STATUTORY ADVICE TO GOVT. OF NCT OF DELHI
u/s 86 (2) OF ELECTRICITY ACT, 2003.

1. Prior to privatization, the Delhi electricity sector was fully owned and controlled by the GoNCTD. It is understood that the following Plan and Non-Plan support was given by GoNCTD for the three years preceding privatization:-

(Figures in Rs. crores)

Year	1998-99	1999-2000	2000-01
Plan	406	478	543
Non-Plan	454	658	794
Total	860	1136	1337

2. In 2002, the erstwhile DVB was unbundled into two generation, one transmission and three distribution entities (in addition to the NDMC and MES for their respective areas). After formation of the three new distribution entities 51% of the share capital in each of the distribution entities was offered through competitive bidding to private operators on the basis of the trajectory quoted by them for reduction of AT&C losses.

3. Subsequent to unbundling and partial disinvestment, the GoNCTD has completely withdrawn from its capex commitment in respect of the distribution entities. The GoNCTD, however, continued its hand-holding for the first 5 years i.e. 2002-07 by ensuring bulk power purchase through DTL. During this period, payments were made by the distribution companies based on their capacity to pay in terms of their projected loss reduction trajectory. A shortfall of about Rs.3500 crores for the above 5 year period was provided by GoNCTD as a loan to the DTL to meet the shortfall incurred by them on account of power purchase cost which was later on converted to equity.

4. The Commission in its various tariff orders has been following the practice of true up of the power purchase cost, which is a major component of the tariff charged to the consumers based on the audited accounts of the distribution entities. This process normally takes place with a gap of one year on account of time taken in finalisation of audited accounts.

5. This process worked satisfactorily upto FY 2008-09 with adjustments to the tune of 5-10% of the overall projected power purchase cost at the time of true up. However, since FY 2009-10 there has been a major increase in the power purchase cost and the process of true up has resulted in adjustments of several thousand crores each year, placing a severe burden on the working capital resources available to the distribution entities. Though working capital is provided in the tariff, the power utilities have to resort to very significant market borrowing to finance day to day operating expenses, particularly in respect of power purchase. The increase in revenue gap since FY 2009-10 has been primarily due to two reasons:-

(i) Increase in power purchase costs from thermal /gas power plants on account of increase in prices of coal/gas. The delay in commissioning of new power plants has also contributed to this increase.

(ii) Sudden reduction in the sale rate of surplus power on account of stringent regulations stipulated by CERC in 2010 making it prohibitive to draw power beyond a narrow frequency band. Thus, the earlier projected premium of Rs.2/unit and above on sale of surplus power is no longer available. In fact, surplus power has to be sold at rates lower than the average cost of power purchase, as surplus is available primarily at off peak hours. This has resulted in a huge loss on account of sale of surplus power.

6. The buildup of revenue gap since FY 2009-10 is given in the table below:-

(Amount Rs. in crores)

Revenue Gap (*)	**BRPL**	**BYPL**	**TPDDL**	**Total**
Upto FY 2008-09	(611.50)	25.93	(351.10)	(936.67)
FY 2009-10	(1068.07)	(532.58)	(751.46)	(2352.11)
FY 2010-11(as approved by the Commission)	(1545.72)	(1120.93)	(963.61)	(3630.26)
FY 2011-12 (Projected by DISCOMs)	(4233)	(2216)	(1783)	(8232)
FY 2012-13(Projected by DISCOMs)	(1779)	(1690)	(885)	(4354)
Total revenue gap (**)	(9237.29)	(5533.58)	(4734.17)	(19505.04)

(*) amount of the revenue gap upto FY 2010-11 includes carrying cost as approved by the Commission; and from FY 2011-12 onwards, the revenue gap includes carrying cost as per the tariff petitions filed by the licensees for FY 2013-14.

(**) This gap does not include the revenue gap arising on account of the impact of all the appeals filed before the ATE/SC etc., which shall be additional.

7. The above build-up is in spite of the fact that the Delhi distribution utilities have been able to significantly bring down AT&C losses in the city to levels well below those in most other States. The AT&C losses during 2011-12 as against the losses at the time of unbundling, based on which bids for privatization were invited are given below:-

	TPDDL	BRPL	BYPL
Opening Loss Levels in 2002	48.1	48.1	57.2
Current Loss Levels in FY 2011-12	11.27*	16.36*	17.84*

*Note:- As claimed by DISCOM, but yet to be true-up by the Commission.

It goes without saying that without the above mentioned reductions in AT&C Loss levels, the revenue gaps would have been much higher, making the operations / tariff levels completely unviable.

8. Since, there is no budgetary support from the GoNCTD (which is still a 49% share holder) to the distribution companies after 2007, the entire burden of bearing impact of the requirements of CAPEX as well as the escalating cost of power purchase falls on the electricity consumers in the city of Delhi.

9. There has been a huge public outcry in the last 2 to 3 years against the tariff increases approved by the Commission in order to bridge the increasing gap between annual revenue requirements and revenue available from sale of electricity. Not only have tariffs increased significantly in the last 2 years, but the residual revenue gap has also built up to alarming levels. Vide tariff order of 26 August, 2011, the tariff was increased by 22% across the board for all consumer categories. A fuel surcharge was levied in addition to the said tariff increase. Further, in a time span of less than a year, w.e.f. 1 July, 2012, a tariff hike of 23% was announced with an additional surcharge of 8% in order to start recovery of accumulated shortfall. However, this surcharge has not made any significant dent in reduction of accumulated shortfall as it has mainly contributed towards meeting the carrying cost of the accumulated shortfall.

10. The growing gap between the annual revenue requirements and the revenue available through tariff places additional interest burden on the electricity consumers by way of carrying cost on the additional market borrowings which have to be resorted to meet this gap. It also puts strain on the resources available to purchase power, even though there are adequate long term power purchase arrangements to meet the electricity demand of the NCT of Delhi.

11. The SBI Capital Markets Ltd. in a presentation made to the Commission in December, 2012 have assessed that liquidation of the pending revenue gap in the case of BRPL will require a surcharge of 20% every year on the applicable tariff from FY 2013-14 to FY 2018-19 while in the case of BYPL, a surcharge of 25% every year will be required to enable recovery of revenue gap in 6-7 years. The majority of consumers in Delhi are in the domestic category, out of which the consumers falling in the consumption slab upto 400 units constitutes approx. 70-80%. Thus, it is mainly the middle class consumers who would be impacted on account of an increase in tariff.

12. As compared to the above situation in the NCT of Delhi, other States where the electricity supply is managed by Government owned entities, have either not increased tariffs at all or increases have at best been moderate. This is on account of the benefits of various centrally sponsored schemes and the State Governments bearing a significant part of the residual burden which in case of NCT of Delhi is passed on entirely to the electricity consumers through their tariff or reflected as accumulated revenue gap.

13. Considering the significant revenue gap to be passed on to the general consumer of electricity, the Commission has also been conservative in approving new Capex schemes proposed by the distribution companies and limited the Capex investments to the loss reduction schemes or those required to meet the load growth in the NCT of Delhi. There are major issues related to the modernisation and upgradation of the transmission and distribution network

which have largely remained unaddressed on account of the huge funds required for the same and the potential impact that these investments would have on the tariff of electricity in the city.

14. **Recommendations:-**

The Commission has considered the above circumstances in which the distribution companies of Delhi are placed and recommend the following actions to the GoNCTD to ensure a balanced growth and development of the electricity sector at par with other States where electricity supply is managed by State Government owned entities, without passing on a inordinately large burden to the electricity consumers when compared to their peers in other States.

i) There is a mistaken notion amongst the general public as well as important opinion makers that any Government support to the privately managed distribution companies (although 49% stake still remains with State Govt.) would be seen as a bail out to the private companies. It needs to be emphasised that the owners of the distribution companies (including the GoNCTD to the extent of 49%) are entitled only to the specified return on capital employed and do not benefit from any capital or revenue support provided under any Central Govt. or State Govt. schemes to ensure the development of the electricity sector. Any financial support provided directly or indirectly by the Central or State Governments through any of their schemes has a direct impact on the ARRs of the distribution entities and, therefore, on the electricity tariffs which are required to be charged from the electricity consumers. Till now, the Govt. of Delhi has been giving direct cash support to the economically weaker sections, who consume upto 200 units per month. *The Commission recommends that Govt. of NCT of Delhi may take urgent steps so that the benefits of various Central Government sponsored schemes are extended to the Delhi distribution utilities and, in turn, to the electricity consumers in Delhi. Unless this is done, tariffs in Delhi could become unsustainable, especially when compared to other States in* *the country where State owned utilities not only avail the benefits of the centrally sponsored schemes but also avail direct subsidies from the State Goverments as well as additional budgetary support for lower tariff levels.*

ii) In case of APDRP, R-APDRP and JNNURM schemes of the Central Govt., the view of the Govt. been that privately managed distribution entities should not be allowed to avail the benefits of these programmes. The Commission is of the view that denial of the benefits of these programmes to the distribution entities of Delhi does not affect the managements of these distribution companies but, in fact, denies the benefit of the schemes to the consumers of electricity of Delhi who are as a result required to pay higher tariffs than are paid by the electricity consumers in other States which avail of the benefits of these schemes. *Thus, the Govt. of NCT of Delhi may take up with the Ministry of Power that these schemes are availed of by the Delhi distribution utilities for the benefit of the consumers in the NCT of Delhi.*

iii) The financial bailout package introduced by the Central Govt. for financial restructuring of State distribution entities with certain conditions including support from the State Govt. is also being denied to the distribution entities in Delhi. Here again, this view does not impact the private managements of these companies but has a direct impact on their revenue requirements and consequently, the tariff required to be paid by electricity consumers in the city. *The Govt. of NCT of Delhi may take up with the Ministry of Power to sanction the bail-out package for the DISCOMs of Delhi. This would be the single most important measure for deferring the incidence of high levels of past revenue gaps on the tariff determination process.*

iv) Delhi receives bulk of its power from three coal-based power stations viz. BTPS, Dadri and Jhajjar and gets only limited amount of power from the pit-head stations of NTPC. Since the fuel cost contains a very substantial component of transportation charges which are much higher than the transmission losses for power from pit-head stations, the cost of central sector power to Delhi is much higher than that to states receiving power from pit-head stations. In addition, the coal linkage to Jhajjar plant is from Mahanadi coalfields in Orissa which are located even further away than the mines linked for Badarpur and Dadri. In addition to the above, all three power stations mentioned above are required to burn imported coal on account of coal shortages. *The Commission is, therefore, of the view that the Govt. of NCT of Delhi may take up with Govt. of India for ensuring adequate allocations to these power stations from coal mines from where the transportation distance is shortest or alternatively to allocate additional power to the Delhi from the pit-head stations of NTPC in the Northern and Western regions.*

v) Delhi has also established substantial gas based capacity at its Pragati and Bawana combined cycle gas based stations. *Govt. of NCT of Delhi may take up with the Govt. of India for allocation of adequate APM gas to these power stations to ensure that the cost of power from these stations is kept within manageable limits.*

vi) As regards renewable power in the NCT of Delhi is concerned, *it is necessary for Govt. of NCT of Delhi to seek the help of Govt. of India in sourcing cheaper financing through green funds and by making availing carbon credits for its roof-top solar and other renewable programmes.*

vii) The development of the electricity distribution system in Delhi has remained largely unaddressed because of the priority to reduce AT&C losses and to meet the growth load in the city. Delhi being the National Capital needs to have a model distribution network which not only compares favourably with the best distribution utilities in the country but is also comparable to the best utilities globally. *The Commission is of the view that Govt. of NCT of Delhi should approach the Govt. of India to arrange a special financial package for this modernization and development through IDA credit/IDBI loan/ funding from other multilateral financing agencies at rates which are more favourable than* *financing through the domestic commercial financial institutions presently being availed by the distribution companies.*

viii) It needs to be emphasized that Delhi utilities are responsible for meeting the requirements of the National Capital which includes high priority loads like Delhi Metro, Delhi International Airport, AIIMS, Railways as well as Rashtrapati Bhawan, PMO, national security agencies and other establishments of national importance. Considering the strategic importance of Delhi power supply in the regional and national context, it would be necessary that the Govt. of India allow Delhi power utilities to avail policy and financial support through various central schemes to ensure that electricity consumers in Delhi are not denied the benefits which are availed by consumers in other parts of the country. This is especially required since Delhi distribution utilities ensure that power supply to priority loads including installations of national importance, is maintained even in case of grid disturbances and other emergency situations. *The Commission, therefore considers it appropriate to urge the Govt. of NCT of Delhi to approach Ministry of Power, Govt. of India, to provide the above support so that the common electricity consumers are not burdened with the financial impact of the requirements of the national capital, beyond what their peers in other states/cities are required to bear.*

Conclusion:-

The Commission has already commenced the process of tariff determination for FY 2013-14. There have already been two significant increases in the past less than 2 years which have collectively resulted in enhancement of electricity bills by over 50% since August, 2011. Even though the present tariff levels are more or less at par with those prevailing in NCR region, this has already resulted in a high level of public resentment.

Without the measures recommended above, the increase in tariff can be quite significant. In fact, Delhi is a prime contender for the bailout package proposed by the Ministry of Power because for the last many years, the utilities have drastically reduced the AT&C losses and moved towards cost reflective tariffs. There is a gross misconception that the bailout package will benefit the managements of the private DISCOMs. This is not the case as they are eligible only to a limited return on their equity and in fact the benefits of the bailout package as well as access to other schemes such as R-ARDP and soft financing will ultimately benefit the average consumer through reduced tariffs.

A huge uncovered revenue gap has built up since 2008-09 primarily due to an unprecedented rise in power purchase costs which account for over 85% of the total revenue requirements of the DISCOMs. This is the price we have to bear for uninterrupted delivery of quality power. Nevertheless, support through various Central and State Govt. schemes is essential to cushion the impact till economic growth and prosperity rise to levels which give more purchasing power to the consumers of electricity in the country. In any case, tariffs which rise at more than thrice the inflation rate will not be sustainable.

The above recommendations are designed essentially to ensure that electricity consumers in the NCT of Delhi are not placed at a disadvantage vis-à-vis consumers in other parts of the country merely on account of the fact that the management of the electricity utilities has been handed over to private operators through a 51% disinvestment as a part of power sector reforms.

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