

KERALA STATE ELECTRICITY REGULATORY COMMISSION

NOTIFICATION

No. 751/CT/KSERC/2011

Dated, Thiruvananthapuram, 20th November 2012

In exercise of the powers conferred by sub section (1) of section 181 and clause (j) and (zc) of sub section (2) of section 181 of the Electricity Act, 2003 (Central Act 36 of 2003) and all other powers enabling in this behalf and after previous publication, the Kerala State Electricity Regulatory Commission makes the following Regulations, namely:-

1. *Short Title and commencement.* - (1) These Regulations may be called the Kerala State Electricity Regulatory Commission (Principles for determination of roadmap for cross-subsidy reduction for Distribution Licensees) Regulations, 2012.

(2) They shall come into force at once.

2. *Definitions.* - (1) In these Regulations, unless the context otherwise requires .-

(a) "Act" means the Electricity Act, 2003 (Central Act 36 of 2003);

(b) "Commission" means the Kerala State Electricity Regulatory Commission;

(c) "Cost of Supply to various consumer categories" means the cost of supply to various consumer categories as approved by the Commission in accordance with these regulations.

(d) "Distribution Licensee" means a licensee authorised to operate and maintain a distribution system for supplying electricity to the consumers in his area of supply;

(e) "Subsidising consumer category" means the consumer category which pays tariff more than the average cost of supply as determined by the Commission in accordance with these regulations;

(f) "Subsidised consumer category" means the consumer category which pays tariff less than the average cost of supply as determined by the Commission in accordance with these regulations;

(g) "Tariff shock" for a consumer category means tariff increase much in excess of the increase in the average cost of its Distribution Licensee, tariff increases of other consumer categories and the tariff hike in the recent past of the concerned consumer category.

(h) "Cross subsidy" in the context of this regulation means the difference between the applicable average tariff of that consumer category/sub-category and the average Cost of Supply as approved by the Commission for that year.

(2) Words and expressions used and not defined in these regulations but defined in the Act shall have the meanings as assigned to them in the Act

3. *General principles for cross subsidy reduction.*-The general principle for cross subsidy reduction shall be as follows:-

(1). The average tariff of a consumer category/sub-category for the purpose of computing cross subsidy shall be determined by dividing total tariff amount billed by the sales to that consumer category/sub-category. The billed tariff shall include fixed charges, energy charge and all applicable rebates and penalties as per the tariff schedule approved by the Commission for that consumer category/sub-category.

(2). Cost of Supply for a financial year shall be the average cost of supply computed by dividing the Aggregate Revenue Requirement of the distribution licensee approved by the Commission for recovery through retail tariffs by the total energy sales forecast for that year. This methodology of determining cost of supply shall be applicable for a period of sixty months or such extended time as decided by the Commission. Thereafter the Cost of Supply shall be differentiated for various consumer categories as per the guidelines to be notified by the Commission. Finalization of the cost of supply methodology and its subsequent determination by all the distribution licensees shall be done as per the provisions of these regulations and shall be used for the determination of retail tariffs.

(3). Cross subsidy based on average cost of supply.- The cost of supply computed as explained in clause (2) above shall be used for assessing the cross subsidy levels of different category of consumers. For each consumer category, ratio of the average tariff of that category to the average cost of supply shall be increased / decreased based on whether that consumer category is subsidizing consumer category or subsidized consumer category. The rate of increase / decrease of the ratio shall be decided by the Commission taking into consideration various factors including the target cross subsidy level fixed by the Commission.

(4). The rate of increase / decrease in the ratio shall be determined by the Commission and shall remain fixed for each year of the ARR/ERC or for a period

decided by the Commission. The ratio for the subsidised consumer categories, shall be determined considering tariff shock to affected consumers , future increases in distribution and retail costs, changes in consumer mix, cost of alternate supplies, and shall be increased till the ratio is equal to the target value decided by the Commission. The ratio for the subsidizing consumer categories shall be reduced till the ratio is equal to the value decided by the Commission.

(5). Cross subsidy based on cost of supply differentiated by consumer category.- The distribution licensees shall be required to segregate their accounting system to accurately capture network and supply related costs. The distribution licensees shall complete their accounting segregation so that Commission can move from the average cost of supply to the consumer category wise cost of supply for the purpose of cross subsidy determination after sixty months. The Commission may then revise the existing roadmap considering the gap between retail tariffs and the approved consumer category wise cost of supply.

(6).Determinants of cross subsidy reduction.- The Commission shall identify consumer categories along with their consumption limits to be cross subsidised. The Commission shall also indicate the tariff rates to be paid by these consumers for the subsidised consumption. The Commission shall indicate these tariff rates as a percentage of the approved cost of supply. The Commission shall identify the amount of cross subsidies to be received by various consumer categories. While determining the cross subsidy reduction road map it shall consider funding requirements of the State Government to meet direct subsidy requirement, the time required for arranging resources for funding this direct subsidy requirement and tariff shocks to consumer categories if existing cross subsidies levels in their tariffs were to be suddenly reduced.

(7). The Commission shall endeavour to keep the difference in the retail tariffs of similar consumer categories of various distribution licensees minimal subject to the requirement of recovery of allowed costs of the distribution licensees through tariffs and avoidance of tariff shocks to other consumer categories.

(8). The Commission shall consider likely future changes in cost of the distribution licensees and consumer mix. The Commission may consider a longer period for roadmap for cross subsidy reduction in order to avoid tariff shocks to the subsidised category for mitigating the adverse impact of increase in costs and un favourable changes in consumer mix.

(9). The Commission may consider the cost of alternate supplies available to the subsidizing category while determining the cross subsidy reduction roadmap.

(10). Notification of road map for cross subsidy reduction.- The Commission shall notify the road map as a percentage of the approved cost of supply of the distribution licensees. The period of the road map shall be as determined by the Commission. The Commission may revise the roadmap if the underlying assumptions in developing the roadmap undergo change. The Commission may specify different cross subsidy reduction roadmaps for distribution licensees of the State keeping in view their existing levels of retail tariffs, consumer mix, their distribution & retail costs, paying capacity of the consumers.

(11). Power to deviate from the regulations.- The Commission shall be at liberty to deviate from the principles stated in the above sections for reasons to be recorded in the tariff order.

4. *Savings.* - Nothing in these Regulations shall be deemed to limit or otherwise affect the inherent power of the Commission to make such orders as may be necessary to meet the ends of justice or to prevent abuses of the process of the Commission. Nothing in these Regulations shall bar the Commission from adopting, in conformity with the provisions of the Act, a procedure, which is at variance with any of the provisions of this regulations, if the Commission, in view of the special circumstances of a matter or class of matters and for reasons to be recorded in writing, deems it necessary or expedient for dealing with such a matter or class of matters. Nothing in these regulations shall, expressly or impliedly, bar the Commission dealing with any matter or exercising any power under the Act for which no regulations have been framed. he Commission may deal with such matters and exercise such powers and functions in a manner it thinks fit.

5. *Power to remove difficulties.* - (1) In the case of any difficulty in giving effect to any of the provisions of these regulations, the Commission by general or special order , direct the licensee to take suitable action , not inconsistent with the provisions of Act which appears to it necessary or expedient for the purpose of removing difficulty.

(2). The Licensee may make an application to the Commission and seek suitable orders to remove any difficulty that may arise in the implementation of these regulations.

By Order of the Commission

Sd/-
K. Chandrasekhara Babu
Secretary

Explanatory Note

(This does not form part of the notification, but is intended to indicate its general purport)

The Principles for determination of cross subsidy reduction and a roadmap for adoption of cross subsidy reduction based on the cost of supply for the Distribution Licensees of the State have to be prescribed as per the requirement of the Electricity Act 2003, the National Electricity Policy and Tariff Policy. The Commission shall follow these principles while designing the retail tariffs of various consumer categories of the Distribution Licensees of the State. The Distribution Licensees shall also follow these principles while proposing retail tariffs for their consumers along with the ARR filing

This notification is intended to achieve the above object.