

## **KARNATAKA ELECTRICITY REGULATORY COMMISSION**

No.9/2, 6<sup>th</sup> & 7<sup>th</sup> Floor, Mahalakshmi Chambers,  
M.G.Road, Bangalore-560 001.

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

### **ORDER**

No.D/01/6

Dated 31<sup>st</sup> May 2006

Section 61 of the Electricity Act 2003, which has come into force from 10<sup>th</sup> June 2003, among other things states that the Appropriate Commission shall be guided inter-alia by multi-year tariff principles, for determining the terms and conditions of tariff.

According to the Tariff Policy issued by the Gol on 6<sup>th</sup> January 2006, the MYT framework shall be adopted for any tariff to be determined from 1<sup>st</sup> of April 2006. The Policy has laid down the broad principles for implementation of a MYT framework. Accordingly, the Commission had prepared and circulated the draft regulations for determination of transmission and distribution tariff under MYT frame work, during February 2006 and had invited comments and suggestions from the Government, Licensees, experts, consumer organizations, Chambers of Commerce and Industry and other stakeholders vide letter No.B/01/6/306 dated 23.02.2006. The draft Regulations were also made available on the Commission's website for the general information of the public. The Commission has proposed to introduce MYT framework both for transmission and distribution effective from FY08.

The Commission has received 9 responses on the draft regulations. A list of persons/organisations who have responded on the Draft Regulations is given in the Annexe to this Order. The major comments and suggestions received form

the stakeholders and experts and the Commission's views thereon are discussed below:

**I. Issues common to transmission and distribution MYT:**

**1. Introduction of MYT, Control Period etc.**

Sri B.G. Rudrappa, former Chairman KEB has furnished elaborate comments and suggestions on both transmission and distribution MYT draft regulations. While welcoming the introduction of MYT, in the case of transmission he has suggested to introduce MYT for the STU only stating that the tariff for other transmission licensee/s can be decided on case-to-case basis as and when such transmission licensees come up in the state. He has further suggested to omit certain details provided in the draft regulations on transmission MYT, like details of additional capitalisation under section 3.06 of the draft including, notes thereunder and has suggested modifications to some of the clauses such as 3.07 on debt equity ratio, clause 3.08 on interest on loan capital, 3.09 on depreciation, 3.10 on Return on Equity, 3.17 on incentive, etc. A few others have also suggested such modifications both under transmission and distribution MYT regulations. Sri Shankar Sharma of Mysore has also welcomed the introduction of MYT.

KPTCL has suggested that the norms for transmission availability, treatment of losses and sharing of gains etc can be thought of for implementation from the second year of the first control period since MYT is a new experience for the utilities.

HESCOM & MESCOM have suggested having a fixed control period of 3 years instead of any flexible control period from the second control period onwards. Sri B.G.Rudrappa has also suggested limiting the control period to three years stating that uncertainties may creep in, if longer periods are considered.

**Commission's views:**

On the suggestion to introduce MYT for STU only under transmission, the Commission is of the view that since the STU is also a transmission licensee under section 39 of the Electricity Act 2003, there can be common regulations applicable to transmission licensees, but the same would be applicable to KPTCL only for the present.

The Commission has adopted many definitions and details in the draft regulations from the CERC (Terms and Conditions of Tariff) Regulations 2004 such as section 3.06, 3.07, 3.08, 3.09, 3.10, 3.17 etc of the draft in the transmission MYT regulation and some details have been taken from the tariff policy. Therefore wherever the details have been adopted from the CERC norms/ tariff policy the Commission would like to retain the same for the sake of uniformity and clarity.

On the suggestion of KPTCL to implement certain norms from the second year of the first control period, the Commission is of the view that the MYT framework has to be implemented with all its seriousness from the first year of the control period and in case of any genuine difficulties in implementation, variations may be considered during annual review.

On the suggestion to limit the control period to 3 years from second control period onwards also, in the draft it is proposed to have the first control period as 3 years and thereafter as normally 5 years or other period as may be specified by the Commission. Therefore, the Commission feels that there is flexibility to have an appropriate control period after considering the experience in the first control period.

**2. Contents of MYT Filing (Section 2.4 of Transmission MYT/2.5 of Distribution MYT)**

Sri B.G. Rudrappa has suggested that contents of the MYT filing need not be listed in this section but should be adequate to say that the same

should be as per KERC (Tariff) Regulations. He has also stated that It would be necessary to render previous two years audited accounts by the licensee prior to the base year i.e. for 2005-06 and anticipated performance for the year 2006-07(both technical and financial), while considering the base year for 2007-08 to avoid abnormalities in any year. He has also suggested specifying the perspective plan period as 5 years in the first instance to cover the 11<sup>th</sup> plan period (2007-08 to 2012-13).

**Commission's view:**

Since details of the MYT filing listed in section 2.4/2.5 contains not only details listed in the tariff regulations but also other details such as proposals for sharing gains / losses, efficiency parameters etc under the MYT framework, the Commission would like to retain this sub-section for clarity. The Commission agrees with the suggestion that the licensee shall provide details for the previous two years for the base year and further that the perspective plan in the first instance shall be a for a period of 5 years to cover the 11<sup>th</sup> plan period.

**3. Definitions (Section 1.2):**

Sri D.Subramanya Bhat of Hegdekodi, Bantaval Taluk has proposed to insert definitions of the terms 'Appropriate Commission' and 'Tariff' in the definitions.

The definition of " Appropriate Commission' is already available in the Electricity Act 2003 while the definition of 'tariff' as in KER Act will be included in the regulations.

**4. Targets and Controllable & Uncontrollable Items of ARR ( Section 2.5.2 & 2.5.3 of Transmission MYT and section 2.6.2 and 2.6.3 of Distribution MYT)**

Sri Rudrappa has suggested to delete the above clauses stating that the targets and controllable expenses are well known and it may lead to disputes at a later date and that the option of seeking adjustments based on certain items of expenditure could be left to STU.

KPTCL has suggested sub-classification of O & M expenses into employee cost, A&G expenses interest & financing Charges etc. HESCOM & MESCOM have requested to consider O & M expenses as uncontrollable as against controllable, as indicated in clause 2.6.3 of Distribution MYT.

Sri Shankar Sharma has suggested reviewing the proposal to treat power purchase cost as un-controllable as the same is partly controllable depending on where the power is purchased. He has also suggested to specify targets including SAIFI and SAIDI.

**Commission's Views:**

The Commission would like to retain the details of targets and controllable and uncontrollable items for clarity. Further, the Commission accepts the suggestion of KPTCL to provide sub-classification of the O & M expenses in this section. Regarding the suggestion of HESCOM/MESCOM to treat O&M expenditure as uncontrollable item, there is no reason to consider the same as uncontrollable. Further, the power purchase cost has to be classified as uncontrollable only as its cost depends upon quantum of input energy, source of power, hydro-thermal mix, fuel cost etc in each year which are not fully under the control of the utilities.

On the suggestion to set targets on SAIFI & SAIDI, the Commission has already directed the ESCOMs to workout these indices and furnish the same to the Commission. Considering the baseline indices, the Commission would set these standards in due course.

**II. Terms & Conditions of Transmission Tariff under MYT Framework**

**1 Review of performance (Section 2.7 of Transmission MYT)**

Sri B.G.Rudrappa has stated that structuring of MYT will be easier in case of transmission utilities as the operational parameters do not undergo major changes year on year and the quantum of energy handled also does not

vary to a large extent. He has suggested that it may be necessary for the Commission to have the power to approve revision of tariff more than once during the control period to take care of the Force Majeure situations. He has also suggested that the licensees may seek revision of tariff only when expenditure or the revenue or the income is likely to be at a variance with the approved figures by more than 10%.

**Commission's views:**

The Commission agrees with the view that determination of transmission tariff for the entire control period would be easier since the variation in the operational parameters and energy estimates are not significant and any variation there to can be carried over to the subsequent control period. Therefore, the Commission decides to determine the tariff for the entire control period , year wise, while approving the ARR/ERC of the transmission licensee for such control period. The Commission also agrees that the licensee can seek further revision in tariff during the control period only when expenditure or income during any year is at variance by more than 10% of the approved figures for that year. In case the variation is less than 10%, the licensee may carry over such variance to the subsequent year. This will take care of Force meajure conditions also. Accordingly, the Commission approves to modify section 2.1, 2.7 and to delete 2.8 of the Draft Regulations.

**2. Target Availability (Clause 3.02)**

Sri B.G.Rudrappa has opined that the Target Availability at 98% is too liberal which corresponds to downtime of 14.40 hours in a month. He has opined that the formula for availability is redundant and too complicated.

**Commission's Views:**

The Target Availability of 98% is based on the CERC norms for transmission, which has been adopted in the draft as per the Tariff Policy.

### **3. Auxiliary Consumption (Section 3.03)**

Sri B.G.Rudrappa opines that this clause can be deleted stating that the Commission will have to examine whether the auxiliary consumption is reasonable and if not the licensee will have to come out with the proposal for additional investment and benefit/cost calculations for approval of the Commission.

#### **Commission's views**

Section 3.03 of the regulation indicates that the auxiliary consumption expenses has to be met as part of normative O&M expenses. The points raised in this regard are noted.

### **4. Treatment of Losses (Section 3.04):**

KPTCL has suggested to share both losses and gains over the normative loss levels in the ratio of 50:50 in the first control period. It is further suggested that losses and gains should be calculated at the appropriate voltage level and to be shared among the users at that voltage level only. Sri B.G.Rudrappa opines that no definite formula is required for accounting of losses as, at the end of the year, the question of either bearing or sharing the savings or additional losses could be considered by the Commission. Sri Shankara Sharma has stated that the ERC should be based on actual transmission losses as measured as soon as possible and should be adopted from a definite cut off date.

#### **Commission's Views:**

The Commission is of the view that the utilities should be made accountable for the losses over and above the normative levels, as the losses upto the permissible levels are being fully borne by the consumers. As an incentive for reduction of losses, the sharing of gains of efficiency is proposed in the ratio of 70:30 during the first control period.

**5. Capital Cost (Section 3.05):**

Sri B.G.Rudrappa has stated that the title 'Capital Cost' could perhaps be capital expenditure and it is also opined that it is not desirable to specify a norm to limit the cost of spares to 1.5% of the original project cost. KPTCL has suggested that any benchmarking of capital expenditure shall be in consultation with the licensee. Sri Govindappa, former Technical Member KEB has suggested to include additional clauses regarding cost effectiveness of the new investments, to base the investments on long-term load forecasts etc.,

**Commission's Views:**

The title has been suitably modified. The limitation of the cost of spares at 1.5 % of the original cost of project is as per CERC norms. While benchmarking of capex by the Commission, KPTCL would be consulted in the matter. The suggestion of Sri Govindappa will have to be kept in view while examining the capital investment proposals.

**6. O&M expenses (Section 3.11):**

Sri B.G.Rudrappa has stated that it is not necessary to work out any yardstick based on circuit km of line and number bays in a sub-station for assessing the O&M expenses as proposed in the draft.

The Commission notes that CERC has determined the O&M expenses based on per circuit km/ number of bays in sub-station and such determination would facilitate comparison and benchmarking. The commission has also proposed O&M expenses for the new lines /sub-station as per CERC norms.

**7. Transmission Tariff (Section 3.15)**

Sri B.G.Rudrappa has opined that the formula for determination of transmission tariff is incomplete and has suggested to examine whether the tariff should be based only on per KW. Further, he has suggested that

the annual charges can be divided by 12 and collected as monthly charges from distribution licensees.

**Commission's Views:**

The formula for computation of Transmission Tariff is as per the CERC norms. This would facilitate comparison and benchmarking with other utilities. The charges have to be collected from the distribution licensees based on the capacity allocation.

**8. Incentive (Section 3.17):**

Sri B.G.Rudrappa has opined that there is no need to have incentive and that there should be reduction in the charges if availability in a month is less than the stipulated availability due to constraints in the network. The benchmark for availability as well as reduction in quantum of supply at each point can be decided by the Commission.

**Commission's Views:**

The formula for computation of incentive is as per the CERC norms, which has been adopted, in order to incentivise better performance.

**III. Terms & Conditions of Distribution Tariff under MYT Framework**

**1. Review of performance (Section 2.8.2 of Distribution MYT):**

MESCOM and HESCOM have suggested to have two chances for modification of the tariff after passing orders. BESCO has also stated that modification of ARR only once in the entire control period may not be appropriate especially since the ARR depends upon power purchase cost which is uncontrollable and suggested that the Commission shall consider request of distribution licensee for modification of ARR during annual review of performance and may compensate ESCOMs with suitable tariff revision.

**Commission's views:**

According to the draft regulation, the licensees may seek modification of ERC/ARR during the annual performance review and an application for determination of tariff will have to be filed by the licensees annually. Therefore, the restriction of one time review of the forecast of ERC/ARR during the control period would not be applicable and the regulation is modified accordingly.

**2. Segregation of Accounts into Distribution & Retail Supply (Section 2.2):**

While Sri B.G.Rudrappa has stated that it should be possible for the ESCOMs to apportion the expenditure between distribution and retail supply in the ARR and ERC by the time MYT comes into force, MESCOM & HESCOM have suggested that the segregation between distribution and retail supply business be deferred for a period of at least 3 more years.

**Commission's Views:**

Since the wheeling charges have to be determined separately especially in the context of open access, there is need to bifurcate the expenditure between distribution and retail supply. This would also facilitate comparison and benchmarking. Therefore, the ESCOMs shall initiate action to bifurcate the expense expeditiously.

**3. Annual determination of tariff (Section 2.9)**

HESCOM has suggested that it would be better to decide the incremental tariff for the entire control period.

**Commission's views:**

While the ultimate objective of the MYT is to set the tariff for the entire control period, due to uncontrollable factors and for want of reliable data apart from subsidy and cross subsidy issues involved in the retail tariff, the Commission would set the tariff on a year to year basis for the present.

**4. Wheeling charges and Surcharge (Section 2.9.2) :**

Sri B.G. Rudrappa has opined that the wheeling charges and surcharge in case of open access can be worked out separately and this need not get into the main ARR and that the income from open access operations is not significant. He has also suggested that there should be a separate formula for the surcharge in the case of power purchase.

**Commission's views:**

Since the wheeling charge and cross subsidy surcharge also change from year to year depending upon ARR/ consumer tariff, the Commission would consider the same along with MYT application. Regarding the suggestion to have a formula for passing on fuel surcharge on power purchase to the consumers, the Commission has considered the power purchase cost as uncontrollable in the MYT framework and has allowed the variation for pass through in the subsequent year and as such formula would not be required.

**5. Foreign Exchange Rate Variation Risk (Section 3.2.5)**

HESCOM and MESCOM have stated that in respect of power procurement from Central Generating Stations etc, the payment of FERV risks depends upon the PPAs already signed and hence they requested to retain the existing components of the PPAs already executed.

**Commission's Views:**

The Commission has taken note of the suggestion and suitable modifications have been made in the regulations.

**6. Savings on reduction of losses (Section 3.4.2):**

HESCOM has opined that in case there is a reduction in losses the same is on account of the efforts of the licensee by making capital investments for strengthening the existing system and the consumer is in no way linked

to this. Hence it is proposed to retain the full benefit of reduction of losses by the licensee in order to utilise it for future plans, instead of sharing the benefits in the ratio of 70:30 as proposed.

**Commission's views:**

The consumers are bearing the burden of huge losses in the system and the additional expenses on account of capital investment for reduction of losses is also passed on to the consumers through tariff. Hence the consumers should rightfully share the benefits of reduction of losses.

**7. Theft, Pilferage etc (Section 3.4.3)**

HESCOM has suggested deleting this section in which it is indicated that the Commission may stipulate a period beyond which losses on account of theft, pilferage, failure to meter etc will not be allowed for recovery through tariff.

**Commission's views**

The ESCOMs are required to reduce the commercial losses in a definite time frame to achieve the objectives of the reforms. Therefore, the Commission will have to set such targets at appropriate time and ESCOMs should endeavour to achieve such targets.

**8. Capital Investment (Section 3.5):**

MESCOM and HESCOM are of the view that they are government companies and they are bound by several statutory directions issued by the government and hence while scheme-wise capital investment programme can be approved by the Commission, approval of individual DPRs may be dispensed with as it would be repetitive exercise for the licensees. It is also suggested to remove the ceiling of 1.5% on spares.

**Commission's views:**

Considering the request of the ESCOMs, the Commission has already raised the financial limit for seeking Commission's approval for individual DPRs recently, which would remain for the present. As regards relaxing the limit of 1.5% on capital spares, the same is specified as per the accepted industry norms.

**9. Depreciation (section 3.8)**

BESCOM, MESCOM and HESCOM have proposed to maintain the depreciation as per the earlier rates i.e as per Gol 1994 notification stating that the revised rates do not allow sufficient funds for capital investment and debt servicing.

**Commission's views:**

In the Tariff Policy, it is specified that the depreciation rates notified by CERC would also be applicable for distribution with appropriate modification as may be evolved by the Forum of Regulators. Accordingly, the Commission has adopted the rates notified by the CERC duly providing for advance against depreciation to take care of debt repayment. As and when FOR modifies these rates, the Commission would review the same.

**10. Wheeling Charges (Section 4.3):**

HESCOM has suggested to add 1 to 1.5% to the technical losses considering un-avoidable technical losses on account of faults (such as EFR/Short circuit on lines, leakage of currents in insulators, breakdown of equipment in stations, metering etc.) for determination of the wheeling charges by open access customers.

**Commission's Views:**

The regulations provide for consideration of reasonable loss compensation linked to applicable technical loss benchmark. These benchmarks would necessarily include all the reasonable technical losses.

**IV. Other Suggestions:**

Sri Shankar Sharma has suggested that MYT should be made use of for improvement of performance of utilities by setting yearly targets for improvement of collection efficiency, improvement in service standards, utilisation of capital budget, reduction of AT&C losses, etc by appropriate benchmarking.

**Commission's Views:**

The Commission would set these targets while passing orders on the ERCs for the MYT period.

The Mysore Grahakara Parishat has raised certain issues, which are not relevant for the MYT Regulations.

- V.** Accordingly the Commission hereby approves the Karnataka Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Transmission of Electricity) Regulations 2006 and Karnataka Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Distribution and Retail supply of Electricity) Regulations 2006 as enclosed to this order.

**K.P.Pandey**  
**Chairman**

**H.S.Subramanya**  
**Member**

**S.D.Ukkali**  
**Member**

## Annexe

### A list of persons/organisations who have responded to the Draft Regulations

Sl.No.	Names of the Persons/Organisation
1	Karnataka Power Transmission Corporation, Bangalore
2	Bangalore Electricity Supply Company Ltd. Bangalore
3	Mangalore Electricity Supply Company Ltd, Mangalore
4	Hubli Electricity Supply Company Ltd, Hubli
5	Sri B.G.Rudrappa Former Chairman KEB, Bangalore
6	Sri S.Govindappa Former Technical member, KEB, Bangalore
7	Sri D.Subramanya Bhat, Hegdekodi, Bantaval Taluk
8	Sri Shankar Sharma, Mysore
9	Mysore Grahakara Parishat, Mysore