

**BEFORE HIMACHAL PRADEASH ELECTRICITY REGULATORY
COMMISSION**

Petition No.122/2014

In the matter of:

Determination of the Average Pooled Power Purchase Cost (APPC) for the financial year 2014-15 under REC mechanism.

ORDER

1. This order pertains to determination of Average Pooled Power Purchase Cost (APPC) for the financial year 2014-15.
2. The distribution licensee (hereinafter referred as “HPSEBL”) has filed petition No.122/2014 for approval of Average Pooled Purchase Cost (APPC) as under:-

Power Purchase Cost of FY 2013-14		
Details	MU	Rs. Crore
HPSEB Stations	1517.52	197.77
BBMB Stations	669.84	38.04
NTPC Stations	1271.10	433.80
NHPC Stations	307.12	85.53
From other Stations	2571.41	637.19
Free Power and Equity Power	1421.98	414.435
From Private Micros	138.106	29.969
Banking	357.00	0.00
Bilateral Purchase	00.00	00.00
PXI/IEX	113.32	33.40
Total Power Purchase Cost	8367.396	1870.134

APPC rates proposed by the HPSEB Ltd. is 224 paise per unit

3. The HPSEBL’s calculations of the APPC rates for FY 2014-15 are based on the following:-
 - (i) the provisional purchase (quantum and costs) for FY 2013-14 has been considered as details of bills from some of the ISTS sources are yet to be received;

- (ii) the arrears pertaining to past periods (paid in FY 2013-14) have been excluded as these are not recurring in nature;
- (iii) the Unscheduled Interchange(UI) Purchase has also not been included in line with the philosophy approved by the Commission in previous years;
- (iv) the PGCIL/Transmission charges/ULDC/other charges has also not been included;
- (v) the rates of own generating stations have been taken from annual performance review for FY 2014 under the 2nd MYT control period dated 27th April, 2013;
- (vi) the forward(inward) banking has zero cost has been considered as approved by the Commission in the previous orders.

4. The Commission issued a public notice on dated 29th May, 2014 in the newspapers namely “The Tribune” and “Amar Ujala” inviting objections/suggestions on the aforesaid petition from the stakeholders. The complete text of the petition filed for approval of the APPC by the HPSEBL was also made available to the stakeholders on the website of the Commission as well as on the HPSEBL’s website. The last date for submission of objections/suggestions was 16th June, 2014.
5. The Commission vide letter dated 29.05.2014, requested the major stakeholders, including the Small Hydro Power Associations of the State, State Government, Directorate of Energy, CEO HIMURJA, to send their objections/suggestions as per the aforesaid public notice.
6. The HPSEBL vide letter dated 5th July, 2014 informed the Commission that no objections/suggestions have been received in the HPSEBL in response to the public notice issued in the petition no. 122/2014. Similarly no such objections/suggestions on the proposal for approval of APPC rate for FY 2014-15 have been received in the Commission.
7. In order to promote generation from renewable sources, the Central Electricity Regulatory Commission framed regulations and issued orders for giving effect to the Renewable Energy Certificates (REC)

framework. The Himachal Pradesh Electricity Regulatory Commission (hereinafter referred as the Commission) has also framed the Himachal Pradesh Electricity Regulatory Commission (Renewable Power Purchase Obligations and its Compliance) Regulations, 2010 in line with the Central Electricity Regulatory Commission (Terms and Conditions for Recognition and Issuance of Renewable Energy Certificates for Renewable Energy Generation) Regulations, 2010, which specifies that generation from renewal sources will be eligible for REC if it, inter alia,:

“sells the electricity generated either (i) to the distribution licensee of the area in which the eligible entity is located, **at the pooled cost of power purchase of such distribution licensee as determined by the Appropriate Commission**, or (ii) to any other licensee or to an open access consumer at a mutually agreed price, or through power exchange at market determined price.

Explanation:- “for the purpose of these regulations ‘Pooled Cost of Purchase’ means the weighted average pooled price at which the distribution licensee has purchased the electricity including cost of self generation, if any, in the previous year from all the energy suppliers long-term and short-term, but excluding those based on renewable energy sources, as the case may be.”

8. The issue of APPC has been discussed elaborately by the Commission in its previous two Orders while determining APPC i.e. Order dated 16.07.2012 for the year 2012-13 in petition No. 137/2011 and Order dated 22.06.2013 for the year 2013-14 in the petition No.63/2013. In these Orders, the Commission adopted the following principles:-

(a) The average pooled cost of purchase of power has three components relevant to the present context i.e. it has to be weighted average pooled price of power purchased; it has to be for the previous year and further that it has to be from energy suppliers, both long term and short term;

- (b) The quantum and rate of power purchased from the State Govt. out of its free power share shall be taken into account for pooled cost of purchase;
- (c) The unscheduled interchange (U.I.) are not included in the power purchase cost. U.I. as a system mechanism is not a platform for power purchase or sale but is transaction/system of over-drawl or under-drawl against the power scheduled from the source. The under-drawl is a situation where the purchaser has paid price of power scheduled to him to the suppliers but he has not drawn from the system and if someone-else over-draws, charges will be reimbursed as per the pricing mechanism under U.I. Similarly, the over-drawl is from the system beyond the power purchased from the supplier and so scheduled and therefore, it does not amount to purchase of power on long term or short term basis from energy supplier. It can be argued that quantum of under-drawl should be reduced from the total power purchase which can further lead to issues of pricing of under-drawls as to whether such price should be on the principles of costly power at the margin in the merit order purchase. Therefore, U.I. over-drawls cannot be treated as power purchase for the purpose of pooled cost of purchase. Similarly PGCIL/transmission/ULDC charges etc. are not applicable when power is being supplied to local Discom at APPC;
- (d) Total power purchased is disposed off/utilized by way of sale, within and outside State and by way of banking. Power purchase only is relevant for APPC and disposal/utilization of power is not relevant to the context of determination of APPC;
- (e) Where the outward banking (banking sale) is from out of power purchased during the year from energy supplier (long term and short term), its cost is already paid.

Therefore, if the same quantum, or part of such quantum, is received as inward banking (contra banking purchase), such quantum and price should not be included over and above the quantum or price already taken into account, out of which such power has been banked. The Commission had taken cost of banking power, whether purchase or sale, as zero, because, in the absence of firm cost of such power, any notional cost leads to distorted results in profit/loss in the balance sheet. Banking arrangement, as a practice in the State, is rolling arrangement involving contra, forward and return banking with various Discoms in the region. There is no criteria for determination of rate and as a prudent practice the Commission had taken such banking sale and purchase at zero cost. Therefore, any quantum of energy received during the year in excess of purchased energy banked in the same year, under banking arrangement, shall be treated as additional quantum of power purchase, but at zero cost. Hence, only the quantum of inward forward banking (banking purchase) in excess of quantum of contra-banking, in the previous year will be taken as additional power purchase at zero cost;

- (f) The arrears pertaining to past periods will be excluded as these are not recurring in nature;
- (g) The PGCIL/Transmission charges/ULDC/other charges will not be included;
- (h) Purchases under REC framework on APPC will be included.

9. M/S Himalya Power Producer Association Shimla had filed petition in Hon'ble APTEL against the above principles laid down in the 2012-13 APPC order, particularly the inclusion of electricity procured through banking (banked energy) for the purpose of calculation of APPC at zero cost. The Hon'ble APTEL in its order dated 1st July, 2014 in the said petition upheld the order of the Commission and the petition was dismissed. The relevant part of Orders of Hon'ble APTEL are:-

“16. On consideration of the aforesaid contention of the appellant, we are unable to accept the said contention because the learned State Commission, for the purposes of calculation of APPC, applicable for the year 2012-13, had passed the order dated 16.07.2012 after examining the various aspects of the treatment of energy available under banking facility for the purpose of calculation of APPC. Certain principles with regard to the banked energy were considered by the State Commission in its detailed and well reasoned order dated 16.07.2012 and we do not think it proper to reiterate the same just to increase the volume of this judgment. The State Commission’s order dated 16.07.2012 had become final and binding on all concerned and the State Commission even in the impugned order has followed exactly the same methodology as adopted in its earlier order dated 16.07.2012 to which we fully agree in letter and spirit.”

“18. We do not find any fault with the principle adopted by the State Commission in the impugned order, namely, to include in the APPC the electricity purchase by the distribution licensee/HPSEBL in the year of purchase and to take the cost in the year of electricity received through banking at zero cost. Since there is no fundamental flaw in the methodology followed by the State Commission, we do not find any sufficient reason to interfere therewith.”

- 10.** The principles and methodologies applied in determination of APPC for the years 2012-13 and 2013-14 have attained finality, and therefore, shall be applied in future, as such.
- 11.** Accordingly, the Commission considers the relevant power purchase expenses of the FY 2013-14 eligible for calculation of weighted average pooled price for FY 2014-15 submitted in the Petition no. 122/2014 by the Distribution Licensee and determines the rate of the APPC for FY 2014-15 as under:-

Eligible Power Purchase Expenses of FY 2013-14 for determination of the APPC for FY 2014-15		
Details	MU	Rs. Crore
HPSEB Stations	1517.52	197.77
BBMB Stations	669.84	38.04
NTPC Stations	1271.10	433.80
NHPC Stations	307.12	85.53
From other Stations	2571.41	637.19
Free Power and Equity Power	1421.98	414.435
Private Micros (REC)	138.106	29.969
Banking (Advance/forward banking)	357.00	0.00
Bilateral Purchase	00.00	00.00
PXI/IEX	113.32	33.40
Total Power Purchase Cost	8367.396	1870.134

The computed APPC rate is 224 paise per unit

Based on the above, the APPC for FY2014-15 works out to 224 paise per unit and is so approved by the Commission. These prices are firm and final and will not be trued up.

- 12.** This Order shall be applicable for FY 2014-15 and shall continue for further period with such variation or modification as may be ordered by the Commission for the next financial year.

The Commission orders accordingly.

Shimla

Dated: August 28, 2014

-Sd/-

(Subhash C Negi),
Chairman