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NOTIFICATIONS BY HEADS OF DEPARTMENTS, Etc.

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PUBLIC WORKS NOTIFICATIONS

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

[Regulation No.1 of 2014]

FIRST AMENDMENT TO (TERMS AND CONDITIONS FOR DETERMINATION OF TARIFF FOR WHEELING AND RETAIL SALE OF ELECTRICITY) REGULATION NO. 4 OF 2005.

INTRODUCTION:

Andhra Pradesh Electricity Regulatory Commission notified Regulation No.4 of 2005 (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) in Andhra Pradesh Gazette, on 14.11.2005, [herein after referred to as the Principal Regulation].

As per said Principal Regulation, licensees shall file Aggregate Revenue Requirement (ARR) for Distribution Business and Retail Supply Business along with Filing for Proposed Tariff (FPT) for recovery of ARR for the entire Control Period, beginning with the second Control Period (i.e., FY 2009-10 to FY 2013-14) and the Commission shall determine ARR and Retail Supply Tariff for the said Control Period. In this framework, ARR and tariff fixation for each year of the Control Period is contemplated to be determined at one time in advance for the entire five year period.

The Principal Regulation states that the distribution licensee has to claim variations in uncontrollable items of Distribution Business & Retail Supply Business including power purchase cost for the year succeeding the relevant year of the Control Period after netting out the impact of controllable items.

Regulation No.1 of 2003 amended the APERC (Conduct of Business) Regulations, 1999, and provided for the Licensee to recover from or pay to consumers as the case may be, variations in power purchase cost through levy of fuel surcharge on a quarterly basis. This provision enabled the Licensee to recover variation of power purchase cost in a timely manner without accumulating it for true-up at the end of the relevant Control Period in the Multi-Year-Tariff Regulatory Framework (MYTRF). The levy of Fuel Surcharge has been approved by the Commission upto FY 2012-13 under the said Amendment Regulation. This Amendment Regulation No.1 of 2003 has been repealed vide Regulation No.2 of 2013 and the provision empowering the Commission to authorize the levy of Fuel Surcharge Adjustment has been deleted.

From the beginning of the second Control Period (FY 2009-10 to FY 2013-14) Distribution Licensees have been requesting the Commission every year to permit them to file ARR for Retail Supply Business on annual basis on

various grounds. These grounds include uncertainties involved in projection of quantum as well as cost of power to be procured from various sources, including from outside the State of Andhra Pradesh, corridor constraints to procure power through NEW Grid as well as its cost and delay in commissioning of new power plants. It was also represented that shortfalls in generation from Hydel Stations, shortage in supply of Natural Gas to gas based IPPs, further compound such uncertainties. As the cost of power purchase constitutes about 75% of the total cost of ARR of Retail Supply Business there is uncertainty in the medium term of quantity to be procured from open market.

The Commission, after considering the evolving complexities involved in forecasting the Sales and Revenue Requirement and the uncertainties involved in the Retail Supply Business, has been permitting licensees to file the ARR and Tariffs for Retail Supply Business on annual basis from FY 2009-10 onwards.

With the repeal of Regulation No.1 of 2003, the licensees are no longer empowered to recover the variation in power purchase cost through levy of a fuel surcharge.

As per the MYTRF, the licensees will have to accumulate these variations till the end of respective Control Period. This stance may militate against the demands of the annual filings frameworks while placing an unacceptably high carrying cost burden on the licensees.

Given that the quantum of variation of power purchase cost for each year may be high the Commission considers that the recovery of such cost variation should also be undertaken annually along with annual Retail Supply Tariff filings.

In the present context of annual filings for Retail Supply Business and non-availability of any provision for periodic adjustment of Power Purchase Cost variation, an annual true-up is desirable to ensure an equitable burden on both licensees and consumers. Accordingly, the Commission proposes to permit the licensees to include 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.

On the draft amendment to Regulation No.4 of 2005 (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity), public notice has been issued on 23-12-2013 and also placed in the Commission's website, inviting comments views/suggestions on the amendment from all stakeholders. A Public Hearing was conducted on 16-01-2014. Comments/views and suggestions were received from seven stakeholders.

The Commission has carefully considered these comments/views/suggestions received while finalizing its views.

In exercise of powers conferred under Clauses (zd), (ze) and (zf) of Section 181(2) read with Sections 61, 62 of the Electricity Act, 2003 (36 of 2003) and Clause 23 of Regulation No.4 of 2005 and all other enabling powers, the Andhra Pradesh Electricity Regulatory Commission hereby makes the following amendments to the Principal Regulation, viz., APERC (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005.

1. Short title, Extent and Commencement

- i. This Regulation may be called the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) First Amendment Regulation, 2014.
- ii. This Regulation shall extend to the whole State of Andhra Pradesh.
- iii. This Regulation shall come into force on the date of its publication in the Andhra Pradesh Gazette.
- iv. This Regulation will be applicable only as long as the Tariff for Retail Supply Business is filed on an annual basis.

2. The following sub-clauses shall be inserted after sub-clause 12.4 in the Principal Regulation under Part – III of the said Principal Regulation.

12.5 True-up for Retail Supply Business

- a. The Distribution Licensee shall include the power purchase cost variation over the previous year Power Purchase cost in the Tariff Order as expense (in the event of incurring excess cost)/rebate (in case of cost saving) in the ARR as special item with relevant details. To arrive the power purchase cost variation, the least of the following power purchase quantity is to be considered:

- i) Actual power purchase quantity procured by the Discoms for its consumers.
- ii) Power purchase quantity computed based on actual sales except LT Agriculture sales. LT Agricultural sales will be limited to Tariff Order quantity. These aggregated sales will be grossed up with approved losses for the relevant year in the MYT orders.
- b. Since the complete information of cost actually incurred relating to previous year will not be available at the time of filing of ARR for a particular tariff year, the Licensee may include provisional cost variation for the previous year in ARR filings which will be subject to final correction by the Commission as and when final accounts for that year become available.
- c. The Licensees shall also include in the ARR the amounts to be collected on final basis being the difference between the cost incurred based on audited annual accounts report and costs provisionally approved by the Commission in the Tariff Order for the year immediately preceding the previous year.
- d. The amount to be trued-up for Retail Supply Business in a tariff year shall be determined as follows:

$$\sum_i^n \Delta C_{\text{trp}}(t) = \left[\sum_i^n C_{\text{prv}}(t-1) - \sum_i^n C_{\text{apr}}(t-1) \right] + \sum_i^n C_{\text{fnl}}(t-2) - \mu(t-2)$$

Where,

Summation \bullet extends over all Power Purchase sources $i = 1, 2, \dots, n$

$\sum_i^n \Delta C_{\text{trp}}(t)$ True-up cost summed over all sources for the tariff year (t).

$\sum_i^n C_{\text{prv}}(t-1)$ The Power Purchase cost summed over all sources based on provisional estimates for the previous year (t-1).

$\sum_i^n C_{\text{apr}}(t-1)$ The power purchase cost summed over all sources as approved in Tariff Order for the previous year (t-1) as per the relevant Tariff Order.

$$\sum_i^n C_{\text{fnl}}(t-2) = \sum_i^n C_{\text{actb}}(t-2) - \sum_i^n C_{\text{prv}}(t-2)$$

(The difference between actual power purchase cost as per Audited Balance Sheet for (t-2) year and provisional power purchase cost of the year (t-2) adopted in the year (t-1) by the Commission)

$\sum_i^n C_{\text{actb}}(t-2)$ The actual power purchase cost summed over all sources based on audited balance sheet for the year (t-2).

$\sum_i^n C_{\text{prv}}(t-2)$ The Power Purchase Cost summed over all sources based on provisional estimates adopted in year (t-1) for the year (t-2).

$\mu(t-2)$ Charges on Ineligible items and Interest amounts paid on capital borrowed for financing the power purchase cost where they have been included in determination of power purchase cost in the accounts for the year (t-2)

Note: Claim of power purchase variance of FY 2012-13 will not be allowed under item

$\sum_i^n C_{\text{fnl}}(t-2)$ as entire amount has already been recovered under FSA earlier. The

term $\sum_i^n C_{fnl}^{(t-2)}$ will be applicable from the year ($t = \text{FY 2015-16}$) onwards only.

- e. $\sum_i^n \Delta C_{trp}^{(t)}$ will be added to $\sum_i^n \Delta C_{apr}^{(t)}$ as determined by the Commission to get total approved purchase cost as

$$\text{Approved Cost (t)} = \sum_i^n \Delta C_{apr}^{(t)} + \sum_i^n \Delta C_{trp}^{(t)}$$

$\sum_i^n \Delta C_{trp}^{(t)}$ can be either a positive or a negative figure.

Working example of above formula:

$\sum_i^n \Delta C_{trp}^{(t)}$, is to be determined for FY 2015-16.

Step 1 Determine $\sum_i^n C_{prv}^{(t-1)}$

(t-1) is FY 2014-15. From the provisional accounts the provisional power purchase cost for all source is obtained. Assume it aggregates to Rs.42,500/- as per Clause 12.5.

Step 2 Determine $\sum_i^n C_{apr}^{(t-1)}$

(t-1) is FY 2014-15. The aggregate approved power purchase cost is obtained from the relevant Tariff Order for all the sources. Assume it is Rs.42,000/-.

Step 3 Determine $\sum_i^n C_{fnl}^{(t-2)}$

This is the difference between actual aggregate power purchase cost incurred based on audited balance sheet for the FY 2013-14 and provisional power purchase cost amount for FY 2013-14 approved during the FY 2014-15 obtained from the FY 2014-15 true-up orders.

Step 4 Determine $\sum_i^n C_{actb}^{(t-2)}$

Assume the actual power purchase cost incurred during FY 2013-14 (based on the audited balance sheet) is Rs.35,627/-.

Step 5 Determine $\sum_i^n C_{prv}^{(t-2)}$

Assume the Tariff Order for FY 2014-15 provisionally aggregates power purchase cost estimated for FY 2013-14 as Rs.35,127/- at the time of ARR filing for FY 2014-15 and adopted by the Commission during the FY 2014-15.

Step 6 Determine $\sum_i^n C_{fnl}^{(13-14)} = \text{Rs.}35,627 - \text{Rs.}35,127 = \text{Rs.}500/-$

Assume $\mu_{(13-14)} = 0$ i.e., there are no ineligible expenditure items.

$$\sum_i^n \Delta C_{trp}^{(15-16)} = \left[\sum_i^n C_{prv}^{(14-15)} - \sum_i^n C_{apr}^{(14-15)} \right] + \sum_i^n C_{fnl}^{(13-14)} - \mu_{(13-14)}$$

$$\sum_1^n \Delta C_{trp}^{(15-16)} = [Rs.42,500 - Rs.42,000] + Rs.500 - 0$$
$$= Rs.1,000/-$$

Assume $\sum_1^n C_{apr}^{(15-16)}$ is Rs.43,000/-

$$\text{Then Approved Cost (15-16)} = Rs.43,000 + Rs.1,000$$
$$= Rs.44,000/-$$

- f. The approved amounts which are to be collected or have already been collected by Licensee from the consumers for the reference year in pursuance of any regulation/ order covering u/s 62(4) of the Electricity Act, 2003 or in pursuance of clause 12(4) of this regulation shall be suitably adjusted.
- g. The Commission, after examination of the details, will approve the expense/ rebate duly dealing the same in detail in the relevant Tariff Order. No expense shall be added to or rebate shall be deducted from ARR unless the details of such amounts are provided in the tariff order.
- h. A format in which information on power purchase quantity and its cost to be filed by licensee for true-up is enclosed to this Regulation.

(BY ORDER OF THE COMMISSION)

Hyderabad,
06-03-2014.

M.D.MANO HAR RAJU,
Commission Secretary.

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