

HARYANA ELECTRICITY REGULATORY COMMISSION
BAYS NO. 33-36, SECTOR – 4, PANCHKULA – 134112, HARYANA

ORDER DATED: 14/06/2010

Shri Bhaskar Chatterjee Chairman

Shri Rohtash Dahiya Member

In the matter of Fuel Surcharge Adjustment (FSA) claims for FY 2008-09 and 1st half of FY 2009-10 filed by Uttar Haryana Bijli Vitran Nigam (UHBVNL) on behalf of the two state owned distribution licensees i.e. UHBVNL & DHBVNL for their Distribution and Retail Supply businesses.

ORDER

This order relates to recovery of the Fuel Surcharge Adjustment (FSA) for FY 2008-09 and 1st half of FY 2009-10.

1. FSA FY 2008-09

The distribution licensees UHBVNL & DHBVNL have filed petitions with the Commission on 6/08/2009 for approval of FSA claims for the period FY 2008-09 relating to electricity trading business on the basis of HERC order with respect to Trading Margin & Bulk Supply Tariff order dated 21st April, 2008 and for recovery thereto from various categories of consumers as per tariff regulations (incorporating FSA formula) issued by the Commission. The FSA claim including holding cost (in case the proposed recovery is staggered over a period of 36 months) filed by the licensee(s) amounts to Rs. 1547.734 Crore.

The claim was examined in the light of the FSA regulations of the Commission after obtaining clarifications and additional information with regard to a few items. The FSA claim worked out to be Rs. 678.653 Crore. Out of this Rs. 252.052 Crore was the FSA liability of the Agriculture Tube – well consumers. The State Government was requested vide Memo No. 3226/HERC/2010 dated 8/01/2010 to intimate their

commitment for Rs. 252.052 Crore on account of taking over of the FSA liability of the AP consumers for FY 2008-09.

Subsequently UHBVNL vide Memo No. Ch-52/GM/RA/N/F-54/Vol-V dated 22/012010, on behalf of both the distribution licensees, filed a revised FSA claim for FY 2008-09 with additional data / information. The revised claim filed by the distribution licensees was examined by the Commission at length. The revised FSA claim as filed by them and the Commission's approval thereto is presented below:

REVISED FSA FOR FY 2008-09 (Rs. Crore)

	UHBVNL & DHBVNL	HERC Approval
FSA	944.99	926.94
Holding Cost	233.15	118.75
Total (FSA+Holding Cost)	1178.14	1045.69
<i>Out of the above: Recoverable from AP Tube-well Consumers</i>		388.37
<i>Recoverable from Other Consumer Categories</i>		657.32

The State Government, as per past practice has been compensating the distribution licensees for the FSA payable by the AP consumers as additional subsidy so that no FSA is levied on the AP consumers. Hence the State Government vide Memo No. 3975/HERC/FSA/2010 dated 15/03/2010 was requested to provide their commitment for the revised FSA liability of the AP Tube-well consumers amounting to Rs. 388.37 Crore to enable the Commission in finalizing the FSA order and scale of recovery from other consumer categories.

2. FSA FY 2009 – 10 (1st Half)

Subsequently Uttar Haryana Bijli Vitran Nigam Ltd (UHBVNL) vide their Memo No. Ch-04/GM/RA/N/F-54/Vol.VI, dated 29/01/2010, on behalf of both the distribution licensees i.e. UHBVNL and DHBVNL again filed another Fuel Surcharge Adjustment (FSA) calculation for the period 1/04/2009 to 30/09/2009 i.e. first half of FY 2009-10. The FSA claim filed by the distribution licensees for approval of the Commission relates to trading in electricity business on the basis of Bulk Supply rate decided by the Commission in the ARR order of Distribution & Retail Supply Licensees (UHBVNL &

DHBVNL) for FY 2009-10 and for recovery thereof from various categories of consumers as per tariff regulations issued by the Commission. The FSA claim including holding cost (in case the proposed recovery is staggered over a period of 36 months) filed by the licensee(s) for approval of the Commission amounts to Rs. 2001.47 Crore.

The Commission examined the FSA claim in the light of the FSA formula incorporated in the HERC Tariff Regulations, 1999. After scrutinizing the source wise volume and cost of power purchased as per the invoices submitted by the utilities and seeking justification for any deviations, over – drawl/under drawl and ensuring that at the time of power drawl under UI mechanism or short term purchases to meet the day to day power requirement w.r.t. demand no other cheaper source of power was available, the Commission proceeded with examination of the FSA claims of the power utilities. The Commission restricted the gross volume of power purchase that would be required by the Distribution companies for meeting the actual consumer category wise sales in FY 2009-10 (1st Half) to the volume estimated on the basis of transmission and distribution losses determined by the Commission in the ARR order of FY 2009-10.

As per examination of the Commission, the FSA claim including holding cost worked out to be Rs. 1610.11 Crore. Out of this, Rs. 569.33 Crore is the FSA liability of the Agriculture Pump – set consumers. The details are presented in the table below.

FSA FOR FY 2009-10
(From 1/04/2009 to 30/09/2009)

	UHBVNL & DHBVNL (Rs. Crore)	HERC Approval (Rs. Crore)
FSA	1605.38	1427.31
Holding Cost (36 Months)	396.09	182.80
Total (FSA+Holding Cost)	2001.47	1610.11
<i>Out of the above: Recoverable from AP Tube-well Consumers</i>		569.33
<i>Recoverable from Other Consumer Categories</i>		1040.78

As the State Government has been compensating the distribution licensees for FSA payable by the AP consumers as additional subsidy so that no FSA is levied on the AP consumers. Hence the Government, vide Memo No. 220/HERC/FSA/2010 dated

26/04/2010, was requested to provide their commitment for FSA liability of the AP consumers amounting to Rs. 569.33 Crore so as to enable the Commission in finalizing the FSA order and scale of recovery from other consumer categories.

3. Government Response

In reference to the Commission's (b) Memo No. 3975/HERC/FSA/2010 & (c) Memo No. 220/HERC/FSA/2010 dated 26/04/2010, the Special Secretary / Power, Government of Haryana vide Memo No. 898 dated 21/05/2010 conveyed the decision of the Government as under:-

“As regards references as per b) and c) above, it is informed that the FSA liability of Rs. 388.37 Crore for the year 2008-09 and Rs. 569.33 Crore for 2009-10 pertaining to agriculture consumers will be borne by Govt. of Haryana. The total liability of Rs. 1060.3 Crore (including Rs. 102.60 Crore as balance RE subsidy for FY 2009-10 as per Commission's order dated 4/12/2009) will be met out of Govt. budget in 36 installments starting w.e.f 1st August, 2010. In view of the above, the tariff of AP consumers need not be changed”.

In view of the Government's commitment conveyed vide their letter dated 21/05/2010 regarding payment of subsidy equivalent to the FSA liabilities of the AP consumers, the Commission deliberated at great length regarding the scale of recovery to be made from other category of consumers for the balance amount of Rs. 1698.1 Crore being the FSA liabilities of all other categories of consumers for FY 2008-09 and 1st half of FY 2009-10. The Commission is of the considered view that FSA is a continuous process and keeping in view the base load as well as peak load power shortages in Haryana the demand being raised by the Power Utilities for purchase of expensive power from open market to meet the seasonal requirement appears to be reasonable. The Commission, as per the mandate given to it by the Electricity Act, 2003, has to ensure commercial viability of the power utilities as well as ensure that the electricity consumers are supplied quality power at a reasonable rate. Ideally FSA should be recovered at the earliest but not later than the financial year in which utilities have incurred the expenditure for purchase of additional power. This is an expenditure which has already been incurred and hence needs to be reimbursed within the same financial year to enable

the utilities to maintain a healthy balance sheet. The Commission, however, takes extreme care to safeguard the interest of the consumers by closely analyzing the FSA claims which at times need correspondence with the utilities for obtaining additional information / clarification. Moreover, getting government commitment for paying additional subsidy for the agriculture tube-well consumers as per the past practice also takes time. Hence in most cases FSA recovery has been ordered after the expiry of the year in which the expenditure has been incurred. This problem has been partly taken care by adding holding cost for the delay in recovery and the same principle has also been followed in the present case as well.

The Commission is conscious of the fact that the ‘capacity to pay’ of different categories of consumers and their ability to absorb or pass on the cost of power consumed by them are quite different and hence they should not be burdened un-necessarily with any additionality without proper due – diligence. The Commission has therefore tried to maintain a fine balance between the financial position of the Power Utilities, availability of power in the state and the capacity of the consumers to pay. Further, the electricity consumers falling in the 1st slab of domestic tariff i.e. whose consumption is between 0-40 Units per month are the most vulnerable section and hence the existing tariff for them is also comparatively lower. Consequently, while reckoning with the scale of recovery from this category of consumers the Commission has attempted to keep the incidence of FSA from this category of Consumers as low as possible by adjusting intra – category allocators of Domestic Consumers (DS) by +/- 0.01 to 0.02. It is relevant to mention here that the Domestic Supply Tariff which has an universal impact, is telescopic in nature thereby the benefit of lower slab rate as well as lower impact of FSA shall benefit all the DS consumers. Considering all these points the Commission is of the view that in order to prevent any tariff shock recovery of FSA needs be staggered over a longer period of time. Further, the Commission notes that from 1st of July 2010 besides the recovery of FSA for the period FY 2008-09 and 1st half of FY 2009-10 the recovery of FSA as per Commission’s order dated 18/07/2008 & 8/11/2009 for the period FY 2007-08 will also be under way. Thus the Commission, due to bunching of FSA recovery as mentioned above, orders that to soften the impact of FSA on electricity bills of the consumers, the

recovery of FSA for the period 2008-09 & 1st half of FY 2009-10 may be made in 48 months starting from **1st July 2010**. The financial interest of the power utilities have been protected by allowing them the carrying cost for the first 36 months. At the end of this period the Commission shall review the actual recovery vis – a – vis the recovery assessed by the Commission on the basis of consumer category wise projected sale of power after considering 10% annual increase in sale of power. Due to the expected augmentation in generation capacity and the fact that Haryana is an energy deficit state the sales volume is supply driven. Hence the Commission believes that with additional availability of power the growth in consumer category wise sales could likely be more than 10% considered for the purpose of determining sales volume for estimating per unit impact of FSA. Hence the recovery of FSA amount allowed by the Commission may be completed in a shorter period. Any shortfall or excess recovery shall be adjusted after the period of 36 months along with further carrying cost if need be.

With regard to the agriculture pump – set consumers, the Government has already committed that they will bear the FSA liability out of the Government budget. Resultantly, the Commission is not making any provision with regard to recovery of FSA from the agriculture consumers.

The FSA amount, including the holding cost to be recovered from all other categories of consumers, as per Commission’s estimates, works out to Rs. 1698.1 Crore. The details are provided in the table given below:

Table: 1 FSA TO BE RECOVERED

	HERC Approval (Rs. Crore)
FSA FY 2008-09	657.32
FSA FY 2009-10 (1 st Half)	1040.78
Total FSA to be Recovered	1698.1

Thus as evident from the table above that FSA amounting to Rs. 1698.1 Crore is recoverable for FY 2008-09 and 1st Half of FY 2009-10 from all other categories of

consumers except Agriculture pump-set (AP) consumers whose share comes to Rs. 957.7 Crore which as per the commitment of the Government shall be met out of Govt. budget.

4. Scale of Recovery

FSA liabilities arise primarily because of the fact that the source wise volume and cost of power is allowed by the Commission on a projected basis for the ensuing year. Consequently, there is bound to be a difference in source wise generation, the mix i.e. hydel : thermal may change or due to exigencies short term expensive power may have to be relied upon, thereby leading to a gap in cost of power approved by the Commission on a projected basis and what actually turns out to be. However, this excess purchase is being strictly calculated in the light of the distribution losses allowed by the Commission in its ARR order(s) of the relevant year and any claim over and above the same is disallowed. Consequently, only prudently incurred power purchase cost is passed on to the electricity consumers. On the basis of the allocators arrived at by considering the consumer category wise current tariff and expected revenue, the Commission approves the scale of recovery of FSA amount from various consumer categories totaling to Rs. 1698.1 Crore as per the following table.

Table: 2 Scale of Recovery

Category	Existing Tariff (Paisa/unit)	Proj Sales (MU) 48 Months	Revenue to be collected over 48 months (Rs. millions)	Impact Per Unit of Energy Sales (Rounded Off) Paisa/unit
DOMESTIC				
upto 40 units/month	263	9386	832	9
41 - 300 units	363	12412	2454	20
above 300 units	428	4470	1192	27
NON - DOMESTIC	419	9061	1913	21
L.T. INDUSTRY (70 kW)	428	7303	1575	22
MITC	400	42	8.42	20
LIFT IRRIGATION	400	1069	215	20
STREET LIGHTING SUPPLY	415	379	79	21

PUBLIC WATER WORKS	400	3524	710	20
H.T. INDUSTRY	409	32155	6627	21
RAILWAY TRACTION	399	1596	321	20
BULK SUPPLY	409	5113	1054	21

The FSA recovery shall be limited to the consumer category wise amount approved by the Commission in Table – 2 above. The Utilities should keep the Commission informed about the progress of recovery so as to monitor the total financial impact of FSA on the electricity consumers. It is clarified in this context that if from the periodical statement received from the Utilities it is found that before the expiry of 36 months for any category of consumer as stipulated in Table-2 the recovery is complete, then that would be treated as closed so far as this order is concerned. On the contrary if any shortfall is found in the FSA recovery within the stipulated period, the Commission will examine the position and pass appropriate order as would be necessary.

The Commission observes that the FSA recovery as per its order dated 7/12/2006 varying from 13 Paisa to 40 Paisa per unit will be vacated for all categories of consumers by end of June 2010, for a few consumer categories the same has already been vacated. Hence after taking into account the instant FSA recoveries as well as the scale of recovery ordered vide HERC order dated 18/07/2008 and 8/11/2009, which will continue for some more time, the net impact of FSA on the consumers' bill is expected to remain at a reasonable level.

This order is signed, dated and issued by the Haryana Electricity Regulatory Commission on 14th day of June, 2010.

Date: 14th June, 2010
Place: Panchkula

(Rohtash Dahiya)
Member

(Bhaskar Chatterjee)
Chairman