

*DRAFT*

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NAGALAND ELECTRICITY REGULATORY COMMISSION (NERC)  
NAGALAND : KOHIMA**

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**NOTIFICATION**

**Dated Kohima, the 19<sup>th</sup> Oct., 2012**

**No.NERC/REGN/2012:** In exercise of the powers conferred under clauses (j) and (z) c) of sub-section (2) of Section 181 read with third proviso to sub-section (2) of section 42 of the Electricity Act, 2003 (Act 36 of 2003) and all other powers enabling it on that behalf, the Nagaland Electricity regulatory Commission, hereby makes the following regulations alongwith related concept paper, namely:-

**CHAPTER – 1  
PRELIMINARY**

**1. Short Title and Commencement**

- 1.1 These regulations shall be called the Nagaland Electricity Regulatory Commission (Road map for reduction of surcharge and cross subsidies) Regulations, 2012.
- 1.2 These regulations shall come into force from the date of their publication in the official Gazette of Nagaland.

**CHAPTER – 2  
DEFINITIONS**

**2. Definitions and Interpretations**

2.1 In these regulations, unless the context otherwise requires –

- (a) “Act” means the electricity Act, 2003 (36 of 2003).

- (b) “Commission” means the Nagaland Electricity Regulatory Commission (NERC).
- (c) “Cost of Supply to various consumer categories” means the cost of supply to various consumer categories as approved by the Commission in accordance with these regulations.
- (d) 'Integrated utility' means the Department of Power, Nagaland in its present form or the successor entity of the Department performing one or more of the functions of generation, transmission, distribution and trading after restructuring and/or Corporatisation of the Department.
- (e) “License” means a license granted under Section 14 of the Act;
- (f) “Distribution Licensee” means a Licensee authorized to operate and maintain a distribution system for supplying electricity to the consumers in his area of supply.
- (g) “Subsidising consumer category” means the consumer category, which pays tariff more than the cost of supply as determined by the Commission in accordance with these regulations.
- (h) “Subsidised consumer category” means the consumer category which pays tariff less than the cost of supply as determined by the Commission in accordance with these regulations.
- (i) “Cross Subsidy” means the difference between the applicable average tariff of that consumer category / sub-category and the cost of supply as approved by the Commission for that year

2.2. Words and expressions used in these regulations and not defined herein but defined in the Act or any other Regulations specified by the Commission shall, unless the context otherwise requires, have the meaning assigned to them under the Act or any other Regulation specified by the Commission as the case may be.

### **CHAPTER – 3 CROSS SUBSIDY REDUCTION**

#### **3. Stipulations in the Act and Tariff Policy**

Section 62 of the Act stipulates that the Commission is required to determine the tariff for

- (a) supply of electricity by a generating company to a distribution licensee
- (b) transmission of electricity,
- (c) wheeling of electricity and
- (d) retail sale of electricity.

Section 61 of the Act stipulates as follows:-

**- QUOTE -**

*61. The Appropriate Commission shall, subject to the provisions of this Act, specify the terms and conditions for the determination of tariff, and in doing so, shall be guided by the following namely:-*

.....

*(c) the factors which would encourage competition, efficiency, economical use of the resources, good performance and optimum investments;*

*(d) safeguarding of consumers interest and at the same time, recovery of the cost of electricity in a reasonable manner;*

.....

*(g) that the tariff progressively, reflects the cost of supply of electricity, and also, reduces cross-subsidies in the manner specified by the Appropriate Commission;*

.....

*(i) the National Electricity Policy and Tariff Policy:"*

**- UNQUOTE -**

3.3 The Tariff Policy issued by the Ministry of Power, Government of India, on January 6, 2006 stipulates as follows:

**- QUOTE -**

*8.3 Tariff design: Linkages of tariffs to cost of service*

.....

*In terms of Section 61(g) of the Act, the Appropriate Commission shall be guided by the objective that the tariff progressively reflects the efficient and prudent cost of supply of electricity.*

*The State Government can give subsidy to the extent they consider appropriate as per the provisions of Section 65 of the Act. Direct subsidy is a better way to support the poorer categories of consumers than the mechanism of cross-subsidising the tariff across the board. ....*

*Accordingly the following principles would be adopted:*

- 1. In accordance with the National Electricity Policy, consumers below poverty line who consume below a specified level, say 30 units per month, may receive a special support through cross subsidy. Tariffs for such designated group of consumers will be atleast 50% of the average cost of supply. This provision will be re-examined after five years.*

2. *For achieving the objective that the tariff progressively reflects cost of supply of electricity, the SERC would notify road maps within six months with a target that latest by the end of year 2010-11 tariffs are within  $\pm 20\%$  of the average cost of supply. The road map would also have intermediate milestones, based on the approach of a gradual reduction in cross subsidy.*

**- UNQUOTE -**

#### **4. Road Map for Cross Subsidy Reduction**

- 4.1 The Commission shall notify the road map with intermediate milestones for gradual reduction of cross subsidy as a percentage of the approved cost of supply to the distribution licensee. The period of road map shall be as determined by the Commission.
- 4.2 The Commission shall specify cross subsidy reduction road map keeping in view the existing levels of tariffs, consumer mix, the distribution costs, paying capacity of the consumers etc.
- 4.3 The Commission may revise the road map if the underlying assumptions in developing the road map undergo any change.

#### **5. General Principles for Cross Subsidy Reduction**

The general principles for cross subsidy reduction shall be as follows:-

- (1) The average tariff of a consumer category / sub-category for the purpose of computing cross subsidy shall be determined by dividing total tariff amount billed by the sales to that consumer category / sub-

category. The billed tariff shall include fixed charges, energy charges and all applicable rebates and penalties as per the tariff schedule approved by the Commission for that consumer category / sub-category.

- (2) The Cost of Supply for a financial year shall be the average cost of supply computed by dividing the Annual Revenue Requirement for the distribution licensee approved by the Commission for recovery through retail tariffs by the total energy sales forecast for that year.

This definition of cost of supply shall be applicable for a period of five (5) years or such extended time as decided by the Commission. Thereafter the cost of supply shall be differentiated for various consumer categories as per the guidelines to be notified by the Commission.

- (3) The Cost of Supply computed as explained in clause (2) above shall be used for assessing the cross subsidy levels of different categories of consumers. For each consumer category, ratio of the average tariff of that category to the average cost of supply shall be increased or decreased based on whether that consumer category is subsidising consumer category or subsidised consumer category. The ratio of increase or decrease of the ratio shall be decided by the Commission taking into consideration various factors including the target cross subsidy level fixed by the Commission.

- (4) The cross subsidy ratio i.e. the ratio of the average tariff of each consumer category to the average cost of supply shall be determined by the Commission and shall remain fixed each year of the ARR or for a period as decided by the Commission.
- (5) The Cross subsidy ratio of the subsidised consumer categories shall be determined considering future increases in distribution and retail supply costs, changes in consumer mix, cost of alternate supply of power and shall be increased till the ratio is equal to the target value decided by the Commission. The ratio of subsidising consumer categories shall be reduced till the ratio is equal to the value decided by the Commission.

## **6. Cross subsidy based on Cost of Supply differentiated by Consumer Category**

- 6.1 The distribution licensee shall be required to separate their accounting system to accurately capture network and supply related costs.
- 6.2 The distribution licensee shall compute their accounting segregation so that Commission can move from the average cost of supply to the consumer category wise cost of supply for the purpose of cross subsidy determination at the end of five (5) years.
- 6.3 The Commission may then revise the existing road map considering the gap between retail supply tariffs and the approved consumer category wise cost of supply.

## **7. Determination of Cross Subsidy Reduction**

7.1 The Commission shall identify consumer categories along with their consumption limits to be cross-subsidised. The Commission shall also indicate the tariff rates to be paid by these consumers for the subsidised consumption. The Commission shall also indicate these tariff rates as a percentage of the approved cost of supply.

7.2 The Commission shall identify the amount of cross subsidies to be required by various other consumer categories. While determining the cross subsidy reduction road map, the Commission shall consider funding requirements of the State Government to meet direct subsidy requirement and tariff shock to consumer categories if existing cross subsidy levels in their tariffs are to be suddenly reduced.

7.3 The Commission may consider a longer period road map for cross subsidy reduction in order to avoid tariff shocks to the subsidised category for mitigating the adverse impact of increase in costs and unfavourable changes in consumer mix.

7.4 The Commission shall consider likely future changes in costs of the distribution licensee and consumer mix.

7.5 The Commission may consider the cost of alternate availability of supply of power to the subsidising category while determining the cross subsidy reduction road map.



7.6 If more than one distribution licensee is existing, the Commission shall endeavour to keep the difference in the retail supply tariffs of similar consumer categories of various distribution licensees minimal subject to the requirement of recovery of allowed costs of the distribution licensees through tariffs and avoidance of tariff shocks to other consumer categories.

#### **CHAPTER – 4 MISCELLANEOUS**

##### **8. Power to Deviate from the Regulations**

The Commission shall be at liberty to deviate from the principles stated in the above sections for reasons to be recorded in the tariff order.

##### **9. Power to Amend**

The Commission may at any time add, vary, alter, modify or amend any provisions of these regulations.

##### **10. Power to Remove Difficulties**

(1) In the case of any difficulty in giving effect to any of the provisions of these regulations, the Commission by an order directs the licensee to take suitable action, not inconsistent with the provisions of the Act, which appears to it necessary or expedient for the purpose of removing the difficulty.

(2) The licensee may make an application to the Commission and seek suitable orders to remove any difficulty that may arise in implementation of these regulations.

**By Order of the Commission,**

**P. SANI**  
Dy. Director-cum-Commission Secretary  
NERC, Kohima.