

To,  
The Secretary,  
AP Electricity Regulatory Commission,  
4<sup>th</sup> Floor, Singareni Bhavan,  
Red Hills,  
Hyderabad – 04

Date: 10 – 05 – 2004

Respected Sir,

Sub:- Comments on (Cross Subsidy) surcharge payable  
Ref :- Public Notice Issued by APERC

We would like to place the following issues before the Honourable Commission for its consideration with regard to the surcharge payable by the consumers using wheeling facilities of the Licensees.

**1.1** We would like to draw the attention of the Commission to our submission on wheeling charges in November 2001. In that submission we requested the Commission to include cross subsidy as a part of the wheeling charge. But then the Commission rejected our submission saying that “ the element of cross subsidization has no nexus to the Transmission and Distribution System as such and arises out of subsidization of one class of consumers by another class which is really an economic issue. The element of cross subsidization cannot therefore be taken in to account while determining the Tariff or charges for wheeling” (para 8.30 of the Commission’s Order dated 24<sup>th</sup> March 2002). We are glad to learn that the Commission has initiated proceedings to set right the imbalances arising out of the above mentioned Order utilizing the provisions of the new Electricity Act 2003.

**1.2** While formulating the surcharges to be levied on the third party sales/ open access we request the Commission to see that

- a) there are uniform retail tariffs among all the DISCOMs in the state, i.e., similarly placed consumers pay similar tariff in the state irrespective of the DISCOMs servicing them.
- b) there is no rate shock.
- c) improve the accessibility of power. At present power is accessible to only 60% of the state’s population, and the remaining 40% do not have access to power. Any reduction in cross subsidies and consequent rise in tariffs will further worsen the situation.
- d) any decision taken under the present subject of surcharge on open access to cover cross subsidy should not lead to collapse of the DISCOMs and GENCO, assets of which were built over the last few decades with public funds and their collapse will have adverse impact on the state economy. At the same time it should lead to their efficient and economic functioning.

**Maintain current level of cross-subsidies:**

**2.1** The Electricity Act 2003 provides for surcharge for meeting the requirement of current level of cross-subsidy. Following this we suggest that the current level of cross subsidy shall be maintained as it is and it should not be reduced.

**2.2** The Act 2003 (Part II) refers to National Electricity Policy, National Policy on stand alone systems for rural areas and non-conventional energy systems, National Policy on electrification and local distribution in rural areas, and obligation to supply electricity to rural areas. All these have strong implications for the power supply to subsidized consumer sections. As these policy announcements are awaited, the present level of cross subsidy shall be maintained until the announcement of these policies. This surcharge can be reexamined after the announcement of these policies.

**2.3** The Commission's Note on Phasing of Open Access also mentions, "The Manner of computing cross subsidy surcharge and its final application will decide whether the surcharge has fully compensated the distribution licensees for the loss of current level of cross subsidy due to the introduction of open access. The phasing plan will need to consider the impact on distribution licensee's cross subsidies in case the surcharge does not fully compensate the distribution licensee for the loss of cross-subsidy on account of open access. The approach to this aspect is under finalisation with important inputs awaited from the National Tariff Policy and National Electric Policy" (para 2.5, page 4). In the light of this we request the Commission to retain the present level of cross subsidy.

**2.4** As under FSA the cross subsidy is not factored in, this effectively implies that the cross-subsidy is already reduced to this extent. Added to this, during the last few years the tariff of the subsidizing categories is being reduced gradually thereby bringing down the cross-subsidy. If these two factors are taken in to account the cross-subsidy has declined considerably already. Any more reduction of cross-subsidy will adversely affect the subsidized consumers as well as the state government finances as the government has to bear any adverse fallout. Hence we suggest that the current level of cross subsidy under the present tariff structure should be maintained, and it should not be brought down.

**No Elimination of Cross Subsidies:**

**3.1** The Act talks about elimination of cross subsidies. But this mention of elimination of cross subsidies might have come about in over enthusiasm for reforms/privatization on behalf of the policy makers. It is not possible to eliminate cross subsidies. Even the developed countries still have cross subsidies. Given the socio-economic conditions in our country it is not possible to eliminate cross subsidies. The poor domestic consumers who consume very limited electricity say 50 units per month and small and marginal farmers cannot afford to pay the cost of service. In order to make electricity accessible to them it is imperative that cross subsidies are maintained for a long time to come, the time by which these consumers/households reach a position where they can afford to meet the cost to serve tariffs. The very fact that even developed countries like USA still maintain cross subsidies shows that the elimination of cross subsidies is not a practical or welcome

measure. We request the Commission not to include any measure that will result in elimination of cross subsidies.

#### **Regulation of Group Captive:**

**4.1** The Act 2003 stipulates that surcharge should not be levied on captive units. The APGPCL example shows that group captive also comes under the captive category. But the inclusion of group captive lends new dimension to the issue. In the case of group captive consumption should be in proportion to their shareholding in the plant. Otherwise the group captive plants will be a sure device to sidestep the surcharge completely. If any share holder in a group captive consumes more than its share that share holder should pay surcharge for the excess consumption.

**4.2** Further, the charges to be paid by the captive stations should include wheeling charges, grid support charges and service charges.

#### **Parallel Distribution Licensee:**

**5.1** The Act 2003 makes provision for parallel distribution licensees in addition to the existing distribution licensees. In case consumer mix of the new licensee is different from the existing one in terms of more subsidizing consumers than subsidized consumers it should also pay surcharge towards cross subsidy. Otherwise the finances of the existing licensee will be adversely affected. The existing differential bulk supply tariff among the existing four DISCOMs underlines this point. So as and when parallel distribution license is issued cross subsidy should also be collected from it in proportion to the loss to the existing licensee. The parallel distribution licensee may also lead to cherry picking, thereby destabilising the whole power sector. In case the Commission goes ahead in issuing license for parallel distribution it should make provision for recovery of cross-subsidy from such licensees.

#### **Peak and Non-peak Transmission:**

**6.1** The present calculation of wheeling charge does not distinguish between peak and non peak power transmission/supply. In the background of call for time of day metering, and the provision of recording of power supply at regular intervals in a day, say once in 15 or 30 minutes under open access provisions, wheeling charges for transmission during peak hours should be higher than the existing charges.

#### **Sharing of surcharge among DISCOMs:**

**7.1** Under the present bulk supply tariff one DISCOM is cross subsidizing another DISCOM in order to operationalise uniform retail tariffs. This implies that surcharge shall also be shared among the DISCOMs because of uniform retail tariff in the background of different consumer mix under each DISCOM.

**Retrospective effect of surcharge:**

**8.1** According to the Note issued by the Commission the proposed surcharge will be effective retrospectively. We suggest that surcharge to be collected with retrospective effective for the previous financial year ( 10-6-2003 to 31-03-2004) should be used to lessen the burden on the consumers. The surcharge to be collected with retrospective effect for the current year should be used to reduce/eliminate FSA proposed to be collected during this financial year.

**9.1** Before the Commission takes a final decision on this issue we would like to be heard in person.

M. Thimma Reddy  
Convenor

What will happen to the cross subsidies, cost to serve when T&D losses come down?  
Consumers should also reap the benefits of decline in T&D losses. What stand should be taken in relation to this? As T&D losses decline cost of supply of unit of power will also come down. It will have its impact on cost to serve, subsidy and cross subsidy.

[[ Need to secure stability from dissertions because of large differences in HT tariff for consumers connected to the grid and the consumer using wheeled energy?

If the cross subsidy surcharge to be paid by the third party consumers is reduced the burden on the consumers connected to the grid will have to bear greater and disproportionately high.

Take in to account the impact of the proposed open access system – See that the out go/ dissertion of HT consumers do not affect the finances of the licensee.  
See that that cross subsidy is recovered from the consumers.

The talk of surcharge in the open access is talked in terms of loss of cross subsidy in the even of the existing consumers leaving the grid.  
But the note on surcharge also shall have to apply to the existing wheeling/third party users. Its implications will be different. ]]

Enumerate how tariffs of subsidizing categories is coming down and how tariffs of subsidized categories of consumers is going up.

Implications of realization of higher percentage of total cost to serve of the sector.

On demand charges from industrial and commercial consumers: whether they are sufficient?

Under what circumstances / conditions the existing consumers will not opt for open access system.

Implications of the long term tariff?

Section 39 (2) calls for non-discriminatory open access to its transmission system for use... But the calculations of surcharge given on the last page of the note show that the present surcharge for different consumer categories differ. Different surcharge for different consumers may be called discriminatory.

Different surcharge for different consumer categories will have different implications for open access. For the consumer category that has to pay lower surcharge will have open access attractive!!

To have uniform sur-charge or differential surcharge?

What is happening in other states?

Fall back

Stand regarding open access

What will happen to the current cases related to wheeling charges decided by the Commission?

How the cost to serve is calculated? How it is arrived at? Methodologies involved?

In the example table given in the note other subsidy categories like commercial are not given

In the example table whether revenue representing per unit tariff also includes demand charges?

Supreme court judgment on cross subsidy

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#### COMMENTS ON SURCHARGE ON OPEN ACCESS

How the cost to serve is calculated? How it is arrived at? Methodologies involved?

The arguments on elimination of cross subsidies might have come about in over enthusiasm for reforms/privatization on behalf of the policy makers.

It is not possible to eliminate cross subsidies. Even the developed countries have cross subsidies.

What will happen to the cross subsidies, cost to serve when T&D losses come down? Consumers should also reap the benefits of decline in T&D losses. What stand should be taken in relation to this? As T&D losses decline cost of supply of unit of power will also come down. It will have its impact on cost to serve, subsidy and cross subsidy.

The issue related to captive generation. Whether these provisions also apply to group captive stations which involve wheeling. Or will they be treated as captive stations as such.

What will happen to the current cases related to wheeling charges decided by the Commission?

Effectiveness of surcharge – retrospective?

In the example table given in the note other subsidy categories like commercial are not given

In the example table whether revenue representing per unit tariff also includes demand charges?

Implications of the long term tariff?

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Different surcharge for different consumer categories will have different implications for open access. For the consumer category that has to pay lower surcharge will have open access attractive!!

From the given table, though tariff are the same for all DISCOMs average revenue per unit differs from DISCOM to DISCOM

What is happening in other states?

Need to secure stability from dissertations because of large differences in HT tariff for consumers connected to the grid and the consumer using wheeled energy?

Fall back

Stand regarding open access

Cost to serve

Surcharge = Tariff – CoS

Uniform retail tariff

Group captive : APGPCL model

Wheeling charge does not include peak and non peak power supply.

Similar tariff in different parts of the state

It should not lead to collapse of GENCO and DISCOMs.

At the same time it should lead to efficient functioning of GENCO and DISCOMs

Improve accessibility of power. Now it is accessible to only 60% and the remaining 40% do not have access to power. Any reduction in subsidy/cross subsidy will further worsen the situation.

National policy on agriculture and rural areas should be awaited. They have great implications because agriculture sector is one of the important receivers of cross subsidy.

If the cross subsidy sur charge to be paid by the third party consumers is reduced the burden on the consumers connected to the grid will have to bear greater and disproportionately high.

To have uniform sur-charge or differential surcharge?

In the last few years Tariff Orders cross-subsidy was brought down

Add to this the introduction of FCA with out grading it according to the cross subsidy also resulted in reduction in cross subsidy

There fore there is need to retain the current level of cross subsidy

Enumerate how tariffs of subsidizing categories is coming down and how tariffs of subsidized categories of consumers is going up.

Implications of realization of higher percentage of total cost to serve of the sector.

On demand charges from industrial and commercial consumers: whether they are sufficient?

Take in to account the impact of the proposed open access system – See that the out go/ disbursement of HT consumers do not affect the finances of the licensee.

See that that cross subsidy is recovered from the consumers.

The open access should not lead to rate shock

The talk of surcharge in the open access is talked in terms of loss of cross subsidy in the even of the existing consumers leaving the grid.

But the note on surcharge also shall have to apply to the existing wheeling/third party users. Its implications will be different.

Under what circumstances / conditions the existing consumers will not opt for open access system.

On One DISCOM is cross subsidizing another DISCOM

Surcharge shall also be shared among cross subsidy , because of uniform tariff , based on consumer mix

Parallel distribution licensee

The existing cross subsidy is to be maintained. The same is to be maintained until the national policies that impact all the consumers, particularly the subsidizing consumers like..... are announced and the present order will be reexamined after that.

As under FSA the cross subsidy is not factored in, also the current level of cross subsidy under the present tariff structure should be maintained, and it should not be brought down.

Service charge for captive : wheeling + grid support charges + service charges

Redefine Group Captive : consumption in proportion of share holding

Surcharge to be collected with retrospective effective should be used to lessen the burden on the consumers ( 10-6-2003 to 31-03-2004)

For the current year as the surcharge is not being collected the same should be used to reduce/eliminate FSA Rs 239 crore.

Respond to the issues raised by Sankar in EPW.