



MAHARASHTRA STATE ELECTRICITY DISTRIBUTION CO. LTD.

(A Govt. Of Maharashtra Undertaking)

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REF.: SE / TRC / MYT3A/

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17 NOV 2017

To,
The Secretary,
Maharashtra Electricity Regulatory Commission,
World Trade Centre, 13th floor, Centre No. 1,
Cuffe Parade, Mumbai – 400 005

Subject: Draft MERC (Multi Year Tariff) (First Amendment) Regulations, 2017 –
MSEDCL's comments thereof

Reference: MERC Public Notice dated 26-10-2017

Sir,

MERC has issued a draft of the proposed amendments to the provisions relating to Interest Rate and O&M Expenses and vide its public notice under reference above has invited comments, suggestions/objections on the said draft.

In this regard, MSEDCL's comments on the said draft are as below:

MSEDCL would like to submit that it welcomes the step as the earlier provisions of MYT Regulations 2015 regarding O&M Expenses were inadequate in determining realistic O&M expenses. It is submitted that the provisions of the proposed Amendment will also fall inadequate for determining correct level of O&M expenses for Wires & Supply Business. MSEDCL submits that for financial viability and to sustain in the competitive market, adequate O&M Expenses need to be provided.

- **Base Rate**

It has been proposed in the draft amendment to link the "Base Rate" to one year Marginal Cost of Funds-based Lending Rates (MCLR) of SBI. As per the RBI Guidelines dated 3 March, 2016 (updated on 29 March, 2016), new loans are be sanctioned only on the basis of Marginal Cost of Funds-based Lending Rates (MCLR). Hence, MSEDCL submits that it is imperative to link the same to MCLR.

- **O&M Expenses for Distribution Licensee (Wire and Supply Business)**

MSEDCL most humbly would like to present a comparison of norms for O&M expenses for Distribution Licensee as per MYT Regulations 2011, Draft MYT Regulations 2015 and Final MYT Regulations 2015 for wires and supply business.

MYT Regulations 2011:

Year	Corresponding to Wheeled Energy for Wires & Sales for Supply (Paise/kWh)		Corresponding to No. of Consumers in (Rs Lakhs / '000)		Corresponding to Gross Fixed Assets of (% of GFA)	
	Wires	Supply	Wires	Supply	Wires	Supply
FY 11-12	11.48	7.95	5.93	4.10	4.00%	0.50%
FY 12-13	12.14	8.41	6.26	4.00	4.00%	0.50%
FY 13-14	12.83	8.89	6.62	4.59	4.00%	0.50%
FY 14-15	13.57	9.40	7.00	4.85	4.00%	0.50%
FY 15-16	14.34	9.94	7.40	5.13	4.00%	0.50%

Subsequently MERC issued the Draft MYT Regulations 2015 for the third control period from FY 2016-17 to FY 2019-20. In the said draft the provisions for O&M expense were proposed by MERC as below:

Year	Corresponding to Wheeled Energy for Wires & Sales for Supply (Paise/kWh)		Corresponding to No. of Consumers in (Rs Lakhs / '000)		Corresponding to Gross Fixed Assets of (% of GFA)	
	Wires	Supply	Wires	Supply	Wires	Supply
FY 16-17	11.32	9.46	6.54	4.72	2.50%	2.50%
FY 17-18	11.88	9.94	6.86	4.96	2.50%	2.50%
FY 18-19	12.48	10.44	7.21	5.21	2.50%	2.50%
FY 19-20	13.10	10.96	7.57	5.47	2.50%	2.50%

However in the Final MYT Regulations 2015, the above provisions were excluded and entirely new provisions based on WPI/CPI were introduced. The provisions are as below;

Final MYT Regulations 2015:

The average of the Trued-up O&M expenses after adding/deducting the share of efficiency gains/losses, for the three years ending March 31, 2015 shall be considered as O&M expenses for the year ended March 31, 2014, and shall be escalated at the escalation rate of 5.72% to arrive at the O&M expenses for the base year FY 15-16.

The O&M expenses for each subsequent year shall be determined by escalating the base expenses determined above for FY 15-16, at the inflation factor considering 60%

weightage for the actual point to point inflation over WPI numbers as per Office of Economic Advisor of Government of India in the previous year and **40% weightage** for the actual CPI for Industrial Workers (all India) as per Labour Bureau, Government of India in the previous year, as reduced by an efficiency factor of 1%, to arrive at permissible O and M expenses for each year of the Control Period.

Comments on Draft First Amendment 2017 (Regulations 72.1 to 72.5 & Regulations 81.1 to 81.5):

The Draft Maharashtra Electricity Regulatory Commission (Multi Year Tariff) (First Amendment) Regulations, 2017 proposes to consider the final Trued-up O&M expenses, after adding/deducting the sharing of efficiency gains/losses, for FY 2015-16 as base year expenses for calculation of O&M expenses for subsequent years. MSEDCL welcomes this provision.

The Draft Regulations, 2017 provides for the 30:70 ratio to WPI/CPI indices of past five financial years for calculation of O&M Expenses as against 60:40 ratio to WPI/CPI indices of previous financial year in the MYT Regulations 2015.

Though MSEDCL welcomes this amendment, it would like to emphasize that the indices based methodology only covers the aspects of inflation/deflation. It does not consider the realities of the business. The O&M of the generation and transmission business largely depends on the materials such as coal, oil, steel and related matters. However, the electricity supply business, in addition to material, also involves the consumer base, consumer services and the geographical boundaries. Considering the methodology proposed in the Draft Amendment, the escalation factor for FY 16-17 works out to 5.06% only.

Financial Year	Annual WPI	% Annual Change in WPI	Annual CPI	% Annual change in CPI
2012-2013	167.62	7.36%	215	10.44%
2013-2014	177.64	5.98%	236	9.68%
2014-2015	181.19	2.00%	251	6.29%
2015-2016	176.67	-2.49%	265	5.65%
2016-2017	183.20	3.70%	276	4.12%
Avg for past 5 financial years		3.31%		7.24%
Weightages	30%	0.99%	70%	5.06%
Escalation Rate with 1% reduction	5.06%			

The O&M Expenses of MSEDCL have increased due to increase in Sales, No. of Consumers and GFA in last few years. Following table shows the O&M Expenses as per the audited accounts of the corresponding years.

Details of O&M Expenses (In Rs Crs)	As per Audited Accounts					4 year CAGR
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	%
Employee Expenses	2,299	3,121	4,028	4,551	4,187	16%
A & G Expenses	444	462	540	703	641	10%
R & M Expenses	553	611	752	903	589	2%
Total O&M Expenses	3,295	4,193	5,320	6,157	5,418	

MSEDCL humbly submits that historically Hon'ble Commission has been allowing lower normative O&M Expenses. Due to this MSEDCL is unable to allocate sufficient amount for its Repairs & Maintenance activities. In fact, the earlier O&M expenditure is suppressed due to disallowances and lower approval of O&M Expenses by Hon'ble Commission. The lower expenditure on R&M activities is affecting the consumer services leading to consumer dissatisfaction. If Hon'ble Commission allows sufficient provision for O&M Expenses, MSEDCL can undertake more R&M activities to keep the network in good condition which will in turn improve its consumer services.

MSEDCL submits that the Employee cost constitutes around 75% of the total O&M expenses. MSEDCL submits that the employee expenses escalate at a higher rate than that worked out as per the norms specified by the Hon'ble Commission. MSEDCL further submits that the rate of increase in Dearness Allowance (DA) to the employees of MSEDCL itself is in the range of 5-10% in last 4-5 years which has cascading effect on other components. It can be very well seen that the O&M Expenses that may work out based on the norms as per Draft Amendment would again result into lower allocation towards R&M activities affecting the consumer services further.

MSEDCL submits that the earlier provisions as per MYT Regulations 2011 for determining O&M Expenses permitted recovery on the basis of wheeled energy, consumer base and gross fixed assets. This base principle is still applicable and should also have been considered for deciding the O&M Expenses. There has been substantial increase in the sales; consumer base and GFA of MSEDCL over the last few years. The increase in consumer base necessitates increase in number of offices and Distribution Network i.e. Gross Fixed Assets.

Change in Consumer Base & GFA					
Particulars	FY 12-13	FY 13-14	FY 14-15	FY 15-16	3 year CAGR
	Actual	Actual	Actual	Actual	%
Sales in MUs	83,488	85,631	94,805	98,383	6%
No. of Consumers in '000	20,756	21,324	22,257	23,129	4%
Opening GFA in Rs. Crs	27,268	33,268	37,840	41,873	15%

MSEDCL submits that the WPI/CPI based norms don't consider these factors. MSEDCL humbly submits that such norms based on WPI/CPI are suitable for static

networks or for Licensees where the boundaries are not expanding such as Mumbai Licensees. MSEDCL has been extending supply to remote uncovered areas and also strengthening its network through various Schemes.

The Infrastructure addition through Infra II Scheme in last 4 years (upto 31.10.2017) is shown in the table below. The works under the scheme are expected to be completed by December 2018. Expenditure of ~ Rs 5907 Crs has so far been made on the scheme.

Sr No	Nature of Work	Scope of Work	Works Completed	WIP
1	New Substations (Nos)	505	423	82
2	Additional Power T/F and Augmentation of Power T/F (Nos)	542	519	23
3	Distribution Transformers (Nos)	53,531	50,214	3,317
4	HT/LT Line (Kms)	51,910	41,998	9,912

Further, MSEDCL is undertaking electrification under DDUGJY and IPDS schemes amounting to Rs 2164 Crs and Rs 2300 Crs respectively in the ensuing year. The scope of work under these schemes is as given in the table below:

Sr No	Particulars	DDUGJY	IPDS
1.	New Substations (Nos)	216	129
2.	Augmentation of Power T/F (Nos)	54	57
3.	Additional Power T/F (Nos)	43	25
4.	HT + LT Line (Kms)	25,145	11,399
5.	Distribution Transformers (Nos)	9,907	5,630
6.	Augmentation of DTCs (Nos)	393	3,644
7.	Feeder Separation (Nos)	775	--
8.	Meter replacements (Nos)	--	6,16,831
9	Special Design Transformers (Nos)	884	--

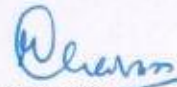
Considering the extensive infrastructure addition that is likely to happen in MSEDCL area, the Repairs and maintenance work and expenses thereon, are bound to increase. Hence MSEDCL requests Hon'ble Commission to consider allowing @4% of Gross Fixed Asset (GFA) towards R&M expenses.

MSEDCL further submits that Hon'ble Commission in the Explanatory Memorandum has calculated the weightage for MSEDCL as 21:79 for WPI:CPI. However, while proposing the amendment Hon'ble Commission has suggested the ratio of 30:70. Hence it is requested to consider 20:80 for WPI:CPI along with other suggestions above.

In view of the MSEDCL's submission in the foregoing paras, MSEDCL suggests that, in addition to the escalation factors based on 20:80 weightage to WPI:CPI parameters, an additional factor based on increase in Sales, Consumer base and increase in Distribution Network i.e. 4% of GFA for R&M expenditure may additionally be included for determining O&M expenses so that sufficient provision can be made for improving the consumer services and reducing complaints.

This may please be taken on record and be placed before Hon'ble Commission.

Yours Faithfully,



Satish Chavan

Executive Director (Commercial)

MSEDCL