



**MEGHALAYASTATEELECTRICITYREGULATORY  
COMMISSION**

**Review of True Up Order**

**For**

**FY 2013-14 and**

**Provisional True up for FY 2014-15**

**For**

**MePTCL**



**MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION**

**1<sup>st</sup> Floor (Front Block Left Wing), New Administrative Building**

**Lower Lachumiere, Shillong – 793001**

**East Khasi Hills District, Meghalaya**

**In the matter of:**

Review of True up of FY 2013-14 and FY 2014-15 of Transmission Business and Revised Transmission Tariff for Transmission of power in the State of Meghalaya.

**AND**

**In the matter of:**

Meghalaya Power Transmission Corporation Limited - **Petitioner**  
(Herein after referred to as MePTCL)

**Coram**

**WMS Pariat, IAS (Retd)**

**Chairman**

**ORDER**

Dated: 30.03.2017

**I. True up for FY 2013-14**

**Return on Equity:**

**Petitioner's Submission**

The Honorable Commission had allowed an amount of Rs. 9.43 Crore to MePTCL as Return on Equity for FY 2013-14 based on the opening equity for the year as per 'The Meghalaya Power Sector Reforms Transfer Scheme 2010'. This was taken as provisional value subject to correction when audited accounts are available.

However, the actual closing equity component (paid up capital + equity share pending allotment) as per the audited accounts of MePTCL for FY 2013-14 is Rs. 357.66 Crore. Similarly, the opening equity capital as per audited accounts for FY 2013-14 is Rs. 310.23

Cre. As such, the average equity capital for FY 2013-14, for calculation of RoE, works out to be Rs. 333.94 Cre.

It may be noted that, for the first year of operation, the equity component appearing in the balance sheet as per the transfer scheme is to be considered for computation of Return on Equity and the Commission had approved only provisional values subject to correction at the time of audited accounts reflecting the size of equity. Based on these submissions, the true up of Return on Equity comes up to be as shown below:

**Table 1: Interest on Equity Capital for FY 2013-14 (Rs. Cre)**

Particulars	Actual of MePTCL
Equity considered for true up	333.94
RoE (%)	14%
Return on Equity	<b>46.95</b>

The Petitioner prays to the Honorable Commission to kindly allow the deviation which is as per the Audited Statement of Accounts.

#### **Commission's analysis and orders**

The Licensee have filed petition seeking true up of their business for FY 2013-14 and provisional true up of FY 2014-15 and also for determination of ARR and tariff for the FY 2016-17 on 05.02.2016. The audit report of FY 2013-14 was submitted by MeECL on 17.03.2016.

The Commission made clear the implications of the Regulations that the true up exercise without the C&AG audit report shall be interim approval only, subject to readjustment of revenue gap/surplus after filing of the petition along with C&AG reports. Similarly, without audited accounts as in FY 2014-15, it should only be treated as Review of the ARR and the same shall be subject to corrections on filing of the C&AG audited accounts.

The claim of the licensee for Return on equity projected for review on Rs. 333.94 Cre for FY 2013-14 does not correspond with the GFA held as on 01.04.2013 at Rs. 222.47 Cre.

The Commission would like to refer to the APTEL judgement dated 17.12.2014 in Appeals No. 142 and 168 of 2013 between Mawana Sugars Ltd Vs PSERC and others, and the relevant paragraph is reproduced hereunder.

*“38. Admittedly, the Transfer Scheme as notified by the State Government is not under challenge. However, the State Commission is authorized to carry out a prudence check of the balance sheet. This Tribunal in the past has held that the State Commission is not bound to accept the figures as given in the audited balance sheet in to and can determine the return on equity and other expenses after prudence check. In this case, there was no induction of fresh funds and the equity as on the date of transfer has been increased from Rs. 2946.11 crores to Rs. 6687.26 crores. The increase as explained by PSPCL in their letter dated 26.2.2013 is on account of treating the consumer contribution and grants and subsidies towards the capital assets as standing in the audited accounts of the Electricity Board as equity. In our opinion, the State Commission should have allowed return on equity on the actual equity of Rs. 2946.11 crores to be apportioned to PSPCL and PSTCL.”*

The Commission in the circumstances considers as per the Books of Accounts the equity capital shall be computed on the Gross Fixed Assets and additions during the year to be compliant with the requirement of Regulations.

Accordingly, the GFA is considered at Rs. 222.47 Crore as on 01.04.2013, as appeared in the balance sheet. Equity capital at 30% of GFA at the end of FY 2013-14 works out to Rs. 87.33 Crore.

Accordingly, the equity capital and Return on Equity capital is computed in the Table below:

**Table 2: GFA-Equity- Return on Equity**

	<b>(Rs. Crore)</b>
GFA As on 01.04.2013	222.47
Additions during FY 2013-14	138.66
Total	361.13
Deletions/Retirements	1.37
Closing GFA	359.76
30% equity capital on the GFA opening	66.74

30% equity on addition	41.60
Total	108.34
Return on equity at 14% (Rs. 108.34 X14%)	15.17

**The Commission approves Rs. 15.17 Crore Returns on Equity in the review for the FY 2013-14.**

### **Interest on Working Capital**

#### **Petitioner's submission**

The Commission has computed the Interest on Working Capital on a normative basis, to be Rs. 2.15 Crore against the Petitioner's claim of Rs. 2.66 Crore for FY 2013-14. However, the Petitioner would like to submit the following points regarding the computation for review of the Hon'ble Commission:

- a. The O&M expenses of the holding company, MeECL is supposed to be equally divided among the three subsidiaries to arrive at the total O&M cost of transmission business of MePTCL. This is because some of the functions of Transmission Company are carried out by the holding company MeECL. But while arriving at the 1 (one) month's O&M expense for determination of working capital requirement, the O&M expenses of the holding company has been excluded.
- b. The opening GFA that the Honorable Commission has considered is Rs. 131.10 Crore whereas as per the audited statement of accounts, it stands at Rs. 221.17 Crore. The Hon'ble Commission has also considered the opening GFA as on 01.04.2013 as Rs. 221.17 Crore in the impugned order in Table 4.3 at Page 23 of the Order, while calculation of depreciation. As such, there seems to be a mismatch in the two figures considered.
- c. The approved revenue from operation in FY 2013-14 is Rs. 62.56 Crore as approved in the impugned order dated 30<sup>th</sup> March 2016. As such, the two months of receivables work out to be Rs. 10.43 Crore as against Rs. 9.38 Crore considered by the Commission.

Owing to these, the Interest on Working Capital computed by the Petitioner differs from that computed by the Honorable Commission. The calculations of the Petitioner are presented here as follows:

**Table 3: Computation of Interest on Working Capital of MePTCL for FY 2013-14**

Sl. No.	Particulars	Amount (Rs. Crore)
A	O&M Expenses for 12 months	49.54
B	O&M Expense for 1 month (A/12)	4.13
C	Opening Fixed Assets for FY 2013-14	221.17
D	1% Spares budgeted for FY 13-14 (1% of C)	2.21
E	Maintenance spares budget post escalation @ 6%	2.34
F	Receivables for 2 months	10.43
G	Total Working Capital (B+E+F)	16.90
H	SBI short term PLR as on 01 April 2013	14.75%
I	<b>Interest on Working Capital</b>	<b>2.49</b>

The Petitioner humbly prays to the Honorable Commission to kindly review the calculation of interest on working capital and approves Rs. 2.49 Crore as interest on working capital for FY 2013-14.

#### **Commission's analysis and orders**

The Licensee have filed petition seeking true up of their business for FY 2013-14 and provisional true up of FY 2014-15 and also for determination of ARR and tariff for the FY 2016-17 on 05.02.2016. The audit report of FY 2013-14 was submitted by MeECL on 17.03.2016.

The Commission made clear the implications of the Regulations that the true up exercise without the C&AG audit report shall be interim approval only, subject to readjustment of revenue gap/surplus after filing of the petition along with C&AG reports. Similarly, without audited accounts like in FY 2014-15, it should only be treated as Review of the ARR and the same shall be subject to corrections on filing of the CAG audited accounts.

The Commission considers that the holding company, MeECL, has no business to spend/meet working capital requirement in the day to day operations. The O&M expenses of MeECL were absorbed by three new corporations' viz., MePGCL, MePTCL and MePDCL

whose functions and activities are being coordinated centrally by MeECL, till the transfer scheme has been implemented as per the Orders of Govt. of Meghalaya.

The Commission does not factor the O&M expenses and other components of MeECL for calculation of working capital needs of MePTCL, MePGCL and MePDCL.

The interest on working capital as per Regulation 77 for transmission tariff is considered as tabulated below:

Sl. No.	Particulars	Amount (Rs. Crore.)
1	O&M Expenses for 1 month (Excl. MeECL O&M Costs) i.e., (Rs.45.64 Crore /12)	3.81
2	1% of maintenance spares on opening GFA 1.4.2013 escalated at 6% P.A (Rs. 222.47 Crore)	2.36
3	Receivables for 2 months ( Rs. 68.57 Crore)	1143
	<b>Total</b>	<b>17.60</b>
4	<b>Interest at 14.45%</b>	<b>2.54</b>

**The Commission considers Rs. 2.54 Crore for Interest on Working Capital, in the review for FY 2013-14.**

**Depreciation:**

**Petitioner's submission**

In the original petition dated 9<sup>th</sup> February 2016, the Petitioner had proposed to allow the depreciation booked as per the audited accounts. However, the detailed methodology and calculation of depreciation, after consideration of value of fully depreciated assets, was not submitted. The Petitioner feels that because of this, the figures allowed by the Hon'ble Commission for depreciation are not matching with the actual figures as per accounts. The revised computations are presented before the Honorable Commission below:



**Table 4: Computation of Total Depreciation of MePTCL for FY 2013-14 (Rs. Crore)**

Asset Type	Opening Value	Closing Value	Average Value	Fully Depreciated Assets	Net Asset Value for Depreciation	MSERC Depreciation Rate	Depreciation
Land and Land Rights	1.30	1.62	1.46	0.00	1.46	0%	0.00
Buildings and Civil Works	11.83	13.01	12.42	0.20	12.22	3.34%	0.41
Plant & Machinery, Lines and Cable Networks	208.68	344.41	276.55	12.07	264.48	5.28%	13.96
Vehicles	0.03	0.03	0.03	0.03	0.00	9.50%	0.00
Furniture, Fixtures & Office Equipment	0.62	0.68	0.65	0.33	0.32	6.33%	0.02
<b>Total</b>	<b>222.46</b>	<b>359.75</b>	<b>291.11</b>	<b>12.63</b>	<b>278.48</b>		<b>14.39</b>

**Table 5: Computation of Net Depreciation for True up of FY 2013-14**

Sl. No.	Particulars	Amount (Rs. Crore)
a.	Total Depreciation	14.39
b.	Asset from Grants	1.08
c.	Less: Depreciation on (b) @average depreciation rate of 5.17%	0.05
<b>d.</b>	<b>Net Depreciation for True up</b>	<b>14.34</b>

The Petitioner humbly prays to the Honorable Commission to kindly approve the depreciation of Rs. 14.34 Crore for FY 2013-14 as against the approved figure of Rs. 13.55 Crore.

#### **Commission's order and analysis**

The Licensee have filed petition seeking true up of their business for FY 2013-14 and provisional true up of FY 2014-15 and also for determination of ARR and tariff for the FY 2016-17 on 05.02.2016. The audit report of FY 2013-14 was submitted by MeECL on 17.03.2016.

The Commission made clear the implications of the Regulations that the true up exercise without the C&AG audit report shall be interim approval only subject to readjustment of revenue gap/surplus after filing of the petition along with C&AG reports. Similarly, without audited accounts like in FY 2014-15, it should only be treated as Review of the ARR and the same shall be subject to corrections on filing of the CAG audited accounts.

The Commission had approved GFA as on 01.04.2013 at Rs. 131.10 Crore in the Tariff Order for FY 2013-14. The Petitioner has projected Rs. 44.67 Crore as addition during the FY 2013-14. The Commission in the Tariff Orders held that after the audited accounts are submitted, these figures shall be validated. As per the audited accounts opening GFA is at Rs. 222.47 Crore and the Petitioner has added Rs 138.66 Crore assets during FY 2013-14. The account disclose retirement at Rs. 1.37 Crore. The depreciation shall be calculated on 90% of asset value as per Regulation 78(d) of MSERC Regulations, 2011.

**Table 6: Depreciation for FY 2013-14 (Review)**

S. No.	Particulars	Amount (Rs. Crore)
1	Opening GFA as on 01.04.2013	222.47
2	Additions during FY 2013-14	138.66
3	Retirements during FY 2013-14	1.37
4	Closing GFA	359.75
5	Average Assets EXCL land value	289.66
6	Average Depreciation at 4.66%	13.53
7	Deduct Grants and Contributions value during the year	0.05
8	Net Depreciation	13.48

**The Commission approves Depreciation at Rs. 13.48 Crore in the review for the FY 2013-14.**

**Table 7: Revised ARR for FY 2013-14 (Review)**

(Rs. Crore)				
Sl. No	Particulars	Approved in the True up	Claimed for Review	Now approved
1	Return on Equity	9.43	46.95	15.17
2	O&M Expenses	49.54	-	49.54
3	Interest on working capital	2.15	2.49	2.54
4	Depreciation	13.55	14.34	13.48
5	Licensee Fee	0.04	-	0.04
6	SLDC charges	1.31	-	1.31

<b>Sl. No</b>	<b>Particulars</b>	<b>Approved in the True up</b>	<b>Claimed for Review</b>	<b>Now approved</b>
<b>7</b>	<b>Gross ARR</b>	<b>76.02</b>	-	<b>82.08</b>
8	Less: SLDC ARR	2.62	-	2.62
9	Less: Other Income	4.45	-	4.45
<b>10</b>	<b>Net ARR</b>	<b>68.95</b>	-	<b>75.01</b>
11	Revenue from Transmission Tariff	62.56	-	62.56
<b>12</b>	<b>Net Gap (Surplus)</b>	<b>6.39</b>	-	<b>12.45</b>

## **II. Provisional Review for FY 2014-15**

### **Return on Equity**

#### **Petitioner's submission**

Similar to FY 2013-14, the Hon'ble Commission has not considered the Equity Capital pending allotment as per the balance sheet of MePTCL for the purpose of computation of Return on Equity. The Return on Equity as computed by the Petitioner based on their Statement of Accounts is as follows:

**Table 8: Interest on Equity Capital for FY 2014-15 (Rs. Crore)**

<b>Particulars</b>	<b>Actual of MePTCL</b>
Equity considered for true up	367.51
RoE (%)	14%
Return on Equity	<b>51.45</b>

The Petitioner prays to the Honorable Commission to kindly allow the claims for Return on Equity.

#### **Commission's order and analysis**

The Commission had approved Return on Equity at Rs. 9.43 Crore in the Tariff Order of FY 2014-15 considering the equity held with the integrated utility (MeSEB/MeECL) at Rs.202 Crore divided equally among all three utilities.

The Commission made clear the implications of the Regulations that the true up exercise without the C&AG audit report shall be interim approval only subject to readjustment of revenue gap/surplus after filing of the petition along with C&AG reports. Similarly, without audited accounts for FY 2014-15, it should only be treated as Review of the ARR and the

same shall be subject to corrections on filing of the audited accounts. The Licensee shall file the petition as per the directions of the Commission along with C&AG audit report.

The claim of the licensee for equity capital projected for review at Rs. 367.51 Crore for FY 2014-15 does not correspond with the GFA held on 01.04.2014 at Rs. 359.76 Crore.

The Commission would like to refer to the APTEL judgement dated 17.12.2014 in Appeals No. 142 and 168 of 2013 between Mawana Sugar Ltd Vs PSERC and others. According to the APTEL findings the State Commission is not bound by the Transfer Scheme and the Audited Accounts. *“38. Admittedly, the Transfer Scheme as notified by the State Government is not under challenge. However, the State Commission is authorized to carry out a prudence check of the balance sheet. This Tribunal in the past has held that the State Commission is not bound to accept the figures as given in the audited balance sheet in to and can determine the return on equity and other expenses after prudence check. In this case, there was no induction of fresh funds and the equity as on the date of transfer has been increased from Rs. 2946.11 crores to Rs. 6687.26 crores. The increase as explained by PSPCL in their letter dated 26.2.2013 is on account of treating the consumer contribution and grants and subsidies towards the capital assets as standing in the audited accounts of the Electricity Board as equity. In our opinion, the State Commission should have allowed return on equity on the actual equity of Rs. 2946.11 crores to be apportioned to PSPCL and PSTCL.”*

The Commission in the circumstances considers as per the Books of Accounts the equity capital shall be computed on the Gross Fixed Assets and additions during the year to be compliant with the requirement of Regulations.

Accordingly, the GFA is considered at Rs. 359.76 Crore as on 01.04.2013, as appeared in the balance sheet. Equity capital at 30% of GFA at the end of FY 2013-14 works out to Rs. 110.80 Crore.

Accordingly, the equity capital and Return on Equity capital is computed in the Table below:

**Table 9: GFA-Equity- Return on Equity (Rs. Crore)**

GFA As on 01.04.2014	359.76
Additions during FY 2014-15	4.60
Closing GFA	364.36
30% equity capital on the GFA	107.93
30% of GFA additions	1.38
Closing Equity Capital	109.31
Average Equity	108.62
Return on equity at 14%	15.21

**The Commission approves Rs. 15.21 Crore towards RoE in the review Provisional True up for the FY 2014-15.**

### **Employee Expenses**

#### **Petitioner's submission**

MePTCL, in its true up petition has submitted its employee expenses for FY 2014-15 as Rs. 49.40 Crore inclusive of 1/3<sup>rd</sup> of the employee expenses of the Holding Company, MeECL. However, it may be noted that the Honorable Commission has erroneously considered this amount to be Rs. 46.19 Crore and has approved the same for provisional true up. In this regard, the relevant excerpt from the Tariff Order is given below:

*“The Commission considers that the O&M expenses are unavoidable and apportionment MeECL expenses as per the Tariff orders are payable through Tariff Orders.*

*The Commission considers O&M Expenses as per the accounts at Rs. 54.19 Crore for provisional True up for FY 2014-15.”*

As such, the Hon'ble Commission has stated that it is allowing the total O&M expenses including employee expenses based on accounts. However, the figure for employee expenses considered by the Hon'ble Commission as Rs. 46.19 Crore, is not matching with the account figures of Rs. 49.40 Crore. It is also important to note that during the calculation of interest on working capital for FY 2014-15, the employee expenses have been considered as Rs. 49.40 Crore instead of Rs. 46.19 Crore.

The Petitioner humbly requests the Honorable Commission to kindly review and rectify the error.

**Commission’s analysis and orders**

The Commission had approved O&M expenses provisionally at the previous year 2013-14 level. As per the unaudited statement of Accounts, employee cost reported at Rs. 46.19 Crore which includes Rs. 28.79 Crore for MeECL, R&M Expenses reported at Rs. 2.71 Crore and A&G Expenses reported at Rs. 3.24 Crore vide note 20, 21 and 22 respectively. The Employee Expense includes 1/3<sup>rd</sup> Share of MeECL.

The Commission considered the true up for FY 2014-15 as provisional in the absence of audited accounts.

The Commission considered that the O&M expenses are unavoidable and apportionment of MeECL expenses as per the approvals are payable through Tariff Orders.

The Commission considers O&M Expenses as per the accounts at Rs. 54.19 Crore for provisional True up for FY 2014-15 and requires no change for the present. The Error as observed by the Licensee was on account of typographical mistake, the correct number may be read as Rs. 54.19 Crore. Consequential variations in the working capital are now rectified and revised.

**Table 10: Revised Computation for Interest on Working Capital FY 2014-15 (Review)**

(Rs. Crore)		
Sl. No	Particulars	Amount
1	O&M, Expenses for 1 month (Rs. 42.62 Crore/12)	3.55
2	Maintenance & Spare at 1% of opening GFA escalated at 6%	3.82
3	Two months receivables (Rs. 75.71 Crore/12) x 2	12.62
4	Working capital Requirement	19.99
5	Interest at 14.75%	2.95

Table 11: Revised ARR for FY 2014-15 (Review)

(Rs. Crore)				
Sl. No	Particulars	Approved for True up	Claimed in the Review	Now approved
1	Return on Equity	9.43	51.45	15.21
2	O&M Expenses	54.19	-	54.19
3	Interest working capital	3.31	-	2.95
4	Depreciation	17.37	-	16.67
5	Annual Licensee fee	0.04	-	0.04
6	SLDC charges	1.17	-	1.17
<b>7</b>	<b>Gross ARR</b>	<b>85.51</b>	<b>51.45</b>	<b>90.23</b>
8	Less: Other Income	7.65	-	7.65
9	Less: SLDC ARR	2.34	-	2.34
10		75.52	-	80.24
11	Revenue from Transmission Tariff	81.90	-	81.90
<b>12</b>	<b>Net Gap / Surplus</b>	<b>6.38</b>	<b>-</b>	<b>1.66</b>

The review petition is hereby disposed off.

Shillong

Date: 30.03.2017

Chairman

MSERC