MADHYA PRADESH ELECTRICITY REGULATORY COMMISSION

5th Floor, Metro Plaza, Bittan Market, Bhopal - 462 016

Order on True-Up of ARR for FY 2018-19 for Electricity Distribution Business of Special Economic Zone (SEZ) area, Pithampur of MPIDC (erstwhile MPAKVN, Indore)

Petition No. 20 of 2021

PRESENT:

S.P.S. Parihar, Chairman

Mukul Dhariwal, Member

Shashi Bhushan Pathak, Member

IN THE MATTER OF:

True Up of ARR for FY 2018-19 under the prevailing MPERC MYT Regulations, along with other guidelines and directions issued by the MPERC from time to time and under Part VII (Section 61 to Section 64) of the Electricity Act, 2003 read with the relevant Guidelines.

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List of Abbreviations

A&G	Administrative and General Expenses
ARR	Aggregate Revenue Requirement
CERC	Central Electricity Regulatory Commission
CSD	Consumer Security Deposit
Discom	Distribution Company
EA 2003	Electricity Act, 2003
EHT	Extra High Tension
FY	Financial Year
GAAP	Generally Accepted Accounting Principles
GFA	Gross Fixed Asset
GoI	Government of India
GoMP	Government of Madhya Pradesh
GST	Goods and Service Tax
HP	Horse Power
HT	High Tension
IND-AS	Indian Accounting Standards
kV	kilo Volt
kVA	kilo Volt Ampere
kVAh	kilo Volt Ampere hour
kW	kilo Watt
kWh	kilo Watt hour
LT	Low Tension
MD	Maximum Demand
MOD	Merit Order Despatch
MP	Madhya Pradesh
MPAKVN(I)L	Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Limited
MPIDC	Madhya Pradesh Industrial Development Corporation
MPERC	Madhya Pradesh Electricity Regulatory Commission
MPPGCL	Madhya Pradesh Power Generation Company Limited
MPPMCL	MP Power Management Company Limited
MPPTCL	Madhya Pradesh Power Transmission Company Limited
MU	Million Unit
MVA	Mega Volt Ampere
MW	Mega Watt
MYT	Multi-Year Tariff
NTP	National Tariff Policy
NTPC	NTPC Limited
O&M	Operation & Maintenance
PGCIL	Power Grid Corporation of India Ltd.
PLF	Plant Load Factor

PoC	Point of Connection
PPA	Power Purchase Agreement
R&M	Repair & Maintenance
RBI	Reserve Bank of India
RoE	Return on Equity
RPO	Renewable Purchase Obligation
SBI	State Bank of India
SEZ	Special Economic Zone
SLDC	State Load Dispatch Centre

1. ORDER

(Passed on this 12th Day of October, 2021)

1.1 This order is in response to the Petition no. 20 of 2021, filed by Madhya Pradesh Industrial Development Corporation (MPIDC), erstwhile Madhya Pradesh Audyogik Kendra Vikas Nigam (Indore) Ltd., (hereinafter referred as the Petitioner or the Distribution Licensee), a Company incorporated under the Companies Act, 1956 (Now Companies Act, 2013) having its registered office at 3/54, Press Complex, Free Press House, Indore, before Madhya Pradesh Electricity Regulatory Commission (hereinafter referred to as MPERC or the Commission). The Petitioner is a deemed distribution licensee under the fifth Provision to Section 14 of the Electricity Act, 2003. The area of supply of the Petitioner is SEZ Indore (Pithampur) within the State of Madhya Pradesh (MP). This petition has been filed under Section 61 and Section 62 (1) (d) of the Electricity Act, 2003 for True up of ARR of FY 2018-19, under tariff principles laid down in the Madhya Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Supply and Wheeling of Electricity and Methods and Principles for Fixation of Charges) Regulations, 2015, as amended from time to time (hereinafter referred to as MYT Regulations).

1.2 The Commission issued retail supply tariff order for FY 2018-19 vide Tariff Order dated 28th May, 2018. In accordance with the Regulations, MPIDC was required to file the petition for True-up of ARR of FY 2018-19 latest by 31st October, 2019. The Petitioner, vide letter dated 28th November, 2021 requested the Commission for grant time extension upto 28th February, 2021 on the grounds that Audited Accounts for FY 2018-19 for their power business were in the process of being finalised.

1.3 The Commission vide letter dated 11th January, 2021 had considered the request and granted the time extension upto 15th January, 2021. Subsequently, MPIDC again sought time extension and thereafter filed the petition on 30th March, 2021. The Commission held the motion hearing on 6th July, 2021.

1.4 The Commission, vide daily order dated 12th July, 2021, admitted the Petition for further deliberations and directed the Petitioner to publish the public notice in newspapers by 27th July, 2021 for obtaining the comments / objections / suggestions from the stakeholders. The public notice was published on 27th July, 2021 in the newspapers Dainik Bhaskar and Free Press Journal, Indore. Last date for inviting comments / suggestions / objections was 20th August, 2021.

1.5 It was observed that the Petition was deficient and had not been substantiated with supporting documents, including tariff formats and relevant model in excel sheets. Accordingly, the information gaps and additional data requirements in the matter were conveyed to the Petitioner.

1.6 The Commission held the public hearing on 24th August, 2021. The Petitioner submitted the reply to data gaps on 23rd August, 2021.

1.7 The Commission vide e-mail dated 14th September, 2021, directed the Petitioner to submit additional data/information as per observations of the Commission. The Petitioner filed response vide mail dated 18th September, 2021.

1.8 Summary of the Aggregate Revenue Requirement and revenue gap / surplus submitted by the Petitioner for true up of FY 2018-19 is shown below:

Table 1: Gist of instant Petition (Rs. Crore)

Sr. No.	Particulars	FY 2018-19
1	Power Purchase Cost	128.15
2	Intra State Transmission charges	11.48
3	SLDC and Other Charges	0.03
4	Employee expenses	2.89
5	R&M expenses	2.12
6	A&G expenses	2.12
7	MPERC and MPPMCL Fees & others	0.02
8	Depreciation	1.54
9	Interest and Finance Charges	1.47
10	Interest on Working Capital	-
11	Return on Equity (RoE)	0.89
12	Lease Rent	2.19
13	Other Expenses	-
14	Income Tax	-
15	**Gross ARR**	**152.89**
16	Less: Other Income	0.03
17	**Net ARR**	**152.86**
18	Revenue from Sale of Power	151.27
19	**Revenue Gap / (Surplus) (Sr. No. 17- Sr. No. 18)**	**1.58**

Public Hearing

1.9 The Commission held public hearing on the True-up petition for FY 2018-19 through online mode on 24th August, 2021.

1.10 The Commission has ensured transparency with regard to public participation and meticulously observed the same at every stage. Adequate opportunity has been given to all stakeholders to file as well as present their objections/comments/suggestions on the petition. The Commission has observed that none of the stakeholder has submitted any comments / objections on the Petition within stipulated time and also not made any representation during the Public Hearing. As per the provisions of the Electricity Act, 2003 and relevant regulations notified by the Commission in this regard, the Commission has finalized this order.

Allowable Revenue Gap / Surplus of MPIDC

1.11 Based on the scrutiny of various cost components under tariff principles laid down in the prevailing Madhya Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Supply and Wheeling of Electricity and Methods and Principles for Fixation of Charges) Regulations,2015 regarding revenue income and expenditures of Petitioner, the Commission has considered the following Revenue gap / (surplus) for FY 2018-19 for adjustment through Retail Supply Tariffs in future:

Table 2: Revenue Gap/(Surplus) admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Approved in Tariff Order	Claimed	Approved in True Up Order
1	Power Purchase cost	144.20	128.15	126.57
2	Intra State Transmission charges	7.49	11.48	11.48
3	SLDC Charges	0.03	0.03	0.03
4	O&M Expenses	6.27	7.15	7.15
5	Depreciation	0.27	1.54	0.63
6	Interest and Finance Charges	1.14	1.47	1.40
7	ROE	0.29	0.89	0.60
8	Lease Rent	0.00	2.19	0.00
9	Bad and Doubtful Debt	0.00	0.00	0.00
10	Income Tax	0.00	0.00	0.00
11	**Total Expenses**	**159.70**	**152.89**	**147.86**

Sr. No.	Particulars	Approved in Tariff Order	Claimed	Approved in True Up Order
12	Less: Other Income	1.62	0.03	3.10
13	**Aggregate Revenue Requirement**	**158.08**	**152.86**	**144.76**
14	Revenue from Sale of Power	158.08	151.27	154.27
15	**Revenue Gap/ (Surplus)**	**0.00**	**1.58**	**(9.51)**

1.12 The Commission has admitted the Revenue Surplus of Rs. 9.51 Crore, as indicated in the table above, on the true up of FY 2018-19.

1.13 Ordered as above, read with the detailed reasons, grounds and conditions annexed herewith.

Sd/-	Sd/-	Sd/-
(Shashi Bhushan Pathak)	**(Mukul Dhariwal)**	**(S.P.S. Parihar)**
Member	**Member**	**Chairman**

2. TRUE UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2018-19

Sales

Petitioner's Submissions

2.1 The Petitioner has submitted that actual category-wise sales (in MU) for FY 2018-19 was 380.10 MU.

Commission's Analysis

2.2 The Commission has observed that the Audited Accounts for FY 2018-19 does not indicate actual sales. Therefore, the Commission verified the sales from the R-15 statement submitted by the Petitioner. Accordingly, the Commission has admitted the sales as reflected in the R-15 statement for FY 2018-19. The claimed sales and admitted sales for FY 2018-19 is as shown below:

Table 3: Category wise sales admitted by the Commission for FY 2018-19 (MU)

Sr. No.	Consumer category	Claimed	Admitted
1	**LT consumer categories***		
2	Non-Domestic	0.09	0.09
3	Public Water Works and Street Light	0.20	0.20
4	Industrial	0.48	0.48
5	**Total LT Sale**	**0.77**	**0.77**
6	**HT Consumer Categories**		
7	Industrial	379.33	379.33
8	Non-Industrial	-	-
9	Total HT Sale	379.33	379.33
10	**Total LT+HT Sale**	**380.10**	**380.10**

**Note: Revised sale as submitted in reply to additional data gaps*

Total Power Purchased

Petitioner's Submissions

2.3 The Petitioner has claimed normative distribution loss of 1.80% for FY 2018-19 as per Regulations.

2.4 The Petitioner has submitted that it had met its entire power requirement for FY 2018-19 from MPPMCL, considering the actual distribution losses, intra state transmission losses at 2.75%. Power purchase requirement claimed by the Petitioner for FY 2018-19 is 398.01 MU

Commission's Analysis

2.5 The Commission has observed that the Petitioner is able to achieve lower distribution loss of 1.01% as compared to normative distribution losses of 1.80% allowable as per Tariff Regulations, 2015. Accordingly, the Commission has approved the normative distribution loss of 1.80% for FY 2018-19.

2.6 Further, it is observed that the Petitioner had claimed MPPTCL losses of 2.75%, however, the actual MPPTCL losses for FY 2018-19 as per the Regulatory Compliance report is 2.71%. The Commission in data gaps asked the Petitioner to submit the justification for considering higher intra state transmission losses. The Petitioner in reply to data gaps submitted that in the Petition it was inadvertently submitted as 2.75% and accordingly requested to consider MPPTCL losses for FY 2018-19 as 2.71%. Therefore, the Commission has admitted the actual MPPTCL loss of 2.71% for computing the energy requirement of FY 2018-19.

2.7 The energy balance / power purchase requirement on the basis of the sales and losses admitted by the Commission for the Petitioner for FY 2018-19 is presented in the following table:

Table 4: Power Purchase Requirement admitted by the Commission for FY 2018-19

Sr. No.	Particulars	Claimed	Admitted
1	Sales	380.10	380.10
2	Distribution Loss (%)	1.80%	1.80%
3	Distribution Loss (MU)	6.97	6.97
4	Input at MPIDC boundary (MU)	387.07	387.07
5	Intra-State Transmission Loss (%)	2.75%	2.71%
6	Intra-State Transmission Loss (MU)	10.95	10.78
7	**Energy Requirement (MU)**	**398.01**	**397.85**

Power Purchase Cost & Transmission charges

Petitioner's Submissions

2.8 The Petitioner has submitted that it has executed a long-term power purchase agreement with MPPMCL for a quantum of 40 MW with effect from 1 April, 2015 on 29 March, 2016. Petitioner further submitted that it had signed supplementary agreement with MPPMCL on 31st March, 2017 and enhanced the contracted capacity to 45 MW and subsequently again increased it to 50 MW. Based on this power purchase arrangement the Petitioner had met its entire power requirement from MPPMCL for FY 2018-19. Net Power purchase expense from MPPMCL during FY 2018-19 amounted to Rs. 128.15 Crore, including MPPMCL's power trading margin of Rs. 1.58 Crore.

2.9 The Petitioner has submitted that it has not incurred any Inter-state transmission charges as the entire power requirement had been met from MPPMCL during FY 2018-19.

2.10 The Petitioner has submitted that it has incurred intra-state transmission charges of Rs. 11.48 Crore and SLDC charges of Rs. 0.03 Crore during FY 2018-19.

Commission's Analysis

2.11 The Commission has considered the total power purchase cost booked for FY 2018-19 strictly as per the audited accounts.

2.12 The Commission has observed that the petitioner has claimed trading margin of Rs. 1.58 Crore for FY 2018-19. On analysis of the account, it is observed that in Note 2.15, it is clearly specified that in the absence of Commission's approval of trading margin, only provisioning is being done and no actual payment of trading margin is being made to MPPMCL. Therefore, considering that the Commission has not allowed recovery of any trading margin by MPPMCL, expense towards the trading margin has not been allowed to the Petitioner.

2.13 The Commission has considered the actual transmission and SLDC charges paid by the Petitioner as per audited account for FY 2018-19.

2.14 Accordingly, the admitted power purchase cost for FY 2018-19, is as shown below:

Table 5: Power Purchase Cost & Transmission Charges Admitted by the Commission (Rs. Crore) for FY 2018-19

Sr. No.	Particulars	Claimed	Actual	Admitted
1	Power Purchase from MPPMCL	126.57	126.57	126.57
2	Trading Margin	1.58	0.00	0.00
3	Total Power Purchase Cost	128.15	126.57	126.57

Sr. No.	Particulars	Claimed	Actual	Admitted
4	Intra-State Transmission Charges	11.48	11.48	11.48
5	SLDC and Other Charges	0.03	0.030	0.030
6	**Total Power Purchase Cost and Transmission Charges including SLDC Charges**	**139.66**	**138.08**	**138.08**

Gross Fixed Assets (GFA) and Capitalisation

Petitioner's Submissions

2.15 The Petitioner has submitted that the opening value of the GFA for FY 2018-19 has been considered as per the closing value of GFA for FY 2017-18.

2.16 The Petitioner has submitted that the additions to asset have been considered as per the actual capitalisation for FY 2018-19. The actual GFA capitalisation of the Petitioner pertaining to power business for FY 2018-19 is Rs. 2.36 Crore.

Commission's Analysis

2.17 The Commission has considered the closing balance of GFA admitted in True-up order of FY 2017-18 as the opening balance of GFA for FY 2018-19.

2.18 Further, it is observed that the Petitioner has not taken any approval of the GFA capitalized claimed for the FY 2018-19. In reply to data gaps, the Petitioner submitted that out of total GFA addition of Rs. 2.36 Crore in FY 2018-19, Rs. 1.74 Crore is towards buildings/ road, which is not directly related to power business, whereas Rs. 0.62 Crore is towards substation. Accordingly, the Commission sought details of the buildings developed and equipment capitalized towards substation through additional data gap. In reply, the Petitioner submitted that GFA addition of Rs. 0.62 Crore towards substation is on account of shifting of 33 kV cables, purchase of energy meters and Arial bunch cables out of which Rs. 0.44 Crore has been received as consumer contribution. Further, the Petitioner submitted that total cost for development of logistic hub and other civil works is Rs. 17.36 Crore and as MPIDC is also using this building and has set up a consumer care centre for its power distribution business in this building. Accordingly, 10% of Rs. 17.36 Crore has been allocated to Power business.

2.19 On the basis of the above, it is observed that the GFA addition of Rs. 0.62 Crore is towards augmentation of the existing infrastructure for providing supply to the consumers, wherein the Petitioner has also received consumer contribution of Rs. 0.44 Crore. Accordingly, considering that capital expenditure has been made augmentation of existing network, the GFA addition of 0.62 Crore has been admitted by the Commission for FY 2018-19.

2.20 With regard to GFA addition of 1.74 Crore towards building and other civil works, it is observed that the Petitioner has not taken any prior approval of the Commission through capital expenditure plan or through retail tariff Petition for FY 2018-19. Accordingly, the Commission disallows the claimed GFA addition of Rs. 1.74 Crore towards building and other civil works. The Commission also directs the Petitioner to take prior approval of all the capital expenditure in accordance with the provision of the capital expenditure guidelines issued by the Commission. Therefore, the admitted GFA Capitalisation for FY 2018-19 is as follows:

Table 6: Capitalisation Admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Admitted
1	Computers	-	-
2	Buildings	1.74	0.00
3	Plant and Machinery	0.62	0.62
4	**Total**	**2.36**	**0.62**

2.21 The GFA admitted for FY 2018-19, based on the Capitalisation admitted by the Commission, is as below:

Table 7: GFA Admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Admitted
1	Opening GFA	21.22	31.03	31.03
2	Addition during the Year	2.36	2.36	0.62
3	Adjustment during the Year	0.00	0.00	0.00
3	Closing GFA	23.58	33.39	31.65

Funding of Capitalisation

Petitioner's Submissions

2.22 The Petitioner has submitted that the funding of above-mentioned capital expenditure is done through various sources which are mainly categorized under four headings, namely:

i. Grants

ii. Consumer Contribution;

iii. Equity; and

iv. Debt.

2.23 The Petitioner has submitted that the entire funding of the assets (other than those funded through consumer contribution) for FY 2018-19 is through equity. However, in line with the provisions of MYT Tariff Regulation, 2015 and approach adopted by the Commission in the past, the quantum of equity has been restricted at 30% of the total funding requirement and the remaining quantum is treated as normative debt.

Commission's Analysis

2.24 Regulation 21.1 of the MYT Tariff Regulations, 2015 specifies that debt-equity ratio shall be 70:30 for calculation of interest on loan and for return on equity. Further, equity addition is to be limited to 30% of the net GFA and equity in excess of 30% is to be considered as normative loan. It is observed that the Petitioner has received consumer contribution of Rs. 0.44 Crore and accordingly the same has been reduced from total admitted GFA of Rs. 0.62 Crore to arrive at the net GFA.

2.25 The Petitioner has not availed any actual loan and has funded the capitalisation entirely through equity. Therefore, the Commission has restricted equity addition to 30% of the net GFA, whereas, equity in excess of 30% has been considered as normative loan. Accordingly, the funding of the capitalisation approved for FY 2018-19 is shown as follows:

Table 8: Admitted funding of Capitalisation for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Admitted
1	Total Capitalisation	2.36	2.36	0.62
2	Consumer Contribution and Grants	0.44	0.44	0.44
3	Net Capitalisation	1.92	1.91	0.18
4	Normative Debt	1.34	1.34	0.12
5	Normative Equity	0.58	0.57	0.06

Operations and Maintenance Expenses

Petitioner's Submissions

2.26 The Petitioner has submitted that the Operations and Maintenance (O&M) Expenses consists of the following elements as per Clause 34.1 of the MYT Regulations, 2015:

- Employee Expenses
- Repairs and Maintenance (R&M) Costs
- Administrative and General (A&G) Expenses
- MPERC Expenses

Employee Expenses

2.27 The Petitioner has submitted that employees of its various department like planning, commercial, technical, legal, and financial & accounts, administrative etc. are involved in activity of power business. The actual employee expenses for FY 2018-19 as incurred by the Petitioner based on the audited financials is Rs. 2.89 Crore, including DA and terminal benefits.

A&G Expenses

2.28 The Petitioner has submitted that actual A&G expenses incurred for FY 2018-19 is Rs. 2.12 Crore, which is lower than the normative A&G expenses set by the Commission in the MYT Regulations, 2015.

R&M Expenses

2.29 The Petitioner submitted that it has entered into an agreement with MPPKVVCL, Indore on dated 26 March, 2013 to carry out all R&M Expenses of its Electrical Network situated in the Special Economic Zone Phase I and Phase II in Pithampur area of the Dhar District and also to provide consultancy services in various techno-commercial matters relating to the distribution and supply of electricity in the Special Economic Zone area for an initial period of 3 years from the effective date. For first six months of FY 2016-17, MPPKVVCL was carrying out all R&M activities. Subsequently, the Petitioner has entered into agreement with PTC India Ltd. on 29 September, 2016 for R&M activities of its electrical network and other consultancy services at lower rates.

2.30 The Petitioner has submitted that the Commission had considered this expenditure in its earlier Tariff Order for the FY 2013-14, FY 2014-15 and FY 2015-16. The relevant extracts of the Tariff Order for FY 2013-14 dated 10 September, 2013 has been reproduced below:

> *"2.47 The Commission noticed that the petitioner has filed O&M expenses as per the Regulations and has also filed the expenses as per the agreement signed with MPPKVVCL, Indore dated March 26, 2013. The petitioner has requested that the expenses in accordance with the agreement executed by them with MPPKVVCL be allowed. MPPKVVCL has to undertake all activities related to O&M expenses and also to provide consultancy services in various techno-commercial matters relating to the distribution and supply of electricity in the SEZ area. The Commission is of the view that looking at the difficulties faced by the petitioner in the past related to its power business, it would be prudent to consider the contract between the petitioner and MPPKVVCL, Indore in the interest of the consumers.* ***MPPKVVCL is a State owned Distribution Licensee and has expertise in operation and maintenance of power distribution system. [Emphasis Added]"***

2.31 With PTC India managing R&M activities, various distribution of power related aspects has improved considerably, including:

- The distribution loss levels have reduced significantly, and hard efforts are being pushed to reduce it further;
- The Petitioner has successfully upgraded its connectivity levels to grid from 33 kV to 132 kV voltage level;
- Quality of supply has improved considerably, with minimum tripping and uninterrupted supply of power;
- Scheduling practices have been optimized resulting into effective procurement;
- Number of incoming and outgoing feeders have been optimized and increased resulting into redundant supply, appropriate loading levels, load bifurcation and further reduction of distribution losses.
- Consumer satisfaction level has improved with implementation of 24x7 call center and expeditious resolution of network and supply related issues.

2.32 The Petitioner has also submitted that a part of R&M expenses of Rs. 2.12 Crore incurred for FY 2018-19 is reflected as part of Power Purchase Cost in the audited financials. However, for the purpose of filing of this Petition, the Petitioner has re-classified the same as a part of the R&M expenses. Accordingly, the Petitioner has requested the Commission to approve actual R&M Expenses of Rs. 2.12 Crore for FY 2018-19.

MPERC Fees

2.33 The Petitioner has submitted that the actual MPERC Fees for FY 2018-19 is Rs. 0.02 Crore.

Commission's Analysis

2.34 Operation and Maintenance expenses comprise of the following heads:

- Employees Expenses which includes the salaries, dearness allowance, dearness pay, other allowances and retirement benefits paid to the staff;
- Repair and Maintenance (R&M) Expenses, which include all expenditure incurred on the maintenance and upkeep of transmission and distribution assets; and
- Administrative and General Expenses, which include all expenditure incurred in operating a business such as telephone charges, regulatory and consultancy fees such as energy auditing and chartered accountant fees, conveyance and travel expenses, water charges etc.
- MPERC Fees, is the fees payable to the MPERC as per Regulations.

2.35 It is observed that the Petitioner has claimed the Employee and Administrative & General Expense as per actuals, whereas the Repair & Maintenance Expense has been claimed as per the agreement dated October 1, 2016 with PTC.

2.36 As per MYT Tariff Regulations, 2015, basic salary of employee is allowable as per the norms specified in the Regulations, whereas, terminal benefits and arrears are allowable as per actuals. With regard to A&G Expenses, it is allowable in accordance with the norms specified in the Regulations, whereas MPERC fees is to be allowed on actuals. As per MYT Tariff Regulations, 2015 and its amendments thereof, R&M Expenses are allowable on normative basis i.e. 5% of the opening GFA for the year.

2.37 On analysis of O&M Expenses, it is observed that the actual Employee and A&G expenses are lower than the normative expenses allowable as per Regulations, whereas actual R&M Expenses are higher than the normative R&M expenses allowable as per Regulations. Comparison of Actual and Normative O&M Expenses is shown below:

Table 9: Comparison of Actual and Normative Employee Expenses for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Normative
1	Salary	1.28	1.28	2.67
2	Dearness Allowance	1.40	1.40	1.40
3	Terminal Benefits	0.14	0.14	0.14
4	Arrears	0.06	0.06	0.06
5	**Total**	**2.89**	**2.89**	**4.28**

Table 10: Comparison of Actual and Normative A&G Expenses for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Normative
1	A&G Expenses	2.12	2.12	2.18
2	MPERC Fees	0.02	0.02	0.02
3	**Total A&G Expenses**	**2.14**	**2.13**	**2.20**

Table 11: Comparison of Actual and Normative R&M Expenses for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Normative
1	R&M Expenses	2.12	2.12	1.55

2.38 The primary reason for Employee Expenses being lower than the normative is that the petitioner has outsourced R&M activity to external agency i.e. PTC. On the other hand, the actual R&M Expenses is higher as compared to normative R&M expenses allowable as per Regulations due to the fact that the Repair and Maintenance activity has been outsourced and it would also include part of the employee expenses. Accordingly, considering the fact that the Petitioner has been able to achieve distribution loss targets consistently in past years, the Commission in this order has admitted O&M Expenses considering that the norms specified in the Regulations are the ceiling norms and thereby allowing O&M expenses on actuals, if the same is lesser as compared to norms specified in the Regulations.

2.39 Accordingly, based on the above, the total O&M expenses admitted by the Commission for FY 2018-19 is shown in the table below:

Table 12: O&M Expenses admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Normative	Admitted
1	O&M Expenses	7.15	7.15	8.03	7.15

Depreciation

Petitioner's Submissions

2.40 The Petitioner has submitted that the rates of depreciation as specified in the MYT Regulations, 2015 have been considered for the computation of depreciation for FY 2018-19. The additions to asset have been considered as per the actual Capitalisation for FY 2018-19. Accordingly, the Petitioner has computed Depreciation for FY 2018-19 as Rs. 1.86 Crore.

2.41 The Petitioner further submitted that it has reduced the amortization of the assets capitalized from the consumer contribution for FY 2018-19. Accordingly, net depreciation on GFA for FY 2018-19, after reducing amortization on consumer contribution of Rs. 0.32 Crore is Rs. 1.54 Crore as follows:

Table 13: Depreciation claimed by the Petitioner for FY 2018-19 (Rs. Crore)

Sl. No.	Particulars	Claimed
1	Gross Opening GFA	21.22
2	Additions during the year	2.36
3	Deduction	0
4	Closing Gross Fixed Asset	23.58
5	**Depreciation**	**1.86**
6	Consumer contribution amortized	0.32
7	**Net Depreciation**	**1.54**

Commission's Analysis

2.42 The Commission has considered the capitalisation for FY 2018-19 as detailed earlier in this Order. Depreciation has been computed considering the rates of depreciation as per MPERC Tariff Regulations, 2015 on class of assets as depreciation model substantiated with the Asset Register was not submitted. Further, the Commission has not allowed depreciation on assets created through consumer contribution and grants. Accordingly, the computation of depreciation rate considered by the Commission for approval of depreciation for FY 2018-19 is as shown below:

Table 14: Computation of depreciation rate for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Depreciation Rate (%)	Opening GFA	Net Addition during the year	Closing GFA	Average GFA	Gross Depreciation
1	Furniture & Fixtures	6.33%	0.21	0	0.21	0.21	0.01
2	Computers	5.28%	0.02	0	0.02	0.02	0.00
3	Buildings	3.34%	4.12	0.00	4.12	4.12	0.14
4	Plant & Machinery	5.28%	26.68	0.62	27.30	26.99	1.43
5	**Total**		**31.03**	**0.62**	**31.65**	31.34	1.58
6	**Weighted Average Depreciation Rate (%)**						**5.03%**

2.43 Based on the depreciation rate computed above, the net depreciation admitted by the Commission for FY 2018-19 is as follows:

Table 15: Net Depreciation admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	As per Accounts	Admitted
1	Net Opening GFA as on 01.04.2018 (as per closing net GFA approved in true up order of FY 2017-18)	15.38	12.40
2	Net addition to GFA of Consumer Contribution and Grants	1.91	0.18
3	Net Closing GFA as on 31.03.2019	17.29	12.58
4	**Average Net GFA**	**16.33**	**12.49**
5	Depreciation Rate (%)	4.84%	5.03%
6	**Depreciation**	**0.79**	**0.63**

Interest and Finance Charges

Interest on Project Loans

Petitioner's submissions

2.44 The Petitioner has submitted that for assessing interest charges on loans for FY 2018-19, the opening balance of loan has been considered to be equal to closing loan balance of the same for the previous year. The addition to loan for FY 2018-19 has been considered based on the actual Capitalisation during the year.

2.45 The repayment of the loan during the year has been considered equal to depreciation charged for the financial year as per clause 31.3 of the MYT Regulations, 2015. Since the Petitioner does not have actual loans, the weighted average rate of interest of three state Discoms of 5.80%, as admitted by the Commission in its Retail Supply Tariff Order for the FY 2018-19 has been considered, in line with the approach adopted by the Commission in its earlier Tariff Orders in approving the Interest and finance charges.

Commission's Analysis

2.46 The Commission has considered the opening net loan for FY 2018-19 as per the closing net loan for FY 2017-18 as approved in true up order for FY 2017-18. Loan addition during the year has been considered as 70% of the net capitalisation (net of consumer contribution) admitted for the year. The repayment has been considered equivalent to admitted depreciation for the year.

2.47 Interest on loan has been computed considering interest rate of 6.61%, as admitted by the Commission in true up of State DISCOMs of FY 2018-19, dated 24th May, 2021. The interest on loans as admitted by the Commission for FY 2018-19 is as shown below:

Table 16: Interest and finance charges admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Admitted
1	Net Opening Loan as on 01.04.2018	8.56	6.67
2	Addition to net loan during the year	1.34	0.12
3	Repayment during the year	1.54	0.63
4	Total net loan as on 31.03.2019	8.36	6.17
5	**Average Net Loan**	**8.46**	**6.42**
6	Interest Rate (%)	5.80%	6.61%
7	**Interest on Loans**	**0.49**	**0.42**

Interest on Security Deposit

Petitioner's Submissions

2.48 The Petitioner has submitted that the actual interest paid on consumer security deposit for FY 2018-19 is Rs. 0.98 Crore as per the audited accounts.

Commission's Analysis

2.49 The Commission for true-up of ARR for FY 2018-19, has admitted the actual interest on consumer security deposit of Rs. 0.98 Crore as per the Audited Accounts.

Interest on Working Capital

Petitioner's Submissions

2.50 The Petitioner has submitted that the Interest on working capital has been calculated on the basis of normative parameters as provided in the Clause 22.1 of the MYT Regulations, 2015 which have been reproduced below:

"22. Working capital.-

22.1. Following shall be included in the working capital for supply activity of the Licensee:
(1) Receivables of two months of average billing reduced by power purchase cost of one month and any consumer security deposit, O&M expenses for one month, and Inventory (meters, metering equipment, testing equipment are particularly relevant in case of supply activity) for 2 months based on annual requirement for previous year.

22.2. Following shall be included in the working capital for wheeling activity of the Licensee:
(i) O&M expenses for one month, and Inventory (excluding meters, etc. considered part of supply activity) for 2 months based on annual requirement considered at 1% of the gross fixed assets for previous year."

2.51 The rate of interest considered is the State Bank Advance Rate (SBAR) as on 1st April,2017 as provided in clause 36 of the MYT Regulations, 2015.

Commission's Analysis

2.52 Tariff Regulations specify that the Working capital for supply activity of the licensee shall consist of:

i. Receivables of two months of average billing reduced by power purchase cost of one month and any consumer security deposit,
ii. O&M expenses for one month, and

iii. Inventory (meters, metering equipment, testing equipment are particularly relevant in case of supply activity) for 2 months based on annual requirement for previous year.

2.53 Working capital for wheeling activity of the licensee shall consist of:

i. O&M expenses for one month, and
ii. Inventory (excluding meters, etc. considered part of supply activity) for 2 months based on annual requirement considered at 1% of the gross fixed assets for previous year.

2.54 Further, as per the Regulations, the rate of interest on working capital shall be equal to the State Bank Prime Lending Rate as on 1st of April of the relevant year. SBI PLR rate as on 1st April, 2018 was 13.45%. Accordingly, the Commission has considered the same for computing the interest on working capital for FY 2018-19. The summary of interest on working capital admitted by the Commission for FY 2018-19 is shown in the Table below:

Table 17: Interest on Working Capital admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Months	Claimed	Admitted
For wheeling activity				
A)	1/6th of annual requirement of inventory for previous year	2.00	0.21	0.04
B) i)	Total of O&M expenses			7.15
B) ii)	1/12th of total O&M expenses	1.00	0.60	0.60
C)	Receivables			
C) i)	Annual Revenue from wheeling charges			-
C) ii)	Receivables equivalent to 2 months average billing of wheeling charges	2.00	0.00	-
D)	Total Working capital (A+B ii)+C ii))		0.81	0.64
E)	Rate of Interest		13.45%	13.45%
F)	**Interest on Working capital**		**0.11**	**0.09**
For Retail Sales activity				
A)	1/6th of annual requirement of inventory for previous year	2.00	-	0.01
B)	Receivables			
B) i)	Annual Revenue from Tariff and charges			144.76
B) ii)	Receivables equivalent to 2 months average billing	2.00	25.71	24.13
C)	Power Purchase expenses			138.08

Sr. No.	Particulars	Months	Claimed	Admitted
C) i)	1/12th of power purchase expenses	1.00	10.68	11.51
D	Consumer Security Deposit		16.51	16.51
E)	Total Working capital (A+B ii) - C i) - D)		(1.48)	(3.89)
F)	Rate of Interest		13.45%	13.45%
G)	**Interest on Working capital**		**(0.20)**	**(0.52)**
	Summary			
1	**For wheeling activity**		**0.11**	**0.09**
2	**For Retail Sales activity**		**(0.20)**	**(0.52)**
3	**Total Interest on working Capital**		**(0.09)**	**(0.44)**
4	**Total Interest on working Capital admitted**		**0.00**	**0.00**

2.55 Total Interest and Finance Charges admitted by the Commission for FY 2018-19 is shown as follows:

Table 18: Interest & Finance Charges admitted for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Admitted
1	Interest on Loans	0.49	0.42
2	Interest on Security Deposit	0.98	0.98
3	Interest on Working Capital	0.00	0.00
4	**Total Interest and Finance Charges**	**1.47**	**1.40**

Lease Rent

Petitioner's Submissions

2.56 The Petitioner has submitted that it is the SEZ developer who is responsible for providing various services to the business units who setup their factories in the SEZ premises. As a deemed licensee, the Petitioner also supplies power to the occupants of the SEZ. For this purpose, MPIDC (SEZ Developer) has provided land to power business of the Petitioner for setting up its infrastructure necessary for providing power to the industrial units. Against this land which has been allocated to the power business, the Petitioner is charging lease rent for the area allocated to the power business which is a separate business unit within the company and is a distribution licensee recognised by the Commission.

2.57 As per Clause 33 of the MYT Regulations, 2015:

"33. Lease/ Hire Purchase charges.-

Lease charges for assets taken on lease by Distribution Licensee shall be considered as per lease agreement provided the charges are considered reasonable by the Commission."

2.58 Lease rent is a legitimate expense and should be permitted to be recovered as an expense through the ARR. The lease rent is being charged by MPIDC as it is an opportunity cost lost for the SEZ business as they could have leased out this land to some other industry and received lease rent against it.

2.59 Further, as a distribution licensee, in normal course of action, the Petitioner would have purchased this land for establishment of its power distribution infrastructure. The cost incurred for purchase of land gets capitalized and the Commission allows depreciation, interest on loan and return on equity chargeable on account of this cost as part of ARR. Accordingly, this expenditure, in the form of either lease rent or depreciation, interest on loan and return on equity chargeable on the capital cost incurred by the Petitioner, is inevitable.

2.60 The Petitioner has sought lease rent in its review petition 86 of 2012 and the Commission in its Order dated 21st December, 2012 has disallowed lease rent sighting reason of non-payment. The relevant part of the same is reproduced here below for reference.

"ii. Land Premium and Lease rent charges:

…….

The Commission considered the matter and observed that in the instant case since no actual payments are being made to the SEZ on account of land premium or lease rent such notional expense cannot be charged to the consumers. The claim made by the petitioner in this regard is not sustainable."

2.61 The Petitioner has submitted that as it has now made all past payments towards lease rent, the Commission is requested to approve lease rent on actual basis as incurred by the Petitioner.

2.62 There have been instances in other states wherein the Commission has allowed this expenditure pertaining to lease rental as a pass through in the tariff over and above the other expenses.

2.63 A precedence in this matter can be seen in case of approval of the Truing-up of FY 2013-14 and FY 2014-15, Provisional Truing-up of FY 2015-16, and Projection of ARR for the 3rd Control Period FY 2016-17 to FY 2019-20 for the transmission licensee MEGPTCL in Maharashtra by the MERC in Case no. 50 of 2016. In the said case, the land for Akola-II Sub-station was initially to be purchased and handed over by MSETCL to MEGPTCL, however, later on based on management decision, the land was later leased out to MEGPTCL. Accordingly, while the total capital cost of land in the overall capital cost was reduced, the corresponding increase in the lease rental for the same was factored as additional Operation and Maintenance (O&M) expenses in the ARR for the Control Period. Considering the facts of the case, the Hon'ble Commission had admitted the least rent for Akola II Sub-station over and above the normative O&M expenses of MEGPTCL prescribed in the MYT Regulations.

2.64 The Petitioner has requested the Commission to allow lease rent of Rs. 2.19 Crore charged to MPIDC to the power business as a legitimate expenditure as part of the ARR for FY 2018-19.

Commission's Analysis

2.65 The Commission in its Regulations has clearly defined the expenses and costs that can be passed on to the consumers in its ARR. The expense in form of lease rent has not been considered as legitimate expense to be passed on in the ARR.

2.66 The recovery of asset utilization in form of depreciation, return on equity and interest on debt has been defined on some premise of adequate costs after detailed deliberation and stakeholder consultation. Whereas there is no reliable basis of the amount of lease rental being claimed by the Petitioner.

2.67 Further, the submission of the Petitioner that it has paid the lease rent is also not correct. Such expense has not been paid in actuals and is only a book entry from one department of Petitioner Company to another, which cannot be called as expense for passing it to ARR. The Commission in provisional true up for FY 2010-11 and FY 2011-12 had not allowed the lease rent, which was upheld by the Hon'ble APTEL also in Appeal No. 71 of 2013 filed by the Petitioner. Aggrieved by the same the Petitioner has filed an Appeal before the Hon'ble Supreme court of India, which is sub judice.

2.68 Accordingly, with respect to the view taken by the Commission in order for provisional true up of FY 2010-11 and FY 2011-12, the Commission has not admitted the lease rent as claimed by the Petitioner as the matter is sub-judice before Hon'ble Supreme Court. The expense in form of lease rent has not been considered as legitimate expense to be passed on in the ARR.

Return on Equity

Petitioner's Submissions

2.69 The Petitioner has submitted that as per clause 30.2 of the MYT Regulations, 2015,

> *"30.2. Return on equity shall be computed on pre-tax basis at the rate 16%.Any expenses on payment of Income Tax shall be allowed extra on actual basis on the licensed business of Distribution Licensee."*

2.70 Accordingly, the Petitioner has computed the return on equity considering a rate of return on equity at 16%.

2.71 The opening equity for FY 2018-19 is considered to be equal to closing value for the previous year as submitted in True up Petition for the previous year. Since the Petitioner did not have any tax liability for FY 2018-19, no tax on income has been claimed by the Petitioner.

Commission's Analysis

2.72 Return on Equity (RoE) has been computed on pre-tax basis @ 16% as per provisions of MPERC Tariff Regulations, 2015 and its amendments thereof. The opening equity for FY 2018-19 identified with the admitted GFA has been considered as per the closing equity admitted by the Commission in true up order for FY 2017-18. Further, the equity addition has been considered as 30% of the net GFA admitted by the Commission for FY 2018-19. The total equity identified along with RoE as admitted for FY 2018-19 is shown in the table below:

Table 19: Return on Equity admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Admitted
1	Equity associated with GFA as on the beginning of the year	5.25	3.72

Sr. No.	Particulars	Claimed	Admitted
2	30% of addition to net GFA considered as funded through equity	0.57	0.06
3	Total equity associated with GFA at the end of the year	5.82	3.77
4	Average equity associated with GFA at the end of the year	5.54	3.75
5	Rate of Return on equity (%)	16.00%	16.00%
6	**Return on Equity**	**0.89**	**0.60**

Income Tax

Petitioner's Submissions

2.73 The Petitioner has not claimed any Income tax for FY 2018-19.

Commission's Analysis

2.74 Since, the Petitioner has not made any payment towards income tax, the Commission has approved Income Tax as nil.

Other Income

Petitioner's Submissions

2.75 The Petitioner has submitted an amount of Rs. 0.037 Crore towards Other Income for FY 2018-19.

Commission's Analysis

2.76 The Commission has observed that the Petitioner has not considered the rebate received on power purchase in other income. However, the Commission has considered the same as part of other income in line with the approach adopted in previous true up order, to pass on the benefit of reduction in power purchase cost to the consumers. The similar approach is also adopted by many other States. Accordingly, the other income admitted by the Commission as per audited accounts for FY 2018-19 is shown in the table below:

Table 20: Other Income admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Claimed	Actual	Admitted
1	Other Income	0.037	3.10	3.10

2.77 Based on the above, the ARR admitted by the Commission in true up of FY 2018-19 is shown in the following table:

Table 21: ARR admitted by the Commission for FY 2018-19 (Rs. Crore)

Sr. No.	Particulars	Approved in Tariff Order	Claimed	Approved in True Up Order
1	Power Purchase cost	144.20	128.15	126.57
2	Intra State Transmission charges	7.49	11.48	11.48
3	SLDC Charges	0.03	0.03	0.03
4	O&M Expenses	6.27	7.15	7.15
5	Depreciation	0.27	1.54	0.63
6	Interest and Finance Charges	1.14	1.47	1.40
7	ROE	0.29	0.89	0.60
8	Lease Rent	0.00	2.19	0.00
9	Bad and Doubtful Debt	0.00	0.00	0.00
10	Income Tax	0.00	0.00	0.00
11	**Total Expenses**	**159.70**	**152.89**	**147.86**
12	Less: Other Income	1.62	0.03	3.10
13	**Aggregate Revenue Requirement**	**158.08**	**152.86**	**144.76**

Revenue from Sale of Power

Petitioner's Submissions

2.78 The Petitioner has submitted that the revenue from sale of power for FY 2018-19 is Rs. 151.27 Crore.

Commission's Analysis

2.79 The Commission has observed that the actual revenue from sale of power as per audited account is Rs. 154.27 Crore, whereas the Petitioner has claimed only Rs. 151.27 Crore. In reply to data gap the Petitioner submitted that the amount Rs. 154.27 Crore is the gross revenue which includes Rs. 3.00 Crore received towards rebate on power purchase. The Petitioner further submitted that since it has considered the rebate on power purchase of Rs. 3.00 Crore in other income, the same has been reduced from revenue from sale of power. However, on analysis of the audited account it is observed that the Revenue from sale of power of Rs. 154.27 Crore has been booked under Schedule 7 (Revenue from sale of power) of the Profit

& Loss Statement, whereas other income of Rs. 3.18 Crore which includes rebate on power purchase has been booked under Schedule 8 (Other income) of the Profit & Loss statement. Accordingly, it is incorrect on the part of the Petitioner to state that the gross revenue from sale of Power of Rs. 154.27 Crore also includes rebate from sale of power. Therefore, the Commission has admitted actual revenue for FY 2018-19 from sale of power as per audited accounts of FY 2018-19 which is shown as follows:

Table 22: Revenue from Sales as admitted by the Commission for FY 2018-19
(Rs. Crore)

Sr. No.	Particulars	Claimed	Admitted
1	Revenue from the sale of power	151.27	154.27

Revenue Gap/Surplus for true-up of ARR for FY 2018-19

2.80 Based on the scrutiny of various cost components regarding revenue income and expenditures of Petitioner, the Commission has considered the following Revenue Gap / (Surplus) for FY 2018-19 for adjustment through Retail Tariffs in future:

Table 23: Revenue Gap/Surplus admitted by the Commission for FY 2018-19
(Rs. Crore)

Sr. No.	Particulars	Approved in Tariff Order	Claimed	Admitted
1	**ARR**	**158.08**	**152.86**	**144.76**
2	Revenue from Sale of Power	158.08	151.27	154.27
3	**Revenue Gap/ (Surplus)**	**0.00**	**1.58**	**(9.51)**

3. PUBLIC SUGGESTIONS AND COMMENTS ON LICENSEE'S PETITION

3.1 After admission of the True-up Petition for FY 2018-19 filed by the Petitioner, public notice comprising gist of the True-up proposal was published by Petitioner on 27th July, 2021 in the prominent English and Hindi newspapers (Free Press Journal, Indore in English and Dainik Bhaskar, Indore in Hindi Language), requesting the Stakeholders to file their objections/ comments / suggestions, latest by 20th August, 2021. Further, the gist of the Petitions was uploaded on the Commission's and the Petitioner's websites.

3.2 In response to the Public Notice, none of the stakeholders have filed their comments in true up Petition. Subsequently, the Commission held public hearing through video conferencing mode on 24th August, 2021 in which no stakeholder presented its comments/suggestions on the Petition.