KARNATAKA ELECTRICITY REGULATORY COMMISSION
BANGALORE

ORDER ON APPROVAL OF ERC FOR FY08-FY10 IN RESPECT OF HUKERI RECS

In the matter of:

Application of the Hukeri Rural Electric Co-operative Society Ltd. for approval of ERC for FY08-10 under MYT frame work

Present:

Sri K.P.Pandey	**Chairman**
Sri H.S.Subramanya	**Member**

No.B/06/6/ **Dated 7th March 2008**

O R D E R

1.0 Introduction:

The Hukeri Rural Electric Co-operative Society (herein after referred as Society) is a licensee for distribution of electricity in the Hukeri Taluka of Belgaum District, by virtue of the Distribution Licence issued to the Society under the provisions of the Electricity Act 2003.

2.0 Background of the present filing

As per the KERC (Terms and Conditions for determination of Distribution and Retail Sale of Electricity) Regulations, 2006 (hereinafter referred to as MYT Regulations), the KERC (Tariff) Regulations 2000, as amended from time to time, and the Licensing conditions of the Distribution Licence issued by the Commission to the Society, the Society has to file the Expected Revenue from Charges (ERC) for the first control period FY08-10 on or before 30th of November every year. The Society did not file its ERC application for FY08-10 and the Commission addressed a letter on 13th December 2006 to file the ERCs without further delay.

The Society has thereafter filed its ERC application for FY08-10 on 9th January 2007 vide its letter dated 6th January 2007. The ERC Application was returned with observation vide Commission's letter dated 8th February 2007. The Society did not furnish compliance to the observations of the Commission. The Society submitted the replies to the observations on 8th January 2008.

The following table shows the ERC proposals for the control period:

TABLE – 1
Proposed ARR of Hukeri Society Under MYT framework

Amount in Rs. Lakhs

Ref. Form No.	Particulars	2007-08	2008-09	2009-10
D1	Energy available (MU)	176.70	180.60	184.10
D2	Energy sold (MU)	149.62	153.13	156.41
	T & D Loss (%)	15.32%	15.21%	15.04%
	Income	0.00	0.00	0.00
D2	Rev. from Sale of Power	2260.77	2409.13	2429.32
D3	Rev. subsidies and grants	1184.52	1210.66	1234.12
D4	Other Income	5.91	31.16	6.30
	Total	3451.19	3650.95	3669.74
	Expenditure	0.00	0.00	0.00
D1	Purchase of power	3313.24	3571.78	3874.31
D5	Repairs and maintenance	61.82	65.30	69.65
D6	Employee Cost	355.47	351.76	353.52
D7	Admn. And General Expenses	25.66	28.06	33.46
D8	Depreciation and related DTs	110.47	121.90	132.85
D9	Interest and finance charges	1.83	1.46	1.10
	Sub Total	3868.49	4140.25	4464.90

D10	Less Expenses Capitalised	54.25	55.17	56.08
	Interest & Finance Charges Capitalised	0.00	0.00	0.00
	Other Expenses Capitalised	0.00	0.00	0.00
	Sub Total	3814.24	4085.09	4408.82
D11	Other Debits Int. on Security Deposit	25.61	26.69	27.77
D12	Extraordinary items	0.00	0.00	0.00
	Total Expenditure	3839.85	4111.78	4436.59
	Profit (Loss) before tax	-2655.34	-2901.12	-3202.46
	Provision for Income Tax	0.00	0.00	0.00
	Profit (Loss) after tax	0.00	0.00	0.00
D13	Net Prior period credits	0.00	0.00	0.00
	Surplus / Deficit (-)	0.00	0.00	0.00
D4	Return on Equity	133.71	137.61	141.98
	Surplus / Deficit After ROE	-496.77	-571.75	-881.06

In the proposed ERC, the Society has indicated a revenue gap of Rs.496.77lakhs, Rs.571.75 Lakhs and Rs.881.06 lakhs for FY08, FY09 & FY10 respectively after considering subsidy allocation of Rs.11.85 Crs, Rs. 12.11 Crs and Rs.12.34 Crs., from GoK, for the three-year control period. However, while arriving at the deficit, the Society has not considered the other Debits- interest on security Deposits. After considering the same, the deficit as per ERC filing is as follows:

FY08 Rs. 522.36 lakhs
FY09 Rs. 598.44 lakhs
FY10 Rs. 908.82 lakhs

3.0 Preliminary Observations of the Commission:

The Preliminary observations on the ERC filing was communicated to the Society vide Commission's letter dated 8th February 2007. The Society did not furnish replies thereon and hence the Commission has issued two reminders on 19th July 2007 and 14th December 2007 to furnish replies on the preliminary observations on the ERCs. The Society has furnished replies to the Commission's observations vide its letter dated 8th January 2008.

4.0 Truing up of Annual Revenue Requirements of the previous years

The Commission, after its constitution in November 1999, has issued 5 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

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.

In each of the orders approving ERC of the Society, the Commission has reviewed the Society's performance with respect to the Commission's approved figures vis-à-vis the actuals as furnished by the Society from time to time. However, the Commission had not carried forward any deficit/surplus of the respective year to the ensuing year's ARR. The Commission, in line with the truing up exercise done for the other licensees (ESCOMs), has decided to undertake the truing up of ARRS of the licensee from FY02 to FY07 in view of the following reasons:

i) Implementation of MYT framework for the first control period FY08-10

Section 61 (f) of the Act and clause 5.0 of the National Tariff Policy require the State Commissions to be guided inter-alia by Multi-Year Tariff (MYT) principles. The Commission is of the view that an MYT framework is an incentive based regime wherein the performance of the licensee is monitored against the Commission approved targets thereby incentivising better performance and penalizing under performance.

In this backdrop, the Commission views that it is appropriate to review the past performance of the licensee which eventually should facilitate the Commission in fixing realistic targets instead of desired targets. Therefore, the Commission, in this order, has reviewed the performance of the Society and also trued-up the cost parameters based on actual. Truing-up the cost to the actual would support the Commission in fixing realistic targets for the control period.

The Commission would like to further add that one of the objectives of MYT framework as per National Tariff Policy is to establish the revenue requirement at the beginning of the control period and focus on regulating outputs instead of cost inputs. Further, there should be a mechanism to share excess profits and losses. The relevant extracts of the National Tariff Policy are as below:

> **5.3 (h) (3) of the National Tariff Policy:** ***"Once the revenue requirements are established at the beginning of the control period, the Regulatory Commission should focus on regulation of outputs and not the input cost elements. At the end of the control period, a comprehensive review of performance may be undertaken."***

In order to establish the revenue requirements of the Licensee at the beginning of the control period, truing up therefore has become necessary.

ii) Appellate Tribunal Orders

The Hon'ble ATE order in appeal no. 77, 78 & 79 of 2006, required the Orissa Electricity Regulatory Commission (OERC) to conduct a truing up exercise in the absence of one carried out earlier. The relevant extracts of the order are as below:

"29. ... It is fundamental that an annual revenue requirement is approved on estimates, projections and best judgments. However, truing up is an essential exercise required to be undertaken by Regulator on a regular basis, where in actuals are compared with those approved and necessary results flow from it…"

"30…. In the circumstances, we are constrained to direct the Regulatory *Commission to undertake truing up exercise for the past three years, if not already undertaken…"*

The ATE order in appeal no. 74, 75 & 76 of 2006, required OERC to conduct a truing up exercise. The relevant extracts of the order are as below:

"*50. It is rightly contended that the 1st respondent GRIDCO has earned a substantial profits during 2003-2004, 2004-2005 respectively, Rs. 825 Crores and Rs. 630 Crores. The above figurers are to be verified by the Commission. Even during 2005-2006 the GRIDCO has earned profits, which has increased progressively. Had the truing up has been undertaken, financial position of GRIDCO could be assessed on actuals and figures and the omission to carry out truing up and failure to undertake prudent check has lead to many omissions and has affected the Discoms and ultimately the consumers prejudicially. In the circumstances, we direct OERC to take up truing up which it has omitted to carry out during the previous years and the results of such truing up should naturally get reflected on the finances of GRIDCO and the benefit has to be passed on to the consumers through DISCOM.*

51. We are confident that the Regulator will take up truing up exercise every year instead of postponing the same and such truing up exercise definitely is in the interest of the GRIDCO as well as consumers and the Discoms, besides it is an effective control and supervision of the affairs of the GRIDCO by the Regulator."

The Hon'ble ATE order in appeal no. 41 of 2005, required Chhattisgarh State Electricity Regulatory Commission (CSER) to undertake a truing up exercise based on actual data. The relevant extract of the order are stated below:

"17. Taking into consideration the predicament in which the second respondent was placed in dealing with a newly created Electricity Board and given the fact that the ARR was being filed for the first time, we decide not to interfere with the order of the Commission. In any case the truing up exercise by the Commission based on the actual data will put right the effect of lack of data by adjustment during next tariff period. At this point we direct the respondent Board to furnish the requisite data in time to enable the Commission to take decisions based on actual data."

In order dated 4th December 2007 in Appeal No.100 of 2007 the Hon'ble ATE has upheld the decision of the Commission to undertake truing up exercise to clean up accounts of the past, though belatedly.

In this backdrop, the Commission is of the view that it is appropriate to review the past performance of the licensee, which eventually should facilitate the Commission in fixing realistic targets instead of desired targets. Therefore, the Commission, in this Order, has reviewed the past performance of the licensee and also trued-up the cost parameters based as per the details available with the Commission.

Principles adopted by the Commission for truing up

In the process of truing up of ARRs the Commission has considered the following principles:

a) **Principles as per earlier Orders:** The Commission, in its previous orders, has followed certain principles or practices while approving the revenue requirement. The Commission has adhered to the same principles while doing the truing-up exercise. For example, the Commission has disallowed bonus, cost of subsidised electricity to the licensee's employees, interest on power purchase dues, provision for bad debts, etc to be passed on to consumers and the same has been adopted while doing the truing-up exercise. The Hon'ble ATE in its Order in Appeal No. 84 of 2006 has also upheld the disallowance of such costs.

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 is worked out based on the actual sales plus the target (Approved) loss levels.

c) **Government's Policies:** Any loss incurred by the licensee on account of Government's policies or directions viz. extended hours of supply to agriculture, waiver of arrears of IP sets, etc, which affects the tariff determined by the Commission, should be borne neither by the consumers nor by the licensee. GoK should compensate the amount corresponding to the Government's directions to the licensee with carrying cost.

d) **Orders of the Hon'ble ATE:** The Commission has considered the principles enunciated by the Hon'ble ATE in its Orders in Appeal No. 84 of 2006, 100 of 2007 and 250 of 2006 while dealing with the various components of expenses in the truing up exercise.

e) **Maintenance of Accounts on accrual basis:** The Accounts of the licensees are maintained on accrual basis as per the accounting policies being followed. Hence, the Commission has considered the expenses and revenue on accrual basis as per the Profit & Loss Account of the licensee for truing up exercise.

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

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

The Commission has considered the above principles for truing up , which are in line with the Electricity Act 2003, the NTP and the Hon'ble ATE's orders.

5.0 Truing up of ARRs from FY02 to FY07:

Based on the above discussions, the Commission has undertaken the truing up of the ARR for FY02 to FY07 with reference to the details of actual expenditure as furnished in the ERCs filed by the Society from time to time. As the audited accounts are not available for all the years, the information on the actual revenue and expenses has been taken from the following sources:

i) For FY02- FY04 ERC filing dated 30.12.2002
ii) For FY03, FY05 ERC filing dated 27.02.2004 (FY05 filing)
iii) For FY04, FY06 ERC filing dated 23rd July 2005
iv) For FY06, ERC filing for FY08-10 dated 6th January 2007
v) For FY07, ERC filing for FY08-10 dated 6th January 2007

The Society is directed to submit the audited accounts from FY02 to FY07 duly compiling the same in the ERC formats. The Society has not submitted the audited accounts for FY02 to FY07 (except FY05, which does not conform to the ERC formats).

This the first truing up based on actuals. However, the Society may propose modification for truing up of the ARRs, if any, based on the audited accounts. In case the Society fails to file proposals for final truing up, the figures as per the present shall be considered as final.

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 Bonus of Rs. 6.35 lakhs, the deficit would be Rs.469 lakhs. Since the Society has not indicated any return on capital for FY05, the net deficit of Rs. 469.00 lakhs is considered for truing up.

The Tariff order dated 16.10.2006 issued by the Commission in respect of ESCOMs tariff was stayed by the Hon'ble ATE in Appeal No. 250 of 2006. Consequently the tariff determined for FY07 was not given effect during FY07 by any of the ESCOMs including the Society. Thereby, the ERC approved for FY07 in respect of the Society is not given effect. As such, in the truing up exercise for FY07, the difference between approved and actuals has not been considered. Instead, the figures considered for truing up have been taken to arrive at the surplus/deficit for FY07.

The details of the year-wise truing up are enclosed to this order as Annex 1(a) to 1 (e). The summary of the truing up and the overall deficit/surplus is indicated below:

TABLE – 2

Summary of Truing Up

Rs. In Lakhs

Year	Trued up difference of				
	Revenue	Expenses	(Deficit)/ Surplus	Carrying Cost @ 12% p.a	Total (deficit)/Surplus
FY02	26.02	85.97	(59.95)	(39.57)	(99.52)
FY03	21.39	34.51	(13.12)	(7.08)	(20.20)
FY04	-71.09	74.29	(145.38)	(61.06)	(206.44)
FY05			(469.00)	(140.70)	(609.70)
FY06	245.4	204.02	41.38	12.41	53.79
FY07*	3352.34	4521.9	(1169.56)	(210.52)	(1380.08)
Total	3574.06	4920.69	-1815.63	(446.52)	(2262.15)

*** For FY07 total of the actual revenue and expenses has been considered for arriving at the net deficit/surplus**

As seen from the above, the overall deficit of the truing up works out to Rs. 2262.15 Lakhs. Since the amount is substantial, the Commission decides to carry forward the same to the ERC/ARR of FY08 to FY10 in the following manner:

TABLE – 3

Carry forward of Trued up Amount

Rs. In Lakhs

ARR of the Year	Amount carried forward
FY08	754.05
FY09	754.05
FY10	754.05
Total	**2262.15**

6.0 ERC for FY08 to FY10 under Multi Year Tariff Framework

As required under Section 61 of the Electricity Act 2003, the Commission has notified the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail sale of electricity) Regulations, 2006 (hereinafter referred to as MYT Regulations). Based on these Regulations, the Society is required to file the ERC /Tariff application under MYT framework. Accordingly the Society has filed its ERC for the first control period and Tariff revision application for FY08.

The objective of the Commission in moving towards a Multi Year Tariff regime is to provide the stakeholders with regulatory certainty aimed at achieving operational efficiency. These achievements are targeted by putting in place the right incentive/penalty framework to ensure better performance by the licensee.

The incentive/penalty framework will be based on the over achievement or under achievement of the licensee with respect to the targets set by the Commission in this order on the expenses that are deemed 'controllable' in the tariff regulations.

As per the MYT Regulations, the Controllable and Uncontrollable items of ARR for distribution business are as follows:

TABLE – 4
Controllable & Uncontrollable Expenses as per Regulations

Distribution and Retail Supply Business	
ARR Item	**"Controllable"/ "Uncontrollable"**
Power Purchase Costs	Uncontrollable
Operation & Maintenance expenses*	Controllable
Interest & Finance Charges	Controllable
Expenses on account of Inflation	Uncontrollable

Return on Equity	Controllable
Depreciation	Controllable
Taxes on Income	Uncontrollable
Non-tariff income	Controllable

* **Note: Includes Employee cost and A&G Expenses also.**

The Commission would deal with the variation in O & M expenses appropriately, keeping in view the provisions of the MYT Regulations.

Expenses like interest, depreciation, and return on equity and debt equity ratio will be considered as controllable during the control period. The Commission will look into any under performance or over performance of the licensee during the annual performance review.

The Commission will process the Distribution Society's filings under MYT framework in accordance with KERC (Tariff) Regulations read with KERC (Conduct of Business) Regulations.

6.1 Segregation of Accounts between Distribution business and retail supply business:

As per the requirements of Clause 2.2 of KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006, the Society is required to segregate its accounts between Distribution and Retail supply business. Till such time there is complete segregation, the ARR of the Distribution Licensee shall be apportioned between the Distribution Business and Retail Supply Business by an appropriate methodology.

As per the requirements of the Regulations, the Society has not bifurcated the expenses between distribution and retail supply and instead has filed the ERC for the distribution and retail supply as one activity. However the Commission has bifurcated the expenses by applying the percentage as adopted by HESCOM. While doing so, HESCOM has considered the entire infrastructure in the distribution system up to the point of service main for distribution wires business, while the infrastructure covering service main and metering equipment is considered for retail supply business.

The following table indicates the percentage of expenses allocated to distribution and retail supply:

TABLE – 5

Percentage of Allocation of Expenses

Particulars	Distribution wires (%)	Retail Supply (%)
Power purchase and related cost	0	100.00
Transmission cost	0	100.00
Operation and Maintenance Cost:		
a) Repairs and Maintenance cost	92.75	7.25
b) Employee cost	59.50	40.50
c) Administration and General expenses	57.00	43.00
Depreciation	84.00	16.00
Advance against depreciation	100.00	0.00
Interest on loan capital	98.00	2.00
Interest on security deposit		100.00
Interest on working capital	14.00	86.00
Interest on belated payment of PPC		100.00
Other expenses, if any	31.00	69.00
Prior Period Charges	100.00	0.00
Return on equity	100.00	
Provision for taxation	50.00	50.00
Non-Tariff income	0	100.00
Net expected revenue from tariff	0	100.00
Subsidy	0	100.00

Since the Society has not made any effort in segregating accounts in respect of retail supply and distribution business, the Commission directs the Society to segregate the expenses between Distribution & Retail Supply businesses by adopting an appropriate methodology pending bifurcation of accounts.

6.2. ERC & Tariff filing for the Control Period:

As indicated in Para 2 of this order, the Society has indicated a Revenue gap of Rs. 497 Lakhs for FY08, Rs.572 Lakhs for FY09 and Rs. 881 Lakhs for FY10 in its ERC filing under MYT framework.

6.3 Compliance to Directives

The status of compliance to the Directives as indicated in the ERC of the Society is as under:

a) **HT/LT Ratio**: It is stated by the Society that the present HT / LT ratio of lines is 1:3.3. The Society proposes to improve the ratio of HT/LT by providing 100 additional DTCs & 11 KV lines. It is stated that the Society is trying to be efficient by undertaking programme of adding more than 100 distribution transformers of different capacities and that stringent vigilant activities are being undertaken in respect of domestic, commercial and small scale industrial consumers. This will be extended to IP category as well.

The Commission notes that the Society has not put in adequate efforts to reduce the HT / LT ratio despite envisaging such a scheme in the earlier ERC filing also. As such, the Commission once again directs the Society to take up this work by utilising the proposed capital expenditure and reduce the gap in the HT/LT ratio during the control period FY08-10.

b) **DC/MNR installations**: The society has indicated that there has been reduction in the percentage of DC/MNR installations over the years. In the year 2002-03 the percentage of DC/MNR to total installations was 1.56% and the same has been reduced to 0.49% during the year 2006-07(upto September 06). The Commission appreciates the efforts of the Society in complying with the directives of the Commission to bring down the ratio of MNR installations to less than 1%.

c) **Computerisation:** The Commission notes that in the previous ERC the progress of computerisation was indicated as 60-80% in the areas of billing, inventory management etc,. However in the current filing the status of computerisation is not indicated by the Society. The Commission, in its previous order on the ERC for FY07 had directed the Society to complete the task of computerisation of billing, inventory management, MIS and all other related activities within 3 months from the date of this order and furnish a status report to the Commission. **The Commission notes that the Society has failed to comply with this directive.**

d) **Establishment of Consumer Grievance Redressal Forum**

The Commission had issued directions to establish a forum in terms of the regulations framed by the Commission. However the Society has been exempted from establishing the same vide Commission's letter dated 7th September 2006. As per this letter, the consumer grievances of the Society are entrusted to the CGRF, HESCOM. The Society is once again directed to give wide publicity to this effect.

e) Implementation of Regulations on Consumer Complaint handling and Licensees standards of performance

In the previous Orders on ERC itself, the Society was directed to furnish a report to the Commission on the implementation of the Regulations on Consumer Complaint Handling and Licensees standards of performance. The Society is yet to furnish compliance thereon.

f) **New Directive- Implementation of Intra-State ABT**

The Commission vide its Order dated 20.06.2006 has directed the KPTCL/ all the distribution licensees/ generating companies to implement intra state ABT in the state. KPTCL has already taken up the implementation along with integrated extended SCADA. **In this regard the Society is directed to initiate necessary measures to implement the intra-state ABT and furnish a status report within two months from the date of this order.**

g) **New Directive- Segregation of accounts into distribution and retail supply business**

As required the MYT Regulations the Society has to bifurcate its accounts into distribution and retail supply business. **Accordingly the Commission hereby directs the Society to segregate the accounts by adopting a suitable methodology and implement from the next financial year.**

h) **New Directive- filing of tariff application**:

The Commission has introduced differential retail supply tariff for each of the distribution licensees. **As such the Society is directed to file its tariff application for determination of distribution and retail supply tariff for the next financial year as per MYT / Tariff Regulations.**

i) **New Directive- Prudence Check for Capital Works:**

As per the Orders of the Hon'ble ATE, the Commission would conduct a prudence check on the capital expenditure incurred by the Society. **In this regard the Society is directed to furnish the required information as per the formats prescribed from time to time.**

The Commission notes that the Society has failed to act upon the directives issued in the earlier Orders and furnish compliance thereon. The Commission would be constrained to invoke the provisions of sections 142 of the EA 2003 for the failure of the Society to fully comply with the direction and initiate appropriate action under the said provisions. The Society is therefore directed to comply with all the directives and to furnish a compliance report to the Commission within two months of the date of issue of this Order.

6.4 Capital investments for the Control Period and Interest & Finance charges

Society's Submission

The Society has proposed to make a capital investment amounting to Rs. 951.64 Lakhs for the control period. The investments projected are Rs. 350.28 Lakhs for FY08, Rs. 307.05 Lakhs for FY09 and Rs. 294.31 Lakhs. Subsequently the Capex is revised to Rs. 170 Lakhs, Rs. 190 Lakhs and Rs. 210 Lakhs for FY08, FY09, FY10 respectively. As per the requirements of the Regulations, the Licensee is required to file the perspective plan for a period of five years commencing from 2007-08 to 2012-13. However, Society has not provided the projection of capital investments for the period FY2011-2013.

Society has not furnished the details of funding.

Commission's analysis & Decision on CAPEX

The Commission has considered the filing and replies furnished by the Society. In this context, the Commission has referred to the orders of the Hon'ble ATE in Appeal No. 100 0f 2006 dated 4.12.2007. Keeping in view the non-availability of audited accounts for the base year, the Commission allows the interest and finance charges as proposed by the society, which is subject to prudence check during Annual Performance review/Truing up.

The approved interest & finance charges for CAPEX is as follows:

TABLE – 6
Approved Interest & Finance Charges on Capex
Rs. Lakhs

Year	Total interest	Distribution	Retail supply
FY08	1.83	1.79	0.04
FY09	1.46	1.43	0.03
FY10	1.10	1.08	0.02

Allocation between distribution wires business & retail supply business is in the ratio of 98:2.

The Commission directs the Society to ensure that they achieve investments as planned by it, as any material deviations would affect the tariff stability. The Commission also reiterates that, prudence check shall become very important especially in the context of over projecting the investment requirements. For carrying out a prudence check on the investments, for FY07 and FY08, the Commission requires the following information from the Society:

a. Statement of sources of funds for the capital investments proposed by the Society

b. Application of those funds for the same capital investments
c. Loan drawals linked to the progress of the same capital projects
d. Capitalisation schedule for the proposed capital investments
e. Actual commissioning date for the proposed capital investments to corroborate interest and expenses capitalised pertaining to that project and loans.
f. Interest costs pertaining to the new capital investments as proposed
g. Reserves and surpluses used for capital investments or operations of the business
h. Depreciation cost linked to the commissioning of the project
i. Loans pertaining to working capital (normative and actual)

The Commission further notes that, the timely submission of the above information is essential for the Licensee and the Commission to ensure that the costs pertaining to efficient operations are used for determining ARR and tariffs.

The Commission accordingly directs the Society to provide the above mentioned information within the time frame prescribed by the Commission for carrying out the prudence check as any delay in carrying out the true-up exercise would affect the credibility of tariff determination process. Further, timely submission of such information and Commission's Orders thereon would help the financial viability of the Licensees.

6.5 Sales, Power Purchase quantum & cost:

The Society has proposed the following sales:

TABLE – 7

Year	Quantum-MU
FY08	149.62
FY09	153.13
FY10	156.41

The Society has proposed the following power purchase quantum and cost:

TABLE – 8

Proposed Quantum of Power Purchase

Year	Quantum-MU	Rs. Lakhs
FY08	183.87	2309.09
FY09	187.93	2360.05
FY10	191.57	2405.79

Further, the Society has proposed the following Transmission charges payable to KPTCL at 19.42 paise/unit:

TABLE – 9

Proposed Transmission Charges

Year	Quantum-MU	Rs. Lakhs
FY08	176.70	343.15
FY09	180.60	350.72
FY10	184.10	357.52

Commission's Analysis

The GoK has not made source-wise allocation of Generation to the Society separately. The GoK should have made the allocation to the Society, as it is a Licensee under the Act. Hence, the GoK is requested to make allocation of the Power Purchase to the Hukeri Society separately.

Meanwhile, in this order, the Commission has considered the allocation as proposed by HESCOM in their ERC filings under MYT. Pending allocation of power by the GoK, the Commission has considered the allocation proposed by HESCOM. Based on this, the source-wise power purchase quantum and costs have been worked by the Commission and the same are annexed to this order at Annex 2a, 2b & 2c for the control period FY08 to FY10. The approved power purchase quantum & cost is as follows:

TABLE – 10

Approved Power Purchase Quantum

Year	Quantum-MU (including Appd. Transmission Losses)	Cost-Rs. Lakhs
FY08	191.65	3064.03
FY09	195.82	3728.13
FY10	199.55	4183.42

The Commission has considered the sales & quantum of purchase at IF point as proposed by Hukeri society, keeping in view the Hon'ble ATE's Order dated 7.2.2008 in Appeal No. 250/2006. However, while truing up the Commission would work out the power purchase quantum considering the actual sales and the loss level approved by the Commission in this Order, based on the principles enunciated by the Hon'ble ATE in its order dated 4.12.2007 in Appeal No.100/2007.

The Commission would like to reiterate its stand that the Society shall make its own Commercial arrangements for the power purchase at competitive rates instead of depending on HESCOM.

6.6 Transmission charges:

The Commission has determined the Transmission Charges in its order-dated 31.12.2007 on MW-basis. Since the Peak load details for Hukeri Society are not available, the Commission has arrived at the Peak load at IF point by considering a Load Factor of 75% [based on LF of HESCOM for FY08] and the approved input energy at IF point. Any variation in peak load would be accounted for during true up. For this purpose, Hukeri society is directed to record the actual non-coincident peak. The peak load considered and the corresponding transmission charges are indicated below:

TABLE – 11

Approved Transmission Charges

Year	Peak Load-MW	Transmission charge-Rs/MW/month*	Total Transmission charges for the year-Rs. Lakhs
FY08	**26.89**	**89699**	**289.44**
FY09	**27.49**	**95869**	**316.25**
FY10	**28.02**	**103402**	**347.68**

*** This is subject to modification based on the outcome of Appeal by KPTCL before Hon'ble ATE.**

6.7 Transmission & Distribution Losses:

The Commission has already approved the following transmission losses for KPTCL in its order-dated 06.07.2007, which is applicable for Hukeri also for determining the power purchase quantum while truing up:

FY08: 4.06%
FY09: 4.03%
FY10: 4.00%

Regarding the distribution losses, the Society has proposed as follows:

FY08: 15.32%
FY09: 15.21%
FY10: 15.04%

The Commission in its order-dated 29.11.2006 had fixed the distribution loss level for Hukeri as 14.75% for FY07. The loss for FY07 as reported by the Society is 15.49%. The Society has failed to achieve the target loss for FY07. Keeping in view the present loss levels and also the target approved for FY07, the Commission approves the following loss levels for the Society:

TABLE – 12

Approved Distribution Losses

Particulars	% Distribution Loss as approved by KERC		
	FY08	FY09	FY10
Upper Limit	14.95	14.85	14.75
Average	14.70	14.60	14.50
Lower Limit	14.45	14.35	14.25

~~6.5.~~6.8 Operation & Maintenance (O&M) Expenses

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Operation and Maintenance expenses comprise of Employee cost, Administrative & General (A&G) expenses and Repairs & Maintenance (R&M) expenses. The regulations of the Commission require licensee to propose appropriate Inflation Factor Norms for operation and maintenance expenses for the first control period.

Society's Submissions

The expenses proposed by the Society are discussed below:

a) **R&M expenses:** The proposed expenditure for the control period is as indicated below:

TABLE – 13

Year	Rs. Lakhs
FY08	61.82
FY09	65.30
FY10	69.65

b) **A&G expenses:** The projections are shown in the table below:

TABLE – 14

Year	Rs. Lakhs
FY08	25.65
FY09	28.05
FY10	33.45

~~b)~~**c) Employee costs**: The projections are shown in the table below:

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TABLE – 15

Year	Rs. Lakhs
FY08	355.47
FY09	351.76
FY10	353.52

Commission's Analysis & Decision:

The Regulations of the Commission on O&M expenses require the licensee to propose appropriate Inflation Factor Norms for operation and maintenance expenses for the first control period. However, the licensee has projected the expenses based on an assumed growth rate without furnishing any details. The Commission has therefore considered inflation factor norms to determine the consolidated O&M expenses for the control period as per the MYT Regulations.

The Society has not submitted the audited accounts for the year FY07. Therefore details as furnished by the Society are considered by the Commission for the base year for projecting the expenses for the control period.

The Commission has been disallowing certain expenses like bonus, free lighting etc., in its earlier orders. Since this order is being issued under Multi Year Tariff Regulations, which is a performance-based regulation, the expenses are worked out on normative basis. The Commission would decide upon sharing of gains and losses at the time of Annual Review of Performance. Further, while determining the baseline expenses for benchmarking under MYT regime, actual expenses based on audited/ provisional accounts are considered, in tune with Tariff Policy of GoI.

In the absence of the required information, the Commission has adopted the inflation rate of 5.37%, which is the same as worked out for HESCOM. While, fixing the inflation indices, the Commission has considered the weighted average rate of Consumer Price Index (CPI) of Industrial Workers (IW) & Wholesale Price Index (WPI) to compute average inflation rate. CPI (IW) represents the inflationary increase for employee expenses and WPI represents the inflationary increase for A&G and R&M expenses.

Further, the Commission notes that in addition to the inflationary increase, there is a need to factor the business growth as well, which is also an important cost driver. In this regard, the Commission has analysed the growth in consumer numbers for the years FY05 to FY07, which is at 1%.

Considering the inflation and the business growth, the rate of increase in O&M cost is considered at 6.37 %. As per the regulations of the Commission, the O&M cost is a controllable expense and the licensee needs to work on moving towards efficient cost. Hence the Commission sets an efficiency factor of 0.25%. Based on the discussion, the total growth considered by the Commission for approving the O&M expenditure for the Control period is 5.87%. The base year O & M expenses as per the information provided would be Rs. 418.25 lakhs which is considered for projecting the expenses for the Control Period.

Therefore, the Commission approves the following formula for approval of O&M expenses. The same is used for projecting the O&M expenses for the control period.

O&M Cost $_t$ = O&M Cost $_{t-1}$ * (1 + WII + CGI – X)

Where,

'O&M Cost $_t$' is the normative O&M cost aproved by the Commission for the fianncial year

'WII' is the weighted inflation index of CPI and WPI based on the contribution of employee cost, R&M and A&G towards the total O&M cost

'CGI' is the Consumer growth index, which is linked to increase (CAGR) in no of consumers from FY05 to FY07 which is 1%

'X' is the efficiency factor , for Society the Commission fixes the same as 0.50%

As part of the truing up exercise, the Commission will adjust O&M expense to the extent of WII and CGI considered in this order. If the licensee reduces the O&M cost by more than 'X' factor, the benefit can be retained by the licensee consistent with MYT regulations of the Commission.

For segregating the O&M expense between wires and retail supply business the Commission has arrived at the ratio as 63% for wires and 37% for retail supply .

Based on the projections the O&M for the control period as approved by the Commission is as below:

TABLE – 16

O&M Expenses as filed by Society and as approved by the Commission for the Control Period

Particulars		FY08	FY09	FY10
As projected by the Society				
R&M Expenses		61.82	65.30	69.65
Employee Cost		355.47	351.76	353.52
A&G Expenses		25.65	28.05	33.45
Total O&M Expenses as projected by Society		442.94	445.11	456.62
Total O&M Expenses as approved by the Commission	Distribution Wires Business	278.96	295.34	312.67
	Retail Supply Business	163.84	173.45	183.64
	Total	442.80	468.79	496.31

~~6.6.~~6.9 Depreciation

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Society Submission

The Society has projected for depreciation on the basis of the GoI Notification dated 29.03.1994.

The projected depreciation is as shown below:

TABLE – 17

Depreciation

Rs. Lakhs

Particulars	2007-08	2008-09	2009-10
Depreciation provision for the year	110.47	121.90	132.85

Commission's Analysis & Decision:

The Commission in its MYT Regulations has specified the following methodology for determination of values for the base year

> ***"Base Year****: - Values for the Base Year of the Control Period will be determined based on the audited accounts available, best estimate for the relevant years and other factors considered appropriate by the Commission, and after applying the tests for determining the controllable or uncontrollable nature of various items."*

The Commission notes that the Society has not worked out the depreciation as per the MYT regulations considering the rates as specified by CERC. However, in the absence of information, the Commission has considered a weighted average rate of 3.5%, which is subject to true up. The Society is directed to furnish the depreciation computation as per MYT Regulations, failing which the Commission will disallow the depreciation while truing up.

The following table summarises the depreciation approved by the Commission.

TABLE – 18
Depreciation approved by the Commission

(Rs. In Lakhs)

Particulars	FY08	FY09	FY10
Opening GFA	2544.64	2902.92	3217.97
Add Additions during the year	358.28	315.05	302.31
Less Retirement of assets	0.00	0.00	0.00
Closing GFA	2902.92	3217.97	3520.28
90% of the GFA	2612.63	2896.17	3168.25
Avg. Dep. Rate	3.5%	3.5%	3.5%
Depreciation	91.44	101.37	110.89
Depreciation-Wires Business	76.81	85.15	93.15
Depreciation-Supply Business	14.63	16.22	17.74

6.10 Advance Against Depreciation (AAD)

The Society has not proposed any AAD. The Commission notes that the repayments is Rs.4.4 Lakhs for FY08 & FY09 and Rs.3.40 Lakhs for FY10, which is less than the depreciation approved for the Control period. Hence, there is no requirement of AAD for the control period.

6.11 Interest charges on Working capital

The Society has not claimed interest on working capital.

Commission's Analysis

The Commission has estimated the total working capital requirement in accordance with the provisions of its MYT Regulations. Further, the Tariff Regulations stipulate that the Rate of Interest on working capital shall be on normative basis and shall be equal to the short-term Prime Lending Rate of State Bank of India as on 1st April of the year. As the short-term Prime Lending Rate of State Bank of India is 11.50%, the Commission has considered the interest rate of 11.50% for estimating the interest on working capital.

Since, audited accounts are not furnished for the base year, the Commission has considered revenues as estimated by society for the purpose of 2-months receivables while computing the working capital. The detailed computation of interest charges on working capital as approved by the Commission for the control period is given in the following table.

TABLE – 19
Interest on working capital

Particulars	FY 08	FY 09	FY 10
Computation of Working Capital- Wires Business			
One-twelfth of the amount of O&M Exp.	23.25	24.61	26.06
Stores, materials and supplies 1% of Opening balance of GFA	21.38	24.39	27.03
One-sixth of the expected revenue from distribution user at the prevailing tariffs	94.20	100.38	101.22
Total Working Capital	138.82	149.38	154.31
Rate of Interest (% p.a.)	11.5%	11.5%	11.5%
Interest on Working Capital - Wires Business	**15.96**	**17.18**	**17.75**
Computation of Working Capital- Supply Business			
One-twelfth of the amount of O&M Exp.	13.65	14.45	15.30
Stores, materials and supplies 1% of Opening balance of GFA	4.07	4.64	5.15
One-sixth of the expected revenue from sale of power	282.60	301.14	303.67
Total Working Capital	300.32	320.24	324.12
Rate of Interest (% p.a.)	11.5%	11.5%	11.5%
Interest on Working Capital- Supply Business	**34.54**	**36.83**	**37.27**
Total Interest on Working capital	**50.50**	**54.01**	**55.02**

6.12 Other debits and prior period expenses

Society's Submission

As per the Society's MYT petition, other debits consist of only interest on Consumers' Security Deposit.

The filing of the Society for other debits and net prior period expenses are shown in the table below:

Rs. Lakhs

Year	Amount
FY08	25.61
FY09	26.69
FY10	27.77

Society has stated that the above is worked out as per the Commission's Regulations.

The Society has not proposed any Prior Period Charges.

Commission's Analysis

The Commission is of the view that other debits & prior period expenses cannot be estimated over a three-year period. The Commission therefore directs the licensee to file suitable proposal for consideration of such expenses as per actual during truing up. However the Commission is allowing interest on security deposit of consumers and therefore has worked out the same as follows:

TABLE – 20

Approved Interest charges on consumer security deposit

Rs Lakhs

Particulars	FY08	FY09	FY10
Outstanding balance of consumer security deposit	410.84	426.84	444.84
Interest on consumer deposit-supply business @ 6% interest rate	24.65	25.61	26.69

~~6.12.~~

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6.13 Expenses Capitalised:

The Society has proposed the following amounts for the control period as expenses capitalised:

FY08 Rs. 54.25 lakhs
FY09 Rs. 55.16 lakhs
FY10 Rs. 56.08 lakhs

The Commission allows the above capitalisation duly allocating the same to Distribution (wires) business).

6.14 Return on Equity

Society's Submission

The working for computations of ROE as filed by Society is shown below:

TABLE – 21

Proposed R o E

Rs Lakhs

Particulars	FY08	FY09	FY10
Equity Share Capital	294.11	305.61	316.61
Cash resources available from share premium account or from internal resources to fund the equity commitments.	660.99	677.31	697.53
Total Net worth	955.10	982.92	1014.14
Return on Equity @ 14%	**133.71**	**137.61**	**141.97**

Commission's Analysis

As per clause 3.9 of the MYT regulations, Return on equity shall be computed on the equity base determined in accordance with the normative DE ratio as prescribed by the Commission. The rate of ROE to be approved is 14% per annum. For the purpose of return on equity, any cash resources available to the licensee from its share premium account or from its internal resources that are used to fund the equity commitments of the project under consideration shall be treated as equity subject to limitation of normative equity of 30% of capital investment.

The Commission has considered equity as total of Paid up Share Capital, Deposits, Reserves & Surplus.

The Commission would however true up the opening balance of equity for FY08 on the basis of the audited accounts during the truing up exercise for FY08.

For determining the ROE for the control period, RoE for the previous year is considered as surplus and carried forward as reserve for subsequent year for calculating RoE. The ROE approved for the control period is shown in the table below:

TABLE – 22
Approved R o E

Particulars	FY08	FY09	FY10
Equity Reserves & Surplus at the beginning of the year	922.26	1051.38	1189.53
ROE for the previous year	129.12	138.15	156.86
Closing balance	1051.38	1189.53	1346.40
Average balance	986.82	1120.46	1267.97
RoE* @ 14%	138.15	156.86	177.52

RoE is subject to truing up during the annual performance review and subject to debt: equity norms specified in regulations.

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The Commission has considered the allocation of RoE at 82% to distribution and 18% to retail supply business.

TABLE – 23

Allocation of Approved RoE

Rs Crs

Particulars	FY08	FY09	FY10
RoE – Total	138.15	156.86	177.52
ROE- Wires Business	113.28	128.63	145.57
ROE- Retail Supply Business	24.87	28.23	31.95

6.15 Income Tax

The Society has not proposed income tax and therefore, the Commission has not provided for the same in the ARR.

6.16 Non- Tariff Income

Society's submission

The table below shows the proposal of the society for the control period.

TABLE – 24

Non-Tariff Income

Rs. Lakhs

Particulars	FY 08	FY 09	FY 10
Other Income	5.91	31.16	6.29

The Commission accepts the above proposal. However, the same is subject to true up as per audited accounts of the relevant years. The Non-Tariff income has been considered for ARR of Retail Supply

6.17 The abstracts of ARR for the control period FY08 to FY10 in respect of Distribution network, Retail Supply Business and the Consolidated ARR are as under**:**

TABLE – 25

Approved ARR for Distribution Business			
	FY08	**FY09**	**FY10**
Particulars	**As approved by KERC**		
O&M Expense	278.96	295.34	312.67
Depreciation	76.81	85.15	93.15
Advance against Depreciation	0.00	0.00	0.00
Interest on long term loans	1.79	1.43	1.08
Other interest & finance charges	0.00	0.00	0.00
Interest on consumer deposit	0.00	0.00	0.00
Interest on Working capital	15.96	17.18	17.75
Total interest & Finance Charges	**17.75**	**18.61**	**18.83**
Sub total	**373.52**	**399.10**	**424.65**
Less Expenses capitalized	54.25	55.17	56.08
Other debits	0.00	0.00	0.00
Extra ordinary items	0.00	0.00	0.00
Total Expenditure	**319.27**	**343.93**	**368.57**
RoE @ 14%	113.28	128.63	145.57
Provision for Taxation	0.00	0.00	0.00
Net prior period credits	0.00	0.00	0.00
Gross Annual Revenue Requirement	**432.55**	**472.56**	**514.14**
Less Other income	0.00	0.00	0.00
NET ARR	**432.55**	**472.56**	**514.14**

TABLE – 26

Approved ARR for Retail Supply Business			
	FY08	FY09	FY10
Particulars	**As approved by KERC**		
Power Purchase cost	3064.03	3728.13	4183.42
Transmission Charges	289.44	316.25	347.68
O&M Expense	163.84	173.45	183.64
Depreciation	14.63	16.22	17.74
Advance against Depreciation	0.00	0.00	0.00
Interest on long term loans	0.04	0.03	0.02
Other interest & finance charges	0.00	0.00	0.00
Interest on consumer deposit	24.65	25.61	26.69
Interest on Working capital	34.54	36.83	37.27
Total interest & Finance Charges	59.23	62.47	63.98
Sub total	**3591.17**	**4296.52**	**4796.46**
Less Expenses capitalized	**0**	**0**	**0**
Other debits	0.00	0.00	0.00
Extra ordinary items	0.00	0.00	0.00
Total Expenditure	**3591.17**	**4296.52**	**4796.46**
RoE @ 14%	24.87	28.23	31.95
Provision for Taxation	0.00	0.00	0.00
Net prior period credits	0.00	0.00	0.00
Gross Annual Revenue Requirement	**3616.04**	**4324.75**	**4828.41**
Less Other income	5.91	31.16	6.29
Net ARR	**3610.13**	**4293.59**	**4822.12**

TABLE – 27

CONSOLIDATED ARR FOR Hukeri Society						
	FY08	FY09	FY10	FY08	FY09	FY10
Particulars	As proposed by Society			As approved by KERC		
Power Purchase cost	2309.09	2360.05	2405.79	3064.03	3728.13	4183.42
Transmission Charges	343.15	350.72	357.52	289.44	316.25	347.68
O&M Expense	442.94	445.11	456.62	442.80	468.79	496.31
Depreciation	110.47	121.90	132.85	91.44	101.37	110.89
Advance against Depreciation	0.00	0.00	0.00	0.00	0.00	0.00
Interest on long term loans	1.83	1.46	1.10	1.83	1.46	1.10
Other interest & finance charges	0.00	0.00	0.00	0.00	0.00	0.00
Interest on consumer deposit	25.61	26.69	27.77	24.65	25.61	26.69
Interest on Working capital	0.00	0.00	0.00	50.50	54.01	55.02
Total interest & Finance Charges	**27.44**	**28.15**	**28.87**	**76.98**	**81.08**	**82.81**
Sub total	**3233.09**	**3305.93**	**3381.65**	**3964.69**	**4695.62**	**5221.11**
Less Expenses capitalized	54.25	55.17	56.08	54.25	55.17	56.08
Other debits	0.00	0.00	0.00	0.00	0.00	0.00
Extra ordinary items	0.00	0.00	0.00	0.00	0.00	0.00
Total Expenditure	**3178.84**	**3250.76**	**3325.57**	**3910.44**	**4640.45**	**5165.03**
RoE @ 14%	133.71	137.61	141.97	138.15	156.86	177.52
Provision for Taxation	0.00	0.00	0.00	0.00	0.00	0.00
Net prior period credits	0.00	0.00	0.00	0.00	0.00	0.00
Gross Annual Revenue Requirement	**3312.55**	**3388.37**	**3467.54**	**4048.59**	**4797.31**	**5342.55**
Less Other income	5.91	31.16	6.29	5.91	31.16	6.29
Add Deficit carried over from the truingup exercise FY02 to FY07 along with carrying cost				754.05	754.05	754.05
Net ARR	**3306.64**	**3357.21**	**3461.25**	**4796.73**	**5520.20**	**6090.31**

6.18 Tariff Applicable to consumers of the Hukeri Society:

The Commission has approved ESCOM wise Distribution and Retail Supply tariff for the year 2007-08 in its orders issued during January 2008. The Commission has introduced differential tariff to each of the licensees for FY08. The tariff as applicable to HESCOM would be applicable to the Society for FY08, subject to the orders of the Hon'ble ATE, issued in respect of HESCOM. However for FY09 onwards the Commission would determine Distribution and Retail Supply tariff for each of the licensees separately. **The Society is, therefore directed to file the Tariff applications in addition to ERC Application/ Application for review of annual performance of ARR for FY09.**

6.19 Cash Payment for Bulk Supply from HESCOM for FY08

The Commission in its ERC Order dated 23rd November 2006 (Approval of ERC for FY07) had ordered cash payment of 100 paise per unit payable to KPTCL and HESCOM. Since the ERC Order for FY08 is being issued almost at the fag end of FY08, the Commission decides to continue the same rate for FY08 as well. As indicated in the approved ARR, the total power purchase cost for FY08 would be Rs. 3353.473 lakhs, which includes transmission charges of Rs. 289.44 lakhs payable to KPTCL. The difference of amount at 100 paise per unit and the actual amount payable towards power purchase and transmission charges for FY08 may be claimed by HESCOM from the Government of Karnataka.

6.20 Revenue Gap/surplus for FY08

Based on the approved ARR the revenue gap/surplus for FY08 would be as under:

Revenue Gap for FY08	
Total Revenue including Subsidy	3451.19
Gross ARR	4048.59
Revenue Gap as per Appd ERC	-597.40

The revenue gap as worked out above is mainly due to carry forward of deficit of Rs.754.05 lakhs for FY08. In the truing up exercise the Commission has considered the subsidy as per the approved ERC year on year. However the subsidy as per actuals is more than the subsidy considered for ERC. The details of subsidy as per ERC and as per actuals are as under:

TABLE - 28

Subsidy as per ERC and actuals

Rs. In lakhs

!Year	Subsidy considered for ERC/Truing up	Subsidy as per Actuals	Difference
2001-02	8.65	8.65	0
2002-03	99.60	215.37	115.77
2003-04	1381.17	1503.43	122.26
2004-05	0	0	0
2005-06	1865.30	1792.57	-72.73
2006-07	1043.60	1666.67	623.07
Total	**4398.32**	**5186.69**	**788.37**

Since the difference of subsidy already accounted (Rs.788.37 lakhs) as per actuals is more than the deficit for FY08 (Rs.597.40 lakhs) the deficit for FY08 as per approved ERC is not treated as subsidy recoverable from GoK to meet the gap. Since the truing up is not based on audited accounts, the Society is directed to submit suitable proposals for truing up of ARRs 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.

This Order is signed, dated and issued by Karnataka Electricity Regulatory Commission at Bangalore on this day the 7th day of March 2008.

Sd/-	Sd/-
(K.P.Pandey)	**(H.S.Subramanya)**
Chairman	**Member**