



The Federation of Telangana and Andhra Pradesh Chambers of Commerce and Industry

(Formerly known as FAPCCI)

Empowering Industry, Commerce and Trade

Shiv Kumar Rungta
President

Anil Reddy Vennam
Sr. Vice President

Ravindra Modi
Vice President

FTAPCCI/Power/628/2014-15

March 5, 2015

The Secretary,
Telangana State Electricity Regulatory Commission,
Singareni Bhawan,
Red Hills,
Hyderabad- 4

Dear Sir,


Sub: **Submission against the ARR & Tariff applications for the Distribution business for the Control Period FY 2015-2019 under multi-year tariff principles by the Northern Power Distribution Company of Telangana Limited ('TSNPDCL' or 'the Company' or 'the Licensee') as the Distribution Supply Licensee.**

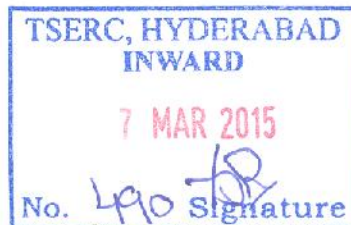
As per the Notification issued for making submissions against the Aggregate Revenue Requirement (ARR) and Tariff Proposals for the Retail supply business for the (FY2014-15 to FY2018-19) we are enclosing herewith our submissions against the same.

We request you to kindly give us time for personal hearing at the time of Public Hearing. We will make further submissions, if any, at the time of personal hearing.

Thanking You,

For The Federation of Telangana and Andhra Pradesh Chambers of Commerce and Industry,


P. Vydehi
Secretary (I/c)



Registered under the Companies Act. 1956

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BEFORE THE HONOURABLE TELANGANA STATE ELECTRICITY REGULATORY COMMISSION

AT ITS OFFICE AT 5th Floor, Singareni Bhavan, Red Hills,
Hyderabad - 500 004

FILING NO. _____ /2015

CASE NO. _____ /2015

In the matter of:

FILING OF THE ARR & TARIFF APPLICATIONS FOR THE RETAIL SUPPLY BUSINESS FOR THE YEAR FY 2015-16 UNDER MULTI-YEAR TARIFF PRINCIPLES IN ACCORDANCE WITH THE "TELANGANA STATE ELECTRICITY REGULATORY COMMISSION (TERMS AND CONDITIONS FOR DETERMINATION OF TARIFF FOR WHEELING AND RETAIL SALE OF ELECTRICITY) REGULATION, 2005" : PETITIONER

AND IN THE MATTER OF:

TELANGANA STATE NORTHERN POWER DISTRIBUTION COMPANY OF LIMITED
(TSNPDCL)

H.No: 2-5-31/2,

Corporate Office, Vidyut Bhavan,

Nakkalgutta, Hanamkonda,

Warangal-506001

(Represented by its Managing Director)

.... PETITIONER

AND

THE FEDERATION OF TELANGANA AND ANDHRA PRADESH CHAMBERS OF
COMMERCE AND INDUSTRY

Registered under the Companies Act, bearing Registration

No. 1030 of 1964-65, having its office at

#11-6-841, Federation House, Red Hills,

Hyderabad-500004

(Represented by its Secretary I/c)

.....OBJECTOR



Registered under the Companies Act. 1956

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Corporate Identification Number (CIN) U91110TG1964NPL001030

- 7 MAR 2015

AFFIDAVIT VERIFYING THE STATEMENT OF OBJECTIONS

I, P. Vydehi, W/o P. Bhaskarnarayana, Aged about 58 years, Working as Secretary (I/c) of The Federation of Telangana and AP Chambers of Commerce and Industry, Regd No 1030 of 1964-65, having its registered office at #11-6-841, Federation House, Red Hills, Hyderabad - 500004

Do hereby solemnly affirm and states as under:

1. I am the Secretary (I/c) of the Objector and am conversant with the facts of the case and am duly authorized by the objector to swear to this affidavit
2. The statement made in paragraphs 1 to 18 of the statement of objections here is now shown to me are true to my knowledge, information and the legal advice received, which I believe to be true.

Solemnly affirmed at Hyderabad, on this **7th Day of March, 2015** that the contents of the above affidavit are true to my knowledge, no part of it is false and no material has been concealed there from.

Place: Hyderabad

Date: 7th March, 2015

Identified by me



P. Vydehi
Deponent

ATTESTED

M. Ramchander Rao

NOTARY
M. RAMCHANDER RAO
ADVOCATE
H.No: 22-2-849/3,
Noor Khan Bazar, HYD-24.

7 MAR 2015

**The Federation of Telangana & Andhra Pradesh
Chambers of Commerce and Industry
(FTAPCCI)**

Statement of Objections

on the

**ARR & Tariff applications for the Retail Supply Business
for the year FY 2015-16 under Multi-Year Tariff principles
in accordance with the “Telangana State Electricity
Regulatory Commission (Terms And Conditions For
Determination Of Tariff For Wheeling And Retail Sale Of
Electricity) Regulation, 2005”**

by the

**Northern Power Distribution Company
of Telangana Limited (TSNPDCL)**

March, 2015

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THE STATEMENT OF OBJECTIONS BY THE OBJECTOR

1 STATEMENT OF OBJECTIONS

With the enactment of Andhra Pradesh Reorganization Act, 2014, the Telangana state has been carved out from the undivided Andhra Pradesh state as the 29th state of the Republic of India on 02.06.2014. On the event of State bifurcation, the name of Northern Power Distribution Company of Andhra Pradesh Limited has been changed to Northern Power Distribution of Company Telangana Limited (hereinafter referred to as the 'TSNPDCL' or 'Petitioner' or 'Distribution Licensee' of 'Licensee').

The erstwhile Regulatory Commission of the undivided state of Andhra Pradesh has issued Regulation No. 3 of 2014 (Reorganisation) Regulation, 2014 on 26.05.2014 consequent to the framing of Andhra Pradesh Reorganisation Act, 2014 notified by Government of India on 01.03.2014, Wherein Clause 3 of the regulation says that,

"All the notified regulations as well as their supplementary regulations/amendments, rules, orders, proceedings, guidelines, memos, notifications, other instruments issued immediately before 2nd June 2014 by the APERC for conduct of business and other matters shall fully & completely apply to the whole of the states of Telangana and Andhra Pradesh and shall similarly apply in relation to all matters falling within the jurisdiction of the Commission until they are altered, repealed or amended by the respective State Electricity Regulatory Commissions."

In accordance with the above regulation, all the regulations framed by erstwhile APERC will continue to apply for the state of Telangana. Subsequently TSERC vide Telangana Official Gazette has issued its first regulation, Regulation No. 1 of 2014 on 10.12.2014 (Adoption of Previously Subsisting Regulations, Decisions, Directions or Orders, Licenses and Practice of Directions) wherein clause 2 says that

"All regulations, decisions, directions or orders, all the licences and practice directions issued by the erstwhile Andhra Pradesh Electricity Regulatory Commission (Regulatory Commission for States of Andhra Pradesh and Telangana) as in existence as on the date of the constitution of the Telangana State Electricity Regulatory Commission and in force, shall mutatis-mutandis apply in relation to the stakeholders in electricity in the State of Telangana including the Commission and shall continue to have effect until duly altered, repealed or amended, any of Regulation by the Commission with effect from the date of notification as per Notification issued

by the Government of Telangana in G.O.Ms.No.3 Energy (Budget) Department, dt.26-07-2014 constituting the Commission.”

The TSNPDCL has filed the ARR and Tariff Petitions for the Retail Supply Business for the financial year 2015-16 in accordance with the erstwhile Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation No.4 of 2005 and its First Amendment notified in 2014 namely Regulation No. 1 of 2014 (hereinafter collectively referred to as ‘Tariff Regulations’).

The Statement of Objections is herein being filed on behalf of ‘**The Federation of Telangana & Andhra Pradesh Chambers of Commerce and Industry (FTAPCCI)**’, an Association which was started in 1917 as a Chamber of Commerce and currently has around 3000 members, having its office at Federation House, 11-6-841, Red Hills, FAPCCI Marg, Hyderabad 500004, A.P. India; represented by its Secretary (hereinafter called the ‘Objector’). The main function of the FTAPCCI is to promote and protect the interests of trade, commerce and industry.

Industrial consumers account for about 35% of the total energy sales of the Telangana Distribution Utilities. They contribute about 56% to the total revenue from tariffs.

The special characteristics of the Industrial consumers that benefit the Utilities are:

- They are the subsidising category of consumers for the utilities. Hence they are the revenue earners ensuring better returns for the utilities.
- The Load curve and consumption pattern enable better capacity utilisation and low Cost of Service for the Utilities in comparison to LT consumer categories.

Historically, Telangana (erstwhile Andhra Pradesh) had lowest industrial tariffs and was benefited by advantageous fuel mix of hydro, coal and gas power plants. However, the tariff hikes in the previous 3-4 years and the proposed industrial tariffs by the Petitioner will now make Telangana as a State with one of the highest industrial tariffs in India.

Hence, the Objector strongly objects to the Filing of the ARR & Tariff applications for the Retail Supply Business for the FY 2015-16 (herein after referred to as the ‘Tariff Petitions’ or ‘Petitions’) and prays that the Tariff Proposal may be rejected *in limine*, in the interest of justice and equity.

The Objector also prays that it may be permitted to make additional submissions, in the Public Hearings which would be organised by the Hon’ble Commission.

The brief facts, propositions, analysis, grounds for the above prayer of the Objector are narrated herein below:

2 TRANSPARENCY

The Objector humbly submits that the conduct of the Licensee in furnishing the subject Petition has been far from satisfactory and does not provide complete information and detailed tariff forms failing which a strict prudence check by the Hon'ble Commission is not possible. To illustrate, the subject petitions do not even provide the source wise power purchase cost for full year of FY 2014-15. The tariff forms annexed along with the true up and tariff petitions are far less in number than what were submitted in previous petitions. Under the Fuel Surcharge Adjustment regime, the Licensee used to submit and publish the details of the power purchase bills. In the current filings, the power purchase cost variation is being claimed in terms of Regulation No. 1 of 2014 (First Amendment to the Tariff Regulations), however no details towards the source wise power purchase cost and energy bills have been provided for the prudence check of the Hon'ble Commission. The true up and tariff has to be determined in a transparent manner and the reasonability of the amounts claimed have to be demonstrated. However, the present tariff filing exercise is being done in a broad brush manner by compromising the settled principles of transparency and regulatory precedence.

3 NON ADHERENCE TO MYT PRINCIPLES

As per the Regulation (1) 8 of the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005 (herein after referred to as the 'Tariff Regulations'), the term "Control Period" is defined as follows:

"Control Period" means a multi-year period fixed by the Commission from time to time, usually 5 years, for which the principles for determination of revenue requirement will be fixed, the first Control Period, however, being of the duration of 3 years"

Pursuant to the approval of the Tariff Regulations, the first control period for the block of financial years 2005-06 to 2007-08 and the second control period for the block of financial years 2009-10 to 2013-14 have ended.

The erstwhile Regulatory Commission, while passing the Tariff Order for FY 2009-10 had made the following observations at Paragraph No.2:

"2 The Andhra Pradesh Electricity Regulatory Commission (APERC or Commission), to determine the tariff for wheeling and retail sale of electricity u/s 62 of the Electricity Act 2003(Act), notified on 14.11.2005, the APERC (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005. (Regulation 4 of 2005). As per this Regulation 4 of 2005, each distribution Licensee has to make the filings for

determination of tariff for a) Wheeling (Wheeling Tariff henceforth) and b) Retail Sale of Electricity (Retail Supply Tariff henceforth) for Multi Year Tariff (MYT) Control Period of 5 years from 2009-10 to 2013-14(Control Period henceforth)."

Filings for Determination of Wheeling and Retail Supply Tariff

3. The Licensees submitted the Aggregate Revenue Requirement (ARR) of distribution and retail supply businesses for determination of the wheeling and retail supply tariffs, on 29.11.2008. The Licensees made filings for determination of wheeling tariff for the Control Period as envisaged in the Regulation 4 of 2005. The Licensees requested for permission to file retail supply tariff filings for one year, i.e. 2009-10 (instead of five years) only, in view of certain policy uncertainties and pending tariff fixation for few generating stations, with which reasonable prediction cannot be made for five years. The Licensees' request to file the retail supply tariff proposals for one year, i.e. FY 2009-10 has been accepted and accordingly, the Licensees filed the application for determination of retail supply tariff for FY 2009-10."

Subsequently, for the third control period, the Hon'ble Commission has again granted permission to the distribution licensees to file ARR and Tariff on single year basis.

It may be true that the Hon'ble Commission may have powers to relax any provision of the Tariff Regulations. However, the very purpose of introducing the Multi Year Tariff Regulatory Framework is to bring certainty and predictability as stated in the Tariff Policy:

"8.1 Implementation of Multi-Year Tariff (MYT) framework

- 1. 1) This would minimise risks for utilities and consumers, promote efficiency and appropriate reduction of system losses and attract investments and would also bring greater predictability to consumer tariffs on the whole by restricting tariff adjustments to known indicators on power purchase prices and inflation indices. The framework should be applied for both public and private utilities. (Emphasis Supplied)*

Hence, the Petition is opposed to the Tariff Regulations and the Tariff Policy and is liable to be rejected, *in limine*.

DANGER OF TRANSGRESSING MYT: If the MYT principles can be transgressed and overlooked in the case of the Petitioner, it sets a very wrong precedent, as every licensee also may seek revision of tariff within the prescribed control period.

In fact, addressing such a situation, the Hon'ble APTEL passed a landmark judgement in the case of **JAIPUR VIDYUT VITRAN NIGAM LTD. AND OTHERS VS. KALPATARU POWER**

TRANSMISSION LTD. AND OTHERS 2012 ELR (1238). The operative portion of the Judgement is reproduced herein for ready reference:

“23. According to Ld. Counsel for the Appellants, the State Commission ought to have determined the tariff for the power plant of the Respondent no. 1. We are not able to accept this contention. Section 61 of the Act states that the Appropriate Commission, for determining the terms and conditions for determination of tariff, shall be guided inter-alia, by multi-year tariff principles. The Tariff Policy also envisages that the MYT framework should feature a five year control period. Accordingly, the State Commission has specified the Tariff Regulations, 2009 for the MYT control period 2009-14 for regulatory certainty and clarity. The State Commission has already specified the generic tariff for the existing biomass plants for the MYT period 2009-14 through its Regulations. Therefore, the State Commission cannot determine the project specific tariff for the existing power plant of the Respondent no. 1 in contravention to its Tariff Regulations.”

Thus, transgressing MYT Principles would lead to opening up of a Pandora box for the other licensees and like stakeholders in the other sectors to reopen and revisit the concluded contracts.

4 TRUING UP OF ARR FOR SECOND CONTROL PERIOD

The Objector submits that the second control period encompassing the FY 2009-10 to 2013-14 has ended. The erstwhile Regulatory Commission in the Tariff Order for FY 2013-14 had stated that it “will take up true-up mechanism after the completion of the control period as envisaged in the relevant regulations”.

A truing up exercise should be held on a regular yearly basis as held in a catena of judgments of the Hon’ble APTEL including:

- OP No. 1 of 2011;
- Appeal No. 77, 78 & 79 of 2006 in the matter of NEESCO Vs OERC; and
- Appeal No. 121 of 2010 dated 21st October, 2011.

In OP No. 1 of 2011, the Hon’ble APTEL has held that

“...truing up should be carried out regularly and preferably every year. For example, truing up for the financial year 2009-10 should be carried out along with the ARR and tariff determination for the financial year 2011-12” (Emphasis supplied)

Similarly the Hon’ble APTEL in Appeal No. 77, 78 & 79 of 2006 in the matter of NEESCO Vs OERC had stated:

“The grievance of the appellant Discoms is the failure on the part of the Commission to take up truing up exercise for the earlier tariff periods and this failure has prejudicially affected the appellant. It is fundamental that an annual revenue requirement is approved on estimates, projections and best judgments. However, truing up is an essential exercise required to be undertaken by Regulator on a regular basis, where in Actuals are compared with those approved and necessary results flow from it. All Regulatory Commissions undertake truing up exercise on a regular basis.” (Emphasis supplied)

Further, a Full Bench of the Hon'ble APTEL in the case of WESCO v. OERC and Others 2010 ELR (APTEL) 1254 has held thus:

“35. The last issue is relating to the Truing up and Amortization of regulatory assets. In the present case the truing up exercise was carried out by the State Commission in pursuance of the directions issued by this Tribunal in the year 2007-08. According to the Appellants this is the first truing up exercise in the State of Orissa for the Distribution Companies. On going through the impugned order, it is evident that truing up exercise was carried out without clear details. As per the first principle, the truing up exercise is the process by which actuals are compared with the projections. The truing up cannot be a process where projections are compared with the projections. The State Commission itself in the impugned order mentioned that the truing up in the aforesaid order had not undertaken the audit of the past receivables and directed the Distribution Companies to carry out an audit of the past receivables based on which the State Commission can take a decision on the authenticity and the chances of recovery of these massive arrears. According to the Appellants, they had undertaken the receivables audit as per the guidelines of the State Commission and submitted the same to the State Commission in the month of March, 2008 itself. In the light of the above statement, it would be appropriate to direct the State Commission to revisit this issue after taking into account the audit of the past receivables of the Appellants. Accordingly, it is so directed.”(Emphasis Supplied)

In view of the above, the Objector submits that truing up has to be undertaken for all the years of the second control period as per the strict provisions of the Tariff Regulations and necessary adjustment may be passed along with the ARR and Tariff Order for FY 2015-16.

In this regard, the erstwhile Regulatory Commission while issuing FY 2009-10 Tariff Order pertaining to the true up of ARR of distribution business for the first control period had stated as follows:

“The Licensees provided the details of expenses related to previous years to be trued up in this filing for distribution business but not included these amounts in the estimates of ARR for distribution business. The Licensees provided the amounts to be trued-up for three completed years FY2005-06 to FY2007-08 and some Licensees estimated the amounts to be trued up for FY2008-09 also.

201. The true up mechanism is already specified in Regulation 4 of 2005 issued for determination of wheeling and retail supply tariffs. Clause 10(5) of Regulation 4 of 2005 provides for;

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

202. As per clause 10(4) of Regulation 4 of 2005, only taxes on income are uncontrollable and thus variations in this item qualify for true up. Further clause 10(8) of Regulation 4 of 2005 provides for;

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.

203. It is appropriate to take up the issue of true up of expenses related to previous years separately after completion of the audited accounts for all years of the Control Period. As such, Licensees may seek the true ups outside the current filings as per the applicable regulations already notified."

Based on the above submissions and in view of the stand taken by the erstwhile Regulatory Commission previously, the Objector prays to the Hon'ble Commission to true-up the ARR pertaining to retail – supply business for all the years of the second control period as per the strict provisions of the Tariff Regulations and necessary adjustment may be passed along with the ARR and Tariff Order for FY 2015-16.

5 ORDER ON GENERATION TARIFFS IS STILL PENDING

Power Purchase Cost constitutes around 80% of the total ARR out of which cost of power from state owned sources constitutes around 45%. The Order on Generation tariffs for FY 2014-15 to 2018-19, based on the Generation Tariff Regulations is yet to be passed by the Hon'ble Commission. The TSGENCO and APGENCO may be directed to file the petition for the FY 2014-19 period in a time bound manner and the same may be finalised by the Hon'ble Commission expeditiously.

Till the time the generation tariffs are not finalised for TSGENCO and APGENCO stations:

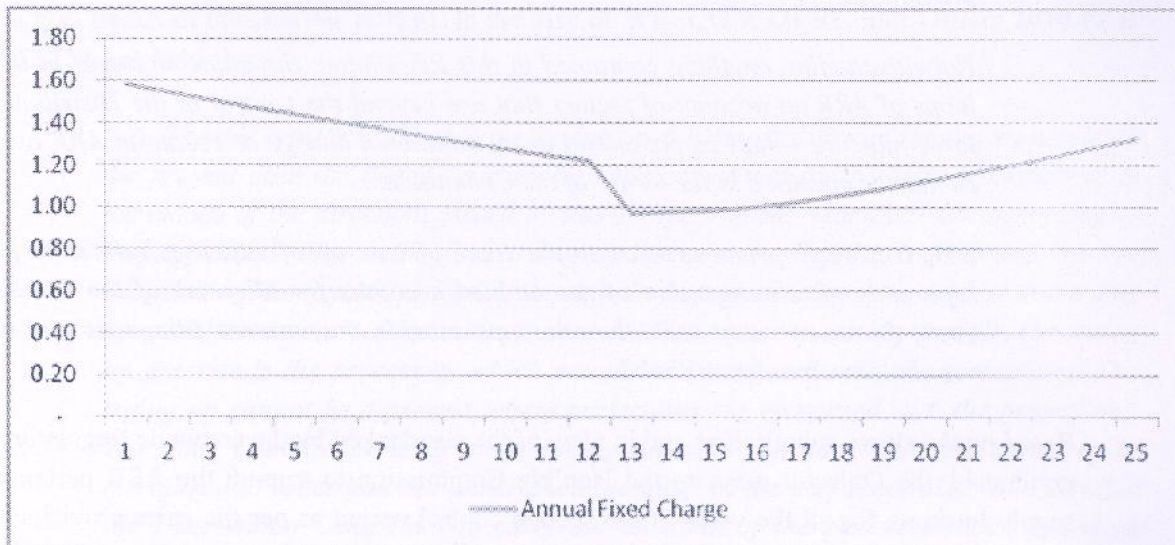
- No escalation in variable costs should be allowed in the power purchase cost from such stations.
- 20% of the fixed charges should be disallowed due to reasons detailed in the succeeding paragraphs.

The fixed costs for a power station in cost plus tariff models typically fall year on year in the initial years. This is because the return on capital employed (interest on long term loan) would fall year on year as long term loan gets repaid. After the loan is fully repaid, there is a marked drop in the fixed charges as the interest liability becomes nil and depreciation expense also falls. The depreciation rate is higher in the initial years to match the cash outflow required for loan repayments. After the loan is fully

repaid, the depreciation rate falls such that balance depreciation is amortised over the balance useful life of the asset.

Subsequently, the tariff remains flat and there is a slight increase only on account of the increase in the O&M expenses due to escalation index. The typical fixed charges over the power project life cycle are depicted in the graph below:

Graph: Typical Annual Fixed Charges in a Cost Plus Model



Typical Model for a 1000 MW project with a capital cost of Rs. 5,000 crores based on CERC Regulations, 2009.

Thus, the fixed charges have to decrease on a year to year basis. By not approving the Tariff Order for FY 2014-19 control period, the Commission has allowed the Generating Companies to charge higher fixed charges than they would be been entitled to.

6 SHARING OF GAINS AND LOSSES ON VARIATIONS IN “CONTROLLABLE” ITEMS OF ARR

Regulation 10.6 of the Tariff Regulations provides that *“the Distribution Licensee in its annual filings during the Control Period shall present gains and losses for each controllable item of the Aggregate Revenue Requirement. A statement of gain and loss against each controllable item will be presented after adjusting for any variations on account of uncontrollable factors”*.

It is submitted that the Licensee has not provided such statement which was required by the Tariff Regulations.

It is prayed that the Hon’ble Commission may direct the Licensee to submit such statement and opportunity may be provided to the Objector / consumers to provide comments on such submissions.

Further it is submitted that the deviations should be approved and gains and losses should be shared with the consumers on a yearly basis.

7 COST TO SERVE METHODOLOGY

With regard to the cost of serve methodology, the Petitioner has proposed the following:

“The Hon’ble commission has been adopting Embedded Cost of Service method for determining the category wise CoS and Tariff. In determination of category wise Tariff for FY 2015-16, the licensee observed that Cost of Service of a category under existing Embedded CoS method and with $\pm 20\%$ is not commensurate with the proposed tariffs of certain categories. The licensee did not face this issue in the previous years as there were no major tariff revisions proposed by the Licensee.

Hence, for the year 2015-16, the licensee would like to propose tariff increase and humbly requests the Hon’ble Commission to adopt average cost of supply as per the NTP while fixation of tariffs for each category.

Clause 8.3.2 of National Tariff Policy states that “For achieving the objective that the tariff progressively reflects the cost of supply of electricity, the SERC would notify roadmap within six months with a target that latest by the end of year 2010-2011 tariffs are within $\pm 20\%$ of the average cost of supply. The road map would also have intermediate milestones, based on the approach of a gradual reduction in cross subsidy.”

Licensee has put all efforts while proposing tariffs to be within $\pm 20\%$ of the average cost of supply wherever it is possible.

In case, If the Hon’ble Commission determines the tariff based on Category wise CoS, then the licensee humbly requests the Hon’ble Commission not to determine the tariffs based on “CoS Plus or Minus 20%” limit as the clause 8.3.2 of National Tariff Policy (NTP) refers to average CoS not category wise CoS.”

From a plain analysis of the above proposal, the following express and implied prayers of the Petitioner can be deciphered:

- Departure from the Embedded CoS method for calculating CoS of a category;
- The tariff proposals made by the licensee is not commensurate with the “CoS $\pm 20\%$ limit” which refers to the issue of cross-subsidy.

- Proposal to the Hon'ble Commission to determine the tariff based on average CoS and not category wise CoS.

The merits and admissibility of each of these implied and express prayers are dealt in detail in the succeeding paragraphs.

The erstwhile Regulatory Commission in its Tariff Order for FY 2012-13 at Paragraph 81 had provided its observation on the Embedded CoS methodology for computing CoS. The same is reproduced below:

"The Licensees' reference to average cost in support of raise in tariff is not acceptable. The Commission, in this Tariff Order, has computed the embedded cost following the traditional practice of the Commission which tallies with the suggestion of the objector. However, computing the cost of service for each consumer category separately based on embedded cost model is data intensive and such data is not readily available. However, the cost of service for major consumer categories in HT-I(A): (Industry General) and HT-II: (Others) have been computed for three voltages, (a) 11 kV, (b) 33 kV and (c) 132 kV and above FY 2012-13."

In view of the above observations of the erstwhile Regulatory Commission, it is prayed that the traditional approach of calculating CoS through embedded cost methodology may be continued, rather than permitting the Licensee of introducing a new methodology.

The provisions regarding the cost of service, average cost of supply and cross subsidy are extensively covered in the Judgment of the Hon'ble Appellate Tribunal of Electricity (APTEL) dated 11th January 2012 in Appeal Nos. 57 of 2008, 155 of 2007, 125 of 2008, 45 of 2010, 40 of 2010, 196 of 2009, 199 of 2009, 163 of 2010, 6 of 2011 and 144 of 2010 (**SIEL Limited Vs PSERC & Ors**). The relevant paragraphs are reproduced below:

"17. Section 61(g) of the 2003 Act stipulates that the tariff should progressively reflect the cost of supply and cross subsidies should be reduced within the time period specified by the State Commission. The Tariff Policy stipulates the target for achieving this objective latest by the end of year 2010-11, such that the tariffs are within $\pm 20\%$ of the average cost of supply. In this connection, it would be worthwhile to examine the original provision of the Section 61(g). The original provision of Section 61(g) "the tariff progressively reflects the cost of supply of electricity and also, reduces and eliminates cross subsidies within the period to be specified by the Appropriate Commission" was replaced by "the tariff progressively reflects the cost of supply of electricity and also reduces cross subsidies in the manner specified by the Appropriate Commission" by an amendment under Electricity (Amendment) Act, 2007 w.e.f. 15.6.2007. Thus the intention of the Parliament in amending the above provisions of the Act by removing provision for elimination of cross subsidies appears to be that the cross subsidies may be reduced but may not have to be eliminated. The tariff should progressively reflect the cost of supply but at the same time the cross subsidy, though may be reduced, may not be eliminated. If strict commercial principles are followed,

then the tariffs have to be based on the cost to supply a consumer category. However, it is not the intent of the Act after the amendment in the year 2007 (Act 26 of 2007) that the tariff should be the mirror image of the cost of supply of electricity to a category of consumer.

18. Section 62(2) provides for the factors on which the tariffs of the various consumers can be differentiated. Some of these factors like load factor, power factor, voltage, total electricity consumption during any specified period or time or geographical position also affects the cost of supply to the consumer. Due weightage can be given in the tariffs to these factor to differentiate the tariffs.

19. The National Electricity Policy provides for reducing the cross subsidies progressively and gradually. The gradual reduction is envisaged to avoid tariff shock to the subsidized categories of consumers. It also provides for subsidized tariff for consumers below poverty line for minimum level of support. Cross subsidy for such categories of consumers has to be necessarily provided by the subsidizing consumers.

20. The Tariff Policy clearly stipulates that for achieving the objective, the State Commission has not been able to establish that the tariff progressively reflects the cost of supply of electricity, latest by the end of the year 2010-11, the tariffs should be within $\pm 20\%$ of the average cost of supply, for which the State Commission would notify a road-map. The road map would also have intermediate milestones for reduction of cross subsidy.

21. According to the Tariff Regulation 7 (c) (iii) of the State Commission the cross subsidy has to be computed as difference between cost-to-serve a category of consumer and average tariff realization of that category.

22. after cogent reading of all the above provisions of the Act, the Policy and the Regulations we infer the following:

i) **The cross subsidy for a consumer category is the difference between cost to serve of that category of consumers and average tariff realization of that category of consumers. While the cross-subsidies have to be reduced progressively and gradually to avoid tariff shock to the subsidized categories, the cross-subsidies may not be eliminated.**

ii) **The tariff for different categories of consumer may progressively reflect the cost of electricity to the consumer category but may not be a mirror image of cost to supply to the respective consumer categories.**

iii) *Tariff for consumers below the poverty line will be at least 50% of the average cost of supply.*

iv) *The tariffs should be within $\pm 20\%$ of the average cost of supply by the end of 2010-11 to achieve the objective that the tariff progressively reflects the cost of supply of electricity.*

v) *The cross subsidies may gradually be reduced but should not be increased for a category of subsidizing consumer.*

vi) *The tariffs can be differentiated according to the consumer's load factor, power factor, voltage, total consumption of electricity during specified period or the time or the geographical location, the nature of supply and the purpose for which electricity is required.*

Thus, if the cross subsidy calculated on the basis of cost of supply to the consumer category is not increased but reduced gradually, the tariff of consumer categories is within $\pm 20\%$ of the average cost of supply except the consumers below the poverty line, tariffs of different categories of consumers are differentiated only according to the factors given in Section 62(3) and there is no tariff shock to any category of consumer, no prejudice would have been caused to any category of consumers with regard to the issues of cross subsidy and cost of supply raised in this appeal."

"29. The State Commission has indicated in the impugned order that the voltage wise cost determination is the first step in determining the consumer-wise cost of supply but has expressed difficulties in determination of voltage-wise cost of supply due to non-segregation of costs incurred by the licensee related to different voltage levels and determination of technical and commercial losses at different voltage levels due to non-availability of meters. The State Commission has also noted that the data submitted by the distribution licensee does not have technical or commercial data support.

30. It is regretted that even after six years of formation of the Regulations data for the distribution losses. The position of metering in the distribution system of respondent no. 2 is pathetic. Only about 1/4th of 11 KV feeders have been metered and very small numbers of transformers have been provided with meters. Only 68% of the consumer meters are functional in the distribution system as indicated in Table-37 of the impugned order. It is also noticed that a large number of meters are old electro mechanical meter which are not functioning. This is in contravention to Section 55 of the Act. Section 55(1) specifies that no licensee shall supply electricity after the expiry of two years from the appointed date, except through installation of a correct meter in accordance with the Regulations of the Central Electricity Authority. According to Section 55(2) meters have to be provided for the purpose of accounting and audit. According to Section 8.2.1 (2) of the Tariff Policy, the State Commission has to

undertake independent assessment of baseline data for various parameters for every distribution circle of the licensee and this exercise should be completed by March, 2007. In our opinion the State Commission cannot be a silent spectator to the violation of the provisions of the Act. In view of large scale installation of meters, the State Commission should immediately direct the distribution licensee to submit a capital scheme for installation of consumer and energy audit meters including replacement of defective energy meters with the correct meters within a reasonable time schedule to be decided by the State Commission. The State Commission may ensure that the meters are installed by the distribution licensee according to the approved metering scheme and the specified schedule. In the meantime, the State Commission should institute system studies for the distribution system with the available load data to assess the technical distribution losses at different voltage levels.

31. We appreciate that the determination of cost of supply to different categories of consumers is a difficult exercise in view of non-availability of metering data and segregation of the network costs. However, it will not be prudent to wait indefinitely for availability of the entire data and it would be advisable to initiate a simple formulation which could take into account the major cost element to a great extent reflect the cost of supply. There is no need to make distinction between the distribution charges of identical consumers connected at different nodes in the distribution network. It would be adequate to determine the voltage-wise cost of supply taking into account the major cost element which would be applicable to all the categories of consumers connected to the same voltage level at different locations in the distribution system. Since the State Commission has expressed difficulties in determining voltage wise cost of supply, we would like to give necessary directions in this regard.

32. Ideally, the network costs can be split into the partial costs of the different voltage level and the cost of supply at a particular voltage level is the cost at that voltage level and upstream network. However, in the absence of segregated network costs, it would be prudent to work out the voltage-wise cost of supply taking into account the distribution losses at different voltage levels as a first major step in the right direction. As power purchase cost is a major component of the tariff, apportioning the power purchase cost at different voltage levels taking into account the distribution losses at the relevant voltage level and the upstream system will facilitate determination of voltage wise cost of supply, though not very accurate, but a simple and practical method to reflect the actual cost of supply.

33. The technical distribution system losses in the distribution network can be assessed by carrying out system studies based on the available load data. Some difficulty might be faced in reflecting the entire distribution system at 11 KV and 0.4 KV due to vastness of data. This could be simplified by carrying out field studies with representative feeders of the various consumer mix prevailing in the distribution system. However, the actual distribution losses allowed in the ARR which include the commercial losses will be more than the technical losses determined by the system studies. Therefore, the difference between the losses allowed in the ARR and that determined by the system

studies may have to be apportioned to different voltage levels in proportion to the annual gross energy consumption at the respective voltage level. The annual gross energy consumption at a voltage level will be the sum of energy consumption of all consumer categories connected at that voltage plus the technical distribution losses corresponding to that voltage level as worked out by system studies. In this manner, the total losses allowed in the ARR can be apportioned to different voltage levels including the EHT consumers directly connected to the transmission system of GRIDCO. The cost of supply of the appellant's category who are connected to the 220/132 KV voltage may have zero technical losses but will have a component of apportioned distribution losses due to difference between the loss level allowed in ARR (which includes commercial losses) and the technical losses determined by the system studies, which they have to bear as consumers of the distribution licensee.

34. Thus Power Purchase Cost which is the major component of tariff can be segregated for different voltage levels taking into account the transmission and distribution losses, both commercial and technical, for the relevant voltage level and upstream system. As segregated network costs are not available, all the other costs such as Return on Equity, Interest on Loan, depreciation, interest on working capital and O&M costs can be pooled and apportioned equitably, on pro-rata basis, to all the voltage levels including the appellant's category to determine the cost of supply. Segregating Power Purchase cost taking into account voltage-wise transmission and distribution losses will be a major step in the right direction for determining the actual cost of supply to various consumer categories. All consumer categories connected to the same voltage will have the same cost of supply. Further, refinements in formulation for cost of supply can be done gradually when more data is available." (Emphasis supplied)

Further, relevant extract of the para 22 of the judgment of the Hon'ble APTEL in Appeals No. 102, 103 and 112 of 2010 rendered on 30th May 2011 (Tata Steel Limited Vs OERC & Ors) is produced herein below:

"22. After cogent reading of all the above provisions of the Act, the Policy and the Regulations we infer the following:

i. The cross subsidy for a consumer category is the difference between cost to serve that category of consumers and average tariff realization of that category of consumers. While the cross-subsidies have to be reduced progressively and gradually to avoid tariff shock to the subsidized categories, the cross-subsidies may not be eliminated.

ii. The tariff for different categories of consumer may progressively reflect the cost of electricity to the consumer category but may not be a mirror image of cost to supply to the respective consumer categories.

iii. *Tariff for consumers below the poverty line will be at least 50% of the average cost of supply.*

iv. *The tariffs should be within $\pm 20\%$ of the average cost of supply by the end of 2010-11 to achieve the objective that the tariff progressively reflects the cost of supply of electricity.*

v. *The cross subsidies may gradually be reduced but should not be increased for a category of subsidizing consumer.*

vi. *The tariffs can be differentiated according to the consumer's load factor, power factor, voltage, total consumption of electricity during specified period or the time or the geographical location, the nature of supply and the purpose for which electricity is required.*

Thus, if the cross subsidy calculated on the basis of cost of supply to the consumer category is not increased but reduced gradually, the tariff of consumer categories is within $\pm 20\%$ of the average cost of supply except the consumers below the poverty line, tariffs of different categories of consumers are differentiated only according to the factors given in Section 62(3) and there is no tariff shock to any category of consumer, no prejudice would have been caused to any category of consumers with regard to the issues of cross subsidy and cost of supply raised in this appeal." (Emphasis supplied)

Further, the Hon'ble APTEL in case of **UDYOG NAGAR FACTORY OWNERS ASSOCIATION VS. BSES RAJDHANI POWER LIMITED AND DELHI ELECTRICITY REGULATORY COMMISSION 2007 ELR (APTEL) 492** held:

"23. A gradual reduction of subsidies every Tariff year will go a long way in achieving the balance as envisaged by the Act and the policies. In the circumstances, therefore, we would not like to interfere with the approach of the Commission in this regard. Accordingly, the question is answered in the affirmative but with the rider that cross subsidies must be reduced progressively and gradually".

The Hon'ble APTEL in the judgment in Appeal No. 224 of 2006 dated 22nd January 2007, in the matter of **UNION OF INDIA, WESTERN RAILWAYS vs. GUJARAT ELECTRICITY REGULATORY COMMISSION** had held:

"5.2. Determination of Cost of Supply.

5.2.1 Appellant has pointed out that as per Section 61 (g) the tariff charged from any particular class of consumer, ought to have been determined by the Commission on the basis of the cost of supply incurred by the Discoms for supplying power to the respective Class of Consumers. It has grudgingly stated that all the respondent

Discoms have discussed the importance of the cost of supply but neither they nor the Commission, despite repeated request made by the appellant through representation, rejoinders, presentations etc., have cared to unbundled the cost of supply to the various class of consumers. The appellant has brought to the notice that in case of supply at 132 KV/66 KV the system losses are at the lowest level as the technical losses are the least and distribution and other commercial losses are non-existent. The cost of supply for the W. Rly would be less compared to the Average Cost of Supply incurred by Discoms. The appellant has alleged that the non-disclosure of the cost of supply to the various classes of consumers is against transparency and principles of natural justice.

5.2.2. The appellant has submitted that while the impugned order does not reveal the cost of supply to W. Rly, the transmission losses of 1.5% were indicated in "draft discussion paper on open access charges". In the final order on 'open access' notified on 28.02.2006, the average transmission losses of 4.4% have been fixed. The appellant has, therefore, complained that the cost of supply to Railways has been fixed at an unreasonably high level and has requested for rationalization of tariff and reduction in cross-subsidy. The appellant has submitted a comparative data of 'average cost of traction energy in Rs/kwh' supplied to Railways by the various Distribution Companies in adjoining states of Maharashtra; Rajasthan; Madhya Pradesh beside Gujarat and has presented that the percentage change of the 'average cost of traction energy' in 2005-06 vis-à-vis the base year of 2000-01 has increased to the level of 1.82% for the supply from Gujarat, whereas it has progressively reduced for the supplies sourced from the other states.

5.2.3 The appellant has furnished the data to prove that the tariff of Gujarat Discoms for W. Rly is the highest and has argued that the tariff determination should be done on the basis of the cost-of-supply of electricity to different class of consumers and not on average cost of supply. We observe that the Commission in its first Tariff Order of 25.06.2004 had issued a directive to GEB to conduct a full-fledged cost-of-service study with the instructions that it needed to be completed well in advance of the next tariff filing. The successor Discoms of GEB in their Aggregate Revenue Requirement (i.e. ARR) filing for the financial year 2005-06 and 2006-07 have confirmed that in compliance to the aforesaid directive the report on cost-of-service study has been submitted to the commission whereas, in the impugned tariff order the Commission in its comments simply 'noted' it without giving any indication of its plan to utilize it in tariff implementation. It smacks of lack of transparency as alleged by the Petitioner.

5.2.4 It may be pointed out that in compliance to Section 3 of Electricity Act 2003, the NTP is notified on 12.02.2005, and its central theme is to reduce the cross-subsidy so that the tariff progressively reaches nearer to the cost of supply of electricity. As per Section 61(g) of Electricity Act, 2003 and National Tariff Policy (NTP), the electricity tariff should progressively reflect the cost of supply of electricity by reducing the cross-subsidies. As per National Tariff Policy, the Commission could notify a road-map within six months with targets that the cross subsidy is to be brought down to within

20% of average cost of supply (pooled cost of supply of energy received from different sources) by 2010-11." (Emphasis supplied)

Further, the Hon'ble APTEL in its judgement dated 14th March, 2006 in Appeal No.3 of 2005 filed by **INDIAN TEA ASSOCIATION & OTHERS vs. ASSAM STATE ELECTRICITY REGULATORY COMMISSION & OTHERS**, has held that:

"15. As regards the issues relating to cross subsidy raised by the appellant(s) we find that the term "Cross Subsidy" in the tariff regulations framed by AERC has not been defined. While the appellant(s) has submitted that the cross subsidy be defined as the difference between the tariff for the consumers and the actual cost of supply to the consumers, it implies that for the determination of cross subsidy firstly cost of supply to the consumer is to be determined. In other words if the contribution towards the cross subsidy by a category of consumer is to be ascertained, the cost of supply to the consumer is required to be determined. AERC in its submission in response has submitted that it has considered the average cost of supply to all categories of consumers and has also put forward the view that cross subsidy in common parlance is charging higher charges from some categories of consumers to compensate some other categories/groups on account of socio-economic considerations. We feel that considering the average cost of supply rather than cost of supply for subsidizing category of consumers is likely to hide the extent of cross subsidy contribution by different categories of subsidizing consumers. Section 61 clearly provides that the appropriate Commission shall, while specifying the terms and conditions for determination of tariff will be guided by the consideration that the tariff progressively, reflects the cost of supply of electricity and also reduces cross-subsidies. It appears that the principle behind this provision is that the tariff determination should reflect the extent of cross subsidy contributed by different categories of consumers. It adds to transparency and cross-subsidies which are contributed by consumers are not camouflaged. However, the Commission has explained in the tariff order that cross subsidy has been gradually reduced in conformity with Section 61(g) of the Electricity Act 2003. AERC have also stated that the consumers were grouped, depending upon the consumption and connected load to avoid tariff shock to lower income group. The observations of the Commission that cross-subsidy has been reduced in conformity with Section 61 (g) is not enough. The cost of supply of electricity must be determined in accordance with the principle laid down in the Act." (Emphasis supplied)

From the ratio of the aforementioned judgments, it can be seen that the following are the tests for deciding the tariff in compliance of the Electricity Act, 2003 Tariff Policy and Regulations of the Commission:

- The Cost of service for each category of consumer will have to be worked out separately.
- The cross subsidy should be going down from year to year.

- Tariff need not be a mirror image of cost to supply to the respective consumer categories.
- Tariff for different categories of consumers are differentiated only according to the factors give in Section 62(3).
- There should be no tariff shock to any category of consumer.

8 CROSS SUBSIDY

There is no mention of the definition of the term 'cross subsidy' anywhere in the Tariff Policy, National Electricity Policy or in the Electricity Act, 2003. Section 61(g) of the Electricity Act, 2003 provides that the tariff should progressively reflect the cost of supply of electricity and cross subsidies should be reduced in the manner specified by State Commission. This shows that there is a mandate that tariff should progressively reflect actual cost of supply for each consumer category and not average cost of supply.

Clause 8.3 of the Tariff Policy provides:

"8.3 Tariff Design: Linkage of tariffs to cost of service

It has been widely recognised that rational and economic pricing of electricity can be one of the major tools for energy conservation and sustainable use of ground water resources.

In terms of the Section 61 (g) of the Act, the Appropriate Commission shall be guided by the objective that the tariff progressively reflects the efficient and prudent cost of supply of electricity.

....

Accordingly, the following principles would be adopted:

1.....

2. For achieving the objective that the tariff progressively reflects the cost of supply of electricity, the SERC would notify roadmap within six months with a target that latest by the end of year 2010-11, tariffs are within $\pm 20\%$ of the average cost of supply. The road map would also have intermediate milestones, based on the approach of a gradual reduction in cross subsidy.

For example, if the average cost of service is Rs. 3 per unit, at the end of the Year 2010-11, the tariff for the cross subsidised categories excluding those referred to in Para 1 above should not be lower than Rs. 2.40 per unit and that for any of the cross-subsidising categories should not go beyond Rs. 3.60 per unit."

Thus, the Tariff Policy requires a State Commission to fix such tariffs, that it progressively reflects the cost of supply and to ensure that latest by the year 2010-11, the tariff for each category of consumers is within $\pm 20\%$ of the average cost of supply. Section 61 (g) of the Electricity Act, 2003 mandates the Commission to ensure, that the tariff progressively reflects the cost of supply and also reduces the cross subsidies. Thus, the Tariff Policy read with Section 61(g) of the Act, clearly provides that the State Commission is required to ensure that the cross subsidies are to be progressively reduced and to ensure that tariff for each category is within $\pm 20\%$ of the overall average cost of supply latest by the year 2010-11.

The Tariff Policy, thus, recognises the fact that one of the objectives is that the tariff should reflect the cost of supply and for achieving that objective, the State Commission should notify roadmap within six months with a target that latest by 2010-11 tariff are within $\pm 20\%$ of average cost of supply (overall average cost of supply). However, nowhere, the Tariff Policy suggests that the cross subsidy has to be calculated based on average cost of supply. On the other hand, it provides that the tariff progressively should reflect cost of supply.

In fact, the full Bench of the Hon'ble APTEL in the case of SIEL Limited vs. Punjab State Electricity Regulatory Commission in 2007 ELR (APTEL) 931 has settled the position related to the average cost of supply and cost to supply of a particular category of consumers. The relevant portion of the APTEL judgment is reproduced below:

109. According to Section 61(g) of the Act 2003, the Commission is required to specify the period within which cross subsidy would be reduced and eliminated so that the tariff progressively reflects the cost of supply of electricity. Under Section 28(2) of the Act of 1998, the Commission while prescribing the terms and conditions of tariff was required to safeguard the interests of the consumers and at the same time, it was to ensure that the consumers paid for the use of the electricity in a manner based on average cost of supply. The word "Average" preceding the words "cost of supply" is absent in Section 61(g) of the Act of 2003. The omission of the word "Average" is significant. It indicates that the cost of supply means the actual cost of supply, but it is not the intent of the legislation that the Commission should determine the tariff based on cost of supply from the date of the enforcement of the Act 2003. Section 61(g) of the Act of 2003 envisages a gradual transition from the tariff loaded with cross subsidies to a tariff reflective of cost of supply to various class and categories of consumers. Till the Commission progressively reaches that stage, in the interregnum, the roadmap for achieving the objective must be notified by the Commission within six months from January 6, 2006, when the tariff Policy was issued by the Government of India i.e. by July 6, 2006. In consonance with the tariff policy, by the end of the year 2010-11, tariffs are required to be fixed within plus minus 20% of the average cost of supply (pooled cost of supply of energy received from different sources). But the policy has reached only up to average cost of supply. As per the Act, tariff must be gradually fine tuned to the cost of supply of electricity and the Commission should be able to reach the target within a reasonable period of time to be specified by it. Therefore, for the present, the approach adopted by the Commission in determining the average cost of supply cannot be faulted. We, however, hasten to add that we disapprove the view of the Commission that the

words "Cost of Supply" means "Average Cost of Supply". The Commission shall gradually move from the principle of average cost of supply towards cost of supply.

110. Keeping in view the provisions of Section 61 (g), which requires tariff to ultimately reflect the cost of supply of electricity and the National Tariff Policy, which requires tariff to be within plus minus 20% of the average cost of supply, it seems to us that the Commission must determine the cost of supply, as that is the goal set by the Act. It should also determine the average cost of supply. Once the figures are known, they must be juxtaposed, with the actual tariff fixed by the Commission. This will transparently show the extent of cross subsidy added to the tariff, which will be the difference between the tariff per unit and the actual cost of supply.

111. In a given case, where an appropriate Commission comes to the conclusion that time has come when Tariff is to be fixed without providing for cross subsidies between various consumer categories, it can fix the Tariff accordingly as there is nothing in the Act which compels a regulatory Commission to formulate Tariff providing for cross subsidies between the consumer categories for all times to come. *(Emphasis supplied)*

Section 61(g) of the Act of 2003 envisages a gradual transition from the tariff loaded with cross subsidies to a tariff reflective of cost of supply to various class and categories of consumers. Section 61(g) of the Electricity Act 2003, requires the State Commission to specify the period within which cross subsidy would be reduced and eliminated so that the tariff progressively reflects the cost of supply of electricity. Thus, roadmap for reduction and elimination of cross subsidy has to be notified by the Hon'ble Commission.

The above principles have been reiterated in the following judgments:

- (a) APTEL's Judgment dated 2.6.2006 in Appeal Nos. 124, 125 and 177 of 2005 and Appeal No. 18 of 2006 titled Kashi Vishwanath Steel Ltd., Vs. Uttaranchal ERC & Ors.
- (b) Tata Steel India vs. OERC and NEESCO: 2011 ELR (APTEL.) 1022.
- (c) APTEL's judgment dated 12.9.2011 in Appeal Nos. 96 of 2011 titled East Cost Railways vs. OERC & Ors
- (d) APTEL's judgment dated 23.09.2013 in Appeal No. Appeal No. 52, 67, 68 and 69 of 2012 in Ferro Alloys Corporation Ltd & Ors Vs OERC & Ors

The Objector would like to bring to the notice of the Hon'ble Commission that though the Licensee has calculated the category-wise CoS for all classes of consumers, it has not used the same to determine tariffs. This renders the exercise of calculating the category-wise CoS futile and misleading. Further the Licensee has not been able to adhere even to the alleged mandate of the Tariff Policy of designing tariff at $\pm 20\%$ of the average cost of supply.

The following tables depict the average realisation as a % of category cost to serve and as a % of average cost of service for TSNPDCL:

Table: Category wise % over / under recovery w.r.t Cost to Serve for TSNPDCL - FY 2015-16

S. No.	Category & Sub-category	Average Realisation (Rs./kWh)	Category-Wise COS (Rs./kWh)	Average COS (Rs./kWh)	Average Realisation as % of Category COS	Average Realisation as % of ACOS
A	LT Category	2.06	6.62	6.22	31%	33%
1	Category I Domestic	3.02	6.83	6.22	44%	49%
2	Category II - Non-domestic/Commercial	9.27	6.97	6.22	133%	149%
3	Category III (A & B) – Industrial	7.76	6.22	6.22	125%	125%
4	Category IV - Cottage Industries & Dhobighats	4.28	6.59	6.22	65%	69%
5	Category V - Irrigation and Agriculture	0.08	6.54	6.22	1%	1%
6	Category VI - Local Bodies, St. Lighting & PWS	5.55	5.83	6.22	95%	89%
7	Category VII - General Purpose	7.33	6.10	6.22	120%	118%
B	HT Category at 11 KV	4.69	5.13	6.22	91%	75%
1	HT-I Industry Segregated (Including Ferro Alloys, Seasonal Industries & Colony Consumption)	8.12	6.13	6.22	132%	131%
2	HT-II & III Industrial Non-Segregated	9.21	6.22	6.22	148.0%	148.1%
3	HT-IV A Govt. Lift Irrigation Schemes & Agriculture	5.44	7.30	6.22	75%	88%
4	HT-VI Townships and Residential Colonies	6.18	5.61	6.22	110%	99%
5	RESCOs	0.91	4.05	6.22	22%	15%
C	HT Category at 33 KV	5.68	5.13	6.22	111%	91%
1	HT-I Industry Segregated (Including Ferro Alloys, Seasonal Industries & Colony Consumption)	6.63	5.22	6.22	127%	107%
2	HT-II & III Industrial Non-Segregated	10.54	5.77	6.22	182.7%	169.6%
3	HT-IV A Govt. Lift Irrigation Schemes & Agriculture	5.68	5.10	6.22	111%	91%
4	HT-VI Townships and Residential Colonies	6.13	7.58	6.22	81%	99%
5	RESCOs	0.91	4.05	6.22	22%	15%
C	HT Category at 132 KV	6.94	5.13	6.22	135%	112%
1	HT-I Industry Segregated (Including Ferro Alloys, Seasonal Industries & Colony Consumption)	6.23	4.99	6.22	125%	100%
2	HT-II Industrial Non-Segregated	47.47	35.03	6.22	135.5%	763.6%

S. No.	Category & Sub-category	Average Realisation (Rs./kWh)	Category-Wise COS (Rs./kWh)	Average COS (Rs./kWh)	Average Realisation as % of Category COS	Average Realisation as % of ACOS
3	HT-IV A Govt. Lift Irrigation Schemes & Agriculture	5.68	4.86	6.22	117%	91%
4	HT-V Railway Traction	8.87	5.33	6.22	166.5%	142.6%
5	HT-VI Townships and Residential Colonies	6.13	4.22	6.22	145%	99%
<i>Total</i>		3.09	6.22	6.22	50%	50%

It can be seen from the above tables, that the Licensee has markedly deviated from the claim of trying to design tariff within the $\pm 20\%$ range of the average cost of supply. The non domestic (commercial), LT industrial and HT industrial tariffs are significantly over 120% of the average cost of supply. As per the provisions of the Electricity Act and Tariff Policy, the subsidising consumers such as industrial consumers cannot be penalised, for making good the cost, to be recovered from the subsidised category beyond the permissible $\pm 20\%$ of the average cost of supply. Any benefit which the Licensee wants to confer to the subsidised category beyond the maximum of $\pm 20\%$ can and should be recovered through Government subsidy and cannot in any way be loaded to the subsidising consumers.

In a catena of judgments (discussed in foregoing paragraphs), the Hon'ble APTEL has held that eventually, the State Commission shall gradually move from the principle of average cost of supply towards cost of supply for each consumer category. The Objector states that the incidence of cross subsidy is even higher when category wise cost of service is considered.

In view of the above, the Objector states that the tariff hike for industrial consumers is invalid in law and fails the mandate of the Electricity Act and Tariff Policy.

9 STATE GOVERNMENT SUBSIDY

The erstwhile Regulatory Commission in the Tariff Order for FY 2013-14 had approved a subsidy requirement of Rs. 5,490.81 crore for consolidated Discoms for un-divided State.

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 vide Secretary, APERC, Lr. No. APERC/Secy/EAS/RSTO2-12-13/12, dated: 21.04.2013, will be applicable.....”

Thus, the total subsidy commitment by the State Government for un-divided State 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

The actual sales for FY 2013-14 towards subsidised categories filed by the Licensee demonstrate that the actual consumption of the subsidised categories is much higher than the levels approved in the Tariff Order for FY 2013-14 basis which, the subsidy levels had been approved.

This requires for re-adjustment of the subsidy level from the State Govt. 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 of FY 2013-14, 2014-15 and in the ARR of FY 2015-16.

The Hon'ble Commission in the FY 2013-14 Tariff Order had determined the cost of service of LT-1 and LT-5 categories based on the embedded cost of service model. Considering the approved cost of service of the subsidised categories and the actual sales in FY 2013-14, the adjusted revised subsidy requirement has been worked out in the table below:

Table: Adjusted Subsidy Requirement in FY 2013-14 as per Actual Sales for TSNPDCL

Consumer Categories	Energy Sales	Approved CoS	Cost to Serve	Actual Revenue Assessment	Subsidy Requirement
	MU	Rs/kWh	Rs Crore	Rs Crore	Rs Crore
	A	B	$C = A \times B / 10$	D	$E = C - D$
LT- I(A) Domestic - upto 50 units/month	556.72	6.73	374.67	155.25	219.42
LT- I(B) Domestic - >50 and upto 100 units/month	759.47	6.73	511.12	162.20	348.92
LT- I(C) Domestic- above 100 & upto 200 units/month	654.87	6.73	440.73	206.77	233.96
LT-V	4361.35	4.87	2123.98	35.87	2088.11
Total	6332.41		3450.50	560.09	2890.41

Similarly, the adjusted revised subsidy requirement has been worked out for FY 2014-15 by considering the approved cost of service of the subsidised categories, revised estimated sales in FY 2014-15 and projected revenue realisation. The same is tabulated below:

Table: Subsidy Requirement in FY 2014-15 based on Revised Estimated Sales for TSNPDCL

Consumer Categories	Energy Sales	Approved CoS	Cost to Serve	Estimated Revenue Assessment	Subsidy Requirement
	MU	Rs/kWh	Rs Crore	Rs Crore	Rs Crore
	A	B	$C = A \times B / 10$	D	$E = C - D$
LT- I(A) Domestic - upto 50 units/month	571.24	6.73	384.44	145.82	238.62
LT- I(B) Domestic - >50 and upto 100 units/month	809.21	6.73	544.60	172.80	371.80
LT- I(C) Domestic- above 100 & upto 200 units/month	705.40	6.73	474.73	222.02	252.71
LT-V	4715.21	4.87	2296.31	37.43	2258.88
Total	6801.06		3700.08	578.07	3122.01

Similarly, the subsidy requirement for FY 2015-16 has been worked out considering the projected sales for FY 2015-16, revenue realisation and cost to serve computed by the Licensee in the subject petitions and the same is tabulated below:

Table: Subsidy Requirement in FY 2015-16 based on Projected Sales for TSNPDCL

Consumer Categories	Energy Sales	Approved CoS	Cost to Serve	Projected Revenue Assessment	Subsidy Requirement
	MU	Rs/kWh	Rs Crore	Rs Crore	Rs Crore
	A	B	$C = A \times B / 10$	D	$E = C - D$
LT- I(A) Domestic - upto 50 units/month	639.65	6.83	436.88	168.76	268.12
LT- I(B) Domestic - >50 and upto 100 units/month	948.31	6.83	647.70	201.12	446.58
LT- I(C) Domestic- above 100 & upto 200 units/month	838.17	6.83	572.47	260.71	311.76
LT-V	4903.82	6.54	3207.10	39.24	3167.86
Total	7329.95		4864.15	669.83	4194.32

Thus, the total subsidy requirement from State Govt. towards supply to select sub-categories of LT-1 and LT-V is to the tune of approx Rs. 4511.19 crore for TSNPDCL as depicted in the table below:

Table: Additional Subsidy Requirement from State Government for TSNPDCL

(Figures in Rs Crore)

Particulars	FY 2013-14	FY 2014-15	FY 2015-16
Subsidy Requirement of LT-1	802.30	863.14	1026.46
Subsidy Requirement of LT-V	2088.11	2258.88	3167.86
Total Subsidy Requirement	2890.41	3122.01	4194.32
Less: Subsidy from State Govt.	2555.28	3140.27	-
Additional Subsidy Requirement from State Govt.	335.13	-18.26	4194.32
Total Additional Subsidy Requirement from State Govt.		4511.19	

This ratio applies to all the previous years under the second control period i.e., from FY 2009-10 to 2012-13. It is urged that the Hon'ble Commission may determine the additional subsidy requirement from State Govt. 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 Viduyt 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-1 (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 subsidising 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 SUBSIDY REQUIREMENT FROM GOUP

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 the 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)/2013-176 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 15th 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-1 (a): Consumer getting supply as per "Rural Schedule" and LMV-5: Private Tube wells (PTW) in FY 2007-08. 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 tried up. The distribution licensees need to realise such sums from the State Government.

Table 9-1: 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) Consumer 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 9-2: ALLOCATION OF ADDITIONAL SUBSIDY REQUIREMENT AMONG DISCOMS (Rs Crores)

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

It is the consistent practice of the Hon'ble UPERC to approve additional subsidy requirement based on actual consumption of subsidised categories. Similar treatment was provided by the Hon'ble UPERC in the trueing 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-1A'.

Attention is furthermore invited to erstwhile Regulatory Commission's 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.

Erstwhile Regulatory Commission's 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 the Appellate Tribunal and other Regulatory Commissions, **it is very clear that for any additional sale to the subsidised 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 State Government to release the additional subsidy required by the Licensee for sale of additional power to agriculture consumers and other subsidised categories during the previous control periods.

Here, it is also pertinent to mention that this matter had been raised before the erstwhile Regulatory Commission in the Statement of Objects filed by an Objector against the ARR and Tariff Petitions for FY 2013-14. However the erstwhile Regulatory 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 2013-14 Tariff 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 true 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 is 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 erstwhile Regulatory 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 $\pm 20\%$ 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 State Govt. 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 2013-14.
- The additional subsidy requirement from the State Govt. towards subsidised power supply to select sub-categories of LT-1 and LT-V is to the tune of apprx Rs. 335.13 crore in FY 2013-14 and Rs. 4194.32 crore in FY 2015-16 in respect of TSNPDCL.

- This ratio applies to all the previous years under the second control period i.e., from FY 2009-10 to 2012-13. It is urged that the Hon'ble Commission determine the additional subsidy requirement from State Govt. for supply of electricity to subsidised categories based on actual consumption of subsidised categories for all the years covered under the Tariff Regulations.
- 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 $\pm 20\%$ of CoS levels. Thereupon, the subsidised tariffs should be worked upon after considering the available subsidy levels from the State Government.

10 TIME OF DAY (TOD) TARIFFS – REBATE FOR OFF-PEAK PERIODS

The Time of Day tariff (ToD) is a widely accepted Demand side Management (DSM) measure for energy conservation by price. The ToD tariff encourages the distribution licensees to move towards separation of peak and off-peak tariffs which would help in reducing consumption as well as costly power purchase at the peak time.

The ToD tariffs are set in such a way, that it inherently provides incentives and disincentives for the use of electricity in different time periods. The underlying objective of implementing ToD tariffs is to flatten the load curve over a period of a day resulting in a reduction in the peaking power requirement and also to enhance power requirement during off peak period.

However, the ToD tariff should be a tool only to effectively undertake the DSM measure and flatten the load curve but not as a source of additional revenue. Typically, the ToD tariffs framed by other states in the country provide for a surcharge payable for peak hour consumption and a rebate for consumption during off-peak periods. Moreover, the ToD tariffs are generally imposed on industrial consumers, as it is perceived that such consumers operate in shifts and can adjust their demand based on a ToD tariff which provides for surcharge during peak periods and rebates for consumption during off-peak periods. Thus, surcharge act as a deterrent for consumption during peak periods and rebates offer incentive to shift demand to off-peak periods. The idea is to encourage the shift of demand from peak to off-peak periods so as to flatten the load curve and optimise the power purchase cost.

The erstwhile Regulatory Commission had introduced ToD tariff from 1st August, 2010. However, the Hon'ble Commission has only approved an additional surcharge of Rs. 1.00 per unit during the peak hours and has not provided any rebate for consumption of power during off-peak hours. As per section 62(3) of the Electricity Act 2003, the tariff should reflect cost and have to be based on cost causation principles.

The Objector submits that the ToD tariff approved by Hon'ble Commission not only is in contrast to the applicable scheme in other states but is also counter-productive to demand side management as it offers no incentive to consumers to shift their demand to off-peak periods.

The following table provides the exhaustive list of states wherein ToD tariffs are applicable:

Table: Summary of the Time of Day (ToD) Tariff Scheme in Various States

S.No	Name of Utility & Time Period	Effective dates	Consumer Category & TOD Charges applicable			
1	Andhra Pradesh	w.e.f. 01.04.2013	HT Consumer (HT -I (A), HT -II & HT -III)			
	1800 Hrs -2200 Hrs		Voltage Supply -11kv, 33kv, 132kv & above 100 Paise/kVAh In addition to the normal energy charges at respective voltages			
2	Assam	w.e.f. 01.12.2013	HT-V(B)	HT-V(c) - Option1	HT-VI Tea, Coffee & Rubber	HT-VII Oil & Coal
	0600 Hrs -1700 Hrs (normal)		515 Paise/KWh	410 Paise/KWh	565 Paise/KWh	580 Paise/KWh
	1700 Hrs-2200 Hrs (peak)		740 Paise/KWh	555 Paise/KWh	745 Paise/KWh	755 Paise/KWh
	2200 Hrs - 0600 Hrs (night)		450 Paise/KWh	360 Paise/KWh	545 Paise/KWh	565 Paise/KWh
3	Bihar	w.e.f. 01.04.2013	All HT Consumers			
	Normal period (0500 Hrs - 1700 Hrs)		Normal rate of energy charges			
	Evening Peak load period (1700 Hrs -2300 Hrs)		120% of normal rate of energy charges			
	Off-peak load period (2300 Hrs -0500 Hrs)	85% of Normal rate of energy charges				
4	Chandigarh	w.e.f. 01.04.2013	HT/EHT Consumers (Optional)			
	Normal period (0600 Hrs - 1800 Hrs)		Normal rate of energy charges			
	Evening Peak load period (1800 Hrs -2200 Hrs)		120% of normal rate of energy charges			
	Off-peak load period (2200 Hrs -0600 Hrs)		90% of Normal rate of energy charges			
5	Chhattisgarh	w.e.f. 01.08.2013	For Consumer EHV-2, EHV-3, EHV-4, HV-1, HV-2, HV-3 and HV-10			
	Normal period (0500 Hrs - 1800 Hrs)		Normal rate of energy charges			
	Evening Peak load period (1800 Hrs -2300 Hrs)		130% of normal rate of energy charges			
	Off-peak load period (2300 Hrs -0500 Hrs)		85% of Normal rate of energy charges			
6	Delhi (BYPL, BRPL, NDPL-TPDDL & NDMC)	w.e.f. 01.08.2013	All consumers (Other than domestic) sanctioned load is 100 KW/108 KVA & Above			
	April-September (peak hours) 1500 Hrs - 2400 Hrs		15% surcharge on energy charges			
	Oct-March (Peak hours) 1700 Hrs -2300 Hrs		10% surcharge on energy charges			
	April-September (Off-peak hours) 0000 Hrs -0600 Hrs		15% Rebate on energy charges			
	October-March (Off-peak hours) 2300 Hrs - 0600 Hrs		15% Rebate on energy charges			

S.No	Name of Utility & Time Period	Effective dates	Consumer Category & TOD Charges applicable	
7	Goa	w.e.f. 01.04.2013	IIT/EHT Consumers (Optional)	
	Normal period (0600 Hrs - 1800 Hrs)		Normal rate of energy charges	
	Evening Peak load period (1800 Hrs -2200 Hrs)		120% of normal rate of energy charges	
	Off-peak load period (2200 Hrs -0600 Hrs)		90% of Normal rate of energy charges	
8	Jharkhand	w.e.f. 01.08.2012	All HT Consumers	
	Morning peak hours (0600 Hrs - 1000 Hrs)		120% of normal rate of energy charges	
	Evening peak hours (1800 Hrs - 2200 Hrs)		120% of normal rate of energy charges	
	Off-peak period (2200 Hrs - 0600 Hrs)		85% of normal rate of energy charges	
9	Karnataka	w.e.f. 01.05.2013	LT-5(a) & (b) Industrial heating & motive power (optional)	HT-1 and HT-2 (a), (b), (c)
	2200 Hrs - 0600 Hrs		(-) 125 Paise /KWh	(-) 125 Paise /KWh
	0600 Hrs -1800 Hrs		NIL	NIL
	1800 Hrs -2200 Hrs		(+) 100 Paise/KWh	(+) 100 Paise/KWh
10	Kerala	w.e.f. 01.05.2013	EHT, HT and LT Industrial Consumer (Load above 20 KW)	LT-I(.500 Units/months)
	Normal period (0600 Hrs - 1800 Hrs)		100% Ruling rate of energy charges	100% Ruling rate of energy charge
	Evening peak (1800 Hrs -2200 Hrs)		150% Ruling rate of energy charges	120% Ruling rate of energy charge
	Off-peak period (2200 Hrs - 0600 Hrs)		75% Ruling rate of energy charges	90% Ruling rate of energy charges
11	Madhya Pradesh	w.e.f. 01.04.2013	For Coal Mines, Industrial , Seasonal, Irrigation, PWW consumers	
	Normal period (0600 Hrs - 1800 Hrs)		Normal rate of energy charges	
	Evening Peak load period (1800 Hrs -2200 Hrs)		15% of normal rate of energy charge as surcharge	
	Off-peak load period (2200 Hrs -0600 Hrs)		7.5% of normal rate of energy charge as surcharge	
12	Maharashtra	w.e.f. 01.08.2012	LT-V(B), LTX(B) & ©, LT-V(A) & LT-x(A) optional, HT-I, HT-II (B), HT IV & HT -IX (above base tariff)	
	0600 Hrs -0900 Hrs & 1200 Hrs - 1800 Hrs		NIL	
	0900 Hrs - 1200 Hrs		(+) 80 Paise/KWh	
	1800 Hrs -2200 Hrs		(+) 110 Paise/KWh	
	2200 Hrs -0600 Hrs		(-) 100 Paise/KWh	
13	Maharashtra -Mumbai (B.E.S.T, TATA Power Co. & Reliance Energy)	B.E.S.T. & Reliance Energy w.e.f. 01.09.2013 Tata Power Co. w.e.f. 01.07.2013	LT & HT Industrial, Commercial, Public Services (Over & above base tariff)	
	0600 Hrs -0900 Hrs		NIL	
	0900 Hrs - 1200 Hrs		(+) 50 Paise /KWh	
	1200 Hrs -1800 Hrs		Nil	
	1800 Hrs -2200 Hrs		(+) 100 Paise /KWh	
	2200 Hrs -0600 Hrs		(-) 75 Paise/KWh	

S.No	Name of Utility & Time Period	Effective dates	Consumer Category & TOD Charges applicable		
14	Puducherry	w.e.f. 01.04.2013	HT/EHT Consumers (Optional)		
	Normal period (0600 Hrs - 1800 Hrs)		Normal rate of energy charges		
	Evening peak load period (1800 Hrs - 2200 Hrs)		120% of normal rate of energy charge		
	Off-peak load period (2200 Hrs -0600 Hrs)		90% of normal rate of energy charge		
15	Tripura	w.e.f. 01.04.2013	Industrial, Tea/Coffee/Rubber, Bulk supply , Water Works & Irrigation consumers		
	Normal period (0500 Hrs - 1700 Hrs)		Normal rate of energy charges		
	Evening Peak load period (1700 Hrs -2300 Hrs)		140% of normal rate of energy charge		
	Off-peak load period (2300 Hrs -0500 Hrs)		60% of normal rate of energy charge		
16	Uttarakhand	w.e.f. 01.05.2013	LT & HT Industrial		
	Season Time of day		<i>Normal Hrs</i>	<i>Peak Hrs</i>	<i>Off Peak Hrs</i>
	Winters 1st October - 31st March		09:30-17:30 Hrs	06:00-09:30 & 17:30 - 22:00 Hrs	22:00-06:00 Hrs
	Summers 1st April - 30th September		07:00-18:00 Hrs	18:00 -23:00 Hrs	23:00-07:00 Hrs
	For LT Industry - Energy Charges		340 Paise/KVAh	5100 Paise/KVAh	306 Paise/KVAh
	For HT Industry - Energy Charges				
	Load Factor upto 33%		305 Paise/kVAh	540 Paise/kVAh	275 Paise/kVAh
	Load Factor above 33% and upto 50%		330 Paise/kVAh	540 Paise/kVAh	297 Paise/kVAh
	Load Factor above 50%		360 Paise/kVAh	540 Paise/kVAh	324 Paise/kVAh
	17		Uttar Pradesh	w.e.f. 10.06.2013	Small & Medium Power and Large & Heavy Power
2200 Hrs - 0600 Hrs		92.5% of Normal rate of energy charge			
0600 Hrs 1700- Hrs		Normal rate of energy charges			
1700 Hrs - 2200 Hrs		115% of Normal rate of energy charge			
18	West Bengal	Applicable Tariff Scheme w.e.f 01.04.2013	Low and medium Voltage Consumers		
	Season Time of day		06:00-17:00 Hrs	17:00 Hrs- 23:00 Hrs	23:00 Hrs -06:00 Hrs
	i) Irrigation pumping for agriculture (Metered)		354 Paise/kWh	729 Paise/kWh	212 Paise/kWh
	High & Extra High Voltage Consumers				
	i) Industries (220 KV)		534 Paise/kWh	747 Paise/kWh	353 Paise/kWh
	ii) Industries (400 KV)		514 Paise/kWh	719 Paise/kWh	340 Paise/kWh
	iii) Community Irrigation Irrigation		560 Paise/kWh	885 Paise/kWh	279 Paise/kWh
	iv) Commercial Plantation		605 Paise/kWh	847 Paise/kWh	400 Paise/kWh

S.No	Name of Utility & Time Period	Effective dates	Consumer Category & TOD Charges applicable		
19	West Bengal - Durgapur Projects Ltd.	Applicable Tariff Scheme w.e.f.01.04.2013	Low and medium Voltage Consumers		
	Season Time of day		06:00-17:00 Hrs	17:00 Hrs-23:00 Hrs	23:00 Hrs -06:00 Hrs
	Irrigation pumping for agriculture (Metered)		303 Paise/kWh	606 Paise/kWh	167 Paise/kWh
	i) Industries (33KV)		High & Extra High Voltage Consumers		
	Summer		428 Paise/kWh	565 Paise/kWh	321 Paise/kWh
	Monsoon		426 Paise/kWh	562 Paise/kWh	320 Paise/kWh
	Winter		424 Paise/kWh	560 Paise/kWh	318 Paise/kWh
	ii) Industries (132KV)				
	Summer		417 Paise/kWh	550 Paise/kWh	313 Paise/kWh
	Monsoon		415 Paise/kWh	548 Paise/kWh	311 Paise/kWh
	Winter		413 Paise/kWh	545 Paise/kWh	310 Paise/kWh
	iii) Community Irrigation /Irrigation				
	Summer		424 Paise/kWh	763 Paise/kWh	280 Paise/kWh
	Monsoon		422 Paise/kWh	760 Paise/kWh	279 Paise/kWh
	Winter		420 Paise/kWh	756 Paise/kWh	277 Paise/kWh
20	West Bengal -DPSC Ltd.	Applicable Tariff Scheme w.e.f.01.04.2013	Low and medium Voltage Consumers		
	Season Time of day		06:00-17:00 Hrs	17:00 Hrs-23:00 Hrs	23:00 Hrs -06:00 Hrs
	Irrigation		269 Paise/kWh	649 Paise/kWh	178 Paise/kWh
	i) Industries (33KV & above)		High & Extra High Voltage Consumers		
	Summer		495 Paise/kWh	692 Paise/kWh	326 Paise/kWh
	Monsoon		491 Paise/kWh	688 Paise/kWh	324 Paise/kWh
	Winter		487 Paise/kWh	683 Paise/kWh	321 Paise/kWh
	ii) Community Irrigation /Irrigation				
	Summer		365 Paise/kWh	729 Paise/kWh	219 Paise/kWh
	Monsoon		361 Paise/kWh	721 Paise/kWh	217 Paise/kWh
	Winter		357 Paise/kWh	713 Paise/kWh	215 Paise/kWh

The table above demonstrates, that the ToD tariffs applicable in other states offer not only surcharge for peak period consumption but also rebate / incentive for off-peak period consumption.

In view of the above, the Objector urges that the Hon`ble Commission should modify the ToD structure and provide for a commensurate rebate of around 15% of the energy charges for consumption in the off-peak period.

11 REBATE FOR TIMELY PAYMENT OF BILLS

The Objector submits that a nominal rebate should be provided to the consumers for timely and prompt payment which can improve the collection efficiency and the cash flows of the Licensee. While the provision for delayed payment surcharge is provided in the Tariff Orders, the honest consumers should also be rewarded for timely payment of bills. The provision for rebate on timely payment of bills has been provided in the rate schedule of many States as depicted in the table below:

Table: Provision for Rebate on Timely Payment of Bills in Other States

S No.	State	Rebate Provision
1	Karnataka	0.25%
2	Madhya Pradesh	0.25%
3	Maharashtra	1.00%
4	Orissa	1.00%
5	Uttar Pradesh	0.25%

It is urged that the Hon'ble Commission may approve a Provision for Prompt Payment of Energy Bills which would benefit both the Licensee in terms of improving the cash flows and also rewards the consumers who pays the bills on time i.e., before due date.

12 LOAD FACTOR REBATE

Clause 7.4.d of the APERC (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulations, 2005 provide that a Filing for Proposed Tariff shall contain:

“Expected Revenue from the proposed Retail Sale Tariffs, Non-Tariff Income and income from Other Business(es) and other matters considered appropriate by the Distribution Licensee, including incentive schemes to consumes, voltage surcharge and power factor surcharge.”

In terms of the aforementioned clause, the erstwhile Regulatory Commission had earlier approved load factor rebate which was applicable up to 31st July, 2010, subsequent to which it was discontinued. The load factor rebate scheme applicable earlier in un-divided Andhra Pradesh for IIT industries is depicted below:

Table: Load Factor Rebate Framework for HT Industries up to 31st July, 2010

LF Range	Incentive on Energy Charges
LF <= 30%	NIL
30% <LF <=50%	5%
50% <LF <=60%	10%
60% <LF <=70%	15%
LF > 70%	20%

The Objector submits that high Load Factor denotes that the system is best utilised and will benefit the system in terms of load management, reduction of losses, etc on account of high load factor. The provision for incentive scheme such as load factor rebate is mandated by Clause 7.4 of the Tariff Regulations and similar incentive schemes are applicable in various other states such as Madhya Pradesh, Maharashtra and West Bengal.

Table: Load Factor Rebate Schemes applicable in Other States

S No.	States	Tariff Order Year	LF Criteria	Rebate																																																
1	Maharashtra	2012-13	> 75%	75%-85% - 0.75% on Energy Charges for every 1% increase, >85% - 1.00% on Energy Charges for every 1% increase																																																
2	Madhya Pradesh	2014-15	>50%	11 kV - Rs. 0.60 per unit 33 kV - Rs. 1.00 per unit 132 kV - Rs. 0.80 per unit 220 kV and above - Rs. 0.70 per unit																																																
3	West Bengal	2013-14	>55%	<table border="1"> <thead> <tr> <th>Load Factor</th> <th colspan="3">Rebate in Paise / kWh</th> </tr> <tr> <th></th> <th><33 kV</th> <th>33 kV</th> <th>>33 kV</th> </tr> </thead> <tbody> <tr> <td>55%-60%</td> <td>1</td> <td>2</td> <td>3</td> </tr> <tr> <td>60%-65%</td> <td>7</td> <td>8</td> <td>9</td> </tr> <tr> <td>65%-70%</td> <td>14</td> <td>29</td> <td>39</td> </tr> <tr> <td>70%-75%</td> <td>20</td> <td>35</td> <td>45</td> </tr> <tr> <td>75%-80%</td> <td>25</td> <td>40</td> <td>50</td> </tr> <tr> <td>80%-85%</td> <td>30</td> <td>45</td> <td>55</td> </tr> <tr> <td>85%-90%</td> <td>35</td> <td>50</td> <td>60</td> </tr> <tr> <td>90%-92%</td> <td>40</td> <td>55</td> <td>65</td> </tr> <tr> <td>92%-95%</td> <td>45</td> <td>60</td> <td>70</td> </tr> <tr> <td>>95%</td> <td>50</td> <td>65</td> <td>75</td> </tr> </tbody> </table>	Load Factor	Rebate in Paise / kWh				<33 kV	33 kV	>33 kV	55%-60%	1	2	3	60%-65%	7	8	9	65%-70%	14	29	39	70%-75%	20	35	45	75%-80%	25	40	50	80%-85%	30	45	55	85%-90%	35	50	60	90%-92%	40	55	65	92%-95%	45	60	70	>95%	50	65	75
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92%-95%	45	60	70																																																	
>95%	50	65	75																																																	

In view of the above, the Objector prays to the Hon'ble Commission to re-introduce Load Factor Rebate as the presence of such a scheme would incentivise the industry to utilise its machinery in an efficient manner thereby helping the Licensee in flattening the load curve.

13 SEGREGATION OF TECHICAL AND COMMERCIAL LOSSES

In the ARR filed by the Petitioner, there are no separate estimates provided for technical and commercial losses, except description of measures aimed at reduction of the same. It is pertinent to mention that distribution loss is a controllable factor under the MYT framework.

In view of the above, to set the base line of distribution loss estimate, the Hon'ble Commission may either require the Licensee to carry out proper loss estimation studies for assessment of technical and commercial losses under its supervision, or initiate a study itself. The study should segregate voltage-wise distribution losses into technical loss (i.e. Ohmic/Core loss in the lines, substations and equipment) and commercial loss (i.e. unaccounted energy due to metering inaccuracies/inadequacies, pilferage of energy, improper billing, no billing, unrealized revenues etc.). Such a study would enable the Hon'ble Commission to set targets for loss reduction and insulate the consumers from the burden of commercial losses which is attributable to the inefficiencies of the Licensee.

14 ROADMAP FOR 100% METERING

Section 55(1) of the Electricity Act, 2003 provides that *"no licensee shall supply electricity, after the expiry of two years from the appointed date, except through installation of a correct meter in accordance with regulations to be made in this behalf by the Authority"*

The erstwhile Regulatory Commission in the FY 2013-14 Tariff Order had noted that complete metering of agricultural services is necessary for proper consumption estimate. The relevant extract is reproduced below:

"The Commission is of the view that there is no alternative except for complete metering of agricultural services for proper consumption estimate."

However, there is no progress at the ground level in terms of metering of agricultural consumers. There is absence of any roadmap for 100% metering, particularly of agriculture consumers who are being supplied electricity free of cost and the burden is imposed on industrial consumers in terms of cross subsidy. It is urged that the Hon'ble Commission cannot remain a mute spectator of the non-compliance of the Electricity Act, 2003. An appropriate roadmap for 100% metering should be approved by the Hon'ble Commission and a realistic time frame should be laid. The road map should provide for disincentives in case of slippages / non compliance by the Licensee towards the targets set for metering. The Objector feels that unless very clear incentives and disincentives are built in the system, the vision of universal metering would remain merely a wishful and glorious intention of the legislature.

15 TRUE UP OF TSNPDCL FOR FY 2013-14

The TSNPDCL has claimed a true up of Rs. 39.37 crore for FY 2013-14 as depicted in the table below:

Table: True up Claimed by TSNPDCL for FY 2013-14

ARR Line Item (Rs Crore)	Approved in Tariff Order	Actual as per Audited Accounts	Deviation
Distribution Cost	890.88	890.88	-
Transmission Charges	222.85	227.47	4.62
SLDC Charges	6.58	6.72	0.14
PGCIL & ULDC charges	71.76	95.55	23.79
Network and SLDC Cost	1,192.07	1,220.62	28.55
Power purchase	4,604.24	4,378.49	-225.75
Interest on Consumer Security Deposits	41.48	38.65	-2.83
Supply margin in Retail Supply Business	7.23	6.76	-0.47
Other Costs if any	0.58	0.18	-0.40
Supply Cost	4,653.53	4,424.08	-229.45
Aggregate Revenue Requirement	5,845.60	5,644.70	-200.90
Revenue from Tariff	3,240.27	2,981.05	-259.22
Non-Tariff Income	55.30	69.00	13.70
Tariff Subsidy	2,550.04	2,555.28	5.24
Total Revenue	5,845.61	5,605.33	-240.28
Total Gap / (Surplus) from Retail Business	-	39.37	39.37

The objections in respect of the true up claims of TSNPDCL for FY 2013-14 are summarised below:

- 1) Loss Levels** - The TSNPDCL in Form 4A has depicted that the actual distribution losses in FY 2013-14 are 14.89% as against the target of 13.45% approved in the FY 2013-14 Tariff Order. It is pertinent to mention that distribution loss is a controllable factor under the MYT framework. In view of the same, the consumers cannot be burdened with the inefficiency which is attributable to the Licensee.
- 2) Non Consideration of Delayed Payment Charges for Truing up:** A close scrutiny of the subject Petition and the financial statements of TSNPDCL for FY 2013-14 reveal that Delayed Payment Charges to the tune of Rs. 71.38 crore have not been added to the revenue being trued up. Delayed Payment Charges are in the nature of revenue and is a tariff income. The Objector humbly submits that the Delayed Payment Charges ought to be trued up and deducted from the ARR.
- 3) Adverse Consumer Sales Mix** – The Licensee has stated that “the actual average revenue realisation for the FY 2013-14 is Rs. 2.90 per unit as against the Commission approved average

revenue realisation of Rs. 3.06 per unit which is less by Rs. 0.16 per unit resulted in lower revenue”.

Further the Licensee has stated:

“As can be seen from the table above, in 2013-14, the percentage of metered sales on input is lower than the Tariff Order level by 5.33%. The reduction is mainly due to imposing R&C measures on HT consumers and LT industrial consumers in the first four months and load relief on other LT consumers except agriculture consumers. The following reasons led to decrease in metered sales over the Tariff Order.

- Total load curtailment (due to Load relief and R&C measures) during FY 2013-14.
- Increase in agriculture consumption by 406 MU which is 10.26% higher than the Tariff Order approved value”

The same is detailed in the table below:

Table: Consumer Sales Mix for FY 2013-14

Categories	Approved				Actual			
	Sales (MU)	% of Total Sales	Revenue (Rs Crs)	Realization (Rs/Unit)	Sales (MU)	% of Total Sales	Revenue (Rs Crs)	Realization (Rs/Unit)
LT-I Domestic	2460.63	23%	771.99	3.14	2276.69	22%	689.21	3.03
LT-I Non - Domestic	536.35	5%	467.23	8.71	473.62	5%	428.16	9.04
LT-III Industry	315.65	3%	165.46	5.24	266.38	3%	227.26	8.53
LT-IV Cottage and Dobighats	7.06	0%	3.40	4.82	5.85	0%	2.62	4.48
LT-V Agriculture	3955.61	37%	43.24	0.11	4361.35	42%	35.87	0.08
LT-VI Street light and PWS	402.10	4%	205.31	5.11	267.24	3%	142.42	5.33
LT-VII General	31.94	0%	21.45	6.72	31.35	0%	24.67	7.87
LT-VIII Temporary	0.03	0%	0.03	10.00	0.00	0%	1.62	0.00
LT Total	7709.37	73%	1678.11	2.18	7682.48	75%	1551.83	2.02
HT-I Industrial (Seg.)	1149.54	11%	853.24	7.42	1183.10	12%	819.85	6.93
HT-II Industrial (Non-seg)	98.09	1%	89.26	9.10	87.68	1%	100.87	11.50
HT-IV Agriculture and Irrigation	395.18	4%	205.72	5.21	175.46	2%	111.96	6.38
HT-V Railway Traction	438.06	4%	278.17	6.35	441.55	4%	278.72	6.31
HT-VI Townships	128.65	1%	75.66	5.88	142.14	1%	88.51	6.23
Resco	686.39	6%	60.12	0.88	574.26	6%	29.31	0.51
HT Total	2895.91	27%	1562.17	5.39	2604.19	25%	1429.22	5.49
Total	10605.28	100%	3240.28	3.06	10286.67	100%	2981.05	2.90

From the above table it can be inferred that the commercial and LT industrial consumers are most affected due to change in sales mix. Due to the lower allocation of power, the commercial and LT industrial consumers were not able to meet their power requirement. It was a measured decision of the Licensee to allow the distortion of the consumer sales mix approved in the Tariff Order. The Licensee 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 mix 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 shortfall in revenue. It will be the subsidizing consumers such as commercial and LT 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. 161.88 crore $\{(10286.67 \text{ MU} \times \text{Rs. } 3.06 \text{ per unit} / 10) - (\text{Rs. } 2981.05 \text{ crore})\}$. 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.

- 4) **Supply Margin** - The Licensee has claimed Rs. 6.72 crore in FY 2013-14 towards Supply Margin. The Objector submits that there is no provision for allowance of Supply Margin in the Tariff Regulations approved by the Hon'ble Commission. It is urged that the true up should be determined strictly in accordance with the Tariff Regulations and any extraneous claims should be disallowed.
- 5) **True up of State Government Subsidy based on actual consumption of subsidised categories** – As discussed in the foregoing section, titled "State Government Subsidy", the following category of consumers were subsidised in FY 2013-14 by the State Government:
 - LT-I(A): Consumers with monthly consumption up to 50 units;
 - LT-I(B): Consumers with monthly consumption more than 50 and upto 100 units;
 - LT-I(B): Consumers with monthly consumption more than 100 and upto 200 units and
 - LT-V consumers

The actual sales for FY 2013-14 towards subsidised categories filed by the Licensee demonstrate that the actual consumption of the subsidised categories is much higher than the levels approved in the Tariff Order for FY 2013-14 basis which, the subsidy levels had been approved.

This requires for re-adjustment of the subsidy level from the State Government, such that the cost of supplying subsidised power to select categories is not imposed on the other consumers in terms of true up of the revenue gap of FY 2013-14.

The Hon'ble Commission in the FY 2013-14 Tariff Order had determined the cost of service of LT-1(A), LT-1(B) and LT-5 categories based on the embedded cost of service model. Considering the approved cost of service of the subsidised categories and the actual sales in FY 2013-14, the adjusted revised subsidy requirement has been worked out in the table below:

Table: Adjusted Subsidy Requirement in FY 2013-14 as per Actual Sales

(Figures in Rs Crore)

Consumer Categories	Energy Sales	Approved CoS	Cost to Serve	Actual Revenue Assessment	Subsidy Requirement
	MU	Rs/kWh	Rs Crore	Rs Crore	Rs Crore
	A	B	C= AxB/10	D	E = C - D
LT- I(A) Domestic - upto 50 units/month	556.72	6.73	374.67	155.25	219.42
LT- I(B) Domestic - >50 and up to 100 units/month	759.47	6.73	511.12	162.20	348.92
LT- I(B) Domestic- above 100 & up to 200 units/month	654.87	6.73	440.73	206.77	233.96
LT-V	4361.35	4.87	2123.98	35.87	2088.11
Total	6332.41		3450.50	560.09	2890.41

The additional subsidy requirement from State Govt. towards supply to LT-1(A), LT-1(B) and LT-V categories is to the tune of apprx Rs. 335.13 crore for TSNPDCL as depicted in the table below:

Table: Additional Subsidy Requirement from State Govt. for FY 2013-14

Particulars	(Rs Crore)
Subsidy Requirement of LT-1(A) and LT-1(B)	802.30
Subsidy Requirement of LT-V	2088.11
Total Subsidy Requirement	2890.41
Less: State Govt. Subsidy as per audited accounts	2555.28
Additional Subsidy Requirement from State Govt.	335.13

The Objector has elaborated in the foregoing sections that the Hon'ble Commission should re-adjust the level of subsidy from State Govt. 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 2013-14. It is urged that the Hon'ble Commission may direct TSNPDCL to collect the additional subsidy amount to the tune of Rs. 335.13 crore from State Govt., being the balance subsidy requirement for FY 2013-14 in view of the actual sales to subsidised categories and necessary adjustment may be made in the true-up / true-down being approved for the relevant year.

- 6) **Non Tariff Incomes** – The Licensee has submitted the details of Non Tariff Incomes in Form 6 and Form 11 of the Tariff Forms published along with the subject petitions. The TSNPDCL has submitted the non tariff incomes to be Rs. 69.00 crore for FY 2013-14. However, there is an imminent deviation in the said figure from the non tariff income stated in the audited accounts. The Hon'ble Commission is requested to conduct a strict prudence check and approve non tariff incomes strictly in line with audited accounts.
- 7) **FRP Interest** – The Licensee has claimed Rs. 141 crore towards interest liability on FRP loan. In this regard, the relevant submissions of the Licensee are reproduced below:

10. True-ups: A scheme for financial restructuring of State owned licensees was formulated and approved by the Government of India to enable the turnaround of the state owned licensees and ensure their long term viability. The scheme contains measures to be taken by the State Government and State licensees for achieving turnaround by restructuring debt with support through a transitional Finance mechanism.

11. Under FRP scheme, accumulated losses of the Licensee as on 31st March 2013 was considered and was partly taken over by the State Government through issue of bond and the balance needs to be serviced by the Licensee through short-term loan. As on date the Licensee has structured short-term loan of Rs 1225 cr. The principal repayment of this loan is scheduled to start from FY 2017-18 onwards after a three year moratorium. The Licensee prays that the Honourable Commission permits the recovery of cost of servicing interest and principal through tariffs as and when principal repayment of loan commences. However, the Licensee has to service the interest cost on the ST loan from FY 2013-14.

12. As the Licensee is not claiming a separate true-up for the years prior to 2013-14 and as the above short term liability is not part of the asset base on which the Licensee earn the return, Licensee need to recover the above interest cost through tariffs. The annual interest cost for the short-term loan is Rs 141 cr. The Licensee prays that the Honourable Commission allows the licensee to recover the above interest cost through tariffs. The Licensee prays that the Honourable Commission allows the Licensee to claim the true-up for distribution business for FY 2013-14 in the next retail supply filing.” (Emphasis supplied)

The point-wise rebuttals to the claims made by the Licensee are provided below:

S No.	Licensee's Contention	Objector's Rebuttal
1	<p><i>Under FRP scheme, accumulated losses of the Licensee as on 31st March 2013 was considered and was partly taken over by the State Government through issue of bond and the balance needs to be serviced by the Licensee through short-term loan.</i></p>	<p>The Government of India had announced the Scheme for Financial Restructuring of Distribution Companies on October 5, 2012.</p> <p>The said scheme envisaged that State Governments take over 50% of the outstanding short term liabilities (power purchase liability and short term working capital loans) of the State owned distribution companies. Rest of the short term liabilities were to be restructured with guarantee from State Government to enable the turnaround of the State distribution companies and to ensure their long term viability.</p> <p>Thus, the FRP scheme was towards restructuring of past years accumulated losses which were a result of inefficiencies of the Licensee.</p> <p>The Tariff Regulations provide for a normative working capital and interest thereon. Similarly, the power purchase cost is approved in a Tariff Order on a year to year basis based on actuals. The power purchase liability had piled up due to failure of the Licensee to pay up the generators in a timely manner. Similarly, the working capital loans over and above the normative working capital were taken to bridge the cash gap which was due to inefficiency in terms of T&D losses and failure to collect the dues.</p> <p>Thus, there is no occasion for allowance of FRP interest in the ARR / Tariff as the FRP loans pertain to outstanding working capital loans and outstanding power purchase liabilities.</p>
2	<p><i>The Licensee prays that the Honourable Commission permits the recovery of cost of servicing interest and principal through tariffs as and when principal repayment of loan commences.</i></p>	<p>The FRP loans pertain to the loans which have been raised to liquidate the outstanding working capital loans and outstanding power purchase liabilities. The power purchase cost has already been allowed in the ARR Orders of past years. Similarly, the Tariff Regulations provide for a normative working capital and interest thereon.</p> <p>Any further claims towards FRP loans are extraneous to the Tariff Regulations.</p> <p>Any claims towards FRP loans would</p>

S No.	Licensee's Contention	Objector's Rebuttal
		tantamount to double allowance of the same claims; as such amounts have already been allowed in the past in the ARR.
3	<p><i>As the Licensee is not claiming a separate true-up for the years prior to 2013-14 and as the above short term liability is not part of the asset base on which the Licensee earn the return, Licensee need to recover the above interest cost through tariffs. The annual interest cost for the short-term loan is Rs 141 cr.</i></p> <p><i>The Licensee prays that the Honourable Commission allows the licensee to recover the above interest cost through tariffs.</i></p>	<p>The Licensee is obligated to file final true up petitions for the second control period i.e., FY 2009-10 to 2013-14. The Licensee cannot be allowed to claim interest on FRP loans in lieu of failure to file the true up petitions for FY 2009-10 to 2012-13.</p> <p>The Hon'ble Commission is urged to direct the Licensee to immediately file the True up Petition for all the years of the second control period i.e., FY 2009-10 to 2013-14.</p> <p>It is well settled in law that any item is eligible to be included in tariff to be charged from the consumers, if the consumers have reaped the benefit out of such expenditure.</p>
4	<p><i>The Licensee prays that the Honourable Commission allows the Licensee to claim the true-up for distribution business for FY 2013-14 in the next retail supply filing.</i></p>	<p>Tariff Policy states:</p> <p><i>"Once the revenue requirements are established at the beginning of the control period, the Regulatory Commission should focus on regulation of outputs and not the input cost elements. At the end of the control period, a comprehensive review of performance may be undertaken.</i></p> <p><i>Uncontrollable costs should be recovered speedily to ensure that future consumers are not burdened with past costs."</i></p> <p>The Licensee is obligated to immediately file a petition for true up for distribution business for all the years of the second control period i.e., FY 2009-10 to 2013-14 immediately in terms of the Tariff Policy and the Tariff Regulations. It is urged that the Licensee should not be permitted to delay the filing of the true up petition for distribution business.</p>

8) **Carrying Cost** – Regulation 10.5 of the Tariff Regulations provide:

“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.”

The Objector submits that the Licensee should refund to the consumers the excess tariff recovered corresponding to the trued-down revenue gap for FY 2013-14 along with interest at 1.20 times of the Base rate + 350 basis points.

In view of the above submissions, the Objector submits that as per its assessment, the consumers are entitled for a refund of Rs. 676.66 crore (plus carrying cost) as against a true-up of Rs. 39.37 crore submitted by the TSNPDCL for FY 2013-14. The Objector’s assessment of the revenue gap for FY 2013-14 based on audited accounts is provided in the table below:

Table: Objector’s Assessment of the Trued up Revenue Gap for FY 2013-14 for TSNPDCL

ARR Line Item (Rs Crore)	Approved in Tariff Order	Actual as per Audited Accounts	Allowable as per Objector’s Assessment
Distribution Cost	890.88	890.88	890.88
Transmission Charges	222.85	227.47	227.47
SLDC Charges	6.58	6.72	6.72
PGCIL & ULDC charges	71.76	95.55	95.55
Network and SLDC Cost	1,192.07	1,220.62	1,220.62
Power purchase	4,604.24	4,378.49	4,378.49
Interest on Consumer Security Deposits	41.48	38.65	38.65
Supply margin in Retail Supply Business	7.23	6.76	6.76
Other Costs if any	0.58	0.18	0.18
Supply Cost	4,653.53	4,424.08	4,424.08
Aggregate Revenue Requirement	5,845.60	5,644.70	5,644.70
Revenue from Tariff	3,240.27	2,981.05	2,981.05
Non-Tariff Income	55.30	69.00	69.00
Tariff Subsidy	2,550.04	2,555.28	2,555.28
Total Revenue	5,845.61	5,605.33	5,605.33
Total Gap/(Suplus) from Retail Business (A)	-	39.37	39.37
Adjustments as per Objector's Assessment: (B)			
(i) Truing up of income from Delayed Payment Charges			71.38
(ii) Disallowance of Supply Margin claimed			6.76
(iii) Add-back of Under Recovery on account of adverse consumer sales mix			161.88
(iv) Disallowance of FRP Interest			140.88
(v) Additional Subsidy Requirement from State Govt.			335.13
Re-stated Revenue Gap / (Surplus) from Retail Business in FY 2013-14: (A-B)			-676.66

TRUE UP OF TSNPDCL FOR FY 2014-15

The TSNPDCL has claimed a true up of Rs. 262.23 crore for FY 2014-15 as depicted in the table below:

Table: True up Claimed by TSNPDCL for FY 2014-15

ARR Line Item (Rs Crore)	Approved in Tariff Order	Revised Estimates	Deviation
Distribution Cost	890.88	962.49	71.61
Transmission Charges	222.85	261.30	38.45
SLDC Charges	6.58	10.36	3.78
PGCIL & ULDC charges	71.76	100.07	28.31
Network and SLDC Cost	1,192.07	1,334.22	142.15
Power purchase	4,604.24	5,158.41	554.17
Interest on Consumer Security Deposits	41.48	47.23	5.75
Supply margin in Retail Supply Business	7.23	7.11	-0.12
Other Costs if any	0.58	0.20	-0.38
Supply Cost	4,653.53	5,212.95	559.42
Aggregate Revenue Requirement	5,845.60	6,547.17	701.57
Revenue from Tariff	3,240.27	3,116.55	-123.72
Non-Tariff Income	55.30	28.12	-27.18
Tariff Subsidy	2,550.04	3,140.27	590.23
Total Revenue	5,845.61	6,284.94	439.33
Total Gap / (Surplus) from Retail Business	-	262.23	262.23

The objections in respect of the true up claims of TSNPDCL for FY 2014-15 are summarised below:

- 1) Order on Generation Tariffs for FY 2014-19 period** - Power Purchase Cost constitutes around 80% of the total ARR out of which cost of power from state owned sources constitutes around 45%. The Order on Generation tariffs for FY 2014-15 to 2018-19, based on the Generation Tariff Regulations is yet to be passed by the Hon'ble Commission. The TSGENCO and APGENCO may be directly to file the petition for the next control period in a time bound manner and the same may be finalised by the Hon'ble Commission expeditiously.

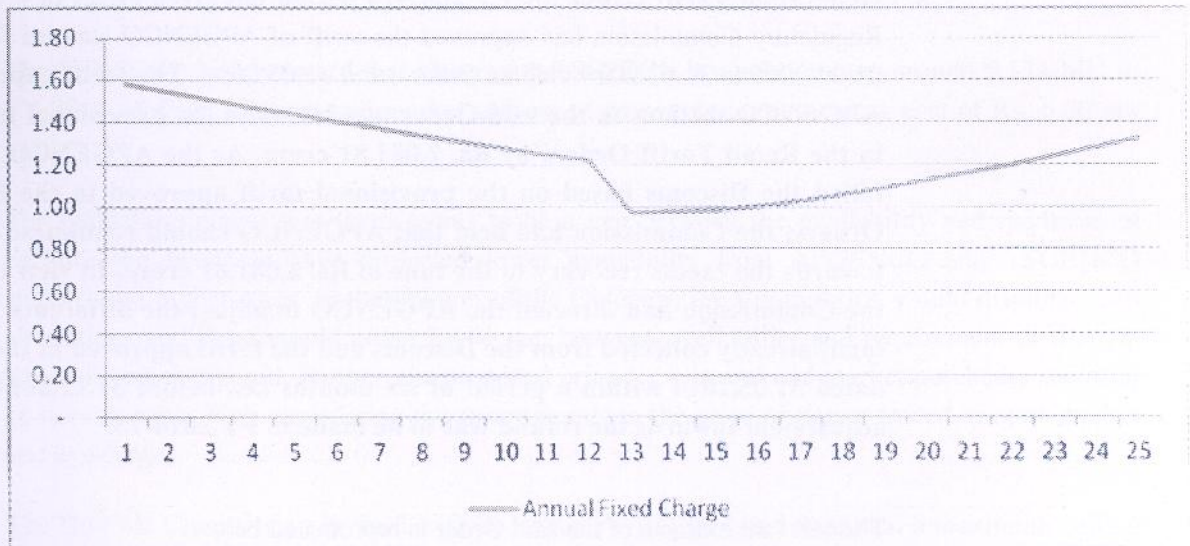
Till the time the generation tariffs are not finalised for TSGENCO and APGENCO stations:

- o No escalation in variable costs should be allowed in the power purchase cost from such stations.
- o 20% of the fixed charges should be disallowed due to reasons detailed in the succeeding paragraphs.

The fixed costs for a power station in cost plus tariff models typically fall year on year in the initial years. This is because the return on capital employed (interest on long term loan) would fall year on year as long term loan gets repaid. After the loan is fully repaid, there is a marked drop in the fixed charges as the interest liability becomes nil and depreciation expense also falls. The depreciation rate is higher in the initial years to match the cash outflow required for loan repayments. After the loan is fully repaid, the depreciation rate falls such that balance depreciation is amortised over the balance useful life of the asset.

Subsequently, the tariff remains flat and there is a slight increase only on account of the increase in the O&M expenses due to escalation index. The typical fixed charges over the power project life cycle are depicted in the graph below:

Graph: Typical Annual Fixed Charges in a Cost Plus Model



Typical Model for a 1000 MW project with a capital cost of Rs. 5,000 crores based on CERC Regulations, 2009.

Thus, the fixed charges have to decrease on a year to year basis. By not approving the Tariff Order for FY 2014-19 control period, the Commission has allowed the Generating Companies to charge higher fixed charges than they would be been entitled to.

- 2) **Power Purchase Cost** – The following table depicts that the power purchase cost per unit computed by the Licensee in the current petition has increased by 9.8% in FY 2014-15 and then has tapered by around 3.6% in the ensuing year FY 2015-16.

Table: Power Purchase Cost Estimated of TSNPDCL

Particulars	2013-14		2014-15	2015-16
	Tariff Order	Actuals	Revised Estimates	ARR
Power Purchase (MU)	12655.85	12457.50	13372.01	14475.60
Power Purchase Cost (Rs Crore)	4604.23	4378.47	5158.41	5385.35
Power Purchase Cost (Rs/kWh)	3.64	3.51	3.86	3.72
Year on Year Increase (%)			9.8%	-3.6%

The Objector submits that the power purchase cost for FY 2014-15 seems to be an aberration in view of the power purchase prices incurred in FY 2013-14 and the estimates for FY 2015-16.

- a. **Generation Tariff Order for FY 2009-14 period not given effect to** – The erstwhile Regulatory Commission 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. As the APGENCO had already billed the Discoms based on the provisional tariff approved in the Retail Tariff Orders; the Commission had held that APGENCO should reimburse the Discoms towards the excess recovery to the tune of Rs. 2,081.81 crore. In view of the above, the 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.**

The relevant extracts 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 second control period. The Objectors submits that the Distribution Licensee has not provided for such refund in the

true up being claimed in the subject petition for FY 2014-15. It is a gross violation of the directions of the Hon'ble Commission given in the Order dated 31.05.2014. It is urged that the Hon'ble Commission may pass the necessary adjustment along with carrying cost towards the refund entitlement of the consumers as detailed above.

b. Source wise Power Purchase Cost for full year 2014-15 has not been provided

The Objector submits that the Licensee has not provided the source wise power purchase cost for full year 2014-15 in view of which, any prudence check and comparative analysis is not possible. It is urged that the Hon'ble Commission may direct the Licensee to submit the full year details of source wise power purchase cost for FY 2014-15.

c. Bilateral and Market Purchases

The TSNPDCL has projected that along with TSSPDCL it would procure around 9,123 MU in FY 2014-15 from bilateral and market sources at an average procurement cost of Rs. 6.00 per unit.

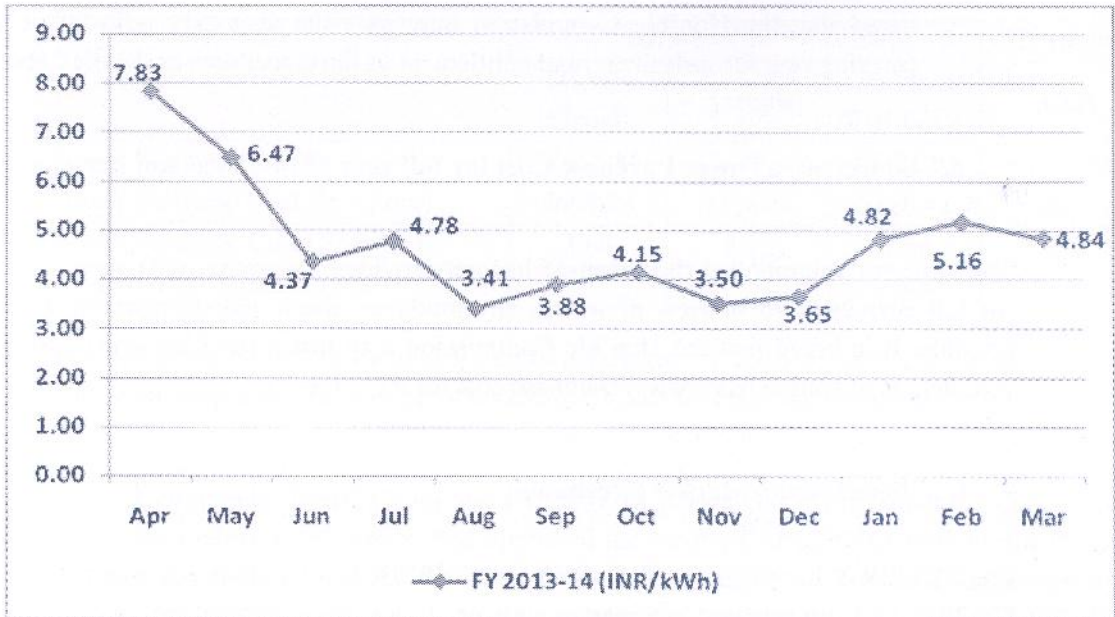
The Objector submits that there seems to be a gap between the availability and requirement because the licensees have projected lower availability from APGENCO and TSGENCO stations and higher sales. In the opinion of the Objector, the Commission would disallow such aberrations and there would either be no gap between availability and requirement or the gap would be much tapered. Further, the proposed price for bilateral and market purchases seems to be unreasonably high considering the recent trends in the price of power traded in open market and exchanges.

The Hon'ble Commission in the Tariff Order for FY 2013-14 had approved a maximum ceiling purchase price of Rs. 6.11 per unit (as against the Petition of Rs. 5.11 per kWh made by the licensee) through short term sources considering the rates prevalent on the open market and exchanges in FY 2012-13.

However, the rates in the open market and power exchanges had crashed in FY 2013-14. The prices prevailing on the IEX power exchange (which has a market share of around 97%) is one of the best indicators of the prices prevailing on the short term market.

The graph below depicts that the power prices have ranged between Rs. 3.50 per unit to Rs. 4.75 per unit, with the 12 month average (Apr to March 2014) at around Rs. 4.74 per unit.

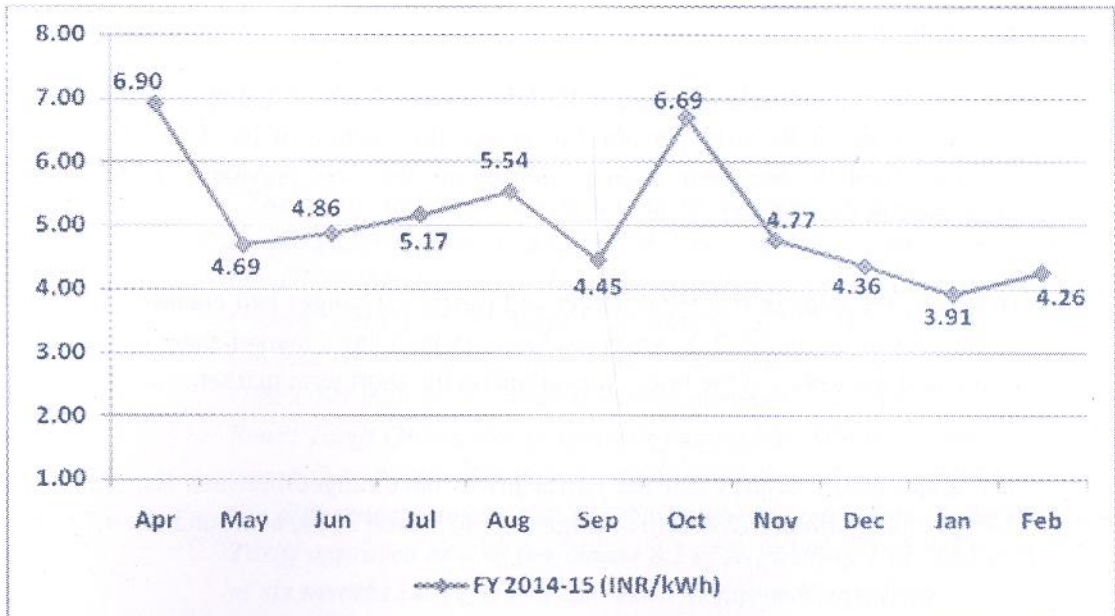
Graph: Average Prices Prevailing on IEX in FY 2013-14 (Apr 2013 - March 2014)



Source: IEX; S1 region - Andhra Pradesh, Karnataka, Pondicherry (Yanam), South Goa

Further, in the current year, the power prices have ranged between Rs. 3.91 per unit to Rs. 5.17 per unit, with the 11 month average (Apr to Feb 2015) at around Rs. 5.06 per unit.

Graph: Average Prices Prevailing on IEX in FY 2014-15 (Apr'14 – Feb'15)



Source: IEX; S1 region - Andhra Pradesh, Karnataka, Pondicherry (Yanam), South Goa

Further, the PGCIL has recently commissioned the first of the two 765 Kilo Volt (KV) Alternating Current (AC) power lines between Sholapur in Maharashtra (western region) and Raichur in Karnataka (southern region), thus integrating the southern grid with the northern grid and ending the decades of isolation of the southern region's four states – Andhra Pradesh, Karnataka, Tamil Nadu and Kerala – from the national grid.

The new transmission capacity would further bring down power prices in the southern region in the long run as it would change the supply-demand situation.

Considering the above, it is humbly prayed that the maximum ceiling may be fixed at or below Rs. 5.06 per unit as against Rs. 6.00 per unit projected by the TSNPDCL. Thus, a disallowance of Rs. 857.56 crore is $\{9,123 \text{ MU} \times (\text{Rs } 6.00 \text{ per unit minus Rs. } 5.06 \text{ per unit})\}$ proposed towards market and bilateral purchases in FY 2014-15 in respect of TSNPDCL and TSSPDCL. In the absence of the Licensee wise break-up of the bilateral and market purchases in FY 2014-15, the Objector has allocated the proposed disallowance in the proportion of the overall power purchase ratio. Thus, a disallowance of Rs.248.63 crore is attributable to TSNPDCL and Rs. 608.93 crore is attributable to TSSPDCL.

- 3) **Supply Margin** - The Licensee has claimed Rs. 7.11 crore in FY 2014-15 towards Supply Margin. The Objector states that there is no provision for allowance of Supply Margin in the Tariff Regulations approved by the Hon'ble Commission. It is urged that the ARR and Tariff should be determined strictly in accordance with the Tariff Regulations and any extraneous claims should be disallowed.
- 4) **Estimates of Realisation per unit have dropped** – The Hon'ble Commission in the Tariff Order for FY 2013-14 had approved an overall realisation rate of around Rs. 3.06 per unit for TSNPDCL. As against this, the actual realisation rate has been stated by TSNPDCL to be Rs. 2.90 per unit in FY 2013-14 and has been projected even lower to be at Rs. 2.80 per unit in FY 2014-15.

The commercial and LT industrial consumers are most affected due to change in sales mix. Due to the lower allocation of power, the commercial and LT industrial consumers are not able to meet their power requirement. The Objector requests the Hon'ble Commission to direct the Licensee to at least maintain the sales mix approved by the Commission in the Tariff Order for FY 2013-14. The Petitioner wants to highlight the fact that increase in sales to lower tariff consumers while decreasing the sales mix 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 shortfall in revenue. It will be the subsidizing consumers such as commercial and LT 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. 284.87 crore $\{(11132.69 \text{ MU} \times \text{Rs. } 3.06 \text{ per unit} / 10) \text{ minus } (3116.55 \text{ crore})\}$. 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.

5) **Non Tariff Incomes** – The Licensee has submitted the details of Non Tariff Incomes in Form 6 and Form 11 of the Tariff Forms published along with the subject petitions. The TSNPDCL has submitted the non tariff incomes to be Rs. 28.12 crore for FY 2014-15. However, the said figure is not comparable with the non tariff incomes earned by the Licensee in past years. The Hon’ble Commission is requested to conduct a strict prudence check and approve non tariff incomes such that they are relatable to past years. Further, it is stated that the delayed payment charges for the H1 FY 2014-15 ought to be reduced from the revenue gap of FY 2014-15.

6) **True up of State Government Subsidy based on actual consumption of subsidised categories** – As discussed in the foregoing section titled “State Govt. Subsidy”, the following category of consumers were subsidised in FY 2014-15 by the State Government:

- LT-I(A): Consumers with monthly consumption up to 50 units;
- LT-I(B): Consumers with monthly consumption more than 50 and upto 100 units;
- LT-I(B): Consumers with monthly consumption more than 100 and upto 200 units and
- LT-V consumers.

The Hon’ble Commission in the FY 2013-14 Tariff Order had determined the cost of service of LT-I(A), LT-I(B) and LT-5 categories based on the embedded cost of service model. Considering the approved cost of service of the subsidised categories and the revised estimated sales in FY 2014-15, the adjusted revised subsidy requirement has been worked out in the table below:

Table: Adjusted Subsidy Requirement in FY 2014-15 as per Estimated Sales

Consumer Categories	Energy Sales	Approved CoS	Cost to Serve	Estimated Revenue Assessment	Subsidy Requirement
	MU	Rs/kWh	Rs Crore	Rs Crore	Rs Crore
	A	B	C= AxB/10	D	E – C - D
LT- I(A) Domestic - upto 50 units/month	571.24	6.73	384.44	145.82	238.62
LT- I(B) Domestic - >50 and up to 100 units/month	809.21	6.73	544.60	172.80	371.80
LT- I(B) Domestic- above 100 & up to 200 units/month	705.40	6.73	474.73	222.02	252.71
LT-V	4715.21	4.87	2296.31	37.43	2258.88
Total	6801.06		3700.08	578.07	3122.01

As against the subsidy requirement of Rs. 3,122.01 crore, the provision for State Govt. subsidy is to the tune of Rs. 3,140.27 crore in FY 2014-15. Thus, commensurate subsidy is being made available by the State Govt. based on revised estimated sales for FY 2014-15. The Objector welcomes the move of the State Govt in providing adequate and commensurate subsidy towards supply of electricity to subsidised categories.

7) **Carrying Cost** – Regulation 10.5 of the Tariff Regulations provide:

“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.”

The Objector submits that the Licensee should refund to the consumers the excess tariff recovered corresponding to the trued-down revenue gap for FY 2014-15 along with interest at 1.20 times of the Base rate + 350 basis points.

In view of the above submissions, the Objector submits that as per its assessment, the consumers are entitled for a refund of Rs. 375.54 crore (plus carrying cost) as against a true-up of Rs. 262.23 crore submitted by the TSNPDCL for FY 2014-15. The Objector’s assessment of the revenue gap for FY 2014-15 based on audited accounts is provided in the table below:

Table: Objector’s Assessment of the Trued up Revenue Gap for FY 2014-15 for TSNPDCL

ARR Line Item (Rs Crore)	Approved in Tariff Order	Revised Estimates	Allowable as per Objector’s Assessment
Distribution Cost	890.88	962.49	962.49
Transmission Charges	222.85	261.30	261.30
SLDC Charges	6.58	10.36	10.36
PGCIL & ULDC charges	71.76	100.07	100.07
Network and SLDC Cost	1,192.07	1,334.22	1,334.22
Power purchase	4,604.24	5,158.41	5,158.41
Interest on Consumer Security Deposits	41.48	47.23	47.23
Supply margin in Retail Supply Business	7.23	7.11	7.11
Other Costs if any	0.58	0.20	0.20
Supply Cost	4,653.53	5,212.95	5,212.95
Aggregate Revenue Requirement	5,845.60	6,547.17	6,547.17
Revenue from Tariff	3,240.27	3,116.55	3,116.55
Non-Tariff Income	55.30	28.12	28.12
Tariff Subsidy	2,550.04	3,140.27	3,140.27
Total Revenue	5,845.61	6,284.94	6,284.94
Total Gap/(Surplus) from Retail Business (A)	-	262.23	262.23

ARR Line Item (Rs Crore)	Approved in Tariff Order	Revised Estimates	Allowable as per Objector's Assessment
Adjustments as per Objector's Assessment: (B)			
(i) Disallowance of Power Purchase Cost from Bilateral and Market Sources			248.63
(ii) Disallowance of Supply Margin claimed			7.11
(iii) Add-back of Under Recovery on account of adverse consumer sales mix			284.87
Re-stated Revenue Gap / (Surplus) from Retail Business in FY 2014-15 (A-B)			-278.38

In addition to the above, 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 second control period (FY 2009-14) along with carrying cost.

16 ARR FOR TSNPDCL FOR FY 2015-16

The TSNPDCL has projected an Annual Revenue Requirement of Rs. 7,598.93 crore for FY 2015-16 including the revenue gap of FY 2013-14 and 2014-15 to the tune of Rs 301.60 crore up. The ARR along with its treatment proposed by the TSNPDCL is provided in the table below:

Table: Projected ARR for FY 2015-16 of TSNPDCL

ARR Line Item (Rs Crore)	Projected
Distribution Cost	1,206.74
Transmission Charges	341.26
SLDC Charges	10.98
PGCIL & ULDC charges	111.53
Network and SLDC Cost	1,670.51
Power purchase	5,385.35
Interest on Consumer Security Deposits	52.36
Supply margin in Retail Supply Business	8.14
True-up on FRP (Interest on loan which are converted from ST loans to LT loans under FRP)	140.88
Reactive Charges	0.21
True-up of retail Supply Business for FY 2013-14 and 2014-15	301.60
Carrying Cost for FY 2013-14 & 2014-15	40.02
Supply Cost	5,928.42
Aggregate Revenue Requirement	7,598.93
Revenue from Tariff	3,518.15
Non-Tariff Income	28.68
Net Gap	4,052.12
Revenue from Proposed Tariff	263.07
Total Gap / (Surplus) from Retail Business	3,789.05

The objections in respect of the projected ARR of TSNPDCL for FY 2015-16 are summarised below:

- 1. Treatment of the Revenue Gap** - At the outset, it is stated that the Licensee has not suggested any mechanism to bridge the revenue gap. The subsidy provision from the State Govt has not been indicated. It is humbly stated that the tariffs be fixed for all consumer categories at cost of service levels or at $\pm 20\%$ of CoS levels. Thereupon the subsidised tariffs should be worked upon after considering the available subsidy levels from the State Government.
- 2. Supply Margin** - The Licensee has claimed Rs. 8.14 crore in FY 2015-16 towards Supply Margin. The Objector states that there is no provision for allowance of Supply Margin in the Tariff Regulations approved by the Hon'ble Commission. It is urged that the ARR and Tariff

should be determined strictly in accordance with the Tariff Regulations and any extraneous claims should be disallowed.

3. Power Purchase Cost –

- a. Share of Energy from RTPP Stage III & Damodaram Sanjeevaiah TPP I and II -**
 The Objectors submits that the allocation of share of energy from RTPP Stage III and Damodaram Sanjeevaiah TPP I and II between Telangana and Andhra Pradesh is not clear as there are conflicting figures stated by the different distribution licensees of the two states.
- b. Power Purchase Quantum from APGENCO and TSGENCO stations –** It is observed that the power procurement from certain APGENCO and TSGENCO stations has been considered on a conservative basis without any sound reasoning. The table below depicts that the PLF from thermal power stations namely Dr. NTTPS II, Dr. NTTPS III, Dr. NTTPS IV, RTPP I, RTPP Stage II, RTPP State III and Kakatiya TPP Stage I totalling around 2890 MW have been projected to fall by around 2.79% to 15.40% as compared to the actual achieved PLF in FY 2014-15 (up to Jan 2015).

Table: Projected PLF of Select APGENCO & TSGENCO Stations

Source	Capacity MW	PLF in FY 2012-13	PLF in FY 2013-14	PLF in FY 2014-15 (Upto Jan'15)	PLF considered in FY 2015-16 (ARR Projections)
DR. NTTPS II	420	93.17%	86.05%	81.55%	77.81%
DR. NTTPS III	420	88.99%	85.36%	80.60%	77.81%
DR. NTTPS IV	500	85.48%	86.32%	81.50%	73.60%
RTPP I	420	79.34%	71.33%	72.60%	64.88%
RTPP Stage-II	420	89.18%	81.80%	79.20%	64.35%
RTPP Stage-III	210	81.13%	77.34%	74.20%	58.80%
Kakatiya TPP Stage I	500	91.10%	72.00%	94.97%	82.57%

It is estimated that if the power purchase from aforementioned stations is projected at the PLF levels achieved in 2014-15, then it would lead to an additional availability of 298 MU from these seven stations alone, to TSNPDCL. This additional availability from APGENCO and TSGENCO stations would replace the costly purchase of power from bilateral purchases and reduce the ARR of the retail supply business.

c. Bilateral and Market Purchases -

The TSNPDCL along with TSSPDCL has projected that there would be a shortfall of around 2,249 MU based on the system availability and requirement. A part of this deficit would be met from external sources such as power traders and power exchanges. The TSNPDCL has projected an average procurement price of Rs. 6.00 per unit in FY 2015-16 for such bilateral and market purchases.

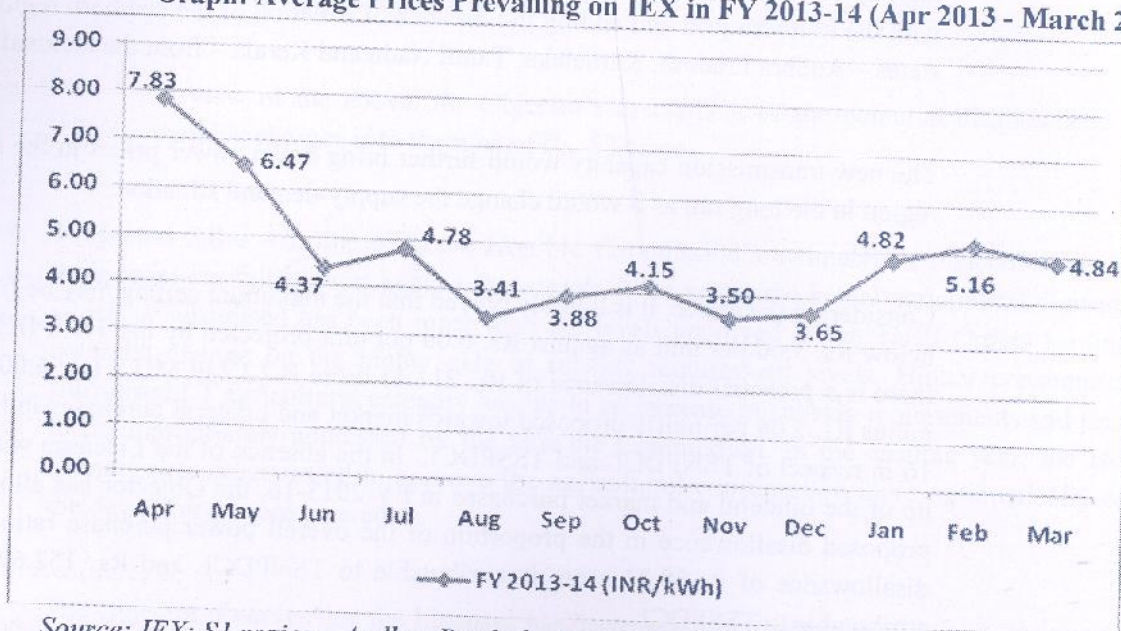
The Objector submits that there seems to be a gap between the availability and requirement because the licensee has projected lower availability from APGENCO and TSGENCO stations and higher sales. In the opinion of the Objector, the Commission would disallow such aberrations and there would either be no gap between availability and requirement or the gap would be much tapered. Further, the proposed price for bilateral and market purchases seems to be unreasonably high considering the recent trends in the price of power traded in open market and exchanges.

The Hon'ble Commission in the Tariff Order for FY 2013-14 had approved a maximum ceiling purchase price of Rs. 6.11 per unit (as against the Petition of Rs. 5.11 per kWh made by the licensee) through short term sources considering the rates prevalent on the open market and exchanges in FY 2012-13.

However, the rates in the open market and power exchanges had crashed in FY 2013-14. The prices prevailing on the IEX power exchange (which has a market share of around 97%) is one of the best indicators of the prices prevailing on the short term market.

The graph below depicts that the power prices have ranged between Rs. 3.50 per unit to Rs. 4.75 per unit, with the 12 month average (Apr to March 2014) at around Rs. 4.74 per unit.

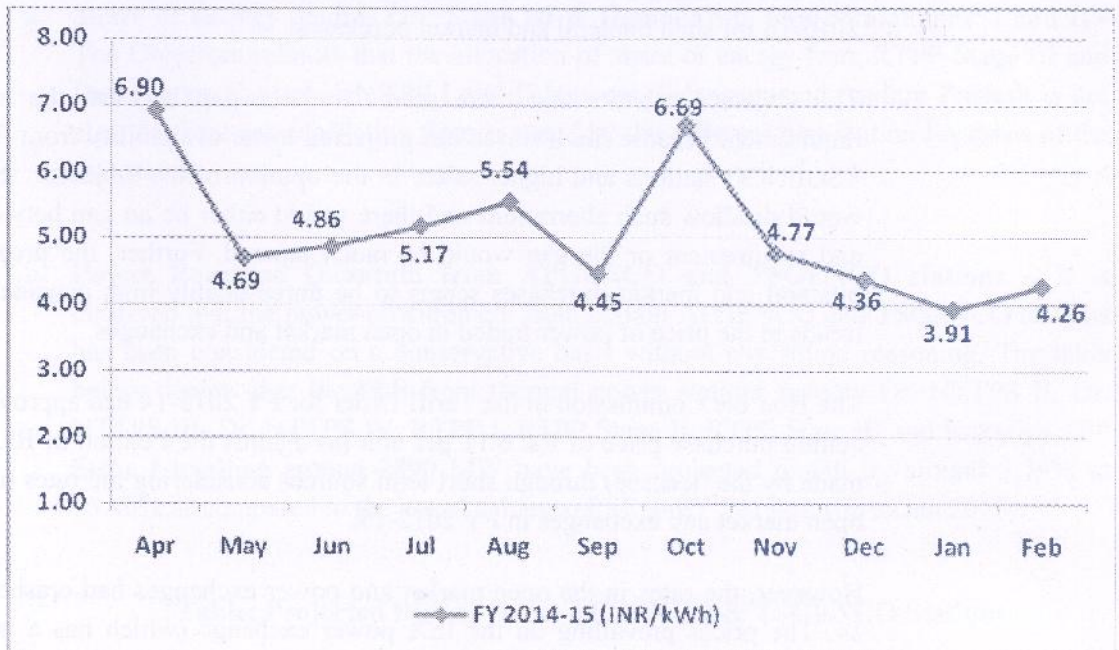
Graph: Average Prices Prevailing on IEX in FY 2013-14 (Apr 2013 - March 2014)



Source: IEX; S1 region - Andhra Pradesh, Karnataka, Pondicherry (Yanam), South Goa

Further, in the current year, the power prices have ranged between Rs. 3.91 per unit to Rs. 5.17 per unit, with the 11 month average (Apr to Feb 2015) at around Rs. 5.06 per unit.

Graph: Average Prices Prevailing on IEX in FY 2014-15 (Apr'14 – Feb'15)



Source: IEX; S1 region - Andhra Pradesh, Karnataka, Pondicherry (Yanam), South Goa

Further, the PGCIL has recently commissioned the first of the two 765 Kilo Volt (KV) Alternating Current (AC) power lines between Sholapur in Maharashtra (western region) and Raichur in Karnataka (southern region), thus integrating the southern grid with the northern grid and ending the decades of isolation of the southern region's four states – Andhra Pradesh, Karnataka, Tamil Nadu and Kerala – from the national grid.

The new transmission capacity would further bring down power prices in the southern region in the long run as it would change the supply-demand situation.

Considering the above, it is humbly prayed that the maximum ceiling may be fixed at or below Rs. 5.06 per unit as against Rs. 6.00 per unit projected by the TSNPDCL. Thus, there is a potential disallowance of Rs. 211.41 crore is {2,249 MU x (Rs 6.00 per unit minus Rs. 5.06 per unit)} proposed towards market and bilateral purchases in FY 2015-16 in respect of TSNPDCL and TSSPDCL. In the absence of the Licensee wise break-up of the bilateral and market purchases in FY 2015-16, the Objector has allocated the proposed disallowance in the proportion of the overall power purchase ratio. Thus, a disallowance of Rs.58.74 crore is attributable to TSNPDCL and Rs. 152.67 crore is attributable to TSSPDCL.

- d. **Variable Costs** – For projecting the variable cost in FY 2015-16 for APGENCO and TSGENCO stations, NTPC stations, NLC stations and other generating stations, the Licensee has projected an escalation of 2% on the actual H1 FY 2014-15 variable cost per unit.

The power procurement cost based on escalation in the variable costs over and above the actual variable cost is not in line with the Tariff Regulations. Regulation No. 4 of 2005, "Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity", Regulation 12 (4) Cost of Power Procurement provides for the following:

"The Distribution Licensee shall be entitled to recover or shall refund, as the case may be, the charges on account of Fuel Surcharge Adjustment as approved by the Commission from time to time, suo-motu or based on the filing made by the Distribution Licensee, as the Commission may deem fit."

Section 45-B, of Regulation No.8, dated 28-08-2000 (abolished w.e.f 1.4.2013) provided for the Fuel Adjustment Formula. Subsequently, the Hon'ble Commission has approved the APERC (Terms and Conditions of Determination of Wheeling and Retail Supply of Electricity) First Amendment Regulations, 2014 with a view to provide the variation in power purchase cost for a tariff year, as an item cost in the succeeding year's ARR relating to Retail Supply Business. Thus, power procurement cost based on escalation in the variable costs over and above the actual variable cost is not in line with the Regulations. Variable costs may not be considered on the presumptive basis of the licensee and may be based on actual. Any variation in fuel price was eligible to be adjusted through FSA mechanism up to 31.3.2013 and subsequently is to be allowed to be adjusted in the succeeding year's ARR after the notification of the First Amendment to the Regulation No. 4 of 2005.

In view of the above, the Objector's assessment of the potential disallowance in the variable charges is to the tune of Rs. 53 crore.

4. **Projected Sales** – In the past, the Hon'ble Commission's estimates of metered consumption have regularly fallen short against the actuals. Vice versa, the actual agricultural consumption which is subsidised has been more than the levels approved in the Tariff Orders leading to a potential change on the higher side in subsidy requirement levels. Higher consumption by subsidised LT agricultural category has led to an increase in subsidy requirements and this need to be appropriately addressed by the Hon'ble Commission. In the ensuing year, the Hon'ble Commission is requested to approve the agricultural consumption more optimistically so that the deviation is more tapered.

The Objector observes that the Licensee has been very optimistic in projecting the industrial and agricultural consumption growth for FY 2015-16 which has necessitated a demand supply gap

and the need for short term costly power. Additionally, the connected load growth does not seem commensurate with the projected increase in electricity sales. A conservative increase in connected load projections directly impacts the demand charges and leads to lower revenue projections.

The Hon'ble Commission is duly requested to conduct a strict prudence check and approve energy sales based on realistic numbers and not just rely on the projections of the Licensee.

5. **Non Tariff Incomes** – The Licensee has submitted the details of Non Tariff Incomes in Form 6 and Form 11 of the Tariff Forms published along with the subject petitions. The TSNPDCL has submitted the non tariff incomes to be Rs. 28.68 crore for FY 2015-16. However, the said figure is not comparable with the non tariff incomes earned by the Licensee in past years. The Hon'ble Commission is requested to conduct a strict prudence check and approve non tariff incomes such that they are relatable to past years.

6. **State Government Subsidy Requirement in FY 2015-16** - As discussed in the foregoing section titled "State Govt. Subsidy", the following category of consumers are subsidised by the State Government:
 - LT-I(A): Consumers with monthly consumption up to 50 units;
 - LT-I(B): Consumers with monthly consumption more than 50 and upto 100 units;
 - LT-I(B): Consumers with monthly consumption more than 100 and upto 200 units and
 - LT-V consumers.

Based on the projected sales for FY 2015-16, revenue realisation and cost to serve computed by the Licensee, the subsidy requirement towards supply of subsidised power to select consumer categories is to the tune of Rs. 4,194.32 crore.

Table: Subsidy Requirement in FY 2015-16 based on Projected Sales for TSNPDCL

Consumer Categories	Energy Sales	Approved CoS	Cost to Serve	Projected Revenue Assessment	Subsidy Requirement
	MU	Rs/kWh	Rs Crore	Rs Crore	Rs Crore
	A	B	$C = A \times B / 10$	D	$E = C - D$
LT- I(A) Domestic - upto 50 units/month	639.65	6.83	436.88	168.76	268.12
LT- I(B) Domestic - >50 and upto 100 units/month	948.31	6.83	647.70	201.12	446.58
LT- I(C) Domestic- above 100 & upto 200 units/month	838.17	6.83	572.47	260.71	311.76
LT-V	4903.82	6.54	3207.10	39.24	3167.86
Total	7329.95		4864.15	669.83	4194.32

Thus, considering the projected sales for FY 2015-16, there is a subsidy requirement of Rs. 4,194.32 crore from the State Government.

The Objector has demonstrated in the foregoing sections that the industrial consumers have been unduly burdened to make good the loss incidental to supply of electricity to subsidised consumers. It is the prerogative of the State Government to provide subsidised power to certain consumer categories. However, the burden of the loss should not be disproportionately loaded on to the industrial consumers. In view of the above, the Objector humbly requests the Hon'ble Commission to determine the subsidy requirement as per the Objector's assessment and insulate the industrial consumers from the burden of subsidy.

In view of the above submissions, the Objector submits that as per its assessment, the consumers are entitled for a refund / tariff reduction of Rs. 1,217.12 crore in FY 2015-16. The Objector's assessment of the allowable ARR for FY 2015-16 is provided in the table below:

Table: Objector's Assessment of the Allowable ARR for FY 2015-16 for TSNPDCL

ARR Line Item (Rs Crore)	Projected	Allowable as per Objectors Assessment
Distribution Cost	1,206.74	1,206.74
Transmission Charges	341.26	341.26
SLDC Charges	10.98	10.98
PGCIL & ULDC charges	111.53	111.53
Network and SLDC Cost	1,670.51	1,670.51
Power purchase	5,385.35	5,385.35
Interest on Consumer Security Deposits	52.36	52.36
Supply margin in Retail Supply Business	8.14	8.14
True-up on FRP	140.88	140.88
Reactive Charges	0.21	0.21
True-up of retail Supply Business for FY 2013-14 and 2014-15	301.60	301.60
Carrying Cost for FY 2013-14 & 2014-15	40.02	40.02
Supply Cost	5,928.42	5,928.42
Aggregate Revenue Requirement	7,598.93	7,598.93
Revenue from Tariff	3,518.15	3,518.15
Non-Tariff Income	28.68	28.68
Net Gap	4,052.12	4,052.12
Revenue from Proposed Tariff	263.07	<i>No Tariff Hike Required</i>
Total Gap / (Surplus) from Retail Business (A)	3,789.05	4,052.12

ARR Line Item (Rs Crore)	Projected	Allowable as per Objectors Assessment
Adjustments as per Objector's Assessment: (B)		
(ii) Disallowance of Bilateral and Market Purchases		58.74
(iii) Disallowance in Variable Charges (Power Purchase from Thermal Stations)		53.00
(iv) Disallowance of Supply Margin		8.14
(v) Subsidy Requirement from State Govt. in FY 2015-16		4,194.32
(vi) True-down for FY 2013-14 as per Objector's Assessment		676.66
(vii) True-down for FY 2014-15 as per Objector's Assessment		278.38
Re-stated Revenue Gap /(Surplus) from Retail Business in FY 2015-16 (A-B)		-1,217.12

In addition to the above, 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 second control period (FY 2009-14) along with carrying cost.

17 PRAYERS

Wherefore, the Objector most respectfully prays that this Hon'ble Commission may be pleased to:

- A. Consider the above Objection Statement filed by the Objector;
- B. Declare that the Petition filed by the Petitioner is opposed to and ultra vires the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulations, 2005;
- C. Direct the Petitioner to submit the source wise details of the power purchase cost being claimed for FY 2013-14, 2014-15 and 2015-16, publish the copies of the energy bills and file the complete set of tariff forms;
- D. Direct the Licensee to file a comprehensive true up petition for FY 2009-10 to 2013-14 for distribution and retail supply business and conduct a truing up for FY 2009-10 to 2013-14 based on audited accounts and after providing an opportunity to the Objector / consumers to submit their objections;
- E. Direct the TSGENCO to submit the petition for determination of generation tariff for the next control period in a time bound manner and pass the Order on such petitions expeditiously; till the time the generation tariffs are not finalised for TSGENCO stations, no escalation in fixed and variable costs should be allowed in the power purchase cost from such stations;
- F. **Give effect to the APGENCO Tariff Order dated 31.05.2014 and pass necessary adjustment towards the refund which the consumers are entitled to the tune of Rs. 2,081.81 crore towards the excess power purchase cost claimed by the Discoms over the second control period (FY 2009-14) along with carrying cost in the True up for FY 2014-15.**
- G. Direct the licensees to submit the Statement of gain and loss against each controllable item as required under Regulation 10.6;
- H. Effect continuation of the traditional approach of calculating Cost to Serve through embedded cost methodology;

- I. Approve tariffs within the $\pm 20\%$ range of the category wise cost of supply of each consumer category;
- J. Approve a Roadmap for reduction and elimination of cross subsidies as mandated by the Electricity Act, 2003, Tariff Policy and as held in a catena of judgments detailed in the Objections Statement;
- K. Approve a Roadmap for gradual transition from the principle of average cost of supply towards cost of supply for each consumer category as mandated by the APTEL in SIEL Limited vs. Punjab State Electricity Regulatory Commission in 2007 ELR (APTEL) 931;
- L. Re-adjust the level of subsidy from State Govt. based on actual / estimated consumption levels such that the cost of supplying subsidised power to select consumer categories is not borne by the other non-subsidised consumers in terms of adjustment of the revenue gap of FY 2013-14, FY 2014-15 or any other subsequent year; apply the ratio to all the previous years under the second control period i.e., from FY 2009-10 to 2013-14;
- M. Direct the Licensee to publish the figures of subsidy provided by the State Govt. on a monthly basis;
- N. Modify the Time of Day tariff scheme and provide for a rebate of 15% on the energy charges for consumption in the off-peak periods;
- O. Approve load factor rebate at the levels approved by the erstwhile Regulatory Commission up to 31st July, 2010 to incentivise the industries;
- P. Approve a rebate for prompt and timely payment of energy bills as prayed by the Objector;
- Q. Direct the Licensee to undertake a loss estimation study for assessment of technical and commercial losses so that the baseline distribution loss levels are set;
- R. Approve a roadmap for 100% metering of agriculture consumers;
- S. Conduct a strict prudence check on sales projections, load growth projections, consumer growth projections and revenue assessment projections and disallow the unrealistic assumptions for FY 2014-15 and 2015-16;

- T. Approve the True up for FY 2013-14 and 2014-15 as prayed and assessed by the Objector in the detailed Statement of Objections;
- U. Approve the ARR as prayed and assessed by the Objector in the detailed Statement of Objections;
- V. True up the revenue estimates for FY 2013-14 and 2014-15 and revenue at current tariff for FY 2015-16 considering the same consumer sales mix as approved in the Tariff Order for FY 2013-14;
- W. Approve a maximum ceiling at or below Rs. 5.06 per unit as against Rs. 6.00 per unit projected by the Petitioner for purchase of power from bilateral or market sources;
- X. Disallow the supply margin as it is extraneous to the Tariff Regulations;
- Y. True up the revenue from Delayed Payment Charges deduct such amount from the ARR.
- Z. Approve agricultural and unmetered consumption based on past trends;
- AA. Pass necessary orders as may be deemed appropriate in the facts and circumstances of the case in the interest of justice;
- BB. Permit the Objector to participate and make additional submission and produce additional details and documentations during the course of the Public Hearing, in the interest of justice and equity.

Date: 05-03-2015

Place: Hyderabad

OBJECTOR