ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

4th Floor, Singareni Bhavan, Red Hills, Hyderabad – 500 004

FRIDAY, THE TWENTY SEVENTH DAY OF AUGUST, TWO THOUSAND AND TWENTY ONE

Present

Sri Justice C.V. Nagarjuna Reddy, Chairman
Sri P. Rajagopal Reddy, Member
Sri Thakur Rama Singh, Member

O.P.Nos.34 & 41 of 2020

In the matter of

Determination of the True-up for Distribution Business for 3rd Control Period (FY2014-15 to FY2018-19)

Petitioners:

O.P.No.34
Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL)

and

O.P.No.41
Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL)

COMMON ORDER

1. The Southern Power Distribution Company of Andhra Pradesh Limited (hereinafter referred to as "**APSPDCL**") and the Eastern Power Distribution Company of Andhra Pradesh Limited (hereinafter referred to as "**APEPDCL**") have filed the petitions for true-up of their Distribution

Businesses for 3rd control period on 15.06.2020 & 14.09.2020 respectively. The petitions of APSPDCL and APEPDCL (hereinafter referred to as "**the DISCOMs"**) were taken on the records of the Commission on 02.09.2020 & 28.09.2020 as O.P.No. 34 of 2020 and O.P.No. 41 of 2020 respectively.

2. Separate Public Notices along with the copies of the respective petitions were placed on the website of the Commission in respect of O.P.No.34 of 2020 on 04.09.2020 & O.P.No.41 of 2020 on 28.09.2020, inviting views/objections/suggestions from interested parties/stakeholders. Further, it was informed in the Public Notices that O.P.No.34 of 2020 & O.P.No.41 of 2020 will be taken up for public hearing at 11.00 A.M. on 21.10.2020 and 04.11.2020 respectively through the web and any interested person/organization desirous of being heard in person, may appear before the Commission on the said dates of the public hearing. However, despite the placing of Public Notice on the website of the Commission, no objections have been received in respect of O.P.No.34 of 2020 by the date of the public hearing on 21.10.2020. Therefore, the Commission has provided one more opportunity to the stakeholders for submitting their objections and accordingly adjourned the public hearing to 02.12.2020. In response, two objectors viz., Sri M. Venugopala Rao (hereinafter referred to as "**objector one"**), and Sri M.Thimma Reddy (hereinafter referred to as "**objector two"**) filed their views/suggestions/objections on both the above petitions. O.P.No.34 of 2020 was finally heard on 27-01-2021. O.P.No.41 of 2020 was finally heard on 07-07-2021. As both the O.Ps involved identical issues they are being disposed of by this common order. The objectors' views/suggestions/objections and the petitioners' responses are discussed in appropriate paragraphs in this order.

3. The APSPDCL sought the following reliefs :

i. to approve the true-up of expenses and revenue for its distribution business for 3rd control period **(FY2014-15 to FY2018-19)**;

ii. to approve Rs.3659 Cr. which is the total gap between the approved and actual amounts of Net ARR (Gross ARR - Revenue) during the 3rd control period;

iii. to approve Rs. 2230 Cr. as carrying cost for total revenue gap from the distribution business for 3rd control period;

iv. to approve Rs. 5889 Cr. towards total gap including carrying cost for truing up of the distribution business for 3rd control period.

4. Similarly, the APEPDCL sought the following reliefs :

i. to approve the true-up of expenses and revenue for its distribution business of 3rd control period **(FY2014-15 to FY2018-19)**;

ii. to approve Rs.825.08 Cr. which is the total gap between the approved and actual amounts of Net ARR (Gross ARR- Revenue) during 3rd control period;

iii. to approve Rs. 510.42 Cr. as carrying cost for total revenue gap from the distribution business for 3rd control period;

iv. to approve Rs. 1335.50 Cr. towards total gap including carrying cost for truing up of the distribution business for 3rd control period.

5. A brief summary of the claim in APSPDCL's petition is as follows:

i. The aggregate loss/gain item-wise, year-wise & total for 3rd control period and the aggregate loss of the whole distribution business for the 3rd control period, are as shown in the table below:

APSPDCL - Aggregate Loss/Gain(Rs. Cr.)

S.No.	ARR item	FY15	FY16	FY17	FY18	FY19	Total for 3rd CP
1	Variance in O & M Expenses (Net)	759.20	326.23	11.46	214.38	1,702.60	3,013.87
2	Variance in Return on Capital Employed	56.98	110.84	148.79	131.40	193.55	641.56
3	Variance in Depreciation	71.75	22.46	20.24	-108.60	-80.54	-74.69
4	Variance in Taxes	-28.01	-30.33	-30.04	-29.55	-30.15	-148.08
5	Variance in Special Appn. for Safety measures	-5.31	-5.26	-5.12	-5.41	-2.92	-24.02
6	Variance in Other Expenditure	27.03	33.73	33.10	34.99	39.71	168.56
7	Variances in True-up adjustment of 1st CP	0	0	0	0	0	0
8	**Variance in Gross ARR (Sum of 1..7)**	**881.64**	**457.67**	**178.43**	**237.21**	**1,822.25**	**3,577.20**
9	Varance in Tariff income	0	0	0	0	0	0
10	variations in Non-Tariff Income	131.69	-117.00	-77.75	-113.78	94.95	-81.89
11	**Variance in Total Revenue**	131.69	-117.00	-77.75	-113.78	94.95	-81.89
12	**Loss/profit (8-11)**	**749.95**	**574.67**	**256.18**	**350.99**	**1,727.30**	**3,659.09**

ii. The year-wise total loss/gain along with carrying cost and total loss/true-up as claimed by the APSPDCL for 3rd control period, are shown in the table below:

APSPDCL - Total claim with Carrying Cost (Rs. Cr.)

S.No.	FY	Claim	Carrying cost	Total
1	**FY2014-16**	750.00	45.00	795.00
2	**FY2015-16**	575.00	130.00	705.00
3	**FY2016-17**	256.00	195.00	451.00
4	**FY2017-18**	351.00	255.00	606.00
5	**FY2018-19**	1,727.00	411.00	2,138.00
6	**FY2019-20**		563	563
7	**FY2020-21**		631	631
8	**Total**	**3,659.00**	**2,230.00**	**5,889.00**

The other important submission made in the petition of APSPDCL is that APERC has issued the MYT order for the 3rd Control Period on 09.05.2014 in erstwhile Andhra Pradesh. Subsequently, As per the Andhra Pradesh Reorganization Act, 2014, (Central Act No.6 of 2014), two districts, viz, Anantapur and Kurnool which were under the jurisdiction of Andhra Pradesh Central Power Distribution Company Limited (APCPDCL) which falls in the State of Telangana, were separated from it and merged into the Andhra Pradesh Southern Power Distribution Company Limited (APSPDCL). Accordingly, the proportionate share (17.45 percent of APCPDCL's ARR & Revenue) was added to the approved ARR of APSPDCL in the wheeling tariff order for 3rd control period, to be accounted in the expenditure and revenue in respect of the merged two districts for arriving at the True up claims as mentioned above.

6. Similarly**,** a brief summary of the claim in APEPDCL's petition is as follows:

i. The aggregate loss/gain item-wise, year-wise & total for the 3rd control period and the aggregate loss of the whole distribution business for the 3rd control period are as shown in the table below:

APEPDCL - Aggregate Loss/ Gain (Rs. Cr.)

S.No.	ARR item	FY15	FY16	FY17	FY18	FY19	Total for 3rd CP
1	Variance in O & M Expenses (Net)	313.50	57.65	-88.35	-205.57	637.71	714.94
2	Variance in Return on Capital Employed	13.5	12	13.28	24.6	47.83	111.21
3	Variance in Depreciation	-21.28	-34.69	-37.48	-27.39	-25.76	-146.6
4	Variance in Taxes	-10.29	-11.17	-12.19	-11.02	-14.22	-58.89
5	Variance in Special Appn. for Safety measures	-5.00	-5.00	-5.00	-5.00	-5.00	-25.00
6	Variance in Other Expenditure	159.30	17.75	6.39	13.93	164.44	361.81
7	Variances in True-up adjustment of 1st CP	0	0	0	0	0	0
8	**Variance in Gross ARR (Sum of 1..7)**	**449.73**	**36.54**	**-123.35**	**-210.45**	**805.00**	**957.47**
9	Variance in Tariff income	0	0	0	0	0	0
10	variations in Non-Tariff Income	45.88	9.42	12.99	27.89	36.20	132.38
11	**Variance in Total Revenue**	45.88	9.42	12.99	27.89	36.20	132.38
12	**Loss/profit (8-11)**	**403.85**	**27.12**	**-136.34**	**-238.34**	**768.80**	**825.09**

ii. The year-wise total loss/gain along with carrying cost and total loss as claimed by the APEPDCL for 3rd control period are shown in the table below**:**

APEPDCL - Total claim with Carrying Cost (Rs. Cr.)

S.No.	FY	Claim	Carrying cost	Total
1	FY2014-16	403.85	24.23	428.08
2	FY2015-16	27.12	53.00	80.12
3	FY2016-17	-136.34	52.80	-83.54
4	FY2017-18	-238.34	36.66	-201.68
5	FY2018-19	768.8	72.88	841.68
6	FY2019-20		127.76	127.76
7	FY2020-21		143.09	143.09
8	Total	**825.09**	**510.42**	**1335.51**

7. The DISCOMs relied upon "Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation 2005" i.e., Regulation 4 of 2005 notified by the Commission in support of their claims. The relevant clauses of Regulation 4 of 2005 which deal with the true-up of distribution and retail supply business are reproduced below:

Clause 19

"CORRECTIONS FOR "UNCONTROLLABLE" ITEMS AND "CONTROLLABLE" ITEMS AND SHARING OF GAINS/LOSSES OF "CONTROLLABLE" ITEMS,

The Distribution Licensee shall file its proposals for pass-through as well as sharing of gains/losses on variations in "uncontrollable" items of ARR and "controllable" items (indexed to external parameters) in accordance with clause 10 of this Regulation."

Clause 10

MULTI-YEAR TARIFF FRAMEWORK AND APPROACH

10.1 The multi-year tariff framework shall be based on the following approach, for calculation of aggregate revenue requirement and expected revenue from tariff and charges.

10.2 Base Year:- Values for the Base Year of the Control Period will be determined based on the audited accounts available, best estimate for the relevant years and other factors considered appropriate by the Commission, and after applying the tests for determining the controllable or uncontrollable nature of various items. The Commission will normally not revisit the performance targets even if the targets are fixed on the basis of base values of un-audited accounts.

10.3 Targets:- Targets will be set for items that are deemed by the Commission as "controllable" which constitute operation & maintenance costs, financing costs, and for distribution losses duly adhering to the Licensees' Standards of Performance Regulation. Trajectory for specific variables may be stipulated by the Commission where the performance of the applicant is sought to be improved upon through incentives and disincentives.

10.4. Controllable and Uncontrollable items of ARR:- The expenditure of the Distribution Licensee considered as "controllable" and "uncontrollable" shall be as follows:

Controllable/Uncontrollable ARR Items in Distribution Business

Distribution Business	
ARR Item	**"Controllable"/"Uncontrollable"**
Operation & Maintenance expenses	Controllable
Return on Capital Employed	Controllable
Depreciation	Controllable
Taxes on Income	Uncontrollable
Non-tariff income	Controllable

In addition to the above items, the retail supply business shall include the following:

Controllable/Uncontrollable ARR Items in Retail Supply Business

Retail Supply Business	
ARR Item	**"Controllable"/"Uncontrollable"**
Cost of power purchase	Uncontrollable

10.5. Pass-through of gains and losses on variations in "uncontrollable" items of ARR:- The Distribution Licensee shall be eligible to claim variations in "uncontrollable" items in the ARR for the year succeeding the relevant year of the Control Period depending on the availability of data as per actuals with respect to effect of uncontrollable items:

Provided that the Commission shall allow the financing cost on account of the time gap between the time when the true-up becomes due and when it is actually allowed and the corrections shall not be normally revisited.

10.6. Sharing of gains and losses on variations in "controllable" items of ARR:

The Distribution Licensee in its annual filings during the Control Period shall present gains and losses for each controllable item of the Aggregate Revenue Requirement. A statement of gain and loss against each controllable item will be presented after adjusting for any variations on account of uncontrollable factors.

10.7. For the purpose of sharing gains and losses with the consumers, only aggregate gains or losses for the Control Period as a whole will be considered. The Commission will review the gains and losses for each item of the ARR and make appropriate adjustments wherever required:

Provided that for the first Control Period, insofar as the gains and losses from the Retail Supply Business of the Distribution Licensee are concerned, these will be shared with the consumers on yearly basis."

10.8 Notwithstanding anything contained in the Regulation, the gains or losses in the controllable items of ARR on account of factors that are beyond the control of the Distribution licensees- force majeure- shall be passed on as an additional charge or rebate in ARR over such period as may be specified in the Order of the Commission."

8. As per clause 16(i) of APERC Conduct of Business Regulations, 1999 (Regulation No.2 of 1999), *the Commission may, at any time before passing orders on the matter, require the parties or any one or more of them or any other person whom the Commission considers appropriate, to produce such documentary or other evidence as the Commission may consider necessary for the purpose of enabling it to pass orders.* Accordingly, the Commission's office has obtained certain information

(The information obtained is mentioned at appropriate places in the order) for finalizing this order.

The loss/gain against each item of the ARR & non-tariff income for the distribution business of the DISCOMs as submitted in their petitions are discussed in the paragraphs infra:

9. O&M Costs:

The DISCOM wise O&M cost claims, year-wise and for the total 3rd control period are shown in the following tables:

APSPDCL - O&M Costs (Rs.Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	The loss/gain
1	FY2014-15	1,315.24	2,074.44	759.20
2	FY2015-16	1,533.69	1,859.92	326.23
3	FY2016-17	1,729.96	1,741.42	11.46
4	FY2017-18	1,944.67	2,159.05	214.38
5	FY2018-19	2,196.49	3,899.09	1,702.60
	Total	**8,720.05**	**11,733.92**	**3,013.87**

APEPDCL - O&M Costs (Rs.Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	The loss/gain
1	FY2014-15	795.52	1,109.02	313.50
2	FY2015-16	917.79	975.44	57.65
3	FY2016-17	1,049.63	961.28	-88.35
4	FY2017-18	1,194.44	988.87	-205.57
5	FY2018-19	1,360.96	1,998.67	637.71
	Total	**5318.34**	**6,033.28**	**714.94**

O&M costs consist of a) Employees expenses, b) Administration and General (A&G) Expenses, and c) Repairs and Maintenance (R&M) expenses. The DISCOMs' submissions in respect of O&M expenses item-wise, objections received in this regard, the DISCOMs' replies to the objections and the Commission's analysis & decision are as follows:

Employees' Expenses and A&G Expenses

a) **Employees' expenses**: The DISCOMs' submissions, objections, reply of the DISCOMs to the objections, on employees' expenses are as under.

The DISCOMs' submission: The DISCOMs have stated that the substantial increase in employees' expenses was due to the two pay revisions effected to their employees during the 3rd control period. That,one revision was effective from 01.04.2014 and the other one was with effect from 01.04.2018. The other factors that contributed to the increase in the expenses under this head, in addition to the pay revisions, are on account of making additional provisions towards gratuity, pension, and earned leave (EL) encashment to meet the future obligations based on Indian Accounting standards and actuarial valuation reports.

Views/objections/suggestions: **Objector one** has stated that over the years, the employees' expenses as a part and parcel of O&M expenses have continued to increase by leaps and bounds and are now the lion's share of these expenses. Hence, he requested the Commission to re-examine this issue and determine permissible extents of expenditure under various components of O&M expenditure, keeping in view various factors like the additions to the different assets and increase of workloads. That periodical revision of pay and allowances for employees is imperative and it is not within the regulatory purview of the Commission, but at the same time, the Commission is required to determine the permissible extent of such expenditure at the time of determining the O&M expenditure for the control period and also at the time of determining the true-ups of the power utilities after completion of the control period concerned.

Objector two also questioned the rationale and justification for the increase in the employees' expenses of the DISCOMs over the approvals.

DISCOMs' Reply: DISCOMs have not filed any reply .

b) **A&G Expenses**: The DISCOMs' submissions, objections, reply of the DISCOMs, on A&G expenses are as under.

The DISCOMs' submissions: The DISCOMs have stated that the A&G expenses depend on the number of consumers, the number of substations, the number of DTRs, and the total length of the lines. Because of the increasing trend in the above-said elements, there was an increase in A&G expenses compared to the approved values.

Views/objections/suggestions: Objector one has stated that the increase in A&G expenses is not commensurate with the increase in the number of consumers, DTRs, line lengths, and substations as shown by the DISCOMs and they have not provided the basis and justification for such increases. That the DISCOMs have not explained what the "other expenses & miscellaneous losses and write-offs" are. Such arbitrary claims are not permissible. **Objector two** has also expressed a similar view.

DISCOMs' Reply : APSPDCL has stated that the major part of Administration & General expenses cost was incurred for spot billing, payment to private accounting agencies, collection commission for private collection agencies, TA bills to employees and professional fees, etc. The spot billing work was awarded through a competitive tendering process. The spot billing cost during the years varied based on the spot billing rate and release of new services. The A&G expenses (CAGR 17.65%) are reasonable when the CAGR in DTRs (13.46%), Line lengths (5.86%), consumers (4.56%), etc., are correlated with CAGR in inflation (3.34%). The various items included under Miscellaneous losses & write-offs are price variations, loss due to the obsolescence of stock, loss to fixed assets due to floods, etc.

APEPDCL has submitted a similar reply that the CAGR of Administration & General expenses during the 3rd control period is 4.06%, which is not abnormal.

Commission's analysis & decision on Employees & A&G expenses:

i. The DISCOMs in their petitions have submitted employees' expenses, A&G expenses separately. In this regard, it is to be noted that while approving the O&M costs in the wheeling tariff Order for the 3rd control period by the Commission, the employees expenses and A&G expenses were approved together. Accordingly, the Commission is analyzing the employees expenses and A&G expenses together.

ii. Before proceeding to analyse the Employees and A&G expenses, the Commission notes that the A&G expenditure shown in the following table, has been submitted by APSPDCL under 'other expenditure heads' in the petition and it has informed the objectors accordingly while replying to objections on other expenditure. APSPDCL also requested the Commission to consider the same under A&G expenses instead of under other expenditure heads.

APSPDCL - A&G Expenses shown in "other expenses" (Rs. Cr.)

S.No.	Year	A&G Expenses shown in other expenses by APSPDCL
1	FY2014-15	27.23
2	FY2015-16	33.87
3	FY2016-17	33.11
4	FY2017-18	35.07
5	FY2018-19	39.27
	Total	**168.55**

The Commission after due verification of the above expenditure item wise (the information certified by the statutory auditor, obtained through email), is inclined to accept the request of the APSPDCL to consider the expenditure shown in the above table under the A&G expenses. Upon such consideration, the comparative figures on Employees & A&G expenses, DISCOM wise are indicated in the tables below:

APSPDCL - Employees and A&G Expenses (Rs. Cr.)

S. No.	Year	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	Percentage of variation with reference to the tariff order
1	**FY2014-15**	1237	1,923	55.50%
2	**FY2015-16**	1397	1,629	16.63%
3	**FY2016-17**	1577	1,477	-6.35%
4	**FY2017-18**	1789	1,876	4.90%
5	**FY2018-19**	2032	3,461	70.36%
	Total	**8031**	**10,367**	**29.08%**

APEPDCL - Employees and A&G Expenses (Rs. Cr.)

S.No.	Year	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	Percentage of variation with reference to the tariff order
1	FY2014-15	746	1042	39.64%
2	FY2015-16	860	876	1.83%
3	FY2016-17	987	854	-13.43%
4	FY2017-18	1123	864	-23.05%
5	FY2018-19	1283	1836	43.06%
	Total	4999	5472	9.46%

As could be seen from the above tables, the expenses have increased by 29.08 percent over the approval in respect of APSPDCL and by 9.46 percent over the approval in respect of APEPDCL for the total 3rd control period.

iii. Before analysing the reasons for such an increase of the expenditure, the Commission would like to discuss the suggestion of **Objector one** to fix norms in the matter of O&M cost to control employees expenses. In this context, it is relevant to refer to the "Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation 2005". Clause 14 of the regulation deals with the O&M costs and it reads as follows:

> " *Clause 14 Operation and Maintenance Costs*
>
> *14.1 Operation and maintenance (O&M) Costs shall comprise the following:*
>
> *(a) Salaries, wages and other employee costs;*
>
> *(b) Administrative and General costs*
>
> *(c) Repairs and Maintenance, and*

(d) Other miscellaneous expenses, like legal charges, audit fees, lease charges, rent, rates and taxes, etc.

14.2 The distribution licensee in its filings for the control period shall submit the consolidated O&M expenses for the base year of the control period, and 2 years preceding the base year.The O&M expenses for the base year shall be determined based on the latest audited accounts, best estimates of Distribution Licensee of actual O&M expenses for relevant years and other factors considered relevant.

The O&M expenses for the base year, if required, will be used for projecting the expenses for each year of the control period.

14.3 The composite O&M expenses permissible towards revenue requirement for each year of the control period shall be determined, by using predetermined norms, or formulae for this purpose.These norms or formulae shall be determined by the commission based on distribution licensees submissions in this regard, previous year's actual expenses and any other factors considered relevant by the commission."

iv. In accordance with the above Regulation, the Commission has fixed norms in the "wheeling tariff order for the 3rd control period" in respect of employees expenses and A&G expenses after correlating the **Employees and A&G expenses together** to no.of substations, length of lines, no. of DTRs and no.of consumers to keep a tab on such expenditure. The details of the norms fixed DISCOM wise are given below:

APSPDCL: Norms

Particulars	FY15	FY16	FY17	FY18	FY19
EC and A&G norm (Rs. Per Substation)	3803839	4130818	4485904	4871513	5290269
EC and A&G norm per line (Rs./ckt.km)	7004	7606	8260	8969	9741
EC and A&G norm (Rs. Per DTR)	3142	3413	3706	4024	4370
EC and A&G norm (Rs. Per consumer)	289	314	341	370	402

APEPDCL: Norms

Particulars	FY15	FY16	FY17	FY18	FY19
EC and A&G norm (Rs. Per Substation)	5305596	5761667	6256941	6794789	7378870
EC and A&G norm per line (Rs./ckt.km)	11511	12500	13575	14742	16009
EC and A&G norm (Rs. Per DTR)	5143	5586	6066	6587	7153
EC and A&G norm (Rs. Per consumer)	258	280	304	330	358

v. The Commission has computed the "Employees expenses and A&G expenses" based on the above approved norms using the actual number of substations, line lengths, number of DTRs and number of consumers furnished by the DISCOMs in their petitions, (for Kurnool and Anantapur in APSPDCL, norms of APCPDCL are applied and this information was obtained through email) to examine and compare the actual expenses with the set norms.

The comparison, DISCOM wise are shown in the tables below:

APSPDCL - Employees and A&G Expenses (Rs. Cr.)

S. No.	FY	Expenditure as per the Wheeling Tariff order	Actual Expenditure incurred	Computed expenditure as per the norms
1	**FY2014-15**	1237	1,923	1,443
2	**FY2015-16**	1397	1,629	1,634
3	**FY2016-17**	1577	1,477	1,878
4	**FY2017-18**	1789	1,876	2,143
5	**FY2018-19**	2032	3,461	2,418
	Total	**8031**	**10,367**	**9,517**

APEPDCL - Employees and A&G Expenses (Rs. Cr.)

S. No.	FY	Expenditure as per the Wheeling Tariff Order	Actual Expenditure incurred	Computed expenditure as per the norms
1	**FY2014-15**	746	1042	700
2	**FY2015-16**	860	876	812
3	**FY2016-17**	987	854	907
4	**FY2017-18**	1123	864	1063
5	**FY2018-19**	1283	1836	1198
	Total	**4999**	**5472**	**4679**

As could be seen from the above tables, the actual Employees & A&G expenses increased over the norms by 850 Cr. in respect of APSPDCL and Rs.793 Cr. in respect of APEPDCL.

vi. The objector while saying that periodical revision of pay and allowances for employees is imperative which is not within the regulatory purview of the Commission, however stated that the Commission shall fix the maximum ceiling on O&M expenses while disallowing the excess expenditure. The DISCOMs have stated that the main reasons for the increase in employees expenses are the pay revisions effected w.e.f 01.04.2014 and 01.04.2018. The point before the Commission is whether to approve the excess expenditure incurred over the norms by the DISCOMs in respect of Employees and A&G expenses, if so to what extent.

vii. For prudent check of the expenditure claimed by the DISCOMs, as a first step, the Commission examined the break up provided for employees expenses by the DISCOMs in their petitions which are produced, DISCOM wise in the following tables:

APSPDCL: Employees' expenses details

Sr. No.	Particulars	FY15	FY16	FY17	FY18	FY19
1	Salaries	626	856	857	1,280	1791
2	Additional Pay / Dearness Allowance (DA)	158	81	135	0	0
3	Other Allowances & Relief	360	297	305	115	209
4	Medical Expenses Reimbursement	10	13	12	9	8
5	Leave Travel Assistance	0.27	0.05	0.03	0.01	0.01
6	Pension Contribution & Terminal Benefits	746	352	161	393	1385
7	Employees Welfare expenses	3.30	4.50	3.90	2.80	3.30
8	Less: Employees Cost Capitalized	(91)	(95)	(127)	(138)	(132.79)
Total		**1,813**	**1,508**	**1,347**	**1,662**	**3,263**

APEPDCL: Employees' expenses details.

Sr. No.	Particulars	FY15	FY16	FY17	FY18	FY19
1	Salaries	405.70	417.34	422.49	434.39	697.24
2	Additional Pay / Dearness Allowance (DA)	17.42	37.66	62.55	79.07	17.72
3	Leave encashment (Incl. Remeasurements of defined employee benefit plans)	125.22	128.95	70.03	121.93	285.90
4	Pension Contribution & Terminal Benefits (Incl. Remeasurements of defined employee benefit plans)	341.76	123.13	134.74	98.60	641.67
5	Leave Travel Assistance	0.05	0.09	0.15	0.03	0.04
6	Employees Welfare expenses	21.48	24.64	27.08	28.64	39.36
7	Medical Expenses Reimbursement	14.32	15.09	15.62	14.03	14.89
8	Other Allowances & Relief	77.28	94.82	90.01	94.63	124.71
9	Employees Cost Capitalized	(31.61)	(51.67)	(50.64)	(76.04)	(68.14)
10	**Grand Total**	**971.62**	**790.06**	**772.03**	**795.30**	**1753.38**

As could be seen from the above tables, the employees expenses increased significantly in FY2019 of both the DISCOMs. The reasons stated by the DISCOMs in the petitions for such significant increase are due to the pay revision and provision made towards pension and terminal benefits of the employees. Therefore, the Commission's office obtained certified information from the DISCOMs through the emails for examination of the such provisions made towards pension and terminal benefits of the employees from both the DISCOMs.

<u>Pension provisions:</u>

viii. The following is revealed from the certified information provided by the DSICOMs towards pension liabilities of APSEB origin employees.

APSPDCL: Pension provision of APSEB origin employees

S.No.	FY	Pension Claim	Actual fund transferred	Provision made
1	FY2014-15	745.96	199.16	546.8
2	FY2015-16	352.38	202.63	149.75
3	FY2016-17	160.92	410.4	-249.48
4	FY2017-18	392.6	378.56	14.04
5	FY2018-19	1389.49	362.57	1026.92
6	**Total**	**3041.35**	**1553.32**	**1488.03**

APEPDCL: Pension provision of APSEB origin employees

S.No.	FY	Pension claim	Actual transferred to trust	Provision made
1	FY2014-16	341.66	131.32	210.34
2	FY2015-16	123.04	27	96.04
3	FY2016-17	134.67	163.29	-28.62
4	FY2017-18	98.45	324.61	-226.16
5	FY2018-19	641.67	289.66	352.01
6	**Total**	**1339.49**	**935.88**	**403.61**

As evident from the above tables, the APSPDCL has made a provision for Rs.1488.03 Cr. out of the total pension liability claim of Rs.3041.35 Cr. and, the APEPDCL has made a provision for Rs.403.61 Cr. out of the total pension liability claim of Rs.1339.49 Cr. for the control period. Further, the provisions made in the FY19 are significant by both the DISCOMs.

In this regard, it is pertinent to note that the Comptroller & Auditor General's (C&AG) office letters dated 29.01.2019 & 01.07.2019 (which were obtained through emails) addressed to the Principal Secretary to Government, Energy, Infrastructure & Investment Department, GoAP and the Secretary to Government, Energy, Infrastructure & Investment Department, GoAP respectively, have pointed out that during the audit of the all PSUs for Generation, Transmission and Distribution for the year 2017-18, it was noticed that the PSUs did not make a provision of Rs.15,321.10 Cr. for the liabilities mentioned in respect of APSEB origin employees and thus profit/loss was over/understated by the said PSUs. The C&AG further stated that in view of the revision of pay scales/pension w.e.f from 1st April 2018, there should be substantial increase in the liability without which the accounts of the companies do not reflect the true and correct picture. The C&AG also stated in the letters that non-provisioning has a long-term impact on the financial health of the organisations as well as it may adversely affect the interest of the employees who are in service /retired and they may not get adequate compensation if sufficient funds are not available. The observations of the C&AG are also found in the audited account books of the DISCOMs.

From the above, it is clear that the substantial variation under “Employees and A&G Expenses” is mainly on account of DISCOMs making a provision for future pension liabilities of the erstwhile APSEB Employees and not due to so much on account of increase in salaries and wages of the employees.

ix. APEPDCL, in addition to the above liability, has made a provision for future liability towards Earned Leave Encashment of existing employees stated to be based on Indian Accounting standards and actuarial reports.

The details of the provision are given in the table below:

APEPDCL: Earned Leave Encashment provisions

S.No.	FY	Encashment leave claim (A)	Actual expenditure incurred (B)	Provision made (C) = (A) - (B)
1	FY2014-15	125.22	28.94	96.28
2	FY2015-16	128.95	40.07	88.88
3	FY2016-17	70.03	43.86	26.17
4	FY2017-18	121.99	24.51	97.48
5	FY2018-19	285.9	48.25	237.65
6	**Total**	**732.09**	**185.63**	**546.46**

As could be seen from the above table, APEPDCL has made a provision of Rs.546.46 Cr towards Earned Leave Encashment in the employees expenses.

The above discussion reveals that the actual "Employees and A&G expenses" would be less than norms set by the Commission for total 3rd control period in respect of APSPDCL and APEPDCL, if the future pension liability of APSEB origin employees & leave encashment liability of APEPDCL are not considered.

x. For further prudent check, the Commission has examined the audited books of accounts of the DISCOMs for all the years of the 3rd control period and the figures mentioned in the audited books of accounts and in petitions, in respect of employees and A&G expenses found to be correct. However, some "miscellaneous provisions/losses/write offs" were noticed under the "other expenses" head (note no 25) in all the years of APSPDCL audited books of accounts. The year wise details are given in the following table.

APSPDCL - Disallowed expenditure (A&G) (Rs. Cr.)

S.No.	FY	Write offs
1	2014-15	9.10
2	2015-16	1.25
3	2016-17	0
4	2017-18	62.93
5	2018-19	24.81
6	Total	**98.09**

The above table reveals that, the total amount of Rs.98.99 Cr**.** was incurred for the 3rd control period towards "miscellaneous provisions/losses/write offs" and the same has been claimed by APSPDCL under A&G expenses in the petition. But the figures in the audited books of accounts and the petitions vary though the total of A&G expenses claimed in the petitions and books of accounts tally.

Conclusion of the Commission on "Employees and A&G expenses:

xi. Before delving on the DISCOMs' claim under the different heads, it is necessary to consider whether the expenditure in excess of the fixed norms deserves to be allowed or not. Norms are fixed based on the actual expenditure during the base year i.e, FY2012-13 and projected for all the years in the control period at the inflation rate of 8.60 percent and, therefore, if the actual expenditure has exceeded the norms, it is necessary to consider whether the expenditure is justifiable or not. If the DISCOMs have shown proper justification, such excess expenditure needs to be approved.

Therefore, we shall examine whether the extra expenditure bears proper justification or not.

With regard to the provision made towards future pension liabilities of APSEB origin employees, as noted above, the C&AG termed making the provision for payment of pension liabilities as inevitable. It is clear from the facts noted above, the two pay revisions effected & sudden spike in provision for pension and leave encashment liabilities in the 3rd control period were not taken into account while fixing the norms in the wheeling tariff order for 3rd CP. It is pertinent to notice in this context the judgement of the Apex Court in West Bengal Electricity Regulatory Commission Vs. CESC Limited (2002) 8 SCC 715, wherein it has been held that the employees cost prudently incurred needs to be reimbursed to the utility. The Hon'ble APTEL vide its Order dated 24.03.2015 in Appeal Nos. 55 of 2003, 77 of 2013, 194 of 2013, 259 of 2012, 63 of 2013, 143 of 2013, 158 of 2013 and 43 of 2014, also followed the said judgement of APEX Court. Hence, the Commission finds no option other than allowing this claim. **The claim amount towards pension benefits provision shall be deposited with the "Pension Trust" of the respective DISCOMs and accordingly the DISCOMS shall report compliance to the Commission within one month of expiry of the recovery period.**

In addition to the pension liabilities, APEPDCL has claimed liability towards leave encashment. As this liability is shown to have already accrued , apparently due to the employees not having retired so far, payment appears to have not been made. As the DISCOM has to inevitably honour its commitment as and when the employees retire, the Commission perceives this claim reasonable.

However, it is noticed that the licensee has proposed to retain the amount with itself. In the Commission's opinion, it is not desirable to allow the Licensee to retain the money as there is every likelihood of the same being spent on other pressing needs. Therefore, while allowing this claim, **the Commission directs that the amount be invested in approved securities and submit a compliance report to the Commission within one month of expiry of the recovery period.**

As regards the write-offs, the essential details such as transaction wise particulars, the amount involved in respect of each transaction etc. have not been furnished in its filings. Moreover, as rightly pointed out by **Objector one**, in the absence of such information, the claim for "miscellaneous provisions/losses/write offs" can not be allowed under the head A&G expenses. Therefore , the claim to the extent shown in the table mentioned above is accordingly disallowed by the Commission.

c) **R&M Expenditure**

The DISCOMs' submissions, objections, reply of the DISCOMs, on A&G expenses are as under.

DISCOMs' submissions:

The APSPDCL has stated that the significant addition of the Gross Fixed Assets (GFA) during the control period is the main reason for the increase in R&M expenditure over the approval.

Whereas the APEPDCL has stated that the addition of gross fixed assets over and above the approved assets, increase in salaries for the outsourced employees w.e.f from 01.04.2018 is the reason for the increase in R&M expenditure over the approved figures.

Views/objections/suggestions: Objector one has stated that the increase in the Compound Annual Growth Rate (CAGR) percentage of R&M expenditure is more than the CAGR percentage increase in Gross Fixed Assets. That the DISCOMs have claimed that R&M expenses in the year 2018-19 are mainly due to implementation of pay hikes to outsourced employees. It shows that the increase in expenditures under repair and maintenance is not justifiably related to prudent or permissible extents of such expenditures required to be incurred for gross fixed assets.

Objector two has stated that DISCOMs have breached the norms set by the Commission in respect of the R&M expenditure comparing the claims vs other parameters and requested the Commission not to allow the claims.

DICCOMs' Reply: The DISCOMs have stated that the lion's share of R&M Cost was incurred towards manning of substations. The salaries of outsourced employees were increased with effect from 01-04-2018 and this expenditure is considered under R&M head in audited reports. Hence R&M cost has exceeded CAGR percentage of gross fixed assets.

Commission's analysis & decision on R&M Expenses:

i. The comparative figures on R&M expenses, DISCOM wise are given in the following tables.

APSPDCL - R&M Expenses (Rs. Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	Percentage of variation with reference to the tariff order
1	**FY2014-15**	181	178	-1.54%
2	**FY2015-16**	200	265	32.57%
3	**FY2016-17**	218	298	36.45%
4	**FY2017-18**	236	318	34.88%
5	**FY2018-19**	257	477	85.95%
	Total	**1091**	**1,536**	**40.74%**

APEPDCL - R&M Expenses (Rs. Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	Percentage of variation with reference to the tariff order
1	**FY2014-15**	83	67	-19.09%
2	**FY2015-16**	92	99	8.26%
3	**FY2016-17**	102	107	5.49%
4	**FY2017-18**	113	125	10.60%
5	**FY2018-19**	125	163	30.38%
	Total	**514**	**561**	**9.20%**

As could be seen from the above tables, the actual total R&M expenses have increased over the approvals in wheeling tariff order for 3rd control period by 40.74% in respect of APSPDCL and 9.20% in respect of APEPDCL.

ii. As regards the **Objector two** contention that R&M expenses incurred by the DISCOMs breached the norms set by it, the Commission has examined the norms set in the wheeling tariff order for the 3rd control period. The Commission has fixed 2.05 percent of the opening balance of the GFA of the relevant year to arrive at the R&M expense, based on the average of actual expenditure incurred by all the DISCOMs towards R&M expenses in the past five years. The DISCOMs have furnished the GFA details for each year of the 3rd control period. The Commission verified the GFA figures of the DSICOMs furnished in the petitions from their audited annual books and found them to be correct. Therefore, 2.05 percent on GFA for each year is computed as R&M expense based on norms for analysis and comparison. The comparative figures, DISCOM wise, are given in the following tables.

APSPDCL - R&M Expenses as per Norms

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	Expenses as per the Norms
1	**FY2014-15**	181	178	135
2	**FY2015-16**	200	265	196
3	**FY2016-17**	218	298	235
4	**FY2017-18**	236	318	260
5	**FY2018-19**	257	477	285
	Total	**1091**	**1536**	**1110**

APEPDCL - R&M Expenses as per Norms

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	Expenses as per the Norms
1	**FY2014-15**	83	67	82
2	**FY2015-16**	92	99	89
3	**FY2016-17**	102	107	100
4	**FY2017-18**	113	125	113
5	**FY2018-19**	125	163	134
	Total	**514**	**561**	**519**

As could be seen from the above tables, the actual R&M expenses have increased significantly over the amounts arrived at based on norms in respect of APSPDCL and whereas there is a marginal increase in respect of APEPDCL. As per the DISCOMs' response to objectors, the lion's share of R&M expenses is towards salaries of the outsourced employees and the salaries were increased for both the DISCOMs during FY19. As can be seen from the above tables, the expenditure was increased in FY19 over the previous year as stated by the DISCOMs. Despite such an increase in the salaries for the outsourced employees, the increase in R&M expenses of APEPDCL is marginal whereas significant increase in respect of R&M expenses of APSPDCL. APSPDCL has not furnished any other justification except the reason for the increase in the salaries of the outsourced employees.

iii. For prudent check, the Commission has verified the audited annual books of accounts of both the DISCOMs and found that the amounts claimed in the petitions and audited books of accounts are the same. But, the Commission noticed that the expenditure towards "**Domestic Efficient Lighting Programme (DELP)**" was booked under R&M expense (note 25 of audited annual books of accounts) by the APSPDCL. The details of DELP expenditure booked under R&M expenses by the APSPDCL are given in the following table.

APSPDCL - Disallowed expenditure (R&M)

S.No.	FY	DELP Expenditure (part of RSTO) included in R&M
1	2014-15	0
2	2015-16	24.17
3	2016-17	52.19
4	2017-18	49.8
5	2018-19	47.54
6	**Total**	**171.9**

As could be seen from the above table, the total DELP expenditure booked under R&M expenses is Rs.171.90 Cr for the 3rd control period by the APSPDCL. This amount was already permitted by the Commission to be recovered under the head "other costs" as a part of the Aggregate Revenue Requirement (ARR) of Retail Supply Business every year. The APSPDCL therefore, can not claim any expenditure under the R&M expense of its distribution business. Hence, the Commission is not inclined to allow this expenditure, as it amounts to a double claim. After deducting this DELP amount of Rs.171.90 Cr. from the claimed R&M expense of Rs.1536 Cr. the actual R&M expenses stand at Rs.1364.10 Cr which is more than the R&M expense norms by 254.10 Cr. in respect of APSPDCl. The increase in R&M expense over the norms is only 42 Cr.in respect of APEPDCL. Therefore, the significant increase can not be attributed to only the increase in the salaries of the outsourced employees. The reason stated by the DISCOMs in the petitions is that the significant addition of GFA over the approvals in wheeling tariff order has increased the R&M expenses. But, it could be seen from the comparative figures in the tables mentioned above, the R&M expenses arrived at based on actual GFA addition are less than actual expenditure.

As the Commission is not satisfied with the reasons furnished by the DISCOMs for increase in the R&M expenses over the norms set, and it being a controllable item of expenditure, it is decided to limit the R&M expenditure to the norms for both the DISCOMs. Accordingly, the expenditure incurred over and above the norms is disallowed.

O&M costs approved by the Commission

iv. After taking into account the approval of employees and A&G expenses and R&M expenses as stated above, the O&M expenses approved in the wheeling tariff order, actual claim of the DISOCOMs and the Commission’s approval of O&M cost for 3rd control period, DISCOM wise, are given in the tables below:

APSPDCL - O&M Expenses approved (Rs.Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order (A)	Actual expenditure Claimed (B)	Approved as per this order (C)	Disallowed Expenditure (B-C)
1	FY2014-15	1,315	2,074	2,022	53
2	FY2015-16	1,534	1,860	1,790	70
3	FY2016-17	1,730	1,741	1,678	63
4	FY2017-18	1,945	2,159	2,038	121
5	FY2018-19	2,196	3,899	3,682	217
	Total	**8,720**	**11,734**	**11,210**	**524**

APEPDCL - O&M Expenses approved (Rs.Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order (A)	Actual expenditure Claimed (B)	Approved as per this order (C)	Disallowed Expenditure (B-C)
1	**FY2014-15**	796	1109	1124	-15
2	**FY2015-16**	918	975	966	10
3	**FY2016-17**	1050	961	954	7
4	**FY2017-18**	1194	989	977	12
5	**FY2018-19**	1361	1999	1969	29
	Total	**5318**	**6033**	**5991**	**42**

10. Return on capital employed (RoCE)

The DISCOMs' submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on RoCE, are as follows:

DISCOMs' Submissions: The DISCOMs have stated that RoCE is computed based on the actual RRB as per the procedure prescribed in Regulation 4 of 2005. They have further stated that the loss in RoCE is due to change in all the parameters in the formula prescribed for computing the RoCE in the Regulation, That the increase in investments and assets additions, O&M costs and this working capital requirement over the approved figures, have caused an increase in RoCE over the approvals in wheeling Tariff Order for 3rd CP.

The year wise RoCE claims and for the total 3rd control period, DISCOM wise are shown in the following tables:

APSPDCL - Return on Capital Employed (RoCE) (Rs. Cr.)

S.No.	FY	As per the Wheeling Tariff Order	Actual Claim	The loss/gain
1	FY2014-15	303.12	360.10	56.98
2	FY2015-16	328.25	439.09	110.84
3	FY2016-17	325.09	473.88	148.79
4	FY2017-18	319.84	451.24	131.40
5	FY2018-19	326.32	519.87	193.55
	Total	1,602.62	2,244.18	641.56

APEPDCL - Return on Capital Employed (RoCE) (Rs. Cr.)

S.No.	FY	As per the Wheeling Tariff Order	Actual Claim	The loss/gain
1	FY2014-15	111.31	124.81	13.50
2	FY2015-16	120.86	132.86	12.00
3	FY2016-17	131.93	145.21	13.28
4	FY2017-18	143.11	167.71	24.6
5	FY2018-19	153.92	201.75	47.83
	Total	661.13	772.34	111.21

Views/objections/suggestions: Objector one has stated that the claim of APSPDCL that GFA addition during 2014-15 was higher due to assignment of Anantapur and Kurnool districts needs close examination. It needs to be examined whether addition of GFA of two districts would lead to an increase of about 60% of total GFA. and addition of GFA in terms of value vis a vis value approved by the Commission for the control period is justified or imprudent and the veracity and permissibility of increased regulated rate base claimed by the APSPDCL.

Objector one in respect of APEPDCL has stated that fluctuations in working capital year-wise vis a vis addition of GFA and total RRB do not provide the basis and justification for such fluctuations in EPDCL's RoCE claims and that the veracity and permissibility of increased regulated rate base claimed by the APEPDCL. needs to be examined.

Objector two has requested the Commission to closely examine the RoCE claims of the DISCOMs in view of the opposite trends of depreciation & income on taxes compared to RoCE claims.

DISCOM's Reply: APSPDCL has stated that Higher GFA addition during FY 2014-15 is due to assignment of Anantapur and Kurnool circles as part of reorganization of Andhra Pradesh.

APEPDCL has stated that the working capital requirement from 2014-15 to 2017-18 is consistent and increased in FY 2018-19 significantly due to implementation of Revised Pay Scales & Revised pensions with effect from 01.04.2018 & provision being made towards Pension & Gratuity liability as per Actuarial valuation for the past service of APSEB employees at revised scales.

Commission's analysis and Decision on RoCE: The Commission has examined the procedure adopted by the DISCOMs for computation of RoCE and all the parameters used in the computation. The procedure adopted by the DISCOMs is found to be in accordance with Regulation 4 of 2005 and all the parameters are as per the books of accounts and rate of debt (information on rate of debt adopted for the relevant years was obtained through emails) was, as certified by the auditors.

But due to a change in O&M cost approved by the Commission in this order, the working capital will undergo a change from that adopted by the DISCOMs.

Accordingly, the RoCE approved by the Commission, DISCOM wise is shown in the tables below:

APSPDCL - RoCE Approved (Rs.Cr.)

S. No.	FY	As per Wheeling Tariff Order (A)	Actual Claim (B)	Approved in this order (C)	Disallowed (D) = (B)-(C)
1	FY2014-15	303.12	360.15	359.97	0.18
2	FY2015-16	328.25	439.09	438.33	0.76
3	FY2016-17	325.09	473.88	449.84	24.04
4	FY2017-18	319.84	451.24	450.18	1.06
5	FY2018-19	326.32	519.87	517.97	1.90
	Total	1602.62	2,244.23	2216.29	27.94

APEPDCL - RoCE Approved (Rs.Cr.)

S. No.	FY	As per Wheeling Tariff Order (A)	Actual Claim (B)	Approved in this order (C)	Disallowed (D) = (B)-(C)
1	FY2014-15	111.31	124.81	124.95	-0.14
2	FY2015-16	120.86	132.86	132.77	0.09
3	FY2016-17	131.93	145.21	145.14	0.07
4	FY2017-18	143.11	167.71	167.59	0.12
5	FY2018-19	153.92	201.75	201.48	0.27
	Total	661.13	772.34	771.93	0.41

11. Depreciation:

The DISCOMs' submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on Depreciation, are as follows:

The DISCOMs' submissions: They have stated that they have claimed the depreciation as per the books of accounts at the rates notified by the

Ministry of power in accordance with the wheeling tariff Order for 3rd CP on the actual assets. Accordingly, the year wise and for the total 3rd control period, the depreciation loss/gain, company wise, as claimed are shown in the following tables:

APSPDCL - Depreciation (Rs. Cr.)

S.No.	FY	As per the Wheeling Tariff Order	Actual Claim	The loss/gain
1	**FY2014-15**	514.65	586.40	71.75
2	**FY2015-16**	693.73	716.19	22.46
3	**FY2016-17**	763.52	783.76	20.24
4	**FY2017-18**	829.19	720.59	-108.60
5	**FY2018-19**	907.31	826.77	-80.54
	Total	**3,708.40**	**3,633.71**	**-74.69**

APEPDCL - Depreciation (Rs. Cr.)

S.No.	FY	As per the Wheeling Tariff Order	Actual claim	The loss/gain
1	**FY2014-15**	273.7	252.42	-21.28
2	**FY2015-16**	307.81	273.12	-34.69
3	**FY2016-17**	343.26	305.78	-37.48
4	**FY2017-18**	384.74	357.35	-27.39
5	**FY2018-19**	427.51	401.75	-25.76
	Total	**1737.02**	**1590.42**	**-146.6**

Views/objections/suggestions: Objector one has stated that the DISCOMs have shown gain in depreciation despite claiming substantial addition of gross fixed assets during the control period by the DISCOMs and the reasons are not known.

DISCOMs' Reply: Depreciation was claimed on Fixed assets at the rates notified by the Ministry of Power as approved by the APERC. However actual depreciation varies from approved depreciation due to difference in approved fixed assets and class of actual fixed assets added to the network during the control period.

Commission's analysis and decision on depreciation: The Commission has verified the depreciation with reference to books of accounts and found the same to be correct. Accordingly, the depreciation as filed by the DISCOMs is approved.

12. Taxes on income

The DISCOMs' submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on "Taxes on Income" are as follows:

DISCOMs' submissions: They stated that the gain on taxes on income is as per the actual financial statements for the respective years. The year wise and for the total 3rd control period, the gain on taxes on income, DISCOM wise are shown in the following tables:

APSPDCL - Taxes on Income (Rs. Cr.)

S.No.	FY	As per the Wheeling Tariff Order	Actual claim	The loss/gain
1	FY2014-15	28.01	0.00	-28.01
2	FY2015-16	30.33	0.00	-30.33
3	FY2016-17	30.04	0.00	-30.04
4	FY2017-18	29.55	0.00	-29.55
5	FY2018-19	30.15	0.00	-30.15
	Total	**148.08**	**0.00**	**-148.08**

APEPDCL - Taxes on Income (Rs. Cr.)

S.No.	FY	As per the Wheeling Tariff Order	Actual claim	The loss/gain
1	FY2014-15	10.29	0.00	-10.29
2	FY2015-16	11.17	0.00	-11.17
3	FY2016-17	12.19	0.00	-12.19
4	FY2017-18	13.22	2.20	-11.02
5	FY2018-19	14.22	0.00	-14.22
	Total	**61.09**	**2.20**	**-58.89**

Views/objections/suggestions: Objector one has stated that the DISCOMs have shown actual taxes paid on income for the control period as nil except the profit shown by APEPDCL for FY 2017-18. It means that the DISCOMs did not get any taxable income, during the control period, even while claiming substantial return on equity as a part and parcel of return on capital employed during all the five years, as shown by them.

DISCOMs' Reply: APSPDCL has stated that it has incurred losses in all years of the 3rd control period. EPDCL has stated that it has incurred losses in all the years of the 3rd control period except in FY 2017-18 when it has earned nominal profit of Rs.10.45 Cr. and accordingly claimed tax of Rs.2.20 Crores.

Commission's analysis and decision: The Commission has examined the audited books of accounts and found that the DISCOMs have incurred losses during all the years, except marginal profit earned by APEPDCL during FY 2017-18. The Commission is therefore inclined to approve the gain on "Taxes on Income" as filed.

13. Special appropriations for safety measures:

The DISCOMs' submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on Special appropriations for safety measures are as follows:

DISCOMs' submissions: The DISCOMs have shown gain on this item. The year wise and for the total 3rd control period, the gain on special appropriation for safety measures, as filed are shown, DISCOM wise, in the following tables:

APSPDCL - Special Appn. for Safety Measures (Rs. Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	The loss/gain
1	FY2014-15	5.73	0.42	-5.31
2	FY2015-16	5.87	0.61	-5.26
3	FY2016-17	5.87	0.75	-5.12
4	FY2017-18	5.87	0.46	-5.41
5	FY2018-19	5.87	2.95	-2.92
	Total	**29.21**	**5.19**	**-24.02**

APEPDCL - Special Appn. for Safety Measures (Rs. Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	The loss/gain
1	FY2014-15	5.00	0.00	-5.00
2	FY2015-16	5.00	0.00	-5.00
3	FY2016-17	5.00	0.00	-5.00
4	FY2017-18	5.00	0.00	-5.00
5	FY2018-19	5.00	0.00	-5.00
	Total	**25.00**	**0.00**	**-25.00**

Views/objections/suggestions: **Objector one** has stated that the DISCOMs evade to give a clear picture on the specific safety measures actually taken by them not showing the spending under separate heads as directed by the Commission.

Objector two has stated that in the distribution / wheeling tariff order, the Commission has provided a sum of Rs.5.00 Cr. per annum (Rs.25.00 Cr. for the Control Period) towards Special appropriation for safety measures to improve the safety conditions in distribution network, This amount is supposed to be utilized for providing standard earthing to the DTRs wherever defective, providing guy insulators to stays and for rectification of other defects in the system due to which accidents are occurring to human beings and animals. Further, this amount provided was over and above the amount already provided in the investment plan under R&M head. It is expected that the DISCOMs fully utilize the provision of Rs.25 Cr. to improve the safety conditions in the distribution network during the Third Control Period. In this regard, the Commission also directed to prepare a Safety Improvement Plan for five years relating to the distribution network with a budget of Rs.25 Cr. The deaths due to electrocution are on an increasing trend and the DISCOM's submission in their filings on special appropriation for safety measures is even more shocking.

The DISCOMs are not spending the amounts towards safety measures to bring down electrical accidents as directed by the Commission even when the number of deaths due to electrical accidents was increasing. This shows that the DISCOMs were not serious about safety in maintaining and operation of the distribution network and are not following the Safety Code formulated by the CEA.

DISCOMs' Reply: APSPDCL has stated that an expenditure of Rs.5.19 Crs. was incurred for procurement of safety material such as earth discharge rods, rubber gloves, tool kits, pole climbers, LED torch lights etc., for being used by the departmental persons to avoid electrical accidents while carrying out maintenance works in the field. The expenditure incurred for procurement of following safety materials to strengthen distribution network was shown in R&M expenditure:

- Earth pipes and G.I wire were procured for replacement of damaged / rusted earthing
- Safety sets accessories (Stay wire, HT/LT Guy insulators) were procured for rectification of damaged stay sets.
- AB Switches (Isolators) accessories moving contact and fixed contacts were procured for rectification of damaged AB switches.
- Solid core insulators of HT/LT Fuse sets and AB switches were procured for rectification of damaged HT / LT fuse sets and AB switches
- Line spacers were procured for rectification of loose lines.
- Insertion of poles, replacement of damaged poles and replacement of damaged / snapped conductors to strengthen the distribution network for avoiding the electrical accidents

That the details of expenditure incurred on procurement of safety measures & materials for the last five years are as follows :

Year	FY15	FY16	FY17	FY18	FY19	Total
Amount in Rs. Crs.	**3.94**	**4.57**	**6.30**	**5.00**	**5.25**	**25.06**

APEPDCL has stated that Expenditure incurred towards safety measures like, DTR earthing, DTR maintenance, Line clearance are accounted for in R&M Expenditure. A separate General Ledger (GL) is created to account safety measure expenditure from F.Y 2020-21. Further, it has stated that as a part of safety measures, 6000 Nos. Personal Safety tool kits have been procured in January- 2020 and issued to field staff which are intended to provide safety during working on electrical lines. It has also stated that it is spending huge amounts towards safety measures in a big way to avoid electrical accidents. Circular instructions were being issued from corporate office to field from time to time and awareness programmes were also being conducted among the public and also to the O&M staff to follow safety measures while working on live wires.

Commission's analysis and decision on safety measures:

The DISCOMs are stating that they are spending sufficient amounts towards safety measures in the distribution network as directed by the Commission, though not under the exclusive head. On the other hand, the number of electrocutions is increasing every year as pointed out by objector two. Increase in the number of electrical accidents and electrocutions is causing concern and it is imminent that the DISCOMs shall take effective measures to avoid accidents. The DISCOMs shall ensure safety not only to its employees and workers, but also that its network is not prone to accidents for the public. The gain shown in the filings is due to showing the expenditure under the "other heads" in books of accounts. Therefore, "the special appropriations for safety measures" as filed are accepted.

14. Other expenditure

The DISCOMs' submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on "Other expenditure", are as follows:

DISCOMs' Submissions: The APEPDCL has stated that the increase in other expenditure is due to the Hud-Hud cyclone in FY15 and Titli cyclone in FY19.

The year wise and for the total 3rd control period, the loss in "other expenditure" head, DISCOM wise, are shown in the following tables:

APSPDCL - Other Expenditure (Rs. Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	The loss/gain
1	FY2014-15	0.32	27.35	27.03
2	FY2015-16	0.37	34.10	33.73
3	FY2016-17	0.34	33.44	33.10
4	FY2017-18	0.41	35.40	34.99
5	FY2018-19	0.34	40.05	39.71
	Total	**1.78**	**170.34**	**168.56**

APEPDCL - Other Expenditure (Rs. Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order	Actual expenditure incurred	The loss/gain
1	FY2014-15	0.55	159.85	159.30
2	FY2015-16	0.64	18.39	17.75
3	FY2016-17	0.65	7.04	6.39
4	FY2017-18	0.57	14.50	13.93
5	FY2018-19	0.35	164.79	164.44
	Total	**2.76**	**364.57**	**361.81**

Views/objections/suggestions: Objector one has stated that the APEPDCL has claimed substantial amounts under other expenditure head and main reason is stated to be the expenditure due to cyclones. He stated that such calamities are to be provided with insurance coverage. Hence the permissibility of such expenditure needs examination. APSPDCL also claimed substantial amounts under other expenditure heads without explaining the reasons for an increase. It shows lack of accountability, on the part of the APSPDCL. Such arbitrary claims should be rejected. **Objector two** also raised a similar objection.

DISCOMs' Reply: The EPDCL has stated that its assets were not insured and that however an amount of Rs.86.82 Crores was received in FY 17 from the Commissioner, Disaster Management under APDRP scheme towards Hudhud cyclone expenditure. That it has not received any amount towards the Titli Cyclone.

APSPDCL has stated that the expenditure incurred against the items specified under the head "other expenditure" is only Rs.1.75 Cr. out of Rs.170.3 Cr. claimed as per the audited reports, and that the balance expenditure of Rs. 168.55 Cr. may be considered under A&G head as the items are related to A&G expenses. e.g. Vehicle running expenditure, Vehicle hire charges, training expenses, material handling expenses, Material transport charges, consumer meet expenditure, incidental store expenditure etc,.

Commission's analysis & Decision on other expenditure:

The Commission on examination of books of accounts of APEPDCL, found that Rs.6.66 Cr. paid towards compensation to victims of electrical accidents in FY19 was shown in other expenditure. The Commission has permitted the APEPDCL to recover the same under "other heads" as a part of ARR for its retail supply business in Retail Supply Tariff Order for

FY19. Hence, the EPDCL can not claim this expenditure under distribution business again, as it amounts to making double claim. Hence this amount is disallowed.

Similarly, in books of accounts under "other expenditure", Rs.86.82 Cr. has been shown as having been received as a Central Financial Assistance (CFA) towards Hud Hud cyclone and the same is not accounted for in the claim made in the petitions. Also, some write offs were noticed in the books of accounts under the head "other expenditure" and the APEPDCL has not submitted transaction wise details, much less any justification for such write offs. Hence, the Commision is not inclined to allow this expenditure also. Accordingly, on all accounts, the disallowed expenditure under "other expenditure" in respect of APEPDCL is shown in the table below: .

APEPDCL:

S.No.	FY	Write offs in other Expenditure	CFA received/ Expenditure covered in RST Order	Total
1	2014-15	0.66		0.66
2	2015-16	1.3		1.3
3	2015-16	13.22		13.22
4	2016-17	5.53	86.82	92.35
5	2017-18	10.25		10.25
6	2018-19	48.68	6.66	55.34
7	Total	79.64	93.48	173.12

In respect of APSPDCL, as discussed supra, while dealing with employees and A&G expenses, after deducting the expenditure admitted in A&G expenses which was wrongly claimed under "other expenses" by the

APSPDCL, the balance amount is approved as "other expenditure" in respect of APSPDCL.

As discussed above, the other expenditure approved, DISCOM wise is given in the tables below:

APSPDCL - Other Expenditure - Approved (Rs.Cr)

S. No.	FY	Expenditure as per the Wheeling Tariff Order (A)	Actual expenditure Claimed (B)	Other Expenses considered in A&G (C)	Net Claim (D)=(B)-(C)	Approved in this order (E)
1	FY2014-15	0.32	27.35	27.23	0.12	0.12
2	FY2015-16	0.37	34.10	33.87	0.23	0.23
3	FY2016-17	0.34	33.44	33.11	0.33	0.33
4	FY2017-18	0.41	35.40	35.07	0.33	0.33
5	FY2018-19	0.34	40.05	39.27	0.78	0.78
6	**Total**	**1.78**	**170.34**	**168.55**	**1.79**	**1.79**

APEPDCL - Other Expenditure - Approved (Rs.Cr.)

S.No.	FY	Expenditure as per the Wheeling Tariff Order (A)	Actual Claim (B)	Approved in this order (C)	Disallowed expenditure (D) = (B) - (C)
1	FY2014-15	0.55	159.85	159.19	0.66
2	FY2015-16	0.64	18.39	3.87	14.52
3	FY2016-17	0.65	7.04	-85.31	92.35
4	FY2017-18	0.57	14.50	4.25	10.25
5	FY2018-19	0.35	164.79	109.45	55.34
6	**Total**	**2.76**	**364.57**	**191.45**	173.12

15. Non tariff income (NTI):

The DISCOMs' submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on Non Tariff income, are as follows:

DISCOMs' submissions: The DISCOMs have filed the actual non- tariff income. The year wise and for the total 3rd control period, the loss/gain in non tariff income, DISCOM wise, are shown in the following tables:

APSPDCL - Non-Tariff Income (Rs. Cr.)

S.No.	FY	Income as per the Wheeling Tariff Order	Actual Income	The loss/gain
1	FY2014-15	107.35	239.04	131.69
2	FY2015-16	438.99	321.99	-117.00
3	FY2016-17	471.68	393.93	-77.75
4	FY2017-18	506.77	392.99	-113.78
5	FY2018-19	546.82	641.77	94.95
	Total	**2,071.61**	**1,989.72**	**-81.89**

APEPDCL - Non-Tariff Income (Rs. Cr.)

S.No.	FY	Income as per the Wheeling Tariff Order	Actual Income	The loss/gain
1	FY2014-15	97.38	143.26	45.88
2	FY2015-16	146.31	155.73	9.42
3	FY2016-17	160.28	173.27	12.99
4	FY2017-18	175.76	203.65	27.89
5	FY2018-19	189.71	225.91	36.20
	Total	**769.44**	**901.82**	**132.38**

Commission's analysis and decision on Non-Tariff Income:

The Commission has verified the books of accounts and found that there is no separate classification in non tariff income for distribution business and retail supply business. Hence, the information on non tariff income was obtained by the Commission's Office through emails and the same was certified by the statutory auditors. Accordingly, the non tariff income as filed on actual basis is approved by the Commission for both the DISCOMs.

But the Commission noticed that annual audited books of accounts of the DISCOMs are not clearly segregating the accounts of Retail Supply Business and Distribution Business in accordance with the regulations. Therefore, they are directed to clearly segregate the accounts of the Distribution Business and Retail Supply Business in their annual accounts henceforth as per the regulatory requirements.

16. Carrying cost:

The DISCOMs submissions, the objections received in this regard, the DISCOMs' Reply and the Commission's analysis & decision on carrying cost, are as follows:

DISCOMs' submissions: The DISCOMs have stated that they claimed carrying cost on yearly loss at the rate of 12 percent which is the cost of debt approved by the Commission in the wheeling tariff order for 3rd control period. Accordingly, the carrying cost claimed, DISCOM wise, are shown in the tables below:

APSPDCL - Carrying Cost (Rs.Cr.)

S.No.	FY	Carrying cost
1	FY2014-16	45.00
2	FY2015-16	130.00
3	FY2016-17	195.00
4	FY2017-18	255.00
5	FY2018-19	411.00
6	FY2019-20	563.00
7	FY2020-21	631.00
8	**Total**	**2,230.00**

APEPDCL - Carrying Cost (Rs.Cr.)

S.No.	FY	Carrying cost
1	FY2014-16	24.23
2	FY2015-16	53.00
3	FY2016-17	52.80
4	FY2017-18	36.66
5	FY2018-19	72.88
6	FY2019-20	127.76
7	FY2020-21	143.09
8	**Total**	**510.42**

Views/objections/suggestions: Objector one has stated that the gap arising in the ARR and revenue is met by short-term loans. That they have taken the cost of debt approved by the Commission for the calculation of carrying cost. It is unfair to impose such an interest burden on the consumers of electricity for no fault. The multi-year-tariff (MYT) system itself is irrational for various reasons. He requested the Commission to re-examine the continuation of MYT. Even if MYT system is continued, necessary changes may be made to the applicable regulations of the Commission, making it mandatory for the DISCOMs and AP Transco to submit their true-up/true-down claims annually or quarterly relating to multi-year tariffs for determination by the Commission

Objector two has stated that APSPDCL and APEPDCL have claimed carrying costs which constitute 37.87 % and 38.22 percent respectively out of the total true up claims, that they are claiming 12% interest on the gap, that since FY 2014, interest rates in the financial markets have shown a considerable downward trend, and that after FY 2014, the DISCOMs might have contracted loans at much lower rate of interest than that allowed by the Commission in its Order on distribution/wheeling tariff. Therefore, the 12% rate of interest claimed by the DISCOM shall not be allowed. Further, he has stated that the interest/carrying cost shall be calculated up to 2019-20 only, but not up to 2020-21 as claimed by the DISCOMs since there was delay of one year on the part of the DISCOM in filing true up petitions related to distribution business.Hence, the consumers cannot be made to pay for the delay on the part of the DISCOMs.

DISCOMs' Reply: APSPDCL has stated that allowing claimed or actual interest is under the purview of the Commission. Finalisation of Audited Accounts for FY2018-19 and requisite data collection have delayed the filings. Hence, it requested the Commission to allow carrying cost up to the finalisation of the petition.

APEPDCL has stated that it has taken the cost of debt approved by the Commission in the wheeling tariff order for the 3rd control period for the calculation of carrying cost. Hence, it requested the Commission to accord approval of the carrying cost @ 12% on the amounts allowed as True-ups, for the period from the date of incurring expenditure to the date of recovery.

With regard to the suggestions of Objector one on continuation of MYT system, they stated that it is under the purview of the Commission.

Commission's decision on carrying cost: Regulation 4 of 2005 permits carrying cost only on “Uncontrollable items” of ARR of Distribution Business. All the items in the ARR of the Distribution business are controllable items except “taxes on income” and the DISCOMs have shown gain on this item. There is no explicit provision in the Regulation to allow carrying cost on controllable items even if loss or gain is shared. Hence, the Commission is not inclined to allow carrying costs as claimed by the DISCOMs.

As regards the continuation of MYT system, the Commission is guided by the National Electricity Policy, National Electricity Plan and National Tariff Policy published under Section 3 in discharging its functions under Section 86 (4) of the Electricity Act, 2003. Clause 5.11(h) of the national tariff policy reads as below:

“h.Multi Year Tariff

1) Section 61 of the Act states that the Appropriate Commission for determining the terms and conditions for the determination of tariff shall be guided, inter-alia, by Multi-Year Tariff (MYT) principles. The framework should feature a five-year control period. The initial control period may, however, be of 3 year duration for transmission and distribution if deemed necessary by the Regulatory Commission on account of data uncertainties and other practical considerations. In cases of lack of reliable data, the Appropriate Commission may state assumptions in MYT for first control period and a fresh control period may be started as and when more reliable data becomes available.

2) In cases where operations have been much below the norms for many previous years, the initial starting point in determining the revenue *requirement and the improvement trajectories should be recognized at "relaxed" levels and not the "desired" levels. Suitable benchmarking studies may be conducted to establish the "desired" performance standards. Separate studies may be required for each utility to assess the capital expenditure necessary to meet the minimum service standards.*

3) Once the revenue requirements are established at the beginning of the control period, the Regulatory Commission should focus on regulation of outputs and not the input cost elements. <u>At the end of the control period, a comprehensive review of performance may be undertaken</u>.

4) <u>Uncontrollable costs should be recovered speedily to ensure that future consumers are not burdened with past costs. Uncontrollable costs would include (but not limited to) fuel costs, costs on account of inflation, taxes and cess, variations in power purchase unit costs including on account of adverse natural events.</u>

5) Clear guidelines and regulations on information disclosure may be developed by the Regulatory Commissions. Section 62 (2) of the Act empowers the Appropriate Commission to require licensees to furnish separate details, as may be specified in respect of generation, transmission and distribution for determination of tariff."

The Commission's tariff regulations are in consonance with the National Tariff Policy. Clause 21 of Regulation 4 of 2005 provides that the Commission may undertake periodic reviews of Distribution Licensees' performance during the control period to ensure smooth implementation of the MYT framework. Hence, the MYT system can not be discontinued.

With regard to the suggestion to direct the DISCOMs and APTransco to submit their true up/true down claims annually or quarterly relating to multi-year tariffs determined by the Commission, a comprehensive review can be taken up only at the end of the control period as per National Tariff Policy.

17. **Uday Scheme**:

Objector one has stated that the DISCOMs have not shown the amounts received by them from GoAP earlier under the financial restructuring plan (FRP) and later under UDAY that they have also not explained whether the amounts received, if any, under the two schemes were adjusted in their true-up claims for distribution business and that the same needs to be examined and reduced from the true-up claims, if not already done so.

DISCOMs' Reply: They have stated that under UDAY scheme, working capital loans as on 30.09.2015 & FRP Loans were taken over by the Govt. of A.P. and CAPEX loans are not covered by the said scheme and have not received any support under the said scheme towards Distribution costs.

Commission's view: The explanation of DSICOMs reflects the correct position and therefore no direction need be granted.

18. **Over claim in FY2014-15 by APSPDCL**

As per the Commission's wheeling tariff order for the 3rd control period, the net ARR shall be Rs.11608.01 Cr. for FY 2014-15 in respect of APSPDCL, after adding 17.45 percent share of APCPDCL's ARR. But, the APSPDCL has shown the net ARR approved as Rs.11560.44 Cr. for FY2014-15 in the filings submitted to the Commission. Thus, there is a difference of Rs.47.57 Cr. in the net ARR [The ARR in respect of APSPDCL as computed by it (Annexure A) and computed by the

Commission (Annexure B) as per the wheeling tariff order for 3rd CP, are enclosed]. The item wise difference, shown in the table below:

S.No.	Particulars	2014-15
1	Return on Capital	7.86
2	O&M Expenses	41.11
3	Depreciation	15.33
4	Taxes on Income	0.73
5	Special Apprn. For Safety measures	0.15
6	Other Expenditure	0.01
7	**Less :**	0.00
8	O&M Expenses Capitalised	2.40
9	True up adj. of 1st Control Period	10.50
10	Non Tariff Income	4.71
11	**Net ARR**	47.57

As the difference amount is positive, the claim made by the DISCOM in the FY 2014-15 is overstated to the extent of Rs.47.57 Cr. Therefore, this amount has been disallowed by the Commission. Accordingly, it has deducted the same from the claim of FY 2014-15 in respect of APSPDCL.

19. Distribution Business' True-up approved by the Commission for the 3rd Control Period:

As discussed and decisions taken by the Commission in paragraph nos 9 to 18 supra, after deducting disallowable expenditure from the claims, the year wise claims approved by the Commission against the claims made by the DISCOMs in the petitions, are given in the tables below:

FY	Claimed by APSPDCL			Approved by the Commission		
	Claim	Carrying cost	Total	Claim	Carrying cost	Total
FY2014-15	750	45	795	650	0	650
FY2015-16	575	130	705	504	0	504
FY2016-17	256	195	451	169	0	169
FY2017-18	351	255	606	229	0	229
FY2018-19	1,727	411	2,138	1,508	0	1,508
FY2019-20		563	563		0	0
FY2020-21		631	631		0	0
Total	**3,659**	**2,230**	**5,889**	**3,060**	**0**	**3,060**

FY	Claimed by APEPDCL (Rs.Cr.)			Approved by the Commission (Rs.Cr.)		
	Claim	Carrying cost	Total	Claim	Carrying cost	Total
FY2014-15	404	24	428	419	0	419
FY2015-16	27	53	80	3	0	3
FY2016-17	-136	53	-84	-236	0	-236
FY2017-18	-238	37	-202	-260	0	-260
FY2018-19	769	73	842	684	0	684
FY2019-20		128	128	0	0	0
FY2020-21		143	143	0	0	0
Total	**825**	**510**	**1336**	**609**	**0**	**609**

20. Recovery of approved True-up;

On examination of the annual books of accounts of the DISCOMs for all the years in 3rd control period, the DISCOMs are incurring losses every year except marginal profit earned by the EPDCL in FY18. As per the books of accounts, the APSPDCL is in a loss of Rs.12539 Cr. and the

APEPDCL is in a loss of Rs.7745 Cr. by the end of FY19. Hence, they are under financial distress and such a condition does not augur well for the State as well as for the consumers. Hence, the Commission decided to permit recovery of the true up amounts determined in this order, forthwith. Accordingly, the DISCOMs are permitted to recover the total true up amount in the remaining 8 months period during the financial year 2021-22 in equal installments at the interest rate of 10.3 percent (the cost of debt approved by the Commission in the Wheeling Tariff Order for the 4th Control period) on true up amount for the recovery period only.

As, it is a true up amount determined for the 3rd control period ending FY19, the same has to be recovered from the consumers of APCPDCL also who came into existence from 01.04.2020., separating from APSPDCL. As the GoAP has committed itself to provide free power supply to eligible farmers, the DISCOMs may collect the true up amount pertaining to them from the GoAP. If the GoAP is not willing to pay the same, it shall be recovered from the farmers.

The DISCOMs are also directed to raise the true up amounts on GoAP in respect of the other category of consumers who are eligible for free power supply as per the GoAP orders. If the GoAP is not willing to bear the burden on such consumers on account of this true up order, the same may be recovered from the consumers concerned. **The Consumers who were extended supply from 01.04.2019 shall be exempted from payment of this true up amount.**

The details of recovery on a per unit basis uniformly from all the categories of the consumers is shown in the following tables, DISCOM wise.

APSPDCL - Recovery of True-up (Schedule)

S.No.	Consumption Month	Approved sales in TO2021-22 (MU)			Amount to be collected during the month	Per unit cost (Rs.)applicable to all consumers	Amount to be collected from the Govt as a subsidy (Cr.)
		Non-corporate farmer (A)	Others (B)	Total C=(A+B)	D	E=D/C*10	F=E*A/10
1	August '21	850.55	2371.88	3222.43	397.42	1.23	104.90
2	September '21	823.76	2311.42	3135.18	397.42	1.27	104.42
3	October '21	873.37	2454.19	3327.56	397.42	1.19	104.31
4	November '21	844.40	2363.97	3208.37	397.42	1.24	104.60
5	December'21	837.83	2359.15	3196.98	397.42	1.24	104.15
6	January '22	885.46	2444.66	3330.12	397.42	1.19	105.67
7	February '22	881.06	2405.87	3286.93	397.42	1.21	106.53
8	March '22	958.42	2610.29	3568.71	397.42	1.11	106.73

APEPDCL - Recovery of True-up (Schedule)

S.No.	Consumption Month	Approved sales in TO 2021-22 (MU)			Amount to be collected during the month (Cr.)	Per unit cost (Rs.)applicable to all consumers	Amount to be collected from the Govt as a subsidy (Cr.)
		Non-corporate farmer(A)	Others(B)	Total C=(A+B)	D	E=D/C*10	F=E*A/10
1	August '21	210.70	1602.99	1813.69	79.09	0.44	9.19
2	September '21	216.29	1645.55	1861.84	79.09	0.42	9.19
3	October '21	208.90	1589.36	1798.26	79.09	0.44	9.19
4	November '21	213.75	1626.20	1839.95	79.09	0.43	9.19
5	December'21	206.33	1569.78	1776.11	79.09	0.45	9.19
6	January '22	213.93	1627.62	1841.55	79.09	0.43	9.19
7	February '22	217.47	1654.56	1872.03	79.09	0.42	9.19
8	March '22	228.04	1734.94	1962.98	79.09	0.40	9.19

The recovery is estimated based on the approved monthly sales in the Retails Supply tariff Order for FY22 by the Commission. The actual sales may vary from the approvals. Hence, the DISCOMs may fall short or collect an extra amount by the end of the FY22. **Therefore, the DISCOMs are directed to furnish the details of actual amounts collected at the end of recovery schedule as approved above for making adjustments of variations if any in the ARR of the ensuing year for the Retail Supply business, as true up/ down.**

In respect of the true up amount collection from the consumers on per unit basis as per this order, the Retail Supply tariff order issued by the Commission on 25.03.2021 for the FY22, is deemed to have been amended.

21. The petitions are disposed of accordingly.

Sd/-	Sd/-	Sd/-
THAKUR RAMA SINGH **MEMBER**	**JUSTICE C.V. NAGARJUNA REDDY** **CHAIRMAN**	**P. RAJAGOPAL REDDY** **MEMBER**

ANNEXURE - A

NET ARR in respect of APSPDCL as computed by it (As per the wheeling Tariff Order for 3rd control period)

APSPDCL's ARR	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Return on Capital	263.81	273.79	265.47	257.07	258.16	**1318.30**
O&M Expenses	1170.91	1309.62	1466.40	1644.14	1850.21	**7441.28**
Depreciation	438.02	573.59	626.52	676.40	737.61	**3052.14**
Taxes on Income	24.38	25.30	24.53	23.75	23.85	**121.81**
Special Apprn. For Safety measures	5.00	5.00	5.00	5.00	5.00	**25.00**
Other Expenditure	0.25	0.28	0.25	0.31	0.24	**1.33**
Less :						
O&M Expenses Capitalised	49.20	46.61	51.12	63.12	73.04	**283.09**
True up adj. of 1st Control Period	525.62					**525.62**
Non Tariff Income	83.80	374.36	400.78	429.12	462.73	**1750.79**
Net ARR	**1243.75**	**1766.61**	**1936.27**	**2114.43**	**2339.30**	**9400.36**
APCPDCL's ARR	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total**
Return on Capital	270.32	312.09	341.69	359.72	390.62	**1674.44**
O&M Expenses	1413.51	1644.28	1887.34	2178.52	2510.32	**9633.97**
Depreciation	526.96	688.47	785.12	875.56	972.52	**3848.63**
Taxes on Income	24.98	28.84	31.57	33.24	36.09	**154.72**
Special Apprn. For Safety measures	5.00	5.00	5.00	5.00	5.00	**25.00**
Other Expenditure	0.48	0.51	0.53	0.56	0.59	**2.67**
Less :						
O&M Expenses Capitalised	82.64	93.12	84.00	94.56	107.36	**461.68**
True up adj. of 1st Control Period	360.94					**360.94**
Non Tariff Income	161.97	370.38	406.30	444.96	481.91	**1865.52**
Net ARR	**1635.70**	**2215.69**	**2560.95**	**2913.08**	**3325.87**	**12651.29**
APCPDCL's 17.45% share w.r.t ATP&KNL	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total**
Return on Capital	39.31	54.46	59.62	62.77	68.16	**284.33**
O&M Expenses	205.55	286.93	329.34	380.15	438.05	**1640.02**
Depreciation	76.63	120.14	137.00	152.79	169.70	**656.26**
Taxes on Income	3.63	5.03	5.51	5.80	6.30	**26.27**
Special Apprn. For Safety measures	0.73	0.87	0.87	0.87	0.87	**4.22**
Other Expenditure	0.07	0.09	0.09	0.10	0.10	**0.45**
Less :						
O&M Expenses Capitalised	12.02	16.25	14.66	16.50	18.73	**78.16**
True up adj. of 1st Control Period	52.49					**52.49**
Non Tariff Income	23.55	64.63	70.90	77.65	84.09	**320.82**
Net ARR	**237.86**	**386.64**	**446.89**	**508.33**	**580.36**	**2160.08**
APSPDCL's ARR including ATP&KNL	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total**

Return on Capital	303.12	328.25	325.09	319.84	326.32	**1602.63**
O&M Expenses	1376.46	1596.55	1795.74	2024.29	2288.26	**9081.30**
Depreciation	514.65	693.73	763.52	829.19	907.31	**3708.40**
Taxes on Income	28.01	30.33	30.04	29.55	30.15	**148.08**
Special Apprn. For Safety measures	5.73	5.87	5.87	5.87	5.87	**29.22**
Other Expenditure	0.32	0.37	0.34	0.41	0.34	**1.78**
Less :						
O&M Expenses Capitalised	61.22	62.86	65.78	79.62	91.77	**361.25**
True up adj. of 1st Control Period	578.11					**578.11**
Non Tariff Income	107.35	438.99	471.68	506.77	546.82	**2071.61**
Net ARR	**1481.61**	**2153.25**	**2383.15**	**2622.76**	**2919.66**	**11560.44**

ANNEXURE - B

NET ARR in respect of APSPDCL as computed by the Commission (As per the wheeling Tariff Order for 3rd control period)

APSPDCL's ARR	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Return on Capital	263.81	273.79	265.47	257.07	258.16	**1318.30**
O&M Expenses	1170.91	1309.62	1466.40	1644.14	1850.21	**7441.28**
Depreciation	438.02	573.59	626.52	676.40	737.61	**3052.14**
Taxes on Income	24.38	25.30	24.53	23.75	23.85	**121.81**
Special Apprn. For Safety measures	5.00	5.00	5.00	5.00	5.00	**25.00**
Other Expenditure	0.25	0.28	0.25	0.31	0.24	**1.33**
Less :						
O&M Expenses Capitalised	49.20	46.61	51.12	63.12	73.04	**283.09**
True up adj. of 1st Control Period	525.62					**525.62**
Non Tariff Income	83.80	374.36	400.78	429.12	462.73	**1750.79**
Net ARR	**1243.75**	**1766.61**	**1936.27**	**2114.43**	**2339.30**	**9400.36**

APCPDCL's ARR	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Return on Capital	270.32	312.09	341.69	359.72	390.62	**1674.44**
O&M Expenses	1413.51	1644.28	1887.34	2178.52	2510.32	**9633.97**
Depreciation	526.96	688.47	785.12	875.56	972.52	**3848.63**
Taxes on Income	24.98	28.84	31.57	33.24	36.09	**154.72**
Special Apprn. For Safety measures	5.00	5.00	5.00	5.00	5.00	**25.00**
Other Expenditure	0.48	0.51	0.53	0.56	0.59	**2.67**
Less :						
O&M Expenses Capitalised	82.64	93.12	84.00	94.56	107.36	**461.68**
True up adj. of 1st Control Period	360.94					**360.94**
Non Tariff Income	161.97	370.38	406.30	444.96	481.91	**1865.52**
Net ARR	**1635.70**	**2215.69**	**2560.95**	**2913.08**	**3325.87**	**12651.29**

APCPDCL's 17.45% share w.r.t ATP&KNL	2014-15	2015-16	2016-17	2017-18	2018-19	Total
Return on Capital	47.17	54.46	59.62	62.77	68.16	**292.19**
O&M Expenses	246.66	286.93	329.34	380.15	438.05	**1681.13**
Depreciation	91.95	120.14	137.00	152.79	169.70	**671.59**
Taxes on Income	4.36	5.03	5.51	5.80	6.30	**27.00**
Special Apprn. For Safety measures	0.87	0.87	0.87	0.87	0.87	**4.36**
Other Expenditure	0.08	0.09	0.09	0.10	0.10	**0.47**
Less :						
O&M Expenses Capitalised	14.42	16.25	14.66	16.50	18.73	**80.56**
True up adj. of 1st Control Period	62.98					**62.98**
Non Tariff Income	28.26	64.63	70.90	77.65	84.09	**325.53**
Net ARR	**285.43**	**386.64**	**446.89**	**508.33**	**580.36**	**2207.65**

APSPDCL's ARR including ATP&KNL	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**Total**
Return on Capital	310.98	328.25	325.09	319.84	326.32	**1610.49**
O&M Expenses	1417.57	1596.55	1795.74	2024.29	2288.26	**9122.41**
Depreciation	529.97	693.73	763.52	829.19	907.31	**3723.73**
Taxes on Income	28.74	30.33	30.04	29.55	30.15	**148.81**
Special Apprn. For Safety measures	5.87	5.87	5.87	5.87	5.87	**29.36**
Other Expenditure	0.33	0.37	0.34	0.41	0.34	**1.80**
Less :						
O&M Expenses Capitalised	63.62	62.86	65.78	79.62	91.77	**363.66**
True up adj. of 1st Control Period	588.60					**588.60**
Non Tariff Income	112.06	438.99	471.68	506.77	546.82	**2076.32**
Net ARR	**1529.18**	**2153.25**	**2383.15**	**2622.76**	**2919.66**	**11608.01**