

CEA: “Alternative Mechanism for implementation of FPPAS under of the Electricity (Amendment) Rules, 2022.”

The CEA notified draft on “Alternative Mechanism for implementation of (FPPAS) under Rule 14 (Timely recovery of Power purchase cost by distribution licensee) of the Electricity (Amendment) Rules, 2022.” Issued on 30th December, 2024.

Objective: The proposed concept paper address mechanisms for managing deviations in power procurement costs faced by electricity distribution companies (DISCOMs). It highlights the (FPPAS) as a mechanism for periodic revenue recovery, standardized and proposed certain changes under Rule 14 of the Electricity (Amendment) Rules, 2022. Current approach practices, such as Gujarat base FPPA and Maharashtra stabilization fund, aim to minimize tariff fluctuations and ensure financial stability. A proposed alternative mechanism involves a uniform surcharge collected monthly to avoid consumer tariff shocks while ensuring timely cost recovery for DISCOMs

The documents can be accessed [here](#)

1. Past FPPAS and Future Surcharge: In the proposed Clause 7(i) “*Along with monthly electricity bill, Distribution Licensee shall also collect monthly Base Fuel and Power price Adjustment Surcharge (FPPAS) not exceeding X % of monthly average billing rate approved by the State Commission. X shall be decided by the State Commission based on weighted average FPPAS of last 3 years’ audited values and the proposal/approval for ensuring year as filed by the Distribution Licensee before the State Commission*”.

The existing mechanism of FPPAS takes into account most recent changes in fuel and power purchase cost. The proposed mechanism would link the future FPPAS (as a factor X) based on price changes in the past three years. **This would not be a correct reflection of cost changes in the near term and, in fact, increase the delink between cost changes and FPPAS to be collected from consumers (Figure 1).** For example, change in fuel cost and FPPAS was significantly high in the past few years due to imported fuel, whose share has now reduced. Furthermore, a change in variation in share of coal-based generation over the years would also be a reflection of what may happen in the near term.

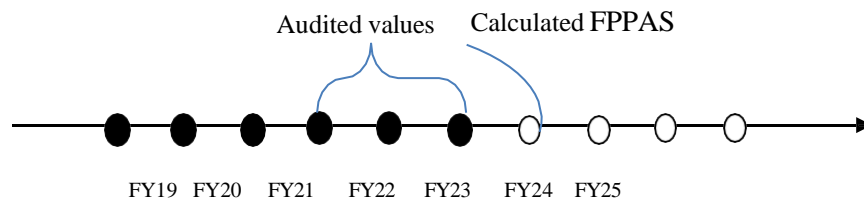


Figure 1: Calculation of FPPAS based on Audited Values from the past

Dependence on past FPPAS would result in higher current FPPAS to be collected from consumers. The opposite may happen when past cost increase was subdued and recent price changes are significant. **The differences thereof would be recoverable/adjusted during the true up mechanism, thus may further drive the wedge between the actual cost changes and recovery thereof.**

2. Incorrect Basis in the Proposed Formula for the Alternative to FPPAS:

The proposed FPPAS formula, derived from Tables 4 & 5 in the concept paper:

$$X(\%) = \frac{F}{\text{Total Revenue}(R)} \quad (1)$$

X= Actual FAC (%)

R= Revenue (Rs.) (or sum of the past three years)

F= Actual FAC (Rs.) (or sum of the past three years)

Total Revenue is inclusive of the FPPAS. The calculated X, from the past data, would be applied on the revenue excluding FPPAS. Thus, **the correct formula for calculation of X should be,**

$$X'(\%) = \frac{F}{R-F} \quad (2)$$

3. Stabilization Fund may increase Working Capital Cost for the discoms: In the Proposed Clause 7(ii)“*Such base FPPAS collected from consumers shall be deposited in a separate account called FPPAS Stabilization Fund. Any interest **accrued/earned** on FPPAS stabilization fund will also be added with FPPAS Stabilization Fund*”.

The purpose of stabilization fund is to serve as a reserve that holds excess amounts collected from the FPPAS. This would be parked in a separate account with a bank and would bear/accrue interest thereof.

If funds are borrowed by a discoms against that available in the stabilization funds, the banks/FIs would charge higher interest rate thereby placing additional cost burden for the discoms. Hence, such a fund should be available to meet the working capital requirement of the discoms. The interest ‘accrued’ on the same should be adjusted from the tariff during the true-up exercise.

4. Adjusted Against Base Rate: In the proposed clause 7(v) “*In case of surplus balance amount equivalent to last two month’s FPPAS demand in FPPAS stabilization fund at the end of a month, Distribution Licensee shall pass on the incremental amount over and above the two month’s FPPAS amount **reducing the base rate to that extent***”:

Reference to the base rate may be reworded as ‘adjusted against the base rate’ avoiding violation of Section 62 (4) of the Electricity Act 2003 that allows tariff (base) tariff change only once in a financial year.