

CHAPTER - 1

1.0 INTRODUCTION

1.1 REFORMS IN THE SECTOR

1.1.1 Reforms Initiatives in the Power Sector

The initiatives taken by the Government of Karnataka (GoK) for implementation of reforms in the power sector in the state are discussed in detail in the earlier Tariff Orders of the Commission. The reforms in the State having been initiated in 1997 and KER Act 1999 enacted effective from 01.06.1999, the KERC was constituted with effect from 15.11.1999 and the erstwhile KEB was restructured and corporatised as KPTCL with effect from 01.04.2000. KPTCL was further unbundled into a transmission company (KPTCL) and four distribution companies (BESCOM, MESCOM, HESCOM and GESCOM) effective from 01.06.2002 and MESCOM was further bifurcated and CESCO was established vide Government Notification dated 19.08.2004 and transfer of assets was given effect from 01.04.2005 vide Govt. Notification dated 19.05.2005.

The Govt of India has enacted the Electricity Act 2003 (EA03), which comes into force from 10.06.2003 and has also notified the National Electricity Policy on 12.2.2005 and the Tariff Policy on 06.01.2006 under the provisions of the said Act.

GoK has assigned the Power Purchase Agreements earlier entered into by KEB/KPTCL to the ESCOMs effective from 10.06.2005, since KPTCL cannot engage in trading of electricity under the provisions of EA 2003. Thus, KPTCL is a wires company effective from 10.06.2005.

1.1.2 Tariff Orders issued by the Commission

After formation of the Commission in 1999, it has issued five tariff orders 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
5. Tariff Order 2005 dated 27.09.2005.

While in the Tariff Orders 2000 and 2002, the retail consumer tariffs were revised by the Commission which included bulk supply tariff as well as transmission and distribution charges, with the formation of ESCOMs in 2002, the Commission has determined separately bulk supply tariff and transmission charges in the Tariff Orders commencing from 2003.

1.1.3 Regulations under Electricity Act 2003.

In pursuance of the Electricity Act 2003, the Commission has issued 19 Regulations as indicated in Tariff Order 2005. The State Grid Code has been revised to comply with EA 2003 and the Commission on 13.01.2006 has notified the same. The Commission has issued a discussion paper on implementation of intra-state ABT in the state on 16.12.2005. The Stakeholders including KPTCL/ ESCOMs and experts have furnished their comments on the draft paper. The Commission would specify the time frame within which the intra-state ABT has to be implemented.

1.1.4 Tariff Policy under EA 2003

The Government of India has issued the Tariff Policy on 6th January 2006 under the provisions of section 3(1) of the EA 2003 (Copy placed at **Annexe - 1**) The Tariff Policy has set out guidelines/norms for fixation of tariff in respect of generation, transmission and distribution of electricity.

The Policy lays down the following framework for performance based cost of service regulation in respect of aspects common to generation, transmission and distribution, which are relevant for the present ERC and tariff application of KPTCL:

- i) **RoE:** In respect of Generation and Transmission of electricity, the CERC has been authorised to notify the RoE to ensure generation of reasonable surplus for growth of the sector. The rate of return notified by the CERC for transmission has to be adopted by the SERCs. For distribution, it is suggested to make appropriate modifications taking into account the higher risks involved. For having a uniform approach, the Policy suggests that a consensus among the SERCs through the Forum of Regulators be arrived at. It also suggests adoption of Distribution Margin as the basis for allowing returns in distribution business at an appropriate time. As per the CERC (Terms and conditions of Tariff) Regulations 2004, the RoE has been fixed at 14% for generation and transmission.
- ii) **Depreciation:** In respect of Generation and Transmission of electricity the CERC has been authorised to notify the rates of depreciation, which would also be applicable to distribution with appropriate modifications as may be evolved by the Forum of Regulators. The rates so notified would also be applicable for the purposes of tariffs and accounting. The CERC has notified the rates of depreciation in CERC (Terms & Conditions of Tariff) Regulations issued vide notification dated 26th March 2004.
- iii) **Advance Against Depreciation:** The Tariff Policy has stated that there should be no need for any advance against depreciation and the benefits of reduced tariff after the assets have been fully depreciated, should remain available to the consumers.

- iv) **FERV Risk:** As per the Policy, the risk on foreign exchange rate variation shall not be a pass through. However, appropriate costs of hedging and swapping shall be allowed for the debts obtained in foreign currency.
- v) **Operating Norms:** The Policy states that suitable performance norms for operation together with incentives and disincentives have to be evolved, with appropriate arrangements for sharing the gains of efficient operations with the consumers.
- vi) **Multi-Year Tariff (MYT):** The policy states that MYT framework is to be adopted for any tariffs to be determined from 1st April 2006.

Under Distribution, the Tariff Policy states that the tariffs shall progressively reflect efficient and prudent cost of supply of electricity and that the extent of subsidy for different categories of consumers can be decided by the State Government, keeping in view various relevant aspects. The Policy specifies that by 2010-2011, tariffs be within +/- 20% of the average cost of supply. Further, the Policy also lays down the formula for computation of cross subsidy surcharge under Open Access.

1.1.5 Implementation of Tariff Policy: The Commission has already taken the following initiatives for implementation of the Tariff Policy:

1. **Amendments to the Tariff Regulations:** The Commission has issued suitable amendments to the KERC (Tariff) Regulations 2000, facilitating ESCOMs to file their ERCs without waiting for any subsidy commitment from GoK. Appropriate provisions regarding RoE and rates of depreciation as per the Policy have been made.
2. The Commission has issued draft regulations during February 2006, for adopting MYT framework for Transmission and Distribution tariffs from

FY08. These Regulations would be finalised in due course after receiving comments from the stakeholders and experts.

3. The Commission has proposed amendments to the KERC (Terms and Conditions of Open Access) Regulations 2004 in March 06 in order to implement the method of computation of cross subsidy surcharge as given in the Policy. Pending finalisation of the amendments, the Commission has determined cross subsidy surcharge following that method effective from 01.04.2006 in order to facilitate implementation of open access in Phases 1 & 2 (Phase 1 was for HT consumers with a Contract Demand of 15 MW and above with a voltage of 66 KV and above which was effective from 10.06.2005 and Phase 2 is applicable to HT consumers with a Contract Demand of 5 MW and above with a voltage of 33 KV and above effective from 01.04.2006).
4. The Commission has issued a discussion paper on harnessing of surplus captive power to the grid. The Commission has already issued Regulations on power procurement from Renewable Sources and has also determined tariff for such sources in order to promote co-generation and generation from renewable sources.

The Commission has initiated action to implement provisions in the Tariff Policy.