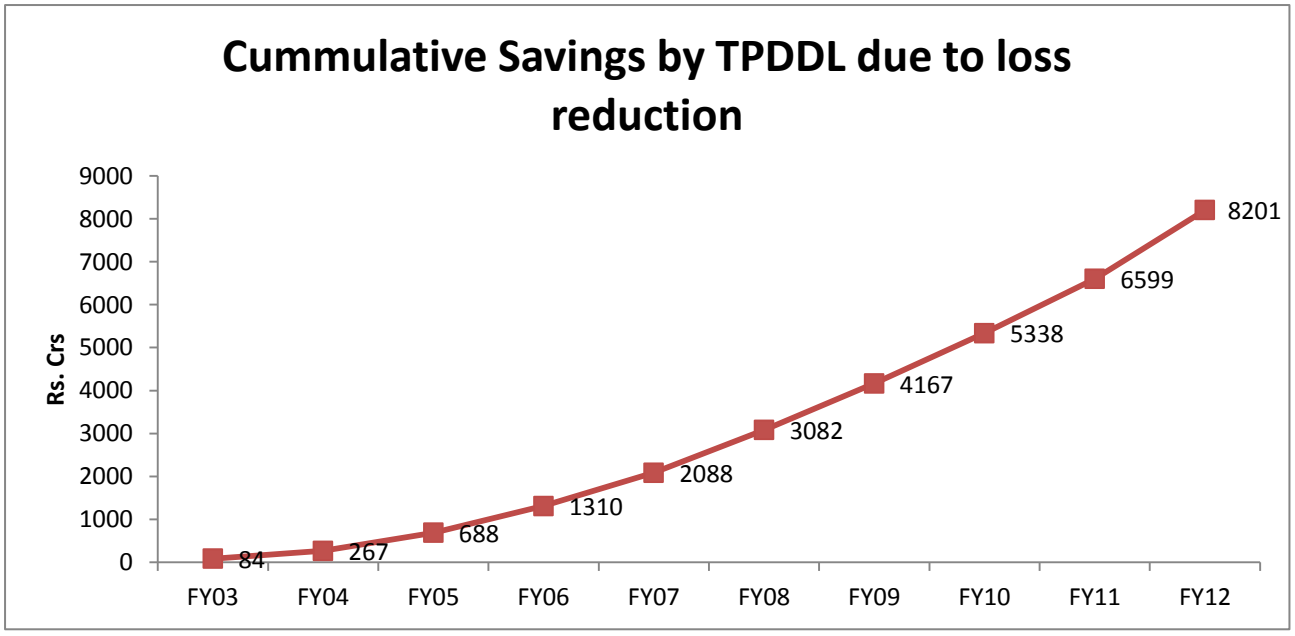
# Frequently Asked Questions regarding Tata Power-DDL's power distribution operations in Delhi

**Question 1 : How power scenario has changed over the years in Delhi?**

**Answer :** Power scenario has improved substantially in 10 years post privatization, both in terms of availability and reliability of power. While on one hand we have ensured adequate power arrangements through Long Terms Power tie-ups and short term power purchase mechanism (bilateral/exchange) on the other hand we have invested heavily to revamp our network to ensure power is delivered to the consumers without any disruption. The power availability in our area is 99.99 per cent as on date.

Tata Power Delhi Distribution has reduced the Aggregate Technical & Commercial (AT&C) Losses in its Area of Supply in North, North West Delhi from an opening AT&C loss level of 53% in July 2002 to 10.78% by end of FY 2012-13, thereby generating additional revenues to the tune of approx. Rs. 10,300 Crores for the benefit of the consumers; this amount has been utilized for meeting increasing input costs (mainly power purchase) which would otherwise have been required to be funded either by the Government of Delhi (by way of subsidy) or through revision of Tariffs. It is due to this reason, the tariff increase in last 10 years has been about 80-90%. In addition to the estimated accumulated benefit which has accrued to the Government over last eleven years due to loss reduction, the Delhi Government's annual financial support/subsidy of around Rs. 1,500 Cr. p.a. to the Sector prior to privatization, (in today's terms, this support would be around Rs. 3,000 Cr. p.a.), which has virtually been reduced to Rs. 200-500 crores. The accumulated benefit of nearly Rs. 30,000 Cr. to the State since privatization, which has been deployed by the Delhi Government in financing other infrastructure projects including roads/ flyovers/ Delhi Metro/ Stadiums and in social sector, etc. Cumulative savings by TPDDL due to loss reduction is as follows:




(For whole of Delhi, the saving would be approximately Rs. 30,000 crores)

It may be pertinent to note that all States are incurring heavy expenses towards meeting the subsidy obligation of State Discoms apart from bearing losses of them. Details of some of the States on losses, subsidy, etc. provided below:

| ***State*** | ***Subsidy Received (Rs. Cr.)*** | | ***Profit/ (Loss) (Rs. Cr.)*** (Even after providing subsidy) | | ***Domestic Tariff (Paise/Unit)*** | | ***Load Shedding (No. of hrs.)*** | ***AT&C Losses (FY 10-11)*** |
|---|---|---|---|---|---|---|---|---|
| | ***FY 10-11*** | ***Cumulative (FY 08-11)*** | ***FY 10-11*** | ***Cumulative (FY 08-11)*** | ***(0-200 Units)*** | ***(200-500 Units)*** | | |
| ***Punjab*** | 3252 | 11846 | (1,482) | (5,215) | ***479*** | ***533.8*** | ***3-4*** | ***17.47*** |
| ***UP*** | 1743 | 7003 | (2,811) | (15,700) | ***507.5*** | ***431*** | ***5-6*** | ***40.29*** |
| ***Gujarat*** | 1101 | 4780 | 104 | 174 | ***342.5*** | ***395*** | ***Nil*** | ***16.89*** |
| ***MP*** | 1369 | 3973 | (2,157) | (9,772) | ***451.25*** | ***485.5*** | ***4-6*** | ***37.28*** |
| ***Chhattisgarh*** | 0 | 0 | (468) | 520 | ***225*** | ***294*** | ***NIL*** | ***28.64*** |
| ***Tamil Nadu*** | 1653 | 6614 | (12,475) | (33,693) | ***357.5*** | ***471.5*** | ***8-10*** | ***19.90*** |
| ***Delhi*** | 150 | 785 | 801 | 1,315 | ***453.6*** | ***559.44*** | ***Nil*** | ***15.76*** |

*Source :PFC Report on Performance of State Power Utilities for Subsidy, P&L and AT&C Losses; Subsidy in case of Delhi is to the Consumers and not Discoms – Amount specified for entire Delhi has been approximated based on Subsidy disbursed by Govt. for TPDDL Consumers.*

*: Domestic Tariffs : As per Tariff Orders(including Fixed Charges)*

*:Load Shedding : As per news reports*

Since 2002, Tata Power Delhi Distribution has incurred capital expenditure of over Rs. 3000 crores towards strengthening and augmenting the network, reduction of losses, improving consumer care centers, etc. Against a back drop of nearly 6-8 hours of load shedding and power cuts in 2000-2002, we are now providing round the clock quality power to all our consumers. Consumer Convenience in obtaining new connections, duplicate bills, payments options, etc. have increased manifold in last one decade. A number of convenient payment options such as drop boxes, payment through our website, Electronic Clearance Service (ECS), Anytime Payment Machine Kiosks, etc. have been also introduced.

We have implemented world class technologies to enhance consumer convenience to newer heights and has now embarked on Smart Grid journey to make the network more intelligent, robust and self-healing.

**Question 2 : Reasons for the poor financial health of state discoms. And way forward.**

**Answer :** Distribution and retail supply is the most important cog in the power sector value chain which interfaces with end customers and provides revenue for the entire value chain. Poor financial health of Discoms is primarily on account of non-cost reflective tariff, high AT&C Losses hovering at around 40%, slow equity infusion etc. The existing trends in electricity costs and recovery in distribution sector are showing a rising gap between cost of

supply and realization per unit. According to the Planning Commission's estimates, electricity distribution losses totalled a whopping Rs 70,000 Crores in 2010-11. It is projected that the losses will go up to Rs. 1,40,000 Crore by 2014-15, if the present loss levels are not significantly reduced.

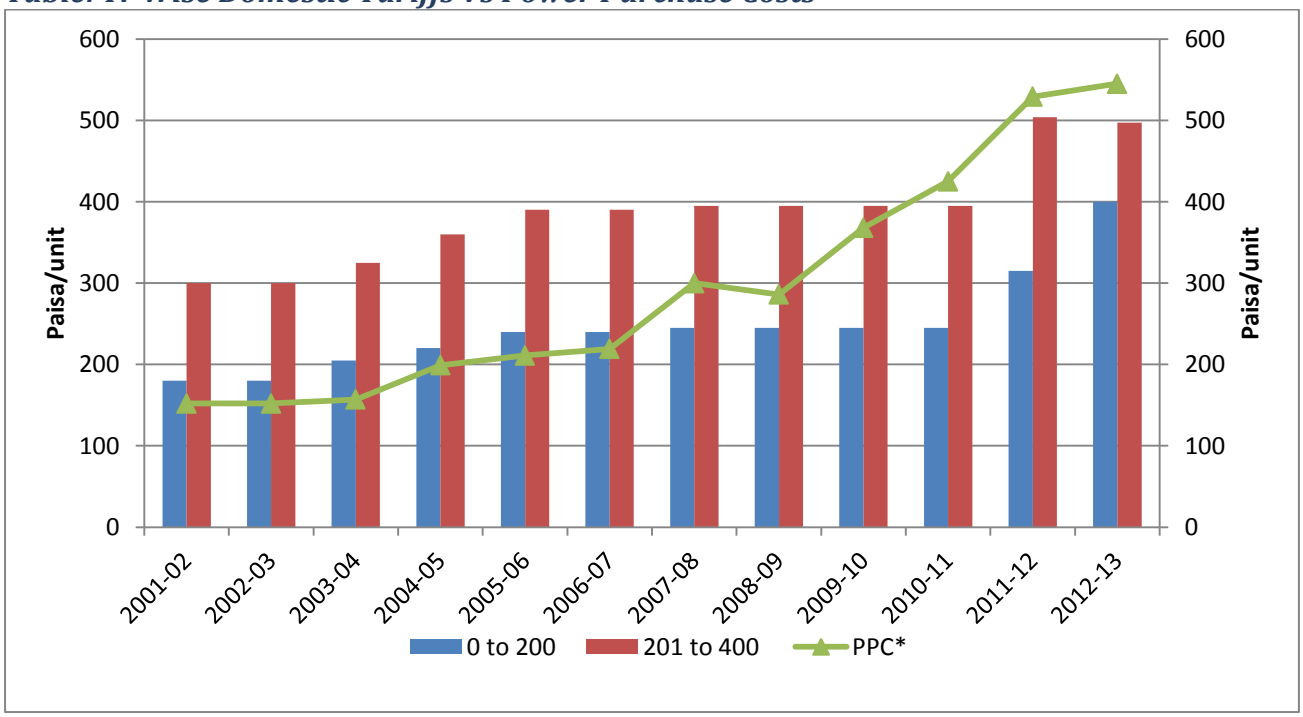
The role of the state regulator has come into sharp focus with both the Shunglu Committee and Appellate Tribunal for Electricity taking strong views on the tariff determination process. However only resorting to tariff hike may not be a viable solution, hence other possible solutions are allocating fuel to utilize stranded capacities, addition of peaking power capacities, financial re-structuring and inviting more Private Participation in the form of PPP Model.

**Question 3: Viewpoint on power tariff hike in Delhi?**

**Answer :** While it is a fact that tariffs have increased by around 60% in the last three years, it may be seen that that there had been practically no tariff hikes in Delhi during the Period 2006-07 to 2010-11 (except for a 5 paise tariff hike in 2007-08, i.e. less than 1%). During the same period the Power Purchase Cost of the Discoms had grown by approx. 90% (from Rs. 2.19/unit in 2006-07 to Rs. 4.25/unit in 2010-11). Moreover in last two years the Power Procurement Cost has grown by 28% from Rs. 4.25 p.u. to Rs. 5.45 p.u. Thus there was a requirement of immediate tariff hikes to enable Discoms meet their expenses (including Power Procurement costs which account for 80% of the expense) for servicing the demand of consumers.

Also it may be noted since 2002, the tariff increase for consumers in 0-200 and 201-400 slab have gone up by 122% and 66% respectively as against Power Purchase Cost increase by 258% which is still leading to revenue gap.

***Table: Yr Wise Domestic Tariffs Vs Power Purchase Costs***



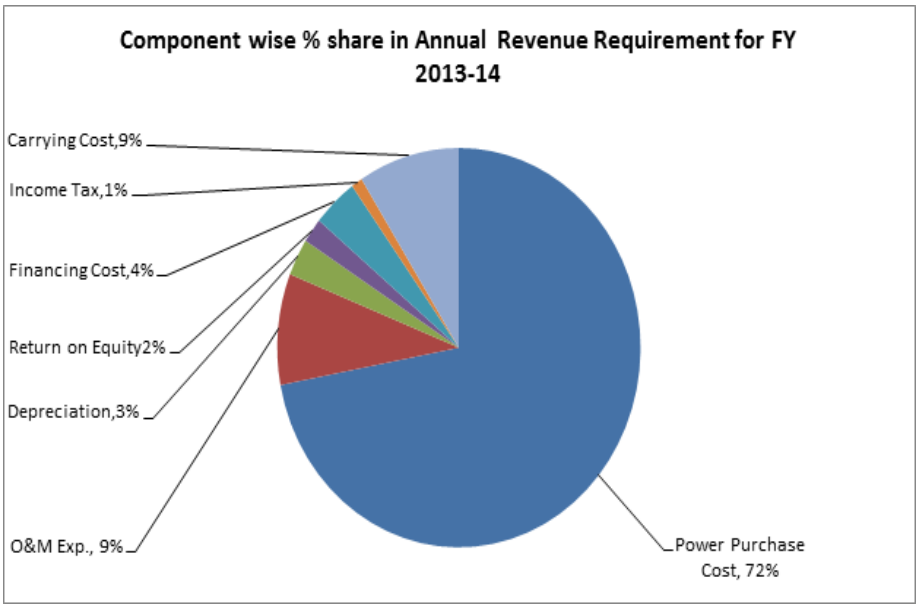
| Units & Tariff | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | % Increase | 11 yr CAGR |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **0 to 200** | 180 | 180 | 205 | 220 | 240 | 240 | 245 | 245 | 245 | 245 | 315 | 400 | 122% | 7.5% |
| **201 to 400** | 300 | 300 | 325 | 360 | 390 | 390 | 395 | 395 | 395 | 395 | 504 | 497 | 66% | 5% |
| **PPC*** | 152 | 152 | 157 | 199 | 211 | 219 | 300 | 286 | 368 | 425 | 529 | 545 | 258% | 12.3% |

While it is true that Delhi has limited agricultural load as compared to neighboring states, it has significant number of consumers consuming less than 200 units a month and who need to be subsidized considering their socio economic standards. It is also to be noted that there is significant difference in terms of service delivery in TPDDL area vs neighboring states which still reel under outages of 5-6 hrs power cuts per day against practically nil load shedding in our area. There is a cost attached to both 24X7 power availability as well ensuring reliability & quality of supply. It is worthwhile to point out that neighboring state of Haryana has introduced a reliability charge of Rs. 1.5/unit additionally for consumers who seek 24X7 supply. Even Delhi's tariffs can be lowered significantly if load shedding of 4-6 hrs is done. Notwithstanding the above, Delhi's tariffs are comparable/lower than other metropolitan cities where 24X7 supply is assured.

| | | Delhi | Haryana | UP | Madhya Pradesh | Maharashtra (Mumbai) | Andhra | Kolkata |
|---|---|---|---|---|---|---|---|---|
| | **Units** | | | | | | | |
| **Domestic - 2 Kw** | 200 | 2.90 | 4.9 | 4.75 | 5.71 | 5.1 | 4.09 | 5.69 |
| **Domestic - 2 Kw** | 400 | 4.55 | 5.16 | 4.63 | 5.41 | 6.05 | 5.55 | 6.44 |
| **Non Domestic - 10 kW** | 1500 | 8.57 | 6.1 | 7.73 | 5.80 | 7.69 | 9.12 | 7.80 |
| **LT Industrial - 10 kW** | 1500 | 8.13 | 5.85 | 7.5 | 4.80 | 8.17 | 6.41 | 6.2 |
| **HT Industrial - 100kW / 108 KVA** | 15000 | 7.50 | 6.38 | 7.7 | 6.89 | 10.03 | 9.42 | 7.96 |

**Question 4 : Please elaborate the Cost structure of the organization for FY 13-14**

**Answer :** The Cost structure for TPDDL is as shown below. As can be seen, **Power Purchase Costs** represent the bulk of costs for TPDDL with a major share of 72%. TPDDL has tied up 90% of its power from Govt. owned Gencos such as NTPC, NHPC,DVC, Satluj etc. and Delhi State owned plants like Indraprastha, Rajghat and Bawana. This power is transmitted from Generating Cos. to Discoms through Govt. owned Transmission companies (Power Grid and Delhi Transco Ltd.). The tariffs of these Generators and Transcos are determined by concerned Regulatory Commissions i.e. CERC/DERC as per prevailing regulations. Further, all Power Purchase Contracts are entered into with approval of the DERC which takes into account future demand-supply situation while approving contracts of new generation capacities on Long Term basis. Bills are raised on the basis of actual power supplied to each DISCOM as per the data in Regional Energy Accounts issued by Regional Power Committees (NRPC, ERPC) for Generating Stations outside Delhi and State Load Dispatch Centre for Delhi State Generating Stations.




**O&M expenses** which account for the next 9% of the Costs represent the costs incurred in Employee Expenses (for payment of salaries), Repair & Maintenance Expenses (for upkeep of the distribution infrastructure for maintaining reliable supply) and Administrative and General Expenses by TPDDL and are fixed on a normative basis (i.e. limit is capped) by the DERC taking into account contemporary costs and other utility experiences. Efficiency factors have also been built into these normative allowances by the Regulator.

Another major contributor is the **Carrying Cost** (9%) which has risen primarily on account of tariffs being non Cost Reflective in the past few years. The tariffs in the recent past have been insufficient to ensure recovery of even the Power Purchase Costs of the Company leave aside recovery of other expenses on Establishment, R&M, debt servicing, etc. together with any RoE consequently resulting in significant build-up of Revenue Gaps/ Regulatory Assets over the years which have increased significantly from Rs. 322 Crs in FY 08-09 to Rs.4712 Crs in FY 12-13. In order to finance this burgeoning Regulatory Assets, Discoms have been allowed Carrying Costs by the Regulator to meet the interest charges being incurred on borrowings to finance the revenue gap. TPDDL has been consistently advocating with the Regulators to move towards Cost Reflective tariffs rather than creating Regulatory Assets which further burdens the consumer through additional Carrying Costs.

TPDDL has invested over Rs. 3000 Crs in its distribution area in the past 11 years primarily to reduce Aggregate Technical and Commercial Losses, system reliability improvement, load augmentation and improving infrastructure. The above Capital Expenditure has been incurred in a Debt Equity ratio of 70:30 as per prevalent industry norms with 16% RoE allowed to promoters as per Regulations on the Equity investment (provided they meet the AT&C loss targets sets by the Regulator) and **Financing costs** allowed as per actual interest rates being charged by the lenders. The financing costs constitute 4% of the costs incurred by TPDDL with RoE contributing to another 2%. The above Capital Expenditure has helped TPDDL to achieve an unprecedented reduction in AT&C losses from an opening level of 53.1% in 2002 to 10.78% in 2013, improving system reliability and availability manifold with Average System Availability Index (ASAI) increasing from 70 to 99.2, providing a world class experience to consumers and enhancing their overall satisfaction levels over the years.

**Question 5 : Reason for Discoms tying up significant power surplus**

**Answer :** TPDDL's power purchase surplus is significantly lower at around 20-30%. Further, all Power Purchase Contracts are entered into with approval of the DERC which takes into account future demand-supply situation into account while approving contracting of new generation capacities on Long Term basis.

Bulk of the power being procured by TPDDL is from the Generation Plants with whom Long Term PPAs / MoUs had been entered into by the erstwhile Delhi Vidyut Board and/or the Delhi Transco Limited prior to the responsibility for procurement of power was passed on to the Discoms w.e.f. 01.04.2007.

Post 2007, TPDDL, based on long term Demand Supply forecasts (of last year's annual peak demand escalated for coming years as per the data available by CEA's EPS demand growth forecasts) and with prior approval of the DERC, entered into Long Term Power Purchase Agreements for additional 400 MW of generation capacity which is significantly cheaper than the other existing sources of Long Term Power, thereby ensuring adequate power arrangements for servicing the growing Demand requirements of its consumers for the next few years.

It is also to be noted that this power has been tied up for the next 25 years which is a huge energy security for the current and future consumers of TPDDL to ensure uninterrupted power supply at reasonable rates for the next 25 years. It shall be appreciated that any new generation takes at least 4 to 5 years to establish and consequently advance action has to be taken to tie up generation capacities in order to ensure continuous availability to consumers without any interruption in the interim. While there are expected to be certain surpluses during the next few years, it is important to understand that by taking this advance action, TPDDL has insured energy security at reasonable rates by locking in the capital cost of these generation capacities for next 25 years, thereby benefiting its consumers by way of lower tariffs in the future vis-à-vis the tariffs they may have had to pay if these capacities had been contracted later at then prevailing prices.

| Year | Average Availability (MW) | Average Unrestricted Peak Demand (MW) | Surplus (+) / Deficit(-) |
|---|---|---|---|
| 2010-11 | 1010 | 1141 | -130 |
| 2011-12 | 1140 | 1171 | -31 |
| 2012-13 | 1346 | 1244 | 102 |

With regard to intra- year surpluses, the base demand and the peak demand during the summer and winter months varies widely in Delhi, with the demand being much lower in winter months. Consequently, their tend to be significant surpluses during winter months since long term power is contracted on 24x7 basis providing little flexibility to reduce availability during low demand periods.

Notwithstanding the above, TPDDL is taking various measures to reduce the level of surpluses in the interim by way of reallocation together with ensuring back down of expensive generation to the extent possible.

**Question 6: What could be the possible mechanisms to reduce burden on retails consumers?**

**Answer :** Power distribution companies / State Electricity Boards have for a long time faced the problem of electricity tariffs not matching the increasing cost of supply of power. The gap between cost of supply and electricity tariff is resulting into the accumulation of regulatory assets in the books of DISCOMs. These regulatory assets are adjusted against the tariff hikes in the future. Because the tariff is to be recovered after a certain period of time, the interest on the funds that are borrowed to finance the regulatory gap is also recovered from consumers via further increases in the tariff. However, for the utility, it poses a challenge as funding these regulatory assets through debt has limitations in terms of leveraging the organization. The Regulatory Asset of TPDDL was at Rs. 4712 crs and for Delhi it stands at Rs. 17400 crs as on 31st March 2013.

Though DERC has allowed a surcharge of 8% over the revised tariff for the liquidation of the revenue gap till FY 2010-11, however, it is pertinent to mention that said surcharge is not even sufficient to recover the carrying cost of the revenue gap and thereby would not ensure recovery of entire revenue gap in a time bound manner, rather revenue gap would continue to accumulate on year to year basis. According to – **a)** Tariff order dated 28th June 2013 of Hon'ble MERC, **b)** the Judgment dated 11th Nov 2011 in OP No.1 of 2011 of Hon'ble Appellate Tribunal for Electricity (ATE) regarding Tariff Revision and c) the National Tariff Policy, 2006

''The Recovery of Regulatory Asset should be time-bound and within a period not exceeding three years at the most and preferably within control period" . If the entire amount has to be recovered from Retail Tariff it will create immense burden on the consumers.

The possible solutions which we feel can help in creating a win-win solution for both utility and consumers are –

- Funding under R-APDRP Scheme: Private Sector Discoms, even those which are by way of Public Private Partnerships have been kept outside the purview of assistance

under the R-APDRP, despite the fact that entire benefit of lower cost financing available under these programs is passed on to the consumers by way of lower impact in retail tariffs chargeable to consumers.

- Tax free bonds, Soft Loans / financial restructuring could be possible solution for partial liquidation of Regulatory Asset.
- Surrender of costly power: For any utility, power purchase costs comprises of around 80% of the total expenditure made in any given year. The sale of surplus power has become a major issue of concern for the utilities having surplus power as the surplus power is being sold at a rate lesser than the prevailing power procurement rates. The average total cost of procurement from plants is in the range of Rs. 3.50/ to Rs.4.00/- per unit whereas the sale rates are in the range of Rs.1/ to Rs.2/- per unit leading to a loss of around Rs.2 per unit. This is increasing the power purchase costs and is ultimately having a huge impact in increasing the tariffs. Hence disposal of old and expensive contracts becomes critical for any utility having surplus power.

**Question 7 : What are the initiatives TPDDL has also taken in areas such as energy efficiency and demand side management? What are TPDDL's long term plans for promoting energy conservation?**

**Answer :** TPDDL has a dedicated Demand Side Management Cell which drives various initiatives within licensed area. Such initiatives include Replacement of conventional lighting system with energy efficient lighting system (LED), energy consumption study of high end consumers and proposing energy efficiency solutions, Solar Roof tops on Govt. Buildings and consumer premises, Awareness sessions, promotion of energy efficient solution & technologies etc.

TPDDL has implemented a unique concept of sensation through school children who further spread message to their neighbors, relatives, friends etc. The team measures the level of sensitization through means of competition. The students submit unique consumer number of the approached consumers and thereafter the consumption analysis is done by TPDDL. Based on the information students contributing to saving of maximum electricity are awarded.

**Question 8 : What is the envisaged demand in Tata Power Delhi Distribution's area over the next five years, and how is TPDDL gearing up to meet the same?**

**Answer :** Tata Power Delhi Distribution has witnessed a CAGR growth of 5% in its Energy Requirements and 8.5% in Peak Demand during the previous 6-7 years. Considering the same, the Energy requirement and Demand of Tata Power Delhi Distribution are estimated to be around 9900 MUs and 2365 MW respectively.

| Year | Energy Requirement (MUs) | Peak Demand (MW) |
|---|---|---|
| 2013-14 | 8152 | 1707 |
| 2014-15 | 8560 | 1852 |
| 2015-16 | 8988 | 2009 |
| 2016-17 | 9437 | 2180 |
| 2017-18 | 9909 | 2365 |

In order to continue meeting the growing demand of its consumers, Tata Power Delhi Distribution has entered into long term PPAs with various generating stations to ensure the Energy security of its operational area and has sufficient power to meet the demand in the coming years. In case of any additional requirement of Power, Tata Power Delhi Distribution shall source the same through competitive route ensuring the best possible cost for its consumers. Additionally, Tata Power Delhi Distribution is simultaneously revamping its distribution infrastructure through addition of suitable transformation capacity and commissioning of new Grid Sub- stations to enable uninterrupted flow of power to consumers.

**Question 9 : Key growth plans for the next five years.**

**Answer :** Having substantially improved the operational and consumer service delivery to benchmark levels as was the main mandate for this Public Private initiative in Delhi. Tata Power Delhi Distribution recognized the need to foray out of the licensed area, to leverage its domain expertise in improvement of the Power Sector as a whole and also to provide challenging opportunities to its employees.

With the above strategy in mind, TPDDL has forayed into Power distribution related consultancies both nationally as well as internationally in the areas of AT&C Loss Reduction , Automation & IT implementation, Business Process Reengineering , Distribution Management , Project Management and Change Management. TPDDL is a pioneer partner of the GoI's R-APDRP and NEP initiative and is acting as an IT, SCADA and Project Management consultant for many distribution utilities in India such as Haryana, Uttar Pradesh etc.. We have also bagged Consultancy project in Nigeria distribution and are pursuing consultancy assignments in countries like Kurdistan, Turkey, Iraq in areas of Distribution Reforms, IT, SCADA, GIS etc. We hope to enhance our footprints both at the national and international levels which will go a long way in meeting the growth aspirations of our employees as well. In addition to this, TPDDL is also working towards expanding its consumer base in remaining Delhi and NCR under Open Access framework.

**Question 10 : What are the key technologies being adopted by TPDDL?**

**Answer :** TPDDL has adopted various world class technologies and implemented in unique way to meet our requirements. Such technologies include Integrated Geographical Information System, SCADA, DMS, DA, OMS, AMR and now AMI, Integrated Call Centre with BCM Support, SAP-ISU an Integrated CRM Module etc and is now moving towards Smart Grid. With the successful implementation of these technologies TPDDL has come at par with some of the world's best power distribution utilities in terms of technology. This endeavor also reiterates TPDDL's commitment to provide state of the art facilities and services to our consumers and give them an unmatched power distribution experience.

**Question 11 : View on the current status of IT interventions as part of the power distribution reforms in India. What are the major challenges being faced by Discoms on this front?**

**Answer** : Most distribution utilities struggle to maintain and utilize a comprehensive information system be it across their assets, commercial, customers or financial. Lack of

accurate information hinders decision making especially in arresting theft, making investments and estimating losses. IT based information system can be a key enabler in electricity distribution business to set baseline and measure performance. Like for instance adoption of information technology in the areas of energy accounting will be necessary preconditions before sanctioning any regular distribution strengthening project. Restructured APDRP - II program is a step towards building such capabilities in urban areas, though it is only available to State Utilities.

At the national level all Discoms should ensure integration between different technologies to ensure optimum mileage. Time has come for the use of Smart Technology in the Distribution sector. Smart Technology can evaluate integration of infirm renewable power with the grid, reduction in losses through automatic disconnection, enhanced reliability through self- healing systems and empowerment of consumers in managing their demand based on real time information of load and prevailing tariffs.

**Question 12 : Measures that Tata Power Delhi Distribution has been taking to introduce Smart Grid-like features to its command area?**

**Answer :** In the year 2003, Tata Power Delhi Distribution made its first ten-year technology roadmap. As part of this, we implemented different technologies like SCADA, GIS, Distribution Management System (DMS), Distribution Automation (DA), most of the components of SAP including SAP-ISU and latest being Outage Management System (OMS). The technologies we have implemented till date form a large part of the Smart Grid Technologies and are predominately operative at developed economies like USA, Europe, Singapore etc. Tata Power Delhi Distribution is also the founding member of Smart Grid Maturity Model (SGMM), whose rights now rests with Carnegie Melon (SEI).

We have also initiated a 'Smart Grid and Automated Demand Response pilot' in association with IBM, which is probably one of its kind in the country. The objective of the pilot is to evaluate integration of infirm renewable power with the grid, reduction in losses through automatic disconnection, enhanced reliability through self- healing systems and empowerment of consumers in managing their demand based on real time information of load and prevailing tariffs.

At Tata Power Delhi Distribution, we have made it a point to ensure integration between different technologies to ensure optimum mileage. Many of these technologies are still to be implemented in the Indian Distribution Sector either partially or fully.

**Question 13 : Accounting policies followed by TPDDL**

**Answer :** TPDDL is a limited company formed under the Companies Act 1956, financial statement of accounts are required to be prepared under section 211 (3C) of the Act which covers Accounting Standards (AS) issued by the Institute of Chartered Accountants of India (ICAI). According to Companies Act 1956, the financial statements are required to be prepared on the principle of mercantile method and not on cash basis. As per Accounting standard -9 issued by the ICAI, Revenue is to be recognized when it is certain the ultimate collection at the time of providing sale/services. Since the Discoms are regulated entity and as per regulation Discoms are required to charge the tariff based on cost as decided by

Regulator (DERC), therefore costs incurred as per regulatory norms are required to be recovered as income irrespective of the fact that whether the same is actually recovered thru tariff or not based on the mercantile system of accounting. According to AS-9, revenue is to be recognized based on the principle as per para 10 to 12 reproduced below:

> *10 "Revenue from sales or service transactions should be recognized when the requirements as to performance set out in paragraph 11 and 12 are satisfied, provided that at the time of performance it is not unreasonable to expect ultimate collection. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.*
>
> *11. "In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:*
>
> *(i) The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership: and*
> *(ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.*
>
> *12. In a transaction involving the rendering of services, performance should be measured either under the completed service contract method or under the proportionate completion method, whichever relates the revenue to the work accomplished. Such performance should be regarded as being achieved when no significant uncertainty exists regarding the amount of the consideration that will be derived from rendering the service.*

Therefore, from the above it is very clear that the Discoms have supplied the electricity to the consumers with a certainty that it would recover the cost of supplying the same as per DERC's Tariff Regulations. Shortfall between the actual costs incurred and actual recovery of these costs through tariff is shown as tariff adjustment and forms part of the revenue of the Company. Tax is also paid on the basis of this accrued income in accordance with the Income Tax Act, 1961, though its yet to be realized from consumers in form of tariff.

Further, **Discoms only earn certain return on equity only (approx. 2%-3% of the total cost of discoms) on investments made for distribution network out of shareholders money that too subject to achievement of AT&C loss target given by DERC and Performance Standard Regulations**. Any increase in revenue due to tariff hike does not add to Discom's profits. In past due to non-cost reflective tariff, cumulative revenue gap for TPDDL has arisen to the extent of Rs. 4,700 Crore (up to FY 12-13) out of which Rs. 3,370 Cr up to FY 11-12 has been recognized by DERC. FY 12-13 is due for true up for which Petition has already been filed along with tariff determination for FY 14-15.

The above fact has also been acknowledged by DERC in the statutory advice sent to Government of Delhi. The relevant para of the same is reproduced below:

The buildup of revenue gap since FY 2009-10 is given in the table below:-

(Rs Cr)

| Revenue Gap (*) | BRPL | BYPL | TPDDL | TOTAL |
|---|---|---|---|---|
| Upto FY 2008-09 | (611.50) | 25.93 | (351.10) | (936.67) |
| FY 2009-10 | (1,068.07) | (532.58) | (751.46) | (2,352.11) |
| FY 2010-11 (as approved by the Commission) | (1,545.72) | (1,120.93) | (963.61) | (3,630.26) |
| FY 2011-12 (Projected by DISCOMs) | (4,233) | (2,216) | (1,783) | (8,232) |
| FY 2012-13 Projected by DISCOMs) | (1,779) | (1,690) | (885) | (4,354) |
| Total revenue gap (**) | (9,237.29) | (5,533.58) | (4,734.17) | (19,505.04) |

*(*) amount of the revenue gap upto FY 2010-11 includes carrying cost as approved by the Commission; and from FY 2011-12 onwards, the revenue gap includes carrying cost as per the tariff petitions filed by the licensees for FY 2013-14.*

*(**) This gap does not include the revenue gap arising on account of the impact of all the appeals filed before the ATE/SC etc., which shall be additional.*

The above build-up is in spite of the fact that the Delhi distribution utilities have been able to significantly bring down AT&C losses in the city to levels well below those in most other States. The AT&C losses during 2011-12 as against the losses at the time of unbundling, based on which bids for privatization were invited are given below:-

| Particulars | TPDDL | BRPL | BYPL |
|---|---|---|---|
| Opening Loss Levels in 2002 | 48.1 | 48.1 | 57.2 |
| Current Loss Levels in FY 2011-12` | 11.27* | 16.36* | 17.84* |

**Note: - As claimed by DISCOM, but yet to be true-up by the Commission.*

**Question 14 : Details of various audits that TPDDL is subjected to?**

**Answer :** TPDDL is a limited company formed under the Companies Act 1956 and as per Companies Act 1956, the Companies are required to get their financial accounts audited under section 227 (2) and (3), reproduced below:

*The auditor shall make a report to the members of the company on the accounts examined by him, and on every balance sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance sheet or profit and loss account, which are laid before the company in general meeting during his tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanations given to him, the said accounts give the information required by this Act in the manner so required and give a true and fair view-*

*(i) in the case of the balance sheet, of the state of the company' s affairs as at the end of its financial year; and*

*(ii) in the case of the profit and loss account, of the profit or loss for its financial year.*

*(iii) The auditor' s report shall also state-*

*(a) whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit;*
*(b) whether, in his opinion, proper books of account as required by law have been kept by the company so far as appears from his examination of those books, and proper returns adequate for the purposes of his audit have been received from branches not visited by him;*
*(bb) 1 [whether the report on the accounts of any branch office audited under section 228 by a person other than the company' s auditor has been forwarded to him as required by clause (c) of sub- section (3) of that section and how he has dealt with the same in preparing the auditor' s report;*
*1. Ins. by Act 65 of 1960, s. 69.*
*(c) whether the company' s balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns.*

In line with the above statutory provisions, the Statutory Audit has been conducted by M/s Deloitte Haskins and Sells since FY 02-03 to FY 12-13 and thereafter by M/s V Shankar Aiyer and Company, Chartered Accountants have taken over as TPDDL's auditors in line with DERC's advice to appoint a CAG empanelled firm as auditors.

Further it is submitted that to have more strengthen system of control, TPDDL has two tier internal Audit process which consists of audit by an Internal Audit Department of the Company and External Internal Audit by an external firm right from 2003 itself. Given below are the details of firms who have been internal auditors of TPDDL.

FY 03-04 & 04-05 : M/s A F Ferguson
FY 05-06 till FY 09-10 : M/s Ernst & Young
FY 10-11, 11-12 & 12-13 : M/s KPMG
FY 13-14 : M/s PwC

In addition to above, DERC as part of tariff setting process conducts due diligence which mainly consist of verification of Company's revenue and collections. In addition certain special audits have been conducted in past by MCD / GoNCTD as detailed below:

| **S. No.** | **Subject of Audit** | **Name of the Department raised for audit** | **Name of the Agency conducted audit** | **Financial year or Period for which audit conducted** | **Year in which Audit Conducted** |
|---|---|---|---|---|---|
| 1 | Electricity Tax | MCD | Sr. Audit Officer MCD (MCD Audit Team) | 2006-07, 2007-08 | 2008-09 |
| 2 | Special Audit for Govt Subsidy | Govt. of NCTD, Ministry of Power (with intimation to DERC) | Audit Party No-XI, Office of Directorate of Audit | July 2002 to June 2010 | Oct 10 - Jun 11 |

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