Suggestions/Objections on Suo-motu tariff revision for KSEB Ltd. proposed by Hon’ble KSERC for FY 2016-17 and FY 2017-18

Submitted by

CARBORUNDUM UNIVERSAL LIMITED

January 17, 2017

Background

- Hon'ble KSERC issued Public Notice on June 22, 2016 on Suo-motu tariff revision for FY 2016-17 and FY 2017-18.
- KSEB Ltd. filed its proposal for revision of CSS and imposing Additional Surcharge for OA consumers for FY 2016-17, which was admitted as OP NO. 13/16.
- Hon'ble KSERC vide Public Notice dated December 1, 2016 proposed the revised category-wise tariffs for remaining part of FY 2016-17 and FY 2017-18.
- CUMI is hereby pleased to submit the Suggestions and Objections on the said Public Notice.

Preliminary Objections

Scope for Reduction in Tariff rather than Increase

- Scope of average reduction of tariff by ***34 paise/kWh*** on account of provisional assessment of ***revenue surplus of Rs. 167 Cr and Rs. 739 Cr f***or FY 2016-17 and FY 2017-18 made by Hon’ble KSERC.
- KSEBL has prayed for continuing the existing Tariff in their submission against the Suo-motu proceedings of the Hon’ble commission.

No Justification for True-up for FY 2011-12 and FY 2012-13

- Sole cause for proposed increase in tariff – ***Provisionally assessed Revenue gap*** of Rs. 4924 Cr for FY 2011-12 , FY 2012-13 and the previous years unbridged gap.
- No justification for non-submission of True-up Petitions by KSEB Ltd. for 5-6 years even though Audited Accounts are available.
- As per Judgments of Hon’ble SC and Hon’ble APTEL, KSEB Ltd.,has lost its right to claim revenue gap for FY 2011-12 and FY 2012-13 due to inordinate delay in filing its True-up Petition.
- State Government Notification dated January 2015 showed that there is no outstanding regulatory asset.

Tariff increase no substitute for efficiency improvement

No Justification for Truing Up of 2011-12 and 2012-13.

- ***APTEL Order….Truing up should be carried out regularly and preferably every year. For example, truing up for the financial year 2009-10 should be carried out along with the ARR and tariff determination for the financial year 2011-12****…"*

- ***It is not desirable to delay the truing up exercise for several years and then spring a surprise for the licensee and the consumers by giving effect to the truing up for the past several years****."*

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No Justification for Truing Up of 2011-12 and 2012-13.

- ***Supreme Court of India Judgement on:***

- ***(2009) 6 SCC 235 dated March 3, 2009 in Civil Appeal No. 1110 of 2007 in UPPCL & Others vs. NTPC***

- *"63. Furthermore, the direction of the Tribunal that the additional costs may be absorbed in the new tariff, in our opinion, was not correct.* ***Some persons who are consumers during the tariff year in question may not continue to be the consumers of the appellant. Some new consumers might have come in. There is no reason as to why they should bear the brunt.*** *Such quick-fix attitude, in our opinion, is not contemplated as framing of forthcoming tariff was put subject to fresh Regulations and not the old Regulations. "*

No Justification for Truing Up of 2011-12 and 2012-13.

- *Another important reason for not considering the Revenue Gap on account of true-up for FY 2011-12 and FY 2012-13 as recoverable from the tariffs of FY 2016-17 and FY 2017-18, is the second Transfer Scheme notified by the Government of Kerala, which created KSEB Ltd. as the successor entity of the erstwhile KSEB with a clean Balance Sheet and no past liabilities/Revenue Gaps.*
- *The State Government Notification dated January 2015 shows that there is no outstanding Regulatory Assets. In such a case, KSEB Ltd. cannot have a claim against Regulatory Assets from the consumers, having already adjusted these amounts with the State Government.*
- *In fact, allowing KSEB Ltd. to recover this amount from* consumers will amount to undue enrichment of KSEB Ltd. and will add to the profits, as there is no corresponding unfunded expense in the Balance Sheet of KSEB Ltd.

Snapshot of Prayer by KSEBL

19 It may kindly be seen that there is substantial revenue gap in the projected ARR & ERC by KSEBL for 2016-17 and 2017-18. However, KSEBL is not proposing any tariff revision at present.

Yours Faithfully

CHIEF ENGINEER (COMMERCIAL & TARIFF)

Many States Reduced the tariff

Home India Power tariffs reduced in Gujarat; Rs 414 cr gross benefit passed on to consumers

Power tariffs reduced in Gujarat; Rs 414 cr gross benefit passed on to consumers

Giving a gross benefit of Rs 414 crore to the power consumers of state-owned Discoms in Gujarat, the Gujarat Electricity Regulatory Commission (GERC) Friday reduced power tariffs for residential and industrial consumers in the state.

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By: Express News Service | Ahmedabad | Published:April 1, 2016 6:50 pm

Giving a gross benefit of Rs 414 crore to the power consumers of state-owned Discoms in Gujarat, the Gujarat Electricity Regulatory Commission (GERC) Friday reduced power tariffs for residential and industrial consumers in the state.

The revised tariffs that will be applicable from April 1, 2016, includes a 10 paise per unit reduction for all slabs of residential consumers and 25 paise per unit reduction

Punjab power tariff: Cut for industries, none for domestic consumers

This is for the second consecutive year that there has been no hike in power tariff in Punjab. The rates for industrial consumers have been slashed from 36 paisa to 11 paisa for "ease of doing business". A study by the Indian Institute of Management, Ahmedabad had pointed out that growth in industrial sector has slowed down and is below national growth rate.

Modi government's new power plan: Heavy electricity users will now pay lower tariffs

By Sarita Singh, ET Bureau | Jan 14, 2017, 11.23 AM IST

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NEW DELHI: Major reforms of power tariffs are on the horizon as an official committee has recommended lower tariffs for heavy users to encourage electricity consumption as the country moves from a deficit to surplus situation. In India, power consumers have always been paying higher bills for higher consumption. Slabs are fixed and if you fall in the higher consumption range, you pay more. It's time the country doles out incentives for high power consumption, a committee constituted to advise the government on ways to increase electricity demand has said.

The state electricty regulatory commissions should revise the tariff design for all consumers, particularly industry, commercial and service sectors.

“The present tariff structure has been designed for power shortage scenario in states and has not been changed since Independence. Since India has excess electricity generation capacity now, the existing framework needs to be changed to address the capacity generation glut,“ said a member of the committee constituted by the power ministry in September last year to suggest innovative schemes for raising power demand.

Preliminary Objections

Financial Position of KSEB Ltd.

- The true-up of FY 2013-14, FY 2014-15 and FY 2015-16 is pending
- The average tariff increase in Kerala over the 5-year period at 16% from FY 2011-12 to FY 2015-16 is the highest in the country. (Govt. of India report)
- Significant jump in revenue on this account has improved financial position of KSEB Ltd.
- If KSEB Ltd. had faced financial difficulties, it would have filed Tariff Petitions in timely manner, which it has not done despite repeated directives of Hon'ble KSERC.

Potential for saving of Cost

- KSEB Ltd. is likely to sign tripartite UDAY Agreement with Government of India and State Government, wherein 75% of loans shall be take over by GoK.
- Stringent loss reduction trajectory under UDAY would reduce ARR of KSEB Ltd. significantly and Revenue surplus will increase further (Potential saving estimated by GoI – Rs. 875 Crore on account of reduction in AT&C alone).
- Overall cost of power purchase (67% of total ARR at present) is reducing on account of cheap surplus power available in the country.

Ministry of Power, Coal and New & Renewable Energy

Present

Tariff increase not the only solution to DISCOM distress

Higher than National Average Tariff Hikes

State	FY2011-12	FY2012-13	FY2013-14	FY2014-15	FY2015-16	Average Hike (%)
Kerala	0%	30%	7.9%	24%	6	16%
Delhi	22%	22%	5%	8%	0%	14%
Nagaland	34%	12%	7%	0%	5%	14%
Andhra Pradesh	8%	18%	23%	0%	5%	13%
Tamil Nadu	0%	37%	0%	15%	0%	12%
Chhattisgarh	0%	18%	0%	15%	14%	11%
Tripura	0%	17%	31%	0%	0%	11%
Haryana	4%	19%	13%	0%	8%	10%
Meghalaya	0%	13%	7%	15%	8%	10%
Rajasthan	9%	8%	9%	16%	0%	10%
J&K	15%	19%	8.5%	0%	0%	10%
Bihar	19%	12%	7%	0%	2.50%	9%
Uttar Pradesh	0%	18%	5%	11%	5.47%	9%
Odisha	20%	12%	2.40%	0%	4.64%	9%
Goa	0%	12%	0%	8%	14%	8%

Kerala on Top of tariff Hike

Source: SERCs, News Reports

Preliminary Objections

Provisionally Assessed ARR vs. Crystallised ARR

- In the past, the Hon’ble KSERC has crystallised the amount of cumulative Revenue Gap before proceeding with the tariff revision process.
- It is not clear as to why the Hon’ble KSERC has deviated from this standard practice by proposing the tariff revision on the basis of the “provisionally assessed” cumulative Revenue Gap

Without prejudice to the above contentions, presents its comments and suggestions on the suo-motu tariff increase proposed by the Hon’ble KSERC

T&D Loss & Energy Requirement

- Hon'ble KSERC has segregated the overall T&D loss of 13.65% for FY 2017-18 into Transmission Losses of 4.50% and Distribution Losses of 10.42%.

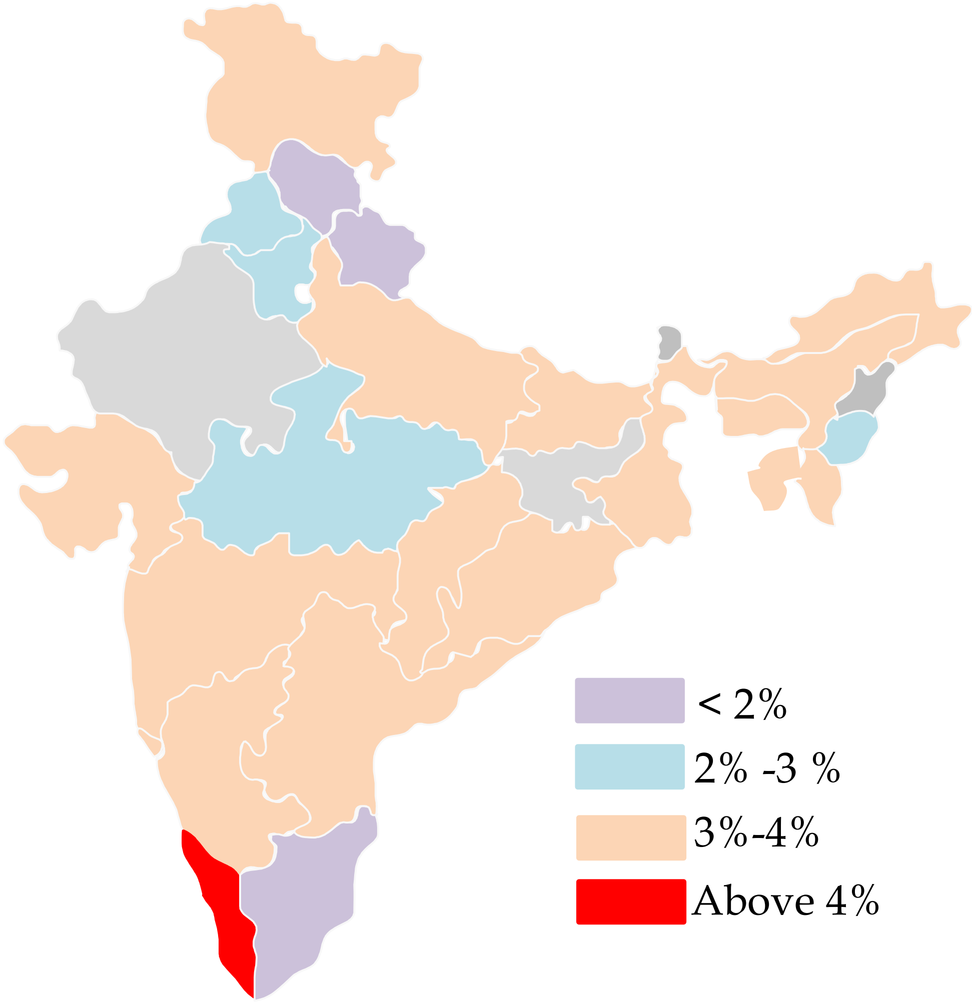
- However, there is no basis for considering the Transmission loss as 4.50%.

- Comparison of Transmission Loss in different states shows that Transmission losses being allowed in Kerala at 4.50% are the highest in the country.
- **The Transmission Losses in KSEB Ltd's system cannot be higher than 3%.**
- **If the Transmission Losses are considered as 3%, then the effective Distribution loss gets revised from 10.72% and 10.42% to 11.72% and 11.43% for FY 2016-17 and FY 2017-18, respectively.**
- **Similarly, the LT losses gets revised from 11.76% and 11.39% to 13.00% and 12.63% for FY 2016-17 and FY 2017-18, respectively.**

T&D Loss & Energy Requirement…2/3

Transmission Loss in different States

Sl No.	State	Transmission loss in %
1	Himachal Pradesh	0.75
2	Pondicherry	1.00
3	Tamil Nadu	1.75
4	Uttarakhand	1.82
5	Haryana	2.48
6	Punjab	2.50
7	Madhya Pradesh	2.59
8	Mizoram	3.00
9	West Bengal	3.10
10	Chandigarh	3.38
11	Arunachal Pradesh	3.40
12	Telangana	3.40
13	Karnataka	3.47
14	Uttar Pradesh	3.59
15	Manipur	3.60
16	Assam	3.64
17	Goa	3.64
18	Gujarat	3.66
19	Orissa	3.70
20	Bihar	3.92
21	Maharashtra	3.92
22	Arunachal Pradesh	4.00
23	Jammu & Kashmir	4.00
24	Meghalaya	4.00
25	Kerala	4.50



T&D Loss & Energy Requirement

Re-computed Voltage Wise Losses

Sl No	Particulars	Units	KSERC		CUMI's Working	
			2016-17	2017-18	2016-17	2017-18
1	Net energy input into the SBU-T of the KSEB L system (net internal generation + net power purchase at KSEBL periphery) (in MU)	MU	23955.52	25292.45	23955.52	25292.45
2	Transmission loss in percentage	%	4.50%	4.50%	3.00%	3.00%
3	Transmission loss in MU	MU	1078	1138.16	718.67	758.77
4	EHT sales (MU)	MU	1867.99	1944.01	1867.99	1944.01
5	HT& LT sale (MU)	MU	18757.71	19896.02	18757.71	19896.02
6	Total energy sale	MU	20625.7	21840.03	20625.70	21840.03
7	Net energy input to Distribution system for sale at HT & LT level (MU)= (1)-(3+4)	MU	21009.53	22210.28	21368.86	22589.67
8	Distribution loss in MU = (7)-(5)	MU	2251.82	2314.26	2611.15	2693.65
9	Total Distribution loss in percentage = (8)/(7)	%	10.72%	10.42%	12.22%	11.92%
10	HT Sale	MU	3299.36	3448.06	3299.36	3448.06
11	Distribution loss for providing supply at HT level (%)	%	5.50%	5.50%	5.50%	5.50%
12	Distribution loss incured for HT sale (MU)	MU	192.01	200.68	192.03	200.68
13	Net energy available for LT supply (MU)= (7)-(10)-(12)	MU	17518.16	18561.54	17877.48	18940.93
14	LT sale (MU)	MU	15458.34	16447.94	15458.34	16447.94
15	Distribution loss associated with LT supply = (13)-(14)	MU	2060.18	2113.6	2419.14	2492.99
16	Distribution loss in (%) for providing supply at LT Level= (15/(13)	%	11.76%	11.39%	13.53%	13.16%
17	Combined Transmission and Ditribution loss in MU = (3)+(12)+(15)	MU	3330.19	3452.44	3329.83	3452.44
18	Combined T&D Loss in (%) = (17)/(1)	%	13.90%	13.65%	13.90%	13.65%

T&D Loss reduction Initiatives-Proposal

- Compulsory feeder and Distribution Transformer (DT) metering .

- Ability to track losses at the feeder and DT level for corrective action.

- Consumer Indexing & GIS Mapping of losses
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- Identification of loss making areas for corrective action.
- Accountability of Energy at Section wise and responsible for meeting the loss targets.

- Target for optimum HT to LT Ratio of 1:1 and aim for 1:2 /1:3 within 2 years span from the current level of 1:5 or more.

- Conversion of 11KV lines to over head/ UG cables

Return on Equity (RoE)

- The Commission has considered the RoE @14% on the equity of Rs. 3499 crore, which is not justified
- The APTEL has directed the Commission to allow 14% rate of return on the equity amount recommended by the Consultant.
- The APTEL in its judgement dated 18.11.2015 in Appeal No. 247 of 2014, has ruled as under "***The Consultant engaged by the Commission has suggested that the Commission may allow RoE either on the equity capital allowed earlier by the Commission or the reduced equity capital of Rs. 283.91 crore.***"
- ***"We are of the view that since the consultant appointed by the State Commission has studied the whole system and recommended the equity value, hence, we direct the Commission to consider the equity amount specified by the Consultant and 14% rate of return on this amount has to be considered"***
- As stated by the Consultant, "***If any or all of the other adjustments are not considered for the purpose of ARR and tariff determination, on account of being inappropriate, then the equity capital to be considered would be reduced.***"

Return on Equity (RoE)

- It may be noted that the Hon'ble APTEL's Judgment specifically considered the provisions of the KSERC Tariff Regulations, 2014 and the Second Transfer Scheme and interpreted that the Equity Base should necessarily be considered as advised by the Consultant appointed by the Hon'ble KSERC.
- The Hon'ble KSERC has merely stated that it proposed to allow RoE as per the KSERC Tariff Regulations, 2014 and has not addressed the ruling given by the Hon'ble APTEL on this issue, which amounts to flouting the Hon'ble APTEL's Judgment, which has not been stayed by any higher Court
- The G.O. dated May 2015 merely reiterates that the adjustments made to arrive at the Opening Balance Sheet have resulted in the increase in equity and hence, the increase in equity should be attributed to part of the duty collected.
- As the Consultant in its Report has already analysed these adjustments and concluded that the correct equity is Rs. 283.91 crore, it is improper to place reliance on the G.O. dated May 13, 2015.
- CUMI humbly submits that the RoE of 14% should be allowed only on the reduced equity capital of Rs. 283.91 crore, as worked out by the Consultant based on the detailed analysis of balance sheet.

Incentives

Power Factor Incentive

- **To increase the PF incentive such that the maximum incentive that can be earned is up to 7%, as being allowed in other States. It as high as 9 % in West Bengal for 0.99 plus .**
  - Cap of PF incentive to 2.5% at unity PF is very low.
  - For reference, the prevalent dispensation in Maharashtra is shown as under:

"Whenever the average Power Factor is more than 0.95, an incentive shall be given at the rate of the following percentages of the amount of the monthly electricity bill, excluding Taxes and Duties:

Sl.	*Range of Power Factor*	*Power Factor Level*	*Incentive*
1	*0.951 to 0.954*	*0.95*	*0%*
2	*0.955 to 0.964*	*0.96*	*1%*
3	*0.965 to 0.974*	*0.97*	*2%*
4	*0.975 to 0.984*	*0.98*	*3%*
5	*0.985 to 0.994*	*0.99*	*5%*
6	*0.995 to 1.000*	*1.00*	*7%*

Note: Power Factor shall be measured/computed upto 3 decimals, after universal rounding off."

PF incentive –West Bengal

Power Factor (PF) Range	Power Factor Rebate & Surcharge on Energy Charge in Percentage							
	For Consumers under TOD Tariff						For Consumers under non-TOD Tariff	
	Normal Period (6.00 AM to 5.00 PM)		Peak Period (5.00 PM to 11.00 PM)		Off-peak Period (11.00 PM to 6.00 AM)			
	Rebate in %	Surcharge in %	Rebate in %	Surcharge in %	Rebate in %	Surcharge in %	Rebate in %	Surcharge in %
PF > 0.99	8.00	0.00	9.00	0.00	7.00	0.00	5.00	0.00
PF > 0.98 & PF ≤ 0.99	7.00	0.00	8.00	0.00	6.00	0.00	4.00	0.00
PF > 0.97 & PF ≤ 0.98	5.00	0.00	6.00	0.00	4.00	0.00	3.00	0.00
PF > 0.96 & PF ≤ 0.97	4.00	0.00	5.00	0.00	3.00	0.00	2.50	0.00
PF > 0.95 & PF ≤ 0.96	3.00	0.00	4.00	0.00	2.00	0.00	2.00	0.00
PF > 0.94 & PF ≤ 0.95	2.25	0.00	3.00	0.00	1.50	0.00	1.50	0.00
PF > 0.93 & PF ≤ 0.94	1.50	0.00	2.00	0.00	1.00	0.00	1.00	0.00
PF > 0.92 & PF ≤ 0.93	0.75	0.00	1.00	0.00	0.50	0.00	0.50	0.00
PF ≥ 0.86 & PF ≤ 0.92	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
PF ≥ 0.85 & PF < 0.86	0.00	0.75	0.00	1.00	0.00	0.50	0.00	0.50
PF ≥ 0.84 & PF < 0.85	0.00	1.50	0.00	2.00	0.00	1.00	0.00	1.00
PF ≥ 0.83 & PF < 0.84	0.00	2.25	0.00	3.00	0.00	1.50	0.00	1.50
PF ≥ 0.82 & PF < 0.83	0.00	3.00	0.00	4.00	0.00	2.00	0.00	2.00
PF ≥ 0.81 & PF < 0.82	0.00	4.00	0.00	5.00	0.00	3.00	0.00	2.50
PF ≥ 0.80 & PF < 0.81	0.00	5.00	0.00	6.00	0.00	4.00	0.00	3.00
PF < 0.80	0.00	6.00	0.00	7.00	0.00	5.00	0.00	3.50

Incentives/Discounts

Load Factor Incentive

- **To consider the proposal for introducing Load Factor Incentive, to incentivise consumers to maintain high load factor, which will improve the utilisation of the contracted capacity.**
  - For reference, the prevalent dispensation in ***Maharashtra*** is shown as under:

    *"Consumers having Load Factor above 75% and upto 85% will be entitled to an incentive in the form of a rebate of 0.75% on the Energy Charges for every percentage point increase in Load Factor from 75% to 85%. Consumers having a Load Factor above 85 % will be entitled to a rebate of 1% on the Wheeling Charges, Energy Charges, and Regulatory Asset Charge for every percentage point increase in Load Factor from 85%. The total rebate will be subject to a ceiling of **15%** of the Energy Charges applicable to the consumer."*

Load factor incentive West Bengal

1. Load Factor Rebate / Surcharge:

   a) In order to reduce the overall system T&D loss and to flatten the load curve by improving the existing system load factor of CESC Limited, the HT industrial, HT commercial and HT domestic consumers shall receive voltage wise graded load factor rebate as per the following table:

LOAD FACTOR REBATE (Paise / kWh)

Range of Load Factor (LF)		Supply Voltage		
		Below 33 kV	33 kV	Above 33 kV
Above 50%	Up to 55%	1	2	3
Above 55%	Up to 60%	4	5	6
Above 60%	Up to 65%	8	10	12
Above 65%	Up to 70%	10	14	18
Above 70%	Up to 75%	20	22	24
Above 75%	Up to 80%	25	30	35
Above 80%	Up to 85%	30	35	45
Above 85%	Up to 90%	35	45	55
Above 90%	Up to 92%	37	50	60
Above 92%	Up to 95%	40	55	65
Above 95%		45	60	70

Incentives/Discounts

Prompt Payment Incentive

- **To increase the Prompt payment incentive to 2% from existing level of 0.3%.**
  - Presently, consumers are entitled to Prompt Payment incentive of 0.3% of total bill excluding duties.
  - This rebate is very low.
  - KSEB Ltd. is entitled to a rebate of 2% on prompt payment of its power purchase bills to the Central Generating Stations
  - It is only fair that the consumers, who are enabling KSEB Ltd. to pay the CGS bills on time, should also get Prompt Payment incentive of 2% of total bill excluding duties.

- **To clarify that no transaction charges shall be applicable from KSEB Ltd.'s side, for all online payments made through Credit Card/Debit Card/Direct Debit from bank, etc.**

Cross Subsidy Surcharge

Cross Subsidy Surcharge

- *The Transmission Loss considered for Open Access Transactions should be only 3.00% for the working of CSS if any.*
- ***Request the Hon'ble Commission to consider only the Basic Energy Rate of the Category of Consumer as 'T' for the working of the CSS in the CSS formula, since all open Access Consumers are Embedded Open Access Consumers and Paying Demand Charge irrespective of the mode of Energy Sourcing.***
- *while determining CSS, the Hon'ble Commission may keep CSS at such level as to encourage Open Access and competition.*
- *Considering the aspects KSEBL also sourcing power from Energy Exchange on Day Ahead Market (DAM),allow Open Access Consumers to source with out any Cross Subsidy Surcharge.*

Prayer.

- Reduce the average tariffs by Rs. 1.02 per kWh; based on HT/EHT Assn's submission.
- Not allow the past truing up revenue gap to recover through tariff.
- Ensure that the cross-subsidy levels of the subsidising industrial categories are reduced to below existing levels, with respect to the correctly calculated ACoS;
- Consider the cost of supply at different voltage levels, while determining the tariffs;
- Improve the pf incentive rate to 7 %.
- Introduce Load factor incentive.
- Allow 2 % prompt payment incentive.
- Re-calculate the CSS considering the revised Transmission Losses of 3% and the revised Tariffs after considering the reduced ACoS; .
- Reduce Industrial Tariff Based on latest Govt.of India Power Policy to encourage energy Consumption.

Thank You