



**MEGHALAYA STATE ELECTRICITY REGULATORY
COMMISSION**

Tariff Order

For

**True up for FY 2014-15 and Determination of ARR and
Generation Tariff for FY 2017-18**

MEGHALAYA POWER GENERATION CORPORATION LIMITED

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Abbreviations

A&G	Administration & General
ARR	Aggregate Revenue Requirement
APTEL	Appellate Tribunal For Electricity
CAGR	Compound Annual Growth Rate
CD	Contract Demand
CERC	Central Electricity Regulatory Commission
CGS	Central Generating Stations
CoS	Cost of Supply
CWIP	Capital Work In Progress
DE	Debt Equity
EHT	Extra High Tension
NER	North Eastern Region
FY	Financial Year
GFA	Gross Fixed Assets
HT	High Tension
KV	Kilo Volt
KVA	Kilo Volt Amps
KW	Kilo Watt
kWh	kilo Watt hour
LNG	Liquefied Natural Gas
LT	Low Tension
MVA	Million Volt Amps
MW	Mega Watt
PLR	Prime Lending Rate
MePGCL	Meghalaya Power Generation Corporation Limited
MePDCL	Meghalaya Power Distribution Corporation Limited
MePTCL	Meghalaya Power Transmission Corporation Limited
CoD	Commercial Operation Date
MSERC	Meghalaya Electricity Regulatory Commission
SLDC	State Load Despatch Centre

MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION

**1st Floor (Front Block Left Wing), New Administrative Building
Lower Lachumiere, Shillong – 793001
East Khasi Hills District, Meghalaya**

In the matter of:

Petition for Truing-up of FY 2014-15 and Determination of ARR and Generation Tariff for FY 2017-18 for the Meghalaya Power Generation Corporation Limited (MePGCL) for old plants, Sonapani and MLHEP.

AND

Meghalaya Power Generation Corporation Limited
(Herein after referred to as MePGCL)

- Petitioner

Coram

WMS Pariat, IAS, (Retd)

Chairman

ORDER

Date of Order: 31.03.2017

1. The Meghalaya Power Generation Corporation Limited (hereinafter referred to as MePGCL) is a generating company engaged in the business of generation of electricity in the state of Meghalaya.
2. MePGCL has filed the petition on 16.01.2017 under the MSERC (Multi Year Tariff) Regulations 2014 and under section 62 read with section 86 of the Electricity Act 2003. Section 64(1) read with Section 61 and 62 of the Electricity Act, 2003 (hereinafter referred to as "Act") requires Generation Company to file an application for determination of tariff before the Appropriate Commission in such manner and along with such fee as may be specified by the Appropriate Commission through Regulations.
3. In compliance with Electricity Act 2003 the Commission had notified MSERC (Conduct of Business) Regulations 2007 and MSERC (Multi Year Tariff) Regulations 2014. These regulations cover the procedure for filing the tariff application, methodology for determining the tariff and recovery of charges as approved by the

Commission from the beneficiaries. However, for True up of period prior to 2015-16 the Tariff Regulation 2011 shall be applicable.

4. In exercise of the powers vested under section 62(1) read with section 62(3) and section 64 (3)(a) of the Electricity Act 2003 and MSERC MYT Regulations, 2014 (hereinafter referred to as Tariff Regulations), Tariff Regulations 2011 (for the purpose of True up of period prior to FY 2014-15) and other enabling provisions in this behalf the Commission issues this order for approval of the ARR and determination of Generation Tariff for FY 2017-18 for Generation of Electricity in the State of Meghalaya.
5. Tariff Regulations specify that the Generation licensee shall file ARR and Tariff Petition in all aspects along with requisite fee as specified in Commission's Fees, Fines and Charges Regulations on or before 30th November of the following year. The MePGCL has filed the ARR and Tariff Petition for the FY 2017-18 on 16.01.2017. The Commission having admitted the petition, took-up analysis.
6. Regulation 21 of the Tariff Regulations, 2014 provides for giving adequate opportunity to all stakeholders and general public for making suggestions/objections on the Tariff Petition as mandated under section 64(3) of the Electricity Act 2003. Accordingly the Commission directed MePGCL to publish the ARR for FY 2017-18 in an abridged form as public notice in the news papers having wide circulation in the state inviting suggestions/objections on the Tariff Petition.
7. Accordingly, MePGCL has published the Tariff Petition in the abridged form as public notice in various news papers and the Tariff petition was also placed on the website of MePGCL. The last date of submission of suggestions/objections was fixed as 08.03.2017. However, the Commission has considered all the objections received up to the date of public hearing i.e., 08.03.2017.
8. The Commission in order to ensure transparency in the process of Tariff determination and for providing proper opportunity to all stakeholders and general public for making suggestions/objections on the Tariff petition and for convenience of the consumers and general public across the state, decided to hold the public hearing at the headquarters of the State. Accordingly the Commission held public hearing at Shillong on 8th March 2017.

9. The proposal of MePGCL was also placed before the State Advisory Committee in its meeting held on 27.01.2017 and various aspects of the Petition were discussed by the committee. The Commission took the advise of the State Advisory Committee on the ARR and Tariff Petition of MePGCL for the FY 2017-18 during the meeting of the committee. The recorded note of proceedings is attached.
10. The Commission took into consideration the facts presented by the MePGCL in its Petition and subsequent various filings, the suggestions/objections received from stakeholders, consumer organizations, general public and State Advisory Committee and response of the MePGCL to those suggestions/objections.
11. The Commission taking into consideration all the facts which came up during the public hearing and meeting of the State Advisory Committee, has approved the True up for FY 2014-15 and Tariff for FY 2017-18.
12. The Commission has reviewed the directives issued in the earlier Tariff orders for FY 2010-11 to FY 2016-17 and noted that some of the directives are complied with and some are partially attended. The Commission has dropped the directives complied with and the remaining directives are consolidated and fresh directives are added. The MePGCL should ensure implementation of the Order from the effective date after issuance of a public notice, in such a font size which is clearly visible in two daily newspapers having wide circulation in the state within a week and compliance of the same shall be submitted to the Commission.

This Order shall be effective from 1st April, 2017 and shall remain in force till 31st March, 2018 or till the next Tariff Order is issued by the Commission.

W.M.S. Pariat
Chairman

1. Introduction

1.1 Background

The Meghalaya Power Generation Corporation Limited (hereinafter referred to as MePGCL or Petitioner) has filed its Petition on 16.01.2017 under section 62 of the Electricity Act 2003, read with Meghalaya State Electricity Regulatory Commission (MYT) Regulations, 2014 for true up of business for FY 2014-15 and determination of Aggregate Revenue Requirement and Generation Tariff for FY 2017-18.

The Commission has admitted the Petition on 17.01.2017.

1.2 Meghalaya Power Generation Corporation Limited

The Government of Meghalaya restructured the Meghalaya State Electricity Board with effect from 31st March, 2010 into in four successor entities for the Generation, Transmission and Distribution businesses.

1. Generation: Meghalaya Power Generation Corporation Ltd (MePGCL)
2. Transmission: Meghalaya Power Transmission Corporation Ltd (MePTCL)
3. Distribution: Meghalaya Power Distribution Corporation Ltd (MePDCL)
4. Meghalaya Energy Corporation Limited (MeECL), a holding company.

The Government of Meghalaya issued further notification on 29th April, 2015 notifying the revised statement of assets and liabilities as on 1st April, 2012 to be vested in Meghalaya Energy Corporation Limited. As per the said notification issued by the Government of Meghalaya, a separate corporation "Meghalaya Power Generation Corporation Limited" (MePGCL) was incorporated for undertaking Generation Business.

1.3 Meghalaya State Electricity Regulatory Commission

Meghalaya State Electricity Regulatory Commission (hereinafter referred to as "MSERC" or the Commission)independent statutory body constituted under the provisions of the Electricity Regulatory Commission (ERC) Act, 1998, which was superseded by Electricity Act (EA), 2003. The Commission is vested with the

authority of regulating the power sector in the state inter alia including determination of tariff for electricity consumers. The MSERC has notified the terms and conditions for determination of tariff regulations on multi year basis which gives the procedure and requirement of filing of the ARR for ensuing year. Similarly, the Commission has also notified MSERC (Terms and Conditions for Determination of Tariff for Generation from Renewable Energy Sources) Regulations, 2014.

1.4 Commission's Order for the MYT Period FY 2015-16 to FY 2017-18

MePGCL filed its petition under Multiyear tariff frame work for the FY 2015-16 to FY 2017-18 on 02.01.2015, in accordance with the Meghalaya State Electricity Regulatory Commission (Multiyear Tariff Frame Work) Regulations, 2014, notified by MSERC. The Commission approved the ARR for the MYT period FY 2015-16 to FY 2017-18 in its Order dated 30.03.2015.

1.5 Admission of the current Petition and Public hearing process

The MePGCL has submitted the current Petition for True up for FY 2014-15 and of Provisional true up of FY 2015-16 and Aggregate Revenue Requirement (ARR) for FY 2017-18 and determination of Tariff for FY 2017-18. The Commission undertook the technical validation of the Petition and admitted the Petition on 17.01.2017.

Regulation 19 of the Tariff Regulations, 2014 provides for giving adequate opportunity to all stakeholders and general public for making suggestions/objections on the Tariff Petition as mandated under section 64(3) of the Electricity Act 2003. In the admission order the Commission has directed the generating company to publish a notice in leading newspapers widely circulated in the State seeking comments from general public and other stakeholders. MePGCL has published the Notice in the following newspapers and sought comments within 30 days from the general public.

Table 1.1: Details of Public Notice

Name of the Newspapers	Date of Publication	Languages
The Shillong Times	26.01.2017 & 28.01.2017	English
U Nongsain Hima	26.01.2017 & 28.01.2017	Khasi
Salentini Janera	28.01.2017 & 29.01.2017	Garo

The Petitioner has also placed the public notice and the Petition on the website (www.meecl.nic.in) for inviting objections and suggestions on its Petition. The interested parties/stakeholders were asked to file their objections/suggestions on the Petition within 30 days of publication of notice.

The Commission received only one objection/suggestion from industrial consumer's organisation. The Commission examined the objections/suggestions received and sent it to MePGCL for their response. The Commission also fixed the date for public hearing on MePGCL's petition to be held on 8th March 2017. The Commission also informed the objectors to take part in the public hearing process for presenting their views in person before the Commission through public notice published in the leading newspapers on 27.01.2017 & 30.01.2017. The hearing was conducted at the Commission's office in Shillong as scheduled. The Commission also held meeting with State Advisory Committee. Proceedings of the meeting are given in **Annexure-I**. The Commission also considered objection received through the State Advisory Committee.

A short note on the main issues raised by the objector in the written submissions and also in the public hearing along with response of MePGCL and the Commission's views on the response are briefly given in Chapter -3.

1.6 Approach of the Commission for True-up FY 2014-15, determination of ARR & Generation Tariff for FY 2017-18

As per the Regulations the licensee shall file the petition for true up of business by 30th November of the following year along with audited financial statements and C&AG certificate. The MePGCL has filed its petition on 30.11.2016 with true up exercise along with audited accounts for FY 2014-15 which are yet to be audited by C&AG. However, the Commission in compliance of APTEL judgment had considered the petition of MePGCL. The MePGCL has submitted C &AG audit report for the FY 2013-14 on 20.1.2017 along with the statutory auditor's report for the FY 2014-15 It is mentioned therein that the C&AG report for FY 2014-15 will be submitted as and when received from C & AG.

The Commission would like to make 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 C&AG reports of FY 2014-15, it would only be treated as Provisional and the same shall be subject to corrections on filing of the audited accounts by C & AG.

Adjustment of gap/surplus

In the present orders, the true up Orders passed by the Commission for the FY 2014-15 shall be interim approvals subject to readjustment after filing of audited accounts certified by C&AG. The adjustment of Gap/surplus in FY 2017-18 considered by the Commission to avoid carrying Cost for possible delay.

Performance

The Commission observed that the actual performance of MePGCL is not as per the designed energy. Accordingly, the charges are determined on projected energy and gap/surplus needs to be apportioned as per the efficiency of the MePGCL.

Mid – term Review and provisional True up for FY 2015-16.

The Commission Considers that, as per the Regulation 4(2) (a) to (c) Multi Year Tariff Regulation 2014, midterm Review of the Business plan shall be sought by the licensee through an application filed three 3 months prior to the filing of petition for trueing up of Second year of the control period (2016-17) and the tariff determination for the third year of the control period. In this case the licensee has not filed petition (3) three months before and hence midterm Review is not considered. Provisional true up for FY 2015-16 without audited accounts is also not considered.

Return on Equity

The Government of Meghalaya has communicated revised and fourth amendment allocating the assets and liabilities among the unbundled utilities vide orders dated 29.04.2015. The generation, transmission and distribution corporations shall adopt those allocations in the respective corporations books for claiming of return on

equity in accordance with the Regulations and judgement made by Hon'ble APTEL in similar matters. After the process of Government of Meghalaya allocation of equity, the return on equity shall be computed for arriving at the ARR and tariff. Till such time equity available in the books of Accounts shall be considered for the three corporations and return on equity shall be allowed for tariff, as per Regulation 29 and 31.

Capital cost and Depreciation

The Commission considers opening GFA of three corporations as per the balance sheet and depreciation allowed after deducting grants and contributions value as per the Regulations after prudence check. The Commission has provisionally approved Tariff for Project MLHEP Leshka as considered in its interim Tariff Order subject to adjustments after the compliance of directives given by the Commission in this regard to MePGCL.

Interest and Finance charges

The Commission has considered loans borrowed for capital works and interest charges allowed on average rate of total outstanding loans for arriving at the ARR on the basis of the approved capital cost including Units-I, II & III of Leshka in accordance with the interim Tariff Order of Leshka.

ARR and Tariff

The Commission keeping in view the interest of consumers/stakeholders after prudence check has considered the true up for FY 2014-15 and determination of ARR and Generation tariff for FY 2017-18. The Commission allows admissible claim while ensuring sustainable operations by the utilities as per the Regulations approved in the Multi Year Tariff Regulations, 2014. The sustainability of the utility is important so as to serve its consumers by supplying reliable power at affordable rates.

Earlier Commission had approved the Capital Cost of MLHEP (Leshka). Based on the approval of the Capital Cost, the Commission has considered the true-up of the business for FY 2013-14 and FY 2014-15.

Conclusion

The Commission is of the view that truing up exercise is a regular process and need to be done every year along with the Tariff filing of the next year with audited accounts. The Commission is constrained to do the truing up based on statutory Audit Report in the absence of final audited financial statements, certified by the C&AG.

1.7 Contents of the Order

This Order is issued in six chapters as detailed below:

Chapter 1: Introduction

Chapter 2: Summary of ARR & Tariff petition

Chapter 3: Public Hearing Process

Chapter 4: True up for FY 2014-15

Chapter 5: Analysis of ARR for FY 2017-18 and Generation Tariff for FY 2017-18

Chapter 6: Directives.

2. Summary of True up Petition of FY 2014-15 & Provisional True up of FY 2015-16 and Revised Generation Tariff for FY 2017-18

2.1 Existing Stations

MePGCL has filed the petition on 16.01.2017 seeking approval of True up of FY 2014-15 and Provisional true up of FY 2015-16 & determination of Generation Tariff for FY 2017-18.

Earlier, the Commission had determined ARR for the control period FY 2015-16 to FY 2017-18 and Tariff for FY 2015-16 under MYT framework on 30.03.2015 for old generating stations and Sonapani of MePGCL. The Commission had allowed Interim Tariff for MLHEP Leshka Project dated 10.04.2014 with the directions to MePGCL to submit the petition for determination of final tariff for Leshka Project after getting Technical Committee Report.

MePGCL submitted in the current petition for the True up for FY 2014-15, Provisional True up for FY 2015-16 and prayed to include the gap as a result of true up of FY 2014-15 and Provisional true up for FY 2015-16 and requested for the Revision of Generation Tariff for FY 2017-18.

The Commission has admitted the petition on 17.01.2017.

MePGCL has calculated the total gap resulting from the Truing up of FY 2014-15, which is required to be recovered from the revised generation tariff of FY 2017-18. As projected in the petition, the Licensee sought for and reckoned total gap to be allowed in the FY 2017-18 for MePGCL as a whole, including old plants as well as Leshka Project.

In order to segregate the net gap arrived for FY 2014-15 among Sonapani, Leshka HEP and all other existing Plants, MePGCL has divided the total net gap for each year proportionately as per the ratio of approved ARR in the respective years. The calculations are shown below:

Table 2.1: Allocation of True up Gap

Year	(Rs. Crore)						
	Approved for All Existing Plant	Approved for Leshka	Gap Estimated by MePGCL	Proportionate Gap for Leshka	Proportionate Gap for Existing Power Plants	Proportionate Gap for Existing Power Plant except Sonapani	Proportionate Gap for Sonapani
FY 2013-14	58.64	135.54	151.65	105.85	45.80	45.29	0.51
FY 2014-15	69.93	135.54	180.53	119.09	61.44	60.76	0.68

Further, MePGCL has added the gap components to be approved in ARR for FY 2017-18 and considered the same for calculating revised Generation tariff. MePGCL has considered Projected Generation of average of last 6 years for consideration of Generation tariff for FY 2017-18 and accordingly calculated Fixed and Energy charges as per the methodology adopted by the Hon'ble Commission in the MYT Order for FY 2015-16 to FY 2017-18.

Table 2.2: Calculation of Revised ARR for FY 2017-18
(Rs. Crore)

Year	MePGCL Old Generating Stations
Approved in MYT Order for FY 2017-18	179.71
For FY 2015-16	114.50
Add True Up Gap of FY 2014-15	29.51
Total AFC including Gap	323.72

Based on the above described methodology, MePGCL has projected revised Generation Tariff for FY 2017-18 and humbly prayed before the Commission to approve the same.

Table 2.3: Revised Tariff for FY 2017-18

Sl. No	Name of the Plant	Capacity (MW)	(MU)	AFC Allocation (Rs. crore)	Average Tariff (Rs./kWh)	50% as Capacity Charges (Rs. Crore)	50% as Energy Charges (Rs./kWh)
1	Umiam - I	36	99.45	61.76	-	18.18	1.57
2	Umiam - II	20	46.00	34.31	-	10.10	2.20
3	Umiam - III	60	139.00	102.93	-	30.30	2.18
4	Umiam - IV	60	207.00	102.93	-	30.30	1.46
5	Umtru	11.2	39.00	19.21	-	5.66	1.45
	Sub: Total	187.2	547.00	189.10	-		
6	Sonapani	1.5	5.00	2.57	-	1.06	2.12
	Sub Total	188.70	552.00	-	-	-	-
7	Leshka	126	478.94	-	-	180.24	3.76
	Total	314.70	1030.94	323.72	-	-	-

Table 2.4: AFC, Capacity charges and Energy charges for FY 2017-18

Sl. No	Name of the Power Station	Capacity (MW)	Projected Generation (Average of last 6 years) (MU)	Annual Fixed Charges (INR Crs)	Capacity Charges (INR Crs)	Energy Charges (Rs/ Unit)
1	Umiam - I	36	99.45	61.76	30.88	3.10
2	Umiam - II	20	42.66	34.31	17.16	4.02
3	Umiam - III	60	125.38	102.93	51.47	4.10
4	Umiam - IV	60	186.32	102.93	51.47	2.76
5	Umtru Power Station	11.2	20.25	19.21	9.61	4.75
6	Mini Hydel Sonapani	1.5	5.89	2.57	1.29	2.18
	Total	188.7	479.66	323.72	161.86	3.37

3. Public Hearing Process

3.1 Objections of Stakeholders, Response of the Licensee and the Commission's Views

Objector : M/S Byrnihat Industries Association

A. True up for FY 2014-15

Objection : Compliance of Tariff Regulations in filling petition

The Petition filed by MePGCL is bereft of required details as it has not complied with the provisions of the Tariff Regulations of the Hon'ble Commission. The details provided by MePGCL are without sufficient justification.

Response of MePGCL

The present petition filed is as per the guiding principles for determination of tariff in the Meghalaya State Electricity Regulatory Commission (terms and conditions for determination of Tariff) regulations, 2011 and Multi Year Tariff Regulations, 2014.

Further, the details are provided only after the availability of audited statement of accounts for FY 2014-15 and provisional statement of accounts for FY 2015-16 in consonance with the broad principles specified in the order of Hon'ble Appellate Tribunal in Appeal no. 146 of 2014, dated 1st December 2015, in the matter of MePDCL and MSERC versus the objector.

Commission's View

The views of the objector and the petitioner are noted.

Objection: Principles to be adopted for truing up of FY 2014-15 & allowable true up.

The Generation Licensee is seeking a true-up for 2014-15 based on the availability of the audited Statement of Accounts for FY 2014-15. It is stated that implications of the Regulations is 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. In the last tariff order dated 31.03.2016, this Hon'ble Commission had made it clear that the provisional true-up will only be a

Review of the ARR. Therefore, if the true-up of FY 2014-15 is allowed only on the basis of audited accounts, it will lead to a second interim approval till the submission of the C&AG Report, i.e. a review of a review. Such an exercise will lead to a duplication of effort for the Hon'ble Commission. Hence, it is requested the Hon'ble Commission may carry out the final true-up for FY 2014-15 once the Generation Licensee is able to produce and put on record the C & AG Report for FY 2014-15.

Response of MePGCL

As per the regulation 1.4 of MSERC MYT Regulation, 2014 , for the purpose of review or truing pertaining to FYs prior to 2015-16, the provisions under MSERC(Terms and Conditions for Determination of Tariff) Regulations, 2011 shall apply.

Further, the general guiding principles for determination of tariff are stipulated under Regulation 15 of The Meghalaya State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2011

Regulation clearly states that the Audited Statement of Accounts of either Comptroller& Auditor General of India or by a Statutory Auditor is required, which in itself indicates that for filing of true up petition the Statement of Accounts audited by CA&G is not binding. The CAG audit report up to FY 2012-13 and FY 2013-14 has already been submitted to the Commission and the reports for FY 2014-15 is in progress and the same will be made available to the Commission.

Further, it is submitted that the CA&G audit is a time taking process and cannot be completed for truing up. As such, if the truing up is delayed on account of CAG audit reports, it may result in additional burden on consumers for passing through of legitimate cost on account of carrying cost of the gap. Moreover, it may be observed that the figures provided in the provisional accounts can be verified based on supporting documents provided like power purchase invoices and the same can be checked based on past years' data and justification provided. As such, the truing up for FY 2015-16 has also been proposed to be done based on provisional accounts so that the legitimate costs can be passed through without burdening the consumers or utilities with the carrying cost.

Commission's View

The response of MePGCL is noted.

Objection : The principle or law laid down by Hon'ble tribunal to be kept in view while truing up for FY 2014-15

Response of MePGCL

While submitting the truing up petition, it has given detailed justification for the actual expenditure incurred and revenue accrued as against the approved figures. Further, there is no deviation sought in the overall principles laid down in the previous tariff order or any correction of error is sought..

Commission's View

The response of the utility is noted.

Objection : Normative plant availability factor (NAPAF)

The following points maybe taken under consideration for : For calculation of NAPAF by MePGCL

- i. As per Table No. 2 the head variation between Full Reservoir Level (FRL) and Minimum Draw down Level (MDDL) of only a project is upto 8%. The Hon'ble Commission is requested to call for the DPR's of the respective projects and verify the same;
- ii. MePGCL cannot claim automatic 5% allowance for difficulties in the NE Region as the same has to be studied on a case to case basis and decided accordingly.

It is pertinent to mention that this Hon'ble Commission in its Tariff Order dated 30.03.2013, for FY 2013-14 directed MePGCL to conduct a study for determining the designed energy, availability, generation, etc. and determine NAPAF based on actual data.

The above direction was to be complied within 6 months. However, till now the same has not been complied with and BIA is not aware of any study which was

conducted by MePGCL to arrive at proper NAPAF figures. MePGCL in Table 2 of the present petition has simply asked for the actual NAPAFs achieved to be accepted. This is not the correct. In fact, in the case of generating companies, truing up cannot be used to vary the norms and parameters fixed.

MePGCL has sought to apply a 5% reduction in the actual NAPAF for all of its generating stations, claiming difficulties in operating in the said region. MePGCL has nowhere mentioned the difficulties faced by it and the steps taken to overcome those difficulties. The NAPAF is a well-defined term under the Regulations of the Hon'ble Commission, namely the availability of the plant taking into consideration various aspects and conditions. The Tariff Regulations do not mandate any such relaxation to be given, but only provide for an enabling clause in case of any specific difficulty faced by the generator. There is no justification whatsoever for MePGCL to claim a lower NAPAF as is sought to be put forward by MePGCL.

Further, the calculation of NAPAF by the MePGCL for the Umiam generating station Stage I is being shown by MePGCL at an unreasonably low figure of 64.83%. The details of the calculation have not been provided by MePGCL. MePGCL should provide the details of how the maximum head and minimum head have been calculated along with an independent third party certification of the same. It is also required to be verified by an independent third party as to the calculations made by MePGCL in applying the Tariff Regulations of the Hon'ble Commission with regard to calculation of NAPAF.

Further, even as per the claim of MePGCL, for Stage II, III & IV the percentage variation in the head is about 8% itself and only slightly more than 8%. In the circumstances, there is no justification whatsoever for showing an NAPAF of 90% in Stage II and only 68.67 % in Stage III and 66.79% in Stage IV. It is not understood as to how an 8% variation in head has led to a reduction in the NAPAF of more than 20%.

Even in cases where the generating station is significantly affected by silt levels, the NAPAF is to be taken at 85% in terms of the Tariff Regulations as against this, the

claim of MePGCL for the Umiam generating stations is much less than 70%. This ought not to be accepted.

With regard to the NAPAF of the Umtru plant, the MePGCL has not given any details as to how this plant is significantly affected by silt as specified in the Tariff Regulations of the Hon'ble Commission. The level of NAPAF at 85% is only provided to such pondage type plants where plant availability is significantly affected by silt.

Unless the MePGCL is in a position to provide authenticated data about the silt levels at the generating station and establish to the satisfaction of the Hon'ble Commission that the plant availability is significantly affected by silt warranting reduction in the NAPAF, the NAPAF for the said generating station ought to be taken at 90% as provided in Regulation 60(1)(a) of the Tariff Regulations of the Hon'ble Commission.

It is evident from the historical operation of the generating stations of the MePGCL that there are substantial inefficiencies in the operation and the generation level can increase by adopting utility practices of MePGCL. In the circumstances, the Hon'ble Commission ought to disallow any reduction in generation levels as claimed including lower NAPAF for the generating stations of MePGCL.

Response of MePGCL

The calculation of NAPAF for old plants have been proposed as per the actual generation/technical details of the project and based on norms specified by regulation 60 (1) of Tariff Regulations, 2011.

The computation of NAPAF for Storage and Pondage type hydro generating stations is carried out as under:

Name of Power Station	FRL (mtrs)	MDDL (mtrs)	Maximum Head	Minimum Head	% Head Variation
Umiam Stage I	981.46	960.12	169.0	130.0	23.08%
Umiam Stage II	804.06	800.85	78.5	75.0	4.46%
Umiam Stage III	679.70	672.05	162.0	146.0	9.88%
Umiam Stage IV	503.00	496.00	162.0	131.0	19.14%

As submitted in the above table, other than Umiam Stage-II, for all power stations, the head variation between FRL and MDDL is more than 8%. Hence, the NAPAF is calculated as indicated in the Table below:

Name of Power Station	% Head Variation	Rated Head	Head at MDDL	NAPAF : 90 % up to 8% variation else (Head at MDDL /Rated Head)x 0.5+0.2
Umiam Stage I	23.08%	145.0	130.0	64.83%
Umiam Stage II	4.46%	77.7	75.0	90.00%
Umiam Stage III	9.88%	150.0	146.0	68.67%
Umiam Stage IV	19.14%	140.0	131.0	66.79%

MePGCL had submitted its report to the Hon'ble Commission on 25th September, 2013 giving details relating to the calculation of NAPAF in compliance with Directive No. 3 of Tariff Order for FY 2013-14 (copy enclosed as Annexure-I).

For Umtru, being the only plant under the pondage plant category as in regulation 60.1(b), NAPAF for Umtru is 85.00% as per the Tariff Regulations, 2011. After considering further allowance of 5% for difficulties in north east region, the NAPAF for Umtru is 80.00%. Four nos. of photographs showing the silt level in Umtru Reservoir which has affected the operation of the power station are enclosed as Annexure-II (A,B,C&D).

As per Regulation 60 (1) (c) of the Tariff Regulations, 2011, the NAPAF for Run of River type plants is to be determined based on 10-day design energy data, moderated by past experience wherever relevant. Therefore, based on the past records and as per norm given in regulation, the NAPAF for Sonapani works out to be 50.00%. Further as per Regulation 60 of the Tariff Regulations, 2011, after considering further allowance of 5% for difficulties in north east region, the NAPAF for Sonapani is 45.00%.

MePGCL further submitted that the deviation from the norm of 90 % NAPAF may be allowed for storage and pondage type plants along with allowance of 5% reduction on actual NAPAF in accordance with the provisions as provided under regulations 60

(1) for special reasons e.g silt or operating conditions as well as difficulties in the North East Region, some of which are listed below:-

- i. Hydropower projects in the region are located in interior areas where road and other communication networks are very poor leading to transport and other difficulties in operation and maintenance of power stations.
- ii. Spare parts of plant & machinery are not normally available in the North Eastern region and have to be procured from outside the region, leading to delay in taking up repair works during breakdown of plant & machinery.
- iii. The region experiences heavy monsoons accompanied with lightning strikes, flash floods, etc., which result in landslides, disruption of road and other communications, failure of power transmission lines, etc., which severely affect the performance of power stations.
- iv. Shortage of trained / skilled manpower and specialized firms for taking up repair works, which have to be called from outside the region whenever breakdown of plant and machinery, etc., occur.

All the above problems were experienced by MePGCL's power stations and hence MePGCL has considered 5% allowance in the NAPAF as provided in the Tariff Regulations to compensate for the loss of generation, etc.,

Commission's View

The Commission agrees with the response of the utility.

Objection: Auxiliary Consumption and Transmission losses

From Table 5 and Table 6 of the Petition it can be observed that the norms fixed by Hon'ble Commission for auxiliary consumption and transformation losses were more than sufficient and the actual losses incurred by MePGCL are much lower than the figures approved by the Commission.

Therefore, truing up needs to be conducted by the Commission.

Responses of MePGCL

Such reduction in losses than norms provided reflects the effectiveness of MePGCL plants in generation and transformation even though the plants are very old. However, it is submitted that the objector has submitted to consider the actual figures of performance where the performance is better than norms but on the other hand is asking for non-consideration of actual performance where the same is less than the normative performance. This is not justified. As against this, MePGCL is requesting to consider the actual performance consistently in case of old plants to make it more realistic.

Commission's Views

The Commission considers the auxiliary consumption and transformation losses after prudence check by the commission for True – up purpose, as it is a controllable parameter.

Objection: Operation and Maintenance Expenses (O&M Expenses)

The Petitioner has claimed the actual O&M Expenses to the tune of Rs. 52.27 crore as against Rs. 55.17 crore approved by the Hon'ble Commission in the provisional true-up order for FY 2014-15; thus entailing a variation of Rs. 2.90 crore.

The allowable working capital and interest thereon upon final truing up for FY 2014-15 would consequently be scaled down owing to the reduction in O&M expenses.

Responses of MePGCL

MePGCL has not claimed any gains on account of lower actual O&M expenditure than normative in case of generation as the approved figures were provisional for generation in absence of approved values for Leshka plant. As such, the total gain on account of O&M expense (along with interest on working capital) is proposed to be passed through to the consumers.

Commission's View

The Commission agrees with the response of the MePGCL.

Objection : Interest and Finance Charges

MePGCL has claimed an amount of Rs. 7.59 Crore towards interest on loan as against Rs. 0.33 Crore approved by the Commission in provisional true up of FY 2014-15. It is submitted that the claim needs to be rejected due to the following reasons:

- i. The additional capitalisation as per the audited accounts for FY 2014-15 is to the tune of Rs. 1.37 crore only (Refer Note-10: Fixed Assets of the audited accounts). In view of this, the variation of Rs. 7.26 crore (Rs. 7.59 crore - Rs. 0.33 crore) claimed by MePGCL is without any merits. There can be no allowable interest on loan expense when correspondingly there is no corresponding capitalisation.
- ii. The Hon'ble Commission in the Order dated 30.3.2016 in respect of final truing up for FY 2013-14 and provisional truing up for FY 2014-15 had expressly held that there were only two loans which pertain to old stations namely "1.30% OECF Loan for Umiam Stage-1 for Renovation and Modernisation" with a closing balance of Rs. 13.77 crore as on 31.3.2014 and "1.30% JBIC Loan for Umiam Stage-II for Renovation and Modernisation" with a closing balance of Rs. 11.28 crore as on 31.3.2014. The interest on loan of Rs. 0.33 crore were allowed in the true up for 2013-14 and provisional true-up for FY 2014-15 in respect of the above mentioned two loans. In the absence of any new loans, the claim of MePGCL of a higher amount of Rs. 7.59 crore falls flat and ought to be disallowed.

Response of MePGCL

MSERC in the provisional true up of FY 2014-15 had allowed INR 0.33 Crore only against the interest on loan part. However, it is pertinent to note that Interest and finance charges also include other mandatory charges levied by the banks like bank charges, bank transaction charges & prepayment charges for final settlement of loans and interest which is a considerable amount paid by MePGCL. From the Audited Statement of Accounts, it is clearly understood that MePGCL has incurred INR 7.21 crores towards meeting such obligatory charges and hence the MSERC is requested to make due consideration of such charges over and above the interest on loan allowed by the Hon'ble Commission.

The objector has misinterpreted the claimed additional amount to be against interest on loans while actually the major chunk of additional amount is being claimed for mandatory charges incurred over and above interest on loan. Hence the argument for disallowing the additional amount based on the non-reflection of the same in additional capitalization is irrelevant and needs to be rejected.

Commission' Views

The interest and finance charges will be accepted as per the Tariff Regulations and on prudence check of the accounts.

Objection : Interest on working Capital

In the Provisional true up of 2014-15, the Commission allowed Rs. 2.92 Crore towards working capital. As against this MePGCL is claiming Rs. 3.70 Crore as interest on working capital.

In view of the submissions made by BIA regarding allowable O&M expenses the allowable interest on working capital for FY 2014-15 is Rs. 2.77 Crore.

Response of MePGCL

The figure of INR 3.70 crores has been arrived taking due consideration of MSERC tariff regulations and including 1/3rd proportional interest expense of MeECL. Therefore MePGCL requests Hon'ble Commission to allow the additional expense accordingly.

Commission's Views

The interest on working capital will be considered as per the provisions of the Tariff Regulations and on the prudence check of the accounts.

Objection : Depreciation

MePGCL has claimed depreciation of Rs. 6.46 Crore as against Rs. 2.35 Crore approved by the Hon'ble Commission in the provisional true up Order for FY 2014-15.

Depreciation:

MePGCL has not provided any details of the additional capitalisation pertaining to the variation in respect of depreciation. As per Note 10 of the Audited Accounts the additional capitalization for FY 2014-15 is Rs. 1.37 Crore. In light of this the variation of Rs. 4.11 Crore (Rs. 6.46 Crore-2.35 Crore) is without any merits and thus deserves to be set aside.

It is not understood how MePGCL is booking depreciation of Rs. 67.35 crore against all its plants including the old plants. It is important to note that most of these stations are very old and most of the depreciation would have been charged to the extent of 90% of the life of the assets. The Hon'ble Commission allowed Rs. 2.35 Crore, in the provisional true up, while considering Rs. 49.39 Crore of capital cost for Umiam IV and Sonapani power plants. Thus, no additional depreciation should be given.

Further, MePGCL has not given the asset wise breakup of the Gross fixed assets relating to the old generating stations, nor provided any details in relation to the generating stations for which the depreciation has been sought.

MePGCL has cited Audited Accounts as the only reason for higher depreciation. From a perusal of the Audited Accounts it can be observed that the main difference in depreciation is on account of changes made by the State government in the Transfer Scheme. The Hon'ble Tribunal has already held in a number of cases that figures shown in the transfer scheme are not binding for tariff determination. Therefore, an attempt shall be made by MePGCL to get the values in the Transfer Scheme modified to claim higher depreciation.

It is further submitted that there are no details including the asset value, the salvage value, opening asset value recorded by the State etc. as required under the MYT Regulations of the Hon'ble Commission for the purposes of computation of depreciation. In such circumstances, the claim made by MePGCL for depreciation is untenable and liable to be rejected.

Response of MePGCL

From the Note 10 of audited accounts of FY 2014-15, the details of gross asset values, cumulative depreciation claimed and the depreciation figures are furnished. The accumulated depreciation for the old plants has not reached to the level of 90% (total depreciable value) and it is only 69% of the gross fixed asset value. This is because MePGCL has incurred R&M expenditure on these units from time to time which has increased the depreciable value and the life of the asset. As such, it would not be correct to conclude that the old plants have depreciated completely and no depreciation should be claimed on the same.

Commission's View

The depreciation is decided as per the Tariff Regulations and on prudence check of the accounts/estimates/projections.

Objection : Return on Equity

MePGCL has claimed RoE of Rs. 102.88 crore as against Rs. 9.43 crore approved by the Hon'ble Commission in the provisional true-up order for FY 2014-15. The significant increase is on account of the consideration of Rs. 779.12 crore as equity eligible for return. As per the audited accounts, the equity capital pending allotment represents the amount of equity capital to be allotted to MeECL in accordance with notification issued on 29.4.2015 by Govt. of Meghalaya.

Further, return on equity sought on capitalized assets does not add up with the figure of additional capitalisation as shown in Note 10 of Audited Accounts. While the additional capitalisation is shown to be Rs. 1.37 Crore the return on equity is shown to Rs. 93.45 crore.

Also, the Hon'ble Commission vide its Order dated 30.03.2016, has already analysed the issue of claiming RoE on the equity capital pending allotment and disallowed the same. The Commission noted that the consumers had already paid for the capital assets of MECL which has then been restructured into the three successor companies. Merely by notifying a transfer scheme, the capital figures cannot be changed. The Hon'ble Tribunal has clearly held in Mawana Sugars Ltd. v. PSERC and

Others. (Judgment dated 17.12.2014 in Appeals No. 142 & 168 of 2013) and Chhattisgarh State Power Distribution Company Ltd. v. CSERC (Judgment dated 09.10.2015 in Appeal No. 308 of 2013) that if the utility wishes to have a higher equity in its books of accounts, it can do so but the ROE cannot be passed on to the consumers. Hence the additional ROE cannot be passed on to the consumers. Thus, the claim of MePGCL for ROE on Rs. 779.12 Crore must be disallowed.

Responses of MePGCL

MePGCL has claimed return on equity as per the provisions of MSERC Tariff Regulations 2014 and MSERC Tariff Regulations 2011. The MSERC Regulations provide for allowing equity as appearing in the balance sheet/transfer scheme and also on equity in excess of 30% of the capital cost. It is also clarified that the equity addition in paid up capital is for funding received from State Government prior to restructuring based on the assets and capital works in progress, at the time of restructuring. As such, it is not correct to link the equity with the assets capitalized in FY 2014-15.

For old projects, the new regulations allow the debt-equity ratio to be considered as the same as considered by the Commission in the past period. Hence, we are referring the old regulations i.e. MSERC Tariff Regulations 2011 to analyze the allowable equity for calculation of return on equity for old assets/projects.

It may be noted that, for the first year of operation, the equity component appearing in the balance sheet as per the transfer scheme was considered for computation of Return on Equity and the Hon'ble Commission had approved only provisional values subject to correction at the time of audited accounts reflecting the size of equity.

The equity outstanding pending allotment was as per the Transfer Scheme notification, the same has been claimed and the regulations provide for claiming return on funds received but not subscribed as share capital (premium/internal reserves). Further, the equity considered has been received from the State Government as equity and also utilized for capital expenditure, return should be

calculated on the same. Further, the regulations do not restrict allowing of return on equity pending allotment.

As against this, the Commission had determined the Return on Equity for the 1st MYT Period for FY 2015-16 to FY 2017-18 (and also for previous years) on provisional basis as Rs 9.43 Crores based on the figures of equity available with MeSEB prior to unbundling as per the order of the Commission dated 31st March 2016, as under.

“The Government of Meghalaya has communicated revised and fourth amendment allocating the assets and liabilities among the unbundled utilities vide orders dated 29.04.2015. The generation, transmission and distribution corporations shall adopt those allocations in the respective corporations’ books for claiming of return on equity in accordance with the Regulations and judgment made by Hon’ble APTEL in similar matters. After the process of Government of Meghalaya allocation of equity, the return on equity shall be computed for arriving at the ARR and tariff.”

As such, it is clear that the allowed figures were provisional and subject to change based on actual allocation of equity as per the transfer scheme and adoption of allocation of equity in books of accounts.

The objection of BIA that additional RoE cannot be passed to the consumers appears repugnant by the fact that the equity amount claimed for RoE is actual as per the balance sheet of audited accounts.

Commission’s Views

The Return on Equity is limited in accordance with the principles of the Tariff Regulations and as per the Hon’ble APTEL Judgment in similar matters on receipt of audited accounts.

Objection : Prior Period Items

In the provisional true up order the Hon’ble Commission did not allow any prior period expense for MePGCL. However, now MePGCL is seeking total prior period expenses to the tune of Rs. 28.48 Crores. In the audited accounts for FY 2014-15

prior period income is reported to be Rs. 32.45 Crore and prior period expenses are noted to be Rs. 3.97 Crores. Accounting Standards (AS 5) (Revised) on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies' states:

"Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods."

Out of the prior period incomes of Rs. 32.45 crore, there is an amount pertaining to 'other income related to power sale' of Rs. 32.42 crore. Thus, this amount which otherwise would have reduced the ARR/True-up of an earlier year which was inadvertently missed out to be booked as income, In view of the same, the Objector respectfully submits that the true-up for FY 2014-15 ought to consider this amount and due benefit of the same should be passed on to the consumers by a reduction in the true-up for FY 2014-15.

Responses of MePGCL

The objector has supported the claim of the petitioner and as such no comments are provided.

Commission's Views

Noted.

Objection : Non Tariff Income

MePGCL has submitted that the non tariff income is to the tune of Rs 1.83 Crore as per the Audited Accounts. The 1/3rd share of non-tariff income in case of MeECL are stated to be Rs. 1.70 Crore. Thus the non-tariff income claimed is to the tune of Rs. 3.53 crore. It is submitted that the same maybe reduced from the gross annual fixed charges being trued up for FY 2014-15.

Response of MePGCL

The objector has supported the claim of the petitioner and as such no comments are provided.

Commission's Views

Noted .

Objection : Revenue from Operations

MePGCL has submitted that out of the total revenue from operations amounting to Rs. 191.10 crore, the revenue attributable to Leshka plant is Rs. 114.12 crore. Thus, it has claimed Rs. 76.98 crore towards revenue from old plants.

There is no material on record to assess the revenue attributable to Leshka plant and in respect of the old plants. As per the provisions of the Tariff Regulations, the tariff is to be determined station wise; therefore the Petitioner ought to be directed to furnish the break-up of the revenue in respect of all of its generating stations duly certified by its statutory auditor.

Response of MePGCL

MePGCL has been billing the generation charges to MePDCL based on the plant wise tariff approved by the Hon'ble Commission in the respective orders. The same has already been audited by the statutory audit report.

Commission's View

The response of MePGCL is noted.

Objection : Summary of Allowable True up for FY 2014-15

In light of above submissions BIA prays that the following revenue surplus be allowed:

Particulars	Approved in Provisional Truing up Order	Claimed by MePGCL	Allowable as per BIA's assessment	Loss/ (Gain)
	(a)	(b)	(c)	(c-a)
O&M Expenses	55.17	52.27	52.27	-2.90
Depreciation	2.35	6.46	2.35	0.00
Interest on Loan	0.33	7.59	0.33	0.00
Interest on Working Capital	2.92	3.60	2.77	-0.15
Return on Equity	9.43	57.58	9.43	0.00
SLDC Charges	1.17	0.70	0.70	-0.47
Net Prior Period Items	0.00	-28.53	-28.53	-28.53
Total Annual Fixed Charges	71.37	99.67	39.32	-32.05

Particulars	Approved in Provisional Truing up Order	Claimed by MePGCL	Allowable as per BIA's assessment	Loss/ (Gain)
Less: Non-tariff Incomes	7.51	3.53	3.53	-3.98
Net AFC	63.86	96.14	35.79	-28.07
Revenue from operations	74.22	76.98	76.98	2.76
Gap/(Surplus)	-10.36	19.16	-41.19	-30.83

It is submitted that the revenue surplus as submitted by the Objector be factored in while determining the ARR and Tariff for FY 2017-18.

Response of MePGCL

Based on the above submissions, MePGCL would like to confirm that there is no requirement for revising the projections made in the petition.

Commission's Views

The commission has conducted prudence check of all components and has taken appropriate decisions before arriving at surplus.

B. Provisional True – up for FY 2015-16

Objection : Provisional True – up not to be allowed

The MePGCL is seeking a provisional true-up of 2015-16 based on un-audited statement of accounts which may not be allowed. It is pertinent to note that in Appeal No. 146 of 2014, the Hon'ble Tribunal by its judgment dated 1.12.2015 had directed this Ld. Commission to carry out the provisional true-up of 2014-15 for MePDCL as MePDCL was unable to present audited accounts due to unbundling of MeECL. However, Hon'ble Tribunal had also directed Hon'ble Commission to issue directions to MePDCL to prepare and present the audited accounts before the determination of ARR for FY 2015-16. The provisional true-up will only be an interim arrangement and will have to be once again revisited when MePGCL submits the audited accounts along with the C&AG Report. This will lead to duplication of effort by this Hon'ble Commission. The Hon'ble Commission is required to direct the MePGCL to submit the audited accounts and C&AG Report in a timely manner.

Further, MePGCL is erroneously seeking a mid-year review of the present control period under the MYT Regulations. It is stated that MePGCL may only seek a mid-year review of the business plan. The MePGCL also has to file the mid-year review three months before filing the true-up petition for the second year, i.e. FY 2016-17 and ARR for the third year, i.e. 2017-18. Therefore the mid-year review has to be through a separate petition seeking review of the business plan approved by this Hon'ble Commission. Without reviewing the actual audited accounts for the past two years of the MYT period, it is impossible to assess whether there is any requirement for a mid-year review. Therefore, this Hon'ble Commission may be pleased to reject the prayer seeking review of targets set for 2015-16, 2016-17 and 2017-18.

Response of MePGCL

The petition for provisional true up for FY 2015-16 is being filed based on the principles of quick recovery of costs as outlined in the judgment of Hon'ble Tribunal in the Appeal No. 146 of 2014 dated 1.12.2015 wherein the Hon'ble Tribunal had directed MSERC to carry provisional true up of FY 2014-15 in order to avoid delay in true up and in turn burden consumers from tariff shock in future due to revenue gap of previous years.

The accounts for FY 2015-16 have been finalized and MePGCL is striving hard to get the same audited at the earliest. However, this should not restrict the Commission in doing provisional true up of FY 2015-16, as done in case of FY 2014-15 by the directions of Hon'ble Tribunal.

The Mid- term review of business plan essentially means review of investments along with changes in projections of revenue and expenditure due to changes in business plan.

MePGCL clarifies that in the present petitions it seeks review of the following in accordance with regulation 6.2.c of MSERC MYT regulation, 2014 as under:

“c) In case of Mid-term Review of Business Plan, the Petition shall comprise of:

- i. Truing Up for the previous year;*
- ii. Modification of the ARR for the remaining years of the Control Period, if any, with adequate justification for the same;*
- iii. Revenue from the sale of power at existing tariffs and charges for the ensuing year;*
- iv. Revenue gap for the ensuing year calculated based on ARR approved in the MYT order and truing up for the previous year;*
- v. Application for revision of tariff for the ensuing year”.*

Further, MePGCL would submit that Midterm review as the name itself suggests has to be filed in such a manner that it is able to review the projections for the last year of the control period based on the actuals in the first year and performance of 2nd year till the date of control period while filing such application. So, it is impractical to present the provisional accounts of the 2nd year of MYT control period i.e. FY 2016-17 before the Commission or truing up of second year of control period along with filing for tariff determination of 3rd year simultaneously, when the financial year for 2nd year is still ongoing and the applicant is filing the application during the fag end of the 2nd year of control period i.e. FY 2016-17 for MYT review and tariff of 3rd year.

Based on such practicality of the issue, MeECL and its subsidiaries have already filed a petition before Hon’ble Commission for change in the MSERC MYT regulation 4.2 of 2014 accordingly.

Commission’s View

The provisional true up for FY 2015-16 is as per the provisions of the Tariff Regulations. The Commission will consider provisional true up on filing of audited accounts.

Objection : Operation & Maintenance Expenses

MePGCL is claiming Rs. 75.37 Crores towards O&M expenses as against the already approved Rs. 55 crore for FY 2015-16. The Hon’ble Commission in its Tariff Order

dated 30.03.2015 while approving the O&M expenses made the following observations:

“The expenses can only be validated if the audited records were made available to the Commission. The Commission has examined the O&M expenses projected by MePGCL. In accordance with the regulations and available records, the Commission has allowed escalation on the O& M expenditures as allowed in FY 2014-15 and determined the charges for the control period. After getting the audited records the Commission shall review the same and if required appropriate changes shall be considered. For Sonapani the Commission has considered the RE regulations and allowed the O& M expenses accordingly after appropriate adjustments....”.

It is submitted that in the aforementioned Order the Hon’ble Commission considered the O&M expenses at Rs. 55.40 crore in FY 2014-15 while the actual O&M expenses was Rs. 52.27 Crore as per the Audited Accounts. Thus, the Hon’ble Commission did not determine O&M expense for the control period in accordance with Regulation 56 of the MYT Regulations, 2014, which deals with O&M expenses.

Even in the present Petition O&M expenses are being claimed by MePGCL in a manner not in consonance with Regulation 56 and thus the same should not be disallowed.

Reponses of MePGCL

All the expenses have been determined as per the latest actual data available in the provisional statement of accounts of FY 2015-16 and as per regulations 56 of MYT tariff regulations, 2014. The increase in O&M expenditure for FY 2015-16 is mainly on account of pay revision of employees from January’2016, which is beyond the control of the petitioner.

Commission’s Views

Operation and maintenance expenses are approved on prudence check of the accounts.

Objection : Depreciation

MePGCL has claimed depreciation of Rs. 6.31 crore as against Rs. 10.64 crore approved by the Hon'ble Commission in the tariff order for FY 2015-16. It is reiterated that as per the assessment done by the Objector the allowable depreciation for FY 2014-15 is Rs. 2.35 crore

The additional capitalisation as per Note 10 of the Audited Accounts for FY 2014-15 is to the tune of Rs. 1.37 crore only and to the tune of Rs. 14.49 crore in FY 2015-16 as per provisional accounts. There is also a deduction (retirement of assets) in the gross fixed assets balance to the tune of Rs. 9.32 crore in FY 2015-16.

However, MePGCL has failed to provide the details pertaining to the gross fixed asset balances in respect of its power plants. As per the provisions of the Tariff Regulations, the annual fixed charges are to be determined in respect of each generating stations.

Further, as has already been stated considering the age of the plants of the Petitioner, the complete depreciation would have already been recovered. On account of this the Hon'ble Commission while approving the provisional true-up for FY 2014-15 had allowed depreciation of Rs. 2.35 crore only considering Rs. 49.39 crore of capital cost for Umiam-IV and Sonapani power plants.

In view of the above, it is respectfully submitted that the Hon'ble Commission while conducting the provisional true-up for FY 2015-16 may approve station wise opening gross fixed asset balance, station wise capitalisation and retirement and then approve any variation in the depreciation expense.

Response of MePGCL

From the Note 10 of audited accounts of FY 2014-15, the details of gross asset values, cumulative depreciation claimed and the depreciation figures are provided in replies to objections at para 25 to 30. It is clear from the figures that the accumulated depreciation for the old plants has not reached to the level of 90% (total depreciable value) and is only 69% of the gross fixed asset value. This is

because MePGCL has incurred R&M expenditure on these units from time to time which has increased the depreciable value and the life of the asset. As such, it would not be correct to conclude that the old plants have depreciated completely and no depreciation should be claimed on the same.

Commission's Views

The depreciation is allowed limiting to the provisions of the Tariff Regulations and on prudence check of the accounts.

Objection : Interest on Loan

The Hon'ble Commission in tariff Order for FY 2015-16 approved Rs. 0.46 crore as interest on loan. MePGCL is now claiming Rs. 11.95 crores towards interest and finance charges on loan capital for true up.

The additional capitalisation as per the provisional accounts for FY 2015-16 is to the tune of Rs. 14.49 crore. There is also a deduction (retirement of assets) in the gross fixed assets balance to the tune of Rs. 9.32 crore in FY 2015-16. However, MePGCL has neither provided the details of the capitalisation nor explained how it is linked with the loan portfolio leading to an increase in the interest on loan. The interest on long term loans pertaining to the additional capitalisation in FY 2015-16 is allowable in terms of the provisions of the Regulation 55 of the MYT Regulations, 2014.

The Hon'ble Commission in the Order dated 30.3.2016 in respect of final truing up for FY 2013-14 and provisional truing up for FY 2014-15 had expressly held that there were only two loans for old stations namely "1.30% OECF Loan for Umiam Stage-1 for Renovation and Modernisation" with a closing balance of Rs. 13.77 crore as on 31.3.2014 and "1.30% JBIC Loan for Umiam Stage-II for Renovation and Modernisation" with a closing balance of Rs. 11.28 crore as on 31.3.2014. This fact was also stated in the Tariff Order for 2015-16 dated 30.3.2015 at Para 5.8. Thus, the interest on loan pertaining to these two loans is allowable in FY 2015-16.

It is also necessary to point out that Table 24 in respect of the claimed interest on loan contains various items such as OD interest on Federal Bank amounting to Rs.

0.66 crore, OD Interest on CBI Loan amounting to Rs. 0.32 crore, etc. Evidently these are in respect of Overdraft Interest which is part of working capital and cannot be allowed under interest on long term loan. Further, the penal interest on capital liabilities amounting to Rs. 0.25 crore cannot be allowed as they are attributable to the delay in making timely payments to banks and financial institutions and cannot be passed on to the consumers.

It is further pointed out that there was an inadvertent error in the tariff order for FY 2015-16 dated 30.3.2015 as the Hon'ble Commission had approved loan addition without any corresponding asset capitalisation in the entire control period. In such a scenario, the Hon'ble Commission ought to have capitalised the interest expenses and not allowed it as an ARR item. It is respectfully submitted that the Hon'ble Commission may rectify this error in the provisional true up order.

Response of MePGCL

Interest and finance charges also include other mandatory charges levied by the banks like bank charges, bank transaction charges & prepayment charges for final settlement of loans and interest which is a considerable amount paid by MePGCL. Hence the Hon'ble Commission is requested to make due consideration of such charges over and above the interest on loan allowed by the Hon'ble Commission based on the statement of accounts.

The objectors have misinterpreted the claimed additional amount to be against interest on new loans while actually the major chunk of additional amount is being claimed for mandatory charges incurred over and above interest on loan. Hence, the argument for disallowing the additional amount based on the non-reflection of the same in additional capitalization is irrelevant and needs to be rejected.

Commission's Views

The interest on loan will be approved as per the provisions of Tariff Regulations.

Objection : Return of Equity

MePGCL is claiming RoE of Rs. 64.04 Crore as against Rs 9.18 crore approved by the Hon'ble Commission in tariff order for FY 2015-16.

As has been observed above, the additional capitalisation as per the provisional accounts is to the tune of Rs. 14.49 crore. There is also a deduction (retirement of assets) in the gross fixed assets balance to the tune of Rs. 9.32 crore in FY 2015-16. However, MePGCL has not provided the details of the capitalization and its linkage with the equity portfolio which led to the increase in RoE claim. MYT Regulations, 2014 allow RoE pertaining to additional capitalisation.

Also, the Hon'ble Commission vide its Order dated 30.03.2016, has already analysed the issue of claiming RoE on the equity capital pending allotment and disallowed the same. The Commission noted that the consumers had already paid for the capital assets of MECL which has then been restructured into the three successor companies. Merely by notifying a transfer scheme, the capital figures cannot be changed.

Response of MePGCL

It may be noted that, for the first year of operation, the equity component appearing in the balance sheet as per the transfer scheme is to be considered for computation of Return on Equity and the Hon'ble Commission had approved only on provisional values subject to correction on submission of audited accounts reflecting the actual equity.

MePGCL has claimed return on equity as per the provisions of MSERC Tariff Regulations 2014 and MSERC Tariff Regulations 2011. The MSERC Regulations provide for allowing equity as appearing in the balance sheet/transfer scheme and also on 30% of the capital cost. It is also clarified that the equity addition in paid up capital is for the funding received from State Government prior to restructuring based on the assets and capital works in progress, at the time of restructuring. As such, it is not correct to link the equity with the assets capitalized in FY 2015-16.

Commission's Views

Return on Equity will be arrived as per of the guidelines of the Tariff Regulations 53 and 51 on prudence check of the accounts.

Objection : Provision for Doubtful Debts

MePGCL has submitted that it has provided of Rs. 31.79 Crore towards of doubtful debts in FY 2015-16. It is submitted that the MYT Regulations, 2014 have no provision under which a generating licensee can seek any amount towards providing for doubtful debts and thus the claim of Rs. 31.79 Crore ought to be rejected.

Response of MePGCL

The distribution licensee which is the only customer of MePGCL is facing an acute financial crisis. MePDCL has a huge financial liability of more than INR 1500 crores. These liabilities also include amount payable to state companies like the power generating companies. In spite of various efforts made by the generating companies, the distribution company has not been able to pay the dues of MePDCL. It is submitted that the poor financial position of the distribution company should not affect the generating company and as such the claim for bad debts has been made.

Commission's Views

The provisions for doubtful debts from DISCOMs cannot be considered as bad debts.

Objection : Interest on Working Capital

The Hon'ble Commission allowed Rs. 3.79 crores towards working capital for FY 2015-16. MePGCL claimed Rs. 7.43 Crore towards interest on working capital for old plants excluding Leshka.

Allowable interest on working capital as per BIA's assessment comes out to be Rs. 3.63 Crore.

Response of MePGCL

The figure of INR 7.44 crores has been arrived at taking due consideration of MSERC tariff regulations and including 1/3rd proportional interest expense of MeECL.

Therefore MePGCL requests Hon'ble Commission to allow the additional expense accordingly.

Commission's Views

The interest on working capital is approved as per the provisions of the Tariff Regulations.

Objection : Allowable Provisional True up for FY 2015-16

The net revenue gap is Rs. 63.46 Crore as against the previously approved ARR of Rs. 79.15 Crore as MePGCL has already realised revenue of Rs. 75.29 Crore, it has a revenue surplus of Rs. 11.83 Crore .

Response of MePGCL

Based on the above submissions, MePGCL confirms that no revision is required to be made in the projections made by MePGCL in the tariff petition and the same may be considered by the Hon'ble Commission.

Commission's Views

The commission takes appropriate decisions, while finalizing the provisional True up for FY 2015-16.

C. Mid Term Review of Control Period for FY 2016-17 and Tariff for FY 2017-18

Objection : Operation and Maintenance Expenses

MePGCL has claimed O&M expenses to the tune of Rs. 77.12 Crore and Rs. 79.36 crore for FY 2016-17 and 2017-18, respectively, on the basis of provisional statements of accounts.

The Hon'ble Commission, in the Tariff Order dated 30.03.2015, erroneously considered O&M expenses at Rs. 55.40 crore instead of Rs. 52.27, as shown by the audited accounts. This is in contravention to Regulation 56 of MYT Regulations, 2014.

The O&M expenses claimed by MePGCL should be rejected.

Response of MePGCL

MePGCL submitted that in view of latest available audited information, the O&M expenses are projected based on the actual pay revisions and the impact of actual inflation on the O&M expenses. The O&M expenses have been projected taking into consideration appropriate escalation and pay revisions for the FY 2016-17 and FY 2017-18 based on the Audited SoA FY 2014-15 and Provisional SoA FY 2015-16. Hence the Hon'ble Commission is requested to make due consideration of the same to allow expenses.

Commission's Views

The operation and maintenance expenses are allowed as per the provisions of Tariff Regulations and on prudence check.

Objection : Depreciation

MePGCL has claimed depreciation to the tune of Rs. 18.13 Crore for both FY 2016-17 and 2017-18. The figures considered by MePGCL, for capital expenditure and additional capitalization are full of irregularities. At table 41, while MePGCL has claimed additional capitalization of Rs. 5.97 crore in FY 2016-17 and Rs. 53.72 crore in FY 2017-18 there is no corresponding increase in equity component in Table 42; RoE for MePGCL old stations. MePGCL has not explained how it will be financing the additional capitalization. The additional capitalisation so claimed by MePGCL is also not reflected in Table Nos. 48, 49, 50 and 51. Hence strict prudence check is to be done before additional capitalisation or depreciation is approved.

As per the provisions of the Tariff Regulations, the annual fixed charges are to be determined and the gross fixed asset balance is to be determined in respect of each generating station. Most of the plants of MePGCL have already outlived their useful life and considering their age, complete depreciation would have already been recovered. Hence Hon'ble Commission in the provisional true up for FY 2014-15 allowed depreciation of Rs. 2.35 Crore only while considering 49.39 crore as the capital cost for Umiam IV and Sonapani power plants.

Above regarding allowable depreciation in FY 2014-15 and 2015-16, it is prayed that the Hon'ble Commission is requested that while approving tariff for FY 2017-18 may also approve station wise opening gross fixed asset balance, station wise capitalisation and retirement and then approve depreciation expense.

Response of MePGCL

The values of assets capitalized are proposed at the same levels as considered in the business plan petition/MYT petition of MePGCL. MePGCL requests the Commission to consider the same for the purpose of calculation of depreciation. As submitted earlier, it is wrong to conclude that the old plants have been completely depreciated and the figures of cumulative depreciation provided in audited statement of accounts clearly support the same.

Commission's Views

The depreciation is admitted as per the provisions of the Tariff Regulations.

Objection : Interest on Loan

MePGCL has claimed interest and finance charges to the tune of Rs. 24.29 Crores and Rs. 21.45 Crore for FY 2016-17 and 2017-18, respectively.

There are lot of irregularities in the figures considered for capital expenditure and additional capitalisation, for additional capitalisation no corresponding increase has been shown in equity. Further, there is no clarity with regards to the loan component for additional capitalisation.

Also, interest on long term loans, as is being sought by MePGCL, is allowable in terms of Regulation 55 of MYT Regulations, 2014 and not as per Regulation 32 as stated by MePGCL.

Finally, as per the findings of the Hon'ble Commission in Tariff Orders dated 30.03.2016 and 30.03.2015, interest is allowable on only two loans; "1.30% OECF Loan for Umiam Stage-1 for Renovation and Modernisation" and "1.30% JBIC Loan for Umiam Stage-II for Renovation and Modernisation", in FY 2016-17 and 2017-18.

Response of MePGCL

All the relevant details in prescribed formats have been submitted to the Hon'ble Commission as per the MYT formats. The new loan additions have been proposed based on the capital investment plan submitted in the MYT and business plan petitions. MePGCL submits that all calculations have been made in line with the MYT regulations 2014 and therefore Hon'ble Commission is requested to make due consideration of the same.

Commission's Views

The interest on loan will be admitted as per the provisions of the Tariff Regulations, 53 and 51.

Objection : Return on Equity

MePGCL has claimed RoE of Rs. 64.29 Crore and Rs. 55.29 Crore for FY 2016-17 and 2017-18, respectively. There are lot of irregularities in the figures considered for capital expenditure and additional capitalisation. There is no clarity regarding the equity addition with respect to additional capitalisation, being proposed by MePGCL.

The significant increase in the RoE claim is due to consideration of Rs. 779.12 crore as equity eligible for return. As per the provisional accounts for FY 2015-16, the equity capital pending allotment represents the amount of equity capital to be allotted to MeECL in accordance with notification issued on 29.4.2015 by Govt. of Meghalaya.

With respect to the issue of claiming return on equity on the "equity capital pending allotment", the Hon'ble Commission has already analysed this issue in its Order dated 30.3.2016 and has disallowed the return on equity on this amount. Thus, the approach of the Petitioner to claim return on equity on the amount of "equity capital pending allotment" amounting to Rs. 779.12 crore is not correct.

Response of MePGCL

There are no equity additions as the proposed capital expenditure in the balance control period shall be undertaken through debts and grants. The appropriate additions in assets and loans have been already projected by MePGCL.

Commission's Views

The return on equity will be considered as per the provisions in the Tariff Regulations.

Objection : Interest on Working Capital

MePGCL has claimed interest on working capital of Rs. 7.38 Crore and 7.33 crore in FY 2016-17 and 2017-18, respectively. From Table 47 it can be seen that MePGCL has considered a rate of 14.75% for computing the interest. It is submitted that as per Regulation 34.1(iii) of the MYT Regulations, 2014 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 tariff petition is filed.

The present tariff petition was filed in 2015 and thus MePGCL should have considered 14.05%, instead of 14.75% which was SBAR in 2014. Accordingly, the allowable interest on working capital as per BIA's calculations is Rs. 3.65 Crore for 2016-17 and 3.98 crore for 2017-18.

Response of MePGCL

The interest on working capital may be taken as 14.05% as suggested.

Commission's Views

The interest on working capital is allowed based on the provisions of the Tariff Regulations.

Objection : Allowable Annual Fixed Costs for FY 2016-17 and 2017-18

The allowable net annual fixed charges are to the tune of Rs. 67.23 Crore and Rs. 70.87 Crore in FY 2016-17 and 2017-18 respectively.

Response of MePGCL

Based on the facts given in the petition, MePGCL requested Hon'ble Commission to allow the revisions proposed by MePGCL in the mid-term review and also the true up as proposed by MePGCL

Commission's Views

The true up is done as per the principles of the regulations and on prudence check of the accounts /estimates/projections.

4. True up for FY 2014-15

4.1 True up for 2014-15

Petitioner's Submission

MePGCL has prepared Statement of Accounts of FY 2014-15 and the same has been approved by the Board of Directors. However, the same has not been audited and the process of audit is in progress. Based on the available provisional Statement of Accounts, MePGCL has arrived at actual ARR components for FY 2014-15 and compared the same with approved ARR cost by the Commission for FY 2014-15.

The Tariff order of FY 2014-15 has ARR components for existing power plants of MePGCL except Leshka HEP. MePGCL has filed the ARR petition separately for Leshka HEP on 20th January 2014, which was disposed of by the Commission on 10th April 2014. In that Order dated 10.04.2014, the Commission has passed that the ARR for Leshka HEP in FY 2014-15 would be considered same as that approved in FY 2013-14. The same was approved on provisional basis in absence of independent study and technical validation.

As such, for provisional Truing up for FY 2014-15, MePGCL has adopted the same approach as followed in the Truing up of FY 2013-14. MePGCL considered Interest and Finance Charge for Leshka HEP as same as approved in FY 2012-13 and proportionately divided the remaining ARR in other components in the ratio of the approved ARR components of old plants for FY 2014-15. In addition to that, to arrive at actual ARR, MePGCL has included equal proportion of ARR for MeECL in to its ARR.

MePGCL hereby, humbly requests the Commission to pass the Gap/Surplus, as shown below, regarding the provisional Truing up of FY 2014-15 for revision of Generation Tariff for FY 2017-18.

Table 4.1: Summary of Annual Fixed Charges (Provisionally Approved vis a vis Actual) FY 2014-15**(Rs. Crore)**

Particulars	Approved by MSERC	As per Audited SoA for FY 2014-15				Total Proposed Amount to Be trued up	Loss / (Gain)
	Provisional True Up FY 2014-15 (Excl. Leshka)	True Up of MePGCL for (Old + New Plants)	MeECL Expense For FY 2014-15	Total (Incl. 1/3 rd of MeECL)	Leshka HEP FY 2014-15		
	a	b	c	d=b=c/3	c		
O&M Expenses	55.17	73.04	19.32	79.48	27.21	52.27	(2.90)
Depreciation	2.35	67.35	0.67	67.58	61.12	6.46	4.11
Interest on loan	0.33	96.44	0.00	96.44	88.85	7.59	7.26
Interest on working capital	2.92	8.93	3.86	10.22	6.62	3.60	0.68
Return on Equity	9.43	102.88		102.88	45.30	57.58	48.15
SLDC Charges	1.17	1.17		1.17	0.47	0.70	(0.47)
Income tax Expenses							
Misc . Expense & Bad Debts							
Net Prior Period Items : Income (-) / Expense		(28.48)	(0.18)	(28.53)		(28.53)	(28.53)
Total Annual Fixed Cost (AFC)	71.37	321.34	23.68	329.23	229.57	99.66	28.29
Less : Non – Tariff Income	7.51	1.83	5.09	3.53		3.53	(3.98)
Net AFC	63.86	319.51	18.59	325.70	229.57		32.27
Revenue from operations	74.22	191.10		191.10	114.12	76.98	2.76
Gap / (Surplus)	(10.36)	128.41	18.59	134.60	115.45	(76.98)	29.51

MePGCL humbly requests the Commission to pass through gap of Rs.29.51 Crore. It is submitted here that since the Commission had not provided the target for each component of AFC for MePGCL, MePGCL has not calculated the gain and loss for each component of AFC as per MSERC Tariff Regulations 2011. In other words, the difference in each of the component, both surplus and gap, has been proposed to be passed entirely to the consumers, for FY 2014-15.

Commission's Analysis

Regulation 15 requires the Licensee to make an application before the Commission for true up of ARR of previous year by 30th September of the following year on the basis of audited statements of accounts and the C&AG audit report thereon.

The Licensee shall get the accounts audited within a specified time frame either by the C&AG of India or by a statutory auditor approved by C&AG of India. In the present petition dated 30.11.2016 MePGCL has submitted audited accounts, based on statutory Audit without, C&AG audit report seeking true up for FY 2014-15.

The Commission taken up the exercise of true-up. However, the Commission considers adjustments of gap out of the true up for FY 2014-15 in FY 2017-18 on provisional basis subject to adjustment after filing of C& AG audit as per Regulations

4.2 Fixed charges

4.2.1 O&M Expenses

MePGCL has claimed Rs. 52.27 Crore O&M Expenses for true up for FY 2014-15 as detailed below:

Table 4.2: O&M Expenses for FY 2014-15

(Rs. Crore)

Sl. No.	Particulars	For MePGCL Old & new	For MeECL	Lashka	TOTAL
1	Employee Cost	28.91	-	-	-
2	R&M Expenses	13.01	-	-	-
3	A&G Expenses	2.13	-	-	-
	Total	73.04	19.32	27.21	79.48

Commission's Analysis

As per the audited statement of accounts, the O&M Expense are reported as detailed below: No break up is provided in the petition.

Table 4.3 :Approved O&M Expenses

Sl. No.	Particulars	(Rs. Crore)		
		For MePGCL	For MeECL	Total
1	Employee Cost	-	-	-
2	R&M Expenses	-	-	-
3	A&G Expenses	-	-	-
	Total O& M Expenses	-	-	52.27

Licensee has claimed for true up for 2014-15 at Rs. 52.27 Cr without break up data.

As per the Reg 55 (7) , the claim is found within admissible norms.

The Commission considers Rs. 52.27 Crore towards O&M Expenses for true up of FY 2014-15.

4.2.2 Depreciation

MePGCL has claimed depreciation at Rs. 6.46 Crore for Provisional true up for the FY 2014-15.

As the old Assets except sonapani and Umaim IV served their life.

The Commission had considered Rs.49.39 Crore of capital cost for Umiam-IV and Sonapani and allowed Rs. 2.35 Crore on 90% of the capital cost as Depreciation for FY 2013-14 as The Commission considers the Depreciation of other than Leshka Project at the same level for FY 2014-15.

The Commission considers Rs. 2.35 Crore Depreciation for True up of FY 2014-15.

4.2.3 Interest on Working Capital

MePGCL has claimed interest on working capital at Rs. 3.60 Crore for True up of FY 2014-15.

Commission's Analysis

The interest on working capital is regulated on the basis of approved fixed cost in the Tariff Order as detailed in the Table below:

Table 4.4 :Approved interest on working Capital

Sl. No.	Particulars	Amount (Rs. Crore)
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	10.11
4	Working Capital Requirement	20.39
5	Interest on Working Capital (%)	14.75%
6	Interest on Working Capital	3.01

The Commission considers interest on Working Capital at Rs. 3.01 Crore for True up for FY 2014-15.

4.2.4 Interest and Finance Charges

Petitioner's submission

MePGCL has claimed Interest and Finance Charges at Rs. 7.59 Crore for True up for FY 2014-15.

Commission's Analysis

The Interest commitment as per the statement of accounts for FY 2014- 15 is worked out below:

Particulars	(Rs. Crore)				
	Opening Balance	Additions for FY 2014-15	Repayments in FY 2014-15	Closing Balance	Interest Charges
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 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
Total	720.21	12.46	15.48	717.19	84.65

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 FY 2014-15 true up.

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

4.2.5 Return on Equity

MePGCL has claimed Rs. 101.30 Crore for True up of FY 2014-15.

Commission's Analysis

The Commission had considered opening GFA on 01.04.2014 at Rs. 303.80 Crore. Closing GFA at Rs. 305.17 Crore. The Commission Considered Equity capital at Rs. 91.35 Crore and considered at Rs. 12.79 Cr as Return on Equity.

As per the audited statement of account the equity component stated to be Rs. 5.00 Lakh (Note 2.2). GoM have notified 4th Amendment to transfer of Assets & Liabilities on 29.04.2015. As per Note 3.1 equity capital is pending allotment by GoM.

The Commission considers Rs. 12.79 Crore as Return on Equity for True up of FY 2014-15.

4.2.6 SLDC Charges

MePGCL claimed Rs. 1.17 Crore towards 50% SLDC charges to be paid to MePTCL as per SLDC ARR for FY 2014-15.

Commission's Analysis

As per the Statement of Accounts vide note 21, MePGCL paid Rs. 1.17 Crore to MePTCL towards 50% SLDC Charges.

The Commission considers Rs. 1.17 Crore SLDC Charges for True up of FY 2014-15.

4.2.7 Non-Tariff Income

MePGCL has submitted that Non Tariff Income received during the FY 2014-15 is Rs. 0.47 Crore and 1/3rd share of other Income for MeECL is Rs. 8.70 Crore.

Commission's Analysis

As per the audited statement of accounts vide note 17 Non-Tariff Income reported to be Rs. 1.83 Crore and 1/3rd share of other Income for MeECL is computed at Rs.1.70 Crore.

The Commission considers Rs. 3.53 Crore as Non Tariff Income for provisional True up of FY 2014-15.

The Commission had approved ARR for MLHEP for Rs. 135.54 Crore same as that for FY 2013-14 as interim order for FY 2014-15. The Commission had held that it will take a final view when the report of the independent expert panel and the audited accounts are made available and if necessary suitable modifications will be made.

The Commission in the Tariff Order for FY 2013-14 held that MePGCL will discharge liability of the Capital loans out of the interim tariff order receipts Income.

4.2.8 Revenue from Generation Activities

MePGCL has received Revenue of Rs. 191.10 Crore from MePDCL towards Power Purchase Cost for FY 2014-15 as per un-audited statement of Accounts (Note 16). The Commission considers Rs. 74.22 Crore as Revenue from Generation activities for True-up of FY 2014-15 excluding the revenue from Leshka Project at Rs. 116.88 Crore to be adjusted after final determination of Tariff for Leshka.

The Commission has considered for FY 2013-14 in this Order that after approval of the capital cost for MLHEP, the allowance of Depreciation, Interest and Finance Charges, Return on Equity, Interest on Working Capital will be determined on filing of additional data required by the Commission in its Order dated 26.08.2015.

Table 4.5: Summary of ARR for True up of FY 2014-15 considered by the Commission (Rs. Crore)

Sl. No.	Particulars	Approved Tariff Order	As per MePGCL	Approved for true up
1	O&M Expenses	52.00	74.98	52.27
2	Depreciation	5.61	67.35	2.35
3	Interest on Loan	-	137.75	0.33
4	Interest on working capital	2.39	12.08	3.01
5	Return on Equity	9.43	101.30	12.79
6	SLDC Charges	1.17	1.17	1.17
7	Total Annual Fixed Cost	70.60	394.63	71.92
8	Less: Non Tariff Income	0.67	8.70	3.53
9	Net ARR	69.93	385.87	68.39
10	Revenue from operations 191-10(-) 115.85 excluding MLHEP		191-10	75.25
11	Gap/(Surplus)			(6.86)

The surplus arrived in the true up for FY 2014-15 shall be adjusted in the of ARR for FY 2017-18. However, the final impact shall be considered by the Commission after the utility files the petition along with audited accounts by C & AG.

5. Analysis of ARR for FY 2017-18 and Generation Tariff

5.1 Introduction

The Commission as in the case of other ARR petitions allows the same ARR as approved in the MYT Order dated 30.03.2015 for FY 2017-18 with adjustment wherever required. Various expenses of MePGCL as approved in MYT Order for FY 2017-18 for Control Period for FY 2015-16 to FY 2017- 18 are discussed below:

5.2 O&M Expenses

O&M Costs consist of Employee Expenses, Repairs and Maintenance Charges in MYT Order considering costs on actuals and as per Regulations.

The approved O&M Expenses for FY 2017-18 in MYT Order are Rs. 61.52 Crore. Commission now accepts the same amount at Rs. 61.52 Crore for MePGCL old stations.

5.3 Depreciation

In the MYT Order for the Control Period from FY 2015-16 to FY 2017-18 the Commission has approved depreciation considering average GFA of Rs.391.24 Crore and 5.28% depreciation rate. As audited statement of account was not available Commission considered 50% of approved depreciation at Rs.10.33 Crore for FY 2017-18 for old stations and Rs.0.31 Crore for Sona Pani. Now Commission approves the same amount of Rs.10.64 Crore towards depreciation for all stations.

5.4 Return on Equity

As Audited Accounts are not available the Commission did not consider the equity value proposed for old stations and considered the equity for Sona Pani for FY 2017-18. The Commission approved RoE at Rs. 9.18 Crore for old stations and Rs. 0.25 Crore for Sona Pani amounting to Rs. 9.43 Crore. Now the Commission accepts this amount towards RoE for FY 2017-18.

5.5 Interest and Finance Charges

The Commission has approved Rs. 1.82 Crore towards interest and finance charges for FY 2017-18 considering closing loan of Rs. 15.69 Crore and interest rate of 4.75% in the MYT Order.

The Commission now accepts the same amount of Rs. 1.82 Crore towards interest and finance charges for FY 2017-18

5.6 Interest on working capital

In the MYT Order for FY 2015-16 to FY 2017-18 the Commission approved Interest on Working Capital at Rs. 4.41 Crore considering components of normative working capital for old stations and Sonapani for FY 2017-18.

The Commission now approves the same amount of Rs. 4.41 Crore for ARR of FY 2017-18.

5.7 SLDC Charges

The Commission had approved Rs. 1.15 Crore for FY 2017-18 in MYT Order towards SLDC Charges.

The Commission approves Rs. 1.15 Crore towards SLDC Charges for FY 2017-18.

5.8 ARR for FY 2017-18

Considering the above approved fixed charges for FY 2017-18, the total fixed charges for MePGCL Old plants and Sonapani are shown in the Table below:

Table 5.1: Annual Fixed Cost approved for FY 2017-18 (MePGCL Old Stations)

		(Rs. Crore)
Sl. No	Particulars	FY 2017-18
1	O&M Expenses	61.52
2	Depreciation	10.64
3	Return on Equity	9.43
4	Interest on Loan Capital	1.82
5	Interest on Working Capital	4.41
6	SLDC Charges	1.15
7	Total Annual Fixed Cost	88.97
8	Less: Non Tariff Income	0.31
9	Net Annual Fixed Cost	88.66
10	Add: Gap of True up of FY 2013-14 Review	14.42

Sl. No	Particulars	FY 2017-18
11	Add: Surplus of true up of FY 2014-15	(6.86)
12	Approved ARR for FY 2017-18	96.22

Plant wise allocations of Annual Fixed Charge are shown in Table below:

Table 5.2: Annual Fixed Cost allocated for each power station during FY 2017-18

Sl. No	Name of Plant	Capacity (MW)	Designed / Annual Energy (MU)	AFC Allocation (Rs. Crore)
1	Umiam Stage - I	36	116	20.22
2	Umiam Stage - II	20	46	8.02
3	Umiam Stage - III	60	139	24.23
4	Umiam Stage - IV	60	207	36.08
5	Umtru	11.2	39	6.80
6	Sonapani	1.5	5	0.87
	Total	188.7	552	96.22

The Commission had issued interim Tariff for FY 2013-14 and held that the same shall be applicable for FY 2014-15 till the final tariff is fixed for Ieshka project considering the capital cost.

5.9 Recovery of annual fixed charges

As per the regulation the recovery of annual fixed charges has to be made in two parts i.e., capacity charges and energy charges. The Commission has adopted the similar approach as adopted in the last tariff order to allow the payment of fixed charges and energy charges in a simpler form. 50% recovery of fixed charges of Rs.48.11 Crore in FY 2017-18 shall be made in 12 equal monthly instalments from MePDCL which shall be Rs. 4.01 Crore per month for its six existing plants. This amount shall be paid by MePDCL to MePGCL every month within seven days of invoice. Remaining terms and conditions shall be as per the Regulation. In addition to the fixed charges, generating company shall also recover 50% of annual fixed charges i.e. Rs.48.11 Crore as energy charges on actual generation of electricity from MePDCL at the rate approved for each plant in the last column of the Table below:

Table 5.3: Plant wise Capacity and Energy Charges approved for FY 2017-18

Sl. No	Name of Plant	Capacity (MW)	Designed/ Annual Energy (MU)	AFC Allocation (Rs. Cr.)	Average Tariff (Rs./kWh)	50% as Capacity charges (Rs. Cr.)	50% as Energy Charges (Rs./kWh)
1	Umiam Stage- I	36	116	20.22	1.90	9.02	10.11
2	Umiam Stage -II	20	46	8.02	2.08	5.04	4.01
3	Umiam Stage -III	60	139	24.23	2.16	15.02	12.12
4	Umiam Stage -IV	60	207	36.08	1.45	15.02	18.04
5	Umtru	11.2	39	6.80	1.43	2.82	3.40
6	Sonapani	1.5	5	0.87	1.74	0.38	0.44
7	Total	188.7	552	96.22	1.74	48.11	0.87

The Commission had approved capital cost of MLHEP in its orders dated 27.03.2017. The Provisional ARR for FY 2017-18 (MLHEP) is computed based on the approved true up business for FY 2013-14 and FY 2014-15 in the MLHEP petition dated 30.11.2016 and applicable Generation tariff is approved as stated in the Tables below:

Table 5.4: ARR for MLHEP for FY 2017-18

Sl. No.	Particulars	Projections for FY 2017-18	Approved for FY 2017-18
1	Interest on loan capital	74.78	60.83
2	Depreciation	61.00	42.51
3	O&M Expenses	32.15	28.35
4	Interest on Working Capital	6.64	5.37
5	Return on Equity	49.67	46.90
6	SLDC Charges	0.40	0.40
7	ARR Net	224.35	184.36

Table 5.5: Generation Tariff of MLHEP for FY 2017-18

Sl. No.	Particulars	Amount (Rs. Crore)
1	ARR for MePGCL for FY 2017-18 (Leshka)	184.36
2	Designed energy	486.23
3	Generation Tariff	3.79 Ps./Kwh

MePGCL shall claim 50% of ARR as fixed Cost and Energy charges at Rs. 3.79/kWh for Actual Generation from the beneficiary for MLHEP for FY 2017-18.

5.10 Consolidated ARR for FY 2017-18

Consolidated ARR for MePGCL old projects and MLHEP for FY 2017-18, Annual Fixed Cost allocated for each Power Station during FY 2017-18 and Plant wise capacity and energy charges for FY 2017-18 are given in the Tables below:

Table 5.6: Consolidated ARR for MePGCL old projects and MLHEP for the FY 2017-18 Approved

(Rs. Crore)				
Sl. No.	ARR element	For MePGCL Old projects	For MLHEP	Total for MePGCL
1	O & M Expenses	61.52	28.35	89.87
2	Depreciation	10.64	42.51	53.15
3	Return on Equity	9.43	46.90	56.33
4	Interest on loan capital	1.82	60.83	62.65
5	Interest on working capital	4.41	5.37	9.78
6	SLDC Charges	1.15	0.40	1.55
7	Gross Annual Fixed charges	88.97	184.36	273.33
8	Less Non Tariff Income	0.31	-	0.31
9	Net Annual Fixed charges	88.66	184.36	273.02
10	Add True up Gap FY 2013-14	14.42		14.42
11	Add True up Gap FY 2014-15	(6.86)		(6.86)
12	Approved ARR for FY 2017-18	96.22	184.36	280.58
13	Designed Energy	552.00	486.23	1038.23
14	Generation Tariff for FY 2017-18 (Rs./kWh)	1.74	3.79	2.70

Table 5.7: Annual Fixed Cost allocated for each Power Station during FY 2017-18

Sl. No	Name of the Plant	Capacity in MW	Designed Annual Energy (MU)	AFC allocation (Rs. Crore)
1	Umaiam stage - I	36	116	20.22
2	Umaiam stage - II	20	46	8.02
3	Umaiam stage - III	60	139	24.23
4	Umaiam stage - IV	60	207	36.08
5	Umtree	11.2	39	6.80
6	Sonapani	1.5	5	0.87
7	MLHEP 3 X 42 MW	126	486.23	184.36
		314.7	1038.23	280.58

Table 5.8: MePGCL Plant wise Capacity and energy charges for FY 2017-18

Sl. No	Name of the plant	Capacity MW	Designed Annual Energy (MU)	AFC Allocation Rs. Cr	Average Tariff (Rs./ kWh)	50% as Capacity Charges (Rs Cr)	50 % as Energy (Rs./kwh)
1	Umaiam stage - I	36	116	20.22	1.74	10.11	0.87
2	Umaiam stage - II	20	46	8.02	1.74	4.01	0.87
3	Umaiam stage -III	60	139	24.23	1.74	12.12	0.87
4	Umaiam stage-IV	60	207	36.08	1.74	18.04	0.87
5	Umtree	11.2	39	6.80	1.74	3.40	0.87
6	Sonapani	1.5	5	0.87	1.74	0.44	0.87
7	MLHEP 3 X 42 MW	126	486.23	184.36	3.79	92.18	1.90
8	Total	314.7	1038.23	280.58	2.70	140.29	1.35

6. Directives

6.1 Directives

1. Filing of Petition for Leshka Project:

Capital Cost approved at Rs.1134.28 Crore. MePGCL shall incorporate GFA in the Books while filing next Petition.

2. Improvement of Performance:

The Commission directs MePGCL to submit an action plan for implementation of efficiency improvement and manpower rationalisation measures giving target dates for completion of each milestone of proposed plan within three months of issuance of this Order. The information of the plant availability, availability of the water and Generation in the form of report need to be submitted in every quarter in the first week of the following month regularly.

3. Financial Statements of Accounts:

The Commission directs MePGCL to get their accounts audited by C&AG up to FY 2015-16 and submit the same along with the next tariff petition filing.

4. Control on Expense

The Commission directs MePGCL to prepare an annual budget for FY 2017-18 for every plant and submit the same to the Commission within one month of the issuance of this Order so that expenses are made within the provision of Tariff Order and Regulations.

5. The Licensee is directed to maintain Assets records, since all the old plants have served their life and allowing RoE and Depreciation on those assets would result in excess recovery of costs and tariffs. The assets records shall be duly audited as per the Regulations and ensure to delete the value from the asset base in the books for the purpose of calculation of RoE and Depreciation.

Annexure-I

**RECORD NOTE OF THE 19th MEETING OF THE STATE ADVISORY COMMITTEE HELD
AT ON 27TH JANUARY 2017 AT THE MSERC CONFERENCE HALL, SHILLONG.**

Present:-

Members of the State Advisory Committee and Commission

- 1) Shri. WMS Pariat, Chairman, MSERC.
- 2) Shri. J.B. Poon, Secretary, MSERC
- 3) Shri. Ramesh Bawri, President Meghalaya Confederation of Industries.
- 4) Shri. S. K. Lato, Jowai.
- 5) Shri S Narzari, GM (Comm.), NEEPCO

Calling the 19th Meeting of the State Advisory Committee (SAC) to order, the Chairman welcomed the members present. He briefly informed the members about the purpose of the meeting as envisaged in the Electricity Act 2003 highlighting the salient features of distribution ARR for FY 2017-18. He also briefed the members on the present MSERC, MYT Regulation 2014 and implications of each of the component of ARR in the Tariff. Members of the Advisory Committee were briefed that the Commission has admitted ARR petition for Distribution, Transmission, Generation on 17.01.2017. they published the salient features of this petition inviting comments of each stakeholders including public. On the ARR & Tariff Petition for the year 2017-18, the Chairman called upon the Hon'ble Members to participate in the deliberations on tariff as for Generation and invited their suggestions. Members of the SAC raised the following issues:

1. Shri Ramesh Bawri

Shri Ramesh Bawri brought about many pertinent issues relating to the petition and submitted that books of account are not proper as timely submission of ARR and audited statements of account are not updated. He has given following suggestions to the Commission Tariff issues.

- (1) He has appreciated that separate petitions have been filed by MePGCL, MePDCL and MePTCL as required under the Electricity Act, 2003 This would lead to a much better understanding of the workings of MeECL. However, he has suggested that to

consolidate all expenditures record in one single table so that it would be more transparent for the Commission to determine the cost of individual companies in comparison to what approved last year for a single entity.

- (2) Mr. Bawri requested the Commission to review the status of directions given to MePGCL, MePDCL and MePTCL last year while finalizing the Tariff Order so that the road map given by the Commission is properly implemented in the interest of the Public.
- (3) It appears that some of the calculation sheets are not matching with the other related calculations and therefore it would be difficult to understand the exact numbers in the ARR petition. This leads to an unnecessary exercise of correction on the part of the Commission, besides the Advisory Board and the General Public who may not be aware of the intricacies of law. It is therefore suggested that each subsidiary Company of MeECL be advised to submit their proposals in accordance with the Regulations in future.
- (4) Mr. Bawri was concerned about the high capital cost of the project incurred in MLHEP (Myntdu-Leshka). He has pointed out that the Commission should review the matter and allow only the reasonable cost of the project inconsonance with national standards. He has also pointed out that there should be some mechanism which forces the management of power stations to optimize the best utilization of their project and give maximum generation to the State. He has agreed to the Commission's proposal that tariff should be related with the generation so that there is an incentive for the generator to generate more than the designed energy. He has also submitted that the machines should be kept in order in monsoon period so that the generation is highest during peak availability.
- (5) In the absence of the accounts for earlier years, it is not possible to comment on the eligibility of **Return on Equity**. It is however suggested that the Hon'ble Commission may kindly verify the eligible amount in accordance with Regulations 51 and 53, keeping the Debt-Equity Ratio norms also in mind.

2. Shri. S.K Lato

Shri S.K.Lato stated that he also fully supported all the views expressed by Mr.Ramesh Bawri and requested the Commission to take these into consideration

while deciding the Tariff for the year 2017-18. He wanted that the performance of MePDCL needs to be improved in terms of better operation, quality supply and improvement in their current efficiency to work & optimize their resources.

Summing-up the discussions, the Chairman placed on record his profound gratitude to the Hon'ble Members present, for their valuable suggestions and submissions and assured that these would be kept in view, while finalizing the Tariff for the year 2017-18.

(J.B. Poon)

Secretary, MSERC

Annexure-II

LIST OF PARTICIPANTS IN THE PUBLIC HEARING ON 08TH March 2017

On behalf of MePGCL/MeECL

1. Shri S J Laloo, CE(Gen)
2. Shri H Massar, SE, (EI)
3. Shri A Lyngdoh, SE (PM)
4. Shri P Sahkhar, SE (RA & FD)
5. Shri K A Sohtun, SO
6. Shri R. Laloo, SO
7. Shri L Kharpran, SO
8. Shri Piyush Lohya, Consultant , PWC
9. Shri Sanket Sumantary, Consultant , PWC
10. Shri Samanwitbisul, Consultant , PWC

On behalf of Byrnihat Industries Association

1. Ms. Mandakini Ghosh, Advocate
2. Shri Sumanta Chandra, Shyam Century
3. Shri Saurav Agarwal
4. Shri C.B. Paliwal
5. Shri V. Agarwal
6. Shri Rahul Bajaj , RNB Carbide, BIA.

On behalf of consumer/consumer's representatives

1. Shri Utkarsh Agarwal, Pioneer Carbide Pvt. Ltd
2. Shri C Marngar, EE, PHED