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PUBLIC NOTICE

The Commission has prepared a Consultative Paper setting out the Principles of Multi-Year Tariff (MYT) for the third control period from 01.04.2013 to 31.03.2017.

The Commission hereby invites comments and suggestions from all the stakeholders on the Consultative Paper. This paper is available in our website www.orierc.org. The paper can also be obtained from this office on payment of Rs.50/-.

The last date for inviting comments/ suggestions/ objections is 31.07.2012

By order of the Commission

Secretary I/c

Consultative Paper on Multi Year Tariff principles for the period from FY 2013-14 to 2017-18

1. Background of Multi Year Tariff framework

Electricity Act 2003, National Tariff Policy and OERC Regulations provide for framing of MYT framework. These provisions are discussed below:

1.1. Electricity Act, 2003

Section 61- The Appropriate Commission shall, subject to the provisions of this Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the following, namely:-

x x x x x x x x

(f) multi year tariff principles;

(i) the National Electricity Policy and tariff policy:

1.2. National Electricity Policy

5.4.4 Conducive business environment in terms of adequate returns and suitable transitional model with predetermined improvements in efficiency parameters in distribution business would be necessary for facilitating funding and attracting investments in distribution. ***Multi-Year Tariff (MYT) framework*** *is an important structural incentive to minimize risks for utilities and consumers, promote efficiency and rapid reduction of system losses. It would serve public interest through economic efficiency and improved service quality. It would also bring greater predictability to consumer tariffs by restricting tariff adjustments to known indicators such as power purchase prices and inflation indices. Private sector participation in distribution needs to be encouraged for achieving the requisite reduction in transmission and distribution losses and improving the quality of service to the consumers.*

1.3. National Tariff Policy

Para 5.3

(h) ***Multi-Year Tariff***

1) Section 61 of the Act states that the Appropriate Commission, for determining the terms and conditions for the determination of tariff, shall be guided inter-alia, by multi-year tariff principles. The MYT framework is to be adopted for any tariffs to be determined from April 1, 2006. The framework should feature a five-year control period. The initial control period may however be of 3 year duration for transmission and distribution if deemed necessary by the Regulatory Commission on account of data uncertainties and other practical considerations. In cases of lack of reliable data, the Appropriate Commission may state assumptions in MYT for first control period and a fresh control period may be started as and when more reliable data becomes available.

2) In cases where operations have been much below the norms for many previous years the initial starting point in determining the revenue requirement and the improvement trajectories should be recognized at "relaxed" levels and not the "desired" levels. Suitable benchmarking *studies may be conducted to establish the "desired" performance standards. Separate studies may be required for each utility to assess the capital expenditure necessary to meet the minimum service standards.*

3) *Once the revenue requirements are established at the beginning of the control period, the Regulatory Commission should focus on regulation of outputs and not the input cost elements. At the end of the control period, a comprehensive review of performance may be undertaken.*

4) *Uncontrollable costs should be recovered speedily to ensure that future consumers are not burdened with past costs. Uncontrollable costs would include (but not limited to) fuel costs, costs on account of inflation, taxes and cess, variations in power purchase unit costs including on account of hydro-thermal mix in case of adverse natural events.*

5) *Clear guidelines and regulations on information disclosure may be developed by the Regulatory Commissions. Section 62 (2) of the Act empowers the Appropriate Commission to require licensees to furnish separate details, as may be specified in respect of generation, transmission and distribution for determination of tariff.*

1.4. OERC (Terms and Conditions for determination of tariff) Regulations, 2004.

Regulation 5(f)

*The Commission may require a long term business plan from each Licensee for adopting **the multi-year tariff regime**, which the licensee shall scrupulously comply.*

1.5. OERC (Conduct of Business) Regulations, 2004

Regulation 54. Multi year tariff principles and guidelines.

1) *The Commission may adopt MYT principles for matters relating to calculation of revenue requirement of the transmission or the distribution licensees and the tariff determination including on aspects of investments, reduction of loss levels, other efficiency gains to be achieved, the revision in charges, charges in tariff structure, pass through of identified element of costs and such other matter as the Commission may by a general or special order direct.*

2) *The Commission may, as and when considered appropriate, issue guidelines for filing statement of revenue calculations and tariff proposals for periods of more than one financial year and unless waived by the Commission, the licensee shall follow such guidelines issued by the Commission.*

2. Concept of MYT

A Multi Year Tariff (MYT) framework is defined as a framework for regulating the Licensee DISCOMs over a period of time wherein the principles of regulating the returns/profits of licensees and the trajectory of individual cost and revenue elements of the Utility are determined in advance. The concept of MYT gives an element of certainty to all stakeholders. The basic premise is that tariffs would not fluctuate beyond a certain bandwidth unless there are force majeure conditions. The consumer would have a fair idea of what to expect in the next five years and the Utility would also be able to plan its business having known the principles for tariff determination for the control period. The Commission would fix the guidelines which would determine the retail tariffs and having fixed the guidelines, it is expected that the tariffs would operate within a certain band.

The concept of MYT thus provides by specifying the mechanism by which costs would be adjusted based on certain principles approved by the Commission.

3. Benefit of MYT

The exercise to such a multi year system is expected to bring the following benefits:

i) Reduction in regulatory effort on the part of the Commission, utilities and other stakeholders.

ii) Reduction in regulatory uncertainty and

iii) Provision of a transparent and stable system of incentives and disincentives. This is because of the absence of any "claw-back" or sharing of gains over the pre-specified efficiency norms within the Control Period.

MYT provides clarity on the rules to be applied over a pre-defined future time period in advance. It seeks to eliminate the control aspects of regulation and replace them with a system of incentives and penalties. In this way, all stakeholders are made aware of the outcome of various actions/events for the pre-defined future time period, and are able to plan accordingly.

For Licensees, firstly, MYT principles provide clarity on the rules of regulation that are applied over a long term, and help finance growth and operations better, and facilitate improvement in supply quality and customer service. Secondly, the design of incentives as a part of the MYT exercise will help promote efficiency. Since some of the efficiency improvements will require time to take effect, these incentives should be applicable for a reasonably long period of time. Thirdly, these principles can help licensees mitigate risks in electricity supply.

For consumers, an improvement in efficiency gets translated into greater cost effective supply. The MYT principles are expected to result in reduction in tariffs in the long-term, as the performance benchmarks will be restated at improved levels at the beginning of every Control Period.

4. MYT framework in Odisha

Long Term Tariff Strategy (LTTS) for first control period FY 2003-04 to 2007-08

4.1. The Commission in its order dated 18.06.2003 in Case No.8/2003 notified guiding Principles for determination of ARR of Distribution Licensees in the State on a long term basis. The order, inter alia, defined the objectives and principles for Long Term Tariff Strategy (LTTS). These guiding principles are in conformity with Electricity Act, 2003. The principles of LTTS were set out for the control period from 01.04.2003 and was to end on 31st March, 2007 with base year as FY 2002-03 and the first year of the control period i.e. FY 2003-04 was treated as transition year. The control period was further extended for another year and ended on 31st March, 2008.

Multi Year tariff principles for the second control period FY 2008-09 to 2012-13

4.2. The Commission in Case No.133/2009 dated 28.02.2011 notified order setting out the principles of the Multi Year Tariff (MYT) for the second control period from 01.04.2008 to 31.03.2013. The said order of the Commission broadly defines the following:

*25. **Applicability of the MYT principles***

These principles are deemed to have been applied to four DISCOMs in Orissa from 1st April 2008 and shall remain in force until a subsequent amendment or revision is necessitated.

The DISCOMs shall file their ARR for FY 2012-13, based on the above MYT principles. Since DISCOMs have already filed ARR for FY 2011-12 the commission would consider the principles setout in this MYT order while approving the ARR for FY 2011-12.

26. Summary of MYT principles now approved in this Order are here as under:

(a) Quality of supply and consumer service standard – These parameters would be used to evaluate performance of licensees rather than input. The licensees would have to establish suitable system to track performance against the quality parameters listed in this Order.

(b) The AT&C loss shall be used as the benchmark to asses the performance of licensee during the control period.

(c) Distribution Loss and Collection efficiency approved by the Commission in the Business Plan order dated 20.03.2010 would be considered for computing ARR of the Licensees. No adjustment in the truing up would be made on account of the distribution loss being more or collection efficiency being less than the approved parameters respectively.

(d) Employee cost is considered to be as controllable cost and linked to efficiency. Terminal liabilities would be allowed as per valuation by independent actuary. The financial input of any award by Govt. of India/Govt. of Orissa shall be taken care in truing up.

(e) Repair and Maintenance expenses would be allowed at the rate of 5.4% of Gross Fixed Assets (GFA) only on assets owned by the distribution company.

(f) Administrative and General Expenses would be allowed @7% escalation over the base year value in ARR. Additional A&G would also be allowed for special measures undertakes by the DISCOMs towards reduction of AT&C losses and improving collection efficiency.

(g) Bad and Doubtful debt would be allowed of 1% of the total annual revenue billing in HT and LT sales for FY 2011-12 and FY 2012-13.

(h) Depreciation- In view of the direction of the Hon'ble High Court the depreciation would be calculated and allowed on the pre-upvalued assets at pre-1992 rates as notified by Govt. of India.

(i) Financing cost of long term liabilities – The interest would be allowed on the approved capital expense in the ARR. Adjustment would be made

on account of variation between forecast and actual value of interest cost on loan in truing up.

(j) *Working Capital: No working capital would be allowed for FY 2011-12 and 2012-13 as the collection efficiency has been fixed at 99% and Bad & Doubtful debt at 1%.*

(k) *Shareholders return (ROE) – ROE would be allowed @16% on approved equity capital infusion.*

(l) *Sales and power purchase- Sales and purchase of power would normally be allowed as per such approval in the Business Plan Order dated 20.03.2010. Variations in excess of 10% in the quantum of purchase of electricity, caused due to exceptional circumstances would only be allowed for revision during the control period.*

(m) *Force Majeure Condition: In the event of large variations in demand or supply of electricity in excess of 20% due to extreme or disruptive weather conditions, cyclones, earthquakes etc., the Commission after review of its impact on the entire tariff structure may allow in the ensuing year or create regulatory asset to be recovered over a few years*

(n) *Trading of Power. Licensees would be allowed to sell the surplus power if any to any entity outside the State subject to the condition that the losses and gains on such account shall not form part of the licensee's ARR and trading would not be made without meeting the state demand approved by the Commission in the respective ARRs.*

(o) *Controllable and uncontrollable costs would be as indicated in para 9(b) which is extracted below:*

Sl No.	***ARR Item***	***Controllable / Uncontrollable Cost***
1	*Employee Cost*	*Controllable*
2	*Repair and Maintenance*	*Controllable*
3	*Administrative & General Expenses*	*Controllable*
4	*Interest and Finance Charges*	*Controllable*
5	*Depreciation*	*Controllable*
6	*Return on Equity*	*Controllable*
7	*Non-tariff income*	*Controllable*
8	*Power Purchase Costs*	*Uncontrollable*
9	*Fuel Costs*	*Uncontrollable*
10	*Taxes on Income*	*Uncontrollable*
11	*Inflation*	*Uncontrollable*
12	*Exchange rate variation*	*Uncontrollable*
13	*Force Majeure Conditions*	*Uncontrollable*

5. Discussion on MYT for 3rd Control Period, FY 2013-14 to 2017-18

Commission has been periodically reviewing the achievements of intended objectives and deficiencies for such objectives through biannual and annual review of the performance of DISCOMs and, results thereof, are published in the OERC website. Commission has also been undertaking annual truing up of the expenses of the DISCOMs vis-à-vis available audited accounts and benchmark targets given in the Business Plan for the period FY 2008-09 to 2012-13. Commission has also finalized the true up of DISCOMs based on the audited accounts upto FY 2010-11 in case no. 107 of 2011. The requirement if assessed in the truing up are accordingly amortised in the Annual Revenue Requirement of the DISCOMs. A comparison of various parameters for second control period from FY 2008-09 to 2012-13 approved in Business Plan Order dt.20.3.2010 against actual / ARR is placed at Annexure-I.

Commission now intends to define the principles for the next control period from FY 2013-14 to 2017-18 which would be the third control period. The Commission invites suggestions, recommendations and objections on this Consultative Paper in order to finalise the multi year tariff frame work for next control period from FY 2013-14 to 2017-18 based on the principles of MYT as discussed below:

In line with the principles defined for the first and second control period, the costs during the third control period are also to be allocated on the basis of the risk elements involved in controlling the cost. Commission has adopted the elements of "controllable" and "uncontrollable cost" exactly in line of Para 4.2(o) above.

Commission in the first and second control period defined the Performance targets with an aim to improve the viability of the Orissa Power systems. Commission classified the performance target relating to the following parameters:

- Quality of supply and consumer service standards
- Aggregate Technical and Commercial loss (AT & C) and
- Network costs

These parameters of performance targets would continue to be applicable for the third control period also. These parameters are dealt in detail in para 5.4 of the LTTS order dated 18.06.2003 and also in MYT order dated 28.02.2011 however these are briefly discussed below:

6. Quality of Supply and consumer services

6.1 The quality of supply and customer service would be used to evaluate the performance of licensees rather than input. The Commission shall undertake the following initiatives to benchmark and monitor quality of supply and customer service. The initiative involves recording and monitoring of selected quality parameters on regular basis.

6.2 The following reliability/outage indices are specified by the Institute of Electrical and Electronics Engineers (IEEE) Standard 1366 of 1998. The Licensees will establish suitable systems to track performance against the quality parameters to find out the reliability indices namely:

(a) **System Average Interruption Frequency Index (SAIFI):** The licensee shall calculate the value as per the formula and methodology specified below.

(b) **System Average Interruption Duration Index (SAIDI):** The licensee shall calculate the value as per the formula and methodology specified below.

(c) **Momentary Average Interruption Frequency Index (MAIFI):** The licensee shall calculate the value as per the formula and methodology specified below.

6.3 Method to compute Distribution System Reliability Indices

The Indices shall be computed for the DISCOMs as a whole by stacking, for each month all the 11KV feeders in the supply area, excluding those serving predominantly agricultural loads, and then aggregating the number and duration of all interruptions in that month for each feeder. The Indices would then be computed using the following formulae:

(A) SAIFI $= \dfrac{\sum_{i=1}^{n}(A_i * N_i)}{N_t}$ Where,

A_i = Total number of sustained interruptions (each longer than 5 minutes) on i^{th} feeder for the month

N_i = Connected load of i^{th} feeder affected due to each interruption

N_t = Total connected load at 11KV in the Distribution licensee's supply area

n = number of 11KV feeders in the licensed area of supply (excluding those serving predominantly agricultural loads)

(B) SAIDI $= \dfrac{\sum_{i=1}^{n}(B_i * N_i)}{N_t}$ Where,

B_i = Total duration of all sustained interruptions on i^{th} feeder for the month.

(C) MAIFI $= \dfrac{\sum_{i=1}^{n}(C_i * N_i)}{N_t}$ Where,

C_i = Total number of momentary interruptions (each less than or equal to 5 minutes) on i^{th} feeder for the month

Note: The feeders must be segregated into rural and urban and the value of the indices must be reported separately for each month.

6.4 The Reliability indices submitted by the distribution companies, basing on the data/information furnished through affidavit are mentioned below:

PERFORMANCE OF DISCOMS IN ODISHA DURING THE YEAR 2008-09 TO 2010-2011					
(As reported and furnished through Affidavit)					
	YEAR	CESU	NESCO	WESCO	SOUTHCO
Total number of interruption each lasting more than 5 minutes faced by 1 KW connected load **(SAIFI)**	2008-09	55	294	29	159
	2009-10	71	20	28	236
	2010-11	79	240	30	227
Total number of interruption each lasting less than 5 minutes faced by 1 KW connected load **(MAIFI)**	2008-09	35	111	31	113
	2009-10	2947	6	31	152
	2010-11	42	31	30	138
Total duration of interruption in minutes each 1 KW connected load **(SAIDI)**	2008-09	1899	3327	808	6825
	2009-10	44	254	696	9140
	2010-11	3430	3253	686	9035

6.5 Other reliability parameters

(1) Voltage: Voltage variations and number / extent of excursions beyond the range permitted in the Overall Performance Standards set by the Commission.

(2) Transformer Failure: Number of Distribution Transformers (DTR) failures as percentage of total DTRs in service and time taken for replacement. A table, as below, is computed showing the DTR failures during the second control period.

Transformer Failures					
	2008	2009	2010	2011	2012
No of Distribution Transformers(11/0.4&33/0.4 KV)	62423	66094	78702	91093	122479
No of DTR Metering	27475	30084	30998	22763	23092
No of DTR Failure	8833	9434	7789	6813	6099

(3) New Connections: Average period of fully compliant applications for new connections pending with the Licensee for domestic, commercial and industrial categories. The table below shows the consumer status vis-a-vis new connections during the second control period.

CONSUMER STATUS & NEW CONNECTIONS					
	As on 31.03.2008	As on 31.03.2009	As on 31.03.2010	As on 31.03.2011	As on 31.03.2012
Total No of Consumers	2589164	2750935	2943479	3325951	3925661
No of New Consumers	Not Available	161771	161,623	383,619	525,810
No of New meters supplied	Not Available	Not Available	189414	364,394	577,319

(4) Metering: Percentage of non-working / defective meters, separately for domestic, commercial and industrial categories. During the second control period the percentage of working meters has been around 87% and has not improved as desired. The table below shows such a scenario.

Percentage of working meters					
	As on 31.03.2008	As on 31.03.2009	As on 31.03.2010	As on 31.03.2011	As on 31.03.2012
Total no of meters	2508044	2635852	2831608	3230921	3844259
No of working meters	2175832	2325079	2506930	2825896	3325944
No of Defective meters	332212	310773	324678	405025	518315
% of working meters	86.75%	88.21%	88.53%	87.46%	86.52%

(5) Billing Errors: Number of billing errors identified and/or reported and prompt rectification. During the last Control Period all the DISCOMs have almost covered all the consumers through spot billing. Therefore, the billing errors are expected to have reduced considerable. However, it is observed that a number of cases are being filed before respective GRFs relating to billing errors which are mainly caused due to human error.

Suggests are before invited to device a mechanism in order to reduce and monitor billing errors.

(6) Consumer Service: Bill payment facilities and Consumer service facilities introduced and percent of consumers availing such services;

Objectors may give their suggestions whether the monthly billing shall be related quality of supply.

7. **Aggregate Technical & Commercial loss.** Commission recognizing the importance of computation of AT&C loss concept first defined this in the LTTS order dated 18.06.2003 and MYT order of 28.02.2011. This AT&C loss has been found to be useful in assessing and capturing both technical and commercial losses. Commission would therefore continue to assess the performance of the utilities on the basis of AT&C loss reduction trajectory during the second control period also:

7.1. The AT & C loss is decided to be used as the benchmark to assess the performance of the licensees during the control period. AT & C losses should be computed by each voltage category.

7.2. The AT & C loss combines three different but interconnected performance criteria, namely billing efficiency, collection efficiency and T & D loss. It is computed through the following formula

$$\text{AT\&C Loss (\%)} = \left\{ \left[1 - \frac{\text{Units Billed}}{\text{Units Input}} \right] \text{X} \ \frac{\text{Revenue Collected}}{\text{Revenue Billed}} \right\} \%$$

7.3. The Commission shall approve loss target for each year of the control period. The Commission shall also fix targets, both long-term and short-term, for loss reduction to bring down the loss level gradually to acceptable norms of efficiency.

7.4. The Commission may encourage incentive and disincentive schemes for the staff of the utilities linked to the reduction of losses, as per the provision of para 8.2.1(2) of the Tariff Policy.

7.5. In case the actual distribution loss exceeds the normative loss level approved by the Commission, such excess loss shall be to the account of the distribution licensee.

8. **Sales and power purchase**

The Commission approves the forecast of power purchase and power purchase costs for each year of the control period in the Business plan order relevant to the control period. In line with the LTTS order for the first control period and MYT order for the second control period, these forecasts would not normally undergo annual revision, except in the case of variations in excess of 10% in the quantum of purchase of electricity, caused due to exceptional circumstances. Annexure I attached to this consultative paper shows the actual purchase and sale of power against the approval in Business Plan order.

9. **Network costs**

Commission in the LTTS order defined these cost components and how those would be treated during the first control period. These costs are expected to be managed by the licensees and would be allowed for the control period ex-ante in line with the LTTS order for the second control period also. These principles are discussed as below:

O & M Costs

9.1. **Employee Cost** –Wages and salaries during the control period would include the base year values of Basic pay and Grade Pay escalated for annual salary increments and inflation based on Govt. of Odisha notification. The sixth pay recommendation notified by Govt of Odisha recommends annual increment @ 3% of the Basic and grade pay. The annual increment would be approved as per such recommendation. Basic Pay and grade pay are to be taken from annual audited accounts of the Licensee. However if as per the Commission's assessment the figures shown in the audited accounts cannot be relied upon, the Commission may take into account the actual payment outgo during the last six months of the year to arrive upon the pay for the ensuing year. Dearness Allowance, HRA and other allowance would be calculated as per rates notified by Govt. of Odisha. Terminal liabilities would be provided based on a periodic actuarial valuation in line with the prevailing Indian accounting standards. The financial impact of any award by Govt. of India/Govt. of Orissa shall be taken care of in subsequent year in truing up.

Commission during the last control period in the initial stages relied on the audited accounts to ascertain basic pay of the previous year to be escalated at the rate of 3% for the ensuing year. However, after the implementation of 6th Pay Commission recommendation simultaneously adopted by the DISCOMs the employee cost got inflated due to the elements of arrear. Therefore, in the later stages of the control period instead of relying on the audited accounts, Commission computed the basic pay on the basis of actual outgo during the past six months which was then extrapolated for the next ensuing year at the rate of 3%. As regards the terminal benefits Commission got conducted the actuarial valuation through independent actuary appointed by the Commission. Based on the recommendation of the actuary Commission allows the terminal benefits to DISCOMs by making provision for the Corpus Fund maintained by the DISCOMs.

During the last control period all the DISCOMs have taken recourse to appointment of franchisee of different models in order to outsource billing and collection activities. A table below shows the present status of franchisee in the four DISCOMs.

Engagement of Franchisees					
	Franchisees as on 31.03.2008	Franchisees as on 31.03.2009	Franchisees as on 31.03.2010	Franchisees as on 31.03.2011	Franchisees as on 31.03.2012
Input Based	Not Available	Not Available	3	8	9
Macro Based	Not Available	Not Available	24	33	47
Micro Based	Not Available	Not Available	27	225	492

From the above table it is revealed that the DISCOMs have divested one of their major activities of billing and collection activities in about 50% of their operational areas. In view of such a scenario the employee cost should come down appreciably in the next control period due to outsourcing of the major activities of billing and collection. Besides franchisee DISCOMs also engaged outsourced and contractual employees to undertake customer care, billing and collection activities.

Commission also conducts annual truing up based on the available audited accounts of the DISCOMs and true up the actual employee cost vis-à-vis the cost approved in the ARR.

Suggestions are invited whether to continue with the existing practice of arriving at the employee cost as discussed above during the 3rd control period or to adopt any other method which would rationally reflect the true employee cost.

9.2. **Repair and Maintenance (R&M) -** R&M is being allowed @ 5.4% applied on the opening Gross Asset Value as per the principle enunciated in the LTTS order for the first control period and MYT principle for the second control period and it is proposed to be continued in the next control period also.

As regards allowing of R&M expenses towards assets added under RGGVY and BGJY schemes, the said added assets are still owned by Govt. of Orissa and are yet to be transferred to the respective distribution companies. As per the principles of MYT R&M is allowed at the rate of 5.4% of the Gross fixed Assets of the distribution companies. It is, therefore, imperative that such assets are transferred to the distribution companies first and thereafter R&M would be allowed on those added assets. In view of such a scenario the R&M expenses would continue to be allowed at the rate of 5.4% of GFA only on assets owned by the respective distribution companies for the third control period.

During the last two years of the control period Commission has been allowing an additional sum of Rs. 7 crores to each DISCOMs on provisional basis besides the normal R & M expenditure of 5.4% on the Gross Fixed Assets. There is also no segregation of the assets pertaining to BGGY and RGGVY assets by the DISCOMs.

During the last control period it is seen that due to insufficient collection by the DISCOMs there was very little amount left in the escrow account to be released by GRIDCO for Repair and Maintenance work. A table below shows the comparison of the eligible amount as approved in the ARR and actual amount availed by the DISCOMs during the last Control Period.

Repair and Maintenance (Approval)					
	CESU	**NESCO**	**WESCO**	**SOUTHCO**	**Total**
1999-00	19.05	14.22	14.43	12.63	**60.33**
2000-01	19.57	14.22	14.43	12.63	**60.85**
2001-02	23.43	16.32	13.62	15.57	**68.94**
2002-03	22.11	14.62	15.33	16.82	**68.88**
2003-04	24.12	17.59	16.89	16.38	**74.98**
2004-05	31.95	17.66	17.28	13.25	**80.14**
2005-06	33.67	22.63	21.30	18.55	**96.15**
2006-07	41.31	24.48	24.25	17.35	**107.39**
2007-08	43.64	24.43	23.82	18.38	**110.27**
2008-09	41.87	25.87	25.66	19.08	**112.48**
2009-10	40.46	27.88	27.01	20.73	**116.08**
2010-11	51.19	37.22	34.77	26.11	**149.29**
2011-12	56.77	47.46	36.81	28.47	**169.51**
TOTAL	**449.14**	**304.60**	**285.60**	**235.95**	**1275.29**

Repair and Maintenance (Audited)					
	CESU	**NESCO**	**WESCO**	**SOUTHCO**	**Total**
1999-00	24.01	16.19	15.9	13.39	**69.49**
2000-01	19.91	11.02	10.25	7.31	**48.49**
2001-02	15.6	7.02	10.12	9.29	**42.03**
2002-03	25.04	5.65	8.04	6.43	**45.16**
2003-04	21.22	8.84	16.27	9.93	**56.26**
2004-05	20.26	11.13	12.85	8.43	**52.67**
2005-06	12.26	11.21	9.61	6.07	**39.15**
2006-07	22.1	13.37	12.5	5.19	**53.16**
2007-08	25.11	13.02	12.38	5.5	**56.01**
2008-09	34.79	20.86	17.9	-7.79	**65.76**
2009-10	28.45	22.8	18.01	11.6	**80.86**
2010-11	29.89	19.26	16.56	13.09	**78.80**
2011-12(Upto Nov. 2011)*	23.36	14.10	13.17	7.73	**58.36**
TOTAL	**302.00**	**174.47**	**173.56**	**96.17**	**746.20**
**As per filing*					

It can be seen from the above two tables that Commission since 1999-2000 have approved in total an amount of Rs.1275.29 crore till 2011. However, DISCOMs have only been able to spent Rs.746.20 crore which is mainly insufficient collection on account of which GRIDCO could not release the requisite amount from the ESCROW account.

There is also very less capacity addition in terms of capex to add to the assets of the DISCOMs consequently the gross fixed assets have seen to be decreasing over the years. The table below shows the gross fixed assets addition till 31.3.2012.

(Rs. in crore)

Particulars	**WESCO**	**NESCO**	**SOUTHCO**	**CESU**
Gross Book Value as on 01.04.1996	139.867	137.89	122.41	188.697
Addition 1996-97	13.74	13.54	12.02	18.53
1997-98	16.84	16.6	14.74	22.72
1998-99	0	0	0	0
1999-00	53.32	41.11	37.53	87.16
2000-01	19.9	26.83	13.8	85.09
2001-02	19.58	30.63	20.72	67.25
2002-03	21.31	30.55	7.64	127.01
2003-04	35.14	28.63	12.6	88.42
2004-05	71.74	55.09	39.78	66.26
2005-06	23.52	30.2	13.89	-95.95
2006-07	22.21	30.73	11.1	22.57
2007-08	24.79	32.49	18.91	35.52
2008-09	35.16	92.14	31.85	38.68
2009-10	38.07	101.33	10.70	52.29
2010-11	42.46	64.65	11.46	71.59
2011-12	34.61	85.60	15.00	64.45
Total up to 2011-12	**612.26**	**818.01**	**394.15**	**940.29**

The Capex programme which has just started and is likely to register substantial progress during the control period which would hopefully lead to significant upgradation of network such as transformers, lines, meters etc.

In view of the issues discussed above, suggestions have invited for continuance of grant of R&M at a flat rate of 5.4%, providing of R & M expenses for BGGY and RGGVY assets and any other methodology to be adopted by the Commission in order to rationally allow R&M expenses to the DISCOMs during the next control period.

9.3. **Administrative and General (A&G)** – A&G expenses was allowed @ 7% escalation over the base year value in ARR during the previous year. Commission during the previous control period in the Annual Revenue Requirement has allowed A&G in two parts. One part being the normal A&G Expenses allowed @7% escalated over the base year value during the previous year's approved value. The second part being the additional expenses in addition to the normal A&G expenses for special measures undertaken by the DISCOMs towards reduction of AT&C losses, improving collection efficiency, payment of statutory Govt dues and for undertaking other important tasks which are allowed after prudent check.

No adjustment in ARR is allowed to be made on account of actual values being different from these performance targets for the O & M costs during the control period.

During the last control period it has been observed that most of the DISCOMs especially WESCO, NESCO & SOUTHCO have been incurring huge legal expenses by resulting to litigations in different forums. Commission appreciates that the companies are within their rights to approach higher forums when aggrieved. However, during the 3rd control period the companies should avoid as far as practicable legal expenses when such expenses are more than the revenue desired to be recovered.

As discussed above in the employee cost DISCOMs have outsourced activities such as billing and collection to the franchisees and contractual parties. In view of such outsourcing it is desired that the A & G expenses should also come down over the years.

Considering the facts a number of works performed by the DISCOMs such as metering, billing and collection are being outsourced to franchisees the grant of A & G at flat rate of 7% also needs reappraisal during the control period.

Suggestions and opinions are invited as to how the A &G expenses shall be allowed during the 3rd Control period in view of the discussion made above.

9.4. **Bad & Doubtful debt**

Bad and Doubtful debts are allowed as a percentage of Sales revenue. During the previous control period (FY 2002-03 to 2007-08), Commission allowed Bad and Doubtful debt in the following manner:

FY 2008-09: 2.5% of the total annual revenue billing

FY 2009-10: 2% of the total annual revenue billing

FY 2010-11: 2% of the total annual revenue billing in HT and LT sales.

FY 2011-& 12: 1% of the total annual revenue billing in HT and LT sales.

The Business Plan order of the Commission in case nos. 41, 42 & 43 of 2007 & case no.22 of 2008 order dated 20.03.2010 approved collection efficiency of 99% for FY 2011-12 and FY 2012-13. The benchmark of collection efficiency would continue to be at the level of 99% during the third control period also. Accordingly the Bad and Doubtful debt during the third control period would also be allowed @ 1% of the total annual revenue billing in HT and LT sales only.

10. **Capital Expenditure**

Capital investments cover expenditure on fixed asset augmentation and interest to meet variety of needs such as Load growth, reduction of losses, maintenance of network, improvement of voltage profile, quality of supply, system reliability, metering, communication, computerization etc.

In line with the MYT order for the second control period, the Commission during the third control period would approve the capital investment plans for ongoing and future investments. Adjustments in the ARR shall be made for variations in actual and forecast values and the impact of such variations on the ARR at the end of the control period.

Licensee could retain financial benefit arising out of savings in financing costs due to faster implementation at lower costs because of better project management or procurement practices. Financial losses on account of time and cost overrun to be on account of the licensees only.

Govt. of Odisha have in the meantime launched Capital Expenditure (CAPEX Programme) for DISCOMs of Odisha for providing financial support to the tune of Rs.2400 crore in the distribution sector which includes the grant of Finance

Commission, State budgetary support and counter part funding by DISCOMs. The basic objective of this programme is system improvement, establishment of reliable system, reduction of AT&C losses to a sustainable level and improvement of quality of supply to the consumer of the state. The scheme envisages investment of Rs. 2400 Cr. to be spent under the scheme over the period of four financial; years i.e. FY 2010-11 to FY 2013-14, out of which Govt. of Odisha provide Rs. 1,200 Cr. and DISCOMs will invest Rs. 1,200 Cr. from their own source/ or through market borrowing as per the following table:

(Rs. in Crore)

Financial Year	2010-11	2011-12	2012-13	2013-14	Total
State Govt. (out of which)	300.00	400.00	250.00	250.00	1200.00
a. FC Grant	0.00	200.00	150.00	150.00	500.00
b. SS to FC Grant	0.00	66.67	50.00	50.00	166.67
c. Loan to GRIDCO for counterpart to FC Grant	0.00	66.67	50.00	50.00	166.67
d. State's own contribution	300.00	66.66	0.00	0.00	366.66
DISCOMs (out of which)	0.00	200.00	400.00	600.00	1200.00
a. Counterpart DISCOMs share for FC Grant	0.00	66.67	50.00	50.00	166.67
b. DISCOMs contribution	0.00	133.33	350.00	550.00	1033.33
Total CAPEX	**300.00**	**600.00**	**650.00**	**850.00**	**2400.00**

Till now no amount towards the Govt. of Odisha CAPEX programme has been received by the DISCOMs. However, if the said programme moves forward as per the desired goals it would give huge boost to the system improvement and AT&C loss reduction.

Suggestions are invited as to how the capital expenditure could be made available to the DISCOMs and to effectively implement the Capex programme launched by the Govt. of Odisha.

11. **Depreciation**

Depreciation is linked to the useful life of the assets, calculated on the straight line method. Objectors have submitted to allow depreciation at the rates notified by the CERC and depreciation claimed in the ARR and audited account is to be clearly mentioned. The value base shall be the historical cost of the asset.

The Hon'ble High Court of Orissa in its order dtd. 28.02.2003 and modified order dtd.14.03.2003 directed that the depreciation is to be calculated for the pre-upvalued assets at the pre-1992 rates as notified by the Govt. of India. In view of the directives of the Hon'ble High Court, the depreciation during the third control period would be calculated and allowed on the pre-upvalued assets at pre-1992 rates as notified by the Govt. of India.

Any variation between projected and actual cost would be adjusted at the end of control period based on the actual asset.

The residual life of the asset shall be considered as 10% and depreciation shall be allowed upto maximum of 90% of the historical capital cost of the asset. The asset considered for depreciation should be commensurate with the approved investment plan and capitalization schedule for each year of the control period.

Depreciation shall not be allowed on assets funded by consumer contribution (i.e. any receipts from consumers that are not treated as revenue) and capital subsidies/grants. Provision for replacement of such assets shall be made in the capital investment plan.

12. **Financing costs of long term liabilities**

During the second control period the Commission allowed interest on the approved capital investment plan. Adjustments in ARR are made for variations in actual and forecast values of interest costs on loans raised for financing capex. In view of the principles adopted for the second control period Commission would allow the interest on the approved capital expense in the ARR. Adjustment in ARR shall be made on account of variation in forecast and actual value of interest cost on loans raised for financing capital expenditure in truing up. No adjustments would be made normally to the interest cost relating to loans existing at the beginning of the control period except in circumstances if there are changes on account of Government policy or securitization of the past dues.

13. **Financing costs of short term loans/cash credits for working capital**

The Commission during the first control period allowed Working capital as the shortfall in collection beyond the target set for collection efficiency minus amount approved towards bad and doubtful debt.

As per the principle in the LTTS order for first control period, the amount of working capital is the approved shortfall in collection minus amount approved towards bad and doubtful debt. Since the benchmark collection efficiency target is set at 99% for the third control period, the remaining 1% would be treated as Bad and Doubtful debt. Hence there is no allowance for working capital for during the third control period.

14. Shareholder returns

The Commission allowed 16% return on equity on the approved equity capital infusion during the first and second control period. The Commission had observed that return on equity incentivises the investor for the equity infusion to the business. A return of 16% suitably covers the risk associated with the distribution business. The Commission would continue to allow 16% return on equity on the approved equity capital infusion. Adjustments on account for variations between the actual and approved values of equity capital shall be made in the ARR subsequently in truing up.

Considering the facts that there is general reluctance on the part of promoters to infuse additional equity in that DISCOMs and the original equity base has suffered substantial erosion because of continuous loss, allowance of 16% return at a flat rate needs to be revaluated.

15. **Costs arising out of Force-Majeure conditions**

In the event of large variations in demand or supply of electricity in excess of 20% due to extreme or disruptive weather conditions, cyclones, earthquakes etc., the Commission after review of its impact on the entire tariff structure may allow in the ensuing year or create regulatory asset to be recovered over a few years.

No such occasion arisen during the 2nd Control Period.

16. **Revised Forecast**

The Commission considers the submission made by the DISCOMs in the ARR and may allow revising the forecast sales and purchase. The Commission subject to variations in excess of 10% in the quantum of purchase of electricity may consider revising forecasts for reasonableness and consistency before approving ARR.

17. **Trading of Power**

The Electricity Act, 2003 recognizes trading as a distinct licensed activity and distribution licensees require no separate license for trading of electricity. The Commission during the second control period as per the provisions of the Electricity Act, 2003 intended to introduce competition in Bulk Supply by allowing the

Distribution Licensees to procure their incremental power requirements i.e. beyond the approved level of power purchase from any source. Purchasing power directly by the licensee would initiate the multi-buyer market as envisaged in the Electricity Act, 2003. This would also help Licensee to improve its capacity to schedule and dispatch energy and make accurate forecast for power purchase and sales so essential for implementing Availability Based Tariff (ABT) in the state. Any gains or losses on account of such procurement and supply of incremental power shall not be considered towards ARR.

In Odisha the responsibility of bulk purchase of power is vested with GRIDCO through an arrangement known as Single Buyer Model. GRIDCO thereby is obliged to sell power on priority basis to the four DISCOMs upto their full requirement and the DISCOMs are obliged to buy power only from GRIDCO. GRIDCO is a deemed trader under the Electricity Act, 2003 and carries on trading of electricity in bulk inside the State and also inter-state trading. Under this arrangement DISCOMs hitherto have not been allowed to trade electricity outside the Odisha since they can only procure power from GRIDCO.

During the third control period also the same arrangement would continued to be adopted due to the prominent position of GRIDCO as a deemed trader and bulk supplier of electricity.

Suggestions are therefore invited regarding the trading of power to be adopted during the 3rd control period in order to effectively manage this important activity.

18. **Procedure and Review**

The control period shall begin from 1st April, 2013and shall end on 31st March, 2018. These MYT principles shall apply to the ARR determination of the DISCOMs in the state of Odisha from 1st April, 2013.

The base years for the MYT principles are deemed to be taken as the FY 2008-09 to 2012-13 the years of the second control period.

19. **Periodic Reviews during the control period and future projections**

The Commission shall make periodic reviews of the licensee's performance during the control period to address any practical issues, concerns or unexpected outcomes that may arise and in general to assess the efficacy of the MYT principles. If any changes occur in the structure of electricity sector due to legislation Commission may make appropriate modifications to the MYT principles as and when required.

20. In view of the above discussions all the stakeholders are requested to forward their suggestions/views/opinions on any matter of MYT. However, Commission would like to seek specific opinions on the matters as detailed below:-

(a) DISCOMS - Para 6 to 14 and 17
(b) Govt. of Odisha – Para 9.2 and 10
(c) GRIDCO - Para 8, 10, 14 and 17

21. Business Plan for FY 2013-14 to 2017-18

In compliance with the Section 3 of Electricity Act, 2003 Government of India had notified the National Electricity Policy and Tariff Policy on 12.02.2005 and 06.01.2006 respectively and also notified Rural Electrification policy on 30.08.2006. The Regulation 5 (f) of OERC (Terms and Conditions for Determination of Tariff) Regulation 2004 mandates the following:-

“5(f) The Commission may require the long term Business Plan from each Licensee for adopting the Multi Year Tariff Regime which the Licensee shall scrupulously comply.”

In view of the National Electricity Policy and National Tariff Policy and OERC Regulation as mentioned above, Commission had directed the DISCOMs to file their Business Plan for a period of 5 years starting from the year 2008-09 to 2012-13.

Commission subsequently approved the Business Plan of the four DISCOMs for FY 2008-09 to 2012-13 in Case No.41, 42 & 43 of 2007 and Case No.22 of 2008. These Business Plans was approved after undertaking a due process wherein all the four DISCOMs submitted a detailed Business Plan to the Commission involving various issues and strategies critical to the turn around of the distribution companies within the control period. Objections were thereafter invited from Govt. of Odisha, GRIDCO, OPTCL, other Stakeholders and public in general. Commission after duly considering the views and suggestions made by them approved the Business Plan.

Commission in the said Business Plan approved various targets to be achieved by the DISCOMs during the control period. These targets were mainly related to Power Purchase, Distribution Loss, Collection Efficiency and AT&C Loss Reduction. In the annexure A(1) appended to this Consultative Paper the actual achievements of the DISCOMs vis-a-vis Business Plan targets under various parameters have been given.

Commission in the meantime has also directed all DISCOMs to file their Business Plan for 3rd control period starting from 2013-14 to 2017-18. As soon as the DISCOMs filed their Business Plan for the 3rd control period this would be put in the public domain for inviting opinion /views / objections from all the stakeholders.

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Annexure-1

COMPARISION OF VARIOUS PARAMETERS OF APPROVAL IN BUSSINESS PLAN DT.20.03.2010 (Case No. 41,42&43/2007 and 22/2008) VRS ARR & ACTUAL

	2008-09			2009-10			2010-11			2011-12			2012-13	
	Approved in BP	ARR	Actual	Approved in BP	ARR	Actual	Approved in BP	ARR	Actual	Approve d in BP	ARR	Actual (Prov)	Approved in BP	ARR
PURCHASE OF POWER (MU)														
CESU	5,672.6	5,300.0	5,679.0	6,377.3	6,045.0	6,232.7	6,420.0	6,420.0	7,069.3	7,722.2	7,791.0	7,232.6	7,868.1	8,236.00
NESCO	4,545.0	4,660.0	4,545.0	4,783.6	4,285.0	4,705.5	5,122.0	5,122.0	5,108.9	5,465.0	5,323.0	5,023.4	5,769.5	5,306.00
WESCO	6,378.5	5,680.0	6,378.4	6,385.5	6,430.0	6,301.0	6,244.0	6,244.0	6,510.9	6,720.0	6,630.0	6,172.5	6,800.0	6,496.00
SOUTHCO	2,175.8	1,980.0	2,175.8	2,316.8	2,161.0	2,285.7	2,368.0	2,368.0	2,555.6	2,848.0	2,733.0	2,814.1	3,083.0	**3,047.00**
ALL ORISSA	**18,771.8**	**17,620.0**	**18,778.2**	**19,863.2**	**18,921.0**	**19,524.8**	**20,154.0**	**20,154.0**	**21,244.8**	**22,755.2**	**22,477.0**	**21,242.6**	**23,520.7**	**23,085.0**
SALE OF POWER (MU)														
CESU	4,010.5	3,746.8	3,384.3	4,700.1	4,454.9	3,775.1	4,791.2	4,791.2	4,361.5	5,868.9	5,921.2	4,469.8	6,058.4	6,341.7
NESCO	3,386.0	3,471.7	2,973.7	3,683.4	3,299.5	3,175.1	4,176.5	4,176.5	3,435.6	4,459.4	4,343.6	3,301.5	4,710.8	4,332.4
WESCO	4,783.8	4,260.3	4,238.3	4,948.8	4,983.5	4,089.9	4,999.6	4,999.6	3,978.7	5,396.2	5,323.9	3,775.0	5,467.2	5,222.8
SOUTHCO	1,513.9	1,377.6	1,138.2	1,669.9	1,557.6	1,187.8	1,709.2	1,709.2	1,323.4	2,093.3	2,008.8	1,507.7	2,296.8	2,270.0
ALL ORISSA	**13,694.3**	**12,856.4**	**11,734.5**	**15,002.2**	**14,295.5**	**12,227.9**	**15,676.5**	**15,676.5**	**13,099.1**	**17,817.8**	**17,597.4**	**13,054.0**	**18,533.3**	**18,166.9**
DISTRIBUTION LOSS (%)														
CESU	29.30%	29.30%	40.41%	26.30%	26.30%	39.43%	25.37%	25.37%	38.30%	24.00%	24.00%	38.20%	23.00%	23.00%
NESCO	25.50%	25.50%	34.57%	23.00%	23.00%	32.52%	18.46%	18.46%	32.75%	18.40%	18.40%	34.28%	18.35%	18.35%
WESCO	25.00%	25.00%	33.55%	22.50%	22.50%	35.09%	19.93%	19.93%	38.89%	19.70%	19.70%	38.84%	19.60%	19.60%
SOUTHCO	30.42%	30.42%	47.69%	27.92%	27.92%	48.03%	27.82%	27.82%	48.22%	26.50%	26.50%	46.42%	25.50%	25.50%
ALL ORISSA	**27.05%**	**27.04%**	**37.51%**	**24.47%**	**24.45%**	**37.37%**	**22.22%**	**22.22%**	**38.34%**	**21.70%**	**21.71%**	**38.55%**	**21.20%**	**21.30%**
COLLECTION EFFICIENCY (%)														
CESU	95.00%	95.00%	89.76%	98.00%	98.00%	91.45%	98.00%	98.00%	92.62%	99.00%	99.00%	97.14%	99.00%	99.00%
NESCO	95.00%	95.00%	92.50%	98.00%	98.00%	95.50%	98.00%	98.00%	92.38%	99.00%	99.00%	100.56%	99.00%	99.00%
WESCO	96.60%	96.60%	93.86%	98.00%	98.00%	96.03%	98.00%	98.00%	91.32%	99.00%	99.00%	97.13%	99.00%	99.00%
SOUTHCO	94.00%	94.00%	94.21%	98.00%	98.00%	94.04%	98.00%	98.00%	91.54%	99.00%	99.00%	97.80%	99.00%	99.00%
ALL ORISSA	**95.40%**	**95.40%**	**92.38%**	**98.00%**	**98.00%**	**94.28%**	**98.00%**	**98.00%**	**92.05%**	**99.00%**	**99.00%**	**98.08%**	**99.00%**	99.00%
AT & C LOSS (%)														
CESU	32.84%	32.84%	46.51%	27.77%	27.78%	44.61%	26.86%	26.86%	42.86%	24.76%	24.76%	39.97%	23.77%	23.77%
NESCO	29.23%	29.23%	39.48%	24.54%	24.54%	35.56%	20.09%	20.09%	37.88%	19.22%	19.22%	33.91%	19.17%	19.17%
WESCO	27.55%	27.55%	37.63%	24.05%	24.05%	37.67%	21.53%	21.53%	44.20%	20.50%	20.50%	40.60%	20.40%	20.40%
SOUTHCO	34.59%	34.60%	50.72%	29.36%	29.36%	51.13%	29.26%	29.26%	52.60%	27.24%	27.23%	47.60%	26.25%	26.24%
ALL ORISSA (*)	**30.40%**	**30.39%**	**42.27%**	**25.98%**	**25.96%**	**40.95%**	**23.77%**	**23.77%**	**43.24%**	**22.48%**	**22.49%**	**39.73%**	**21.99%**	**22.09%**

(*) NB: AT & C Loss of All ORISSA has been calculated based on average collection efficiency of Distcos