

CHAPTER – 2

ANNUAL PERFORMANCE REVIEW FOR FY18

2.0 HRECS's Application for APR of FY18:

Hukeri RECS has filed its application dated 27th November, 2018 for Annual Performance Review (APR) for FY18, ARR for the control period FY20 to FY22 and retail supply tariff for FY20. HRECS has sought approval of its revised Annual Revenue Requirement (ARR) for FY18 based on the audited accounts.

The Commission, in its letter dated 17th December, 2018, had communicated its preliminary observations on the application filed by HRECS. Hukeri RECS, in the letter dated 24th December, 2018 has furnished its replies to the preliminary observations, to the Commission.

The Commission, in its Tariff Order dated 11th April, 2017, had approved the Revised Annual Revenue Requirement (ARR) of the Society for FY18 and retail supply tariff for FY18.

The revised Annual Revenue Requirement (ARR) of Hukeri RECS as per Annual Performance Review for FY18, based on the Audited Accounts of HRECS is discussed in this Chapter.

2.1 HRECS's Submission:

Hukeri RECS has submitted its proposal for revision of ARR as per the APR for FY18 based on the audited accounts is as follows:

TABLE – 2.1
ARR for FY18-HRECS's Submission

Particulars	Rs. lakhs	
	As Approved as per Tariff Order 11.04.2017	As filed on 27.11.2018
Power Purchase in MU	339.30	
Energy @ IF Point in MU	327.02	332.71
Sales to Other than IP & BJ/KJ in MU	72.96	87.05
Sales to BJ/KJ in MU	2.58	3.30
Sales to IP in MU	186.84	194.19
Total Sales in MU	262.38	284.53

Particulars	As Approved as per Tariff Order 11.04.2017	As filed on 27.11.2018
Distribution Loss (MU)	64.64	48.18
Distribution Loss in %	14.50%	14.48%
Revenue		
Revenue from other than IP & BJ/KJ	4564.04	5562.03
Subsidy to BJ/KJ	152.85	203.81
Subsidy to IP	10821.85	11215.75
Total Revenue	15538.74	16981.58
Expenditure		
Power Purchase Cost inclusive of transmission and SLDC Charges	14237.84	17778.34
Employee Expenses		
R&M Expenses		
A&G Expenses	1356.71	1,093.30
Depreciation	113.72	140.86
Interest & Financing Charges:		
Interest on Capital Loan	46.86	8.25
Interest on Working Capital	258.98	0.00
Interest on Consumer Deposit	95.55	79.85
Less: Expenses Capitalized	0.00	0.00
Other Debits/Ex. Items	0.00	0.00
Net Prior Period Credit	0.00	0.00
RoE	0.00	0.00
Taxes	0.00	0.00
Less: Other Income	-1318.46	-336.61
Surplus/Deficit of FY16 carried forward	747.55	0.00
Penalty for excess distribution losses		
ARR	15538.74	18763.99
Gap in Revenue	0.00	-1782.41

The Hukeri RECS has requested the Commission to approve the revised ARR of Rs. 18,763.99 lakhs as per the APR for FY18. The HRECS has projected a revenue deficit of Rs. 1,782.41 lakhs by considering the revenue from the sale of power of Rs. 16,981.58 lakhs for FY18.

2.2 Hukeri RECS Financial Performance as per Audited Accounts:

An overview of the financial performance of Hukeri RECS for FY18, as per its Audited Accounts, is indicated in the following Table:

TABLE – 2.2

Financial Performance of Hukeri RECS for FY18

Amount in Rs. Lakhs	
Particulars	FY18
Revenue:	
Revenue from Sale of Power	16981.58
Subsidy from GoK	336.61
Total Revenue	17318.19
Expenditure:	
Power Purchase Cost	15125.65
Employee Expenses	725.70
Finance Cost	88.11
Depreciation	140.86
Other Expenses	367.60
Total Expenditure	16447.92

As per the Audited Accounts, Hukeri RECS has incurred loss of Rs.870.27 lakhs for FY18.

The Commission, as per the provisions of MYT Regulations, has undertaken the Annual Performance Review for FY18 (APR), by considering the actual revenue and expenditure as per the audited accounts vis-à-vis the revenue and expenditure approved by the Commission, in its Tariff Order dated 11th April, 2017 and the data furnished by HRECS in its application and replies furnished to the preliminary observations. The item wise review of the revenue and expenditure and the decision of the Commission thereon are discussed in the following paragraphs:

2.2.1 Capital Investments:

A. Capital Expenditure for FY18:

HRECS's submission:

- a. The HRECS has submitted the actual capital expenditure of Rs.693.49 Lakhs as against the Commission approved capital expenditure of Rs.989.86 Lakhs for FY18. The HRECS has submitted the category-wise expenditure for FY18, as indicated in the following Table:

Table 2.3
Capital expenditure of HRECS for FY18 (Rs in Lakhs)

Sl. No	Particulars	Approved Capex for FY18	Actual Expenditure for FY18	% of Budget utilized
1	H.T Lines			
	11 kV Lines	54.70	89.20	163.07%
2	L.T Lines			
	a) 3 Phase 5 wire	0.00	0.00	0.00
	b) 3 Phase 4 Wire	18.48	90.01	487.07%
	c) 1 Phase 3 Wire	9.61	28.67	298.34%
	d) 1 Phase 2 Wire	16.79	52.10	310.30%
3	Transformer Centres			
	a) 500 kVA Transformer Centre	0.00	0.00	0.00
	b) 250 kVA Transformer Centre	0.00	0.00	0.00
	c) 200 kVA Transformer	0.00	0.00	0.00
	d) 150 kVA Transformer Centre	0.00	0.00	0.00
	e) 100 kVA Transformer Centre	22.55	33.56	148.82%
	f) 63/50 kVA Transformer Centre	36.76	200.47	545.35%
	g) 25 kVA Transformer Centre	20.17	38.16	189.19%
	h) Others (10 & 15 kVA)	0.00	0.00	0.00
4	Service connection			
	a) Agriculture -HT	0.00	0.00	0.00
	b) Industrial -HT & others	0.00	0.00	0.00
	c) Agriculture -LT	19.41	2.26	11.64%
	d) Industrial -LT	3.00	4.80	160.00%
	e) Domestic	17.58	18.97	107.91%
	f) Commercial	2.46	1.35	54.88%
	g) Street Light Brackets	0.00	0.00	0.00
5	Improvement Works			
	11 kV Line	27.35	67.62	247.24%
	100 kVA Transformer Centre	22.55	36.69	162.71%
	LT Line 3 Ph.4 Wire	18.48	29.63	160.34%
6	DDUGJY Scheme			
	a) 11kV Line feeder separation	199.99	0.00	0.00
	b) 11kV Line system strengthening	75.48	0.00	0.00
	c) 11kV line re-conductoring	124.51	0.00	0.00
	d) Replacement of Single Phase Electromechanical Energy Meters by Electro Static Energy meters	273.77	0.00	0.00
	e) Replacement of Single Phase Electromechanical Energy Meters by Electro Static Energy meters	26.22	0.00	0.00
	Total	989.86	693.49	70.06%

Commission's analysis and decision:

- a. The actual capex incurred by HRECs as compared with the approved capex of Rs. 989.86 lakhs for FY18, has decreased to Rs. 693.49 lakhs. From the above table, it is observed that, the actual capex incurred by HRECS is around 70% of the approved capex.
- b. The Commission notes that, utilization in respect of DDUGJY Scheme is nil. As these schemes are financed with grants, the Commission directs the HRECS to ensure full utilization of grants meant for such schemes. This would enable the HERCS to strengthen its network and increase the reliability in supply, reduce the distribution losses etc. However, it is observed that excess expenditure over and above the approved amounts has been utilized for the extension and improvement works and the service connection works.
- c. **In light of the above discussions, the Commission decides to consider the capex incurred by HRECS at Rs. 693.49 Lakhs for FY18. The Commission has entrusted the work of carrying out prudence check of capital expenditure for FY17 & FY18 to the Consultants. On receipt of final report in this regard, the Commission will take a view on disallowance of the costs associated with imprudent works.**

2.2.2 Sales- APR for FY18**A. Sales Other than IP sets:**

The Commission in its Tariff Order dated 11.04.2017, had approved the total sales to various consumer categories at 2623.80 Lakh units for FY18, against HRECS's proposal of 2748.60 lakh units [excluding sales to AEQUS]. The actual sales of HRECS as per the current APR

filing [D-2 FORMAT] is 2661.00 Lakh units, indicating an increase in sales to an extent of 37.20 Lakh units with respect to the approved sales.

The Commission, in its preliminary observations, had noted that, as against approved sales of 729.64 Lakh units to categories other than BJ/KJ and IP sets, the actual sales achieved by HRECS is 686.12 Lakh units, resulting in reduction in sales to these categories by 43.52 Lakh units. It was observed that this decrease is mainly in LT-2a domestic category to an extent of 36.47 lakh units. On the other hand, HRECS had sold 1974.89 Lakh units to BJ/KJ and IP category as against approved sales of 1894.16 Lakh units resulting in increased sales to these categories by 80.73 Lakh units. The increase is mainly in IP sets to an extent of 72.70 lakh units. Hence, HRECS was directed to analyse and report the reasons for decrease in sales to LT-2a category.

HRECS, in their replies to preliminary observations, have attributed the reduction in sales to LT-2a category to replacement of incandescent bulbs by LED bulbs by large number of consumers and insisting new consumers to use star rated appliances. While, the Commission has noted the replies furnished, HRECS, is directed to henceforth analyze and quantify the savings accrued on account of DSM measures and report the same to the Commission.

The Commission's observation on IP set consumption is dealt in the subsequent paragraphs of this chapter.

B. Sales to IP sets:

- a. Specific consumption of IP sets for FY18 as approved by the Commission in the Tariff Order dated 11.04.2017 is 7,341 Units / IP / Annum. As per the feeder-wise data of NJY feeders furnished by Hukeri RECS, the specific consumption for FY18 works out to 7,101

Units / IP / Annum. It is observed that there is a decrease in specific consumption by 240 Units / IP / Annum despite increase in the number of consumers.

- b. Total sales to IP sets approved by the Commission for FY18 in the Tariff Order is 186.84 MU against 25,788 number of IP installations. As reported by Hukeri RECS in the D-2 Format of tariff filing, the actual consumption is 194.19 MU against 27,347 number of IP set installations, indicating an increase of consumption by 7.35 MU, as compared with the approved sales. This accounts for increase sale by 3.93%.
- c. As reported by Hukeri RECS, the number of IP set installations serviced during FY18 are 27,347 as against the approved numbers of 25,788 which corresponds to an increase of 1,559 numbers i.e., increase by 6.05%.
- d. The Commission, in its Tariff Order dated 11th April 2017, had directed the HRECS to furnish the feeder-wise IP set consumption based on feeder energy meter data, to the Commission, every month in respect of agricultural feeders segregated under NJY, regularly to the Commission.
- e. The HRECS has not submitted in its application, the consumption based on the meter reading data of exclusive agricultural feeders segregated under NJY duly indicating the losses in the 11 kV lines, distribution transformers.
- f. The Commission had raised this issue in its preliminary observations communicated to the HRECS and directed it to submit the data of IP sets' consumption based on segregated agricultural feeders' meter reading in support of the claim of the IP-consumption for FY18 as per the prescribed format. The HRECS, has not submitted the IP sets consumption based on the meter readings of exclusive agricultural feeders segregated under NJY, in spite of commissioning of significant number of agricultural feeders. In its reply to the

preliminary observations, HRECS has submitted that, the meter reading data of five agriculture feeders were taken and submitted, and that it will submit the meter reading data for all the agricultural feeders from December 2018 onwards except for two feeders. The IP set consumption for these two feeders would be submitted from April 2019 onwards.

- g. The Commission in its Tariff Order 2018 had informed HRECS that,
- "In the event of non-compliance by the HRECS in the matter of computing the IP set consumption based on the meter reading data of exclusive agricultural feeders, the Commission would take appropriate action in future including rejecting the whole claim of IP set consumption for the reason that the HRECS has not justified the IP set consumption despite the availability of meter reading data of segregated agriculture feeders".*
- h. In its e-mail dated 23.01.2019, HRECS has submitted the calculation sheet for assessment of sales to IP installations for FY18, based on the meter reading data of five number exclusive IP feeders. As per the calculation sheet submitted by HRECS, the sales to IP installations is worked out on per HP basis instead of per IP basis and the sales is 194.19 MU. On a verification of the calculation sheet, the consumption works out to 189.84 MU only.
- i. **Hence, under the circumstances explained above, the Commission decides to consider the sales of 189.84 MU by disallowing 4.35 MU as claimed by the HRECS, in its Tariff Filing for FY19.**

- C. Further, HRECS has indicated negative sales of 3665 units in case of HT 2(c) category. Since, sales cannot be negative, the Commission has considered the same as zero for FY18.

D. Sales to AEQUS

The energy sold/ to be sold to AEQUS as per HRECS filing and as filed by AEQUS is indicated in the following Table:

Year	Lakh units	
	HRECS	AEQUS
FY18	184.34	189.87
FY19	250.16	215.73
FY20	354.27	248.00
FY21	501.71	288.70
FY22	710.52	311.80

Since, the figures submitted by HRECS are different from those furnished by the AEQUS, the HRECS was directed to reconcile the data pertaining to AEQUS.

HRECS, in their replies, has stated that upto July-2017, reading was being taken at consumer's premises and thereafter at the sending end, as directed by the Commission. Further, it is stated that HRECS would reconcile the data with the AEQUS.

The Commission has noted the replies furnished and has considered the sales to AEQUS as approved in the current Order relating to AEQUS.

Thus, the Commission approves total sales of 2617.53 lakh units for FY18. In addition, the Commission also approves 189.87 lakh units of energy sold to AEQUS at interface points.

2.2.3 Distribution Losses:

The Hukeri RECS, in its application has reported the actual distribution loss of 14.48% as per the audited accounts, as against the distribution losses of 14.50% approved by the Commission for FY18, which is 0.02% less than the approved loss.

Commission's analysis and decisions:

The Commission in its Tariff Order dated 11th March, 2017 had approved the distribution losses for FY18 shown as under:

(Loss in Percentage)	
Range	FY18
Upper limit	15.00
Average	14.50
Lower Limit	14.00

The Hukeri RECS, in its annual accounts, has reported the distribution losses of 14.48% for FY18 is shown below:

1	Energy at Interface Points in MU(excluding HESCOM's 33 KV loss)	332.71
2	Total sales in MU including wheeled energy to AEQUS SEZ	284.53
3	Distribution losses as a percentage of input energy at IF points	14.48%

The Commission notes that, the actual distribution losses of 14.48% reported as per the audited accounts of HRECs is by considering the energy at IF point at 332.71 MU and the sales at 284.53 MU for FY18. The actual energy delivered at IF point as per the audited accounts of HESCOM is 332.61 MU. The Commission, decides to consider the energy at IF point at 332.61 MU for FY18. The Commission, as made out in pre- paras, based on the meter reading data of five number of exclusive IP feeders, has computed the sales to IP sets and approved the IP sales of 189.84 MU for FY18. Accordingly, the Commission has decided to approve the total sales (inclusive of energy sold to AEQUS SEDZ at IF points) of 280.74 MU for FY18. Thus, the energy at IF points, by considering 1.12 MU 33 KV loss of HESCOM indicated in the subsequent paras, the approved total sales works out to 280.74 MU. The Commission decides to consider the HRECs distribution loss at 15.59% for FY18, which is more than the approved loss by 1.09% and by 0.59% over the upper ceiling limit of the distribution loss of 15.00%. Hence the penalty for exceeding the upper limit of the distribution loss levels, has been worked out and factored in the ARR for FY18 as detailed below:

TABLE-2.4

Penalty for exceeding targeted loss levels in FY18

Particulars	FY18
Actual input at IF points in MU	332.61
Approved retail sales in MU	280.74
Distribution losses in Percentage	15.59%
Target Upper limit of distribution loss	15.00%

Particulars	FY18
Increase in percentage loss	0.59%
Input at target loss for actual sales in MU	330.28
Increase in input due to increase in distribution losses in MU	2.33
Average cost of power purchase in Rs./unit	4.97
Increase in power purchase cost due to increasing of losses (in Lakhs)	115.35
Penalty for excess losses in FY18 (in Rs .lakhs)	115.35

Thus, the Penalty for excess loss works out to 115.35 lakhs. As per the MYT Regulations, the Commission decides to approve the actual distribution losses of HRECS at 15.59%, besides levying the penalty of Rs.115.35 lakhs for exceeding the distribution loss levels targeted for FY18.

2.2.4 Power Purchase for FY18:

The HREC Society has received energy of 332.61 MU at the interface points of HESCOM during FY18. The cost of the power purchase is indicated as Rs. 17,778.34 lakhs. The Commission in its Tariff Order dated 11th March, 2017, had approved the power purchase quantum of 339.30 MU (at generation bus) at a cost of Rs. 14,237.84 lakhs for FY18.

The Commission in its preliminary observations had noted that Hukeri RECS had claimed Rs. 17,778.34 lakhs as the power purchase cost, as against the actual amount of Rs. 14,320.60 lakhs as per audited accounts for FY18. The Commission noted from D-I Format that, the Hukeri RECS has included the interest on belated payment of power purchase cost of Rs. 805.05 lakhs and also Rs. 2,652.69 lakhs being the difference in power purchase cost on account of the revision of power purchase rate by the Commission, as per approved APR for FY17. As the difference in power purchase cost of FY17 had already been added to the ARR of FY19 and allowed to be recovered in the retail supply tariff approved for FY19, the question of claiming the said difference amount, once again in the APR for FY18, does not arise. Therefore, Hukeri RECS was directed to re-examine the same and revise the power purchase cost.

The Commission has taken note of the replies submitted by the HRECS. The Commission, in its Tariff Order dated 14th May,2018, while approving the APR of HRECS for FY17, had allowed the difference in power purchase cost of Rs. 2,706.27 lakhs and carried forward the net gap in revenue of Rs. 2,560.75 lakhs to the ARR of FY19 and had allowed it to be recovered in the retail supply tariff for FY19. Hence, the question of claiming the said difference of power purchase amount, once again in the APR for FY18, does not arise. Also, as is being followed consistently in all its earlier Orders, the Commission decides not to allow interest on belated payment of power purchase cost of Rs. 805.05 lakhs which is included by HRECS in claiming the power purchase cost for FY18.

As per the Format D-19 (Energy Flow Diagram) of the application, the HRECS has received energy of 291.75 MU at 110/11 kV and 40.86 MU at 33/11 kV. Since supply at 33/11 kV is met by the distribution system of the HESCOM, the HRECS is required to bear the losses for handling 40.86 MU at 33/11 kV. The HESCOM in its filing under Format D-19, has indicated distribution losses of 2.5095% at 33 kV for FY18. Hence, the losses at 33/11 kV would be 1.03 MU and the energy at interface point with the transmission system would be 333.64 MU. Based on the actual transmission losses of KPTCL at 3.222% for FY18, the allowable quantum of power purchase (at the generation bus) will be 344.71 MU.

The Commission, in its approved APR for HESCOM for FY18, has approved the power purchase cost. By considering the average power purchase cost of HESCOM along with the inclusion of trading margin of 5 paise per unit, the average power purchase cost to HRECS is Rs. 5.016 per unit. On the basis of this average cost of power purchase, the allowable cost of power purchase payable to HESCOM for FY18 works out to Rs.17,292.17 lakhs. Hence the Commission approves the Power Purchase cost of Rs.17,292.17 lakhs for FY18.

2.2.5 RPO Compliance for FY18

- i. The Commission in its preliminary observations had directed HRECS to furnish the details of RPO complied for FY-18 and the action plan for meeting RPO of FY-19 to FY-22.
- ii. HRECS in their replies have submitted that hitherto RPO compliance of HESCOM was examined to verify HRECS compliance, as HRECS is procuring power from HESCOM at the weighted average cost of HESCOM's power purchase cost. Thus, HRECS has stated that, if HESCOM has complied with RPO, HRECS is deemed to have complied RPO. HRECS has also stated that it is planning to put up a Solar Power Plant.
- iii. The Commission notes that as per the prevailing Regulations, HRECS and the deemed licensees procuring bulk power supply from ESCOMs are deemed to have complied with RPO to the extent of such procurement from ESCOMs. Further, the Regulations also specify that in case of non-compliance, the onus of meeting the RPO lies with HRECS or the deemed licensees, as the case maybe.
- iv. The Commission notes that HESCOM from whom HRECS is procuring power, has met Non-Solar RPO for FY18 and therefore, HRECS is deemed to have met Non-Solar RPO. HESCOM has also met the solar RPO, including the carry forward of FY17, in FY18 and therefore, HRECS is deemed to have met solar RPO for FY18, including the carry forward of the previous year FY17.

2.2.6 O & M Expenses:

HRECS in its application has sought approval of actual O & M expenditure of Rs.1093.30 lakhs as per the audited accounts for F18 as follows:

TABLE – 2.5
O & M Expenses – Hukeri RECS submission

Rs. lakhs	
Particulars	FY18
Employees cost	725.70
Repair and Maintenance	257.26
A&G Expenses	110.34
Total O & M Expenses	1093.30

Commission analysis and decisions:

The Commission in its Tariff Order dated 11th March, 2017 had approved the O&M expenses of Rs.1356.11 lakhs for FY18 as detailed in the following Table:

Table-2.6
Approved O&M expenses for FY18 as per the Tariff Order dated 11.04.2017

Rs. lakhs			
Particulars	FY16	FY17	FY18
No. of Installations	116958	119442	122541
CGI based on 3 Year CAGR		3.08%	2.81%
Inflation index		7.71%	7.71%
Base Year O&M Cost (as per actuals of FY16)	1118.08		
Approved O&M Expenses		1233.14	1356.71

The Commission, in its preliminary observation had sought the details of Staff Welfare Expenses for FY18. HRECS in its replies has stated that it includes Employee PF of Rs.50.43 Lakhs, Group Gratuity of Rs. 26.85 Lakhs and Group insurance of Rs.4.80 lakhs. The Commission has noted the replies furnished by the Hukeri RECS and directs HRECS to initiate adequate measures to control the O&M expenses, so as to limit the expenses within the approved amounts.

The Commission, in accordance with the methodology adopted while approving the ARRs for FY17-19 and subsequent APRs, proceeds with the determination of the normative O&M expenses based on the 12-year data of WPI and CPI and 3 years CAGR of consumers.

Considering the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce & Industry, Government of India and Consumer Price Index (CPI) as per the data available from the Labour Bureau, Government of India and adopting the methodology followed by the

CERC, with CPI and WPI in a ratio of 80: 20 and as per the provisions of MYT Regulations, the allowable inflation for FY18 is computed as follows:

TABLE-2.7
Allowable Inflation for FY18

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2006	70.2	122.9	112.36				
2007	73.6	130.8	119.36	1.06	0.06	1	0.06
2008	80.0	141.7	129.36	1.15	0.14	2	0.28
2009	81.9	157.1	142.06	1.26	0.23	3	0.70
2010	89.7	175.9	158.66	1.41	0.35	4	1.38
2011	98.2	191.5	172.84	1.54	0.43	5	2.15
2012	106	209.3	188.58	1.68	0.52	6	3.11
2013	111	232.2	207.98	1.85	0.62	7	4.31
2014	115	246.9	220.48	1.96	0.67	8	5.39
2015	110.3	261.4	231.196	2.06	0.72	9	6.49
2016	110.3	274.3	241.5	2.15	0.77	10	7.65
2017	114	281.2	247.78	2.21	0.79	11	8.70
A= Sum of the product column							40.23
B= 6 Times of A							241.40
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0828
e=Annual Escalation Rate (%)=g*100							8.2760
As per CERC Notification No. Eco T I / 2018-CERC dated 06.04.2018 with weightage of 80% on CPI and 20% on WPI							

While determining the normative O & M expenses for FY18, the Commission has considered the following aspects:

- The actual O & M expenses as per the audited accounts for FY16, as the base year expenses and the approved normative O & M expenses for FY17.
- The three year compounded annual growth rate (CAGR) of the number of installations considering the actual number of installations as per the audited accounts up to FY18 at 3.20%.
- The weighted inflation index (WII) at 8.276% as computed above.
- Efficiency factor at 0.5% as considered in the earlier two control periods.

Thus, the allowable normative O&M expenses for FY18 are as follows:

TABLE -2.8
Allowable O & M expenses for FY18

Amount in Rs. Lakhs	
Particulars	FY18
No. of Installations	123922
CGI based on 3 Year CAGR	3.20%
Inflation index	8.2760%
Base Year O&M Cost (as per actuals of FY16)	1118.08
Allowable O&M Expenses	1259.37

Note: The efficiency factor is 0.5%.

The Commission notes that, as per the audited accounts, the actual O&M expenditure incurred by Hukeri RECS is Rs.1093.30 lakhs in the current year FY18, which is less than the normative allowable O&M expenses of Rs.1259.37 lakhs by Rs.166.07 lakhs. The Commission also notes the actual revenue from sale of power, the various items of revenue expenditure claimed by HRECS and allowable as per the provisions of MYT Regulations and the resultant abnormal revenue gap for FY18. Since the O&M expense being the controllable expenditure, the Commission, by considering the revenue gap and the actual amount of O&M expenses of Rs.1093.30 lakhs claimed by HRECS, as per the audited accounts, decides to allow the actual O&M expenditure incurred by HRECS of Rs.1093.30 lakhs for FY18.

Thus, the Commission decides to allow the actual O&M expenses of Rs.1093.30 lakhs as O & M expenses for FY18.

2.2.7 Depreciation

The HRECS, in its application, has claimed an amount of Rs. 140.86 lakhs towards depreciation for FY18, as per the audited accounts, after deducting the depreciation on assets created out of consumers' contribution/grants.

The Commission, in its Tariff Order dated 11th April, 2017, had approved an amount of Rs.113.72 lakhs towards depreciation for FY18. Against this, the HRECS has claimed depreciation of Rs.140.86 lakhs.

Since, HRECS has claimed the depreciation on the basis of actual category-wise assets, as per the Audited Accounts, as detailed below, the Commission considers the same for the purpose of APR for FY18.

TABLE – 2.9
Allowable Depreciation for FY18

Amount in Rs. Lakhs

Particulars	Opening Balance of Asset as on 01.04.2017	Depreciation	Closing Balance of Asset as on 31.03.2018
Buildings	52.20	0.94	54.48
Civil	76.66	1.38	76.67
Other Civil	4.34	0.01	4.34
Plant & M/c	2482.05	85.61	2737.30
Line, Cable Network including plant/Machinery	4712.41	140.49	5046.41
Vehicles	38.50	2.56	38.28
Furniture	18.90	0.57	19.20
Office Equipment	94.17	4.07	107.14
Total	7479.23	235.63	8083.82
Land	0.16	0	0.16
Total GFA	7479.39		8083.98
Less: Depreciation on Assets created on Consumer Contribution / Grants		94.77	
Net Depreciation		140.86	

Thus, the Commission decides to allow a depreciation of Rs.140.86 lakhs for FY18.

2.2.8 Interest & Finance Charges

i. Interest on Loan Capital:

The Hukeri RECS, in its application as per the audited accounts has claimed an amount of Rs.8.25 lakhs as interest and finance charges for FY18.

The Commission notes that as per the Audited Accounts, the HRECS has incurred Rs.7.73 lakhs and Rs.0.52 lakhs towards interest on loans drawn from REC and B.D.C.C. Bank for FY18.

Thus, the Commission decides to allow the interest on capital loan of Rs.8.25 lakhs for FY18.

ii. Interest on working Capital:

The HRECS, in its filings for APR for FY18 has not claimed any amount of interest on working capital. As per the audited accounts also the HRECS has not incurred any amount towards interest on working capital.

The Commission, as per the norms under MYT Regulations, determines the allowable interest on working capital as under:

TABLE – 2.10
Allowable Interest on Working Capital for FY18

Amount in Rs. Lakhs	
Particulars	FY 18
One-twelfth of the amount of O&M Exp.	91.11
Opening GFA	7479.39
Stores, materials and supplies 1% of Opening balance of GFA	74.79
One-sixth of the Revenue	2788.29
Total Working Capital	2954.19
Rate of Interest (% p.a.)	11.00%
Interest on Working Capital	324.96
Actual WC as per accts	0.00
As per regulations actual plus 50% of difference between actual and normative	162.48

Thus, the Commission decides to allow an amount of Rs.162.48 lakhs towards interest on working capital for FY18.

iii. Interest on Consumers' Security Deposit:

The Hukeri RECS, as per the audited accounts has claimed an amount of Rs.79.85 lakhs towards Interest on consumer security deposits for FY18. The Commission notes the opening and closing balance of consumers' security deposits as per the audited accounts for FY18. As per KERC (Interest on Security Deposit) Regulations, 2005, the interest on consumer security deposits shall be allowed as per the bank rate prevailing on the 1st day of April of the financial year for which the interest is due. The bank rate as on 1st April 2017 was 6.75%. The actual interest on consumer

security deposit amount of Rs.79.85 lakhs claimed by Hukeri RECS is well within the allowable rate.

Thus, the Commission decides to allow an amount of Rs.79.85 lakhs towards interest on consumers' security deposits for FY18.

The abstract of the approved Interest and Finance charges is indicated below:

TABLE – 2.11
Abstract of Interest & Finance Charges for FY18

Amount in Rs. lakhs	
Particulars	FY18
Interest on Capital Loan	8.25
Interest on Working Capital Loan	162.48
Interest on Consumers' Security Deposit	79.85
Total	250.58

2.2.9 Return on Equity:

The Hukeri REC Society has not claimed any amount towards RoE for FY18. The Commission notes that, as per the Audited Accounts, the HRECS has the negative equity of Rs.6372.90 lakhs as at the beginning of FY18.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 as amended, the Commission has to compute the allowable Return on Equity at 15.5% on equity plus reserves and surplus as at the beginning of the year, besides allowing taxes as per actuals. Considering the status of opening balance of equity as per audited accounts for FY18, the allowable RoE is computed as follows:

TABLE – 2.12
Approved RoE for FY18

Amount in Rs. lakhs	
Particulars	FY18
Opening Balance of Paid Up Share Capital	62958947
Opening Balance of Share Deposit	0.00
Opening Balance Accumulated loss	-700249071
Opening Balance of Total Equity	-637290124
Approved RoE by the Commission	0.00

The Hukeri RECS has a negative opening balance of net worth for FY18 and as per the provision of MYT Regulations, it is not entitled to any RoE for FY18. Further, as per the audited accounts, the HRECS has not paid any Income Tax for FY18. Thus, the Commission has not allowed RoE and Income Tax for FY18.

2.2.10 Other Income:

The Hukeri RECS, in its filings, as per the audited accounts, has claimed an amount of Rs. 336.61 lakhs as Other Income for FY18. This amount includes income from interest on bank deposits, rent from staff quarters, rebate on electricity duty and miscellaneous recoveries / income.

Thus, the Commission decides to allow an amount of Rs.336.61 lakhs towards Other Income for FY18.

2.2.11 Revenue Demand for FY18:

The Hukeri RECS, in its application, as per the audited accounts has indicated an amount of Rs.16981.58 lakhs, as revenue from sale of power and miscellaneous charges as against the Commission approved total revenue of Rs.15538.74 lakhs for FY18.

The Commission notes that, as per the audited accounts for FY18, the revenue from sale of power is Rs.16981.58 lakhs. Further, as indicated in pre-para, the Commission has considered the disallowed revenue subsidy of Rs.251.86 lakhs towards IP sets for FY18. Thus, the Commission decides to consider Rs.16729.72 lakhs as revenue from sale of power to the consumer and miscellaneous charges, for the purpose of approval of revised ARR, as per the APR for FY18.

The Commission, decides to consider the total amount of revenue from sale of power and miscellaneous charges of Rs.16729.72 lakhs for FY18.

2.2.12 Subsidy for FY18:

The Commission in its Tariff Order dated 11.04.2017 has approved tariff subsidy of Rs.152.86 lakhs and Rs.10821.85 lakhs towards the sale of power to BJ/KJ installations and IP sets for FY18 respectively, in accordance with

the prevailing Policy of the Government of Karnataka in the matter of free power supply to BJ/KJ installations and IP sets installations of 10HP & below. The HRECS has claimed an amount of Rs.203.81 lakhs and Rs.11,215.75 lakhs towards Tariff subsidy for BJ/KJ installations and IP sets for FY 18.

The Commission notes that, as per the audited accounts and replies furnished to the preliminary observations, Rs.203.81 lakhs and Rs.11215.75 lakhs respectively has been factored in as tariff subsidy for BJ/KJ and IP Set installations for FY18. Thus the Commission, while computing the revised ARR as per APR for FY18, has considered tariff subsidy of Rs.11419.56 lakhs, towards sale of power to BJ/KJ installations and IP sets for FY18, to be received from the Government. **The Commission, while validating the IP sets energy sales of HRECS for FY18 has disallowed 4.35 MU of energy in the energy sales to IP sets for FY18. Hence, the subsidy of Rs.251.86 lakhs (at the rate of Commission Determined Tariff of Rs.5.79 per unit x 4.35 MU) is disallowed by the Commission. The net tariff subsidy payable by the Government of Karnataka, works out to Rs.11167.70 lakhs for BJ/KJ and IP set installations for FY18.**

2.3 Abstract of Allowable ARR for FY18:

The Abstract of the allowable consolidated Annual Revenue Requirement for FY18 is as follows:

TABLE-2.13

Approved revised ARR as per the APR for FY18

Particulars	Amount in Rs. lakhs		
	As Approved as per T.O 11.04.2017	As per filing on 27.11.2018	As per APR
Power Purchase in MU	339.30		344.71
Energy @ IF Point in MU	327.02	332.71	333.64
Sales to Other than IP & BJ/KJ in MU	72.96	87.05	87.60
Sales to BJ/KJ in MU	2.58	3.30	3.30
Sales to IP in MU	186.84	194.19	189.84
Total Sales in MU	262.38	284.53	280.74
Distribution Loss in %	14.50%	14.48%	15.59%
Revenue:			
Revenue from other than IP & BJ/KJ	4564.04	5562.03	5562.03
Subsidy to BJ/KJ	152.85	203.81	203.81
Subsidy to IP	10821.85	11215.75	10963.89
Total Revenue	15538.74	16981.58	16729.72

Particulars	As Approved as per T.O 11.04.2017	As per filing on 27.11.2018	As per APR
Expenditure:			
Power Purchase Cost inclusive of transmission and SLDC Charges	14,237.84	17778.34	17292.17
Employee Expenses			
R&M Expenses			
A&G Expenses	1356.71	1,093.30	1093.30
Depreciation	113.72	140.86	140.86
Interest on Capital Loan	46.86	8.25	8.25
Interest on Working Capital	258.98	0.00	162.48
Interest on Consumer Deposit	95.55	79.85	79.85
(Less) Expenses Capitalised	0.00	0.00	0.00
Other Debits/Extraordinary items	0.00	0.00	0.00
Net Prior Period Credit	0.00	0.00	0.00
RoE	0.00	0.00	0.00
Taxes	0.00	0.00	0.00
Less: Other Income	-1318.46	-336.61	-336.61
Surplus/Deficit of FY16 carried forward	747.55	0.00	0.00
Penalty for excess distribution losses	0.00	0.00	-115.35
ARR	15538.74	18763.99	18324.95
Gap in Revenue	0.00	-1782.41	-1595.24

2.4 Gap in revenue for FY18:

The Commission after the Annual Performance Review for FY18 decides to allow the revised ARR of Rs.18324.95 lakhs as against the approved ARR of Rs.15538.74 lakhs for FY18. Considering the revised revenue of Rs.16729.72 lakhs, the deficit of Rs.1595.24 lakhs is determined for FY18.

The Commission decides to carry forward the deficit of Rs.1595.24 lakhs of FY18 to the ARR for FY20, as discussed in the subsequent Chapter of this Order.