No. PFI/Prog/TGERC/2026/034 Dated: 16/01/2026

To,

The Secretary
Telangana Electricity Regulatory Commission
Vidyuth Niyantran Bhavan, Sy. No. 145-P
G.T.S. Colony, Kalyan Nagar,
Hyderabad, Telangana- 500045

Subject: PFI Comments - Telangana DISCOMs Distribution Wheeling Business True Up Petition for FY 2024-25 & ARR Petition for FY 2026-27

Reference: a) TGERC inviting Comments on True Up of FY 2024-25 & ARR Petition for FY 2026-27
b) TGERC Letter dated 1/01/2026 regarding Time Extension

Dear Sir,

Power Foundation of India (PFI) is a Policy Research and Advocacy entity and a registered society under the aegis of Ministry of Power, Government of India. PFI is supported by leading Central Power Sector Organizations to undertake evidence-based policy research and facilitate informed decision making by the Regulators, Ministry and other concerned stakeholders.

With reference to above, PFI has analyzed the Distribution Wheeling Business True Up Petition for FY 2024-25 & ARR Petition for FY 2026-27 filed by Telangana DISCOMs, Northern Power Distribution Company of Telangana Limited (TGNPDCL) & Southern Power Distribution Company of Telangana Limited (TGSPDCL) before TGERC. Our comments/ suggestions on the said Petitions are enclosed herewith for your consideration as *Annexure- I & II* respectively. We would also like to orally submit our comments/ suggestions on the day of Public Hearing through video conference.

The comments have also been emailed to secy-tgerc@telangana.gov.in.

Warm Regards,

Encl: Annexure – I & II

Copy to:

1. **The Hon'ble Chairperson**
   Telangana Electricity Regulatory Commission
2. **The Hon'ble Member**
   Telangana Electricity Regulatory Commission

Yours Sincerely,

16/1/26

Executive Director, PFI

ANNEXURE-I

PFI Comments/Suggestions: TGNPDCL True-Up Petition FY 2024-25 for Distribution Wheeling Business

1) PFI is a Policy Research and Advocacy entity, a registered society under the aegis of the Ministry of Power, Government of India, and supported by leading Central Power Sector Organizations, to undertake evidence-based policy research and facilitate informed decision making by the Regulators, Ministry and stakeholders concerned with the Power Sector.

2) Telangana Electricity Regulatory Commission (TGERC) has sought comments / suggestions from various stakeholders on True-Up Petition filed by Telangana DISCOMs for FY 2024-25 of Distribution Wheeling Business. PFI has observed that the DISCOMs have filed the True-Up Petition for FY 2024-25 under *TGERC (Multi Year Tariff) Regulations, 2023***.**

3) PFI has reviewed and analyzed the said Petitions of Northern Power Distribution Company of Telangana Limited (TGNPDCL) for FY 2024-25 for Distribution Wheeling Business, and our comments / suggestions on the same are as follows:

A. SEPARATE AUDITED ACCOUNTS - WHEELING & RETAIL SUPPLY BUSINESS

4) PFI has observed that TG DISCOMs file separate True-Up Petitions for Distribution Wheeling & Retail Supply Business. **However, segmental reporting for these two businesses is not present in the Audited Accounts of TG DISCOMs.** Relevant extract from the Audited Accounts is as follows.

*"**Note: 38***
Segment reporting (AS-17) is not applicable since distribution and retail supply of power comprises primary and reportable segment."

5) Regulation 77 of *TGERC (Multi Year Tariff) Regulations, 2023* clearly states that separate accounts need to be maintained for Distribution & Retail Supply Busines.

"77 Separation of Accounts of Distribution Licensee

77.1 Every distribution licensee shall maintain separate accounting records for the Wheeling Business and Retail Supply Business *and shall prepare an Allocation Statement to enable the Commission to determine the Tariff separately for:*

(a) Distribution Wheeling Business;
(b) Retail Supply of electricity:

Provided that in case complete accounting segregation has not been done between the Wheeling Business and Retail Supply Business of the distribution licensee, the Aggregate Revenue Requirement of the distribution licensee shall be apportioned between the Wheeling Business and Retail Supply Business in accordance with the following Allocation Matrix..”

6) TG DISCOMs have been using pre-defined ratios as per Regulation 77 of TGERC MYT Regulations 2023, for allocating costs between the two businesses, but these ratios are based on assumptions and do not represent the true picture. Such usage of pre-defined ratios without splitting the costs & revenue into Wheeling & Retail Business leads to non-scientific & non-transparent allocation of costs & revenue to the two businesses.

7) **Open Access, which is one of the main pillars to promote competition in the electricity sector, as mandated u/s 42 of the Electricity Act, 2003 (Act) requires determination of Wheeling Charges. These Charges can not be ascertained in an accurate and transparent manner until separate audited accounts are maintained.**

8) Further, Section 42 of draft *Electricity (Amendment) Bill, 2025* states that it is the duty of a distribution licensee to provide non-discriminatory open access of its network to other distribution licensees. Relevant extract is as follows:

“Section 42 (Duties of distribution licensee and open access)
(1) It shall be the duty of a distribution licensee to:
(a) ensure an efficient, co-ordinated and economic distribution network in his area of supply;

(b) provide non-discriminatory open access to his network to other distribution licensees in their areas of supply on payment of wheeling charges;

(c) supply electricity in accordance with the provisions of this Act, and

(d) develop and maintain distribution system, as required, avoiding duplication, as may be specified by the Appropriate Commission."

9) Also, Section 14 of draft *Electricity (Amendment) Bill, 2025* allows multiple distribution licensees in the same area using shared network. The amendment is proposed to be done in 6th proviso, which is as follows.

"Section 14. (Grant of licence):

The Appropriate Commission may, on an application made to it under section 15, grant a license to any person -

(a) to transmit electricity as a transmission licensee; or

(b) to distribute electricity as a distribution licensee; or

(c) to undertake trading in electricity as an electricity trader,

in any area as may be specified in the license:

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Provided also that the Appropriate Commission may grant a license to two or more persons for distribution of electricity "through their own ***or shared*** *distribution system within the same area* ***in accordance with the framework as specified by the Commission****", subject to the conditions that the applicant for grant of license within the same area shall, without prejudice to the other conditions or requirements under this Act, comply with the additional requirements [relating to the capital adequacy, credit-worthiness, or code of conduct] as may be prescribed by the Central Government, and no such applicant, who complies with all the requirements for grant of license, shall be refused grant of license on the ground that there already exists a licensee in the same area for the same purpose."*

10) In view of above, it can be seen that separate accounts are required for promoting competition and improving efficiency and transparency in the two businesses (Distribution Wheeling & Retail Supply).

11) **Accordingly, PFI requests the Hon'ble Commission to direct TGNPDCL to provide audited accounts separately for Distribution Wheeling & Retail Supply Business and file revised True-Up Petitions.**

B. DEPRECIATION

12) TGNPDCL has claimed Rs. 413.97 Cr. of Depreciation in FY 2024-25, detailed calculations for which have not been provided. However, as per Note 13 of the Audited Accounts of TGNPDCL, the retired Assets in FY 2024-25 are worth Rs. 17.15 Cr. So, the net Depreciation for TGNPDCL for FY 2024-25 should be after reducing the impact of Retired Assets.

NORTHERN POWER DISTRIBUTION COMPANY OF TELANGANA LIMITED

Note: 13 - PROPERTY, PLANT AND EQUIPMENT & INTAGIBLE ASSETS

(Rs in Crore)

Sl. No.	ASSET GROUP	GROSS BLOCK				ACCUMULATED DEPRECIATION				NET BLOCK	
		As at 01.04.2024	Additions	Deductions/ Adjustments	As at 31.03.2025	As at 01.04.2024	For the year	Deductions/ Adjustments	As at 31.03.2025	As at 31.03.2025	As at 31.03.2024
I.	PROPERTY PLANT AND EQUIPMENT:										
1)	Free Hold Land	1.86	0.01	0.00	1.87	-	-	-	-	1.87	1.86
2)	Buildings	352.18	10.84	0.02	363.00	89.31	11.68	-	100.99	262.01	262.87
3)	Plant and Equipment										
	a) Plant and Machinery	4,604.65	313.29	7.53	4,910.41	2,524.31	180.36	5.59	2,699.09	2,211.33	2,080.34
	b) Lines and Cable Network	4,310.23	544.55	-	4,854.78	2,133.56	174.75	-	2,308.32	2,546.46	2,176.66
	c) Meters and Metering equipment	738.86	40.19	14.90	764.15	433.71	23.84	11.04	446.51	317.64	305.15
4)	Office Equipment										
	a) Office Equipment	19.10	0.65	0.21	19.54	10.00	1.08	0.19	10.89	8.65	9.10
	b) Air conditioners	1.08	0.04	-	1.12	0.83	0.02	-	0.85	0.27	0.25
5)	Furniture and Fixture	5.36	0.25	-	5.61	3.95	0.12	-	4.06	1.54	1.41
6)	Vehicles	2.72	-	0.04	2.68	2.45	0.00	0.03	2.42	0.26	0.27
7)	Computers and IT Equipment	84.18	1.78	0.30	85.66	70.49	5.89	0.30	76.09	9.58	13.69
	Sub Total (a)	10,120.22	911.60	23.00	11,008.82	5,268.62	397.75	17.15	5,649.21	5,359.61	4,851.60
II.	INTANGIBLE ASSETS:								-		
	Computer Software	34.94	0.05	-	34.99	28.97	2.33	0.00	31.29	3.70	5.97
	Sub Total (b)	34.94	0.05	-	34.99	28.97	2.33	-	31.30	3.70	5.97
	Grand Total (a+b)	10,155.16	911.65	23.00	11,043.81	5,297.59	400.07	17.15	5,680.51	5,363.31	4,857.57
	Previous Year	9,602.59	568.18	15.61	10,155.16	4,941.35	368.26	12.02	5,297.59	4,857.57	4,661.24

13) Further, as per the Regulatory Provisions, Depreciation on assets funded by consumer/user contributions shall not be allowed in the Aggregate Revenue Requirement of the DISCOM. Relevant extract of Regulations 26 of Regulation No. 2 of 2023 *(Telangana State Electricity Regulatory Commission (Multi Year Tariff) Regulation, 2023)* is as follows:

> ***"26 Consumer Contribution, Deposit Work, Grant and Capital Subsidy***
>
> …

26.2 The expenses on such capital works shall be treated as follows:-

...

***(c) provisions related to depreciation, as specified in clause 28, shall not be applicable to the extent of such financial support received**;"*

14) TGNPDCL has submitted that Depreciation amount claimed by them includes amortised depreciation on Consumer Contribution Assets of Rs. 155 Cr. however this has not been adjusted and gross Depreciation has been claimed. The amortised decpreciation on Consumer Contribution Assets is instead considered as part of Non-Tariff Income by TGNPDCL, referred to as Deferred Revenue Income.

15) PFI submits that Depreciation of Consumer Contributed Assets can not be categorized as "Income". Moreover, while calculating the Interest & Finance Charges TGNPDCL considers the Gross Depreciation (Depreciation including Depreciation on Consumer Contributed Assets) & equates it to Repayment of Loan.

16) There are three key means of financing Assets – (i) funded through ARR, (ii) Consumer Contribution & (iii) Government Grants. Assets which are finance through Consumer Contribution are handled by the DISCOM on behalf of the consumers and can not be used for claiming Depreciation.

17) Nearly all State Electricity Regulatory Commissions adjust the amortised depreciation of consumer contributed assets in the gross depreciation and do not treat it as Non-Tariff Income.

Relevant extract from *Delhi Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2017* is as follows.

*"29. **Any grant or contribution or facility or financial support received by the Utility from the Central and/or State Government, any statutory body, authority, consumer or any other person**, whether in cash or kind, for execution of the project or scheme, which does not involve any servicing of debt or equity or otherwise carry any liability of payment or repayment or charges **shall be excluded from the Capital Cost for the purpose of computation of interest on loan, return on equity and depreciation**."*

Relevant extract from *Haryana Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Generation, Transmission, Wheeling and Distribution & Retail Supply under Multi Year Tariff Framework) Regulations, 2024* is as follows.

"18. CAPITAL COST

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(8)The amount of any contribution made by the consumers, open access consumers and Government subsidy towards works for connection to the distribution system or transmission system of the distribution / transmission licensee, shall be deducted from the original cost of the project for the purpose of calculating the amount under debt and equity under these Regulations."

18) **Accordingly, PFI requests the Hon'ble TGERC to approve Depreciation for FY 2024-25 for Distribution Business of TGNPDCL taking into account the Retired Assets and the impact of Assets funded by Consumer Contribution or through any Capital subsidy or Grant. In any case, the allowed Depreciation for TGNPDCL for FY 2024-25 should not be more than Rs. 243 Cr. The difference between the claimed Depreciation of Rs. 414 Cr. and Rs. 243 Cr. proposed by PFI should not be passed on to the consumers at large through ARR and should be borne by the Govt. of Telangana in the form of subsidy.**

C. INTEREST & FINANCE CHARGES

19) As submitted above, TGNPDCL has calculated the Interest and Finance Charges considering Gross Depreciation (i.e. Depreciation including Depreciation on Consumer Contributed Assets) which is against the Regulatory Provisions.

20) Further, Opening Balance of Normative Loan has been considered as per audited accounts and not as per Regulatory Provisions. FY 2024-25 is the first year of the 5th Control Period (FY 2024-25 to FY 2028-29) and the Hon'ble TGERC, in Distribution Wheeling MYT Order dated 28/10/2024 had calculated the Opening Normative Loan

for FY 2024-25 based on the Closing Normative Loan at the end of FY 2024-25. Relevant extract from the said Order is as follows.

"4.7.3 The Commission has determined the opening loan base for FY2024-25 by taking the approved Gross Fixed Assets (GFA) as on 01.04.2024, adjusted for accumulated depreciation, consumer contributions, and grants, and apportioning it based on a debt-equity ratio of 75:25. Additionally, in accordance with Clause 27.1 of Regulation No. 2 of 2023, the Commission has applied the same 75:25 debt-equity ratio to the approved capitalisation during the year, net of consumer contributions and grants, to calculate the loan addition for each year of the Control Period"

21) Accordingly, PFI has recomputed the Interest & Finance Charges after considering the Opening Balance of Normative Loan for FY 2024-25 same as Closing Balance of Normative Loan for FY 2023-24 & deduction of Depreciation on Consumer Contributed Assets from Gross Depreciation.

(Rs. Cr.)

Particulars	Claimed by TGNPDCL	PFI Working	Difference
Opening Balance of Normative Loan	3117	1875	
Receipt of New Loans (exc. Consumer contribution)	541	541	
Repayment of loan (Dep. Adjusted for CC)	414	243	
Equity portion of GFA of fully depreciated assets	26	26	
Closing Balance of Normative Loan	3270	2199	
Average Balance of Normative Loan	3194	2037	
Rate of Interest	10.26%	10.26%	
Interest & Finance Charges	**328**	**209**	**(119)**

22) **PFI request Hon'ble TGERC to consider reducing Interest & Finance Charges claimed by TGNPDCL by Rs. 119 Cr. The same should be borne by the Govt. of Telangana in the form of subsidy.**

D. OTHER EXPENDITURE

23) TGNPDCL has claimed Rs. 25.14 Cr. as Other Expenditure for FY 2024-25. Such other expenditure comprises of compensation/ ex-gratia amount paid to Electrical Accidents.

24) It is pertinent to note that all penalties and compensation payable by the DISCOM to any party for failure to meet any Standards of Performance or for damages, as a consequence of the orders of the Commission, Courts, Consumer Grievance Redressal Forum, and Ombudsman, etc., should not be allowed to be recovered through the Aggregate Revenue Requirement.

25) PFI submits that Section 57 (2) and Section 59 (1) of the Act focus on two key points i.e., Compensation and Furnishing Case-wise information. Relevant sections are as follows:

"Section 57. (Consumer Protection: Standards of performance of licensee):

(1) The Appropriate Commission may, after consultation with the licensees and persons likely to be affected, specify standards of performance of a licensee or a class of licensees.

(2) If a licensee fails to meet the standards specified under sub-section (1), without prejudice to any penalty which may be imposed or prosecution be initiated, he shall be liable to pay such compensation to the person affected as may be determined by the Appropriate Commission:

Provided that before determination of compensation, the concerned licensee shall be given a reasonable opportunity of being heard...."

Section 59. (Information with respect to levels of performance):

(1) Every licensee shall, within the period specified by the Appropriate Commission, furnish to the Commission the following information, namely:-

(a) the level of performance achieved under sub-section (1) of the section 57;

(b) the number of cases in which compensation was made under subsection (2) of section 57 and the aggregate amount of the compensation."

26) Conjoint reading of Section 57 & Section 59 leads to the conclusion that DISCOMs need to submit case-by-case details to the Commission and the Commission will determine the compensation only after going through the merits of each case.

27) Further, Hon'ble APTEL vide its Judgment dated 27/09/2012 in Appeal No.141 of 2012 provided clarification of Section 57(2) stating that SERCs will determine compensation on a case-by-case basis after analyzing the failure in meeting standard of performance and other details, relevant extract from said judgement is as follows: *"Section 57(2) provides for a case-by-case determination of compensation. Such compensation has to be paid to the affected person. This will make it clear that the State Commission will have to determine on the basis of allegation that a particular standard of performance had been violated, as to how and what extent the person has been affected due to such violation."*

28) PFI observes that TGNPDCL has not submitted any details or reference of communications forwarded to the Hon'ble Commission w.r.t. electrical accidents and action taken and have only claimed the compensation amount in the Petition.

29) **In view of above, PFI proposes the Hon'ble Commission to direct DISCOMs to submit case-by-case reason of accident and allow pass through of compensation only in cases where the reason is not attributable to the DISCOM.**

E. SUMMARY OF TRUE-UP FY 2024-25

30) As stipulated above, summary of PFI Comments on True-up of FY 2024-25 for TGNPDCL Distribution Wheeling Business is as follows, Hon'ble Commission is requested to kindly consider the same.

(Rs. Cr.)

Sr. No.	Particulars	Claimed by DISCOM	Proposed by PFI	Difference
1	Operation & Maintenance (O&M) Expenses (1a+1b+1c)	2783	2783	0
1a	Employee Expenses	2496	2496	
1b	Administrative & General (A&G) Expenses	153	153	
1c	Repair & Maintenance (R&M) Expenses	134	134	

Sr. No.	Particulars	Claimed by DISCOM	Proposed by PFI	Difference
2	Return on Equity	177	177	0
3	Interest on Loan	328	209	(119)
3a	*Over and above normative*		119	
4	Interest on Working Capital	82	82	0
5	Depreciation	414	242	(172)
5a	*Impact of Decapitalization*		*17*	
5b	*Amortized Depreciation from Consumer Contributed Assets*		*155*	
6	Other Costs	25	0	(25)
6a	*Less: Comp. for Electrical accident on account of reasons attributable to DISCOM*		*25*	
7	**Aggregate Revenue Requirement (ARR)**	**3809**	**3493**	(316)
8	Less: Non-Tariff Income	175	20	155
8a	Less: Amortized Depreciation from Consumer Contributed Assets		155	
9	Other Income	0	0	
10	**Net ARR**	**3,634**	**3,473**	
11	Revenue from Sale of Power	3149	3149	0
2	**Revenue (Gap)/Surplus**	**(485)**	**(324)**	**(161)**

In view of above, elements of ARR which are not as per Regulatory provisions may not be passed on to the consumers, rather it should be borne by Govt. of Telangana in the form of subsidy. **Accordingly, the revised subsidy is of Rs. 7,302 Cr. instead of booked subsidy of Rs. 7,141 Cr. for FY 2024-25 which should be paid by Govt. of Telangana to TGNPDCL.**

PFI Comments/Suggestions: TGNPDCL ARR Petition FY 2026-27 for Distribution Wheeling Business

A. DEPRECIATION

31) TGNPDCL has claimed Depreciation pertaining to FY 2026-27 for Distribution Business including the Depreciation on Consumer Contributed Assets. However, as per the Regulatory Provisions, Depreciation on assets funded by consumer/user contributions shall not be allowed in the revenue requirement of the DISCOM. Relevant extract of Regulations 26 of Regulation No. 2 of 2023 *(Telangana State Electricity Regulatory Commission (Multi Year Tariff) Regulation, 2023)* is as follows:

> *"**26 Consumer Contribution, Deposit Work, Grant and Capital Subsidy***
>
> *…*
>
> *26.2 The expenses on such capital works shall be treated as follows:-*
>
> *…*
>
> *(c) provisions related to depreciation, as specified in clause 28, **shall not be applicable to the extent of such financial support received**;"*

32) **TGNPDCL has claimed Rs. 12 Cr. of Depreciation through Consumer Contribution. Accordingly, PFI requests the Hon'ble TGERC to reduce the Depreciation as claimed by TGNPDCL for FY 2026-27 by Rs. 12 Cr. The difference of Rs. 12 Cr. should be borne by the Govt. of Telangana in the form of subsidy.**

B. REVISED RETURN ON EQUITY (RoE)

33) TGNPDCL in ARR Petition has claimed 16% RoE including additional 2% RoE for performance towards meeting Standards of Performance (SOP) for FY 2026-27. PFI has observed that as per the applicable Regulatory provisions, RoE is to be allowed at 14% and additional RoE up to 2% which is linked to Licensee's performance towards meeting SOP is to be allowed at the time of True-Up provided the DISCOM has met overall SOP as specified by the Hon'ble TGERC. In this regard, relevant extract of *Telangana State Electricity Regulatory Commission (Multi Year Tariff) Regulation, 2023)* is as follows:

29 Return on Equity

29.2 Return on Equity shall be computed at the following base rates:

.....

(e) Distribution licensee: Base Return on Equity of 14% and additional Return on Equity up to 2% linked to Licensee's performance towards meeting standards of performance:

Provided that the Commission at the time of true-up shall allow the additional Return on Equity up to 2% based on Licensee meeting the summary of overall performance standards as specified in Clause 1.11 of Schedule III of TSERC (Licensees' Standards of Performance) Regulations, 2016.

34) In view of above, PFI has recomputed the RoE pertaining to FY 2026-27 based on applicable Regulatory principles, as tabulated below:

(Rs. Cr.)

Particulars	Claimed by TGNPDCL	PFI Working	Difference
Regulatory Equity at the beginning of the year	1375	1375	
Capitalization during the year	1400	1400	
Equity portion of capitalization during the year	350	350	
Equity portion of fully depreciated assets (incremental)	43	43	
Regulatory Equity at the end of the year	1682	1682	
Rate of Return on Equity			
Base rate of Return on Equity	16%	14%	
Effective Income Tax rate	0%	0%	
Rate of Return on Equity	16%	14%	
Return on Equity Computation			
Return on Regulatory Equity at the beginning of the year	220	193	
Return on Regulatory Equity addition during the year	25	21	
Total Return on Equity	245	214	
Total Return on Equity to Distribution business (90%)	**220**	**193**	**(28)**

35) **In view of above, PFI submits before the Hon'ble TGERC to consider PFI working as shown above for RoE and kindly reduce Rs. 28 Cr. from RoE claimed by TGNPDCL for FY 2026-27. The difference of Rs. 28 Cr. should be borne by the Govt. of Telangana in the form of Subsidy.**

A. SUMMARY OF ARR FY 2026-27

1) As stipulated above, summary of PFI Comments on ARR of FY 2026-27 for TGNPDCL Distribution Wheeling Business is as follows, Hon'ble Commission is requested to kindly consider the same.

(Rs. Cr.)

Sr. No.	Particulars	Claimed by DISCOM	Proposed by PFI	Difference
1	Operation & Maintenance (O&M) Expenses (1a+1b+1c)	2818	2818	0
1a	Employee Expenses	2514	2514	
1b	Administrative & General (A&G) Expenses	152	152	
1c	Repair & Maintenance (R&M) Expenses	152	152	
2	Return on Equity	220	192	(28)
2a	Less: Additional 2% RoE on account of SOP		28	
3	Interest on Loan	360	360	0
4	Interest on Working Capital	100	100	0
5	Depreciation	595	583	(12)
5b	*Amortized Depreciation from Consumer Contributed Assets*		*12*	
6	**Aggregate Revenue Requirement (ARR)**	**4,093**	**4,053**	(40)
7	Less: Non-Tariff Income	183	183	0
8	Other Income	3	3	
9	**Net ARR**	**3,907**	**3,867**	**(40)**

In view of above, elements of ARR which are not as per Regulatory provisions may not be passed on to the consumers, rather it should be borne by Govt. of Telangana in the form of subsidy. **Accordingly, the subsidy to be decided by Govt. of Telangana for FY 2026-27 should include Rs. 40 Cr. additionally.**

B. O&M EXPENSES EFFICENCY FACTOR

36) PFI has observed that as per *TGERC (Multi Year Tariff) Regulations, 2023,* Operations & Maintenance Expenses calculation does not take into account any efficiency factor. Relevant extract from the said Regulations is as follows.

"81 Operation and Maintenance Expenses

81.1 The O&M expenses for distribution licensee shall comprise of:

- *Employee cost including unfunded past liabilities of pension and gratuity;*

- *Repairs and Maintenance (R&M) expenses; and*
- *Administrative and Generation (A&G) expenses.*

81.2 The O&M expenses for distribution licensee for each year of the Control Period shall be approved based on the formula shown below:

O&Mn = EMPn + R&Mn + A&Gn

Where,

- *O&Mn – Operation and Maintenance expense for the nth year;*
- *EMPn – Employee Costs for the nth year;*
- *R&Mn – Repair and Maintenance Costs for the nth year;*
- *A&Gn – Administrative and General Costs for the nth year;*

81.3 The above components shall be computed in the manner specified below:

EMPn = (EMPn-1) x (CPI Inflation);

R&Mn = K x (GFAn) x (WPI Inflation) and

A&Gn = (A&Gn-1) x (WPI Inflation)"

37) It is submitted that under a performance based regulatory regime, regulated entities are incentivized to improve their efficiency level. This improved efficiency is expected to decrease the costs and hence many State Electricity Regulatory Commissions, like Delhi & Haryana, have incorporated an efficiency factor in the calculation of O&M Expenses. Relevant extract from *HERC (Terms and Conditions for Determination of Tariff for Generation, Transmission, Wheeling and Distribution & Retail Supply under Multi Year Tariff Framework) Regulations, 2024* is as follows.

"47.3. Operation and maintenance expenses

The actual audited Employee cost (excluding terminal liabilities) and A&G expenses for the financial year preceding the base year, subject to prudence check, shall be escalated at the escalation factor of 5.47% to arrive at the Employee cost (excluding terminal liabilities) and A&G expenses for the base year of the control period. The O&M expenses for the nth year of the control period shall be approved based on the formula given below:

O&Mn = (R&Mn+EMPn+A&Gn)* (1-Xn)+Terminal Liabilities

Where,

- *R&Mn – Repair and maintenance costs of the transmission licensee for the nth year;*

• EMPn – Employee costs of the transmission licensee for the nth year excluding terminal liabilities;

• A&Gn – Administrative and general costs of the transmission licensee for the nth year;

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(c) Xn is an efficiency factor for nth year

***Xn will be calculated by the Commission by analyzing the change in the total operating expenditure i.e. expenditure before depreciation, interest and taxes (i) Per unit of circuit km over last three years; and (ii) Per unit of transformation capacity over last three years. The Value of Xn will be determined by the Commission in the MYT order for the control period**…"*

38) Further, Honble APTEL in its judgement dated 31/05/2011 in Appeal No. 52 of 2008 has upheld the concept of Efficiency Factor in O&M expenses in the case of TPDDL, as follows.

*"**60. The last issue is erroneous computation of efficiency factor.** ..*

64. Since O&M expenses of the Appellant were compared with the similar urban distribution companies in other States, the Commission found the expenses of the Appellant were on the higher side and therefore MYT Regulations were framed to bring the requisite efficiency in the system. According to the Commission, the Commission is of the opinion that O &M expenses trajectory for the Control Period shall be decided on the basis of annual efficiency improvement factor and as such O&M cost of the Appellant is on the higher side….

65. In view of the above reasoning's, the State Commission was constrained from allowing them to continue to operate in such a manner and pass on the higher costs to the consumers. ***The increase in the O&M cost is supplemented by the increase in the efficiency level and cost of saving/cost of reductions/other economies being available to the Appellant. Therefore, there is no merit in this contention raised by the Appellant.***

66. The Learned Counsel for the Appellant has relied on the findings of the Tribunal in its judgment dated 29.9.2010 in Appeal No. 28 of 2008 in the matter of Delhi Transco Ltd. vs. DERC and Others wherein in paragraph 25 of the judgment the Tribunal set aside the *order of the State Commission in respect of efficiency factor for Delhi Transco decided by the State Commission on ad-hoc basis without any benchmarking or any analysis and identification of area of efficiency.* ***However, in the present case the State Commission has compared the O&M expenses of the Appellant with other utilities and given a reasoned order. Thus the findings of the Tribunal in Appeal No. 28 of 2008 will not apply to the present case. Accordingly, this issue is answered as against the Appellant.****"*

39) **Therefore, PFI requests Hon'ble TGERC to approve O&M Expenses only after incorporating an appropriate efficiency factor.**

PRAYERS BEFORE HON'BLE TGERC:-

1) **To consider the comments / suggestions of Power Foundation of India (PFI) on the FY 2024-25 True-Up Petition of TGNPDCL Distribution Wheeling Business.**
2) **To direct TGNPDCL to provide audited accounts separately for Distribution Wheeling & Retail Supply Business and file revised True-Up Petitions for FY 2024-25.**
3) **To consider Regulatory provisions stipulated in *TGERC (Multi Year Tariff) Regulations, 2023* while determining the Depreciation and Interest & Finance Charges of TG DISCOMs for FY 2024-25 for their Distribution Business. Elements of ARR which are not as per Regulatory provisions may not be passed on to the consumers, rather it should be borne by Govt. of Telangana in the form of subsidy. Accordingly, revised subsidy is of Rs. 7,302 Cr. instead of booked subsidy of Rs. 7,141 Cr. for FY 2024-25.**
4) **To not allow "Other Expenditures" as claimed by TGNPDCL.**
5) **To consider the comments / suggestions of Power Foundation of India (PFI) on the ARR and Wheeling Tariff Petitions FY 2026-27 of TG DISCOMs.**
6) **To consider PFI working for RoE and not consider 2% additional RoE for meeting Standards of Performance. Elements of ARR which are not as per Regulatory provisions may not be passed on to the consumers, rather it should be borne by Govt. of Telangana in the form additional subsidy of Rs. 40 Cr.**
7) **To consider allowing Operations & Maintenance Charges only after incorporating an appropriate efficiency factor.**