

Southern Power Distribution Company of Telangana Limited (TGSPDCL)

Reply to Queries by Hon'ble Commission (TGERC)

on

Filing of ARR and Proposed Wheeling Tariffs for Distribution Business for 5th MYT Control
Period

(FY 2024-25 – FY 2028-29)

#	I. General Queries	Reply to Queries
1	As per proviso of Regulation 6.2, TGSPDCL is required to file the MYT Petition by 31.01.2024 whereas TGSPDCL had filed the MYT petition on 12.07.2024. TGSPDCL is required to provide the reasons and proper justification for such delay.	Regulation 2 of 2023 was published by the Hon'ble Commission on 30th December 2023 in which a new methodology for computation of Annual Revenue Requirement (ARR) was proposed. The methodology involved new line items as compared to the previous methodology. As a result of which the licensee required additional time for collection of data for calculation of ARR as per new methodology. Moreover, the licensee had requested clarification from the Hon'ble Commission and was awaiting its response. Besides computation of ARR, the exercise also involved filling of formats extensively for which a time of 30 days was insufficient (31.01.2024). Further, with upcoming general elections, the model code of conduct was in place due to which the licensee could not have filed for petition till such time the code was in effect. The Licensee in its filing has also detailed out the reasons in the Condonation of Delay petition filed before the commission.
2	TGSPDCL has not submitted the soft copy of downloadable spreadsheet format showing detailed computations, (linked excel sheet) of the Appendix-4 Tariff Filing Forms (Distribution) of Regulation 02 of 2023. TGSPDCL is required to provide the same.	The excel sheets linked with the Tariff Filing Forms of Appendix-4 will be shared with the Hon'ble Commission.
3	TGSPDCL in its format for allocation of Distribution Business (Pg. 46 of Petition) has bifurcated the total ARR of Distribution Business into Retail and Wheeling Business. However, TGSPDCL computed the wheeling tariff (Refer: Para-9, 10 of the summary of the Petition, Pg. 8, Para-4 of the Main Petition, Pg. 33) considering the total ARR of Distribution Business and not the ARR allocated to wheeling business. TGSPDCL is required to recompute the wheeling tariff considering the ARR of Distribution Business allocated to the Wheeling Business.	The licensee will recalculate the wheeling charges by Considering 90% of the Distribution ARR instead of total ARR
4	As per Regulation 79.2, the Wheeling Charges for long-term and medium-term Open Access shall be determined in terms of Rupees/kVA/month, whereas in terms of Rupees/kVA/hr for short-term Open Access, for the purpose of recovery from the Distribution System User. Further, the Wheeling Charges shall be determined separately for LT voltage, 11 kV voltage, and 33 kV voltage, as applicable. However, it is observed that TGSPDCL has proposed single	The licensee in its petition for filing of Distribution ARR under Section 4: Proposed Wheeling Charges a new method for computation of Wheeling Tariffs irrespective of voltage levels. It is to submit that, the MoP, Gol dated 10 th January 2024 has issued notification for determination of Uniform Wheeling Charges irrespective of voltage level and notification Dated: 17 th January 2024 the MoP has mentioned that, the Wheeling Charges may be determined at each voltage level which is not mandatory.

	wheeling tariff as Rs./kVA/Month for each category of consumers (LT/MT/ST) irrespective of voltage level. TGSPDCL is to comply with the provisions of Regulation 79.2 of the Regulation 2 of 2023 and revise the wheeling tariff in accordance with the Regulation.	Further, the Karnataka State ERC has determined the Uniform Wheeling Charges and is in force. Also it is to submit that, the Transmission Charges of STUs and ISTS network are also Uniform and there is no discrimination of charges for the above transmission systems. Hence, the licensee had proposed this methodology to be at par with inter state and intra state transmission systems and as per Karnataka State Wheeling Charges methodology to have uniformity and to mitigate financial losses. Hence the licensee in its petition has computed the wheeling charges irrespective of voltage and humbly request the commission to kindly consider the same methodology.
6	TGSPDCL in Section 3.8 while computing the Rate of pre-tax return on equity has considered the effective income tax rate of 100% which is not correct and the same needs to be corrected	The effective tax mentioned in the section 3.8 is basically the multiplication factor i.e., $1/(1-t)$ where the tax for the company has been considered as 0%. Therefore, the multiplication factor = $1/(1-0) = 100\%$. The same has been written in the write up petition. The tax for the company has been considered as 0% only.
7	TGSPDCL to submit the audited annual accounts for the period from FY 2019-20 to FY 2022-23. Further, TGSPDCL is required to provide provisional accounts/trail balance of FY 2023-24.	The same will be submitted to the Hon'ble Commission as requested in soft copy
8	It is observed that base capex network additions (Substations addition, PTR additions, PTR Augmentation, DTR additions) and base capital investment projected by TGSPDCL for 5th Control period is in variance from approved Resource Plan and Business plan for 5th Control period by TGERC vide order dated 29th December 2023. TGSPDCL is required to provide the justification for such variance from approved value. Further, TGSPDCL is required to provide the detailed excel computation of the above as claimed in the Petition.	It was observed during the filing of Distribution ARR, that the base capex approved under Resource Plan may not be adequate to meet the increased demand of Telangana as the base capex for FY 2023-24 has already crossed the base capex for FY 2024-25 approved in the Resource Plan. Therefore, the licensee has recomputed the base capex for each year of the Control Period by estimating the Network Requirements anticipating the upcoming state's demand. Further, the licensee additionally envisages addition of smart meters during each year of the 5 th Control Period which was originally not considered during filing of Resource Plan. As Gol, in its effort to improve the efficiency of distribution network by reducing theft/pilferage encourages the use of Smart Meters. The licensee has thus included the capex on smart meters as part of its Distribution ARR filing. The back up excel files will be submitted to the Hon'ble Commission as requested in soft copy
9	TGSPDCL submitted that there is rise in distribution losses due to increase in distributed power generation. TGSPDCL is required to provide the detail computation how the same impact the distribution losses.	The licensee in its petition in section 9 has submitted to the Hon'ble Commission that the rooftop installations (which is part of distributed generation) would be increasing due to several provisions by the State and Gol such as net metering/ gross metering and PM Surya Ghar schemes respectively. Most of the rooftop installations would be at the LT level which has higher distribution losses as compared to 11 kV and 33 kV. Due to penetration of rooftop solar panels in the grid at a large scale, during certain intervals during the day (peak generation hours), there might be lower demand in the LT network, due to which the surplus power may flow from lower voltage systems to higher voltage systems

12	TGSPDCL is required to provide the detail computations of Depreciation for 5th Control period.	The detailed computation of Depreciation for 5th Control Period will be submitted to the Hon'ble Commission in soft copy.
13	TGSPDCL to provide the actual consumer contribution and grants, separately received for FY 2022-23 to FY 2024-25 (till date). Further, TGSPDCL is required to provide the basis for consideration of consumer contribution and grants for 5th Control period.	<p>The actual consumer contribution and grants for FY 2022-23 to FY 2024-25 (till date) will be submitted to the Hon'ble Commission in soft copy.</p> <p>The basis for consideration of consumer contribution and grants for 5th Control Period is derived based on historical numbers of 4th Control Period.</p>
14	<p>TGSPDCL to provide the basis and justification of considering the following while computation of Employee Expenses:</p> <ul style="list-style-type: none"> - 7% year on year for projecting employee expense for the O&M expense; - 20% Pay revision for FY 2026-27; - 8% Pension benefit increment growth over year for each control period. 	Historically, the employee expenses has been increasing at the rate closer to 7% (DA's & Increments and en-cashments) year on year, hence the same had been considered to represent ground reality. Further, in FY 2026-27, wage revision is envisaged which will be an increase of 20% on the existing salaries. Similarly increment in pension benefit has been historically close to 8% year on year to represent ground reality. If the employee cost is computed strictly as per the formula provided in Regulation 2 of 2023, all the above intricacies cannot be factored in and the employee cost so derived would be grossly under estimated. Hence the Hon'ble commission is requested that the proposed methodology may kindly be allowed for estimation of employee cost for the 5 th control period.
15	TGSPDCL has submitted that the Administrative and General expenses for the first year of the control period is arrived by calculating the average or the actual Administrative and General expenses for the last 4 years (FY 2019-20 to FY 2022-23). TGSPDCL to provide detail computation for the same.	<p>The Administrative and General Expense for FY 2023-24 has been estimated by considering simple average of actuals of FY 2019-20 to FY 2022-23 at the time of preparation of ARR for Distribution Business. The value so arrived has been escalated by 5 year CAGR of WPI inflation of 4.802% by two times. Thereafter the first year of 5th control has been arrived by taking the simple average of values from FY 2019-20 to FY 2023-24. The value so arrived has been escalated by 5 year CAGR of WPI inflation value of 4.802% by three times as per Regulation 2 of 2023.</p> <p>Additionally, the model for the same will be submitted to the Hon'ble Commission in soft copy.</p>
16	It is observed that methodology adopted by TGSPDCL for computation of O&M Expenses is not in accordance to clause 81.3 of Regulation 02 of 2023. TGSPDCL is required to recompute O&M Expenses strictly as per the provisions of the Regulation.	<p>Due to the reasons mentioned in Sl. No. 14, in which the employee cost has been computed by considering 7% year on year growth on salaries, 20% revision in salaries in FY 2026-27 and 8% increment in pension benefit fund, the O&M expenses are slightly different as mentioned in regulation 2 of 2023.</p> <p>Except for Employee Expense estimation, all other components of O&M expense namely Administrative and General Expense and Repairs & Maintenance Expense has been computed as per formula provided in Regulation 2 of 2023</p>
17	TGSPDCL to clarify or justify the basis for consideration of interest rate (10.2% for FY 2024-25 & 10.0% for rest of year of Control Period) while computing the Interest cost on long term loan.	The licensee has computed the interest rate for individual years of the control period by considering the yearly loan projections from FY 2023-24 to FY 2028-29. The individual years' interest rate has been determined by

	TGSPDCL to submit the details of actual long-term loan portfolio.	considering the average of opening balance and closing balance of each of the long term loans and taking the weighted average interest rate from each source of the loan from the respective lending agency. Since the opening and the closing balance change year on year, therefore the interest rates varies slightly for each of the years.
18	<p>Clause 29.2 of Regulation 02 of 2023 stipulates as follows:</p> <ul style="list-style-type: none"> - "29.2(e) Distribution licensee: Base Return on Equity of 14% and additional Return on Equity up to 2% linked to Licensee's performance towards meeting standards of performance: - Provided that the Commission at the time of true-up shall allow the additional Return on Equity up to 2% based on Licensee meeting the summary of overall performance standards as specified in Clause 1.11 of Schedule III of TSERC (Licensees' Standards of Performance) Regulations, 2016." <p>TGSPDCL to submit the actual status of the Licensee for FY 2023-24 towards meeting the summary of overall performance standards as specified in Clause 1.11 of Schedule III of TSERC (Licensees' Standards of Performance) Regulations, 2016.</p>	The information requested by the Hon'ble Commission will be submitted in soft copy
19	TGSPDCL to submit the computation and justification of considering interest rate of working capital for the 5th Control period as 10.15% for distribution business.	As per Regulation 2 of 2023, the licensee has considered 1 year MCLR of SBI which is 8.65%. As per regulation, this 1 year MCLR has been increased by another 150 basis points (1.5%) to arrive at the interest on working capital of 10.15%
20	TGSPDCL to provide the actual data of amount held as security deposits for FY 2023-24 other than those in the form of Bank Guarantees.	The amount held as Security Deposit for FY 2023-24 other than those in the form of Bank Guarantees is Rs. 119.4 Crores.
21	TGSPDCL has considered actual non-tariff income for FY 2022-23 along with escalation factor for determination of Non-Tariff Income for 5th Control Period. TGSPDCL to provide the justification or basis for considering 2% growth rate.	The Non-Tariff Income has many sub components which are for all practical purpose may be considered as an extra-ordinary items which do not occur every year such as miscellaneous income, SDs and BG forfeited, rebate from funding agencies. As a result, it is not possible to predict each of these line items accurately for each year of the 5 th Control Period. Therefore, the licensee has considered the actual NTI for FY 2023-24 sub component wise and a nominal increment has been considered for each of the line items. Therefore a 2% nominal increment has been assumed for estimation of NTI for each year of the 5 th control period.
22	<p>TGSPDCL to submit the justification/clarification for significant variance in each component from previous years as mentioned below:</p> <ul style="list-style-type: none"> • Operation and Maintenance Charges FY 24 (Approved) = Rs 3629.21 Cr FY 25 (Claimed) = Rs 3912 Reason for significant increase • Depreciation 	<ul style="list-style-type: none"> • Operation and Maintenance Charges have been computed as per regulation 2 of 2023 for Administrative & General Expenses and Repairs & Maintenance Expenses. Only Employee Cost has been estimated as detailed in SI.No.14. Since there has been a change in methodology, therefore there may be variation in FY 24 vis-à-vis FY 25. • The depreciation for each year of the control period has been computed as per regulation 2 of 2023 (For

	<p>FY 24 (Approved) = Rs 1158.53 Cr FY 25 (Claimed) = Rs 976 Reason for decrease</p> <ul style="list-style-type: none"> Income from Open Access Charges <p>FY 24 (Approved) = Rs 49.84 Cr FY 25 (Claimed) = Rs 1 Cr Reason for decrease</p> <ul style="list-style-type: none"> Non-Tariff Income <p>FY 24 (Approved) = Rs 585.52 Cr FY 25 (Claimed) = Rs 154 Reason for decrease</p>	<p>FY 2023-24 the rate of depreciation were as per CERC regulations which were higher than the depreciation rates provided in Regulation 2 of 2023 for FY 2024-25). But for base capex which contributes significantly to depreciation, the rates provided in TGERC regulations are lower which is reducing the overall depreciation on the capex.</p> <ul style="list-style-type: none"> Income from Open access charges have been computed by considering the open access sales and the same has been multiplied by Wheeling Tariff in Rs/kWh (irrespective of voltage levels) as proposed as part of petition of Distribution ARR business before the Hon'ble Commission. As there has been a change in the methodology of computation, therefore there is a variation in income from Open Access Charges. The computation of NTI has been detailed in SL.No.21
23	<p>TGSPDCL is required to provide the detail of actual Contracted Capacity at consumer end at each voltage level for FY 2022-23 and FY 2023-24. Further, TGSPDCL is required to provide the basis for projection of Contracted Capacity at consumer end for 5th Control period along with voltage wise bifurcation.</p>	<p>The requested information for FY 2022-23 and FY 2023-24 will be submitted to the Hon'ble Commission in soft copy The basis for projection of contracted capacity at consumer end for 5th control period is resource plan numbers.</p>
25	<p>It is observed that some Forms (Appendix-4) submitted by TGSPDCL are incomplete. TGSPDCL is required to provide duly filled Forms No.: 17, 18, 19, 20 & 21 strictly as per the provisions of the Regulation.</p>	<p>The licensee has filled the required details for each year of the 5th Control Period in the forms as mentioned.</p> <p>The licensee is unable to fill the required values in actuals section of the forms as some of the line items may not be applicable due to change in regime as brought forth in Regulation 2 of 2023.</p>