**MADHYA PRADESH ELECTRICITY REGULATORY COMMISSION**

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

# Order on True-Up of ARR for FY 2017-18 for Electricity Distribution Business of Special Economic Zone (SEZ) area, Pithampur of MPIDC (erstwhile MPAKVN, Indore)

**Petition No. 11 of 2019**

**PRESENT:**

**Dr. Dev Raj Birdi, Chairman**

**Mukul Dhariwal, Member**

**Shashi Bhushan Pathak, Member**

**IN THE MATTER OF:**

**True Up of ARR for FY 2017-18 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 13 th Day of January, 2020)**

1.1 This order is in response to the petition no. 11 of 2019, 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 2017-18, 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 2017-18 vide Tariff Order dated 07$^{th}$ April, 2017. In accordance with the Regulations, MPIDC was required to file the petition for True-up of ARR of FY 2017-18 latest by 31$^{st}$ October, 2018. The Petitioner, vide letter dated 22$^{nd}$ December, 2018 requested the Commission for grant of one month's time extension, i.e., till 31$^{st}$ January,2019, on the grounds that Audited Accounts for FY 2017-18 for their power business were in the process of being finalised.

1.3 The Commission vide letter dated 2$^{nd}$ January, 2019 had considered the request and granted the time extension for one month i.e. till 31$^{st}$ January,2019. MPIDC filed the petition on 31$^{st}$ January, 2019. The Commission held the motion hearing on 5$^{th}$ March, 2019.

1.4 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, and Petitioner, vide Order dated 6th March, 2019, was directed to file revised Petition, incorporating the requisite information sought in the matter.

1.5 The revised Petition, along additional submission, was filed on 18th April, 2019. The motion hearing was held on 11th June, 2019. The Commission, vide order dated 19th June, 2019, admitted the Petition for further deliberations and directed the Petitioner to publish the public notice in newspapers by 23rd June, 2019 for obtaining the comments / objections / suggestions from the stakeholders. The public notice was published on 23rd June, 2019 in the newspapers Dainik Bhaskar and Free Press Journal. Last date for inviting comments / suggestions / objections was 15th July, 2019.

1.6 The Commission vide e-mail dated 29th June, 2019 directed the Petitioner to file clarification, additional data/information as per observations of the Commission within 15 days. The Petitioner filed response on 09th July, 2019, vide letter No. MPIDC/RO INDORE/19/9236. The Commission held the public hearing on 3rd September, 2019.

1.7 The Commission received written objections from stakeholder. Details of objections received, response from the Petitioner and views of the Commission thereof are given in the Chapter 3 Public Objections and Comments on petition' of this order.

1.8 Gist of the Petitions are given below:

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

| Sr. No. | Particulars | FY 2017-18 |
|---|---|---|
| 1 | Power Purchase Cost | 123.44 |
| 2 | Incentive due to over achievement of distribution loss | 0.45 |
| 3 | Inter State Transmission charges | - |
| 4 | Intra State Transmission charges | 8.46 |
| 5 | SLDC Charges | 0.04 |
| 6 | Employee expenses | 4.31 |
| 7 | R&M expenses | 2.10 |
| 8 | A&G expenses | 2.36 |
| 9 | MPERC and MPPMCL Fees & others | 0.07 |
| 10 | Depreciation | 1.05 |
| 11 | Interest and Finance Charges | 1.39 |

| Sr. No. | Particulars | FY 2017-18 |
|---|---|---|
| 12 | Interest on Working Capital | - |
| 13 | RoE | 0.60 |
| 14 | Lease Rent | 2.19 |
| 15 | Other Expenses | - |
| 16 | Income Tax | - |
| **17** | **Gross ARR** | **146.47** |
| 18 | Less: Other Income | 0.12 |
| **19** | **Net ARR** | **146.35** |
| 20 | Revenue from Sale of Power | 141.89 |
| **21** | **Revenue Gap / (Surplus) (Sr. No. 19- Sr. No. 20)** | **4.46** |

**Public Hearing**

1.9 The Commission held public hearings on the True-up petition for FY 2017-18 at the Commission's Office on 3rd September, 2019.

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 taken due cognizance of all the objections received in the office of the Commission within stipulated time and also raised during the hearings. 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 2017-18 for adjustment through Retail Tariffs in future:

**Table 2: Revenue Gap/Surplus admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Power Purchase admitted | 123.44 | 130.47 |
| 2 | Incentive for Lower distribution loss | 0.45 | |
| 3 | Inter-State transmission charges | - | |
| 4 | Intra-State transmission charges | 8.46 | |
| 5 | SLDC Charges | 0.04 | |
| 6 | Employee Expenses | 4.31 | 3.00 |
| 7 | R&M Expenses | 2.10 | 0.54 |
| 8 | A&G Expenses | 2.36 | 2.04 |
| 9 | MPERC Fees | 0.07 | 0.07 |
| 10 | Depreciation | 1.05 | 0.37 |
| 11 | Interest & Finance Charges | 1.39 | 1.23 |
| 12 | Interest on Working Capital | - | - |
| 13 | RoE | 0.60 | 0.35 |
| 14 | Lease Rent | 2.19 | |
| 15 | Income Tax | - | - |
| **16** | **Total Expenses** | **146.46** | **138.07** |
| 17 | Less: Other income | 0.12 | 2.44 |
| **18** | **Total ARR** | **146.35** | **135.63** |
| 19 | Revenue from Sale of Power | 141.89 | 141.89 |
| **20** | **Revenue Gap / (Surplus) (18-19)** | **4.46** | **(6.26)** |

1.12 The Commission has admitted the Revenue Surplus of Rs. 6.26 Crore, as indicated in the tables above, on the true up of FY 2017-18.

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

| (Shashi Bhushan Pathak) | (Mukul Dhariwal) | (Dr. Dev Raj Birdi) |
|---|---|---|
| **Member** | **Member** | **Chairman** |

# 2. TRUE UP OF AGGREGATE REVENUE REQUIREMENT FOR FY 2017-18

## Sales

### Petitioner's Submissions

2.1 The Petitioner has submitted the actual category-wise sales (in MU) for FY 2017-18 as 354.44 MU.

### Commission's Analysis

2.2 The Commission has observed that the Audited Accounts for FY 2017-18 does not indicate the 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 2017-18. Accordingly, the claimed sales and admitted sales for FY 2017-18 is as below:

**Table 3: Category wise sales admitted by the Commission for FY 2017-18 (MU)**

| Sr. No. | Consumer category | Claimed | Admitted |
|---|---|---|---|
| **1** | **LT consumer categories** | | |
| 2 | Non-Domestic | 0.51 | 0.49 |
| 3 | Public Water Works and Street Light | 0.57 | 0.57 |
| 4 | Industrial | 0.10 | 0.11 |
| **5** | **Total LT Sale** | 1.17 | 1.17 |
| **6** | **HT Consumer Categories** | | |
| 7 | Industrial | 353.26 | 353.26 |
| 8 | Non-Industrial | - | |
| 9 | Total HT Sale | 353.26 | 353.26 |
| **10** | **Total LT+HT Sale** | **354.44** | **354.44** |

## Total Power Purchased

### Petitioner's Submissions

2.3 The Petitioner has submitted that actual distribution loss was 1.54%, as against normative distribution loss of 1.90% for FY 2017-18.

2.4 The Petitioner has submitted that as per Regulation 25 (2) of MYT Regulations, 2015, the gains made by overachievement of distribution loss should be allowed to be retained by the Petitioner. The Petitioner has computed the incentive as Rs. 0.45 Crore, based on average power purchase cost and the MUs saved by overachievement of distribution losses.

2.5 Petitioner requested the Commission to approve the distribution loss level on the actual basis and allow the incentive to be retained by the Petitioner.

2.6 The Petitioner has submitted that it had met its entire power requirement for FY 2017-18 from MPPMCL, considering the actual distribution losses, transmission losses at 2.75% and not considering the loss in external system (PGCIL loss). Power purchase requirement claimed by the Petitioner for FY 2017-18 is 370.16 MU

**Commission's Analysis**

2.7 The Commission has observed that the Petitioner is able to achieve lower distribution loss of 1.54% as compared to normative distribution losses of 1.90% allowable as per Tariff Regulations, 2015. Accordingly, the Commission has approved the actual distribution loss of 1.54% for FY 2017-18. Further, it is observed that the Petitioner had claimed MPPTCL losses of 2.87%, however, the actual MPPTCL losses for FY 2017-18 as per the Regulatory Compliance report is 2.75%. The Commission in data gaps asked the Petitioner to submit the justification for the same. The Petitioner in reply to data gaps submitted the revised claim of MPPTCL losses for FY 2017-18 as 2.75% and same has been approved by the Commission.

2.8 The energy balance / power purchase requirement on the basis of the sales and losses admitted by the Commission for the Petitioner for FY 2017-18 is presented in the following table:

**Table 4: Power Purchase Requirement worked out by the Commission for FY 2017-18**

| Sr. No. | Particular | Claimed | Admitted |
|---|---|---|---|
| 1 | Total Sales (MU) | 354.44 | 354.44 |
| **2** | **Distribution loss (%)** | **1.54%** | **1.54%** |
| 3 | Distribution loss (MU) | 5.54 | 5.54 |

| Sr. No. | Particular | Claimed | Admitted |
|---|---|---|---|
| 4 | Input at AKVN boundary (MU) | 359.98 | 359.98 |
| **5** | **Transmission loss (%)** | **2.75%** | **2.75%** |
| 6 | Transmission loss (MU) | 10.18 | 10.18 |
| 7 | Input at G-T interface (MU) | 370.16 | 370.16 |
| **8** | **PGCIL Losses %** | **0.00%** | **0.00%** |
| 9 | PGCIL Losses (MU) | (0.00) | (0.00) |
| **10** | **Power Purchase Requirement (MU)** | **370.16** | **370.16** |

## Power Purchase Cost & Transmission charges

### Petitioner's Submissions

2.9 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 had met its entire power requirement from MPPMCL for FY 2017-18. Net Power purchase expense from MPPMCL during FY 2017-18 amounted to Rs. 123.44 Crore, including prior period expenses of Rs. 0.55 Crore, and MPPMCL's power trading margin of Rs. 1.47 Crore.

2.10 The Petitioner has submitted that it had not incurred any Inter-state transmission charges as the entire power requirement had been met from MPPMCL during FY 2017-18.

2.11 The Petitioner has submitted that it had incurred intra-state transmission charges of Rs. 8.46 Crore during FY 2017-18, including SLDC charges of Rs. 0.04 Crore.

### Commission's Analysis

2.12 The Commission approves Power Purchase Cost on actual basis and not on accrual basis of accounting, hence after analyzing the audited accounts of the Petitioner, the Commission has approved the total power purchase cost booked for the said year strictly as per the audited accounts, giving due consideration to the power purchase bills, norms approved by the Commission in Regulations, and Tariff Orders.

2.13 The Commission has considered the total power purchase cost booked for the said year strictly as per the audited accounts, thereby not allowing any amount for which payment has not been made in the year for which true-up is being done or not booked in the audited account. Further, the Commission has not considered the amount booked for rebate on power purchase of Rs. 0.19 Crore.

2.14 The Commission has observed that the petitioner has claimed trading margin of Rs. 1.47 Crore for FY 2017-18. However, since the Commission has not allowed recovery of any trading margin by MPPMCL, same has not been allowed. Further, on analysis of the audited accounts, it is observed that the Petitioner has made payment of the prior period expense, pertaining to power purchase of FY 2015-16 to MPPMCL of Rs. 0.55 Crore, in FY 2017-18. Accordingly, the Commission has allowed the same.

2.15 The Commission has considered the actual transmission and SLDC charges paid by the Petitioner as per audited account for FY 2017-18.

2.16 Accordingly, the admitted power purchase cost for FY 2017-18, is as shown below:

**Table 5: Power Purchase Cost & Transmission Charges Admitted by the Commission (Rs. Crore) for FY 2017-18**

| Particulars | Claimed | Admitted |
|---|---|---|
| Power purchase from MPPMCL | 121.42 | 121.42 |
| MPPMCL: Prior period adjustments | 0.55 | 0.55 |
| Trading Margin | 1.47 | - |
| **Net Power Purchase Cost** | **123.44** | **121.97** |
| Intra-State Transmission Charges | 8.46 | 8.46 |
| Inter-State Transmission Charges | - | - |
| SLDC Charges | 0.04 | 0.04 |
| **Total Power Purchase & Transmission Charges** | **131.94** | **130.47** |

## GFA and Capitalisation

### Petitioner's Submissions

2.17 The Petitioner has submitted that the opening value of the gross fixed asset of Rs. 10.73 Crore for FY 2017-18 has been considered as per the closing value of gross fixed asset for FY 2016-17, as submitted in the Petition for True-up of ARR for FY 2016-17.

2.18 The Petitioner submitted that the total cost of creating 132/33kV sub-station was Rs. 19.32 Crore. After excluding MP Govt. grant of Rs. 9.77 Crore, the cost of sub-station remains Rs. 9.55 Crore, for the approval of which a separate capex petition has been filed by the Petitioner. Petitioner requested the Commission to approve the same as per actuals.

2.19 The Petitioner has submitted that the additions to asset have been considered as per the actual Capitalisation for FY 2017-18. The actual capitalisation of the Petitioner pertaining to power business for FY 2017-18 is Rs. 10.49 Crore.

### Commission's Analysis

2.20 The Commission has considered the closing balance of GFA admitted in True-up order for the previous year as the opening balance of GFA for FY 2017-18.

2.21 Further, in line with view taken by the Commission in approval of capital expenditure for FY 2017-18 in Petition No. 9/2019, the addition in GFA for FY 2017-18 under sub-head 'Plant and Machinery, includes capitalisation of Rs. 19.32 Crore on account of 132kV sub-station commissioned during FY 2017-18. Accordingly, the Commission has admitted the Capitalisation as per the Audited Accounts for FY 2017-18 as below:

**Table 6: Capitalisation Admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Computers | - | - |
| 2 | Buildings | 0.94 | 0.94 |
| 3 | Plant and Machinery | 9.55 | 19.32 |
| **4** | **Total** | **10.49** | **20.26** |

2.22 The GFA admitted for FY 2017-18, based on the Capitalisation admitted by the Commission, is as below:

**Table 7: GFA Admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Opening GFA | 10.73 | 10.75 |
| 2 | Addition During the Year | 10.49 | 20.26 |
| 3 | Deduction | - | - |
| 4 | Closing GFA | 21.22 | 31.02 |

## Funding of Capitalisation

### Petitioner's Submissions

2.23 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.

2.24 The Petitioner has submitted that the entire funding of the assets (other than those funded through consumer contribution) for FY 2017-18 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

2.25 The Commission has continued with the approach of limiting the quantum of equity to 30% of the total funding requirement and treating the remaining quantum as normative debt, in line with the provisions of the MYT Tariff Regulations, 2015.

2.26 A 132 kV sub-station, worth Rs. 19.32 Crore which was capitalized FY 2017-18, was partly funded through the grants of Rs. 9.77 Crore. The consumer contribution addition of Rs. 0.44 Crore was observed in Audited Accounts FY 2017-18. Accordingly, the total consumer contribution and grants received during FY 2017-18 have been considered as Rs. 10.21 Crore, without netting of amortization, and is utilized to fund the Capitalisation of Rs. 20.26 Crore. The balance amount of capitalization is funded by debt and equity. Accordingly, the funding of Capitalisation has been approved allowed as shown in the table below:

**Table 8: Admitted funding of Capitalisation for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Total Capitalisation | 10.49 | 20.26 |
| 2 | Consumer Contribution and Grants | 0.44 | 10.21 |
| 3 | Total Capitalisation to be Funded | 10.05 | 10.05 |
| 4 | Normative Debt | 7.03 | 7.03 |
| 5 | Normative Equity | 3.01 | 3.01 |

## Operations and Maintenance Expenses

### Petitioner's Submissions

2.27 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 Costs
- Administrative and General Expenses
- MPERC Expenses

### Employee Expenses

2.28 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 2017-18 as incurred by the Petitioner based on the audited financials is Rs. 4.31 Crore, including DA and terminal benefits.

**A&G Expenses**

2.29 The Petitioner has submitted that actual A&G expenses incurred for FY 2017-18 is Rs. 2.36 Crore, which is slightly higher than normative A&G expenses set by the Commission in the MYT Regulations, 2015.

**R&M Expenses**

2.30 The Petitioner has submitted that it has entered into an agreement with MPPKVVCL, Indore 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.

2.31 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]"***

2.32 Since, various distribution of power related aspects have improved considerably, including:

- The distribution loss levels have reduced;
- 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.

2.33 The Petitioner has also submitted that a part of R&M expenses (Rs 2.10 Crore) incurred for FY 2017-18 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. 2.10 Crore for FY 2017-18.

**MPERC Fees**

2.34 The Petitioner has submitted that the actual MPERC Fees for FY 2017-18 is Rs. 0.07 Crore.

**Commission's Analysis**

2.35 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.

2.36 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. However, the Commission has considered Employee, Administrative & General (A&G) and Repair & Management (R&M) expenses as per the norms specified in the MYT Regulations, 2015. As regards to consideration of R&M contract in the R&M expenses, the Commission deemed it appropriate to consider R&M expenses as per the provisions of the Regulations and is of the view that the Petitioner should manage its R&M contract within the normative O&M expenses. The Commission has considered the dearness allowance, as per the audited account of FY 2017-18, prorated as per the Basic Salary specified in Tariff Regulations, 2015. Terminal benefits and pension paid have been approved as per the audited accounts of FY 2017-18.

2.37 Accordingly, based on the Petitioner's submission and provisions of Regulations, the total O&M expenses admitted by the Commission for FY 2017-18 as given in the Table below:

**Table 9: O&M Expenses admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Employee Expenses | 4.31 | 3.00 |
| 2 | R&M Expenses | 2.10 | 0.54 |
| 3 | A&G Expenses | 2.36 | 2.04 |
| 4 | MPERC Fees | 0.07 | 0.07 |
| **5** | **Total O&M Expenses** | **8.85** | **5.65** |

## Depreciation

### Petitioner's Submissions

2.38 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 2017-18. The additions to asset have been considered as per the actual Capitalisation for FY 2017-18. Accordingly, the Petitioner has computed Depreciation for FY 2017-18 as Rs. 1.33 Crore.

2.39 The Petitioner further submitted that it has reduced the amortization of the assets capitalized from the consumer contribution for FY 2017-18. Accordingly, net depreciation on GFA for FY 2017-18, after reducing amortization on consumer contribution of Rs. 0.27 Crore, was submitted as Rs. 1.05 Crore.

### Commission's Analysis

2.40 The Commission has considered the capitalization for FY 2017-18 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 depreciation approved by the Commission for FY 2017-18 is as shown below:

**Table 10: Gross Depreciation admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Opening GFA | Net Addition during the year | Closing GFA | Gross Depreciation |
|---|---|---|---|---|---|
| 1 | Furniture & Fixtures | 0.21 | 0.00 | 0.21 | **0.01** |
| 2 | Computers | 0.02 | 0.00 | 0.02 | **0.00** |
| 3 | Buildings | 3.17 | 0.94 | 4.12 | **0.12** |
| 4 | Plant & Machinery | 7.36 | 19.32 | 26.68 | **0.90** |
| **5** | **Total** | **10.75** | **20.26** | **31.02** | **1.03** |
| **6** | **Weighted Average Depreciation Rate (%)** | | | | **4.95%** |

**Table 11: Net Depreciation admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Admitted |
|---|---|---|
| 1 | Gross Opening GFA | 10.75 |
| 2 | Opening Consumer contribution and Grants | 8.40 |
| 3 | Net Opening GFA (1 - 2) | 2.35 |
| 4 | Net addition to GFA | 20.26 |
| 5 | Addition in consumer contribution and grants | 10.21 |
| 6 | Net Addition during the year (net of Consumer Contribution) (4 - 5) | 10.05 |
| 7 | Gross Closing GFA | 31.02 |
| 8 | Closing Consumer Contribution and Grants | 18.62 |
| 9 | Net Closing GFA (7 - 8) | 12.40 |
| **10** | **Average GFA** | **7.37** |
| **11** | **Depreciation Rate (%)** | **4.95%** |
| **12** | **Depreciation** | **0.37** |

## Interest and Finance Charges

### Petitioner's submissions

2.41 The Petitioner has submitted that for assessing interest charges on loans for FY 2017-18, 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 2017-18 has been considered based on the actual Capitalisation during the year.

2.42 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 7.28%, as admitted by the Commission in its Retail Supply Tariff Order for the FY 2017-18 has been considered, in line with the approach adopted by the Commission in its earlier Tariff Orders in approving the Interest and finance charges.

2.43 The Petitioner has submitted that the actual interest paid on consumer security deposit for FY 2017-18, as per the audited annual accounts.

**Commission's Analysis**

2.44 Opening GFA for FY 2017-18, net of opening consumer contribution and grants of Rs. 8.40 Crore, is Rs. 2.35 Crore. Accordingly, the gross opening debt (70% of the adjusted opening GFA) for FY 2016-17 is Rs. 1.64 Crore. It is observed that the cumulative repayment at the beginning of the year is Rs. 2.32 Crore, which is higher than gross opening loan. Therefore, the net opening loan for FY 2017-18 has been considered as nil.

2.45 Loan addition during the year has been considered as 70% of capitalization (net of consumer contribution and grants) and repayment equivalent to admitted depreciation for the year. Interest on loan has been computed at average of opening and closing balance of loan at 7.28%, as admitted by the Commission in its Retail Supply Tariff Order for three State Discoms for FY 2017-18, dated 31st March, 2017.

2.46 Further, the Commission for True-up of ARR for FY 2017-18, has admitted the interest on consumer security deposit as per the Audited Accounts. The total interest and finance charges as admitted for FY 2017-18 is as below:

**Table 12: Interest and finance charges admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Gross opening GFA | 10.76 | 10.75 |
| 2 | Opening Consumer Contribution and grants | 3.31 | 8.40 |
| 3 | Net opening GFA | 7.452 | 2.35 |
| 4 | Gross Debt at the beginning of the year | 5.21 | 1.64 |
| 5 | Cumulative Repayment at the beginning of year | 2.63 | 2.32 |
| 7 | Net Opening Loan | 2.58 | - |
| 8 | Addition to net debt during the year | 7.03 | 7.03 |
| 11 | Repayment during the year | 1.05 | 0.37 |
| 12 | Closing Loan | 8.56 | 6.67 |
| 13 | Interest Rate (%) | 7.28% | 7.28% |
| **14** | **Interest on Loans** | **0.41** | **0.24** |
| **15** | **Interest on Consumer Security Deposit** | **0.99** | **0.99** |
| **16** | **Total Interest and Finance Charges (11+12+13)** | **1.39** | **1.23** |

## Interest on Working Capital

### Petitioner's Submissions

2.47 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."*

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

### Commission's Analysis

2.49 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.

2.50 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.

2.51 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, 2017 was 13.85%. Accordingly, the Commission has considered the same for computing the interest on working capital for FY 2017-18. The summary of interest on working capital admitted by the Commission for FY 2017-18 is shown in the Table below:

**Table 13: Interest on Working Capital admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Months | Claimed | Admitted |
|---|---|---|---|---|
| **For wheeling activity** | | | | |
| A) | 1/6th of annual requirement of inventory for previous year | 2.00 | 0.11 | 0.01 |
| B) i) | Total of O&M expenses | | | 5.65 |
| B) ii) | 1/12th of total O&M expenses | 1.00 | 0.74 | 0.48 |
| C) | Receivables | | | |
| C) i) | Annual Revenue from wheeling charges | | - | - |
| C) ii) | Receivables equivalent to 2 months average billing of wheeling charges | 2.00 | - | - |
| D) | Total Working capital (A+B ii)+C ii)) | | 0.84 | 0.49 |
| E) | Rate of Interest | | 13.85% | 13.85% |
| **F)** | **Interest on Working capital** | | **0.12** | **0.07** |
| **For Retail Sales activity** | | | | |
| A) | 1/6th of annual requirement of inventory for previous year | 2.00 | - | 0.004 |
| B) | Receivables | | | |
| B) i) | Annual Revenue from Tariff and charges | | | 141.89 |
| B) ii) | Receivables equivalent to 2 months average | 2.00 | 23.65 | 23.65 |

| Sr. No. | Particulars | Months | Claimed | Admitted |
|---|---|---|---|---|
| | billing | | | |
| C) | Power Purchase expenses | | | 121.97 |
| C) i) | 1/12th of power purchase expenses | 1.00 | 10.99 | 10.16 |
| D | Consumer Security Deposit | | 15.87 | 15.87 |
| E) | Total Working capital (A+B ii) - C i) - D) | | (3.21) | (2.38) |
| F) | Rate of Interest | | 13.85% | 13.85% |
| **G)** | **Interest on Working capital** | | **(0.45)** | **(0.33)** |
| | Summary | | | |
| **1** | **For wheeling activity** | | **0.12** | **0.07** |
| **2** | **For Retail Sales activity** | | **(0.45)** | **(0.33)** |
| **3** | **Total Interest on working Capital** | | **-** | **(0.26)** |
| **4** | **Total Interest on working Capital admitted** | | **-** | **-** |

## Lease Rent

### Petitioner's Submissions

2.52 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.

2.53 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."*

2.54 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.

2.55 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.

2.56 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."*

2.57 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.

2.58 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.

2.59 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.

2.60 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 2017-18.

**Commission's Analysis**

2.61 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.

2.62 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.

2.63 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.

2.64 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. 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

2.65 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."*

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

2.67 The opening equity for FY 2017-18 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 2017-18, no tax on income has been claimed by the Petitioner.

### Commission's Analysis

2.68 Return on Equity (RoE) has been computed on pre-tax basis @ 16% as per provisions of MPERC Tariff Regulations, 2015. The total equity identified along with RoE as admitted for FY 2017-18 is tabulated below:

**Table 14: Return on Equity admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Equity associated with GFA as on the beginning of the year | 2.23 | 0.70 |
| 2 | 30% of addition to net GFA considered as funded through equity | 3.01 | 3.01 |
| 3 | Total equity associated with GFA at the end of the year | 5.25 | 3.72 |
| 4 | Average equity associated with GFA at the end of the year | 3.74 | 2.21 |
| 5 | Rate of Return on equity (%) | 16% | 16% |
| **6** | **Return on Equity** | **0.60** | **0.35** |

## Income Tax

### Petitioner's Submissions

2.69 The Petitioner has not claimed any Income tax for FY 2017-18.

### Commission's Analysis

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

## Other Income

### Petitioner's Submissions

2.71 The Petitioner has submitted an amount of Rs. 0.124 Crore towards Other Income for FY 2017-18.

### Commission's Analysis

2.72 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, as the benefit of decrease in power purchase should be passed onto the consumers. Accordingly, the other income admitted as per audited accounts for FY 2017-18 is shown in the table below:

**Table 15: Other Income admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Other Income | 0.124 | 2.44 |

2.73 The ARR as admitted for FY 2017-18 is presented in the following table:

**Table 16: Other Income admitted by the Commission for FY 2017-18 (Rs. Crore)**

<table>
<tr><th>Sr. No.</th><th>Particulars</th><th>Claimed</th><th>Admitted</th></tr>
<tr><td>1</td><td>Power Purchase admitted</td><td>123.44</td><td rowspan="5">130.47</td></tr>
<tr><td>2</td><td>Incentive for Lower distribution loss</td><td>0.45</td></tr>
<tr><td>3</td><td>Inter-State transmission charges</td><td>-</td></tr>
<tr><td>4</td><td>Intra-State transmission charges</td><td>8.46</td></tr>
<tr><td>5</td><td>SLDC Charges</td><td>0.04</td></tr>
</table>

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 6 | Employee Expenses | 4.31 | 3.00 |
| 7 | R&M Expenses | 2.10 | 0.54 |
| 8 | A&G Expenses | 2.36 | 2.04 |
| 9 | MPERC Fees | 0.07 | 0.07 |
| 10 | Depreciation | 1.05 | 0.37 |
| 11 | Interest & Finance Charges | 1.39 | 1.23 |
| 12 | Interest on Working Capital | - | - |
| 13 | RoE | 0.60 | 0.35 |
| 14 | Lease Rent | 2.19 | - |
| 15 | Income Tax | - | - |
| **16** | **Total Expenses** | **146.46** | **138.07** |
| 17 | Less: Other income | 0.12 | 2.44 |
| **18** | **Total ARR** | **146.35** | **135.63** |

## Revenue from Sale of Power

### Petitioner's Submissions

2.74 The Petitioner has submitted that the revenue from sale of power for FY 2017-18 is Rs. 141.89 Crore.

### Commission's Analysis

2.75 The actual revenue for FY 2017-18 from sale of power has been admitted as per audited accounts of FY 2017-18. Accordingly, the admitted revenue from sale of power for FY 2017-18 by the Commission is as follows:

**Table 17: Revenue from Sales as admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| 1 | Revenue from the sale of power | 141.89 | 141.89 |

## Revenue Gap/Surplus for true-up of ARR for FY 2017-18

2.76 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 2017-18 for adjustment through Retail Tariffs in future:

**Table 18: Revenue Gap/Surplus admitted by the Commission for FY 2017-18 (Rs. Crore)**

| Sr. No. | Particulars | Claimed | Admitted |
|---|---|---|---|
| **1** | **ARR** | **146.35** | **135.63** |
| 2 | Revenue from Sale of Power | 141.89 | 141.89 |
| **3** | **Revenue Gap/ (Surplus)** | **4.46** | **(6.26)** |

# 3. PUBLIC SUGGESTIONS AND COMMENTS ON LICENSEE'S PETITION

3.1 After admission of the True-up Petition for FY 2017-18 filed by the Petitioner, public notice comprising the gist of the True-up proposal was published by Petitioner on 23rd June, 2019 in the prominent English and Hindi newspapers (Free Press Journal in English and Dainik Bhaskar in Hindi Language on 23rd June, 2019), requesting the Stakeholders to file their objections/ comments / suggestions, latest by 15th July, 2019. 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, Pithampur Audyogik Sangathan, Indore and SEZ Electricity Welfare Society have filed their comments in true up Petition. Subsequently, the Commission held public hearing on 3rd September, 2019, at its office.

3.3 While a number of Suggestions / Objections / Comments have been received and given due consideration by the Commission, only the salient ones received related to the true up petition, have been grouped together according to the nature of the Suggestions / Objections and are summarized in this chapter as given in the following paragraphs.

**ISSUE No. 1: Venue for Public Hearing**

**<u>Issue raised by Stakeholder:</u>**

Public Hearing should be held in Pithampur instead of Bhopal so that more consumers can actively take part in the hearing.

**<u>Response from Petitioner:</u>**

Appropriate view may be taken by the Commission.

**<u>Commission's view:</u>**

The Commission will give due consideration to the above suggestion while conducting Public Hearings in future.

**ISSUE No. 2: Capital investment and funding of capitalization**

**<u>Issue raised by Stakeholder:</u>**

Capital investment and funding of capitalization should be considered as per national model of NHAL's public private partnership, with assets mortgaged.

**Response from Petitioner:**

The Petitioner submitted that all capital investments and funding of Capitalization at SEZ are being carried out as per the norms laid out by the Commission.

**Commission's view:**

The Commission has considered the capital expenditure and funding of capitalization as per the norms laid out in MPERC (The conditions of distribution licensee (including deemed licensee)) Regulations, and subsequent directives issued to the Petitioner.

**ISSUE No. 3: Norms for O&M Expenses**

**Issue raised by Stakeholder:**

The norms of O&M Expenses for the Petitioner should be re-determined, in accordance with the universal trends. Accordingly, suitable reduction should be considered in the norms.

**Response from Petitioner:**

The Petitioner submitted that the O&M expenses have been calculated based on norms laid out by the by the Commission.

**Commission's view:**

Redetermination of O&M norms is not the subject matter of present Petition. However, at the time of framing of relevant Regulations, the Commission will give due consideration to the above suggestion.

**ISSUE No. 4: Lease rent to be disallowed**

**Issue raised by Stakeholder:**

In line with approach adopted in past years' Tariff Orders, the lease rent should be disallowed for FY 2019-20.

**Response from Petitioner:**

Petitioner is the SEZ developer who is responsible for providing various services to the business units who setup their factories in the SEZ premises. In order to provide its consumers further benefits with respect to power procurement cost, Petitioner, on its own prerogative, has taken up the responsibility of being the deemed distribution licensee. Presently, the Petitioner is already offering electricity to its consumers at a much competitive as compared to other incumbent Discoms. For the power distribution business, the Petitioner (SEZ Developer) has utilized land for setting up its infrastructure necessary for providing power to the industrial units, which could have otherwise been allotted to some other industrial unit(s) and generated revenue. Against this land which has been allocated to the power business, MPIDC 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 recognized by the Commission.

Petitioner submitted that lease rent is 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 MPIDC SEZ business as they could have leased out this land to some other industry (ies) and received lease rent against it.

Further, as a distribution licensee, in normal course of action MPIDC would have purchased this land for establishment of its power distribution infrastructure. The cost incurred for purchase of land gets capitalized and the Hon’ble Commission would have allowed 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 loans and return on equity chargeable on the capital cost incurred by the Petitioner, is inevitable.

**Commission’s view:**

After examining the submissions regarding lease rent by the Petitioners, the Commission finds the claim un-reasonable as, the Petitioner, being a deemed licensee under the Provisions of the Electricity Act, 2003, is obligated to supply power to the consumers under its own license area. Therefore, the Commission has not admitted the lease rent of Rs. 2.19 Crore claimed by the Petitioner.

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