

## CHAPTER-10

### NEW PROPOSALS

#### 1. Proposal to increase Demand charges for HT consumers:

Increased Open Access / wheeling & banking transactions by the HT consumers are substantially impacting the finances of ESCOMs. The prime issues that are coming up in the course of operationalization of Open Access / wheeling & banking transactions as below;

- Frequent shifting of Open Access consumers: Due to this it is unable to manage power procurement efficiently.
- Cross Subsidy Surcharge: CSS determined by the Hon'ble Commission is insufficient to recover the entire loss of cross subsidy.
- Group captive consumers: The number of group captive consumers is increased over the years. The group captive consumers are exempted from paying cross subsidy surcharge and additional surcharge. The actual consumption by each of the captive user is only calculated at the end of the year. Even if the captive user does not comply with the conditions of group captive he enjoys the benefit till the end of year. This results in financial loss to the Company.

Although two part tariff has been introduced, the structuring of fixed and variable components of tariff is not reflective of the actual proportion of fixed and variable cost liability. As the fixed/demand charges is substantially less and energy charges is more, many HT Consumers are moving away from grid and opting for Open Access.

Under the two-part tariff mechanism, the total expenditure of distribution company can be divided into two parts viz., Fixed Cost and Variable Cost. The Marginal Costing principles which envisage two part cost bifurcation envisages recovery of fixed cost in full at the first instance (which is termed as contribution) followed by recovery of variable cost. Accordingly, the loss area, break-even point, profit area and margin of safety are computed to ascertain the performance and its impact.

The Fixed expenditure of MESCOM is contributing 57% of the total cost and Variable expenditure contributing 43% of the total cost.

Breakup of Fixed and variable charges approved and actual as per accounts for FY21 is tabulated below:

Particulars	Approved			Actual		
	Fixed	Variable	Total	Fixed	Variable	Total
Generation	737.05	1851.50	2588.55	790.90	1779.21	2570.11
Transmission	538.61		538.61	538.69		538.69
Distribution	884.17		884.17	1014.32		1014.32
Total	2159.83	1851.50	4011.33	2343.91	1779.21	4123.12
Sales in MU			5265.65			5051.39
Composition per unit cost (Rs./Unit)	<b>4.10</b>	<b>3.52</b>	<b>7.62</b>	<b>4.64</b>	<b>3.52</b>	<b>8.16</b>
	<b>54%</b>	<b>46%</b>	<b>100%</b>	<b>57%</b>	<b>43%</b>	<b>100%</b>

The revenue realization through retail power tariff should have been in the above proportion. However, the Revenue earned by BESCO (based on approved tariff) from tariff comprise of Fixed cost recovery at 13% and Variable cost collected is 87% of the total receipt.

Breakup of fixed/demand charges and Energy charges received for FY-20 is tabulated below:

Particulars	Rs.in Cr.		
	Fixed / Demand Charges	Variable Charges	Total
LT consumers	314.66	2329.47	2644.13
HT consumers	170.18	730.70	900.88
Misc.,	-	104.86	104.86
Total	484.84	3165.03	3649.87
	13%	87%	

Since the contribution of fixed charges is only 13% of the average realization rate the balance i.e. 44% (57%-13%) is concealed in the energy charges. Hence, the energy charge seems to be on a higher side. This is foremost reason for tapping HT consumers by generators. If the Demand/Fixed charges which is masked in the energy charges are separated then the variable cost can be reduced. Hence, it is proposed for increasing the fixed charges for HT consumers.

Change in the approved sales mix also affects the cross subsidy level. If there is any reduction in sales under HT tariff, loss on account of fixed charges is at the larger extent and this will further worsen the cross subsidy level.

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 100% of the fixed costs of Distribution Licensees.

The above concern of BESCO is also highlighted in the recently issued Draft Amendments to Tariff Policy, 2018, which reads 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.”*

Increasing tariff by increasing energy charges instead of fixed/ demand charges would result into steep fluctuations in revenue with varying consumption over time. It would also affect MESCO ability to meet the fixed charges obligation.

Position of recovery of fixed charges and energy charges for FY21 as per tariff schedule approved in TO-2020 is detailed in the below table;

Tariff	No. of Consumers	Load in KVA/HP	MU	Rate /kVA/HP	Rs. in Cr.			Rs./unit		
					Demand Charges	Energy Charges	Total	ARR	Energy Charges /unit	
HT-1	121	28894	100.79	220	6.78	55.94	62.72	6.22	5.55	
HT2a	993	393686	550.54	220	96.37	404.84	501.21	9.10	7.35	
HT2b	806	131498	140.44	240	34.87	127.17	162.04	11.54	9.06	
HT2c	323	72287	89.81	220	17.70	72.41	90.11	10.03	8.06	
HT-3	34	140357	95.59		24.15	29.67	53.82	5.63	3.10	
HT-4	67	10742	20.73	140	1.70	14.51	16.21	7.82	7.00	
HT-5	19	4761	2.29	275	1.71	2.54	4.25	18.56	11.09	
<b>Total</b>	<b>2363</b>	<b>782225</b>	<b>1000.19</b>		<b>183.28</b>	<b>707.08</b>	<b>890.36</b>	<b>8.90</b>	<b>7.07</b>	
<b>% of recovery of Fixed and Energy Charges</b>					<b>21%</b>	<b>79%</b>	<b>100%</b>			

Expected revenue proposition of fixed charges (57%) and energy charges (43%) as per actual expenditure incurred is tabulated below;

Tariff	No. of Consu.	Load in KVA/HP	MU	Rs.in Cr			Rs/ unit	Rs/ kVA	Rs/unit
				Dem. Charges	Energy Charges	Total	ARR	Per KVA	Energy Charges /unit
HT-1	121	28894	100.79	35.75	26.97	62.72	6.22	1031	2.68
HT2a	993	393686	550.54	285.69	215.52	501.21	9.10	605	3.91
HT2b	806	131498	140.44	92.36	69.68	162.04	11.54	585	4.96
HT2c	323	72287	89.81	51.36	38.75	90.11	10.03	592	4.31
HT-3	34	140357	95.59	30.68	23.14	53.82	5.63	182	2.42
HT-4	67	10742	20.73	9.24	6.97	16.21	7.82	717	3.36
HT-5	19	4761	2.29	2.42	1.83	4.25	18.56	424	7.99
<b>Total</b>	<b>2363</b>	<b>782225</b>	<b>1000.19</b>	<b>507.50</b>	<b>382.86</b>	<b>890.36</b>	<b>8.90</b>	<b>541</b>	<b>3.83</b>
<b>% of recovery of Fixed and Energy Charges</b>				<b>57%</b>	<b>43%</b>	<b>100%</b>			

Hence, it is proposed to revise the demand charges for the HT consumers of below categories to avoid the loss of fixed charges, if the consumers opt for open access.

Tariff	No. of Consu.	Load in KVA/HP	MU	Rs.in Cr			Rs/ unit	Rs/ kVA	Rs/unit
				Dem. Charges	Energy Charges	Total	ARR	Per KVA	Energy Charges /unit
HT2a	993	393686	550.54	285.69	215.52	501.21	9.10	605	3.91
HT2b	806	131498	140.44	92.36	69.68	162.04	11.54	585	4.96
HT2c	323	72287	89.81	51.36	38.75	90.11	10.03	592	4.31

The Hon'ble Commission is requested to increase the demand charges at least for the HT consumers. This will not only help MESCOM to charge reflective proportion of fixed cost but also helps in developing the competence to participate in the open market to attract the consumers.

To substantiate the proposed change in structure of tariff, **MESCOM** has collected the details of demand charges prevailing in other States. The following table indicates the Demand Charges for HT Industrial category consumers prevailing in other States. **MESCOM** submits that the fixed/demand charges in the neighbouring/other states are relatively higher than those approved for **MESCOM**. Such charges eventually lead to appropriate fixed charge recovery for these States.

**Madhya Pradesh:**

Sub-Category of consumer	Monthly Fixed Charge (Rs./kVA of billing demand per month)	Energy Charge for consumption up to 50% load factor (paise/ unit)	Energy Charge for consumption in excess of 50% load factor (paise /unit)
<b>Industrial</b>			
11 kV supply	347	710	610
33 kV supply	570	705	600
132 kV supply	660	662	565
220/400kV supply	660	620	520
<b>Non-Industrial</b>			
11 kV supply	327	745	655
33 kV supply	470	725	630
132 kV supply	560	680	570
<b>Shopping malls</b>			
11 kV supply	336	725	650
33 kV supply	388	715	610
132 kV supply	520	665	590
<b>Power intensive industries</b>			
33 kV supply	580	540	540
132 kV supply	710	517	517
220 kV supply	710	510	510

**Kerala:**

<b>HT-1(A)-Industries</b>	
Demand Charges Rs. /Unit	340
Energy Charges Rs. /Unit	5.75

**Andhra Pradesh:**

HT-I(A): General		Fixed/Demand Charges / Month (Rs.)	Energy Charges Rs./Unit
132 KV and above	kVAh	475	5.40
33 KV	kVAh	475	5.85

11 KV	kVAh	475	6.30
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**Tamil Nadu:**

Category	Rs. / KVA	Rs. / Unit
<b>HT Industries (HT-1A)</b>		
Fixed charges	350/kva/month	
Energy charges		6.35
<b>Railway traction</b>		
Fixed charges	300/kva/month	
Energy charges		6.35
<b>Govt. Educational institution</b>		
Fixed charges	350/kva/month	
Energy charges		6.35
<b>Pvt. Educational institution</b>		
Fixed charges	350/kva/month	
Energy charges		6.35
<b>HT commercial</b>		
Fixed charges	350/kva/month	
Energy charges		8.00

**Maharashtra (Mahadiscom)**

**HT industrial**

Consumer Category	Demand Charge (Rs/ kVA/ month)	Energy Charge (Rs/kWh)
HT I: HT - Industry		
HT I (A): Industry - General	432	6.96
HT I (B): Industry - Seasonal	432	7.22

**HT Commercial**

Consumer Category	Demand Charge (Rs/ kVA/ month)	Energy Charge (Rs/kWh)
All Units	432	11.20

**Telangana:**

HT-I(A): Industries		Fixed/Demand Charges Rs./ Month	Energy Charges Rs. /Unit
132 KV and above	kVAh	390	5.65
33 KV	kVAh	390	6.15
11 KV	kVAh	390	6.65

**Gujrat (Dakshin Gujrat Vij Company Limited)**

Sl. no.	Particulars	Fixed Charges (in Rs. per kVA per Month)	Energy Charges (in Rs. per unit)
a	Up to 499 kVA of billing demand	150	4.00

b	For billing demand above 499 kVA and up to 2500 kVA	260	4.20
c	For billing demand above 2500 kVA	475	4.30
d	For billing demand in excess over the contract demand	555	As above

**MESCOM has proposed increase in Demand Charges and uniform tariff rates for all units Consumed. The Hon'ble Commission is requested to increase the demand charges for HT consumers as proposed which will help MESCOM to charge reflective proportion of fixed cost in the tariff and also retain HT consumers with the Company.**

### **2. Incentive for prompt payment of power purchase bills:**

Power Generators allow rebate as a percentage of the invoiced amount for arranging payment by ESCOMs within the prescribed time limit. The Incentive so availed is accounted as Income and shown under Other Income. KERC is allowing ESCOM to retain only 10% of the rebate amount and balance amount passed on to consumers in the retail tariff.

As ESCOMs make prompt payment of power purchase bills to earn rebate in spite of severe cash flow problems, the Hon'ble Commission is requested to allow incentive to be retained by the Company in full. Allowing incentive amount earned in full to be retained by ESCOMs would encourage making prompt payment in all cases and avail the benefit of incentive. Further, this would avoid late payment charges to the extent possible. Such incentive amount would be considered as Internal Resources and utilized appropriately.

### **3. Interest on delay in payment of electricity bills by Consumers:**

During FY 2020-21, due to covid 19 pandemic, the recovery of electricity bills from consumers was not normal and instructions were there not to enforce recovery proceedings and levy interest for the delayed payment. Installment facility for payment of bills by consumers was also extended. During the pandemic period there was almost no revenue realization for 6 months as the commercial and industrial establishments were completely closed.

Further, in the Tariff Order, 2021, Commission has directed that

*"In view of the prevailing lockdown situation due to Covid Pandemic, the arrears towards revision of Tariff for the energy consumed during the month of April and May, 2021, is ordered to be recovered during the month of October and November, 2021 respectively, without charging any interest."*

As a result, there is loss of interest on additional revenue due to tariff revision for the months of April and May 2021 deferred to October and November, 2021.

The delayed payment of electricity bills will attract interest of 1% p.m or 12% p.a. as per the prevailing norms. On the other hand, ESCOMs have to pay late payment charges to Power Generators at the rate of 1.5% to 2% p.m or 18% to 24% p.a.

On one side, there was steep decrease in revenue collections and the delayed payment of bills by consumers attract 1% p.m interest but on the other side, ESCOMs were forced to pay 2% interest as late payment charges to Power Generators for delayed payment. This difference in rate of interest also affected the cash flow of ESCOMs.



In the current financial year i.e., FY 22, the situation has improved and the economy is almost back to the normal.

Hence, the Hon'ble Commission is requested to approve levying of 2% interest on delayed payment of electricity bills by consumers during FY23 as a special case to mitigate the loss to some extent.

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