

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. 13 of 2007

In the matter of
Petition filed by Maharashtra State Electricity Distribution Company Limited
seeking permission for staggered mode of payment of Transmission Service
Charges.

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

ORDER

Dated: October 10, 2007

Maharashtra State Electricity Distribution Company Ltd. (MSEDCL) filed a Petition on June 7, 2007 seeking permission for staggered payment of transmission service charges (TSC), in three installments, i.e., payment of one third of bill amount on the 7th, 14th and 21st day of every month, and further, applicability of surcharge only on default in the payment of scheduled installments.

2. MSEDCL, vide its Petition, referred to paragraph 20 of the Order dated April 2, 2007 in the matter of determination of transmission tariff for Intra-State Transmission System (InSTS) for the first year of MYT Control Period, which provides that, “*all payments related to transmission charges shall be due for payment within 7 days from due date. In case, there is delay in payment by any TSU, late payment surcharge at the rate of 1.25% per month or part thereof shall be applicable*”, and submitted as under:

- a) The present stipulation that the TSC shall be paid by the seventh day of the month will cause severe hardships to MSEDCL to manage its cash flows. MSEDCL receives its consumer payments from second week of every month due to calendar month billing cycle followed by MSEDCL, however, MSEDCL is required to pay its power purchase and transmission charges to various CPSUs like NTPC, NPCIL and PGCIL in the first week of the month. Further, the bilateral purchase through traders is billed on weekly basis and payments are made within seven days. The monthly bills of MSPGCL towards supply of power are also to be paid within seven days to avail rebate of 1.25%. The

outgoings of MSEDCL during the first week far exceeds the payment receipts making it impracticable for MSEDCL to pay the entire transmission tariff of Rs. 121.63 Crore in a single installment by the seventh day of every month.

- b) The payment mechanism of TSC should include three equal installments payable at 7th, 14th and 21st day of every month. MSEDCL further submitted that it had already proposed staggered payment mechanism in the Grid Co-ordination Committee Meeting (GCC) held by MSETCL on October 13, 2006, and GCC agreed to the same, subject to the approval of the Commission.
- c) The proposed staggered payment mechanism shall allow all distribution licensees to furnish a letter of credit for one third of the monthly transmission charges payable by each of them as security under the payment security mechanism finalized in the GCC meeting held on October 13, 2006, thus enabling a saving in interest and finance charges by the distribution licensee.

MSEDCL enclosed below referred documents in support of their Petition:

- a) The average weekly cash flow statements based on the average for the period of February 2007 to April 2007
- b) Minutes of the GCC meetings held on October 13, 2006 and November 21, 2006
- c) The consent letters of the Transmission Service Users (TSU), viz., MSEDCL, BEST and REL for payment of TSC based on staggered payment mechanism in three installments on 7th, 14th and 21st day of every month, as agreed in the GCC meeting dated October 13, 2006.

3. The Commission vide its Notice dated June 15, 2007 scheduled the hearing in the matter on July 4, 2007, and directed MSEDCL to serve a copy of its Petition to MSETCL, TPC, REL, BEST and four authorized consumer representatives.

4. At the hearing held in the matter on July 4, 2007, Shri. V.R. Shiroorkar, General Manager (Finance), MSEDCL, referred to the various cash flow difficulties like payment of interest towards working capital loans, delay in the recovery of amounts from consumers, etc., that do not enable full payment of TSC of approx. Rs. 121 Crore on the seventh day of the month. The Commission enquired of MSEDCL as to whether a consensus from all licensees has been achieved for the staggered mode of payment of transmission charges (7th, 14th and 21st day of every month). Shri. Shiroorkar referred to the discussions held in the Grid Committee Meetings dated October 13, 2006 and November 21, 2006 during which consensus of MSETCL, REL and BEST was recorded on the issues raised under the Petition, and submitted that MSEDCL has received written consent for staggered mode of payment of TSC from REL and BEST. However, no consent from TPC has yet been received by MSEDCL.

5. Shri. J.D. Kulkarni, DGM, TPC, submitted that MSEDCL has obtained consent from entities that are required to pay transmission service charges. However, MSEDCL is required to obtain consent from the transmission licensees, viz., MSETCL and TPC, primarily, which receive transmission service charges. Shri. Kulkarni further stated that TPC did not agree to the proposal in the GCC meeting referred to by MSEDCL.

6. The Commission enquired of MSETCL as to whether the request of MSEDCL, considering their difficulties, can be accommodated. It was observed by the Commission that MSETCL did not have any clarity on the stand to be taken so far as the prayers of MSEDCL are concerned. The Commission directed MSETCL to obtain the consent of the transmission licensees and make written submission of their final stand in the matter within two weeks of date of hearing.

7. MSETCL, vide its letter dated August 4, 2007, submitted that subsequently, the issue of staggered mode of payment of intra-state transmission tariff was discussed in the 14th GCC meeting held on July 27, 2007, wherein it was agreed by all the constituents of GCC including the transmission licensees for allowing seven more days for making payment of TSC. MSETCL submitted as under:

“Accordingly, it was agreed that, ‘all payments related to transmission charges shall be due for payment on 14th day of the month. If 14th day is holiday, then next working day of the month. In case there is a delay in payment by any Transmission System User (TSU), late payment surcharge at the rate of 1.25% per month or part thereof shall be applicable.’”

MSETCL submitted that the same agreement would be effective subject to approval by the Commission. Further, MSETCL, vide the same letter, submitted its consent for allowing seven more days for payments of TSC, and forwarded the letter to TPC and REL for confirmation of their consent. Consequently, MSETCL, vide its letter dated August 16, 2007, submitted the Minutes of 14th CGG meeting held on July 27, 2007.

8. In this context, the Commission observes that while MSEDCL has filed this Petition in the context of Commission’s Order dated April 2, 2007 (Case 86 of 2006), it is worthwhile to refer to the chronology of events and Commission’s ruling through earlier Orders on this issue. The relevant extracts of the Commission’s earlier Orders on this issue are reproduced below:

(i) ***“Ref: Clause 20 and 21 of the Commission’s Order (Case No. 31 of 2006) dated September 29, 2006 in the matter of Determination of Transmission Tariff for Intra-State Transmission System (InSTS) for FY 2006-07***

Recovery of ARR by Transmission Licensees for FY2006-07

20. As outlined under paragraph 34 below, this Transmission Tariff Order shall be applicable with effect from October 1, 2006. STU shall collect Transmission Tariff from transmission system users on monthly basis at the end of each calendar month with first monthly period commencing from October 1, 2006. Thus, each Transmission licensee, in turn, shall be entitled to recover its approved ARR from Transmission Tariff collected by STU on monthly basis at the end of each calendar month with first monthly period commencing from October 1, 2006. Thus, each transmission licensee shall claim recovery of its ARR by way of raising monthly bill on STU covering its component of intra-State transmission charges

21. All transmission system users shall ensure timely payment of Transmission Tariff to STU so as to enable STU for timely settlement of claims raised by transmission licensees. All payments related to transmission charges shall be due for payment within 7 days from date of invoice. In case, there is delay in payment by any of the TSU, late payment surcharge at the rate of 1.25% per month or part thereof shall be applicable. The Commission recognizes that modalities of 'Pooling' necessitate appropriate payment security arrangement to be put in place and procedure for disbursement to settle claims of various transmission licensees, in case of shortfall in payment by any of the TSU for a particular month. The Commission is of the view that the Grid Co-ordination Committee (GCC) should propose a suitable payment security mechanism and procedure of payment disbursement in case of shortfall in collection in any particular month, upon due consultation amongst transmission licensees and transmission system users. The GCC should propose appropriate mechanism for Commission's approval within one month from date of this Order.

(ii) Ref: Clause 5 of the Commission's Order (Case No. 36 and 41 of 2006) dated February 13, 2007 in the matter of Petition filed by MSEDCL seeking review of Order dated September 29, 2006 in Case No. 31 of 2006

5. In Case No. 36 of 2006, the Petitioners have sought a review of the stipulation at paragraph 21 of the impugned Order in relation to the due date of payment for transmission charges. The Petitioners have not made out any ground permitted for the grant of review. The modification sought in relation to the due date of payment of the transmission charges would affect other entities that are part of the InSTS. The Petitioners should have sought consent from such TSUs by making them parties to the present Review Petition. The aforesaid Minutes of the GCC meeting cannot be taken as a consent by such TSUs and distribution licensees to the proposal of staggering due dates of payment of transmission charges. A review of Paragraph 21 of the impugned Order relating to due date of payment of the transmission charges, cannot be granted

for the reasons stated above. The Petitioners may, however, file fresh Petition seeking consent from TSUs, as aforesaid.

(iii) Ref: Clause 20 of the Commission's Order (Case No. 86 of 2006) dated April 2, 2007 in the matter of Determination of Transmission Tariff for Intra-State Transmission System (InSTS) for the first year of the MYT Control Period (FY 2007-08 to FY 2009-10)

Recovery of ARR of Transmission Licensees for FY 2007-08

20. All transmission system users shall ensure timely payment of Transmission Tariff to STU so as to enable STU for timely settlement of claims raised by transmission licensees. All payments related to transmission charges shall be due for payment within 7 days from date of invoice. In case, there is delay in payment by any TSU, late payment surcharge at the rate of 1.25% per month or part thereof shall be applicable. The Commission recognises that modalities of 'Pooling' necessitate appropriate payment security arrangement to be put in place and procedure for disbursement to settle claims of various transmission licensees, in case of shortfall in payment by any of the TSU for a particular month. The Commission is of the opinion that the Grid Co-ordination Committee (GCC) should propose a suitable payment security mechanism and procedure of payment disbursement in case of shortfall in collection in any particular month, after due consultation amongst transmission licensees and transmission system users. The GCC should propose appropriate mechanism for Commission's approval within one month from date of this Order.

9. Thus, the Commission is of the opinion that as regards the decision taken in the 14th GCC meeting held on July 27, 2007, wherein all the constituents of GCC including the transmission licensees have agreed for allowing seven more days to the transmission system users for making the payments of transmission service charges, the same payment mechanism may be applicable for all payments related to transmission charges. The Commission further observes that, in the same GCC meeting all transmission system users were directed to submit their consents to the Commission, however, only MSETCL has submitted its consent with the Commission. All the remaining constituents should confirm their assent with the GCC minutes in this regard within 15 days of the date of issue of this Order. The Commission further observes that monthly transmission service charge payment to MSETCL of around Rs 128.91 Crore forms significant component (around 85.9%) of monthly total transmission system cost of Rs 150.03 Crore to be recovered from transmission system users during FY 2007-08 as per clause 18 of Commission's Transmission Tariff Order for InSTS dated April 2, 2007 (Case 86 of 2006).

10. In addition, the Commission would like to highlight that as per Clause 50.6.1 (c) of MERC (Terms and Conditions of Tariff) Regulations, 2005, interest on working capital upto an extent of one and half month equivalent to expected revenue from transmission charges at prevalent tariff rates have already been provided as a component of annual revenue requirement for all transmission licensees. Thus, the Commission is of the view that making the due date of payment as 14th of the month will not have any adverse financial implications for transmission licensees. Earlier, the Commission had ruled under its Order dated April 2, 2007 that the due date of payment would be 7 days from date of invoice as modalities of 'pooling' arrangement with simultaneous invoicing by all transmission licensees were expected to be streamlined. The Commission is of the view that for any kind of 'pooling' arrangement to work, a disciplined approach is desirable. Accordingly, the Commission had directed due date to be 7 days from date of invoice so that transmission licensees and 'pooling mechanism' do not suffer even in case of any delay in payment or part payment by any of the transmission system user by few days during a particular billing cycle. Accordingly, the Commission had also directed GCC to propose suitable payment security mechanism, which is still awaited.

11. The 'pooling mechanism' for all payments related to transmission charges is under operation for a period of almost one year since October 2006. The licensees through GCC have agreed for revision in due date of payment to be the 14th day of the month de-linking the same from the date of invoice. As noted in paragraph 7 above, the issue of staggered mode of payment of intra-state transmission tariff was discussed in the 14th GCC meeting held on July 27, 2007, wherein it was agreed by all the constituents of GCC including the transmission licensees for allowing seven more days for making payment of TSC. In view thereof, while staggered mode of payment of transmission charges as sought for under the present petition cannot be allowed, the Commission is of the view that the position as laid down under the Commission's Orders will require alteration to give effect to the decision taken by all constituents of the GCC for making a change in the due date of payment. Accordingly, paragraph 20 of the Order dated April 2, 2007 (Case 86 of 2006) shall stand modified to the extent that all payments related to transmission charges for a particular calendar month shall be due for payment on the 14th day of the subsequent calendar month.

With the above directions, the Petition stands disposed of.

Sd/-
(S.B. Kulkarni)
Member

Sd/-
(A. Velayutham)
Member

Sd/-
(Dr. Pramod Deo)
Chairman

(P.B.Patil)
Secretary, MERC