CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY17

4.0 KPTCL's application for APR for FY17:

The KPTCL, in its application dated 30th November, 2017 has prayed the Commission to take up the Annual Performance Review (APR) for the FY17, and approve the revised ARR, based on its Audited Accounts.

The Commission, in its Tariff Order dated 30th March, 2016 (MYT Order) had approved an Annual Revenue Requirement (ARR) of Rs.3092.77 Crores for FY17.

In this Chapter, the Commission has reviewed the Annual Performance for FY17 based on the application filed by the KPTCL, the Audited Accounts for FY17 and KPTCL's 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 the details of revenue earned and item-wise expenditure incurred for consideration during APR for FY17 as follows:

TABLE –4.1

KPTCL's filing – APR FY17

Rs. Crores

Sl. No	Particulars	As Approved in T.O. dated 30.03.2016	As per Filing for APR for FY17
	Revenue from Transmission Charges	**3092.77**	**3086.33**
	Expenditure		
1	O&M Expenses	1117.21	1003.28
2	Depreciation	683.69	663.77
3	Interest & Finance Charges	574.30	450.87
4	Interest on working capital	83.23	0.00
5	Return on Equity	572.71	428.92
6	Provision for Taxation	0.00	618.44
7	Other Debits	0.00	15.62
8	Extraordinary items	0.00	0.00
	Less		

9	Interest & Finance Charges capitalized	45.36	68.61
10	Other Expenses capitalized	47.09	33.63
11	Other Income	48.44	231.55
12	Net Prior Period Charges	0.00	-98.57
13	SLDC charges	0.00	0.00
14	Carry forward deficit as per APR of FY15	202.52	0.00
	NET ARR	**3092.77**	**2748.54**
	Surplus in Revenue for FY17	**-**	**337.79**

The KPTCL has reported a surplus Revenue of Rs.337.79 Crores for the FY17 and has proposed to carry forward the surplus to the ARR for FY19.

4.2 Financial Performance of KPTCL as per Audited Accounts for FY17:

The overview of the financial performance of KPTCL for the FY17, as per its Audited Accounts, is as follows:

TABLE –4.2

Financial Performance of the KPTCL – FY17

Rs. Crores

Sl. No	Particulars	FY17
	Revenue	**3204.97**
	Expenditure	
1	O&M Expenses	1003.28
2	Depreciation	664.34
3	Interest & Finance Charges	450.87
4	Income Tax	618.44
5	Other Debits	15.61
6	Extraordinary items	-467.52
7	Net Prior Period Charges	-98.57
	Less	
8	Interest and Finance charges capitalized	68.61
9	Other expenses capitalized	34.21
10	Other income	175.31
	Total Expenditure	**1908.32**
	Profit for the Year	**1296.64**

As per the Audited Accounts, the KPTCL has earned a profit of Rs.1296.64 Crores for the FY17. Considering the surplus earned by the Company in the previous years, the cumulative surplus as at the end of FY17 is Rs.1874.10 Crores (inclusive of profit in the FY17).

4.3 Annual Performance Review for FY17:

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 30th March, 2016, has been considered for the Annual Performance Review for the FY17

The Commission has taken up the Annual Performance Review of the KPTCL for the FY17 in accordance with the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006, as amended. The analysis of item-wise expenditure and the decisions of the Commission thereon, are discussed in the following paragraphs:

i) Transmission Losses for FY17:

The KPTCL, in its filings, has reported transmission loss of 3.283%, as against the Commission approved annual average transmission loss of 3.47% for the FY17.

The Commission in its Tariff Order dated 30th March, 2016, had fixed the target of transmission loss at 3.47% for the FY17 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 to the KPTCL grid, to arrive at the transmission loss in KPTCL system.

The actual transmission loss of 3.283% reported by the KPTCL is based on the input energy and energy supplied exclusively at interface points of the KPTCL transmission system. The actual transmission loss of KPTCL is within the approved lower and upper limits of transmission loss (3.27% to 3.67%) for the FY17 and do not attract any incentive for loss reduction within the set range.

Thus, the Commission decides not to allow any incentive or levy penalty for the actual transmission loss.

ii) Transmission System Availability (TSA):

KPTCL's Submission:

The Transmission System Availability (TSA) of the transmission lines, transformers and the reactors in the KPTCL system, as submitted for the FY17, are as follows:

TABLE –4.3

Transmission System Availability – FY17

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	% System Availab-ility for the system
Bagalkote Zone	389	98.80%	539	99.63%	0	0.00%	99.28%
Bengaluru Zone	372	99.85%	585	99.63%	4	100.00%	99.71%
Kalaburagi Zone	225	99.71%	349	99.95%	0	0.00%	99.85%
Hassan Zone	207	99.51%	302	99.97%	3	100.00%	99.78%
Mysuru Zone	162	99.93%	259	99.95%	0	0.00%	99.94%
Tumakuru Zone	110	98.85%	376	99.74%	4	97.20%	99.52%
TOTAL	**1465**	**99.35%**	**2410**	**99.75%**	**11**	**98.96%**	**99.60%**

Commission's Analysis:

The transmission zone-wise TSA data submitted by KPTCL was forwarded to all ESCOMs for eliciting their views/comments/ suggestions before finalizing the TSA for tariff computations. While, the BESCOM and the GESCOM have not furnished any comments on the TSA, the MESCOM, the CESC and the HESCOM have concurred with the TSA as submitted by the KPTCL.

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 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 TSA, after complying with the observations.

The KPTCL has submitted its explanations and stated that, necessary remedial action has been initiated to improve availability of the system, and confirmed that, the transmission availability is not altered and remains at **99.60%** only.

The Commission, based on the statement of the KPTCL, has considered the TSA at 99.60%. The Commission directs KPTCL to consistently improve and maintain its TSA, by monitoring and taking remedial measures for the transmission elements which are prone to show 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 99.60% for FY17 and the net ARR, as indicated later in this order, the allowable incentive for the FY17 is as calculated:

TABLE – 4.4

Incentive for better Transmission System Availability

Sl. No.	Particulars	FY17
1	System Target Availability	98%
2	Actual System Availability for the FY17	99.60%
3	No incentive allowed beyond 99.75% as per MYT Regulations	99.75%
4	Availability beyond target levels	1.60 percentage points
5	Approved ARR under APR of FY17 in Rs. Crores	2708.28
6	Incentives for Availability beyond target Availability (Sl.No.4*5/1) Rs. Crores.	44.22
7	50% to be shared with the ESCOMs and balance to be retained by KPTCL-Rs. Crores	22.11

The total incentive earned by the KPTCL on account of system availability for the FY17 is Rs.44.22 Crores. The Commission hereby approves sharing of the gains with ESCOMs in the ratio of 50:50. Thus, the incentive on account of system availability achieved by KPTCL beyond the target set by the Commission for FY17, is Rs.22.11 Crores.

The Commission, therefore, directs the KPTCL to recover Rs.22.11 Crores from the ESCOMs in proportion to their actual transmission capacity for the FY17.

The Commission also, directs KPTCL to utilize this amount of Rs.22.11 Crores so collected from ESCOMs to adopt technological advancements in tools & machinery and to initiate advanced training to its officers and employees to improve its efficiency of performance and report compliance to the Commission.

iv) Operation and Maintenance Expenses:

KPTCL's Submission:

KPTCL in its application has reported that the net actual O&M Expenses incurred for FY17 is Rs.1003.28 Crores (excluding SLDC Charges & Other expenses shared by the ESCOMs). This includes Employee costs of Rs.720.19 Crores, Administrative & General Expenses of Rs.91.19 Crores and Repairs & Maintenance expenses of Rs.191.90 Crores.

The Commission, in its Tariff Order dated 30th March, 2016, had approved O&M Expenses of Rs.1117.21 Crores, inclusive of additional O & M expenses of Rs.251.20 Crores on account of P&G contribution for FY17. Thus the actual O&M Expenses reported by KPTCL are less than the approved expenses by Rs.113.93 Crores.

The KPTCL in its application has requested the Commission to approve O & M expenses as per actuals. Further, the KPTCL has indicated O&M expenses of Rs.1003.28 Crores for FY17. The KPTCL has also submitted the breakup of O&M expenses for the transmission lines and the bays wherein it is found that, major portion of the 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.173.40 Crores** towards contribution to Pension and Gratuity Trust including contribution on employees covered under the Newly Defined Contributory Pension Scheme (NDCPS) and Earned Leave encashment.

Commission's Analysis and decisions:

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

As per the MYT Regulations, the O&M expenses of the transmission licensee are treated as controllable expenses. The major components of the O & M expenses are: Employees Cost, Administrative and General Expenses and Repairs and Maintenance expenses. The audited accounts for FY17 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 and the provision for Earned Leave encashment. The Commission considers the contribution made to P&G Trust and the Earned Leave encashment as uncontrollable expenses.

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 during the base year i.e., 2016, the actual number of terminal Bays and the length in 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 Terminal Bays and the length in Circuit Kilometers of transmission lines during the base year FY16 and applying the inflation factor for the relevant year. 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 30th March, 2016, while approving the O&M expenses for FY17 had considered 21770 No. of Bays and 35424 Ckt., Kms of transmission Lines as projected by the KPTCL. The actual number of Terminal Bays and the length of Ckt. Kms, of transmission lines in erected by the KPTCL are shown below:

TABLE-4.5

Length of Transmission Lines and No. Bays

Transmission Lines-Voltage class:	*Transmission lines (in Circuit kms, as on 31.03.2017)*
400 KV	3,134
220 KV	11,078
110 KV	10,342
66 KV	10,563
TOTAL	**35,117**
Type of Bay	**Nos. as on 31.03.2017**
Line Bay	5,318
Transformer bay	2,462
PT Bay	1,544
Capacitor Bank Bay	914
11 KV Bay	11,497
Total	**21,735**

From the above table, the Commission notes that, the actual achievement by KPTCL has fallen short of the proposed number of terminal bays and length of Ckt. Kms, of transmission lines for FY17.

As in the earlier Tariff Orders, the Commission decides 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- 4.6

Computation of Inflation Rate

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2005	103.37	115.8	113.314				
2006	109.59	122.9	120.238	1.06	0.06	1	0.06
2007	114.94	130.8	127.628	1.13	0.12	2	0.24

2008	124.92	141.7	138.344	1.22	0.20	3	0.60
2009	127.86	157.1	151.252	1.33	0.29	4	1.16
2010	140.08	175.9	168.736	1.49	0.40	5	1.99
2011	153.35	191.5	183.87	1.62	0.48	6	2.90
2012	164.93	209.3	200.426	1.77	0.57	7	3.99
2013	175.35	232.2	220.83	1.95	0.67	8	5.34
2014	182.00	246.90	233.92	2.06	0.72	9	6.52
2015	177.03	261.42	244.542	2.16	0.77	10	7.69
2016	180.6	274.3	255.56	2.26	0.81	11	8.95
A= Sum of the product column							39.44
B= 6 Times of A							236.63
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0811
e=Annual Escalation Rate (%)=g*100							**8.10586**

Considering the inflation rate of 8.11%, the normative O & M expenses for the FY17 will be as follows:

TABLE –4.7

Approved Normative O & M Expenses – FY17

Rs. Crores

Particulars	FY17
O&M cost in terms Rs. thousands/Bay	286.03
O&M cost in terms Rs. thousands/ckt. Km of Line	74.74
Inflation rate in %	8.11
No. of Bays	21735
Length of Line in Ckt. Kms.	35117
O&M Expenses for Bays (Rs. Crs.)	621.70
O&M Expenses for Lines (Rs. Crs.)	262.47
TOTAL O&M Expenses as per norms (Rs. Crs.)	**884.17**

The Commission in its tariff order dated 30th March, 2016, while approving the O & M expenses for the FY17, had considered an amount of Rs.128.19 Crores towards contribution to Pension and Gratuity Trust and Rs.123.01 Crores towards provision for Earned Leave encashment. 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 FY17, the KPTCL has incurred Rs.113.61 Crores towards P&G contribution and Rs.59.79 Crores towards provision for Earned Leave encashment. The Commission decides to allow the actual contribution to P&G Trust and the provision for Earned Leave encashment incurred/made 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 FY17 are as follows:

TABLE – 4.8

Approved Allowable O & M expenses for FY17

Rs. Crores

Particulars	FY17
Total normative O&M Expenses	884.17
Additional employee cost	173.41
Total O&M Expenses allowable in Rs. Crores	**1057.57**

Thus, the Commission hereby approves total O & M expenses of Rs.1057.57 Crores for the FY17.

v) Depreciation:

KPTCL, in its application has claimed an amount of Rs.663.77 Crores towards depreciation as against an amount of Rs.683.69 Crores approved in the Tariff Order dated 30th March, 2016. As per the audited accounts, KPTCL has booked an amount of Rs.664.34 Crores towards depreciation before capitalization of Rs.0.57 Crores. The KPTCL in its audited accounts, under other income head of accounts, has booked an amount of Rs.33.33 Crores as depreciation withdrawn on the assets created out of consumer contribution and grant for FY17. Thus, the actual depreciation is Rs.631.01 Crores which is less by Rs.52.68 Crores when 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 FY17.

As per the audited accounts for FY17, the depreciation before capitalization is Rs.664.34 Crores. The capitalized amount of depreciation of Rs.0.57 Crores is considered under 'other expenses capitalized' as discussed in subsequent paragraphs of this Chapter. After excluding the withdrawal of depreciation of

Rs.33.33 Crores, towards assets created out of consumer contribution and grants, the net depreciation for FY17 works out to Rs.631.01 Crores.

Thus, the Commission decides to consider depreciation of Rs.631.01 Crores for the FY17.

vi) Capital Expenditure for FY17:

A. KPTCL's Submission:

As per the application for APR for FY17, the KPTCL has incurred a capital expenditure of Rs.1701.96 Crores, as against the Commission approved capex of Rs.2000 Crores for FY17. KPTCL has furnished the progress of construction of substations, transmission lines and augmentation of substation/lines during FY17 as follows:

Table-4.9

Progress of works relating to Substations, Lines and Augmentation for FY17

Particulars	Target	Achievement***	
Substations (No.s)	30	220kV	02
		110kV	13
		66kV	13
		Total	28
Lines (Ckms,)	807.58	400kV	451.40
		220kV	129.50
		110kV	148.80
		66kV	152.31
		Total	882.01
Augmentation (Nos,)	65	220kV	04
		110kV	17
		66kV	46
		Total	67

*** includes spill over works of the previous years

Commission's analysis:

The Commission has observed that, the capital expenditure incurred in respect 11 out of 30 substations works are not categorized, 17 out of 51 transmission lines are not categorized and 40 out of 65 augmentation works though completed and commissioned are not categorized, during FY17.

The KPTCL, in its replies to the preliminary observations, has stated that, the total length of the transmission lines constructed is 882.01 Ckt. Kms, in which 21.52 ckt. kms is through deposit contribution works and hence, the net length of lines constructed by KPTCL is 860.49 ckt. kms.

It is stated that the KPTCL has carried out perspective plan for meeting the unrestricted demand of 17728 MW during 2021-22 to meet the 24X7 power supply requirement in the State. The KPTCL has further stated that, wherever, the NJY feeders, completed in majority of the substations of urban and rural areas, are capable of supplying 24X7 Hrs of power.

The KPTCL has submitted that, a number of ongoing/proposed transmission line works are having RoW constraints. The details of such works furnished by KPTCL are as under:

Sl No	Voltage class of Transmission line	No. of Lines having RoW issues
1	400 kV	01
2	220kV	04
3	110kV	05
4	66kV	10

Further, the KPTCL has submitted that, some of the substation works could not be commissioned due to pending issues for line work as follows:

Sl No	Voltage class of substation	No. of substations which could not be commissioned
1	400 kV	-
2	220kV	01
3	110kV	02
4	66kV	04

While furnishing replies to the preliminary observations on some of the issues of transmission reliability in substations and availability of alternate sources of incoming lines to the substations, the KPTCL has furnished its explanations as follows:

Observations made by the Commission	Replies furnished by KPTCL
Number of substations having 2nd or 3rd source of power input	KPTCL has stated that, 686 out of 1116 substations are having 2nd and 3rd sources of power input
Number of substations having only one source of power input	KPTCL has stated that, 430 out of 1116 substations are having single source of power input
Number of substations which are loaded above 70% of installed capacity:	648 out of 1116 substations are loaded above 70% of installed capacity
Number of substations fed from one source line due to which simultaneous peak load cannot be met;	Three substations are stated to be unable to cater the simultaneous peak load
Number of substations having only one power transformer;	176 out of 1116 substations are having only one power transformer
Number of substations having under voltage problem and remedies considered.	Five substations of 220kV, 90 substations of 110kV and 134 substations of 66kV Voltage class are stated to be provided with the reactive power compensation of 93.8 MVAr, 435 MVAr and 936.9 MVAr respectively totaling to 1465.7MVAr.

In respect of substations having only one source, loaded to 70% and above, KPTCL should make all efforts to see that, all substations are provided with alternative sources to improve reliability of power supply and to cater 24X7Hrs power supply to all consumers (except IP sets which are provided restricted hours of power supply).

Further, the Commission notes the details of the ongoing works furnished in replies to the preliminary observations, in which a number of substations and transmission lines are found to be still in ongoing stage since 2007, 2009 and 2012. Though, the KPTCL has giving the reasons as being RoW issues for many of the works, there needs to be a continuous effort by KPTCL to solve such issues and make use of stranded assets at the earliest, as a huge sum of money would have been invested on such projects without reaping any benefit.

The Commission also notes the replies furnished in respect of augmentation works and pre-commissioning analysis and directs KPTCL to take necessary action to monitor and complete the work within the time frame for the benefit of end users and categorise the works to bring them into the books of account.

Based on the above discussions, the Commission decides to consider the capital expenditure of KPTCL of Rs.1701.96 Crores, subject to disallowance, if any, as per the results of the prudence check of capital expenditure for FY17 to be taken up during the APR of FY18.

B. Post-Commissioning analysis of the categorized capital works of the FY17:

The Commission has directed the KPTCL & ESCOMs to conduct the Post Commissioning analysis of the works which have been completed and categorized during FY17 and submit report. The Commission also, has specified the methodology and formats for conducting the post commissioning analysis of the works.

The KPTCL has submitted that, as per the directions of the Commission, the post-commissioning analysis of categorized 39 works costing more than Rs.3.0 Crores, carried out by the Transmission zones has been verified by the Chief Engineer Electy., (TA&QC). The Commission decides to conduct the prudence check of randomly selected sample works pertaining to FY17 and FY18 during the APR of FY18.

vii) Interest and Finance Charges:

The KPTCL has claimed an amount of Rs.450.87 Crores towards Interest and Finance charges on capital loans against the Commission approved amount of Rs.574.30 Crores in the Tariff Order dated 30th March, 2016 for FY17. Thus, the actual Interest and Finance charges incurred by KPTCL is less than the approved amount by Rs.123.43 Crores.

The Commission has considered the opening balance of long term loans, new loans availed and repayment of loans made during FY17 as per the Audited Accounts. Based on the opening and closing balances of long term loans, the average loan for the year FY17 works out to Rs.4896.86 Crores. The actual amount of interest on capital loans incurred is Rs.450.87 Crores for FY17. The weighted average rate of interest works out to 9.21%. The details of the allowable interest on capital loans are as follows:

TABLE – 4.10

Allowable Interest and Finance Charges

Rs. Crores

Particulars	FY17
Secured Loans	4821.95
Unsecured Loans	3.56
Total	**4825.52**
Add; new Loans	919.16
Less; Repayments	776.48
Total loan at the end of the year	4968.20
Average Loan	4896.86
Interest on long term loans (as filed)	450.87
Weighted average rate of interest based on the actual interest incurred on long term loans in FY17 as per audited accts, in %	9.21%
Allowable Interest on long term loans	**450.87**

Since the weighted average rate of interest is comparable with the prevailing interest rates for long term loans, the Commission decides to allow the actual interest on long term loans and finance charges of Rs.450.87 Crores for FY17. Further, considering the actual capitalization of interest of Rs.68.61 Crores as per the annual accounts, the net interest on long term loans allowable in the ARR, works out to Rs.382.26 Crores for FY17.

Thus the Commission decides to allow net interest and finance charges of Rs.382.26 Crores on capital loans for FY17.

viii) Interest on Working Capital:

The Commission, in its Tariff Order dated 30th March, 2017, had approved an amount of Rs.83.23 Crores towards interest on working capital as per the provisions of MYT Regulations. The Commission notes that, the KPTCL in its filing has not claimed the amount of interest on working capital for FY17. As per the norms under MYT Regulations, as amended, the KPTCL is entitled to interest on working capital for FY17 as follows:

TABLE – 4.11

Allowable Interest on Working Capital

Rs. Crores

Particulars	FY17
One-twelfth of the amount of O&M Expenses.	88.13
Opening GFA as per Audited Accounts	14047.9
1% of Opening balance of Gross Fixed Assets (GFA)	140.48
One-sixth of the revenue from Transmission user at the prevailing tariffs	534.16
Total Working Capital	**762.77**
Rate of Interest (% p.a.)	11.75%
Interest on Working Capital	89.63
Actual interest on working capital as per audited accounts	0.00
Allowable normative interest on working capital as per Regulations	**44.81**

Thus, the Commission decides to allow the interest on working capital of Rs.44.81 Crores for FY17.

ix) Other Debits:

As per the Audited Accounts for FY17, the KPTCL has claimed an amount of Rs.15.62 Crores towards other debits. This includes Rs.0.1566 Crore towards interest on belated payment of transmission charges and Rs.1.1056 Crores towards the bad and doubtful debt provision.

The Commission, as per the provisions of MYT Regulations, decides to allow an amount of Rs.14.35 Crores towards other debits for FY17.

x) Return on Equity:

KPTCL in its application for APR of FY17, has claimed an amount of Rs.428.92 Crores towards Return on Equity for FY17, as against the RoE grossed up with MAT approved at Rs.572.71 Crores by the Commission in its Tariff Order dated 30th March, 2016. The details of the KPTCL's submission on RoE areas follows:

TABLE – 4.12

Return on Equity - KPTCL's Submission

Rs. Crores

Calculation of RoE	FY17
Paid up share capital and share deposits	2075.32
Share Deposit	107.00
Reserves and Surplus	584.91
Total Equity	2767.23
RoE @ 15.50%	**429.92**

In accordance with the MYT Regulations, the Commission, has considered the opening balance of 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 FY17.

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 FY17are indicated as follows:

TABLE – 4.13

Status of Debt Equity Ratio for FY17

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
Opening Balance	14047.90	4825.52	2759.79	9833.53	4214.37	34.35%	19.65%
Closing Balance	15004.27	4968.20	4056.42	10502.99	4501.28	33.11%	27.04%

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 FY17.

Based on the above, the Commission decides to allow RoE at 15.5% of equity besides allowing the taxes separately. Accordingly, the allowable RoE for FY16 is as follows:

TABLE – 4.14

Allowable RoE for FY17

Rs. Crores

Particulars	FY17
Paid Up Share Capital as on 01.04.2015	2075.32
Share Deposit	107.00
Reserves and Surplus	577.47
Total Equity	**2759.79**
Allowable RoE @ 15.50%	427.77

Thus, the Commission approves an amount of Rs.427.77 Crores towards RoE for FY17.

xi) Provision for Taxation:

KPTCL Submission:

The KPTCL in its application for approval of revised ARR for FY17 under the APR, has claimed an amount of Rs.618.44 Crores towards the Income Tax for FY 17 and requested the Commission to allow the same.

Commission views and decision:

The Commission notes that as per the audited accounts for FY17, KPTCL has accounted an amount of Rs.618.44 Crores as Income Tax for FY17 on Rs.1915.08 Crores being the profit before tax.

As per the audited accounts and the details furnished by the KPTCL, an amount of Rs.409.00 Crores has been accounted as income tax for the current year i.e., FY17, by considering the net short/ excess provision of Income Tax for the previous years. An amount of Rs. 209.44 Crores has been paid as deferred tax for FY17 as required under the provisions of Income Tax Act and Indian Accounting Standards (Ind. AS12).

The tax paid for FY17 includes an amount of Rs. 99.78 Crores as Income Tax on the amount of the credits (Rs.467.52 Crores) booked in the accounts of KPTCL due to writing off of the interest on belated power purchase payments by the KPCL relating to the previous years, as per GoK Order No. EN 67 PSR 2017 dated 31.03.2017. The KPCL has written off the interest levied on the outstanding balance of power purchase amount to the extent of Rs. 364.14 and decided to not to levy interest on the Power Purchase dues from 2015-16 onwards. Further an amount of Rs.103.38 Crores towards interest on power purchase amount accounted in the books of KPTCL for FY16, has been withdrawn by making necessary entry in the book of accounts for FY17.

Further, as per the provisions of clause 3.12.6 of the KERC (Terms & Conditions for the Determination of Transmission Tariff) Regulations, 2006 and amendments thereon, the Commission allows the Income Tax of Rs.116.06 Crores on the RoE of Rs.427.77 Crores allowed by the Commission as indicated in the previous para of this Chapter, at the applicable rate of Income Tax for FY17.

Considering the above facts, the Commission decides to allow the following amounts against the Income Tax for FY17:

a. Allowable Income Tax on RoE for FY17	Rs.116.06 crores
b. Tax on credits towards withdrawal of previous Year's interest on belated PP payments	Rs.99.78 crores
c. Deferred Tax as per AS 12	Rs.209.44 crores
Total Tax allowed	**Rs.425.27** crores

Thus, the Commission decides to allow Rs.425.27 Crores towards Income Tax for FY17.

xii) Net Prior Period Income and Expenses /Losses:

KPTCL in its Audited Accounts has indicated a net amount of Rs.98.57 Crores as net prior period income and expenses/losses for FY17. This amount includes prior period income towards interest income for prior period, prior period depreciation excess provision and other income relating to prior period for Rs.112.62 Crores.

The net prior period expenses/losses include the under-provision of depreciation, employee cost, administrative and general expenses and other expenses relating to previous year, of Rs.14.045 Crores.

Thus, the Commission decides to allow an amount of Rs.98.57 Crores as the net prior period income (credits) for FY17.

xiii) Other Expenses Capitalized:

KPTCL in its application as per the audited accounts has factored capitalization of Rs.33.63 Crores towards employee cost and Rs.0.57 Crores towards depreciation on assets for FY17.

Considering this amount, the Commission allows Rs.34.21 Crores towards capitalization of other expenses for FY17.

xiv) Other Income:

KPTCL in its application has claimed an amount of Rs.231.55 Crores towards Other Income for FY17. The Commission notes that, as per the audited accounts, the Other Income amount is indicated as Rs.175.31Crores for FY17. This amount also includes the withdrawal of depreciation of Rs.33.33 Crores on assets created out of consumer contribution / grants. This amount has already been factored while computing the allowable depreciation for FY17. The balance amount of Rs.141.98 Crores which mainly pertains to rent from staff quarters, rent from ESCOMs, interest on investments / bank deposits and profit on sale of stores/released assets, miscellaneous recoveries, lease rents etc., is treated as other income.

Thus, the Commission decides to consider an amount of Rs.141.98 Crores as non-tariff income for the purpose of APR for FY17.

xv) SLDC Charges:

KPTCL in its filing has indicated the SLDC charges separately for FY17 as detailed below:

TABLE – 4.15

SLDC Charges for FY17-KPTCL's Submission

Rs. Crores

Sl. No.	Particulars	FY 17
1	Employee cost	10.89
2	A & G Expenses	9.47
3	Repairs & Maintenance Expenses	0.10
	Total	**20.46**

The Commission in its order dated 30th March, 2016 had approved SLDC Charges of Rs.19.99 Crores for FY17. However, considering the actual SLDC charges of Rs.20.46 Crores incurred during FY17 as per KPTCL's filing, the Commission decides to allow adjustment of the increased SLDC charges of Rs.0.47 Crores to be shared by ESCOMs as detailed below:

TABLE – 4.16

Allowable SLDC Charges for FY17

Rs. Crores

Particulars	Capacity Allocation in MW (Actual)	SLDC Charges for FY17 as per APR	SLDC Charges for FY17 as approved in Order dated 30th March,2016	Difference to be adjusted in FY19
BESCOM	9388	9.91	9.17	0.74
MESCOM	1615	1.71	1.64	0.07
CESC	2252	2.38	2.40	-0.02
HESCOM	4000	4.22	4.13	0.09
GESCOM	2125	2.24	2.65	(-)0.41
TOTAL	**19380**	**20.46**	**19.99**	**0.47**

Thus the Commission decides that, the difference in the amount of Rs.0.47 Crores of SLDC charges shall be adjusted in the SLDC charges payable by ESCOMs to KPTCL in FY19 as discussed in the subsequent chapter of this Order.

xvi) Abstract of Approved ARR for FY17 as per APR:

Based on the above decisions the consolidated Statement of approved ARR as per APR for FY17 is as follows:

TABLE – 4.17

Abstract of approved ARR for FY17 as per APR

Rs. Crores

Sl. No	Particulars	As approved for FY17	As filed (30.11.2017)	As per APR
1	Revenue from Transmission of power	3092.77	3086.33	3204.97
2	Expenditure			
	Employee Cost		720.19	
	Repairs & Maintenance		191.90	
	Admin. & General Expenses		91.19	
i	Total O&M Expenses	1117.21	1003.28	1057.57
ii	Depreciation	683.69	663.77	631.01
iii	Interest & Finance Charges	574.30	450.87	450.87
iv	Interest on working capital	83.23	0.00	44.81
v	Return on Equity	572.71	428.92	427.77
vi	Income Tax	0.00	618.44	425.27
vii	Other Debits	0.00	15.62	14.35
viii	Extraordinary items	0.00	0.00	0.00
	Less:			
ix	Interest & Finance Charges capitalised	45.36	68.61	68.61
x	Other Expenses capitalised	47.09	33.63	34.21
xi	Other Income	48.44	231.55	141.98
xii	Net Prior Period Charges	0.00	-98.57	-98.57
xiii	Carry forward of deficit as per net APR	202.52	0.00	0.00
3	**Net ARR for FY17**	**3092.77**	**2748.54**	**2708.28**

4.4 Treatment of Gap in Revenue for FY17:

As against the approved ARR of Rs.3092.77 Crores and KPTCL's proposed ARR of Rs.2748.54 Crores, the Commission after the Annual Performance Review, decides to allow an ARR of Rs.2708.28 Crores for FY17. **Considering the actual revenue of Rs.3204.97 Crores, there is a surplus in Revenue of Rs.496.69 Crores for FY17.**

The Commission decides to carry forward an amount of Rs.496.69 Crores being the surplus for FY17, to the approved ARR for FY19 as discussed in the subsequent chapter of this Order.