MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION

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

Case No: 2/2019

In the matter of Petition for Review of True up Orders for FY 2016-17.

AND

Meghalaya Power Generation Corporation Limited (the Petitioner)

Coram

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

Shri. Roland Keishing, Member(Law)

ORDER

(Dated: 31 .03 .2021)

1. The MePGCL is a deemed Licensee in terms of Sec' 14 of the Electricity Act 2003 (Here in after referred as Act)
2. The Commission has passed the order dated 18.11.2019 for true up of ARR of FY 2016-17, the second year of MYT control period for FY 2015-16 to FY 2017-18.
3. As per Regulation 22 of MSERC Regulation 2014, MePGCL has filed petition for Review of True up order for FY 2016-17.
4. In exercise of functions vested in MSERC (here in after referred as the Commission) the MYT Regulation 2014, Commission issues this review order for the FY 2016-17.
5. Regulation 22 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.
6. Commission taking into consideration of all the facts, audited SOA and Prudence check as per the Regulations, passed review order for the FY 2016-17.
7. 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/-	**Sd/-**
Shri. Roland Keishing	**Shri. P.W. Ingty, IAS (Retd.)**
(Member)	**(Chairman).**

Review:

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 and MSERC (Conduct of Business) Regulations 2007, provide 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/were not considered during the time of issue of order or on account of apparent errors or mistakes. MePGCL, 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, as detailed in subsequent sections. At the outset, MePGCL would like to submit that for FY 2016-17, the Commission while truing up FY 2016-17 in the impugned order, has drastically reduced the ARR of FY 2016-17 from the actual figures submitted by MePGCL as per audited accounts and for some elements even reduced the approved figures from the approved figures of previous years (i.e. FY 2015-16), without giving due justification for the same. As such, MePGCL humbly prays before the Commission to kindly review the impugned order and consider the submissions made by MePGCL in this review petition.

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**.** MePGCL 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 considers that the licensee has filed petition for Review of True up orders for FY 2016-17 passed by the commission on 18.11.2019 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 there is no need to review the tariff as claimed by the licensee for the true up orders of FY 2016-17 dated 18.11.2019.

Commission considers that the true up orders for FY 2016-17 dated 18.11.2019 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 finds that there are no new and important facts disclosed in the review petition, which necessitates the commission to relook into the claims of the licensee, since, the true up orders for FY 2016-17 are compiled and admissible expenses as per the Regulations were considered with reference to the audited accounts.

However commission would like to analyse the claims of the licensee with reference to the Regulations and audited accounts.

2 Review of True Up of MePGCL for FY 2016-17

2.1 Separate Petitions for Generating Stations

Petitioner's Submission

Clause 41.2 of the Regulations states that

"Tariff in respect of a Generating Station under these Regulations may be determined Stage-wise, Unit-wise or for the whole Generating Station. The terms and conditions for determination of tariff for Generating Stations specified in this Part shall apply in like manner to Stages or Units, as the case may be, as to Generating Stations"

As per the recent tariff orders as well as the applicable regulations, MePGCL needs to file separate petitions for the different generating plants or stations. In accordance with the directives of the Commission and MSERC Tariff Regulations 2014, MePGCL had filed separately true up gap claims for

1) Old plants (including Sonapani)
2) Myntdu-Leshka Power plant.

Due to unavailability of segregated accounts for old plants (including Sonapani), MePGCL filed a combined petition for all the old plants (including Sonapani) in accordance with the accepted precedent of filing as followed in the past.

However, in the present impugned order, the Commission has passed a combined true up order for the Old plants and Myntdu- Leshka, not segregating the approved figures for all components clearly for old plants and Myntdu- Leshka. This has resulted in erroneous calculation of some of the ARR components and resulted in drastic reduction of ARR as mentioned earlier and detailed in subsequent paragraphs. Further, this appears to be a deviation from the existing regulations and past practices, which require filing of separate ARR petitions/costs for different power stations and hence does not reflect the performance of individual stations. Hence, MePGCL requests the Commission to kindly review and pass separate true up gaps for MLHEP and Old Power Stations (including Sonapani), in line with previous orders of the Commission. This will be in compliance with the regulations and give better clarity of true gaps for each cost head not only for the utility but to the other stakeholders as well.

Commission's Analysis:

Regulation 4.2 (c) of MYT Regulations 2014 Specifies that – "*Truing up of previous year's expenses and revenue based on Audited Accounts vis-à-vis the approved forecast and categorization of variation in performance as those caused by factors within the control of the applicant (controllable factors) and those caused by factors beyond the control of the applicant (uncontrollable factors), shall be undertaken by the Commission:*

Provided that once the Commission notifies the Regulations for submission of Regulatory Accounts, the applications for tariff determination and truing up shall be based on the Regulatory Accounts."

The Licensee was also advised vide directive no.5 of Tariff order for FY 2017-18 – *The Licensee is directed to maintain Assets records, since all the old plants have served their life and allowing RoE and Depreciation on those assets would results in excess recovery of costs and tariffs. The assets records shall be duly audited as per the Regulations and ensure to delete the value from the asset base in the books for the purpose of calculation of RoE and Depreciation.*

The Licensee has been pleading that due to unavailability of segregated accounts of old plants (including Sonapani), MePGCL filed a combined petition for all the old plants (including Sonapani) in accordance with the accepted precedent of filing as followed in the past.

The Licensee shall adopt the capital cost of the MePGCL old projects assets including the sonapani approved in the Tariff orders for FY 2013-14 and also MLHEP assets adopted in the approved capital cost and provisional ARR for MYT for FY 2015-16 to FY 2017-18. Commission had also adopted the same in the true up orders for FY

2015-16 and FY 2016-17. This will facilitate the licensee and the commission to determine the ARR and Tariff orders for all the subsequent orders.

2.2 Gross Fixed Assets and Capital Cost

2.2.1 Old Plants (Including Sonapani)

Petitioner's Submission

In the True Up order for FY 2016-17, the Commission has considered assets of only Umiam Stage-4 and Sonapani for considering asset base of old plants at INR 49.39 Cr (as mentioned in page 12 of the true up order). The Commission has taken reference of Tariff Order FY 2013-14 for the same. This cost of Rs 49.39 in tariff order of FY 2013-14 was taken on a provisional basis based on the DPR cost (as mentioned in "Table – 9 Depreciation" Page number- 76 of MePGCL Tariff Order for FY 2013-14 dated 30.03.2014). However, the actual project cost of Umiam Stage IV and Sonapani is much higher than the DPR cost. Thus, using the same DPR cost of Rs 49.39 Cr as value of old plants asset for FY 2016-17 appears not to be logical and seems to be an inadvertent error on the part of the Commission.

As most of the old plants of MePGCL have already crossed their useful life, regular R&M activities are undertaken to increase their useful life. This further adds to capitalisation and value of asset base which needs to be recovered through depreciation, RoE, interest cost, etc. In this context, it is important to note that the Commission in its Tariff Order for MePGCL for FY 2014-15 dated 10.04.2014, has considered R&M cost of Umiam Stage-I and II ("Table: Depreciation" Page number 65), for capital cost calculation of the old plants (including Sonapani).

In fact, the Commission in its Tariff order for MePGCL for FY 2015-16 dated 30.03.2015 (Table- 8, page-64 of the order), has considered the average GFA at INR 391.24 Crore as on 31.03.2015. Considering this and subsequent capitalisation due to R&M works for old plants, opening asset value for old plants of Rs 416.96 Cr (a – b in the Table 1 below) is justified.

As such, MePGCL requests the Commission to kindly review the asset base figures and consider actual asset base as per "Note 1: Property, Plant and Equipment" of the audited Statement of Accounts of MePGCL for FY 2016-17. The petitioner also requests the Commission to reconsider the asset base including addition of 1/3rd of GFA of MeECL as per the table below for further calculations.

Table 1 : Gross Fixed Asset of MePGCL Old Plants (Including Sonapani)

(in INR Cr.)

Particulars	FY 2016-17 (Audited)			
	MePGCL as a whole (a)	MLHEP (b)	MeECL (c)	MePGCL old plants (including Sonapani) (d=a-b+c/3)
Opening GFA	1696.15	1,279.19	34.62	428.50
Additions during the year	16.08	-	0.12	16.12
Retirements during the year	0.11	0.10	0.18	0.07
Closing GFA	**1712.13**	**1,279.09**	**34.56**	**444.56**
Average GFA	**1,704.14**	**1,279.14**	**34.59**	**436.53**

As can be observed from the table above, the average asset base for old plants (including Sonapani) is INR 436.53 Cr as per audited Statement of Accounts (SoA). But, as the Commission has approved just INR 49.39 Cr. as the asset base of old plants, **this has led to significant under recovery of various components of ARR such as RoE, depreciation, O&M.**

Commission's Analysis

The Licensee has pointed out the commission's decision on depreciation and return on equity based on the capital cost of Umiam stage IV and Sonapani projects at Rs.49.39 Crores in the absence of the audited SOA for FY 2013-14 and FY 2014-15.

It is unfortunate to point out that the licensee is still has not been able to present the true value of Gross fixed assets of MePGCL old projects including sonapani, after the commission did not allow the depreciation and ROE on the old projects whose useful life has been completed and project cost of the Umiam stage IV and Sonapani only was considered for depreciation and ROE for ARR of FY 2013-14 and FY 2014-15.

Commission had considered the true up of the business for FY 2013-14 and FY 2014-15 on provisional basis in the absence of audited accounts, wherein the licensee has projected the opening GFA at Rs.1545.28 Crores as on 01.04.2013 which includes reportedly Rs.1286.53 Crores of the capital cost of MLHEP (3x42 MW). The opening GFA of MePGCL Old projects including sonapani approved in the transfer scheme dated 29.04.2015 was at Rs.303.80 Crores.

Commission had not considered the opening GFA of Rs.1545.28 Crores in the true up exercise for FY 2013-14 since the capital cost of the MLHEP (3x42 MW) project was not approved and the licensee was directed to submit audited accounts up to FY 2015-16. But the licensee had not filed the breakup of the GFA of old projects and MLHEP duly audited for the true up of FY 2014-15.

There was inconsistency in the GFA, commission had considered true up of the business for FY 2014-15 as was considered for the FY 2013-14 taking into account the GFA of old projects including Soanapani at Rs.49.39 Crores and the depreciation and ROE was considered on the above GFA on provisional basis in the absence of breakup of the project cost for Uniam stage IV and sonapani with audited accounts and C&AG certificate.

Even after approval of the capital cost of the MLHEP on 30.03.2017 for Rs.1134.28 Crores, the licensee has been filing the petitions claiming the combined GFA for old projects and MLHEP without segregating project wise capital cost of Umiam stage IV and Sonapani.

The Licensee has filed true up petitions for FY 2015-16 and FY 2016-17 in which addition of assets was shown at Rs.14.49 Crores and Rs.16.08 Crores and retirement of assets for Rs.9.32 Crores and Rs.0.11 Crores respectively. But the licensee has not shown against which projects the addition and retirement of assets claimed in the true up petitions. Even capitalization of the R&M of Umiam Stage I & II if any was not disclosed which the commission had considered for depreciation in the ARR and Tariff order for FY 2014-15.

The Licensee in the present review petition for FY 2016-17 also did not show the approved gross fixed assets in the FY 2015-16 and FY 2016-17 but has been maintaining the initially quoted GFA in the petitions which is not consistent with the audited accounts and commission’s approvals.

The MeECL is not a business centre, the GFA (OCFA) were not employed in generating the revenue for MeECL and no liability towards ROE, Depreciation or interest is payable by the MeECL, the GFA shall not be considered for determination of Generation Tariff.

In the circumstances the licensee may not be entitled for the claims projected in the review petition logically with the inconsistent and un-approved data.

The licensee shall time to time follow the observations of the commission through its ARR and true up orders and shall file legitimate claims if any with the supporting data as required for compliance with the Regulations.

2.3 Operation and Maintenance

2.3.1 MLHEP

Petitioner's Submission

The Commission has approved the O&M cost for MLHEP for FY 2016-17 by escalating the O&M cost as approved by it in the true up order for FY 2015-16 at 5.72%. The methodology is in line with Clause 56.7 of MSERC (Multi Year Tariff) Regulations 2014.

The Commission has allowed O&M Expenses of INR 26.81 Cr. as inferred from the true up order, as presented in the table below:

Table 2 : O&M Expenses for MLHEP as inferred from the true up order

(INR Cr.)

Particulars	Amount
Project Cost FY 2013-14 (Actual) (Table: Gross Fixed Asset Details, Page No. 64, MePGCL True-up Order FY 2013-14, dated 30.03.2017)	**1,141.83**
Cost of Infirm Energy	**7.55**
Project cost excluding Infirm Energy	**1134.28**
O&M Expenses for FY 2013-14 (2% of Project Cost)	22.69
O&M Expenses for FY 2014-15 (5.72% escalation over previous Year)	23.98
O&M Expenses for FY 2015-16 (5.72% escalation over previous Year)	25.36
O&M Expenses for FY 2016-17 (5.72% escalation over previous Year)	**26.81**

Thus, the Commission has used the capital cost of INR 1134.28 Cr in the calculation of O&M expenses for MLHEP for FY 2016-17. This is in contrast to the actual capital cost of MLHEP (Leshka) at INR 1286.74 Cr (including infirm energy cost of Rs 7.55 Cr) as certified by the Auditor. Infact, the same audited cost of Rs 1286.74 Cr has been considered by the Commission in this true up order for FY 2016-17 while calculating the total asset base of MePGCL (Table 13, page -13).

Thus, by considering the capital cost of Rs 1134.28 Cr and O&M cost of FY 2015-16 for calculation of O&M expenses for FY 2016-17, it has led to under recovery of O&M cost for MLHEP for FY 2016-17.

MePGCL has arrived at project cost of MLHEP (Leshka) at INR 1279.19 by excluding the Infirm Energy cost of INR 7.55 Cr. Thus, the O&M Expenses for MLHEP in FY 2016-17 as per Clause 56.7 of MSERC (Multi Year Tariff) Regulations 2014 as filed in the true up petition is given below:

Table 3 : O&M Expenses for MLHEP

(INR Cr.)

Particulars	Amount
Project Cost	**1279.19**
O&M Expenses for FY 2013-14 (2% of Project Cost)	25.58
O&M Expenses for FY 2014-15 (5.72% escalation over previous Year)	27.05
O&M Expenses for FY 2015-16 (5.72% escalation over previous Year)	28.59
O&M Expenses for FY 2016-17 (5.72% escalation over previous Year)	**30.23**

Hence the additional claim for O&M of MLHEP in review is given below:

Table 4 : Additional O&M Claim of MePGCL (MLHEP) in Review

(INR Cr.)

Particulars	FY 2016-17
MePGCL's Claim of O&M for MLHEP in the true up petition	30.23
Approved O&M for MLHEP by MSERC (The O&M cost for MLHEP for FY 2015-16 has been fixed at INR 25.36 Cr. This has been escalated at 5.72% to calculate O&M Cost for FY2016-17)	26.81
Gap to be passed in the review petition	**3.42**

The company, as per the section above, is reiterating its claim of **INR 30.23 Cr.** as O&M cost for MLHEP.

Commission's Analysis

Regulation 52.1 specifies that – *"The actual capital expenditure on the date of commercial operation in the case of new investment shall be subject to prudence check by the commission."*

The Licensee had filed petition for approval of capital cost as on the date of COD ie., 01.04.2013 at Rs.1141.83 Crores. Accordingly commission had approved capital cost at Rs.1141.83 Crores.

Regulation 61.1 specifies that - *"Supply of infirm power shall be accounted as Unscheduled Interchange (UI) and paid for from the regional or State UI pool account at the applicable frequency-linked UI rate:*

Provided that any revenue earned by the generating company from sale of infirm power after accounting for the fuel expenses shall be ***applied for reduction in capital cost.****"*

Licensee has submitted that the infirm energy during the trial run has been valued at Rs.7.55 Crore as certified by SLDC.

Commission had considered the capital cost of the project at (Rs.1141.83-7.55) = Rs.1134.28 Crores as per the Regulation 61.1.

Regulation 56.7 specifies that - "*In case of hydro generating stations declared under commercial operation on or after 01/04/2009, O&M expenses shall be fixed at 2% of the original project cost (excluding cost of rehabilitation and resettlement works) and shall be subject to annual escalation at 5.72% for the subsequent years.*"

Commission had fixed the O&M expenses on the approved capital cost of Rs.1134.28 Crores as on the date of COD ie., 01.04.2013 and escalated at the rate of 5.72% year on year for subsequent years.

The O&M expenses admitted for true up for FY 2016-17 are in line with the Regulations.

2.3.2 Old Plants (Including Sonapani)

a) Sonapani

Petitioner's Submission

The Commission approved the project cost for Sonapani at INR 10.60 Cr. **(Table 9 of MePGCL Tariff order for FY 2013-14 dated 30.03.2014).** As Sonapani achieved its COD in October 2009, its O&M has been calculated as per Clause 56.7 of MSERC (Multi Year Tariff) Regulations 2014, which is applicable only for the projects which have achieved their COD post 01.04.2009. The relevant extract of the regulation has been reproduced below:

"56 Operation and maintenance expenses

56.7 In case of hydro generating stations declared under commercial operation on or after 01/04/2009, O&M expenses shall be fixed at 2% of the original project cost (excluding cost of rehabilitation and resettlement works) and shall be subject to annual escalation at 5.72% for the subsequent years."

The details of O&M cost for Sonapani for FY 2016-17 is presented in the table below:

Table 5 : O&M Expenses for Sonapani for FY 2016-17

(INR Cr.)

Particulars	**Amount**
Project Cost FY 2009-10 (Actual)	**10.60**
O&M Expenses for FY 2009-10 (2% of Project Cost)	0.21
O&M Expenses for FY 2010-11 (5.72% escalation over previous Year)	0.22
O&M Expenses for FY 2011-12 (5.72% escalation over previous Year)	0.24
O&M Expenses for FY 2012-13 (5.72% escalation over previous Year)	0.25
O&M Expenses for FY 2013-14 (5.72% escalation over previous Year)	0.26
O&M Expenses for FY 2014-15 (5.72% escalation over previous Year)	0.28
O&M Expenses for FY 2015-16 (5.72% escalation over previous Year)	0.30
O&M Expenses for FY 2016-17 (5.72% escalation over previous Year)	**0.31**

Commission's Analysis

Commission had considered the capital cost of the Sonapani SHP at Rs.10.60 Crores and 2% of O&M expenses fixed at Rs.0.21 Crore and escalated at 5.72% year on year for subsequent years as per the Regulation 56.7.

The O&M expenses allowed for FY 2016-17 true up is in line with the Regulation.

b) Other Old Plants

Petitioner's Submission

It appears that the Commission has adopted an erroneous approach in calculating the O&M cost for old plants (excluding Sonapani) for FY 2016-17 by escalating the O&M cost for old plants as approved in the true up order for FY 2015-16 at 5.72%; instead of considering the actual value of the O&M components such as Employee Cost, R&M Expenses, and A&G Expenses, as per the audited SoA for MePGCL for FY 2016-17.

Moreover, the approved O&M cost for old plants for FY 2015-16 (at INR 25.51 Cr.), was significantly lower than the O&M Expenses approved for old plants in true up order for FY 2014-15 (INR 52.27 Cr). It is important to note that a review petition against the approved O&M cost for FY 2015-16 had already been filed by the MePGCL, the order on which is pending. As mentioned above, this error in calculation of O&M cost for old plants has started as the Commission has not segregated the ARR components for old plants and MLHEP since FY 2015-16 true up order , while segregation was done in orders prior to FY 2015-16 true up order.

The Commission also has not considered the Net O&M Expenses as per the audited statement of accounts.

The Commission in its recent orders has adopted the new approach of **considering 2% of project cost, with year-on-year escalation clause for O&M cost calculation for old plants**, instead of considering the actual O&M expense as per Statement of Accounts. But, as mentioned in the previous section, as per Clause 56.7 of MSERC (Multi Year Tariff) Regulations 2014, this is applicable only for the projects which have achieved their CoD post 01.04.2009. Hence, this approach of calculating O&M cost is not applicable for old plants since it is not in line with the Regulations.

O&M expense for old plants accounts for O&M activities undertaken across all the old generation plants. Thus, the consideration of assets of only Umiam Stage-IV (among all old plants) for O&M cost calculation of old plants is incorrect and has led to significant under recovery of the O&M cost of old plants.

The Commission has also approved INR 5.04 Cr. as the apportioned share of O&M Expenses of MeECL, towards O&M expense calculation in line with claim of the Utility

The sum of O&M Expenses for MePGCL as a whole, Myntdu-Leshka, Sonapani and apportionment of MeECL expenses in order to arrive at O&M expenses for old plants as per the audited statement of accounts is given below:

Table 6: O&M Cost of MePGCL (Old Plants including Sonapani)

(INR Cr.)

<table>
<tr><th rowspan="2">Particulars</th><th>For MePGCL</th><th>For Myntdu-Leshka</th><th>For Sonapani</th><th>For Old Plants Only</th><th>For MeECL</th><th>Total Claim for Old Plants & Sonapani (including MeCEL apportioned)</th></tr>
<tr><th>(a)</th><th>(b)</th><th>(c)</th><th>(d)=a-b-c</th><th>(e)</th><th>(c+d+e/3)</th></tr>
<tr><td>Employee Cost</td><td>77.11</td><td rowspan="4">30.23</td><td rowspan="4">0.31</td><td rowspan="4">59.78</td><td>12.63</td><td rowspan="4">65.12</td></tr>
<tr><td>R&M Expenses</td><td>8.64</td><td>0.44</td></tr>
<tr><td>A&G Expenses</td><td>4.57</td><td>2.04</td></tr>
<tr><td>Total</td><td>90.32 *</td><td>15.11*</td></tr>
</table>

*As per audited accounts FY 2016-17

The increase in employee expense by more than 17% between FY 2015-16 and FY 2016-17 as per audited accounts can be attributed to the implementation of Revision of Pay of 2015. A similar increase for the transmission and distribution companies has been approved by the Commission.

Hence, MePGCL prays before the Commission to kindly allow the additional claim for O&M Expenses for old plants including Sonapani as given in the table below:

Table 7: Additional O&M Claim of MePGCL in Review (Old Plants including Sonapani)

(INR Cr.)

Particulars	FY 2016-17
MePGCL's Claim of O&M for old plants (including Sonapani) in the true up petition	65.12
Approved O&M for old plants (including Sonapani) by MSERC in true up order	32.01
Gap to be passed in the review petition	**33.11**

Commission's Analysis

The Licensee shall refer to Regulation 55 of Regulations 2011 read with 56(4) and 56(5) of MYT Regulations 2014 as per which the O&M expenses shall be considered for determination of Generation Tariff.

Commission had approved the O&M expenses for FY 2013-14 (Tariff order pg no.77) which includes O&M Cost of old plants (except Sonapani) Leshka and Lakroh at Rs.43.93 Crore, Considering the O&M expenses for sonapani SHP at Rs.0.27 Crore, commission approved O&M expenses for ARR for FY 2013-14 at Rs.44.20 Crore.

Commission had considered O&M expenses for FY 2014-15 at Rs.52 Crore. Commission held that the O&M expenses for FY 2014-15 shall not be more than Rs.47 Crore, even if the escalation of O&M expenses over the FY 2013-14 (Rs.44 Crore) considered at 7%, but had allowed Rs.52 Crore which includes other projects like MLHEP (Page no.66 & 67 of Tariff Order for FY 2014-15).

Commission had computed the O&M expenses based on the actual incurred for FY 2008-09 and escalated at 5.72% for FY 2009-10 at Rs.25.16 Crore as per the Regulation 56.3, and 50% in the O&M expenses has been increased on account of pay revision to arrive at the permissible O&M expenses for FY 2009-10 as per Regulation 56.4 of MYT Regulations 2014. Commission had escalated the O&M expenses at 5.72% year on year per annum and arrived at the O&M expenses for FY 2016-17 at Rs.53.46 Crore for old projects excluding sonapani SHP. The O&M expenses for Sanapani has been arrived on the same analogy at Rs.0.32 Crore for FY 2016-17 in the MYT ARR for FY 2015-16 to FY 2017-18.

It may be seen that the O&M expenses considered for FY 2013-14 & FY 2014-15 were more than the admissible expenses as per the Regulations.

Commission had considered the O&M expenses in the provisional true up in respect of old projects including sonapani for FY 2013-14 and FY 2014-15 at Rs.52.54 Crore and Rs.52.27 Crore respectively. But the Licensee has not filed petitions till now seeking final true up after the C&AG certificate was obtained for FY 2013-14 and FY 2014-15.

In the mean while the licensee has filed the petition for approval of the capital cost of the MLHEP, and sought for true up of the business for FY 2013-14 and FY 2014-15. Commission had approved the capital cost for MLHEP and O&M expenses have been approved at Rs.22.69 Crore for FY 2013-14 considering the capital cost of the MLHEP at Rs.1134.28 Crore excluding infirm power cost. The O&M expenses approved for FY 2013-14 has been escalated at 5.72% year on year and arrived at Rs.26.81 Crore for the FY 2016-17. Commission had trued down the performance of MLHEP and arrived at a gap of Rs.163 Crore for FY 2013-14 and FY 2014-15, out of which Rs.81.50 Crore (50%) has been adjusted in the ARR of MePDCL for FY 2018-19.

Commission would consider adjustment of the balance gap of Rs.81.50 Crore excluding the surplus amount of Rs.46.21 Crore arrived out of the SUO-MOTO true up of old projects including sonapani in the ARR for FY 2020-21.

Table 8: Comparison of the O&M expenses admissible as per Regulations and actual approved in the true up

(Rs.Cr)

Particulars	O&M expenses admissible as per Regulations	Approved in the True up orders	Excess O&M Expenses allowed
FY 2013-14			
Old Projects (incl. Sonapani) and leshka	**45.52**	**75.23**	**29.71**
Leshka Project	22.69	22.69	-
For Old Projects	22.83	52.54	29.71
FY 2014-15			
Old Projects (incl. Sonapani) and leshka	**48.12**	**76.26**	**28.14**
Leshka Project	23.99	23.99	-
For Old Projects	24.13	52.27	28.14
Grand Total			

Therefore the O&M expenses considered in the provisional true up exercise for FY 2013-14 and FY 2014-15 against the old projects and sonapani had resulted in more than the admissible O&M expenses which includes O&M expenses for MLHEP.

Since the Licensee had not filed petition for final true up of the business against the old projects for FY 2013-14 and FY 2014-15, commission considers the final true up shall be done SUO-MOTO as per the Regulations and excess O&M expenses than admissible as per Regulations shall be adjusted in the tariff orders to be issued.

2.4 Depreciation

Petitioner's Submission

MePGCL has used the asset- wise breakup as per the audited accounts and their corresponding rates for computation of depreciation. The grants capitalization as on 31st March 2017 has been used for amortization of grants. The methodology used is in line with the MSERC Regulations.

The Commission has approved INR 40.88 Cr. for depreciation in true up order. The methodology used by the Commission for depreciation computation is not in line with MSERC (Multi Year Tariff) Regulations, 2014. Moreover, there are errors in calculation as well as in the methodology used by the Commission, which are submitted below:

1) Commission has considered the depreciation of MeECL (for apportioned portion) as per the asset wise depreciation in the audited accounts (Table 13 of order, page-13) but has adopted the methodology of using average rate of depreciation at 4.15%. The methodology of using average depreciation rate on asset base is not in line with the regulations and not required when the asset wise break up is available. Further, the rationale or basis of using 4.15% as the average rate of depreciation is not explained. It is important to note that most of the assets in the generation business are in the category of plant and machinery which has a depreciation rate of 5.28%. As such, the actual depreciation rate as per audited accounts is 4.71%.

2) The whole of grant amount has been a part of GFA and the same has been subtracted while calculating the Net GFA, without considering the fact that grants can also be a part of Capital Works In Progress (CWIP). Moreover, the

grants appearing at **note 9.5** which have been considered by Commission for depreciation calculation have been converted to equity and under equity pending allotment head (Note 9 of accounts). Thus, the same amount of Rs 13.99 Cr cannot be considered a part of grants.

3) The Commission has rejected the claim of the company for total asset value as per "Note 1: Property, Plant and Equipment" of Statement of Accounts (SoA) of MePGCL for FY 2016-17 at INR 1712.13 Cr. as on 31st March 2017. It has considered only the DPR cost of Umiam Stage-4 and Sonapani, for considering the asset base of old plants at INR 49.39 Cr. The Commission has considered the asset base of MLHEP (Leshka) as certified by the Auditor at INR 1286.74 Cr. It also has considered grants to further reduce the asset base of MePGCL.

The grants of MePGCL assets are against survey & investigation of new projects and old plants only and not against Leshka. However, the Commission has considered the total asset base of Rs 1336.13 Cr (old plants assets at Rs 49.39 Cr) and grant amount of Rs 208.92 Cr. **This implies major portion of grant belongs to MLHEP as per the calculation of the Commission (Table 13).** This seems to be an error on the part of the Commission.

In this context, it is important to refer to the Commission's Order for Approval of Capital Cost for Myntdu Leshka Hydel Electric Project (MLHEP) dated 30.03.2017, in which the Commission itself has approved the funding of Leshka as 70:30 in debts and equity and as such, there is no grant against Leshka.

4) Depreciation has been calculated by applying the depreciation rates on 100% of GFA, while the claim is made up to 90% of the asset, leaving 10% as salvage value. However, the depreciation computed by the Commission is on 90% of asset.

5) The effect of amortization of grants (INR 12.28 Cr as per Note 17 of the accounts) has already been taken into account by the utility in the component "other income" in the petition and also approved by the Commission in "Non-tariff and other income" head (Table 20:Non-Tariff income and other income head of the order). Considering it again in the calculation of depreciation (i.e reducing the net GFA by grants amount) will lead to double accounting and undermine the ARR.

Moreover, if the methodology adopted by the Commission is adopted to calculate the depreciation cost of MLHEP (Leshka) for FY 2016-17, excluding grant component, the depreciation cost is estimated to be INR 46.88 Cr., which is more than the total depreciation cost approved by the Commission for the entire asset base of MePGCL.

Table 9: Estimation of Depreciation Cost of MLHEP (Leshka) As Per the Commission's Approach

Sr. No.	Particulars	FY 2016-17
1.	Opening GFA 31.03.2016 (INR Cr.)	1279.19
2.	Additions duringFY2016-17 (INR Cr.)	0
3.	Withdrawals during FY 16-17 (INR Cr.)	0.1
4.	Closing GFA 31.03.2017 (INR Cr.)	1279.09
5.	Land Value of INR 23.90 Cr. (INR Cr.) (Table 13 of the order)	23.90
6.	Average GFA (Excl. Land Value) (INR Cr.)	1255.24
7.	90% of the Average Assets (INR Cr.)	1129.72
8.	Average rate of Depreciation as computed for FY 2015-16 (%)	4.15%
9.	**Depreciation for FY2016-17 (INR Cr.)**	**46.88**

On account of the incorrect methodology and flaws inherent in it and based on the asset value requested to be considered above, MePGCL prays before the Commission to kindly allow the depreciation as claimed in true up petition.

Table 10: Additional Depreciation Claim of MePGCL in Review

(INR Cr.)

Particulars	FY 2016-17
MePGCL's Claim of Depreciation for old Plants (1)	19.01
MePGCL's Claim of Depreciation for MLHEP (2)	61.47
MePGCL's Net Claim of Depreciation in True Up Petition (3=1+2)	80.48
Depreciation approved by MSERC in the true up order (4)	40.88
Gap to be passed in the review petition (3-4)	**39.60**

Hence MePGCL requests the Commission to kindly pass an additional amount **INR 39.60 Cr**. for depreciation.

Commission's Analysis:

As per Regulation 33.1 (c), "*the salvage value of the assets shall be considered at 10% and depreciation allowed up to maximum of 90% of the capital cost of the asset at the rates indicated by the CERC vide annexure to CERC Regulations 2009 and depreciation shall be chargeable on prorate basis for the assets added for part of the year. Consumer contribution or capital subsidy/ grant etc shall be excluded from the asset value for the purpose of depreciation as per Regulation 33.1 (a).*"

Regulation 33 specifies that *Consumer contribution or capital subsidy/ grant etc shall be excluded from the asset value for the purpose of depreciation as per Regulation 33.1 (a).*

It is mandatory that the Licensee shall maintain Regulatory accounts and submit to the commission along with petition for determination of tariff and for True up as per the Regulation 4.2 (c) of MYT Regulations 2014.

1. The average rate of Depreciation is arrived at based on the depreciation computed at the rates notified by the CERC on average 90% of the asset value as per the Regulation 33.1 (c). The difference in percentage rate of Average depreciation was on account of the nature of asset and quantity held.
2. The claim of the licensee that, part of the grants can be capital works in progress, the deduction of whole of the grant from the depreciable GFA, seems to be an inadvertent error by the commission, is not maintainable.

   Regulation 33 specifies that *Consumer contribution or capital subsidy/ grant etc shall be excluded from the asset value for the purpose of depreciation as per Regulation 33.1 (a).*

   Note 9.5 of SOA disclose the grants towards cost of capital assets for implementation of new hydel projects under NEC and NLCPR schemes for Rs.13.99 Crore, the deduction of the capital grants from the asset value is in line with the Regulation.
3. The Licensee shall refer to the GFA approved in the true up orders for FY 2015-16 where in the commission had considered the GFA at Rs.49.39 Crore against old projects and Rs.1283.97 Crore against MLHEP. The same closing balance has been considered for opening balance of FY 2016-17 which is in line with the Regulations.

   The Capital grants/subsidies as reported in audited accounts vide note no. 9.5 & 11 at Rs.208.92 Crore has been deducted from the GFA of MePGCL as a whole and the computation is in line with the Regulations.

   The assumption of the Licensee that there are no grants against the Leshka project need not be taken to record. Commission considers the capital grant/subsidy as reported through the audited SOA shall be taken into account to arrive at the debt equity ratio as per the Regulations.

4. Table no.10 of the True up for FY 2016-17 speaks the methodology adopted by the commission. However 1/3rd share of MeECL depreciation at Rs.0.21 Crore was inadvertently allowed, is now being withdrawn, and net depreciation for true up shall be considered at Rs.40.67 Crore as against Rs.40.88 Crore.
5. The note no.23 of SOA does not disclose the extent of amortization grant utilized to meet the depreciation expense. Licensee has reported the amortization grant at Rs.12.28 Crore in the note no.17 of SOA is considered as other income, while grants and subsidies has been considered net of amortization grant.

   Commission does not consider change in the computation of the depreciation for true up, except the withdrawal of MeECL share of depreciation for Rs.0.21 Crore.

2.5 Interest and Finance charges

2.5.1 Old Plants (Including Sonapani)

Petitioner's Submission

The Commission in its True Up order for FY 2016-17 has approved Interest and Finance Charges at INR 48.03 Cr. The Commission has only considered interest on loans applicable for MLHEP works but has reduced the interest by interest on grants. There is no grant contribution in Leshka asset, it has been entirely funded by debt and equity contribution, as already explained in the above paragraphs. The Commission in its Order for Approval of Capital Cost for Myntdu Leshka Hydel Electric Project (MLHEP) dated 30.03.2017 has approved the capital cost of MLHEP, which mentions that the project has been funded by 70% debt and 30% equity. Grant contribution is against old assets. Thus, subtracting the same from Leshka has led to under recovery of Interest on Loan. The details of loan for MLHEP as per SoA "Note 10 - Financial Liabilities (Borrowings)" is mentioned below:

Table 11: MLHEP Loan Details

MLHEP Loans	As on 01st April 2016 (INR Cr.)	As on 31st March 2017 (INR Cr.)	Interest Rate (%)	Interest (INR Cr.)
BSE Power Bonds-I (1)	120.0	120.0	9.95%	11.94
BSE Power Bonds-II (2)	50.0	50.0	11.40%	5.7o
Term Loan from Federal Bank (3)	20.5	13.4	11.98%	2.03
Term Loan from Central Bank of India (4)	41.9	33.6	11.35%	4.29
Term Loan from PFC (5)	205.3	189.2	13.25%	26.14
Loan from REC (6)	240.4	208.8	11.07%	24.86
Total (7=1+2+3+4+5+6)	**678.1**	**614.9**		**74.95**

The Repayment amounts, Opening and Closing balance of loans mentioned in the impugned order are not matching with the loans statements provided by audited accounts. The closing balance of loans has been erroneously calculated as INR 564.94 Cr instead of INR 614.9 Cr. as mentioned in the table above, and as per the audited accounts (Note 10 - Financial Liabilities (Borrowings) of SoA)

The Commission has inadvertently not considered the state government interest amount without giving any reason for the same. Details of the State Government Loans which were submitted along with True Up petition is being attached as **Annexure -B** for reference.

Table 12: MePGCL State Govt. Loan Details *

(INR Cr.)

MLHEP Loans	As on 1st April 2016 (INR Cr.)	As on 31st March 2017 (INR Cr.)	Interest Rate (%)	Interest Accrued (INR Cr.)
Loans from State Govt.	123.22	125.96	9.35%	**11.65**

***Details of Opening and Closing Balance is as per Note 10 of the audited accounts**

Further, the Commission has not considered other finance charges, without providing any reason. These 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. the details of which, as per the audited SoA ("Note 22 - Finance Costs"), are given below:

Table 13: Other Finance Charges

(INR Cr.)

Particulars	FY 2016-17
Cost of raising finance	0.001
Other banking and guarantee charges	3.102
Total Other Finance Charges	**3.103**

The Commission also has not considered interest and finance charges of MeECL, i.e- the apportioned portion (amount of INR 3.47 Cr. as per Note 19 of MeECL accounts) in calculation of total interest and finance charges of MePGCL. Based on the above submissions, net interest and finance charges claimed by the licensee in the review is INR 93.17 Cr. as given in the table below:

Table 14: Interest and Finance Charges (IFC) Claimed in Review

(INR Cr.)

Particulars	**FY 2016-17**
Interest on MLHEP Loans (1)	74.95
Interest on State Govt. Loans	11.65
Other Finance Charges	3.10
MeECL Interest Charges Apportioned	3.47
Total Interest and Finance Charges for MePGCL (2)	**93.17**
Interest and Finance Charges for Old Plants including Sonapani (2-1)	**18.22**

The Commission is requested to allow an additional amount of INR 45.14 Cr. for Interest and Finance charge as shown in the table below:

Table 15: Additional IFC Claim of MePGCL Based on Revised Components

(INR Cr.)

Particulars	**Amount**
Interest and Finance Charges claimed by MePGCL in the True Up petition (1)	98.97
Interest and Finance Charges allowed by MSERC in the True Up order (2)	48.03
Interest and Finance Charges claimed by MePGCL in the review (3)	93.17
Additional Interest and Finance Charges to be allowed in the review petition (4=3-2)	**45.14**

Commission's Analysis

Regulation 32.1-*Interest and finance charges on loan capital shall be computed on the outstanding loans, duly taking into account the schedule of loan repayment, terms and conditions of loan agreements, bond or debenture and the lending rate specified therein*.

Provided that the outstanding loan capital shall be adjusted to make it consistent with the loan amount determined in accordance with regulation 27.

32.2 - The interest and finance charges attributable to capital work in progress shall be excluded.
Provided that neither penal interest nor overdue interest shall be allowed for computation of tariff.

Regulation 28.10-*The following shall be excluded or removed from the capital cost of the existing and new project:*

(a) The assets forming part of the project, but not in use;

(b) De capitalisation of Asset;

(c) In case of hydro generating station any expenditure incurred or committed to be incurred by a project developer for getting the project site allotted by the State government by following a two stage transparent process of bidding; and

(d) the proportionate cost of land which is being used for generating power from generating station based on renewable energy:

Provided that any grant received from the Central or State Government or any statutory body or authority for the execution of the project which does not carry any liability of repayment shall be excluded from the capital cost for the purpose of computation of interest on loan, Return on equity and depreciation.

Commission had adopted the closing balance of loans for FY 2015-16 approved in the true up as opening balance for FY 2016-17 and interest has been computed at the rates shown in the note no.10 of SOA.

Interest on capital loan shall be admissible for determination of tariff, the Purpose of state govt. and MeECL (holding company) loans was not shown in the note no.10 of SOA, commission does not consider interest on those loans.

The Licensee has been claiming interest against funding of OECF and JBIC schemes for renovation and modernization of Umiam Stage I&II. Commission has been allowing the interest on these loans from the FY 2011-12 to FY 2014-15 (in the provisional true up for FY 2013-14 & FY 2014-15). The terms of repayment for Umiam stage I was from 25.02.2007 and the repayment for Umiam Stage II shall be commenced from 31.03.2014 as stated in the audited accounts for FY 2011-12. Licensee has not been showing the repayment against these loans in the audited SOA.

Commission held that the renovation and modernization has been carried out with the additional central assistance scheme as submitted in the audited SOA for FY 2015-16. Therefore commission does not consider interest on the state govt. loan availed for renovation and modernization of Umiam stage I&II

Commission had in the Tariff order for FY 2016-17 considered loan capital at Rs.8.95 Crore and interest has been allowed at Rs.1.13 Crore for ARR FY 2016-17. The proposal of the capex projected by the licensee does not disclose any investment towards renovation and modernization against umiam stage I&II.

The licensee has not borrowed any new loan for capital investment approved by the commission, the cost of raising finance and other banking guarantee charges shall not be considered.

Commission considers that licensee has not capitalized any investment under this renovation and modernization schemes of umiam stage I&II so far, it is needless to consider interest cost for the borrowed money left un-utilized.

MeECL (the holding company) is not a business centre dealing with the Revenue generating activities, the interest claim of MeECL shall not be considered for determination of Tariff of MePGCL.

The interest and finance charges already approved for true up is in line with the Regulations, commission does not consider review of the interest cost for FY 2016-17.

2.6 Return on Equity

Petitioner's Submission

The Commission has approved INR 47.68 Cr. for RoE in true up order. The methodology used by the Commission for RoE computation is not in line with MSERC (Multi Year Tariff) Regulations, 2014. The errors in the methodology used by the Commission are submitted below:

1) The Commission's approach of considering return on equity as 14% of 30% of average GFA for the fiscal year is not in line with regulations.

2) The whole of grant amount has been considered to be a part of GFA and subtracted while calculating the Net GFA without considering that grants can also be a part of Capital Works In Progress (CWIP)

3) The Commission has considered asset of Stage IV HEP and Sonapani as capital cost for all old plants and further considered grants of INR 208.92 Cr., which has been used to calculate the net asset value for RoE calculation. This implies that

rest of the grants is part of MLHEP Capital Cost which is incorrect, as highlighted in Section 2.4. In its Order for Approval of Capital Cost for Myntdu Leshka Hydel Electric Project (MLHEP) dated 30.03.2017, **the Commission has approved the capital cost of MLHEP with Equity Component at Rs.334.87 crore (Table-5, page-68 of Order dated 30.03.2017 For Approval of Capital Cost of MLHEP)** and has also mentioned that the project has been funded by 70% debt and 30% equity (page-67 of the Order)

4) The Commission in its calculation has not considered the assets of MeCEL (apportioned portion) in calculation of total asset base for Return on Equity calculations and thus understating the return on equity.

The issue of Return on Equity (methodology of MeECL & its subsidiaries vs methodology of MSERC: APTEL Case no 46 of 2016) is still subjudice. The corporation is reiterating the fact that the approved value of the Commission for Return on Equity is not in line with the Regulations. For the sake of brevity, MePGCL is not reiterating the grounds and the justification for the claim here since the matter is still subjudice.

Hence, based on the above, the additional claim of MePGCL for review in line with the claim in the true up petition is given below:

Table 16: Additional RoE Claim of MePGCL in Review

(INR Cr.)

Particulars	**FY 2016-17**
MePGCL's Claim of Return on Equity for Old Plants (1)	56.85
MePGCL's Claim of Return on Equity for MLHEP (2)	53.72
MePGCL's Net Claim of Return on Equity in True Up Petition (3=1+2)	**110.57**
Approved Return on Equity by MSERC for old plants and MLHEP (4)	47.68
Gap to be passed in the review petition (3-4)	**62.89**

Commission's Analysis

Regulation 31.1 - *Return on equity shall be computed on the equity base determined in accordance with regulation 27 and shall not exceed 14%.*

Provided that in case of generation & transmission projects commissioned after notification of these regulations, an additional return of 0.5 % shall be allowed if such projects are completed within the time line as specified in CERC Tariff Regulations.

Provided that in case of generation & transmission projects commissioned after the notification of these regulations an additional return of 1.5 % shall be allowed if such projects are completed within the original sanctioned project cost without any time and cost overrun whatsoever.

Provided that equity invested in a foreign currency may be allowed a return up to the prescribed limit in the same currency and the payment on this account shall be made in Indian Rupees based on the exchange rate prevailing on the due date of billing.

- *The premium received while issuing share capital shall be treated as a part of equity provided the same is utilized for meeting capital expenditure.*
- *Internal resources created out of free reserves and utilized for meeting capital expenditure shall also be treated as a part of equity.*

Regulation 28.10-*The following shall be excluded or removed from the capital cost of the existing and new project:*

(a) The assets forming part of the project, but not in use;

(b) De capitalisation of Asset;

(c) In case of hydro generating station any expenditure incurred or committed to be incurred by a project developer for getting the project site allotted by the State government by following a two stage transparent process of bidding; and

(d) The proportionate cost of land which is being used for generating power from generating station based on renewable energy:

Provided that any grant received from the Central or State Government or any statutory body or authority for the execution of the project which does not carry any liability of repayment shall be excluded from the capital cost for the purpose of computation of interest on loan, Return on equity and depreciation.

1. The dates of infusion of assets during the FY 2016-17 are not made available, the computation of Return on equity has been considered on the average assets (GFA) for the true up, which is in line with the Regulations.
2. It shall be mandatory to follow the Regulation 31 read with regulation 27 to arrive at the debt equity ratio. Commission had computed the debt equity ratio considering the capital grants and subsidies available with the licensee,

and return on equity considered for true up which is in line with the Regulations.

3. Commission had computed the capital cost of MePGCL as a whole which included the old projects and MLHEP for consideration of Return on equity, net after the grants for true up which is in line with the Regulations.
4. Commission considers that MeECL (the holding company) is not a business centre dealing with the Revenue generating activities, the return on equity on MeECL assets shall not be considered for determination of Tariff of MePGCL.

The Licensee has submitted that, the issue of Return on equity (methodology of MeECL & its subsidiaries vs methodology of MSERC: APTEL Case no.46 of 2016) is still subjudice. Commission does not consider review of ROE for true up of FY 2016-17.

Commission does not consider any change in Return on equity for review, the claim of additional ROE is not considered.

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:

2.7.1 MLHEP

Table 17: IWC Claim of MePGCL (MLHEP)

(INR Cr.)

Sl. No	Particulars	FY 2016-17
1	O&M Expenses for one (1) month (INR 30.23 Cr./12) (a)	2.52
2	Maintenance Spares at 15% of O&M expenses escalated at 6% (b)	4.53
3	Receivables equivalent to two (2) months Net AFC (c)	37.78
4	Working Capital requirement (d=a+b+c)	44.83
5	Interest at 14.05% (e=d*14.5%)	**6.30**

2.7.2 Old Plants (Including Sonapani)

Table 18: Revised IWC Claim of MePGCL (Old Plants including Sonapani)

(INR Cr.)

Sl. No	Particulars	FY 2016-17
1	O&M Expenses for one (1) month (INR 65.12 Cr./12) (a)	5.43
2	Maintenance Spares at 15% of O&M expenses escalated at 6% (b)	9.77
3	Receivables equivalent to two (2) months Net AFC (c)	23.23
4	Working Capital requirement (d=a+b+c)	38.42
5	Interest at 14.05% (e=d*14.5%)	**5.40**

Based on the revised Interest on Working Capital for old plants & MLHEP, MePGCL requests the Commission to kindly pass the net additional claim on IWC as given below:

Table 19: Additional IWC Claim of MePGCL in Review

(INR Cr.)

Particulars	**FY 2016-17**
MePGCL's Revised Claim of Interest on Working Capital for old Plants in Review (1)	5.40
MePGCL's Claim of Interest on Working Capital for MLHEP in Review (2)	6.30
MePGCL's Net Claim of Interest on Working Capital in Review (3=1+2)	**11.70**
Approved Interest on Working Capital by MSERC (4)	6.31
Gap to be passed in the review petition (5=3-4)	**5.39**

Commission's Analysis

As already analyzed for Interest Cost, ROE and Depreciation, the MeECL assets & other elements shall not be considered for Interest on working capital for MePGCL.

Commission has considered the interest on working capital as per the Regulations in the true up orders already passed for FY 2016-17. The review of the interest on working capital component does not require any change.

3 Revised ARR & Net Additional Claim in Review for True up FY 2016-17

Petitioner's Submission

Based on the above submissions in response to the order, revised ARR for MLHEP & Old Plants (including Sonapani) is given below:

Table 20: Revised ARR for MePGCL in Review

(INR Cr.)

Particulars	MLHEP	Old Plants (Including Sonapani)	Net MePGCL
O&M Expenses	30.23	65.12	95.35
Depreciation	61.47	19.01	80.48
Interest & Finance charges	74.95	18.22	93.17
Interest on Working Capital	6.30	5.40	11.70
Return on Equity	53.72	56.85	110.57
SLDC Charges		1.00	1.00
Misc. Expense & Bad Debts			0.00
Net Prior Period items			0.00
Gross AFC	**226.68**	**165.59**	**392.27**
Less: Non-Tariff Income	0.02	13.95	13.97
Less: Amortization of Grants		12.28	12.28
Net AFC	**226.66**	**139.36**	**366.02**
Revenue from operations	130.13	106.84	236.97
Gap (surplus)	**96.53**	**32.52**	**129.06**

Based on the revised ARR and cost heads explanation for additional amount to be passed (Section 2), net additional amount to be passed is given below:

Table 21: Additional Gap to be passed for MePGCL

(INR Cr.)

Sl. No	Particulars	MSERC Approved	MePGCL Claim in Review	Additional Gap to be Passed
1	O&M Expenses	58.82	95.35	36.53
2	Depreciation	40.88	80.48	39.60
3	Interest & Finance charges	48.03	93.17	45.14
4	Interest on Working Capital	6.31	11.70	5.39
5	Return on Equity	47.68	110.57	62.89
6	SLDC Charges	1.00	1.00	-
7	Bad debts & other expn	0.00	-	-
8	Net Prior Period items	-	0.00	-
9	**Gross AFC**	**202.72**	**392.27**	**189.55**
10	**Less:** Non-Tariff Income	26.25	26.25	
11	**Net AFC**	**176.47**	**366.02**	**189.55**
12	Revenue from operations	236.97	236.97	-
13	**Gap (surplus)**	**-60.50**	**129.05**	**189.55**

Based on the above submissions, MePGCL prays before the Commission to kindly approve an additional amount of **INR 189.55 Cr.** as per the review petition and allow for its recovery in the ARR for FY 2020-21.

Commission's Analysis

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

Table 22 : Approved ARR for FY 2016-17 (Review)

(Rs. in cr)

Sl. No	Particulars	MSERC Approved in True Up Dt.18.11.2019	MePGCL Claim in Review	Approved in Review True up
1	O&M Expenses	58.82	95.35	58.82
2	Depreciation	40.88	80.48	40.67
3	Interest & Finance charges	48.03	93.17	48.03
4	Interest on Working Capital	6.31	11.70	6.31
5	Return on Equity	47.68	110.57	47.68
6	SLDC Charges	1.00	1.00	1.00
7	Bad debts & other expn	0.00	-	0.00
8	Net Prior Period items	-	0.00	-
9	**Gross AFC**	**202.72**	**392.27**	**202.51**
10	**Less:** Non-Tariff Income	26.25	26.25	26.25
11	**Net AFC**	**176.47**	**366.02**	**176.26**
12	Revenue from operations	236.97	236.97	236.97
13	**Gap (surplus) (12-11)**	**-60.50**	**129.05**	**-60.71**

The True up (Review) Surplus as approved above shall be appropriated in the next tariff orders to be issued.

The Review petition stands disposed off.

Sd/-
Member
MSERC

Sd/-
Chairman
MSERC