



iv) There should be no need for any advance against depreciation.

4. **Comments from the Stakeholders and Experts:** The major objections/views furnished by the stakeholders/experts and the Commission's decision thereon are discussed hereunder.

a) **Regarding facilitating ESCOMs to file their ERCs without subsidy commitment letter from GoK:**

i) Sri B.G.Rudrappa, Former Chairman KEB has suggested that it may be necessary for the ESCOMs to file ERCs every year with or without tariff revision and this could be avoided if MYT is introduced. He has also stated that the Tariff Policy indicates that the Commission should determine the tariff for any category without considering any subsidy element and therefore ESCOM will have to indicate the tariff based on cost of supply and furnish to what extent subsidy is offered and the level of tariff reduction the Govt has in mind. He has also suggested to stipulate a limit in respect of deficit or surplus below which revision of tariff will not be allowed and further that tariff revision may be required when ESCOMs earn substantial surplus also.

ii) Citizen's Forum, Hubli has suggested that Regulation 3.4 should be modified so that filing an application by ESCOM for tariff revision along with the ERC to cover the deficit should be the last resort and if this reasoning is not satisfied, the Commission may reject the entire ERC.

iii) FKCCI, Bangalore has stated that filing of ERCs by ESCOMs have been delayed on account of not getting commitment/ indication by GoK as regards budgetary allocation of subsidy. The Electricity Act 2003 mandates ESCOMs receiving the money towards subsidy in advance, failing which the beneficiaries have to pay the energy charges. As such, even after the proposed amendment, there would still be a huge gap that has to be bridged with the Government's support.

**Commission's views:** The Tariff Policy specifies that the extent of subsidy for different categories of consumers can be decided by the State Government keeping in view the various relevant aspects. Therefore, with the proposed amendment, ESCOMs would be able to file the ERCs/ tariff application in time without waiting for the subsidy commitment letter from the Govt. After determination

of tariff by the Commission based on the filing, the Govt may decide the extent of subsidy for different categories of consumers. Regarding the suggestion to implement MYT approach, the Commission has already issued draft regulations for comments.

- b) Regarding RoE:** KPTCL has requested the Commission to allow RoE at 14%, which is in accordance with CERC Regulations.

**Commission's Views:** The Tariff Policy issued by Gol specifies that SERCs shall follow the rate of return on equity as notified by the Central Commission for generation and transmission. The policy further states that the RoE notified by CERC for transmission may be adopted by SERC for distribution with appropriate modification taking into view the higher risks involved. Since the ESCOMs are state owned, the Commission does not perceive any higher risks to ESCOMs to consider any higher RoE at this stage. Accordingly, the Commission decides to adopt the RoE at 14% as prescribed in CERC Regulations dated 26<sup>th</sup> March 2004 both for transmission and distribution utilities in the state.

- c) Regarding rates of depreciation and Advance against depreciation:** KPTCL has stated that the rates of depreciation as per CERC Regulations are much lower when compared to the rates being presently followed as per MoP notification dated 29.3.1994. The depreciation charged to P&L account in KPTCL and ESCOMs every year is available as an internal resource to the companies for debt servicing. Even with an average 6.5 % rate depreciation (As per MoP notification) the internal resources are not sufficient to meet the requirement of debt servicing and the companies are contemplating seeking advance against depreciation while filing ERC. Hence KPTCL & ESCOMs request the Commission not to amend the tariff regulation in the matter of depreciation.

**Commission's views:** The proposed rates of depreciation are in compliance with the Tariff Policy. An extract of Tariff Policy in the matter of Depreciation is given below:

**"Para 5.3 (c) Depreciation**

The Central Commission may notify the rates of depreciation in respect of generation and transmission assets. The depreciation rates so notified would also be applicable for distribution with appropriate modification as may be evolved by the Forum of Regulators.

The rates of depreciation so notified would be applicable for the purpose of tariffs as well as accounting.

There should be no need for any advance against depreciation.

Benefit of reduced tariff after the assets have been fully depreciated should remain available to the consumers.”

From the above Policy, it is clear that the depreciation rates notified by the CERC would be applicable to transmission companies without any modification. CERC has already notified the depreciation rates for the transmission assets in CERC (Terms and Conditions of Tariff) Regulations notified on 26.03.04 and hence the same shall be applicable to KPTCL also.

Regarding rates of depreciation for distribution utilities, Forum of Regulators would consider if any modification is required to the rates of depreciation notified by CERC. The Commission is of the view that the same rates of depreciation could be adopted for distribution utilities also for the present, duly providing for advance against depreciation to cover the debt repayment obligation.

Regarding advance against depreciation, the Commission notes that while the CERC (Terms & Conditions of Tariff) Regulations 2004 notified on 26.03.04 provides for advance against depreciation to cover the debt repayment obligation, the Tariff Policy specifies that “**There should be no need for any advance against depreciation**”. The Commission notes that with the depreciation rates notified in CERC Regulations, advance against depreciation may be required to meet the debt repayment obligation. However, such advance shall not be allowed for repayment of short-term loans.

Accordingly, the Commission decides to adopt the rates of depreciation as per CERC Regulations for transmission as well as distribution utilities duly providing for advance against depreciation to the extent necessary to meet the debt repayment obligation.

- d) Other comments** received:
- i) Sri S.Govindappa has stated that he has no objection to the proposed amendments.
  - ii) Sri M.R. Ganapathi has suggested that protection of the rights of the consumers can be safeguarded by allowing factors, which influence the cost of power generation from time to time and disallow other factors such as escalating cost of administration and employment as well as system efficiency.

The Commission would keep in view the above suggestion while finalizing MYT approach.

- iii) Mysore Grahakara Parishat, Mysore has raised certain issues, which are not relevant to the proposed amendments.

Accordingly, in exercise of the powers conferred on it by section 56 of KER Act, 1999, read with section 181 of Electricity Act, 2003 and all other powers enabling it in this behalf, the Commission approves amendments to KERC (Tariff) Regulations, 2000, as per the notification enclosed to this order.

**(K.P. Pandey)**  
**Chairman**

**(H.S. Subramanya)**  
**Member**

**(S.D. Ukkali)**  
**Member**

## Annexe-1

### LIST of Stakeholders and Experts who have responded to the Draft Amendments

Sl.No.	Name of the Stakeholders/Expert
1.	Karnataka Power Transmission Corporation Kaveri Bhavan Bangalore
2.	Federation of Karnataka Chambers of Commerce & Industry, Bangalore
3.	Sri B.G.Rudrappa Former Chairman KEB Bangalore
4.	Citizen's Forum Hubli
5.	M.R.Ganapathi, Madikeri
6.	Mysore Grahakara Sangha, mysore
7.	Sri Govindappa Former Technical Member KEB Bangalore