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THE ANDHRA PRADESH GAZETTE
PART-II EXTRAORDINARY
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HYDERABAD, MONDAY, NOVEMBER 14, 2005.

NOTIFICATIONS BY HEADS OF DEPARTMENTS, Etc.

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PUBLIC WORKS NOTIFICATIONS

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

**TERMS AND CONDITIONS FOR DETERMINATION OF TARIFF FOR
WHEELING AND RETAIL SALE OF ELECTRICITY**

Regulation No. 4 of 2005

INTRODUCTION

Section 61 of the Electricity Act, 2003, provides that the Appropriate Commission shall, specify the terms and conditions for determination of tariff, while Section 62 of Act empowers the Commission to determine the tariffs, *inter alia*: for wheeling and retail sale of electricity and requires the Licensees to comply with such procedure as may be specified by the Commission for

calculating the expected revenue from the tariff and charges which the Licensee is permitted to recover. The Commission formulated a draft Regulation specifying the Terms and Conditions for determination of Distribution Tariff including the procedure for calculating the expected revenue, published the same in A.P. Gazette on 29-09-2005 and issued a press release seeking comments / suggestions from all stakeholders and the public at large and also placed it on the website of the Commission. Comments / suggestions were received from 11 persons / organizations including all the 5 licensees (4 DISCOMs and APTRANSCO). The Commission considered all the comments / suggestions and has made modifications, as considered appropriate, allowing for determination of tariff for wheeling and the retail sale of electricity separately, modifying in the process, the nomenclature of the Regulation.

In exercise of powers conferred under clause (zd), (ze) and (zf) of Section 181 (2) read with Sections 61 and 62 of the Electricity Act 2003 (36 of 2003) and all other enabling powers in that behalf, the Andhra Pradesh Electricity Regulatory Commission hereby makes the following Regulation, namely:

PART - I PRELIMINARY

1 SHORT TITLE, EXTENT AND COMMENCEMENT

- i. This Regulation may be called the Andhra Pradesh Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Wheeling and Retail Sale of Electricity) Regulation, 2005.
- ii. This Regulation shall extend to the whole of Andhra Pradesh.
- iii. This Regulation shall come into force on the date of its publication in the Andhra Pradesh Gazette

2 DEFINITIONS AND INTERPRETATION

- i. In this Regulation, unless the context otherwise requires:
 - (a) "Act" means the Electricity Act, 2003 (36 of 2003);
 - (b) "Aggregate Revenue Requirement" (ARR) means the revenue required to meet the costs pertaining to the licensed business, for a financial year, which would be permitted to be recovered through tariffs and charges by the Commission.
 - (c) "Base Year" means the financial year immediately preceding the first year of the Control Period;
 - (d) "CERC" means the Central Electricity Regulatory Commission established under Section 76 of the Act;
 - (e) "Commission" means the Andhra Pradesh Electricity Regulatory Commission;
 - (f) "Conduct of Business Regulations" means the Andhra Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations in force from time to time;
 - (g) "Consumer / User contributions" means any contributions made by those using or intending to use the Distribution network of a licensee for supply or

- wheeling of electricity. Any grant received by Licensees would also be treated as Consumer / User contribution.
- (h) "Control Period" means a multi-year period fixed by the Commission from time to time, usually 5 years, for which the principles for determination of revenue requirement will be fixed, the first Control Period, however, being of the duration of 3 years;
 - (i) "Distribution Business" means the business of operating and maintaining a distribution system for supplying electricity in the area of supply of the Distribution Licensee in terms of the Distribution and Retail Supply Licence granted by the Commission;
 - (j) "Financial year" means the period commencing on 1st April of a calendar year and ending on 31st March of the subsequent calendar year;
 - (k) "Licensees' Standards of Performance Regulation" means the A.P. Electricity Regulatory Commission (Licensees' Standards of Performance) Regulation, 2004 (Regulation No. 7 of 2004).
 - (l) "Non-Tariff Income" means income relating to the licensed business other than from tariffs for wheeling and retail sale, and excludes any income from Other Business and income on account of Fuel Surcharge Adjustment, Cross-subsidy Surcharge and Additional Surcharge;
 - (m) "Other Business" means any business engaged in by a Distribution Licensee under Section 51 of the Act for optimum utilization of the assets of such Distribution Licensee and shall include any business of the Distribution Licensee other than the licensed business;
 - (n) "Retail Supply Business" means the business of sale of electricity by a Licensee to consumers, in accordance with the terms of the Distribution and Retail Supply Licence;
 - (o) "Regulated Rate Base (RRB)" is the value of the gross fixed assets net of the consumer contributions and accumulated depreciation;
 - (p) "State" means the State of Andhra Pradesh.
- ii. Words and expressions used and not defined in this Regulation but defined in the Act shall have the meanings as assigned to them in the Act.
 - iii. All proceedings under this Regulation shall be governed by the Andhra Pradesh Electricity Regulatory Commission (Conduct of Business) Regulations.

3 EXTENT OF APPLICATION

- 3.1 This Regulation shall apply to all the Distribution Licensees in the State for a) Distribution Business and b) Retail Supply Business.
- 3.2 In accordance with the principles laid out in this Regulation, the Commission shall determine the Aggregate Revenue Requirement (ARR) for a) Distribution Business and b) Retail Supply Business.
- 3.3 The ARR determined for Distribution Business will be the basis for the fixation of the wheeling tariff/charges.
- 3.4 The ARR determined for Retail Supply Business will be the basis for the fixation of the Tariff/Charges for retail sale of electricity including surcharges.

PART - II
APPROACH, FRAMEWORK, PROCEDURES AND FILINGS

4 GUIDELINES FOR COMPUTING AGGREGATE REVENUE REQUIREMENT

The Guidelines already issued by the Commission for computing the Aggregate Revenue Requirement / Expected Revenue from Charges (ARR / ERC) to the extent modified herein would continue to apply for the Distribution and the Retail Supply Businesses separately till such time as fresh Guidelines are issued.

5 SEGREGATION OF ACCOUNTS INTO DISTRIBUTION AND RETAIL SUPPLY

Till such time as there is a complete segregation of accounts between Distribution and Retail Supply businesses, the ARR for each business shall be supported by an Allocation Statement that contains the apportionment of costs and revenues to that business. The allocation statement shall also contain the methodology that has been used for the apportionment.

6 FILING PROCEDURE

6.1 Every Distribution Licensee shall file for each of its licensed business an application for approval of its Aggregate Revenue Requirement (ARR) for each year of the Control Period, not less than 120 days before the commencement of the first year of the Control Period. This filing shall be in such form and in such manner as specified and in accordance with the Guidelines issued by the Commission. The Distribution Licensees may file such applications for ARR of the first Control Period within a period not less than 90 days before the commencement of the Control Period.

6.2 The ARR filing for the Distribution business shall be for the entire Control Period. For the Retail Supply business the ARR filing will be on annual basis for the first Control Period and the entire Control Period for the subsequent Control Periods.

6.3 **ARR for Distribution Business:-** The ARR filings shall contain the following :

- a. The Operation and Maintenance (O&M) costs which include employee-related costs, repair & maintenance costs and administrative & general costs, estimated for the Base Year and the year prior to the Base Year in complete detail, together with the forecast for each year of the Control Period based on the norms proposed by the Distribution Licensee including indexation and other appropriate mechanisms in terms of the principles enunciated in this Regulation for O&M cost allowance.
- b. Regulated Rate Base (RRB) for the Base Year and each year of the Control Period which requires submission of the working capital requirement and a detailed scheme/project-wise Capital Investment Plan with a capitalisation schedule covering each year of the Control Period consistent with the Commission's approved Resource Plan.

- c. A proposal for appropriate capital structure and its cost of financing (interest cost and return on equity) for the purpose of computing Weighted Average Cost of Capital.
 - d. Targets proposed for reduction of distribution losses during the Control Period duly adhering to the Licensees' Standards of Performance Regulation.
 - e. Details of depreciation, including Advance against depreciation if any required and capitalisation schedules for each year of the Control Period.
 - f. Description of external parameters proposed to be used for indexation;
 - g. Details of taxes on income;
 - h. Any other relevant expenditure;
 - i. Proposals for sharing of gains and losses;
 - j. Proposals for efficiency parameter targets;
 - k. Proposals for rewarding efficiency in performance
 - l. Any other matters considered appropriate
- 6.4 **ARR for Retail Supply Business:** - The ARR for Retail Supply Business shall contain:
- a. Power purchase costs for each year of the Control Period. The power purchase costs shall also include the transfer price of own generation for the supply business in line with the Power Procurement Plan approved by the Commission as part of the Distribution Licensee's Resource Plan.
 - b. All other items mentioned for the distribution business to the extent applicable and in accordance with cost allocation statement mentioned in clause 5 of this Regulation.
- 7 **FILING FOR PROPOSED TARIFF (FPT)**
- 7.1 The FPT for Distribution business and Retail Supply business shall be filed along with the respective ARR filings.
- 7.2 The application shall be made for determination of tariff for:
- a. Wheeling of electricity, i.e. Wheeling Charges to recover the ARR of Distribution Business
 - b. Retail sale of electricity, i.e. Tariffs for Retail sale of electricity to recover the ARR of Retail Supply Business
- 7.3 **Distribution Business:-** The application for FPT shall contain the following
- a. The Distribution system or network usage forecast for each year of the Control Period consistent with the Resource Plan.

- b. Proposals for computation of tariffs for wheeling of electricity for each of the years of the Control Period, including the losses to be charged in kind and the procedure therefor.
 - c. Proposals for Non-Tariff Income with item-wise description and details.
 - d. Proposals in respect of income from Other Business.
 - e. The proposed wheeling charges shall be voltage-wise. For the first Control Period, however, the Distribution Licensee may propose these charges computed on normative basis.
 - f. Expected Revenue from the proposed Wheeling Charges, Non-Tariff Income and Income from Other Business(es).
- 7.4 **Retail Supply of Electricity Business :-** The application for FPT shall contain the following
- a. Proposal for retail sale of electricity to the consumers pertaining to its retail supply business and the details may include tariffs for each consumer category, slab-wise and voltage-wise. The tariffs proposed may also include energy charges, fixed/demand charges and minimum charges .
 - b. Proposals for Non-Tariff Income with item-wise description and details.
 - c. Each tariff proposal submitted by the Distribution Licensee shall be supported with a cost-of-service model allocating the costs of the licensed business in respect of each category of consumers based on appropriate assumptions.
 - d. Expected Revenue from the proposed Retail Sale Tariffs, Non-Tariff Income and income from Other Business(es) and other matters considered appropriate by the Distribution Licensee, including incentive schemes to consumers, voltage surcharge and power factor surcharge.

8 DISPOSAL OF APPLICATIONS

- 8.1 The Commission will process the Distribution Licensee's filings in accordance with this Regulation and its Conduct of Business Regulations.
- 8.2 Based on the Distribution Licensees' filings, objections/ suggestions from public and other stakeholders, the Commission may accept an application with such modifications and/or such conditions as may be deemed just and appropriate and issue, within 120 days of the receipt of the application (within 90 days in case of an application filed for the first Control Period in accordance with the provisions of clause 6.1), an Order containing *inter alia* targets for controllable items and the approved Aggregate Revenue Requirement for the Distribution Business and the ARR for the Retail Supply Business.

9 RESOURCE PLAN

- 9.1 The Distribution Licensee shall file for Commission's approval a Resource Plan on 1st April of the year preceding the first year of Control Period. The Resource Plan shall *inter alia*, contain the Sales Forecast, Load Forecast, Power Procurement Plan and a Distribution Plan (Capital Investment Plan) consistent with the requirements of the Commission's Guidelines on Load Forecast and Resource Plan (Distribution Plan and Power Procurement Plan) as amended from time to time:

Provided that the Resource Plan for the first Control Period may be filed along with the Multi-year filings for ARR of the first Control Period.

- 9.2 The Commission shall approve the Resource Plan as per the Guidelines on Load Forecast, Resource Plan (Distribution Plan and Power Procurement Plan) and the Distribution Licensee shall adopt them in the Multi-Year and Annual filings for the Control Period.

10 MULTI-YEAR TARIFF FRAMEWORK AND APPROACH

- 10.1 The multi-year tariff framework shall be based on the following approach, for calculation of aggregate revenue requirement and expected revenue from tariff and charges.
- 10.2 Base Year :- Values for the Base Year of the Control Period will be determined based on the audited accounts available, best estimate for the relevant years and other factors considered appropriate by the Commission, and after applying the tests for determining the controllable or uncontrollable nature of various items. The Commission will normally not revisit the performance targets even if the targets are fixed on the basis of base values of un-audited accounts.
- 10.3 Targets: - Targets will be set for items that are deemed by the Commission as "controllable" which constitute operation & maintenance costs, financing costs, and for distribution losses duly adhering to the Licensees' Standards of Performance Regulation. Trajectory for specific variables may be stipulated by the Commission where the performance of the applicant is sought to be improved upon through incentives and disincentives;
- 10.4 Controllable and Uncontrollable items of ARR:- The expenditure of the Distribution Licensee considered as "controllable" and "uncontrollable" shall be as follows:

Distribution Business	
ARR Item	"Controllable"/ "Uncontrollable"
Operation & Maintenance expenses	Controllable
Return on Capital Employed	Controllable
Depreciation	Controllable
Taxes on Income	Uncontrollable
Non-tariff income	Controllable

In addition to the above items the retail supply business shall include the following :

Retail Supply Business	
ARR Item	“Controllable”/ “Uncontrollable”
Cost of power purchase	Uncontrollable

- 10.5 Pass-through of gains and losses on variations in “uncontrollable” items of ARR:- The Distribution Licensee shall be eligible to claim variations in “uncontrollable” items in the ARR for the year succeeding the relevant year of the Control Period depending on the availability of data as per actuals with respect to effect of uncontrollable items:

Provided that the Commission shall allow the financing cost on account of the time gap between the time when the true-up becomes due and when it is actually allowed and the corrections shall not be normally revisited.

- 10.6 Sharing of gains and losses on variations in “controllable” items of ARR:- The Distribution Licensee in its annual filings during the Control Period shall present gains and losses for each controllable item of the Aggregate Revenue Requirement. A statement of gain and loss against each controllable item will be presented after adjusting for any variations on account of uncontrollable factors.
- 10.7 For the purpose of sharing gains and losses with the consumers, only aggregate gains or losses for the Control Period as a whole will be considered. The Commission will review the gains and losses for each item of the ARR and make appropriate adjustments wherever required:

Provided that for the first Control Period, insofar as the gains and losses from the Retail Supply Business of the Distribution Licensee are concerned, these will be shared with the consumers on yearly basis.

- 10.8 Notwithstanding anything contained in this Regulation, the gains or losses in the controllable items of ARR on account of factors that are beyond the control of the Distribution Licensee – *force majeure* – shall be passed on as an additional charge or rebate in ARR over such period as may be specified in the Order of the Commission.

PART – III

PRINCIPLES FOR COMPUTATION OF AGGREGATE REVENUE REQUIREMENT

11 MAIN ITEMS OF ARR

The Aggregate Revenue Requirement of the Distribution Licensee, for each year of the Control Period, shall contain the following items:

- | | | |
|------------------------------|---|----------------------------------|
| a. Cost of power procurement | } | for Retail Supply Business alone |
| b. Transmission charges | | |

- c. Load dispatch charges;
- d. Operation and maintenance expenses;
- e. Return on capital employed;
- f. Depreciation;
- g. Taxes on Income;
- h. Corrections for "uncontrollable" items and "controllable" items (indexed to external parameters);
- i. Any other relevant expenditure

12 COST OF POWER PROCUREMENT

- 12.1 The Distribution Licensee shall be allowed to recover the cost of power it procures, including from State generators, independent power producers, Central generating stations, non-conventional energy generators, and others, for supply to consumers, based on the Commission-approved Power Procurement Plan of the Distribution Licensee covering each year of the Control Period:

Provided that where the procurement is for sale to consumers permitted open access by the Nodal Agency under the Open Access Regulation or purchase for trading, the Distribution Licensee shall provide an Allocation Statement as referred to in clause 5 clearly specifying the costs that are attributable to the sales made to such consumers, utilities, etc.

- 12.2 Except in the case of Retail Supply Business insofar as for the first Control Period is concerned:
- a. The Commission shall adopt the Sales Forecast, the Distribution loss trajectory and the Power Procurement Plan approved as part of the Resource Plan for the purpose of determining the Power Purchase Requirement of the Distribution Licensee for the Control Period;
 - b. The power procurement plan will not generally require any revisions during the Control Period, and the Commission-approved category-wise power procurement forecast shall be applied for estimating the Distribution Licensees' power procurement requirement for each year of the Control Period;
 - c. While approving the cost of power procurement, the Commission shall determine the quantum of electricity to be procured, consistent with the power procurement plan, from various sources of supply, in accordance with the principle of merit order schedule and dispatch, based on a ranking of-all approved sources of supply in the order of variable cost or price.

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- 12.3 For the Retail Supply Business of the Distribution Licensee for the first Control Period, the provisions of clause 12.2 shall apply *mutatis mutandis*, on an annual basis.
- 12.4 The Distribution Licensee shall be entitled to recover or shall refund, as the case may be, the charges on account of Fuel Surcharge Adjustment as approved by the Commission from time to time, suo-motu or based on the filing made by the Distribution Licensee, as the Commission may deem fit.

13 TRANSMISSION AND LOAD DISPATCH CHARGES

- 13.1 The Distribution Licensee shall be allowed to recover transmission and load despatch charges payable to the Transmission Licensees (Central Transmission Utility, State Transmission Utility etc.) and System Operators (Regional Load Despatch Centre, State Load Despatch Centre etc.) for access to and use of the inter-state transmission system, intra-state transmission system and availing load dispatch services on long-term basis in accordance with the tariffs approved from time to time by CERC and this Commission, as the case may be.
- 13.2 The Distribution Licensee shall also be allowed to recover the expenses, at the approved level, pertaining to (a) use of transmission and load dispatch facilities under short-term procurement of power for the Retail Supply Business; and (b) wheeling charges for use of the distribution system of other Distribution Licensee for procurement of power for the Retail Supply Business.

14 OPERATION AND MAINTENANCE COSTS

- 14.1 Operation and Maintenance (O&M) costs shall comprise the following:
- a. Salaries, wages and other employee costs;
 - b. Administrative and General costs;
 - c. Repairs and maintenance, and
 - d. Other miscellaneous expenses, like legal charges, audit fees, lease charges, rent, rates and taxes, etc.
- 14.2 The Distribution Licensee in its filings for the Control Period shall submit the consolidated O&M expenses for the Base Year of the Control Period, and two years preceding the Base Year. The O&M expenses for the Base Year shall be determined based on latest audited accounts, best estimates of Distribution Licensee of actual O&M expenses for relevant years and other factors considered relevant. The O&M expenses for the Base Year, if required, will be used for projecting the expenses for each year of the Control Period.
- 14.3 The composite O&M expenses permissible towards revenue requirement for each year of the Control Period shall be determined, by using pre-determined norms or formulae for this purpose. These norms or formulae shall be determined by the Commission based on

Distribution Licensee's submissions in this regard, previous years' actual expenses and any other factors considered relevant by the Commission.

15 RETURN ON CAPITAL EMPLOYED

- 15.1 Return on Capital Employed (RoCE) for the RRB for the year 'i' shall be computed in the following manner:

$$\text{RoCE} = \text{WACC} * \text{RRB}_i$$

Where,

WACC is the Weighted Average Cost of Capital as fixed by the Commission for the Control period and expressed in terms of percentage;

RRB is the Regulated Rate Base (the asset base) approved by the Commission for each year of the Control period on which the Distribution Licensee shall be entitled to earn a return based on the Commission approved Weighted Average Cost of Capital (WACC).

i: ith year of the Control Period, i = 1, 2, 3 for the first Control Period.

- The WACC shall be computed in the following manner:

$$\text{WACC} = \left[\frac{D/E}{1+D/E} \right] r_d + \left[\frac{1}{1+D/E} \right] r_e$$

Where,

D/E is the Debt to Equity Ratio and shall be determined at the beginning of the Control Period after considering Distribution Licensee's proposal, previous years' D/E mix, market conditions and other relevant factors

r_d is the Cost of Debt and shall be determined at the beginning of the Control Period after considering Distribution Licensee's proposals, present cost of debt, market conditions and other relevant factors.

r_e is the Return on Equity and shall be determined at the beginning of the Control Period after considering CERC norms, Distribution Licensee's proposals, previous years' D/E mix, risks associated with distribution & supply business, market conditions and other relevant factors

The Weighted Average Cost of Capital as determined above shall remain unchanged during the Control Period

- The Regulated Rate Base (RRB) for the purposes of computing the RoCE for a year of the Control Period will be computed in the following manner.

$$\text{RRB}_i = \text{RRB}_{i-1} + \Delta \text{RAB}_i + \text{WC}_i$$

Where,

RRB_i : Regulated Rate Base for the i^{th} year of the Control period

ΔRAB_i : Change in the Rate Base in the i^{th} year of the Control Period. This component would be the average of the value at the beginning and end of the year as the asset creation is spread across a year and is arrived at as follows:

$$\Delta RAB_i = (Inv_i - D_i - CC_i)/2$$

Where,

Inv_i : Investments projected to be capitalised during the i^{th} year of the Control Period and approved.

D_i : Amount set aside or written off on account of Depreciation of fixed assets for the i^{th} year of the Control Period.

CC_i : User Contributions pertaining to the ΔRAB_i and capital grants/subsidies received during i^{th} year of the Control Period for construction of service lines or creation of fixed assets.

RRB_{i-1} : Regulated Rate Base for the financial year preceding the i^{th} year of the Control period and shall be determined on the basis of approved Capital Investment Plan referred to in clause 16.1 of this Regulation. For the first year of the Control Period, RRB_{i-1} will be the Regulated Rate Base for the Base Year i.e. RRB_0 . The values for the Base Year will be determined based on the latest audited accounts available, best estimates of the actuals pertaining to the relevant years and any other factors considered relevant by the Commission.

$$RRB_0 = OCFA_0 - AD_0 - CC_0,$$

where

$OCFA_0$: Original Cost of Fixed Assets at the end of the Base Year available for use and necessary for the purpose of the licensed business

AD_0 : Amounts written off or set aside on account of depreciation and advance against depreciation if any, of fixed assets pertaining to the regulated business at the end of the Base Year

CC_0 : Total contributions pertaining to the $OCFA_0$, made by the users towards the cost of construction of distribution/service lines by the Distribution Licensee and also includes the capital grants/subsidies received for this purpose.

- WC: Working Capital Requirement in the i^{th} year of the Control Period and shall be considered as being equal to one twelfth of the Operations and Maintenance expenses as allowed for that year.

16 INVESTMENT PLAN

- 16.1 The Commission shall adopt the Capital Investment Plan approved as part of the Resource Plan in terms of clause 9 of this Regulation for the purpose of determining the Regulated Rate Base (RRB) at the commencement of the Control Period:

Provided that for the first Control Period, the Distribution Licensee shall file its Capital Investment Plan for the Control Period as part of its Multi-Year Filings for Commission's approval.

- 16.2 The Distribution Licensee shall seek approval for individual schemes in the Capital Investment Plan at least 90 days before undertaking the investment in accordance with the Guidelines on Investment Approval. The individual schemes/ projects submitted by the Distribution Licensee for Commission's approval must provide complete details including those relating to the cost and capitalisation for each year of the Control Period.
- 16.3 The Commission may provide corrections in the ARR of the Distribution Licensee for subsequent years of the Control Period to the extent of deviation from the investments approved as part of the Capital Investment Plan. The Distribution Licensee shall justify the deviations beyond 10 percent for each individual scheme/project and any other material deviations from the Capital Investment Plan including introduction of, or substitution of existing schemes / projects by, new scheme/project (s).

17 DEPRECIATION

- 17.1 Depreciation shall be computed in the following manner:
- 17.2 For each year of the Control Period, depreciation shall be calculated on the amount of Original Cost of the Fixed Assets included in the RRB at the beginning of each year of the Control Period:
Provided that depreciation on assets funded by consumer /user contributions or through any capital subsidy/grant etc shall not be allowed in the revenue requirement of the Distribution Licensee.
- 17.3 Depreciation allowance for each year of the Control Period shall be determined, generally based on the methodology, rates and other terms as decided by CERC from time to time.
- 17.4 Depreciation shall be charged from the 1st April of the following year from the date the asset is put to use.

18 TAXES ON INCOME

- 18.1 Taxes on Income, if any, on the income stream of the licensed business of the Distribution Licensee shall be treated as an expense and shall be recoverable through ARR.
- 18.2 Taxes on Income actually payable and paid shall be included in the ARR, limited, however, to tax on Return on Equity component of the Return on Capital Employed, and excluding tax on profit, if any, in excess of such return (arising out of any reason, including efficiency of the Distribution Licensee or any explicit incentive provided in the ARR), penalties, interest on delayed payment of tax, etc. , and duly adjusted for any refunds, etc. received for the previous periods.

19 CORRECTIONS FOR "UNCONTROLLABLE" ITEMS AND "CONTROLLABLE" ITEMS AND SHARING OF GAINS/LOSSES OF "CONTROLLABLE" ITEMS

The Distribution Licensee shall file its proposals for pass-through as well as sharing of gains/losses on variations in "uncontrollable" items of ARR and "controllable" items (indexed to external parameters) in accordance with clause 10 of this Regulation.

20 DETERMINATION OF FULL COST TARIFFS FOR WHEELING AND RETAIL SALE OF ELECTRICITY

The Commission shall determine the Full Cost tariffs for Wheeling and Retail sale of electricity to enable the Distribution Licensee to recover the Aggregate Revenue Requirement approved by the Commission based on an application made by the Distribution Licensee in accordance with the principles laid down in this Regulation.

**PART - IV
MISCELLANEOUS**

21 PERIODIC REVIEWS

To ensure smooth implementation of the Multi-Year Tariff (MYT) Framework, the Commission may undertake periodic reviews of Distribution Licensees' 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 Multi Year Tariff Principles.

22 END-OF-CONTROL-PERIOD REVIEW

- 22.1 Towards the end of the Control Period, the Commission will seek to review if the implementation of the principles laid down in this Regulation has achieved its intended objectives. While doing so, the Commission will take into account, among other things, the industry structure, sector requirements, consumer and other stakeholder expectations and Distribution Licensee requirements at that point in time. Depending on the requirements of the sector and to meet the objects of the Act, the Commission may revise the principles for the subsequent Control Period(s).
- 22.2 The end-of-the-first Control Period shall be the beginning for the second Control Period and the Distribution Licensee shall follow the same procedure as specified unless required otherwise by the Commission through appropriate orders /directions. The

Commission shall analyse the performance of the Distribution Licensee with respect to the targets set out at the beginning of the second and the each subsequent Control Period and based on the actual performance, expected efficiency improvements and other relevant factors, prevalent, determine the initial values for the next Control Period.

23 POWER TO AMEND

The Commission may, at any time add, vary, alter, modify, delete or amend any provisions of this Regulation.

24 SAVING

24.1 Nothing in this Regulation shall be deemed to limit or otherwise affect the power of the Commission to make such orders as may be necessary to meet the ends of justice or to prevent abuse of the process of the Commission.

24.2 Nothing in this Regulation shall bar the Commission from adopting in conformity with the provisions of the Act, a procedure, at variance with any of the provisions of this Regulation, if the Commission, in view of the special circumstances of a matter or class of matters and for reasons to be recorded in writing, deems it necessary or expedient for dealing with such a matter or class of matters.

24.3 Nothing in this Regulation shall, expressly or by implication, bar the Commission from dealing with any matter or exercising any power under the Act for which no Regulations have been framed, and the Commission may deal with such matters, exercise such powers and discharge such functions in a manner it deems fit.

(BY ORDER OF THE COMMISSION)

S. SURYA PRAKASA RAO,
Secretary.