CESC

Preliminary Observations on Revision of ERC &
Tariff application for FY15

1. General Observations:

i. CESC has filed its application for APR of FY13 based on the Annual Accounts finalized by the statutory auditors. In its reply to the preliminary observations, CESC has stated that the audited accounts has been approved by its Board of Directors. The same needs to be furnished for the purpose of APR.

ii. The Revenue gap for FY13 is indicated as Rs.269.62 Crs. As per the Clause 3(4) of the KERC (Tariff) Regulations, 2000, the licensee is required to file its ERC by proposing measures adequate to cover the deficit. In case such measures are not proposed, the application is liable to be rejected. In its application, CESC, on page 69 has indicated that the gap of Rs.269.62 Crores for FY13 is to be met by GoK. Hence CESC is required to furnish commitment letter of GoK to meet the gap of Rs.269.62 Crores of FY13.

iii. CESC should have paid a tariff fee of Rs.71,40,100. However, CESC has paid Rs.70,76,500. Hence, CESC has to pay a balance amount of Rs. 63,600.

iv. CESC needs to clarify whether any subsidy of the past years has been accounted during FY13. If so details shall be furnished with explanation. Also, the details of the quantum of energy and the subsidy claimed from GoK for FY13 in respect of BJ/KJ and IP Sets shall be furnished

2. Retail Sales:

a) Actuals for FY-13

i. The Commission in its Tariff order dated 30th April 2012 had approved total sales to various consumer categories at 5185 MUs for CESC as against CESCs proposal of 5120 MUs. The Actual sales of CESC as per the current filing[d-2 FORMAT] is 4975 MU indicating a short fall in sales to the extent of 210 MUs with respect to the approved sales.

ii. It is noted that, as against approved sales of 3049 MUs to categories other than BJ/KJ and IP sets, the actual sales achieved by CESC is only 2538 MUs, resulting in the reduction of sales to these categories by 511 MUs. On the other hand the sales to BJ/KJ and IP category has increased by 301 MUs as against the approved sales 2136 MUs to this category.

iii. The category wise sales approved by Commission and the actuals for FY 13 is indicated in the below table:

(in MUs)

Category	Approved	Actuals	Approved-Actuals
LT-2a	863.96	724.68	139.28
LT-2b	7.07	5.78	1.29
LT-3	260.72	209.65	51.07
LT-4b	0.71	0.65	0.06
LT-4c	12.97	10.55	2.42
LT-5	143.95	131.38	12.57
LT-6	153.94	144.99	8.95
LT-6	88.55	76.93	11.62
LT-7	11.65	10.34	1.31
HT-1	371.97	319.88	52.09
HT-2a	948.34	760.58	187.76
HT-2b	136.38	109.02	27.36
HT-3a & b	39.40	24.83	14.57
HT-4	9.83	8.35	1.48
HT-5	0	0.43	-0.43
Sub total	**3049.44**	**2538.04**	**511.40**
BJ/KJ	41.56	78.23	-36.67
IP	2094.11	2358.66	-264.55
Sub total	**2135.67**	**2365.89**	**301.22**
Grand total	**5185.11**	**4974.93**	**210.18**

iv. From the above table it is noted that the major categories contributing to the reduction in sales are LT Domestic (139 MU), LT Commercial (51 MU), HT Industries (188 MU), HT Commercial (27 MU)and HT Water Supply (52 MU). On the other hand it is noted that the sales to IP sets as increased by 265 MU.

v. The Commission notes that CESC has failed to achieve sales to categories other than BJ/KJ and IP sets as estimated.

b) Revised Estimated Sales Forecast for FY 15

CESC in its filing has furnished (D2 format) the following revised projections of sales for FY-15

Category	Comparison of approved and revised sales for FY-15		Comparison of approved and revised No. of installation for FY-15	
	Approved MUs	Revised MU	Approved No. of Installation	Revised No. of Installation
LT-2a	964.22	837.72	1796324	1717068
LT-2b	7.3	6.59	3315	2711
LT-3	282.20	254.26	192302	213609
LT-4 (b)	0.59	0.95	190	277
LT-4 (c)	19.53	8.96	4772	4843
LT-5	146.52	134.23	34105	32205
LT-6	168.13	141.90	18917	18459
LT-6	87.98	82.48	20608	19991
LT-7	17.61	11.92	38754	29383
HT-1	332.86	390.48	89	110
HT-2 (a)	1060.44	865.40	992	855
HT-2 (b)	157.39	139.25	632	578
HT2C	0	7.80	0	65
HT-3(a)&	37.75	28.69	89	85
HT-4	10.61	8.20	48	42
HT-5	0.36	1.54	2	14
BJ/KJ	28.77	83.37	431156	532090
IP	2339.99	2592.37	291275	316336
Total	**5662.25**	**5596.11**	**2833570**	**2888721**

CESC in its filings has not furnished the working details for arriving at category wise Number of installations. The same shall be furnished.

For Energy sales estimation, CESC has stated that the sales for the period from October 2013 to March 2014 and for the financial year 2014-15, have been arrived at considering the higher of 5-year CAGR and 3-year CAGR. The Commission notes that applying the Annual CAGR for estimating the sales for the second half of the current year is not correct, as the half year growth rate would be normally different from the annual CAGR. To this extent the revised estimate for FY 14 would not be correct, thereby affecting the forecast for FY15. Subject to the above observation, based on the information available the CAGRs for the period FY-08 to FY-13 and for the period FY10- to FY-13 both for no. of installations and the energy sales is worked out and compared with the growth rates proposed by CESC which is discussed below:

i) No. of installations

1. The table indicating the growth rates for the no. of installations is furnished below:

Category	Percentage Growth Rates			
	2007-08 to 2012-13 CAGR	2009-10 to 2012-13 CAGR	Growth in 2013 over 2012	Growth rate proposed by CESC
LT-2a	3.14	3.06	2.88	5.39
LT-2b	6.64	5.90	6.24	5.36
LT-3	4.44	4.15	3.69	9.46
LT-4 (b)	-5.49	-4.00	10.47	11.69
LT-4 (c)	6.51	6.39	11.86	2.54
LT-5	3.66	3.43	2.95	2.11
LT-6	4.15	3.57	4.92	4.53
LT-6	3.84	3.00	4.36	2.72
LT-7	26.37	16.01	14.19	9.96
HT-1	6.54	8.08	8.00	8.91
HT-2 (a)	11.49	9.27	7.13	10.89
HT-2 (b)	11.43	10.54	9.07	15.14
HT2C				4.84
HT-3(a)& (b)	9.98	10.96	7.25	10.39
HT-4	3.05	4.16	0	2.44
HT-5				7.69
Sub Total (Other than BJ/KJ and IP	3.5	3.34	3.18	5.78
BJ/KJ	9.65	1.7	0.86	7.16

IP	5.48	6.03	9.00	11.58
Sub Total (BJ/KJ and IP)	8.1	3.11	3.53	8.76
Grand Total	4.76	3.27	3.48	6.64

2. The overall growth rate for the no. of installations seems to be high especially for the categories of LT Domestic, LT Commercial, HT Commercial, BJ/KJ and IP sets. Further it is observed that the growth rate considered for LT Industries, LT Public lighting, LT Temporary and HT Residential categories is rather low. CESC shall furnish the reasons for the above.

ii) Energy Sales

1. The table indicating the growth rates for the Energy Sales is furnished below:

Category	**Percentage Growth Rates**			
	2007-08 to 2012-13 CAGR	**2009-10 to 2012-13 CAGR**	**Growth in 2013 over 2012**	**Growth rate proposed by CESC**
LT-2a	6.48	7.59	2.24	5.39
LT-2b	3.96	7.29	0.35	5.44
LT-3	11.83	10.82	2.85	9.46
LT-4 (b)	-23.43	-22.18	12.07	11.76
LT-4 (c)	-3.05	-2.75	-1.77	11.58
LT-5	2.17	3.61	-0.88	2.11
LT-6	4.92	5.35	4.05	3.33
LT-6	2.93	0.98	-1.82	2.71
LT-7	2.86	7.78	5.62	9.96
HT-1	3.31	2.43	3.89	2.59
HT-2 (a)	12.44	15.88	5.66	10.79
HT-2 (b)	17.13	18.07	14.25	13.99
HT2C				9.86
HT-3(a)& (b)	19.97	-2.82	-21.12	23.13
HT-4	10.32	13.17	4.24	1.99
HT-5				10.00

Sub Total (Other than BJ/KJ and IP	7.89	8.92	3.49	7.13
BJ/KJ	12.20	8.05	-6.60	8.5
IP	11.20	15.42	11.47	11.58
Sub Total (BJ/KJ and IP)	11.23	15.15	10.78	11.48
Grand Total	9.45	11.80	6.94	9.17

2. The Commission notes that in FY 13 in most of the categories other than BJ/KJ and IP sets the sales growth rate has reduced considerably in comparison to the CAGR for the period 2007-08 to 2012-13 and CAGR for the period 2009-10 to 2012-13. CESC shall furnish the reasons for the above reduction in sales. Keeping in view the CAGR for the period 2007-08 to 2012-13 and CAGR for the period 2009-10 to 2012-13, it is observed that growth rates considered by the CESC appear rather low for LT domestic, LT water Supply, HT Industries, HT Commercial and HT residential. Further it is that the growth consider for HT Irrigation category is higher. CESC shall furnish the reasons for the above.

3. Regarding the no. of installations under BJ/KJ category, CESC shall intimate as to whether there is any target specified by the GoK. CESC shall also furnish the breakup of BJ/KJ Installations in the following format for FY-13(Actuals), FY-14(Actuals upto end of Nov and estimates for the remaining period indication the break up)and FY-15(Estimate):

Particulars	No. of Installations	Consumption in MU
Installations Consuming less than 18 Units		
Installations consuming more than 18 units and build under LT 2a		

4. To validate the sales, category wise information in the following format shall be furnished:

iii) No. of Installations

	2011-12 Actuals		2012-13 Actuals		2013-14	
Category	As on 30th Nov 2011	As on 31st March 2012	As on 30th Nov 2012	As on 31st March 2013	As on 30th Nov 2013	As on 31st March 2014 (Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-						
HT-4						
HT-5						
Sub Total						
BJ/KJ						
IP						
Sub Total (						
Grand Total						

iv) Energy Sales

	2011-12 Actuals		2012-13 Actuals		2013-14	
Category	1st Aprill 2011 to 30th Nov 2011 (cumulative)	1st Dec 2011 to 31st March 2012 (cumulative)	1st Aprill 2012 to 30th Nov 2012 (cumulative)	1st Dec 2012 to 31st March 2013 (cumulative)	1st Aprill 2013 to 30th Nov 2013 (cumulative actuals)	1st Dec 2013 to 31st March 2014 (cumulative Estimate)
LT-2a						
LT-2b						

LT-3						
LT-4						
LT-4						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2						
HT-2						
HT2C						
HT-						
HT-4						
HT-5						
Sub Total						
BJ/KJ						
IP						
Sub Total (						
Grand Total						

v) Sales to IP sets

As per Tariff Order dated 30th April 2012 for FY 13, the Commission had approved a specific consumption of IP Sets as **8613** units / installation / annum. But, the actual specific consumption calculated on the basis of actual consumption and midyear number of installations for FY13 is **9502** units / installation / annum. The difference between approved and actual specific consumption is **885** units/installation/annum. CESC is required to furnish reasons for exceeding the consumption based on the Commission's approved specific consumption of **8613** units / installation / annum for FY13.

As per the monthly reports received in the Commission for FY-13, the total consumption reported is **2186.08** MU and number of IP Set Installations as on 31st March 2013 is **255173**. But, as per Tariff filing, CESC has indicated the consumption of **2358.66** MU and number of Installations as on 31st March 2013 as **262673**. Thus, there is a difference of **172.58** MU in consumption and **7500** in number of IP installations between the filing data and the monthly reports furnished to the Commission. The reasons for the difference in both consumption and number of installations for FY-13 need to be furnished.

In the Tariff Order dated 6th May 2013, the Commission had approved a specific consumption of **8195** units / installation / annum for FY 14 to FY16. CESC has considered a specific consumption of **8195** units / installation / annum for FY 14 to FY 15 respectively. Therefore, CESC has to revise IP Set consumption for FY 14 (including the remaining period of FY 14) and FY 15 based on the Commission's approved specific consumption of **8195** units / installation / annum and the estimated number of midyear installations for that period.

vi) Wheeling and Banking:

i. CESC has not proposed Wheeling charges applicable to generators other than RE projects, even though they have requested to continue the Wheeling charges as determined in clause 6. 6.1 and 6.6.2 of Tariff order dated 06.05.2013.

ii. CESC is directed to file the calculations pertaining to normal Wheeling charges based on the proposed ARR for distribution business and adopting the methodology as in the earlier Tariff order.

iii. Regarding Wheeling and Banking for RE sources, **CESC** has requested the Commission to charge normal transmission/wheeling charges to all open access transaction including NCE projects and also to close existing WBA and to determine common wheeling charges. It has also requested to charge normal technical losses for such transactions and also to do away with yearly banking facility. Referring to the Commission's discussion paper issued earlier, It is also proposed by CESC to charge 80% of tariff as against 85% proposed in the discussion paper earlier by the Commission and at APPC for RE generator opting for REC for the excess energy injected to grid and remaining unutilized at month end.

iv. The above proposal of CESC is to be supported with working details if they are incurring losses due to current concessional and banking facility.

vii) Cross Subsidy surcharge

i. Even though CESC has requested the Commission to determine and continue Cross Subsidy surcharge, CESC has not furnished any calculations pertaining to Cross Subsidy surcharge.

ii. As such CESC is directed to file the calculations pertaining to normal Wheeling charges based on the proposed ARR and adopting the methodology as in the earlier Tariff order.

3) Power Purchase:

i) Power Purchase for FY13:

a) Allocated energy does not tally with the energy filed as the energy is not reconciled among ESCOMs.

b) Details of Power Purchase under Section 11 for 2012-13 shall be furnished.

c) In format D1, CESC has indicated SPCC/Inter ESCOM/LC Charges etc to an extent of Rs.4.88 Crores. CESC is required to furnish the details of this claim.

d) Details of generator wise short term / medium term power purchases does not tally with the allocation.

e) Details of NCE sources purchased under preferential tariff and under APPC needs to be furnished.

f) Inter ESCOM energy balancing charges of Rs.10.19 Crores is specified without details.

g) CESC shall clarify whether any advances to generators have been included in the actual cost of power purchase claimed for FY13. If so, details need to be furnished.

ii) Power Purchase for FY15:

CESC shall also indicate the action plan for meeting RPO in FY15.

Details of NCE sources not furnished for FY15

4) Distribution Losses:

CESC has achieved distribution losses of 15.07% as against an approved loss of 15.00% for FY13. However, CESC has projected distribution losses of 15.50% for FY14 and 15% for FY15. Considering the present level of performance and the capex incurred in FY14 and proposed capex for FY15, CESC has to revise its distribution losses for FY14 and FY15.

5) O & M Expenses:

For FY13 KERC had allowed an amount of Rs.53.06 Crores in the Tariff order 2012 as an additional employee cost. CESC shall indicate the actual additional employee cost incurred for the year FY13 on account of revision in basic pay, pension and gratuity contribution to P&G trust and Newly Defined Contributory Pension Scheme, increase in DA, increase in HRA and additional employee cost on account of recruitment of employees etc.

6) Capital Investment:

i) **Capital Investment for FY13:** The capital expenditure of 195.87 is indicated by CESC. The split up of expenditure as against the capex approved as shown below is to be furnished by CESC.

Sl. No.	Schemes	Rs. in Crores	Actual expenditure in Rs.Crores
1	Extension and improvement works plus HVDS	145.00	
2	NJY	200.00	
3	Providing infrastructure to Un authorized IP Sets, electrification of hamlets / HB/JC/KJ under RGGVY	23.00	
4	RGGVY	30.00	
5	RAPDRP	100.00	
6	Service connections	20.00	
7	Replacement of failed DTCs by new ones	10.00	
8	Civil Engineering works, DSM & Others	10.00	
9	T&P and Computers	2.00	
10	Providing meter to DTCs, BJ/KJ, IP sets, street lights	20.00	
Total		560.00	

ii) Source of funds together with cost may be furnished for the above.

iii) The details of works costing Rs.10.00 lakhs and above need to be furnished division wise duly incorporating the objectives in the following format:

1	2	3	4	5	6
Name of the Division	Scheme / work	Nomenclature of work	Detailed Objectives for taking up of the work	Work order No. & Date	Estimation / DPR cost in lakhs

7	8	9	10	11	12
Actual cost of completion of the work	Date of commencement	Date of completion	Reasons for delay	Cost benefit ratio	Remarks

In respect of works costing less than Rs.10 lakhs each a list of works with expenditure incurred only needs to be furnished division wise.

II) Capital Investments for FY-15:

On page no. 20 and 21, CESC has proposed a capital expenditure of Rs. 378 Crores which is same as the Commission approved Capital Investment plan of Rs.378 Crores for FY15.

Sl. No.	Schemes	FY-13 Proposed	FY-13 Actuals	FY-14 Proposed	FY-14 Revised	FY-14 Actuals Upto Sept-13	FY-15 Proposed
1	E&I Works	145.00	37.08	126.50	136.15	23.78	70.00
2	NJY	200.00	35.00	200.00	150.00	9.36	125.00
3	R-APDRP	100.00	22.94	100.00	75.00	1.86	50.00
4	RGGVY(Restructured)+DDG	0.00		50.00	5.00		25.00
5	Replacement of failed Transformers	10.00	41.27	11.00	11.00	22.81	11.00
6	Service Connections	20.00	17.15	33.50	28.00	12.93	35.00
7	**Rural Electrification (General)**						
A	Electrification of Hamlets/HB/JC/KJ under RGGVY	10.00	28.20	5.00	25.35	27.59	5.00
B	Providing infrastructure to Irrigation Pump sets &energisation of IP SETS						
C	KutirJyothi(RGGVY)						
8	**Tribal Sub Plan**						
A	Electrification of Tribal Colonies (RGGVY)	3.00		3.00	3.28	---	3.00
B	Energisation of IP sets						
C	KutirJyothi (RGGVY)						
9	**Special Component Plan**						
A	Electrification of HB/JC/AC(RGGVY)			10.00	12.22	----	10.00
B	Energisation of IP sets	**10.00**					
C	KutirJyothi(RGGVY)						
10	Tools & Plants (Other works)	2.00	4.52	4.00	4.00	.60	4.00
11	Civil Engineering Works	10.00	9.58	10.00	10.00	2.43	10.00
12	Providing Meters to	20.0	0.13	22.50	10.00	0.00	30.00

Sl. No.	Schemes	FY-13 Proposed	FY-13 Actuals	FY-14 Proposed	FY-14 Revised	FY-14 Actuals Upto Sept-13	FY-15 Proposed
	DTC, BJ/KJ, IP Set, Street Light.	0					
	Total	**560.00**	**195.87**	**575.5**	**470.00**	**101.36**	**378.00**

From the proposed capex for FY15, it is evident that, the E&I capex proposed for FY15 is almost 50% of the allocation proposed capex in FY13 and FY14 and needs to be reviewed thoroughly as there are many 11kV feeders with higher distribution losses in CESC as per the Power quality Monitoring formats submitted to the Commission. CESC shall confirm whether such cases of higher distribution loss 11kV lines are being considered for augmentation, bifurcation and other improvement aspects in the capex proposed. CESC is required to submit a separate list of works which have been identified so, and included in the Capex programme.

6) Depreciation:

CESC, in its replies to the preliminary observations has stated that, it will consider depreciation as per accounting standards 12 from FY14 onwards. CESC is required to furnish data of depreciation on account of capital assets created by consumer contribution and grants for FY13 to FY15.

7) Interest on consumer deposits:

Interest on consumer deposit is under stated as the quantum of interest does not match with the balance of security deposit at allowable rate of interest. This has reference to Format D9 and Format A2.

8) Return on Equity:

The Balance Sheet for FY13 indicates an additional amount of Rs.62.50 Crores under share capital. CESC is required to furnish the details of the same including date of infusion.

9) Observations on format D21:

It is observed that, CESC in its format D21 has indicated an average load of 14.49 HP for installations under LT4(c) (i) and 96.88 HP for installations under LT5 (more than 40 HP and less than 67 HP). The installations under LT4(c)(i) pertains to private horticulture and nursery, coffee and tea plantations with sanctioned load of 10 HP and below. The LT5 installations are pertaining to installations with sanctioned load of more than 40HP and less than 67 HP. CESC needs to clarify the above observation.