

Tariff order for Tenughat Vidyut Nigam Limited for FY 2005-06

Jharkhand State Electricity Regulatory Commission (JSERC)

CHAPTER 1

INTRODUCTION

1.1 About the Jharkhand State Electricity Regulatory Commission

The Jharkhand State Electricity Regulatory Commission (herein after referred to as the JSERC or the Commission) was constituted by the Government of Jharkhand under Section 17 of the Electricity Regulatory Commission Act, 1998 (herein after referred to as the ERC Act), vide the Department of Energy's notification No. 1763 dated August 22, 2002. The Commission became operational on April 24, 2003. The Government notified the functions and the duties of the Commission as per Section 22 (1) and (2) of the ERC Act.

1.2 Functions of the JSERC

The Commission has been mandated to discharge the following functions listed under section 22(l) of the ERC Act. This section is reproduced below:

Quote

- (a) To determine the tariff for electricity, wholesale, bulk, grid or retail, as the case may be in the manner provided in Section 29.
- (b) To determine the tariff payable for the use of the transmission facilities in the manner provided in Section 29.
- (c) To regulate power purchase and procurement process of the transmission utilities including the prices at which power shall be procured from the generating companies, generating stations, or from other sources for transmission, sale, distribution and supply in the state.

- (d) To promote competition efficiency and economy in the activities of electricity industries to achieve the objects and purposes of the Act.

Unquote

1.3 Tariff determination by the State Electricity Regulatory Commission (SERC)

The Commission is guided by Section 86 of the Electricity Act 2003 (herein after referred to as the Act), which enunciates the principles to be followed for the determination of tariff.

Among the tariff-related provisions, the SERC has to be guided by the National Electricity Policy and Tariff Policy. The generation, transmission and distribution tariff has to be determined separately, and the SERC has to take into account the principles and methodologies that would be specified by the Central Commission for generation and transmission tariff.

Electricity Act 2003:

Section 86 of the Act states the following:

Quote

86. Functions of the State Commission. – (1) The State Commission shall discharge the following functions, namely: -

- (a) determine the tariff for generation, supply, transmission and wheeling of electricity, wholesale, bulk or retail, as the case may be within the State:

Provided that where open access has been permitted to a category of consumers under Section 42, the State Commission shall determine only the wheeling charges and surcharge thereon, if any, for the said category of consumers;

- (b) regulate electricity purchase and procurement process of distribution licensees including the price at which electricity shall be procured from the generating companies or licensees or from other sources through agreements for purchase of power for distribution and supply within the State;
- (c) facilitate intra-state transmission and wheeling of electricity;
- (d) issue licenses to persons seeking to act as transmission licensees, distribution licensees and electricity traders with respect to their operations within the State;
- (e) promote co-generation and generation of electricity from renewable sources of energy by providing suitable measures for connectivity with the grid and sale of electricity to any person and also specify, for purchase of electricity from such sources, a percentage of the total consumption of electricity in the area of a distribution licensee;

- (f) adjudicate upon the disputes between the licensees, and generating companies and to refer any dispute for arbitration;
- (g) levy fee for the purposes of this Act;
- (h) specify State Grid Code consistent with the Grid Code specified under clause (h) of sub-section (1) of section 79;
- (i) specify or enforce standards with respect to quality, continuity and reliability of service by licensees;
- (j) fix the trading margin in the intra-State trading of electricity, if considered, necessary and
- (k) discharge such other functions as may be assigned to it under this Act.

(2) The State Commission shall advise the State Government on all or any of the following matters, namely: -

- (i) promotion of competition, efficiency and economy in activities of the electricity industry;
- (ii) promotion of investment in electricity industry;
- (iii) reorganization and restructuring of electricity industry in the State;
- (iv) matters concerning generation, transmission, distribution and trading of electricity or any other matter referred to the State Commission by that Government.

Unquote

The Commission while determining the tariff for TVNL (Tenughat Vidyut Nigam Limited) for FY 2005-06 has taken into consideration the following:

- (a) Provisions of Section 86 of the Act;
- (b) Provisions of the National Electricity Policy;
- (c) Principles laid down in the JSERC (Terms and Conditions for Determining Generation Tariff), Regulation 2004

National Electricity Policy:

The National Electricity Policy (herein after referred to as the NEP) was announced in February 2005 by the Central Government. The policy aims to achieve the following objectives in the next five years:

- Access to Electricity - Available for all households in next five years
- Availability of Power - Demand to be fully met by 2012. Energy and peaking shortages to be overcome and adequate

spinning reserve to be available.

- Supply of Reliable and Quality Power of specified standards in an efficient manner and at reasonable rates.
- Per capita availability of electricity to be increased to over 1000 units by 2012.
- Minimum lifeline consumption of 1 unit/household/day as a merit good by year 2012.
- Financial Turnaround and Commercial Viability of Electricity Sector.
- Protection of consumers' interests.

Some of the important provisions of the NEP with regard to determination of tariffs is given below:

Section 5.8.3

Quote

Capital is scarce. Private sector will have multiple options for investments. Return on investment will therefore, need to be provided in a manner that the sector is able to attract adequate investments at par with, if not in preference to, investment opportunities in other sectors. This would obviously be based on a clear understanding and evaluation of opportunities and risks. An appropriate balance will have to be maintained between the interests of consumers and the need for investments.

Unquote

Section 5.8.5

Quote

Competition will bring significant benefits to consumers, in which case, it is competition that will determine the price rather than any cost plus exercise on the basis of operating norms and parameters. All efforts will need to be made to bring the power industry to this situation as early as possible, in the overall interest of consumers. Detailed guidelines for competitive bidding as stipulated in section 63 of the Act have been issued by the Central Government.

Unquote

Section 5.4.4

Quote

MYT framework is an important structural incentive to minimize risks for utilities and consumers, promote efficiency and rapid reduction of system losses. It would serve public interest through economic efficiency and improved service quality. It would also bring greater predictability to consumer tariffs by restricting tariff adjustments to known indicators such as power purchase prices and inflation indices.

Unquote

1.4 About TVNL

The TVNL a wholly owned Generating Company of Government of Jharkhand was constituted in 1987 under Indian Company's Act 1956. The company owns and operates the Tenughat Thermal Power Station with an installed capacity of 420 MW with two units of 210 MW each. The units were commissioned as detailed below:

- Unit – I September 1996
- Unit – II September 1997

With the creation of Jharkhand state on November 15, 2000 from the erstwhile Bihar State, TVNL has become an undertaking of Government of Jharkhand.

The JSERC had passed the generation tariff order for TVNL, dated August 23, 2004 for the financial year 2004-05 after approving fixed charges at Rs.1.05 per kWh and variable cost at Rs.0.78 kWh for the year 2004-05. The salient features of this order have been summarized in the subsequent section.

1.5 Tariff Order for TVNL for FY 2004-05

TVNL filed its petition on March 31, 2004 for setting generation tariff for the year 2004-05. The Commission's staff visited the plant and sought for some clarification and details from TVNL in June 2004. After receiving comments on the public notice, a public hearing was held on June 26, 2004.

The Commission issued the Generation Tariff Order of FY 2004-05 for TVNL on August 23, 2004. The Commission approved an aggregate tariff of Rs. 1.83 per unit that comprised fixed charge of Rs.1.05 per unit and variable charge of Rs.0.78 per unit.

1.6 Tariff filing by the TVNL for 2005-06: Procedural Background

The TVNL had filed a petition (Case No. 05/ 2005-06) on September 7, 2005, seeking revision of the existing generation tariff. The filing was made under Section 64 of the Act and Regulation-5 issued by the Commission. The Commission undertook a detailed examination of the filing and identified important information requirements. The Commission then accepted this petition on November 26, 2005, after TVNL submitted the required information.

The TVNL issued a public notice on November 29, 2005 in the leading dailies (English and Hindi) of Jharkhand, seeking objections/ comments/ suggestions on the tariff petition submitted by TVNL to the JSERC.

1.7 Submission of Objections and conduct of public hearing

The Commission issued a public notice January 18, 2006 inviting objections on the tariff petition filed by TVNL for FY 2005-06. This notice was issued in the following newspapers:

Name of the daily	Date of Publication
(i) Aaj	January 18, 2006

(ii) Prabhat Khabar	January 18, 2006
(iii) Hindustan	January 18, 2006
(iv) Hindustan Times	January 18, 2006
(v) Ranchi Express	January 18, 2006
(vi) Dainik Jagran	January 18, 2006

The Commission however did not receive any objections. The Commission conducted a public hearing on January 28, 2006, at its premises in Ranchi. The Commission, on the basis of its analysis of the petition raised some issues with TVNL. These have been considered by the Commission while analyzing the tariff petition submitted by TVNL and are discussed in detail in section 5 of this order.

1.8 Interaction with the staff of TVNL

The Commission communicated regularly with the officers of the TVNL in order to validate the information submitted by them and to consider their views on different aspects of the tariff petition. The Commission had also visited the Tenughat Thermal Power Station, the generation plant being run by TVNL, on December 9, 2005 to observe the plant operation against the backdrop of abysmally low Plant Load Factor (PLF) coupled with a very high degree of auxiliary consumption.