

# Fooling Poor and Favouring Rich: Domestic electricity tariff in Andhra Pradesh

K. Raghu  
M. Thimma Reddy

The electricity distribution companies in Andhra Pradesh (APDISCOMs) for the first time introduced BPL slab as a part of domestic consumers' category in their tariff proposals for the financial year 2012-13 giving an impression that it is meant to benefit the poor households. According to these proposals all those consumers whose consumption during the year 2011-12 was less than 360 units and having contracted load less than 500 watt and all those new consumers given connection during FY 2012-13 whose contracted load is less than 500 Watt will be considered as belonging to the BPL category. For the year 2012-13 tariff for this sub-category is kept untouched at Rs. 1.45/unit while for other slabs tariff is proposed to be hiked. This new proposal is said to be in accordance with the National Electricity Policy, 2005 according to which, "A minimum level of support may be required to make the electricity affordable for consumers of very poor category. Consumers below poverty line who consume below a specified level, say 30 units per month, may receive special support in terms of tariff which are cross-subsidized. Tariffs for such designated group of consumers will be at least 50 % of the average (overall) cost of supply. (5.5.2)" An analysis of the information available from tariff filings by APDISCOMs for the year 2012-13 shows that real burden on these BPL consumers is much higher than the tariff for this slab. In the background of calls for increasing household access to electricity the actual tariff burden on poor households raises disturbing questions on the intentions of the APDISCOMs and the state government as well as on the tariff philosophy being adopted by the A.P. Electricity Regulatory Commission (APERC).

## Disproportionate burden

Table: 1 Average revenue realization – 2011-12

Slab Units	No. of consumers	Energy Sales (MU)	Total revenue realised (Rs. in Cr)	Average revenue realization (Rs/Unit)	% excess /less compared to average revenue realization
Domestic	18741375	15882.59	4633.86	2.92	
0-50	9380301	1850.39	651.21	3.52	+20.62
> 50	9361074	14032.20	3982.65	2.84	- 02.25

Source: ARRs of four DISCOMs in AP, 2012-13, Form 7

Households in 0-50 units slab constitute 50% of the domestic consumers of electricity in the state. Though the electricity tariff for the households in 0-50 units slab in domestic category was only Rs. 1.45/unit actual revenue realised by APDISCOMs from these households during the year 2011-12 was Rs. 3.52/unit. This shows that the actual tariff burden borne by these consumers is more than double the tariff meant for that slab. Average revenue realization from these domestic consumers in 0-50 units slab is higher than the average revenue realization from the domestic category as a whole. The average revenue realized from consumers in this slab is 20.62% higher than average revenue realization from domestic category as a whole (Rs 2.92/unit). The average tariff burden on these consumers is 23.94% higher than the domestic consumers consuming more than 50 units of electricity in a month. It is significant to note that consumers in the slabs of more than 50 units pay on an average 2.25% less than all domestic consumers together. In other words on the average those who consume less (poor households) paid higher electricity charges than those who consume more (rich households). While the National Electricity Policy lays down that the poor consumers receive special support in terms of tariff which are cross subsidized the above information shows that in reality the poor are subsidizing other sections of domestic consumers.

#### **How has this come about?**

This higher burden on these households in 0-50 slab was due to minimum charges and customer charges paid by the consumers in this slab. During the year 2011-12 households from this slab paid Rs. 186.47 crore towards minimum charges and Rs.216.36 crore towards customer charges. Additional burden from these payments is Rs. 2.17 per unit implying that the total tariff burden borne by these consumers was twice that of the tariff fixed for them.

This could also be looked at from another angle. During the year 2011-12 average monthly consumption in 0-50 units slab is 16.44 units. Minimum and customer charges<sup>ii</sup> to be paid are Rs. 50. Average charge paid per unit comes to Rs. 3.04/unit which is Rs. 1.59/unit over and above the tariff for this slab.

Customer charge during 2011-12 for 0-50 unit domestic slab was Rs. 25 per month and minimum charge is Rs. 25 per month up to 500 W contracted load and Rs. 50 per month above 500 W contracted load. For the year 2012-13 no changes are proposed to these charges. As a result the burden on the poor consumers will continue to be high in the coming year also

Before the year 2011-12 minimum charge for domestic consumers was Rs. 25/month for connections with contracted load up to 250 W and Rs. 50/month for connections with contracted load above 250 W. Due to lack of awareness on contracted load among most of the poor consumers utility staff were recording higher contracted load. Consumers who have declared higher contracted load due to their ignorance were forced to pay higher charges due to minimum charge criteria. In response to consumers' requests the Commission increased the limit from 250 Watt to 500 Watt. But this measure also did not benefit poor consumers as shown in Table 2.

Table:2 Impact of minimum charges

Year	No. of consumers in 0-50 Slab	% of increase in consumers	Minimum charges collected (Rs. in Cr)	% of increase in minimum charges
2010-11	8945142		142.14	
2011-12	9380301	4.86	186.47	31.19

Source: ARRs of four DISCOMs in AP, 2012-13

Increasing the contracted load limit to 500 Watts should have reduced minimum charges collected by the utilities for the FY 2012. It can be seen that change in ceiling limit had no impact on minimum charges collected by the DISCOMs. In fact for 4.86% increase in number of connections there is an increase of minimum charges by 31.19%. This may mean not only that the revised ceiling limit has not benefited anyone, but even the new connections released are in 'more than 500 watt' contracted load category. The main reason for this is that the contracted load for a consumer in reality is not decided by the consumer himself but mostly guided by the utility employees, who for the reasons of getting higher minimum charges for the distribution company, declare higher contracted load (>500watts) while issuing new connections. Out of 27.1 Lakh domestic connections in the city of Hyderabad, where majority of people live in slums, 26.02 Lakh connections i.e. 96% are in above 500watt contracted load category. In 0-50 slab itself, contracted load of 3.24 lakh consumers out of 4.32 Lakh consumers is above 500 watts, which clearly highlights flaws in declaration of contracted load of consumers<sup>iii</sup>. This has led to unequal burden on these poor consumers.

Even the subsidy provided by the Government of Andhra Pradesh (GoAP) did not help these poor consumers. During the year 2011-12 out of Rs. 4209.96 crore subsidy provided by the GoAP Rs. 1296.45 crore went to subsidise domestic consumers. Then who benefited from this subsidy? Certainly not the whole of BPL households.

### **Fuel Surcharge Adjustment**

Another unequal burden on the poor consumers in the slab 0-50 units will come from fuel surcharge adjustment (FSA)<sup>iv</sup>. FSA formula adopted by APERC is applied uniformly across entire consumption of all categories, except agriculture, without regard to differential tariffs applicable, slab wise, for various categories of consumers. No distinction is being made between subsidized consumers and subsidizing consumers. This formula also does not take into consideration the fact that some of the consumers in 0-50 units slab paid minimum charges, much higher than applicable tariffs, for not consuming minimum entitled power in a particular month. These consumers will again be charged FSA. This will result in higher tariff burden on poor consumers falling in lower slabs.

## Consumption Disparities

Table: 3 Domestic Electricity Consumption – 2011-12

Domestic Slab (Units)	No. of consumers	% of total consumers	Electricity sales to slab wise consumers (MU)	% of consumption in each slab
0-50	9380301	50.05	1850.39	11.65
51-100	4775421	25.48	3914.99	24.65
101-200	3225964	17.21	5027.32	31.65
201-300	836914	4.47	2204.42	13.88
301-500	420906	2.25	1774.37	11.17
> 500	101869	0.54	1111.10	7.00
Total	18741375	100.00	15882.59	100.00

Source: ARRs of four DISCOMs in AP, 2012-13

Along with unequal tariff burden there is also significant disparity in electricity consumption among different slabs of domestic consumers. While 92.74% of domestic consumers falling in the slabs less than 200 units consumed 67.95% of electricity consumed by all households, only 7.26% of consumers falling in the slabs above 200 units consumed 32.05%. In fact those in the slabs above 300 units are only 2.79%, whereas their electricity consumption is as high as 18.17% of total domestic consumption. Households consuming 50 or less number of units in a month constituting half of the domestic consumers in the state consumed less electricity than the households consuming more than 300 units per month who constitute only 2.79% of the total domestic consumers in the state.

Table:4 Change in domestic consumption of electricity

Domestic Slab (Units)	No. of consumers (2011-12)	% of Consumers (2011-12)	Electricity Consumption (2008-09) [MU]	Electricity Consumption (2011-12) [MU]	Increase/Reduction [MU]	% Increase/Reduction
0-50	9380301	50.05	2002.07	1850.39	-151.68 (-3.44)	-7.58
51-100	4775421	25.48	3224.24	3914.99	690.75(15.67)	21.42
101-200	3225964	17.21	3517.42	5027.32	1509.90(34.26)	42.93
201-300	836914	4.47	1265.80	2204.42	938.63(21.30)	74.15
> 300	522775	2.79	1465.63	2885.47	1419.84(32.21)	96.88
Total	18741375	100.00	11475.16	15882.59	4407.43(100.0)	38.41

Source: ARRs of four DISCOMs in AP, 2012-13

Over the period increase in electricity consumption is high among households in the slabs of more than 200 units per month. While overall domestic electricity consumption growth rate between 2008-09 and 2011-12 is 38.41%, growth rate of consumption among households in 201-300 slab is 74.15%. Similarly, in the case of slabs of more than 300 units the growth rate is staggering 96.88%. That is consumption by

the households in this slab nearly doubled in a span of only three years. This slab accounted for 32.21% of the additional purchases in 2011-12 compared to the year 2008-09. During the same period electricity consumption by households in 0-50 slab declined. While 75% of the domestic consumers using less than 100 units per month contributed only 12 percent to increase in electricity consumption 7% of the consumers consuming more than 200 units per month contributed 53% to increase in consumption.

Poor households in the state are affected both by disproportionate tariff burden and wide disparities in electricity consumption. High cost power is being procured to meet extravagant needs of consumers in the upper slabs. While total electricity consumption of households in 0-50 units slab declined that of households in slabs of more than 300 units nearly doubled during the last three years. But because of the way electricity tariffs were structured along with FSA the tariff burden is being shifted on to the consumers who are least responsible for the situation. It is important to see that those who are responsible for high cost power purchases must pay the bill. Though the current electricity tariffs are claimed to be based on 'cost to serve' principle they end up serving the rich at the cost of the poor.

During the debate on global warming and need to cut down carbon emissions Indian leaders argued that India as a poor, developing country could not afford to cut back these emissions as still vast numbers of the poor are yet to receive fruits of development, and future of these multitudes could not be written off by agreeing to mandatory GHG emission cuts. But as we have seen above once additional electricity was produced it went to meet the luxuries of the rich but not the bare minimum needs of the poor.

The burden of additional purchases is distributed among all the domestic consumers equally irrespective of the level of their consumption. Because of this the poor consumers who do not consume even life line consumption (one unit of power per day) tend to bear higher, disproportionate tariff burden. The additional power purchasers are done to meet higher consumption of rich households. The high cost of additional power purchases shall be borne by these households only. The poor households shall not be burdened with higher electricity bills.

2011 population census showed that 92% of the households in the state have access to electricity. While 97% of the urban households have access to electricity 90% of the rural households have access to electricity. It is mostly poor including those living in remote areas that are not using electricity. Any attempt to bring electricity within the reach of these households also shall have to see that this disproportionate tariff burden is not imposed on them. Besides the fact that high cost additional power was procured to meet demands of consumers in higher slabs the National Tariff Policy suggests that a part of cost of power supply to poor need to be cross subsidized by other consumers. Even when power was procured from the open market at Rs. 14 to 16 per unit in the past the tariff for higher slabs was not hiked beyond the Rs. 6.25/unit for highest slab. This points to the need to levy higher tariff on upper slabs in keeping with high cost power purchases as well as cross subsidy requirements.

The Government of India introduced a levy of Rs. 50 per tonne of coal from July 1, 2010 to finance National Clean Energy Fund (NCEF) to promote clean energy. Such a levy of green tax/tariff need to be imposed on households in higher slabs both to bring electricity within the reach of the poor and

promote clean energy. This measure could also lead to discouraging luxury consumption and bring down total consumption resulting in reduced carbon emissions.

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## NOTES

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<sup>i</sup> In the preliminary tariff order issued by APERC on 30<sup>th</sup> March, 2012 the condition of 360 units consumption in the previous year to qualify for BPL category was dropped. Subsequently in response to mounting opposition to tariff hike the GoAP removed the 500W contracted load as upper limit to qualify for BPL category. This upper limit was also removed for consumers in 51-100 units slab. But APERC has to approve this change.

<sup>ii</sup> Though all the domestic consumers have to pay customer charges and minimum charges per unit burden of these charges is high for consumers in 0-50 slab.

<sup>iii</sup> Eenadu (Telugu Daily) Hyderabad City Edition dated 01-04-2012

<sup>iv</sup> APERC – Regulation No.8 of 2000 and Regulation No.1 of 2003. FSA submissions by APDISCOMs for the year 2011-12 are pending before the APERC.