CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY17

4.0 MESCOM's Application for APR for FY17:

The MESCOM has filed its application on 30th November, 2017, for Annual Performance Review (APR) for FY17 and revision of Annual Revenue Requirement (ARR) along with revision of retail supply tariff for FY19. The MESCOM has sought the Annual Performance Review (APR) for FY17 and approval of a revised ARR thereon based on the Audited Accounts of FY17.

The Commission had communicated its preliminary observations on the application of the MESCOM on 21st December, 2017. In reply to the preliminary observations, the MESCOM has furnished its replies to the preliminary observations of the Commission in its letter dated, 27th December, 2017.

The Commission in its Multi Year Tariff (MYT) Order dated 30th March, 2016 had approved MESCOM's Annual Revenue Requirement (ARR) along with the retail supply for FY17.

The annual performance review of MESCOM for FY17, based on the Audited accounts, is discussed in this chapter.

4.1 MESCOM's Submission:

MESCOM has submitted its proposals for revision of ARR for FY17 based on the Audited Accounts as follows:

TABLE – 4.1

ARR for FY17 – MESCOM's Submission

Rs. Crores

Sl. No	Particulars	As Filed
1	Energy at Gen Bus in MU	5668.84
2	Energy at Interface in MU	5411.61
3	Distribution Losses in %	11.40

	Sales in MU	
4	Sales to other than IP & BJ/KJ installations	3152.43
5	Sales to BJ/KJ installations	13.93
6	Sales to IP sets	1628.06
	Total Sales	**4794.42**
	Revenue	
7	Revenue from other than IP & BJ/KJ and Misc. Charges	2024.06
8	RE Subsidy to BJ/KJ	10.27
9	RE Subsidy to IP sets	775.58
	Total Revenue	**2809.91**
	Expenditure	
10	Power Purchase Cost	2291.69
11	Transmission charges of KPTCL	248.38
12	SLDC Charges	1.64
	Power Purchase Cost including cost of transmission	**2541.71**
13	Employee Cost	266.98
14	Repairs & Maintenance	35.88
15	Admin. & General Expenses	68.27
	Total O&M Expenses	**371.13**
16	Depreciation	78.45
	Interest & Finance charges	
17	Interest on Loans	53.43
18	Interest on Working capital	45.01
19	Interest on belated payment of PP Cost	0.00
20	Interest on consumer deposits	35.68
21	Other Interest & Finance charges	3.95
22	Less: interest & other expenses capitalised	2.39
	Total Interest & Finance charges	**135.68**
23	Other Debits	20.20
24	Net prior period expenditure/Income (Profit/Credit)	190.13
25	Return on Equity	80.76
26	Taxation/MAT	3.07
27	Funds towards Consumer Relations/Consumer Education	0.31
28	Other Income	73.71
	Net ARR	**3347.73**

Considering the revenue of Rs.2809.91 Crores against a net ARR of Rs.3347.73 Crores, MESCOM has reported a gap in revenue of Rs.537.82 Crores for FY17.

4.2 MESCOM's Financial Performance as per the Audited Accounts for FY17:

An overview of the financial performance of MESCOM for FY17 as per its Audited Accounts is given below:

TABLE – 4.2

Financial Performance of MESCOM for FY17

Rs. Crores

Sl. No.	Particulars	Amount
	Receipts	
1	Revenue from Tariff and misc. charges	2481.79
2	Tariff Subsidy	780.65
	Total Revenue	**3262.44**
	Expenditure	
3	Power Purchase Cost	2291.75
4	Transmission charges of KPTCL	248.38
5	SLDC Charges	1.58
	Power Purchase Cost including cost of transmission	**2541.71**
6	O&M Expenses	373.35
7	Depreciation	78.44
	Interest & Finance charges	
8	Interest on Loans	53.43
9	Interest on Working capital	33.38
10	Interest on belated payment of power purchase	2.86
11	Interest on consumer deposits	35.68
12	Other Interest & Finance charges	3.95
13	Less: Interest and other expenses capitalized	4.30
	Total Interest & Finance charges	**125.00**
14	Other Debits	20.20
15	Net Prior Period Debit/Credit	190.13
16	Exceptional Items	0
17	Other income	79.33
18	Income Tax	0.00
	Total Expenditure	**3249.50**

As per the Audited Accounts, MESCOM has earned a profit of Rs.12.94 Crores for FY17. The profits / losses reported by MESCOM in its audited accounts in the previous years are as follows:

TABLE – 4.3

MESCOM's Accumulated Profit / Loss

Particulars	Amount in Rs. Crs.
Accumulated profits as at the end of FY10	50.73
Profit earned in FY11	1.70
Profit earned in FY12	6.41
Profit earned in FY13	12.60
Profits earned in FY14	0.20
Profits earned in FY15	13.93
Profits earned in FY16	11.11
Profits earned in FY17	12.94
Accumulated profits as at the end of FY17	**109.62**

As seen from the above table, the accumulated profits are Rs.109.62 Crores.

Commission's analysis and decision:

The Annual Performance Review for FY17 has been taken up as per the provisions of MYT Regulations duly considering the actual revenue and expenditure booked as per the Audited Accounts against the revenue and expenditure approved by the Commission in its Tariff Order dated 30th March, 2016. The item-wise review of expenditure and the decisions of the Commission thereon are as discussed in the following paragraphs:

4.2.1 Sales for FY17:

A. Sales-Other than IP sets

The Commission in its Tariff Order 2016, dated 31.03.2016 had approved total sales to various consumer categories excluding the sales to MSEZ and KPCL at 4601.16 MU as against the MESCOM's proposal of 4654.19 MU, the actual sales of the MESCOM as per the current APR filing [D-2 FORMAT] is 4689.01 MU indicating an increase in sales to the extent of 87.85 MU when compared to the approved sales. There is increase of 359.66 MU in sales in LT-categories and reduction of 271.81 MU in HT-categories. It is noted that, as against approved sales [excluding sale to KPCL and supply to SEZ] of 3368.88 MU to categories other than BJ/KJ installations and IP sets, the actual sales achieved by the MESCOM is 3047.02 MU, resulting in reduction in sales to these categories by 321.86 MU. Further, the MESCOM has sold 1641.99 MU to BJ/KJ installations and IP sets category against approved sales of 1232.28 MU resulting in increased sales to these categories by 409.71 MU.

The category-wise sales approved by Commission and the actuals for the FY 17 are indicated in the table below:

TABLE-4.4

Sales for FY17, Approved & actuals

Figures in Million Units

Category (1)	Approved (2)	Actuals (3)	Difference (3-4)
LT-2a*	1384.25	1319.27	-64.98
LT-2b	12.94	13.82	0.88
LT-3	341.71	342.31	0.60
LT-4b	0.89	1.21	0.32
LT-4c	4.81	8.35	3.54
LT-5	135.89	136.78	0.89
LT-6	118.39	120.53	2.14
LT-6	63.10	69.38	6.28
LT-7	19.12	19.40	0.28
HT-1	87.38	86.42	-0.96
HT-2a	805.52	548.29	-257.23
HT-2b	168.53	186.06	17.53
HT-2c	180.37	154.85	-25.52
HT-3a & b	23.22	16.03	-7.19
HT-4	15.56	18.82	3.26
HT-5	7.20	5.50	-1.70
Sub total	**3368.88**	**3047.02**	**-321.86**
BJ/KJ	14.59	13.93	-0.66
IP	1217.69	1628.06	410.37
Sub total	**1232.28**	**1641.99**	**409.71**
Grand total**	**4601.16**	**4689.01**	**-87.85**

*Including BJ/KJ installations consuming more than 18 units/month
**Excludes sale to KPCL and SEZ.

The Commission notes that the major categories contributing to the reduction in sales with respect to the approved estimates are, HT-2a Industries (257.23 MU) and LT-2a Domestic lighting (64.98 MU).

The MESCOM while analyzing the reasons for reduction in HT -2a sales, has stated that in the FY17 also, the trend of reduction in sales has continued due to impact of consumers opting for open access and has furnished the data of OA/wheeled energy for the FY15 to the FY17. The Commission notes that there is considerable increase in OA/wheeled energy from about 63 MU in the FY15 to 241 MU in the FY17 [i.e. four times in two years].

Regarding LT-2a, the MESCOM has stated that though the sales to this category is less than the approved sales, the growth over the FY16 is positive. The Commission notes that the number of installations is less by 7079 with respect to the approved numbers, contributing to marginal reduction in sales. Further, the specific consumption for this category has reduced with respect to approved values, there by contributing 55 MU reduction.

In order to further validate the sales, the Commission, in its preliminary observations, had directed the MESCOM to furnish the following information:

i. The sales data relating to HT2(a), HT2(b) and 2(c) categories along with the consumption from open access / wheeling for the years 2015-16 to 2016-17. MESCOM in its replies dated 27.12.2017, has furnish the above details.

ii. As per Tariff Order 2016, the approved sales to MSEZ was 79.04 MU and the power purchase quantum approved was 80.49 MU. However, the MESCOM has indicated the same as 83.38 MU in the table at page-13 and in D-2 Format, instead of 80.94 MU. The MESCOM shall correct this data at page -13 of the petition as well as in D-2 Format. Further, the MESCOM has indicated the actual sales to MSEZ as 18.31 MU in the FY17, whereas MSEZ in their application has indicated the same as 18.54 MU. the MESCOM shall reconcile the above data.

iii. The Commission in its Tariff Order had approved sales to KPCL at 10.68 MU for the FY17. the MESCOM in its filing at page-13, has indicated the same as 5.89 MU. The Commission notes that there is reduction in sales to KPCL as compared with the approved sales for the FY17 and also with respect to the actuals for FY16. MESCOM has not furnished any reply on the above observation.

Regarding, the actuals for FY17, MESCOM has stated that MESCOM has reckoned the consumption as per April 2016 to March 2017 DCB, whereas MSEZ has considered the actual consumption from April 2016 to March 2017. Further, as furnished by MESCOM, if April 2017 consumption as per DCB is deducted and April 2016 consumption as per DCB is added, the sales would be 18.31 MU. The Commission has noted the reply of MESCOM. The energy sold by MESCOM to MSEZ is appropriately discussed in the MSEZ Order.

B. Sales to IP sets-ARR for FY17

i. In its Tariff Order dated 30th March, 2016, the Commission had approved a specific consumption of IP-sets as 4,280 units/installation/annum for FY17, whereas, as per the data of IP-set consumption submitted by the MESCOM in its Tariff filing for APR of FY17, the specific consumption works out to 5,720 units /installation/annum, which indicates an increase in the specific consumption by 1,440 units/installation/annum as compared to the approved figure. This actually corresponds to a whopping 33 in percentage terms.

ii. The total IP-set consumption reported by the MESCOM for the FY17 was 1,628.06 MU as against 1,217.69 MU approved by the Commission. This indicates that the overall sales in FY17 have increased by 410.37 MU compared to the quantum of sales approved by the Commission for FY17. Also, this corresponds to around 33 per cent increase in percentage terms.

iii. Further, the Commission had approved 2,92,860 as the number of IP-set installations for FY17; whereas the actual number of installations serviced as reported by the MESCOM in its Tariff filing is 2,91,129. This indicates a decrease in number of installations by 1,731 and this corresponds to around 1 per cent decrease in the number of installations as compared to number of installations approved for the FY17. Further, it is noted that, though the number of installations have decreased by 1,731, the specific consumption and the overall consumption has increased by around 33 percent and 34 percent respectively. **The MESCOM was directed to explain and justify with valid reasons as to how the sales have increased by a huge quantum despite reduction in the number of installations by 1,731 in FY17.**

iv. In the Tariff Order dated 30th March, 2016 pertaining to approval of ARR and retail supply tariff for FY17, the MESCOM was directed to submit to the Commission, monthly IP-set consumption by considering the meter readings of individual IP-set installations considering that a substantial progress has been reported in metering of IP-sets. Further, the MESCOM was also instructed not to assess the IP-set consumption as per the meter readings of sample DTCs feeding predominantly IP-set loads. However, the MESCOM in its Tariff application, has not submitted the IP-set consumption based on the meter readings' data of individual IP-set installations contending that the meters provided to IP-set installations are not functioning as most of them have been un-authorizedly removed by the farmers opposing the installation of meters, and such data based on the meter readings of individual IP-set installations is not available. But, it has submitted the IP- sets' consumption, based on the energy meter readings of sample DTCs supplying power predominantly to IP-set loads.

v. Therefore, the Commission, in its preliminary observations on the MESCOM's Tariff application, had directed it to justify its claims of IP-set consumption of 1,628.06 MU reported for the FY17 with necessary data in support of the same. Further, the MESCOM was directed to justify and submit necessary data in support of IP set consumption claimed for FY17 including the month-wise pilot meters' consumption of around 900 DTCs duly indicating initial, final readings and multiplying constants of such sample meters.

vi. The MESCOM, in its reply to the preliminary observations, has submitted the consolidated month-wise IP-set consumption for FY17 along with the details of assessment based on the meter readings of sample DTCs feeding predominantly to IP-set loads. However, the MESCOM has not submitted details of all the pilot meters' consumption data indicating initial, final readings and multiplication factor, to arrive at net consumption. Therefore, additional information was sought from the MESCOM.

vii. In response, the MESCOM, in its emails dated 26th and 29th of January 2018, has submitted the subdivision-wise, month-wise details of meter readings in respect of all the pilot meters indicating the initial & final readings and the multiplication factor. On verification of the details in respect of the pilot meter readings and arriving at the average consumption per DTC, it is observed that wherever the pilot meters are not functioning average consumption based on the approved specific consumption was considered by the MESCOM. For instance, in July 2016, out of 932 pilot meters installed to DTCs supplying power to predominantly IP set loads, around 370 meters are not functioning, which corresponds to around 40 per cent. This means that only 60 per cent meters are functioning and assessment based on inadequate number of sample meters will lead to data inaccuracy due to less number of samples being considered. The Commission is of the view that the assessment of IP consumption shall be based only on the pilot meter reading data and it is not proper to arrive at the average consumption per DTC for the purpose of APR by considering the estimated figures approved by the Commission. **Further, it is observed that there are only around 30-35 pilot meters fixed to DTCs per subdivision, it is surprising that the MESCOM is finding it difficult to maintain them in good working condition resulting in not assessment of the consumption accurately. If the pilot meters are further divided on the basis of O&M sections, then 7-8 pilot meters will come under the jurisdiction of each Assistant Engineer/Section Officer. In such a situation the MESCOM has failed to explain as to why it is not able to**

maintain the pilot meters in good working condition. This indicates that the MESCOM is not monitoring the very important activity of assessment of the IP set consumption. The Commission views this with displeasure and directs the MESCOM to initiate suitable action to rectify/replace the faulty meters fixed to DTCs immediately and make them functional in order to assess the IP consumption accurately.

viii. **Further, the Commission is of the view that abnormal increase in both the specific consumption and overall consumption reported for FY17 may be due to supplying of more than scheduled hours of power to IP sets. This should be stopped forthwith as any attempt to give supply to IP sets more than the scheduled hours of power supply will only result in increased consumption, which in turn result in higher subsidy burden to Government. Therefore, the MESCOM is directed to restrict the hours of power supply to agricultural feeders once they are segregated under NJY and to strictly adhere to the number of hours of power supply fixed by the Government.**

As regards computing IP consumption on the basis of energy meter readings in respect of individual IP set installations, the Commission notes the submission made by the MESCOM that the meters are not functioning since most of the them have been un-authorizedly removed by the farmers, resulting in non-availability of consumption data in respect of individual IP-set installations. Further, the Commission in its previous Tariff Order had directed the MESCOM to initiate steps to collect the data of number of IP set meters existing/working in the field and convince the farmers to obtain the meter readings wherever they are working and then compute the IP-set consumption based on the actual meter readings of individual installations. But, the MESCOM has not complied with this requirement.

ix. **Henceforth, the MESCOM is directed to compute the IP set consumption based on the meter readings of individual IP sets that are metered wherever the segregation of feeders under NJY/DDUGJY is not taken up. Therefore, the Commission reiterates its directive to the MESCOM**

that in future wherever feeder segregation is not taken up, it shall consider only the actual meter readings of individual IP-set installations duly ascertaining the correct number of working meters in the field, as discussed above and report the consumption of IP-sets on the basis of meter reading data from such IP-set installations every month, to the Commission, as this would enable accurate measurement of IP-set consumption as compared to assessing the consumption based on the meter readings of sample DTCs feeding predominant IP loads. Further, wherever the segregation of feeders is taken up and the segregated feeders are commissioned, the IP set consumption shall be based on the energy meter reading data of exclusive agricultural feeders at the substation level.

x. The MESCOM citing the non-availability of energy meter reading data of individual IP-set consumers, requested the Commission to allow assessing the IP-set consumption based on the readings of the pilot meters provided to DTCs feeding predominantly to IP-set loads. Accordingly, the MESCOM has requested the Commission to approve the sales of 1,628.06 MU as reported in its Tariff filing for APR of FY17. The Commission has therefore accepted the MESCOM's request to consider the consumption recorded as per the DTC meter reading data.

xi. **Thus, in the absence of 100 per cent meter reading data of individual IP-set installations, but considering the submissions made, the Commission decides to approve the sales to IP-sets for the APR of FY17, as 1,628.06 MU as reported by the MESCOM in its Tariff filing.**

In the light of the above discussion, the Commission approves total sales of 4689.01 MU for FY17 and the category-wise sales as indicated in the table 4.4 above (excluding wheeled energy and sales to KPCL & MSEZ) In addition to the above, sales to KPCL at 5.89 MU and sales to MSEZ at the interface point of 18.54 MU is also approved.

4.2.2 Power Purchase for FY17:

MESCOM Submission:

The Commission in its Tariff order dated 30th March, 2016, had approved source-wise quantum and cost of power purchase for FY17. MESCOM, in its application has submitted the details of actual power purchase for FY17 for the purpose of Annual Performance Review. The details of power purchase are as under:

TABLE – 4.5

Power Purchase for FY17- Approved and Actuals

Source of Generation	Actuals for FY17			Approved in Tariff Order 30.03.2016 for FY17			Difference-between Actuals and Approved-for FY17			% increase (+)/decrease (-) over an approved figures	
	Energy in MUs	Cost in Rs Cr.	Rate in Rs per Unit	Energy in MU	Cost in Rs Cr.	Rate in Rs per Unit	Energy in MU	Cost in Rs Cr.	Rate in Rs per Unit	Energy	Cost
KPCL Hydel Stations	411.26	41.82	1.02	683.31	71.85	1.05	-272.05	-30.03	-0.03	-39.81	-41.80
KPCL-Thermal Stations	1548.29	670.84	4.33	1590.04	649.94	4.09	-41.75	20.90	0.25	-2.63	3.22
CGS	1843.08	681.50	3.70	1725.97	559.75	3.24	117.11	121.75	0.45	6.79	21.75
Major IPPs	594.03	266.59	4.49	598.39	248.06	4.15	-4.36	18.53	0.34	-0.73	7.47
IPPs -Minor (RE Projects)	586.92	236.18	4.02	762.40	293.49	3.85	-175.48	-57.31	3.27	-23.02	-19.53
Other States Projects	10.62	5.11	4.81	11.55	5.43	4.70	-0.93	-0.32	3.44	-8.08	-5.91
Short /Medium term ,UI & Sec-11	431.34	180.77	4.19	88.91	44.81	5.04	342.43	135.96	3.97	385.15	303.41
Transmission Charges (KPTCL & PGCIL)		360.09			323.01			37.08			11.48
SLDC / POSOCO Charges		1.83			1.64						
Misc Energy	10.16	7.75	7.63								
Energy Balancing	233.14	89.22									
TOTAL	**5668.84**	**2541.71**	**4.48**	**5460.56**	**2197.99**	**4.03**	208.28	343.71	**0.46**	**3.81**	**15.64**

Commission's analysis and decisions;

1. The actual power purchase for FY17, as filed by MESCOM for approval of Annual Performance Review is 5668.84 MU at a cost of Rs 2541.71 Crores, as against the approved quantum of 5460.56 MU at a cost of Rs 2197.99 Crores. There is an increase in quantum of power purchased to an extent of 208.28 MU and increase in the cost by Rs. 343.71 Crores.

2. As against the approved energy of 5460.56 MU amounting to Rs 2197.99 Crores, the actual power purchased by MESCOM is 5668.84 MU at the cost of Rs 2541.71 Crores for FY17, which accounts for an increase by 3.81% than the approved energy and increase in cost by 15.64% as compared to the approved cost.

3. On an analysis of the source-wise approved and actual power purchase of all the ESCOMs, the following deviations, in the quantum of energy purchased and its cost, are observed:

   There is shortfall in supply from sources of power from KPCL Hydel and KPCL Thermal projects as indicated below:

TABLE-4.6

Short-fall in supply from KPCL Hydel Stations

Approved Energy	Actual Energy	Shortfall in energy compared with approved availability in MU	Cost of Shortfall Energy in Rs Crs.
10704.90	6563.74	4141.16	380.99

The shortfall from the above Hydel sources, which is the cheaper source of power, has been met by procuring power from the following sources by the ESCOMs.

Short/Medium term purchases	3061.41 MU	Rs.1310.28 Crores
Un-requisitioned surplus power from CGS	357.85 MU	Rs.127.39 Crores

Imposition of Sec-11on the State Embedded Generators (during April and May 2016)	721.90 MU	Rs. 346.33 Crores

Thus, the ESCOMs have met the deficit from hydro sources with the other sources such as Short/Medium term purchases, Un-requisitioned surplus power from CGS, and drawal of power under Sec-11 from the State Embedded Generators (during April and May 2016) at an additional cost of Rs.1403.01 Crores.

The shortfall of 917.52 MU from the KPCL thermal sources energy as compared with the approved energy has also been met by procuring Un-requisitioned surplus power from CGS, without any significant cost implications.

The change in the source-wise mix of supply, reconciliation of energy and its cost among ESCOMs has resulted in increase in average power purchase cost of MESCOM to Rs.4.48 per KWh as against the approved per unit cost of Rs.4.03 per KWh.

4. **In order to ensure proper accounting of energy and its cost by the ESCOMs, MESCOM is directed to reconcile the inter-ESCOM energy exchanges and their costs every month and it shall collect/pay the amounts out of the tariff subsidy received from the Government of Karnataka.**

5. The Commission notes that, the SLDC has not implemented the intra-state ABT so far. As per the directions issued by the Government of Karnataka, vide its letter dated 28th January, 2016, intra-State ABT has to be implemented immediately by the KPTCL and ESCOMs. **The Commission therefore directs the SLDC, KPCL and the MESCOM to take appropriate action immediately to implement intra-state ABT and to host the details thereof, on their respective websites.**

6. The power purchases made by the MESCOM during FY17 from different sources of generation also include the energy purchased during **April and May 2016**, under Section 11 of the Electricity Act, 2003, in

pursuance of a Government Order dated 16.09.2015. The Government, in the said order, had fixed a provisional tariff of Rs.5.08 Per unit subject to determination of final tariff by this Commission. The Commission in its order dated 18th August, 2016, has fixed the final tariff at Rs.4.67 per unit and has ordered recovery of the excess amount paid, if any, from the generators. However, some of the generators had filed petitions before the Hon'ble High Court, which reminded the matter, back to the Commission for fresh disposal. However, the decision in writ petitions has been challenged by the ESCOMs and the Commission in writ appeals. Hence, the Power Purchase cost allowed for 2 months is subject to outcome of the writ appeals and any consequential proceedings thereafter.

Accordingly, the Commission decides to approve power purchases of 5668.84 MU at a cost of Rs. 2541.71 Crores for the purpose of Annual Performance Review for FY17.

4.2.3 RPO Compliance for FY17:

MESCOM in their tariff petition has stated that it has achieved 11.00% of Non-Solar and 0.75% of Solar RPO and thereby has complied with the RPO obligation for FY-17. Further, it has filed the details of RPO compliance for solar and non-solar RPO for 2016-17 as indicated below:

TABLE-4.7

Non-Solar RPO: Compliance

Sl. No.	Particulars	Quantum (MU)	Cost (Rs. in Cr.)
1	Total Power Purchase quantum from all sources (includes 1.51 MU from SRTPV)	5670.35	2541.71
2	Non–solar Renewable energy purchased under PPA route at Generic tariff including Non-solar RE purchased from KPCL	513.08	180.59
3	Non –solar Short-Term purchase from RE sources, excluding sec-11 purchase	37.86	15.45
4	Non –solar Short-Term purchase from RE sources under sec-11	14.65	7.44
5	Non-solar RE purchased at APPC	-	-
6	Non-solar RE pertaining to green energy sold to consumers under green tariff	13.59	0.68
7	Non-solar RE purchased from other ESCOMs	-	-

8	Non-solar RE sold to other ESCOMs	-	-
9	Non-solar RE purchased from any other source like banked energy purchased at 85% of Generic tariff	-	-
10	Total Non-Solar RE Energy Purchased [No.2+ No.3+No.4+No.5 +No.7+No.9]	565.59	203.48
10.1	Adjustment from excess solar (above 0.75%)	41.66	32.61
10.2	Adjustment of Non-Solar NCE from HESCOM as per GOK Order dated 26-09-2017	30.08	-
11	Non-Solar RE accounted for the purpose of RPO [No.10+10.1+10.2- No.5-No.6-No.8]	623.74	235.41
12	Non-solar RPO complied in % [No.11/No.1]*100	11.00%	-

TABLE-4.8

Solar RPO Compliance

Sl. No.	Particulars	Quantum (MU)	Cost (Rs. in Cr.)
1	Total Power Purchase quantum from all sources (includes 1.51 MU from SRTPV)	5670.35	2541.71
2	Solar Renewable energy purchased under PPA route (includes 1.51 MU from SRTPV)	86.04	68.11
3	Solar Short-Term purchase from RE sources, excluding Sec.11 purchase	-	-
4	Solar Short-Term purchase from RE sources under Sec.11	-	-
5	Solar RE purchased at APPC	-	-
6	Solar RE pertaining to green energy sold to consumers under green tariff	1.85	0.09
7	Solar RE purchased from other ESCOMs	-	-
8	Solar RE sold to other ESCOMs	-	-
9	Solar RE purchased from any other source like banked energy purchased at 85% of Generic tariff	-	-
10	Total Solar RE Energy Purchased [No 2+ No.3+No.4+No.5 +No.7+No.9]	86	203.48
10.1	Adjustment from excess solar (above 0.75%)	(-)41.66	(-)32.61
10.2	Adjustment of Non-Solar NCE from HESCOM as per GOK Order dated 26-09-2017	-	-
11	Solar RE accounted for the purpose of RPO [No.10+10.1+10.2- No.5-No.6-No.8]	42.53	35.41
12	Solar RPO complied in % [No.11/No.1]*100	0.75%	-

The observations of the Commission on RPO and the replies furnished by MESCOM are discussed below:

1. The MESCOM was directed to confirm whether the RPO compliance filed is in accordance with the Government Order No. EN 43 PSR 2017 dated 26.09.2017 and if not, shall give reasons for deviating from the GO.

   MESCOM has submitted that it has considered the above GOK Order, while furnishing the compliance to RPO for FY17.

2. It was noted that the total solar power purchased is indicated as 86 MU, whereas it should be 84.19 MU[86.04MU-1.85MU]. Similarly, the total non-solar power purchased is indicated as 565.59 MU, whereas it should be 552 MU[565.59MU-13.59MU]. The MESCOM shall rectify the same.

   In this regard, MESCOM has submitted that in the Order dated 26-09-2017, GOK has considered the energy details furnished by SLDC regarding compliance of RPO across the ESCOMs. In the said Order the GOK has considered the net energy purchase from solar and non-solar sources after excluding the Green Energy Sales by MESCOM (solar green energy sales 1.85 MU & non-solar green energy sales 13.59 MU). This has been separately indicated in the table given at page No.20 & 21 in the MESCOM filing.

Commission's Decision:

The Commission has relied upon the prevailing Regulations, the Government Order No. EN 43 PSR 2017 dated 26.09.2017 and the available data with the Commission, for ensuring the RPO compliance for FY17.

The Commission notes that as per the Government Order dated 26.09.2017, the input energy for MESCOM is 5670.35 MU, whereas as per the application for APR, the same is 5668.84 MU, as per the audited accounts.

Regarding the Non-Solar RPO, considering the input energy of 5668.84 MU, the Non-solar RPO target at 11.00% works out to 623.57 MU. In the GO, the Non-solar energy purchased is indicated as 552.00 MU which rightly excludes the 13.59 MU of green energy sold to MESCOM's Consumers. Further, considering the 30.08 MU of Non-solar energy allocated to MESCOM from other ESCOMs as per GO, 0.40 MU of Shimshapura power plant [which is Small Hydro as per MNRE definition] and excess solar energy of 41.66 MU as discussed in the subsequent paragraphs, the total energy accounted for Non-solar RPO would be 624.14MU [552.00+30.08+0.40+41.66] against the target of 623.57 MU. **Therefore, the Commission holds that MESCOM has met its Non-Solar RPO target of 11% for FY17, in terms of the prevailing Regulations.**

Regarding the Solar RPO, considering the input energy of 5668.84 MU, the solar RPO target at 0.75% works out to 42.52 MU. In the GO, the Solar energy purchased is indicated as 84.18 MU which rightly excludes the 1.85 MU of green energy sold by MESCOM to its consumes. Thus, the total solar energy purchased by the MESCOM is 84.18 MU, which is in excess of the target by 41.66 MU. This excess solar energy is accounted for meeting the Non-Solar RPO target for FY17, in accordance with the prevailing Regulations. **Therefore, the Commission holds that MESCOM has met its Solar RPO target of 0.75% for FY17, in terms of the prevailing Regulations.**

4.2.4 Distribution Losses for FY17:

MESCOM's Submission:

The Commission in its Tariff Order dated 30th March, 2016 had approved distribution losses for FY17 as shown in the table below:

Range	FY17
Upper limit	11.35%
Average	**11.15%**
Lower Limit	10.95%

MESCOM, in its annual accounts, has reported the distribution losses of 11.40% for FY17.

1	Energy at Interface Points in MU	5411.61
2	Total sales in MU including wheeled energy*	4794.42
3	**Distribution losses as a percentage of input energy at IF points**	**11.40%**

***Includes wheeled energy & sale to MSEZ**

Commission's analysis and decisions:

The distribution loss of 11.40% reported by MESCOM exceeds the targeted losses fixed by the Commission for FY17 by 0.25 percentage points. However, the actual overall distribution loss of 11.40% is 0.05 percentage point above the upper limit fixed for MESCOM for FY17. Hence, penalty for exceeding the upper limit of the targeted distribution loss levels has been factored in the APR for FY17 as detailed below:

TABLE- 4.9

Penalty for exceeding targeted loss levels in FY17

Particulars	FY17
Actual input at IF points as per audited accounts in MU (after apportioning the wheeled energy of 81.21MU)	5319.95
Retail sales in MU	4713.21
Percentage distribution losses	11.40%
Upper limit target of distribution loss	11.35%
Increase in percentage point loss	0.05
Input as per target loss for actual sales in MU	5316.65
Increase in input due to increase in distribution losses in MU	3.300
Average cost of power purchase in Rs. Per unit.	4.4836
Increase in power purchase cost due to increase in losses in Rs. Crores	**1.48**

Thus, the Commission decides to levy penalty of Rs.1.48 Crores for exceeding the distribution loss levels targeted for FY17.

4.2.5 Capital Expenditure for the FY17:

A. MESCOM's submission:

The MESCOM has reported a capital expenditure of Rs.288.38 Crores, as against the Commission approved capex of Rs.288.90 Crores for FY17. The details of category-wise expenditure submitted are shown below:

Table -4.10

Capital expenditure for the FY17

Rs. Crores

Sl. No	Particulars	Approved capex for the FY-17	Actual expenditure
1	Extension & Improvement (Addl. DTCs, Link-Lines, HT/LT Reconductoring, providing intermediate poles, HVDS, etc.)	100	62.92
2	DTC Metering	0.25	19.42
3	Replacement of MNR / DC & Electromagnetic meters by Static meters and providing SMC meter protection box wherever required.	5	2.11
4	Nirantara Jyothi Yojana	-	0.00
5	R-APDRP Programme	-	16.73
6	Replacement of faulty DTCs	3.5	10.4
7	Service Connections	40	31.26
8	Rural Electrification (General)		0.00
a.	RGGVY (DDG) Programme	-	0.02
b.	Electrification of Hamlets	2	0.98
c.	Energization of IP sets (including providing infrastructure of UA IP sets)	75	90.71
d.	Kutir Jyothi	0.25	0.01
e.	Sheegra Samparka Yojane	0	4.24
9	Tribal Sub Plan		0.00
a.	Electrification of Tribal Colonies	1.5	1.5
b.	Energization of IP Sets	0.75	0.3
c.	Kutir Jyothi	0.05	0
10	Special Component Plan		0.00
a.	Electrification of S.C. Colonies	1	0.37
b.	Energization of IP sets	1	0.78
c.	Kutir Jyothi	0.1	0.01
11	Tools & Plants and Computers	5	3.48
12	Civil Engineering Works	16	25.2
14	33 kV Sub stations & Line works	37.5	17.94
	GRAND TOTAL:	**288.9**	**288.38**

Commission's analysis and decision:

It is observed that, the overall capex achieved by the MESCOM is within the approved level. However, in some of the category of works, the MESCOM has deviated from the approved level of capex.

In respect of **DTC metering,** the MESCOM has achieved a capex of Rs.19.42 Crores as against the Commission approved capex of Rs.0.25 Crores. The MESCOM in its reply to the preliminary observations, has stated that, the work was awarded during FY16 with payment stages in which the agency has supplied the material and a payment of Rs.19.42 Crores corresponding to 30% of the award cost has been paid. It is to be noted here that, MESCOM was aware of capex it is going to incur on this category, but did not indicate the capex requirement properly in the proposal made for FY17. The Commission would like to emphasize that every capex proposal should be properly planned and analyzed before including it in the capex proposed for the year keeping in view, the spill over works, new works and extent of finance to be met during the year, since the capex approved for a given year will have direct impact on the ARR and the retail supply tariff for that year.

In respect of the Civil Engineering works, the MESCOM has exceeded the Commission approved capex of Rs.16 Crores and has incurred Rs.25.20 Crores. The MESCOM in its reply to the preliminary observations, has furnished the details of expenditure incurred. From the details furnished by the MESCOM, it is noted that, a number of section/subdivision offices, office sheds, call center building and back up supply at corporate building, form a major expenditure in Civil works.

In the case of **Installation of Additional transformers,** the MESCOM in its reply to the preliminary observations, has stated that, the scheme has been taken up under the E&I work within the approved cost of Rs.100 Crores stated in the table above.

The Commission after noting the capex achieved by MESCOM at the level of approved capex and the reasons furnished on the preliminary observations, decides to consider the capital expenditure of Rs.288.38 Crores for FY17, subject to disallowance if any, as per the result of the Prudence check to be conducted for FY17 during the APR of FY18.

B. Post-Commissioning analysis of the capital expenditure of categorised works for FY17 by MESCOM:

The Commission has directed the KPTCL & ESCOMs to conduct the Post - Commissioning analysis of the works which have been completed and categorized during FY17 and submit the report. The Commission also, has specified the methodology and formats for conducting the post - commissioning analysis of the works.

The MESCOM has submitted that, it has conducted post-commissioning analysis of 458 Nos of works costing more than Rs.5 Lakhs and reported that, all works are found to be meeting the norms of Prudence as per the guidelines issued by the Commission.

The Commission, taking note of the above, decides to take up the Prudence Check of these works of FY17 along with works of FY18, through a third party by selecting the random sample of the works in different categories, for deciding any disallowance.

4.2.6 Operation and Maintenance Expenses:

MESCOM's Submission:

The MESCOM, in its application, has sought approval of O&M expenditure of Rs.371.13 Crores for FY17, as per the audited accounts. The break-up of O&M expenses are as follows:

TABLE – 4.11
O & M Expenses - MESCOM's submission

Rs. Crores

Particulars	FY17
Employee cost	266.98
Administrative & General Expenses	68.27
Repairs and Maintenance	35.88
Total O & M Expenses	**371.13**

Commission's analysis and decisions:

The Commission in its Tariff Order dated 30th March, 2016 had approved O&M expenses for FY17 as detailed below:

TABLE – 4.12

Approved O&M Expenses as per Tariff Order dated 30.03.2016

Particulars	FY17
No. of installations as per actuals as per Audited Accts	2246171
Weighted Inflation Index	7.24%
CGI based on 3 Year CAGR	4.04%
Actual O&M expenses for FY16 - in Rs. Crores.	355.27
Total approved O&M Expenses for FY17 – in Rs. Crores.	**391.78**

The Commission in its preliminary observation, had sought the details of certain items of Administrative and General expenses which were on a higher side during FY17. **The Commission takes note of the replies furnished and directs the MESCOM that, the O&M expenses are classified as controllable expenses as per the MYT Regulations and the MESCOM should take necessary action to minimize these expenditures, in furfure, to bring down the O&M expenses within the approved level.**

Further, the Commission notes that the actual O&M expenses reported by MESCOM are well within the approved O&M expenses. The Commission, in accordance with the provisions of MYT Regulations and the methodology adopted while approving the ARR for FY14-16 and subsequent APRs, proceeds with the determination of normative O&M expenses, based on the 12 Year data of WPI and CPI besides considering three year compounded annual growth rate (CAGR) of consumers. Considering the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce & Industry, Government of India and Consumer Price Index (CPI) as per the data available from the Labour Bureau, Government of India and adopting the methodology followed by the CERC with CPI and WPI in a ratio of 80: 20, the allowable rate of inflation for FY17 is computed as follows:

TABLE-4.13

Allowable inflation for FY17

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2005	103.37	115.8	113.314				
2006	109.59	122.9	120.238	1.06	0.06	1	0.06
2007	114.94	130.8	127.628	1.13	0.12	2	0.24
2008	124.92	141.7	138.344	1.22	0.20	3	0.60
2009	127.86	157.1	151.252	1.33	0.29	4	1.16
2010	140.08	175.9	168.736	1.49	0.40	5	1.99
2011	153.35	191.5	183.87	1.62	0.48	6	2.90
2012	164.93	209.3	200.426	1.77	0.57	7	3.99
2013	175.35	232.2	220.83	1.95	0.67	8	5.34
2014	182	246.9	233.92	2.06	0.72	9	6.52
2015	177.03	261.42	244.542	2.16	0.77	10	7.69
2016	180.60	274.30	255.56	2.26	0.81	11	8.95
A= Sum of the product column							39.44
B= 6 Times of A							236.63
C= (n-1)*n*(2n-1) where n= No. of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0811
e=Annual Escalation Rate (%)=g*100							**8.1059**

For the purpose of determining the normative O & M expenses for FY17, the Commission has considered the following:

a) The actual O & M expenses allowed for FY16 excluding contribution to Pension and Gratuity Trust.
b) The three year compounded annual growth rate (CAGR) of the number of installations considering the actual number of installations as per the audited accounts up to FY17.
c) The weighted inflation index (WII) at 8.1059% as computed above.
d) Efficiency factor at 1% as considered in the earlier two control periods.

Thus, the normative O & M expenses for FY17 will be as follows:

TABLE-4.14

Normative O & M Expenses

Particulars	FY17
No. of Installations actuals as per Audited Accts	2220040
Weighted Inflation Index	8.1059%
Consumer Growth Index (CGI) based on 3 Year CAGR	3.63%
Base year O & M expenses for FY16 excluding P&G contribution – in Rs. Crores	304.47
O&M Index= 0&M (t-1)*(1+WII+CGI-X)- Rs. Crores.	**337.16**

The above normative O & M expenses have been computed without considering the contribution to Pension and Gratuity Trust for FY 17.

The Commission, as per the provisions of MYT Regulations under APR has treated the employee costs on account of contribution to P&G Trust as uncontrollable O&M expenses. This component has been allowed beyond the normative O&M expenses to enable the ESCOMs to meet their actual employee costs.

As per the audited accounts, MESCOM, has incurred an amount of Rs.41.15 Crores towards contribution to Pension and Gratuity Trust for FY17. Considering the request of MESCOM to treat the pension and gratuity contribution as uncontrollable O&M expenses, the Commission computes the allowable O&M expenses for FY17 as follows:

TABLE – 4.15

Allowable O & M Expenses for FY17

Rs. Crores

Sl. No.	Particulars	FY17
1	Normative O & M expenses	337.16
2	Additional employee cost (uncontrollable O & M expenses)	41.15
	Allowable O & M expenses for FY17	**378.31**

Thus, the Commission decides to allow an amount of Rs.378.31 Crores as O&M expenses for FY17.

4.2.7 Depreciation:

MESCOM's Submission:

MESCOM in its application as per the audited accounts has claimed an amount of Rs.78.45 Crores as depreciation worked out after deducting an amount of Rs.28.73 Crores being the depreciation on account of assets created out of consumers' contributions / grants as per Accounting Standards (AS) – 12.

As per the audited accounts for FY 17, the asset-wise depreciation is as follows:

TABLE – 4.16

Depreciation for FY17- MESCOM's Submission

Rs. Crores

Particulars	Opening Balance of Asset as on 01.04.2016	Closing Balance of Asset as on 31.03.2017	Depreciation for FY17
Land :Freehold	35.63	59.68	3.42%
Buildings	2.53	2.73	5.08%
Civil	0.72	0.72	3.53%
Other Civil	364.32	422.89	5.26%
Plant & M/c	1662.20	1830.88	4.61%
Line, Cable Network	4.63	4.86	3.82%
Vehicles	3.59	6.64	5.53%
Furniture	0.85	2.33	4.79%
Office Equipment	1.30	2.09	4.31%
Sub Total	**2075.76**	**2332.81**	4.70%
Less: Depreciation on account of Assets created out of grants/Consumer contribution		59.68	
Less: Excess/under provided Depreciation during previous years	515.1663	2.73	5.28%
Net Depreciation			**75.28**

Commission's analysis and decisions:

The Commission has determined the depreciation for FY17, in accordance with the provisions of the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and its subsequent amendments. Based on the opening and closing balances of gross blocks of fixed assets for FY17 and the depreciation as per annual accounts, the weighted average rate of depreciation works out to 4.52%.

Further, as per the Accounting Standards (AS) – 12, an amount of Rs.28.73 Crores of depreciation is towards the assets created out of consumers' contribution / grants. Also, there is excess/under provision of depreciation of the previous years to the extent of Rs.3.1654 Crores.

Accordingly, the approved asset wise depreciation for FY17 is as follows:

TABLE – 4.17

Allowable Depreciation for FY17

Rs. Crores

Particulars	Opening Balance of Asset as on 01.04.2016	Closing Balance of Asset as on 31.03.2017	Depreciation for FY17
Buildings	35.63	59.68	1.63
Civil	2.53	2.73	0.13
Other Civil	0.72	0.72	0.03
Plant & M/c	364.32	422.89	20.72
Line, Cable Network	1662.20	1830.88	80.56
Vehicles	4.63	4.86	0.18
Furniture	3.59	6.64	0.28
Office Equipment	0.85	2.33	0.08
Leasehold land	1.30	2.09	0.07
Depreciation on released assets reused			0.32
Net Depreciation	2075.76	2332.81	104.00
Less Depreciation on account of assets created out of consumer contribution / grants			28.72
Net allowable depreciation			75.28

Thus, the Commission decides to allow the net depreciation of Rs.75.28 Crores for FY17.

4.2.8 Interest and Finance Charges:

a) Interest on Capital loan:

MESCOM's Submission:

MESCOM in its application has claimed an amount of Rs.53.43 Crores towards interest on capital loans drawn from Banks/Financial Institutions for FY17.

Considering the opening balance of loans, new borrowings and the repayment of capital loans during FY17, the weighted average rate of interest on the average loan amount works out to 10.43%

Commission's analysis and decisions:

The Commission has noted the status of opening and closing balances of capital loans as per the audited accounts for FY17, format D9 of the filings and the replies to the preliminary observations as shown below:

TABLE – 4.18

Allowable Interest on Loans – FY17

Rs. Crores

Particulars	FY17
Opening Balance Secured Loans	459.23
Opening Balance Un-secured Loans	18.15
Total opening balance of loans	**477.37**
Add: New Loans	182.00
Less: Repayments	111.80
Total loan at the end of the year	547.58
Average Loan	512.48
Actual Interest on Capital Loans as per the audited accounts	**53.43**

As per the audited accounts for FY17, the actual interest on capital loans is Rs.53.43 Crores.

Considering the average loan of Rs.512.48 Crores and an amount of Rs.53.43 Crores incurred towards interest on capital loans, the weighted average of interest works out to 10.43%. The actual weighted average rate of interest is comparable with the prevailing rate of interest for long term loans.

Thus, the Commission decides to allow an amount of Rs.53.43 Crores towards interest on capital loans for FY17.

b) Interest on Working Capital:

MESCOM's Submission:

MESCOM in its application has stated that it has borrowed short term loans and overdrafts from the commercial Banks to meet its day to day expenditure (working capital) during FY17. As per the audited accounts, MESCOM has incurred an amount of Rs.33.38 Crores towards interest on short term loans/overdrafts during FY17. However, MESCOM in its application under format D9 has claimed an amount of Rs.45.01 Crores as the interest on working capital as per the provisions of MYT regulations and has sought approval of the Commission for the same.

Commission's analysis and decisions:

As per the audited accounts the MESCOM has incurred an amount of Rs.33.38 Crores towards interest on short term loans/over drafts for FY17. As per the MESCOM's replies to the preliminary observations, it is stated that, the overdrafts are availed at the interest rate of 8.65% to 10.70% and the short term loans at 8.65% during FY17. As the interest for short term loan / over drafts availed during the year is far less than 11.75% being considered by the Commission in approval of ARR for FY17, the Commission decides to allow working capital loan at a normative interest rate of 11% in approval of APR for FY17.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereon, the Commission has computed the allowable interest on working capital for FY17 as follows:

TABLE – 4.19

Allowable Interest on Working Capital for FY17

Rs. Crores

Particulars	FY17
One-twelfth of the amount of O&M Exp.	31.53
Opening GFA	2082.34
Stores, materials and supplies 1% of Opening balance of GFA	20.82
One-sixth of the Revenue	469.72
Total Working Capital	522.07
Normative Interest on Working Capital	57.428
Actual Interest on Working Capital incurred by MESCOM as per audited accounts for FY17	33.38
Rate of Interest (% p.a.)	11.00%
Allowable Interest on Working Capital	**45.40**

The Commission therefore decides to allow an amount of Rs.45.40 Crores towards interest on working capital for FY17.

c) Interest on Consumers' Security Deposits:

MESCOM's Submission:

MESCOM has claimed an amount of Rs.35.68 Crores towards payment of interest on consumers' security deposits for FY17, as per the audited accounts.

Commission's analysis and decisions:

The Commission notes that, based on the average amount of consumer security deposits, the interest on consumer security deposits amounting to Rs.35.68 Crores claimed by MESCOM works out to a weighted average rate of interest of 7.63%. As per the KERC (Interest on Security Deposit) Regulations, 2005, the interest on consumer deposits shall be allowed as per the bank rate prevailing on the 1st of April of the relevant year. The bank rate as on 1st April, 2016 was 7.75%. The weighted average rate of interest claimed by MESCOM as per the audited accounts is within the applicable bank rate.

Thus, the Commission decides to allow an amount of Rs.35.68 Crores towards interest on consumer security deposits for FY17.

d) Other Interest and Finance charges:

MESCOM in its application has claimed an amount of Rs.3.95 Crores towards other interest and finance charges for FY17, paid to banks / financial institutions as per format D9. As per the audited accounts for FY17, MESCOM has incurred Rs.3.95 Crores as interest and finance charges. Hence the Commission decides to allow the same.

e) Capitalization of Interest and other expenses:

MESCOM in its application and as per the audited accounts for FY17 has capitalized Rs.2.39 Crores of interest on capital loans during FY17. Further, the MESCOM has capitalized Rs.1.91 Crores of O&M expenses to capital works during FY17. Thus the Commission decides to allow an amount of Rs.4.30 Crores towards capitalization of Interest and other expenses for computation of APR for FY17.

As per the above discussions, the total allowable interest and finance charges for FY17 are as follows:

TABLE – 4.20

Allowable Interest and Finance Charges

Rs. Crores

Sl. No.	Particulars	FY17
1.	Interest on Loan capital	53.43
2.	Interest on working capital	45.40
3.	Interest on consumer deposits	35.68
4.	Interest on Power Purchase dues	0.00
5.	Other interest and finance charges	3.95
6.	Less; Interest and other expenses capitalized	4.30
	Total interest and finance charges	**134.15**

4.2.9 Other Debits:

MESCOM's Submission:

MESCOM, in its application has claimed an amount of Rs.20.20 Crores by including the provisions for Bad and Doubtful Debts of Rs.1.45 Crores towards other debits for FY17.

Commission's analysis and decisions:

The Commission notes that as per the audited accounts, the allowable other debits excluding the provision for bad and doubtful debts for FY17 are as detailed below:

TABLE – 4.21

Allowable Other Debits

Rs. Crores

Sl No	Particulars	FY17
1	Small and Low value items written off	0.11
2	Losses relating to fixed assets	0.87
3	Assets decommissioning cost	0.03
4	Miscellaneous losses and write offs	17.74
	Total	**18.75**

The Commission decides to consider an amount of Rs.18.75 Crores as other debits for FY17.

4.2.10 Net Prior Period Charges:

MESCOM's Submission:

MESCOM in its application has claimed Prior Period income/expenses (Debit/Credit) of FY17 as Rs.190.13 Crores for FY17.

Commission's analysis and decisions:

As per the Audited Accounts for FY17, the prior period expenses (debit) are Rs.269.22 Crores which are towards employee costs, A&G expenses, interest and finance charges, prior period power purchase and other expenses of the earlier years. The Commission notes that, this amount also includes an amount of Rs.267.03 Crores being the prior period expenses relating to withdrawal of the un-realized interest on energy balancing amount which was claimed earlier by MESCOM from other ESCOMs in its books of accounts. As this amount which was recognized as other income in approving the APR of earlier years, the Commission as per the audited accounts decides to recognize this amount as an item of expenditure under prior period expenses. Further, prior period under provided depreciation of Rs.4.61 Crores and the prior period excess provisions of depreciation of Rs. 1.45 Crores which is accounted under depreciation head of expenditure as provided in the audited accounts and claimed by MESCOM in its filing has been reckoned under prior period expenses (debit)/ income (credit) for FY 17.

Further, as per the audited accounts, the amount of Rs.79.08 Crores is on account of prior period income and other excess provisions in the prior period. This amount has been considered as rear period income by the Commission for FY 17.

Thus, the Commission decides to consider a net prior period debit of Rs.193.30 Crores for FY17.

4.2.11 Return on Equity:

MESCOM's Submission:

MESCOM in its application has claimed Return on Equity at Rs.80.76 Crores for FY17 as follows:

TABLE – 4.22

Status of Debt Equity Ratio for FY17

Rs. Crores

Particulars	FY17
Opening balance of the Share capital	266.36
Share Deposit	14.00
Reserve and Surplus	155.45
Less: Re-Capitalized Security Deposits	-26.00
Total	**409.81**
Rate of RoE (Grossed up with MAT%)	19.706%
RoE for FY17	80.76

Commission's analysis and decisions:

The closing balances of gross fixed assets along with break-up of equity and loan component and the details of GFA, debt and equity (net-worth) for FY17 as per actual data as per the audited accounts are indicated as follows:

TABLE –4.23

Status of Debt Equity Ratio for FY17

Rs. Crores

	GFA (Actuals)	Debt (Actuals)	Equity (Net-worth) (Actuals)	Normative Debt @ 70% of GFA	Normative Equity @ 30% of GFA	%age of actual debt on GFA	%age of actual equity on GFA
Opening Balance	2082.34	477.37	351.04	1457.64	624.70	22.92	16.86
Closing Balance	2338.91	547.58	455.69	1637.24	701.67	23.41	19.48

From the above table it is evident that the debt and equity amount lie within the amounts as per the normative debt equity ratio of 70: 30 on the opening and closing balances of GFA for FY17.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereon, the Commission has computed the allowable Return on Equity at 15.5% on share capital and share deposit plus the accumulated balance of profit/loss as per audited accounts as at the beginning of the year and also factoring recapitalization of security deposit of Rs.26.00 Crores in compliance with the Orders of the Hon'ble ATE in appeal No.46/2014. The allowable RoE for FY17 is determined as follows:

TABLE – 4.24

Allowable Return on Equity

Rs. Crores

Particulars	FY17
Paid Up Share Capital	266.36
Share deposit	14.00
Reserves and Surplus as on 31.03.2015	96.68
Recapitalization of Consumers' security deposit	(26.00)
Total Equity	351.04
Allowable RoE @ 15.50%	**54.41**

Further, as reported by MESCOM, an additional equity of Rs.91.71 Crores has been received during the year from Government of Karnataka. Considering the actual date of receipt of this additional equity, the Commission as per provisions of the MYT Regulations, has determined the allowable return on additional equity as detailed below:

TABLE – 4.25

Return on equity for the additional equity received during FY17

Additional Equity received during FY17	Amount in Crs	Received on	No. of Months	RoE allowed
EN 27 PSR 2016 dated 31.05.2016	15.00	09.06.2016	9	1.74
EN 10 PSR 2016 dated 27.06.2016	0.58	08.07.2016	8	0.06
EN 27 PSR 2016 dated 31.08.2016	20.00	22.09.2016	6	1.55
EN 23 PSR 2016 dated 01.09.2016	7.49	22.09.2016	6	0.58
EN 10 PSR 2016 dated 17.09.2016	0.58	04.10.2016	5	0.04
EN 27 PSR 2016 dated 07.12.2016	20.00	19.12.2016	3	0.78
EN 23 PSR 2016 dated 24.12.2016	0.58	13.01.2017	2	0.01
EN 10 PSR 2016 dated 24.12.2016	3.75	13.01.2017	2	0.10
EN 10 PSR 2016 dated 31.01.2017	0.56	23.02.2017	1	0.01
EN 23 PSR 2016 dated 03.02.2017	3.17	23.02.2017	1	0.04
EN 27 PSR 2016 dated 09.02.2076	20.00	23.02.2017	1	0.26
TOTAL	**91.71**			**5.16**

The allowable return on equity on the additional equity infused during FY 17 is Rs.5.16 Crores.

Thus, the Commission decides to allow Return on Equity, of Rs.59.58 Crores for FY17.

4.2.12 Income tax:

As per the audited accounts, MESCOM has factored Rs.3.07 Crores towards payment of Income Tax for FY17. Further, as per the profit and loss statement, credit entitlement of MAT is indicated as Rs.3.07 Crores. Thus, this nullifies the requirement of the allowable tax and, therefore the tax to be allowed for FY17 is nil.

4.2.13 Other Income:

MESCOM's Submission:

MESCOM in its application has claimed an amount of Rs.73.71 Crores as Other Income for FY17.

Commission's analysis and decisions:

As per the audited accounts, the other income is Rs.158.41 Crores for FY17. This includes income from sale of scrap, income from rent, rebate for collection of electricity duty, delayed payment charges from consumers, and miscellaneous recoveries. The delayed payment charges from consumers amounting to Rs.30.12 Crores are considered as revenue and an amount of Rs.79.08 Crores of income relating to prior period is included in prior period debit/credit.

Also an amount of Rs.16.10 Crores pertaining to incentive received for early payment of power purchase bills which is wrongly included under revenue head, is considered as other income. Further, as decided in the earlier Tariff Orders, to encourage and bring in financial discipline in timely payment of monthly power purchase bills, the Commission continues to allow10% of the total incentive amounting to Rs.1.61 Crores on account of early payment of power purchase bills, to be retained by MESCOM for FY17. Further, as per the APR of MSEZ for FY16, the power purchase cost is reckoned as Rs. 7.96 Crores as against Rs.7.28 Crores factored in the power purchase cost by

MESCOM. The Commission has considered the difference of Rs.0.61 Crores as other income to be received by MESCOM from MSEZ.

Thus, the Commission decides to allow an amount of Rs.27.71 Crores as other income for FY17.

4.2.14 Fund towards Consumer Relations / Consumer Education:

The Commission has been allowing an amount of Rs.0.50 Crore per year towards consumer relations / consumer education. MESCOM in its filing has reported that an amount of Rs.0.31 Crores has been incurred towards Consumer Relations / Consumer Education for FY17. The Commission notes that, as per the audited accounts, the MESCOM has incurred an amount of Rs.0.25 Crores towards consumer relation/consumer education for FY17.

Thus, the Commission decides to allow an amount of Rs.0.25 Crores as expenditure towards Consumer Relations / Consumer Education for FY17.

4.2.15 Revenue for FY17:

MESCOM, in its application has considered Rs.2809.91 Crores as revenue from sale of power from consumers and miscellaneous charges for FY17.

The Commission notes that as per the audited accounts for FY17, the revenue from sale of power is Rs.3262.44 Crores. This amount includes the notional income on account of Regulatory asset/ Truing up subsidy of Rs.458.17 Crores which is not the revenue amount to be recovered from the consumers.

The incentive amount on account of early payment of power purchase bill amounting to Rs.16.091 Crores, which is not the revenue from sale of power to consumers, has been included under revenue head of account. Further, Rs.30.12 Crores being the delayed payment charges from consumers, which has been included in the audited accounts under other income, has been considered as a part of revenue.

After setting right classification of the above items of revenue/ other revenue, the Commission decides to consider Rs.2818.30 Crores as revenue from sale of power to the consumers, for the purpose of approval of revised ARR, as per the APR of MESCOM for FY17.

4.2.16 Subsidy for FY17:

The Commission in its tariff order dated 30th March, 2016 has approved tariff subsidy of Rs.8.77 Crores and Rs.575.97 Crores towards the sale of power to BJ/KJ installations and IP sets for FY17 respectively, in accordance with the prevailing Policy of the Government of Karnataka in the matter of free power supply to BJ/KJ installations and IP sets installations of 10HP & below. The Commission while computing the revised ARR after the APR for FY17, has approved the revised tariff subsidy of Rs.10.27 Crores and Rs.770.38 Crores, towards sale of power to BJ/KJ installations and IP sets respectively for FY17. The difference between the revised subsidy amount as approved by the Commission as per the APR and the subsidy originally approved as per the ARR for FY17 works out to Rs.195.91 Crores, which is payable by the Government of Karnataka to MESCOM, as difference of subsidy for FY17.

4.3 Abstract of Approved ARR for FY17:

As per the above item-wise decisions of the Commission, the consolidated Statement of revised ARR for FY17 is as follows:

TABLE – 4.26

Approved revised ARR for FY17 as per APR

Rs. Crores

Sl. No	Particulars	APR FY17		
		As Appd. 30.03.2016	As Filed 30.11.2017	As per APR
1	Energy at Gen Bus (Incl. MSEZ)	5460.56	5668.84	5668.84
2	Transmission Losses in %	3.47%	4.54%	4.54%
3	Energy at Interface in MU	5190.59	5411.61	5411.61
4	Distribution Losses in %	11.15%	11.40%	11.40%
	Sales in MU			
5	Sales to other than IP & BJ/KJ installations	3379.56	3152.43	3071.22
6	Sales to BJ/KJ installations	14.59	13.93	13.93
7	Sales to IP sets	1217.69	1628.06	1628.06
	Total Sales	**4611.84**	**4794.42**	**4713.21**
	Revenue at existing tariff in Rs Crores			
8	Revenue from tariff and	2189.21	2024.06	2037.65

	Miscellaneous Charges			
9	RE Subsidy to BJ/KJ installations	8.77	10.27	10.27
10	RE Subsidy to IP sets	575.97	775.58	770.38
	Total Existing Revenue	**2773.95**	**2809.91**	**2818.30**
11	Power Purchase Cost	1949.45	2291.69	2291.75
12	Transmission charges of KPTCL	246.90	248.38	248.38
13	SLDC Charges	1.64	1.64	1.58
	Power Purchase Cost including cost of transmission	**2197.99**	**2541.71**	**2541.71**
14	Employee Cost		266.98	
15	Repairs & Maintenance		35.88	
16	Admin & General Expenses		68.27	
	Total O&M Expenses	**391.78**	**371.13**	**378.31**
17	Depreciation	77.38	78.45	75.28
	Interest & Finance charges			
18	Interest on Loans	67.07	53.43	53.43
19	Interest on Working capital	55.64	45.01	45.40
20	Interest on belated payment on PP Cost	0.00	0	0
21	Interest on consumer deposits	38.22	35.68	35.68
22	Other Interest & Finance charges	2.19	3.95	3.95
23	**Less:** interest and other expenditure capitalized	2.39	2.39	4.30
	Total Interest & Finance charges	**160.73**	**135.68**	**134.15**
24	Other Debits	0	20.20	18.75
25	Net Prior Period Expenses/Income (Debit/Credit)	0	190.13	193.30
26	Return on Equity	71.61	80.76	59.58
27	Taxation/MAT Credit	0.00	3.07	0.00
28	Funds towards Consumer Relations/Consumer Education	0.50	0.31	0.25
29	Other Income	73.77	73.71	27.71
	ARR	**2826.22**	**3347.73**	**3373.61**
30	Surplus of FY15 carried forward	144.52		0.00
31	Regulatory asset/Carrying cost	-92.25		0.00
32	Less: Penalty for excess losses beyond the targeted level of Distribution loss for FY17	0.00		1.48
	ARR	**2773.95**	**3347.73**	**3372.13**

- **The wheeled energy of 81.21 MU has been considered for computation of distribution losses.**

4.3.1 Gap in Revenue for FY17:

As against an approved ARR of Rs.2773.95 Crores, the Commission, after the Annual Performance Review of MESCOM, decides to allow a revised

ARR of Rs.3372.13 Crores for FY17. Considering the revenue of Rs.2818.30 Crores, the revenue gap for the year FY17 is Rs.553.83 Crores.

Thus, the Commission decides to carry forward the deficit of Rs.553.83 Crores of FY17 to the ARR for FY19, as discussed in the subsequent Chapter of this Order.