**Annexure II**

**3rd control period Distribution true up**

## True-up for 3rd Control Period of Distribution Business

**As per Clause 19, Pg 11 of the ‘Andhra Pradesh Electricity Regulatory Commission** (Terms and Conditions for Determination Of Tariff For Wheeling and Retail Sale of Electricity)’ Regulation No. 4 of 2005 as adopted by TSERC Reg. No. 1 of 2014, the licensee has to file for corrections for “uncontrollable” and “controllable” items and as well as sharing of gains/losses for the Third control period (FY 2014-15 to FY 2018-19).

This filing has been prepared as per the provisions of the above mentioned Regulation. The Licensee is submitting the following as part of the Correction filings for the Third Control Period (FY 2014-15 to FY 2018-19)

1. Allocation statement to segregate expenses and income of Controllable and Uncontrollable items under Distribution Business
2. Statement of Variance with Tariff Order approved figures pertain to items under Distribution Business for the Third Control Period ( FY 2014-15 to FY 2018-19 (provisional))
3. Corrections for Uncontrollable items under Distribution Business along with reasons for variation
4. Corrections for Controllable items under Distribution Business along with reasons for variation

As per the ‘Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff For Wheeling and Retail Sale of Electricity)’ Regulation No. 4 of 2005, as adopted by TSERC Reg. No. 1 of 2014 Clause 10, Pg 7 –

*“1. ………..…………..*

*……..*

*…….*

*4. Controllable and Uncontrollable items of ARR****:-*** *The expenditure of the Distribution Licensee considered as “controllable” and “uncontrollable” shall be as follows:*

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

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

| **Distribution Business** | |
| --- | --- |
| **ARR Item** | **“Controllable”/”Uncontrollable”** |
| Cost of power purchase | Uncontrollable |

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

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

*6. Sharing of gains and losses on variations in “controllable” items of ARR:- The Distribution Licensee in its annual filings during the Control Period shall present gains and losses for each controllable item of the Aggregate Revenue Requirement.*

*A statement of gain and loss against each controllable item will be presented after adjusting for any variations on account of uncontrollable factors.*

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

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

Further, it is pertinent to mention that the retail true-up in respect of power purchase is to be done every year in accordance to APERC Regulation 1 of 2014 (First amendment to Regulation No. 4 of 2005) as adopted by TSERC Regulation No. 1 of 2014 every year. The true-ups of the Distribution business for a control period have to be taken up at the end of the control period i.e. 5-year period as per Regulation 4 of 2005. As these true-ups/true-downs pertains to Distribution business, the effect shall necessarily be reflective in the Distribution Business ARR and Revenue i.e. Wheeling Tariffs. As such the gains/losses of the Distribution business of a control period have to be passed only in the form of revision of Wheeling Tariffs in the ensuing control period. This prompts the licensee to file the Distribution Business True-ups of the preceding control period during the ARR filings of the Successive Control period. As the ARR filings for Distribution business for the ensuing period needs to file at the last year of the control period, the actual details of the last year of the control period will not be available.

Hence, the licensee has made revised estimates of the last Year of the 3rd Control Period i.e FY 2018-19 in the present True-up filings in the absence of actuals.

Hence, this Petition details the total truing up gap arising out of the deviations in both “uncontrollable” and “controllable” items for the Third MYT Control Period with actuals for FY 2014-15 to FY 2018-19 in subsequent sections of this Petition.

### True-up of ARR Components & Total Revenue Gap

The Distribution Licensee files for the truing-up of **Rs 83 Crs** for the Third MYT Control Period from FY 2014-15 to FY 2018-19. Summary of ARR line items and revenue for FY 2014-15 to FY 2018-19 is shown in the table below.

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

### Reasons for Deviation in year wise ARR:

As shown in the above table, the actual Gross ARR is **Rs 7405 Crs.** as against TSERC approved ARR of **Rs. 7837 Crs.**

#### Operation & Maintenance (O&M) Expenses

TSNPDCL’s actual O&M Expenses for the Third MYT Control period is **Rs 5276 Crs.** as against the Hon’ble Commission approved expenses of **Rs. 4472 Crs.** resulting in a deviation of **Rs 805 Crs**. Summary of Operation & Maintenance (O&M) Expenses for FY 2014-15 to FY 2018-19 is as shown below.

**Rs. In Crores**



**Reasons for deviations in O&M Expenses**

From the above table, it is observed that the O&M expenses for the FY 2014-15, FY 2015-16, FY 2016-17 and FY 2018-19 are higher than the approved values of the Hon’ble Commission by Rs.263 Crs., Rs. 133 Crs. Rs. 30 Crs. and Rs. 579 Crs. respectively.

The increase in Employee expenses and A&G expenses are commonly linked to inflation (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 2014-15** | **FY 2015-16** | **FY 2016-17** | **FY 2017-18** | **FY 2018-19** |
| --- | --- | --- | --- | --- | --- |
| CPI (IW) | 250.83 | 265.00 | 275.92 | 284.42 | 299.99 |
| % Increase in CPI | 6.29 | 5.65 | 4.12 | 3.08 | 5.45 |
| WPI | 113.88 | 109.72 | 111.62 | 114.88 | 119.80 |
| % Increase in WPI | 1.26 | (3.65) | 1.73 | 2.92 | 4.26 |

Source: Actual CPI - [www.labourbureau.nic.in](http://www.labourbureau.nic.in), Actual WPI - www.eaindustry.nic.in (Office of the Economic Advisor website)

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

1. Wage Revision in 2014 and 2018
2. Regularisation of outsourcing employees in 2017
3. Actuarial Valuation Report
4. Leave Encashment
5. DA hike and new recruitment
6. Increase in Repairs and Maintenance cost
7. Increase in travelling and vehicle hire expenses
8. **Employee Expenses**
9. **Wage Revision Impact in 2014 and 2018:**

During the FY 2014-15 and FY 2018-19, Pay Revision of the employees has taken place due to which pay was increased over the years from FY 2014-15 onwards and in FY 2018-19. The overall increase in the cost during the control period in the Employee Pay is 14.64%. Hence, the Licensee requests the Hon’ble Commission to provide a true-up to meet the increased O&M cost of licensee. Major element wise Employee Cost details are as below detailing the wage revision impact:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Particulars**  **(Rs. in Crores)** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **Increase Rate % in Control Period** |
| Basic Pay | 385.88 | 407.12 | 408.32 | 409.03 | 690.58 | 14.64% |
| D.A | 26.29 | 36.69 | 62.26 | 78.89 | 21.36 |
| Other allowances | 71.70 | 81.22 | 79.80 | 83.35 | 118.96 | 13.50% |
| EL Encashment | 49.52 | 49.04 | 61.87 | 43.66 | 187.68 | 39.52% |
| Terminal benefits | 172.74 | 115.81 | 100.64 | -13.27 | 469.73 | 28.42% |
| Others | 45.17 | 46.54 | 50.77 | 120.69 | 193.53 | 43.87% |
| **TOTAL** | **751.30** | **736.42** | **763.65** | **722.37** | **1681.84** | **22.32%** |

1. **Regularisation of outsourcing employees in 2017**

The charges pertains to contract labour are majorly grouped under Repairs and Maintenance head of the O&M cost till FY 2017-18.

However in FY 2017-18, on 29.07.2017, based on the orders of Honble High Court, the contract labour have been designated as artisans by regularising their service. Hence the salaries paid to artisans which were grouped earlier under R&M Expenses are brought under Employee expenses of the O&M cost from middle of the FY 2017-18 onwards. Hence the Employee cost includes salaries to artisans from FY 2017-18 which are also contributing to the variation in actual employee costs vis-à-vis Commission approved costs.

The salaries of the artisans during the control period is tabulated below.

|  |  |
| --- | --- |
| **Year** | **Artisan Remuneration (Rs. In crs)** |
| **FY 2014-15** | 52.45 |
| **FY 2015-16** | 63.70 |
| **FY 2016-17** | 71.07 |
| **FY 2017-18** | 76.66 |
| **FY 2018-19** | 108.57 |

1. **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.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars (Rs. in Crores)** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** |
| EL Encashment | 49.52 | 49.04 | 61.87 | 43.66 | 187.68 |
| Terminal benefits | 172.74 | 115.81 | 100.64 | -13.27 | 469.73 |

1. **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 2014-15 to 2018-19 has been shown below.

**All figures in Rs. Crs.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars (Rs. in Crores)** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** |
| Professional charges (PAA&PCA) | 13.14 | 13.16 | 12.89 | 18.32 | 21.79 |
| Travelling expenses | 10.20 | 12.64 | 14.11 | 12.85 | 11.47 |
| Vehicle hire & running charges | 7.02 | 6.81 | 7.64 | 9.04 | 9.92 |

1. **Repairs & Maintenance Expenses**

R&M expenses are linked to Gross Fixed Asset (GFA) which depends on capital expenditure. The Honble Commission has approved a norm of 1.72% of opening Gross fixed assets towards R&M costs in the MYT for third Control period. However, the actual R&M expenses as a percentage of average Gross Fixed assets during the control period is about 2.34%. This has shown overall increase in R&M expenses as compared to Approved values. This is mainly due to the reason that the charges pertains to contract labour are majorly grouped under Repairs and Maintenance head of the O&M cost till middle of the FY 2017-18. From 2017-18 onwards these charges are merged in Employee cost after regularising the services of contract labour as Artisans.

The repairs and maintenance cost of major network elements during the control period is tabulated below

**All figures in Rs. Crs**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** |
| Plant and Machinery | 3.67 | 3.62 | 5.36 | 4.10 | 4.05 |
| Transformers | 44.98 | 40.05 | 47.01 | 45.04 | 43.20 |
| Substation maintenance  by Pvt. Agencies | 59.26 | 70.87 | 78.61 | 30.67 | 8.36 |
| Lines, Cable net work etc. | 5.67 | 7.81 | 9.33 | 6.17 | 7.87 |
| Others | 0.10 | 0.84 | 9.29 | 1.22 | 8.50 |
| **Total R&M Cost** | **113.68** | **123.20** | **149.60** | **87.20** | **71.98** |

#### Regulated Rate Base (RRB)

Discom’s actual RRB for the Third MYT Control period is **Rs 8537Crs.** whereas the Hon’ble Commission approved is **Rs. 11308 Crs.** resulting in a deviation of **Rs 2771 Crs**. Summary of RRB line items for FY 2014-15 to FY 2018-19 is as below.

**Rs. Crs**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Years** | **Regulatory Rate Base** | | | **Asset Base** | | |
| **TSERC** | **Actual** | **+/(-)** | **TSERC** | **Actual** | **+/(-)** |
| FY 2014-15 | 1508 | 1364 | -144 | 4585 | 4275 | -310 |
| FY 2015-16 | 1797 | 1432 | -365 | 5540 | 4807 | -732 |
| FY 2016-17 | 2141 | 1642 | -499 | 6640 | 5421 | -1219 |
| FY 2017-18 | 2629 | 1859 | -770 | 7729 | 6043 | -1686 |
| FY 2018-19 | 3232 | 2240 | -993 | 8892 | 7030 | -1861 |
| **Total 3rd Control Period** | **11308** | **8537** | **-2771** | **33386** | **27577** | **-5809** |

**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 by **Rs. 5809** Crores in the control periods on account of less capital expenditure incurred during years from FY 2014-15 to FY 2018-19.

#### Return on Capital Employed (ROCE)

Discom’s actual ROCE for the Third MYT Control period is **Rs. 1030Crs.** as against the Hon’ble Commission approved expenses of Rs**. 1413Crs.** resulting in a deviation of **Rs. 384 Crs.** Summary of Return on Capital Employed (ROCE) line items for FY 2014-15 to FY 2018-19 is as below.

**Rs. In Crores**



The lesser RoCE is due to less Regulated Rate Base as compared to approved value by Rs. 2771 Crores and less cost of debt during the control period which was varying from 10.72% to 10.11% p.a. except FY 2016-17 when compared to Commission approved fixed target of 12% p.a.

#### 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 3rd control period as under. The Licensee has incurred less depreciation than the approval of the Tariff Order by **Rs. 565** Crores due to lesser capitalization of fixed assets than the approval during the control period. In the tariff order for 3rd control period approved by the Hon’ble Commission, the assets funded by grants and consumer contribution were removed for the purpose of computing the depreciation. Hence, the approved depreciation for the control period is net depreciation duly deducting the amortisation of depreciation on consumer contributed assets. The licensee also showed net depreciation while comparing with tariff order approved values.

|  |  |  |  |
| --- | --- | --- | --- |
| **Years** | **Net Depreciation Rs. Crs** | | |
| **TSERC** | **Actual** | **+/(-)** |
| FY 2014-15 | 235 | 195 | -40 |
| FY 2015-16 | 258 | 133 | -126 |
| FY 2016-17 | 312 | 208 | -103 |
| FY 2017-18 | 372 | 236 | -137 |
| FY 2018-19 | 428 | 268 | -159 |
| **Total 3rd Control Period** | **1605** | **1040** | **-565** |

The Assets additions during the control period **Rs. 5809 Crores** are lower than the approved figures in Tariff Order, as a result, the asset base is lower in the control period when compared to Commission approved and resulted in lower depreciation.

#### Taxes on Income

The Hon’ble Commission approved Rs. 47.00Crs. as taxes on income for the Third MYT Control period, whereas actual taxes on income was nil during the control period..

#### Special Appropriation for Safety Measures

The Hon’ble Commission approved **Rs. 293 Crs.** towards Special Appropriation for Safety Measures for the Third MYT Control Period. The licensee has incurred an amount of Rs. 52 Crores under safety measures during the control period.

#### Other Expenditure

The Other Expenditure for the Third MYT Control Period incurred is **Rs.6.96 Crs** as against to the approved expenses of **Rs. 6.91** crores

#### Non-Tariff Income & Wheeling Revenue

The approved Non-Tariff income in the 3rd MYT Distribution Tariff order includes Non-tariff income of the Distribution Business, Revenue estimates from wheeling charges and the amortisation of depreciation on consumer contributed assets.

The Honble Commission has approved **Rs. 671** crores under Non-Tariff Income Projections for the Third MYT. The DISCOM has earned Non-Tariff Income excluding amortisation of depreciation on consumer contributed assets the third MYT is **Rs. 156** crores and amortisation of depreciation on consumer contributed assets are deducted from depreciation as per the Tariff Order.

**All figures in Rs. Crs**.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Particulars** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** |
| Interest on Staff Loans and Advances | 0.17 | 0.12 | 0.11 | 0.16 | 4.29 |
| Income from Investments | 8.38 | 14.54 | 11.81 | 15.89 | 20.09 |
| Income from Trading - Sale of Scrap / Stores | 0.62 | -0.55 | -5.04 | 1.93 | 0.53 |
| Excess found on Physical Verification of Stoc | 0.34 | 0.10 | 0.16 | 1.10 | 0.18 |
| Registration Fees | 0.26 | 0.47 | 0.69 | 0.38 | 0.33 |
| Discounts received from vendors | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Fines/Penalties from Contractors | 0.40 | 0.15 | 0.63 | 0.46 | 0.00 |
| Fines/Penalties from Suppliers/Mat Cust. | 5.42 | 4.41 | 9.49 | 6.96 | 11.68 |
| Supervision Charges | 0.14 | 5.12 | 0.40 | 0.34 | 1.49 |
| Other Income-Sale of Tender Schedules | 0.10 | 0.22 | 0.47 | 0.32 | 0.46 |
| Other Mis.Income | 0.91 | 0.36 | 1.21 | 4.04 | 23.74 |
| **Total Non-Tariff Income** | **16.75** | **24.94** | **19.93** | **31.59** | **62.79** |

## Impact of FRP & UDAY

The Company was covered under the Financial Restructuring Package 2012 of Government of India in 2012. In accordance to the package, the then state government has assumed the liability of the DISCOM (erstwhile APNPDCL) to the extent of Rs. 1744 crores which covers the short term borrowings of the company towards expensive power. Thus the FRP covers the liability of the DISCOM towards borrowings for expensive power which was not admitted by the Honble Commission in the Fuel Surcharge Adjustments/Power purchase True-ups**. Hence the impact of FRP cannot be considered under the True-ups of the DISCOM.**

Subsequently in 2017, Telangana Discoms entered in to UDAY scheme and as per the agreement, total outstanding debt balance of TSNPDCL of Rs.3373 crores (75% of total outstanding) as on 30.09.2015 has been taken over by Government of Telangana. The GoTS has released Rs. 2396 crores in 2016-17 and Rs.450 crores in 2017-18 in the form of Equity. The outstanding loans of the Discoms which includes long –term and short-term borrowings has been taken over by the GoTS in the form of Equity infusion in the DISCOMs. Hence the assets funded through debt have been taken over by the promoter in the form of equity infusion. This equity in the DISCOM shall attract Return on Investment to the Shareholder (State Government) i.e. @ 16% p.a.

The Honble Commission in the MYT Tariff Order for 3rd Control Period has approved debt-equity norm of 75:25 where 25% of equity attract 14% of Return on Capital employed (& 2% of Supply margin) and 75% of debt shall assume cost of finance of 12%. The debt taken-over by the GoTS under UDAY has resulted in change in the actual debt-equity mix.

As per Clause 5.11 (b) of National Tariff Policy, 2016, ” *For financing of future capital cost of projects, a Debt: Equity ratio of 70:30 should be adopted. Promoters would be free to have higher quantum of equity investments.* ***The equity in excess of this norm should be treated as loans advanced at the weighted average rate of interest……***”

Thus the equity in excess of 25% shall be treated as normative loan and weighted average rate of interest has to be allowed, thus debt-equity mix of 75:25 has to be considered as per the norms approved. So, no benefit has been accrued to the DISCOM due to UDAY as the equity infusion by the GoTS attracts return on equity of 14% which is higher than the cost of debt that would have incurred in the absence of UDAY scheme. Further, loans taken over by the Government under UDAY scheme is predominantly short term loans (FRP) pertains to power purchase and its cost finance shall not pass through in Retail supply Business and Distribution Business.

Hence, notwithstanding to the UDAY agreement, the DISCOM prays the Honble Commission to allow the True-ups for the 3rd control period entirely as per the Regulation.