

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

No. 3282/Con.Engg/ 2025/ KSERC

Dated 1<sup>st</sup> December, 2025

**NOTICE**

In exercise of the powers conferred under sub section (1) of Section 181, read with Section 61 of the Electricity Act, 2003 (Central Act 36 of 2003), and all other powers enabling it in this behalf, the Kerala State Electricity Regulatory Commission hereby publishes under 'the Electricity (Procedure for previous publication) Rules, 2005' issued by the Central Government, the following draft of the proposed Regulations, namely: - **'Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) (Third Amendment) Regulations, 2025'**, for the information of the persons and stakeholders likely to be affected thereby. Any objections or suggestions thereon may be forwarded to the Secretary, Kerala State Electricity Regulatory Commission, KPFC Bhavanam, C.V.Raman Pillai Road, Vellayambalam, Thiruvananthapuram-10, within 21 days from the date of publication of this notice. Objections and suggestions received on or before 23<sup>rd</sup> December, 2025 shall be considered by the Commission before finalization of this draft regulation. An online public hearing on this draft Amendment Regulations will be conducted on 23<sup>rd</sup> December, 2025. Stakeholders intending to participate in the online hearing shall register in the registration portal on the website of the Commission before 20<sup>th</sup> December, 2025. The exact time and mode of hearing will be intimated to the registered stakeholders.

Sd/-  
**Secretary**

(DRAFT)

**KERALA ELECTRICITY REGULATORY COMMISSION  
(TERMS AND CONDITIONS FOR DETERMINATION OF TARIFF)  
(THIRD AMENDMENT) REGULATIONS, 2025'**

**1. Short title and commencement. -**

(1) These Regulations may be called the " Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) (Third Amendment) Regulations, 2025".

(2) These Regulations shall come into force from the date of publication of the same in the Official Gazette of the State of Kerala.

**2. Amendments to the Principal Regulations. -** In the Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2021, for Regulation 87, the following Amendments are proposed:

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(1) In sub regulation (3), the provisos shall be omitted.

(2) Omission of Sub regulations (7) and (8). - Sub regulations (7) and (8) shall be omitted.

Sd/-

**Secretary**

## Explanatory Note on the proposed draft (Amendment) Regulations

1. The Commission has notified the Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2021 on 16<sup>th</sup> November, 2021 for the Control Period 2022-2027. Further, it was amended vide gazette notification no. 1807 dated 30<sup>th</sup> May, 2023 and gazette notification no. 822 dated 5<sup>th</sup> March, 2024.
2. Under Regulation 87 (Fuel Surcharge Formula) of these Regulations, the procedure for claiming the variations in the electricity charges incurred by the licensee due to uncontrollable factors such as; fuel charge and cost of power purchase, as envisaged in Section 62(4) of the Act, is specified. Further, Ministry of Power (MoP), Government of India has issued the Electricity (Amendment) Rules, 2022 on 29<sup>th</sup> December, 2022, to further amend the Electricity Rules, 2005. In these rules, Rule 14 was introduced for the “Timely recovery of power purchase costs by distribution licensee”. As per this rule, the Appropriate Commission shall specify a price adjustment formula for the recovery of the cost, arising on account of variation in the price of fuel, or power purchase cost. Further such variation shall be automatically passed through the consumer tariff on a monthly basis. Such monthly automatic adjustment shall be tried up on annual basis.
3. Considering that the adjustment towards cost variations arising from fluctuations in power purchase and fuel costs must be aligned with the provisions of the Electricity (Amendment) Rules, 2022, and in order to safeguard the interests of consumers in the State, the Commission, vide the Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) (First Amendment) Regulations, 2023, has specified a ceiling limit of 10 paise per unit for the automatic recovery of fuel surcharge by the licensee. Recovery beyond this ceiling was permitted only with the prior approval of the Commission, ensuring a balance between the financial viability of the licensee and consumer protection.
4. On analyzing the month-wise fuel surcharge requirement for the period from June 2023 to November 2025, it is seen that the intent of the automatic recovery mechanism under the Electricity (Amendment) Rules, 2022 is not being fully met. The purpose of the Rules is to allow timely pass-through of the actual variation in the power purchase cost. However, due to the ceiling limit of 10 paise per kWh as per the First Amendment Regulations, 2023, it is seen that the distribution licensee is unable to recover the actual surcharge requirement in most months, where the computed rate exceeds the ceiling substantially. As a result, a significant portion of the legitimate fuel cost variation remains unrecovered, leading to accumulation of revenue gaps and defeating the objective of ensuring financial neutrality of the licensee with respect to uncontrollable cost variations.

5. From the time of implementation of the automatic fuel surcharge recovery mechanism in June 2023, as introduced through the First Amendment Regulations, 2023, the total fuel surcharge recovered from consumers in each month has been limited to 19 paise per unit. This includes the 10 paise per unit allowed under automatic recovery and an additional 9 paise per unit specifically approved by the Commission to enable partial recovery of the accumulated balance of unrecovered fuel surcharge arising from periods when the computed surcharge exceeded the automatic recovery ceiling. The additional 9 paise per unit recovery was permitted only up to January 2025. A review of the month-wise computation of fuel surcharge for the period from June, 2023 to December, 2025 indicates that the actual surcharge requirement has exceeded 19 paise per unit only in October, 2023 and November, 2025. In all other months, the surcharge remained at or below the level recovered, reinforcing the need to re-examine the continuation of the ceiling in view of the objective of enabling timely and complete pass-through of legitimate power purchase cost variations.
6. Further, the Ministry of Coal, Government of India, has undertaken a wide range of policy measures aimed at substantially reducing the country's dependency on imported coal and enhancing domestic coal availability. These initiatives include increasing the Annual Contracted Quantity (ACQ) to 100% of the normative requirement for power plants, ensuring full coal supply to meet Power Purchase Agreement (PPA) obligations, extending the tenure of linkages, strengthening coal import monitoring mechanisms, expanding domestic coking coal availability through the Coking Coal Mission, and allowing greater flexibility to power plants under the Revised SHAKTI Policy, 2025. In parallel, significant efforts are being made to increase domestic coal production through expedited mine development, commercial mining reforms, liberalized bidding terms, technological upgrades by Coal India Ltd. and other coal companies, and infrastructure improvements under the Coal Logistic Plan and Policy. These measures have already resulted in a notable decline in coal imports from 264.53 MT in FY 2023-24 to 243.62 MT in FY 2024-25 yielding substantial foreign exchange savings. With the Government's focus on achieving a domestic coal production target of about 1.5 billion tonnes by FY 2029-30, it is expected that dependency on imported coal will continue to reduce. This downward trend in import reliance, coupled with enhanced domestic supply, is anticipated to contribute to greater stability in coal prices over the medium term, thereby reducing the cost of energy production in thermal generating stations.
7. In addition to the policy measures aimed at reducing coal import dependency, the recent decisions of the 56<sup>th</sup> GST Council have further contributed to lowering the effective cost of coal used in power generation. Earlier, coal attracted 5% GST along with a GST Compensation Cess of ₹400 per tonne. The Council has now recommended removal of the Compensation Cess and an

increase in GST to 18%. Despite the higher GST rate, the removal of the cess has resulted in a net reduction in the overall tax burden on coal grades G6 to G17, with the reduction ranging from ₹13.40 per tonne to ₹329.61 per tonne. Ministry of Coal has mentioned that for the power sector, the average reduction is around ₹260 per tonne, which is expected to lower the cost of generation by 17 to 18 paise per kWh in thermal generating stations. Further, the reform rationalizes tax incidence across coal grades—previously distorted by the flat cess rate, bringing all categories to a uniform incidence of 39.81% and thereby eliminating disparities between low-grade and high-grade coal. By removing the inverted duty structure and enabling utilization of accumulated input tax credit, the reforms also improve liquidity for coal companies and reduce embedded costs in the coal supply chain. Hence, the Commission is of the view that the revised GST structure is anticipated to reduce fuel costs for thermal generating stations and contribute to lower energy prices for end consumers, while simultaneously strengthening domestic coal competitiveness through import substitution.

8. Further the State Government has directed the Commission under Section 108 of the Electricity Act, 2003, to comply with the provisions in the Electricity (Amendment) Rules, 2022, particularly the requirement under Rule 14 of the Electricity (Amendment) Rules, 2022 notified by Ministry of Power, Government of India, for facilitating automatic, timely and complete recovery of power purchase cost variations.
9. In view of the significant change in the market scenario since the time the ceiling limit of 10 paise per unit was specified under the First Amendment Regulations, 2023, particularly the reduction in coal prices resulting from lower imported coal blending, increased domestic coal production, and the rationalization of GST on coal, the Commission has undertaken a detailed analysis of the month-wise fuel surcharge rates for the period from June 2023 to December 2025. The Commission has seen that the fuel surcharge rates are aligned with the actual variations in fuel and power purchase costs, and that the conditions which warranted the imposition of a ceiling have materially improved. In light of this, and to ensure conformity with Rule 14 of the Electricity (Amendment) Rules, 2022, which mandates timely and automatic pass-through of such cost variations, the Commission is of the view that continuation of the ceiling limit is no longer necessary. The Commission therefore proposes to delete the ceiling provision, enabling the distribution licensee to recover the fuel surcharge strictly as per the approved formula, while continuing to safeguard consumer interests through enhanced transparency and annual Trueing up petitions.
10. In view of the above, the Commission has prepared the draft Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) (Third Amendment) Regulations, 2025. The proposed amendment seeks

to remove the ceiling of 10 paise per unit for automatic recovery of fuel surcharge, as specified in the KSERC (Terms and Conditions for Determination of Tariff) (First Amendment) Regulations, 2023.

11. This draft regulation is prepared for incorporating the above objectives, and is now published, seeking the stakeholder comments, suggestions and objections on the draft.