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BEFORE THE HONOURABLE KERALA STATE ELECTRICITY REGULATORY COMMISSION

Comments on the Draft KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2021

Institute for Sustainable Development and Energy Studies(InSDES) welcomes the initiative taken by the Hon Commission to publish the Draft KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2021 sufficiently in advance. We are grateful to the opportunity given to us to present our views on the draft regulations in the online hearing conducted on 15.9.2021. Due to time constraints, we could not present all our points or elaborate the presented points. We take this opportunity to submit the written comments on the draft tariff regulations.

InSDES is a society registered under Societies Registration ACT 1860, aiming to organise studies and research in the social development sector in general and energy sector in specific. We are a group of socially committed professionals in various sectors striving to create a platform of experts nationwide. Electricity Regulatory affairs is one of the key areas in which we concentrate. We regularly attend the hearings on regulations and ARR, express our views and furnish our comments. We are furnishing the following comments on the Draft KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2021:

General

Distribution of electricity to about 15 million consumers across the State is being carried out by KSEBL and nine other small licensees. KSEBL is the major organisation with integrated operation of generation, transmission and distribution under one umbrella. It is equally important to safeguard the interests of the consumers and at the same time ensure the financial health of the licensees. Delivery of electric connection on demand and maintaining the quality and reliability of electricity supply and services are important for safeguarding the interests of the consumers. For this, it is important to ensure the financial health of the licensee by allowing recovery of cost of electricity in a reasonable manner and rewarding efficiency of performance. Tariff regulations is an important tool in the hands of the Hon Commission to materialise all these.

Kerala has many peculiarities, compared to other states of India, in terms of its very high dependence on import of power, low level of industrialisation, high domestic consumption, very high penetration of network to rural areas, high level of vegetation and very low specific energy consumption. These factors have a negative impact affecting the cost structure, losses, supply reliability and service. Still Kerala stands at the top in low transmission and distribution losses, good quality of supply and services. This has to be maintained and further improved for the economic progress of the State and the well being of the people. Kerala State Electricity Regulatory Commission and the Tariff Regulations to be framed by the Honourable Commission has an important role in this.

It is a fact that many of the central electricity utilities are flourishing and those of the States are in high financial distress and unable to meet the mandate of supplying quality and reliable electricity on demand to its consumers. It is mainly because of the reasonable norms being adopted by CERC in tariff regulations, which the SERCs do not follow. It is important to follow the norms of CERC in generation and transmission and to follow the recommendations of the Forum of Regulators to ensure recovery of cost of electricity in a reasonable manner. The norms should be efficient, relatable to past performance, capable of achievement and progressively reflecting increased efficiencies. In case past performance is much below norms for previous years, suitable relaxed norms may be specified along with path for achieving efficient norms. CERC is following these principles. Regarding O&M norms, CERC never follows the normative figures of previous control period for arriving at the norms for the ensuing control period, instead, considers the actual O&M costs up to the latest available financial year for arriving at the norms for the ensuing control period. The actual expenses of the generation and transmission SBUs of KSEBL are much lower than CERC norms. Even then, actual expenses are not being considered here for fixation of norms. This is being continued from the very first MYT regulations in 2014. We could also observe this non parity with CERC norms in the case of sharing of gains, rewarding efficiency of performance, allowing cost of initiatives and one time expenses, allowing reasonable return on equity, auxiliary energy consumption norms, treatment of non tariff income, other income and income from other business. It is also observed that some new changes like introduction of separate retail tariff in the areas of each licensee in Kerala and condition of sale of excess power of KSEBL to open access consumers. The reasoning for the changes and the methodology of implementation are not properly explained and hence they need further scrutiny and corrections.

Inspite of all adverse backgrounds, the Kerala power sector is performing very well. Total electrification was given high priority and completed in the true sense, even though it may have a negative impact on the profitability and commercial view points. The power supply restoration during the heavy floods of 2018 and 2019 were done on a war footing basis. The consumers, in general, appreciate the performance in service delivery and quality improvements. We acknowledge that KSERC has played an important role in Kerala to make all these happen. But InSDES do not think that this is the end of all and we can relax. Much has to be done in the electricity sector for the development of the State. We have to go a long way to ensure sustainability in power generation. The transmission sector has made a good progress thanks to the Transgrid works with KIIFBI support, even though much is pending to be done in the downstream transmission network. Supply interruption in the distribution network is still a major setback in the sector which is affecting the industries and the consumers in general. The network has to be developed using newer advancements like UG cables, AB cables, Ring Main Units, Fault Pass Indicators, IT innovations etc. All these need investments, for which the licensee should be made capable by way of recovery of cost of electricity in a reasonable manner. Affordable cost of power is very important. But keeping power tariffs very low will only bring about poor quality of supply and service.

We would like to express our appreciation regarding the online hearing on 15.9.2021. The Honourable Commission has patiently listened to the suggestions of the stake holders with suitable interventions during the marathon hearing. We would like to briefly explain the points presented on behalf of InSDES with some additional points which we could not present in the time limit. Comments about the regulations in the order in which they appear in the draft are furnished below:

1) Reg 14- Mechanism for sharing of gains or losses on account of controllable factors:
As per the tariff regulations 2018, one-third of the gains on account of the controllable factors shall be passed on to the consumers as rebate in tariff. But it is changed to one-half in the draft regulations 2021. Also the loss on account of any controllable factor shall not be passed on to the consumer in any manner.

In this regard, it is worth to note the regulation 11 of the "model regulations for multi year distribution tariff" published by the Forum of Regulators:
"*11. Mechanism for sharing of gains or losses on account of controllable factors*

11.1 The approved aggregate gain to the Distribution Licensee on account of controllable factor of aggregate technical and commercial (AT&C) losses shall be dealt with in the following manner:

(a) One-third of the amount of such gain shall be passed on as a rebate in tariff over such period as may be stipulated in the Order of the Commission;

(b) The balance amount, which will amount to two-third of such gain, may be utilised at the discretion of the Distribution Licensee.

11.2 The approved aggregate loss to the Distribution Licensee on account of controllable factor of aggregate technical and commercial (AT&C) losses shall be dealt with in the following manner:

(a) Two-thirds of the amount of such loss may be passed on as an additional charge in tariff over such period as may be stipulated in the Order of the Commission; and

(b) The balance amount of loss shall be absorbed by the Distribution Licensee.

11.3 The gain or loss on account of other controllable factors, unless otherwise specifically provided by the Commission shall be to the account of the Distribution Licensee."

We are of the opinion that the Hon commission shall specify the conditions same as that proposed by the Forum of Regulators in the case of AT&C losses and stick on to the condition of passing one-third of the gains on account of the other controllable factors, which was changed in the draft without assigning any reason. It may also be noted that sharing in the ratio 2:1 is mentioned in draft reg 73(3)(ii) in the case of improvement in distribution losses over and above the approved figures. Maintaining 2:1 ratio as in the earlier regulation 2018 will be an incentive to the licensee to improve the performance in controllable factors.

2) Proviso to Reg 15(3): The proviso to reg 15(2) of 2018 "*Provided further that the petition for truing up shall be with reference to figures approved for the respective financial years."* is changed in the reg 15(3) of the draft regulation as "*Provided that the petition for truing up shall be, based on the audited figures for the respective financial years.*". **The reason for the change may please be examined.**

3) Reg 27(1) Depreciation: As per this regulation "*depreciation shall be allowed on the assets capitalised on or after 01.04.2022 irrespective of their source ie. whether created through consumer contribution, deposit works, capital subsidies and grants, on the condition that such amount shall*

be deposited in a separate depreciation fund account which shall be utilised for the development/ improvement in the Generation/Transmission/Distribution system with the prior approval of the Commission." We welcome this step as the depreciation allowed will help the licensee to find fund

for replacement of such assets after the useful life period and will cause improvements in generation, transmission and distribution which will be beneficial to the consumers also. But **we suggest that the term "*such amount*" shall clearly be specified as 'depreciation on the assets created through consumer contribution, deposit works, capital subsidies and grants' so as to avoid confusion in the future.**

4) Reg 28(1) Return on Equity: The return on equity specified is only 14%. It may be noted that the return on equity specified in CERC Tariff Regulations 2019 for storage type hydro is 16.5%. As per reg 28(c) of the "model regulations for multi year distribution tariff" published by the Forum of Regulators, the return on equity proposed for distribution is 16%. We could not find any reason for specifying a return on equity less than 16. Hence **we are of the opinion that the return on equity shall be revised and specified as 16%**.

5) Reg 28(2) Return on equity: The return on equity based on NFA specified as 3% in the tariff regulations 2018 is seen revised to 7% in the draft regulations 2021. **This may kindly be examined as the reasons for this revision is not explained in the explanatory memorandum**.

6) Equity share capital for calculation of return on equity- Reg 26, 28 and 34: As per reg 34(ii) of draft regulations **"***The equity of the Government of Kerala as per the above Transfer Scheme published vide Government Order No. GO(P) 46/2013/PD dated 31.10.2013 and GO(P) No. 3/2015/PD dated 28.01.2015 under Section 131 of the Act will be considered for computation of return on equity"*. It may please be noted Rs 3499cr as per above is the equity capital employed for financing the capital investment as on 1.11.2013, the date of effecting the transfer scheme. It is to be noted that capital investment is being continued even after that. As per first proviso to reg 28(1) of draft regulations, *"at the time of approving the Aggregate Revenue Requirements, return on equity share capital for the generating business/ company, transmission business/ licensee, distribution business/ licensee and State Load Despatch Centre, shall be allowed on the amount of equity share capital approved by the Commission for the assets put to its intended use at the commencement of the financial year and on fifty percent of the equity share capital portion of the approved capital cost for the investment put to its intended use during the financial year"*. It is noted that the equity capital considered for return on equity fixed as Rs 3499cr in 2013 is being continued even till the latest ARR and true up orders. We understand it is due to a confusion whether the amount as per G.O referred in reg 34(ii) is to be always taken. That is unscientific and not in tune with prudent financial principles. Hence **a proviso shall be**

added to reg 34(ii) similar to that of the first proviso to reg 28(1) to the effect that equity share capital of Rs 3499cr as on 1.11.2013 plus the amount of equity share capital approved by the Commission for the

assets put to its intended use from 1.11.2013 till the commencement of the respective financial year and on fifty percent of the equity share capital portion of the approved capital cost for the investment put to its

intended use during the financial year will be considered for computation of return on equity.

7) Reg 29(9) Carrying Cost: We welcome the step taken by the Hon Commission to allow carrying cost. **The term "on the admissible amounts" shall be properly elaborated to avoid confusions and misinterpretations later**. We understand it mainly refers to the regulatory asset. It was a long pending demand to specify approval of carrying cost on regulatory asset. The model regulations of forum of regulators also specify this. By approving carrying cost on regulatory asset, the licensee will be compensated for interest on loans for additional amounts necessitated due to the reduction in revenue. This is appreciated as a major step taken by the Hon Commission to ensure financial healthiness of the sector.

8) Reg 29(9)&32(3) Carrying Cost: In the third proviso to reg 29(9), it is mentioned that "*in case the distribution licensee is holding security deposit over and above their working capital* *requirement, interest on such excess security deposit shall be deducted from carrying cost*". As per reg 32(3), "*In case there is no requirement of working capital due to the excess security deposit held by the distribution licensee, then such excess amount held beyond the working capital requirements shall be treated as funds available and interest on such amounts shall be included in the "Other Income" of the licensee*". It may be noted that none of these conditions were existing in the tariff regulations 2018. We support that there is a need for imposing either of the conditions in 29(9) or 32(3), **but imposing both as done in the draft regulations will have a doubling effect. Hence we propose that the third proviso to reg 29(9) shall be maintained and the reg 32(3) shall be deleted.**

9) Reg 29(9) Carrying Cost: The proviso to reg 29(9) of draft regulations is reproduced as follows: "*Provided that the Carrying Cost or Holding Cost shall be allowed on the net entitlement after sharing the efficiency gains and losses as approved after true-up: Provided further that in the case of Distribution Licensees the Incentive on account of the applicable distribution losses due to the licensee, shall be deducted from the net entitlement for computing the carrying cost or holding cost*". **The share on efficiency gains and incentives are given to the licensee at their disposal. Deducting these from the amount to be arrived for allowing carrying cost doesn't seem fare. Hence these provisos shall be deleted.**

10) Terminal benefits of employees recruited after 1.4.2013: Hon Commission has noted the following in para 3.115 of MYT-ARR order for 2018-22: **"***Master Trust is created to discharge the terminal liabilities of the pensioners and employees as on the date of transfer ie., 31-10-2013 and KSEB Ltd's commitment for payment to the Master Trust based on actuarial valuation subsequent to the transfer is limited to such personnel only. It is noted that the valuation is carried out for the entire employees of KSEB Ltd in the case of gratuity and leave encashment etc., whereas the Master Fund is for the unfunded liability of pensioners and employees as on the date of transfer scheme ie., 31-10-2013*". **It is not a prudent practice to include the terminal liabilities of gratuity and leave encashment of employees recruited after 1.4.2013 in the actuarial valuation for Master Trust. But KSEBL has to meet these liabilities and the pension contribution of the company in respect of the above employees as per the IndAS accounting standards. It may kindly be noted that the norms for allowing O&M expenses, right from the tariff regulations 2014, have been arrived based on the trued-up O&M expenses excluding the terminal liabilities. Hence the normative expenses approved based on the regulations will not have provision for meeting terminal liabilities. The pension and terminal benefits of pensioners and employees in the rolls of KSEBL as on 1.11.2013 will be given through Master Trust and the tariff regulations provide this over and above the normative O&M expenses. But in the case of employees joined after 1.4.2013, NPS is applicable and there is no provision in the regulations so far to meet the pension contribution of the company, gratuity and terminal leave surrender. Hence a provision has to be given in regulation 45, 58 and 80 to approve the above mentioned expenses over and above the normative O&M expenses of generation, transmission and distribution respectively.**

11) Reg 32(1)(v) Working Capital in prepaid system: The second proviso to reg 32(1)(v) says that "*in the case of distribution business/ licensees, who are supplying electricity to their consumers on prepaid metering system, interest on working capital shall not be allowed*". It is noted that it is not reasonable to deny working capital components to the extent of O&M expenses and cost of maintenance spares for one month, even in prepaid metering system. **It may please be specified that working capital shall not be allowed to the extent of two months revenue from**

the consumers with prepaid metering system and working capital to the extent of two months revenue from other consumers and O&M expenses and cost of maintenance spares for one month shall be allowed as mentioned in reg 32(1)(v). Modalities to be followed in case of partial implementation of prepaid metering system shall be specified.

12) Reg 41(3) Auxiliary Energy consumption of existing hydro electric generating stations: As per reg 41(3) of the draft tariff regulations, the auxiliary energy consumption norms fixed for the existing hydro electric generating stations of KSEBL varies from 0.1% to 0.71%. Reg 41(2) specifies the norm for new generating stations at par with that of CERC tariff regulations 2019. We would like to recall some history of the previous tariff regulations of the Hon Commission in this regard. The norms specified in the tariff regulations 2014 were very less, which was later corrected in the tariff regulations 2018 and made at par with the CERC norms. Now in the draft regulations, it is seen reverted. It will be worth noting the definition given in the reg 3(6) of the draft regulations which reads as **""***Auxiliary energy consumption of a generating station or a generating unit*" *means the quantum of energy consumed by the auxiliary equipment of the generating station or generating unit including; switchyard of the generating station and the transformer losses within the generating station or generating unit and shall be expressed as a percentage of the sum of gross energy generated at the generator terminals of all the units of that generating station*". The losses in the generator transformer itself will be 0.5%-0.6%. Then how can we fix the norm for auxiliary energy consumption of a generating station as low as 0.1%?

Hence this totally unscientific norm should be corrected. It is learned that the auxiliary consumption units being reported by KSEBL involves only the consumption by the auxiliary equipments of the generating station. But the auxiliary energy consumption as per the definition in the draft regulations additionally includes the losses in the transformers and the switch yard and the usage by excitation system. It is understood that the CERC norms were prepared considering all these. **We propose that the norm specified in reg 41(2) of the draft regulations shall be made applicable to both new and existing hydro electric generating stations as done in the CERC tariff regulations 2019.**

13) Annexure 7 Methodology for specifying normative O&M costs: The O&M norms are arrived in the draft regulations based on the curtailed approved expenditures of ARR of 2018-19. Even the very first norms of tariff regulations 2014 were arrived based on the curtailed approved expenditures and that was continued in the tariff regulations 2018 also. It is a generally accepted principle which is being followed by CERC also that the norms shall be fixed based on the actual expenditure. Eventhough this was pointed out earlier, the Hon Commission has not considered it. It may be noted that the actual expenditure for the past years was taken as the basis for framing the O&M norms by CERC. There is no reason why this reasonable methodology is not being followed by KSERC in our regulations. Hence **we opine that the O&M norms shall be reworked based on the actual expenses for the past five financial years. This will ensure that the norms arrived and expenditure approved are reasonable to effectively conduct the business of the company/licensee which will in turn catalyse the investment in the power sector, improve customer service and lead to overall development of the State.**

14) Reg 45(1) O&M expenses of existing hydro generating stations: The O&M expenses allowed for the existing generating stations of KSEBL is a striking example of the under recovery of reasonable O&M expenses as explained in sl.no. 13 above. It is noted that the O&M expenses norms to KSEBL hydro generating stations provided as per this regulation is inadequate to meet the reasonable expenses and are much below the normative expenses allowed in CERC tariff regulations 2019 to Central hydro stations. This is mainly because the norms are based on curtailed approved expenditures of ARR of 2018-19. Even the very first norms of tariff regulations 2014 were arrived based on the curtailed approved expenditures. This is unscientific and against generally accepted principles. It may be noted that CERC has arrived at the O&M norms in tariff regulations 2019 based on the actual expenditures for the latest five years. The O&M expenditure norm for 2022-23 for the generating stations of KSEBL with installed capacity 1955MW is Rs 163.12cr which works out to Rs 8.34 lakhs/MW. This may be compared with the norms for randomly selected Central hydro stations of various capacities allowed by CERC for the year 2022-23 as shown below:

Name of station	Capacity MW	O&M Expenses Rs lakhs	O&M Expenses Rs lakhs/MW
Indirasagar	1000	13486.73	13.49
Omkareswar	520	8278.25	15.92
Dhauliganga	280	10134.71	36.20
Panchet	80	2519.90	31.50

It may be noted that even the high capacity stations are allowed nearly Rs 15 lakhs/MW and the low capacity stations are allowed above Rs 30 lakhs/MW where as the average O&M expenses allowed for KSEB stations is only Rs 8.34 lakhs/MW. The O&M expenses allowed for new stations as per reg 45(3) of draft regulations is 4% of the original project cost which works out to more than Rs 40 lakhs/MW. CERC norms are 3.5% for above 200MW and 5% up to 200MW. **Hence we opine that the O&M norms for existing stations shall be realistically worked out based on the actual expenses for the latest available five financial years.**

15) Reg 58 O&M expenses of transmission: The norms in the draft regulations are seen to be arrived first by apportioning the expenses in substations and lines in the ratio 75:25 then assigning substation expenses to number of bays and transmission line expenses to the circuit km length. The ratio apportioned to substations and lines is same as that adopted for CERC tariff regulations 2019. But in the CERC regulations 2019 (see reg 35), transformer MVA capacity is also introduced and the expenses for substations are equally apportioned between number of bays and transformer MVA capacity. Transformer is the most important component and cost driver in a substation and hence the **transformer MVA capacity has to be included as a parameter in the calculation of O&M expenses of transmission assigning 37.5%, 37.5% and 25% to the parameters of number of bays, transformer MVA capacity and circuit km respectively.**

16) Reg 58(1)(iii) Discrepancy in the calculation of O&M expenses: As per reg 58(1)(iii) of draft regulations, "*The O&M expenses for any year of the Control Period shall be allowed by multiplying the O&M norms for that year with the actual number of bays and transmission line length in circuit km for the previous year and at 50 per cent of the circuit kilometre of transmission lines and number of Bays in the substation of the Transmission Licensee added during the year*". But in Annexure 7, quantity at the beginning of the year is proposed to be taken both in the case of transmission and distribution. **The discrepancy has to be corrected.**

17) Reg 58(3) Operational improvement schemes: As per reg 58(3) of the draft regulations, a new provision has been added in transmission for meeting expenses for operational improvement schemes over and above that of normative O&M expenses. **This provision has to be incorporated in generation and distribution also for meeting additional expenditure over and above that of normative O&M expenses for customer service improvement, efficiency improvement, safety, IT implementation in operation etc. This will give motivation to the licensees to take up schemes for improving operational efficiency and customer service.**

18) Reg 3(102) and 64(2) Transmission loss: As per definition in reg 3(102), "***"Transmission Loss"*** *means the energy losses in the transmission system of a transmission Licensee including auxiliary power consumption in the sub-station for the purpose of air-conditioning, lighting, battery charging, accessories of the substation equipments etc., and shall be accounted for separately*". As per reg 64(2), "*The quantum of energy consumed by the auxiliary equipments of a transmission sub-station and the station transformer losses within the sub-station* ***shall not*** *be accounted for, under the Transmission Losses*". **This seems to be a discrepancy which has to be corrected or properly explained to avoid confusion.**

19) Reg 85(2) retail supply tariff of different distribution licensees in the State: As per reg 84(2) of tariff regulations 2018, "*The retail supply tariff shall be uniform for the same category of consumers of all distribution business/licensees in the State of Kerala and* ***shall be same*** *as the retail supply tariff determined by the Commission for the distribution business of KSEB Limited*". It is noted to be changed in the reg 85(2) of the draft regulations as: "*The retail supply tariff for each category of consumers of the different distribution business/ licensees in the State of Kerala* ***shall be determined by the Commission separately*** *based on their ARR & ERC and truing up of accounts, and after considering their overall performance*". So far the retail tariff throughout Kerala used to be the same irrespective of the licensees under whom the consumers come. It may be noted that the various licensees have come at the different areas not as part of a competition and KSEBL is taking the risk of power purchases for all the licensees. **We don't find any need or necessity for determining the retail tariff separately for different distribution business/licensees in the State. This is a major change, the reason behind which is not explained in the explanatory memorandum.**

20) Reg 85(3) Selling excess power to open access consumers: A new provision is seen introduced as per reg 85(3) which says "*The Commission may allow the licensee to sell the surplus energy, if any, to its consumers instead of selling in the open market or power exchanges*". Our observations and opinion in this matter are furnished below:

- **KSEBL will loose the wheeling charges and cross subsidy surcharges which it is already getting from the open access consumers, which may fall as a tariff burden on other consumers**

- **It won't be practical to implement the proposals without extensive enabling mechanisms**

- **The necessity of incorporating the provision and the procedures and modalities are not seen explained in the explanatory memorandum**

- **It is to be ensured whether proposals are in tune with the Electricity Act and the laws existing in the country**

21) Non tariff income(reg 3(65)), Other income(reg 3(71),44,46,57(2)(ii),60,76(3)(i),83), Income from other business(reg 3(70),57(2)(iii),61,76(3)(iii),84):

We would like to bring your kind attention to the definitions of non tariff income, other income and other business as per reg 3(65), 3(71) and 3(70) respectively of the draft regulations. We agree with the definitions given. But there are some anomalies in the classification of items in the regulations which do not match with the definitions. Also there are some anomalies in the treatment of expenses in ARR given in the regulations. As per definitions, ‘non tariff income’ refers to charges, other than fixed charges and energy charges, related to the tariff, levied from the consumers and users. All other income from the statutory business are classified in ‘other income’. Income received from other business undertaken by the company/licensee for optimum utilisation of the assets are classified as ‘income from other business’. The incomes should be classified optimally in the regulations and should be allocated in such a way in the ARR that the company/licensee gets sufficient motivation to maximise the income and a win-win situation is created both to the company/licensee and the consumers in terms of additional income at the disposal of the company/licensee and tariff rebates to consumers. The additional income at the disposal of the public sector licensee like KSEBL will be utilised for network and customer service improvements and this will also in turn benefit the consumers. It is noted that the income from other business to be shared in the ratio 2:1 between the licensee and the consumers as per reg 61 and 83(1) of the tariff regulations 2018 is changed to 1:1 as per reg 61(1) and 84(1) of the draft regulations. The approach of CERC is worth noting for allocation of revenue as a guideline in tariff regulations by the Hon Commission. In reg 62 of the CERC tariff regulations 2019, other income is to be shared in the ratio 1:1 between the licensee and the consumers. Also regarding income from other business, as per CERC reg 64, sharing of income for telecom business of transmission licensee with long term customers is in the ratio 90:10. Hence we suggest the following changes in the classifications and allocations:

- There is no category of ‘income from other business’ in generation. There are other businesses like hydel tourism, consultancy etc which can be undertaken by generation business. Hence a separate regulation shall be given for this as in the case of transmission and distribution

- Items in reg 60(2)(xi) and 60(2)(xii) in the draft regulations shown in the ‘other income’ head of transmission licensee shall be deleted from this head and shall be included in ‘other business’. This may be allowed in ARR, provided KSEBL is maintaining separate accounts for these businesses and furnishes in ARR petition.

- Items in reg 83(2)(vi), 83(2)(xiv) and 83(2)(xv) in the draft regulations shown in the ‘other income’ head of distribution licensee shall be deleted from this head and shall be included in ‘other business’. This may be allowed in ARR, provided KSEBL is maintaining separate accounts for these businesses and furnishes in ARR petition.

- Non tariff income shall be fully passed on to the consumers as per the provisions in the draft regulations.

- Other income shall be shared between the licensee and the consumers in the ratio 1:1. Necessary changes shall be made in the draft regulations 44, 46(1), 57(2) and 76(3) to effect this.

- Income from other business shall be shared between the licensee and the consumers in the ratio 2:1. Necessary changes shall be made in the draft regulations 57(2), 61(1), 76(3) and 84(1) to effect this.

22) Reg 85(13) in Addendum: The first sentence in the sub regulation is regarding maintaining the power factor. The second sentence is "*In case two or more bulk consumers/distribution licensee utilize the same distribution system and / or transmission network, the Commission may separately determine the terms and conditions including the tariff for sharing the cost of distribution system / transmission network of such shared system*". As per the Electricity Act 2003, if there is more than one distribution licensee in the same area, they should have separate distribution network in that area. In the existing system, there may be licensees/bulk consumers utilising the distribution system/ transmission network of another licensee for wheeling of power. In such cases, the users will be paying transmission charges and wheeling charges, as the case may be, to the owner of the transmission network/ distribution system. There are regulations elsewhere in the draft regulations to address this. **The purpose of the regulation is not understood. We opine that the sentence reproduced above may be deleted from the regulation**.

23) Statement of reasons and explanatory memorandum: The explanatory memorandum furnished at the end of the draft regulations is observed to be very short and explanations are not given for many changes effected in the draft regulations compared to tariff regulations 2018. Also it would have been better if reasons were properly explained. Hence we suggest that the Hon Commission may publish a detailed Explanatory Memorandum and Statement of Reasons.
We hope the Honourable Commission will consider our observations and suggestions so as to make suitable corrections and improvements in the draft regulations. We expect the final regulations will be a major step in ensuring better quality of supply and service to the consumers and the development of the State. InSDES look forward to further association with the Honourable Commission for the development of electricity sector of the State.

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