BEFORE MAHARASHTRA ELECTRICITY REGULATORY COMMISSION, MUMBAI

Comments/Suggestions on

Recovery of additional cost for mitigating load shedding in Pune as reliability charge from Pune Urban Circle

by
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April 19, 2006

1. **Background**
   In response to a petition filed by CII regarding harnessing captive capacity for mitigating load shedding in Pune Urban Circle
   We had submitted our detailed comments on this CII proposal for mitigating load shedding in Pune Urban Circles on 5th December 2005 and also presented them before the Commission during the public hearing at Pune on 12th December 2005. Subsequently in response to public notice issued by MSEDCL, Prayas presented its views during the public hearing held on 15th April 2006 at Pune. This submission summarizes comments / suggestions made during the public hearing.

2. **Economics of the scheme**
   With present level of oil prices, this scheme entails power purchase from CPPs at an extremely high cost of more than 11 Rs/unit. This arrangement requires a revenue of about Rs 266 Cr per annum solely from Pune consumers, translating to average surcharge of 84 paise to 1.02 Rs/unit on Pune consumers depending on the level of load shedding. It should be noted that this tariff hike is in addition to proposed FAC of 78 paise/unit for the current month. Considering prevailing power shortage in the state and external power purchase rates, this FAC is least expected to reduce in coming months. Therefore, effective tariff hike for Pune consumers is at least 1.6 Rs/unit (84 + 78)! With such a steep increase in tariff, average realization from Pune Urban Circle becomes more than Rs 5.25/unit! Following table illustrates this tariff impact for residential and commercial consumers.

Category	Units/month	Base Tariff Rs/month	Bill with new FAC Rs/month	Bill with new FAC and CPP Surcharge	% increase in bill
Residential	100	314	402	496	58%
	200	639	814	1002	57%
	300	964	1226	1508	56%
	400	1412	1761	2138	51%

Commercial	100	434	522	617	42%
	200	840	1016	1206	44%
	300	1354	1618	1903	41%
	400	1867	2219	2599	39%
	500	2380	2821	3295	38%
	700	3407	4024	4688	38%
	1000	4947	5828	6777	37%

(Note: All calculations include Electricity Duty and RLC, wherever applicable)

3. **Recent trends in Power Purchase Costs**
   The following table indicates recent rates of power purchase proposed by MSEDCL for April to June 2006.

Source	**Rate (Rs/unit)**
Kawas	7.3
Traders	4.4
TPC	4.4
CPP	5.6

(Source: MSEDCL Petition before MERC for approval of short-term power purchase)

It is clear from the above table that present proposal for mitigating load shedding in Pune, envisages an extremely high cost power purchase at Rs 11/unit. Accepting this proposal would set a precedent for purchasing high cost power, which may result in overall jacking up of price of traded power.

4. **Other key concerns**
   (Kindly refer Prayas's detailed submission on this issue dated 5th December 2005)

4.1. Public policy and equity

Any prudent public policy should try to balance the trade off between efficiency and equity. Load shedding in major urban areas is 2 to 3 hours, and that in rural areas is as high as 10 to 12 hours every day including evening hours. This is already causing serious social tensions and public protests (at times turning violent). Therefore, our primary concern should be to reduce load shedding in rural areas and make the distribution of electricity as equitable as possible. Any additional revenue should be used to reduce the load shedding in rural areas on a priority basis.

4.2. Utility policy perspective and change in regulatory paradigm

This proposal raises some fundamental questions from utility policy perspective. Though the contemporary short-term solutions are essential, the utility should build a long-term perspective and plan. Moreover, accepting this kind of solution, changes the regulatory paradigm adopted so far, which focused on equitable and rational distribution of electricity fundamentally. Such a change cannot occur in an ad hoc manner and it should be an outcome of a long-term process. Therefore, the Commission, if desires to adopt purely commercial approach, has to float a concept paper on the same and enable discussion on the change in paradigm than dealing with it on a case to case basis.

4.3. Operational and legal issues

In addition to the issues raised above, there are quite a few operational difficulties in this proposal, which are listed in our submission dated 5th December 2005. Moreover, there is not enough clarity regarding legal issues involved in the scheme such as S62 of Electricity Act 2003 allows tariff revision only once in a year, non-existence of any agreement between CPPs and MSEDCL, MERC not giving enough time for the public to respond to the petition etc.

5. **Prayers**

In light of above, we have following specific prayers

5.1. Present proposal of CII is highly uneconomical and goes against prudent public policy as well as utility policy principles and hence it should not be approved.

5.2. Concerted efforts to explore alternative, low cost and rational approaches to mitigate current power shortages need to be made by licensee, as well as MERC, may be with the help of industry associations such as CII, MCCIA and other consumer groups. Some of the alternatives are listed in our submission dated 5th December 2005.

5.3. This proposal fundamentally changes the regulatory paradigm of equitable distribution of electricity adopted till now. If the Commission desires to change this paradigm, it should not be done in an ad hoc and case-to-case manner. The Commission should release a concept paper covering different alternatives / approaches and their implications for different stakeholders as well as economic and legal implications. Such a process should take into consideration views and concerns of all stakeholders and a statewide process should be done for this purpose.

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