

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. 4/2022

In the matter of Petition for Review of True up Order for FY 2018-19.

AND

Meghalaya Power Distribution Corporation Limited (the Petitioner)

Coram

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

Shri Roland Keishing, Member (Law)

ORDER

(Dated: 3.10.2022)

1. The Commission has passed the order dated 22.02.2022 for true up of business for FY 2018-19.
2. As per Regulation 22 of MSERC Regulation 2014, MePDCL has filed the petition for Review of True up order for FY 2018-19.
3. Regulation 22.2 of MYT Regulation 2014 specifies that the Commission shall undertake the review of True up of the business considering the terms & Conditions laid down there in that:
 - a) the review petition is filed within sixty days from the date of the order, and / or
 - b) There is error apparent on the face of the record.
4. (a) Commission considers that the petition is filed within 60 days of date of true up order passed.
 - (b) There is no error apparent on the face of the record.
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 2018-19 in the chapters annexed to this Order.

Sd/-
Shri. Roland Keishing
(Member)

Sd/-
Shri. P.W. Ingty, IAS (Retd)
(Chairman)

Review Petition on True Up Order for FY 2018-19 dated 22.02.2022:

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 2018-19 issued on 22.02.2022 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 2018-19 dated 22.02.2022 were passed as per the Regulation 11.1 to 11.5 of the MYT Regulations 2014 taking into account the audited SOA, additional information and admissible allowances have been considered after prudence check.

2 Review of True Up of Business for FY 2018-19

2.1 Accounting of Energy Sale to ASEB

Petitioner's Submission

The Hon'ble Commission in its True Up order dated 22 February 2022, has considered that MePDCL has accounted twice the energy of 0.47 MU sold to ASEB. The following are the observations of the Licensee on the methodology and calculations used by the Hon'ble Commission for power sale along with suitable explanations to justify that the Energy sold to ASEB has not been accounted twice as claimed in true up:

While considering the request of MePDCL to include the following 29.08 MU as part of Sale

Table 1 : Sale of power to others within the State.

| Swapping with captive power plant | In MU's |
|---|--------------|
| Meghalaya Power Limited (MPL), Lumshnong | 21.36 |
| Dalmia Cement (Bharat) Limited, Thangskai | 7.72 |
| Sub Total | 29.08 |
| Deviation Settlement Mechanism (DSM) | |
| Intra DSM | Nil |
| Total 1 + 2 | 29.08 |

The Hon'ble Commission has stated

Licensee has submitted surplus energy sales to other customers/utilities both outside and inside the state vide table no.03 of the petition at 662.40 MU, which includes swapping of 29.08 MU within the state periphery and the remaining surplus energy at 633.73 MU was sold as per the breakup given in the petition. The licensee shall submit the source wise banking/swapping account along with the every True up petition for commission's scrutiny.

The projection of surplus energy sales results in 0.47 MU to ASEB accounted for twice, once in total sales of 1105.04 MU and in the sale of surplus energy breakup vide table no.03 of the petition.

The variation is considered in the Energy balance table.

The Hon'ble Commission observed that MePDCL has accounted twice the sale of 0.47 MU to ASEB. Actually, this conclusion is not correct.

Till July 2017, the energy sold to ASEB was sold at the three separate 33KV points as the following consumers

Table 2: Sale to ASEB through the following consumers

| Sl No | Name of Consumers | Consumer Code | Contract Demand (KVA) | Category |
|-------|---------------------|---------------|-----------------------|----------|
| 1 | Mankachar Point | GDH-HT/01 | 750 | BS |
| 2 | Hatsingimari Point | PHL-HT/07 | 1400 | BS |
| 3 | South Salmara Point | PHL-HT/01 | 100 | BS |

However, from August 2017 onwards, the supply is given to South Salmara Point only.

Clearly, the above sale is Sale inside the State and under the category Bulk Supply. That is why the sale of 73.63 MU is for **Bulk Supply (HT) including ASEB**.

It is to be submitted that Note 18.3.1 of SOA (Statement of Accounts) of MePDCL discloses the Power sold Outside the State, which is reproduced below:-

Table 3: Power sale to outside the State

| Particulars | Quantum MU |
|--------------------------------------|---------------|
| Swapping | 247.29 |
| DSM | 68.82 |
| Exchange | 298.29 |
| Non-solar | 18.94 |
| Assam State Electricity Board (ASEB) | 0.47 |
| Total | 633.73 |

Actually, Sale to ASEB is shown above just to maintain what was normally shown in the earlier SOAs. However, this sale is not outside the State but inside the State but considered separately because of its importance being maintained from the time since there was a sale at 132 KV prior to the commence of ABT regime. Ideally, Note 18.3.1 of SOA should disclose as:

Table 4: Power sale to outside the State excluding ASEB

| Particulars | Quantum MU |
|--------------|---------------|
| Swapping | 247.29 |
| DSM | 68.82 |
| Exchange | 298.29 |
| Non-solar | 18.94 |
| Total | 633.26 |

Therefore Total Sale is as

Table 5: Total Power sale by MePDCL

| | (in MU) |
|---|----------------|
| Sale inside Consumers | 1105.04 |
| Sale Outside the State | 633.26 |
| Sale to others within the State not consumers of the Discom | 29.08 |
| Total Sale | 1767.38 |

MePDCL at the time of calculating the T&D loss, has considered 1105.04 MU as Sale to inside consumers and 662.34 (=633.26+29.08) MU as sale outside the State. MePDCL has therefore, not accounted twice the energy sold to ASEB.

Commission's Analysis

The licensee has projected the sales of bulk supply (HT) including ASEB for 0.47 MU vide sl.no.14 of table no.2 of the True up petition at 73.63 MU. Commission had not considered the sales to ASEB for computation of T&D losses of 36.20 % claimed in the True up petition and the energy sales within the state considered at Rs.1104.56 MU but not 1105.04 MU as claimed in the Review petition.

The ASEB sales for 0.47 MU has been considered in the sales outside the state as reported in the note 18.3.1 of SOA.

Thus the surplus energy considered in the energy balance statement at 663.25 MU grossed up at 4% amounted to 690.88 MU against which MePDCL has disclosed power sold outside the state at NER periphery for 633.73 MU including 0.47 MU sold to ASEB as also filed in the audited SOA for FY 2018-19 vide note 18.3.1 found to be corresponding.

The licensee has submitted that MePDCL has not made any disclosure for the power sold to other customers/utilities within the state which are not the consumers of MePDCL as indicated below but stated, swapping with captive power plants.

| Swapping with captive power plant | In MUs |
|---|---------------|
| (a) MPL, Lumshong | 21.36 |
| (b) Dalmia Cement (Bharat) Limited, Thangskai | 7.72 |
| Sub total | 29.08 |
| Deviation Settlement Mechanism | |
| (a) Intra DSM | NIL |
| Total | 29.08 |

MePDCL has not disclosed the above swapping transactions in the audited accounts for FY 2018-19, thus the Energy balance computed by the Commission vide Table no.06 of True up orders excluding the 29.08 MU found to be correct.

Whereas licensee disclosed only 633.73 MU as sales outside the state in the audited accounts resulted in balance surplus Energy (690.88 – 633.73) for 57.15 MU to be accounted.

In view of the foregoing clarification, the computation of energy balance vide table no.06 of the True up order dated 22.02.2022 requires no review for FY 2018-19.

2.2 Computation of the balance surplus energy cost amounting to Rs.19.55 Crore

Petitioner's Submission

The Hon'ble Commission in its True Up order dated 22 February 2022, has considered balance surplus energy of 57.15 MU and Rs.19.55 Crore as the Revenue from this surplus power to be deducted from the Net ARR for True up of FY 2018-19 of MePDCL. The following are the observations of the Licensee on the methodology and calculations used by the Hon'ble Commission for surplus power along with suitable explanations to justify that there is no balance energy as claimed in true up:

The Hon'ble Commission has computed the Energy Balance in table 6 of the impugned order which is reproduced below:

Table 6 : Computation of Energy Balance for True up of FY 2018-19

| Sl. No. | Particulars | Calculation | MU |
|---------|---|-----------------|----------|
| 1 | Power purchased from the Eastern Region (ER) | A | 0 |
| 2 | Inter-state transmission loss for ER | B | 1.80% |
| 3 | Net power purchased from the ER | $C=A*(1-B)$ | 0 |
| 4 | Power purchased from the North -Eastern Region(NER) | D | 1,033.77 |
| 5 | Inter-state transmission loss for NER | E | 3.00% |
| 6 | Net power available at state bus from external sources on long term | $F=(C+D)*(1-E)$ | 1,002.76 |
| 7 | Power purchased from generating stations within the state | G | 971.36 |
| 8 | Power purchased from other sources | H | 420.42 |
| 9 | Total Energy Available in the State periphery for sale | $I=F+G+H$ | 2394.54 |
| 11 | Net Energy Available for sale by Discom | K | 2394.54 |
| 12 | Power sold to consumers | L | 1,105.04 |
| 13 | Approved Energy Sales within the state (1105.03- 0.47(ASEB)) | M | 1104.56 |
| 14 | Transmission & Distribution Losses (%) | N | 36.20% |
| 15 | T&D Losses in terms of MU | O | 626.73 |
| 16 | Energy Requirement for sale by Discom within state | $P=M+O$ | 1731.29 |
| 17 | Surplus Energy | $Q=K-P$ | 663.25 |
| 18 | Grossed Up at 4% | $R=Q/0.96$ | 690.88 |
| 19 | Power sold to outside (including swapping/UI/bilateral) | S | 633.73 |
| 20 | Balance Energy to be accounted (Sl.no.18-19) | T | 57.15 |

Commission Considers Energy balance as computed above and balance surplus energy of 57.15 MU shall be accounted for.

The balance surplus energy cost amounts to Rs.19.55 Crore at Rs.3.42/kwh weighted average power purchase cost for FY 2018-19 shall be recovered from the Net ARR for True up of FY 2018-19.

In calculating the Balance Energy, the Hon'ble Commission has considered the sale of power as follows:

1. Sale to inside consumers = 1104.56 MU instead of 1105.04 after deducting 0.47 Mu which is Sale to ASEB
2. Sale to outside consumers = 633.73 MU consisting of the sale of 0.47 MU to ASEB also.
3. The sale of 29.08 MU which is sale through swapping to captive power plants has not been considered.

It may be mentioned that at the time of calculating the T&D loss,

1. The sale to inside consumers is taken as 1105.04 consisting of the sale of 0.47 MU which is the sale of ASEB, the reason for such inclusion is mentioned above.
2. The sale to outside consumers is taken as = 633.26 (excluding the sale to ASEB) + 29.08 (Sale to Captive power plant) = 662.34 MU

Therefore, there is a contradiction to the values being considered by the Hon'ble Commission while calculating the balance energy with respect to the values approved for calculating the T&D loss.

Using the formula adopted by the Hon'ble Commission, Table 6 : Computation of Energy Balance for True up of FY 2018-19 gets modified into:

Table 7: Computation of Energy Balance for True up of FY 2018-19

| Sl. No. | Particulars | Calculation | MU |
|---------|---|-----------------|----------|
| 1 | Power purchased from the Eastern Region (ER) | A | 0 |
| 2 | Inter-state transmission loss for ER | B | 1.80% |
| 3 | Net power purchased from the ER | $C=A*(1-B)$ | 0 |
| 4 | Power purchased from the North -Eastern Region(NER) | D | 1,033.77 |
| 5 | Inter-state transmission loss for NER | E | 3.00% |
| 6 | Net power available at state bus from external sources on long term | $F=(C+D)*(1-E)$ | 1,002.76 |
| 7 | Power purchased from generating stations within the state | G | 971.36 |
| 8 | Power purchased from other sources | H | 420.42 |
| 9 | Total Energy Available in the State periphery for sale | $I=F+G+H$ | 2394.54 |

| | | | |
|----|---|------------|----------|
| 10 | Net Energy Available for sale by Discom | K | 2394.54 |
| 11 | Power sold to consumers | L | 1,105.04 |
| 12 | Power sold through swapping to captive power plants | M | 29.08 |
| 13 | Approved Energy Sales within the state | N | 1,134.12 |
| 14 | Transmission & Distribution Losses (%) | O | 36.20% |
| 15 | T&D Losses in terms of MU | P | 643.5 |
| 16 | Energy Requirement for sale by Discom within state | $Q=N+P$ | 1,777.62 |
| 17 | Surplus Energy | $R=K-Q$ | 616.92 |
| 18 | Grossed Up at 4% | $S=R/0.96$ | 642.63 |
| 19 | Power sold to outside (including swapping/UI/bilateral) | T | 633.26 |
| 20 | Balance Energy to be accounted (Sl.no.18-19) | U | 9.37 |

OR

Table 8: Computation of Energy Balance for True up of FY 2018-19

| Sl. No. | Particulars | Calculation | MU |
|---------|---|-----------------|----------|
| 1 | Power purchased from the Eastern Region (ER) | A | 0 |
| 2 | Inter-state transmission loss for ER | B | 1.80% |
| 3 | Net power purchased from the ER | $C=A*(1-B)$ | 0 |
| 4 | Power purchased from the North -Eastern Region(NER) | D | 1,033.77 |
| 5 | Inter-state transmission loss for NER | E | 3.00% |
| 6 | Net power available at state bus from external sources on long term | $F=(C+D)*(1-E)$ | 1,002.76 |
| 7 | Power purchased from generating stations within the state | G | 971.36 |
| 8 | Power purchased from other sources | H | 420.42 |
| 9 | Total Energy Available in the State periphery for sale | $I=F+G+H$ | 2394.54 |
| 10 | Net Energy Available for sale by Discom | K | 2394.54 |
| 11 | Power sold to consumers | L | 1,105.04 |
| 12 | Transmission & Distribution Losses (%) | M | 36.20% |
| 13 | T&D Losses in terms of MU | N | 627.00 |
| 14 | Energy Requirement for sale by Discom within state | $O=L+N$ | 1,732.04 |
| 15 | Surplus Energy | $P=K-O$ | 662.50 |
| 16 | Grossed Up at 4% | $Q=P/0.96$ | 690.1 |
| 17 | Power sold to outside (including swapping/UI/bilateral) | R | 633.26 |
| 18 | Power sold through swapping to captive power plants | S | 29.08 |
| 19 | Total Power sold to others | $T=R + S$ | 662.34 |
| 20 | Balance Energy to be accounted (Sl.no.16-19) | $U=Q-T$ | 27.76 |

It can be seen from the above two tables 7 and 8, that the concept of calculating the unaccounted energy is not correct if the formula adopted for calculating of T&D loss is not consistent with the formula for calculating the Balance Energy. It can be further elaborated as:

T&D Loss includes all energy Loss i.e. all unaccounted energy is included in T&D loss. When there is unaccounted energy, it implies that T&D loss calculation is wrong. In this case, the T&D loss cannot be 36.20% but higher than this since it has not

accounted all the energy. Further, unaccounted energy can only arise when approved T&D loss is different from the actual T&D loss. In this case, when the T&D loss proposed by MePDCL and the same is approved by the Hon'ble Commission, the question of unaccounted energy can never be there.

The unaccounted energy of 9.37 MU or 27.76 MU arise due to the fact the formula (which is a reverse one) adopted by Hon'ble Commission is not consistent with the formula adopted for calculating the T&D loss. If the same formula is applied to calculate the T&D loss and the same formula is adopted to calculate the unaccounted energy, there will always be an unaccounted energy. Suppose that unaccounted energy is put back into the formula that calculate the T&D loss, the new T&D loss will reduce. But using the same formula for calculating the unaccounted energy, there will be again unaccounted energy. At no where will the unaccounted energy be zero as long as there is some percentage of T&D loss.

The concept of calculating the T&D loss is complex and varies from utilities to utilities. This issue is further compounded due to non availability of reliable meter readings. It is because of this reason that CEA has issued a guideline to calculate T&D loss and AT&C loss. Our formula in calculating the T&D loss is based as practically as possible with that of the CEA. Purchase of Energy from other sources such as Deviation/ Exchange, Bilateral etc is put at the same periphery with that of power sold to other parties such as Deviation/ Exchange, bilateral etc. This is done despite the fact that purchase/ sale from/to Exchange is at NER ER periphery, purchase/ sale from/to bilateral are at different peripheries (NER-ER or NER-State) depending on the agreements between the parties, purchase/sale from/to Deviation(Inter) at NER-State periphery, purchase/sale to captive power plants can be at State periphery or at injection/drawl point of the Captive consumers and purchase/sale to Deviation(intra) are at injection/drawl point of the open access consumers and captive power plants..

Further, the system loss in the GRID is also a big issue where there is no exact or correct version of calculating the transmission loss. This is more so because of metering at different voltages right from at 33KV to 400KV and now 800KV. It is in this respect that the CERC has issued Central Electricity Regulatory Commission

(Sharing of inter-State Transmission Charges and Losses) Regulations, 2010. In line with this Regulation, NLDC has issued Procedure for Sharing of Inter-State Transmission System Losses in June 2011 and is enclosed as Annexure-C. It may be mentioned even though the CERC has issued various Regulations from time to time that affect the sharing of Transmission charges, but Sharing of Losses has not been modified/ amended.

As per this Procedure, the sale and purchase are treated separately or two distinct commodities. Therefore, It can be seen clearly that the concept of Grossed up method adopted by the Commission is not consistent with the method adopted by NLDC.

In view of the above, MePDCL prays that the Hon'ble Commission consider the unaccounted energy as NIL and allow MePDCL to recover back Rs 19.55 Cr.

Commission's Analysis

Commission considered sales within the state at 1104.56 MU as against 1105.04 MU and sales to ASEB for 0.47 MU considered as sales outside the state as reported in the Audited SOA.

Sales claimed in the True up petition for 29.08 MU through swapping to captive power plants has not been considered as the transactions were not disclosed in the audited SOA.

Sales to outside the state consumers is considered at 633.73 MU but not 633.26 MU as claimed in the Review petition.

The computation of Energy balance vide table no.06 of the true up orders dated 22.02.2022 covers all the elements of energy accounted for (Energy sales within the state and Energy sales outside the state) through the audited SOA for FY 2018-19 as detailed below.

| S.no | Particulars | In MU's |
|-------------|--|----------------|
| 1 | Total Energy available in the state periphery for FY 2018-19 | 2394.54 |
| 2 | Sales within the state (Excl. ASEB sale 0.47MU) | 1104.56 |
| 3 | T&D losses at 36.20% | 626.73 |
| 4 | Total Requirement (2+3) | 1731.29 |
| 5 | Surplus Energy (1-4) | 663.25 |
| 6 | Surplus Energy Grossed up at 4% | 690.88 |
| 7 | Less: Sales outside the state (incl. ASEB sale 0.47 MU) | 633.73 |
| 8 | Balance Energy to be Accounted for (6-7) | 57.15 |

The computation suggested in the Review petition vide table no.7&8 does not disclose complete accounting of Energy handled by the petitioner.

In view of the clarification, the review of the Energy balance to recover back the surplus Energy cost for Rs.19.55 Crore is not necessary for FY 2018-19.

2.3 Deduction of 1% Rebate from Power Purchase Cost including Transmission charges Petitioner's Submission

The Hon'ble Commission in its True Up order dated 22 February 2022, has considered Rs. 808.51 Cr against the claim of Rs. 946.63 Cr as power purchase cost including transmission charges for Power grid & MePTCL. Out of disallowed cost, Rs. 8.40 is the amount disallowed as 1%Rebate Amount. The detail deduction is shown below:

Table 9: Amount deducted as 1% Rebate

| Source | 1% Rebate |
|--------------|-------------|
| NEEPCO | 1.72 |
| NTPC | 1.17 |
| OTPC | 1.53 |
| MePGCL | 2.76 |
| POSOCO | 0.01 |
| PGCIL | 0.54 |
| MePTCL | 0.67 |
| Total | 8.40 |

The following are the observations of the Licensee along with suitable explanations to justify the why Rebate should not be deducted:

a) Misapplication of Regulation 36 of MYT Tariff Regulations 2014. "36 Rebate

36.1 For payment of bills of generation tariff or transmission charges through Letter of Credit or otherwise, within 7 days of presentation of bills, by the Generating Company or the Transmission Licensee, as the case may be, a rebate of 2% on billed amount, excluding the taxes, cess, duties, etc., shall be allowed. Where payments are made subsequently through opening of Letter of Credit or otherwise, but within a period of one month of presentation of bills by the Generating Company or the Transmission Licensee, as the case may be, a rebate of 1% on billed amount, excluding the taxes, cess, duties, etc., shall be allowed."

Regulations 36 clearly lays down the conditions under which the MePDCL is entitled to a rebate of 1% on billed amount. There is no provision for deemed rebate.

- b) The Hon'ble Commission is mandated to carry out True-up on the basis of actuals and therefore, it is not authorized to assume a rebate of 1% on the billed amount. The rebate is an incentive for early payment and depends on the actual amount paid and the time for payment is relevant to be entitled to such incentive. Any rebate, if received from the Gencos and other utilities is duly reflected in the Statement of Account of MePDCL as Other Income.
- c) Further the Central Generating Companies, viz NEEPCO, NTPC and OPTC and other Central Utilities, viz PGCIL and POSOCO are governed by Regulations of Central Electricity Regulatory Commission viz. CERC (Terms & Conditions of Tariff) Regulations, 2014. Therefore, reliance placed on Regulation 36 of the MSERC MYT Regulations 2014, to justify the reduction of rebate from the Power Purchase Cost of the Central Utilities is erroneous and untenable.
- d) Rebate is nothing but an incentive for the payee to pay much in advance before the due date of the Bill by the payee for the benefit of receiver. For the Utilities that are governed by the MSERC MYT Regulations 2014, the due date is 30 days. This is rather exceptional because due date and rebate are for same period. In case of Central Utilities governed by CERC (Terms & Conditions of Tariff) Regulations, 2014, the due date is 60 days.

MePDCL prays that the Hon'ble Commission not to deduct Rs 8.40 Cr as 1% rebate amount and allow MePDCL to recover this amount from consumers.

Commission's Analysis

The Transmission charges (MePTCL and PGCIL), are part of the Power Purchase cost of the distribution licensee which has been factored in determination of ARR and Tariff orders.

Commission had approved the ARR and Tariff order for FY 2018-19 including the interest on working capital at Rs.16.81 Crore for which the licensee would have no liability to be discharged out of the tariff revenue collected from the consumers.

The Regulation 36 of MYT Regulations 2014 amply envisages earning of 1% rebate by paying the Power Purchase cost and transmission charges liabilities promptly within the stipulated 30 days time by the generators and transmission licensees.

CERC Regulation 44 (2) of 2014 reads - where payments are made on any day after 2 days and within a period of 30 days of presentation of bills by the generating company or the transmission licensee, a rebate of 1% shall be allowed.

CERC Regulation 58 (2) of 2019 reads - where payments are made on any day after 5 days and within a period of 30 days of presentation of bills by the generating company or the transmission licensee, a rebate of 1% shall be allowed.

The distribution licensee shall avail the rebate facility provided by the generators and transmission licensee for prompt payment out of the amount provided towards interest on working capital in the ARR and Tariff Order, as part of the performance parameters and sustainable operations.

Commission considers deduction of 1% rebate from the power purchase cost payable to Generators and Transmission licensees is as per the Regulations and as part of the efficiency, economical use of resources and good performance of distribution company.

Thus commission considers no review of deduction of 1% rebate is necessary for true up of FY 2018-19.

2.4 Deduction of Rs 8.38 Cr as balance rebate from ARR and inclusion of Rs 0.02 Cr as part of other income.

Petitioner's Submission

While approving the Non Tariff and Other Income at Rs 60.00 Cr at Table 32 of the impugned order, the Hon'ble Commission has also considered the Rebates on Purchase of Energy amounting to Rs 1,80,411.00 i.e. Rs. 0.02Cr. The Table 32 is reproduced here below:

Table 32 : Approved Non Tariff and Other Income for True up FY 2018-19

| Sl. No | Particulars | For the Year ended 31st March 2019 |
|---------------|--------------------------------------|---|
| | Non Tariff Income | |
| 1 | Meter Rent | 3,66,79,190.34 |
| 2 | Reconnection fees | 1,54,351.00 |
| 3 | DPS Collected from Consumers | 3,29,42,199.69 |
| 4 | Rebates on Purchase of Energy | 1,80,411.00 |
| 5 | Other charges from Consumers | 8,71,16,435.02 |
| | Sub Total-A | 15,70,72,587.05 |
| | Other Income | |

| Sl. No | Particulars | For the Year ended 31st March 2019 |
|--------|---|------------------------------------|
| 1 | From Banks | 1,61,91,186.00 |
| 2 | From Others | 96,237.00 |
| 3 | Rental and Hiring Income | 3,83,362.00 |
| 4 | Discount received | - |
| 5 | Fees and Penalties | 2,68,499.00 |
| 6 | Sale of scrap, tender forms and others | 4,48,200.00 |
| 7 | Miscellaneous receipts | 2,41,73,815.80 |
| 8 | Amortization of Grants and subsidies | 11,68,65,529.07 |
| 9 | Revenue Grants for Other Expenditure | 17,84,85,000.00 |
| 10 | Sub Total-B | 33,69,11,828.87 |
| 11 | The Other Income from MeECL apportioned share reported in note no. 16 of audited accounts (C) | 10,60,16,163.00 |
| 12 | Total (A+B+C) | 60,00,00,578.92 |

This amount Rs.1,80,411.00 should not have been considered as the Hon'ble Commission has already considered Rs 8.40 Cr as Rebate. Hon'ble Commission further errs when it considers balance rebate shall be adjusted as other income from net ARR at Rs.8.38 Crore for True up of FY 2018-19.

The Hon'ble Commission has approved the Power purchase cost in Table 10 as given below:

Table 10 : Approved Power Purchase Cost for True up of FY 2018-19

| Sl. no | Name of the Generator/Source | Energy Drawn in MU | MePDCL Actuals (in Rs Crore) | Approved for True up (in Rs Crore) |
|--------|------------------------------|--------------------|------------------------------|------------------------------------|
| 1 | NEEPCO | 544.26 | 219.35 | 170.61 |
| 2 | NHPC | 0.00 | 2.00 | 0.005 |
| 3 | OTPC LTD | 489.53 | 160.58 | 148.99 |
| 4 | NVVN LTD | 0.49 | 0.01 | 0.01 |
| 5 | NTPC LTD | 0.00 | 158.41 | 88.25 |
| 6 | POSO | 0.00 | 1.14 | 1.13 |
| 7 | APPCL | 269.59 | 4.26 | 4.26 |
| 8 | MPL-Banking | 11.75 | 0.00 | 0.00 |
| 9 | MPPL | 111.95 | 1.68 | 1.68 |
| 10 | REC SNCA Energy Pvt. Ltd. | 0.00 | 0.17 | 0.17 |
| 11 | DEVIATION (INTER) | 6.62 | 3.80 | 3.80 |
| 12 | DEVIATION (INTRA) | 4.55 | -1.39 | -1.35 |
| 13 | VAR Charges | 0.00 | -0.41 | -0.41 |
| 14 | Adhunik Cement (Swap) | 15.46 | 0.00 | 0.00 |
| 15 | MePGC Ltd | 971.36 | 275.91 | 273.08 |
| | Sub-Total | 2425.56 | 825.51 | 690.23 |
| | Transmission Charges | | | |
| 16 | PGCIL | 0.00 | 54.28 | 52.11 |
| 17 | MePTC Ltd | 0.00 | 66.84 | 66.17 |
| | Sub Total | | | 118.28 |
| | Total | 2425.56 | 946.63 | 808.51 |

Commission approves Power Purchase cost at Rs.808.51 Crore including Transmission charges for True up of FY 2018-19.

For more clarity, the above power purchase cost can also be shown as:

Table 11 : Approved Power Purchase Cost for True up of FY 2018-19

| SI No | Name of the Generator/ Source | Power Purchase Cost without Rebate | 1% Rebate | Power Purchase Cost with Rebate |
|-------|-------------------------------|------------------------------------|-------------|---------------------------------|
| 1 | NEEPCO | 172.33 | 1.72 | 170.61 |
| 2 | NHPC | 0.005 | | 0.005 |
| 3 | OTPC | 150.52 | 1.53 | 148.99 |
| 4 | NVVN | 0.01 | | 0.01 |
| 5 | NTPC | 89.42 | 1.17 | 88.25 |
| 6 | POSOCO | 1.14 | 0.01 | 1.13 |
| 7 | APPCL | 4.26 | | 4.26 |
| 8 | MPL-Banking | 0 | | 0 |
| 9 | MPPL | 1.85 | | 1.85 |
| 10 | REC SNCA Energy Pvt. Ltd. | 0 | | 0 |
| 11 | DEVIATION (INTER) | 3.8 | | 3.8 |
| 12 | DEVIATION (INTRA) | -1.35 | | -1.35 |
| 13 | VAR Charges | -0.41 | | -0.41 |
| 14 | Adhunik Cement (Swap) | 0 | | 0 |
| 15 | MePGCL | 275.84 | 2.76 | 273.08 |
| | Sub Total | 697.415 | 7.19 | 690.225 |
| | Transmission Charges | | | |
| 16 | PGCIL | 52.65 | 0.54 | 52.11 |
| 17 | MePTCL | 66.84 | 0.67 | 66.17 |
| | Sub Total | 119.49 | 1.21 | 118.28 |
| | Total | 816.905 | 8.40 | 808.505 |

By saying that balance rebate shall be adjusted as other income from net ARR at Rs.8.38 Crore for True up of FY 2018-19, effectively it means that the Net power purchase cost becomes Rs. 800.13 Cr as shown below:

Table 12 : Net Approved Power Purchase Cost for True up of FY 2018-19

| | |
|------------------------------------|---------------|
| Power Purchase Cost without rebate | 816.91 |
| Less: 1% Rebate | 8.40 |
| Power purchase Cost with rebate | 808.51 |
| Less: balance rebate | 8.38 |
| Net Power purchase cost | 800.13 |

However, the actual power purchase cost should be Rs 808.53 Cr as indicated below:

Table 13 : Actual Net Power Purchase Cost for True up of FY 2018-19

| | |
|---------------------------------------|---------------|
| Power Purchase Cost without rebate | 816.91 |
| Less: 1% Rebate | 8.40 |
| Power purchase Cost with rebate | 808.51 |
| Add: Rebate under Other Income | 0.02 |
| Net Power purchase cost | 808.53 |

Therefore, MePDCL prays that the Hon'ble Commission allow MePDCL to recover Rs 8.38 Cr due to wrong deduction of balance rebate and Rs 0.02 Cr due to wrong consideration as part of Non Tariff and Other Income.

Commission's Analysis

The 1% Rebate for prompt payment of power purchase dues amounted at Rs.8.38 Crore as notified vide page no.39 after adjustment of 1% Rebate already disclosed in the other income table no. 32 for Rs.0.02 Crore in the True up order was as per the Regulation 36 of MSERC MYT Regulations 2014 and also as per the CERC Regulation 44 (2) of 2014 and 58 (2) of 2019. The same has been amply clarified in para 2.3 of the Review petition above.

Commission had deducted the 1% rebate as per the Regulations while disclosing the deduction as such already notified in the True up orders requires no review for FY 2018-19.

2.5 Deduction of Rs 26.59 Cr from ARR on account of Cross Subsidy Surcharge.

Petitioner's Submission

The Hon'ble Commission has wrongly deducted Rs 26.29Cr from ARR. Following is the observation and reason why it should not be deducted from ARR.

The Hon'ble Commission has approved Rs 650.69 cr as ARR for FY 2018-19 as per Table 39 of the impugned order. The detail break up is given below:

Table 39 : Aggregate Revenue Requirement & Revenue Gap/(Surplus) for True up of FY 2018-19

| Sl.no | Particulars | MePDCL Actuals | Approved for True up |
|-------|---|----------------|----------------------|
| 1 | Power Purchase Cost | 825.51 | 690.23 |
| 2 | Transmission Charges (PGCIL) | 54.28 | 52.11 |
| 3 | Transmission Charges (MePTCL) | 66.84 | 66.17 |
| 4 | Employee Expenses | 147.75 | 114.23 |
| 5 | Repair & Maintenance Expenses | 4.10 | 4.10 |
| 6 | Administration & General Expenses (Including Bad Debt) | 10.79 | 10.44 |
| 7 | Depreciation | 18.00 | 1.10 |
| 8 | Interest and Finance Charges | 73.79 | 9.58 |
| 9 | Interest on Working Capital | 26.10 | 16.81 |
| 10 | Return on Equity | 118.38 | 3.89 |
| 11 | Gross ARR (A) | 1345.54 | 968.66 |
| 12 | Less: Non Tariff and Other Income (Note no.18,19 of SOA & Note no.16 of MeECL SOA) (15.71+33.68+10.61) | | 60.00 |
| 13 | Less: R.E. Subsidy | 53.20 | - |
| 14 | Less: Subsidy against Power Purchase | | - |
| 15 | Less: R.E. Subsidy Against Loss On Account Of Flood, Fire Cyclone Etc | | - |

| Sl.no | Particulars | MePDCL Actuals | Approved for True up |
|-------|--|----------------|----------------------|
| 16 | Less: Balance rebate on Purchase of Energy | | 8.38 |
| 17 | Less: Cost of Balance Surplus Energy of 57.15 MU at Rs.3.42 ps/kwh weighted Avg. power purchase Cost for FY 2018-19 | | 19.55 |
| 18 | Less: Cross Subsidy Surcharge (Note no.18.2 of SOA) | - | 26.59 |
| 19 | Less: Penalty for AT&C loss at Avg. cost of sale of power at Rs.6.03/Kwh (Rs.666.57/1104.56 MU) | - | 15.12 |
| 20 | Less: Sale of Surplus Power (note no.18 of SOA) | 189.93 | 188.33 |
| 21 | Sub Total (12 to 20) (B) | | 317.97 |
| 22 | Net ARR (A-B) | 1102.41 | 650.69 |

Commission approves Net ARR at Rs. 650.69 Crore for True up of FY 2018-19.

At serial 16 above, the Hon'ble Commission has mentioned that ARR has to be reduced by an amount of Rs 26.59 Cr which is Cross subsidy Surcharge mentioned at Note 18.2 of SOA. It seems that the Hon'ble Commission has considered this as separate which is not part of any receivables.

The Note 18.2 of the SOA of MePDCL is reproduced below:

Note 18.2- Details of Revenue earned from Cross Subsidy Surcharge is as under:-

(Rs. Cr)

| Particulars | For the Year ended | For the Year ended |
|------------------------------------|------------------------|------------------------|
| | 31st March 2019 | 31st March 2018 |
| Green Valley Industries Ltd (GVIL) | 6,09,43,697.00 | 7,29,62,157.00 |
| RNB Cement Pvt Ltd | 1,215.00 | 1,17,743.00 |
| Shyam Century Pvt Ltd | 6,15,57,322.00 | 2,38,02,754.00 |
| Maithan Alloys Ltd | 5,90,57,739.00 | 2,09,74,256.00 |
| Pioneer Carbide Pvt Ltd (PCPL) | 3,94,59,240.00 | 7,73,60,797.00 |
| Meghalaya Power Ltd | 3,81,18,018.00 | - |
| Dalmia Cement | 67,84,950.00 | - |
| Total | 26,59,22,181.00 | 19,52,17,707.00 |

The aforementioned 'Revenue earned from Cross Subsidy' forms a part of unscheduled Interchange Sales mentioned in Note 18 above.

The above Note "The aforementioned 'Revenue earned from Cross Subsidy' forms a part of unscheduled Interchange Sales mentioned in Note 18 above" has clearly stated that this is part of Unscheduled Interchange Sales mentioned in Note 18 above. Therefore, the amount 48,00,08,251.00 mentioned against Unscheduled Interchange Sales in Note 18 of SOA includes also the amount 26,59,22,181.00 of Revenue earned from Cross Subsidy Surcharge. The break-up of Rs 48,00,08,251.00 is shown below:

Table 14 : Detail break up of unscheduled Interchange Sales

| Particulars | Amount in INR |
|---|---------------|
| Revenue from sale of Power to UI(Inter+intra) | 197367353.00 |
| Reactive Charges | 4239147.00 |
| RRAS NEEPCO | 265922181.00 |
| STOA | 4964924.00 |
| Revenue from Cross Subsidy Surcharge | 7514646.00 |
| Total | 480008251.00 |

The Hon'ble Commission has considered this amount of Rs 48.00 Cr in Table 34 of the impugned order which is reproduced below:

Table 34 : Breakup of Revenue from sale of power for True up FY 2018-19

| Sl. no | Particulars | Amount in Rs. Cr |
|--------|--|------------------|
| 1 | Sale of power to Assam 0.47 MU | 0.33 |
| 2 | Revenue from UI sales | 48.00 |
| 3 | Revenue from Interstate billing on sale of power | 141.24 |
| | Sub total | 189.57 |
| 4 | Add: NTPC RRAS | 0.36 |
| 5 | Add: Revenue from Sale of Power to the consumers within the state | 666.57 |
| 6 | Total Revenue from sale of power | 856.50 |

Commission approves Revenue from Sale of Power at Rs.856.50 Crore for True up of FY 2018-19.

Therefore, MePDCL prays that the Hon'ble Commission allow MePDCL to recover Rs 26.59 Cr since it has been deducted twice in the approved ARR.

Commission's Analysis

The licensee has not filed cross subsidy surcharge income of Rs.26.59 Crore in the True up petition which although disclosed in the audited accounts specifically vide note 18.2 of SOA for FY 2018-19.

Classification of UI revenue for sale of surplus power however is considered as reported in note 18 of the SOA for Rs.48.00 Crore while segregating the other elements included as submitted by the licensee in the additional information received on 25.11.2021 as detailed below.

| Acc. Code | Particulars | Closing Balance 2018-19 (Rs) |
|-----------|--|---------------------------------|
| 61.110 | Revenue from sale of power to UI | 183509331 |
| 61.111 | Revenue from sale of power to Reactive Nereb | 4239147 |
| 61.121 | Revenue from sale of power UI (intra) | 272995253 |
| 61.RRA | RRAS NEEPCO | 7514646 |
| 61.STO | PGCIL STOA Credit | 4964924 |
| 61.121 | Revenue from sale of power UI (Intra)(DCPL) | 6784950 |
| | Total | 480008251 |

From the above table, it is clear that the amount of Rs.29.59 Crore is not included in the Revenue of Rs.48.00 Crore.

Therefore the breakup now filed vide table 14 of the review petition need not be considered.

The Revenue income from operations reported at Rs.856.50 Crore however is considered segregating the Revenue from sale of power at Rs.666.57 Crore and Rs.189.93 Crore as classified vide table no.34 of the true up order dated 22.02.2022 holds good.

Therefore Commission considers No review is required in this respect.

2.6 Depreciation

Petitioner's Submission

The Hon'ble Commission has approved Depreciation amounting to Rs 1.10 Cr as depicted below:

Table 15 : Computation of GFA/Depreciation for True up of FY 2018-19

(Rs. Cr)

| Particulars | Opening Bal | Additions | Retirements | Closing Bal | % of Dep | Amount |
|--|---------------|-------------|-------------|---------------|----------|--------------|
| Land | 1.27 | 0.33 | | 1.60 | - | |
| Buildings | 13.60 | - | | 13.60 | 3.34% | 0.41 |
| Plant and Equipment | 51.81 | 0.04 | | 51.85 | 5.28% | 2.46 |
| Furniture and Fixtures | 0.99 | | | 0.99 | 6.33% | 0.06 |
| Vehicles | 0.69 | | | 0.69 | 9.50% | 0.06 |
| Office Equipment | 1.79 | 0.03 | 0.002 | 1.82 | 6.33% | 0.10 |
| Hydraulic works | 0.09 | | | 0.09 | 5.28% | 0.004 |
| Other Civil works | 3.04 | | | 3.04 | 3.34% | 0.09 |
| Lines and Cable Network | 367.97 | 3.48 | 0.11 | 371.34 | 5.28% | 17.57 |
| Total | 441.25 | 3.88 | 0.11 | 445.02 | | 20.75 |
| Less : Depreciation On Grants and contributions | | | | 423.64 | 4.68% | (-) 19.83 |

| Particulars | Opening Bal | Additions | Retirements | Closing Bal | % of Dep | Amount |
|--|-------------|-----------|-------------|-------------|----------|-------------|
| available | | | | | | |
| Net Depreciation | | | | | | 0.92 |
| Add: 1/3rd Share of MeECL Depreciation as claimed | | | | | | 0.18 |
| Total Dep | | | | | | 1.10 |

The licensee shall adopt the GFA as computed in the above table in all the future filings for Regulatory purpose.

The formula adopted by Hon'ble Commission, fails to take into the account the amount of Rs 11.69 Cr which is Amortization of Grants and Subsidies and which has been considered as part of Table 32 : Approved Non Tariff and Other Income for True up FY 2018-19 of the impugned order.

While calculating the depreciation, the Hon'ble Commission has lessened the value of Depreciation by deducting Depreciation on Grants and Contributions available. With this methodology it can be clearly seen that the net amount of depreciation can be negative. The question therefore, arises as to whether the depreciation can be negative? When the result of the formula indicates negative, it implies that either the formula or the values considered is/ are wrong. It does not make any sense if after getting a negative value and then replace it by zero or Nil. The result of the formula can at best be zero. But looking at the above formula, the value of depreciation can be negative. It fact with this formula, the depreciation value will decrease further from zero with the coming years which is evident from the following table depicting the Amount on Depreciation that has been approved over the years:

Table 16 : Detail Depreciation approved over the years

(Rs.Cr)

| Particular | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 |
|---------------|------------|------------|------------|------------|------------|------------|
| Depreciation* | 11.01 | 10.64 | 10.32 | 10.15 | 8.32 | 1.10 |

It may be mentioned that Note: - 1 Company Information and Significant Accounting Policies of the SOA, has spelt out the significant accounting policies applied to Depreciation/amortization, Capital work-in-progress & Government grants. In particular, sl 10 relating to Government Grants is reproduced here-under:

10. Government grants

- a) Government grants received are recognized when there is reasonable assurance that the Company will comply with the conditions associated with the grant. Government Grants are classified as capital assets and revenue based on the nature of the grant.
- b) Grants and Subsidies received for specific assets (property, plant and equipment) are disclosed as 'Grants and Subsidies' (Deferred Incomes) on the Liabilities side of the Balance Sheet as a separate line item. They are amortized in proportion to depreciation on related assets (thereby, amortized based on the expected lives of the related assets), and presented within 'Other Income.'
- c) The related assets herein primarily include Plant and Equipment, Lines and Cable Networks. There, Since the rates of depreciation as prescribed by the Central Electricity Regularity Commission (CERC) for the purpose of tariff are being followed by the Company, the same are being used for amortization of such related assets as well.
- d) The rate so arrived at is 5.28% as per the CERC guidelines for the related assets mentioned. As seen from the operations during previous years, the creation of assets against capital grants received during the period generally take more than a year for completion. The same are thereby booked under capital work-in-progress. Hence, grants and subsidies have been amortized at 5.28% of their opening balance for the reporting period.
- e) Grants and Subsidies on Revenue Accounts are disclosed separately as Income in the Statement of Profit & Loss.

From the above, it is clearly stated that amortization is linked to depreciation and amortization is linked to the amount of grants that is capitalized.

Therefore, it is prayed that the Hon'ble Commission applies its prudence so as to overcome these defects.

The reason for getting negative result in the above methodology, is that the values of Grants considered is in totality whereas the value of Assets is only the capitalized one. Therefore, there is a mismatch in the value of assets vis-à-vis the value of Grants considered. This is due to the fact that Grants is not only against the assets that are capitalized but also against the Capital Work-in- Progress. The Capital

Work-in- Progress is disclosed in Note 3 of the SOA.

Therefore, in order to arrive at the reasonable formula, the only way out is to apportion the Amount of Grants into two parts – one part against Asset that is capitalized i.e GFA, and the other part against Capital Work-in- Progress and is given below:

Table 17 : Detail break up of Grants and subsidies

| Particulars | As on 31-03-2018 | As on 31-03-2019 | Average |
|---|------------------|------------------|---------|
| GFA | 441.26 | 445.03 | 443.15 |
| Capital Work-in-Progress | 676.49 | 872.13 | 774.31 |
| Total | 1117.75 | 1317.16 | 1217.46 |
| Grants and Subsidies | 283.11 | 564.16 | 423.64 |
| Grants against GFA | | | 154.20 |
| Grants against Capital Work-in-Progress | | | 269.44 |

Using this value of 154.20 as Grants and Subsidies, the Table 23: Computation of GFA/Depreciation for True up of FY 2018-19 becomes:

Table 18 : Computation of GFA/Depreciation for True up of FY 2018-19

(Rs.Cr)

| Particulars | Opening Bal | Additions | Retire ments | Closing Bal | % of Dep | Amount |
|--|---------------|-------------|--------------|---------------|----------|--------------|
| Land | 1.27 | 0.33 | | 1.60 | - | |
| Buildings | 13.60 | - | | 13.60 | 3.34% | 0.41 |
| Plant and Equipment | 51.81 | 0.04 | | 51.85 | 5.28% | 2.46 |
| Furniture and | 0.99 | | | 0.99 | 6.33% | 0.06 |
| Vehicles | 0.69 | | | 0.69 | 9.50% | 0.06 |
| Office Equipment | 1.79 | 0.03 | 0.002 | 1.82 | 6.33% | 0.10 |
| Hydraulic works | 0.09 | | | 0.09 | 5.28% | 0.004 |
| Other Civil works | 3.04 | | | 3.04 | 3.34% | 0.09 |
| Lines and Cable Network | 367.97 | 3.48 | 0.11 | 371.34 | 5.28% | 17.57 |
| Total | 441.25 | 3.88 | 0.11 | 445.02 | | 20.75 |
| Less : Depreciation On Grants and contributions available | | | | 423.64 | 4.68% | (-) 7.22 |
| Net Depreciation | | | | | | 13.53 |
| Add: 1/3rd Share of MeECL Depreciation as claimed | | | | | | 0.18 |
| Total Dep | | | | | | 13.71 |

The Hon'ble Commission is requested to allow an additional amount of Rs 12.61 Cr depreciation charge as shown in the table below:

Table 19: Additional Depreciation Claim in Review

(Rs. Cr)

| Sl. No | Particulars | Amount |
|--------|---|--------|
| 1 | Depreciation allowed by MSERC in the True Up order | 1.10 |
| 2 | Depreciation Charges claimed by MePDCL in the review | 13.71 |
| 3 | Additional Depreciation Charges to be allowed in the review petition (=2-1) | 12.61 |

Commission's Analysis

The depreciation has been computed as per the Regulation 33 notified in the True up orders dated 22.02.2022.

The methodology suggested by the licensee is not in line with the MSERC Regulations and accounting principles.

The grants and contributions part as reported in the audited accounts vide note 13.1 is considered for computation of depreciation excluding Rs.11.69 Crore accounted for as amortized grants and shown as other income vide table no.32 of True up order dated 22.02.2022.

Thus commission considers no review of depreciation is required for True up of FY 2018-19.

2.7 Inclusion of Amortization of Grants and Subsidies as part of Non Tariff and Other Income.

Petitioner's Submission

The Hon'ble Commission has approved Non Tariff and Other Income as Rs 60.00 Cr in the impugned order as depicted below:

Table 20 : Approved Non Tariff and Other Income for True up FY 2018-19

(Rs. Cr)

| Sl.No | Particulars | For the Year ended 31st March 2019 |
|-------|---|------------------------------------|
| | Non Tariff Income | |
| 1 | Meter Rent | 3,66,79,190.34 |
| 2 | Reconnection fees | 1,54,351.00 |
| 3 | DPS Collected from Consumers | 3,29,42,199.69 |
| 4 | Rebates on Purchase of Energy | 1,80,411.00 |
| 5 | Other charges from Consumers | 8,71,16,435.02 |
| | Sub Total-A | 15,70,72,587.05 |
| | Other Income | |
| 1 | From Banks | 1,61,91,186.00 |
| 2 | From Others | 96,237.00 |
| 3 | Rental and Hiring Income | 3,83,362.00 |
| 4 | Discount received | - |
| 5 | Fees and Penalties | 2,68,499.00 |
| 6 | Sale of scrap, tender forms and others | 4,48,200.00 |
| 7 | Miscellaneous receipts | 2,41,73,815.80 |
| 8 | Amortization of Grants and subsidies | 11,68,65,529.07 |
| 9 | Revenue Grants for Other Expenditure | 17,84,85,000.00 |
| 10 | Sub Total-B | 33,69,11,828.87 |
| 11 | The Other Income from MeECL apportioned share reported in note no. 16 of audited accounts (C) | 10,60,16,163.00 |
| 12 | Total (A+B+C) | 60,00,00,578.92 |

Commission considers Non Tariff and Other income at Rs.60.00 Crore in True up for FY 2018-19.

The Hon'ble Commission has, while approving the Depreciation amount, adopted the calculation of Depreciation after lessening the Depreciation on the amount of Grants and Contributions available. In doing so, it fails to consider the amount of Rs 11,68,65,529.07 against Amortization of Grants and subsidies that has been considered as part of Other Income.

It may be mentioned that Note: - 1 Company Information and Significant Accounting Policies of the SOA, has spelt out the Significant accounting policies that are applied to Depreciation/amortization, Capital work-in- progress & Government grants. In particular, the sl 10 relating to Government Grants is reproduced here-under:

10. Government grants

- a) Government grants received are recognized when there is reasonable assurance that the Company will comply with the conditions associated with the grant. Government Grants are classified as capital assets and revenue based on the nature of the grant.
- b) Grants and Subsidies received for specific assets (property, plant and equipment) are disclosed as 'Grants and Subsidies' (Deferred Incomes) on the Liabilities side of the Balance Sheet as a separate line item. They are amortized in proportion to depreciation on related assets (thereby, amortized based on the expected lives of the related assets), and presented within 'Other Income.'
- c) The related assets herein primarily include Plant and Equipment, Lines and Cable Networks. There, Since the rates of depreciation as prescribed by the Central Electricity Regularity Commission (CERC) for the purpose of tariff are being followed by the Company, the same are being used for amortization of such related assets as well.
- d) The rate so arrived at is 5.28% as per the CERC guidelines for the related assets mentioned. As seen from the operations during previous years, the creation of assets against capital grants received during the period generally take more than a year for completion. The same are thereby booked under capital work-in-progress. Hence, grants and subsidies have been amortized at 5.28% of their opening balance for the reporting period.
- e) Grants and Subsidies on Revenue Accounts are disclosed separately as Income in the Statement of Profit & Loss.

From the above, it is clearly stated that amortization is linked to depreciation and amortization is linked to the amount of grants that is capitalized.

Further, with respect to Consumer contribution, the net depreciation is nil as the whole amount is amortized. By lessening the Depreciation on Grants and contributions available, it implies that the Hon'ble Commission has again carried out amortization on the amount of Grants and Contributions available. Thus, amortization has been done twice on the amount of Grants and Contributions available.

As the methodology of calculating of Depreciation includes the reduction due to Depreciation on Grants and contributions available, the amount of 11,68,65,529.07 against Amortization of Grants and subsidies, therefore, should not be considered as part of Other Income. The revised Non Tariff and Other Income is:

Table 21 : Approved Non Tariff and Other Income for True up FY 2018-19

(Rs. Cr)

| Sl. No | Particulars | For the Year ended 31st March 2019 |
|--------|---|------------------------------------|
| | Non Tariff Income | |
| 1 | Meter Rent | 3,66,79,190.34 |
| 2 | Reconnection fees | 1,54,351.00 |
| 3 | DPS Collected from Consumers | 3,29,42,199.69 |
| 4 | Rebates on Purchase of Energy | 1,80,411.00 |
| 5 | Other charges from Consumers | 8,71,16,435.02 |
| | Sub Total-A | 15,70,72,587.05 |
| | Other Income | |
| 1 | From Banks | 1,61,91,186.00 |
| 2 | From Others | 96,237.00 |
| 3 | Rental and Hiring Income | 3,83,362.00 |
| 4 | Discount received | - |
| 5 | Fees and Penalties | 2,68,499.00 |
| 6 | Sale of scrap, tender forms and others | 4,48,200.00 |
| 7 | Miscellaneous receipts | 2,41,73,815.80 |
| 9 | Revenue Grants for Other Expenditure | 17,84,85,000.00 |
| 10 | Sub Total-B | 22,00,46,299.80 |
| 11 | The Other Income from MeECL apportioned share reported in note no. 16 of audited accounts (C) | 10,60,16,163.00 |
| 12 | Total (A+B+C) | 48,31,35,049.85 |

The Hon'ble Commission is requested to allow a reduction of Rs 11.69 Cr from Non Tariff and Other Income as shown in the table below:

Table 22 : Additional Other Income Claim in Review

| Sl. No. | Particulars | Amount in Rs. Cr. |
|---------|---|-------------------|
| 1 | Return on Equity allowed by MSERC in the True Up order | 60.00 |
| 2 | Return on Equity claimed by MePDCL in the review | 48.31 |
| 3 | Additional Return on Equity to be allowed in the review petition (=2-1) | -11.69 |

Commission's Analysis

Licensee has disclosed amortization of Grants and Subsidies for Rs.11.69 Crore in the Other income vide note no.19 of SOA for FY 2018-19. The same has been accounted for as Other income in the profit and loss account of the licensee for Rs.99.45 Crore to meet the Revenue Gap including the amortization of Grants and Subsidies for Rs.11.69 Crore.

The average grants and contributions are considered at Rs.423.64 Crore (note no.13.1 of SOA) after deducting the amortization of Rs.11.69 Crore (net off) which has been classified as other income reported vide note no.19 of SOA.

Commission considers No review of Amortization grants required in the True up of FY 2018-19.

2.8 Return on Equity

Petitioner's Submission

The Hon'ble Commission has approved Return on Equity amounting to Rs 3.89 Cr as depicted below:

Table 23: Computation of Return on Equity for True up FY 2018-19

| Sl.No | Particulars | (Rs. In Crore) |
|-------|---|----------------|
| 1 | GFA as on 31.03.2018 | 441.25 |
| 2 | GFA as on 31.03.2019 | 445.02 |
| 3 | Average Assets (1+2)/2 | 443.14 |
| 4 | Less: Grants available for FY 2018-19 as per note 13.1 | 423.64 |
| 5 | Net Capital cost for ROE | 19.50 |
| 6 | Opening Equity | 49.72 |
| 7 | Closing Equity Capital (19.50 *30%) | 5.85 |
| 8 | Avg Equity (49.72+5.85)/2 | 27.79 |
| 9 | ROE at 14% (27.79*14%) | 3.89 |

While calculating the Net GFA liable for ROE, the Hon'ble Commission has lessened the value of GFA by Grants and Contributions available. With this methodology there can be the possibility that Net GFA can be negative. The question therefore, arises as to whether the net GFA can be negative? When the result of the formula indicates negative, it implies that either the formula or the values considered is/ are wrong. It does not make any sense if after getting a negative value and then replace it by zero or Nil. The result of the formula can at best be zero. But looking at the above formula, the value of net GFA can be negative. It fact with this formula, the net GFA

value will decrease further from zero with the coming years as more and more Capital works being taken up which is evident from the following table depicting the Amount on the Return on Equity that has been approved over the years:

Table 24 : Detail break up of unscheduled Interchange Sales

(Rs.Cr)

| Particulars | FY 2013-14 | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 | FY 2018-19 |
|------------------|------------|------------|------------|------------|------------|------------|
| Return on Equity | 13.62 | 13.72 | 9.00 | 10.99 | 8.21 | 3.89 |

Further, it is seen that the Closing Equity becomes 5.85 when the Opening Equity is 49.72. This is very difficult to understand as to how the Equity suddenly comes down. **Therefore, it is prayed that the Hon'ble Commission applies its prudence so as to overcome these defects.**

The reason for getting negative result in the above methodology, is that the values of Grants considered is in totality whereas the value of Assets is only the capitalized one. Therefore there is a mismatch in the value of assets vis-à-vis the value of Grants considered. This is due to the fact that Grants is not only against the assets that are capitalized but also against the Capital Work-in- Progress. The Capital Work-in-Progress is disclosed in Note 3 of the SOA.

Therefore, in order to arrive at the reasonable formula, the only way out is to apportion the Amount of Grants into two parts – one part against Asset that is capitalized i.e GFA, and the other part against Capital Work-in- Progress and shown in Table 16 : Detail break up of Grants and subsidies above.

Using this value of 154.20 as Grants and Subsidies, the Table 30: Computation of GFA/Depreciation for True up of FY 2018-19 becomes:

Table 25 : Computation of Return on Equity for True up FY 2018-19

| Sl.No | Particulars | (Rs. In Crore) |
|-------|---|----------------|
| 1 | GFA as on 31.03.2018 | 441.25 |
| 2 | GFA as on 31.03.2019 | 445.02 |
| 3 | Average Assets (1+2)/2 | 443.14 |
| 4 | Less: Grants available for FY 2018-19 as per note 13.1 | 154.20 |
| 5 | Net Capital cost for ROE | 288.94 |
| 6 | Avg Equity (288.94*30%) | 86.88 |
| 7 | ROE at 14% (86.88*14%) | 12.14 |

However, the Licensee would like to submit that the issue of Return on Equity (methodology of MeECL & its subsidiaries versus methodology of MSERC: APTCL 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 Hon'ble 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 Hon'ble Commission is requested to allow an additional amount of Rs 8.25 Cr on Return on Equity as shown in the table below:

Table 26 : Additional Return on Equity Claim in Review

| Sl no | Particulars | Amount in Rs. Cr. |
|-------|---|-------------------|
| 1 | Return on Equity allowed by MSERC in the True Up order | 3.89 |
| 2 | Return on Equity claimed by MePDCL in the review | 12.14 |
| 3 | Additional Return on Equity to be allowed in the review petition (=2-1) | 8.25 |

Commission's Analysis

The Return on Equity is computed as per Regulation 31 read with Regulation 27 of MSERC MYT Regulations 2014.

Petitioner has stated that case no.46 of 2016 filed in the Hon'ble APTEL is still under subjudice.

Commission shall however consider the issue of RoE on the basis of outcome of the APTEL orders.

The petitioner has not filed any additional information in connection with the review claim.

The govt. grants and contributions as reported in the audited SOA need to be considered for computation of debt equity ratio as per Regulations.

The methodology suggested by the petitioner vide table no. 22 of the review petition is not in line with the MSERC MYT Regulations 2014 and not in line with the accounting principles.

In view of the clarification, Commission considers the review of return on equity shall not be considered for True up of FY 2018-19.

2.9 Revised ARR & Net Additional Claim in Review for True Up FY 2018-19

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

Table 27: Revised ARR and Additional Amount Claimed in Review

(Rs. Cr)

| Particulars | Approved for True Up | MePDCL Claim in Review | Additional Gap to be Passed |
|--|----------------------|------------------------|-----------------------------|
| Power Purchase Cost | 690.23 | 697.42 | 7.19 |
| Transmission Charges (PGCIL) | 52.11 | 52.65 | 0.54 |
| Transmission Charges (MePTCL) | 66.17 | 66.84 | 0.67 |
| Employee Expenses | 114.23 | 114.23 | |
| Repair & Maintenance Expenses | 4.1 | 4.1 | |
| Administration & General Expenses (Including Bad Debt) | 10.44 | 10.44 | |
| Depreciation | 1.1 | 13.71 | 12.61 |
| Interest and Finance Charges | 9.58 | 9.58 | |
| Interest on Working Capital | 16.81 | 16.81 | |
| Prior Period Charges /(Credits) | 0 | 0 | |
| Return on Equity | 3.89 | 12.14 | 8.25 |
| Total Expenses | 968.66 | 997.92 | 29.26 |
| Less: Non Tariff and Other Income (Note no.18,19 of SOA & Note no.16 of MeECL SOA) (15.71+33.68+10.61) | 60 | 48.31 | -11.69 |
| Less: Balance rebate on Purchase of Energy | 8.38 | 0.00 | -8.38 |
| Less: Cost of Balance Surplus Energy of 57.15 MU at Rs.3.42 ps/kwh weighted Avg. power purchase Cost for FY 2018-19 | 19.55 | 0.00 | -19.55 |
| Less: Cross Subsidy Surcharge (Note no.18.2 of SOA) | 26.59 | 0.00 | -26.59 |
| Less: Penalty for AT&C loss at Avg. cost of sale of power at Rs.6.03/Kwh (Rs.666.57/1104.56 MU) | 15.12 | 15.12 | |
| Less: Sale of Surplus Power (note no.18 of SOA) | 188.33 | 188.33 | |
| Sub Total (12 to 20) (B) | 317.97 | 251.76 | -66.21 |
| Net ARR (A-B) | 650.69 | 746.16 | 95.47 |
| Less: Revenue from Tariffs | 666.57 | 666.57 | |
| Revenue Gap/(Surplus) | -15.88 | 79.59 | 95.47 |

Based on the above submission, MePDCL requests the Hon'ble Commission to approve an additional amount of INR 95.47 Cr gap as claimed, over and above the INR 15.88 Cr surplus approved in the true up order dated 22 February 2022. The same shall be recovered in the tariff of FY 2023-24.

Commission's Analysis

Commission considers that the True up orders for FY 2018-19 dated 22.02.2022 were passed after prudence check with reference to the MSERC MYT Regulations 2014, the audited accounts and the additional information filed by the petitioner.

The petitioner has not filed any additional information or references in support of the additional claims for review of the True up order for FY 2018-19.

Thus commission considers the ARR for Review of True up for FY 2018-19 as depicted in the table below.

Table 28: Approved ARR and Additional Amount Claimed for Review

(Rs. Cr)

| Particulars | Approved for True Up | MePDCL Claim in Review | Now Approved for Review |
|---|----------------------|------------------------|-------------------------|
| Power Purchase Cost | 690.23 | 697.42 | 690.23 |
| Transmission Charges (PGCIL) | 52.11 | 52.65 | 52.11 |
| Transmission Charges (MePTCL) | 66.17 | 66.84 | 66.17 |
| Employee Expenses | 114.23 | 114.23 | 114.23 |
| Repair & Maintenance Expenses | 4.1 | 4.1 | 4.1 |
| Administration & General Expenses (Including Bad Debt) | 10.44 | 10.44 | 10.44 |
| Depreciation | 1.1 | 13.71 | 1.1 |
| Interest and Finance Charges | 9.58 | 9.58 | 9.58 |
| Interest on Working Capital | 16.81 | 16.81 | 16.81 |
| Prior Period Charges /(Credits) | 0 | 0 | 0 |
| Return on Equity | 3.89 | 12.14 | 3.89 |
| Total Expenses | 968.66 | 997.92 | 968.66 |
| Less: Non Tariff and Other Income (Note no.18,19 of SOA& Note no.16 of MeECL SOA) (15.71+33.68+10.61) | 60 | 48.31 | 60 |
| Less: Balance rebate on Purchase of Energy | 8.38 | 0.00 | 8.38 |
| Less: Cost of Balance Surplus Energy of 57.15 MU at Rs.3.42 ps/kwh weighted Avg. power purchase Cost for FY 2018-19. | 19.55 | 0.00 | 19.55 |
| Less: Cross Subsidy Surcharge (Note no.18.2 of SOA) | 26.59 | 0.00 | 26.59 |
| Less: Penalty for AT&C loss at Avg. cost of sale of power at Rs.6.03/Kwh (Rs.666.57/1104.56 MU) | 15.12 | 15.12 | 15.12 |
| Less: Sale of Surplus Power (note no.18 of SOA) | 188.33 | 188.33 | 188.33 |
| Sub Total (12 to 20) (B) | 317.97 | 251.76 | 317.97 |
| Net ARR (A-B) | 650.69 | 746.16 | 650.69 |
| Less: Revenue from Tariffs | 666.57 | 666.57 | 666.57 |
| Revenue Gap/(Surplus) | (15.88) | 79.59 | (15.88) |

Conclusion

Commission considers the ARR approved for FY 2018-19 true up remain unaltered after reviewing the claims made in the Review petition.

Thus the review petition stands disposed off.

**Sd/-
Shri. Roland Keishing
(Member)**

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