

TARIFF ORDER 2005

KARNATAKA ELECTRICITY REGULATORY COMMISSION, BANGALORE - 560 001

Applications of Karnataka Power Transmission Corporation Ltd. (KPTCL) for approval of ERC and Tariff filing for the year FY05 & FY06

And

the applications of:

**Bangalore Electricity Supply Company Ltd (BESCOM),
Mangalore Electricity Supply Company Ltd. (MESCOM),
Hubli Electricity Supply Company Ltd (HESCOM) and
Gulbarga Electricity Supply Company Ltd. (GESCOM)**

for the approval of the Expected Revenue from Charges (ERC) filing for the year FY06 and the Tariff filing.

**Present : Shri K.P.Pandey Chairman
Shri H.S.Subramanya Member
Shri S.D.Ukkali Member**

**Karnataka Power Transmission Corporation Ltd. (KPTCL)
Bangalore Electricity Supply Company Ltd. (BESCOM)
Mangalore Electricity Supply Company Ltd. (MESCOM)
Hubli Electricity Supply Company Ltd. (HESCOM)
Gulbarga Electricity Supply Company Ltd. (GESCOM) - Applicants**

O R D E R

This Order deals with the above stated applications of KPTCL and the Electricity Supply Companies (collectively referred to as ESCOMs). While the KPTCL is a transmission licensee and was also an Electricity Trader upto

09.06.2005, the ESCOMs are Distribution licensees in respect of their areas of operation. Since KPTCL is barred from engaging in trading of electricity from 10.06.2005 under the provisions of Electricity Act 2003, Government of Karnataka vide order dated 10.05.2005 has assigned all the Power Purchase Agreements entered into by KPTCL with the generating companies to the ESCOMs effective from 10.06.2005. All the above applications for approval of ERC and Tariff filing are closely inter-related in that the bulk supply for each of the ESCOMs was provided by the KPTCL upto 09.06.2005. All the ESCOMs use the transmission network of the KPTCL for receiving their bulk supply. Further, all the ESCOMs have proposed to continue a uniform retail tariff to the consumers across the State. One more ESCOM namely Chamundeshwari Electricity Supply Corporation (CHESCORP), Mysore, has been established by bifurcating MESCOM and the new company has started functioning from 01.06.2005. However, MESCOM in their ERC filing for FY06 have stated that their ERC filing as well as the tariff proposals cover the areas falling under the newly formed CHESCORP, as well.

In view of the closely inter-related nature of the operations of the various licensees, all the above applications for approval of the ERC of KPTCL for FY05 and FY06 and that of the ESCOMs for FY06 and the revision of tariffs have been clubbed together and disposed of by this common Order.

CHAPTER – 1

1.0 INTRODUCTION

1.1 REFORMS IN THE SECTOR

1.1.1 Background

1. The Government of Karnataka (GoK) initiated reform process in the power sector in the state through a General Policy Statement issued during January 1997 followed by a detailed policy statement in 2001. The Karnataka Electricity Reforms Act (KERA) was enacted which came into effect from 01.06.1999. In terms of the said Act, the Karnataka Electricity Regulatory Commission (KERC) was established with effect from 15.11.1999. The Karnataka Electricity Board (KEB) which was looking after both transmission and distribution functions besides undertaking generation of power through a few small generating stations in the state, was unbundled and corporatised into a transmission & distribution company called Karnataka Power Transmission Corporation Ltd (KPTCL) and a generating company called Visvesvaraya Vidyuth Nigam Ltd (VVNL), on 01.04.2000. The Commission had issued a Bulk Supply and Retail Supply licence to KPTCL under the provisions of the KER Act. Thereafter KPTCL was further unbundled into 5 independent companies effective from 01.06.2002, with one transmission company namely KPTCL and four distribution Companies namely Bangalore Electricity Supply Company Ltd (BESCOM), Mangalore Electricity Supply Company Ltd (MESCOM), Hubli Electricity Supply Company Ltd (HESCOM) and Gulbarga Electricity Supply Company Ltd (GESCOM). While KPTCL retained the functions of power purchase, transmission and bulk supply to the four Electricity Supply Companies (ESCOMs), ESCOMs were responsible for distribution & retail supply to the consumers. With the unbundling of KPTCL, the Supply Licence issued to KPTCL was modified as Bulk

Supply Licence and the Retail Supply Licence issued was assigned to the four newly formed ESCOMs with necessary modifications.

2. In 2005, one more ESCOM namely Chamundeshwari Electricity Supply Corporation (CHESCORP), Mysore has been established by bifurcating MESCOM. GoK vide notification dated 27.04.2005 has transferred assets, liabilities, proceedings, posts and personnel relating to CHESCORP from MESCOM.
3. In terms of the Electricity Act, 2003 (EA 2003), KPTCL cannot engage in trading of power with effect from 10.06.2005. Consequently, Government vide Order dated 10.05.2005, assigned the Power Purchase Agreements (PPAs) entered into by KPTCL with the generating companies to the ESCOMs effective from 10.06.2005. According to the said GO, the PPAs with major power suppliers have been allocated to the ESCOMs in proportion to the quantum of power drawn during FY05, while the PPAs of Non-conventional and Renewable sources of energy have been allocated to respective ESCOMs based on the geographical location of such projects. Subsequently GoK vide notification dated 02.09.2005 has reallocated the NCE projects to the ESCOM's so that purchase of energy from NCE is between 5% to 10% of their total consumption during the year.

1.1.2 Privatisation Strategy

1. The Financial and Distribution Privatisation (FDP) Consultants of the Government had proposed a "Distribution Margin" (DM) approach for privatisation of the distribution sector. The Commission had sent its comments on the above strategy paper vide its letter-dated 30.10.2001. The GOK vide its order No DE 36 PSR 2002 dated 28.12.2002 has accorded in-principle approval for the 'Summarised Final Strategy Paper for inviting private sector participation in distribution of electricity' and to undertake further steps to invite private sector

participation in the newly formed four distribution companies. The GOK has approved for wide circulation of the above Strategy paper for information of public.

2. Further, the FDP consultants had proposed certain legislative amendments to the KER Act for implementation of the privatisation strategy under the proposed DM approach. The Commission has provided its detailed comments to GoK on the proposed amendments on 06.06.2003. In the meeting of the Steering Committee of the Government held on 16.02.2004, the FDP Consultants were requested to come out with an 'Options paper' regarding alternative privatisation models. The FDP Consultants presented an 'Options paper' and legislative amendments proposed to the KERA in the Steering Committee meeting held on 06.07.2004. The Consultants have discussed three options viz (i) privatising ESCOMs as they are, in accordance with privatisation strategy (ii) privatising concentrated zones/cities and (iii) maintaining the status quo. The matter is under further examination of the Government.

1.1.3. Financial Restructuring Plan

GOK had approved the Financial Restructuring Plan (FRP) for the Power Sector in the State and Balance Sheet Restructuring Plan (BRP) of Karnataka Electricity Board vide Government order No DE 12 PSR 2001 dated 30.03.2001. The Commission examined the approved FRP in detail and communicated its views in June 2001 and further observations were made in Tariff Order 2002. Subsequently, the Government of Karnataka, vide its letter dated 28.08.2003, has issued a draft of the revised FRP which is yet to be finalised.

1.1.4 Medium Term Fiscal Plan (MTFP)

The Government of Karnataka, in the Year 2004, has issued a Medium Term Fiscal Plan for Karnataka for the period from 2004-05 to 2007-08. The MTFP is aimed at fiscal prudence, accountability and transparency in the management of State's finances, with an objective to achieve the Millennium Development Goals (MDGs).

Highlights of MTFP are as follows:

- To ensure a reduction in power sector financial losses, it is necessary that power sector reforms, which have lagged in the past, be accelerated. The power sector reform policy which includes Financial Restructuring Plan (FRP), autonomy of operations to Discoms and privatisation of power sector will be taken forward.
- The Purchaser-Provider model will be implemented fully with ESCOMs entering into prescribed MoUs from 1st September 2004. Subsidy will be released only under the terms and conditions of the MoUs.
- Waiver of power dues or deferrals of tariff orders are inimical to the operational efficiency and commercial viability of the power utilities. The tariff approved by the KERC for all categories of consumers would be implemented. A mechanism for collection of current dues from Local bodies will be put in place by the respective departments. Delay of more than a quarter in the remittance of current dues would trigger deduction at source for current dues as well. Consequent to the above measures, ESCOMs and KPTCL would be expected to enhance collection efficiency to 95% from the current 85%

by reducing Transmission and Distribution losses to 28% as per FRP and by strictly enforcing the Anti-theft Law.

- The 6-hour supply of quality three-phase power to agriculture will be implemented.

1.2 Electricity Act 2003

1. The Electricity Act 2003 (Act 36 of 2003) came into effect from 10.06.2003. In this Act the laws relating to generation, transmission, distribution, trading and use of electricity have been consolidated. The Act has been enacted for generally taking measures conducive to development of electricity industry, promoting competition, protecting interest of the consumers, supply of electricity to all areas, rationalisation of electricity tariff, ensuring transparent policies regarding subsidies, promotion of efficient and environmentally benign policies, constitution of CEA, Regulatory Commissions and establishment of Appellate Tribunal etc.,
2. The EA 2003 has brought in significant changes in the power sector in order to promote competition. While the generation activity has been de-licensed, Transmission, Distribution and Trading of electricity have been recognized as licensed activities. The Act recognizes transmission activity as a pure wire business and the transmission licensees are forbidden from engaging in trading of electricity. The Act also provides for open access.
3. According to section 14 of the said Act, KPTCL & ESCOMs who were licensees under the provisions of Karnataka Electricity Reforms Act, 1999, are deemed licensees under EA 2003.

1.3 Tariff Orders issued by the Commission

1. Since the formation of the Commission in 1999, it has issued three tariff orders and one tariff amendment Order as detailed below:

1. Tariff Order 2000 dated 18.12.2000
2. Tariff Order 2002 dated 08.05.2002
3. Tariff Order 2003 dated 10.03.2003
4. Tariff Amendment Order dated 15.12.2003.

2. In the Tariff Order 2000, the Commission had approved an average tariff increase of 16.85%, which order was implemented by KPTCL with effect from 29.12.2000. In the Tariff order 2002, the Commission provided an average increase of 16.20%, which order was implemented with effect from 01.07.2002. The Tariff Order 2003 provided for an average increase of 2% from 01.04.2003. Further in the Tariff Amendment Order dated 15.12.2003, the tariff was revised in respect of LT-2b, LT-3, LT-5, HT-2a and HT-2b categories to meet the additional power purchase liability and this order provided for an overall increase of 2.89% effective from 01.01.2004. Thus, the Commission has approved a cumulative tariff increase of 41.65% in the above orders over the tariff prevailing in the year 2000.

1.4 Commission's Initiatives

1.4.1 Regulations

The Commission has continued its efforts in carrying forward the reform process with a view to achieve the objectives laid down in the KERA and the EA 2003. With the coming into force of EA 2003, the Commission had to issue many new regulations and had to revise a few regulations issued earlier, in order to comply with the provisions of the EA 2003. Before finalizing the Regulations, the Commission had issued draft regulations inviting views and comments from the stake holders and experts, and had wide consultations besides conducting public hearing wherever

considered appropriate. Details of the Regulations issued by the Commission under the provisions of the EA 2003 are given below:

Table-1.1

Sl. No	Regulation	Date of Notification in the Official Gazette
1	KERC (Conditions of License to ESCOMs) Regulations 2004	20.05.2004
2	KERC (Tariff) (Amendment) Regulations 2004	10.06.2004
3	KERC (Consumer Grievance Redressal Forum & Ombudsman) Regulations 2004	10.06.2004
4	KERC (Licensee's Standards of Performance) Regulations 2004	10.06.2004
5	KERC (Consumer Complaints Handling Procedure) Regulations 2004	10.06.2004
6	KERC (State Advisory Committee) Regulations 2004	10.06.2004
7	KERC (Fees) Regulations 2004	21.10.2004
8	KERC (Power Procurement from Renewable Sources by Distribution Licensees) Regulations 2004	21.10.2004
9	KERC (Duty of Licensees to supply Electricity on Request) Regulations 2004	21.10.2004
10	KERC (Licensing) Regulations 2004	04.11.2004
11	KERC (Electricity Supply) Code 2004	09.11.2004
12	KERC (Terms and Conditions for Open Access) Regulations 2004	12.11.2004
13	KERC (Levy and Collection of Fee and Charges by SLDC) Regulations 2004	18.11.2004
14	KERC (Eligibility Conditions and Duties of Electricity Trader) Regulations 2004	02.12.2004
15	KERC (Recovery of Expenditure for Supply of Electricity) Regulations 2004	16.12.2004
16	KERC (Interest on Security Deposit) Regulations 2005	12.05.2005
17	KERC (Procedure for filing Appeal before the Appellate Authority) Regulations 2005.	12.05.2005
18	KERC (Duty of the Licensee to supply Electricity on Request) (Amendment) Regulations 2004	12.05.2005
19	KERC (Recovery of Expenditure for Supply of Electricity) (Amendment) Regulations 2004	12.05.2005

Highlights of some of the regulations are as under:

a) Standards of Performance Regulations 2004 provide for minimum standards of service with reference to quality, continuity and reliability of services to be achieved by a licensee. For non-compliance of the minimum standards, consumers are eligible for payment of an amount as prescribed by Commission in these regulations.

b) KERC (Terms & Conditions for Open Access) Regulations 2004 provide for introduction of Open Access to consumers in phases. The first phase of open access is applicable to HT consumers with contract demand of 15 MW & above with a supply voltage of 66 kv & above, which has already come into force with effect from 10.06.2005.

c) KERC (Eligibility Conditions and Duties of Electricity Trader) Regulations 2004 specifies the eligibility conditions and duties of electricity trader and the Trading licensees have been categorized into four categories based on the annual volume of trading.

d) Consumer Grievance Redressal Forum & Ombudsman, Regulations 2004 provide for establishment, composition of the Grievance Redressal Forum/ appointment of Ombudsman, procedure for grievance redressal by the Forum/Ombudsman. All the ESCOMs have established the Redressal Fora and the Commission has also appointed the Ombudsman.

e) Recovery of Expenditure for Supply of Electricity Regulations 2004 endeavors to rationalize the recovery of expenses. The concept of assessed load in the case of multi storied buildings which was in vogue in the earlier Supply Code, has been replaced by provisions to collect the charges based on requisitioned load. The regulation requires the consumers to provide space for transformers in their premises if the load exceeds 25 KVA and built up area exceeds 500 sq metres.

f) Power Procurement from Renewable Sources by Distribution Licensees, Regulations 2004 requires that the distribution licensee shall procure a minimum of 5% and a maximum of 10% of total consumption during the year from non-conventional and renewable sources. Further, to promote renewable sources of energy, the Commission has provided for mandatory open access in transmission and distribution systems. As required in the regulations, the Commission has already determined the tariff for NCE sources of energy and also transmission and wheeling charges for open access transactions.

g) Duty to Supply on Request Regulations 2004 specifies the time frame within which service shall be provided to new installations.

h) Payment of interest on Security Deposit Regulations 2004 specifies the rate of interest payable on security deposit. etc.,

1.4.2 Discussion papers

Apart from issuing draft regulations inviting comments and views from the stakeholders and experts before its finalization, the Commission has also issued the following discussion papers on important issues affecting the electricity sector:

- i) Under the Open Access Regulations, it was necessary to determine the charges payable by open access customers towards transmission/ wheeling charges & cross subsidy surcharge. The Commission issued a discussion paper inviting comments and views from the stakeholders and experts, held a public hearing and thereafter determined these charges in the order dated 09.06.2005.
- ii) In view of the Electricity Act barring the KPTCL from trading of power w.e.f 10.06.2005, the Commission issued a discussion paper proposing various alternate models for trading of electricity in

Karnataka and elicited views of stakeholders and experts. The Comments received were furnished to the GoK for deciding on the appropriate model.

- iii) In the light of the EA 2003, a background paper on quantum of power to be absorbed from Renewable energy projects and on operation & financial parameters to be considered for determination of tariff for such projects was issued in 2004 to get feedback on various issues. After holding a hearing, the Commission issued Power Procurement from Renewable Sources Regulations 2004, specifying the quantum of power to be procured by the distribution licensees from NCE sources and subsequently determined the tariff in respect of Mini-hydel, Wind energy, Biomass and Bagasse based Co-generation plants during January 2005.
- iv) In order to introduce competition and to bring in efficiency in the performance of ESCOMs, a discussion paper on 'Differential Tariff' proposing introduction of different retail tariff to consumers in each ESCOM area based on cost of supply in such ESCOM area was issued during June 2005. The comments and suggestions received from stakeholders and experts and the Commission's decision thereon are discussed in relevant section of this Order.
- v) A discussion paper on 'Introduction of Competition in Retail Supply of Electricity' proposing to bifurcate the wires business from supply business in the distribution sector has been issued by the Commission in Aug 2005. Such bifurcation will enable issue of multiple supply licenses in the same area of supply to bring in competition. This requires legislative changes to the EA 2003. After receiving comments and suggestions, the Commission will further examine the matter.

1.4.3 Codes and Standards

As per the requirement of the Electricity Act 2003, the Commission has drafted the State Grid Code along with Distribution Code and Standards necessary for Planning and Operation of Transmission and Distribution Systems. The draft has been issued in July 2005 inviting comments and suggestions from stakeholders and experts and the same will be finalized in due course.

1.4.4 Review of Performance of KPTCL/ESCOMs

The Commission has prescribed standard monthly/quarterly reporting formats for review of the performance of the ESCOMs. The Commission analyzes the reports and communicates its observations to the ESCOMs regularly and also holds review meetings with the ESCOMs periodically.

1.4.5 Advisory Committee

The Commission has reconstituted the State Advisory Committee as per the requirement of the EA 2003 and has held Advisory Committee meetings periodically to discuss important issues.

1.4.6 Coordination Committee

GoK has reconstituted the Coordination Forum under the Chairmanship of the Chairman, KERC, vide Notification No.DE 55 PSR 2003/153 dated 03.03.2005. The Committee held its first meeting on 06..07.2005.

1.4.7 Transparency

In order to ensure transparency, the Commission is providing full opportunity to the stakeholders, especially consumers, to express their views before the Commission in all its proceedings. For effective information dissemination, all the draft regulations, discussion papers and orders are hosted on the Commission's website www.kerc.org