# TELANGANA STATE ELECTRICITY REGULATORY COMMISSION

**5th Floor, Singareni Bhavan, Red Hills, Lakdi-ka-pul, Hyderabad 500004**

**Dated: 30.12.2023**

**Present**

Sri T. Sriranga Rao, Chairman

Sri M.D. Manohar Raju, Member (Technical)

Sri Bandaru Krishnaiah, Member (Finance)

**In the matter of Telangana State Electricity Regulatory Commission (Multi Year Tariff) Regulation, 2023 – Statement of Reasons thereof**

## STATEMENT OF REASONS

As per Section 86 (1) (a) of the Electricity Act, 2003 ("the Act"), the State Electricity Regulatory Commissions (SERCs) have been assigned the function of determining the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be, within the State.

The determination of tariff for generation, transmission and distribution wheeling, retail supply and fee and charges for SLDC for the control period ending on 31.03.2024 is governed by the following Regulations notified/adopted by the Commission:

(i) Regulation No. 3 of 2005 being the (Treatment of Other Businesses of Transmission Licensees and Distribution Licensees) Regulation, 2005.

(ii) Regulation No. 4 of 2005 being the (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005 along with Amendments thereof.

(iii) Regulation No. 5 of 2005 being the (Terms and Conditions for determination of Transmission Tariff) Regulation, 2005 along with Amendments thereof.

(iv) Guidelines for Investment Approval (February 2006).

(v) Guidelines for Load Forecasts, Resource Plans, and Power Procurement (December 2006).

(vi) Regulation No. 1 of 2006 being the (Levy and Collection of fees and charges by

State Load Despatch Centre) Regulation, 2006 along with Amendments thereof.

(vii) Regulation No. 1 of 2019 being the (Terms and Conditions of Generation Tariff) Regulation, 2019 along with Amendments thereof.

The Regulation No. 1 of 2019 is effective up to 31.03.2024. With the objective of consolidating all the Tariff Regulations governing the determination of tariff, the Commission has initiated the process of making Multi Year Tariff Regulation for the period from 01.04.2024 onwards and accordingly, the Commission issued the Draft Telangana State Electricity Regulatory Commission (Multi Year Tariff) Regulation, 2023 (hereinafter referred to as 'Draft Regulation') along with Explanatory Note on 16.11.2023 and vide Public Notice (Annexure-1) dated 16.11.2023, invited comments/suggestions/objections from the stakeholders and interested persons on or before 07.12.2023 before 5.00 pm. Further, upon request of some of the stakeholders, the time for submission of comments/suggestions/objections by the stakeholders and interested persons was extended up to 14.12.2023.

In response, the Commission has received written comments/suggestions/objections from eleven (11) stakeholders before the stipulated time. Considering the significance of the Regulation and need for eliciting best of the views on the provisions made in the Draft Regulation, the Commission held the Public Hearing on 18.12.2023 at 11.00 am in the Court Hall of the Commission. The Commission has considered the comments/suggestions/objections made in writing as well as during the Public Hearing. The list of stakeholders who have submitted the written comments/suggestions/objections is enclosed at Annexure-2. The list of stakeholders who have attended the Public Hearing held on 18.12.2023 is enclosed at Annexure-3.

The comments and views expressed by the stakeholders have been summarized in the following paragraphs. All the suggestions given by the stakeholders have been considered, and the Commission has attempted to summarise all the relevant suggestions as well as the Commission's view thereon in the subsequent paragraphs, however, in case any suggestion is not specifically elaborated, it does not mean that the same has not been considered.

The comments and suggestions have been summarised clause-wise, along with the Commission's analysis and ruling on the same. The Commission has also made certain suo-motu consequential changes, as required. Further, the clause

numbers given in this Statement of Reasons (SoR) are those mentioned in the Draft Regulation.

Some comments/suggestions/objections were not related to the Draft Regulation on which comments/suggestions/objections were invited. The Commission has not discussed such comments/suggestions/objections in this SoR as the same are outside the scope of the subject Regulation.

The SoR is organised in the following Chapters, summarising the main issues raised during the public consultation process, and the Commission's analysis and decisions on them which underlie the Regulations as finally notified:

**Chapter 1**: Preliminary
**Chapter 2**: Multi Year Tariff Framework
**Chapter 3**: Power Procurement
**Chapter 4**: Financial Principles
**Chapter 5**: Norms and Principles for determination of Tariff for generating stations
**Chapter 6**: Norms and principles for determination of input price of coal from Integrated Mine
**Chapter 7**: Norms and principles for determination of revenue requirement and Transmission Tariff
**Chapter 8**: Norms and Principles for Determination of Revenue Requirement and Wheeling Charges for Distribution Wheeling Business
**Chapter 9**: Norms and Principles for Determination of Revenue Requirement and Tariff for Retail Supply Business
**Chapter 10**: Norms and Principles for Determination of SLDC Charges
**Chapter 11**: Miscellaneous

# 1 Preliminary

## 1.1 General

***Stakeholders Comments/Suggestions/Objections***

1.1.1 Section 181(2) of the Electricity Act, 2003 ("the Act") provides the matters on which the SERCs may make Regulations to carry out the provisions of the Act. Framing of Composite Multi Year Tariff (MYT) Regulation superseding the existing separate Regulations for Generation, Transmission, Wheeling & Retail Supply Tariffs and SLDC Charges and Guidelines framed thereunder is not desirable as it would be contrary to the objective of framing Regulations for implementing the provisions of the Act. Therefore, separate Regulations may be specified for each function on similar lines of existing Regulations.

1.1.2 Separate principles and methodologies have to be specified for determination of tariff for Distribution and Retail Supply as Section 61(a) of the Act relates to Generation and Transmission only.

1.1.3 The matters related to load forecasts have not been dealt with comprehensively in the Draft Regulation. The provisions of the Guidelines for Load Forecasts, Resource Plans, and Power Procurement may be annexed to the Regulation.

1.1.4 The Capital Investment Plan provisions have to be more rigorous than that specified in the Draft Regulation. Therefore, the provisions of the Guidelines for Capital Investment Approval may be annexed to the Regulation.

1.1.5 The proviso to Clause 1.5 specifies that for all purposes, including review matters pertaining to the period till 31.03.2024, the issues relating to determination of Aggregate Revenue Requirement and Tariff shall be governed by the provisions of the Regulations and Guidelines in force during the relevant period. Further, as per Clause 6.2, the MYT Petition for the Control Period commencing from 01.04.2024 shall have to be filed by 30.12.2023. In this regard, clarification may be provided as to under which Regulation, the MYT Petition for Wheeling Business for the 5$^{th}$ Control Period and Retail Supply Tariff Petition for FY 2024-25 shall have to be filed.

***Commission's view***

1.1.6 Section 61(f) of the Act stipulates that the Commission shall specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the multi-year tariff principles. The Act does not restrict the framing of

composite MYT Regulation for Generation, Transmission, Wheeling and Retail Supply Tariffs and SLDC Charges. The principles of tariff determination, particularly the financial principles, can be applied pari passu in case of Generation, Transmission, Wheeling and Retail Supply Tariffs and SLDC Charges and therefore, it is prudent to have a consolidated MYT Regulation for Generation, Transmission, Wheeling and Retail Supply Tariffs and SLDC Charges. Most of the other State Electricity Regulatory Commissions have issued the composite MYT Regulation for Generation, Transmission, Wheeling and Retail Supply Tariffs and SLDC Charges.

1.1.7 The provisions of the Guidelines for Load Forecasts, Resource Plans, and Power Procurement and the Guidelines for Capital Investment Approval have been appropriately incorporated in the relevant Parts of the MYT Regulation and therefore, the Commission does not find the need to annex the same to the MYT Regulation.

1.1.8 The MYT Petitions for the Control Period from FY 2024-25 to FY 2028-29 shall have to be filed in accordance with Clause 6.2 of the TSERC (Multi Year Tariff) Regulation, 2023.

## 1.2 Extent, applicability, and commencement

***Stakeholders Comments/Suggestions/Objections***

1.2.1 Clause 1.3 specifies that the Regulation shall be applicable for tariff determination of generating entities. The tariff for supply of electricity from a generating station to distribution licensee shall be governed by the provisions of the approved Power Purchase Agreement (PPA) between the generating entity and distribution licensee. Such PPA provides for permissible variations in fixed and variable costs. Therefore, the tariff/true-up determination for generating entities does not arise.

1.2.2 For new generating stations, the Commission has to approve the Power Purchase Agreement before determination of tariff.

***Commission's view***

1.2.3 Section 86(a) of the Act empowers the Commission to determine the tariff for generating station. Section 86(b) of the Act empowers the Commission to regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies or licensees or from other sources through agreements

for purchase of power for distribution and supply within the State.

1.2.4 The Commission has approved the PPAs between the generating entities Telangana State Power Generation Corporation (TSGenco) and Singareni Collieries Company Limited (SCCL)) and distribution licensees, wherein the tariff for supply of electricity by the generating stations of such generating entities to the distribution licensees shall be determined by the Commission in accordance with the Regulations of the Commission. Section 61(d) stipulates that the Commission shall specify the terms and conditions for the determination of tariff. Section 181(zd) of the Act empowers the Commission to make Regulations, consistent with the Act, to carry out the provisions of the Act, among others, providing for the terms and conditions for the determination of tariff under Section 61. Accordingly, the principles and norms for determination of tariff for supply of electricity from the generating entities to the distribution licensees have been specified in the Regulation.

1.2.5 The tariff for supply of power from any new generating station shall be governed by the provisions of the approved PPA as and when the distribution licensees seek the approval in accordance with the Regulation.

## 1.3 Definitions

***Stakeholders Comments/Suggestions/Objections***

1.3.1 Clause 2.1(17) defines “Cut-off Date” as the last day of the calendar month after twenty-four (24) months from the date of commercial operation of the project. The Regulation No. 1 of 2019 defines the Cut-off Date as the last day of the calendar month after thirty-six (36) months from the date of commercial operation of the project. In the Approach Paper for the CERC Tariff Regulations for the Control Period from FY 2024-25 to FY 2028-29, it was suggested to increase the Cut-off Date from three (3) years to five (5) years so as to allow time to close the contracts with discharge of liabilities and eliminate the need to allow additional capitalisation post Cut-off Date except in cases of Change in Law and Force Majeure. Therefore, the Cut-off Date of new projects may be extended to five (5) years.

1.3.2 Clause 2.1(19) defines “Date of Commencement of Production” in respect of integrated mine(s) as the date of touching of coal, as the case may be, as declared by the generating entity. In this regard, the notice may be issued to the distribution licensees regarding the “Date of Commencement of

Production" in respect of integrated mine(s).

1.3.3 Clause 2.1(29) defines "Generation Business" as the Business of production of electricity from a Generating Station for the purpose of (i) giving supply to any premises or enabling supply to be so given, or (ii) for the purpose of supply of electricity to any distribution licensee in accordance with the Act and the rules and regulations made thereunder, or (iii) subject to the Regulations made under sub-section (2) of Section 42 of the Act, supply of electricity to any consumer. In this regard, the words "giving supply to any premises" may be deleted in the definition of "Generation Business".

1.3.4 Clause 2.1(33) defines "GCV as Received" as the GCV of coal as measured at the unloading point of the thermal generating station through collection, preparation and testing of samples from the loaded wagons, trucks, ropeways, Merry-Go-Round (MGR), belt conveyors and ships in accordance with the IS 436 (Part-1/Section 1) - 1964. The said definition may be modified to include lignite, oil, bagasse, biomass, wood waste, municipal waste, solid waste.

1.3.5 The term "Incidental Expenditure During Construction" mentioned in Clause 21.2 may be defined in the Regulation. The term "prior period income/expenses" mentioned in Clause 40.1 and other Clauses may be defined in the Regulation.

1.3.6 Clause 2.1(38) defines "Investment Approval" as approval by the Board of the generating entity or the transmission licensee or any other competent authority conveying administrative sanction for the project including funding of the project and the timeline for implementation of the project. The distribution licensee may be included in the said definition.

1.3.7 Clause 2.1(39) defines "Installed Capacity" as the summation of the name plate capacities of all the Units of the Generating Station or the capacity of the Generating Station (reckoned at the generator terminals). The words "name plate capacities" may be modified to "name plate capacities declared by the manufacturer".

1.3.8 Clause 2.1(42) defines "landed fuel cost" as the total cost of coal delivered at the unloading point of the generating station and shall include the base price or input price, washery charges wherever applicable, transportation cost (overseas or inland or both) and handling cost, charges for third-party sampling and applicable statutory charges. The same may be modified to

include lignite, oil, gas, diesel, bagasse, biomass and other combustible materials.

1.3.9 The definition of "Operation and Maintenance (O&M) expenses" may be included.

1.3.10 The definition of "Rated Voltage" at Clause 2.1(56) may be modified as under:

*""Rated Voltage" means the voltage at which the transmission system/ Distribution System is designed to operate or such lower voltage at which the line is charged, for the time being, in consultation with Transmission System Users".*

1.3.11 Clause 2.1(65) defines "Thermal Generating Station" as a generating Station or a Unit thereof that generates electricity using fossil fuels such as coal, lignite, gas, liquid fuel or combination of these as its primary source of energy. In addition, the Commission may include the define of renewable energy generating stations also.

1.3.12 The definition of "Transmission Licensee" at Clause 2.1(67) may be modified as under:

*""**Transmission Licensee**" means a licensee authorised by the Commission to establish and operate transmission lines under Section 14 of the Act."*

***Commission's view***

1.3.13 The TSERC (Multi Year Tariff) Regulation, 2023 provides for additional capitalisation post Cut-off Date. The Commission does not find merit in the reliance placed by the stakeholder on the Approach Paper issued by CERC as the views expressed in the same are those of the staff of CERC with the prime aim of initiating discussions on various aspects of tariff determination and soliciting inputs of the stakeholders in this regard. Therefore, the Commission does not find the need to modify the definition of Cut-off Date.

1.3.14 The Commission does not find the need to specify the condition of notice to the distribution licensees regarding the "Date of Commencement of Production" in respect of integrated mine,

1.3.15 As per Section 2(29) of the Act, "generate" means to produce electricity from a generating station for the purpose of giving supply to any premises or enabling a supply to be so given. Therefore, the Commission does not accept the stakeholder's request to modify the definition of "Generation Business".

1.3.16 The TSERC MYT Regulation, 2023 is applicable only for conventional generating stations and therefore, the Commission does not accept the

stakeholder's request to include bagasse, biomass, wood waste, municipal waste, solid waste in the definition of 'GCV as Received'. The Commission does not find the need to include oil as the intended definition is not for oil. Further, as there are no operational lignite based thermal generating stations in the State, the Commission does not find the need to include any provisions regarding the same in the Regulation.

1.3.17 The terms 'Incidental Expenditure During Construction' and 'prior period income/expenses' are self-explanatory and separate definitions for the same are not required.

1.3.18 The Commission has modified the definition of "Investment Approval" as under to provide more clarity on this:

*""**Investment Approval**" means approval by the Board of the generating entity or the licensee or any other competent authority conveying administrative sanction for the project including funding of the project and the timeline for implementation of the project:*

*Provided that the Investment Approval shall be reckoned from the date of the resolution of the Board of the generating entity or the licensee where the Board is competent to accord such approval and from the date of sanction letter of competent authority in other cases:*

*Provided further that in respect of the integrated mine(s), funding and timeline for implementation shall be indicated separately and distinctly in the Investment Approval:*

*Provided also that where Investment Approval includes both the generating station and the integrated mine(s), the funding and timeline for implementation of the integrated mine(s) shall be worked out and indicated separately and distinctly in the Investment Approval".*

1.3.19 The Commission does not find the need to modify the definition of "Installed Capacity".

1.3.20 The Commission has modified the term 'landed fuel cost' to 'landed coal cost'.

1.3.21 The constituents of O&M expenses for each Business and SLDC have been detailed in the respective Part of the Regulation and therefore, separate definition is not required to be added.

1.3.22 The term "Rated Voltage" has not been referred in any of the Clauses in the Regulation and therefore, the definition of the same has been omitted.

1.3.23 The Commission does not find the need to include the definition of renewable

energy generating stations in this Regulation.

1.3.24 The definition of “Transmission Licensee” is as per the definition of “transmission licensee” in the Act. The Commission does not accept the stakeholder’s request to modify the same.

# 2 Multi Year Tariff Framework

## 2.1 Control Period

***Stakeholders Comments/Suggestions/Objections***

2.1.1 Clause 4.1 specifies the duration of Control Period as five (5) years. The duration of Control Period may be specified as three (3) years due to uncertainties involved in projection of Aggregate Revenue Requirement (ARR) by the distribution licensees.

***Commission's view***

2.1.2 The Commission does not accept the stakeholder's request to specify the duration of Control Period as three (3) years, as the five-year Control Period has already been successfully implemented by the Commission.

## 2.2 Procedure for filing Petition

***Stakeholders Comments/Suggestions/Objections***

2.2.1 As per Clause 6, the generating entities, transmission licensee, distribution licensee (for Wheeling Business) and State Load Despatch Centre (SLDC) shall have to file the tariff proposals for each year of the Control Period in their Multi Year Tariff (MYT) Petitions while the distribution licensee (for Retail Supply Business) shall have to file the tariff proposal only for first year of the Control Period. Further, generating entities, transmission licensee, distribution licensee and SLDC shall have to file tariff petitions on annual basis. In this regard:

(i) The distribution licensee, in its MYT Petition, has to file tariff proposals for Retail Supply Business for each year of the Control Period.

(ii) The retail supply tariffs for LT consumers with consumption less than 300 units has to be linked to inflation so as to avert tariff shock to such consumers. Appropriate provisions may be incorporated in the Regulation in this regard.

(iii) The distribution licensee has to make available the actual performance, sales, revenue at the end of each year along with audited accounts.

(iv) The Commission may specify Mid-Term Review process after the completion of first two (2) years of the Control Period rather than annual tariff revision.

2.2.2 In accordance with Clause 6, the MYT Petitions for the Control Period commencing from 01.04.2024 shall have to be filed by 30.12.2023. In this regard, the stakeholders have made the following submissions:

- The timeline for filing of MYT Petition for the Control Period commencing from 01.04.2024 may be extended up to 31.01.2024.
- The generating entities may be granted time of 2-3 months after the notification of the TSERC (Multi Year Tariff) Regulation, 2023 for filing of MYT Petition for the Control Period commencing from 01.04.2024.

2.2.3 In accordance with Clause 6, generating entity has to file the true-up of preceding year along with the MYT Petition for the Control Period commencing from 01.04.2024. The preceding year for FY 2024-25 is FY 2023-24 for which the audited accounts would be available after September 2024. Therefore, the timeline for filing of MYT Petition for the Control Period from FY 2024-25 to FY 2028-29 may be specified as 30.11.2024. Further, the true-up of FY 2022-23 and FY 2023-24 is covered under the End of Control Period Review in accordance with the provisions of the Regulation No. 1 of 2019.

2.2.4 In accordance with Clause 6, the licensees have to file the true-up of preceding year along with ARR and tariff proposals for each year of the Control Period. Further, in accordance with Clause 13.11(c), the true-up petition shall have to be filed after completion of audited accounts. Therefore, for the ARR and tariff petition for FY 2024-25, the preceding year shall be FY 2022-23 as the audited accounts for FY 2023-24 shall not be available. The same may be clarified in the Regulation.

2.2.5 In accordance with Clause 6.2(a), the generating entity shall seek the determination of input price of coal for each year of the Control Period, in the MYT Petition. TSGenco has been allotted Tadicherla Coal Mine by the Ministry of Coal for Kakatiya Thermal Power Project (KTPP)-II (1x600 MW). TSGenco has appointed the Mine Developer-cum-Operator (MDO) as per the guidelines of Ministry of Coal, for development of the Coal Mine. Therefore, the requirement of the filing for determination of input price of coal may be dispensed with.

2.2.6 In accordance with Clause 6.2(d), the generating entity shall have to file Annual Tariff Petitions after the first year of the Control Period for revision of

tariff for the ensuing year. The requirement of annual tariff revision for generating entity may be dispensed with.

2.2.7 In accordance with Clause 6.2(c), the distribution licensee shall have to file the ARR for Retail Supply Business for each year of the Control Period. The same may be modified to the ARR for the first year of the Control Period. Further, the distribution licensees shall file the retail supply tariff proposals comprising of Demand/Fixed Charges and Variable Charges for recovery of fixed charges and variable charges constituting the ARR.

2.2.8 The annual tariff petition to be filed by the distribution licensee shall also include the reports on Standards of Performance, status of arrears, electrical accidents and other aspects that reflect the performance of the licensees. The distribution licensees may also be directed to file the energy audit reports.

2.2.9 Clause 8.3 specifies that the Commission shall have *suo motu* authority to determine the generation tariff. The Commission does not have such authority.

***Commission's view***

2.2.10 The Commission accepts the Stakeholders views that filing the MYT Petitions in accordance to the new MYT Regulation will require some time. Accordingly, the Commission extends the last date to file the MYT Petitions for the Control Period commencing from 1.4.2024 from 31.12.2023 to 31.01.2024. The amended proviso to Clause 6.2 (c ) is as follows:

"Provided that the Multi Year Tariff petitions for the Control Period commencing from 01.04.2024 shall be filed by generating entity, transmission licensee, distribution licensee and SLDC on or before 31.01.2024"

Accordingly, Illustration at the end of Clause 6.2 is modified as follows;

*"Illustration: The timelines for filing the Petitions for the Control Period from FY 2024-25 to FY 2028-29 are as under:*

| | |
|---|---|
| *Multi Year Tariff petition for the Control Period from FY 2024-25 to FY 2028-29:* | *31.01.2024;* |
| *Annual Tariff petition for FY 2025-26:* | *30.11.2024;* |
| *Annual Tariff petition for FY 2026-27:* | *30.11.2025;* |
| *Annual Tariff petition for FY 2027-28:* | *30.11.2026;* |
| *Annual Tariff petition for FY 2028-29:* | *30.11.2027;"* |

2.2.11 Except this, the Commission does not accept the stakeholder's request for any other modification in Clause 6. The distribution licensee is at liberty to file the retail supply tariff proposals as deemed fit by it for the recovery of its proposed ARR. It is unwarranted to express any opinion on the proposal of the distribution licensees regarding the retail supply tariff proposals at this stage.

2.2.12 The clarification regarding preceding year is not required, as Clause 6 specifies that the MYT petition shall be filed by 30th November of the year preceding the first year of the Control Period along with the True-up Petition for preceding year. Hence, it is clear that along with the MYT Petition for FY 2024-25 onwards, the true-up Petition for FY 2022-23 has to filed.

2.2.13 The present regulatory framework allows pass through of the cost of coal procured from Coal India Limited/SCCL at the notified prices. However, in case of coal supplied from the integrated mine, input price of coal shall have to be determined by the Commission as such mine is developed by the generating entity itself, albeit in accordance with the guidelines of the Competent Authority. The Commission does not accept the stakeholder's request for not determining the input price of coal from integrated mine.

2.2.14 The Commission does not accept the stakeholder's request for dispensing with annual tariff revision for generating entities as with annual tariff determination, variation in costs and impact of true-up will get pass through to the consumers on regular basis.

2.2.15 The review of the performance of the licensees on the Standards of Performance and energy audits has to be undertaken independent of the tariff determination proceedings for better appreciation of the intricacies of tariff determination by all the stakeholders and public at large. Hence, the Commission does not accept the requests of the stakeholder in this regard.

2.2.16 Section 86(1)(a) of the Act empowers the Commission to determine the tariff for generating station. Section 86(1)(b) of the Act empowers the Commission to regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies or licensees or from other sources through agreements for purchase of power for distribution and supply within the State.

2.2.17 The Commission has approved the PPAs between the generating entities (TSGenco and SCCL) and distribution licensees wherein the tariff for supply

of electricity by the generating stations of such generating entities to the distribution licensees shall be determined by the Commission under Section 62(a) of the Act. Section 61(d) stipulates that the Commission shall, subject to the provisions of the Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by, safeguarding of consumers' interest and at the same time, recovery of the cost of electricity in a reasonable manner. Section 181(zd) of the Act empowers the Commission to make Regulations, consistent with the Act, to carry out the provisions of the Act, among others, providing for the terms and conditions for the determination of tariff under Section 61. The functions assigned and powers conferred to the Commission by the Act are wide enough for the determination of tariff, on *suo-motu* basis, for supply of electricity by the generating station to distribution licensees under Section 62.

## 2.3 Segregation of accounts between SLDC activity and Transmission Business

***Stakeholders Comments/Suggestions/Objections***

2.3.1 The second proviso to Clause 6.3 refers to segregation of accounts between SLDC activity and Transmission Business. The Commission may specify a definite timeline for complete segregation of accounts between SLDC activity and Transmission Business and independent functioning of SLDC.

***Commission's view***

2.3.2 The Commission does not find the need to specify a definite timeline for complete segregation of accounts between SLDC activity and Transmission Business in the Regulation and the Commission may issue the timeline in the Tariff Order.

## 2.4 Capital Investment Plan

***Stakeholders Comments/Suggestions/Objections***

2.4.1 The requirement of filing of Capital Investment Plan may be dispensed with for generating entities.

2.4.2 Clause 7.3 specifies that for renovation and modernisation schemes of power plants and all schemes meant for efficiency gain of power plants, the generating entity shall submit the cost benefit analysis and expected performance targets. The expenditure for renovation and modernisation may be approved based on the proposals in the MYT Petition subject to prudence

check during the truing up of actual expenditure.

2.4.3 Clause 7.6 specifies the details to be submitted by the licensee for each capital investment scheme. The distribution licensees cannot submit the specified details at the time of MYT filings as the entire details would not be firmed up at that time. Therefore, the Commission may modify the said provision.

2.4.4 Clause 7.8 specifies that the licensee shall submit the Physical Completion Certificate (PCC) and Financial Completion Certificate (FCC) of the completed module of the scheme to the Commission in the true up of the year in which the said work/module/scheme is capitalised. Submission of PCC and FCC for each scheme is cumbersome considering the huge quantum of works executed by the distribution licensees. Therefore, the requirement of submission of PCC and FCC may be specified for works amounting to more than Rs. 1 Crore. In the alternative, the PCC and FCC may be permitted to be submitted for Circle as a whole with accompanying details of works, in a certain time period.

2.4.5 Clause 7.10 specifies the licensee shall undertake a post-completion review of the Scheme to assess whether the objective of the investment is met or not and whether or not the desired benefits are accruing from the Scheme and submit a report to the Commission after twelve (12) months of its completion. The said condition may be required to be complied with only for the schemes with capital expenditure more than Rs. 10 Crore.

2.4.6 Clause 7.11 specifies the estimated capital expenditure of the schemes for which prior approval of the Commission is required, as Rs. 10 Crore for distribution licensee. The same may be increased to initial amount of Rs. 20 Crore with annual enhancement of Rs. 2 Crore during each year of the Control Period.

***Commission's view***

2.4.7 The Commission does not accept the stakeholders request for dispensing with Capital Investment Plan for generating entities.

2.4.8 The Commission does not accept the stakeholder's request for modification in Clause 7.3 as the cost benefit analysis and expected performance targets need to be submitted before incurring the capital expenditure.

2.4.9 The Commission does not accept the stakeholder's request for modification in Clause 7.6, as the scheme-wise details need to be submitted.

2.4.10 The Commission finds merit in the suggestion of the Stakeholder that submission of PCC and FCC for each scheme or a usable module of the scheme would be voluminous task, as there are multiple schemes implemented at various circles and division level. Thus, taking a note of the suggestion of the Stakeholder, the Commission has specified a limit for submission of PCC and FCC. Accordingly, the Commission has modified Clause 7.8 for submission of scheme wise PCC and FCC for each scheme costing Rs. 1 Crore or more and consolidated certificate on annual basis for schemes below Rs. 1 Crore. The amended Clause 7.8 is as follows:

*"On completion of a scheme or a usable module of the scheme for every scheme costing Rs 1 Crore or more, a Physical Completion Certificate (PCC) to the effect that the work in question has been fully executed, physically, and the assets created are put to use, is required to be issued by the engineer concerned not below the rank of Superintendent Engineer. The PCC for such schemes shall be accompanied with a Financial Completion Certificate (FCC) to the effect that the assets created have been duly entered in the Fixed Assets Register by transfer from the CWIP register to OCFA. The FCC shall have to be issued by an officer not below the rank of Senior Accounts Officer. The Licensee shall submit these certificates to the Commission in the true up of the year in which the work/module/scheme is capitalised. For all the schemes costing less than Rs 1 Crore during the financial year, the Licensee shall submit the consolidated statement of all the schemes providing details and cost of scheme duly signed by the engineer concerned not below the rank of Superintendent Engineer in the true-up Petition"*

2.4.11 Further, in regard to Clause 7.10, the Commission considering the suggestion of the Stakeholder has amended the clause and specified that the post completion review has to be undertaken for the schemes costing Rs. 10 Crore and above. The amended Clause 7.10 is as follows:

*"The Licensee shall also undertake a post-completion review of the Schemes costing Rs 10 Crore and above to assess whether the objective of the investment is met or not and whether or not the desired benefits are accruing from the Scheme and submit a report to the Commission after twelve (12) months of its completion."*

2.4.12 The Commission does not accept the stakeholders request to modify Clause 7.11, as the limit of Rs. 10 Crore is appropriate.

## 2.5 Determination of Tariff

***Stakeholders Comments/Suggestions/Objections***

2.5.1 Clause 9.1 specifies as under:

*"Existing generating station:*

*Where the Commission has, at any time prior to 01.04.2024, approved a power purchase agreement or arrangement between a generating entity and a distribution licensee or has adopted the tariff contained therein for supply of electricity from an existing generating Unit/Station, then the tariff for supply of electricity by such generating entity to the distribution licensee shall be in accordance with the tariff mentioned in such power purchase agreement or arrangement for such period as so approved or adopted by the Commission:*

*Provided that the approved power purchase agreement or arrangement between a generating entity and a distribution licensee provides for determination of tariff in accordance with the Regulations of the Commission, the tariff for such generating entity shall be determined in accordance with this Regulation."*

It may be clarified whether the tariff can be re-determined for existing PPAs in accordance with the MYT Regulation.

2.5.2 Clause 9.2 specifies as under:

*"New generating stations*

*The tariff for the supply of electricity by a generating entity to a distribution licensee from a new generating Unit/Station shall be in accordance with the tariff determined in accordance with this Regulation."*

In this regard, the stakeholders submitted as under:

- If the increase in capital cost during a year is more than 15% of the approved capital cost (at the time of cut-off period), the purchaser shall have the right to terminate the PPA.
- There shall be a ceiling on the increase in unit rate on account of true-up. In case variable cost is more than the determined tariff, the increased variable cost shall be considered for Merit Order Despatch.
- The PPA period shall be initially for five (5) years only and can be renewed on mutual consent.

2.5.3 The last proviso to Clause 9.4 specifies that the Commission may stipulate different formats for details to be submitted by the Petitioner. The Commission may conduct public consultation process for the same.

2.5.4 Clause 9.5 specifies that the Petitioner shall provide the Petition along with all the information on its website. The Petitioner may provide the accessible versions of the tariff filings and related documents and data on its website.

2.5.5 The Commission may conduct Technical Validation Session, in consultation with power sector experts, before the admission of tariff petitions; appropriate provisions may be included in the Regulation in this regard.

***Commission's view***

2.5.6 Clause 9.1 is amply clear regarding the determination of tariff under the MYT Regulation.

2.5.7 The tariff determination for a new generating unit/station shall be in accordance with the provisions of the Regulation. It is unwarranted to comment on the stakeholders' submissions regarding the term and termination of the PPA.

2.5.8 The Commission has taken note of the stakeholder's submissions. The Commission is of the view that there is no need to conduct separate public consultation process and the Commission can ask the additional information in the desire format while analysing the Petition.

2.5.9 The provisions in Regulation 9.5 regarding publishing public notice, petitioner to be uploaded on website are quite clear and does not require any modification.

## 2.6 Controllable and Uncontrollable Factors

***Stakeholders Comments/Suggestions/Objections***

2.6.1 Clause 12.1 specifies the controllable factors. The controllable factors may also include the variation in interest and finance charges, return on equity and depreciation on account of variation in capitalisation.

2.6.2 Clause 12.2 specifies the uncontrollable factors. The factors specified in Clause 12.2 may be treated as controllable factors and not uncontrollable factors.

2.6.3 The variation in interest on working capital and O&M expenses may be treated as uncontrollable factor under Clause 12.2.

2.6.4 The Commission may specify the mechanism for pass-through of variation in the uncontrollable factors other than those covered under Clause 13.

2.6.5 Clause 12.2(c) specifies that the variation in fuel cost on account of variation in price of primary and/or secondary fuel prices shall be treated as uncontrollable factor. In addition, the variation in GCV may also be included as uncontrollable factor.

2.6.6 Clause 12.2(d) and Clause 12.2(k) specifies the variation in sales and revenue from sale of power from consumers as uncontrollable factors. In accordance with Section 61(b) of the Act, the terms and conditions for determination of tariff specified by the Commission shall be such that the generation, transmission, distribution and supply of electricity are conducted on commercial principles. Specifying the variation in sales and revenue from sale of power from consumers as uncontrollable factors would effectively mean that the electricity distribution is uncontrollable. Such a specification is also ultra vires Sections 61(b), 61(c), 61(d), and 61(e) of the Act. Further, the Commission, in its Order dated 02.06.2021 in OP(SR) No. 33 of 2019 rejected a Petition filed by the distribution licensees seeking such an amendment to the Regulation No. 4 of 2005.

2.6.7 The distribution licensees have not achieved 100% metering of their consumers because of which, the actual distribution losses as reported by the distribution licensees are not accurate. It has been observed that the actual consumer sales are skewed towards the subsidised consumers as opposed to the consumer sales mix projections for tariff determination, leading to lower revenue realisation. In view of the above, variation in sales and revenue from sale of power from consumers may be excluded from the uncontrollable factors. Further, the distribution licensees may be directed to undertake reliable forecasting with permissible variation of ±3%, except for force majeure.

2.6.8 Clause 12.2(e) specifies the variation in the cost of power purchase due to variation in the rate of power purchase, subject to clauses in the power purchase agreement or arrangement approved by the Commission, as an uncontrollable factor. The permissible variation in fixed and variable costs of power purchase is governed by the provisions of the approved PPA. Therefore, if there is any dispute between the generating entity and the distribution licensees, the aggrieved party is at liberty to approach the Commission seeking resolution of the dispute.

2.6.9 The power purchase cost is dependent on the following factors, which are

controllable in nature, and the variation in power purchase cost on account of such controllable factors is not to be passed on at the time of true-up:

- Power availability from operating generating stations;
- Power availability from upcoming generating stations;
- Percentage of Renewable Power Purchase Obligation;
- Requirement of additional power for approval of PPA;
- Availability of alternate sources of power at lower cost;
- Methodology adopted for procurement of additional power, etc.

2.6.10 Clause 12.2(j) specifies the variation in freight rates as uncontrollable factor. The same may be limited to railway freight charges.

2.6.11 Clause 12.2(k) specifies the revenue from sale of power from consumers as uncontrollable factor. However, the revenue from sale of power may not be considered as uncontrollable factor ipso facto. The distribution licensees have executed PPAs for generation capacity much higher than that required. Further, the distribution licensees have been procuring power at higher rates from the market sources thereby increasing the power purchase cost.

2.6.12 Clause 12.2(k) specifies the revenue from sale of power from consumers as uncontrollable factor. It may be clarified if the distribution licensees can claim revenue side true-up in their filings.

***Commission's view***

2.6.13 The Commission does not accept the stakeholder's submission to include the variation in interest and finance charges, return on equity and depreciation on account of variation in capitalisation under controllable factors, for the reasons explained at Para 2.5.1 of the Explanatory Note on the Draft Regulation.

2.6.14 The variation in the uncontrollable factors other than those covered in the recovery mechanism specified in Clause 13 shall be considered appropriately in the relevant constituents of ARR at the time of true-up for the relevant year based on the submissions of the generating entity or the licensee or SLDC as the case may be.

2.6.15 The power procurement plan for a distribution licensee is approved taking into consideration all the factors as enumerated by the stakeholder.

2.6.16 The Commission does not find merit in the stakeholders' submissions regarding the uncontrollable factors, except variation in freight charges. Clause 12.2(j) has been accordingly modified as under:

*"Variation in freight rates determined by a government authority"*

2.6.17 The stakeholder's contention that the Commission had rejected the Petition filed by the distribution licensees in OP(SR) No. 33 of 2019 is misplaced. The Commission, in its Order dated 02.06.2021 in the subject Petition, had not gone into the merits of the submissions in the subject Petition. The Commission, in the said Order, ruled as under:

*"8. … Accordingly, the Commission does not find it appropriate to decide on the merits of the amendments sought by the TSDISCOMs in this Order. The Commission would treat the submissions of the TSDISCOMs as suggestion/input as and when the Commission initiates the process of adding to or amending or varying regulation relating to the Terms and Conditions for Determination of Tariff for wheeling and Retail Sale of Electricity…"*

2.6.18 The Commission, after due regulatory process, had issued the Regulation No. 1 of 2023 being the TSERC (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Third Amendment Regulation, 2023 wherein, the variation in sales and revenue from sale of power from consumers have been specified as uncontrollable factors. The same holds good and the Commission does not find the need to specify otherwise in the MYT Regulation for the period commencing from 01.04.2024.

2.6.19 The distribution licensees can claim the revenue side true-up as the revenue from sale power from consumers is treated as an uncontrollable factor.

## 2.7 Mechanism for pass-through of gains or losses on account of uncontrollable factors

***Stakeholders Comments/Suggestions/Objections***

2.7.1 The pass-through of gains or losses on account of uncontrollable factors may not be specified and the lower of actual and normative value approved by the Commission may be considered.

2.7.2 The Fuel Cost Adjustment (FCA) mechanism specified in the Draft Regulation is satisfactory. However, a robust mechanism has to be devised for ensuring transparency in admitting the FCA based on actual coal consumption and actual coal GCV.

2.7.3 The Commission may specify formats for the distribution licensees to file for approval of FCA charges.

2.7.4 In accordance with Clause 13.3, distribution licensee can levy the FCA charges on monthly basis up to the maximum amount of Rs. 0.30/kWh without

the prior approval of the Commission. In accordance with Clause 13.11(b), the Commission shall verify the calculations of the FCA charges on quarterly basis. Levy of FCA charges on monthly basis and verification of the same on quarterly basis will result in cumbersome process. Given the limited resources of the distribution licensees and in order to avoid confusion, the FCA charges may be allowed to be collected on quarterly basis with prior approval of the Commission.

2.7.5 As regards Clause 13.3, the stakeholders submitted as under:

- The FCA charges may not be allowed to be recovered without the approval of the Commission.
- The FCA charges may be specified in proportion to the tariffs applicable for different consumer categories as such tariffs are determined taking into consideration the cross subsidy and the Government subsidy, among others, differently.
- The maximum allowable monthly FCA may be modified from flat rate of Rs. 0.30/kWh to differential FCA based on the tariff for the relevant consumer category.
- The maximum allowable monthly FCA may be modified from flat rate of Rs. 0.30/kWh to a percentage of weighted average power purchase cost.
- The distribution licensees may be allowed to recover the entire Z component of the FCA formula over and above the specified ceiling limit of Rs. 0.30/kWh.

2.7.6 In accordance with Clause 13.3(c), the FCA charges of LT-V Agricultural consumers shall have to be claimed from the Government of Telangana State (GoTS) and in case of non-receipt of such claims from GoTS, such amounts shall not be allowed in annual true up filings. From this provision, it appears that the subsisting GoTS policy towards electricity consumption by the agricultural consumers will continue for the ensuing period also. The Commission may instead ascertain if the FCA charges of agricultural consumers shall be reimbursed by GoTS and if otherwise, the same may be recovered from the agricultural consumers.

2.7.7 In accordance with Clause 13.3(c), the FCA charges of LT-V Agricultural consumers shall have to be claimed from the Government of Telangana State. Such a dispensation is appropriate as the Government is providing

subsidy for the LT-V Agricultural consumers. The Government is providing subsidy to some other categories of consumers also. The FCA recovery from such other consumers has to be on similar lines of LT-V Agricultural consumers.

2.7.8 Clause 13.5 specifies that for computing the FCA charges, the transmission losses in intra-State transmission network and distribution losses in distribution network of concerned distribution licensee to be considered shall be the losses as approved by the Commission in the relevant MYT Transmission and Wheeling Tariff Orders. In this regard, the actual inter-State transmission losses may be considered in the computation of FCA charges.

2.7.9 Clause 13.6 specifies that for arriving at the actual Power purchase cost, fixed cost of each Generating Station as approved in Retail Supply Tariff Order or actual fixed cost paid to each generating station, whichever is less, shall be considered. In this regard, the actual fixed cost of power purchase for the month may be considered for computation of FCA charges.

2.7.10 The FCA may be allowed to be charged from partial Open Access consumers on the energy consumption from Licensee and also to the extent of energy availed from open access due to increase in power purchase cost due to true-ups of generating entities having PPA with the distribution licensee approved by the Appropriate Commission.

***Commission's view***

2.7.11 The last proviso to Clause 46.5 of the Draft Regulation specifies as under:

*"Provided also that copies of the bills and details of parameters of GCV and price of fuel, i.e., domestic coal, imported coal, e-auction coal, etc., details of blending ratio of the imported coal with domestic coal, proportion of e-auction coal shall also be displayed month-wise on the website of the Generating Company, and should be available on its website for a period of three (3) months."*

Therefore, adequate transparency has been ensured regarding the actual price and GCV of coal consumed in the thermal generating stations.

2.7.12 The Commission is of the view that recovery of FCA charges to a certain extent without approval of the Commission needs to be allowed in order to ensure timely recovery. In any case, the Distribution Licensee has to take post-facto approval of FCA charged if it is within the ceiling specified in the Regulation. The ceiling of Rs 0.30/kwh specified in Draft Regulations is

appropriate.

2.7.13 As regards the other suggestions on details of FCA formula, the Commission is of the view that the formula specified in Draft Regulation is appropriate.

2.7.14 The Commission has taken note of the stakeholders' submission regarding the FCA charges of LT V Agricultural consumers.

## 2.8 Mechanism for pass-through of gains or losses on account of controllable factors

***Stakeholders Comments/Suggestions/Objections***

2.8.1 Clause 14 specifies the mechanism for sharing of gains or losses on account of controllable factors. In this regard, the stakeholders submitted as under:

- The proposed sharing mechanism may be modified and entire gain or loss may be allowed to the transmission licensee as the components of ARR of the transmission licensee are uncontrollable.
- The sharing of gains or losses may be done in the ratio of 50:50 between the generator and the beneficiary.
- The sharing of losses may be done in the same ratio as that of sharing of gains.
- The controllable factors may be considered as lower of actuals and normative values.

***Commission's view***

2.8.2 The Commission does not accept the stakeholder's request to modify the mechanism for sharing of gains or losses on account of controllable factors, as the mechanism proposed in the draft Regulations is appropriate.

# 3 Power Procurement

## 3.1 Power procurement guidelines

***Stakeholders Comments/Suggestions/Objections***

3.1.1 The distribution licensees may be allowed to procure power through competitive bidding process from generating companies only and not from trading licensees. The upcoming generating stations of TSGenco may be taken up on priority with the required support from the State Government.

3.1.2 Clause 16.3 specifies that all future power procurement shall be undertaken through tariff based competitive bidding in accordance with the Guidelines notified by the Government of India (GoI) under Section 63 of the Act. Further, Clause 16.4 provides for power procurement by a process other than competitive bidding. Clause 16.4 may not be included in the Regulation as such provision has potential for imprudent power procurement.

3.1.3 Clause 17.2(a) specifies the composition of the power procurement plan. In this regard, the submission of quantitative forecast of the unrestricted base load and peak load may not be specified, as the demand forecast for the distribution licensees is highly unpredictable due to the significant agricultural loads.

3.1.4 Clause 19.6 specifies that where the Commission has reasonable grounds to believe that the agreement or arrangement entered into by the Distribution Licensee does not meet the criteria specified in Clause 19.2 to Clause 19.5, it may disallow any increase in the total cost of power procurement over the approved level arising therefrom or any loss incurred by the distribution licensee as a result, from being passed through to consumers. In this regard:

- The Commission may allow the entire power purchase cost without any disallowance.
- In the alternative, a ceiling limit for the rate of additional power purchase may be specified as 150% of the highest variable cost of the admitted sources of power.

***Commission's view***

3.1.5 The Electricity Act, 2003 specifies two routes namely, (i) the determination of tariff under Section 62, and (ii) the tariff discovery route through competitive bidding under Section 63. The Commission has been given discretionary powers either to choose Section 62(1)(a) to give approval to the PPA, or to

direct the distribution licensee to resort to competitive bidding process as per the Tariff Policy read with Section 63. The Commission has to take a view, on a case-to-case basis, bearing protection of consumer interest in mind. Accordingly, Clause 16.4 of the Regulation specifies the conditions precedent to be fulfilled for procurement of power by a process other than that specified in the Competitive Bidding Guidelines.

3.1.6 The Commission does not accept the stakeholders request to modify Clause 17.2 as submission of quantitative forecast of the unrestricted base load and peak load is required.

3.1.7 The Commission does not accept the stakeholders request to modify Clause 19.6, as acceptance of the same would nullify the intent of the Regulations.

## 3.2 Power procurement plan

***Stakeholders Comments/Suggestions/Objections***

3.2.1 The last proviso to Clause 17.1 specifies that the power procurement plans already filed by the distribution licensees for the Control Period commencing from 01.04.2024, as on date of notification of the Regulation shall be deemed to have been filed under the Regulation. The power procurement plans already filed by the distribution licenses have been done under the provisions of the current Regulations in force, which would be superseded by the TSERC (Multi Year Tariff) Regulation, 2023. The Commission had already conducted the public hearings on the said filings of the distribution licensees and reserved the Cases for Orders. Therefore, the said filings may not be considered to be filed under the TSERC (Multi Year Tariff) Regulation, 2023. The Commission may issue the Orders on the said filings of the distribution licensees before finalisation of the Regulation.

3.2.2 Clause 17.2(a) specifies that the power procurement plan of the distribution licensee shall comprise the quantitative forecast of the unrestricted base loan and peak load for electricity within its area of supply. The distribution licensees have to submit hourly consumer demand profiles for each year of the Control Period in support of the same.

3.2.3 The distribution licensees have to submit the power procurement plan for the Control Period along with the MYT Petition. It would be impractical for the distribution licensees to plan and assess the source-wise power procurement from short-term sources for the entire Control Period. The Commission, in the Retail Supply Tariff Orders, had been approving the short-term purchases as

a whole irrespective of the source of such purchases. The Commission may provide for the same in the Regulation by suitable modification in the Draft Regulation.

3.2.4 The Regulation may specify that the distribution licensees shall prepare the short-term power procurement plans based on week-ahead, fortnight-ahead and seasonal forecasts to optimise costs. With the launch of short-term contracts by the Power Exchanges, the distribution licensees shall have options for power procurement on short-term basis for a period up to eleven (11) months.

3.2.5 The proviso to Clause 18.1 specifies that the prior approval of the Commission shall not be required for purchase of power from Renewable Energy sources at the generic/preferential tariff determined by the Commission for meeting its Renewable Power Purchase Obligation (RPPO). The intent of specifying RPPO and determination of generic/preferential tariff was to promote the renewable energy sources. The generic/preferential tariffs are essentially higher than the tariffs discovered in competitive bidding process. Government of India has been planning for ambitious generation capacities of renewable energy through competitive bidding process. Therefore, permitting the distribution licensees to procure renewable energy at generic/preferential tariffs for fulfilling the ever increasing RPPO levels would be counter-productive and negates the spirit of competitive bidding.

3.2.6 With the technological advances and the reduction in tariffs of renewable energy sources, determination of generic/preferential tariff is not required. Similarly, when the tariffs of renewable energy sources are lower than the conventional sources, specifying RPPO is not appropriate. Therefore, the proviso to Clause 18.1 may be omitted.

***Commission's view***

3.2.7 The Commission has issued the Order in OP Nos. 7,8, 18 & 19 of 2023 on 29.12.2023. The last proviso to Clause 17.1 has been specified in order to avoid the duplication of the regulatory process and provide saving to the Orders issued on the filings already made by the distribution licensees.

3.2.8 The Commission has taken note of the stakeholder's submissions. The stakeholder is at liberty to seek additional information on the MYT/Tariff Petitions filed by the utilities, as part of public consultation process.

3.2.9 The Regulation does not restrict the distribution licensees to consider specific

sources of short-term purchases. The distribution licensees are at liberty to consider all the possible sources of power purchase in their power procurement plan complying with the provisions of the Regulation. The Commission does not find the need to modify the provisions of the Regulation regarding the power procurement plan.

3.2.10 The Commission has taken note of the stakeholder's submission regarding the RPPO and generic/preferential tariffs. The distribution licensees are not mandated to procure renewable energy only at the generic tariffs as purported by the stakeholder. The proviso to Clause 18.1 shall be invoked only for the renewable energy sources for which the Commission determines generic tariffs. The Commission does not find the need to omit the proviso to Clause 18.1.

## 3.3 Approval of PPA

***Stakeholders Comments/Suggestions/Objections***

3.3.1 The PPA has to be executed with the generating entity, selected through competitive bidding process, before the commencement of execution of the project, and the same has to be submitted to the Commission for approval. In the approval of the PPA, the Commission has to take a holistic view considering the requirement of power, reasonableness of capital cost and tariff, if the process is not just the adoption of tariff. The PPA has to provide for penalties to be levied on the generating entity for delay in project completion. The disallowances with regard to the capital cost of the generating entity due to delay does not compensate the distribution licensees for the higher power purchase cost that had to be incurred for meeting the shortfall in power due to delay in project completion.

***Commission's view***

3.3.2 The Commission has taken note of the stakeholder's submissions.

## 3.4 Additional power procurement

***Stakeholders Comments/Suggestions/Objections***

3.4.1 Post the implementation of the Central Electricity Regulatory Commission (Connectivity and General Network Access to the inter-State Transmission System), Regulation, 2022 w.e.f. 01.10.2023, the distribution licensees are required to schedule power on a day-ahead basis. Further, based on the weather changes, demand fluctuations and supply variations, the distribution licensees may need additional power on day-ahead basis for fulfilling the

unanticipated demand surge and supply shortage. Therefore, the Commission may allow the distribution licensee to procure power in such cases without prior approval so as to not restrict the capability of the distribution licensees to source adequate power for reliable supply.

3.4.2 Clause 19.2 provides for additional power procurement by the distribution licensees in case of shortfall from existing tied-up sources. In this regard, the generating companies may prepare a Fuel Utilisation Plan on monthly/quarterly basis and provide the same on their respective website.

3.4.3 Clause 19.2 specifies that the distribution licensee may undertake additional power procurement during the year, over and above the power procurement plan for the Control Period approved by the Commission, when the sourcing of power from existing tied-up sources becomes costlier than other available alternative sources. Clause 19.3 specifies that where the distribution licensee has identified a new short-term source of supply from which power can be procured at a tariff that reduces its approved total power procurement cost, it may enter into a short-term power procurement agreement or arrangement with such supplier without the prior approval of the Commission. Both these clauses are not clear as to how the efficacy of such additional power procurement would be evaluated. In this regard:

- The landed cost of power purchase from such alternate sources including the transmission charges and losses has to be taken into consideration for comparison purposes.
- If the additional power is procured from alternate sources, it leads to backing down of the contracted sources for which fixed charges shall have to be paid. The fixed charges corresponding to such backed down power has to be taken into consideration for evaluating the efficacy of additional power procurement.
- The backing down of contracted sources for procurement of additional power shall have to done strictly based on merit order principles, i.e., only the generating stations with high variable charges shall have to be backed down.
- The evacuation infrastructure of renewable energy capacity remain underutilised due to the lower capacity utilisation factors of renewable energy sources and the cost of such underutilised evacuation

infrastructure is included in the power purchase cost.

The above factors may be considered during prudence check of cost of such additional power procurement.

3.4.4 Clause 19.6 specifies that where the Commission has reasonable grounds to believe that the agreement or arrangement entered into by the distribution licensee does not meet the criteria specified in Clause 19.2 to Clause 19.5, it may disallow any increase in the total cost of power procurement over the approved level arising therefrom or any loss incurred by the distribution licensee as a result, from being passed through to consumers. The basis on which the Commission would have reasonable grounds to believe is vague. Such reasonable grounds have to be specific and measurable. Further, the Commission 'shall disallow' the increase in the cost and not 'may disallow'. Rather than disallowing the power procurement cost after the distribution licensees actually procure such power, the Commission may consider the allowance of 5% additional margin in power procurement over and above the power procurement from the approved sources. Further, the Commission may not allow any power purchase without the prior approval of the Commission.

***Commission's view***

3.4.5 The Commission does not find the need to modify the provisions of the Regulation regarding the additional power procurement, as the same are appropriate.

3.4.6 The Commission has taken note of the stakeholder's submission regarding the prudence check of the cost of additional power procurement.

3.4.7 The Commission has taken note of the stakeholder's suggestion to consider 5% additional margin in power procurement over and above the power procurement from the approved sources. The power procurement plan is approved on prospective basis based on the available information regarding the demand of the distribution licensees and availability of power to meet the same. The requirement of additional power could arise due to various reasons enumerated in Clause 19. If the distribution licensees does not have the opportunity to procure additional power on real-time basis either to meet the demand variations or to reduce the total power procurement cost, there could be load shedding or opportunity loss to reduce the total power procurement cost. If such additional power procurement is subjected to the regulatory test before-hand, then the intended objective of the additional power procurement

may or may not be achieved due to the inherent time consumed in the regulatory process. Moreover, subjecting the relatively small quantum of additional power procurement, for short duration in the year, to regulatory test before-hand would not be prudent. It is for this reason, while allowing the distribution licensees to procure additional power, adequate checks and balances have been specified in the Regulation so that any undue cost implications are not passed on to the consumers. Such a measure balances the interest of the consumers as well as the distribution licensees.

# 4 Financial Principles

## 4.1 Financial Prudence

***Stakeholders Comments/Suggestions/Objections***

4.1.1 The proviso to Clause 20.2 specifies that the Commission may disallow a part of the ARR, as an efficiency measure, if it finds the exercise of such prudence to have been deficient. In this regard, the entire ARR may be allowed, as certain efficiency measures like achievement of target distribution losses, revenue collection as per the demand raised, are beyond the control of the distribution licensees.

4.1.2 Clause 20.4(a) specifies that the financial prudence with respect to revenue expenditure shall be assessed in terms of monitoring of the revenue expenditure as against the revenue earned. In this regard, the revenue expenditure may be more than the revenue earned due to the emergency expenditure incurred for fulfilling Universal Service Obligation. Therefore, the said condition may be omitted.

4.1.3 Clause 20.4(d) specifies that the financial prudence with respect to revenue expenditure shall be assessed in terms of optimum purchase of power considering factors such as requirement of power, Merit Order Despatch, potential for earning additional net revenue based on the differential between the rate for purchase of power from different sources and the market rate for sale of surplus power, if any. Potential for earning additional net revenue based on the differential between the rate for purchase of power from different sources and the market rate for sale of surplus power cannot be considered as a parameter due to its hypothetical nature. The distribution licensees procure power for meeting their consumers demand and not for earning revenue by sale of surplus power. If power procurement is done for sale of such power in the market and if such sale proceeds are not more than the procurement cost, it leads to additional cost burden on the consumers. The power procurement plan should be a least cost plan and in turn be an ideal mix of different sources for the distribution licensees to be able to cater to demand variations and at the same should not lead to unwarranted and avoidable surplus power. However, the past experiences reveal that the distribution licensees had resorted to power purchases at higher cost despite having substantial surplus power.

4.1.4 The third proviso to Clause 20.4 specifies that in case its payment obligations to other entities are not regularly met, the generating entity or licensee shall provide justification for such shortfall with reference to its cash flow statement. The last proviso to Clause 20.4 specifies that the generating entity or licensee shall submit the Cost Audit Report along with the true-up Petition. Both these conditions do not have any bearing on the true-up claims, as the consumers are not concerned with such failures of the generating entity or licensee. Therefore, these two Clauses may be omitted.

4.1.5 The last proviso to Clause 20.4 specifies that the generating entity or licensee shall submit the Cost Audit Report along with the true-up Petition to justify the revenue expenses incurred as well as inventory management policies. In this regard, the Cost Audit Report will not serve the purpose of validating the financial prudence of revenue expenditure and inventory management as:

- Cost audit ascertains only accuracy of cost records in conformity with Cost Accounting Policies.
- Audited Accounts audited by the external Statutory Auditors with Notes are submitted along with the true-up Petition.
- Cost records prepared on cost accounting standards will be different from regulatory principles and will not match with the petition numbers.
- Preparation of Cost Audit Report depends on the completion of statutory audit and hence, cannot be made available by the month of November.

4.1.6 Clause 20.5 specifies the parameters on which the financial prudence with respect to capital expenditure shall be assessed. In this regard, it may be clarified if the said provisions shall apply only to the schemes for which the Commission has accorded prior approval.

4.1.7 Clause 20.5(d) may be modified as under:

*"in case the **excess of** actual capital expenditure or capitalisation exceeds 10% of that approved by the Commission, the generating entity or licensee shall submit detailed justification for such excess along with its Petition for True-up"* (***emphasis provided***)

4.1.8 Clause 20.5(e) specifies that in case any scheme has not been commenced during the year despite the Commission's approval, detailed justification shall be submitted along with the Petition for true-up. If a scheme has not commenced in the year, there shall be true-down and not true-up.

***Commission's view***

4.1.9 The Commission does not find merit in the stakeholders request to modify Clause 20.2, as the scope for disallowance in case of lack of prudence has to be retained.

4.1.10 The Commission does not find merit in the stakeholders request to modify Clause 20.4, as the financial prudence has to be assessed.

4.1.11 The last proviso to Clause 20.4 has been specified for proper monitoring of inventory and inventory management within prudence of revenue expenditure, and to ensure that the company is following optimum inventory management as proposed. The Cost Audit Report verifies the correctness of cost accounting in the books of accounts. It helps in identification of wrong practices in the existing system of accounting and helps in cost control and cost reduction for the Company. The Commission has introduced this proviso of submitting Cost Audit Report to further strengthen the process of financial prudence check, while approving the ARR and Tariffs of the Utilities. Cost Audit Report along with the Audited Accounts and Auditor's report will provide a holistic view on the prudence of the expenditure incurred by the Utility, while approving the true-up.

4.1.12 The generating entities and the licensees that are regulated by the Commission are allowed all the prudent expenses in tariff determination. So, it is important that the lapses in the payment obligations of the generating entities or licensees to other entities are brought to the fore for issuing suitable directions to the concerned generating entities or licensees for rectifying the lapses. Such measures go a long way in improving the overall functioning of the regulated utilities. Therefore, the Commission does not accept the stakeholder's request to omit the provisos to Clause 20.4.

4.1.13 The contention that cost records prepared on cost accounting standards will be different from regulatory principles and will not match with the petition numbers, is of no relevance, as even the Audited Accounts are different from the petition numbers, due to differences in philosophy and regulatory principles. Further, by end of September each year, Audited Accounts of preceding year have to be ready in order to be able to file the true-up Petition and the Cost Audit Report may be made available in the span of one month, i.e., before 1$^{st}$ of November, at the time of filing of true-up Petition for the preceding year.

4.1.14 The Clause 20.5 shall apply to all the capital investment schemes actually undertaken irrespective of the prior approval of the Commission.

4.1.15 The Commission has modified Clause 20.5(d) as under:

*"in case the actual capital expenditure or capitalisation exceeds that approved by the Commission **by** 10%, the generating entity or licensee shall submit detailed justification for such excess along with its Petition for True-up"* (***emphasis provided***).

4.1.16 The true-up mentioned in Clause 20.5(e) is regarding the true-up for the relevant year and not individual scheme wise true-up as apprehended by the stakeholder. The intent of the said Clause is to analyse the reasons for not implementing the capital expenditure schemes despite the Commission's approval.

## 4.2 Capital Cost

***Stakeholders Comments/Suggestions/Objections***

4.2.1 As per Clause 21.1(b), the allowable interest during construction shall be on the loans limited to 75% of the funds deployed and the actual loan in excess of 75% of the funds deployed shall be treated as equity. However, as per Clause 27.1, the amount of equity for the purpose of tariff determination shall be limited to 25%, which is in contradiction to Clause 21.1(b). Therefore, the entire interest during construction may be allowed in the capital cost.

4.2.2 As per Clause 21.1(b), the allowable interest during construction shall be on the loans limited to 75% of the funds deployed and the actual loan in excess of 75% of the funds deployed shall be treated as equity. The return on such excess loan being treated as equity has to be allowed at the cost of borrowing only and not at the specified rate of RoE.

4.2.3 Clause 21.1(c) specifies that any gain or loss on account of foreign exchange rate variation pertaining to the loan amount availed during the construction period shall be considered as part of Capital Cost. Given the past trend of exchange rate variation between USD and INR, there is no scope of gain on account of foreign exchange rate variation. The conversion of foreign currency to INR may be considered as per the Detailed Project Report. Any gain or loss on foreign exchange rate variation has to be borne by the generating entity or licensee. Therefore, the Clause may be omitted.

4.2.4 As per Clause 21.2(d), the liquidated damages recovered from the contractor or supplier or agency shall be adjusted in the capital cost. The liquidated

damages collected from the contractor are considered as income in compliance with GST Act. Therefore, the Commission may consider the treatment of liquidated damages collected as per the applicable GST Rules.

4.2.5 The last proviso to Clause 21.3 specifies that the loss to the generating company or licensee or SLDC on account of variations in capitalisation, in terms of variation in interest and finance Charges, Return on Equity, and Depreciation, shall be shared between the generating company or Licensee or SLDC and the respective Beneficiary or consumer in the manner stipulated by the Commission in its Order after prudence check. In this regard:

- The proviso may be omitted and the entire loss may be reimbursed to the generating entity as per the Orders of the Commission.
- The loss to the generating company or licensee or SLDC on account of variations in capitalisation, in terms of variation in interest and finance Charges, Return on Equity, and Depreciation is not to be passed-on to the consumers.

4.2.6 Clause 21.4 specifies the exclusions from the capital cost of an asset. In this regard, the distribution licensees incur the capital expenditure with prior approval of the Commission and therefore, no exclusions may be specified for the unutilised assets due to prudent reasons.

4.2.7 Clause 21.6 specifies that the actual amount of capitalisation during a year against capital investment schemes for which prior approval of the Commission is not required, shall not exceed 10% of the amount of capitalisation approved against capital investment schemes for which prior approval of the Commission has been accorded. In this regard, the stakeholders submitted as under:

- The Commission may not specify any limit on the actual amount of capitalisation during the year against capital investment schemes for which prior approval of the Commission is not required.
- It may be clarified if the said provision shall be applicable to distribution licensees.
- The ceiling limit for distribution licensees may be specified as 30%, as some of the capital expenditure is beyond the control of the distribution licensees.

***Commission's view***

4.2.8 The stakeholder's apprehension is misplaced. Clause 21.1(b) only restricts the loan amount for the purpose of interest during construction while the debt equity ratio specified in Clause 27.1 is for the purpose of tariff determination. There is no contradiction between Clause 21.1(b) and Clause 27.1 as stated by the stakeholder.

4.2.9 The Commission does not find merit in the stakeholder's request to omit Clause 21.1(c).

4.2.10 The treatment of liquidated damages shall be in accordance with the provisions of the Regulation.

4.2.11 The Commission does not accept the stakeholder's request to modify Clause 21.3.

4.2.12 The Commission does not accept the stakeholder's request to modify Clause 21.4. The assets excluded, if any, due to non-utilisation, would be considered as and when such assets are put to use.

4.2.13 Clause 21.6 applies to distribution licensees also. The Commission does not accept the stakeholder's request to modify Clause 21.6.

**4.3 Additional Capitalisation**

***Stakeholders Comments/Suggestions/Objections***

4.3.1 Clause 22.1(iv), Clause 22.2(i) and Clause 22.3(i) specifies that the capital expenditure towards the liabilities to meet award of arbitration or for compliance of directions or order of any statutory authority or order or decree of any court of law may be considered in additional capitalisation. The generating entity is obligated to comply with the statutory requirements for setting up the generating station. The third proviso to Clause 79.1 specifies that all penalties and compensation payable by the licensee to any party for failure to meet any Standards of Performance or for damages, as a consequence of the orders of the Commission, Courts, Consumer Grievance Redressal Forum, and Ombudsman, etc., shall not be allowed to be recovered through the Aggregate Revenue Requirement. On similar lines, the liabilities arising out of the acts of omission or commission resulting in non-compliance to such statutory requirements is not to be allowed in additional capitalisation.

***Commission's view***

4.3.2 The statutory compliances are to be met by the generating entity as per the

stipulations in the subject statute. The capital cost of generating station, for which tariff is determined in accordance with the Regulation, is approved by the Commission based on prudence check of the actual capital expenditure incurred. The capital expenditure, if required to be incurred for complying with any statutory obligation, becomes eligible for consideration in the capital cost, subject to the prudence check of the actual cost incurred for such compliance. The reference to Clause 79.1 by the stakeholder is misplaced, as the liabilities to meet award of arbitration or for compliance of directions or order of any statutory authority or order or decree of any court of law is different from the penalties, compensation and damages specified in Clause 79.1. The Commission does not accept the stakeholder's request to omit Clause 22.1(iv), Clause 22.2(i) and Clause 22.3(i).

**4.4 Additional capitalisation on account of Revised Emission Standards**

***Stakeholders Comments/Suggestions/Objections***

4.4.1 The additional capitalisation on account of Revised Emission Standards has to be allowed only if the intended objectives of undertaking the said works have been achieved and the same is certified by a competent authority. The generating stations not adhering to the stipulated timeline for compliance with the Revised Emission Standards have to be subject to additional penalty in the Energy Charge Rate for Merit Order Despatch so that such generating stations do not get scheduled at the cost of generating stations complying with the emission norms. Further, the incentive for higher Plant Load Factor (PLF) may not be allowed for such non-complying generating stations.

***Commission's view***

4.4.2 The additional capitalisation on account of Revised Emission Standards shall be subject to prudence check including the achievement of intended objectives. The generating stations not complying with the Revised Emission Standards by the stipulated timelines are subject to penalties as stipulated by the competent authority and therefore, no additional disincentive mechanism is required to be specified in the Regulation.

**4.5 Renovation and Modernisation**

***Stakeholders Comments/Suggestions/Objections***

4.5.1 The proviso to Clause 24.1 specifies that the generating company or the transmission licensee intending to undertake renovation and modernisation shall be required to obtain the consent of the beneficiaries or the long term

customers, as the case may be, for such renovation and modernisation. Similarly, Clause 41.1 specifies that for undertaking renovation and modernisation, the generating company shall file, among others, record of consultation with Beneficiaries. Both the conditions may be deleted as the consent of the beneficiaries or the long-term customers may not be prudent. The Commission may seek consultation of the beneficiaries/long-term customers and the public for approval of renovation and modernisation.

4.5.2 Clause 24.2 specifies that approval for renovation and modernisation may be granted after due consideration of reasonableness of the proposed cost estimates, financing plan, schedule of completion, interest during construction, use of efficient technology, cost-benefit analysis, expected duration of life extension, consent of the beneficiaries or long-term customers, if obtained, and such other factors as may be considered relevant by the Commission. In this regard, the stakeholders submitted as under:

- The requirement of the said details in the Petition for approval of renovation and modernisation may be dispensed with as the same can be submitted only at the time of true-up.
- The words "consent of the beneficiaries or long term customers, if obtained" may be modified as "consent of the beneficiaries or long term customers, that obtained".

***Commission's view***

4.5.3 The Commission does not accept the stakeholder's request to dispense with the submission of specified details in the Petition.

4.5.4 The Commission accepts the stakeholder's submission and accordingly Clause 24.2 has been modified as under:

*"Where the generating entity or the transmission licensee, as the case may makes an application for approval of its proposal for renovation and modernisation (R&M), approval may be granted after due consideration of reasonableness of the proposed cost estimates, financing plan, schedule of completion, interest during construction, use of efficient technology, cost-benefit analysis, expected duration of life extension, consent of the beneficiaries or long term customers as obtained, and such other factors as may be considered relevant by the Commission."*

## 4.6 Debt-equity ratio

***Stakeholders Comments/Suggestions/Objections***

4.6.1 Clause 27.1 specifies the debt-equity ratio of 75:25. The debt-equity ratio may be specified as 70:30 in line with the Tariff Policy and the CERC (Terms and Conditions of Tariff) Regulations, 2019.

4.6.2 Clause 27.1 specifies that where actual equity employed is less than 25%, the actual equity shall be considered. The said provision may be omitted.

4.6.3 Clause 27.4 specifies that the generating entity shall submit the resolution of the Board of the company or approval of the competent authority in other cases regarding infusion of funds from internal resources in support of the utilization made or proposed to be made to meet the capital expenditure of the generating station. The audited statement regarding the reconciliation of equity required and actually deployed to meet the capital expenditure may be considered.

4.6.4 Clause 27.5 specifies that in case of generating station or a transmission system or distribution network asset, which has completed its useful life as on or after 01.04.2024, the accumulated depreciation as on the completion of the useful life less cumulative repayment of loan shall be utilized for reduction of the equity. The said Clause may be omitted to ensure consistency in regulatory approach.

***Commission's view***

4.6.5 The Commission does not accept the stakeholders request to specify the debt-equity ratio as 70:30 for the reasons explained at Para 3.4 of the Explanatory Note on the Draft Regulation.

4.6.6 The Commission does not accept the stakeholders request to modify Clause 27.1.

4.6.7 The Commission does not find the need to modify Clause 27.4.

4.6.8 The Commission does not find merit in the stakeholders request to modify Clause 27.5.

## 4.7 Depreciation

***Stakeholders Comments/Suggestions/Objections***

4.7.1 Clause 28.1(b) specifies that the depreciation shall be computed annually based on the straight line method on the basis of the expected useful life specified in the Regulation. In this regard, the stakeholders submitted as under:

- In compliance to the Commission's directions for the 4th MYT Control Period, Transmission Corporation of Telangana Limited (TSTransco) has changed the depreciation methodology to that specified in the CERC (Terms and Conditions of Tariff) Regulations, 2019 from FY 2020-21 onwards. The frequent changes in the depreciation methodology adversely affects the asset base of the Company. Therefore, the depreciation methodology may not be modified from that specified in the CERC (Terms and Conditions of Tariff) Regulations, 2019.
- The depreciation may be allowed as per the Notification of Ministry of Power (1992).

4.7.2 The first proviso to Clause 28.1(c) specifies that the generating entity or Licensee or SLDC shall submit certification from Statutory Auditor for the capping of depreciation at ninety percent of the allowable capital cost of the asset. In this regard, the stakeholders submitted as under:

- Such auditor certificate may be required to be submitted for each asset class not individual assets.
- It may be clarified as to when such a certificate is required to be submitted.

4.7.3 The second proviso to Clause 28.1(c) specifies the salvage value of information technology equipment as zero percent of the allowable capital cost. The salvage value of information technology equipment may not be specified as zero percent of the allowable capital cost.

4.7.4 The proviso to Clause 28.5 specifies that the depreciation allowed for each year beyond seventy five percent (75%) of asset cost or actual debt component used for funding such asset in case the debt funding is higher than seventy five percent (75%) of the asset cost, shall be utilised for reduction of equity during that year. Such a provision would reduce the equity invested and could turn counterintuitive to the consumers by way of inefficient operation of state generators due to equity reduction. Therefore, the proviso to Clause 28.5 may be omitted.

***Commission's view***

4.7.5 In accordance with Clause 15.2 of the Regulation 5 of 2005, depreciation shall have to be determined based on the methodology, rates and other terms as decided by CERC from time to time. TSTransco was required to account for depreciation in accordance with the CERC Tariff Regulations right from the

year 2005, however, due to various reasons the said methodology was adopted only from FY 2020-21 onwards.

4.7.6 The Commission does not accept the stakeholders request regarding the depreciation methodology.

4.7.7 The Commission does not accept the stakeholder's request for modification in the first proviso to Clause 28.1(c).

4.7.8 The Commission does not accept the stakeholders request for modification in the second proviso to Clause 28.1(c). In accordance with the same, the generating entity or licensee or SLDC shall have to submit a certificate from Statutory Auditor stating that the depreciation has been capped at ninety percent of the allowable capital cost, viz., a certification that no asset is depreciated for more than ninety percent of the cost of such asset.

4.7.9 The Commission does not find merit in the stakeholder's request for omission of proviso to Clause 28.5.

## 4.8 Return on Equity (RoE)

***Stakeholders Comments/Suggestions/Objections***

4.8.1 Clause 29.2 specifies the rates of Return on Equity (RoE). The rate of RoE may be specified as interest rate on loan plus 2% to account for risk premium. The rate of RoE has to reflect the reduction in interest rates. Further, incentive and disincentive mechanism in RoE may be specified for better performance than the benchmarks and delay in filing of tariff/true-up/FCA filings, respectively.

4.8.2 Clause 29.2(a) specifies the rate of RoE for thermal generating stations as 15.5%. The capital intensive sectors do not have return on investment of more than 12%. Therefore, the rate of RoE may be specified as 12% for thermal generating stations.

4.8.3 The RoE may be specified in two parts, viz., Base RoE and Performance-linked RoE with the eligibility for Performance-linked RoE based on improvement in reliability and technical performance.

4.8.4 Clause 29.2(e) specifies the rate of RoE for distribution licensee as 16%. The rate of RoE may be specified as 14% for Distribution Wheeling Business and 2 Paise/kWh of energy handled for Retail Supply Business.

4.8.5 The proviso to Clause 29.2 specifies that in case of delay in submission of tariff/true-up filings by the generating entity or licensee or SLDC, rate of RoE shall be reduced by 0.5% per month or part thereof. In this regard, the

stakeholders submitted as under:

- This proviso may not be specified as separate penalty is specified for delay in submission of tariff/true-up filings.
- The filings as required under the Regulation are being made within the specified timeline and therefore, the proviso may be omitted.
- Additional provision may be specified for exemption of the said provision if the delay is for reasons beyond the control of the distribution licensees.

4.8.6 Clause 29.3 specifies the methodology of computation of RoE. In this regard, the stakeholders submitted as under:

- Clause 29.3(a) may be modified to specify that the RoE shall be allowable on equity portion of the Gross Fixed Assets.
- Clause 29.3(b) is not required as the same is covered under Clause 29.2(a).

***Commission's view***

4.8.7 The Commission observed that the Stakeholder has suggested for two-part ROE i.e. one as Base RoE and while the other as Performance-linked RoE. The Commission find merit in the suggestion of the Stakeholder, and also two part tariff will motivate the Licensees to improve and achieve the standards.

4.8.8 The Commission has notified the Licensees Standards of Performance Regulations (5 of 2006) on 13.07.2016. The Standard of Performance Regulations defines the overall standards, which all the Distribution Licensee along with Deemed Licensees need to be strictly adhere to, otherwise the compensation need to be paid to the effected consumers. In addition to the compensation, Clause 10 of Schedule-II of Standards of Performance Regulations, specifies that if the licensee does not meet the overall standards, an amount as decided by the Commission not exceeding 2% of the Regulated margin on Equity accounted for in the ARR of the year of failure shall be paid. Further, in case of repetitive failures over a period of three years, may lead to denial of regulated Return on Equity in the three subsequent years at the discretion of the Commission. Accordingly, the Commission has decided to allow ROE for Distribution Licensee in two parts as follows:

*"(e) Distribution licensee: Base Return on Equity of 14% and additional Return on Equity upto 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 upto 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;"*

## 4.9 Tax on RoE

***Stakeholders Comments/Suggestions/Objections***

4.9.1 Clause 30.1 specifies that the base rate of RoE shall be grossed up with the effective Income Tax rate for the respective financial year. It implies that not only the RoE but also the tax on RoE shall have to be borne by the consumers. The Commission may delete the said provision. The income tax has to be borne by the utilities out of their business profits.

4.9.2 TSGenco has opted for New Tax Regime u/s 115BA of the Income Tax Act wherein, the payment of tax will be deferred to later years, duly providing deferred tax as per IND AS 12. Hence, effective tax rate will be Nil or lower in the initial years and higher in the later years. Therefore, the actual tax expenses including deferred tax may be allowed.

***Commission's view***

4.9.3 The apprehension of the stakeholder is misplaced. If the regulated utility is to bear the income tax expense from the RoE allowed under the Regulation, then the effective rate of RoE allowed would be lower than that specified in the Regulation, which would be in contravention to the Regulation. The Commission does not find the need to modify the provisions regarding tax on RoE.

4.9.4 The Commission does not accept the stakeholder's request to allow the actual income tax expense.

## 4.10 Interest and finance charges on loan

***Stakeholders Comments/Suggestions/Objections***

4.10.1 Clause 31.3 specifies that the loan repayment during each year of the Control Period shall be deemed to be equal to the depreciation allowed for that year, up to the ceiling of seventy five percent (75%) of asset cost or actual debt component used for funding such asset in case the debt funding is higher than seventy five percent (75%) of the asset cost. As the normative repayment during the year is deemed to be equal to repayment, the depreciation may not be equal to the actual loan repayment. Therefore, the

Commission may allow the entire depreciation for the year without restricting the same to the loan repayment.

4.10.2 The first proviso to Clause 31.10 species that refinancing shall not be done if it results in net increase on interest. The words “including other costs associated with such refinancing” may be added to the said proviso.

4.10.3 The second proviso to Clause 31.10 specifies that if refinancing is done and it results in net increase on interest, then the rate of interest shall be considered equal to the Base Rate as on the date on which the Petition for determination of Tariff is filed. In this regard, the stakeholders submitted as under:

- It may be clarified if the net increase in interest is to be computed on annuity method on similar lines of computation of net savings specified in the last proviso.
- The latest weighted average interest rate of the subject loan before refinancing may be considered.

4.10.4 The last proviso to Clause 31.10 specifies that the net savings in interest shall be computed after factoring all the terms and conditions, and based on the weighted average rate of interest of actual portfolio of loans taken from Banks and Financial Institutions recognised by the Reserve Bank of India, before and after refinancing of loans. The said proviso may be specified as a separate Clause with the following proviso:

*“Provided further that if refinancing is done and results in decrease in interest rate but negative saving due to higher refinance cost, then the refinance cost to be allowed to the extent of Net Present Value (NPV) of the saving from decrease in interest rate and deduction of refinance costs results into ZERO.”*

4.10.5 Clause 31.11 specifies that at the time of Truing-up, the interest on the amount of security deposit for the year shall be considered on the basis of the actual interest paid by the Licensee during the year, subject to prudence check by the Commission. In this regard, the actual interest on consumer security deposit may be considered as uncontrollable factor and the variation in the same may be passed through.

***Commission’s view***

4.10.6 Clause 31.3 refers only to the consideration of repayment for the purpose of computation of interest on loan. The depreciation for the year is allowable in accordance with Clause 28, wherein it is nowhere subjected to the ceiling of

loan repayment.

4.10.7 The costs associated with refinancing are considered in the computation of net savings due to refinancing. The Commission accepts the stakeholder's request to modify the first proviso to Clause 31.10 and accordingly modify the same as follows;

*"Provided that refinancing shall not be done if such refinancing including other costs associated with such refinancing results in net increase in interest."*

4.10.8 The net increase in interest is not to be computed on annuity method. The Commission does not accept the stakeholders requests to modify the fifth proviso to Clause 31.10.

4.10.9 Clause 31.11 is amply clear and no further change is required regarding the interest on consumer security deposit.

## 4.11 Interest on Working Capital

***Stakeholders Comments/Suggestions/Objections***

4.11.1 Clause 33.1(a)(i) specifies the cost of coal towards stock, if applicable, for ten (10) days for pit-head generating stations and twenty (20) days for non-pit-head generating stations. The same may be modified to fifteen (15) days for pit-head generating stations and thirty (30) days for non-pit-head generating stations as per the provisions of Regulation No. 1 of 2019.

4.11.2 Clause 33.1(a)(v) and 33.1(b)(ii) specifies the maintenance spares at one percent (1%) of the opening Gross Fixed Assets for the Year. The same may be modified to 20% of O&M expenses or 2% of capital cost with annual escalation as per WPI variation.

4.11.3 Clause 33.1(a)(vi) and 33.1(b)(ii) specifies the receivables in normative working capital equivalent as forty-five (45) days. Clause 36.1 specifies the levy of Delayed Payment Charge in case the payment of bills of generation Tariff by the Beneficiary is delayed beyond a period of sixty (60) days from the date of billing. The time periods specified in Clause 33.1(vi) and Clause 36.1 have to be the same. TSGenco is allowing 60 days of credit period to the distribution licensees as per the provisions of the PPA.

4.11.4 The separate accounting for Wheeling and Retail Supply Businesses is yet to commence and hence, the interest on working capital may not be allowed till the segregation of Wheeling and Retail Supply Businesses.

4.11.5 The normative working capital requirement for Retail Supply Business

includes the receivables equivalent to sixty (60) days of the Aggregate Revenue Requirement (ARR). The collection of outstanding dues and subsidies has to be efficient and cannot be further supported by additional working capital.

4.11.6 Clause 33.3 and Clause 33.4 specify the interest on working capital for Wheeling Business and Retail Supply Business, respectively. At the same time, the Allocation Matrix specified in Clause 77.1 provides for apportionment of the interest on working capital of the Wheeling Business and Retail Supply Business. These clauses appear to be contradicting.

4.11.7 Clause 33.6 specifies that the normative rate of interest on working capital shall be equal to the Base Rate as on the date on which the Petition for determination of Tariff is filed, plus 150 basis points. In this regard, the stakeholders submitted as under:

- The actual rate of interest on working capital may be allowed in true-up.
- The rate of interest on working capital may be specified as SBI Marginal Cost of Lending Rate plus 350 Basis Points as specified in the CERC (Terms and Conditions of Tariff) Regulations, 2019.

4.11.8 Clause 33.7 specifies that for the purpose of Truing-up for each year, the variation between the normative interest on working capital computed at the time of Truing-up and the actual interest on working capital incurred by the generating entity or licensee or SLDC, substantiated by documentary evidence, shall be considered as an efficiency gain or efficiency loss, as the case may be, on account of controllable factors, and shared between it and the respective Beneficiary or consumer as the case may be. In this regard, the interest on working capital may be allowed on normative basis irrespective of the actual loans availed for working capital.

***Commission's view***

4.11.9 The Commission does not accept the stakeholder's request for modification of Clause 33.1(a)(i), as the provisions proposed in the Draft Regulation are appropriate.

4.11.10 The Commission does not accept the stakeholder's request for modification of Clause 33.1(a)(v) and 33.1(b)(ii), as the provisions proposed in the Draft Regulation are appropriate.

4.11.11 The segregation of Wheeling and Retail Supply Businesses is not a condition

precedent for allowing the interest on working capital on normative basis for a distribution licensee.

4.11.12 The working capital components do not provide for the outstanding dues as purported by the stakeholder.

4.11.13 The apprehension of the stakeholder is misplaced. The computation of interest on working capital separately for Wheeling Business and Retail Supply Business arises only after the complete segregation of the same. Clause 77.1 accordingly specifies the allocation matrix to be followed till such time the complete segregation Wheeling Business and Retail Supply Business.

4.11.14 The Commission does not accept the stakeholder's request for modification of Clause 33.6, as the provisions proposed in the Draft Regulation are appropriate.

4.11.15 The Commission does not accept the stakeholder's request to allow interest on working capital on normative basis irrespective of the actual loans availed for working capital, as sharing of gains/losses has to be done.

## 4.12 Carrying Cost or Holding Cost

***Stakeholders Comments/Suggestions/Objections***

4.12.1 Clause 34 specifies the provisions of Carrying Cost or Holding Cost. Carrying Cost or Holding Cost should not be allowed for the period of delay in filing the tariff/true-up/FCA Petitions.

***Commission's view***

4.12.2 The Commission agrees with the stakeholder's submission that no carrying cost/ Holding cost shall be allowed in case there is delay in filing the petition on Petitioner's part and accordingly included the following second provision in the Regulation ;

*"Provided further that the Carrying Cost or Holding cost shall not be allowed for the period of delay in filing the tariff/true-up/FCA Petitions"*

## 4.13 Rebates and Penalties

***Stakeholders Comments/Suggestions/Objections***

4.13.1 Clause 35.1 specifies that for payment of bills of generation Tariff and Charges within 7 days of presentation of bills, through Letter of Credit or through NEFT/RTGS, a rebate of 2% on billed amount, excluding the taxes, cess, duties, etc., shall be allowed. In this regard, the borrowing cost of loans availed for payment of generation bills for availing the rebate may be allowed

in the ARR if such rebate is passed through in tariff.

***Commission's view***

4.13.2 The Commission does not accept the stakeholders request, as the interest on working capital is allowed on normative basis in ARR at the time of tariff determination.

## 4.14 Delayed Payment Charge and Delayed Payment Surcharge

***Stakeholders Comments/Suggestions/Objections***

4.14.1 Clause 36.2 specifies that the Delayed Payment Charge earned by the generating entity shall not be considered under its Non-Tariff Income. In this regard, the stakeholders submitted as under:

- The Delayed Payment Charge earned by the generating entity may be considered under its Non-Tariff Income.
- The borrowing cost of the additional working capital availed by the generating entity in case of delay in payments by the distribution licensees may not be allowed.

4.14.2 Clause 36.3 specifies that in case the payment of bills of transmission Tariff by the Beneficiary is delayed beyond a period of 60 days from the date of billing, Delayed Payment Charge at the Base Rate as on 1st day of the respective billing month plus 150 basis points per annum on the billed amount shall be levied for the period of delay by the transmission licensee. The period for receivables in computation of working capital and the period for Delayed Payment Charge may be considered the same.

4.14.3 Clause 36.4 specifies that the Delayed Payment Charge earned by the transmission licensee shall be considered under its Non-Tariff Income. The Delayed Payment Charge earned by the transmission licensee may not be considered under its Non-Tariff Income.

4.14.4 Clause 36.6 specifies that in case the payment of bills of SLDC charges is delayed beyond a period of 60 days from the date of billing, Delayed Payment Charge at the Base Rate as on 1st day of the respective billing month plus 150 basis points per annum on the billed amount shall be levied for the period of delay by the SLDC. The said period may be modified to 30 Days for distribution licensees and 15 Days for Open Access Consumers.

***Commission's view***

4.14.5 The Commission finds merit in the stakeholder's submission to consider the

Delayed Payment Charge earned by the generating entity as non-tariff income in consistent with the provisions of Delayed Payment Charge to be considered as non-tariff income for transmission and distribution business. Accordingly, the Clause 36.2 is amended as follows:

"36.2 Such Delayed Payment Charge earned by the generating entity shall be considered under its Non-Tariff Income"

4.14.6 Considering the suggestions of stakeholders from the difficulty in implementing the Delayed Payment Charge at the Base Rate as on 1st day of the respective billing month plus 150 basis points, the Commission has specified the Delayed Payment Charge at the Base Rate as on 1st day of the respective financial year plus 150 basis points. Accordingly, the Commission has revised the Clause 36.1, 36.3, 36.5 and Clause 36.6 as follows:

*"36.1 In case the payment of bills of generation Tariff by the Beneficiary is delayed beyond a period of 60 days from the date of billing, Delayed Payment Charge at the Base Rate as on 1st April of the respective financial year plus 150 basis points per annum on the billed amount shall be levied for the period of delay by the generating entity, notwithstanding anything to the contrary as may have been stipulated in the Agreement or Arrangement with the Beneficiaries."*

*"36.3 In case the payment of bills of transmission Tariff by the Beneficiary is delayed beyond a period of 60 days from the date of billing, Delayed Payment Charge at the Base Rate as on 1st April of the respective financial year plus 150 basis points per annum on the billed amount shall be levied for the period of delay by the transmission licensee, notwithstanding anything to the contrary as may have been stipulated in the Agreement or Arrangement with the Beneficiaries."*

"36.5 In case the payment of bills of SLDC charges is delayed beyond a period of 60 days from the date of billing, Delayed Payment Charge at the Base Rate as on 1st April of the respective financial year plus 150 basis points per annum on the billed amount shall be levied for the period of delay by the SLDC."

"36.6 In case the payment of bills of retail Tariff by the consumers is delayed beyond a period of 15 days Delayed Payment Surcharge on the billed amount, including the taxes, cess, duties, etc., shall be levied at the Base Rate as on 1st April of the respective financial year plus 150 basis points per annum on the billed amount shall be levied for the period of delay"

## 4.15 Provision for Bad and Doubtful Debts

***Stakeholders Comments/Suggestions/Objections***

4.15.1 A separate Clause may be specified as under:

*"**Provision for Bad and Doubtful Debts***

*In the MYT Order, for each Year of the Control Period, the Commission may allow a provision for writing off of bad and doubtful debts up to 1.5% of the amount shown as Trade Receivables or Receivables from Sale of Electricity and wheeling charges in the latest Audited Accounts of the Distribution Licensee in accordance with the procedure laid down by the Licensee, subject to prudence check:*

*Provided that the Commission shall true up the bad debts written off in the Aggregate Revenue Requirement, based on the actual write off of bad debts during the year, subject to the above ceiling of 1.5% of the amount shown as Trade Receivables or Receivables from Sale of Electricity and wheeling charges in the audited accounts of the Distribution Licensee for that Year, after prudence check:*

*Provided further that if subsequent to the write off of a particular bad debt, revenue is realized from such bad debt, the same shall be included as an uncontrollable item under the Non-Tariff Income of the year in which such revenue is realized."*

***Commission's view***

4.15.2 The Commission is of the view, that it is the duty of the Distribution Licensees to ensure that 100% billing and subsequently, recovering the revenue from the consumers. Any uncollected amount is on the part of Distribution Licensees and should not be a burden to the paying consumers by passing the bad and doubtful debts in tariff. Hence, the Commission does not accept the stakeholder's request to include Provision for Bad and Doubtful Debts in the ARR.

# 5 Norms and Principles for determination of Tariff for Generating Stations

## 5.1 Petition for determination of generation tariff

***Stakeholders Comments/Suggestions/Objections***

5.1.1 Clause 38.5 specifies that the generating entity shall file the Petition for determination of provisional tariff for new generating station/unit, at least six (6) months prior to the anticipated date of commercial operation. Clause 38.9 specifies that the generating entity shall file the Petition for determination of final tariff for new generating station/unit within six (6) months from the date of commercial operation. These provisions imply that the delays in achieving date of commercial operation are inherent and therefore, there has to be provisions for provisional tariff and final tariff. The tariff determination has to be done as on the scheduled date of commercial operation and any subsequent changes shall have to be adjusted in the annual true-up exercise.

5.1.2 Clause 38.9 specifies that the generating entity shall file the Petition for determination of final tariff for new generating station/unit within six (6) months from the date of commercial operation. The final tariff so determined has to be made applicable prospectively and not from the date of commercial operation.

5.1.3 Clause 38.5 specifies that the generating entity shall file the Petition for determination of provisional tariff for new generating station/unit, at least six (6) months prior to the anticipated date of commercial operation. The said period may be reduced to sixty (60) days as per the provisions of the CERC (Terms and Conditions of Tariff) Regulations, 2019.

5.1.4 Clause 38.8 specifies that if the date of commercial operation is likely to be delayed beyond six (6) months from the date of issue of the order approving the provisional Tariff, the generating entity may submit a Petition for seeking extension of the validity of the applicability of the provisional Tariff, giving details of the present status of completion and justification for the delay in project completion, which may be considered by the Commission after necessary prudence check. The provisional tariff may be made applicable till the determination of final tariff.

5.1.5 Clause 38.9 specifies that the generating entity shall file the Petition for determination of final Tariff for new Generating Station within six (6) months from the date of commercial operation of generating unit or stage or

generating station as a whole, as the case may be, based on the audited capital expenditure and capitalisation as on the date of commercial operation. The Petition for determination of final Tariff for new Generating Station may be required to be filed after commissioning of all the Units of the generating station.

***Commission's view***

5.1.6 The stakeholders' apprehensions regarding provisional tariff and final tariff are misplaced. The tariff, provisional or final, determined by the Commission for a new generating station shall be applicable only from the date of commercial operation. Any power supplied before the date of commercial operation shall be treated as infirm power and the rate of such power shall be governed by the TSERC (Deviation Settlement Mechanism and related matters) Regulation, 2021.

5.1.7 Any new generating station, after achieving commercial operation, requires some time for finalisation of audited capital expenditure and capitalisation as on the date of commercial operation. At the same time, the existence of approved tariff as on date of commercial operation is essential for billing purposes. Such tariff determination cannot be based on audited capital expenditure and capitalisation as on date of commercial operation as such details would be available at a much later date. It is for this reason that the generating company is required to file the Petition for determination of provisional tariff before the anticipated date of commercial operation of a new generating station/unit, which shall be subject to final tariff determination post the actual date of commercial operation. The audited capital expenditure and capitalisation as on date of commercial operation and additional capitalisation, if any, shall be subject to prudence check at the time of final tariff determination in accordance with the provisions of the Regulation.

5.1.8 The Commission does not accept the stakeholder's request to modify Clause 38.5, as sixty (60) days' time would not be adequate for determination of provisional tariff.

5.1.9 The Commission does not accept the stakeholder's request to modify Clause 38.8.

5.1.10 The Commission does not accept the stakeholder's request to allow filing of the Petition for determination of final tariff post commissioning of all the Units in the generating station.

## 5.2 Non-tariff income

***Stakeholders Comments/Suggestions/Objections***

5.2.1 The entire non-tariff income is deducted from the Annual Fixed Charges. The actual non-tariff income may be shared between the generating entity and the beneficiaries in the ratio of 50:50 as per the provisions of the CERC (Terms and Conditions of Tariff) Regulations, 2019.

5.2.2 TSGenco has passed on the income from sale of fly ash as non-tariff income to the beneficiaries in accordance with the provisions of Regulation No. 1 of 2019. However, the same may not be included for the ensuing Control Periods. Further, the environmental compensations paid towards non-compliance to the stipulations regarding the utilisation of fly ash may be allowed as pass through.

***Commission's view***

5.2.3 The Commission does not find merit in the stakeholder's submission regarding the sharing of non-tariff income, which is earned by the Utility by utilising the assets and resources, which are fully paid for by the consumers/beneficiaries.

5.2.4 The Commission does not accept the stakeholder's request to not include income from sale of fly ash in non-tariff income. Further, the environmental compensations paid, if any, towards non-compliance to the stipulations regarding the utilisation of fly ash shall have to be examined with respect to the admissibility of the same and cannot be provided for unconditionally in the Regulation. The generating entity is at liberty to make its submissions regarding the same in its true-up filings along with detailed justification regarding the admissibility of the same.

## 5.3 Operational Norms

***Stakeholders Comments/Suggestions/Objections***

5.3.1 The operational norms specified in Clause 44 are only for sub-critical thermal generating stations and does not provide for super critical thermal generating stations.

5.3.2 The Normative Annual Plant Availability Factor for TSGenco stations may be specified the same as in Regulation No. 1 of 2019.

5.3.3 The generating entity has to be levied penalty for not achieving NAPAF in addition to proportionate reduction in fixed charges as the proportionate reduction in fixed charges do not compensate the distribution licensees for the

higher power purchase cost that has to be incurred for meeting the shortfall in power due to non-availability of the generating station.

5.3.4 Clause 44.4 specifies the Gross Station Heat Rate for 250 MW Sets and 500 MW Sets (sub-critical boilers) as 2500 kcal/kWh and 2450 kcal/kWh, respectively. The Gross Station Heat Rate for 250 MW Sets and 500 MW Sets (sub-critical boilers) may be specified as 2430 kcal/kWh and 2390 kcal/kWh, respectively.

5.3.5 The Gross Station Heat Rate for Singareni Thermal Power Project (STPP) (2x600 MW) may be specified as 2314.90 kcal/kWh, considering the methodology specified in the CERC (Terms and Conditions of Tariff) Regulations, 2019.

5.3.6 Clause 44.5 specifies the Gross Station Heat Rate for coal based thermal power Generating Stations/Units achieving COD after 01.04.2019 shall be equal to 1.05 times the Design Heat Rate. The same may be modified as 1.045 times the Design Heat Rate. Further, the Unit size may be specified in the design specifications listed in Clause 44.5.

5.3.7 As per Clause 44.7, the normative auxiliary energy consumption for STPP is 5.75%. However, the actual auxiliary energy consumption for the period from FY 2019-20 to FY 2022-23 is around 6%, which is higher than the norm. The major factor for such higher auxiliary energy consumption is backing down, which is to the tune of 3318 MU for the period from FY 2019-20 to FY 2022-23. Further, the normative auxiliary energy consumption specified by CERC for similar Units size is higher than the specified norm in the Draft Regulation by 0.5%. Therefore, the normative auxiliary energy consumption for STPP may be specified in line with the CERC norm. Further, additional auxiliary consumption may be provided for backing down.

5.3.8 The normative auxiliary energy consumption and secondary fuel oil consumption for TSGenco stations may be specified the same as in Regulation No. 1 of 2019, as the coal based thermal generating stations shall have to achieve minimum power level of 40% as per the CEA (Flexible Operation of Coal based Thermal Power Generating Units) Regulations, 2022.

***Commission's view***

5.3.9 The stakeholder's apprehension is misplaced. The operational norms specified in Clause 44 are for all types of thermal generating stations and

wherever specifically mentioned, such norms are applicable for sub-critical thermal generating stations.

5.3.10 The Commission does not accept the stakeholder's request for modification in the Normative Annual Plant Availability Factor for TSGenco stations.

5.3.11 The Commission does not find merit in the stakeholder's contention regarding the imposition of penalty for non-achievement of NAPAF in addition to proportionate reduction of fixed charges.

5.3.12 The Commission does not accept the stakeholder's request to modify the Gross Station Heat Rate for 250 MW Sets and 500 MW Sets (sub-critical boilers) specified in Clause 44.4.

5.3.13 The Commission does not accept the stakeholder's request regarding the Gross Station Heat Rate for STPP, as the specified norms are appropriate.

5.3.14 The Commission does not accept the stakeholder's request to modify Clause 44.5.

5.3.15 The Commission does not accept the stakeholder's request regarding the auxiliary energy consumption for STPP, as the specified norms are appropriate.

5.3.16 The Commission does not accept the stakeholder's request regarding the auxiliary energy consumption and secondary fuel oil consumption for TSGenco stations, as the specified norms are appropriate.

## 5.4 Operation and Maintenance (O&M) expenses

***Stakeholders Comments/Suggestions/Objections***

5.4.1 Clause 45 specifies the methodology of determination of O&M expenses for the existing generating stations. In this regard, the stakeholders submitted as under:

- The normative O&M expenses may be considered the same as specified by CERC for the Control Period from FY 2024-25 to FY 2028-29.
- Water charges, security expenses and capital spares may be allowed in addition to the normative O&M expenses in accordance with the CERC Tariff Regulations.

5.4.2 As per Clause 45.1, the unfunded past liabilities of pension and gratuity has been included in the total employee cost. In this regard, the stakeholders submitted as under:

- The same may be determined exclusive of the employee cost as per the

provisions of Regulation No. 1 of 2019.

- It may be made amply clear that the inclusion of unfunded past liabilities of pension and gratuity is made applicable only to TSGenco due to precedents.

5.4.3 The proviso to Clause 45.3 specifies that for the first year of the Control Period, the employee cost and A&G expenses shall be the average of the trued-up expenses after adding/deducting the share of efficiency gains/losses, for the immediately preceding Control Period. The average expenses so derived would be lower than the actual expenses during the last two years. Therefore, suitable escalation has to be considered for arriving at the normalised expenses for the 1st year of the ensuing Control Period.

5.4.4 The stakeholder submitted that a separate clause may be incorporated for reimbursement of water charges at actuals over and above the O&M expenses.

5.4.5 The methodology of determination of R&M expenses may be clarified so as to avoid ambiguity in interpretation of the provisions of the Regulation.

***Commission's view***

5.4.6 The Commission find merit in the Stakeholder suggestion that the average expenses so derived would be lower than the actual expenses during the last two years and it will be mid value of the five year control period. Therefore, suitable escalation factor has to be considered for arriving at the normalised expenses for the 1st year of the ensuing Control Period. Thus, the average of past five years, after adding/deducting the share of efficiency gains/losses, excluding abnormal expenses, if any, shall be escalated by the inflation factor to derive the employee cost and A&G expenses of the first year of the Control year. Accordingly, the amended proviso of Clause 45.3, 71.3, 81.3, 89.3 & 98.3 are as follows:

*"45.3 The above components shall be computed in the manner specified below:*

……..

*Provided that the employee cost and A&G expenses for the first year of the Control Period shall be worked out considering the average of the trued-up expenses after adding/deducting the share of efficiency*

*gains/losses, for the immediately preceding Control Period, excluding abnormal expenses, if any, subject to prudence check by the Commission and duly escalating the same for 3 years with CPI Inflation for employee costs and WPI Inflation for A&G expenses."*

*"71.3 The above components shall be computed in the manner specified below:*

*…….*

*Provided that the employee cost and A&G expenses for the first year of the Control Period shall be worked out considering the average of the trued-up expenses after adding/deducting the share of efficiency gains/losses, for the immediately preceding Control Period, excluding abnormal expenses, if any, subject to prudence check by the Commission and duly escalating the same for 3 years with CPI Inflation for employee costs and WPI Inflation for A&G expenses."*

*"81.3 The above components shall be computed in the manner specified below:*

*…….*

*Provided that the employee cost and A&G expenses for the first year of the Control Period shall be worked out considering the average of the trued-up expenses after adding/deducting the share of efficiency gains/losses, for the immediately preceding Control Period, excluding abnormal expenses, if any, subject to prudence check by the Commission and duly escalating the same for 3 years with CPI Inflation for employee costs and WPI Inflation for A&G expenses."*

*"89.3 The above components shall be computed in the manner specified below:*

*…….*

*Provided that the employee cost and A&G expenses for the first year of the Control Period shall be worked out considering the average of the trued-up expenses after adding/deducting the share of efficiency gains/losses, for the immediately preceding Control Period, excluding abnormal expenses, if any, subject to prudence check by the Commission and duly escalating the same for 3 years with CPI Inflation for employee costs and WPI Inflation for A&G expenses."*

"98.3 The above components shall be computed in the manner specified below:

…….

Provided that the employee cost and A&G expenses for the first year of the Control Period shall be worked out considering the average of the

trued-up expenses after adding/deducting the share of efficiency gains/losses, for the immediately preceding Control Period, excluding abnormal expenses, if any, subject to prudence check by the Commission and duly escalating the same for 3 years with CPI Inflation for employee costs and WPI Inflation for A&G expenses."

5.4.7 The Commission is of the view that for existing stations, allowing O&M expenses based on the actual expenses for the past period is more prudent. Therefore, the Commission does not accept the stakeholder's request to consider the normative O&M expenses for existing stations as specified by CERC.

5.4.8 As the O&M expenses being allowed based on the actual expenses for past years which will include water charges, hence, there is no need to provide reimbursement of water charges separately.

5.4.9 The Commission does not accept the stakeholder's request to allow unfunded past liabilities of pension and gratuity separately as the same is part of the total employee cost.

## 5.5 Computation and Payment of Capacity Charges and Energy Charges for Thermal Generating Stations

***Stakeholders Comments/Suggestions/Objections***

5.5.1 The recovery of Capacity Charges may be specified separately for High Demand Season and Low Demand Season and in-turn for peak period and off-peak period.

5.5.2 The formula for computation of Capacity Charge specified in Clause 46.2 may be corrected for $CC_{11}$.

5.5.3 The proviso to Clause 46.2 specifies that in case of generating station or unit thereof under shutdown due to Renovation and Modernisation, the generating company shall be allowed to recover O&M expenses and interest on loan only. The O&M expenses and interest on loan may not be allowed during shutdown due to Renovation and Modernisation.

5.5.4 Gross Calorific Value (GCV) of coal for computation of Energy Charge Rate may be linked to the GCV 'as billed' with some allowance for transit and stacking losses. One stakeholder submitted that the GCV of coal may be allowed on 'as fired' basis.

5.5.5 An effective and verifiable mechanism is required for verification of GCV and

quantum of coal procured for power generation. In this regard, appropriate provisions may be included in the formula specified for determination of energy charges.

5.5.6 The second proviso to Clause 46.5 specifies that the Generating Company shall provide to the Beneficiaries of the generating Station, the details of parameters of GCV and price of fuel for each type of fuel, i.e., domestic coal, imported coal, e-auction coal, liquid fuel, etc., as per the Forms prescribed by the Commission. The said Forms may be enclosed with the Regulation.

5.5.7 The incentive for higher PLF may be specified separately for peak period and off-peak period.

5.5.8 Clause 46.6 specifies that the incentive shall be payable at a flat rate of 50.0 paise/kWh for actual energy generation in excess of ex-bus energy corresponding to Normative Annual Plant Load Factor. The same may be modified to provide for incentive for ex-bus scheduled generation in excess of ex-bus energy corresponding to Normative Annual Plant Load Factor.

5.5.9 Clause 46.6 specifies that the incentive shall be payable at a flat rate of 50.0 paise/kWh for actual energy generation in excess of ex-bus energy corresponding to Normative Annual Plant Load Factor. In this regard, the stakeholders submitted as under:

- The incentive of higher PLF may not be specified as the entire cost, after prudence check, is allowed for the regulated business.
- The incentive may be specified in the range of 50-70 paise/kWh considering the inflation trend during the period from FY 2019-20 to FY 2023-24.

***Commission's view***

5.5.10 The Commission has taken note of the stakeholder's submissions. The Commission is of the view that a comprehensive study need to be conducted for the implementation of the same. The Commission shall take an appropriate view in due course of time in this regard.

5.5.11 The Commission has corrected the formula $CC_{11}$ in Clause 46.2.

5.5.12 The Commission has prescribed the Tariff Filing Forms for Generation Business, wherein separate Formats have been specified for fuel related information. The Generation Company shall provide the fuel details in the said Formats.

5.5.13 The objective of PLF incentive is to incentivize actual generation in excess of the targets, and not merely scheduled generation. The Commission does not accept the stakeholders request to modify Clause 46.6.

## 5.6 Adjustment of ECR on account of variation in price or heat value of fuels

***Stakeholders Comments/Suggestions/Objections***

5.6.1 The fifth proviso to Clause 46.5 specifies that the weighted average price of alternative source of fuel shall not exceed 30% of base price of primary and secondary fuel approved by the Commission. The prior consent of the distribution licensees has to be obtained for use of alternate fuels.

5.6.2 The sixth proviso to Clause 46.5 specifies that where the Energy Charge Rate based on weighted average price of fuel upon use of alternative source of fuel supply exceeds 20% of base Energy Charge Rate as approved by the Commission for that year, prior consultation with beneficiary/ies shall be made at least three days in advance. The words “prior consultation with beneficiary/ies” should be modified to “with prior consent of beneficiary/ies” and prior approval of the Commission is required to be given after conducting public hearings.

***Commission’s view***

5.6.3 The Commission does not accept the stakeholders request to modify Clause 46.5, as the proposed provisions are appropriate.

## 5.7 Computation and Payment of Capacity Charges for Hydro Generating Stations

***Stakeholders Comments/Suggestions/Objections***

5.7.1 Clause 47.1 specifies the computation and Payment of Capacity Charges for Hydro Generating Stations. The provision of Secondary Energy Charges may be included as specified in the Regulation No. 1 of 2019.

***Commission’s view***

5.7.2 The Commission does not find it prudent to provide for Secondary Energy Charges as the Regulation provides for recovery of entire approved annual fixed charges on monthly basis, irrespective of the actual generation.

## 5.8 Deviation Charges

***Stakeholders Comments/Suggestions/Objections***

5.8.1 Clause 49.1 specifies that the variations between actual injection and scheduled injection of energy for the generating stations, and variations

between actual drawal of energy and scheduled drawal of energy for the Beneficiary/ies shall be treated as their respective deviations, and charges for such deviations shall be governed by the TSERC (Deviation Settlement Mechanism and related matters) Regulation, 2021. The same may be relaxed for this Control Period.

***Commission's view***

5.8.2 The stakeholder's request for relaxation of TSERC (Deviation Settlement Mechanism and related matters) Regulation, 2021 is not covered under the MYT Regulation.

## 5.9 Recovery mechanism for cost of Emission Control System

***Stakeholders Comments/Suggestions/Objections***

5.9.1 The Commission may specify a separate mechanism for recovery of fixed charges and variable charges of the Emission Control System for compliance to Revised Emission Standards so that such cost is allowable based on utilisation of the said system as opposed to installation. The variable charges corresponding to the Emission Control System may not be considered in the Merit Order Despatch till the timeline of 31.12.2027 by which all the generating stations are stipulated to comply with the Revised Emission Standards.

***Commission's view***

5.9.2 The Commission does not find the need to specify a separate mechanism for recovery of costs associated with Emission Control System for compliance to Revised Emission Standards.

## 5.10 Ash transportation cost

***Stakeholders Comments/Suggestions/Objections***

5.10.1 As per the Guidelines of MoEF&CC, the generating stations have to supply ash for laying of roads, backfilling of mines, building constructions, etc., for ensuring 100% fly ash utilisation. The cost incurred towards the same may be allowed as pass through by way of provision in the Regulation.

***Commission's view***

5.10.2 The cost of transportation of ash, if any, towards compliance to the

stipulations regarding the utilisation of fly ash shall have to be examined with respect to the admissibility of the same and cannot be provided for unconditionally in the Regulation. The generating entity is at liberty to make its submissions regarding the same in its true-up filings along with detailed justification regarding the admissibility of the same.

# 6 Norms and Principles for determination of input price of coal from Integrated Mine

## 6.1 Input price of coal from Integrated Mine

***Stakeholders Comments/Suggestions/Objections***

6.1.1 The input price of coal from Integrated Mine has to be subject to the ceiling of notified price of Coal India Limited (CIL) for the corresponding grade of coal to be consistent with the objectives of allotting coal mines under Coal Mines (Special Provisions) Act, 2015 and related rules.

6.1.2 Clauses 50.3, 50.4, 60.4, 61.1, 61.2 and 64.1 refers to the price of coal produced from mines of Coal India Limited. The allocated mine to TSGenco is comparable to the prices of coal supplied by SCCL mines and not the mines of Coal India Limited.

***Commission's view***

6.1.3 The preamble of the Coal Mines (Special Provisions) Act, 2015 states as under:

*"An Act to provide for allocation of coal mines and vesting of the right, title and interest in and over the land and mine infrastructure together with mining leases to successful bidders and allottees with a view to ensure continuity in coal mining operations and production of coal, and for promoting optimum utilisation of coal resources consistent with the requirement of the country in national interest and for matters connected therewith or incidental thereto."*

6.1.4 While the input price of coal from Integrated Mine vis-à-vis the equivalent price of coal supplied by CIL is of particular interest, it cannot be the sole criteria for allowing the input price of coal from Integrated Mine. The Commission shall carry out the prudence check in the determination of input price of coal from Integrated Mine in accordance with the provisions of the Regulation. The Commission does not accept the request of the stakeholder.

6.1.5 The Commission finds merit in the stakeholder's submission regarding the comparison of input price with the prices of coal supplied by Coal India Limited. Accordingly, the words "Coal India Limited" has been modified as "Coal India Limited or Singareni Collieries Company Limited depending on the geographical location of the Integrated Mine".

## 6.2 Depreciation

***Stakeholders Comments/Suggestions/Objections***

6.2.1 Clause 56.2(b) specifies that the freehold land shall not be considered as depreciable assets and their cost shall be excluded from the capital cost while computing depreciable value of the assets. The amortisation/deprecation may be allowed on freehold land after prudence check, without any conditions, as the generating entity has to restore the land and undertake plantation, which cannot be utilised for other purposes at present.

***Commission's view***

6.2.2 The Commission does not accept the stakeholder's request to allow depreciation on freehold land.

## 6.3 Mine closure expenses

***Stakeholders Comments/Suggestions/Objections***

6.3.1 Clause 59 specifies the treatment of mine closure expenses. TSGenco is depositing the amounts in the Escrow Account as per the Mining Plan in addition to the mining fee paid to the MDO. The same may be allowed. As there is an ambiguity in Clause 59.4, a new clause may be incorporated.

***Commission's view***

6.3.2 The provisions of Clause 59 are amply clear regarding the treatment of mine closure expenses.

# 7 Norms and Principles for determination of revenue requirement and Transmission Tariff

## 7.1 Applicability

***Stakeholders Comments/Suggestions/Objections***

7.1.1 Clause 68.3 specifies the threshold limit for development of new Intra-State transmission systems through Tariff Based Competitive Bidding as Rs. 300 Crore. In this regard, the stakeholders submitted as under:

- Clause 68.3 may be omitted.
- The threshold limit may be specified as Rs. 100 Crore.
- The threshold limit may be specified as Rs. 500 Crore and above.

7.1.2 One stakeholder submitted that Clause 68.3 may be deleted as it may lead to privatisation of the Public Sector Undertaking.

7.1.3 The development of inter-State Transmission schemes through TBCB does not achieve the intended objective of competition as duplication of network in the same area is not desirable. Further, if multiple transmission licensees exist in the State, TSTransco would no longer be the STU.

***Commission's view***

7.1.4 The Commission does not find the need to modify the threshold limit specified in the Regulation, as the same has been proposed after due deliberation.

7.1.5 The stakeholder's apprehension regarding Clause 68.3 is far-fetched and irrational. The Commission does not accept the stakeholder's submission to delete Clause 68.3.

7.1.6 The effectiveness of TBCB has to be ascertained with respect to the saving in transmission tariff discovered in the competitive bidding process vis-à-vis the transmission tariff that would be determined under Section 62 of the Act in accordance with the Tariff Regulation of the Commission.

7.1.7 The stakeholder apprehension that if multiple transmission licensees exist in the State, TSTransco would no longer be the STU, is misplaced, as the STU is notified by the State Government under Section 39(1) of the Act.

## 7.2 Operation and Maintenance (O&M) expenses

***Stakeholders Comments/Suggestions/Objections***

7.2.1 Clause 71 specifies the methodology for computation of O&M expenses. The employee cost under the said methodology may be limited only to the extent of DA increase but not Annual Grade Increment, Special Grade Increments

and employee terminal benefits, etc. The Commission may allow actual employee cost incurred along with employee terminal benefits for the purpose of ARR.

7.2.2 Clause 71 specifies the methodology for computation of O&M expenses. Clarification may be included for determination the constant 'K' specified for computation of Repairs and Maintenance (R&M) expenses.

7.2.3 Clause 71.4 specifies that the provisioning of expenses shall not be considered as actual expenses at the time of true-up, and only expenses as actually incurred shall be considered. The Commission may modify the said clause to consider the provisions as expenses/revenue in ARR, as TSTransco is following Mercantile system of Accounting.

***Commission's view***

7.2.4 The Commission does not find merit in the stakeholder's request regarding the employee cost as the detailed provision has been incorporated in Regulation for allowing the employee cost.

7.2.5 The provisions of the Regulation are amply clear on the determination of the constant 'K' specified for computation of R&M expenses.

7.2.6 The Commission does not find merit in the stakeholder's submission to modify Clause 71.4, as the actual expenses are allowable as and when incurred subject to the provisions of the Regulation.

# 8 Norms and Principles for Determination of Revenue Requirement and Wheeling Charges for Distribution Wheeling Business

## 8.1 Components of ARR for Wheeling Business

***Stakeholders Comments/Suggestions/Objections***

8.1.1 Clause 79.1 specifies the components of ARR of Wheeling Business. A separate head of Special Appropriations and Safety Measures may be included in the ARR.

8.1.2 The third proviso to Clause 79.1 specifies that all penalties and compensation payable by the Licensee to any party for failure to meet any Standards of Performance or for damages, as a consequence of the orders of the Commission, Courts, Consumer Grievance Redressal Forum, and Ombudsman, etc., shall not be allowed to be recovered through the Aggregate Revenue Requirement. The same may be allowed considering the precarious financial condition of the distribution licensees.

8.1.3 Clause 79.2 specifies that the Wheeling Charges shall be determined by the Commission. The methodology for the same may be specified.

8.1.4 The proviso to Clause 79.2 specifies that the Wheeling Charges shall be denominated in terms of Rupees/kVA/hr for short-term Open Access. The short-term Open Access charges may be allowed to be levied for the entire contracted period by the Distribution System User irrespective of the hours of power drawal, as the entire capacity is reserved for such User.

***Commission's view***

8.1.5 The Commission does not find merit in the stakeholders requests to modify Clause 79.1.

8.1.6 Clause 79.2 is amply clear that the Wheeling Charges shall be determined based on the Petition filed by the distribution licensees. No further detailing is required in this regard.

## 8.2 Operation and Maintenance Expenses

***Stakeholders Comments/Suggestions/Objections***

8.2.1 The proviso to Clause 81.3 specifies that for the first year of the Control Period, the employee cost and A&G expenses shall be the average of the trued-up expenses after adding/deducting the share of efficiency gains/losses, for the immediately preceding Control Period, excluding abnormal expenses,

if any, subject to prudence check by the Commission. The O&M expenses for the year immediately preceding the Control Period may be derived based on the actual O&M expenses of the last available year. Such O&M expenses so derived may be considered for projecting the O&M expenses for the Control Period.

8.2.2 The formula for determining A&G expenses may include 'Provision' for allowing expenses towards any initiatives or other one-time expenses.

***Commission's view***

8.2.3 The Commission does not find any merit in the suggestion to include 'provision' in the formula, for allowing additional A&G expenses. The distribution licensee is free to seek such additional expenses in its Petition, which may be considered by the Commission on a case-to-case basis depending on the merits of the submission and justification provided by the distribution licensee. As regards the escalation factor to be considered for arriving at the normalised expenses for the 1st year of the ensuing Control Period, the Commission has dealt with the issue and have made changes in the Regulation as discussed at Para 5.4.5.

## 8.3 Income from Other Business

***Stakeholders Comments/Suggestions/Objections***

8.3.1 Clause 83.9 specifies that the Commission will determine the reasonable proportion of revenue of the Other Business and the minimum amount to be paid to the Licensed Business, on a case-to-case basis, as and when a licensee informs the Commission about its intention of utilising the assets and facilities for use for any Other Business. In deciding the amount to be paid by the Other Business, the Commission will consider the submissions of the licensee, but may use any alternate approach or methodology that it considers appropriate. However, Clause 83.6 already specifies the said allocation. Therefore, suitable modifications may be done in the Regulation.

***Commission's view***

8.3.2 The Commission in Clause 83.6 of the draft Regulations, has already defines the percentage for sharing of income from other business. Thus, the Commission find the Clause 83.9 & 83.10 redundant and deleted. On similar lines, the Commission has deleted the clause 73.9 and 73.10 under Income from Other Business for Transmission.

# 9 Norms and Principles for Determination of Revenue Requirement and Tariff for Retail Supply Business

## 9.1 Components of ARR for Retail Supply Business

***Stakeholders Comments/Suggestions/Objections***

9.1.1 Clause 86.1 specifies the components of ARR for Retail Supply Business. A separate cost head may be added for the impact of true-up of prior period as approved by the Commission including the impact of judicial pronouncements in matters related to consumer tariffs.

***Commission's view***

9.1.2 The impact of true-up of prior period is already included in the components of ARR. The impact of judicial pronouncements would get addressed at this time, subject to adequate justification being submitted by the distribution licensee.

## 9.2 Demand Side Management (DSM)

***Stakeholders Comments/Suggestions/Objections***

9.2.1 The distribution licensees may submit a DSM Plan along with its MYT Petition. The Commission may consider penal mechanism for lapses in the implementation of the proposed DSM Plan by the distribution licensees.

***Commission's view***

9.2.2 The activities related to DSM shall be governed by the provisions of Regulation No. 1 of 2020 being TSERC (Demand Side Management) Regulation, 2020.

## 9.3 Sales Forecast

***Stakeholders Comments/Suggestions/Objections***

9.3.1 Clause 87.1 specifies that distribution licensee shall submit a month-wise forecast of the expected sales of electricity to each Tariff category/sub-category and to each Tariff slab within such Tariff category/sub-category to the Commission for approval along with the Multi-Year Tariff Petition. It is understood that the sales projection approved in the MYT Order cannot be subsequently revised in the Annual Tariff determination thereafter. The sales projection may not be accurate for a period more than 2 years. Therefore, the sales projection may be permitted to be revised in the Annual Tariff determination.

9.3.2 Sales forecasting has to be more rigorous and advanced forecasting tools

with accuracy levels of ±0.5% have to be used.

9.3.3 The Commission may constitute a Committee for devising methodology for estimation of agricultural consumption. The Commission may specify targets for metering of Distribution Transformers supplying to agricultural consumers.

***Commission's view***

9.3.4 Clause 87.2 of the Draft Regulation specifies as under:

*"The sales forecast shall be consistent with the load forecast prepared as part of the power procurement plan and shall be based on past data and reasonable assumptions regarding the future."*

9.3.5 Clause 17 of the Draft Regulation specifies in detail the power procurement plan to be prepared by the distribution licensee based on the forecasting techniques.

9.3.6 The Commission has taken note of the stakeholder's submission regarding agricultural consumption. The stakeholder is at liberty to make a detailed submission on the same at the time of submission of its comments on the MYT Petition to be filed by the distribution licensees.

## 9.4 Components of ARR for Retail Supply Business

***Stakeholders Comments/Suggestions/Objections***

9.4.1 Clause 86.1 specifies the components of ARR for Retail Supply Business. The components of ARR for Retail Supply Business have to include the Wheeling Charges also.

***Commission's view***

9.4.2 The Wheeling Charges can either be subsumed in the ARR for Retail Supply Business or shown as a separate tariff component for the Retail Supply consumers based on the Retail Supply Tariff proposals of the distribution licensees.

## 9.5 Treatment of GoTS Subsidy

***Stakeholders Comments/Suggestions/Objections***

9.5.1 The Regulation does not detail the framework for accounting and reporting of GoTS subsidy.

9.5.2 The Commission, in the Retail Supply Tariff Order, had been determining the Full Cost Recovery Tariffs and the Retail Supply Tariffs taking into consideration the subsidy commitment of GoTS. At the same time, the Commission had been directing the distribution licensees that in the event of non-provision of subsidy by GoTS, the Full Cost Recovery Tariffs may be

charged to generate the revenue required to meet the approved cost. Imposition of such a condition in the Retail Supply Tariff Order absolves GoTS from honouring its subsidy commitment at the time of tariff determination. Therefore, the Commission may seek the subsidy commitment from GoTS in a binding manner. It may also be stipulated that the interest shall be payable by GoTS for delay in release of the committed subsidy to the distribution licensees. Further, in the event of not receiving the subsidy, the distribution licensees have to pursue with GoTS for release of the same and such subsidy component in tariff is not to be collected from the consumers.

***Commission's view***

9.5.3 Section 65 of the Act stipulates the provision of Subsidy by State Government. The administration of GoTS Subsidy depends on the modalities of the release of the same to the distribution licensees.

9.5.4 The Commission has taken note of the stakeholder's submission regarding the Full Cost Recovery Tariffs, and the Retail Supply Tariffs. The said issue falls in the purview of the Retail Supply Tariff Order.

# 10 Norms and Principles for Determination of SLDC Charges

## 10.1 Applicability

***Stakeholders Comments/Suggestions/Objections***

10.1.1 The Registration Fee, Application Fee and Processing Fee are subject to levy of GST as per the GST Act and therefore, the same may be provided for in the Regulation.

***Commission's view***

10.1.2 The applicability of statutory charges shall be governed by the relevant Statutes and such applicability need not be spelt out in the Regulation.

## 10.2 Operation and Maintenance (O&M) expenses

***Stakeholders Comments/Suggestions/Objections***

10.2.1 Clause 98 specifies the methodology for computation of O&M expenses. The employee cost under the said methodology may be limited only to the extent of DA increase but not Annual Grade Increment, Special Grade Increments and employee terminal benefits, etc. The Commission may allow actual employee cost incurred along with employee terminal benefits for the purpose of ARR.

10.2.2 The computation of R&M expenses and A&G expenses is based on WPI Inflation. Clarification may be included on the WPI Inflation considered for projections when the same is negative.

10.2.3 Clause 98.4 specifies that the provisioning of expenses shall not be considered as actual expenses at the time of true-up, and only expenses as actually incurred shall be considered. The Commission may modify the said clause to consider the provisions as expenses/revenue in ARR, as TSTransco is following Mercantile system of Accounting.

***Commission's view***

10.2.4 The Commission does not accept the stakeholder's request regarding the employee cost.

10.2.5 The clarification regarding WPI inflation to be considered when the same is negative is not required to be specified in the Regulation, as the same is not envisaged, and has happened only once or twice earlier, and in such cases, appropriate view shall be taken at the time of tariff determination.

10.2.6 The Commission does not find merit in the stakeholder's submission to modify Clause 98.4, as the actual expenses are allowable as and when incurred

subject to the provisions of the Regulation.

## 10.3 SLDC Charges

***Stakeholders Comments/Suggestions/Objections***

10.3.1 Clause 100 specifies the SLDC Charges in Rs./MW/month payable by Transmission System Users. The Commission may specify the SLDC Charges in Rs./day/transaction payable by the Transmission System Users for Temporary-General Network Access for Open Access Inter-State transactions.

***Commission's view***

10.3.2 The Commission find that the SLDC charges inn Rs./MW/Month are appropriate and has not made any change in tis regard

## 10.4 Billing and Payment of Charges

***Stakeholders Comments/Suggestions/Objections***

10.4.1 Clause 101.2 specifies that the monthly bill for SLDC Charges shall be payable within thirty days of receipt of bill. The said period may be modified to 30 days for distribution licensees and 15 days for Open Access Consumers.

***Commission's view***

10.4.2 The Commission does not find merit in the stakeholder's request to modify Clause 101.2.

# 11 Miscellaneous

## 11.1 Power to deviate from the provisions of the Regulation

***Stakeholders Comments/Suggestions/Objections***

11.1.1 The Commission has inherent power to deviate from the provisions of the Regulation for reasons to be recorded in writing. The same may be included in the Regulation.

***Commission's view***

11.1.2 The MYT Regulation already provides for "power to remove difficulties", and hence the power to deviate from the specified Regulation is not required to be expressly provided for.

| | | |
|---|---|---|
| **Sd/-** | **Sd/-** | **Sd/-** |
| **(BANDARU KRISHNAIAH)** | **(M.D.MANOHAR RAJU)** | **(T.SRIRANGA RAO)** |
| **MEMBER** | **MEMBER** | **CHAIRMAN** |

## ANNEXURE-1 – PUBLIC NOTICE

**TELANGANA STATE ELECTRICITY REGULATORY COMMISSION**
**5th Floor, Singareni Bhavan, Red Hills, Lakdi-ka-pul, Hyderabad 500004**

**NOTICE**

**In the matter of DRAFT TELANGANA STATE ELECTRICITY REGULATORY COMMISSION (MULTI YEAR TARIFF) REGULATION, 2023**

***

In exercise of the power conferred under Section 181 of the Electricity Act, 2003 (the Act), the Commission has prepared the draft Regulation namely Telangana State Electricity Regulatory Commission (Multi Year Tariff) Regulation, 2023 for the period commencing from 01.04.2024.

The draft regulation is hosted on the website of the Commission (www.tserc.gov.in). Notice is hereby given under sub-section (3) of Section 181 of the Act read with Electricity (Procedure for Previous Publication) Rules, 2005 inviting comments/suggestions/objections from the stakeholders and interested persons on the provisions of above draft Regulation. Comments/suggestions/objections may be submitted before 5:00 PM on or before 07.12.2023 either in writing addressed to the Secretary, TSERC at the above address or by email to secy@tserc.gov.in.

Hyderabad
16.11.2023

Sd/-
Secretary

1

# Objections to power tariff regulation: deadline extended

The Telangana State Electricity Regulatory Commission extended the last date for submission of comments, objections and suggestions from all stakeholders and interested persons on the draft of TSERC (Multi Year Tariff) Regulation, 2023 to December 14. A press release said the Commission has received requests to extend the last date from December 7. Public hearing on the draft policy is scheduled for 11 a.m. on December 18 at the commission office.

## TSERC TO HOLD PUBLIC HEARING ON DECEMBER 18

**Hyderabad:** The TS Electricity Regulatory Commission (TSERC) will conduct a public hearing on the draft multi-year tariff regulation-2023 on December 18 at 11 am in the court hall on its premises in Red Hills to seek objections and suggestions from stakeholders. Those who intend to make oral submissions on the subject can attend the hearing to share their views.

## ANNEXURE-2 – LIST OF STAKEHOLDERS WHO HAVE SUBMITTED WRITTEN COMMENTS/SUGGESTIONS/OBJECTIONS

| Sl. No. | Name and Address of the Stakeholder |
|---|---|
| 1. | Sri S. Surya Prakasa Rao, Former Director (Commercial), erstwhile APCPDCL and Former Secretary, erstwhile APERC, Flat no. 105, Ashok Chandra Enclave, 11-4-60 Redhills, Hyderabad-500 004 |
| 2. | Indian Energy Exchange Limited, Plot No. C-001/A/1, 9th Floor Max Towers, Sector 16B Noida, Gautam Buddha Nagar, Uttar Pradesh – 201 301 |
| 3. | The Federation of Telangana Chambers of Commerce and Industry, Federation House, Federation Marg, Red Hills, Hyderabad-500 004. |
| 4. | Sri Venugopala Rao, Senior Journalist and Convener, centre for Power Studies, H. No.1-100/MP/101, Monarch Prestige, Journalist's Colony, Serilingampally Mandal, Hyderabad – 500 032 |
| 5. | Prayas (Energy Group), Unit III A&B, Devgiri, Joshi Rail Museum Lane, Kothrud, Pune, Maharashtra-411 038 |
| 6. | Sri M.Thimma Reddy, Convenor, People's Monitoring Group on Electricity Regulation, 139, Kakatiyanagar, Hyderabad - 500 008 |
| 7. | Transmission Corporation of Telangana Limited, Vidyut Soudha, Somajiguda, Hyderabad-500 082 |
| 8. | The Singareni Collieries Company Limited, Singareni Bhavan, Red Hills, Hyderabad |
| 9. | Southern Power Distribution Company of Telangana Limited, #6-1-50, Corporate Office, Mint Compound, Hyderabad – 500 063 |
| 10. | Northern Power Distribution Company of Telangana Limited, Corporate Office, #2-5-31/2, Vidyut Bhavan, Nakkalagutta, Hanumakonda, Warangal – 506 001 |
| 11. | Telangana State Power Generation Corporation Limited, Vidyut Soudha, Hyderabad-500082 |

## ANNEXURE-3 – LIST OF STAKEHOLDERS WHO HAVE ATTENDED THE PUBLIC HEARING HELD ON 18.12.2023

| Sl. No. | Name and Address of the Stakeholder |
|---|---|
| 1. | Transmission Corporation of Telangana Limited, Vidyut Soudha, Somajiguda, Hyderabad-500 082 |
| 2. | Southern Power Distribution Company of Telangana Limited, #6-1-50, Corporate Office, Mint Compound, Hyderabad – 500 063 |
| 3. | Northern Power Distribution Company of Telangana Limited, Corporate Office, #2-5-31/2, Vidyut Bhavan, Nakkalagutta, Hanumakonda, Warangal – 506 001 |
| 4. | Telangana State Power Generation Corporation Limited, Vidyut Soudha, Hyderabad-500082 |
| 5. | The Federation of Telangana Chambers of Commerce and Industry, Federation House, Federation Marg, Red Hills, Hyderabad-500 004. |
| 6. | Sri Venugopala Rao, Senior Journalist and Convener, centre for Power Studies, H. No.1-100/MP/101, Monarch Prestige, Journalist's Colony, Serilingampally Mandal, Hyderabad – 500 032 |
| 7. | Prayas (Energy Group), Unit III A&B, Devgiri, Joshi Rail Museum Lane, Kothrud, Pune, Maharashtra-411 038 |
| 8. | The Singareni Collieries Company Limited, Singareni Bhavan, Red Hills, Hyderabad |