

BEFORE THE MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION

SHILLONG

CASE NO. 2/2018

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

AND

Meghalaya Power Transmission Corporation Limited (the Petitioner)

Coram

WMS Pariat IAS (Retd)

Chairman

ORDER

(Date: 25.09.2018)

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

MePTCL had filed petition for True-Up Business for the FY 2015-16 of 1st MYT Control Period FY 2015-16 to FY 2017-18 on 2nd January 2018 along with C&AG report and the statement of accounts. Commission provisionally admitted the petition on 14th February 2018 and after prudence check issues this True-Up Order for MePTCL for FY 2015-16.

Regulation 11 of MYT Regulation 2014 specifies that the Commission shall under take true up of previous year's expenses and revenue approved with reference to audited statement of Accounts made available along with C&AG audit report subject to prudence check including pass through of impact of uncontrollable factors.

In exercise of functions vested with MSERC (here in after referred as Commission) in the MYT Regulation 2014, Commission issues this true up order for the FY 2015-16 for the Business Carried out by the Licensee during the 1st year of 1st MYT Control period FY 2015-16 to FY 2017-18. Commission taking into consideration of all the facts and after prudence check as per the Regulations, passed true up order for the FY 2015-16.

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

Sd/-

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

True up of Transmission Business for the FY 2015-16 as per the Regulation 11.3 of MSERC MYT Regulations 2014.

The Licensee MePTCL has filed petition for True up of Transmission Business for the FY 2015-16 along with audited statement of accounts and C&AG audit report.

Commission had approved ARR and issued tariff order for Transmission Business for the FY 2015-16 under MYT regime to be implemented by MePTCL.

The Approved ARR for FY 2015-16 is as depicted in the Table1 below:

Table 1: ARR & AFC (TO-76)

| (Rs.Cr) | | |
|---------|-----------------------------|-----------------|
| Sl.no. | ARR Element | Approved Amount |
| 1 | Return on Equity | 9.43 |
| 2 | Interest on loan capital | 6.16 |
| 3 | Employee Expenses | 17.80 |
| 4 | R&M Expenses | 6.70 |
| 5 | A&G Expenses | 22.53 |
| 6 | Interest on Working Capital | 3.20 |
| 7 | Depreciation | 18.59 |
| 8 | SLDC Charges | 1.05 |
| 9 | Annual License Fee | 0.03 |
| | | 85.46 |
| 10 | Less: SLDC ARR | 2.10 |
| 11 | Non-Tariff Income(other) | 5.24 |
| 12 | Net ARR AFC | 78.12 |

Transmission System Availability

The Licensee has submitted the Transmission system availability for intra-state transactions for FY 2015-16 to be 99.38%.

Regulation 70.3 of MSERC MYT Regulations 2014 specifies that full recovery of Transmission charges shall be NATAF of the Transmission system which is 98% in a year. Therefore the licensee is entitled to recover full ARR amount of Rs.78.12Crore,subject to compliance of other performance parameters.

Commission considering the statement of Accounts, C&AG audit report and other information submitted with the true up petition, has analyzed the Petition with reference to the MYT Regulations 2014, detailed as-

1. O&M Expenses

Petitioner's Submission

The Licensee has claimed the O&M expenses for True up for FY 2015-16 a:

| | |
|--------------------------------------|-----------------------|
| a) Employee Expenses | Rs.58.14 Crore |
| b) R&M Expenses | Rs.1.46 Crore |
| c) Administration & General Expenses | Rs.27.05 Crore |
| Total | Rs.86.65 Crore |

The Licensee has stated that the increase in employee expenses was due to payment of arrear pay of years 2010 and 2015 respectively due to pay revisions implemented by the MePTCL.

The arrears were disbursed in FY 2014-15 and FY 2015-16, the books of accounts indicates @ 13% increase on year to year basis projected for True up of FY 2015-16.

Commission's Analysis

O&M Expenses:-

O&M Expenses shall mean the total of all expenditure under the following heads:-

- Employee Cost
- R&M Expenses
- Administration & General Expenses

Commission had approved O&M expenses separately for Employees, R&M expenses & A&G expenses totaling to Rs.47 Crore in the Tariff Order for FY 2015-16.

As per the Regulation 69.3, the O&M Expenses shall be allowed on the basis of Circuit Kilometers of transmission lines, and number of Bays in the sub-stations for determination of Tariff. CERC has notified the norms for O&M expenses for transmission system for the year 2014-15, considering the base year of actual expenditure as FY 2012-13. Since the Transmission Utility has been made functional only in the FY 2013-14 after reforms, and the network data is made available as on 31.3.2017, the Commission considers the base year actual O&M expenses for FY 2013-14 (Audited) of Rs.49.54 Crore which includes MeECL, O&M costs for true up of Transmission Business.

The Licensee has provided the network data as on 31.03.2017 along with the Tariff petition for 2nd MYT Control period on 30.11.2017, Commission has considered the O&M expenses based on the network data- effective from FY 2017-18, while assuming O&M expenses for previous years as per the inflation rates (CPI) notified by the GOI up to FY 2016-17.

Accordingly Commission considers O&M expenses for the FY 2015-16 at the inflation rates over the actual of base year for FY 2013-14 as detailed in table 2 below:

Table 2: Inflation Rates

| Particulars | FY 2013-14 (Audited) | FY 2014-15 CPI (Inflation 5.53%) | FY 2015-16 CPI (Inflation 4.10%) |
|--------------|-------------------------|-------------------------------------|-------------------------------------|
| O&M Expenses | Rs. 49.54 Crore | Rs. 52.28 Crore | Rs.54.42 Crore |

Commission considers the above assumption as not reasonable in view of the corporation's submission as to approval of Revised Pay Scales 2015.

The Licensee has claimed O&M Expenses for FY 2015-16 at Rs.86.66 Crore including 1/3rd share of MeECL cost. MePTCL has submitted that Deviation in the Employees Expenses can be attributed to arrears from revision of pay scales of 2010 and 2015.

The Licensee has also stated that actual Employee cost in FY 2015-16 has increased by around 13% from actual and approved values of FY 2014-15 of **Rs 51.33 Crore**.

Therefore the Employee cost for FY 2015-16 over FY 2014-15 shall be as indicated in table 3 follows.

Table 3: Employee cost for FY 2015-16 over FY 2014-15

| Particulars | FY 2014-15 (Prov) Incl MeECL | FY 2015-16 Claimed by MePTCL | (Rs.Cr) |
|----------------|---------------------------------|---------------------------------|-------------------------------|
| | | | FY 2015-16 Audited figures |
| Employees Cost | 51.33 | 58.14 | 58.14 |
| R&M Expenses | 2.52 | 1.46 | 1.46 |
| A&G Expenses | 5.35 | 27.05 | 2.59 |
| Total | 59.20 | 86.65 | 62.19 |

The Provision for Doubtful debts as A&G expenses claimed by the Licensee of Rs.23.99 Crore shall not be admissible.

Commission approves O&M expenses at Rs.62.19 Crore which includes MeECL cost for true up of FY 2015-16.

2. Interest on loan Capital

Petitioner's Submission

The Licensee has claimed interest on loan Capital for true up of FY 2015-16 of Rs. 6.55 Crore in the petition (P-6).

Commission's Analysis:

As per the statement of Accounts the Licensee has borrowed the loans (**vide Note: 5**) as detailed below:

| | |
|---|-----------------------|
| a) 9.30% loan from state Govt. | Rs.31.67 Crore |
| b) Loan from REC | Rs.50.00 Crore |
| c) Loan from REC for 400/220 KV Byrnihat GIS SS | Rs.6.34Crore |
| Total | Rs.88.01 Crore |

Commission had considered 95% funding of Capital investment during the FY 2012-13 to FY 2017-18 as grant from GOI and State Govt. for execution of NERPSIP works and 100% Grant from the PSDF. Commission considered only 5% loan for implementation of Capital investment plan in the MYT orders for FY 2015-16 to FY 2017-18.

As per the Regulation 32.1 of MYT Regulation 2014, Interest and finance charges on loan Capital shall be computed on the outstanding loans duly taking into account the schedule of loan, repayment, terms and conditions of loan agreements, and the lending rate specified there in.

Provided that outstanding loan capital shall be adjusted to make it consistent with loan amount determined with Regulation 27.

- d) As per the Audited statement of Accounts, the GFA as on 31.03.2015 is Rs.364.36 Crore and as on 31.03.2016 the GFA is at Rs.422.95 Crore. Thus the Debt:Equity ratio shall be Rs.275.56 Crore (70%) and Rs.118.10 Crore as analysed in table 4below:

Table4: GFA & Debit Equity

| (Rs.Cr) | | | |
|---------------------------|--------|--|--------------|
| Particulars | GFA | Grants & Contributions during the Year | Capital Cost |
| Opening Balance | 364.36 | - | - |
| Additions during the year | 58.59 | - | - |
| Closing balance | 422.95 | - | - |
| Average GFA | 393.66 | - | 387.23 |
| Debt 70% -D | 275.56 | - | 271.06 |
| Equity 30% -E | 118.10 | - | 116.17 |

Commission considers that outstanding loans as per the note 5 of SOA found to be Consistent with the Regulation 27.

The long term Loan Capital as per note 5 of the SOA is shown as detailed in table 5 below.

Table5: Interest and finance Charges FY 2015-16

| (Rs.Cr) | | | | | |
|---------|---------------------------|----------|------------------------|------------------|-------------------|
| Sl.No | Particulars | REC Loan | REC for BIA 400/220 KV | State Govt. Loan | Total |
| 1 | Opening Balance | - | - | 31.17 | 31.17 |
| 2 | Additions during the Year | 50 | 6.34 | 0.50 | 56.84 |
| 3 | Repayment Matured | - | - | - | -17.75 |
| 4 | Closing Balance | 50 | 6.34 | 31.67 | 70.26 |
| 5 | Average Loan | 50 | 6.34 | 31.42 | 50.72 |
| 6 | Rate of Interest | 13.25% | 11.25% | 9.30% | -- |
| 7 | Interest Payable | 3.31 | 0.36 | 2.92 | 6.59 |
| 8 | Total Interest | - | - | - | 6.59 Crore |

The C&AG audit report reveals that the state Govt. Loan drawn for Rs.31.67 Crore @ 9.30%, represent for Construction of 132 kV D/C LILO Rongkhon-Ampati line at Praharinaga, hence interest cost is allowed for FY 2015-16. Regulation 28.10 Specifies that any grant received from central or state govt. or any statutory body authority for execution of the Project which does not carry any liability of re-payment shall be excluded from the capital cost for the purpose of computation of interest on loan.

Commission considers Interest on loan Capital at Rs.6.59 Crore in the true up for FY 2015-16.

3. Interest on Working capital

Petitioner's Submission

The Licensee has claimed interest on working Capital at Rs.5.45 Crore for True up as against Rs.3.20 Crore approved in the Tariff orders for FY 2015-16.

Commission's Analysis

Regulation 34.2 stipulates the following components shall be considered for computation of Interest on working Capital for transmission utility.

- O&M expenses for one (1) month
- Maintenance spares at 1% of the historical cost escalated at 6% from the date of commercial operation; plus
- Receivables equivalent to two (2) months of transmission charges calculated on target availability level.

The rate of interest shall be at SBAR which prevailed on the 1st April of the financial year in which the petition is filed.

According to the Regulation, the interest on working capital is computed in the table 6 below:

Table 6: Interest on Working Capital

| | | (Rs. Cr) |
|-------|--|--------------------|
| Sl.No | Particulars | Amount as Computed |
| 1 | O&M Expenses for one month (Rs.57.33 Crore Excl. MeECL/12) | 4.78 |
| 2 | Maintenance Spares at 1% of Opening GFA escalated at 6% | 3.86 |
| 3 | Receivables of 2 months transmission charges | 17.24 |
| 4 | Total working Capital Requirement | 25.88 |
| 5 | Interest at SBAR | 3.82 |

Commission approves Interest on working Capital at Rs. 3.82 Crore for true up of FY 2015-16.

4. Depreciation

Petitioner's Submission

The licensee has claimed the Depreciation at Rs.20.31 Crore for True up as against Rs. 18.59 Crore approved for the FY 2015-16 in the Tariff orders.

Commission's Analysis

Commission had approved Depreciation in the Tariff Order for FY 2015-16 as per the Regulation 31 of MYT Regulation 2014.

The Audited Statement of Accounts reveals the following (table 7) Assets data in the for the FY 2015-16

Table7:- Depreciation for FY 2015-16

| Sl. No | Particulars | Rs. in Crore |
|--------|---|--------------|
| 1 | Opening Assets as on 31.03.2015 | 364.36 |
| 2 | Additions during the FY 2015-16 | 58.59 |
| 3 | Closing Assets as on 31.03.2016 | 422.95 |
| 4 | Average Assets excluding Land value | 390.80 |
| 5 | Amount of Depreciation | 18.28 |
| 6 | Average Depreciation rate | 4.68% |
| 7 | Grants & Contribution for the FY 2015-16 | 6.43 |
| 8 | Less: Depreciation on the Grants & Contributions | 0.30 |
| 9 | Net Depreciation for Tariff for FY 2015-16 | 17.98 |

Commission approves Depreciation at Rs.17.98 Crore after adjusting Grants & Contributions for the true up of FY 2015-16.

5. Return on Equity

Petitioner's Submission

The Licensee has claimed Return on equity at Rs. 54.93 Crore assuming equity base at the opening of FY 2015-16 at Rs.392.33 Crore.

Commission's Analysis

Commission has allowed ROE in the Tariff Order at Rs.9.43 Crore on provisional basis for FY 2015-16.

Commission has considered ROE in the review orders dated 30.03.2017 as per the Regulation 74.1 of MSERC Regulation 2011 for the FY 2012-13, 2013-14 and FY 2014-15.

As per the Regulation 28.10 of MYT Regulation 2014, Govt. Grants and contributions shall be deducted from the capital cost for the purpose of ROE.

Commission has computed the ROE for FY 2015-16 for true up in the table 8 below, as per the Regulation 31.1 of MYT Regulations 2014.

Table8: Return on Equity for FY 2015-16

| | (Rs.Cr) |
|--|---------------|
| Opening GFA as on 31.03.2015 | 364.36 |
| Additions during the FY 2015-16 | 58.59 |
| Closing GFA as on 31.03.2016 | 422.95 |
| Opening Equity as Computed for FY 2014-15 | 109.31 |
| Additions for the FY 2015-16 (30% of GFA) | 17.58 |
| Closing Equity | 126.89 |
| Equity Considered after grants & Contributions | 111.67 |
| ROE at 14 % | 15.63 |

Commission approves ROE at Rs. 15.63 Crore in the true up for FY 2015-16.

6. SLDC Charges

Petitioner's Submission

The Licensee has submitted that Rs. 1.05 Crore is considered towards SLDC charges for ARR for FY 2015-16 and the same is reflected in the SOA. MePTCL requested to consider the SLDC charges as expenditure for true up for FY 2015-16.

Commission's Analysis

Commission has approved Rs. 2.10 Crore towards SLDC ARR for the FY 2015-16. It shall be considered that 50% of the SLDC ARR be allowed as expense of transmission share.

Commission approves SLDC charges at Rs.1.05 Crore as expense in the true up for FY 2015-16.

7. Prior Period Items

Petitioner's Submission

The Licensee has claimed prior period items as Rs.(-) 0.15 Crore in the petition for true up for FY 2015-16.

The prior period items towards expenses such as Employee costs, R&M works, and other prior period expenses and Income, represented as other excess provision and Net prior period expenses of MeECL apportioned (Actuals)

Commission's Analysis

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

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

8. Non-Tariff Income

Petitioner's Submission

The Licensee has submitted that Commission had approved Non-tariff income at Rs.5.24 Crore in the ARR for FY 2015-16 and requested that the other income based on the statement of Accounts at Rs.18.50 Crore maybe approved in the true up for FY 2015-16.

Commission's Analysis

Commission had approved Rs. 5.24 Crore as other income in the ARR for FY 2015-16.

The Licensee has submitted the following details (table 9) of Non-Tariff income in the true up petition.

Table9: Non-Tariff Income for FY 2015-16

| | | (Rs.Cr) |
|-------|---|--------------|
| Sl.No | Particulars | Amount |
| 1 | Application Fee for STOA | 0.056 |
| 2 | Misc Receipts | 0.089 |
| 3 | Interest Income | 1.470 |
| 4 | Revenue from Transmission & Operating charges | 15.296 |
| 5 | Revenue from other charges | 0.729 |
| 6 | Other Income of MeECL | 0.31 |
| 7 | Total | 18.19 |

As per the audited statement of Accounts vide Note 17 of MePTCL, the other income received is at Rs.1.62 Crore.

The MeECL received Rs. 2.58 Croreas other income which includes Rs. 1.64 Crore as Revenue Grant. The Revenue grant of Rs.1.64 Crore accounted in MeECL shall be apportioned to MePDCL (100%) and the balance other income of Rs.0.94 Crore shall be

shared between MePTCL, MePGCL and MePDCL at 1/3, as was adopted so far, which works out to Rs.0.31 Crore.

Further C&AG audit report of MePTCL vide note B, statement of Profit & loss other income Note 17 reads:-

“This is under stated by Rs.3.39 Crore note B1 due to non-inclusion of interest earned against fixed deposits matured during the Current year”.

The income earned was reinvested by the Company while renewing the fixed deposits without accounting the same under fixed deposits. This has correspondingly resulted in overstatement of “loss for the year” and under statement of cash and Bank balance-Bank FDS by Rs.3.39 Crore each.

Therefore other income shall be increased by Rs.3.39 Crore under Non-Tariff Income.

The C&AG report of MeECL reveals Interest on fixed deposits re-invested amounted to Rs.24.91 Crore, 1/3rd of this Rs.8.30Crore is apportioned to MePTCL as Non-Tariff Income.

C&AG audit report of MeECL reveals that Rs.0.72 lakh being interest accrued on fixed deposits with various bank not included.

Summing up of the above analysis the Non-Tariff income including other income is approved in the true up for FY 2015-16 as detailed in the table 10 below.

Table 10: Approved Non-Tariff Income and Other Income for FY 2015-16

| | | (Rs.Cr) |
|--------|---|--------------|
| Sl.No. | Particulars | Amount |
| 1 | Application fee for STOA | 0.056 |
| 2 | Misc. Receipts | 0.089 |
| 3 | Interest Income | 1.470 |
| 4 | The Revenue from Transmission & operating charges (Rs.15.296) | 15.30 |
| 5 | Revenue from other charges (Rs. 0.729) | 0.73 |
| 6 | Income on Fixed Deposit reinvested as observed in the C&AG audit report. Note B1 of CAG | 3.39 |
| 7 | MeECL interest C&AG report Note A6 of MeECL. | 8.30 |
| 8 | C&AG report of MeECL interest accrued on fixed deposits not included 1/3 rd of Rs.0.72 Crore. Note B1 of MeECL | 0.24 |
| 9 | Other Income (1/3) of MeECL other income(Excluding Revenue Grant) | 0.31 |
| 10 | Total | 29.89 |

Commission considers Non-Tariff Income at Rs.29.89Crore in the true up for FY 2015-16.

9. Revenue from Operations:

Petitioner's Submission

The Licensee has submitted that the Revenue from operations received at Rs.81.00 Crore as per the audited Statement of Accounts for the FY 2015-16.

Commission's Analysis

As per the audited statement of Accounts Note 16, the Revenue from operations is reported at Rs. 98.07 Crore which includes Rs.1.05 Crore received from MePGCL towards 50% of the SLDC charges separately accounted against SLDC, ARR operating charges at Rs.15.30 Crore and Rs.0.73 Crore other charges which are accounted as Non-Tariff income. The Transmission operating charges and other charges are classified as Non-Tariff income instead of Revenue from operations.

Commission considers Revenue from operations at Rs.80.99 Crore in the true up for FY 2015-16.

Table 11: Approved ARR for the FY 2015-16 (True up)

| (Rs.Cr) | | | | |
|---------|--------------------------------|----------------------------|------------------------------|-------------------------------|
| Sl.no | ARR Element | As per the MePTCL Petition | Approved in the Tariff Order | Approved by MSERC for True up |
| 1 | Return on Equity | 54.93 | 9.43 | 15.63 |
| 2 | Interest on Loan Capital | 6.55 | 6.16 | 6.59 |
| 3 | O&M Expenses | 86.65 | 47.00 | 62.19 |
| | a) Employee Expenses | 58.14 | 17.8 | - |
| | b) R&M Expenses | 1.46 | 6.7 | - |
| | c) A&G Expenses | 27.05 | 22.5 | - |
| 4 | Interest on working Capital | 5.45 | 3.20 | 3.82 |
| 5 | Depreciation | 20.31 | 18.59 | 17.98 |
| 6 | SLDC Charges | 1.05 | 1.05 | 1.05 |
| 7 | Annual License fee | - | 0.03 | - |
| | Total ARR | 174.80 | 85.46 | 107.26 |
| 8 | Less: SLDC ARR | 2.10 | 2.10 | 2.10 |
| | ARR | 172.70 | 83.36 | 105.16 |
| 9 | Less: Non-Tariff Income | 18.50 | 5.24 | 29.89 |
| 10 | Net ARR | 154.20 | 78.12 | 75.27 |
| 11 | Revenue from Tariffs | 81.00 | 98.07 | 80.99 |
| 12 | Revenue(Surplus)/Gap | 73.20 | (-)19.95 | (-)5.72 |

The Surplus of Revenue Shall be appropriated in the next Tariff orders.