

Before the Meghalaya State Electricity Regulatory Commission Shillong

CASE NO. 6

In the matter of:

Petition for approval of Fuel and Power Purchase Price Adjustment (FPPPA)
for FY 2016-17

and

In the matter of

Meghalaya Power Distribution Corporation Limited (MePDCL), Shillong

Coram

Shri WMS Pariat, IAS (Retd), Chairman

Date of Order : 24.10.2017

Order

The Petitioner MePDCL had filed a Petition on 28th September 2017 seeking approval of Fuel and Power Purchase Price Adjustment (FPPPA) for FY 2016-17. MePDCL has also proposed an alternate formula for computing FPPPA according to which it has computed FPPPA of Rs.130.42 crore. The FPPPA petition submitted by the petitioner includes the power purchase cost variance of Rs.52.20 crore, unforeseen/unpredictable cost of Rs.63.90 crore and interest cost of Rs.14.30 crore for FY 2016-17. The FPPPA worked out to Rs.1.34 per unit to be recovered from consumers.

1. FPPPA for FY 2016-17:

The MSERC (Multi Year Tariff) Regulations 2014 specifies that;

“90.1 The Commission shall allow the recovery or refund, as the case may be, of additional charge for adjustment to tariff on account of change in fuel related costs of electricity generation and purchase of electricity.

90.2 The additional charge for adjustment shall be recovered or refunded, as the case may be, on a quarterly basis; and shall be taken as per actuals of the last three months”.

According to the above regulations, the petitioner shall claim fuel related cost of electricity generation and purchase of electricity which includes variable/fuel cost and fixed cost relating to generators/power suppliers. Cost variation in other costs viz. O&M cost, etc. would not be claimed through FPPPA. Further, the cost adjustment shall be on a quarterly basis of the relevant tariff/financial year. The FPPPA is intended to enable the utility to adjust/recover the difference of actual/higher power purchase cost vis-a-

vis the power purchase cost approved in the tariff order during the relevant tariff/financial year.

The Commission in view of the above, clarifies that the cost variance in power purchase and other costs for the previous FY 2016-17 shall be considered only in true up for FY 2016-17 based on the actual power purchase cost along with other expenses (ARR cost parameters) supported by audited annual accounts for FY 2016-17.

2. Modified FPPPA formula:

- a. The Commission vide its order dated 28.06.2013 had approved the FPPPA formula as given below:

$$PPP_O = \sum_{m=1}^k TC2 - \sum_{m=1}^k TC1 \quad (1)$$

$$PPP_O = \sum_{m=1}^k (FC_A - FC_B) + \sum_{m=1}^k (VC_A \times Q_A) - (VC_B \times Q_B) \quad (2)$$

- b. The MePDCL had filed petition for adjustment of FPPPA for the first quarter of FY 2014-15 as per the FPPPA formula approved on **28.06.2013**. The MePDCL had also suggested an alternative formula for computing FPPPA in its application and computed the FPPPA. The Commission in order dated **23.01.2015** had observed that there is no justification for charging FPPPA. The relevant excerpts are reproduced hereunder:

“MePDCL in their alternate proposal suggested Rs.2.49 per unit as the average fuel power purchase surcharge to be charged from consumers. As regard the proposed modified formula for computation of FPPPA the Commission has already dealt with it in its order dated 02.12.2013”.

The Commission in its order dated 02.12.2013 deliberated the issue of review petition filed by MePDCL praying for modification of the formula approved on 28.06.2013. In the petition MePDCL prayed that it be allowed to compute the PPP0 on the basis of the change in the unit rate of power purchase from that of approved for 2013-14 in the tariff order and that the change will be multiplied by the actual quantum of power purchased in the first quarter of 2013-14. By such computation the additional power purchase expenditure will be recoverable from the consumers through FPPPA.

The Commission asked the licensee to submit the FPPPA calculations as per its approved formula and proposed formula in order to enable the Commission to compare the two costs i.e. as per approved formula vs proposed formula.

MePDCL responded and submitted on 20.11.2013 the FPPPA computation according to the formula proposed by it, i.e., the formula: -

$$PPP_o = \sum_{m=1}^k (FC_A - FC_B) + \sum_{m=1}^k (VC_A - VC_B) \times Q_B$$

$$FPPPA = (PPP_o + Z + A + I)$$

(Where Z is unpredictable cost, A is adjustment of previous quarter and I is the amount of working capital.)

The Commission held a hearing on 25.11.2013 and gave MePDCL an opportunity to clarify about its proposal. MePDCL stated that the overall sale of power in the State had gone down and licensee was unable to get the revenue as forecast for 2013-14. It was also noted that the MePDCL had included interest on working capital in the computation and proposed to recover the same from domestic consumers as FPPPA. It is to be mentioned that the Commission in order of 28.06.2013 had ruled that interest on working capital could not be allowed in FPPPA computation.

The Commission had also stated in the order that *“the FPPPA formula approved by the Commission vide its order dated 28.06.2013 stays and a final view will be taken at the time of issue of the annual tariff exercise for 2014-15”*.

- c. Further, MePDCL had filed an appeal No.97 of 2015 before the APTEL against the Commission's order dated 23.01.2015 relating to FPPPA. The APTEL in its judgment stated that;
“considering the provisions of the Tariff Regulations 2011 and subsequent directions issued under various orders by the State Commission regarding FPPPA adjustment, as well as the provisions of the MYT 2014, we find that the State Commission has duly identified the mechanism of FPPPA recovery and dealt with the matter in accordance with the provisions of the Tariff Regulations 2011 and hence we are not in agreement with the argument of the Appellant that the State Commission has not followed the process identified under Tariff Regulations 2011.”
- d. The MeECL (holding company of MePDCL) had filed petition on 23.12.2016 for amendment of regulation 90 of MSERC (MYT) Regulations 2014 for recovery of FPPPA. The Commission in its order dated 14.08.2017 on the petition has ruled that *“the Licensee may file the FPPPA formula along with the tariff petition, which will be examined by the Commission as per Regulations”*.

- e. The MePDCL during April 2017 had filed petition for approval of Fuel and Power Purchase Price Adjustment (FPPPA) based on proposed modification of FPPPA formula”.

The Commission while disposing off the petition had intimated the licensee stating that the proposal of MePDCL for approval of FPPPA formula as proposed by MePDCL is not considered and indicated that the same may be filed along with tariff petition for ensuing tariff year in terms of MSERC (Multi Year Tariff) Regulations 2014. It may be mentioned that the Regulation 90.3 of the MSERC (Multi Year Tariff) Regulations 2014 specifies that *“the generating company or licensee shall put forth a formula for such recovery or refund in their tariff petition for approval by the Commission”*.

According to this Regulation the MePDCL shall propose the formula for adjustment of cost variance of purchase of power along with the tariff petition year on year for approval of the Commission. It is pertinent to state that modification of existing FPPPA formula would be subject to discussion and deliberation with the stakeholders before approval by the Commission. **The MePDCL is therefore, directed to propose amendment if any, to the existing FPPPA formula along with tariff petition to be filed for MYT control period from FY 2018-19 to FY 2020-21.**

3. The MePDCL may however file petition for adjustment of FPPPA for the 1st and 2nd quarters of FY 2017-18 as per existing approved formula, urgently supported by all the necessary documents to the Commission to take appropriate decision in line with the relevant provisions of the MSERC (Multi Year Tariff) Regulations 2014.
4. The Commission, in terms of the regulation 90.3 cannot accept the request of MePDCL for revision of the FPPPA formula at the present juncture and accordingly dismiss the petition.

(WMS Pariat)
Chairman