

**BEFORE THE ORISSA ELECTRICITY REGULATORY COMMISSION**

**BHUBANESWAR**

**IN THE MATTER OF**

An Application for approval of Open Access Charges for the financial year 2018-19, in accordance with the para 4(1)(xiv), 4(2)(vii) and 4(3)(vi) of chapter II (Charges for Open Access) of OERC (Determination of Open Access Charges) Regulation, 2006, Transmission/Wheeling Charges, Surcharge and Additional Surcharge applicable to open access customers for use of intra-state transmission/ distribution system, in view of section 42 of the Electricity Act-2003.

AND

**IN THE MATTER OF**

Wesco Utility

Head Office Burla, Sambalpur, Odisha-768017.

-----Utility

**Humble application of the Utility above named for determination of Transmission / wheeling charges, Surcharges, Additional surcharges and miscellaneous charges for FY 2018-19 applicable to Open Access customers**

**MOST RESPECTFULLY SHEWETH :**

1. Wesco Utility, Burla,( WESCO), is the holder of the Odisha Distribution and Retail Supply License, 1999 ( No 4/99) and has been carrying out the business of distribution and retail supply of electricity in the nine districts of Odisha, namely, Sambalpur, Sundargarh, Bolangir, Bargarh, Deogarh, Nuapara, Kalahandi, Sonepur and Jharsuguda. This submission is made by the Utility before the Honorable Commission for the determination of Open Access Charges for the Financial Year 2018-19.

That, Hon'ble Commission in their Order dated 04.03.2015 in Case No. 55/2013 have revoked the Licences of NESCO, WESCO and SOUTHCO (Distribution Companies) under Section 19 of the Electricity Act, 2003.

Consequent upon such revocation and considering the situation at hand due to such revocation of Licences of NESCO, WESCO & SOUTHCO and also keeping in view, the salient objectives and purpose of the Electricity Act, 2003 Hon'ble Commission in exercising powers conferred on it under Section 20 (d) of the Electricity Act, 2003 vests the management and control of NESCO, WESCO and SOUTHCO utilities along with their assets, interests and rights with Chairman-Cum-Managing Director, GRIDCO (CMD, GRIDCO) in order to ensure the maintenance of continued supply of electricity in the Northern, Western and Southern Zone (area of supply of NESCO, WESCO and SOUTHCO) in the interest of consumers and the public interest at large. This is an interim arrangement under Section 20 (d) of the Electricity Act, 2003.

Hon'ble Commission further directs that the management and control of the utilities of NESCO, WESCO and SOUTHCO with all the assets, interests and rights shall vest with Chairman-Cum-Managing Director, GRIDCO with immediate effect and he shall manage the electricity supply activities in the revoked licensed area of NESCO, WESCO and SOUTHCO respectively till further orders of the Hon'ble Commission.

Subsequent to above direction of Hon'ble Commission the Administrator of the Utility has appointed an Authorised officer to look after the day to day operation of the utility without affecting the consumer service of the western part of the state.

2. That, as per OERC (Determination of Open access charges) Regulation, 2006 the licensee is required to file the application with Hon'ble Commission. Accordingly, this application is being filed along with ARR and tariff application for FY 2018-19.
3. The Orissa Electricity Regulatory Commission (herein after referred to as Commission), in exercise of the power vested in it under Sections 42, 61 and 86 of the Electricity Act 2003 (herein after referred to as EA 2003) and all other powers enabling in this behalf, determines the frame work for computation and implementation of cross subsidy surcharge for open access transactions within the State of Orissa.

4. The Hon'ble Commission in its Notification dated 6<sup>th</sup> June 2005 made the Regulations for open access to the intra-state transmission and distribution systems and terms and conditions thereof.
5. Further, the Hon'ble Commission in its Notification dated 6<sup>th</sup> June 2006 made the Regulations for Determination of Charges for Open Access customers in the intra-state transmission and distribution systems in the State of Odisha.

In view of above the Utility submits as under:

1. That the Utility in accordance with regulations framed by Hon'ble Commission under the provision of Electricity Act 2003 is required to file the wheeling charges, cross-subsidy surcharge and additional surcharge before the Commission for approval.
2. That the consumers intend to have open access to the distribution and/or intra state transmission systems to avail supply of electricity from any licensee other than the distribution licensee of their respective area of supply, are to be permitted by the nodal agency in accordance with the following phases.

Phase	Eligibility Criteria	Commencement date
1.0	Requiring power exceeding 5 MW	August 1, 2006
2.0	Requiring power exceeding 2 MW	April 1, 2007
3.0	Requiring power exceeding 1 MW	April 1, 2007

3. That the licensee is required to provide non-discriminatory open access to the consumers within the period as stipulated by the Commission in accordance with the provisions of Section 7 (d) under Chapter-III of the OERC (Terms and Conditions for determination of tariff) Regulations 2004.
4. That the Utility is required to get compensation for the loss of cross subsidy element from the consumers or category of consumers who have opted for Open Access to

take supply from a person other than the licensee in accordance with the provisions of Section 7 (c) under Chapter-III of the OERC (Terms and Conditions for determination of tariff) Regulations 2004.

5. That the Utility is required to get additional surcharge to meet the fixed cost arising out of his obligation to supply to the consumers or category of consumers who have opted for Open Access in accordance with the provisions 7.74 and 7.75 of the OERC (Terms and Conditions for determination of wheeling tariff and retail supply tariff ) Regulations 2014.
6. That the Utility submits before the Commission that at present no consumer is permitted by the utility to opt for Open access for getting compensation towards additional surcharge to meet the fixed cost. The utility reserves the right to file before the commission with the relevant short fall of fixed cost as and when the issue comes in future.
7. That, the present application is presented before the Honourable Commission for the approval of the wheeling charges and Cross-Subsidy surcharge for FY 2018-19.

### **Background**

1. Wesco Utility is the holder of license No.4/99 granted by OERC under Section 15 of the OERA vide their order dated 31<sup>st</sup> March, 1999 and has been operating under the license granted by the Commission.
2. The Electricity Act 2003 (EA 2003) enables eligible consumers to have non-discriminatory Open Access (OA) to the network of a Licensee on payment of applicable charges. The EA 2003 and National Electricity Policy (NEP) formulated therein mandate the State Electricity regulatory Commissions to frame the terms and conditions and timeframe for introduction of OA in the State.
3. The Commission notified the OERC (Terms and Conditions for determination of wheeling and retail supply Tariff) Regulations, 2014 for Utilities in the State of Odisha as well as OERC (Terms and Conditions for Open Access) Regulations, 2005.

However, in order to implement Open Access in the State, Hon'ble Commission is required to determine the following charges to be paid by the OA consumers:

- a. Transmission charges/ Wheeling charges;
- b. Cross-subsidy surcharge;
- c. Additional surcharge.

The Commission has defined the methodology in its Regulation, 2006 (Determination of Open Access Charges) for determination of transmission charges, wheeling Charges, Cross Subsidy surcharge and Additional Surcharge for use of the intra-State transmission network within the State. Further, the Commission will determine the above open access charges during the tariff determination process currently underway for all Utilities in the State.

In the said Regulation 2006 the Hon'ble Commission prescribed the issue of methodology to be followed for determination of transmission charges, wheeling charges, cross-subsidy surcharge and additional surcharge. It is envisaged that based on the prescribed methodology, the transmission charges, wheeling charges, cross-subsidy surcharge would be calculated during the tariff determination exercise currently underway.

### **Open Access Charges**

The OERC (Determination of Open Access charges) Regulation, 2006 provides that the Open Access Customers shall pay the following charges besides the other charges mentioned in the regulation for the use of the intra-state distribution system.

#### **1. Transmission/Wheeling Charges**

- (i) The Regulation provides that Open access customers connected to the intra-state transmission/distribution systems shall pay the transmission and wheeling charges as applicable to the appropriate licensees, as the Commission may determine from time to time.
- (ii) Wheeling charges as calculated by WESCO is annexed as **Annexure-A**.

**Table showing wheeling charge:-**

<b>Description</b>	<b>EHT</b>	<b>HT</b>
Wheeling charges (Paise per unit)	Not Applicable	99

## 2. Cross Subsidy-Surcharge

- (i) Cross subsidy Surcharge to be levied on open access customers as determined by the Commission keeping in view the loss of cross-subsidy from these customers opting to take supply from a person other than the incumbent distribution licensee.
- (ii) Further submitted that the methodology prescribed in the National Electricity Policy vide para 8.5.1 is as under;

$$S = T - [C (1 + L / 100) + D]$$

Where

*S is the surcharge*

*T is the Tariff payable by the relevant category of consumers;*

*C is the Weighted average cost of power purchase of top 5% at the margin excluding liquid fuel based generation and renewable power*

*D is the Wheeling charge*

*L is the system Losses for the applicable voltage level, expressed as a Percentage.*

Now, Hon'ble Commission vide Order dt.10.10.2014 in case no.16,17,18 & 23 of 2014 has recommended the method of calculation in line with earlier years order considering the structural and functional aspect of power sector in Odisha where in;

T=Applicable tariff for EHT and HT category of consumers at 100% load factor.

C=Power purchase cost (consider BSP of respective licensee as the power purchase cost for calculation of cross-subsidy surcharge) plus transmission charge and SLDC charges payable by licensee.

The above method adopted for power purchase as Odisha follows single buyer model, the power purchased from different generators first and then pooled at GRIDCO end. The same power is resold to the licensees at a price called Bulk Supply Price as approved by Commission and include the intra state transmission loss. In addition to that the licensee is required to pay transmission charges to OPTCL and SLDC charges to SLDC.

L=loss at HT **8% (assumed)**, since EHT loss factored in BSP.

D=Wheeling charge levied by licensee for power handled in HT=Distribution cost/Input unit at HT.

Accordingly the Licensee computed the cross subsidy surcharge which is mentioned in the following table. The statement of detail computation is annexed as **Annexure-B**.

**Table showing Cross Subsidy Surcharge**

Surcharge (P/KWH) EHT	Surcharge (P/KWH) HT
<b>366</b>	<b>121</b>

The above cross subsidy surcharge has been calculated considering the average EHT Tariff derived from proposed EHT sale in MU and value for FY 2018-19.

For HT category of consumers Wheeling charge @ 99 paise per unit and System loss at HT supply has been considered at 8%. The Cross-subsidy surcharge has been calculated considering the average HT tariff derived from proposed HT sales in MU and value by the For FY 2018-19.

The Power Purchase cost is the combination of Bulk Supply price of 301 paise per unit, Transmission charge 25 paise per unit, SLDC charge 0.0015 paise per unit as per prevailing tariff w.e.f. 01.04.2017 has been considered.

### **3. Additional Surcharge**

- (i) The open access customer shall also be liable to pay additional surcharge on charges of wheeling, in addition to wheeling charges and surcharge, to meet the fixed cost of the distribution licensee arising out of his obligation to supply as provided under

sub-section (4) of section 42 of the Act in case open access is sought for receiving supply from a source other than the distribution licensee of its area of supply.

- (ii) It is humbly submitted that the Hon'ble commission may determine the additional surcharge upfront due to the following reasons

It is pertinent to mention here that Ministry of Power has raised concern regarding various issues /difficulties faced by the DISCOMs across the country due to various reasons on account of open access mechanism and recovery of charges. Accordingly a concept paper has been circulated during Aug-2017 across the country for submission of views and suggestion of the stake holders. Now, it is relevant to appraise such issues before Hon'ble Commission for suitable amendment of regulation or incorporation of necessary provision in determination of open access charges.

**There are primarily five issues that are impacting a fair play between consumers and utilities on open access.**

**(a) Frequent shifting of Open Access Consumers:**

DISCOMs are unable to manage power procurement efficiently due to the high frequency of shifting of Open Access consumers between DISCOM and other source of power

**(b) Cross Subsidy Surcharge:**

The Cross Subsidy Surcharge calculated by State Electricity Regulatory Commissions (SERCs) and recovered from Open Access consumers is often insufficient to recover the entire loss of cross subsidy on account of consumers procuring power through the Open Access route.

**(c) Additional Surcharge:**

Majority of power procurement by DISCOMs is long term in nature. Additional surcharge to recover stranded cost on account of stranded Power Purchase Agreements (PPAs) and stranded assets due to consumers procuring power through Open Access have in most cases not been calculated appropriately. This has led to under recovery of power procurement expenses incurred by DISCOMs.



**(d) Stand-By charges:**

The methodology adopted by DISCOMs for calculation and structuring of Stand-By charges is inconsistent across States. Further, lack of periodic review of these charges can lead to revenue loss for DISCOMs.

**(e) Tariff design and rationalisation:**

Although two part tariff has been introduced in most States, the structuring of fixed and variable components of tariff is not reflective of the actual proportion of fixed and variable cost liability of the DISCOMs.

**To mitigate such issues it has been comprehensively discussed issue wise with certain proposal which are enumerated below:-**

**ISSUE I- FREQUENT SWITCHING BY OPEN ACCESS CONSUMERS**

**Issues:**

1. Grid frequency is an important indicator of the health of the grid. Progressive tightening of the frequency band, enforcing limits on volume of deviation along with other deterrents and enforcement of Central Electricity Regulatory Commission (CERC) Deviation Settlement Mechanism (DSM) Regulations have contributed to maintain a stable frequency profile and secure system operation.
2. As per the prevailing regulatory framework, the DISCOMs are required to provide their energy drawal schedule at their periphery on the day ahead basis to the SLDC of its state in order to facilitate latter to maintain secure grid operations.
3. Many DISCOMs regularly deviate from their schedule, primarily due to uncertain load forecasts as the scheduling is undertaken on the basis of DISCOMs forecast for energy requirement for the following day. With open access consumers revising / deviating from schedule, it becomes more difficult for the DISCOMs to accurately predict the requirement for the following day.
4. Particularly for short term open access consumers who procure energy from collective market or power exchanges, there is high degree of uncertainty in their power procurement from Power Exchange and DISCOMs. Considerable variation in schedule and actual energy drawl is observed on regular basis for short term open access consumers. Also, based on the market clearing price determined in exchanges for each block, the energy drawal of open access consumer fluctuates significantly within a day. Despite of such uneven drawl throughout the day, the Open Access

consumers continue to enjoy the freedom of rescheduling their energy drawal on the basis of their daily load requirement and the price at which energy is available in the power exchange markets. Such variations in energy drawal make it difficult for the DISCOM to forecast time block wise energy requirement for the following day.

5.DISCOMs incur heavy penalties for deviation from their schedule in the form of applicable DSM charges.

6.SERCs also disallow a large share of short term power procurement costs incurred by DISCOMs for meeting demand variation by capping purchase price.

7. A part of this deviation is attributed to the variation in energy drawal by open access consumer purchasing power from sources other than DISCOM, which results in underdrawl/over-drawal in particular time blocks.

8. Whereas open access consumers are allowed to re-schedule their energy drawal based on the daily energy requirement, DISCOMs irrespective of the drawal pattern of the open access consumers, under universal service obligation is required to keep its entire generation and transmission capacity available for the consumers. In such a scenario forecasting demand for the ensuing day becomes challenging for the DISCOMs.

9. Considering the immense growth in number of open access consumers and the fluctuation in the energy drawal from open access, it is now imperative that frequency of switching is modulated in such a way that DISCOMs are not unduly burdened by their obligation to provide supply.

10.Taking into account the difficulties faced by DISCOMs and to ensure that the provision of open access granted under the Electricity Act, 2003 to promote efficiencies and competition does not unduly burden DISCOMs, few SERCs have restricted frequency of switching of consumers from open access to distribution licensee in various ways.

11. It has been brought out that DISCOMs are incurring costs to run specific thermal generation unit(s) on technical minimum so that capacity of such unit is available to meet unforeseen increase in demand. DISCOMs have also pointed out that frequent shifting during a day by short term open access consumers is one of the reasons due to which such thermal capacity needs to be maintained at technical minimum. Some of the short term Open Access consumers', based on cost of power from other sources (mostly from day ahead market of power exchange), provide schedule of drawl of power from DISCOMs. This is one of the reason, due to which DISCOMs are facing difficulties in making accurate demand projections, and needs to be discouraged.

**Proposal:**

Open access customers should be required to schedule power for at least 24 hours whenever they seek open access.

**ISSUE II - DETERMINATION OF CROSS SUBSIDY SURCHARGE**

**Issues & Prevailing Practices:**

1. Section 8.3 (2) of the Tariff Policy 2016 specifies that:

“For achieving the objective that the tariff progressively reflects the cost of supply of electricity, the Appropriate Commission would notify a roadmap such that tariffs are brought within  $\pm 20\%$  of the average cost of supply. The road map would also have intermediate milestones, based on the approach of a gradual reduction in cross subsidy”

2. The Tariff Policy provides that SERCs should notify a roadmap such that tariffs are in  $\pm 20\%$  of ACoS. The First proviso to para 8.5.1 of Tariff Policy 2016 also specifies that Cross Subsidy Surcharge (CSS) should be capped at 20% of the tariff applicable to the category of the consumers.

3. Some SERCs use Average Cost of Supply (ACoS) for calculation of CSS instead of category wise Cost of Supply (CoS). For high voltage consumers like industrial consumers, where CoS is less than ACoS, using ACoS would result in lower CSS. This will also promote economic inefficiency as availing power from other than DISCOM at a rate higher than CoS of DISCOM but lower than ACoS will still be beneficial for Open Access consumers.

4. SERCs do not consider impact of Time of Day (TOD) tariff while calculating CSS. In case where ToD tariff is in vogue, Open Access consumers end up paying lower CSS if Open Access system is used during peak time when the retail tariffs are higher.

**Proposal:**

(a) The Tariff Policy 2016 mandates SERCs to determine roadmap for reduction of cross subsidy and bring tariff at  $\pm 20\%$  Average Cost of Supply, however it restricts Cross Subsidy Surcharge at 20% of the consumer tariff. In case the consumer tariff is more than 120% of Average Cost of Supply, DISCOM will not be able to recover losses through cross subsidy surcharge in case consumer opts for open access. It is essential for SERCs to implement both Para 8.3 -2 and First proviso to para 8.5.1 of the Tariff Policy 2016 simultaneously. If one of the provisions could not be implemented due to some reason, the second provision should also not be implanted to that extent.

(b) SERCs should determine Cross Subsidy Surcharge (CSS) based on category wise cost of supply, thus identifying real cross subsidy. SERCs may initially determine CSS on Voltage wise Cost of Supply and later based on Category wise Cost of Supply. As a first step SERCs should develop guidelines for DISCOMs to calculate Voltage wise cost of supply. DISCOMs should capture and maintain details of voltage wise and consumer category wise details of assets and costs. In the next phase SERCs should develop guidelines and for DISCOMs to calculate category wise cost of supply.

(c) SERCs should introduce differential Cross Subsidy Surcharge - for peak, normal and off peak hours based on the ToD tariff. Time of the day sensitive pricing can also help address the issue of uneven scheduling by Open Access consumers during the day.

### **ISSUE III - DETERMINATION OF ADDITIONAL SURCHARGE**

#### **Issues & Prevailing Practices:**

1. Under the sub section (4) of the Electricity Act 2003, DISCOMs have a universal supply obligation and are required to supply power as and when required by the consumers in its area of supply.
2. Considering the sales forecast approved by the State Commission while determining Annual Revenue Requirement, the DISCOM enter into long term Power Purchase Agreements (PPA) with sellers (generators/ traders etc.) so as to ensure supply of power for the envisaged increase in the load.
3. While contracting energy through such long term PPAs, the tariff payable to the generators usually consists of two part i.e. capacity charges and energy charges. Therefore, the DISCOMs have to bear the fixed cost even when there is no off take of energy through such source.
4. Whenever any consumer opts for open access and takes intermittent supply through open access, the DISCOMs continue to pay fixed charges in lieu of its contracted capacity with generation stations. However, DISCOMs are unable to sufficiently recover such fixed cost obligation from the open access consumers.
5. The cost recovered from fixed charges in the tariff schedule is less than the fixed cost incurred by the DISCOM for supplying energy. This leads to the situation where the DISCOM is saddled with the stranded cost on account of its universal supply obligation.
6. Also, the DISCOMs, in a number of cases, establish assets for supplying power to certain specific consumers. There may be certain cases wherein such assets become redundant. In such cases, fixed charges for such stranded assets should be borne by the customers as part of additional surcharge.

7 In view of the adverse financial situation caused by arrangements made for complying with the obligation to supply, Section 42(4) of the Electricity Act, 2003 provides as under:

“Where the State Commission permits a consumer or class of consumers to receive supply of electricity from a person other than the distribution licensee of his area of supply, such consumer shall be liable to pay an additional surcharge on the charges of wheeling, as may be specified by the State Commission, to meet the fixed cost of such distribution licensee arising out of his obligation to supply.”

8. Section 8.5 of the Tariff Policy 2016 also provides;

“The additional surcharge for obligation to supply as per section 42(4) of the Act should become applicable only if it is conclusively demonstrated that the obligation of a licensee, in terms of existing power purchase commitments, has been and continues to be stranded, or there is an unavoidable obligation and incidence to bear fixed costs consequent to such a contract. The fixed costs related to network assets would be recovered through wheeling charges”

9. Further, clause 5.8.3 of the National Electricity Policy notified by the Ministry of Power, Govt. of India, reads as under.

“5.8.3... An additional surcharge may also be levied under sub-section (4) of Section 42 for meeting the fixed cost of the distribution licensee arising out of his obligation to supply in cases where consumers are allowed open access. ...”

10. In spite of clear provisions allowing levy of additional surcharge on consumers opting for open access, only few SERCs have notified additional surcharge to be recovered. This is primarily due to the Tariff Policy and regulations putting the onus on DISCOMs to conclusively demonstrate that the power purchase commitments have been and will continue to remain stranded. However, with consumers frequently switching their mode of supply between DISCOM and open access, it becomes difficult for the DISCOM assess the quantum of power that will continue to remain stranded. Moreover, the quantum of stranded power does not remain constant throughout the year or a month or a week or even a day.

11. In an energy deficit scenario, determining additional surcharge may have held lesser importance. However, with India progressing towards an energy surplus scenario, denial of additional surcharge to DISCOMs may severely impact their financial viability.

12. Many SERCs have directed that Additional Surcharge shall be calculated on case to case basis. However, computation of additional surcharge on case to case basis is practically impossible.

13. Considering the adverse financial impact, some SERCs have developed methodologies to assess the quantum of additional surcharge to be levied on consumers opting for open access.

14. DISCOMs may also surrender power due to other reasons like seasonal variations, purchases from Power Exchange, RTC short term power purchases of DISCOMs etc. In some cases, additional renewable capacity may have been added to ensure compliance to RPO and not to meet demand. The burden of surrender of power to that extent should be shared by all consumers.

15. To ensure only power surrendered due to open access is considered for computation of additional surcharge, only minimum of power backed down/ surrendered and open access quantum should be considered.

16. One of the changes in the formula for surcharge calculation made in the revised Tariff Policy issued in January 2016 is explicit inclusion of cost of Regulatory Asset in the cost of supply. This has been done presumably to ensure that CSS reflects only prevailing level of cross subsidy and nothing else. However, this brings us to another issue that Regulatory Asset was created when open access customer was part of the system. Such customers had enjoyed the benefit of suppressed tariff when Regulatory Asset was being created. Thus, when such customers leave the tariff base of the DISCOM, part of Regulatory Assets become stranded. Therefore, one of the components of additional surcharge should cover for Regulatory Asset.

**Proposal:**

(a) Additional Surcharge could have three components to cover for (i) stranded power under long-term PPAs, (ii) stranded physical assets and (iii) cost of carrying regulatory assets or amortization of regulatory assets, as the case may be.

(b) A number of SERCs have started taking steps to develop methodology for calculation of additional surcharge. However, in order to bring about certainty and uniformity in the approach, a suggested detailed methodology for stranded long-term PPAs has been developed, which is enclosed at Annex. This methodology envisages determination of additional surcharge for peak and off-peak hours of each season. The method calculates fixed charges of stranded PPAs for immediate past and applies the same as additional surcharge for the same season next year. To ensure only power stranded due to open access is considered for computation of additional surcharge, only minimum of un-requisitioned power and open access quantum should be considered.

(c) There is also a need to define the criteria for classifying an asset as "Stranded" and the methodology for calculation of additional surcharge on account of such assets. It is also important

to remove the cost of stranded assets from the ARR of the DISCOM to prevent socialization of stranded asset cost and avoid any double charging to consumers.

(d) Cost of carrying Regulatory Assets or amortization of Regulatory Assets, as the case may be, should be one of the component of additional surcharge. SERCs should calculate Regulatory Asset and surcharge to recover the same for each year separately. Surcharge for Regulatory Assets should be payable by Open Access consumers also based on year till they had availed supply from DISCOM. DISCOMs should maintain accounts against Regulatory Assets for each year separately. Further, SERCs should ensure that Open Access consumer should not be required to pay for Regulatory Assets for a particular year, if the same has been paid earlier as part of cross subsidy surcharge.

#### **ISSUE IV - STANDBY CHARGES**

##### **Issues:**

1. Standby arrangements could be required by Open Access consumers to tide over deficits in cases of situations such as outages of generator, transmission assets etc. In such situations the Open Access consumer has to take power from an alternate source e.g. from the DISCOM. The charges for maintaining standby arrangements for such consumers should be reflective of the costs incurred by DISCOMs for providing these support services.

2. Standby charges for long term open access consumers is as per contract signed with distribution licensees whereas standby charges for short term open access consumers are generally defined from time to time by the SERCs.

3 In case of determination of stand by charges, there are inherent issues which have been highlighted below:

(a) No uniform approach for determination of stand by charges

(b) Standby charges are not necessarily linked to the actual cost incurred by the DISCOMs to maintain capacity for standby power

(c) Charges determined by SERCs are not revisited in a periodic manner resulting in inefficient recovery of the costs incurred to maintain capacity for standby power and socialization of costs through the ARR

4. Clause 8.5.6 of the Tariff Policy 2016 specifies that:

“In case of outages of generator supplying to a consumer on open access, standby arrangements should be provided by the licensee on the payment of tariff for temporary connection to that consumer category as specified by the Appropriate Commission. Provided that such charges shall not be more than 125 percent of the normal tariff of that category.”

**Proposal:**

(a) Standby charges should be designed to reflect the actual fixed cost and variable cost liability incurred by the DISCOMs to supply back up power to Open Access consumer.

(b) SERCs should design two- part standby charges with fixed charge and variable charge components. In line with the provisions specified under Para 8.5.6 of the Tariff Policy 2016 the limit of 125% should be applied separately on the rate for fixed charge and variable charge.

(c) Standby charge should be determined annually by SERCs to reflect the variation in costs over time or Auto- indexation mechanism may be designed for periodic (quarterly/annual) revision of standby charges.

**ISSUE V - TARIFF RATIONALIZATION**

**Issues:**

1. One of the critical aspects of tariff setting is to enable recovery of efficient and prudent costs incurred by regulated entities to ensure viability of the entire value chain while facilitating power supply at reasonable rates to consumers. In this regard, the National Tariff Policy 2016 in Paragraph 5.10 and Paragraph 8.3 specifies that:

“5.10 Consumer interest is best served in ensuring viability and sustainability of the entire value chain viz., generation, transmission and distribution of electricity, while at the same time facilitating power supply at reasonable rate to consumers. The financial turnaround/restructuring plans are approved by the Appropriate Government from time to time to achieve this objective. The Appropriate Government as well as the Appropriate Commission while implementing such plans shall ensure viability of the generation, transmission and distribution in terms of recovery of all prudent costs.

“8.3 Tariff design: Linkage of tariffs to cost of service



It has been widely recognized that rational and economic pricing of electricity can be one of the major tools for energy conservation and sustainable use of ground water resources.

In terms of the Section 61(g) of the Act, the Appropriate Commission shall be guided by the objective that the tariff progressively reflects the efficient and prudent cost of supply of electricity. ....”

2. Most State Electricity Regulatory Commissions (SERCs) have by now introduced two part tariff in order to make the tariff more reflective of the nature of costs incurred by the DISCOMs.

3. In the two-part tariff mechanism, the retail supply tariffs are divided into two components viz. fixed charge/demand charge and energy charge. Fixed charge/demand charge is designed to recover the costs of the DISCOM which are fixed in nature such as the capacity charges payable to power generators, transmission charges, operation & maintenance expenses, depreciation, Interest on loans, return on equity etc. This is generally recovered on the basis of connected load / contract demand or maximum demand of the consumer. Energy charge is designed to recover the costs of the DISCOMs which are variable in nature such as variable cost component of power purchase etc. These costs are recoverable on the basis of the actual consumption of the consumers during the billing period (per kWh or per kVAh basis).

4. Even though two-part tariff has been introduced by SERCs, mismatch between the actual fixed and variable cost liability incurred by DISCOMs to the proportion of cost recoverable through fixed charge and energy charge still exists. For example, in case of MSEDCL, the fixed cost was approximately 57% of total cost for the year 2015-16 (as approved in the Tariff Order), however the recovery through demand/ fixed charges were far lower at approximately 19% of the total revenue.

5. For a Short Term Open Access consumer who is moving to open access, DISCOM save only on the variable cost of power procurement whereas DISCOM still has to incur the fixed cost (capacity charges) which should in turn be recoverable from consumers. If the tariff designed is not reflective of the proportion of fixed and variable cost liability of DISCOMs, there will be insufficient recovery of the fixed charges by the DISCOM. However, DISCOMs in some states have attempted to address this issue through recovery of additional surcharge from Open Access consumers. Rationalization of tariff would also lead to transparent determination of cross subsidy surcharge and additional surcharge.

6. Some Open Access consumers maintain at least part of their contract demand with the DISCOM in order to save on the payment of standby charges. This practice tends to have an adverse impact on

the DISCOM. However, if demand/fixed charges are reflective of actual fixed cost liability of DISCOM, Open Access consumer may be less inclined to maintain contracted demand with the DISCOM and for Open Access consumers maintaining part of their contract demand, tariff shall be reflective of the prudent incurred cost.

7. In most of the states, fixed costs include the cost of wheeling business of the DISCOMs, which will be recovered through fix/demand charges. Only few states, like Maharashtra, have specified a separate component in the retail tariff to recover the wheeling cost. As all the DISCOMs are recovering wheeling charges from the Open Access consumers as a separate charge, charging entire fixed cost including wheeling cost from Open Access consumers will lead to over recovery.

**Proposal:**

(a) The tariff design should progressively reflect actual break-up between fixed charges and variable charges as per the DISCOMs prudent and efficient cost structure. SERC's should develop a phased implementation plan over a three to five-year horizon to progressively bring in fixed charges in retail tariff to reflect 75% -100% of the fixed cost liability of DISCOMs.

(b) Consumer categories with low load factor (load factor less than 15%) such as Domestic Category and Small Commercial consumers etc. may be partially exempted from fixed charges being linked to actual fixed cost liability as such consumers shall not be able to absorb the tariff reflective of actual fixed cost liability.

(c) For the states, where demand/fixed charge are recovering wheeling cost incurred by DISCOMs (no separate tariff for recovering wheeling cost), Open Access consumers should get credit for wheeling charges paid by them towards fixed/demand charges payable by them subject to 100% fixed cost recovery. For example, if through fix/demand charges, Open Access consumers are paying 80% of the fixed cost and including wheeling charges this recovery becomes 110%, Open Access consumers should get 10% reduction in the fixed cost payable by them.

**Conclusion**

1 After examining the current scenario of Open Access in the Indian Power Sector, it is clear that there are a number of issues that are hindering stakeholders while operationalizing open access. These issues along with suggested action points have been discussed in the preceding sections of this Report.

2 Solutions arrived at based on this exercise of consultation need to be implemented in a time bound manner to facilitate growth of the Indian economy while maintaining the viability of the regulated entities and protecting smaller consumers from undue burden of socialization of costs.

3. It is important to look at the underlying causal factors of these issues and ensure that solutions developed address these factors in a sustainable manner. A large proportion of issues regarding charges levied on Open Access Consumers stem from the inadequacies in the design of retail supply tariff.

4. Therefore, in order to have economic and efficient charges for facilitating open access, it is important to design prudent cost reflective retail tariff using economic principles while fulfilling social objectives in electricity pricing through direct subsidies. Section 8.3 of the Tariff Policy 2016 envisages this aspect:

“Direct subsidy is a better way to support the poorer categories of consumers than the mechanism of cross subsidizing the tariff across the board. Subsidies should be targeted effectively and in transparent manner. As a substitute of cross subsidies, the State Government has the option of raising resources through mechanism of electricity duty and giving direct subsidies to only needy consumers. This is a better way of targeting subsidies effectively”

5. SERCs should ensure that DISCOMs develop the requisite capability and infrastructure to assess the costs incurred in supply of power to each consumer category. SERCs should develop and approve procedures for accounting and allocation of costs into different voltage levels of the network/ consumer categories of the DISCOM.

6. SERCs should design tariff linked to the cost of supply of each consumer category. Such tariff would then allow SERCs to factor in cross subsidy which are within the limits specified in the National Tariff Policy 2016.

7. SERCs should calculate Regulatory Asset and surcharge to recover the same for each year separately. Surcharge for Regulatory Assets should be payable by Open Access consumers also based on year they had availed supply from DISCOMs.

8. SERCs should also introduce differential Cross Subsidy Surcharge as per ToD Tariff- for peak, normal and off peak hours.

9. There is also need for rationalising tariff by SERCs, which enables DISCOMs to recover fixed cost through fixed/demand charges and variable charges through energy charge.

10. With respect to Additional Surcharge SERCs need to implement a mechanism to determine quantum of stranded power purchase commitment in each time block and the charges for same. Such charges should be recoverable from Open Access consumers only thus protecting retail supply consumers from such costs.

11. Two Part Standby charges need to be determined by the SERCs periodically. Stand-by charges should reflect cost of power procurement on short term basis and deviation settlement charges liable to be paid by DISCOMs in lieu of supply of such power.

**With the above scenario the utility submits that to combat from the above it is required to be address the aforementioned issues along with following issues in particular while determining open access charges of the utility for the ensuing year FY 2018-19.**

**Cross subsidy surcharge during peak and off peak hour:-**

During off peak hour the consumer is getting TOD benefit as per prevailing RST as a result tempted to draw more power from DISCOM and avoiding peak hour drawal due to higher RST. So to maintain disparity there should be two rates for CSS.

**There should be an annual plan for open access drawal:-**

Industries those who are intends to draw power under open access should at least give their annual tentative plan to the DISCOMs or to OERC for proper planning of INPUT requirement of the Utility, so that procurement of costly power would be avoided as well as Utilities BSP would be protected.

**Drawal of open access more than the contract Demand :-**

To avail open access most of the industries are trying to reduce their CD. So to avoid such difficulties of the DISCOMs open access should not be permitted for the consumer who intends to draw more than its contract demand (CD).

**Wheeling of power by industries having CGP:-**

CGP are allowed to carry their own power to the destination without levy of CSS. However, they are supposed pay wheeling charges to the respective licensees. But, most of the industries are trying to avoid the same as because they have drawn the line of their own. As per Electricity Act a consumer is not permissible to operate a distribution system without having a distribution licensee and hence the line so drawn is the part of the distribution system and levy of wheeling charges is inevitable.

Necessary direction in this regard may kindly be given while approving open access charges for the ensuing year for the utility.

**Recovery of Regulatory Assets:-**

Recovery of RA should also be a part of CSS or may be recovered through additional surcharge. As because the consumer who is opting for open access was a part of the distribution system when Regulatory Asset were created due to under recovery of tariff.

**Recovery of Stranded cost:-**

- When an Open Access Consumer's drawal quantum is more Licensee are unable to recover the approved Cost which in turn affects it's BSP.
- The CSS is being determined & recovered based on the ECR, limiting to a capping of (+/-) 20%(as per NTP). However, it is not sufficient enough to neutralise the cost of power being incurred on account of long term PPAs with generators, to whom fixed cost shall have to be paid irrespective of drawl of power in real time.
- Therefore, Additional Surcharge is inevitable in the context of recovery of stranded fixed cost from the Open Access Customers.
- Many States like Gujrat, Maharashtra, Rajasthan, Punjab & Delhi have implemented levy of Additional Surcharge, Standby Charge, Regulatory Surcharges for Open Access Customers.

**4 Other proposal**

- 4.1 It is submitted that Hon'ble Commission has pronounced the open access charges applicable from 01.04.2017 vide order dated 23.03.2017 in case no.70,71,72 & 73 of 2016 .

The wheeling charges and surcharge as applicable for HT & EHT industries for WESCO effective form 01.04.2017 and continuing till date are as follows:-

**For HT Industries:-**

Wheeling charges =50.30 paise per unit

Cross Subsidy Surcharge=80.76 paise per unit.

**For EHT Industries:-**

Cross Subsidy Surcharge=128.64 paise per unit.

- 4.2 It is submitted that the open access to existing consumer should be allowed within limited Transmission / Distribution capacity. A limit should be fixed by the Hon'ble

commission so that the distribution licensee may be allowed to reserve adequate transmission/ Distribution corridor for new consumer, to safe guard the interest of the new consumers in the state.

- 4.3 It is submitted that the BST rate for the units consumed by the open access consumer from DISCOM other than the incumbent distribution utility may be determined at a higher rate in order to avoid the unwanted competition/ discrimination among the DISCOMs.

### **Prayer**

In the aforesaid facts and circumstances, the utility requests that the Hon'ble Commission may be pleased to:

- Consider the proposal of WESCO in this application for determination of Wheeling Charges and Cross Subsidy Surcharge on record.
- Approve the Wheeling charges and Cross Subsidy Surcharge as prayed for FY 2018-19.
- Fixation of Additional Surcharge in addition to CSS and Wheeling towards recovery of stranded FC, Recovery of Regulatory Assets.
- Approval of CSS for Peak and Off peak hour.
- Fixation of limitation for drawal of open access charges beyond CD.
- Direction to pay wheeling charges by CGPs who are carrying own power through own Line or Net Work Assets created by them.
- Submissions of annual plan by open access consumers with the licensee or before State Commission as the case may be.
- Any other relief, order or direction which the Hon'ble Commission deems fit be also issued.

by the Applicant

Through it's Authorised Officer

Place:

Date:

**BEFORE THE ORISSA ELECTRICITY REGULATORY COMMISSION**

**BHUBANESWAR**

**IN THE MATTER OF**

An Application for approval of Open Access Charges for the financial year 2018-19, in accordance with the para 4(1)(xiv), 4(2)(vii) and 4(3)(vi) of chapter II (Charges for Open Access) of OERC (Determination of Open Access Charges) Regulation, 2006, Transmission/Wheeling Charges, Surcharge and Additional Surcharge applicable to open access customers for use of intra-state transmission/ distribution system, in view of section 42 of the Electricity Act-2003.

AND

**IN THE MATTER OF**

Wesco Utility

Head Office Burla, Sambalpur, Odisha-768017.

-----Utility

**Affidavit verifying the application for approval of Open Access Charges for the year FY 2018-19.**

I, Ganga Dhar Patel, Son of late Bandhuraam Patel, aged about 59 years, residing at, Burla, Sambalpur, do hereby solemnly affirm and state as follows:-

I am the Authorised Officer of Administrator for Wesco Utility (WESCO), HQ. Office-Burla, Sambalpur, Odisha-768017.

The statements made above along with the annexures annexed to this application are true to the best of my knowledge and the statements made are based on information and records and I believe them to be true

Place

Date

**DEPONENT**

**Authorised Officer, WESCO UTILITY**