

**NORTHERN POWER DISTRIBUTION COMPANY OF TELANGANA  
LIMITED,  
CORPORATE OFFICE: WARANGAL**

**Additional Information on Filing of ARR & Proposed Wheeling Tariffs  
for Distribution Business for 4<sup>th</sup> MYT Control Period from FY 2019-20  
to FY 2023-24**

**TSNPDCL:**

1. Vide the MYT Order dated 27.03.2015, the Commission directed the DISCOMS to file the true-up for 1<sup>st</sup> Control Period and 2<sup>nd</sup> Control Period after segregating the assets and liabilities of Anantapur and Kurnool districts from APCPDCL and seven mandals of APNPDCL in line with the AP Reorganisation Act, 2014 as per prevailing Regulations. TSNPDCL to submit the true-up for 1<sup>st</sup> Control Period and 2<sup>nd</sup> Control Period in accordance with the Commission's directions.

**Reply:-** The True-up for Distribution Business for 1<sup>st</sup> (FY 2006-07 to FY 2008-09) and 2<sup>nd</sup> (FY 2009-10 to FY 2013-14) Control Periods in accordance to Regulation is enclosed as **Annexure -I**.

## **Annexure- I**

### **1.1 DISTRIBUTION BUSINESS TRUE-UP FILINGS**

### **1.2 TRUE-UPS FOR 1<sup>ST</sup> & 2<sup>ND</sup> CONTROL PERIODS OF DISTRIBUTION BUSINESS**

The Hon'ble TSERC in O.P. No.79 of 2015 of Distribution tariff order for 3<sup>rd</sup> control period has directed the DISCOM to file the true up proposals of Distribution Business for both control periods (i.e., 1st Control Period and 2nd Control Period) after segregating the assets and liabilities of Anantapur and Kurnool districts from APCPDCL and seven mandals of APNPDCL in line with AP Reorganisation Act, 2014, as per prevailing Regulation.

In compliance the directive, the DISCOM has filed the True-ups for 1st Control Period and 2nd Control Period along with Filings for ARR and FPT for FY 2016-17.

A directive was issued to file the true up of Distribution business for the first two control periods and for FY 2014-15 and FY 2015-16 in order to issue necessary directives to improve the performance of DISCOMs.

Subsequently, the licensee in its filings for FY 2017-18 has mentioned that "as Government of Telangana (GoTS) is considering signing UDAY scheme this year the Licensee will file true-up for FY15-16 and FY16-17 along with tariff proposal after considering final MoU signed by GoTS and GoI".

Successively on 04.01.2017, an MoU was entered between licensee, MoP, Govt. of India, and Government of Telangana. The Govt. of Telangana has released funds to the tune of Rs. 2396.17 crores in FY 2016-17 and Rs. 450 crores in FY 2017-18 in the form of equity infusion to the DISCOM which is reflected in the 'Share Capital ' schedule of the DISCOM's Balance sheet. As the clarification regarding equity infusion and fund transfer has been received only in FY 2017-18, the licensee couldn't ascertain the impact of UDAY on the true-ups of 1<sup>st</sup> and 2<sup>nd</sup> Control Period and the same has not filed along with ARR filings 2018-19.

The Honble Commission vide its letter dt. 20.11.2018 in the matter of considering the proposal of DISCOMs to allow filing the retail supply tariff proposals on yearly basis has directed the DISCOM to file the true up proposals for the distribution business for earlier control periods being the 1<sup>st</sup> control period for FY 2006-2009 and the 2<sup>nd</sup> Control period for FY 2009-2014 duly segregating the assets and liabilities relating to the districts of Ananthapur and Kurnool along with seven mandals relating to APNPDCL.

**Segregation between TSNPDCL and Seven Mandals which were transferred to AP**

The segregation of assets and liabilities of APNPDCL into TSNPDCL and Seven Mandals has been carried out as per AP Reorganisation act 2014 in line with the Government orders GO. MS 24 and GO. MS 20.

The government order states the segregation of the APNPDCL into TSNPDCL and Seven Mandals with effect from 02.06.2014. Further It states methodology to split the assets and liabilities as on date of 02.06.2014 to TSNPDCL and Seven Mandals. The true-up claim of the first two control periods has accrued as Profit/ loss in the balance sheet. The profit/loss has to be split on the energy consumption ratio of the past 5 years (99.83%) in line with Go MS 24 dated 29.05.2014. Hence the surplus (losses) as on 1.06.2014 has been split between TSNPDCL and Seven Mandals based on the energy consumption ratio of the past 5 years (99.83%). The segregated assets and liabilities are audited figures and it is awaiting approval by the expert committee.

The Licensee is submitting the following as part of True-up filings for the First Control Period (2006-07 to 2008-09) and Second Control Period (2009-10 to 2013-14):

- Allocation statement to segregate expenses and income of Controllable and Uncontrollable items under Distribution Business.
- Statement of variance with Tariff Order approved figures pertain to items under Distribution Business for the 1<sup>st</sup> Control period (2006-07 to 2008-09) and 2<sup>nd</sup> Control period (2009-10 to 2013-14).

- Corrections for Uncontrollable items under Distribution Business along with reasons for variation.
- Corrections for Controllable items under Distribution Business along with reasons for variation.
- The true-up claim for TSNPDCL is taken as 99.83 % of the erstwhile APNPDCL in line with the AP Reorganisation act 2014 as the surplus( Profit/losses) of the erstwhile APNPDCL were divided between TSNPDCL & 7 Mandals in the ratio of 99.83.:0.17 ( Ratio of energy consumption for the past 5 years).

### 1.2.1 First Control Period Distribution True-up

Statement of variance with Tariff Order approved figures pertains to items under Distribution Business for the 1<sup>st</sup> Control period (2006-07 to 2008-09) for erstwhile APNPDCL is 184Crores and as per the split up of true up between TSNPDCL and 7 mandals of Khammam, 99.83% is the share of TSNPDCL and hence TSNPDCL share amounts to **Rs. 183.2 crores.**

True-up Template			2006-07			2007-08			2008-09		
S. No.	Name of the Parameter	Units	APNPDCL			APNPDCL			APNPDCL		
			Approved	Actuals	Deviation	Approved	Actuals	Deviation	Approved	Actuals	Deviation
A	O & M Expenses	Rs. Crs.	197	243	46	201	228	27	211	282	71
B	Return on Capital Employed	Rs. Crs.	78	80	3	87	77	(10)	94	94	0
C	Depreciation during the year	Rs. Crs.	82	90	7	90	102	12	98	115	17
D	Taxes on Income	Rs. Crs.	0	1	1	0	1	1	0	2	2
E	Special Appn. for Safety measures	Rs. Crs.	5	0	(5)	5	0	(5)	5	22	17
F	Other Expenditure	Rs. Crs.	3	0	(3)	0	1	1	0	1	1
X	Gross ARR	Rs. Crs.	365	415	50	383	409	26	408	516	108
G	Revenue	Rs. Crs.	365	365	0	383	383	0	408	408	0
H	Non Tariff Income	Rs. Crs.	0	0	0	0	0	0	0	0	0
Y	Total Revenue	Rs. Crs.	365	365	0	383	383	0	408	408	0
Z	Total Gap	Rs. Crs.	0	50	50	0	26	26	0	108	108
	Cumulative Gap				50			76			184

### 1.2.1.1 Operation & Maintenance Charges (O&M):-

The O&M cost consists the following items:

- Salaries, wages and other employee costs;
- Administrative and General costs including legal charges, audit fees, rent, rates and taxes;
- Repairs and maintenance costs.

The Hon'ble Commission has directed the Licensee to submit their proposals with regard to determining composite O&M expenses permissible towards revenue requirement for each year of the Control Period by using pre-determined norms or formulae. Further, the Licensee has projected the O&M cost as equal to the cost-plus-approach O&M Cost for the first year of the control period duly designing the normative parameters for the balance period of two years of the control period.

The Commission has disregarded the DISCOM's projection and allowed O&M cost based on a different methodology as follows:

- (a) Employee cost & A&G cost will be increased @ 5% per annum.
- (b) R&M cost would be
  - (i) 2.5% of gross fixed assets as on 31.03.2002 (plus)
  - (ii) 1.25% to 2% on additions of gross fixed assets each year for the respective period of the control period.

The implications of the 2006 wage revision and Final Actuarial Valuation report were not factored by the Hon'ble Commission while formulating O&M Cost methodology. The O&M Cost variation with Tariff Order figures for each year of the control period is placed below.

Details	2006-07			2007-08			2008-09			1st Control Period		
	Tariff Order	Actual	+/-	Tariff Order	Actual	+/-	Tariff Order	Actual	+/-	Tariff Order	Actual	+/-
Employee Cost (Net)	197	182	46	201	166	27	211	212	71	608	560	148
Adm.&General Cost (Net)		32			28			33			93	

R & M Cost		29			34			37			100	
<b>O&amp;M Charges (Gross)</b>	<b>197</b>	<b>243</b>	<b>46</b>	<b>201</b>	<b>228</b>	<b>27</b>	<b>211</b>	<b>282</b>	<b>71</b>	<b>608</b>	<b>756</b>	<b>148</b>

From the above table, it is observed that the Operations and Maintenance expenses are higher than the approval of the Honble Commission by **Rs. 148 crores** for the 1st control period. This has happened due to the following reasons, which were not considered while fixing the O&M Cost target for the Distribution Business of 1st control period Tariff Order.

- Wage Revision w.e.f. 01.04.2006
- Actuarial Valuation Report
- Leave Encashment
- DA hike and new recruitment
- Increase in Repairs and Maintenance cost
- Increase in travelling and vehicle hire expenses

**Wage Revision Impact 01.04.2006:-**

During the year 2006-07, Pay Revision of the employees has taken place w.e.f. 01.04.2006 due to which pay was increased by 23%. Due to wage revision impact, the Licensee requests the Hon'ble Commission to provide a true-up to meet the increased O&M cost of discom. Major element wise Employee Cost details a year before Pay Revision and a year consequent to the Pay Revision are placed below to showing the wage revision impact.

Employee Cost (In Crores)	Base Year		
	2005-06	2006-07	Growth Rate % 2006-07 on 2005-06
Basic Pay	86.55	114.84	32.7%
D.A	11.86	4.24	-64.2%
Other allowances	11.47	15.53	35.5%

EL Encashment	8.89	31.32	252.2%
Terminal benefits	12.98	29.15	124.6%
Others	5.13	5.23	1.9%
<b>TOTAL</b>	<b>136.88</b>	<b>200.31</b>	<b>46.3%</b>

#### **Actuarial Valuation report:-**

The Licensee has made the Actuarial Valuation towards Pension and Gratuity Provision and Final EL Encashment Provisions in respect of Employees retired/to be retired. Accordingly the Pension Contribution has been proved based on the Actuarial Valuation report. This has resulted in increase in provision for terminal benefit.

#### **Increase in Repairs & Maintenance Cost:-**

Increase in DTR repairs cost due to unforeseen increase in material and labour cost and maintenance cost of Lines and Cables & metering equipment, during first control period resulted in increase in Repairs and Maintenance expenditure

#### **Increase in Travelling and Vehicle hire expenses:-**

Increase in Traveling Expenditure and Vehicle Hire Charges due to rigorous inspection of field units and unforeseen increase in fuel cost etc resulted in increase in administration and general expenses.

Particulars (INR Crs)	2006-07	2007-08	2008-09
Professional charges (PAA&PCA)	8.94	8.04	9.08
Travelling expenses	7.84	8.43	9.97
Vehicle hire charges	2.96	3.16	3.79

#### **1.2.1.2 Depreciation:-**

Discom has incurred the following expenditure towards depreciation after netting off the depreciation on consumer contribution portion of Gross Fixed Assets in the 1st control period under MYT (3years from 2006-07 to 2008-09).



Particulars (In Rs. Crs)	Tariff Order	Actuals	Variations with ERC +/-
1st Year of the Control Period (2006-07)	82.38	89.63	7.25
2nd Year of the Control Period (2007-08)	90.27	102.46	12.19
3rd Year of the Control Period (2008-09)	98.10	115.28	17.28
<b>1st Control Period</b>	<b>270.75</b>	<b>307.37</b>	<b>36.62</b>

The main reasons for such variances are

- i) The consumer contribution is treated as one of the sources of capital expenditure of the Licensee and the assets which are created by the above source of funds are not eligible for Depreciation. The Consumer contributions include Development charges & Service Line Charges collected from the consumers and Grants. The Hon'ble Commission has approved Rs.663 Crores towards capital expenditure in the investment plan for the 1st control period from FY 2006-07 to FY 2008-09 against NPDCL's filing of Rs.1042 Crores. The Capital Expenditure and its source of funding for 1st control period as per filing of the Licensee, and as approved in the Tariff Order and actuals as per audited accounts are placed below.

Particulars (In Rs. Crs)	Filing	ERC	Actuals	Variations with ERC +/-
Total Capital Expenditure	1,041.51	663.21	757.66	94.45
Consumer Contributions and Grants	243.97	243.97	194.44	(49.53)
Loans	797.54	419.24	563.22	143.98

From the above, it may be observed that the capital expenditure was reduced by Rs.378 Crores and on other side, the additions to Consumer Contributions in control period are shown same as filed by the Licensee in the filing of ARR for

Distribution Business for the 1st control period. The assets which are created from the funds of the above Consumer Contribution & Grants are not eligible for providing depreciation.

- ii) However, the consumer contribution & grants for the 1st control period are lesser than the approved figures in Tariff Order.
- iii) The Licensee has incurred more depreciation than the approval of the Tariff Order by Rs. 36.62 Crores due to lesser additions to the consumer contribution & grants than the approval during the control period and additions of the consumer contribution & grants are considered higher side by the Hon'ble Commission. The licensee requests the Hon'ble Commission to provide a true-up for an amount of Rs.36.62 Crores for the above years on account of depreciation.

#### 1.2.1.3 Return on Capital Employed (RoCE):-

In the RoCE, when the actual values are applied in the methodology mentioned in the Hon'ble Commission's Regulation, the licensee has received RoCE on lower side than the approval of the Tariff Order's by Rs. 7 Crores. The variation with Tariff Order's approval figures are placed below.

Actuals as per RRB Method				
RoCE	2006-07	2007-08	2008-09	1st Control Period
As per Tariff Order	77.51	87.01	93.65	258.17
As per Actuals	80.49	76.66	93.95	251.1
<b>Variations</b>	<b>2.98</b>	<b>-10.35</b>	<b>0.3</b>	<b>-7.07</b>

The reasons for the above variation are follows:

- (i) Less Regulated Rate Base than the approval of the Honble Commission.
- (ii) The weighted average cost of capital was higher than ERC approved due to incurring of higher cost of debts during the control period on account of increased bank rates. The average cost of debt of the licensee has increased from 9% p.a to 10.25% p.a. during the control period which is one major reason to increase the return on capital employed.

#### Regulated Rate Base

	2006-07	2007-08	2008-09	1st Control Period
As per Tariff Order	756.21	848.83	913.71	2518.74
As per Actuals	758.29	747.26	874.72	2380.27
<b>Variation</b>	<b>2.08</b>	<b>-101.57</b>	<b>-38.98</b>	<b>-138.47</b>

<b>O&amp;M Capitalization</b>	2006-07	2007-08	2008-09	1st Control Period
As per Tariff Order	19.11	19.22	19.20	57.53
As per Actuals	18.19	23.38	22.34	63.91
<b>Variation</b>	<b>-0.92</b>	<b>4.16</b>	<b>3.14</b>	<b>6.38</b>

#### 1.2.1.4 Other Expenditure:-

Other Expenditure of the licensee's is lower than the approved amount by Rs. 2.26 Crores.

#### 1.2.1.5 Special Appropriation:-

Under this head, the Hon'ble Commission has directed to spend an amount of Rs. 5 Crores for each year of the control period (Total INR 15 Crores) towards safety measures in the distribution system of licensee. Accordingly, the Licensee has spent an amount of Rs. 22.23 Crores towards following safety measures.

- i. Erection of intermediate poles for proper clearance
- ii. Providing of Earthing
- iii. Providing of fencing
- iv. Providing of SMC Distribution boxes
- v. Providing of safety materials viz. Gum boots, Helmets, Safety belt, Earth rods, Gloves etc.

#### 1.2.1.6 Tax on Income:-

The Hon'ble Commission has not approved any taxes on income for the First MYT Control period, whereas actual taxes on income was Rs. 4.5 Crs. Summary of Taxes on Income for FY 2006-07 to FY 2008-09 is provided below.

Details in Crs	2006-07			2007-08			2008-09		
	Tariff Order	Actual	+/-	Tariff Order	Actual	+/-	Tariff Order	Actual	+/-
Taxes on Income	0.0	1.4	1.4	0.0	1.5	1.5	0.0	1.7	1.7

#### 1.2.1.7 Non-tariff income:

In the First control period, the Hon'ble Commission has considered the total Non-Tariff Income of licensee as Non-Tariff Income of the Retail Supply Business head only. Accordingly, the licensee has considered the same.

### 1.2.2 Second Control Period Distribution True-up :

Statement of variance with Tariff Order approved figures pertains to items under Distribution Business for the 2<sup>nd</sup> Control period (2009-10 to 2013-14) for erstwhile APNPDCL is INR **387 Crores** and as per the split up of true up between TSNPDCL and 7 mandals of khammam 99.83% is the share of TSNPDCL and hence TSNPDCL share amounts to **Rs. 386.5 crores** which is placed below.

*Rs .in Crs*

NPDCL True-up for 2nd Control period																
S. No.	Name of the Parameter	2009-10			2010-11			2011-12			2012-13			2013-14		
		Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
A	O & M Expenses	251	287	36	285	489	205	317	444	126	368	560	192	408	646	238
B	Return on Capital Employed	114	117	3	131	132	1	148	140	-8	157	154	-3	159	165	6
C	Depreciation during the year	150	143	-7	184	147	-37	232	161	-72	276	174	-101	319	186	-133
D	Taxes on Income	1	2	0	1	2	1	2	1	-1	2	0	-2	2	0	-2
E	Special Appn. for Safety measures*	5	31	26	5	18	13	5	1	-4	5	1	-4	5	0	-5
F	Other Expenditure	4	1	-3	4	1	-3	4	1	-3	4	1	-3	4	1	-3
X	Gross ARR	525	580	55	610	789	179	708	747	39	811	890	79	897	999	102
G	Revenue	519	519	0	604	604	0	702	702	0	805	805	0	891	891	0
H	Non Tariff Income	6	16	10	6	16	10	6	18	12	6	21	15	6	27	21
Y	Total Revenue	525	535	10	610	619	10	708	720	12	811	826	15	897	918	21
Z	Total Gap	0	45	45	0	169	169	0	27	27	0	63	63	0	82	82

\* App-Approved, Act-Actual, Dev-Deviation

### 1.2.2.1 Operation & Maintenance Charges (O&M):-

The O&M Cost variation with Tariff Order figures for each year of the control period is placed below.

**Rs .in crs.**

Details	2009-10			2010-11			2011-12			2012-13			2013-14		
	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
-Employee Expenses(Net)	187	210	23	216	402	186	244	345	101	289	433	144	324	491	167
-A&G Expenses (Net)	26	34	8	27	42	15	28	40	13	29	49	19	30	54	24
-Repairs & Maintenance	38	43	4	42	45	3	46	58	12	50	79	29	54	101	47
<b>O &amp; M Expenses (Net of expenses capitalized)</b>	<b>251</b>	<b>287</b>	<b>36</b>	<b>285</b>	<b>489</b>	<b>205</b>	<b>317</b>	<b>444</b>	<b>126</b>	<b>368</b>	<b>560</b>	<b>192</b>	<b>408</b>	<b>646</b>	<b>238</b>

*Appr.- Approved, Act-Actual, Dev-Deviation*

From the above table, it is observed that the O&M expenses are higher primarily due to the increase in employee expenses.

Employee expenses and A&G expenses are linked to inflation and thus escalated using (Consumer Price Index) CPI and (Wholesale Price Index) WPI. Therefore, Employee Expenses have increased owing to inflation. Increase in CPI and WPI during the Second MYT Control Period are as depicted in the table below.

Particulars	FY 09-10	FY 10-11	FY11-12	FY 12-13	FY 13-14
CPI	163	180	195	215	236
% Increase in CPI	13%	10%	8%	10%	10%
WPI	131	143	156	168	178
% Increase in WPI	4%	9%	9%	8%	6%

Source: Actual CPI - [www.labourbureau.nic.in](http://www.labourbureau.nic.in), Actual WPI - [www.eaindustry.nic.in](http://www.eaindustry.nic.in)

(Office of the Economic Advisor website)

Further the following factors also responsible for variation in O&M expenses during 2<sup>nd</sup> control period.

- i. Wage Revision w.e.f. 01.04.2010
- ii. Actuarial Valuation Report

- iii. Leave Encashment
- iv. DA hike and new recruitment
- v. Increase in Repairs and Maintenance cost
- vi. Increase in travelling and vehicle hire expenses

**a. Employee Expenses**

**i. Wage Revision Impact ( w.e.f. 01.04.2010):**

During the FY 2010-11, Pay Revision of the employees took place w.e.f. 01.04.2010, due to which the pay was increased over the years from FY 2010-11 onwards which was already communicated by the Licensee during the process of MYT filing. Hence, the Licensee requests the Hon'ble Commission to provide a true-up to meet the increased O&M cost of Discoms.

Major element wise Employee Cost details are as below detailing the wage revision impact.

Employee Cost (In Rs.Crs.)	FY 2009-10 (Before Revision)	FY 2010-11 (After revision)	(FY 09-10 to FY 10-11)
Basic Pay	116.49	203.47	74.67%
D.A	30.07	14.57	-51.55%
Other allowances	16.64	31.11	87.00%
EL Encashment	17.03	19.82	16.38%
Others	8.73	17.09	95.88%
<b>Total</b>	<b>234.88</b>	<b>419.21</b>	<b>78.48%</b>

ii. **Terminal Benefits as per Actuarial Valuation report:**

The Licensee has made the Actuarial Valuation towards Pension and Gratuity Provision and Final EL Encashment Provisions in respect of Employees retired/to be retired. Accordingly the Pension Contribution has been approved based on the Actuarial Valuation report. This has resulted in increase in provision for terminal benefit.

<b>Terminal Benefits (In Rs.Crs.)</b>	<b>FY 09-10</b>	<b>FY 10-11</b>	<b>FY 11-12</b>	<b>FY 12-13</b>	<b>FY 13-14</b>
Pension and Gratuity Provision	45.9	133.2	54.6	60.7	59.3

**b. A&G Expenses**

Increase in travelling expenditure and vehicle hire charges due to rigorous inspection of field units, unforeseen hike in fuel cost, etc caused rise in Administration and General Expenses. The vehicle running expenses during 2009-10 to 2013-14 has been shown below.

<b>Particulars (Rs. in Crores)</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Professional charges (PAA&PCA)	9.81	10.97	11.77	12.25	13.03
Travelling expenses	8.68	10.25	9.19	12.04	11.22
Vehicle hire charges	3.79	4.24	4.57	5.72	7.42



### c. Repairs & Maintenance Expenses

The repairs and maintenance cost of NPDCL consists of manning & maintenance of 33/11 KV Substations by Pvt. Agencies, repairs of failed DTRs, repairs to plant & machinery, maintenance of lines & cables and others like office equipments, out of which more than 80% of R&M cost is related to only towards manning & maintenance of Substations by Pvt. Agencies and repairs of failed DTRs.

The year wise and head wise actual expenditure incurred towards Repairs & Maintenance cost of the NPDCL from the FY 2009-10 to FY 2013-14 are placed below.

*Rs .in crs.*

Activity	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	5 Years CAGR
Plant and Machinery	3.67	1.34	2.65	1.90	2.60	-9.48%
Transformers	15.65	17.14	23.40	30.11	41.40	23.55%
Substation maintenance by Pvt. Agencies	17.07	21.69	25.64	39.45	48.61	30.89%
Lines, Cable net work etc.	5.28	4.10	4.92	5.82	6.72	7.80%
Others	0.89	0.87	1.25	1.32	1.67	13.02%
<b>Total R&amp;M Cost</b>	<b>42.57</b>	<b>45.14</b>	<b>57.86</b>	<b>78.59</b>	<b>101.00</b>	<b>22.36%</b>
<b>Year to Year Growth Rate</b>	<b>15.58%</b>	<b>6.06%</b>	<b>28.16%</b>	<b>35.84%</b>	<b>28.51%</b>	

The actual incurred R&M cost of the NPDCL is more than the ERC approved values in the MYT Tariff order for the Distribution Business for the 2nd control period. And it is observed that the R&M cost is increased by 28%, 36% and 29% in the years 2011-12, 2012-13 and 2013-14 respectively where as the

Hon'ble ERC has approved R&M Cost with escalation rate of 9% per annum. The above higher increase in R&M cost is on account of increase in the heads of manning & maintenance of 33/11 KV Substations by Pvt. Agencies and repairs of failed DTRs.

The reasons for higher increase in the above heads are placed below for perusal.

**A. Manning & Maintenance of 33/11 KV Substations by Pvt. Agencies:-**

The Cost relating to manning & maintenance of substations by Pvt. Agencies under R&M cost was increased by 27%, 18%, 54% & 23% in the years of FY 2010-11, FY 2011-12, FY 2012-13 and FY 2013-14 respectively. The cost towards manning and maintenance of 33/11 KV substations by Pvt. Agencies were increased on account of increase in per substation maintenance cost and increase of no. of substations manned by Pvt. Agencies.

▪ **Per Substation maintenance cost:**

- The year per substation maintenance cost is placed below for perusal.

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Per Sub Station Maintenance Cost per Month (Rs.)	19,979	31,083	31,083	48,532	57,871

- It is observed that the substation maintenance cost (Rs./SS/Year) was increased in the years 2010-11 and 2012-13 at high rate which is more than **50%**.
- The above cost was increased due to revised wages to the contract labours.

- As per GO.Ms.No.11, Dt.17.01.2012 issued by the labour Commissioner, Andhra Pradesh, a provision for payment of dearness allowance for every six months was introduced which were not there in the earlier periods.
- In the previous years, contract labours for substation's manning & maintenance were paid consolidated pay only without DA.
- On account of the above reasons which were not factored while providing O&M Cost and beyond the control of the licensee, manning & maintenance cost per substation was increased with high degree which was major reason to increase R&M cost.

▪ **No. of substations manned by Pvt. Agencies:**

- In the year on year, the no. of substations manned by the Pvt. Agencies was increased due to commissioning of new substations during the years.
- Year wise No. of substations manned by the Pvt. Agencies are placed below.

Year	2009-10	2010-11	2011-12	2012-13	2013-14
No. of SS manned by Pvt. Agencies	612	676	744	825	850

- The above increase no. of substations manned by the Pvt. Agencies is also one of the reasons to increase substations maintenance cost which was reflected in R&M cost of the licensee.

**B. Repairs to failed Distribution Transformers (DTRs)**

Repair cost to failed DTRs is 2nd major cost component among the R&M cost component of the licensee which is around 41% of total R&M Cost in the FY

2013-14. In the years 2011-12, 2012-13 and 2013-14, the repair cost of failed DTRs was increased by 37%, 29% and 38% respectively.

Year wise No. of DTRs existing, failure of DTRs and R&M cost incurred for DTRs are placed below:

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
No. of DTRs	149557	156442	178125	188661	209195
No. of DTRs Failed	14625	19628	18955	25434	30666
R&M Cost for Transformers(Crs.)	15.65	17.14	23.40	30.11	41.40

- DTRs additions:- No. of DTRs are increase year on year to meet the load requirement on account of this the no. of DTRs failures are increased.
- Increase in rates of material &labour year on year as per inflation rate which is one of the reason to increase the R&M cost of the licensee.

#### 1.2.2.2 Regulated Rate Base:

Discom's actual RRB for the Second MYT Control period is **Rs 6089Crs.** whereas the Hon'ble Commission approved is **Rs. 6443 Crs.** resulting in a deviation of **Rs 353 Crs.** Summary of RRB line items for FY 2009-10 to FY 2013-14 is as below.

**Rs. Crs**

Details	2009-10			2010-11			2011-12			2012-13			2013-14		
	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
<b>Regulated Rate Base</b>	<b>1034</b>	<b>1069</b>	<b>36</b>	<b>1190</b>	<b>1155</b>	<b>-36</b>	<b>1347</b>	<b>1204</b>	<b>-143</b>	<b>1425</b>	<b>1309</b>	<b>-116</b>	<b>1447</b>	<b>1353</b>	<b>-94</b>
Additions to OCFA	381	372	-9	450	235	-215	476	353	-123	414	381	-33	380	293	-87
Additions to Consumer Contributions	96	94	-2	93	84	-9	109	91	-18	120	118	-2	43	121	78
Working Capital	25	26	2	27	42	15	30	39	9	33	49	16	36	56	20

*Appr.- Approved, Act-Actual, Dev-Deviation*

- i. **Additions to Gross Fixed Assets(GFA):-** Less Regulated Rate Base than the approval of the Hon'ble Commission is due to the additions of the fixed assets are less than the approved by the Hon'ble Commission in the control periods on account of less capital expenditure incurred during years from FY 2009-10 to 2013-14.
- ii. **Additions to Consumer Contributions:-** The licensee has acquired more additions of consumer contribution than the ERC approved in the MYT order by Rs. 46 Crores before netting of amortization of depreciation on consumer contribution.

**Working capital:-** Working capital requirement for the year as per the norms of the Regulation which is 1/12 of the operation and maintenance charges are higher than the APERC approved by Rs.62 Crs due to increased O&M cost for the year.

#### 1.2.2.3 Return on Capital Employed:

Discom's actual ROCE for the Second MYT Control period is **Rs. 708Crs.** as against the Hon'ble Commission approved expenses of Rs. **709Crs.** resulting in a deviation of **Rs. 1Crs.** Summary of Return on Capital Employed (ROCE) line items for FY 2009-10 to FY 2013-14 is as below.

Details	2009-10			2010-11			2011-12			2012-13			2013-14		
	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
WACC (%)	11.00%	10.95%	-0.05	11.00%	11.41%	0.41	11.00%	11.62%	0.62	11.00%	11.76%	0.76	11.00%	12.19%	1.19
Cost of Debt (%)	10.00%	9.93%	-0.07	10.00%	10.55%	0.55	10.00%	10.83%	0.83	10.00%	11.02%	1.02	10.00%	11.59%	1.59
(%)	14.00%	14.00%	-	14.00%	14.00%	-	14.00%	14.00%	-	14.00%	14.00%	-	14.00%	14.00%	-
RRB	1034	1069	36	1190	1155	-36	1347	1204	-143	1425	1309	-116	1447	1500	53
ROCE	114	117	3	131	132	1	148	140	-8	157	154	-3	159	165	6

*Appr.- Approved, Act-Actual, Dev-Deviation*

The net variation in RoCE is marginally higher, as the Regulated Rate Base is less than the approved value and due to higher cost of debt during the control period which was varying from 9.93% to 11.59% p.a. when compared to Commission approved fixed target of 10% p.a and change in RRB.

#### 1.2.2.4 Depreciation:

NPDCL has incurred the expenditure towards depreciation after netting of the depreciation on consumer contribution portion of Gross Fixed Assets that was less than approved in 2nd control period as under. The Licensee has incurred less depreciation than the approval of the Tariff Order by Rs. 349.4 Crores due to lesser capitalization of fixed assets than the approval during the control period.

Details	2009-10			2010-11			2011-12			2012-13			2013-14		
	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
Depreciation	150	143	-7	184	147	-37	232	161	-72	276	174	-101	319	186	-133

*Appr.- Approved, Act-Actual, Dev-Deviation*

- i. The Assets additions during the FY 2010-11 & FY 2011-12 are Rs.235crs.& Rs.353 crs. respectively, is lower than the corresponding approved figures of Rs.450crs.& Rs.475crs., as a result, the asset base is lower in initial years when compared to Commission approved and resulted in lower accumulation.

#### 1.2.2.5 Taxes on Income:

The Hon'ble Commission approved Rs. 7.00Cr. as taxes on income for the Second MYT Control period, whereas actual taxes on income was Rs. 4.5Cr. Summary of Taxes on Income for FY 2009-10 to FY 2013-14 is provided below.

***Rs .in crs.***

Details	2009-10			2010-11			2011-12			2012-13			2013-14		
	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
Taxes on income	1	2	0.4	1	2	0.7	2	1	-0.6	2	0	-1.5	2	0	-1.5

*Appr.- Approved, Act-Actual, Dev-Deviation*

### 1.2.2.6 Special appropriation for safety Measures

The Hon'ble Commission approved **Rs. 25 Crs.** towards Special Appropriation for Safety Measures for the Second MYT Control Period. The licensee has incurred the following capital works expenses towards safety measures. Accordingly, the Licensee has spent an amount of **Rs. 26 Crores** excess towards the above the safety measures. The licensee has incurred the following capital works expenses towards safety measures.

- i. Erection of intermediate poles for proper clearance
- ii. Providing of Earthing
- iii. Providing of fencing
- iv. Providing of SMC Distribution boxes

Providing of safety materials viz. Gum boots, Helmets, Safety belt, Earth rods, Gloves etc.

### 1.2.2.7 Non-Tariff Income

Actual Non Tariff Income (NTI) for the Second Control Period is Rs. 97 Crs., whereas Rs. 30Crs. has been approved by the Hon'ble Commission.

***Rs .in crs.***

Details	2009-10			2010-11			2011-12			2012-13			2013-14		
	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev	Appr	Act	Dev
NTI	5.9	15.9	10	5.9	15.6	9.7	6	17.6	11.6	6	21.4	15.4	6.1	26.6	20.5

*Appr.- Approved, Act-Actual, Dev-Deviation*

TSNPDCL has received the Non Tariff Income under the following heads.

**All figures in Rs. Crs**

Particulars	2009-	2010-	2011-	2012-	2013-	Total
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	10	11	12	13	14	
Interest on Staff Loans and Advances	0.16	0.13	0.10	0.15	0.12	<b>0.66</b>
Income from Investments	4.53	10.35	12.46	8.38	8.17	<b>43.90</b>
Income from Trading - Sale of Scrap / Stores	0.96	0.00	0.99	5.91	9.07	<b>16.93</b>
Excess found on Physical Verification of Stock	0.13	0.09	0.27	0.16	0.24	<b>0.88</b>
Registration Fees	0.13	0.09	0.09	0.11	0.10	<b>0.53</b>
Discounts received from vendors	0.02	0.06	0.10	0.05	4.06	<b>4.28</b>
Fines/Penalties from Contractors	0.01	0.06	0.18	0.03	0.07	<b>0.35</b>
Fines/Penalties from Suppliers/Mat Cust.	8.76	3.95	3.03	5.74	4.21	<b>25.69</b>
Supervision Charges	0.00	0.64	0.34	0.72	0.41	<b>2.11</b>
Other Income-Sale of Tender Schedules	0.33	0.12	0.01	0.18	0.18	<b>0.82</b>
Other Mis.Income	0.84	0.13	0.04	0.00	0.00	<b>1.01</b>
<b>Total Non-Tariff Income</b>	<b>15.87</b>	<b>15.60</b>	<b>17.61</b>	<b>21.44</b>	<b>26.63</b>	<b>97.15</b>

**1.2.2.8 The net true-up is as below:-**

The total net gap for the distribution business for the 1st and 2nd control period is Rs.571Crs and TSNPDCL share of 99.83% is Rs 569.7 Crs.

Erstwhile APNPDCL True Up (Rs.Crs)			
Parameter	First Control Period	Second Control Period	Total
<b>Net Gap</b>	<b>184</b>	<b>387</b>	<b>571</b>

TSNPDCL True Up (Rs.Crs)
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Parameter	First Control Period	Second Control Period	Total
Net Gap	183.2	386.5	569.7

### 1.2.3 Prayer

The Petitioner (Distribution Licensee) prays that the Hon'ble Commission may:

- i. Approve the true-up of expenses and revenue for the Distribution Business for the First MYT Control Period (FY 2006-07 to FY 2008-09)
- ii. Approve the true-up of expenses and revenue for the Distribution Business for the Second MYT Control Period (FY 2009-10 to FY 2013-14).
- iii. Approve **Rs. 183.2 crs**, which is the total gap from the distribution business during the First MYT Control Period.
- iv. Approve **Rs. 386.5 crs**, which is the total gap from the distribution business during the second MYT Control Period.
- v. Approve **Rs. 569.7 Crs** as total gap filed before the Hon'ble Commission for truing-up of the Distribution Business for the First and Second MYT Control Periods.