

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
Thiruvananthapuram**

No.59/CT/KSERC/2013

18th November 2013

Notice

In the order dated 31-05-2013 of the Hon Appellate Tribunal for Electricity (APTEL) in appeal No 179/2012 filed by Kerala High Tension and Extra High Tension Industrial Electricity Consumer's Association, the following directions were issued by the Hon APTEL, with regard to the tariff order issued by the KSERC applicable to KSEB for the year 2012-13.

“ 63. However, since the State Commission has decided that the question of introduction of incentive for load factor and prompt payment would be decided after examining the implications of these proposals and the Board has been directed to submit a detailed study on these issues, we feel that a time bound direction is necessary. Accordingly, we direct the Electricity Board to submit the relevant information on these issues as sought by the State Commission within 3 months from the date of this judgment and thereafter the State Commission shall decide the issue after hearing all concerned within 120 days for adoption by the State Commission in the subsequent tariff order. This issue is decided accordingly.”

In accordance with the directions referred above the Commission is publishing the proposal of KSEB on granting incentive for prompt payment, high load factor and for bulk energy consumption (Annexure-I)

Commission invites comments from stake holders on the above proposal of KSEB so as to reach this office on or before 12-12-2013.

Commission has decided that a public hearing shall be held on the above proposal at 11.00 am on 18-12-2013 at the office of the Commission to hear the response of stake holders on these proposals. The proposals are published in the web site of the Commission, viz: “www.erckerala.org”.

Secretary

Annexure-I

A proposal for introducing incentive for prompt payment of electricity charges , load factor and bulk consumption submitted by Kerala State Electricity Board.

1. The Kerala High Tension (HT) and Extra High Tension (EHT) Industrial Electricity Consumer's Association had filed an appeal petition before the Hon'ble Appellate Tribunal for Electricity (APTEL) against the tariff order dated 25-07-2012 issued by the Hon'ble Commission. Hon'ble APTEL admitted the petition as Appeal No. 179 of 2012. Along with other issues related to tariff fixation, the petitioner has pleaded before the Hon'ble APTEL that, the State Commission has not allowed incentive such as load factor incentive and prompt payment incentive without any valid reasons.
2. Hon'ble APTEL vide its judgment dated 31-05-2013 has decided on the appeal petition No. 179 of 2012 and the paragraph-62 and 63 of the judgment deals with the issues raised by the HT&EHT consumers on providing incentive for prompt payment and load factor. The relevant paragraph of the judgment of the Hon'ble APTEL is reproduced under.
 62. The State Commission in the impugned order has held that it would separately consider the introduction of such incentive for high load factor and prompt payment after the Board has carried out a study on implication of these incentives in the performance and revenues of the Board and impact on consumer's bill. In view of the above, we do not find any infirmity in the order of the State Commission. The State Commission is justified in examining the implications of these incentives before allowing them. We also find that the State Commission has not included any interest on working capital to cover the Operation and Maintenance expenses and receivables from the consumers in the ARR and Tariff of the Board. Inclusion of such expenses in the ARR could have given a reason to the Appellant to claim rebate for prompt payment. This is not the case here.
 63. However, since the State Commission has decided that the question of introduction of incentive for load factor and prompt payment would be decided after examining the implications of these proposals and the Board has been directed to submit a detailed study on these issues, we feel that a time bound direction is necessary. Accordingly, we direct the Electricity Board to submit the relevant information on these issues as sought by the State Commission within 3 months from the date of this judgment and thereafter the State Commission shall decide the issue after hearing all concerned within 120 days for adoption by the State Commission in the subsequent tariff order. This issue is decided accordingly.
3. As part of the compliance of the directions issued by the Hon'ble APTEL, Hon'ble Commission vide the letter dated 18th June-2013 has directed the Board to conduct a detailed study and submit report on granting incentive for high load factor and for prompt payment etc. Accordingly, KSEB may submit the following for kind consideration of the Hon'ble Commission.

I. Incentive for Prompt Payment

4. The HT&EHT Industrial Electricity Consumers' Association vide their objections dated 5th June-2012 on petition filed by KSEB for revising the tariff applicable for the year 2012-13 has suggested that, an incentive @0.25% be given for payment within 10 days of the bill being received by the consumer.
5. KSEB has duly considered the proposal of the HT&EHT consumers association. Presently, Board as the distribution licensee has been raising the invoice for monthly electricity consumption during the subsequent month, i.e., invoice for the consumption during the month of January is being raised during the month of February. Further, as per the regulation-22 of the Kerala Electricity Supply Code, 2005, the consumers has to remit the electricity dues within (7) days of the bill date. However, considering the time taken for delivering the invoices to the consumers, KSEB has been now allowing 10 days from the bill date for making payments. It is the responsibility of every consumer to pay the electricity dues within the due date prescribed in the invoices.
6. Further, as observed by the Hon'ble APTEL, Hon'ble Commission has not been allowing interest on working capital for accounting the O&M expenses and 'receivables from the consumers' through the ARR. Hence, there is no need for extending incentive for making the payment for the electricity within the due date.
7. However, KSEB propose to give incentive to those consumers, who remit electricity charges immediately on receipt of the invoices without waiting till the due date of payment. Further, KSEB has been now encouraging online payment and also ECS. Hence KSEB proposes that, if the payment is made at least seven days in advance of the due date of payment, an incentive for prompt payment @0.20% of the bill amount (excluding electricity duty and Cess) shall be given to the consumers. However, KSEB proposes the prompt payment incentive only to those consumers, whose electricity bill amount is equal to or greater than Rupees One Lakh. The consumers in arrears shall be not eligible for prompt payment incentive.
8. The average monthly revenue from the HT&EHT consumers including railways is about Rs 232.00 crore per month. If the entire HT&EHT consumers avail the prompt payment incentive, the amount payable towards incentive shall be about Rs 5.60 crore per annum.
9. **Rebate for advance payment:** At present Board has been offering 4% for one year advance payment and 2% rebate for 6 months advance payment. Inorder to attract the consumers for advance payment towards electricity charges and also considering the present rate of interest offered by the financial institutions, Board may propose to offer an interest @0.7% per month for the entire advance payment (excluding security deposit) made before the commencement of the consumption period for which bill is prepared, which remain with the Board for the entire calendar month. The rebate shall be credited to the account of the consumer after adjusting any amount payable to the Board.

II. Incentive of high Load Factor and Bulk consumption

10. The HT&EHT consumers has been consistently demanding load factor incentives and also incentives for bulk energy consumption. The load factor and bulk consumption aims at increasing the energy consumption by the consumers. However, considering the scarcity of fuel and also for optimum utilization of the resources, the need of the hour is to conserve the electricity to the possible extent and to avoid the wasteful usage of electrical energy.
11. It is further submitted that, the gap between the peak and 'off-peak demand' is the major concern of the Kerala power system. However, the reduction in peak usage or shifting of peak consumption cannot be achieved through introducing load factor incentive.
12. Hon'ble Commission vide the order dated 14th January, 2005, 'in the matter of incentives to HT/EHT consumers on power factor improvement and ToD pricing' had appraised the issue in detail and concluded that, providing load factor incentives may not result in reduction of the grid peak power demand and concluded that the incentive based on load factor improvement might not bring in the required results. The relevant paragraph from the order issued by the Hon'ble Commission is extracted below.

'The present system peak demand in the State has increased to almost twice the off-peak demand. This necessitates more investment in the power system to meet the peak demand and generation and power purchase of expensive thermal energy. And the system remains unutilized during the off-peak periods. Therefore all possible measures are required to be resorted to reduce the peak load consumption and increase the consumption during the off-peak period. Increase in off-peak consumption minimizes the idling cost of generating plant and power system network. Increased consumption during off-peak period substantially saves the costly peak-power and excessive technical losses in the system.

Increase in the Load Factor of individual HT&EHT consumers may not necessarily result in reduction of the grid peak power demand. Therefore, the Commission is of the view that incentive based on load factor improvement might not bring the required results. The incentive scheme should be designed in such a way as to encourage the consumers to shift their consumption from peak period to off-peak. For this purpose, the existing provisions in the differential pricing method for providing incentives for Time of Day (TOD) consumption in the prevailing tariff structure shall be reviewed on the basis of suggestions filed by the HT&EHT Industrial Consumers' Association.

In the above context, the Commission is of the view that incentives shall be provided to HT/EHT consumers, with due consideration to the resulting benefits to KSEB by way of improvement in technical performance of the power system and reduction of line losses and reduction in expensive peak-time power.

13. Hon'ble Commission had completely revised the ToD tariff structure applicable to the HT&EHT consumers during the year 2009-10. At present, the energy charges under TOD for the peak period is 50% higher than the normal ruling tariff and the same during 'off-peak' period is less by 25% of the normal ruling rate. Further, Hon'ble Commission has been allowing to use upto '30% of the contract demand' as 'excess demand' during off-peak hours at the incentivised rate (i.e., 25% less of the normal rate), without any penalty for the excess demand over the contract demand. The present ToD tariff may incentivise the industrial consumers to shift the consumption from 'peak hours' to 'off-peak hours' and this may lead to reduce the peak consumption.
14. However, the peak demand of the Kerala power system is more than 80% of the 'off-peak demand'. Hence there is not much improvement in the KSEB system, as compared to the year 2005, wherein Hon'ble Commission has concluded that, incentives based on load factor improvement might not bring the required results. Hence, KSEB is of the opinion that, incentives based on load factor may not be considered at this juncture.
15. It is also noticed that, very few regulators across the country only has introduced the load factor incentive system in the country, considering the predominant base load thermal stations in their power system. However, KSEB system is still a hydro predominant system having installed capacity of about 2000 MW. The average capacity utilization factor (load factor) of the KSEB hydro system is about 35 to 40% only. However, the optimum capacity utilization factor of a thermal system with coal and lignite is about 80 to 85%. Hence, there is no need for maximizing the generation by providing load factor incentives to the consumers.
16. It is further submitted that, all the power utilities across the country has been taking all efforts to conserve energy and also to reduce the wasteful usage of electricity. Further, all the DISCOMS has been taking efforts for 'Demand Side Management' and for the efficient use of electricity through consumer awareness. KSEB has also been taking all efforts for DSM, Energy conservation, consumer awareness etc.
17. Considering the above, KSEB recommends before the Hon'ble Commission to kindly continue the decision taken vide the order dated 14th January, 2005, 'in the matter of incentives to HT/EHT consumers on power factor improvement and ToD pricing' that, the incentive based load factor improvement might not bring the required results in Kerala Power System.

Prayer

Considering the facts and submission above, KSEB prays before the Hon'ble Commission that,

- (1) An incentive for prompt payment @0.20% of the bill amount (excluding Electricity Duty and Cess if any) shall be given in case the payment is made at least '7' days in advance of the due date of payment where the current month electricity charges is equal to or greater than Rs. One Lakh. The consumers in arrears shall not be entitled for prompt payment incentive.

- (2) For advance payment, an interest of 0.70% per month for the entire advance payment (excluding security deposit) which remains with the Board for the calendar month shall be credited to the consumer account after adjusting any amount payable to the Board.
- (3) Considering the incentivized ToD tariff prevailing in the State, there is no need to further introduce the incentive based load factor improvement in the Kerala Power System.

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Chief Engineer (Commercial & Tariff)