BEFORE THE MAHARASHTRA ELECTRICITY REGULATORY COMMISSION, MUMBAI

CASE NO. 187 OF 2024

IN THE MATTER OF;

Replies towards Data Gap raised by the Hon'ble Commission vide email dated 11.11.2024 in Case No. 187 of 2024 filed by Maharashtra State Power Generation Company Ltd for "approval of (i) Final True-up for FY 2022-23 and FY 2023-24, (ii) Provisional True-up for FY 2024-25, and (iii) Approval of Aggregate Revenue Requirement (ARR) and Tariff for the Control Period FY 2025-26 to FY 2029-30".

I. Additional queries post TVS

1. It is observed that actual additional capitalisation achieved by MSPGCL is substantially lower than that approved by the Commission for FY 2022-23 and FY 2023-24 as shown below. MSPGCL to submit the detailed justification for such a large variation between the capitalisation approved by the Commission and the actual capitalisation incurred by MSPGCL.
   a. Actual capitalisation of Rs 854.39 Crore in FY 2022-23 Crore as against Rs 1118.70 Crore approved in MTR Order
   b. Actual capitalisation of Rs 611.09 Crore in FY 2023-24 Crore as against Rs 1596.16 Crore approved in MTR Order

<u>MSPGCL's Reply</u>:

The detailed justification variation in actual capitalisation vis-à-vis capitalisation approved for FY 2022-23 is provided below.

a) During FY 2022-23, Annual/Capital Overhauls of 14 nos. of thermal units, (capacity-5370 MW) of MSPGCL were planned. However, in order to meet the Maharashtra's increasing power demand throughout the year, Annual/Capital Overhauls of 5 nos. of thermal units, (capacity -1630 MW) were not consented by MSEDCL and were deferred during FY 2022-23. Total 30% of Overhaul of thermal units was deferred in FY 2022-23. Hence execution & implementation of the approved DPR schemes which was scheduled during the overhaul of the units, which were deferred, could not be carried out.
b) Some of the capex schemes have also experienced procurement process delays like refloating of tenders multiple times due to issues like poor response from vendors or single bidding.
c) Also, the delivery period of some of the Capex items was around 6 to 9 months from the dispatch of PO and it was anticipated that the schemes

would be implemented in FY 22-23. However, some of the materials were received during the end of FY 22-23. This has resulted in the spillover of the capitalization in the next FY 23-24. This has also added to the reduction in actual capitalization during the FY 22-23. Also, there were some instances where delay in the production and delivery of critical components was observed. This has also affected the timely procurement of the required equipment.

d) Further, during the execution of the capital schemes, there were few instances of cost savings due to more favorable procurement terms or more efficient project execution. These savings resulted in the final capitalization being lower than initially anticipated.

The detailed justification for variation in actual capitalisation vis-à-vis capitalisation approved for FY 2023-24 is provided below.

a) During FY 2023-24, Annual/Capital Overhauls of 12 nos. of thermal units, (capacity-4256 MW) was planned by MSPGCL. However, in order to meet the Maharashtra's increasing power demand throughout the year, Annual/Capital Overhauls of 6 nos. of thermal units, (capacity -2460 MW) were not consented by MSEDCL and were deferred during FY 2023-24. Total 58% of Overhaul of thermal units was deferred in FY 2023-24. Hence execution & implementation of the approved DPR schemes which was scheduled during the overhaul of these units, which were deferred, was significantly impacted.
b) Various reasons for underutilization of CAPEX for FY 2023-24 are the significant lead time in preparation of design, bid process management, negotiations with vendors & ensuring that the cost submitted by the bidders is within reasonable range, high cost of CAPEX items /material and long delivery schedules, etc. This process takes more than the envisaged time leading to spill over of schemes to the subsequent years.
c) Further, some of the anticipated capital expenditures occurred later in the fiscal period, and therefore, the total capitalization for the period is lower than expected. The balance expenditure will be done in the next year.
d) Further, during the execution of the capital schemes, there were instances of cost savings due to more favorable procurement terms or more efficient project execution. These savings resulted in the final capitalization being lower than initially anticipated.

2. During FY 2024-25, MSPGCL has proposed additional capitalisation of Rs 2317.93 Crore as against Rs 3699.06 Crore approved in MTR Order. MSPGCL

to submit the following:

a. Justification for large variation between the capitalisation approved by the Commission and revised capitalisation.
b. Actual capital expenditure and capitalisation during first half of FY 2024-25 (April to Sept 24).
c. Revised additional capitalisation for FY 2024-25 based on actual progress till date.

<u>MSPGCL's Reply</u>:

The point wise aforesaid data gap is as given below:

a) Justification for large variation between the capitalisation approved by the Commission and revised capitalisation:

i. During FY 2024-25, Annual/Capital Overhauls of 11 nos. of thermal units, (capacity-4290 MW) was planned by MSPGCL. However, considering the Maharashtra's increasing power demand, till date, Annual/Capital Overhauls of 8 nos. of thermal units, (capacity-2630 MW) has been carried out. Further, till date AOH/COH of unit (capacity-660 MW) has not been consented by MSEDCL and is deferred in FY 2024-25. Hence execution & implementation of the approved DPR schemes which was scheduled during the overhaul of these units, which is deferred, could not be carried out.

ii. Other reason for variation between the capitalisation approved by the Commission and revised capitalization during FY 2024-25 is the significant lead time in preparation of design, bid process management, negotiations with vendors & ensuring that the cost submitted by the bidders is within reasonable range, high cost of CAPEX items/material and long delivery schedules, etc. This process takes more than the envisaged time leading to spill over of schemes to the subsequent year.

b) **Actual capital expenditure and capitalisation during first half of FY 2024-25 (April to Sept 24)**:

i. Actual capital expenditure during the first half of FY 2024-25 (April to Sep-24) is Rs 329.41 Crs
ii. Actual Capitalization during the first half of FY 2024-25 (April to Sep-24) is Rs. 132.43 Crs. Station wise sheet is attached herewith as Annexure-DG-II-2

c) Revised additional capitalisation for FY 2024-25 based on actual

progress till date.

iii. Actual Capitalization during the first half of FY 2024-25 (April to Sep-24) is Rs. 132.43 Crs. Further, Capitalization expected during the second half of FY 2024-25 (Oct-24 to Mar-25) considering the actual progress till date will be Rs 2200.71 Crs. Hence the total projected Capitalization for FY 2024-25 will be Rs. 2333.15 Crs. Station wise capitalization sheet for FY 2024-25 is attached herewith as Annexure-DG-II-2.

In conclusion, it is submitted that MSPGCL is diligently monitoring the progress and expenditures of ongoing capital schemes and is making every effort to ensure that future capitalization complies with the approved capitalization framework and applicable accounting standards.

3. MSPGCL to provide the details of DPR and Non-DPR schemes proposed for FY 2025-26 to FY 2029-30 along with the preparedness of various schemes in terms of status of DPR, tendering and funds tie up. MSPGCL to also provide the detailed justification for incurring such additional capitalisation along with the Regulations under which such capitalisation is proposed to be incurred.

<u>MSPGCL's Reply</u>:

It is submitted that Proposed Capital Expenditure schemes submitted in the present petition for FY 2025-26 to FY 2029-20 are proposed under Regulation 25 of MERC MYT Regulations, 2024 as well as provisions under Regulation MERC (Approval of Capital Investment Schemes) Regulations, 2022.

The schemes are mainly for enhancement of equipment life, enhancement/ improvement in efficiency, implementation of new technology, replacement against equipment's which have out-lived their life etc. These are based on the assessment at power plant end for such major works of capital nature to be undertaken over next 5 years, also considering the statutory compliance requirements. As of now, the schemes are raw proposals with estimated costs as per latest relevant orders / estimates recently sought from agencies / orders given by other utilities like NTPC etc.

The DPR preparation will be carried out after the MSPGCL Management accords approval for undertaking the proposed schemes. Following steps are generally taken till actual execution of the proposed schemes.

a) Internal scrutiny of the proposals for need, options/ alternate arrangements available, technical feasibility etc.
b) Audit of the proposal from financial principles – investment phasing, Payback period, cost benefit analysis etc.
c) Administrative Approval by MSPGCL Board to undertake the scheme and DPR preparation
d) DPR preparation in line with the provisions under MERC (Approval of Capital Investment Schemes) Regulations, 2022.
e) Board approval to the DPR prepared as above.
f) Submission of the DPR to Hon'ble Commission for "in-principle" approval
g) Tenderisation, contract award and implementation – As per MERC In-principle approval and as per MSPGCL Board directions.

In case of the schemes proposed under the present petition, the abovementioned process will be followed in due course.

Regarding fund tie-up, the Petitioner submits that the Works Section of MSPGCL provides the Finance Section with a list of DPR and Non-DPR schemes for loan arrangements. To initiate the loan tie-up process, the Finance Section requires the Detailed Project Report (DPR), Board Resolution (BR), and MERC approvals.

Subsequently, the Finance Section approaches various Financial Institutions (FIs) and Banks for funding and coordinates with the relevant sections to address any queries raised by these entities regarding the schemes. A comparative analysis of multiple sanctions received for a particular scheme is conducted based on interest rates and other loan terms/clauses. Management approval is then obtained to finalize the loan tie-up.

Once the tie-up is finalized, additional formalities, such as documentation and security identification/creation, are handled by the Loan Section. For FY 2024-25, REC and PFC have sanctioned a loan amount of ₹929.86 crore for 29 Capex schemes, with the tie-up process currently under process.

4. MSPGCL to submit a complete report on the cost benefit analysis of the washed coal. Presently, only the details of increase in cost due to washing of coal and increase in GCV due to washing is provided as Annexure-9.

<u>MSPGCL's Reply</u>:

The cost benefit analysis of washed coal for Koradi TPS is attached as Annexure DG-II-4 to these replies of data gaps.

5. MSPGCL to submit a comprehensive report on the expenses proposed for utilisation of Ash, the cost benefit analysis of the expenses proposed to be incurred for its utilisation, the additional revenue proposed to be generated due to such utilisation.

<u>MSPGCL's Reply</u>:

The working of the projected expenses related to Ash utilization is already provided in annexure DG-I-104 submitted as part of the data gap set I.

Cost Benefit Analysis:

With regard to cost benefit analysis, it is submitted that as per the provisions of the MoEF&CC Ash notification 2021, heavy penalty of Rs 1000/MT will be imposed over the un-utilized ash in thermal power plant. Accordingly, the tentative amount of penalty for Dry fly ash and pond ash is tabulated below

a. **Dry Fly Ash**:

TPS	Total dry Ash generation for FY year 23-24 (lakh MT)	Proposed Penalty (Rs./MT)	Proposed Total penalty (Rs Crore)
Koradi	25	1000	250
Khaperkheda	19	1000	190
Chandrapur	35	1000	350
Total annual penalty			**790**

Hence, total penalty for un-utilization of dry fly ash (per year) is 790 Crore, accordingly, penalty amount for next 5 years would be Rs. 3950 Crore

b. **Pond Ash**:

TPS	legacy pond Ash available as on (lakh MT)	Proposed Penalty (Rs./MT)	Proposed Total penalty (Rs. Crore)
Koradi	343.75	1000	3437.5
Khaperkheda	277.74		2777.4
Chandrapur	889.734		8897.3
Total penalty			**15112**

In view of above, total penalty for un-utilization of legacy pond ash would be Rs.15112 Crore

Considering penalty for Dry Fly Ash an d legacy pond Ash for non-utilisation, total estimated Penalty payable for next 05 years at Koradi Khaperkheda and Chandrapur TPS (which are underutilizing power stations) worked out to Rs.19062 Cr.

However, proposed expenses for ash utlilsation (Dry and Pond) at Koradi, Khaperkheda and Chandrapur is Rs.3324.39 Crore compared to the likely penalty liable to pay of Rs.19062 Crore if dry and Pond Ash is not utilized for next 05 years is much less and hence justified.

c. **Any additional revenue to be generated**:

In view of proposed expenses towards ash utilization, it is expected that the % of utilization of ash would increase to 100% from the current level of ash utilization. Accordingly, additional likely revenue to be generated from ash utilization are tabulated below:

TPS	% Utilization	Proposed % Utilization	Proposed % Rise	Highest Rate Rs/MT	Quantity (MT)	Expected Revenue In CR
Bhusawal	90.11	100	9.89	356.97	161347	**5.75**
Paras	89.69	100	10.31	238	79175	**1.89**
Parli	77.38	100	22.62	562	176230	**9.9**
Nasik	74.63	100	25.37	689	166142	**11.44**
Total						**28.98**

In view of above, it is evident that the proposed expenses on ash utilization are lower than the likely penalty for non-utilisation of dry fly ash and legacy pond ash. Further, apart from the same, considering increase in utilization of ash would result in additional revenue of Rs.28.98 Crore

6. MSPGCL for computing the fuel costs for FY 2022-23 has considered the GCV loss of 750 kCal/kg. MSPGCL to revise the fuel cost computations for FY 2022-23 as per GCV loss approved in MTR Order. MSPGCL to revise all the corresponding figures in the Petition accordingly.

   MSPGCL's Reply:

   In light of the sub-judice matter before the Hon'ble APTEL regarding GCV variation in GCV "As billed" and "As Received", MSPGCL is revising its claim in this revised petition considering a GCV gap of 600 kcal/kg for FY 2022-23 as approved by the Hon'ble Commission in the review Order. Consequently, the prayers in the revised Petition are also being updated accordingly.

7. MSPGCL for computing the fuel costs for FY 2023-24 has considered the GCV loss of 750 kCal/kg. MSPGCL to revise the fuel cost computations for FY 2023-24 as per GCV loss approved in MTR Order. MSPGCL to revise all the corresponding figures in the Petition accordingly.

   MSPGCL's Reply:

   In light of the sub-judice matter before the Hon'ble APTEL regarding GCV variation in GCV "As billed" and "As Received", the Petitioner is revising its normative fuel cost claim in the revised Petition, considering the permissible limits of 650 kcal/kg for FY 2023-24 and FY 2024-25 between GCV 'As Billed' and 'As Received', as approved by the Hon'ble Commission in the review Order. Consequently, the prayers in the revised Petition are also being updated accordingly.

8. MSPGCL has filed the Appeal on the Commission's MTR Order and Review Order which is sub-judice before APTEL. MSPGCL to accordingly revise its submissions on the issues which are raised in Appeal before APTEL.

   MSPGCL's Reply:

The Petitioner submits that in the Appeal filed against Orders in Case No. 227 of 2022 & 132 of 2023, the following are the key issues challenged, which have relevance in the present MYT petition.

a) **GCV margin between "As billed" to "As received" allowed for computation of Energy Charge Rate**:

   In Appeal No. 501/2023, MSPGCL has raised concerns regarding deviations in the relevant provisions of the MERC MYT Regulations, 2019, as compared to relevant provisions under the tariff regulations of other Electricity Regulatory Commissions. Additionally, MSPGCL has highlighted the inadequacy of the relaxations allowed by the Hon'ble Commission in view of the actual GCV gaps observed. It is noted that the Hon'ble APTEL has not stayed the MERC order dated February 1, 2024.

b) In the present petition filed on October 30, 2024, MSPGCL had initially considered a GCV gap of 750 kcal/kg for the computation of normative fuel cost for FY 2022-23 to FY 2024-25. However, in light of the sub-judice matter before the Hon'ble APTEL, MSPGCL is revising its claim in this petition by adopting a GCV gap of 600 kcal/kg for FY 2022-23 and 650 kcal/kg for FY 2023-24 and FY 2024-25. Furthermore, MSPGCL respectfully requests the Hon'ble Commission to grant appropriate relaxations for these years by invoking the provisions under the MERC MYT Regulations, 2019, related to "Power to Relax" and "Power to Remove Difficulties. It is requested that the Hon'ble Commission may consider the submissions and consider the same as deemed appropriate.

c) **Adjustment of LPS bills against actual IoWC**:

   i. In Appeal No. 501/2023, MSPGCL has challenged the provision under Regulation 32.6 of the MERC MYT Regulations, 2019, which mandates the deduction of Late Payment Surcharge (LPS) amounts as per the books of accounts from the actual Interest on Working Capital (IoWC) before sharing efficiency gains or losses, as applicable. MSPGCL has raised objections to the principle behind this provision, arguing that there should be no such deduction from the actual IoWC amount.

   ii. In the present petition, MSPGCL has submitted that the LPS bills currently raised for FY 2022-23 and FY 2023-24 are provisional in nature due to pending billing reconciliation between MSPGCL and MSEDCL, disputes regarding methodology, and disagreements over the due date to be considered post-June 8, 2023, hence it will be revised in due course. MSPGCL submits that post reconciliation of the aforesaid matters, the LPS amount may have to be considered in the ensuing years in the books of accounts.

iii. Basis these practical aspects, MSPGCL has not included the impact of LPS in its true-up submission and requests the Hon'ble Commission to consider the same. MSPGCL appreciates that the principle of consideration of LPS has been a subject matter of appeal, however, it is requested that the current submission is purely on account of LPS amount not being final at this stage. MSPGCL craves leave to submit the details once the final LPS bills are computed after finalisation of reconciliation between MSPGCL and MSEDCL and after resolution of disputes on methodology issue & Due Date issue may be considered for adjustment in actual IoWC as per Regulations (assuming the there is no judgment on this matter till this petition is decided by this Hon'ble Commission). Thus, MSPGCL has continued with the present submission purely on account of the practical aspects, without prejudice to its submissions made before the Hon'ble APTEL.

9. MSPGCL to submit the Cost Audit Report for FY 2022-23 and FY 2023-24.

MSPGCL's Reply:

The CAG for FY 2022-23 is attached as Annexure DG-II-9 to these replies of data gap set II. MSPGCL submits that CAG report for FY 2023-24 is yet to be received from CAG office. Upon receipt, the same will be forwarded for the consideration of the Hon'ble Commission.

10. It is observed that for some of the stations, MSPGCL has claimed very high capital expenditure during the next Control Period FY 2025-26 to FY 2029-30. For example, the total expenditure claimed for Chandrapur 3-7 is Rs 5483 Crore and capitalisation is Rs 2586 Crore. Similarly, for Khaperkheda Units 1-4, the total capital expenditure is Rs 2635 Crore and capitalisation is Rs 1209 Crore. During the TVS, MSPGCL submitted that part of the capital expenditure and capitalisation is towards Renovation & Modernisation. MSPGCL to submit the break-up of capital expenditure and capitalisation for Renovation and

Modernisation separately.

MSPGCL's Reply:

The breakup of capital expenditure comprising of capex rolling plan, capex towards FGD and Renovation & modernization for some of the stations are provided in Annexure DG-II-10. The capex rolling plan for the MYT period from FY 2025-26 to FY 2029-30 includes capex of Rs. 5971 Crore and Rs 2171 Crores towards FGD / SCR and Renovation and modernization respectively. Against the proposed Renovation and Modernization expense of Rs.2171 Crore, entire amount would be capitalized during period of FY 2025-26 to FY 2029-30, if the schemes are approved In-Principle under MERC Capex Regulation 2022.

11. The detailed status note on preliminary data gaps highlighting the response and additional information to be submitted by MSPGCL is enclosed herewith at Annexure-1. MSPGCL to submit the pending and additional information as highlighted in Status Note.

MSPGCL's Reply:

The updated revised data gap replies for Data Gap Set-I are being submitted separately.