

Minutes of the 22nd Meeting of the State Advisory Committee held at Centrum Hall, 1st Floor, World Trade Centre, Cuffe Parade on 29.06.2012 at 11.00 hrs

The twenty-second meeting of the State Advisory Committee (SAC) constituted by the Commission under Section 87 of the Electricity Act, 2003 was held on Friday, 29th June 2012 in Mumbai. The Chairman Shri V.P. Raja presided over the meeting. Shri V.L. Sonavane, Member and Shri Kuldip Khawarey, Secretary of MERC were present. The Chairman introduced a new Special Invitee from Rural Electrification Corporation, Shri Mahesh Kumar Mittal. The meeting commenced with a warm welcome by the Chairman. Leave of absence was granted to those who could not attend the meeting. List of Members / Special Invitees who attended the meeting is enclosed.

Agenda Item No. 1: Preliminary Remarks by the Chairman

After welcoming the SAC members/ Special Invitee, the Chairman stated that for the past two years, the Commission has been able to present its Annual Report and Accounts on time. He pointed out that the reports have been tabled on the floor of the Legislative Assembly and Council on 19th April, 2012. However, as the Commission's accounts were yet to be audited by the CAG, he expected that audited accounts would be tabled only sometime later.

Moving on to the Electricity Act, 2003 which he termed "the manifesto of reforms", Chairman, Shri V P Raja said that there are gaps between what the framers of the Act envisaged and what happens at the ground level and that many things needed to be set right. "The main crux of the Act was to bring about competition by having more players; certainly more generation has come in. The contribution of the private sector to generation has increased. In terms of development of markets, an imperfect wholesale market has come in with the help of these new generators and traders, where the supply side are the generators and the traders and the demand side continues to be substantially the discoms. There is absolutely no development in the retail market, which by and large continues to be a monopoly situation. The two concepts on which all these reforms hinge have not made much progress". The two concepts being (i) the progressive reduction of cross subsidies and (ii) open access. On the issue of cross subsidies, the Chairman said that we had appointed some consultants to go into it. That subject has been discussed in this forum on a number of occasions and recently, we have finalized a report and sent it to the GoM. He also read out the letter from the Commission's Secretary to the Principal Secretary (Energy) summarising the current status of cross subsidies. A copy of the said letter along with a copy of the Report on "Roadmap to reducing the Cross Subsidy in Maharashtra" was circulated to the Members/ Special Invitees.

The Chairman pointed out that the issue of cross subsidies was raised initially in a Tariff Order the Commission had issued in respect to MSEDCL. There was a direction from the GoM u/s 108. The direction had two parts. The first part stated that cross subsidies have been without specifying a roadmap while Section 61 (g) of the EA 2003 uses the word 'as specified by the Commission'. As specified means as specified by Regulations made by the Commission. So without making Regulations, the Commission has reduced the Tariffs of malls and multiplexes. Earlier, when we had increased the Tariff, the ATE had set it aside saying that this violates the principle of reduction of cross subsidy as well as creating a Tariff shock. The Commission was complying with that. The second part of the direction was till the roadmap is specified, this Tariff is stayed. The Commission took legal advice on that matter and regretted that we cannot do anything about the Tariff, but the Commission could take action regarding setting out a roadmap for reducing cross subsidies. The Commission discussed the matter in SAC meetings and finalized the Terms of References. The Commission vide its letter dated 23 September, 2009 informed GoM that it would formulate a roadmap for reduction of cross subsidy in the State. Further, GoM vide letter dated 8 April, 2010 expressed its views that any intervention in the cross subsidy structure would have implication for micro economic policies and impact the cost of living and cost of products in various classes and sectors of the economy. GoM informed the Commission that such aspects and implications must be finalized only after a comprehensive study and due consultation with the State Government, Government of India and other stake holders.

The Commission initiated the process of "Preparation of Roadmap for Progressive reduction of Cross-Subsidy in Maharashtra". As part of this process, the Commission appointed M/s PricewaterhouseCoopers Private Limited (PwC) to formulate a road map for cross-subsidy reduction in Maharashtra. A number of representations were received by the Commission from electricity consumers and distribution licensees in Maharashtra. The Commission also discussed the progress of the assignment in several SAC meetings. PwC has submitted its report on "Roadmap to Reduce Cross-Subsidy in Maharashtra".

The roadmap to reduce cross-subsidy has been developed for a period of five years from FY 2011-12 to FY 2015-16 for BEST, MSEDCL, RInfra-D and TPC-D. For preparation of the roadmap, projections were carried out for each licensee.

The following methodology has been adopted -

Projections were made for the number of consumers and sales per consumer in each category for computing total sales. The Average Cost of Supply (ACoS) for each of the licensees was computed based on relevant assumptions.

The next step was projecting the Average Billing Rate (ABR) for each category to avoid Tariff shock to consumers during the roadmap years. ACoS coverage is designed to reach between 80%-120% of ACoS by FY 2015-16.

Thus, the cross-subsidy level would reach $\pm 20\%$ of the ACoS. Except for the LT domestic category, the roadmap does not alter the present level of cross-subsidy in the intra-consumer category. Also, it does not deal with cross-subsidy based on the time of electricity consumption or between regions.

For the roadmap, consumers are divided in the following two groups:

Group A

This group comprises consumers whose cross-subsidy as on FY 2010-11 is beyond the range of $\pm 20\%$ of the ACoS. In the roadmap, the cross-subsidy levels of such consumers reach this band by FY 2015-16.

Group B

This group comprises consumers whose cross-subsidy as on FY 2010-11 was within the range of $\pm 20\%$ of the ACoS. In the roadmap, the cross-subsidy levels of such consumers reach zero by FY 2015-16.

In the report, it is ensured that the movement of ABR towards ACoS has to happen in such a manner that the consumer does not suffer a Tariff shock.

Tariff shock

Tariff increase equivalent to rise in the ACoS is considered normal. If Tariff is increased by more than 10% to reduce cross-subsidy, it is considered a Tariff shock.

$$\text{Tariff shock: } (ABR_{\text{new}} \div ABR_{\text{old}}) - (ACoS_{\text{new}} \div ACoS_{\text{old}}) > 10\%$$

ABRs have been changed progressively and gradually on a yearly basis without causing a shock to the consumers so as to reach the cross-subsidy level of $\pm 20\%$. The ACoS coverage has not been changed for the LT-Temporary, LT-Advertisement and HT-Temporary categories. Further, revenue is calculated on the basis of sales forecast and the projected ABRs. The cumulative revenue gap is reduced to zero over a period of five years. The roadmap has considered the impact of both the regulatory assets and their carrying cost. The revenue gap, if any, generated Year on Year (YoY) is transferred to the next year and Tariffs are rationalised in such a manner that they are recovered. The ABRs have been designed so as to achieve revenue balance in each of the years, i.e., to ensure that revenue equals the cost (ARR).

The Electricity Act 2003 has mandated the Commission to achieve this target without giving Tariff shocks to any consumer categories. Analysis suggests that this task of achieving reduction in cross-subsidy levels in the system within a specified time-frame of five (5) years may bring Tariff shock to some consumers. Therefore, the actual time-frame required to achieve the target may be longer.

The actual implementation of the roadmap will have to be based on the respective licensee's projection of consumer numbers and sales.

In the said report, the first option is that the Commission may adopt a roadmap to reduce the cross-subsidy without giving Tariff shock to consumers, which may require a horizon of more than five years to achieve the targeted level of cross-subsidy. Under the second option, the Commission may adopt an accelerated roadmap of cross-subsidy reduction, where a few categories of consumers may experience Tariff shock. However, this option may be adopted without giving Tariff shock to consumers, if some external monetary support is available for such consumers to mitigate the shock.

The Commission may make such a road map co-terminus with the control period of MYT Regulations to reduce the level of cross-subsidy in the State.

While appreciating the need to bring out better clarity on the issue of progressive reduction of cross-subsidies, the Commission would like to consult the State Government on the options available in the report before initiating the process of development of the road map for reduction of cross-subsidy on respective licensee's projections of consumer numbers and sales.

We shall appreciate if the considered views and suggestions of the State Government are communicated to the Commission as early as possible.

The Chairman, however, pointed out that the task of reducing cross subsidies continues to be a difficult one as the numbers are assumed and will continue to undergo changes, especially as the sector is dynamic at the moment in terms of several key factors such as pricing. Broadly speaking, the prices of all energy fuels, whether it is coal or gas, are going up and with the import of primary energy fuels also going up, the task becomes even more difficult. "But even if it is difficult, even if we don't achieve what can be called perfect solutions, the second best is also worth going for. We can circulate this report to the other utilities also and then discuss the matter after the Government also takes a view. I will request the Energy (Secretary) to have a system of either involving the Chief Secretary and having a small group which should necessary including the Planning Secretary and the Finance Secretary to see how it looks and whether in a coordinated fashion, something can be done because it will have impact on the Government budgets and certainly, the Commission would like to work along with the overall policy initiatives or the policy goals which the GoM has set when it comes to categories of people in the Society. We have reached a milestone in this progressive reduction of cross subsidy in terms of documentation."

On Open Access, the Chairman stated that the situation is as confusing as ever and the various players in this game have views which are not necessarily identical. All written communication both from the Ministry of Power, and the Planning Commission clearly want the states to move

towards the market. The 2nd Task Force measures for operationalising Open Access has also been circulated to all.

The matter has also been discussed in the Forum of Regulators (FoR). The FoR has prepared a kind of Position Paper on the subject which is available on MERC website for suggestions and comments. It is proposed to have a separate Public Hearing on the subject perhaps in the month of August or September.

The Chairman further stated that the report of the Planning Commission has been circulated to all has a page where MSEDCL has been taken as the example. There is an Appendix 6 wherein simulation exercise done by India Energy Exchange is shown. The Chairman, therefore, recommended that the officers who have done this stimulation may sit with the officers of MSEDCL and understand each other.

The Chairman stated that a third development is that the Consumer Representative Regulations have been notified on 8 June, 2012.

Agenda Item 2: Contingency Plans to meet eventualities arising out of torrential rains, floods during the Monsoon.

Shri R R Mehta, RInfra-D kicked off the discussion. He made a presentation on RInfra-D's Contingency Plan. The salient points of his presentation are –

- Post 2005 flooding, RInfra-D has done a detailed study and identified sub stations in waterlogged areas and corrective actions were taken.
- Last year, Bhayander became another subject which was not historically in that waterlogged or low lying area.
- There is a distinction between shutting down the system for safety and shutting down the system because of the equipment being impacted, for safety, because of the location of meter cabin, or because of the location of the rest of the network.
- At times, it becomes essential to shut it down, so that should not be perceived as failure of the network.

Tata Power Company made their presentation on the Contingency Plan, the salient points of which are -

- Post 2005, one critical learning was how to keep substations higher than the flood level. This is now incorporated into the design.
- Last year, at Mira-Bhayander one distributing substation went almost 6 feet under water on account of bad drainage.
- Plan to raise substations by another floor.
- Preventive measures have been carried out at all our substations
- Thermal scanning has been done on cables for many of the terminations.

- A critical area is to have spares in case of equipment failure.
- Disaster Management Cell gets activated on the 1st June similar to Reliance and it is coordinated by Power System Control Centre (PACC) across Mumbai.
- Devoting pumps across the substations
- DG sets in case there is an emergency to some of the customers.

The Chairman suggested that GoM should convene a multi-disciplinary committee on how to factor in micro drainage issues in city and town planning. This should be brought to the notice of the Chief Secretary and Chief Minister.

Shri P.M. Rajgopalan, BEST Undertaking stated that BEST area was not affected because torrential rain did not affect the South Mumbai area. Only in low-lying areas like Matunga, Dadar and Banganga, etc., the water gets logged. BEST made presentation indicating (i) Pre-monsoon activities; (ii) Monsoon activities and (iii) activities at the time of heavy rains/flooding. A copy of the BEST's presentation was circulated in the meeting.

Shri Ajoy Mehta, Managing Director, MSEDCL pointed out that MSEDCL has a varied consumer base – including agricultural and industrial consumers and has separate area wise contingency plan and they get activated depending on the circumstances that come up.

With respect to flooding from release of water from dams, he said that GoM has put in place a drill whereby water releases take place only in consultation, and in some places, with the approval of the Collector. Irrigation Dept engineers have to consult the Collectors and where it involves 3-4 districts, the Commissioner's permission is mandatory. The Commissioner ensures that if water is released, it does not result in a flood.

Shri Ajoy Mehta stated that we would like to place on record appreciation for the work that has been done by MERC for formation of Regulation and authorisation of consumer representatives. He further stated that this work is very commendable and really enhance the image of the Commission in the people.

Chairman Shri V.P. Raja mentioned that several requests on various aspects of open access had been received and requested Principal Secretary, GoM and MD, MSEDCL to make presentation.

MD, MSEDCL made a presentation, a copy of which was circulated in the meeting. The salient points of his presentation are as under –

- There are huge gaps in consumption of power vis-a-vis the revenue.

- Appreciation of Dollar has offset the reduction in the Coal.
- Huge unrecovered FAC affects the financial position.
- Climate has a major impact on power scheduling and power purchase.
- Mobilization of legitimate additional revenue to meet additional expenditure would now be possible only by way of revision (increase) in existing tariff.
- Any increase in arrears or receipt of arrears will not affect the Revenue Gap.
- MSEDCL has almost achieved the distribution loss and collection efficiency trajectory as determined by MERC. This necessitates increase in tariff immediately since addition revenue is not possible through distribution loss and collection efficiency.
- Accounting Errors, Review Order or APTEL Judgments has forced consumers to face multiple tariff hikes in a year.
- Dis-allowance of Capex Related Cost has affected the capital expenditure of MSEDCL.
- Dis-allowance of Legitimate Costs of MSEDCL has affected working capital of MSEDCL.
- Frequent hike in Tariff within the year is inevitable for financial viability of Discom.

MD, MSEDCL made a presentation on Roadmap for Load Shedding Free Maharashtra, a copy of the said presentation was circulated in the meeting.

During the course of discussion, MSEDCL provided inter alia the following information.

- i) Though the attempt to meter agricultural pumps unsuccessful, the company has succeeded in metering agricultural pump feeders. As a single feeder has the same cropping pattern, it would be possible for the company to now quantify crop-wise power consumption. As AMRs have been put on the metered feeders, it is possible to get 15 minute readings at the company's headquarters at Prakashgad, he said.
- ii) Feeder metering is 100% complete. Next step is rolling out AMRs so that the information comes straight into the company's servers. This should be done by the year-end. DTC metering is 70% complete. Urban DTCs in 130 towns with a population more than 30,000 under RAPDRP from the GOI are to be installed. Almost 50% of the work is complete and the balance work will be completed in the next two months. So far, 10 towns are ready for full roll-out in this respect.
- iii) It is also helping with feeder-wise load shedding.
- iv) Since the exact MUs being consumed is known, it is also possible to work out the horse power on each of the feeders. In the last year alone 30 lakh HP has been added. Cases of 5 HP pump being declared as 2 HP or 7 1/2 HP pump being declared as 3 HP have been detected adding to MSEDCL's billing.

Shri Subrato Ratho, MD, Mahagenco suggested that if the Commission has to carry out certain prudence check on FAC, it takes 2 to 3 months. Therefore, 70% or 80% of FAC amount may be allowed as a pass through and the rest may be allowed as a pass through after prudence check by the Commission.

On the problem of fluctuating prices, Shri Jayant Deo, MD & CEO, Indian Energy Exchange Ltd. suggested that those consumers who are passing the cost of power to their consumers in the form of the price of goods and services they produce, for that category of consumers, transfer the changes in prices on monthly / quarterly basis.

Shri Ashok Sethi pointed out that the peak power has to come through the DG sets so that there are no gas turbines alone in the country, which are used for peaking power.

Shri Sunil Mittal from REC stated that MSEDCL has suffered a loss of more than Rs 700 crore in FY 2009-10 and more than Rs 1500 crore in FY 2010-11. MSEDCL's rating has gone down from A to B because of which, they have to pay additional interest as compared to the transmission company. Transmission Company gets 25% cheaper rate than the distribution company. MSEDCL is not getting the corresponding revenues through Tariff corrections, because of non correction of the Tariff Orders, they are penalized not only by the financiers / bankers, but also in the form of interest rate hikes. The Hon'ble Commission should consider all this otherwise the Discom will be losing and will have a cascading impact of all these Tariffs which are passed on to the consumers.

Dr. Ashok Pendse stated that there are 3 segments viz. Domestic, Commercial and Industrial who are contributing out of Rs. 50000 crore arrears only Rs. 1200 crore arrears. Rest of the arrears are coming either from Mula Pravara or Public Water Works or agriculture. He suggested that this situation is required to be taken up with the Govt. of Maharashtra for a policy decision.

Shri R.B. Goenka, VIA suggested that the Commission has no jurisdiction to decide the tariff for 1 MW and above Open Access consumers. If these consumers go out of the net of licensees, then the power required by these licensees will be reduced to that extent. So first of all, a study is required to be done as to how much power would be required if 1 MW and above consumers go out.

Shri Ashok Sethi stated that the EA 2003 does not allow two characteristics wherein consumers can procure power from Discom on bilateral basis and they can procure power from anybody.

Shri R.R. Mehta of Rinfra-D pointed out that "as I see it, the fundamental problem is that these certain group of customers wants to get out of cross subsidy because it is the same supply with the same consumers. Unless this total equation is balanced, Open Access will not work".

The Chairman stated that we have issued a Public Notice asking for comments on the issue of jurisdiction of the Commission to decide the Tariff for 1 MW and above Open Access consumers. Therefore, it would be appropriate to receive all the inputs and after that, the Commission will keep a Public Hearing on this issue and take a decision thereon.

At the end, the Chairman stated that this entire regulation requires quality manpower, not only in the Commission but in all the utilities if we are to continuously improve the standard of our work because many of the issues are complex. It needs dedicated manpower who will be able to apply their mind. Therefore, professional chartered regulatory analysts somewhat on the lines of the Institute of Chartered Accountant or Institute of Cost Accountants is required to be set up. If these are agreeable to everybody, I would like to form a group with our Director (Admn. & Finance), who would be conveyor of this group and all the utilities may provide one representative with the Terms of References stating the procedural requirement and give basic steps and present such report in the next meeting of the SAC.

Minutes of the previous SAC meeting and Action Taken Report of the earlier meeting has been confirmed.

Copies of the Presentation are sent along with the minutes to all the SAC Members / Special Invitees.

The meeting ended with a vote of thanks.

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List of Persons who attended the SAC Meeting held on 30 December 2011

Members:

Shri Ajoy Mehta, Principal Secretary (Energy), GoM
Dr S.L. Patil, General Secretary, Thane-Belapur Industries Association
Shri R.B. Goenka, Vidarbha Industries Association
Shri Anil Kelkar, Institution of Engineers, Pune Local Centre.

Special Invitees

Shri Ajoy Mehta, Managing Director, MSEDCL
Shri Arvind Singh, Managing Director, MSETCL
Shri Subrata Ratho, Managing Director, MSPGCL
Shri K.N. Rajagopal, Asst. General Manager, BEST Undertaking
Shri Ashok Sethi, Chief Operations, TPC
Shri R.R. Mehta, Vice President, RInfra
Shri Jayant Deo, Managing Director & CEO, Indian Energy Exchange Ltd
Dr. Omprakash Kulkarni, Mentor, Advisor & Consulting Engineer
Shri Mahesh Kumar Mittal, Rural Electrification Corporation Ltd.