BEFORE THE MEGHALAYA STATE ELECTRICITY REGULATORY COMMISSION
SHILLONG

TARIFF(D) APPLICATION No 1/2008

In the matter of

The Meghalaya State Electricity Board

And

An Application for determination of the Annual Revenue Requirement and Distribution Tariff for 2008-09

Present: **Mr. Vinay Kohli**
Chairman,
Meghalaya State Electricity Regulatory Commission

Date of the Order: 30 September, 2008.

ORDER

1. The Meghalaya State Electricity Regulatory Commission, a statutory regulatory body established in pursuance of section 82 of the Electricity Act, 2003 is responsible for determining the tariff of distribution and transmission licensees as well as the rate at which electricity generation companies sell power to distribution licensees. In Meghalaya, pending the reorganization of the Meghalaya State Electricity Board, generation, transmission and distribution continue to be performed by one entity. In the absence of unbundling of the Board, the Commission has confined itself to determining distribution tariff.
2. For the purposes of tariff determination the Commission followed the provisions of the Meghalaya State Electricity Regulatory Commission (Determination of Tariff) Regulations, 2006, sections 61 to 66 of the Electricity Act, 2003 and the Tariff Policy announced by the Government of India under section 3 of the Act.
3. In the current year the Meghalaya State Electricity Board, a deemed licensee under the Electricity Act, 2003, filed an application for determination of the Distribution Tariff for 2008-09. The application, which should have been submitted by the 30^{th} of November 2007, was – with the consent of the Commission – filed on 31^{st} March, 2008. The delay in applying for a revised tariff in the previous year and the consequent notification of the tariff in December 2007, was accepted as sufficient reason for the delay. For the year 2008-09 the estimate of the Annual Revenue Requirement (ARR) of the Board is Rs.512.01 crores. Rs. 443.07 crores was the estimate for the previous year.
4. On initial scrutiny of the application the Commission felt that a clarification about the level of satisfaction proposed to be achieved was required. As against more than 2600 million units of power required to meet the demand of consumers in the State the Board was able to commit to availability of only a little over 1600 million units. The Board's assertion that the high marginal cost of procuring additional power would deter consumption seemed puzzling. Past experience suggested that transmission bottlenecks prevented the Board from accessing additional power. Cost of procurement was never an issue. In the light of transmission capacity remaining unchanged the Commission was of the view that the almost 1000 million units shortfall projected by the Board in their application would persist during the year. Nevertheless, in order to obtain a firm figure of the total availability of power, a hearing was held on 3^{rd} June. 2008. While the Board maintained that they were in a position to meet the total demand of 2,600 million units, in the subsequent hearing held on 12 August, 2008 the Board reverted to its initial position of being able to supply only 1623.39 million units. This is the figure that the Commission has used in computing the ARR for the current year.

5. The ARR and tariff application was taken on record on 3rd June, 2008 and the Board was directed to publish the salient features of their proposal in prominent newspapers of the State. Views, comments and suggestions from the public were sought within the stipulated thirty days time period. In the meantime the State Advisory Committee was convened on 10th July, 2008 and the application of the Board discussed threadbare. (A record of the discussions is at annexure-D) The publication of the tariff drew four responses. These are appended at annexures II to V. The Boards comments on the responses are at annexure VI. The record of discussions in the public hearing held on 12th August are at annexure VII.
6. The Me.S.E.B.'s application for revision of tariff for the year 2007-08 revealed many areas of concern. During the consultation and hearing process several voices were raised about the need to control expenditure and improve efficiency.
7. Expenditure on personnel was referred to in particular. While the Commission expressed concern at the impact of this expenditure on the overall ARR, it accepted that no quick fix solution was possible. In so far as pension liabilities were concerned the Commission felt that the Government should assume this liability as has been the ease in other States where the Boards have been reformed. While a reaction from the Government is awaited, the mandatory restructuring of the Me.S.E.B., has still not taken place. Pension liabilities will therefore continue to remain a charge on the revenue of the Board.
8. T & D and Aggregate Technical and Commercial losses were recognized by the Commission to be reflective of the operational efficiency of the Board. The figures revealed in the 2007-08 application for tariff revision were found to be excessive. Several stakeholders/consumers felt that the impact of this functional shortfall should not be transferred to consumers. At the very least it was suggested that the Commission lay down a regime prescribing targets to bring down these excessive costs over a period of time. Last year the Commission had felt that the Board's annualized 11th plan target for both T & D and AT & C losses was a fair commitment and adopted this as a performance indicator for aggregating ARRs in the following years. In the application for revision of tariff, currently under consideration, the estimates of actual performance are at complete variance with the 11th plan targeted figures. Taking these in to account a fresh target has been determined by the Commission.
9. After the order determining tariff for the year 2007-08 was issued the Board chose to move a review application. The principal ground was the likely shortfall in the A.R.R. due to the inability of the Me.S.E.B., to realize dues, including arrears of dues, from different departments of the Government. It was argued by the Board that several of the establishments of the Government were providing critical/essential services and disconnection was not a practical option. While the Commission found it difficult to agree with this contention, the fact that both the Board and the various defaulting offices were integral parts of the

Government, weighed heavily in favour of maintaining that Government should find a way to compensate the Board for the loss in revenue. Transferring this liability to the consumers was not an acceptable way of making up the shortfall. The revision in tariff proposed by the Board was therefore rejected. The Government however cleared a large part of the revenue shortfall by making an adhoc payment of Rs.50 crores.

10. The rebate extended to consumers for paying bills in time was found to be at variance with the Regulations framed by the Commission. For practical reasons the tariff order for 2007-08 did not make any change in the existing system of billing. It is expected that in the current year bills will follow the provisions of the Meghalaya Electricity Supply Code, 2006.
11. The progress in achieving 100 percent metering has been very slow. While no reliable estimates of revenue loss on this account can be determined, the proposed phased programme of implementation and the consequent delay in achieving the target is difficult to accept. The Commission, as a consumer friendly measure, has already directed the Board to arrange for the sale of meters. This, it was felt, would ensure maintenance of basic standards of quality, apart from eliminating the need for certification of individual meters by the Board. The Board, being a bulk procurer, could also negotiate favourable prices with manufacturers so that consumers could benefit from the discount that the Board could secure. Unfortunately, the Board does not seem to have made mush progress in implementing this measure. Should the Board not be able to procure and stock meters due to working capital constraints, arrangements to recognize dealers from whom meters could be procured on terms finalised directly between the Board and the manufacturers could be made. The fact that as many as 145527 connections out of the total of 230577 are at present un-metered illustrates quite graphically the alarming nature of the problem. The target of providing 23362 meters in the current year proposed by the Board is far too low. Eliminating un-metered connections not only plugs leakage, it also benefits consumers with meters who currently have to bear the burden of this revenue loss.
12. A two part tariff was introduced for all consumers in 2007-08. This meant substituting the previously prescribed minimum charge with a lump sum charge linked to the connected load. Industrial consumers have been representing that during periods when power supply was restricted; the disproportionate burden on account of the demand charge placed a strain on their finances. Their request for calibrating the demand charge to the quantum of power supplied has in fact found favour with the Board (Annexure VIII). Its impact on revenue receipts has however not been estimated. While the Commission cannot deviate from the two part tariff principle, in the context of continuing cross subsidies and consequential category wise revenue differentials the Commission is of the view that since shortages will continue, the supply of electricity must endeavour to proportionately share the shortfall across all categories of consumers. In this context the category wise quantities projected by the Board for

aggregating the ARR are accepted as the basis for allocating power to each tariff group. Lean season shortages will necessarily have to be shared on a proportionate basis. Just like other industrial units in the State, the Board is also a commercial entity and lean periods also adversely impact the finances of the Board. It is important therefore that consumers, including industrial consumers, understand this predicament. Until sufficient power is available to meet the entire demand, disturbing the pattern of distribution of power can have a debilitating effect on the Board's finances. In the context of the monopoly nature of the Board's operations, it is neither in the interest of the Board or the consumer to see this happen. Every slippage in revenue recovery entails an increase in the burden on the consumer in the subsequent tariff computations.

13. In the tariff fixation exercise conducted last year several relaxations were made in the implementation of the Meghalaya Supply Code, 2006. In the current tariff determination exercise the Board has made proposals that are not in conformity with the Code. Such exceptions are not permissible. The power to remove difficulties, however, does exist and recourse can be taken to invoke Regulation 22(1) of the Meghalaya Supply Code, 2006. At present the Commission feels there is justification for holding in abeyance. Regulation 6(1) which provides for bimonthly billing. An amendment proposal is currently under the active consideration of the Commission. Pending a final decision, the existing practice followed by the Board in this regard may continue. The other relaxation that the Commission allows pertains to the new bill format. Pending such time as a new bill form is approved; the Board is allowed to use the existing form for a period of two month from the date of implementation of the new tariff order. An insert may however be enclosed carrying text which in essence conforms to the new tariff order and the provisions of the Supply Code. The proposal of the Board in section XV of their application must fully conform to what has been specifically provided in the Code. It may be noted in particular that rebates, allowed to continue so far, have been done away in the Regulations. A penalty of 2.5% of the billed amount for late payment has been provided. This may be followed from the next billing cycle.
14. In the last tariff order the Commission refrained from commenting on the need for an independent assessment of the financial health of the Board. The Commission felt that since the Board was on the verge of being dismantled in accordance with the specific provisions of the Act, such an exercise may not be necessary. Since this reform has been delayed, the Commission would like the Board to provide the Commission with audited accounts for the year 2007-08. Several consumers while commenting on the tariff proposal have expressed their uneasiness about the lack of up-to-date audited accounts. Should there be delay in obtaining the CAG's certification the Board may engage the services of a suitable chartered accountant to authenticate the accounts before the tariff application for 2009-10 is taken up in November this year. Depreciation, loans, interest payments, over-dues, etc., need to be verified while aggregating the

revenue requirement and the Commission would like a third party certification in this regard. For the current tariff determination the figures provided by the Board are being accepted.

15. The Commission would again like to draw the attention of the State Government to the adverse impact on tariff that delay in reforming the Board is causing. A large part of the financial burden currently being passed on to the consumer would not be there after the Board was dismantled. A more precise assessment of performance will also be cacilitated.
16. The first phase of Leshka-Myntdu hydro-electric project is expected to start generation this year. While it is unlikely that there would be an augmentation of supply to the State in 2008-09, the Board may like to compile relevant data for determining the cost of generation. This would facilitate a decision on how this power might be used.
17. The Electricity Act, 2003 provides for an up-front subsidy being extended by the State Government to any deserving category of consumer. The Government was accordingly asked if they had any plans in this regard. A specific reply stating that the Government had no proposal to subsidise supply of power to any consumer category has been received by the Commission. The tariff determination is being processed in the light of this response.
18. As commented on earlier, the current tariff proposal of the Board has revised the base figure of A T & C losses adopted last year. The commit6ment made in the 11th plan document agreeing to annual targets of reduction is at variance with what has now been presented to the Commission. More disappointing is the proposal of the Board to reduce A T & C loss from 40.99% (estimate for 2007-08 to 40.60% in 2008-09. The Commission feels that the Board must display greater commitment to eliminating wasteful losses and feels that a 2% reduction should in fact be achievable. This is being factored into the revenue aggregation for 2008-09. With improvement in meter coverage. Better performance in bill collection and a more stringent application of the provisions in the Act for dealing with cases of power theft the Board can in fact bring down the loss of revenue even further.
19. The tariff proposal currently being examined contains more than Rs.90 crores of interest payments. Of this Rs.29.02 crores is to be paid to the Government. This Commission, in line with several other Commissions in the country, feels that no provision should be made on this account. As and when the Government reforms the Board, this amount, like several other liabilities, can be suitably adjusted. The amount is therefore deducted from the ARR.
20. The Commission at this stage is unable to rationalize any other area of expenditure. In these circumstances, after including 14% return on equity the Commission finalises and approves an Annual Revenue Requirement of Rs.465.73 crores for the year 2008-09. The details are contained in the Table 1.

TABLE 1

Sl. No	Particulars	Projected A.R.R of MeSEB (Rupees in crores)	Allowed by Commission
1.	Purchase of Power from other Source	218.68	218.68
2.	Inter-State Transmission Charge	46.21	46.21
3.	R&M Expense	29.17	29.17
4.	Employee Expenses	102.81	102.81
5.	A&G Expense	8.78	8.78
6.	Depreciation	15.37	15.37
7.	Interest & Finance Charges	93.88	64.86
8.	Less:Interest & other expenses capitalized	-	-
9.	Other Debits (incl.Prov for Bad debts	10.00	10.00
10.	Extraordinary Items	-	-
11.	Other (Misc.)-net prior period credit/(charges)	-	-
	Sub-Total (A)	**524.90**	**495.88**
	LESS:		
	1. Other receipts	41.17	*41.17
	2. Revenue gain for 2% reduction of AT&C Loss	-	17.26
	Sub-Total (B)	**41.17**	**58.43**
	Gross Total (A-B)	**483.73**	**437.45**
	Add: Return on Equity	**28.28**	**28.28**
	Net A.R.R	**512.01**	**465.73**

Note:- (*) Elements of rebate if included in Rs.6.10 crore of Board's proposal has been adjusted disallowing rebate in Tariff proposed by the Board.

21. To recover the approved A.R.R. the Commission has decided to modify the Board's tariff proposal. Further, to ensure that in actual implementation the amount of Rs.465.73 crores accrues to the Board, the Commission approves aggregate quantities of electricity proposed to be supplied to different categories of consumers representing different tariff groups. (Table II).

TABLE II

Sl. No	Category	Sale of power (MU) (Percentage to total sale in bracket)	Total revenue for the year proposed by MeSEB (Rupees in crores)	Total revenue at allowed tariff rates(Rupees in crores)
1.	L.T	292.60 (27.31)	101.95	89.14
2.	H.T	357.76 (33.39)	214.69	183.04
3	E.H.T	288.08 (26.89)	141.63	139.13
4	Outside sale (bilateral/UI)	133.00 (12.41	54.42	54.42
	Total	**1071.44**	**512.69**	**465.73**

22. Table III (a) (b) and (c) provide details of the actual tariff approved by the Commission for each category of consumer. The Meghalaya State Electricity Board will apply these rates from the next billing cycle during the year 2008-09. The prescribed rates will remain valid until next revision of tariff.

TABLE III(a)

Sl. No	Category	Connected Load (KW)	Fixed charge per KW (Rupees)	Total fixed charges (Rupees in lakhs	Sale of energy (MU)	Slabs of units	Sale in each slab (MU)	Tariff rate (P/U)	Amount in each slab (Rupees in lakhs)	Amount for full year (Rupees in lakhs)
1	Domestic (DLT)	218307	25	654.92	192.11	First-100	107.58	235	2528.13	5883.21
						Next-100	51.87	275	1426.42	
						Above-200	32.66	390	1273.74	
2.	Commercial (CLT)	42910	70	360.44	30.63	First-100	10.72	400	428.80	1757.94
						Next-100	10.72	475	5.9.20	
						Above-200	9.19	500	459.50	
3.	Industrial (ILT)	10771	100	129.25	4.69	First 500	0.47	400	18.80	357.15
						Next 500	0.70	480	33.60	
						Above 1000	3.51	500	175.50	
4.	Agriculture (AP)	476	30	1.71	0.61	All units	0.61	150	9.15	10.86
5	Public Lighting (PL)	323	70	2.71	1.49	All units	1.49	500	74.50	77.21
6	Water Supply (WSLT)	4206	60	30.28	6.43	All units	6.43	390	250.77	281.05
7	General Purpose (GP)	8911	50	53.47	8.95	First 100	1.97	440	86.68	486.72
						Next 100	1.97	475	93.57	
						Above-200	5.01	505	253.00	
8	Office/Employees				45.00		45.00	10	45.00	45.00
9	Kutir Jyoti (Metered & Unmetered				2.70	25657 nos	2.70	Rs.60 for un-metered connection and Rs.50/- for metered connection	15.39	15.39
	Total				292.60		292.60			8914.53

Table III (b)

Sl .No	Category	Contract Demand (KVA)	Billing Demand	Sale of Energy (MU)	Demand Charge (D/C) Energy Charge (E/C)	Tariff	Total amount for the year (Rupees in lakhs)	Total amount of the Category for the year (Rupees in lakhs)
1.	General purpose/bulk supply including Domestic H.T	61909	46432	79.16	D/C in Rs Per KVA E/C in paise per unit	300 300	1671.55 2374.80	4046.35
2.	Commercial (CHT)	6492	4869	6.15	D/C in Rs. Per KVA E/C in paise per unit	280 350	163.60 215.25	378.85
3	Industrial (IHT)	150366	112774	252.93	D/C in Rs. Per KVA E/C in paise Per unit	145 445	1962.27 11255.38	13217.65
4	Water Supply (WSHT)	7458	5594	19.52	D/C in Rs. Per KVA E/C in paise Per unit	170 280	114.12 546.56	660.68
	Total			**357.76**				**18303.53**

TABLE III (c)

EHT Category

	Billing Demand (KVA)	Sale of Energy (MU)	Tariff	Total amount for the year (Rs. in lakhs)	Total amount for the Category (Rs. In lakhs)
118040	88530	288.08	Demand charge: Rs.130 per KVA	1381.07	13912.55
			Energy charge: 435 paise per unit	12531.48	

Vinay Kohli
Chairman