Mahagenco and Mahadiscom Petition for True Up for FY 2009-10 & Annual Performance Review for FY 2010-11

Prayas Comments and suggestions

19th Oct 2011

Pune

Outline

- Background and context
- Quantum and reasons behind the claimed tariff increase
- Prayas comments and suggestions on various issues

Background

- Since Dec 2009 utilities had been made aware of process to be followed for developing new MYT regulations for the next control period and need for appropriate planning from their side
- Utilities sought postponement of new MYT control period by a year which was accepted by commission
- Almost a year was spent in consultations on new draft MYT regulations in which all utilities were involved
- MYT Regulations 2011 were notified on 4th February 2011

Approach towards MYT by utilities

- Business plans have not been submitted as per timelines in spite of advance notices
- Utilities have resorted to litigation demanding deferment of next MYT implementation while seeking interim relief
- Litigations have in fact caused delay in filing the present petitions
- Utilities should prepare Business plans as per the given formats and file MYT petitions
- Whatever difficulties they may have with the new MYT regulations can then be discussed and debated through the public process

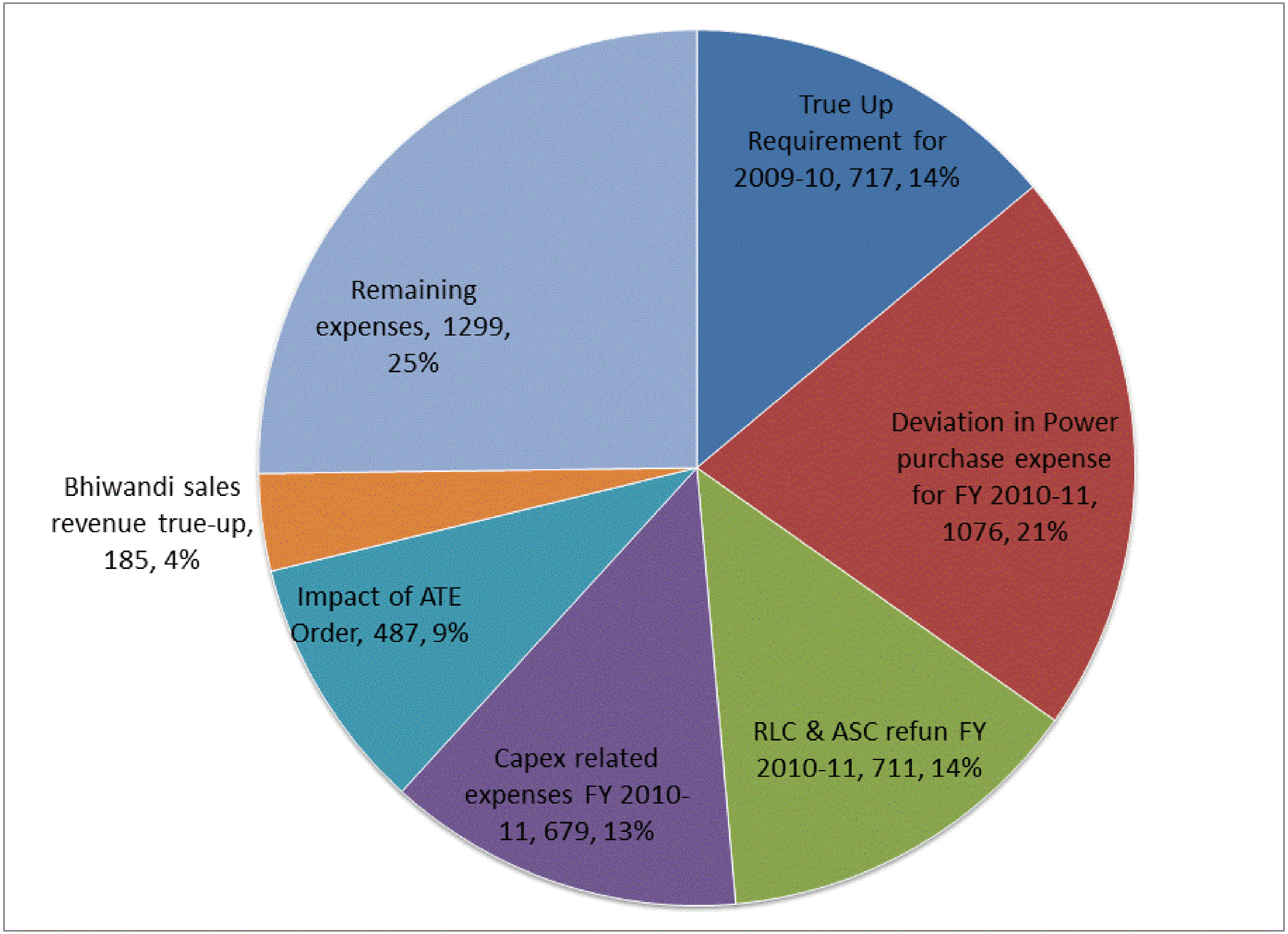
Total tariff increase being sought

Particulars	Amount in Rs Cr
Revenue gap claimed by MSPGCL	767
Revenue gap claimed by MSETCL	806
Revenue gap claimed by MSEDCL	5155
True-up for Paras Unit 3 and Parli Unit-6	718
Total increase sought	**7446**
Revenue approved by commission for FY 2010-11	**31997**

Tariff increase approved by commission since Sept 2010

Particulars	Amount in Rs Cr
Order dated 12th Sept 2010	909
Order dated 2nd Dec 2010	1136
Order dated 31st Mar 2011	433
Total tariff increase since Sept 2010	**2478**

Break-up of MSEDCL's claimed revenue gap



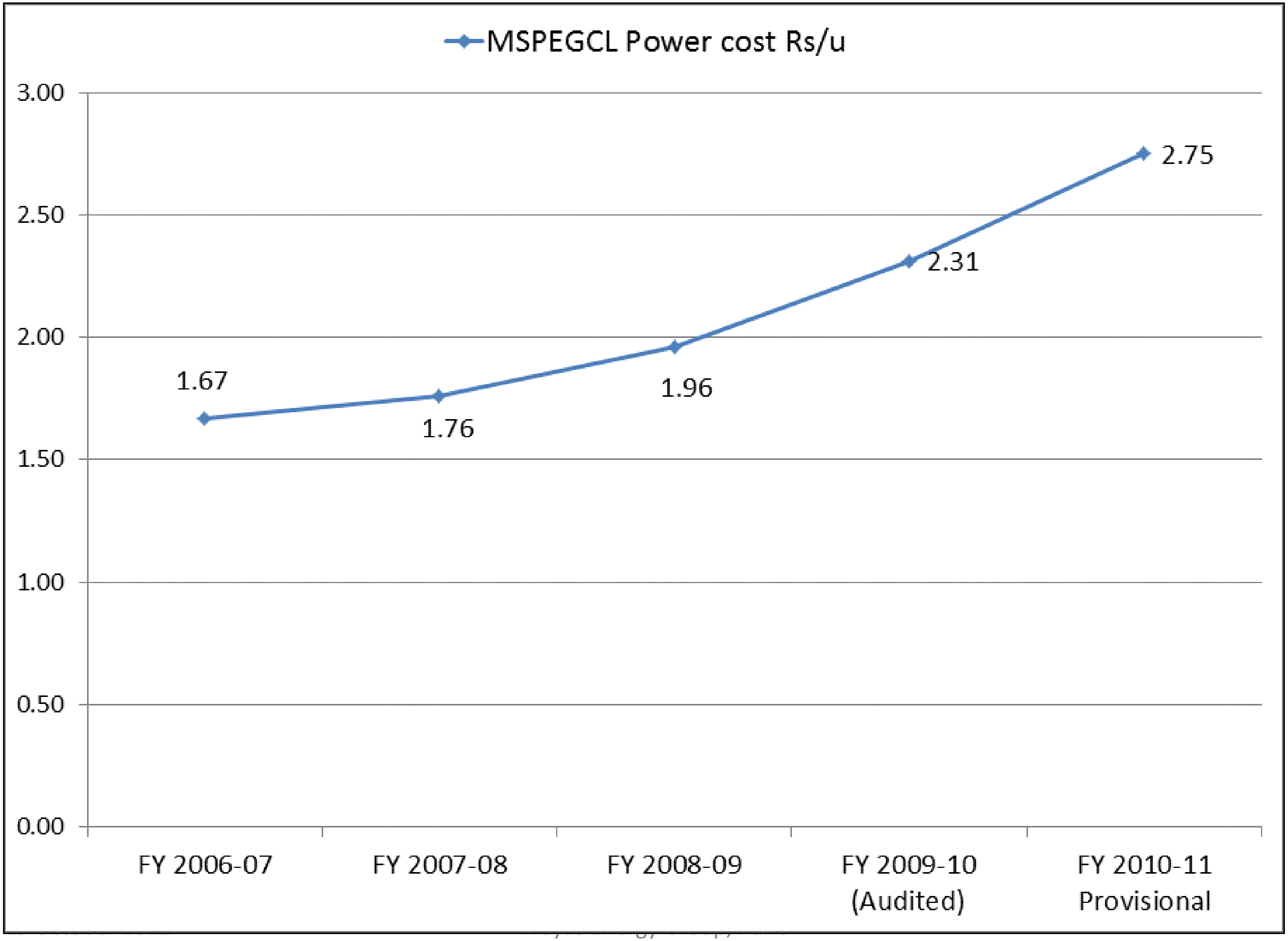
Reasons behind claimed tariff increase

- Inappropriate regulatory decisions
  - RLC refund issue
- Rising cost of generation
  - Reduced generation leading to increased per unit cost of MSPGCL
  - Poor/inadequate planning
  - Non- adherence to performance norms
- No loss sharing, all parameters treated as uncontrollable
- Lack of cooperation from utilities in achieving performance improvement
  - Repeated litigations

Inappropriate regulatory decision

- RLC amount was supposed to be refunded from efficiency gains
- However, RLC refund has become a major component of ARR
  - More than Rs. 1,000 Cr for FY 2009-10 and FY 2010-11
- Thus the decision of allowing refund of these amounts from ARR has imposed significant tariff burden on consumers

Rising cost of generation



Deteriorating performance

Plant load factor in %

Stations	FY 2008-09	FY 2009-10 (Audited actual)	Tariff order FY 2010-11	FY 2010-11 (Petition)
Bhusawal	73%	77%	80%	**63%**
Khaparkheda	86%	82%	82%	80%
Nasik	74%	73%	79%	**71%**
Parli	67%	71%	80%	**60%**
Koradi	63%	58%	74%	**59%**
Chandrapur	74%	76%	80%	**57%**

Station Heat Rates in kcal/kwh

Stations	FY 2009-10 Tariff order	FY 2009-10 Audited actual	FY 2010-11 Tariff order	FY 2010-11 Petition
Bhusawal	2784	**3013**	2734	**2844**
Khaparkheda	2862	**2612**	2560	**2658**
Nasik	2774	**3070**	2722	**2909**
Parli	2796	**3136**	2745	**3063**
Koradi	3015	**3344**	2965	**3217**
Chandrapur	2664	**2760**	2617	**2764**

Non-adherence to performance norms

- Performance norms for FY 2009-10 and FY 2010-11 were based on CPRI study
- Even then, the stipulated heat rate and PLF has not been adhered to
- Poor performance has resulted into shortfall of more than 11,000 MU* in approved generation for FY 2010-11 alone

* *Excluding generation of 2754 MU from Parli U3 and Paras U6 which was not considered by Commission while approving total Power Purchase quantum FY 2010-11 but it has been considered by MSEDCL. Including this, shortfall in approved generation is 8251 MU*

Implications for MSEDCL

- Increased hours of load shedding
- Increased costs on account of high cost power purchase:

  Excerpt from MSEDCL petition, section 3.7.5

  – *"The variation in the approved and the provisional power purchase expenses is mainly due to the fact that the generation from MSPGCL has reduced drastically.*
  – *"Because of this, MSEDCL has to procure power from other sources including, traders, Exchanges at higher rates. MSEDCL submits that additional procurement from Traders/UI and other sources has resulted in additional cost of Rs. 1076 Crs and the same is submitted for approval…"*

Inefficiencies of Discom

- Deviation from loss reduction target by 2.4% for FY 09-10
  - MERC Tariff order dated 12th Sept 2010 states: *"For FY 2009-10, for the purpose of provisional truing up, the distribution loss of 20.12% indicated in subsequent submission by MSEDCL has been considered, however,* ***the efficiency loss on this account has not been computed, and will be done at the time of final truing up****."*
  - Loss of ~1173MU because of 2.4% deviation in loss reduction target
  - Revenue loss of ~Rs.487 Cr (considering Average revenue realisation of Rs.4.15/u for FY 2009-10)
  - 2/3rd of this works out to be Rs. 326 Cr loss sharing proportion of MSEDCL which has not been accounted for
  - In fact all parameters have been treated as uncontrollable without any loss/gain sharing being proposed

Accountability related issues…1

- Insufficient details and justification
  - Petition claims increase in unmetered Agriculture sales of 8,476 MU during prevalence of large scale load shedding and on going load management schemes
  - Around 1 lakh unmetered connections have been claimed to be realized during the same period
  - Impact on distribution losses if any, needs to be assessed by the commission
  - Details such as slab wise consumer numbers and connected load are not provided in the petition

→Commission needs to clearly ascertain the facts and present clear analysis of the said claims in its order

Accountability related issues…2

- Zero load shedding model is supposed to be revenue neutral but prima-facie there seems to be a difference of Rs. 368 Cr between power purchase and revenue for FY 10-11
- In case the issue is related to refund to be made to consumers, the same should be resolved in expeditious manner
- In FY 2009-10 true-up includes Rs.172 Cr resulting on account of gap between State Government promised support of Rs. 400 Cr for power purchase expense and actual support provided of 228 Cr
- This difference cannot be passed through to consumers and government should be made accountable for its decisions

Accountability of capital expenditure and infrastructure plan implementation

- No quantification/details of targeted loss reduction or performance improvement vis-a-vie actual benefit achieved from capital expenditure has been provided
- Petition merely states supposed benefits of various schemes without giving real numbers
- If any cost-benefit analysis has been separately submitted to Commission the same should be made public immediately
- Commission should evalute all capex related expenditures on the grounds of actual benefits and not supposed benefits
- Any cost benefit analysis assumed or accepted by the commission should be clearly explained in the order

Ceiling on Fuel Adjustment Cost (FAC)

- FAC provision was made to pass on non-controllable and non-estimable costs
- It should not distort existing tariff and hence the cross-subsidy structure
- It should only reflect costs on account of variation in fuel price and not high cost power purchase arising out of inadequate planning
- Hence, ceiling on FAC is essential as it is an automatic pass through
- In fact, care needs to be taken that no costs of inefficiency are being passed through this mechanism

Issue of cross-subsidy

- Energy charge of domestic consumers in slab of 0-100 unit per month proposed to be increased from Rs. 2.84 /unit to Rs. 4.00 /unit
- Rebate in energy charge to HT Industrial consumers proposed to be increased from existing level Rs. 0.85 /unit to Rs. 2.50 /unit
- Such abrupt change is cross-subsidy structure is neither just nor desirable
- MSEDCL should also explain this sudden ‘U’ turn in its tariff philosophy

Need for LT general purpose tariff category…1

- To address issues of cross-subsidy as well as fairness and affordability commission should create single “LT general purpose” tariff category merging current LT domestic and non-domestic categories
- ABR of merged category should be revenue neutral for discom but tariff should be telescopic
- This will reduce number of sub-categories within LT segment
- Can be a step towards the direction envisaged in National Tariff Policy of volt based consumer tariffs

Need for LT general purpose tariff category…2

- There can be say, four basic slabs:
  - 0-100, 101-200, 201-300 and greater than 300 units per month
- 0-100 slab should have lowest tariff to take care of minimum consumptions needs at affordable rates
- Tariffs of progressive slabs should be higher with highest for slab of 300 and above
- Such tariff structure will protect small consumers from harassment arising out issues of unauthorized usage
- Ensure power availability at affordable rates for essential consumption
- Give appropriate tariff signals to bigger consumers
- Mechanism is revenue neutral for discom

Need for clear and unambiguous tariff order addressing all issues and concerns

- Lot of confusion with multiple claims and various ongoing litigations
- Some crucial details are missing or sufficient explanations have not been provided
- In some cases new assumptions have been made or there is reliance on facts which are not part of the current petition
- Given this situation, Commission should take explicit effort to demystify the tariff proposals and bring out the facts and its decisions in very clear and unambiguous manner so as to adequately address all issues and concerns

Thank you!