



CASE STUDIES

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CASE STUDY



Laxmi Organic Industries Ltd. vs Maharashtra State Electricity Distribution Company Ltd.: APTEL Ruling on Exemption of Wheeling Charges for Dedicated Transmission Lines

BACKGROUND

This study focuses on a landmark ruling by the Appellate Tribunal for Electricity (APTEL), which addressed the applicability of wheeling charges on power transmitted within an industrial consumer's own network. Laxmi Organic Industries Ltd. (LOIL), a Maharashtra-based chemical manufacturing company, operates a 4.8 MW captive power plant (CPP) to supply power to its two industrial units. The power is transferred internally via a dedicated 22 kV transmission line that LOIL owns, operates, and maintains. The Maharashtra State Electricity Distribution Company Ltd. (MSEDCL) argued that LOIL's 22 kV internal line should be classified as part of its distribution network.

APTEL ruled in favor of LOIL, determining that as the dedicated line connected directly to the Maharashtra State Electricity Transmission Company Limited (MSETCL) substation without using MSEDCL's distribution infrastructure, it did not fall within MSEDCL's network. This exemption from wheeling charges sets a precedent for industrial consumers with captive power plants, emphasizing the right to manage internal power distribution without incurring additional fees.

IMPLICATIONS FOR C&I CONSUMERS IN INDIA

The APTEL ruling exempts dedicated transmission lines from wheeling charges, leading to substantial savings for C&I consumers with captive power plants. For example, a 1 MW setup operating continuously could save around **INR 6.5 million annually in wheeling charges** alone. This exemption lowers energy costs and enhances control over power reliability, likely encouraging more industries to invest in dedicated lines for cost efficiency and operational autonomy.

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BACKGROUND FOR THE ORDER

Background

- The ruling by the Appellate Tribunal for Electricity (APTEL) marks a significant decision in the context of wheeling charges and captive power use by industrial consumers in India.
- At the center of this decision was **Laxmi Organic Industries Limited (LOIL)**, an industrial entity that operates a 4.8 MW coal-based Captive Power Plant (CPP). LOIL supplies power from this CPP to two of its industrial units through a 22 kV dedicated transmission line. This line, owned, operated, and maintained by LOIL, directly connects the CPP to a substation of the Maharashtra State Electricity Transmission Company Limited (MSETCL).

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BACKGROUND FOR THE ORDER (CONTD.)

- The **Maharashtra State Electricity Distribution Company Ltd. (MSEDCL)** contended that the 22 kV line used by LOIL for internal power transfer should be treated as part of MSEDCL's distribution network.
- Based on this interpretation, MSEDCL argued that the power transferred between LOIL's units incurs technical losses and, therefore, **should be subject to wheeling charges.**
- MSEDCL's argument was rooted in its assertion that any line connecting consumer premises could be considered part of the distribution system and should thus fall under the purview of distribution network charges.

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APTEL'S RULING

APTEL's decision dismissed MSEDCL's argument, determining that the 22 kV line used by LOIL is a dedicated line and not part of MSEDCL's distribution system. Key considerations in this ruling included:

- 1. Ownership and Control:** LOIL's ownership and control over the line were pivotal in establishing it as a dedicated transmission line, exempt from MSEDCL's jurisdiction for wheeling charges. The line, directly connecting to MSETCL's substation, did not utilize MSEDCL's distribution system.
- 2. Regulatory Interpretation:** APTEL reinforced that under the Electricity Act and the Distribution Open Access (DOA) regulations, wheeling charges apply solely when a licensee's distribution network is utilized. As LOIL's line connects directly to the intra-state transmission network rather than through any distribution lines maintained or operated by MSEDCL, APTEL ruled that the application of wheeling charges in this context was unfounded.

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APTEL'S RULING (CONTD.)

- 3. Distinction in Network Type:** APTEL clarified the definitions within the DOA Regulations and the Electricity Act, emphasizing that a dedicated line connecting a CPP to a consumer's internal facilities **does not qualify as a distribution line**. This distinction is especially pertinent for captive power consumers who wish to transfer power between facilities without depending on a distribution company's network.

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IMPLICATIONS

APTEL's ruling sets a precedent for large commercial and industrial (C&I) consumers with captive power plants who seek greater control over their internal energy distribution. This decision could encourage more companies to invest in dedicated transmission lines for following reasons:

Cost Efficiency: Avoiding wheeling charges can significantly reduce operational costs, especially for entities with high energy demands and captive power facilities. Given the financial benefit, other C&I consumers may evaluate the feasibility of establishing dedicated lines.

Regulatory Clarity: The judgment provides clear guidance on regulatory interpretations surrounding dedicated lines, helping industrial consumers better understand when they might be exempt from wheeling charges. This may promote more transparent power distribution arrangements within private networks.

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IMPLICATIONS (CONTD.)

Energy Independence: C&I consumers are likely to find this ruling supportive of efforts toward energy self-sufficiency. By utilizing CPPs with dedicated transmission lines, companies can effectively bypass intermediary charges from distribution companies, aligning with India's industrial energy strategies and reducing reliance on state utilities.

For state distribution companies, however, this ruling may represent a loss of revenue as more C&I consumers could seek similar exemptions. If replicated widely, such exemptions might diminish distribution companies' income from large industrial clients who consume significant amounts of electricity. Consequently, distribution companies may press for clearer regulatory boundaries to distinguish which internal lines are subject to their control.

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POTENTIAL SAVING FOR C&I CONSUMERS

Wheeling charges in India vary by state and regulatory body but generally range between INR 0.20 and INR 1.50 per kWh, depending on the load, location, and usage. Here's an example of the cost savings possible for C&I consumers based on this range:

1. **Average Wheeling Charge:** Assuming an average wheeling charge of INR 0.75 per kWh.
2. **Typical Power Consumption:** A large industrial consumer with a captive power plant might consume 1 MW continuously, amounting to around 7,20,000 kWh per month (1 MW x 24 hours x 30 days).

Therefore,

Monthly Savings: 7,20,000 kWh x INR 0.75 = **INR 5,40,000 per month**

Annual Savings: INR 5,40,000 x 12 = **INR 64,80,000 per year**

For a large C&I consumer, bypassing wheeling charges can thus save nearly INR 6.5 million annually. This substantial amount could be reallocated to infrastructure or operational investments, improving overall profitability and competitiveness.

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POTENTIAL SAVING FOR C&I CONSUMERS (CONTD.)

Additional Operational & Control Benefits

Beyond the direct cost savings on wheeling charges, establishing dedicated transmission lines provides strategic advantages, including:

- **Enhanced Reliability and Control:** With a dedicated line, a consumer can maintain tighter control over maintenance, ensuring fewer interruptions and customized network performance, which is particularly beneficial for energy-intensive industries.
- **Reduced Dependency on Distribution Networks:** By operating a captive power network, consumers become less reliant on state utility networks, which can sometimes face congestion or technical issues.

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POTENTIAL SAVING FOR C&I CONSUMERS (CONTD.)

Cost of setting up a Dedicated Transmission Line

Setting up a dedicated line does require an initial capital investment, which varies based on distance, voltage level, and infrastructure requirements. For instance, a 1 km stretch of a high-capacity **22 kV** line might cost between **INR 3 million to INR 5 million per km**, depending on the region and materials used. However, this upfront cost can be offset within a few years due to the substantial savings on wheeling charges.

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CONCLUSION

This ruling is likely to encourage more C&I consumers to set up dedicated transmission lines for their captive power use. The decision by APTEL to exempt dedicated lines from wheeling charges sets a compelling precedent that supports cost savings and increased energy autonomy for large energy consumers. By clearly defining that internal dedicated lines—if owned, operated, and maintained by the consumer—are not subject to distribution network charges, APTEL has effectively reduced the financial barriers associated with captive power use.

For C&I consumers, this ruling presents an opportunity to bypass intermediary charges, which can significantly reduce operational costs, particularly for those with substantial power requirements. Additionally, establishing dedicated lines allows companies to maintain better control over their power distribution, enhancing reliability and independence from state utilities.

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