

A1: INTRODUCTION

Delhi Electricity Regulatory Commission (DERC)

- 1.1 The Delhi Electricity Regulatory Commission ('DERC' or 'the Commission') was constituted by the Government of the National Capital Territory of Delhi on March 3, 1999 and it became operational from December 10, 1999.
- 1.2 The Commission's approach to regulation is driven by the Electricity Act 2003, the National Electricity Plan, the National Tariff Policy and the Delhi Electricity Reform Act 2000. The Act mandates the Commission to take measures conducive to the development and management of the electricity industry in an efficient, economic and competitive manner.

Objective of this Paper

- 1.3 In the past, consumers in Delhi have expressed difficulty in understanding the tariff petitions filed by distribution companies and its impact on them. The Commission, therefore, has taken an initiative and prepared a document giving salient features of the petitions filed by the distribution companies.
- 1.4 The objective of this document is to inform consumers about the tariff petitions filed by distribution companies in Delhi with respect to truing up of expenses for the year 2008-09, revised estimates of expenses and revenue for the year 2009-10 and projection of expenses and revenue at existing tariff for the year 2010-11, along with their tariff proposal with respect to tariff applicable from 1st April 2010. This document does not contain view/analysis on the Commission on the tariff petitions filed by the distribution company. The Commission will process these tariff petitions based on the prevailing regulations, after considering the information/comments provided by all stakeholders.

Background of the Petition filed by Distribution Companies

- 1.5 The Petition for truing up of expenses for 2008-09, revised estimates of expenses and revenue for 2009-10 and projection of expenses and revenue at existing tariff for 2010-11 has been filed by the distribution companies according to the actual audited data for year 2008-09 that is now available.
- 1.6 Aggregate Revenue Requirement (ARR) of distribution licensee is the total cost pertaining to its distribution business which are permitted, in accordance with relevant regulations, to be recovered from the tariffs and charges determined by the Commission.
- 1.7 The components of ARR are:
 - (a) Cost of power purchase, which is the total cost incurred in purchasing power from various sources such as generating stations, other licensees, etc.
 - (b) Operations and Maintenance (O&M) Expenses, comprising of:

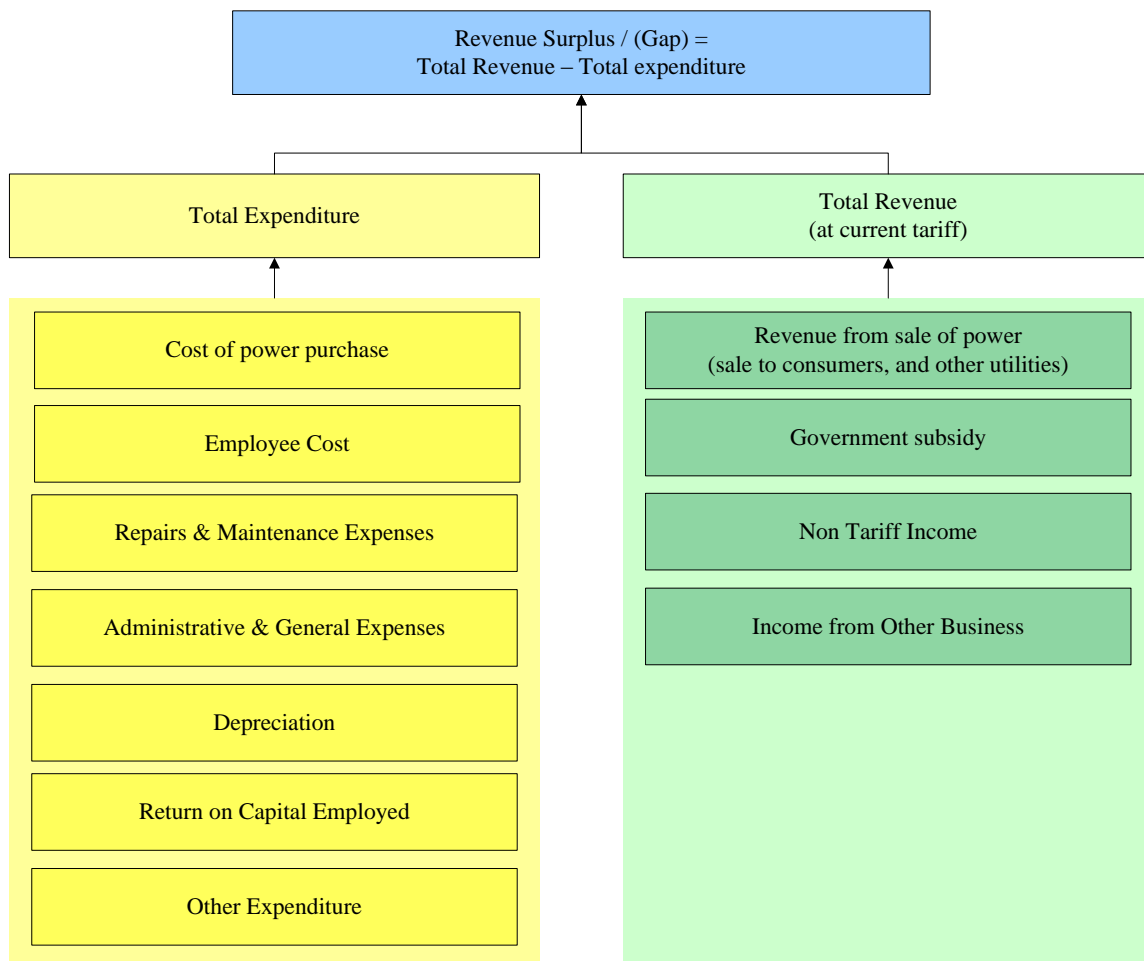
- (i) Employee Cost, which includes the wages, pension and other remunerations paid to the workforce;
 - (ii) Repairs & Maintenance (R&M) expenses, which include all expenditure incurred on the maintenance and upkeep of assets; and
 - (iii) Administrative & General (A&G) expenses, which include all expenditure incurred in operating a business such as rent, salaries, telephone charges, etc.
- (c) Return on Capital Employed, which includes return on equity and interest expenses on loans including working capital
 - (d) Depreciation; which is a noncash expense that reduces the value of an asset due to age, wear and tear, or obsolescence
 - (e) And other miscellaneous expenditure.

1.8 On the revenue side, the licensee earns revenue from the following sources:

- (a) Sale of power (to consumers, other utilities, etc.)
- (b) Non Tariff Income, which includes interest received on deposits, loans and advances, delayed payment surcharge levied on bills that are paid late, sale of scrap, etc. Non-Tariff Income (NTI) needs to be subtracted from the total expenditure incurred by the licensee, in order to compute the licensee's Aggregate Revenue Requirement.

1.9 A graphical representation of the components of ARR and the revenue of the licensee is given below in Figure 1.

Figure 1 Components of ARR and Revenue



- 1.10 In accordance with the DERC (Terms and Conditions for Determination of Wheeling Tariff and Retail Supply Tariff) Regulations, 2007 (hereinafter referred to as the ‘MYT Regulations, 2007’) that govern the determination of Distribution tariff in a multi-year framework in Delhi, the Commission had issued the Multi Year Tariff Order for the control period year 2007-08 to year 2010-11 (hereinafter referred to as the ‘MYT Order’) on February 23, 2008, which set long-term performance and cost targets for all Distribution licensees.
- 1.11 The MYT Regulations, 2007 provides for a periodic review of the licensees’ performance during the control period in order to address any unexpected/uncontrollable outcomes that may occur within that period. This is intended to take into account various uncontrollable factors like power purchase and sales that are not within the licensee’s control and therefore, by regulation, must be factored into the revenue requirement calculation for each licensee. Similarly, the profits that accrue from over-achievement of set targets such as AT&C loss levels are mandated to be shared between the licensee and consumers and hence need to be factored into the revised ARR estimation.
- 1.12 On the basis of the licensee’s ability to manage various cost and performance elements, the Commission has segregated them into **controllable** and **uncontrollable** parameters. The

actual performance of the licensee on uncontrollable parameters is taken into account for subsequent true-up and revision of ARR estimates, while any financial losses due to under-performance on controllable parameters will be to the licensee's account.

- 1.13 Thus, the MYT Regulations provide for a true up of the ARR estimate for each performance review year on the basis of actual performance data for uncontrollable parameters of that year. The Commission may also make suitable changes to the planned trajectory of performance and expenses approved in the MYT Order of February, 2008.
- 1.14 licensees are required to file an application for approval of the Retail Supply Tariff for each year of the control period. As part of this exercise, licensees are required to submit information for an annual review of its actual performance vis-à-vis the targets approved by the Commission at the beginning of the control period, which includes annual statements of its performance and accounts including latest available audited/actual accounts and the tariff worked out in accordance with the applicable Regulations.
- 1.15 In keeping with this framework of Annual Performance Review, the Commission had issued a True up Tariff Order on May 28, 2009 (hereinafter referred to as the 'True Up Order of 2009') for trueing up the ARR of year 2007-08 as per the actual performance / audited accounts of 2007-08 of the licensees, and approving the revised ARR for year 2009-10.
- 1.16 Petitions that are the subject of this paper address the true up for the year 2008-09 and approval of Revised ARR & Tariff for the year 2010-11 as filed by the licensees. These petitions address actual and projected variations in the ARR for 2008-09 and projected variations for the year 2010-11 including the revenue shortfall up to year 2009-10 due to reasons like uncontrollable factors, profit sharing mechanism for exceeding approved targets etc.

Controllable and uncontrollable parameters

- 1.17 While designing the MYT framework for Delhi, the Commission segregated costs into two categories: those which are expected to be easily controlled by the licensee, and those over which the licensee does not have significant control.
- 1.18 The Commission sets targets for each year of the Control Period for parameters deemed to be controllable, such as AT&C losses, Operation and Maintenance Expenses (O&M expenses), Quality of Supply, etc. Any financial losses arising out of under-performance with respect to the targets specified by the Commission for these controllable parameters are to be borne by the licensee. **Controllable parameters** include:
 - (a) Aggregate Technical & Commercial (AT&C) Loss, which shall be measured as the difference between the units input into the distribution system and the units realised (units billed and collected) wherein the units realised shall be equal to the product of units billed and collection efficiency.

- (b) Distribution losses, which shall be measured as the difference between total energy input for sale to all its consumers and sum of the total energy billed in its Licence area in the same year.
- (c) Collection efficiency, which shall be measured as ratio of total revenue realised to the total revenue billed for the same year. The revenue realisation from arrears relating to the DVB period, electricity duty and late payment surcharge shall be included for computation of collection efficiency.
- (d) Operation and Maintenance (O&M) Expenditure which includes Employee Expenses, Repair & Maintenance (R&M) expenses, Administration & General (A&G) expenses and other miscellaneous expenses viz. audit fees, rents, legal fees etc.
- (e) Return on Capital Employed which includes return on equity and interest expenses on loans including working capital.
- (f) Depreciation of assets, and
- (g) Quality of Supply

1.19 On the other hand, certain elements of cost and revenue are not within the licensee's control. Hence these are deemed to be uncontrollable and any variations in these elements from the approved trajectory laid down in the MYT Order are allowed to be factored into the revised ARR computations for the next year. Uncontrollable parameters include the following:

- (a) Cost of power purchase from various sources
- (b) Revenue from sale of power to consumers

1.20 Further, there are certain elements of cost that have been considered to be controllable by the Commission, but due to exceptional circumstances as detailed below, these costs would be subjected to true-up.

1.21 Operation and Maintenance (O&M) Expenditure – comprising employee cost, R&M expenses and A&G expenses – is considered to be “controllable” according to the MYT Regulations, 2007. However, employee cost needs to be trued up due to the impact of the Sixth Pay Commission. Due to the recommendations of the Sixth Pay Commission, the licensee has to incur additional expenditure due to the salary hike recommended for the erstwhile DVB employees who are now on the licensee's payrolls post transfer of assets from the DVB to distribution licensees. The Commission has recognized the uncontrollable nature of this expenditure in its MYT Order of February 2008 as the recommendation and impact on Sixth Pay Commission were not known then and allowed the same to be trued up based on the actual value later.