

CHAPTER - 9

DIFFERENTIAL RETAIL TARIFF IN ESCOMs

9.0 Introduction

1. Historically, the State has been following a uniform retail tariff to the consumers across the state, i.e the same tariff for each category of consumers irrespective of geographical location of the consumer. One of the objectives of the power sector reforms is to take measures conducive to the development and management of the electricity industry in the state in an efficient, economic and competitive manner to provide reliable quality power and to protect the interest of the consumers. Rationalization of electricity tariff is one another important objectives. With these objectives in mind, the GoK has resorted to unbundling of the electricity sector into separate transmission company and multiple distribution companies. The subsidy granted by the GoK is targeted towards subsidized power supply to BJ/KJ and IP sets. While the subsidy granted is considered for determination of tariff to such categories, the subsidy is being finally allocated to each of the ESCOMs so as to have a uniform retail consumer tariff across the state.
2. Historically, the Revenues and cost of supply are different in each of the ESCOMs areas. The revenue depends upon the consumer profile of the ESCOM apart from variances in consumption pattern, quality of supply etc. The Cost of supply is different because of differences in network pattern, asset profile, employees strength, O & M practices, varying loss levels etc., apart from differences in the power purchase rate, which has now arisen.

3. Keeping the objectives of the reforms in view, the Commission felt that there is a need to examine whether differential retail tariff could be fixed across the ESCOMs instead of uniform retail tariff now prevailing in the state, considering the revenues and expenses of each of the ESCOMs independently. This may promote better efficiency through competition amongst the ESCOMs. With this background, the Commission issued a discussion paper during July 2005, on introduction of differential retail tariff across the ESCOMs and invited comments from the stakeholders, experts and public. The Commission had brought out in the discussion paper the broad implications of the likely tariff increase for some ESCOMs and decrease in tariff in BESCOM to be effected in case a differential tariff is introduced. The Commission had also brought out the advantages and disadvantages of introducing a differential retail tariff, which are reproduced below.

9.1 Advantages of Differential Retail Tariff

Differential Tariff has the following advantages:

- a. The tariffs would be reflective of the costs and performance of the respective ESCOM.
- b. The consumers of better performing ESCOMs will be greatly benefited by reduction in tariff / reduced level of future tariff hike.
- c. Consumers of poorly performing ESCOMs will apply pressure on that ESCOM to improve its efficiency, which may yield better results.
- d. The tariffs in poor performing ESCOMs may also take a hit since only expenses and losses based on bench marks are allowed to

be passed on to the consumers in the tariff. This may bring pressure on each of the ESCOM to improve its performance.

- e. Government may target subsidy to ESCOMs depending upon the performance of the ESCOM. Government may provide subsidy to different ESCOMs depending upon the consumption pattern of the subsidized category of consumers in each ESCOM area.
- f. This will lead to elimination of cross subsidies amongst ESCOMs
- g. This will encourage competition in the sector even under public sector regime.
- h. May focus on reduction and elimination of cross subsidies ESCOM wise.
- i. Motivates improvement in the performance of the ESCOMs.
- j. Above all, the ESCOMs would be self sustaining without having to depend upon other ESCOMs in the matter of tariff or revenues.

9.2 Disadvantages of Differential Retail Tariff

Differential Tariff may result in following disadvantages:

- a. The existing tariffs may be required to be raised substantially in HESCOM and GESCOM area leading to Tariff shock in certain categories. All along a uniform retail tariff has been followed. If tariffs are raised in these areas in order to introduce differential tariff, there may be severe protest by the consumers of that area. Implementation of differential tariff in a phased manner is one alternative.

- b. There may be a cry of discrimination amongst the same category of consumers across the state. This may require lot of convincing to the consumers, although it is permitted under EA 2003. Consumers may always argue that they are not responsible for the poor performance of the ESCOMs and therefore they should not be made responsible by levying higher tariff. One argument may be that such action will promote regional imbalance.
- c. Government may be required to provide higher subsidy for inefficient ESCOMs if tariffs in such ESCOM areas are required to be reduced.
- d. It may not promote private participation in poor performing ESCOMs. Such ESCOMs may get reduced attention which may further deteriorate its performance.

9.3 Issues raised by the Commission

The Commission had raised the following questions in the discussion paper:

- i) Is there a need to introduce differential retail tariff ESCOM wise? If yes, whether it can be introduced in the present tariff revision pending before the Commission. If it has to be introduced in a phased manner, what should be the mechanism and the time frame within which it can be introduced?
- ii) In case differential retail tariff is introduced, is it prudent to reduce the tariffs in one ESCOM area and increase tariffs in other areas?

- iii) In case differential tariff is introduced in the present tariff revision exercise, how tariff shock to consumers can be reduced. What should be the mechanism that should be adopted to convince the consumers?
- iv) Any other relevant suggestions.

9.4 Response from Stakeholders/Experts

1. The Commission has received 21 written responses from stakeholders/experts, which include GoK, World Bank, GESCOM, MESCOM, HESCOM, FKCCI, Farmers' organisations, CPI (M) few regulatory Commissions and other experts and consumer organizations.
2. Subsequently the Commission conducted an exclusive public hearing on this issue on 22.08.2005 to hear the views of experts/stakeholders. KPTCL made a presentation during the hearing. GoK and KPTCL/ESCOMs have generally not agreed to introduction of differential retail tariff. Consumer organizations including FKCCI, Farmer's organizations and CPI(M) and consumers in general are not in favour of a differential tariff. Only a few consumer organizations, while welcoming the concept, stated that this needs greater in depth study and requested to think of introducing this concept in a phased manner, but not immediately. Views/comments expressed by experts/stakeholders in writing and during the hearing is summarized below:
 - i) Any drastic change is required to be introduced in phases.
 - ii) Unless issues like level of distribution loss, effectiveness of revenue realization, cost control, cross subsidy are

addressed, introduction of differential retail tariff may not yield the desired results.

- iii) ESCOMs to prepare business plan to show the efficiencies that they can achieve and develop CoS models to bring out intra company subsidy picture, before introducing differential retail tariff.
- iv) Wider discussion on the subject is necessary before implementation.
- v) There is wide difference in usage of power in various ESCOMs. Electricity being one of the important parameters for economic growth, the already backward North Karnataka would be adversely affected by introduction of differential tariff.
- vi) Differential tariff is going to create regional imbalance and asymmetric growth particularly rural industries; the same may not be introduced in the current tariff revision.
- vii) In addition to the inefficiencies in distribution, the other factors for higher losses are due to distance in generation and load centers, different consumer mix in ESCOMs, capital investment in transmission and distribution etc. Further one of the factors determining the tariff is the paying capacity of consumers. Hence the cross subsidy needs to be continued keeping in view consumers who cannot afford to pay for electricity.
- viii) Its introduction would have adverse effect on integrity of the state and would also have impact on the economic growth of the state.

- ix) Debate on uniform or differential tariff should be linked with open access and cross subsidy surcharge.
 - x) The high degree of differential tariff in different ESCOMs proposed may be due to different consumer mix, different age of assets or due to difference in operational efficiency. Any policy to introduce differential tariff should define principles to define these issues.
 - xi) Based on the bench-mark levels of operational efficiency parameters in the base year, may limit the ability of worst performing DISCOMs to borrow capital expenditure. Further higher tariffs for subsidizing consumers may increase financial distress by shifting of industries to better performing DISCOMs.
 - xii) Principles of subsidy design and allocation needs to linked to the issue of differential tariff.
 - xiii) At the present juncture differential retail tariff is not desirable for economical, social and political.
 - xiv) Introduction of differential tariff may create law and order problem and political turbulence in the state.
 - xv) Consumers are not responsible for poor performance of ESCOMs. Hence a differential tariff based on performance of ESCOMs is not advisable.
3. Application of a differential tariff would also be a policy matter of the government because of its far-reaching implications on the

consumers. Energy Secretary/ GoK in letter No EN.219: JS: 2005 dated 11.8.05 has stated as follows:

“In continuation of Government letter of even No dated 27.07.2005, I wish to inform you that Government recognizes that the concept of differential tariffs for ESCOMs has its merits. However, a large volume of reliable data on costs, losses etc has to be collected before such a system could be introduced. Moreover, serious efforts should first be made to bring down the losses in those ESCOMs, which are showing the highest losses. Hence the Govt considers that it would be premature to introduce the system of differential retail tariffs during the current year. “

4. The matter was placed for discussion before the Commission Advisory Committee in the Meeting held on 16.09.2005. The Committee noted the views already expressed by KPTCL & the ESCOMs, FKCCI and others. The Commission also brought to the notice of the Committee that consumers in MESCOM demanded fixation of a separate tariff for MESCOM area. Since the general view was not in favour of a differential tariff, the Commission also sought the views of the Committee to introduce a higher tariff in urban centers and a lower tariff in rural areas to reflect the quality of supply. Although there are no definite indices to measure the quality of supply in different places at present, it is well known that quality of supply is much better especially in Bangalore city and several urban centers. The Committee also expressed that this may promote movement of industries to outside Bangalore to some extent. MD/BESCOM stated that the revenue would further increase in Bangalore if such a measure is introduced and balancing the surplus with other ESCOMs may be required. The Committee unanimously welcomed this concept to introduce different tariffs in urban and other than urban areas and advised that a slightly higher tariff could be introduced in Bangalore city only to start with in the present Order.

9.5 Commission's decision

1. The Commission has carefully considered the views expressed by GoK, Consumer organisations, political parties, industries representatives, farmers' organisations and individuals and has noted that most of them are not in favour of introduction of differential retail tariff for the present. Accordingly the Commission decides not to introduce ESCOM wise differential tariff in the present order. However, as advised by the Commission's Advisory Committee in the meeting held on 16.9.05, the Commission would introduce a slightly higher tariff under a few consumer categories in Bangalore Metropolitan Area & other city corporations, retain the existing tariff in other urban centres and introduce comparatively a lower tariff in village panchayat areas as discussed in Chapter-11 of this Order. The additional revenue so raised shall be utilized to improve the quality of service in rural areas.
2. However, the Commission feels that efforts should be made to educate the consumers about the cost of supply in each ESCOM depending upon the input cost, extent of cross subsidy they are paying/receiving in the existing tariff so that the implications are appreciated and differential tariff could be introduced in future years.

Details of additional revenue to be raised in each ESCOM in FY06, if differential tariff is adopted, is indicated in the table below:

Table-9.1
Additional Revenue on Differential Tariff

(Rs. CRS)

Particulars	BESCOM	MESCOM	HESCOM	GESCOM	Total
Revenue at existing rates for FY06	4188.03	1522.7	1012.05	757.05	7479.83
Approved ARR for FY06	3986.42	1757.56	1831.65	1241.90	8862.35
Surplus/ (-) Gap without subsidy	201.61	-234.86	-819.60	-484.85	-1337.70
Subsidy apportioned as per no. of BJ & IP set installations	562.51	364.58	405.32	393.90	1726.31
+Gap/- surplus after subsidy	764.12	129.72	-414.28	-90.95	388.61
% Increase in Tariff required to meet the gap	-18.25%	-8.52%	40.93%	12.01%	-5.20%
% Increase for metered categories	-19.69%	-9.28%	48.28%	13.72%	-5.72%

3. The Commission has been following tariff philosophy that all the categories of consumers other than BJ and IP sets shall pay tariff equal to or more than the average cost of supply. In Tariff Order 2003, the Commission has determined the tariff equal to the average cost of supply in respect of LT2(a), LT6 and HT1 categories and more than the average cost of supply in respect of all other metered categories. If the average cost of supply in each of the ESCOM is considered as approved in the present order and tariffs are determined for each ESCOM separately the extent of tariff revision required to maintain the

same level of cross subsidy as in Tariff Order 2003/ Tariff Amendment Order 2003 is illustrated below:

BESCOM

Table-9.2

Details of Tariff increase required for metered categories in BESCOM if differential tariff is adopted in FY06

Average cost of supply in FY06 – 332 ps/unit

Tariff	Consumer category	% of cost of supply covered in TO2003/TA2003 (%)	Actual Average Realisation in FY05 (Paise /unit)	Tariff required to maintain the same % of cross subsidy in FY06 (Paise/unit)	% tariff increase required (%)
LT2	Domestic Lighting	100.36	370	333	-9.92
LT3	Commercial	174.03	632	578	-8.65
LT5	LT Industries	133.98	481	445	-7.44
LT6	Street Lights	107.50	510	357	-30.00
LT6	Water supply	106.00	504	352	-30.16
HT1	HT- Water supply	101.30	373	336	-9.73
HT2(a)	HT- Industries	132.32	492	439	-10.71
HT2(b)	HT- Commercial	166.03	612	551	-9.89
HT4	HT- Residential	109.65	348	364	4.79
Total			466	419	-10.08

Note: Average Tariff for the state as whole in FY -04 is Rs. 3.62 per unit

MESCOM**Table-9.3****Details of Tariff increase required for metered categories in MESCOM if differential tariff is adopted in FY06**

Average cost of supply in FY06 – 354 ps/unit

Tariff	Consumer category	% of cost of supply covered in TO2003/TA2003 (%)	Actual Average Realisation in FY05 (Paise /unit)	Tariff required to maintain the same % of cross subsidy in FY06 (Paise/unit)	% tariff increase required (%)
LT2	Domestic Lighting	100.36	333	355	6.62
LT3	Commercial	174.03	621	616	-0.83
LT5	LT Industries	133.98	491	474	-3.42
LT6	Street Lights	107.50	333	381	14.41
LT6	Water supply	106.00	380	375	-1.32
HT1	HT- Water supply	101.30	341	359	5.25
HT2(a)	HT- Industries	132.32	450	468	3.99
HT2(b)	HT- Commercial	166.03	578	588	1.62
HT4	HT- Residential	109.65	403	388	-3.68
	Total		411	426	3.65

Note: Average Tariff for the state as whole in FY -04 is Rs. 3.62 per unit

HESCOM**Table-9.4****Details of Tariff increase required for metered categories in HESCOM if differential tariff is adopted in FY06**

Average cost of supply in FY06 – 392 ps/unit

Tariff	Consumer category	% of cost of supply covered in TO2003/TA2003 (%)	Actual Average Realisation in FY05 (Paise /unit)	Tariff required to maintain the same % of cross subsidy in FY06 (Paise/unit)	% tariff increase required (%)
LT2	Domestic Lighting	100.36	331	393	19.02
LT3	Commercial	174.03	669	682	2.01
LT5	LT Industries	133.98	499	525	5.22
LT6	Street Lights	107.50	756	421	-44.31
LT6	Water supply	106.00	384	416	8.33
HT1	HT- Water supply	101.30	376	397	5.70
HT2(a)	HT- Industries	132.32	471	519	10.04
HT2(b)	HT- Commercial	166.03	613	651	6.22
HT4	HT- Residential	109.65	362	430	18.77
	Total		417	468	12.23

Note: Average Tariff for the state as whole in FY -04 is Rs. 3.62 per unit

GESCOM**Table-9.5****Details of Tariff increase required for metered categories in GESCOM if differential tariff is adopted in FY06**

Average cost of supply in FY06 – 403 ps/unit

Tariff	Consumer category	% of cost of supply covered in TO2003/TA2003 (%)	Actual Average Realisation in FY05 (Paise /unit)	Tariff required to maintain the same % of cross subsidy in FY06 (Paise/unit)	% tariff increase required (%)
LT2	Domestic Lighting	100.36	362	404	11.83
LT3	Commercial	174.03	649	701	8.02
LT5	LT Industries	133.98	486	540	11.04
LT6	Street Lights	107.50	435	433	-0.46
LT6	Water supply	106.00	492	427	-13.21
HT1	HT- Water supply	101.30	415	408	-1.65
HT2(a)	HT- Industries	132.32	474	533	12.55
HT2(b)	HT- Commercial	166.03	590	669	13.46
HT4	HT- Residential	109.65	339	442	30.24
	Total		448	493	10.04

Note: Average Tariff for the state as whole in FY -04 is Rs. 3.62 per unit

4. Therefore, if differential tariffs are introduced in the present order, the average increase in tariff required for metered categories would be higher in HESCOM and GESCOM while the same is required to be reduced in BESCO and marginally increased in MESCOM. (The extent of tariff revision required in FY06 has substantially reduced on account of change in hydro-thermal mix resulting in substantial

reduction in power purchase cost). Therefore, the Commission would continue to allocate subsidy granted by GoK to the ESCOMs so as to cover the revenue gap fully. As discussed earlier, the Commission would introduce separate tariff for the urban centers and for village panchayat areas in the present order.