BEFORE MAHARASTHRA ELECTRICITY REGULATORY COMMISSION, MUMBAI

Comments / Suggestions on

Draft Order dated 5th May 2006 in the matter of Recovery of additional cost as a reliability charge for mitigating load shedding in Pune Circle

By

Prayas Energy Group, Pune

12th May 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, Prayas also presented its views during the public hearing held on 15th April 2006 at Pune and made a submission in this regard on 19th April 2006. MERC released a draft order on the issue on 5th May 2006. In addition to our previous detailed comments, we are submitting our comments/suggestions on the Commission's draft order as follows.

2. The draft order does not address many key concerns about the proposal expressed in earlier submissions by Prayas. Some of these concerns and suggestions were
   - 2.1. This scheme is against prudent public policy and equity
   - 2.2. The scheme fundamentally changes the regulatory paradigm of equitable distribution
   - 2.3. The scheme has not been critically evaluated against possible alternatives such as encouraging load withdrawal by all large consumers etc
   - 2.4. Possible additional revenue should be used for funding long-term solutions rather than just short term expenditure
   - 2.5. No focus has been given on promotion of DSM and energy efficiency

(Kindly refer to Prayas's detailed submissions dated 5th December 2005 and 19th April 2006 for details)

3. **Other key issues in the context of Draft Order**
   - 3.1. During the public hearing held on 15th April 2006, nearly all presenters had strongly objected to the MSEDCL proposal of levying reliability charge. This is

the first ever case in MERC's 7 years' history, in which MERC has issued a draft order. The proposal submitted by MSEDCL claimed that the reliability charge would be in the range of 84 paise / unit to Rs. 1 / unit. Where as, as per the draft order, MERC estimates it to be around 34 paise / unit. As such, it is essential that the MERC order provides detailed computations as well as assumptions to justify the charge of 34 paise / unit. It's unfortunate that the MERC held public hearing on the basis of MSEDCL's proposal without validating the same. This coupled with short time given for public hearing as well as comments on the draft order, essentialy makes the public hearing meaningless.

3.2. We also wish to bring to the notice of the commission that public comments / suggestions made during the public hearing have not been covered correctly / completely in the draft order. We request the commission to properly cover these as well as comments received on the draft order in the final order of the commission in this matter.

3.3. Gaps in estimation of reliability charge

3.3.1. Fuel price

While estimating the power generation cost, the Commission has assumed published retail fuel prices. However, considering power purchase required from CPPs, the quantum of diesel required in a year would be about 65 Million Litres. With such a huge firm requirement of the fuel, bulk discount on fuel price may be availed. If such discount were factored, the reliability surcharge would reduce significantly. However, the Commission has not considered such discount.

3.3.2. Basis for load shedding of 600 MWh

MERC has not provided any basis for arriving at the figure of load shedding of 600 MWh (400 MW * 1.5 hours). Estimating these figures based on the past year's load shedding figures would not be appropriate as new Load Shedding protocol that has changed the previous load shedding pattern, was not applicable during last year.

3.3.3. Increase in required load relief

MERC has used increased sales for 2006-07 for estimating reliability charge per unit. However, as the sales grow, quantum of load relief required would also grow. This would increase the power/energy requirement from CPPs,

which results in raising the cost of this scheme. However, such increase in required load relief is not accounted for by the Commission.

4. Measures for enhancing transparency and accountability

If the commission is determined to implement the proposal then following measures for accountability of MSEDCL and CPPs and transparency of the calculations must be taken.

4.1. As mentioned in the MERC order dated 2nd March 2006, the Commission should appoint an independent agency for techno commercial audit of the operational parameters, fuel cost and variable cost of generation on sample basis.

4.2. Moreover, MSEDCL should publish a detailed audit at the end of every month indicating planned load shedding in Pune for that month according to the statewide demand-supply gap and new load shedding protocol, energy generated by every CPP and charges paid to the CPP etc. This audit must be vetted by the above mentioned independent agency, in addition to vetting of actual generation cost of CPPs as per 2nd March 2006 order.

4.3. The reliability charge should be worked out on month-to-month basis and MSEDCL should be directed to prominently publish the 'Reliability Charge' to be applicable for the said month along with summary calculations in newspapers every month. This reliability charge should be shown separately in the consumer bill. Applying average charge throughout the year or considering true-up at the end of the year or merging it in the general tariff revision process, will diffuse the price signal as well as dilute accountability and transparency. Hence we strongly urge the commission to avoid any such measures and reliability charge must be worked out on month to month basis, and charged separately in bills.

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