

Delayed Tariff Hikes

Key reasons, solutions and the role of SERCs

The Appellate Tribunal for Electricity (APTEL) has recently asked the state regulators to furnish information on delayed and inadequate tariff hikes for discoms. The case was initiated suo motu by the tribunal in continuation of an earlier matter of 2011 regarding irregular tariff revisions. Of late, discoms' dues to gencos have increased significantly and this can be attributed to non cost-reflective tariffs. *Power Line* invited experts to share their views on the issue and recommend possible solutions...

What are the key reasons for the delayed and inadequate tariff hikes by SERCs? What are the possible solutions to this problem?

Pramod Deo

The reasons are obviously political because all the state distribution companies are controlled and owned by the state governments. The financial health of discoms is in a dismal state, mainly because of inadequate tariff revisions and this is not something new. In 2010, when I was chairperson of the CERC and the Forum of Regulators (FoR), a study was carried out, wherein we found that two states had not revised their tariffs for as long as four to five years. Based on these findings, the Ministry of Power (MoP) had taken up the matter with APTEL and that is when the famous 2011 order of APTEL was passed. However, the situation has become alarming again, and the MoP has taken up this issue with APTEL. That said, we are going to run into similar situations time and again unless the basic problem of

political interference is addressed.

The independence of electricity regulators, in terms of tariff determination outside the political purview, was recognised under the Electricity Regulatory Commission Act, 1998. The act was amalgamated with the Electricity Act, 2003, which focused on bringing in more competition in the sector. However, the problem remains as the states continue to own the distribution companies and control tariff.

People believe that tariffs are being controlled or kept low for small consumers, but that is not the case. For instance, in Maharashtra, there are only 80,000 consumers with a load of 1 MW and above, mainly industrial consumers. These consumers contribute to about 49 per cent of the discom's revenue. There are around 4.2 million agricultural consumers, which are being charged Rs 3.11 per unit as against the average cost of supply of Rs 6.03 per unit and the state government is

also providing a subsidy of Rs 35 billion to further reduce their tariff. The remaining 20.2 million consumers are paying the average cost of supply and are not being subsidised. Same is the case with Gujarat, with industrial consumers cross-subsidising agricultural consumers to a significant extent. The question arises that who are the beneficiaries of low agricultural tariffs. Most of the beneficiaries are members of Parliament, legislatures and panchayats.

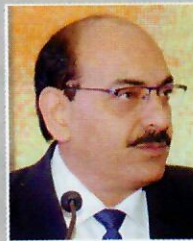
The solution lies at the political level and electricity is, for all practical purposes, a state subject. Obviously, regulators also have not been doing their job because after all they are part of the system. They also come from the same political structure. When elections were held in 2014, regulators raised the issue of tariff revisions. As long as I was in office, we had taken a stand that tariffs are decided under a special act and it has nothing to do with elections. At the time, the FoR passed a resolution and decided to take decisions on a case-by-case basis, which became a good excuse to delay tariff hikes. It has been seen that every time elections are held in a state, tariff revisions are deferred or the quantum of hike is kept minimal. Another issue pertains to discom losses. There has been some improvement, but real improvement cannot be captured unless we have third-party monitoring of the loss figures provided by discoms. The regulators are not well equipped for this. At least, a statistical sample-based monitoring, possibly by the Central Electricity Authority, should be carried out on a regular basis for all discoms.



Pramod Deo
Former Chairperson,
CERC



T.N. Arun Kumar
Interim CEO,
CARE Ratings



Sanjeev Seth
CEO,
India Power

T.N. Arun Kumar

APTEL, in its order dated September 23, 2019, has directed the SERCs and the joint electricity regulatory commissions to furnish information regarding the delays in tariff determination, true-ups, regulatory assets, and the fuel and power purchase cost adjustment mechanism. The said matter was initiated suo motu by APTEL in continuation of an earlier matter relating to irregular tariff revisions by the regulatory commissions

"There has been some improvement in discom losses, but real improvement cannot be captured unless we have third-party monitoring of loss figures provided by discoms."

Pramod Deo

in 2011. That case was started by APTEL after receiving a letter from the MoP.

This issue has come up again due to the continuing state of affairs of the state discoms with mounting overdue payables of more than \$7 billion towards the power generating companies. This can be attributed to the high aggregate technical and commercial (AT&C) losses of the majority of the discoms, delays in receipt of subsidies, absence of cost-reflective tariffs, etc.

From the regulator's perspective, the delay in tariff orders could be because of genuine reasons including directions by the Election Commission or delays in submission of data by discoms leading to delays at the SERCs' end. The delay could also be attributed to vacant positions at various SERCs leading to shortage of manpower and eventually delays in tariff orders. The issue of inadequate tariff hikes is a complex issue. Tariff hikes are deferred due to political interference. Complete freedom or at least reduced interference will ensure the viability of the power distribution segment.

The growth of regulated sectors such as power largely depends on timely actions taken by the regulatory bodies. Thus, to address this problem, regulatory initiatives need to be taken to ensure that the timelines/guidelines are followed in letter and spirit as per various policies/statutes. Whether it is timely filing of tariff petitions, issuance of tariff orders, or cost-reflective tariff hikes to ensure a time-bound recovery of regulatory assets, adherence to such guidelines is a must.

"Whether it is timely filing of tariff petitions, issuance of tariff orders, or cost-reflective tariff hikes to ensure time-bound recovery of regulatory assets, adherence to such guidelines is a must."

T.N. Arun Kumar

Sanjeev Seth

Inadequate tariff hikes

- The National Tariff Policy mandates that the tariff should reflect the cost of supply. Most of the discoms submit their tariff proposals based on the principles of cost of supply and the affordability of particular categories of consumers. However, the tariff is capped sometimes due to political and economic factors.
- Inadequate resources (manpower, infrastructure) of the SERCs lead to delays in the disposal of pending petitions.

Solutions

The solution is to strictly implement a uniform multiyear tariff policy, and to review the existing regulations and periodically update them, as many items are disallowed on a regular basis based on the existing regulations.

How can the state regulators instil financial discipline in discoms?

Pramod Deo

There has to be a review of the regulators. The problem is that under the Electricity Act, 2003, the state regulators are responsible for reporting to the state legislature. But the state legislature is never going to condemn them for not revising the tariff. Therefore, there has to be a third-party evaluation of the regulator's performance. In electricity laws, consumers are the most important. Thus, consumer organisations can play a key role in making regulators accountable. Further, the regulators need to be given more facilities including competent staff and better fund-

"The SERCs must ensure that the multi-year tariff is submitted timely by discoms and disposed of by the SERC as per the prevailing regulations."

Sanjeev Seth

ing. We have found that the SEBI has been able to get competent people because it has adopted the Reserve Bank of India's staffing pattern and salary. If the regulators cannot hire staff at salaries higher than the state government salaries, they cannot find the right people.

T.N. Arun Kumar

A good part of the discoms' current cash flow problem is attributable to the delayed payment of dues by government departments and the delayed payment of state government subsidies. The central government and regulators need to devise ways to incentivise timely payments. The effective implementation of the existing regulatory guidelines will also instil financial discipline in discoms. The performance of discoms, in terms of AT&C loss reduction or achievement of other operational/financial parameters, should be critically evaluated and any deviation should be accordingly penalised or incentivised.

Sanjeev Seth

- The SERCs must ensure that the multiyear tariff is timely submitted by discoms and disposed of by the SERCs as per the prevailing regulations.
- The SERCs also should allow the carrying cost of regulatory assets as pass-through and set a timeline for liquidating regulatory assets.
- The SERCs must dispose of key petitions in a time-bound manner in line with the ease of doing business principles.
- The SERCs must determine the business plan and investments of discoms and set priorities for them, considering the needs of technology deployment, loss reduction and network augmentation. ■