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Karnataka Power Sector Reforms

-Transfer Pricing-

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Reform milestones

- Reform Policy was issued in 1997
- Reform Act passed by GoK in 1999
- Corporatization of KEB in August 1999
- KPTCL and VVNL separated in August 1999
- First transfer scheme including BRP approved in 1999
- Regulatory commission formed in 1999
- GoK issued provisional licenses to the KPTCL for carrying the business of Transmission and Bulk Supply and for Distribution and Retail Supply in exercise of the powers vested in the Government under Section 18(4) of the KER Act, 1999.



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Reform milestones

- Subsequently KERC issued Transmission and Supply Licenses to KPTCL on 6.12.2000 and 7.12.2000 respectively
- Individual PPAs were signed with all generating companies except the State Owned Genco i.e. KPCL
- MoU was signed for supplying power from VVNL to KPTCL
- GoK orders on the tariff rates fixed for each station of genco was honoured
- KPTCL filed first ERC in 1999-2000 and made a tariff application also
- KERC passed the first tariff order in May 2000 for KPTCL (which then held both transmission and distribution & supply licenses)



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Reform milestones

- With effect from 1st June 2002, KPTCL was further unbundled into 5 companies. (Transco and four discoms)
- Post unbundling, licenses issued to KPTCL were modified by the Commission
- KPTCL retained transmission license and the discoms were assigned the distribution and retail supply license
- KPTCL (earlier to unbundling) filed ERC with the Commission for FY 2002-03, which was later directed by the Commission to file a “split ERC” along with a draft Bulk Supply Agreement and Transmission Services Agreement for the approval



Highlights of ERC filed

- Transmission charges claimed by KPTCL for FY 03

Particulars	Details
Energy Available (MU)	30552
Energy Sales (MU)	28578
EXPENDITURE (Rs. in Crs.)	
Repairs and Maintenance	29.17
Employee Costs	102.01
Admin and General Expenses	52.79
Depreciation and related debits	154.83
Interest & Finance charges	400.24
Less: Expenses capitalised	(85.50)
Other Debits	6.28
Net Prior Period Credits	3.79
Return on NFA (3%)	40.77
Total Expenses	704.38
Less Other income	0.00
Total Revenue requirement	704.38
Transmission cost (Ps./kWh)	24.65



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Highlights of ERC filed

- BST claimed by KPTCL for FY 03

Particulars	Details
Total power purchase (MU)	30552
Transmission losses (%)	6.39
*Power available at interface points (MU)	28578
Total power purchase cost (Rs. In crs.)	5420.45
Bulk Supply Tariff (Rs./kWh)	1.90

* Energy consumption at interface points based on joint meter readings has been considered



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Highlights of ERC filed

- Commission while passing the order on Transmission charges tariff for FY 03 accepted the rate proposed subject to adjustment at the year end for the actual energy transported in the system plus other expenses on actuals
- In the BST application, KPTCL had considered the subsidy that has been committed by GOK for FY03 as a financial balancing mechanism to differentiate the power purchase cost between ESCOMs and had proposed differential BST for each of the ESCOMs based on the “financial capability”.



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Highlights of ERC filed

- Commission while passing the order on BST, did not agree with the differential tariff mechanism proposed and passed orders for uniform BST
- KPTCL and ESCOMs have entered into Bulk Supply and Transmission Services Agreements in November 2002
- This was continued till early 2005
- In 2005 one more ESCOM (CESC) was created by reconfiguring MESCOM



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Impact of Electricity Act

- The Govt of India enacted the Electricity Act 2003 (EA03), which came into force from 10.06.2003
- It also notified the National Electricity Policy on 12.2.2005 and the Tariff Policy on 06.01.2006 under the provisions of the said Act.
- In terms of the Electricity Act, 2003 (EA 2003), KPTCL cannot engage in trading of power with effect from 10.06.2005
- Consequently, GoK assigned the Power Purchase Agreements (PPAs) entered into by KPTCL with the generating companies to the five ESCOMs effective from 10.06.2005



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Impact of Electricity Act

- According to the said Government Order
 - ❖ The PPAs with major power suppliers have been allocated to ESCOMs in proportion to the quantum of power drawn during FY 05
 - ❖ While the PPAs of Non-conventional and Renewable sources of energy have been allocated to respective ESCOMs based on the geographical location of such projects
- Subsequently GoK vide notification dated 02.09.2005 has reallocated the NCE projects to the ESCOM's so that purchase of energy from NCE is between 5% to 10% of their total consumption during the year



ESCOM wise energy allocation

Escom wise allocation of based on Drawal energy					
Sl. No.	Escom	Drawal at IF point	Energy in Mus		
			NCE Projects	Total Energy excluding NCE	% of allocation
		A	B	A-B	
1	Bescom	14664.00	778.36	13885.64	45.9492
2	Gescom	4675.39	61.53	4613.86	15.2678
3	Hescom	6394.06	241.86	6152.64	20.3598
4	Mescom	2748.38	1.18	2747.19	9.0908
5	Cesc	3248.67	428.45	2820.22	9.3324
	Total	31730.98	1511.40	30219.57	100.0000

- Post June 2005, PPAs have been entered by ESCOMs with Generating Companies directly, based on the rates approved by KERC

GoK is periodically revising the % of allocation based on the Demand & Supply situation



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Formation of SPPCC

- GOK formed a SPPCC in 2005 to co-ordinate the procurement of power from different sources and allocation of power between ESCOMS
- All activities relating to PPAs, short term power purchase including the verification of bills sent to ESCOMs for payment was carried out SPPCC
- However, the payments in respect of purchase of energy are being made directly by ESCOMs



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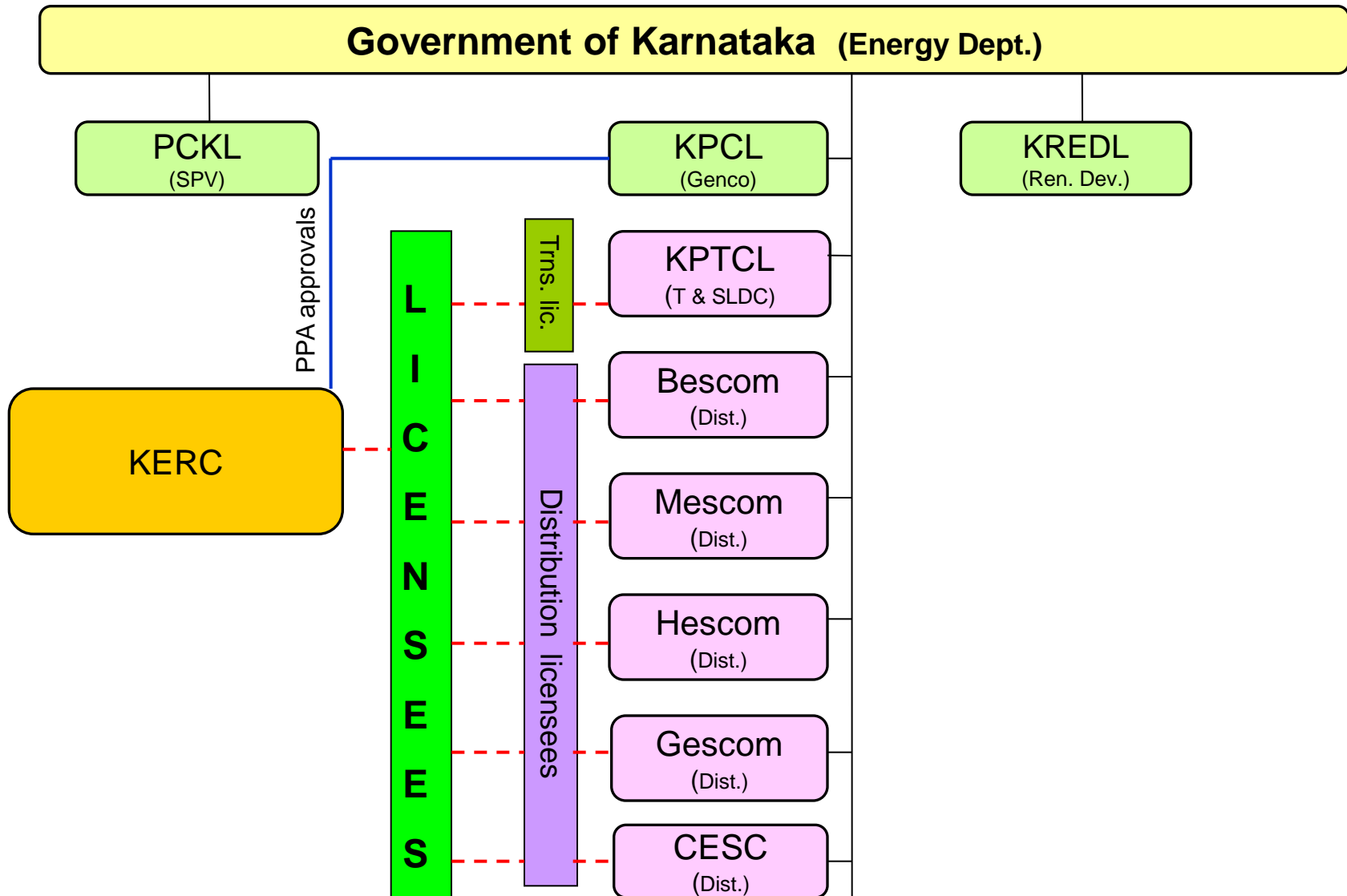
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Creation of PCKL

- With a view to facilitate trading and coordinate in the bidding process for establishment of various new generation projects and also to undertake related activities, on behalf of all ESCOMs, the SPPCC recommended formation of a separate Special Purpose Vehicle (SPV)
- Government of Karnataka vide its order dated 7th April 2007 accorded approval to form a Special Purpose Vehicle (SPV)
- The company was incorporated as a Public Limited company with an initial authorized Capital of Rs. five Crores



Current structure of the Sector





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Current responsibilities of PCKL

- Providing support to ESCOMS in procurement of power (both short term and long term) for the capacity addition envisaged
 - Preparation and issue of necessary bid documents
 - Evaluation of the bids received (Technical, Financial and Commercial)
 - Negotiations with the short listed bidders
 - Finalization of successful bidder
 - PPA finalization (between Generator & each ESCOM w/r to the allocation/requirement)
- Facilitating trading arrangements for ESCOMs

Expenditure of PCKL is met by contributions from ESCOMs



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Thank you