

**MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION**

1<sup>st</sup> Floor (Front Block Left Wing), New Administrative Building  
Lower Lachumiere, Shillong – 793 001  
East Khasi Hills District, Meghalaya

Case No: 5/2021 **(Modified order)**

In the matter of Petition for Review of True up Orders for FY 2017-18.

**AND**

Meghalaya Power Distribution Corporation Limited (the Petitioner)

**Coram**

Shri. P.W. Ingty, IAS (Retd), Chairman

Shri. Roland Keishing, Member (Law)

**ORDER**

(Dated: 23.03.2021)

1. The MePDCL is a deemed Licensee in terms of Section 14 of the Electricity Act 2003 (Here in after referred as Act)
2. The Commission has passed the order dated 13.10.2020 for true up of business for FY 2017-18.
3. As per Regulation 22 of MSERC Regulation 2014 MePDCL has filed petition for Review of True up order for FY 2017-18.
4. Regulation 22.2 of MYT Regulation 2014 specifies that the Commission shall under take the review of True up of the business considering the terms & Conditions laid down there in.
5. Commission taking into consideration of all the facts and records, audited SOA and Prudence check as per the Regulations, passed review order for the FY 2017-18.
6. Commission notifies the licensee that the impact of review order if any shall be appropriated in the ARR of the ensuing year for determination of Tariff.

**Sd/-**

**Shri. Roland Keishing  
(Member)**

**Sd/-**

**Shri. P. W. Ingty, IAS (Retd.)  
(Chairman)**

## **Review Petition on True Up Order for FY 2017-18 dated 13.10.2020:**

### **1 Introduction**

#### **Petitioner's Submission**

- 1.1.** The present petition is being 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 for 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 of the face of the record.*

- 1.2.** 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.”*

- 1.3.** As such, the MSERC (Multi Year Tariff) Regulations 2014 provides for the petitioner or any other person aggrieved by an order of the Commission to file a review petition based on new facts and information, which was not considered during the time of issue of order or on account of apparent errors or mistakes. MePDCL, in this petition is requesting the 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.
- 1.4.** Further, as per the above clauses, the timeline specified by MSERC for submission of review petition is within 60 days of the date of the order of the Commission. MePDCL would like to submit that it is filing the review petition within the allowed timeline and as such, the Commission is requested to admit the same.

**Commission's Analysis:**

Commission considered that the licensee has filed petition for Review of True up orders for FY 2017-18 passed by the commission on 13.10.2020 as per the Regulation 22.1 (a) is within 60 days from the date of order.

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

Commission considers that the true up orders for FY 2017-18 dated 13.10.2020 were passed as per the Regulation 11.1 to 11.5 of the MYT Regulations 2014 considering the audited SOA, report of C&AG and admissible expenses have been allowed after prudence check.

Commission had notified in the True up orders that the capital works in progress reported vide note 2 of audited accounts reveal that Rs.109.78 Crore is capitalized.

The Licensee MePDCL was asked to submit the Project wise, scheme wise details of Capitalization claimed in the True up petition vide commission's letter dated 13.07.2020. Whereas MePDCL in its letter dated 06.08.2020 has submitted that due to the prevailing situation of lockdown, the information called for could not be submitted and requested that submission of the data be condoned.

In the Circumstances, it is constrained for computation of depreciation and other ARR elements to be allowed for True up of business for FY 2017-18.

The capitalization of assets reported at Rs.92.07 Crore vide Note 1 of the audited accounts shall not be considered for computation of depreciation in the absence of capitalization details of the works.

Commission considers without Prudence check of assets capitalized and put to use, the claim of addition of assets to capital base as projected by petitioner cannot be allowed.

The Licensee has now filed Review petition claiming capitalization of work-in-progress to an extent of Rs.91.92 Crore with asset wise break up vide Annexure E of the Review petition dated 10.12.2020 (filed on 14.12.2020).

The Capitalization has been classified in the following breakup.

<b>Particulars</b>	<b>In CR</b>
Land	0.81
Buildings	8.51
Plant and Machinery	13.93
Lines and Cable Network	68.42
Vehicles	0.07
Furniture Fixtures	0.08
Office Equipment	0.09
<b>Total</b>	<b>91.92</b>

Commission observed that Capitalization claimed in the Review petition does not match with the approved business plan, nor the schemes against which the capitalization projected are not in operation such as APDRP, RAPDRP, RGGVY and NEC etc., However the capitalization is considered taking into account the Govt. Grants and contributions for the FY 2017-18 as reported in the Audited Statement of Accounts for Review.

Thus the Gross block of the assets including the above addition is considered as depicted below as per the audited Statement of Accounts.

**Table 1: GFA for FY 2017-18**

(Rs.Cr)

<b>Particulars</b>	<b>Opening Bal</b>	<b>Additions</b>	<b>Retirements</b>	<b>Closing Bal</b>
Land	0.46	0.81	0.0005	1.27
Buildings	5.09	8.51	-	13.60
Plant and Equipment	37.88	13.93	-	51.81
Furniture and Fixtures	0.90	0.09	-	0.99
Vehicles	0.62	0.07	-	0.69
Office Equipment	1.70	0.09	-	1.79
Hydraulic works	0.09	-	-	0.09
Other Civil works	3.04	-	-	3.04
Lines and Cable Network	299.55	68.57	0.15	367.97
<b>Total</b>	<b>349.33</b>	<b>92.07</b>	<b>0.15</b>	<b>441.25</b>

Commission considers the GFA as computed above for consideration of the other ARR elements in the True up orders for Review as claimed by the petitioner.

## 2 Review of True Up of Business for FY 2017-18

### Petitioner's Submission

The grounds of review are provided below point wise against the respective components of ARR.

### 2.1 Power purchase cost

#### Petitioner's Submission

The Commission in its True Up order dated 13 October 2020, has considered Rs 675.31 as the total power purchase cost for MePDCL. The following are the observations of the Licensee on the methodology and calculations used by the Commission for Power Purchase Cost along with suitable explanations to justify the costs as claimed in true up:

#### a) Power Purchase Costs for NEEPCO

The Commission has admitted the costs of NEEPCO plants as Rs 148.40 Cr against the claim of Rs 179.67 Cr by MePDCL. Out of the disallowed costs, Rs 15.06 Cr, which is part of supplementary costs, has been deducted due to mismatch in invoices and assumption that the said bills belong to credit notes.

In this regard, the licensee would like to submit the invoices pertaining to Rs 15.06 Cr again for reference of MSERC (Annexure B). The summary of the bills and justification is given below:

**Table 2: Justification of Expenses Disallowed for NEEPCO**

Particulars	Amount (INR Cr)	Details of the Expenses	Additional Remarks
a) Payment Related to Energy Charge Shortfall against RHEP	10.12	Energy Charge Shortfall against RHEP allowed by CERC vide Petition No. 139/MP/2016 Dt 17-11-2017	RHEP Billing Recovery for FY 2012-13 & 2013-14
b) Payment related to Arrear bill of AGTCCP	4.44	Arrear Bill of AGTCCP allowed by CERC vide Petition No.94/GT/2016 Dt 14/07/2017	Recovery of Capacity charge of AGTCCP April 2014 to Sept 2017 as per Petition No.94/GT/2016 Dt 14/07/2017 along with Simple Interest on the recovery amount.
c) Payment related to Interest on the Arrear Bill	0.50	Interest Bill on the above Arrear Bill of AGTCCP at Sl. No 1 allowed by CERC vide Petition No.94/GT/2016 Dt 14/07/2017	
<b>Total</b>	<b>15.06</b>		

As stated in the bills and as shown above, these are not part of the credit notes and legitimate power purchase expenses born by MePDCL.

**b) Power Purchase Costs for OTPC**

The Commission has admitted the costs of OTPC plant as Rs 139.12 Cr against the claim of Rs 147.21 Cr by MePDCL. Out of the disallowed costs, Rs 6.54 Cr has been deducted as surcharge amount. However, the total surcharge amount pertaining to OTPC is 3.45 Cr as shown in the month wise surcharge break up below:

**Table 3: Month Wise Surcharge for OTPC for FY 2017-18**

Month	Surcharge Amount (In Cr)
Apr-17	0.36
May-17	0.24
Jun-17	0.29
Jul-17	0.36
Aug-17	0.69
Sep-17	0.28
Oct-17	0.20
Nov-17	0.00
Dec-17	0.35
Jan-18	0.19
Feb-18	0.23
Mar-18	0.28
<b>Total</b>	<b>3.45</b>

The surcharge invoices have been again attached as Annexure C. There has been excessive amount account of surcharge i.e 3.09 Cr (6.54 Cr surcharge approved – 3.45 Cr actual surcharge) deducted, thus undermining the OTPC power purchase costs.

**c) Power Purchase Costs for MePGCL**

The Commission has admitted the costs of MePGCL plants as Rs 344.05 Cr against the claim of Rs 354.43 Cr by MePDCL. The deduction has been on account of 1% rebate. However, it is important to note that the rebate amount pertaining to MePGCL is Rs 3.54 Cr (354.43 Cr \* 1%). Thus, the deduction of rebate amount of 10.38 Cr in the order (354.43 Cr power purchase – 344 Cr costs approved after rebate adjustment) is more than the actual amount of rebate, thus leading to undermining of MePGCL power purchase costs. The licensee requests the Commission to allow the excessive amount deducted i.e. 6.84 Cr (10.38 Cr of

rebate considered by MSERC – 3.54 Cr of actual rebate) to the power purchase costs in the review.

Based on the above submission, the revised power purchase costs for review is given below:

**Table 4 : Revised Power Purchase Costs Claim in Review (In Rs Cr)**

Particulars	Amount in INR Cr	Remarks
Power Purchase Costs Approved in the Order	675.31	As Approved in Order
Additional Claim of Power Purchase for NEEPCO	15.05	As stated in Pt a) above
Additional Claim of Power Purchase for OTPC	3.09	As stated in Pt b) above
Additional Claim of Power Purchase for MePGCL	6.84	As stated in Pt c) above
<b>Revised Claim of Power Purchase</b>	<b>700.29</b>	

The Commission is requested to allow an additional amount of Rs 24.98 Cr for Power Purchase Costs as shown in the table below:

**Table 5 : Additional Claim of Power Purchase Costs in Review (In Rs Cr)**

Sr. No.	Particulars	Amount in INR Cr.
1	Power Purchase Costs allowed by MSERC in the True Up order	675.31
2	Power Purchase Costs claimed by MePDCL in the review	700.29
3	Additional Power Purchase Costs to be allowed in the review petition (=2-1)	<b>24.98</b>

#### **Commission's Analysis:**

##### **a) Power Purchase Cost for NEEPCO**

The invoices raised by NEEPCO clearly indicates the "Credit to Meghalaya Energy Corporation Limited" which may be re-verified.

SI	Invoice No.	Rs.in Cr
1	ED(COMM)/MeECL/ARR/AGTCCP/2017-18/01	4.44
2	ED(COMM)/MeECL/ARR/INT/AGTCCP/2017-18/01	0.50
3	ED(COMM)/MeECL/RHEP/Shortfall/2017-18/01	10.12
	Total	15.06

**Commission considers the invoices as credit notes.**

##### **b) Power Purchase Cost for OTPC**

The Claim of the licensee as to the details of surcharge amounted to Rs.3.45 Crore and Rs.3.09 Crore represent interest claim included in the invoice no. OTPC/COMML/B-4/SuppBill/2017/01 dated 04.05.2017 is deducted from the Gross claim apart from Rs.1.54 Crore towards 1% rebate deducted from the purchase cost of OTPC for FY 2017-18.

**c) Power Purchase Cost for MePGCL**

The Licensee has submitted the Energy bills twice for the month November 2017 with the MePGCL Dispatch letter no.42 dated 15<sup>th</sup> December 2017 and Dispatch letter no.44 dated 3<sup>rd</sup> January 2018.

Commission has considered the invoices received with dispatch letter no.42 dated 15<sup>th</sup> December 2017 which is as per the schedule.

The Second time invoices sent vide dispatch letter no.44 dated 3<sup>rd</sup> January 2018 was treated as double claim and not considered.

On re-verification of the invoices sent for second time on 3<sup>rd</sup> January 2018, It is observed that the November 2017 invoices are corrected and actual claim has been revised to Rs.16.55 Crore with rebate, as against Rs.7.95 Crore was considered by the commission with rebate in the True up orders for FY 2017-18.

Similarly licensee has submitted invoices for October 2017 twice with the MePGCL dispatch letter no.43 dated 03<sup>rd</sup> January 2018 (Corrected) and for Second time Dispatch letter no.59 dated 30<sup>th</sup> April 2018 (Revised).

Commission has considered the Revised invoices received on 30<sup>th</sup> April 2018.

A revised statement of Power purchase bills of MePGCL is drawn and attached to this order including Supplementary bills, for Rs.352.65 Crore as annexed.

**Table 6 : Power Purchase Bills Claimed by MePGCL after allowing rebate for FY 2017-18**

Months	Umiam -I	Umiam -II	Umiam -III	Umiam IV	Umtru Power station	Sonapani Mini Power Station	MLHEP	NUHEP	Total
Apr-17	10989285	4690653	14670762	19308141	0	696763	166402549	0	<b>216758153</b>
May-17	11658285	5070018	14722448	19023674	0	784637	145645729	0	<b>196904791</b>
Jun-17	13334167	5895498	20334638	28237638	0	901955	222453798	0	<b>291157694</b>
Jul-17	19498899	8987333	23213534	35750840	0	1019642	239558570	92980764	<b>421009582</b>
Aug-17	27193120	12559248	23182678	48142515	0	973058	231257484	96730032	<b>440038135</b>
Sep-17	26028769	12067470	15881693	43982360	0	954860	219521443	102370419	<b>420807014</b>
Oct-17	22042397	10080946	22913592	40937141	-4222	1048056	189991461	105903031	<b>392912402</b>
Nov-17	16941543	7478860	22389701	29893604		1014829	107576001	88137038	<b>273431576</b>
Dec-17	16196714	7150868	20203776	27558010	0	892492	90444208	76022022	<b>238468090</b>
Jan-18	15657853	6692165	19256312	25286608	-4705	884105	87565617	67140335	<b>222478290</b>
Feb-18	15395605	6581206	18407538	23898584	-4047	781257	80224041	61405168	<b>206689352</b>
Mar-18	16185188	7011289	19370996	24971079	-4299	725772	80183556	57488590	<b>205932171</b>
									<b>3526587250</b>
Apr 17 to Sep 17 (Suppl . Bill)	0	0	0	0	-29460	0	0		<b>-29460</b>
Nov 17 & Dec 17 (Credit Bills)					-8300				<b>-8300</b>
<b>Total</b>	<b>211121825</b>	<b>94265554</b>	<b>234547668</b>	<b>366990194</b>	<b>-55033</b>	<b>10677426</b>	<b>1860824457</b>	<b>748177399</b>	<b>3526549490</b>

Commission considers MePGCL Power Purchase bills at Rs.352.65 Crore for Review of True up orders for FY 2017-18.

The Source wise Revised Power Purchase cost is approved for Review of True up for FY 2017-18 as depicted in the Table below:

**Table 7 : Source wise Power Purchase Cost Claimed and Admitted for True Up of  
FY 2017-18**

Source	Energy Drawn (MU)	Approved for True up	Claimed for Review (in Rs.Cr)	Considered for Review (in Rs.Cr)
NTPC	-	54.95	54.95	54.95
OTPC	390.83	139.12	142.21	139.12
NEEPCO	670.93	148.40	163.45	148.40
NHPC	-	-	-	-
MePGCL	1217.14	344.05	354.43	352.65
MPPL (Swapping)	84.51	0.97	0.97	0.97
MPL (Banking)	20.72	-	-	-
APPCL (Swapping)	102.87	1.35	1.35	1.35
PTCIL	-	0.18	0.32	0.18
Adunik Cement Swapping	19.99	-	-	-
Deviation Inter	9.16	1.12	2.52	1.12
Deviation Intra	4.60	-1.32	-1.32	-1.32
POSOCO	-	0.91	0.91	0.91
VAR Charges	-	-0.88	-0.88	-0.88
<b>TOTAL</b>	<b>2520.75</b>	<b>688.85</b>	<b>718.91</b>	<b>697.45</b>
<b>Wt. Avg Cost</b>		<b>2.73/Kwh</b>	<b>2.85 / Kwh</b>	<b>2.77/Kwh</b>

Commission considers power purchase cost at Rs.697.45 Crore for Review of True up order for FY 2017-18.

## 2.2 Employee Expenses

### Petitioner's Submission

The Commission in its True Up order has approved Employee Expenses at Rs. 96.12 Cr against the licensee's claim for Employee Expenses of Rs. 132.58 Cr for FY 2017-18. The disallowances of INR 36.46 Cr have been on the grounds that Terminal benefit liabilities of Holding Company of Rs.36.46 Crore shall be born out of the Trust fund.

In this regard, the licensee would like to submit that MeECL has not received the contribution from the State Government for the Corpus Fund, amounting to Rs 840 crore as on 31.03.2010, which would have been used to clear up the pension liabilities as agreed in Transfer Notification Scheme and to enable to maintain the

trust fund. In the absence of assistance from the State Government, there has been no subsequent yearly/monthly transfer to the trust fund which would have catered to the terminal benefit liabilities of MeECL. The terminal benefit liabilities will therefore be borne from its revenue from tariff based on the actual payment basis. As of today, the trust fund remains non-functional but remains only as the Drawing & Disbursing authority.

The month wise expenditure and receipt status of the fund for FY 2017-18 is given in Annexure D. As can be seen from the attached statements, the inflow/receipt amount (Under Position of Cash and Bank head) every month is purely based on the actual requisition of pension obligation for that month from the revenue receipts.

The year wise employee expenses claimed vis-a-vis approved for MePDCL in the last four true up orders is given below:

**Table 8 : Employee Expenses Claimed vis—vis Approved (In Rs Cr)**

<b>Particulars</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>	<b>FY 2016-17</b>	<b>FY 2017-18</b>
Employee Expenses Claimed in True Up Petition	108.15	124.18	136.35	132.58
Employee Expenses Approved in True Up Order	108.15	124.18	136.35	96.12

As seen in the above table, the present disallowances are contrary to approach of the Commission in past true up orders for FY 2014-15, 2015-16 and FY 2016-17 orders where the employee expenses have been approved as claimed including the total terminal liabilities paid on the actual basis. The licensee would like to submit again that the terminal liabilities obligations are legitimate expenses which are borne purely from its revenue from tariff and as per the actual outflows.

Based on the above submissions, the licensee would like to restate its claim of employee expense as claimed in the true up petitions and request the Commission to allow the INR 36.46 Cr expense which was disallowed in the true up order.

**Table 9 : Additional Employee Expenses Claimed in Review (In Rs Cr)**

<b>Sl. No</b>	<b>Particulars</b>	<b>Amount in Rs. Cr.</b>
1	Employee Expenses claimed by MePDCL in the True Up Petition	132.58
2	Employee Expenses claimed by MePDCL in the Review	132.58
3	Employee Expenses allowed by MSERC in the True Up order	96.12
4	Additional Employee Expenses to be allowed in the review petition (=2-3)	<b>36.46</b>

### **Commission's Analysis**

As already notified in the True up orders dated 13.10.2020, the Employee expenses reported through audited accounts vide note no.22 is Rs.96.04 Crore without apportionment of Employee benefit expenses from Holding company.

The MeECL employee cost as reported in the audited SOA vide note no.17 is Rs.12.23 Crore. 1/3<sup>rd</sup> of the above Employee cost shall be apportioned as per the existing arrangement.

The Terminal benefit liabilities of Holding Company of Rs.36.46 Crore shall be born out of the **Trust fund** constituted for the purpose in the reforms and restructuring process and hence not considered in the Review of True up for FY 2017-18.

**Commission considers no change in the Employee expense for Review of FY 2017-18.**

## 2.3 Interest and Finance Charges

### Petitioner's Submission

The Commission in its True Up order has approved Interest and Finance Charges at Rs. 8.64 Cr against the licensee's claim for Interest and Finance Charges of Rs. 73.81 Cr for FY 2017-18. The Commission has considered REC Restructured loans, PFC RAPDRP Part A and Part B loans for computation of interest on loan. However, the Commission has not considered the operational expenditure loans like vehicles loans, MTL-I & II loans drawn from REC for Power Purchase for interest charges calculations.

However, the Commission has also not taken into account the other finance charges, without providing any reason. These charges are actual charges which are incurred on account of financial transactions with banks and financial institutions like guarantee charges, loan raising charges, other transaction charges etc whose details as per the audited SoA (Note 23) is given below:

**Table 10 : Other Finance Charges (In Rs Cr)**

<b>Particulars</b>	<b>FY 2017-18</b>
Other banking and guarantee charges	<b>1.81</b>

The Commission has also not taken into account interest and finance charges of MeECL as per the MeECL audited accounts (Note 18) i.e the apportioned portion (amount of Rs 8.66 Cr) in calculation of total interest and finance charges of MePDCL. This is contrary to its approach in the present true up order where it has considered the apportioned portion of MeECL expenses in calculation of components like depreciation, employee expenses, R&M among others. Based on the above submissions, net interest and finance charges claimed by the licensee in the review is Rs 19.11 Cr as given in the table below:

**Table 11 : Interest and Finance Charges Claimed in Review (In Rs Cr)**

<b>Particulars</b>	<b>FY 2016-17</b>
Interest on Loan (as Approved by MSERC)	8.64
Other banking and guarantee charges of MePDCL	1.81
MeECL Interest Charges Apportioned	8.66
<b>Total Interest and Finance Charges</b>	<b>19.11</b>

The Commission is requested to allow an additional amount of Rs 10.47 Cr for Interest and Finance charge as shown in the table below:

**Table 12 : Additional Interest & Finance Charges Claimed in Review (In Rs Cr)**

<b>Sr. No.</b>	<b>Particulars</b>	<b>Amount in INR Cr.</b>
1	Interest and Finance Charges allowed by MSERC in the True Up order	8.46
2	Interest and Finance Charges claimed by MePDCL in the review	19.11
3	Additional Interest and Finance Charges to be allowed in the review petition (=2-1)	<b>10.47</b>

### **Commission's Analysis**

As already notified in the True up orders, no fresh loans were drawn for capital works as per the Note 10 of the audited accounts as such bank charges claimed for review shall not be admissible. The Licensee has not filed any new and additional information in support of the claim.

**Commission had approved the interest on outstanding loans as per the Regulations, the interest and finance charges allowed in the True up orders does not require any change in the review orders.**

## **2.4 Non Tariff and Other Income**

### **Petitioner's Submission**

The Commission in its True Up order has approved Non-Tariff & Other Income at Rs. 40.25 Cr for FY 2017-18. The Commission has inadvertently considered Rs 14.42 Cr as apportioned other income from MeECL. However, the total other income as MeECL audited accounts is Rs 29.69 Cr (Note 15 of MeECL accounts) and thus the other income of MeECL apportioned in MePDCL should be Rs 9.90 Cr (Rs 29.69/3). This has led to overstatement of other income for the licensee by an amount of Rs 4.35 Cr.

Based on the above submission, the Commission is requested to review the Non-tariff & Other income amount, as shown in the table below:

**Table 13 : Additional Non-Tariff Income & Other Income Claimed in Review**

<b>Sr. No</b>	<b>Particulars</b>	<b>Amount in Rs Cr.</b>
1	Non-tariff & Other Income allowed by MSERC in the True Up Order	40.25
2	Non-tariff & Other Income claimed by MePDCL in the Review petition (Considering MeECL income apportioned as Rs 9.90 Cr instead of Rs 14.42 Cr)	35.90
3	<b>Non-tariff &amp; Other Income to be allowed in the review petition (=2-1)</b>	<b>(4.35) *</b>

\* Negative Amount Implies the surplus of non-tariff income shall adjusted from the Net ARR (i.e higher non- tariff income was allowed in the order due to the inadvertent error)

### **Commission's Analysis**

The Other Income reported vide note 15 of audited SOA of MeECL specifies the other income received on behalf of MePDCL at Rs.13.12 Crore out of the Rs.25.80 Crore received on behalf of subsidiary companies.

1/3<sup>rd</sup> of the other income out of the Rs.29.70 Crore to be apportioned to all 3 subsidiaries shall be Rs.3.90 Crore was considered in the True up (29.70-25.80=3.90).

The Non Tariff and Other Income as reported in the MePDCL Statement of Accounts vide note no.17 & 19 amounted to Rs.25.83 Crore. Thus the Non Tariff and Other income put together amounts to Rs.40.25 Crore has been considered for True up.

**Commission considers no change in the Non Tariff and Other income for Review of True up for FY 2017-18.**

## **2.5 Depreciation**

### **Petitioner's Submission**

The Commission in its True Up order has considered Rs 5.90 Cr as depreciation for MePDCL. The following are the observations of the Licensee on the methodology and calculations used by the Commission for depreciation along with suitable explanations to justify the revised claims of depreciation by the licensee.

- a) The Commission has not considered the capitalization of FY 2017-18 amounting to INR 92.07 Cr as given in the audited statement of accounts. In this regard, as requested by the Commission, the details of capitalization for FY 2017-18 is given

in Annexure E. The licensee requests the Commission to allow the asset addition of 92.70 Cr in the calculation of depreciation.

- b) The effect of amortization of grants (INR 4.83 Cr as per Note 17 of the accounts) has already been taken into account by the Commission in the approved “other income” head in the order. Table 31 of the order has “Other Income of MePDCL as per Note no.19 of Audited Accounts” head amounting to 8.29 Cr, the same includes amortization head which has been approved by the Commission. The amortization pertains to the depreciation on grants. Thus, considering the depreciation on grants again in the calculation of depreciation (i.e. reducing the net GFA by grants amount) will lead to double accounting and undermine the ARR.
- c) 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 Commission has inadvertently calculated depreciation rate on 90 % of the average assets instead of whole 100% of the asset, thereby undermining the depreciation amount.
- d) In fact, inspite of asset addition for FY 2017-18 i.e 92.07 Cr, the depreciation amount approved for FY 2017- 18 is substantially lower than amount approved for FY 2016-17 true up which amounted to 10.15 Cr. This is because of the inadvertent error in the calculations adopted by the Commission.

Based on the above submission, the depreciation claim as per the methodology adopted by the Commission is given below:

**Table 14 : Revised Depreciation Claim as per MSERC's Methodology (In Rs Cr)**

Sl.	Particulars	Amount in INR Cr
1	Opening GFA (Excl Land cost) as on 31.03.2017 ^	348.87
2	Addition during the year (Excl Land cost) ^	91.26
3	Retirements during the year	0.15
4	Closing GFA as on 31.03.2018	439.98
5	Average GFA	394.42
6	Avg. Depreciation Rate*	4.98%
7	Total Depreciation	19.63
8	Apportionment of MeECL 1/3 <sup>rd</sup> Depr.	0.19
	<b>Total Depreciation</b>	<b>19.82</b>

\* Average Depreciation Rate is 4.98% as per FY 2017-18 audited accounts (depreciation of 19.67 Cr and average asset base of 394.42 Cr)

^ Total Asset Base as per Audited Accounts – Asset Value of Land as per Accounts

The Commission is requested to allow an additional amount of Rs 13.92 Cr depreciation charge as shown in the table below:

**Table 15 : Additional Depreciation Claim in Review (INR Cr)**

Sr. No.	Particulars	Amount in INR Cr.
1	Depreciation allowed by MSERC in the True Up order	5.90
2	Depreciation Charges claimed by MePDCL in the review	19.82
3	Additional Depreciation Charges to be allowed in the review petition (=2-1)	<b>13.92</b>

### **Commission's Analysis**

The Licensee has now filed Review petition claiming capitalization of work-in-progress to an extent of Rs.91.92 Crore with asset wise break up vide Annexure E of the Review petition dated 10.12.2020 (filed on 14.12.2020).

Commission observed that Capitalization claimed in the Review petition does not match with the approved business plan FY 2015-16 to FY 2017-18, nor the schemes against which the capitalization projected are in operation such as APDRP, RAPDRP, RGGVY and NEC etc., However the capitalization is considered taking into account the Govt. Grants and contributions for the FY 2017-18 as reported in the Audited Statement of Accounts for Review.

Thus the Gross block of the assets including the above addition is considered for depreciation as depicted below for Review of True up for FY 2017-18.

**Table 16 : Computation of Depreciation**

Particulars	Opening Bal	Additions	Retirements	Closing Bal	Avg.	90%	Dep
Land	0.46	0.81	0.0005	1.27	-		
Buildings	5.08	8.51	-	13.59	9.33	8.40	0.28
Plant and Equipment	37.88	13.93	-	51.81	44.84	40.36	2.13
Furniture and Fixtures	0.90	0.08	-	0.98	0.94	0.85	0.05
Vehicles	0.61	0.07	-	0.68	0.64	0.58	0.06
Office Equipment	1.69	0.09	-	1.78	1.73	1.56	0.10
Hydraulic works	0.08	-	-	0.08	0.08	0.07	0.003
Other Civil works	3.04	-	-	3.04	3.04	2.74	0.09
Lines and Cable Network	299.55	68.56	0.15	367.96	333.75	300.38	15.86
<b>Total</b>	<b>349.33</b>	<b>92.07</b>	<b>0.15</b>	<b>441.25</b>	<b>395.29</b>	<b>355.76</b>	<b>18.57</b>
<b>Dep %</b>							<b>5.22%</b>
Grants and Contributions						199.91	
Dep on Grants							10.44
<b>Net Depreciation</b>							<b>8.13</b>
<b>Add: 1/3<sup>rd</sup> MeECL</b>							<b>0.19</b>
<b>Total Depreciation</b>							<b>8.32</b>

**Commission considers Depreciation at Rs.8.32 crore for Review of True up orders for FY 2017-18.**

## 2.6 Return on Equity

### Petitioner's Submission

The Commission in its True Up order has considered Rs 6.96 Cr as return on equity for MePDCL. The following are the observations of the Licensee on the methodology and calculations used by the Commission for return on equity calculations along with suitable explanations to justify the revised claims of RoE by the licensee.

- a) As stated in the depreciation section above, the average asset base needs to be revised, which will in turn impact the RoE calculations. (Point a of Section 2.5 depreciation)
- b) The Commission has reduced the asset base by grants amount of Rs 183.60 Cr as per Note 9.5.1 and 11 of the audited accounts. However, the Commission has inadvertently not considered the fact that the grant appearing in books of accounts can be a part of either gross fixed asset or capital works in progress. Considering the whole of grants to be part of gross fixed asset is not apt. This methodology has led to undermining the net asset base and in turn return of equity.
- c) Moreover, the grants in note 9.5.1 amounting to 32.61 Cr which has been considered by Commission for net grants calculation, is equity pending allotment which is part of (Note 9 of accounts). Thus, the same amount of Rs 32.61 Cr cannot be considered a part of grants.

The grant amount in Note 11 can be either part of CWIP or GFA. The grant portion belonging to asset has been proportionately derived below:

**Table 17 : Grant Portion Belonging to GFA of MePDCL**

Particulars	Amount in Cr	Reference
a. Total CWIP as on 31.03.2019	654.28	Note 2 of MePDCL Account
b. Total GFA as on 31.03.2019	441.25	Note 1 of MePDCL Account
c. Total Grants as on 31.03.2019	242.91	Note 11 of MePDCL Account
d. Grant Part Belonging to Asset	97.84	$d = c * b / (b+c)$

The grant portion of the asset has been used in the table below to arrive at the revised return on equity claim. The revised claim of return on equity is shown in the table below:

**Table 18 : Revised Return on Equity Claim as per MSERC's Methodology (In Rs Cr)**

Sl.	Particulars	Amount in INR Cr
1	Opening GFA as on 31.03.2017	349.34
2	Addition during the year	92.07
3	Retirements during the year	0.15
4	Closing GFA as on 31.03.2018	441.26
5	Average GFA	395.30
6	Grant Portion of Asset	97.84
7	Net GFA excluding Grant	297.46
8	Equity Base (30% of Asset)	89.24
9	<b>ROE at 14%</b>	<b>12.49</b>

However, the Licensee would like to submit that the issue of Return on Equity (methodology of MeECL & its subsidiaries versus methodology of MSERC: APTEL Case no 46 of 2016) is still under subjudice. The licensee has also challenged the methodology in the review petition of true up FY 2016-17 whose order is still awaited from the Commission. In case of a favourable order to the Licensee with respect to the methodology adopted for return on equity, the Licensee will reclaim/adjust the additional claim of return on equity in the subsequent tariff petitions. At present, the petitioner, in this instant petition, have claimed return based on the methodology adopted by the Commission in its past orders to avoid ambiguities in figures/calculation.

The Commission is requested to allow an additional amount of Rs 5.53 Cr for Return on Equity as shown in the table below:

**Table 19 : Additional Return on Equity Claim in Review (In Rs Cr)**

Sr. No.	Particulars	Amount in INR Cr.
1	Return on Equity allowed by MSERC in the True Up order	6.96
2	Return on Equity Charges claimed by MePDCL in the review	12.49
3	Additional Return on Equity Charges to be allowed in the review petition (=2-1)	<b>5.53</b>

## Commission's Analysis

As already notified in the True up orders, the Govt Grants and contributions shall be deducted from the capital cost as per the Regulations for Computation of Return on Equity.

The Licensee has filed Capitalisation details in the Review petition for allowance of the Revised Return on Equity for FY 2017-18.

Accordingly Commission considers Review of Return on Equity admissible as depicted in the table below

**Table 20 : Computation of Return on Equity for FY 2017-18 (Review)**

Sl.	Particulars	Amount in INR Cr
1	Opening GFA as on 31.03.2017	349.34
2	Addition during the year	92.07
3	Retirements during the year	0.15
4	Closing GFA as on 31.03.2018	441.26
5	Average GFA	395.30
6	<b>Less:</b> Grant Available for FY 2017-18 (Note.9.5.1&11 of SOA)	199.91
7	Net GFA excluding Grant	195.39
8	Equity Base (30% of Sl.no.7)	58.62
9	<b>ROE at 14%</b>	<b>8.21</b>

**Commission considers Return on Equity at Rs.8.21 Crore for Review of True up orders for FY 2017-18.**

## 2.7 Interest on Working Capital

### Petitioner's 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. Since the components of IWC has been revised in the review petition, the IWC shall also change based on its revised components.

**Table 21 : Interest on Working Capital Based on Revised Components (In Rs Cr)**

Sl.No	Particulars	MePDCL
1	O&M Expenses for one (1) month	12.98
2	Maintenance Spares at 1% of Opening GFA escalated at 6% *	4.19
3	Receivables equivalent to two (2) months **	140.51
4	Working Capital requirement	157.68
5	Interest Rate (%) (SBI PLR as on 01.04.2017)	13.85%
6	Interest on Working Capital at 13.85%	21.84

\* Average Asset Base of 395.30 Cr (as stated in table 14 in Section 2.6) \* 1% \*1.06

\*\* Net ARR of 843. 06 Cr as stated in Table 18 (Net ARR in MePDCL Claim in Review) in section 3.

Based on the above submissions, the petitioner now humbly requests Commission to allow additional amount of INR 3.25 Cr. for Interest on Working Capital as shown in the table below:

**Table 22 : Additional Claim for Interest on Working Capital ibn Review (INR Cr)**

Sr. No.	Particulars	Amount in INR Cr.
1	Interest on Working Capital allowed by MSERC	18.59
2	Interest on Working Capital claimed by Licensee as per the Review	21.84
3	<b>Additional Interest on Working Capital to be allowed in the review petition (=2-1)</b>	<b>3.25</b>

### Commission's Analysis

As already analyzed in true up orders, the interest on working capital is computed as per Regulation 34.3 of MSERC Regulations 2014 as detailed below.

**Table 23 : Computation of Interest on Working Capital (In Rs Cr)**

Sl.No	Particulars	MePDCL
1	O&M Expenses for one (1) month Excl. MeECL cost	9.60
2	Maintenance Spares at 1% of Opening GFA escalated at 6%	3.70
3	Receivables equivalent to two (2) months	105.24
4	Working Capital requirement	118.54
5	Interest Rate (%) (SBI PLR as on 01.04.2017)	13.85%
6	Interest on Working Capital at 13.85%	16.42

**Commission considers working capital at Rs.16.42 Crore for Review of True up for FY 2017-18.**

### 3 Revised ARR & Net Additional Claim in Review for True up for FY 2017-18

#### Petitioner's Submission

Based on the above submissions, the revised AR Rand additional amount claimed for MePDCL in this review is given below:

**Table 24 : Revised ARR and Additional Amount Claimed in Review for FY 2017-18**

(Rs. in cr)

Particulars	Approved for True Up	MePDCL Claim in Review	Additional Gap to be Passed
Power Purchase Cost	675.31	700.29	24.98
Transmission Charges (PGCIL)	63.24	63.24	
Transmission Charges (MePTCL)	69.57	69.57	
Employee Expenses	96.12	132.58	36.46
Repair & Maintenance Expenses	10.08	10.08	
Administration & General Expenses (Including Bad Debt)	13.14	13.14	
Depreciation	5.9	19.82	13.92
Interest and Finance Charges	8.64	19.11	10.47
Interest on Working Capital	18.59	21.84	3.25
Prior Period Charges /(Credits)	-0.9	-0.90	
Return on Equity	6.96	12.49	5.53
<b>Total Expenses</b>	<b>966.65</b>	<b>1061.27</b>	<b>94.62</b>
Less: Non-Tariff Income & Other income	40.25	35.90	-4.35
Less: Sale of Surplus Power including Cross Subsidy Surcharge	182.31	182.31	
<b>Net ARR</b>	<b>744.09</b>	<b>843.06</b>	<b>98.97</b>
Less: Revenue from Sale of Power	632.04	632.04	
<b>Net Gap / (Surplus)</b>	<b>112.05</b>	<b>211.02</b>	<b>98.97</b>

Based on the above submission, MePDCL requests the Commission to approve an additional amount of 98.97 Cr as claimed, over and above the INR 112.05 Cr gap approved in the true up order dated 13 Oct 2020. The same shall be recovered in the tariff of FY 2021-22.

### Commission's Analysis

Commission had considered the claims of the licensee filed with reference to the audited accounts and capitalization details, the expenses have been allowed as admissible with reference to the Regulations after prudence check for the Review of true up for FY 2017-18.

The Approved ARR after review is as depicted in the table below.

**Table 25 : Approved ARR for FY 2017-18 (Review)**

(Rs. in cr)

Particulars	Approved for True Up	MePDCL Claim in Review	Now Approved for Review
Power Purchase Cost	675.31	700.29	697.45
Transmission Charges (PGCIL)	63.24	63.24	63.24
Transmission Charges (MePTCL)	69.57	69.57	69.57
Employee Expenses	96.12	132.58	96.12
Repair & Maintenance Expenses	10.08	10.08	10.08
Administration & General Expenses (Including BadDebt)	13.14	13.14	13.14
Depreciation	5.9	19.82	8.32
Interest and Finance Charges	8.64	19.11	8.64
Interest on Working Capital	18.59	21.84	16.42
Prior Period Charges /(Credits)	-0.9	-0.90	-0.90
Return on Equity	6.96	12.49	8.21
<b>Total Expenses</b>	<b>966.65</b>	<b>1061.27</b>	<b>990.29</b>
<b>Less: Non-Tariff Income &amp; Other income</b>	<b>40.25</b>	<b>35.90</b>	<b>40.25</b>
<b>Less: Sale of Surplus Power including Cross Subsidy Surcharge</b>	<b>182.31</b>	<b>182.31</b>	<b>182.31</b>
<b>Net ARR</b>	<b>744.09</b>	<b>843.06</b>	<b>767.63</b>
<b>Less: Revenue from Sale of Power Incl. Assam and Mizoram</b>	<b>632.04</b>	<b>632.04</b>	<b>632.04</b>
<b>Net Gap / (Surplus)</b>	<b>112.05</b>	<b>211.02</b>	<b>135.69</b>
<b>Less: Revenue Gap allowed in True up</b>			<b>112.05</b>
<b>Revenue Gap in the Review for FY 2017-18</b>			<b>23.64</b>

Commission approves Revenue Gap of Rs.23.64 Crore in the Review of True up orders for FY 2017-18 and this Revenue Gap shall be appropriated in the ARR for FY 2021-22.

**The Review petition stands disposed off.**

Sd/-  
Member  
MSERC

Sd/-  
Chairman  
MSERC