

File no- CEA-EC-11-47/1/2024-FCA Division  
Government of India  
Ministry of Power  
Central Electricity Authority  
Financial & Commercial Appraisal Division

Sewa Bhawan, RK Puram  
Dated: 30.12.2024


**PUBLIC NOTICE**

विषय: बिजली (संशोधन) नियम, 2022 के नियम 14 (वितरण लाइसेंसधारी द्वारा बिजली खरीद लागत की समय पर वसूली) के तहत ईंधन और बिजली खरीद समायोजन अधिभार (एफएफपीएस) के कार्यान्वयन के लिए वैकल्पिक तंत्र पर सार्वजनिक टिप्पणियाँ (Public Comments on alternative mechanism for implementation of Fuel and Power Purchase Adjustment Surcharge (FFPAS) under Rule14 (Timely recovery of power purchase cost by distribution licensee) of the Electricity (Amendment) Rules, 2022.)

It has been desired to explore alternative mechanism to levy uniform FPPAS charges throughout the particular Tariff year to avoid tariff shock to the consumers. Accordingly, a background note on “**Alternate Mechanism such as imposing a surcharge along with the tariff, instead of periodical Fuel and Power Purchase Adjustment Surcharge**” has been prepared and the same is attached.

All the stakeholders are hereby requested to send comments on the above draft mechanism to Chief Engineer (F&CA), Sewa Bhawan (North Wing), 4th Floor, R. K. Puram, New Delhi-110066 through email [cefca.cea@gov.in](mailto:cefca.cea@gov.in) latest by 15-01-2025(Friday).

Encl.: As above

  
(Ankit Goyal)  
Assistant Director  
F&CA Division,  
Central Electricity Authority

## **Background Note on Alternate Mechanism such as imposing a surcharge along with the tariff, instead of periodical Fuel and Power Purchase Adjustment Surcharge**

### **1. Introduction: Fuel and Power Purchase Adjustment Surcharge**

DISCOMs recover revenue from consumers through tariffs approved by the SERCs. The tariffs are determined on the basis of anticipated costs approved for the year. However, there are often deviations between approved costs and actual costs incurred. The difference between the actual and approved costs, especially power procurement costs which constitute more than 75% of the expenses of distribution companies, can be significant. The deviations could be due to reasons beyond the control of the DISCOM and the generating companies it contracts power from.

In order to enable periodic revenue recovery to address cost variations during the year, DISCOMs levy a fuel surcharge in consumer bills. Marked over and above the base fixed and energy charges levied on each category, this charge is collected on a per-unit basis every month.

Given the increasing uncertainty in power procurement, volatility in prices and the precarious financial position of many distribution companies, levy of fuel surcharge plays an important role. This is because it aids recovery of costs on a monthly or quarterly basis. In the absence of a fuel surcharge levy, the costs would eventually be recovered through consumer tariffs, approved by the regulator at the end of the year along with the relevant carrying cost. Thus, periodic recovery of costs through fuel surcharge can also reduce tariff impact by avoiding carrying costs. Periodic deviation in costs would also create working capital pressure for the DISCOMs. Fuel surcharges, would therefore contribute to the maintenance of the financial health of DISCOMs.

### **2. Present Practice of Fuel and Power Purchase Adjustment Surcharge Recovery**

Across States, there has been a wide variety of practices in the determination and recovery of the fuel surcharge. In order to bring uniformity in recovery of Fuel and Power Purchase Adjustment Surcharge among the States, Ministry of Power vide Gazette Notification dated 29.12.2022 notified Electricity (Amendment) Rules 2022 and introduced Rule 14 titled “Timely

Recovery of Power Purchase Cost by Distribution Licensee”. Salient provisions of the Rules are as under:

- i. Rules provide for a formula and procedure for automatic pass through of Fuel and Power Procurement Adjustment Surcharge [FPPAS]
- ii. Appropriate Regulatory Commissions are required to specify price adjustment formula for automatic pass through of fuel and power purchase cost variation as per formula specified in the Rules.
- iii. FPPAS Adjustment shall be carried out on monthly basis.
- iv. If  $FPPAS \leq 5\%$ , 100% cost recoverable of computed fuel and power purchase adjustment surcharge by distribution licensee shall be levied automatically using the formula. If  $FPPAS > 5\%$ , 5% fuel and power purchase adjustment surcharge shall be recoverable automatically and 90% of the balance fuel and power purchase adjustment surcharge shall be recoverable automatically using the formula and the differential claim shall be recoverable after approval by the State Commission during true up.

Since then,

- i. SERCs of **25** States/UTs out of **36** have issued regulations in line with Rule 14 of the Electricity (Amendment) Rules, 2022.
- ii. SERCs of **33** States/ UTs have allowed automatic adjustment of FPPCA charges.
- iii. SERCs of **3** States/ UTs ( Tamil Nadu, Uttar Pradesh, and West Bengal) do not allow automatic adjustment of fuel and power purchase cost.
- iv. The computation formula of **18** states is as per the formula in Rule 14 of the Electricity (Amendment) Rules, 2022.
- v. SERCs of **25** States/UTs have monthly pass - through provision.

### **3. Amendment in Rule 14 of Electricity (Amendment) Rules 2022**

Ministry of Power had constituted a committee under Chairperson, CEA with representatives from States to propose amendment in Rule 14, so that all prudent FPPAS costs are made pass through.

The Committee had proposed certain amendments in Rule 14 of Electricity (Amendment Rules) 2022 on Timely recovery of power purchase costs by distribution licensee. One of the amendments proposed was creation of FPPAS Stabilization Fund to avoid tariff shock to consumers. It was proposed that any negative FPPAS in monthly billing cycle will not be adjusted in the bills of consumers and will be accumulated in the FPPAS Stabilization Fund. Such carry forward of negative FPPAS will be continued till the negative FPPAS becomes 20 % of monthly tariff revenue approved by the Appropriate Commission. Any positive FPPAS exceeding 10% of average billing rate approved by the Appropriate Commission will be adjusted from FPPAS stabilization Fund.

Hon'ble Minister of Power took a meeting on 10.10.2024 to review the proposed amendments in Rule 14 of Electricity (Amendment Rules) 2022 on Timely recovery of power purchase costs by distribution licensee. It was observed that to avoid tariff shock to the consumers, the possibility of an alternate Mechanism such as imposing a uniform surcharge along with the tariff, instead of periodical Fuel and Power Purchase Adjustment Surcharge may be explored. The SERCs may decide the Fuel Adjustment Surcharge (FAS) based on previous years' data subject to a ceiling. The FAS can be collected in FPPAS fund to take care of any variations in tariff due to change in Fuel price etc. In such a scenario, no separate Fuel and Power Purchase Adjustment Surcharge (FFPPAS) pass through mechanism may be required. It was directed to submit a report to Ministry of Power.

#### 4. Variation in FPPAS in States

##### Gujarat

| FY22   |                     |                |                            |
|--------|---------------------|----------------|----------------------------|
| FY22   | Actual FAC (Rs. Cr) | Revenue Rs. Cr | Actual FAC (in percentage) |
| Apr-21 | 251                 | 4,664          | 5.39%                      |
| May-21 | 251                 | 4,664          | 5.39%                      |
| Jun-21 | 251                 | 4,664          | 5.39%                      |
| Jul-21 | 75                  | 4,704          | 1.59%                      |
| Aug-21 | 75                  | 4,704          | 1.59%                      |
| Sep-21 | 75                  | 4,704          | 1.59%                      |

| FY23   |                     |                |                            |
|--------|---------------------|----------------|----------------------------|
| FY23   | Actual FAC (Rs. Cr) | Revenue Rs. Cr | Actual FAC (In percentage) |
| Apr-22 | 669                 | 5,146          | 13.00%                     |
| May-22 | 669                 | 5,146          | 13.00%                     |
| Jun-22 | 669                 | 5,146          | 13.00%                     |
| Jul-22 | 1,288               | 5,846          | 22.03%                     |
| Aug-22 | 1,288               | 5,846          | 22.03%                     |
| Sep-22 | 1,288               | 5,846          | 22.03%                     |

|        |      |        |        |
|--------|------|--------|--------|
| Oct-21 | 449  | 4,723  | 9.51%  |
| Nov-21 | 449  | 4,723  | 9.51%  |
| Dec-21 | 449  | 4,723  | 9.51%  |
| Jan-22 | 922  | 4,929  | 18.70% |
| Feb-22 | 922  | 4,929  | 18.70% |
| Mar-22 | 922  | 4,929  | 18.70% |
| Total  | 5090 | 57,057 | 8.92%  |

|        |       |        |        |
|--------|-------|--------|--------|
| Oct-22 | 1,320 | 4,761  | 27.73% |
| Nov-22 | 1,320 | 4,761  | 27.73% |
| Dec-22 | 1,320 | 4,761  | 27.73% |
| Jan-23 | 1,409 | 5,592  | 25.20% |
| Feb-23 | 1,409 | 5,592  | 25.20% |
| Mar-23 | 1,409 | 5,592  | 25.20% |
| Total  | 14058 | 64,035 | 21.95% |

| FY24   |                     |                |                            |
|--------|---------------------|----------------|----------------------------|
| FY24   | Actual FAC (Rs. Cr) | Revenue Rs. Cr | Actual FAC (In percentage) |
| Apr-23 | 1464                | 5993           | 24.43%                     |
| May-23 | 1464                | 5993           | 24.43%                     |
| Jun-23 | 1464                | 5993           | 24.43%                     |
| Jul-23 | 659                 | 6356           | 10.37%                     |
| Aug-23 | 659                 | 6356           | 10.37%                     |
| Sep-23 | 659                 | 6356           | 10.37%                     |
| Oct-23 | 381                 | 6104           | 6.25%                      |
| Nov-23 | 381                 | 6104           | 6.25%                      |
| Dec-23 | 381                 | 6104           | 6.25%                      |
| Jan-24 | 187                 | 6282           | 2.98%                      |
| Feb-24 | 187                 | 6282           | 2.98%                      |
| Mar-24 | 187                 | 6282           | 2.98%                      |
| Total  | 8075                | 74205          | 10.88%                     |

| FY25 (Till Dec) |                     |                |                            |
|-----------------|---------------------|----------------|----------------------------|
| FY25            | Actual FAC (Rs. Cr) | Revenue Rs. Cr | Actual FAC (In percentage) |
| Apr-24          | 418                 | 6348           | 6.58%                      |
| May-24          | 418                 | 6348           | 6.58%                      |
| Jun-24          | 418                 | 6348           | 6.58%                      |
| Jul-24          | 132                 | 7221           | 1.82%                      |
| Aug-24          | 132                 | 7221           | 1.82%                      |
| Sep-24          | 132                 | 7221           | 1.82%                      |
| Oct-24          | 254                 | 6043           | 4.20%                      |
| Nov-24          | 254                 | 6043           | 4.20%                      |
| Dec-24          | 254                 | 6043           | 4.20%                      |
| Jan-25          |                     |                |                            |
| Feb-25          |                     |                |                            |
| Mar-25          |                     |                |                            |
| Total           | 2411                | 58836          | 4.10%                      |

## Maharashtra

| FY22   |                     |                |                            |
|--------|---------------------|----------------|----------------------------|
| FY22   | Actual FAC (Rs. Cr) | Revenue Rs. Cr | Actual FAC (In percentage) |
| Apr-21 | 1057                | 7,709          | 13.72%                     |
| May-21 | 1013                | 7,428          | 13.64%                     |
| Jun-21 | 1031                | 7,493          | 13.77%                     |
| Jul-21 | 1,053               | 7,422          | 14.19%                     |
| Aug-21 | 1,084               | 7,786          | 13.93%                     |
| Sep-21 | 1,076               | 7,756          | 13.87%                     |
| Oct-21 | 1,078               | 7,877          | 13.68%                     |
| Nov-21 | 1,020               | 7,524          | 13.56%                     |

| FY23   |                     |                |                            |
|--------|---------------------|----------------|----------------------------|
| FY23   | Actual FAC (Rs. Cr) | Revenue Rs. Cr | Actual FAC (In percentage) |
| Apr-22 | 1223                | 8,662          | 14.11%                     |
| May-22 | 1304                | 9,082          | 14.36%                     |
| Jun-22 | 1306                | 9,721          | 13.44%                     |
| Jul-22 | 1,169               | 8,467          | 13.81%                     |
| Aug-22 | 1,131               | 8,304          | 13.63%                     |
| Sep-22 | 1,133               | 8,267          | 13.71%                     |
| Oct-22 | 1,104               | 8,112          | 13.61%                     |
| Nov-22 | 1,090               | 8,095          | 13.47%                     |

|        |         |        |        |
|--------|---------|--------|--------|
| Dec-21 | 1,029   | 7,615  | 13.51% |
| Jan-22 | 995     | 7,604  | 13.09% |
| Feb-22 | 962     | 7,379  | 13.04% |
| Mar-22 | 1,066   | 7,893  | 13.50% |
| Total  | 12465.2 | 91,485 | 13.63% |

|        |       |        |        |
|--------|-------|--------|--------|
| Dec-22 | 1,070 | 8,026  | 13.33% |
| Jan-23 | 1,123 | 9,275  | 12.10% |
| Feb-23 | 1,074 | 8,913  | 12.05% |
| Mar-23 | 1,080 | 9,278  | 11.64% |
| Total  | 13807 | 104202 | 13.25% |

| FY24   |            |         |                 |
|--------|------------|---------|-----------------|
|        | Actual FAC | Revenue | Actual FAC      |
| FY23   | (Rs. Cr)   | Rs. Cr  | (In percentage) |
| Apr-23 | 1578       | 9,371   | 16.84%          |
| May-23 | 1717       | 10,370  | 16.56%          |
| Jun-23 | 1787       | 10,441  | 17.12%          |
| Jul-23 | 1,593      | 9,024   | 17.66%          |
| Aug-23 | 1,554      | 8,976   | 17.31%          |
| Sep-23 | 1,588      | 9,550   | 16.63%          |
| Oct-23 | 1,484      | 9,044   | 16.41%          |
| Nov-23 | 1,395      | 8,529   | 16.36%          |
| Dec-23 | 1,368      | 8,463   | 16.16%          |
| Jan-24 | 1,357      | 8,575   | 15.83%          |
| Feb-24 | 1,339      | 8,447   | 15.85%          |
| Mar-24 | 1,422      | 8,880   | 16.02%          |
| Total  | 18183      | 109668  | 16.58%          |

| FY25   |            |         |                 |
|--------|------------|---------|-----------------|
|        | Actual FAC | Revenue | Actual FAC      |
| FY25   | (Rs. Cr)   | Rs. Cr  | (In percentage) |
| Apr-24 | 1585.67    | 9,734   | 16.29%          |
| May-24 | 1713.58    | 10,208  | 16.79%          |
| Jun-24 | 1761.01    | 10,216  | 17.24%          |
| Jul-24 | 1,567      | 9,271   | 16.90%          |
| Aug-24 | 1,488      | 9,191   | 16.19%          |
| Sep-24 | 985        | 9,079   | 10.85%          |
| Oct-24 |            |         |                 |
| Nov-24 |            |         |                 |
| Dec-24 |            |         |                 |
| Jan-25 |            |         |                 |
| Feb-25 |            |         |                 |
| Mar-25 |            |         |                 |
| Total  | 9100.06    | 57,700  | 15.77%          |

## 5. Levy of Base FPPAS-the case of Gujarat

In their tariff orders, the Gujarat ERC annually approves a fixed fuel surcharge rate (FPPA) to be charged to consumers on a monthly basis. This practice is not specified in regulations. The fixed fuel surcharge known as the base FPPA is determined based on average fuel surcharge levied in previous years. With the levy of the base FPPA, a significant proportion of the fuel surcharge is fixed at the start of the year. An additional amount due to variation in costs is recovered through an incremental fuel surcharge determined on a quarterly basis.

The base FPPA is determined as the average per unit rate fuel surcharge levied in previous years and is not based on the anticipated deviation in costs by DISCOMs in the current year. If the cost deviations of DISCOMs are more or less the same every year, it could be argued that the introduction of a base FPPA leads to tariff certainty for consumers.

Base FPPPA specified by Gujarat ERC in last 2 years for State Distribution Licensees are as under:

| Recovery Period | Base FPPPA (Rs/unit) |
|-----------------|----------------------|
| 2023-24         | 2.64                 |
| 2024-25         | 2.76                 |

#### 6. FAC Stabilization Fund-the case of Maharashtra

To ensure stabilisation of tariffs to the extent possible, and to minimise the variation in FAC (Fuel Adjustment Charge), Maharashtra ERC has approved creation of FAC Fund with Distribution Licensee which can be built up over a period of time to be used for payment of FAC bills of Generating companies without immediately loading it on consumers. Though this action may not ensure zero FAC for all times, the impact of the same is likely to reduce to a large extent. The concept of FAC fund is given as under:

- i. Negative FAC amount shall be carried forward to the next FAC billing cycle with holding cost.
- ii. Such carried forward negative FAC shall be adjusted against FAC amount for the next month and balance negative amount shall be carried forward to subsequent month with holding cost.
- iii. Such carry forward of negative FAC shall be continued till the accumulated negative FAC becomes 20 % of monthly tariff revenue approved by the Commission in Tariff Order. In case of MSEDCL such limit shall be Rs.1500 crore . Any accumulated amount above such limit shall be refunded to consumers through FAC mechanism.
- iv. In case such FAC Fund is yet to be generated or such generated fund is not sufficient to adjust against FAC computed for given month, then Distribution Licensee can levy such amount to the consumers through FAC mechanism, upon seeking prior approval from the Commission.

In order to maintain transparency in management and use of such FAC Fund, the Distribution Licensee is required to maintain monthly account of such FAC fund and upload it on its website for information of stakeholders.

## 7. Proposal

Recovery of FPPAS in timely manner is required to ensure financial sustainability of DISCOMs. As the FPPAS varies from month to month, some of the Regulatory Commissions have adopted innovative approaches to stabilize tariff payable by end consumers to the extent possible. After perusal of the models available, it is proposed that a certain percentage of FPPAS, as approved by the State ERC for a financial year, can be collected from the consumers along with the monthly bill and actual FPPAS can be adjusted from the collected amount from the consumers. This will help the consumers to avoid any tariff shock by making the tariff stable to certain extent for a given year, and also help DISCOMs to get paid for FPPAS without waiting for recovery from consumers. The detailed proposal is as under:

- i. Along with monthly electricity bill, Distribution Licensee shall also collect monthly Base Fuel and Power price Adjustment Surcharge (**FPPAS**) not exceeding **X %** of monthly average billing rate approved by the State Commission. X shall be decided by the State Commission based on weighted average FPPAS of last 3 years' audited values and the proposal/approval for ensuring year as filed by the Distribution Licensee before the State Commission.
- ii. Such base FPPAS collected from consumers shall be deposited in a separate account called **FPPAS Stabilisation Fund**. Any interest accrued/earned on FPPAS stabilisation fund will also be added with FPPAS Stabilisation Fund.
- iii. Distribution Licensee, shall compute and keep account of accumulated FPPAS as per Rule 14 (Timely recovery of power purchase cost by distribution licensee) of the Electricity (Amendment) Rules 2022.
- iv. Distribution Licensee shall meet actual FPPAS from FPPAS Stabilisation Fund.
- v. In case of surplus balance amount equivalent to last two month's FPPAS demand in FPPAS stabilisation fund at the end of a month, Distribution Licensee shall pass on the incremental amount over and above the two month's FPPAS amount reducing the base rate to that extent.

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