MADHYA PRADESH ELECTRICITY REGULATIORY COMMISSION, BHOPAL

Sub : **In the matter of approval of Feeder Separation scheme under Regulation 10.3 of MPERC Regulation, 2004 (The Condition of Distribution License for Distribution Licensee).**

ORDER

(Date of hearing 25.01.2011)

Date of order 2/2/2011

MP Paschim Kshetra Vidyut Vitaran Co. Ltd, Jabalpur (West Discom) - Petitioner

Shri Nagendra Tiwari, Addl. Chief Engineer appeared on behalf of petitioner.

2. The M.P. Paschim Kshetra V.V. Co. Ltd., Indore has filed the subject petition for approval of feeder separation scheme in accordance with provision 10.3 of MPERC (the conditions of Distribution Licensee for Distribution Licensees) Regulation 2004. The petitioner has prayed for approval of the Commission on the investment of total outlay of Rs. 1407.46 Crore. The project would be completed in two phases. The scheme for phase I comprising 7 districts has proposed plan outlay of Rs. 708.24 Crore. The scheme for phase II also comprises 7 districts has plan outlay of Rs. 699.22 Crore. Financial assistance for Phase I scheme has been sanctioned by REC, New Delhi. While the phase II scheme has been posed for ADB assistance as the rate of interest of ADB loan is less than the rate of interest of REC loan. It is further submitted in the petition that the scheme when implemented would benefit 5793 villages under phase I and 6086 villages under phase II. The scheme has been envisaged for completion in two years from the date of commencement. The petitioner has also submitted that with the implementation of the scheme there would be a total benefit of Rs. 373.14 Crore per annum due to additional sale of energy and financial benefits accrued on account of regularization of illegal electricity connections of the villages. The scheme will also result in reduction in the failure of distribution transformers. The pay back period is indicated in the petition as four years and two months and Internal Rate of Return is 19.89%.

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3. The Commission held the hearing on 25.01.2011 wherein it has been observed that the pay back period as indicated in the petition was derived when the complete scheme was proposed to be funded through REC loan. Now as indicated in the petition, the phase II of the scheme has been posed for ADB assistance which has less rate of interest when compared with REC loan, the pay back period would definitely under go a change. The Commission, therefore, directed the Distribution Companies to work out the revised pay back period. The Commission has also observed that the petition has not been supported with details as to how the availability of adequate power supply would be ensured so as to meet the energy requirement for increased hours of supply for domestic consumers and agriculture consumers. The Commission also observed that the implementation of scheme would result in reduction of distribution losses of about 4% which is not commensurate with the proposed investment. During the course of the hearing the petitioner has submitted the statements indicating the proposed reduction in losses for all the districts. It is claimed that there would be over all reduction in losses in the range from 8% to 17% at different districts. During the course of the hearing the petitioner also informed the Commission that the ADB has agreed to fund the phase II of the project to the extent 80% of the project cost. The balance 20% would be furnished through grant by the State Govt.

4. While the Commission's view is to encourage investment in the Distribution System for overall improvement of the operational efficiencies of the Distribution network, the impact of such investment on the tariff also needs to be evaluated. It needs to be ensured by the Company that the impact of debt service of this size on the tariff would have to be substantially mitigated by its financial benefits. The Commission is of the view that the burden of servicing the cost of this project in the tariff has not only to be off-set by the financial benefits resulting out of the implementation of this Scheme but should result in greater overall improvement in the performance.

5. In view of the foregoing, the Commission accords in principle approval to the proposed investment by the M.P. Paschim Kshetra V.V. Co. Ltd., Indore for carrying out the work of Feeder Separation subject to condition that admissibility of such investment in ARR would be subject to check of its prudence. In view of the observations in the foregoing paras, the servicing of debt,

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depreciation, return on equity on the said investment would be permissible in ARR to such extent only as is considered prudent by the Commission, does not adversely affect the interest of consumers and only after such assets are put to use i.e. capitalized.

With the above directions, the petition is disposed of.

(C.S. Sharma) **Member (Economics)**	**(K.K. Garg)** **Member (Engineering)**	**(Rakesh Sahni)** **Chairman**