

Before the
MAHARASHTRA ELECTRICITY REGULATORY COMMISSION
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Case No. 40 of 2008

In the matter of
Petition filed by MSETCL seeking review of the Commission's Order dated May 31, 2008, in the matter of approval of APR of MSETCL for FY 2007-08 and Revenue Requirement for FY 2008-09.

Shri. A. Velayutham, Member
Shri. S. B. Kulkarni, Member

Maharashtra State Electricity Transmission Company Limited
Prakash Ganga,
E-Block, Bandra-Kurla Complex,
Bandra (East),
Mumbai – 400 051

Petitioner

ORDER

Dated: September 12, 2008

The Maharashtra State Electricity Transmission Company Limited (MSETCL) submitted a Review Petition under affidavit on July 7, 2008, seeking a review of the Commission's Order dated May 31, 2008 in Case No. 70 of 2007, in the matter of approval of Annual Performance Review (APR) of MSETCL for FY 2007-08 and Revenue Requirement for FY 2008-09.

2. Under the said Petition, MSETCL has prayed as under:
 - a. "MSETCL requests the Hon'ble Commission to admit its Review Petition in accordance with Regulation 85 of the MERC (Conduct of Business) Regulations, 2004;
 - b. MSETCL prays to the Commission to review the interest expenses for FY 2006-07 as this is legitimate expenses on part of MSETCL and shall be allowed.
 - c. Any errors/omissions may please be condoned, and opportunity be given to rectify the same and also submit additional issues at a later date."
3. MSETCL submitted that it had observed some discrepancies in the Order issued by the Commission in Case No. 70 of 2007, in respect of interest expenses allowed for FY 2006-07, and was hence, submitting a review Petition for addressing such discrepancies. MSETCL requested the Commission to admit the Review Petition as it was in accordance with the provisions of MERC (Conduct of Business) Regulations 2004.



4. The Commission, vide its Notice dated July 17, 2008 scheduled the admissibility hearing on August 5, 2008 at 15.00 hours in the Commission's office. During the hearing, Shri Pramod Khandalkar, Director (Finance), MSETCL, submitted that Regulation 85 (review of decisions, directions and Orders) of MERC (Conduct of Business) Regulations 2004, empowers MSETCL to file a review petition under the grounds that no appeal had been preferred so far and the review petition was being filed within 45 days of the issue of Order dated May 31, 2008. It was further submitted that the Commission in its Order dated May 31, 2008 in Case No. 70 of 2007, in the section on Truing up of interest expenses for FY 2006-07, had approved the entire interest expense for FY 2006-07 as claimed by MSETCL barring the interest expenditure of Rs. 2.82 Crore. This amount essentially was towards debt restructuring premium for loans raised from Life Insurance Corporation of India (LIC of India), which was written off by MSETCL in FY 2006-07.

5. MSETCL further submitted that it had carried out debt restructuring of its loans from LIC of India from high interest carrying loans (interest rate of 14% p.a.) to low interest carrying loans (interest rate of 10% p.a.). Interest loss to LIC of India on account of such debt restructuring was agreed to be shared between LIC of India and MSETCL (then MSEB) in the ratio of 1:1. Thus, the premium payable by MSETCL for the debt restructuring was then converted to a loan amount of Rs. 18.97 Crore (which was payable by MSETCL in 5 annual instalments with an interest rate of 7.5% per annum). This resulted in Rs. 2.37 Crore towards amortisation of debt restructuring premium for FY 2006-07. Further restructuring of the loan was carried out for high interest carrying loans (interest rate of 10% p.a.) to low interest carrying loans (interest rate of 9% p.a.). Thus, an amount of Rs 3.87 Crore was paid by MSETCL as premium for debt restructuring. This amounted to annual instalment of Rs 0.55 Crore towards amortisation of debt restructuring premium for FY 2006-07 (second restructuring) and thus, the total amount of expense on account of amortisation of debt restructuring premium payable to LIC of India stood at Rs. 2.92 Crore (Rs. 2.37 Crore + Rs 0.55 Crore) for FY 2006-07.

6. MSETCL further submitted that it had claimed this amount along with other interest expenses of Rs. 19.17 Crore (as per APR Petition, it is Rs. 19.27 crore) pertaining to loans from LIC of India (rounded off difference of Rs. 0.1 Crore). Thus adding up to Rs. 22.09 Crore as reflected in the Schedule 12 of Interest and Finance charges under the account head 78.501 in the audited accounts of MSETCL for FY 2006-07. MSETCL added that the Commission had not asked for any further details during the TVS and data gaps for clarification before disallowing this interest expense. Hence, MSETCL requested the Commission to review the interest expenses for FY 2006-07 as this was a legitimate expense incurred by MSETCL.

7. Shri Palaniappan, Regulatory Expert of the Commission submitted that MSETCL in the Formats submitted along with the APR Petition, had given the source-wise loans amounts and interest expenses in Form F 4.1, wherein the interest expense under LIC as source of loan was indicated as Rs. 22.09 crore, however, the same was not reflected in Form F 4.1(a), which gave the tranche-wise details of the loans raised from LIC of India. For FY 2006-07, the tranche-wise details for loans from LIC of India accounted for Rs. 19.27 Crore. Hence, as a part of data scrutiny and verification process, the amount for which the detailed break-up was submitted, i.e., Rs. 19.27 Crore, was considered, while computing the amount for truing up.



Commission Ruling

8. In the above set of facts, the Commission is of the view that the issue of debt restructuring of loans from LIC of India was not adequately addressed in the APR Petition or the data gaps thereafter. The Commission would like to emphasize that MSETCL needs to ensure consistency and accuracy of the data under formats and the Petitions submitted by it, and also submit the necessary explanation and justification along with the Petition itself, so that need for such review/revisions does not arise subsequently. The Commission also observes that though MSETCL in its Petition has claimed that the debt restructuring premium payable to LIC of India has been amortised over 5 years, the detailed computations submitted by MSETCL reveal that the actual period of amortisation is 8 years, rather than 5 years. MSETCL should ensure that such discrepancies are not there in submissions made to the Commission.

9. Based on the detailed computation on the issue of debt restructuring for loans raised from LIC of India, as submitted by MSETCL now, the Commission is of the view that there may be a discrepancy in the Order dated May 31, 2008 as regards additional interest expense of Rs 2.92 Crore for FY 2006-07 as allowable legitimate expense. However, the actual amount disallowed by the Commission in its Order dated May 31, 2008 is Rs. 2.82 Crore (Rs. 22.09 Crore – Rs. 19.27 Crore), while MSETCL in its present review petition has asked for Rs. 2.92 Crore (Rs. 22.09 Crore – Rs. 19.17 Crore). As the Commission has already approved the amount to the extent of Rs. 10 lakh (i.e Rs. 19.27 Crore- Rs. 19.17 Crore) in its Order dated May 31, 2007, the additional amount that may have to be considered as allowable expense would be Rs. 2.82 Crore. The Commission is of the view that as and when MSETCL includes this amount while filing the next APR Petition for FY 2008-09, the same will require to be considered by the Commission.

With the above , MSETCL's Petition in Case of 40 of 2008 stands disposed of.

Sd/-
(S.B. Kulkarni)
Member

Sd/-
(A. Velayutham)
Member



(P.B. Patil)
Secretary, MERC