

**Re-determination of methodology for fixation of BSP of GRIDCO in Odisha as per orders
of Hon'ble APTEL**

Hon'ble APTEL in their judgement dated 02.09.2014 passed in Appeal No. 29/ 2009 have concluded as given hereunder:

31. (i) In the prevailing system of single buyer mode, adjustment for consumers mix has to be made in average BSP of GRIDCO to determine the BSP to be charged from the various Distribution Licensees.

(ii) The benefit of relative efficiency of a distribution company in terms of distribution loss and other controllable expenditure has to be passed on to the consumers and to that extent there has to be a difference in the retail supply tariffs amongst the various distribution companies.

(iii) Thus, the difference in BSP of different distribution companies can be only to the extent of accounting for the difference in revenue recovery of the different distribution companies from its consumers due to difference in consumer mix. However, the difference in revenue due to relative efficiencies of the distribution companies should not be accounted for while determining the differential BSPs for the distribution companies. The alternative proposed in paragraph 29 for allocation of share in various power sources in the portfolio of GRIDCO on the basis of consumer mix of the Distribution Licensees for the purpose of computation of respective BSPs of the Distribution Companies may also be considered.

(iv) In the impugned order, the State Commission has determined the differential BSP with a view to equalize the RST and has not accounted for relative efficiency of the distribution companies in terms of distribution loss and other expenditure. The effect of higher efficiency of a distribution company should be passed on its consumers, in terms of the Tariff Policy.

(v) We feel that the State Commission should prepare a paper for methodology to achieve the objective of giving effect to determination of differential BSP on account of difference in consumer mix and at the same time passing on the impact of relative efficiencies of the distribution licensees and invite objections /suggestions of the public and thereafter finalise the methodology after considering the objections/suggestions of the public and pass consequential order. Accordingly, directed.

32. This Appeal is disposed of with above directions. The State Commission is directed to pass consequential order in terms of the directions given in this judgment within 180 days of communication of this order. No order as to costs.

The Commission have been following a particular methodology considering the uniqueness of Odisha Power Sector for a long time. The methodology/principle adopted by the Commission for such determination may be seen from the last BSP Order of 2008-09 on which the Hon'ble Tribunal have passed the above is reproduced below. It is to be noted that the same principle is being followed by the Commission till date.

Bulk Supply Pricing Philosophy

424. *A significant issue in the power sector in Odisha today is the changing nature of the consumer mix in the four distribution companies and its impact on power tariff. When power reform was effected in 1996, the consumer profile was very different. The HT consumers were at the top of the power pyramid in terms of consumption but their numbers were very few. The consumer profile was bottom heavy with a large percentage of LT consumers. At that time, it was envisaged that the load growth would continue in that sector. However, the rapid pace of industrialization has overturned the equation.*
425. *While the four Distribution Companies in Odisha were carved out of different areas of the State with varying consumer mix, electricity consumers throughout the State are being charged an uniform rate for supply of power. The changing consumer scenario has however created regional imbalances as far as the revenues and financial health of the DISTCOs are concerned. The load growth in Odisha has been phenomenal in the last decade. Due to liberalization and open door policy coupled with rich mineral wealth, industrial houses have invested heavily in the State. Industrialization has come to Odisha to stay.*
426. *However, this high load growth is mostly restricted to Western and North-Eastern/Central Odisha, largely due to exploitation of iron ore for production of steel. On the other hand, the Southern part of the State is not witnessing growth of HT and EHT load due to absence of requisite resources. Most of the Aluminum/Charge Chrome industries located in South Odisha are old and have their own captive power plants. Therefore while HT/EHT sale in WESCO & NESCO is 70.8% & 66.1% respectively, that of CESU & SOUTHCO is 43.0% & 33.2% respectively.*
427. *South Odisha is also disadvantaged from the point of view of the nature of electricity consumption. As a tribal dominated region with low-income population, it has poor economic capacity for utilization of electricity. Therefore, SOUTHCO is entirely dependent on low voltage consumers, mostly domestic, for its revenues.*
428. *Today the industrial scenario is very different from the 90's with substantial growth of large and heavy industry in Western, North-Eastern and Central Odisha. This has naturally fuelled demand for power. For the last few years, consumers of Odisha have benefited from being a power surplus State. Low cost hydro power has been utilised within the state and higher cost thermal power has been exported by GRIDCO and the gains thus accrued have been passed on to consumers. In the coming years because of higher growth of HT and EHT most of the power produced will be consumed within the State. There will be no or little power available for export outside the State.*
429. *In other words, more and higher cost power will be utilized within the State for use by the consumers. Purchase of power from high cost sources is raising the per unit of cost of supply. As an example, in 07-08 the approved weighted average cost of power purchase was 119.91 paise per unit which has gone up to 127.40 paise per unit in 08-09.*
430. *Utilities in Odisha are entering a dynamic phase with introduction of open access from 1.4.2008. It is difficult to make a prediction at this point of time about the quantum of movement of energy between utilities or, otherwise, for which the expected revenue earning from EHT and HT group of consumers of capacity 1 MW and above may undergo a change affecting the overall finance of DISTCOs. The Bulk Supply Price now being determined is essentially being designed with the expected earning of revenue by the DISTCOs to meet the power purchase liabilities of GRIDCO and Transmission*

charges of OPTCL. Hence the impact on overall revenue from HT & EHT category of consumers will continue to be monitored by the Commission and if required, the BSP now determined may be amended without resorting to any further public hearing. For this purpose, the DISTOCs are hereby directed to make available the copy of the bills served to all HT & EHT consumers to the Commission on monthly basis for our reference and monitoring.

431. Moreover, distribution companies with higher sale at EHT/HT have been found to be totally inefficient in reducing LT losses. They try to manage with revenue earned from EHT/HT consumers from the margin available to them between BSP & consumer tariff. The difference between purchase price and the revenue is the margin of the companies. Essentially this margin should be used for cross subsidy among companies.
432. OERC has been following a uniform retail tariff policy. The consumers of Odisha should not feel discriminated by levy of a differential retail tariff because of functioning of separate distribution licensees in their respective areas. Thus considerations of public interest for consumers of the entire State warrants uniform retail tariff policy, and retail tariff for each distribution licensee based solely on its ARR and its expected revenue ought not to be considered in isolation. The law requires the Commission to take into consideration not only the annual revenue requirement and the expected revenue of the distribution licensee but also such policy inputs for safeguarding consumers interest one of which is a uniform retail tariff for the whole State, vide Section 61(d) of the Electricity Act, 2003. Moreover, uniformity of retail tariff for the whole State is in line with the National Tariff Policy, vide Para 8.4(2) thereof. Only when distribution licensees show appreciable rise in their respective levels of efficiency by reducing T&D losses, both technical and commercial, a question of rewarding efficiency by a differential retail tariff may arise. This is not the case now. Besides, the benefit of differential Bulk Supply Price has been an accepted practice, as the State transmission network serves the whole State as a single backbone system and the consumers of Odisha have been paying for the cost of this transmission system uniformly. The distribution companies have little contribution towards the growth and development of the EHT industries and yet a distribution licensee would reap a substantial higher revenue than another distribution licensee by virtue of mere concentration of EHT industries in its area. It is just and proper that differential Bulk Supply Price should be more for the former than for the latter distribution licensee. Therefore, with differential Bulk Supply Price there is no necessity of shifting away from the uniform retail tariff prevailing in the state of Odisha.
433. Until we move away from the uniform RST structure, the higher bulk pricing mechanism should give a signal to the utility having higher HT concentration that improved performance at LT through higher LT sale would enable that utility to get power at a lower rate. That is to say, such utility should endeavour to convert lost units to billing units at LT resulting in reduction of commercial loss, which needs to be encouraged.
434. Tariff is essentially intended to balance the conflicting interest of various stakeholders like the distribution licensees and various groups of consumers, as well as the generators. Even though the pricing of the generating stations are determined following a uniform procedure prescribed in the regulations, the prices could be different. Like wise some amount of judgment is to be exercised while determining the bulk supply price for distribution utilities. The process has to be fair, transparent, with sound logic, so that the revenue earned by the utilities are adequate to service all their expenditures like the cost of employees, servicing the interest burden, meet return on equity in addition to meeting the cost of power purchase which constitute a substantial part of their revenue requirement.

435. At this point, we are taking into consideration the extent of revenue that a distribution utility is likely to earn for sale of power to HT & EHT groups of consumers. Besides, the volume of sale at LT is an important criterion where the loss level is high and the expected revenue realisation is low. Thus, the Bulk Supply Price (BSP) is fixed in a manner that makes all the distribution utilities more or less financially viable.
436. The consumer mix at EHT, HT and LT varies widely among the four distribution utilities of the State. While all the utilities are served by the State Transmission Utility, the distribution networks within the jurisdiction of the DISTCOs give power supply to LT & HT groups of consumers. As explained earlier there are some utilities who are very conveniently placed and have the advantage of large base of EHT and HT consumers like WESCO and NESCO whereas utilities like CESU and SOUTHCO are primarily utilities covering a very large number of LT consumer base. This is reflected in financial terms while determining the expected revenue that these utilities are likely to earn during the year 2008-09. As we have stated earlier a uniform retail supply tariff is followed in the State. Accepting a normative level of efficiency in terms of approved distribution loss and collection efficiency, their expected revenue is calculated.
437. GRIDCO should be assured of the earning from bulk supply price, so that at the end of the financial year not only it should be able to meet its legal obligation but should suffer no problem of liquidity due to the fixation of Bulk Supply Price from 1st April, 2008 onwards. GRIDCO should be in a position to pay to the generators regularly so that there is no threat of load reduction by any of the generators, besides maintaining the established standards of 100% payment to the generators as has been practice in the past. The BSP has been designed with a clear conception that DISTCOs are to collect the extent of revenue projected by them. There shall be no difficulty on their part to meet the bulk supply price and transmission charges payable to GRIDCO and OPTCL respectively.

Let us have a look on the actual scenario in which differential revenue is left for DISCOMs to be recovered through BSP.

Details of Approved Consumption & Revenue of DISCOMs for BSP design for 2014-15						
		CESU	NESCO	WESCO	SOUTHCO	ORISSA
No of Consumers as on 1st April 2014						
EHT		24	36	29	13	102
HT		3,690	392	669	1,022	5,773
LT		18,39,109	11,64,741	10,77,113	12,53,299	53,34,262
TOTAL		18,42,823	11,65,169	10,77,811	12,54,334	53,40,137
Power Purchase from GRIDCO	MU	9,040.00	5,330.00	6,820.00	3,340.00	24,530.00
Sale to Consumers						
EHT	MU	1,755.96	1,542.83	1,527.93	427.03	5,253.75
HT	MU	1,238.18	449.20	1,313.00	191.68	3,192.06
LT	MU	3,966.66	2,359.92	2,642.35	1,869.59	10,838.52
TOTAL	MU	6,960.80	4,351.95	5,483.28	2,488.30	19,284.33
Revenue from Proposed Tariff (Uniform Retail Supply Tariff)	Rs. in Cr.	3,199.42	1,984.41	2,514.44	977.13	8,675.40
Average Retail Supply Tariff	P/U	459.63	455.98	458.56	392.69	449.87
Net Distribution Cost	Rs. in Cr.	561.20	387.82	385.85	274.16	1,609.03
Balance Revenue Available	Rs. in Cr.	2,638.23	1,596.59	2,128.59	702.96	7,066.37
OPTCL Transmission & SLDC Cost (Uniform Transmission & SLDC Charges)	Rs. in Cr.	227.45	134.11	171.60	84.04	617.19
Net Revenue Left for Determination of BSP for procurement of Power	Rs. in Cr.	2,410.77	1,462.49	1,957.00	618.93	6,449.19
BSP for DISCOM (P/U)		265	280	286	185	263.21

From the above table it can be seen that efficiencies of DISCOMs have already been taken care in designing the BSP. Regarding allocation of PPAs to different DISCOMs to take care of their inherent low generation of revenue due to their business setting may not be possible at this juncture since Odisha has been following single buyer model of power purchase due to its legacy.

In view of the above, suggestions/objections are invited by the Commission from the various stakeholders/ persons/ institutions/ organizations for improvement in designing the BSP of GRIDCO considering the peculiarity of Odisha Power Sector and observations of the Hon'ble APTEL in their order dtd.02.09.2014 passed in Appeal No.29 of 2009.