CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY16

4.0 KPTCL's application for APR for FY16:

The KPTCL, in its application dated 16th November, 2016, has requested for taking up its Annual Performance Review (APR) for the FY16 based on its Audited Accounts.

The Commission, in its Tariff Order dated 6th May, 2013 (MYT Order) had approved an Annual Revenue Requirement (ARR) of Rs. 2599.03 Crores for FY16. The revised ARR after considering the revenue gap on account of APR for FY14 was Rs. 2606.52 Crores as per the Commission's Tariff Order dated 2nd March, 2015 for FY16.

Now, in this Chapter, the Commission has reviewed the Annual Performance for FY16 based on the application filed by the KPTCL, the Audited Accounts for FY16 and its replies to the Commission's preliminary observations. The item-wise analysis of expenditure and decisions of the Commission are as follows:

4.1 KPTCL's Submission:

The KPTCL has submitted its proposal for consideration during APR for FY16 with the details of revenue earned and item-wise expenditure incurred as follows:

TABLE – 4.1

KPTCL's filing – APR FY16

Amount in Rs. Crores

Sl. No	Particulars	As Approved – T.O. dated 06.05.2013 & 02.03.2015	As per Filing
	Revenue	**2606.52**	**2758.93**
	Expenditure		
1	O&M Expenses	847.54	900.22
2	Depreciation	652.95	635.17
3	Interest & Finance Charges	709.18	438.71
4	Interest on working capital	74.07	3.22
5	Return on Equity	575.24	384.73
6	Provision for taxation	0.00	51.42
7	Other Debits	0.00	2.99
8	Extraordinary items	0.00	532.75
9	Net Prior Period Charges	0.00	29.45
	Less		
10	SLDC charges	0.77	0.00
11	Interest & Finance Charges capitalized	103.63	0.00
12	Other Expenses capitalized	38.55	0.00
13	Other Income	117.00	116.50
14	Carry forward deficit as per APR of FY14	7.49	0.00
	NET ARR	**2606.52**	**2862.16**
	Gap in Revenue for FY16		**(103.23)**

The KPTCL has reported a deficit of Rs.103.23 Crores for the FY16 and has proposed to carry forward this gap in revenue to be collected along with the ARR for FY18.

4.2 Financial Performance of KPTCL as per Audited Accounts for FY16:

The overview of the financial performance of KPTCL for the FY16, as per its Audited Accounts, is as follows:

TABLE – 4.2

Financial Performance of the KPTCL – FY16

Amount in Rs. Crores

Sl. No	Particulars	FY16
	Revenue (including other income)	**2875.44**
	Expenditure	
1	O&M Expenses	944.96
2	Depreciation	636.19
3	Interest & Finance Charges	486.86
4	Income tax	51.42
5	Other Debits	106.37
6	Extraordinary items	532.75
7	Net Prior Period Charges	29.46
	Less	
8	Interest and Finance charges capitalized	44.93
9	Other expenses capitalized	45.75
	Total Expenditure	**2697.33**
	Profit for the Year	**178.11**

As per the Audited Accounts, the KPTCL has earned a profit of Rs.178.11 Crores for the FY16. Considering the surplus earned by the Company in the previous years, the cumulative surplus as at the end of FY16 is Rs.577.47 Crores (inclusive of profit in the FY16).

4.3 Annual Performance Review for FY16:

The Annual Performance Review for the FY16 has been taken up duly considering the actual revenue and expenses reported by KPTCL as per the Audited Accounts as against the expenses approved by the Commission in its Tariff Order dated 6th May, 2013.

The Commission, in accordance with the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, as amended, has taken up the Annual Performance Review of the KPTCL for the FY16. The analysis of item wise expenditure and the decisions of the Commission thereon are discussed in the following paragraphs:

i) Transmission Losses for FY16:

The Commission had approved the annual average transmission loss of 3.90% for the FY16. The KPTCL, in its filing, has reported the transmission loss of 3.535%.

The Commission in its Tariff Order dated 6th May, 2013, had fixed the target of transmission loss at 3.90% for the FY16 on the basis of the methodology suggested by the KPTCL, wherein the total energy at interface points of the ESCOMs is deducted from the energy input from generation bus into the KPTCL grid, to arrive at the transmission loss in KPTCL system.

The actual transmission loss of 3.535% reported by the KPTCL is based on the input energy and energy supplied at interface points of the KPTCL transmission system exclusively. Since the actual transmission loss is less than the lower limit of the approved range of transmission loss (3.80% to 4.00%) for the FY16, the Commission decides to allow incentive on such lower actual transmission loss for the FY16 as detailed below:

TABLE – 4.3

Incentive for Reduction in Transmission loss in FY16

Particulars	FY16
1% of RoE (Rs. Crs.)	3.88
Lower level of approved Tr. Loss in %	3.80
Actual Transmission Loss in %	3.535
Decrease in loss level beyond targeted lower band in percentage point.	0.265
Incentive for reduction in Transmission losses - Rs. Crs	2.06
50% to be shared with the ESCOMs and balance to be retained by KPTCL - Rs. Crs.	**1.03**

ii) System Availability:

KPTCL's Submission: -

The Transmission System Availability as submitted by the KPTCL for the FY16, is as follows:

TABLE – 4.4

Transmission System Availability – FY16

Name of the Transmission Zone	Total No of AC Tr. Lines	% Availability	Total No of ICT's	% Availability	Total No of switched BUS reactors	% Availability	% Availability for the system
Bagalkote Zone	374	96.57%	522	99.78%	0	0.00%	98.44%
Bengaluru Zone	358	99.74%	558	99.89%	4	100.00%	99.83%
Kalaburagi Zone	223	99.65%	347	99.91%	0	0.00%	99.81%
Hassan Zone	198	99.03%	301	99.61%	3	99.83%	99.38%
Mysuru Zone	160	99.95%	256	99.92%	0	0.00%	99.93%
Tumakuru Zone	110	98.99%	375	99.89%	4	95.09%	99.65%
TOTAL	**1423**	**98.76%**	**2359**	**99.84%**	**11**	**98.13%**	**99.43%**

Commission's Analysis:

The Commission had forwarded the Transmission System Availability (TSA) data submitted by the KPTCL to all the ESCOMs for their view/comments. MESCOM, CESC and HESCOM have concurred with the TSA as submitted by KPTCL, But, BESCOM and GESCOM have not furnished any comments.

The Commission has verified the system availability data and found certain inconsistencies like, inappropriate Surge Impedance Loading (SIL) indicated for some of the transmission lines, incorrect names of the conductors used for transmission lines and lower availability shown in respect of some of the transmission lines. The observations were forwarded to the KPTCL with a direction to submit revised computation of Transmission System Availability, after complying with the observations.

The KPTCL has resubmitted the availability computation, after incorporating the Commission's observations and confirmed that, the transmission availability has not altered and remains at 99.43% only. The Commission, based on the statement of KPTCL, has considered the TSA at 99.43%.
The transmission availability of FY16 at 99.43% falls short of its declared TSA for FY15 which was at 99.50%. The Commission directs KPTCL to consistently

improve its TSA, by monitoring and taking remedial measures for the transmission elements which have shown lower availability.

iii) Incentive for Transmission System Availability:

As per the provisions of the Regulation 3.17(1) of KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, the transmission licensee is allowed an incentive for achieving system availability above the target availability of 98%. Hence considering the actual availability at 99.43% for FY16 and the net ARR, as indicated later in this order, the allowable incentive for the FY16 is as detailed below:

TABLE – 4.5

Incentive for better Transmission System Availability

Sl.No.	Particulars	FY16
1	System Target Availability	98%
2	Actual System Availability for the FY16	99.43%
3	No incentive allowed beyond 99.75% as per MYT Regulations	99.75%
4	Availability beyond target levels	1.43%
5	Approved ARR under APRFY16 Rs. Crores	2341.35
6	Incentives for Availability beyond target Availability (Sl.no.4*5/1) Rs. Crores.	34.16
7	**50% to be shared with the ESCOMs and balance to be retained by KPTCL Rs. Crs**	**17.08**

Thus, the total incentive earned by the KPTCL on account of transmission loss reduction and better system availability for the FY16 is Rs.34.16 Crores. The Commission hereby approves sharing of the gains with ESCOMs in the ratio of 50:50. Thus the total incentive on account of better system availability and reduction of transmission losses achieved by KPTCL beyond the targets set by the Commission for FY16 is Rs.18.11 Crores.

Further, as discussed in the subsequent paragraphs of this Chapter, based on the prudence check reports for FY16, an amount of Rs.0.35 Crores towards interest and depreciation pertaining to imprudent investments attributable to KPTCL is deducted from allowable the incentives of Rs.18.11 Crores.

Thus, the Commission directs the KPTCL to recover Rs.17.76 Crores from the ESCOMs in proportion to their transmission capacity allocated for the FY16.

iv) Operation and Maintenance Expenses:

KPTCL's Submission:

KPTCL in its application has reported that the net actual O&M Expenses incurred for FY16 is Rs.900.22 Crores (excluding expenses capitalized, SLDC Charges & Other expenses shared by ESCOMs). This includes Employee costs of Rs.676.62 Crores, Administrative & General Expenses of Rs.70.39 Crores and Repairs & Maintenance expenses of Rs.153.21 Crores.

The Commission in its Tariff Order dated 6th May, 2013, had approved O&M Expenses of Rs.808.99 Crores inclusive of additional O & M expenses of Rs.160.38 Crores on account of P&G contribution for FY16. Thus the actual O&M Expenses reported by KPTCL is more than the approved expenses by Rs.91.23 Crores.

The KPTCL in its application has requested the Commission to approve O & M expenses as per actuals. Further, the KPTCL has computed the O&M expenses of Rs.916.99 as per the KERC norms which is lower than the actual expenses incurred. Further, KPTCL has submitted the breakup of O&M expenses for transmission lines and bays wherein major cost is incurred towards maintenance of bays as compared to the cost incurred on maintenance of lines.

In addition to the normal O&M expenses, KPTCL has claimed an amount of Rs.134.40 Crores towards contribution to Pension and Gratuity Trust including contribution on employees covered under the Newly Defined Contributory Pension Scheme (NDCPS).

Commission's Analysis and decisions:

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

In accordance with the MYT Regulations, the O&M expenses are treated as controllable expenses of the transmission licensee. KPTCL has been incurring its O&M expenses under Employees Cost, Administrative and General Expenses and Repairs and Maintenance expenses. The audited accounts for FY16 indicate the actual expenses incurred under these items of expenditure. Besides these expenses, KPTCL has been making contributions to the Pension and Gratuity Trust and contribution to employees covered under NDCPS. The Commission considers the contribution made to P&G trust as uncontrollable expense.

Based on the above stated items of expenditure, the normative O & M expenses are determined considering the actual O & M expenses incurred by the KPTCL, actual number of Bays and Circuit Kilometers of transmission lines in the KPTCL and the actual inflation rate for the year.

The normative O & M expenses have been computed based on the actual O & M expenses, number of Bays and Circuit Kilometers of transmission lines during the base year (FY11 - FY13) and applying the inflation factor for the relevant years. The Commission has been consistently adopting this approach to work out the O & M expenses, as provided for in the MYT Regulations, besides allowing additional employee cost treated as uncontrollable O & M cost.

The Commission in its Tariff Order dated 6th May, 2013, while approving the O&M expenses for FY16 had considered 20854 No. of Bays and 33889 Ckt. Kms of transmission Lines as projected by the KPTCL. However, as per the actual data reported by the KPTCL in its replies to the preliminary observations of the Commission dated 20th December, 2016, the No. of Bays is 21053 and the length of transmission lines is 34237.34 Ckt. Kms. as detailed below:

TABLE-4.6

Length of Transmission Lines and No. Bays

Transmission Lines-Voltage class:	*Transmission lines (in Circuit kms as on 31.03.2016)*
400 KV	2683.32
220 KV	10948.85
110 KV	10193.61
66 KV	10411.56
TOTAL	**34237.34**
Type of Bay	**Nos. as on 31.03.2016**
Line Bay	5248
Transformer bay	2364
PT Bay	1510
Capacitor Bank Bay	855
11 KV Bay	11076
Total	**21053**

As in the earlier Tariff Orders dated 2nd March, 2015 and 30th March, 2016, the Commission has decided to continue computation of composite inflation index based on 80% weightage to CPI and 20% weightage to WPI. Based on this composite inflation index, the Commission has computed the inflation factor based on the similar methodology adopted by the CERC in its orders on escalation rates issued from time to time, as shown below:

TABLE-4.7

Computation of Inflation Rate

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2004	98.72	111.1	108.624				
2005	103.37	115.8	113.314	1.04	0.04	1	0.04
2006	109.59	122.9	120.238	1.11	0.10	2	0.20
2007	114.94	130.8	127.628	1.17	0.16	3	0.48
2008	124.92	141.7	138.344	1.27	0.24	4	0.97
2009	127.86	157.1	151.252	1.39	0.33	5	1.66
2010	140.08	175.9	168.736	1.55	0.44	6	2.64
2011	153.35	191.5	183.87	1.69	0.53	7	3.68
2012	164.93	209.3	200.426	1.85	0.61	8	4.90
2013	175.35	232.2	220.83	2.03	0.71	9	6.39
2014	182.00	246.90	233.92	2.15	0.77	10	7.67
2015	177.03	261.42	244.542	2.25	0.81	11	8.93
A= Sum of the product column							37.56
B= 6 Times of A							225.37
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.07
g(Exponential factor)= Exponential (D)-1							0.0771
e=Annual Escalation Rate (%)=g*100							**7.71**

Considering the inflation rate of 7.71%, the normative O & M expenses for the FY16 will be as follows:

TABLE – 4.8

Approved Normative O & M Expenses – FY16

Particulars	FY16
O&M cost in terms Rs. thousands/Bay	112.80
O&M cost in terms Rs. thousands/ckt. Km of Line	157.43
Inflation rate in %	7.71
No. of Bays	21053.00
Length of Line in ckt. Kms	34237.34
O&M Expenses for Bays (Rs. Crs)	237.47
O&M Expenses for Lines (Rs. Crs)	539.00
TOTAL O&M Expenses as per Norms (Rs. Crs)	**776.47**

The Commission in its tariff order dated 6th May, 2013, while approving the O & M expenses for the FY16 had considered an amount of Rs.160.38 Crores towards contribution to Pension and Gratuity Fund. These additional expenses were treated as uncontrollable O & M expenses besides the normative O & M expenses which are treated as controllable O&M expenses.

As per the audited accounts for the FY16, the KPTCL has incurred Rs.134.34 Crores towards P&G contribution. The Commission decides to allow the actual contribution to P&G Trust incurred by KPTCL in addition to the controllable normative O&M expenses to enable the KPTCL to meet its O&M expenses.

Based on the above discussions, the allowable O & M expenses for the FY16 are as follows:

TABLE – 4.9

Approved Allowable O & M expenses for FY16

Amount in Rs. Crores

Particulars	FY16
Total normative O&M Expenses	776.47
Additional employee cost	134.34
Total O&M Expenses allowable in Rs. Crs.	**910.82**

Thus, the Commission hereby approves O & M expenses of Rs.910.82 Crores for the FY16.

v) Depreciation:

KPTCL, in its application has claimed an amount of Rs.635.17 Crores towards depreciation as against an amount of Rs. 652.95 Crores approved in the Tariff Order dated 6th May, 2013. As per the audited accounts, KPTCL has indicated an amount of Rs. 635.17 Crores towards depreciation after capitalization of Rs.1.01 Crores for FY16. Thus, the actual depreciation is less by Rs.17.78 Crores as compared to the approved amount.

As per the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006 as amended, the Commission has determined the allowable depreciation duly considering the actual average gross block of fixed assets for FY16.

As per the audited accounts for FY16, the depreciation before capitalization is Rs.636.19 Crores. The claim of Rs.0.22 Crores of depreciation of assets of SLDC has been factored in SLDC charges separately. The capitalized amount of depreciation of Rs.1.01 Crores is considered under 'other expenses capitalized' as discussed in subsequent paragraphs of this Chapter. After excluding the withdrawal of depreciation of Rs.37.58 Crores, towards assets created out of consumer contribution and grants, the net depreciation for FY16 works out to Rs.598.39 Crores.

Thus, the Commission decides to consider depreciation of Rs.598.39 Crores for the FY16.

vi) Capital Expenditure for FY16:

a) Capital Expenditure of KPTCL:

KPTCL's Submission:

As per the application for APR for FY16, the KPTCL has achieved a capital expenditure of Rs.1278.81 Crores, as against the Commission approved capex of Rs.1400 Crores for FY16. KPTCL has furnished the progress of construction of substations, transmission lines and Augmentation of substation/lines during FY16 as follows:

Table-4.10

Progress of works relating to Substations, Lines and Augmentation for FY16

Particulars	Target	Achievement***	
Substations (No.s)	33	220kV	3
		110kV	10
		66kV	17
		Total	30
Lines (Ckms)	727.59	400kV	33.30
		220kV	651.14
		110kV	172.49
		66kV	176.77
		Total	1033.70
Augmentation (Nos)	40	110kV	36
		66kV	44
		Total	80

*** includes spill over works of the previous years

Commission's analysis:

The Commission has observed that, out of the above completed and commissioned works, many works are yet to be categorized as assets during FY16, even after 6 to 8 months of their completion/commissioning. Details of such works are as under:

a) In respect of thirty numbers of substation works completed during FY16, fifteen number of substations which are completed and commissioned between June, 2015 and December, 2015, have not been categorized during FY16.

b) In respect of eighteen number of Line works completed during FY16, nine Line works which have been completed between May, 2015 and December, 2015, are not categorized during FY16.

c) In respect of Augmentation works, fifty-five works out of total eighty works which were completed between June, 2015 and December, 2015, have not been categorized during FY16.

This shows that, a large number of works though completed and commissioned, have not been categorized as assets even after a lapse of six to eight months in the respective financial years. KPTCL should have monitored the implementation of the projects to ensure their completion and categorization within the targeted time. Delay in categorization of assets leads to understatement of value of categorized assets and under-charge of depreciation thereon.

KPTCL has shown a huge number of substations, lines and augmentation works in the category of on-going/spill over works. The details of such works and the cost incurred for the on-going works during FY16 is shown below:

Details of on-going works of Stations, Lines and Augmentation works and cost incurred during for FY16:

Table-4.11

Details of ongoing works during FY16

Particulars	No of works Ongoing	Cost incurred during FY16 in Rs. Crores
Substations	74	322.72
Lines	46	697.11
Augmentation	60	26.81
	Total	**1046.64**

From the above table it is noted that, the KPTCL has incurred a capex of Rs.1046.64 Crores for the spill-over/ongoing works during FY16, out of the total incurred capex of Rs.1278.81 Crores. It is also to be noted here that, out of the total number of works shown as on-going works, KPTCL has not incurred any capex for many spillover/ongoing works during FY16 which indicates that, there is no progress in these works continuously. The details of the works for which KPTCL has not incurred capex during FY16 are:

TABLE-4.12

The details of the works for which KPTCL has not incurred capex during FY16

Particulars	No of works Ongoing	No of Ongoing works for which KPTCL has not incurred capex in FY16
Substations (No.s)	74	39
Lines (Nos)	46	24
Augmentation (No.s)	60	40

Further, there are many works continued under on-going works for the past five to ten years. The **details showing the number of ongoing works, from the year of commencement** is indicated below:

TABLE-4.13
Details showing the number of ongoing works

Particulars	Total on going works	No. of works in on-going categories from the year of commencement										
		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Substations (No.s)	**74**	2	8	0	2	3	2	2	7	1	6	37
Lines (No.s)	46	0	5	0	0	6	5	0	3	5	9	13
Augmentation (No.s)	60						4	3	5	5	11	32

It is to be noted from the above that -

i) In respect of substations, fifteen works are found to be continuing under on-going works category which was commenced well before 2010 and even after a lapse of six years they have not been completed and commissioned.

ii) In respect of Lines, eleven works are found to be continuing in on-going works category which was commenced well before 2010 and even after a lapse of from six years they have not been completed and commissioned.

iii) in respect of Augmentation works of 60 number in on-going category, seventeen works are continuing from 2011 -2014, which are additional transformer works, but are not completed and commissioned even after a lapse of 3- 6 years. KPTCL should have taken a serious note of this to avoid huge delay in completion, since, these projects will not have any external impediments like RoW or litigations to cause slowing down in the progress.

In view of the above observations KPTCL is directed to monitor the progress of capital works regularly to ensure that, the ongoing works are completed within a definite time frame, besides ensuring categorization of assets which are already completed and commissioned. Further, the Commission after reviewing the progress achieved in the capex for FY16 decides to allow the

capex of Rs.1278.81 Crores, subject to disallowance, if any, as per the results of the prudence check of capital expenditure for FY16, as discussed below.

b) Prudence check of capital expenditure and material procurement of KPTCL for FY16:

The Commission has got the Prudence check of Capital Expenditure for FY16, done through third party verification of the capital works categorized and also the material procurement of KPTCL during FY16. This was taken up in two parts:

i. Prudence check of execution of the capital works of the FY16:

ii. Prudence check of Material Procurement process of the FY16:

i. Prudence check of execution of the capital works of the FY16:

The capital expenditure proposed by the KPTCL, in its tariff application every year, is being allowed by the Commission subject to prudence check of the completed and categorized works. The capital expenditure incurred by the KPTCL for FY16 is Rs.1278.81, as against the approved Capex of Rs.1400 Crores and the outlay on works categorized during FY16 is Rs.925.16 Crores, which includes spill over works of the earlier years as well as new works of FY16.

Commission had entrusted the Prudence check of capital expenditure, to M/s RSA & Co, a Consultant from Kolkata, selected through a transparent process of e-tendering.

M/s RSA & Co has conducted the prudence check as per the terms of the reference prescribed in the bid documents and the scope of the work as well as the guidelines to conduct prudence check issued by the Commission.

KPTCL had furnished a list of capital works which were categorized during FY16 with a capital outlay of Rs. 742.59 Crores against 1575 no. of works. Against this, the Consultants has selected samples with a total expenditure of Rs.327.68 Crores incurred against 136 works. The samples so selected cover 44.13% of the total categorized works. The selected samples contained 76 number of works costing above 3 Crores and 60 numbers of works costing below 3 Crores. M/s RSA & Co has stated that, the sampling has been done to ensure coverage of all types of works covering the geographical area and also relatively high value items of works. The summary of works selected for prudence check is provided in the table below:

TABLE – 4.14

Sample projects – Zone wise selection

Zone	Project costing above Rs.3 Crores		Project costing above Rs.3 Crores		Total	
	Total No. of Works	No. of Sample works	Total No. of Works	No. of Sample works	Total No. of Works	No. of Sample works
Bagalkot	18	11	271	10	289	21
Bengaluru	39	23	462	11	501	34
Hassan	18	11	184	11	202	22
Kalaburagi	21	12	222	13	243	25
Mysuru	128	8	13	4	141	12
Tumakuru	29	11	170	11	199	22
Total	**253**	**76**	**1322**	**60**	**1575**	**136**

TABLE – 4.15

Sample projects – work-wise Nature of work

Type of work	Project costing above Rs.3 Crores		Project costing above Rs.3 Crores		Total	
	Total No. of Works	No. of Sample works	Total No. of Works	No. of Sample works	Total No. of Works	No. of Sample works
Substations	54	40	33	8	87	48
Lines	61	29	22	06	83	35
Exclusive lines	8	0	0	0	8	0
Augmentation of lines	6	3	16	0	22	3
Augmentation of substations	31	2	200	20	231	22
other	93	2	1051	26	1144	28
Total	253	76	1322	60	1575	136

The details of the cost of works for the selected samples, are provided in the table below:

TABLE -4.16

Cost Details of Selected Samples

Particulars	No.s	Amount in Rs. Cores
Projects costing above Rs.3 Crores	76	296.84
Projects costing below Rs.3 Crores	60	30.85
Total	136	327.68

The prudence check analysis was carried out keeping in view the following points:

- Guidelines for conducting prudence check prescribed by this Commission
- Parameters defined for three phases of Capital expenditure viz. Planning, Implementation & Post execution.
- Parameters on which each project was tested are:
    - Schedule of implementation,
    - Cost of implementation,
    - Objectives realized,
    - Quality of execution,
    - Pro-activeness of investment,
    - Preparation of DPR/Estimate,
    - Cost Benefit Analysis and
    - Alternatives considered.

After completing the prudence check work, the Consultant has submitted a report. Gist of the findings is as follows:

TABLE-4.17

Gist of Prudence check findings for FY16

Particulars	Numbers	Amount in Rs. Crores.
No. of works costing Rs.3 Crores and above considered as sample & Cost	76	296.84
No. of works costing less than Rs.3 Crores considered as sample & Cost	60	30.84
Total number of sample selected & Cost	136	327.68
No. of works costing Rs.3 Crores and above not meeting the norms of prudence as stipulated in the guidelines issued by this Commission	01	10.9
No. of works costing less than Rs.3 Crores not meeting the norms of prudence as stipulated in the guidelines issued by this Commission	03	0.61
Total number of sample selected not meeting the prudence norms & Cost	04	11.51

The following works are stated to be not meeting the norms of the prudence:

1. **Bangalore transmission zone:** 66/11 kV Srigandhada Kavalu substation (Rs. 3.98 Crores), remains unutilized, as BESCOM has not connected any 11kV feeder to take the load from the substation.
2. **Bagalkote transmission zone:** 110kV Malaghan substation in Sindagi taluk, (0.35 Crores), one of the two transformers in the substation is not functioning since June, 2016.
3. **Bagalkote transmission zone:** 2*10 MVA, 110/11kV substation (Rs.6.92 Crores), only 4 feeders out of the estimated 12 numbers of 11kV feeders have been connected by HESCOM resulting in only 39.62% load on the substation, even after repeated communication from KPTCL.
4. **Kalaburagi transmission zone:** Replacement of failed 10MVA transformer in 220kV shahapur substation (Rs.0.26 Crores- the works was completed on 4.4.2015. But the same is inoperative since 30-8-2015.

   Further, the consultant has stated that, in case of two works costing Rs.3.98 Crores in respect of 66/11 kV Srigandada Kavalu substation in BESCOM area and Rs.6.92 Crores for 2*10 MVA,110/11kV Takkalakki substation in HESCOM area, the non-prudence may not be attributable to KPTCL as per the observations shown below:

a. It is **observed** that the 66/11 kV Substation Srigaadakavalu, Bangalore Zone remains unutilized in spite of it being ready in all respect as BESCOM has not connected required load through 11kV feeders to the station. In this case KPTCL may not be penalized for the project not meeting prudence norms. The **responsibility should be fixed on the BESCOM for its failure to execute the required number of 11kV feeders from this substation.**

b. It is observed that 2*10MVA, 110/11kV Sub-Station at Takkalakki, Bagalkote Zone is loaded to 39.62% only and remains unutilized to its full capacity in spite of it being ready in all respect as HESCOM has not connected estimated number of 11kV feeders to the station (only 4 feeders out of 12 feeders are connected). In this case KPTCL may not be penalized for the project not meeting prudence norms. **The responsibility should be fixed on the HESCOM for its failure to provide load.**

The consultant has stated that, they could not deduce two projects, as they were short closed works, which are yet to be completed by KPTCL. That, these two works somehow, could be ascertained as non-deducible only after physical verifications.

A summary of the works found to be having cost and time over-run is given in the following Table:

Table – 4.18

Summary of Works having Cost Overrun

Particulars	No cost over run	Within 10%	10-25 %	Above 25%
Rs.3 Crores and above	31	27	13	03
below Rs.3 Crores	47	05	06	02

Table – 4.19

Summary of Works having Time Overrun

Particulars	Within Year	Between one and two Years	Above two Years
Rs.3 Crores and above	39	11	24
below Rs.3 Crores	43	13	04

The consultant has made a few key observations in the prudence check Report as follows:

i. Primary objectives were not clearly defined in any project.
ii. System of post execution analysis of the works is not in place
iii. There are no nodal/focal point for records & details which is essential for any validation/analysis exercise.
iv. The project data provided in the prescribed format was in most cases incomplete and did not have vital details necessary for grading.
v. The field officers are not aware of the relevance/objective of the prudence check exercise or even post execution analysis.
vi. There is no centralized recording system for store materials.
vii. No system exists for quarterly/yearly analysis of stock position for identification of slow moving/non-moving items.
viii. KPTCL has not followed the capital expenditure guidelines issued by KERC in all respects.

The consultants have made the following recommendations:

a) The area of project monitoring may be extended to procure and monitor details of performance of the capital works post-commissioning.
b) The field officers are required to be made aware of the capital expenditure guidelines.
c) There should be a system of comprehensive post-execution evaluation and KPTCL should follow a system of post-execution productivity approval of the Capital works commissioned. Further, the DPRs/Estimates should quantify the primary and secondary objectives to be achieved
d) Centralized store accounting and monitoring system should be put in place. KPTCL should also adopt a system of ABC analysis of stock of

materials and KPTCL should implement the system of periodical (annual) physical verification of stores.

e) KPTCL should have a system of speedy approvals of deviations so that delay in execution on that account is minimized.

f) KPTCL should develop a strong and effective Vendor rating system.

g) KPTCL should have central data repository of information which would provide all the details of a project and the project data in the format prescribed by KERC should be submitted within a specified period after commissioning of the project.

In respect of the 3rd work stated above as not meeting the norms of prudence, the Commission is of the opinion that, the 2*10MVA, 110/11kV Sub-Station at Takkalakki, Bagalkote Zone having a load of 39.62% can be treated as meeting the norms of prudence check, as the loads on the transmission substations are to be loaded in stages. Further, the Commission directs HESCOM to expedite the process of connecting estimated number of feeders to the substation to reap the maximum benefit.

The Commission has noted that, the following two projects not meeting the norms of prudence in BESCOM and HESCOM are to be attributed to KPTCL as stated below:

a) **33 KV Chunchunur Link Line from 110 KV Katakol Substation:** The link line with a cost of Rs.131.20 Lakh was completed on 07-07-2015 and was categorized in the end of FY16. This line was constructed to reduce the load of 20 MVA transformer at Yeragatti substation. However, it was observed that the line was not commissioned, as the 20 MVA 110/33 kV transformer at Katakol Substation was not available.

b) **11 KV New Feeder/link line under RAPDRP scheme, from Attibele MUSS for bifurcation of F-15 feeder by using 3*400 Sq. mm UG Cable costing Rs.99.17L. in Chandapura Division:** The main objective of drawing a new feeder from Attibele substation was to release load on heavily loaded lengthy feeder F-15 of Attibele MUSS. Though the new feeder is capable of carrying load it is not charged due to non-availability of breaker at the substation as KPTCL was required to install the circuit breaker.

The Commission has forwarded the Final Report of the Prudence Check of KPTCL submitted by the consultant, prudence check reports of BESCOM and HESCOM which includes the non-prudent works attributable to KPTCL, seeking its views on the report. The KPTCL was also asked to furnish justification, if any, on the projects treated as non-prudent to be treated as meeting to the norms of prudence to reach the Commission on or before 20th March, 2017.

KPTCL, however, in its letter dated 21st March, 2017 has requested the Commission for one-weeks' time for submitting the replies, on the ground that, the reports have been sent to different sections and it will be receiving the replies within a week's time. The Commission has noted that, KPTCL has not taken the issue seriously and treated it in a casual manner. It had sufficient time and resources to gather information about the work and explain the shortcomings noticed by the consultant. Thus, its request for grant of further time is not justified.

Hence, the Commission decides to disallow the interest and depreciation on the capex of the works not meeting the norms of prudence, as follows:

TABLE – 4.20

Details of Amounts disallowed in APR FY16

Sl NO	Particulars	Amount in Rs. Crores
1	Total cost of categorized works eligible for prudence check	742.59
2	Total cost of the sample works	327.26
3	Cost of sample works not meeting prudence norms	11.51
4	Cost of sample works not meeting prudence norms attributable to other companies like BESCOM and HESCOM	10.90
5	Net capex which is not meeting prudence norms as per the Report of Prudence check of KPTCL	0.61
6	The capex not meeting the prudence norms at Rs.0.61 Crores is 0.206% of cost of total sample of Rs.296.17 Crores in the category of substations. When this is escalated to the total population of substations with a cost of Rs.419.36 Crores	0.86
7	The capex not meeting prudence norms in BESCOM and HESCOM attributable to KPTCL (HESCOM →1.312 Crores + BESCOM→0.9917 Crore)	2.3037

8	Total amount of capex termed as not meeting the prudence norms	3.167
9	Amount to be disallowed towards works not meeting prudence norms calculated on the basis of weighted average interest & weighted average depreciation on the capex to be disallowed.	0.348

Thus, the Commission decides to disallow an amount of Rs.0.348 Crores and factor the same in the allowable incentives payable by ESCOMs to KPTCL for FY16.

ii. Prudence check of Material Procurement process of the FY16:

The execution of capital works in KPTCL is being done through turnkey contracts as well as partial turnkey contracts. In the process, the KPTCL procures major materials like, Power transformers, Circuit Breakers and conductors etc., and issues them to the partial turnkey contractor for carrying out the Labour contract works as per award. In view of the fact that, a large quantity of major materials is being procured by the KPTCL every year, the Commission decided to review material procurement process of major materials as a part of prudence check, to ensure that, the procurement is made out in a cost effective manner without compromising the operational needs. Hence, the consultant was directed to look into the procurement process of the KPTCL, and analyze the process.

M/s RSA & Co has stated that, they have reviewed procurement of material in respect of major materials costing Rs.9.698 Crores made during FY16. The details of the procurement of materials were collected from the procurement section of KPTCL and the procedure followed for procurement of material was analyzed. A sample of tenders floated for procurement of material was checked. Procurement of major materials like Power transformers, Circuit Breaker, conductors and transmission line tower parts was analyzed. To assess the idle stock position, movement of material especially bulk/ high value materials during the financial year was checked.

The Consultant has stated that, the Major procurements have been done centrally from the Corporate Office of the KPTCL and have observed the following:

i. Tendering process has been followed and process of material procurement is transparent. Online tendering system is being followed whereby by entire tendering process is carried out through tendering and procurement portal.
ii. NIT for procurement of materials is published in the newspapers having wide circulation. Material procurement by field offices are limited to low value items and mostly related to maintenance works.
iii. Most of the works are being awarded on Total Turnkey basis wherein all the materials required for the specific work is required to be procured by the contractor as part of the contract.
iv. In case of Partial Turnkey (PTK) contract, where material is provided by KPTCL, the materials are being supplied either by instant/works specific procurement or from the stock of materials available with the stores.
v. Movement of stocks during period was analyzed. It was observed that there is no system in place to identify fast moving, slow moving & non-moving items on yearly basis.
vi. There is no system of categorization of material as per ABC system which is essential for effective stock control.
vii. Apart from procured materials, stocks also include materials which are released from any work, failed transformers and repaired transformers etc.

On analyzing the movement of stock to identify slow moving/non-moving items, it was observed that there are stocks which have not been utilized for over 3 years. Total values of such non-moving items amount to Rs.13.35 crores. It was also observed that there are obsolete items valued at 10% of the cost amounting to Rs.30.63 Lakhs.

The Commission having taken note of the recommendations of the Consultants:

a) Directs KPTCL to implement the recommendations in the matter of execution of capital works, creation of awareness on capital expenditure guidelines among the officers and maintenance of a centralized data base of the works in progress and the works

completed. KPTCL should coordinate with ESCOMs to complete the works in time, wherever the upstream and downstream infrastructures are to be created simultaneously so as to complete such works in time.

b) **Directs KPTCL to strictly monitor the material stock and take necessary action to utilize/clear the non-moving stock and report the compliance in this regard to the Commission.**

vii) Interest and Finance Charges:

The KPTCL has claimed an amount of Rs.486.86 Crores towards Interest and Finance charges. The Commission in its tariff order dated 6th May, 2013, had approved an amount of Rs.709.18 Crores for FY16. Thus, the actual Interest and Finance charges is less than the approved amount by Rs.222.32 Crores

The Commission has considered the opening balance of long term loans, new loans availed and repayment of loans made during FY16 as per the Audited Accounts as per the data furnished under Format T-9. Based on the opening and closing balances of long term loans, the average loan for the year FY16 works out to Rs.4842.15 Crores. The actual amount of interest on capital loans incurred is Rs.483.64 Crores for FY16 (excluding interest of Rs. 3.22 Crores on short-term loans). The weighted average rate of interest works out to 9.99%. The details of the allowable interest on capital loans are as follows:

TABLE – 4.21

Allowable Interest and Finance Charges

Amount in Rs. Crores

Particulars	FY16
Secured Loans	4851.58
Unsecured Loans	7.20
Total	**4858.78**
Add new Loans	530.00
Less Repayments	563.27
Total loan at the end of the year	4825.52
Average Loan	4842.15
Interest on long term loans (as filed)	483.64
Weighted average rate of interest based on the actual interest proposed on long term loans in FY16 as per audited accts in %	9.99%
Allowable Interest on long term loans	**483.64**

Since the weighted average rate of interest is comparable with the prevailing interest rates for long term loans, the Commission decides to allow actual interest on long term loans and finance charges of Rs.483.64 Crores for FY16. Further, considering the actual capitalization of interest of Rs.44.93 Crores, the net interest on long term loans and finance charges works out to Rs.438.71 Crores.

Thus the Commission decides to allow net interest and finance charges of Rs.438.71 Crores for FY16.

viii) Interest on Working Capital:

The Commission in its Tariff Order dated 6th May, 2013, had approved an amount of Rs. 74.07 Crores towards interest on working capital as per the provisions under MYT Regulations. KPTCL, in its audited accounts for FY16, has indicated an amount of Rs.3.22 Crores towards interest on short term borrowings. Accordingly, as per the norms under MYT Regulations as amended, KPTCL is entitled to interest on working capital for FY16 as follows:

TABLE – 4.22

Allowable Interest on Working Capital

Amount in Rs. Crores

Particulars	FY16
One-twelfth of the amount of O&M Exp.	75.90
Opening GFA as per Audited Accts	13122.74
1% of Opening balance of GFA	131.23
One-sixth of the expected revenue from Transmission user at the prevailing tariffs	459.82
Total Working Capital	**666.95**
Rate of Interest (% p.a.)	11.75%
Interest on Working Capital	78.37
Actual interest on working capital as per audited accounts	3.22
Allowable normative interest on working capital as per Regulations	**40.79**

Thus, the Commission decides to allow the interest on working capital of Rs.40.79 Crores for FY16.

ix) Other Debits:

As per the Audited Accounts for FY16, KPTCL has indicated an amount of Rs.106.37 Crores towards other debits. This includes an amount of Rs.103.38 Crores towards interest on outstanding power purchase dues. However, this amount has not been factored in the application filed for APR for FY16. As the cost of power purchase including interest is not a component of transmission charges, the Commission hereby decides not to consider this expenditure for the purpose of the annual review of performance for FY16. The balance amount of Rs.2.99 Crores relates to cost of decommissioning of assets, small and low value items written off, interest on delayed compensation, losses relating to fixed assets , miscellaneous losses and write offs.

The Commission therefore, decides to allow an amount of Rs.2.99 Crores towards other debits for FY16.

x) Return on Equity:

KPTCL in its application for APR of FY16, has claimed an amount of Rs.384.73 Crores towards return on equity for FY16 as follows:

TABLE – 4.23

Return on Equity - KPTCL's Submission

Amount in Rs. Crores

Calculation of RoE	FY16
Paid up share capital and share deposits	2075.32
Capital Reserves and Surplus	406.80
Total Equity	2482.12
RoE @ 15.50%	**384.73**

The Commission in its Tariff Order dated 6th May, 2013, had approved RoE of Rs.575.24 Crores, inclusive of MAT.

The Commission, in accordance with the MYT Regulations has considered the equity, based on the amount of paid up share capital, share deposits and accumulated balance of surplus in profit and loss account under 'Reserves and Surplus' of the audited accounts for FY16.

Further, as reported by the KPTCL, additional equity of Rs.87 Crores has been received from Government of Karnataka in three installments. Considering the actual date of receipt of this additional equity as per the amended Regulations dated 18th May, 2016, the allowable return on this additional equity has been computed as follows:

TABLE – 4.24

RoE on Additional Equity for FY16

Additional Equity received during FY16- GoK Order/Date	Amount in Rs. Crores	Received on	No. of Months equity is put to use	RoE allowed in Rs. Crores
EN 16 PSR 2015 dated 18.03.2016	22	26.03.2016	0	0.00
EN 16 PSR 2015 dated 24.02.2016	40	26.02.2016	1	0.52
EN 16 PSR 2015 dated 09.11.2015	25	17.11.2015	4	1.29
Return on Equity allowed on Additional Equity Infusion in FY16				**1.81**

Further, in compliance of the Orders of the Hon'ble ATE in Appeal No.46/2014, wherein it was directed to indicate the opening and closing balances of gross fixed assets along with break-up of equity and loan component in the Tariff Order henceforth, the details of GFA, debt and equity (net-worth) for FY16 is indicated as follows:

TABLE – 4.25
Status of Debt Equity Ratio for FY16

Amount in Rs. Crores

Particulars	GFA	Actual Debt	Actual Equity (Net-worth)	Normative Debt @ 70% of GFA	Normative Equity @ 30% of GFA	%age of actual debt on GFA	%age of actual equity on GFA
Closing Balance	14047.90	4825.52	2759.79	9833.53	4214.37	34.35%	19.65%

From the above table it is seen that the actual debt equity ratio is within the normative debt equity ratio of 70: 30 on the closing balances of GFA for FY16.

Based on the above, the Commission has considered to allow RoE at 15.5% of equity besides allowing the taxes separately as per actuals as reported in the audited accounts. Accordingly, the allowable RoE for FY16 is as follows:

TABLE – 4.26

Allowable RoE for FY16

Amount in Rs. Crores

Particulars	FY16
Paid Up Share Capital as on 01.04.2015	2075.32
Share Deposit	20.00
Reserves and Surplus	399.35
Total Equity	**2494.68**
Allowable RoE @ 15.50%	386.67
RoE on additional equity	1.81
Total RoE for FY16	**388.48**

Thus, the Commission approves an amount of Rs.388.48 Crores towards RoE for FY16.

xi) Provision for Taxation:

KPTCL in its Audited Accounts has indicated an amount of Rs.51.42 Crores towards Income Tax for FY16. Since the Commission has allowed RoE @ 15.5% without considering allowable MAT, **the Commission decides to allow the actual expenses towards payment of Income Tax of Rs.51.42 Crores for FY16.**

xii) Net Prior Period Charges:

KPTCL in its Audited Accounts has indicated an amount of Rs.90.93 Crores as net prior period charges and Rs. 61.47 Crores as net prior period credits for FY16. This amount pertains to net of prior period income consisting of excess provision for depreciation and other income in prior periods and expenses pertaining to under provision of depreciation, employee cost and other administrative expenses.

Thus, the Commission decides to allow an amount of Rs.29.46 Crores as net prior period credits for FY16.

xiii) Exceptional items:

KPTCL in its Audited Accounts has indicated an amount of Rs.527.79 Crores being the KPTCL portion of arrears of contribution to P&G Trust not released by the Government of Karnataka. The same amount has been claimed in the APR for FY16. Also an amount of Rs.4.96 Crores has been claimed as exceptional items of expenditure as per the audited accounts for FY16.

The Commission in its preliminary observations had asked the KPTCL to furnish reasons /justifications for inclusion of this amount in the audited accounts for FY16 and claiming the same as an item of expenditure in APR of FY16 to be recovered from the consumers as part of the transmission charges during FY18 in contravention of the Commission's decision in Tariff Order 2016.

In its replies to the Commission's preliminary observations, KPTCL has stated that it has included an amount of Rs. 527.79 Crores towards KPTCL portion of arrears of contribution to P&G Trust not released by the Government of Karnataka, in accordance to the directions issued by the Energy Department, GoK vide Letter No. EN 26 PSR 2016/P3 dated 16.09.2016.

The Commission in its Order dated 30th March, 2016 has already dealt with this issue and has observed that:

a) *As per Rule 4(13) of the Karnataka Electricity Reforms (Transfer of Undertakings of KPTCL and its Personnel to Electricity Distribution and Retail Supply Companies) Rules, 2002, notified by the Government on 31.05.2002, the State Government is liable for funding the pension and gratuity liability of existing pensioners as on the effective date of Second Transfer Scheme.*

b) *The Government, as per its order dated 19.12.2002, has adopted "pay as you go" approach to meet the pension and gratuity requirements of existing pensioners on the effective date of second transfer Scheme. With this arrangement, the GoK is liable to meet the pension and gratuity requirement of existing pensioners*

In view of the above as per the provisions of the prevailing Rules and Government Orders issued thereon, the Commission had earlier decided that this liability cannot be passed on to the consumers, through tariff.

Despite this Order of the Commission, KPTCL has gone ahead to factor in this amount its books of accounts for FY16, besides claiming this amount in the APR for FY16, whereas, this liability should have been borne by the Government of Karnataka.

The Commission hereby reiterates its earlier decision that, as per Rule 4(13) of the Karnataka Electricity Reforms (Transfer of Undertakings of KPTCL and its Personnel to Electricity Distribution and Retail Supply Companies) Rules, 2002, notified by the Government on 31.05.2002 and the Government Order No. DE 15 PSR 2002 Dated 19.12.2002, the amount in question is liable to be borne by the Government of Karnataka only.

In view of the above, the Commission is unable to allow an amount of Rs.527.79 Crores being the GoK liability towards arrears of contribution to P&G Trust in the APR for FY16. The Commission hereby directs KPTCL to claim this amount from the Government besides withdrawing the debit of Rs.532.75 Crores in its accounts.

The amount of Rs. 4.96 Crores pertains to the expenditure incurred on account of sundry debtors written off as per the audited accounts of KPTCL for FY16. The Commission is decides to allow the same in the APR for FY16.

xiv) Other Expenses Capitalized:

KPTCL in its audited accounts has factored an amount of Rs.44.74 Crores towards capitalization of employee cost, A&G and R&M expenses as detailed below:

TABLE – 4.27

Other Expenses Capitalized as per Audited Accounts of KPTCL

Amount in Rs. Crores

Particulars	FY16
Repairs and Maintenance	0.05
Administration and General Expenses	6.48
Employee Cost	38.21
Total expenses capitalized	**44.74**

As per audited accounts of KPTCL, an amount of Rs.1.01 Crores is accounted towards capitalization of depreciation on assets. **Considering this amount, the**

Commission allows Rs.45.75 Crores towards capitalization of other expenses for FY16.

xv) Other Income:

KPTCL in its audited accounts has indicated an amount of Rs.116.50 Crores as other income for FY16. This amount also includes the withdrawal of depreciation of Rs.37.58 Crores on assets created out of consumer contribution / grants. This amount has already been factored while computing the allowable depreciation for FY16. The balance amount of Rs.78.92 Crores which mainly pertaining to rent from staff quarters, rent from ESCOMs, interest on investments / bank deposits and profit on sale of stores/released assets etc., is treated as other income.

Thus, the Commission decides to consider an amount of Rs.78.92 Crores as non-tariff income for the purpose of APR for FY16.

xvi) SLDC Charges:

KPTCL in its filing has indicated the SLDC charges separately for FY16 as detailed below:

TABLE – 4.28

SLDC Charges for FY16-KPTCL's Submission

Amount in Rs. Crores

Sl.No.	Particulars	FY 16
1	Employee cost	11.19
2	A & G Expenses	7.92
3	R & M Expenses	0.61
4	Depreciation	0.22
	Total	**19.94**

The Commission in its order dated 6th May, 2013 had approved SLDC Charges of Rs.20.97 Crores for FY16. However, considering the actual SLDC charges of Rs.19.94 Crores incurred during FY16 as per KPTCL's filing, the Commission decides to allow adjustment of the reduction in SLDC charges of Rs.1.03 Crores to be shared by ESCOMs as detailed below:

TABLE – 4.29

Allowable SLDC Charges for FY16

Amount in Rs. Crores

Particulars	Capacity Allocation in MW	SLDC Charges for FY16 as per APR	SLDC Charges for FY16 as approved in Order dated 2nd March,2015	Difference to be adjusted in FY18
BESCOM	8623	9.24	10.53	-1.29
MESCOM	1615	1.73	1.82	-0.09
CESC	2252	2.41	2.10	0.31
HESCOM	4000	4.28	3.91	0.37
GESCOM	2125	2.28	2.61	-0.33
TOTAL	**18615**	**19.94**	**20.97**	**-1.03**

The above said excess amount of SLDC charges shall be adjusted in the SLDC charges payable by ESCOMs to KPTCL in FY18 as discussed in the subsequent chapter of this Order.

xvii) Abstract of Approved ARR for FY16 as per APR:

Based on the decisions discussed above, the consolidated Statement of approved ARR as per APR for FY16 is as follows:

TABLE – 4.30

Abstract of approved ARR for FY16 as per APR

Amount in Rs. Crores

Sl. No	Particulars	FY16 (Revised 02.03.2015)	As filed (30.11.2016)	As per APR
1	**Revenue from Transmission of power**	**2606.52**	**2758.93**	**2758.93**
2	**Expenditure**			
	Employee Cost		676.62	
	Repairs & Maintenance		153.21	
	Admin & General Expenses		70.39	
i	**Total O&M Expenses**	**847.54**	**900.22**	**910.82**
ii	Depreciation	652.95	635.17	598.39
iii	Interest & Finance Charges	709.18	441.93	483.64
iv	Interest on working capital	74.07	0.00	40.79

v	Return on Equity	575.24	384.73	388.48
vi	Provision for taxation	0.00	51.42	51.42
vii	Other Debits	0.00	2.99	2.99
viii	Extraordinary items	0.00	532.75	4.96
	Less			
ix	Interest & Finance Charges capitalised	103.63	0.00	44.93
x	Other Expenses capitalised	38.55	0.00	45.75
xi	Other Income	117.00	116.50	78.92
xii	Net Prior Period Charges	0.00	29.45	29.46
xiii	Carry forward of deficit as per APR of FY14	7.49		0.00
xiv	SLDC Charges	0.77	0.00	0.00
3	**Net ARR**	**2591.54**	**2862.16**	**2341.35**

4.4 Treatment of Gap in Revenue for FY16:

As against an approved ARR of Rs.2591.54 Crores and KPTCL's proposed ARR of Rs.2862.16 Crores, the Commission after the annual review of performance, decides to allow an ARR of Rs.2341.35 Crores for FY16. **Considering the actual revenue of Rs.2758.93 Crores, there is a surplus in Revenue of Rs.417.58 Crores for FY16.**

The Commission decides to carry forward an amount of Rs.417.58 Crores being the surplus for FY16, to the approved ARR for FY18 as discussed in the subsequent chapter of this Order.