CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY18

4.0 KPTCL's Application for APR for FY18:

The KPTCL, in its application dated 30th November, 2018 has prayed the Commission to take up the Annual Performance Review (APR) for the FY18, and approve the revised ARR, based on its Audited Accounts for FY18.

The Commission, in its Tariff Order dated 11th April, 2017 had approved Annual Revenue Requirement (ARR) of Rs. 2,753.70 Crores for FY18.

In this Chapter, the Commission has reviewed the Annual Performance for FY18, in accordance with the provisions of the MYT Regulations, based on the application filed by the KPTCL, the Audited Accounts for FY18 and KPTCL's replies to the Commission's preliminary observations. The item-wise analysis of expenditure and revenue and the decisions, thereon, of the Commission are as follows:

4.1 KPTCL's Submission:

The KPTCL has submitted the details of revenue earned and item-wise expenditure incurred for consideration during APR for FY18 as follows:

TABLE –4.1

KPTCL's filing – APR FY18

Amount in Rs. Crores

Sl. No.	Particulars	As approved (Tariff Order dated 30.03.2016 & 11.04.2017)	As filed
1	Energy available for transmission in MU	72,035	70,288
2	Energy sold at IF Points in MU	69,608	68,023
3	Transmission Losses in MU	2,427	2,265
4	Transmission Loss in %	3.37	3.22
5	**Installed Capacity in MW**	20,570	20,570
6	**Revenue from Transmission of power**	**2,753.70**	**2,859.53**

7	**Expenditure :**		
i	Employee Cost		904.50
ii	Repairs & Maintenance		215.96
iii	Admin, & General Expenses		113.09
	Total O&M Expenses	**1,216.59**	**1,233.55**
8	Depreciation	735.51	666.28
9	Interest & Finance Charges	623.75	426.21
10	Interest on working capital	89.00	0.00
11	Return on Equity	661.48	629.90
12	Income Tax	0.00	584.52
13	Other Debits	0.00	5.55
14	Extraordinary items	0.00	0.00
15	**Less:**		
16	Interest & Finance Charges capitalized	-52.80	-59.63
17	Other Expenses capitalised	-49.44	-39.56
18	Other Income	-52.82	-185.16
19	Net Prior Period Income /Charges	0.00	15.69
20	Carry forward of Surplus as per APR of FY16	-417.58	0.00
21	**Net ARR**	**2,753.70**	**3,277.35**
22	**Deficit for FY18**	0.00	-417.82
23	**Transmission Charges per unit in Paise**	38.23	46.63
24	**Transmission Charges in Rs. per MW/Month**	**1,11,558**	**1,32,772**

As per the Tariff application, KPTCL has reported a deficit of Rs. 417.82 Crores in Revenue, as indicated above for the FY18 and has proposed to carry forward this deficit to the ARR for FY20.

The Commission has noted that, as per Format-A1 and the audited accounts, the KPTCL had a surplus of Rs.212.14 Crores for FY18.

4.2 Financial Performance of KPTCL as per Audited Accounts for FY18:

The overview of the financial performance of KPTCL for the FY18, as per its Audited Accounts, is as follows:

TABLE –4.2

Financial Performance of the KPTCL – FY18

Amount in Rs. Crore

Sl. No	Particulars	FY18
	Revenue	**2,859.53**
	Expenditure	
1	O&M Expenses	1,233.47
2	Depreciation	716.78
3	Interest & Finance Charges	426.22
4	Income Tax	584.52
5	Other Debits	5.55
6	Extraordinary items	0.00
7	Net Prior Period Charges	15.69
	Less:	
8	Interest and Finance charges capitalized	-59.63
9	Other expenses capitalized	-40.10
10	Other income	-235.11
	Total Expenditure	**2,647.40**
	Profit for the Year	**212.14**

As per the Audited Accounts, the KPTCL has earned a profit of Rs. 212.14 Crores for the FY18. Considering the surplus earned by the Company in the previous years, the cumulative surplus as at the end of FY18 is Rs.1874.10 Crores (inclusive of profit in the FY18).

4.3 Annual Performance Review for FY18:

The Commission has considered the actual revenue and expenses reported by KPTCL as per the Audited Accounts, as against the expenses approved by the Commission in its Tariff Orders dated 30th March,2016 and 11th April, 2017, for the purpose of Annual Performance Review for the FY18.

The Annual Performance Review(APR) of the KPTCL for the FY18, has been taken up by the Commission, in accordance with the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, as amended from time to time. The analysis of item-wise expenditure and the decisions of the Commission thereon, are discussed in the following paragraphs:

i) Transmission Losses for FY18:

The KPTCL, in its filings as per audited accounts, has reported the transmission losses of 3.222%, as against the Commission approved annual average transmission loss of 3.37% for the FY18.

The Commission in its Tariff Order dated 30th March, 2016, had fixed the target of transmission loss at 3.37% for the FY18 on the basis of the methodology suggested by the KPTCL, wherein the total energy at interface points of the ESCOMs is deducted from the energy input from generation bus to the KPTCL grid, to arrive at the transmission loss in KPTCL system.

The actual transmission loss of 3.222% reported by the KPTCL is based on the input energy and energy supplied exclusively at interface points of the KPTCL transmission system. The actual transmission loss of KPTCL is within the approved lower and upper limits of transmission loss (3.17% to 3.57%) for the FY18 and hence, it is not entitled for any incentive for loss reduction within the set range.

Thus, the Commission decides not to allow any incentive or levy penalty, as the actual transmission loss of 3.222% is within the approved lower and upper limits.

ii) Transmission System Availability (TSA):

KPTCL's Submission:

The Transmission System Availability (TSA) of the transmission lines, transformers and the reactors in the KPTCL system, as submitted for the FY18, are as follows:

TABLE –4.3

Transmission System Availability – FY18

Name of the Transmission Zone	Total No of AC Tr. Lines	% Availa-bility	Total No of ICT's	% Availa-bility	Total No of switched BUS Reactors	% Availa-bility	% Availability for the system
Bagalkote Zone	425	98.93	561	99.90	0	0.00	99.48
Bengaluru Zone	379	99.82	616	99.71	4	99.85	99.75
Kalaburagi Zone	229	99.78	357	99.81	0	0.00	99.80
Hassan Zone	218	99.56	318	99.78	3	100.00	99.69
Mysuru Zone	166	99.92	272	98.95	0	0.00	99.32
Tumakuru Zone	115	96.26	379	99.92	4	98.90	99.06
Total	**1532**	**98.94**	**2503**	**99.73**	**11**	**99.54**	**99.43**

Commission's Analysis:

The Commission, in its preliminary observations, had noted that due to non-availability of the Transmission network, some of the wind generators in Basavanabagewadi and Itagi Taluks had been directed to shut down their generation, resulting in huge loss. Therefore, the KPTCL was directed to examine and provide details of all such cases (Transmission line or Sub-Stations) of forced outages of the generators for want of transmission network and also to submit suitable action plan to address this issue suitably. Further, KPTCL was directed to furnish the details of Transmission constraints, if any, along with an action-plan for overcoming such constraints.

The KPTCL has furnished the response to the Commission's observations on TSA for FY18 vide letter No. KPTCL/2018-19/87732 dated 22.12.2018. The KPTCL has stated that the issue pertaining to Basavana Bagewadi has been resolved and subsequent to that there are no such cases of forced outage of generators on account of transmission network availability. Further, the KPTCL has submitted that, improvement works has been taken up to reduce overloading of Itagi Station, which would also ensure evacuation of wind generation. KPTCL has also taken up green corridor project, to facilitate evacuation of green power in the State without constraints.

It is further submitted that, the KPTCL has commissioned four 220kV lines from NTPC Kudigi generating station to GM Navar station (where most of the wind generation terminates), which is further connected to Basavana Bagewadi and Indi 220kV stations, and are feeding the loads, particularly Irrigation loads of areas in Bijapura district. Therefore, there is no congestion for evacuating wind generation in this area. However, the double circuit 220kV line between Kudigi and Vajramatti stations, is to be completed within May, 2019, so that wind generation in the surrounding areas of Bagalkot, Indi, Bijapura, Basavana Bagewadi and Vajramatti areas will be further relieved of the transmission congestion in the area.

The Commission while accepting the KPTCL's explanations on this issue, directs the KPTCL to monitor the net availability during ensuing wind peak season commencing from May to September, as many wind generators have complained about evacuation problems faced during the peak season of wind generation.

It is also noted that The KPTCL has submitted its explanations on overall system availability and has stated that, necessary remedial action has been initiated to improve availability of the system, and has confirmed that, the transmission availability remains at 99.43% only.

The Commission, based on the submissions made by the KPTCL, has considered the TSA at 99.43%. The Commission directs KPTCL to consistently improve and maintain its TSA, by monitoring and taking remedial measures in respect of the transmission elements which are prone to show lower availability.

iii) Incentive for Transmission System Availability:

As per the provisions of Regulation 3.17(1) of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, the Transmission Licensee is allowed an incentive for achieving system availability above the target availability of 98%. Hence, considering the availability and the net ARR for FY18 as approved by the Commission in this order, the allowable incentive for the FY18 is calculated as follows:

TABLE – 4.4

Incentive for better Transmission System Availability

Particulars	FY18
System Availability Target	98%
Actual System Availability for FY18	99.43%
No incentive allowed beyond 99.75% as per MYT Regulations	99.75%
Availability beyond target levels	1.43%
Incentive for Availability beyond target levels linked to approved ARR in Rs. Crores	43.37
50% to be shared with the ESCOMs and balance to be retained by KPTCL Rs. Crores	**21.68**

The total incentive earned by the KPTCL on account of improved system availability for the FY18 is Rs.43.37 Crores. The Commission hereby approves sharing of the gains with ESCOMs in the ratio of 50:50. Thus, the incentive on account of system availability achieved by KPTCL beyond the target set by the Commission for FY18, is Rs.21.68 Crores.

The Commission, therefore, directs the KPTCL to recover the above incentive amount of Rs.21.68 Crores from the ESCOMs, in proportion to their actual transmission capacity for the FY18 and utilize the same to adopt technological advancements in tools & machinery and to initiate advanced training to its officers and employees, to improve their efficiency in performance and report compliance thereof to the Commission.

iv) Operation and Maintenance Expenses:

KPTCL's Submission:

KPTCL in its application has reported that the net actual O&M Expenses incurred for FY18 is Rs.1233.55 Crores (excluding SLDC Charges & Other expenses shared by the ESCOMs). This includes Employee costs of Rs.904.50 Crores, Administration & General Expenses of Rs.113.09 Crores and Repairs & Maintenance expenses of Rs.215.96 Crores.

The Commission, in its Tariff Orders dated 30th March, 2016, had approved O&M Expenses of Rs. 1,216.59 Crores, inclusive of additional O & M expenses of Rs.237.16 Crores on account of contribution to P&G Trust (Terminal Benefits) & leave encashment for FY18. Thus, the actual O&M Expenses reported by KPTCL is higher than the approved expenses by Rs.16.96 Crores.

The KPTCL in its application has requested the Commission to approve O & M expenses of Rs. 1,287.31 Crores, considering the O & M costs as per norms, of Rs.953.66 Crores and uncontrollable O& M expenses of Rs. 333.65 Crores which includes P & G contribution of Rs. 167.99 Crores, leave encashment of Rs.24.75 Crores and the arrears of pay revision of Rs.140.91 Crores. However, KPTCL, in its filing, as per Table-21, has claimed an amount of Rs.1233.55 crores towards O & M expenses for FY18. Further, the KPTCL has also submitted the breakup of O&M expenses for the transmission lines and the bays wherein it is found that, major portion of the cost is incurred towards maintenance of bays as compared to the cost incurred on maintenance of lines.

Commission's Analysis and decisions:

The Commission in its preliminary observations had noted that, as per the audited accounts of KPTCL for FY18, an amount of Rs.140.91 Crores had been included as provision towards arrears of revision of pay scale with effect from 01.04.17 in the salary expenditure of Rs.712.06 Crores. Therefore, KPTCL was directed to furnish the details of actual amount of additional employee cost incurred towards payment of pay revision arrears from 01.04.17 to 31.03.2018, besides furnishing the computation sheet for the claims of Rs.140.91 Crores, included in the salary account during FY18.

KPTCL in its replies has submitted that out of Rs.140.91 Crores of additional employee cost on account of revision of pay with effect from 01.04.2017, an amount of Rs.130.338 Crores is towards arrears of pay revision and the remaining Rs.10.575 Crores is towards earned leave encashment, included in the total leave encashment of Rs.24.75 Crores under the respective item of expenditure under employee costs for FY18. The Commission also notes the revision of rates of contribution to P & G Trust, on account of pension and gratuity, on the basis of Actuarial Valuation Report. Thus an amount of Rs.167.66 Crores has been accounted towards Contribution to the P & G Trust under the head- Employee Cost, as per the audited accounts. Accordingly, the Commission decides to consider Rs.167.66 Crores towards contribution to P & G Trust (Terminal Benefits), Rs. 24.75 Crores towards Earned Leave Encashment and Rs. 130.338 Crores towards pay revision arrears, as the uncontrollable O & M expenses for FY18.

In accordance with Clause 2.5.1 of the MYT Regulations, the values of the base year of the Control period are being determined on the basis of the latest audited accounts, best estimates for the relevant years and other factors considered appropriate by the Commission, after applying the tests for determining the controllable and uncontrollable nature of various items.

As per the MYT Regulations, the O&M expenses of the transmission licensee are treated as controllable expenses. The major components of the O & M expenses are: Employees Cost, Administration and General Expenses and Repairs and Maintenance expenses. The audited accounts for FY18 indicate the actual expenses incurred under these heads of expenditure. Besides these expenses, the KPTCL has been making contributions to the Pension and Gratuity Trust towards regular employees and the employees covered under NDCPS and making the provision for Earned Leave encashment. In addition, in the current filing, additional expenses towards pay revision arrears payable from 01.04.2017 to 31.03.2018 has also been claimed. The Commission considers the contribution made to P&G Trust, expenses on the Earned Leave encashment and pay revision arrears as uncontrollable expenses.

The normative O & M expenses are being determined, considering the actual O & M expenses incurred by the KPTCL during the base year in 2016 and the O & M expenses approved by the Commission for FY17, the actual number of bays and length of transmission lines in circuit kilometres and the actual inflation factor for the year. The Commission has been consistently adopting this approach to compute the O & M expenses, as provided for in the MYT Regulations, besides allowing additional employee cost treated as uncontrollable O & M cost, as per the provisions of MYT Regulations.

The Commission in its Tariff Order dated 30th March, 2016, while approving the O&M expenses for FY18 had considered 23,116 No. of Bays and 36,759 Ckt. Kms of transmission Lines. The actual number of Terminal Bays and the length of Ckt. Kms. of transmission lines erected by the KPTCL, as per the audited accounts for FY18, are shown below:

TABLE-4.5

Length of Transmission Lines and No. Bays

Transmission Lines-Voltage class:	Transmission lines (in Circuit kms) as on 31.03.2018)
400 KV	3544
220 KV	11,279
110 KV	10,509
66 KV	10,792
TOTAL	**3,6124**
Type of Bay	**Nos. as on 31.03.2018**
Line Bay	5,427
Transformer bay	2,543
PT Bay	1,595
Capacitor Bank Bay	962
11 KV Bay	11,945
Total	**22,472**

From the above table, the Commission notes that, there is a shortfall in achievement of the proposed number of terminal bays and length of Ckt. Kms. of transmission lines for FY18, by KPTCL.

In line with the earlier Tariff Orders, the Commission decides to continue computation of composite inflation index based on 80% weightage to CPI and 20% weightage to WPI. Based on this composite inflation index, the Commission has computed the inflation factor, based on similar methodology adopted by the CERC, in its orders on escalation rates, issued from time to time, shown follows:

TABLE- 4.6
Computation of Inflation Rate

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2006	70.2	122.9	112.36				
2007	73.6	130.8	119.36	1.06	0.06	1	0.06
2008	80.0	141.7	129.36	1.15	0.14	2	0.28
2009	81.9	157.1	142.06	1.26	0.23	3	0.70
2010	89.7	175.9	158.66	1.41	0.35	4	1.38
2011	98.2	191.5	172.84	1.54	0.43	5	2.15
2012	105.7	209.3	188.58	1.68	0.52	6	3.11
2013	111.1	232.2	207.98	1.85	0.62	7	4.31
2014	114.8	246.9	220.48	1.96	0.67	8	5.39
2015	110.3	261.4	231.196	2.06	0.72	9	6.49
2016	110.3	274.3	241.5	2.15	0.77	10	7.65
2017	114.1	281.2	247.78	2.21	0.79	11	8.70
A= Sum of the product column							**40.23**
B= 6 Times of A							**241.40**
C= (n-1)*n*(2n-1) where n= No of years of data=12							**3,036.00**
D=B/C							**0.08**
g(Exponential factor)= Exponential (D)-1							**0.0828**
e=Annual Escalation Rate (%)=g*100							**8.2760**
As per CERC Notification No. Eco T I / 2018-CERC dated 06.04.2018 with weightage of 80% on CPI and 20% on WPI							

Considering the inflation rate of 8.276%, the normative O & M expenses for the FY18 will be as follows:

TABLE –4.7

Approved Normative O & M Expenses for FY18

Amount in Rs. Crores

Particulars	Amount
O&M cost in terms Rs. Thousand/bay	309.71
O&M cost in terms Rs. Thousand/Km of Line	80.93
Inflation rate*	8.276
No. of Bays	22472
Length of Line in Kms	36124
O&M Expenses for Bays Rs. Crores	695.97
O&M Expenses for Lines Rs. Crores	292.34
TOTAL O&M Expenses as per Norms Rs. Crores	**988.31**

As stated in pre-para, as per the audited accounts for the FY18, the KPTCL has incurred Rs.167.06 Crores towards P&G contribution, Rs.24.75 Crores towards Earned Leave encashment and Rs.130.34 Crores towards Pay revision. The Commission decides to allow the same as additional employee cost for FY18.

Based on the above discussions, the allowable O & M expenses for the FY18 are as follows:

TABLE – 4.8

Approved Allowable O & M expenses for FY18

Amount in Rs. Crores

Particulars	FY18
O&M Expense as per Norms Rs Crores	988.31
Additional O&M Expenses on account of P&G Contribution, Earned Leave Encashment & Pay revision for FY18	322.15
Allowable O&M Expenses with P&G Contribution, Leave contribution and Arrears of Pay revision	**1,310.46**

Thus, the Commission hereby approves total O & M expenses of Rs. 1,310.46 Crores for the FY18.

v) Depreciation:

KPTCL, in its application has claimed a net amount of Rs.666.28 Crores towards depreciation as against an amount of Rs.735.51 Crores approved in the Tariff Order dated 30th March, 2016. As per the audited accounts, KPTCL has booked an amount of Rs.716.24 Crores, which includes depreciation on assets created out of consumers' contribution/grants and after capitalization of Rs.0.54 Crores for FY18. The KPTCL, in its audited accounts, under other income head of accounts, has booked an amount of Rs.49.95 Crores as depreciation withdrawn on the assets created out of consumer contribution and grant for FY18. Thus, the actual net depreciation is Rs.666.83 Crores which is less by Rs.68.68 Crores as compared to the approved amount.

As per the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, the Commission has determined the allowable depreciation duly considering the actual average gross block of fixed assets for FY18.

As per the audited accounts for FY18, the depreciation before capitalization is Rs.716.78 Crores. The capitalized amount of depreciation of Rs.0.54 Crores is considered under 'other expenses capitalized' as discussed in the subsequent paragraphs of this Chapter. After excluding the withdrawal of depreciation of Rs.49.95 Crores, towards assets created out of consumer contribution and grants and Rs. 0.22 Crores towards depreciation of SLDC assets, **the net depreciation for FY18 works out to Rs.666.60 Crores, which the Commission decides to allow for the FY18.**

vi) Capital Expenditure for FY18:

KPTCL's submission:

As per the application for APR for FY18, the KPTCL has achieved a capital expenditure of Rs.1,825.28 Crores, as against the Commission approved capex of Rs.2,000 Crores for FY18. The KPTCL, in reply to the preliminary observations, has furnished the breakup of capital expenditure and corresponding works in respect of capital expenditure during FY18 as follows:

Capital expenditure of KPTCL for FY18 (Rs. in Crores)

Particulars	Works completed by KPTCL in FY18	Actual capital expenditure for 2017-18 (in Rs. Crores)
Sub-Station works (in No.s)	40	429.57
Augmentation Works (in No.s)	59	187.70
Exclusive Line Works (in Ckms)	1,005.02	1,176.68
General Works	_	31.34
Total		**1,825.29**

The breakup of above said works are as given below:

Station Works Completed During FY18

Particulars	Achievement (No's)	MVA Added
440kV	01	1,000
220kV	02	350
110kV	15	260
66kV	22	276.50
Total	**40**	**1,886.50**

Augmentation Works FY-18

Particulars	Achievement (Nos)
220kV	01
110kV	18
66kV	40
Total	59

Length of Line constructed during FY18

Particulars	Achievement (in Ckt. Kms)
400kV	409.228
220kV	200.462
110kV	167.136
66kV	228.190
Total	1,005.016

Commission's Analysis and Decisions:

From the above it is noted that, the KPTCL has incurred a capex of Rs. 429.57 Crores, Rs. 187.70 Crores and Rs. 1,176.68 Crores against Sub-Station works, Augmentation Works and Exclusive Line Works, respectively amounting to Rs.1,825.29 Crores, including Rs.31.34 Crores of general works as against the Commission approved capex of Rs.2,000 Crores for FY18, which is well within the approved capex.

KPTCL was directed to furnish the breakup of costs, scheduled date of completion and actual date of completion in respect of individual works completed during FY18. However, KPTCL has not furnished the same. Therefore, KPTCL is directed to maintain proper records pertaining to each of the works, along with schedule date of commencement, schedule date of completion, actual date of commencement, actual date of completion and reasons for the cost and time over run, if any. This will enable proper monitoring of the execution of works.

Commission has taken note of the actual capex of Rs. 1,825.29 Crores incurred for FY18 and decides to allow the same. The Commission has entrusted the work of carrying out prudence check of capital expenditure for FY17 & FY18 to the Consultants. On receipt of final report in this regard, the Commission will take a view on disallowance of the costs associated with imprudent works.

vii) Interest and Finance Charges:

The KPTCL in its filing, has claimed an amount of Rs.426.21 Crores towards Interest and Finance charges on capital loans against the Commission approved amount of Rs.623.75 Crores in the Tariff Order dated 30th March, 2016 for FY18. Thus, the actual Interest and Finance charges incurred by KPTCL is less than the approved amount by Rs.197.54 Crores.

The Commission has considered the opening balance of long term loans, new loans availed and repayment of loans made during FY18, as per the Audited Accounts. Based on the opening and closing balances of long term loans, the average loan for the year FY18 works out to Rs.5,087.56 Crores. The actual amount of interest on capital loans incurred is Rs.417.11 Crores for FY18. The weighted average rate of interest works out to 8.20%. The details of the allowable interest on capital loans are as follows:

TABLE – 4.9
Allowable Interest and Finance Charges

Amount in Rs. Crores

Particulars	FY18
Opening balance of Secured Loans	4,965.23
Opening balance of Unsecured Loans	2.97
Total	4,968.20
Add: New Loans	866.76
Less Repayments	628.03
Total loan at the end of the year	5,206.93
Average Loan	5,087.56
Interest on long term loans (as filed as per audited accounts)	417.11
Weighted average rate of interest based on the actual interest provided on long term loans in FY18 as per audited accts in %	8.20%
Allowable interest on long term loans	**417.11**

Since the actual weighted average rate of interest of 8.20% is comparable with the prevailing interest rates for long term loans, the Commission decides to allow the actual interest on long term loans and finance charges of Rs.417.11 Crores for FY18. Further, considering the actual capitalization of interest of Rs.59.63 Crores as per the annual audited accounts, the net interest on long term loans works out to Rs.357.48 Crores for FY18.

Thus, the Commission decides to allow net interest on long term loans of Rs.357.48 Crores FY18.

viii) Interest on Working Capital:

The Commission, in its Tariff Order dated 30th March, 2016, had approved an amount of Rs.89.00 Crores towards interest on working capital as per the provisions of the MYT Regulations. The Commission notes that, the KPTCL in its filing has not claimed any amount of interest on working capital for FY18 and that, as per audited accounts, it has incurred Rs.9.11 Crores towards interest on short term loans for FY18. As per the norms under MYT Regulations, the KPTCL is entitled to interest on working capital for FY18 as follows:

TABLE – 4.10
Allowable Interest on Working Capital

Amount in Rs. Crores

Particulars	FY 18
One-twelfth of the amount of O&M Exp.	109.11
Opening GFA as per Audited Accts	15,004.27
Stores, materials and supplies 1% of Opening balance of GFA	150.04
One-sixth of the revenue from Transmission users at the prevailing tariffs	476.59
Total Working Capital	**735.74**
Rate of Interest (% p.a.)	11.00%
Interest on Working Capital	**80.94**
Actual Interest on WC as per accounts	9.11
As per Regulations actual plus 50% of difference (savings) between actual and normative	**45.02**

Thus, the Commission decides to allow interest of Rs.45.02 Crores on working capital for FY18.

ix) Other Debits:

As per the Audited Accounts for FY18, the KPTCL has claimed an amount of Rs.5.55 Crores towards other debits. This includes Rs 0.75 Crores towards asset decommissioning cost, Rs. 0.23 Crores towards losses relating to fixed assets, Rs.1.30 Crores towards rebate allowed on transmission charges, Rs.2.32 Crores relating to provision for bad and doubtful debts and Rs. 0.70 Crores towards miscellaneous losses and write off.

The Commission, as per the provisions of the MYT Regulations, by excluding an amount of Rs.2.32 Crores relating to provision for bad and doubtful debts, decides to allow an amount of Rs.3.23 Crores towards other debits for FY18.

x) Return on Equity:

The KPTCL in its application for APR of FY18, has claimed an amount of Rs.629.90 Crores towards Return on Equity for FY18, as against the RoE grossed up with MAT approved at Rs.661.48 Crores by the Commission in its Tariff Order dated 30th March, 2016. The details of the KPTCL's submission on RoE are as follows:

TABLE – 4.11

Return on Equity - KPTCL's Submission

Amount in Rs. Crores

Calculation of RoE	FY18
Paid-up share capital and share deposits	2,075.32
Share Deposit	107.00
Reserves and Surplus	1,881.55
Total Equity	4,063.87
RoE @ 15.50%	**629.89**

In accordance with the provisions of the MYT Regulations, the Commission, has considered the opening balance of equity, based on the amount of paid-up share capital, share deposits and accumulated balance of surplus in profit and loss account under 'Reserves and Surplus' of the audited accounts for FY18.

Further, in compliance of the Orders of the Hon'ble ATE in Appeal No.46/2014, wherein it was directed to indicate the opening and closing balances of gross fixed assets along with break-up of equity and loan component in the Tariff Order henceforth, the details of GFA, debt and equity (net-worth) for FY18 are indicated as follows:

TABLE – 4.12
Status of Debt Equity Ratio for FY18

Amount in Rs. Crores

Particulars	GFA	Actual Debt	Actual Equity (Net-worth)	Normative Debt @ 70% of GFA	Normative Equity @ 30% of GFA	%age of actual debt on GFA	%age of actual equity on GFA
Opening Balance	15,004.27	4,968.20	4,056.43	10,502.99	4,501.28	33.11	27.04
Closing Balance	17,286.00	5,206.93	4,268.57	12,100.20	5,185.80	30.12	24.69

From the above table it is seen that the actual debt equity ratio is within the normative debt equity ratio of 70: 30 on the opening and closing balances of GFA for FY18.

Based on the above, the Commission hereby decides to allow RoE at 15.5% of equity, besides allowing the taxes separately. Accordingly, the allowable RoE for FY18 is computed as follows:

TABLE – 4.13
Allowable RoE for FY18

Amount in Rs. Crores

Particulars	FY18
OB: Paid Up Share Capital	2,075.32
OB: Share Deposit	107.00
OB: Reserves & Surplus	1,874.10
Total Equity	**4,056.43**
RoE at 15.5%	**628.75**
RoE Approved by Commission	**628.75**

Thus, the Commission approves an amount of Rs. 628.75 Crores as the RoE for FY18.

xi) Provision for Taxation:

KPTCL Submission:

The KPTCL in its application for approval of revised ARR for FY18 under the APR, has claimed an amount of Rs.584.52 Crores towards the Income Tax for FY 18 and requested the Commission to allow the same.

The Commission notes that as per the filing, based on audited accounts for FY18, KPTCL has claimed Rs. 170.02 Crores as current tax and Rs. 414.50 Crores as deferred tax liability. The Commission in its preliminary observations had directed KPTCL to furnish the details of actual tax paid to the income tax authorities, with supporting documents. The KPTCL in its replies has stated that it has paid Rs.170.02 Crores as income tax and has submitted the documents in support of the claims. However, the balance amount of Rs. 414.50 Crores is stated to be the deferred tax liability, provided for and accounted in the books of accounts for FY18.

The Commission as per the provisions of Regulation 3.13.6 as amended by KERC (Terms and Conditions for Determination of Transmission Tariff) (Second Amendment) Regulations,2015, decides to allow Rs.170.02 Crores, being the actual income tax paid by KPTCL to the income tax authorities. As regards the deferred tax liability provided for in the books of accounts, the Commission decides to allow the same on actual payment basis as and when actually paid, in the subsequent years.

Therefore, the Commission allows an amount of Rs. 170.02 Crores, towards Income Tax actually incurred for FY18.

xii) Net Prior Period Income and Expenses /Losses:

The KPTCL in its filing as per the audited accounts, has claimed an amount of Rs.15.69 Crores as net prior period expenses/losses for FY18. This amount includes prior period income towards interest income, excess provision for depreciation and other income of Rs.4.20 Crores.

The prior period expenses/losses include the under-provision of depreciation, employee cost, administrative and general expenses and other expenses relating to previous year, of Rs.19.89Crores.

Therefore, the Commission decides to allow a net amount of Rs.15.69 Crores as the net prior period expenses/losses for FY18.

xiii) Other Expenses Capitalized:

The KPTCL in its application as per the audited accounts has factored capitalization of Rs.39.56 Crores towards employee cost, R & M expenses and A & G expenses for FY18.

The Commission decides to allow the actual amount of expenses capitalized as above and also allow the capitalized amount of depreciation of Rs.0.54 Crores for FY18.

Thus, the Commission decides to allow Rs.40.10 Crores towards capitalization of other expenses for FY18.

xiv) Other Income:

The KPTCL in its application has claimed, as per the audited accounts, an amount of Rs.185.16 Crores towards Other Income for FY18. The Commission notes that, as per the audited accounts, the Other Income is indicated as Rs.235.11Crores for FY18. This amount also includes the withdrawal of depreciation of Rs.49.95 Crores on assets created out of consumer contribution / grants. This amount has already been factored in, while computing the allowable depreciation for FY18. The balance amount of Rs.185.16 Crores which mainly pertains to rent from staff quarters, rent from ESCOMs, interest on investments / bank deposits and gain on sale of stores/assets, sale of scrap and miscellaneous recoveries is treated as other income.

Therefore, the Commission decides to consider an amount of Rs.185.16 Crores as other income (non-tariff income) for FY18.

xv) SLDC Charges:

The KPTCL, in its application has indicated the SLDC charges separately for FY18 as detailed below:

TABLE – 4.14

SLDC Charges for FY18-KPTCL's Submission

Amount in Rs. Crores

Sl. No.	Particulars	FY 18
1	Employee cost	12.17
2	A & G Expenses	7.92
3	Repairs & Maintenance Expenses	0.03
4	Depreciation	0.22
	Total	**20.34**

The Commission in its Order dated 11th April, 2017 had approved the revised SLDC Charges of Rs. 24.77 Crores for FY18. However, considering the actual SLDC charges of Rs.20.34 Crores incurred during FY18, as per KPTCL's application, the Commission decides to allow adjustment of the reduced SLDC charges of Rs.4.43 Crores to be shared by the ESCOMs, are as follows:

TABLE – 4.15

Allowable SLDC Charges for FY18

Amount in Rs. Crores

Particulars	Capacity Allocation in MW for FY18	SLDC Charges for FY18 as per APR	SLDC Charges for FY18 as approved in Order dated 11.04.2017.	Difference to be adjusted in FY20
BESCOM	9,516	9.79	11.33	-1.54
MESCOM	1,615	1.66	1.94	-0.28
CESC	2,252	2.32	3.14	-0.82
HESCOM	4,000	4.12	5.39	-1.27
GESCOM	2,380	2.45	2.97	-0.52
TOTAL	**19763**	**20.34**	**24.77**	**-4.43**

Thus, the Commission decides to consider the actual SLDC charges of Rs.20.34 Crores for FY18 and the difference of Rs.(-)4.43 Crores in SLDC charges shall be adjusted in the SLDC charges payable by ESCOMs to KPTCL in FY20 as discussed in the subsequent chapter of this Order.

xvi) Revenue:

KPTCL in its application has considered an amount of Rs. 2,859.53 Crores as the Revenue from Transmission Charges and miscellaneous charges as per the audited accounts for FY18. The Commission will consider the same for the purpose of APR for FY18.

xvii) Abstract of Approved ARR for FY18 as per APR:

Based on the above decisions the consolidated Statement of approved ARR as per APR for FY18 is as follows:

TABLE – 4.16
Abstract of approved ARR for FY18 as per APR

Amount in Rs.

Sl. No.	Particulars	As Appd. (T.Os Dated 30.03.2016) & 11.04.2017	As filed	As per APR
1	Energy available for transmission in MU	72,035	70,288	70,287.85
2	Energy sold at IF Points in MU	69,608	68,023	68,022.871
3	Transmission Losses in MU	2,427	2,265	2,264.98
4	Transmission Loss in %	3.37	3.22	3.222
5	Installed Capacity in MW	20,570	20,570	19,763
6	**Revenue from Transmission of power and other operative income**	**2,753.70**	**2,859.53**	**2,859.53**
7	**Expenditure in Rs. Crores**			
i	Employee Cost		904.50	
ii	Repairs & Maintenance		215.96	
iii	Administration & General Expenses		113.09	
	Total O&M Expenses	**1,216.59**	**1,233.55**	**1,310.46**
8	Depreciation	735.51	666.28	666.60
9	Interest & Finance Charges	623.75	426.21	417.11
10	Interest on working capital	89.00	0.00	45.02
11	Return on Equity	661.48	629.90	628.75
12	Income Tax	0.00	584.52	170.02
13	Other Debits	0.00	5.55	3.23
14	Extraordinary items	0.00	0.00	0.00
15	**Less**			
16	Interest & Finance Charges capitalised	-52.80	-59.63	-59.63
17	Other Expenses capitalised	-49.44	-39.56	-40.10
18	Other Income	-52.82	-185.16	-185.16
19	Net Prior Period Charges (Debit)	0.00	15.69	15.69
21	Carry forward of Surplus as per APR of FY16	-417.58	0.00	0.00
22	**Net ARR**	**2,753.70**	**3,277.35**	**2,972.00**
23	**Deficit for FY18 (Sl. No. 6-22)**	0.00	-417.82	-112.47
24	**Transmission Charges per unit in Paise**	38.23	46.63	42.28
25	**Transmission Charges in Rs. per MW/Month**	**1,11,558**	**1,32,772**	**12,5318**

4.4 Treatment of Gap in Revenue for FY18:

As against the approved ARR of Rs. 2,753.70 Crores and KPTCL's proposed revised ARR of Rs. 3,277.35 Crores, as per APR, the Commission, after the Annual Performance Review, decides to allow an ARR of Rs. 2,972.00 Crores for FY18. **Considering the actual revenue of Rs. 2,859.53 Crores, there is a deficit in Revenue of Rs.112.47 Crores for FY18.**

The Commission decides to carry forward an amount of Rs.112.47 Crores being the deficit for FY18, to the ARR for FY20, as discussed in the subsequent chapter of this Order.