KARNATAKA ELECTRICITY REGULATORY COMMISSION
BANGALORE

ORDER ON FINAL TRUING UP OF ERC FOR FY02-FY07 AS PER AUDITED ACCOUNTS IN RESPECT OF HUKERI RECS

In the matter of:

Application of the Hukeri Rural Electric Co-operative Society Ltd. for truing up of ERCs for FY02 to FY-07 as per audited accounts.

Present:

Sri K.P.Pandey Chairman
Sri Vishwanath Hiremath Member
Sri K. Srinivasa Rao Member

No.B/01/9/ Dated 30th June 2009

ORDER

1.0 Introduction:

The Hukeri Rural Electric Co-operative Society (herein after referred to as Society) is a licensee for carrying on the business of distribution and retail supply of electricity in the Hukeri Taluka of Belgaum District, by virtue of the Distribution Licence issued to the Society under section 14 of the Electricity Act 2003.
2.0 Background of the present filing for truing up of ERC

The Commission, in its MYT Order dated 07.03.2008 had undertaken truing up exercise for the period from FY02-FY07 based on the un-audited accounts / ERC filing. In the said Order the Commission had directed Hukeri RECS to submit suitable proposals for truing up of Annual Revenue Requirement (ARR) based on audited accounts to enable the Commission to undertake a final truing up exercise and to arrive at the gap or surplus to be passed on to the ARRs of the subsequent years.

Accordingly, the Society has filed its application on 11.02.2009 for truing up of its ERC for the period from FY02 to FY08 based on audited accounts. In the said applications the Society has worked out the revenue gap year on year as per the audited accounts and requested the Commission to approve the same and also to allow carrying cost of 12% on the said gap.

An abstract of the Revenue, expenditure and the year on year gap as per the filing is as under:

Table-1
Abstract of Revenue, Expenditure & Revenue Gap as filed by Society

<table>
<thead>
<tr>
<th></th>
<th>FY02</th>
<th>FY03</th>
<th>FY04</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sale of power</td>
<td>1168.54</td>
<td>1455.97</td>
<td>1627.97</td>
<td>1705.84</td>
<td>2063.18</td>
<td>2074.34</td>
<td>2108.81</td>
</tr>
<tr>
<td>Revenue subsidies and grants</td>
<td>8.65</td>
<td>103.58</td>
<td>1503.43</td>
<td>1663.87</td>
<td>1922.19</td>
<td>1960.83</td>
<td>1154.38</td>
</tr>
<tr>
<td>Other Income</td>
<td>133.60</td>
<td>215.36</td>
<td>271.17</td>
<td>394.23</td>
<td>376.03</td>
<td>178.48</td>
<td>420.25</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>1310.79</td>
<td>1774.91</td>
<td>3402.57</td>
<td>3763.94</td>
<td>4361.40</td>
<td>4213.65</td>
<td>3683.44</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>1328.64</td>
<td>1598.68</td>
<td>3528.47</td>
<td>4239.29</td>
<td>4538.69</td>
<td>4906.28</td>
<td>3899.43</td>
</tr>
<tr>
<td>RoE</td>
<td>54.15</td>
<td>50.56</td>
<td>29.85</td>
<td>0</td>
<td>98.10</td>
<td>127.72</td>
<td>138.15</td>
</tr>
<tr>
<td>Surplus/Deficit(-)</td>
<td>-72.00</td>
<td>176.23</td>
<td>-155.75</td>
<td>-475.35</td>
<td>-275.39</td>
<td>-820.35</td>
<td>-354.14</td>
</tr>
<tr>
<td>Additional subsidy now claimed</td>
<td>72.00</td>
<td>0</td>
<td>155.75</td>
<td>475.35</td>
<td>275.39</td>
<td>820.35</td>
<td>354.14</td>
</tr>
</tbody>
</table>

Note: For FY03, the Society has shown a surplus of Rs.176.23 (RoE of Rs.50.56 lakhs accounted twice) and hence has not claimed additional subsidy.

* The actual expenditure for FY03 as per audited accounts is Rs.1595.45 lakhs

The Society has also submitted the subsidy calculations year on year based on the actual IP set consumption.
After a preliminary verification of the proposals, the Society was requested vide Commission’s letter dated 26.03.2009, to furnish replies/clarifications to the observations regarding:

a) Wide variations in Employee Cost and R&M expenses as compared to approved ERC figures.
b) Justification for inclusion of RoE in truing up exercise.
c) Reasons for claiming additional subsidy inspite of showing surplus/ no gap for FY03
d) Variations in depreciation for FY08 as compared to approved ERC figures.

The Society submitted detailed replies to the observations on 21st April 2009 supported by computations of the subsidy. It is observed that the average cost of supply to IP sets has been worked out on the total expenditure and not on Net ARR.

In this Order, the Commission has considered truing up of ARR for the period from FY02 to FY07, which was earlier done in Commission’s order dated 8.03.2008. The truing up of ARR for FY08 has been considered separately in view of the fact that the Commission had approved the ERC for the first control period from FY08 to FY10 under MYT framework and that the principles governing the determination of ARR under MYT framework are not similar.

Based on the inputs, the Commission has undertaken the truing up exercise for the period from FY02 to FY07 as follows:

3.0 Principles adopted for Truing up:

The Commission, after its constitution in November 1999, has issued six Orders approving the ERC of the Society:
1. Order dated 22.02.2002 – Approval of ERC for FY02
2. Order dated 22.08.2002 – Approval of ERC for FY03
3. Order dated 28.03.2003 – Approval of ERC for FY04
4. Order dated 08.11.2005 – Approval of ERC for FY06
5. Order dated 23.11.2006 – Approval of ERC for FY07
6. Order dated 07.03.2008 – Approval of ERC under MYT framework and truing up of ERCs for FY02 to FY07

Note: The Commission has not approved ERC for FY05

While approving the ERCs, the Commission had allowed the Society to charge the retail supply tariff as applicable to the consumers of the other licensees in the state, since a uniform tariff was applicable in the state up to the year 2007. However, for FY08 the Commission had determined separate tariffs for each of the ESCOMs. The Commission approved the ERCs of the Society for the first control period under MYT framework vide its order dated 7th March 2008 and the Society was directed to implement the approved tariff in respect of HESCOM. In view of the Orders of the Hon’ble ATE, the tariff determined for FY08 was not implemented and the consumers are being billed as per the Tariff order 2005.

While undertaking the truing up exercise in its order dated 7th March 2008, the Commission had adopted the following principles:

a) Decisions/practice in the earlier Orders: The Commission, in its previous orders, has adopted certain principles/practices while approving the revenue requirement of the Society. In order to maintain consistency in its approach, the Commission had adhered to the same principles while undertaking the truing-up exercise. For example, the Commission had disallowed bonus, cost of subsidised electricity to the licensee’s employees etc while allowing the
expenses in the ARR which are to be passed on to consumers. The same items of expenses were disallowed while doing the truing-up exercise. The Hon’ble ATE in its Order in Appeal No. 84 of 2006 had also upheld the disallowance of such costs, which was being done consistently in the past.

b) **Approach to variations in losses:** As per the Orders dated 7th February 2008 in Appeal No.250 of 2006, the Hon’ble ATE has held that once the loss levels are fixed, the licensee is expected to make all out efforts to achieve loss levels and that the consumers should not be made to bear the brunt of losses over and above the fixed target. In view of this, the power purchase quantum had been allowed with reference to the approved loss levels. It is expected that the Society/licensee having a small area of operation shall invariably achieve the loss levels in its own interest and its consumers’ interest.

c) **Government’s Policies:** Any expenditure incurred by the licensee on account of implementing the Government’s policy or directions viz. supply of subsidised power to IP sets, extended hours of supply to agriculture, waiver of arrears of IP sets, etc, be made good by the GoK and the GoK should compensate the amount corresponding to the Government’s directions to the licensee as mandated under section 65 of the Electricity Act 2003.

d) **Grants from GoK:** The Commission had not considered grants from GoK, which is not related to ERC of Hukeri Society.

e) **Subsidy from GoK:** The Commission had considered the subsidy as per the approved ERC. Any increase or decrease as per actuals was not considered on the lines of the principle adopted in ESCOMs truing up. For
FY05, the subsidy as per actuals had been considered since ERC was not approved for that year.

f) Carrying cost: The Commission had considered a carrying cost of 12% per annum for the revenue gap on the trued ERC/ARR.

4. Truing up of ERCs for FY02 to FY07:

Based on the principles discussed above, the Commission has undertaken the truing up of ERCs/ARRs for the period from FY02 to FY07 with reference to the details of actual expenditure as furnished in the audited accounts furnished by the Society.

During FY05 the Commission has not approved the ERC for the reasons explained in ERC order of the Society for FY06. As per the actuals for FY05, the Society has indicated revenue gap of Rs. 475.35 lakhs. After making disallowance of the free lighting cost of Rs. 6.35 lakhs and bonus of Rs. 2.14 lakhs, the deficit would be Rs. 466.87 lakhs, which is considered for truing up.

As the Approved ERC/tariff has not been implemented for FY07, for the purpose of truing up, the revenue gap has been worked out with reference to the actual revenue and expenditure without taking the difference between the approved ERC and the actuals.

The details of the year-wise truing up are enclosed to this order as Annex-1 (a) to 1 (f). The surplus/deficit has been worked out based on the subsidy, which was considered in the originally approved ERCs. The summary of the truing up and the overall deficit/surplus is indicated below:
TABLE – 2
Summary of Truing Up
Rs. In Lakhs

<table>
<thead>
<tr>
<th>Year</th>
<th>Trued up difference of Revenue Expenses</th>
<th>(Deficit)/Surplus</th>
<th>Carrying Cost @ 12% p.a</th>
<th>Total (deficit)/Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY02</td>
<td>26.02</td>
<td>85.31</td>
<td>-59.29</td>
<td>-49.80</td>
</tr>
<tr>
<td>FY03</td>
<td>108.41</td>
<td>34.63</td>
<td>73.78</td>
<td>53.12</td>
</tr>
<tr>
<td>FY04</td>
<td>-71.10</td>
<td>122.98</td>
<td>-194.08</td>
<td>-116.45</td>
</tr>
<tr>
<td>FY05</td>
<td>3763.93</td>
<td>4230.80</td>
<td>-466.87</td>
<td>-224.10</td>
</tr>
<tr>
<td>FY06</td>
<td>243.97</td>
<td>565.28</td>
<td>-321.31</td>
<td>-115.67</td>
</tr>
<tr>
<td>FY07</td>
<td>2252.82</td>
<td>5000.52</td>
<td>-2747.70</td>
<td>-659.45</td>
</tr>
<tr>
<td>Total</td>
<td>6324.05</td>
<td>10039.52</td>
<td>-3715.47</td>
<td>-1112.35</td>
</tr>
</tbody>
</table>

As seen from the above, the cumulative deficit of the truing up of ARR for the period from FY02 to FY07 (with subsidy as per the originally approved ERCs), along with carrying cost, works out to Rs. 4827.81 Lakhs. However, the Society has considered the actual subsidy received from GoK and has arrived at the gap and thereafter has requested the Commission to treat the gap as subsidy due from the Government.

The Commission notes that in view of supply of power at subsidised rates as per the policy of the Government of Karnataka, the consequential cost of subsidised supply to IP sets has to be met by the Government. As already stated, while truing up the ERCs the Commission has considered the subsidy as was considered in the original orders on the ERC. Since the subsidy actually received from the Gok is much more than the subsidy considered in the approved ERCs, the actual subsidy received shall have to taken into account to arrive at the revenue gap/surplus. Hence, the Commission has reworked the revenue gap with reference to the subsidy actually received by the Society, which is as follows:
### Table-3

<table>
<thead>
<tr>
<th>Year</th>
<th>Trued up difference of Revenue (Rs. Lakhs)</th>
<th>Trued up difference of Expenses (Rs. Lakhs)</th>
<th>(Deficit)/Surplus</th>
<th>Carrying Cost @ 12% p.a</th>
<th>Total (deficit)/Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY02</td>
<td>26.02</td>
<td>85.31</td>
<td>-59.29</td>
<td>-49.80</td>
<td>-109.10</td>
</tr>
<tr>
<td>FY03</td>
<td>108.41</td>
<td>34.63</td>
<td>73.78</td>
<td>53.12</td>
<td>126.90</td>
</tr>
<tr>
<td>FY04</td>
<td>51.16</td>
<td>122.98</td>
<td>-71.82</td>
<td>-43.09</td>
<td>-114.91</td>
</tr>
<tr>
<td>FY05</td>
<td>3763.93</td>
<td>4230.80</td>
<td>-466.87</td>
<td>-224.10</td>
<td>-690.97</td>
</tr>
<tr>
<td>FY06</td>
<td>300.86</td>
<td>565.28</td>
<td>-264.42</td>
<td>-95.19</td>
<td>-359.61</td>
</tr>
<tr>
<td>FY07</td>
<td>4213.65</td>
<td>5000.52</td>
<td>-786.87</td>
<td>-188.85</td>
<td>-975.72</td>
</tr>
<tr>
<td>Total</td>
<td>8464.03</td>
<td>10039.52</td>
<td>-1575.49</td>
<td>-547.91</td>
<td>-2123.40</td>
</tr>
</tbody>
</table>

It is seen from the above that after considering the actual subsidy received from the Government; the cumulative gap with carrying cost works out to Rs. 2123.40 Lakhs. In order to decide whether to treat the gap as subsidy receivable or not, the Commission has computed the actual subsidy requirement of the Society towards subsidised power to IP sets for the period FY02 to FY07. These computations are based on the figures furnished by the Society and the trued up ERC. A statement indicating the subsidy computations with reference to the trued up ARR is enclosed to this order vide Annex-2. The Commission has allowed a carrying cost of 12% p.a on the arrears of subsidy. It is seen from the said statement that based on the trued up average cost, the balance of subsidy from the Government for the period FY02 to FY07 works out to Rs.2142.96 lakhs. With the additional subsidy of Rs.2142.96 lakhs, the cumulative gap of Rs. 2123.40 Lakhs for the period from FY02 to FY07 gets fully covered and the Society would be left with a surplus of Rs.19.56 lakhs. The Commission allows this surplus to be retained by the Society.
The manner of payment of arrears of subsidy by the Government, for the period FY02 to FY07 is indicated in the truing up order for FY08, which is issued separately.

This Order is signed, dated and issued by Karnataka Electricity Regulatory Commission at Bangalore on this day the 30th day of June 2009.

Sd/-
K.P. Pandey
Chairman

Sd/-
Vishwanath Hiremath
Member

Sd/-
K. Srinivasa Rao
Member