Annexure 1

Network Rollout Plan of Tata Power Co Ltd and the Committee report

Presentation
by
Prayas (Energy Group), Pune
21 June 2016

आरोग्य, ऊर्जा, शिक्षण आणि पालकत्व
या विषयांतील विशेष प्रयत्न

Outline

- History and genesis
- Current status
- Need for a different approach
  - Proposal by PEG
- Network rollout in BEST area
- What failure to implement such a scheme would mean

History and Genesis

आरोग्य, ऊर्जा, शिक्षण आणि पालकत्व
या विषयांतील विशेष प्रयत्न

Developments leading to parallel license operation

- Litigation
  - Disputes amongst the licensees
  - Supreme Court verdict – July 2008

- Backdrop
  - High tariffs
  - Lack of power purchase planning leading to heavy reliance on short term bilateral purchases, which in turn lead to further uncertainty in the already high tariff

- Spirit behind operationalising parallel license mechanism
  - Potential to reduce tariffs by bringing in competitive pressure
  - No need to wait for the parallel licensee to build a new network
  - Avoid duplication to minimise cost impact on consumers

Relevant quotes

- MERC order in Case 113 of 2008, on June 15, 2009
  - *"The Honourable Supreme Court also, in its Judgment on the matter of TPC's distribution licence, observed that TPC could supply to consumers in its licence area, by utilising the distribution network of the other distribution licensee already present in the area. Hence, incurrence of capex cannot be a condition for meeting the Licensee's obligations to all the consumers. In fact, the capital costs should be incurred only when there is no better optimal solution."*

- ATE judgement in Appeal No. 246 of 2012 & Appeal no. 229 of 2012, November 28, 2014
  - *"55. Let us examine a situation where the parallel network is laid by Tata Power also in all the clusters including, where a reliable system of RInfra is already existing. In that case, 50% of the total network of RInfra and Tata Power will remain redundant, the cost of stranded distribution system will be borne by the consumers of Mumbai…"*
  - *"56. Therefore, in the circumstances of the present case where a reliable distribution system of RInfra is already existing and physical constraints in laying down of network by Tata Power and very high cost involved in the same, it is in the overall interest of consumers of Tata Power and RInfra that the changeover consumers continue to get supply from Tata Power on the RInfra's network…"*

Current Status

आरोग्य, ऊर्जा, शिक्षण आणि पालकत्व
या विषयांतील विशेष प्रयत्न

Developments post implementation of parallel license mechanism in Oct 2009

Planning failures

- No change in power purchase planning
  - Continued high reliance (> 20%) on short term purchases by both licensees
  - Firm contracts only with sister concerns under cost-plus tariff
  - Piecemeal approach towards transmission planning limiting power purchase options

Delayed decisions

- Cross-Subsidy Surcharge (CSS) and Regulatory Asset Charge (RAC) made applicable 21 months after introduction of changeover
- RAC dealt with differently for the two licensees

Deferring recovery of increasing costs

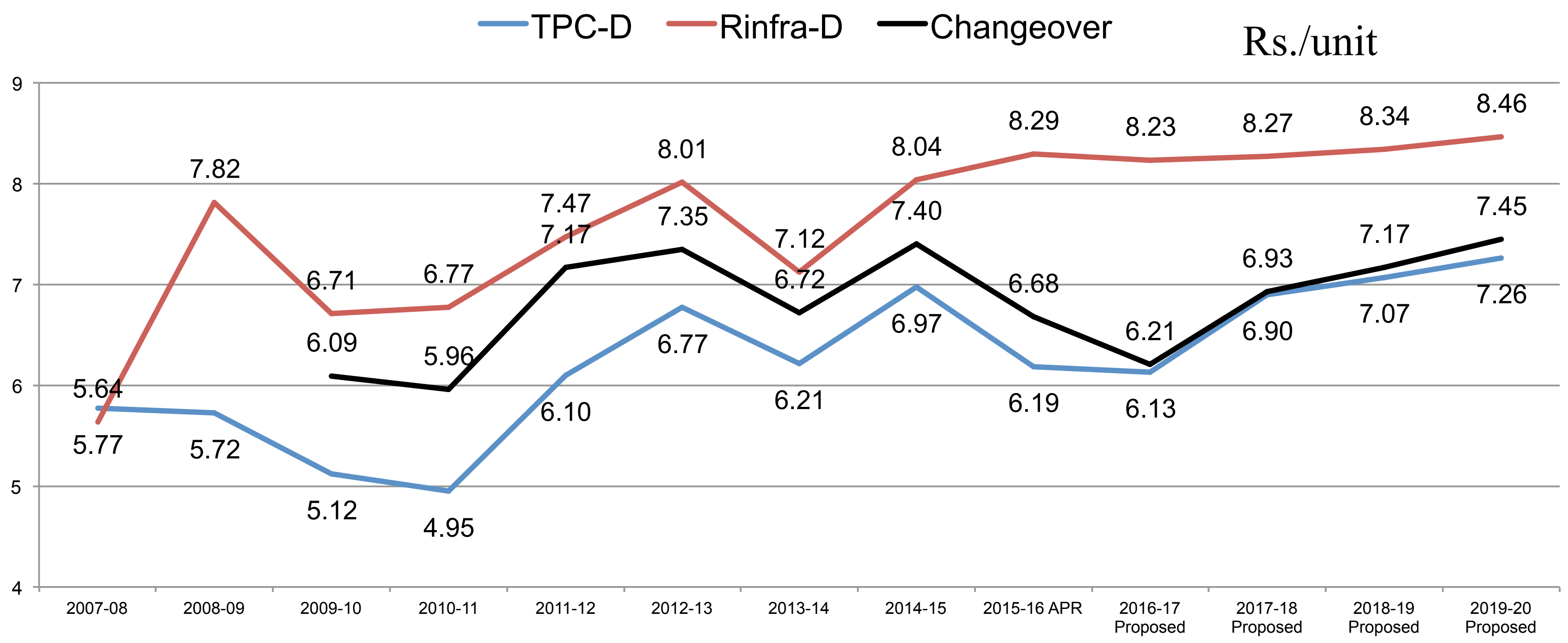
- Need for CSS will continue
- RAC for RInfra and TPC
- No clarity on recovery and future impact

Litigation

- Every tariff order for TPC-D and RInfra-D since 2008 has been challenged before the APTEL

Average Cost of Supply has been increasing for both licensees

- Rising costs of TPC
- Catching up with Rinfra-D



What has parallel license meant?

- For consumers
  – Ever-increasing tariff
  – Lack of clarity: RAC, CSS, network costs, who can move
  – No benefits of competition

- For licensees
  – Assured recovery with carrying cost of all the claimed costs
  – No penalties for planning failures and/or non-compliance with regulatory norms

→If things have to improve for Mumbai, a fundamentally different and bold approach would be necessary

Key requirements of an effective solution

→ Protecting interests for small consumers and ensuring tariff certainty for them

→ Putting an end to 'half prince and half slave' situation in Mumbai

→ Facilitating competition

- What it implies
  - Allowing recovery of assets accumulated so far, but putting an end to regulatory certainty for future cost increases
  - Utilise all possible market mechanisms including open access and net-metering to ensure that consumers get to choose the most optimum supplier
  - Allowing competition to play out within the ceilings defined
  - Ensuring economical network utilisation and expansion
  - Ensuring licensees adhere to universal supply obligation and maintain required standards for supply and service quality

PEG proposal

The proposed solution is work in progress and needs further detailing based on regulatory analysis and scrutiny of licensees demands and performance.

आरोग्य, ऊर्जा, शिक्षण आणि पालकत्व
या विषयांतील विशेष प्रयत्न

Proposed scheme: Applicable only for Suburban Mumbai (Rinfra and TPC consumers)

- Freeze regulatory assets and revenue gaps up to FY 16 and recover them from all sub-urban consumers
  - No true-up or revenue gap approval beyond FY 16
- Protecting small consumers
  - Fix tariffs for 0-300 units per month residential and LT-commercial 0-20 kW consumers at reasonable level
- Impose tariff ceiling for the rest of the consumers along with a cap on wheeling charges and Cross-subsidy surcharge
- Licensees have full flexibility in terms of power procurement and capex and opex so as to maximise sales and revenue.
- In order to ensure USO, both licensees should be mandated to make their wires available for changeover
- Commission to focus on compliance with SoP and monitoring of sales and migration and not of costs and expenditures of the licensees

The scheme requires no legislative amendments and can be implemented within the exiting legal and regulatory framework

Illustrative suburban Mumbai distribution

Particulars	**Units**	**Values #**
Total Suburban Mumbai ARR including RAC with carrying cost	Cr	11500
Total Sales	MU	13000
Total Cost of Supply	Rs/unit	8.85
Total Consumer Nos		~31 Lakh

Approximate figures of the same order of magnitude as licensees' ARR and sales

Charges

- Uniform ceiling wheeling charge all retail consumers

Licensees are free to reduce these charges to optimise sales and revenue

- Uniform fixed Regulatory Asset Charge (URAC):

Combine the Revenue Gap and Regulatory Asset of both the suburban licensees. To be paid by all suburban consumers (including open access) over 4 years of the MYT.

- Uniform fixed Cross-subsidy Surcharge

CSS calculated as the difference between ceiling and ACoS retail supply for subsidised categories

CSS to be paid by all non 0-300 category consumers in suburban Mumbai, including open access

- Category-wise Uniform ceiling Power supply charge (Energy Charge)

Licensees are free to reduce these charges to optimise sales and revenue.

Licensees should not be allowed to enter into contracts with consumers for periods longer than the control period considered by the Commission.

Additionally, consumers who can find suppliers willing to supply at lower rates than the ceiling can avail such supply under open access

Proposed tariff structure

Particulars	Sales	Uniform Wheeling	Uniform RAC	Uniform CSS	Non-Power supply charge	Power supply charge	Total ABR	Total Revenue
	MU	Rs/u	Rs/u	Rs/u	Rs/u	Rs/u	Rs/u	Rs CR
		A	B	C	D = (A+B+C)	E	F = (D+E)	
LT 0-100	2400	1.33	1.30	NA	2.6	3	5.63	1351
LT 100-300	2200	1.33	1.30	NA	2.6	4.5	7.13	1569
LT Com 0-20 kW	2000	1.33	1.30	1.85	4.5	5.5	9.98	1996
Other LT	3700	1.33	1.30	1.85	4.5	6.5	10.98	4063
HT Ind	1000	1.33	1.30	1.85	4.5	6.5	10.98	1098
HT comm	1200	1.33	1.30	1.85	4.5	6.5	10.98	1318
Other HT	500	1.33	1.30	1.85	4.5	6.5	10.98	659
Total	13000						9.19	11943

What the proposal accomplishes…1

- Put an end to cost-plus approach and RAC
  – Ensures recovery of all past dues (up to FY 16)

- Give certainty to consumer by deciding ceiling for all tariff components

- Complete flexibility to licensees in terms of managing distribution cost, power procurement and network rollout

What the proposal accomplishes…2

- Provides a better deal to consumers
  - Tariff certainty for small consumers, proposed ABR lower than that of the highest cost licensee
  - Clarity and certainty regarding the maximum tariff for the rest of the consumers
  - Possibility of using open access to further reduce tariffs of the rest of consumers

- Allows for competition to flourish: licensees free to provide better deals to maximise sales and revenue

- No need for cost-plus approach means that the regulator can focus on:
  - Universal supply obligation
  - Compliance with standards of performance
  - Free and fair competition: non-discriminatory open access to distribution wires and transmission system

Suggestions for operationalising the proposed approach

- Issue tariff order for FY17 and true-up up to FY 16 under 2011 Tariff regulations
  - For generators with PPAs expiring during present MYT period, pass tariff order only for the duration of the PPA
- Amend the license conditions of TPC and Rinfra :
  - Mandating non-discriminatory open access to wires
  - Meeting USO using own wires or those of other licensees
- For operationalizing the new scheme, following regulatory steps are needed
  - Mandate changeover to continue
  - Publish a whitepaper detailing all issues concerning implementation of such mechanism and seek public comments and suggestions from all stakeholders
  - Based on the whitepaper and subsequent consultation, formulate new regulations for putting into effect the proposed for the next 4 or 5 years after undertaking due public process
  - Amend distribution and transmission open access regulations and any other regulations such as standards of performance, grievance redressal, etc. as may be necessary

Network rollout in BEST area

- BEST has till now not provided open access or 'changeover' option to its consumers
- Network duplication should be avoided
- Two options:
  – Remove South Mumbai from the license area of TPC

  OR

  – BEST to provide non-discriminatory open access and allow changeover in order to join the scheme

Failure to implement such a scheme, would mean

- Commission will have to review and monitor network rollout and ensure that the costs are prudent and no licensee is avoiding its supply obligation
  - So far this has proved to be a challenging task

- Power Purchase planning
  - Huge reliance on short-term power will continue and tariff will be subject to swings in short market power rates
  - High cost long term contracts would become fait accompli

- Cost-plus model: regulatory certainty for costs
  - Would lead to continued need for cross-subsidy surcharge and regulatory asset charge

→ Tariff uncertainty for consumers will continue

- Uniform tariffs, if implemented without proper checks on licensees current style of operation will lead to temporary relief for some consumers, but will not address issues in planning and the need for higher regulatory assets going forward

Thank you

ashwini@prayaspune.org
saumya@prayaspune.org

आरोग्य, ऊर्जा, शिक्षण आणि पालकत्व
या विषयांतील विशेष प्रयत्न