



**MEGHALAYA STATE ELECTRICITY REGULATORY  
COMMISSION**

**Review of True Up Order**

**For**

**FY 2013-14 and**

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

**For**

**MePGCL**



**MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION**

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

**Lower Lachumiere, Shillong 793001**

**East Khasi Hills District, Meghalaya**

**In the matter of:**

Review of Truing up of Annual Revenue Requirement for FY 2013-14, Provisional True up of FY 2014-15 and Determination of Generation Tariff for FY 2016-17 for the Meghalaya Power Generation Corporation Limited (MePGCL) for old plants and Sonapani.

**AND**

**In the matter of:**

Meghalaya Power Generation Corporation Limited - **Petitioner**  
(Hereinafter referred to as MePGCL)

**Coram**

**WMS Pariat, IAS (Retd)**

**Chairman**

**Order**

Date of Order : 30.03.2017

The MePGCL has filed the Petition on 30.05.2016 for Review of True up Orders for FY 2013-14 Provisional True up for FY 2014-15 and Revision of Generation Tariff for the FY 2016-17 issued on 30.03.2016.

The Petitioner MePGCL has sought revision for the following ARR Components.

- I. True up for FY 2013-14**  
**Return on Equity**  
**Petitioner's Submission**

In the tariff order of MePGCL for FY 2013-14, the Honorable Commission had approved an amount of Rs. 9.43 Crore as Return on equity for MePGCL projects (excluding MLHEP) whereas as per Audited Statement of Accounts for MePGCL for FY 2013-14, the average equity base has been considered as Rs. 680.41 Crore. Based on this, MePGCL has calculated return on Equity for FY 2013-14 as follows:

**Table 1: Computation of Interest on Working Capital of MePGCL for FY 2013-14**

Particulars	MePGCL Actuals
Total Equity Amount including pending allotment (Rs. Crore)	680.41
Return on Equity (%)	14%
<b>Return on Equity (Rs. Crore)</b>	<b>95.26</b>

However, the Hon'ble Commission has not considered this actual equity quantum while computing RoE and, therefore, the petitioner humbly requests the Hon'ble Commission to kindly consider this and approve Rs. 95.26 Crore as Return on Equity for FY 2013-14 and allow an additional amount of Rs. 85.83 Crore in the AFC of MePGCL for FY 2013-14.

#### **Commission's Analysis**

The Commission had considered the GFA at Rs. 286.49 Crore in the Tariff Order for FY 2013-14 and equity being 30% treated as Rs. 85.95 Crore and return on equity approved in the Tariff order at Rs. 9.43 Crore for FY 2013-14, on the equity capital held with MeSEB as on 01.04.2012. GOM has notified transfer of Assets and Liabilities and share capital vide 4<sup>th</sup> amendment on 29.04.2015.

As per the Audited Statement of Accounts for FY 2013-14, subscribed and fully paid up equity is Rs. 5.00 Lakh (Note 2). As per note 3 of Audited Statement of Accounts equity capital pending allotment is Rs. 690.55 Crore which cannot be considered as the GFA of MePGCL was only Rs. 303.80 Crore excluding MLHEP capital cost. As already held in the Commission's Order dated 12.11.2015 for approval of capital cost of MLHEP, admissible RoE will be regulated after filing of additional data, required therein.

The claim of equity capital by the licensee at Rs. 680.41 Crore does not commensurate with level of GFA of the licensee on 01.04.2013 (excluding MLHEP).

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

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

The Commission in the circumstances considers as per the Books of Accounts the equity capital shall be computed on the Gross Fixed Assets and additions during the year to be compliant with the requirement of Regulation, 51.

Accordingly, the Equity capital and return on Equity capital computed in the Table below:

**Table 2: Equity and Return on Equity**

GFA as on 01.04.2013	Rs. 303.80 Crore
Additions	-
Closing GFA as on 31.03.2014	Rs. 303.80 Crore
Debt Equity Ratio as per the Regulation 51	70:30
Debt	Rs. 212.66 Crore
Equity Capital	Rs. 91.14 Crore
Return on equity at 14%	Rs. 12.76 Crore

**The Commission approves RoE at Rs. 12.76 Crore in the review for FY 2013-14.**

**Interest on working capital for FY 2013-14**

**Petitioner’s Submission**

The Hon’ble Commission has computed the Interest on Working Capital on a normative basis to be Rs. 3.20 Crore after deducting the Interest on Working Capital for the Leshka project. However, as per the Petitioner’s calculations, the Interest on Working Capital excluding that of Leshka project works out to be Rs. 3.51 Crore as shown below:

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

<b>Sl. No.</b>	<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
A	O&M Expenses for 12 months	52.54
B	O&M Expense for 1 month (A/12)	4.38
C	Maintenance spares at 15% of O&M (15% of A)	7.88
D	Total approved AFC in the impugned order	69.16
E	Two months’ receivables of total AFC (D/6)	11.53
F	Total Working Capital (B+C+E)	23.79
G	SBI short term PLR as on 01 April 2013	14.75%
<b>H</b>	<b>Interest on Working Capital</b>	<b>3.51</b>

The petitioner humbly prays before the Honourable Commission to kindly review and approve Rs. 3.51 Crore as interest on working capital for FY 2013-14 and allow an additional amount of Rs. 0.31 Crores in the AFC of FY 2013-14.

**Commission’s Analysis**

The Commission had approved Rs.1.88 Crore towards working capital for FY 2013-14.

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

The Commission as per the Regulations, 56(2) considered allowable interest on working capital on normative basis as given in the Table below:

**Table 4: Interest on Working Capital (Rs. Crore)**

<b>Sl. No.</b>	<b>Particulars</b>	<b>Earlier Approved by the Commission</b>	<b>True-up, As per statement of accounts</b>
1	O&M Expenses for one month (Excl MeECL)	3.68	3.68
2	Maintenance Spares at 15% of O&M Expenses	6.63	6.63
3	Receivables for two months of AFC (Rs. 61.49 Crore)	9.77	10.25
4	Working Capital Requirement	20.08	20.56
5	<b>Interest at 14.75%</b>	<b>2.96</b>	<b>3.03</b>

**The Commission considers Rs. 3.03 Crore interest on working capital for FY 2013-14 in the Review.**

#### **Interest and Finance Charges for FY 2013-14**

##### **Petitioner's Submission**

The Honourable Commission has approved Rs. 0.33 Crore as the Interest and Finance Charges for FY 2013-14 after deducting the Interest and Finance Charges pertaining to the Leshka project. However, it may be noted here that, as per the Audited Statement of Accounts, the total Interest and Finance Charges of MePGCL including the apportioned amount of MeECL stands at Rs. 98.35 Crore. Out of this, the Hon'ble Commission considers the Interest and Finance Charges pertaining to Leshka as Rs. 84.18 Crore and therefore, the Interest and Finance Charges excluding Leshka should have been Rs. 14.17 Crore as elaborated below. The difference is because the Hon'ble Commission has not considered the interest charges as per account statement (which also includes various financial charges) and calculated the interest charges only from the outstanding loan amounts appearing in the balance sheet.

**Table 5: Computation of Interest and Finance Charges of MePGCL for FY 2013-14**

<b>Sl. No.</b>	<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
A	Interest and Finance Charges of MePGCL	98.34
B	Interest and Finance Charges of MeECL	0.02

<b>Sl. No.</b>	<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
C	Total Interest and Finance Charges (A+B/3)	98.35
D	Less: Interest and Finance Charges of Leshka	84.18
E	<b>Net Interest and Finance Charges for True up (C – D)</b>	<b>14.17</b>

The Petitioner humbly prays before the Hon’ble Commission to kindly approve Rs. 14.17 Crore as Interest and Finance Charges for FY 2013-14 and allow an additional amount of Rs. 13.84 Crore in the AFC of FY 2013-14.

### **Commission’s Analysis**

The Commission in the Tariff Order for FY 2013-14 had not considered Interest and Finance Charges on existing old projects which have served their life.

The Commission had used an indicative figure for Interest and Finance Charges for MLHEP for FY 2012-13 at Rs. 72.95 Crore for the purpose of meeting the liabilities of the corporation and it should not be taken as any approval for the same. The Commission had approved Interim Tariff for Leshka Project. The Commission held that the Interim Tariff at Rs.2.83/kWh will provide Revenue to MePGCL during FY 2013-14 at Rs. 135.54 Crore subject to condition that it generated designed energy in FY 2013-14.

As per Regulation 54, read with Regulation 51 and the information made available in the Statement of Accounts, Interest and Finance Charges admissible is drawn in the Table below:

**Table 6: Interest and Finance Charges**

<b>Particulars</b>	<b>(Rs. Crore)</b>				
	<b>Opening Balance</b>	<b>Additions for FY 2013-14</b>	<b>Repayments in FY 2013-14</b>	<b>Closing Balance</b>	<b>Interest Charges</b>
13.55% Federal Bank	56.70	-	20.99	35.71	6.27
12.75% Central Bank of India	64.84	-	8.33	56.51	7.74
13.14% PFC Loan	168.31	36.64	-	204.95	24.52
11.40% BSE Power Boards – II	50.00	-	-	50.00	5.70
9.95% BSE Power Boards –I	120.00	-	-	120.00	11.94
11.07% REC Restructured Loan	253.04	-	-	253.04	28.01
1.30% OECF loan for Umiam Stage-I for Renovation and	13.77	-	-	13.77	0.18*



**Review of True up Order for FY 2013-14 & Provisional True up for FY 2014-15**

Modernisation					
1.30% JBIC loan for Umiam Stage-II for Renovation and Modernisation	11.28	-	-	11.28	0.15*
<b>Total</b>	<b>737.94</b>	<b>36.64</b>	<b>29.32</b>	<b>745.26</b>	<b>84.51</b>

*\*The Commission considers Interest and Finance Charges at Rs. 0.33 Crore for old stations for True up of FY 2013-14.*

Looking at the information as given in the Table above, the Liability towards Leshka will be around Rs. 80 Crore in FY 2013-14 which is more or less meeting within the budget given to Leshka in the Interim Tariff Order for FY 2013-14. Accordingly, the Commission allowed Rs. 0.33 Crore as against 'nil' claim, on the old plants undergoing Renovation and Modernisation.

The Commission made it clear the implications of the Regulations that the true up exercise without the C&AG audit report shall be interim approval only subject to readjustment of revenue gap/surplus after filing of the petition along with C&AG reports. Similarly, without audited accounts as in FY 2014-15, it should only be treated as Review of the ARR and the same shall be subject to corrections on filing of the audited accounts. Commission had directed the licensee in its order dated 12.11.2015 to furnish additional data on capital cost of MLHEP.

MePGCL shall file the Petition along with C&AG Audit Report.

**The Commission considers no change towards Interest and Finance charges in the review.**

The revised ARR for FY 2013-14 considered as given below:

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

Sl. No	Particulars	Approved for True up	Claimed in the Review	Approved for Review
1	O&M Expenses	52.54	-	52.54
2	Depreciation	2.35	-	2.35
3	Interest on Loan Capital	0.33	14.17	0.33

(Rs. Crore)

<b>Sl. No</b>	<b>Particulars</b>	<b>Approved for True up</b>	<b>Claimed in the Review</b>	<b>Approved for Review</b>
4	Interest on working Capital	3.20	3.51	3.03
5	Return on Equity	9.43	95.26	12.76
6	SLDC Charges	1.31	-	1.31
<b>7</b>	<b>Gross ARR</b>	<b>69.16</b>	-	<b>72.32</b>
8	Less: Now Tariff Income	4.47	-	4.47
<b>9</b>	<b>Net ARR</b>	<b>64.69</b>	-	<b>67.85</b>
10	Revenue from Generation Tariff	53.43	-	53.43
<b>11</b>	<b>Net Gap</b>	<b>11.26</b>	-	<b>14.42</b>

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

**Return on Equity**

**Petitioner's Submission**

In the tariff order of MePGCL for FY 2014-15, the Hon'ble Commission had approved an amount of Rs. 9.43 Crore as return on equity for old stations (excluding MLHEP) whereas as per Provisional Statement of Accounts for MePGCL for FY 2014-15, the average equity base has been considered as Rs. 723.56 Crore. Based on this, MePGCL has calculated Return on Equity for FY 2014-15 as follows:

**Table 8: Computation of Interest on Working Capital of MePGCL for FY 2014-15**

<b>Particulars</b>	<b>MePGCL Actuals</b>
Total Equity Amount including pending allotment (Rs. Crore)	723.56
Return on Equity (%)	14%
<b>Return on Equity (Rs. Crore)</b>	<b>101.30</b>

However, the Hon'ble Commission has not considered this actual equity quantum while computing RoE and, therefore, the Petitioner humbly requests the Hon'ble Commission to kindly consider this and approve Rs. 101.30 Crore as Return on Equity for FY 2014-15 and accordingly, allow an additional amount of Rs. 91.87 Crore in the AFC of MePGCL for FY 2014-15.

**Commission's Analysis**

The Commission had considered opening GFA on 01.04.2014 at Rs. 391.40 Crore. Return on Equity at 14% is considered at Rs. 9.43 Crore for determination of tariff, being 1/3<sup>rd</sup> of Equity amount held with integrated utility for Rs.202 Crore.

As per the unaudited Statement of Account the equity component stated to be Rs. 5.00 Lakh (Note 2.2). GOM have notified 4<sup>th</sup> Amendment to transfer of Assets & Liabilities on 29.04.2015. As per Note 3.1 of statement of Accounts for FY 2013-14, equity capital is pending allotment.

The claim of equity capital by the licensee at Rs. 723.56 Crore does not correspond with level of GFA as on 01.04.2014 (excluding MLHEP).

The Commission would like to refer to the APTEL judgement dated 17.12.2014 in Appeals No. 142 and 168 of 2013 between Mawana Sugar Ltd Vs PSERC and others. According to the APTEL findings the State Commission is not bound by the Transfer Scheme and the Audited Accounts. An extract of the relevant orders may be seen at page (3) of this order.

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, 51.

**Table 9: Equity and Return on Equity**

	<b>(Rs. Crore)</b>
GFA as on 01.04.2013	303.80
Additions during the FY 2014-15	1.37
Closing GFA as on 31.03.2015	305.17
Debt Equity Ratio	70:30
Debt	213.62
Equity	91.55
Equity for FY 2013-14	91.14
Average Equity	91.35
Return on equity at 14%	12.79

**The Commission approves RoE at Rs. 12.79 Crore in the review for FY 2014-15.**

#### **Interest on Working Capital for FY 2014-15**

##### **Petitioner's Submission**

The Commission has, on a normative basis, computed the Interest on Working Capital to be Rs. 2.92 Crores after deducting the Interest on Working Capital for the Leshka project.

However, as per the petitioner’s calculations, the Interest on Working Capital excluding that of Leshka project works out to be Rs. 3.65 Crore as shown below:

**Table 10: Computation of Interest on Working Capital of MePGCL for FY 2014-15**

<b>Sl. No.</b>	<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
A	O&M Expenses for 12 months	55.17
B	O&M Expense for 1 month (A/12)	4.60
C	Maintenance spares at 15% of O&M (15% of A)	8.28
D	Total approved AFC as per the impugned order	71.37
E	Two months’ receivables of total AFC (D/6)	11.90
F	Total Working Capital (B+C+E)	24.77
G	Rate of Interest	14.75%
<b>H</b>	<b>Interest on Working Capital</b>	<b>3.65</b>

The Petitioner humbly prays before the Honourable Commission to kindly review and approve Rs. 3.65 Crore as interest on working capital for FY 2014-15 and allow an additional amount of Rs. 0.73 Crore in the AFC of FY 2014-15.

**Commission’s Analysis**

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

Since financial statements are not audited, the interest on working capital is regulated on the basis of approved fixed cost in the Tariff Order as detailed in the Table below:

<b>Sl. No.</b>	<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
1	O&M Expenses for one month excl. MeECL cost (Rs.44.05 Crore /12)	3.67
2	Maintenance Spares as approved for Tariff	6.61
3	Receivables for two months as approved for Tariff (Rs. 65.83 Cr)	10.97
4	Working Capital Requirement	21.25
5	Interest on Working Capital (%)	14.75%
<b>6</b>	<b>Interest on Working Capital</b>	<b>3.13</b>

The Commission considered Interest on Working Capital at Rs. 3.13 Crore for Provisional True up for FY 2014-15, excluding O&M cost of MeECL.

**The Commission considers Rs. 3.13 Crore interest on working capital in the review for FY 2014-15.**

**Interest and Finance Charges for FY 2014-15**

**Petitioner’s Submission**

The Hon’ble Commission has approved Rs. 0.33 Crore as the Interest and Finance Charges for FY 2014-15 after deducting the Interest and Finance Charges pertaining to the Leshka project. However, it may be noted here that, as per the provisional statement of accounts, the total Interest and Finance Charges of MePGCL including the apportioned amount of MeECL stands at Rs. 137.75 Crore. Out of this, the Honourable Commission considers the Interest and Finance Charges pertaining to Leshka as Rs. 84.18 Crore and therefore, the Interest and Finance Charges excluding Leshka should have been Rs. 53.57 Crore as elaborated below. The difference is because the Hon’ble Commission has not considered the interest charges as per account statement (which also includes various financial charges) and calculated the interest charges only from the outstanding loan amounts appearing in the balance sheet.

**Table 11: Computation of Interest and Finance Charges of MePGCL for FY 2014-15**

<b>Sl. No.</b>	<b>Particulars</b>	<b>Amount (Rs. Crore)</b>
A	Interest and Finance Charges of MePGCL	137.75
B	Interest and Finance Charges of MeECL	0.004
C	Total Interest and Finance Charges (A+B/3)	137.75
D	Less: Interest and Finance Charges of Leshka	84.18
<b>E</b>	<b>Net Interest and Finance Charges for True up (C – D)</b>	<b>53.57</b>

The Petitioner humbly prays before the Hon’ble Commission to kindly approve Rs. 53.57 Crore as Interest and Finance Charges for FY 2014-15 and allow an additional amount of Rs. 53.24 Crore in the AFC of FY 2014-15.

**Commission’s Analysis**

The Interest commitment as per the un-audited statement of accounts for FY 2014-15 is

worked out below:

<b>Particulars</b>	<b>Opening Balance</b>	<b>Additions for FY 2014-15</b>	<b>Repayments in FY 2014-15</b>	<b>Closing Balance</b>	<b>Interest Charges</b>
13.55% Term Loan from Federal Bank	35.71		7.14	28.57	4.35
12.75% Central Bank of India	56.51		8.34	48.17	6.67
13.25% PFC Loan	204.95	12.46		217.41	27.98
11.40% BSE Power Bonds - II	50.00			50.00	5.70
9.95% BSE Power Bonds – I	120.00			120.00	11.94
11.07% REC Restructured loan	253.04			253.04	28.01
<b>Total</b>	<b>720.21</b>	<b>12.46</b>	<b>15.48</b>	<b>717.19</b>	<b>84.65</b>

Looking at the information as given in the Table above, the Liability towards Leshka will be around Rs. 80 Crore in FY 2014-15 which is more or less meeting within the budget given to Leshka in the Interim Tariff. Accordingly, the Commission allows Rs. 0.33 Crore at the same level of FY 2013-14 for Renovation and Modernisation of old plants Umiam-stage I and II.

The Commission considered Interest and Finance Charges at Rs. 0.33 Crore for old stations for True up of FY 2014-15.

The Commission made it clear the implications of the Regulations that the true up exercise without the C&AG audit report shall be interim approval only subject to readjustment of revenue gap/surplus after filing of the petition along with C&AG reports. Similarly, without audited accounts for FY 2014-15, it should only be treated as Review of the ARR and the same shall be subject to corrections on filing of the audited accounts. Commission had directed the licensee in its orders dated 12.11.2015 to furnish additional data on the capital cost of MLHEP.

MePGCL shall file Petition along with C&AG report with additional data.

**The Commission considers no change in the Interest and Finance Charges.**

The Revised ARR for FY 2014-15 (Review) is given below.

Table 12: Revised ARR for FY 2014-15 (Review)

<b>(Rs. Crore)</b>				
<b>Sl. No</b>	<b>Particulars</b>	<b>Approved for True up</b>	<b>Claimed in the Review</b>	<b>Now Approved</b>
1	O&M Expenses	55.17	-	55.17
2	Depreciation	2.35	-	2.35
3	Interest on Loan Capital	0.33	53.57	0.33
4	Interest on working capital	2.92	3.65	3.13
5	Return on Equity	9.43	101.30	12.79
6	SLDC charges	1.17	-	1.17
<b>7</b>	<b>Gross ARR</b>	<b>71.37</b>	<b>-</b>	<b>76.47</b>
8	Less: Non Tariff Income	7.51	-	7.51
<b>9</b>	<b>Net ARR</b>	<b>63.86</b>	<b>-</b>	<b>68.96</b>
10	Revenue from Generation	74.22	-	74.22
11	Net Surplus	10.36	-	5.26

The Review Petition is hereby disposed off.

Place: Shillong

Date: 30.03.2017

**Chairman**

**MSERC**