CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY18

4.0 MESCOM's Application for APR for FY18:

The MESCOM has filed its application on 30th November, 2018, for the Annual Performance Review (APR) for FY18 based on the Audited Accounts and for approval of the Annual Revenue Requirement (ARR) for the control period FY20-FY22, along with revision of retail supply tariff for FY20.

The Commission had communicated its preliminary observations on the application of the MESCOM on 17th December, 2018. The MESCOM has furnished its replies to the preliminary observations of the Commission, vide its response dated, 26th December, 2018.

The Commission in its Order dated 11th April, 2017, had approved MESCOM's revised Annual Revenue Requirement (ARR) of Rs. 3073.36 Crores along with the revision of retail supply tariff for FY18.

The revised Annual Revenue Requirement (ARR) of the MESCOM as per annual performance review for FY18, based on the Audited accounts, is discussed in this chapter.

4.1 MESCOM's Submission:

The MESCOM has submitted its proposals for revision of ARR under APR for FY18 based on the Audited Accounts as follows:

TABLE – 4.1

APR for FY18 – MESCOM's Submission

Amount in Rs. Crores

Sl. No	Particulars	As Filed 30.11.2018
1	Energy at the Generation Bus – in MU	5,666.73
2	Transmission Losses - in %	2.86%
3	Energy at Interface - in MU	5,504.81
4	Distribution Losses in %	11.32%
	Sales in MU:	
5	Sales to other than IP & BJ/KJ	3,186.07
6	Sales to BJ/KJ(consuming<40 units/mth.)	34.21

Sl. No	Particulars	As Filed 30.11.2018
7	Sales to IP	1,661.64
	Total Sales	**4,881.92**
	Revenue at existing tariff in Rs. Crores	
8	Revenue from tariff and Misc. Charges	2334.80
9	RE Subsidy to BJ/KJ	23.88
10	RE Subsidy to IP	884.19
	Total Existing Revenue	**3,242.87**
	Expenditure in Rs. Crores	
11	Power Purchase Cost	2,288.10
12	Transmission charges of KPTCL	218.04
13	SLDC Charges	1.87
14	**Power Purchase Cost including cost of transmission**	**2,508.01**
15	Employee Cost	355.68
16	Repairs & Maintenance	39.39
17	Administration & General Expenses	93.60
18	**Total O&M Expenses**	**488.67**
19	Depreciation	90.39
20	Interest & Finance charges	
21	Interest on Loans	51.62
22	Interest on Working capital	49.36
23	Interest on belated payment on PP Cost	0.00
24	Interest on consumer deposits	34.02
25	Other Interest & Finance charges	1.10
26	Less: interest and other expenditure capitalized	-2.92
27	**Total Interest & Finance charges**	**133.18**
28	Other Debits/Extraordinary items	48.47
29	Net Prior Period Expenses/Income (Debit/Credit)	0.00
30	Return on Equity	92.91
31	Taxation/MAT Credit	0.00
32	Funds towards Consumer Relations/Consumer Education	0.37
33	Other Income	-35.30
	ARR	**3,326.70**
35	Add Deficit of previous years	558.15
	Net ARR	**3,884.85**

Considering the revenue of Rs. 3,242.87 Crores against a net ARR of Rs. 3,884.85 Crores, MESCOM has reported a revenue gap of Rs.641.98 Crores for FY18.

4.2 MESCOM's Financial Performance as per the Audited Accounts for FY18:

An overview of the financial performance of MESCOM for FY18, as per its Audited Accounts is indicated in the following Table:

TABLE – 4.2

Financial Performance of MESCOM for FY18

Amount in Rs. Crores

Sl. No.	Particulars	Amount
	Receipts:	
1	Revenue from Tariff and misc. charges	3,190.34
2	Other Income	87.83
	Total Revenue	**3,278.17**
	Expenditure:	
3	**Power Purchase Cost:**	2,288.10
4	Transmission charges of KPTCL,PGCIL &TNEB,	218.04
5	SLDC & DSM(UI) charges	1.87
	Power Purchase Cost including cost of transmission	**2,508.01**
6	Operating Expenses	39.39
7	Employee Cost & Benefit Expenses	355.68
8	Finance Cost	82.56
9	Depreciation	90.39
10	Other Expenses	126.44
11	Current Tax	4.79
12	MAT Credit Entitlement	- 4.79
13	Exceptional Items	48.47
14	Net movement of Regulatory deferred amount	- 4.19
	Net ARR	**3,246.75**
	Net Profits	**31.42**

As per the Audited Accounts, MESCOM has earned a profit of Rs.31.42 Crores for FY18. The profit / loss 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. Crores
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(Adjusted)	3.33
Profits earned in FY18	31.42
Accumulated profit as at the end of FY17	**131.43**

As seen from the above table, the accumulated profit is Rs.131.43 Crores.

Commission's analysis and decision:

As per the provisions of the MYT Regulations, the Commission has taken up the Annual Performance Review for FY18, 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 11th April, 2017. The item-wise review of expenditure and the revenue and the decisions of the Commission thereon are as discussed in the following paragraphs:

4.2.1 Sales for FY18:

A. Sales-Other than IP sets

a. The Commission in its Tariff Order 2017 dated 11.04.2017, had approved total sales to the various consumer categories at 4714.57 MU, as against the MESCOM's proposal of 4713.56 MU, excluding the sales to MSEZ and KPCL. The actual sales of MESCOM, as per the current APR filing [D-2 FORMAT], is 4842.32 MU, indicating an increase in sales to an extent of 127.75 MU, as compared with the approved sales. There is increase in sales of 205.20 MU in LT-categories and reduction of 170.86 MU in HT-categories. It is noted that, as against approved sales [excluding KPCL sales and supply to SEZ] of 3317.33 MU to the categories other than the BJ/KJ and IP sets, the actual sales achieved by MESCOM is 3146.47 MU, resulting in the reduction of sales to these categories by 170.86 MU. Further, MESCOM has sold 1695.85 MU to BJ/KJ and IP set consumers as against approved sales of 1397.25 MU resulting in increased sales to these categories by 298.60 MU.

b. The category-wise sales approved by Commission and the actuals for FY 18 are indicated in the following table:

TABLE – 4.4

Category-Wise Sales for FY-18

Energy in MU

Category	Approved** Energy in MU	Actuals** Energy in MU	Difference (MU)
LT-2a*	1,420.25	1,351.30	-68.95
LT-2b	17.48	13.79	-3.69
LT-3	375.65	362.66	-12.99
LT-4b	0.93	0.93	0.00
LT-4c	7.24	7.91	0.67
LT-5	140.55	136.9	-3.65
LT-6	122.75	118.83	-3.92
LT-6	69.70	68.04	-1.66
LT-7	19.63	20.41	0.78
HT-1	88.26	90.54	2.28
HT-2a	614.81	596.27	-18.54
HT-2b	196.74	193.17	-3.57
HT-2c	204.34	137.07	-67.27
HT-3a & b	11.25	23.60	12.35
HT-4	18.78	19.09	0.31
HT-5	8.99	5.96	-3.03
Sub total	**3,317.33**	**3,146.47**	**-170.86**
BJ/KJ	44.93	34.21	-10.72
IP	1,352.32	1,661.64	309.32
Sub total	**1,397.25**	**1,695.85**	**298.60**
Grand total**	**4,714.58**	**4,842.32**	**127.75**

Including BJ/KJ installations consuming more than 40 units/month
*****Excludes sale; to KPCL and SEZ.***

From the above table it is noted that the major categories contributing to the reduction in sales with respect to the estimate are LT-2a Domestic (68.95 MU) and HT-2c (67.27 MU) and increase in sales is in IP sets (309.32 MU). The IP set consumption is discussed separately, in the subsequent paragraphs.

The MESCOM, while analyzing the reasons for reduction in HT -2c sales, has stated that nine-installations in this category had opted for Open Access in FY18, and procured 47.76 MU under OA. The Commission notes that there is a considerable increase in OA/wheeled energy from about 27.12 MU in FY 17 to 47.76 MU in FY18 [i.e. 1.78 times], which has resulted in decrease in sales to this category.

Regarding LT-2a, the MESCOM has stated that even though the sales to this category is less than the approved sales, the growth over FY17 is 3.60%. The Commission notes that the number of installations is less by 19,119 compared to the approved values and also the specific consumption for this category reduced compared to the approved values, probably contributing to reduction in sales.

c. The preliminary observations of the Commission on the sales estimates and the replies furnished by MESCOM are discussed below:

   i. The Commission in its Tariff Order,2017, had approved sales to KPCL at 9.59 MU for FY18. MESCOM in its D-2 Format of the filing, had not indicated any sales to KPCL for FY18 as per the actuals and for the estimates of FY19 to FY22. MESCOM was directed to clarify the same.

      MESCOM in its replies has informed that for FY18, the sales to KPCL is 3.20 MU and is included in the LT-2a category. The Commission notes that the KPCL consumption pertains to the electricity used in the colonies of KPCL, which is being billed at LT-2a tariff.

   ii. MESCOM, at page 64 of the Tariff Petition, had compared 19th EPS projections with the current estimates of MESCOM and has stated that it has projected load growth under restricted conditions.

MESCOM was directed to clarify, whether there are still restrictions imposed, in view of surplus energy situation in the State and if not, to clarify as to whether the lower estimate is due to low demand growth.

MESCOM in its reply has stated that there are still restrictions on supply due to system constraints in certain areas, rostering of supply to IP sets and reduction of sales in HT categories due to open access.

The Commission notes that MESCOM has not quantified the energy not supplied to the consumers on account of restrictions. The approach of the Commission for estimating the sales to different categories is discussed in the subsequent chapter of this Order.

iii. To further validate the sales, MESCOM was directed to furnish the information on open access energy procured by HT 2b category of consumers in the specified format.

In its reply the MESCOM has furnished the details, which is appropriately considered by the Commission while estimating the sales.

iv. MESCOM had indicated the actual sales to MSEZ as 39.60 MU in FY18, whereas MSEZ in its filing has indicated the same as 42.19 MU. MESCOM was directed to reconcile the above data.

MESCOM in its reply has stated that it has considered the sales to MSEZ as per DCB statement, wherein consumption of March,2017 is reflected in April,2017 DCB, whereas MSEZ has considered the actual consumption from April,2017 to March,2018.

The Commission has noted the reply and the sales to MSEZ is appropriately discussed in the MSEZ Order.

v. The Commission, in its Tariff Order had considered wheeled energy at 59.04 MU for FY18. MESCOM in its D-2 Format of the filing, had not indicated any wheeled energy for FY18 as per the actuals and for the estimates of FY19 to FY22. MESCOM shall clarify the same.

Regarding wheeled energy, MESCOM in its reply has stated that as per CEA guidelines for computing AT & C losses, energy wheeled has to be excluded and therefore, the same is not included in the sales. The Commission has noted the reply furnished.

vi. Further, MESCOM has stated that, at page 74, there is inadvertent mistake and that the years in the table may be corrected as FY-20, FY-21 and FY-22.

B. Sales to IP sets-APR for FY18:

a) As per the approval by the Commission, in its Tariff Order dated 11.04.2017, the specific consumption of IP sets for FY18 is 4,447 units / IP / annum. As per the data of IP-set consumption submitted by MESCOM in its current tariff filing, the specific consumption for FY18 works out to 5,429 units / IP / annum. It is observed that there is an increase in specific consumption by 22.08% i.e., 982 units / IP / annum as compared to the approved figures in spite of decrease in the number of consumers.

b) Total sales to IP sets approved by the Commission for FY18 in the Tariff Order 2017, is 1,352.32 MU for 3,13,084 number of IP installations. As reported by MESCOM in the D-2 Format of tariff filing, the actual consumption by 3,06,053 number of IP set installations is 1661.64 MU, indicating an increase of 309.32 MU, i.e., the sales have increased by 22.87%.

c) As reported by the MESCOM, the total number of IP set installations in FY18 is 3,06,053, as against the approved numbers of 3,13,084, which corresponds to a decrease in number of installations by 2.25%.

d) It is noted that, though the number of installations has decreased by 2.25% i.e., by 7,031 numbers, the specific consumption and the overall consumption has increased by 22.08 percent and 22.87 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 7,031 during FY18.

e) In the Tariff Order dated 11th April, 2017, while approving ARR and retail supply tariff for FY18, the MESCOM was directed to submit to the Commission, monthly IP-set consumption by considering the meter readings of individual IP-set installations which were metered. MESCOM was also directed 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, had not submitted the IP-set consumption based on the meter readings' data of individual IP-set installations. Instead, MESCOM had submitted the abstracts of the IP- sets' consumption, based on the energy meter readings of sample DTCs supplying power predominantly to IP installations.

f) In its preliminary observations, the Commission had directed MESCOM to justify the claims of IP-set consumption of 1,661.64 MU for FY18 with necessary data in support of the same, including the month-wise sample meters' consumption of DTCs duly indicating initial, final readings and multiplying constants of such sample meters.

g) The MESCOM, in its replies to the preliminary observations, has submitted the consolidated month-wise IP-set consumption for FY18 along with the details of assessment, based on the meter readings of sample DTCs feeding predominantly IP installations, through e-mail on 29.11.2018.

h) On verification of the details in respect of the sample meter readings and computation of the average consumption per DTC, it is observed that**, in all the cases wherever the sample meters are not functioning or the assessed consumption zero or negative, MESCOM has considered certain average consumption based on its own assumption, for assessment of sales to IP installations**.

Out of the total 904 pilot meters installed to the DTCs predominantly supplying power to the IP set loads, about 400 number of meters are

not functioning, which corresponds to around 44 percent of total sample meters. This means that only 56 percent of the meters are functioning and assessment based on such inadequate number of sample meters will lead to data inaccuracy. This also indicates that MESCOM has not taken any measures to rectify the defective meters and has not given the matter the attention it deserves.

The Commission is of the view that the assessment of IP consumption shall be based the data of only working meters and considering the estimated consumption based on DTC meter readings, which are non-zero. It is not proper and correct to arrive at the average consumption by considering the specific consumption based on certain averages, replacing the zero or negative-assessed consumption based on actually available DTC meter readings. Thus, the assessment made by MESCOM is not verifiable and is not as per the directions of the Commission.

Hence, the Commission is unable to accept the assessment of IP set energy consumption made by the MESCOM, in its initial filing as well in the subsequent submissions based on its assumptions. The Commission has considered the data of sample meters with reference to the working DTCs, which have positive assessed values for IP set consumption, in order to arrive at the specific consumption for FY18. Since the size of sample is further reduced due to exclusion of non-working meters, the Commission has considered addition of 10% energy to account for sampling error. The computation is as indicated below:

Revised Specific Consumption for FY18

Sl.NO	Particulars	As Computed by the Commission	
		FY17	FY18
1	No of installations	291129	3,06,053
2	Mid-Year no. of installations		2,98,591
3	Extrapolated sales w/r sampling meters without addition towards sampling error-MU		1,379.52
4	**Specific consumption in units/installation/annum**		**4,620.10**

Total IP set Consumption of Energy

by adding 10% error margin

Sl.NO	Particulars	As filed by the MESCOM	
		FY17	FY18
1	**Specific consumption in units/installation/annum**		**5,082.10**
2	**No of installations**	291129	3,06,053
3	**Mid-Year no. of installations**		2,98,591
4	**Total Sales in MU=1x3**		**1,517.47**

TABLE – 4.5

Details of month-wise consumption considered for computing the Specific Consumption:

Month	No of IP sets as per DCB at the end of each month	Total IP Set Consumption (MU) (as submitted by MESCOM)	Total IP Set Consumption (MU) (As computed by the Commission)	Difference in IP set consumption MU
April, 2017	2,92,456	220.65	187.00	33.65
May, 2017	2,93,826	210.28	184.62	25.66
June, 2017	2,95,227	131.43	128.58	2.84
July, 2017	2,97,141	70.90	54.58	16.32
August, 2017	2,98,138	69.47	60.36	9.11
September, 2017	2,99,120	83.63	83.72	-0.09
October, 2017	2,99,596	64.71	67.22	-2.51
November, 2017	3,00,303	66.37	62.15	4.22
December, 2017	3,01,579	124.75	85.55	39.20
January, 2018	3,02,748	179.43	135.43	44.00
February, 2018	3,04,061	220.71	162.74	57.97
March, 2018	3,06,053	219.32	167.57	51.75
Total		**1,661.64**	**1,379.52**	**282.12**
Approved IP sets Consumption as per APR			**1,517.47****	**144.17**

****With 10% sampling error margin addition.**

Based on the above computation, the Commission hereby approves 1,517.47 MU of energy, as sales to the IP sets for FY18, by disallowing 144.17 MU of energy in the sales as claimed by MESCOM for F18,

In the light of the above discussions, the Commission approves the energy sales for FY18 as indicated in the following table including sales of 3.20 MU to KPCL and excluding wheeled energy and sales to MSEZ:

Category-Wise Sales Approved
for FY-18 as APR

Energy in MU

Category	Actuals**
LT-2a*	1,351.30
LT-2b	13.79
LT-3	362.66
LT-4b	0.93
LT-4c	7.91
LT-5	136.90
LT-6	118.83
LT-6	68.04
LT-7	20.41
HT-1	90.54
HT-2a	596.27
HT-2b	193.17
HT-2c	137.07
HT-3a & b	23.60
HT-4	19.09
HT-5	5.96
Sub total	**3,146.47**
BJ/KJ	34.21
IP	1,517.47
Sub total	**1,551.68**
Grand total**	**4,698.15**

Including BJ/KJ installations consuming more than 40 units/month
****Excludes sale to MSEZ and includes 3.20MU of sales to KPCL.***

In addition to the above, sales to MSEZ at the interface point of 42.19 MU is also approved.

4.2.2 Power Purchase for FY18:

MESCOM's Submission:

The Commission in its Tariff Order dated 11th April, 2017, had approved power purchase quantum of 5583.87 MU for MESCOM, indicating source-wise quantum and cost of power purchase for FY18. MESCOM, in its application has submitted the details of actual power purchase for FY18 for the purpose of Annual Performance Review as indicated in the following Table:

TABLE – 4.6

Power Purchase for FY18- Approved and Actuals

Source of Generation	Approved for 2017-18			Actuals for 2017-18			Difference			% increase (+)/decrease (-) over approved figures	
	Energy in MU	Amount in Rs. Crs.	Avg. cost in Rs/ kWh	Energy in MU	Amount in Rs. Crs.	Avg. cost in Rs/ kWh	Energy in MU	Amount in Rs. Crs.	Avg. cost in Rs/ kWh	Energy in MU	Amount In Rs. Crs.
	1	2	3	4	5	6	7=4-1	8=5-2	9=6-3	10	11
KPCL Hydel Stations	1,500.33	105.04	0.70	873.76	76.23	0.87	-626.57	-28.81	0.17	-41.76	-27.43
KPCL-Thermal Stations	1,082.52	468.61	4.33	933.40	455.45	4.88	-149.12	-13.16	0.55	-13.78	-2.81
CGS	1,778.00	635.23	3.57	1,991.35	787.21	3.95	213.35	151.98	0.38	12.00	23.93
Major IPPs	205.28	100.59	4.90	177.64	101.35	5.71	-27.64	0.76	0.81	-13.46	0.76
Minor IPPs(RE Projects)*	844.16	330.42	3.91	795.58	340.50	4.28	-48.58	10.08	0.37	-5.75	3.05
Other State Hydro Projects	10.01	4.15	4.15	9.20	5.62	6.11	-0.81	1.47	1.96	-8.09	35.42
Short/Medium , UI & Sec 11**	163.57	66.91	4.09	477.81	195.31	4.09	314.24	128.40	0.00	192.11	191.90
Transmission Charges (KPTCL/PGCIL)	0.00	301.73	-	0.00	374.26	-	0.00	73.71	0.00	-	24.04
SLDC Charges/Posoco/Tangedco	0.00	2.22	-	0.00	2.17	-	0.00	-0.05	0.00	-	-2.25
Energy Balancing	0.00	0.00	-	407.95	169.72	4.16	407.95	169.72	4.16		
others: non-recurring bills+ Reactive Energy Charges	0.00	0.00	-	0.00	0.19	-	-	-	-	-	-
Total	5,583.87	2,014.90	3.61	5,666.69	2,508.01	4.43	82.82	4,93.11	0.82	1.48	24.47
Note	*includes medium term power purchase from Cogeneration **Excludes medium term power purchase from Cogeneration										

Commission's analysis and decisions:

1. The actual power purchase for FY18, as per the annual accounts submitted by MESCOM is 5666.69 MU at Rs 2508.01 Crores, as against the approved quantum of 5583.87 MU at Rs 2014.90 Crores. This indicates that there is an increase in the quantum of power purchased to an extent of 82.82 MU and there is also an increase in the cost by Rs. 493.11 Crores.
2. As against the approved cost of energy amounting to Rs 2014.90 Crores, the actual cost of power purchased by MESCOM is Rs 2508.01 Crores for FY 18, which accounts for an increase of 24.47% over the approved cost.

3. On an analysis of the source-wise approved and actual power purchases, it is observed that, there deviations in the quantum of energy purchased and its cost. There is shortfall in the supply from sources of power from the State Owned Hydel projects and Thermal projects and also Major IPPs and Minor IPPs (RE Projects) as indicated below:

TABLE – 4.7

Deviations between approved and Actual Energy for FY18

Source of Generation	Approved Energy for 2017-18 in MU	Actual Energy for 2017-18 in MU	Shortfall Energy in MU
KPCL Hydel Stations	1500.33	873.76	626.57
KPCL-Thermal Stations	1082.52	933.40	149.12
Major IPPs	205.28	177.64	27.64
Minor IPPs(RE Projects)*	844.16	795.58	48.58
Total	**3632.29**	**2780.38**	**851.91**

The shortfall from the cheaper source of KPCL Hydel projects, which was due to poor monsoon, the short fall from KPCL Thermal projects which was due to shortage of coal as well as the shortfall from Major IPPs and Minor IPPs (RE Projects), has been made good by procuring power at an additional cost, on short term/medium term, un-requisitioned surplus power from CGS and through Energy Balancing, as indicated below:

Source of Generation	Approved Energy for 2017-18 in MU	Actual Energy for 2017-18 in MU	Excess Energy in MU
CGS	1778.00	1991.35	213.35
Short/Medium , UI & Sec 11**	163.57	477.81	314.24
Energy Balancing		407.95	407.95
Total	**1941.573**	**2877.11**	**935.54**

4. There is overall increase in the per unit cost of energy purchased due to the following:

a) The PGCIL Transmission charges have increased by 84% to Rs.157.40 Crores, when compared to the approved cost of 85.53 Crores.

b) In the Tariff Order 2017, for FY18, the per unit cost of the energy purchased from co-generation plant under medium term was considered at Rs 3.47 per unit as an interim tariff. The actual cost per unit of energy increased to Rs 4.64 per unit, consequent to the determination of the final tariff for the said medium term power purchase.

c) The power from the new thermal projects like Kudgi STPS, BTPS Unit-3 and YTPS was considered as infirm power. The actual cost per unit of energy has increased, consequent to achievement of Commercial Operation of these thermal plants due to adoption of provisional tariff for which tariff is yet to be determined.

d) The increase in power purchase quantum, the change in the source-wise mix of supply and the reconciliation of energy and its cost among ESCOMs, have resulted in increase in average power purchase cost of MESCOM.

The Commission notes that there is an abnormal increase in the contribution from the States towards payment of PGCIL transmission charges. Due to this, there is a substantial financial impact, resulting in considerable increase in the retail supply tariff to the end consumers. The Commission, therefore, directs ESCOMs/PCKL to take appropriate action immediately, to resolve the issues with the appropriate authority regarding the abnormal transmission tariff charged by the PGCIL. In this regard the ESCOMs/PCKL shall form a dedicated team to study the pros and cons of any methodology/amendments proposed to the PGCIL's Transmission tariff or in any such other relevant matters, and appropriately communicate the same to the concerned authorities, at the draft stage itself. The ESCOMs shall also take up this issue with the appropriate higher authorities to ensure that the transmission tariff being charged at reasonable and equitable rates, in relation to the energy transmitted and drawn by Karnataka from the central grid. The Commission will not allow such tariff in future, considering that the ESCOMs/PCKL have not taken effective and prompt steps to ensure that the PGCIL's transmission tariff is fair and equitable to the State.

6. The Commission has observed that the per unit total cost paid to some of the generating Stations of the State, Central and IPPs, including Hydel, Thermal and Non-Conventional sources, as indicated in the D-1 Format, is on a higher side, as compared with the per unit cost paid by the BESCOM. The Commission directs the MESCOM to examine the same in detail and recover excess payments, if any, from the generators, under intimation to the Commission, while explaining the reasons for the difference.

In the circumstances explained above, the Commission hereby decides to approve the actual power purchases of 5666.69 MU at a cost of Rs 2508.01 Crores, for the purpose of Annual Performance Review for FY18, subject to recovery of excess payments made to generators, if any, as stated in sub para-6 above.

4.2.3 RPO Compliance for FY18:

MESCOM had not furnished the details of RPO compliance of solar and non-solar RPO for 2017-18. Hence, to ascertain the RPO compliance and to work out the rate of APPC, MESCOM was directed to furnish the data as per the prescribed format, duly reconciling the data with the audited accounts. MESCOM, in its replies, has filed the details of RPO compliance for solar and non-solar RPO for 2017-18, as indicated in the following Table:

TABLE-4.8

Non-Solar RPO: Compliance

Sl. No.	Particulars	Quantum (MU)	Cost (Rs. in Cr.)
1	Total Power Purchase quantum from all sources excluding Hydro Energy	4,734.74	2,426.16
2	Non–solar Renewable energy purchased under PPA route at Generic tariff including Non-solar RE purchased from KPCL	625.98	229.42
3	Non –solar Short-Term purchase from RE sources, excluding sec-11 purchase	-	-
4	Non –solar Short-Term purchase from RE sources under sec-11 of EA, 2003	-	-
5	Non-solar RE purchased at APPC	-	-
6	Non-solar RE pertaining to green energy sold to consumers under green tariff	-	-
7	Non-solar RE purchased from other ESCOMs	-	-
8	Non-solar RE sold to other ESCOMs	-	-

Sl. No.	Particulars	Quantum (MU)	Cost (Rs. in Cr.)
9	Non-solar RE purchased from any other source like banked energy purchased at 85% of Generic tariff	0.47	0.14
10	Total Non-Solar RE Energy Purchased	626.45	229.56
11	Non-Solar RE accounted for the purpose of RPO including Excess solar (2+9)	626.45	229.56
12	Non-solar RPO complied in % [No.11/No.1]*100	13.23	

TABLE-4.9
Solar RPO Compliance

Sl. No.	Particulars	Quantum (MU)	Cost (Rs. in Cr.)
1	Total Power Purchase quantum from all sources excluding Hydro energy	4,734.74	2,426.16
2	Solar Renewable energy purchased under PPA route at Generic tariff including Non-solar RE purchased from KPCL	169.14	111.03
3	Solar Short-Term purchase from RE sources, excluding Sec.11 purchase	-	-
4	Solar Short-Term purchase from RE sources under Sec.11 of EA, 2003	-	-
5	Solar RE purchased at APPC	-	-
6	Solar RE pertaining to green energy sold to consumers under green tariff	-	-
7	Solar RE purchased from other ESCOMs	-	-
8	Solar RE sold to other ESCOMs	-	-
9.	Solar energy purchased from NTPC (or others) as bundled power	34.50	22.53
10.	Solar RE purchased from any other source like banked energy purchased at 85% of Generic tariff	-	-
11	Total Solar RE Energy Purchased (2+9)	203.64	133.56
12	Solar RE accounted for the purpose of RPO (2+9)	203.64	133.56
13	Solar RPO complied in % [No.12/No.1]*100	4.30	

Commission's Decision:

As per the APR, the Commission has approved power purchase quantum of 4783.73 MU (5666.69-873.76–9.20), excluding procurement from hydro sources, based on the audited accounts. The details of Non-solar energy procured is as indicated in the following Table:

in Million Units

Co-generation (Power Purchase)	96.42
Mini Hydel	267.97
Wind power projects including KPCL	262.09
Bio mass	0.00
Less: Previous year FY17 adjustment as per T.O. 2018	0.00
Non-solar - Total energy *	626.48

***Total includes Banked energy of 0.47 MU**

Regarding the Non-Solar RPO, considering the input energy, net of Hydro sources at 4783.73 MU, the Non-solar RPO target at 12.00% works out to 574.05 MU. It is noted that, the total Non-solar energy purchased is 626.48 MU against the target of 574.05 MU. **Therefore, the Commission holds that MESCOM has met its Non-Solar RPO target of 12% for FY18, in terms of the prevailing Regulations.**

Regarding the Solar RPO, considering the input energy, net of Hydro sources at 4783.73 MU, the Solar RPO target at 2.75% works out to131.55 MU. The total solar energy purchased by the MESCOM is 203.64(169.14+34.50) MU, which is in excess of the target by 72.09 MU. **Therefore, the Commission holds that MESCOM has met its Solar RPO target of 2.75% for FY18, in terms of the prevailing Regulations.**

4.2.4 Distribution Loss for FY18:

MESCOM's Submission:

The Commission in its Tariff Order dated 11th March, 2017 had approved distribution loss for FY18 as shown in the table below:

Range	FY18
Upper limit	11.25%
Average	**11.05%**
Lower Limit	10.85%

MESCOM, in its annual accounts, has reported distribution loss of 11.32% for FY18 as follows:

1	Energy at Interface Points in MU	5504.81
2	Total sales in MU *	4881.92
3	**Distribution losses as a percentage of input energy at IF points**	**11.32%**

***Includes sale of 39.60 MU to MSEZ & excludes wheeled energy.**

The Commission in its preliminary observations had noted that, considering the achievement made by the MESCOM in reducing the distribution losses during the previous years and the amount of capital expenditure incurred, the efforts made by the MESCOM in reduction of the distribution loss for FY18 does not appear to be adequate. MESCOM was directed to furnish the reasons for not reducing the distribution loss to the level approved by the Commission, besides furnishing the details of division-wise distribution losses for FY18. Further, the MESCOM was also directed to furnish the status of distribution loss achieved in the FY19 as at the end of November, 2018.

MESCOM in its replies has stated that the loss of 11.32% is higher by 0.07 percentage point compared to the upper limit of 11.25% and that loss would increase with increase in infrastructure. Further, MESCOM has furnished the division-wise losses for FY18 and FY19(upto October). While furnishing the Division-wise losses for FY19, MESCOM has indicated that the loss up to October, 2018 is 9.54%.

Commission's analysis and decisions:

The Commission notes that, the MESCOM, attributing the increased loss to the increase in infrastructure, is not correct and valid, as the very purpose of expanding the infrastructure is to meet the future loads, reduce losses and improve reliability. Perusal of the division-wise losses submitted in its replies, indicate that Chikkamagaluru, Koppa and Kadur divisions have loss of over 18%, which is substantially more than the approved average loss of 11.05%. **The Commission directs MESCOM to prepare an action plan to reduce losses in these divisions and implement the same immediately.**

The Commission notes the MESCOM's distribution loss of 11.32% as per the audited accounts for FY18. This loss of 11.32% is arrived at without considering the wheeled energy of 173.11 MU, as has been considered by MESCOM up to FY17.

Further, MESCOM while computing the distribution loss, has reckoned the energy sold to MSEZ as 39.60 MU as against 42.19 MU at interface point as reported by, the MSEZ and approved by the Commission for FY18. The Commission, as indicated in the pre-paras, has approved the energy sale to IP sets of 1517.47 MU as against 1661.64 MU projected by the MESCOM for FY18. Thus the total sales for

FY18 is 4740.34 MU excluding wheeled energy. Accordingly, the Commission has approved the distribution loss of 13.93% for FY18, without the wheeled energy.

Further the Commission, as per the practice being followed in the previous Tariff Orders, for the computation of penalty/incentive for the excess/reduced distribution loss than the targeted loss, has recognised the wheeled energy of 173.11 MU, as reported by the MESCOM for FY18. Accordingly, based on the revised sales of 4913.45 MU including the wheeled energy and interface energy of 5680.51 MU (including wheeled energy), the distribution loss of MESCOM is worked out as under:

1	Energy at Interface Points in MU	5680.51
2	Total sales in MU *	4913.45
3.	Distribution loss in MU	767.06
4	**Distribution loss as a percentage of input energy at IF points**	**13.50%**

Revised Sales as per APR for FY18 including sales to MSEZ

Thus, to levy the penalty for exceeding the targeted distribution loss for FY18, the Commission decides to consider the distribution loss of 13.50%, which exceeds the upper loss target of 11.25% fixed by the Commission for FY18 by 2.25 percentage point. Thus, in terms of the provisions of MYT Regulations, the Commission decides to impose penalty for non-achievement of the approved loss reduction target to the extent of 2.25 percentage point which is computed has indicated below:

TABLE-4.10

Penalty for exceeding the targeted Loss Levels in FY18

Actual Input energy at IF points accounted in MU	5680.51
Retail |Sales as Revised in the APR for FY18 - MU	4913.45
Percentage Distribution losses as a percentage of input energy at IF points	13.50
Target Upper limit of distribution loss levels	11.25%
Increase in Percentage Points loss	2.25%
Input at Target Loss for actual sales - MU	5536.28
Increase in input energy at IF point due to increase in loss - MU	144.23
Average cost of power as per actuals – Rs./kWh	4.43
Penalty for increase in power purchase cost due to increased losses Rs. Crores	**63.83**

Accordingly, with the above penalty the Commission consider the distribution loss for FY18 at 13.50%.

4.2.5 Capital Expenditure for the FY18:

A. MESCOM Submission:

The MESCOM, in its application for APR for FY18, has indicated a capital expenditure of **Rs 419.39 Crores**. The capital expenditure of **Rs 419.39 Crores** for FY18 is against the Commission approved capex of **Rs 289.40 Crores** for the FY18. The MESCOM has furnished the breakup of category-wise expenditure of **Rs.419.39 Crores** for FY18 as shown below:

TABLE-4.11

Capital expenditure of MESCOM for FY18

Amount in Rs. Crores

Sl. No	Particulars	As approved in MYT filing for FY18	Actual expenditure	% of Budget utilized
1	Extension & Improvement (Addl. DTCs, Link-Lines, HT/LT Reconductoring, providing intermediate poles, HVDS, etc.)	100.00	89.64	89.64%
2	DTC Metering	0.25	52.61	21044.00%
3	Replacement of MNR / DC & Electromagnetic meters by Static meters and providing SMC meter protection box wherever required.	5.00	1.50	30.00%
4	Niranthara Jyothi Yojana	0.00	0.00	
5	R-APDRP Programme	0.00	7.58	
6	Replacement of faulty DTCs	4.00	5.43	135.75%
7	Service Connections	40.00	29.22	73.05%
8	Rural Electrification (General)	0.00	0.00	
a.	RGGVY (DDG) Programme	0.00	6.71	
b.	Electrification of Hamlets	2.00	0.61	30.50%
c.	Energization of IP sets (including providing infrastructure of UA IP sets)	75.00	159.43	212.57%
d.	Kutir Jyothi	0.25	0.06	24.00%
e.	Sheegra Samparka Yojane	0.00	4.77	
9	Tribal Sub Plan	0.00	0.00	
a.	Electrification of Tribal Colonies	1.50	1.78	118.67%
b.	Energization of IP Sets	0.75	0.57	76.00%
c.	Kutir Jyothi	0.05	0.01	20.00%
10	Special Component Plan	0.00	0.00	
a.	Electrification of S.C. Colonies	1.00	0.32	32.00%
b.	Energization of IP sets	1.00	1.15	115.00%
c.	Kutir Jyothi	0.10	0.01	10.00%
11	Tools & Plants and Computers	5.00	13.46	269.20%
12	Civil Engineering Works	16.00	22.54	140.88%
13	33 kV Sub stations & Line works	37.50	21.99	58.64%
GRAND TOTAL:		**289.40**	**419.39**	**144.92%**

B. Commission's Analysis and Decision:

In the Tariff Order 2017, the Commission had approved capex of Rs.289.40 Crores for MESCOM for FY18. Now, the MESCOM has declared a capital expenditure of Rs. 419.39 Crores.

The Commission in the preliminary observations had requested MESCOM to explain the reasons for, (a) exceeding the approved capex in some of the works which include, DTC metering, Energization of IP sets, Tools & Plants and Computers and Civil Engineering Works; (b) for not achieving the capex in respect of Service Connections and 33kV Sub Stations & Line works; and (c)for incurring expenditures for the works like R-APDRP Programme, RGGVY (DDUG) Programme and Sheegra Samparka Yojane, which were not included in the Capex.

The MESCOM, has submitted the following reasons for exceeding capex amounts, approved by Commission for FY18:

The capex limit has been exceeded in respect of two major works namely DTC metering and providing infrastructure to regularized un-authorized IP sets, which is as detailed below:

i. **DTC metering:** As per the guidelines of the Commission, the DTC metering work was awarded during 2015-16 and was scheduled to be completed during FY17. Hence, the Budget provision was not made for these works during FY18. Further, a Budget provision for FY18 was made for Rs.0.25 Cr, which was required for providing meters to additional DTCs only. Since the awarded work was not completed within the scheduled time the expenditure of Rs.52.61 Cr pertaining to these works was incurred during 2017-18 as per the terms of work award.

ii. **Energization of IP sets & Providing Infrastructure to regularized UIP sets:** As per the GoK Order dated 14.07.2014, 14,117 number of regularized UIP sets were pending for providing infrastructure. For speedy execution of providing infrastructure to these balance UIP sets, works have been awarded on total turnkey basis (Rate Contract) at a cost of Rs.335.00

Crores during March, 2017. The scheduled date of completion was one year from the date of award. Accordingly, MESCOM had estimated a budget provision of Rs.270.00 Cr for UIP works for FY18.

Further, a yearly Budget provision of Rs.75.00 Cr was provided for energization of new IP sets under general, Ganga Kalyana schemes. Therefore, the total budget provision estimated by MESCOM and proposed before KERC in the tariff filing for FY18 was Rs.345.00 Cr for energization of new IP sets and providing infrastructure to regularized UIP. However, the Commission had decided to allow a CAPEX of Rs.75.00 Crores, for the reason that MESCOM may not be in a position to spend the proposed Rs.345.00 Cr for these works. As against this, MESCOM was able to incur an expenditure of Rs.159.43 Cr during 2017-18 pertaining to these works.

As stated by MESCOM, it had proposed revised capex of Rs 595.40 Crores from Rs. 289.40 Crores for FY18, in its filing for ARR of FY18. However, the Commission opined that the MESCOM may not be in a position to spend the proposed amount of Rs.345 Crores for "Energization of IP Sets, including providing infrastructure to regularized Un-authorized IP Sets", and Rs.40 Crores for "Replacement of faulty Distribution Transformers", the Commission decided to allow a Capex of Rs.289.40 Crores, as already approved in the MYT Order, subject to prudence check and directed that, MESCOM should meet any additional **capex required during FY18, only through re-appropriation of approved amounts for the prioritized category within the overall capex and not to seek the approval of the Commission in the middle of the year for additional/higher capex.**

Even though MESCOM has spent capex in excess of approved amount in respect of DTC metering, MESCOM is yet to meter 28,001 number of DTCs as reviewed in the Review Meeting held on 16th November 2018. The Commission directs MESCOM to undertake 100% DTC metering at a faster pace, which is absolutely necessary in order to assess the energy losses accurately.

MESCOM has not provided the reasons for not achieving the capex in respect of Service Connections and 33kV Sub Stations & Line works and for incurring the expenditures for the works namely, R-APDRP Programme, RGGVY (DDUG) Programme and Sheegra Samparka Yojane, which were not included in the

Capex. Hence, MESCOM is directed to plan capex as per the 'Capital expenditure Guidelines' issued by the Commission.

Further, the Commission had directed MESCOM to furnish the details of sources of funding (like grants, debt, equity and internal sources) for the capex incurred during the FY18, against each of the categories of works. The same has not been submitted.

The Commission, after reviewing the capex achieved by MESCOM for FY18, and the explanations furnished, decides to allow the capex of Rs. 419.39 Crores subject to submission of physical and financial progress of the above said works and details of sources of funding within a month from the issue of this Order. 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.

4.2.6 Operation and Maintenance Expenses:

MESCOM's Submission:

The MESCOM, in its application, has sought approval of O&M expenditure of Rs.488.67 Crores for FY18, as per the audited accounts. The break-up of O&M expenses are as follows:

TABLE – 4.12

O & M Expenses - MESCOM's submission

Amount in Rs. Crores

Particulars	FY18
Employee cost	355.68
Administrative & General Expenses	93.60
Repairs and Maintenance	39.39
Total O & M Expenses	**488.67**

It is stated that the O & M expenses have increased by Rs.59.37 Crores as against the approved figures of Rs.429.30 Crores, due to revision of Pay scales of employees w.e.f 01.04.2017.

Commission's analysis and decisions:

The Commission in its Tariff Order dated 11th April, 2017 had approved O&M expenses for FY18 as follows:

TABLE – 4.13

Approved O&M Expenses as per Tariff Order dated 11.04.2017

Particulars	FY18
No. of installations as per actuals as per Audited Accts	23,28,912
Weighted Inflation Index	7.71%
CGI based on 3 Year CAGR	3.93%
Actual O&M expenses for FY16 in Rs. Crores.	350.82
Total approved O&M Expenses for FY18 – in Rs. Crores.	**429.30**

The Commission, in its preliminary observations, had directed MESCOM to furnish the details of actual amount paid during FY18 towards pay revision. Further, MESCOM in its application has stated that, as per the audited accounts, it has included the additional O & M expenses of Rs. 69.71 Crores towards pay revision arrears and the additional provision for pension and gratuity contribution for FY18. The total O &M expenses claimed by MESCOM for FY18 is Rs. 488.67 Crores.

The MESCOM, in its replies, has stated that the actual amount incurred towards pay revision is Rs.47.94 Crore, which is appropriately considered by the Commission while determining the O & M charges for FY18. The remaining amount of Rs. 21.78 Crores, towards the provision for P&G contribution on account of revision of pay and revision of contribution rate, is included in the terminal benefit item.

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 future, to bring down the O&M expenses within the approved level.

The Commission, in accordance with the provisions of the MYT Regulations and the methodology adopted while approving the ARR for FY18 and earlier APRs, proceeds with the determination of normative O&M expenses, based on the 12 Year data of WPI and CPI, besides considering the 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 FY18 is computed as follows:

TABLE-4.14

Allowable inflation for FY18

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	106	209.3	188.58	1.68	0.52	6	3.11
2013	111	232.2	207.98	1.85	0.62	7	4.31
2014	115	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	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							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0828
e=Annual Escalation Rate (%)=g*100							**8.2760**

While determining the normative O & M expenses for FY18, the Commission has considered the following:

a) The actual O & M expenses as per the audited accounts for FY16 as the base year expenses and the approved normative O & M expenses for FY17, 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 FY18.

c) The weighted inflation index (WII) at 8.276% as computed above.

d) Efficiency factor at 1% as considered in the earlier two control periods.

Thus, the normative O & M expenses for FY18 will be as follows:

TABLE-4.15

Normative O & M Expenses

Particulars	FY18
No. Of Installations	22,83,734
CGI based on 3 year CAGR	3.25%
Inflation index	8.2760%
Base Year O&M Cost (FY16 as per actuals without contribution to P&G trust)-Rs. Crores	304.47
Approved O&M expenses without contribution to P&G trust for FY17- Rs. Crores	337.16
Allowable normative O&M expenses Index= 0&M (t-1)*(1+WII+CGI-X)- Rs. Crores	**372.66**

The above normative O & M expenses have been computed without considering the contribution to the Pension and Gratuity Trust and the pay revision arrears for FY18. The additional amount towards pay revision arrears and contribution to P&G trust are discussed below:

i. MESCOM has included Rs.69.72 Crores as an additional employee cost for FY18 towards pay revision arrears from 01.04.2017 to 31.03.2018. MESCOM, in its replies has informed that against its claim for additional O & M expenses of Rs. 69.72 Crores, an amount of Rs. 47.94 Crores is the provision made for payment of pay revision arrears payable from 01.04.2017 to 31.03.2018, which is included under salaries head of accounts, under employee cost and Rs. 21.78 Crores towards pension and gratuity contribution to P & G Trust on account of pay revision and revision of contribution rates as per Actuarial Valuation Report, which is already accounted under Terminal Benefit, under employee cost, as per audited accounts for FY18. The Commission notes the Order issued by the KPTCL on the revision of pay to the employees of KPTCL/ESCOMs, is effective from 1st April, 2017.

Accordingly, the Commission decides to consider to allow Rs. 47.94 Crores as an additional employee cost towards pay revision for FY18, to enable MESCOM to meet the employee cost.

ii. MESCOM, as per its audited accounts has booked an amount of Rs. 62.92 Crores towards Contribution to Pension and Gratuity Trust for FY18. The Commission notes that, as per the replies furnished by MESCOM, this amount also includes Rs. 21.78 Crores being the additional contribution required to be made on account of revision of pay and also revision of contribution rates as per actuarial valuation report.

Thus, the Commission, as per the provisions of the MYT Regulations, decides to treat employee costs on account of Contribution to P&G Trust as uncontrollable O&M expenses. This component has been allowed in addition to the normative O&M expenses to enable MESCOM to meet its actual employee costs.

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

TABLE – 4.16

Allowable O & M Expenses for FY18

Amount in Rs. Crores

Sl. No.	Particulars	FY18
1	Normative O & M expenses	372.66
2	Additional employee cost (uncontrollable O & M expenses) towards contribution to P & G trust	62.92
3.	Additional employee cost (uncontrollable O & M expenses) towards revision of pay	47.94
4	**Allowable O & M expenses for FY18**	**483.52**

Thus, the Commission decides to allow an amount of Rs.483.52 Crores as O&M expenses for FY18.

4.2.7 Depreciation:

MESCOM's Submission:

MESCOM in its application as per the audited accounts has claimed an amount of Rs.90.39 Crores as depreciation worked out after deducting an amount of Rs.27.20 Crores being the depreciation on account of assets created out of consumers' contributions / grants as per Accounting Standards (AS) – 12, as detailed below:

TABLE – 4.17

Depreciation for FY18- MESCOM's Submission

Amount in Rs. Crores

<table>
<tr><th rowspan="2">Particulars</th><th>FY17</th><th colspan="2">FY18</th></tr>
<tr><th>Closing Balance of Asset as on 31.03.2017</th><th>Closing Balance of Asset as on 31.03.2018</th><th>Depreciation</th></tr>
<tr><td>Buildings</td><td>59.69</td><td>80.58</td><td>2.32</td></tr>
<tr><td>Civil</td><td>2.73</td><td>2.85</td><td>0.14</td></tr>
<tr><td>Other Civil</td><td>0.72</td><td>0.72</td><td>0.03</td></tr>
<tr><td>Plant & Machinery</td><td rowspan="2">1,754.03</td><td rowspan="2">2,115.35</td><td rowspan="2">87.12</td></tr>
<tr><td>Line, Cable Network(Less assets created out of consumers contribution/grant) (Rs.515.17)</td></tr>
<tr><td>Vehicles</td><td>4.86</td><td>6.79</td><td>0.25</td></tr>
<tr><td>Furniture</td><td>6.64</td><td>8.02</td><td>0.40</td></tr>
<tr><td>Office Equipment</td><td>2.33</td><td>3.29</td><td>0.13</td></tr>
<tr><td>Lease and Rights</td><td>6.09</td><td>6.02</td><td>0.00</td></tr>
<tr><td>Total</td><td>1837.09</td><td>2,223.62</td><td>90.39</td></tr>
</table>

MESCOM has requested the Commission to allow the above net depreciation amount of Rs. 90.39 Crores for FY18.

Commission's analysis and decisions:

The Commission proceeds determine the depreciation for FY18, 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 FY18 and the depreciation as per annual accounts, the weighted average rate of depreciation works out to 4.45%.

Further, as per the Accounting Standards (AS) – 12, an amount of Rs.27.20 Crores of depreciation on the assets created out of consumers' contribution / grants reckoned in the audited accounts, in arriving at the net depreciation of Rs. 90.39 Crores, will be considered by the Commission in allowing the depreciation for FY18.

Accordingly, the approved asset-wise depreciation for FY18 is as follows:

TABLE – 4.18

Allowable Depreciation for FY18

Amount in Rs. Crores

Particulars	FY17	FY18	
	Opening Balance of Asset as on 01.04.2017	Closing Balance of Asset as on 31.03.2018	Depreciation
Buildings	59.68	80.57	2.32
Civil	2.73	2.85	0.14
Other Civil	0.72	0.72	0.03
Plant & M/c Line, Cable Network net of the deducting Rs.515.17 Crores of assets created out of consumers contribution/grants	2,253.78	2,613.56	114.28
Vehicles	4.86	6.79	0.25
Furniture	6.64	8.02	0.40
Office Equipment	2.33	3.29	0.13
Released assets re-used to works	15.42	16.75	0.04
Total GFA	**2,346.15**	**2,732.55**	**117.59**
Less: Depreciation on assets created consumer contribution/ Grant	**-515.17**	**-515.17**	**-27.20**
Net GFA	**1,830.98**	**2,217.39**	**90.39**

Thus, the Commission decides to allow the net depreciation of Rs.90.39 Crores for FY18.

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.51.62 Crores towards interest on capital loans drawn from Banks/Financial Institutions for FY18 and has requested the Commission to allow the same for FY18.

However, in its replies to the preliminary observation, MESCOM has indicated the interest on capital loan as Rs.50.87 Crores by furnishing the following details:

Amount in Rs. Crores

Particulars	FY18
Long term secured & unsecured loans	546.95
Add new Loans	313.54
Less Repayments	-130.64
Total loan at the end of the year	729.87
Average Loan	638.41
Interest paid on long term loans as per filing	50.87
Weighted average rate of interest based on the interest projected on average loans in %	7.97%

Commission's analysis and decisions:

The Commission, in its preliminary observations, had directed MESCOM to furnish the breakup of loans for each year from FY18 (actuals) and upto FY22, separately by considering the amount of current maturities of long-term debts duly matching the figures with the audited accounts for FY18. MESCOM, in its replies has furnished the revised data of long term loans and short term loans, which has been considered by the Commission. Further, the Commission has noted the status of opening and closing balances of capital, loans as per the audited accounts for FY18, Format D-9 of the filings, new loans borrowed and repayment of loans, while allowing the interest on capital. loan as shown in the following Table:

TABLE – 4.19

Allowable Interest on Loans – FY18

Amount in Rs. Crores

Particulars	FY18
Long term secured & unsecured loans	546.95
Add New Loans	313.54
Less; Repayments	-130.64
Total loan at the end of the year	729.87
Average Loan	**638.41**
Interest paid on long term loans as per filing	50.87
Weighted average rate of interest based on the interest projected on average loans.	**7.97%**
Interest Rate allowed	**7.97%**
Interest Allowed	**50.87**

Considering the average loan of Rs.638.41 Crores and an amount of Rs.50.87 Crores incurred towards interest on capital loans, the weighted average of interest rate works out to 7.97%. The actual weighted average rate of interest of 7.97% is less than the prevailing rate for long turn loan. The Commission notes that the weighted average rate of interest of 7.97% on long-term loans is comparatively on a lower side on account of borrowing of new long term loans of Rs.297 Crores by the MESCOM, at the end of FY18.

Thus, the Commission decides to allow an amount of Rs.50.87 Crores towards interest on capital loans for FY18.

b) Interest on Working Capital:

MESCOM's Submission:

MESCOM has submitted the details of short term loans/ overdraft drawn from banks during the year FY18 to meet the day to day expenditure (working capital).

As per the audited accounts, MESCOM has incurred an amount of Rs.32.76 Crores towards interest on short term loans/overdrafts during FY18. However, MESCOM, in its application (Format D-9), has claimed an amount of Rs.49.36 Crores as the interest on working capital as per the provisions of MYT regulations and has sought approval of the Commission for the same as shown in the following Table:

TABLE – 4.20

Interest on Working Capital for FY18-MESCOM's Submission

Particulars	As Filed (Rs.in Crores)
1/12th of O&M Expenses	40.72
Opening GFA	1,837.09
1% of opening GFA	18.37
1/6th of Revenue	540.48
Total Working Capital	**599.57**
Normative Interest on Working Capital @ 11%	65.95
Actual interest on working capital incurred in FY-18	32.76
Interest on working capital claimed	**49.36**

Commission's analysis and decisions:

The Commission has been computing the interest on working capital considering the base rate up to 30th June, 2017 and the Marginal Cost of fund based Lending Rates (MCLR) effective from 1st July, 2017. For availing the working capital loans, MESCOM has indicated interest rate of 11%, for FY18. Therefore, for computation of normative interest on working capital, as per the provisions of the MYT Regulations, the Commission decides to consider the interest rate of 11.00% as considered while approving the ARR, by considering base/MCLR rate with a spread of 250 basis points for FY18.

As per the audited accounts, the MESCOM has incurred an amount of Rs.33.51 Crores towards interest on short term loans/over drafts for FY18.

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 FY18 as in the following Table:

TABLE – 4.21

Allowable Interest on Working Capital for FY18

Amount in Rs. Crore

Particulars	FY18
One-twelfth of the amount of O&M Expenses	40.29
Opening GFA	2,352.24
Stores, materials and supplies 1% of Opening balance of GFA	23.52
One-sixth of the Revenue	526.11
Total Working Capital	589.92
Rate of Interest (% p.a.)	11.00%
Normative working capital Interest	64.89
Actual Interest on Working Capital incurred by MESCOM as per audited accounts for FY18	33.51
50% of the difference between normative and actual Working Capital	15.69
Allowable Interest on Working Capital	**49.20**

Since the actual interest on working capital is less than the normative interest on working capital, the Commission, as per the provisions of the MYT Regulations, decides to allow the actual interest on working capital of Rs. 33.51 Crores plus 50% of the difference between normative interest on working capital and the actual interest on working capital of Rs.15.69 Crores.

The Commission, therefore decides to allow Rs.49.20 Crores, towards interest on working capital for FY18.

c) Interest on Consumers' Security Deposits:

MESCOM's Submission:

MESCOM has claimed an amount of Rs.34.02 Crores towards payment of interest on consumers' security deposits for FY18, 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.34.02 Crores has been claimed by MESCOM for FY18.

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, 2017 was 6.75%. The weighted average rate of interest claimed by MESCOM, as per the audited accounts, is within the applicable bank rate. The Commission therefore decides to consider the actual interest on consumer security deposit booked on the basis of audited deposit held by MESCOM and payment of interest thereon for FY18.

Thus, the Commission decides to allow an amount of Rs.34.02 Crores towards interest on consumer security deposits for FY18.

d) Other Interest and Finance charges:

MESCOM, as per audited accounts of FY18, has claimed an amount of Rs.1.10 Crores towards other interest and finance charges for raising the loans for FY18. **Accordingly, the Commission decides to allow the same.**

e) Capitalization of Interest and other expenses:

MESCOM, as per the audited accounts of FY18, has claimed Rs.2.92 Crores as the capitalized interest on capital loans used during construction for FY18. The Commission, as per the audited accounts, decides to allow an amount of Rs.4.24 Crores towards capitalization of Interest and other expenses for computation of APR for FY18.

As per the above discussions, the total allowable interest and finance charges for FY18 are as follows:

TABLE – 4.22
Allowable Interest and Finance Charges

Amount in Rs. Crore

Sl. No.	Particulars	FY18
1.	Interest on Loan capital	50.87
2.	Interest on working capital	49.20
3.	Interest on consumer deposits	34.02
4.	Other interest and finance charges	1.10
5.	Less; Interest and other expenses capitalized	-4.24
	Total interest and finance charges	**130.94**

4.2.9 Other Debits:

MESCOM's Submission:

MESCOM, in its application has not claimed any amount towards other debits for FY18.

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 FY18 are as detailed in the following Table:

TABLE – 4.23

Allowable Other Debits

Amount Rs. Crores

Sl. No	Particulars	FY18
1	Small and Low value items written off	0.3730
2	Losses relating to fixed assets	1.3085
3	Assets decommissioning cost	0.1255
4	Interest/penalty paid to GST/service tax department	1.0136
5	Bad Debts written off	0.5170
6	Miscellaneous losses and write offs	1.9690
	Total	**5.3066**

Thus, the Commission decides to consider Rs. 5.31 Crores as other debits for FY18.

4.2.10 Extraordinary Items:

MESCOM's Submissions:

MESCOM in its application has claimed an amount of Rs. 48.47 Crores towards extraordinary expenses for FY18.

Commission's analysis and decision:

The Commission notes that as per the audited annual accounts of MESCOM for FY18, an amount of Rs.48.4786 Crores has been booked as exceptional item. MESCOM, in its audited accounts under Note 43.3(a), has stated that RoR subsidy of Rs.48.4786 Crores receivable from GoK, which pertains to the period prior to 2004-05, has been written off from the books during FY18. The Commission notes that, the amount of committed RoR subsidy receivable is written off amount from the books of accounts without the any valid reason or Orders from the GoK. Thus, the Commission decides not to allow an amount Rs. 48.48 Crores written off, against committed RoR subsidy, receivable from the GoK for FY18.

4.2.11 Return on Equity:

MESCOM's Submission:

MESCOM in its application has claimed Return on Equity at Rs.92.91 Crores for FY18 as follows:

TABLE – 4.24
Status of Debt Equity Ratio for FY18

Amount in Rs. Crore

Particulars	FY18
Opening balance of the Share capital	358.07
Share Deposit	14.00
Reserve and Surplus	125.40
Less: Re-Capitalized Security Deposits	-26.00
Total	471.47
Rate of RoE (Grossed up with MAT at 12.342%)	19.706%
RoE for FY17	92.91

Commission's analysis and decisions:

Debt Equity Ratio Vis-à-vis Gross Fixed Asset:

The Commission notes that the actual opening and closing balances of gross fixed assets along with break-up of equity and loan component per actual data as per the audited accounts are indicated as follows:

TABLE –4.25

Status of Debt Equity Ratio for FY18

Amount in 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	2,352.24	546.95	446.08	1,646.57	705.67	23.25	18.96
Closing Balance	2,738.58	729.87	568.63	1,917.01	821.57	26.65	20.76

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 FY18.

ii) Return on Equity (RoE):

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 the opening balance of net-worth of MESCOM for

FY 18. The RoE claims made by the MESCOM grossed up with MAT at 21.34% is not in line with the Clause 3.9, 3.6.1 and 3.6.2. of the MYT Regulations.

The Commission as per the provisions of Clause 3.9.1 of the KERC (Terms & conditions for Determination of Tariff for Retail Sale of Electricity) (Second Amendment), Regulations, 2015, has allowed the RoE on the opening balance of equity (net-worth) amount at 15.5% and also allowed the additional RoE on the equity amount infused by the GoK during the year as per Clause 3.9.2 of the Regulations, for FY 18.

Accordingly, as per the provisions of MYT Regulations and in line with the practice being followed in the previous tariff orders, the Commission has considered the opening balance of share capital and share deposit plus the accumulated balance of profit/loss as per audited accounts and also after factoring in the recapitalization of security deposit of Rs.26.00 Crores in compliance with the Orders of the Hon'ble ATE in appeal No.46/2014,in allowance of RoE, without grossing up with MAT for FY18 is determined as follows:

5

TABLE – 4.26

Allowable Return on Equity

Amount in Rs. Crores

Particulars	**FY 18**
OB: Paid Up Share Capital	358.07
OB: Share Deposit	14.00
OB; Reserves & Surplus	100.01
Less Recapitalized Security Deposit	-26.00
Total Opening Balance of Equity	446.08
RoE at 15.50 %	**69.14**

Further, as reported by MESCOM, an additional equity of Rs.91.13 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 shown in the following Table:

TABLE – 4.27

Return on equity for the additional equity received during FY18

Additional Equity received during FY18	Amount in Rs. Crores	Received on	No. of Months	RoE allowed Rs. Crores
EN 02 PSR 2017 dated 03.05.2017	1.07	17.05.2017	10	0.14
EN 40 PSR 2017 dated 05.05.2017	20.91	17.05.2017	10	2.70
EN 2 PSR 2017 dated 28.07.2017	1.07	14.08.2017	7	0.10
EN 40 PSR 2017 dated 28.07.2017	20.91	14.08.2017	7	1.89
EN 40 PSR 2017 dated 16.10.2017	20.91	03.11.2017	4	1.08
EN 2 PSR 2017 dated 16.10.2017	1.07	03.11.2017	4	0.06
EN 25PSR 2017/P2 dated 20.01.2018	1.07	07.02.2018	1	0.01
EN 40 PSR 2017 dated 20.01.2018	20.91	08.02.2018	1	0.27
EN 25 PSR 2017/P2 dated 20.01.2018	3.21	08.02.2018 & 05.02.2018	1	0.04
TOTAL	**91.13**			**6.29**
Return on Equity allowed on Additional Equity Infusion in FY18				**6.29**

The allowable return on equity on the additional equity infused during FY 18 is Rs.6.29 Crores.

Thus, the Commission decides to allow total Return on Equity of Rs.75.43 Crores for FY18.

4.2.12 Income tax:

MESCOM in its filing has claimed RoE of Rs.92.91 Crores including the Income Tax (MAT) at 21.34% (Rs. 73.05 Crores RoE and MAT of Rs. 19.83 Crores) for FY 18. The Commission notes that, as per the audited accounts, MESCOM has factored Rs.4.79 Crores towards current Income Tax and Rs. 4.79 Crores, as credit entitlement of MAT for FY18. Thus, this nullifies the requirement of the allowable tax and, therefore the tax to be allowed for FY18 is nil.

4.2.13 Other Income:

MESCOM's Submission:

MESCOM in its application has claimed an amount of Rs.35.30 Crores as Other Income for FY18.

Commission's analysis and decisions:

As per the audited accounts, the total amount of other income is indicated as Rs.87.83 Crores for FY18. This includes income from sale of scrap, income from rent, rebate for collection of electricity duty, delayed payment charges from consumers, interest on Bank Fixed Deposits, Incentive received for early payment of Power purchase bills, other income relating to purchase of power and miscellaneous recoveries. The delayed payment charges from consumers amounting to Rs.41.41 Crores is considered as revenue from sale of power.

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 allow 10% of the total incentive amounting to Rs.1.245 Crores received on account of early payment of power purchase bills, to be retained by MESCOM for FY18.

Thus, the Commission decides to allow an amount of Rs.45.18 Crores as other income for FY18.

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.0.37 Crores has been incurred towards Consumer Relations / Consumer Education and CSR for FY18. The Commission notes that, as per the audited accounts, the MESCOM has incurred an amount of Rs.0.27 Crores towards consumer relation/consumer education for FY18.

Accordingly, the Commission decides to allow an amount of Rs.0.27 Crores as expenditure towards Consumer Relations / Consumer Education for FY18.

4.2.15 Subsidy for FY18:

The Commission in its Tariff Order dated 11.04.2017 has approved tariff subsidy of Rs.29.24 Crores and Rs.704.56 Crores towards the sale of power to BJ/KJ installations and IP sets for FY18 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. MESCOM in its application has claimed an amount of Rs. 23.88 Crores and Rs. 884.19 Crores towards Tariff subsidy for BJ/KJ installations and IP sets respectively, keeping in view the provisions made for unbilled revenue for FY18.

The Commission notes that, as per the audited accounts and replies furnished to the preliminary observations, an amount of Rs. 23.88 Crores and Rs. 874.01 Crores has been factored as tariff subsidy for BJ/KJ and IP Set installations respectively and the same is factored in the subsidy statement attached to the audited account for FY18. Thus the Commission, while computing the revised ARR as per APR for FY18, has considered tariff subsidy of Rs.897.89 Crores, towards sale of power to BJ/KJ installations and IP sets for FY18, to be received from the Government. **The Commission, while validating the IP sets energy sales of MESCOM for FY18 has disallowed 144.17 MU of energy in the energy sales to IP sets for FY18. Hence, the subsidy of Rs.75.11 Crores (at the rate of Commission Determined Tariff of Rs.5.21 per unit x144.17MU) is not allowed by the Commission. The net subsidy for FY18, therefore, works out to Rs. 822.77 Crores.**

4.2.16 Revenue for FY18:

MESCOM, in its application has considered Rs.3242.87 Crores as revenue from sale of power from consumers and miscellaneous charges by including the delayed payment charges of Rs.41.41 Cores from Consumers and miscellaneous recoveries of Rs. 11.12 Crores., accounted under other income head of account for FY18.

The Commission notes that as per the audited accounts for FY18, the revenue from sale of power is Rs.3190.34 Crores. Further, Rs.41.41Crores 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 item of revenue/ other revenue, the Commission decides to consider Rs.3231.75 Crores as revenue from sale of power to the consumers and other operating revenue. Further, as made out in pre-para the Commission has also considered to disallow the revenue subsidy of Rs.75.11 crores, towards IP sets for FY18. Thus, the Commission decides to consider RS.3156.64 Crores as revenue from sale of power to the consumers, for the purpose of approval of revised ARR, as per the APR for FY18.

4.3 Abstract of Approved ARR for FY18:

As per the above item-wise decisions of the Commission, the consolidated Statement of revised ARR for FY18 is as follows:

TABLE – 4.28

Approved revised ARR for FY18 as per APR

Rs. Crores

Sl. No	Particulars	APR FY18		
		As Approved 11.04.2017	As Filed on 30.11.2018	As per APR
1	Energy at Gen Bus (With MSEZ) - MU	5,583.87	5,666.73	5,666.69
2	Transmission Losses in %	3.37%	2.86%	2.81%
3	Energy at Interface in MU	5,311.03	5,504.81	5,507.40
4	Distribution Losses in %	11.05%	11.32%	13.93%*
	Sales in MU			
5	Sales to other than IP & BJ/KJ	3,326.92	3,186.07	3,188.66
6	Sales to BJ/KJ	44.92	34.21	34.21
7	Sales to IP	1,352.32	1,661.64	1,517.47
	Total Sales	**4,724.16**	**4,881.92**	**4,740.34**
	Revenue at existing tariff in Rs. Crores			
8	Revenue from tariff and Misc. Charges	2,339.57	2,334.80	2,333.87
9	RE Subsidy to BJ/KJ	29.24	23.88	23.88
10	RE Subsidy to IP (with disallowance of the Sales to IP sets)	704.56	884.19	798.89
	Total Existing Revenue	**3,073.36**	**3,242.87**	**3,156.64**
	Expenditure in Rs. Crores			
11	Power Purchase Cost	1796.76	2288.10	2288.10
12	Transmission charges of KPTCL	216.20	218.04	218.04
13	SLDC Charges	1.94	1.87	1.87
	Power Purchase Cost including cost of transmission	**2,014.90**	**2,508.01**	**2,508.01**
14	Employee Cost		355.68	
15	Repairs & Maintenance		39.39	
16	Admin, & General Expenses		93.60	
	Total O&M Expenses	**429.30**	**488.67**	**483.52**
17	Depreciation	79.60	90.39	90.39
	Interest & Finance charges			

Sl. No	Particulars	APR FY18		
		As Approved 11.04.2017	As Filed on 30.11.2018	As per APR
18	Interest on Loans	68.71	51.62	50.87
19	Interest on Working capital	58.61	49.36	49.20
20	Interest on belated payment on PP Cost	0.00	0.00	0.00
21	Interest on consumer deposits	35.94	34.02	34.02
22	Other Interest & Finance charges	1.21	1.10	1.10
23	Less interest and other expenditure capitalised	-1.30	-2.92	-4.24
	Total Interest & Finance charges	**163.18**	**133.18**	**130.94**
24	Other Debits/Extraordinary items	0.00	48.47	5.31
26	Net Prior Period Expenses/Income (Debit/Credit)	0.00	0.00	0.00
27	Return on Equity	79.90	92.91	75.43
28	Taxation/MAT Credit	0.00	0.00	0.00
29	Funds towards Consumer Relations/Consumer Education	0.50	0.37	0.27
30	Other Income	-89.36	-35.30	-45.18
	Net ARR	**2,678.02**	**3,326.70**	**3,248.69**
31	Add; Deficit of previous year	395.74	558.15	0.00
33	LESS: Penalty for excess losses beyond targeted loss	-	-	-63.83
34	Disallowance due to prudence check of capex	0.40	-	-
35	**Total ARR for FY18**	**3,073.36**	**3,384.85**	**3,184.86**
36	Average cost of supply	6.51	6.93	6.72
37	**Gap in Revenue for FY18**	**0.00**	**641.98**	**28.22**

4.3.1 Gap in Revenue for FY18:

As against an approved ARR of Rs.3073.36 Crores, the Commission, after the Annual Performance Review of MESCOM, decides to allow a revised ARR of Rs.3184.86 Crores for FY18. Considering revised the revenue of Rs.3156.64 Crores, the revenue gap (deficit) for the year FY18 is Rs.28.22 Crores.

Thus, the Commission decides to carry forward the deficit of Rs.28.22 Crores of FY18 to the ARR for FY20, as discussed in the subsequent Chapter of this Order.

4.3.2 Carry forward deficit of APR for FY16 and previous years' deficit:

MESCOM in its application has claimed an amount of Rs. 395.74 Crores as APR deficit of FY17 and the deficit of previous years for Rs. 162.41 Crores (total Rs. 558.15 Crores) for FY18.

Further, MESCOM has stated that the Commission while carrying out the process of tariff revision and also the truing up exercise every year, has not considered the previous years' true up amount in the approved APR of the respective years, which has resulted in under recovery of overall deficit and has resulted in loss to the Company. MESCOM has requested the Commission, to consider the true up deficit balance of Rs.558.16 Crores in the true up exercise of FY 18.

Commissions Views / Decisions:

The Commission, in its preliminary observations on the MESCOM's filing, had observed that during the APR of the relevant years, the expenditure, based on the MYT norms and the audited accounts, has been fully allowed and the revenue gap or surplus thereon has been carried forward to the subsequent year's ARR of the Company and allowed to be recovered in the approved retail supply tariff. Once the revenue gap / surplus during the Annual Performance Review (Truing up) of the previous year is approved and carried forward and allowed to be recovered in the subsequent years' retail supply tariff, the question of claiming the deficit of earlier years once again, in the APR of FY18 does not arise. The Commission had observed that adding previous years' deficit to the ARR of the subsequent years without any provision, results in un-necessary loading of ARR and inflating the gap for FY20 and therefore had directed MESCOM to submit its explanation for claiming the so called 'deficit' in the APR of FY18.

The Commission notes that the explanation submitted by the MESCOM is not satisfactory and the claim of the previous year's deficit amounting to Rs. 558.16 Crores is, in not accordance with of the provisions of the MYT Regulations. Further this amount, indicated as deficit, is not existing in the audited accounts of FY18. The Commission further notes that the MESCOM is expected to regulate its income and expenditure within the approved amount by the Commission as per the MYT norms, duly exercising due diligence and by bringing in more efficiency in their operations. Once the Annual Performance Review (Truing Up) is done and the expenditure is approved as per the norms under the MYT Regulations, duly allowing carry forward of the revenue gap/ surplus, to the subsequent year's ARR and its recovery having been allowed in retail supply tariff in the subsequent years, the question of reviewing the performance of earlier years, once again, will not arise. Also, the MESCOM has accepted all the earlier Orders of the Commission on APR (Truing up) and has implemented them without any appeal for review.

It is a settled law as per the decisions of the Hon'ble ATE that, True up of ARR once done cannot be re-opened at subsequent points of time. The Commission, therefore rejects the arbitrary claim of MESCOM to carry forward the previous year's gap of Rs. Rs. 558.15 Crores for FY18.