

CHAPTER-10

NEW PROPOSALS

1. **Existing Special Incentive Scheme:**

In the Tariff Order 2018, Hon'ble Commission has approved a Special Incentive Scheme to HT-1, HT-2a, HT-2b and HT-2c consumers. The term of the scheme is upto 31st March 2020.

MESCOM has induced all the above stated HT consumers explaining the benefits of the scheme. As at the end of October-2019, 173 consumers have opted to the scheme. Additional consumption over & above the base consumption recorded by these consumers in one year is about 21.12 lakhs. Total financial benefit gain by these consumers in one year is about Rs.9.50 Cr.

In the Tariff Order 2019, Hon'ble Commission directed MESCOM to take up an intensive campaign to encourage more consumers to opt for the scheme. In compliance to this direction, MESCOM has conducted circle wise exclusive interaction meetings with the HT consumers on 14th(Mangaluru Circle), 15th (Udupi Circle) 17th (Shimoga Circle) and 18th(Chikkamangaluru Circle) of October-2019. After these meetings, 5 consumers (3 in Shimoga Circle & 2 in Mangaluru Circle) have registered applications seeking to extend special incentive scheme. In the coming months, it is anticipated that some more HT consumers will come forward to opt the scheme.

As such, considering the increase in day-off peak consumption in respect of opted consumers, **it may be appropriate to continue the scheme for one more year i.e., upto 31st March 2021.**

2. Monsoon Period Incentive Scheme for HT industrial consumers:

Preamble:

- (1) The State is having surplus power during monsoon period due to penetration of more Renewable Energy into the Grid. The RE power has must run stature & doesn't come under Merit order dispatch. To off-take the RE Power, the thermal stations having higher variable cost is backed down & kept under Reserve Shut Down(RSD).
- (2) Hitherto surplus power was traded in Indian Energy Exchange (IEX). Due to depletion of rates in IEX, the quantum put to bid is not cleared and revenue from sale of power in IEX is not up to the expected level.
- (3) Hence, MESCOM is proposing an incentive scheme for HT industrial consumers for the monsoon period from Jul-20 to Sep-20, initially. Continuing the scheme for further period will be looked into depending upon the experience gathered in the financial year FY-21.

Proposal:

- (1) In the last four years energy sourced by MESCOM consumers from wheeling & banking arrangements and IEX are as indicated below;

| Year | Captive Consumers | | Non-Captive Consumers | | Open Access Consumers | | Total | |
|-------|-------------------|--------|-----------------------|-------|-----------------------|--------|-------|--------|
| | No. | MU | No. | MU | No. | MU | No. | MU |
| FY 15 | 6 | 13.04 | 5 | 14.73 | 4 | 30.48 | 15 | 58.25 |
| FY 16 | 6 | 17.17 | 8 | 23.01 | 4 | 61.08 | 18 | 101.26 |
| FY 17 | 12 | 44.77 | 9 | 37.96 | 12 | 197.80 | 33 | 280.53 |
| FY 18 | 18 | 67.91 | 21 | 55.18 | 17 | 214.77 | 56 | 337.86 |
| FY 19 | 26 | 168.39 | 40 | 97.69 | 20 | 107.23 | 86 | 373.31 |

- (2) All the captive consumers and non-captive consumers are sourcing power from renewable energy sources. Since renewable generators could have absorbing the additional Cross subsidy surcharge levied to the consumers and offer prices lower than MESCOM tariff, it may be difficult to dissociate the consumers under wheeling & banking arrangements from their contracts with the RE generators. But the consumers who are sourcing part of their energy requirement from IEX can be induced to come out of IEX sources by offering a discounted tariff that may be lesser than the landed cost of power from IEX.

- (3) In the months of July-19, August-19 and September-19, the cleared minimum prices per unit in IEX are Rs.3.60, Rs.3.50 and Rs.3.30, respectively. If Rs.3.60 / unit are considered then the landed cost of power would be Rs.6.21 per unit.

$$\begin{aligned} \text{IEX Price} + \text{T\&D Loss} + \text{CSS} + \text{AS} &= \text{Landed Price} \\ \text{Rs.3.60} + \text{Rs.0.29} + \text{Rs.1.72} + \text{Rs.0.60} &= \text{Rs.6.21} \end{aligned}$$

- (4) The proportion of IEX consumption, in the total consumption of HT-2a consumers, in the months of Jul-19, Aug-19 and Sep-19 is 17.06%. Highest being 24.24% in Jul-19.

| Month | Total HT-2a consumption (MU) | Open Access Consumption (MU) | Proportion of Open Access Consumption (%) |
|--------------|------------------------------|------------------------------|---|
| Jul-19 | 47.78 | 11.58 | 24.24% |
| Aug-19 | 51.30 | 10.36 | 20.19% |
| Sep-19 | 51.77 | 3.79 | 7.32% |
| Total | 150.85 | 25.73 | 17.06% |

- (5) In case, the HT industrial consumers are offered a tariff lesser than the landed price of IEX i.e. Rs.6.21 / unit, then there may be possibilities that consumers sourcing power from IEX may switch over to use MESCOM grid consumption.

However, there should be condition that when the consumers opted to utilize such discounted price they should not source power from IEX in the period from July to September and there consumption should be at least 15% more than what has consumed in the 2nd Qtr of previous year i.e., from Jul to Sep. Even in case of non-compliance of one of these conditions, would render them not eligible for the benefit under the scheme. These conditions are required to make good the revenue losses on account of discounted tariff.

Note: For the sake of clarity, it is to mention here that in the DCB of the Company Jul, Aug and Sep consumptions are being reflected in the months of Aug, Sep and Oct since the consumption of a particular month is captured on the 1st day of subsequent month.

(6) Now, the issue is up to what range the tariff is to be discounted for HT industrial consumers. In this regard, the following working are submitted;

ARR in respect of HT industrial consumers in FY-19

| Energy Consumption | Demand Charges | Energy Charges | Total |
|--------------------|----------------|----------------|--------------|
| 624.76 | 78.54 | 426.39 | 504.93 |
| | Rs.1.26/unit | Rs.6.82/unit | Rs.8.08/unit |

It can be observed that Rs.1.26 / unit of demand charges are being collected from HT industrial consumers and they will be continued to be collected since the consumer is required to pay the demand charges irrespective of whether they are using MESCOM power or not. Hence, it is relevant to compare only the energy charges with that of landed power price. As such, the difference in cost between the landed cost of IEX power and MESCOM rate of realization will be;

- (a) Average Energy Charges / unit : Rs.6.82
- (b) Landed price of IEX power / unit : Rs.6.21
- Discount (a-b) / unit : Rs.0.61

Since the offer of the scheme is to provide power in the price lower than the landed price of IEX, the discount rate may be fixed at Rs.0.70 / unit.

(7) The financials of the scheme with reference to FY-19 position would be as below;

Current billing of the consumption during the period Jul-18 to Sep-18 is;

| Energy Consumption | Demand Charges | Energy Charges | Total |
|--------------------|----------------|----------------|--------|
| 150.85 | 19.01 | 102.88 | 121.89 |

In case the entire IEX consumption of 25.73 MU (Jul-19 to Sep-19 consumption) is sourced from MESCOM grid, then the MESCOM revenue would have been as below;

| Energy Consumption | Demand Charges | Energy Charges | Total |
|--------------------|----------------|----------------|--------|
| 150.85 | 19.01 | 102.88 | 121.89 |
| 25.73 | - | 17.55 | 17.55 |
| 176.58 | 19.01 | 120.43 | 139.44 |

Accordingly, revenue loss suffered by MESCOM due to non-consumption of MESCOM energy will be Rs.17.55 Cr.

If a discounted rate of Rs.6.12 / unit is given with the condition that at least 15% additional consumption has to be made with reference to 2nd Qtr of previous year and even if it assumed that in the 2nd Qtr of previous year the consumption will remain 150.85 MU only, then also the revenue would be Rs.125.18 Cr (for 173.48 MU i.e. 150.85+15%). As such, it may be construed that even after giving the power at the discounted rate of Rs.6.12 / unit, MESCOM would have gain additional revenue of Rs.3.29 Cr.

3. Increase in Demand Charges for HT industrial consumers:

In the Tariff Order-2016, Hon’ble Commission has emphatically took a view to increase fixed / demand charges consequent to steady increase in fixed charges to the electricity supply companies. Further, the proposed amendments to Tariff Policy, 2018 has also felt the concerns of electricity supply companies and mooted to incorporate the same in the Tariff Policy as below;

“In order to reflect the actual share of fixed cost in the revenue requirement of Distribution Licensees, there is need to enhance recovery through fixed charges. The fixed charge shall be so set that it leads to recovery of at least 50% of the fixed costs in case of Domestic and Agriculture categories and at least 75% recovery of fixed costs in case of other categories progressively over next three years. The SERCs and JERCs shall lay down a roadmap to achieve the same.”

However, status of recovery of fixed costs in FY-19 reveals the following position;

| Activity | Total fixed costs to be incurred (Rs.in Cr) |
|--|---|
| Generation | 323.79 |
| KPTCL Transmission including SLDC Charges | 228.05 |
| PGCIL Transmission Charges | 156.50 |
| O&M costs | 558.38 |
| Depreciation | 125.69 |
| Interest & Finance costs | 132.64 |
| Total: | 1525.05 |
| Total fixed / demand charges collected: | 375.40 |
| % | 24.62% |

With reference to the proposed ARR for FY-21, the status would be as follows;

| Activity | Total fixed costs to be incurred (Rs.in Cr) |
|---|---|
| Generation | 775.36 |
| KPTCL Transmission including SLDC Charges | 272.96 |
| PGCIL Transmission Charges | 192.92 |
| O&M costs | 715.51 |
| Depreciation | 162.74 |
| Interest & Finance costs | 266.22 |
| Total: | 2385.71 |
| Total fixed / demand charges estimated to be collected at existing tariff: | 453.09 |
| % | 18.99% |

The above position reveals that the fixed / demand charges being charged by MESCOM is not reflective of the actual fixed charges being incurred. It amounts to only 20-25%. Thus the concerns reflected in the amendments to tariff policy regarding the recovery of fixed charges needs to be rationalized further.

Hence, MESCOM proposes to adopt three tier demand charges structures initially for HT-2a installations so that the installations with higher contract demand fetch the higher demand charges. On the other hand the variable energy charges may be lesser for the installations with higher contract demand. Since most of the 1MW & consumers are opting to source their partial power requirement through wheeling & banking arrangements and IEX, such a tiered demand charges structure will save MESCOM from financial losses to considerable extent. The same kind of structure exists in DGVCL of Gujarat.

As such, in line with the structure adopted in DGVCL, MESCOM proposes the demand charges for HT industrial installations as below and it is also proposed to reduce the energy charges by about 55 paise per unit.

| | | |
|-----|--|-----|
| (a) | For first 500 kVA of billing demand | 210 |
| (b) | For next 500 kVA of billing demand | 310 |
| (c) | For billing demand in excess of 1000 kVA | 410 |

The impact will be as below;

- As per Tariff Order 2019, Tariff Schedule in respect of HT industrial installations (HT-2a) category is;
 - (i) Demand charges Rs.210/ kVA of billing demand.
 - (ii) Energy Charges Rs.6.95 / unit for first 100000 units and Rs.7.20/ unit for rest of the consumption.
- With the above tariff schedule, the demand charges and energy charges estimated to be recovered in respect of HT-2a category, for 685.91 MU, has been estimated as below;

| | |
|----------------|--|
| Demand Charges | : Rs.107.47 Cr (Rs.1.57 / unit) |
| Energy Charges | : Rs.481.84 Cr (Rs.7.02 / unit) |
| Total | : Rs.589.31 Cr (Rs.8.59 / unit) |

- In case, the demand charges as proposed above is considered and the energy Charges Rs.6.40 / unit for first 100000 units and Rs.6.70/ unit for rest of the consumption is applied then the position would be as below;

| | |
|----------------|--|
| Demand Charges | : Rs.140.73 Cr (Rs.2.10 / unit) |
| Energy Charges | : Rs.448.58 Cr (Rs.6.49 / unit) |
| Total | : Rs.589.31 Cr (Rs.8.59 / unit) |

Hence, Hon'ble Commission is requested to consider to approve three tier demand charges structure for HT-2a installations and also to reduce the energy charges as proposed above. Detailed calculations are given in Format D-21.

4. Tariff classification required for certain category of installations:

In respect of HT-2c tariff category:

After HT-2c tariff schedule under “*Note Applicable to HT-2(a), HT-2(b) & HT-2(c) tariff schedule*”, Sl.No.1 reads as follows;

Energy supplied may be utilized for all purposes associated with the working of the installation such as offices, stores, canteens, yard lighting water pumping and advertisement within the premises.

However, it is observed that in most of the premises of educational institutions and hospitals banks and ATMs exists and they are not under the control of the respective educational institutions or hospitals. Their working arrangement is also on par with the bank branches / ATMs working anywhere, including the charges applicable to them. In spite of this fact, for the reasons that they are in the premises of educational institutions / hospitals, they are enjoying as per the tariff schedule HT-2c, otherwise they are to be charged as per tariff schedule HT-2b.

Hence, it will be in the financial interests of the ESCOMs, if sub meters are provided to such of the installations of banks / ATMs (if not already provided) in the premises of educational institutions / hospitals and charge them under HT-2b tariff.

Hence, it is proposed to amend the above stated note under Sl.No.1 as below;

Energy supplied may be utilized for all purposes associated with the working of the installation such as offices, stores, canteens, yard lighting water pumping and advertisement within the premises. However, the installations of banks / ATMs in the premises of such installations are to be charged under HT-2b tariff schedule with reference to the consumption recorded in the sub meter of such installations (only energy charges) duly deducting such consumption recorded in the main HT meter.

In respect of HT-2a / LT-5 tariff category:

Bulk Ice Cream & Ice manufacturing units and Cold Storage plants are being classified under HT-2a and LT-5 tariff categories. In this regard, it is observed that several installations are utilizing cold storage facility exclusively for storing the ice creams (which is procured from the manufacturer of ice creams) for commercial purpose i.e. for retail sale.

Hence, it may be appropriate to classify such of the installations which are exclusively using power for storing the ice creams (which is procured from the manufacturers of ice creams) for commercial purpose i.e. for retail sale under HT-2b / LT-3 tariff category.

In respect of LT-4 tariff category:

Under the Tariff Schedule LT-4, the description of the tariff category includes 'Nurseries of forest and Horticultural Departments'. However, under the sub classifications of LT-4(c)(i) and LT-4(c)(ii), the same has not been included.

Hence, Hon'ble Commission is requested to include the category 'Nurseries of forest and Horticultural Departments' under the sub classifications LT-4(c)(i) and LT-4(c)(ii).

In respect of LT-5 tariff category:

There is no specific classification for ‘Ginger Cleaning Units’. Majority of the units are using pump sets of capacity above 10 HP for pumping the water for cleaning of ginger grown on the fields. Since it is nothing but processing of the products for further commercial purpose, it can be classified under LT-5 tariff category.

Hence, Hon’ble Commission is requested to include the category ‘*exclusive ginger cleaning units*’ under tariff category LT-5.

In respect of LT-2(b) tariff category:

There is no specific classification for the Day care centres / baby sittings / nursery schools / preschools under the Tariff Schedule. Since the activities of these installations are similar to private educational institutions, they may be classified under LT-2b tariff category.

Hence, Hon’ble Commission is requested to include the category ‘*Day care centres / baby sittings / nursery schools / preschools*’ under tariff category LT-2b.

In respect of LT-6(a) and HT-1:

There is no specific classification for the installations relating to dams / anicuts where the power supply is required to opening and closing of gates to arrange flow of water to channels & supply units for irrigation and drinking purposes. Since the activity of these installations may be classified as ‘water supply’ the same may be included in LT-6(a) for LT connections and HT-1 for HT connections.

Hence, Hon’ble Commission is requested to include the category ‘*gate opening / closing arrangements in dams / anicuts for arranging flow of water to channels and supply units*’ under tariff category LT-6(a) and HT-1.

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