ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION
HYDERABAD

Dated: 05-12-2015

O.P.Nos.22 to 25 of 2015

Present

Sri Justice G. Bhavani Prasad, Chairman
Sri P. Rama Mohan, Member

In the matters of

True Up of (i) Distribution Business and (ii) Retail Supply Business for the Second Control Period FY2009-10 to FY2013-14

Between :

Eastern Power Distribution Company of
Andhra Pradesh Limited,
Corporate Office: P & T Colony … Petitioner
Seethammadhara, Visakhapatnam. (Petitioner in O.P.No.22 of 2015)

A N D

-NIL- … Respondent
(Respondent in O.P.No.22 of 2015)

True Up petition for Distribution Business for the Second Control Period FY2009-10 to FY2013-14 under multi-year tariff principles in accordance with the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005.

Between :

Eastern Power Distribution Company of
Andhra Pradesh Limited,
Corporate Office: P & T Colony … Petitioner
Seethammadhara, Visakhapatnam. (Petitioner in O.P.No.23 of 2015)

A N D

-NIL- … Respondent
(Respondent in O.P.No.23 of 2015)

True Up petition for Retail Supply Business for the Second Control Period FY2009-10 to FY2013-14 under multi-year tariff principles in accordance with the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005.

Between :

Southern Power Distribution Company of
Andhra Pradesh Limited, Corporate Office,
Tiruchanoor Road,
Behind Sreenivasa Kalyana Mandapam, … Petitioner
Tirupati. (Petitioner in O.P.No.24 of 2015)

A N D

-NIL- … Respondent
(Respondent in O.P.No.24 of 2015)

True Up petition for Distribution Business for the Second Control Period FY2009-10 to FY2013-14 under multi-year tariff principles in accordance with the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005.

Between :

Southern Power Distribution Company of
Andhra Pradesh Limited, Corporate Office,
Tiruchanoor Road,
Behind Sreenivasa Kalyana Mandapam, … Petitioner
Tirupati. (Petitioner in O.P.No.25 of 2015)

A N D

-NIL- … Respondent
(Respondent in O.P.No.25 of 2015)

True Up petition for Retail Supply Business for the Second Control Period FY2009-10 to FY2013-14 under multi-year tariff principles in accordance with the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005.

The true up petitions filed by the Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL) and Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) in respect of (i)Distribution Business and (ii)Retail Supply Business, separately by each of them for the second control period FY2009-10 to FY2013-14 under multi-year tariff principles in accordance with the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation,2005 (hereinafter referred to as the 'Regulation No.4 of 2005'), came up for consideration before the Commission. Upon following the procedure prescribed for determination of such true up as per the Regulation 4 of 2005 and after hearing Sri P. Shiva Rao, learned Standing Counsel; Sri H.Y.Dora, CMD/APSPDCL; Sri T.V.S. Chandrasekhar, Director(Finance)/APEPDCL; Sri P.Srinivasa Rao of M/S KPMG for APDISCOMS; Sri K.Gopal Choudary and Sri Challa Gunaranjan, Advocates for The India Cements Ltd., My Home Industries Private Limited & other cement companies; Sri Bhushan Rastogi for FTAPCCI, Sri M. Venugopala Rao/Senior Journalist, Sri Cherukuri Venugopala Rao and Sri Valluri Satya Prasad, stakeholders and after careful consideration of the material available on record, the Commission, in exercise of the powers vested in it under Regulation No.4 of 2005, the Electricity Act, 2003 (Act No.36 of 2003), the Andhra Pradesh Electricity Reform Act, 1998 (Act 30 of 1998) and all other powers hereunto enabling, hereby passes the following:

COMMON ORDER

PART-I
BACKGROUND

1. APEPDCL and APSPDCL (Discoms or distribution licensees or licensees) have been granted licenses for Distribution and Retail Supply of electricity in the erstwhile undivided Andhra Pradesh State on December 27, 2000 by the Andhra Pradesh Electricity Regulatory Commission (erstwhile Commission) under the Andhra Pradesh Electricity Reform Act, 1998.

2. The erstwhile Commission has framed the Regulation 4 of 2005 introducing the Multi Year Tariff Regulatory (MYT) framework that governs the (i) Distribution Business and (ii) Retail Supply Business as per which the licensees file the Aggregate Revenue Requirement (ARR) and proposed Tariff for each year of the Control Period ahead of the commencement of the control period. As per Regulation 4 of 2005, the erstwhile Commission used to determine the ARR for Distribution Business and Wheeling Tariff for each year of the control period ahead of the commencement of the Control Period. However, the erstwhile Commission used to determine the ARR for retail supply business and tariff for retail sale of electricity on annual basis on the request of the distribution and retail supply licensees. Further, the provisions for true up of ARR after completion of the Control Period are also provided in the said Regulation.

3. Pursuant to the Andhra Pradesh Reorganization Act 2014, the Government of Andhra Pradesh has constituted the Andhra Pradesh Electricity Regulatory Commission (APERC or the Commission) for the residual state of Andhra Pradesh on 01-08-2014. The Commission has adopted all the regulations, orders, directions etc., issued by the erstwhile Commission for the newly formed Andhra Pradesh State through the Andhra Pradesh Electricity Regulatory Commission (Adaptation) Regulation, 4 of 2014. Consequent to the bifurcation of the State, APEPDCL's jurisdiction under the license almost continued as earlier (with inclusion of only seven revenue mandals from erstwhile APNPDCL) in the newly formed Andhra Pradesh State, whereas APSPDCL's jurisdiction significantly widened with the inclusion of Anantapur and Kurnool districts of the newly formed Andhra Pradesh State.

4. The erstwhile Commission has issued 3 MYT Orders and also carried out the true up of ARR/Revenue for the first Control Period in its Tariff Order for third Control Period issued on

May 9, 2014 in O.P. Nos. 66 & 70 of 2013 in respect of APEPDCL & APSPDCL respectively. The three MYT Orders are;

a) FY2006-07 to FY2008-09: First Control Period - 3 Years
b) FY2009-10 to FY2013-14: Second Control Period - 5 Years and
c) FY2014-15 to FY2018-19: Third Control Period - 5 Years

5. Meanwhile, the Licensees have completed the second control period ending with FY2013-14 and upon the availability of audited accounts and also on directions from the Commission, they have filed separate applications for true up of the following amounts in respect of each of the applications for the second control period with the Commission on June 30, 2015 requesting the Commission to pass on the total true-up amount (aggregate loss) of all the four true-up petitions of the second control period

O.P. No.22 of 2015	**O.P. No. 23 of 2015**	**O.P. No. 24 of 2015**	**O.P. No. 25 of 2015**
Approve Rs.478 cr, as the total true up for the Distribution Business of APEPDCL	Approve Rs.680 cr, as the total true up for the Retail Supply Business of APEPDCL	Approve Rs.866 cr, as the total true up for the Distribution Business of APSPDCL	Approve Rs.5,185cr, as the total true up for the Retail Supply Business of APSPDCL

Regulatory Provisions for True Up

6. Multiyear tariff principles that aim at regulating the distribution and retail supply businesses and incentivising the distribution licensees for better performance have been incorporated in Regulation No. 4 of 2005. As per this Regulation, every distribution licensee shall file the ARR for each year of the control period which will be examined and approved by the Commission. The distribution and retail supply licensees shall file for corrections of controllable and uncontrollable items of ARR approved for a control period after completion of the control period. The ARRs approved for each year of the Control Period shall become the basis for determination of wheeling tariffs for distribution business and retail supply tariff as per Regulation 3 of Regulation 4 of 2005. Regulation 19 of Regulation 4 of 2005 provides for filing for corrections in accordance with Regulation 10 of Regulation 4 of 2005 which reads as follows:

7. Regulation 19 of Regulation 4 of 2005 reads as follows;

"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."

8. Regulation 10 of Regulation No. 4 of 2005 reads as follows;

"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:

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:

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 gains and losses 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 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 this Regulation, the gains or losses in the controllable items of ARR on account of factors that are beyond the control of the Distribution Licensee - 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."

9. The Commission has decided to consider the applications made by licensees, while deeming their submissions to be in accordance with Regulation 19 of Regulation No. 4 of 2005, for corrections with regard to controllable and uncontrollable items of ARR approved for each year of the second control period. The applications for true up made by APEPDCL for (i) Distribution Business and (ii) Retail Supply Business are taken on file as O.P. No. 22 of 2015 and O.P.No. 23 of 2015 respectively. Similarly, the applications for true up made by APSPDCL for (i) Distribution Business and (ii) Retail Supply Business are taken on file as O.P. No. 24 of 2015 and O.P.No. 25 of 2015 respectively.

Public Notice of True up Application

10. If the distribution licensees' proposals are approved, then a sum of ₹ 7209 cr shall be collected from the retail consumers of electricity by including it in their ARRs which would be recovered through retail tariff. The stakeholders connected to these applications for true up are retail consumers of electricity. To elicit the views/objections/ suggestions of all stakeholders, the

Commission has directed the distribution licensees to publish a 'public notice' in one English and one Telugu newspaper (in Telugu) on or before July 10, 2015. Further, distribution licensees were directed to make available copies of the true-up petitions to the public free of cost in the office of Chief General Manager (Comml, RAC&PP) at Visakhapatnam in respect of APEPDCL and in the office of Chief General Manager (Operation), at Tirupati in respect of APSPDCL. Similarly, copies of the petitions were also directed to be made available to the public free of cost in the offices of Superintending Engineer (Operation Circle) at Srikakuam, Vizianagaram, Rajahmundry and Eluru in respect of APEPDCL and in the offices of Superintending Engineer (Operation Circle) at Nellore, Vijayawada, Guntur, Ongole, Kadapa, Anantapur and Kurnool in respect of APSPDCL, vide letter dt. 04-07-2015 (see Annexure-1). Apart from publication as mentioned above, the petitions were directed to be uploaded on the respective websites of the distribution licensees concerned.

11. Accordingly, both the distribution licensees jointly published a 'Public Notice' in Andhra Jyothi (Telugu) and The Hindu (English) on 10-07-2015 calling for objections from interested persons/stakeholders in respect of the above mentioned petitions filed by them either in person or through post/e-mail, so as to reach the Commission on or before 31-07-2015 (see Annexure-2). Further, in compliance with the direction of the Commission, copies of the petitions were made available free of cost to the general public. Likewise, the petitions were uploaded on the respective websites of distribution licensees, as well as on the website of the Commission.

Stakeholders' Views/Objections/Suggestions on True up Filings

12. As on the last date of receipt of views/objections/suggestions, only Sri M. Thimma Reddy, Convener, PMGER submitted comments on behalf of Peoples Monitoring Group. In response to the request of Sri M. Venugopala Rao, Senior Journalist for extending time for submitting views/objections/suggestions beyond 31-07-2015, he was informed by Lr.No.APERC/Secy/F.No.T-06/2015 dt. 31-07-2015 that time was extended for submission of his views/objections/suggestions till 15-08-2015 in order to provide a reasonable opportunity as requested by him.

13. On 11-08-2015, all the Stakeholders were informed that the Commission will take up for hearing the true-up petitions of the distribution licensees on 19-09-2015, vide 'Public Notice' dt.11-08-2015 and the said 'Public Notice' was uploaded on the website of the Commission. Further, distribution licensees were directed to publish the 'Public Notice' in the given format in

one English newspaper (in English) and one Telugu newspaper (in Telugu), having wide circulation in the State of Andhra Pradesh on or before 19-08-2015, vide letter dt.11-08-2015 (see Annexure-3). Apart from publication as mentioned above, the licensees were directed to upload the 'Public Notice' on their respective websites. In the said public notice, it was informed that all the interested persons/associations/ stakeholders/objectors who want to be heard in person/through authorized representatives may appear before the Commission on the said date of hearing at Hyderabad and submit their views/objections/suggestions in respect of the said petitions, in order to provide reasonable opportunity to all the stakeholders. In compliance with the said directions, distribution licensees jointly published public notice in Eenadu and New Indian Express on 18-08-2015 (see Annexures 4).

14. In the meanwhile and upto 22-08-2015, comments from Sri M.Venugopala Rao, Sri Pennumalli Madhu, Sri Ramakrishna and Sri Ch.Narasinga Rao were received. Copies of the same, along with those of Sri M.Thimma Reddy, were forwarded to both the distribution licensees and they were directed to submit their replies, which shall reach the Commission on or before 10-09-2015 and a copy of such replies shall also be sent to the objectors, vide letter dt.22-08-2015.

15. In compliance with the directions of the Commission, the distribution licensees submitted separate replies in respect of comments received from above mentioned five (5) objectors, vide their letters all dt. 10-09-2015 and copies were also sent to the objector concerned, as directed. Based on the replies furnished by the distribution companies, Sri. M.Venugopala Rao filed a further submission on 19-09-2015.

16. On 14-09-2015 separate, but identical letters were received from M/s. My Home Industries Private Limited and its 100% subsidiary, M/s. Sree Jayajyothi Cements Limited requesting the Commission to direct the distribution licensees to provide additional information as per the annexures appended thereto, for filing objections.

17. On the date of public hearing i.e., on 19-09-2015, counsel representing some of the stakeholders, some other stakeholders themselves or their representatives, CMD of APSPDCL and officers of both the distribution licensees were present. Counsel also filed vakalat and they as well as other parties present were heard and the Commission informed that all the persons who propose to file their objections to the request of the distribution companies may file their objections before one week in the office of the Commission on the information made available

by the distribution companies and also furnish the details of any further information, which they seek to go through before the next date of hearing and the distribution companies were directed to furnish such information or reasons for their inability to provide such information and also file their responses to all the objections by the next date of hearing, so as to provide further opportunity.

18. Further to the submissions made at the public hearing on 19-09-2015, Sri M.Thimma Reddy, Sri M.Venogopala Rao, FTACCI and Sri K.Gopal Chowdary, Advocate for The India Cements Ltd., have requested the Commission to direct the distribution licensees for furnishing additional information for enabling them to file detailed objections, if not already filed or supplementary/additional objections, in addition to those already filed. In compliance with the directions of the Commission, APSPDCL provided its response/additional information to the objectors, vide its letters dt.02-10-2015. Similarly, APEPDCL also furnished its response/additional information to the objectors, vide its letters dt. 03-10-2015.

19. On 17-10-2015, Sri. M. Thimma Reddy, filed supplementary suggestions dated 05-10-2015. On 26-10-2015, submissions of Andhra Pradesh Chambers of Commerce and Industry Federation dt.06-10-2015 were received. On 08-10-2015, separate but identical letters dt.07-10-2015 were received from M/s. My Home Industries Pvt Ltd and M/s. Sree Jayajyothi Cements Ltd., requesting for additional information to file objections. On 09-10-2015, replies of APEPDCL to the objections raised by M/s. The India Cements Ltd and M/s. Sree Jayajyothi Cements Ltd were received, vide letters both dt. 08-10-2015.

20. On 09-10-2015, during the public hearing, Sri Srinivas, KPMG on behalf of APSPDCL made his presentation in part. For continuation and for furnishing of further details as required by the Commission and the objectors, the matter was posted to 17-10-2015.

21. On 15-10-2015, letter dt.14-10-2015 was received from Sri K. Gopal Choudary, Advocate requesting the Commission to direct the distribution companies to file necessary information in a complete manner and to explain and elaborate on their claims and proposals. Responses of APSPDCL to the objections raised by M/s. The India Cements Ltd., Sri M. Venugopala Rao and Sri K. Gopal Choudary, Advocate were received on 17-10-2015, vide its letters all dated 15-10-2015. Likewise, response of APEPDCL, to the objections raised by Sri. K. Gopal Choudary,

Advocate and M/s. My Home Industries Ltd were also received on 17-10-2015, vide its letters both dt.15-10-2015.

22. On 17-10-2015, Sri P. Shiva Rao, learned Standing Counsel for the petitioners; Sri H.Y.Dora, CMD/APSPDCL; Sri Srinivas of KPMG for APSPDCL; Sri T.V.S.Chandrasekhar, Director (Finance)/APEPDCL for the petitioners, and Smt M. Indrani, learned counsel representing Sri Challa Gunaranjan, Advocate; Sri Bhushan Rastogi for FTAPCCI, Sri M. Thimma Reddy & Sri M. Venugopala Rao were present and heard. All the objectors were given time till 27-10-2015 for furnishing their views /objections/suggestions, if any, they want to further place before the Commission for consideration of the true-up petitions and the said petitions were posted to 16-11-2015 for orders. On 17-10-2015, separate but identical Memos on behalf of objectors in O.P. Nos. 24 & 25 of 2015 and those in O.P. Nos. 22 & 23 of 2015 are filed by the counsel for the objectors. On 17-10-2015, a copy of the Office Memorandum dt. 05-10-2012 of Government of India, Ministry of Power, together with Annexure-I was filed by FTAPCCI.

23. On 21-10-2015, final submissions dt. 20-10-2015 of Sri M. Venugopala Rao were received. On 26-10-2016 additional objections dt. 24-10-2015 of FTAPCCI were received. On 27-10-2015, separate objections filed by Sri Challa Gunaranjan, Advocate on behalf of 9 objectors (including the The India Cements Ltd) in O.P. Nos. 24 & 25 of 2015 and on behalf of M/s. My Home Industries Pvt. Ltd in O.P. Nos. 22 & 23 of 2015, were received.

24. On 07-11-2015, the matter was advanced to that date. The petitions were reopened *suo-motu*, at the request of Sri K. Gopal Choudary and Sri Challa Gunaranjan, Advocates requesting for an opportunity to make their submissions on the objections already filed, as they were not able to be present on the final hearing date due to unavoidable reasons. Sri K. Gopal Choudary was heard in extenso on the objections already filed and the other issues raised during the arguments. At the request of Sri P. Shiva Rao, learned Standing Counsel for response of the petitioners, the petitions were posted to 21-11-2015 for further hearing.

25. On 21-11-2015, during public hearing, Sri P. Shiva Rao, learned Standing Counsel for the petitioner, Sri Srinivasa Rao, of M/SKPMG representing DISCOMs, Sri T.V.S. Chandra Sekhar, Director/Finance/APEPDCL, Sri K. Gopal Choudary, Sri Challa Gunaranjan, Advocates, Sri M. Venugopala Rao, Sri Ch. Narasingrao for the Objectors who present. Sri P. Shiva Rao,

learned Standing Counsel for the petitioners requested for an opportunity to produce before the Commission any additional material that may become necessary for consideration by the Commission. Therefore, the petitioners were permitted to produce any additional material before the Commission on or before 26-11-2015, while serving copies of the same on the learned counsel and the objectors and the learned counsel and the objectors who permitted to place any further material or response before the Commission on or before 30-11-2015.

26. In obedience to the directions of the Commission as mentioned above, both the distribution licensees submitted separate replies to the further objections/suggestions received during the public hearing on 21-11-2015, vide their letter both dt. 25-11-2015.

Tariff Order for Distribution Business for Licensees

27. The erstwhile Commission has issued MYT Order for distribution business while approving the ARR and the wheeling tariff has been determined based on approved ARR for each year of the control period. The total ARR as per tariff order is ₹5683 cr. for SPDCL and ₹3424 cr. for EPDCL for the control period. Since each licensee undertakes both distribution and retail supply businesses, the distribution ARR is considered by the said Commission as cost to the retail supply business while issuing the tariff order for retail sale of electricity based on ARR approved for retail supply business. Hence, there will be neither surplus nor deficit as per tariff order issued while determining the wheeling charges for each year of the control period. The summary of ARR and Revenue (details are in annexure-05 for SPDCL and Annexure-06 for EPDCL) for each of two licensees as per tariff order is given in the tables below:

Table 1: SPDCL: Distribution ARR for the Control Period-Summary (₹ cr)

SPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. ROCE	232.05	269.82	299.41	323.71	338.36	1463.35
2. O & M Expenses	411.24	461.54	502.38	572.96	625.12	2573.24
3. Depreciation	181.52	230.87	267.19	334.24	343.69	1357.51
4. Taxes on Income	1.15	1.15	1.25	1.37	1.52	6.44
5. Safety Measures	5.00	5.00	5.00	5.00	5.00	25.00
6. Other Expenditure	47.67	49.46	51.32	53.25	55.25	256.95
7. ARR(1+..+6)	878.63	1017.84	1126.55	1290.52	1368.94	5682.49
8. less Total Revenue	878.64	1017.85	1126.56	1290.52	1368.94	5682.51
9. Revenue Gap	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Table 2: EPDCL - Distribution ARR for the Control Period-Summary(₹ cr)

EPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. ROCE	91.50	96.67	104.19	112.15	123.72	528.22
2. O & M Expenses	316.60	358.60	394.84	437.20	480.02	1987.25
3. Depreciation	143.16	154.58	173.12	190.43	212.45	873.74
4. Taxes on Income	1.98	1.98	1.98	1.98	1.98	9.90
5. Safety Measures	5.00	5.00	5.00	5.00	5.00	25.00
6. Other Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
7. ARR(1+..+6)	558.23	616.83	679.12	746.76	823.17	3424.12
8. less Total Revenue	558.24	616.83	679.13	746.76	823.17	3424.13
9. Revenue Gap	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Tariff Order for Retail Supply Business for Licensees

28. The erstwhile Commission has also issued annual tariff Orders for retail supply business while approving the ARR and tariff for retail sale of electricity. The erstwhile Commission has permitted the two licensees to file the ARR and tariff for retail sale of electricity on annual basis for each year of the control period. As per the retail supply tariff orders issued, the total ARR is at ₹34434 cr for SPDCL and ₹24090 cr for EPDCL during the control period. As per the Tariff orders, the revenue from the retail sale of electricity and other sources including subsidy u/s 65 of the Electricity Act, 2003 were expected to meet the ARR for each year of the control period. Hence, there will be neither surplus nor deficit as per tariff orders issued while determining the tariff for retail sale of electricity for the control period. The summary of ARR and Revenue(details are in annexure-05 for SPDCL and Annexure-06 for EPDCL) for each of the two licensees as per tariff orders is given in the tables below:

Table 3: SPDCL - Retail Supply ARR for the Control Period - Summary (₹ cr)

SPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Power Purchase Cost	3385.34	4023.10	4857.56	6803.25	8106.46	27175.71
2. Transmission Cost	168.36	199.55	250.96	292.39	325.09	1236.35
3. SLDC Charges	6.38	5.91	8.07	8.81	9.60	38.77
4. PGCIL Charges	62.48	74.35	73.68	102.25	94.65	407.41
5. ULDC Charges	5.84	5.81	4.24	5.89	6.05	27.83
6. Distribution Cost	793.51	935.51	1040.00	1199.54	1273.30	5241.86
7. Interest on CSD	35.06	34.68	41.22	37.79	90.67	239.42
8. Supply Margin	10.55	12.26	13.61	14.71	15.38	66.51
9. Other Expenses	0.00	0.00	0.00	0.39	0.00	0.39
10. ARR(1+..+9)	4467.52	5291.17	6289.34	8465.02	9921.20	34434.25
11. Less Total Revenue	4467.53	5291.18	6289.33	8465.02	9921.20	34434.26
12. Revenue Gap	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Table 4: EPDCL - Retail Supply ARR for the Control Period-Summary (₹ cr)

EPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Power Purchase Cost	2398.90	2891.63	3434.69	4766.22	5786.43	19278.30
2. Transmission Cost	119.22	140.79	176.62	205.38	228.35	870.36
3. SLDC Charges	4.52	4.17	5.68	6.19	6.74	27.30
4. PGCIL Charges	48.47	56.87	56.13	76.80	66.44	304.71
5. ULDC Charges	0.00	0.00	0.00	0.00	0.00	0.00
6. Distribution Cost	544.85	603.44	665.75	733.37	809.79	3357.20
7. Interest on CSD	32.68	35.45	50.00	38.58	70.98	227.29
8. Supply Margin	4.16	4.39	4.74	5.10	5.62	24.01
9. Other Expenses	0.00	0.00	0.19	0.28	0.00	0.47
10. ARR(1+..+9)	3152.80	3736.74	4393.80	5831.92	6974.35	24089.63
11. Less Total Revenue	3152.80	3736.75	4393.71	5831.93	6974.35	24089.54
12. Revenue Gap	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

True Up Filings by Licensees for the Second Control Period

Distribution True Up Filings: Summary

29. The two distribution licensees, M/S SPDCL and M/S EPDCL have filed the applications for true up expenses totaling to ₹1344 cr relating to distribution business for the control period. If the requests of the licensees are approved by the Commission, the true up amounts claimed by the licensees are to be recovered from the users of distribution network, mostly the retail supply licensees of electricity who use the distribution network for retail sale of electricity (barring few open access consumers with minimal purchase volumes compared with the total energy supplied using distribution networks).

30. M/S SPDCL has computed the ARR for distribution business at ₹6229 cr and placed the revenue from tariff and non-tariff sources at ₹5548 cr which results in a revenue gap of ₹680 cr for the control period. SPDCL has, while adding the carrying cost at ₹186 cr to the revenue gap of ₹680 cr, computed the total true up amount relating to the distribution business at ₹866 cr for the control period. The details are given in annexure-06 and the summary is given in the table below.

Table 5: SPDCL True Up Filing Summary for Distribution Business (₹ cr)

SPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. ROCE	196.91	234.18	239.52	233.43	248.26	1152.30
2. O & M Expenses	445.22	866.36	706.20	735.68	1028.35	3781.81
3. Depreciation	189.29	237.73	255.93	265.91	287.01	1235.87
4. Taxes on Income	0.70	0.78	1.83	0.00	0.00	3.31
5. Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
6. Other Expenditure	13.73	3.94	1.31	19.69	16.89	55.56
7. ARR(1+..+6)	845.86	1342.99	1204.79	1254.71	1580.51	6228.85
8. less Total Revenue	847.24	1004.89	1087.26	1291.48	1317.23	5548.09
9. add Carrying Cost	-0.08	20.12	47.46	52.30	65.89	185.69
10.True Up Amount(7-8+9)	**-1.00**	**358.00**	**165.00**	**16.00**	**329.00**	**866.00**

31. M/S EPDCL has computed the ARR for distribution business at ₹3978 cr and placed the revenue from tariff and non-tariff sources at ₹3600 cr which results in a revenue gap of ₹378 cr for the control period. EPDCL has, by adding the carrying cost at ₹99 cr to the revenue gap of ₹378 cr, computed the total true up amount relating to the distribution business at ₹477 cr for the control period. The details are given in annexure-07 and the summary is given in the table below.

Table 6: EPDCL True Up Filing Summary for Distribution Business (₹ cr)

EPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. ROCE	102.61	88.85	90.50	97.63	109.26	488.85
2. O & M Expenses	316.55	497.04	492.64	607.71	609.93	2523.88
3. Depreciation	168.43	179.66	191.51	209.76	215.66	965.02
4. Taxes on Income	3.90	3.19	-6.34	0.00	0.00	0.75
5. Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
6. Other Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
7. ARR(1+..+6)	591.48	768.74	768.32	915.10	934.85	3978.49
8. less Total Revenue	582.86	648.45	713.75	780.38	874.79	3600.23
9. add Carrying Cost	0.52	8.25	18.74	30.10	41.79	99.40
10.True Up Amount(7-8+9)	**9.14**	**128.55**	**73.31**	**164.82**	**101.85**	**477.67**

32. Since the licensees undertake the functions of both distribution and retail sale of electricity in the designated areas of supply, the true up amount approved for the distribution business will become a component of the ARR for the retail supply business that will be ultimately recovered from the consumers through tariff for retail sale of electricity. Hence, the true up amount approved for distribution business will have direct bearing on the tariff for retail sale of electricity in future years depending upon the ways and means of adjustments approved by the Commission for these true up amounts.

Retail Supply True Up Filings: Summary

33. The two distribution licensees, M/S SPDCL and M/S EPDCL have filed the applications for true up expenses totaling to ₹5865 cr relating to retail supply business for the control period. The recovery of the true up amounts is normally included in the ARR of retail supply business. If the requests of the licensees are approved by the Commission, the true up amounts claimed by the licensees are to be recovered through retail supply tariff to be paid by the electricity consumers in their designated areas of supply.

34. M/S SPDCL has computed the ARR for retail supply business at ₹37523 cr and placed the revenue from tariff and non-tariff sources at ₹33596 cr which results in a revenue gap of ₹3927 cr for the control period. SPDCL has, while adding the carrying cost at ₹1258 cr to the revenue gap of ₹3927 cr, computed the total true up amount relating to the retail supply business at ₹5185 cr for the control period. The summary of the filings is given in the table below:

Table 7: SPDCL: Retail Supply Business True Up Filing Details (₹ cr)

SPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Power Purchase Cost	4223.97	4757.53	5902.57	7522.44	7663.14	30069.65
2. Transmission Cost	266.94	206.46	256.88	214.35	246.51	1191.13
3. SLDC Charges	6.51	6.16	8.25	8.98	9.90	39.80
4. PGCIL Charges	89.02	84.95	111.85	114.52	128.03	528.38
5. ULDC Charges	6.07	6.01	6.00	6.08	6.05	30.22
6. Distribution Cost	793.51	935.51	1040.00	1199.54	1273.30	5241.86
7. Interest on CSD	31.20	35.89	41.92	77.14	89.43	275.58
8. Supply Margin	8.58	10.05	9.89	8.51	7.45	44.49
9. Other Expenses	45.84	55.75	0.02	0.00	0.00	101.61
10. ARR(1+..+9)	5471.63	6098.32	7377.39	9151.55	9423.82	37522.72
11. Less Total Revenue	4254.76	5804.78	6722.30	7689.12	9124.93	33595.89
12. Add Carrying Cost	73.01	163.64	220.56	347.61	453.29	1258.10
13. Net True Up (10-11+12)	**1289.89**	**457.18**	**875.65**	**1810.04**	**752.17**	**5184.93**

35. M/S EPDCL has computed the ARR for distribution business at ₹25938 cr and placed the revenue from tariff and non-tariff sources at ₹25462 cr which results in a revenue gap of ₹476 cr for the control period. EPDCL has, by adding the carrying cost at ₹204 cr to the revenue gap of ₹476 cr, computed the total true up amount relating to the retail supply business at ₹680 cr for the control period. The summary of the filings is given in the table below.

Table 8: EPDCL- Retail Supply Business True Up Filing Details (₹ cr)

EPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Power Purchase Cost	3115.41	3386.15	4268.46	5106.00	5220.00	21096.02
2. Transmission Cost	118.30	137.93	179.58	209.11	172.00	816.92
3. SLDC Charges	4.49	5.11	5.77	6.93	6.94	29.24
4. PGCIL Charges	67.47	60.22	83.62	85.35	95.13	391.79
5. ULDC Charges	0.00	0.00	0.00	0.00	0.00	0.00
6. Distribution Cost	544.85	603.44	665.75	733.37	809.79	3357.20
7. Interest on CSD	29.67	32.06	36.05	65.86	75.00	238.64
8. Supply Margin	0.00	0.00	0.00	0.00	0.00	0.00
9. Other Expenses	3.93	2.39	2.20	0.00	0.00	8.52
10. ARR(1+..+9)	3884.12	4227.30	5241.43	6206.62	6378.86	25938.33
11. Less Total Revenue	3472.36	4174.62	5460.41	6114.58	6239.98	25461.95
12. Add Carrying Cost	24.71	52.57	42.59	34.98	48.83	203.68
13. Net True Up (10-11+12)	**436.46**	**105.25**	**-176.39**	**127.02**	**187.71**	**680.06**

36. The ARR approved by the erstwhile Commission is based on forecasts made for future and the regulatory provisions explained earlier provide an opportunity for corrections /compensation based on actual ARR on completion of the relevant tariff years/control period. Accordingly, licensees have filed the true up applications for both distribution and retail supply business for the control period while seeking true up (actual amounts in excess/deficit of amounts approved in tariff orders) based on actual amounts relating income and expenses for each year of the control period along with carrying cost.

PART-II

OBJECTIONS/SUGGESTIONS/COMMENTS

37: The Commission has, after wide and extensive consultation with the stakeholders on these true up filings in accordance with the procedure adopted as explained *supra*, lists the views of the stakeholders, provides licensees' responses and the Commission views :

SET-I

Sri Penumalli Madhu, State Secretary, Communist Party of India (Marxist), Andhra Pradesh Committee, H.No: 27-30-3, CPI (M) State Committee Office, Akulavari Street, Governorpet, Vijayawada-2;

Ch.Narasinga Rao, State Secretariat Member, Communist Party of India (Marxist), Andhra Pradesh Committee, H.No.28-6-8, CPI (M) Office, Yallammathota, Jagadamba Jn, Visakhapatnam-20;

Sri K. Ramakrishna, Secretary, Communist Party of India , Andhra Pradesh State Council, #3-6-201,Makhdoom Bhavan, Himayatnagar, Hyderabad;

Sri M.Venugopala Rao, Senior Journalist, H.No. 7-1-408 to 413, F203, Sri Sai Darsan Residency, Balkampet Road, Ameerpet, Hyderabad-16.

1. **TRUE UP CLAIMS** :

For the second control period of 2009-10 to 2013-14, APSPDCL has claimed true up of Rs.866 cr. for distribution business and RS.5185 cr. for retail supply business, whereas APEPDCL claimed true up of Rs.478 cr. for distribution business and Rs.680 cr. for retail supply business under various heads, i.e. seeking permission of the Commission to collect the huge amounts from consumers of power. These amounts include a carrying cost of Rs.1747 cr!

APSPDCL's Response:

APSPDCL had submitted true up for Second Control period in line with the APERC Regulation (Terms and Conditions for determination of Tariff for wheeling and retail sale of electricity) 4 of 2005.

APEPDCL's Response:

APEPDCL had submitted true up for Second Control period in line with the APERC Regulation 4 of 2005.

Commission's view:

These are only statements of facts.

2. RETAIL SUPPLY BUSINESS:

Regarding retail supply business, APSPDCL has claimed that against power purchase of 96,322 MU approved by the Commission, actual power purchase was 89,262 MU. However, though the power purchase was lesser by 7060 MU, the Discom has claimed that actual power purchase cost increased to Rs.30,070cr. against the cost of Rs.27,176 cr. approved by the Commission, i.e., an additional cost of RS.2894 cr. was incurred. Similarly, against metered sales of 61,004 MU approved by the Commission, actual metered sales were 56,696 MU, i.e., a difference of 4308 MU, as a result of which the Discom has claimed that it has incurred a revenue loss of Rs.2186 cr. Due to change in sales mix, the proportion of industrial, commercial and railway sales have come down by 1.28% from 42.32% approved by the Commission to actual sales of 41.03%, resulting in a revenue loss of Rs.1045 cr., the Discom has claimed. After realizing Rs.2215 cr. under fuel surcharge adjustment (FSA), the Discom has claimed that it has yet to get a sum of RS.2804 cr. towards difference in cost of power purchase. APEPDCL has claimed that against power purchase of 67,461 MU approved by the Commission, it has purchased 64,610 MU. Though power purchase is reduced by 2851 MU, the cost of power purchase increased to Rs.21,096crore from Rs.19,278 cr. approved by the Commission, an additional cost of RS.1818 cr. Similarly, against metered sales of 51,122 MU approved by the Commission, actual metered sales were 47,054 MU, i.e., a difference of 4068 MU, as a result of which the Discom has claimed that it has incurred a revenue loss of RS.1945crore. Due to change in sales mix, the proportion of industrial, commercial and railway sales have gone up by 2% from 50% approved by the Commission to actual sales of 52%, resulting in a revenue difference of Rs.1676crore, the Discom has claimed. After realizing RS.1778crore under fuel surcharge adjustment (FSA), the Discom has claimed that it has yet to get a sum of Rs.2082crore towards difference in cost of power purchase, contending that it is "unapproved FSA".

APSPDCL's Response:

(i) Power Purchase Cost: APSPDCL have suffered increase in Power purchase cost primarily due to increase in the per unit Power purchase cost which increased from the approved value of Rs.2.82/Unit to an actual value of Rs.3.37/Unit (19% increase). The reasons for this are higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges, more short term purchases due to low PLF of gas IPPs. A part of the Power Purchase cost variation has been passed through FSA and APSPDCL requests the Honourable Commission to allow the unrecovered FSA also

(ii) Revenue: The change in sales mix has led to reduction in the revenue realisation which has not been factored in Regulation 4 of 2005. The licensee would like to point out sales mix is not in the control of the licensee and any revenue increase or shortfall due to change in sales mix should be addressed in the True up.

Hence, APSPDCL requests the Honourable Commission to consider the increase in per unit power purchase cost, unrecovered FSA and change in sales mix while approving the True up.

APEPDCL's Response:

(i) **Power Purchase Cost**: APEPDCL have suffered increase in Power purchase cost primarily due to increase in the per unit Power purchase cost which increased from the approved value of Rs.2.86/Unit to an actual value of Rs.3.27/Unit (15% increase). The reasons for this are higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges, more short term purchases due to low PLF of gas IPPs. A part of the Power Purchase cost variation has been passed through FSA and APEPDCL request the Hon'ble Commission to allow the unrecovered FSA also.

(ii) **Revenue**: Same as that of APSPDCL.

Commission's view:

These are only statements of facts.

3. **FSA CLAIMS**:

Both the Discoms have explained that during the control period of five years, FSA was not availed for the year 2009-10 and the first quarter of 2010-11 due to a court order and that FSA was repealed in 2013-14. While SPDCL has claimed that it could not collect FSA of Rs.408 cr., EPDCL has claimed that it could not collect FSA of Rs.302 cr., due to a court order. However, they have not made it clear whether the court concerned disposed of the cases permitting them to collect the FSA amounts for the respective periods. If the court's orders are still continuing, restraining the Discoms from collecting the said amounts, seeking collection of the said amounts under true up from the consumers would be tantamount to contempt of court. Secondly, if the said amounts pertain to certain consumers who filed the petitions, the Discoms should not be permitted to collect the same from all the consumers under true up. Such a situation of non-collection arose as a result of the failure of the Discoms in filing their FSA claims in time before the Commission and getting its orders. Therefore, I request the Honourable Commission not to permit the Discoms to collect the said amounts under true up from consumers. For the first four years of the second control period, APERC held public hearings on the claims of the Discoms for FSA, considered the views of the public concerned and issued its orders. To the extent APERC had rejected the claims of the Discoms for FSA for that period, the latter cannot claim to collect the disallowed FSA amounts under true up claims now, as that would go against the orders already given by APERC on FSA claims. Therefore, I request the Commission to reject the claims under true up of the Discoms to the extent it rejected their claims under FSA earlier. The contention of the Discoms that for computation of FSA, only the change in metered sales is considered and that change in agriculture sales and losses are not factored while determining the FSA also does not hold water. For change in sales mix against category-wise or slab-wise sales approved by the Commission in annual tariff orders, decisions of the Discoms and the Government are responsible. Here, it is to be noted that sales to three subsidizing categories of consumers, as a percentage, increased in the case of EPDCL, while the same decreased in the case of SPDCL. Similarly, for claimed increase in supply of power to agriculture, under free supply of power, (and to other subsidized categories of consumers), the Government has to provide required additional subsidy. Regarding distribution losses, when the Discoms fail to achieve the targets of reduction in distribution losses, the resultant loss of revenue should not be permitted by the Commission to be collected from the consumers. Since FSA was repealed by the Commission from 2013-14 onwards, claims of true up for that year only need to be considered by the Commission. Here, too, the Discoms have to provide details pertaining to purchases of power from other sources which were not approved by the Commission source-wise, quantum-wise, price-wise, besides the details of procedures adopted for such purchases, to examine their justifiability/permissibility. Simply giving the average cost of power purchase per unit permitted by the Commission and the revised average cost per unit worked out by the Discoms are not adequate to determine such justifiability/permissibility. Therefore, I request the Honourable Commission to direct the Discoms to provide such details pertaining to the year 2013-14.

APSPDCL's' Response:

(i) APSPDCL would like to point out FSA approved by the Honourable Commission is to be recovered from the consumers. Due to certain court cases, the amount could not be recovered from the consumers and the unrecovered FSA has increased the losses further. Hence, APSPDCL request the Honourable Commission to include the unrecovered FSA amount in the true up amount.

(ii) APSPDCL does not have control in the change in sales mix as it depends on the actual economic condition, atmospheric conditions, no. of consumers being added in the system, average per capita consumption. APSPDCL can only provide a best estimate of the sales mix during ARR filing based on the available historical sales data. Hence, APSPDCL requests the Honourable Commission to consider the changes in sales mix while approving the true up.

(iii) Station wise power purchase cost for the entire control period is enclosed (Annexure-A1 to A5).

APEPDCL's' Response:

(i) & (ii) Same as that of APSPDCL

(iii) The details of power purchase which are not approved by the Hon'ble APERC for the year 2013-14 are enclosed in the statement.

Commission's view:

The Distribution Companies have claimed that to the extent the FCA permitted by the Commission is the subject of court cases and court orders, it still remains unrecovered. However, the Commission treated those amounts also as not liable to be trued up as those amounts have to be treated as already accrued on the basis of permission granted by the Commission, with only the physical recovery being postponed due to litigation. To the extent the State Government undertook to meet the additional power purchase cost for supply of power to all eligible agricultural consumers during the control period, the Commission considered State Government to be liable to reimburse the same. Hence, any change in sales mix is not allowed to have an impact on true up. The other minor issues ultimately had no impact on the true up exercise in view of the final conclusions of the Commission.

4. NETWORK COSTS:

SPDCL has claimed that network costs increased by Rs.79 cr. from Rs.6952 cr. approved by the Commission to Rs.7031 cr., while EPDCL has claimed that the same increased by Rs.36 cr. from Rs.4560 cr. approved by the Commission to Rs.4595 cr., during the second control period. While SPDCL has claimed that due to change in methodology of computing transmission charges, PGCIL charges increased by Rs.121 cr. from Rs.407 cr. to RS.528 cr., EPDCL has claimed that the same increased by Rs.87 cr. from Rs.305 cr. to Rs.392 cr. Have the Discoms contested at appropriate levels the change in methodology affected by PGCIL, leading to higher transmission charges, and its justifiability?

APSPDCL's Response:

i) The APTransco Transmission cost was reduced by an amount of Rs.45 Cr. for the second control period.

(ii) Whereas SLDC & ULDC costs put together have increase by an amount of Rs.3 Crores.

(iii)The major contribution to the deviation in the network cost is increase in PGCIL charges. Honourable CERC issued Regulation (Sharing of Inter State Transmission Charges and Losses), 2010 which was implemented from 01-01-2011. By this Regulation, the methodology for computation of PGCIL (Point of Connection - POC) charges has been changed. APSPDCL does not have any control on this. Hence, APSPDCL requests the Honourable Commission to consider the total true up amount due to PGCIL expenses.

APEPDCL's Response:

The computation of PGCIL charges are completely dependent on the methodology adopted by PGCIL which is the Point of Connection (POC) charges methodology. APEPDCL does not have control on this. Further, increase in PGCIL charges is due to additional allocation of power to an extent of 450 MW from central generating stations. Hence, APEPDCL requests the Hon'ble Commission to consider the total true up amount due to PGCIL expenses.

Commission's view:

The distribution companies had explained the PGCIL charges to have undergone change from 01-01-2011 due to a Regulation issued by Central Electricity Regulatory Commission over which they had no control and in view of the binding nature of the statutory regulation, the Commission agrees with the distribution companies.

5. **OTHER COSTS**:

SPDCL has claimed that other costs increased by RS.115 cr. from Rs.306cr. to Rs.422 cr. It has claimed that incentive to HT consumers of Rs.35.41 cr. for 2009-10 and of Rs.13.42 cr. for 2010-11 was paid, besides writing off bad and doubtful debts of Rs.10.36 cr. and Rs.42.19 cr. (total Rs.52.55 cr.) for the respective years. Contrary to that trend of SPDCL, EPDCL has claimed that other costs reduced from RS.252 cr. approved by the Commission to Rs.247 cr., resulting in a saving of Rs.5 cr. I request the Honourable Commission to examine whether incentive to HT consumers was permissible in the years 2009-10 and 2010-11. Since there is no policy or regulation of the Commission relating to permitting the Discoms to waive off so-called bad and doubtful debts, the amounts claimed to have been written off by SPDCL should not be permitted under true up, that, too, without seeking prior permission of the Commission. It is to be noted here that EPDCL has not made any such claims relating to writing off of bad debts and payment of incentive to HT consumers. Secondly, for the failure of SPDCL in collecting such debts from consumers concerned, other consumers should not be penalized by imposing such unjustifiable and avoidable burden on them in the form of true up.

APSPDCL's Response:

The increase in other costs is due to the following:

a) Actual interest on consumer security deposit increased by an amount of Rs.36 cr.

b) Other expenses have increased by an amount of Rs.101 cr., which consists incentives to HT consumers (Rs.35.41 cr. and Rs.13.42 cr. during FY2009-10 and FY2010-11) and Rs.52.55 cr. of bad & doubtful debts provided for written off during the FY 2009-10 and FY2010-11 put together.

Hence, APSPDCL requests the Honourable Commission to consider these expenses in the True up. APSPDCL would be willing to provide any further information required by the Honourable Commission to support this claim.

APEPDCL's Response:

Pertains to APSPDCL.

Commission's view:

Bad and doubtful debts claimed by the distribution companies are not taken into account by the Commission in the absence of any enabling provision. The incentives to the HT consumers during FY2009-10 and part of 2010-11 were due to orders of the erstwhile Commission on tariffs dated 20-03-2009 applicable for that period.

6. <u>DISTRIBUTION BUSINESS</u>:

Under distribution business, SPDCL has claimed increase in O&M expenditure by Rs.1209 crore from Rs.2573 cr. approved by the Commission to Rs.3782cr., while EPDCL has claimed an increase in Operation and Maintenance expenses by Rs.537cr. from Rs.1987 cr. approved by the Commission to Rs.2524 cr. Due to wage revision and related issues, employee expenses increased by Rs.1001 cr. (from Rs.2067 cr. approved by the Commission to Rs.3068 cr.) for SPDCL and by Rs. 471 cr. (from Rs.1614 cr. approved by the Commission to Rs.2086 cr.) for EPDCL. Compared to the expenses approved by the Commission, employee expenses increased by nearly 50 % for SPDCL and by about 27 % for EPDCL during the second control period. Similarly, repair and maintenance costs increased by Rs.162 cr (from Rs.254cr approved by the Commission to Rs.416cr) for SPDCL and by Rs.89 cr. (from Rs.96cr approved by the Commission to Rs.185 cr) for EPDCL. The number of sub stations manned by private agencies increased during the second control period from 738 (in 2009-10) to 1133 (in 2013-14) in SPDCL and from 402 to 520 in EPDCL during the same period. The maintenance cost per sub-station per month increased from Rs.3.25 lakh in 2009-10 to Rs.7.04 lakh in 2012-13 and to Rs.6.44 lakh in 2013-14 in SPDCL, whereas the same increased in EPDCL from Rs.2.8 lakh in 2009-10 and 2010-11 to Rs.4.6 lakh in 2012-13 and to Rs 4.9 lakh in 2013-14. While non-tariff income during the second control period of SPDCL decreased by Rs.133 cr. from Rs.439 cr. approved by the Commission to Rs.306 cr., the same increased by Rs.176 cr. from Rs.67cr. approved by the Commission to Rs.243 cr. for EPDCL. From the above, it is obvious that compared to EPDCL, expenditure of SPDCL is relatively higher and non-tariff income lesser. Since item-wise details relating to repair and maintenance costs are not given by the Discoms, it is not possible to examine their justifiability. However, there does not seem to be any justification for SPDCL for incurring monthly maintenance cost per sub-station much higher than that was incurred by EPDCL during the second control period. I request the Hon'ble Commission to examine the same thoroughly and take appropriate decisions and issue directions to the Discoms.

<u>APSPDCL's Response</u>:

The O&M expenses have increase mainly due to the following reasons, which were not considered while approving the O&M cost for the distribution business by the Honourable Commission:

a) Wage revision w.e.f. 01-04-2010
b) Actuarial valuation report
c) Leave encashment
d) DA hike and new recruitment
e) Increase in R&M cost
f) Increase in Travelling & Vehicle expenses

The item wise expenses under R&M cost are furnished in the Annexure-B.

The APSPDCL is engaging Private Agencies for manning and maintenance of substations. The manning includes 4 Nos. shift operators and 1 No. Watchman, whereas in the APEPDCL's manning does not include watchman. This is the reason for marginally higher per substation maintenance cost in the APSPDCL. The manning and maintenance cost per substation has been raised from Rs.8.04 lakh during FY 2014-15 to Rs.8.49 lakh during FY2015-16. The wages, EPF, insurance and service tax are being paid as per the prevailing laws.

APEPDCL's Response:

It is to be noted that maintenance cost per Sub-Station cannot be compared across two DISCOMS on a one to one basis as it varies significantly due to reasons like usage of own work force or outsourcing to third parties, salaries paid to work force or outsourcing to third parties, cost escalation etc. Hence, it is quite possible that per unit maintenance cost of Sub-Stations is different in different DISCOMS.

Commission's view:

The increase in O & M expenditure claimed by the distribution companies has been taken into account to the extent, such increase is due to circumstances beyond the control of the distribution companies. The wage revision with effect from 01-04-2010 could not have been avoided by the distribution companies and similarly, if the wages of the contingent employees manning substations had to be increased during the control period due to the statutory directions of the Commissioner of Labour under the relevant labour laws like the Minimum Wages Act etc, disallowing the same to the distribution companies will be unreasonable and unjust. Where other claims relating to increased expenditure are not supported by accurate data, the Commission did not take them into account, though it does not mean that the actual incurring of such expenditure due to various reasons assigned by the distribution companies could be dismissed as untrue. This effect of want of proof sufficiently safe-guarded the interests of the consumers. The reasons for the difference in the per unit maintenance cost of the substations between the two distribution companies were satisfactorily explained due to the absence of a watchman in Eastern Power Distribution Company of Andhra Pradesh Limited who is employed by Southern Power Distribution Company of Andhra Pradesh Limited in each substation.

7. **FINANCE RESTRUCTURE PLAN**:

In response to submissions on ARR proposals for the year 2015-16, relating to Finance Restructure Plan, SPDCL informed that under the FRP, the State Government will take over its liabilities to the tune of Rs.2240.20 cr. (for which SPDCL issued bonds to different Banks, AP Transco, APGenco and APSPDCL PF Trust) during the next five years by issuance of special securities in favour of participating lenders in a phased manner and that the Government would bear interest thereon as well. Similarly, EPDCL informed that under the FRP, the State Government will take over its liabilities to the tune of Rs.1805.95 cr. (for which EPDCL issued bonds) after five years by taking over these bonds with interest. Since no mention is made of the huge amounts the Discoms would get from the State Government under FRP and whether they had factored these amounts in their true up claims, I request the Honourable Commission to deduct these huge amounts of Rs

4045.50 cr. from the permissible true up claims of the two Discoms and consider the balance of true up claims only. The Discoms should not be permitted to make double claims for such huge amounts when they get the same from the State Government, on the one hand, and seeking to collect the same amount again under true up from the consumers, on the other hand.

APSPDCL's Response:

(i) To relieve the DISCOMs from huge financial losses accumulated from 2008-09 onwards and upto 2012-13, FRP was implemented.

(ii) Due to shortage of power, on the assurance of the Govt. of A.P for the payment of additional subsidy, the DISCOMs have procured expensive power on short term basis from time to time during the second control period. The DISCOMs have purchased the said expensive power with the help of short term loans brought from the market. But, only a part of the assured additional subsidy was received from the Govt. of A.P. The total assured additional subsidy by the Govt. were booked in the respective FYs as receivables from Govt., and treated as revenue in the P&L account.

(iii) The FRP was implemented during the FY 2012-13. Govt. receivables were written off as expenditure in the same year. The written off amounts which shall be treated as expenditure are not considered in the true-up filings. At the same time, the FRP factor is not considered in the true-up filings. Hence, it can be treated that true-up filings were made after factoring Govt. receivables and FRP.

APEPDCL's Response:

Bonds issued under FRP will be taken over by the State Government. As and when the State Government takes over these Bonds, and then only, the same will be taken in to books of accounts.

Commission's view:

The request of the objectors to take into account Rs. 4045.50 crores of taken over liabilities under the financial restructure plan is considered by the Commission positively. The issuance of bonds by the State Government is admitted by the distribution companies and the issue of additional subsidy payable by the State Government is kept in view as already stated.

8. CARRYING COST AND NEED FOR DISPENSING WITH MYT SYSTEM:

For the second control period, SPDCL has claimed a carrying cost of Rs.1258 cr. towards annual interest @12% on a projected net gap of Rs.3927 cr. under true up for its retail supply business and a carrying cost of Rs.186 cr. on a net gap of Rs.681 cr. under true up for its distribution business. Similarly, EPDCL has claimed a carrying cost of Rs.204 cr. towards annual interest @12%

on a projected gap of Rs.476 cr. under true up for its retail supply business and a carrying cost of Rs.99 cr. on a net gap of Rs.378 cr. under true up for its distribution business. Both the Discoms have claimed a total carrying cost of Rs.1747cr. This avoidable burden on consumers of power is a disastrous consequence of the so-called multi-year tariff system imposed by the protagonists of the reform process in the Establishment in New Delhi and adopted by APERC. MYT and allowing true-up after the control period, and FSA are mutually contradictory arrangements. While the purpose of FSA is to ensure timely adjustment in variation in power purchase cost, etc., MYT delays such adjustment till the end of the control period of five years. Neither the Discoms, nor the consumers are benefited by MYT system. I request the Hon'ble Commission to dispense with MYT system and ensure annual true up adjustments.

APSPDCL's Response:

Under the purview of Honourable APERC.

APEPDCL's Response:

APEPDCL had to raise short term loans to meet the true up expenditure. While long term loans might come at a lower interest rate, short term loans come at a bit higher interest rate and APEPDCL have computed that actual carrying cost and included that in the True up. Accordingly, the burden of raising short term loans at higher interest rates is claimed in the true up

Commission's view:

In so far as the carrying cost is concerned, the same is being permitted only on taxes paid strictly in terms of the language of the Regulation 4 of 2005 and is not allowed any further. The question of continuance of or dispensing with multiyear tariff system will have to be examined separately and not in this exercise.

9. HOLD PUBLIC HEARING:

I request the Honourable Commission to hold public hearing on the subject petitions of the Discoms and provide me an opportunity to make further submissions in person during the public hearing. Also, I request the Commission to direct the Discoms to respond to my submissions by sending their replies and information sought well before the public hearing at least by one week in advance to enable me to study the same and make further submissions

APSPDCL's Response:

Under the purview of Honourable APERC.

Honourable APERC is conducting public hearing at Court Hall, APERC, Singareni Bhavan, Red Hills, Lakdikapul, Hyderabad on 19-09-2015 at 11:00 AM.

APEPDCL's Response:

This is under the purview of Hon'ble APERC.

Commission's view:

The requests was considered and a public hearing was held on more than one occasion.

SET-2

Sri M.Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, 139, Kakatiya Nagar, Hyderabad

1. INADEQUACY OF FILINGS:

1.1. The following comments are being submitted on APDISCOMs' proposals on true up of expenses and revenue for the second control period 2009-10 to 2013-14 in response to the Public Notice published in newspapers on 10-07-2015.

1.2. The information provided by the two DISCOMs in their petitions is far from sufficient to decide on their claims for true up. Except in the case of salary expenses as a part of O&M expenses to some extent, no explanation was given for higher expenses both for distribution and retail supply business. We request the Commission to direct the Licensees to provide complete information on the claims made by them.

1.3. In the context of higher network costs, both the Licensees mentioned that APTRANSCO was also in the process of filing true up claims for transmission business. As the true up claims of the two DISCOMs cannot be finalised without examining the APTRANSCO filings, we request the Commission to direct APTRANSCO to file its petition forthwith to obviate delay in processing the claims of the DISCOMs.

DISCOM	True up of	Amount (Rs. Cr)
APEPDCL	Distribution Business	478
APEPDCL	Retail Supply Business	680
APSPDCL	Distribution Business	866
APSPDCL	Retail Supply Business	5185
	Total	7209

1.4. Through the present filings before APERC the two DISCOMs in AP claimed true up of Rs.7,209 crore. This is more than 28% of the ARR approved by the Commission for FY2015-16 (Rs.25,515.31 crore). If this true up is to be allowed, it will lead to tariff shock. Given its implications, the present true up claims of APDISCOMs need to be examined critically.

APSPDCL's Response:

APSPDCL is filing the True up as per APERC Regulation 4 of 2005. The evaluation and approval of True up is under the purview of the Honourable Commission.

APEPDCL's Response:

APEPDCL is filing the True up as per APERC Regulation 4 of 2005. The evaluation and approval of True up is under the purview of the Hon'ble Commission.

In respect of APEPDCL, ARR FY 2015-16 allowed by the Hon'ble APERC is Rs.9,068.36 Crs. APEPDCL's filing of true up for the 2nd control period of 5 years is 1158 Crs which is 12.77% of approved ARR of Rs. 9068.36 Crs and 2.55% per year for 5 years of 2nd MYT period.

Commission's view:

The true up of AP Transco for the control period was done. The claims of the distribution companies are considered only to the extent they provided acceptable information.

2. **RETAIL SUPPLY BUSINESS** :

2.1. Under retail supply business, EPDCL claimed true up of Rs.680 cr. and SPDCL claimed Rs.5,185 cr. In this true up, variation in power purchase cost forms an important component. In the case of EPDCL, deviation in power purchase cost stands at Rs.1,818 cr. and in the case of SPDCL it is Rs.2,894 cr. Then is no proper explanation for this deviation. In the filings by DISCOMs it was stated that changes in PP cost was due to a) Change in Quantum of power purchase & b) change in Price.

2.2. Further, according to these filings, deviation in power purchase cost due to price change in the case of EPDCL was Rs.2,861 crore and in the case of SPDCL Rs.5,019 crore.

2.3. According to these filings. "Reasons for increase in PP cost include higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges. Other reasons also include shortfall in domestic gas resulting in lower PLF of gas based IPP's. This shortfall led to higher purchase of energy from short term sources resulting in higher PP Cost" (EPDCL. para.3.2.2.2) The present filings on true up did not state contribution of each of these causes for higher power purchase costs during the second control period. Given the lack of information, it is not possible to judge their claims.

2.4. In the past, all these factors were examined during the public hearing process on FSA. But, there is difference between the deviation of power purchase cost claimed under FSA in the past and claimed under true up mechanism at present. These are presented in the following tables. DISCOMs need to explain the difference between the two estimates.

APEPDCL - Difference between True Up estimates and FSA estimates

	2009-10	2010-11	2011-12	2012-13	2013-14
Deviation in total PP cost due to change in Price	515	509	873	1112	-148
FSA claimed	281.10	587.06	987.92	1082.62	Not filed
FSA Approved	270.00	393.83	779.83	734.31	Not filed

APSPDCL - Difference between True Up estimates and FSA	2009-10	2010-1 1	2011-12	2012-13	2013-14
Deviation in total PP cost due to change in Price	800	1046	1325	1744	104
FSA Claimed	343.37	708.44	1160.10	1210.27	Not filed
FSA Approved	367.00	485.95	933.23	836.47	Not filed

2.5. In the Summary of filings it was stated "A part of increase in PP' cost due in increase in unit price of power is compensated by FSA.A part of increase in PP Cost remains unapproved." At paragraph 2.1.1 of EPDCL it was stated "FSA did not completely cover the increase in PP cost due to change in Price. A part of increase in PP Cost remains unapproved". In the filings it was not explained which part of increase in PP cost due to increase in unit price was compensated by FSA and which part remains unapproved.

2.6. As mentioned above, the factors leading to change in power purchase costs as mentioned in paragraph 3.2.2.2 were already examined by the Commission under FSA and following this, the Commission approved the power purchase costs to be recovered under FSA during various quarters. FSA related to FY 2013-14 only needs to be approved by the Commission.

<u>APSPDCL's Response:</u>

APSPDCL have suffered increase in Power purchase cost primarily due to the increase in per unit Power purchase cost which increased from the approved value of Rs.2.82/Unit to an actual value of Rs. 3.37/Unit (19% increase). The reasons for this are; higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges, more short term purchases due to low PLF of gas IPPs. A part of the Power Purchase cost variation has been passed through FSA and APSPDCL requests the Honourable Commission to allow the unrecovered FSA also.

<u>APEPDCL's Response:</u>

APEPDCL have suffered increase in Power purchase cost primarily due to the increase in per unit of Power purchase cost which increased from the approved value of Rs.2.86/Unit to an actual value of Rs. 3.27/Unit (15% increase). The reasons for this are; higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges, more short term purchases due to low PLF of gas IPPs. While the Hon'ble Commission had allowed the variation in the Power Purchase cost only to a certain extent, there is still a portion of the Power Purchase cost deviation which was not covered in FSA. Hence, APEPDCL requests the Hon'ble Commission to consider this deviation as well.

<u>Commission's view:</u>

While it is true that the numbers shown in the Aggregate Revenue Requirement, FSA claimed, FSA approved and the true up applications do not exactly tally, Lion's share of the higher power purchase cost is found to be due of significant change in the sales mix with substantial increase in supply to subsidized agricultural consumers and a general decrease in supply to subsidizing consumers during the control period. The consequences were concluded to be answerable by the State Government with no adverse impact on the consumers.

2.7. UNAPPROVED FSA:

2.7.1. EPDCL claimed Rs.1,082 crore under unapproved FSA. Similarly, SPDCL claimed Rs.2,804 crore under unapproved FSA. This "Unapproved FSA" is a misleading term and does not stand scrutiny. This unapproved FSA includes the FSA approved by the Commission for the year 2009-10 and 1st quarter of the year 2010-11 which was stayed by the High Court. The same cannot be claimed under true up now. It may amount to contempt of court.

2.7.2. In the case of FSA for the remaining three quarters of 2010-11 and the years 2011-12 and 2012-13 the Commission had already approved the FSA and the same was recovered by the DISCOMs. At present, in the name of unapproved FSA, the DISCOMs are trying to recover the amount disallowed by the Commission in the past. This cannot he allowed. PP cost which was disallowed under FSA cannot be allowed under true up.

2.7.3. Only FSA related to the year 2013-14 needs to be examined. This can be taken up only after the DISCOMs furnish all relevant information, the way it was done in the past while deciding the FSA for various quarters.

APSPDCL's Response:

FSA had allowed recovery of only a portion of the deviation in the Power Purchase cost, while the remaining portion was not recovered through FSA. Due to which APSPDCL had to resort to short term loans incurring interest cost. Hence, APSPDCL have claimed this expense in the true up.

APEPDCL's Response:

FSA had allowed recovery of only a portion of the deviation in the Power Purchase cost, while the remaining portion was not recovered through FSA as the cases are still pending in Hon'ble Supreme Court. Due to which APEPDCL had to resort to short term loans of Rs.2,600 Crs. incurring interest cost of Rs.260 Crs. per annum during the control period. Hence, APEPDCL has claimed this expense in the true up.

Commission's view:

As already stated, the FSA covered by the stay granted by the Hon'ble High Court was not excluded from the accrued revenue.

2.8. DECLINE IN REVENUE REALIZATION:

2.8.1. Decline in revenue realisation is other important factor leading to higher true up claims by the DISCOMs. While EPDCL claimed Rs.269cr. decline in revenue realization compared to the amount approved by the Commission SPDCL claimed Rs.3,231cr. decline in revenue realisation. They attributed the decline in revenue to a) Reduction in metered sales and b)lower realization due to change in sales mix. But, they did not provide any concrete information to support their claims.

2.8.2. Higher sales to agriculture consumers than allowed by the Commission under various Tariff Orders might have led to change in sales mix and also to lower revenue realisation. In the past, the GoAP directed the DISCOMs to sustain supply to agriculture. In the Tariff Orders, the Commission directed DISCOMs to obtain its clearance before increasing supplies to agriculture. It seems, disregarding the Commission's directives, DISCOMs supplied higher quantum of power to agriculture in response to the state government's directions. Under Section 65 the Electricity Act, 2003, the GoAP may be directed to fill this gap due to higher supply to agricultural consumers.

2.8.3. The decline in revenue realisation may be due to reduction in metered sale which in turn is due to higher sales to agriculture and higher T&D losses. If the T&D losses are higher than that allowed by the Commission, the cost towards it shall not be allowed to be recovered under true up mechanism. Higher O&M cost and repair and maintenance costs than allowed by the Commission should have led to better performance on various fronts including T&D losses. Higher T&D losses even in the presence of higher O&M cost and repair and maintenance costs show inefficiency of DISCOMs and results of their inefficiency cannot be loaded on to the consumers.

2.8.4. Hundreds of crores of rupees were spent on HVDS transformers serving agricultural services, particularly under SPDCL. This alone should have led to lower agricultural consumption as well as lower T&D losses. Higher agricultural consumption as well as T&D losses demand a critical reassessment of the HVDS scheme.

2.8.5. SPDCL has provided for Rs. 48.83 crore towards bad and doubtful debts under 'Other Expenditure'. No details were provided on these bad and doubtful debts. This shall not be allowed and the DISCOM shall be directed to recover all dues/debts.

APSPDCL's Response:

(i) APSPDCL has provided information related to change in sales mix like change in revenue realisation, reduction in contribution of HT- Industrial and Commercial sales to the total sales pool as compared to the approved sales. APSPDCL actual revenue realisation is Rs.4.32/Unit compared with an approved value of Rs. 4.55/Unit. The Industrial and

Commercial sales proportion to total sales pool has reduced by 1.28% as against the approved value. This information can be sought from the write up.

(ii) Higher O&M costs are primarily due to increase in wages due to the pay revision and this cannot be related to the reduction in losses.

<u>APEPDCL's Response:</u>

(i) The year wise actuals and deviations with reference to Hon'ble APERC approval are provided in Para 3.5 of true up petition of Retail Supply Business.

(ii) Higher O&M costs are primarily due to increase in wages due to the pay revision and this cannot be related to the reduction in losses.

(iii) Pertains to APSPDCL.

(iv) Pertains to APSPDCL.

<u>Commission's view:</u>

Reduction in metered sales due to higher transmission and distribution losses or such other reasons does not appear to be a major factor in contrast with the change in the sales mix due to sustained increased supply to agriculture. Increased costs as already stated are allowed only if adequate information is available and due to reasons not attributable to the distribution companies.

3. DISTRIBUTION BUSINESS:

3.1. Under distribution business, while EPDCL claimed Rs.478 cr. towards true up, SPDCL claimed Rs.866 crore. One of the important contributors is deviation in expenditure on O&M costs. EPDCL incurred Rs.537 crore higher expenditure under this head than that allowed by the Commission. Similarly, SPDCL incurred Rs. 1209 crore higher expenditure on this account. While revised pay scales were an important reason for this, other reason was bringing large number of substations under the maintenance of private agencies.

3.2. In the case of EPDCL, number of substations under private agency maintenance increased from 402 to 520 and in the case of SPDCL, they increased from 738 to 1133. At the same time, maintenance cost of substations under private agencies nearly doubled during the second control period. While in the case of EPDCL, it increased from Rs.28,000 per substation per month to Rs.49,000, in the case of SPDCL it increased from Rs.3.25 lakh to Rs.6.44 Lakh.

3.3. In the past, there were allegations that the private agencies were not appointing qualified personnel to man the substations leading to inefficient functioning of substations as well as accidents. It is also important to assess the experience of private agencies in the maintenance of substations both technical as well as financial.

APSPDCL's Response:

The O&M expenses have increased mainly due to the following reasons, which were not considered while approving the O&M costs for the distribution business by the Honourable Commission.

a. Wage revision w.e.f. 01-04-2010
b. Actuarial valuation report
c. Leave encashment
d. DA hike and new recruitment
e. Increase in R&M cost
f. Increase in Travelling & Vehicle expenses

The APSPDCL is engaging Private Agencies for manning and maintenance of substations. The manning includes 4 Nos. shift operators and 1 No. Watchman. Though the appointment of personnel for manning the substations is under the control of private agencies, it is being ensured that qualified personnel are only working at the substations. The wages, EPF, insurance and service tax are being paid as per the prevailing laws.

APEPDCL's Response:

It is to be noted that maintenance cost per Sub-Station cannot be compared across two DISCOMS on a one to one basis as it varies significantly due to reasons like outsourcing to third parties, salaries paid to work force or outsourcing to third parties, cost escalation etc. Hence, it is quite possible that per unit maintenance cost of Sub-Stations is different in different DISCOMS.

In APEPDCL, qualified skilled persons are being engaged for maintenance of Sub-stations through Pvt. Agencies duly ensuring technical & financial qualifications.

Commission's view:

While the objector admitted the increase in the number of substations and their maintenance cost, we questioned their entrustment to private agencies. While the Commission may not intervene in the administrative decisions of the distribution companies unless barred by law, the expenditure towards substations is considered for true up basically towards the increased statutory wages or inevitable wage revision of the employees.

3.4. During the second control period, EPDCL incurred Rs.89 crore expenditure which is higher than that allowed by the Commission towards repairs and maintenance and SPDCL incurred Rs. 162 crore additional expenditure towards the same. In both the cases, more than 50% of the additional expenditure was incurred during the last year of the control period. This sudden spurt in expenditure during the last year needs to be critically examined.

3.5. Each year, the additional expenditure incurred was more than Rs.5 crore on repair and maintenance. Did the Licensees obtain prior permission of the Commission to incur this additional expenditure?

3.6. During the second control period, while number of distribution transformers increased by 26% (from 2,49,601 to 3,14,583), the number of failed distribution transformers increased by 65% (from 13,633 to 22,531)in the case of SPDCL and cost towards their repair increased by 50% (from Rs. 21.50 crore to Rs. 31.51 crore). In the case of EPDCL, while number of distribution transformers increased by 37% (from 1,06,154 to 1,44,954), the number of failed distribution transformers increased by 122% (from 3,283 to 7,218) and cost towards their repair increased more than three times (from Rs.2.59 crore to Rs.8.47crore). Disproportionate increase in number of failed distribution transformers demands an inquiry in to their procurement and maintenance/repair.

APSPDCL's Response:

All necessary initiatives were adopted to reduce R&M cost, viz.,

i) Replacing of old aged DTRs with star rated DTRs
ii) Procurement of all new DTRs with star rating
iii) Periodical testing and maintenance of DTRs and lines
iv) Erection of additional DTRs to reduce DTR failures
v) Repairs through outsourcing / private agencies

Item wise R&M cost data has been provided in the Annexure enclosed.

APSEPDCL's Response:

All the new Sub-stations commissioned are being entrusted to Pvt. Agencies for manning of the Sub-stations. Additional expenditure towards R&M is being incurred in order to maintain the system in healthy condition. As repairing of DTRs is being entrusted to Pvt. Agencies through open tender, repairing cost is increasing every year.

Commission's view:

The increase in number of failed distribution transformers is not further probed into as any higher expenditure claimed is allowed only to the extent proved.

3.7. Under Distribution business O&M costs come under "controllable' category. It implies that the DISCOMs can control it and see that it does not cross certain limits. Did DISCOMs attempt this?

APSPDCL's Response:

It can be observed that deviation in O&M expenses are due to the important fact of pay revision. The impact of pay revision (increase in the Employee cost) cannot be predicted as it is being governed by so many factors which are not totally under the control of the APSPDCL. Hence, it is not prudent to say that APSPDCL can control it and see that it does not cross certain limits.

APEPDCL's Response:

It can be observed that deviation in O&M expenses are due to the important fact of pay revision. Wage revision is being implemented uniformly across all the utilities such as Discoms, Transco, Genco by the Energy Department, GoAP. Salaries are due for revision in power sector once in every four years. Hence, it should not be construed as controllable category.

Commission's view:

O & M costs being a controllable item are considered for permitting any increase only to the extent the distribution companies have no control like salaries and wages.

3.8.1. In the case of SPDCL during the second control period, while expenditure on Return on Capital Employed (ROCE) declined by Rs. 311 crore, that on depreciation declined by Rs.122 crore. In the case of EPDCL during this period, while expenditure on ROCE declined by Rs. 39 crore, that on depreciation increased by Rs.91 crore. Both the DISCOMs attributed change in depreciation to changed practice in calculating depreciation. The question that arises in this context is how would the same change in practice lead to divergent results in the expenditure incurred by DISCOMs?

3.8.2 Normally decline in expenditure is to be welcomed as this will help to counter balance increase in expenditure on items like O&M expenditure. But reduction in ROCE of SPDCL sends a different signal. Lower ROCE of SPDCL is a result of lower capital expenditure. During the second control period according to SPDCL's filings, the capital expenditure was Rs. 445.10 crore less than the APERC approved target. This indicates the inability of the DISCOM to execute capital projects.

3.8.3. In order to bring down the number of electrical accidents and consequent loss of lives and assets, the Commission allowed the DISCOMs to spend Rs. 5 crore every year on safety measures. Both the DISCOMs listed 10 safety measures on which this special appropriation amounts were spent. At the same time they have also stated "As the same has been considered in Asset base under Capital Expenditure, it has not been shown under Special appropriations head." Given the fact that the capital expenditure targets achieved by the DISCOMs are lower than that set by the Commission, it is doubtful as to what extent we can take the above statement of DISCOMs at its face value. It may be understood that the amounts allowed under special appropriation were not spent.

3.8.4. Despite their claims on safety measures, the number of fatal and non-fatal electrical accidents continues to mount. During the public hearings on tariffs every year, members of the public placed the sorry state of DTRs as well as conductors through visuals/photos before the Commission. Had the DISCOMs judiciously spent the amount for the purpose for which they were meant, the situation should have been better. The tragic incident of death of two pallbearers due to electrocution and severe burns to two others when the coffin they were carrying to the cremation ground came in contact with a low-hanging overheard 11 kV power line at Chappidivari Sthavaram village in Ramachandrapuram mandal of East Godavari district on 26 July, 2015 mirrors the sorry state of affairs. In this background, we request the Commission to strictly monitor the spending of funds allocated under special appropriation.

APSPDCL's Response:

The additions to the gross fixed assets were decreased by Rs.445 crs. as against the approved figure for second MYT period. Whereas the additions to consumer contribution were increased by an amount of Rs.507 crs as against the approved figure. Hence, the ROCE reduced by an amount of Rs.311 crs. as against the approved figure. The cost of capital works in progress at the end of second MYT period is Rs.1376 crs. which will be added to the assets in the next financial year.

APSPDCL has strived to spend the amount allocated under the safety measures head. But, the amounts spent have been considered in the asset base under capital expenditure.

APEPDCL's Response:

APEPDCL has strived to spend the amount allocated under the safety measures head. The Following safety measures are taken in APEPDCL.

i. Erection of intermediate poles for proper clearance
ii. Providing of Earthing
iii. Providing of fencing
iv. Reconstruction of damaged DTR plinth
v. Plinth Raisings
vi. Providing of SMC Distribution boxes
vii. Providing of foot Crsoss arms
viii. Rectification of DTR structures
ix. Replacement of damaged AB cable
x. Providing of safety materials viz. Gum boots, Helmets, Safety belt, Earth rods, Gloves etc.

Commission's view:

ROC and depreciation are calculated strictly as per the regulation. Monitoring of safety measures has to be undertaken separately and not in this true up exercise.

4. Carrying Costs:

4.1. The carrying cost claimed by the DISCOMs accounts for 24% of their true-up claims.

Carrying cost

DISCOM	Gap	Carrying cost	True up
EPDCL – Distribution	378	99	478
EPDCL - Retail Supply	476	204	680
SPDCL – Distribution	681	186	866
SPDCL- Retail Supply	3927	1258	5185
Total	5462	1747	7209

4.2. Did DISCOMs really incur this expenditure? This needs to be verified. In the past, press reports mentioned that APDISCOMs were praised at a meeting organized by the GoI to review the performance power sector for contracting low cost debt/bonds and repaying/redeeming them in a short time.

4.3. The lower weighted average cost of capital (WACC) was attributed to lower cost of debt compared to the approved cost @ 10%. But, in the case of carrying cost, the DISCOMs have claimed 12% interest. Actual debt incurred and actual carrying cost may be adopted to arrive at the true up.

APSPDCL's Response:

APSPDCL had to raise short term loans to meet the true up expenditure. While long term loans might come at a lower interest rate, short term loans come at a bit higher interest rate and APSPDCL has computed that actual carrying cost and included that in the True up.

APEPDCL's Response:

APEPDCL had to raise short term loans to meet the true up expenditure. While long term loans might come at a lower interest rate, short term loans come at a bit higher interest rate and APEPDCL has computed that actual carrying cost and included that in the True up.

Accordingly, the burden of raising short term loans at higher interest rates is claimed in the true up.

Commission's view:

The carrying cost is being permitted only on taxes paid as per the regulation and the tariff order.

5. FINANCIAL RESTRUCTURING PLAN:

5.1. The GoAP has entered in to an agreement with the Government of India for Financial Restructuring Plan (FRP) of power sector in Andhra Pradesh. According to this FRP, losses of DISCOMs as on March 2013 will be taken in to account. Under this, while 50% of the losses will be converted in to debt bonds over which the state government will stand guarantee. There will be a moratorium of three years for payment of the remaining losses/debt. Four years of the second control period will be covered by this FRP. We would like to know the quantum of APDISCOMs losses covered under this FRP and its implications claimed by DISCOMs.

5.2 . We would like to know whether there are any pending receivables/subsidy from the GoAP like single bulb subsidy and additional power subsidy and whether any of these receivables are being treated as debt under the FRP. Here we would like to submit that under section 65 of the

Electricity Act, 2003, the GoAP is obliged to meet all its commitments towards subsidy and the same cannot be converted in to debt under any plan.

APSPDCL's Response:

To relieve the DISCOMs from huge financial losses accumulated from 2008-09 onwards and upto 2012-13, FRP was implemented.

Due to shortage of power, on the assurance of the Govt. of A.P to pay the additional subsidy, the DISCOMs have procured expensive power on short term basis from time to time during the second control period. The DISCOMs have purchased the said expensive power with the help of short term loans brought from the market. But, only a part of the assured additional subsidy was received from the Govt. of A.P. The total assured additional subsidy by the Govt. were booked in the respective FYs as receivables from Govt., and treated as revenue in the P&L account.

The FRP was implemented during the FY 2012-13. Govt. receivables were written off as expenditure in the same year. The written off amounts which shall be treated as expenditure are not considered in the true-up filings. At the same time, the FRP factor is not considered in the true-up filings. Hence, it can be treated as true-up filings were made after factoring Govt. receivables and FRP.

APEPDCL's Response:

To relieve the DISCOMs from huge financial losses accumulated from 2008-09 onwards and upto 2012-13, FRP was implemented.

Due to shortage of power, on the assurance of the Govt. of A.P for the payment of additional subsidy, the DISCOMs have procured expensive power on short term basis from time to time during the second control period. The DISCOMs have purchased the said expensive power with the help of short term loans borrowed from the banks. But, only a part of the assured additional subsidy was received from the Govt. of A.P. The total assured additional subsidies by the Govt. were booked in the respective FYs as receivables from Govt. and treated as revenue in the P&L account.

The FRP was implemented during the FY 2012-13. Govt. receivables were written off as expenditure in the same year. The written off amounts which shall be treated as expenditure are not considered in the true-up filings. At the same time, the FRP factor is not considered in the true-up filings. Hence, it can be treated as true-up filings were made after factoring Govt. receivables and FRP.

Commission's view:

The issue was already referred to earlier.

6. No tariff proposals:

The submissions by DISCOMs did not mention how true up expenses claimed by them have to be recovered? They did not specify whether the true up amounts need to be recovered through tariff hike or by creation of regulatory asset to be recovered in due course. They did not mention what will be the burden on each consumer category? DISCOMs also did not mention whether agriculture will be exempted from true up costs like in the case of FSA.

APSPDCL's Response :

Under the purview of Honourable APERC.

APEPDCL's Response :

Under the purview of Honourable APERC.

Commission's view:

The issue does not arise in this inquiry.

7. Need to alter the Regulations

7.1. According to Regulation 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 present filings of APDISCOMs put the aggregate losses/deficit at Rs. 7,209 crore which is nearly 30% of the ARR approved by the Commission for the year 2015-16. If this is allowed to be recovered, it would lead to tariff shock that will seriously destabilize the power sector in the state. Even when gains are also of this magnitude, as the previous practices have shown, consumers will not benefit directly and the amount will be clawed back in the successive terms. For DISCOMs also, it may not be that simple to pay back such huge sums. The accumulation of huge deficit at the end of the control period demands relook at the MYT Regulations. It would be better to share gains or losses with the consumers with a gap of one year rather than five years. The required information also will be ready to follow this. According to Regulation 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." In the case of uncontrollable' items also, DISCOMs may be directed to file variations annually. Gains or losses in the case of both controllable as well as uncontrollable items shall be shared annually. If losses/expenditure is carried to the last year, all losses will be accumulated and if it is allowed under true up, it will lead to tariff shocks.

7.2. Under MYT, transparency is also compromised. The present true up filings have shown that all the required information is not shared. There is information gap. This could be addressed by truing up annually.

7.3. MYT is leading to additional burden of carrying cost. As already mentioned above, it is nearly one fourth of the true up claims. This additional burden of carrying cost could be avoided by truing up annually.

7.4. Based on the above, the Commission is requested to alter the existing transmission distribution and retail supply tariff regulations to allow true up to be examined annually**.**

APSPDCL's Response:

Under the purview of Honourable APERC.

APEPDCL's Response:

Under the purview of Honourable APERC.

Commission's view:

Shift to annual true up is under examination.

8. Contradictory information:

8.1. We would like to draw attention of the Commission to one more instance of unreliability of information provided by APDISCOMs under True Up claims for the second control period.

8.2. According to ARR filings for the year 2015-16, APSPDCL had a surplus of Rs. 89.68 crore during the year 2013-14 (Form No.9 of Retail supply Formats). But according to true up filings for retail supply for the same year, it has a net gap of Rs. 299 crore.

8.3. Similarly, in the case of APEPDCL, according to ARR filings for the year 2015-16 it had a deficit of Rs. 55.53 crore during the year 2013-14 (Form No.9 of Retail supply Formats). But, according to true up filings for retail supply for the same year, it has a net gap of Rs.139 crore.

8.4 As the claims submitted by APDISCOMs under true up contradict the final figures submitted by them under annual tariff process, the same shall be scrutinised thoroughly.

APSPDCL's Response:

No reply

APEPDCL's Response:

No reply

Commission's view:

While such inconsistencies are apparent, they have no impact on the conclusions of the Commission.

9. CAG findings for the period 2009-2014:

9.1. Comptroller and Auditor General of India (CAG) in its Report No. 4 of 2015 (for the year ended March 2014) examined implementation of power purchase agreements (PPA) with some of the independent power producers (IPPs) and found that the IPPs were paid in excess by APDISCOMs towards power purchases. Its findings are summarised below:

9.2. **CAG** examined fixed cost payments to 216 MW GVK's Jeegurupadu plant and 208 MW Spectrum's Kakinada plant. Audit observed that verification of documents such as invoices, ledgers, certified annual accounts etc. was not done before making the payments to IPPs.

9.3. Though neither of the IPPs had incurred any public issues expenditure, the respective amounts were not reduced from the Capital cost ceilings, resulting in excess payment of Rs.1.92crore per Annum.

9.4. In the case of these two plants, works contract tax (Rs 9.50 crore) and customs duty (Rs 78 crore) included in provisional Capital cost ceiling were to be reimbursed as part of fixed charges on actual basis. However, APPCC without ascertaining the expenditure actually incurred towards works contract tax and customs duty, paid the fixed charges as provisionally provided in the Capital cost ceiling (Para 3.2.3.1).

9.5. Fixed costs of all the power plants shall be closely scrutinised on the above lines and finalised.

9.6. CAG examined variable charge payments made to two other IPPs and found that they were paid on the basis of higher station heat rate rather than actual station heat rate. This resulted in undue favour to the IPPs besides incurring an extra expenditure of Rs 256 crore for the period 2009-13 (Para 3.2.3.2).

9.7. Variable charges paid to all power plants shall be examined on the above lines and whatever excess payments made shall be recovered.

9.8. In this Report CAG observed, "The power projects require power (export energy) for start-up and maintenance of the power plant. This power is supplied to IPPs by APTRANSCO/DISCOMs. The PPAs envisaged that APTRANSCO would recover charges for the power it is supplying by adjusting it against power purchased from the IPPs. Audit noted that though neither of the two IPPs had generated any power since April 2013, both the IPPs consumed energy of 74,39,220 units during April 2013 to April 2014. APTRANSCO/DISCOMs did not bill this consumption. Audit observed that the IPPs should be treated as DISCOM's industrial consumers and billed at applicable tariff i.e., HT-I (Rs4.90/ unit). However, APPCC did not collect Rs 3.64 crore (April 2013 to April 2014) from IPPs towards power consumption charges." (Para 3.2.3.3).

9.9 CAG also observed, "APPCC failed to ascertain whether the IPP consumed APC [Auxiliary Power Consumption] of 3 *per cent* or not. Since APC is part of variable charges paid to the IPP, measurement of the same was vital. In the absence of data relating to actual SHR and APC of the IPP, audit could not ascertain the extra expenditure incurred." (Para 3.2.3.5).

9.10. In the case of medium term PPA, CAG observed, "Audit further noticed that though the IPP started supplying power from 14 August 2013, it raised power supply bills amounting to Rs. 65.36 crore for the period 16 June 2013 to 13 August 2013, i.e., before the supply started. The above amount included Rs. 50.18 crore towards fixed charges and Rs. 15.18 crore towards transmission charges. APPCC did not pay any fixed charges for the period of non-supply of power. However, it agreed to pay transmission charges of Rs.7.59 crore (50 per cent of Rs. 15.18 crore) on the ground of maintaining good relationship. But there was no provision in the PPA to pay any fixed/variable/transmission charges by DISCOMs in the absence of any power supply.” (Para 3.2.3.6).

9.11. In the case of short term power purchases (STPP), CAG recorded that STPPs show an increasing trend during this period and accounted for 16.70 *per cent* of total purchases in 2013-14. It also observed that sometimes power was procured under this mechanism without calling for competitive bidding. Besides this, DISCOMs have also foregone Rs. 23.39 crore towards penalties to be recovered from the power developers/traders for short supply of power (Para 3.2.3.7).

9.12. These findings of CAG needs to be taken in to account and all the power purchases contracted by APDISCOMs during the 2nd control period shall be subjected to detailed scrutiny on the lines of CAG.

APSPDCL’s Response:

No reply

APEPDCL’s Response:

No reply

Commission’s view:

This issue is extraneous to this inquiry.

10. Inflated Fuel Prices:

10.1. APDISCOMs in their replies stated that they have suffered increase in Power purchase cost primarily due to increase in the per unit Power purchase cost and the reasons according to them for this were higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges, more short term purchases due to low PLF of gas IPPs. To these, one has to add inflated fuel prices which were paid by the DISCOMs without verifying them.

10.2. One of the important reasons for this revenue gap is higher fuel costs, which in turn was due to inflated costs of both natural gas as well as coal. According to a recent report of CAG (see Annexure I), Reliance Industries Ltd received higher price than allowed. According to this report, "As per the price discovery process undertaken by the operator (RIL)... it was categorically indicated that selling price would be rounded off to two decimal points... A review of records relating to sales of gas to consumers, however, revealed that the operator has been charging the gas price at the rate of $4.205 per unit (three decimal points) from its consumers in place of USD 4.20 per mmBtu, arrived at after rounding of 2 decimal points”. The draft of the second audit of the field's books, submitted by the Comptroller and Auditor General to the oil ministry for comments, says Reliance was charging consumers by rounding off the price in three decimal units against the norm of two decimal units, leading to excess billing of $9.68 million in the first four years of production beginning 2009-10. TSDISCOMs shall be directed to recover the excess amount paid and to that extent true up amount shall be brought down.

10.3. According to newspaper reports (See Annexure II), the Directorate of Revenue Intelligence has unearthed a scam involving companies inflating the value of coal imports from Indonesia for their power plants. Initial estimates by the agency pegged the overvaluation at Rs 29,000 crore in the period 2011-2014. DRI has raided over 80 shipping companies, intermediaries and laboratories across the country including Andhra Pradesh in search of documents that show the real value of the imports. Almost all laboratories testing coal in India have been searched by the DRI to obtain the lab reports for verification of the calorific value of the imported coal. According to this investigation, almost every importer, including the reputed corporate – public and private, have indulged in overvaluation of coal imports. DRI is learnt to have recovered documents showing the real value of the imports. The overvaluation has an impact on the tariff paid by consumers here as power companies could have a higher tariff fixation based on the inflated rates. It was estimated that the power tariff would be less by Re 1 per unit if the value of imported coal value was not inflated. In the past during public hearings, objectors have pointed out many anomalies in imported coal including higher prices. As this is upheld by the investigation of DRI, we request the Commission not to allow the true up demanded by DISCOMs to the extent of over valuation of imported coal.

10.4. We request the Commission to take the above facts in to account and disallow high power purchase costs claimed by DISCOMs.

10.5. Regarding the total deficit faced by the APDISCOMs and the rationale in going for Financial Restructuring Plan, we reproduce below the reply given by them:

"Due to shortage of power, on the assurance of the Govt. of A.P for the payment of additional subsidy, the DISCOMs have procured expensive power on short term basis from time to time during the second control period. The DISCOMs have purchased the said expensive power with the help of short term loans brought from the market. But, only a part of the assured additional subsidy was received from the Govt. of A.P. The total assured additional subsidies by the Govt. were booked in the respective FYs as receivables from Govt. and treated as revenue in the P&L account"

10.6 From the above it is clear that the present predicament of APDISCOMs is due to the Government of AP going back on its past assurances on providing subsidy. Under Section 65 of the Electricity Act, 2003, we request the Commission to direct the GoAP to provide the subsidy to the DISCOMs as assured by it and the same shall not be allowed to be recovered from consumers under any form including operationalising FRP.

10.7 We request the Commission to take our supplementary submission on record and not allow the true up claims of APDISCOMs.

APSPDCL's Response:

No reply

APEPDCL's Response:

No reply

Commission's view:

Any general question relating to inflated fuel prices cannot be the subject of the present consideration. The Commission took into account FRP and implementable communications of the State Government under Section 65 of the Electricity Act, 2003.

SET-3

Sri. M. Venugopala Rao, Convener, Center for Power Studies, H.No. 7-1-408 to 413, F203, Sri Sai Darsan Residency, Balkampet Road, Ameerpet, Hyderabad.

1. The system of Fuel Surcharge Adjustment (FSA) and multi-year tariff system are mutually contradictory arrangements. While the purpose of FSA is to ensure timely adjustment of variation in cost of power purchase, etc., MYT delays such adjustment till the end of the control period of five years.

APSPDCL's Response:

Fuel Surcharge Adjustment (FSA) was allowed for deviation in Power Purchase cost while MYT adjustment is allowed on all other items. Also, FSA has been repealed from FY 13-14 onwards.

APEPDCL's Response:

Same as that of APSPDCL.

2. Five years back, we had suggested repealing the system of FSA and allowing annual adjustment of variation in cost of power purchase etc. through true up in view of the delay in submitting FSA claims by the Discoms and their disposal by the Commission and resultant legal litigations besides various defects in the system of FSA that was being adopted by the Commission.

APSPDCL's Response:

FSA has been repealed from FY 13-14. As per APERC Amendment to Regulation 4 of 2005, deviation in Power Purchase cost are now to be filed on an annual basis.

APEPDCL's Response:

Same as that of APSPDCL.

3. As the Commission has rightly pointed out, "as per MYTRF, the licensees will have to accumulate these variations till the end of respective control period. This approach may militate against the present regime of annual filings and may place an unacceptably high burden on licensees through an unduly elongated carrying cost burden." As a result, it creates financial burden on the licensees on the one hand and imposes accumulated heavy burden on the consumers of power on the other.

APSPDCL's Response:

This is under the purview of Hon'ble APERC.

APEPDCL's Response:

Same as that of APSPDCL.

4. Similar is the problem with MYT for distribution business of the licensees. The experience of the second control period shows that both the licensees and the Commission erred in projecting or determining capacity additions in generation, transmission and distribution and in fixing respective tariffs based on such projections. Wide variations between projections and actual results occurred annually and during the control period as a whole.

APSPDCL's Response:

This is under the purview of Hon'ble APERC.

APEPDCL's Response:

Same as that of APSPDCL.

5. The four Discoms have sought true up of additional expenditure or ARR deviation for the 2nd control period (2009-10 to 2013-14) for distribution business and revenue gap for 2013-14. Despite permitting annual tariff hikes for the last four years and FSA claims till the end of March 2013, the DISCOMs are claiming true up to the tune of Rs.3174.08 crore @ Rs.885 cr. per annum to be adjusted during the third control period of five years. Leaving aside the permissibility of such claims, a few relevant issues need to be taken note of here. Since FSA was repealed from 2013-14 onwards by the Commission, the Discoms claim that they are seeking true up for the revised hefty revenue gap of Rs.2514.70 cr. for 2013-14 is contrary to their earlier claim that they "expect minimal or no FSA for FY 2013-14 with the proposed ARR."Similarly, we had questioned the propriety of introducing the multi-year tariff system. Experience of the 1st and 2" control periods has confirmed repeatedly that MYT has not benefited either the Discerns or its consumers. Every year the Discoms, in their ARR filings, have been explaining how regulatory objectives of a multi-year tariff regime could not be met and what kind of uncertainties they have been facing in making projections for a control period of five years. The MYT has resulted in accumulating huge sums proposed to be recovered by the Discoms, thereby causing financial difficulties to them on the one hand and imposing of such huge additional burdens, with carrying costs, on the consumers at the end of the control period concerned or during the next control period, on the other. When the Discoms are seeking true up of variation in their expenditure, revenue requirement, etc., on annual basis, there is no justification in continuing the system of MYT, with a provision for truing up at the end of the control period of five years. When there are uncertainties in projections made for one year, resulting in seeking true up, no purpose would be served in seeking or making projections for a period of five years.

APSPDCL's Response:

Deviation in all other items apart from Power Purchase cost is to be filed at the end of the MYT period. APSPDCL along with the ARR and MYT filing for FY2014-15 had filed for Distribution True up for first and second control period in line with APERC Regulation 4 of 2005. Owing to state bifurcation, APSPDCL have again reworked the True up amount for the MYT period in line with Regulation 4 of 2005.

APEPDCL's Response:

Deviation in all other items apart from Power Purchase cost is to be filed at the end of the MYT period. APEPDCL along with the ARR and MYT filing for FY 14-15 had filed for Distribution True up for first and second control period in line with APERC Regulation 4 of 2005. Owing to state bifurcation, APEPDCL have again reworked the True up amount for the MYT period in line with Regulation 4 of 2005.

APEPDCL would like to point out FSA was approved by the Hon'ble Commission to be recovered from the consumers. Due to certain court cases, the amount could not be recovered from the consumers and the unrecovered FSA has increased the losses further. Hence, APEPDCL requests the Hon'ble Commission to include the unrecovered FSA amount in the true up amount.

6. Experience has confirmed and the Discoms have admitted that "significant uncertainty" is involved in various projections-demand for power from different categories of consumers, quantum of power available for purchase, its cost, especially variable cost, scheduled commissioning of thermal and hydel projects and NCE units, supply of fuels to projects, prices of fuels, exchange value of Re vs the US $, import of coal, RLNG, etc., purchases of power in the open market on short-term basis, cost of service, requirement of subsidy from the Government, legal litigations, pro-developer and anti-consumer orders being given by the Commission, ATE, etc. Experience has confirmed that even relating to distribution business and transmission, the objective of MYT regime to incentivize performance of the licensees based on achievement of targets fixed by the Commission, reducing regulatory uncertainty for consumers etc. could not be achieved. There is continuing uncertainty on wheeling charges also due to endless legal litigations.

APSPDCL's Response:

APSPDCL is filing the True up as per APERC Regulation 4 of 2005. Any changes in Regulation are under the purview of the Hon'ble Commission.

APEPDCL's Response:

Same as that of APSPDCL.

7. All the reasons for claiming true up of additional expenditure or revenue gap by the Discoms may not be permanent in nature. For example, shortage of domestic coal, natural gas and water in reservoirs is temporary in nature. Once these issues are solved, generation and supply of power would improve and cost of power purchase would ease substantially, thereby avoiding need for most of the proposed additional burden of tariff hikes. Therefore, while examining and allowing claims of the Discoms for true up, the Commission has to differentiate between factors that are permanent in nature, for example, pay revision, and factors which are temporary in nature. If additional expenditure or revenue is caused by non-controllable and justifiable factors but are temporary in nature, that should not be allowed as true up in the form of hiking tariffs. Otherwise, it would result in frontloading the tariff to cover even requirements of likely increase in costs of fuels and other costs in future which may lead to increase in power purchase cost and need for hiking tariffs in future. In other words, the consumers would be saddled unjustifiably with the burden of making payments in advance for future requirements. Therefore, such claims, if permissible, should be permitted to be adjusted separately as a one-time annual arrangement, without considering them for hike in tariffs.

APSPDCL's Response:

APSPDCL would like to point out the True up is the excess expenditure for the past period and the expenditure which APSPDCL have actually incurred. Hence, this should not be viewed as a front loading activity.

APEPDCL's Response:

Same as that of APSPDCL.

8. Deviations from norms and limits imposed by the Commission also had taken place during the second control period. Reviewing such deviations or violations at the end of the control period does not give scope for timely recognition, correction and avoidance of repetitive occurrence of the same. The licensees can have plans for a period of five years, even without the system of MYT, as was the practice in the past before MYT was introduced by the Commission. These unwarranted, at times mutually contradictory, systems have been borrowed from the questionable reform process imposed by the World Bank and the Establishment in New Delhi since the early 1990's. Experience has confirmed that the system of MYT has not served any useful purpose. In view of the same, we once again request the Commission to dispense with the MYT system and direct the Discoms and APTransco to file their proposals annually so that their performance can be reviewed by the Commission and subjected to public scrutiny through public hearings. I request the Commission to examine the suggestion in the light of experience so far and make necessary amendments to the related regulations.

APSPDCL's Response:

APSPDCL is filing the True up as per APERC Regulation 4 of 2005. Any changes in Regulation are under the purview of the Hon'ble Commission.

APEPDCL's Response:

Same as that of APSPDCL.

9. I request the Commission to provide me an opportunity to make further submissions during the public hearing on the subject issue to be conducted on the 16th of this month.

APSPDCL's Response:

This is under the purview of Hon'ble APERC.

Hon'ble APERC is conducting public hearing at Court Hall, APERC, Singareni Bhavan, Lakadikapul, Hyderabad on 19.09.2015 at 11:00 AM.

APEPDCL's Response:

Same as that of APSPDCL.

10. The replies of APSPDCL and APEPDCL to my submissions are repetitive, evasive and do not provide relevant information fully or partly. Regarding cost of power purchases, SPDCL simply repeats the average cost of power per unit approved by the Commission and average actual cost per unit and total cost, without explaining whether it had got the approval of the Commission for short-term purchases of power during the second control period and if so what were the quantum of power and what was the ceiling price permitted by the Commission and the procedure followed by the Discoms for procuring the same. Similarly, SPDCL has not provided details of how much power was purchased in the market source-wise and cost per unit from each source. It has simply given total quantum of power and total cost of power purchased from market sources. The Discom is requesting the Commission to recover the balance of variation in power purchase cost without giving these relevant details which are very much necessary to determine the permissibility or otherwise of its true up claims for the same. If the Discoms had not followed the procedure determined by the Commission for procuring short-term power through competitive bidding, within the permitted limits of the quantum and ceiling price or if they had made those purchases without even seeking the prior permission of the Commission, then their true up claims pertaining to the same should be disallowed. While EPDCL has claimed increase in average power purchase cost from the Commission's approved value of Rs.2.86 per unit to actual average cost of Rs.3.27 per unit (15% increase), SPDCL has claimed increase from Rs.2.82 to Rs.3.37 per unit (19% increase). EPDCL has given costs of power purchase not approved by the Commission source-wise and per unit cost for the year 2013-14 only, not for the entire second control period. The Discom should have given such details for the entire second control period, because it is claiming "unrecovered FSA" under true up.

APSPDCL's Response:

The details are enclosed vide Annexure-A (Total power purchases & Short term power purchases for the 2nd control period of APSPDCL).

APEPDCL's Response:

Enclosed in Annexure – A.

11. When the Discoms maintain that sales mix is not in the control of the licensee and any revenue increase or shortfall due to change in sales mix should be addressed in the true up, they conveniently forget the repeated assertions of the Commission in annual tariff orders that if the Discoms exceed supply of power to agriculture than what is permitted in tariff order, it will not recommend to the Government for additional subsidy, implying that it is for the Discoms to get required additional subsidy from the Government. Naturally, this position applies to supplies of power made to other categories or slabs of subsidized consumers also. Moreover, it is to be reminded that the Commission, for example, had made it clear in the tariff order for 2013-14 "the above subsidy amounts have been quantified by the Commission commensurate to the extent of energy sales volumes approved in the order and not to cover any additional power purchases, if any are made in FY 2013-14 by the Licensees in excess of sales volumes approved in this order, at the instance or with the approval of GoAP, or otherwise" (para 277). Nowhere it is provided for imposing additional financial burden on consumers in the form of true up to cover variation in cost of power purchase and revenue accrued on sales due to change in sales mix. If true up to cover variation in cost of power purchase and revenue accrued on sales due to change in sales mix is permitted, it leaves scope for manipulating demand growth by deflating demand growth of subsidised consumers and inflating demand growth of cross-subsidising consumers with a view to showing reduced need for Government's subsidy and tariff hike and later claiming huge additional amounts due to variation in sales mix under true up and overburdening consumers including nonagricultural subsidized consumers.

APSPDCL's Response:

APDISCOMS would like to submit that sales mix depends on many factors like GDP growth, industrialization, monsoon, weather, R&C measures etc. Higher GDP growth and industrialization increases the sale of energy to industrial consumers. Load shedding shifts the sales of domestic consumers from higher slabs to the lower slabs. The implementation of R&C measures as directed by the Honourable Commission reduced the sales to Industrial and Commercial consumers. It can be observed that sales mix of APDISCOMS have changed with reduction in Industrial and Commercial sales, increase in lower slab sales for domestic consumers etc. which has led to a reduction in revenue realization. Hence, APDISCOMS request the Honourable Commission to factor the sales mix change while computing the true up and also amend the regulation and allow for true up due to change in sales mix.

APEPDCL's Response:

Under the purview of Hon'ble commission.

12. Regarding imported coal procured and used especially by NTPC and AP Genco during the second control period, I would like to remind the Hon'ble Commission that some of the representatives of consumers who participated in public hearings repeatedly made submissions questioning the propriety of adopting a contrived procedure for purchasing imported coal by confining the competitive bidding to a few select marketing agencies, without calling for international competitive bidding and without giving scope for actual producers of foreign coal and its other suppliers in the country to participate in the bidding, thereby leaving no scope for real competition and procuring imported coal at cheapest possible price. There were no reasonable and convincing clarifications from the Discoms to those objections and the Commission, too, did not seem to have examined the issue thoroughly and issued effective directions to ensure real competition in procuring imported coal. I request the Commission to examine the issue thoroughly at least now and issue directives for remedial measures to ensure a fair deal to consumers of power.

APSPDCL's Response:

I) APGenco has been inviting conventional mode of limited tenders from the following central public sector undertakings for the 2nd control period.

a) M/s Coal India Ltd., Kolkatta
b) M/s SECL, Hyderabad
c) M/s PEC Ltd., New Delhi
d) M/s STC Ltd., New Delhi
e) M/s MSTC Ltd., Kolkatta
f) M/s MMTC Ltd., New Delhi
g) M/s NCCF Ltd., Hyderabad

II) Following companies participated in various tenders called for the 2nd control period.

a) M/s PEC Ltd., New Delhi
b) M/s STC Ltd., New Delhi
c) M/s MSTC Ltd., Kolkatta
d) M/s MMTC Ltd., New Delhi
e) M/s NCCF Ltd., Hyderabad

III) APGenco procured imported coal having GCV of 6000 Kcal/Kg. Following were the prices paid for the imported coal for the 2nd control period

S.No	Name of the Company	Order Date	Rate per MT (Rs.)	Station
1	M/s PEC Ltd.	21-08-2009	5555	Dr. NTTPS
2	M/s STC Ltd.	21-08-2009	5537	RTPP
3	M/s MSTC Ltd.	21-08-2009	5555	Dr. NTTPS
			5537	RTPP
4	M/s NCCF Ltd.	25-03-2010	5545	Dr. NTTPS
5	M/s MSTC Ltd.	30-07-2010	5595	Dr. NTTPS
			5587	RTPP
6	M/s NCCF Ltd.	30-07-2010	5595	Dr. NTTPS
7	M/s MSTC Ltd.	02-04-2011	5845	Dr. NTTPS
			5903.45	RTPP
8	M/s MSTC Ltd.	23-06-2011	5845	Dr. NTTPS & KTPS-VI
9	M/s PEC Ltd.	29-09-2011	5532	Dr. NTTPS, RTPP, KTPS-V & VI
10	M/s PEC Ltd.	05-10-2011	5532	Dr. NTTPS, RTPP, KTPS-V & VI
11	M/s MSTC Ltd.	05-10-2011	5532	Dr. NTTPS & RTPP,
12	M/s MMTC Ltd.	31-05-2012	5390	Dr. NTTPS, RTPP, KTPS-VI
13	M/s MMTC Ltd.	06-02-2013	5100	KTPS-VI
14	M/s MSTC Ltd.	06-02-2013	4875	Dr. NTTPS
15	M/s PEC Ltd.	28-06-2013	4970	Dr. NTTPS
16	M/s MSTC Ltd.	28-06-2013	5150	RTPP

IV) Ministry of Power (MOP) fixes the targets of imported coal for power utilities based on the availability of Domestic coal. However, APGENCO is procuring imported coal, as and when required, based on the availability of Domestic coal, duly calling tenders from Central Public Sector Undertakings to meet the power demand. Further, it is also to inform that depending on the urgency and other contingencies, the Orders existing during that time, were also extended at the same rate, terms and conditions.

APEPDCL's Response:

Under the purview of APGenco.

13. Regarding the so-called unrecovered FSA, the Discoms have repeated their request to the Commission to include the unrecovered FSA amount in the true up amount, without responding to the objections to the same raised in my written submissions. I request the Commission to reject the claims of the Discoms for true up of unrecovered FSA for the reasons already explained in my written submissions.

APSPDCL's Response:

APSPDCL would like to submit that FSA was approved by the Honourable Commission to be recovered from the consumers. Due to certain court cases filed by the consumers, the amount could not be recovered from them resulting in increased financial gap and the unrecovered FSA has increased the losses further. Hence, APSPDCL requests the Honourable Commission to include the unrecovered FSA amount in the true-up amount.

APEPDCL's Response:

Same as that of APSPDCL.

14. When the Discoms claim that they do not have any control on change in the methodology for computation of PGCIL charges and the resultant higher charges, they ignore the point that it is not a question of their having or not having any control on it, but their responsibility to question the justifiability or otherwise of such changes through available legal and other channels to protect genuine interests of their consumers of power. The attitude of the Discoms towards this issue, contrived and questionable procedure adopted by NTPC and AP Genco for purchasing imported coal, etc., is simply flippant, because, the Discoms probably feel that whatever is the additional financial burden on account of such questionable practices, it will be passed on to the consumers and that they need not take any trouble for questioning the propriety or otherwise of such practices through available proper channels.

APSPDCL's Response:

APSPDCL submits that, the actual PGCIL charges paid have been incorporated in the true-up filings. The increase in the PGCIL charges as compared to Tariff orders are due to

(a) Additional allocation of power from CGSs and

(b) Change in methodology adopted by PGCIL for computation of Point of Connection (POC) charges in accordance with the CERC Regulation on which the licensee has no control.

APEPDCL's Response:

The computation of PGCIL charges are completely dependent on the methodology adopted by PGCIL which is the Point of Connection (POC) charges methodology. APEPDCL does not have control on this. Further, increase in PGCIL charges is due to additional allocation of power to an extent of 450 MW from central generating stations. Hence, APEPDCL requests the Hon'ble Commission to consider the total true up amount due to PGCIL expenses.

15. Regarding incentives to HT consumers and writing off of bad debts during 2009-10 and 2010-11 also, SPDCL has repeated its request to the Commission for allowing true up of the same, without responding to the objections to the same raised in my written submissions. The scheme for incentives to HT consumers was introduced in the past when surplus power was estimated to be available with the Discoms with a view to encouraging the HT industries to continue to get supply of power from the Discoms without going in for open access to purchase power from other suppliers so that the Discoms could continue to get revenue including cross subsidy and profit, from sale of power to such consumers. However, during 2009-10 and 2010-11, the SPDCL had shown purchases of 611.37 MU at a total cost of Rs.746.75 crore and 643.94 MU at a total cost Rs.734.26 crore respectively from market sources, obviously, to overcome shortage of power. When there was scarcity for power, there was no justification in implementing incentive scheme for HT consumers, i.e., purchasing power from market sources at higher prices and supplying the same to such consumers and paying them incentive, too. Therefore, the claim of SPDCL for true up of incentive to HT consumers needs to be rejected by the Commission. Since the Discom is silent on my objections to its true up claim of bad and doubtful debts claimed to have been written off, implying that there is no justification for its claim, the same should be rejected by the Commission.

APSPDCL's Response:

The licensee submits that the incentives to HT consumers were paid in accordance with the Tariff orders for FY 2009-10 and FY 2010-11.

After following all the legal procedures, the licensee have written off certain amount and taken into the Annual Accounts. These amounts could not be collected and there is no alternate for the licensee as these amounts are more than the supply margin for the respective years.

Hence, the licensee requests the Honourable Commission to consider the above said other expenses in the true-up.

APEPDCL's Response:

Pertaining to SPDCL.

16. The contention of SPDCL that the manning of sub-stations under maintenance of private agencies includes 4 shift operators and one watchman, whereas manning in the substations of EPDCL does not include watchman, is the reason for "marginal" higher per sub-station maintenance cost in its area of operation is astounding. If there is a variation of, say, plus or minus five per cent, one can treat it as marginal. But a variation of Rs.2.14 lakh, for example in 2012-13, or about 40% in such maintenance cost between the two Discoms cannot be treated as marginal and justified on account of including expenditure on a watchman! The trends of lower revenue and higher expenditure in SPDCL compared to those of EPDCL are indicative of relative inefficiency and deficiency in the system or undue favoritism to private agencies or extraneous considerations or lack of required prudence in expenditure or all of them at various levels in the former. Pressures, formal or informal, from the powers-that-be in the Government of the day to show such undue favoritism to private agencies cannot be ruled out. SPDCL informs that the manning and maintenance cost per sub-station has been raised to Rs.8.04 lakh during FY2014-15 and to Rs.8.49 lakh during FY 2015-16. In view of the same, I once again request the Hon'ble Commission to examine the issue thoroughly and impose reasonable limits on such expenditure.

APSPDCL's Response:

The manning of substations is being carried out through transparent open tender system. 4 Nos. semi skilled persons with ITI (Electrical) and 1 No. watchman are being engaged at each substation. The wages, living allowance, EPF, ESI, GIS, Insurance and service tax are being paid in accordance with the prevailing acts. A minimum of 10% administration charges are being paid to the contract agencies. No other charges are being paid for this purpose. Hence, the licensee submits that the actual cost incurred under this head have been provided in the true-up filings for consideration of the Honourable Commission.

APEPDCL's Response:

Pertains to APSPDCL.

17. In my written submissions I have pointed out that despite permitting annual tariff hikes and FSA claims for the first four years of the second control period, the Discoms are claiming true up (for distribution business for second control period and revenue gap for 2013-14) to the tune of Rs.3174.08 crore @ Rs.885 crore per annum to be adjusted during the third control period of five years. While that was the amount claimed under true up by the four Discoms in the undivided Andhra Pradesh, now APSPDCL and APEPDCL alone claim a revised amount of Rs.7209 crore, i.e., an additional amount of Rs.4035 Crore(or Rs.2868 crore, if @ Rs.885 crore per annum for a period of five years is taken into consideration) under true up. Both SPDCL and EPDCL now claim that "owing to State bifurcation, "they have again reworked the true up amount for the second control period in line with Regulation 4 of 2005, ignoring the fact that the second control period and Regulation 4 of 2005 pertain to pre-bifurcation period and without explaining how bifurcation of Andhra Pradesh has necessitated such re-working of true up claims for the second -control period. Therefore, the inflated claim of both the Discoms under true up needs to be examined thoroughly and appropriate decisions taken by the Commission.

APSPDCL's Response:

In the true-up for FY2013-14, it was claimed without considering the court cases and FSA for certain periods and withdrawl of receivables from Govt. of A.P towards expensive power purchase costs which were accounted for after filing up of true up for FY 2013-14.

APEPDCL's Response:

Same as that of APSPDCL.

18. Regarding finance restructure plan, SPDCL has explained that "due to shortage of power, on the assurance of the Govt. of A.P. for the payment of additional subsidy, the DISCOMs have procured expensive power on short term basis from time to time during the second control period. The DISCOMs have purchased the said expensive power with the help of short term loans brought from the market. But only a part of the assured additional subsidy was received from the Govt. of A.P. The total assured additional subsidy by the Govt. were booked in the respective FYs as receivables from Govt. and treated as revenue in the P&L account. The FRP was implemented during the FY 2012-13. Govt. receivables were written off as expenditure in the same year. The written off amounts which shall be treated as expenditure are not considered in the true-up filings. Under the same time the FRP factor is now shown in the true-up filings. And hence, it can be treated as true-up filings were made after factoring Govt. receivables and FRP." When expensive power is procured on short-term basis, to which categories of consumers it is supplied needs to be examined. If it is supplied to cross-subsidising consumers, probably the Discoms recover the full cost plus some profit. In such a case, the need for additional subsidy from the Government does not arise. If such expensive power is supplied to subsidized categories of consumers, obviously at lower than the procurement price, then the need for additional subsidy from the Government arises. In view of the claim of the Discom that "it can be treated as true-up filings were made after factoring Govt. receivables and FRP," two points need to be examined by the Hon'ble Commission - whether the Discom had got additional subsidy from the Government on the claimed expensive power or on an average on total additional power purchased during the second control period; whether the Government had provided additional subsidy under FRP fully or partly and whether the Discom had factored the entire additional cost for which additional subsidy was required from the Government in its true up claims. When the Discoms have sought true up of "unrecovered FSA", they have maintained that "change in agriculture sales and losses are not factored (by the Commission) while determining the FSA." If the Government had provided required additional subsidy fully, the question of "unrecovered FSA" does not arise. Moreover, office memorandum dated 5.10.2012 issued by the Ministry of Power, Government of India, the scheme for financial restructuring of State Distribution Companies says, inter alia, that " (i) 50% of the outstanding short term liabilities (STL) as of March 31, 2012 to be taken over by State Governments. This shall be first converted into bonds to be issued by Discoms to participating lenders, duly backed by the State Government guarantee. The State Government will take over the liability during next 2-5 years by issuance of special securities in favour of participating lenders in a phased manner keeping in view the fiscal space available till the entire loan (50% of STL) is taken over by the State Government. The door to door maturity will not be more than 15 years with a moratorium of 3-5 years on the principal repayment. (ii) The State Government would provide full support to the Discoms for repayment of interest and principal for this portion." Therefore, it is obvious that the Government had not provided required additional subsidy fully. I request the Hon'ble Commission to examine these factors thoroughly and disallow claims of the Discoms for true up of amounts that remain unrecovered from the Government in the form of additional subsidy. EPDCL has replied that "bonds issued under FRP will be taken over by the State Government (and) as and when the State Government take(s) over the Bonds then only same will be taken in to books of accounts," without clarifying whether it has factored the said FRP amount in its true up claims. Therefore, I once again request the Hon'ble Commission to deduct the said FRP amount of Rs.1805.95 crores from the permissible true up claims of EPDCL.

APSPDCL's Response:

The details are enclosed vide Annexure-B.

APEPDCL's Response:

Whenever the power deficit situation arises, the DISCOMs have to go for short term power purchases. And power so purchased will be fed to the grid and the gap will be bridged between supply and demand. The power purchased from short term supplies will be supplied to all the consumer categories. Hence, it is technically not possible to measure the quantum of short term power purchases supplied to which category of consumers.

19. AP Transco also had filed its true up claims to the tune of Rs.285.58 crore for the second control period. It seems that nobody filed any objections and suggestions to them, whatever be the reason - not noticing the public notification in select newspapers or due to lack of interest or time, etc. Therefore, I request the Hon'ble Commission to hold public hearing on the same by giving adequate time for filing suggestions/objections, if possible, or else to issue its draft order and invite responses on the same from interested stakeholders, as has been the practice of CERC.

APSPDCL's Response:

Under the purview of the Honourable APERC.

APEPDCL's Response:

The Hon'ble APERC has issued public notice on 23.09.2015 inviting view/objections/suggestions from interested persons/stakeholders and submit the same to Hon'ble APERC. The Hon'ble APERC will conduct public hearing on 09.10.2015 at 2:30 PM at APERC Court Hall, Hyderabad.

20. To which categories of consumers the energy purchased on short-term was supplied?

APSPDCL's Response:

Whenever the power deficit situation arises, the DISCOMs have to go for short term power purchases. Power so purchased will be fed to the grid and the gap will be bridged between supply and demand. The power purchased from short term supplies will be supplied to all the consumer categories. Hence, it is technically not possible to measure the quantum of short term power purchases supplied to which category of consumers.

APEPDCL's Response:

Same as that of APSPDCL.

21. What is the total amount of short-term loans obtained by the Discoms for purchasing short-term energy?

APSPDCL's Response:

The following short term loans were taken to meet power purchases requirements.

1) Restructure loans: Rs.1508.00 Crs.
2) Bonds issued by GoAP: Rs.2240.28 Crs.

Total Short term loans: Rs.3748.28 Crs.

APEPDCL's Response:

The following short term loans were taken to meet power purchases requirements.

Total short term loans Rs.2634 Crs Out of which

1) Restructured ST Loans: Rs.1300.00 Crs.

2) Bonds issued against ST Loans: Rs.1334 Crs.

22. What is the revenue accrued to the Discoms on sale of short-term energy category/slab-wise?

APSPDCL's Response:

As the energy consumed from the short term power purchases by respective categories of consumers cannot be measured, the revenue accrued to the DISCOMs accordingly cannot be computed.

APEPDCL's Response:

Same as that of APSPDCL.

23. What was the amount repaid by the Discoms to the Banks/financial institutions towards dues of short-term loans, including interest?

APSPDCL's Response:

An amount of Rs.1508 Crs. which was taken as short term loans were converted as long term loans under FRP scheme by the banks. Interest amount of Rs.158.77 Crs. paid during FY 2014-15 to the financial institutions on these loans.

APEPDCL's Response:

Principal repayment against restricted loan of Rs.1300.00 Crs will commence from April-2016 i.e. after 3 years moratorium period. Interest amount of Rs.136.87 Crs. paid during FY 2014-15 to the financial institutions on these loans.

24. What is the amount due from the Government of A.P. to the Discoms towards reimbursement of additional subsidy to cover the dues of short-term loans including interest?

APSPDCL's Response:

An amount of Rs.1340.28 Crs. (after taking over of Rs.900 Crs. on 31-03-2015) is due from the Govt. of A.P for taking over the liabilities towards additional subsidy as per FRP scheme.

APEPDCL's Response:

An amount of Rs.734 Crs. (after taking over of Rs.600 Crs. on 31-03-2015) is due from the Govt., of A.P for taking over the liabilities towards additional subsidy as per FRP scheme.

25. Out of the total additional subsidy required from the Govt. of A.P., what is the amount the latter had agreed to take over in the form of liabilities of the Discoms under financial restructuring plan? Details pertaining to implementation of financial restructuring plan.

APSPDCL's Response:

Govt. of A.P agreed to take over liabilities of Rs.2240.28 Crs. by issuing bonds in a phased manner and taken over Rs.900 Crs. on 31-3-15.

APEPDCL's Response:

Govt., of A.P has agreed to take over the liability against the bonds issued.

26. What are the quantums and price per unit of power purchased by the Discoms on short-term basis from National Energy Trading & Service Limited, Gurgaon and GMR Energy Trading Limited, Bangalore, during the second control period. What is the further action taken by the Discoms after the judgment given by the Hon'ble High Court in W.P.Nos.4118 and 4163 of 2013.

APSPDCL's Response:

Annexure-A & Annexure-B enclosed.

M/s Lance, Kondapally Power Ltd., Stage-II and M/s GMR, Barge were requested vide letters dated 26-11-2012 for entering into long term PPA in line with PPAs entered with M/s RVK energy, M/s Sriba and M/s Silk Road Sugars. However, both LKPL and GMR barge did not accept the draft PPAs communicated by the DISCOMs.

Further, it is to inform that from March, 2013 onwards the Gas supplies from KG-D6 fields became Zero for all the power plants.

APEPDCL's Response:

Same as that of APSPDCL.

27. What is the procedure adopted by the Discoms for selecting private agencies for manning and maintenance of sub-stations and what is the basis for determining monthly payment for the same? What are the items covered under maintenance?

APSPDCL's Response:

Private agencies for manning and maintenance of substations are being selected by calling open tenders at circle/division level. The private agencies shall be registered contractors of APSPDCL with requisite electrical license issued by Govt. of A.P. The basis for determining monthly payment for manning of substations is as per the following:

a) Payment to semi-skilled persons for shift duties and unskilled person as per the minimum wages as approved by the Govt. of A.P from time to time
b) Administrative charges (10% to 15%)
c) EPF
d) Insurance @ 3%
e) Service Tax

In addition to the shift duties, the following are the maintenance works entrusted.

a) Checking of all the parameters of the transformers
b) Checking of all the parameters of the breakers
c) Renewal of HG fuses
d) Checking switch yard and all equipments
e) Checking of batteries
f) Watering of earth bits on daily basis
g) Any other minor works allotted by the concerned maintenance engineer
h) Reporting to the concerned AE / ADE on important occurrences

Maintaining clean and green

APEPDCL's Response:

Open tenders are being called on e-procurement platform for Manning & maintenance of sub-stations. Wages communicated by Commission of Labour, A.P is being adopted for determining monthly payment.

The following works are covered under manning of Sub-Stations.

1.33/11 KV Bus Voltages, Frequency and Station load.

2.Check for the healthy trip of all the breakers.

3.Check Battery voltages, D.C. Leakage, Charger conditions. Switch off the Charger and note down battery voltage.

4.Check whether the battery is in boost or Trickle charge condition.

5.Check the wireless and P&T phones for proper working and intimate incase of trouble to the concerned officer.

6.Check the annunciation panels. Press the lamp test and report the failure of lamps to maintenance wing

7.Check the load and amperage in all phases on each feeder.

8.Check the Power Transformer physically. Note the oil and winding temperatures, load and tap position, cooling fans condition and oil levels in the conservator, tap changer diverter switch, bushing and dehydrating breather.

9.Check the entire yard for any unusual sounds.

10. During night shift, check for sparking at joints/ jumpers.
11. Check for any sparking or flashover marks at the earth pit connections and intimate to the concerned Assistant Engineer/Operation
12. Check for proper watering of earth pits.
13. Check whether all the energy meters of the feeders are working or not, report to AE/O on any defect noticed.
14. Activate protection whenever L.C is issued on any feeder/transformer besides ensuring hand tripping.
15. Check the fire fighting appliances availability at assigned locations.
16. Ensure that all the relevant relays flags are in "RESET" position.
17. Note down the OLTC counter.
18. Whenever a feeder tripping occurs, contact the other end station and note down the relay indications.
19. To inform the concerned Assistant Engineer/Operation regarding tripping or breakdown or any other unusual observation.

28. During the first four years of the second control period, what were the FSA amounts claimed by the Discoms and what were the amounts permitted by the Commission to recover from consumers?

APSPDCL's Response:

FSA claimed by the APSPDCL and approved by the honorable Commission for the first four years of the 2nd Control Period are as follows.

	FSA Claimed	FSA Approved
2009-10	343.37	366.66
2010-11	708.94	485.95
2011-12	1160.10	933.23
2012-13	1211.12	836.47

APEPDCL's Response:

FSA claimed by the APEPDCL and approved by the honorable Commission for the first four years of the 2nd Control Period are as follows.

	FSA Claimed	FSA Approved
2009-10	515	270.00
2010-11	509	394.00
2011-12	873	1016.00
2012-13	1112	400.00

29. Regarding provision for pension and gratuity and EL encashment, APSPDCL has claimed a provision of Rs.277.82 crore and Rs.159.91 crore respectively, whereas APEPDCL has claimed a provision of Rs.98.32 crore towards EL encashment. Since provision for future requirements cannot be claimed under true-up, I request the Commission to reject the same, as it did in the case of AP Transco.

APSPDCL's Response:

No reply

APEPDCL's Response:

No reply

30. As already pointed out in my earlier submissions, the overall R&M expenses of SPDCL are much more than those of EPDCL per unit. The sub-station manning cost of the two Discoms shows similar and unjustifiable disparity. For example, sub-station manning cost for the year 2013-14, against 1133 sub-stations manned by private agencies, is shown as 72.98 crore by SPDCL, whereas EPDCL has shown the same as Rs.22.45 crore for 520 sub-stations. Similarly, for R&M cost for distribution transformers, SPDCL has shown higher cost per unit than the cost shown by EPDCL. For example, for the year 2013-14, SPDCL has shown R&M cost of Rs.31.51 crore for 22531 DTRs failed (Rs.14,000 per DTR on an average), against Rs.8.47 crore for 7218 DTRs failed (Rs.11,700 per DTR on an average) shown by EPDCL for the same year. HVDS is being implemented in both the Discoms with huge expenditures of hundreds of crores of Rupees. HVDS is expected to reduce and avoid overloading of transformers and unauthorized connections. Therefore, I once again request the Commission to examine thoroughly the unjustifiable higher expenditures per unit by SPDCL compared to those of EPDCL and give appropriate directions to ensure prudence in expenditure.

APSPDCL's Response:

No reply

APEPDCL's Response:

No Reply

31. During the public hearing on 21.11.2015, the learned counsel for the Discoms, Sri P. Shiva Rao garu, admitted that there was no justification in claiming the FSA amount of Rs.700 crore pending due to court cases and that the amount was confined to limited consumers. He also rightly pointed out that if the Court clears the case, then that amount would be collected from those consumers. Sri Shiva Rao garu also agreed that for additional agricultural sales, the Government has to pay to the Discoms, as it had committed for the same before the Commission. For the first four years of the control period, FSA claims were made by the Discoms after taking relevant factors into account; at least, the scope for taking the same into account was there. Therefore, the scope for their not claiming any permissible amounts under FSA during the first four years of the second control period does not arise now. The claims of the Discoms for true-up of amounts which they claim now that they could not or did not claim during the first four years of the second control period should not be considered by the Commission under true up.

APSPDCL's Response:

No reply

APEPDCL's Response:

No reply

32. Details pertaining to procurement of imported coal by NTPC and APGENCO required for their thermal plants from which they have been supplying power to the Discoms – how bidders were selected for participation in the competitive bidding and who are those bidders who participated in the bidding? What have been the prices paid by NTPC and APGENCO for imported coal grade-wise during the second control period? Compared to international prices of coal prevailing during the second control period especially from producers of imported coal from whom the bidders who supplied it to NTPC and APGENCO purchased it, what were the prices paid by the latter? Did NTPC or APGENCO renew contract for purchasing imported coal without calling for fresh bidding during the second control period, especially when international prices of coal were falling and if so what are the details? Did the Discoms insist on NTPC and APGENCO to adopt international competitive bidding facilitating participation of producers of coal abroad and its other suppliers in India to ensure real competitive bidding and lowest possible price for procuring imported coal to ensure a fair deal to consumers of power?

APSPDCL's Response:

No reply.

APEPDCL's Response:

Under the purview of AP Genco.

33. The Discoms have admitted that additional power was purchased on short-term basis during the second control period on the direction of the Government of A.P. under the condition that the latter would provide additional subsidy required for the same and that they did not approach the Commission seeking its approval for quantum and maximum ceiling price for short-term purchases of power. Furthermore, contrary to their written replies that "it is technically not possible to measure the quantum of short term power purchases supplied to which category of consumers," the Discoms have maintained, during the public hearing on the 17th October, that additional power was supplied to agricultural consumers only. While giving source-wise and price per unit from each source of purchases made on short-term basis, SPDCL has informed that the total short- term purchases made during the second control period were 8648.50 MU at a total cost of Rs.4520.71 crore. Per unit cost of power purchased on short-term basis varies from the lowest price of Rs.0.04 to the highest price of Rs.9.30 per unit. While EPDCL has given similar information showing the total short-term

purchases made during the second control period as 6126.56 MU at a total cost of Rs.3288.75 crore. Per unit cost of power purchased on short-term basis varies from the lowest price of Rs.0.04 to the highest price of Rs.9.30 per unit, in the case of EPDCL, too. Having gone by the direction of the State Government and ignored the regulatory process of seeking prior approval of the Commission for making short-term purchases, there is no point in the Discoms approaching the Commission now with their true-up claims for variation in cost of power purchase for the entire second control period, instead of approaching the Government for seeking the same as additional subsidy. Since this unwarranted and deliberate tendency continued during the entire second control period, the question of emergency requirement and non-seeking of the Commission's approval even after those purchases were made did not arise. The Discoms have submitted during the public hearing that this revenue gap is due to supply of additional power to agriculture and distribution losses. As a matter of policy of free supply of power to agriculture and as per the commitment given by it, the Government should have provided additional subsidy to meet the liabilities of the Discoms fully, not just 50% under the financial restructuring plan. But for the FRP, whether the State Government would have taken over the 50% liabilities of the Discoms is anybody's guess. For the failure of the Government in honouring its commitment to the Discoms, the consumers should not be penalized in the form of allowing claims of true up for the amounts which the Government should have reimbursed to the Discoms. The Discoms had filed petitions before the Commission seeking reduction of targets of distribution losses fixed by it in its tariff order for distribution business for the second control period, contending that the same were on the higher side and that it was not possible to achieve the same. I had also supported the contention of the Discoms before the Commission - and the Commission had issued orders reducing the targets of reduction of distribution losses. While EPDCL achieved and even exceeded the targets of reduction of distribution losses, SPDCL could not. Having failed to achieve even the reduced targets of reduction of distribution losses during the second control period, there is no justification in SPDCL seeking true up of loss of revenue due to its failure in achieving those targets. The fact that the Discoms, through their consultant Sri P. Srinivasa Rao of KPMG, have requested the Commission, during the public hearing on 17.10.2015, to direct the Government to pay for deviation in agricultural sales confirms that they, too, agree that it is not fair to impose that burden on consumers of power through true-up. I request the Commission to give a piece of advice to the State Government to honour its commitment given to the Discoms on power purchases on short-term basis and take over their balance 50% liabilities also.

APSPDCL's Response:

No reply.

APEPDCL's Response:

No reply.

34. The contention of SPDCL that changes in sales mix occurred due to implementation of R&C measures and power cuts, leading to reduction in revenue realization, does not hold water in the light the experience of EPDCL in exceeding sale of power to subsidizing categories of consumers like industrial, commercial and railways. Here, again, it is for the Government to provide required additional subsidy to the Discoms for changes in sales mix, as deviation in agricultural sales is the major reason for such change in sales mix. Apart from the directives given by the Commission in the past, the directive given by it in the tariff order for 2015-16 that "the licensees shall, as far as possible, adhere to the sales volumes approved in this Order with an overall intent of avoiding under recovery of revenue. In case, there is any abnormal variation in

actual sales compared with the approved sales, the licensees may approach the Commission for remedial measures in accordance with the applicable statutory and regulatory provisions. If the Commission finds any such deviation/variation/contravention to be unjustified, the Commission may be compelled to invoke the penal provisions provided by law" is instructive and need to be observed (para 197 and page 98).

APSPDCL's Response:

No reply.

APEPDCL's Response:

No reply.

35. Regarding imported coal procured and used especially by NTPC and AP Genco, SPDCL has replied that "AP Genco has been inviting conventional mode of limited tenders" from seven central public sector undertakings out of which only five companies participated in various tenders called for the second control period. The companies participated in those tenders are all marketing agencies, not producers of coal. SPDCL has also informed that "depending on the urgency and other contingencies, the Orders existing during that time, were also extended at the same rate, terms and conditions." It is necessary to examine the prices paid by AP Genco for imported coal in comparison with international prices of coal prevailing at the relevant periods, both for orders given and orders extended. It is high time the exercise was done. If the Commission takes up the issue as and when PPAS of AP Genco come up before it, irreparable harm will continue to be done to consumer interest till then. Similarly, in the case of NTPC, the Discoms should take up the issue with CERC. There is aneed for incorporating appropriate provision in the PPAs the Discoms had with AP Genco and NTPC making it mandatory for the latter to follow international competitive bidding for procuring foreign coal, preferably providing representation to the Discoms in monitoring the entire process to protect consumer interest.

APSPDCL's Response:

No reply.

APEPDCL's Response:

No reply.

36. Regarding the reply of SPDCL that incentives were paid to HT consumers "in accordance with the Tariff orders for FY 2009-10 and FY 2010-11,"if they were paid accordingly, the same should have been adjusted either in the ARR or under FSA. The very fact that the Discom is seeking true up of the same now makes it clear that those claims were not permitted by the Commission then. The Discom cannot seek true up of what was already rejected by the Commission. Similar is the case with dues written off by the Discom.

APSPDCL's Response:

No reply.

APEPDCL's Response:

No reply.

37. If the manning of sub-stations were being carried out through “transparent open tender system”, as claimed by SPDCL, there should and would have been competition, with variation, not uniformity, in charges quoted by different private agencies. But the information furnished by the Discoms shows that there has been no variation in charges being paid to the private agencies for the reasons best known to themselves. The contention of the Discoms that wages, etc., were paid to contract workers of private agencies “as per the minimum wages as approved by the Govt. of AP. from time to time” does not justify the claim of SPDCL for payments to those private agencies much more than what were being paid by EPDCL. I once again request the Commission to examine the issue thoroughly and give appropriate directives to the Discoms to correct these anomalies. Manning and maintenance of sub-stations by private contractors gives scope for manipulations, inefficient service and risks. As such, the desirability of continuing such contract system is questionable and needs to be re-examined.

APSPDCL’s Response:

No reply.

APEPDCL’s Response:

No reply.

38. During the first four years of the second control period, against the FSA claims of SPDCL for Rs.3423.53 crore, the Commission approved claims for Rs.2622.3l crore. Similarly, in the case of EPDCL, against its FSA claims for Rs.3009 crore, the Commission approved claims for Rs.2080 crore. Therefore, both the Discoms now cannot claim under true up the amounts of Rs.801 crore and R5929 crore respectively for which their claims were rejected by the Commission earlier. Similarly, the claim of the Discoms for the amounts they could not collect from consumers concerned due to pending cases and stay orders in force also needs to be rejected for the reasons already explained in my earlier submissions.

APSPDCL’s Response:

No reply.

APEPDCL’s Response:

No reply.

39. Since the Discoms, especially SPDCL, are claiming various amounts under true up now which were already rejected by the Commission earlier either in their ARR claims or FSA claims or true up claims, and 50 per cent of their liabilities are being taken over by the State Government under FRP, I request the Commission to examine their annual audit reports for the second control period and disallow dual claims being made for the same amounts under different or same heads.

APSPDCL's Response:

No reply.

APEPDCL's Response:

No reply.

40. Regarding carrying cost, to the extent the Commission disallows the claims of the Discoms under true up, carrying cost on the disallowed amounts also needs to be rejected.

APSPDCL's Response:

No reply.

APEPDCL's Response:

No reply.

Commission's view (1 to 40):

While FSA is no longer in operation, multi-year tariff system can be reconsidered, if found necessary. The detailed perceptions, objections, suggestions and views of Sri M. Venugopala Rao, an expert in the energy sector in the State of Andhra Pradesh always trying for safe-guarding the interests of the common man consumers are taken note of with appreciation and are kept in view wherever found necessary while considering each of the aspects of the claims of the distribution companies in the true up applications. The conclusions of the Commission guided by the statutory provisions, rules and regulations in general and Regulation 4 of 2005 in particular are a genuine attempt to balance on merits as per law the well being of the distribution companies and the legitimate interests of the consumers.

SET-4

The Federation of Telangana & Andhra Pradesh Chambers of Commerce and Industry (FTAPCCI), Federation House, 11-6-841, Red Hills, FAPCCI Marg, Hyderabad

1. **O&M EXPENSES**

The Licensee has claimed a true up of Rs. 536 crore towards the variation in the O&M Expenses for the 2nd Control Period encompassing the financial years 2009-10 to 2013-14. The Licensee has stated that the actual O&M expenses have been to the tune of Rs. 2,524 crore vis-a-vis the approved O&M expenses of Rs.1,988 crore. The objections in respect of the variation in O&M expenses claimed by the Licensee are provided below:

A. Truing up of O&M expenses is not allowable as it is a Controllable Expense. As per Clause 10.4 of the Tariff Regulations, the O&M expenses are 'Controllable' expenses and the Hon'ble Commission in the Tariff Order dated 20.03.2009 had allowed the same on normative basis. In view of the provisions of the Tariff Regulations, the variation in respect of 'Controllable' expenses is not allowable.

B. Variation in Employee Costs

The Licensee has stated that the employee costs have increased by Rs. 473 crore during the 2nd Control Period and has primarily increased owing to pay revision which was effective from 01.04.2010. However, the inefficiency in terms of employee expenses cannot be allowed to be recovered through tariff. The Hon'ble Commission ought to isolate the impact of pay revision from the employee expenses and then determine the admissibility of the employee expenses. Even in the case of pay revision, blanket increase cannot be allowed and due prudence check needs to be conducted by the Hon'ble Commission while deciding on its admissibility.

It is reiterated that O&M expenses are controllable expenses in view of Clause 10.4 of the Tariff Regulations. It is further submitted that the Ld. APTEL in the case of SIEL Limited vs Punjab State Electricity Regulatory Commission [2007 ELR (APTEL) 931 (Para 137,139,142-144) had held that benefit should be made available for rewarding efficiency in performance. Automatic availability of benefits generates inefficiency and indolence. The Hon'ble Commission ought to consider the law settled by the Hon'ble APTEL in Siel case and should not allow any variation without conducting a prudence check on the basis of performance, merely because the employees of the Licensee are being treated at par with Central Government employees.

Further, it has been held by the Hon'ble APTEL in the case of BSES Rajdhani Power Ltd. through its Authorised Signatory Mr. R.C. Mehta v. Delhi Electricity Regulatory Commission through its Secretary and Ors. 2009 ELR (APTEL) 880 (Para 75), that any hike in salary not comparable to 6th Pay Commission's recommendation and not sufficiently justified cannot be allowed as pass through in tariff as one cannot lose sight of the fact that the consumers will have to bear the burden of such salary hike.

C. Truing up of R&M Expenses

The Licensee has stated that the R&M expenses have increased by Rs. 89 crore during the 2nd Control Period owing to the "increase in manning and maintenance cost of substations by Pvt. Agencies, increase in the no. of substations manned by Pvt. Agencies and increase in repairs to failed DTRs."

As per Clause 10.4 of the Tariff Regulations, the O&M expenses are controllable expenses and the Hon'ble Commission in the Tariff Order dated 20.03.2009 had allowed the same on normative basis. In view of the provisions of the Tariff Regulations, the variation in respect of controllable expenses is not allowable.

It is pertinent to the mention that the actual GFA capitalizations over the 2nd Control Period have been to the tune of Rs. 1,626 crore as against Rs.1,754 crore approved in the Tariff Order dated 20.03.2009.

Thus, the asset base has actually been much lower than what was envisaged at the time of the Tariff Order dated 20.03.2009. The high R&M expenses are a reflection of the poor DTR failure ratio which has gone up from 3% in FY 2009-10 to 5% in FY 2013-14.

In view of the above, the Hon'ble Commission should not only disallow the variation sought towards R&M expenses but should also reduce the R&M expenses approved in the Tariff Order.

APSPDCL's Response:

No reply

APEPDCL's Response:

The O&M expenses cannot be controlled as some times works are to be carried in Emergency conditions and also to keep the system in healthy condition.

Wage revision is being implemented uniformly across all the utilities such as Discoms, Transco, Genco by the Energy Department GoAP. Wage revision in power sector is due in every four years; hence it should not be construed as controllable category.

All the new substations are being entrusted to private agencies for maintenance. Efforts are being taken to curtail DTR failures. The higher cost is due to enhancement of rates year on year due to entrusting of work to private agencies on open tender system.

Commission's view:

While inefficiency is not rewarded, the increase in O & M expenses is considered only to the extent found prudent and unavoidable like the periodical pay revisions or statutory increase in wages. There is nothing on record to show that the increase in salaries and wages is imprudent or unrealistic. Expenditure on the controllable items which could have been controlled by the distribution licensees was not considered for true up irrespective of any factual increase in such expenditure like expenditure for manning and maintaining substations by private agencies.

2. DEPRECIATION

In the cost plus regime, investments in fixed assets are recovered through the financing cost (cost of capital) and depreciation (recovery of capital). In case the capital investments are funded through consumer contributions, grants or capital subsidy, the issue of cost of capital and recovery of capital does not arise.

This is affirmed by the Hon'ble Commission in Clause 17 of its Tariff Regulations which provides that the depreciation shall be computed in the following manner:

> *"17.2 For each year of the Control Period, depreciation shall be calculated on the amount of Original Cost of the Fixed Assets included in the RRB at the beginning of each year of the Control Period:*
>
> *Provided that depreciation on assets funded by consumer/user contributions or through any capital subsidy/grant etc shall not be allowed in the revenue requirement of the Distribution Licensee.*
>
> *17.3 Depreciation allowance for each year of the Control Period shall be determined, generally based on the methodology, rates and other terms as decided by CERC from time to time.*
>
> *17.4 Depreciation shall be charged from the 1stApril of the following year from the date the asset is put to use. "(Emphasis supplied)*

The above is also in line with the Accounting Standard - 12 (Accounting for Government Grants) issued by the Accounting Standards Board of Institute of Chartered Accountants of India.

Schedule titled "Reserves and Surplus" of the audited accounts provide the details of contributions, grants & Subsidies received by the Licensee. Further it is the consistent accounting policy of the Licensee that depreciation on overall fixed asset base is debited to the profit and loss account and a credit entry in proportion in which depreciation on the concerned assets (created out of consumer contributions, grants or subsidy) has been charged during the relevant year is treated as withdrawal/ amortisation of consumer contribution and credited to Profit and Loss Account.

While truing up the depreciation expense for past years, this equivalent depreciation charged on consumer contributions, capital subsidies and grants has to be netted off from the allowable depreciation. It is humbly prayed that the Hon'ble Commission may conduct a strict prudence check in this regard and reduce the equivalent depreciation on assets which have been funded by consumer/user contribution or through any capital subsidy/grant etc from the revenue requirement of the Licensee.

Further, the Tariff Regulations provide that the methodology, rates and other terms for allowing depreciation would be in line with the CERC Regulations. Clause 17 of the CERC (Terms and Conditions of Tariff) Regulations, 2009 provide the rationale, methodology and rate for allowing depreciation. It provides that depreciation shall be calculated annually based on Straight Line Method and at rates specified in Appendix-III to those regulations. An average depreciation rate of around 5.28% is allowed by the CERC Regulations, 2009. However, it is understood that the Licensee has claimed the depreciation rates as per the Ministry of Power Guidelines which translates to a weighted average rate of over 7.84%. It is humbly prayed that the Hon'ble Commission may allow the depreciation strictly in accordance with the CERC Regulations for the 2nd Control Period.

Further, it is also prayed that the Hon'ble Commission may ensure that the depreciation may be capped up to 90% of the capital cost. The Tariff Orders issued by the Hon'ble Commission do not clearly provide the information w.r.t to the accumulated depreciation and the %of depreciation already claimed by the Licensee. The Tariff Policy also stipulates that the *"benefit of reduced tariff after the assets have been fully depreciated should remain available to the consumers".* It is humbly prayed that the True-up Order for the 2nd Control Period may kindly provide a detailed computation w.r.t to the accumulated depreciation and the % of depreciation already claimed on the GFA base.

APSPDCL’s Response:

No reply

APEPDCL’s Response:

Accounting Standard - 12 (*Accounting* for Government Grants) issued by the Accounting Standards Board of Institute of Chartered Accountants of India is being followed. Depreciation rate 7.84% applied as per the Ministry of Power guidelines. Depreciation is being capped up to 90% of the capital assets only.

Commission’s view:

The depreciation is calculated strictly as per the regulations.

3. **NON TARIFF INCOMES**

The Licensee has stated that the actual non tariff incomes have been to the tune of Rs. 243 crore as against Rs. 560 crore approved in the Tariff Orders in respect of Retail Supply Business. Similarly, in the case of the Distribution Business, the Licensee has stated that the actual non tariff incomes have been to the tune of Rs. 243 crore as against Rs. 65.40 crore approved in the Tariff Orders of the 2nd Control Period.

However, the Objector observes that the actual non tariff incomes as per audited accounts are far in excess of what has been applied as a reduction by the Licensee and are to the tune of Rs. 648.47 crore over the 2nd Control Period.

The following table provides the year wise break-up of the non tariff incomes of the Licensee:

(figures in Rs. Crore)

Year	Tariff Order (Retail)	Tariff Order (Distribution)	Total Tariff Order (Retail + Distribution)	True Up Petition (Retail)	True Up Petition (Distribution)	Total True Up Petition (Retail + Distribution)	Actuals as per Audited Accounts
FY 2009-10	47.00	13.00	60.00	38.00	38.00	76.00	96.22
FY 2010-11	77.00	13.40	90.40	45.00	45.00	90.00	115.93
FY 2011-12	62.00	13.00	75.00	48.00	48.00	96.00	124.10
FY 2012-13	283.00	13.00	296.00	47.00	47.00	94.00	136.64
FY 2013-14	91.00	13.00	104.00	65.00	65.00	130.00	175.59
Total	560.00	65.40	625.40	243.00	243.00	486.00	648.47

From the above table, it is evident that the actual non tariff incomes are to the tune of Rs. 648.47 crore as against a cumulative of Rs. 486 crore being claimed by the Licensee for the Retail Supply and Distribution Business put together.

As the basis of segregation of the non tariff incomes between Retail Supply business and Distribution business is very thin, we request the Hon'ble Commission to consider the Objections in respect of non tariff incomes on a consolidated basis for retail supply and dist.

APSPDCL's Response:

No reply

APEPDCL's Response:

Certain items of the Non-Tariff income provided in the Annual Accounts are not considered for Regulatory accounts.

Commission's view:

The permissible non-tariff income out of that shown in the audited accounts alone was taken into account by the Commission.

4. CARRYING COST

The Licensee has claimed carrying cost at a rate of 12% on the unrecovered revenue gaps as claimed by it in the subject petition. It is pertinent to mention that the Hon'ble Commission while determining the Generation Tariff Order for APGENCO stations for the period FY 2009-10 to 2013-14 by its Order dated 31.05.2014 had approved a true-down amounting to Rs. 2,081.81 crores and had allowed for the refund of the excess power purchase cost claimed on provisional basis. However, no carrying cost was approved by the Hon'ble Commission. As per the settled principles, carrying cost is eligible towards unrecovered revenue gap / (surplus). However, a consistent approach is to be followed by the Hon'ble Commission.

In view of the above, it is urged that in case the Hon'ble Commission permits the claim of the carrying cost on the unrecovered revenue gap upon truing up, then the Hon'ble Commission ought to compute and adjust the carrying cost on the refund of the excess power purchase cost approved in Order dated 31.05.2014 in respect of APGENCO's Generation Tariff Order for 2nd Control Period and apply it as a reduction from the revenue gap being trued up in the instant petition.

APSPDCL's Response:

No reply

APEPDCL's Response:

The Discoms can claim for True up only after completion of the control period, where as they have to incur expenditure on interest towards short term loans borrowed towards Revenue deficits for all the years of the control period. Hence, APEPDCL request the Hon'ble commission to consider the carrying cost also in the True up.

Commission's view:

The carrying cost is calculated as per Regulation 4 of 2005 on taxes on income only and not even on power purchase cost though it is an uncontrollable item as FSA was granted for four years and as the Government has taken over short term liabilities under the financial restricting plan which covers such cost. The generation tariff order dated 31-05-2014 is not part of the present consideration and the manner of implementation of the direction for refund of Rs.2081.81 crores will be monitored by the Commission separately in appropriate proceedings.

5. POWER PURCHASE COST

APEPDCL has claimed a true up of Rs. 1,818 crore towards the variation in the power purchase cost for the 2nd Control Period encompassing the financial years 2009-10 to 2013-14 whereas APSPDCL has claimed Rs.2,895. The objections in respect of the variation in power purchase cost claimed by the Licensee are provided below:

A. Disallowance of Unscheduled Interchange Expenses

The Forum of Regulators, which is chaired by Chairperson, Central Electricity Regulatory Commission and has all the Chairpersons of State Electricity Regulatory Commissions as its members, had agreed that the Unscheduled-Interchange (UI) charges imposed on distribution utilities for excessive overdrawl from the grid would not be allowed to be recovered from consumers w.e.f. 1st August, 2009.

This was considered by the Forum of Regulators based on the recommendation of the Parliamentary Standing Committee on Energy that the regulators should evolve such practice that when the Annual Return Rates are being filed, the damages which have been imposed as Unscheduled Interchange charges should be stated separately and very clearly and those payments which are in the nature of damages should not go to show purchase of power because that really is the inefficiency or incompetence of that particular distribution company or entity.

After deliberation on the recommendation, the Forum of Regulators had arrived at a consensus that the additional UI charges imposed on the utilities under the UI regulations of CERC for overdrawl during the period when grid frequency is below 49.2 Hz should not be permitted in the Annual Revenue Requirement of distribution utilities w.e.f. 1st August, 2009. In this regard, a Press Release was made by the Central Electricity Regulatory Commission on 23.07.2009.

APSPDCL has claimed the overall power purchase cost incurred by it as per audited accounts which includes the Unscheduled Interchange charges to the tune of Rs. 134.49 crore. The year-wise break-up of the same has been culled out from the notes to audited accounts and is provided in the table below:

Unscheduled Interchange Expenses

Year	UI Charges (Rs Crore)
FY 2009-10	81.91
FY 2010-11	19.75
FY 2011-12	13.38
FY 2012-13	17.92
FY 2013-14	1.53
Total	134.49

The Objector humbly submits that the UI charges are penal in nature and ought to be disallowed in view of:

- the decision of the forum regulators
- the fact that UI charges are not permitted to be included in the ARR in terms of the Tariff Regulations

B. Generation Tariff Order for FY 2009-14 period not given effect to

The Hon'ble APERC had approved the tariff of APGENCO stations for the period 01.04.2009 to 31.03.2014 vide its Order dated 31.05.2014. The tariff approved for the APGENCO stations in the said Order was less than the provisional tariff allowed in the Retail Tariff Orders by Rs. 2,081.81 crore. No carrying cost was allowed by the Hon'ble APERC.

As the APGENCO had already billed the Discoms based on the provisional tariff approved in the Retail Tariff Orders; the Hon'ble Commission had held that APGENCO should reimburse the Discorns towards the excess recovery to the tune of Rs. 2,081.81 crore. In view of the above, the Hon'ble Commission had directed the APGENCO to adjust the difference between the tariff already collected from the Discoms and the tariff approved in the said Order dated 31.05.2014 within a period of six months i.e., before 31.12.2014. Thus, due adjustment towards the refund was to be made in FY 2014-15 but pertained to the period FY 2009-14.

The relevant extract of the said Order is reproduced below:

"The tariff approved now is less than that provisional tariff allowed in the Retail Tariff Orders by Rs.2081.81 Crs. APGENCO has already been billing the DISCOMs based on the provisional tariff

approved in the Retail Tariff Orders. APGENCO should reimburse DISCOMs to this extent. The Commission recognizes that the bills already raised by APGENCO on DISCOMs may be less than the tariff provisionally approved in the respective Retail Tariff Orders due to network factors like delay in Commissioning of the new power plants. Therefore, the Commission directs APGENCO to adjust the difference between the Tariff already collected from DISCOMs and the Tariff approved now as per clause 8.3 *of Regulation 1 of 2008 within a period of six months i.e. before 31.12.2014." (Emphasis supplied).*

Thus, the consumers are entitled for a refund of Rs. 2,081.81 crore towards the excess power purchase cost claimed by the Discoms over the 2nd Control Period (FY 2009-14), to which the current truing up petition pertains.

It is humbly stated that both the Distribution Licensees namely APEPDCL and APSPDCL, have not provided for such refund in the true up being claimed in the subject petitions for FY 2009-14. On one hand the Hon'ble Commission has not allowed carrying cost on the true-down approved by it for APGENCO; on the other hand the Licensee is seeking carrying cost of the true-up being claimed by it. The consumers cannot be penalised twice, once by not allowing carrying cost on the true-down Approved for APGENCO stations, and secondly by allowing carrying cost for unrecovered revenue gaps upon truing up.

Further, the Hon'ble Commission is urged to allow the refund of the excess power purchase cost amounting to RS.2081.81crore in the true up for FY 2009-14 itself as it pertains to the 2nd Control Period and pass the necessary adjustment along with carrying cost towards the refund entitlement of the consumers.

C. **Source-wise break of Power Purchase not provided**

Clause 12.1of the Tariff Regulations provides:

"The Distribution Licensee shall be allowed to recover the cost of power it procures, including from State generators, independent power producers, Central generating stations, non-conventional energy generators, and others, for supply to consumers, based on the Commission approved Power Procurement Plan of the Distribution Licensee covering each year of the Control Period:" (Emphasis supplied)

From the above, it is evident that the price variation in power purchase cost is allowable only in terms of the *"Commission-approved Power Procurement Plan".* From the details provided by the Licensee in the True-up Petition, it is evident that the actual power purchase quantum has been, significantly in excess of what has been approved by this Hon'ble Commission in the Tariff Orders for 4 out of the 5 years of the 2nd Control Period. From a plain reading of the Tariff Regulations, it is evident that the power purchase in excess of the Power Procurement Plan approved in the Tariff Orders is to be disallowed.

Further, it is imperative to note that the Licensees have not provided any source wise details of power purchase (plant source, quantum, price, etc) for any of the years under the 2nd Control Period. In its absence, no prudence check is possible by this Hon'ble Commission. It is a well settled principle that the Commission is not bound to accept the financial costs. Hence, allowance of the power purchase cost merely on the ground that it has been recorded in the audited accounts may not be sufficient to be eligible for truing up. The Hon'ble Commission would have to look into whether the same was incurred judiciously and whether the expense incurred is in line with the framework of the Tariff Regulations.

D. Maximum Ceiling for Bilateral and Market Purchases

In the Tariff Orders for the 2nd Control Period, the Hon'ble Commission had approved ceiling price for bilateral and market purchases which entailed that any bilateral and market purchases over such ceiling was to be disallowed in True-up. However, in the absence of the source wise break-up of power purchase, it cannot be ascertained whether such ceiling has been breached in any year.

It is urged that without a due diligence of such issue, the True-up order may not be finalized. The Licensee is duty bound to provide such information to the stakeholders as well, who may then be permitted to file their objections on such submissions.

APSPDCL's Response:

A) APDISCOMS humbly submit to the Hon'ble Commission that UI charges if any included in the Power Purchase cost have been actually expended by APDISCOMS and the expenses were paid in accordance with the CERC Regulations.

B) APDISCOMS would like to submit to the Hon'ble Commission that APGENCO is yet to pass on the true down amount to APDISCOMS. As and when APGENCO passes on this true down amount to APDISCOMS, it will be passed on as a benefit to the consumers in the next year ARR filing. Hon'ble Commission is requested to direct APGENCO to pass on the true down to APDISCOMS so that benefit of this can be passed on to the consumers.

C) Annexure-A enclosed.

D) Annexure- A & B enclosed.

APEPDCL's Response:

Same as that of APSPDCL.

Commission's view:

The points raised herein are already answered elsewhere. The assessment of power purchase cost by the Commission herein took care of not allowing any impermissible components of such purchase cost.

6. INTEREST ON CONSUMER SECURITY DEPOSIT

The Licensees have submitted that the actual interest on consumer security deposits incurred over the 2nd Control Period are to the tune of Rs. 239 crore as against Rs. 227 crore approved in the Tariff Orders in case of APEPDCL and Rs. 275 crore as against Rs. 240 crore approved in the Tariff Orders in case of APSPDCL. The variation in interest on consumer security deposit is not allowable in terms of the Tariff Regulations. Clause 10.4 of the Tariff Regulations deals with the truing up mechanism which does not provide for claiming the variation in terms of interest on consumer security deposit.

The Licensees have sought to invoke Clause 10.8 of the Tariff Regulations which provides for claiming the variation in expenses on account of *force-majeure* reasons. Needless to mention that payment of interest of consumer security deposit is a normal business practice and is not a force majeure event as purported by the Licensees.

In view of the same, it is submitted that the variations being sought by the Licensees towards interest on consumer security deposit are extraneous to the Tariff Regulations and merit disallowance.

Licensees' Response:

Interest on Consumers Security Deposit : In accordance with para 7 of Regulation No. 6 of 2004 of the Commission, the licensees have to pay interest on Consumers Security Deposit at bank rate notified by the RBI from time to time. The licensees proposed in their ARRs based on the projections on this item of expenditure annually. The Security Deposits available with the licensees may vary based on the consumption levels in relevant categories of consumers and also due to the changes in the tariff. Exact amounts of deposits can't be ascertained at the time of ARR filings. But the licensees have to comply with the Regulation and the additional expenditure incurred in excess of the approved values is claimed in the True up filings (as per the Regulation No. 4 of 2005).

The deviations in this item of expenditure for the 2nd MYT as per the True up filings are as follows.

APEPDCL

	2009-10	2010-11	2011-12	2012-13	2013-14
Approved	32	35	50	39	71
Actuals	30	32	36	66	75
Deviation	-3	-3	-14	27	4

APSPDCL

	2009-10	2010-11	2011-12	2012-13	2013-14
Approved	35	35	41	38	91
Actuals	31	36	42	77	89
Deviation	-4	1	1	39	-1

Bank rate of interest

Bank rate of interest as per RBI	**From Date**	**To Date**
6.00	29-04-2003	12-02-2012
9.50	13-02-2012	16-04-2012
9.00	17-04-2012	28-01-2013
8.75	29-01-2013	18-03-2013
8.50	19-03-2013	02-05-2013
8.25	03-05-2013	14-07-2013
10.25	15-07-2013	19-09-2013
9.50	20-09-2013	06-10-2013
9.00	07-10-2013	28-10-2013
8.75	29-10-2013	27-01-2014
9.00	28-01-2014	14-01-2015

As seen from the above, except for the FY2012-13, the deviations are negligible. The reasons for the huge deviation in the FY2012-13 are as follows.

a) Huge change in bank rate of interest from 6% to 9%
b) Tariff Hike

The Regulation allows supply margin @ 2% on retail supply business which is in the order of Rs.24Crs for APEPDCL and Rs.44 Crs for APSPDCL for the entire control period. Clause 10.7 of the Regulation allows sharing the overall gains/losses on each line item of the ARR for the entire control period. Due to change in bank rate of interest (as per RBI) from 6% to 9%, the interest on consumer security deposit was considerably more for the FY 2012-13 as compared to the approved values. Hence, the licensees have claimed the loss due to this item in their true-up filings.

Commission's view:

When the ARR filings of the distribution licensees are based on projections of the estimated interest from the consumers' security deposits, the variation due to the actual interest liability has to be considered as a necessary consequence.

7. OTHER EXPENSES

APEPDCL

The Licensee has claimed Rs. 8 crores as other expenses towards the following aspects:

Miscellaneous losses and write-offs: Rs.3.31crores, Rs. 1.53 crores and Rs.0.80 crores were incurred towards miscellaneous losses and write-offs during FY 2009-10, FY 2010-11and FY 2011-12 respectively.

Sundry Expenses: Rs. 0.63 crore, Rs.0.86 crores and Rs. 1.41 crores were incurred towards sundry expenses during FY 2009-10, FY 2010-11 and FY 2011-12 respectively.

At the outset, it is stated that no amounts were allowed towards miscellaneous losses and write-offs and sundry expenses in the Tariff Orders for the 2nd Control Period and hence no such claims are admissible for relook at the truing up stage. It is also pertinent to mention that the variation in respect of such expenses are also not allowable in terms Clause 10.4 of the Tariff Regulations which deals with the truing up mechanism as it does not provide for claiming the variation in terms of the nature of expenses cited by the Licensee.

Further, the Licensee has not provided any details of such sundry expenses and has sought to invoke Clause 10.8 of the Tariff Regulations which provides for claiming the variation in expenses on account of *force-majeure* reasons. Needless to mention that these are normal business expenses and are *not force majeure* events as purported by the Licensee.

APSPDCL

The Licensee has claimed Rs. 102 crores as other expenses towards the following aspects:

- Incentives to HT consumers: Rs. 35.41 crores and Rs. 13.42 crores were incurred towards incentives to HT consumers during FY 2009-10 and FY 2010-11 respectively.
- Bad and Doubtful Debts: Rs. 10.36 crore and Rs. 42.19 crores were incurred towards Bad and Doubtful Debts provided for written off during FY 2009-10 and FY 2010-11 respectively.

At the outset, it is stated that such amounts were not allowed in the original Tariff Orders for FY 2009-10 and 2010-11 and hence no such claims are admissible for relook at the truing up stage. It is also pertinent to mention that the variation in respect of such expenses are also not allowable in terms Clause 10.4 of the Tariff Regulations which deals with the truing up mechanism as it does not provide for claiming the variation in terms of the nature of expenses cited by the Licensee.

Further, the Licensee has sought to invoke Clause 10.8 of the Tariff Regulations which provides for claiming the variation in expenses on account of force-majeure reasons. Needless to mention that bad debts and incentives are normal business practices and are not force majeure events as purported by the Licensee.

APSPDCL's Response:

The Regulation allows supply margin @ 2% on retail supply business which is in the order of Rs.44 Crs. for the entire control period. The Regulation/Honorable Commission expects 100% collection efficiency which is not practically possible. A very small percentage of total revenue was booked as bad and doubtful debts, which is around 0.2% of the total revenue of the licensee for the entire control period. Though it is not in the Regulation, any rebate in power purchase cost is being passed on to the consumers. There is no a separate mechanism in the Regulation for this line item (Bad and doubtful debts).Clause 10.7 of the Regulation allows to share the overall gains/losses on each line item of the ARR for the entire control period.

APDISCOMS would like to submit that the amounts related to Incentives to HT consumers and Bad and Doubtful have been classified as Other Expenses. These expenses have been incurred by APDISCOMS during the normal course of operation of Retail Supply Business and such other expenditure would occur each year. It has not been explicitly stated that such amounts shall not be included in Other Expenses. Hence, APDISCOMS have rightfully considered such expenditure in Other Expenses and request the Hon'ble Commission to consider this amount for True up.

APEPDCL's Response:

These expenditures have been incurred by APEPDCL during the normal course of operation of retail supply business and such other expenditure would occur each year. It has not been explicitly stated that such amounts shall not be included in other expenses. Hence, APEPDCL have right fully considered such expenditure in other expenses and requests the Hon'ble commission to consider this amount for True up.

Commission's view:

Other expenses are admitted only as per the regulatory provisions and illustratively, bad and doubtful debts are not allowed.

8. ADVSERE CONSUMER MIX

The Licensee in its Petition has requested to ignore the under recovery of revenue due to adverse consumer sales mix and in this regard has stated the following:

"The change in sales mix and corresponding reduction in revenue realisation has not been factored in the regulation. But Clause 10.8 of the regulation 4 *of 2005 empowers the Hon'ble Commission to pass on gains/losses on account of factors beyond the control of the licensee as an additional charge/rebate in ARR. Revenue shortfall, especially the change in avg. realisation is beyond the control of the licensee."*

The actual revenue realisation for APEPDCL has been around 5-14% lower than the average *revenue* realisation approved in the Tariff Orders.

APEPDCL

Year	Average Realisation (Rs./kWh)	
	Tariff order	Actuals
FY 2009-10	2.88	2.63
FY 2010-11	3.17	3.01
FY 2011-12	3.38	3.06
FY 2012-13	4.28	4.01
FY 2013-14	5.14	4.39

It is evident that the commercial and HT industrial consumers are affected due to change is sales mix. Due to the lower allocation of power, the HT consumers are not able to meet their power requirement. It was a measured decision of the Licensees to allow the distortion of the consumer sales mix approved as a tariff principle in the Tariff Order. The Licensees ought to have maintained the sales mix approved by the Hon'ble Commission. The Petitioner wants to highlight the fact that increase in sales to lower tariff consumers while decreasing the sales to higher tariff consumers is the main reason for lower revenue realization. Due to the lower revenue realization, the Licensee is seeking the approval of the Hon'ble Commission for truing up of the revenue gap pertaining to the shortfall in revenue. It will be the subsidizing consumers such as HT Industrial consumers that will be most affected in the form of increased tariffs due to truing up of this revenue shortfall.

The adverse consumer sales mix has led to under recovery of revenue to the tune of

- Rs.249.50 crore {(9868.6 *MU X Rs.*.2.88 *per unit/ 10)-* (Rs.2591.4 *crore))* in FY 2009-10;
- Rs. 168.80crore *{(10334.2MU X Rs.3.17 per unit/ 10)- (Rs. 3112.1crore)}* in FY 2010-11;
- Rs. 378.25 crore {(*11725.70MU X Rs.3.38 per unit/ 10)- (Rs. 3590.80 crore))* in FY 2011-12;
- Rs. 317.6 crore *{(11903.90 MU X Rs.4.28per unit / 10)- (Rs.4773.20 crore))* in FY 2012-13;
- Rs. 939 crore *{(12437.30MU X Rs.5.14per unit/ 10)- (Rs. 5458.20 crore))* in FY 2013-14.

In respect of APEPDCL

and

- Rs. 717.12 crore {(13697.3 MU X Rs.2.84 per unit / 10)- (Rs. 3177.9 crore)} in FY 2009-10;
- Rs. 323.46 crore {(14441.26 MU X Rs.2.78 per unit / 10)- (Rs. 3689.62 crore)} in FY 2010-11;
- Rs. 908.15 crore {(16388.21 MU X Rs.3.19 per unit / 10)- (Rs. 4326.89 crore)} in FY 2011-12;
- Rs. 934.77 crore {(16444.85MU X Rs.3.77 per unit / 10)- (Rs. 5258.43 crore)} in FY 2012-13;
- Rs. 1412.52 crore {(18024 MU X Rs.4.38 per unit / 10)- (Rs.6478.62 crore)} in FY 2013-14.

In respect of APSPDCL

The Objector urges that consumer sales mix is not classified as an 'uncontrollable factor' as per the Terms of the Tariff Regulations and hence the Licensee has to absorb the burden of under recovery on account of adverse consumer sales mix without levying any burden on this account on the consumers. Further, the Licensee has sought to invoke Clause 10.8 of the Tariff Regulations which provides for claiming the variation in expenses on account of force-majeure reasons. It is pertinent to mention that it was a measured decision of the Licensee to alter the sales and consumption mix by curtailing supply to industry and supplying more to agriculture and thus cannot be termed as *force majeure* event as purported by the Licensee.

APSPDCL's Response:

APDISCOMS would like to submit that sales mix depends on many factors like GDP growth, industrialization, monsoon, weather, R&C measures etc. Higher GDP growth and industrialization increases the sale of energy to industrial consumers. Load shedding shifts the sales of domestic consumers from higher slabs to the lower slabs. The implementation of R&C measures as directed by the Hon'ble Commission reduced the sales to Industrial and Commercial consumers. It can be observed that sales mix of APDISCOMS have changed with reduction in Industrial and Commercial sales, increase in lower slab sales for domestic consumers etc. which has led to a reduction in revenue realization. Hence, APDISCOMS request the Hon'ble Commission to also factor in the sales mix change while computing the true up and also amend the regulation and allow for true up due to change in sales mix.

APEPDCL's Response:

Same as that of APSPDCL.

Commission's view:

The impact of the adverse consumer mix falling on the subsidizing consumers does not arise as the effect or increased supply to subsidized agricultural consumers is being placed on the State Government itself and not on any other category of consumers.

9. REVENUE SUBSIDY

The Licensees have stated that the actual revenue subsidy (including additional subsidy) is to the tune of Rs. 1,479 crore as against Rs. 1,299 crore approved in the Tariff Orders in case of APEPDCL and 6,160 crore as against Rs. 5,930 crore approved in the Tariff Orders in case of APSPDCL for the second control period. However, it is pointed out that the actual subsidy booked in the audited account is to the tune of Rs. 2,793.94 crore in case of APEPDCL and Rs. 8,293.65 crore in case of APSPDCL.

APEPDCL

Year	Tariff Order (Rs.Cr.)	True Up Petition (Rs. Cr.)	Actuals as per Audited Accounts (Rs. Cr.)
FY 2009-10	435.00	435.00	887.97
FY 2010-11	270.00	270.00	857.66
FY 2011-12	380.00	380.00	1367.56
FY 2012-13	139.00	139.00	-574.11
FY 2013-14	75.00	255.00	254.86
Total	1299.00	1479.00	2793.94

The objector understands that the Licensees have applied for truing up, only that portion of the subsidy which it has actually realised from the State Government. However, it is submitted that the Annual Revenue Requirement (ARR) is approved on revenue basis and not on cash basis. The True up has to be finalised in terms of the Tariff Regulations which do not provide any concessions towards approving the ARR on cash basis.

In view of the same, it is stated that the revenue subsidy may be considered at Rs. 2,793.94 crore in case of APEPDCL and Rs. 8,293.65 crore in case of APSPDCL for the purpose of truing up which are in line with the audited accounts.

APSPDCL's Response:

Under Section 65 of EA, 2003 the Govt. of AP have given Subsidies to certain category of consumers and Tariff Orders were issued accordingly. The Govt. of AP have released full amount of such subsidies on monthly basis as specified in the Tariff Orders from time to time. For FY 2013-14, the Govt. of AP has released additional subsidy of Rs. 230 Crs to keep the tariff up to 200 units of consumption by the Domestic category consumers at the level of FY 2012-13.

APSPDCL has purchased short term power to meet its requirements during power deficit situation under the instructions of Govt. of A.P duly treating the additional power purchase cost as Govt. receivables and such cost was transferred to Govt. receivable accounts in the books of the APSPDCL.

The Govt. of India have formulated FRP for improving the financial health of state DISCOMs and issued detailed guidelines. As per the above said guidelines, the Govt. of A.P directed the DISCOMs to write off the additional power purchase cost, i.e., previously treated as Govt. receivables and go for FRP.

Accordingly additional power purchase cost has been written off as losses during FY 2012-13.

APEPDCL's Response:

Same as that of APSPDCL except that the additional subsidy released by GoAP is Rs. 180 crores.

Commission's view:

Whatever actual subsidies were released by the State Government are accounted for and computing any other hypothetically subsidizable amounts will be penalising the distribution licensees on assumptions and not on realities.

10. GOAP SUBSIDY

The Hon'ble Commission in the Tariff Order for FY2013-14 had approved a subsidy requirement of Rs. 5,490.81 crore. Subsequently, the Government of Andhra Pradesh vide its Letter No: GoAP (Energy Power-II)/823/Pr.II(1)/2013-3 Dt:01.05.2013, communicated the following:

"With reference to the Tariff fixed by APERC for 2013-14, the Government has decided to keep the tariff upto 200 units of consumption by the Domestic category consumers at the level of 2012-13 only.

In this regard, it has been assessed that on account of above decision of the Government, an amount of Rs. 818 *Crores by way of additional subsidy would have to be reimbursed to DISCOMs and, in addition an amount of Rs.* 12 *Crores for similar domestic consumers served by RESCo.*

In consequence of the above decision, the Government, as obligated under Section 65 *of the Indian Electricity Act. 2003 has decided to bear the additional subsidy of Rs. 830 Crores.*

It is further clarified that this tariff would be applicable only if consumption is *upto 200 units. In respect of consumers who consume more than 200 units/month, the tariff approved by APERC in their order mentioned vides Secretary, AP ERC, Lr. No. AP ERC /Secy/ EAS/ RST02-12-13/12, dated: 21.04.2013, will be applicable…. "*

Thus, the total subsidy commitment by the GoAP in FY 2013-14 was Rs. 6,320.81 crore (Rs. 5,490.81 crore + Rs.830 crore) towards providing electricity at subsidised rates at the approved consumption levels in the Tariff Order for the following consumer categories:

i. LT-I(A): Consumers with monthly consumption up to 50 units;

ii. LT-I(B): Consumers with monthly consumption more than 50 and upto 100 units;

iii. LT-I(B):Consumers with monthly consumption more than 100 and upto 200 units and

iv. LT-V consumers

From the audited accounts, it is revealed that the actual consumption of the subsidised categories is much higher than the levels approved in the Tariff Orders for the 2nd Control Period. The following table depicts how the LT-V (Agriculture) sales have been much higher than the tariff order approved levels for APEPDCL:

Year	Agricultural Consumption (MU)		
	Tariff Order	Actuals	Deviation
FY 2009-10	1323.0	1868.3	41.22%
FY 2010-11	1429.5	1451.9	1.56%
FY 2011-12	1559.0	1820.6	16.78%
FY 2012-13	1714.8	1534.1	-10.54%
FY 2013-14	1714.8	1736.3	1.25%

This requires for re-adjustment of the subsidy level from GoAP such that the cost of supplying subsidised power to select categories is not borne by the other consumers in terms of true up of the revenue gap for the 2nd Control Period.

The Objector's assessment of the additional subsidy requirement for the years FY 2009-10 to 2013-14 in respect of APEPDCL is provided in the tables below:

Year	Category	Energy Sales	Approved CoS	Cost to Serve	Actual Revenue Assessment	Actual Subsidy Requirement from GoAP	Subsidy for the year as per audited accounts	Additional Subsidy Requirement from GoAP
		MU	Rs./kWh	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
		A	B	C = AxB/10	D	E = C-D	F	G = E-F
FY 2009-10	L.T- 1 (Subsidised)	1774.85	4.28	759.64	607.14	152.49		
	L.T-V Category	1868.31	3. 09	577.31	4.96	572.35		
	Total	3643.17		1336.95	612.11	724.84	887.97	-163.13
FY2010-11	L.T- I (Subsidised)	1902.39	4.31	819.93	676.67	143.26		
	L.T-V Category	1451.90	3.20	464.61	1.25	463.36		
	Total	3354.28		1284.54	677.92	606.62	857.66	-251.04
FY2011-12	L.T-I (Subsidised)	2042.32	4.52	923.13	738.24	184.89		
	L.T-V Category	1820.65	3.30	600.81	4.97	595.84		
	Total	3862.97		1523.94	743.21	780.73	1367.56	-586.83
FY 2012-13	L.T-1 (Subsidised)	2084.75	5.21	1086.15	942.60	143.55		
	L-T-V Category	1534.06	3.92	601.35	5.50	595.85		
	Total	3618.81		1687.50	948.10	739.40	-574.11	1313.51
FY 2013-14	L.T-I (Subsidised)	2773.11	6.05	1 677.73	760.37	917.36		
	L.T-V Category	1752.45	4.83	846.43	16.48	829.95		
	Total	4525.56		2524.16	776.85	1747.31	254.86	1492.45
2nd Control Period	Grand Total	19004.78		8357.09	3758.19	4598.91	2793.94	1804.96

Note: The Sales (MU) to subsidised consumers under LT-1 is around 65% as per actuals of FY 2013-14. In the absence of the actual quantum of subsidized sales under LT-1 category for FY 2009-10 to 2012-13, the Objector has considered 65% sales under LT-1 category to be as subsidised sales.

Thus, the total subsidy requirement from GoAP towards supply to select sub-categories of LT-I and LTV is to the tune of apprx Rs.1,804.96 crore in respect of APEPDCL and Rs. 2,352.68 crore in respect of APSPDCL.

It is urged that the Hon'ble Commission may determine the additional subsidy requirement from GoAP for supply of electricity to subsidised categories based on actual consumption of subsidised categories for all the years covered under the Tariff Regulations.

Similar principle has been adopted by the Hon'ble Uttar Pradesh Electricity Regulatory Commission (UPERC) in its Order dated 21st May, 2013 in Petition No. 809 of 2012 while truing up the ARR for FY 2007-08 in respect of the distribution licensees of Uttar Pradesh namely Dakshinanchal Vidyut Vitran Nigam Limited, Madhyanchal Vidyut Vitran Nigam Limited, Paschimanchal Vidyut Vitran Nigam Limited and Purvanchal Vidyut Vitran Nigam Limited.

In such Order, the Hon'ble UPERC had computed the actual subsidy requirement considering the actual sales of the subsidised categories namely LMV-I (a): Consumer getting supply as per "Rural Schedule" and LMV-5: Private Tube wells (PTW) in FY 2007-08. The Hon'ble UPERC had computed the revised subsidy requirement at Rs. 2,940.83 crores based on actual consumption of subsidised categories. Out of the above, the revenue subsidy provided by Govt *of Uttar Pradesh was only Rs. 1,854.72 crores. Thus the balance subsidy of Rs. 1,086.11 crores was applied as a reduction from the ARR being trued up, thus, insulating the other subsiding consumers. The distribution licensees were directed to realise such sums from the State Government which is understood to have started paying the shortfall to the Discoms based on the decision of the Hon'ble UPERC.*

The relevant extracts of the aforementioned order is reproduced below:

"9.21 ADDITIONAL SUSBIDYREQUIREMENT FROM GOAP

The Distribution Tariff Regulations are effective from FY 2007-08. Para 6.10 of the Distribution Tariff Regulations provide:

"6.10 Provision of Subsidy

1. *The Commission, while determining the tariff, shall see that the tariff progressively reflects the cost of supply of electricity and the cross subsidy is reduced or eliminated.*
2. *If the State Government decides to subsidize any consumer or class of consumers, the State Government shall pay the amount to compensate the affected licensee by grant of such subsidy in advance.*

   Provided that no such direction of the State Government to grant subsidy shall be operative if the payment is not made in accordance with the relevant provisions contained in these Regulations and the Act. In such a case, the tariff of the applicable categories may be revised excluding the subsidy.
3. *The Government shall, by notification, declare the consumers or class of consumers to be subsidized.*

4. Tariff of the subsidized category shall be designed taking into account the subsidy allocated to that category.

5. The Distribution Licensee shall furnish details of power consumed by the subsidized category to the State Government and tire Commission. The Distribution Licensee shall provide meters on all rural distribution transformers and shall also furnish the power consumption details in respect of agricultural and rural domestic consumption based on readings from such meters and normative distribution losses on a monthly basis." (Emphasis supplied)

The Commission in its Letter No. UPERC/D(T)12013-176 dated 06th May, 2013 had directed the Petitioner to furnish the details in respect of energy sold and thru rate of subsidised categories. The Petitioner filed the response to the Deficiency Note on is May, 2013 vide Letter No. 1045/RAU/ARR FY 2013-14. The Petitioner has failed to provide the desired data and has stated that the sub-category wise energy sales data in respect of rural domestic and private tube wells categories were not 'maintained by the licensees. However it has submitted the broad category wise details.

In the absence of sub-category wise data, the Commission has adopted the sales figures for FY 2007-08 as provided in the Tariff Order for FY 2009-10. The Commission has computed the actual subsidy requirement considering the actual sales of the subsidised categories namely LMV-I (a): Consumer getting supply as per "Rural Schedule" and LMV-5: Private Tube wells (PTW) in FY2007-08. As per the table provided below, the actual subsidy requirement has been worked out to be Rs.2,940.83 crores. Out of the above, the revenue subsidy available from GoUP is only Rs.1,854.72 crores. Thus the balance subsidy of Rs. 1,086.11 crores has been applied as a reduction from the ARR being trued up. The distribution Licensees need to realize such sums from the State Government.

Table 7-1: COMPUTATION OF SUBSIDY REQUIREMENT FOR FY 2007-08 (Rs Crores)

Particulars	*Sales (MU)*	*Cost of Service (Rs./kWh)*	*Thru Rate (Rs./kWh)*	*Loss (Rs./kWh)*	*Loss (Rs. Crore)*
LMV-1: (a) Consumers getting supply as per "Rural Schedule"	*6132.00*	*3.87*	*1.03*	*2.84*	*1744.07*
LMV-5 PTW	*4317.00*	*3.87*	*1.10*	*2.77*	*1196.76*
Total Loss					*2940.83*
Subsidy Available					*1854.72*
Balance Subsidy to be made available by GoUP					*1086.11*

The additional subsidy requirement has been allocated among Discoms in the ratio of their sales in FY 2007-08 as the Discom wise sales to rural domestic and private tube wells categories has not been provided by the Discoms.

Table 7-2: *ALLOCATION OF ADDITIONAL SUBSIDY REQUIREMENT AMONG DISCOMS (Rs Crores)*

Particulars	DVVNL	MVVNL	PVVNL	PuVVNL	Total
Total sales in FY 2007-08 (MU)	8087.13	6548.45	11966.01	8195.26	34796.85
Allocation of Balance Subsidy among Discoms (Rs Crores)	252.42	204.40	373.49	255.80	1086.11

It is the consistent practice of the Hon'ble Commission to approve additional subsidy requirement based on actual consumption of subsidised categories. Similar treatment was provided by the Hon'ble UPERC in the truing up orders of state owned licensees for FY 2008-09 to 2011-12 in its *order* dated 1st October, 2014. The extracts of the relevant pages are provided for the perusal of this Hon'ble Commission as per Annexure-1

Attention is furthermore invited to Hon'ble APERC Tariff Order for 2004-05, which states that the Commission approved the revenue and sales to agricultural consumers and then approves the subsidy and does not allow for any further increased sales to this category of consumers.

APERC subsidy administration mechanism for agricultural consumers: 2004-05 Tariff order

'The GOAP obligation towards subsidy payments to DISCOMs is limited to the quantities mentioned in this order. If the DISCOMs exceed tariff order quantities and thus the subsidy requirement, the Commission will not entertain any request for additional quantities of energy to subsidized categories unless the permission of the GoAP is taken for additional subsidy if the excess consumption relates to agriculture. In other categories, if there is excess consumption, no additional subsidy will be recommended by the Commission to GoAP...

Keeping in view the above submissions, figures and the relevant observations of this State Commission and other Regulatory Commissions, it is very clear that for any additional sale to the *subsidized* consumers the Government has to release additional subsidy. The Hon'ble Commission itself has stated this in its Orders but failed to implement it, by seeking additional *subsidy*. The Objector strongly urges the Hon'ble Commission to direct the Government to release the additional subsidy required by the Licensee for sale of additional power to agriculture consumers and other subsidized categories during the previous control period.

Here, it is also pertinent to mention that this matter had been raised before the Hon'ble Commission in the Statement of Objects filed by an Objector against the ARR and Tariff Petitions for FY 2013-14. However the Hon'ble Commission & the Licensee had dealt this matter in a broad brush manner without suitably addressing the concern and without going into the core of the issue.

The relevant extracts of the FY 2013-14Tariff Order are reproduced below:

"199. Objections/Suggestions regarding Adjustment of Subsidy: M/s Ferro Alloys Producers' Association & *others have stated that, no adjustment for higher subsidy from GoAP for higher agriculture sales has been envisaged in the past orders or current ARR and Tariff Petition for FY 2012-13. The subsidy provision by GoAP should be considering the actual consumption of all subsidising categories rather than the approved consumption levels.*

Licensee's Response: The Licensee has been requesting the Hon'ble Commission for the last two years to consider the truing up of actual agriculture sales and distribution Losses. The Discom has also filed during the year 2013-14, that the actual agricultural sales have been much higher than the approved sales and the additional power requirement due to higher losses and additional agricultural sales will have to be purchased at a marginal cost of Rs. 10.00/Unit or as applicable by the licensee. The above cost has not been considered/captured while determining the FSA due to non inclusion of cost in formula as per the existing regulation. Similarly, Regulation 4 *of 2005 does not cover the mechanism to recover additional cost incurred by the Licensee. By not recognizing this huge cost by the Hon'ble Commission, Licensees are losing around 10 times of their current Return of Equity. In light of the above, Licensee requested the Hon'ble Commission to devise an appropriate mechanism to recover the additional cost either through FSA or true-up mechanism.*

Commission's View: *The Licensees are expected to strictly adhere to the tariff order quantities to avoid revenue loss due to sales beyond approved quantities for agriculture " (Emphasis supplied).*

The Hon'ble Commission while dealing with this issue perhaps misunderstood the objections of the Objector. While the Objector had specifically requested for re-statement of subsidy levels based on actual consumption of subsidised categories, the Hon'ble Commission did not deliberate on this specific issue raised by the Objector.

The Full Cost Recovery Tariffs do not mean that the tariffs from subsidising categories be fixed first and then subsidy be juxtaposed thereon. Rather, the tariffs be fixed for all consumer categories at cost of service levels or at ±20% of CoS levels. Thereupon the subsidised tariffs should be worked upon after considering the available subsidy levels from the State Government.

Thus, in order to summarise:

- The Hon'ble Commission should re-adjust the level of subsidy from GoAP based on actual consumption levels such that the cost of supplying subsidised power to select consumer categories is not borne by the subsidising consumers in terms of the true up of the revenue gap of FY 2009-10 to 2013-14.
- The additional subsidy requirement from GoAP towards subsidised power supply to select subcategories of LT-I and LT-V is to the tune of approx Rs. 1,804.96 crore for APEPDCL and apprx Rs. 2,352.68 crore for APSPDCL for the 2nd Control Period encompassing the financial years 2009-10 to 2013-14 in respect of APEPDCL.
- There is precedence of this treatment in terms of the UPERC Order dated 21st May, 2013 and 1st October 2014 reference of which has been provided by the Objector.
- Full Cost Recovery Tariffs do not mean that the tariffs from subsidising categories be fixed first and then subsidy be juxtaposed thereon. Rather, the tariffs be fixed for all consumer categories at cost of service levels or at ±20% of CoS levels. Thereupon, the subsidised tariffs should be worked upon after considering the available subsidy levels from the State Government.

APSPDCL's Response:

This matter is under the purview of the Honorable Commission

APEPDCL's Response:

Same as that of APSPDCL.

Commission's view:

The orders of Utter Pradesh Electricity Regulatory Commission cited by the objector are followed to the extent of available verifiable information concerning the supply to eligible agricultural consumers and the overall view taken by the Commission on the liabilities the State Government has to take over and has already taken over, leaves no balance liability that any consumer should apprehend to be possibly passed on to his shoulders. As such, no further research is required on this count.

11. NON TARIFF INCOMES

The APEPDCL has stated that the actual non tariff incomes have been to the tune of Rs.243 crore as against Rs.560 crore approved in the Tariff Orders in respect of Retail Supply Business and for APSPDCL the actual NTI is Rs.631 crores against Rs. 684 Crore approved in the Tariff Order. Similarly, in the case of the Distribution Business, APEPDCL has stated that the actual non tariff incomes have been to the tune of Rs. 243 crore as against Rs. 65 crore approved in the Tariff Orders of the 2nd Control Period and for APSPDCL, the figures are Rs.306 and Rs.439 Crores respectively.

However, the Objector observes that the actual non tariff incomes as per audited accounts are far in excess of what has been applied as a reduction by the Licensee and are to the tune of Rs. 648.47 crore for APEPDCL and Rs.1406.33 for APSPDCL over the 2nd Control Period.

The following table provides the year wise break-up of the non tariff incomes of APEPDCL:

(Figures in Rs. Crore)

Year	Tariff Order (Retail)	Tariff Order (Distribution)	Total Tariff Order (Retail + Distribution)	True Up Petition (Retail)	True Up Petition (Distribution)	Total True Up Petition (Retail + Distribution)	Actuals as per Audited Accounts
2009-10	47.00	13.00	60.00	38.00	38.00	76.00	96.22
FY 2010-11	77.00	13.40	90.40	45.00	45.00	90.00	115.93
FY 2011-12	62.00	13.00	75.00	48.00	48.00	96.00	124.10
FY 2012-13	283.00	13.00	296.00	47.00	47.00	94.00	136.64
FY 2013-14	91.00	13.00	104.00	65.00	65.00	130.00	175.59
Total	560.00	65.40	625.40	243.00	243.00	486.00	648.47

Thus, it is evident that the actual non tariff incomes for the Retail Supply and Distribution Business put together in case of APEPDCL are to the tune of Rs. 648.47 crore as against a cumulative of Rs. 486 crore being claimed by it and in case of APSPDCL Rs. 1406.33 crore as against a cumulative of Rs. 937 crore being claimed by it.

As the basis of segregation of the non tariff incomes between Retail Supply business and Distribution business is very thin, we request the Hon'ble Commission to consider the Objections in respect of non tariff incomes on a consolidated basis for retail supply and distribution business.

APSPDCL's Response:

Actual Non Tariff Income source wise statement is provided in the Annexure-C enclosed for both Distribution and Retail Supply Business for the 2nd Control Period.

Note: Certain items of the non-tariff income provided in the annual accounts are not considered *for Regulatory Accounts.*

APEPDCL's Response:

Certain items of the Non-Tariff income provided in the Annual Accounts are not considered for Regulatory accounts.

Under the purview of Commission.

Commission's view:

Non-tariff incomes are computed and considered to the extent permitted by law.

12. CARRYING COST

The Licensee has claimed carrying cost at a rate of 12% on the unrecovered revenue gaps as claimed by it in the subject petition.

It is pertinent to mention that the Hon'ble Commission while determining the Generation Tariff Order for APGENCO stations for the period FY 2009-10 to 2013-14 by its Order dated 31.05.2014 had approved a **true-down** amounting to Rs. 2,081.81 crores and had allowed for the refund of the excess power purchase cost claimed on provisional basis. However, no carrying cost was approved by the Hon'ble Commission. As per the settled principles, carrying cost is eligible towards unrecovered revenue gap/(surplus). However, a consistent approach is to be followed by the Hon'ble Commission.

In view of the above, it is urged that in case the Hon'ble Commission permits the claim of the carrying cost on the unrecovered revenue gap upon truing up, then the Hon'ble Commission ought to compute and adjust the carrying cost on the refund of the excess power purchase cost approved in Order dated 31.05.2014 in respect of APGENCO's Generation Tariff Order for 2nd Control Period and apply it as a reduction from the revenue gap being trued up in the instant petition.

APSPDCL's Response:

The licensee can claim for true up only after completion of the control period, whereas the licensee has to incur expenditure on interest towards short term loans borrowed towards revenue deficits for all the years of the control period. Hence, APSPDCL requests the Honourable Commission to consider the carrying cost also in the true up.

APEPDCL's Response:

The Discoms can claim for True up only after completion of the control period, where as they have to incur expenditure on interest towards short term loans borrowed towards Revenue deficits for all the years of the control period. Hence, APEPDCL requests the Hon'ble commission to consider the carrying cost also in the True up.

Commission's view:

Carrying interest is taken into account only as permitted by Regulation 4 of 2005.

SET-5

Sri Anil Reddy Vennam, President, the Federation of Telangana & Andhra Pradesh Chambers of Commerce and Industry (FTAPCCI), Federation House, 11-6-841, Red Hills, FAPCCI Marg, Hyderabad

1. Source wise power purchase cost (source, rate, etc.,) is not available for both APEPDCL and APSPDCL. In its absence, no prudence check is possible. Illustration : In the absence of source wise power purchase details, it is not possible to ascertain whether the amounts claimed for power purchase from bilateral and market sources is in excess of the ceiling price fixed or not?
   APSPDCL's Response:

   Annexure-A enclosed

   APEPDCL's Response:

   Annexure-A enclosed

2. The sub category wise sales are not available for APEPDCL for FY 2012-13 and FY 2013-14. It is not possible to determine the sub category wise sales mix (%) and average revenue realization in such a situation for the aforesaid years.
   APSPDCL's Response:

   No reply

   APEPDCL's Response:

   Annexure-B enclosed

3. The break-up in respect of interest on consumer security deposit is not available in the Annual Accounts of APSPDCL.

   APSPDCL's Response:

Interest on SD paid - breakup			
Year	**LT**	**HT**	**Total**
2009-10	14.51	16.69	31.20
2010-11	16.69	19.19	35.88
2011-12	18.93	22.99	41.92
2012-13	31.23	45.9	77.13
2013-14	38.15	51.29	89.44

   APEPDCL's Response:

   Pertains to APSPDCL

4. What is the quantum of open access power purchased and utilized by the consumers in the year 2012-13 and 2013-14? What is the % of open access power in the total purchases?

APSPDCL's Response:

Year	OA sales in Mu	OA sales/ total sales in MU
2010-11	10.86	0.08%
2011-12	38.89	0.24%
2012-13	539.69	3.28%
2013-14	611.08	3.39%

APEPDCL's Response:

Year	OA Power Purchased	OA Power utilised	% in total purchases
2012-13	200.79	195.24	1.58%
2013-14	242.33	227.36	1.82%

5. How much open access energy was not utilized by the user due to various reasons like line breakdowns, plant break downs and substation maintenances and also mismatch of consumption of purchases (Total unutilized purchased open access energy was with grid and billed by DISCOMs and payments realized by them)?

APSPDCL's Response:

Annexure-B enclosed.

APEPDCL's Response:

Enclosed in Annexure-C

6. About 125MW wind captive generators were synchronized in 2012-13 and 2013-14 in A.P. But, synchronization of plants and open access agreement could not take place due to delay in processing of file. Even though wind generators gave the power to the grid, it is not accounted to the developers due to lack of policy at that time.

What is the quantity of wind energy received by the grid during this time (from the date of generation to till the processing of file) and the amount realized out of selling it to the consumers?

APSPDCL's Response:

During 2012-13 and 2013-14 only six circles were existing in APSPDCL. In Kadapa circle 3 Nos. captive wind power plants were commissioned during 2013-14, for which date of synchronization is the date of commercial operation. Hence inadvertent power is NIL during 2012-13 & 2013-14.

APEPDCL's Response:

There is no wind captive generation in APEPDCL.

Commission's view(1 to 6):

The queries of the stakeholder elicited due response from the distribution licensees and information furnished by the distribution licensees is part of consideration for finalization of true up.

SET-6

Sri Muthavarapu Murali Krishna, President/Andhra Pradesh Chambers of Commerce and Industry Federation, Vijayawada

For the second control period of 2009-10 to 2013-14, APSPDCL has claimed true up of Rs.866 crore for distribution business and Rs.5185 crore for retail supply business, whereas APEPDCL claimed true up of Rs.478 crore for distribution business and Rs.680 crore for retail supply business under various heads. These amounts include a carrying cost of Rs.1747 crore. Regarding retail supply business, APSPDCL has claimed that against power purchase of 96,322 MU approved by the Commission, actual power purchase was 89,262 MU. However, though the power purchase was lesser by 7060 MU, the distribution company has claimed that actual power purchase cost increased to Rs.30,070 crore against the cost of Rs.27,176 crore approved by the Commission, i.e., an additional cost of Rs.2894 crore was incurred. Similarly, against metered sales of 61 ,004 MU approved by the Commission, actual metered sales were 56,696 MU, i.e., a difference of 4308 MU, as a result of which the distribution company has claimed that it has incurred a revenue loss of Rs.2186 crore. Due to change in sales mix, the proportion of industrial, commercial and railway sales has come down by 1.28% from 42.32% approved by the Commission to actual sales of 41.03%, resulting: in a revenue loss of Rs.1045 crore, the distribution company has claimed. After realizing Rs.2215 crore under fuel surcharge adjustment (FSA), the distribution company claimed that it has yet to get a sum of Rs.2804 crore towards difference in cost of power purchase. APEPDCL has claimed that against power purchase of 67,461 MU approved by the Commission, it has purchased 64,610 MU. Though power purchase is reduced by 2851 MU, the cost of power purchase increased to Rs.21,096 crore from Rs.19,278 crore approved by the Commission, an additional cost of Rs.1818 crore. Similarly, against metered sales of 51,122 MU approved by the Commission, actual metered sales were 47,054 MU, i.e., a difference of 4068 MU, as a result of which the distribution company has claimed that it has incurred a revenue loss of Rs.1945crore. Due to change in sales mix, the proportion of industrial, commercial and railway sales has gone up by 2% from 50% approved by the Commission to actual sales of 52%, resulting in a revenue difference of Rs.1676crore. After realizing Rs.1778 crore under fuel surcharge adjustment (FSA), the distribution company has claimed that it has yet to get a sum of Rs.1082 crore towards difference in cost of power purchase, contending that it is unapproved FSA.

Regarding FSA, both the distribution companies have explained that during the control period of five years, FSA was not availed for the year 2009-10 and the first quarter of Rs.2010-11 due to a court order and that FSA was repealed in 2013-14. While SPDCL has claimed that it could not collect FSA of Rs.408 crore, EPDCL has claimed that it could not collect FSA of Rs.302 crore, due to a court order. However, they have not made it clear whether the court concerned disposed of the cases permitting them to collect the FSA amounts for the respective periods. The application for determination of FSA has to be filed by the distribution companies within one month of completion of the respective quarter. The purpose of section 45B is to ensure that the consumers as well as the distribution company will not loose on fuel cost variations and are placed in equal footing in so far as payment and receipt of fuel costs. If FSA is determined within one month of completion of respective quarter, the consumers will be in a position to pass on the increased fuel cost on to its customers. The consumers have already filed their Income Tax returns for the respective financial years and at this stage it is just not possible for the companies to absorb the additional burden (FSA). The fundamental principle and objective on which section 45B is based on has been totally overlooked by the distribution companies. Therefore, the proposals made for the entire four quarters of FY 2010-11 and 3 quarters of 201 1-12 are in violation of section 45B and needs to be rejected on that ground alone. The reasons given by the distribution companies in their application for determination of FSA are quite inadequate for the purpose of examining their permissibility, as to why there was inordinate delay in filing the FSA claims and the reasons for incurring huge expenditure for purchase of power from sources other than the generators with whom they had power purchase agreements. Even for the Commission to examine and determine what is permissible, the information and data furnished by the distribution companies is quite inadequate as vital information such as the factors that necessitated purchase of additional power, the procedure followed to ensure competitiveness while purchasing power, the factors that led to lesser generation and availability of power, which are inevitable for closer examination of justifiability or otherwise of their FSA claims are not made available.

The Commission vide orders dated 05-06-2010 had allowed the applications permitting the distribution companies to levy the FSA for the financial year 2008-2009. The said orders were challenged in the High Court and writ petitions were disposed of by a common judgment dated 29.07.2011 holding that the Andhra Power Co-ordination Committee not being a licensee as defined under Section 2(39) of the Electricity Act, 2003, has no locus standi to file the applications before the Commission claiming the FSA on behalf of the distribution companies, that under Regulation 55 of the 1999 Regulations, the Commission has no inherent power to condone the delay enabling it to entertain the applications claiming the FSA beyond the time prescribed under Regulation 45-B (4) thereof, that however, the Commission has the power to condone the delay in filing the applications by the licensees claiming the FSA even beyond the time prescribed under Regulation 59 thereof, and that while considering the applications filed by the licensees claiming the FSA, the Commission has to follow the principles of natural justice. The learned Single Judge, accordingly, set aside the orders dated 05.06.2010 of the Commission and allowed the writ petitions. Feeling aggrieved by the said common order, several consumers filed Writ Appeal Nos.858 of 2011 and batch. Pending the writ appeals, the distribution companies had filed applications before the Commission for determination of the FSA for both the years, namely, 2008-09 and 2009-10. The Division Bench permitted the Commission to go-ahead with the hearing of the O.Ps and pass final orders with a further direction that the orders, if any, passed shall not be implemented. Shortly after the said order was passed, the Division Bench allowed the batch of writ appeals by common judgment dated 20.01.2012 (M/s. Jairaj lspat Limited, rep. by its Managing Director, Hyderabad Vs. A.P. Regulatory Commission, rep. by its Secretary, Hyderabad and others). In the said judgment, the Division Bench held that as the amended Regulation 45-B (4) makes it explicit that failure to abide by the time stipulated therein enjoins forfeiture of future claims by the distribution companies in that regard, the Commission cannot exercise its power under Regulation 59 of the 1999 Regulations to enlarge time in a situation covered by the amended Regulation 45-B (4). The Division Bench further held that as the applications filed by the distribution companies were beyond the time limit prescribed by Regulation 45-B (4) of the 1999 Regulations as amended, the Commission ought not to have maintained those applications. Accordingly, the Division Bench held that the claims of the distribution companies were hopelessly time barred. In view of the fact that a few days before the Division Bench has delivered its judgment i.e., on 17.01.2012, the Commission has allowed the applications of the distribution companies, which fact was not placed before the Division Bench, the orders of the

Commission for the financial year 2008-09 were not specifically set aside, but by necessary implication, they cannot have any effect in Law with the declaration by the Division Bench that the applications of the distribution companies were hopelessly time barred and the Commission had no power to extend time. Questioning the judgment of the Division Bench, all the four distribution companies have filed Special Leave Petitions before the Supreme Court which are pending. The Hon'ble Supreme Court has not stayed or suspended the operation of the judgment of the Division Bench and an interim order, to the effect that the distribution companies need not refund the FSA already collected from their consumers, was granted. As noted above, the Commission has passed various orders on 17.01.2012 even in respect of the financial year 2009-10 permitting the distribution companies to collect the FSA. As regards the FSA for the financial year 2008-09, the orders passed by the Commission made it clear that recovery of the FSA shall be subject to the outcome of the pending writ appeals as on that date. As the writ appeals were allowed and the S.L.Ps are pending before the Supreme Court, the distribution companies had not raised any demand for recovery of the FSA for the financial year 2008-09. However, they had raised demands for the financial year 2009-10 which was assailed in Writ Petition No. 19359 of 2012 and batch. In the said batch of writ petitions, orders dated 17.01.2012 passed by the Commission in O.P.Nos.39 to 54 of 2011 and O.P.Nos.23 to 38 of 2011 pertaining to the FSA for the financial year 2009-10 and 2008-09 respectively were questioned. The Hon'ble High Court allowed the WPs vide orders dated 31.07.2012 directing the distribution companies not to enforce FSA for the year 2009-10 on any consumer till the disposal of the SLPs pending before Supreme Court. That being the case, it is not open for the distribution companies to seek collection of the said amounts under true up from the consumers. This action of the distribution companies undermining the orders of both the Hon'ble High Court and the Hon'ble Supreme and would tantamount to contempt of court. That apart the commission had rejected the certain claims of the distribution companies for FSA for that period, the latter cannot claim to collect the disallowed FSA amounts under true up claims now, as that would go against the findings already given by commission on merits. Therefore, I request the Commission to reject the claims made by the distribution companies under true up in respect of FSA. Since FSA was repealed by the Commission from 2013-14 onwards, claims of true up for that year only need to be considered by the Commission. The distribution companies have to provide details pertaining to purchases of power from other sources which were not approved by the Commission source-wise, quantum-wise, price-wise, besides the details of procedures adopted for such purchases, to examine their justifiability/permissibility. Providing an average cost of power purchase per unit permitted by the Commission and the revised average cost per unit worked out by the distribution companies is not adequate to determine such justifiability/permissibility. The distribution companies had resorted to heavy backing down of low cost approved stations in to accommodate round the clock purchases from short term sources. The Commission has further held that the said action is viewed as a serious departure from the 'principle of competitive procurement of power' by licensees. it is essential for the Commission to examine whether generating units of APGenco were asked to back down at times in order to purchase the contracted additional power from the power trading companies, resulting in foregoing cheaper power and buying costly power. And as such it is not justifiable to impose such avoidable additional expenditure on the consumer.

The true up claims should be marginal to the actual tariff determined by the Commission. The claims of the distribution companies are abnormal and unsubstantiated. It also establishes the regulatory failure on the part of the Commission in realistically assessing and determining revenue requirement and revenue gap of the distribution companies for the financial year concerned. For example, the claim by distribution companies against a tariff hike for the same year needs to be explained. The distribution companies have to explain as to which factors have contributed to such hefty claims and whether they could not be foreseen at the time of submitting their ARR and tariff proposals and before the Commission issued tariff order for the financial year concerned. Therefore it is essential that the Commission direct the distribution companies to provide information and clarifications pertaining to all aspects relating to purchase of additional power on short term basis during the financial years to enable the Commission to arrive at a correct decision. The sale to the agricultural sector is more by 15% over the allocation made in the tariff order. lt can be concluded that the high cost of power was occasioned more by increased sale to agricultural sector by as much as 18% over the industrial consumers. Considering the said fact the cost for the industry consumers will come down. The determination therefore has not been made on justifiable grounds and need a thorough overhaul by the distribution companies. The true up should be made applicable to all categories of consumers, including agricultural consumers. The general consumers cannot be made to pay for the power consumed by the agricultural sector and as such the costs relatable to agricultural sector should be borne by the government since the Government, as a matter of policy, has subsided supply of power to agriculture. Higher sales to agriculture consumers than allowed by the Commission under various Tariff Orders might have led to change in sales mix and also to lower realization. In the Tariff Orders the Commission directed the distribution companies to obtain its clearance before increasing supplies to agricultural sector. It seems disregarding the Commission's directives distribution companies supplied higher qquantum of power to agriculture in response to the state government's directions. Under Section 65 of the Electricity Act, 2003 the government should be directed to fill this gap due to higher supply to agriculture consumers. The contention of the distribution companies that for computation, only the change in metered sales is considered and that change in agriculture sales and losses are not factored while determining also does not hold water. For change in sales mix against category-wise or slab-wise sales approved by the Commission in annual tariff orders, decisions of the distribution companies and the Government are responsible. The sales to three subsidizing categories of consumers, as a percentage, increased in the case of EPDCL, while the same decreased in the case of SPDCL. Similarly, for claimed increase in supply of power to agriculture, under free supply of power, (and to other subsidized categories of consumers), the Government has to provide required additional subsidy and the general consumers cannot be mulcted with that liability. Regarding distribution losses, when the distribution companies fail to achieve the targets of reduction in distribution losses, the resultant loss of revenue should not be permitted by the Commission to be collected from the consumers. The distribution companies have added the written of debts and incentives granted to certain companies under true up. SPDCL has claimed that other costs increased by Rs.115 crore from Rs.306 crore to Rs.422 crore. It has claimed that incentive to HT consumers of Rs.35.41 crore for 2009-10 and of Rs.13.42 crore for 2010-11 was paid, besides writing off bad and doubtful debts of Rs.10.36 crore and Rs.42.19 crore for the respective years. Contrary to that trend of SPDCL, EPDCL has claimed that other costs reduced from Rs.252 crore approved by the Commission to Rs.247 crore, resulting in a saving of Rs.5 crore. One needs to examine whether incentive to HT consumers was permissible in the years 2009-10 and 2010-11. Since there is no policy or regulation of the Commission relating to permitting the distribution companies to waive off so-called bad and doubtful debts, the amounts claimed to have been written off by SPDCL should not be permitted under true up, that, too, without seeking prior permission of the Commission. Secondly, for the failure of SPDCL in collecting such debts from consumers concerned, other consumers should not be penalized by imposing such unjustifiable and avoidable burden on them in the form of true up. Under distribution business, SPDCL has claimed increase in O&M expenditure by Rs.1209crore from Rs.2573 crore approved by the Commission to Rs.3782 crore, while EPDCL has claimed an increase in Operation and Maintenance expenses by Rs.537 crore from Rs.1987 crore approved by the Commission to Rs.2524 crore. Due to wage revision and related issues, employee expenses increased by Rs.1001 crore (from Rs.2067 crore approved by the Commission to Rs.3068 crore) for SPDCL and by Rs.471 crore (from Rs.1614 crore approved by the Commission to Rs.2086 crore) for EPDCL. Compared to the expenses approved by the Commission, employee expenses increased by nearly 50 % for SPDCL and by about 27 per cent for EPDCL during the second control period. Similarly, repair and maintenance costs increased by Rs.162 crore (from Rs.254 crore approved by the Commission to Rs.416 crore) for SPDCL and by Rs.89 crore (from Rs.96 crore approved by the Commission to Rs.185 crore) for EPDCL. The number of sub stations manned by private agencies increased during the second control period from 738 (in 2009-10) to 1133 (in 2013-14) in SPDCL and from 402 to 520 in EPDCL during the same period. The maintenance cost per sub-station per month increased from Rs.3.25 lakh in 2009-10 to Rs.7.04 lakh in 2012-13 and to Rs.6.44 lakh in 2013-14 in SPDCL, whereas the same increased in EPDCL from Rs.2.8 lakh in 2009-10 and 2010-11 to Rs.4.6 lakh in 2012-13 and to Rs.4.9 lakh in 2013-14. While non-tariff income during the second control period of SPDCL decreased by Rs.133 crore from Rs.439 crore approved by the Commission to Rs.306 crore, the same increased by Rs.176 crore from Rs.67 crore approved by the Commission to Rs.243 crore for EPDCL. From the above, it is obvious that compared to EPDCL, expenditure of SPDCL is relatively higher and non-tariff income lesser. Since item-wise details relating to repair and maintenance costs are not given by the distribution companies, it is not possible to examine their justifiability. However, there does not seem to be any justification for SPDCL for incurring monthly maintenance cost per sub-station much higher than that was incurred by EPDCL during the second control period. As such, the claim needs to be examined thoroughly.

Decline in revenue realisation is other important factor leading to higher true up claims by the distribution companies. The distribution companies attributed the decline in revenue to reduction in metered sales and lower realization due to change in sales mix. But they did not provide any concrete information to support their claims. The decline in revenue realization may be due to reduction in metered sale which in turn is due to higher sales to agriculture and higher T&D losses. If the T&D losses are higher than that allowed by the Commission the cost towards it shall not be all owed to be recovered under true up mechanism. Higher O&M cost and repair and maintenance costs than allowed by the Commission should have led to better performance on various fonts including, T&D losses. Higher T&D losses even in the presence of higher O&M cost and repair and maintenance costs show inefficiency of distribution companies and results of their inefficiency cannot be loaded on to the consumers. Hundreds of crores of rupees were spent on HVDS transformers serving agricultural services, particularly under SPDCL. This alone should have led to lower agricultural consumption as well as lower T&D losses. Higher agricultural consumption as well as T&D losses demand a critical reassessment of the HVDS scheme. As regards Finance Restructure Plan, SPDCL informed that under the FRP, the State Government will take over its liabilities to the tune of Rs.2240.2O crore (for which SPDCL issued bonds to different Banks, AP Transco, APGenco and APSPDCL PF Trust) during the next five years by issuance of special securities in favour of participating lenders in a phased manner and that the Government would bear interest thereon as well. Similarly, EPDCL informed that under the FRP, the State Government will take over its liabilities to the tune of Rs.1805.95 crore (for which EPDCL issued bonds) after five years by taking over these bonds with interest. Since no mention is made of the huge amounts the distribution companies would get from the State Government under FRP and whether they had factored these amounts in their true up claims, these huge amounts of a total of Rs.4045.50 crore should be deducted from the permissible true up claims otherwise it amounts to permitting double claims.

For the second control period, SPDCL has claimed a carrying cost of Rs.1258 crore towards annual interest @ 12% on a projected net gap of Rs.3927 crore under true up for its retail supply business and a carrying cost of Rs.186 crore on a net gap of Rs.681 crore under true up for its distribution business. Similarly, EPDCL has claimed a carrying cost of Rs.204 crore towards annual interest @ 12% on a projected gap of Rs.476 crore under true up for its retail supply business and a carrying cost of Rs.99 crore on a net gap of Rs.378 crore under true up for its distribution business. Both the distribution companies have claimed a total carrying cost of Rs.1747 crore. While the purpose of FSA is to ensure timely adjustment in variation in power purchase cost, etc., MYT delays such adjustment till the end of the control period of five years. Neither the distribution companies, nor the consumers are benefited by MYT system. MYT system needs to be dispensed with and ensure annual true up adjustments. As regards deviation in revenue due to change in revenue realization, the sale to industrial sector was cut down by the distribution companies by imposing restrictions on usage prioritizing their commitment to domestic sector. Due to the power shortage, the industrial sector had to sustain heavy losses due to fall in production capacity and increased cost of production. Having chosen to restrict the supply to industrial sector, the distribution companies cannot make the industrial sector liable for short fall in revenue and the claim to that extant need to be rejected. The Hon’ble High Court in its judgment dated

29.07.2011 on the orders of the Commission on FSA claims for the years 2008-O9 and 2009-10 had observed that a hearing given to all affected persons would fulfil the statutory mandate of the Commission in Section 86(3) to ensure transparency in the discharge of all its functions. The FSA orders issued by the Commission so far have not given reasons for allowing specific amounts of FSA. To ensure observance of transparency and principles of natural justice in true spirit, the Commission must direct the distribution companies to furnish all information and data required for thorough examination of their claims and provide the same to the interested public to respond to the same. The Commission also must give detailed orders, giving reasons for allowing or disallowing the claims for FSA amounts, fully or partly. The casual approach of the distribution companies and the Commission renders the public hearing and regulatory process a hollow formality thereby giving a go by to transparency and principles of natural justice. Therefore, we request the Commission to direct the distribution companies to make all the information, data be made available to the interested public including arrangement for perusal of relevant files pertaining to additional power purchases so as to ensure transparency in determination of true up claim.

Commission's view:

The detailed explanation on the objections against true up charges submitted by Sri Muthavarapu Muralikrishna, President (Elect) of the Andhra Pradesh Chambers of Commerce and Industry Federation of Vijayawada stated among other things that the abnormal and unsubstantiated claims of the distribution companies establish the regulatory failure on the part of the Commission in realistically assessing and determining the revenue requirement and revenue gap of the distribution companies for the financial years concerned. **The considered observation is noted by the Commission for future guidance and every effort will be made in the future to avoid such regulatory failures**. The considered advice to the Commission that the Commission must also give detailed orders giving reasons for allowing or disallowing the claims and that the **casual approach** of the distribution companies and the Commission renders the public hearing and the regulatory process a **hollow formality** thereby giving a go bye to transparency and principles of natural justice is also noted with appreciation. **Every attempt will be made to avoid any casual approach and to strictly observe transparency and principles of natural justice by giving detailed reasoned orders**.

The detailed analysis of the true up claims of both the distribution companies by the objector is kept in view in assessing the merits of the true up claims and such of those objections as are found sustainable on merits have been accepted.

The covering letter for the objections referred to five concerns by the Federation regarding (1) To enhance the CMD for a stipulated voltage (2) Refunding / Transferring of Development Charges (3) Reduction of CMD temporarily (4) Laying Line on Turnkey basis for permission & (5) Third ABT meter. The Federation may take up these issues separately through detailed representations on each of the subjects to the Commission for examination by the Commission.

SET-7

Sri Challa Gunaranjan, Advocate, Shop No 5, Subhodaya Apartments, Boggulkunta, Hyderabad-01 on behalf of My Home Industries

Sri Challa Gunaranjan on behalf of My Home Industries submitted the following.

Distribution business (APEPDCL)

- True up of variations in uncontrollable expenses in uncontrollable expenses only on account of uncontrollable factors for the control period FY 2009-10 to FY 2013-14.
- To prudently review scheme wise actual capital cost considering cost benefit analysis while approving the capital expenditure and additions for second control period.
- To allow Employee expenses after prudently establishing the increase in employee expenses due to Sixth Pay Commission.
- To prudently review the reasons for increase in A&G expenses and R&M expenses for the second control period before passing on to the consumers.
- To consider the approved capital expenditure for calculation of depreciation and RoCE. Also while calculating depreciation, Commission is requested to verify whether all fully depreciated assets and the assets acquired through consumer contributions have been excluded from GFA.
- To allow carrying cost on the revenue gap at the rate of interest of long term loans (financing cost) as approved by the Commission in its MYT Orders.
- To consider an over recovery of Rs. 354.65 Crores including carrying cost as computed by the objector based on the limited available information against Rs. 477.68 Crores claimed by the petitioner.
- The net gap estimated as mentioned above is not conclusive and final and is subject to additional prudence as may be done by the Hon'ble Commission.
- Hon'ble Commission to re-open the proceedings and hear them before passing any final orders in the interest of Justice.

Retail Supply Business(APEPDCL)

- To accept the Power Purchase cost as computed by the objector.
- To direct the petitioner to provide an allocation statement clearly specifying the costs that are attributable to the sales made to consumers, utilities, etc. under the Open Access Regulation or purchase for trading for computing power purchase cost.
- To prudently review the petitioner's submissions for the year 2013-14 after duly taking into consideration approved vs actual sales, sales mix etc.
- To look into the reasons for lower recovery of non-tariff income in the control period and disallow any inefficiencies observed in this regard.
- Accept the revised gap for FY 2009-1o to FY 2013-14 determined by the Objector.

- To allow carrying cost on the revenue gap at the rate of interest of long term loans (financing cost) as approved by the Commission in its MYT Orders.
- To consider an over recovery of Rs. 1,171.81 Crores including carrying cost as computed by the objector based on the limited available information against the gap of Rs. 680 Crores as claimed by the petitioner.
- The net gap estimated as mentioned above is not conclusive and final and is subject to additional prudence as may be done by the Hon'ble Commission.
- Hon'ble Commission to re-open the proceedings and hear them before passing any final orders in the interest of Justice.

SET-8

Sri Challa Gunaranjan, Advocate, Shop No 5, Subhodaya Apartments, Boggulkunta, Hyderabad-01 on behalf of India Cements & Others

Sri Challa Gunaranjan on behalf of the India Cements, Sagar Cements, Bharathi Cement, Zuari Cement, My Home Industries, Parasakti Cement Industries, Ultratech Cement, Rain Cements and Penna Cements Industries submitted the following.

Distribution business(APSPDCL)

- True up of variations in uncontrollable expenses in uncontrollable expenses only on account of uncontrollable factors for the control period FY 2009-10 to FY 2013-14.
- To prudently review scheme wise actual capital cost considering cost benefit analysis while approving the capital expenditure and additions for second control period.
- To allow Employee expenses after prudently establishing the increase in employee expenses due to Sixth Pay Commission.
- To prudently review the reasons for increase in A&G expenses and R&M expenses for the second control period before passing on to the consumers.
- To consider the approved capital expenditure for calculation of depreciation and RoCE. Also while calculating depreciation, Commission is requested to verify whether all fully depreciated assets and the assets acquired through consumer contributions have been excluded from GFA.
- To allow carrying cost on the revenue gap at the rate of interest of long term loans (financing cost) as approved by the Commission in its MYT Orders.

- To consider a net gap of only Rs. 493.25 Crores including carrying cost as computed by the objector based on the limited available information against Rs. 866 Crores claimed by the petitioner.
- The net gap estimated as mentioned above is not conclusive and final and is subject to additional prudence as may be done by the Hon'ble Commission.
- Hon'ble Commission to re-open the proceedings and hear them before passing any final orders in the interest of Justice.

Retail Supply Business(APEPDCL)

- To accept the Power Purchase cost as computed by the objector.
- To direct the petitioner to provide an allocation statement clearly specifying the costs that are attributable to the sales made to consumers, utilities, etc. under the Open Access Regulation or purchase for trading for computing power purchase cost.
- To prudently review the petitioner's submissions for the year 2013-14 after duly taking into consideration approved vs actual sales, sales mix etc.
- To look into the reasons for lower recovery of non-tariff income in the control period and disallow any inefficiencies observed in this regard.
- Accept the revised gap for FY 2009-1o to FY 2013-14 determined by the Objector.
- To allow carrying cost on the revenue gap at the rate of interest of long term loans (financing cost) as approved by the Commission in its MYT Orders.
- To consider a net gap of only Rs. 2,499.71 Crores including carrying cost as computed by the objector based on the limited available information against the gap of Rs. 5,185 Crores as claimed by the petitioner.
- The net gap estimated as mentioned above is not conclusive and final and is subject to additional prudence as may be done by the Hon'ble Commission.

Hon'ble Commission to re-open the proceedings and hear them before passing any final orders in the interest of Justice.

Memo filed by The India Cements Limited and Others

1. Clauses 10.4 to 10.8 have to be read, construed and interpreted with regard to, and in consonance with, the marginal headings applicable which are also part of the Regulation.

2. The variations in power purchase cost cannot be considered for the control period of 5 years

as a whole. Huge aggregated amounts for a previous 5-year period relating to the then consumers are imposed upon consumers of a subsequent period. Clause 10.5 read with Clause 10.4 alone applies to variations of power purchase cost and must necessarily be brought annually. Failure to do so year after year during the control period strictly as required by the Regulations altogether disentitles the licensee to claim power purchase cost variations thereafter. Observations in paras 60 to 63 of (2009) 6 SCC 235 referred to.

3. There are no details of the income tax claims. In any case, the tax on disallowances for whatever reason cannot be allowed, and requires to be examined.

4. Clauses 10.6 to 10.8 apply to controllable items alone. They provide for sharing of gains and losses. The Regulations are silent as to the manner of sharing, but that does not mean that they are to be passed through entirely to the consumers. The following principles were submitted —

   - That the gains and losses be seen and allocated with respect to each head separately.

   - That gains be shared such that no more than one-third is allowed to be retained by the licensee. Thus, e.g., where there is a gain of distribution losses, the gains by way of power purchase costs saved be shared by allowing no more than one-third to the licensee and the balance be allowed to the consumers in an appropriate manner.

   - That losses in controllable items be entirely to the account of the licensee.

   - That losses claimed under Clause 10.8 can only be allowed if the licensee gives data and justification for each expense claimed as force majeure. Each and every loss or excess expenditure cannot be allowed. The licensees have obstinately evaded/ avoided giving specific details and justification in the present case.

5. The gains to be passed through from previous control period were not ascertained. Reference to previous tariff orders where this issue was raised with reference to refundable FSA amounts was referred to. This control period cannot be considered at this stage.

6. The licensees have failed to comply with the express requirements of the Regulations. Neither the variations in power purchase nor the other losses claimed by them can be allowed to them.

7. The licensees have previously claimed all variations in their entire power purchase in the previous FSA proceedings. Those were adjudicated upon and the issues remain sub-judice in

various Courts/Tribunal. No part of the variations in power purchase costs for those periods can now be claimed under the true-up. It is impermissible in law. It is also tantamount to abuse of process and multiple pursuits upon the same amounts and subject matter.

8. The licensees have provided inconsistent/erroneous/contradictory data relating to actual category-wise sales and power purchases, amongst others, compared to data in FSA proceedings and audited accounts as extensively shown in during the course of hearing with illustration from the data for FY 2009-2010 and also with reference to the extract of the Auditor's qualification in the Audit Report. The claims of the licensees cannot be considered at all. The licensees have evaded/avoided giving several information specifically requested, including particulars of D-D transactions and manner of sharing short-term power purchases made on a pooled basis as claimed in the FSA proceedings. Power purchase cost variations for D-D transactions and/or other sales/disposals cannot be thrust on the licensees' consumers.
9. The amounts realizable by the Discoms from Government in respect of agricultural consumption by way of additional subsidy or by way of bearing the costs of power purchase for consumption in excess of the tariff order approved quantities are not furnished and have been suppressed.
10. It was submitted that a true-up exercise is a serious matter requiring examination of all aspects of the licensees' performance and functioning so that appropriate prudence checks are conducted. This is also the opportunity and occasion for making corrections and tuning up estimation methodology and basis for future tariff orders. The manner that the licensees have made the application and responded to the objections and oral observation of the Hon'ble Commission itself reduces the whole exercise to a mockery and sham. Such conduct of the licensees cannot be countenanced and deserves strictures.

It is re-iterated that the above, amongst others, are in addition to the objections taken in the written objections filed.

After the hearing wherein the above submissions, amongst others, were made, the matter was posted to 21-11-15 for the licensees' response on 21-11-15, vague submissions were made before the Hon'ble Commission. The Hon'ble Commission also raised issues with regard to material necessary to enable consideration. At request of the Petitioners, additional material was permitted to be filed by 26-11-2015. The Petitioners have filed letters dated 25-11-15 purporting to be replies to objections. It is briefly submitted as follows:-

1. The particulars of O&M expenses are only re-hashed information which do not answer the objections and also the observations/queries of the Hon'ble Commission with regard to specific justification for losses or excess expenditure claimed.
2. The data with regard to provisions/actuals of pension/gratuity/EL encashment do not provide the specific details pointed out by the Hon'ble Commission. Provisions are to be excluded entirely anyway. How provision and actual payments coexist in the same annual account so that only difference is considered is not at all clear.
3. The submission with regard to power purchase is entirely evasive of the issue raised. Bald statements are made without necessary details. Such response from the licensees ought not to be countenanced.
4. The submission suggesting that the agricultural sales were "provisional" in the FSA proceedings is incorrect. No explanation or basis is given as to why it was provisional then. It is not at all true or bonafide. It is also evasive of the real issue raised.
5. The submissions on power purchase costs are also evasive of the issue raised. The audited accounts are qualified by the auditors. There is no verified/audited basis for the power purchase costs.
6. The submissions with respect to other costs are vague, specious and bereft of necessary details and specific justification which has to be examined by the Hon'ble Commission.
7. The submissions on revenue are mere repetitions without necessary data and quantified justifications. Nothing at all can be inferred therefrom.
8. The submission on tariff subsidy is again wilfully and deliberately evasive of the issue raised. The licensees have not even explained the basis or reason for not billing and collecting full un-adjusted tariff (i.e. for Government subsidy) for agricultural consumers beyond tariff order quantities.
9. The submission on carrying cost is specious and cannot be accepted. There can be no carrying cost when the licensees have not claimed power purchase cost variations. When they ought to have done under the Regulations — i.e. each year. There is no information on the actual alleged interest paid or of the actual alleged borrowings with respect to term loans taken specifically to fund alleged revenue gap.

10. The licensees have willfully failed, omitted and neglected to substantiate their claims and

provide the necessary information. They have been willfully evasive and non-responsive. They are not entitled to any amount as claimed or at all.

Commission's view (Covering both of the above objections by Sri Challa Gunaranjan and the Memo filed by India Cements and others):

The distribution licensees were made to furnish as much information as they could on the various details sought for by My Home Industries and India Cements. The learned counsel for the objectors Sri K. Gopal Choudary and Sri Challa Gunaranjan were given full opportunity to place their submissions before the Commission on reopening the matter. The various points raised were positively considered in the orders of the Commission wherever they were found to be acceptable under the regulatory provisions on merits.

The contents of the Memo filed by the objector dated 01-12-2015 were also taken into account. In UP Power Corporation Limited Vs. National Thermal Power Corporation Limited 2009 (6) SCC 235 referred to by the objector, the Hon'ble Supreme Court held the claim to be not justified as the request was to revisit the tariff after five years, when everybody has arranged its affairs. The Hon'ble Supreme Court distinguished between revision of tariff and review of tariff and cautioned that even while exercising *suo motu* jurisdiction for review, the Commission must act within a reasonable time. As stated by the objectors themselves, the various clauses of Regulation 4 of 2005 have to be read together inconsonance with the marginal headings and when clause No.10 is about Multi-Year Tariff framework and approach restricting clauses 10.4 and 10.5 to only one year will be a contradiction in terms and the reading of the Regulation as a whole and more particularly clauses 10.5 to 10.7 will show that 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. A true up becomes due only after expiry of control period and if clauses 10.4 and 10.5 were to be read as requiring annual filings for true up, the various clauses in the Regulation become irreconcilable.

Similarly, the perception that the true up of Southern Power Distribution Company of Andhra Pradesh Limited cannot be taken up till the components relating to Anantapur and Kurnool circles of Anantapur District are available cannot be upheld as the present exercise is relating to FY 2009-14 when these two circles were not part of Southern Power Distribution Company of Andhra Pradesh Limited and collection of any true up expenses from the consumers of those two circles due to present exercise had not arisen on the conclusions of the Commission herein. The other views of the objectors are dealt with at the relevant places in the orders suitably and wherever they merited acceptance, they are accepted.

While ex-facie there are discrepancies in the data submitted by the distribution companies in FSA filings, true up filings, audited account and replies to the objectors, the office of the Commission made a thorough verification of the different data, had several meetings with the officers of the distribution companies and arrived at the acceptable figures under each head for the purpose of arriving at the permissible gains and losses to be shared between the distribution companies and the consumers under Regulation 4 of 2005.

The burden of additional power purchase cost for supply to subsidized agricultural consumers is placed on the State Government in implementation of its assurances under Section 65 of the Electricity Act, 2003 and the remaining particulars of purchase cost variation, if any, is insignificant, but still is kept in view.

What were considered was only actual expenditure and not any intended or proposed expenditure including amounts shown as provisions towards terminal benefits etc.

Bad and doubtful debts shown by the distribution companies are not taken into account.

SET-9

Sri Y.V. Subba Reddy, Member of Parliament

After the hearing is concluded, a letter dated 27-11-2015 addressed by Sri Y.V. Subba Reddy, Member of Parliament (Lok Sabha) has been delivered in the office of the Commission. The Hon'ble Member of Parliament desired to note that the distribution companies have not furnished the full information to substantiate their claim for increased expenditure. The increased expenditure for supply of electricity to farmers has to be borne by the State Government and the increased expenditure for unacceptable reasons like procuring excess quantum of power for excess prices, failure to recover the consumption bills, mismanagement of finances, non-performance etc., cannot be permitted. While some other issues beyond the true up exercise were also raised in the letter which may have to be dealt with separately, all the issues relevant herein were critically examined and decided on merits.

Decisions of superior courts and the Appellate Tribunal for Electricity on relevant aspects have been brought to notice by the learned counsel for the parties. In W.A.No.1014 of 2012 dated 26-09-2012, a Division Bench of the Hon'ble High Court of Andhra Pradesh pointed out that none of the Sections 45, 56, 61 and 62 of the Electricity Act, 2003 restrict the limitation for claim and recovery of tariff as prescribed under Regulation 45-B of the Conduct of Business Regulations of this Commission. Sri P. Shiva Rao, learned Standing Counsel cited the same in answer to a portion of the claims for true up being claimed to be barred by time. In Appeal No.136 of 2010 dated 11-07-2011, the Appellate Tribunal for Electricity directed the State Commission to consider submissions relating to variation in O & M expenses due to uncontrollable factors though O & M expenses are controllable in nature. The principle has relevance with reference to at least pay and wage revisions. In Appeal No.8 of 2012 dated 19-04-2012, the Appellate Tribunal for Electricity pointed out that regulations prevail over any agreement between the parties. In Rohtas Industries Limited Vs. Chairman, BSED AIR 1994 SC 657, the statutory obligations of the electricity board to carry on its operations and adjust its tariff in such a way as to ensure that the total revenues earned in any accounting year should not only avoid any net loss but ensure the minimum profit specified by the State Government. The decision deals with levy of fuel surcharge. The Apex Court referred to Section 49 of the Electricity (Supply) Act, 1948 which obligated the board to have a duty to ensure coordinated development of supply and distribution of electricity in a most efficient and economic manner. The distribution licensees herein claimed various amounts towards true up in that back ground is sought to be canvassed through this decision. In Appeal Nos.17 to 19 of 2007 dated 10-07-2007, the Appellate Tribunal for Electricity with reference to the tariff regulations before them and the national electricity policy laid down that the State Electricity Regulatory Commission is under a duty to recover cost of production and supply of electricity from the consumers rather than burdening either the Government or utilities. The principle is kept in view herein by this Commission while balancing the interests of all the stakeholders.

Thus, every suggestion/view/objection placed before the Commission either orally or in writing in any manner since the commencement till the conclusion of the proceedings have been carefully considered with reference to the regulatory provisions and their interpretation by the superior Courts and the Appellate Tribunal for Electricity. The conclusions are arrived at after strictly complying with the procedure prescribed for such a true up exercise, giving every opportunity to all concerned in accordance with the principles of natural justice.

PART-III

TRUE UP OF DISTRIBUTION BUSINESS

Commission Assessment of True Up for Distribution Business

38. The Commission has examined each and every item of true up applications filed for distribution business and recomputed the true up amounts as per regulatory framework with some permissible relaxations for the control period as detailed hereunder:

Return on Capital Employed (ROCE)

39. Regulation 4 of 2005 provides the principles/procedures for computation of ROCE as the product of Regulated Rate Base (RRB) multiplied with Weighted Average Cost of Capital (WACC). The RRB for a year reflects the net capital employed in distribution business by the licensee in that year and the ROCE computed thereon reflects the return on capital in the distribution business after factoring the normative debt-equity ratio and cost of debt and equity. The licensees have computed the RRB and ROCE for each year of the Control Period.

40. The ROCE computed by the licensees is lower compared with the ROCE approved in the Tariff Order due to lower RRB. M/S SPDCL has computed the ROCE at ₹ 1152 cr which is lower by ₹311 cr compared with ₹1463 cr approved in the Tariff Order. Similarly, M/S EPDCL has computed the ROCE at ₹489 cr which is less by ₹39 cr compared with ₹528 cr approved in the Tariff Order for the control period.

41. The licensees have listed the reasons for this variation in ROCE as a) lower addition of assets compared with the approved additions in tariff order, b) increase in consumer contributions (which is deductible in RRB calculations) compared with the amounts anticipated in tariff orders and c) variation in interest rates that impinge upon cost of capital during the control period.

42. **Assets:** Minor corrections to the information on opening assets (filed by the licensees in true up applications) have been carried out in consultation with the audited accounts of the licensees. The Commission has found that both licensees have underinvested, SPDCL by ₹445 cr and EPDCL by ₹126 cr in fixed assets, compared with the amounts approved in the Tariff Order. The licensees have not explained the reasons for underinvestment during the control period. However, the licensees have reckoned this underinvestment in true up filings for computation of RRB for the control period.

The Commission has decided to adopt the actual additions to fixed assets as per audited accounts for computing the RRB for the control period. The Commission has recomputed the opening assets for the first year of the control period in accordance with the annual accounts of the licensee companies and added the additions to assets in arriving at the gross assets for each year of the control period to be included in the RRB.

43. **Depreciation:** The depreciation amount is one of the deductible items in computation of RRB and the depreciation amounts on consumer contributions to fixed assets is not to be allowed as expense item in ARR. This regulatory provision warrants that the depreciation in both RRB and annual expenditure calculations shall be on net basis, i.e. gross depreciation net of amortisation on consumer contributions.

The depreciation amounts claimed by the licensees in true up are at variance with the depreciation amounts approved in the tariff order on account of differences in fixed assets and computational errors. In case of EPDCL, the depreciation amount claimed for true up is more than the amount approved in Tariff Order despite the actual investment being less than the investment approved for the control period.

The Commission has recomputed the accumulated depreciation for the first year of the control period and annual depreciation for each year of the control period for both licensees as follows:

a) The net accumulated depreciation has been arrived at by deducting accumulated amortisation on consumer contributions from the gross accumulated depreciation.

b) The net depreciation per annum has been arrived at by deducting amortisation on consumer contributions from the depreciation amount.

44. **Consumer Contributions:** As per Regulation 4 of 2005, the consumer contributions to fixed assets are a deductible item in computation of RRB. Though the licensees have included the item as deductible item in their filings, the computations are not acceptable as the licenses have included the net contributions (gross consumer contributions net of amortisation) for each year of the control period whereas the requirement is to include these contributions on gross basis as they are part of gross value of fixed assets. Therefore,

a) The opening balance of consumer contributions has been recomputed/validated to ensure that the accumulated consumer contributions reflect on gross basis for both licensees.

b) The consumer contributions during the year have been recomputed/validated to ensure that the annual contributions are on gross basis for EPDCL.

45. **Working Capital:** Regulation 4 of 2005 provides for inclusion of 1/12th of O&M expenses in RRB calculations and the licensees have computed this amount based on O&M expenses filed by them in true up applications. The Commission has recomputed the 1/12th of O&M expenses on revised O&M expenses explained *infra* in this order.

46. **Annual Change in RRB:** Regulation 4 of 2005 provides for computation of change in RRB during the year and half of this amount is eligible to be included in the RRB calculations. Accordingly, the Commission has recomputed the change in RRB for each year of the control period and then half of this change in RRB for each year is included in RRB calculations.

47. **RRB for the Control Period:** After assessment of each item of RRB for each year of the control period, the Commission has recomputed the RRB which is at variance with the true up filings. The RRB is less by ₹63 cr for SPDCL and is more by ₹ 7 cr for EPDCL for the control period. However, the RRB computed by the Commission for both licensees for true up is less than the RRB approved in Tariff Order(lower by ₹3180 cr for SPDCL and ₹67 cr for EPDCL.

48. **WACC for the Control Period:** As per tariff Order, the WACC has been worked out uniformly at 11% per annum with debt equity ratio of 75:25, cost of debt at 10% and return on equity at 14%. As per true up applications, variation has been observed in WACC for some years on account of changes in interest rates. The Commission has adopted the WACC as per tariff order or actual whichever is the lowest for each year of the control period. As per this adaptation, the WACC is at 11% for some years and lower for other years of the control period.

49. **ROCE:** The Commission in accordance with the above discussion has recomputed the ROCE for each year of the control period for true up. The ROCE approved for the control period for true up, is less by ₹ 44.97 cr for SPDCL and ₹ 0.67 cr for EPDCL compared with the true up filings furnished by licensees. However the ROCE computed for true up is significantly less compared with the amounts approved in tariff order as a result of underinvestment and adoption of lower WACC for some years of the control period; the ROCE is less by ₹356 cr and ₹40 cr for SPDCL and EPDCL respectively for the control period. The details are given in the tables below:

Table 9: SPDCL-ROCE Approved for True Up by the Commission (₹ cr)

Sl.No.	ARR Item	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	Assets(02+03)	4538.67	5329.98	5663.50	6068.22	6564.94	28165.32
02	Opening Balance	3801.88	4538.67	5329.98	5663.50	6068.23	25402.27
03	Additions	736.79	791.31	333.52	404.72	496.71	2763.05
04	Depreciation(05+06)	**1471.37**	**1709.10**	**1965.03**	**2226.46**	**2510.37**	9882.33
05	Opening Balance	1287.20	1471.37	1709.10	1965.03	2226.46	8659.16
06	Additions	184.17	237.73	255.93	261.43	283.91	1223.17
07	Consumer Contributions (08+09)	1181.84	1369.64	1634.60	1901.15	2172.24	8259.47
08	Opening Balance	977.35	1181.84	1369.64	1634.60	1901.15	7064.58
09	Additions	204.49	187.80	264.96	266.55	271.09	1194.89
10	Working Capital (11+12)	34.61	55.15	57.58	60.15	64.89	272.38
11	1/12 of O&M Expenses	34.61	55.15	57.58	60.15	64.89	272.38
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	0.00
13	Change in Rate Base ((03-06-09)÷2)	174.06	182.89	-93.68	-61.63	-29.14	172.50
14	Regulated Rate Base (02-05-08+10+13)	1746.01	2123.50	2215.14	2062.40	1976.36	10123.41
15	WACC	11.00%	10.93%	10.79%	11.00%	11.00%	
16	***Return on Capital Exployed (14 X 15)***	192.06	231.99	239.01	226.86	217.40	1107.33

Table 10: EPDCL-ROCE Approved for True Up by the Commission (₹ cr)

Sl.No.	ARR Item	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	Assets(02+03)	2648.11	2854.53	3126.72	3497.16	4022.37	16148.89
02	Opening Balance	2394.89	2648.11	2854.53	3126.72	3497.16	14521.41
03	Additions	253.22	206.42	272.19	370.44	525.21	1627.48
04	Depreciation(05+06)	864.22	969.48	1083.47	1198.73	1303.70	5419.60
05	Opening Balance	754.23	864.22	969.48	1083.47	1198.73	4870.13
06	Additions	109.99	105.26	113.99	115.26	104.97	549.47
07	Consumer Contributions (08+09)	869.65	1004.10	1164.74	1364.46	1752.85	6155.80
08	Opening Balance	737.81	869.65	1004.10	1164.74	1364.46	5140.76
09	Additions	131.84	134.45	160.64	199.72	388.39	1015.04
10	Working Capital (11+12)	24.75	37.21	38.15	46.29	47.05	193.46
11	1/12 of O&M Expenses	24.75	37.21	38.15	46.29	47.05	193.46
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	0.00
13	Change in Rate Base ((03-06-09)÷2)	5.70	-16.64	-1.22	27.73	15.93	31.48
14	Regulated Rate Base (02-05-08+10+13)	**933.29**	**934.81**	**917.88**	**952.53**	**996.95**	4735.46
15	WACC	10.95%	9.46%	9.84%	10.24%	11.00%	
16	***Return on Capital Exployed (14 X 15)***	102.20	88.41	90.35	97.56	109.66	488.18

O&M Expenditure

50. The Operation and Maintenance (O&M) expenditure consists of a)employee cost (EC), b)repairs and maintenance (R&M) cost and c) administration and general (A&G) expenses. The licensees have claimed higher Operation and Maintenance (O&M) expenses than the expenses approved in tariff order for the control period; by ₹1209 cr for SPDCL and by ₹537 cr for EPDCL. The details are given in the tables below:

Table 11: SPDCL – O&M Cost as per Tariff Order and True Up Filings (₹ cr)

Year	Tariff Order				True Up Filings			
	EC	A&G	R&M	Total	EC	A&G	R&M	Total
2009-10	310.52	47.73	52.99	411.24	331.10	50.77	63.35	445.22
2010-11	356.48	50.48	54.58	461.54	742.55	65.93	57.88	866.36
2011-12	392.59	53.57	56.22	502.38	564.13	69.37	72.70	706.20
2012-13	457.22	57.83	57.91	572.96	576.22	59.07	100.39	735.68
2013-14	503.02	62.46	59.64	625.12	854.11	52.49	121.75	1028.35
Total	**2019.83**	**272.06**	**281.35**	**2573.24**	**3068.11**	**297.63**	**416.07**	**3781.81**

Table 12: EPDCL - O&M Cost as per Tariff Order and True Up Filings (₹ cr)

Year	Tariff Order				True Up Filings			
	EC	A&G	R&M	Total	EC	A&G	R&M	Total
2009-10	261.48	40.72	14.40	316.60	258.77	43.89	13.90	316.55
2010-11	299.36	44.37	14.86	358.60	433.09	46.09	17.87	497.04
2011-12	332.59	46.91	15.34	394.84	408.68	52.59	31.38	492.64
2012-13	371.51	49.87	15.83	437.20	502.58	53.83	51.30	607.71
2013-14	411.16	52.52	16.34	480.02	482.60	56.86	70.47	609.93
Total	**1676.10**	**234.39**	**76.76**	**1987.25**	**2085.70**	**253.25**	**184.92**	**2523.88**

51. The reasons for increase in O&M expenses as per licensees' filings are;

"O&M expenses have increased mainly due to the following reasons, which were not considered while fixing the O&M Cost target for the Distribution Business by the Hon'ble Commission.

a) Wage Revision w.e.f. 01.04.2010
b) Actuarial Valuation Report
c) Leave Encashment
d) DA hike and new recruitment
e) Increase in Repairs and Maintenance cost
f) Increase in travelling and vehicle hire expenses"

52. The employee cost and R&M cost have increased significantly due to wage revision for employees w.e.f. 01-04-2010 and the Labour Commissioner's Orders on enhancement of minimum wages applicable to contractual staff in substation manning respectively. As per Regulation 4 of 2005, the employee cost and R&M cost being components of O&M expenditure, are controllable items of ARR and thus higher cost does not qualify for true up. However :-

a. the Commission has concluded that increase in employee cost while taking into account the binding agreements with employee unions with regard to wage revision that prevail upon the licensees and general policy environment in wage settings are the exogenous factors to licensees' operational environment that trigger periodic wage revisions for their employees on which the licensees have no control.

b. The Commission has further concluded that the statutory nature of the Labour Commissioner's Orders with regard to revision of minimum wages (which had to be adopted by the Licensees due to which the cost of substation manning has gone up during the control period) has led to the increase in R&M cost and thus increase in R&M cost to this extent is beyond the control of licensees.

53. Therefore, the Commission has, while invoking the provisions of Regulation 24.1 of Regulation 4 of 2005, decided the employee cost as an uncontrollable item of O&M expenditure for the control period and admitted the same for true up on payment basis. Similarly, the increase in R&M cost due to revision in minimum wages is also decided by the Commission as uncontrollable by the licensee during the control period.

54. On further examination of the information filed by licensees with regard to employee cost, it has been noticed that a substantial portion of the claimed increase in wage cost is on provisional basis, i.e., not paid. The Commission has, based on licensee's replies in this regard, deducted the provisional employee cost included in filing from the total employee cost filed in true up application and adopted the same for true up for the second control period. Accordingly, a sum of ₹444 cr and ₹98 cr has been deducted from the employee cost filed by SPDCL and EPDCL respectively for the control period. The details of these amounts are given in the table below:

Table 13: EPDCL – Employee Benefits: Provisions and Payments (₹ cr)

Year	SPDCL			EPDCL		
	Provision	**Payment**	**Excess Provision**	**Provision**	**Payment**	**Excess Provision**
2009-10	71.38	51.40	19.98	89.80	73.39	16.41
2010-11	254.40	65.00	189.40	167.96	122.21	45.75
2011-12	74.19	77.24	-	128.39	114.71	13.68
2012-13	75.79	79.16	-	173.79	151.11	22.68
2013-14	310.40	75.63	234.77	154.09	154.29	-
Total	**786.16**	**348.43**	**444.15**	**714.03**	**615.71**	**98.52**

55. The Commission has initially adopted the R&M expenditure either as per the approvals in tariff orders or actual amounts included in true up applications whichever is lower for each year of the control period. Based on communication from licensees' with regard to impact of the Labour Commissioner's Orders, the Commission has added an additional sum of ₹ 91 cr and ₹24 cr to R&M cost of SPDCL and EPDCL for the control period. The details of these amounts are given in the table below:

Table 14: Additional Cost due to Increase in Minimum Wages and Other Statutory Charges (₹ cr)

Year	SPDCL	EPDCL
2009-10	3.45	0.00
2010-11	3.58	0.00
2011-12	17.10	0.57
2012-13	29.90	9.90
2013-14	37.19	13.16
Total	**91.22**	**23.63**

56. With regard to A&G expenses, the Commission has adopted the approved amount as per tariff order or actual amount whichever is lower for each year of the control period due to the consideration that A&G expenses are controllable as the licensees have not explained the reasons for increase in A&G expenses beyond the approved amounts in tariff orders.

57. The net O&M cost approved by the Commission for true up after providing the above corrections is lower by ₹513 cr for SPDCL and ₹ 202 cr for EPDCL compared with the amounts included in true up filings. However, the O&M expenses approved for true up are substantially higher than the amounts approved in tariff order due to inclusion of cost related wage revision, ₹695 cr and ₹334 cr for SPDCL and EPDCL respectively for the control period. The details of O&M cost as per true up filings and approval of APERC are given the tables below:

Table 15: SPDCL : O&M Cost - True Up Filings and APERC Approvals (₹ cr)

Year	True Up Filings				APERC Approved			
	EC	A&G	R&M	Total	EC	A&G	R&M	Total
2009-10	331.10	50.77	63.35	445.22	311.12	47.73	56.44	415.29
2010-11	742.55	65.93	57.88	866.36	553.15	50.48	58.16	661.79
2011-12	564.13	69.37	72.70	706.20	564.13	53.57	73.32	691.02
2012-13	576.22	59.07	100.39	735.68	576.22	57.83	87.81	721.86
2013-14	854.11	52.49	121.75	1028.35	619.34	62.46	96.83	778.63
Total	**3068.11**	**297.63**	**416.07**	**3781.81**	**2623.96**	**272.06**	**372.57**	**3268.59**

Table 16: EPDCL : O&M Cost - True Up Filings and APERC Approvals (₹ cr)

Year	Tariff Order				True Up Filings			
	EC	A&G	R&M	Total	EC	A&G	R&M	Total
2009-10	258.77	43.89	13.90	316.55	242.36	40.72	13.90	296.98
2010-11	433.09	46.09	17.87	497.04	387.34	44.37	14.86	446.57
2011-12	408.68	52.59	31.38	492.64	395.00	46.91	15.91	457.81
2012-13	502.58	53.83	51.30	607.71	479.90	49.87	25.73	555.49
2013-14	482.60	56.86	70.47	609.93	482.60	52.52	29.49	564.61
Total	**2085.70**	**253.25**	**184.92**	**2523.88**	**1987.18**	**234.39**	**99.89**	**2321.46**

Depreciation

58. The Commission has adopted the depreciation amounts as explained and computed in this order for the purpose of considering it as expenditure item in ARR calculations for each year of the control period.

Safety Measures

59. The Commission has approved ₹25 cr for each licensee towards expenditure for undertaking safety measures during the control period. The licensees have not incurred any expenditure under this item. Hence, the Commission has decided not to take this amount for true up and the licensees also have not claimed the amounts in the true up applications. Hence, nothing has been approved towards safety measures for true up purposes during the control period.

Other Expenditure

60. SPDCL has incurred only ₹56 cr against the provision for other expenditure in the tariff order at ₹257 cr for the control period. The Commission, after examination the amounts as per annual accounts, has approved the other expenditure as filed by the Licensee at ₹56 cr for the control period. In case of EPDCL, no such expenditure has been approved in tariff order or included in true up filings.

Taxes on Income

61. As per Regulation 4 of 2005, only taxes on income are uncontrollable and thus eligible for true up. The expenditure relating to taxes on income either paid or provided, included in true up filings is less than the amounts approved in tariff order for both licensees. The Commission has approved the minimal amount of taxes on income as filed by the licensees for true up at ₹3.31 cr for SPDCL and ₹0.75 cr for EPDCL for the control period without any further probe.

Revenue from Tariff and Non Tariff Sources

62. The licensees have adopted the revenue from tariff as estimated in tariff order for the true up application as *transfer income*, i.e. income attributable to distribution business from the total revenue of the company. The Commission has accepted such treatment by the licensees with regard to distribution business.

63. In case of non tariff income, the Commission has reclassified the non tariff income items from the annual accounts of licensees into distribution and retail supply business related and aggregated accordingly for distribution business for each year of the control period and adopted the same for the purpose of true up. The revised non tariff income is less compared with the true up filings made by licensees, by ₹86 cr and ₹38 cr for SPDCL and EPDCL respectively for the control period.

Carrying Cost

64. The licensees have claimed the carrying cost on the total amounts to be trued up as per their applications, at ₹186 cr by SPDCL and ₹99 cr by EPDCL, calculating the same from the closure of relevant financial year of the control period.

65. As per Regulation 10.5 of Regulation 4 of 2005, the licensees are provided carrying cost of true up amounts on account of the time gap between the time when the true-up becomes due and when it is actually allowed only with regard to uncontrollable items of ARR, i.e. the taxes on income in case of distribution business.

66. Since the amounts of actual taxes paid/to be paid as per true up filings are very minimal (at ₹3.31 cr for SPDCL and ₹0.75 cr for EPDCL) for the control period and the true up amounts of distribution business have been included in retail supply business true up in this Order, the amount will automatically get appropriate treatment in the true up for retail supply business.

67. Therefore, the Commission has not included the carrying cost as filed by the licensees at ₹186 cr by SPDCL and ₹ 99 cr by EPDCL in true up calculations for the control period.

True Up for the Control Period by the Commission

68. The Commission has in accordance with the above paragraphs, computed the true up amount for each year of the control period separately for both licensees. As per these computations,

SPDCL is eligible for true up of ₹197 cr against the claim of ₹866 cr made in true up application. The summary of true up calculations (details in annexure-09) is given in the table below:

Table 17: SPDCL - True Up for Distribution Business as per Approval of the Commission (₹ cr)

SPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. ROCE	192.06	231.99	239.01	226.86	217.40	1107.33
2. O & M Expenses	415.29	661.79	691.02	721.86	778.63	3268.59
3. Depreciation	184.17	237.73	255.93	261.43	283.91	1223.17
4. Taxes on Income	0.70	0.78	1.83	0.00	0.00	3.31
5. Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
6. Other Expenditure	13.73	3.94	1.31	19.69	16.89	55.56
7. ARR(1+..+6)	805.96	1136.23	1189.10	1229.84	1296.84	5657.97
8. less Total Revenue	829.96	978.77	1071.24	1255.75	1326.40	5462.12
9. add Carrying Cost	0.00	0.00	0.00	0.00	0.00	0.00
10.True Up Amount(7-8+9)	**-24.00**	**157.46**	**117.86**	**-25.91**	**-29.56**	**195.85**

69. In case of EPDCL, the true up amount has become negative at ₹202 cr against ₹478 cr true up claim made in true up application. Thus a sum of ₹202 cr has to be clawed back from EPDCL on account of true up for the control period. The summary of true up calculations (details in annexure-10) is given in the table below:

Table 18: EPDCL - True Up for Distribution Business as per Approval of the Commission (₹ cr)

EPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. ROCE	102.20	88.41	90.35	97.56	109.66	488.18
2. O & M Expenses	296.98	446.57	457.81	555.49	564.61	2321.46
3. Depreciation	109.99	105.26	113.99	115.26	104.97	549.47
4. Taxes on Income	3.90	3.19	-6.34	0.00	0.00	0.75
5. Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
6. Other Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
7. ARR(1+..+6)	513.07	643.42	655.81	768.31	779.25	3359.87
8. less Total Revenue	577.80	642.53	706.07	776.48	859.41	3562.29
9. add Carrying Cost	0.00	0.00	0.00	0.00	0.00	0.00
10.True Up Amount(7-8+9)	**-64.73**	**0.89**	**-50.26**	**-8.17**	**-80.16**	**-202.42**

Ways and Means of Payment/Recovery of True Up

70. The Commission, after computing the true up amount to be provided to SPDCL at ₹196 cr and ₹202 cr to be recovered from EPDCL(claw back) for the control period, has decided to consider these amounts in true up for retail supply business of the licensees since the distribution ARR of the licensees is one of components of ARR of retail supply business as per tariff order for the control period. Accordingly, no specific ways and means of adjusting these true ups separately have been provided for the control period.

PART - IV
TRUE UP OF RETAIL SUPPLY BUSINESS

Commission Assessment of True Up for Retail Supply Business

71. The Commission has examined each and every item of true up applications for retail supply business and recomputed the true up amounts as per regulatory framework with some permissible relaxations for the control period as detailed hereunder:

Power Purchase Cost

72. As per true up application, the licensees have incurred the power purchase cost at more than the power purchase cost approved in the tariff order for the control period, by ₹2894 cr by SPDCL and ₹ 1818 cr by EPDCL. The licensees have incurred higher cost during the control period despite actual power purchase volume being less than the power purchase volume approved as per tariff orders. The power purchase quantities as per tariff order and true up applications are given below:

Table 19: Power Purchase Quantities (MU)

Year	SPDCL			EPDCL		
	Approved	Actual	Difference	Approved	Actual	Difference
2009-10	15562.37	15741.05	178.68	10945.24	11862.25	917.01
2010-11	17830.81	16449.08	-1381.73	12582.82	12518.74	-64.08
2011-12	19605.25	18474.87	-1130.38	13627.90	13472.07	-155.83
2012-13	21683.58	18417.76	-3265.82	15164.57	12709.12	-2455.45
2013-14	21639.60	20179.12	-1460.48	15140.19	14047.58	-1092.61
Total	**96321.61**	**89261.89**	**-7059.72**	**67460.72**	**64609.76**	**-2850.96**

73. The actual unit power purchase cost for each year of the control period for SPDCL and for first four years of the control period for EPDCL is higher than the approved unit power purchase cost as per tariff orders. The details are given in the table below:

Table 20: Unit Power Purchase Cost (₹ / unit)

Year	SPDCL			EPDCL		
	Approved	Actual	Difference	Approved	Actual	Difference
2009-10	2.18	2.68	0.51	2.19	2.63	0.43
2010-11	2.26	2.89	0.64	2.30	2.70	0.41
2011-12	2.48	3.19	0.72	2.52	3.17	0.65
2012-13	3.14	4.08	0.95	3.14	4.02	0.87
2013-14	3.75	3.80	0.05	3.82	3.72	-0.11

74. Hence, the higher cost is on account of higher unit power purchase cost during the control period. The licensees state that;

SPDCL:

"The PP cost as approved by the Hon'ble Commission for the control period is ₹2.82/kwh, whereas the actual PP cost is ₹3.37/kWh. Actual PP cost is higher by 19% as compared to the approved PP Cost .

Reasons for increase in PP cost include higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges. Other reasons also include shortfall in domestic gas resulting in lower PLF of gas based IPP's. This shortfall led to higher purchase of energy from short term sources resulting in higher PP Cost."

EPDCL:

"The PP cost as approved by the Hon'ble Commission for the control period is ₹2.86/kwh, whereas the actual PP cost is ₹3.27/kWh. Actual PP cost is higher by 15% as compared to the approved PP Cost.

Reasons for increase in PP cost include higher cost of domestic coal, shortfall of domestic coal resulting in procurement of expensive imported coal, increase in freight charges. Other reasons also include shortfall in domestic gas resulting in lower PLF of gas based IPP's. This shortfall led to higher purchase of energy from short term sources resulting in higher PP Cost"

75. Though the licensees have saved some power purchase cost on account of reduction in power purchase quantity during the control period compared with the approved quantity, the overall power purchase cost has gone up on account of rise in unit power purchase costs for both licensees. However, the reduction in power purchase quantities was associated with the reduction in metered sales which adversely affected the licensees due to loss of cross subsidies during the control period.

76. The Commission has, while considering that the power purchase cost has gone up compared with the approvals in tariff order(s) on account of increase in unit power purchase prices which are contingent upon number of factors such as adverse generation mix and consequent high cost market purchases, higher market prices of electricity during most of the years of control period, increase in fuel prices, substitution of fuels (high cost naphtha for low cost gas) due to scarcity, etc., on which licensees have no control, decided to adopt the power purchase cost as filed by licensees as per audited accounts in their applications for true up for the control period.

Transmission and SLDC Costs

77. The licensees have filed the transmission cost on payment basis (the amounts paid to APTransco) which is lower compared with the cost approved in tariff order. The Commission has adopted the transmission cost as filed by the Licensees for true up which is lower compared with the cost approved in the tariff order, by ₹ 45 cr for SPDCL and ₹ 53 cr for EPDCL. The Commission has adopted the SLDC charges as filed by the licensees which are slightly higher compared with the cost approved in the tariff order, by ₹ 1 cr for SPDCL and ₹2 cr for EPDCL. The Commission has adopted these numbers as the true up for transmission licensee has been carried out separately for the control period and thus any variations on this front are presumed to have been covered under the true up for transmission business.

PGCIL and ULDC Charges

78. These charges are payable by the retail supply licensees to PGCIL in connection with the power evacuation from the stations owned by Central Government and market purchase from outside the state. The rates are announced by CERC from time to time and the licensees need to pay these charges on the power drawls. Hence, the Commission has adopted the PGCIL and ULDC charges as filed by the licensees without any modification. These charges are higher compared with the approvals in tariff order, by ₹123 cr for SPDCL and ₹87 cr for EPDCL for the control period.

Distribution Cost

79. For the purpose of true up filings, the licensees have adopted the approved distribution cost in tariff order for retail supply business true up for each year of the control period. The true up amounts approved by the Commission for distribution business in Part-III of this Order have been added to the distribution cost filed by the licensees in true up applications for retail supply business for the control period. Accordingly, the Commission has ensured that the true up amounts are paid/recovered as the case may be while including such amounts in the distribution cost for retail supply business for the control period. Accordingly, the revised distribution cost is higher by ₹196 cr for SPDCL and lower by ₹202 cr for EPDCL for the control period.

Interest on Consumer Security Deposits

80. As per Regulation 4 of 2005, the interest on consumer security deposits (shall be calculated at bank rate and be paid to consumers) is an expense item that should be included in ARR for retail

supply business. Accordingly, the licensees have included the amount as expense item in their true up applications which is in conformity with the audited accounts. The Commission has adopted these amounts for the control period which are higher compared with the cost approved in tariff order by ₹36 cr for SPDCL and ₹11 cr for EPDCL. The higher amounts are on account of increase in volume of consumer security deposits and also the bank rate during the control period.

Other Expenditure

81. The Commission has examined other expenditure included in true up filings by licensees (₹101.61 cr by SPDCL and ₹8.52 cr by EPDCL) in detail and found that the miscellaneous expenses are higher compared with the expenses approved in tariff order. On examination of the audited accounts, it has been found that licensees have included the bad and doubtful debts in other expenditure (₹52.55 cr by SPDCL and ₹5.96 cr by EPDCL) and filed the same for true up.

82. As per Regulation 4 of 2005, no provision exists for inclusion of bad and doubtful debts in ARR of retail supply business and accordingly the Commission has removed the bad and doubtful debts from other expenditure. Consequent to removal of bad and doubtful debts, the other expenditure approved for true up have become ₹49.06 cr and ₹2.56 cr respectively for SPDCL and EPDCL for the control period.

Revenue from Tariffs

83. The licensees have filed the revenue from tariffs with substantial errors in classification of revenue into tariff related, non tariff related, FSA provisions, FSA collected etc. The Commission has made an endeavour to classify these items appropriately to reflect the revenue consistent with nomenclatures. Further, the licensees have included the expected revenues also in tariff revenue. Hence, the Commission has reassessed the tariff revenue as prescribed by the regulatory provisions as follows:

(a) The revenue from tariffs has been verified from the audited accounts and the revenues shown as/expected to be received but are not actually received have been excluded from computations.

(b) The revenue from FSA has been considered in accordance with the Orders passed in this regard on approval and entitlement basis as the pendency of any legal proceedings or any interim directions restraining collection of FSA cannot be equated to absence of approval or entitlement.

(c) Non Tariff income items have been aggregated into two categories, distribution business related and retail supply business related and retail supply business related income is adopted.

(d) Subsidies paid or payable in accordance with tariff orders has been reckoned as income from the retail supply business.

84. The revenue calculated in this manner is higher by ₹1148 cr for SPDCL and lower by ₹570 cr in case of EPDCL compared with the true up filings made by the licensees for the control period. These changes in revenue have occurred primarily on account of a) removal of revenue on account of unbilled FSA shown as due towards unbilled FSA not received or receivable from retail supply business, b) inclusion of income items which are excluded from computation of non tariff income, c) recognition of FSA revenue as per Commission Orders, d) exclusion of duplicate revenue entries and e) recognition of subsidies from GOAP in accordance with tariff Orders for the control period.

Carrying Cost

85. The licensees have claimed huge amount of ₹1462 cr as carrying cost of uncovered revenue gap in their true up applications, ₹1258 cr by SPDCL and ₹204 cr by EPDCL. The licensees state that this carrying cost is to meet the interest cost on short term loans taken to meet the revenue gap during the control period as the true up applications are made after completion of the control period. Regulation 4 of 2005 provides for carrying cost for the only uncontrollable item, i.e. the power purchase cost. However, the licensees were permitted to recover the fuel cost adjustment (FSA) periodically for the first four years of the control period and that covers a substantial portion of such variation. The licensees have not earned profits from the regulatory businesses during the control period and thus carrying cost on taxes on income also does not arise. Consequently, there is no need or justification to allow any carrying cost to the licensees for the control period.

True Up Amounts for the Control Period

86. With the revenue requirement items, revenue items and carrying cost as explained earlier, the Commission has computed the true up amount at ₹2929 cr for SPDCL and ₹ 862 cr for EPDCL for the control period. These amounts include the true up amounts payable/recoverable as the case may be on account of true up of distribution business for the control period. Henceforth, the

reference to true up reflects the true up related to both businesses for the control period. The details for each licensee are given in tables below:

Table 21: SPDCL-Distribution and Retail Supply Business True Up (₹ cr)

SPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Power Purchase Cost	4223.97	4757.53	5902.57	7522.44	7663.14	30069.65
2. Transmission Cost	266.94	206.46	256.88	214.35	246.51	1191.13
3. SLDC Charges	6.51	6.16	8.25	8.98	9.90	39.80
4. PGCIL Charges	89.02	84.95	111.85	114.52	128.03	528.38
5. ULDC Charges	6.07	6.01	6.00	6.08	6.05	30.22
6. Distribution Cost	769.51	1092.97	1157.86	1173.63	1243.74	5437.71
7. Interest on CSD	31.20	35.89	41.92	77.14	89.43	275.58
8. Supply Margin	8.73	10.62	11.08	10.31	9.88	50.62
9. Other Expenses	35.48	13.56	0.02	0.00	0.00	49.06
10. ARR(1+..+9)	5437.42	6214.16	7496.43	9127.44	9396.68	37672.14
11. Less Total Revenue	4638.81	5942.50	6801.42	8003.22	9357.45	34743.40
12. Add Carrying Cost	0.00	0.00	0.00	0.00	0.00	0.00
13. Net True Up (10-11+12)	**798.61**	**271.66**	**695.01**	**1124.22**	**39.23**	**2928.74**

Table 22: EPDCL- Distribution and Retail Supply Business True Up (₹ cr)

EPDCL	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1. Power Purchase Cost	3115.41	3386.15	4268.46	5106.00	5220.00	21096.02
2. Transmission Cost	118.30	137.93	179.58	209.11	172.00	816.92
3. SLDC Charges	4.49	5.11	5.77	6.93	6.94	29.24
4. PGCIL Charges	67.47	60.22	83.62	85.35	95.13	391.79
5. ULDC Charges	0.00	0.00	0.00	0.00	0.00	0.00
6. Distribution Cost	480.12	604.33	615.49	725.20	729.63	3154.78
7. Interest on CSD	29.67	32.06	36.05	65.86	75.00	238.64
8. Supply Margin	4.67	4.67	4.59	4.76	4.98	23.68
9. Other Expenses	0.29	0.86	1.41	0.00	0.00	2.56
10. ARR(1+..+10)	3820.41	4231.34	5194.97	6203.22	6303.68	25753.63
11. Less Total Revenue	3709.01	4167.55	5183.72	5641.36	6190.35	24891.99
12. Add Carrying Cost	0.00	0.00	0.00	0.00	0.00	0.00
13. Net True Up (10-11+12)	**111.40**	**63.79**	**11.25**	**561.86**	**113.33**	**861.64**

Additional Supplies to Agriculture

87. It is observed that the licensees have made excess supply (supply in addition to sales approved in tariff orders) to agriculture during the control period. The retail supply tariff for this consumer category is 'nil' for most of the consumers and minimal for others on account of subsidization of tariffs by Government of Andhra Pradesh (GoAP). Accordingly, supply of energy in excess of sales volume approved in tariff order to this consumer category did not result in any additional revenue but the licensees had to incur the cost of such additional supply made to the agricultural consumers.

88. During the control period, the GoAP has assured positively in four years that they will bear additional cost for the supply of power to all eligible agricultural consumers and fully subsidise the supply of power to all eligible consumers in statements made by them during the annual retail supply tariff proceedings of the Commission. The relevant portions of the statements of GoAP for each years of the control period are extracted and placed below:

FY2009-10

"The Government is committed to the welfare of the farmers and is providing free power to all eligible agricultural consumers since 14.05.2004 and has been providing necessary subsidy besides amount for purchasing additional power to meet the additional demand in the present Rabi Season"

FY2010-11

"The Government is committed to the welfare of the farmers and is providing free power to all eligible agricultural consumers since 14.05.2004 and has been providing necessary subsidy beside amount for purchasing additional power to meet the additional demand for FY2010-11."

FY2011-12

"The Government is committed to the welfare of the farmers and is providing free power to all eligible agricultural consumers since 14.05.2004 and has been providing necessary subsidy besides amount for purchasing additional power to meet the additional demand. An amount of ₹4500 cr has been earmarked towards subsidy during the financial year 2010-11."

FY2012-13

"The Government is committed to the welfare of the farmers and is providing free power to all eligible agricultural consumers since 14.05.2004 and has been providing necessary subsidy besides amount for purchasing additional power to meet the additional demand. An amount of ₹4210 cr has been earmarked towards subsidy during the financial year 2011-12. Commitment of Government to provide free power to the agriculture sector is reflected by increase in subsidy for the year 2012-13. The subsidy has been increased to ₹5500 cr for agriculture and allied for the year 2012-13.”

89. Though there is no such positive letter/statement for FY2013-14, the supplies of power to eligible agricultural consumers has been continued and the GoAP has released the subsidies for such supply to the extent of budget provision showing that the same commitment continued for the year also.

90. Therefore, the Commission has, while reckoning the additional supplies to agriculture in the context of assured subsidies and readiness to pay the cost in this regard by GoAP, decided to compute the cost of additional agricultural purchases and supplies, and issue directions to pay such cost as subsidy for the control period u/s 65 of the Electricity Act 2003 and all other powers enabling the Commission in this behalf. The excess agricultural supplies during the control period have been valued at ₹1017 cr for SPDCL and ₹ 356 cr for EPDCL for the control period. The GoAP is liable to pay these amounts in confirmation of the statements made by them with regard to power supplies to agriculture. The relevant calculations in this regard are given in the table below:

Table 23: Cost of Additional Sale to Agriculture (₹ cr)

SPDCL	**Unit**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**Total**
Agricultural Sales	**mu**						
T.O.	**mu**	3,455.55	3,735.07	4,074.52	4,478.35	4,478.35	20,221.84
Actual	**mu**	4,167.82	3,664.49	4,366.34	4,587.91	5,513.46	22,300.02
Difference	**mu**	712.27	(70.58)	291.81	109.56	1,035.11	2,078.17
Total Sales	**mu**	**13,697.28**	**14,441.24**	**16,388.21**	**16,444.85**	**18,024.46**	**78,996.05**
ARR/UNIT	₹/unit	3.97	4.30	4.57	5.55	5.21	4.77
Additional Cost	**₹cr.**	**282.75**	**-**	**133.48**	**60.81**	**539.63**	**1,016.68**
EPDCL	Unit	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**Total**
Agricultural Sales	**mu**						
T.O.	**mu**	1,323.00	1,429.54	1,558.81	1,714.80	1,714.20	7,740.35
Actual	**mu**	1,868.31	1,451.90	1,820.65	1,534.08	1,752.45	8,427.39
Difference	**mu**	545.31	22.36	261.84	(180.72)	38.25	687.04
Total Sales	**mu**	9,868.55	10,366.38	11,725.73	11,402.04	12,119.04	55,481.74
ARR/UNIT	₹/unit	3.87	4.08	4.43	5.44	5.20	4.64
Additional Cost	**₹cr.**	**211.11**	**9.13**	**116.00**	**-**	**19.90**	**356.13**

Communication from GoAP

91. A significant development after the hearing of the matters on 21-11-2015 is receipt of a letter from the Secretary to the Government of Andhra Pradesh in Energy, Infrastructure & Investment Department dated 28-11-2015, the relevant portions of which are extracted hereunder:

"Government of India has announced UJJWAL DISCOM ASSURANCE YOJANA (UDAY) scheme, with an objective to improve the operational and financial efficiency of the state Discoms vide 06/02/2015 – NEF / FRP dt.20/11/2015. Under this scheme, State Government shall take over 75% of Discoms debt as on 30.09.2015 over 2 years – 50% of Discoms debt shall be taken over in 2015-16 and 25% in 2016-17. In addition, certain incentives have been announced to Discoms such as additional power from central generating stations, higher coal allocation and more funds through IPDS and DDUGY schemes. This scheme will have a significant impact on the Discoms. The scheme is under active examination by the State Govt for participation.

In the process of true up, if the Govt is found liable to pay any additional subsidy or any additional cost of Power Purchase towards supply of Power over and the above Tariff order to agricultural sector or any other amounts under any head, the same may be considered as part of liabilities taken over by the State Govt, if the State Govt participates in UDAY scheme.

The Hon'ble Commission is requested to kindly consider the above circumstances while determining the True up petitions."

92. The letter is which is self-explanatory thus discloses that the debts of the DISCOMs which are proposed to be taken over by the concerned State Governments should be over two years as on 30-09-2015 i.e., debts which were in existence during the control period 2009-10 to 2013-14 which is now under consideration. UDAY scheme which is under active examination by the State Government for participation thus covers the liabilities to be taken over concerning the control period in question and hence liabilities now sought by the Discoms to be met by permitting true-up exercise are in effect and substance governed by the said scheme. What the State Government requested in the letter is to consider any amount payable by them towards any additional subsidy or any additional cost of power purchase towards supply of power over and above the tariff order to agricultural sector or any other amount under any heads may be considered as part of liabilities taken over by the State Government if the State Government participates in the UDAY scheme. By whatever name called the liabilities of the State Government to pay towards any additional subsidy or additional cost of power purchase or under any other head will be to meet the liability already incurred by a distribution company for that purpose and as overall scheme covers a wider range of liabilities to an extent of 75% of the total liabilities of the distribution company, the request of the State Government has to be accepted in all reasonableness in law and on fact.

93. Therefore, the State Government shall pay ₹356.13 cr to Eastern Power Distribution Company of Andhra Pradesh Limited (APEPDCL) and ₹1016.68 cr to Southern Power Distribution Company of Andhra Pradesh Limited (APSPDCL) towards additional cost of power purchase to eligible agricultural consumers and in the event of State Government participate in UDAY scheme, the amount so payable shall be considered as part of the liability taken over by the State Government under the said scheme. If State Government were to decide not to participate in the said scheme, the payment of said amount shall be ensured during the FY2016-17.

Net True Up for the Control Period

94. Since the cost on account of additional supplies to agriculture is to be borne by GoAP, the Commission has deducted this cost from the gross true up amounts for each licensee to arrive at the net true up amount for each year of the control period. The net true up amount for distribution and retail supply businesses is approved at ₹1912 cr for SPDCL and ₹506 cr for EPDCL for the control period. The summary of true up calculations (details in annexure-10 for SPDCL and annexure-11 for EPDCL) is given in the table below:

Table 24: Net True Up for Distribution and Retail Supply Business for Control Period (₹ cr)

SPDCL	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**Total**
True Up Amount	798.61	271.66	695.01	1124.22	39.23	2928.74
less Addl. Supplies to Agriculture	282.75	0.00	133.48	60.81	539.63	1016.68
Net True Up	**515.86**	**271.66**	**561.53**	**1063.41**	**-500.40**	**1912.06**
EPDCL						
True Up Amount	111.40	63.79	11.25	561.86	113.33	861.64
less Addl. Supplies to Agriculture	211.11	9.13	116.00	0.00	19.90	356.13
Net True Up	**-99.70**	**54.66**	**-104.75**	**561.86**	**93.43**	**505.51**
DISCOMs						
True Up Amount	910.02	335.45	706.27	1686.08	152.56	3790.38
less Addl. Supplies to Agriculture	493.86	9.13	249.49	60.81	559.53	1372.81
Net True Up	**416.16**	**326.32**	**456.78**	**1625.27**	**-406.97**	**2417.57**

PART - V
CONCLUSION

95. The Electricity Act, 2003 while dealing with the tariff and the statutory obligations of the appropriate Commission to specify the terms and conditions for the determination of tariff mentioned among other things that the appropriate Commission shall be guided by the necessity to safe-guard the consumers' interest and at the same time recover the cost of electricity in a reasonable manner. Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation 4 of 2005 was made with reference to the said statutory obligation under Sections 61, 62 and 181 (2). While the tariff is determined annually in accordance with the prescribed procedure under Regulations 3 to 9 there-under, the multi-year tariff framework and approach was prescribed by Regulation 10 under which the present true-up exercise is undertaken.

96. Regulation 10.4 clearly specifies and classifies controllable and uncontrollable items of expenditure of a distribution licensee and a pass through of gains and losses of variation is permitted under Regulation 10.5 only in respect of uncontrollable items i.e., taxes on income and cost of power purchase relating to distribution and retail supply business respectively. In so far as taxes on income in respect of distribution business are concerned, the Commission has straightaway approved the claims of the licensees which are lesser than the approvals of the Commission in its tariff order. In so far as the power purchase cost relating to the retail supply business is concerned, it was noted that the licensees were permitted to recover by the orders of the Commission fuel cost adjustment for the first four years of the control period substantially recovering any such variation and the Government of Andhra Pradesh is bound to make good the power purchase cost in respect of excess supply than permitted to all eligible agricultural consumers to a tune of ₹1372.81 cr. However, the said amount is yet to be reimbursed by the State Government to the distribution companies. Similarly, fuel cost adjustment permitted by the Commission could not be physically recovered by the distribution companies for the periods in respect of which the interim orders or directions of the Courts are in force. The overall situation therefore is that though the difference between actual cost of power purchased and permitted cost of power purchase could have been almost recovered, it did not happen so far in real terms and hence, no accurate pass-through of gains and losses on the uncontrollable items appears feasible. In respect of the remaining items controlled, what is permitted by Regulations 10.6 and 10.7 is only the sharing of aggregate gains and losses for the control period as a whole with the

consumers for which purpose the Commission would have to review each item of Aggregate Revenue Requirement and make proper adjustments wherever required.

97. It is here that another factor which can be taken judicial notice of and which is not placed on record by the parties to the hearing that becomes relevant. The financial restructuring plan of the distribution companies for the erstwhile State of Andhra Pradesh was formulated by the Ministry of Power, Government of India which covered among other things, 50% short term liabilities as on 31-03-2012 which were taken over by the State Government by issue of bonds, which was during the control period now under consideration. Accordingly, the State Government in pursuance of its commitment towards past short term liabilities of the distribution companies assumed liability under G.O.Ms.No.62 Energy (Power-III) Department, dated 14-11-2013 in respect of four distribution companies in the erstwhile State and it is clearly specified therein that the liability assumed was as on 31-03-2013 which is also during the control period under the present consideration. What was actually undertaken to be taken over by the State Government through bonds in respect of the two distribution companies now in the State of Andhra Pradesh was clear from G.O.RT.No.99 Energy (Power-III) Department, dated 27-09-2014 and G.O.Rt.No.6 Energy, Infrastructure & Investment (Power-III) Department, dated 11-09-2015 which referred to the total bonds taken over to be worth of ₹4046.15 cr consisting of ₹1805.95 cr of Eastern Power Distribution Company of Andhra Pradesh Limited and ₹2240.20 cr of Southern Power Distribution Company of Andhra Pradesh Limited. The short term liabilities thus taken over by the State Government relating to the control period in question are thus much higher than the total losses being claimed by the distribution companies towards controllable items and even if the bonds are also in respect of any other items of expenditure beyond the controllable and uncontrollable items under Regulation 4 of 2005, there cannot be any doubt that the variations in respect of controllable items during the relevant control period could never have been more than the liabilities undertaken by the State Government through taking over by way of bonds. As what is contemplated under Regulation 4 of 2005 is only sharing of aggregate gains and losses as a whole for the control period by the distribution companies with the consumers and as there appear to be no physical losses left out in respect of controllable items to be so shared with the consumers, burdening the consumers with any true up of such items for that period may be neither legal nor just.

98. That apart, if the Government of Andhra Pradesh decides to participate in UDAY scheme, 75% debts of the distribution companies shall have to be taken over by them which obviously include any losses that might have been suffered by the distribution companies during the relevant five

years now sought to be trued up. As already referred to, the request of the State Government is to consider by any other amounts under any other head bound liability to pay may be considered as part of liabilities taken over under that scheme. Even if that were to happen, the question of any losses to be shared with the consumers still remaining to be accounted for during the relevant years will not arise.

99. As Regulation 10 of Regulation 4 of 2005 makes the existence of gains and losses to be passed through or shared alone as the basis for true up, notwithstanding the calculations of the amounts that might have to be trued up at ₹2417.57 cr (₹1912.06 cr+ ₹ 505.51 cr), there is no amount that has to be actually permitted to be passed through or shared to the detriment of the consumers.

100. Therefore, the request of the Southern Power Distribution Company of Andhra Pradesh Limited for a true up of ₹ 866 cr towards distribution business and ₹ 5184.93 cr for retail supply business and the request of the Eastern Power Distribution Company of Andhra Pradesh Limited for a true up of ₹ 477.67 cr towards distribution business and ₹680.06 cr towards retail supply business are not accepted. The Government of Andhra Pradesh shall pay ₹1016.68 cr to the Southern Power Distribution Company of Andhra Pradesh Limited and ₹356.13 cr to the Eastern Power Distribution Company of Andhra Pradesh Limited during FY2016-17 towards the additional power purchase cost for supply to all eligible agricultural consumers during the control period which will effect full cost recovery without any further payment towards subsidy to that extent. This direction is given under Section 65 of the Electricity Act, 2003 and all other powers thereunto enabling the Commission. If the State Government participates in UJJWAL DISCOM ASSURANCE YOJANA (UDAY) scheme announced by the Government of India, the liability to pay the above amount shall be considered as part of liabilities taken over by the Government of Andhra Pradesh under the scheme. Any other losses of either distribution company towards any controllable and uncontrollable items under Regulation 4 of 2005 shall also be deemed to be part of the liabilities taken over by the Government of Andhra Pradesh under the said scheme, if the State Government decides to participate in the said scheme. Even otherwise, all such losses are recorded to be covered by the power bonds of the two distribution companies taken over by the State Government under the financial restructuring plan covering the short term liabilities during the control period. Therefore, no amount has to be passed through to the consumers or shared with the consumers under any true up exercise for the said period of FY2009-10 to FY2013-14. The four petitions are ordered accordingly.

101. The Commission takes this opportunity to place its appreciation on record for the learned and valuable assistance of Sri P. Shiva Rao, Sri K. Gopal Choudary, Sri Challa Gunaranjan, Sri Bhushan Rastogi and Sri M. Venugopala Rao. Apart from them, the following have also provided valuable data and suggestions through their submissions and communications in this regard:

1. Sri H.Y. Dora, CMD/APEPDCL
2. Sri Syed Bilal Basha, Director/Finance/APSPDCL
3. Sri T.V.S. Chandra Sekhar, Director/Finance/APEPDCL
4. Sri K. Hari Kishore Kumar Reddy, Member/SAC
5. Sri Penumalli Madhu, State Secretary/CPI(M)
6. Sri Ch. Narisnga Rao, State Secretariat Member/CPI(M)
7. Sri K. Rama Krishna, Secretary/CPI
8. Sri M. Thimmma Reddy, Convener/PMGER
9. Smt. M. Indrani, Advocate
10. Sri P. Srinivasa Rao, KPMG
11. Sri Anil Reddy Vennam, President/FTAPCCI
12. Sri Muthavarapu Murali Krishna, President/Andhra Pradesh Chambers of Commerce and Industry Federation, Vijayawada
13. Sri P. Muni Reddy, Sr. Vice President/India Cements
14. Sri Anil Agarwal, Member/FTAPCCI
15. Sri Vijay Gopal Reddy, Representative/A.P. Ferro Alloys Producers Association
16. Sri P. Koti Rao, Representative/Andhra Pradesh Spinning Mills Association
17. Sri K. Jagadish, My Home Industries

102. But for the experienced guidance of all the participants the exercise could not have been satisfactorily under taken. The Commission also wishes to place on record their appreciation for the strenuous efforts of two members of the Commission family namely, Dr. P. Rama Rao, Joint Director (TEC) and Sri P. Murali Krishna, Deputy Director(Tariff Engineering), in assisting the Commission in this regard.

This Order is signed on 5th day of December, 2015

Sd/-	**Sd/-**
P. Rama Mohan	**Justice G. Bhavani Prasad**
Member	**Chairman**

Annexure-01: Direction to DISCOMs with regard to public notice

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

#11-4-660, 4th Floor, Singareni Bhavan, Red Hills, Hyderabad 500 004

Phone Nos.(040)-23397381/ 399 / 556 Fax No.(040) - 23397378 website www.aperc.gov.in

From

The Commission Secretary,

#11-4-660, 4th Floor, APERC, Singareni Bhavan, Hyderabad – 500 004

To

The Chairman and Managing Director, APSPDCL, Tiruchanur Road, Tirupati

The Chairman and Managing Director, APEPDCL, P & T Colony, Visakhapatnam

Lr. No. APERC / Secy/ 2015 Dated: 4--07-2015

Sir,

Sub:- APERC – Filing of petitions by the APDISCOMs seeking true-up approval of expenses and revenue for Distribution (Wheeling) & Retail Supply Businesses for 2nd MYT control period – Publication calling for views / objections / suggestions – Reg.

Ref: i) APEPDCL Petition in O.P. No. 22 of 2015 (Distribution Business)

ii) APEPDCL Petition in O.P. No. 23 of 2015 (Retail Supply Business)

iii) APSPDCL Petition in O.P. No. 24 of 2015 (Distribution Business)

iv) APSPDCL Petition in O.P. No. 25 of 2015 (Retail Supply Business)

* * *

Two petitions each, filed by APEPDCL and APSPDCL seeking true-up approval of expenses and revenue for Distribution (Wheeling) & Retail Supply Businesses for 2nd control period under Multi-Year Tariff principles in accordance with Regulation No. 4 of 2005, are taken on the file of the Commission.

2. APDISCOMs are directed to publish a 'Public Notice' in the given format in one English newspaper (in English) and one Telugu newspaper (in Telugu), having wide circulation in the State of Andhra Pradesh on or before 10-07-2015. The copies of the said petitions should also be made available to the public free of cost in the offices of Chief General Manager (Comml, RAC&PP) at Visakhapatnam in respect of APEPDCL and in the office of the Chief General Manager (Operation) at Tirupati in respect of APSPDCL. Similarly, copies of the petitions should also be made available to the public free of cost in the offices of Superintending Engineer (Operation Circle) at Srikakuam, Vizianagaram, Rajahmundry and Eluru in respect of APEPDCL and in the offices of Superintending Engineer (Operation Circle) at Nellore, Vijayawada, Guntur, Ongole, Kadapa, Anantapur and Kurnool in respect of APSPDCL.

3. Apart from publication as mentioned above, the petitions are required to be uploaded on the websites of the DISCOM concerned.

Yours faithfully,

4.7.2015

Commission Secretary (I/c)

Encl: Format of Public Notice

Annexure-02: Public Notices(First Notice)

OP.No. 22 /2015.

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గౌరవ ఆంధ్రప్రదేశ్ విద్యుత్ నియంత్రణా మండలి వారి సమక్షములో

నెం.11-4-660, 4వ అంతస్తు, సింగరేణి భవన్, రెడ్ హిల్స్, లకడీకాపూల్, హైదరాబాదు - 500 004

ఫోన్ నెం.:(040) 23397381 / 399 / 555, ఫ్యాక్స్ నెం.:(040) 23397378 website : www.aperc.gov.in

ఆంధ్రప్రదేశ్ దక్షిణ ప్రాంత విద్యుత్ పంపిణీ సంస్థ, తిరుపతి

ఆంధ్రప్రదేశ్ తూర్పు ప్రాంత విద్యుత్ పంపిణీ సంస్థ, విశాఖపట్టణం

బహిరంగ ప్రకటన

[illegible] 2009-10 నుండి 2013-14 వరకు [illegible]

(అ) www.apspdcl.in (ఆ) www.apeasternpower.com (ఇ) www.aperc.gov.in

[illegible] E-mail (commn-secy@aperc.gov.in) [illegible] 31-07-2015 [illegible]

తేదీ. 10-07-2015

The Hindu

BEFORE THE HONOURABLE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

#11-4-660, 4th Floor, Singareni Bhavan, Red Hills, Hyderabad 500 004

Phone Nos.: (040) 23397381 / 399 / 555 Fax No.: (040) 23397378 website : www.aperc.gov.in

SOUTHERN POWER DISTRIBUTION COMPANY OF A.P. LIMITED, TIRUPATI

EASTERN POWER DISTRIBUTION COMPANY OF A.P. LIMITED, VISAKHAPATNAM

PUBLIC NOTICE

Notice is hereby given to all that Southern Power Distribution Company of A.P Ltd (SPDCL) and Eastern Power Distribution Company of A.P. Ltd (EPDCL) filed two separate petitions each, for true-up of their (i) Distribution (Wheeling) (ii) Retail Supply Business for the 2nd control period (FY 2009-10 to FY 2013-14) under Multi-Year Tariff principles in accordance with the APERC (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation No 4 of 2005. The said four petitions are taken on the file of the Honourable Commission.

2. In the said petitions, the DISCOMs essentially request the Honourable Commission to approve true-up of expenses and revenue for 2nd MYT control period, as shown below

Case No.	DISCOM	True-up of	Amount (Rs. Cr.)
O.P.No.22 of 2015	APEPDCL	Distribution Business	478
O.P.No.23 of 2015	APEPDCL	Retail Supply Business	660
O.P.No.24 of 2015	APSPDCL	Distribution Business	566
O.P.No.25 of 2015	APSPDCL	Retail Supply Business	5185

3. Copies of the two petitions filed by APEPDCL can be obtained from the office of the Chief General Manager (Comml, RAC & PP) at Visakapatnam and also from the offices of Superintending Engineer (Operation Circle) at Srikakulam, Vizianagaram, Rajahmundry, Eluru and Visakhapatnam. Similarly, copies of the two petitions filed by APSPDCL can be obtained from the office of the Chief General Manager (Operation) at Tirupati and also from the offices of Superintending Engineer (Operation Circle) at Vijayawada, Guntur, Ongole, Nellore, Tirupati, Kadapa, Anantapuram and Kurnool. Interested persons may inspect / peruse the said petitions and take note thereof, during the office hours at any of the above mentioned offices free of cost. The said petitions for true-up of expenses and revenue for 2nd MYT control period are also available on www.apeasternpower.com, www.apspdcl.in and www.aperc.gov.in

4. APERC invites views / objections / suggestions from interested persons/ stakeholders in respect of the above mentioned petitions filed by APDISCOMs and the same may be submitted to the Secretary, APERC, #11-4-660, 4th Floor, Singareni Bhavan, Red Hills, Lakdi-ka-pul, Hyderabad – 500 004, either in person or through post / e-mail commn-secy@aperc.gov.in so as to reach the said office on or before **5.00 PM on 31-07-2015.**

Date : 10-07-2015

Chairman & Managing Director
A.P.E.P.D.C.L., Visakhapatnam

Chairman & Managing Director
A.P.S.P.D.C.L., Tirupati

Annexure - 03: Direction to DISCOMs with regard to public notice

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

Phone Nos.(040)-23397381/ 399 / 556 Fax No.(040) - 23397378 website www.aperc.gov.in

From

The Commission Secretary,

#11-4-660, 4th Floor, APERC, Singareni Bhavan, Hyderabad – 500 004

To

The Chairman and Managing Director, APSPDCL, Tiruchanur Road, Tirupati

The Chairman and Managing Director, APEPDCL, P & T Colony, Visakhapatnam

Lr. No. APERC / Secy/ 2015 Dated: 11-08-2015

Sir,

Sub:- APERC – Filing of petitions by the APDISCOMs seeking true-up approval of expenses and revenue for Distribution (Wheeling) & Retail Supply Businesses for 2nd MYT control period – Publication intimating date of hearing – Reg.

Ref: i) APEPDCL Petition in O.P. No. 22 of 2015 (Distribution Business)

ii) APEPDCL Petition in O.P. No. 23 of 2015 (Retail Supply Business)

iii) APSPDCL Petition in O.P. No. 24 of 2015 (Distribution Business)

iv) APSPDCL Petition in O.P. No. 25 of 2015 (Retail Supply Business)

* * *

The above mentioned petitions will be taken up for hearing before the Commission on **19-09-2015 at 11.00 AM** at its Court Hall at Hyderabad.

2. APDISCOMs are directed to publish a 'Public Notice' in the given format in one English newspaper (in English) and one Telugu newspaper (in Telugu), having wide circulation in the State of Andhra Pradesh on or before 19-08-2015.

3. Apart from publication as mentioned above, the Public Notice intimating date of hearing of the said petitions by the Commission, is required to be uploaded on the websites of the DISCOM concerned.

Yours faithfully,

11.8.2015

Commission Secretary (I/c)

11 Aug
486

Encl: Format of Public Notice

Annexure - 04 : Public Notice (Second notice)

Eenadu Page No.5, 18-08-2015

BEFORE ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

#11-4-660, 4th Floor, Singareni Bhavan, Red Hills, Hyderabad 500 004

SOUTHERN POWER DISTRIBUTION COMPANY OF A.P.LIMITED, TIRUPATI

EASTERN POWER DISTRIBUTION COMPANY OF A.P.LIMITED, VISAKHAPATNAM

PUBLIC NOTICE

TAKE NOTICE THAT the following petitions filed by Southern and Eastern Power Distribution Companies of A.P Ltd for true-up of their (i) Distribution (Wheeling) (ii) Retail Supply Businesses for the 2nd Control Period (FY 2009-10 to 2013-14) will be taken up for hearing before the Commission on 19-09-2015 at 11:00 AM at its Court Hall at Hyderabad

Case No.	DISCOM	True-up of	Amount (Rs. Cr.)
O.P.No.22 of 2015	APEPDCL	Distribution Business	478
O.P.No.23 of 2015	APEPDCL	Retail Supply Business	680
O.P.No.24 of 2015	APSPDCL	Distribution Business	866
O.P.No.25 of 2015	APSPDCL	Retail Supply Business	5185

2. All the interested persons / associations / stakeholders / objectors who want to be heard in person / through authorized representatives may appear before the Commission on the said date of hearing at Hyderabad and submit their views / objections / suggestions in respect of the above mentioned petitions.

Sd/-
COMMISSION SECRETARY (I/c)

Place: Hyderabad
Date: 11-08-2015

New Indian Express Page No.5, 18-08-2015

Annexure-05: SPDCL- Tariff Order Calculations for Control Period (₹cr)

Sl.No.	Distribution Business	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	**Assets(02+03)**	**4911.89**	**5597.52**	**6251.54**	**6884.92**	**7371.28**	**31017.15**
02	Opening Balance	4163.11	4911.89	5597.52	6251.54	6884.92	**27808.98**
03	Additions	748.78	685.63	654.01	633.38	486.36	**3208.17**
04	**Depreciation(05+06)**	**1683.55**	**1914.43**	**2181.62**	**2515.86**	**2859.55**	**11155.01**
05	Opening Balance	1502.03	1683.55	1914.43	2181.62	2515.86	**9797.49**
06	Additions	181.52	230.87	267.19	334.24	343.69	**1357.52**
07	**Consumer Contributions (08+09)**	**970.36**	**1120.78**	**1281.59**	**1373.38**	**1466.29**	**6212.40**
08	Opening Balance	778.61	970.36	1120.78	1281.59	1373.38	**5524.72**
09	Additions	191.75	150.42	160.81	91.79	92.90	**687.68**
10	**Working Capital (11+12)**	**39.31**	**42.80**	**46.62**	**50.81**	**55.40**	**234.94**
11	1/12 of O&M Expenses	39.31	42.80	46.62	50.81	55.40	**234.94**
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	**0.00**
13	**Change in Rate Base ((03-06-09)÷2)**	**187.76**	**152.17**	**113.00**	**103.68**	**24.88**	**581.49**
14	**Regulated Rate Base (02-05-08+10+13)**	**2109.54**	**2452.95**	**2721.94**	**2942.81**	**3075.96**	**13303.19**
15	**Capital Structure**						
16	Debt(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
17	Equity(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
18	**Cost of Funds (percent)**						
19	Cost of Debt (percent)	10.00%	10.00%	10.00%	10.00%	10.00%	
20	Return on Equity(percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
21	**WACC((16x 19) + (17 x 20))**	11.00%	11.00%	11.00%	11.00%	11.00%	
22	**Return on Capital Exployed (14 X 21)**	232.05	269.82	299.41	323.71	338.36	1463.35
23	**O & M Expenses**	411.24	461.54	502.38	572.96	625.12	**2573.24**
00	a) Employee cost	310.52	356.48	392.59	457.22	503.02	2019.83
00	b) A&G	47.73	50.48	53.57	57.83	62.46	272.06
00	c) R&M	52.99	54.58	56.22	57.91	59.64	281.35
24	Depreciation	181.52	230.87	267.19	334.24	343.69	1357.51
25	Taxes on Income	1.15	1.15	1.25	1.37	1.52	6.44
26	Safety Measures	5.00	5.00	5.00	5.00	5.00	25.00
27	Other Expenditure	47.67	49.46	51.32	53.25	55.25	256.95
28	**Gross ARR(22+23+...+27)**	**878.63**	**1017.84**	**1126.55**	**1290.52**	**1368.94**	**5682.49**
29	**Total Revenue(30+31)**	878.64	1017.85	1126.56	1290.52	1368.94	5682.51
30	Revenue	795.30	935.51	1040.00	1199.54	1273.30	5243.65
31	Non Tariff Income	83.34	82.34	86.56	90.98	95.64	438.86
32	**Revenue Gap(28-29)**	0.00	0.00	0.00	0.00	0.00	0.00
33	**Carrying Cost**	0.00	0.00	0.00	0.00	0.00	0.00
34	**Net True up for Distribution(32+33)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	Retail Supply Business						
35	Power Purchase Cost	3385.34	4023.10	4857.56	6803.25	8106.46	27175.71
36	Transmission Cost	168.36	199.55	250.96	292.39	325.09	**1236.35**
37	SLDC Charges	6.38	5.91	8.07	8.81	9.60	**38.77**
38	PGCIL Charges	62.48	74.35	73.68	102.25	94.65	**407.41**
39	ULDC Charges	5.84	5.81	4.24	5.89	6.05	**27.83**
40	Distribution Cost	793.51	935.51	1040.00	1199.54	1273.30	**5241.86**
41	Interest on CSD	35.06	34.68	41.22	37.79	90.67	**239.42**
42	Supply Margin	10.55	12.26	13.61	14.71	15.38	**66.51**
43	Other Expenses	0.00	0.00	0.00	0.39	0.00	**0.39**
44	**Total ARR(35+...+43)**	**4467.52**	**5291.17**	**6289.34**	**8465.02**	**9921.20**	**34434.25**
45	**Total Revenue(46+..+50)**	**4467.53**	**5291.18**	**6289.33**	**8465.02**	**9921.20**	**34434.26**
46	Revenue from Tariff	3577.39	4014.76	5126.16	6901.78	7971.16	27591.25
47	FSA	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	0.00
48	Non Tariff Income	**83.34**	**123.83**	**167.59**	**224.79**	**83.57**	683.12
49	Tariff Order Subsidy	806.80	1152.59	995.58	1338.45	1866.47	6159.89
50	Additional Subsidy	0.00	0.00	0.00	0.00	0.00	0.00
51	**Revenue Gap(44-45)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Annexure-06: EPDCL- Tariff Order Calculations for Control Period (₹cr)

01	**Assets(02+03)**	**2682.15**	**3021.98**	**3362.26**	**3707.18**	**4102.75**	**16876.32**
02	Opening Balance	2349.36	2682.15	3021.98	3362.26	3707.18	**15122.93**
03	Additions	332.79	339.84	340.27	344.92	395.57	**1753.39**
04	**Depreciation(05+06)**	**1095.26**	**1249.84**	**1422.96**	**1613.39**	**1825.84**	**7207.28**
05	Opening Balance	952.10	1095.26	1249.84	1422.96	1613.39	**6333.54**
06	Additions	143.16	154.58	173.12	190.43	212.45	**873.74**
07	**Consumer Contributions (08+09)**	**781.41**	**884.53**	**1003.53**	**1068.53**	**1138.53**	**4876.53**
08	Opening Balance	597.95	781.41	884.53	1003.53	1068.53	**4335.95**
09	Additions	183.46	103.13	119.00	65.00	70.00	**540.58**
10	**Working Capital (11+12)**	**29.38**	**32.28**	**35.47**	**39.00**	**42.90**	**179.04**
11	1/12 of O&M Expenses	29.38	32.28	35.47	39.00	42.90	**179.04**
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	**0.00**
13	**Change in Rate Base ((03-06-09)÷2)**	**3.09**	**41.07**	**24.07**	**44.75**	**56.56**	**169.53**
14	**Regulated Rate Base (02-05-08+10+13)**	**831.78**	**878.83**	**947.17**	**1019.52**	**1124.72**	**4802.02**
15	**Capital Structure**						
16	Debt(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
17	Equity(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
18	**Cost of Funds (percent)**	0.00%	0.00%	0.00%	0.00%	0.00%	
19	Cost of Debt (percent)	10.00%	10.00%	10.00%	10.00%	10.00%	
20	Return on Equity(percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
21	**WACC((16x 19) + (17 x 20))**	11.00%	11.00%	11.00%	11.00%	11.00%	
22	**Return on Capital Exployed (14 X 21)**	91.50	96.67	104.19	112.15	123.72	528.22
23	**O & M Expenses**	316.60	358.60	394.84	437.20	480.02	**1987.25**
00	a) Employee cost	261.48	299.36	332.59	371.51	411.16	1676.10
00	b) A&G	40.72	44.37	46.91	49.87	52.52	234.39
00	c) R&M	14.40	14.86	15.34	15.83	16.34	76.76
24	Depreciation	143.16	154.58	173.12	190.43	212.45	873.74
25	Taxes on Income	1.98	1.98	1.98	1.98	1.98	9.90
26	Safety Measures	5.00	5.00	5.00	5.00	5.00	25.00
27	Other Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
28	**Gross ARR(22+23+...+27)**	**558.23**	**616.83**	**679.12**	**746.76**	**823.17**	**3424.12**
29	**Total Revenue(30+31)**	558.24	616.83	679.13	746.76	823.17	3424.13
30	Revenue	544.86	603.45	665.75	733.38	809.79	3357.23
31	Non Tariff Income	13.38	13.38	13.38	13.38	13.38	66.90
32	**Revenue Gap(28-29)**	0.00	0.00	0.00	0.00	0.00	0.00
33	**Carrying Cost**	0.00	0.00	0.00	0.00	0.00	0.00
34	**Net True up for Distribution(32+33)**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
	Retail Supply Business						
35	Power Purchase Cost	2398.90	2891.63	3434.69	4766.22	5786.43	19277.87
36	Transmission Cost	119.22	140.79	176.62	205.38	228.35	870.36
37	SLDC Charges	4.52	4.17	5.68	6.19	6.74	27.30
38	PGCIL Charges	48.47	56.87	56.13	76.80	66.44	304.71
39	ULDC Charges	0.00	0.00	0.00	0.00	0.00	0.00
40	Distribution Cost	544.85	603.44	665.75	733.37	809.79	3357.20
41	Interest on CSD	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	0.00
42	Supply Margin	32.68	35.45	50.00	38.58	70.98	227.69
43	Other Expenses	4.16	4.39	4.74	5.10	5.62	24.01
44	**Total ARR(35+...+43)**	3152.80	3736.74	4393.80	5831.92	6974.35	**24089.61**
45	**Total Revenue(46+..+50)**	**3152.80**	**3736.75**	**4393.71**	**5831.93**	**6974.35**	**24089.54**
46	Revenue from Tariff	2670.94	3389.25	3952.21	5409.92	6628.82	**22051.14**
47	FSA	0.00	0.00	0.00	0.00	0.00	**0.00**
48	Non Tariff Income	47.22	77.12	61.94	283.31	90.67	**560.26**
49	Tariff Order Subsidy	434.64	270.38	379.56	138.70	254.86	**1478.14**
50	Additional Subsidy	0.00	0.00	0.00	0.00	0.00	**0.00**
51	**Revenue Gap(44-45)**	0.00	0.00	0.00	0.00	0.00	0.00

Annexure-07: SPDCL-True Up Filings Details (₹cr)

Sl.No.	Distribution Business	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	**Assets(02+03)**	4538.67	5329.98	5663.50	6068.23	6564.95	28165.33
02	Opening Balance	3801.88	4538.67	5329.98	5663.50	6068.23	25402.26
03	Additions	736.79	791.31	333.52	404.73	496.72	2763.07
04	**Depreciation(05+06)**	1732.61	1970.34	2226.27	2492.18	2779.19	11200.59
05	Opening Balance	1543.32	1732.61	1970.34	2226.27	2492.18	9964.72
06	Additions	189.29	237.73	255.93	265.91	287.01	1235.87
07	**Consumer Contributions (08+09)**	919.81	1107.61	1372.57	1639.12	1910.21	6949.32
08	Opening Balance	715.32	919.81	1107.61	1372.57	1639.12	5754.43
09	Additions	204.49	187.80	264.96	266.55	271.09	1194.89
10	**Working Capital (11+12)**	41.84	74.35	61.48	66.33	93.02	337.03
11	1/12 of O&M Expenses	41.84	74.35	61.48	66.33	93.02	337.03
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	0.00
13	**Change in Rate Base ((03-06-09)÷2)**	171.51	182.89	-93.69	-63.87	-30.69	166.16
14	**Regulated Rate Base (02-05-08+10+13)**	**1756.59**	**2143.49**	**2219.83**	**2067.13**	**1999.26**	10186.29
15	**Capital Structure**						
16	Debt(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
17	Equity(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
18	**Cost of Funds (percent)**						
19	Cost of Debt (percent)	10.28%	9.90%	9.72%	10.39%	11.89%	
20	Return on Equity(percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
21	**WACC((16x 19) + (17 x 20))**	11.21%	10.93%	10.79%	11.29%	12.42%	
22	**Return on Capital Exployed (14 X 21)**	196.91	234.18	239.52	233.43	248.26	1152.30
23	**O & M Expenses**	**445.22**	**866.36**	**706.20**	**735.68**	**1028.35**	**3781.81**
00	a) Employee cost	331.10	742.55	564.13	576.22	854.11	3068.11
00	b) A&G	50.77	65.93	69.37	59.07	52.49	297.63
00	c) R&M	63.35	57.88	72.70	100.39	121.75	416.07
24	Depreciation	189.29	237.73	255.93	265.91	287.01	1235.87
25	Taxes on Income	0.70	0.78	1.83	0.00	0.00	3.31
26	Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
27	Other Expenditure	13.73	3.94	1.31	19.69	16.89	55.56
28	**Gross ARR(22+23+...+27)**	**845.86**	**1342.99**	**1204.79**	**1254.71**	**1580.51**	**6228.85**
29	**Total Revenue(30+31)**	847.24	1004.89	1087.26	1291.48	1317.23	5548.09
30	Revenue	793.51	935.51	1040.00	1199.54	1273.30	5241.86
31	Non Tariff Income	53.73	69.38	47.26	91.94	43.93	306.23
32	**Revenue Gap(28-29)**	-1.38	338.10	117.53	-36.77	263.28	680.75
33	**Carrying Cost**	-0.08	20.12	47.46	52.30	65.89	185.69
34	**Net True up for Distribution(32+33)**	**-1.46**	**358.22**	**164.99**	**15.54**	**329.17**	**866.44**
	Retail Supply Business						
35	Power Purchase Cost	4223.97	4757.53	5902.57	7522.44	7663.14	30069.65
36	Transmission Cost	266.94	206.46	256.88	214.35	246.51	**1191.13**
37	SLDC Charges	6.51	6.16	8.25	8.98	9.90	**39.80**
38	PGCIL Charges	89.02	84.95	111.85	114.52	128.03	**528.38**
39	ULDC Charges	6.07	6.01	6.00	6.08	6.05	**30.22**
40	Distribution Cost	793.51	935.51	1040.00	1199.54	1273.30	**5241.86**
41	Interest on CSD	31.20	35.89	41.92	77.14	89.43	**275.58**
42	Supply Margin	8.58	10.05	9.89	8.51	7.45	**44.49**
43	Other Expenses	45.84	55.75	0.02	0.00	0.00	**101.61**
44	**Total ARR(35+...+43)**	**5471.63**	**6098.32**	**7377.39**	**9151.55**	**9423.82**	**37522.72**
45	**Total Revenue(46+..+50)**	**4254.76**	**5804.78**	**6722.30**	**7689.12**	**9124.93**	**33595.89**
46	Revenue from Tariff	3326.06	3924.10	4688.00	5478.37	7173.68	24590.21
47	FSA	0.00	444.84	933.23	836.47	0.00	2214.54
48	Non Tariff Income	121.90	283.25	105.49	35.83	84.78	631.25
49	Tariff Order Subsidy	806.80	1152.59	995.58	1338.45	1866.47	6159.89
50	Additional Subsidy	0.00	0.00	0.00	0.00	0.00	0.00
51	**Revenue Gap(44-45)**	**1216.87**	**293.54**	**655.09**	**1462.43**	**298.88**	**3926.83**
52	Carrying Cost	73.01	163.64	220.56	347.61	453.29	**1258.10**
53	**True Up (51+52)**	**1289.89**	**457.18**	**875.65**	**1810.04**	**752.17**	**5184.93**

Annexure-08: EPDCL-True Up Filings Details(₹cr)

Sl.No.	Distribution Business	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	**Assets(02+03)**	2648.17	2854.60	3126.78	3497.22	4022.43	16149.21
02	Opening Balance	2394.89	2648.17	2854.60	3126.78	3497.22	14521.67
03	Additions	253.29	206.42	272.19	370.44	525.21	1627.54
04	**Depreciation(05+06)**	1141.63	1321.29	1512.80	1722.56	1938.22	7636.49
05	Opening Balance	973.20	1141.63	1321.29	1512.80	1722.56	6671.47
06	Additions	168.43	179.66	191.51	209.76	215.66	965.02
07	**Consumer Contributions (08+09)**	591.81	655.51	740.07	850.36	1128.05	3965.80
08	Opening Balance	518.37	591.81	655.51	740.07	850.36	3356.13
09	Additions	73.44	63.70	84.55	110.29	277.69	609.67
10	**Working Capital (11+12)**	28.00	43.27	43.53	54.04	53.07	221.91
11	1/12 of O&M Expenses	28.00	43.27	43.53	54.04	53.07	221.91
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	0.00
13	**Change in Rate Base ((03-06-09)÷2)**	5.71	-18.47	-1.94	25.20	15.93	26.43
14	**Regulated Rate Base (02-05-08+10+13)**	**937.02**	**939.54**	**919.38**	**953.15**	**993.31**	4742.40
15	**Capital Structure**						
16	Debt(percent)	75.00%	75.00%	75.00%	75.00%	75.00%	
17	Equity(percent)	25.00%	25.00%	25.00%	25.00%	25.00%	
18	**Cost of Funds (percent)**	0.00%	0.00%	0.00%	0.00%	0.00%	
19	Cost of Debt (percent)	9.93%	7.94%	8.46%	8.99%	10.00%	
20	Return on Equity(percent)	14.00%	14.00%	14.00%	14.00%	14.00%	
21	**WACC((16x 19) + (17 x 20))**	10.95%	9.46%	9.84%	10.24%	11.00%	
22	**Return on Capital Exployed (14 X 21)**	102.61	88.85	90.50	97.63	109.26	488.85
23	**O & M Expenses**	**316.55**	**497.04**	**492.64**	**607.71**	**609.93**	**2523.88**
00	a) Employee cost	258.77	433.09	408.68	502.58	482.60	2085.70
00	b) A&G	43.89	46.09	52.59	53.83	56.86	253.25
00	c) R&M	13.90	17.87	31.38	51.30	70.47	184.92
24	Depreciation	168.43	179.66	191.51	209.76	215.66	965.02
25	Taxes on Income	3.90	3.19	-6.34	0.00	0.00	0.75
26	Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
27	Other Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
28	**Gross ARR(22+23+...+27)**	**591.48**	**768.74**	**768.32**	**915.10**	**934.85**	**3978.49**
29	**Total Revenue(30+31)**	582.86	648.45	713.75	780.38	874.79	3600.23
30	Revenue	544.86	603.45	665.75	733.38	809.79	3357.23
31	Non Tariff Income	38.00	45.00	48.00	47.00	65.00	243.00
32	**Revenue Gap(28-29)**	8.62	120.29	54.57	134.72	60.06	378.26
33	**Carrying Cost**	0.52	8.25	18.74	30.10	41.79	99.40
34	**Net True up for Distribution(32+33)**	**9.14**	**128.55**	**73.31**	**164.82**	**101.85**	**477.67**
	Retail Supply Business						
35	Power Purchase Cost	3115.41	3386.15	4268.46	5106.00	5220.00	21096.02
36	Transmission Cost	118.30	137.93	179.58	209.11	172.00	**816.92**
37	SLDC Charges	4.49	5.11	5.77	6.93	6.94	**29.24**
38	PGCIL Charges	67.47	60.22	83.62	85.35	95.13	**391.79**
39	ULDC Charges	0.00	0.00	0.00	0.00	0.00	**0.00**
40	Distribution Cost	544.85	603.44	665.75	733.37	809.79	**3357.20**
41	Interest on CSD	0.00	0.00	0.00	0.00	0.00	**0.00**
42	Supply Margin	29.67	32.06	36.05	65.86	75.00	**238.64**
43	Other Expenses	0.00	0.00	0.00	0.00	0.00	**0.00**
44	**Total ARR(35+...+43)**	3884.12	4227.30	5241.43	6206.62	6378.86	**25938.33**
45	**Total Revenue(46+..+50)**	**3472.36**	**4174.62**	**5460.41**	**6114.58**	**6239.98**	**25461.95**
46	Revenue from Tariff	2999.63	3497.24	4016.63	5528.88	5920.22	**21962.60**
47	FSA	0.00	362.00	1016.00	400.00	0.00	**1778.00**
48	Non Tariff Income	38.09	45.00	48.22	47.00	64.90	**243.21**
49	Tariff Order Subsidy	434.64	270.38	379.56	138.70	254.86	**1478.14**
50	Additional Subsidy	0.00	0.00	0.00	0.00	0.00	**0.00**
51	**Revenue Gap(44-45)**	411.76	52.68	-218.98	92.04	138.88	**476.38**
52	Carrying Cost	24.71	52.57	42.59	34.98	48.83	**203.68**
53	**True Up (51+52)**	**436.46**	**105.25**	**-176.39**	**127.02**	**187.71**	**680.06**

Annexure-09: SPDCL-True Up Calculations by APERC (₹cr)

Sl.No.	Distribution Business	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	**Assets(02+03)**	4538.67	5329.98	5663.50	6068.22	6564.94	28165.32
02	Opening Balance	3801.88	4538.67	5329.98	5663.50	6068.23	25402.27
03	Additions	736.79	791.31	333.52	404.72	496.71	2763.05
04	**Depreciation(05+06)**	1471.37	1709.10	1965.03	2226.46	2510.37	9882.33
05	Opening Balance	1287.20	1471.37	1709.10	1965.03	2226.46	8659.16
06	Additions	184.17	237.73	255.93	261.43	283.91	1223.17
07	**Consumer Contributions (08+09)**	1181.84	1369.64	1634.60	1901.15	2172.24	8259.47
08	Opening Balance	977.35	1181.84	1369.64	1634.60	1901.15	7064.58
09	Additions	204.49	187.80	264.96	266.55	271.09	1194.89
10	**Working Capital (11+12)**	34.61	55.15	57.58	60.15	64.89	272.38
11	1/12 of O&M Expenses	34.61	55.15	57.58	60.15	64.89	272.38
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	0.00
13	**Change in Rate Base ((03-06-09)÷2)**	174.06	182.89	-93.68	-61.63	-29.14	172.50
14	**Regulated Rate Base (02-05-08+10+13)**	**1746.01**	**2123.50**	**2215.14**	**2062.40**	**1976.36**	**10123.41**
15	**Capital Structure**						
16	Debt(percent)						
17	Equity(percent)						
18	**Cost of Funds (percent)**						
19	Cost of Debt (percent)						
20	Return on Equity(percent)						
21	**WACC((16x 19) + (17 x 20))**	11.00%	10.93%	10.79%	11.00%	11.00%	
22	**Return on Capital Exployed (14 X 21)**	192.06	231.99	239.01	226.86	217.40	1107.33
23	**O & M Expenses**	**415.29**	**661.79**	**691.02**	**721.86**	**778.63**	**3268.59**
00	a) Employee cost	311.12	553.15	564.13	576.22	619.34	2623.96
00	b) A&G	47.73	50.48	53.57	57.83	62.46	272.06
00	c) R&M	56.44	58.16	73.32	87.81	96.83	372.57
24	Depreciation	184.17	237.73	255.93	261.43	283.91	1223.17
25	Taxes on Income	0.70	0.78	1.83	0.00	0.00	3.31
26	Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
27	Other Expenditure	13.73	3.94	1.31	19.69	16.89	55.56
28	**Gross ARR(22+23+...+27)**	**805.96**	**1136.23**	**1189.10**	**1229.84**	**1296.84**	**5657.97**
29	**Total Revenue(30+31)**	829.96	978.77	1071.24	1255.75	1326.40	5462.12
30	Revenue	793.51	935.51	1040.00	1199.54	1273.30	5241.86
31	Non Tariff Income	36.45	43.26	31.24	56.21	52.93	220.26
32	**Revenue Gap(28-29)**	-24.00	157.46	117.86	-25.91	-29.56	195.85
33	**Carrying Cost**	0.00	0.00	0.00	0.00	0.00	0.00
34	**Net True up for Distribution(32+33)**	**-24.00**	**157.46**	**117.86**	**-25.91**	**-29.56**	**195.85**
	Retail Supply Business						
35	Power Purchase Cost	4223.97	4757.53	5902.57	7522.44	7663.14	30069.65
36	Transmission Cost	266.94	206.46	256.88	214.35	246.51	**1191.13**
37	SLDC Charges	6.51	6.16	8.25	8.98	9.90	**39.80**
38	PGCIL Charges	89.02	84.95	111.85	114.52	128.03	**528.38**
39	ULDC Charges	6.07	6.01	6.00	6.08	6.05	**30.22**
40	Distribution Cost	769.51	1092.97	1157.86	1173.63	1243.74	**5437.71**
41	Interest on CSD	31.20	35.89	41.92	77.14	89.43	**275.58**
42	Supply Margin	8.73	10.62	11.08	10.31	9.88	**50.62**
43	Other Expenses	35.48	13.56	0.02	0.00	0.00	**49.06**
44	**Total ARR(35+...+43)**	**5437.42**	**6214.16**	**7496.43**	**9127.44**	**9396.68**	**37672.14**
45	**Total Revenue(46+..+50)**	**4638.81**	**5942.50**	**6801.42**	**8003.22**	**9357.45**	**34743.40**
46	Revenue from Tariff	3414.62	4175.18	4811.65	5698.65	7327.45	25427.55
47	FSA	325.75	485.95	933.23	836.47	0.00	2581.40
48	Non Tariff Income	91.64	128.78	60.96	129.65	163.53	574.56
49	Tariff Order Subsidy	806.80	1152.59	995.58	1338.45	1866.47	6159.89
50	Additional Subsidy	0.00	0.00	0.00	0.00	0.00	0.00
51	**Revenue Gap(44-45)**	**798.61**	**271.66**	**695.01**	**1124.22**	**39.23**	**2928.74**
52	Carrying Cost	0.00	0.00	0.00	0.00	0.00	**0.00**
53	**True Up (51+52)**	**798.61**	**271.66**	**695.01**	**1124.22**	**39.23**	**2928.74**
54	**less** Additional Agriculture Supply Cost	**282.75**	**0.00**	**133.48**	**60.81**	**539.63**	**1016.68**
55	**Net True Up for Retail Supply(55-56)**	**515.86**	**271.66**	**561.53**	**1063.41**	**-500.40**	**1912.06**

Annexure-10: EPDCL-True Up Calculations by APERC (₹cr)

Sl.No.	Distribution Business	2009-10	2010-11	2011-12	2012-13	2013-14	Total
01	**Assets(02+03)**	2648.11	2854.53	3126.72	3497.16	4022.37	16148.89
02	Opening Balance	2394.89	2648.11	2854.53	3126.72	3497.16	14521.41
03	Additions	253.22	206.42	272.19	370.44	525.21	1627.48
04	**Depreciation(05+06)**	864.22	969.48	1083.47	1198.73	1303.70	5419.60
05	Opening Balance	754.23	864.22	969.48	1083.47	1198.73	4870.13
06	Additions	109.99	105.26	113.99	115.26	104.97	549.47
07	**Consumer Contributions (08+09)**	869.65	1004.10	1164.74	1364.46	1752.85	6155.80
08	Opening Balance	737.81	869.65	1004.10	1164.74	1364.46	5140.76
09	Additions	131.84	134.45	160.64	199.72	388.39	1015.04
10	**Working Capital (11+12)**	24.75	37.21	38.15	46.29	47.05	193.46
11	1/12 of O&M Expenses	24.75	37.21	38.15	46.29	47.05	193.46
12	O&M Stores (Logic not stated)	0.00	0.00	0.00	0.00	0.00	0.00
13	**Change in Rate Base ((03-06-09)÷2)**	5.70	-16.64	-1.22	27.73	15.93	31.48
14	**Regulated Rate Base (02-05-08+10+13)**	**933.29**	**934.81**	**917.88**	**952.53**	**996.95**	**4735.46**
15	**Capital Structure**						
16	Debt(percent)						
17	Equity(percent)						
18	**Cost of Funds (percent)**						
19	Cost of Debt (percent)						
20	Return on Equity(percent)						
21	**WACC((16x 19) + (17 x 20))**	10.95%	9.46%	9.84%	10.24%	11.00%	
22	**Return on Capital Exployed (14 X 21)**	102.20	88.41	90.35	97.56	109.66	488.18
23	**O & M Expenses**	**296.98**	**446.57**	**457.81**	**555.49**	**564.61**	**2321.46**
00	a) Employee cost	242.36	387.34	395.00	479.90	482.60	1987.18
00	b) A&G	40.72	44.37	46.91	49.87	52.52	234.39
00	c) R&M	13.90	14.86	15.91	25.73	29.49	99.89
24	Depreciation	109.99	105.26	113.99	115.26	104.97	549.47
25	Taxes on Income	3.90	3.19	-6.34	0.00	0.00	0.75
26	Safety Measures	0.00	0.00	0.00	0.00	0.00	0.00
27	Other Expenditure	0.00	0.00	0.00	0.00	0.00	0.00
28	**Gross ARR(22+23+...+27)**	**513.07**	**643.42**	**655.81**	**768.31**	**779.25**	**3359.87**
29	**Total Revenue(30+31)**	577.80	642.53	706.07	776.48	859.41	3562.29
30	Revenue	544.86	603.45	665.75	733.38	809.79	3357.23
31	Non Tariff Income	32.94	39.08	40.32	43.10	49.62	205.06
32	**Revenue Gap(28-29)**	-64.73	0.89	-50.26	-8.17	-80.16	-202.42
33	**Carrying Cost**	0.00	0.00	0.00	0.00	0.00	0.00
34	**Net True up for Distribution(32+33)**	**-64.73**	**0.89**	**-50.26**	**-8.17**	**-80.16**	**-202.42**
	Retail Supply Business						
35	Power Purchase Cost	3115.41	3386.15	4268.46	5106.00	5220.00	21096.02
36	Transmission Cost	118.30	137.93	179.58	209.11	172.00	**816.92**
37	SLDC Charges	4.49	5.11	5.77	6.93	6.94	**29.24**
38	PGCIL Charges	67.47	60.22	83.62	85.35	95.13	**391.79**
39	ULDC Charges	0.00	0.00	0.00	0.00	0.00	**0.00**
40	Distribution Cost	480.12	604.33	615.49	725.20	729.63	**3154.78**
41	Interest on CSD	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
42	Supply Margin	29.67	32.06	36.05	65.86	75.00	**238.64**
43	Other Expenses	4.67	4.67	4.59	4.76	4.98	**23.68**
44	**Total ARR(35+...+43)**	0.29	0.86	1.41	0.00	0.00	**2.56**
45	**Total Revenue(46+..+50)**	**3820.41**	**4231.34**	**5194.97**	**6203.22**	**6303.68**	**25753.63**
46	Revenue from Tariff	**3709.01**	**4167.55**	**5183.72**	**5641.36**	**6190.35**	**24891.99**
47	FSA	2977.37	3465.91	3975.67	4672.52	5769.83	20861.30
48	Non Tariff Income	269.86	393.83	779.83	734.31	0.00	2177.83
49	Tariff Order Subsidy	27.14	37.43	48.66	95.83	165.66	374.72
50	Additional Subsidy	434.64	270.38	379.56	138.70	254.86	1478.14
51	**Revenue Gap(44-45)**	**434.64**	**270.38**	**379.56**	**138.70**	**254.86**	**1478.14**
52	Carrying Cost	0.00	0.00	0.00	0.00	0.00	0.00
53	**True Up (51+52)**	**111.40**	**63.79**	**11.25**	**561.86**	**113.33**	**861.64**
54	less Additional Agriculture Supply Cost	**211.11**	**9.13**	**116.00**	**0.00**	**19.90**	**356.13**
55	**Net True Up for Retail Supply(55-56)**	**-99.70**	**54.66**	**-104.75**	**561.86**	**93.43**	**505.51**