

Before the
MAHARASHTRA ELECTRICITY REGULATORY COMMISSION
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CASE NO. 198 of 2017

In the matter of

**Petition of Vidarbha Industries Power Ltd. (Transmission Business) for Truing-up of
Aggregate Revenue Requirement (ARR) FY 2015-16 and FY 2016-17, Provisional
Truing-up of ARR FY 2017-18 and revised estimates of ARR for FY 2018-19 and FY
2019-20**

Coram

Shri Anand B. Kulkarni, Chairperson

Shri I. M. Bohari, Member

ORDER

Date: 12 September, 2018

Vidarbha Industries Power Ltd. (VIPL) (Transmission Business), H-Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai – 400710 has filed this Mid-Term Review Petition for Truing-up of Aggregate Revenue Requirement (ARR) for FY 2015-16 & FY 2016-17, Provisional Truing-up of ARR FY 2017-18 and revised estimates of ARR for FY 2018-19 and FY 2019-20. The original Petition was filed on 21 December, 2017 and the revised Petition was filed on 14 June, 2018.

The Petition has been filed in accordance with the MERC (Multi Year Tariff) Regulations 2011 (“MYT Regulations, 2011”), for Truing-up of ARR for FY 2015-16 and in accordance with MERC (Multi Year Tariff) Regulations, 2015 (“MYT Regulations, 2015”) for Truing-up of ARR for FY 2016-17, Provisional Truing-up of ARR for FY 2017-18, and revised ARR for FY 2018-19 and FY 2019-20.

The Commission, in exercise of the powers vested in it under Sections 61 and 62 of the Electricity Act (EA), 2003 and all other powers enabling it in this behalf, and after taking into consideration the submissions made by VIPL and in the public consultation process, and all other relevant material, has approved the Truing-up of ARR for FY 2015-16 & FY 2016-17, Provisional Truing-up of ARR for FY 2017-18 and revised estimates of ARR for FY 2018-19 and FY 2019-20 in this Order.

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LIST OF ABBREVIATIONS

A&G	Administrative and General
APR	Annual Performance Review
ARR	Aggregate Revenue Requirement
ATE	Appellate Tribunal of Electricity
CAPEX/Capex	Capital Expenditure
CERC	Central Electricity Regulatory Commission
COD	Date of Commercial Operation
Commission/MERC	Maharashtra Electricity Regulatory Commission
CBA	Cost Benefit Analysis
CPI	Consumer Price Index
DPR	Detailed Project Report
EA 2003	Electricity Act, 2003
EHV	Extra High Voltage
FY	Financial Year
GFA	Gross Fixed Assets
ICB	International Competitive Bidding
IDC	Interest During Construction
InSTS	Intra-State Transmission System
IoWC	Interest on working capital
IT	Income Tax
kV	Kilo Volt
kW	Kilo Watt
KWh	Kilo Watt Hour
MAT	Minimum Alternate Tax
MCLR	Marginal Cost of Funds Based Lending Rate
MSETCL	Maharashtra State Electricity Transmission Company Limited
MYT	Multi Year Tariff
MW	Mega Watt
O&M	Operation and Maintenance
PBT	Profit Before Tax
PPA	Power Purchase Agreement
RInfra-D	Reliance Infrastructure Limited-Mumbai Distribution

RoE	Return on Equity
SBAR	State Bank of India Advance Rate
SBI	State Bank of India
SLDC	State Load Despatch Centre
SPV	Special Purpose Vehicle
STU	State Transmission Utility
TSU	Transmission System User
TTSC	Total Transmission System Cost
VIPL	Vidarbha Industries Power Limited
WPI	Wholesale Price Index

1 INTRODUCTION

1.1 Background

- 1.1.1 VIPL, an SPV fully owned by Reliance Power Limited, has established a 600 MW (i.e. 2 x 300 MW each) thermal power generating station at Butibori near Nagpur in the State of Maharashtra. VIPL had approached RInfra-D for procurement of 600 MW power to serve the energy requirement of its consumers in Mumbai Licence area.
- 1.1.2 RInfra - D and VIPL had filed a Petition in Case No. 2 of 2013 for approval of the Power Purchase Agreement (PPA) between them for purchase of 600 MW power from VIPL's Butibori plant and determination of provisional Tariff for VIPL. The Commission vide its Order dated 20 February, 2013, had directed VIPL to comply with the definition of inter-connection point as stated in its Order in Case No. 34 of 2007 dated 13 November, 2007, and make appropriate amendments to the PPA. In the said Order, the Commission had defined the evacuation arrangement, including Transmission lines for evacuation of power for a Generation Project, to form part of the Intra-State Transmission System (InSTS) network and the Transmission tariff for such Transmission lines forming a part of InSTS, to be worked out as per the Commission's Transmission Pricing framework. Accordingly, VIPL was required to approach the Commission for grant of Transmission Licence for such evacuation arrangement.
- 1.1.3 Thereafter, VIPL has been granted Transmission Licence No. 1 of 2015 by the Commission vide Order dated 5 January, 2015 in Case No. 60 of 2014. The details of Transmission system of VIPL areas shown in the Table below:

Table 1: Transmission system of VIPL

Description
<p>Transmission Lines:</p> <p>a) 220 kV Double circuit Transmission Line (1.2 km) from VIPL Power Plant switchyard outdoor gantry to Maharashtra State Electricity Transmission Co. Ltd. (MSETCL) Butibori Sub-station III (Scheme 1)</p> <p>b) 220 kV Double circuit Transmission Line (1.86 km) from VIPL Power Plant switchyard outdoor gantry to MSETCL Butibori Sub-station I. (Around 160 m portion of each circuit is through 220 kV underground cables near MSETCL Sub-station) (Scheme 2)</p>
<p>EHV sub-Station bays:</p> <p>a) 2 (two) 220 kV bays at 220 kV MSETCL Butibori Sub-station III under Scheme 1;</p> <p>b) 2 (two) 220 kV GIS bays at 220 kV MSETCL Butibori Sub-station I under Scheme 2;</p>

- 1.1.4 Subsequently, VIPL filed a Petition vide Case No. 36 of 2015 for approval of Capital Cost and determination of ARR for FY 2014-15 to FY 2015-16. Vide Order dated 29 February, 2016, the Commission approved the provisional Capital Cost and determined the ARR for FY 2014-15 to FY 2015-16. The Commission had approved the ARR for the entire FY 2014-15, but its recovery from the Transmission Tariff was allowed proportionately from the date of grant of Transmission License to VIPL, i.e. 5 January, 2015, till the end of FY 2014-15. The Commission had also stated that it might take a view regarding the recovery of the remaining part of the ARR for FY 2014-15 prior to the Transmission License, through its MYT Order for the Third Control Period for VIPL's Generation business.
- 1.1.5 In the Order in Case No. 21 of 2016 dated 10 June, 2016, the Commission carried out Truing-up of ARR for FY 2014-15 and Provisional Truing-up of ARR for FY 2015-16 in accordance with the MYT Regulations, 2011 and approval of ARR for the Third Control Period from FY 2016-17 to FY 2019-20 in accordance with the MYT Regulations, 2015. The Commission allowed recovery of Trued up ARR of FY 2014-15 for 1 April, 2014 to 4 January, 2015 through the ARR of FY 2016-17 of VIPL's Generation business and from 5 January, 2015 to 31 March, 2015 through the ARR of FY 2016-17 of its Transmission Business. Subsequent to the issue of this Order, the Commission appointed a third party expert/institution for verification of the Capital Cost of VIPL's Transmission System.
- 1.1.6 In the present Order, the Commission has approved the final Capital Cost of VIPL's Transmission system based on the report submitted by the third part institution M/s Arcturus Business Solutions LLP, appointed by the Commission for verification of the Capital Cost of VIPL's Transmission Business. It also determined its consequential impact on the Trued up ARR for FY 2014-15 and also carried out Truing-up of ARR for FY 2015-16 in accordance with the MYT Regulations, 2011. Further, the Commission has also undertaken Truing-up of ARR for FY 2016-17, Provisional Truing-up of ARR for FY 2017-18 and revised ARR approval for FY 2018-19 and FY 2019-20 in accordance with the MYT Regulations, 2015.

1.2 MYT Regulations

- 1.2.1 The Commission notified the MYT Regulations, 2011 on 4 February, 2011. These Regulations were applicable for the Second Control Period starting from FY 2011-12 to FY 2015-16. The Regulations were amended vide notification dated 21 October, 2011.
- 1.2.2 Subsequently, the Commission notified the MYT Regulations, 2015 on 8 December, 2015. These Regulations are applicable for the Third Control Period starting from FY 2016-17 to FY 2019-20.

1.3 Petition and prayers of VIPL

- 1.3.1 The Regulation 5.1(b) of the MYT Regulations, 2015, specifies that a Mid-Term Review Petition has to be filed by 30 November, 2017. VIPL vide its letter dated 28 November, 2017 requested for extension in the timeline for filing of Mid-term Review Petition for 3rd Control Period till 31 December, 2017. The Commission vide Order dated 30 November, 2017 extended the last date of filing the present Petition till 21 December, 2017.
- 1.3.2 In adherence to the above, VIPL submitted the present Petition in Case No. 198 of 2017 on 21 December, 2017. The Commission communicated datagaps to VIPL on 28 December, 2017. The first pre-admittance discussion was held on 2 January, 2018. The list of persons who attended the discussion is at **Appendix 1**.
- 1.3.3 Subsequently, VIPL filed a revised Petition on 16 January, 2018 along with replies to the queries. The second pre-admittance discussion for which the Authorised Consumer Representatives (ACR) were also invited, was held on 28 March, 2018. No ACRs attended this discussion. The list of persons who attended the discussion is at **Appendix 2**. The Commission sought additional clarifications, which were responded to on 25 January, 7 June and 14 June, 2018.
- 1.3.4 Thereafter, VIPL submitted its final revised Petition on 14 June, 2018 along with replies to the additional clarifications.
- 1.3.5 VIPL's main prayers in the revised Petition are as follows:
2. *Consider VIPL's comments on Capital Cost report submitted by third party inspection agency on capital cost of VIPL's Transmission assets and final approval of capital cost of transmission assets of VIPL.*
 3. *Approve True up of FY 2015-16 and FY 2016-17;*
 4. *Approve provisional true up of FY 2017-18;*
 5. *Approve the Revised projected Aggregate Revenue Requirement for the period FY 2018-19 and FY 2019-20 as submitted herewith;*
 6. *Allow recovery of ARR from April 1, 2018 onwards through revised InSTS Order;*

1.4 Admission of Petition and Public Hearing Process

- 1.4.1 The Commission admitted the Petition on 18 June, 2018 and directed VIPL to publish its Public Notice in accordance with Section 64 of the EA, 2003, in the prescribed abridged form and manner. The Commission also directed VIPL to reply expeditiously to any suggestions and comments received.

1.4.2 VIPL published a Public Notice inviting comments/suggestions/objections on its Petition. The Public Notice was published in English in Hindustan Times and Indian Express, and in Marathi in Loksatta and Saamna, all daily newspapers, on 23 June, 2018. The Petition and its Summary were made available for inspection/purchase at VIPL's offices and website (www.reliancepower.co.in). The Public Notice and Executive Summary of the Petition were also made available on the websites of the Commission (www.mercindia.org.in, www.merc.gov.in) in a downloadable format.

1.4.3 The Commission did not receive any written or oral suggestions or objections on the Petition during the public consultation process in response to the Public Notice. A Public Hearing was held on 26 July, 2018. The list of persons who participated in the Public Hearing is at **Appendix 3**. No oral suggestions or objections were raised during the Public Hearing.

1.4.4 The Commission has ensured that the due process contemplated under law to ensure transparency and public participation was followed at every stage and an adequate opportunity was given to all concerned to express their views.

1.5 Organisation of the Order

1.5.1 This Order is organised in the following seven Sections:

- **Section 1** provides a brief of the regulatory process undertaken by the Commission.
- **Section 2** deals with the approval of the final Capital Cost of VIPL's Transmission System and Truing-up of ARR for FY 2015-16.
- **Section 3** deals with the approval of the Truing-up of ARR for FY 2016-17.
- **Section 4** deals with the approval of Provisional Truing-up of ARR for FY 2017-18.
- **Section 5** deals with approval of revised estimates of ARR for FY 2018-19 and FY 2019-20.
- **Section 6** deals with recovery of ARR and Transmission charges.
- **Section 7** deals with the applicability of the present Order.

2 TRUING UP OF ARR FOR FY 2015-16

2.1 Background

2.1.1 VIPL has sought final approval of the Capital Cost of its Transmission system approved provisionally vide Order dated 29 February, 2016 in Case No. 36 of 2015. It has also sought final Truing-up of FY 2015-16 in accordance with the provisions of the MYT Regulations, 2011, based on the actual expenditure and revenue as per the Audited Annual Accounts. It has also presented the comparison of expenditure and revenues approved by the Commission vide the MYT Order in Case No. 21 of 2016 dated 10 June, 2016 (“MYT Order”) vis-à-vis the audited performance.

2.1.2 The detailed analysis underlying the Commission’s approval of Truing-up for FY 2015-16 is set out below.

2.2 Capital Cost

VIPL’s Submission

2.2.1 In Case No. 36 of 2015, the Commission had provisionally approved the Capital Cost and Capitalisation of Rs. 27.22 Crore for the purpose of ARR determination for FY 2014-15 and FY 2015-16, in line with the submission of VIPL. The Commission, while approving the provisional Capital Cost had stated that the reasonability of Capital Cost submitted could only be partially ascertained on account of limited documentary evidence provided by VIPL to substantiate that the rates/cost considered by it for benchmarking were reasonable, in the absence of in-principle approved cost. In view of the above, the Commission had also stated as follows:

“2.2.19 ...However, the Commission shall appoint an independent expert/institution for detailed scrutiny, physical and financial verification of the completed capital cost and the relevant documents pertaining to the Project. Based on its report, the Commission shall carry out prudence check before approving the final completed cost of the Project.”

2.2.2 Subsequently, on 10 March, 2017 the Commission appointed M/s. Arcturus Business Solutions LLP as an independent expert/institution for verification of VIPL’s Transmission system.

2.2.3 In response to the Commission’s direction vide letter no. MERC/TPAV/TOR/0170 dated 20 March, 2017, VIPL submitted all the relevant details and documents to the Commission for Transmission asset verification. The Commission vide letter no. MERC/Third Party Asset Verification/4855 dated 2 November, 2017, served a copy of the third party asset verification report submitted by M/s Arcturus Business Solution LLP to VIPL seeking its comments.

2.2.4 The observations of VIPL on the report submitted by independent expert/institution are as follows:

- The development of project was undertaken through an EPC contract which was combined for both generation and transmission assets. VIPL awarded turnkey EPC contract for the project to Reliance Infrastructure Limited on fixed price basis. Therefore, detailed break up of asset-wise cost is not available with VIPL.
- The Commission vide Order dated 9 March, 2015 in Case No. 115 of 2014 (Final Tariff Order) has already approved the Capital Cost of generation assets on benchmark basis.
- Despite this, VIPL provided all possible necessary information, documents and the Auditors Certificate pertaining to the project cost as desired by the consultant (third party expert/institution) to complete the prudence check successfully.
- The consultant has ignored various submissions made by VIPL and adopted its own approach and set of benchmarks to justify its recommendations. The consultant has recommended disallowance of the cost primarily on the premise that VIPL has not furnished invoices against each and every line item of the cost capitalised for the Transmission Line.
- The consultant has considered MSETCL's cost as a benchmark for approval of certain expenses. This may not be a prudent cost comparison since VIPL's Transmission Line is very small as compared to the typically long distance high capacity Transmission Lines implemented by various State and Central Transmission Utilities. The Central and State Transmission Utilities being in the core business of Transmission have long term material and services contracts with various vendors in bulk quantities at competitive prices and the work is executed in a reasonable time frame, which is not the case with this Transmission Line set up by VIPL.
- The consultant on page 18 of the report has missed out considering the custom duty expense of Rs 1.69 Crore (as shown in the table below) while proposing the total cost of Rs 14.15 Crore in its report as against actual cost of Rs 17.39 Crore incurred by VIPL.

Table 2: Capital Cost – Details of Custom duty (Rs. Crore)

Particulars	Amount
220 kV GIS bays & Accessories	0.95
220 kV Cable	0.38
220 kV End Termination Kit	0.36
Total	1.69

2.2.5 In view of above, VIPL has requested to rectify the error in the Capital Cost recommended for approval by the Consultant and approve the Capital Cost as proposed.

Commission's Analysis and Ruling

2.2.6 The Commission approved the Capital Cost of VIPL's Transmission system provisionally vide Order in Case No. 36 of 2015. Subsequently, at the time of issue of the MYT Order in Case No. 21 of 2016, since the appointment of the expert/institution for verification of VIPL's Capital Cost was under progress, the Commission had carried out Truing up of ARR for FY 2014-15, provisional Truing up of ARR for FY 2015-16 and ARR approval for 3rd Control Period based on the provisionally approved Capital Cost. Further, the Commission had ruled the following regarding final approval of the Capital Cost:

"2.2.2 The Commission is in the process of appointing an independent expert/institution for verification of the capital cost of VIPL. Accordingly, the provisional Capital Cost as approved in Case No. 36 of 2015 is considered in the present Order for the purpose of Truing-up of FY 2014-15, provisional Truing-up for FY 2015-16 and ARR approval for the FY 2016-17 to FY 2019-20. The final Capital Cost shall be approved subsequent to that verification and prudence check by the Commission. The Commission may review any or all approvals of the ARR elements based on the final approved Capital Cost for the Project, including carrying cost or holding cost implications, if any."

2.2.7 Subsequently, the Commission appointed M/s. Arcturus Business Solution LLP (ABSL) as an independent institution for verification of the Capital Cost of VIPL's Transmission System with the following terms of reference:

- To ascertain the reasonability of the claims made by the VIPL in its Capital cost approval submitted to the Commission and provisionally considered by the Commission vide Order dated 29 February, 2016 in Case No. 36 of 2015 and Order dated 10 June, 2016 in Case 21 of 2016 .
- Carry out physical and financial verification of the assets in the project including site visit for random sample check and office visit for verification of documentary evidence related to cost, competitiveness, contracts, quantity, quality and reasonableness.
- Based on the fair assessment for the asset verification carried out in accordance with the terms of reference, advise the Commission about the final Capital Cost to be considered for approval.

2.2.8 The third party institution M/s ABSL submitted its report in September, 2017. The Commission has examined the report submitted by M/s ABSL and also sent a copy to

VIPL on 2 November, 2017 seeking its comments. VIPL has submitted its observations/comments on the report in the present Petition, as elaborated in the earlier paragraphs.

- 2.2.9 On scrutiny of the report, it is observed that as a part of the verification, M/s ABSL undertook physical verification of the Transmission Lines and the Sub-station. Further, in respect of the process undertaken by VIPL for implementation of the project, M/s ABSL noted the following:

“G. Project Methodology adopted by VIPL

The transmission project was initially part of the power generation project which was awarded by MIDC, Nagpur, Maharashtra to Vidarbha Industrial Power Ltd. (VIPL) as one unit of 300 MW to be developed as Group Captive Generating Power Plant (GCPP) . The same was awarded through competitive bidding process by MIDC. 51% of power to be produced by the project was proposed to be sold to industrial consumers with their equity participation, to qualify as GCPP. In addition, an additional capacity of 300 MW was undertaken at the same site. The entire power project including associated evacuation transmission lines & substation bays for the project was developed by VIPL through the EPC contractor M/s Reliance Infrastructure Limited, the sister concern of VIPL. The order to Reliance Infrastructure Ltd was placed without any competitive bidding, but on the basis of the cost benchmarks for similar projects at that point of time.

The transmission system, scheme 1 and 2 were commissioned on 29/06/2012 and 13/06/2013 respectively but has claimed ARR only when the PPA for the VIPL Butibori plant for the power supply commenced. However the Commission vide its Order 2 of 2013 dated 28/2/2013, directed VIPL to separate the evacuation lines from generation project and, to consider them as separate standalone business and treat them part of Intra State Transmission System.

Hence, execution of the transmission lines and related substation bays was done by M/s Reliance Infrastructure Ltd., the EPC contractor for the entire 600 MW power project. Also, the funding of the transmission system is not separate from the funding for the entire power project.”

- 2.2.10 It is evident from the above observations that the project was not awarded through a competitive bidding process, but on the basis of cost benchmarks for similar projects and the selected EPC contractor was a sister concern of VIPL.

- 2.2.11 M/s ABSL has also pointed out that VIPL has submitted partial documentary evidence in respect of the EPC cost incurred for the Transmission System to substantiate its claim for actual cost incurred and its reasonableness. The relevant extract of the report of M/s ABSL is reproduced below:

“M/S VIPL have submitted few invoices of Reliance Infrastructure Ltd., the supplier as well as manufacturer for few items for the verification of the cost of supplies for substation equipment, especially the high valued items like 220 kV GIS, 220 kV Cables, 220 kV end terminations.

For the transmission lines, VIPL have either relied on bench-marked prices of APTRANSCO and thumb rule percentage of the activity like civil works, hardware fitting and insulator supplies, erection, stringing costs etc. and has not submitted any invoice copy submitted by their EPC contractor Reliance Infrastructures Ltd.”

2.2.12 Accordingly, in absence of actual invoices for the elements indicated by M/s ABSL above, it has relied on MSETCL’s Schedule of Rates (SoR) as well as market prices of such items/equipment/services.

2.2.13 Based on the verification, the Capital Cost computed by M/s ABSL is as shown in the following Table:

Table 3: Capital Cost computed by M/s ABSL after third party verification (Rs. Crore)

Sr. No.	Particulars	Original Estimate	Actual Cost Claimed	Cost computed by ABSL	Remarks
1	Preliminary and Pre-Operative expenses	1.45	1.45	1.45	Cost considered as per Order 36 of 2015. Details not given.
2	EPC Cost				
2.1	Supply & Erection Cost	14.00	17.39	14.15	Based on consultant calculations
3	Non-EPC Cost				
3.1	Compensation of Land cost	1.30	1.30	1.30	Includes land premium, registration and stamp duty charges. Calculation submitted by VIPL
4	Interest During Construction	1.92	2.75	2.65	Estimated based on the summation of EPC cost Rs 14.15 Cr + MSETCL supervision charges of Rs 5.75 Crs based on the methodology adopted by VIPL.
5	Cost towards MSETCL supervision	-	5.75	5.75	Letter from MSETCL submitted by VIPL
6	Total	18.67	28.64	25.30	

2.2.14 Accordingly, M/s ABSL has made the following recommendation in its report:

“Based on the documentation submitted by VIPL for verification, bench marked market rates, the overall CAPEX for the project is calculated as Rs 25.30 crore

(Twenty Five Crore and thirty Lakh only) against the claimed amount of Rs 28.64 Crore (Rupees Twenty Eight Cores Sixty Four Lacs only)."

- 2.2.15 With regards to the comments submitted by VIPL regarding non-consideration of the Custom Duty expense of Rs. 1.69 Crore while proposing the total cost of Rs. 14.15 Crore as against actual cost of Rs. 17.39 Crore, M/s ABSL confirmed that VIPL has not submitted any documentary evidence to ascertain / verify the incidence of custom's duty hence, M/s ABSL has not recommended the same for consideration in the actual cost. Further, VIPL has also not submitted any supporting document with regards to the claim along with the present Petition.
- 2.2.16 In view of the foregoing discussion, the Commission is of the opinion that despite repeated opportunities, VIPL has not furnished all the necessary information/documentary evidence to substantiate that the actual Capital Cost of its Transmission System is reasonable. That being the case, the Commission approves the cost recommended by the third party institution M/s ABSL as the final Capital Cost for VIPL's Transmission System.
- 2.2.17 Further, based on VIPL's own submission, the provisional Capital Cost considered for determination of ARR in the previous Orders in Case No. 36 of 2015 and 21 of 2016 was after deducting depreciation on assets from CoD till the date of the commencement of the PPA i.e. 31 March, 2014. The relevant extract of the Order in Case No. 36 of 2015 is reproduced below:

"2.2.18 The cost of establishment of 2 regular (non-GIS) Bays at MSETCL 220kV Butibori-III Sub-station, cost of common infrastructure at MSETCL 220 kV Butibori-I Sub-station and supervision charges levied by MSETCL on VIPL were verified from the demand notes and payment receipts submitted by VIPL. However, the detailed break-up of the item-wise scope of work undertaken by MSETCL on behalf of VIPL and the cost associated with it has not been provided by VIPL. VIPL also submitted that, since the PPA for supply of power from the Butibori Power Station commences from 1 April, 2014, it has considered the depreciated cost of the Project as on 31 March, 2014 for the determination of ARR for FY 2014-15 and FY 2015-16. The depreciation on the assets since the COD of the respective schemes till 31 March, 2014 has been worked out by VIPL as Rs. 1.41 Crore. The overall value of assets for the purpose of ARR determination is considered as Rs. 27.22 Crore (Rs. 28.64 Crore – Rs. 1.41 Crore).

- 2.2.18 Considering the above, the Commission has approved the final Capital Cost for VIPL at Rs. 25.30 Crore as against Rs. 28.64 Crore claimed earlier. Further, considering that VIPL had claimed depreciated Capital Cost of Rs. 27.22 Crore (Rs. 28.64 Crore – Rs. 1.41 Crore) as on 1 April, 2014, the Commission has given a similar treatment to

the final Capital Cost approved in this Order to arrive at the opening Capital Cost as on 1 April, 2014.

Table 4: Final Approved Capital Cost as on 1 April, 2014 (Rs. Crore)

Particulars	Provisionally Approved Cost			Adjustments		Final Approved Cost		
	GFA	Accumulated Depreciation	Net GFA	Reduction in GFA	Reduction in Acc. Depn.	GFA	Accumulated Depreciation	Net GFA
Land - Freehold	-	-	-	-	-	-	-	-
Land - Leasehold	1.30	0.02	1.27	-	-	1.30	0.02	1.27
Switch Gear Including Cable Connections	20.96	1.07	19.89	2.55	0.13	18.41	0.94	17.47
Overhead Lines	6.38	0.32	6.06	0.78	0.04	5.60	0.28	5.32
Underground Lines	-	-	-	-	-	-	-	-
Total	28.64	1.41	27.22	3.33	0.17	25.31	1.24	24.06

2.2.19 As seen from the above Table the final approved Capital Cost (depreciated till the date of PPA between RInfra-D and VIPL) for VIPL is Rs. 24.06 Crore as against the provisionally approved cost of Rs. 27.22 Crore. The Commission has considered proportionate reduction in the Gross Fixed Asset and the accumulated depreciation for all asset classes except for land as the reduction in cost is mainly in the EPC component of the project cost.

2.2.20 The final Capital Cost and Capitalisation approved by the Commission is shown in the following Table:

Table 5: Capital cost and capitalisation approved by Commission (Rs. Crore)

Particulars	As on 1 April, 2014 (i.e. date of commencement of the PPA between VIPL and RInfra-D)
Capital Cost and Capitalisation	24.06

2.2.21 In view of the recommendations of the third party expert/institution and prudence check carried out by the Commission, the final Capital Cost and capitalisation of Rs. 24.06 Crore is approved for VIPL's Transmission System. The consequential impact of final Capital Cost approval on the Trued up ARR for FY 2014-15 is dealt at para 5.12 of this Order.

2.3 Operation & Maintenance (O&M) Expenses

VIPL's Submission

2.3.1 The O&M expenses are computed as per the norms specified in the MYT Regulations, 2011 and on the basis of actual number of bays and line length (average of opening and closing balance of bays and line length considered).

2.3.2 The normative O&M expenses for FY 2015-16 are as per the following Table and the same has been approved by the Commission in its Order in Case No. 21 of 2016 for FY 2015-16:

Table 6: Normative O&M expenses for FY 2015-16, as submitted by VIPL (Rs. Crore)

Particulars	VIPL Petition
Circuit Km. basis	0.02
Number of Bays basis	0.68
Total	0.69

Commission's Analysis and Ruling

2.3.3 The Commission approves the normative O&M expenses in accordance with the norms specified in the MYT Regulations, 2011 as shown in the Table below:

Table 7: Normative O&M expenses for FY 2015-16 approved by Commission

Particulars	Unit	MYT Order	MTR Petition	Approved in this Order
Transmission Lines				
Length of Transmission Line	Ckt. Km.	6.12	6.12	6.12
Norm as per Regulations	Rs. Lakh/Ckt. Km.	0.26	0.26	0.26
O&M Expenses	Rs. Lakh	1.59	1.59	1.59
Bays				
No. of Bays	No.	4.00	4.00	4.00
Norm as per Regulations	Rs. Lakh/Bay	16.97	16.97	16.97
O&M Expenses	Rs. Lakh	67.88	67.88	67.88
Total O&M Expenses	Rs. Lakhs	69.47	69.47	69.47
Total O&M Expenses	Rs. Crore	0.69	0.69	0.69

2.3.4 **The Commission approves the normative O&M expenses of Rs. 0.69 Crore on Truing-up of ARR for FY 2015-16.**

2.4 Actual O&M Expenses

VIPL's Submission

2.4.1 The actual O&M expenditure for FY 2015-16 consisting of Employee expenses, Administrative & General expenses, and Repairs & Maintenance expenses is as shown in the following Table:

Table 8: Actual O&M expenses for FY 2015-16 as submitted by VIPL (Rs. Crore)

Particulars	VIPL Petition
Employee expenses	0.34
A&G expenses	0.00
R&M expenses	0.16
Total	0.50

Commission's Analysis and Ruling

2.4.2 VIPL has submitted the Auditor's Certificate stating the Gross Fixed Assets, Revenue, Employee expenses and R&M expenses for FY 2015-16. The Commission observed that VIPL has not allocated A&G expenses to its Transmission Business. VIPL justified that all the A & G expenses related to its Transmission project are being considered under Generation business related expenses only and so no A&G expenses are allocated separately for Transmission business. VIPL has placed an Annual Maintenance Contract (AMC) for R&M activities of Transmission assets and therefore all R & M expenses are shown under Plant and Machinery head only.

2.4.3 In reply to the Commission's query regarding the basis of cost allocation between VIPL's Generation and Transmission Business, VIPL submitted the revised Allocation Statement audited on the basis of the information related to costs and revenue identified by the management which is based on the expenditure incurred and revenue recovered for Transmission business. The Commission observes that VIPL has not maintained separate accounts for its Generation and Transmission businesses. **VIPL is hereby directed to maintain separate audited accounts for its Generation and Transmission business as per the requirement of Regulation (2.1) (1) (ix) of the MYT Regulations, 2015. VIPL is directed to submit separate Audited Accounts for its Generation and Transmission Businesses along with the next Tariff Petition.**

2.4.4 The Commission approves the actual O&M expenses submitted by VIPL, after verification with the Audited Allocation Statement and prudence check as shown in the following Table:

Table 9: Actual O&M expenses for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MTR Petition	Approved in this Order
Employee expenses	0.34	0.34
A&G expenses	-	-
R&M expenses	0.16	0.16
Total O&M expenses	0.50	0.50

2.4.5 **The Commission approves the actual O&M expenses of Rs. 0.50 Crore on Truing-up of ARR for FY 2015-16.**

2.5 Efficiency gains / losses in O&M Expenses

VIPL's Submission

2.5.1 As per Regulation 12.2 (g) of the MYT Regulations, 2011, variation in O&M expenses is a controllable factor. Regulation 14.1 of the MYT Regulations, 2011 provides the mechanism for sharing of gains under which 2/3rd of the efficiency gain will be retained by the Petitioner and 1/3rd of the same will be passed through in the tariff.

2.5.2 For 2015-16, the normative approved O&M expenses of Rs. 0.69 Crore are compared with actual expenses of Rs. 0.50 Crore, resulting in controllable efficiency gains of Rs. 0.20 Crore, out of which Rs 0.13 Crore is claimed. Therefore, the net entitlement in O&M expenses is Rs.0.63 Crore.

Commission's Analysis and Ruling

2.5.3 The Commission has computed the efficiency gains due to variation in revised normative O&M expenses approved in this Order vis-à-vis the actual O&M expenses approved in line with Regulation 12.2 (g) and Regulation 14.1 of the MYT Regulations, 2011. The revised normative O&M expenses approved in this Order is same as that approved in the MYT Order in Case No. 21 of 2016 as there is no change in the number of bays and Ckt. Kms. of the Transmission System.

2.5.4 Accordingly, the summary of sharing of efficiency gains/(losses) approved by the Commission is shown in the Table below:

Table 10: Sharing of efficiency Gains/(Losses) due to variation in O&M expenses for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	Actual	Entitlement as per Regulations/ (Order)	Gain / (Loss)	Efficiency Gain / (Loss) shared with TSUs	Net Entitlement of VIPL
O&M Expenses	0.69	0.50	0.69	0.20	0.07	0.63

2.5.5 After considering sharing of efficiency gains, the Commission approves Rs. 0.63 Crore as net entitlement of O&M Expense on Truing up of ARR for FY 2015-16.

2.6 Depreciation

VIPL's Submission

2.6.1 Depreciation has been calculated considering the Capital Cost as approved by the Commission and the depreciation rates prescribed in MYT Regulations, 2011.

2.6.2 The depreciation expenses as submitted by VIPL are shown in the Table below:

Table 11: Depreciation for FY 2015-16 as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Depreciation	1.41	1.41
Opening Gross Fixed Assets (GFA)	27.22	27.22
Closing GFA	27.22	27.22

Commission's Analysis and Ruling

2.6.3 The Commission has approved the final Capital Cost and capitalisation of VIPL's Transmission System as elaborated in the earlier paragraphs. This approved capitalisation is considered as the opening GFA for FY 2015-16. There is no addition or retirement of assets during FY 2015-16. Accordingly, the closing GFA for FY 2015-16 is same as the approved opening GFA.

2.6.4 The Commission has computed asset class-wise depreciation considering the rates specified in the Regulation 31 of the MYT Regulations, 2011.

2.6.5 The depreciation approved for FY 2015-16 is summarised in the following Table:

Table 12: Depreciation for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Opening Gross Fixed Assets	27.22	27.22	24.06
Addition of Gross Fixed Assets	-	-	-
Asset Retirement	-	-	-
Closing Gross Fixed Assets	27.22	27.22	24.06
Depreciation	1.41	1.41	1.25

2.6.6 The Commission approves depreciation of Rs. 1.25 Crore on Truing-up of ARR for FY 2015-16.

2.7 Interest on Long Term Loans

VIPL's Submission

2.7.1 The opening loan for FY 2015-16 is considered as closing balance of FY 2014-15. Closing loan balance for FY 2015-16 is derived after deducting repayment equivalent to depreciation. Interest on Loan is calculated by applying interest rate of 11.65% which was applicable on 1 April, 2015 on the normative average loan balances for FY 2015-16.

2.7.2 The Commission in its MYT Order in Case No. 21 of 2016 has considered the weighted average interest rate as 12.50% by considering the base rates and spreads applicable for various banks. VIPL sought approval for the same stating that this approach is in line with the provisions of the MYT Regulations, 2011.

2.7.3 Accordingly, the Interest on Long Term Loan claimed by VIPL for the FY 2015-16 is as shown in the following Table:

Table 13: Interest on Long Term Loan for FY 2015-16, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Interest on Long Term Loan	2.12	1.97

Commission's Analysis and Ruling

2.7.4 Based on the final approval of the capitalisation in this Order, the Commission has recomputed the normative opening loan for FY 2015-16 considering a debt-equity ratio of 70-30 as submitted by VIPL and also considered in the MYT Order in Case No. 21 of 2016. The repayment is considered equal to the depreciation approved for FY 2015-16 in this Order.

2.7.5 The Commission has scrutinized the computation and documentary evidence submitted by VIPL for the applicable interest rates for the loan portfolio for FY 2015-16.

2.7.6 The Commission observed that the interest rate of 11.65% considered by VIPL for FY 2015-16 includes penal interest as evident from the supporting documents submitted for computation of interest rate. Accordingly, computation of the weighted average interest rate on opening loan portfolio for FY 2015-16 excluding the penal interest was sought from VIPL which was submitted vide response to data gaps on 14 June, 2018. The Commission observes that this rate is the weighted average interest rate during the FY 2015-16 and not at the beginning of the year. Accordingly, the Commission has considered the applicable Base Rates and the interest spread for VIPL's Rupee term loans from the documentary evidence submitted and publicly available information on the bank websites and computed the weighted average interest rate on opening loan portfolio which is 12.50%. This rate is applied for computing the Interest on Long Term Loans for FY 2015-16.

2.7.7 The interest expense approved by the Commission is given in the Table below.

Table 14: Interest on Long Term Loans for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Opening Balance of normative Loan	17.64	17.65	15.59
Additions to normative loan	-	-	-
Repayment	1.41	1.41	1.25
Less: Reduction in loan due to retirement of assets	-	-	-
Closing Balance of normative loan	16.23	16.23	14.35
Interest rate	12.50%	11.65%	12.50%
Interest expenses	2.12	1.97	1.87

2.7.8 **The Commission approves Interest on Long Term Loans as Rs. 1.87 Crore on Truing-up of ARR for FY 2015-16.**

2.8 Interest on Working Capital

VIPL's Submission

2.8.1 Interest on Working Capital (IoWC) has been calculated in accordance with Regulation 35.2 of the MYT Regulations, 2011 by applying the norms to the actuals expenditure. The rate of interest on working capital for FY 2015-16 is considered as approved by the Commission in MYT Order in Case No. 21 of 2016 at 14.75%.

2.8.2 The IoWC as submitted by VIPL is as shown in the following Table:

Table 15: Interest on Working Capital for FY 2015-16, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual
Interest on Working Capital	0.12	-

Commission's Analysis and Ruling

2.8.3 The Commission has scrutinized the submissions of VIPL on computation of IoWC and estimated normative working capital requirement considering the values of O&M expense and book value of stores approved in this Order and revenue requirement approved for FY 2015-16 in the InSTS Order in Case No. 91 of 2016.

2.8.4 The Commission has considered the revised normative value of O&M expenses approved in this Order for computing the working capital requirements. For computing the book value of stores, materials and supplies, the Commission has considered 1% of opening GFA for FY 2015-16 approved in this Order. One and a half months' revenue from Transmission Charges is considered as per the revenue requirement for FY 2015-16 approved in the MYT Order in Case No. 21 of 2016 and also considered for recovery in the InSTS Order in Case No. 91 of 2016.

2.8.5 The Commission observed that VIPL has considered interest rate of 14.29%, which is the weighted average interest rate for FY 2015-16. However, as per Regulation 35.2 (b) of MYT Regulations, 2011, the SBAR as on the date of Tariff application, which was 14.75%, has been considered for computing the IoWC.

2.8.6 Accordingly, the normative IoWC approved by the Commission is as shown in the following Table:

Table 16: Interest on Working Capital for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Computation of Working Capital			
One-twelfth of the amount of Operations and Maintenance Expenses	0.06	0.04	0.06
One-twelfth of the sum of the book value of stores, materials and supplies	0.02	0.27	0.24
One and a half months of the expected revenue from transmission charges at the prevailing Tariffs	0.7	0.68	0.71
Total Working Capital	0.78	0.99	1.01
Computation of Interest on Working Capital			
Rate of Interest (% p.a.)	14.75%	14.29%	14.75%
Interest on Working Capital	0.12	0.14	0.15

2.8.7 The Commission approves normative IoWC of Rs. 0.15 Crore on Truing-up of ARR for FY 2015-16.

2.9 Sharing of Efficiency Gains/Losses on Interest on Working Capital

VIPL's Submission

2.9.1 The variation in IoWC is attributed to controllable factors as per Regulation 12.2(g) of the MYT Regulations, 2011. The variation is computed as difference between the normative IoWC based on actual expenses vis-à-vis the actual IoWC.

2.9.2 The actual IoWC is nil and accordingly the resulting controllable gains of Rs. 0.12 Crore is shared in line with the Regulation 14.1 of the MYT Regulations, 2011, which provides the mechanism of sharing of gains on account of controllable factors. Accordingly, VIPL has claimed 2/3rd of the gain, i.e. Rs. 0.08 Crore in the ARR for FY 2015-16.

Commission's Analysis and Ruling

2.9.3 Considering the submission of VIPL and the relevant provisions of the MYT Regulations, 2011, the Commission approves the efficiency gain / (loss) on account of IoWC computed as the difference between the actual IoWC incurred in FY 2015-16 and the normative IoWC approved by the Commission after considering other elements of expenditure and revenue as approved after Truing-up. 1/3rd of the efficiency gain on this account is shared with the TSUs, in line with the MYT Regulations as shown in the following Table:

Table 17: Sharing of Efficiency Gains/(Losses) on account of Interest on Working Capital for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	Actual	Entitlement as per Regulations / (Order)	Gain / (Loss)	Efficiency Gain / (Loss) shared with TSUs	Net Entitlement of VIPL
Interest on Working Capital	0.12	-	0.15	0.15	0.05	0.10

2.9.4 **After considering sharing of efficiency gains, the Commission approves Rs. 0.10 Crore as net entitlement of IoWC on Truing up of ARR for FY 2015-16.**

2.10 Contribution to Contingency Reserves

VIPL's Submission

2.10.1 Regulation 36.1 of the MYT Regulations, 2011 provides for contribution to Contingency Reserves a sum not less than 0.25% and not more than 0.5% of the original cost of fixed assets.

2.10.2 The Commission in its MYT Order in Case No. 21 of 2016 has approved contribution to Contingency Reserves of Rs. 0.07 Crore for FY 2015-16. Accordingly, VIPL has created Contingency Reserves of Rs. 0.07 Crore for FY 2015-16. The contribution to Contingency Reserves submitted by VIPL is as shown in the following Table:

Table 18: Contribution to Contingency Reserves for FY 2015-16, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Contribution to Contingency Reserves	0.07	0.07

Commission's Analysis and Ruling

2.10.3 The Commission sought documentary evidence towards investments made out of contingency reserves for FY 2015-16 in the approved class of securities. Vide response to data gaps, VIPL submitted the documentary evidence for investments made against Contribution to Contingency reserves for FY 2014-15 and FY 2015-16 amounting Rs 14 Lakh. The contribution to Contingency Reserve for FY 2014-15 was allowed in the Trued up ARR for FY 2014-15 in the MYT Order in Case No. 21 of 2016, however, since VIPL has invested the Contingency Reserves for FY 2015-16 in FY 2016-17 as the revenue recovery for the year only started after July 2016 based on the Transmission Tariff notified by the Commission vide its InSTS Order in Case No. 91 of 2016 dated 22 July, 2016, the Commission has considered the actual contribution to Contingency Reserves pertaining to FY 2015-16 as a part of ARR in FY 2016-17, based on documentary evidence submitted.

2.10.4 Accordingly, the approved contribution to Contingency Reserves is as given in the following Table:

Table 19: Contribution to Contingency Reserves for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Contribution to Contingency Reserves	0.07	0.07	-

2.10.5 **The Commission approves nil contribution to Contingency Reserves on Truing-up of ARR for FY 2015-16.**

2.11 Return on Equity

VIPL's Submission

2.11.1 Normative opening equity for FY 2015-16 has been considered equal to the closing equity of FY 2014-15 based on the Capital Cost and debt-equity ratio approved by the

Commission vide Order in Case No. 36 of 2015. The Return on Equity (RoE) has been calculated based on Regulation 32.2 of the MYT Regulations, 2011, i.e. at the rate of 15.5%. The RoE as submitted by VIPL is as given in the following Table:

Table 20: Return on Equity for FY 2015-16, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual
Regulatory equity at the beginning of the year	8.17	8.17
Equity portion of the capitalisation during the year	-	-
Equity portion of assets retired during the year	-	-
Regulatory equity at the end of the year	8.17	8.17
Rate of Return on Equity (RoE)	15.50%	15.50%
RoE Computation		
RoE at the beginning of the year	1.27	1.27
RoE on the capitalisation during the year	-	-
Total Return on Regulatory Equity	1.27	1.27

Commission's Analysis and Ruling

2.11.2 Based on the final approval of the Capital Cost in this Order, the Commission has recomputed the normative opening equity for FY 2015-16 considering a debt-equity ratio of 70-30 as submitted by VIPL and also considered in the MYT Order in Case No. 21 of 2016. There is no addition to GFA in FY 2015-16 and correspondingly to the normative equity.

2.11.3 The Commission has computed the RoE at the rate of 15.5%, in accordance with the MYT Regulations, 2011, on the opening equity of the FY 2015-16 approved in this Order. The RoE as approved by the Commission for FY 2015-16 is as follows:

Table 21: Return on Equity for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Regulatory equity at the beginning of the year	8.17	8.17	7.22
Equity portion of the capitalisation during the year	-	-	-
Equity portion of assets retired during the year	-	-	-
Regulatory equity at the end of the year	8.17	8.17	7.22
Rate of Return on Equity (RoE)	15.5%	15.5%	15.5%
RoE Computations			
RoE at the beginning of the year	1.27	1.27	1.12
RoE on the capitalisation during the year	-	-	-
Total Return on Regulatory Equity	1.27	1.27	1.12

2.11.4 The Commission approves the RoE of Rs. 1.12 Crore on Truing-up of ARR for FY 2015-16.

2.12 Income-Tax

VIPL's Submission

2.12.1 The Commission, in the MYT Order in Case No. 21 of 2016, had not considered any Income Tax for FY 2015-16. However, the Income Tax computed following the regulated PBT approach is considered by VIPL-T as shown in the following table:

Table 22: Income Tax for FY 2015-16 as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Income-Tax	-	0.29

Commission's Analysis and Ruling

2.12.2 The Commission has examined the details of the actual Income Tax paid for FY 2015-16 as well as the Income Tax Returns submitted by VIPL for the integrated business, vide response to data gaps.

2.12.3 Considering that the Transmission Business of VIPL is part of an integrated business consisting of a Generation and Transmission Businesses, the Income Tax claimed by VIPL in this Petition is based on the PBT method adopted by the Commission for approving Income Tax for Licensees who are part of an integrated business. Accordingly, VIPL has considered the ARR submitted on True up for FY 2015-16 as the revenue and the ARR less RoE as the expenses to compute the Income Tax using the Regulated PBT method.

2.12.4 The Commission has computed the Income Tax in accordance with Regulation 34.1 of MYT Regulations, 2011 and as specified in ATE Judgment dated 2 December 2013 vide Appeal Nos. 138 and 139 of 2012 in the matter concerning Generation and Transmission Businesses of R-Infra. As specified in the Regulations and the aforementioned ATE Judgment, the Commission has arrived at the Income Tax paid based on Regulatory Profit Before Tax (PBT) considering the normative cost allowed by the Commission. The Commission has accordingly considered the ARR approved on True up as the revenue and the ARR less the RoE as expenses considering normative values and computed the Income Tax liability using the applicable MAT rate. Moreover, in line with the Regulation 34.1 of the MYT Regulations, 2011 which specifies that Income Tax on efficiency gains and incentives shall not be a pass through, the efficiency gains and incentive recoverable by VIPL for FY 2015-16 as approved in this Order have been deducted while computing the taxable income. Accordingly, the calculation of Income tax provides the Tax payable for the Regulatory business whereby all the items of ARR and Revenue are considered on normative basis for the Tariff purpose.

2.12.5 The Income-Tax as approved by the Commission for FY 2015-16 is as given in the following Table:

Table 23: Income-Tax for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Income Tax	-	0.29	0.17

2.12.6 **The Commission approves the Income Tax of Rs. 0.17 Crore on Truing-up of ARR for FY 2015-16.**

2.13 Revenue from InSTS

VIPL's Submission

2.13.1 The Commission vide Order in Case No. 91 of 2016 dated 22 July 2016 for Transmission tariff for Intra-State Transmission system, directed VIPL to recover the ARR for FY 2015-16 from July 2016 onwards. Accordingly, VIPL billed total revenue only for the period of nine months of FY 2015-16 instead of 12 months. Therefore, in this tariff petition VIPL is seeking recovery of Rs 1.42 Crore revenue of three months of FY 2015-16 as approved by the Commission vide Order dated 22 July 2016 in Case No. 91 of 2016.

2.13.2 In line with the above, VIPL has billed total revenue of Rs. 4.25 Crore for FY 2015-16.

Commission's Analysis and Ruling

2.13.3 The Commission has noted the submissions of VIPL, however, considering the fact that the actual revenue recovery for the FY 2015-16 only started in July 2016 based on the InSTS Order in Case No. 91 of 2016 dated 22 July, 2016, the Commission has not considered any revenue recovery in FY 2015-16. Accordingly, the entire Trued up ARR for FY 2015-16 is considered as a revenue gap in FY 2015-16 and proposed for recovery in the subsequent years along with the applicable carrying cost.

2.14 Non-Tariff Income

VIPL's Submission

2.14.1 There was no Non-Tariff Income during FY 2015-16.

Commission's Analysis and Ruling

2.14.2 The Commission notes that since there was no revenue recovered by VIPL in FY 2015-16, it could not have made the investment out of Contingency Reserves for that year within the timelines stipulated in the Regulations. Accordingly, the Commission

has not considered any Non-Tariff Income on account of such investment. The Non-tariff Income for FY 2015-16 as given in the following Table:

Table 24: Non-Tariff Income for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Non-Tariff Income	-	-	-

2.14.3 The Commission approves nil Non-Tariff Income on Truing-up of ARR for FY 2015-16.

2.15 Income from Other Businesses

VIPL's Submission

2.15.1 VIPL has not earned any revenue from any other business during FY 2015-16.

Commission's Analysis and Ruling

2.15.2 The Commission has noted the submission of VIPL.

2.16 Incentive on higher Transmission System Availability

VIPL's Submission

2.16.1 MSLDC has certified the Transmission System Availability of 99.87% for FY 2015-16. VIPL has computed the incentive on Transmission System Availability by restricting the availability to 99.75%. The Annual Transmission Charges net of Non-Tariff Income and income from other business are considered for calculation of incentive on Transmission System Availability. VIPL has sought the incentive of Rs. 0.10 Crore for FY 2015-16.

Commission's Analysis and Ruling

2.16.2 The Commission verified the actual Transmission System Availability from the MSLDC certificate. Further, in line with the approach adopted for other Transmission Licensees in the previous MYT proceedings as well as in the present proceedings, the Commission has not considered Income Tax as a component of ARR for calculating the incentive as the same is not part of the Aggregate Revenue Requirement defined under Regulation 54.10 of the MYT Regulations, 2011. The Commission allows incentive for the higher availability as follows:

Table 25: Incentive for higher Transmission System Availability for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MTR Petition	Approved in this Order
Annual Transmission Charges	5.43	4.96
Annual Availability achieved	99.87%	99.87%
Target Availability	98.00%	98.00%
Incentive	0.10	0.09

2.16.3 The Commission approves incentive on Transmission System Availability of Rs. 0.09 Crore on Truing-up of ARR for FY 2015-16.

2.17 Summary of Truing-up of ARR for FY 2015-16

VIPL's Submission

2.17.1 The Truing-up of ARR for VIPL for FY 2015-16 is summarized in the Table below:

Table 26: ARR for FY 2015-16, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual	Net Entitlement after sharing of gains/ (losses)
Operation & Maintenance Expenses	0.69	0.50	0.50
Depreciation Expenses	1.41	1.41	1.41
Interest on Long-term Loan Capital	2.12	1.97	1.97
Interest on Working Capital and on security deposits	0.12	-	-
Income-Tax	0.00	0.29	0.29
Contribution to Contingency reserves	0.07	0.07	0.07
Total Revenue Expenditure	4.41	4.24	4.24
Return on Equity Capital	1.27	1.27	1.27
Aggregate Revenue Requirement	5.67	5.51	5.51
Add: 2/3rd of Efficiency Gain/(losses) (due to controllable factors) to be retained by VIPL in O&M Expenses			0.13
Add: 2/3rd of Efficiency Gain/(losses) (due to controllable factors) to be retained by VIPL in Working Capital requirement			0.08
Less: Income from Other Business	-	-	-
Aggregate Revenue Requirement from Transmission Tariff	-	-	5.71
Revenue from Transmission Tariff		4.25	4.25
Add: Availability Incentive			0.10
Revenue Gap/(Surplus)			1.56

2.17.2 The revenue gap / (surplus) for FY 2015-16 is arrived at by comparing the revenue received from InSTS and the ARR (net of Non-Tariff Income and Income from other Business).

Commission's Analysis and Ruling

2.17.3 Based on the analysis detailed in this Order, the Commission approves the Truing-up of ARR of VIPL for FY 2015-16 as below:

Table 27: ARR for FY 2015-16 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Operation & Maintenance Expenses	0.69	0.63	0.63
Depreciation	1.41	1.41	1.25
Interest on Long-term Loan	2.12	1.97	1.87
Interest on Working Capital	0.12	0.08	0.10
Contribution to Contingency Reserves	0.07	0.07	-
Income Tax Expense	-	0.29	0.17
Total Revenue Expenditure	4.41	4.45	4.01
Return on Equity Capital	1.12	1.27	1.12
Aggregate Revenue Requirement	5.67	5.71	5.13
Less: Non-Tariff Income		-	-
Add: Availability Incentive		0.10	0.09
Aggregate Revenue Requirement from Transmission	5.67	5.82	5.22
Less: Revenue from InSTS	-	-	-
Revenue Gap/(Surplus)	5.67	5.82	5.22

Note - 1 VIPL has shown the sharing of efficiency gains/losses for O&M and IoWC separately in its Petition, however, in the above table the net entitlement after sharing of gains/losses is shown under the VIPL Petition column.

Note -2 In the ARR summary table under VIPL's submission, it has considered a pro-rata revenue recovery of Rs. 4.25 Crore in FY 2015-16. However, under the VIPL Petition column in the above table, the Commission has not considered any revenue recovery in FY 2015-16, since no InSTS Order was applicable in FY 2015-16. .

2.17.4 The detailed analysis underlying the Commission's approval of individual ARR elements on Truing up of ARR for FY 2015-16 is already set out above, however, the variation in the ARR sought by the VIPL and that approved by the Commission in this Order is mainly on account of the lower depreciation, Interest on Long Term Loans and RoE approved by the Commission. This is pursuant to approval of the final Capital Cost in this Order based on the recommendations of the Third Party institution appointed by the Commission to undertake the prudence check of the Capital Cost of VIPL's Transmission System. Further, the contribution to Contingency Reserves pertaining to FY 2015-16 has been allowed for recovery as part of ARR for FY 2016-17 as VIPL has actually invested the same in FY 2016-17 on account of delayed commencement of revenue recovery. Further, there is lower approval of Income Tax

for FY 2015-16, which is computed in accordance with the MYT Regulations, 2011 and the ATE Judgment in Appeal Nos. 138 and 139 of 2012.

2.17.5 Accordingly, the Commission approves the Revenue Gap of Rs. 5.22 Crore on Truing-up of ARR for FY 2015-16.

2.17.6 The Revenue Gap along with the associated carrying cost for FY 2015-16 is dealt with in subsequent Sections of this Order.

3 TRUING UP OF ARR FOR FY 2016-17

3.1 Background

3.1.1 In the present Petition, VIPL has sought final Truing-up of FY 2016-17 in accordance with MYT Regulations, 2015, based on the actual expenditure and revenue as per the Audited Annual Accounts. It has also presented the comparison of expenditure and revenues approved by the Commission vide the MYT Order in Case No. 21 of 2016 dated 10 June, 2016 vis-à-vis the audited performance.

3.1.2 The detailed analysis underlying the Commission's approval of Truing-up for FY 2016-17 is set out below.

3.2 Operation & Maintenance (O&M) Expenses

VIPL's Submission

3.2.1 The normative O&M expenses are computed as specified in the MYT Regulations, 2015 on the basis of actual number of bays and line length (average of opening and closing balance of bays and line length considered).

3.2.2 Total normative O&M expenses amount to Rs. 0.73 Crore which is the same as that approved by the Commission vide MYT Order in Case No. 21 of 2016.

3.2.3 VIPL has accordingly submitted the normative O&M expenses for FY 2016-17 as per the following Table:

Table 28: Normative O&M expenses for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	VIPL Petition
Circuit Km. basis	0.02
Number of Bays basis	0.71
Total	0.73

Commission's Analysis and Ruling

3.2.4 The Commission approves the normative O&M expenses in accordance with the norms specified in the MYT Regulations, 2015 as shown in the Table below:

Table 29: Normative O&M expenses for FY 2016-17 approved by the Commission

Particulars	Unit	MYT Order	MTR Petition	Approved in this Order
Transmission Lines				
Length of Transmission Line	Ckt. Km.	6.12	6.12	6.12
Norm as per Regulations	Rs. Lakh/Ckt. Km.	0.28	0.28	0.28
O&M Expenses	Rs. Lakh	1.71	1.71	1.71
Bays				
No. of Bays	No.	4.00	4.00	4.00
Norm as per Regulations	Rs. Lakh/Bay	17.75	17.75	17.75
O&M Expenses	Rs. Lakh	71.00	71.00	71.00
Total O&M Expenses	Rs. Lakhs	72.71	72.71	72.71
Total O&M Expenses	Rs. Crore	0.73	0.73	0.73

3.2.5 The Commission approves normative O&M expenses of Rs. 0.73 Crore on Truing-up of ARR for FY 2016-17.

3.3 Actual O&M Expenses

VIPL's Submission

3.3.1 Operations and Maintenance expenditure consists of Employee expenses, Administrative and General expenses and Repairs and Maintenance expenses. The actual O&M expenditure for the FY 2016-17 is as shown in the following Table:

Table 30: Actual O&M expenses for FY 2016-17 as submitted by VIPL (Rs. Crore)

Particulars	VIPL Petition
Employee expenses	0.37
A&G expenses	-
R&M expenses	0.12
Total	0.48

Commission's Analysis and Ruling

3.3.2 VIPL has submitted the Auditor's Certificate stating the Gross Fixed Assets, Revenue, Employee expenses and R&M expenses for FY 2016-17. The Commission observed that VIPL has not allocated A&G expenses to its Transmission Business. VIPL stated that all the A & G expenses related to its Transmission project are being considered under Generation business related expenses only and no A&G expenses are allocated separately for Transmission business. VIPL has placed an Annual Maintenance Contract (AMC) for R&M activities of Transmission assets and therefore all R & M expenses shown under Plant and Machinery head only.

3.3.3 In reply to the Commission’s query regarding the basis of cost allocation between VIPL’s Generation and Transmission Business, VIPL submitted the revised Allocation Statement audited on the basis of the information related to costs and revenue identified by the management which is based on the expenditure incurred and revenue recovered for Transmission business. The Commission observes that VIPL has not maintained separate accounts for its Generation and Transmission businesses. **VIPL is hereby directed to maintain separate audited accounts for its Generation and Transmission business as per the requirement of Regulation (2.1) (1)(ix) of the MYT Regulations, 2015. VIPL is directed to submit separate Audited Accounts for its Generation and Transmission Businesses along with the next Tariff Petition.**

3.3.4 The Commission approves the actual O&M expenses submitted by VIPL, after verification with the Audited Allocation Statement and prudence check as shown in the following Table:

Table 31: Actual O&M expenses for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MTR Petition	Approved in this Order
Employee Expenses	0.37	0.37
A&G Expenses	-	-
R&M Expenses	0.12	0.12
Total O&M Expenses	0.48	0.48

3.3.5 **The Commission approves the actual O&M expenses of Rs. 0.48 Crore on Truing-up of ARR for FY 2016-17.**

3.4 Efficiency gains / losses in O&M Expenses

VIPL’s Submission

3.4.1 Variation in O&M expenses is a Controllable factor as specified in Regulation 9 of the MYT Regulations, 2015. The variation has been computed as the differential between the normative O&M expenses approved in the Order in Case No. 21 of 2016 vis-à-vis the actual O&M expenses.

3.4.2 The difference of normative approved O&M expenses of Rs. 0.73 Crore and the actual expenses of Rs. 0.48 Crore results in a controllable efficiency gain of Rs. 0.24 Crore. Regulation 11 of the MYT Regulations, 2015 specifies the mechanism for sharing of gains on account of controllable factors. Accordingly, 1/3rd of the gain i.e. Rs. 0.08 Crore is claimed as a part of the ARR. Therefore, the net entitlement of O&M expenses of VIPL is Rs.0.56 Crore.

Commission's Analysis and Ruling

3.4.3 The Commission has computed the efficiency gains due to variation in O&M expenses between revised normative O&M expenses approved in this Order and the actual approved O&M expenses in line with the MYT Regulations, 2015. The revised normative O&M expenses approved in this Order is same as that approved in the MYT Order in Case No. 21 of 2016 as there is no change in the number of bays and Ckt. Kms. of the Transmission Lines at the time of Truing-up of FY 2016-17. 2/3rd of this efficiency gain is shared with the beneficiaries and 1/3rd is considered as a part of ARR in line with the MYT Regulations, 2015.

3.4.4 Accordingly, the summary of sharing of efficiency gains/(losses) as computed by the Commission is shown in the Table below:

Table 32: Sharing of efficiency Gains/(Losses) due to variation in O&M expenses for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	Actual	Entitlement as per Regulations/ (Order)	Gain / (Loss)	Efficiency Gain / (Loss) shared with TSUs	Net Entitlement of VIPL
O&M Expenses	0.73	0.48	0.73	0.24	0.16	0.56

3.4.5 After considering sharing of efficiency gains, the Commission approves Rs. 0.56 Crore as net entitlement of O&M Expense for FY 2016-17.

3.5 Depreciation Expenses

VIPL's Submission

3.5.1 Depreciation has been calculated considering the approved Capital Cost and the depreciation rates prescribed in MYT Regulations, 2015.

3.5.2 The depreciation expenses as submitted by VIPL are shown in the Table below:

Table 33: Depreciation for FY 2016-17 submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Depreciation	1.41	1.41
Opening Gross Fixed Assets (GFA)	27.22	27.22
Closing GFA	27.22	27.22

Commission's Analysis and Ruling

3.5.3 The closing GFA for FY 2015-16 approved in this Order is considered as the opening GFA for FY 2016-17. There is no addition or retirement of assets during FY 2016-17. Accordingly, the closing GFA for FY 2016-17 is same as the approved opening GFA.

3.5.4 The Commission has computed asset class-wise depreciation considering the rates specified in the Regulation 27 of the MYT Regulations, 2015.

3.5.5 The depreciation approved for FY 2016-17 is summarised in the following Table:

Table 34: Depreciation for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Opening Gross Fixed Assets	27.22	27.22	24.06
Addition of Gross Fixed Assets	-	-	-
Asset Retirement	-	-	-
Closing Gross Fixed Assets	27.22	27.22	24.06
Depreciation	1.41	1.41	1.25

3.5.6 **The Commission approves depreciation of Rs. 1.25 Crore on Truing-up of ARR for FY 2016-17.**

3.6 Interest on Long Term Loans

VIPL's Submission

3.6.1 The Interest on Long Term Loans has been computed based on the Regulations 29.5 of the MYT Regulations, 2015 by applying interest rate of 11.77%, which was applicable on 1 April, 2016, on the normative average loan balances for FY 2016-17.

3.6.2 The Commission in its MYT Order in Case No. 21 of 2016 has considered the weighted average interest rate as 11.85% by considering the base rates and spreads applicable for various banks.

3.6.3 Accordingly, the Interest on Long Term Loan for the FY 2016-17 is as shown in the following Table:

Table 35: Interest on Long Term Loan for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Interest on Long Term Loan	1.84	1.83

Commission's Analysis and Ruling

3.6.4 The normative closing loan for FY 2015-16 approved in this Order is considered as the normative opening loan for FY 2016-17. There is no additional capitalisation in FY 2016-17 and hence any addition to loan. The repayment is considered equal to the depreciation approved for FY 2016-17 in this Order.

3.6.5 The Commission has scrutinized the documents submitted by VIPL pertaining to the applicable interest rates viz. the loan agreements as well as the bank documents relating to the periodic changes in the Base Rates (available publicly) for the loan portfolio for FY 2016-17. In line with the provisions of the MYT Regulations, 2015 for Truing up of ARR, the Commission has considered the rate of interest of 11.77% based on VIPL's submission, which is the weighted average rate of interest on the actual loan portfolio during the year. VIPL in its submission has mentioned that this rate is at the beginning of the year FY 2016-17 however, on scrutiny it is observed that this rate is the weighted average rate during the year FY 2016-17.

3.6.6 The interest expense approved by the Commission is given in the Table below.

Table 36: Interest on Long Term Loans for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Opening Balance of normative Loan	16.23	16.23	14.35
Additions to normative loan	-	-	-
Repayment	1.41	1.41	1.25
Less: Reduction in loan due to retirement of assets	-	-	-
Closing Balance of normative loan	14.82	14.82	13.10
Interest rate	11.85%	11.77%	11.77%
Interest expenses	1.84	1.83	1.61

3.6.7 **The Commission approves Interest on Long Term Loans as Rs. 1.61 Crore on Truing-up of ARR for FY 2016-17.**

3.7 Interest on Working Capital

VIPL's Submission

3.7.1 Interest on Working Capital (IoWC) has been calculated in accordance with Regulation 31.2 of MYT Regulations, 2015 by applying the norms to the actual expenditure.

3.7.2 The IoWC as submitted by VIPL is as shown in the following Table:

Table 37: Interest on Working Capital for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual
Interest on Working capital	0.121	-

Commission's Analysis and Ruling

- 3.7.3 The Commission has scrutinized the submissions of VIPL on computation of IoWC and estimated the normative working capital requirement considering the values of O&M expense and maintenance spares approved in this Order and revenue requirement approved for FY 2016-17 in the InSTS Order in Case No. 91 of 2016.
- 3.7.4 The Commission has considered the revised normative value of O&M expenses approved in this Order for computing the working capital requirements. For computing the book value of stores, materials and supplies, the Commission has considered 1% of opening GFA for FY 2016-17 approved in this Order.
- 3.7.5 One and a half months' revenue from Transmission Charges is considered as per the revenue requirement for FY 2016-17 approved in the MYT Order in Case No. 21 of 2016 and considered for recovery in the InSTS Order in Case No. 91 of 2016.
- 3.7.6 The Commission has computed the applicable interest rate of 10.79%, which is the weighted average SBI Base Rate during the year plus 150 basis points, for computation of Interest on Working Capital as per Regulation 31.2 (b) of MYT Regulations, 2015.
- 3.7.7 Accordingly, the normative IoWC approved by the Commission is as shown in the following Table:

Table 38: Interest on Working Capital for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Computation of Working Capital requirement			
One-twelfth of the amount of Operations and Maintenance Expenses	0.06	0.04	0.06
Maintenance spares at one per cent of the opening Gross Fixed Assets for the Year	0.27	0.27	0.24
One and a half months of the expected revenue from transmission charges at the prevailing Tariffs	0.79	0.69	0.79
Total Working Capital	1.12	1.00	1.09
Computation of Interest on Working Capital			
Rate of Interest (% p.a.)	10.80%	10.79%	10.79%
Interest on Working Capital	0.12	0.11	0.12

3.7.8 The Commission approves normative IoWC of Rs. 0.12 Crore on Truing-up of ARR for FY 2016-17.

3.8 Sharing of Efficiency Gains/Losses on Interest on Working Capital

VIPL's Submission

3.8.1 The variation in IoWC is attributed to controllable factors as per Regulation 9 of the MYT Regulations, 2015. The variation is computed as difference between the normative working capital based on actual expenses vis-à-vis the actual IoWC.

3.8.2 The actual IoWC is nil and accordingly the resulting controllable gains of Rs. 0.12 Crore is shared in line with the Regulation 11 of the MYT Regulations, 2015 which provides the mechanism of sharing of gains on account of controllable factors. Accordingly, VIPL has claimed 1/3rd of the gain, i.e. Rs. 0.04 Crore as net entitlement of IoWC for FY 2016-17.

Commission's Analysis and Ruling

3.8.3 VIPL has submitted that there is no actual IoWC in FY 2016-17. The Commission has approved the revised normative IoWC in this Order. Accordingly, the entire revised normative IoWC is considered as an efficiency gain in line with the provisions of Regulation 11 of the MYT Regulations, 2015. The Commission observes that VIPL has mentioned in the Petition that 2/3rd gain is claimed as a part of ARR which is in deviation from the Regulations however, in the financial model, the computation is done as per the Regulations i.e. 1/3rd of gain is considered as a part of ARR. Accordingly, 2/3rd of the efficiency gain on this account is shared with the beneficiaries, in line with the MYT Regulations, 2015. The same is shown in the following Table:

Table 39: Sharing of Efficiency Gains/(Losses) due to variation in Interest on Working Capital for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	Actual	Entitlement as per Regulations/ (Order)	Gain / (Loss)	Efficiency Gain / (Loss) shared with TSUs	Net Entitlement of VIPL
Interest on Working Capital	0.12	-	0.12	0.12	0.08	0.04

3.8.4 After considering sharing of efficiency gains, the Commission approves Rs. 0.04 Crore as net entitlement of IoWC expenses for FY 2016-17.

3.9 Contribution to Contingency Reserves

VIPL's Submission

3.9.1 Regulation 34.1 of the MYT Regulations, 2015 provides for contribution to Contingency Reserves a sum not less than 0.25% and not more than 0.5% of the original cost of fixed assets.

3.9.2 The Commission in its Order in Case No. 21 of 2016 has approved contribution to Contingency Reserves of Rs. 0.07 Crore for FY 2016-17. Accordingly, VIPL has created the contingency reserve of Rs. 0.07 Crore for FY 2016-17. The contribution to Contingency Reserves submitted by VIPL is as shown in the following Table:

Table 40: Contribution to Contingency Reserves for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual
Contribution to Contingency Reserves	0.07	0.07

Commission's Analysis and Ruling

3.9.3 The issue regarding submission of documentary evidence towards investments made out of Contingency Reserves for FY 2014-15 and FY 2015-16 in the approved class of securities and the response submitted by VIPL in this regards has been discussed in para 2.10.3 of this Order. In view of the same, the Commission has considered the actual contribution to Contingency Reserves pertaining to FY 2015-16 as a part of ARR in FY 2016-17, based on documentary evidence submitted by VIPL.

3.9.4 The Commission also sought documentary evidence towards investments made out of Contingency Reserves for FY 2016-17 in approved class of securities. VIPL submitted the documentary evidence for investments made against Contribution to Contingency reserves for FY 2016-17 amounting to Rs. 0.07 Crore in August, 2017 i.e. within the time frame of six months after the close of the financial year as specified in Regulation 34.1 of the MYT Regulations, 2015. Therefore, the Commission has considered the actual contribution to Contingency Reserves pertaining to FY 2016-17 as a part of ARR, based on documentary evidence submitted.

3.9.5 Accordingly, the approved contribution to Contingency Reserve is as given in the following Table:

Table 41: Contribution to Contingency Reserve for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Contribution to Contingency Reserves	0.07	0.07	0.14

3.9.6 The Commission approves the contribution to Contingency Reserve of Rs. 0.07 Crore pertaining to FY 2015-16 and Rs. 0.07 Crore pertaining to FY 2016-17 i.e. a total of Rs. 0.14 Crore on Truing-up of ARR for FY 2016-17, based on documentary evidence.

3.10 Return on Equity

VIPL's Submission

3.10.1 Return on Equity (RoE) has been computed based on Regulation 28 of the MYT Regulations, 2015, i.e. at the rate of 15.5%. The RoE as submitted by VIPL is as given in the following Table:

Table 42: Return on Equity for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual
Regulatory equity at the beginning of the year	8.17	8.17
Equity portion of the capitalisation during the year	-	-
Equity portion of assets retired during the year	-	-
Regulatory equity at the end of the year	8.17	8.17
Rate of Return on Equity (RoE)	15.50%	15.50%
RoE Computation		
RoE at the beginning of the year	1.27	1.27
RoE on the capitalisation during the year	-	-
Total Return on Regulatory Equity	1.27	1.27

Commission's Analysis and Ruling

3.10.2 The closing equity for FY 2015-16 approved in this Order, is considered as the opening equity for FY 2016-17. There is no additional capitalisation during the year and hence any addition to equity. The Commission has computed the RoE at the rate of 15.50 %, in accordance with the MYT Regulations, 2015. The RoE as approved by the Commission for FY 2016-17 is as follows:

Table 43: Return on Equity for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Regulatory equity at the beginning of the year	8.17	8.17	7.22
Equity portion of the capitalisation during the year	-	-	-
Equity portion of assets retired during the year	-	-	-
Regulatory equity at the end of the year	8.17	8.17	7.22
Rate of Return on Equity (RoE)	15.5%	15.5%	15.5%
RoE Computation			
RoE at the beginning of the year	1.27	1.27	1.12
RoE on the capitalisation during the year	-	-	-
Total Return on Regulatory Equity	1.27	1.27	1.12

3.10.3 The Commission approves the RoE of Rs. 1.12 Crore on Truing-up of ARR for FY 2016-17.

3.11 Income-Tax

VIPL's Submission

3.11.1 The Income Tax is computed as per the Regulated PBT approach defined in MYT Regulations, 2015 and accordingly Income Tax liability for FY 2016-17 is as given in the following Table:

Table 44: Income Tax for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual
Income Tax	0.87	0.31

Commission's Analysis and Ruling

3.11.2 The Commission has examined the details of the actual Income Tax paid for FY 2016-17 as well as the Income Tax Returns submitted by VIPL for the integrated business, vide response to data gaps.

3.11.3 Considering that the Transmission Business of VIPL is part of an integrated business consisting of a Generation and Transmission Businesses, the Income Tax claimed by VIPL in this Petition is based on the PBT method adopted by the Commission for approving Income Tax for Licensees who are part of an integrated business. Accordingly, VIPL has considered the ARR submitted on True up for FY 2016-17 as the revenue and the ARR less RoE as the expenses to compute the Income Tax using the Regulated PBT method.

3.11.4 The Commission has computed the Income Tax in accordance with Regulation 33.1 of MYT Regulations, 2015 and as specified in ATE Judgment dated 2 December 2013 vide Appeal Nos. 138 and 139 of 2012 in the matter concerning Generation and Transmission Businesses of R-Infra. As specified in the Regulations and the aforementioned ATE Judgment, the Commission has arrived at the Income Tax paid based on Regulatory Profit Before Tax (PBT) considering the normative cost allowed by the Commission. The Commission has accordingly considered the ARR approved on True up as the revenue and the ARR less the RoE as expenses considering normative values and computed the Income Tax liability using the applicable MAT rate. Moreover, in line with the Regulation 33.1 of the MYT Regulations, 2015 which specifies that Income Tax on efficiency gains and incentives shall not be a pass through, the efficiency gains and incentive recoverable by VIPL for FY 2016-17 as approved in this Order have been deducted while computing the taxable income. Accordingly, the calculation of Income tax provides the Tax payable for the Regulatory business whereby all the items of ARR and revenue are considered on normative basis for the Tariff purpose.

3.11.5 The Income-Tax as approved by the Commission for FY 2016-17 is as given in the following Table:

Table 45: Income-Tax for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Income Tax	0.87	0.31	0.16

3.11.6 **The Commission has considered any Income-Tax of Rs. 0.16 Crore on Truing-up of ARR for FY 2016-17.**

3.12 Revenue for FY 2016-17

VIPL's Submission

3.12.1 The Commission vide MYT Order in Case No. 21 of 2016 dated 10 June, 2016 for Truing up of ARR for FY 2014-15, provisional Truing up of ARR for FY 2015-16 and ARR for FY 2016-17 to FY 2019-20 had permitted recovery of the same through InSTS Order in Case No. 91 of 2016 dated 22 July, 2016 for Transmission tariff for Intra-State Transmission system for 3rd Control period FY2016-17 to FY 2019-20.

3.12.2 Accordingly, VIPL billed total revenue only for the period of nine months of FY 2016-17 instead of 12 months. Therefore, in this Petition VIPL is seeking recovery of Rs 1.57 Crore revenue of three months of FY 2016-17 as approved by the Commission vide Order in Case No. 91 of 2016 dated 22 July, 2016.

3.12.3 VIPL has billed total revenue of Rs. 4.72 Crore for FY 2016-17 in line with the Commission's MYT Order dated 10 June, 2016 in Case No. 21 of 2016 and InSTS

Order in Case No. 91 of 2016 dated 22 July 2016 for Transmission tariff for Intra-State Transmission system for 3rd Control period FY 2016-17 to FY 2019-20.

Commission's Analysis and Ruling

3.12.4 The Commission has noted the submission of VIPL. For the purpose of determining the revenue gap in FY 2016-17, the Commission has considered revenue of Rs. 10.31 Crore which is equivalent to 9 months' recovery based on the applicability of the InSTS Tariff approved for VIPL for FY 2016-17 vide Order in Case No. 91 of 2016 dated 22 July, 2016. The ARR approved for recovery vide this InSTS Order in FY 2016-17 comprised of the past un-recovered ARR of FY 2014-15 and FY 2015-16 along with the ARR approved for FY 2016-17.

3.12.5 At the same time, for the purpose of computing revenue gap, the Commission has considered the past year gaps due to non-recovery of ARR for FY 2014-15 and FY 2015-16 to be fully recovered first and the balance amount as recovery towards the ARR of FY 2016-17.

3.13 Non-Tariff Income

VIPL's Submission

3.13.1 There was no Non-Tariff Income during FY 2016-17.

Commission's Analysis and Ruling

3.13.2 The Commission notes that since there was no revenue recovered by VIPL in FY 2015-16, it could not have made the investment out of Contingency Reserves for that year within the timelines stipulated in the Regulations. Further, based on the documentary evidence submitted by VIPL, it is evident that Contingency Reserves pertaining to FY 2014-15 and FY 2015-16 are invested in FY 2016-17 and those pertaining to FY 2016-17 are invested in FY 2017-18. That being the case, no income would have accrued on this account in FY 2015-16 or FY 2016-17. Accordingly, the Commission has not considered any Non-Tariff Income on account of such investment. The Non-tariff Income for FY 2016-17 as given in the following Table:

Table 46: Non-Tariff Income for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Non-Tariff Income	0.01	-	-

3.13.3 The Commission approves nil Non-Tariff Income on Truing-up of ARR for FY 2016-17.

3.14 Income from Other Businesses

VIPL's Submission

3.14.1 VIPL has not earned any revenue from any other business during FY 2016-17.

Commission's Analysis

3.14.2 The Commission has noted the submission of VIPL.

3.15 Incentive on higher Transmission System Availability

VIPL's Submission

3.15.1 MSLDC has certified the Transmission System Availability of 99.86% for FY 2016-17. VIPL has computed the incentive on Transmission System Availability by restricting the availability to 99.75%. The Annual Transmission Charges net off Non-Tariff Income and income from other business are considered for calculation of incentive on Transmission System Availability. VIPL has sought the incentive of Rs. 0.04 Crore for FY 2016-17.

Commission's Analysis and Ruling

3.15.2 VIPL has mentioned the target availability of 98% for incentive computation in its financial model however, while computing the incentive it has considered the target availability of 99% for incentive computation, in line with the MYT Regulations, 2015.

3.15.3 The Commission verified the actual Transmission System Availability from the MSLDC certificate. The Commission in the past Orders and also in case of FY 2015-16 in the present Order which is governed by the provisions of the MYT Regulations, 2011 had not considered Income Tax as a component of ARR for calculating the incentive as the Regulation 54.10 of the MYT Regulations, 2011 does not include Income tax as part of the Aggregate Revenue Requirement for the Licensees. However, the MYT Regulations, 2015 as applicable for the truing up of FY 2016-17 considered Income Tax as part of the Aggregate Revenue Requirement (Regulation 54.10 of MYT Regulations, 2015) and accordingly, the Commission has considered the same for computation of the incentive payable to VIPL. In view of the same, the Commission allows incentive for the higher availability as follows:

Table 47: Incentive for higher Transmission System Availability for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MTR Petition	Approved in this Order
Annual Transmission Charges	5.18	4.88
Annual Availability achieved	99.86%	99.86%
Target Availability	98.00%	99.00%
Ceiling Availability for Incentive	99.75%	99.75%
Incentive	0.04	0.04

3.15.4 The Commission approves incentive on Transmission System Availability of Rs. 0.04 Crore on Truing-up of ARR for FY 2016-17.

3.16 Summary of Truing-up of ARR for FY 2016-17

VIPL's Submission

3.16.1 The Truing-up of ARR for VIPL for FY 2016-17 as summarized in the Table below:

Table 48: Summary of ARR for FY 2016-17, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	Actual	Net Entitlement after sharing of gains/(losses)
Operation & Maintenance Expenses	0.73	0.48	0.48
Depreciation Expenses	1.41	1.41	1.41
Interest on Long-term Loan Capital	1.84	1.83	1.83
Interest on Working Capital and on security deposits	0.121	-	-
Income Tax	0.87	0.31	0.31
Contribution to Contingency reserves	0.07	0.07	0.07
Total Revenue Expenditure	5.04	4.10	4.10
Return on Equity Capital	1.27	1.27	1.27
Aggregate Revenue Requirement	6.30	5.37	5.37
Add: 1/3rd of Efficiency Gain/(losses) (due to controllable factors) to be retained by VIPL in O&M Expenses			0.08
Add: 1/3rd of Efficiency Gain/(losses) (due to controllable factors) to be retained by VIPL in Working Capital requirement			0.04

Particulars	MYT Order	Actual	Net Entitlement after sharing of gains/(losses)
Less: Non-tariff Income	0.01	-	-
Aggregate Revenue Requirement from Transmission Tariff	6.29	5.37	5.49
Revenue from Transmission Tariff		4.72	4.72
Availability Incentive FY 2016-17			0.04
Revenue Gap/(Surplus)			0.81

3.16.2 The revenue gap / (surplus) for FY 2016-17 is arrived at by comparing the revenue received from InSTS and the ARR (net of Non-Tariff Income and Income from other Business).

Commission's Analysis and Ruling

3.16.3 Based on the analysis detailed in this Order, the Commission approves the Truing-up of ARR of VIPL for FY 2016-17 as below:

Table 49: Summary of ARR for FY 2016-17 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Operation & Maintenance Expenses	0.73	0.56	0.56
Depreciation	1.41	1.41	1.25
Interest on Long-term Loan	1.84	1.83	1.61
Interest on Working Capital	0.12	0.04	0.04
Contribution to Contingency Reserves	0.07	0.07	0.14
Income Tax Expense	0.87	0.31	0.16
Total Revenue Expenditure	5.04	4.22	3.77
Return on Equity Capital	1.27	1.27	1.12
Aggregate Revenue Requirement	6.30	5.49	4.88
Less: Non-Tariff Income	0.01	-	-
Add: Availability Incentive	-	0.04	0.04
Aggregate Revenue Requirement from Transmission Tariff	6.29	5.53	4.92
Add: Revenue gap of FY 2015-16	5.67	5.82	5.22
Add: Revenue gap of FY 2014-15 (considered for recovery in FY 2016-17 as per InSTS Order in Case No. 91 of 2016)	-	1.79	1.79
Less: Revenue from InSTS in FY 2016-17	-	10.31	10.31
Revenue Gap/(Surplus) for FY 2016-17	-	2.82	1.62

Note - 1 VIPL has shown the sharing of efficiency gains/losses for O&M and IoWC separately in its Petition, however, in the above table the net entitlement after sharing of gains/losses is shown under the VIPL Petition column.

Note -2 In the ARR summary table under VIPL's submission, it has considered a pro-rata revenue recovery of Rs. 4.72 Crore in FY 2016-17. However, under the VIPL Petition column in the above table, the Commission has separately shown the revenue gaps for FY 2014-15 to FY 2016-17 and the total revenue recovered from the InSTS Order in FY 2016-17 which comprised of ARRs approved for FY 2014-15 to FY 2016-17.

3.16.4 The detailed analysis underlying the Commission's approval of individual ARR elements on Truing up of ARR for FY 2016-17 is already set out above, however, as in the case of Truing up of ARR for FY 2015-16, the variation in the ARR sought by the VIPL and that approved by the Commission in this Order is mainly on account of the lower depreciation, Interest on Long Term Loans and RoE approved by the Commission pursuant to approval of the final Capital Cost in this Order. Further, the contribution to Contingency Reserves for FY 2015-16 has been allowed for recovery as part of the approved ARR for FY 2016-17 as VIPL has invested the same in FY 2016-17 on account of delayed commencement of revenue recovery for FY 2015-16 which only started after July 2016 vide the InSTS Order in Case No. 91 of 2016 dated 22 July, 2016. Further, there is lower approval of Income Tax for FY 2016-17, which is computed in accordance with the MYT Regulations, 2015 and the ATE Judgment in Appeal Nos. 138 and 139 of 2012.

3.16.5 Accordingly, the Commission approves a Revenue Gap of Rs. 1.62 Crore on Truing-up of ARR for FY 2016-17.

3.16.6 The Revenue Gap along with the associated carrying cost for FY 2016-17 is dealt with in the subsequent Sections of this Order.

4 PROVISIONAL TRUING-UP OF ARR FOR FY 2017-18

4.1 Background

4.1.1 VIPL has sought provisional Truing up of ARR for FY 2017-18 based on unaudited actuals for the first half (H1) and estimates for second half (H2). These are compared with the ARR for FY 2017-18 approved in Case No. 21 of 2016.

4.1.2 The analysis underlying the provisional Truing-up of ARR for FY 2017-18 undertaken by the Commission is set out below.

4.2 Operation & Maintenance (O&M) Expenses

VIPL's Submission

4.2.1 The Commission vide its MYT Order in Case No. 21 of 2016 has approved the normative O&M expenses of Rs. 0.76 Crore for FY 2017-18.

4.2.2 The normative O&M expenses of Rs. 0.76 Crore for FY 2017-18 are as shown in the Table below:

Table 50: Normative O&M expenses for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	VIPL Petition
Circuit Km. basis	0.0177
Number of Bays basis	0.7456
Total	0.7633

4.2.3 Further, VIPL has also submitted the actual O&M expenses for FY 2017-18 computed provisionally in its Petition, comprising of Rs. 0.42 Crore towards employee expenses, nil towards A&G expenses and Rs. 0.08 Crore towards R&M expenses i.e. a total of Rs. 0.5 Crore and claimed these as a part of ARR.

4.2.4 The efficiency gains/loss on O&M expenses with respect to audited actuals vis-à-vis those approved by the Commission vide its MYT Order in Case No. 21 of 2016 shall be claimed at the time of Truing-up of FY 2017-18.

Commission's Analysis and Ruling

4.2.5 The normative O&M expenses are computed by applying the norms specified in Regulation 58.7 of MYT Regulations, 2015 to the Transmission Line length (Ckt. Kms.) and bays approved by the Commission.

4.2.6 Accordingly, the normative O&M expenses approved by the Commission are as follows:

Table 51: Normative O&M expenses for FY 2017-18 approved by Commission

Particulars	Unit	MYT Order	MTR Petition	Approved in this Order
Transmission Lines				
Length of Transmission Line	Ckt. Km.	6.12	6.12	6.12
Norm as per Regulations	Rs. Lakh/Ckt. Km.	0.29	0.29	0.29
O&M Expenses	Rs. Lakh	1.77	1.77	1.77
Bays				
No. of Bays	No.	4.00	4.00	4.00
Norm as per Regulations	Rs. Lakh/Bay	18.64	18.64	18.64
O&M Expenses	Rs. Lakh	74.56	74.56	74.56
Total O&M Expenses	Rs. Lakhs	76.33	76.33	76.33
Total O&M Expenses	Rs. Crore	0.76	0.76	0.76

4.2.7 Further, considering VIPL's claim of actual O&M expenses for FY 2017-18 computed provisionally as set out above, the Commission also approves these at Rs. 0.50 Crore, in this Order.

4.2.8 **The Commission approves the normative O&M expenses of Rs. 0.76 Crore and actual O&M expenses of Rs. 0.50 Crore computed provisionally, based on VIPL's claim, on Provisional Truing-up of ARR for FY 2017-18. The provisional actual O&M expenses so approved are considered as a part of the approved ARR for FY 2017-18.**

4.3 Capital Expenditure and Capitalisation

4.3.1 No capital expenditure has been envisaged during FY 2017-18.

Commission's Analysis and Ruling

4.3.2 The Commission has noted the submission of VIPL.

4.4 Depreciation Expenses

VIPL's Submission

4.4.1 The opening GFA for FY 2017-18 has been considered to be equal to the closing GFA for FY 2016-17. Further, there has been no asset addition or retirement in H1 of FY 2017-18 and VIPL has not proposed any asset retirement during H2 of FY 2017-18 and hence no consequential treatment has been provided in the depreciation. The consequential treatment due to actual retirement of assets, if any, shall be submitted at the time of Truing-up of FY 2017-18.

4.4.2 The depreciation expenses as submitted by VIPL are shown in the Table below:

Table 52: Depreciation for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Depreciation	1.41	1.41
Opening Gross Fixed Assets (GFA)	27.22	27.22
Closing GFA	27.22	27.22

Commission's Analysis and Ruling

4.4.3 The closing GFA for FY 2016-17 approved in this Order is considered as the opening GFA for FY 2017-18. There is no capitalisation for FY 2017-18 as submitted by VIPL. The Commission has computed the depreciation for FY 2017-18 in accordance with the MYT Regulations, 2015 as shown in the following Table.

Table 53: Depreciation for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Opening Gross Fixed Assets	27.22	27.22	24.06
Addition of Gross Fixed Assets	-	-	-
Asset Retirement	-	-	-
Closing Gross Fixed Assets	27.22	27.22	24.06
Depreciation	1.41	1.41	1.25

4.4.4 **The Commission approves depreciation of Rs. 1.25 Crore on Provisional Truing-up of ARR for FY 2017-18.**

4.5 Interest on Long Term Loans

VIPL's Submission

4.5.1 The interest on Long Term Loans has been computed based on the Regulations 29.5 of the MYT Regulations, 2015. Interest on loan capital is calculated by applying interest rate of 11.30% which was applicable on 1 April, 2017 on the normative average loan balances for FY 2017-18.

4.5.2 The Commission in its Order in Case No. 21 of 2016 had considered the weighted average interest rate as 11.85% by considering the base rate and spread applicable for various banks in the consortium.

4.5.3 The interest on long term loan as submitted by VIPL is as shown in the following Table:

Table 54: Interest on Long Term Loans for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	Approved in Case No. 21 of 2016	VIPL Petition
Interest on Long Term Loan	1.67	1.60

Commission's Analysis and Ruling

4.5.4 The closing balance of loan for FY 2016-17 approved in this Order is considered as the opening loan for FY 2017-18. There is no capitalisation during FY 2017-18 and hence any addition to loan. The depreciation approved for FY 2017-18 in this Order is considered as normative repayment of loan.

4.5.5 VIPL has computed the effective interest rate for FY 2017-18 by computing the ratio of actual interest paid and opening loan balance which works out to 11.30%. The Commission has considered the applicable Base Rates and the interest spread for VIPL's Rupee term loans from the documentary evidence submitted and publicly available information on the bank websites. The opening loan balances for each loan as on 1 April, 2017 is considered as submitted by VIPL. The Commission has accordingly computed the weighted average interest rate on the actual loan portfolio at the beginning of FY 2017-18 which is 11.60% in line with the Regulation 29.5 of the MYT Regulations, 2015. This rate is considered for computing the interest expenses.

4.5.6 The interest expense approved by the Commission is given in the Table below.

Table 55: Interest on Long Term Loans for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Opening Balance of normative Loan	14.82	14.82	13.10
Additions to normative loan	-	-	-
Repayment	1.41	1.41	1.25
Less: Reduction in loan due to retirement of assets	-	-	-
Closing Balance of normative loan	13.41	13.41	11.85
Interest rate	11.85%	11.30%	11.60%
Interest expenses	1.67	1.60	1.45

4.5.7 The Commission approves Interest on Long Term Loans as Rs. 1.45 Crore on Provisional Truing-up of ARR for FY 2017-18.

4.6 Interest on Working Capital

VIPL's Submission

- 4.6.1 The IoWC has been calculated in accordance with Regulation 31.2 of the MYT Regulations, 2015 and applying the actual interest rate applicable to VIPL.
- 4.6.2 The interest on Working Capital as submitted by VIPL is as shown in the following Table:

Table 56: Interest on Working Capital for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Interest on Working Capital	0.11	0.10

Commission's Analysis and Ruling

- 4.6.3 The Commission has scrutinized the submissions of VIPL on computation of IoWC and estimated the normative working capital requirement considering the values of revised normative O&M expense and maintenance spares approved in this Order and revenue requirement approved for recovery in FY 2017-18 in the InSTS Order in Case No. 91 of 2016.
- 4.6.4 The Commission is guided by the provisions of the Regulation 31.2 of the MYT Regulations, 2015 and has accordingly considered the revised normative value of O&M expenses approved in this Order for computing the working capital requirements. For computing the book value of stores, materials and supplies, the Commission has considered 1% of opening GFA for FY 2016-17 approved in this Order.
- 4.6.5 One and a half months' revenue from Transmission Charges is considered as per the revenue requirement for FY 2017-18 approved in the MYT Order in Case No. 21 of 2016 and considered for recovery in the InSTS Order in Case No. 91 of 2016.
- 4.6.6 The interest rate for computing IoWC is considered as per Regulation 31.2 (c) of the MYT Regulations, 2015, which is the weighted average of the SBI Base rate till 28 November, 2017 and thereafter, one year MCLR as on 29 November, 2017 which works out to 8.70% plus 150 basis points, as per the first amendment to MYT Regulations 2015. Thus, the interest rate of 10.20% (8.70% + 1.50% = 10.20%) has been considered for estimation of the IoWC.
- 4.6.7 Accordingly, the normative IoWC approved by the Commission is as shown in the following Table:

Table 57: Interest on Working Capital for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Computation of Working Capital requirement			
One-twelfth of the amount of Operations and Maintenance Expenses	0.06	0.04	0.04
Maintenance spares at one per cent of the opening Gross Fixed Assets for the Year	0.27	0.27	0.24
One and a half months of the expected revenue from transmission charges at the prevailing Tariffs	0.70	0.66	0.71
Total Working Capital	1.04	0.97	0.99
Computation of Interest on Working Capital			
Rate of Interest (% p.a.)	10.80%	10.67%	10.20%
Interest on Working Capital	0.11	0.10	0.10

4.6.8 The Commission approves normative IoWC of Rs. 0.10 Crore on Provisional Truing-up of ARR for FY 2017-18.

4.7 Contribution to Contingency Reserves

VIPL's Submission

4.7.1 The contribution to Contingency Reserves for FY 2017-18 has been considered as approved by the Commission in its MYT Order in Case No. 21 of 2016 and is as shown in the following Table:

Table 58: Contribution to Contingency Reserves for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Contribution to Contingency Reserves	0.07	0.07

Commission's Analysis and Ruling

4.7.2 In line with the MYT Regulations, 2015 the Commission has considered contribution to Contingency Reserves at 0.25% of the opening GFA for FY 2017-18 approved in this Order. The approved amount of contribution to Contingency Reserves should be invested in approved set of securities within the timelines specified in the MYT Regulations, 2015.

4.7.3 Accordingly, the contribution to Contingency Reserves approved by the Commission is as given in the Table below:

Table 59: Contribution to Contingency Reserves for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Contribution to Contingency Reserves	0.07	0.07	0.06

4.7.4 **The Commission approves the contribution to Contingency Reserves of Rs. 0.06 Crore on Provisional Truing-up of ARR for FY 2017-18.**

4.8 Return on Equity

VIPL's Submission

4.8.1 RoE has been computed based on Regulation 28 of the MYT Regulations, 2015, at the rate of 15.5% on the equity capital at the beginning of the year plus 15.5% on 50% of the equity portion for the assets capitalised during the year.

4.8.2 No capitalisation or retirement of assets has been proposed during FY 2017-18, and thus no consequential treatment has been provided to the equity. Consequential adjustment in the equity due to actual retirement, if any, would be submitted during final Truing up.

4.8.3 The RoE as submitted by VIPL is as given in the following Table:

Table 60: Return on Equity for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Regulatory equity at the beginning of the year	8.17	8.17
Equity portion of the expenditure capitalised during the year	-	-
Equity portion of the assets retired during the year	-	-
Regulatory equity at the end of the year	8.17	8.17
Rate of Return on Equity (RoE)	15.50%	15.50%
RoE Computation		
RoE at the beginning of the year	1.27	1.27
RoE on the capitalisation during the year	-	-
Total Return on Regulatory Equity	1.27	1.27

Commission's Analysis and Ruling

4.8.4 The Commission has considered the closing equity for FY 2016-17 approved in this Order as the opening equity for FY 2017-18. There is no addition to GFA and hence

any addition to equity during the year. The RoE is computed at the rate of 15.5%, in accordance with the MYT Regulations, 2015 as shown in the following Table.

Table 61: Return on Equity for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Regulatory equity at the beginning of the year	8.17	8.17	7.22
Equity portion of the capitalisation during the year	-	-	-
Equity portion of assets retired during the year	-	-	-
Regulatory equity at the end of the year	8.17	8.17	7.22
Rate of Return on Equity (RoE)	15.5%	15.5%	15.5%
RoE Computation			
RoE at the beginning of the year	1.27	1.27	1.12
RoE on the capitalisation during the year	-	-	-
Total Return on Regulatory Equity	1.27	1.27	1.12

4.8.5 The Commission approves the RoE of Rs. 1.12 Crore on Provisional Truing-up of ARR for FY 2017-18.

4.9 Income Tax

VIPL's Submission

4.9.1 The Income Tax has been computed by grossing up the RoE by the MAT rate of 21.34% for the FY 2017-18. The Income Tax estimated by VIPL is as follows:

Table 62: Income Tax for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Income Tax	0.34	0.31

Commission's Analysis and Ruling

4.9.2 The Commission notes that VIPL has mentioned that the Income Tax is computed on the basis of RoE method for provisional Truing up of FY 2017-18. However, it is observed that while computing the Income Tax in the financial model submitted along with the Petition, VIPL has considered the previous year's actual Income Tax for FY 2017-18. The Commission has considered the Income Tax approved on True up of ARR for FY 2016-17 for the purpose of Provisional Truing up of ARR for FY 2017-18, in line with the provision of Regulation 33.1 of the MYT Regulations, 2015. The Income Tax as approved by the Commission for FY 2017-18 is as follows:

Table 63: Income Tax for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Income Tax	0.34	0.31	0.16

4.9.3 The Commission approves Income Tax of Rs. 0.16 Crore on Provisional Truing-up of ARR for FY 2017-18.

4.10 Revenue from InSTS

VIPL's Submission

4.10.1 The Commission, vide Order in Case No. 21 of 2016 dated 10 June, 2016 for Truing up of FY 2014-15, provisional Truing up for FY 2015-16 and ARR for FY 2016-17 to FY 2019-20 had approved the ARR of for FY 2017-18. The same was allowed for recovery through the InSTS Order in Case No. 91 of 2016 dated 22 July 2016 for Transmission Tariff for Intra-State Transmission system for 3rd Control period from FY 2016-17 to FY 2019-20.

4.10.2 VIPL has considered this approved revenue for the purpose of determining the revenue gap / (surplus) for FY 2017-18.

Commission's Analysis and Ruling

4.10.3 The Commission has noted the submission of VIPL and has considered the same for the purpose of working out the revenue gap / (surplus) for FY 2017-18.

4.11 Non-Tariff Income

VIPL's Submission

4.11.1 The Non-Tariff Income includes the income generated from investment of the Contingency Reserves in Government Securities. The Contingency Reserves for FY 2017-18 are invested in Government Securities.

4.11.2 For FY 2017-18, Non-Tariff Income has been considered the same as that approved in the MYT Order in Case No 21 of 2016.

Table 64: Non-Tariff Income for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Non-Tariff Income	0.02	0.02

Commission’s Analysis and Ruling

4.11.3 The Commission has examined the submission of VIPL and finds it to be in line with the Regulations. Accordingly, the Commission has approved Non-Tariff Income as submitted by VIPL for the FY 2017-18 as given in the following Table:

Table 65: Non-Tariff Income for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Non-Tariff Income	0.02	0.02	0.02

4.11.4 **The Commission approves Non-Tariff Income of Rs. 0.02 Crore on Provisional Truing-up of ARR for FY 2017-18.**

4.12 Income from Other Businesses

VIPL’s Submission

4.12.1 VIPL has not earned any revenue from any business other its Generation and Transmission businesses during FY 2017-18.

Commission’s Analysis and Ruling

4.12.2 The Commission has noted the submission of VIPL.

4.13 Summary of Provisional Truing-up of ARR for FY 2017-18

VIPL’s Submission

4.13.1 Based on the submissions made in the Petition, VIPL has computed the Provisional Truing-up of ARR for FY 2017-18 as summarized in the Table below:

Table 66: Summary of ARR for FY 2017-18, as submitted by VIPL (Rs. Crore)

Particulars	MYT Order	VIPL Petition
Operation & Maintenance Expenses	0.76	0.50
Depreciation Expenses	1.41	1.41
Interest on Long-term Loan Capital	1.67	1.60
Interest on Working Capital	0.11	0.10
Income Tax	0.34	0.31
Contribution to Contingency reserves	0.07	0.07
Total Revenue Expenditure	4.37	3.99
Return on Equity Capital	1.27	1.27
Aggregate Revenue Requirement (ARR)	5.64	5.26
Less: Income from Other Business	0.02	0.02

Particulars	MYT Order	VIPL Petition
Aggregate Revenue Requirement from Transmission Tariff	5.62	5.25
Revenue from Transmission Tariff		5.64
Revenue Gap/(Surplus)		(0.39)

Commission's Analysis and Ruling

4.13.2 Based on the analysis of various parameters set out in this Order, the ARR on Provisional Truing up for FY 2017-18 approved by the Commission is as summarised in the following Table.

Table 67: Summary of ARR for FY 2017-18 approved by Commission (Rs. Crore)

Particulars	MYT Order	MTR Petition	Approved in this Order
Operation & Maintenance Expenses	0.76	0.50	0.50
Depreciation	1.41	1.41	1.25
Interest on Long-Term Loan	1.67	1.60	1.45
Interest on Working Capital	0.11	0.10	0.10
Contribution to Contingency Reserves	0.07	0.07	0.06
Income Tax Expense	0.34	0.31	0.16
Total Revenue Expenditure	4.37	3.99	3.52
Return on Equity Capital	1.27	1.27	1.12
Aggregate Revenue Requirement	5.64	5.26	4.64
Less: Income from Other Business	0.02	0.02	0.02
Aggregate Revenue Requirement from Transmission Tariff	5.64	5.25	4.62
Revenue from Transmission Tariff	-	5.64	5.64
Revenue Gap/(Surplus)		(0.39)	(1.02)

4.13.3 The detailed analysis underlying the Commission's approval of individual ARR elements on provisional Truing up of ARR for FY 2017-18 is already set out above, however, as in case of Truing up of ARR for FY 2015-16 and FY 2016-17, the variation in the ARR sought by the VIPL and that approved by the Commission in this Order is mainly on account of the lower depreciation, Interest on Long Term Loans and RoE approved by the Commission pursuant to approval of the final Capital Cost in this Order. Further, there is lower approval of Income Tax for FY 2017-18, which is computed in accordance with the MYT Regulations, 2015 and the ATE Judgment in Appeal Nos. 138 and 139 of 2012..

4.13.4 Accordingly, the Commission approves a Revenue Surplus of Rs. 1.02 Crore on Provisional Truing-up of ARR for FY 2017-18.

5 REVISED ESTIMATES OF ARR FOR FY 2018-19 AND FY 2019-20

5.1 Background

5.1.1 The Commission had approved the ARR for FY 2016-17 to FY 2019-20 in the MYT Order in Case No. 21 of 2016. In this Section, the Commission has approved the revised estimates of ARR for FY 2018-19 and FY 2019-20 in accordance with the provisions of the MYT Regulations, 2015 as part of the Mid-term Review process.

5.1.2 VIPL has submitted its Mid-term Review Petition with revised projections of ARR under various heads, viz., O&M expenses, depreciation, Interest on Long Term Loans, IoWC, RoE, etc. The Commission has examined the submissions of VIPL in accordance with the Regulations, and the approval for these elements is set out below.

5.2 Operation and Maintenance Expenses

VIPL's Submission

5.2.1 The O&M expenses have been computed based on the Regulation 58.7 of the MYT Regulations, 2015 which specifies the year wise norms for O&M expenses, for the 3rd Control Period. The O&M expense as estimated by VIPL is as shown in the following Table:

Table 68: O&M expenses for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19	FY 2019-20
Circuit Km. Basis	0.02	0.02
Number of bays	0.78	0.82
Total	0.80	0.84

Commission's Analysis and Ruling

5.2.2 The Commission has approved the normative O&M expenses for FY 2018-19 and FY 2019-20 in accordance with the norms specified in the Regulation 58.7 of the MYT Regulations, 2015 as shown in the following Table:

Table 69: Normative O&M expenses for FY 2018-19 and FY 2019-20 approved by Commission

Particulars	Unit	FY 2018-19			FY 2019-20		
		MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Transmission Lines							
Length of Transmission line	Ckt. Km.	6.12	6.12	6.12	6.12	6.12	6.12
Norm as per Regulations	Rs. Lakh/Ckt. Km.	0.30	0.30	0.30	0.32	0.32	0.32
O&M Expenses	Rs. Lakh	1.84	1.84	1.84	1.96	1.96	1.96
Bays							
No. of Bays	No.	4.00	4.00	4.00	4.00	4.00	4.00
Norm as per Regulations	Rs. Lakh/Bay	19.57	19.57	19.57	20.55	20.55	20.55
O&M Expenses	Rs. Lakh	78.28	78.28	78.28	82.20	82.20	82.20
Total O&M Expenses	Rs. Lakhs	80.12	80.12	80.12	84.16	84.16	84.16
Total O&M Expenses	Rs. Crore	0.80	0.80	0.80	0.84	0.84	0.84

5.2.3 The Commission approves the revised estimates of normative O&M expenses of Rs. 0.80 Crore and Rs. 0.84 Crore for FY 2018-19 and FY 2019-20 respectively.

5.3 Capitalisation for FY 2018-19 and FY 2019-20

VIPL's Submission

5.3.1 VIPL has not envisaged any capital expenditure in FY 2018-19 and FY 2019-20.

Commission's Analysis and Ruling

5.3.2 The Commission has noted the submission of VIPL and has accordingly not considered any additional capitalisation for FY 2018-19 and FY 2019-20.

5.4 Depreciation

VIPL's Submission

5.4.1 Based on the Capital Cost approved by the Commission and considering the depreciation rates notified under MYT Regulations 2015, the details of depreciation for FY 2018-19 and FY 2019-20 are as follows:

Table 70: Depreciation for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Depreciation	1.41	1.41	1.41	1.41
Opening GFA	27.22	27.22	27.22	27.22
Closing GFA	27.22	27.22	27.22	27.22

Commission's Analysis and Ruling

5.4.2 The closing GFA for FY 2017-18 approved in this Order is considered as the opening GFA for FY 2018-19. There is no addition to capitalisation in either FY 2018-19 or FY 2019-20. The Commission has computed the depreciation for FY 2018-19 in accordance with the MYT Regulations, 2015. The depreciation for FY 2019-20 is also computed similarly, as shown in the following Table:

Table 71: Depreciation for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Opening Gross Fixed Assets	27.22	27.22	24.06	27.22	27.22	24.06
Addition of Gross Fixed Assets	-	-	-	-	-	-
Asset Retirement	-	-	-	-	-	-
Closing Gross Fixed Assets	27.22	27.22	24.06	27.22	27.22	24.06
Depreciation	1.41	1.41	1.25	1.41	1.41	1.25

5.4.3 The Commission approves the revised estimates of depreciation of Rs. 1.25 Crore each for FY 2018-19 and FY 2019-20.

5.5 Interest on Long Term Loans

VIPL's Submission

5.5.1 The Interest on Long Term Loans has been computed based on Regulation 29.5 of the MYT Regulations, 2015 in accordance to which, the interest rate for FY 2018-19 and FY 2019-20 has been determined using the actual debt portfolio of VIPL, considering the actual loan and schedule of repayment. The prevailing rate of interest applicable on Long Term Loan is considered for calculating interest on loan capital.

5.5.2 No retirement of assets is proposed in FY2018-19 and FY 2019-20 and thus no consequential treatment is to be provided in the loan balance. Actual retirement, if any, would be submitted at the time of Truing-up along with the consequential adjustment in the loan balance.

5.5.3 The Interest on loan as submitted by VIPL is shown in the Table below:

Table 72: Interest on Long Term Loan for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Interest on Long-Term Loan	1.50	1.44	1.34	1.28

Commission's Analysis and Ruling

5.5.4 The closing loan balance for FY 2017-18 approved in this Order is considered as the opening loan balance for FY 2018-19 and similarly for FY 2019-20. There is no capitalisation during either FY 2018-19 or FY 2019-20 and hence any addition to normative loan. The repayment is considered equal to the depreciation approved in this Order for the respective years. The Commission has considered the interest rate for FY 2018-19 and FY 2019-20 same as that approved for FY 2017-18 in this Order.

5.5.5 The Interest on loan approved by Commission is set out below.

Table 73: Interest on Long-Term Loan for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Opening Balance of normative Loan	13.41	13.41	11.85	11.99	12.00	10.61
Additions to normative loan	-	-	-	-	-	-
Repayment	1.41	1.41	1.25	1.41	1.41	1.25
Less: Reduction in loan due to retirement of assets	-	-	-	-	-	-
Closing Balance of normative loan	11.99	12.00	10.61	10.58	10.58	9.36
Interest rate	11.85%	11.30%	11.60%	11.85%	11.30%	11.60%
Interest expenses	1.50	1.44	1.30	1.34	1.28	1.16

5.5.6 **The Commission approves the revised estimates of Interest on Long Term Loans of Rs. 1.30 Crore and Rs. 1.16 Crore for FY 2018-19 and FY 2019-20, respectively.**

5.6 Interest on Working Capital

VIPL's Submission

5.6.1 The working capital requirement for FY 2018-19 and FY 2019-20 has been computed based on Regulation 31.2 of the MYT Regulations, 2015.

5.6.2 Further, the expected revenue from transmission charges has been considered same as the projected ARR for FY 2018-19 and FY 2019-20.

5.6.3 The actual interest rate of FY 2016-17 has been considered for computing interest on working capital.

5.6.4 The IoWC as submitted by VIPL is shown in the Table below:

Table 74: Interest on Working Capital for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Interest on Working Capital	0.11	0.17	0.11	0.11

Commission's Analysis and Ruling

5.6.5 The Commission has examined VIPL's submissions, and estimated the normative working capital requirement for FY 2018-19 and FY 2019-20 considering the following for the respective years:

- Normative value of O&M expenses for respective years approved in this Order.
- Maintenance spares at one percent of the opening GFA for the respective years.
- One and half month of revenue from Transmission charges as approved in this Order for respective years. The ARR considering all past gaps/surplus including carrying cost is considered as revenue from Transmission Charges for FY 2018-19.

5.6.6 The Commission has considered one year SBI MCLR as on 21 December, 2017 i.e. 7.95% plus 150 basis points i.e. 9.45% (7.95% + 1.50%) to compute the Interest on Working Capital. The interest rate of 9.45% in line with the First Amendment to the MYT Regulations, 2015 is considered for computing the IoWC for FY 2018-19 and FY 2019-20.

5.6.7 Accordingly, the IoWC expense approved by the Commission is as shown in the following Table:

Table 75: Interest on Working Capital for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Computation of Working Capital requirement						
Operation and maintenance expenses for one month	0.07	0.07	0.07	0.07	0.07	0.07
Maintenance spares at one per cent of the opening Gross Fixed Assets for the Year	0.27	0.27	0.24	0.27	0.27	0.24
One and a half months of the expected revenue from transmission charges at the prevailing Tariffs	0.68	1.29	0.76	0.67	0.66	0.58
Total Working Capital	1.02	1.63	1.06	1.01	1.00	0.89
Computation of Interest on Working Capital						
Rate of Interest	10.80%	10.67%	9.45%	10.80%	10.67%	9.45%
Interest on Working Capital	0.11	0.17	0.10	0.11	0.11	0.08

5.6.8 The Commission approves the revised estimates of normative Interest on Working Capital of Rs. 0.10 Crore for FY 2018-19 and Rs. 0.08 Crore for FY 2019-20.

5.7 Contribution to Contingency Reserves

VIPL's Submission

5.7.1 Regulation 34.1 of the MYT Regulations, 2015 provides for contribution to Contingency Reserves a sum not less than 0.25% and not more than 0.5% of the original cost of fixed assets.

5.7.2 In view of the above, the contribution to Contingency Reserves has been considered at 0.25% of the original cost of fixed assets as on 1 April of each FY 2018-19 and FY 2019-20. The contribution to Contingency Reserves submitted by VIPL is as shown in the Table below:

Table 76: Contribution to Contingency Reserve for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Contribution to Contingency Reserves	0.07	0.07	0.07	0.07

Commission's Analysis and Ruling

5.7.3 The Commission has computed the contribution towards Contingency Reserves at 0.25% of the approved opening GFA for the respective years FY 2018-19 and FY 2019-20, in accordance with the MYT Regulations, 2015. The approved contribution to Contingency Reserves is as per the following Table.

Table 77: Contribution to Contingency Reserve for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Contribution to Contingency Reserves	0.07	0.07	0.06	0.07	0.07	0.06

5.7.4 The Commission approves the revised estimates of contribution to Contingency Reserves of Rs. 0.06 Crore each for FY 2018-19 and FY 2019-20.

5.8 Return on Equity

VIPL's Submission

5.8.1 Return on Equity has been computed based on Regulation 28 of the MYT Regulations, 2015. The RoE has been computed at the rate of 15.5% on the equity capital at the beginning of the year plus 15.5% on 50% of the equity portion for the assets capitalised during the year.

5.8.2 No capitalisation and retirement of assets has been proposed in each financial year of the Third Control Period and thus no consequential treatment has been provided to the equity. The consequential adjustment in the equity due to actual retirement, if any, would be submitted during Truing up. The RoE computed by VIPL is shown in the following Table:

Table 78: Return on Equity for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Regulatory equity at the beginning of the year	8.17	8.17	8.17	8.17
Equity portion of expenditure capitalized	0.00	0.00	0.00	0.00
Equity portion of asset retired during the year	0.00	0.00	0.00	0.00
Regulatory equity at the end of the year	8.17	8.17	8.17	8.17
Return on Equity (RoE) computation				
RoE at the beginning of the year	1.27	1.27	1.27	1.27
RoE on capitalization during the year	0.00	0.00	0.00	0.00
Total Return on Equity	1.27	1.27	1.27	1.27

Commission's Analysis and Ruling

5.8.3 The Commission has considered the closing equity for FY 2017-18 approved in this Order as the opening equity for FY 2018-19 and similarly for FY 2019-20. There is no addition to capitalisation in FY 2018-19 and FY 2019-20 and accordingly any addition to equity. The RoE is computed at the rate of 15.5%, in accordance with the MYT Regulations, 2015.

5.8.4 The RoE for FY 2018-19 and FY 2019-20 as approved by the Commission is shown in the following Table.

Table 79: Return on Equity for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Regulatory equity at the beginning of the year	8.17	8.17	7.22	8.17	8.17	7.22
Equity portion of the capitalisation during the year	-	-	-	-	-	-
Equity portion of assets retired during the year	-	-	-	-	-	-
Regulatory equity at the end of the year	8.17	8.17	7.22	8.17	8.17	7.22
Rate of Return on Equity (RoE)	15.5%	15.5%	15.5%	15.5%	15.5%	15.5%
RoE Computation						
RoE at the beginning of the year	1.27	1.27	1.12	1.27	1.27	1.12
RoE on the capitalisation during the year	-	-	-	-	-	-
Total Return on Regulatory Equity	1.27	1.27	1.12	1.27	1.27	1.12

5.8.5 **The Commission approves the Return on Equity of Rs. 1.12 Crore each for FY 2018-19 and FY 2019-20.**

5.9 Income Tax

VIPL's Submission

5.9.1 VIPL has considered the Income Tax as approved by the Commission in the MYT Order for revised projections of FY 2018-19 and FY 2019-20.

5.9.2 The Income-Tax submitted by VIPL is as shown in the Table below:

Table 80: Income-Tax for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Income Tax	0.34	0.34	0.34	0.34

Commission's Analysis and Ruling

5.9.3 The Commission has approved the Income Tax for FY 2018-19 and FY 2019-20 same as that approved for FY 2016-17, in line with the Regulations. The Income Tax approved by the Commission for FY 2018-19 and FY 2019-20 is as follows:

Table 81: Income Tax for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Income Tax	0.34	0.34	0.16	0.34	0.34	0.16

5.9.4 The Commission approves the Income-Tax of Rs. 0.16 Crore each for FY 2018-19 and FY 2019-20.

5.10 Non-Tariff Income

VIPL's Submission

5.10.1 Non-Tariff Income has been considered as approved by the Commission in the MYT Order in Case No 21 of 2016, for revised projection of FY 2018-19 and FY 2019-20 as shown in the Table below:

Table 82: Non-Tariff Income for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Particulars	FY 2018-19		FY 2019-20	
	MYT Order	Revised Projections	MYT Order	Revised Projections
Non-Tariff Income	0.02	0.02	0.03	0.03

Commission's Analysis and Ruling

5.10.2 The Commission approves the Non-Tariff Income as submitted by VIPL, subject to truing up, as shown in the following Table:

Table 83: Non-Tariff Income for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Non-Tariff Income	0.02	0.02	0.02	0.03	0.03	0.03

5.10.3 The Commission approves the revised estimates of Non-Tariff Income of Rs. 0.02 Crore and Rs. 0.03 Crore for FY 2018-19 and FY 2019-20, respectively.

5.11 Income from Other Business

VIPL's Submission

5.11.1 VIPL has not envisaged any income from other business for the Third Control Period.

Commission's Analysis and Ruling

5.11.2 The Commission has noted the submission of VIPL.

5.12 Consequential impact on account of final Capital Cost approval on Trued up ARR of FY 2014-15

Commission's Analysis and Ruling

5.12.1 The Commission had approved the Truing up of ARR for FY 2014-15 in the MYT Order in Case No. 21 of 2016 considering the provisionally approved Capital Cost of VIPL's Transmission System of Rs. 27.22 Crore. Subsequently, as elaborated in the para 2.2 of this Order, the Commission has approved the final Capital Cost and Capitalisation of Rs. 24.06 Crore for VIPL's Transmission System based on the recommendations of the third party expert/institution and prudence check, as on the date of PPA between VIPL and RInfra i.e. 1 April, 2014.

5.12.2 In view of the foregoing, consequential impact on the ARR of FY 2014-15 on account of the final approval of the Capital Cost needs to be computed. Therefore, the Commission has re-computed all the ARR elements on True up of ARR for FY 2014-15 considering the revised final Capital Cost (which is also the capitalisation) of Rs. 24.06 Crore. The summary of the ARR approved in the MYT Order in Case No. 21 of 2016 and that re-computed now for the FY 2014-15 is given in the table below:

Table 84: Summary of ARR for FY 2014-15 approved in Case No. 21 of 2016 and re-computed in this Order by Commission (Rs. Crore)

Particulars	FY 2014-15	
	ARR Approved in MYT Order in Case No. 21 of 2016	Revised ARR approved in this Order pursuant to final Capital Cost approval
Operation & Maintenance Expenses	0.22	0.22
Depreciation	1.41	1.25
Interest on Long-term Loan	2.57	2.27
Interest on Working Capital	-	-
Other Expenses	-	-
Contribution to Contingency Reserves	0.07	0.06
Income Tax Expense	-	-
Total Revenue Expenditure	4.27	3.80
Return on Equity Capital	1.27	1.12
Aggregate Revenue Requirement	5.54	4.92
Add: 2/3rd of Efficiency Gain/(losses) (due to controllable factors) to be retained by VIPL in O&M Expenses	0.29	0.29
Add: 2/3rd of Efficiency Gain/(losses) (due to controllable factors) to be retained by VIPL in Working Capital requirement	0.07	0.06
Less: Income from Other Business	-	-
Add: Availability Incentive	0.11	0.09
Aggregate Revenue Requirement from Transmission Tariff	6.01	5.37
Total carrying cost for Revenue gap of 2014-15	1.58	1.41
Total ARR from Transmission Tariff	7.58	6.78

5.12.3 The difference in the ARR so computed and the ARR approved in Order in Case No. 21 of 2016 for True up of FY 2014-15 is considered for recovery in the present Order, as shown in the following Table:

Table 85: Consequential impact on account of final Capital Cost approval on Trued up ARR of FY 2014-15 (Rs. Crore)

Sr. No.	Particulars	Period of ARR	Approved in Order 21 of 2016	Revised Computation of ARR for FY 2014-15 based on final Capital Cost approval	Difference (to be considered in the ARR of FY 2018-19)
1	Revenue Gap/(Surplus) to be recovered through ARR of FY 16-17 of Transmission Business (next InSTS Tariff Order) (including carrying cost)	5 January, 2015 to 31 March, 2015	1.79	1.60	(0.19)
2	Revenue Gap prior to grant of Transmission License to be recovered through ARR of FY 16-17 of VIPL-Generation Business	1 April, 2014 to 4 January, 2015	5.80	5.18	(0.62)
3	Total Revenue Gap of FY 14-15 to be recovered through ARR of FY 16-17 of Generation and Transmission Businesses of VIPL	1 April, 2014 to 31 March, 2015	7.58	6.78	(0.80)

5.12.4 The Commission has determined an over-recovery of Rs. 0.80 Crore as the impact of final Capital Cost approval on the Trued up ARR of FY 2014-15. In line with the bi-furcation of the ARR recovery between Generation and Transmission Businesses of VIPL considered in the MYT Order in Case No. 21 of 2016, the over-recovery of Rs. 0.19 Crore along with applicable holding cost will be adjusted in the revised estimates of ARR of FY 2018-19 of the Transmission Business and the remaining over-recovery of Rs. 0.62 Crore shall be dealt with in the Mid-Term Review Order of VIPL's Generation Business.

5.13 Revenue Gap / (Surplus) and Carrying cost

VIPL's Submission

5.13.1 The carrying cost has been computed on the revenue gap as submitted. VIPL has considered the interest rate equivalent to Interest on Working Capital rate for computation of carrying cost which is shown in the Table below:

Table 86: Carrying Cost on Revenue Gap/ (Surplus) for FY 2014-15, FY 2015-16 and FY 2016-17 by VIPL (Rs. Crore)

Particulars	FY 2015-16	FY 2016-17	FY 2017-18
Interest Rate	14.29%	10.79%	10.67%
Opening Balance of Principal	-	1.67	2.66
Addition	1.56	0.81	-
Closing Balance of Principal	1.56	2.48	2.66
Carrying Cost on opening	-	0.18	0.14
Carrying Cost on addition	0.11	0.04	-
Total carrying cost	0.11	0.22	0.14
Total including Carrying Cost			2.04

Commission's Analysis and Ruling

5.13.2 The Commission has computed the carrying cost on the following elements in this Order:

- Revenue Gap for FY 2015-16 on Truing up excluding availability incentive.
- Revenue Gap for FY 2016-17 on Truing up excluding availability incentive.
- Revenue Surplus for FY 2014-15 on account of impact of final Capital Cost approval in this Order.

5.13.3 The rate considered for computing IoWC for respective years is applied for computing the carrying/holding cost. VIPL has computed the carrying cost applying the principle of compound interest. In its previous Orders in respect of all Licensees and Utilities, the Commission has consistently approved the carrying/holding cost applying simple interest, and the same methodology has been applied by the Commission while approving the carrying cost in the present Order. Moreover, the ATE has upheld this stand taken by the Commission; in the Judgments vide Appeal No. 250 of 2015 and Review Appeal No. 7 and 8 of 2017 in a matter concerning Jaigad Power Transco Ltd.

5.13.4 The carrying cost approved by the Commission is as shown in the following Table:

Table 87: Carrying Cost on Revenue Gap/(Surplus) approved by Commission (Rs. Crore)

Particulars	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Opening gap/(surplus)	-	(0.19)	4.94	1.30	1.30
Addition during the year	(0.19)	5.13	4.88	-	-
Recovery during the year	-	-	8.52	-	1.30
Closing gap/(surplus)	(0.19)	4.94	1.30	1.30	-
Average gap/(surplus)	(0.10)	2.37	3.12	1.30	0.65
Interest Rate	14.75%	14.75%	10.79%	10.20%	9.45%
Carrying Cost/(Holding) Cost	(0.01)	0.35	0.34	0.13	0.06
Total Carrying Cost for recovery in FY 2018-19	0.87				

5.13.5 **The Commission approves a carrying cost of Rs. 0.87 Crore for recovery in FY 2018-19.**

5.14 Summary of ARR for FY 2018-19 and FY 2019-20

VIPL's Submission

5.14.1 The total ARR for each financial year, based on the individual elements described above, for the Third Control Period is shown in the Table below:

Table 88: ARR for FY 2018-19 and FY 2019-20, as submitted by VIPL (Rs. Crore)

Sr. No.	Particulars	FY 2018-19		FY 2019-20	
		MYT Order	Revised Projections	MYT Order	Revised Projections
1	Operation & Maintenance Expenses	0.80	0.80	0.84	0.84
2	Depreciation Expenses	1.41	1.41	1.41	1.41
3	Interest on Loan Capital	1.50	1.44	1.34	1.28
4	Interest on Working Capital and on Consumer Security Deposits	0.11	0.17	0.11	0.11
5	Income Tax	0.34	0.34	0.34	0.34
6	Contribution to Contingency Reserves	0.07	0.07	0.07	0.07
7	Total Revenue Expenditure	4.24	4.24	4.11	4.05
8	Add: Return on Equity Capital	1.27	1.27	1.27	1.27
9	Aggregate Revenue Requirement	5.51	5.50	5.38	5.32
10	Less: Non-Tariff Income	0.02	0.02	0.03	0.03
11	Aggregate Revenue Requirement	5.49	5.49	5.35	5.29
12	Revenue gap /(Surplus) in FY 2014-15	-	0.45	-	-
13	Revenue gap /(Surplus) in FY 2015-16	-	1.56	-	-
14	Revenue gap /(Surplus) in FY 2016-17	-	0.81	-	-
15	Carrying cost on cumulative revenue gap	-	2.04	-	-
16	Aggregate Revenue Requirement from Transmission	5.49	10.34	5.35	5.29

5.14.2 The aforementioned revised ARR of Rs 10.34 Crore and Rs. 5.29 Crore for FY 2018-19 and FY 2019-20, respectively is required to be recovered from Transmission Tariff for FY 2018-19 and FY 2019-20.

Commission's Analysis and Ruling

5.14.3 The Commission observed that VIPL has not considered the revenue surplus on provisional Truing up of ARR for FY 2017-18 as a part of revised estimates of ARR for FY 2018-19. However, the Commission has considered the same in line with the approach adopted in all its previous and present Orders for all Licensees and Utilities.

5.14.4 Based on the analysis of various parameters set out above, the revised estimates of the ARR for the FY 2018-19 and FY 2019-20 approved by the Commission is as summarised in the following Table.

Table 89: : Revised estimates of ARR for FY 2018-19 and FY 2019-20 approved by Commission (Rs. Crore)

Particulars	FY 2018-19			FY 2019-20		
	MYT Order	MTR Petition	Approved in this Order	MYT Order	MTR Petition	Approved in this Order
Operation & Maintenance Expenses	0.80	0.80	0.80	0.84	0.84	0.84
Depreciation	1.41	1.41	1.25	1.41	1.41	1.25
Interest on Long-term Loan	1.50	1.44	1.30	1.34	1.28	1.16
Interest on Working Capital	0.11	0.17	0.10	0.11	0.11	0.08
Income Tax Expense	0.34	0.34	0.16	0.34	0.34	0.16
Contribution to Contingency Reserves	0.07	0.07	0.06	0.07	0.07	0.06
Total Revenue Expenditure	4.24	4.24	3.67	4.11	4.05	3.55
Return on Equity Capital	1.27	1.27	1.12	1.27	1.27	1.12
Aggregate Revenue Requirement	5.51	5.50	4.79	5.38	5.32	4.67
Less: Non Tariff Income	0.02	0.02	0.02	0.03	0.03	0.03
ARR from Transmission	5.49	5.49	4.78	5.35	5.29	4.64
ARR adjustment for FY 2014-15 due to final capital cost approval*	-	0.45	(0.19)	-	-	-
Revenue Gap / (surplus) in FY 2015-16	-	1.56	1.62	-	-	-
Revenue Gap / (surplus) in FY 2016-17	-	0.81	-	-	-	-
Revenue gap/(surplus) for FY 2017-18	-	-	(1.02)	-	-	-
Carrying cost on cumulative revenue gap	-	2.04	0.87	-	-	-
Aggregate Revenue Requirement from Transmission	5.49	10.34	6.05	5.35	5.29	4.64

* Rs. 0.45 Crore under column VIPL Petition is the pro-rated under-recovery for FY 2014-15 submitted by VIPL whereas the over recovery in FY 2014-15 due to final capital cost approval is considered under the Commission's approval column

5.14.5 The detailed analysis underlying the Commission's approval of individual ARR elements as part of the revised estimates for FY 2018-19 and FY 2019-20 is already set out above, however, as in case of Truing up of ARR for FY 2015-16 & FY 2016-17 and provisional Truing up of ARR for FY 2017-18, the variation in the ARR sought by the VIPL and that approved by the Commission in this Order is mainly on account of the lower depreciation, Interest on Long Term Loans and RoE approved by

the Commission pursuant to approval of the final Capital Cost in this Order. The variation is also on account of the impact of the past year Revenue Gap / (Surplus) considered by the Commission along with the associated carrying / holding cost based on approvals in this Order as against those sought by VIPL in its Petition. Further, there is lower approval of Income Tax for FY 2018-19 and FY 2019-20, which is computed in accordance with the MYT Regulations, 2015 and the ATE Judgment in Appeal Nos. 138 and 139 of 2012.

5.14.6 Accordingly, the Commission approves revised estimates of ARR of Rs. 6.05 Crore for FY 2018-19 including past gaps/surplus as well as associated carrying cost and Rs. 4.64 Crore FY 2019-20.

6 RECOVERY OF ARR AND TRANSMISSION CHARGES

As the Transmission System of VIPL forms a part of the InSTS, the approved ARR for VIPL for FY 2018-19 and FY 2019-20 shall be allowed to be recovered through the Commission's subsequent InSTS Transmission Tariff Order in terms of the Intra-State Transmission pricing framework and as specified in the MYT Regulations, 2015.

7 APPLICABILITY OF THE ORDER

This Order on approval of the Truing-up of ARR for FY 2015-16 and FY 2016-17, Provisional Truing-up of ARR for FY 2017-18 and the revised estimates of ARR for FY 2018-19 and FY 2019-20 shall come into force from 1 September, 2018.

The Petition of the Vidarbha Industries Power Ltd. in Case No. 198 of 2017 stands disposed of accordingly.

Sd/-
(I. M. Bohari)
Member

Sd/-
(Anand B. Kulkarni)
Chairperson


(Abhijit Deshpande)
Secretary


MAHARASHTRA ELECTRICITY REGULATORY COMMISSION
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Appendix – 1

List of persons who attended the pre-admittance discussion on 8 January, 2018

Sr. No.	Name of the Participant	Institution
1	Shri Himanshu Agrawal	VIPL
2	Shri Madhav Tekawade	VIPL

Appendix – 2

List of persons who attended the pre-admittance discussion on 28 March, 2018

Sr. No.	Name of the Participant	Institution
1	Shri Himanshu Agrawal	VIPL
2	Shri Madhav Tekawade	VIPL

Appendix – 3

List of persons who attended the Public Hearing on 26 July, 2018

Sr. No.	Name of the Participant	Institution
1	Shri Himanshu Agrawal	VIPL
2	Shri Madhav Tekawade	VIPL