BEFORE THE HON'BLE MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION

.

IN THE MATTER OF:

Petition filed by the Meghalaya Power Transmission Corporation Limited (**MePTCL**) for MYT of Transmission Business FY 2018-19 to FY 2020-21 and Determination of Tariff for FY 2018-19.

AND IN THE MATTER OF:

Meghalaya Power Transmission Corporation Ltd
Lum Jingshai, Short Round Road,
Shillong - 793 001, Meghalaya ....Petitioner

Versus

Byrnihat Industries Association
13th Mile, Tamulikuchi, Byrnihat,
RiBhoi District, Nangpoh,
Meghalaya – 793101 …Objector

INDEX

Place: Shillong
Date: ___.01.2018

Filed by:

Byrnihat Industries Association

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SUGGESTIONS/ OBJECTIONS ON BEHALF OF BYRNIHAT INDUSTRIES ASSOCIATION

MOST RESPECTFULLY SHOWETH:

1. In pursuance of the admission order and the public notice issued pursuant thereto inviting objections and representations from the stake-holders in the State of Meghalaya, the Objector/ Respondent herein, M/s Byrnihat Industries Association ("**BIA**") is filing the present objections to the petition filed by the Meghalaya Power Transmission Corporation Limited (hereinafter referred to as '**MePTCL/ Petitioner**') seeking Multi Year Tariff ("MYT") for FY 2018-19 to

FY 2020-21 and determination of Tariff for FY 2018-19 under Meghalaya State Electricity Regulatory Commission (Multiyear Tariff Frame Work) Regulations, 2014 (hereinafter **'MYT Regulations'**).

2. The Objector is an Association of industrial consumers in the Brynihat area in the State of Meghalaya. It is submitted that the industries have been set up in the State of Meghalaya based on assurances and representations based on continuous and sustainable supply of electricity at competitive prices. The cost of electricity has risen exponentially over the years rendering the operations of industries in the State increasingly unviable.

3. The Objector is paying high amount of transmission charges to MePTCL every year for procurement of power through open access at its own cost. Although electricity is available on the power exchange at competitive prices, high open access charges & transmission charges have made the Objector's members uncompetitive on a national and global level. The open access transmission charges in Meghalaya for the past five years are as below:

Financial Year	**Transmission Charges (Rs/KWH)**	**% of increase in previous years**
2013-14	Rs.0.35/kWh	-
2014-15	Rs.0.46/kWh	31%
2015-16	Rs.0.73/kWh	108%
2016-17	Rs.0.75/kWh	114%
2017-18	Rs. 0.63/kWh*	-

**An appeal (Appeal No. 191 of 2017) has been filed by MePTCL against Tariff Order for FY 2017-18 before the Hon'ble Aptel.*

4. The high transmission charges & open access charges have led to decimation of competition in electricity market. Power tariff comprises 50-70% of the manufacturing cost of the Objector's members. It is pertinent to mention that electricity is available at competitive rate of Rs.2.50/kwh on the power exchange. Presently, the Objector is not even in position to utilize its full production capacity due to high amount of transmission & open access charges which have made procurement of power through open access unaffordable. The low utilization of capacity has resulted a higher production cost of the end products those are not marketable in present competitive environment. It is also important to note that in the recent years, the State of Meghalaya has become a power surplus state. Also, being rich in Hydro Power Generation, the consumers in the state ought to have significantly lower power procurement costs, resulting into lower tariff across all the categories.

5. The Hon'ble Commission has approved transmission charges & open access charges in Meghalaya at Rs.0. 63/kWh & Rs.1.34/kWh respectively for the EHT category during the FY 2017-18.

6. Presently the objector is struggling with stranded production capacity because of high amount of transmission & open access charges. In order to submit a comprehensive and detailed analysis of the instant Petition, the Objector has worked with expert consultant, Mercados. A copy of the report prepared by the expert consultant, Mercados, is annexed as **Annexure 1.**

7. In the instant submissions the Objector has dealt with the principles to be adopted while determining MYT for FY 2018-19 to 2020-21 and accordingly calculated the total allowable Aggregate Revenue Requirement (“ARR”).

I. Principles to be adopted for determination of MYT for FY 2018-19 to 2020-21

8. It is stated that the Petitioner is seeking determination of MYT for FY 2018-19 to 2020-21 based on audited accounts of FY 2015-16 and provisional account of FY 2016-17. However, the accounts have not been made available. The Objector has sought the annual accounts from this Hon’ble Commission as well. However, the Objector is yet to receive the annual accounts submitted by the Petitioner. For the Objector to verify the reasonableness of the projections and claims made by the Petitioner, it is necessary that the basis for such projections be made public.

a. Gross Fixed Assets (“GFA”)

9. The Petitioner has claimed a GFA based on the opening balance of GFA as on 1.4.2016 at Rs. 434.49 cr. and the closing GFA for each year of the control period is worked out by the Licensee considering actual capitalization during 2016-17, estimated capitalization during 2017-18 and projections during the MYT period based on its investment plan approved by this Hon’ble Commission.

10. Against an approved capex of Rs. 739.17 cr., the Petitioner has incurred an estimated expenditure of Rs. 418.70 cr. during 2017-18. It is evident from the data submitted in tariff formats and the past data approved in tariff orders that against the approved expenditure of Rs. 99.31 cr. in 2014-15, Rs. 77.97 cr. in 2015-16 and Rs. 33.3 cr. in 2016-17, the Petitioner has capitalised an amount of only Rs. 4 cr. in 2014-15, Rs. 59 cr. in 2015-16 and Rs. 4.39 cr. in 2016-17.

11. From the table below it is evident that the Petitioner always seeks to get approval for huge amount of capital expenditure but is never able to execute the project. As a result, unrealistic capex approval results in burdening the state consumers with erroneously high average cost of service.

(In INR Crore)

Year	**Approved Expenditure**	**Actual capitalized amount**
2014-15	99.31	4
2015-16	77.97	59
2016-17	33.3	4.39

12. Thus, it is evident that the Petitioner has been unable to make timely investments towards improvement of transmission network and has been unnecessarily burdening the consumers in terms of interest costs. Hence, it is prayed that the Hon’ble Commission may review the costs claimed by the Petitioner and direct the Petitioner to explain how the amount approved for expenditure is being spent.

b. Debt Equity Ratio

13. The Petitioner has purportedly submitted its projections for debt equity ratio as per Regulation 27 of the MYT Regulations. Regulation 27 of the MYT Regulations reads as under:

"***27 Debt-Equity Ratio***

27.1 For a project declared under commercial operation on or after 1.4.2015, if the equity actually deployed is more than 30% of the capital cost, equity in excess of 30% shall be treated as normative loan;

Provided that where equity actually deployed is less than 30% of the capital cost, the actual equity shall be considered for determination of tariff.

Provided further that equity invested in foreign currency shall be designated in Indian rupees on the date of each investment.

Provided any grant obtained for execution of the project shall not be considered as a part of capital structure for the purpose of debt-equity ratio.

…..

27.2 In case of the generating station and the transmission system declared under commercial operation prior to 1.4.2015, debt-equity ratio allowed by the Commission for determination of tariff for the period ending 31.3.2015 shall be considered."

14. The Petitioner has claimed an opening debt of INR 94.41 Crore and opening equity base of INR 407.30 Crore as on 01.04.2016 against an opening GFA of INR 434.49 Crore. The Objector wishes to point out the following inconsistencies in the submissions of the Petitioner:

- The Petitioner in para 5.2.4 of its petition, filed for true up of FY 2014-15, provisional true up of FY 2015-16 and mid-term review of 1st MYT control period FY 2015-16 to 2017-18 and determination of transmission tariff for FY 2017-18, submitted that 95% of the total capital investment planned in respect of the North East Region Power System Improvement Project (NERPSIP) i.e. around INR 569 cr. out of INR 599 cr., is in the form of grant from the Central Government and only 5% i.e. Rs. 30 cr. is in the form of loan to the Petitioner;
- It is noteworthy that the Hon'ble Commission has inadvertently approved the entire component of grant as equity in its Tariff Order dated 31.10.2017 while approving the Business Plan and the Petitioner has erroneously included the grant as equity in the same manner in its instant Petition. This cannot be allowed and this Hon'ble Commission may calculate the equity component only after deducting grants from the GFA;
- Perusal of the 'NERPSIP SANCTION ORDER' dated 01.12.2014 available on Ministry of Power's web portal also depicts that the implementing agency, Power Grid Corporation of India Ltd. has considered interest during construction (IDC) only on the loan component of World Bank and not on the grant. Since there are almost no costs in implementation of NERPSIP works, all these cost components should not be included as equity in the instant Petition;
- Considering the huge investments towards NERPSIP works, it is prayed that instead of the total investments planned during MYT the Petitioner be directed

to furnish the breakup of actual investments done till date corresponding to NERPSIP works and 'other works' as approved by the Hon'ble Commission.

- From the data provided in the Petitioner, it can be interpreted that NERPSIP works will be completed and all the assets will be commissioned by June 2019. However, the Petitioner has projected capitalization of entire amount towards NERPSIP assets by 2018-19. It is surprising to observe that the Petitioner has projected capitalization of such a huge amount by 2018-19 without the entire system being put to use and commissioned by the year 2018-19. This Hon'ble Commission may not approve such capitalization as the it will artificially inflate the average cost of service thereby placing unnecessary burden on consumers;

15. Even though the Petitioner has not furnished any break up towards capital investment for NERPSIP and 'other works', the Objector has estimated the debt :equity :grant constituents in the additional capital expenditure as below:

(In INR Crore)

Particulars	**2016-17 (Provisional)**	**2017-18 (Estimated)**	**2018-19 (Projected)**	**2019-20 (Projected)**	**2020-21 (Projected)**
Debt	3.07	38.36	211.76	76.94	274.93
Equity	1.32	16.44	90.75	32.98	117.83
Grant	-	87.23	481.56	--	-
Total additional capital expenditure	**4.39**	**142.03**	**784.07**	**109.92**	**392.75**

c. Equity base, addition during MYT and Return on Equity

16. The Petitioner has claimed Return on Equity ("ROE") based on an opening equity base of INR 407.30, as on 01.04.2016, as opposed to this Hon'ble Commission approved normative base of INR 109.31 Crore, as on 31.03.2015. The Petitioner is seeking approval of INR 80.82 Crore, INR 99.02 Crore and INR 109.85 Crore as ROE for FY 2018-19, 2019-20 and 2020-21, respectively. The Hon'ble Commission in para 4.2 on page 38 of its order, dated 31.03.2017, observed as under:

"4.2 Return on Equity

………

The Commission observed that Equity Capital projected does not tally with the total Asset base which is Rs. 359.75 Crore as on 31.03.2014.

The Commission referred to the APTEL Judgment dated 17.12.2014 in appeal 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 provision and the statement of accounts.

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, 74 read with Regulations 72."

17. On perusal of the annual accounts for FY 2014-15 it was found that during the said period the subscribed equity capital was only INR 5 lakh. Since the Petitioner has not made available the accounts of subsequent years, it is prayed that the Hon'ble Commission may allow equity base on normative base to the

tune of 30% after taking into consideration the significant amount of grant that has gone into capital investment. As the Petitioner has not furnished the components of grants in the GFA, the same may be assumed at 90%. In earlier orders also similar approach has been followed by this Hon'ble Commission. Accordingly, the allowable ROE, as assessed by the Objector, for the MYT period is:

(In INR Crore)

Particulars	**2016-17 (Provisional)**	**2017-18 (Estimated)**	**2018-19 (Projected)**	**2019-20 (Projected)**	**2020-21 (Projected)**
Opening Equity	130.35	131.01	139.23	184.60	201.09
Equity added during the year (A)	-	106.92	227.03	145.66	141.9
30% of GFA (adjusted for grant) added each year (B)	1.32	16.44	90.75	32.98	117.83
Addition of Equity (Lower of A & B)	1.32	16.44	90.75	32.98	117.83
Closing Equity	131.66	148.10	238.86	271.83	389.66
Equity Base	131.01	139.88	193.48	255.34	330.74
ROE (%)	14%	14%	14%	14%	14%
Return on Equity	**18.34**	**19.58**	**27.09**	**35.75**	**46.30**

d. Interest on Loan

18. The Petitioner, under interest and finance charges on loan, is claiming additional loan of INR 209.55 Crore, for the FY 2016-17 to 2020-21. It has claimed interest cost based on the opening loan balance of INR 94.41 Crore, as on 01.04.2016. As has been submitted above the Petitioner is yet to submit

information of capital expenditure funded by grants and by debt. It is also yet to acknowledge the quantum of grant that has gone into capital investments during the said period. On account of such gross inconsistencies it is prayed that the Hon'ble Commission conduct a strict prudence of the capital expenditure of the Petitioner and the funding patter of the same. The Petitioner, may also be directed to furnish the details of its complete loan schedule, interest paid and any dues, if existing.

19. The Objector, on the basis of the opening loan balance claimed by the Petitioner and addition during the period based on the grant component explained above, worked out the interest on loan allowable to the Petitioner. The Objector has further considered the loan repayment as being equal to the amount of depreciation during the year and the rate of interest as being equal to the rate of interest being claimed by the Petitioner.

(In INR Crore)

Particulars	**2016-17 (Provisional)**	**2017-18 (Estimated)**	**2018-19 (Projected)**	**2019-20 (Projected)**	**2020-21 (Projected)**
Opening Balance	94.41	76.84	96.55	278.32	309.90
Addition during the Year	3.07	38.36	211.76	76.94	274.93
Repayment during the year	20.64	18.65	29.99	45.36	52.47
Closing Balance	76.84	96.55	278.32	309.90	532.36
Average Interest Rate	11.27%	10.59%	10.24%	9.86%	9.56%

Interest Payable	9.65	9.18	19.19	29.00	40.26
Add: Finance Charge and MeECL Apportioned	3.47				
Interest and Finance Charges	**13.12**	**9.18**	**19.19**	**29.00**	**40.26**

e. Operation and Maintenance Expenses

20. The Petitioner is claiming operation and maintenance expenses ("O&M expenses") purportedly on the basis of the methodology adopted by the Hon'ble CERC in Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2014 and Regulation 69.3 of the MYT Regulations. Accordingly, the Petitioner is claiming INT 87.25 Crore, INR 80.83 Crore, INR 91.91 Crore, INR 151.83 Crore and INR 173.48 Crore as O&M expenses for FY 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21, respectively.

21. However, the Petitioner has failed to submit detailed computations towards determination of O&M norms, being claimed by it in the Petition. The Objector submits as under:

- Determination of O&M norms based on past data does not truly reflect prudent costs;
- As the Petitioner has not provided the accounts for FY 2016-17, it is difficult to understand how the Petitioner has arrived at such norms;

- It is also important to note that only normative expenses and not actual expenses are to be considered for arriving at such norms;
- The Petitioner has vaguely considered the escalation rates as 13.71%, 65.19% and 14.26% for estimating the norms during MYT period;
- Also, no basis has been provided by the Petitioner for the MVA capacity and length of transmission line circuit in km ("ckt km") considered by it for determination of norms. Since the necessary information has neither been made available by the Petitioner nor appears in the business plan approved by the Hon'ble Commission, the Objector has been unable to analyse the norms.

22. Regulation 69 of the MYT Regulation provides for O&M expenses. The relevant extracts of Regulation 69 are as under:

"*69.3 The norms for O&M expenses on the basis of circuit kilometers of transmission lines, transformation capacity and number of bays in substations shall be submitted for approval of the Commission.*

69.4 The Commission shall verify the budget estimates and projections and allow the expenditure depending on its views about the reasonableness of the projections."

23. On account of the aforementioned deficiencies the Objector has worked out the norms based on the best available data and a more organised approach. The Objector has considered as under:

- Actual data has been considered till the last true up order issued by the Hon'ble Commission i.e. 2014-15 and data for 2015-16 has been considered as submitted in the last provisional true petition;
- The employee, R&M and A&G expenses have been considered for 2013-14 and 2014-15 as approved in the true-up orders and for 2015-16 as submitted by the Petitioner in its provisional true-up Petition;
- The asset details have been considered as per the business plan submitted by the Petitioner for 2015-16 to 2017-18 and for 2017-18 to 2020-21 has been considered based on the instant Petition;
- For the purpose of escalation of norms during the MYT period, it is pointed out that the Central Electricity Regulatory Commission (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2017 notified on 17.4.2017 consider a weightage ratio of 40:60 between CPI & WPI.
- This is a reasonable ratio to use, wherein higher weightage is given to WPI inflation, as this is more relevant to a prudent utility business run on commercial principles, as WPI inflation is what affects the cost of spares and plant and machinery;
- Further, the Hon'ble CERC in pursuance of Clause 5.6 (vi) of Ministry of Power Notification on "Guidelines for Determination of Tariff by Bidding Process for Procurement of Power by Distribution Licensees", dated 19.01.2005, as amended from time to time, has notified the Annual Escalation Rates for the purpose of payment for Procurement of Power by Distribution licensees applicable for the period from 1.10.2017 to 31.03.2018 vide

notification dated 10.10.2017. In the Explanation dated 5.10.2017 to the aforesaid notification, the Hon'ble CERC has considered 55:45 ratio of CPI:WPI for arriving at the escalation rates.

- Based on the aforesaid arguments and the existing low inflation scenario, the escalation factor has been worked out based on the CPI:WPI ratio of 55:45 as below:

	2013-14	2014-15	2015-16
CPI	236	250.83	265
CPI Increase	9.68%	6.28%	5.65%
WPI	112.46	113.88	109.72
WPI Increase	5.20%	1.26%	-3.65%
CPI:WPI (55:45)*	7.67%	4.02%	1.46%
Average Inflation (2013-14 to 2015-16)	**4.38%**		

**Explanation for the notification on escalation factors and other parameters for tariff based competitive bidding for transmission service, dated 05.10.2017*

- In view of the above, the Objector submits that the escalation rate for determination of O&M norms should in no case be considered more than 4.38%.
- Accordingly, the O&M norms have been worked out by the Objector as below:

Actual expenses

(in Rs. cr.)

	2013-14	2014-15	2015-16
Employee Cost	43.76	51.33	58.15
R&M	3.24	2.52	1.46
A&G	2.54	5.35	2.42
Total O & M Expense	**49.54**	**59.20**	**62.03**

Existing capacity

	2013-14	2014-15	2015-16
Transmission Capacity (MVA)	1615	1655	1655

Average No of Lines (CKM)	1223	1228	1228

O&M norms

	2013-14	2014-15	2015-16
O&M Cost/ MVA	0.021	0.025	0.026
O&M Cost/ CKM	0.012	0.014	0.015

Projected capacity

	2016-17	2017-18	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Transmission Capacity (MVA)	1650	1760	1785	2855	2895
Average No of Lines (CKM)	1226.8	1268	1412	1890	2149

Escalated norms

	2016-17 (average of past 3 years)	2017-18	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
O&M Cost/ MVA	0.025	0.026	0.028	0.029	0.030
O&M Cost/ CKM	0.014	0.015	0.015	0.016	0.017

O&M expenses based on above norms:

(in Rs. cr.)

	2016-17	2017-18	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Total O & M Expense	58.85	64.93	70.65	112.12	122.52

Thus, the Hon'ble Commission is requested to allow O&M expenses in accordance to the above calculations as submitted by the Objector.

f. Interest on Working Capital

24. The Petitioner has claimed working capital requirements to the tune of Rs. 52.49 Crore, Rs. 77.92 Crore and Rs. 89.04 Crore in 2018-19, 2019-20 and 2020-21 respectively, on normative basis purportedly based on Regulation 34.2 of MYT. Regulation 34.2 reads as under:

"34.2 Transmission:

(i) The Transmission Licensee shall be allowed interest on the estimated level of working capital for the financial year, computed as follows:

- *Operation and maintenance expenses for one month; plus*
- *Maintenance spares at one (1) per cent of the historical cost escalated at 6% from the date of commercial operation; plus*
- *Receivables equivalent to two (2) month of transmission charges calculated on target availability level;*

Interest on working capital shall be allowed at a rate equal to the State Bank Advance Rate (SBAR) as on 1st April of the financial year in which the Petition is filed."

25. It is submitted that considering the aforementioned changes in O&M expenses, the working capital requirements needs to be revised. Also, non-consideration of grants in the GFA has impact on the amount of maintenance spares to be

included in the working capital requirements. Further, the rate of interest for purpose of calculating the working capital shall be 14%, as revised by the SBI. Accordingly, the re-worked working capital requirement and interest on working capital is as under:

(in Rs. Crore)

Sl. No.	Particulars	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
A	O&M Expenses for 12 months	58.85	64.93	70.65	112.12	122.52
B	O&M Expense for 1 month (C/12)	4.90	5.41	5.89	9.34	10.21
C	Average Fixed Assets for the Year	436.66	466.22	732.10	1419.88	1671.22
D	1% Spares budgeted for FY 13-14 (1% of E)	4.37	4.66	7.32	14.20	16.71
E	Receivables for 2 months	14.76	14.48	19.97	32.54	38.75
F	Total Working Capital (B+D+E)	24.03	24.56	33.18	56.08	65.67
G	SBI short term PLR	14%	14%	14%	14%	14%
H	Interest on Working Capital	3.36	3.44	4.65	7.85	9.19

g. Provision for Bad Debts

26. The Petitioner has simply claimed a bad debt of INR 20.51 Crore during year of the control period to recover the outstanding receivables in the books of accounts. The Petitioner has not provided any details nor made the accounts public but has merely stated that it has huge receivables from the transmission

charges billed to MePDCL, as provided in audited statement of FY 2016-16. It is submitted that this is against the provisions of the MYT Regulations. Regulation 95 of the MYT Regulation clearly states that Hon'ble Commission may allow bad and doubtful debts after the distribution licensee gets the receivables audited. Regulation 95 reads as under:

"***95 Bad and Doubtful Debts***

95.1 The Commission may after the distribution licensee gets the receivables audited, allow a provision for bad debts not exceeding an amount equal to 1 percent receivables in the revenue requirement of the licensee."

27. Since there has been no audit of the receivables for the past years, it is prayed that the Hon'ble Commission dismiss the Petitioner's claim for bad and doubtful debts.

h. Total Allowable Aggregate Revenue Requirement (ARR)

28. In light of the above submissions, the allowable ARR for the MYT control period, as per the Objector's assessment, is as under:

S. NO.	Particulars	2017-18 (Estimated)		
		Petitioner's Claim	BIA's Assessment	Proposed Disallowance
1	Return on Equity (RoE)	61.95	19.49	42.46
2	Interest and Finance Charges	11.12	9.18	1.94
3	Operation and Maintenance Expenses	80.83	64.93	15.90
4.	Interest on Working Capital	5.64	3.44	2.20
5.	Depreciation as maybe allowed	18.65	18.65	0.00

6.	SLDC Charges	1.15	1.15	0.00
7.	Prior Period Expenses			0.00
8.	Provision for bad debts	20.51	0.00	20.51
	Total Annual Expenditure	**199.85**	**116.84**	**83.01**
9.	Less: SLDC ARR	2.30	2.30	0.00
	Net Annual Expenditure	**197.55**	**114.54**	**83.01**
10.	Less: Other Income	27.74	27.74	0.00
	Net Annual Revenue Requirement	**169.81**	**86.80**	**83.01**

S. NO.	**Particulars**	**2018-19 (Projected)**		
		Petitioner's Claim	**BIA's Assessment**	**Proposed Disallowance**
1	Return on Equity (RoE)	61.95	19.58	42.37
2	Interest and Finance Charges	11.12	9.18	1.94
3	Operation and Maintenance Expenses	80.83	64.93	15.90
4.	Interest on Working Capital	5.64	3.44	2.20
5.	Depreciation as maybe allowed	18.65	18.65	0.00
6.	SLDC Charges	1.15	1.15	0.00
7.	Prior Period Expenses			0.00
8.	Provision for bad debts	20.51	0.00	20.51
	Total Annual Expenditure	**199.85**	**116.93**	**82.92**
9.	Less: SLDC ARR	2.30	2.30	0.00
	Net Annual Expenditure	**197.55**	**114.63**	**82.92**
10.	Less: Other Income	27.74	27.74	0.00
	Net Annual Revenue Requirement	**169.81**	**86.89**	**82.92**

S. NO.	**Particulars**	**2019-20 (Projected)**		
		Petitioner's Claim	**BIA's Assessment**	**Proposed Disallowance**

1	Return on Equity (RoE)	80.82	27.09	53.73
2	Interest and Finance Charges	11.72	19.19	-7.47
3	Operation and Maintenance Expenses	91.91	70.65	21.26
4.	Interest on Working Capital	7.37	4.65	2.72
5.	Depreciation as maybe allowed	29.98	29.99	-0.01
6.	SLDC Charges	1.21	1.21	0.00
7.	Prior Period Expenses			0.00
8.	Provision for bad debts	20.51	0.00	20.51
	Total Annual Expenditure	**243.54**	**152.78**	**90.76**
9.	Less: SLDC ARR	2.42	2.42	0.00
	Net Annual Expenditure	**241.12**	**150.36**	**90.76**
10.	Less: Other Income	30.51	30.51	0.00
	Net Annual Revenue Requirement	**210.61**	**119.84**	**90.77**

S. NO.	**Particulars**	**2020-21 (Projected)**		
		Petitioner's Claim	**BIA's Assessment**	**Proposed Disallowance**
1	Return on Equity (RoE)	99.02	35.75	63.27
2	Interest and Finance Charges	13.57	29.00	-15.43
3	Operation and Maintenance Expenses	151.82	112.12	39.70
4.	Interest on Working Capital	10.95	7.85	3.10
5.	Depreciation as maybe allowed	45.35	45.36	-0.01
6.	SLDC Charges	1.27	1.27	0.00
7.	Prior Period Expenses			0.00
8.	Provision for bad debts	20.51	0.00	20.51
	Total Annual Expenditure	**342.50**	**231.35**	**111.15**
9.	Less: SLDC ARR	2.54	2.54	0.00
	Net Annual Expenditure	**339.96**	**228.81**	**111.15**
10.	Less: Other Income	33.56	33.56	0.00

	Net Annual Revenue Requirement	**306.40**	**195.24**	**111.16**

29. Accordingly, as is evident from the tables above, as per the Objector's assessment of ARR, the Petitioner's claim merit significant disallowance. Thus, the new transmission charge worked out by the Objector is as under:

S. No.	**Particulars**	**2017-18 (Estimated)**	**2018-19 (Projected)**	**2019-20 (Projected)**	**2020-21 (Projected)**
1.	Annual Transmission Charges (INR Lakhs)	8689.40	11984.33	19524.49	23249.68
2.	Transmission Capacity as per MYT Regulations (MW)	661.50	729.50	758.00	758.00
3	Transmission Tariff (Rs/MW/Day)	3598.88	4500.86	7056.96	8403.40
4	Energy Transfer (MU)	2747.63	3105.86	3105.86	3105.86
	Transmission Tariff (Paise/ Unit)	**31.63**	**38.59**	**62.86**	**74.86**

II. CONTINUOUS NON-COMPLIANCE BY THE PETITIONER

30. As has already been submitted above the Petitioner is in a habit of non-complying with the directives of this Hon'ble Commission. Despite repeated directions by this Hon'ble Commission the Petitioner has not submitted C&AG accounts of the previous years. It is pertinent to note that in para 1.6 on page 7 of the Tariff Order dated 31.03.2017 the Hon'ble Commission observed that in light of the order of the Hon'ble Tribunal in OP No. 1 of 2011 it considered the

petition of transmission licensee and directed it to submit the audited financial statements. However, the Petitioner neither submitted the C&AG audit report for the FY 2014-15 nor the statutory auditor's report of MePTCL for the FY 2014-15. The Hon'ble Commission then directed the Petitioner as under:

"The Commission directs that the true up exercise without the C&AG audit report shall be interim (provisional) arrangement only subject to readjustment of revenue gap/surplus after filing of the another petition along with C&AG reports by MePTCL."

However, despite such clear directions the Petitioner has not submitted the account statements.

31. Further, the Hon'ble Commission had directed the Petitioner to submit its investment plan, proposed to be implemented in the control period, along with the statutory auditor report for FY 2017-18. The Petitioner is yet to do the same. Due to this the proposed investment plan is still pending approval.

32. Finally, the Petitioner had, for FY 2014-15, claimed employee expenses in excess of 41.65% over the approved level. Thereafter, the Petitioner was directed to submit a detailed component wise analysis of employee expenses. This is also yet to be done.

33. The above aspects may be taken into consideration. The Objector craves leave to substantiate the above arguments and submit such material as may be

required in the process of tariff determination. The Objector also craves leave to make oral submissions in the public hearing to be conducted by the Hon'ble Commission.

DATE:	**BRYNIHAT INDUSTRIES**
PLACE:	**ASSOCIATION**
	(OBJECTOR)

BEFORE THE MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION, SHILLONG

IN THE MATTER OF:

Petition filed by the Meghalaya Power Transmission Corporation Limited (**MePTCL**) for MYT of Transmission Business FY 2018-19 to FY 2020-21 and Determination of Tariff for FY 2018-19.

AND IN THE MATTER OF:

Meghalaya Power Transmission Corporation Ltd
Lum Jingshai, Short Round Road,
Shillong - 793 001, Meghalaya

....Petitioner

Versus

Byrnihat Industries Association
13th Mile, Tamulikuchi, Byrnihat,
RiBhoi District, Nangpoh,
Meghalaya – 793101

……. Objector/ Respondent

AFFIDAVIT IN SUPPORT

I Shyam Sundar Agrawal, son of Late Mr. Bhagwan Das Agrawal, aged about 61 years, Secretary of the Appellant Association, resident of 14 Bhajanka Building, GS Road, Dispur, Guwahati-781005, do solemnly affirm as follows:

1. I am Secretary of Byrnihat Industries Association, the Objector/Respondent in the above matter and am duly authorized by the said Objector/ Respondent to make this affidavit on its behalf.

2. I say that the facts contained in the accompanying objection is based on the records of the Objector Association maintained in its ordinary course of business

and believed by me to be true. I say that the submissions are based on legal advise received and believed by me to be true.

DEPONENT

<u>VERIFICATION</u>

I, the deponent above named, do hereby verify the contents of the accompanying affidavit to be true to the best of my knowledge, no part of it is false and nothing material has been concealed therefrom.

Verified at Shillong on this ……. day of January, 2018.

DEPONENT

Byrnihat Industries Association
(BIA)

Statement of Objections
on
Filing of the Petition for Multi Year Tariff
for FY 2018-19 to FY 2020-21
&
determination of Tariff for FY 2018-19 under the
Meghalaya State Electricity Regulatory Commission
(Multi Year Tariff) Regulations 2014
by the

Meghalaya Power Transmission Corporation Limited (MePTCL)
As the Transmission Licensee

January, 2018

TABLE OF CONTENTS

THE STATEMENT OF OBJECTIONS BY THE OBJECTOR

1 INTRODUCTION

The transmission licensee namely Meghalaya Power Transmission Corporation Limited (hereinafter referred to as the 'MePTCL' or 'Petitioner' or 'transmission company' or 'Licensee'), has begun segregated commercial operations as an independent entity from 1st April 2013 onwards. MePTCL has filed the Petition for Multi Year Tariff for FY 2018-19 to FY 2020-21 & determination of Tariff for FY 2018-19 in terms of the Meghalaya State Electricity Regulatory Commission (Multi Year Tariff) Regulations, 2014 (hereinafter referred to as 'Tariff Regulations').

The present Statement of Objections is being filed on behalf of the Byrnihat Industries Association (hereinafter referred to as the "Objector"), a society registered under the Meghalaya Societies Registration Act, 1983 having its registered Office at Byrnihat, Ri-Bhoi District, Meghalaya. The Byrnihat Industries Association was formed by the different industrial units for the welfare, smooth and effective functioning of its units. The Petitioner regularly participates in the proceedings related to determination of ARR and Tariff by the State Commission and also takes up the other issues concerning its Members. The HT & EHT Industrial consumers though comprise only 0.043% of the total number of consumers in the State, account for around 42% of total energy consumption and 46.50% of total revenue from the sale of power as in 2014-15. The special characteristics of the Industrial consumers that benefit the Utilities are:

- They are the subsidising category of consumers for the utilities. Hence they are the revenue earners ensuring better returns for the utilities.
- The Load curve and consumption pattern enable better capacity utilisation and low Cost of Service for the Utilities in comparison to LT consumer categories.

In recent years, Meghalaya has witnessed firming up of power capacity from several sources and an increase in own generation capacity, thus moving towards becoming a net power exporter from a being power deficit State. Being abundantly rich in Hydro Power Generation, the consumers in the State of Meghalaya ought to have a considerably lower power procurement costs resulting into lower tariffs across all the categories along with the low industrial tariffs. However, the tariff hikes in the recent years have disproportionately burdened the consumers of Meghalaya.

The key Points of Objections in terms of the present Petition filed by the Licensee are with respect to several key aspects as below:

1. Annual Accounts
2. Gross Fixed Assets
3. Debt: equity ratio
4. Equity base, addition during the MYT period and Return on Equity
5. Opening loan balance, addition during the MYT period and Interest on Loan
6. Operation & Maintenance norms
7. Interest on Working Capital
8. Provision of bad debts
9. Earlier directives
10. Transmission capacity and energy transfer

The brief facts, propositions, analysis, grounds and point wise objections to the instant Petition are narrated herein below-

2 MYT for 2018-19 to 2020-21

2.1 Annual Accounts- lack of transparency

The Petitioner has submitted the following approach for filing the instant Petition:

> ***"3.1 Approach***
>
> *In accordance with the provisions of the MYT Regulations, 2014, the MePTCL hereby submits ARR for FY 2018-19 to FY 2020-21 based on* ***audited actuals of FY 2015-16 and provisional of FY 2016-17****.*
>
> *MePTCL had submitted the Business plan for FY 2018-21 including capital investment plan, financing plan, physical targets etc. which has been approved by the Commission. The licensee is using it as a base along with the actual data of FY 2015-16 and FY 2016-17 as per statement of accounts for determination of ARR for future periods."*

Contrary to the aforementioned claim, the Petitioner has not provided the Annual Accounts of 2015-16 and 2016-17 in the annexures of its Petition. For the Objector to verify the reasonableness of projections during the MYT period, it is pertinent that the basis for such projections be made available in public. The Accounts are not available even on the web-portal of Petitioner.

2.2 Gross Fixed Assets

The Licensee has claimed the Gross Fixed Assets based on the opening balance of GFA as on 1.4.2016 at Rs. 434.49 cr. and the closing GFA for each year of the control period is worked out by the Licensee considering actual capitalization during 2016-17, estimated capitalization during 2017-18 and projections during the MYT period based on its investment plan approved by the Hon'ble Commission.

Against an approved capex of Rs. 739.17 cr., the Petitioner has incurred an estimated expenditure of Rs. 418.70 cr. during 2017-18. It is evident from the data submitted in tariff formats and the past data approved in tariff orders that against the approved expenditure of Rs. 99.31 cr. in 2014-15, Rs. 77.97 cr. in 2015-16 and Rs. 33.3 cr. in 2016-17, the Petitioner has capitalised an amount of only Rs. 4 cr. in 2014-15, Rs. 59 cr. in 2015-16 and Rs. 4.39 cr. in 2016-17. The Petitioner has a history of getting approvals for a huge amount of capital expenditure and then failing to execute the projects in time.

The data available clearly depicts failure of the Petitioner to make timely investments towards improvement of the transmission infrastructure despite the fact that it has been constantly showing increase in expenditure towards all other heads. This failure would ultimately reflect in high cost burden on the consumers of the State in terms of increase in interest costs etc.

The Objector requests the Hon'ble Commission to kindly review the costs claimed by the Petitioner against the aforesaid backdrop of investments done by the Petitioner.

2.3 Debt: equity ratio

The Petitioner has claimed the opening debt at Rs. 94.41 cr. and opening equity base of Rs. 407.30 cr. on 1.4.2016 against an opening GFA of Rs. 434.49 cr. Clause 27 of the Tariff Regulations provides as below:

> *"**27 Debt-Equity Ratio***
>
> *27.1 For a project declared under commercial operation on or after 1.4.2015, if the equity actually deployed is more than 30% of the capital cost, equity in excess of 30% shall be treated as normative loan;*
>
> *Provided that where equity actually deployed is less than 30% of the capital cost, the actual equity shall be considered for determination of tariff.*
>
> *Provided further that equity invested in foreign currency shall be designated in Indian rupees on the date of each investment.*
>
> *Provided any grant obtained for execution of the project shall not be considered as a part of capital structure for the purpose of debt-equity ratio.*
>
> *…..*
>
> *27.2 In case of the generating station and the transmission system declared under commercial operation prior to 1.4.2015, debt-equity ratio allowed by the Commission for determination of tariff for the period ending 31.3.2015 shall be considered."*

The Objector wishes to point out the following inconsistencies with respect to the opening debt and equity on 1.4.2016:

a) The Objector has no access to the Petition filed by Licensee for its Business plan approval for 2018-19 to 2020-21. However, perusal of table 5 and table 7 of the Petition for Business Plan of 2015-16 to 2017-18 would depict that 95% of the total capital investment planned in respect of the North East Region Power System Improvement Project (NERPSIP) i.e. around Rs. 569 cr. out of Rs. 599 cr., **is in the form of grant** from the Govt. of India and only 5% i.e. Rs. 30 cr. is in the form of loan to MePTCL;

b) The significant grant component of NERPSIP outlay is also reflected in the 'NERPSIP SANCTION ORDER' dated 1.12.2014 available on Ministry of Power's web portal. The sanction order depicts that even the implementing agency viz. Power Grid Corporation of India Ltd. has considered interest during construction (IDC) only on the loan component of World Bank. When there are almost no costs in implementation of NERPSIP works, it belies any rationale to include all these cost components as equity in the instant Petition;

c) It is noteworthy that the Hon'ble Commission has inadvertently approved the entire component of grant as equity in its Order dated 31.10.2017 while approving the Business Plan and the Petitioner has mischievously included the investments as equity in the same manner in its instant Petition;

d) Considering the huge investments towards NERPSIP works, the Petitioner should have furnished the breakup of actual investments done till date corresponding to NERPSIP works and 'other works' approved by the Hon'ble Commission. Instead, the Petitioner has furnished the total investments planned during the MYT period;

e) From the data provided in the Petitioner, we can only decipher that NERPSIP works will be completed and all the assets will be commissioned by June 2019. However, the Petitioner has projected capitalisation of entire amount towards NERPSIP assets by 2018-19. It is surprising to observe that the Petitioner has projected capitalisation of such a huge amount by 2018-19 without the entire system being put to use and commissioned by the year 2018-19;

Though the Petitioner has not furnished any break-up towards the capital investment for NERPSIP and other works, the Objector has estimated the debt:equity:grant constituents in the additional capital expenditure projected by the Petitioner, as below:

(in Rs. cr.)

Particulars	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Debt	3.07	38.36	211.76	76.94	274.93
Equity	1.32	16.44	90.75	32.98	117.83
Grant	-	87.23*	481.56*	-	-
Total additional capital expenditure	**4.39**	**142.03**	**784.07**	**109.92**	**392.75**

**since actual grant estimated by the Petitioner is not known, the same has been allocated on pro-rata basis from the total approved grant of Rs. 569 cr.*

2.4 Equity base, addition during the MYT period and Return on Equity

The Petitioner has claimed Return on Equity (RoE) based on an opening equity base on 1.4.2016 at Rs. 407.30 cr. It is noteworthy that the Commission has approved a normative equity base of 109.31 cr. on 31.3.2015 in its Order dated 31.3.2017. The observations of the State Commission for 2014-15 in the Order dated 31.3.2017 in this regard are as below:

> *"**4.2 Return on Equity***
>
> *………*
>
> *The Commission observed that Equity Capital projected does not tally with the total Asset base which is Rs. 359.75 Crore as on 31.03.2014.*
>
> *The Commission referred to the APTEL Judgment dated 17.12.2014 in appeal 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 provision and the statement of accounts.*
>
> *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, 74 read with Regulations 72."*

On perusal of the Annual Accounts of the Petitioner for 2014-15, it is observed that during 2014-15, the subscribed equity capital is only Rs. 5 lakh. In absence of the Accounts for subsequent years, Hon'ble Commission may allow equity base on normative base to the tune of 30% after taking into account the significant amount of grant that has gone into *capital investment*. Since, the Petitioner has not furnished the constituent of grants in the GFA, the same may be assumed at 90%. The Commission has adopted a similar approach of allowing normative equity in earlier Orders also.

In view of the above, the allowable RoE as assessed by the Objector for the MYT period for the Petitioner is as below:

(in Rs. cr.)

Particulars	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Opening Equity	130.35	131.66	148.10	238.86	271.83
Equity Added during the year (A)	-	106.92	227.03	145.66	141.9
30% of GFA (adjusted for grant) added each year (B)	1.32	16.44	90.75	32.98	117.83
Addition of Equity (Lower of A & B)	1.32	16.44	90.75	32.98	117.83
Closing Equity	131.66	148.10	238.86	271.83	389.66
Equity Base	131.01	139.88	193.48	255.34	330.74
RoE (%)	14%	14%	14%	14%	14%
Return on Equity	**18.34**	**19.58**	**27.09**	**35.75**	**46.30**

2.5 Interest on Loan

The Licensee has claimed interest cost based on the opening loan balance of Rs. 94.41 cr. as on 1.4.2016. Further, the Licensee has claimed an additional loan drawl to the tune of Rs. 209.55 cr. from 2016-17 to 2020-21.

It has already been depicted in the earlier paras that the Licensee has not provided the details of capital expenditure funded by grants and by debt and has not even acknowledged the grant gone into capital investments during the period. In view of such gross inconsistencies in the submissions of the Petitioner, the Hon'ble Commission is requested to conduct a strict prudence of the capital expenditure plan of the Petitioner and the funding pattern of the same. Further, the Petitioner may also be directed to furnish the details of its overall loan portfolio, interest paid and any dues, if existing.

The Objector has assumed the opening loan balance as per the claim of Petitioner and addition during the period based on the grant component explained in earlier paras. The loan repayment has been considered as being equal to amount of depreciation during the year and the rate of interest as being equal to the rate of interest claimed by the Petitioner. Accordingly, the Objector has worked out the interest on loan allowable to the Petitioner as under:

(in Rs. cr.)

Particulars	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Opening Balance	94.41	76.84	96.55	278.32	309.90
Addition During the Year	3.07	38.36	211.76	76.94	274.93
Repayment during the year	20.64	18.65	29.99	45.36	52.47
Closing Balance	76.84	96.55	278.32	309.90	532.36
Average Interest Rate	11.27%	10.59%	10.24%	9.86%	9.56%
Interest Payable	9.65	9.18	19.19	29.00	40.26
Add: Finance Charge and MeECL Apportioned	3.47				
Interest and Finance Charges	**13.12**	**9.18**	**19.19**	**29.00**	**40.26**

2.6 Operation & Maintenance expense norms

The Petitioner has claimed the Operation & Maintenance expenses purportedly based on the methodology adopted by CERC for calculation of O&M norms in 2014-19 Tariff Regulations. However, it has failed to submit the detailed computations towards determination of such O&M norms as claimed in the instant Petition. The Objector submits following points in this regard:

a) Determination of O&M norms based on past data is not true reflection of the prudent costs;

b) Since the Accounts are not available for 2016-17, it is hard to understand what data has been considered by the Petitioner to arrive at such norms;

c) Furthermore, it cannot be emphasised more that it is not the actual expenses but the regulatory allowed expenses that have to be considered for arriving at such norms;

d) Detailed working towards computation of norms may be provided by the Petitioner;

e) The Petitioner has vaguely considered the escalation rates as 13.71%, 65.19% and 14.26% for estimating the norms during MYT period;

f) No basis has been provided for MVA capacity and ckt. km considered for determination of norms. The Objector cannot analyse the norms since all the aforesaid data do not appear in business plan approved by the Commission.

The Tariff Regulations provide for O&M expenses as below:

““69.3 The norms for O&M expenses on the basis of circuit kilometers of transmission lines, transformation capacity and number of bays in substations shall be submitted for approval of the Commission.

69.4 The Commission shall verify the budget estimates and projections and allow the expenditure depending on its views about the reasonableness of the projections.”

In view of the above deficiencies in the methodology adopted by the Petitioner, the Objector has worked out the norms based on the best available data and a more organised approach, as detailed hereinafter:

a) Actual data has been considered till the last true up order issued by the Commission i.e. 2014-15 and data for 2015-16 has been considered as submitted in the last provisional true petition;

b) The employee, R&M and A&G expenses have been considered for 2013-14 and 2014-15 as approved in the true-up orders and for 2015-16 as submitted by the Petitioner in its provisional true-up Petition;

c) The asset details have been considered as per the business plan submitted by the Petitioner for 2015-16 to 2017-18 and for 2017-18 to 2020-21 has been considered based on the instant Petition;

d) For the purpose of escalation of norms during the MYT period, it is pointed out that the Central Electricity Regulatory Commission (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2017 notified on 17.4.2017 consider a weightage ratio of 40:60 between CPI & WPI.

   This is a reasonable ratio to use, wherein higher weightage is given to WPI inflation, as this is more relevant to a prudent utility business run on commercial principles, as WPI inflation is what affects the cost of spares and plant and machinery;

e) Further, the CERC in pursuance of Clause 5.6 (vi) of Ministry of Power Notification on “Guidelines for Determination of Tariff by Bidding Process for Procurement of Power by Distribution Licensees”, dated 19.01.2005, as amended from time to time, has notified the Annual Escalation Rates for the purpose of payment for Procurement of Power by Distribution licensees applicable for the period from 1.10.2017 to 31.03.2018 vide notification dated 10.10.2017.

In the Explanation dated 5.10.2017 for the aforesaid notification, the CERC has considered 55:45 ratio of CPI:WPI for arriving at the escalation rates.

f) Based on the aforesaid arguments and the existing low inflation scenario, the escalation factor has been worked out based on the CPI:WPI ratio of 55:45 as below:

	2013-14	2014-15	2015-16
CPI	236	250.83	265
CPI Increase	9.68%	6.28%	5.65%
WPI	112.46	113.88	109.72
WPI Increase	5.20%	1.26%	-3.65%
CPI:WPI (55:45)*	7.67%	4.02%	1.46%
Average Inflation (2013-14 to 2015-16)	**4.38%**		

**Explanation for the notification on escalation factors and other parameters for tariff based competitive bidding for transmission service, dated 05.10.2017*

g) In view of the above, the Objector submits that the escalation rate for determination of O&M norms should in no case be considered more than 4.38%.

h) Accordingly, the O&M norms have been worked out by the Objector as below:

<u>Actual expenses</u>

(in Rs. cr.)

	2013-14	2014-15	2015-16
Employee Cost	43.76	51.33	58.15
R&M	3.24	2.52	1.46
A&G	2.54	5.35	2.42
Total O & M Expense	**49.54**	**59.20**	**62.03**

<u>Existing capacity</u>

	2013-14	2014-15	2015-16

Transmission Capacity (MVA)	1615	1655	1655
Average No of Lines (CKM)	1223	1228	1228

O&M norms

	2013-14	2014-15	2015-16
O&M Cost/ MVA	0.021	0.025	0.026
O&M Cost/ CKM	0.012	0.014	0.015

Projected capacity

	2016-17	2017-18	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Transmission Capacity (MVA)	1650	1760	1785	2855	2895
Average No of Lines (CKM)	1226.8	1268	1412	1890	2149

Escalated norms

	2016-17 (average of past 3 years)	2017-18	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
O&M Cost/ MVA	0.025	0.026	0.028	0.029	0.030
O&M Cost/ CKM	0.014	0.015	0.015	0.016	0.017

O&M expenses based on above norms:

(in Rs. cr.)

	2016-17	2017-18	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Total O & M Expense	58.85	64.93	70.65	112.12	122.52

Thus, the Hon'ble Commission is requested to kindly not allow O&M expenses beyond that computed in the aforesaid paras.

2.7 Interest on Working Capital

The Petitioner has claimed working capital requirements to the tune of Rs. 52.49 cr., Rs. 77.92 cr. and Rs. 89.04 cr. in 2018-19, 2019-20 and 2020-21 respectively, on normative basis purportedly based on Regulation 34.2 of MSERC Tariff Regulations, 2014. Regulation 34.2 of the Tariff Regulations 2014 provides as below:

> *"**34.2 Transmission Business***
>
> *(i) The Transmission Licensee shall be allowed interest on the estimated level of working capital for the financial year, computed as follows:*
>
> *•Operation and maintenance expenses for one month; plus*
>
> *•Maintenance spares at one (1) per cent of the historical cost escalated at 6% from the date of commercial operation; plus*
>
> *• Receivables equivalent to two (2) month of transmission charges calculated on target availability level;*
>
> *Interest shall be allowed at a rate equal to the State Bank Advance Rate (SBAR) as on 1st April of the financial year in which the Petition is filed."*

It is submitted that owing to change in the O&M expenses as depicted in the previous paras, the working capital requirements ought to change. Further, non-consideration of grants in the GFA has impact on the amount of maintenance spares to be included in the Working Capital requirements. Additionally, the rate of interest for the purpose of computing working capital shall be 14% as revised by the State Bank of India.

In view of the above, the Objector has re-worked the working capital requirements and thus the interest on working capital to be allowed to the Petitioner for the MYT period shall be as below:

(in Rs. cr.)

Sl. No.	Particulars	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
A	O&M Expenses for 12 months	58.85	64.93	70.65	112.12	122.52
B	O&M Expense for 1 month (C/12)	4.90	5.41	5.89	9.34	10.21
C	Average Fixed Assets for the Year	436.66	466.22	732.10	1419.88	1671.22
D	1% Spares budgeted for FY 13-14 (1% of E)	4.37	4.66	7.32	14.20	16.71
E	Receivables for 2 months	14.76	14.48	19.97	32.54	38.75

Sl. No.	Particulars	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
F	Total Working Capital (B+D+E)	24.03	24.56	33.18	56.08	65.67
G	SBI short term PLR	14%	14%	14%	14%	14%
H	Interest on Working Capital	3.36	3.44	4.65	7.85	9.19

2.8 Provision of bad debts

The Petitioner has blatantly claimed an amount of Rs. 20.51 cr. towards provision for bad debts in the MYT period. The Tariff Regulations clearly lay down the condition for allowing any bad debts as below:

> *"**95 Bad and Doubtful Debts***
>
> *95.1 The Commission may after the distribution licensee gets the receivables audited, allow a provision for bad debts not exceeding an amount equal to 1 percent receivables in the revenue requirement of the licensee."*

Needless to say, there has been no audit of the receivables of past years. The Commission is requested to not allow any head under the provision of bad debts since that would be tantamount to promoting further inefficiency of the Licensee.

2.9 Earlier directives

It has been observed that the Petitioner has not complied with plethora of earlier directives issued by the Hon'ble Commission, some of which are listed below:

a) The Commission directed that the true up exercise without the C&AG audit report shall be interim (provisional) arrangement only subject to readjustment of revenue gap/surplus after filing of the another petition along with C&AG reports by MePTCL. Even in the instant year, we don't see any true up of past years being done based on CAG reports.

b) The Commission directed MePTCL to submit its investment plan proposed to be implemented in the control period to the Commission for its approval along with the audited accounts with statutory auditor reports for FY 2017-18. The same was not submitted.

c) MePTCL had claimed employee expenses for FY 2014-15 at 41.56% excess over the approved level. The Commission had directed the Licensee to submit detailed analysis of employee expenses, component wise, like Basic pay, DA, HRA and other allowances.

2.10 Total Allowable Aggregate Revenue Requirement (ARR)

In view of the above facts and deliberations, the allowable Aggregate Revenue Requirement for the MYT period as per Objector's assessment is depicted as under:

(in Rs. cr.)

Sl. No.	Particulars	FY 2017-18 (Estimated)			FY 2018-19 (Projected)			FY 2019-20 (Projected)			FY 2020-21 (Projected)		
		Petitioner's claim	Objector's assessment	Disallowance proposed	Petitioner's claim	Objector's assessment	Disallowance proposed	Petitioner's claim	Objector's assessment	Disallowance proposed	Petitioner's claim	Objector's assessment	Disallowance proposed
1	Return on Equity (RoE)	61.95	19.49	42.46	61.95	19.58	42.37	80.82	27.09	53.73	99.02	35.75	63.27
2	Interest and Other Finance Charges	11.12	9.18	1.94	11.12	9.18	1.94	11.72	19.19	-7.47	13.57	29.00	-15.43
3	Operation and Maintenance expenses	80.83	64.93	15.90	80.83	64.93	15.90	91.91	70.65	21.26	151.82	112.12	39.70
4	Interest on Working Capital	5.64	3.44	2.20	5.64	3.44	2.20	7.37	4.65	2.72	10.95	7.85	3.10
5	Depreciation as may be allowed	18.65	18.65	0.00	18.65	18.65	0.00	29.98	29.99	-0.01	45.35	45.36	-0.01
6	SLDC Charges	1.15	1.15	0.00	1.15	1.15	0.00	1.21	1.21	0.00	1.27	1.27	0.00
7	Prior Period Expenses			0.00			0.00			0.00			0.00
8	Provision for bad debts	20.51	0.00	20.51	20.51	0.00	20.51	20.51	0.00	20.51	20.51	0.00	20.51
	Total Annual Expenditure	199.85	116.84	83.01	199.85	116.93	82.92	243.54	152.78	90.76	342.50	231.35	111.15
9	Less: SLDC ARR	2.30	2.30	0.00	2.30	2.30	0.00	2.42	2.42	0.00	2.54	2.54	0.00
	Net Annual Expenditure	197.55	114.54	83.01	197.55	114.63	82.92	241.12	150.36	90.76	339.96	228.81	111.15

Sl. No.	Particulars	FY 2017-18 (Estimated)			FY 2018-19 (Projected)			FY 2019-20 (Projected)			FY 2020-21 (Projected)		
		Petitioner's claim	Objector's assessment	Disallowance proposed	Petitioner's claim	Objector's assessment	Disallowance proposed	Petitioner's claim	Objector's assessment	Disallowance proposed	Petitioner's claim	Objector's assessment	Disallowance proposed
10	Less: Other Income	27.74	27.74	0.00	27.74	27.74	0.00	30.51	30.51	0.00	33.56	33.56	0.00
	Net Annual Revenue Requirement	169.81	86.80	83.01	169.81	86.89	82.92	210.61	119.84	90.77	306.40	195.24	111.16

Accordingly, as seen in the table above, as per Objector's assessment the ARR claim of the Licensee merits significant disallowance during the MYT period, in line with the Tariff Regulations. Transmission charge worked out based on Objector's assessment is as below:

SL.	Particulars	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
1	Annual Transmission Charges (Rs. Lakhs)	8689.40	11984.33	19524.49	23249.68
2	Transmission Capacity as per MSERC MYT Regulations 2014 (MW)	661.50	729.50	758.00	758.00
3	Transmission Tariff (Rs / MW / Day)	3598.88	4500.86	7056.96	8403.40
5	Energy Transfer (MU)	2747.63	3105.86	3105.86	3105.86
	Transmission Tariff (Paise/ Unit)	31.63	38.59	62.86	74.86