

Power Distribution Tariffs in India 2019 – Gauging Impacts of New Tariff Norms

2019-24 Tariff regulations are in the offing with many first to be changes in hindsight likely to affect the consumer base among industrial, commercial and domestic users affecting revenue streams for power distribution utilities

Why enincon's report upon "Power Distribution Tariff in India 2019 – Gauging Impact of New Tariff Norms"

The languishing power distribution segment has been the central focus for Government & regulators both as this shall benefit the end consumers coupled with power generation companies. Hence, 2019-24 norms designed to aid a balance between gencos and end consumers

Though no change in consumption pattern is anticipated but revenue contribution for discoms to alter due to new 2019-24 tariff norms

There has been considerable improvements in the structure of power tariff in the country, since the launch of EA 2003 followed by NTP 2006. Despite these improvements the legacy issues of the discoms do come back to haunt their account books and even multiple bail out packages, dedicated scheme of UDAY and other incentives majority of the discoms continue to get over the legacy issues and do not have a seamless revenue flow. Taking cognizance of the situation and suggestions up-hand by various stakeholders Government was keen on revisions of the tariff policy coupled with changes of which many are a "first" in the upcoming CERC Tariff norms for 2019-24 as control period. The chief focus is to sway away from the legacy issues and turn the discoms more profitable apart from keeping the interests of both the power developers and end consumers intact.

India has continuously shown an increasing trend for average cost of supply and average revenue for the discoms yet the collection of past arrears and undue burden of cross-subsidies have jeopardized the sustenance call and have put across pressures on their financials. However, despite best efforts from subsequent Government it was difficult for the discoms to turn the tide and become profitable leading to expedition of ways and means which can prune up their losses. Therefore, following the quest of discoms coupled with market sentiments certain decisive moves are being adopted by the central commission and have laid down in the draft referendum for tariff norms 2019-24. It is anticipated that introduction of steps like measurement of quarterly availability factor for the power generation companies shall be better for the discoms as it shall aid larger quantum of availability for discoms, affecting the short term procurements to get onto lower side. Further, this clearly would signify the average tariff for the particular discom across the designate sets of consumer i.e. Industrial, Commercial and Domestic will most likely decrease as compared to the previous regulation. Although, the computation of availability on a quarterly basis shall be challenging for the quarterly period but shall definitely bring in the reduction in the quantum of short-term procurements meaning greater savings for the distribution utilities. However, the enhanced availability of power for discoms might not lead to lowering of tariffs by the tune it should purely for the demand being on the higher side.

India

New tariff regulations for control period of 2019-2024 is going to witness many first time announcements which are bound to impact the end consumers coupled with revenue flow to power distribution utilities

2019-2024 Tariff Regulations – What’s New?...



Payment of Capacity Charge

(No such provision was erstwhile)



Increase in Auxiliary Consumption by 0.75 bp

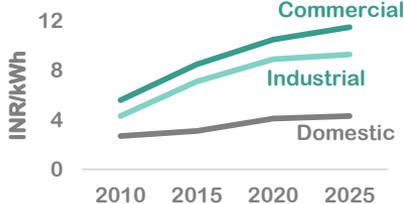
(No rise was there in older version of regulations)



Depreciation levels @ 5%

(Salvage value reduced to 5% from 10% previously)

Tariff trends & outlook in India (Avg. Cost of Supply)



New power tariff norms likely to push the cost of supply higher

ROE (Return On Equity)



In the tariff regulations draft for 2019-24 the much anticipated change for ROE has not been proposed to alter. This might not be as per anticipation of the project developers, however shall be of benefit for utilities & end consumers

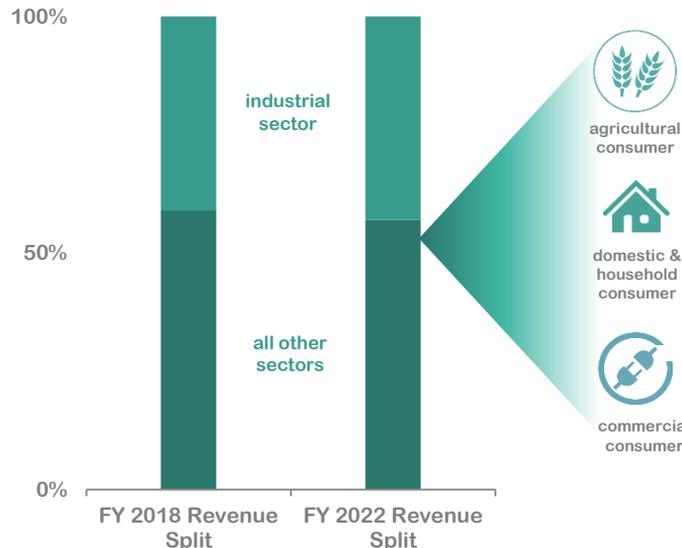
Revenue of Discoms as per Consumers

(%age of Revenue Basis)



Industrial Consumers Drive Revenue for Discoms

(%age of Revenue Basis)



agricultural consumer



domestic & household consumer



commercial consumer

Power Tariff

The levels of power tariff being paid at different consumer level is set to change with many a “first” recommendations and the market shall be governed by a balanced approach between generation and distribution utilities interest with consumers lying central to growth of the sector’s in India.

With QPAF of 83%, AUX consumption to 8% and depreciation reduced to 5% the tariff’s for all segment set to rise and short-term market share shall reduce by 2022

Change in the depreciation and salvage value, increase in auxiliary consumption rate by the generation companies and reduction in period of receivables to 45 days for discoms are bound to bring more variations to tariff structure for respective discoms in the country

Even post 15 years now since the mandates of the Electricity Act, 2003 and associated policies have been in place. However, there is still no real change in electricity prices in the direction that is required. The prices charged to various consumer categories vary inversely with the average cost of supply. The main reason for this uneconomical pricing has been that the tariffs for a particular category of consumers are determined based on socio-political considerations rather than economic and efficiency considerations.

A cost-reflective tariff structure needs to be adopted in India and in this regard the push and suggestions in the draft 2019-24 regulations shall be a welcome move. Also, the issue of access to electricity for people below the poverty line must be addressed through instruments of social policy, not by electricity pricing. If cross-subsidy is removed, Indian manufacturing can become more cost competitive with respect to global players, which can help bring more industries under the MII initiative. Moreover, the burden shall not be a pass through to other set of consumers like commercial which shall aid in reduction of usage of DG sets leading to reduced pollution levels. In this milieu the suggestions in the proposed tariff norms shall benefit the end consumers by and large and therefore the team of consultants at enincon consulting llp delved deep to unravel the new paradigm of power sector as well the one's deemed as consumers. The report upon power distribution tariffs shall encompass the likely structure of tariff's at each discom level which shall be of keen interest to open access consumers and short term traders and procurers apart from the industrial and commercial consumers who can plan their capex better courtesy variance in power tariff to be observed. Each state shall be covered with likely impact on all consumer category with special focus upon industrial category so that the level of variance of tariff for both HT and LT consumers shall be better covered. Coupled with the tariff structure impact of cross-subsidy upon the consumers and their adaptability for expediting medium like solar roof top for sourcing/off-setting their peak load shall another value add proposition with a value indicator for each discom which can act upon as a RESCO model based facilitator for such installations. The report comprises of over 700+ pages with an integrated excel D2I model which enables real time understanding for the procurers.

BUSINESS CASE FOR CHANGE IN POWER DISTRIBUTION TARIFFS IN INDIA

- New CERC draft tariff regulations for control period 2019-2024
- Thrust given to add power generation capacity (Renewable and Thermal): A move to create "one market in power"
- Long overdue reforms of Discoms in terms of adequate and rational tariff structure may get addressed by these norms
- Energizing the development of Renewable Sector
- The new paradigm of surplus power sets the stage for new reforms
- Move to rationalise power tariff structure
- Push to "Make in India" initiative
- Increased quantum for Open Access in India
- Reduction in the short-term power procurement by the discoms, leading to better availability and cheaper power feed to general consumers

REPORT INSIGHTS

- Detailed analysis of CERC Tariff Regulations for 2019-2024 (Final Regulations, expected in February, 2019) and its impact on Power Distribution Tariffs across various consumer categories in India
- Distribution Utility wise tariff schedule in India applicable for FY 2019-20
- Adaptability indices for solar roof top for discoms
- Level of OA & short-term procurement of power for each discom forecasted
- Examining consumer category wise distribution tariff across each state and distribution utility for FY 2019-20
- Detailed analysis of various components of tariff for each distribution utility and likely impact of new norms
- Old vs New Tariff Comparison (Last 1 year regulatory track of change in applicable surcharges and duties)
- Easy to use Excel and Pdf Format

KEY HIGHLIGHTS

- Impact analysis of CERC tariff regulations 2019-2024 on power distribution tariffs in India
- Consumer category wise tariff schedule for FY 2019-20
- Consumer profiling as per connected load
- Consumer category wise revenue contribution
- Consumer category wise revenue contribution
- Net Aggregate Revenue Requirement (ARR) of Distribution Utilities
- Revenue Gaps/Surplus for Distribution Utilities

PRESS EXCERPTS

“The guidelines for FY19-24 period are favourable for power generators, as the regulator has maintained status quo on most of the parameters as against expectation of a lower return on equity (RoE) and change in debt-equity ratio in favour of debt”

ET Energy World

“Tightening of norms (availability on quarterly basis vs. annual currently, working capital, O&M) are balanced by relaxation in few operating norms (auxiliary consumption, incentives etc).”

Financial Express

KEY QUERIES ADDRESSED

- What is the key rationale behind tariff calculation for FY 2019-20?
- What is the consumer profiling of the state?
- What is the consumer category wise tariff structure?
- What is the actual power situation of the state?
- What is the actual connected load among various consumers?
- What is consumer category wise revenue contribution?
- What is the Net ARR of the distribution utilities?
- How much is the net gap/surplus for distribution utilities?

MUST BUY FOR

- Power Generating Companies
- Power Distribution Utilities
- Power Transmission Utilities
- Captive/Group Captive Consumers
- Independent Power Producers
- Bulk Consumers
- State Electricity Regulatory Authorities
- FIs/Banks
- Industrial Park/SEZs/Steel Plants
- Power Project Funding Bodies
- Foreign Collaborating Agencies
- Utility Solar Power Project Developers
- Government & Regulatory Bodies
- Research Institutions/Bodies
- Funding Bodies/Banks



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our Focus, your Future

THANK YOU!

Happiness does not come from doing easy work but from the afterglow of satisfaction that comes after the achievement of a difficult task that demanded our best

- Theodore Isaac Rubin