

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

CASE No. 7/2018

In the matter of Petition for Review of MYT ARR for the Control Period FY 2018-19 to FY 2020-21 & Generation Tariff Order for FY 2018-19.

AND

Meghalaya Power Generation Corporation Limited (the Petitioner)

Coram

W M S Pariat, IAS (Retd.)
Chairman

(Date of Order: 26.10.2018)

As per Regulation 22 of MSERC MYT Regulations 2014, MePGCL has filed petition on the 30th May 2018 for Review of MYT ARR for second control period i.e. FY 2018-19 to FY 2020-21 and Tariff Order for FY 2018-19. The same was provisionally admitted on the 31st July 2018.

In exercise of power vested in MSERC (here in after referred as Commission) in the MYT Regulation 2014, Commission issues this review order for the FY 2018-19 for the 2nd MYT Control period of FY 2018-19 to FY 2020-21 and Generation Tariff for FY 2018-19. Regulation 22.1 of MYT Regulation 2014 specifies that the Commission shall under take the review of ARR for the FY 2018-19 considering the terms & Conditions laid down there in.

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

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

Review of ARR for MLHEP for 2nd Control Period of FY 2018-19 to 2020-21:

1. Adjustment of Truing up Gap of Past years.

Petitioner's submission

The Commission had issued order dated 30.3.2017 on capital cost of MLHEP including the true up gap of Rs.163 crore of FY 2013-14 to FY 2014-15 to be adjusted in the ARR of future years. The Petitioner has proposed to recover the amount equally in FY 2018-19 and FY 2019-20. The Commission has not issued orders on the recovery mechanism for Rs.163 Crore Gap of Leshka HEP in the impugned order, however has considered an amount on Rs.81.50 crore as true up gap of past years in the MePDCL tariff order for FY 2018-19. The generation tariff order for MLHEP does not specify any such recovery and is requested to review and reconcile the ARR for MLHEP.

Commission's analysis:

The Commission has included the recovery of true up gap of FY 2013-14 and FY 2014-15 relating to MLHEP in the MePDCL ARR towards Power Purchase cost.

Commission had issued Directive No.5.4 as to the Recovery Mechanism of Rs.163.00 Crore in the Tariff Order for FY 2017-18 of MLHEP.

The Commission directed the MePGCL to raise the bill on the MePDCL for recovery of Rs.163.00 crore separately while MePDCL has been allowed to claim the Power Purchase cost for FY 2018-19 and FY 2019-20 against the MLHEP.

Licensee shall view the Directive No.5.4 of Tariff Order for MLHEP for FY 2017-18.

2. Gross Fixed Assets and Capital cost

Petitioner's submission

MePGCL has proposed the GFA for each year of the control period considering actual capitalization during FY 2015-16 (Audited), FY 2016-17 (Provisional) and projected capitalization during control period of FY 2018-19 to FY 2020-21 as per the approved business plan.

Based on the above submission, the Commission approved Rs.1279.09 crore as closing GFA for FY 2017-18 and Rs.1283.64 as closing GFA for FY 2018-19 to FY 2020-21 in the impugned order dated 31.3.2018 for calculating depreciation for the control period. It is submitted that accounts of FY 2015-16 have been audited by C&AG and the same reflects the capital cost of MLHEP as Rs.1279.19 crore. As such, the Commission may kindly revise the approved capital cost of Leshka as Rs.1279.19 crore instead of Rs.1134.28 crore.

MePGCL, requests the Commission to adopt the capital cost of MLHEP at Rs.1279.19 crore while making calculations for various components of tariff based on the GFA and capital cost from FY 2018-19 to FY 2020-21.

The Commission had considered opening GFA at Rs.1134.28 crore and closing GFA at Rs.1278.44 crore in tariff order dated 30.3.2017 for computing depreciation for FY 2013-14.

It is submitted that the audited capital cost as on 31.03.2016 is already made available, MePGCL requests the Commission to base its calculations on the latest audited figures for representing true value of costs and expenses.

Commission's analysis:

The Commission has under taken the true up petition for FY 2015-16 and in the process of issuing true up orders for FY 2015-16.

The Commission has adopted the GFA of MLHEP as on the date of COD ie., on 01.04.2013 as per the Regulations 52.(6) which shall be considered as the original project cost for determination of tariff. The Licensee had filed the combined GFA in the Format-6 of MYT petition and segregated GFA for MLHEP in the petition has been considered.

ARR elements have been computed based on the original project cost and subsequent additions where ever admissible, have been factored for determination of Tariff.

The GFA approved in the Business plan as projected for MYT ARR for FY 2018-19 to FY 2020-21 has been considered for determination of Tariff.

Commission does not consider review of GFA.

3. Operation and Maintenance

Petitioner's submission:

MePGCL requested to allow O&M expenses based on the audited capital cost in FY 2015-16 for the MYT period FY 2018-19 to FY 2020-21.

Commission's analysis:

The O&M expenses shall be regulated based on the original project cost approved on 01.04.2013 and escalated as per the Regulation 56 (7) considering original project cost for the MYT control period FY 2018-19 to FY 2020-21.

Commission do not consider review of O&M Expenses.

4. Return on Equity

5. Depreciation

6. Interest on loan capital

Petitioner's submission:

MePGCL requested to allow Return on equity, depreciation and interest on capital loan based on the audited capital cost in FY 2015-16 for the MYT period FY 2018-19 to FY 2020-21.

Commission's analysis:

Commission had considered the Return on Equity based on the closing equity as on 31.03.2015, approved provisionally for FY 2018-19 at Rs.334.98 Crore. The audited accounts from FY 2014-15 to FY 2017-18 were not made available. Commission has considered the base figures as on 31.03.2015 for computation of ARR elements in the absence of audited accounts for the FY 2015-16 to FY 2017-18 in respect of ROE, Depreciation and Interest on Loan capital for MLHEP. The Govt. Grants available as on 31.03.2015 for Rs.288.02 Crore remain as grants for MLHEP. The ROE for FY 2018-19 allowed on provisional basis shall be regulated in the true up process. So also the interest on loan capital and depreciation shall be regulated in the TrueUp, as per the audited actuals, and as per the provisions of the Regulations.

Commission does not consider Review.

7. Interest on working capital

Petitioner's submission:

MePGCL requested to allow interest on working capital based on the revised ARR for the MYT period FY 2018-19 to FY 2020-21.

Commission's analysis:

Interest on working capital shall be allowed as per the prescribed norms in terms of the tariff regulations. The working capital requirement and interest on working capital is dependent on the ARR elements approved for the relevant year. The Commission shall regulate and allow the interest on working capital based on the true up ARR approved for the relevant year. The effect of such revision if any shall be considered and allowed in the subsequent Tariff order.

8. Review of annual fixed cost for MLHEP

Petitioner's submission:

MePGCL, based on its submission has projected/claimed the revised ARR for the MYT period FY 2018-19 to FY 2020-21 as given below:

Table 1: Annual Fixed Cost for MLHEP

Sl. No.	Particulars	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
1	Interest on Loan capital	49.27	40.50	34.81
2	Depreciation	63.13	63.24	63.24
3	O&M Expenses	33.79	35.72	37.76
4	Interest on working capital	5.93	5.83	5.81
5	Return on Equity	53.74	53.75	53.75
6	SLDC Charges	-	-	-
7	Net Prior Period Items	-	-	-
	Total Annual Fixed Cost	205.85	199.04	195.37
8	Less: Non-Tariff Income	0.03	0.04	0.04
9	Net Annual Fixed Cost (AFC)	205.82	199.00	195.33
10	Approved by MSERC	165.94	163.27	162.56

Commission's analysis:

Commission has not considered review of any ARR element for the present in this order, the Annual Fixed costs approved for MLHEP shall remain un-changed for FY 2018-19.

1. Review of ARR for MePGCL's old plants including Sonapani for 2nd Control Period of FY 2018-19 to 2020-21.

4.1 Introduction

In accordance with the provisions of the MYT Regulations, 2014, MePGCL submitted ARR **only for old plants including Sonapani** for FY 2018-19, FY 2019-20 and FY 2020-21 based on the audited financials of FY 2015-16, pre-audited financials of FY 2016-17 and business plan for FY 2018 - 2021 which has been approved by the Hon'ble Commission in its order dated 15 Nov 2017.

The MYT Regulations, 2014 seek details of each hydro generating station and accordingly station- wise tariffs are to be computed. It is submitted that post transfer scheme, the segregated closing balances available as on 31st March 2012 for MePGCL provide for Gross Block details (Gross Fixed Assets) only i.e. individual project cost details are unavailable. In the absence of the same, it is submitted that the ARR for old plants of MePGCL will be allocated to each generating station as per their installed capacity as considered by the Hon'ble Commission in tariff orders of previous years.

In the tariff petition, MePGCL had proposed for computation of consolidated fixed charges for the following **Old Stations (including Sonapani) only:**

1. Umiam Stage-I
2. Umiam Stage- II
3. Umiam Stage- III
4. Umiam Stage- IV
5. Umtru
6. Sonapani HEP

It is pertinent to submit here that the tariff petition filed by MePGCL did not include ARR proposal for the Generating stations which are yet to be commissioned or ARR for NUHEP & Lakroh, since the same would be filed by MePGCL only when audited capital cost is available. For NUHEP which was commissioned in FY 2017-18, the MePGCL had

proposed to continue with the provisional tariff as per the order dated 06-11-2017 for FY 2018- 19 as well.

The Hon'ble Commission, by including components of ARR of NUHEP & Lakroh in the ARR petition of old plants, has under projected the ARR of old plants and reduced their tariff for FY 2018-19. So MePGCL requests the Hon'ble Commission to kindly consider only the old plants while designing the ARR for old plants through review of the tariff order dated 31.03.2018 and exclude the ARR's for NUHEP & Lakroh which were not a part of the petition.

Commission's analysis:

Commission had considered ARR for MePGCL old projects, for FY 2018-19 to FY 2020-21. The ARR elements have been computed based on the approved business plan for the control period excluding the Assets base in respect of old plants whose life time has been completed (35 years).

Commission had considered the AFC in respect of New Umtru and Lakroh projects for the FY 2018-19, in view of the fact that licensee had obtained provisional Tariff pending approval of capital cost. MePGCL has projected Interest and Finance charges against NUHEP and Lakroh HEP vide Format-7 of the Petition for FY 2018-19 to FY 2020-21. MePDCL also has projected Power Purchase from these two new projects; Commission has approved AFC enabling the licensee to discharge the Debt servicing of borrowed money against these two projects. The licensee shall claim AFC from MePDCL as approved for the actual Generation.

The Licensee shall discharge the liability of loans & Interest, with the revenue generated from the provisional Tariff.

Commission do not consider review.

4.2 Gross Fixed Assets

Petitioner's submission:

The Hon'ble Commission in the impugned order has ignored the value of the assets of old plants (excluding Sonapani & Umiam Stage-IV) from the asset base on the ground that

these old plants have served their useful life and Depreciation and Return on Equity can't be claimed for the same. However, it is important to note that even after crossing their useful life, substantial Renovation & Modernisation (R&M) works have been made to these plants (for example R&M works for Umiam Stage 1 & 2 were carried out in the years 2001 - 03 & 2011-12 respectively) to extend their service life. In order to recover these R&M expenses, it is necessary that RoE and Depreciation be allowed to be recovered and keep adequate finance for their replacement in future.

Besides, the order is not clear on the arrived asset value of INR 49.39 Cr for Sonapani & Umiam-Umtru Stage-IV for all calculations while carrying out component-wise tariff analysis for 2nd MYT Period.

Based on the audited Statement of Accounts for FY 2015-16 and provisional accounts for FY 2016-17, MePGCL requests the Hon'ble Commission to reconsider the asset base including addition of 1/3rd of GFA of MeECL as per the table below for further calculations.

Table 2: MePGCL as a whole (Including MLHEP)

Particulars	(Rs.Cr)					
	FY 2015-16 (Audited)	FY 2016-17 (Provisional)	FY 2017-18 (Estimated)	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
Opening GFA	1,702.34	1707.69	1723.65	1723.65	1756.59	1869.75
Additions during the year	14.67	16.13	-	32.94	113.16	468.57
Retirements during the year	9.32	0.16	-	-	-	-
Closing GFA	1,707.69	1,723.65	1,723.65	1,756.59	1,869.75	2,338.32

Table 3: MePGCL old plants (Excluding MLHEP) +1/3rd of MeECL

Particulars	(Rs.Cr)					
	FY 2015-16 (Audited)	FY 2016-17 (Provi)	FY 2017-18 (Esti)	FY 2018-19 (Proj)	FY2019-20 (Proj)	FY2020-21 (Proj)
Opening GFA	423.76	428.50	444.52	444.52	472.94	586.11
Additions during the year	4.74	16.13	-	28.39	113.16	468.57
Retirements during the year	-	0.11	-	-	-	-
Closing GFA	428.50	444.52	444.52	472.94	586.11	1,054.68

Commission's analysis:

Commission had considered the GFA for Umiam Stage IV and Sonapani as already approved in the FY 2013-14 and ARR elements have been computed considering additions projected and approved for business plan for the control period FY 2018-19 to FY 2020-21. Commission had made it clear in the chapter 4.7 Commission's approach. Any deviations in the approved GFA including GFA of MeECL shall be considered at actuals in the true up process after filing of audited accounts for the FY 2018-19 if required.

4.3 Return on Equity**4.4 Interest and Finance Charges****4.5 O&M Expenses****4.6 Depreciation****4.7 Interest on Working Capital****Petitioner's submission:**

MePGCL requested to Review of the above ARR elements as per the data provided vide para 4.3 to 4.7 of the petition.

Commission's Analysis

Commission had made it clear in the chapter-4 Commission's approach vide para 4.6 to 4.10 and also illustrated in the Commission's Analysis against each of the ARR elements 4.3 to 4.7 above in the Tariff orders for FY 2018-19.

Commission shall consider variations if any in the approved provisions, in the true up process at actuals on filing of audited accounts as per the Regulations if required.

Commission do not consider review.

4.8 Review of Annual Fixed Cost for Old Plants including Sonapani**Petitioner's submission:**

Based on the above submissions, the summary of the Annual Fixed Cost for old plants including Sonapani for the Control Period FY 2018-19 to FY 2020-21 is provided in the table below:

Table 4: Annual Fixed Cost for Old Plants including Sonapani

(Rs. in crore)

Sl. No.	Particulars	FY 2018-19 (Projected)	FY 2019-20 (Projected)	FY 2020-21 (Projected)
1	Interest on Loan capital	33.29	43.80	57.19
2	Depreciation	12.34	15.49	11.62
3	O&M Expenses	60.11	63.55	67.18
4	Interest on working capital	5.98	6.59	7.23
5	Return on Equity	58.50	61.56	70.11
6	SLDC Charges (Approved)	1.21	1.27	1.33
7	Net Prior Period Items (Approved)	0	0	0
	Total Annual Fixed Cost	171.43	192.25	214.66
8	Less: Non Tariff Income (Approved)	13.130	14.450	15.880
	Net Annual Fixed Cost	158.30	177.80	198.78

Commission's Analysis

Regulation 23 of MYT Regulation 2014, bars, amendment of Tariff, more frequently than once in any Financial Year. Commission do not consider review of any ARR element for the present. The AFC for old plants including Sonapani approved for the FY 2018-19 shall remain un-altered.

Variations if any during the execution of Tariff Order shall be regulated at actuals on filing of audited accounts if required.

Table 5: AFC for Old Plants including Sonapani

(Rs.cr)

Sl. No.	Particulars	FY 2018-19 (Projected)	FY 2018-19 (Admitted)
1	Interest on Loan capital	33.29	26.75
2	Depreciation	12.34	1.44
3	O&M Expenses	60.11	30.14
4	Interest on working capital	5.98	2.49
5	Return on Equity	58.50	2.84
6	SLDC Charges (Approved)	1.21	1.21
7	Net Prior Period Items (Approved)	0	-
	Total Annual Fixed Cost	171.43	64.87
8	Less: Non Tariff Income (Approved)	13.130	13.13
	Net Annual Fixed Cost	158.30	51.74

4.9 Summary of Additional Claims of Old Plants including Sonapani for review

Petitioner's submission:

The net gap to be passed on to the Old Plants (including Sonapani) ARR of FY 2018-19 in the review comes up to Rs. 106.55 Cr Crore as shown below:

Table 6: Summary of Additional Claims for Old Plants for FY 2018-19

(Rs.In Crore)

Sl. No.	Particulars	Additional / (Less) Proposed by MePGCL in Review
1	Adjustment for Return on Equity	55.66
2	Adjustment for Interest and Finance Charge	6.53
3	Adjustment for Operation and Maintenance Expenses	29.97
4	Adjustment for Depreciation	10.90
5	Adjustment for Interest on Working Capital	3.49
	Net Gap to be passed on to Old Plants' ARR of FY 2018-19	106.55

Furthermore, MePGCL had requested Hon'ble Commission to consider the average of actual generation of last 6 years rather than design energy for computation of tariff in case of old plants to make it more realistic. However, MSERC has calculated tariff based on the design energy without taking into account the auxiliary consumption and transformation losses. MePGCL, therefore, requests the Hon'ble Commission to kindly consider these submissions while designing the tariff for generation plants through review of the tariff order dated 31.03.2018

Commission's Analysis

Commission has not considered review of any ARR element, the AFC for old plants including Sonapani approved for the FY 2018-19 shall remain un-altered.

Variations if any shall be regulated at actuals on filing of audited accounts as per the Regulations in the true up process.

Table 7: Additional claims for old plants

			(Rs.in Crore)
Sl. No.	Particulars	Additional / (Less) Proposed by MePGCL in Review	Approved by Commission
1	Adjustment for Return on Equity	55.66	-
2	Adjustment for Interest and Finance Charge	6.53	-
3	Adjustment for Operation and Maintenance Expenses	29.97	-
4	Adjustment for Depreciation	10.90	-
5	Adjustment for Interest on Working Capital	3.49	-
	Net Gap to be passed on to Old Plants' ARR of FY 2018-19	106.55	-

Conclusion:

Commission considers that the ARR and tariff orders are passed in the absence of audited results up to FY 2016-17. The estimates are considered based on the audited values for FY 2014-15 (provisional) and assumed projections for the ARR and tariff for the control period as approved for the business plan. The MePGCL has not filed true up petition for FY 2014-15 to FY 2016-17 along with C&AG audit report before issue of Tariff Order for FY 2018-19.

The estimates have been computed for determination of Tariff for FY 2018-19 based on the Projections as approved for the Business Plan for the control period. Variations if any, after execution of the Tariff order for the FY 2018-19, shall be considered at actuals on filing of audited accounts along with C&AG audit report as per Regulations.

Commission considers that there is no merit in the review petition and thus the same deserves to be set aside.

The Review petition stands disposed of.

Sd/-
W M S Pariat, IAS (Retd.)
Chairman MSERC