

Date: 27 July 2012

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

Sl. No.	Reference	Information required	Query/Data Gaps
1.	Form F5	Treatment to sources of funding when assets get retired/ scrapped	When an asset gets retired/ scrapped what treatment is followed by MSETCL that impacts the sources of funding (equity and loans) used for funding the asset.

**MSETCL Response:**

The assets after retirement are kept in the scrap –yard for disposal. Once, a sufficient quantity of retired/obsolete assets are collected, they are finally disposed off. The profit/loss on sale of assets are booked and shown as Non-Tariff Income. MSETCL has reduced the equity and loan outstanding for the expected retirement in line with the Regulation 30.2 and 33.1 of MERC(MYT) Regulations 2011. The relevant extracts are reproduced hereunder:

*“33.1 The loans arrived at in the manner indicated in Regulation 30 shall be considered as gross normative loan for calculation of interest on loan.*

*Provided that in case of retirement or replacement of assets, the loan capital approved as mentioned above, shall be reduced to the extent of 70% **(or actual loan component based on documentary evidence, if it is higher than 70%)** of the original cost of the retired or replaced assets.”*

30.2

*....Provided that in case of retirement or replacement of the assets, the equity capital*

*approved as mentioned above, shall be reduced to the extent of 30% (or actual equity component based on documentary evidence, if it is lower than 30%) of the original cost of the retired or replaced asset;"*

2.	Business Plan	Accounting treatment when assets get replaced	When an asset gets replaced by higher capacity asset (say 50 MVA transformer getting replaced by 100MVA transformer) what accounting treatment is followed by MSETCL when the replaced asset (50 MVA transformers) is not immediately put to an alternate use?
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**MSETCL Response:**

When an asset gets replaced with higher capacity asset, the accumulated depreciation and cost of the replaced assets is withdrawn from the total accumulated depreciation and Gross Block of those assets. After replacement, the replaced asset is kept under head "Asset not in Use" on which depreciation is not charged. Normally these assets are not used and go for scrap. At the time of scrap sale, it is booked as income.

3.	Page 107 of business plan Page 86 of business plan	Basis for consideration of 2% nominal increase in projecting non tariff income	<p>In the revised Business Plan submitted, for estimating non-tariff income MSETCL has considered nominal increase of 2% based on estimate of Rs. 174.66 crore for FY 2011-12.</p> <p>What is the basis for consideration of 2% increase?</p> <p>As per page 86 of business plan MSETCL has indicated that it has entered into a JV with Sterlite Technologies to install 48 fiber optic power ground wires (OPGW) cable in Maharashtra. MSETCL has indicated various financial benefits of this JV. Has MSETCL considered the revenue from this JV as source of non tariff income as MSETCL has considered 2% nominal increase while projecting non tariff income?</p> <p>Please provide a realistic projection of non tariff income.</p>
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**MSETCL Response:**

Further to MSETCL's response to query No. 15, data gaps set-1, MSETCL humbly submits that its assumption of 2% nominal increase is in consonance with the Hon'ble Commission's approval of Non Tariff income, in its Order in Case 169 of 2011. In the said Order, the approval of NTI for the FY2011-12 stands at Rs 174.66 Cr and for the FY2012-13, the corresponding amount is Rs 178.15 Cr (Table No. 53). The percentage increase, therefore for FY 2012-13 works out to 2%.

With regards to income from OPGW business, MSETCL humbly submits that the formation of JV Company is under process. The necessary regulatory compliances and procedures are being followed up. The MSETCL JV partner is carrying out the market research and marketing exercise to ascertain the actual potential of OPGW business. As, the actual potential has not been established yet, therefore MSETCL is not in position to include the same in estimates of other income. Therefore, the impact of same shall be included in ARR, only after the actual potential is communicated to MSETCL by the JV partner.

Further, MSETCL would like to submit that the said income would come under the head “Income from other income” and not under Non-Tariff Income. The said consideration shall be in consonance with Regulation 63 of the MERC(MYT) Regulations 2011.

4.	Query No. 7 in Data gaps dated 16 July 2012 Page 98 of Business Plan	Basis for reduction in loan amount	<p>MSETCL has indicated that the assets expected to retire during a financial year have been assumed to be funded by a debt equity ratio of 80:20. The actual mapping of the assets with the specific loan may not be possible considering the huge asset base of MSETCL. This is the reason for reduction in value of loan to the extent of 80% of value of retired assets.</p> <p>What is the normal life of the various assets that get retired? What is the tenure of the loans subscribed from various sources pertaining to assets retired during the commissioning of these assets?</p> <p>Please give breakup of these retired assets along with commissioning dates, life of assets and individual book values of assets.</p>
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#### **MSETCL Response:**

Please refer to MSETCL’s response to query No. 9 of data gaps set-1.

*“The assets expected to retire during a financial year has been assumed to be funded by a debt equity ratio of 80:20, as the actual mapping of the assets with the specific loan may not be possible considering the huge asset base of MSETCL.”*

The life of such assets varies from asset-to-asset. Further, these equipments/assets are used at sub stations, which are geographically scattered across the State of Maharashtra, and their accounting is also done at those locations only. The consolidated information is therefore not available centrally. The collection of such information shall take considerable amount of time

and effort. MSETCL has therefore considered a reduction in line with Regulation 33.1 of MERC (MYT) Regulation 2011. The actual retirement and corresponding reduction in loan balances may be considered by the Hon'ble Commission during the truing-up/ performance review exercise to be undertaken.

5.	Query No. 10 in Data gaps dated 16 July 2012 Page 98 of Business Plan	Details on base rate and premium considered	<p>In reply to query regarding interest expense capitalized MSETCL has replied that "The interest rate of 11.5% has been assumed considering a premium of 1% over the prevalent Base rate of 10.5%."</p> <p>Please provide more details regarding the base rate of 10.5%.</p> <p>Please provide the basis for consideration of 1% premium.</p>
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#### MSETCL Response:

Please refer to following link (<http://www.rbi.org.in>) of **Reserve Bank of India** indicating the **Base rate as 10%-10.50%** as on date. The said rates are available under "current rates" section available on the top right side of the home page.

For ready reference the rates are tabulated below:

Lending/Deposit Rate		
Sno.	Particulars	Values
1	Base Rate	10.00%-10.50%
2	Saving Deposit Rate	4.00%
3	Term Deposit Rate	8.00%-9.25%

The same rate has been considered as the base rate in the business plan for interest expenses. Generally, the funds are available to MSETCL at a premium over the base rate. In the ARR forecast, a premium of 1% has been considered on the conservative side for the interest on rates on the capex loans. The Hon'ble Commission may consider the actual interest rates while truing-up/performance review.

6.	Query No. 11 in Data gaps dated 16 July 2012 Page 99 of Business Plan	Finance Charges for FY 11-12 and FY 12-13 in Table 35	In the business plan MSETCL has indicated that 'In case of other interest and finance charges for FY 2011-12 and FY 2012-13, MSETCL has considered the Guarantee and Finance Charges as approved by the Hon'ble Commission in its Order dated May 18, 2012.'  As per page 89 of 100 of Order in case 169 of 2011, the approved finance charges for FY 11-12 and FY 12-13 are Rs. 12.73 crore and Rs. 15.5 crore.  Please clarify.
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#### MSETCL Response:

#### <To be discussed>

7.	Query No. 12 in Data gaps dated 16 July 2012 Page 100 of Business Plan	Explanation on depreciation rate considered for vehicles	In the reply to a query regarding depreciation rate for portable air conditioner and vehicles.  MSETCL has replied to the query on depreciation rate for portable air conditioner but has not responded on depreciation rate considered for vehicles.  Please clarify
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**MSETCL Response:** The suggested changes shall be incorporated in the revised petition.

8.	Query No. 13 in Data gaps dated 16 July 2012 Page 100 of Business Plan	Explanation on depreciation rate considered for land and land rights in table 37	In reply to a query raised regarding depreciation rate considered for land and land rights MSETCL has replied that 'The rate of 0.56% depreciation is considered based on the average rate computed for the said asset-class for FY 2009-10.'  MSETCL is required to calculate depreciation as per the rates specified in MYT Regulations 2011.  Please clarify and revise.
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**MSETCL Response:**

The said rates were considered, based on MSETCL's earlier ARR petitions. MSETCL shall revise the depreciation rates for these asset classes in its revised submissions.

9.	Query No. 14 in Data gaps dated 16 July 2012 Page 105 of Business Plan	Approved opening balance of equity in table 40 for FY 12	<p>In response to the query on approved opening balance of equity for FY 12, MSETCL submitted that,</p> <p>“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:</p> <table><tr><th>Particulars</th><th>Amount (Rs Cr)</th></tr><tr><td>Regulatory Equity at the beginning of the year (FY 2010-11)</td><td>3,271.95</td></tr><tr><td>Capitalisation during the year</td><td>2502.28</td></tr><tr><td>Equity portion of capitalisation during the year</td><td>500.46</td></tr><tr><td><b>Regulatory Equity at the end of the year</b></td><td><b>3772.41</b></td></tr></table> <p>”</p> <p>As per page 59 of 100 of Order in case 169 of 2011, opening balance of equity for FY 2010-11 as approved by the Commission is Rs. 3110.07 crore whereas opening balance of equity for FY 2010-11 as submitted by MSETCL is Rs. 3271.95 crore.</p> <p>Please clarify.</p>	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	<b>Regulatory Equity at the end of the year</b>	<b>3772.41</b>
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<b>Regulatory Equity at the end of the year</b>	<b>3772.41</b>												

**MSETCL Response:**



The Opening balance of equity for FY 2010-11 of Rs. 3271.95 Cr, is based on the MSETCL submissions based on the audited figures. The same has been reflected in the Hon'ble Commission's Order in Case No 169 of 2011 on page no. 59 at Table No. 26.

10.	Query No. 17 in Data gaps dated 16 July 2012	Details of load flow study	While replying to query raised regarding submission of details directed by the Commission, MSETCL has given a technical note Capital Investment planning as Annexure-1. In the said annexure MSETCL has given a brief description of load flow study for Maharashtra state. Please give details regarding assumptions, inputs and output of the model. Also give quantified information regarding the load flow study in the detailed note that MSETCL is submitting to the Commission.
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**MSETCL Response:**

&lt;Information awaited&gt;