

Regulatory Framework for Distribution ARR and Tariff Determination

Date: June 26th – 30th, 2019

**ARR Determination for Electricity Distribution Business: Gujarat
History, Practices and Issues**

**D. R. Parmar
Director
GERC**

The Electricity (Supply) Act, 1948

- The Board shall, after taking credit for any subvention from the State Government under Sec. 63, carry on its operations under this Act and **adjust its tariffs so as to ensure** that the total revenues in any year of account shall, after meeting all expenses properly chargeable to revenues, including **operating, maintenance and management expenses, taxes** (if any) on income and profits, **depreciation and interest payable** on all debentures, bonds and loans, leave such **surplus as is not less than three per cent.**, or such higher percentage, as the State Government may, by notification in the Official Gazette, specify in this behalf, **of the value of the fixed assets of the Board in service at the beginning of such year.**

The Electricity (Supply) Act, 1948

- EXPLANATION
- For the purposes of this sub-section, value of the fixed assets of the Board in service at the beginning of the year means the original cost of such fixed assets as reduced by the aggregate of the cumulative depreciation in respect of such assets calculated in accordance with the provisions of this Act and consumers contributions for service lines.

Schedule VI of the E(S) Act, 1948

-the licensee shall so adjust his charges for the sale of electricity whether by enhancing or reducing them that his clear profit in any year of account shall not, as far as possible, exceed the amount of reasonable return:
- “Reasonable return” means- In respect of any year of account, the amount found by applying **the standard rate to the capital base** at the end of that year;
- “Capital base” means the original cost of fixed assets available for use minus accumulated depreciation and outstanding loans.
- The Standard Rate: Depends on year of investment and vary from 5.50 % to 17%

Constitution of GERC

- Constituted in November 1998
- Chairman and Members appointed in March 1999
- Gap of 25% between cost of supply and tariff realization
- Tariff for LT consumers not revised since 1992
- HT consumers tariff last revised in 1996
- FCA mechanism was in place

Tariff Regulations

- Conduct of Business Regulations 1999: 7th June 1999
- Terms and Conditions of Tariff Regulations, 2005
- MYT Regulations 2007
 - First Control Period of 3 years- 2008-09 to 2010-11
 - Provisions of Annual Performance Review and Truing Up
- MYT Regulations 2011
 - Second Control Period of 5 years- 2011-12 to 2015-16
 - Approval of Business Plan and Mid-Term Review of Business Plan
- MYT Regulations 2016
 - Requirement of approval of business plan discontinued

First ARR Petition (FY 2000-2001)

- Cost and Revenue data submitted by GEB for tariff determination on 15th September 1999
- Depreciation and Return (of Rs. 783 Crore) not claimed.
- Deficit projected as Rs. 1169 Crore out of ARR of Rs. 9852 Crore (12%)
- T & D Losses at the level of 30% (40% unmetered consumption)
- First Tariff Order issued by GERC on 10.10.2000
 - Renegotiation of PPAs and No new Agri connection without metering
- Tariff hike allowed for Rs. 1157 Crore
- O & M projected at Rs. 1189 Crore (12%)
- Interest Charges estimated at Rs. 940 Crore (9.5%)
- Asked GEB to file FCA formula separately

Second ARR Petition (FY 2003-2004)

- Depreciation and Return (of Rs. 823 Crore) not allowed.
- Deficit projected as Rs. 1439 Crore out of ARR of Rs. 11064 Crore (13%)
- T & D Losses at the level of 30% (40% unmetered consumption)
- Tariff hike allowed for Rs. 789 Crore (7%)
- O & M estimated at Rs. 1106 Crore (10%)
- Interest Charges estimated at Rs. 1401 Crore (12.7%)
- Deficit of previous 4 year of Rs. 5850 crore required to consider in FRP

Third ARR Petition (FY 05-06 & 06-07)

- First Tariff Order after unbundling of Gujarat Electricity Board.
- Depreciation allowed as per CERC notified rates (Avg @ 3%).
- Return on Equity allowed at 7%.
- Interest on Term Loan and Interest on WC allowed separately.
- Provisions for bad debt allowed at 0.4% of Revenue.
- Deficit projected as Rs. 180 Crore out of ARR of Rs. 10921 Crore (1.65%)
- T & D Losses at the level of 27.17%
- Tariff hike allowed for Rs. 180 Crore (1.6%)
- Deficit of previous year (05-06) of Rs. 687 crore not allowed to carry forward

Subsequent ARR Orders

Date	Financial Years
31-03-2007	2007-08
17-01-2009	3 years ARR: 2008-09, 2009-10, 2010-11
14-12-2009	APR for FY 2008-09 and Revised ARR for FY 2009-10
31-03-2010	APR for FY 2009-10 and Revised ARR for FY 2010-11
06-09-2011	Truing Up for FY 2009-10, APR for FY 2010-11 and ARR for 5 years MYT period: FY 2011-12 to FY 2015-16 (As per approved Business Plan)
02-06-2012	Truing Up for FY 2010-11
16-04-2013	Truing Up for FY 2011-12
29-04-2014	Truing Up for FY 2012-13 and Revised ARR (Mid Term Review) for FY 2014-15 and 2015-16
31-03-2015	Truing Up for FY 2013-14
31-03-2016	Truing Up for FY 2014-15 and Provisional ARR for FY 2016-17
31-03-2017	Truing Up for FY 2015-16 and ARR for 5 years MYT period: FY 2016-17 to FY 2020-21
31-03-2018	Truing Up for FY 2016-17
24-04-2019	Truing Up for FY 2017-18 and Revised ARR (Mid Term Review) for FY 2019-20 and 2020-21

Issues

- Power Purchase Cost
 - Treatment of Rebate, Surplus Power Revenue, DSM/ UI Charge
- O & M Expenses
 - Employee cost variation
 - Insurance- payment and claim receipts
- Interest on Working Capital Requirements
 - Normative vis-à-vis Actuals
- Return on Equity
 - Checks for equity infusion
- Income-Tax
 - Impact of other business, efficiency gain, incentives
- Non-Tariff Income
 - Income from Delayed Payment Charges
- Depreciation and Debt: Equity
 - Recovery as depreciation above 70% (up to 90%)