Before the
MAHARASHTRA ELECTRICITY REGULATORY COMMISSION
World Trade Centre, Centre No.1, 13th Floor, Cuffe Parade, Mumbai – 400 005
Tel. 22163964/ 65/ 69 Fax 22163976
Email: mercindia@mercindia.org.in
Website: www.mercindia.org.in

Case No. 102 of 2011

IN THE MATTER OF

Maharashtra State Electricity Transmission Company Ltd.'s (MSETCL) Petition for Truing-up of FY 2009-10 and Approval of Annual Performance Review (APR) for FY 2010-11 under the provisions of MERC (Terms and Conditions of Tariff) Regulations, 2005

Shri. V.P. Raja, Chairman

Shri Vijay L. Sonavane, Member

Maharashtra State Electricity Transmission Co. Ltd. ….. Petitioner

ORDER

Dated: December 29, 2011

In accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005 and upon directions from the Maharashtra Electricity Regulatory Commission (The Commission), the Maharashtra State Electricity Transmission Company Ltd. (MSETCL), submitted its Petition for approval of Truing-up for FY 2009-10 and Annual Performance Review (APR) for FY 2010-11, on affidavit. The Commission, in exercise of the powers vested in it under Section 61 and Section 62 of the Electricity Act, 2003 (EA 2003) and all other powers enabling it in this behalf, and after taking into consideration all the submissions made by MSETCL, all the objections and comments of the public, responses of MSETCL, issues raised during the Public Hearing, and all other relevant material, determines the Trued-up Aggregate Revenue Requirement of FY 2009-10 and review of Annual Performance for FY 2010-11, as under:-

Table of Contents

List of Tables

List of Abbreviations

Abbreviation	Expanded Forms
ABT	Availability Based Tariff
A&G	Administration & General Expenses
AAD	Advance Against Depreciation
ARR	Aggregate Revenue Requirement
CERC	Central Electricity Regulatory Commission
Commission/MERC	Maharashtra Electricity Regulatory Commission
CPI	Consumer Price Index
Cr	Crore
DA	Dearness Allowance
EA 2003/ Act	Electricity Act, 2003
EHV	Extra High Voltage
ESSAR	Electricity Supply Annual Accounts Rules 1985
FBT	Fringe Benefit Tax
FY	Financial Year
GFA	Gross Fixed Assets
GoM	Government of Maharashtra
HVAC	High Voltage Alternating Current
HVDC	High Voltage Direct Current
JICA	Japan International Cooperation Agency
JBIC	Japan Bank for International Cooperation
kV	kilo Volt
kW	kilo Watt
MoP	Ministry of Power
MSEB	Maharashtra State Electricity Board
MSETCL	Maharashtra State Electricity Transmission Company Limited
MSEDCL	Maharashtra State Electricity Distribution Company Limited
MSPGCL	Maharashtra State Power Generation Company Limited
MU	Million Units (MkWh)
MVA	Mega-Volt Ampere
MW	Mega Watt
MYT	Multi Year Tariff
NFA	Net Fixed Assets
R&M	Repairs & Maintenance
REL	Reliance Energy Limited
RoE	Return on Equity
Rs.	Indian Rupees
SLDC	State Load Despatch Centre
STU	State Transmission Utility
TBIA	Thane Belapur Industries Association
TPC	The Tata Power Company Limited
YTM	Yield to Maturity
Y-o-Y	Year-on-Year

1. Introduction

1.1. Background

1.1.1. MSETCL is a company formed under the Government of Maharashtra (GoM) General Resolution No. ELA-1003/P.K.8588/Bhag-2/Urja-5 dated January 24, 2005 with effect from June 6, 2005 according to the provisions envisaged in [Part XIII] of the Electricity Act, 2003 (EA 2003). MSETCL is registered as a Company under the Companies Act, 1956 with the Registrar of Companies, Mumbai having Certificate of Incorporation No. U40109 MH 2005 PLC 153646 dated May 31, 2005.

1.1.2. The Provisional Transfer Scheme was notified under Section 131 (5) (g) of the EA 2003 on June 6, 2005 which resulted in the creation of following four successor companies and MSEB residual Company, of the erstwhile Maharashtra State Electricity Board (MSEB), namely,

a. MSEB Holding Company Limited;

b. Maharashtra State Power Generation Company Limited;

c. Maharashtra State Electricity Transmission Company Limited; and

d. Maharashtra State Electricity Distribution Company Limited.

1.1.3. MSETCL is in the business of transmission of electricity within the State of Maharashtra, and has been notified as the State Transmission Utility (STU) as per Section 39 of EA 2003.

1.1.4. The present Petition has been filed by MSETCL to seek approval of Truing up for FY 2009-10 and APR for FY 2010-11. The Petition has been filed under the MERC (Terms and Conditions of Tariff) Regulations, 2005. The background leading to the filing of the present petition is discussed below.

1.2. Commission's Order on ARR Petition for FY 2005-06 and FY 2006-07

1.2.1. An order was issued by the Commission in Case No. 49 of 2005 on June 28, 2006 disposing of MSETCL's ARR Petition for FY 2005-06 and FY 2006-07.

1.3. Petition seeking review of Order dated June 28, 2006

1.3.1. A petition came to be filed by MSETCL seeking review of the aforesaid Order dated June 28, 2006. The Commission disposed of the said review petition through its Order dated October 19, 2006 in numbered as Case No. 21 of 2006.

1.4. Order dated April 2, 2007 pertaining to MYT Petition of MSETCL for FY 2007-08 to FY 2009-10

1.4.1. MSETCL submitted its MYT petition on February 2, 2007. The MYT Petition was admitted by the Commission on February 7, 2007. The Commission issued the MYT Order for MSETCL for the first Control Period, i.e., FY 2007-08 to FY 2009-10, on April 2, 2007, which came into effect from April 1, 2007, and the Transmission tariff for the intra-State transmission system (InSTS) was determined separately through Transmission Tariff Order dated April 2, 2007 in Case No. 86 of 2006, which was valid upto March 31, 2008. As the Annual Performance Review for FY 2007-08 and tariff determination for FY 2008-09 were under process, various Utilities filed petitions for continuation of tariff determined for FY 2007-08 till the time of issuance of the respective Tariff Orders of each Utility. Accordingly, the Commission through its Order dated April 1, 2008, extended the applicability of the aforesaid Tariff Orders for the Utilities till the revised tariffs were determined for FY 2008-09 under the APR framework and Orders issued there-under.

1.5. Judgment of Hon'ble Appellate Tribunal for Electricity in Appeal No. 76 of 2007

1.5.1. MSETCL preferred an appeal before the Hon'ble Appellate Tribunal for Electricity ("ATE"), viz., Appeal No. 76 of 2007, against the Commission's MYT Order dated April 2, 2007 for the first Control Period from FY 2007-08 to FY 2009-10. In the said appeal, certain reliefs were claimed viz., on certain expenses disallowed/ partly allowed by the Commission, briefly stated as follows:-

a. Truing up of A&G expenses for FY 2005-06

b. Disallowance of significant portion of Operation & Maintenance expenses over the Control Period

c. Disallowance of significant portion of Employee Expenses over the Control Period

d. Disallowance of significant portion of Repair & Maintenance expenses over the Control Period

e. Disallowance of significant portion of interest expenses over the Control Period

f. Reduction in the capital expenditure and corresponding reduction in return on equity.

1.5.2. The Hon'ble ATE passed its Judgment dated October 1, 2007 in Appeal No. 76 of 2007 . The Hon'ble ATE's rulings on various grounds raised in MSETCL's Appeals are summarised below:

a. Truing up of A&G expenses for FY 2005-06 shall be done based on actuals, subject to prudence check.

b. As regards employee expenses, A&G expenses and R&M expenses for the Control Period from FY 2007-08 to FY 2009-10

- Actual expenditure for the purposes of truing up for FY 2006-07 shall be considered subject to prudence check along with Annual Performance Review.
- Projections of ARR for the Control Period for the aforesaid heads shall be done by extrapolating the actual audited expenses for FY 2006-07 subject to prudence check and the same approach shall be followed for the subsequent years till norms are finalized.
- As regards the rate of interest and calculation of GFA is concerned, the same shall be considered and dealt along with the aforesaid points subject to such details as the Commission may require.
- Consequential changes, if any, in the tariff for FY 2007-08 and subsequent years shall be carried out based on the aforesaid.

1.6. Petition for Annual Performance Review for FY 2007-08 and Determination of Revenue Requirement for FY 2008-09

1.6.1. MSETCL submitted a petition on November 30, 2007 seeking approval of Annual Performance Review (APR) for FY 2007-08 and Revenue Requirement for FY 2008-09. The Annual Performance Review (APR) for FY 2007-08 was decided by the Commission's Order dated May 31, 2008 in Case No. 70 of 2007. The said order came into effect from June 1, 2008. The transmission tariff for InSTS for FY 2008-09 was determined through separate Order dated May 31, 2008 in Case No. 104 of 2007.

1.7. Petition seeking review of Order dated May 31, 2008 pertaining to APR for FY 2007-08 and Determination of Revenue Requirement for FY 2008-09

1.7.1. A petition came to be filed by MSETCL seeking review of interest expenses allowed by the Commission in Order dated May 31, 2008 in Case No. 70 of 2007. The said review petition came to be disposed of by the Commission's Order dated September 12, 2008 in Case No. 40 of 2008. In the said Order dated September 12, 2008 the Commission had *inter alia* ruled that the interest expenses of Rs 2.82 Crore related to LIC debt restructuring premium would be considered in the APR Petition of MSETCL for FY 2008-09. Accordingly, impact of the same was incorporated in the APR Order dated May 28, 2009 in Case No. 114 of 2008.

1.8. Petition for Annual Performance Review for FY 2008-09 and Determination of Revenue Requirement for FY 2009-10

1.8.1. MSETCL submitted a petition seeking approval of Annual Performance Review (APR) for FY 2008-09 and Revenue Requirement for FY 2009-10. The said petition came to be disposed of by the Commission's APR Order dated May 28, 2009 in Case No. 114 of 2008. The said Order dated May 28, 2009 came into effect from June 1, 2009. The transmission tariff for InSTS for FY 2009-10 was determined through

Order dated May 28, 2009 in Case No. 155 of 2008. MSETCL preferred an appeal before the ATE against the said Order dated May 28, 2009 in Case No. 114 of 2008 pertaining to APR for FY 2008-09 and determination of ARR for FY 2009-10. This appeal was numbered as Appeal No. 139 of 2009.

1.9. Judgment of Hon'ble ATE in Appeal No. 139 of 2009

1.9.1. The Hon'ble ATE delivered a judgment dated March 23, 2011 in Appeal No. 139 of 2009 ruling *inter alia* on the following issues:-

a. Error in true up of financials for FY 2008-09.

b. Disallowance of Administrative & General expenses and Repair Maintenance expenses.

c. Disallowance of Capital Expenditure.

d. Appointment of Consultants.

1.9.2. The Hon'ble ATE in the matter issued a Judgment dated March 23, 2011 and the extract of the findings of the Hon'ble ATE is provided below:-

"11. Summary of findings:

i) The Appellant has pointed out error of Rs. 25.20 crores while doing true up for 2008-09. The learned counsel for the State Commission has agreed to consider the same in the final truing up of FY 2008-09. Accordingly, the State Commission is directed to do the needful in the matter.

ii) The second issue is regarding Administrative & General Expenses and Repair & Maintenance Expenses. We find that the State Commission has determined the same according to its Regulations and Multi Year Tariff Order for the Control Period 2007-08 to 2009-10. The State Commission has also complied with the directions given by this Tribunal by its Judgment dated 1.10.2007 in Appeal No. 76 of 2007 filed by the Appellant by taking the actual audited figures for FY 2006-07 as base figures and then projecting the normative figures for A&G and R&M expenses after applying escalation factor on account of inflation. However, we have given some directions for future to the State Commission in paras 8.8 to 8.11 regarding determination of Operation & Maintenance expenditure on normative basis.

iii) The third issue is regarding capital expenditure. Learned counsel for the Appellant has submitted that the Appellant has already gone back to the State Commission seeking its approval on all schemes by submitting the documents relating to the schemes approved by the erstwhile State Electricity Board and also by clubbing the non-DPR Schemes to make them more than 10 crores to the extent possible. The State Commission had already recorded in the impugned order its willingness to consider the schemes provided the required justification is submitted to it. Accordingly, the State Commission is directed to consider the schemes submitted by *the Appellant for capitalization.*

iv) The last issue is regarding appointment of Consultant. In view of the Appellant's acceptance of the directions of the State Commission this issue does not survive. However, the State Commission may consider the proposal of the Appellant for appointment of consultant in emergent situation."

1.9.3. The Commission while undertaking the truing up for FY 2008-09 has factored in a financial impact of Rs 25.20 Crore and other issues while passing the Order dated September 10, 2010 in Case No. 103 of 2009. The directed issues of an amount of Rs 25.20 Crore has been added to the final trued up ARR for FY 2008-09, the norms for O&M expenses has been specified in the MERC (MYT) Regulations, 2011 and regrouped capital expenditure schemes has been considered by the Commission.

1.10. Petition for Annual Performance Review for FY 2009-10 and Determination of Revenue Requirement for FY 2010-11

1.10.1. In view of a separate process being undertaken by the Commission for formulation of MERC (Multi Year Tariff) Regulations for the control period FY 2011-12 to FY 2015-16, the Commission directed MSETCL to submit the Petition for truing up for FY 2008-09, APR for FY 2009-10 and determination of revenue requirement for FY 2010-11 for its transmission business, latest by December 31, 2009. MSETCL submitted its petition in accordance with the said direction of the Commission based on the actual audited expenditure for FY 2008-09 and actual expenditure for first half of FY 2009-10, i.e., April to September 2009.

1.10.2. The Commission after undertaking due process of law issued an Order dated September 10, 2010 in Case No. 103 of 2009 and approved the truing up for FY 2008-09, revised ARR and revenue gap for FY 2009-10 and ARR for FY 2010-11. The Order issued came to into effect from September 1, 2010.

1.10.3. The transmission tariff for InSTS for FY 2010-11 was determined through Order dated September 10, 2010 in Case No. 120 of 2009, which came into effect from September 1, 2010.

1.11. Petition seeking review of Order dated September 10, 2010 pertaining to Truing up for FY 2008-09, APR for FY 2009-10 and Determination of Revenue Requirement for FY 2010-11

1.11.1. MSETCL filed a Petition seeking review of the Order dated September 10, 2010 in Case No. 103 of 2009 issued by the Commission for Truing up for FY 2008-09, APR for FY 2009-10 and Determination of Revenue Requirement for FY 2010-11. The ground of review was that depreciation amounting to Rs 9.67 Crore was not provided for additional capitalisation of Rs 268.68 Crore. The above Review Petition was disposed of by an Order dated November 30, 2010 whereunder the impact on depreciation, Return on Equity, Interest on Loan due to the additional capitalisation, were computed. The total impact in the ARR for FY 2008-09 amounting to Rs 59.83

Crore was directed to be carried forward and adjusted in the revenue gap for FY 2009-10 during the True up exercise of the next Tariff Petition of MSETCL. **The financial impact thus needs to be adjusted in the True up exercise in the present Petition.**

1.12. Petition of MSETCL for consideration of the Additional Employee Expenses for grant of *ex-gratia* to their employees for the FY 2009-10

1.12.1. MSETCL submitted a Petition on February 15, 2011 with a prayer to the Commission to grant an additional employee expenses of Rs 7.20 Crore (approx.) on account of payment of *ex-gratia* to the employees for the FY 2009-10. This petition was numbered as Case No. 21 of 2011. MSETCL submitted that it has been granting *ex-gratia* payment and bonus to each employee for FY 2007-08, FY 2008-09 and FY 2009-10, of which the Commission had approved the ex-gratia payment of Rs 7000 to each employee for the year FY 2007-08 in the Tariff Order for FY 2008-09.

1.12.2. Further, MSETCL submitted that an amount of Rs 96.13 Crore pertaining to O&M expenditure for FY 2009-10 was disapproved by the Commission vide the Order dated September 10, 2010 in Case No. 103 of 2009 against the total proposed O&M expenditure of Rs 565.33 Crore. Therefore, MSETCL had come before the Commission for *post facto* approval of this additional impact on employee expenses over and above the approved amount of Rs 469.20 Crore for FY 2009-10.

1.12.3. By an Order dated March 30, 2011 the said Case No. 21 of 2011 was disposed of. The Commission viewed therein that the issue was hit by *res judicata* in as much as similar prayers in Case No. 112 of 2010 was dismissed as not maintainable vide Order dated February 15, 2011. However, MSETCL were permitted to seek approval of the *ex-gratia* payments at the time of filing of ARR petition..

1.13. Petition for Truing up for FY 2009-10, Annual Performance Review for FY 2010-11 and Aggregate Revenue Requirement for FY 2011-12

1.13.1. MSECTL submitted a petition on June 7, 2011 numbered as Case No. 86 of 2011 seeking approval of truing up for FY 2009-10, Annual Performance Review for FY 2010-11 and Aggregate Revenue Requirement for FY 2011-12. The Commission during the admissibility hearing informed that MSETCL has already been communicated vide Letter No. MERC/Tariff/20112012/00951 dated July 7, 2011 that MSETCL is required to submit a separate Petition for final truing up for the FY 2009-10 and provisional truing up for FY 2010-11 as per MERC (Terms and Conditions of Tariff) Regulations, 2005 latest by July 25, 2011.

1.13.2. Thereafter, the Commission issued an Order dated July 26, 2011 in the above case with observation that the Commission is separately taking view on the process to be followed for approval of Aggregate Revenue Requirement for FY 2011-12 and therefore directed MSETCL through an Order dated July 26, 2011 to submit a separate petition for the Final True up for FY 2009-10 and Provisional True up for FY

2010-11.

1.14. Petition for Truing up for FY 2009-10 and Annual Performance Review for FY 2010-11

1.14.1. MSETCL submitted its Petition on July 21, 2011 seeking Truing up for FY 2009-10 and Annual Performance Review for FY 2010-11 with copies of the Petition served on the Consumer Representatives authorized under Section 94 (3) of the Electricity Act, 2003. The said petition is said to be based on actual audited expenditure for FY 2009-10 and actual provisional expenditure for FY 2010-11. The prayers made are as follows:-

a. *Admit this Petition.*

b. *The Petition is filed pursuant to directives issued by the Hon'ble Commission.*

c. *Grant an expeditious hearing of this Petition.*

d. *Allow true-up of expenses of FY 2009-10 based on the audited accounts and approve the revenue gap of Rs. 509.98 Crore, this amount has been arrived after duly sharing the efficiency gain with the transmission system users of MSETCL according to the principle of the Commission set out in Tariff Regulations.*

e. *Approve the provisional true-up of expenses for FY 2010-11 to the extent claimed by MSETCL in accordance with the submissions and rationale given in this Petition.*

f. *Provide the workable excel model used by the Hon'ble Commission for approval of the above true up Requirement of MSETCL*

g. *Provide a recovery mechanism for recovery of the Revenue gap.*

h. *Condone any shortcomings/deficiencies and allow MSETCL to submit additional information/data at a later stage as may be required.*

1.14.2. The Commission vide email and letter dated August 4, 2011 asked MSETCL to addresses certain data gaps and certain information was also sought for in regard to the aforesaid petition filed by MSETCL. MSETCL vide letter dated August 5, 2011 submitted part reply to the above requisition.

1.14.3. The Commission held a Technical Validation Session (TVS) on August 5, 2011 in regard to the said Petition for Truing up for FY 2009-10 and Annual Performance Review for FY 2010-11. The data gaps raised and information requirements in regard to the petition were discussed in the TVS. However, it was found that there were computational representational errors in the petition which were required to be corrected. Certain further queries were raised by the Commission's staff. MSETCL was directed to respond to the said queries. The Commission also specified that a 2nd TVS in this case would be held on August 25, 2011.

1.14.4. The 2nd TVS was held on August 25, 2011 wherein MSETCL provided replies to the data gaps raised in the 1st TVS. After addressing the data gaps, MSETCL was required to make certain revisions to its petition. MSETCL informed that the revised petition after incorporation of the data gaps would be submitted later on.

1.15. Admission of the Petition and Public Process

1.15.1. After the 2nd TVS, MSETCL corrected its petition and submitted the revised petition to the Commission on September 2, 2011. The Commission admitted the petition vide Letter No. MERC/Case No. 102 of 2011/1531 dated September 7, 2011 and also directed MSETCL to publish its application in accordance with Section 64 of the EA 2003, in the prescribed abridged form and manner, inviting suggestions and objections from the public on the petition. The Commission also asked MSETCL to reply expeditiously to all the suggestions and objections received from stakeholders on its petition. MSETCL issued the approved contents of Public Notice in newspapers inviting suggestions and objections from stakeholders on its petition. The Public Notice was published in The Times of India, Indian Express, Loksatta, Lokmat and Dainik Sakaal newspapers on September 10, 2011. The copies of MSETCL's Petitions and its summary were made available for inspection/purchase by members of the public at MSETCL's offices and on MSETCL's website (www.mahatransco.in). The copy of Public Notice and Executive Summary of the Petition was also available on the website of the Commission (www.mercindia.org.in) in downloadable format. The Public Notice specified that the suggestions/objections, either in English or Marathi, may be filed in the form of affidavit along with proof of service on MSETCL.

1.15.2. The Commission received written objections regarding the petition of MSETCL. The list of Objectors, who participated in the Public Hearing, is annexed as a separate file.

1.15.3. The Commission held Public Hearings at Amravati, Nagpur, Nashik, Pune, Navi Mumbai and Aurangabad during the period from October 7 to October 25, 2011, as per the following schedule:

Table 1: List of Venues of Public Hearing

Sr.No.	Place /Venue of Public Hearing	Date of Hearing
1	Amravati Hall No.1,Divisional Commissioner’s Office Camp, Amravati, District – Amravati	Friday, October 7, 2011
2	Nagpur Vanamati Hall, V.I.P. Road, Dharampeth, Nagpur, District-Nagpur	Saturday, October 8, 2011
3	Nashik Niyojan Bhavan, Collector Office Campus, Old Agra Road, Nasik	Saturday, October 15, 2011

4	Pune Council Hall, Office of The Divisional Commissioner, Pune District- Pune	Wednesday, October 19, 2011
5	Navi Mumbai, Conference Hall, 7th Floor, CIDCO Bhavan, CBD, Belapur, Navi Mumbai	Sunday, October 23, 2011
6	Aurangabad Meeting Hall, Office of the Divisional Commissioner, Aurangabad, District- Aurangabad	Tuesday, October 25, 2011

1.15.4. The Commission has ensured that the due process contemplated under the law to ensure transparency and public participation was followed at every stage meticulously and adequate opportunity was given to all the persons concerned to file their say in the matter.

1.15.5. This Order deals with the truing up for FY 2009-10 and Annual Performance Review of FY 2010-11. Various objections that were raised on MSETCL's Petition after issuing the Public Notice, both in writing as well as during the Public Hearing, along with MSETCL's response and the Commission's rulings have been detailed in Section 2 of this Order.

1.16. Organization of the Order

1.16.1. This Order is organized in the following four sections:-

a. Section 1 of the Order provides a brief background of the process undertaken by the Commission. For the sake of convenience, list of abbreviations with their expanded forms have been included.

b. Section 2 of the Order lists out various objections raised by the Objectors in writing as well as during the Public Hearings before the Commission. The objections have been summarized, followed by the response of MSETCL and the rulings of the Commission on each of the issues.

c. Section 3 of the Order details the Truing up of expenses and revenue for MSETCL for FY 2009-10, including sharing of efficiency gains/losses due to controllable factors.

d. Section 4 of the Order comprises the Annual Performance Review for FY 2010-11, covering both physical performance and expenditure heads. This Section also comprises the Commission's analysis on various components of revenue requirement of MSETCL for FY 2010-11 and the consequent revenue gap therefore.

2. Objections Received, MSETCL's Response and Commission's Ruling

2.1. Requirement of Augmentation of Transmission System

OBJECTIONS/SUGGESTIONS

2.1.1. Shri S B Sumant, one of the Objectors, submitted that MSETCL already has 525 EHV substation and over a hundred more are planned/under construction. He submitted that this capacity itself was sufficient to handle 15000 MW of peak power. He enquired whether the capacity of transmission system was in sync with the load it transmits. He submitted that MSETCL should plan its projects based on prudent technical & financial norms. He therefore, submitted that all the future schemes to be implemented by MSETCL should be vetted by the Commission.

2.1.2. Shri S B Sumant during the public hearing at Pune submitted that currently the power transformers are loaded upto 30% only whereas practically they should be loaded upto 80%. He enquired as to why MSETCL is allowing these practices to be undertaken.

2.1.3 Shri N Ponrathnam has submitted that Mumbai blackout has been witnessed due to inadequacy of the transmission system. It was also submitted that this issue was highlighted during the proceedings of the Case No. 76 of 2011, in the matter of Approval of the PPA between TPC-G and TPC-D, wherein the Petitioner, TPC had opined that the transmission constraints made it difficult for getting additional power from outside into Mumbai City. He submitted that MSETCL should highlight all issues in the State where augmentation of infrastructure is required.

MSETCL's RESPONSE

2.1.3. MSETCL has replied that it has submitted the detailed plan to the Commission on various schemes of transmission network planned by the STU to (i) overcome congestion for bringing power in Mumbai Region and (ii) for other than Mumbai region.

2.1.4. The information submitted was through a correspondence of MSETCL Finance & Accounts Department with Ref. No. 14943 dated October 3, 2011 and the Commissions Ref. No.4066 dated October 10, 2011

2.1.5. MSETCL submitted that as regards the observations about transmission system, peak loads considered by MSETCL for planning of State transmission network for FY 2011-12, 2012-13, 2013-14 & 2014-15 are 22000 MW, 24000 MW, 26000 MW & 28000 MW respectively. It was further submitted that MSETCL/ STU's State transmission plan is prepared considering N-1 contingency as per CEA Transmission Planning Criteria. This plan is primarily for loads/generation for long-term open access customers of various transmission licensees in the State.

2.1.6. Further, during the public hearing at Pune, MSETCL submitted that STU does the planning of transmission network for State considering the future load, voltage profile, new & planned generating plans, etc. Accordingly, MSETCL, RInfra-T, TPC-T and other transmission utilities execute work of substations and lines in their respective areas.

2.1.7. MSETCL also submitted that out of total substations, two substations, one each at Phaltan & Neral are commissioned. Additionally, in this year 24 substations and 1700 km line is expected to be commissioned.

2.1.8. MSETCL also submitted that to control the expenditure, it instructed that the contracts above Rs 25 Lakhs are to be sent to main office for approval and post approval these schemes are executed.

2.1.9. MSETCL also submitted that spares with high cost will be purchased at centralised level so that discounts can be availed.

COMMISSION's VIEW

2.1.10. The Commission has perused the plans of MSETCL for the various schemes which had information on technical capabilities of power to be handled, cost benefit analysis and the corresponding benefit to accrue on implementation, cost of the various schemes, implementation phasing, etc.

2.1.11. In order to better plan transmission network in the State and also to prevent the eventualities such as the Mumbai black out, the Commission has constituted a Standing Committee for studying the bottlenecks in the transmission network for Mumbai as well as for the entire State of Maharashtra. The study is being conducted in two phases viz. (i) Mumbai and (ii) balance of Maharashtra. The Standing Committee is examining the various technical schemes of the transmission network augmentation which would be required to meet the anticipated load growth of Mumbai Metropolitan Region (MMR) and Maharashtra State for the next 5 and 15 years.

2.1.12. The Commission is of the view that the issues raised by the Objectors are being considered and the appropriate recommendations / directions etc regarding issues of transmission network constraints, loading of transformers & substations, capacity of transmission lines to meet the load requirements, etc. will be issued to MSETCL for action.

2.2. High Operation and Maintenance Expenditure

OBJECTIONS/SUGGESTIONS

2.2.1. Shri Pramod Mujumdar submitted that the expenditure on employees has increased from Rs 493.86 Crore to Rs 540.32 Crore which is an increase of 9.4% particularly when the revenue has been much less at Rs 1944.30 Crore against the Commission's target of Rs 2309.04 Crore. He submitted that MSETCL owes an explanation for this.

2.2.2. Shri Pramod Mujumdar also submitted that MSETCL is nowhere near the Administrative and General expenses approved by the Commission. During FY09-10 increase is 54.2% & during FY10-11 it is 87.5%. He contended that by flouting the Commission's guidelines, MSETCL is showing either its lack of control or meaninglessness of the Commission's guidelines. If the Commission's guidelines are to be flouted like this it puts question mark on utility & existence of the Commission.

2.2.3. Shri Pramod Mujumdar also opined that MSETCL is spending public money in a non-efficient manner and the Commission should institute a third party techno-commercial study of MSETCL's operation.

2.2.4. During the hearing at Navi Mumbai, Shri Pramod Mujumdar was present and contended that all the expenses of MSETCL are increasing and the Commission should appoint experts to probe into higher expenses than approved by the Commission.

2.2.5. Shri S B Sumant, one of the Objectors, questioned as to why MSETCL exceeded in its expenditure by substantial amounts in FY 2010-11 set by the Commission in O&M expenses, A&G expenses, others, etc. He submitted that O&M expenses of Rs 1000 Crore is higher as compared to power grid and other State utilities.

MSETCL's RESPONSE

2.2.6. MSETCL submitted that the Commission while approving the employee expenses in its Order dated September 10, 2010 to the tune of Rs 493.86 Crore has not considered the effect of new post to the extent of Rs 99.29 Crore as submitted by MSETCL in the previous ARR Petition which is the major reason for increase in employee expenses.

2.2.7. MSETCL further submitted that the Commission had approved the A&G expenses to the tune of Rs 77.11 Crore & Rs 81.09 Crore for FY 2009-10 & FY 2010-11 respectively as against MSETCL's submission of Rs 84.06 Crore & Rs 89.55 Crore for FY 2009-10 & FY 2010-11 respectively. However, A&G expenses have been increased because of increase in electricity charges, increase in the fuel expenses caused due to fuel price hike, increase in security measures expenses, rents , rates & taxes.

2.2.8. MSETCL submitted increase in R&M expenses is due to age old transmission network, increase in transmission network, hotline maintenance, etc undertaken which has resulted in improved availability and lower transmission losses.

COMMISSION's VIEW

2.2.9. The Commission has analysed each of the components of O&M expenses against MSETCL's claim for O&M expenses and as to whether they are uncontrollable in nature and require to be allowed on actual basis.

2.2.10. The Commission after analysing the deviation of each of the expenses, i.e., employee expenses, A&G expenses and R&M expenses against the approved expenses; attributes expense components to controllable and uncontrollable factors. The expenses which were attributed to uncontrollable factors have been allowed to be trued up whereas the expenses which were attributed to controllable factors have not been allowed to be trued up.

2.2.11. Further, the deviation in the expenses attributed to the controllable factors were classified into efficiency losses and shared as per the provisions of Regulation 19 of MERC (Terms and Conditions of Tariff) Regulations, 2005.

2.2.12. The detailed analysis of the components and the approvals are provided in sections 3.3 and 4.4of this Order.

2.3. Purchase of Equipments and Turnkey Contracts

OBJECTIONS/SUGGESTIONS

2.3.1. Shri Kawish Dange, Subordinate Engineers Association representative submitted that there are issues of time over-run &cost over-run of capital, high contractual price to EPC contractors, high labour charges, high rates for material/equipments supply. He submitted that the increase in capital cost is resulting into increase in the transmission charges. He also submitted that MSETCL has done replacement of power transformers, even before the completion of its life, i.e., 25 years, under JBIC loan assistance. He further stated that, these replaced transformers were lying unutilised. He also suggested that to resolve the Right of Way (RoW) issues the Commission must become amicus curie and must come to the rescue of MSETCL in settlement of RoW problems.

2.3.2. Some of the Objectors during the hearing at Amravati submitted that MSETCL is giving 90% of the contract value to the private contractors. Shri Annasaheb Desai, Vij Kamgar Mahasangh submitted that MSETCL has given contracts on turnkey without any management which results into poor work quality and therefore the turnkey works should be reduced. He further submitted that MSETCL has given contracts on 300% higher rates and has also paid Rs 155 Crore as advance against supply to contractors for some DPR schemes for which no approval had been obtained from the Commission. Therefore, he submitted that the Commission should undertake review of capital expenditure undertaken by MSETCL.

2.3.3. Shri S B Sumant during the public hearing at Pune submitted that for each Rs 100 Crore spent on Generation, corresponding expenditure of Rs 40 Crore each on transmission and distribution is required to be done. Compared to this MSETCL has planned to undertake a capital expenditure of Rs 25000 Crore. He submitted that MSETCL has taken up work of erection and commissioning of lines & substations more than the required quantum. He further submitted that in March 2009, MSETCL has given EPC contract of Rs 5600 Crore for 52 EHV substations & related lines. Out of these substations many are not completed for western Maharashtra even after 2.5

years.

2.3.4. Shri S B Sumant further submitted that, it is noticed that, the contracts costing above Rs 25 Lakhs are not being approved from the main office when there is a provision for the same.

2.3.5. Shri Vivek Velankar also pointed out about a news item in Maharashtra Times newspaper highlighting irregularities in purchases in Pune Zone. He submitted that it was reported in the news item that purchases were made at much higher prices than the prices fixed by CPA. He submitted that it was reported that the equipments purchased at Rs 140 Crore were at much high rates.

MSETCL's RESPONSE

2.3.6. MSETCL submitted that EPC contracts are evaluated on total cost of the package instead of item-wise cost and awarded for total scope for three years. The rates of substation contracts are 8.55%, 9.10%, 13.74% and 16.94% below the estimated cost of the tender for SS1B, SS2B, SS1A & SS2A respectively. The rates of link line contracts are 7.71% below the estimated cost of the tender & 0.86%, 6.08% and 3.37% above the estimated cost of tender for LL2B, LL1B, LL2A & LL1A respectively.

2.3.7. MSETCL further submitted that the asset capitalisation by MSETCL against the Commission's approval for FY 2009-10 & FY 2010-11 is provided below:-

Table 2: Asset Capitalisation for FY 2009-10 & FY 2010-11 (In Rs Crore)

Particulars	ARR Petition by MSETCL	MERC Approval	Actual	Difference
Asset Capitalisation FY 2009-10	908	473	1124	651
Asset Capitalisation FY 2010-11	2836	977	2270	1293

2.3.8. MSETCL submitted that with the above asset capitalisation there will be increase in the transmission system network.

2.3.9. MSETCL further submitted that 40 nos. of replaced transformers are already utilised and the remaining will be utilised in other places.

2.3.10. MSETCL has submitted that, as a general rule, the Commission has decided that the total capital expenditure and capitalisation on Non-DPR schemes in any year should not exceed 20% of that for DPR schemes during the year. To achieve the purpose the purported Non-DPR schemes should be packaged into larger schemes by combining similar or related Non-DPR schemes together and converted to DPR schemes so that the in principal approval of the Commission can be sought in accordance with the guidelines specified by the Commission. Accordingly, MSETCL clubbed several Non-DPR schemes in line with the direction of the Commission and the same were submitted to the Commission. The Commission based on the prudence checks and on the basis of in principal approval granted to such projects has allowed additional capitalisation of Rs 268.83 Crore.

2.3.11. During the public hearing at Aurangabad, while replying to one of the Objectors MSETCL stated that the statement (giving advance to an extent of upto 90% to private contractors being prevalent) made by the Objector was factually incorrect. MSETCL clarified that it provides advance to a maximum of 10% only.

COMMISSION's VIEW

2.3.12. The Commission has been reviewing the capital expenditures programmes of MSETCL on a periodic basis with the submissions of DPR schemes being above Rs 10 Crore. In a defined process, the DPR's of the capital expenditure schemes above Rs 10 Crore are being submitted by MSETCL which are scrutinised for their implementation phasing, investment requirement, funding requirement, cost benefit analysis, etc.

2.3.13. The capitalisation of the capital expenditure schemes for which DPR's have been approved by the Commission, are only taken in the ARR of the MSETCL. The debt, interest cost, depreciation and RoE corresponding to the approved capital expenditure schemes are only allowed by the Commission to be passed through in the tariffs.

2.3.14. The capitalisation of the capital expenditure schemes for which DPR's have not been approved by the Commission's are disallowed and the corresponding cost elements are also disallowed in the ARR of MSETCL.

2.3.15. The Commission in the previous Orders while according approval for capitalisation instituted some general principles for approval of capitalisation against DPR and Non-DPR schemes in any year. The relevant extract of the Order dated May 28, 2009 in Case No. 114 of 2008 is provided below for reference.

"In view of the above, as a general rule, the Commission has decided that the total capital expenditure and ***capitalisation on non-DPR schemes in any year should not exceed 20% of that for DPR schemes during that year. To achieve the purpose, the purported non-DPR schemes should be packaged into larger schemes by combining similar or related non-DPR schemes together and converted to DPR schemes, so that the in-principle approval of the Commission can be sought in accordance with the guidelines specified by the Commission****.*

Further, in the absence of documentary evidence that the stated purpose and objective *of the capex schemes have been achieved, the Commission is restricting the capitalisation considered for the purposes of determination of ARR and tariff.* ***Once MSETCL submits the necessary justification to prove that the scope and objective of the capex scheme has been achieved as projected in the DPR, the same may be considered in future Orders.***

MSETCL is directed to prioritise the capex schemes based on importance and the schemes may be implemented in phased manner to minimise the impact on transmission cost.

*"****For the purpose of provisional truing up for FY 2008-09, the Commission is of the view that the benefits of capex schemes need to be examined and until it is ascertained that the projected benefits actually accrue for the benefit of the stakeholder, it would not be appropriate to allow such expenses****. Accordingly, out of proposed capitalisation of Rs 1184.92 Crore by MSETCL during FY 2008-09 comprising capitalisation of DPR schemes of Rs 320.14 Crore and capitalisation of non-DPR schemes of Rs 864.78 Crore, the Commission has considered capitalisation of DPR schemes as Rs. 320.14 Crore on the basis of schemes already approved by the Commission. For non-DPR schemes, the Commission has retained the capitalisation of Rs 171.09 Crore as considered in its APR Order for FY 2007-08." {****Emphasis added****}*

2.3.16. Therefore, the Commission has adopted appropriate safeguards to take care of the Objector's concerns for pass through of efficient cost of capital expenditure.

2.3.17. The Commission observes that MSETCL has been taking requisite approvals under DPR schemes and further would like to state that MSETCL should take appropriate approvals before undertaking any capital expenditure programmes.

2.4. Transmission Loss

OBJECTION/SUGGESTION

2.4.1. Shri S B Sumant during the hearing submitted that the transmission losses of MSETCL has reduced and further enquired if it was a true fact. He further enquired the reasons for reduction of the transmission losses.

MSETCL's RESPONSE

2.4.2. MSETCL submitted that in the last 2 years, MSETCL has erected and commissioned new substations, lines, etc., due to which overloading on old lines has reduced. Therefore, due to these new lines, transmission losses have been reduced.

COMMISSION's VIEW

2.4.3. The Commission had approved a transmission loss of 4.85% for the control period FY 2007-08 to FY 2009-10 in the MYT Order in Case No. 67 of 2006 dated April 2, 2007. The Commission also observed that once the metering is complete and metered data is submitted, the transmission losses may be reviewed.

2.4.4. The Commission in the APR Order for FY 2009-10 in Case No. 103 of 2009 dated September 10, 2010 observed that the transmission losses is one of the critical performance parameters for the transmission licensee, as the transmission system users have to bear actual transmission losses. The Commission had also observed that the actual transmission losses can be assessed in an improved manner, once the metering data from the ABT meters installed at all G< >T and T < > D interface points, is available during FY 2009-10 and FY 2010-11. Hence, transmission loss for InSTS for FY 2010-11 had also been considered as 4.85% by the Commission.

2.4.5. MSETCL has submitted the transmission losses in the HVAC system for FY 2009-10 & FY 2010-11 as 4.61% & 4.28% respectively and for HVDC system for FY 2009-10 & FY 2010-11 as 3.53% & 3.04% respectively. The Commission took note of the submission of MSETCL that despite growing volume of electricity handled by the transmission network of MSETCL, the level of losses in the system has been kept very near normative loss levels for the year.

2.4.6. The Commission also took note of the submission of MSETCL that MSETCL had undertaken the project of metering all interface locations of G < > T, T < > D, STU < > CTU, G < > D and D < > D at all EHV stations, all intra-state transmission licensees and distribution licensees in the state. MSETCL had also submitted that out of 2213 interface location, 2199 locations have been metered as on February 23, 2011 and balance locations would be metered soon. The Commission directs MSETCL to submit the compliance report for the same.

2.4.7. The status of metering at various locations were provided in the Petition of MSETCL where in it was observed that metering at very few locations were pending of which were at T < > D interface and EHV constructions.

2.4.8. Therefore, the transmission losses are based on the existing status of metering and an accurate transmission loss would be determined in the next control period with accurate metered data. As of now the Commission accepts the transmission losses for FY 2009-10 and FY 2010-11 as submitted by MSETCL.

2.5. Debt and Interest Expenses

<u>OBJECTIONS/SUGGESTIONS</u>

2.5.1. Shri Pramod Mujumdar submitted that MSETCL seems to be merrily borrowing as it feels that all such extra costs can be recovered from consumers who do not have any other choice. He submitted that interest on long term borrowings for FY 2010-11 has increased from a guideline figure of Rs 151.20 Crore to Rs 281.46 Crore, which is an increase of 86.2%.

2.5.2. Shri S B Sumant submitted that interest expense has ballooned to Rs 342 Crore, which will rise by over 600% in next few years due to massive capex of Rs 22000

Crore of which 90% is funded through high interest debt. So he submitted that in future this interest component will be more than 50% revenue receipts and enquired that whether MSETCL will be able to bear these costs or the consumer will have to pay.

2.5.3. Shri Sumant further submitted that MSETCL has taken high debt to increase transmission network. He submitted that MSETCL had taken loan from International Finance Corporation (IFC) of Rs 944 Crore at an interest rate of 10.88%. He further submitted that MSETCL has paid Rs 52 Crore in FY 2010-11 on account of currency fluctuation, i.e., 21% more interest is paid which were more costly than the loan offered by Government of Maharashtra. He enquired as to why this loan was taken by MSETCL. He submitted that there are many cases of such mis-management in MSETCL with no planning and wastage of money, which at the end burdens consumers.

MSETCL's RESPONSE

2.5.4. MSETCL submitted that the Commission had approved the addition to loans to the extent of Rs 781.80 Crore on asset capitalisation of Rs 977.24 Crore whereas the actual addition to loans is Rs 2291.97 Crore on asset capitalisation of Rs 2270.33 Crore. Thus increase in interest is due to higher addition to fixed assets (i.e. increase in the transmission network) as against the approval considered by the Commission.

COMMISSION's VIEW

2.5.5. The Commission views that the interest cost corresponding to the long term loans are dependent on the capital expenditure and capitalisation of MSETCL. MSETCL submits its actual capital expenditure, capitalisation, drawl & repayment of loans and the corresponding interest expense.

2.5.6. While MSETCL submits the actual expenses on all of these items for approval, the Commission scrutinises each of these items for prudency and only the expenses incurred efficiently are allowed as pass through in the ARR and tariff of MSETCL.

2.5.7. The Commission in the previous orders has disallowed interest expenses and long term loans corresponding to the disallowed capitalisation. Therefore, the Commission while approval of interest expenses undertakes appropriate prudence check and the details of the approval of the interest expenses are provided in Section 3.6 & 4.7 below for FY 2009-10 and FY 2010-11 respectively.

2.6. Return on Equity

OBJECTION/SUGGESTION

2.6.1. Shri Pramod Mujumdar submitted that the Return on Equity (RoE) capital has increased by Rs 40.46 Crore in FY 2009-10 and by Rs 58.68 Crore in FY 2010-11. He enquired if this return was pre-approved by the Commission. He also submitted that if capital is increasing, borrowing should go down but opposite seems to be the case. Such increase in return should be disallowed.

MSETCL's RESPONSE

2.6.2. MSETCL submitted that the RoE is approved as per the MERC Tariff Regulations; as it provides normative returns as 14% RoE on opening equity & 7% RoE for capitalisation during the year with debt equity ratio 80:20. While approving Rs 410.87 Crore as RoE, the Commission has considered addition to fixed assets of Rs 472.80 Crore and considered 20% of the same, i.e., Rs 94.56 Crore as equity portion which is Rs. 224.83 Crore. As a result RoE comes to Rs 442.33 Crore for FY 2009-10.

2.6.3. Similarly while approving Rs 431.17 Crore as RoE, MERC has considered addition to fixed assets of Rs 977.24 Crore and considered 20% of the same, i.e., Rs 194.45 Crore as equity portion, whereas actual asset addition to fixed asset is Rs 2270.33 Crore 20% of the same is the actual equity portion which is Rs 454.07 Crore. As a result RoE comes to Rs 489.85 Crore for FY 2010-11.

COMMISSION's VIEW

2.6.4. The Commission views that the Return on Equity (RoE) is dependent on the capital expenditure and capitalisation of MSETCL. While MSETCL submits the RoE corresponding to the actual capitalisation for approval, the Commission scrutinises the capitalisation for prudency and only the capitalisation based on the prudence check is allowed for the respective years. The RoE corresponding to the approved capitalisation is only allowed as pass through in the ARR & Tariff of MSETCL.

2.6.5. The Commission in the previous Orders had disallowed RoE corresponding to the disallowed capitalisation. Therefore, the Commission while approval of RoE undertakes appropriate prudence check and the details of the approval of the RoE is provided in Section 3.12 & 4.9 below for FY 2009-10 & FY 2010-11 respectively.

2.7. Revenue and ARR

OBJECTIONS/SUGGESTIONS

2.7.1. Shri Pramod Mujumdar submitted that the Revenue is much less at Rs 1944.30 Crore against the Commission's target of Rs 2309.04 Crore during FY 2010-11. He also enquired that when power requirement in Maharashtra is increasing and also MSETCL has near monopoly situation, how is it that the revenue is going down.

2.7.2. Shri S B Sumant submitted that the transmission cost per unit doubled in last 5 years which will again shoot up astronomically in future.

2.7.3. Shri Sanjay Balkrishna Khandalkar, Maharashtra Rajya Grahak Vij Sanghatna submitted that the proposed tariff hike of Rs 772 Crore is unsuitable and is due to inefficient working of MSETCL.

MSETCL's RESPONSE

2.7.4. MSETCL submitted that as regards the observation of revenue for Rs 1944.30 Crore for FY 2010-11, it is to clarify that as per the MERC Regulations, the Commission's Tariff Order approves the ARR for whole financial year, but the actual recovery is done from the month in which Order is passed by the Commission, i.e., September 2010. As a result MSETCL is not able to recover the arrears of the approved ARR (5 months) in the remaining period of financial year (i.e. in the remaining 7 months period of FY 2010-11.

COMMISSION's VIEW

2.7.5. The Commission is of the view that while the recovery from tariff needs to equivalent to the ARR approved, the same is not the case for the transmission business in the State due to delay in filing of petition seeking approval of ARR and determination of tariff and resultant issuance of ARR & Tariff Order. Due to delay in filing and resultant delay in issuance of Tariff Order for FY 2010-11 on September 10, 2010 and the applicability of the Order from September 1, 2010, the tariff approved by the Commission could be billed only from September 2010 which has resulted into under-recovery from tariffs by MSETCL.

2.7.6. Therefore, while the actual revenue would have been equal to ARR approved for FY 2010-11, the actual revenue is lower than the approved ARR or revenue for FY 2010-11. This under-recovery would be taken care of in the APR and truing-up exercises for FY 2010-11 and the unrecovered amount would be carried forward to the ARR for the subsequent year.

3. Truing Up of Aggregate Revenue Requirement for FY 2009-10

3.1. Background

3.1.1. MSETCL, in this Petition has sought for final truing up of expenditure and revenue for FY 2009-10 based on the actual annual expenditure and revenue as per Audited Annual Accounts. MSETCL submitted the reasons for variation in the actual expenses for FY 2009-10, as compared with the approved expenses after provisional truing up for FY 2009-10 in its APR Order dated September 10, 2010 in Case No. 103 of 2009. MSETCL also included the impact of the Commission's Order dated November 30, 2010 on Review Petition as Case No. 73 of 2010 in the true up for FY 2009-10.

3.1.2. MSETCL has submitted computation and its claim of sharing of gains and losses for FY 2009-10. MSETCL has claimed only deviation in Interest on Working Capital as a controllable item and deviation on balance all items have been claimed as uncontrollable. In accordance with the Regulation 19 of MERC (Terms and Conditions of Tariff) Regulations, 2005, the Commission has approved the sharing of efficiency gains and losses due to controllable factors for FY 2009-10 for MSETCL.

3.1.3. The detailed approval by the Commission pertaining to FY 2009-10 is provided in the following sections.

3.2. Change of Accounting Policy and Effect of Migration of Accounts from ESSAR to Companies Act, 1956

3.2.1. The Commission in its Order dated September 10, 2010 in Case No. 103 of 2009 had taken cognizance of the fact that MSETCL has migrated its accounting system from ESSAR to ICAI Guidelines under the Companies Act, 1956 and there existed significant differences between previous accounting procedures under ESSAR and revised system of accounting adopted under Companies Act, 1956, including, but not limited to variation in disclosure, policy of depreciation on assets in existence at the beginning of the year, computation of interest on long term loans, valuation of inventories, principles used in computation of expenses capitalised, etc.

3.2.2. Due to the above, the Commission in the above referred Order dated September 10, 2010 approved the treatment of capitalisation of assets as proposed by MSETCL as it varies significantly as per Companies Act, 1956 compared to ESSAR system of accounting. As a result, a lower capitalisation of expenses amounting to Rs 107.22 Crore from the formation of the Company (FY 2005-06) till the end of FY 2007-08 was needed to be provided effect in the Gross Fixed Asset (GFA). This excess capitalisation, required to be de-capitalised was approved by the Commission.

3.2.3. The resultant impact was on the revenue expenditure items such as reduction in depreciation, reduction in Return on Equity (RoE), reduction in Interest on Loan, reduction in expense capitalisation and addition in the expenses such as the employee expenses, A&G expenses, R&M expenses, interest expense. The Commission in the

Order dated September 10, 2010 gave impact to this addition and deduction in FY 2008-09, FY 2009-10 and FY 2010-11. The individual elements have been provided effect for in the respective ARR elements in the respective sections below.

3.3. Truing Up of O&M Expenses for FY 2009-10

3.3.1. Operation and Maintenance (O&M) expenditure comprises of Employee expenses, Administrative & General (A&G) expenses and Repair & Maintenance (R&M) expenses. MSETCL in its Petition submitted that the actual O&M expenses has marginally increased as compared to the expenses approved by the Commission with increase in the expenses in sub-heads of A&G expenses and R&M expenses. MSETCL's submission's on each of these expenditure heads, and the Commission's ruling on the truing up of the O&M expenditure heads are detailed in the following sections.

3.3.2. **Employee Expenses for FY 2009-10**

3.3.3. MSETCL submitted that the actual employee expenses for FY 2009-10 has been lower than the employee expenses approved by the Commission in the Order dated September 10, 2010 in Case No. 103 of 2009. MSETCL submitted that it has incurred a net expenditure of Rs 430.36 Crore against Rs 469.20 Crore approved by the Commission. The actual expenditure claimed is as per the Audited Annual Accounts and MSETCL has requested the Commission to approve the employee expenses as per the Audited Annual Accounts.

3.3.4. The Commission on analysing the actual expenditure in each of the heads of employee expenses found that the expenses on account of effect of migration amounting to Rs 19.71 Crore and provision of leave encashment to be amortised over 5 years starting FY 2006-07 amounting to Rs 23.27 Crore has been claimed as approved by the Commission.

3.3.5. The deviation which has occurred was in the Gross Employee expense, Effect of creation of new post and expense capitalised. MSETCL in the Petition had submitted that the employee expenses were lower in FY 2009-10 due to reduced amount in leave encashment provision.

3.3.6. The Commission further enquired MSETCL about the reason for having incurred less expense for Gross Employee expenses amounting to Rs 444.69 Crore against approved of Rs 493.95 Crore. In reply, MSETCL stated that the Commission had approved Rs 493.95 Crore based on MSETCL's revised estimates of Rs 573.74 Crore as per the APR Petition for FY 2009-10, whereas in actual the employee cost was just Rs 444.69 Crore. MSETCL further provided a comparison of component wise revised estimates as per the APR Petition and the actual expenditure, which is provided in the table below:-

Table 3: Deviation Analysis of Employee Cost Components provided by MSETCL (In Rs Crore)

S. No.	Particulars	FY 2009-10		
		Revised Estimates[1]	Actuals[2]	Difference
1	Basic Salary	276.74	204.66	(72.09)
2	Dearness Allowance (DA)	100.29	94.95	(5.34)
3	House Rent Allowance	8.58	18.29	9.71
4	Compensatory Local Allowance	0.81	0.87	0.05
5	Leave Travel Allowance	0.67	0.36	(0.31)
6	Earned Leave Encashment	13.47	2.94	(10.53)
7	Other Allowances	20.26	26.85	6.58
8	Medical Reimbursement	1.39	1.41	0.02
9	Overtime Payment	16.59	17.85	1.27
10	Bonus/Ex-Gratia Payments	13.61	0.00	(13.61)
11	Interim Relief / Wage Revision	0.00	0.00	0.00
12	Staff welfare expenses	2.60	2.70	0.10
13	Board's contribution to ESI fund	0.00	0.00	(0.00)
14	Others including training expenses	8.39	(10.03)	(18.42)
15	Payment under Workmen's Compensation Act	0.03	0.02	(0.01)
	Gross Employee Costs excluding terminal benefits	**463.43**	**360.86**	(102.57)
16	**Terminal Benefits**	**109.88**	**82.96**	(26.92)
16.1	*Provident Fund Contribution*	*30.96*	*36.60*	5.64
16.2	*Provision for PF Fund*	*0.00*	*0.00*	0.00
16.3	*Pension Payments*	*0.05*	*0.00*	(0.05)
16.4	*Gratuity Payment*	*33.49*	*27.96*	(5.54)
16.5	*P.F. Insp. & Govt. Charges*	*0.47*	*0.61*	0.14
16.6	*Leave Encashment on Retirement*	*13.49*	*16.41*	2.92
16.7	*Provision for PF Interest shortfall*		*5.54*	5.54
16.8	*Provision for Leave Encashment*	*31.42*	*(4.16)*	(35.58)
17	Fringe Benefit Tax	0.34	0.80	0.46
18	Others	0.08	0.07	(0.01)

[1] Revised Estimates as was submitted by MSETCL in the APR Petition FY 2009-10
[2] Actual expenses as per Audited Annual Accounts/Truing Up Petition

S. No.	Particulars	FY 2009-10		
		Revised Estimates[1]	Actuals[2]	Difference
	Gross Employee Expenses excluding adjustments	**573.74**	**444.69**	(129.05)
19	Adjustments of deferred provision of leave encashment for FY 06-07 as per MERC Order	23.27	23.27	0.00
20	Effect of creation of new posts during 2009-10	12.54	0.00	(12.54)
21	Effect of creation of new posts during 2009-10 in Projects Division	0.00		0.00
22	Effect of Pay Revision	0.00	19.71	19.71
23	**Gross Employee Expenses**	**609.55**	**487.67**	(121.88)
24	Less: Expenses Capitalised	44.22	57.31	13.10
25	**Total Adjusted Net Employee Expenses**	**565.33**	**430.36**	(134.97)

3.3.7. MSETCL submitted that the estimate on Basic Salary and Dearness Allowance during the APR Petition was based on the indexation on previous year, whereas in actual the expenses on this account resulted into a lower expenditure. MSETCL also submitted that earned leave encashment was estimated around Rs 13.47 Crore in APR Petition for FY 2009-10 against which actual claimed by the employees were very less amounting to Rs 2.94 Crore. Additionally, it was submitted that the ex-gratia was declared and paid only in October 2010 after the finalisation of Annual Accounts in September 2010. MSETCL also submitted that there was withdrawal of provision of Planned Assets by Rs 12.86 Crore in FY 2009-10 under the head “Others including training expenses”.

3.3.8. Apart from the above deviation provided, MSETCL also submitted that the estimate on “Provision for Leave Encashment” under the Terminal benefits was based on the indexation of the previous year against which there was actually a withdrawal as per the actuarial valuation.

3.3.9. MSETCL in the APR Petition, had submitted that out of 3263 new entrants, 2652 have joined on February 26, 2010 and remaining 611 would be joining by March, 2010. Therefore, MSETCL had submitted that the revised projection on account of effect of creation of new posts for FY 2009-10 is estimated to be Rs 12.54 Crore. On query by the Commission on these joining and the expenditure thereof, it was confirmed by MSETCL that the envisaged joining had already taken place and the corresponding expenditure of Rs 12.54 Crore which was claimed in APR Petition has been included in the respective account heads such as salary, DA, allowances, etc. in the employee expenses.

3.3.10. The Commission in the APR Order had approved the employee expenses considering an increase of around 6.35% on account of inflation over the revised level of employee expense as approved for FY 2008-09 except for sub-heads of Terminal Benefits, FBT and impact due to creation of new posts. Also, in case of leave encashment provision made for FY 2006-07 under employee expenses, the Commission in its Order dated May 31, 2008 in Case No. 70 of 2007 stipulated that an recoverable amount of Rs 116 Crore approved against provisioning for leave encashment liability should be spread over five years and approved an amount of Rs 23.27 Corers. An amount of Rs 19.71 Crore was also approved under the employee expenses for adjustment of deferred provision for de-capitalisation due to migration from ESSAR to ICAI Accounting systems for FY 2009-10.

3.3.11. The Commission after considering the above facts submitted by MSETCL and the reasons for approval in the APR Order, rules that the provisions against effect of migration of Rs 19.71 Crore and provision of leave encashment to be amortised over 5 years starting from FY 2006-07 amounting to Rs 23.27 Crore for FY 2009-10 were already principally approved. Therefore, while Truing up for FY 2009-10, the Commission approves this amounts as claimed.

3.3.12. The Commission, for the purpose of Truing up of employee expenses, views that MSETCL has substantiated the reasons for lower expenditure on gross employee expenses, effect of creation of new post, capitalisation, and the actual expenditure. Therefore, the Commission approves the employee expenditure on these accounts on actual basis as per the Audited Annual Accounts for FY 2009-10. The comparison of trued up employee expenses by the Commission vis-a-vis claimed by MSETCL is provided in the table below:-

Table 4: Employee Expenses for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Gross Employee expenses	493.95	444.69	444.69
2	Effect of Migration	19.71	19.71	19.71
3	Effect of creation of new post	12.54	0.00	0.00
4	Provision of Leave encashment to be amortised over 5 years starting from FY 2006-07	23.27	23.27	23.27
5	Less: Capitalisation	(80.27)	(57.31)	(57.31)
6	**Net Employee Expenses**	**469.2**	**430.36**	**430.36**

3.3.13. . **A&G Expenses for FY 2009-10**

3.3.14. MSETCL submitted that the actual A&G expenses incurred during the FY 2009-10 are significantly more than that approved by the Commission in the APR Order dated September 10, 2010. MSETCL stated that the increase in A&G expenses is on account of various factors such as:-

a. Increase in rental charges;

b. Increase in cost incurred on security arrangement to safeguard the transmission assets of different circles, because the increasing asset base calls for higher security arrangements;

c. Expenses incurred on account of consultancy and professional charges paid by MSETCL;

d. Increase in rates and taxes due to higher taxes in many circles; and

e. Increase in payment of electricity charges.

3.3.15. MSETCL further submitted that the capitalization of expenses has been lower than that approved by the Commission, resulting into higher net A&G expenses. MSETCL submitted that the costs incurred on various heads mentioned above are crucial & legitimate and pertains to the activities, which are either beyond control of MSETCL or to ensure safety of assets. Therefore, MSETCL requested that the same be acceded to and approval be accorded to the A&G expenses actually incurred as per the Audited Annual Accounts for FY2009-10.

3.3.16. The Commission analysed the year on year increase in the actual increase in the expenditure in A&G expense sub-heads and observed that the major increases are on account of increase in Rent, Rates & Taxes, Conveyance & Travel, Electricity Charges, Security Arrangements, Vehicle hiring expenses truck/delivery van, office expenses, and others, etc. The Commission observes that expenses in FY 2009-10 under few items such as the conveyance & travel, security arrangements and office expenses were double the expense incurred in FY 2008-09. The Commission enquired the reasons for incurring these higher expenses by MSETCL.

3.3.17. The Commission analysed each of the reasons provided by MSETCL for attributing if any uncontrollable factors have resulted into the deviation in the cost. While the Commission was analysing on the higher expenditure under the account sub-head of "Security Arrangement", it was found that MSETCL has received recommendations by various police authorities for increased security measures in the various sub-stations across the State. The recommendation on account of threat perception was for increase in security personnel, increase in trained personnel and increase in armed personnel. The details of the requirements were analysed by the Commission based on the documentary proofs provided by MSETCL. The Commission is of the view that these threat perceptions on the various assets of MSETCL arise out of law and order issues for the licensee and is a necessity to secure the assets of the licensee. Therefore, the Commission is of the view that this is beyond the control of MSETCL and the expenses on account of this can be attributable to uncontrollable factors. Hence, the additional expenses on account of security arrangement, needs to be pass through in the trued up ARR. Further after analysing the increase in expenses under this head, it was found that MSETCL in the APR had requested for an approval of Rs 13.44 Crore against an actual expenditure of Rs 21.34 Crore. This difference amounting to Rs 7.90 Crore attributable to the increased expense on account of security arrangements for FY 2009-10 is allowed to be a pass through in the trued up A&G expense.

3.3.18. The Commission also took note of the reasoning provided by MSETCL for increase in rents and taxes resulting into higher expenses under the account head "Rent, Rates and Taxes". The Commission also asked MSETCL to submit detailed reasoning and quantification of the increase and if the increase was due to uncontrollable factor. MSETCL neither provided appropriate reasoning nor appropriate details that could be considered by the Commission for approval of any uncontrollable increased expense. However, lease agreement between the MSEB Holding company and the respective companies was provided by MSETCL but no appropriate reasoning or quantification was made, which was in-sufficient for the Commission to accept. Apart from the above, the Commission did not find any appropriate reasons for allowing any other expenditure in the A&G as uncontrollable factor.

3.3.19. The Commission is of the view that while undertaking the APR exercise it had analysed the claim of MSETCL on A&G expenses and approved a gross A&G expenses considering an increase of around 5.48% on account of inflation over the gross A&G expenses for FY 2008-09 as approved in the referred Order. Apart from the Gross A&G expenses, the Commission had also approved capitalisation at the rate 15% of gross A&G expenses and Rs 20.23 Crore as an adjustment of amortisation provision for de-capitalisation due to migration from ESSAR to ICAI Accounting systems for FY 2009-10. The Commission while approving the A&G expenses for FY 2009-10 in the APR Order had given due consideration to all the factors submitted and therefore MSETCL should have limited its expenditure to the approved level unless there is any uncontrollable event as provided for above which would have led to higher expenses. The Commission is of the view that the reasons provided by MSETCL for higher expenses and the items under which there have been very high expenses are on account of controllable factors except for expense on security arrangement.

3.3.20. Therefore, the Commission approves the Gross A&G expense of Rs 74.82 Crore with inclusion of Rs 7.90 Crore against uncontrollable expenses over and above Rs 66.92 Crore approved in APR Order. The true up for expense capitalisation for FY 2009-10 is done based on "Expense Capitalised to Capitalisation Ratio", which is computed based on the information submitted by MSETCL. The adjustment of Rs 20.23 Crore for amortisation provision for de-capitalisation due to migration from ESSAR to ICAI

Accounting systems is also approved. The difference between the actual audited expense and the approved expenses after truing up is shared as per the Regulation 19 of MERC (Terms and Conditions of Tariff) Regulations, 2005 which is described in the Section for "Sharing of Gains & Losses" in this Order.

3.3.21. The comparison of A&G expenses claimed by MSETCL and approved by the Commission is provided in the table below:-

Table 5: A&G Expenses for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Gross A&G Expenses	66.92	106.12	74.82
2	Effect of migration of accounts	20.23	20.23	20.23
3	Less: Capitalisation	(10.04)	(7.48)	(6.84)
4	**Net A&G Expenses**	**77.10**	**118.88**	**88.21**

3.3.22. **R&M Expenses for FY 2009-10**

3.3.23. MSETCL submitted that the R&M expenses allowed by the Commission in the APR Order do not reflect the actual R&M expense requirement of MSETCL for past many years. MSETCL submitted that the reason for higher R&M expenses had been submitted and pleaded for approval in the APR Petitions of the previous years, however, MSETCL reiterated the same rationale in the present Petition also.

3.3.24. The reasons provided by MSETCL are described in brief in the following sections:-

a. **Vintage of Asset Base: -** MSETCL submitted that the useful life of transmission assets is 25 years as specified in the MERC (Terms and Conditions of Tariff) Regulations, 2005. MSETCL in the Petition provided the information of the voltage wise vintage of the transmission assets.

b. **Rise in Transmission Assets: -** MSETCL submitted that there has been a substantial capacity addition in the transmission asset base of MSETCL over past few years and hence a requirement of repair and maintenance expenses for increased asset base. MSETCL provided information for increase in transmission assets such as No. of Bays, No. of sub-stations and Transmission lines and also for rise in transformation capacity. MSETCL submitted that not only there is an increase in asset base but also significant increase in Transformation capacity. The transformation capacity has increased from 55759 MVA in FY 2005-06 to 73792 MVA in FY 2009-10. MSETCL submitted that as the asset base increases, the minimal operation and maintenance requirement for such increasing asset base also increases.

c. **Hot Line Maintenance: -** MSETCL submitted that to avoid revenue loss due to interruption, transmission lines and equipment calls for "Hot Line Maintenance". MSETCL submitted that expenditure on "Hot Line Maintenance" for eight hours is 15% of the total revenue loss for eight hours of interruption on single 400 kV line/ equipment.

d. **Preventive Maintenance Practices: -** MSETCL submitted that in wake of vintage assets, it has adopted a preventive maintenance practice to ensure safe and secure operation. Further, it was submitted that MSETCL periodically conducts residual life assessment of its assets to ensure high level of availability in general and to avoid loss of generation at power station attached to sub-station in particular, on account of unforeseen/unpredictable equipment failures. In this regard, the necessary instructions are issued to each of the field offices for replacement of equipment exceeding the permissible limits. MSETCL submitted that such maintenance practices calls for higher R&M expenses.

3.3.25. MSETCL therefore submitted to the Commission, to consider the above rationale and allow the net entitlement under R&M expenses, after applying the sharing of gains/loss principles of MERC (Terms and Conditions of Tariff) Regulations, 2005, as Rs 305.27 Crore.

3.3.26. The Commission while approving the R&M expenses for FY 2009-10 relied on the approved/trued up R&M expenses for FY 2008-09 in the APR Order dated September 10, 2010 and provided a certain percentage of increase over the trued up R&M expenses in FY 2008-09. The Commission has provided the extract below while Truing up R&M expenses for FY 2008-09

"*4. The Commission observed that the* ***increase in R&M expense to Rs. 392.77 Crore for FY 2008-09 is a huge increase over Rs. 173.93 Crore as approved in its APR Order dated May 28, 2009****. The Commission observed that the major increase in R&M expense is in respect of the R&M expense towards Plant and Machinery (i.e., increase from Rs 171.79 Crore during FY2007-08 to Rs 215.42 Crore during FY 2008-09) and R&M expense towards Lines and cable networks (i.e., increase from Rs 42.82 Crore during FY2007-08 to Rs 117.56 Crore during FY 2008-09). As part of the submission made by MSETCL in quantifying the benefits of R&M expenses, MSETCL also submitted* ***a comparison of the component wise increase in expenses for FY 2008-09 vis-a-vis the expenses incurred against the same sub-heads in FY 2007-08****. The Commission has undertaken a head-wise analysis of each component of the above major R&M expenses. Further,* ***the Commission has also compared the rise in substation assets, which is being attributed as a reason for increase in R&M expenditure and the actual increase in R&M expenditure due to R&M expense of Plant and***

Machinery. *It is observed that the actual asset under such asset class has increased by only 3.41%, whereas the R&M expense pertaining to the sub-station asset base has increased at a much higher rate of nearly 81% as compared to that incurred during FY 2007-08 (i.e., increase from Rs 73.94 Crore to Rs 133.87 Crore), which is clearly unjustified. Similarly, significant increase of over 174% in R&M expenses for FY 2008-09 under the head "Line Maintenance" over corresponding actual expenses in FY 2007-08 is observed, which again appears to be* ***very high since the major reason for such an increase as submitted by MSETCL in the current Petition is hotline maintenance, which is in the nature of one-time expense, and was also claimed by MSETCL during truing up of FY 2007-08****. It is also noted that the* ***argument that average age of transmission assets > 25 years holds good even during FY 2007-08 and MSETCL has achieved transmission availability far in excess of normative availability even during FY 2007-08****.*

Hence, for the purpose of truing-up, the Commission has applied an inflation factor of 5.19% over the approved R&M expenses for FY 2007-08*, for projecting R&M expenses for FY 2008-09, along with an increase of asset base at 3.41%, i.e., percentage rise in substation assets under the sub-heads that have significant impact on the R&M expenses, under the head Plant and Machinery, and Line Maintenance."*

3.3.27. The Commission undertook a detailed analysis of the R&M expenses for each of the head and made certain observations which are listed below in the Order dated September 10, 2010 for True up Petition of FY 2008-09 in Case No. 103 of 2009.

a. Huge increase in actual R&M expenses incurred by MSETCL over approved R&M expenses by the Commission than that approved in the previous Orders.

b. Actual asset base under sub-station asset class which was attributed to the reason of increase R&M was marginal with increase of 3.41%. Whereas, the expenditure on R&M expenditure on Plant & Machinery was at a much higher rate of 81%.

c. Hotline Maintenance being held the major reason for increase in R&M expenses by MSETCL was not accepted as expenses are of one time nature which was already claimed by MSETCL during Truing up for FY 2007-08.

d. Therefore, the Commission did not accept the claim of R&M expenses of MSETCL and approved the R&M expense by applying inflation factor over the approved R&M expenses for FY 2007-08.

3.3.28. The Commission, further for approval of R&M expenses for FY 2009-10 in the APR Order applied similar principle and applied an inflation factor of 4.91% over trued up R&M expenses for FY 2008-09.

3.3.29. The Commission observes that the MSETCL has claimed actual expenditure of Rs 305.27 Crore for FY 2009-10 against approved expenditure of Rs 275.79 Crore and provided same reasons for the increased expenditure as was provided during the previous proceedings. The R&M expenditure for FY 2009-10 had been approved in the APR Order as was considered appropriate by the Commission after prudence check. The Commission is of the view that the R&M expenses are controllable in nature and MSETCL have not provided any acceptable reasons for the increased expenses to be considered as uncontrollable. Therefore, the R&M expenses approved for FY 2009-10 by the Commission in the APR Order is considered as trued up. Any deviation in R&M expense beyond the approved level shall be shared as per Regulation 19 of MERC (Terms and Conditions of Tariff) Regulations, 2005 which is described in the Section for "Sharing of Gains & Losses" in this Order. However, the provisions created on account of the effect of migration of Accounts from ESSAR to Companies Act, have been approved as was allowed in APR Order.

3.3.30. The comparison of R&M expenses claimed by MSETCL and approved by the Commission is provided in the table below:-

Table 6: R&M Expenses for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Net R&M Expenses	275.79	305.27	275.79

3.4. Capital Expenditure and Capitalization for FY 2009-10

3.4.1. MSETCL, in its Petition, submitted scheme-wise details of capital expenditure under different categories, viz., ancillary schemes, evacuation schemes, substation and associated lines schemes, transformer additions schemes, transformer replacement schemes, etc classified under the different Transmission Zones for FY 2009-10. MSETCL submitted that while submitting the APR Petition for FY 2009-10 it envisaged that the capital expenditure for the FY 2009-10 would be Rs 3000.42 Crore, against which MSETCL envisaged a capitalisation of Rs 907.53 Crore. However, the Commission approved a lower capitalisation for FY 2009-10 of Rs 472.80 Crore.

3.4.2. MSETCL submitted that the actual investment of Rs 2363.55 Crore was made and inspite of a lower capital expenditure for FY 2009-10, there was a higher capitalisation amounting to Rs 1124.29 Crore. MSETCL submitted the scheme wise capital expenditure and capitalisation in the formats "worksheet F 4.4 FY 2009-10" along with the Petition.

3.4.3. Further, MSETCL submitted its capital expenditure and capitalisation for FY 2009-10 in a summarised format in the Petition classifying DPR, Non-DPR schemes, etc. The summarised table is provided below:-

Table 7: Capital Expenditure and Capitalisation for FY 2009-10 submitted by MSETCL (In Rs Crore)

Particulars	No. Of Scheme	Sanctioned Cost	Capital Expenditure	Capitalization
MERC Approved schemes (DPR Schemes)	98	14236.70	1301.17	547.82
Schemes submitted to MERC for approval	83	3719.99	341.45	252.38
Schemes sanctioned in MSEB Period costing Rs. 10 Cr & above (In the Process of Submission to MERC)	34	1195.73	103.79	115.34
Schemes sanctioned costing < Rs. 10 Cr (Non DPR Schemes)	116	576.56	617.14	208.76
Total	**331**	**19728.98**	**2363.55**	**1124.29**

3.4.4. MSETCL further submitted that the regulatory compliance for getting approval of capital expenditure has been duly followed before implementation of such schemes. MSETCL in the Petition also described the process adopted for approval of capital expenditure.

3.4.5. MSETCL submitted that for capital expenditure schemes costing up to Rs.10 Cr, an internal approval is taken from competent authority as per Board delegation and accordingly capital expenditure is incurred. For capital expenditure schemes, costing more than Rs.10 Cr approval of Board is taken and forwarded to the Commission for approval subsequently. MSETCL submitted that, this is being done to consolidate the product requirements and avail volume discounts in procurement and execution. In most of such consolidated cases, the works are spread over more than one circle and over one category of schemes. The categories identified are as given below:

a. EV (Evacuation schemes)

b. SS (New substations)

c. LL (New link lines)

d. TR (Transformer replacement)

e. TA (Transformer addition)

f. LE (Life extension)

g. Other ancillary Items

3.4.6. MSETCL, in order to monitor the progress of capital expenditure schemes, a unique circle code is allotted viz., Budget Control Number (BCN). MSETCL submitted that it has identified a set of dedicated personnel at the corporate office for monitoring of the schemes based on the scope of work and associated cost of the schemes.

3.4.7. Based on the above submission, MSETCL requested the Commission to approve the actual capitalisation of Rs 1124.29 Crore as true up for FY 2009-10.

3.4.8. The Commission analysed the scheme wise capital expenditure submitted by MSETCL in the formats “F4.4” & “F4.4 FY 2009-10” enclosed along with the Petition for True up for FY 2009-10 and APR for FY 2010-11.

3.4.9. The Commission in the previous Orders while according approval for capitalisation instituted some general principles for approval of capitalisation against DPR and Non-DPR schemes in any year. The relevant extract of the Order is provided below for reference.

“In view of the above, as a general rule, the Commission has decided that the total capital expenditure and ***capitalisation on non-DPR schemes in any year should not exceed 20% of that for DPR schemes during that year. To achieve the purpose, the purported non-DPR schemes should be packaged into larger schemes by combining similar or related non-DPR schemes together and converted to DPR schemes, so that the in-principle approval of the Commission can be sought in accordance with the guidelines specified by the Commission****.*

Further, in the absence of documentary evidence that the stated purpose and objective of the capex schemes have been achieved, the Commission is restricting the capitalisation considered for the purposes of determination of ARR and tariff. ***Once MSETCL submits the necessary justification to prove that the scope and objective of the capex scheme has been achieved as projected in the DPR, the same may be considered in future Orders.***

MSETCL is directed to prioritise the capex schemes based on importance and the schemes may be implemented in phased manner to minimise the impact on transmission cost.

*“****For the purpose of provisional truing up for FY 2008-09, the Commission is of the view that the benefits of capex schemes need to be examined and until it is ascertained that the projected benefits actually accrue for the benefit of the stakeholder, it would not be appropriate to allow such expenses****. Accordingly, out of proposed capitalisation of Rs 1184.92 Crore by MSETCL during FY 2008-09 comprising capitalisation of DPR schemes of Rs 320.14 Crore and capitalisation of non-DPR schemes of Rs 864.78 Crore, the Commission has considered capitalisation of DPR schemes as Rs. 320.14 Crore on the basis of schemes already approved by the Commission. For non-DPR schemes, the Commission has retained the capitalisation of Rs 171.09 Crore as considered in its APR Order for FY 2007-08." {****Emphasis added****}*

3.4.10. The Commission in line with the principles adopted for approval of capitalisation in the previous Orders, analysed the capitalisation of Rs 1124.29 Crore proposed by MSETCL. In view of the general rule stipulated by the Commission, MSETCL made certain submissions in order to establish that the benefits projected in DPR have actually been accrued against the various schemes submitted by MSETCL, for which MSETCL have claimed capitalisation for FY 2009-10. The Commission carried out a prudence check and analysed the benefits accrued against all the DPR schemes for FY 2009-10. The brief summary of the scheme wise category wise analysis for FY 2009-10 carried out by the Commission for each of the DPR schemes is provided in the tables below:-

Table 8: Brief Summary of Analysis of Approved DPR Schemes for FY 2009-10 (In Rs Crore)

Sl. No.	Scheme Category	Capitalised Amount Claimed by MSETCL	Capitalised Amount Trued up by the Commission	Observation of the Commission for Allowance
1.	Ancillaries Schemes	31.53	31.53	Completely Allowed
2.	Evacuation Schemes	8.65	8.65	Completely Allowed
3.	Life Extension Schemes	7.30	7.30	Completely Allowed
4.	Link Lines	23.17	11.82	Assets not put to use
5.	Substation Schemes	194.48	194.48	Completely Allowed
6.	Transformer Addition Schemes	156.93	156.93	Completely Allowed
7.	Transformer Replacement Schemes	125.76	125.76	Completely Allowed
	Total	**547.82**	**536.47**	

Table 9: Brief Summary of Analysis of DPR Schemes Submitted for Approval for FY 2009-10 (In Rs Crore)

Sl. No.	Scheme Category	Capitalised Amount Claimed by MSETCL	Capitalised Amount Trued up by the Commission	Observation of the Commission for Allowance
1.	Ancillaries Schemes	8.90	8.90	Completely Allowed
2.	Evacuation Schemes	-	-	-
3.	Life Extension Schemes	14.49	14.49	Completely Allowed
4.	Link Lines	-	-	-
5.	Substation Schemes	67.65	67.65	Completely Allowed
6.	Transformer Addition Schemes	91.28	91.28	Completely Allowed
7.	Transformer Replacement Schemes	70.06	70.06	Completely Allowed
8.	**Total**	**252.38**	**252.38**	

3.4.11. Similar analysis was carried out for the capitalisation claimed by MSETCL for the schemes sanctioned during the period when MSEB was in existence i.e., costing Rs 10 Crore and above. The Commission approved capitalisation of Rs 115.34 Crore as was claimed by MSETCL.

3.4.12. As regards, capitalisation of Non-DPR schemes for FY 2009-10, the Commission in the APR Order in Case No. 103 of 2009 dated September 10, 2010, had restricted the same to the extent of 20% of the capitalisation allowed against DPR schemes for the year on the basis of general rule instituted by the Commission described above in the Order.

3.4.13. Subsequent to the Order dated September 10, 2010 in Case No. 103 of 2009, the Hon'ble ATE has in the Judgment dated August 4, 2011 in Appeal No. 199 of 2010 held that the direction of the Commission for restriction of Non-DPR schemes to 20% of the DPR schemes cannot be applied retrospectively. However, the Hon'ble ATE also held that for FY 2010-11, the direction of the Commission was binding on the Appellant. Therefore, for FY 2009-10 the Commission approves the Non-DPR schemes of Rs 208.76 Crore as sought by MSETCL without restricting it to 20% of the approved DPR schemes.

3.4.14. Further, the Commission had assigned M/s Administrative Staff College of India

(ASCI), Hyderabad with the task of undertaking sample evaluation of some of the capital expenditure schemes submitted by MSETCL. The details of 3 randomly selected schemes taken up for evaluation is provided below:-

Table 10: Details of Sample Transmission Scheme for Evaluation of Capitalisation

Sr. No.	Scheme details	Cost estimate (Rs. Crore)
1.	Establishment of 132/22/11kV Rastapeth substation in district Pune.	69.27
2.	Establishment of 400/220kV Akola substation, District Akola	167.24
3.	Replacement of existing transformers by higher capacity transformers in Washi, Karad, Pune and Nasik zones.	-
3 (a)	Replacement of 25 MVA 100/22 kV transformer by 50 MVA, 100/22kV transformer at 100 kV Ganeshkhind substation, district, Pune.	5.28
3 (b)	Replacement of 2X25 MVA 132/22 kV transformer by 2X50 MVA 132/22 kV transformers at 220 kV Phursungi substation, District Pune	5.02
3 (c)	Replacement of 150 MVA 220/132 kV transformer by 200 MVA, 220/132 kV transformer at 220 kV Boisar – II substation, Dist Thane	6.55
3 (d)	Replacement of 25 MVA 132/33 kV transformer by 50 MVA, 132/33 kV transformer at 220 kV Palghar substation, Dist Thane	2.51

3.4.15. The detailed objectives of the evaluation were as follows:-

a. Technical and economical evaluation of the above schemes

b. To provide inputs to MERC for truing up of the schemes

c. To provide information / data for justifying the expenditure and capitalisation

3.4.16. M/s ASCI had organized visits to the substation sites and the concerned field offices by their official experienced in EHV transmission lines and substations. Brief summary of findings are provided below.

Table 11: Scrutiny of Capitalisation Claimed by MSETCL for Specific Schemes

Sr. No.	Scheme Details	Total estimate Cost (Rs. Crore)	Capitalization claimed (Rs. Crore)	Actual as per ASCI Report (Rs. Crore)
1	Establishment of 132/22/11kV Rastapeth substation in district Pune.	69.27	**41.60**	**50.74**
2	Establishment of 400/220kV Akola substation, District Akola	167.24	**117.18**	**117.18**

Table 12: Scrutiny of Actual Expenditure Incurred for Specific Schemes

Sr. No.	Scheme Details	Total Estimate Cost (Rs. Crore)	Expenditure Incurred (Rs. Crore)
1	100/22kV Ganeshkhind S/S	5.28	2.63
2	132/22kV Phursungi S/S	5.02	5.13
3	220/132/33kV Boisar S/S	6.55	5.41
4	132/33kV Palghar S/S	2.51	2.63

3.4.17. The above mentioned schemes in Table 12 are under JICA Scheme of MSETCL which consists of augmentation and replacement of transformers under different zones. M/s ASCI therefore, recommended that the capitalisation claimed by MSETCL on the above schemes could be considered. The report of M/s ASCI was found to be satisfactory by the Commission and hence the recommendations were considered for approval of capitalisation for the present Order.

3.4.18. Based on the above analysis, the Commission approves the capitalisation for FY 2009-10 of Rs 1112.95 Crore against claim of Rs 1124.29 Crore by MSETCL. The comparison of approved capitalisation for FY 2009-10 against claimed by MSETCL for each of the category is provided in the table below:-

Table 13: Capital Expenditure and Capitalisation for FY 2009-10 (In Rs Crore)

Sl.No.	Particulars	No. Schemes	Capital Expenditure Claimed by MSETCL	Capitalisation Approved as per APR Order	Capitalization Claimed by MSETCL	Capitalisation Approved by the Commission
1.	MERC Approved schemes (DPR Schemes)	98	1301.17	NA	547.82	536.47
2.	Schemes submitted to MERC for approval	83	341.45	NA	252.38	252.38
3.	Schemes sanctioned in MSEB Period costing Rs. 10 Cr & above (In the Process of Submission to MERC)	34	103.79	NA	115.34	115.34
4.	Schemes sanctioned costing < Rs. 10 Cr (Non DPR Schemes)	116	617.14	NA	208.76	208.76
	Total	**331**	**2363.55**	**472.8**	**1124.29**	**1112.95**

3.5. Depreciation and Advance Against Depreciation (AAD)

3.5.1. MSETCL in the Petition claimed the depreciation for FY 2009-10 based on the opening GFA base of FY 2009-10 as per the Audited Annual Accounts and considering the depreciation rates specified in the MERC (Terms and Conditions of Tariff) Regulations, 2005. MSETCL claimed depreciation amounting to Rs 318.22 Crore for FY 2009-10.

3.5.2. The Commission, in its Order in Case No. 103 of 2009 dated September 10, 2011 had approved depreciation to an extent of Rs 306.75 Crore for FY 2009-10 with a depreciation rate of 3.02% on approved opening GFA of Rs 9924.73 Crore. The Commission in the referred Order had examined the depreciation and actual capitalisation claimed by MSETCL.

3.5.3. As regards Opening GFA for FY 2009-10, MSETCL has submitted the Opening GFA as Rs 10389.11 Crore as per the Audited Annual Accounts. The Commission in the APR Order for FY 2009-10 had approved the Opening GFA as Rs 9924.73 Crore corresponding to the Closing GFA for FY 2008-09 as per the True up Order for FY 2008-09. The Commission had adjusted the disallowance of capitalisation for FY 2008-09 to arrive at the Closing GFA for FY 2008-09. Therefore, the Commission adopts the approved Opening GFA of Rs 9924.73 Crore for the purpose for Truing up of depreciation for FY 2009-10.

3.5.4. Further, the Hon'ble ATE in the Judgment dated July 15, 2009 in Appeal No. 137 of 2008 held as below:-

"In view of the provisions of the Tariff Regulations the Companies Act and the Accounting Standard-6, we find full justification and rationale in the contention of the appellant that proportionate depreciation has to be allowed even for part of the year when the assets have been put to use. The asset once put to use will be exposed to wear and tear which will not wait to depreciate till the start of the new financial year. We, therefore, allow the appeal in this view of the matter also."

3.5.5. In line with the above referred Judgment, the Commission is of the opinion that the depreciation needs to be allowed also for the assets commissioned during the year, i.e., FY 2009-10 in this case. Therefore, the depreciation has been computed and approved based on the average of opening GFA of Rs 9924.73 Crore and closing GFA of Rs 10945.93 Crore.

3.5.6. As regards, the depreciation rates for FY 2009-10 the Commission had approved 2.91% for approval of depreciation. The Commission while truing up has arrived at the applicable depreciation rate by computing the actual depreciation amount as a percentage of average of actual Opening GFA and Closing GFA as per the Audited Annual Accounts. The depreciation rate thus arrived is used to estimate the depreciation for FY 2009-10.

3.5.7. Further, MSETCL sought approval for Advance Against Depreciation (AAD) for FY 2009-10 to meet the loan repayment obligations. The Commission notes that as per Regulation 48.3 of MERC (Terms and Conditions of Tariff) Regulations, 2005, where the actual amount of loan repayment in any financial year exceeds the amount of depreciation allowable under Regulation 50.4.1, the transmission licensee shall be allowed an advance against depreciation for the difference between the actual amount of such repayment and the allowable depreciation for such financial year.

3.5.8. Based on the above description, the depreciation including AAD approved by the Commission for FY 2009-10 has been summarised in the following table:-

Table 14: Depreciation Expenses Including AAD for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Opening GFA	9,924.73	10,389.11	9,924.73
2	Depreciation	306.75	318.22	303.23
3	Depreciation Rate	3.09%	3.06%	2.91%
4	Loan Repayments	292.52	389.88	389.88
5	AAD	0.00	71.66	86.65
6	**Depreciation including AAD**	**306.75**	**389.88**	**389.88**

3.6. Interest Expenses for FY 2009-10

3.6.1. The Commission in the Order dated September 10, 2010 in Case No.103 of 2009 had approved interest expenses of Rs 163.28 Crore for FY 2009-10. The Commission while approving had considered interest expense corresponding to assets projected/approved to be capitalised for FY 2009-10 against MSETCL's methodology of computing interest on entire loan drawn to fund capital expenditure during the year and later deducting interest capitalisation to arrive at net interest expense chargeable to revenue account. .

3.6.2. MSETCL had submitted in the Format F 4.1 the break-up of the existing loans, loan drawl during the FY 2009-10 and the corresponding interest expense. The sources of loan for FY 2009-10 were public bonds, REC Loan, PFC, Loan, LIC Loan and JICA loan. The loan documents were perused by the Commission and on analysis by the Commission it was found that the new drawls from PFC and REC would have moratorium period of 2 years and 3 years respectively. The loan documents submitted by MSETCL contained the proof of interest rates, tenure of loan, repayment, etc.

3.6.3. MSTECL has considered the following interest rates for each of the loan source to compute the interest expenses:-

a. Public Bonds – 11.50% to 12.00%
b. REC Loan – 12.00%
c. PFC Loan – 12.00%
d. LIC Loan – 7.50% and 9.00%
e. JICA Loan – 0.75%

3.6.4. For approval of interest expenses by the Commission, the opening balance of loan for FY 2009-10 has been considered as closing balance of loan approved by the Commission for FY 2008-09 as per the True up Order for FY 2008-09 in Case No. 103 of 2009 dated September 10, 2010. The Commission while approving the closing balance of loan for FY 2008-09 had considered the loan amounts corresponding to the approved capitalisation. Therefore, the closing balance of FY 2008-09 as per Audited Annual Accounts of MSETCL will not match with the closing balance of loan approved by the Commission. Thus, the opening balance of loan considered by the Commission for FY 2009-10 is Rs 1861.40 Crore as against Rs 2805.42 Crore claimed by MSETCL.

3.6.5. Further, the loan drawn during the FY 2009-10 has been restricted to 80:20 debt: equity ratio of the capitalisation approved by the Commission. The Commission based its computation on the submissions of MSETCL of drawl of loan for FY 2009-10 from the loan sources, i.e., PFC, REC and JICA. Therefore, the Commission while computation of the interest expenses, for each of the loan source, has considered that the loan drawn for FY 2009-10 needs to be adjusted to the disallowed capitalisation for FY 2009-10. Therefore, a debt of 80% of the approved capitalisation of Rs 1112.95 Crore amounting to Rs 890.36 Crore has been considered for drawl in FY 2009-10. The disallowed debt has been adjusted in the loan sources PFC, REC and JICA in the proportion of their quantum of drawl for FY 2009-10 respectively.

3.6.6. The interest expenses against the loan sources, i.e., Public Bonds, LIC Loan and other loans is approved as claimed by the MSETCL after a prudence check. The interest expenses against the loan sources, i.e., REC, PFC and JICA is approved to an amount corresponding to only the approved outstanding loan. The interest rates considered for approval of the interest expense of REC, PFC and JICA Loans have been arrived by computing the actual interest paid over average of opening and closing balance of corresponding loan source for FY 2009-10. Further, loan amount of Rs 4.11 Crore pertaining to others head was not included by MSETCL, which was enquired by the Commission. The said loan was stated to be pertaining to loan amount appearing in Annual Accounts during MSEB Transfer Scheme and there was no interest outgo on the same. Therefore, although this loan amount is reflected in the opening balance of the loan of MSETCL, this will not have any impact on the interest expense. Accordingly, the Commission approves the trued up net interest expense for FY 2009-

10 summarised in the table below:-

Table 15: Interest Expense on Term loans for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Opening balance of loan	1,861.40	2,805.42	1,861.40
2	Additions	397.84	1,482.57	890.36
3	Repayment	292.52	389.88	389.88
4	Closing balance of loan	1,966.72	3,855.24	2,357.77
5	Gross Interest expenses	209.86	354.75	225.22
6	Less: SLDC apportionment	(0.63)	(0.56)	(0.56)
7	Less: IDC (existing loan)	(40.98)		
8	Less: IDC (new loan)	(6.72)	(167.17)	(152.98)
9	**Net Interest expenses**	**163.28**	**187.02**	**71.69**

3.7. Other Interest and Finance Charges for FY 2009-10

3.7.1. MSETCL submitted that Other finance charges mainly comprise of Guarantee Fee payable to GoM, Lease Rent Payable to SBI, Bank Remittance Charges, Bank Commission, etc.

3.7.2. The Commission in the APR Order had approved Guarantee charges as per the revised estimates of MSETCL amounting to Rs 17.96 Crore and finance charges as 0.5% of the loan drawl approved by the Commission amounting to Rs 1.99 Crore. The Commission observed that the actual Guarantee Charges for FY 2009-10 claimed for true up amounting to Rs 13.51 Crore is lower than as approved by the Commission in APR Order. Further, the Commission by following the same principle of approving the finance charges as was adopted in APR Order, i.e., finance charges to be 0.5% of the approved loan drawl, found that the actual finance charges claimed for true up is with the limit approved by the Commission. Therefore, the Commission approves the actual finance charges claimed by MSETCL amounting to Rs 3.19 Crore.

3.7.3. The summary of approved guarantee and finance charges is provided in the table below.

Table 16: Other Interest & Finance Charges for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Guarantee Fees & Finance Charges	19.95	16.70	16.70

3.8. Interest on Working Capital for FY 2009-10

3.8.1. MSETCL submitted that the interest on working capital has been computed based on the norms and the actual audited elements of ARR like O&M expenses, amount pertaining to book value of stores, materials & supplies and revenue from transmission charges. The computation of working capital requirement and interest expense claim by MSETCL thereof was provided in Format F 4. Further, MSETCL has stated that interest rate to be considered needs to be the Short Term Prime Lending Rate of State Bank of India prevailing at the time of filing of Tariff Petition. MSETCL submitted that it has accordingly considered normative interest rate of 13% for estimation of interest on working capital.

3.8.2. Further, MSETCL submitted that interest on working capital (IoWC) needs to be treated as efficiency gains if the interest paid on working capital is less than the normative interest on working capital. MSETCL has therefore provided the computation of sharing of gains on account of interest on working capital for FY 2009-10.

3.8.3. The Commission while analysing the normative working capital claimed by MSETCL observed that there were certain errors for figures taken for book value of stores, materials and supplies as against provided in the Audited Annual Accounts for FY 2009-10. The Commission while computing the working capital requirement considered the book value of store, materials and supplies as reflected in the Audited Annual Accounts. Further, approved O&M expenses against audited actual O&M expenses claimed by MSETCL and approved revenue from transmission charges equivalent to the approved ARR has been considered for computation of the working capital requirement.

3.8.4. Regulation 34.5 (e) of MERC (Terms and Conditions of Tariff) Regulations, 2005 specifies that the interest rate on working capital shall be on normative basis and shall be equal to the short-term Prime Lending Rate of State Bank Of India as on the date on which the application for determination of tariff is made. It was observed by the Commission in the APR Order of FY 2009-10 that, the application for determination of tariff for FY 2009-10 was made on December 10, 2008, therefore the short term Prime Lending Rate of State Bank of India of 13% prevalent at that time for estimating the interest on working capital was considered.

3.8.5. Therefore, the issue of interest rate was already decided by the Commission principally in accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005 and also specifically for FY 2009-10. Therefore, the Commission while truing up the interest on working capital requirement has considered the interest rate at 13% equivalent to the short term Prime Lending Rate of State Bank of India of 13% prevalent during the application for determination of tariff for FY 2009-10, i.e., December 10, 2010 was made.

3.8.6. The trued up interest on working capital for FY 2009-10 is provided in the table below:-

Table 17: Interest on Working Capital for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Interest on Working Capital	36.40	0.21	38.83

3.9. Contribution to Contingency Reserves for FY 2009-10

3.9.1. The Commission had considered contribution to contingency reserves at 0.25% of opening GFA in accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005 in the APR Order for FY 2009-10 and approved Rs 24.81 Crore. However, MSETCL has claimed the actual contribution considering the opening GFA for FY 2009-10 resulting into contribution of Rs 25.89 Crore to be trued up.

3.9.2. In this regard, the MERC (Terms and Conditions of Tariff) Regulations, 2005 stipulates as follows:-

"*50.7.1 Where the Transmission Licensee has made an appropriation to the Contingencies Reserve, a sum not less than 0.25 per cent and not more than 0.5 per cent of the original cost of fixed assets shall be allowed towards such appropriation in the calculation of aggregate revenue requirement:*

Provided that where the amount of such Contingencies Reserves exceeds five (5) per cent of the original cost of fixed assets, no such appropriation shall be allowed which would have the effect of increasing the reserve beyond the said maximum:

Provided further that the amount so appropriated shall be invested in securities authorized under the Indian Trusts Act, 1882 within a period of six months of the close of the financial year."

The details of contingency reserve as on March 31, 2010 maintained by MSETCL were verified and the opening balance was found to be Rs 135.55 Crore. The Commission has verified that the same has not exceeded 5 % of the original cost of fixed assets as stipulated in the MERC (Terms and Conditions of Tariff) Regulations, 2005. Further, MSETCL submitted the documentary evidence showing that the above amount has been invested in the approved class of securities. The Commission has hence, considered the amount of contribution to contingency reserves at 0.25% of approved opening GFA of Rs 9924.73 Crore during FY 2009-10 under truing up exercise amounting to Rs 24.81 Crore against the claim of Rs 25.89 Crore of MSETCL. The contribution to the contingency reserve as projected by MSETCL and approved by the Commission is shown in the table below:-

Table 18: Contribution to Contingency Reserve for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Contribution to Contingency Reserve	24.81	25.89	24.81

3.10. Other Expenses

3.10.1. MSETCL submitted the other expenses on actual basis as per the Audited Annual Accounts for FY 2009-10 and claimed other expenses to the tune of Rs 25.17 Crore to be trued up for FY 2009-10 against an approved other expense of Rs 0.70 Crore by the Commission in APR Order. The component wise other expenses claimed by MSETCL were provided in the Petition.

3.10.2. The Commission on analysis of the component wise other expenses found that the major components constituted of a gain of Rs 9.73 Crore on account of foreign exchange rate variation currency and an expense adjustment for prior period of Rs 34.05 Crore. On scrutiny of adjustment for prior period, it was found that the expenses were on account of depreciation for prior period removed from the computation. The Commission analysed the issue of prior period adjustment and found that the Company Central Corporate Finance Department has a process of capitalizing the Fixed Assets after they receive all the work orders, completion certificate from the respective finance department of the divisions. In the said process if the respective finance department of the division does not send the completion certificate and their approval records, the corporate team would account it as CWIP, but in the respective division financial books it has already been capitalized since the project is completed. Hence in the financial year 2008-09 there have been cases where the finance department at the division level has capitalized it but the corporate finance team has not considered in its final books of account due to non-receipt of completion certificate and other documents. Hence the same has been accounted in the FY 2009-10 due to which there is a considerable amount of prior period depreciation accounted which actually pertains to FY 2008-09.

3.10.3. The Commission allows the other expenses based on the Audited Annual Accounts for FY 2009-10. The other expenses trued up for FY 2009-10 is provided in the table below:-

Table 19: Other Expenses for FY 2009-10 (In Rs Crore)

S. No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Other Expense	0.70	25.17	25.17

3.11. Return on Equity (RoE) for FY 2009-10

3.11.1. MSETCL submitted that it has computed return on equity (ROE) as per the provisions of Regulation 50.1 of MERC (Terms and Conditions of Tariff) Regulations, 2005. MSETCL has claimed RoE on the opening regulatory equity as submitted in its APR Petition for FY 2009-10. Therefore, it was submitted in the Petition that working of RoE as directed by the Commission resulted into a true up of Rs 31.46 Crore for FY 2009-10. Therefore, MSETCL submitted to the Commission to approve this difference while truing up and claimed a total RoE of Rs 442.33 Crore.

3.11.2. For the purpose of truing up, the Commission has recomputed the opening balance of ROE of FY 2009-10 on the basis of the closing balance of ROE for FY 2008-09, as approved in the previous APR Order. Further, the Commission has computed the RoE for FY 2009-10 on the opening balance of equity and on 50% of equity contribution towards the assets capitalised during the year, in accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005. Further, the Commission in the previous Tariff Order had viewed that MSETCL is not entitled to ROE on the amount of assets capitalised, which have been funded through consumer contribution and grants, and the licensee cannot be allowed to retain something to which it is not entitled to. However, MSETCL unlike FY 2008-09, did not provide any figures of consumer contribution and grants for FY 2009-10. Therefore, the Commission enquired for the amounts attributable to consumer contribution and grants for FY 2009-10, to which MSETCL replied that, there is no consumer contribution and grants for FY 2009-10. Further, MSETCL submitted that Government grants/subsidy related to specific fixed asset are deducted from gross value of such fixed asset. Government grants/subsidy received in respect of incomplete projects is retained in current liabilities till such fixed assets are capitalized. On capitalization of such fixed assets, the relevant Government grant/subsidy is deducted against the specific fixed assets in respect of which it is received. Till FY 2008-09 MSETCL received Government grants to the tune of Rs. 238.58 Crore which was adjusted according to the policy, however from FY 2009-10 onwards MSETCL has not received any kind of Government grants. Therefore, the Commission did not require deducting any amount on account of consumer contribution and grants for the computation of RoE for FY 2009-10.

3.11.3. Therefore, for computation of RoE for FY 2009-10 considered an opening balance of regulatory equity as Rs 2887.48 Crore as was approved by the Commission in the APR Order and regulatory equity portion of assets capitalised during the year as Rs 222.59 Crore against approved value of Rs 94.56 Crore by the Commission in the

APR Order. The increase in regulatory equity portion of assets capitalised during the year was due to higher capitalisation of assets in FY 2009-10 achieved by MSETCL.

3.11.4. The Commission considering the above regulatory equity, approves the RoE for FY 2009-10 as shown in the table below:-

Table 20: Return on Equity for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Regulatory Equity at the beginning of the year	2,887.47	3,047.09	2,887.48
2	Equity portion of assets capitalised during year	94.56	224.83	222.59
3	Regulatory Equity at the end of the year	2,982.03	3,271.91	3,110.07
4	Return on Regulatory Equity at the beginning of the year	404.25	426.59	404.25
5	Return on 50% of Equity portion of capitalised asset value during the year	6.62	15.74	15.58
6	**Total Return on Regulatory Equity**	**410.87**	**442.33**	**419.83**

3.12. Revenue from Transmission Charges for FY 2009-10

3.12.1. The Commission, in its Order on Transmission Pricing Framework in Case No. 58 of 2005, stipulated that the ARR of transmission licensees will be pooled together to form the Total Transmission System Cost (TTSC) for Intra-State Transmission System and each transmission licensee will be entitled to recover its approved ARR from the transmission tariff collected by the State Transmission Utility (STU) from transmission system users (i.e., distribution licensees).

3.12.2. Therefore, in accordance with the above and as per the applicable Order on Tariff for Intra-State Transmission System for FY 2009-10, MSETCL recovered the revenue from transmission system users and revenue from short-term open access charges. Revenue from short-term open access charges consists of Rs 2.84 Crore of the total revenue from transmission tariff.

3.12.3. The Commission had approved the monthly recovery from transmission tariff of Rs 155.37 Crore per month for the months of April 2009 & May 2009 in accordance with the Order in Case No. 104 of 2007 dated May 31, 2008 and Rs 124.27 Crore per month for the months June 2009 to March 2010 in accordance with the Order in Case No. 155 of 2008 dated May 28, 2009.

3.12.4. Further, MSETCL has submitted that though the revenue claim of MSETCL from wheeling central sector power to Goa is Rs 8.90 Crore, the same has not been realised completely and is still reflecting as outstanding amount in the Audited Annual Accounts.

3.12.5. The Commission thus approves the revenue as claimed by MSETCL which is in accordance with the Audited Annual Accounts for FY 2009-10. The approved revenue from transmission charges is provided in the table below:-

Table 21: Revenue from Transmission Charges for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Revenue from Transmission Charges	1553.44	1556.24	1556.24
2	Revenue from wheeling central sector power to Goa	8.90	8.90	8.90
	Total Revenue from Transmission Charges	**1562.34**	**1565.14**	**1565.14**

3.13. Non-Tariff Income for FY 2009-10

3.13.1. MSETCL, in its Petition, submitted that Non-Tariff income for FY 2009-10 was Rs 120.32 Crore as against Rs 82.59 Crore approved by the Commission in the previous APR Order for FY 2009-10. The Commission analysed the components of other income and found that the major heads of income were Revenue from ST Open Access Charges, Interest on Staff Loans & Advances, Sale of Scrap, interest on other investments and other miscellaneous receipts.

3.13.2. The Commission found that out of the total non-tariff income, the income under the other miscellaneous receipts contained the maximum income amounting to Rs 89.81 Crore. The Commission further scrutinised these receipts and found that the major cash inflow was from supervision charges related amounting to Rs 33.56 Crore and penalty for contractors amounting to Rs 32.99 Crore.

3.13.3. The Commission also scrutinised the other income streams such as the sale of scrap which was substantiated with circle wise amount of scrap sold by MSETCL for FY 2009-10.Thus the non-tariff income as claimed by MSETCL with accordance with the Audited Annual Accounts for FY 2009-10 is approved by the Commission. The approved Non-Tariff Income for FY 2009-10 is shown in the table below:-

Table 22: Non-Tariff Income for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Non-tariff Income	82.59	120.32	120.32

3.14. Income Tax for FY 2009-10

3.14.1. MSETCL has claimed actual income tax paid of Rs 64 Cores as per the Audited Annual Accounts for FY 2009-10 as against the approval of Rs 139.65 Crore in the APR Order of the Commission. The Commission verified the actual income tax submitted by MSETCL with the Audited Annual Accounts of FY 2009-10.

3.14.2. The following provisions of Regulation 50.2.2 of MERC (Terms and Conditions of Tariff) Regulations, 2005 are relevant as reproduced below:-

> *"50.2.2 The Transmission Licensee shall include an estimate of the income-tax liability of his Transmission Business along with the application for determination of tariff, based on the provisions of the Income-Tax Act, 1961:*
>
> *Provided that any change in such income-tax liability on account of assessment under the Income-tax Act, 1961 shall be dealt with as being on account of uncontrollable factors:*
>
> *Provided further that any change in such income-tax liability on account of changes in the provisions of the Income-Tax Act, 1961 shall be dealt with as being on account of uncontrollable factors:*
>
> *Provided further that any change in such income-tax liability on account of change in income of the Transmission Licensee from the approved forecast shall be attributed to the same controllable or uncontrollable factors as have resulted in the change in income and shall be dealt with accordingly."*

3.14.3. Therefore, the actual income tax paid by MSETCL for FY 2009-10 being lower than the approved has been due to revision in the revenue and expenditure on actual basis resulting into lower taxable income and corresponding lower income tax. Therefore, variation in income tax being uncontrollable, the actual income tax paid by MSETCL for FY 2009-10 has been trued up. The income tax trued up for FY 2009-10 is provided in the table below:-

Table 23: Income Tax for FY 2009-10 (In Rs Crore)

S.No.	Particulars	APR Order	Audited	Allowed After Truing Up
1	Income Tax	139.65	64.00	64.00

3.15. Previous Year Truing up Adjustments in Tariff of FY 2009-10

3.15.1. MSETCL submitted that an amount of Rs 135.66 Crore needs to be adjusted in the tariff for FY 2009-10. The Commission in the True up Order for FY 2008-09 in Case No. 103 of 2009 dated September 10, 2010 had allowed a true up amount of Rs 75.83 Crore which has been added to the revenue gap of FY 2009-10 to arrive at the cumulative revenue gap for FY 2010-11. Further, the Commission in the Order in Case No. 73 of 2010 dated November 30, 2010 had approved a quantum of Rs 59.83 Crore on account of RoE and Interest on long term loan corresponding to a additional capitalisation allowed for FY 2007-08 having an effect in impact on ARR of FY 2008-09. This amount of Rs 59.83 Crore approved due to additional capitalisation is claimed by MSETCL in the true up for FY 2009-10. The Commission approves this previous true up adjustments in the revenue gap of FY 2009-10. The previous years true up adjustment approved is shown in the table below:-

Table 24: Previous Years True Up Adjustments in Tariff for FY 2009-10 (In Rs Crore)

S.No.	Particulars	Claimed by MSETCL	Allowed After Truing Up
1	Revenue Gap for FY 2008-09 approved as per Order in Case No. 103 of 2009 dated September 10, 2010	75.83	75.83
2	Carried forward Truing up amount for FY 2008-09 as per Order in Case No.73 of 2010 dated November 30, 2010	59.83	59.83
	Total True up adjustment in Tariff of FY 2009-10	**135.66**	**135.66**

3.16. Incentive on Transmission Availability for FY 2009-10

3.16.1. The normative system availability for the transmission system is stipulated in Regulation 49.1 of the MERC (Terms and Conditions of Tariff) Regulations, 2005 as under:

"*Target availability for full recovery of annual transmission charges*

(a) AC system: 98 per cent

(b) HVDC bi-pole links and HVDC back-to-back stations: 95 per cent"

3.16.2. The actual availability of MSETCL for FY 2009-10 as submitted by MSETCL and certified by Maharashtra State Load Despatch Centre (MSLDC) is given below:

Table 25: Transmission System Availability of MSETCL for FY 2009-10 (In Rs Crore)

Transmission System	Availability (%)
HVAC	99.48
HVDC	94.96

3.16.3. Thus, the actual availability of MSETCL's HVAC transmission system has been higher than the normative availability, and lower than the normative availability in case of HVDC system. MSETCL has claimed incentive for higher availability for HVAC system as well as computed pro-rata reduction for lower availability in case of HVDC system availability, as summarised below:

Table 26: MSETCL's Claim for Incentive/Dis-incentive for Transmission System Availability (In Rs Crore)

Transmission System	% Allocation of ARR	ARR allocation	Incentive
HVAC	85.04%	1741.25	26.30
HVDC	14.96%	306.30	(0.13)
Total	**100.00%**	**2047.55**	**26.17**

3.16.4. In its Order in Case No. 58 of 2005, the Commission had ruled as under:

"2.8.7 Accordingly, the Commission rules that the transmission licensee shall be entitled to incentive on achieving annual availability beyond the target availability as stipulated under MERC (Terms and Conditions for Tariff) Regulations 2005, in accordance with the following formula:

Incentive = Annual Transmission Charges x [Annual availability achieved – Target Availability] / Target Availability;

Where,

Annual transmission Charges shall correspond to ARR for the particular transmission licensee within State, as the case may be.

Provided that no incentive shall be payable above the availability of 99.75% for AC system and 98.5% for HVDC system."

3.16.5. Further, as per Regulation 49.1 of the MERC (Terms and Conditions of Tariff) Regulations, 2005 the recovery of Annual Transmission Charges below the target availability shall be on pro-rata basis. Relevant extract of the said regulation is as under:

"49.1 Target availability for full recovery of annual transmission charges (a) AC system: - 98 per cent (b) HVDC bi-pole links and HVDC back-to-back stations: - 95 per cent

Note 1: *Recovery of annual transmission charges below the level of target availability shall be on pro rata basis. At zero availability, no transmission charges shall be payable."*

3.16.6. In order to compute the incentive and pro-rata reduction in recovery of annual transmission charges for shortfall in target availability of HVDC system accurately, MSETCL submitted the break-up of expenses for HVAC and HVDC. The actual expenses allowed after truing up have been apportioned between HVAC and HVDC in the same ratio as proposed by MSETCL.

3.16.7. Accordingly, the Commission has computed incentive for higher HVAC availability and pro-rata reduction in recovery of annual transmission charges for lower HVDC availability for FY 2009-10, as summarised in the table below:

Table 27: Commission's Approval for Incentive/Dis-incentive for Transmission System Availability (In Rs Crore)

Transmission System	% Allocation of ARR	ARR allocation	Incentive
HVAC	85.04%	1,569.21	23.70
HVDC	14.96%	276.05	(0.12)
Total	**100.00%**	**1,845.26**	**23.58**

3.17. Sharing of Gains and Losses for FY 2009-10

3.17.1. MSETCL categorised all the expenditure, except interest on working capital, as uncontrollable and hence, did not compute the gains and losses for other controllable heads of expenditure. As regards interest on working capital, MSETCL has treated this expense as efficiency gains in line with the Commission's treatment of interest on working capital in its APR Order for FY 2008-09 in Case No. 114 of 2008. The relevant provisions under the MERC (Terms and Conditions of Tariff) Regulations, 2005 stipulating sharing of gains/losses due to controllable factors are reproduced below:

"17.6.2 Some illustrative variations or expected variations in the performance of the applicant which may be attributed by the Commission to controllable factors include, but are not limited to, the following:

(a) Variations in capital expenditure on account of time and/ or cost overruns/efficiencies in the implementation of a capital expenditure project not attributable to an approved change in scope of such project, change in statutory levies or force majeure events;

(b) Variations in technical and commercial losses, including bad debts;

(c) Variations in the number or mix of consumers or quantities of electricity supplied to consumers as specified in the first and second proviso to clause (b) of Regulation 17.6.1;

(d) Variations in working capital requirements;

(e) Failure to meet the standards specified in the Standards of Performance Regulations, except where exempted in accordance with those Regulations;

(f) Variations in labour productivity;

(g) Variations in any variable other than those stipulated by the Commission under Regulation 15.6 above, except where reviewed by the Commission under the second proviso to this Regulation 17.6. … 19.1 The approved aggregate gain to the Generating Company or Licensee on account of controllable factors shall be dealt with in the following manner:

……….

19.1 The approved aggregate gain to the Generating Company or Licensee on account of controllable factors shall be dealt with in the following manner:

(a) One-third of the amount of such gain shall be passed on as a rebate in tariffs over such period as may be specified in the Order of the Commission under Regulation 17.10;

(b) In case of a Licensee, one-third of the amount of such gain shall be retained in a special reserve for the purpose of absorbing the impact of any future losses on account of controllable factors under clause (b) of Regulation 19.2; and

(c) The balance amount of gain may be utilized at the discretion of the Generating Company or Licensee.

19.2 The approved aggregate loss to the Generating Company or Licensee on account of controllable factors shall be dealt with in the following manner:

(a) One-third of the amount of such loss may be passed on as an additional charge in tariffs over such period as may be specified in the Order of the Commission under Regulation 17.10; and

(b) The balance amount of loss shall be absorbed by the Generating Company or Licensee."

3.17.2. The Commission is of the view that all expenditure and revenue heads cannot be considered as uncontrollable, which would mean that the Licensee has no control over any of its activities, and the actuals would be a pass through to the consumers. Further, the Commission opines that to assess the controllable and uncontrollable expenses/cost, the Petitioner needs to quantify the deviation of expenses against the approved and also quantify as to what quantum of deviation is attributable to which uncontrollable factor for the Commission to decide the pass through as uncontrollable expenses and sharing of gains & losses for controllable expenses. While, MSETCL in the present Petition has only quantified the total quantum of deviation against the approved expenses, it has not quantified amounts corresponding to each attributable to controllable/uncontrollable factor and the claim of MSETCL corresponding to each of these controllable/uncontrollable factor. Averments made in MSETCL's petition may be considered as follows:-

*"**MSETCL Submission***

MSETCL submits that the actual A&G expenses incurred during the FY 2009-10 are significantly more than that approved by the Hon'ble Commission. The increase in A&G expenses is on account of various factors as detailed below:

- *Increase in rental charges*
- *Increase in cost incurred on security arrangement to safeguard the transmission assets of different circles, because the increasing asset base calls for higher security arrangements.*
- *Expenses incurred on account of consultancy and professional charges paid by MSETCL.*
- *Increase in rates and taxes due to higher taxes in many circles.*
- *Increase in payment of electricity charges.*

Further, the capitalization of expenses has been lower than approved by the Commission, resulting into higher net A&G expenses.

MSETCL submits that the costs incurred on various heads mentioned above are crucial and legitimate and pertains to the activities, which are either beyond control of MSETCL or to ensure safety of assets. Therefore, MSETCL requests the Hon'ble Commission to accept the same and approve the A&G expenses actually incurred as per the audited accounts for FY2009-10."

3.17.3. Therefore, from the above the Commission cannot make out the quantum against rental charges or other items except for security arrangements and the justification for these expenses. Similar difficulty is for the other factors provided above and as also provided in the Petition. The Commission opines that only an averment in the petition to the effect of increase in cost on certain items is not a justification by itself as to whether the increase was due to controllable or uncontrollable factor/s. In case the Petitioner required specific treatment to the deviations in expenses then it required to provide appropriate quantification as well as appropriate reasoning / justification.

3.17.4. The present quantification, reasoning and documentary proof received during the proceedings of this Petition has been considered for undertaking the quantification of controllable and uncontrollable expenses. While the quantified uncontrollable deviation is provided as a pass through in the ARR, the controllable deviation is treated for sharing of gains and losses as below.

3.17.5. **O&M Expenditure**

3.17.6. As regards the O&M expenses, the actual expenditure of Rs. 854.51 Crore has been higher than Rs. 822.10 Crore that considered in the APR Order dated September 10, 2010 as well as the trued up O&M expense of Rs. 794.49 Crore. The trued up O&M expenses of Rs. 794.49 Crore has been considered against the actual expenditure of Rs. 854.51 Crore for computation of efficiency loss and shared in accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005 as reproduced above. One-third of the efficiency loss of Rs. 20 Crore has been passed on to the consumers (distribution licensees) through increase in the revenue gap for FY 2009-10 and the balance amount of the efficiency loss ie Rs. 40 Crore has been treated to be absorbed by the transmission licensee.

3.17.7. **Interest on Working Capital**

3.17.8. As discussed in the above paragraphs, the actual interest on working capital incurred by MSETCL during FY 2009-10 is Rs. 0.21 Crore and the normative interest on working capital approved by the Commission after considering other elements of expenses and revenue as approved after truing up, works out to Rs 38.83 Crore. The Commission has considered the entire normative interest on working capital above the actual expense of Rs 0.21 Crore as an efficiency gain and has considered sharing of 1/3rd of the same (difference between normative interest on working capital and actual interest on working capital) with the distribution licensees, 1/3rd has been passed on to the special reserve created to offset future losses due to controllable factors, if any, and 1/3rd has been allowed to be retained by the Transmission Licensee, i.e., MSETCL.

3.17.9. **Summary of Efficiency Gain/(Loss) for FY 2009-10**

3.17.10. The summary of sharing of efficiency gain/(losses) is shown in the table below.

Table 28: Sharing of Efficiency Gain/(Loss) due to variation in O&M Expenses & Interest on Working Capital (In Rs Crore)

S.No.	Particulars	Previous Year (2009-10)					
		Provisional True-up APR Order	Actual (A)	Approved after truing up (Entitlement as per Regulations/ Order) (B)	Gain/ (Loss) (B - A)	Efficiency Gain Shared with TSUs	Net Entitlement of MSETCL
1	Operation & Maintenance Expenses	822.10	854.51	794.36	(60.15)	(20.05)	814.41
1.1	*Employee Expenses*	469.20	430.36	430.36			430.36
1.2	*Administration & General Expenses*	77.11	118.88	88.21	(30.67)	(10.22)	98.43
1.3	*Repair & Maintenance Expenses*	275.79	305.27	275.79	(29.48)	(9.83)	285.62
2	Interest on Working Capital	36.40	0.21	38.83	38.62	12.87	25.96

3.18. Summary of Truing up including Sharing of Gains & Losses for FY 2009-10

3.18.1. The summary of the net ARR and efficiency gains as approved by the Commission for FY 2009-10 is given in the following Table:

Table 29: Summary of Truing up including Sharing of Efficiency Gains & Losses (In Rs Crore)

S. No.	Particulars	FY 2009-10					
		Provisional True-up APR Order	Actual (A)	Approved after truing up (Entitlement as per Regulations/ Order) (B)	Gain/ (Loss) (B - A)	Efficiency Gain Shared with TSUs	Net Entitlement of MSETCL
1	Operation & Maintenance Expenses	822.10	854.51	794.36	(60.15)	(20.05)	814.41
1.1	*Employee Expenses*	469.20	430.36	430.36			430.36
1.2	*Administration & General Expenses*	77.11	118.88	88.21	(30.67)	(10.22)	98.43
1.3	*Repair & Maintenance Expenses*	275.79	305.27	275.79	(29.48)	(9.83)	285.62
2	Depreciation, including advance against depreciation	306.75	389.88	389.88			389.88
3	Interest on Long-term Loan Capital	163.28	187.02	71.69			71.69
4	Interest on Working Capital and on consumer security deposits	36.40	0.21	38.83	38.62	12.87	25.96
5	Other Interest and Finance Charges	19.95	16.70	16.70			16.70
6	Other Expenses	0.70	25.17	25.17			25.17
7	Income Tax	139.65	64.00	64.00			64.00
8	Contribution to contingency reserves	24.81	25.89	24.81			24.81
A	**Total Expenditure**	**1,513.64**	**1,563.38**	**1,425.43**			**1,432.61**
B	Return on Equity	410.87	442.33	419.83			419.83
C	**Aggregate Revenue Requirement**	**1,924.51**	**2,005.71**	**1,845.26**			**1,852.44**
D	**Revenue**						
D1	*Revenue from transmission charges*	1,556.24	1,556.24	1,556.24			1,556.24
D2	*Income from wheeling central sector power to Goa*	8.90	8.90	8.90			8.90
D3	*Other Income*	82.59	120.32	120.32			120.32

S. No.	Particulars	FY 2009-10					
		Provisional True-up APR Order	Actual (A)	Approved after truing up (Entitlement as per Regulations/ Order) (B)	Gain/ (Loss) (B - A)	Efficiency Gain Shared with TSUs	Net Entitlement of MSETCL
	Total Income	**1,647.73**	**1,685.46**	**1,685.46**			**1,685.46**
	True-up						
E1	**Revenue Gap / (Surplus)**	**276.78**	**320.25**	**159.80**			**166.98**
E2	True-up of FY 2008-09 adjusted in tariff of FY 2009-10						75.83
E3	Carried forward truing up amount for FY 2008-09 as per MERC order on review petition Case no. 73 of 2010						59.83
E	**Net True-up amount of FY 2009-10 (E1-E2-E3)**						**302.64**
F1	Incentive on Transmission Availability of HVAC System						23.70
F2	Incentive on Transmission Availability of HVDC System						(0.12)
G	**Total Revenue Gap / (Surplus) (E + F1 + F2)**						**326.22**

3.18.2. Thus, the annual revenue entitlement of MSETCL for FY 2009-10 works out to Rs 1852.44 Crore, as compared to the revenue requirement of Rs. 1924.49 Crore allowed to MSETCL in the APR Order. Further, total revenue allowed after final true-up for FY 2009-10 amounts to Rs 1685.46 Crore comprising income from transmission tariff as Rs 1556.24 Crore, income from wheeling central sector power to Goa as Rs 8.90 Crore and Non-tariff income of Rs 120.32 Crore. Accordingly, revenue gap of Rs 166.98 Crore for FY 2009-10 has been considered after final true-up for FY 2009-10, which has been added to the revenue requirement of FY 2010-11.

3.18.3. In addition to the entitlement for revenue gap of Rs 166.98 Crore, adjustments for previous year true up amounts of Rs 135.66 Crore as described in Section 3.15 and incentive/disincentive on HVAC & HVDC availability of Rs 23.58 Crore is added for carry forward in the future years. Therefore, a total revenue gap of Rs 326.22 Crore would be added to the subsequent year revenue gap for further recovery from consumers.

4. Annual Performance Review for FY 2010-11

4.1. Background

4.1.1. MSETCL, in this Petition has sought Annual Performance Review for FY 2010-11 based on the actual unaudited expenditure and revenue rather than an estimate. Further, MSETCL submitted its Provisional Annual Accounts along with the Petition for the consideration of the Commission. A comparison of ARR expenses approved by the Commission in APR Order dated September 10, 2010 for FY 2010-11 vis-à-vis the actual expenditure incurred towards various elements of fixed costs during the year is provided in the Petition. The comparison provided were of various expense head approved by the Commission against the actual incurred during the period April 2010-March 2011 and which was based on the Un-audited Annual Accounts prepared by MSETCL for FY 2010-11.

4.2. Performance Parameters

4.2.1. Regulation 16.1 of the MERC (Terms and Conditions of Tariff) Regulations, 2005 stipulates,

"The Commission may stipulate a trajectory, which may cover one or more control periods, for certain variables having regard to the reorganization, restructuring and development of the electricity industry in the State.

Provided that the variables for which a trajectory may be stipulated include, but are not limited to, generating station availability, station heat rate, transmission losses, distribution losses and collection efficiency."

4.2.2. The Commission, in its MYT Order for MSETCL, had considered the trajectory of system availability. Regulation 49.1 of the MERC (Terms and Conditions of Tariff) Regulations, 2005 stipulates,

"Target availability for full recovery of annual transmission charges (a) AC system: - 98 per cent (b) HVDC bi-pole links and HVDC back-to-back stations:- 95 per cent"

4.2.3. **System Availability**

4.2.4. MSETCL was directed to maintain the system availability at the levels stipulated in the MERC (Terms and Conditions of Tariff) Regulations, 2005 in order to be eligible to recover the full fixed charges, i.e., ARR, as determined by the Commission. Any reduction in system availability will lead to pro-rata reduction in recovery of the ARR. The Commission will true-up the actual availability of MSETCL's transmission system at the end of the year based on actual audited data and the recovery of complete ARR will depend on the achievement of the normative availability levels.

4.2.5. In this context, the Commission had directed MSETCL in the previous APR Order to arrange for requisite certification from MSLDC for transmission system availability for claiming incentive component and also directed MSLDC to formulate appropriate procedure to monitor and certify the Transmission System Availability of various transmission licensees on regular basis. Subsequently, even for FY 2009-10 the incentive on transmission system availability has been claimed based on the certification for availability provided by the SLDC. Additionally, MSETCL has submitted its transmission system availability computations (HVDC) for FY 2009-10, duly certified by MSLDC.

4.2.6. For the transmission system availability during FY 2010-11, MSETCL has submitted month-wise system availability for HVAC and HVDC for monthly period from April 2010 to March 2011. The HVAC system availability during FY2010-11 has been around 99.4% to 99.9%. During the same period the HVDC availability has varied from 75.62% to 100.00%. Similar to FY2009-10, the HVDC availability saw a sharp drop (75.62%) during the month of August. Leaving the exceptionally low availability during August, the availability has been around 97% to 100%. The incentive computation and analysis of overall system availability during FY 2010-11 shall be undertaken upon availability of audited information for the entire year. The availability for FY2009-10 and FY2010-11 as submitted by MSETCL has been shown in the table below.

Table 30: HVDC and HVAC Availability for FY2009-10 and FY2010-11

	2009-10		2010-11	
Month	**% Avl. HVAC**	**% Avl. HVDC**	**% Avl. HVAC**	**% Avl. HVDC**
April	99.58	97.29	99.50	99.39
May	99.47	98.35	99.41	98.31
June	99.50	99.48	99.48	99.27
July	99.49	99.01	99.63	100.00
Aug	99.59	79.64	99.58	75.62
Sept	99.49	69.64	99.71	100.00
Oct	99.62	98.93	99.66	100.00
Nov	98.88	98.63	99.69	100.00
Dec.	99.53	99.66	99.74	100.00
Jan	99.67	99.12	99.73	99.00
Feb	99.45	100.00	99.70	100.00
Mar	99.50	99.77	99.66	99.82
Total	**99.48**	**94.96**	**99.62**	**97.62**

4.2.7. **Transmission Loss**

4.2.8. The Commission in the APR Order of MSETCL dated September 10, 2010 has allowed a transmission loss of 4.85% as a normative loss for In-STS and the Commission specified that same will be reviewed once the ABT metering at all the interface points gets completed. MSETCL had undertaken the project of metering all interface locations of G < > T, T < > D, STU < > CTU, G < > D and D < > D at all EHV sub-stations, all intra-state transmission licensees and distribution licensees in the state.

4.2.9. As per the information submitted by MSETCL, Out of 2213 interface location, 2199 locations have been metered as on February 23, 2011 and balance locations will be metered by the end of June 2011. The following table provides the status of metering:

Table 31: Status of ABT Meters Installed for Interface Locations

S. No.	Type of Interface	Status	MSETCL	TATA	R-Infra	BEST
1	Generation-Transmission Interface	Metering Locations Installed **Balance**	169 169 **0**	33 33 **0**	4 4 **0**	0 0 **0**
2	Transmission-Distribution Interface	Metering Locations Installed **Balance**	1101 1099 **2**	166 166 **0**	92 85 **7**	84 80 **4**
3	EHV Construction	Metering Locations Installed **Balance**	221 218 **3**	0 0 **0**	0 0 **0**	0 0 **0**

4.2.10. As regards assessment of transmission loss, MSETCL under its Petition submitted that accurate estimation of the loss levels is impossible without the full-fledged implementation of ABT metering. However, State Load Despatch Centre (MSLDC) started computing Intra State System Transmission losses since October 2006 based on existing metering system. Hence, MSETCL for the purpose of the Annual Performance Review submitted the actual Transmission losses level month-wise as per the present status of metering.

Table 32: Transmission Loss of Intra-State Transmission System

S. No.	**Month**	**2008-09**		**2009-10**		**2010-11**	
		HVAC	**HVDC**	**HVAC**	**HVDC**	**HVAC**	**HVDC**
1	APR	4.93	4	4.52	3.822	4.51	3.186
2	MAY	5.69	3.71	4.57	3.615	4.32	3.75
3	JUN	4.63	3.71	4.79	3.49	4.14	3.261
4	JUL	4.48	3.63	4.68	3.439	4.31	3.364

S. No.	Month	2008-09		2009-10		2010-11	
		HVAC	HVDC	HVAC	HVDC	HVAC	HVDC
5	AUG	3.84	3.93	4.22	3.727	4.17	2.937
6	SEP	4.27	3.48	4.78	3.632	4.14	3.055
7	OCT	5.09	3.75	4.81	3.407	4.32	2.88
8	NOV	5.39	3.81	4.9	3.92	4.4	2.945
9	DEC	5.01	3.78	4.58	3.688	4.33	2.952
10	JAN	5.13	3.79	4.47	3.521	4.26	2.169
11	FEB	4.85	3.85	4.38	2.549	4.17	2.946
12	MAR	4.97	3.98	4.59	3.573	-	2.976
	TOTAL	**4.86**	**3.79**	**4.61**	**3.53**	**4.28**	**3.04**

4.2.11. MSETCL also submitted that despite the growing volume of electricity handled by its transmission network, the level of losses in the system has been kept very near to the normative loss level for the year as given in the previous APR Order issued by the Commission. MSETCL submitted that going forward it shall strive to maintain this level of losses in the system.

4.2.12. In this context, the Commission observes that transmission loss is one of the critical performance parameters for the transmission licensee, as the transmission system users have to bear actual transmission losses. MSETCL has done significant capital investment to expand system, reduce losses and improve quality of service. Although there has been improvement in the loss reduction, more realistic assessment can be done only post completion of ABT metering. The Commission has made elaborate observations on the capital expenditure and capitalisation plans separately under this Order, at the same time, the Commission directs MSETCL to take necessary steps to undertake realistic assessment of possible improvements in transmission loss once interface ABT metering is put in place.

4.2.13. As per energy accounting undertaken by MSLDC under interim balancing and settlement mechanism (IBSM), the HVAC intra-State transmission losses have ranged between 3.84% and 5.69%, with an average value of 4.86% for FY 2008-09, and have ranged between 4.22% and 4.9%, with an average value of 4.61% for FY 2009-10. The HVAC losses for the period of FY 2010-11 have ranged between 4.14% and 4.51%, with an average value of 4.28%.

4.2.14. As per energy accounting undertaken by MSLDC under interim balancing and settlement mechanism (IBSM), the HVDC intra-State transmission losses have ranged between 3.63% and 4.00%, with an average value of 3.79% for FY 2008-09, and have ranged between 3.4% and 3.9%, with an average value of 3.53% for FY 2009-10. The HVDC losses for the period of FY2010-11 have ranged between 2.1% and 3.3%, with an average value of 3.04%. The actual transmission losses can be assessed in an improved manner, once the metering data from the ABT meters installed at all G < > T and T < > D interface points, is available during FY 2009-10 and FY 2010-11. Hence, transmission loss for InSTS for FY 2010-11 has been considered as 4.85% by the Commission.

4.3. Provisional Truing-up for FY2010-11

4.3.1. MSETCL has submitted the Provisional True up for FY 2010-11 based on the Provisional Annual Accounts and also included the sharing of gains and losses for the deviation in expenses on account of controllable items. However, the Commission is of the opinion that the identification of deviation in expenses on account of controllable and uncontrollable factors and the corresponding computation for sharing of gains and losses should be undertaken based on the Audited Annual Accounts.

4.3.2. Therefore, the Commission is of the view that the final Truing up of the Aggregate Revenue Requirement and Revenue for FY 2010-11 would be taken up once MSETCL submits the Petition for final true up for FY 2010-11 based on the Audited Annual Accounts of FY 2010-11. For the present proceedings the revised ARR claim of MSETCL during FY 2010-11 as compared to the Commission's APR Order for MSETCL is discussed in the following paragraphs.

4.3.3. The Commission in the present proceedings is approving the ARR and Revenue for FY 2010-11 based on the Provisional Annual Accounts and is not undertaking the identification of deviation in expenses on account of controllable and uncontrollable factors and the resultant computation of sharing and gains of losses. The exercise for the controllable and uncontrollable could be done only when the Petitioner identifies the quantum corresponding to each of the factors, i.e., controllable and uncontrollable, and justifies the nature of each item, sub item, which in the present case has not been submitted for FY 2010-11. Further, the Petitioner has not claimed for final True up in this Petition. Further, the Audited Annual Accounts for FY 2010-11 has not been submitted in the proceedings of this Case.

4.4. O&M Expenses for FY 2010-11

4.4.1. The O&M expenditure comprises of employee expenditure, A&G expenditure and R&M expenditure, as discussed below. The Commission has approved the O&M expenses based on the actual provisional expense for FY2010-11 as submitted by MSETCL. MSETCL has submitted its Unaudited Provisional Annual Accounts for FY 2010-11 supporting the claim in the APR Petition.

4.4.2. **Employee Expenses for FY 2010-11**

4.4.3. MSETCL submitted that for FY 2010-11, it has incurred provisional employee expenses of Rs 540.32 Crore as compared to the expenses of Rs 493.87 Crore approved in the APR Order.

4.4.4. MSETCL submitted that the net employee expenditure for FY 2010-11 has been estimated at Rs 540.32 Crore including the adjustment for employee expenses capitalized amounting to Rs 70.52 Crore, which is higher than the approved expense of Rs 493.86 Crore for FY 2010-11. MSETCL has also claimed the provision of leave encashment for FY 2006-07 amounting to Rs. 23.27 Crore and expenses pertaining to effect of migration impact amounting to Rs. 19.71 Crore as approved by the Commission.

4.4.5. The Commission had approved net employee expenditure of Rs. 493.87 Crore in the APR Order No. 103 of 2009 dated September 10, 2010. MSETCL submitted that the expenditure claimed has been as per the Provisional Annual Accounts. MSETCL has submitted that the manpower addition had been initiated in the first half of FY 2010-11 and approximately 3973 new posts are filled to meet the manpower requirement arising out of retirement and new assets addition. MSETCL submitted that total manpower addition actually happened in FY 2010-11 is 1919 and rest of the manpower recruitment is likely to be completed in FY 2011-12.

4.4.6. MSETCL has submitted that the work force addition requirement has been the result of the Commission's directive to avoid undertaking recruitment in any grade, which remained in effect for the past three years. MSETCL has highlighted, that significant capacity addition has been done in the past three years. Moreover, MSETCL has planned ambitious capital expenditure projects in the next few years adding transmission lines and bays. This would result in significant requirement for work force in the future years. MSETCL in its submission against the claim has provided the following manpower addition details:

Table 33: Grade wise manpower position of MSETCL (No.)

Particulars	31.03.2009	31.03.2010	31.03.2011
Officer/Managerial Cadre	19	19	19
Staff Cadre			
Technical	8,095	9,994	11,716
Administrative	1,658	1,672	1,831
Accounts and Finance	714	603	637
Others Technical and Commercial	65	135	139

Particulars	31.03.2009	31.03.2010	31.03.2011
Total (A+B)	10,551	12,423	14,342
Percentage Rise (%)		18%	15%

4.4.7. MSETCL submitted that the above mentioned employee addition is a primary reason for increase in the employee expenditure exceeding the approved number in the past Order.

4.4.8. The Commission for analysing the claim of MSETCL has considered the growth in employee expenditure and the corresponding increase in the grade-wise work force addition. In this regard, Commission enquired MSETCL to provide its manpower requirement analysis, retirement plan and segregate the employee expenditure into two components

(1) Expenditure attributable to employee addition

(2) Expenditure attributable to salary increase

4.4.9. In response to the Commission's query regarding submission of the details, MSETCL responded with supplementary information with regard to salary increase, recruitment schedule and work force retirement plan. Additionally, MSETCL also provided details regarding internal manpower expansion plan and external studies conducted to arrive at the norms for adding employees.

4.4.10. Based on the analysis of the submission made by MSETCL regarding manpower planning, the commission has noted that the addition in employees has been a primary contributor to the increase in employee expenses for FY 2010-11. While the Commission For FY 2010-11, under each sub-head of employee expenses, has considered an increase of around 8.82% on account of inflation over the revised level of Employee expenses as approved for FY 2009-10 under the truing up exercise in this Order based on the increase in Consumer Price Index (CPI). The Commission has considered the point to point inflation over CPI numbers for Industrial Workers (as per Labour Bureau, Government of India) for the period of FY2010-11. The capitalisation of Employee expenses for FY 2010-11 has been considered on proportionate basis as submitted by MSETCL for FY 2010-11.

4.4.11. In the context of provision to be made for leave encashment in FY 2006-07 under employee expense, the Commission in its Order dated May 31, 2008 (Case No. 70 of 2007) stipulated that:

"The Commission analysed the actual employee expenses for FY 2006-07 under various heads vis-à-vis the actual expenditure in FY 2005-06. The increase of around Rs. 116 crore in the gross employee expenses is almost entirely attributable to the

impact of provisioning for leave encashment liability on the basis of actuarial valuation, in accordance with AS-15 (R)… The Commission is of the view that this expenditure of Rs. 116 crore in one year is an extra-ordinary expenditure, on account of change in accounting policy, due to the change in Accounting Standards. The expense of Rs. 116 crore amounts to 30% of the total expense, on this account alone. Given this background, the Commission is of the view that such a huge impact on account of a change in accounting policy, should not be passed on to the consumers in one financial year, and should be spread over five years. Moreover, this expense is only provisioning, and is not actually incurred by the licensee. Hence, the Commission has spread this expense over five years, starting from FY 2006-07, and the expense allowed in FY 2006-07 on this account is Rs. 23.3 crore."

4.4.12. Accordingly, taking into account the approval in the previous Tariff Order dated September 10, 2010 for FY 2010-11, the Commission, has considered additional amount of Rs. 23.27 Crore towards provision for leave encashment and Rs. 19.71 Crore as an adjustment of deferred provision for de-capitalisation due to migration from ESAAR to ICAI Accounting Systems recoverable in FY 2010-11. The Commission will undertake the final Truing up of Employee expenses for FY 2010-11 based on actual employee expenses for the entire year after prudence check. The approved employee expenses for FY 2010-11 are summarized in the Table below:

Table 34: Employee Expenses for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Gross Employee expenses	535.56	567.86	483.91
2	Effect of Migration	23.27	23.27	23.27
3	Effect of creation of new post	0	0	0
4	Provision of Leave encashment to be amortised over 5 years starting from FY 2006-07	19.71	19.71	19.71
5	Less: Capitalisation	(84.67)	(70.52)	(70.52)
6	**Net Employee Expenses**	**493.87**	**540.32**	**456.38**

4.4.13. **Administrative & General Expenses for FY 2010-11**

4.4.14. MSETCL submitted that for FY 2010-11 the provisional A&G expenses were Rs 152.02 Crore as compared to the approved expenses of Rs 81.09 Crore which includes Rs 20.23 Crore approved on account of effect of migration of accounts. MSETCL has in the above claim for A&G expenses have also claimed an expense capitalised of Rs 6.50 Crore for FY 2010-11.

4.4.15. MSETCL has also submitted that the increase in A&G expenses is due to rising A&G expenditure by the circle offices on account of higher electricity charges, increased fuel expenses caused by fuel price hike across state, outsourcing of additional security arrangements and increase in Government inspection fees.

4.4.16. For FY 2010-11, the Commission has considered an increase of around 9.34% on account of inflation over the gross A&G expenses for FY 2009-10 as approved in this Order, based on the increase in Wholesale Price Index (WPI) and Consumer Price Index (CPI). The Commission has considered the point to point inflation over WPI numbers (as per Office of Economic Advisor of Govt. of India) and CPI numbers for Industrial Workers (as per Labour Bureau, Government of India) for a period of FY2010-11. The Commission has considered a weight of 60% to WPI and 40% to CPI-IW. The capitalisation of A&G expenses for FY 2010-11 has been computed based on the "Expense Capitalized to Capitalization Ratio" submitted by MSETCL. The Commission will undertake the final truing up of A&G expenses for FY 2010-11 based on actual A&G expenses for the entire year after prudence check. Accordingly, the approved A&G Expenses for FY 2010-11 are summarised in the following Table:

Table 35: A&G Expenses (In Rs Crore) for FY 2010-11

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Gross A&G Expenses	71.61	138.29	81.81
2	Effect of migration of accounts	20.23	20.23	20.23
3	Less: Capitalisation	(10.75)	(6.50)	(6.50)
4	**Net A&G Expenses**	**81.09**	**152.02**	**95.54**

4.4.17. **Repair & Maintenance Expenses for FY 2010-11**

4.4.18. MSETCL submitted that for FY2010-11 the provisional R&M expenses were Rs 297.40 Crore as compared to the approved expenses of Rs 292.38 Crore, net of capitalisation. In addition to the general expenditure, MSETCL has added expenses pertaining to the effect of migration of accounts as allowed in the Order for FY 2008-09, which amounts to Rs. 1.53 Crore. The capitalized expenses amount to Rs. 0.66 Crore.

4.4.19. The Commission has conducted detailed sub-category wise cost review to assess prudence of expenditure incurred by MSETCL. It is important to note that there has been significant increase in R&M pertaining to Plant and Machinery. On the contrary there has been considerable reduction in R&M pertaining to civil works and lines. Together, plant and machinery, Civil works, Line and cables account for 97% of R&M expenditure.

4.4.20. MSETCL submitted that Repair and Maintenance is dependent on various factors. The assets of MSETCL are old and require regular maintenance to ensure uninterrupted operations. MSETCL submitted that it is trying its best to ensure uninterrupted operations of the system and has been undertaking necessary expenditure for R&M activities accordingly.

4.4.21. For FY 2010-11, for each sub-head of R&M expenditure, the Commission has considered an increase of around 9.68% on account of inflation over the revised level of R&M expenses as approved for FY 2009-10 in this Order, based on the increase in Wholesale Price Index (WPI). The Commission has considered the point to point inflation over WPI numbers (as per Office of Economic Advisor of Govt. of India) for FY 2010-11, to smoothen the inflation curve. The Commission will undertake the final Truing up of R&M expenses for FY 2010-11 based on actual R&M expenses for the entire year subject to prudence check. The capitalisation of R&M expenses for FY 2010-11 has been considered on proportionate basis as submitted by MSETCL for FY 2010-11.

4.4.22. The Commission has considered MSETCL's submission of R&M Expenses for FY 2010-11 on the basis of Provisional Annual Accounts. However, the actual expenses will be considered at the time of final Truing up subject to prudence check. Accordingly, the approved R&M Expenses for FY 2010-11 are summarised in the following Table:

Table 36: R&M Expenses for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Net R&M Expenses	292.38	297.40	302.35

4.5. Capital Expenditure and Capitalisation for FY 2010-11

4.5.1. MSETCL, in its Petition, submitted scheme-wise details of capital expenditure under different categories, viz., ancillary schemes, evacuation schemes, substation and associated lines schemes, transformer addition schemes, transformer replacement schemes, etc classified under the different Transmission Zones for FY 2010-11. MSETCL submitted that while submitting the ARR Petition for FY 2010-11 it had envisaged capital expenditure of Rs 6300 Crore, against which MSETCL envisaged a capitalisation of Rs 2836.57 Crore. However, the Commission approved a lower capitalisation for FY 2010-11 of Rs 977.24 Crore in the Order in Case No. 103 of 2009 dated September 10, 2010.

4.5.2. MSETCL submitted in this Petition that for FY 2010-11 it has undertaken a capital outlay of Rs. 2720.02 Crore and the capitalization for FY 2010-11 was Rs. 2270.33 Crore. Further, MSETCL submitted the scheme wise capital expenditure and capitalisation in the formats along with the Petition for FY 2010-11.

4.5.3. Further, MSETCL submitted its capital expenditure and capitalisation for FY 2010-11 in its submissions. The summarised table is provided below:-

Table 37: Capital Expenditure and Capitalisation for FY 2010-11 as submitted by MSETCL (In Rs Crore)

Particulars	No. Of Scheme	Sanctioned Cost	Capitalization
MERC Approved schemes (DPR Schemes)	138	18414.40	1553.59
Schemes submitted to MERC for approval	98	2894.34	339.57
Schemes sanctioned in MSEB Period costing Rs. 10 Cr & above (In the Process of Submission to MERC)	16	702.93	24.08
Schemes sanctioned costing < Rs. 10 Cr (Non DPR Schemes)	223	819.32	353.08
Total	**475**	**22830.99**	**2270.33**

4.5.4. MSETCL further submitted that the regulatory compliance for getting approval of capital expenditure has been duly followed before implementation of such schemes. MSETCL also described the process of capital expenditure approval adopted as discussed in earlier sections.

4.5.5. The Commission in line with the principles adopted for approval of capitalisation in the previous years, analysed the capitalisation of Rs 2270.33 Crore proposed by MSETCL. In view of the general rule stipulated by the Commission and capex guideline, MSETCL made certain submissions in order to establish the benefits projected in DPR have actually been accrued against the various schemes submitted by MSETCL, for which MSETCL have claimed capitalisation for FY 2010-11. The Commission carried out a prudence check and analysed the benefits accrued against all the DPR schemes for FY 2010-11. The brief summary of the scheme wise category wise analysis for FY 2009-10 carried out by the Commission for each of the category of DPR schemes is provided in the tables below:-

Table 38: Brief Summary of Analysis of Approved DPR Schemes for FY 2010-11 (In Rs Crore)

Sl. No.	Scheme Category	Capitalised Amount Claimed by MSETCL	Capitalised Amount Trued up by the Commission	Observation of the Commission for allowance
1.	Ancillaries Schemes	68.28	68.28	Completely Allowed
2.	Evacuation Schemes	243.53	243.53	Completely Allowed
3.	Life Extension Schemes	26.87	26.87	Completely Allowed
4.	Link Lines	131.41	131.41	Completely Allowed
5.	Substation Schemes	395.83	389.43	Assets not put to use
6.	Transformer Addition Schemes	173.80	173.80	Completely Allowed
7.	Transformer Replacement Schemes	505.64	505.64	Completely Allowed
8	Substation Schemes and Link Lines	8.23	8.23	Completely Allowed
	Total	1,553.59	1,547.19	

Table 39: Brief Summary of Analysis of DPR Schemes Submitted for Approval for FY 2010-11 (In Rs Crore)

Sl. No.	Scheme Category	Capitalised Amount Claimed by MSETCL	Capitalised Amount Trued up by the Commission	Observation of the Commission for allowance
1.	Ancillaries Schemes	3.84	3.84	Completely Allowed
2.	Evacuation Schemes	193.68	193.68	Completely Allowed
3.	Life Extension Schemes	71.39	71.39	Completely Allowed
4.	Link Lines	-	-	-
5.	Substation Schemes	5.86	5.81	Assets not put to use
6.	Transformer Addition Schemes	35.86	35.86	Completely Allowed
7.	Transformer Replacement Schemes	28.94	28.94	Completely Allowed
8	Substation Schemes and Link Lines	-	-	-
	Total	**339.57**	**339.52**	

4.5.6. For capitalisation of Non-DPR schemes for FY 2010-11, the Commission in the APR Order dated September 10, 2010 in Case No. 103 of 2009 had restricted the same to the extent of 20% of the capitalisation allowed against DPR schemes for the year on the basis of general rule instituted by the Commission described above in the Order. The Commission considering this principle has checked if the Non-DPR has crossed 20% of the total DPR schemes. It was found that MSETCL has capitalised the Non-DPR schemes within the limit of 20% of total DPR schemes specified by the Commission. Therefore, the Commission approves the capitalisation of Non-DPR scheme of Rs 353.08 Crore for FY 2010-11.

4.5.7. Based on the above analysis, the Commission approves the capitalisation for FY 2010-11 of Rs 2262.87 Crore against claim of Rs 2,270.33 Crore by MSETCL. The comparison of approved capitalisation for FY 2010-11 against claimed by MSETCL for each of the category is provided in the table below:-

Table 40: Capital Expenditure and Capitalisation for FY 2010-11 (In Rs Crore)

Sl.No.	Particulars	Sanctioned Cost	Capitalization Claimed by MSETCL	Capitalisation Approved by the Commission
1	MERC Approved schemes (DPR Schemes)	18414.4	1553.59	1,547.19
2	Schemes submitted to MERC for approval	2894.34	339.57	339.52
3	Schemes sanctioned in MSEB Period costing Rs. 10 Cr & above (In the Process of Submission to MERC)	702.93	24.08	23.08
4	Schemes sanctioned costing < Rs. 10 Cr (Non DPR Schemes)	819.32	353.08	353.08
	Total	**22830.99**	**2270.33**	**2262.87**

4.6. Depreciation and Advance Against Depreciation for FY 2010-11

4.6.1. MSETCL in the Petition claimed the depreciation for FY 2010-11, based on the opening GFA base of FY 2010-11, as per the Provisional Annual Accounts and considering the depreciation rates specified in the MERC (Terms and Conditions of Tariff) Regulations, 2005. MSETCL claimed a depreciation amounting to Rs 355.83 Crore for FY 2010-11.

4.6.2. The Commission, in its Order in Case No. 103 of 2009 dated September 10, 2010 had approved depreciation to an extent of Rs 321.34 Crore for FY 2010-11 with a depreciation rate of 2.95% on approved opening GFA of Rs 10397.53 Crore. The Commission in the referred Order had examined the depreciation and actual capitalisation claimed by MSETCL.

4.6.3. For the Opening GFA for FY 2010-11, the MSETCL has submitted the Opening GFA as Rs 11513.57 Crore as per the Provisional Annual Accounts. The Commission in the APR Order for FY 2009-10 had approved the Opening GFA as Rs 9924.73 Crore corresponding to the Closing GFA for FY 2008-09 as per the True up Order for FY 2008-09. Based on this, the Commission has adopted the approved Opening GFA of Rs 9924.73 Crore for FY 2009-10 as described in earlier paragraphs. The Opening GFA for FY 2010-11 has been computed based on the approved Closing GFA of FY 2009-10, which is addition of Opening GFA of FY 2009-10 & capitalization for

FY2009-10 and deduction of retirement of assets for FY 2009-10, as approved in earlier paragraphs. Further, the approved assets capitalised during FY 2010-11 have been considered to arrive at the closing GFA for FY 2010-11.

4.6.4. Further, in line with the methodology adopted for approval of depreciation for FY 2009-10 as described in earlier paragraphs above and in accordance with the Hon'ble ATE Judgment dated July 15, 2009 in Appeal No. 137 of 2008, the Commission approves the depreciation for FY 2010-11 also.

4.6.5. The depreciation has been computed and approved based on the average of Opening Balance of GFA of Rs 10945.93 Crore and closing balance of GFA of Rs 13165.36 Crore.

4.6.6. For the depreciation rates for FY 2010-11 the Commission has considered 2.81% for approval of depreciation based on the effective depreciation rate considered by MSETCL in its Petition. The Commission while truing up has arrived at the applicable depreciation rate by computing the actual depreciation amount as a percentage of average of actual Opening and Closing GFA as per the Provisional Annual Accounts. The depreciation rate thus arrived is used to estimate the depreciation for FY 2010-11.

4.6.7. Further, the Commission has verified the actual capitalisation claimed by MSETCL for FY 2010-11 as against the capital expenditure schemes approved by the Commission. The Commission has approved a lower capitalisation for FY 2010-11 against claimed by MSETCL due to the rationale already described in the earlier sections of capital expenditure and capitalisation.

4.6.8. MSETCL has sought approval for Advance Against Depreciation for FY 2010-11 to meet the loan repayment obligations. The Commission notes that as per Regulation 48.3 of MERC (Terms and conditions of Tariff) Regulations, 2005, where the actual amount of loan repayment in any financial year exceeds the amount of depreciation allowable under Regulation 50.4.1, the transmission licensee shall be allowed an advance against depreciation for the difference between the actual amount of such loan repayment and the allowable depreciation for such financial year.

4.6.9. For computing Advance Against Depreciation, the Commission has considered the repayment as submitted by the MSETCL. Based on the above description, the depreciation including AAD approved by the Commission for FY 2010-11 has been summarised in the following table:-

Table 41: Depreciation Expenses including AAD for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Opening GFA	10,397.53	11,513.57	10,945.93
2	Depreciation	321.34	355.83	339.15
3	Depreciation Rate	2.95%	3.09%	2.81%
4	Loan Repayments	366.16	361.69	361.69
5	AAD	44.81	5.86	22.54
6	**Depreciation including AAD**	**366.15**	**361.69**	**361.69**

4.7. Interest Expenses for FY 2010-11

4.7.1. The Commission had permitted net interest expense (i.e., after deducting interest expenses towards SLDC apportionment and interest capitalisation - IDC) to the extent of Rs 151.20 Crore for FY 2010-11 in its APR Order dated September 10,2010 in Case No. 103 of 2009. Loan addition of Rs 781.80 Crore was considered for FY 2010-11 corresponding to 80% of the asset capitalised. MSETCL, in its Petition, submitted the revised estimate of net interest expenses for FY 2010-11 as Rs 281.46 Crore as summarised in the following Table.

Table 42: Interest Expense for FY 2010-11 (In Rs Crore)

Particulars	MSETCL submission as per ARR for FY 2010-11	MERC Approved	MSETCL Submission (Actual as per un-audited accounts) for FY 2010-11
Loan & Interest			
Opening Balance	1966.72	3,855.24	2,474.33
Additions	781.8	2,291.97	1,489.00
Repayments	366.16	361.69	361.69
Closing Balance	2382.36	5,785.52	3,601.65
Gross Interest Expenses	237.03	452.41	270.41
Less: SLDC Apportionment	(0.88)	(0.95)	(0.95)
Less: IDC (existing loans)	(21.11)	(170.00)	(136.75)
Less: IDC(new loans)	(65.59)		
Net Interest Expenses	**151.2**	**281.46**	**132.71**

4.7.2. MSETCL projected interest expenses corresponding to existing loan comprising of loans from LIC, Public bonds, REC, PFC and other market borrowings. Further, MSETCL proposed to finance its new capital expenditure schemes with a debt:equity ratio of 80:20 with debt to be financed primarily from the Financial Institutions such as PFC and REC. MSETCL has also planned to tie up some loan quantum with JICA, in foreign currency. Further, it has proposed that the fresh drawals from PFC and REC will have moratorium period of 2 years and 3 years, respectively, and the interest rate is estimated as 10.75% p.a. Further, loans from JICA have been estimated at 0.75% p.a.

4.7.3. The Commission has considered the means of finance and other terms for existing loans and new loans as proposed by MSETCL. However, the Commission has considered the interest expenses only for the loans corresponding to assets projected to be capitalised during FY 2010-11 as against MSETCL's claim of interest on entire loan drawn to fund the capital expenditure during the year and with deduction in interest capitalisation to arrive at net interest expenses chargeable to revenue account. The interest expenses for the assets prior to commissioning needs to be considered as interest during construction forming part of capitalised cost and hence, scheme-wise accounting of funding plan and interest expenses thereof, is essential. Accordingly, approved interest expenses for FY 2010-11 is summarised in the following Table.

Table 43: Interest on Expense for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Opening balance of loan	1,966.72	3,855.24	2,487.52
2	Additions	781.80	2,291.97	1,810.30
3	Repayment	366.16	361.69	361.69
4	Closing balance of loan	2,382.36	5,785.52	3,936.13
5	Gross Interest expenses	237.03	452.41	285.50
6	Less: SLDC apportionment	(0.88)	(0.95)	(0.95)
7	Less: IDC (esixting loan)	(21.11)	(170.00)	(166.26)
8	Less: IDC (new loan)	(65.59)		
9	**Net Interest expenses**	**151.20**	**281.46**	**118.29**

4.8. Other Interest and Finance Charges for FY 2010-11

4.8.1. MSETCL has submitted guarantee and finance charges based on the Provisional Accounts for FY 2010-11. The combined expense for interest and finance charges for FY 2010-11 stands at Rs. 12.32 Crore. In comparison the Commission approved Rs. 21.87 Crore in the ARR Order dated September 10, 2010 in Case No. 103 of 2009.

4.8.2. For FY 2010-11, the Commission has considered the Finance and Guarantee Charges as per revised estimates of MSETCL, which are lower than that approved under APR Order for FY 2010-11. Moreover, finance charges Petitioned based on Provisional Annual Accounts are lower than 0.5% of the loan drawl during FY 2010-11. The approved Other Interest and Finance Charges for MSETCL for FY 2010-11 is provided in the following Table.

Table 44: Other Interest and Finance Charges for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Guarantee Fees	17.96	8.59	8.59
2	Finance Charges	3.91	3.73	3.73
3	Total	21.87	12.32	12.32

4.9. Interest on Working Capital for FY 2010-11

4.9.1. For FY 2010-11, the Commission has estimated the working capital requirement of MSETCL after considering the provisional truing up of various expenditure heads and revenue. The MERC (Terms and Conditions of Tariff) Regulations, 2005 stipulate that the rate of interest on working capital shall be on normative basis and shall be equal to the short-term Prime Lending Rate of State Bank of India as on the date on which the application for determination of tariff is made. Based on this principle, for FY 2010-11, the Commission has estimated the working capital requirement of MSETCL after considering the expenditure approved in this Order and interest rate as 11.75% as approved in the Order dated September 10, 2010 in Case No. 103 of 2009. The revised interest on working capital for MSETCL for FY 2010-11, is given in the following Table.

Table 45: Interest on Working Capital Expense for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Interest on Working Capital	39.17	10.87	38.16

4.10. Contribution to Contingency Reserves for FY 2010-11

4.10.1. The contribution to Contingency Reserves has been computed at 0.25% of opening GFA in accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005. MSETCL has submitted that the contribution to Contingency Reserve is Rs. 28.78 Crore for FY 2010-11, in accordance with Regulation 50.7 of the MERC (Terms and Conditions of Tariff) Regulation 2005, which states that:

"50.7.1 Where the Transmission Licensee has made an appropriation to the Contingencies Reserve, a sum not less than 0.25 per cent and not more than 0.5 per cent of the original cost of fixed assets shall be allowed towards such appropriation in the calculation of aggregate revenue requirement:

Provided that where the amount of such Contingencies Reserves exceeds five (5) per cent of the original cost of fixed assets, no such appropriation shall be allowed which would have the effect of increasing the reserve beyond the said maximum: Provided further that the amount so appropriated shall be invested in securities authorized under the Indian T rusts Act, 1882 within a period of six months of the close of the financial year."

4.10.2. Further, MSETCL confirmed that it has partly invested the contingency reserve created in FY 2010-11 in accordance with the Regulations stipulated under MERC (Terms and Conditions of Tariff) Regulations, 2005, in securities authorised under the Indian Trusts Act, 1882. The Commission has verified that the contingency reserves of MSETCL do not exceed 5% of the original cost of fixed assets. Accordingly, the Commission has approved the contribution to contingency reserves at 0.25% of opening GFA for FY 2010-11, respectively.

Table 46: Contribution to Contingency Reserve for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Contribution to contingency reserve	25.99	28.78	27.36

4.11. Other Expenses for FY 2010-11

4.11.1. MSETCL submitted that it has considered Other Expenses for FY 2010-11 at Rs. 52.06 Crore as per the Provisional Annual Accounts. The primary contributor to the expenditure is on account of loss due to foreign exchange rate variation, which amounts to Rs. 52.57 Crore. Relevant Regulations pertaining to "*foreign exchange rate variation"* from MERC (Terms and Conditions of Tariff) Regulations, 2005 has been extracted below:

"30.8 The impact of any foreign exchange rate variation on a foreign currency loan taken to finance a project shall be treated in accordance with the Statements of Accounting Standard (AS 11): Accounting for the Effects of Changes in Foreign Exchange Rates of the Institute of Chartered Accountants of India:"

4.11.2. As highlighted above, expense implication due to foreign exchange rate variation have been specifically addressed in the MERC (Terms and Conditions of Tariff) Regulations, 2005. In case of MSETCL, the expense has been on account of foreign currency loan. The Commission has analysed the expenses on account of this and has treated as forex loss which is an uncontrollable expense. The expense is associated with various external uncontrollable factors such as currency and interest rate fluctuations. The Commission has examined the accounting treatment of the foreign exchange loss and has considered it as part of Aggregate Revenue Requirement. It is important to note that forex loss is notional in nature and may turn into Income or Expense on account of currency fluctuations later. Therefore, the Commission directs MSETCL to invest this amount allowed in the ARR in securities authorised under Indian Trusts Act, 1882 immediately and submit the documentary proof to the Commission.

4.11.3. The other expenses include compensation for death, damages and injuries, which amounts to Rs. 0.23 Crore.

4.11.4. For FY 2010-11, the Commission has considered and approved the expenses as per the Provisional Accounts after due diligence for prudency of the expenses incurred. Any variation in the expense will be considered at the time of true-up based on the Audited Annual Accounts and subject to prudence check. The Other Expenses projected by MSETCL and as approved by the Commission are shown in the following Table:

Table 47: Other Expenses for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Other Expenses	0.70	52.06	52.06

4.12. Return on Equity for FY 2010-11

4.12.1. The Commission had permitted return on equity to the extent of Rs 431.17 Crore for FY 2010-11 in its previous APR Order at the rate of 14% in accordance with Regulation 50.1 of the MERC (Terms and Conditions of Tariff) Regulations, 2005. MSETCL, in its present APR Petition, submitted the revised estimate of return on equity for FY 2010-11 as Rs 489.85 Crore.

4.12.2. The Commission has computed the RoE for FY 2010-11 on the opening balance of equity as well as 50% of the equity component of the assets capitalised during the year in accordance with the MERC (Terms and Conditions of Tariff) Regulations, 2005 as applicable for the transmission business, and after considering the approved capitalisation figures as elaborated in earlier paragraphs. Moreover, the Commission raised a query to MSETCL to specify the funding through consumer contribution and grants. In reply to the query, MSETCL has confirmed that for FY 2010-11, none of the capital funding has been met through grants and consumer contribution. Accordingly, Return on Equity for FY 2010-11 approved by the Commission is summarised in the following Table.

Table 48: Return on Equity for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Regulatory Equity at the beginning of the year	2982.03	3,271.92	3,110.07
2	Equity portion of assets capitalised during year	195.45	454.07	452.57
3	Regulatory Equity at the end of the year	3177.48	3,725.99	3,562.64
4	Return on Regulatory Equity at the beginning of the year	417.48	458.07	435.41
5	Return on 50% of Equity portion of capitalised asset value during the year	13.68	31.78	31.68
6	**Total Return on Regulatory Equity**	**431.17**	**489.85**	**467.09**

4.13. Revenue from Transmission Charges for FY 2010-11

4.13.1. The Commission, in its Order on Transmission Pricing Framework in Case No. 58 of 2005, stipulated that the ARR of transmission licensees will be pooled together to form the Total Transmission System Cost (TTSC) for Intra-State Transmission System and each transmission licensee will be entitled to recover its approved ARR from the transmission tariff collected by the State Transmission Utility (STU) from transmission system users (i.e., distribution licensees).

4.13.2. Therefore, in accordance with the above and as per the applicable Order on Tariff for Intra-State Transmission System for FY 2010-11, MSETCL recovered the revenue from transmission system users and revenue from short-term open access charges.

4.13.3. Further, MSETCL has submitted that though the revenue claim of MSETCL from wheeling central sector power to Goa is Rs 20.52 Crore. The Commission approves the claim which is in line with the Provisional Annual Accounts.

4.13.4. The Commission thus approves the revenue as claimed by MSETCL which is in accordance with the Provisional Annual Accounts for FY 2010-11. The approved revenue from transmission charges is provided in the table below:-

Table 49: Revenue from Transmission Charges for FY 2010-11 (In Rs Crore)

S.No.	Particulars	Provisional Accounts	Approved
1	Revenue from Transmission Charges	1944.30	1944.30
2	Revenue from wheeling central sector power to Goa	20.52	20.52
3	**Total Revenue from Transmission Charges**	**1964.82**	**1964.82**

4.14. Non-Tariff Income for FY 2010-11

4.14.1. MSETCL submitted that the Non-Tariff Income for FY 2010-11 is estimated at Rs 126.03 Crore based on the Provisional Annual Accounts as against Rs. 84.25 Crore approved by the Commission in its ARR Order.

4.14.2. The Commission enquired regarding decrease in "Other Miscellaneous Receipts" from Rs. 89.81 Crore to Rs. 59.18 Crore. In their response to the query, MSETCL provided detailed break-up of "Other Miscellaneous Receipts". Based on the deviation analysis, the primary reductions in the account head has been due to reduction in "Income from Investment in Bank Deposits", "Income from Hire Charges from Contractors and Others", and "Sale of Tender Forms". MSETCL submitted the following table showing break-up of Non-Tariff Income for FY 2010-11:

Table 50: Non-Tariff Income for FY 2010-11 (In Rs Crore)

S.No.	Particulars	FY2009-10 Audited	FY 2010-11 (Actuals/ Un-audited)
1	Interest on Other Investments	0.75	0.81
2	Other/Miscellaneous receipts	89.81	59.18
3	Interest on staff loans & Advances	0.49	0.47
4	Sale of Scrap	5.56	17.04
5	Income from Trading	0.00	0.00
6	Revenue from ST Open Access Charges	23.71	48.53
7	**Total**	**120.32**	**126.03**

4.14.3. The Commission has accepted MSETCL's Provisional Accounts numbers of Non-

Tariff Income, and will undertake the Truing up of Non-Tariff Income based on Audited Annual Accounts. The Non-Tariff Income claimed by MSETCL for FY 2010-11 and approved by the Commission is given in the following Table:

Table 51: Non-Tariff Income for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Non-tariff Income	84.25	126.03	126.03

4.15. Income Tax for FY 2010-11

4.15.1. The Commission had approved income tax of Rs. 143.23 Crore for FY 2010-11 in its ARR Order for FY 2010-11. MSETCL, in its Petition, submitted that for FY 2010-11, the income tax is estimated at Rs. 100.40 Crore. MSETCL further submitted that for FY 2010-11, the Income Tax liability has been computed considering depreciation expenses as per Income Tax Act. MSETCL has submitted that the income tax liability has been calculated as per MAT and the same has been detailed in the prescribed format submitted along with this Petition.

Table 52: Income Tax for FY 2010-11 (In Rs Crore)

Particular	FY 2010-11
REVENUE	
Revenue from Wheeling Charges	1,942.18
Other Income	126.03
Income from Goa wheeling charges	20.52
TOTAL (A)	**2,088.73**
EXPENDITURE	
O&M Expenses	
Employee Expenses	497.34
Administration and General Expenses	131.79
Repairs and Maintenance	295.87

Particular	FY 2010-11
Depreciation	608.35
Interest on Long-term Loan Capital	281.46
Interest on Working Capital	10.87
Other Interest and Finance Charges	12.32
Other Expenses	(0.51)
TOTAL EXPENDITURE EXCLUDING IT	**1,837.49**
Total Expenditure (B)	**1,837.49**
Surplus / (Deficit) (A - B)	251.24
I/T	**83.45**
Advance tax paid till Dec 2010	
Income Tax Calculation as per MAT	
Profit Before Tax and before Depreciation	859.58
Less Book Depreciation	355.83
Profit as per MAT	503.75
MAT	100.40
Net Tax Liability	**100.40**

4.15.2. For the purpose of provisional truing up for FY 2010-11, the Commission has computed the tax as per the provisional tax computation provided by MSETCL. The Commission has duly vetted the computation and approved the same for computing ARR of FY2010-11. The Commission will however, true up the income tax, based on final truing up of revenue, expenditure and actual income tax paid by MSETCL for FY 2010-11.

Table 53: Income Tax for FY 2010-11 (In Rs Crore)

S.No.	Particulars	ARR Order	Provisional Accounts	Approved
1	Income Tax	143.23	100.40	100.40

4.16. Aggregate Revenue Requirement for FY 2010-11

4.16.1. Based on analysis of each component as discussed above, the Aggregate Revenue Requirement (ARR) of MSETCL for FY 2010-11, as approved by the Commission and as estimated by MSETCL is given in the following Table.

Table 54: Aggregate Revenue Requirement for FY 2010-11 (In Rs Crore)

S.No.	Particulars	FY 2010-11	
		Provisional as submitted by MSETCL	Approved
1	Operation & Maintenance Expenses	989.75	854.27
1.1	*Employee Expenses*	540.32	456.38
1.2	*Administration & General Expenses*	152.02	95.54
1.3	*Repair & Maintenance Expenses*	297.40	302.35
2	Depreciation, including advance against depreciation	361.69	361.69
3	Interest on Long-term Loan Capital	281.46	118.29
4	Interest on Working Capital and on consumer security deposits*	36.40	38.16
5	Other Interest and Finance Charges	12.32	12.32
6	Other Expenses	52.06	52.06
7	Income Tax	100.40	100.40
8	Contribution to contingency reserves	28.78	27.36
9	**Total Expenditure**	**1862.86**	**1564.55**
10	**Return on Equity**	**489.85**	**467.09**
11	**Aggregate Revenue Requirement**	**2352.71**	**2031.64**

S.No.	Particulars	FY 2010-11	
		Provisional as submitted by MSETCL	Approved
12	*Less: Non Tariff Income*	126.03	126.03
13	*Less: Income from Other Business*	0.00	0.00
14	*Less: Income from Goa Transmission Charges*	20.52	20.52
15	**Net Aggregate Revenue Requirement**	**2206.17**	**1885.09**
16	Tariff Income	1944.30	1944.30
17	Total Revenue Gap/ (Surplus) to be considered for FY 2010-11	261.87	(59.21)
18	Provisional Revenue Gap/ (Surplus) for FY 2009-10		326.22
18	**Cumulative Provisional Revenue Gap/ (Surplus) for FY 2010-11**		**267.01**

*Note: The Interest on working capital claimed by MSETCL was not in consonance with the Provisional Annual Accounts. While for comparison purpose, the figure has been kept same as claimed while for computation figure has been taken as per Provisional Annual Accounts for FY 2010-11.

4.16.2. Thus, total approved net ARR to be recovered from Transmission Tariff for FY 2010-11 works out to Rs 1885.09 Crore as against Rs 2206.17 Crore projected by MSETCL. This decrease in the approved Aggregate Revenue Requirement for 2010-11 as against that projected by MSETCL is primarily on account of the following reasons:

- Reduction in Gross Fixed Asset, interest costs and return on equity components, consequent to reduction in approved capitalisation
- Reduction in O&M Expenses

4.17. Transmission Tariff for FY2010-11

4.17.1. The Commission has issued its Order in respect of the intra-State transmission pricing framework in Case No. 58 of 2005 on June 27, 2006. The ARR and the resultant revenue gap unrecovered as approved by the Commission for MSETCL for FY 2010-11 in this Order, will be used to determine the adjustment to the ARR of the complete Intra-State transmission system of all transmission licensees in the State for FY 2010-11. Hence, in this Order, the Commission has only determined the ARR and revenue gap for MSETCL for FY 2010-11 and not determined any transmission tariff for

MSETCL. Revenue gap of MSETCL for FY 2010-11 will be as per the tariff to be determined by the Commission separately under its Order in the matter of intra-State transmission pricing framework.

4.18. Applicability of Order

4.18.1. Subject to the Section 4.17 above, this Order shall come into force with immediate effect. The Commission acknowledges the efforts taken by the Consumer Representatives and other individuals and organisations for their valuable contribution to the True up process for MSETCL for FY 2009-10 and Annual Performance Review process for FY 2010-11.

Sd/-	Sd/-
(Vijay L. Sonavane)	(V.P. Raja)
Member	Chairman

Appendix 1

List of Objectors Participated in Public Hearing

Appended as a separate file.