



MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION

In the matter of:

Approval of Distribution Open Access Charges for Meghalaya Power Distribution Company Ltd (MePDCL) for the Financial Year 2014-15 under the MSERC (Terms & Condition of Open Access) Regulation 2012, MSERC (Terms and Conditions for Determination of Tariff) Regulations, 2011 and under section 62 read with section 66 of the Electricity Act 2003.

AND

In the matter of:

Meghalaya Power Distribution Corporation Ltd, Lumjingshai, Shillong Meghalaya-Petitioner

ORDER

Date: 29.04.2014

Meghalaya Power Distribution Corporation Ltd (MePDCL) on 21.03.2014 filed a petition seeking Commission's approval of the charges it proposed to levy on open access (OA) consumers who use the Corporation's distribution system for the FY 2014-15. The charges are wheeling charges and cross subsidy surcharge. The Corporation also sought approval of the losses in the system as projected by it. The petition was admitted on 22.03.2014 and notices were published in The Shillong Times, Kynjat Shai and Salentini Janera, giving salient features of the petition and inviting comments and objections from interested parties to the proposal of MePDCL.

2. Byrnihat Industries Association (BIA) vide its letter dated 10.04.2014 raised its objections and Commission called for response on the same from MePDCL. A response was received on 17.04.2014.

3. A public hearing was also held on 22.04.2014 and officers of the MePDCL and representatives of BIA attended and took part in the deliberations. The objections of BIA during the hearing largely are same as those they had raised in their letter dated 10.04.2014 and Tariff (Distribution) petition of MePDCL for 2014-15 was being considered. Officers of MePDCL clarified the points raised and made submissions during the hearing to justify their stand. The issues involved in the matter and the view of and decision taken by this Commission in the present case are given in the succeeding paragraphs of this order.

WHEELING CHARGES

4. MePDCL proposes Rs.67967.28/MW/Day as wheeling charges on open access consumers. Their computation is based on the figures of the ARR and Tariff petition they had filed in December 2013 for the FY 2014-15 and since disposed of by this Commission on 12.04.2014. The formula specified in the MSERC (OA) Regulations, 2012 was used to arrive at the amount.

5. BIA objected to the computation saying that in computing the wheeling charges the total energy of 1412 MU handled by the distribution system, including the distribution losses, should have been taken into account and not only the energy sale. It also argued that the calculation should be on actual units consumed and not on the contracted load. It also said that ALSD (total average load projected to be served) should be 161 MW. According to BIA's calculation the wheeling charges should be Rs.9678.42/MW/Day.

6. In their response to the objection, MePDCL held on to their figures and explained that the components of the proposed wheeling charges are in accordance with the provisions of the MSERC (OA) Regulations, 2012 and the MSERC (Determination of Tariff) Regulations, 2011. It explained that the wheeling charges are recoverable from open access consumers connected at 33 KV or below levels and after deducting the energy sale to EHT consumers and adjusting the ALSD component projected at 99.57 MW, the wheeling charges work out to be Rs.67967.28/MW/Day.

7. Commission has considered the submission of both the parties. It may be mentioned that this Commission while determining the ARR and Tariff (Distribution) of MePDCL for 2014-15 had allowed Rs.28,769/MW/Day as wheeling charges which is equivalent to Rs.1.20

per unit. As regards the method of calculation, regulations 21 and 23 of the MSERC (Terms and Conditions for Open Access) Regulations, 2012 clearly provides that wheeling charges are calculated on the contracted load as capacity for the load which has been reserved for the open access consumer concerned. Taking into consideration the position as such and the data made available in the petition this Commission decides that the wheeling charges be fixed at Rs.28,769/MW/Day for 2014-15, after adjusting the ARR of Distribution Company with power purchase and transmission cost. The average load after EHT sale comes around 105 MW in 2014-15. **Accordingly, the Commission finds it justifiable and reasonable to approve the wheeling charges of Rs.28769/MW/Day (equivalent to Rs.1.20 per unit) for the FY 2014-15 commencing from 01.04.2014 payable on the basis of the contracted capacity/scheduled load or actual power flow whichever of them is higher.**

DISTRIBUTION LOSSES

8. MePDCL has prayed that the same level of 6% loss for 33 KV consumers and 9% loss for 11KV consumers as fixed by the Commission for 2013-14, be approved. The Corporation states that steps have been taken to ascertain the baseline of loss level and energy audit is being conducted but it would take sometime, to complete it. For whatever has been done and periodical reports have been submitted to the Commission, MePDCL explains.

9. The explanation was rejected by BIA, terming the energy audit exercise as delaying tactics lacking seriousness. BIA pleaded rejection of the proposal.

10. On examination, the sample report of energy audit carried out in some parts of Shillong shows that the losses at 11 KV level is more than 10%. The Commission feels that it would be fair that the losses for 2014-15 are also be fixed at 6% for 33 KV and 9% for 11 KV level as done for 2013-14.

Accordingly, the losses of 6% at 33 KV and 9% at 11 KV are being approved for FY 2014-15.

CROSS SUBSIDY SURCHARGE

11. MePDCL proposed a cross subsidy surcharge of Rs.0.45 per unit for industrial EHT consumers and Rs.1.33 per unit for industrial HT consumers and calculated the rates so derived in the Table shown in the petition. It may be mentioned that the cross subsidy surcharge for 2013-14 as per Commission's order dated 12.11.2013 is Rs.0.85 per unit for IEHT consumers and Rs.0.90 per unit for IHT consumer from 01.04.2013 to 31.03.2014. Be it also mentioned that BIA filed a case in the High Court of Meghalaya against the MSERC (OA) Regulations, 2012 but there was no stay of the Regulations.

12. BIA objected to the levy of cross subsidy surcharge saying that they had to go for open access to get power from outside because the licensee could not give them the supply they needed. Therefore, there was no justification to levy cross subsidy surcharge on them, they contended.

13. MePDCL responded and denied the contention and said that except for 2 months during the non raining seasons, power had always been made available to the consumers but the industrial consumers themselves reduced their consumption.

14. The Commission is serious about the issue of cross subsidy surcharge and its application on open access consumers. While determining the tariff for FY 2014-15, it was found that there was an additional requirement of cross subsidy surcharge amounting to Rs.7.88 crores over and above the present level of cross subsidy being allowed in the tariff for subsidised consumers. This exercise was done for 2014-15 keeping in view the consumption and average revenue from subsidising consumers and for subsidised consumers. The present cross subsidy from open access consumers is expected to be around Rs.5.77 crores in 2014-15 while the need is Rs.7.88 crores. The present rate of cross subsidy surcharge is 85 paisa per unit payable by open access customers. In order to meet the cross subsidy gap, there is obviously a need to increase the cross subsidy surcharge from the present level to Rs.1.15 per unit. It may be noted that in 2013-14 the actual requirement of cross subsidy for domestic, BPL and agriculture category was around Rs. 50 crores and for 2014-15 it has fallen to Rs.47 crores. This shows that there is a reduction of cross subsidy paid by subsidising consumers to subsidised consumers. But to meet the requirement of

cross subsidy in 2014-15 there is a need to recast the present level of cross subsidy surcharge.

15. In the past it has been experienced that the open access has facilitated open access consumers to get round the clock power supply even while the other consumers do not enjoy the same. The Commission cannot ignore the present scenario where the largest number of consumers are those in the subsidised domestic, BPL and agriculture categories. Their interest cannot be overlooked. Even at present IHT and IEHT consumers are subsidising large number of consumers of the State by paying cross subsidy in their tariff. One of the objections raised by BIA is that when there is insufficient supply of power by the licensee there is no justification to charge cross subsidy from those consumers who are forced to take supply from outside. The plea is not legally sustainable. The Regulations are clear in that it gives option of open access to only those who are either consumers of the licensee or consumers who are connected with the system of the licensee for the purpose of receiving electricity. Such open access consumers are deemed consumers of the licensee and the Commission cannot differentiate between the consumers while determining the cross subsidy.

16. The Commission has given its serious thought as to what should be the amount of cross subsidy which will balance the interest of the open access consumers and meet the requirement of the licensee. For meeting the requirement of cross subsidy, the average cost method (difference between tariff and average cost of supply) will not suffice. If we take the average cost method the cross subsidy from EHT consumers will be 44 paisa per unit (difference between Rs.5.82 and Rs.5.38) and for HT consumer 80 paisa per unit (difference between Rs.6.18 and Rs.5.38). The yield by this method is not sufficient to meet the requirement of cross subsidy in the State in 2014-15. The Commission has examined the other approach adopted in 2013-14, i.e., cost to serve method (difference between tariff and cost of supply to that category) which also conforms to the objective envisaged in the National Tariff Policy, the Act and the Regulations. According to that method and based on the figures contained in the tariff for 2014-15 the cross subsidy surcharge works out to 96 paisa per unit (Rs.5.82 – Rs.4.86) for IEHT consumers and Rs.1.14 (Rs.6.18 – Rs.5.04) for HT consumers. While determining the cost to serve, the Commission has followed the approach suggested in various orders of the Hon'ble APTEL. The efficacy of the 'cost to serve' method

has been recognized by APTEL in one of its judgment when it observed that ideally cross subsidy had to be reduced gradually and progressively, say, within plus minus 20% of the average cost of supply to avoid tariff shock to the subsidized categories of consumers. In the best of times, cross subsidies might be reduced though not to be eliminated till better situations prevailed in future.

17. While arriving at the cost to serve method, the Commission has computed power purchase cost which is a major component of the ARR at different voltages taking into account the system losses as well. As segregated network cost at different voltages is not available at this stage, the Commission has taken the pool network cost of the distribution system and apportioned it equitably on pro rata basis at HT & EHT voltages. The cost of supply by this method is coming around Rs.4.86 per unit for IEHT consumers and Rs.5.04 per unit for IHT consumers. Accordingly, the cross subsidy from IEHT consumers shall be 96 paisa per unit (Rs.5.82 – Rs.4.86) and from IHT consumers it shall be Rs.1.14 per unit (Rs.6.18 – Rs.5.04). In 2013-14, using the same approach, the cross subsidy surcharge was 95 paisa per unit for IEHT consumers and Rs.1.11 paisa for IHT consumers. However, in order to adhere to the National Tariff Policy and Regulations the State Commission allowed 85 paisa per unit for IEHT consumers and 90 paisa for IHT consumers in 2013-14. However, for 2014-15, in view of the need arising Commission feels that the cross subsidy may be fixed at 95 paisa per unit for IEHT consumers and Rs.1.05 per unit for IHT consumers which was actually the amount initially arrived at for 2013-14 or lower than that. Virtually, there is no increase in the amount of cross subsidy surcharge from that of 2013-14 by fixing 95 paisa per unit for the year 2014-15 for IEHT consumers and logically for IHT consumers also at Rs.1.05 per unit for 2014-15. The Commission has thus endeavored to keep the cross subsidy within the limit of plus minus 20% of average cost of supply.

18. Nevertheless, the Commission is anxious that cross subsidy surcharge is fixed in such manner that it meets the current cross subsidy and the requirement of the Act. Accordingly the Commission approves cross subsidy surcharge at Rs.0.95/unit for IEHT consumers and Rs.1.05/unit for IHT consumers for 2014-15. This will commence from 1.4.2014.

19. The surcharge of Rs.0.95/unit and Rs.1.05/unit respectively for the IEHT and IHT consumers will substantially meet the current level of cross subsidy required for 2014-15. This is also in line with the spirit of the Act and the OA Regulations wherein it is provided that surcharge shall be utilized to meet the requirement of current level of cross subsidy. Looked at from various aspects the increase of the cross subsidy surcharge is reasonable when weighed against the benefits the OA consumers are getting by using the network of the licensee. They get uninterrupted power at lower rates and round the clock for running their business even during peak hours. The National Tariff Policy also recognize the need to factor in the element of cross subsidizing by high end consumers to maintain a balance in the tariff affecting a large number of domestic (LT) consumers and to sustain the power sector. However, the consumers have a choice to select their supplier keeping in view the quality and the price of electricity. In this, it is advised that the MePDCL should explore all possibilities to provide good quality service to their consumers and thereby derive more revenue to benefit them financially.

20. The Commission does not know yet the correct amount of cross subsidy without a proper study of voltage wise cost and losses at each voltage level. After the data is made available it would be feasible to assess the correct level of cross subsidy and thereafter the Commission will be able to lay down a definite road map for a more systematic reduction of cross subsidy surcharge. So far, such a study has not been emerged since the companies have only been segregated only in 2012-13 and the companies are yet to finalize their accounts and assets registers. However, Commission cannot wait for the finalization of all the information and therefore it has decided to pass the present order and to give the licensees (MePDCL, MePTCL) time not exceeding six months to work out the cost of service at different voltages for 2014-15. **Accordingly the Commission hereby provisionally fixes Rs.0.95 per unit for IEHT consumers and Rs.1.05 per unit for IHT consumers as cross subsidy surcharges for FY 2014-15 commencing from 01.04.2014 subject to any further order if so required.**

Conclusion

21. Summing up the proceedings in the light of what has been discussed in the preceding paragraphs Commission approves the charges to be paid by open access consumers for 2014-15 as follows:

- 1) Wheeling charges of Rs28769/MW/Day (equivalent to Rs.1.20 per unit) which shall be payable on the basis of contracted capacity/scheduled load or actual power flow whichever of them is higher.
- 2) Losses shall be compensated at the rate of 6% by 33 KV consumers and 9% by consumers connected on 11 KV network at their respective drawal/injection points.
- 3) Cross subsidy surcharge on per unit basis @ Rs 0.95 per unit for IEHT consumers and Rs.1.05 per unit for IHT consumers for the FY 2014-15 commencing from 01.04.2014.
- 4) Other charges shall be as per Commission's order dated 12.04.2014 on open access in transmission for FY 2014-15.

22. The Commission further makes the following observations for the licensee to take note and implement. While allowing open access in the distribution system the licensee shall ensure that the open access is given only to those consumers who are connected on independent feeders emanating from grid substations. The licensee shall also ensure that there is no technical constraint in allowing open access in the distribution and there is sufficient capacity available in the network so as not to disturb its consumers. It is the duty of the licensee to ensure that consumers should only be allowed open access when they are provided with the special energy meters capable of communicating its reading to SLDC on real time basis.

23. In implementing this order the Commission expects that MePDCL and MePTCL shall give due importance to the provisions of the MSERC (Terms and Conditions of Open Access) Regulations, 2012 and the orders passed by the Commission from time to time while allowing open access to consumers including captive generating plants and applying and recovering correct charges as may be due in accordance with this order and other related orders.

(ANAND KUMAR)
CHAIRMAN, MSERC