

Highlights of Prayas's Submission to MERC on MahaDiscom's FY 07 ARR

Maharashtra State Electricity Distribution Company Ltd (MSEDCL or MahaDiscom) submitted its Annual Revenue Requirement (ARR) for FY07 in February 2006. MERC held two technical validation sessions on this issue. Prayas participated in both the sessions and demanded that significant data should be made public as part of ARR, which was accepted by MERC. Based on analysis of this data Prayas submitted its detailed comments on MahaDiscom's ARR for FY07.

Key highlights of Prayas's comments are as follows:

1. Actual Tariff increase required is 7.8% and not 43%

MSEDCL claimed a tariff increase of about 7350 Cr (hike of 138 paise/kWh or 43%) in FY07. Prayas's analysis reveals that such a large tariff increase is highly unjustified as MSEDCL has sought to pass on the cost of its inefficiencies to consumers. MSEDCL has also over projected certain cost heads thereby increasing the ARR.. Some examples of these are as follows:

- i. **T & D losses in the state have not reduced significantly and are still about 38 %.** MSEDCL has artificially inflated the sales to unmetered Agricultural consumers. This has resulted in showing lower T&D losses. However, realistic estimate of unmetered Agricultural consumption reveals that T&D losses are still 38% as against the target of 27% stipulated by MERC way back in 2003-04.
- ii. MSEDCL has over projected sales to certain consumer categories (Agriculture, Domestic, Commercial etc). As a result of this, power purchase requirement goes up. This requires purchase of power from expensive sources, thereby increasing the power purchase cost significantly.
- iii. Further, MSEDCL has projected less purchase from low cost sources such as MahaGenco and NTPC plants. On the other hand, it also projected higher purchase from costly sources such as traders.
- iv. Other cost heads such as depreciation, previous years recoveries etc were also shown as higher levels.

è Correcting for these factors and restricting T&D losses to 27% implies a realistically required tariff increase of about 1300 Cr (against 7350 Cr claimed by MSEDCL). IN other words, a tariff hike of only 7.8% as against 43% claimed by MSEDCL.

(Refer page 14 of the attached submission for details).

2. Existing load shedding protocol needs to be revised

Transparent load shedding protocol stipulated by MERC is a positive step to address current demand supply gap in the State. But the existing load shedding protocol needs to be revised and the difference in load shedding hours between the divisions with similar losses should be reduced, thereby reducing urban – rural disparity.

3. Tariff Design

Prayas has suggested that low cost power should be distributed more equitably amongst all consumers. Based on availability of this low cost power, load shedding hours should be established for different divisions. If load shedding for certain divisions or consumer categories (Large / MIDC Industries) is to be reduced below this level, the cost of purchasing expensive power should be recovered from those consumers.

4. Measures for enhancing MSEDCL's accountability and performance

Prayas has suggested several measures to enhance accountability of MSEDCL. These include

1. MSEDCL staff should be held accountable for distribution AT & C losses. Staff from areas showing loss reduction should be provided incentive and vice versa.
2. MSEDCL staff should be held responsible for non-compliance with MERC orders and regulations
3. Public hearings should be held at different locations specifically on the issue of T & D losses
4. Supply Quality (interruptions etc.) should be stringently monitored and MSEDCL must be required to publish quarterly reports of supply quality parameters such as interruptions and compliance with load shedding protocol
5. As provided in National Tariff Policy, MERC should undertake third party validation of MSEDCL's key areas such as Energy Audit and T & D loss estimates, billing software and procedures.

In the nutshell Prayas submitted that

- Required tariff increase is much lower than claimed by MSEDCL
- Tariff should be related to service quality,
- Urban - rural disparity should be reduced
- MSEDCL should be held accountable