

CHAPTER – 1

ANNUAL PERFORMANCE REVIEW FOR FY17

1. AEQUS's Application for APR for FY17:

AEQUS has filed its application for Annual Performance Review (APR) for FY17 and Revision of ARR and retail supply tariff for FY19 on 30th November, 2017. AEQUS has sought the approval for its revised ARR as per the Annual Performance Review (APR) for FY17 based on the Audited Accounts.

The Commission in its Tariff Order dated 30th March, 2016, had approved the ARR along with Retail Supply Tariff for FY17.

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

The Annual Performance Review of AEQUS for FY17, as per the provision of MYT Regulations and based on its audited accounts is discussed in this Chapter.

AEQUS's Submission:

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

TABLE – 1.1
APR for FY17 – AEQUS's Submission

Sl. No	Particulars	Rs. Crores
		As Filed
2	Energy at Interface in MU	13.34
3	Distribution Losses in %	4.70%
4	Sales in MU	12.71
5	Revenue from sale of power	9.66
	Expenditure	
6	Power Purchase Cost	7.57
7	Employee Cost	0.41
8	Repairs & Maintenance	0.09
9	Admin. & General Expenses	0.29
10	Total O&M Expenses	0.79

11	Depreciation	0.19
12	Interest on Loans	0.57
13	Interest on Working capital	0.20
14	Interest on consumer deposits	0.04
15	Less: Expenses capitalised	0.00
16	Return on Equity	0.24
17	Other Income	0.06
	Net ARR	9.56

Considering the revenue of Rs.9.66 Crores against a net ARR of Rs.9.56 Crores, AEQUS has reported surplus in revenue of Rs.0.10 Crore for FY17. The surplus revenue of Rs.0.10 Crore has been factored in the tariff computation of FY19.

2. The item wise review of revenue and expenditure and the decisions of the Commission thereon are as discussed in the following paragraphs:

i. Sales for FY17:

The Commission had in its Tariff Order dated 30.03.2016 had approved sales of 12.72 MU for FY-17. The Commission notes that the actual sales as per current filing is 12.71 MU.

AEQUS in their replies have attributed reduction in sales due to the reduced consumption by AEQUS Plastics, AEQUS Automotive and Aero-structure Assemblies P.LTD. and that the above reduction is off-set by other consumers.

The Commission has taken note of the replies furnished by AEQUS and approves the actual sales of 12.71 MU for FY17.

ii. Distribution Losses for FY17:

AEQUS, in its application has reported the actual distribution losses of 4.70% for FY17. The AEQUS SEZ in its application has submitted that, the distribution losses in the evacuation lines from IF points situated at KPTCL substation at Hattaragi to AEQUS SEZ campus based on the meter readings is 2.65% and the distribution losses within AEQUS SEZ area of operation is 2.11% as against the approved loss of 2.04%.

AEQUS, in its annual accounts, has reported the distribution losses of 4.70% for FY17.

1	Energy at Interface Points in MU	13.34
2	Total sales in MU including wheeled energy	12.71
3	Distribution losses as a percentage of input energy at IF points	4.70%

Commission's analysis and decisions:

The Commission notes the distribution loss of 4.70% reported by AEQUS SEZ by considering the loss in evacuation line from IP Point situated at KPTCL substation at Hattaragi to SEZ area of operation at 2.65% and the actual internal distribution loss within the AEQUS SEX area of operation at 2.11%. The Commission, considering the calibration issues raised by the AEQUS SEZ, in its application directs AEQUS SEZ and HRECS to sort out the issue at the earliest. Thus, the Commission with the above observation decides to recognize the distribution loss of 4.70% for FY17.

iii. Power Purchase for FY17:

AEQUS, in its application has reported that it has purchased 13.82 MU at the IF points of HRECS at a cost of Rs.7.57 Crores as against the approved power purchase of 13.89 MU at a cost of Rs.7.86 Crores for FY17. The Commission has considered 5% of the HESCOM's power purchase, at the margin, at the generator bus for computing the total power purchase cost while approving the ARR for FY17. The Commission had considered 95% of the said energy at the marginal cost from long term sources and 5% from short term /medium term sources. The Commission has adopted the same approach for the determination of power purchase cost for FY16. In determination of the Power purchase cost, the Commission has considered 5% of energy from RE sources and the actual source wise power purchase as per the audited accounts of HESCOM for FY17 is detailed below:

TABLE – 1.2
Power Purchase Cost-FY17

Particulars	Energy in MU	Total Cost	Per unit Cost
5% requirement of MESCOM	644.772		
95% of Requirement	612.53		

NLC II Expansion	447.65	238.45	5.33
RTPS VIII	164.88	80.79	4.90
NCE- Solar Power	32.24	25.43	7.46
Total PP cost at 5%	644.77	344.68	5.35
Transmission and SLDC Charges		22.40	0.3473
Total PP & Transmission Cost		367.07	5.69
Trading Margin at 5 paise per unit		3.22	0.05
Total Cost		370.30	5.74
Energy at Interface Point (Tr.Loss-3.283 %)	623.60		5.938

Based on the above computations, the power purchase cost for the purchase of 13.34 MU by AEQUS from HRECS IF points at Rs.5.938 per unit works out to Rs.7.92 Crores for FY17. Therefore, AEQUS is required to pay the difference in the power purchase cost of Rs.0.35 Crores to HRECS for FY17.

The Commission decides to consider the actual power purchase of 13.34 MU at IF points at a cost of Rs.7.92 Crores for the purposes of APR of FY17. Any revision in the quantum and cost of power purchase for FY17 noticed subsequently shall be factored in the ensuing year and reported to the Commission.

iv. RPO Compliance:

The Commission had directed AEQUS to furnish the status of solar and non-solar RPO compliance for FY17 and also the estimates of RPO to be met in FY19 and the plan of action to meet the same in FY19.

AEQUS in their replies have stated that as per the prevailing Regulations any deemed licensees procuring bulk power supply from ESCOMs are deemed to have complied with RPO to the extent of such procurement from ESCOMs and therefore, has requested the Commission to pass appropriate orders in the matter.

The Commission notes that, the Regulations also specify that in case of non-compliance, the onus of meeting the RPO lies with HRECS or the deemed licensees, as the case maybe.

The Commission notes that HRECS from whom AEQUS is procuring power, has met Non-Solar RPO and therefore, AEQUS is deemed to have met the Non-Solar RPO. However, in case of solar RPO, the Commission has allowed carry forward of the short-fall to the next year, which applies to AEQUS also.

v. Operation and Maintenance Expenses:

AEQUS in its application has sought the approval for the actual O&M expenditure of Rs.0.79 Crores for FY17 as detailed below:

TABLE-1.3

O&M Expenses for FY17–AEQUS submission

	Rs. Crores
Repairs & Maintenance	0.09
Employee Expenses	0.41
A&G expenses	0.29
O&M expenses	0.79

The Commission in its Tariff Order dated 30th March, 2016 had approved O&M expenses of Rs.0.79 Crores for FY17. The Commission notes that, the overall O&M expenses consist of R&M expenses, Employee cost and A&G expenses.

The Commission, in accordance with the provisions of MYT Regulations and the methodology adopted while approving the O&M expenses for the control period for FY17 to FY19 to the ESCOMs and SEZ (deemed licensee) proceeds with the determination of normative O&M expenses based on the 12 Year data of WPI and CPI. 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 annual escalation rate of inflation for FY17 is computed as follows:

TABLE – 1.4

Computation of Rate of Inflation

Year	WPI	CPI	Composite Series	$Y_t/Y_{t-1}=R_t$	Ln R_t	Year (t-1)	Product [(t-1)* (LnRt)]
2005	103.37	115.8	113.314				
2006	109.59	122.9	120.238	1.06	0.06	1	0.06
2007	114.94	130.8	127.628	1.13	0.12	2	0.24
2008	124.92	141.7	138.344	1.22	0.20	3	0.60
2009	127.86	157.1	151.252	1.33	0.29	4	1.16
2010	140.08	175.9	168.736	1.49	0.40	5	1.99
2011	153.35	191.5	183.87	1.62	0.48	6	2.90
2012	164.93	209.3	200.426	1.77	0.57	7	3.99
2013	175.35	232.2	220.83	1.95	0.67	8	5.34
2014	182.00	246.90	233.92	2.06	0.72	9	6.52
2015	177.03	261.42	244.542	2.16	0.77	10	7.69
2016	180.6	274.3	255.56	2.26	0.81	11	8.95
A= Sum of the product column							39.44
B= 6 Times of A							236.63
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0811
e=Annual Escalation Rate (%)=g*100							8.1059

While determining the normative O & M expenses for FY17, the Commission has considered the following aspects:

- The actual O & M expenses of the base year as per the audited accounts for FY16.
- The three year compounded annual growth rate (CAGR) of the number of installations considering the actual number of installations as per the audited accounts up to FY17 at 16.26%.
- The weighted inflation index (WII) at 8.1059% as computed above.
- Efficiency factor at 0.5% as considered in the control periods.

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

Particulars	FY16	FY17
No. of Installations		15
2 year CAGR		22.47%
Inflation		8.1059%
Base Year O&M Cost(FY15 as per actuals)	0.50	
O&M Index= O&M (t-1)*(1+WII-X)		0.65
Actual base year O&M expenses for FY17		0.65

The Commission notes that, as the O&M expenses for FY17 claimed by AEQUS are more than the Commission approved O&M expenses for FY17. As the O&M expenses are controllable, as per the MYT Regulations, the Commission directs the AEQUS SEZ to take necessary action to minimize these expenditures in future to bring down the O&M expenses within the approved level.

Thus, the Commission decides to allow actual O&M expenses of Rs.0.65 Crores for FY17.

vi. Depreciation:

AEQUS in its application has claimed an amount of Rs.0.19 Crores as depreciation for FY17.

In accordance with the provisions of the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments there on allowable depreciation for FY17 has been determined by the Commission duly considering the data of assets as per AEQUS's audited accounts and the details furnished under D-8 and D-15 formats as follows:

TABLE – 1.5
Allowable Depreciation for FY17

Particulars	Rs. Crores		
	Opening Balance of Asset as on 01.04.2016	Closing Balance of Asset as on 31.03.2017	Depreciation for FY17
Buildings	1.59	1.59	0.05
Civil	0.00	0.00	0.00
Plant & M/c	2.32	2.54	0.12
Line, Cable Network	0.54	0.54	0.03
Furniture	0.00	0.00	0.00
Software	0.00	0.04	0.00
Office Equipment	0.05	0.05	0.00
Total	4.50	4.76	0.19
Allowable depreciation			0.19

The allowable depreciation based on the rates of depreciation as per the prevailing Regulations works out to Rs.0.19 Crores.

Thus, the Commission decides to allow depreciation of Rs.0.19 Crores for FY17.

vii. Interest on Capital loan:

AEQUS in its application has claimed an amount of Rs.0.57 Crores towards interest on capital loans. The Commission in its, Tariff Order dated 30th March, 2016 had approved the interest on capital loans at Rs.0.74 Crores for FY17.

As per the audited bifurcated balance sheet of the licensed activity of AEQUS, the opening balance of loans is Rs.3.80 Crores and the closing balance is Rs.3.65 Crores for FY17. The repayment of capital loan is indicated as Rs.0.15 Crores for FY17. Considering the payment of interest on capital loan balance as per the consolidated audited accounts of AEQUS for FY17, the weighted average rate of interest on capital loan works out to 15.03% which is comparatively higher than the normative rate of interest. The Commission having taken note of the rate of interest on capital loan directs AEQUS SEZ to take necessary action to restructure the debt and reduce the interest burden to the consumers.

However, for the purpose of approval of ARR as per the APR for FY17, the Commission has recognized the same rate of interest for computation of interest on the average capital loan amount for FY17 as detailed below:

TABLE –1.6

Allowable Interest on Capital Loans for FY17

Particulars	Rs. Crores
	FY17
Opening balance of Capital Loans	3.80
New Loans	0.00
Less Repayments	0.15
Total loan at the end of the year	3.65
Average Capital Loan	3.73
Interest Rate in %	15.03%
Interest on Capital Loans	0.56

Thus, the Commission decides to allow an amount of Rs.0.56 Crores towards interest on capital loan for FY17.

viii. Interest on Working Capital:

AEQUS in its application has claimed an amount of Rs.0.20 Crores as interest on working capital and sought for the approval of the same for the licensed activity in the APR for FY17. However, as per the audited accounts of FY17, AEQUS has not incurred any amount towards interest capital.

The Commission in its Tariff Order dated 30th March, 2016 as per the provision of the MYT regulations, has allowed Rs.0.21 Crores as interest on working capital for FY17.

The present interest rates charged by commercial banks and financial institutions are dependent mainly on Marginal Cost of Fund Based Lending Rates (MCLR). These rates are comparatively lower than the base rates considered earlier. Further, in view of the changing economic situation, it is observed that there is a considerable reduction in the MCLR and also downward trend is evident in the interest rates. Hence, in such a situation, the Commission is of the view that, the MSEZL can avail Capital loans at competitive interest rates which would be less than the proposed rates of 12%. The Commission notes that, the present SBI MCLR rate for short term loans with tenure of one years is 8.15%. Considering the present MCLR, the Commission decides to allow an interest rate of 11.00% for FY19 for Working Capital loans. This rate of interest now allowed by the Commission in approval of ARR is subject to review during the APR.

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

TABLE -1.7

Allowable Interest on Working Capital for FY17

Particulars	Rs. Crores
	FY17
One-twelfth of the amount of O&M Expenses	0.05
Opening GFA	4.51
Stores, materials and supplies 1% of Opening balance of GFA	0.05
One-sixth of the Revenue	1.61
Total Working Capital	1.71
Rate of Interest (% p.a.)	11.75%
Interest on working capital	0.20
Allowable Interest on Working Capital	0.10

Thus, the Commission decides to allow Rs.0.10 Crores towards interest on working capital for FY17.

ix. Interest on Consumers' Security Deposits:

AEQUS in its application has claimed an amount of Rs.0.04 Crores towards payment of interest on consumers' security deposits for FY17 at 7.75%.

The Commission notes the opening and closing balance and the amount of interest of consumers' security deposits as per the audited consolidated balance sheet for FY17. As per the KERC (Interest on Consumers' Security Deposit) Regulations, 2005 the interest on consumer deposits is to be allowed as per the bank rate prevailing as on the 1st of April of the relevant year. Considering, the bank rate 7.75% as on 1st April, 2016, the allowable interest on consumers' security deposits for FY17 is Rs.0.04 Crores only.

Thus, the Commission decides to allow an amount of Rs.0.04 Crores towards interest on consumers' security deposits for FY17.

Thus the allowable interest and finance charges for FY17 are as follows:

TABLE -1.8
Allowable Interest and Finance Charges

Sl. No.	Particulars	Rs. Crores
		FY17
1.	Interest on Loan capital	0.56
2.	Interest on working capital	0.10
3.	Interest on consumers; security deposits	0.04
	Total interest and finance charges	0.70

x. Return on Equity:

AEQUS in its application has claimed Return on Equity of Rs.0.24 Crores on the closing balance of net-worth as on 31.03.2017 of Rs.1.55 Crores for FY17 as detailed below:

The Commission notes that, the opening balance of net equity as per the bifurcated audited accounts of the AEQUS SEZ for FY17. The AEQUS SEZ in claiming the RoE has considered the closing balance of net equity of Rs.1.55 Crores as against the opening balance of net equity as on 1.4.2016 for FY17. The Commission has reckoned the opening balance of net equity of Rs.1.11 Crores (Share capital of Rs.2.69 Crores and accumulated deficit of Rs.1.58 Crores) for computation of allowable RoE at 15.5% for FY17.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments there to, the Commission has computed the allowable Return on Equity at 15.5% without allowing the tax on the equity of Rs.0.17 Crores as discussed in the above paras, the allowable RoE is determined as follows:

TABLE -1.9
Allowable Return on Equity

Particulars	Rs. Crores
	FY17
Opening balance of Share Capital	2.69
Opening balance of accumulated deficit under Reserves and Surplus	(-)1.58
Opening balance of Net Equity	1.11
Normative Equity at 30% of the GFA	1.35
Return on equity at 15.50% on 30% of GFA	0.171

Thus, the Commission decides to allow Return on Equity of Rs.0.171 Crores for FY17.

xi. Income Tax:

The AEQUS in its application has not claimed income tax /MAT for FY17. The Commission notes that, the AEQUS SEZ has not paid income tax/MAT as per the bifurcated audited accounts for FY17.

Thus, the Commission decides not to allow any amount of income tax / MAT for FY17.

xii. Other Income:

AEQUS in its application as per the bifurcated audited accounts has claimed an amount of Rs.0.06 Crores as other income towards interest from Bank deposit for FY17.

Thus, the Commission decides to allow an amount of Rs.0.06 Crores as other income for FY17.

3. Abstract of Approved ARR for FY17:

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

TABLE –1.10

Approved ARR for FY17 as per APR

Particulars	Rs. Crores.		
	As approved 30.03.2016	As filed	As per APR
Revenue			
Revenue From Sale of Power	9.98	9.66	9.66
Total Revenue	9.98	9.66	9.66
Expenditure			
Power Purchase Cost	7.86	7.57	7.92
Employee Expenses			
R&M Expenses			
A&G Expenses			
O&M Expenses	0.64	0.79	0.65
Depreciation	0.22	0.19	0.19
Interest on Loan Capital	0.74	0.57	0.56
Interest on Working Capital	0.21	0.20	0.10
Interest on Consumers' security Deposit	0.12	0.04	0.04
(Less) Expenses Capitalised	0.00	0.00	0.00
Return on equity	0.38	0.24	0.17
Other Income	0.18	0.06	0.06
Net ARR	9.98	9.56	9.58

4. Gap in Revenue for FY17:

As against an approved ARR of Rs.9.98 Crores, the Commission, after the Annual Performance Review (APR) of AEQUS for FY17, decides to allow the revised ARR as per APR of Rs.9.58 Crores for FY17. Considering the revenue from sale of power of Rs.9.66 Crores, the surplus in revenue of Rs.0.08 Crores is

determined for the year FY17. The Commission decides to carry forward this surplus in revenue of Rs.0.08 Crores to the ARR of FY19, as discussed in the subsequent Chapter of this Order.