

## **Comments and Suggestions on the proposed amendments related to tariff rationalisation in the National Tariff Policy**

*By Prayas (Energy Group)*

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The Ministry of Power proposes to amend Para 8.3A of the National Tariff Policy as outlined in Office Memorandum No.23/02/2018-R&R dated 10<sup>th</sup> September, 2018<sup>1</sup>. The salient features of the proposal are given below:

- a. Tariff design and cross subsidy to be no longer based on differential tariffs for different types of use but to be solely based on sanctioned load and consumption.
- b. Sanctioned load needs to be tracked in a systematic manner for this purpose.
- c. KVA or kWh billing suggested for consumers having above 10 kW load.

The electricity sector is facing significant flux driven by uncertainty in demand. The average cost of supply for most DISCOMs is at Rs. 7/kWh and has been growing at 6% per annum on an average. Driven by the rising costs and the current tariff design which is hinged on significant cross subsidy, large consumers have been reducing their dependence on the DISCOM to meet their demand.

In fact, as discussed in Prayas (Energy Group)'s submission<sup>2</sup> on the proposed amendments to the National Tariff Policy, 2018, dated 18<sup>th</sup> July 2018, sales migration due to captive and open access is already significant and is expected to grow with increasing viability of renewable energy options. These sustained trends necessitate an inevitable reduction in cross-subsidy revenue for the DISCOMs in the medium term. Given this reality, and the need for a change in the business model of the distribution companies, it is important to ensure a calibrated, phase-wise approach to reduction in cross subsidy<sup>3</sup>. Such a planned approach will reduce the tariff shock on small consumers in the future and ensure a less financial impact on the cash-strapped DISCOMs during the transition.

In this context, the proposal by the Ministry of Power is a welcome step not only towards tariff rationalisation but also towards the reduction of cross subsidy. The proposed change can increase the scope for intra-category cross subsidy and could potentially increase equity in tariff design. It could also reduce tariffs for several small commercial and small industrial consumers. While it is important that such a shift is initiated, it is also crucial that such a change takes place:

- a. In a phase-wise basis over a five year period
- b. Without loss of information captured by the current, established billing frameworks
- c. While minimising the impact on small consumers
- d. With support from state governments to ensure a smooth transition
- e. While ensuring space and time for mid-course corrections and accounting for state specific realities.

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<sup>1</sup> For more details, please see:

[https://powermin.nic.in/sites/default/files/webform/notices/Seeking\\_comments\\_on\\_revised\\_provision\\_at\\_Para.pdf](https://powermin.nic.in/sites/default/files/webform/notices/Seeking_comments_on_revised_provision_at_Para.pdf)

<sup>2</sup> For more details, please see: <http://www.prayaspune.org/peg/publications/item/382>

<sup>3</sup> For more details, please see: <http://www.prayaspune.org/peg/publications/item/377>

- f. Along with complementary efforts to eliminate distinctions between rural-urban tariffs, minimum charge and efforts to provide ToD meters to consumers with connected load at least > 10 kW.

Given these considerations, Prayas (Energy Group)'s comments and suggestions on the proposal are detailed below:

### **1. Need to ensure information on sales, revenue and demand continues to be captured based on use**

The growth of sales is currently classified based on purpose of use, thanks to existing tariff categories. This classification of sales, revenue and other parameters for High Voltage and Low Voltage domestic, commercial, industrial, and agricultural consumers is essential. This is because such records are utilised by SERCs, Central and State Governments, investors, consumer groups and utilities themselves to understand demand growth, sales migration impacts and the effects and potential for the implementation of demand side management and energy efficiency measures. It is also an important parameter to assess the elasticity of various tariffs, charges and surcharges for various types of users as well as the efficacy of subsidies. As information has been recorded based on purpose of use for decades, it is essential to ensure that this useful practice continues. Thus, while the tariff design system can be as proposed, it is important to preserve the practice of maintaining metering and billing records based on usage based categories.

### **2. Treatment of unmetered consumers**

The proposed change can be implemented without much difficulty in states where most consumers are metered. However, in most states there are many unmetered consumers who are charged a flat rate on an annual or monthly basis based on load rather than consumption. Therefore during the adoption of the proposed tariff setting approach, these consumers need to be treated separately as proposed below:

#### **2.1 Treatment of agricultural consumers**

Agricultural consumers are significant in most states, forming 20% to 30% of the DISCOM's sales. Over the decades several mandates and directives to ensure metering for agriculture and reduce contribution of cross subsidy have been provided. However, due to socio-political realities this has been difficult to achieve in many states<sup>4</sup>. Some states have also initiated efforts to shift agricultural consumers to solar and significant changes in subsidy and demand will take place over time. While recognising the need to increase tariffs for agricultural consumers, it is also necessary to take cognizance of existing challenges. In this context it is suggested that:

- a. **Merging of categories in 3-5 years:** Proposed load and consumption based tariff approach should be applicable on agricultural consumers within 3-5 years in a phased wise manner with annual increments in tariff to reflect tariffs paid by other users in the relevant consumption bracket.
- b. **Annual treatment of consumption:** Agricultural consumption, unlike many other forms of use, is seasonal with consumption typically reducing during the monsoon months. Thus, the annual consumption if averaged over the months would be much lesser than the consumption in some months. Therefore, it

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<sup>4</sup> Rajasthan has reportedly increased the proportion of metered agricultural consumers in the recent past and Haryana DISCOMs manage agricultural supply through significant state subsidy (>Rs. 7000 crores/ year) rather than cross subsidy. However, such measures may not be possible in all states.

is suggested that the consumption slab applicable to agricultural consumers, as determined by SERCs based on normative consumption, be applied on an annual basis to ensure the consumers do not face a tariff shock and to ensure it that tariff design reflects the nature of consumption for these consumers. For example, the tariff design for agricultural consumers for the initial year can be as indicated below:

Load-based category	Consumption Slab	SERC tariff (Rs./kWh)
0-5 HP	0-1500 units/ year	3.5
	1501-3000 units/year	4.5
	> 3000 units/year	5.5
5.1-10 HP	0-1500 units/ year	4.5
	1501-5000 units/year	5.5
	> 5000 units/year	6.5

This can be revised in a three to five year period to reflect consumption slabs and load based categories for other consumers.

## 2.2 Treatment of non-agricultural unmetered consumers

Non-agricultural unmetered consumers, be it domestic, commercial or others, need to be subject to tariffs consequent to the consumption slabs they fall under. Thus, a rural unmetered domestic consumer with 500 W load in Uttar Pradesh who is assumed to consume 144 units/Kw/ month by the regulator, will have the monthly tariff applicable for a consumer with 0-2 kW load using 0-100 units per month. Even so, the state should ensure complementary measures to ensure metering for these consumers within 2 years.

## 3. Exemptions

The proposal also suggests that Electric Vehicles charging stations can have separate tariffs based on use rather than consumption. Such an exemption will not bode well as many other categories might also seek to be exempt. Exemptions based on use can thus be provided by SERCs for particular categories only for 2-3 years on a case to case basis. Special considerations for tariff reduction can also be made through subsidies.

## 4. Provision of rebates

The draft amendment also proposes to provide rebates to consumers at higher voltage levels. Instead of providing rebates, SERCs can separate wheeling charges from energy charges in the tariffs as done by MERC in Case No. 48 of 2016<sup>5</sup>. Such a system will reduce the applicable wheeling charges for consumers connected at higher voltage levels and ensure the energy charges are still linked to consumption.

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<sup>5</sup> For more details, please see Page 411 of the order available at:  
<http://www.mercindia.org.in/pdf/Order%2058%2042/Order-48%20of%202016-03112016.pdf>