CUTS INTERNATIONAL & CUTS INSTITUTE FOR REGULATION & COMPETITION[1]

SUBMISSION OF OUR COMMENTS TO UPERC ON THE IN-HOUSE PAPER 'THE IMPLEMENTATION OF SINGLE PART TARIFF IN POWER DISTRIBUTION'

BACKGROUND

Single part tariff as being proposed by Uttar Pradesh Electricity Regulatory Commission (UPERC) needs to be analysed *vis-a-vis* current circumstances and challenges.

While prima facie, the idea of introducing single part tariff on the basis of minimum contracted load seems lucrative for the consumers in the short term, the impact of this on medium term and long term needs to be evaluated in further details. The value chain of electricity comprises from generation, transmission and distribution with consumers being at the receiving end of the services. Besides economic contribution, electricity plays a key role in sustainable living for the common consumers. Thus, the tariff setting process and its implications in calculation of final electricity cost plays a crucial role for each and every consumer at large.

In the proposed proposal, UPERC is only targeting domestic consumers under category LMV1 and LMV2 for the pilot. However, there are several concerns which would need to be addressed. Consumers are majorly concerned about the electricity bills and the services they receive from the discoms. They are least concerned about the operation of the discoms and the way they function which is best left to the discoms and regulators.

IMPACT ON CONSUMERS

The existing system of billing does not reflect various components of fixed cost and the methodology on how price fixing is determined for arriving at the fixed cost per MW per month basis. Consumers often fail to understand the rationale behind the fixed price fixation. The arbitrary nature of price fixation for the fixed cost component has been always a bone of contention between the consumers and the discoms. It is perceived that the fixed cost component should be gradually declined while the capex of the discoms in laying the basic infrastructure being recovered over a time period. Also, if there is no significant upgradation of the assets owing to the increased contracted load or demand, it should be diminishing in nature only with O&M component forming the major part of the recovery.

In addition, there have also been concerns about the unjustified transfer of T&D Losses to consumer tariff. UPERC in its annual tariff orders has been time and again demanding the discoms for carrying out loss estimation studies in order to set the baseline for distribution loss estimate. However, the progress on the above has been slow.

Further, the additional charges which also include regulatory surcharge have remained a matter of concern for the consumers. The Commission in its yearly tariff orders has been emphasising upon linking regulatory surcharge with performance. However, owing to little or no incentive for discoms officials to enhance their performance, the changes have been minimal over the years.

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[1] www.cuts-international.org ; www.circ.in

Any component that is recurring in nature should not be a part of the fixed component at all and should move to another head of variable charges. There may be an additional component for the same if the discoms does not want to merge that component with the energy charges to keep a track of its own spending for planning and revenue generation.

Consumers are also worried about power quality and availability. The regulator is right when it says there is a valid concern from consumers for not receiving power 24x7 but paying for the fixed cost for power outages and unavailability. Linking of the fixed cost at pro rata basis to the actual hour of power supplied is a welcome step from the regulator.

In the proposed model, it seems that consumers will benefit with this move if it opts for lower contractual demand from the discoms and consume less. But a careful observation would show that this is not true.

For example, if a customer belonging to LMV1 category with a contractual load of 3 KW consumes 200 units a month.

- Electricity Bill on the Existing tariff Model would be INR 1177.5 (keeping other factors constant)
  - Calculation: Fixed charge (INR 90 x 3 = INR 270) and energy charge (INR (150 x 4.40) + (50x 4.95) =INR 907.5. Total Bill (270 + 907.5) = INR 1177.5

- Electricity Bill with proposed structure will be INR 975 (keeping other factors constant)
  - The consumer with 3KW contracted capacity would pay (INR 325 x 3) = INR 975

As per the regulatory guidelines, the consumer has to pay the amount which is higher of the above two. In this case, the consumer will pay INR 1177.5. Similarly if it consumes, for example, only 50 units per month, it has to pay the higher amount of INR 975. In both the possibilities, consumers would lose significantly.

Overall the consumer stands not to gain from the proposed model. There may be cases where consumer is out of station for a longer period or consumes significantly less units. In these cases also, it would need to pay the higher amount owing to fixed cost criteria of the regulator.

Similarly for a consumer, who is consuming, suppose a higher amount of energy will end up spending the actual amount under the existing system. On the contrary, the consumer may want to manipulate the system by showing less contracted capacity and consuming more units of energy and eventually stressing out the grid. This might result in frequent tripping if the single point contracted load is less than the actual withdrawal.

It would have been good to offer the alternative where the lower amount would have been considered for paying of the bills. In such a scenario, the consumers would be encouraged to consume less and focus on energy conservation.

IMPACT ON DISCOMPS

The operational efficiency and management of power procurement and distribution at the utility remains a major concern for most of the utilities in India. Due to inaccurate demand prediction from the consumers, they fail to secure long term power procurement orders and use the same

as a way out for not getting into fresh procurement contracts. Instead, they prefer to go for short term power procurement from traders or power exchanges at a high cost and pass on the burden to consumers. Further, discoms prefer in heavy load shedding in summer seasons or at the peak hours of operations. Sometimes, due to pressure from various sources (mostly political) they tend to overdraw from the grid, resulting in heavy penalty on the discoms.

The absence of long term planning for system upgradation and securing future power procurement comes from the faulty demand forecasting at the consumer level. As consumers seem to show less contracted capacity but actually draw more than their contractual capacity, it puts both the grid system and its security at a higher risk.

Despite severe power outages, several regions in India reflect power surplus owing to faulty data and information fed into the system. The proposed system will aggravate the situation further. This will project a false scenario that there is less demand from the consumer side and as a result, the power procurement planning might get effected.

As far the domestic consumers are concerned, solar roof-tops are anticipated to gain huge momentum as cost of power consumption shall not vary as per the rated or designate load but as per connections. On the regulators side also, there will be implementation challenges in fixing minimum contracted load for an individual consumer or to a group society at large. Whether it will be done by the discoms or to be left with individual consumers or group housing society remains a question as of now?

The setting of proper benchmarks for contracted capacity for such a scenario would be a difficult task. What would be the criteria? Will it be based on income level of the person for an individual level or the life style it demands based on the appliances at the house holds? Similarly in the case of a society, where there are people from various income levels, electricity consumption level, life styles, etc. it would be difficult to assess their demand and put strict contracted load criteria. This would result in discrepancies. Averaging out may distort the overall balance towards either side (consumer or the discoms). Also, the seasonal requirement adjustment of the fixed cost would be a big concern. Only changing the fixed cost component up and down without any proper framework would serve no purpose and it will be an eye wash only.

The idea which is mooted by the regulator for a pilot on the domestic consumer needs to be analysed on the basis that merits should outweigh demerits. The discoms needs to find out how much volume in terms of power consumption, it would experiment and what would be the overall effect on the revenue streams from these consumers. It would be better for the regulator to keep pressing for technological interventions and installation of smart meters or pre-paid meters.

A comprehensive study may be carried out after installation of smart meters to study the load profile in details and planning could be done accordingly. As any changes made at the consumer level has a cascading effect on the entire value chain of electricity that is from distribution to generation. The effect on the other segments also needs to be analyzed in details before making any changes down the line.

In addition to the above, the commission also needs to lay greater emphasis onto reduction of additional charges (regulatory surcharge *per se*) and T&D losses. The Commission in its yearly tariff orders has well recognized the need to introduce incentives for the discoms officials to enhance their overall performance, but little has been thought off in this regard.

NEED FOR REGULATORY IMPACT ASSESSMENT

Last but not the least, regulations/policies impose costs on stakeholders and hence must be carefully designed. The objective of regulation/policies (the problem to be solved) must be clear for which multiple regulatory options should be designed. Impact on economy, society and environment of different regulatory/policy options needs to be estimated and such option having the potential to result in maximum net benefit must be adopted. This approach is known as Regulatory Impact Assessment, and is an internationally accepted best practice for regulation making. It has been recommended for India as well.[2] Thus, it is important to undertake RIA (cost/benefit analysis) on the proposed Single Part Tariff before its implementation.

Given our rich experience of having worked on regulatory issues and having developed certain tools[3], CUTS would be able to provide support to the Commission to undertake the mentioned task.

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[2] Financial Sector Legislative Reforms Commission (2013), Damodaran Committee Report (2014), Ajay Shankar Committee (2016)

[3] http://www.cuts-ccier.org/BHC-RIA/pdf/Draft_RIA_Toolkit_(for_public_comments).pdf