

## **MAHARASHTRA ELECTRICITY REGULATORY COMMISSION**

### **Minutes of the 19<sup>th</sup> State Advisory Committee Meeting held on 30<sup>th</sup> September, 2011**

The Nineteenth Meeting of the State Advisory Committee of the MERC was held on Friday, 30<sup>th</sup> September, 2011. Shri V.P. Raja, Chairman presided over the meeting. Shri Vijay L Sonavane, Member was present. Shri Kuldip N Khawarey, Secretary, MERC & Secretary of the SAC, was also present. A list of other Members and Special Invitees who attended the SAC Meeting is appended below.

The meeting commenced with a warm welcome by the Chairman to all attending Members / Special Invitees and other officials, particularly the Principal Secretary (Energy), GoM. Leave of absence was granted to those who could not attend the meeting.

The following was the Agenda Items of the 19<sup>th</sup> SAC Meeting.

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

At the outset, the Chairman informed all Members / Special Invitees that the draft Regulation on “Selection / Appointment of Consumer Representatives” has been uploaded on the MERC’s website in a downloadable format. He requested all the stakeholders to send their valuable comments / suggestions, etc., on these Regulations.

The Chairman informed that the Commission has issued certain important Orders, particularly regarding Distribution Licence in Mumbai area. The term of Licence of M/s Reliance Infrastructure Ltd expired on 15<sup>th</sup> August, 2011. The process of issuing fresh Licence in Reliance Infrastructure’s supply area was commenced almost a year ago, by calling expression of interest, etc. MERC received good responses to the advertisements. While processing these Applications, it was observed that the Electricity Act, 2003 provides for Minimum Area requirement for issue of a Distribution Licence, i.e. either a Revenue District, or Municipal Corporation or Council Area. It has so happened that even the Rinfra in its previous Licence was not fulfilling the condition of the minimum area requirement. Rinfra has submitted its application, by including the villages of Chene and Versova of Mira Bhayandar Municipal

Corporation, to meet the provisions of the Act. The Commission has received legal opinions in this matter from the Solicitor General, and Additional Solicitor General.

Another important matter was the implementation of parallel licence. In this matter also the Commission has received Legal Opinion. The said Legal Opinion states that Parallel License holder should have its own network for distribution of electricity. The Solicitor General opined that the Hon'ble Supreme Court's decision in the TPC-Reliance Infra dispute is applicable to only in this particular matter. Therefore, after processing all the applications received for issue of Distribution Licence in Rinfra Distribution Area, it was observed that except the application of Rinfra, no other applicants were fulfilled the criteria of own distribution network and Minimum Area, and were rejected accordingly with liberty to apply again as and when they comply with the provisions of the Act, Rules and Regulations.

Regarding the Cross Subsidy Surcharge and standby charges for Open Access consumers, the Commission issued an Order on 9<sup>th</sup> September, 2011 in Case No. 43 of 2010, re-determining cross subsidy surcharge for various categories for each of the distribution licensees. The Commission now expects that the Open Access will be implemented smoothly in the State.

In this context, the Chairman further stated that after the notification of the EA 2003, the Distribution Licensees in future are expected to purchase their power supply requirement through competitive bidding in an open and transparent method. Tariffs discovered through open competitive bidding method is adopted by the Regulator. All these issues are linked to progressive reduction of cross subsidy. He further informed that a communication has also been received from the then Principal Secretary (Energy) Shri Subrat Ratho suggesting that a consultative process may be initiated with the State Government before the finalisation of road map for progressive reduction of cross subsidy, which will enable the Government to understand the entire issue, and adjust its tax structure accordingly in order to avoid severe shock to the consumers. The principles of Tariff proposal and tariff fixation has to be kept in mind while finalising the road map for progressive reduction of cross subsidy.

Keeping the above view-points in mind, the Chairman informed that an Officer of the Commission would be making a presentation on the highlights of the Provisional Population Census of the Country. It has been observed in the recent Population Census-2011 that 50% of the population is below the age of 25, which has a significant impact in the perspective planning. Employment generation has to receive higher priority. It is a hard reality that the agriculture sector itself cannot absorb the increasing demand of employment generation, which has to be absorbed in the manufacturing and service sector. The development of these sectors has a direct link with the availability of electricity and its tariff. The tariff fixation of electricity is actually a larger macroeconomic issue. The Government (Planning, Finance, Health, Education, Urban Development, Rural Development, etc) should have a debate on the tariff proposals of Licensees, through the public hearings whenever it is held.

The Chairman further stated that the Licensees / Utilities have sought extension of MYT for two years to adjust them to the multi-year tariff regime. Though the Act mandates for introduction of MYT, it cannot be implemented without the active co-operation of the Licensees. However, the Chairman informed that the formulation / finalisation of Regulation is not a pre-requisite for implementation of the Act or Rules.

Before initiating the discussion on the agenda items, the Chairman informed that a presentation on the Indian Population, based on the Census 2011, conducted by the Government of India, has been prepared by Officer of the Commission. Some of the major findings are –

- Maharashtra has share of 9% in the total country's population,
- Uttar Pradesh, Bihar, Maharashtra, Madhya Pradesh and Rajasthan have the largest number of children constitution 52% of the children are in the age group of 0-6 years.
- Maharashtra has the highest urban population in the country
- Out of total population of the Country, 50% of population is below the age of 25, so employment generation has to receive top priority.
- Agriculture sector cannot absorb large population, and therefore, need arises for employment generation in industrial sector and service sector to ensure inclusive growth.
- Both these sectors are dependent on commercial power (i.e. electricity) which has direct correlation with electricity tariff

- Thus, cross subsidy reduction will impel industrial growth, thereby enabling Government to mop up more taxes and give rise to employment generation.

A copy of the above presentation was circulated to all members and special invitees. Drawing attention of all, the Chairman emphasised the need for reduction of electricity tariff to meet the demand of economical growth of the nation, and sought co-operation of stakeholders, and Government.

The Members / Special Invitees opined that the presentation was very informative, and appreciated the Commission in its efforts in highlighting the need for more efficient power generation / transmission and distribution.

**Agenda Item No. 2 Confirmation of the Minutes of the 18<sup>th</sup> SAC Meeting held on 24<sup>th</sup> June, 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. The same was noted and approved.

**Agenda Item No.3 Action Taken Report of the earlier meetings.**

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

Shri R.B. Goenka of VIA stated that the SAC should resolve the issues related to consumers protection expeditiously, which is pending for a long time since amendment in Supply Code and SoP Regulations for Distribution Licensees, SoP Regulations for Transmission Licensee are yet to be finalised. His comments on the items at (4), (5) and (6) of the Action Taken Report are as under:

- (4) SoP Regulations for Transmission - comments have already been circulated.
- (5) Discussion on Roadmap for cross subsidy reduction – VIA has submitted its detailed submission during 16<sup>th</sup> SAC Meeting.
- (6) Selection / Appointment of Consumer Representatives  
VIA has submitted its detailed submission during 16<sup>th</sup> SAC Meeting.

#### **Agenda Item No. 4 Discussion on Cross Subsidy Reduction**

A detailed presentation was made by MERC's Consultant PwC on the progress made so far, key principles of cross subsidy reduction roadmap, and roadmap for cross subsidy reduction for each utility. A copy of the said presentation was circulated amongst the members and special invitees.

Shri Ashok Sethi of Tata Power stated that the Electricity Act, 2003 and Tariff Policy require that tariffs shall reflect cost of supply. Power purchase cost contributes major portion of Cost of Supply of Distribution Licensee. The cost of supply is dependent upon the cost of power purchase. To make matters simple, if the rationale is developed for cost of power purchase for each category of consumers, the tariffs will reflect the cost of supply. Therefore it's become important to see the pattern of power procurement. The cost of power procured on RTC basis for three shifts industrial unit will cost less and also add to efficiency of base load plants. This is very important in Indian context since base load plants are only supplying peak load. Power procured for commercial purpose operating only in day-time will require diurnal power which is costly or peak load power which is still costlier. Agricultural load if met in the night requires power in the night which is cheaper and also adds to efficiency. If we develop tariff rationales based on cost of supply, the cross subsidy amounts will come down by themselves and it will not be difficult to maintain cross subsidy within 20 percent of average tariff of each category. Hence, it is important that we workout average tariff for each category based on cost of supply. This will also encourage peak power stations to come up which is very important for the power development. This will also improve efficiencies of the base load plants.

Shri R.B. Goenka of VIA stated that he has already submitted his detailed submission during the 16<sup>th</sup> SAC Meeting, which may be considered. Till we go on category wise cost of supply, from average cost of supply, the correct picture will not emerge because present tariff itself is within the permissible limit, as agreed by the Commission. It is necessary to evaluate the category-wise cost of supply, then the cross subsidy is required to be determined.

Shri Subrat Ratho, MD, Mahagenco stated that the cross subsidy level is certainly higher than 20%. He agreed with the opinion of Shri Sethi of TPC. He further stated that the Government is concerned about higher tariff of industry leading to discouragement of industry to setting up Maharashtra. In this context only, a communication was sent to the Commission, requesting to prepare a road map for reduction of cross subsidy in consultation with the Government. The decision of the Commission may be communicated to the Government immediately so that the Government process could be initiated further. The Commission has agreed to send a communication, presenting a simple formula in numbers, instead of category-wise reduction of cross subsidy and with a target to be achieved, to the Government for its consideration.

Chairman requested to the Principal Secretary (Energy) to make a study of the socio-economic sector of agriculture field. There are about 32-33 lakh Ag pump sets, all may not be small agricultural farmers. Mostly may be irrigated field who have the capacity to pay, as we cannot have a solution without tackling the agriculture sector. Even, RDD may be moved to pay subsidy directly to MSEDCL for water supply and agril subsidy, so that the way & means of Mahavitharan could be solved to certain extent.

Shri A.G. Patil of BEST stated that the category of IT Industry coming up in mill land in and around Mumbai, may be kept in mind while finalising the issue.

The Chairman requested the Consultant, PwC, to take note of the various points raised by the Members / Licensees and incorporate the same appropriately. A revised draft paper may be submitted to the Commission accordingly. A copy of the revised draft paper would be sent to the Members and special invitees for their perusal and comments.

#### **Agenda Item No. 5 Discussion on Role of Traders in Retail Power Business.**

Shri Anil Kelkar of Institution of Engineers (Pune Local Chapter) suggested that the Commission may consider introducing Traders in Retail Power Business. He suggested that the Distribution Licensees should restrict their electricity supply to 11 kV and monitor consumption only upto primary side of the transformer. He further explained that on 415-V side, the distribution should be treated as retail electrical trading, to be distributed and monitored by

Retail Trader (similar to Grocery Shops). The retail trader can be controlled and monitored by the Commission by allowing MRP (Maximum Retail Price) structure. The Trading Licence can be made as simple as Shop Act License. The Trader shall be accountable to consumer for reliability, safety and cost of supply, He shall pay to the Distribution Licensee for HT Side Consumption and recover the transformer losses from the consumers. The Trader will be responsible for over-loading of transformer and also its maintenance. The Retail Trader should have the freedom of sourcing power through alternative sources such as DG sets, wind mills, solar panels, etc., to meet the customers' satisfaction.

The Trading Licence fee can be linked to following factors

- a) Area of Operation such as locality size, village, Taluka, District, etc., or number of transformers being handled by a particular trader.
- b) Quantum of Electricity handled

**Agenda Item No. 6 Any other item with the permission of the Chair.**

Reliance Infrastructure Ltd (Rinfra) vide its letter dated 27<sup>th</sup> September, 2011 has suggested the following two items for discussion:

**a) Amendment in Supply Code and SoP Regulations for Distribution Licensees**

As the Commission is in the process of amending the Supply Code and Standard of Performance Regulations, R Infra suggested that the Commission may constitute a Review Panel consisting of Licensees, consumer representatives, experts, and other persons who the commission may think to be nominated, under the Chairmanship of an Officer of the MERC. This Panel may meet at-least once in every six months to discuss the issues and new developments which have bearing on the Supply Code. Based on the Panel's recommendations, amendments are proposed for review of the Supply Code / SoP Regulations on a regular basis. Similar models are implemented in the States like Madhya Pradesh, and Bihar. A similar model can be replicated in Maharashtra also.

**b) Review of Schedule of Charges for Distribution Licensees.**

Shri Kapil Sharma, of Rinfra stated that the Schedule of Charges was determined and approved by the Commission in the year 2006 based on the material and labour costs prevalent in the year 2005-06. Now, there has been significant upward movement of costs since then. He

further stated that the cost of wheeling charges be included in the Schedule of Charges. He clarified that in Case No. 50 of 2009, the cost incurred by the Wheeling Distribution Licensee (WDL) has not been reimbursed as the same is not included in the Schedule of Charges. Although the Distribution License is entitled to recover the entire expenses through ARR, the difference between recovery of charges and the actual expenses is being borne by the balance set of consumers. Therefore, there is a need for review of existing schedule of charges.

The Commission opined that the point raised by Rinfra is well noted. A proposal for review of the Schedule of Charges may be moved by the concerned Distribution Licensees, which will be processed through a Public Hearings since it will have an impact to all consumers. The Commission, therefore, suggested that the Distribution Licensees should include this item in their respective ARR/Tariff Petitions so that the issues could be placed before the Public for their comments / objections / suggestions, etc. This will be addressed through the Tariff Orders.

Shri R.B. Goenka of VIA has made the following points for discussion:

- c) **Amendment in Clauses of load sanction letter and agreement being entered with the consumers by MSEDCL.**
- d) **Recent Circular of MSEDCL regarding payment of energy bills.**

MSEDCL has issued a circular stating that the date of clearance of the cheque may be considered as date of payment. This is causing inconvenience to the consumers as they are denied the benefit of bulk consumer incentives.

Chairman opined that this is not the right forum to discuss these issues. However, he requested the MSEDCL representatives to look into the matter and initiate appropriate corrective measures at the earliest.

- e) **Amendment to CGRF Regulation on Definition of Grievance**

Shri Goenka further drew attention that the Hon'ble Bombay High Court of Aurangabad Bench has set aside the CGRF Order in which the Forum directed MSEDCL to refund the amount collected from consumer against the metering system. The Hon'ble Court interpreted the definition of Grievance provided in the CGRF Regulations that "by no stretch of imagination the



grievance of respondent No.1 would be covered by this definition. A consumers Grievance contemplated under the regulations is basically a complaint about fault or inadequacy in quality of performance of the electricity distribution company". Consequence to the said Hon'ble HC Order, the CGRFs in the State are refusing to admit the cases for refund of money. Hence it has become most important to make amendments in the CGRF Regulations

There was no other item for discussion and the SAC meeting ended with a vote of thanks to the Chair. **The next SAC meeting will be held on Friday, 30<sup>th</sup> December, 2011 at 11.00 hrs.**

**Encl:**

- a) Copy of Power Point Presentation on Population Census
- b) Copy of Power Point Presentation of Road Map for Reduction of Cross Subsidy in Maharashtra.

## **List of persons attended the 19<sup>th</sup> SAC Meeting held on 30<sup>th</sup> September, 2011**

### **Members**

1. Dr. S.L. Patil, General Secretary, Thane-Belapur Industries Association
2. Shri R.B. Goenka, Vidarbha Industries Association
3. Shri S.S. Yadav, DY CEE (HQ+2), Central Railway
4. Shri Anil Kelkar, Institution of Engineers, Pune Local Centre
5. Shri Anil Rajvanshi, Nimbkar Agricultural Research institute
6. Shri S.J. Kunte, Principal Secretary (Energy), Government of Maharashtra.

### **Special Invitees**

7. Shri Arvind Singh, MD, Maharashtra State Electricity Transmission Co Ltd.
8. Shri Subrat Ratho, MD, Maharashtra State Power Generation Co Ltd.
9. Shri Ashok Sethi, VP, Tata Power Co Ltd.
10. Shri R.R. Mehta, V.P. Reliance Infrastructure Ltd.
11. Shri A.G. Patil, Dy General Manager (Electrical), BEST Undertaking
12. Shri Jayant Deo, MD & CEO, Indian Energy Exchange Ltd
13. MD & CEO, Power Exchange India Ltd.
14. Shri S.A. Patil, G.M., Maharashtra Energy Development Agency
15. Shri C.B. Mankar, EE (TRC), Maharashtra State Electricity Distribution Co Ltd.
16. Shri Abhijit Dhamdhare, Independent Power Producers Association of India