

## **MAHARASHTRA ELECTRICITY REGULATORY COMMISSION**

### **Minutes of the 18<sup>th</sup> State Advisory Committee Meeting held on 24<sup>th</sup> June, 2011**

The Eighteenth Meeting of the State Advisory Committee of the MERC was held on Friday, 24<sup>th</sup> June, 2011. Shri V.P. Raja, Chairman presided over the meeting. The Chairman informed that Shri V.L. Sonavane, Member could not attend the meeting as he was away on leave. The meeting commenced with a warm welcome by the Chairman to all attending Members/ Special Invitees and other officials. Leave of absence was granted to those who could not attend the meeting.

The Chairman informed that he has received a request from the Ministry of New and Renewable Energy (MNRE), Government of India that a senior Officer of MNRE may be incorporated as a Member of the SAC of the Maharashtra State. This will provide an opportunity to MNRE to understand the pertinent regulatory issues in the State and also serve as a window for sharing experiences. The Commission has accepted MNRE's suggestion, and MNRE will now be a permanent invitee to the SAC. Chairman also stated that, taking into consideration the impact of renewable energy in the coming years, the Commission has also decided to invite Maharashtra Energy Development Agency (MEDA), being the Nodal Agency for Renewable Energy in the State, as a permanent Invitee for SAC Meetings.

The Chairman also stated that the issue of reconstituting the SAC is under consideration in order to facilitate more representation of different consumer groups, within the framework of the EA 2003.

#### Agenda Item No. 1: **Preliminary Remarks by Chairman.**

On his opening remarks the Chairman stated that the power sector is at cross roads. It is having a large number of problems, and challenges, and enormous coordinated efforts of all the players are required to overcome these challenges. In the generation side, generation has picked up and the National Targets of about 65,000 MW fixed by the Planning Commission, is likely to be achieved. The real worry is the electricity produced is to be sold. Final buyers of electricity produced are the Distribution Licensees. Now, the greatest concern is the financial health of the distribution companies, which requires urgent reforms. Whether to buy the electricity to meet their Universal Service Obligation to reduce load shedding, or increase the load shedding hours, is the option available to the distribution companies. It is a fact that there are some States which are not given tariff rise at all for last many years, not submitted application for tariff and ARR requirement for number of years, truing not done. We are finding it extremely difficult to implement the Act of the Parliament in letter and spirit.

It is basically a change from Supply Side Economics to Demand Side Economics. On Demand Side, the generator of the demand is the distribution companies. Earlier, prior to the EA, 2003, the planning exercise for the entire country was done by the Planning Commission and the Central Electricity Authority (CEA). Now, the onus of the Planning is on the Distribution Company. Due to various reasons, this planning process is not meeting its

objectives. The situation has been changed from Cost-Plus approach to the Demand-Side Approach. The competitive bidding has not been stabilized due to various reasons, such as availability of coal, etc. Chairman further observed that from 6<sup>th</sup> January, 2011 all future PPAs are to be finalized through competitive bidding process. In many of the existing PPAs, the re-negotiation clause is absent, which is required to be included in the new PPAs to be signed by the Distribution Companies.

The Chairman further emphasized that there is a need for capacity building at Regulatory Commission, Distribution Licensees, and other Utilities and other stake-holders in the power sector. With this background in mind, the Commission has initiated a Post Graduate Diploma for Regulations at the WTC with the support of the Commission. Another course in Economics is being conducted at the KJ Somaiya College, Mumbai. This should be utilized by utilities and other stakeholders. Symbiosis College is conducting one year course for Electricity Regulations at Pune.

The first five years of the Commission was a tariff Commission, and during second term of five years, there were remarkable achievements, particularly for new and renewable energy. The Chairman expressed his desire to keep on record, the outstanding work done by bringing out Renewable Purchase Obligation (RPO), Renewable Purchase Scheme (RPS), etc., during the tenure of Dr Pramod Deo, in the field of renewable energy for wind, and biomass, while the bagasse co-generation is picking up now.

On the issue of preparation of Annual Reports of the Commission, the Chairman stated that the Commission could place its Annual Report for 2010-11 before the State Legislature (in both Houses) within three weeks of the closure of the FY 2010-11, i.e. in April 2011 itself. A copy of the current Annual Report for 2010-11 has already provided to the Members and Special Invitees of the SAC.

With regard to Open Access, the Chairman stated that the Commission is holding a day-to-day hearing on 6-7-8 July when we have a detailed hearing, and would be able to bring out the Order by end of July 2011 (Case No. 43 of 2010).

Agenda Item No. 2 - **Confirmation of Minutes of the 17<sup>th</sup> State Advisory Committee Meeting held on 25<sup>th</sup> March, 2011.**

The Secretary informed that a copy of the Minutes of the 17<sup>th</sup> SAC was already sent to all Members and Special Invitees.

Shri K.N. Rajgopal, CE (Regulatory) of BEST stated that the name of Shri A.G. Patil, who was present in the 17<sup>th</sup> SAC Meeting, was not included in the List of Attendees. The same may be recorded in the Minutes. The Chairman has accepted.

The Minutes of the 17<sup>th</sup> SAC was passed unanimously.

Agenda Item No.3 **Action Taken Report on the earlier Meetings.**

The Secretary explained the action taken on the pending compliances of the earlier meetings.

Shri Anil Kelkar of Institution of Engineers, Pune Local Centre, stated that it was decided in the last Meeting that the issue of Cross Subsidy would be discussed in the next SAC Meeting.

Shri Kelkar also suggested that MEDA, being the Nodal Agency for Non-conventional Energy in the State, may be invited to all future SAC Meetings

The Chairman stated that the issue of Cross Subsidy is a complex issue and the matter will have to be taken up with the Government of Maharashtra. The Progress would be communicated to the Members in the next meeting.

The Chairman further stated that, as mentioned in his opening remarks, MEDA and MNRE would be special invitees for all future SAC Meetings.

Agenda Item No. 4 – **Discussion on Cross Subsidy**

The Commission's Consultant (PwC) for Cross Subsidy is working on it, and they are expected to submit their final report to the Commission shortly. Further, each Distribution Licensees are having different opinions in this matter. Another issue is Creation of separate category for cash crop agricultural consumers, which is also to be addressed. The entire issue is progressive reduction of cross subsidy, to +/- 20% level. We could not bring it down in a consistent manner. The Commission also received a communication from the Principal Secretary (Energy) stating that the entire issue should be discussed with the GoM and other stakeholders before finalizing the issue.

It was stated that the Commission will be hearing the matter of re-determination of cross subsidy surcharge issue on 6<sup>th</sup> 7<sup>th</sup> and 8<sup>th</sup> July, 2011. Once the Cross Subsidy Surcharge for Open Access consumers is finalized, then the process for finalisation of Draft Open Access Regulation would be undertaking

**Shri Jayant Deo – presentation**

Shri Jayant Deo, MD & CEO, Indian Energy Exchange, made a presentation on current scenario, Ground reality, and what is needed for Indian Power Sector. He stated that 1000-2000 MW of generation is not getting sold even at a price which is less than Rs.3/unit, while several consumers including industrial consumers are burning subsidized diesel oil and helping themselves with power costing Rs.13/unit. The banking and other financial institutions are worried of NPAs in case of new power generation entities, etc. Therefore, it is required to improve generation efficiency by making generators to optimize their dispatches and ensure high efficiency distribution system. He suggested that a Singapore Model could be adopted for the country. Some of the features of Singapore Model are –

- All generators above 10 MW and more have to compulsorily come to the market,
- Generators with capacities of 1 MW or more but less than 10 MW can voluntarily participate
- All consumers needing 10,000 kW or more required to buy at market prices
- Prices vary for every half an hour
- Generators have to sell 60% of power to retailers @25% efficiency
- Need to consider principles, in power pools and applied as a hybrid.

Ms Anjali Rani of IPPAI stated that the proviso to Section 86(1)(a) of the EA 2003 must be read in the context of Section 49 read with Section 42 and Section 62(1)(d), otherwise reading an enabling provision in the proviso to Section 86(1)(a) for the proposition that the tariff for consumers, who require a supply of electricity where the maximum power to be made available at any time-exceeded one MW, was not required to be determined by the State Regulatory Commission, may also necessitate the interpretation that the Act does not envisage Open Access for consumers requiring a maximum supply of less than one MW.

The Chairman stated that the matter is seized by the Ministry of Power, and a MoP circular clarifying the entire issue, is expected

The Chairman instructed Shri Amit Chilwe, RO, to make a presentation on the Renewable Energy Scenario and the Regulatory Initiative taken by the Commission.

**The presentation covered**

- (i) State wise Wind Power Installed Capacity as on 31.03.2011,
- (ii) Renewable Energy Power Scenario,
- (iii) Total Potential from 40 windy sites,
- (iv) SERC's Role and Responsibility,
- (v) MERC initiative through various RE Orders,
- (vi) MERC's initiative by promoting RPO, RPS, REC Mechanism,
- (vii) MERC's Regulations,
- (viii) REC Status at National and State Level,
- (ix) Actual Capacity Addition (in MW) in last seven years, Renewable Energy Levelised Tariff for 2010-11 for wind, small hydro, bagasse co-generation, biomass, solar power, etc.

Shri Shashi Sekhar, Joint Secretary, Ministry of New and Renewable Energy, Government of India stated that Maharashtra has done creditable work in promoting renewable energy, particularly wind energy sector. He stated that the wind energy potential is confined to six States – Tamilnadu, Andhra Pradesh, Maharashtra, Uttar Pradesh, and Gujarat, while the Solar Energy potential is limited to Rajasthan and Gujarat. As per the study conducted by US Berkley University (LBNL), the potential of wind in Maharashtra is expected to be 1 lakh MW. If this entire potential is exploited properly, then whether the grid system can support this or not, is the question one has to address.

He further stated that the renewable energy is area specific and cannot be shifted from one location to another. Since land acquisition is a problem for solar power system, though

potential is available in other States, the same cannot be developed in other States. Therefore, the MNRE is considering to pool the entire renewable energy and anybody can bid from this pool to meet their RPO obligation, which will benefit the entire nation. However, the bidding tariff / feed in tariff be addressed appropriately. For meeting the Transmission Cost, a separate fund in the Solar Mission of the Prime Minister / Forum of Regulators could be utilized, so that the transmission cost will not be a constraint. Further, the Purchase Obligation could possibly be divided into two parts – Solar RPO and non-Solar RPO. Shri Shekhar further stated that MNRE has made beginning for developing the Solar Energy and set a target of 20,000 MW by the year 2020.

Dr Ashok Pendse of Thane Belapur Industries Association (TBIA) has also made a similar suggestion of pooling of the entire renewable energy.

In reply to a query from Shri Anil Kelkar regarding development of Solar Cell / Components, in the country itself instead of importing from other countries, Shri Shekhar stated that this is being encouraged under the National Clean energy Fund.

Item No. 5 **Any other item with the permission of the Chair.**

- a) **Setting up of a dedicated school / institute for technocrats required for regulatory functions.**

The Chairman stated that for the efficient function of the MERC, the Commission has initiated capacity building exercise to address the challenging needs. As a follow up of this exercise, the Commission has decided to make recruitments of personnel, for which an advertisement has already been released. Copy of this advertisement has also been circulated amongst the Member / special invitees. Further, Director of the Tata Management Training Institute (TMTC) had a discussion on the imparting an Executive Training Skill in this regard. The Chairman subsequently requested Shri Ashok Sethi, of TPC to make a detailed presentation about the proposed programme of TMTC.

**Presentation of TPC.**

The Power Sector is witnessing a rapid transformation, from a government regulated to a market regulated business environment. In this, the MERC would play the lead role in shaping this transformation. Sharing this vision of MERC, the TPC has offered to support this process by bringing in expertise of Tata Management Training Institute (TMTC). Tata Power Co Ltd has made a presentation on an Approach Note for the Development of Power Sector Business Leaders. TMTC proposes an Executive Training Programme with an objective

- a) To enable participants to revisit the appreciate fundamentals and frameworks in the areas of economics, human behavior, social and demographic developments, finance, market behavior, etc., with a focus on balancing the needs of multi-le stakeholders.
- b) To help participants gain insights and understand leadership in this transformation,

- c) To develop an orientation and mindset to be able to comprehensively deliver the roles and responsibilities as a business leader in Power Sector.

Rinfra stated that they are having In-House Training Programme for their Executives. However, they could consider taking advantages of this programme also. So far we have restricted to our purpose. However, we are ready to share our experience with others.

Ms Rupadevi Singh, MD and CEO, Indian Power Exchange stated that the Commission's initiatives are commendable, and ready to extend their help in all possible ways as a catalyst. There is a need to explain to the technocrats that electron is also makes money.

Shri R.R. Mehta, of RInfra suggested widening the scope to cover the all electricity consumers, including industrial, and commercial.

Shri Jayant Deo suggested that Power Trading and Derivatives may also to be included in the curriculum, and are ready to extend their support.

Dr Ashok Pendse, of TBIA suggested that the Experience Sharing Seminar Programme, conducted for the Generation Companies, may also be extended to the Distribution Licensees also.

The Chairman informed all present that it has received a legal advice that under the EA 2003,

- The Commission shall not issue separate licence for Distribution and Wire Business, and only a composite licence shall be issued.
- The Supreme Court Order that the use of Rinfra's Distribution network till the installation of TPC's own network, is applicable only to Tata Power Co Ltd.
- There is a Minimum Revenue Area requirement for applying for Distribution Licence. Accordingly, Rinfra, Lanco, and Indabulls have amended their respective Applications for Distribution Licence in Mumbai Suburban Area.

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**Encl:**

- a) Copy of Presentation made by Shri Jayant Deo, MD &CEO, Indian Energy Exchange
- b) Presentation made by MERC on the Initiative taken by the MERC on Renewable Energy
- c) Presentation made by Tata Power Co Ltd on (i) Approach Note on Development of Power sector Business Leaders, (ii) Wind Farm Projects in India.

## **List of Members and Special Invitees who attended the 18<sup>th</sup> SAC Meeting**

### **Members**

1. General Manager (Electrical) Central Railways
2. Dr Ashok Pendse, Thane Belapur Industries Association
3. Shri Anil Kelkar, Institution of Engineers, Pune Local Centre

### **Special Invitees**

4. Shri Shashi Shekhar, IAS, Joint Secretary, Ministry of New & Renewable Energy, GoI
5. Shri J.K. Srinivasan, MAHAGENCO
6. Shri S.R. Chaudhari, General Manager (PG-I), MEDA
7. Shri Ashok Sethi, Vice President (MO), Tata Power Co Ltd.
8. Shri K.N. Rajagopal, CE (Regulatory Cell), BEST Undertaking
9. Shri Jayant Deo, MD & CEO, Indian Energy Exchange Ltd.
10. Ms Rupa Devi Singh, MD & CEO, Power Exchange India Ltd.
11. Shri R.R. Mehta, Reliance Infrastructure Ltd.
12. Shri M. Dhaval, Indian Power Producers Association of India
13. Shri Amol More, MSEDCL
14. Shri U.S. Bhagat, STU, MSETCL