



Distribution Utilities Forum



Cost of Supply

Meaning & Rationale



Cost of Supply for various categories of consumers is the cost imposed by respective categories of consumers on the system in order to supply the electricity demanded by them.

Rationale:

- Determination of cost of supply is an integral part of the tariff fixation process
- Cost of supply to different categories of consumers varies depending on usage of distribution system resources and consumption pattern of consumer categories
- To assess the true impact of cross subsidy

Electricity Act, 2003

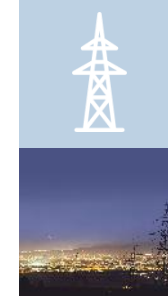
61 (g): Tariff to progressively reflect cost of supply of electricity and there should be reduction of cross-subsidy (Proposed Amendment to EA, 2003, as of 2018 – progressively eliminate cross subsidies in next three years)

Proposed amendment to Tariff Policy (May 2018), 8.3.3; 1st April 2019

- Tariff slabs should be brought within +/- 20% of cost of supply;
- Commission to endeavour to determine cost of supply for each category/sub-category of consumer

Determination of Category wise/Voltage wise Cost of Serve : Brings transparency in tariffs; necessary for reducing cross-subsidies

Regulatory Framework



EA

Section 61(g): Tariff should progressively reflect CoS and reduce cross subsidy

Section 62(3): highlights the necessity of providing weightage of various factors in tariff determination

Section 65: state government may provide direct subsidies to some tariff categories

TP

SERC would notify **roadmap** with a target that latest by the end of year 2010-11 tariffs are within $\pm 20\%$ of the average CoS

NEP

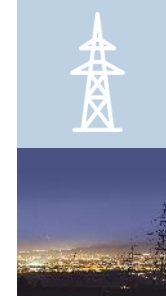
Clause 5.5.1: Need for ensuring recovery of CoS for sustainable operation

Clause 5.5.2: tariff for designated consumers (BPL) should be 50% of average CoS



S.No.	APTEL Order No.	Key interpretation
1	Appeal Nos. 102 of 2010, Tata Steel Ltd. Vs. Orissa Electricity Regulatory Commission	Determine voltage-wise cost of supply taking into account the major cost element which would be applicable to all the categories of consumers connected to the same voltage level at different locations in the distribution system
2	Appeal Nos. 931 of 2007, SIEL Limited, v/s PSERC	Cost to supply a consumer category is not the same as average cost of supply for the distribution system as a whole and the same cannot be used in calculation of cross subsidy instead of actual cost of supply

Objective



Objective of the study

- Review of approaches adopted by various utilities in determining Cost of Supply
- Identify challenges faced by utilities in estimating category-wise/voltage wise Cost of Supply
- Develop model guidelines in estimating Cost of Supply (CoS)



Approach and Methodology



Study approaches adopted by different state utilities and the data requirement in each approach

Discuss with Utilities, the issues and challenges in estimating category-wise/voltage wise cost of supply

Identify technical studies required to be conducted for estimating Cost of supply

Discussion with Utilities in DUF meeting

Developing model guidelines for estimating Cost to Supply

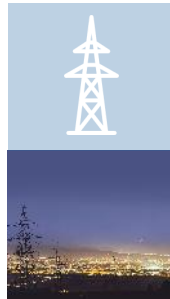


Thank you

**“The law of win/win says: Let’s not do in your way or my way, let’s do it the best way”
-Greg Anderson**



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Support Learning Platform for Utilities in Distribution Sector

Key studies identified:

- Preparing Demand-Side Management (DSM) action plan based on extensive load research as well as technical support for implementation of DSM interventions
- Integration study for grid operation in Andaman and Nicobar islands for proposed solar capacity
- Decentralized solar PV near the rural user end to minimize distribution losses and providing end-of-line voltage support
- Assessment for aggregating DSM opportunities at utility level among industrial consumers for low carbon growth.

