M.S.E.R.C
MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION
SHILLONG

BEFORE THE MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION
SHILLONG

TARIFF (D) APPLICATION No 1/2007

In the matter of

The Meghalaya State Electricity Board

And

In the matter of

An Application for determination of the Distribution Tariff for 2007-08

Present : Mr. Vinay Kohli
Chairman, Meghalaya State Electricity Regulatory Commission

Date of the Order : 17.12.2007.

0 R D E R

The Meghalaya State Electricity Board, a deemed licensee under the Electricity Act, 2003, filed an application for determination of the Distribution Tariff for 2007-08 before the Meghalaya State Electricity Regulatory Commission as required under the provisions of the Act. The application filed in June 2007 proposed an Annual Revenue Requirement (ARR) of Rs 443.07 crores. On scrutinising the application the Commission felt that some additional details were required and the Board was directed to make these available. The response of the Board was received on 16.08.2007 and the MeSEB was directed to publish a summary of its tariff proposal. An advertisement to this effect appeared in the Shillong Times, U Mawphor and Salantini Janera on 18.09.2007. Views, comments and suggestions from persons interested in the tariff application were sought within the stipulated thirty days time period.

2. A total of 10 responses were received. These are appended to this Order and marked as Annexure A to Annexure J. The Commission considered the responses so received vis-à-vis the tariff application of the Board. The Advisory Committee, a statutory body under the Act, also had the opportunity to discuss the application of the Board. A copy of the minutes recorded in this regard is at Annexure K.

3. On 21.11.2007 a public hearing was held at which the Board clarified their position on various aspects relating to the proposed revision of the distribution tariff for the year(Annexure L). The views expressed by members of the public present in the hearing were noted and these along with the views of the Board formally presented at the hearing, were taken into consideration by the Commission for the purpose of determining the tariff.

4. In their tariff application to the Commission the Board claimed that there is an increasing gap between the revenue earnings of the Board and the cost of supplying electricity to consumers in the State. This had made their operations commercially and financially unviable. The Electricity Act provides for the Commission to make an assessment of the Annual Revenue Requirement and determine the tariff to meet the revenue gap The Board's tariff proposal to the Commission was based on this premise.

5. The primary issue raised in almost all representations to the Commission related to the unusually high increase in the tariff proposed by the Board. (The table at Annexure M may be referred to.) Increases ranging from 90 to 111% were felt to be unreasonable and the proposal for the introduction of a fixed charge for domestic LT consumers was resented.

6. In their response the Board clarified that the Act requires that there be a two part tariff to reflect the fixed and variable cost elements involved in power supply. This principle was already in vogue for other categories of consumers and is equally valid for

Domestic LT consumers. As for the proposed increase in tariff, the MeSEB held that this was caused by successive poor monsoons resulting in poor generation. The quantum of power required for meeting the demand meant purchasing electricity from generating facilities outside the state at high cost. The tariff proposed by the Board was only reflective of this reality.

7. The point about extra high voltage industrial consumers not being subjected to a demand charge and the tariff for supply of electricity to this category of consumers being relatively low was taken up in some of the responses. The MeSEB's view was that the existing power tariff for this category was so far subject to a formal agreement, due to expire in December this year. The Commission could take this factor into consideration while determining the tariff for this consumer category.

8. Several representations, verbal as well as in writing referred to the low power generation and the excessive T&D and AT&C losses incurred by the Board. A specific reference was also made to misleading reports in the media about T&D losses. The Board in its response clarified that the low generation in the past two years was caused by inadequate rainfall. As for the T&D and AT&C losses, the Board stated that they have since chalked out a programme to reduce these losses for the period from 2006 to 2012. A copy of the programme to which the Board is committed is at Annexure N.

9. References were also made to the fact that the figures presented to the Commission had not been subjected to audit. The Board responded that at the time when the application was made this was not the case. The figures have since been authenticated.

10. The Public Health Engineering Department made a specific representation about the proposed tariff to be applied to their water supply operation. They felt that the proposed rates were high and did not taken into account the fact that the department supplies water as a public service mostly free of cost. The Department placed comparative data before the Commission about tariff in other states and asked for relief

11. On behalf of defence establishments it was stated that they were receiving bulk supply from the Board and apart from meeting the needs of vital defence installations, subsidised electricity was also being supplied to designated consumers in accordance with the instructions of the Defence Ministry. Raising the tariff could seriously disturb their budgetary allocation. Since the MeSEB has no responsibility for establishing a distribution network in the cantonment and defence establishments, a lower rate of tariff should be prescribed.

12. References were made to the high cost of manpower in the Board. It was pointed out that a comparative analysis would not be very flattering for the MeSEB. The Board in their response pointed out that data obtained from other states showed that the MeSEB's performance was about average. They were certainly not among the worst performers in this regard. Annexure O was provided by the Board to substantiate their stand.

13. The overall appeal of the public was directed at the need to improve all areas of performance. The Board's operations reflected unacceptable levels of inefficiency. The only way to secure a fair deal for the consumers was for the Board to make a sustained effort to increase generation, control manpower cost, reduce commercial and transmission and distribution loss and, in the final analysis, increase generation capacity. The expectation was that the Commission would hold the Board accountable in this regard and ensure that there is a visible improvement on the performance of this vital public utility.

14. The approach of the Commission to the proposal of the Meghalaya State Electricity Board's tariff revision application was to first scrutinise the projected Annual Revenue Requirement (Annexure 1). The most important element of cost was the projected provision for purchase of power. The forecast of production during the current year showed an increase of 212.50 MU over the previous year. The Commission however felt that a revised figure based on what is now a visible improvement in rainfall during the year was necessary. The updated projection provided by the Board is reflective of the already achieved generation performance and is therefore credible and likely to be achieved. As a result, against an earlier estimated procurement cost of Rs. 224.56 crores

the new cost would be Rs. 146.87 crores. The reduction is on account of the reduced need to procure power at market prices. (The Table at Annexure 2 reveals the details.)

15. While this year the weather has played a large and beneficial part in trimming the cost of procurement of electricity, the need for long term stability cannot be over emphasised. The recently announced Power Policy of the Government seeks to partially address this issue. A note of caution that the Commission would nevertheless like to sound relates to the need to control cost. New projects, both in the private and public sectors, should be competitively awarded and must have inbuilt mechanisms to enforce strict time and cost discipline. Effective project management tools must be employed to avoid runaway cost escalation.

16. The interest and finance charges projected in the ARR have been fixed at Rs 55.57 crores. This includes liabilities built up over a period of time. In view of the fact that there has been considerable delay in unbundling the MeSEB as per the Act, the financial restructuring that would normally have absorbed this element of liability is still a burden on the Board. They have now sought to transfer this to the consumers. The Commission felt that this could be avoided. The Government was requested to absorb the interest burden for the current year pending imminent restructuring of the Board. In the absence of a response the Commission has no alternative but to retain this figure in the ARR.

17. The other charges included in the ARR seem to be inevitable although the cost of manpower has rightly been identified by many critics to be excessive, especially in relation to the low generation figure projected by the Board. The comparative figures of manpower cost obtaining in others states also do not flatter the Board’s performance in this regard. The Commission, however recognises the inevitability of retaining this cost in the ARR except for the element directly relatable to terminal benefits on account of retired employees. The experience in other states has been that whenever Electricity Boards have been restructured the financial burden on account of terminal benefits has been assumed by the State Government. The Commission urges the Government of Meghalaya to also consider a similar step in this regard. The amount involved is Rs. 20.07 crores.

18. The impact of T&D and AT&C losses has not been separately shown in the ARR. Nevertheless these losses need to be kept under control. Since the Board is already aware of their poor performance in this regard and is committed to an ambitious phased programme of reducing these losses (Annexure N), the Commission does not wish to labour this point further. The Commission will however expect strict compliance with the annual targets and will expect details of progress made at the next tariff determination exercise.

19. There does not appear to be any scope for adjusting figures that constitute statutory or inevitable liabilities. A detailed review however of the Board's performance has revealed that there is a sum of Rs. 65 crores due to the Board on account of electricity supplied to different Government Departments and Institutions. Government must find ways and means of replenishing this amount immediately. If necessary budgetary adjustments may be resorted to. The Board should take this matter seriously and should provide detailed information in this connection so that the recovery can be expedited. Consumers cannot be expected to assume responsibility for meeting the shortfall in this regard.

20. A further amount of Rs.10.80 crores has been reduced from the ARR after the Board confirmed that this grant, meant to subsidise rural electrification was not taken into account in the proposed ARR.

21. An amount of Rs. 28.28 crores representing the element of return on equity due to the Board at the rate 14% is permitted to be added to the ARR. Rs 40.28 crores claimed as return on investment by the Board is found to be excessive and is disallowed. The final computed figure of Rs 277.60 crores is therefore the Annual Revenue Requirement that needs to be recovered through an appropriate revision in the tariff.

22. The principal challenge in determining tariff for different categories of consumers stems from the fact that the MeSEB has so far not been reformed on the lines contemplated in the Electricity Act, 2003. It is expected that once generation, transmission and distribution operations are isolated, the ARR at each stage would be

based on authenticated cost data that could be directly ascribed to each activity. In the present scheme of things the cumulative costs involved in the Board's vertically integrated operations reflected in the ARR needs to be recovered through tariff. The more complex task of determining costs incurred in maintaining supplies to each category of consumers and identifying cross subsidies may need to remain pending until more detailed micro level data is generated. This can happen once distribution becomes the sole responsibility of a separate entity. At this stage the principle that the Commission has had to adopt is to maintain the existing differential rates of tariff for each consumer category and introduce/rationalise the demand/fixed charge required to be levied in pursuance of the need for a two part tariff. In building up the revised tariff structure a revenue surplus of Rs 25.19 crores has been generated. This amount will be kept by the Board in a separate reserve fund to be used in consultation with the Commission to cushion any shock to the cost of procuring power on account of shortfalls in generation occurring in the future.

23. The miscellaneous charges contained in the tariff proposal of the Board do not relate to the ARR. The Board is therefore advised to follow the rates prescribed in the Act and the Regulations framed by the Commission. For those items that require the Commission's approval, separate references with appropriate justification may be made.

23. The final tariff for the year 2007-08 determined by the Commission for all categories of consumers is at Tables I to III. The Meghalaya State Electricity Board will apply these rates with effect from the next billing cycle. The prescribed rates will remain valid until next revised by the Commission.

Vinay Kohli
Chairman