

Before the
MAHARASHTRA ELECTRICITY REGULATORY COMMISSION
World Trade Centre, Centre No.1, 13th Floor, Cuffe Parade, Mumbai 400 005.
Tel. No. 022 22163964/65/69 – Fax 022 22163976
E-mail mercindia@mercindia.org.in
Website: www.mercindia.org.in

Case No. 2 of 2006

**In the matter of
MSEDCL Petition for Approval of Short Term Power Purchase for the Period
October 2005 to March 2006**

**Dr Pramod Deo, Chairman
Shri A. Velayutham, Member
Shri S.B.Kulkarni, Member**

ORDER

Dated: August 7, 2006

The Commission vide its Order dated 21st March 2006 (Case No. 52 of 2005) in the matter of Maharashtra State Electricity Distribution Company Limited's (MSEDCL) Petition for Review of Regulations relating to FAC formula directed MSEDCL to submit a Petition for post facto approval of short-term power purchase for the period October 2005 to March 2006 and submit a separate Petition for prior approval of short-term power purchase for the next quarter, i.e., April 2006 to June 2006.

2. In response, MSEDCL on April 4, 2006 submitted two separate Petitions viz., for post facto approval of short-term power purchase for the period October 2005 to March 2006 (Case No. 2 of 2006) and prior approval of power purchase for the quarter April 2006 to June 2006 (Case No. 3 of 2006). The Commission has already issued its Order dated 28th April, 2006 in Case No. 3 of 2006 being an exigent matter.

3. The following prayer was sought by MSEDCL in the Petition for post facto approval of short-term power purchase (Case No. 2 of 2006):

'Accord prior approval for short term power purchase for the period October 2005 to March 2006, which is in excess of 5% of the quantum and cost of tariff order for FY 2003-04.'

4. The Commission heard both the cases in the presence of consumer representatives on 18th April 2006. During the hearing, MSEDCL made a presentation on its Petitions for approval of short-term power purchase.

5. Shri G.S Trimukhe SE (PP), MSEDCL in his presentation made during the hearing submitted that due to failure of Unit 5 of Chandrapur TPS and increase in MSEDCL's demand, the Demand-Supply shortfall has been increasing day-by-day. He submitted that in order to mitigate the shortfall, MSEDCL has been purchasing high cost power on short- term basis. The rate of purchase of power from liquid fuel based NTPC Kawas plant is Rs7.63/ unit, from Trading Companies is Rs 4.30/ per unit and from TPC's Unit No.4 it is Rs 6.00/ per unit.

6. During the hearing the Commission queried MSEDCL regarding the efforts taken by MSEDCL for purchase of short-term power and the basis of rate of liquid fuel based power from NTPC Kawas Station. Shri Sanjay Bhatia, Managing Director, MSEDCL responded to the queries of the Commission by submitting that liquid fuel based power was being purchased from Kawas Station on the basis of CERC Order and that MSEDCL has invited tenders many times for short term purchase of power and there has been almost no response. Therefore, MSEDCL is entering into arrangements for short-term purchase of power based on availability of power from various sources. He further submitted that the Board of Directors have delegated the necessary powers to the Managing Director for purchase of power.

7. The Commission vide its Order dated 21st March, 2006 in the matter of MSEDCL's Petition for Review of Regulations pertaining to FAC formula had approved recovery of the cost of purchase of liquid fuel based power from Kawas Station of NTPC under the FAC mechanism, in order to mitigate the need for additional load shedding in the prevailing situation of demand-supply shortage. The relevant clauses of the said Order are as follows:

“32. Regarding purchase of additional power from NTPC Kawas based plant with naphtha as fuel, the Commission in its Order dated 10th January, 2006 in the matter of Revision in the Principles and Protocol of Load Shedding opined that “the difference in power purchase rate between the rate approved by the Commission and the prevailing rate of Kawas and Gandhar would have to be absorbed under the GoM grant/subsidy and would not be allowed under the FAC mechanism”. However, MSEDCL submitted that they had approached the State Government for funding of additional cost for power purchase from NTPC Kawas Plant and the State Government has asked them to approach the Commission for approval of recovery of additional power purchase costs from consumers. The Commission is of the opinion that MSEDCL cannot take this plea and at the same time, resort to short term power purchase without prior approval of the Commission. However, considering MSEDCL statement that without the power purchase from NTPC Kawas plant with naphtha as fuel, it would not be able to meet the parameters of supply of power as per the Commission's Order on Revised Protocol of load shedding. The Commission finds justification for the cost of power purchase from Kawas

Station of NTPC to be allowed under FAC mechanism to mitigate the need for additional load shedding in the prevailing emergency situation of supply shortfall.”

8. Further, the Commission in its Order dated 21st March, 2006 stated that the Commission will approve the FAC to be recovered by MSEDCL in excess of existing ceiling on recovery through FAC charge i.e., 10% of variable charge, after detailed vetting of the actual FAC data on case-to-case basis. The relevant clauses of the said Order are as follows:

“35. Based on actual FAC per unit for the month of September 2005 as approved by the Commission and the FAC per unit to be charged to the consumers based on generation and power purchase cost data submitted by MSEDCL, the Commission is of the opinion that there is a need to modify the FAC ceiling to improve the liquidity position of MSEDCL and to enable MSEDCL to continue the short term power purchase to mitigate the load shedding to the extent possible. Considering the quantum of FAC to be recovered based on data submitted by MSEDCL, the enhancement of ceiling from 10% of variable charge to say 20% of variable charge will not suffice. However, it may not be appropriate to completely remove the FAC ceiling and permit MSEDCL to levy a substantial high charge as FAC to consumers, without prior approval of the Commission.

36. The Commission will approve the FAC to be recovered by MSEDCL in excess of existing ceiling on recovery through FAC charge i.e. 10% of variable charge, after detailed vetting of the actual FAC data on case-to-case basis. However, this mechanism will only be applicable in case of MSEDCL till the Commission issues the Order on ARR and Tariff of MSEDCL for FY 2006-07. MSEDCL has already filed the ARR Petition for FY 2006-07 and the Commission will consider the same while determining the power purchase costs of MSEDCL.”

9. Subsequently, vide following letters, the Commission has approved the levy of Fuel Adjustment Charges (FAC) by MSEDCL for the period October 2005 to March 06,

- a) Commission’s letter No. MERC/MSEDCL/FCA/940 dated 5th May 2006 for levy of FAC the period October 2005 to February 2006.
- b) Commission’s letter No. MERC/MSEDCL/FCA/1199 dated 1st June, 2006, for levy of FAC for the month of March 2006.

10. The FAC for the period October 2005 to March 2006 has been approved in accordance with the Commission’s Order dated 21st March, 2006 regarding removal of the ceiling on FAC and approval was accorded for recovery of cost for power purchase from Kawas, under FAC mechanism. Thus, the recovery of cost of actual short-term

power purchase for the period October 2005 to March 2006 has been considered as part of FAC.

11. The Commission has adequately addressed MSEDCL's plea for the approval of short term power purchase for the period October 2005 to March 2006 and the effect of the short term power purchase which is in excess of 5% of the quantum and cost of tariff Order has been taken into account in the FAC computations. Hence, no further action in the matter is deemed necessary.

With this Order, the Commission disposes off the MSEDCL Petition in Case No. 2 of 2006.

Sd/-
(S.B. Kulkarni)
Member

Sd/-
(A. Velayutham)
Member

Sd/-
(Dr Pramod Deo)
Chairman

(Ms. Malini Shankar)
Secretary, MERC