment of Rs. 252.25 Cr.
Interest rate:	Benchmark rate (5 year G-Sec Rate) + 1.45% p.a. (payable monthly)

As can be seen from the above table, the interest rate is liable to vary over a period of time. Through a letter dated 29th September 2008, IDFC has sought to reset the interest rate to 13% from 29th September 2008 for a period of one year. Accordingly, Tata Power - T has considered the interest rate of 13% for FY 2009-10.

- **IDBI Loan**

Tata Power has taken another loan to the extent of Rs 400 Crores to finance the Capital Expenditure in the Licensed Area from IDBI. The brief terms of payment are as follows:

Tenor:	3 year moratorium + 10 years
Repayment:	5% of the loan amount would be repaid every year for the first nine years and balance in 10 th year.
Interest rate:	BPLR (-) 2.76% p.a payable monthly. The interest rate would be fixed on date of disbursement.

The Interest and Finance Charges for the year FY 2009-10 has been computed based on the expenditure to be capitalised in FY 2009-10 and after including the capitalisation and capital expenditure in the earlier periods. The terms of the IDBI loan raised in FY 2008-09 have been applied for computation of the interest. An interest rate of 11.53% has been considered for capitalisation in FY 2009-10 based on weighted average rate of FY 2008-09.

The interest charges for FY 2009-10 are estimated to be Rs. 36 Crores vis-à-vis Rs. 17 Crores approved in the MYT order. The increase is largely on account of upward revision in interest rates on the loans of IDFC and new loan taken from IDBI and the revised capitalisation estimates.

Further, as mentioned in section 5.7.1, in case of additional loans required for financing capital expenditure in FY 2009-10, pending finalisation of additional loans, for the purpose of estimation of interest for the year, it is assumed that the additional loans would be available at the terms considered for IDBI loans for FY 2008-09. The impact of actual loans on the interest cost would be included during the Annual Performance Review of FY 2009-10.

1.9.4.1 Interest on Working Capital

The Interest on working capital has been computed based on the principles specified in the tariff regulations by the Hon'ble Commission. For the purpose of estimating the interest on working capital for FY 2009-10, an interest rate of 13.00% has been considered on the basis of the existing rate. The total Interest on Working Capital of Tata Power - T for FY 2009-10 works out to Rs. 7 Crores.

1.9.5 Depreciation

The estimated depreciation for FY 2009-10 works out to Rs. 32 Crores. The depreciation for FY 2009-10 does not include the depreciation on account assets capitalised during the year. However, as mentioned earlier, Tata Power –T has filed an appeal in the ATE in the matter and hence reserves its right to seek appropriate adjustments in the approved cost in case of favourable dispensation by the ATE in the matter.

1.9.6 Return on Regulatory Equity

The Return on Equity has been computed at the rate of 14% on the opening balance and on the Equity added due to capitalisation during the year. Based on the same, The Return on Equity for FY 2009-10 works out to Rs. 74 Crores.

1.9.7 Statutory Appropriations

Tata Power - T has provided for building the contingency reserves at 0.25% of the opening GFA at the rate of 0.25% as permitted by the Hon'ble Commission. Accordingly, the Statutory Appropriations are estimated at Rs. 3 Crores for FY 2009-10.

1.9.8 Income Tax

Based on the ruling of the Hon'ble Commission in Case No. 64, 65 & 66 of 2007 in the tax workings, the provisions of the Income Tax Act and after accounting for Tax savings on Interest on Long Term Loans and Interest on Working Capital, the Income Tax for FY 2009-10 works out to Rs. 37 Crores.

Tata Power-T would like to submit that the Income Tax projections are sensitive to the quantum of capitalisation in that year as such capitalisation impacts the depreciation under the IT Act. In case the capitalisation approved by the Hon'ble Commission is different from that proposed, we request re-computation of the depreciation on account of the change to reflect the impact on the Tax computation.

1.9.9 Non-Tariff Income

Considering that (i) the reserves have been adjusted completely by the Hon'ble Commission to bridge the gap and pending decision on the review petition filed by Tata Power, and (ii) non-recurring items cannot be predicted, Non-Tariff Income has been computed as Rs. 12 Crores based on the trend followed by the recurring items.

1.9.10 Allocation of Load Control Centre Costs to Tata Power G & D

As discussed under performance for FY 2008-09, certain portion of the Load Control Centre costs have been allocated to Tata Power – G and Tata Power – D. The same has been deducted from the revenue requirement for Tata Power – T. The amount deducted is Rs. 4 Crores.



**Annual Performance Review for FY 2008-09
& Annual Revenue Requirement for FY 2009-10 for Tata Power - T**

1.10 Summary of Annual Transmission Charges

Based on the various components estimated above, the Annual Transmission Charges for the Transmission Business for the FY 2009-10 is as summarised below:

Table 1-16: Annual Transmission Charges of Tata Power - T – FY 2009-10

Particulars	Rs. Crores	
	FY 2009-10 Approved by Commission (MYT Order)	FY 2009-10 Revised Estimate
Operation & Maintenance Expenses	91	115
- Employee expenses	48	66
- Administration & General Expenses	28	33
- Repairs & Maintenance Charges	15	15
Depreciation	33	32
Interest on Long-term Loan	17	36
Interest on Working Capital	6	7
Other Finance Charges	-	-
Statutory Appropriations	6	3
Income Tax	34	37
Adjustment for profit/loss on account controllable/uncontrollable factors	-	-
Return on Capital Base / Equity Capital	69	74
Less: Non-Tariff Income	9	12
Less: LCC Cost allocated to Tata Power-G & Tata Power-D	0	4
Annual Transmission Charges	247	288

Tata Power - T requests the Hon'ble Commission to consider the above and approve the same.