

**BEFORE THE MEGHALAYASTATEELECTRICITYREGULATORYCOMMISSION**

**SHILLONG**

**CASE No.08/2020**

IN THE MATTER OF

Petition filed by Meghalaya Power Transmission Corporation Limited (MePTCL) for Review of Tariff Order for FY 2020-21 dated 25<sup>th</sup> March 2020.

**AND**

Meghalaya Power Transmission Corporation Limited (the Petitioner)

**Coram**

Shri P W Ingty, IAS (Retd.)

Chairman

Shri R. Keishing

Member

(Order: 31.08.2020)

MePTCL is a deemed Licensee in terms of Section14 of the Electricity Act 2003 (Here in after referred to as the Act) engaged in the Business of transmission of electricity in the state of Meghalaya.

As per Regulation 22 of MSERC (Multi Year Tariff) Regulations 2014 MePTCL has filed the petition on 30th June 2020 for Review of Tariff Order dated 25.03.2020 for FY 2020-21. The same was provisionally admitted on the 31.07.2020.

Regulation 22 of MYT Regulations 2014 specifies that the Commission shall undertake the review of Tariff Order for FY 2020-21 considering the terms & Conditions laid down there in.

The Issues sought for in the instant review petition are on the amounts of expenses projected in the ARR for FY 2020-21 of licensee MePTCL and the amounts allowed by the Commission in its Order dated 25.03.2020.

Commission taking into consideration all the facts and after undertaking prudence check as per the Regulations, passed review order for the FY 2020-21.

**Member**

**Chairman**

## 1. Introduction

### Licensee Submission

The present petition is filed as per clause 22 of MSERC (Multi Year Tariff) Regulations 2014, which is reproduced below:

*"22 Review of Tariff Order*

**22.1***All applications for the review of tariff shall be in the form of petition accompanied by the prescribed fee. A petition for review of tariff can be admitted by the Commission under the following conditions:*

*a) the review petition is filed within sixty days of the date of the tariff order, and /or*

*b) there is an error apparent on the face of the record*

**22.2***On being satisfied that there is a need to review the tariff of any generating company or the licensee, the Commission may on its own initiate process of review of the tariff of any generating company or the licensee. The Commission may also, in its own motion review any tariff order to correct any clerical error or any error apparent on the face of the record"*

As such, the MSERC (Multi Year Tariff) Regulations 2014 provides for the petitioner or any other person aggrieved by an order of the Hon'ble Commission to file a review petition based on new facts and information, which was/were not considered during the time of issue of order or on account of apparent errors or mistakes. MePTCL, in this petition is requesting the Hon'ble Commission to review certain costs which were disallowed in view of the latest facts and information submitted in this petition or in view of apparent errors observed.

The present petition is also being filed as per clause 21 of MSERC (Conduct of Business) Regulations 2006, which is reproduced below:

*"A person aggrieved by a decision or order of the Commission from which no appeal is preferred, or is not allowed to be preferred, can seek a review of the order if new and important facts which, after the exercise of due diligence, were not within his knowledge or could not be produced by him at the time when the order was passed or on account of some mistake or error apparent on the face of record or for any other sufficient reason, by making an application within 60 days of the date of the order."*

The licensee had filed the petition for revision of tariff for FY 2019-20 vide letter No MePTCL/DT/TT-21(Pt- V)/2018-19/112 dated 30<sup>th</sup> November 2018, However, in the absence of any order from the Hon'ble Commission on the same, the licensee had to continue with the approved open access tariff of FY 2018-19 for FY 2019-20 in spite of substantial increase in cost and assets of the Licensee during the last financial year. The increase in cost heads for FY 2019-20 will be adjusted in the true up petition for FY 2019-20 once the audited accounts are ready,

The filing of the present review petition was delayed due to the ongoing pandemic and since various facts of the order, and relevant documents had to be checked thoroughly before the petition was prepared and filed, MePTCL pleads before the Hon'ble Commission to condone the delay in the filing of the review petition for Tariff Order of the FY 2020-21 and requests the Hon'ble Commission to admit the same.

### Commission's Views

Regulation 23 of MSERC MYT Regulations 2014 specifies that-

*"No tariff or part of any tariff may be ordinarily amended, more frequently than once in any financial year, except FPPPA based on FPPPA formulae approved by the Commission from time to time. Provided that the consequential orders, which the Commission may issue to give effect to the subsidy by the State Government shall not be construed as amendment of the tariff notified."*

Commission considers that there is no error apparent on the face of the record.

Commission considers that the petition has been filed belatedly by the licensee. Due to the prevailing lockdown orders issued by the state govt. the delay has been condoned and petition has been taken on record.

## 2. Components for Review

It is submitted by the licensee that the specific grounds on which the review is being sought have been identified against each aspect of the Order, on which review is being sought, in subsequent paragraphs.

### 2.1 Operations and Maintenance (O&M) Expenses

#### Licensee Submission

The Hon'ble Commission in the order has escalated the base O&M Expenses of FY 2017-18 by inflation factor of 4.86% to arrive at O&M Expenses for FY 2020-21. However, the Commission has inadvertently considered an erroneous O&M expense for FY 2017-18 which has led to understatement of O&M expenses approved for FY 2020-21. The O&M expenses for FY 2017-18 is Rs 67.30Cr for the licensee as shown in the table below with references of the figures taken from the audited accounts.

**Table 1: O&M Expenses for FY2017-18(in RsCr )**

Sl. No.	Particulars	Amount in Rs. Cr	Remarks
<b>Employee Expense</b>			
a)	MePTCL	57.65	As per Note 19 of MePTCL Audited Accounts FY 2017-18
b)	MeECL Apportioned	4.08	MeECL/3 (MeECL Expenses as per Note 17 of MeECL Accounts FY 2017-18)
<b>R&amp;M Expenses</b>			
c)	MePTCL	2.67	As per Note 22 of MePTCL Audited Accounts FY 2017-18
d)	MeECL	0.12	MeECL/3 (MeECL Expenses as per Note 20 of MeECL Accounts FY 2017-18)

<b>A&amp;G Expenses</b>			
e)	MePTCL	1.95	As per Note 22 of MePTCL Audited Accounts FY 2017-18
f)	MeECL	0.83	MeECL/3 (MeECL Expenses as per Note 20 of MeECL Accounts FY 2017-18)
	<b>Total O&amp;M Expenses (MePTCL+1/3<sup>rd</sup> MeECL)</b>	<b>67.30</b>	

\*\* Please Note: Apportionment of MeECL Employee Expenses in Note19 of MePTCL Accounts is over and above the employees expenses in MeECL audited accounts. A Write up on the same is attached as **Annexure C**.

The audited accounts for MePTCL and MeECL FY 2017-18 is attached as Annexure A and B respectively. Based on the revised base value of O&M expenses, the O&M expenses for FY 2020-21 and the additional claim in the review is given in the tables below:

**Table 2: Computation of O&M Expenses for FY 2020-21 (in Rs Cr)**

Particulars	FY 2017-18 (As per SOA) Incl. MeECL Cost	FY 2018-19 (Inflation rate at 4.86%)	FY 2019-20	FY 2020-21
<b>O&amp;M Expenses</b>	67.30	70.57	74.00	77.59

**Table 3: Additional O&M Expenses Claimed in Review**

Sl. No	Particulars	Amount in INR CR.
<b>1</b>	O&M expenses allowed by MSERC in the Order (1)	45.11
<b>2</b>	O&M expenses claimed by MePTCL in the Review (2)	77.59
<b>3</b>	Additional O&M expenses to be allowed in the Review petition (=2-1)	32.48

MePTCL requests the Commission to review the approved O&M Expenses and allow an additional amount of Rs 32.48 Cr as shown in the table above.

### **Commission's Views**

Regulation 69.3 of MSERC MYT Regulations 2014 specifies that-

*"The norms for O&M expenses on the basis of circuit kilometres of transmission lines, transformation capacity and number of bays in substations shall be submitted for approval of the Commission."*

Commission after taking into account the network data submitted by the licensee, had computed admissible O&M expenses for FY 2020-21 at Rs.29.24 Crore as per the CERC Regulations 2019.

Commission considering the employee expenses reported through the SOA for FY 2017-18 at Rs.21.20 Crore, 1/3<sup>rd</sup> share of MeECL cost at Rs.12.15 Crore, adding the R&M expenses and A&G expenses of MePTCL at Rs.5.77 Crore including Rs.1.15 Crore SLDC Charges had computed O&M expenses for FY 2017-18 at rs.39.12 Crore. After taking

inflation rate of 4.86% for FY 2018-19 and FY 2019-20 allowed O&M expenses at Rs.45.11 Crore for ARR of FY 2020-21.

It is observed that the licensee has misrepresented the MeECL O&M expenses at Rs.36.45 Crore to be factored for computation of O&M expenses in the petition for ARR of MePTCL for FY 2020-21. The Misrepresentation of MeECL O&M expenses at Rs.36.45 Crore resulted in excess computation of O&M expenses for MePTCL. This will however be reviewed in the True up exercise for FY 2020-21. The Annexure C attached to the review petition declaring the accounting policy of MePTCL and MeECL for FY 2017-18 shall not be valid for apportionment of employee cost of MeECL.

The Inflation rate considered for FY 2019-20 and FY 2020-21 was on provisional basis. Any variation in the inflation rates notified by the Govt. of India shall be considered after filing of True up petition along with audited accounts for FY 2020-21.

**Commission does not considers change in the O&M expenses for Review.**

## 2.2 Gross Fixed Assets

### Licensee Submission

The Hon'ble Commission has revised the asset base for the control period FY 2018-19 to FY 2020-21. The Hon'ble Commission has reduced the approved capitalization of the control period to 10% of total approved earlier in MYT Order dated 31.03.2018 to arrive at closing balance GFA for FY 2020-21 (Table 5.15 of order). The asset base approved by Commission for the control period is given below for reference:

**Table 4: Revised Asset Base for Control Period (in Rs Cr )**

Particulars	FY 2017-18 (Actual)	FY 2018-19	FY 2019-20	FY 2020-21
Opening GFA	427.29	440.01	457.29	528.25
Additions during the year	12.72	17.28	70.96	39.01
Retirements during the year	-	-	-	-
<b>Closing GFA</b>	<b>440.01</b>	<b>457.29</b>	<b>528.25</b>	<b>567.26</b>

The asset base has been used in the subsequent sections for calculation of ARR components.

### Commission's Views

The Commission's analysis vide para 5.9 of page no.40 and Table no.5.5 of Tariff Order dated 25.03.2020 is self-explanatory. The Licensee has yet to file the True up petitions for FY 2018-19 and FY 2019-20 along with audited accounts, any addition to the base assets capitalization shall be considered in the true up of FY 2020-21.

Commission does not considers change for the Review of Tariff Order for FY 2020-21.

## 2.3 Depreciation

### Licensee Submission

The Commission has considered Rs 21.42Cr as depreciation for FY 2020-21 using the average depreciation rate on the total asset base of the licensee. The licensee has challenged the methodology of Commission in the review of true up order FY 2016-17 which is pending before the Hon'ble Commission. The other discrepancies in the computation of depreciation is listed below:

- a) The average depreciation for MePTCL business FY 2017-18 as per the audited accounts is 5.04% (Opening and Closing Asset Base: Rs427.29Cr, Rs440.01Cr and Depreciation of Rs 21.83Cr). The adjustment of amortization of grants should not be done to derive the average depreciation rates in ce asset base is being reduced by grant component to arrive at net asset base for depreciation calculation. Further, it is not clear how the Commission has arrived at depreciation of 4.68% for FY 2017-18 and used it to compute depreciation for FY 2020-21.
- b) While it is true that as per the clause 33 of the regulations that depreciation shall be allowed up to 90% of the cost of the asset, this does not imply that the rate of depreciation is to be multiplied on 90% of cost for asset category, instead of 100% of the depreciable asset. The Hon'ble Commission has inadvertently calculated depreciation rate on 90% of the average assets instead of whole 100% of the asset, thereby undermining the depreciation amount.
- c) Commission has considered grants amount of Rs 31.66Cr and reduced the total asset by the same amount to arrive at depreciable GFA. However, the grants contribution appearing in accounts (Note 10 & Note 8.4.1) can either be a part of asset (already put into use) or part of capital works in progress. Considering the whole of grant as a part of GFA is incorrect. Moreover, the grants appearing at note 8.4.1 which has been considered by Hon'ble Commission for depreciation calculation, has been converted to equity and under equity pending allotment head as stated clearly in the Note 8.4.1 heading.

Share of grants part of GFA and CWIP has been proportionately derived from GFA and CWIP amount for FY 2017-18 as shown in the table below:

**Table 5: Grants share of Gross Fixed Asset**

Particulars	Amount in INR CR.	Remarks
Closing Value of Asset	440.01	Note 1 of the MePTCL FY 2017-18 Accounts
Closing Value of CWIP	144.58	Note 2 of the MePTCL FY 2017-18 Accounts
Grants and Subsidies	29.04	<ul style="list-style-type: none"><li>• Note 10 of Accounts</li><li>• Not considering amount of Rs.2.62 Cr which is part of equity (Note 8.4.1)</li></ul>
Grants share for GFA	<b>21.84</b>	Used for Depreciation Calculation

Based on the above inadvertent mistakes in the order, the Licensee has calculated the depreciation for FY 2020-21 as per the Commission's methodology in the table below:

**Table 6: Depreciation Expenses for FY 2020-21**

Particulars	Amount in INR CR.	Remarks
Opening GFA excluding Land	524.15	As per table 5.16 of Order
Closing GFA excluding Land	563.16	As per table 5.16 of Order
Average Value of Assets	543.66	
Grants and Subsidies	21.84	As Calculated in Table 5 above
<b>Net GFA</b>	<b>521.81</b>	
Average depreciation (%) at FY 2017-18 level	5.04%	As stated in Point a above
<b>Net Depreciation</b>	<b>27.40</b>	

Hence based on above, the additional claim of Utility for review is given below:

**Table 7: Additional Depreciation Claimed in Review**

Sr.No	Particulars	Amount in INR Cr.
1	Depreciation expenses allowed by MSERC in the Order (1)	21.42
2	Depreciation expenses claimed by MePTCL in the Review (2)	27.40
3	<b>Additional Depreciation to be allowed in the Review petition (=2-1)</b>	<b>5.98</b>

### Commission's Views

The Licensee has yet to file over delayed true up petitions for FY 2017-18 and FY 2018-19. The commission's analysis vide para 5.13 and Table no.5.15 of Tariff order is self explanatory. Commission had considered the projections which are more than the performance reported in the previous MYT period from FY 2015-16 to FY 2017-18. **Therefore the review of depreciation for FY 2020-21 does not merit consideration, the variations if any shall be considered in the true up exercise after filing of petition along with Audit Report.**

## 2.4 Return on Equity

### Licensee Submission

The Commission has considered Rs 21.68 Cr as Return on Equity for FY 2020-21 using the equity base as 30% of gross fixed asset base of MePTCL. The licensee has challenged the methodology of Commission in the review of true up order FY 2016-17 as well in APTEL which is under subjudice.

The Commission has in advertently considered grants for asset base without due consideration that grants can be part of capital works in progress. The points have been highlighted in detail in the above depreciation section (Point C of Section 2.3). Based on the above apparent errors in the order, the Licensee has calculated the return on equity for FY 2020-21 as per the Commission's methodology in the table below:

**Table 8: Return on Equity for FY 2020-21**

Particulars	Amount in INR CR.	Remarks
Opening GFA	528.26	As per Table 4 above and table 5.15 of the order
Closing GFA	567.27	
Average Value of Assets	547.77	
Grants and Subsidies	21.84	As Calculated in Table 5 above
<b>Net GFA</b>	<b>525.92</b>	
Equity 30% of GFA for FY 2020-21	157.78	
<b>Return on Equity at 14%</b>	<b>22.09</b>	

Hence based on above, the additional claim of Utility for review is Rs.0.41 Cr as shown in the table below:

**Table 9: Additional Return on Equity Claimed in Review**

Sr.No	Particulars	Amount in INR Cr.
1	Return on Equity allowed by MSERC in the Order (1)	21.68
2	Return on Equity claimed by MePTCL in the Review (2)	22.09
3	<b>Additional Return on Equity to be allowed in the Review petition (=2-1)</b>	<b>0.41</b>

### Commission's Views

The Licensee has yet to file over delayed True up petitions for FY 2017-18 and FY 2018-19.

The Return on Equity shall be admissible as per the Regulation 31 read with Regulation 27 of MSERC Regulations 2014.

The ROE was computed based on the GFA considered for Tariff order for FY 2020-21 in the absence of audited results for FY 2017-18 and FY 2018-19. The analysis vide para 5.10 and Table no.5.7 of Tariff order is self explanatory.

**Commission does not consider change in the ROE for FY 2020-21.**

## 2.5 Interest on Working Capital

### Licensee Submission

Based on the above submissions for review, the interest on working capital has been computed in line with the existing MSERC Regulations as given below:

**Table 10 : Interest on Working Capital for FY 2020-21**

Particulars	Amount in INR CR.
O&M Expenses for one (1) month (77.59/2) (a)	6.48
Maintenance Spares at 1% of Opening GFA Historical Cost escalated by 6% (Average Asset Base of MePTCL for FY 2020-21)*1%*1.06 (b)	5.81
Receivables equivalent of two (2) months (c) (92.76/6)	15.46
<b>Working Capital requirement (d=a+b+c)</b>	<b>27.73</b>
SBI short term PLR	13.80%
<b>Interest on Working Capital (f=d*e)</b>	<b>3.83</b>



Since other components of ARR has changed based on the submissions above for review, Interest on working Capital changes accordingly. Hence the additional claim of Utility for review Rs.1.44 Cr as shown in table below:

**Table 11: Additional Interest on Working Capital Claimed in Review**

Sr. No	Particulars	Amount in INR Cr.
1	Interest on Working Capital allowed by MSERC in the Order (1)	2.39
2	Interest on Working Capital claimed by MePTCL in the Review (2)	3.83
3	<b>Additional Interest on Working Capital to be allowed in the Review petition (=2-1)</b>	<b>1.44</b>

### Commission's Views

Commission's analysis was made based on the elements of O&M expenses, maintenance spares and receivables approved for the ARR for FY 2020-21 in the absence of audited results for FY 2017-18 and FY 2018-19.

**The working capital shall be considered after filing the True up petitions for FY 2017-18 to FY 2020-21.**

### 3. Revised ARR & Net Additional claim in Review for ARR FY 2020-21

#### Licensee Submission

Based on the above submissions, the revised ARR and additional amount claimed for MePTCL in this review is given below:

**Table 12: Revised ARR and Additional Amount Claimed in Review (in Cr)**

Particulars	Approved in Present Order	MePTCL Claim in Review	Additional Gap to be Passed
Return on Equity	21.68	22.09	0.41
Interest & Finance Charges	4.81	4.81	-
O&M Expenses	45.11	77.59	32.48
Interest on Working Capital	2.39	3.83	1.44
Depreciation	21.42	27.40	5.98
SLDC Charges	1.33	1.33	-
<b>Total ARR</b>	<b>96.74</b>	<b>137.05</b>	<b>40.31</b>
Less: SLDC ARR	2.66	2.66	
Less: Non-Tariff Income	36.92	36.92	
<b>Net (ATC) ARR</b>	<b>57.16</b>	<b>97.47</b>	<b>40.31</b>
SUO MOTO True Up for FY 2013-14 & FY 2014-15 Gap	1.75	1.75	-
True up Gap (Surplus) for FY 2015-16	(5.72)	(5.72)	-
True Up Gap (Surplus) for FY 2016-17 Review Order	(0.74)	(0.74)	-
<b>Total ARR</b>	<b>52.45</b>	<b>92.76</b>	<b>40.31</b>

### Commission's Views

The Tariff Order was issued based on the performance in the previous year's up to FY 2017-18, the claims made in the Review petition does not merit consideration.

The ARR for Review petition considered as shown below:

**Table 13: Approved ARR and Additional Amount Claimed in Review (in Cr)**

Particulars	Approved in Tariff Order FY 2020-21	MePTCL Claim in Review Petition	Approved in the Review
Return on Equity	21.68	22.09	21.68
Interest & Finance Charges	4.81	4.81	4.81
O&M Expenses	45.11	77.59	45.11
Interest on Working Capital	2.39	3.83	2.39
Depreciation	21.42	27.40	21.42
SLDC Charges	1.33	1.33	1.33
<b>Total ARR</b>	<b>96.74</b>	<b>137.05</b>	<b>96.74</b>
Less: SLDC ARR	2.66	2.66	2.66
Less: Non-Tariff Income	36.92	36.92	36.92
<b>Net (ATC) ARR</b>	<b>57.16</b>	<b>97.47</b>	<b>57.16</b>
SUO MOTO True Up for FY 2013-14 & FY 2014-15 Gap	1.75	1.75	1.75
True up Gap (Surplus) for FY 2015-16	(5.72)	(5.72)	(5.72)
True Up Gap (Surplus) for FY 2016-17 Review Order	(0.74)	(0.74)	(0.74)
<b>Total ARR</b>	<b>52.45</b>	<b>92.76</b>	<b>52.45</b>

#### 4. Transmission Tariff for FY 2020-21

##### Licensee submission

Based on the request for change in ARR, the petitioner requests the Hon'ble Commission to revise the transmission tariff for FY 2020-21 as given below:

**Table 14: Transmission Tariff for FY 2020-21**

Sl.No	Particulars	FY 2020-21
1	Annual Transmission Charges (Rs. Lakhs)	9275.99
2	Total MW Allocation (MW)	368.00
3	Transmission Tariff (Rs./MW/Day)	6905.89
4	Energy Transfer (MU)	1207.20
<b>5</b>	<b>Transmission Tariff (Rs./Unit)</b>	<b>0.77</b>

Based on the above submission, MePTCL requests the Hon'ble Commission to pass an additional amount of Rs 40.31 Cr as claimed in this petition and approve the tariff as computed in the above table.

### Commission's Views

Commission does not consider any change in the approved ARR for FY 2020-21 dated 25.03.2020, the transmission tariff remains unchanged as detailed below.

**Table 15: Approved Transmission Tariff for FY 2020-21 in the Review Order.**

Sl.No	Particulars	Approved in Tariff Order Dt.25.3.2020	Claimed by MePTCL for Review	Approved in the Review Order
1	Annual Transmission Charges (Rs. Cr)	52.45	92.76	52.45
2	Total MW Allocation (MW)	368.00	368.00	368.00
3	Open Access Charges (Rs./MW/Day)	3905	6906	3905
4	Energy Transfer (MU)	1207.20	1207.20	1207.20
5	<b>Transmission Tariff (Rs./Unit)</b>	<b>0.43</b>	<b>0.77</b>	<b>0.43</b>

**Conclusion**

Commission considers that the ARR and tariff orders are passed in the absence of audited results up to FY 2018-19. The MePTCL has not filed the relevant true up petitions along with C&AG audit report before issue of Tariff Order for FY 2020-21.

However the estimates have been computed for determination of Tariff for FY 2020-21as per the Regulations based on the actual performance in the previous years.

Commission considers that there is no merit in the review petition claims and thus the same deserves to be set aside.

However, variations if any, after execution of the Tariff order for the FY 2020-21, shall be considered at the time of examining the True Up petitions and filing of audited accounts along with C&AG audit report as per Regulations.

**The Review petition hereby stands disposed of.**

**Member**

**Chairman**