

Date: 18 July 2012

**MSETCL Response to data gaps in the matter of approval of
BUSINESS PLAN FOR FY 2011-12 to FY 2015-16**

Sr. No.	Reference	Query/ Data gap	
1	F2.1	Please explain the derivation of the applicable O & M Cost Norm for ckt – km. The assumption is taken as per MYT but what is the actual cost v/s projected. In MYT the amount is the maximum that is allowed what is the actual.	<i>As per the MYT 2011 Norms specified in MYT Regulations 2011 (Pg 72/100)</i>
2	F2.1	Please explain the derivation of the applicable O & M Cost Norm for Bays. The assumption is taken as per MYT but what is the actual cost v/s projected. In MYT the amount is the maximum that is allowed what is the actual.	

MSETCL Response:

The Regulation 61.5.1 provides that O&M Expenses under MYT Regulations 2011, shall be linked to the basis of circuit- kilometre of transmission lines and number of bays in the substation of the Transmission Licensee. No cap (maximum/minimum) has been provided for these expenses in the MYT Regulations 2011.

The relevant extract from the Regulation is as below:

“Operation and Maintenance expenses

61.5.1 The norms for O&M expenses for existing and new Transmission Licensees have been stipulated for the Control Period on the basis of circuit kilometre of transmission lines and number of bays in the substation of the Transmission Licensee, as given below:"

MSETCL has already made detailed submissions in its petition about the insufficiency of the norms for O&M Expenses to cover actual expenses, on account of increase in business size, expanse of network and vintage of assets and prayed to the Hon'ble Commission to revise the norms to cover actual expenses of MSETCL.

However, without prejudice to its contentions of seeking revision in the norms, MSETCL has used the norms provided by the Hon'ble Commission, on the expected number of bays and ckt-km from its proposed Capex Plan.

3	F2.1	Previous Years Deferred Employee expenses amounting to Rs. 23.27 crores was for 5 years starting from 2006-07 to 2010-11. Hence no claim of the same should be made in the year 2011-12 (Refer Case 70 of 2007)	
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MSETCL Response:

MSETCL shall remove claim of Deferred Employee expenses of FY 11-12 in its revised submission.

4	Funding Pattern	The repayment of loans of REC and PFC is considered as 10 installments in 10 years. The tenure of loans sanctioned by REC & PFC is 15 to 17 years.	
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MSETCL Response:

The loan tenure for existing MSETCL loans varies from 10 to 15 years. For the purpose of forecast tenure of 10 years (without any moratorium period) has been considered, for the new loan additions.

5	F5	<p><u>Depreciation Provision:</u> The depreciation provision to the extent of the assets retired should also be reduced from the total depreciation Provision A/c as per the AS 6. The same has not been done in the True Up Forms</p>	
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MSETCL Response:

The computation of depreciation in Form F5 is based on Gross Block of Fixed Assets. The accumulated depreciation pertaining to the assets retired will be removed based on audited accounts of FY 10-11 in the revised business plan submission.

6	F6	<p>The rate of interest of REC /PFC for the FY 2010 -11 was 11.50 %. However it has been considered as 12.25 % for the persuing years. Please clarify.</p>	
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MSETCL Response:

The existing rate of interest of 12.25% for PFC and REC loans has been considered for computation of interest expenses, as the entire funding towards fresh capital expenditure is assumed to come from these two sources only.

7	F8	The Regulatory Equity at the beginning of the year for FY 2011-12 as per Final Order dated 08.05.2012, Case 169 of 2011,(as approved), was 3482.21 crores	
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MSETCL Response:

The opening balance of equity has been computed based on the actual capitalization for FY 2010-11 and a debt:equity ratio of 80:20, as below:

Particulars	Amount (Rs Cr)
Regulatory Equity at the beginning of the year (FY 2010-11)	3,271.95
Capitalisation during the year	2502.28
Equity portion of capitalisation during the year	500.46
Regulatory Equity at the end of the year	3772.41

8	F8	The rate of return on Equity for the year 2013-14 onwards is considered as 15.50%. Till 2012-13 it was 14%	
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MSETCL Response:

The rate of return for FY 2013-14 onwards has been taken as 15.5%, in consonance with Regulation 32.2.1 of the MERC (MYT) Regulations 2011.

The relevant extract has been reproduced as under:

“32.2.1 Return on equity capital for the Transmission Licensee and Wires Business of Distribution Licensee shall be computed on the equity capital determined in accordance with Regulation 30 at the rate of 15.5 % per cent per annum, and for the Retail Supply of Electricity of Distribution Licensee, Return on equity capital shall be allowed a return at the rate of 17.5 % per cent per annum, in Indian Rupee terms, on the amount of equity capital determined in accordance with Regulation 30.”

The ARR for years FY 2011-12 and FY 2012-13, has been filed under the MERC Tariff Regulations 2005, and therefore a rate of 14% has been considered, as provided in those Regulations.

9	F9	The total Non Tariff Income rises at approx 18% to 23% year on year. However from the year 2012-13 onwards, the growth rate considered is only 2%.	
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MSETCL Response:

The Non-Tariff income is composed of items, which are completely different in nature. Further, they have not shown any specific trend in the past. Their variation from year-to-year for each item does not exhibit any significant trend. Some items may have in fact shown a declining trend in FY 2010-11.

Hence, MSETCL has taken a reasonable escalation of 2% on the NTI items for FY 2011-12. The actual Non-Tariff Income may be considered by the Hon’ble Commission at the time of mid-term performance review or final truing-up.