

**KARNATAKA ELECTRICITY REGULATORY COMMISSION
BANGALORE**

**IN THE MATTER OF ANNUAL PERFORMANCE REVIEW OF HUKERI RURAL
ELECTRIC CO OPERATIVE SOCIETY FOR FY09**

Present:

**Sri M.R.Sreenivasa Murthy
Sri Vishwanath Hiremath
Sri K. Srinivasa Rao**

**Chairman
Member
Member**

No.B/01/9/

Dated 30th June 2010

O R D E R

1.0 Introduction:

The Hukeri Rural Electric Co-operative Society (herein after referred to as the Society) is a licensee and carrying on the business of distribution and retail supply of electricity in the Hukeri Taluka of Belgaum District.

2.0 Background of the present filing for Annual Review of Performance (APR) for FY09

Under KERC (Terms & Conditions for Determination of Tariff for Distribution and Retail Supply of Electricity) Regulations 2006 (MYT Regulations) 2006, the Commission had approved the ARR of the Society for the control period from FY08 to FY10 vide its order-dated 07.03.2008. As per MYT Regulations the Licensee has to file an application for Annual Performance Review (APR) every year during the control Period. Accordingly the Commission had directed Hukeri RECS to submit suitable proposals for Annual Review of Performance (APR) based on audited accounts, since the approval of ERC was based on estimates.

The Society had earlier filed an application for truing up of ERC for the period from FY02 to FY08 separately on 11.02.2009 and the Commission had issued orders thereon on 30th June 2009. In that order, the Commission had allowed carrying cost @12% p.a. on the arrears of subsidy payable by the GoK. However on a review application made by the Government, the carrying cost was deleted for the reasons stated therein vide Commission's order dated 25th February 2010.

3.0 The Society has filed its APR application-dated 07.12.2009 for FY09 based on audited accounts. In the said application, the Society has worked out the revenue gap as per the audited accounts and has requested the Commission to approve the same.

As per the application filed by the Society, the following is the abstract of the Revenue, Expenditure and the Surplus/ Deficit for FY09:

TABLE - 1
Abstract of Revenue & Expenditure
as proposed by Society

(Rs. In Lakhs)

Particulars	FY09
Revenue from sale of power	2577.27
Revenue subsidies and grants	1051.28
Other Income	7.06
Total Revenue	3635.61
Total Expenditure incl. RoE	7747.30
Gap	4111.69
Additional subsidy now claimed	3883.38
Uncovered Gap	228.31

The Society has also submitted the subsidy calculations for FY09 towards subsidized supply of power to IP sets.

After a preliminary verification of the proposals, the Commission vide letter dated 18.01.2010, directed the Society to furnish replies/clarifications to the observations regarding:

- a. Difference in net loss as per audited accounts and APR proposal.
- b. Difference in revenue from sale of power.
- c. Clarifications on power purchase costs
- d. Clarifications on subsidy computation

The Society has furnished its replies/clarifications through its counsel on 11.02.2010 and further clarifications on 27.03.2010. The Society has also furnished revised Profit and loss statement for the purpose of APR for FY09. The following is the abstract of the revised Revenue, Expenditure and the Surplus/ Deficit for FY09:

TABLE - 2**(Rs. In Lakhs)**

Particulars	FY09
Revenue from sale of power	2577.27
Revenue subsidies and grants	1051.28
Other Income	7.06
Additional subsidy from GoK	740.44
Total Revenue	4376.05
Total Expenditure incl. RoE	4359.56
(-) Gap/Surplus	16.49

The Commission has undertaken Annual Performance Review for FY09 based on the inputs furnished by the Society keeping in view the provisions of the MYT Regulations and the principles adopted for APR of FY08 (truing up) as follows:

1. **Power Purchase Cost:**

The Commission had approved purchase of 195.82 MU at a cost of Rs. 4044.38 lakhs, which includes transmission charges. As per the filing, the Society has purchased 178.27 MU at IF points. The Commission, while communicating its preliminary observations, had directed the Society to furnish the energy purchased at generation bus considering the transmission loss so as to arrive at

the actual energy purchased at generation bus. However, the Society has not furnished the same. The Society, in its revised proposal dated 07.02.2010, has confirmed the energy at IF point as 178.27 MU and actual sales as 150.86 MU.

In order to arrive at the energy at generation bus, the Commission has considered approved transmission loss of 4.03% on the actual energy of 178.27 MU at IF point. Accordingly, the energy at generation bus works out to 185.76 MU. The Commission, therefore, allows the Power purchase of 185.76 MU for FY09 based on the actual energy at IF points.

As regards the Cost of power purchase, the Society in its original proposal had indicated an amount of Rs. 7127.97 lakhs inclusive of transmission charges. The Commission in its preliminary observations had observed that, based on the above power purchase cost, the per unit cost works out to 399.84 Paise as against an approved per unit cost of 206.54 paise as per MYT Order. Since the rate indicated by the Society was abnormally high, it was therefore directed to revise the power purchase cost based on the actual charges paid/payable to HESCOM, pending withdrawal of the excess amount in the annual accounts for FY10.

The Society, in its revised proposal dated 07.02.2010 has indicated the power purchase cost as Rs. 3740.23 lakhs. This works out to per unit cost of 209.81 paise. The Society has indicated that it has considered a rate of Rs.3.40 claimed by

HESCOM minus Re.1 allowed by the Commission. In this regard, the Commission would like to clarify that the Commission, in its MYT Order, had worked out the weighted average power purchase rate based on the power purchase cost approved to HESCOM. The Commission had directed a cash payment at the rate of Re.1 per unit to HESCOM based on the cash availability after meeting the current expenses of the Society. The balance amount on power purchase was to be obtained from the GoK by HESCOM against the subsidy payable to the Society. This cannot be misconstrued as approval of power purchase at the rate of Re.1 per unit. Further, HESCOM's claim @ Rs.3.40 per unit had been challenged by the Society before this Commission vide Appeal No.OP 22/ 2008 and the Commission has set aside HESCOM's claim at Rs.3.40 per unit, vide Commission's Order dated 9th September 2009. Under the circumstances, the Society's claim at 3.40 per unit is not sustainable and is incorrect.

However, the Commission observes that the Society has not achieved the approved distribution loss of 14.60% for FY09 as per MYT Order dated 07.03.2008. Considering the actual sales of 150.86 MU, the energy at IF point works out to 176.65 MU as against 178.27 MU indicated by the Society. The difference between the actual energy at IF point and the allowable energy at IF point works out to 1.62 MU. The cost of the excess power purchase for non-achievement of targeted/approved loss works out to 39.85 lakhs at an average cost of Rs.2.46 per unit.

As regards computation of power purchase cost, the Commission has considered the actual weighted average cost of power purchase of Rs. 2.46 per unit, incurred by HESCOM for FY09 (as per the orders issued on the Annual Performance Review (APR) of HESCOM vide Tariff Order dated 25.11.2009). In the MYT order of the Society, the Commission had considered the weighted average power purchase cost of HESCOM. On this basis, the power purchase cost for the purpose of APR for FY09, is worked out as under:

TABLE - 3
Approved Power Purchase Cost

Particulars	As claimed by Society	Considered for APR
Sales	150.86	150.86
Energy at IF Points	178.27	178.27
Distribution Loss	15.38%	14.60%
Energy at Generation Bus after considering Transmission loss w/r to energy at IF points	-	185.76
Total power Purchase (Rs. In lakhs)	3740.23	4569.70
Less Disallowance towards non-achievement of Losses resulting excess loss of 1.62 MU		39.85
Power purchase cost allowed in APR (Rs, in lakhs)		4529.84
Transmission Charges @ 19.42 Ps per unit on Energy @ IF Points		346.20
Total Power Purchase Cost Allowed in APR (Rs, in lakhs)		4876.04

Accordingly, the power purchase cost @ Rs.2.46 per unit on 185.76 MU at generation bus works out to Rs.4569.70 lakhs.

For non-achievement of targeted distribution loss levels to an extent of 1.62 MU, an amount of Rs. 39.85 lakhs is disallowed from the allowable power purchase cost of Rs.4569.70 lakhs. Thus, the net allowable power purchase cost works out to Rs. 4529.84 lakhs.

The Commission has considered the transmission charges on the actual energy of 178.27 MU at IF points at the rate of 19.42 paise per unit. The same works out to Rs.346.20 lakhs, which is allowed for the purpose of APR for FY09. **Thus, the total approved power purchase cost, including transmission charges, works out to Rs.4876.04 lakhs.**

2. **O & M expenses** (Repairs & maintenance expenses, Employee Cost & A & G expenses):

In the MYT order dated 08.03.2008, the Commission had approved O & M expenses of Rs.468.79 lakhs for FY09 based on MYT norms. The actual expenses as per audited accounts are Rs.363.971 lakhs, less by Rs. 104.82 lakhs. Under the MYT Regulations, the O & M expenses are controllable and for any gains or losses thereon with reference to the approved expenses, the licensee has to propose a mechanism for sharing such gains or losses. However, the licensee has not proposed any mechanism. Since the Society has shown efficiency in incurring the expenditure, the Commission has decided to allow the normative amount of Rs.468.79 lakhs towards O&M expenses for FY09, allowing the Society to retain the savings as an incentive for good performance.

3. Depreciation:

The Commission had approved Rs.101.37 lakhs towards depreciation for FY09. The actual depreciation as indicated by the Society is Rs.49.70 lakhs. Since there was a large variation in the approved and actual amounts booked in the accounts, the Society was directed vide Commission's letter dated 25.02.2010, to furnish the detailed working of depreciation. The Society has revised the Depreciation duly considering the depreciation on consumers' contribution to an extent of Rs.11.32 lakhs and the net depreciation for FY09 is indicated as Rs.38.38 lakhs. Accordingly, the Commission hereby allows an amount of Rs.38.38 lakhs towards depreciation for FY09.

4. Advance against Depreciation:

The Commission in its MYT Order had not considered allowing AAD, as the amount of debt repayment was less than the depreciation allowed for the year. As per the filing for APR for FY09, the Society has indicated a loan repayment of Rs.4.40 lakhs as against actual depreciation of Rs.38.38 lakhs for FY09. Since the loan repayment is less than depreciation allowed, the Commission has not allowed AAD separately for FY09.

5. Interest & Finance Charges:

The Commission had approved an amount of Rs.81.08 lakhs towards Interest & Finance charges for FY09. The actual expenses towards interest on loans are Rs.1.63 lakhs and the interest on consumer security deposit is Rs.31.43 lakhs, totalling to Rs.33.06 lakhs. Since the interest amount is dependent on the

actual loans availed/ consumers' deposits held, the Commission considers the actual interest & finance charges of Rs.33.06 lakhs for annual review of performance.

6. Return on Equity:

The Commission had approved RoE of Rs.156.86 lakhs for FY09 at the rate of 14% on the Equity and Reserves. The Society has claimed an amount of Rs.183.93 lakhs without furnishing any basis for the computations. While truing up the ARR, the Commission has been allowing the RoE as per the original order in view of the fact that Return on Equity cannot be trued up with reference to actuals. Hence the Commission has not accepted the claim of Rs.183.93 lakhs made by the Society. The Commission hereby retains the RoE of Rs.156.86 lakhs for the purpose of APR, which is in line with the stand taken by the Commission on APR for FY08.

7. Expenses Capitalised:

The Society has indicated an amount of Rs.11.33 lakhs towards expenses capitalised for FY09. The Commission has considered the same for APR of FY09.

A summary of the approved ARR under APR for FY09 is as under:

TABLE - 4

(Rs. In Lakhs)

Particulars	Approved ERC(As per MYT Order dated 07.03.2008)	Actuals as per Audited Accounts	Revised proposal as per letter dt 10.2.10	Considered for APR
Revenue				
Revenue From Sale of Power	0	2156.49	2577.27	2577.27
Subsidy from Government	0.00	0.00	1791.72	
Other Income	0	422.05	7.06	7.06
Total Revenue	0.00	2578.54	4376.05	2584.33
Expenditure				
Power Purchase Cost	3728.13	7,127.97		4,529.84
Transmission Charges	316.25		3,740.23	346.20
Employee Expenses			54.17	
R&M Expenses			283.29	
A&G Expenses	468.79	363.97	26.51	468.79
Depreciation	101.37	49.70	49.70	38.38
Interest & Financing Charges(net)	81.08	33.06	33.06	33.06
(Less) Expenses Capitalised	-55.17	-11.33	-11.33	-11.33
Other Debits	0	0		0
Net Prior Period Expenses	0	0		-
RoE	156.86	-	83.93	156.86
Total Expenses	4797.31	7563.37	4,359.56	5561.80
Other Income	31.16	7.06	7.06	7.06
Net ARR	4766.15	7141.32	4352.50	5554.74
Average Cost per unit	3.11	4.73	2.89	3.68

As per the above, the approved Annual Revenue Requirement under the APR for FY09 is Rs.5554.75 lakhs and the average cost of supply works out to Rs.3.68 per unit.

3.0 Subsidy Computations:

As per the audited accounts furnished by the Society, the Revenue from sale of power is indicated as 2578.54 lakhs. In order to arrive at the actual subsidy payable by the GoK, the Commission has worked out the subsidy requirement of the Society for FY09 considering the actual IP sets consumption of 109.24. MU and actual revenue demanded in respect of IP sets as per audited accounts, as follows:

TABLE - 5
Computation of subsidy payable for FY09

(Rs. In Lakhs)

Sl. No	PARTICULARS	FY09
1	Net ARR (Trued Up) Rs. In lakhs	5554.74
2	Total Energy Sale for all categories during the year -MU	150.86
3	Average cost of supply per unit (1/2)- Rs. Per unit	3.68
4	Energy Sale for IP Sets (Lt-4a(I) during the year- MU	109.24
5	Energy Sale to other categories other than IP sets during the year -MU	41.62
6	Total Revenue demand for the year in respect of IP sets Rs. In Lakhs	676.60
7	Total Revenue demand for the year in respect of all categories other than IP sets Rs. In lakhs	1901.95
8	Revenue estimation of IP Sets based on average cost of Supply Rs. In Lakhs	4022.27
9	Revenue estimation of all Categories other than IP sets based on average cost of Supply (5x3) Rs. Lakhs	1532.47
10	Gross Revenue subsidy (8-6) Rs. Lakhs	3345.67
11	Cross subsidy contribution from other categories (7-9) Rs. Lakhs	369.48
12	Net Revenue subsidy Receivable from GoK (10-11)	2976.19
13	Revenue subsidy received from GOK by way of adjustment in Power purchase bills through HESCOM Rs. lakhs	1050.00
15	Balance of subsidy payable by the GoK for FY09	1926.19

From the above computations, it is seen that the subsidy payable by GoK towards subsidized power to IP sets for FY09 works out to Rs.2976.190 lakhs. After considering the IP sets demand of Rs.676.60

lakhs as per the details furnished by the Society and after accounting for the subsidy of Rs.1050 lakhs already received from GoK, the balance of subsidy payable by the GoK works out to Rs.1926.20 lakhs. Therefore the Government of Karnataka is hereby directed to release the balance subsidy of Rs.1926.20 lakhs to the Society.

The Society is not entitled to any carrying cost as sought, since the Society is guilty of delayed filing of the present APR and in fact the present application is filed only after the Commission issued a direction.

It is noted by the Commission that, the Society has not worked out and claimed the actual subsidy payable by GoK from time to time. Hence, the Commission has not allowed any carrying costs on the balance of subsidy payable by the GoK.

This Order is signed, dated and issued by Karnataka Electricity Regulatory Commission at Bangalore on this day the 30th day of June 2010.

K.Srinivasa Rao
Member

Vishvanath Hiremath
Member

M.R.Sreenivasa Murthy
Chairman