

**BEFORE THE MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION
SHILLONG**

CASE NO. 3/2018

In the matter of True up Business for the FY 2015-16 1st Year of 1st MYT Control
Period FY 2015-16 to FY 2017-18.

AND

Meghalaya Power Generation Corporation (the Petitioner)

Coram

WMS Pariat IAS (Retd.)

Chairman

ORDER

(Dated: 25.09.2018)

In exercise of its powers conferred under section 131 and 133 of the Electricity Act 2003, The Meghalaya Government notified " The Meghalaya Power Sector Reforms Transfer Scheme 2010" on 31st March 2010 leading to restructuring and unbundling of the erstwhile Meghalaya State Electricity Board (MeSEB) into four entities and Meghalaya Power Generation Corporation Limited is one of them. However Meghalaya Energy Corporation Limited (MeECL) carried out eh functions of Generation, Transmission and Distribution from 1st April 2010 onwards. On 31st March 2012 State Government notified an amendment to the Power Sector Reforms Transfers Scheme 2010 leading to effective unbundling. Accordingly MePGCL has started as segregated commercial operation utility independently from 1st April 2013.

Regulation 11 of MYT Regulation 2014 specifies that the Commission shall under take true up of previous year's expenses and revenue approved with reference to audited statement of Accounts made available along with C&AG audit report subject to prudence check including pass through of impact of uncontrollable factors. MePGCL has filed petition for True-Up Business for the FY 2015-16 of 1st MYT Control Period FY 2015-16 to FY 2017-18 on 9th January 2018. Commission provisionally admitted the petition on 14th February 2018. Commission taking into consideration of all the facts and after prudence check as per the Regulations, finalize true up order for the FY 2015-16.

Commission hereby notifies the licensee that the impact of true up gap/ surplus shall be appropriated in the ARR of the ensuing year for determination of Tariff.

Sd/-

W.M.S. Pariat, IAS (Retd)
Chairman.

Introduction

I. Company Profile and performance overview performance highlights

Table 1:DetailsofExitingStations

Sl. No	Station	Type	No of Units/Capacity	COD	Capacity (MW)
1	Umiam Stage-I	Storage/ Pondage	4*9MW	FY1966	36
2	Umiam Stage-II		2*10MW	FY1971	20
3	Umiam Stage-III		2*30MW	Unit1:FY1979 Unit2:FY 1979	60
4	Umiam Stage-IV		2*30MW	FY1993	60
5	Umtru Power Station		4*2.8MW	Unit1-3:FY1958 Unit4:FY1969	11.2
6	Sonapani HEP	ROR	1.5MW	FY2010	1.5
7	LeshkaHEP		3*42MW	Unit1&2:FY2013 Unit3:FY 2014	126
	Total				314.7

Table 2:HistoricalGrossEnergyGeneration(MU)

Sl. No	Station	FY2012-13	FY2013-14	FY2014-15	FY2015-16	FY2016-17
1	UmiamStage-I	102.88	79.13	90.4	114.06	96.627
2	UmiamStage-II	50.41	41.32	46.00	58.26	50.229
3	UmiamStage-III	132.01	133.55	113.11	117.50	65.296
4	UmiamStage-IV	185.25	174.91	162.72	185.01	166.116
5	UmtruPowerStation	30.40	21.01	15.27	1.41	0.00
6	SonapaniHEP	7.21	5.41	5.75	6.29	7.633
7	LeshkaHEP	198.38	413.27	409.38	445.93	443.852
	Total	706.54	868.60	842.62	928.46	829.75

II. True up of Generation Business for FY 2015-16

Table 3: Existing Generation Capacity FY 2015-16

S.No	Name Of Station	No.of Units	Capacity (MW)	Total Capacity (MW)	Year of Commissioning
1	Umiam Stage I	I	9	36	21.02.1965
		II	9		16.03.1965
		III	9		06.09.1965
		IV	9		09.11.1965
2	Umiam Stage II	I	10	20*	22.07.1970
		II	10		24.07.1970
3	Umiam Stage III	I	30	60	06.01.1979
		II	30		30.03.1979
4	Umiam Stage IV	I	30	60	16.09.1992
		II	30		11.08.1992
5	Umtru Power Station	I	2.8	11.2	01.04.1957
		II	2.8		01.04.1957
		III	2.8		01.04.1957
		IV	2.8		12.07.1968
6	Mini Hydrel (Sonapani)	I	1.5	1.5	27.10.2009
7	MLHEP (Leshka)**	I	42	126	01.04.2012
		II	42		01.04.2012
		III	42		01.04.2013
Total				314.7	

Table 4: Design Energy as approved by MSERC in Tariff Order FY 2015-16

Name of Power Stations	Design Energy (MU)
Umiam Stage I	116.29
Umiam Stage II	45.51
Umiam Stage III	139.4
Umiam Stage IV	207.5
Umtru	39.01
Mini Hydrel (Sonapani)	5.5
MLHEP Leshka	486.23
Total	1039.44

Table 5: Approved and Actual generation Station-wise

		Approved by the Hon'ble Commission in Tariff Order for FY 2015-16						Actual MePGCL FY 2015-16			
Sl. No	Name of the Power Station	Gross Generation (MU)	Aux Cons (%)	Transformation Loss (%)	Total Loss (Aux+ Transformation) (%)	Aux Cons & Transformation Loss (MU)	Net Generation (MU)	Gross Generation (MU)	Total Loss (Aux+ Transformation) (%)	Aux Cons & Transformation Loss (MU)	Net Generation (MU)
1	Umiam I	116.29	0.70%	0.50%	1.20%	1.40	114.89	114.06	1.04%	1.19	112.87
2	Umiam II	45.51	0.70%	0.50%	1.20%	0.55	44.96	58.26	0.65%	0.38	57.88
3	Umiam III	139.4	0.70%	0.50%	1.20%	1.67	137.73	117.5	0.71%	0.84	116.66
4	Umiam IV	207.5	1.00%	0.50%	1.50%	3.11	204.39	185.01	0.66%	1.22	183.79
5	Umtru Power Station	39.01	0.70%	0.50%	1.20%	0.47	38.54	1.41	4.15%	0.06	1.35
6	Mini Hydel (Sonapani)	5.5	0.70%	0.50%	1.20%	0.07	5.43	6.29	0.74%	0.05	6.24
	Sub Total	553.21	-	-	-	7.27	545.94	482.53	-	3.74	478.79
7	Leshka	486.23	1.00%	0.50%	1.50%	7.29	478.94	445.93	0.68%	3.04	442.89
	Total (including Leshka)	1039.44	-	-	-	14.56	1024.89	928.46	-	6.77	921.69

III. The MePGCL has filed C&AG audit report on 17.04.2018 for the FY 2015-16.

The Summary of the true up petition is as depicted below.

Table 6: Summary of Annual Fixed Charges (Approved vis-à-vis Actuals) FY 2015-16

Particulars	Approved by MSERC	As per Audited So A for FY 2015-16			Gap/ (Surplus)
	Vide T.O for FY 2015-16 (Old Plants + Sonapani)	True Up of MePGCL for FY 2015-16 (Old + New Plants)	True Up FY 2015-16 (Leshka)	True Up FY 2015-16 (Old Plants + Sonapani)	
O&M Expenses	55	123.94	28.59	95.34	40.34
i) Employee Expenses		69.490		69.49	
ii) R&M Expenses		16.49		16.49	
iii) A&G Expenses		37.95		37.95	
Depreciation	10.64	67.32	60.79	6.52	(4.12)
Interest and Finance Charges	0.4	94.10	82.97	11.13	10.67
Interest on working capital	3.79	14.16	6.70	7.46	3.67
Return on Equity	9.4	109.34	53.73	55.61	46.18
SLDC Charges	1.05	1.05		1.05	0.00
Income tax Expense	-	-			
Misc. Expense & Bad Debts	-	-			
Net Prior Period Items: Income (-)/Expense		(-)0.46	(-)0.10	(-)0.56	(0.56)
Total Annual Fixed Cost (AFC)	80.37	409.45	232.89	176.56	96.19
Less: Non-Tariff Income	0.31	6.80	0.22	6.58	6.27
Net AFC	80.06	402.65	232.67	169.98	89.92
Revenue from operations	80.06	205.75	130.45	75.30	4.76
Gap/(Surplus)	0	196.90	102.22	94.68	94.68

Commission had considered the audited Statement of Accounts and C&AG audit report for MePGCL and MeECL and has analysed the element wise expenditure reported/claimed in the petition and admitted as per the Regulations.

1. O&M Expenses :-

O&M expenses shall mean the total Expenditure under the following heads as defined in Regulation 56.1 of MSERC MYT Regulations 2014.

The Licensee has claimed Rs.95.34 Crore towards O&M Expenses for true up of FY 2015-16 for old plants and MLHEP (Myntdu-Leshka Hydro-electric Project)

Commission's Analysis

Commission had considered the O&M expenses in the Tariff Order for MePGCL at Rs.55.00 Crore considering the FY 2014-15. Commission held that the O&M expenses can only be validated if the audited records were made available.

Licensee has projected O&M expenses at Rs.95.34 Crore including Leskha Project and 1/3 rd share of MeECL for True up of FY 2015-16. Whereas Regulation 55(6) and 56(5) of MYT Regulations 2014 specifies that O&M expenses shall be allowed at 2% of original project cost for determination of Tariff.

Since O&M cost for MLHEP has been fixed at Rs.25.36 Crore for FY 2015-16, the O&M Cost for old plants including Sonapani shall be admissible at Rs.25.51 Crore.

Accordingly Commission considers the O&M cost for MePGCL for the FY 2015-16 shall be admissible at Rs.50.87 Crore which includes the O&M cost of MLHEP as per Regulations.

Commission approves O&M expenses at Rs.50.87 Crore for true up of FY 2015-16.

2. Interest and Finance Charges

The Licensee has claimed interest at Rs. 94.10 Crore for MePGCL including Sonapani & MLHEP and MeECL for true up of FY 2015-16.

Commission's Analysis

As per Regulation 55.1, Interest & Finance charges on loan Capital shall be computed on the outstanding loans, duly taking into account, the schedule of repayment terms & conditions of loan agreement and the lending rate prevailing there in. Commission had considered interest on loan capital at Rs.0.46 Crore for MePGCL old projects for FY 2015-16 on 30.03.2015, pending the approval of capital cost and Interest on capital loans borrowed against MLHEP.

The Commission had approved the capital cost for MLHEP and considered interest on capital loan at Rs.81.48 Crore based on projected loan capital of Rs.717.19 Crore on 30.03.2017 (Opening). No loans are out standing against old projects.

As per the audited statement of Accounts for FY 2015-16, the following is the Capital loans status vide Note 5.

Table 7: Capital Loan vide Note 5 of Statement of Accounts of MePGCL for FY 2015-16

(Rs.Cr)

Sl. No	Loans Against	Opening balance of MLHEP	Additions	Repayment	Closing Balance	Interest
1	13.55% Federal Bank	28.57	-	7.14	21.43	3.39
2	12.75% Central Bank of India	48.17	-	8.33	39.84	5.61
3	13.25% PFC	217.41	-	16.10	201.31	27.74
4	11.40% BSE II	50.00	-	-	50.00	5.70
5	9.95% BSE I	120.00	-	-	120.00	11.94
6	11.07% REC	253.04	-	25.30	227.74	26.61
	Net Total	717.19		56.87	660.32	80.99
7	Umiam I	Funded through Additional Central Assistance scheme.				
8	Umiam II					
9	NUHEP	Projects COD not declared as of 31.03.2016 and Capital Cost was not approved.				
10	Lakroah					

As per the 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 loans agreement and lending rate there in.

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

Regulation 28.10 of MYT Regulation 2014 specifies that any grant received from the central or state Govt. or any statutory body or authority for 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.

The Interest cost against state Govt. loan for Rs.108.63 Crore is not considered as the purpose of loan not indicated.

The outstanding loans for the FY 2015-16 are Consistent with Regulation 27, therefore the interest cost computed at Rs.80.99 Crore is considered for True up for FY 2015-16.

Commission approves Net interest Cost at Rs. 80.99Crore for true up of business for FY 2015-16.

3. Interest on Working Capital

The Licensee has claimed Interest on working capital at Rs. 14.16 Crore for true up of Business for FY 2015-16.

Commission's Analysis

As per the Regulations 34.1(iii) interest on working capital shall be allowed on the following components for determination of Tariff.

- O&M Expenses for one(1) month
- Maintenance Spares at 15% of O&M expenses escalated at 6%
- Receivables equivalent to two(2) months of Fixed cost

The computation of Interest on working capital is computed in the table below

Table 8: computation of Interest on working capital

Sl. No	Particulars	Rs.in Crore
1	O&M Expenses for one(1) month (Rs.50.87Crore/12)	4.24
2	Maintenance Spares at 15% of O&M expenses escalated at 6%	8.09
3	Receivables equivalent to two(2) months AFC	36.34
4	Working Capital requirement	48.67
5	Interest at 14.75%	7.18

Commission approves Interest on working capital at Rs.7.18Crore for true up of Generation business for FY 2015-16.

4. Depreciation

The Licensee has claimed Depreciation at Rs.67.32 Crore for MePGCL old plants and MLHEP for true up of business for FY 2015-16.

Commission's Analysis

Commission had Considered GFA of MePGCL as on 31.03.2015 at Rs.391.24 Crore (P). The Depreciation has been allowed at Rs. 10.64 Crore (TO-15-16.P-96) for old Projects including Sonapani HEP. No addition of assets during the MYT Control period FY 2015-16 to FY 2017-18 was considered in the absence of audited accounts.

In the Tariff order for FY 2017-18 in which depreciation of Rs.42.51 Crore provisionally allowed for FY 2015-16 against MLHEP.

As per the audited statement of Accounts for FY 2015-16 Opening GFA as on 31.03.2015 is shown at Rs. 1690.98 Crore and an addition of Rs. 14.49 Crore and retirements at Rs.9.32 Crore is reported, thus arriving closing GFA at Rs. 1696.15 Crore for FY 2015-16.

The opening GFA for MLHEP is considered at Rs. 1278.80 Crore, and Closing GFA is considered at Rs.1283.97 Crore for FY 2015-16. Commission had considered GFA of old projects at Rs.49.39 Crore in the Tariff Orders for FY 2013-14.

The Licensee has yet to file true up petition for FY 2014-15 together with Asset wise break up in order to validate the opening GFA for FY 2015-16 in respect old plants including sonapani, R&M of Umiam stage I&II and MLHEP.

The Depreciation arrived at Rs. 79.14 Crore as per the Note 10 of statement of accounts is also not matching with actual approved capital cost, whereas Licensee has claimed only Rs.67.32 Crore for true up for FY 2015-16 against MLHEP & Old Plants.

Thus actual GFA is consolidated for the FY 2015-16 as stated below

Table 9: Consolidated Actual GFA for FY 2015-16

Sl.No	Particulars	Rs. in Crore
	Old Plants	
1	Umiam Stage IV	38.79
2	Sonapani	10.60
	GFA old Projects	49.39
3	GFA/MLHEP OB 31.03.2015 1278.80	1283.97
	Additions 14.49	
	Retirements 9.32	
	Closing GFA 1283.97	
4	GFA of MePGCL and MLHEP Combined	1333.36
5	Average GFA for FY 2015-16	1330.77
6	Grants available for FY 2015-16 (Average)	230.34

Commission Considers the Depreciation on the GFA computed in the above table and arrived average rate of Depreciation at 4.15% for adjustment of grants part as per Regulation 28.10 of MSERC MYT Regulations 2014 as detailed below

Table 10: Net Depreciation for FY 2015-16

	(Rs.Cr)
Opening GFA 31.03.2015	1328.19
Additions during FY 2015-16	14.49
Retirements note 10	9.32
Closing GFA 31.03.2016	1333.36
Average GFA (Excl. Land Value as per the note 10 of Statement)	1297.22
90% of the Average Assets	1167.50
Average rate of Depreciation as computed	4.15%
Depreciation for FY 2015-16	48.45
Less: Depreciation on grants	9.56
Net Depreciation for FY 2015-16	38.89

Commission approves Depreciation at Rs.38.89Crore for true up of business for FY 2015-16.

5. Return on Equity

The Licensee has claimed Return on Equity at Rs. 109.34 Crore for Old projects and MLHEP for true up of the FY 2015-16.

Commission's Analysis

Commission had approved ROE at Rs. 9.43 Crore (TO 15-16 pg 96) against old projects including Sonapani in the Tariff orders for FY 2015-16.

Commission had provisionally approved ROE against MLHEP at Rs.46.90 Crore(TO 15-16 pg 76) Considering the Equity Capital at Rs.334.98 Crore for the FY 2015-16.

The Licensee has shown Equity capital for MLHEP at Rs.383.76 Crore and Rs.397.22 Crore against old projects including Sonapani.

Commission had considered Equity Contribution as per the Government of Meghalaya letter dated 24.03.2015 at Rs.288.02 Crore for the FY 2013-14 (True up) against MLHEP.No further Equity infusion is made and the Computation of 30% Asset addition was considered based on the projections made in the petition by the licensee.

Government of Meghalaya had initially sanctioned Rs.288.02 Crore as grant for Construction of MLHEP (Hydro Project) and later Converted the grant as equity vide letter dated 24.03.2015.

The addition of assets to the Project was done with the borrowed funds against which interest chargeable to Tariff has been allowed at actuals.

The Licensee has not disclosed any capital expenditure met from the internal resources created out of free reserves towards equity capital.

Commission considers the Return on Equity as admissible for tariffs against old projects including sonapani and also MLHEP Average Assets considered for FY 2015-16 as depicted in the table below.

Table 11: Return on Equity for FY 2015-16

Particulars	Rs.in Crore
Capital cost against old projects including Sonapani as on 31.03.2015	49.39
Average Assets MLHEP	1281.39
Average Assets MePGCL	1330.78
Less: Average Grants Available for FY 2015-16	230.34
Net Assets for MePGCL	1100.44
Equity Capital considered as per Regulation 27	330.13
Return on Equity at 14%	46.22

Commission Considers Return on Equity at Rs.46.22Crore for true up of FY 2015-16.

6. SLDC and Connectivity Charges

Licensee has submitted that Rs.1.05 Crore towards SLDC charges for ARR of FY 2015-16 as reflected in the audited statement of Accounts may be considered for true up of FY 2015-16.

Commission's Analysis

Commission had approved SLDC ARR for FY 2015-16 at Rs.2.10 Crore in the Tariff order of MePTCL to be shared by MePGCL at 50%.

Commission approves Rs. 1.05 Crore towards 50% of SLDC cost as Expense for the FY 2015-16 for true up as claimed by the Licensee.

7. Prior Period Items

The Licensee has claimed prior period items at Rs. (-) 0.46Crore (Net) for True up of FY 2015-16.

Commission's Analysis

Commission had not approved any prior period items in the Tariff orders for the FY 2015-16.

Commission do not consider prior period items in the true up of FY 2015-16.

8. Non-Tariff Income

The Licensee had submitted that based on the audited statement of accounts Non-Tariff Income is received against old projects and Sonapani at Rs.6.58 Crore and Non-Tariff income against MLHEP Rs.0.22 Crore received for the FY 2015-16.

Commission's Analysis

Commission had estimated the non-Tariff income at Rs. 0.31 Crore for old projects in the Tariff orders for FY 2015-16.

As per the audited statement of accounts for the FY 2015-16, the Non-Tariff income reported is at Rs.5.94 Crore(as other Income) of MePGCL for the FY 2015-16.

The C&AG report of MePGCL(Note-13) reveals Rs.8.71 Crore interest income has been re invested in the fixed Deposit, not shown in the other income from Fixed Deposits (Vide Note 17). C&AG report of MePGCL also reveals that Rs.2.50 Crore interest accrued and due on Fixed Deposits with Banks is not included in the (Note 17) other income.

The audited Accounts of MeECL revealed that other Income received at Rs.2.57 Crore of which Rs.1.64 Crore has been apportioned as Revenue grant to MePDCL 100% and 1/3rd of balance Rs.0.93 Crore is apportioned to MePGCL at Rs.0.31 Crore.

The C&AG report of MeECL revealed that Interest Income has been re invested with Banks amounted to Rs.24.91 Crore, (Note 17) 1/3rd of this Interest income has been apportioned to MePGCL at Rs.8.30 Crore as other income.

Further C&AG report of MeECL revealed that Rs.0.72 Crore interest income was not covered in the note 21 of interest income from fixed deposit with Banks Rs.17.96 lakh, 1/3rd of interest income Rs.0.24 Crore is apportioned to MePGCL.

Summing up of the above, the Non-Tariff income and other income amounted to Rs.26.00 Crore as detailed in the table below.

Table 12: Non-Tariff income and other income

Sl. No	Particulars	Rs. in Crore
(i)	Non-Tariff Income & Other Income (Note 17) MePGCL	5.94
(ii)	Non-Tariff Income of MeECL 1/3 rd of Rs.0.93 Crore	0.31
	Sub Total (A)	6.25
(iii)	C&AG report of MePGCL interest on Fixed Deposits (note A9 of CAGR)	8.71
(iv)	C&AG report of MePGCL interest accrued and due on fixed deposits (note B1)	2.50
(v)	C&AG report of MeECL interest reinvested in fixed Deposits 1/3 rd amounted to Rs.8.30 Crore (42.40-17.49)/3	8.30
(vi)	C&AG report of MeECL; interest accrued on fixed deposits not included 1/3 rd of Rs.0.72 Crore(note B1 of MeECL)	0.24
	Sub Total (B)	19.75
	Total (A+B)	26.00

Commission Considers Rs.26.00 Crore Non-Tariff and other income for the true up of FY 2015-16.

Commission after Prudent Check of the claims of the Licensee with reference to audited statement of Accounts and C&AG observations of MePGCL & MeECL approves the true up of MePGCL business for FY 2015-16 including MLHEP as depicted in the table below.

Table 13: Approved ARR for the FY 2015-16

(Rs.Cr)

Sl. No	Particulars	MePGCL Claim	Approved MSERC
1	O&M Expenses	123.94	50.87
2	Depreciation	67.32	38.89
3	Interest & Finance charges	94.10	80.99
4	Interest on Working Capital	14.16	7.18
5	Return on Equity	109.34	46.22
6	SLDC Charges	1.05	1.05
7	Net Prior Period items	(-) 0.46	-
	Gross AFC	409.45	225.20
	Less: Non-Tariff Income	6.80	26.00
8	Net AFC	402.65	199.20
9	Revenue from operations	205.75	205.75
10	Gap (surplus)	196.90	(-)6.55

The Net Surplus shall be appropriated in the next Tariff petition.