MADHYA PRADESH ELECTRICITY REGULATORY COMMISSION

5th Floor, "Metro Plaza", E-5, Arera Colony, Bittan Market, Bhopal - 462016

Petition No75/2012

PRESENT:

Rakesh Sahni, Chairman

A. B. Bajpai, Member

Alok Gupta, Member

IN THE MATTER OF:

Determination of True-up of Transmission Tariff for FY 2011-12 based on the petition filed by M. P. Power Transmission Co. Ltd., Jabalpur.

M. P. Power Transmission Co. Ltd., Jabalpur - Petitioner

Versus

(i) M. P. Poorv Kshetra Vidyut Vitaran Co. Ltd., Jabalpur

(ii) M. P. Madhya Kshetra Vidyut Vitaran Co. Ltd., Bhopal

(iii) M. P. Paschim Kshetra Vidyut Vitaran Co. Ltd., Indore

(iv) M. P. Audyogik Kendra Vikas Nigam, (SEZ), Indore

Respondents

ORDER

(Passed on this 11th day of November' 2013)

1. Madhya Pradesh Electricity Regulatory Commission (hereinafter referred to as "the Commission" or "MPERC") heard the petitioner namely, M. P. Power Transmission Company Ltd., Jabalpur (hereinafter referred to as "MPPTCL" or "Transmission Licensee") and other stakeholders on 8th October, 2013 at Bhopal in the matter of true up of Transmission Tariff for FY 2011-12. The Commission considered the documents available on record and orders issued by the Government of Madhya Pradesh (Energy Department) on 31st May, 2005 making the Transfer Scheme Rules effective from 1st June, 2005, (order No.3679/FRS/18/13/2002 dated 31.05.2005) and 3rd June, 2006 making the Madhya Pradesh Electricity Reforms Transfer Scheme Rules, 2006. The Commission also considered the Final Opening Balance sheets (as on 31.05.2005) notified by the State Government on 12th June, 2008 and reallocation of generating capacity among the three Distribution Companies & SEZ by the State Government vide order dated 29th March, 2012.

2. The Multi-Year Transmission Tariff (MYT) Order for FY 2009-10 to FY 2011-12 was issued by the Commission on 11th January, 2010 in accordance with the MPERC (Terms & Condition for determination of Transmission Tariff) (Revision-I)Regulations, 2009 (RG-28 (I) of 2009) and its amendments. MPPTCL filed the subject petition on 17th October, 2012 for True-up of the Transmission Tariff for FY 2011-12 determined by the Commission vide the aforesaid MYT Order.

3. Motion hearing in the matter was held on 6th November 2012. The petition was admitted and the petitioner was directed to serve copies of the petition on all respondents in the matter. Vide letter No. 8286 dated 16.11.2012, MPPTCL confirmed service of copies of the petition on all Respondents.

4. On preliminary scrutiny of the petition, several information gaps and requirement of clarifications/additional information were observed by the Commission. Vide Commission's letter No. MPERC/D(T)/2012/3214 dated 22nd November, 2012, the petitioner was asked to submit a comprehensive reply on all such observations communicated through the afore-mentioned letter.

5. Vide letter No. 9482 dated 22nd December, 2012, MPPTCL filed its response with the Commission. On perusal of the reply filed by MPPTCL, the Commission observed that it was inadequate and lacking clarity on certain issues like Gross Fixed Assets, Consumer Contribution, Cash Terminal Benefits and Interest during construction. Therefore, vide Commission's letter No. MPERC/(D(T)/2013/6821 dated 1st March, 2013, the petitioner was asked to file clarifications on all these issues. The response from MPPTCL on some issues related to its Audited Financial Statements for FY 2011-12 was also awaited. MPPTCL was asked to file its response on all such issues also.

6. Vide letter No. 2970 dated 20.04.2013, MPPTCL submitted its reply to the Commission. It was further observed that this reply was still lacking clarity and was incomplete with respect to the GFA, Capitalization of works and Interest during construction etc.

7. Vide Commission's letter No. 1506 dated 28th May, 2013, the petitioner was again asked to file a clear and conclusive response on all issues raised by the Commission along with a draft public notice on the gist of the petition inviting comments/ suggestions/ objections from all stakeholders. MPPTCL sought two months time extension for submission of reply in the matter. Considering the request of the petitioner, time extension as sought was granted with directions to MPPTCL that the draft public notice in English and Hindi version be submitted to the Commission. Vide letter No. 5532 dated 27th July 2013, MPPTCL submitted the draft public notice in English and Hindi versions.

8. On perusal of the above mentioned letter and draft public notice filed by the petitioner, the Commission observed the following:

(i) The figures in the draft public notice under various heads like O&M expenses, interest on loan, interest on working capital and the non-tariff income were different from the original petition. On account of the aforesaid differences, the ARR for FY 2011-12 was shown as ₹1585.72 Crs. against ₹1577.17 Crs. in the original petition. Consequently, the true-up amount was also changed in the draft public notice from ₹ 363.64 Crs. to ₹ 372.19 Crs.

(ii) With regard to the changes made in figures of Interest on loan, non-tariff income and their consequential effect on the interest on working capital, MPPTCL mentioned that it had not considered ₹ 27 Crs. against interest earned on fixed deposits as part of non-tariff income. However, this amount was considered under interest during construction (IDC) and deducted from the gross interest claimed to arrive at the net Interest and Finance charges. MPPTCL also revised figures of the non-tariff income making adjustments retrospectively from FY 2009-10 to 2010-11 using the methodology.

(iii) With the above changes, the figures in original petition were found revised in the draft public notice.

9. In view of the above, the petitioner was asked to file a revised petition in light of the changes proposed by it in its draft public notice along with all relevant documents/ records in support of its contention regarding interest earned on fixed deposits.

10. Vide letter No. 04-01/CCA/F-89/6132 dated 24th August, 2013, MPPTCL filed a revised petition along with the draft public notice in English and Hindi version on the gist of the petition. MPPTCL also filed its reply to the issues flagged by the Commission in its earlier communication.

11. Vide Commission's letter dated 11th September, 2013, the petitioner was directed to publish the public notice in newspapers in Hindi and English for inviting comments/ suggestions/objections from stakeholders. The public notice was published in English and Hindi newspapers on 13th September, 2013 and 14th September, 2013, respectively. No comments/ suggestions/objections were received by the Commission. The public hearing in the matter was held on 8th October, 2013. The petitioner's representatives were present in the public hearing. None appeared on behalf of Public/Respondents in the public hearing.

12. The petitioner broadly submitted the following in its revised petition:

" (i) *On notification of the final Opening Balance Sheet (as on 31.05.05), on 12th June'08, the Annual Accounts of MPPTCL for year 2007-08 to 2009-10 have been prepared and got audited as per final Opening Balance Sheet. The True-up petitions for 2007-08 to 2010-11 were also submitted as per the final Opening Balance Sheet. The True-up petition for 2007-08 also contained the review of the tariff for 2005-06 and 2006-07, based on the final Opening Balance Sheet. Thus, True-up as per Final Opening Balance Sheet has been done upto 2010-11.*

(ii) The instant petition for True-up for 2011-12 is based on audited Annual Accounts of the Company for year 2011-12, which have been prepared and got audited as per the final Opening Balance Sheet as on 31.05.05 notified on 12th June 2008. A copy of Audited Accounts has been submitted to the Hon'ble Commission vide letter No. 04-01/CRA Cell/F-147/7296 dated 5.10.2012.

(iii) ***Intra-State Transmission System -***

Intra-State Transmission System of MPPTCL comprises of EHV Lines and Sub-stations of various voltages. Position as on 31.3.11 and 31.3.12 is tabulated hereunder;

S. No.	Voltage Level	As on 31.3.11			As on 31.3.12		
		EHV Lines	EHV Sub-Stations		EHV Lines	EHV Sub-Stations	
		Ckt. KMs	Number	MVA Capacity	Ckt. KMs	Number	MVA Capacity
1	400 KV	2343	5	4515	2343	5	4515
2	220 KV	10857	53	14350	11086	55	15110
3	132 KV	13208	183	15347	13629	187	15919
4	66 KV	61	1	20	61	1	20
	TOTAL -	**26469**	**242**	**34232**	**27119**	**248**	**35564**

(iv) ***Transmission System Capacity –***

The transmission system capacity of Intra-State transmission system of MPPTCL is allocated to the Long Term Open Access customers including the Distribution Licensees. The transmission system capacity is therefore determined as per the MPERC (Terms and conditions for Intra-State Open Access in MP) Regulations, 2005. The Average Capacity of Intra-State transmission system is defined as;

"Average capacity means the average capacity in MW served by the Intra-State transmission system of the transmission licensee in the previous financial year, and shall be the sum of the generating capacities, connected to the transmission system and contracted capacities of other Long Term transactions handled by the system of Transmission Licensee".

The power corresponding to Intra-State generating capacity is available to transmission system after deducting the auxiliary consumption. Similarly, power from the Central Sector generating stations is available at M.P. periphery after deduction of auxiliary consumption and losses in Inter-State transmission system. While determining transmission system capacity for the new control period from 2009-10 to 2011-12, the above mentioned fact has been taken into consideration. The transmission system capacity for year 2011-12 has also been subjected to True-up on above mentioned basis. The Regulations provide that the Average Capacity during a year shall be taken as that served in previous year. Therefore, the transmission capacity during 2011-12 is taken as that existing as on 01.04.2011.

The capacity for year 2011-12 is worked out taking into consideration the actual generating and contracted capacities as on 01.04.2011 based on State Government's notification dated 29.03.2012.

(v) ***State Government's Order for Capacity allocation –***

The Government of Madhya Pradesh vide notification No. 4353-F-3-24-2009-XIII dated 18.05.2011 had allocated the total available generating capacity. Later on to allocate new capacities, superseded the earlier notification by a new notification dated 29.03.2012. A copy of the notification is enclosed as ***Annexure-II.***

Based on the State Government's Order dated 29.03.2012, the total Generating Capacity is summarized hereunder:

S. No.	MP's Power Share from	Installed Capacity (MW)	MP Share (MW)
1	Central sector WR	9,193.59	2,075.85
2	Central sector ER	1,500.00	74.98
3	DVC	500.00	200.00
4	Indira Sagar Project	1,000.00	1,000.00
5	Sardar Sarovar Project	1,450.00	826.50
6	Omkareshwar HEP	520.00	520.00
7	InterState Hydel	591.00	322.17
8	GENCO Thermal	2,932.50	2,807.51
9	GENCO Hydro	605.00	605.00
	Total	**18,292.09**	**8,432.01**

In addition to the above capacity of 2145 MW from new generating stations have been also allocated to Tradeco.

(vi) ***Transmission Capacity As On 31.03.2011 (For Year 2011-12) –***

The transmission capacity for year 2011-12 is to be considered as that served last year i.e. on 31.03.2011. On the said date, apart from the capacity of 8432 MW inline with the above, an additional 442 MW of generating capacity was also available. Thus, the generating capacity allocation as on 01.04.2011 has been taken as 8874 MW.

Subtracting the auxiliary consumption and Inter-State losses, the transmission capacity for 2011-12 is worked out as 8257 MW, details of which are shown in ***Annexure-III*** *to this petition.*

(vii) ***Transmission Capacity allocation among Discoms & Sez*** *-*

The capacity allocation to Discoms is proposed on the following basis.

(a) Total transmission capacity (inclusive of 200 MW specific allocation for Bundelkhand Region in MPPKVVCL) available for a particular year is apportioned in the percentage ratio as indicated in State Government order dated 29.03.2012. SEZ allocation is treated as additional.

(b) The capacity during the year is taken as that on 1^{st} April i.e. beginning of year.

(c) Since SEZ has availed additional power under Open Access from NTPC, and has been allocated capacity at MP periphery as 12 MW, same has been considered.

(d) The fractional allocation worked out has been rounded off.

Based on above, the allocated transmission capacity proposed is tabulated hereunder;

S. No.	***Distribution Licensee***	***Percentage Allocation***	***Capacity Allocation for 2011-12 (MW)***
1	*MP Poorva Kshetra Vidyut Vitaran Company Ltd. Jabalpur.*	*29.89%*	*2464*
2	*MP Madhya Kshetra Vidyut Vitaran Company Ltd. Bhopal.*	*31.84%*	*2625*
3	*MP Paschim Kshetra Vidyut Vitaran Company Ltd. Indore.*	*38.27%*	*3155*
4	***Total Discoms -***	***100.00%***	***8245***
5	*SEZ Pithampur (Dhar)*	*-*	*12*
6	***GRAND TOTAL -***	***-***	***8257***

As per Transmission Tariff Regulations, the Distribution Companies and the SEZ will share the transmission charges in the ratio of capacity allocated to them.

(viii) ***Transmission Losses*** *-*

Transmission losses in Intra-State system have reduced gradually during last years on account of the execution of Capital Plan. As per the directives of the Commission, the MPPTCL is computing the voltage-wise transmission losses. The year-wise details are given hereunder;

S. No.	**System Voltage**	***Transmission Losses in Percentage***						
		2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**
1	400 KV	1.40%	1.26%	1.21%	1.20%	1.19%	1.18%	1.18%
2	220 KV	3.26%	3.41%	2.55%	2.51%	2.86%	2.56%	2.39%
3	132 KV	1.60%	1.29%	1.15%	1.17%	1.03%	0.86%	0.89%
4	**Total System -**	**5.23%**	**5.00%**	**4.09%**	**4.09%**	**4.19%**	**3.74%**	**3.51%**

It may be perused from above that losses have reduced in all the three voltage categories, indicating system strengthening at all voltage levels.

(ix) ***Transmission System Availability -***

Hon'ble Commission has fixed a target of Transmission System Availability as 98% for year 2011-12 in the MYT Regulations. The Transmission System Availability achieved during the year is higher then the target fixed. This indicates proper maintenance of lines and sub-stations as well as prompt outage management. The achievements are shown hereunder;

S. No.	**System Voltage**	**Transmission System Availability in %**
		2011-12
1	400 KV	98.40%
2	220 KV	99.45%
3	132 KV	99.29%
4	**Target**	98.00%
5	**Total Achieved -**	**99.23%**

(x) ***Revised Transmission Plan -***

The revised Transmission Plan for FY-08 to FY-12 is summarized in the following tables;

[A] FINANCIAL – ELEVENTH PLAN TRANSMISSION PROGRAMME

(2007-08 to 2011-12) (₹ in Lacs)

S. No.	PARTICULARS	YEARWISE INVESTMENT IN ELEVENTH PLAN (2007-12)					TOTAL 11th PLAN (2007-12)
		2007-08	2008-09	2009-10	2010-11	2011-12	
1	400 KV Lines	1052	253	0	104	18355	**19764**
2	220 KV Lines	18792	19547	17203	9638	7264	**72444**
3	132 KV Lines	5198	14900	18622	9024	4011	**51755**
	TOTAL (LINES)	**25042**	**34700**	**35825**	**18766**	**29630**	**143963**
4	400 KV Sub-stations	0	2477	2767	2093	6809	**14146**
5	220 KV Sub-stations	11157	20399	20405	6678	7969	**66608**
6	132 KV Sub-stations	10441	30826	18152	11443	13525	**84387**
7	Misc. Works	520	1231	394	700	5011	**7856**
	TOTAL (S/S)	**22118**	**54933**	**41718**	**20914**	**33314**	**172997**
	TOTAL (TRANSMISSION)	**47160**	**89633**	**77543**	**39680**	**62944**	**316960**

[B] PHYSICAL – ELEVENTH PLAN TRANSMISSION PROGRAMME

S. No.	PARTICULARS	YEARWISE PHYSICAL PROGRAMME 2007-12 (ACTUAL)					TOTAL 11th PLAN (2007-12)
		2007-08	2008-09	2009-10	2010-11	2011-12	
A	**EHV LINES (CKT KMS) -**						
1	400 KV Lines	0	28.7	0	0	0	**28.7**
2	220 KV Lines	464.75	871.54	764.76	1049	228.92	**3378.97**
3	132 KV Lines	253.47	396.1	896.74	798	420.83	**2765.14**
	TOTAL CKT KMS	**718.22**	**1296.34**	**1661.5**	**1847**	**649.75**	**6172.81**
B	**EHV SUB-STNS (MVA) -**						
1	400 KV Sub-stations	0	0	0	630	0	**630**
2	220 KV Sub-stations	580	1740	1640	740	800	**5500**
3	132 KV Sub-stations	580	1323	1352	823	672	**4750**
	TOTAL MVA	**1160**	**3063**	**2992**	**2193**	**1472**	**10880**
C	**EHV SUB-STNS (Nos) -**						
1	400 KV Sub-stations	0	0	0	1	0	**1**
2	220 KV Sub-stations	1	6	5	4	2	**18**
3	132 KV Sub-stations	5	8	7	9	6	**35**
	TOTAL (Nos)	**6**	**14**	**12**	**14**	**8**	**54**

Hon'ble Commission while determining the M.Y.T. for FY 2009-10 to FY 2011-12 under order dated 11-01-2010 has taken cognizance of the Eleventh Plan.

(xi) ***Progress upto FY 2011-12 -***

Against the Plan provision, the physical progress for the plan period is tabulated hereunder;

PHYSICAL ACHIEVEMENTS *–*

S. No.	Particulars	Unit	Net Capacity Added				
			07-08	08-09	09-10	10-11	11-12
1	400 KV Lines	Ckt-KMs	0	29	0	0	0
2	220 KV Lines	Ckt-KMs	465	872	765	1049	228.92
3	132 KV Lines	Ckt-KMs	253	396	897	798	420.83
Total EHV Lines -		**Ckt-KMs**	**718**	**1297**	**1662**	**1847**	**650**
4	400 KV S/s	MVA	0	0	0	630	0
5	220 KV S/s	MVA	580	1740	1640	740	760
6	132 KV S/s	MVA	580	1323	1352	823	572
Total Sub-stations -		**MVA**	**1160**	**3063**	**2992**	**2193**	**1332**

(xii) ***True-Up for 2011-12 -***

The Auditor's Report and Accounts for year 2011-12 have been sent to the Hon'ble Commission vide letter No. 04-01/CRA Cell/F-147/7296 dated 5.10.2012. The instant True-up is based on the above mentioned Audited Accounts which have been prepared as per final Opening Balance Sheet dated 12th June 2008.''

13. With the above submissions, MPPTCL claimed the following true-up amount for FY 2011-12 in its revised petition :

(Amount ₹ Crores)

S. No.	Particulars	As per ARR approved by order dated 11.01.2010	As filed in this petition based on Audited Accounts	True-up Amount (Col. 4 – Col 3)
1	**2**	**3**	**4**	**5**

S. No.	Particulars	As per ARR approved by order dated 11.01.2010	As filed in this petition based on Audited Accounts	True-up Amount (Col. 4 – Col 3)
1	**2**	**3**	**4**	**5**
1	O&M Expenses	250.77	283.17	32.40
2.	**Terminal Benefits -**			
2(i)	Cash expenses *(as per Discom's order)	361.90*	651.94	290.04
2(ii)	Provisioning	41.63	49.50	7.87
2.	**Total -**	**403.53**	**701.44**	**297.91**
3.	Depreciation	209.12	217.39	8.27
4.i.	Interest on Loan & Bank Charges	97.96	86.82	(-) 11.14
4.ii.	Interest on Working Capital	24.56	40.47	15.91
4.iii.	Interest on Normative Loan	0.00	0.38	0.38
4.	**Total Interest**	**122.52**	**127.67**	**5.15**
5.	Return on Equity	242.40	239.47	-2.93
6.	Taxes and Fee paid to MPERC	1.19	0.91	-0.28
7.	**TOTAL -**	**1229.53**	**1570.05**	**340.52**
8.	Less Non-Tariff Income	-16.00	(+) 15.67	31.67
9.	**GRAND TOTAL -**	**1213.53**	**1585.72**	**372.19**

SHARING OF TRUE-UP AMOUNT -The True-up amount to be shared by the Discoms and SEZ is filed by MPPTCL as given below;

S. No.	Customer	Capacity Allocated (MW)	Amount as per filing in this petition (₹ Crores)	Amount as per original Tariff (₹ Crores)	True-up to be shared (₹ Crores)
1	MP Poorva KVVCL (East)	2464.43	473.28	362.20	111.09
2	MP Madhya KVVCL (Central)	2625.21	504.16	385.83	118.33
3	MP Paschim KVVCL (West)	3155.36	605.97	463.74	142.23
4	MPAKVN for SEZ - Pithampur	12	2.30	1.76	0.54
5	**TOTAL -**	**8257.00**	**1585.72**	**1213.53**	**372.19**

TRUE-UP OF ARR FOR FY 2011-12

CAPITAL COST AND CAPITAL STRUCTURE

14. The petitioner filed a list of works completed during 01.04.2011 to 31.03.2012 with the petition. The aforesaid list contained a break-up of about 915 works capitalized during the year along with other work-wise details like particulars of work, estimated amount, date when work completed, amount capitalized and date of capitalization etc. A certificate dated 15.10.2012 by the Chief Financial Officer, MPPTCL Jabalpur certifying the following was also annexed with the petition:

"It is certified that the works of EHV Lines and Sub-Stations amounting to ***₹275.08*** *Crore have been capitalized in the Financial Year 2011-12 including assets funded through Consumer Contribution* ***₹ 29.92*** *Crore and withdrawal of* ***₹ 11.10*** *Crore is made from Gross Block on account of Augmentation, resulting net addition in the Gross Block of* ***₹ 234.07*** *Crore."*

15. Besides, MPPTCL filed the details of transmission lines and bays commissioned in FY 2011-12 as Annexure 4 of the petition in support of its O&M claims.

16. On examination of the above mentioned details, the Commission observed that a few items out of the works capitalized during FY 2011-12 were shown as completed in 1991 to 1998 but all such works were capitalized in FY 2011-12. On observation of the aforesaid issue along with several other discrepancies, MPPTCL was asked to clarify all such issues/discrepancies to the Commission. Vide letter No. 2970 dated 20th April 2013, MPPTCL filed its response on the aforesaid issues. Issue-wise response filed by MPPTCL is reproduced as under:

(a) Commission's observation:

i) *The reasons for late capitalization of a number of such works which were completed somewhere between 1991 to 1998 but capitalized in FY 2011-12 is not explicitly clear in the reply.*

ii) *Some works in the modified Annexure-5 are shown against the replacement of failed equipments / units.*

iii) *Sr. No. 902 mentions assets transferred of ₹398 Lacs without mentioning the name of the work and estimate amount of the project. The details of these assets be submitted.*

In view of the above, the reason for taking a very long time in capitalizing such works completed long ago along with justification of claiming tariff on all such works be clarified by the petitioner. It may be clarified whether appropriate accounting in GFA and Asset Registers related to the cost of the failed equipments shown under the list of capitalized items has been done while claiming the tariff".

MPPTCL's response:

(i) **Late Capitalization** –

"In the process of reconciliation the Finance & Accounts Wing of the Company sent a list of certain works completed in past to the HoDs but it was not firm as to whether those have been Capitalized. The concerned HoDs forwarded the list to field units for verification and preparation of Capitalization forms (Annexure-G), if those Assets had not been Capitalized earlier. On checking, it was found that certain works in the list were not Capitalized, though they are very old. The process of preparation of Annexure-G had been initiated, and these were Capitalized by the Finance & Accounts Wing, and included in the list of Assets Capitalized during FY 2011-12. These works are sundry works of meagre amount and were capitalized in the process of reconciliation.

(ii) **Replacement of Failed Units** –

Since the replacement of major equipments mainly the transformers is taken as Capital works, these have been included in the list of Capitalization.

It is to submit that while preparation of Annexure-G for replacement of equipments against failure / augmentation, the Gross Block Value (initial Book value) and returned value (Depreciation value) is indicated in the prescribed format of Annexure-G for proper accounting.

As a specimen, copy of Annexure-G for the work of augmentation of 20 MVA 132 / 33 KV transformer by 40 MVA transformer at 220 KV Sub-station Sarni under estimate No. 01-025-8888-06-0033 dated 10.05.2006 is enclosed as Annexure-I. This indicate current Annexure-G amount as ₹ 244.52 Lacs. The Opening Gross Block of ₹ 18.00 Lacs and return value of ₹ 2.05 Lacs is also shown on Annexure-G.

In the list of works Capitalized during 01.04.2011 to 31.03.2012 attached as Annexure-V of True up Petition in question, an amount of ₹ 11.09 Crores is shown at S. No. 879 of statement as for Plant & Machinery withdrawn (Asset withdrawn). The details of ₹ 11.09 Crores are shown in Annexure-II enclosed herewith. This Annexure-II at S. No. 2 shows *the above mentioned work with withdrawal of ₹ 18.00 Lacs. This indicates that proper procedure is being adopted to account for withdrawal of failed / old unit.*

(iii) ***Asset Transfer of ₹ 398 Lacs*** *–*

The Asset transfer of ₹ 398 Lacs is shown, because a 132 KV DCDS line is constructed by M/s BLA Power Ltd., Gadarwara from 132 KV Sub-station, Gadarwara to its generating unit. On completion, this line has been transferred to the MPPTCL and has been included in the Asset base of MPPTCL. Copy of Annexure-G in this regard is enclosed herewith as Annexure-III. Since M/s BLA Power constructed this line at its own cost, the same is taken under Consumer Contribution, where no Depreciation interest etc. is available to the MPPTCL".

(b) Commission's observation:

"The list of assets funded through consumer contribution mentioned in Annexure-5 shows total consumer contribution of ₹ 28.79 Crore whereas the audited balance sheet shows addition to consumer contribution is increased by ₹ 29.31 Crore (increased from ₹ 139.83 Crore as on 31.03.2011 of ₹ 169.14 Crore as on 31.03.2012). The reasons for the difference of ₹ 0.52 Crore be submitted".

MPPTCL's response:

"The two figures indicated represent different aspects, therefore, can not be the same. In Annexure-5, the details of Asset Capitalization is given. Therefore, figure of ₹ 28.79 Crores is the value of 'Assets Capitalized' during FY 2011-12 against the category of Consumer Contribution. Whereas the figure ₹ 169.14 Crores is the figure of liabilities against Consumer Contribution as on 31.03.2012 and ₹ 139.83 Crores that on 31.03.2011. The difference between two figures i.e. ₹ 29.31 Crore is the increase in Consumer Contribution liabilities during the year. The two figures are therefore different".

(c) Commission's observation:

"In para 7.6 of the petition, Cash Terminal Benefits expenses have been mentioned as ₹651.93 Crore. The details of month-wise payments of pension and gratuity for FY 2011-12 submitted in Annexure-B is showing total expenses of ₹ 652.06 Crore. The reason for discrepancy in figure needs to be clarified".

MPPTCL's response:

"Reason for differences are as under;

(i) *Terminal Benefits of ₹652.06 Crores, submitted in Annexure-B is showing actual amount of Pension & Gratuity disbursed. Whereas, Terminal Benefits amount of ₹651.93 Crore shown in Balance Sheet FY 2011-12 is after considering adjustment from;*

1. *Contribution Received; on behalf of employees on deputation in other organization.*
2. *Reconciliation / Adjustment on account of Terminal Benefits accounted for in books of RAOs of the Company & Head Quarter.*

(ii) *Details of amounts, as mentioned above, is as under;*

Terminal Benefits actually paid (Pension + Gratuity) =	*₹652,05,59,189.00*
Less *: Contribution received towards Terminal Benefits = (In respect of Employees sent on deputation)*	*₹ 16,08,421.00*
Add *: Adjustment / Reconciliation towards Terminal Benefits accounted for in books of RAO and books of HQ =*	*₹ 3,55,143.00*
Net Terminal Benefits =	***₹651,93,05,911.00***

(d) Commission's observation:

i) *"In para 9.6 of the petition, Interest during Construction (IDC) of ₹8.17 Crore only has been subtracted from the net interest claimed for FY 2011-12. Note 24 of the audited financial statement indicates finance charges allocated to CWIP as ₹35.18 Crore. The reason for not considering ₹35.18 Cr mentioned as IDC in Annexure F of the present submission be explained.*

ii) *The reason for difference between the total IDC capitalized of ₹35.27 Crores and the amount of ₹35.18 Crores recorded in Note 24 of the Audited accounts be submitted.*

iii) *In point no.17 of Annexure F of the present submission "IDC" of ₹35.18 Cr is shown as added to "Interest due" of Annexure VI of the petition. However, Annexure VI of the petition mentions individual loans and interest due on each loan. The reconciliation of the information now filed in present submission with the information filed in the original petition be done and the correct status be submitted".*

MPPTCL's response:

(i) ***IDC Capitalized*** *–*

"As mentioned in Para-8 of our letter No. 04-01/CRA Cell/F-89/9482 dtd. 22.12.2012, the Note 24 of Audited Accounts shows the total IDC during FY 2011-12 equal to ₹35.18

Crores. This is substantiated by Annexure-VII of the Petition i.e. the worksheet for Interest Capitalization during FY 2011-12 as under;

(i).	***Row J*** *– Interest on Capex as per the Distribution Schedule =*	*₹36.90 Crores*
(ii).	***Row P – Less interest to be withdrawn because of commissioning on different dates =***	*(-)₹1.72 Crores*
	Net IDC =	***₹ 35.18 Crores***

Out of this amount, the following amounts have been allocated to CWIP;

(i).	***Row K*** *– Less interest on FDR on Capex fund=*	*(-)₹25.36 Crores*
(ii).	***Row L*** *– Less interest on Advance to supplier =*	*(-)₹ 1.64 Crores*
	Total =	***(-)₹27.00 Crores***
(iii).	*Net IDC Capitalized ₹(35.18 – 27.00) Crores =*	*₹8.18 Crores*
	(a) ***Row Q*** *– Capitalized with Account Head 10 — ₹0.94 Crores*	
	(b) ***Row R*** *– Capitalized with Account Head 14 — ₹7.24 Crores*	
	TOTAL – ₹8.18 Crores	

The Other Income of ₹ 27.00 Crores is also shows in Note 21 of Audited Accounts as Interest Income allocated to CWIP.

Since the Hon'ble Commission in earlier True up has not considered reduction of interest earned allocated to CWIP, the Petitioner submitted that the interest actually Capitalized with Assets of ₹8.18 Crores may only be reduced from Gross Interest claim to save the Petitioner from double suffering. It is prayed that the Hon'ble Commission may kindly consider this request.

(ii) ***Difference in Figures*** *–*

The figure of ₹35.18 Crores recorded in Note 24 is correct as the total IDC explained in foregoing Para (d)(i). In our earlier reply by letter No. 04-01/CRA Cell/F-89/9482 dtd. 22.12.2012 (Para 8), all figures were reported correctly. Only at one place the total has been typed by ***mistake*** *as ₹35.27 Crores in place of ₹35.17 Crores. This may kindly be corrected as ₹35.17 Crores (₹27.00 Crores + ₹8.17 Crores).*

(iii) ***Annexure-F v/s Annexure-VI*** *–*

The 'interest due' in Annexure-VI of the Petition is shown as ₹ 182.31 Crores. In Annexure-F submitted by our letter dtd. 22.12.2012 also it is ₹182.31 Crores. Both the figures perfectly tally's. Annexure-VI is to update status of outstanding loan liabilities, as per accounts of the Company. The interest claim in Petition are allowed only on 'Principal Not Due' treating repayments of principal amount each year equal to

'Depreciation' on notional basis as per Regulations. Therefore, the two can not be matched. However, it is to confirm that total IDC is ₹ 35.18 Crores, whereas IDC Capitalized is ₹8.18 Crores as explained in earlier para".

17. On perusal of the above response filed by the petitioner, the Commission observed the following:

(a) Despite repeated directions of the Commission in its previous Tariff & True-up Orders, the reconciliation of Fixed Assets and CWIP is yet to be finalized by MPPTCL. The final reconciled Asset – Depreciation record needs to be submitted along with the reasons for delay in reconciliation work.

(b) Some works which had been commissioned during 1985 to 2005 were capitalized after a long time in FY 2011-12. These works are disclosed for first time in the subject true-up petition. Therefore, the following details are required to be submitted by the petitioner:

(i) A list of all above-mentioned old works capitalized in FY 2011-12 clearly mentioning the date of commissioning, original cost, IDC capitalized if any, total amount capitalized, remaining useful life, source of funding through equity & loan and Depreciation charged on each work.

(ii) To confirm by affidavit that the depreciation has been worked out in accordance with all the provisions under Regulation 25 of MPERC (Terms and conditions for determination of Transmission Tariff) Regulations' 2009.

(iii) How the equity & loan components have been considered for claiming Return on Equity and Interest & Finance charges claimed for all above mentioned old works in the subject true-up petition.

Accordingly, MPPTCL was asked to clarify the above issues and also to submit the required details.

18. Vide letter No. 04-01/CCA/F-89/6132 dated 24th August, 2013, MPPTCL filed its reply on the following issues:

(i) Reconciliation of the Fixed Assets
(ii) Late Capitalization of Assets
(iii) Interest earned on Fixed Deposits

19. The Commission observed the following from the above response of MPPTCL:

(i) Reconciliation of Fixed Assets –MPPTCL stated that a Committee has been constituted to finalize an Asset-Register and some more time is required by this Committee to finalize the same. With the aforesaid contention, MPPTCL requested the Commission to allow it to submit the reconciled Asset-Register with the next True-up petition for FY 2012-13.

(ii) Late Capitalization –In the instant submission, MPPTCL furnished a list of 47 works (as Annexure-A) which were completed before FY 2005 and capitalized in FY 2011-12. It was observed from the list that some of the works were completed in 1987, 1991 & 1992 also.

(a) Regarding delay in capitalization, MPPTCL admitted that these works were lost sight of and left unnoticed but came to knowledge while reconciling the Asset Register and capitalized in FY 2011-12. MPPTCL submitted all other details like sanctioned amount, executed amount, date of work completion, date of capitalization, IDC and total amount capitalized in FY 2011-12 with source of funding through loan and equity and deprecation claimed.

(b) Regarding working of depreciation, MPPTCL confirmed that the depreciation for FY 2011-12 has been charged as per provisions under Regulations and the date of capitalization has been taken as the date of commercial operation. It was also submitted by MPPTCL that if the asset becomes unserviceable before the scheduled life period in subsequent years, the residual value will be written off, ceasing the claim of depreciation thereafter.

(iii) **Interest earned on Fixed Deposit** –

(a) MPPTCL submitted that an interest of ₹ 27.00 Crores has been earned on the Fixed Deposits of capital money invested temporarily. This amount of ₹ 27.00 Crs. has been reduced from the asset value through IDC to be capitalized, to pass on its benefit to the Long Term customers i.e. Discoms and SEZ. It was further submitted by the petitioner that the capitalization of the less asset value by ₹ 27 Crores will result in less Depreciation through out life of asset. In support of the above clarification, MPPTCL quoted Para 11 of Accounting Standard 16 (AS16) as given below:

"Para-11 – *The financing arrangements for a qualifying Asset may result in an enterprise obtaining borrowed funds and incurring associated borrowing cost, before some or all of the funds are used for expenditure on the qualifying Asset. In such circumstances, the funds are often temporarily invested pending their expenditure on qualifying Asset. <u>In determining the amount of borrowing cost eligible for Capitalization during a period, any income earned on temporary investment of those borrowings is deducted from the borrowing cost incurred</u>".*

(b) In view of the above provision, MPPTCL submitted that the interest earned on Fixed Deposits of capital amount has nothing to do with non-tariff income and it should be used to reduce borrowing cost eligible for capitalization.

(c) In compliance with the directions in Para 7 of the Commission's order dated 29.09.2012 (in review Petition No. 66 of 2012), MPPTCL furnished a Certificate from its statutory auditor (R. Shah and Company, Charted Accountants) certifying utilization of interest earned on Fixed Deposits in reducing IDC for capitalization in FY 2009-10, FY 2010-11 and FY 2011-12 with the revised petition.

Based on the above submissions / documents, MPPTCL requested the Commission to consider its difficulty in restoration of asset valuation and allow adjustment of non-tariff income for the period FY 2009-10 and 2010-11 also.

20. The Commission observed the following from the above:

a. The Asset records of MPPTCL are under reconciliation stage.

b. The Asset records shall be finalized and filed with the Commission along with the next true-up petition for FY 2012-13.

c. In a few works (out of the list of all 47 works which were created much before the formation of the Company but shown capitalized in FY 2011-12), the amount booked and interest during construction is much more than the estimated amount.

In view of the above, the Commission has not allowed the additional capitalization of all such assets (47 works) at this stage in this true-up order. The petitioner may claim the tariff of all such assets on finalization of its assets records after reconciliation of these works and rectification of all discrepancies pointed above.

21. As per the certificate of the Chief Financial Officer, MPPTCL, Jabalpur, the assets of ₹29.92 Crore were funded through consumers contribution and withdrawal of ₹11.10

Crore was made from the gross block on account of Augmentation. Accordingly, a net addition of ₹234.07 Crore, out of total capitalized amount of ₹275.08 Crore in FY 2011-12, is shown in the certificate. As mentioned in preceding para, the amount of ₹29.31 Crore shown as capitalized in FY 2011-12 for old 47 works (which were created much before the formation of the Company but shown capitalized in FY 2011-12) is excluded from the assets capitalized during the year. Accordingly, an amount of **₹204.75 Crore** for the assets capitalized during FY 2011-12 is considered in this Order as given below:

Capital Cost:

Sr. No.	Particular	Unit	Total Assets
1	Capital cost as on 31.3.2011 as admitted vide Order dated 02.2.2013	Rs. Cr.	5045.91
2	Additional Capital expenditure during FY11-12 as per audited accounts	Rs. Cr.	275.08
3	Works capitalized through Consumer Contribution	Rs. Cr.	29.92
4	Less works prior to 31.05.2005 and capitalized in FY2011-12	Rs. Cr.	29.31
	Less assets de-capitalized during the year	Rs. Cr.	11.10
5	Net Additional Capital expenditure during FY11-12	Rs. Cr.	204.75
6	Total capital cost as on 31.3.2012	Rs. Cr.	5250.66

Funding of Capital Cost: **Rs. Cr.**

Sr. No.	Particular	Assets	Equity	Loan
1	Opening capital cost as on 01.04.2011 as per true-up order for FY10-11	5045.91	1429.81	1757.56
2	Additional Capitalization during the year (considering normative 70 - 30 debt - equity ratio)	204.75	61.43	143.33
3	Closing capital cost as on 31.03.2012	5250.66	1491.24	1900.89

22. As per provisions under Regulations, the Commission has considered that the source of funding corresponding to the assets addition is 70% from loan and 30% from Equity as per normative debt- equity ratio. Thus, GFA addition of **₹ 204.75 Crore** is considered to be funded from a loan of **₹ 143.33 Crore** and Equity of **₹ 61.43 Crore** as mentioned above.

The above figures of funding are considered in this order to work out Interest and Finance charges and Return on Equity.

ANNUAL FIXED COST

23. The Annual Fixed Cost (AFC) of a Transmission System consists of the following components:

(i) Return on Equity.
(ii) Interest and Finance Charges.
(iii) Depreciation
(iv) Operation and Maintenance Expenses.
(v) Terminal benefits.
(vi) Interest on working capital
(vii)Non-tariff Income.

24. The component-wise analysis of the Annual Fixed Cost in this true-up order is as given below:

RETURN ON EQUITY:

Petitioner's submission:The petitioner broadly submitted the following:

"Eligible Equity for claim of RoE as per Para 20.1 of Tariff Regulations is worked out hereunder;

(₹ in Crores)

i.	*Gross Block of Assets as on 01.04.2011*	*5026.81*
ii.	*Gross Block of Assets as on 31.03.2012 Net of Consumer Contribution*	*5262.01*
iii.	*Gross Block of Assets as on (Average)*	*5144.42*
iv.	*Maximum Qualifying Equity (30%) with 70:30 Debt:Equity ratio*	*1543.32*

EQUITY HELD UNDER CWIP –

(₹ in Crores)

S. No.	***Date***	***Total CWIP***	***Funded by Loan***	***Funded by Equity***
1	*01.04.2011*	*418.58*	*293.01*	*125.57*
2	*31.03.2012*	*594.46*	*416.12*	*178.34*

DEVELOPMENT OF EQUITY AMOUNT –

The Equity held at the beginning and the end of year is utilized as hereunder;

(₹ in Crores)

S. No.	Particulars	As on 31.03.2011	As on 31.03.2012
1	Total Equity held	2154.44	2184.44
2	Equity under CWIP	125.57	178.34
3	Equity temporarily held under current Assets	515.09	421.76
4	Equity Deployed on completed / capitalized Assets	1513.78	1584.34

CLAIM FOR ROE –

(₹ in Crores)

(i)	Equity at the beginning of the year employed on Capitalized Works	1513.78
(ii)	Equity at the end of the year employed on Capitalized Works	1584.34
(iii)	Average Equity employed on Capitalized Works	1549.06
(iv)	Qualifying Equity	1543.32
(v)	ROE @ 15.5% on Qualifying Equity	239.22
(vi)	Normative Loan component (iii - iv)	+ 5.74

PROJECTS COMPLETED WITHIN SPECIFIED TIME LIMIT –

*Proviso of Para 23.2 of Transmission Tariff Regulations provides that, in case of projects commissioned on or after 1st April 2009, an additional return of 0.5% shall be allowed if such projects are completed within the time line specified in Appendix-I of the Regulations. Format TUT-18 attached to this Petition indicates works completed during FY 2009-10 to 2011-12, with date of starting and completing the work. It is submitted that most of the works are completed within time line specified in Appendix-I of the Regulations. It may however be mentioned that the Capitalization of specifically the big works take time, and only small works are Capitalized in the same year i.e. the year of completion. The details of works which were eligible for additional incentive in previous year have been submitted with the True-up petition of FY2011, a summary of the same is tabulated in Table-A below. The works Capitalized during 2009-10 to 2011-12 from the works completed in 2009-10 to 2011-12 itself are shown in **Annexure-VIII** attached with this Petition. For other works claim will be lodged in subsequent True-up, on Capitalization of works. From **Annexure-VIII** the token claim for this year is shown in Table-B below;*

TABLE A *– FROM WORKS CAPITALIZED IN FY 2009-10 -*

(i)	Value of G-forms of qualifying works	₹ 3.01 Crores
(ii)	Equity employed with 70:30 ratio	₹ 0.90 Crores
(iii)	0.5% Additional RoE	₹ 0.005 Crores
	(A) Previous Years =	₹ 0.01 Crore

TABLE B *– FROM WORKS CAPITALIZED IN FY 2010-11 -*

(i)	*Value of G-forms of qualifying works*	*₹ 67.11 Crores*
(ii)	*Equity employed with 70:30 ratio*	*₹0.13 Crores*
(iii)	*0.5% Additional RoE*	*₹ 0.105 Crores*
	(B) This Year =	*₹0.11 Crores*

TABLE C *– FROM WORKS CAPITALIZED IN FY 2011-12 -*

(i)	*Value of G-forms of qualifying works*	*₹ 78.40 Crores*
(ii)	*Equity employed with 70:30 ratio*	*₹ 23.52 Crores*
(iii)	*0.5% Additional RoE*	*₹ 0.12 Crores*

Total of (A) + (B) +(C) (0.01 + 0.11 + 0.12) = ₹ 0.24 Crores

The certificate of works completion and capitalization by Chief Financial Officer, MPPTCL is given in Annexure-V itself.

NORMATIVE LOAN –

As mentioned in 10.6 (vi), the average Equity is more than the eligible Equity, by an amount of ₹5.74 Crores, the same is to be treated as Normative Loan. As such, the same is eligible for interest at the rate 6.56% as indicated in Para 9.4 covering Overall Weighted Average Rate of Interest for Year 2011-12.

(i)	*Normative Loan component [Para 10.6 (iv-iii)]*	*₹5.74 Crores*
(ii)	*Weighted Average Rate*	*6.56%*
(iii)	*Eligible interest*	*₹ 0.38 Crores*

This is being claimed along with Interest & Finance charges.

TRUE-UP OF RoE FOR 2011-12 *–*

(i)	*RoE Eligibility as per True-up claim [Para 10.6 (iv)]*	*₹ 239.22 Crores*
(ii)	*Additional RoE as per Para 10.7 above*	*₹ 0.25 Crores*
(iii)	*Total ROE claimed*	*₹ 239.47 Crores*
(iv)	*RoE allowed in MYT order for 2011-12*	*₹ 242.400 Crores*
(v)	*True-up amount*	*(-) ₹2.93 Crores*

(Say) ₹ (-) 2.93 Crores "

25. Provisions under Regulations

The provisions in Clause 23 of the MPERC (Terms & Conditions for determination of Transmission Tariff) Regulation, 2009 provide that, *"Return on equity shall be computed on pre-tax basis at the base rate of 15.5% to be grossed up as per this Regulation*

Provided that in case of Projects commissioned on or after 1st April, 2009, an additional return of 0.5% shall be allowed if such projects are completed within the timeline specified in ***Appendix-I****.*

Provided further that the additional return of 0.5% shall not be admissible if the project is not completed within the timeline specified above for reasons whatsoever.

Rate of return on equity shall be rounded off to three decimal points and be computed as per the formula given below:

Rate of pre-tax return on equity = Base rate / (1-t)
Where t is the applicable tax rate in accordance with clause 23.3 of this Regulation.

Illustration.-
(i) In case of the Transmission Licensee paying Minimum Alternate Tax (MAT) @ 11.33% including surcharge and cess:
Rate of return on equity = 15.50/ (1-0.1133) = 17.481%
(ii) In case of the Transmission Licensee paying normal corporate tax @ 33.99% including surcharge and cess:
Rate of return on equity = 15.50/ (1-0.3399) = 23.481%"

26. Commission's Analysis:

On preliminary scrutiny of the original petition filed by MPPTCL, vide Commission's letter No. MPERC/D(T)/2012/3214 dated 22nd November' 2012, the following issues were communicated to the petitioner;

(i) " ***Return on Equity***

MPPTCL has mentioned gross block of Rs.5026.81 Crs. and Rs.5262.01 Crs. as on 01/04/2011 and 31/03/2012 respectively in para 10.3 of the petition. However, Note 12 of the audited financial statement mentions gross block of Rs.5026.55 Crs. and Rs.5261.74 Crs. respectively. The reasons for variation in figures and the correct figures be submitted.

(ii) ***Additional Return on Equity***

In Para 10.7 of the petition, MPPTCL has claimed additional return of 0.5% on the project completed within time line and has submitted list of such items capitalized during FY 2011-12 in annexure-8 of the petition. On perusal of Annexure-8, following is observed:

(a) The estimate date is mentioned with some arbitrary figures like 39902 in Sl. No.1. and many other places.
(b) The executed amount has been mentioned but estimated amount is not mentioned.
(c) The date of work start and date of work completion have been mentioned but the date of issue of tender and the date of commercial operation of the unit/block required under the Regulation has not been mentioned.
(d) It is also observed that some of these projects were completed in 2009.

The Annexure-8 needs to be filled up completely and the reasons for delay in capitalization be also submitted. A certificate showing that all parts of the concerned unit/block /element have been completed within the time line be also furnished by the petitioner.

27. In response, MPPTCL in its letter No. 04-01/CRA Cell/F-89/9482 dated 22nd December' 2012 submitted the following:

(i) ***" Return on Equity***

The difference between the two values is mentioned hereunder;

S. No.	***Particulars***	***As per Petition Para 10.3***	***As per Audited Accounts Note-12***	***Difference***
1	*Opening Gross Block as on 01.042011*	*5026.81*	*5026.55*	*0.26*
2	*Opening Gross Block as on 31.03.2012*	*5262.01*	*5261.74*	*0.27*

The difference is because in the table in Note-12 of Audited Accounts, the intangible Assets of software are shown separately at S.No.(c) amounting to ₹ 0.27 and ₹ 0.28 Crores for opening & closing figures. The difference of ₹ 0.01 Crores may be on account of decimal rounding.

(ii) ***Additional Return on Equity***

As desired, Annexure-8 has been modified as under and enclosed herewith:

(a) Date of estimates corrected where necessary.
(b) The amount of estimate has been mentioned.
(c) The certificate from the concerned regarding unit/block/element to have been completed within the time line given is enclosed along with the modified Anx.-8.
(d) The date of work start is the date of issuing NIT for work contract. The date of material tender cannot be relevant as materials of many works are covered in a tender, and different materials are covered under different number of tenders.
(e) Projects completed in year 2009 since 01.04.2009, are also covered under the scheme, as per Regulations applicable since 01.04.2009.

28. The petitioner claimed an additional return of 0.5% on the Equity of such projects which were completed within the time limit specified in Appendix 1 of the Regulations. It is observed from the reply filed by MPPTCL that the details of projects completed within the time limit specified in Appendix I of MPERC (Terms and Conditions for determination of Transmission Tariff) Regulation, 2009 have been submitted as modified Annexure 8. The aforesaid details are for 29 works having total capitalized amount of ₹ 78.40 Crores. The petitioner also furnished certificates of the concerned officers certifying that the aforesaid works have been completed within the specified time limit. The Commission in its earlier true-up orders allowed additional Return on Equity as claimed by the petitioner. The additional return on Equity of **₹ 0.24 Crores** as claimed is considered in this true-up order.

29. In the last true-up order for FY 2010-11, the closing equity of FY 2009-10 was considered as equity at the beginning of year employed on capital cost. The equity infusion during FY 2010-11 was also considered only for the assets created and capitalized during that year. Similarly, the equity amount of ₹ 1429.81 Crores at the end of FY 2010-11 is considered as opening equity in this true-up order. The equity infusion of **₹ 61.43 Crore** during FY 2011-12 is considered as per preceding paragraphs 21 and 22 of this order. Accordingly, the return on equity for FY 2011-12 is worked out as under:

Return on Equity:

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	Opening Equity in FY 2011-12 (closing equity of last year)	Rs. Cr.	1429.81
2	Equity addition due to additional capitalization considered during the year	Rs. Cr.	61.43
3	Closing Equity in FY 2011-12	Rs. Cr.	1491.24
4	Average Equity in FY 2011-12	Rs. Cr.	1460.52
5	Return on equity base rate	%	15.50
6	Tax rate actually paid during the year	%	0.00
7	Rate of return on Equity	%	15.50
8	**Return on equity**	**Rs. Cr.**	**226.38**
9	Additional RoE from FY09-10 to FY11-12 in respect of projects completed within specified time limit	**Rs. Cr.**	**0.24**
10	**Total return on equity**	**Rs. Cr.**	**226.62**

30. The petitioner also claimed the interest on normative loan since the average equity claimed by the petitioner was slightly more than the eligible equity by an amount of ₹5.74 Crore. However, in the preceding paragraphs 21 and 22 in this Order, the Commission has considered the Equity and loans corresponding to the actual assets capitalized in FY2011-12. The Commission has allowed RoE on this Equity. Therefore, no normative loan is to be allowed in this order.

31. In view of the above, the Commission allows total Return on Equity of **₹ 226.62 Crore** including additional return on Equity of **₹ 0.24 Crore** in this order.

INTEREST AND FINANCE CHARGES:

32. **Petitioner's submission**: The petitioner broadly submitted the following:

"The liabilities at the beginning of year i.e. 01.04.2011 are tabulated hereunder;

(Amount ₹ in Lacs)

S. No.	***Particulars***	***Balance at the beginning of year***			
		Principal Not Due	***Principal overdue***	***Interest overdue***	***TOTAL***
1	*Loan from PFC - Unsecured*	*17040.39*	*0.00*	*0.00*	*17040.39*
2	*Loan from PFC - Secured*	*18362.45*	*0.00*	*0.00*	*18362.45*
3	*Loan from Canara Bank*	*2121.15*	*0.00*	*0.00*	*2121.15*
4	*Loan from SADA Gwalior*	*0.00*	*0.00*	*0.00*	*0.00*
5	*Bonds & Debentures*	*2454.00*	*11869.97*	*9100.69*	*23424.66*
6	*MP Genco*	*552.69*	*0.00*	*0.00*	*552.69*
7	*Direct Loans*	*465.50*	*1163.72*	*398.56*	*2027.78*
8	*ADB 1869*	*31847.83*	*5440.01*	*6123.21*	*43411.05*
9	*NABARD*	*652.01*	*8633.15*	*2313.72*	*11598.88*
10	*Market Bonds*	*7309.45*	*9856.05*	*2667.88*	*19833.38*
11	*General Loans*	*6121.07*	*470.30*	*478.60*	*7069.97*
12	*GoMP ADB 2323*	*38547.23*	*0.00*	*1047.90*	*39595.13*
13	*GoMP ADB 2346*	*57975.17*	*0.00*	*1745.70*	*59720.87*
14	*TSP*	*2100.00*	*0.00*	*0.00*	*2100.00*
15	*SCSP*	*3150.00*	*0.00*	*0.00*	*3150.00*
Total		***188698.94***	***37433.20***	***23876.26***	***250008.40***

Say ₹2500.08 Crores

Remarks *– As mentioned in Point No. 12 of the 'other notes' in Audited Accounts, there has been changes in accounts presentation. Therefore, the above figures may not tally directly with the figures of Loans outstanding shown in Note-6 (Schedule-6) to the Audited Accounts.*

WEIGHTED AVERAGE RATE OF INTEREST IN EACH CATEGORY OF LOANS -

Hon'ble Commission has desired that the Rate of Interest for each category of loans such as PFC, ADB, State Govt. etc. should be worked out by considering rate of interest of various loan installments received during the year. Accordingly, the computation of interest for each category is done and enclosed as Annexure, details of which are tabulated hereunder;

(FY 2011-12)

S. No.	Loan Scheme	Weighted Average Rate of Interest	Details shown in Annexure
1	PFC Unsecured	10.91	**Annexure-X**
2	PFC Secured	12.14	**Annexure-XI**
3	Canara Bank	12.38	**Annexure-XII**
4	Bonds & Debentures	12.00	**Annexure-XIII**
5	MP Genco	9.70	**Annexure-XIV**
6	State Govt. Direct	10.50	**Annexure-XV**
7	ADB 1869	10.62	**Annexure-XVI**
8	NABARD	10.50	**Annexure-XVII**
9	State Govt. - General	14.22	**Annexure-XVIII**
10	Market Bonds	10.93	**Annexure-XIX**
11	ADB 2323	1.84	**Annexure-XX**
12	ADB 2346	1.84	**Annexure-XXI**
13	TSP	14.50	**Annexure-XXII**
14	SCSP	14.50	**Annexure-XXIII**

***Note**: i. The 'Weighted Average Rate of Interest' worked out in above mentioned Annexure are based on 'Principal Not Due' only, therefore, may differ from loan portfolio.*

ii. These rates have been modified excluding the amount of loan under Current Assets if any.

OVERALL WEIGHTED AVERAGE RATE OF INTEREST FOR YEAR 2011-12 -

As per Para 24.5 of the transmission tariff regulations notified on 8th May 2009;

"The rate of interest shall be the weighted average rate of interest calculated on the basis the actual loan portfolio at the beginning of each year applicable to the project."

Accordingly, the weighted rate of interest is worked out on the basis of the principal not due outstanding at the beginning of the year i.e. 01.04.2011, and on the rate of interest against various loans as worked out in Para 9.3 above. The working is shown in the following table:-

(Amount ₹ in Lacs)

S. No.	Particulars	Principal not due as on 01-04-11	Rate of interest (%)	Interest
1	PFC - Unsecured	17040.39	10.91%	1859.11
2	PFC - Secured	18362.45	12.14%	2229.20
3	Canara Bank	2121.15	12.38%	262.60
4	Bonds & Debentures	2454.00	12.00%	294.48

5	MP Genco	552.69	9.70%	53.61
6	State Govt. Direct	465.50	10.50%	48.88
7	ADB 1869	31847.83	10.62%	3382.24
8	NABARD	652.01	10.50%	68.46
9	General Loans	6121.07	14.22%	870.42
10	Market Bonds	7309.45	10.93%	798.92
11	GoMP-ADB 2323	38547.23	1.84%	709.27
12	GoMP-ADB 2346	57975.17	1.84%	1066.74
13	TSP	2100.00	14.50%	304.50
14	SCSP	3150.00	14.50%	456.75
	TOTAL -	**188698.94**	**-**	**12370.70**

Weighted Rate of Interest $= \frac{12370.70}{188698.94} \times 100 = \mathbf{6.56\%}$

ELIGIBILITY OF INTEREST FOR YEAR 2011-12 -

Para 24.2 and 24.3 of the transmission tariff regulations notified on 08-05-09 are reproduced hereunder;

> *"24.2 The normative loan outstanding as on 01-04-2009 shall be worked out by deducting the cumulative repayment as admitted by the commission up to 31-03-2009 from gross normative loan.*
>
> *24.3 The repayment for each year of the tariff period 2009-12 shall be deemed to be equal to the depreciation allowed for that year."*

*In accordance of Para 24.2 of the Regulations, the position of loans upto 31.03.2012 has been worked out in **Annexure-VI**, considering the actual loan repayments during each year. Whereas for FY 2009-10 to 2011-12, the repayment is deemed as equal to Depreciation being claimed in the True-up Petitions for 2009-10 to 2011-12.*

As per regulations Para 24.3 mentioned above, the interest claim for FY 2011-12 is worked out hereunder:

(Amount ₹ in Crores)

i.	Principal not due outstanding on 01-04-2009	1562.61
ii.	Loans received during 2009-10	414.73
iii.	Less Depreciation (Repayment) during 2009-10	168.76
iv.	Principal not due (Deemed) on 01.04.2010	1808.58
v.	Loan received during FY 2010-11 (277.32 – 99.15)	178.17
vi.	Less Depreciation (Repayment) during 2010-11	201.41
vii.	Principal not due (Deemed) on 31.03.2011 (01.04.11) (iv + v – vi)	1785.34
viii.	Loan received during FY 2011-12	326.61
ix.	Less Depreciation (Repayment) during 2011-12	217.39
x.	Principal not due deemed on 31.03.12 (vii + viii - ix)	1894.56
xi.	Average Principal not due for FY 2011-12 (vii + x)/2	1839.95
xii.	Interest on Avg. Principal not due @ **6.56%** Weighted Average Rate of Interest	**120.70**

INTEREST DURING CONSTRUCTION V/s INTEREST CAPITALIZED -

The worksheet for Interest During Construction (IDC) and IDC capitalized is enclosed as Annexure-VII of the Petition. The IDC during 2011-12 is given in Annexure-VII as under;

i.	*Interest on Capex as per disbursement schedule (S. No. J of Annexure-VII).*	-	*₹36.89 Crores*
ii.	*Less interest to be withdrawn because of commissioning on different dates (S. No. P of Annexure-VII).*	-	*(-) ₹1.72 Crores*
	NET IDC	-	***₹35.17 Crores***

Thus ₹ 35.17 Crores should be the IDC to be reduced from the Gross Interest claim of ₹120.70 Crores, and the same amount of ₹ 35.17 Crores should be capitalized with Asset value during FY 2011-12.

On the other hand, the Petitioner earned interest of 27.00 Crores, on the deposits of capital amount during the year, which has been used to reduce borrowing cost during construction as per Para-11 of Accounting Standard-16 (AS-16) reproduced hereunder;

*"**The financing arrangements for a qualifying Asset may result in an enterprise obtaining borrowed funds and incurring associated borrowing cost, before some or all of the funds are used for expenditure on the qualifying Asset. In such circumstances, the funds are often temporarily invested pending their expenditure on qualifying Asset. In determining the amount of borrowing cost eligible for Capitalization during a period, any income earned on temporary investment of those borrowings is deducted from the borrowing cost incurred**".*

Therefore, in Annexure-VII, the IDC capitalized is shown as 8.17 Crores as under;

i.	*During the year interest capitalized with 10 (S. No. Q of Annexure-VII)*	-	*₹0.94 Crores*
ii.	*During the year interest capitalized with 14 (S. No. P of Annexure-VII).*	-	*₹7.23 Crores*
	NET IDC capitalized with Assets	-	***₹8.17 Crores***

(Which is the amount ₹35.17 Crores – ₹27.00 Crores)

The amount of ₹27.00 Crores earned as interest on deposits is directly reduced from IDC for Capitalization, but for Net Interest claim total ₹ 35.17 Crores are subtracted from Gross Interest claim of ₹120.70 Crores, and therefore ₹ 27.00 Crores are not included in Non Tariff Income, otherwise it would be double deduction from cost i.e. ARR.

NET INTEREST CLAIM –

i.	*Gross interest claim*	-	*₹120.70 Crores*
ii.	*Less interest during construction*	-	*₹ 35.17 Crores*
iii.	*Net interest claim for 2011-12*	-	*₹ 85.53 Crores*
iv.	*Interest allowed in MYT order*	-	*₹ 97.96 Crores*
v.	*True up for 2011-12*	-	***(-) ₹12.43 Crores***

33. <u>Provisions of Regulations</u>

Clause 24 under MYT Regulation provides that,

"The loans arrived at in the manner indicated in Regulation 20 shall be considered as gross normative loan for calculation of interest on loan.

The normative loan outstanding as on 1.4.2009 shall be worked out by deducting the cumulative repayment as admitted by the Commission up to 31.3.2009 from the gross normative loan.

The repayment for each Year of the Tariff period 2009-12 shall be deemed to be equal to the depreciation allowed for that Year.

Notwithstanding any moratorium period availed by the Transmission Licensee, the repayment of loan shall be considered from the first Year of commercial operation of the Project and shall be equal to the annual depreciation allowed.

The rate of interest shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each Year applicable to the Project:

> *Provided that if there is no actual loan for a particular Year but normative loan is still outstanding, the last available weighted average rate of interest shall be considered.*
>
> *Provided further that if the Transmission System, does not have actual loan, then the weighted average rate of interest of the Transmission Licensee as a whole shall be considered.*
>
> *The interest on loan shall be calculated on the normative average loan of the Year by applying the weighted average rate of interest. The Transmission Licensee shall make every effort to re-finance the loan as long as it results in net savings on interest and in that event the costs associated with such re-financing shall be borne by the Beneficiaries and the net savings shall be shared between the Beneficiaries and the Transmission Licensee, in the ratio of 2:1.*

The changes to the terms and conditions of the loans shall be reflected from the date of such re-financing. In case of dispute, any of the parties may make an application in accordance with the MPERC (Conduct of Business) Regulation, 2004, as amended from time to time:

Provided that the Transmission Customers shall not withhold any payment on account of the interest claimed by the Transmission Licensee during the pendency of any dispute arising out of re-financing of loan."

34. Commission's Analysis

Vide Commission's letter No. 3214 dated 22.11.2012, the following details/ clarifications were sought from the petitioner:

(i) ***Interest and Finance charges***

The information in annexure-6 shows an amount of Rs.326.61 crores as loan received during the year, the principal repayment of Rs.230.63 Crs. and the interest repayment due was Rs.182.31 Crs. The calculation of these figures does not match with the details of long term borrowing mentioned in Note 6 of the audited financial statement which shows that total long term borrowing has increased by Rs.158.71 Crs. (increase from Rs.1675.15 Crs. as on 31/03/2011 to Rs.1833.86 Crs. as on 31/03/2012). These figures need to be reconciled and a reconciled statement in the regard be submitted.

(ii) ***Interest during construction***

In Annexure-7 of the petition, last row showing interest and finance charges allocated to CWIP is missing. However, based on the calculations, this figure is calculated as Rs.35.18 Crs. Note 24 of the audited financial statement also indicates finance charges allocated to CWIP as Rs.35.18 crores whereas, the interest during construction (IDC) is mentioned as Rs.8.17 Crs. only in para 9.6 of the petition. The reasons for discrepancy in figures and the correct figure be informed by the petitioner.

35. In response, vide letter no. 04-01/CRA Cell/F-89/9482 dated 22nd December, 2012, MPPTCL submitted the following:

(i) *"There is no difference between the figures reported in Annexure VI as compared with the Audit Accounts. The difference is appearing on account of change in reporting patterns in Audited Accounts.*

MPPTCL furnished a reconciled statement in its reply.

(ii) Regarding Interest during construction and CWIP, MPPTCL submitted the following:

"Interest during construction
Interest and Finance charges allocated to CWIP are shown as ₹27.00 Crores in Note-21 (Row-a). This appears as J+K in Annexure-VII to the Petition (₹25.36 + ₹1.64 = ₹ 27.00 Crores). The net IDC capitalized is shown at Row-Q & R of Annexure-VII to Petition as (₹0.94+ ₹7.23 = ₹8.17 Crores), which is reported in Note-24 of the accounts as ₹35.18 Crores as Finance charges allocated to CWIP.

CWIP
The reason for difference between the two figures is that, these are for different situations. The net CWIP as on 31.03.2012 is ₹594.46 Crores appearing in Balance Sheet of Audited Accounts. This has been considered in the Petition for all purpose. The figure of ₹839.87 Crores indicated in Annexure-VII to Petition is for the purpose of calculating IDC and indicate a value before Assets capitalization during the years. The difference between the two values in nearly the Assets capitalized during the (excluding Assets capitalized through consumers contribution)."

36. On examination of the petition and the details of loans furnished by MPPTCL in Annexure VI of the petition, the Commission has considered an amount of **Rs. 143.33 Crores** as loan addition for funding the assets capitalized during FY 2011-12 as per preceding Paragraphs 21 and 22 of this true-up order. Accordingly, the Commission has allowed **₹ 114.21** Crores against Interest and Finance charges for FY 2011-12 in this order as given below:

Interest on Loan :

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	Opening Loan	Rs. Cr.	1757.56
2	Loan addition for additional Capitalisation considered for FY 2011-12	Rs. Cr.	143.33
3	Repayment equal to depreciation during the year	Rs. Cr.	215.80
4	Closing Loan	Rs. Cr.	1685.09
5	Average Loan	Rs. Cr.	1721.32
6	Wt. average rate of interest as claimed	%	6.56
7	**Interest on Loan**	**Rs. Cr.**	**112.92**
8	Financing charges as per audited accounts	Rs. Cr.	1.29
9	**Net interest allowed in this true-up order**	Rs. Cr.	**114.21**

DEPRECIATION:

37. **Petitioner's submission**: The petitioner broadly submitted the following:

" The Petitioner has maintained an Asset Database for working out Depreciation for a particular year. The salient features of the database are;

(i) The database is matched as per Final Opening Balance Sheet figures notified on 12th June 2008 in the position of 31.05.05.
(ii) The works Capitalized during subsequent years have been entered in the data base till 31.03.2012.
(iii) The Depreciation rates after 31.05.05 have been taken as per Hon'ble MPERC's Regulations applicable from time to time.
(iv) Depreciation working formula is as per Straight Line Method of Depreciation
(v) The Depreciation ceases to further adding as soon as the Depreciation reaches 90% of Opening Gross Block. 10% is taken as scrap value.

UPDATION IN THE DEPRECIATION MODEL SOFTWARE –

The provisional Asset data base has been modified in light of above mentioned provisions in the following respect;

(i) In case of assets created on or after 01.04.2009, the depreciation rates as per Appendix-II of the Regulation will continue upto 31st March of the year closing after a period of 12 years. Thereafter rate automatically changes equal to remaining depreciation out of 90% limit divided by the balance life of assets.

(ii) In case of assets commissioned prior to 01.04.2009, the depreciation w.e.f. 01.04.2009 will be booked at the rates mentioned in Appendix-II of regulations till the depreciation reaches 70% of the book value. Thereafter the rate of depreciation automatically change as equal to 20% residual value (90% - 70%) divided by remaining life of assets.

(iii) All assets are depreciated to maximum 90% of book value. Thereafter no depreciation is charged.

(iv) The Opening Balance Sheet notified on 12th June 2008, transferred no Asset value out of Gross Block of ₹ 2932.75 Crores funded through contribution from consumers. In Asset capitalized from FY 2005-06 to FY 2009-10 too, no works have been capitalized as funded through consumer's contribution. Therefore, no Depreciation has been charged by the MPPTCL against contributory works, till FY 2009-10.

ADDITION OF ASSETS DURING FY 2011-12 –

Assets worth ₹ 275.08 Crores have been capitalized during year 2011-12. The list of assets capitalized along with certificate is enclosed as Annexure – V. Assets worth ₹ 11.10 Crores has been withdrawn making a net addition of ₹ 263.98 Crores.

It is pertinent to mention here that, while capitalizing the Assets (₹ 263.98 Crores) the IDC capitalized is only ₹ 8.17 Crores as against total IDC of ₹ 35.17 Crores, after adjusting interest earned amounting to ₹ 27.00 Crores on Fixed Deposits. Since ₹ 27.00 Crores are reduced in Assets as per Accounting Standard-16 (AS-16), this has not been again considered in 'Non Tariff Income'. Details in this regard are given in subsequent Para No. 9.6 and 11.1.

DEPRECIATION AGAINST CONSUMER'S CONTRIBUTION WORKS –

Hon'ble Commission has prescribed the procedure to account for the Depreciation on Assets formed under consumer's contribution. Hon'ble Commission also mentioned to review this since 31.05.2005, the date of Opening Balance Sheet transfer. As mentioned in Para 8.4(IV), no such Assets have been capitalized upto 31.03.2010. Such Assets have been capitalized in 2011-12. The Depreciation on these Assets have been computed as per other Assets. Thereafter, these Assets are tabulated separately in Depreciation Model and Depreciation charged on these has been subtracted from total Depreciation claim.

Since the adjustment has been given in Depreciation itself, the amortization is not shown again as other income.

DEPRECIATION FOR FY 2011-12 –

As per above procedure, the depreciation (excluding depreciation on assets formed under consumer's contribution) for 2011-12 computed from Asset data base Software model and comparison from last year is mentioned below;

(Amount ₹ in Crores)

YEAR	Gross Fixed Assets			Provision For Depreciation			Net Fixed Assets	
	At the beginning of Year	Addition During Year	At End of Year	At the beginning of Year	Addition During Year	At End of Year	At the beginning of Year	At the End of Year
2010-11	4544.60	501.31	5045.91	1728.20	201.41	1929.61	2816.40	3116.30
2011-12	5045.91	263.98	5309.9	1929.61	217.39	2147.00	3116.30	3162.89

The category-wise details for FY 2011-12 are given in the following table;

(Amount ₹ in Crores)

S. No.	Particulars	Assets				Depreciation			
		Opening Balance of GFA	Addition During Year	Assets Retired	Closing Balance At End of Year	Opening balance of Depreci-ation	Additi-ons	With-drawls	Closing balance of Depreci-ation
1	Land & Land rights development etc	6.92	0.22	-	7.14	0.00	0.00	-	0.00
2	Buildings, hydraulic sys, other civil works, etc	59.04	6.54	-	65.58	23.72	1.93	-	25.65

S. No.	Particulars	Assets				Depreciation			
		Opening Balance of GFA	Addition During Year	Assets Retired	Closing Balance At End of Year	Opening balance of Depreci-ation	Additi-ons	With-drawls	Closing balance of Depreci-ation
3	S/S Plant & Machinery including LD	2206.21	130.76	11.10	2325.87	864.29	93.85	-	958.14
4	EHV Lines (>66KV) incl. capacitors, cables etc	2748.00	106.27	-	2854.27	1038.35	120.84	-	1159.19
5	Vehicles	0.40	2.35	-	2.75	0.09	0.15	-	0.24
6	Furniture, fitting, fixtures, etc	1.00	0.00	-	1.00	0.50	0.04	-	0.54
7	Office Equipments, Computers	5.25	0.15	-	5.40	2.66	0.59	-	3.25
8	Others	0.00	0.00	-	0.00	0.00	0.00	-	0.00
9	Consumer Contribution	19.10	28.79	-	47.89	0.94	2.02	-	2.96
	Less: Depreciation under C.C, (S No. 9)	-	-	-	-	-0.94	-2.02	-	-2.96
	Total	5045.9	275.1	11.10	5309.9	1929.6	217.4	0.0	2147.0

TRUE-UP OF DEPRECIATION FOR FY 2011-12 -

(i)	Depreciation claim as per Para 8.7 above	₹ 217.39 Crores
(ii)	Depreciation allowed in MYT order dated 11.01.2010	₹209.12 Crores
True-up Claim -		**₹ 8.27 Crores**

Net true-up for Depreciation ***₹ 8.27 Crores***

38. Provision under Regulations

Clause 25.1 of the Regulation provides that,

"For the purpose of Tariff, depreciation shall be computed in the following manner:

a) *The value base for the purpose of depreciation shall be the capital cost of the assets as admitted by the Commission*

b) *The approved/accepted cost shall include foreign currency funding converted to equivalent rupee at the exchange rate prevalent on the date of foreign currency actually availed.*

c) *The salvage value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the capital cost of the asset.*

d) *Land other than land held under lease shall not be a depreciable asset and its cost shall be excluded from the capital cost while computing depreciable value of the asset.*

e) *Depreciation shall be calculated annually based on 'straight line method' and at rates specified in Appendix-II to these Regulations for the assets of the Transmission System: Provided that, the remaining depreciable value as on 31st March of the Year closing after a period of 12 Years from Date of Commercial Operation shall be spread over the balance useful life of the assets.*

Provided further that the Consumer contribution or capital subsidy/ grant etc for asset creation shall be treated as per the Accounting Rules notified and in force from time to time.

f) *In case of the existing Projects, the balance depreciable value as on 1.4.2009 shall be worked out by deducting the cumulative depreciation including Advance Against Depreciation as admitted by the Commission upto 31.3.2009 from the gross depreciable value of the assets. The rate of Depreciation shall be continued to be charged at the rate specified in Appendix-II till cumulative depreciation reaches 70 %. Thereafter, the remaining depreciable value shall be spread over the remaining life of the asset such that the maximum depreciation does not exceed 90 %.*

g) *Depreciation shall be chargeable from the first Year of commercial operation. In case of commercial operation of the asset for part of the Year, depreciation shall be charged on pro rata basis."*

39. <u>Commission's Analysis:</u>

On preliminary scrutiny of the original petition, the petitioner was asked to explain the following discrepancies in figures alongwith a soft copy of depreciation model:

"*In Annexure-5 of the petition, an amount of ₹.29.92 crores towards consumer contribution in GFA is mentioned. However, in table under para 8.7 of the petition, the consumer contribution in assets addition during the year is mentioned as ₹.28.79 Crs. The reasons for discrepancy in figures and the correct figure with its impact on claim for depreciation be submitted."*

40. Vide letter No. 04-01/CRA/F-89/6132 dated 24th August, 2013, MPPTCL submitted the following:

"(i) ***Reconciliation of Fixed Assets***

The final Opening Balance Sheet in the position of 31.05.2005 was notified on 12th June 2008, according to which a Gross Block of ₹ 2932.75 Crores and Net Fixed Assets of ₹1726.81 Crores have been transferred to the MPPTCL. The main reason for delay in reconciliation work is that the estimate/ work-wise details of above mentioned amount have not been transferred to the MPPTCL. In Company's Annual Accounts for FY 2011-12 under significant Accounting Policies (Para-6 Depreciation), it is mentioned "No details were provided by MPSEB for the Assets transferred through Opening Balance Sheet. Therefore, the Depreciation on such Assets is being charged considering 01.06.2005 as the date of commissioning".

However, for purpose of claiming Depreciation, the MPPTCL collected information from field units, and prepared a data base of estimate-wise Assets considering date of commissioning etc., so that we may not charge Depreciation on Assets beyond the limit of 90%. The main problem remained that as how to reconcile it in absence of the details transferred by the MPSEB in the position 31.05.2005. It may be mentioned that the 'Assets' added from 01.06.2005 onwards are fully reconciled with the Audited Annual Accounts, and included in the data base.

To undertake this job, a working group was constituted in year 200, Assistance of a firm of the Chartered Accountant was also taken. They have identified most of the Assets but the final reconciliation could not be completed because of the problem of non-transfer of details by the MPSEB. To finalize the Asset register, a Committee has been constituted. It is, however, to be submitted that some more time is required by this Committee to finalize the Asset register. It is, therefore, prayed that as per the directions contained in Para 3.85 of the order dated 2nd April 2013 (Petition No. 06/2013) in the matter of MYT Tariff for FY 2013-14 to FY 2015-16, the MPPTCL may be allowed to submit reconciled registered while filing next 'True up' Petition.

(ii) ***Working of Depreciation***

It is confirmed that the Depreciation for FY 2011-12 has been charges as per Regulation 25 of MPERC (Terms and Conditions for Determination of Transmission Tariff (Revision-I) Regulations, 2009 [RG-28(1) of 2009]. The date of Capitalization has been taken as date of commercial operation. In subsequent years if Asset became unserviceable before schedule life period, the residual value will be written off, seizing the claim of Depreciation thereafter.

41. On perusal of the above, the Commission observed that MPPTCL has not been able to reconcile the Asset-Depreciation records till date. The Commission has considered the request of MPPTCL for submission of reconciled Asset-Depreciation records to the Commission alongwith true-up petition for FY 2012-13. Therefore, the Asset-Depreciation records filed by MPPTCL as on date are considered for the purpose of Depreciation in this order also. MPPTCL is directed to ensure that finally reconciled Asset-Depreciation records be submitted to the Commission on or before the submission of true-up petition for FY 2012-13. Else, the next true-up shall not be admitted by the Commission in absence of finally reconciled Asset-Depreciation records of MPPTCL.

42. By affidavit dated 22nd August, 2013, the petitioner confirmed that,

(i) The depreciation for FY 2011-12 has been charged as per provisions under MPERC (Terms and Conditions for determination of Transmission Tariff) Regulations, 2009.

(ii) The date of capitalization has been taken as the date of commercial operation.

(iii) The residual value will be written off, seizing the claim of depreciation thereafter if the asset becomes unserviceable before scheduled life period in subsequent years.

43. In view of the above and the approach of the Commission for all 47 works which were completed before 2005, as mentioned in preceding paragraphs 21 and 22 of this order, the following depreciation for FY 2011-12 is allowed in this order as given below:

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	Opening Gross fixed assets	Rs. Cr.	5045.91
2	Addition due to additional capital expenditure during the year	Rs. Cr.	215.85
3	Assets de-capitalized	Rs. Cr.	11.10
4	Net additions during the year	Rs. Cr.	204.75
5	Closing Gross fixed assets	Rs. Cr.	5250.66
6	Depreciation as filed in the petition	Rs. Cr.	217.39
7	Less depreciation on the assets created prior to 31.05.2005 and capitalized in FY12	Rs. Cr.	1.59
8	**Depreciation during the year**	**Rs. Cr.**	**215.80**
9	Opening Cumulative Depreciation	Rs. Cr.	1929.61
10	Closing Cumulative Depreciation	Rs. Cr.	2145.41

OPERATION AND MAINTENANCE EXPENSES:

44. **<u>Petitioner's submission</u>**: The petitioner broadly submitted the following:

"The average assets on the basis of actual progress made during 2011-12 and the allowable O&M expenses for FY-12 based on approved norms, work out as under;

S. No.	*Particulars*	*Assets*			*Approved Norms for 2011-12*	*Amount (₹in Lacs)*
		As on 01.4.2011	*As on 31.3.2012*	*Average*		
1	*400 KV Line in Ckt-kms*	*2343*	*2343*	*2343*	*₹32.60 Lacs/ 100 Ckt-KM*	*763.82*
2	*220 KV Line in Ckt-kms*	*10856.49*	*11085.4*	*10970.95*	*₹26.20 Lacs/ 100 Ckt-KM*	*2874.39*
3	*132 KV Line in Ckt-kms*	*13269.4*	*13690.2*	*13479.82*	*₹24.60 Lacs/ 100 Ckt-KM*	*3316.03*
4	*400 KV Bay in Nos.*	*67*	*70*	*69*	*₹15.00 Lacs/ Bay*	*1035.00*
5	*220 KV Bay in Nos.*	*446*	*462*	*454*	*₹11.20 Lacs/ Bay*	*5084.80*
6	*132 KV Bay in Nos.*	*1400*	*1475*	*1438*	*₹10.60 Lacs/ Bay*	*15242.80*
Total O&M Cost on the basis of Bays and Lines						***28316.84***

Say ₹283.17 Crores

List of Lines and Bays added during 2011-12 is enclosed as ***<u>Annexure-IV A&B</u>.***

The O&M has been claimed as per network addition and on normative basis, as worked out under Para 6.4, which is summarized below;

(₹in Crores)

(i)	*As per O&M Norms given in para 6.4 above*	*283.17*
(ii)	*As approved under MYT order*	*250.77*
True-up Amount		***32.40***

In line with the Hon. MPERC's order on True-up of Transmission Tariff for 2009-10, regarding Actual arrears paid it is submitted that during 2011-12 ₹15.52 Crore was paid against arrears on account of 6th pay revision.

It is prayed that True-up of O&M Expenses worth ₹32.40 Crore over and above ₹250.77 Crores provided in MYT order dated 11.01.2010, may kindly be considered by Hon'ble Commission.

45. Provisions under Regulations

Regulation 27 (Para 27.1 & 27.4) of MYT Regulations dated 8th May, 2009 provides that the O&M norms include effect of pay scale revision. The paras are reproduced hereunder:

*"**27.1** Operation and Maintenance expenses shall be determined for the Tariff Period based on normative O&M expenses specified by the Commission in these Regulations.*

27.2 *Normative O&M expenses other than expenses on payment of arrears to employees on account of revision of pay scales of the employees in accordance with Sixth Pay Commission recommendations, as implemented by the State transmission Utility at the commencement of the Tariff Period have been escalated at the rate of 6.14% considering a weighted average of Wholesale price Index and Consumer Price Index in the ratio of 60:40.*

27.3 *For first Financial Year of control period, the impact of implementation of 6th Pay Commission recommendations has been considered in employees cost, which has been escalated @6.14% in subsequent Years. The Commission has also considered expenditure on payment of arrears upto 31.8.2008 during the financial years 2010-11 to 2011-12 as one third each year based on estimate submitted by the Transmission Licensee.*

27.4 *In case of repair & maintenance and administrative & general expenses, average of financial years 2005-06, 2006-07 and 2007-08 audited figures have been taken as base for the financial year 2006-07. This has been escalated Year-wise at inflation rate of 6.14% to arrive at the amounts allowed for the control period."*

Provision for true-up of O&M Expenses:

The true up of O&M expenses will depend on length of lines and number of Bays as per Regulation 37. The relevant paras are reproduced hereunder:

*"**37.1** The O&M expenses comprise of employee cost, repairs & maintenance (R&M) cost and administrative & general (A&G) cost. The norms for O&M expenses have been fixed on the basis of circuit kilometers of transmission lines and number of bays in sub-station. These norms exclude pension, terminal benefits and incentive to be paid to employees, taxes payable to the Government, MPSEB expenses and fee payable to MPERC. The Transmission Licensee shall claim the taxes payable to the Government and fees to be paid to MPERC separately as actual. The claim of pension and terminal benefits shall be dealt as per Regulation 27. The norms for O&M expenses per 100 ckt-km and per bay shall be as under:*

S. No.	Particulars	2010-11	2010-11	2011-12
	LINES -	**₹ Lacs / 100 Ckt-KM / Annum**		
1	400 KV Line	29.1	30.8	32.6
2	220 KV Line	23.4	24.8	26.2
3	132 KV Line	22.0	23.3	24.6
	BAYS -	**₹ Lacs / Bay / Annum**		
1	400 KV Bay	13.4	14.2	15.0
2	220 KV Bay	10.0	10.6	11.2
3	132 KV Bay	9.5	10.0	10.6

***37.2** The total allowable O&M expenses for the Transmission Licensee shall be calculated by multiplying the average number of bays and 100 ckt-km of line length for the Year with the applicable norms for O&M expenses per bay and per 100 ckt-km respectively. In support of its claim for allowable O&M expenses, the Licensee shall submit before the Commission, the actual or projected circuit kilometers of line lengths and number of bays for each voltage level separately for each Year of the Tariff Period as the case may be."*

46. <u>Commission's Analysis</u>

The Operation and Maintenance (O&M) Expenses comprise of the Employee Expenses, Administrative and General (A&G) Expenses and Repairs and Maintenance (R&M) Expenses. The Commission determined these expenses in MYT Tariff Order for FY 2010-11 to FY 2011-12 on the basis of the norms specified in "MPERC (Terms and Conditions for Determination of Transmission Charges) Regulations, 2009.

47. On preliminary scrutiny of the original petition filed by MPPTCL, the following observations of the Commission were communicated to MPPTCL vide Commission's letter No. 3214 dated 22.11.2012:

(i) ***" O&M expenses***

a) It appears that FY 2010-11 is wrongly mentioned in Para 6.4 of the petition since the petition is for FY 2011-12.

b) The assets figures as on 01/04/2011 & 31/03/2012 as shown in table are based on the average figures for FY 2010-11 instead of FY 2011-12. MPPTCL is required to check the figures and if required, the amount claimed for O&M expenses needs to be revised along with consequential change in the amount of ARR & true-up amount claimed in the petition.

(ii) ***Actual O&M expenses***

It is observed that Employee expenses and the A&G expenses mentioned in Para 6.6 of the petition do not match with the audited financial statement. The reasons for the *discrepancy along with a reconciled statement be submitted by the petitioner. The bifurcation of actual cash expenses and the provisions be also submitted."*

48. Vide letter No. 04-01/CRA Cell/F-89/9482 dated 22nd December 2012, MPPTCL admitted that the financial year in the text was wrongly mentioned. It was also admitted by the petitioner that there was an error in the calculations of average figures regarding 220 KV and 132 KV bays in the original petition. Subsequently, MPPTCL filed the corrected figures in its revised petition.

49. The Commission verified the actual line length in ckt-kms and number of bays as on 1st April 2011 to March 2012 as filed by the petitioner vis-a-vis the regular returns being filed by the Reporter of Compliance of MPPTCL with the Commission. Based on the norms specified in MPERC (Terms and conditions for determination of Transmission Tariff) Regulation, 2009, the O&M Expenses are worked out to **₹ 283.17 Crores** for FY 2011-12 as given below:

S. No.	Particulars	Assets			Approved Norms for 2011-12	Amount (₹ in Lacs)
		As on 01.4.2011	As on 31.3.2012	Average		
1	400 KV Line in Ckt-kms	2343	2343	2343	₹ 32.60 Lacs/ 100 Ckt-KM	763.82
2	220 KV Line in Ckt-kms	10856.49	11085.4	10970.95	₹ 26.20 Lacs/ 100 Ckt-KM	2874.39
3	132 KV Line in Ckt-kms	13269.4	13690.2	13479.82	₹ 24.60 Lacs/ 100 Ckt-KM	3316.03
4	400 KV Bay in Nos.	67	70	69	₹ 15.00 Lacs/ Bay	1035.00
5	220 KV Bay in Nos.	446	462	454	₹ 11.20 Lacs/ Bay	5084.80
6	132 KV Bay in Nos.	1400	1475	1438	₹ 10.60 Lacs/ Bay	15242.80
Total O&M Cost on the basis of Bays and Lines						**28316.84**

Say ₹ 283.17 Crores

50. It is further observed that the petitioner has paid an amount of Rs. 15.52 Crores against arrears on account of pay revision during FY 2011-12.

51. As per Regulation 27.3 in Fourth Amendment to MPERC (Terms and conditions for determination of Transmission Tariff) (Revision 1) Regulation, 2009, the true-up of actual arrears paid by MPPTCL in FY 2011-12 vis-a-vis the amount of arrears provided in the O&M norms is also allowed in this order as given below:

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	Amount of wage revision filed	Rs. Cr.	15.52
2	Amount of wage revision considered in norms	Rs. Cr.	13.40
3	Balance amount of arrears	Rs. Cr.	2.12
4	O&M expenses as per norms	Rs. Cr.	283.17
5	**Total O&M expenses including balance amount of arrears**	**Rs. Cr.**	**285.29**

TERMINAL BENEFITS

52. **Petitioner's submission**: The petitioner broadly submitted the following:

TERMINAL BENEFITS FOR FY 2011-12 -

"Hon'ble Commission in its MYT order dated 11.01.2010, allowed only the provisioning of ₹ 41.63 Crores for FY 2011-12. Subsequently by third amendment in Transmission Tariff Regulations dated 28th March 2011, allowed Terminal Benefits for FY 2011-12 by adding a Clause 27.6(e) reproduced hereunder;

"(e) The above expenses at (d) towards Pension liabilities and other Terminal Benefits for FY 2010-11 and FY 2011-12 shall be a pass through in Aggregate Revenue Requirement for the purpose of determination of Tariff of the MP Power Transmission Company Limited for the respective financial year on provisional basis."

Hon'ble Commission also passed on the Terminal Benefit amount as per the Petition of the MPPTCL for FY 2011-12 in the retail Tariff of the three Discoms. Therefore, the Petitioner under intimation to the Hon'ble Commission vide letter No. 04-01/CRA Cell/F-74/3980 Jabalpur, dated 8.6.2011 under Petition No. 87/2010 billed the amount to the three Discoms during FY 2011-12.

The 'True-up' is therefore proposed with reference to the billed amount as under;

(i)	*Pension*	*₹ 293.17 Crores*
(ii)	*Gratuity*	*₹ 68.93 Crores*
(iii)	*Annuity*	*₹ 00.34 Crores*
	TOTAL -	***₹ 361.90 Crores***

The Audited Accounts of the MPPTCL, listed out the following expenses against Terminal Benefits for FY 2011-12 as compared to previous year i.e. FY 2010-11;

TERMINAL BENEFITS COST -

PARTICULARS	***AS AT 31.03.2012***	***AS AT 31.03.2011***
(A) CASH -		
Gratuity	*200.97*	*153.05*
Pension	*450.96*	*443.14*
Leave Encashment	*5.92*	*6.65*

PARTICULARS	***AS AT 31.03.2012***	***AS AT 31.03.2011***
TOTAL (A) -	***657.85***	***602.84***
(B) PROVISIONS -		
Gratuity	*6.18*	*4.37*
Pension	*39.34*	*34.83*
Leave Encashment	*1.06*	*0.75*
Provision for employees of MPPMCL	*3.98*	*-*
TOTAL (B) -	*50.56*	*39.95*
TOTAL (A+B) -	*708.41*	*642.79*

*As per directive of Hon'ble Commission, the E.L. encashment on retirement is to be excluded from Terminal Benefit claims, and treated as Employee Cost. Accordingly, only Pension, Gratuity are considered for claim of Terminal Benefits True-up for FY 2011-12. (Shown in **Annexure-IX**).*

The claim is given in the following table;

(Amount ₹ in Crores)

S. No.	***Particulars***	***Terminal Benefit Expenses***		
		Cash	***Provision***	***Total***
1	*Pension*	*450.96*	*39.34*	*490.30*
2	*Gratuity*	*200.97*	*6.18*	*207.15*
3	*Provision for employees of MPPMCL*	*0.00*	*3.98*	*3.98*
	TOTAL -	***651.93***	***49.50***	***701.43***

True-up for FY 2011-12 is worked out hereunder;

(Amount ₹ in Crores)

S. No.	***Particulars***	***Cash***	***Provision***	***Total***
1	*Claim for the year*	*651.93*	*49.50*	*701.43*
2	*Allowed in MYT order*	*361.90*	*41.63*	*403.53*
3	***True-up***	***290.03***	***7.87***	***297.90***

REASON FOR HIKE IN TERMINAL BENEFITS EXPENSES -

The cash expenses of Terminal Benefits since last control period are tabulated hereunder;

(Amount ₹ in Crores)

S. No.	***Year***	***Cash Expenses as per Account***	***Increase w.r.t. previous year***	***Percentage Increase***
1	*2006-07*	*196.79*	*-*	*-*
2	*2007-08*	*237.81*	*41.81*	*21.25%*
3	*2008-09*	*298.19*	*60.38*	*20.25%*
4	*2009-10*	*389.75*	*91.56*	*23.49%*
5	*2010-11*	*596.20*	*206.45*	*52.96%*
6	*2011-12*	*651.93*	*55.73*	*9.34%*

In FY 2010-11, there was a steep hike in Terminal Benefits amount on account of Pension & DA revision, whereas in FY 2011-12 the hike is normal for growth in Pensioners.

53. Provisions under Regulations

Clauses 27.5 & 27.6 under Regulation provide that,

"...............Employees transfer to Companies from MPSEB is yet to take place. Actuarial analysis for assessment of unfunded terminal liabilities and segregation of this liability for pensioners, past service rendered by employees on rolls and current provision for serving employees is yet to be done despite repeated directions of this Commission. A scheme for funding this unfunded liability and operationalising Terminal Benefit Trust Fund, as envisaged in Rule 10 and 11 of Transfer Scheme Rules, 2003 is yet to be pronounced by the State Government.

As per the Commission's view, the funds needed for pension contribution of existing employees i.e. current liability for each Year alone should be allowed in the employee cost of the M.P. Transmission Company Ltd., M.P. Generating Company Ltd., and three Distribution Companies. The Commission, in the intervening period, has been allowing funds needed for actual pension payment and other terminal benefits like gratuity. With the rapid increase in pension bills, its impact on retail tariff is progressively going up. This arrangement of allowing actual pension payment has become unsustainable and will have to be discontinued in near future. In view of the above, following action need be taken in the matter of unfunded pension liabilities and terminal benefits of employees :

An actuarial analysis for determining pension liability of pensioners as also for service already rendered by existing employees on one hand and current provision needed for each fiscal year commencing from FY 2010-11 for serving employees on other hand, be got conducted for each Year and findings be reported to the Commission by 30th September, 2009. The M.P. Transmission Company Limited is charged with carrying out this activity.

The scheme for funding this unfunded liability is finalized and terms for operating Terminal Benefit Trust Fund are set by State Government by 31st December, 2009. The scheme so finalized be such that it ensures that burden of past unfunded liabilities does not become a charge eventually on Retail Tariff and that the scheme is equitable.
Since actions as in (a) and (b) above will take time, the existing arrangement of allowing funds for terminal benefits shall continue on actual payment basis, for one more Year only i.e. for FY 2010-11 to the Transmission Licensee. In the eventuality either of the actions, as in (a) and (b) above, are not completed within the time frame mentioned above, the Commission shall assess current pension contribution of existing employees for FY 2010-11 and onwards and shall allow such expenses only in the employee cost of Transmission Licensee pertaining to employees on the roles of Transmission Licensee from FY 2010-11 onwards………..."

54. Commission's Analysis

The figures filed by MPPTCL have been tallied with the Audited Balance Sheet filed by it for FY 2011-12. Further the details of month-wise payments of Pension and Gratuity during FY 2011-12 as sought were submitted by MPPTCL through its communication dated 22nd December, 2012.

55. Based on the information/ clarifications filed by the petitioner and the provisions under MPERC (Terms and conditions for determination of Transmission Tairff) Regulation, 2009 and its amendment an amount of ₹ 651.93 Crores is allowed in this true-up order against Terminal Benefits in FY 2011-12. The amount of provisioning under this head is not allowed by the Commission as per the approach adopted in the last true-up order. The details of Terminal Benefits allowed in this order are given below:

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	Pension as per audited accounts	Rs. Cr.	450.96
2	Gratuity as per audited accounts	Rs. Cr.	200.97
3	Provisions	Rs. Cr.	0.00
4	Annuity	Rs. Cr.	0.00
5	**Total amount of terminal benefits**	**Rs. Cr.**	**651.93**

INTEREST ON WORKING CAPITAL

56. Petitioner's submission: Petitioner submitted the following:

INTEREST ON WORKING CAPITAL –

The interest on working capital is to be worked out on normative basis as per Para 38 and 28 of the transmission tariff regulations.

Working capital requirement for 2011-12

i.	*O&M expenses for one month (₹ 283.17 Crores / 12)*	*₹ 23.60 Crores*
ii.	*Maintenance spares @ 15% of the O&M expenses*	*₹ 42.48 Crores*
iii.	*Receivables equivalent to 2 months transmission charges (1585.72/6)*	*₹ 264.28 Crores*
	Total working Capital	***₹ 330.35 Crores***
iv.	*Interest on working capital @ 12.25% i.e. SBI's Base rate plus 4%, Base rate as on 01.04.2011 8.25% + 4% = 12.25%*	*₹ 40.47 Crores*

57. <u>Provisions under Regulations</u>

Regulation 38.1 provides as under :

"For each year of the tariff period, working capital shall cover the following :

(1) Maintenance spares @ 15% of the O&M expenses specified in Regulation 37.1;
(2) Receivables equivalent to two months of transmission charges calculated on Target Availability Level; and
(3) Operation and Maintenance expenses for one month."

Further, Regulation 28.1 provides that,

"Rate of interest on working capital to be computed as provided subsequently in these Regulations shall be on normative basis and shall be equal to the short term Prime Lending Rate of State Bank of India as on April 1 of the relevant Year. The interest on working capital shall be payable on normative basis notwithstanding that the Licensee has not taken working capital loan from any outside agency or has exceeded the working capital loan based on the normative figures."

58. <u>Commission's Analysis</u>

As per norms under Regulations, the interest on working capital for FY 2011-12 is worked out and allowed in this true-up order as given below:

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	O&M expenses for one month	Rs. Cr.	23.76
2	Maintenance spares @ 15% of the O&M expenses	Rs. Cr.	42.77
3	Receivables equivalent to two months transmission charges	Rs. Cr.	258.35
4	Total working capital	Rs. Cr.	324.89
5	Applicable rate of interest on working capital (SBI base rate plus 4%)	%	12.25
6	**Amount of working capital**	**Rs. Cr.**	**39.80**

Non-Tariff Income:

59. <u>Petitioner's submission:</u> The petitioner submitted the following in its revised petition:

"Income from other than the Transmission and Allied charges, as specified in the Regulations of Hon'ble Commission is taken as Non Tariff or Other Income, which is passed on to the Long Term customers, in True up exercise.

INTEREST EARNED ON FIXED DEPOSITS -

The interest earned on Fixed Deposits has also been taken as 'Other Income', and passed on to Long Term customers till 2008-09. Since FY 2009-10, the MPPTCL's Accounts with disclosure adopted "Accounting Standard-16" (AS-16), Para-11 of which is reproduced hereunder;

> *"**Para-11**. The financing arrangements for a qualifying Asset may result in an enterprise obtaining borrowed funds and incurring associated borrowing cost before some or all of the funds are used for expenditure on the qualifying Asset. In such circumstances, the funds are often temporarily invested pending their expenditure on qualifying Asset. In determining the amount of borrowing costs eligible for capitalization during a period, any income earned on the temporary investment of those borrowings is deducted from the borrowing costs incurred".*

Above provision indicate that if any interest is earned on Fixed Deposit of capital amount, the interest earned should directly go to the IDC (as negative value) and net IDC should be capitalized with Asset value.

Thus, the interest earned on Fixed Deposit should have two components, first the interest earned on amount under revenue category which is to be treated as "Non Tarff" or 'Other Income" whereas interest earned on capital amount temporarily kept under Fixed Deposit should not be a part of Non Tariff Income as per AS-16, but should directly be used to reduce borrowing costs eligible for Capitalization. Thus the net effect of adopting AS-16 is that the interest earned on capital amount temporarily invested, will not come in 'Non Tariff Income' but the Long Term customers are benefitted by reduction in Asset value and corresponding reduction in Depreciation loading. It is also submitted for consideration that following of Accounting Standards is obligatory on the part of the Company under the Companies Act, 1956.

ACCOUNTS SCHEDULES / NOTES V/s TARIFF CLAIM -

In Note-21 of Annual Accounts, the interest on Bank deposits is first shown under 'Other Income' as ₹ 27.25 Crores, out of which ₹ 27.00 Crores has been transferred to CWIP, having net ₹ 0.25 Crores as Interest Income to be allocated as "Other Income". This has apparently been done to show interest earned on capital and other than capital funds. Actually ₹ 0.25 Crores is Interest Income of other than Capital amount, whereas ₹ 27.00 Crores is Interest Income earned on Capital money and the same is used to reduce CWIP and finally Asset value by this amount as per AS-16.

*<u>A certificate from the Statutory Auditor is attached as **Annexure-XXIV** which certifies the above matter</u>. It certifies that the interest amount of ₹ 27.00 Crores earned as a result of temporary investment of borrowed capital funds, has been reduced from the borrowing costs i.e. IDC of ₹ 35.18 Crores as per AS-16 and therefore, has not been Capitalized.*

The Note-21 of Audited Accounts show Other Income of ₹ 8.90 Crores, including Other Income of SLDC also amounting to ₹ 0.49 Crores.

(i)	*Total Other Income*	*₹ 8.90 Crores*
(ii)	*Less Other Income of SLDC*	*(-) ₹ 0.49 Crores*
	Other Income of MPPTCL -	***₹ 8.41 Crores***

[A] <u>Out of this following amount is not included in Non Tariff Income</u> *-*

(Amount ₹ in Crores)

i.	*Sale of Store's scrap being capital receipt. The scrap value of 10% is not allowed in Tariff in Depreciation*	*0.987*
ii.	*Delayed payment charges*	*0.005*
	TOTAL -	***0.992***
		Say ₹ 0.99 Crores

[B] <u>Charges to be covered under Non-Tariff Income</u> *–*

(Amount ₹ in Crores)

i.	*Interest Income on other than capital amount*	*0.25*
ii.	*Application fees for Open Access*	*0.38*
iii.	*Hire charges for filter machine etc*	*1.13*
iv.	*Consultant services charges received*	*3.97*
v.	*Sale of Tender forms*	*0.62*
vi.	*Applications under RTI charges*	*0.00*
vii.	*Recovery of transport facilities*	*0.04*
viii.	*Ground rent*	*0.00*
ix.	*Rent of Staff quarters / Water charges/ Guest House*	*0.26*
x.	*Recovery of telephone charges*	*0.11*
xi.	*Other MISC receipts*	*1.15*
xii.	*Less : Income considered in SLDC's Account*	*-0.49*
	TOTAL -	***7.42***

Non Tariff Income for FY 2011-12 - ₹7.42 Crores.

PRIOR PERIOD ADJUSTMENTS ON NON TARIFF INCOME -

<u>FY 2009-10</u> *–*

In the "Annual Audited Accounts" of FY 2009-10, the Schedule No. 13 shows Other Income of ₹ 8.53 Crores, out of this, an income of ₹ 8.61 Crores is shown as Interest Income. An amount of Interest earned on other than Fixed Deposits is also included in miscellaneous receipts. The Schedule-13 show as per requirement of AS-16, the allocation of ₹ 8.57 Crores being interest earned on capital money, to CWIP, and remaining ₹ 0.035 Crores under Non Tariff

Income. In the 'True up' Petition for FY 2009-10 (Petition No. 70/2010) the interest Income (not pertaining to earned on Capital money) is shown as ₹7.99 Lacs (₹0.08 Crores) as under;

(i)	*Interest Income on FDs*	*₹8.61 Crores*
(ii)	*Less Interest allocated to CWIP as per AS-16*	*(-) ₹8.57 Crores*
(iii)	***Net Interest***	***₹0.04 Crores***
(iv)	*Interest earned on other than Fixed Deposits*	*₹0.04 Crores*
Total Interest included in Table 12[B] of True up Petition		***₹0.08 Crores (₹7.99 Lacs)***

In the True up Petition, the Non Tariff Income was shown as ₹ 5.43 Crores (Table-B in Para-12 of Petition), excluding ₹ 2.65 Crores not covered under Non Tariff Income (Table-A in Para-12 of Petition). Hon'ble Commission in its order dtd. 06.08.2012 treated the total amount of interest earned on Fixed Deposits ₹ 8.61 Crores under Non Tariff Income, and enhanced Non Tariff Income as ₹14.04 Crores (₹5.43 Crores + ₹8.61 Crores).

It may be reiterated that against interest earned of ₹ 8.57 Crores, as capital fund allocated to CWIP, the Assets Capitalization got reduced by ₹ 8.57 Crores, as this amount was subtracted from IDC capitalized with Assets. On the other hand, the enhancement of Non Tariff Income by 8.61 Crores reduced the ARR, which does not ensure full cost recovery as per Cost Plus Principles.

The Petitioner filed a 'Review Petition' (No. 66 of 2012) against the True up order, which Hon'ble Commission disposed off with following remarks;

*"**6.** - The Commission has been following a consistent approach by treating the interest earned as Revenue Income in its previous Tariff / True up orders. The contention of the Petitioner that it is an error apparent is, therefore, not tenable. The Commission therefore, holds that the arguments put forth are not valid for a review and that the instant Review Petition is not maintainable.*

7. *On the issue of contended reduction in Capital works in progress, the Petitioner is given liberty to agitate for its restoration in the forthcoming Tariff Petition on furnishing necessary documents / records in support".*

As per the above mentioned order, the Petitioner can approach Hon'ble Commission in forthcoming Tariff Petition for restoration of CWIP i.e. the Asset base.

<u>FY 2010-11</u> *–*

The True up Petition for FY 2010-11 was under process (Petition No. 23/2012), when the order on True up Petition for FY 2009-10 and Review Petition were issued. Similar to FY 2009-10, the Petitioner mentioned Non Tariff Income of ₹ 13.98 Crores in Table [B] given in Para 12.00 of the Petition. The Net Interest of ₹ 4.51 Crores was included in Table [B] under Non

*Tariff Income after allocation of Interest earned on Fixed Deposit of Capital amount. Hon'ble Commission in this year too added amount of Interest worth ₹ 14.52 Crores to Non Tariff Income enhancing it to (₹ 14.52 + ₹ 13.98 Crores) = ₹ 28.50 Crores, with net result in reduction of ARR by ₹ 14.52 Crores. It may be worthwhile to mention here that the Schedule-13 of the Audited Accounts of other Company for FY 2010-11 shows Interest Income of ₹ 16.40 Crores earned on temporary investments of borrowed funds for Capital work. The Statutory Auditor's certificate indicating that this amount was reduced from IDC and not Capitalized, is enclosed as **Annexure-XXIV**.*

Problem Faced in Cost Plus Tariff Realization *–*

Hon'ble Commission while disposing of the 'Review Petition' (No. 66 of 2012) against 'True up' order for FY 2009-10, has given the following relief;

"7. On the issue of contended reduction in Capital works in progress, the Petitioner is given liberty to agitate for its restoration in the forthcoming Tariff Petition on furnishing necessary documents / records in support".

The matter was referred to our Accounts Wing to examine the process for restoration of Asset value, by adding the left over interest in IDC. It has been expressed by Accounts Wing that it would not be possible to restore Asset value in Accounts because of following reasons;

i. *Restoration of Asset value means, not following the Accounting Standard-16. It is obligatory on part of Company to follow provisions of Accounting Standards.*

ii. *Deviation from AS-16 is only possible if;*

   (a) *There is specific Regulations / order of the competent Authority such as CERC / MPERC / Ministry of Corporate Affairs etc.*

   and

   (b) *All Authorities abide by the same rule uniformly.*

In this context it is pertinent to mention that Sub-section 3-A and 3-C of Section 211 of the Companies Act 1956 require that every Profit & Loss account and Balance Sheet of the Company shall comply with the Accounting Standards recommended by the Institute of Chartered Accountants of India constituted under Chartered Accountants Act 1949, as may be prescribed by Central Govt. in consultation with National Advisory Committee on Accounting Standards. Further, the Ministry of Company Affairs, Govt. of India vide notification No. G.S.R/739 (E) dtd. 7th December 2006 has notified the Companies (Accounting Standards) Rules, 2006 in exercise of powers conferred by clause-(a) of sub-section-(1) of Section 642 of the Companies Act 1956 read with sub-section-(3 C) of Section 211 and sub-section-(1) of section 210-A of the said Act. Vide Rule-3 of these Rules, the Central Govt. has prescribed the Accounting Standards 1 to 7 and 9 to 29 as recommended by the Institute of Chartered Accountants of India, which have come into effect from the accounting period commencing on or after the publication of these Accounting Standards. Rule-4 of these Rules makes it mandatory for every Company and its Auditors to *comply with the said Accounting Standards. Accounting Standards 16 (AS-16), as aforesaid, pertain to 'Borrowing Cost'. Para-11 of this standard provides that the interest earned on temporary investment of the borrowed capital funds of a qualifying Asset is deducted from the borrowing costs eligible for Capitalization during a period for that Asset. This Para of AS-16 is reproduced in Para 11.2 of this Petition.*

*The Section 210 A & 211 of the Companies Act 1956 and the aforementioned notification dtd. 7th December 2006 of the Ministry of Company Affairs, Govt. of India, are enclosed as **Annexure-XXV** and **Annexure-XXVI** respectively.*

*It is, therefore, submitted for consideration of Hon'ble Commission that by adoption of AS-16, the interest earned on Fixed Deposits of Capital money temporarily invested has already been reduced from the IDC capitalized, and thereby from Asset value. This has been certified by the Statutory Auditor M/s R. Shah & Co., Chartered Accountants in **Annexure-XXIV**. The A.G.'s letter, appointing M/s R. Shah & Co., as the Statutory Auditors of the MPPTCL for FY 2012-13 is also enclosed as **Annexure-XXVII**. Further, for purpose of Interest & Finance charges claim, the IDC subtracted from Gross Interest eligibility is taken as full IDC (without reducing Interest earned on Fixed Deposit). Therefore, if it is also included in "Non Tariff Income" this result in double deduction, and Petitioner does not get ARR as per Cost Plus Principles.*

It is, therefore, prayed that "Interest earned on Fixed Deposit of Capital Money" may not be treated as part of 'Non Tariff Income" but should be treated as amount directly utilized to reduce the Borrowing Cost for Capitalization as per AS-16.

EFFECTIVE NON TARIFF INCOME -

The Non Tariff Income is submitted as hereunder;

(i)	*Non Tariff Income for FY 2011-12*	*(-) ₹7.42 Crores*
(ii)	*Adjustment for excess deduction for FY 2010-11*	*(+) ₹14.52 Crores*
(iii)	*Adjustment for excess deduction for FY 2009-10*	*(+) ₹8.57 Crores*
Net Non Tariff Income to be added to ARR		***(+) ₹15.67 Crores***

60. **Commission's Analysis**:

(i) **Interest earned on Fixed Deposit** –

(a) MPPTCL submitted that an interest of Rs.27.00 Crores has been earned on the Fixed Deposits of capital money invested temporarily. This amount of Rs. 27.00 Crs. has been reduced from the asset value through IDC to be capitalized, to pass on its benefit to the Long Term customers i.e. Discoms and SEZ. It was further submitted by the petitioner that the capitalization of less asset value by Rs. 27 Crores will result in less Depreciation through out life of asset. In support of the above clarification, MPPTCL has quoted **Para 11** of Accounting Standard 16 **(AS16)**

(b) MPPTCL also submitted that the interest earned on Fixed Deposits of capital amount has nothing to do with non-tariff income and it should be used to reduce borrowing cost eligible for capitalization. MPPTCL has now delinked the interest earned on Fixed Deposits (Rs. 27 Crores) from the non-tariff income and reduced the IDC to be capitalized by this amount of Rs. 27 Crores.

(c) In compliance with the directions at Para 7 of the Commission's order dated 29.09.2012 (in review Petition No. 66 of 2012), MPPTCL has now furnished a Certificate from its statutory auditor (R. Shah and Company, Charted Accountants) certifying utilization of interest earned on Fixed Deposits in reducing IDC for capitalization in FY 2009-10, FY 2010-11 and FY 2011-12 (**Annexure XXIV**) with the revised petition.

(d) **Interest earned on Fixed Deposits:** In view of the certificate by the Chartered Accountant filed by MPPTCL and Para 11 of Accounting Standard 16 (AS-16), the request of MPPTCL to consider the interest earned on Fixed Deposit of capital amount for reduction of borrowing cost eligible for capitalization is considered in this true-up order. Accordingly the following Non-Tariff Income is considered in this True-up order:

Sr. No.	Particular	Unit	Amount for FY 2011-12
1	Less Non Tariff Income for FY11-12	Rs. Cr	-7.42
2	Adjustment of excess deduction for FY10-11	Rs. Cr	14.52
3	Adjustment of excess deduction for FY10-11	Rs. Cr	8.57
4	Total prior period adjustment	Rs. Cr	23.09
5	**Net amount of non-tariff income**	Rs. Cr	**15.67**

61. True-up amount for FY 2011-12:

Based on the analysis made in preceding paragraphs, the Commission has determined the true-up amount of **₹ 336.70 Crores** for FY 2011-12. This amount shall be adjusted in the bills of long term open access customers of MPPTCL in FY 2014-15. The details of true up determined in this Order are tabulated hereunder:

True-up of Annual Revenue Requirement for FY2011-12:

Sr. No.	Particular	Unit	Allowed in MYT order for FY2011-12	Allowed in this true-up order for FY 2011-12	True-up amount
1	Return on Equity	Rs. Cr.	242.40	226.62	-15.78
2	Interest and finance charges on loan	Rs. Cr.	97.96	114.21	16.25
3	Depreciation	Rs. Cr.	209.12	215.80	6.68
4	Operation and Maintenance expenses	Rs. Cr.	250.77	285.29	34.52
5	Interest on working capital	Rs. Cr.	24.56	39.80	15.24
6	Terminal benefits	Rs. Cr.	361.90	651.93	290.03
7	Provisioning for terminal benefits	Rs. Cr.	41.63	0.00	-41.63
8	Fee paid to MPERC	Rs. Cr.	1.19	0.91	-0.28
9	Non-Tariff Income	Rs. Cr.	-16.00	15.67	31.67
Total		Rs. Cr.	**1213.53**	**1550.23**	**336.70**

62. The petitioner must take steps to implement the Order after giving public notice in accordance with clause 1.30 of MPERC (Details to be furnished and fees payable by licensee or generating company for determination of tariff and manner of making application) Regulations, 2004 and its amendment. The petitioner must also provide information to the Commission in support of having complied with this order. The Commission shall consider the additional transmission charges determined in this order for the Distribution Licensees/ Long term Open access customers of MPPTCL in their Annual Revenue Requirement for FY 2014-15 and accordingly directs that these charges as determined above be recovered from beneficiaries in 12 equal installments during FY 2014-15.

Ordered accordingly

(Alok Gupta) Member	(A.B.Bajpai) Member	(Rakesh Sahni) Chairman

Date: 11th November'2013

Place: Bhopal