

CHAPTER-10

SUBSIDY

10.0 Subsidy support

The Government of Karnataka has been granting subsidy to provide subsidised power supply to BJ/KJ installations and to IP sets. In the FRP approved by the GoK in March 2001, the Government had provided subsidy of Rs.6750 Crs. for the period from FY01 to FY05 and the same was indicated in the MTFP. In the said FRP, no subsidy was contemplated beyond 2005. However, in the MTFP issued during 2004, for the period from 2004-05 to 2007-08, the Government has continued the provision for subsidy to the power sector. Accordingly, the Government has been allocating the subsidy every year to KPTCL/ESCOMs.

10.1 Subsidy in FY 05 & FY06

As per the communication from the GoK vide their letter No.EN 134 PSR 2004 dated 01.04.2005 the subsidy allocation for FY05 is Rs.1650 Crs. and as per GoK letter No. FD 44 Esp.1/2005 dated 01.02.2005, the provision for subsidy in FY06 is Rs.1750.00 Crs.

10.2 Subsidy Receivable from GoK

1. According to the information provided by KPTCL vide letter dated 12th September 2005, the subsidy allocation made by the GoK is not being received fully. The details of subsidy due from the GoK, amount released and balance from FY03 to FY05 as furnished by KPTCL is given below:

Table-10.1
Details of Subsidy Released by the Government

(Rs. Crores)

Year	O.B.of Subsidy due to KPTCL/ESC OMs	Subsidy due for the year	Subsidy Released by the Government	Balance at the end of the year
2002-03	1612.21	1902.82	1698.55	1816.49
2003-04	1816.49	1623.20	1555.46	1884.32
2004-05	1884.32	1650.00	1335.01	2199.31

2. KPTCL in its letter dated 12.09.2005 has suggested to the Commission that balance subsidy to be received from Government be allowed as Regulatory asset, so that, KPTCL and ESCOMs can get these dues in future. The Commission notes that KPTCL/ESCOMs can always collect the amount due from the Government in future and the question of considering such dues as regulatory asset does not arise.
3. KPTCL has further indicated that, in addition to the above subsidy, an amount of Rs.2070.61 Crs. is due from the GoK as on 31.03.2005 towards write offs of IP set dues, debt servicing, pension payments, energizing of new IP sets etc. Thus the total amount due from the GoK is Rs.4269.92 Crs.
4. In the Government letter dated 30.11.2002, it was directed while indicating the details of the provisions towards RE subsidy for FY 03 and FY 04, that all possible efforts should be made to reduce the gap so that subsidy burden on the Government is reduced to the maximum extent.
5. The Commission has considered the above letter of the Government in the context of the provisions of the EA 2003, the existing level of coverage of cost of supply in the tariffs to various categories of consumers and the present tariff revision proposals of the ESCOMs.

6. One of the guidelines laid down for the Commission under Section 61 of EA 2003, is that, "the tariff progressively reflects the cost of supply of electricity, and also reduces and eliminates cross-subsidies within the period to be specified by the Commission" (Clause (g)). Another important guideline for the Commission under the same section is, "safeguarding of consumer's interest and at the same time, recovery of the cost of electricity in a reasonable manner" (Clause (d)).
7. As discussed earlier, the GoK has committed to provide free power supply to BJ/KJ installations upto 18 units per month. Accordingly, the Commission would proceed to allocate the subsidy to BJ/KJ installations and the balance amount of subsidy to IP sets. Thus the allocation of subsidy in FY06 would be as follows:

Subsidy Allocated to ESCOMs	Rs.1726.30 crs
Subsidy for BJ/KJ installations (14,62,917 Installations X 18 X 3.55 avg. cost of supply)	Rs. 112.18 Crs.
Balance subsidy allocation for IP sets:	Rs.1614.12 Crs.

8. The Commission would determine the tariff for IP sets under LT4(a) category after considering (i) Cross subsidy available from subsidising categories of consumers and (ii) GoK subsidy allocation of Rs.1614.12 Crs. as above. The Commission would indicate the tariff before accounting for subsidy and also tariff after accounting for the subsidy in respect of IP sets under LT4(a) category. The Commission would also like to indicate that, in case the GoK does not release the committed subsidy in quarterly instalments at the beginning of each quarter, the ESCOMs shall collect the normal tariff as determined in this Order from the consumers.
9. The Commission would proceed to determine the tariff for all the other categories keeping in view the average cost of supply in FY06, existing realisation rate as per the ERCs and the cross subsidy level.