

## Comments and suggestions on draft APERC MYT Regulations, 2024

Prayas (Energy Group)

23<sup>rd</sup> October 2024

The Arunachal Pradesh Electricity Regulatory Commission (henceforth the Commission or the APERC), has published the draft notification on the Multi Year Tariff (MYT) Regulations for the control period from 1<sup>st</sup> April 2025 to 31<sup>st</sup> March 2028 on 27<sup>th</sup> September 2024 and invited public comments on the same.

Prayas (Energy Group) has the following suggestions for bringing clarity and certainty in the MYT regulations, improving the quality of supply and service and overall strengthening of the tariff process to safeguard consumer interests:

### 1. Increasing the Control Period to 5 years

The draft regulations specify a control period of 3 years from 1<sup>st</sup> April 2025 to 31<sup>st</sup> March 2028. We believe that the purpose and objective of the MYT process is to ensure certainty for the consumers, various stakeholders and utilities. It is also crucial for holding utilities accountable, and ensuring that they have sufficient time to improve on certain areas of concern through long-term planning.

The importance of long-term planning can also be seen in the recently notified APERC (Framework for Resource Adequacy) Regulations, 2024 which refers to planning for reliably meeting the projected demand. Under these regulations, the duration of resource adequacy plans is 1, 5 and 10 years for short, medium and long-term plans respectively. Similarly, the APERC (Power Purchase and Procurement Process of Licensee) Regulation, 2024 requires distribution licensees to prepare long and short-term power procurement plans. The long-term plan is to be prepared as a rolling plan for 10 years, whereas short-term plans shall be for a period of 1 year. The Draft Regulation 2.3 on Business Plans also refers to these requirements. A control period of 5 years would ensure clarity on tariff increases in the medium-term for consumers and prevent tariff shocks.

In line with the overall objectives of the MYT exercise, allied regulations and the practice followed in most States, we suggest that the control period should be increased to 5 years from the current proposal of 3 years. We believe that a 5-year control period with mid-term review where true-ups for 2 years are conducted together will be beneficial in setting performance targets and towards accountability. This will also reduce the number of regulatory processes in every 5 year period. A similar approach has been adopted in Maharashtra.<sup>1</sup>

### 2. Introducing inflation-linked tariffs

One of the significant challenges in achieving timely cost recovery is the lack of prompt revision in retail tariffs across various states. In many states, tariff hikes are either not in line with cost

---

<sup>1</sup> Regulation 4.2 of the MERC MYT Regulations, 2024

increases or are implemented irregularly. This irregularity often leads to periods without any tariff hikes, followed by years with substantial increases. Such abrupt changes build consumer resistance towards tariff hikes. Implementing automatic cost recovery by linking annual tariff increases to inflation-linked escalation rates could be more effective. This approach would provide consumers with predictable tariff increases, reduce the burden of carrying costs due to delays in cost recovery, and shield consumers from sudden tariff shocks.

### 3. Ensuring clarity in targets and performance parameters for Return on Equity (ROE)

As per the draft regulation 4.6, the ROE is divided into a base rate of 14% and additional ROE with a maximum of 15% for wires and 15.5% for retail supply businesses. The additional ROE is linked to the actual performance of the distribution licensee on parameters including consumer, feeder and sub-station metering, percentage of assessed bills over total bills, meeting RPO targets, CGRF performance or any other parameter assessed by the APSERC during the true-up.

We note that this list of performance parameters is indicative and unclear. For instance, a parameter such as CGRF performance in dispute handling or complaint resolution can be difficult to subject to regulatory scrutiny and prudence checks. It also lacks a sufficient basis to award the distribution licensee with a higher ROE. If a distribution licensee offers good quality of supply and service (QoS), then the number of complaints would be fewer and a parameter such as CGRF performance may not be appropriate to award higher ROE given fewer disputes at the first instance.

Furthermore, all parameters listed do not have any benchmarks or targets that the distribution licensee has to achieve in order to claim additional ROE. Within the parameters as well, it is unclear as to whether fulfilling one requirement, for example, RPO targets without achieving others is sufficient for additional ROE or not. Ideally, these benchmarks should be specified in the regulations itself, else it may create a risk of disputes and uncertainty for distribution licensees on which parameters to prioritise and the targets or goals to be achieved, making it difficult for them to plan and invest accordingly.

We also strongly believe that the parameters for the determination of additional ROE should be revised to more discernable and important factors such as DT failure rates which have a direct correlation with the distribution licensee's QoS. Furthermore, the benchmarks for these parameters should be established beforehand which would also help in focusing more towards the QoS to the consumers. We believe that such benchmarks and standards should not be difficult to establish and implement, since the Department of Power, Arunachal Pradesh (APDoP) already reports these numbers on its website [here](#). This would also in turn incentivise the distribution licensee to adopt more robust and regular reporting of QoS and performance parameters thereby ensuring transparency.

We suggest that APSERC modify the Draft Regulations to incorporate definitive performance parameters along with benchmarks for additional ROE for distribution licensees. The parameters could include an improvement in hours of supply to the pre-specified benchmarks, achievement of target DT failure rates, and increased R&M expenses in the 3 circles with the poorest QoS and network density. The Commission could also consider linking ROE incentives for the completion of crucial Capex within the specified timelines. This would help reduce cost overruns and IDC.

#### 4. Ensuring regular annual reporting of fixed assets

We note that the latest tariff order for ARR from FY 2024-25 to FY 2026-27 states that the APDoP has not reported or recorded any gross fixed assets (GFA). Given that the distribution licensee receives funds from the Central Government as part of centrally sponsored schemes such as RDSS, it is important to ensure that such records are maintained and displayed on the licensee's website. Reporting of GFA is also crucial to determine the appropriate repair and maintenance (R&M) norms. We note that this practice has been followed in the form of an Annual Assets Report till 31 March 2017 (available [here](#)) and accordingly suggest that it should be made up to date.

#### 5. Increasing allocation of Repair and Maintenance (R&M) expenses

As per the latest tariff order, we note that the approved Operation and Maintenance (O&M) expenses for FY 2024-25 is Rs. 426.94 Crores, out of which - (a) Employee expenses constitute 88.2% (Rs. 376.71 Crores), (b) R&M expenses are 9.3% (Rs. 39.78 Crores) and (c) administrative and general (A&G) expenses are 2.4% (Rs. 10.45 Crores). We note that the growth rate for the three categories over the course of the MYT period is 5.28%, 7.12% and 0% for employee, A&G and R&M expenses respectively. This is indicative of a reduced allocation of R&M expenses from the total O&M (around 8.5%) by the end of the MYT period in FY 2026-27.

We further note that the draft regulations have revised the manner of calculating R&M. The regulations in force include the GFA and a constant 'K'<sup>2</sup> have been dropped from the draft which is limited to linking the R&M expenses to the Wholesale Price Index as follows:  $R\&M_n = (R\&M_{n-1}) * (1 + WPI \text{ inflation})$ . We suggest that R&M continue to be linked with GFA, for which we have made suggestions in paragraph 4.

R&M expenses are especially crucial in cases where the capital investments are inadequate, to ensure supply quality and network reliability. Therefore, we suggest that there should be a benchmark for a minimum allocation of R&M expenses of the total O&M. This a practice followed in Maharashtra as well where a minimum of 20% of the O&M expenses are to be allocated towards R&M.<sup>3</sup>

---

<sup>2</sup> Regulation 4.10(2) of the APSERC MYT Regulations, 2018 provide the calculation for R&M expenses as follows:  $R \& M_n = K \times (GFA_{n-1}) \times (WPI \text{ inflation})$

<sup>3</sup> Regulations 93.4 and 103.4 of the MERC MYT Regulations, 2024

## 6. Annual hearings on the quality of supply and service (QoSS)

We note that the APDoP has uploaded data on performance monitoring on its website and also submissions made to the REC for the Consumer Service Ratings of Discoms (CSR) [here](#). We welcome this good practice since it is helpful in monitoring QoSS. Some of the key performance parameters such as DT failure rates and hours of supply should be accompanied with detailed information such as the number of DTs, reasons for failure, and time taken for restoration, feeder level outages etc. The data can also be made available in downloadable spreadsheet formats with detailed computations for easy public access. This data should also be submitted along with the tariff applications. In addition to this, we suggest conducting separate annual hearings by the APSERC on the issues faced by the consumers in relation to QoSS, and further strengthening the available data by reducing gaps, ensuring regular reporting and maintaining the accuracy of the data.

## 7. Rollout and implementation of smart metering measures

Currently, we note that the draft regulations do not have any separate provisions on smart meters or the rollout of smart metering plans. Accordingly, we suggest that the Commission notify separate provisions within the MYT regulations given that it is a significant cost that would be passed on to the consumers. These provisions could stipulate that:

- a. Smart meter installations are as per the smart meter rollout plans approved by the Commission after a public consultation process. The rollout plan can provide details of category-wise circle-wise plans for various types of smart metering technologies including prepaid meters.
- b. The service level agreements entered into by the Advanced Metering Infrastructure Service Providers be submitted to the Commission for regulatory scrutiny.
- c. Cost pass-through to consumers should be based on cost and benefit analysis of smart metering and as per the stipulated gain and loss sharing framework as specified in the regulations.

We request the Commission to take this submission on record and allow us to make any additional submissions, if required.

Prayas (Energy Group)

Date: 23<sup>rd</sup> October 2024

Place: Pune