

**BEFORE THE ORISSA ELECTRICITY REGULATORY COMMISSION,
BIDYUT NIYAMAK BHAWAN, KALYANI COMPLEX, UNIT-VIII,
BHUBANESWAR-751012**

Case No. ___ of 2010

IN THE MATTER OF

An application under Section 65 and Section 62 of Electricity Act 2003 read with Regulation 58 of OERC (Conduct of Business) Regulations 2004 by NESCO, WESCO & SOUTHCO before Orissa Electricity Regulatory Commission

IN THE MATTER OF:

Provision of Revenue Subsidy for sustainability of Rural Electricity Supply in villages being electrified under Rajiv Gandhi Grameen Vidyutikaran Yojna

IN THE MATTER OF:

NESCO, WESCO & SOUTHCO , Orissa

Bhubaneswar- 751015

-----APPLICANT/PETITIONER

MOST RESPECTFULLY SHEWETH

1. That, North Eastern Electricity Supply Company of Orissa Ltd.) Western Electricity Supply Company of Orissa Ltd and Southern Electricity Supply Company of Orissa Ltd . herein after called "WESCO" , "NESCO" and "SOUTH CO" and collectively as "Licensees" are licensees of Distribution and Retail Supply of Electricity in areas of their respective jurisdictions pursuant to the licenses granted by Hon'ble Commission.
2. With a view to electrify all villages and habitations and provide access to electricity to all rural households, Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April-05; RGGVY being:
 - Electrifying all villages and habitations as per new definition
 - Providing access to electricity to all rural households

- Providing electricity Connection to Below Poverty Line (BPL) families free of charge

Under the programme, 90% grant is provided by Govt. of India and 10% as loan by Rural Electrification Corporation (REC) to the State Governments. REC is the Nodal Agency for the programme.

3. Under the Scheme, projects could be financed with capital subsidy for provision of
 - Rural Electricity Distribution Backbone (REDB) - Provision of 33/11 KV (or 66/11 KV) sub-stations of adequate capacity and lines in blocks where these do not exist
 - Creation of Village Electrification Infrastructure (VEI) - Electrification of un-electrified villages and habitations and provision of distribution transformers of appropriate capacity in electrified villages / habitation(s)
 - Decentralised Distributed Generation (DDG) and Supply - for villages where grid connectivity is either not feasible or not cost effective provided it is not covered under the programme of Ministry of Non-conventional Energy Sources for providing electricity from non-conventional energy sources under their remote village electrification programme of 25000 villages.
4. REDB, VEI and DDG would also cater to the requirement of agriculture and other activities including
 - irrigation pump sets
 - small and medium industries
 - khadi and village industries
 - cold chains
 - healthcare
 - education and IT

This is expected to facilitate overall rural development, employment generation and poverty alleviation.

5. For a quick perusal of the Hon'ble Commission, a brief of the Implementation Methodology being followed and conditions prescribed under RGGVY are given below:
 - Preparation of District based detailed project reports for execution on turnkey basis.
 - Involvement of central public sector undertakings of power ministry in implementation of some projects.
 - Certification of electrified village by the concerned Gram Panchayat.

- Deployment of franchisee for the management of rural distribution for better consumer service and reduction in losses.
 - Undertaking by States for supply of electricity with minimum daily supply of 6- 8 hours of electricity in the RGGVY network.
 - Making provision of requisite revenue subsidy by the state.
 - Determination of Bulk Supply Tariff (BST) for franchisee in a manner that ensures commercial viability.
 - Three tier quality monitoring Mechanism for XI Plan Schemes made mandatory.
 - Web based monitoring of progress.
 - Release of funds linked to achievement of pre-determined milestones.
 - Electronic transfer of funds right up to the contractor level.
 - Notification of Rural Electrification Plans by the state governments
6. While administering the scheme, prior commitments have been taken from the State Governments regarding
- **Determination of bulk supply tariff for franchisees in a manner that ensures their commercial viability.**
 - **Provision of requisite revenue subsidy by the State Government to the State Utilities as required under the Electricity Act.**
7. The management of rural distribution is envisaged through franchisees who could be Non-Governmental Organisations (NGOs), Users Association, Cooperatives or individual entrepreneurs apart from the Panchayat institutions. The franchisees arrangement could be for system beyond and including feeders from substation or from and including Distribution Transformer(s).
8. Under the Scheme, based on the consumer mix and the prevailing consumer tariff and likely load, the Bulk Supply Tariff (BST) for the franchisee has to be determined, ensuring commercial viability of the franchisee. Also, the Bulk Supply Tariff so determined has to be fully factored into the submissions of the State Utilities to the State Electricity Regulatory Commissions (SERCs) for the licensee's revenue requirements and tariff determination.
9. The Electricity Act makes it obligatory on the part of the State Governments to provide requisite revenue subsidies to the State Utilities if it would like tariff for any category of consumers to be lower than the tariff determined by the SERC.

10. The Rural Electrification Policy aims at:
- Provision of access to electricity to all households by year 2009.
 - Quality and reliable power supply at reasonable rates.
 - Minimum lifeline consumption of 1 unit per household per day as a merit good by year 2012.

11. The Policy aims to ensure revenue sustainability of the rural electricity supply by making following provisions:

“7.3 To ensure the revenue sustainability of the rural electricity supply, RGGVY requires deployment of franchisees for the management of rural distribution in projects financed under the scheme with a stipulation that if conditionalities of the scheme are not implemented satisfactorily, the capital subsidy could be converted into interest bearing loans. It is necessary that system of franchisee is implemented in phased manner by the State Governments in other areas also in order to bring down commercial losses, improve collection efficiency and to provide doorstep services to the consumers

8.6 The retail tariffs for electricity supply by persons exempt under eighth proviso to Section 14 would be set, based on mutual agreement between such person and the consumers. Since these would be micro enterprises with low capital expenditure, short gestation periods and no entry barriers, competitive market forces would ensure reasonable prices reflecting actual costs.

But the benefit of financial assistance / subsidies by the government (central or state) or other agencies, if any, must be fully passed on to the consumers. The Appropriate Commission would lay down guidelines for this purpose for various types of projects (for different fuels, technology and size) receiving subsidy as opposed to tariff determination on case to case basis. The Appropriate Commission shall have right to intervene by scrutinizing tariff if these guidelines are not implemented in any particular case.”

12. A brief status of the village and household electrification in the State of Orissa immediately prior to the announcement of RGGVY scheme is given below:

Status of Village Electrification as on 31.3.2004

State	Total No. of inhabited villages as per 1991 census	Total No. of villages electrified	Balance un- electrified villages	% age of electrified villages
Orissa	46989	37663	9326	80.15

Rural Households Electrification based on 2001 CENSUS

State	Total No. of Rural Households	Households having Electricity	% electrified House-holds	% of un-electrified Households
Orissa	6,782,879	1,312,744	19.35	80.65

13. Under Rajiv Gandhi Grameen Vidyutikaran Yojana, 90% of the project cost is to be treated as grant from Central Government and remaining 10% will be given as loan to Govt. of Orissa. Govt. of Orissa has agreed to repay this 10% loan of capital expenditure along with interest charges under RGGVY scheme. Thus, for Licensee entire 100% fund for RGGVY has been considered as 100% grant. In view of this, the Govt. of Orissa would be the owner of the assets created on the implementation of the project while Licensee will be responsible to operate and maintain these assets to provide power supply in the project areas and derive consequential benefits out of the assets created under the project. The execution of the scheme will be undertaken by CPSUs viz; NHPC, NTPC and PGCIL.
14. A brief status of implementation of RGGVY in WESCO is described below:
- A capital expenditure of Rs.897 Crores was sanctioned by the Ministry of Power, Government of India, New Delhi for implementation of RGGVY scheme in 9 districts of WESCO license area.
 - The table given below describes the coverage of RGGVY Scheme which is currently under implementation in WESCO:

Sl. No.	Districts	No. of Villages Covered for Electrification	No. of Hamlets Covered for Electrification	No. of BPL Covered for Electrification
1	Bargarh	1179	173	136314
2	Jharsuguda	353	106	24393
3	Sambalpur	1239	1707	71183
4	Deogarh	698	245	46115
5	Sundargarh	1681	1427	109709
6	Sonepur	959	875	63078
7	Bolangir	1764	2099	153039
8	Nuapada	607	358	76398
9	Kalahandi	2017	190	216253
Total		10497	7180	896482

- c. Consequent upon implement of RGGVY scheme, WESCO expects addition of around 105806 consumers, due to implementation of RGGVY by March 2011, in the billing fold by 31st March 2011.

15. A brief status of implementation of RGGVY in SOUTHCO is described below:

- a. A capital expenditure of Rs.999 Crores was sanctioned by the Ministry of Power, Government of India, New Delhi for implementation of RGGVY scheme in 8 districts of SOUTHCO license area.
- b. The table given below describes the coverage of RGGVY Scheme which is currently under implementation in SOUTHCO:

Sl. No.	Districts	No. of Villages Covered for Electrification	No. of Hamlets Covered for Electrification	No. of BPL Covered for Electrification
1	Ganjam	2688	1745	112263
2	Gajpathi	1467	1737	58428
3	Boudh	1109	1632	66599
4	Malkanagiri	998	1089	54731
5	Nabarangpur	900	1200	111897
6	Koraput	1858	1424	208158
7	Rayagada	2465	2392	127550
8	Kandhamala	2360	2212	79924
Total		13845	13068	819550

- c. Out of the above, the electrification work pertaining to Ganjam and Gajpathi districts have been approved in 10th 5-Year Plan and rest in 11th 5-Year Plan. Although the 10th 5-Year Plan is already over, due to the certain reasons, implementation of 10th 5-Year Plan scheme is delayed and it is expected to be over by end of March 2011.
- d. Consequent upon implement of RGGVY scheme in Ganjan & Gajpathi districts by March, 2011, SOUTHCO expects addition of around 1,70,000 consumers in the billing fold by 31st March 2011.

16. A brief status of implementation of RGGVY in NESCO is described below:

- a. A capital expenditurx of Rs.882 Crores was sanctioned by the Ministry of Power, Government of India, New Delhi for implementation of RGGVY scheme in 5 districts of NESCO license area.
- b. The table given below describes the coverage of RGGVY Scheme which is currently under implementation in NESCO:

Sl. No.	Districts	No. of Villages Covered for Electrification	No. of Hamlets Covered for Electrification	No. of BPL Covered for Electrification
1	Balasore	2619	2629	168238
2	Bhadrak	1242	2398	69203
3	Mayurbhanj	3753	2030	231889
4	Keonjhar	2076	2428	184865
5	Jajpur	1375	1116	143761
Total		11065	10609	797956

- c. Consequent upon implement of RGGVY scheme, NESCO expects addition of around 141600 consumers in the billing fold by 31st March 2011.

17. As a ready reference of the Hon'ble Commission, a snap shot of the revenue requirement last submitted by WESCO is given below:

WESCO

SUMMARY OF REVENUE GAP FOR 2009-10 & ARR FOR 2010-11			
	Rs. in Crores		
PARTICULARS	2008-09	2009-10	2010-11
Purchase of Power	1133.10	1125.37	1137.50
Net Annual Revenue Requirement	1492.58	1425.65	23576.31
Revenue from Sale of Power(With existing tariff)	1349.67	1335.76	1675.00
Revenue Gap	142.91	89.89	21901.31

18. As a ready reference of the Hon'ble Commission, a snap shot of the revenue requirement last submitted by SOUTHCO is also given below:

SOUTHCO

SUMMARY OF REVENUE GAP FOR 2009-10 & ARR FOR 2010-11			
	Rs. in Crores		
PARTICULARS	2008-09	2009-10	2010-11
Purchase of Power	194.89	211.48	230.23
Net Annual Revenue Requirement	500.76	406.16	642.87
Revenue from Sale of Power(With existing tariff)	324.03	336.40	383.74
Revenue Gap	176.73	69.77	700.34

19. As a ready reference of the Hon'ble Commission, a snap shot of the revenue requirement last submitted by NESCO is also given below:

NESCO

SUMMARY OF REVENUE GAP FOR 2009-10 & ARR FOR 2010-11			
	Rs. in Crores		
PARTICULARS	2008-09	2009-10	2010-11
Purchase of Power	663.62	750.00	841.57
Net Annual Revenue Requirement	1032.92	1027.39	1673.76
Revenue from Sale of Power(With existing tariff)	872.14	910.17	1373.65
Revenue Gap	160.77	117.21	300.11

20. Vide a Common Tariff Order passed on 20-03-2010, the Hon'ble Commission approved the Revenue for FY 2010-11 for NESCO, WESCO and SOUTHCO as mentioned below:

(Rs. In Crore)

Category	NESCO		WESCO		SOUTHCO	
	Revenue with Existing Tariff	Revenue with Revised Tariff (Appr.)	Revenue with Existing Tariff	Revenue with Revised Tariff (Appr.)	Revenue with Existing Tariff	Revenue with Revised Tariff (Appr.)
EHT	550.68	705.48	474.34	595.87	104.14	129.30
HT	257.14	319.27	527.74	655.44	78.95	98.92
LT	319.39	337.78	325.49	387.11	211.24	245.56
TOTAL	1127.21	1362.53	1327.57	1638.42	394.32	473.78

21. The above revenue is based on cross-subsidy applicable on the various consumer tariff categories, as described below:

- a. The Hon'ble High Court of Orissa in its order dtd.16.3.2010 passed in WP(C) No.6624, 6625 & 6626 of 2008 while dealing with cross-subsidy has directed the Commission as follows in para 10 of the said order:

“10. However, in order to avoid multiplicity of litigations and taking into consideration the entire facts of the case, including subsequent developments, namely pendency of tariff proceeding for the year 2010-11 before the OERC, this Court directs the OERC to strictly comply with the requirement of Sections 61 and 62 of the Electricity Act, 2003 and Regulation 7(c)(iii) of Orissa Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulation, 2004 while fixing the tariff for the financial year 2010-11. Further, the Orissa Electricity Regulatory Commission is also directed to fix the cost of supply at various voltage i.e. EHT, HT, LT and the Orissa Electricity Regulatory Commission shall also indicate the extent of cross-subsidy existing and plan of action to reduce it to over a period of time as envisaged in Section 61(g) of the Electricity Act, 2003 and Regulation 7(c)(iii) of OERC (Terms and Conditions for Determination of Tariff) Regulations, 2004.”

- b. Thus, as per the order of the Hon'ble High Court, the Commission is required to indicate the cost of supply for each category and extent of cross-subsidy existing and plan of action to reduce it to over a period of time as envisaged in Section 61(g) of the Electricity Act, 2003 and Regulation 7(c)(iii) of OERC (Terms and Conditions for Determination of Tariff) Regulations, 2004.
22. With regard to fixation of cost of supply, Section 62 of the Electricity Act, 2003 stipulates determination of the Retail Tariff giving due consideration to the factors (load factor, power factor, voltage etc.) listed in Section 62(3), 61(c) and 61(e) of the Electricity Act, 2003 which are essentially cost determinants. Economically efficient tariff should consider the cost impact of these factors only without providing for any cross subsidies. The Electricity Act, 2003 has given due recognition to the fact that tariff of some consumer categories are presently below the cost of supply and being cross-subsidized by other categories. Therefore, it has been desirable that a tariff shock due to abrupt elimination of cross-subsidy for such consumers should be avoided. Hence, concept of progressive reduction of cross-subsidy has been provided for.
23. In terms of Section 61(g) of Electricity Act, 2003 the appropriate Commission shall be guided by the objective that the tariff progressively reflects the efficient and prudent cost of supply of electricity and also reduces cross-subsidies in the manner specified by the Commission. Para 8.3.2 of Tariff Policy enjoins that *for achieving the objective that tariff progressively reflects the cost of supply of electricity, the SERC would notify road map within 6 months with a target that latest by the end of year 2010-11 tariffs are within $\pm 20\%$ of the "average cost of supply"*.
24. The National Electricity Policy also envisages existence of some amount of cross-subsidy. As per para 1.1 of National Electricity Policy, the supply of electricity at reasonable rate to rural India is considered essential for its overall development. Equally important is availability of reliable and quality power at competitive rates to Indian Industry to make it globally competitive and to enable it to exploit the tremendous potential of employment generation. Similarly, as per para 5.5.2 of the National Electricity Policy, a minimum level of support may be required to make the electricity affordable for

consumers of very poor category. Consumers below poverty line who consume below a specified level, say 30 units per month may receive special support in terms of Tariff which are cross-subsidized. Tariff for such designated group of consumers will be at least 50% of the “average (overall) cost of supply”.

25. Section 62 of the Electricity Act, 2003 empowers the Commission to determine tariff for retail sale of electricity. While doing so, the Commission is to be guided by National Electricity Policy and Tariff Policy under the provision of Section 61 (i) of the said Act. The provisions regarding the reduction of cross-subsidy in the above two Policies of the Central Govt. have been discussed in the foregoing paras. However, the term cross-subsidy has not been defined in the Electricity Act, 2003, the National Electricity and the Tariff Policy. None of them also provide for methodology for computing cross-subsidy. The amount of cross-subsidy received /contributed by various consumer categories is dependent on the way the cost of supply is calculated. Such calculation may be:

- Average cost of supply
- Cost of supply voltage wise
- Cost of supply to various consumer categories

Depending upon the mode of calculation adopted, the cross-subsidy differs. However, the Clause 8.3 of the Tariff Policy requires tariff to be within $\pm 20\%$ of the *average cost of supply* by 2010-11. Again as per para 5.5.2 of the National Electricity Policy, the Tariff for consumers of BPL category should be at least 50% of the *average (overall) cost of supply*. From conjoint reading of the above provisions of National Tariff Policy and Electricity Policy, the cost of supply may be construed to mean the average cost of supply by the Licensee at different voltage taken together.

26. Some consumer groups argue in favour of determination of cost of supply by consumer category-wise. But, voltage-wise cost determination is the first step in determining the consumer-wise cost of supply. For voltage-wise cost determination, it is important that the accounting system of the Licensees are oriented towards capturing costs voltage-wise at the point of origin as and when these are incurred. The Commission has also emphasized the requirement for segregation of network cost in terms of voltage level

(LT, HT & EHT). This has not been possible due to various reasons- such as determination of voltage-wise and consumer category-wise technical and non-technical losses, essential for determining cost of supply. In the absence of 100% working meters at the level of consumers and distribution transformer, it is quite impossible to determine the exact percentage of loss both at technical and commercial level. The distribution network of Orissa is such that it is technically not possible to segregate the common cost between different voltage levels. The accounting system of the DISCOMs may also be required to establish a basis for allocating common costs to all the voltage level which they have not been able to do till date. The submission of DISCOMs regarding cost allocation during tariff filing does not have technical or commercial data support. There will be a conjectural element in the determination of cost of supply in spite of all scientific rigours, especially because the distribution and transmission network are un-segregated. Because of such conjectural element estimates of cost of supply would differ from one stakeholder to another. Therefore, it would seem prudent to accept the average overall cost of supply for the whole State as envisioned in Tariff Policy and National Electricity Policy for computation of cross subsidy.

- 27.** Orissa has been following uniform Retail Tariff Model since the OSEB days. That means the electricity tariff of a particular category of consumer is same throughout Orissa irrespective of the DISCOMs to which the consumer belongs. Although the Commission has differentiated consumers on certain factors such as load factor, power factor etc. as enumerated in the law but has not differentiated on the basis of geographical position, necessitated due to lack of socio-economic uniformity of the State. Thus a domestic or BPL (Kutir Jyoti) consumer in SOUTHCO area pays the same tariff as a domestic or BPL (Kutir Jyoti) consumer of NESCO area.
- 28.** Since FY 2005-2006 the Commission has embarked on a process of rationalization of tariff structures and has reduced the categories of consumers to three on supply voltage basis, namely EHT, HT and LT (except the sub- categories (1) Kutir Jyoti, (2) Domestic, (3) Irrigation pumping (4) Allied Agricultural Activities, (5) Allied agro-Industrial Activities and (6) General Purpose) each category being given the same uniform retail supply tariff

for the entire State. The Commission has abandoned categorization of consumers on socio-economic grounds as such principle militates against rationalization of tariff but despite rationalization, the Commission has still provided cross-subsidy based tariff to the aforesaid six categories except General Purpose due to necessity for making electricity affordable for consumers of poor category as envisaged in National Electricity Policy. The cross-subsidy for the aforesaid five categories of LT consumers comes partly from "General Purpose" subcategory of LT consumers. This rationalization process follows the objective mentioned in the Preamble of the Act.

- 29.** Separate concessional tariff for Power Intensive Industries has been withdrawn since FY 2008-09, and may not be reproduced particularly in view of the power shortage scenario, treating Power Intensive Industries as a sub-category of EHT consumers, inasmuch as that would go against the policy of rationalization. It would also result in cross-subsidization by other consumers in EHT categories as well as by consumers in HT and LT categories.
- 30.** The power purchased for the requirement of the consumers of the State is managed by GRIDCO from different sources inside and outside the State. The power is pooled at GRIDCO's end and is supplied to the DISCOMs at different Bulk Supply Prices fixed by the Commission. The differential BSP has been essential due to adoption of uniform retail supply tariff in the State as different DISCOMs have different consumer mix and incidental revenue earning capability. As already pointed out above, for retail tariff the "average cost of supply" is worked out on the basis of pooled power purchase cost of GRIDCO for the whole State following principles laid down in Tariff Policy and National Electricity Policy, and the cost of distribution for the whole State is added thereto. Cross-subsidy is derived from the excess/deficit of this State-wide retail tariff so calculated above / below the said average cost of supply. The State-wide retail tariff here is the tariff for each of the three categories of consumers namely EHT, HT and LT. This complies with Regulation 7 (c) (iii) of the OERC (Terms and Conditions for Determination of Tariff), Regulations, 2004, enacted earlier than the Tariff Policy. The provisions state:

“For the purpose of computing cross-subsidy the difference between cost-to-serve that category and the average tariff realization of that category shall be considered”.

In the context of the present rationalized tariff the word “category” in the above provision denotes EHT, HT and LT but “cost-to-serve that category” as per the aforesaid method of calculation from pooled power purchase cost, would turn out to be the same figure for each such category. It is noteworthy that the above provision is not region-specific, i.e. cost-to-serve is not to be calculated region-wise for distribution areas of NESCO, WESCO and SOUTHCO.

31. The methodology to find out cost to serve has been discussed in the Forum of Regulators which is a statutory body created under Electricity Act, 2003. As per their recommendation the cost to serve for ensuing year has been calculated basing on total revenue requirement of DISCOMs for saleable units.

Computation of Average Cost of DISCOMs FY 2010-11

(Rs. Crore)

Expenditure	Approved
Cost of Power Purchase	3,431.19
Transmission Cost	473.62
SLDC Cost	3.58
Total Power Purchase, Transmission & SLDC Cost(A)	3,908.39
Employee costs	671.90
Repair & Maintenance	149.29
Administrative and General Expenses	95.72
Provision for Bad & Doubtful Debts	62.90
Depreciation	85.74
Interest Chargeable to Revenue including Interest on S.D	125.12
Sub-Total	1,190.67
Less: Expenses capitalised	3.08
Total Operation & Maintenance and Other Cost	1,187.59
Return on equity	36.00
Total Distribution Cost (B)	1,223.59
Amortisation of Regulatory Asset	-
True up of Past Losses	-
Contingency reserve	-
Total Special Appropriation (C)	NIL
Total Cost (A+B+C)	5,131.98
Approved Saleable units (MU)	15676.55

Expenditure	Approved
Average Cost (per Unit)	327.37

The average tariff for FY 2010-11 is 320.58 paise per unit where as average cost of supply by DISCOMs is 327.37 paise per unit during the same period as calculated above. As mentioned above, the average tariff in comparison to average cost of supply is lower, because of the fact that miscellaneous receipts amounting Rs.122.63 cr. got adjusted from the total revenue requirement leaving the balance amount to be recovered through the tariff from the consumers at an average rate of 320.58 paise per unit.

32. Regarding the extent of cross-subsidy existing at various voltage levels, following will show as to how far the Commission have kept cross subsidy within $\pm 20\%$ of the average cost of supply as mandated in para 8.3.2 of Tariff Policy.

Year	Level of Voltage	Average cost of supply for the State as a whole (P/U)	Tariff (P/U)	Cross-Subsidy (P/U)	Percentage of Cross-subsidy above/below or cost of supply
(1)	(2)	(3)	(4)	5 = (4) – (3)	(6)
2009-10	EHT	263	295.05	32.05	(+) 12.18
	HT		308.68	45.68	(+) 17.36
	LT		179.99	(-) 83.01	(-) 31.56
2010-11	EHT	327.37	379.93	52.00	(+) 15.88
	HT		383.68	56.31	(+) 17.20
	LT		219.21	(-) 108.16	(-) 33.03

Section 61 (c) of Electricity Act, 2003 envisages that while determining tariff the Commission shall be guided by the factors which would encourage competition, efficiency, economical use of resources, good performance and optimum investment. Therefore, the industries which function efficiently are expected to utilize their production capacity and consequently attain the load factor of 80% or above. Accordingly, the tariff of HT and EHT industries at 80% load factor has been taken for determining the level of cross-subsidy in the table above.

The recommendation of the Tariff Policy suggests that the Commission should aim at reducing the cross-subsidy to operate within a band of $\pm 20\%$ of the cost of supply. The purpose of prescribing a band is to leave discretion with the Commission to fluctuate cross-subsidy within the band due to unforeseen causes like changes in Govt. policy, changes in mix of generation sources, necessary purchases of power from un-scheduled sources, etc.

33. In view of the above provisions of the Act, the job becomes onerous since the Commission has to balance the interest of various stakeholders while determining tariff and dealing with the issue of cross-subsidization. In this regard, the Electricity Act also makes it obligatory on the part of the State Governments to provide requisite revenue subsidies to the State Utilities if it would like tariff for any category of consumers to be lower than the tariff determined by the SERC.
34. As regards the plan of action to reduce the cross-subsidy over a period of time as envisaged in Section 61(g) of the Electricity Act, 2003 and Tariff Policy, industries under HT & EHT category are paying cross-subsidy within (+) 20% of the average cost of supply as shown in the above table. The objective of the Tariff Policy has been achieved with regard to HT and EHT categories. In case of consumers under LT category the existing cross-subsidy is within (-) 33% of the average cost of supply. The cost of supply at LT level is high because of higher distribution loss in that voltage level. The cost of supply at LT level can be reduced by arresting the distribution loss. Huge investment is required for technical upgradation of distribution network and enforcement of anti-theft measures to be taken by licensees supported by Govt. agencies to curb the loss at LT level. Since, these consumers under LT category constitutes low end consumers such as Kutir Jyoti, Domestic, Agriculture etc. sudden rise of tariff may create a tariff shock for such consumers.
35. Section 61 (d) of the Electricity Act, 2003 provides that while determining tariff Commission is to safeguard the interest of the consumers and at the same time ensure the recovery of the cost of electricity in a reasonable manner. In this context Section 61

(g) is to be read conjointly with Section 61 (d) so that recovery of cost of electricity can be ensured simultaneously with safeguarding the interest of consumers.

36. As already stated, while administering the RGGVY scheme, prior commitments have been taken from the State Governments regarding
 - a. Determination of bulk supply tariff for franchisees in a manner that ensures their commercial viability.
 - b. Provision of requisite revenue subsidy by the State Government to the State Utilities as required under the Electricity Act.
37. With large number of BPL consumers getting added due to electrification of unelectrified villages, the energy supply to this category is bound to increase many fold. Also, with the aim to gradually reduce the cross-subsidies and linking the consumer tariff to the cost of serve of that category, the Hon'ble Commission has to either increase the LT Tariff or take care of the utilities' financial position through requisite revenue subsidies from the State Government as required under the Electricity Act if the State Governments wishes to have the tariff of LT Tariff lower than the cost to serve LT consumers.
38. In view of likely increase of BPL consumers in near future due to RGGVY Scheme implementation and gradual lowering of cross subsidy, the revenue sustainability of rural electricity supply shall come under strain. In view of the same, the Hon'ble Commission may like to balance the interest of all stakeholders in one or more of the following ways:
 - a. Effect minimum or no tariff increase and take care of the revenue sustainability of the licensees through increased subsidy support, coming partly from the State Governments and partly from the Central Government which has initiated this scheme for implementation by the State Governments
 - b. Raise the tariff of all categories across the board to take care of the revenue suitability of the licensees without increasing the subsidy budget of the State Governments;

- c. Raise the cross-subsidy of certain categories and subsidise the others without increasing the subsidy budget of the State Governments;
- d. Effect minimum or no tariff increase and take care of the revenue sustainability of the licensees through increased subsidy support from the State Governments so that the Licensees are saved from reaching bankruptcy gradually;

Date

DEPONENT

Place

Chief Executive Officer

(Commerce)

BEFORE THE ORISSA ELECTRICITY REGULATORY COMMISSION,
BIDYUT NIYAMAK BHAWAN, KALYANI COMPLEX, UNIT-VIII,
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Case No. __ of 2010

IN THE MATTER OF

An application under Section 65 and Section 62 of Electricity Act 2003 read with Regulation 58 of OERC (Conduct of Business) Regulations 2004 by NESCO, WESCO & SOUTHCO before Orissa Electricity Regulatory Commission

IN THE MATTER OF:

Provision of Revenue Subsidy for sustainability of Rural Electricity Supply in villages being electrified under Rajiv Gandhi Grameen Vidyutikaran Yojna

IN THE MATTER OF:

NESCO, WESCO & SOUTHCO , Orissa

Bhubaneswar- 751015

-----APPLICANT/PETITIONER

AFFIDAVIT

I, Sri Anil Kumar Bohra , son of Late Dr. Y.D Bohra, aged about 56 years, residing at Bhubaneswar, do here by solemnly affirms and state as follows:

I am working as Chief Executive Officer, (Commerce) of the North Eastern Electricity Supply Company of Orissa Ltd (NESCO), Western Electricity Supply Company of Orissa Ltd (WESCO), Southern Electricity Supply Company of Orissa Limited (SOUTHCO), in the Regd. Office-Plot No.N1/22, IRC Village, Nayapalli, Bhubaneswar-751015, the respondent in the above matter and am duly authorized to swear this affidavit on their behalf.

The statements made in the paragraphs of the reply submission herein above shown 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.

DEPONENT

Verification

RAJIV GANDHI GRAMEEN VIDYUTIKARAN YOJANA
AT A GLANCE

- Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) was launched in April-05 by merging all ongoing schemes.
- Under the programme 90% grant is provided by Govt. of India and 10% as loan by REC to the State Governments.
- REC is the nodal agency for the programme.

The RGGVY aims at:

- Electrifying all villages and habitations as per new definition
- Providing access to electricity to all rural households
- Providing electricity Connection to Below Poverty Line (BPL) families free of charge

Infrastructure under RGGVY :

- Rural Electricity Distribution Backbone (REDB) with 33/11 KV (or 66/11 KV) sub-station of adequate capacity in blocks where these do not exist.
- Village Electrification Infrastructure (VEI) with provision of distribution transformer of appropriate capacity in villages/habitations.
- Decentralized Distributed Generation (DDG) Systems based on conventional & non conventional energy sources where grid supply is not feasible or cost-effective.

Implementation Methodology and conditions under RGGVY :

- Preparation of District based detailed project reports for execution on turnkey basis.
- Involvement of central public sector undertakings of power ministry in implementation of some projects.
- Certification of electrified village by the concerned Gram Panchayat.
- Deployment of franchisee for the management of rural distribution for better consumer service and reduction in losses.
- Undertaking by States for supply of electricity with minimum daily supply of 6- 8 hours of electricity in the RGGVY network.
- Making provision of requisite revenue subsidy by the state.
- Determination of Bulk Supply Tariff (BST) for franchisee in a manner that ensures commercial viability.
- Three tier quality monitoring Mechanism for XI Plan Schemes made mandatory.
- Web based monitoring of progress.
- Release of funds linked to achievement of pre-determined milestones.
- Electronic transfer of funds right up to the contractor level.
- Notification of Rural Electrification Plans by the state governments.

SCOPE OF THE SCHEME

Under the scheme, projects could be financed with capital subsidy for provision of Rural Electricity Distribution Backbone (REDB)

- Provision of 33/11 KV (or 66/11 KV) sub-stations of adequate capacity and lines in blocks where these do not exist.
- Creation of Village Electrification Infrastructure (VEI)
- Electrification of un-electrified villages.
- Electrification of un-electrified habitations.
- Provision of distribution transformers of appropriate capacity in electrified villages / habitation(s)

Decentralised Distributed Generation (DDG) and Supply

Decentralised generation-cum-distribution from conventional sources for villages where grid connectivity is either not feasible or not cost effective provided it is not covered under the programme of Ministry of Non-conventional Energy Sources for providing electricity from non-conventional energy sources under their remote village electrification programme of 25000 villages.

REDB, VEI and DDG would also cater to the requirement of agriculture and other activities including

- irrigation pump sets
- small and medium industries
- khadi and village industries
- cold chains
- healthcare
- education and IT
-

This would facilitate overall rural development, employment generation and poverty alleviation.

Franchisees:

In the management of rural distribution through franchisees who could be Non-Governmental Organisations (NGOs), Users Association, Cooperatives or individual entrepreneurs, the Panchayat institutions would be associated. The franchisees arrangement could be for system beyond and including feeders from substation or from and including Distribution Transformer(s).

Revenue Sustainability :

Based on the consumer mix and the prevailing consumer tariff and likely load, the Bulk Supply Tariff (BST) for the franchisee would be determined after ensuring commercial viability of the franchisee. Wherever feasible, bidding may be attempted for determining the BST. This Bulk Supply Tariff would be fully factored into the submissions of the State Utilities to the State Electricity Regulatory Commissions (SERCs) for their revenue requirements and tariff determination. The State Government under the Electricity Act is required to provide the requisite revenue subsidies to the State Utilities if it would like tariff for any category of consumers to be lower than the tariff determined by the SERC. While administering the scheme, prior commitments may be taken from the State Government regarding

- Determination of bulk supply tariff for franchisees in a manner that ensures their commercial viability.
- Provision of requisite revenue subsidy by the State Government to the State Utilities as required under the Electricity Act.

RRGVY IN ORISSA

Status of Village Electrification as on 31.3.2004

State	Total No. of inhabited villages as per 1991 census	Total No. of villages electrified	Balance un-electrified villages	% age of electrified villages
Orissa	46989	37663	9326	80.15

RURAL HOUSEHOLDS ELECTRIFICATION - 2001 CENSUS

State	Total No. of Rural Households	Households having Electricity	% electrified House-holds	% un-electrified Households
Orissa	6,782,879	1,312,744	19.35	80.65

Continuation of Rajiv Gandhi Grameen Vidyutikaran Yojana in the XI Plan-Scheme of Rural Electricity Infrastructure and Household Electrification.

- Scheme of Rural Electricity Infrastructure and Household Electrification", Scheme in the XI-Plan for attaining the goal of providing access to electricity to all households, electrification of about 1.15 lakh un-electrified villages and electricity connections to 2.34 crore BPL households by 2009. The approval has been accorded for capital subsidy of Rs.28000 crore during the Eleventh Plan period, at this stage. This is in continuation of Office Memorandum No. 44/19/2004-D(RE) dated 18th March 2005.
- Rural Electrification Corporation (REC) would be the nodal agency for the scheme.
- Ninety per cent capital subsidy would be provided towards overall cost of the projects under the scheme, excluding the amount of state or local taxes, which will be borne by the concerned State/State Utility. 10% of the project cost would be contributed by states through own resources/loan from financial institutions.
- The states will finalize their Rural Electrification Plans in consultation with Ministry of Power and notify the same within six months. Rural Electrification Plan will be a roadmap for generation, transmission, sub-transmission and distribution of electricity in the state which will ensure the achievement of objectives of the scheme.
- For projects to be eligible for capital subsidy under the scheme, prior commitment of the States would also be obtained before sanction of projects under the scheme for:
 - Guarantee by State Government for a minimum daily supply of 6-8 hours of electricity in the RGGVY network with the assurance of meeting any deficit in this context by supplying electricity at subsidized tariff as required under the Electricity Act, 2003.
 - deployment of franchisees for the management of rural distribution in projects financed under the scheme and to undertake steps necessary to operationalize the scheme.
- **SCOPE OF THE SCHEME**

Under the scheme, projects could be financed with capital subsidy for provision of:

Rural Electricity Distribution Backbone (REDB)

Provision of 33/11 KV (or 66/11 KV) sub-stations of adequate capacity and lines in blocks where these do not exist.

Creation of Village Electrification Infrastructure (VEI)

- i) Electrification of un-electrified villages.
- ii) Electrification of un-electrified habitations with a population of above 100.

iii) Provision of distribution transformers of appropriate capacity in electrified villages / habitation(s).

Decentralized Distributed Generation (DDG) and Supply

Decentralized distribution-cum-generation from conventional or renewable or non-conventional sources such as biomass, bio fuel, bio gas, mini hydro, geo thermal and solar etc. for villages where grid connectivity is either not feasible or not cost effective. The funding will be on the pattern of 90% subsidy from Government of India and 10% loan from REC or from own funds of the state/loan from financial institutions. The Monitoring Committee on RGGVY, while sanctioning DDG projects under RGGVY, shall coordinate with MNRE to avoid any overlap. The provision for subsidy requirement for DDG is Rs.540 crore.

REDB, VEI and DDG would indirectly facilitate power requirement of agriculture and other activities including irrigation pump sets, small and medium industries, khadi and village industries, cold chains, healthcare, education and IT etc. This would facilitate overall rural development, employment generation and poverty alleviation.

Franchisees

The management of rural distribution would be through franchisees who could be Non-Governmental Organisations (NGOs), Users Association, Panchayat Institutions, Cooperatives or individual entrepreneurs. The franchisee arrangement could be for system beyond and including feeders from sub-station or from and including Distribution Transformer(s). The franchisee should be preferably input based to reduce AT&C losses so as to make the system revenue sustainable.

Revenue sustainability

Based on the consumer mix and the prevailing consumer tariff and likely load, the Bulk Supply Tariff (BST) for the franchisee would be determined after ensuring commercial viability of the franchisee. Wherever feasible, bidding may be attempted for determining the BST. This Bulk Supply Tariff would be fully factored into the submissions of the State Utilities to the State Electricity Regulatory Commissions (SERCs) for their revenue requirements and tariff determination. The State Government under the Electricity Act is required to provide the requisite revenue subsidies to the State Utilities if it would like tariff for any category of consumers to be lower than the tariff determined by the SERC. While administering the scheme, prior commitments may be taken from the State Government regarding

- a. Determination to bulk supply tariff for franchisees in a manner that ensures their commercial viability.
- b. Provision of requisite revenue subsidy by the State Government to the State Utilities as required under the Electricity Act. 13. The capital subsidy for eligible projects under the scheme

would be given through REC. These eligible projects shall be implemented fulfilling the conditionalities indicated above at Paras No. 4,5,7,11 & 12. In the event the projects are not implemented satisfactorily in accordance with the conditionalities indicated above, the capital subsidy would be converted into interest bearing loans.

RURAL ELECTRIFICATION POLICY

Goals

The Policy aims at :-

- Provision of access to electricity to all households by year 2009.
- Quality and reliable power supply at reasonable rates.
- Minimum lifeline consumption of 1 unit per household per day as a merit good by year 2012.

The progress of Rural Electrification would be reviewed in terms of the achievements vis-à-vis the above Goal.

7.3 To ensure the revenue sustainability of the rural electricity supply, RGGVY requires deployment of franchisees for the management of rural distribution in projects financed under the scheme with a stipulation that if conditionalities of the scheme are not implemented satisfactorily, the capital subsidy could be converted into interest bearing loans. It is necessary that system of franchisee is implemented in phased manner by the State Governments in other areas also in order to bring down commercial losses, improve collection efficiency and to provide doorstep services to the consumers.

8.6 The retail tariffs for electricity supply by persons exempt under eighth proviso to Section 14 would be set, based on mutual agreement between such person and the consumers. Since these would be micro enterprises with low capital expenditure, short gestation periods and no entry barriers, competitive market forces would ensure reasonable prices reflecting actual costs.

But the benefit of financial assistance / subsidies by the government (central or state) or other agencies, if any, must be fully passed on to the consumers. The Appropriate Commission would lay down guidelines for this purpose for various types of projects (for different fuels, technology and size) receiving subsidy as opposed to tariff determination on case to case basis. The Appropriate Commission shall have right to intervene by scrutinizing tariff if these guidelines are not implemented in any particular case.

NATIONAL TARIFF POLICY

(3) Section 65 of the Act provides that no direction of the State Government regarding grant of subsidy to consumers in the tariff determined by the State Commission shall be operative if the payment on account of subsidy as decided by the State Commission is not made to the utilities and the tariff fixed by the State Commission shall be applicable from the date of issue of orders by the Commission in this regard. The State Commissions should ensure compliance of this provision of law to ensure financial viability of the utilities. To ensure implementation of the provision of the law, the State Commission should determine the tariff initially, without considering the subsidy commitment by the State Government and subsidised tariff shall be arrived at thereafter considering the subsidy by the State Government for the respective categories of consumers.

8.3 Tariff design : Linkage of tariffs to cost of service

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.

The State Governments can give subsidy to the extent they consider appropriate as per the provisions of section 65 of the Act. 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 targetting subsidies effectively.

Accordingly, the following principles would be adopted:

1. In accordance with the National Electricity Policy, consumers below poverty line who consume below a specified level, say 30 units per month, may receive a special support through cross subsidy. Tariffs for such designated group of consumers will be at least 50% of the average cost of supply. This provision will be re-examined after five years.

4. Extent of subsidy for different categories of consumers can be decided by the State Government keeping in view various relevant aspects. But provision of free electricity is not desirable as it encourages wasteful consumption of electricity besides, in most cases, lowering of water table in turn creating avoidable problem of water shortage for irrigation and drinking water for later generations. It is also likely to lead to rapid rise in demand of electricity putting severe strain on the distribution network thus adversely affecting the quality of supply of power. Therefore, it is necessary that reasonable level of user charges are levied. The subsidized rates of electricity should be permitted only up to a pre-identified level of consumption beyond which tariffs reflecting efficient cost of service should be charged from consumers. If the State Government wants to reimburse even part of this cost of electricity to

poor category of consumers the amount can be paid in cash or any other suitable way. Use of prepaid meters can also facilitate this transfer of subsidy to such consumers.

GUIDELINES FOR FRANCHISEE DEVELOPMENT

(ii) Based on the consumer mix and the prevailing consumer tariff and likely load, the Bulk Supply Tariff (BST) for the franchisee would be determined after ensuring commercial viability of the franchisee.

The State Government under the Electricity Act is required to provide the requisite revenue subsidies to the State Utilities if it would like tariff for any category of consumers to be lower than the tariff determined by the SERC.

While administering the scheme, prior commitments may be taken from the State Government regarding :

(a) Determination of Bulk Supply Tariff for franchisees in a manner that ensures their commercial viability.

(b) Provision of requisite revenue subsidy by the State Government to the State Utilities as required under the Electricity Act.

5. TARIFF AND EXPECTED REVENUE REALIZATION CALCULATION

5.1 Tariff

The Franchisee shall establish a tariff acceptable to the consumers of franchise area and also in accordance with the options for tariff fixation described in the franchisee guidelines and / or determined by the Utility with the concurrence of the State Government within the overall provisions of the office Memorandum No.44/19/2004-D(RE) dated 18th March, 2005 issued by Ministry of Power for implementation of the scheme "Rajiv Gandhi Grameen Vidyutikaran Yojana".

5.3 Provision of Subsidy

The Franchisee shall not receive or give any subsidy or subvention to any person or from any other business of the Franchisee (if permitted under this Agreement).

NATIONAL ELECTRICITY POLICY

5.1.5. Targetted expansion in access to electricity for rural households in the desired timeframe can be achieved if the distribution licensees recover at least the cost of electricity and related O&M expenses from consumers, except for lifeline support to households below the poverty line who would need to be adequately subsidized. Subsidies should be properly targeted at the intended beneficiaries in the most efficient manner. Government recognizes the need for providing necessary capital subsidy and soft long-term debt finances for investment in

rural electrification as this would reduce the cost of supply in rural areas. Adequate funds would need to be made available for the same through the Plan process. Also commensurate organizational support would need to be created for timely implementation. The Central Government would assist the State Governments in achieving this.

5.5 RECOVERY OF COST OF SERVICES & TARGETTED SUBSIDIES

5.5.1 There is an urgent need for ensuring recovery of cost of service from consumers to make the power sector sustainable.

5.5.2 A minimum level of support may be required to make the electricity affordable for consumers of very poor category. Consumers below poverty line who consume below a specified level, say 30 units per month, may receive special support in terms of tariff which are cross-subsidized. Tariffs for such designated group of consumers will be at least 50 % of the average (overall) cost of supply. This provision will be further re-examined after five years.

5.5.4 The State Governments may give advance subsidy to the extent they consider appropriate in terms of section 65 of the Act in which case necessary budget provision would be required to be made in advance so that the utility does not suffer financial problems that may affect its operations. Efforts would be made to ensure that the subsidies reach the targeted beneficiaries in the most transparent and efficient way.