

INTRODUCTION

- 1.1 This staff paper contains a summary of the petition submitted by NDPL for True Up for 2008-09 for the Commission's approval.
- 1.2 The Commission shall true up the uncontrollable parameters (Sales and Power Purchase) viz-a-viz the audited account of distribution licensees after prudence check and as far as the controllable parameters are concerned, any variation (up or down) on account of O&M expenses is completely to the account of the licensee and is not trued-up (excluding impact of Sixth pay Commission). Depreciation and ROCE shall be trued-up at the end of the control period based on the capital expenditure and capitalization undertaken by the licensees for each year of the control period viz-a-viz approved capital expenditure and capitalization by the Commission in the MYT order. Income Tax shall be considered at actual in accordance with the Regulations.

Energy Sales

- 1.3 In its petition, NDPL has submitted that its energy sales were 5161 MU in 2008-09 although the quantum of sales approved in the MYT Order for that year was only 5119 MU.
- 1.4 Since sales are treated as an uncontrollable factor, NDPL has requested the Commission to approve the actual sales for 2008-09. The table below shows the category-wise sales approved by the Commission earlier in the MYT Order and that submitted by the Petitioner in the true-up Petition for 2008-09.

Table 1 Actual Energy sales in 2008-09

Sale of Energy (MU)	2008-09	
	Approved in the MYT Order	As per petition
Domestic	2018	2102
Non Domestic	1135	1014
Industrial	1656	1767
Agricultural	8.46	28
Railways	50	48
DMRC	115	76
Street Lighting	84.63	66
Others	51.21	60
Total Sales	5119	5161

AT&C Losses

- 1.5 In its petition, NDPL has submitted the actual loss figures for 2008-09, which are better than the loss level targets set by the MYT Order. As per the profit sharing mechanism laid down in the MYT Regulations, the gains from this over-achievement of target are to be shared between the consumers and the Licensee.
- 1.6 The table below shows the actual figures in 2008-09 of certain parameters, along with the figures that were approved for 2008-09 in the MYT Order.

Table 2 Actual vs. approved figures for 2008-09

Particulars	Units	2008-09		
		MYT Order	Actual	Better Achievement
Sales	MU	5118.88	5161.16	
Distribution loss targets	%	19.75%	18.40%	1.35%
Power Purchase at DISCOM periphery	MU	6378.51	6325.30	
Collection Efficiency	%	99.25%	104.39%	5.14%
AT&C Loss Targets	%	20.35%	14.82%	5.53%

- 1.7 The summary of incentive claimed for NDPL and consumer's share in revenue for overachievement of AT&C loss reduction target is summarised in the table below:

Table 3: Benefits on account of overachievement of AT&C loss targets for 2008-09

Particulars	FY 2008-09
	As per true-up petition
Total Amount on account of over-achievement of AT&C losses (Rs Cr)	165.48
Benefit to be retained by NDPL (Rs Cr)	85.48
Benefit to be transferred to contingency reserve	80.00

Power purchase requirement

- 1.8 The quantum of power purchase is decided by the expected sales of energy by the Licensee, as well as the loss levels projected/approved. Higher expected sales require a greater quantum of power to be purchased. Similarly, higher loss levels also require a proportionately greater amount of power purchase by the Licensee because it needs to meet the expected sales (in MU) after accounting for various losses in the process of supplying electricity.
- 1.9 The energy sales for that year is grossed up by the loss levels for the year, to arrive at the required quantum of power purchase for that year in the following manner:

$$\text{Quantum of power purchase (MU)} = \frac{\text{Energy sales}}{(1 - \text{Distribution Loss (\%)/100})}$$

1.10 The table below shows the actual sales, loss levels and power purchase for the year 2008-09 submitted by the Licensee.

Table 4 Actuals for 2008-09

Category	Units	2008-09	
		MYT Order	Actual
Sales	MU	5119	5161
Distribution Loss	%	19.75%	18.40%
Power Purchase at Periphery	MU	6378.51	6325.30

Power Purchase Cost

1.11 As per the MYT Regulations, 2007, the Licensee is allowed to recover the cost of power procurement from sources approved by the Commission for supply to its consumers. The following power procurement sources are approved by the Commission:

- (a) Intra-state and Inter-state Trading Licensees
- (b) Bilateral Purchases
- (c) Bulk Suppliers
- (d) State generators
- (e) Independent Power Producers
- (f) Central generating stations
- (g) Non-conventional energy generators
- (h) Any generation business of the Distribution Licensee

1.12 NDPL in its petition has submitted that the actual rate at which it purchased power in the year 2008-09 was higher than the rate approved for the year in the MYT Order. It has stated that the actual rate for 2008-09 was Rs. 2.86/unit whereas the approved rate was Rs. 2.68/unit. NDPL submits that the actual quantum of power purchased in 2008-09 was lower than the amount approved for that year in the MYT Order (6325 MU in actual, as opposed to 6378 MU approved), but due to the actual rate of purchase being higher, it incurred a higher power purchase cost in 2008-09 than the amount approved in the MYT Order (Rs. 1806 Cr in actual as opposed to Rs. 1706 Cr approved).

1.13 The table below show the actual power purchase cost submitted by NDPL for the Commission's approval for the year 2008-09 along with the cost approved by the Commission.

Table 5 Power purchase Quantum, cost and rate for 2008-09 along with the cost approved in the MYT Order

Particulars	Approved in the MYT Order			Actual		
	Quantum (MU)	Cost (Rs. Cr)	Average rate (Rs./unit)	Quantum (MU)	Cost (Rs. Cr)	Average rate (Rs./unit)
Power purchase from CSGS	5048.00	1145.34	2.27	4284.45	1047.90	2.45
Inter-State Bilateral Purchase (including UI)	239.19	153.08	6.40	581.44	274.78	4.73
PGCIL Losses	(207.06)			(200.36)		
Power Purchase from Delhi Gencos	2303.43	571.68	2.48	2385.95	676.86	2.84
Intra-State Power Purchase	79.73	21.93	2.75	184.34	58.12	3.15
Power Availability at Delhi periphery	7463.29	1892.03	2.54	7235.82	2057.66	2.84
DTL Losses	(72.72)			(106.48)		
Power available to DISCOM	7390.57	1892.03	2.56	7129.34	2057.66	2.89
Less: Surplus Power Sold/Banked/UI Sales	(1,012.06)	(286.41)	2.83	(804.04)	(402.35)	5.00
	6378.51	1605.62	2.52	6325.30	1655.30	2.62
Transmission Charges						
PGCIL charges and ULDC charges		55.93			103.12	
DTL and BBMB charges		44.81			47.50	
Power required for NDPL's consumers	6378.51	1706.36	2.68	6325.30	1805.92	2.86

* Petition does not show the SLDC charges of Rs. 2.08 Cr allowed in the MYT Order which brings the approved total to Rs. 1708.44 Cr

O&M Expenditure

1.14 Although O&M expenditure has been considered to be a "controllable" element according to the MYT Regulations, 2007, due to various factors outside the Licensee's control, NDPL has requested for True Up of O&M Expenses.

1.15 Table below shows the proposed O&M expenses for year 2008-09 along with the expenses approved in the MYT Order.

Table 6 Proposed and approved O&M expenses for 2008-09

O&M Expenses (Rs. Cr)	2008-09	
	Approved	As per petition
Employee Expenses	175.00	175.00

O&M Expenses (Rs. Cr)	2008-09	
	Approved	As per petition
A&G expenses	32.21	32.21
R&M expenses	72.16	72.16
Expense capitalization	(21.45)	(21.45)
Efficiency factor	(5.16)	(5.16)
Total O&M expenses	252.75	252.75

1.16 In addition to the above, NDPL has requested additional O&M expenses on account of the following reasons:

- (a) **Impact of Sixth Pay Commission on the pay of DVB employees:** The Commission in its MYT Order had recognised the uncontrollable nature of Sixth Pay Commission recommendations in determination of employee expenses incurred on ex-DVB employees during the Control Period. It has accordingly considered a provisional increase @10% in the total employee expenses w.e.f. January 2006 and had stated that a true-up would be done later based on the actual impact. NDPL submits that it has already paid out a sum of Rs. 18 Cr in 2008-09.
- (b) **Impact of Sixth Pay Commission on the pay of non-DVB employees:** As per the Aptel Order, a salary hike comparable to the Sixth Pay Commission's recommendations for employees other than ex-DVB employees shall also be allowed in true up process in case expenditure in that account has already been incurred. NDPL has submitted that it is yet to release any amount on this account.
- (c) **Correction of inflation-linked indexation for employee cost and A&G expenses-** The MYT Regulations, 2007 say that employee cost and A&G expenses shall be linked to an inflation-based index that takes into account the inflation indices of the immediate past five years. However, while fixing the tariff for FY 2007-08, the Commission had taken inflation figures for FY 2001-02 to FY 2005-06 because the figures for FY 2006-07 were not available then. However, now that inflation indices for FY 2006-07 are available, the Commission has to replace the provisional computation for FY 2007-08 with confirmed figures by correcting the indexation.

The table below gives the revised calculations as submitted by NDPL and the amount that the Commission has been requested to now include in the ARR.

Table 7 True up amount due to correction of inflation-linked index

Particulars	Units	2006-07	2007-08	2008-09
Inflation factor (%)	%		4.15%	4.15%
Establishment expenses	Rs. Cr.	138.15	143.88	149.85
A&G expenses	Rs. Cr.	29.69	30.92	32.21
Revised expenses proposed by NDPL (as per the corrected inflation factor)				

Particulars	Units	2006-07	2007-08	2008-09
Inflation factor	%		4.48%	4.91%
Establishment expenses	Rs. Cr.	138.15	144.34	151.43
A&G expenses	Rs. Cr.	29.69	31.02	32.54
Amount requested to be trued up				
Establishment expenses	Rs. Cr.		0.46	1.58
A&G expenses	Rs. Cr.		0.10	0.33
Total	Rs. Cr.		0.56	1.91
Total for the year	Rs. Cr.			2.47

1.17 NDPL has submitted that due to the above mentioned reasons, the O&M costs it incurred in year 2008-09 are higher than that approved in the MYT Order. Hence it has requested the Commission for a true-up of costs.

Depreciation

1.18 According to the MYT Regulations, 2007, depreciation charges are not to be trued up on an annual basis and shall be trued up only once at the end of the control period. Hence, NDPL has assumed the same depreciation as allowed by the Commission in its MYT Order for the purpose of ARR computation.

1.19 The Licensee has submitted the following figures as the depreciation cost incurred for 2008-09. The amount showed as 'approved' is the amount approved earlier in the MYT Order.

Table 8 Depreciation incurred for 2008-09

Depreciation (Rs. Cr)	2008-09	
	Approved	As per petition
Depreciation	103.36	103.36

*Depreciation and RoCE shall be dealt with as per Regulation 4.16 (ii) of MYT Regulation 2007

Return on Capital Employed (RoCE)

1.20 Like depreciation, Return on Capital Employed is not reviewed on an annual basis and will be trued up only once at the end of the control period. Hence, for the purpose of ARR calculation, NDPL has assumed the same RoCE as allowed by the Commission in its MYT Order.

1.21 The Regulated Rate Base (RRB) on which the return is calculated includes the original cost of Fixed Assets and the Working Capital less the accumulated depreciation. The Licensee has submitted that it has calculated the RRB after considering the methodology specified by the MYT Regulations, 2007. The Weighted Average Cost of Capital

(WACC) and the Cost of Debt have also been computed as per the MYT Regulations, according to the Licensee's submission.

- 1.22 It has submitted the following amounts as the Return on Capital Employed for the 2008-09.

Table 9 Return on capital employed for 2008-09

RoCE including additional Supply Margin	2008-09	
	Approved	As per petition
RoCE	200.32	200.32
Interest Cost		4.52
Supply margin	13.00	13.00
Total RoCE	213.32	217.84

*Depreciation and RoCE shall be dealt with as per Regulation 4.16 (ii) of MYT Regulation 2007

Other Expenses

- 1.23 NDPL has submitted the following additional expenses for consideration in ARR computation. These include expenses on:

- (a) **Fees paid for new power purchase arrangements:** NDPL has submitted that in the year 2008-09, it incurred an expenditure of Rs. 0.60 Cr as fees for new power purchase arrangements.
- (b) **CISF Forces:** NDPL has submitted due to additional deployment of CISF forces as well as the impact of the Sixth Pay Commission, it incurred Rs. 3.31 Cr as expenditure on CISF forces.
- (c) **Trading fees:** NDPL became a member of the Indian Energy Exchange, Power Exchange, for which it incurred an expense of Rs. 0.28 Cr including Rs. 0.26 Cr as the membership fee.
- (d) **Credit Rating:** The Licensee has submitted that it incurred Rs. 0.11 Cr in 2008-09 towards the credit rating of its fund and non-fund based facilities.
- (e) **DVB arrears:** NDPL has submitted that DVB arrears of Rs. 29.85 Cr were collected in 2008-09 which are considered as part of the revenue realized. NDPL has proposed that only 80% of this, i.e. Rs. 28.78 Cr be included in ARR calculations.
- (f) **Provision for tax:** NDPL has submitted that it incurred Rs. 27 Cr in 2008-09 on taxes, while it was allowed only Rs. 15 Cr in the MYT Order. Hence it has asked for the difference of Rs. 12 Cr to be trued up.

- (g) **Reactive energy charges:** As per a previous Order of the Commission, Distribution companies have to pay reactive energy charges on a 'status quo' basis to DTL, which is recoverable through ARR. For 2007-08 and 2008-09, DTL has raised a bill of Rs. 2.31 Cr.

- 1.24 These proposed costs are shown in the table below, along with the costs approved in the MYT Order.

Table 10 Additional expenses proposed for 2008-09

Other Expenses (Rs. Cr)	2008-09	
	Approved as per the MYT Order	As per petition
New initiatives:		
<i>Expenses related to power arrangement</i>		0.60
<i>Fee for Power Exchange</i>		0.28
<i>CISF expenditure</i>		3.31
<i>Credit rating</i>		0.11
<i>License fee of land</i>		
<i>Financing charges</i>		
<i>Tendering cost</i>		
<i>Reactive energy charges (arrears for 2007-08 and 2008-09)</i>		
<i>Reactive energy charges</i>		
Total cost for new initiatives		4.30
DVB arrears		28.78
Provision for tax	15.00	27.00
Financing cost of power banking		10.77
Energy conservation		
Total Cost of Other Expenses	15.00	70.85

Non Tariff Income (NTI)

- 1.25 Apart from the revenue earned in accordance with the tariff schedule from supplying power to consumers, Distribution Licensees also earn income from other sources such as interest received on deposits, loans and advances; charging meter rent from consumers; delayed payment surcharge levied on bills that are paid late; sale of scrap, etc. This income is called Non-Tariff Income (NTI) and it needs to be subtracted from the average revenue requirement of the Licensee.
- 1.26 NDPL has proposed the following NTI for 2008-09 against the amounts approved earlier in the MYT Order.

Table 11 Non Tariff Income for 2008-09

Non Tariff Income (Rs. Cr)	2008-09	
	Approved	As per petition
Non Tariff Income	29.10	62.27

Annual Revenue Requirement (ARR)

- 1.27 On the basis of the costs incurred in the year 2008-09 and after subtracting the Non Tariff Income for, NDPL has projected the following Annual Revenue Requirement for 2008-09.

Table 12 Proposed ARR for 2008-09

Annual Revenue Requirement (Rs. Cr)	2008-09	
	Approved as per the MYT Order	As per petition
Power purchase cost	1708.44	1805.92
DTL bills on account of truing up	-	-
O&M expenses	252.75	252.75
Correction of inflation factor	-	2.47
Increase in FRSR salary	-	12.12
Impact of Sixth Pay Commission	-	4.29
Depreciation	103.36	103.36
ROCE including supply margin allowed	213.32	217.84
Other Expenses	15.00	70.85
<i>Less:</i>		
Other income including Non Tariff Income	29.10	62.26
Interest/other expenses capitalized	9.71	-
Annual Revenue Requirement	2254.05	2407.35

Revenue from Sale of Power

- 1.28 NDPL has submitted that it achieved greater sales in the year 2008-09 than projected in the MYT Order and has shown the energy sales of 2008-09, as given below.

Table 13 Revenue from sales in 2008-09

Revenue from Sale of Power	Units	2008-09	
		Approved	As per petition
Sales	MU	5119	5161
Amount Billed	Rs. Cr	2425.67	2440.17
Average billing rate	(Rs/unit)		4.728

Revenue available towards ARR

1.29 The revenue available towards ARR as submitted by NDPL is given in the table below:

Table 14: Revenue available towards ARR for FY 2008-09

Particulars	FY 2008-09
	As per petition
Amount realized	2547.50
Less: LPSC Collected	14.12
Less: Commission on DVB arrears	1.07
Less: benefit to be retained by the Petitioner	85.48
Less: Discom adjustment	
Less: transfer to contingency reserve	
Less : E Tax paid	107.04
Revenue available towards ARR	2339.78

* Contingency reserve with interest containing the consumer share of overachievement of AT&C losses shall be available for adjustment in the ARR.

Revenue Gap

1.30 NDPL has submitted that even after reducing the revenue obtained from tariff and the Non Tariff Income, it is facing a revenue gap as shown below.

Table 15 Computation of revenue gap by NDPL

Computation of Revenue Gap (Rs. Cr)	2008-09
Opening Gap*	338.31
Gap during the Year	67.57
<i>Annual Revenue Requirement during the year</i>	2407.35
<i>Less: Revenue at existing tariff</i>	(2339.78)
Closing Gap*	405.88

* Without carrying cost, carrying cost to be allowed by the Commission additionally