RECORD NOTE OF THE 6TH MEETING OF THE STATE ADVISORY COMMITTEE HELD AT 11.30 AM ON 28TH NOVEMBER, 2011 AT THE MSERC CONFERENCE HALL AT SHILLONG.

Present:-

1) Shri Anand Kumar, Chairman, Meghalaya State Electricity Regulatory Commission, Shillong.
2) Shri. P W Ingty, Principal Secy, PHE etc., Govt. of Meghalaya.
3) Shri. F.K. Mawlot, Former MLA.
4) Shri. S.K. Lato, Jowai.
5) Shri. Ramesh Bawri, President, Confederation of Industries, Meghalaya.
6) Shri. Sanjeeb Tamuli, RM representing IEX.

Calling the 6th Meeting of the State Advisory Committee (SAC) to order, the Chairman welcomed the members present. He gave a brief presentation highlighting the purpose of the meeting and various legal provisions and responsibility of the Commission. He also briefed the members on the latest order of the Appellate Tribunal on Electricity (APTEL) issued on 11-11-2011 and its implications on timely completion of ARR & Tariff petitions for each financial year. He has also briefed the Hon'ble Members of the SAC about the submission of another tariff petition to be filed by the MeECL for FY 2012-13 by 30.11.2011. The Chairman explained them that in such case there would be frequent tariff revisions in a very short period which may be avoided if both petitions are clubbed together and a single order is issued for 2011-12 and 2012-13.

On the ARR & Tariff Petition for the year 2011-12, the Chairman called upon the Hon'ble Members to participate in the deliberations and invited their suggestions. Members of the SAC raised the following issues:

1. Shri Ramesh Bawri

Shri Ramesh Bawri brought about many pertinent issues relating to the petition and given them in writing too. The complete contents of his suggestions are reproduced below -

<u>GENERAL</u>

1. A **Single Tariff Petition** has been filed by MeECL as the holding Company, whereas separate petitions ought to have been filed by MePDCL, MePGCL and MePTCL as required under the Electricity Act, 2003 ('the Act'). This would have led to a much better understanding of the workings of MeECL. It is suggested that it be made clear that, at least in future, Single Tariff Petitions will not be entertained.

2. It is requested that when finalizing the Tariff, all **earlier orders** passed by this Hon'ble Commission as well as the road-maps and assurances made by the Petitioner be borne in mind.

3. It appears that some of the proposals made by MeECL are not in accordance with the **Regulations**. This leads to an unnecessary exercise of correction on the part of the Commission, besides the Advisory Board and the General Public who may not be aware of the intricacies of law. It is therefore suggested that MeECL be advised to submit their proposals in accordance with the Regulations in future.

4. It is requested that, if possible, another **Meeting** of the Advisory Committee be convened before finalization of the Tariff proposal.

GENERATION

5. At page 11, the projected self generation is 640.63 MU and if the inputs from the new projects i.e. Myntdu-Leshka and Micro Hydels are excluded, projected self-generation is only 490.85 MU. This is far below the generation of 665.38 MU achieved in the year 2007-08 and comprises only 74% of it. It is doubtful that Monsoons are the lone **cause for shortfall** in generation vis-à-vis the installed capacity. Among all States, with Annual Average Rainfall of 2818 mm, Meghalaya ranks in the top 3 states. Meteorological statistics show that the Annual rainfall in East Khasi Hills was almost the same during the years 2007 and 2010 but generation during 2010 was 507.90 MU against 665.38 MU in 2007.

6. As the projected Generation is far below the Installed Capacity, (490.85 MU against an installed capacity of 186.7 MW, excluding Myntdu Leshka and Micro Hydels) the Hon'ble Commission will no doubt keep the **Norms of Operation** specified in Regulation 60 in mind when passing its Tariff Order.

7. It may kindly be noticed from the Energy Balance Chart in Format D-2 that the **'Net Own Generation'** constitutes only 37.5% of the Total Energy and that too if the Myntdu Leshka Project and Micro Hydels are taken into account. 62.5% is Power Purchased from outside.

Excluding these projects, the ratio is barely 28.75% : 71.25%. These figures underscore the paramount need for a 3-Part Tariff Proposal.

<u>REVENUE</u>

8. On my part, I have been unable to reconcile the difference in the **Energy Sales figures** (MU) between Pg. 24-25 / Pg 48-50 which show 1308.73 MU while the figures at Pg. 107-109 show 1222.56 MU, as per Annexure A enclosed. The Hon'ble Commission may kindly reconcile the same, as I may be mistaken in my observation.

9. The Proposed Distribution of available energy in MU's shown in format D-I is as follows:

	No. of Consumers	**2010-11 (MU)**	**2011-12 (MU)**	**% Increase**
LT	279820	364.96	400.95	9.8 %
HT	541	398.07	442.20	11.0 %
EHT	13	205.16	314.12	53.1 %
Others	3	136.35	65.29	(-) 52.1 %
Total	**280377**	**1104.54**	**1222.56**	

From this, there clearly does not appear to be an **equitable distribution of energy** as it inexplicably and discriminatorily favours one class of consumers who number just 13 to whom 53.1% extra power is proposed to be supplied at the cost of other classes which constitutes 99.99% of the total number of consumers and to whom power allotment has been increased only by around 10%. Domestic Consumers are therefore the ultimate sufferers. This is despite the fact that MeECL has stated at Page 10 that the projections are made on CAGR basis. The distribution pattern therefore needs to be corrected truly on CAGR basis, in the interest of the large majority of domestic consumers who are bearing the brunt of load shedding.

10. The Chart showing the Estimated Revenue at proposed Tariff (Anx VI) states that as energy cannot be supplied to the units to the extent of the contracted demand, the **fixed charge for**

Industrial HT & EHT consumers has been calculated at 30% of the contract demand, in accordance with the Hon'ble Commission's Notification dated 16.2.11. At the same time, MeECL has categorically stated at Page 22 that "the actual percentage of average monthly supply to contract demand for June 2011 is enclosed at Anx E." Anx E on its part reveals nothing clearly but the average of the figures shown at Page 63 is 38.29%. Therefore, especially in the light of improved power availability, perhaps the revenue from fixed charges for Industrial HT & EHT consumers calculated at 40% of the contract demand would be more realistic.

EXPENDITURE

11. The cost per unit of **Purchased Power** has jumped from Rs 2.63 per unit in 2010-11 to Rs 3.80 in 2011-12, reflecting a 44.5% increase. As purchased power is the largest component of expenditure, the Hon'ble Commission will surely closely verify whether the rates adopted for each energy source are in accordance with their respective Tariffs as approved by the Hon'ble CERC or deemed to have been approved, keeping the 95% factor in mind in the latter cases.

12. The **Depreciation** Schedule at Page 99 (Format – 6) reveals an addition of a huge sum of Rs1032.76 crores in Capital Assets during the year in question. The periods for which depreciation on the various added assets has been claimed has not been shown but it is obvious that the additional assets were not put to user throughout the year. Regulation 57 requires that depreciation be calculated pro-rata, as per the period of operation of an asset. It further lays down that depreciation be worked out on the straight–line method. The rate of depreciation for Hydraulic Works, Plant and Machinery and Line and Cables has been calculated at 5.28%, which appears to be high considering the life-span of then power plants. The Hon'ble Commission may kindly look into these aspects.

13. Regulation 49 requires that the reasonableness of the quantum of **fresh capital investments** be checked by the Commission, as unjustified escalations in capital costs have a deep impact on the Interest burden and Depreciation amount which are major components of the ARR, not only of the current year but on a long-term recurring basis. Besides, unreasonable escalation leads to heavy financial outflow of capital, in itself. The Hon'ble Commission will undoubtedly look into these aspects. It may be noted that, in the current year, as per the

Depreciation Schedule (Format – 6), new capital investment is to the tune of Rs 1032.76 crores.

14. In the absence of the accounts for earlier years, it is not possible to comment on the eligibility of Rs 28.28 crores as **Return on Equity**. It is however suggested that the Hon'ble Commission may kindly verify the eligible amount in accordance with Regulations 51 and 53, keeping the Debt-Equity Ratio norms also in mind.

15. The target AT&C loss is 29.47% against the target T&D loss of 28.38 % meaning thereby that the commercial loss is 1.09%, whereas the maximum allowable is 1.00%. Even at the proposed tariff rate the total revenue expected is Rs 687.08 crores (which will come down after the tariff is finalized). Commercial loss calculated @ 1% of the total revenue therefore cannot exceed Rs 6.87 crores whereas provision for **bad and doubtful debts** has been kept @ Rs10 crores. This is extremely high and is clearly avoidable with improved alertness and efficiency on the part of the Board and genuine consumers ought not to bear its brunt.

16. A provision of 9.33 crores has been made for **Income tax** in the ARR. This appears to be disallowable as taxable profits are determined only after deduction of Depreciation etc. Hence it is suggested that this amount be allowed only on actual i.e. upon proof of payment which will also be in accordance with Regulation 58.

17. Out of the total projected revenue of Rs 687.08 crores, since only 37.5 % is MeECL's own generation, Rs 257.62 crores is the revenue component from its own generation. The total number of employees is 3353 and the proposed annual salary bill is Rs184.96 crores. The salary bill would perhaps have been no less even if no power was purchased and sold. In this notional view of the matter, 71.8% of the revenue from self generated energy goes into salaries alone. It is feared that the employees' **productive parameters** as shown in Format 3 might not be within the nationally accepted norms. Particularly significant is the Employee cost of Rs1.51 per Unit of Total Energy sold, which works out to Rs4.03 per unit of total Self-Generated Energy sold. Even if there are compulsions preventing pruning down of expenses on account of salary beyond a point, such high costs surely at least call for a determined effort in improving productivity and efficiency, especially in energy generation output and bringing down T&D losses, including power theft and leakages.

18. The Regulations have been drafted and laid down very clearly and meticulously and, no doubt, the Hon'ble Commission will screen the claimed **Operation and Maintenance**

expenses especially under the head 'Employee Costs' very closely and allow only such expenses as are permissible vide Regulation 55. Hence, specific comments are neither necessary nor offered.

19. It may perhaps also be noted that the projected **cost of Solar Energy** need not necessarily be allowed at the Forbearance Price, oblivious of the Floor Price. It is also not known whether tenders have been floated to ensure that Solar Energy is purchased at the lowest possible price.

<u>T & D</u>

20. T&D losses are estimated at 28.38% as against the target of 15.69% as per the road map under the 11th Plan. These T & D losses are resulting in an **exorbitant annual loss** and it needs to be borne in mind that even on purchased power there is a T & D loss of 28.38% which can clearly be avoided if the larger consumers are asked to draw power from the external suppliers directly. Such alarming T&D losses cannot be continued to be allowed, especially in view of the road-maps chalked out by the Petitioner itself and the orders passed by this Hon'ble Commission in the past. It also needs to be borne in mind that such T&D Losses cannot be attributed to Transmission and Distribution alone but, as admitted by the MeECL itself, are also a result of non-metering and Theft / Pilferage of energy, control of which is largely in the hands of MeECL itself.

21. Whereas the percentage of metered consumers has increased annually, the T & D losses have not shown a proportionate improvement which clearly shows that there are reasons other than non- metering such as **power theft, pilferage and meter tampering** leading to such heavy T & D losses, the control of which does not appear to have been suitably addressed by the Petitioner. Hence, in the present year, mere disallowance of 3 % over the T & D losses allowed for FY 2010-11 may not, be adequate in order to coax the Board to put its house in order.

<u>TARIFF</u>

22. Comparison with Tariffs of other States and the need for **social justice**, leaning towards the common man rather than empowered consumers, will show that, by and large, the LT tariffs are and should be lowest and EHT the highest. It must also be borne in mind that consumerwise 99.8% of consumers fall in the LT category and even a small increase in tariff in this category impacts the entire population of the State. The principle of the larger good of the largest number therefore ought to come into play. Big consumers are in a position to lobby and even contest the tariffs whereas the common man is unable to do so and can only depend upon the Hon'ble Commission to take special notice of his plight. Even amongst the big users, the interests of the HT consumers ought to come before the EHT consumers.

23. Out of the 2.70 lac consumers of the Board, 91.7% are domestic consumers, drawing 53.70% of the connected load. In the matter of fixation of tariff, their situation and interests are paramount as **domestic consumers** represent almost the entire population of Meghalaya and the tariff affects their personal finances in a big way, particularly the overwhelmingly tribal population. In the present inflationary scenario, the public in general and particularly the salaried class are already finding it difficult to make both ends meet owing to rising prices. It is therefore suggested that the rates for the domestic sector be only marginally increased, if at all required. The resultant shortfall in revenue can easily be offset by the cuts in the ARR as suggested.

24. It is also suggested that the **unit slabs** for domestic consumers be revised and the existing Tariff of Rs2.35 per KWHR be applied to the first 200 units instead of 100 units. This will bring immense relief to the domestic users. The resultant shortfall can similarly be easily offset by the cuts in the ARR.

25. It is seen that while Fixed Charges are levied on Domestic and all other categories of consumers, no similar **Fixed Charges** are proposed for MeECL employees.

26. **Cold storages** are being vigorously encouraged by the Govt. of India and, as such, specific tariffs ought to be fixed for them in accordance with the advisory issued by the Govt. of India.

27. At page 34 MeECL has proposed to discontinue the current procedure for compensation charge for **low power factor** for LT supply. Surprisingly there is no mention of compensation by HT and EHT consumers whereas these are the categories to which the proposal is truly applicable and should be made applicable to. It is significant that even in the Tariff Petition for 2010-11 compensation charges for L.P.F were not applied to EHT consumers and it was later stated by the Licensee that it was a mistake on their part. The proposal for changing the existing system of Low Power Factor Compensation perhaps also needs technical review by the Hon'ble Commission whether it would truly benefit both MeECL and the consumers as stated.

28. The proposed tariff has been worked out on the basis of the **'Deviation % of Distribution Tariff from the Cost of Supply'** as per the road-map laid down by the Commission on 23.8.2010.

It is submitted that this road-map perhaps needs reconsideration for the following reasons:

a) Sec 61(g) of the Act only requires that the tariff progressively reflects the cost of supply of electricity and also reduces cross-subsidies in the manner specified by the Appropriate Commission. No time frame seems to have been laid down.

b) If the percentages are ultimately within the parameters of plus / minus 20%, that would be ample compliance of the National Tariff Policy and it is not immediately essential that deviation be totally done away with. In fact the whole purpose of allowing deviation is to give a free hand to the Commission to factor in the prevailing local conditions.

c) Large consumers, who are mostly industrial, are entitled to power subsidies while domestic and commercial users are not.

d) Not only is it that their capacity to bear the burden of an increased tariff higher but such burden can be passed on to consumers by industrial users, whereas the domestic user has to bear it from his own pocket.

As such, this year's Deviation % may kindly be re-considered. Perhaps the following deviations would balance the ground realities, the statutory obligations and justice to all:

LT Domestic	:	(-) 28%
EHT	:	(+) 6 %

Thereafter, the deviations for LT Non Domestic and HT could be worked out keeping the total Revenue in mind while keeping the deviations for both categories at par.

MISC

29. It is stated at Page 5 that the increase in the AT&C loss was because the members of a certain association were making only **part payment** of their electricity bills. Clarification perhaps needs to be sought on the reason for acceptance of such part payment i.e. whether there were any binding orders passed to this effect by this Hon'ble Commission / Judicial Authority or whether these were self-inflicted by MeECL.

30. The Tariff Proposal would have been easier to decipher if a detailed **Index** of the numerous Annexures numbered as pages 36 to 113 had also been enclosed with the Petition.

31. For the sake of the record, at Page 20 the Total Energy Sale was provisionally worked out at 2471.56 MU. The MSERC (Renewal Energy Purchase Obligation and Compliance) Regulation 2010 mandates a minimum purchase of 0.3% Solar Energy during 2011-12 and at this percentage solar energy usage works out to 7.41 MU and not 74.15 MU as claimed. Therefore, there appears to be a whopping **over-calculation of Rs 113.45 crores** in the cost of Solar Energy.

NOTE: The Regulations referred to are the MSERC (Terms and Conditions for Determination of Tariff) Regulations, 2011.

2. Shri Sanjeeb Tamuli

Shri Sanjeeb Tamuli raised the following issues:

I. T & D and AT&C Losses

Reduce T&D losses by proper feeder metering and by using TOD meters. He also suggested for improving the collection efficiency.

II. Load balancing & Load distribution

a) Industries should be advised to shift their load from peak period to base period by using Demand Side management

b) Industries should be allowed to buy power from outside sources like IEX in long term or short term basis through open access.

III. Utilisation of Renewable Energy Sources

As per the Tariff Petition MeECL is having SHP, namely:

1) Umiam Umtru Stage II HPS = 18.0 MW

2) Umtru Power Station = 11.2 MW

3) Micro Hydel = 1.5 MW

MeECL needs 5.49 Mu (3.66+1.83 Mu) to meet RPO of Non Solar sources. They are meeting the same by utilizing the micro hydel plant of 1.5 MW itself which gives 11.83 Mu. They also have as pointed out under Sl. 1 & 2 above 29.2 MW which can be brought under REC mechanism.

The energy generated by these plants can be consumed within the state and sell the REC at Exchange (IEX). This will allow extra revenue to the MeECL but for these the following criteria should be met:

a) They are to function as separate companies

b) State nodal agency is to implement the REC mechanism.

3. Shri F K Mawlot

Shri F K Mawlot stated that he fully supported the views expressed by the Hon'ble Members and had nothing more to add.

4. Shri. S.K Lato

Shri S.K.Lato stated that he also fully supported all the views expressed by Mr. Ramesh Bawri and requested the Commission to take these into consideration while deciding the Tariff(D) for the year 2011-12. He wanted that the performance of MeECL needs to be improved in terms of reducing commercial losses and also their efficiency to work.

5. Shri. P W Ingty

Shri P W Ingty insisted on reducing T&D losses and also to consider the issues raised by PHE Department while finalizing the Tariff as the department is not getting any revenue from water supply and is running as no profit no loss organization.

Summing-up the discussions, the Chairman placed on record his profound gratitude to the Hon'ble Members present, for their valuable suggestions and submissions and assured that these would be kept in view, while finalizing the Tariff(D) for the year 2011-12.

(J.B. Poon)
Secretary
MSERC