

## CHAPTER-3

### 3.0 ERC FOR FY05 & FY06 IN RETROSPECT

#### 3.1 Financial Year 05 in retrospect

The Commission has approved the ERC for FY05 in the Tariff Order dated 27.09.2005 by considering the KPTCL's ERC and also certified accounts (by statutory audit) furnished by KPTCL. Subsequently, in December 2005 KPTCL has furnished to the Commission the final accounts for FY05 duly certified by the Accountant General (AG) and has included in the present ERC details as per the final accounts for that year. The Commission notes that there are some differences between the certified accounts (by statutory audit) furnished by KPTCL which was considered by the Commission in the Tariff Order dated 27.09.2005 and the final accounts certified by AG as detailed below:

**TABLE – 3.1**

<b>Rs. Crores.</b>			
<b>Particulars</b>	<b>As approved in the certified Accounts</b>	<b>Actuals as per final accounts</b>	<b>Difference</b>
<b>Income</b>			
Revenue from Sale of Power	6660.66	6615.41	- 45.25
Other income	211.52	159.51	- 52.01
Total	6872.18	6774.92	-97.26
<b>Expenditure</b>			
<b>Purchase of power</b>	6021.13	6012.91	-8.22
<b>Generation of power</b>	0.65	0.65	
Repairs & maintenance	20.84	20.84	
Employees cost	144.20	144.92	0.72
A& G Charges	34.86	35.31	0.45
Other expenses	0.41	0.41	
Less expenses capitalised	-17.00	-17.00	
Depreciation	193.47	193.47	
Interest & Finance Charges	340.63	250.98	-89.65
Prior period credits/debits	15.81	15.24	-0.57
Provision for Taxation	8.37	8.37	
Total Expenses	6763.36	6666.09	97.26
Profit	108.82	108.82	

From the above table, it is seen that while the income has reduced by Rs.97.26 crores between certified accounts and final accounts, the expenditure has also increased by the same amount. Further, in the certified accounts (by statutory auditors) of KPTCL for FY05, it was disclosed that KPTCL in actual operations has derived a net surplus of Rs.684.15 crores for that year and after retaining profit at 14% on the equity in its books, has transferred balance profits to ESCOMs amounting to Rs.575.33 crores. These figures have been revised in the final accounts certified by the AG as net surplus in actual operations as Rs.729.40 crores (an increase by Rs. 45.25 crores) and the surplus transferred to ESCOMs as Rs.620.58 crores.

The reasons for the variations between the certified accounts earlier furnished by KPTCL for FY05 and the final accounts now incorporated in the present ERC have not been furnished by KPTCL while seeking approval for the revised figures. However, it is observed from the schedules to the accounts, the reasons for major variations as (i) Reduction 'Revenue from sale of power - intra-state consumers - BESCOM' from Rs.2885.44 crores in certified accounts to Rs. 2840.19 crores, i.e. a reduction of Rs. 45.25 crores. (ii) Reduction in other income on account of 'Excess provision in earlier years no longer required', which has been reduced from Rs.113.25 crores in certified accounts to Rs.59.08 crores in final accounts, i.e. a difference of Rs. 54.17 crores (ii) Reduction in 'Interest on belated payment for power purchase' from Rs.196.83 crores in certified accounts to Rs.107.57 crores, i.e. a reduction of Rs. 89.26 crores. The Commission notes that these variations between certified accounts and final accounts are substantial, but KPTCL has not provided any details in this regard as to the reasons for such variations. In any event, there is surplus revenue earned by KPTCL in FY05, as discussed in the next section, which would be available if any adjustments are required to be made on account of variation in income and expenses

indicated above. KPTCL shall provide full details in this regard and seek necessary adjustment subsequently.

### **3.2 GoK's Communication regarding FY 05 revenue surplus**

**3.2.1** The GoK vide their letter No. EN 93 PSR 2005/426 dated 22.11.2005 (copy placed at **Annexe - 4**) have stated that as per the audited accounts of KPTCL certified by the Accountant General for the financial year 2004-05, KPTCL has earned a surplus of Rs. 729.40 crores due to application of BST at 209.35 paise per Kwh and a Transmission charge of 18.67 paise per Kwh (total 228.02 paise per Kwh) on the basis of the Tariff approved by KERC in Tariff Order 2003. GoK has further stated in the letter that due to change in the mix of Thermal and Hydel power purchased during 2004-05, the power purchase cost has come down and charging ESCOMs on KERC's earlier order had resulted in charging ESCOMs at higher rate for power sold to them, which in turn has resulted in charging a total of Rs. 620.58 crores excess to ESCOMs during 2004-05.

GoK has further stated as follows in the said letter:

"In view of draft tariff policy circulated by Ministry of Power, GoI, the KPTCL had to reduce the rates of power charged to ESCOMs by Rs.620.58 crores. To comply with this requirement, KPTCL had to reduce the rate per unit charges to ESCOMs from 228.02 paise to 208.61 paise, which resulted in charging Bulk Supply charges at the rate of 193.38 paise per unit (instead of 209.35 paise) and Transmission charges at the rate of 15.23 paise (instead of 18.67 paise).

The impact of this reduction would be that during the year 2004-05, the ESCOMs will be requiring less subsidy from GoK to this extent (total Rs.617.74 crores from all ESCOMs) to earn 3% Rate of Return (ROR). All along in the previous years, KERC has approved tariff applicable to consumers on the basis of projections for the coming years. But the

actual expenditure has been more than the revenue earned as per the approved tariff. This gap in the Revenue has been met by GoK in the form of subsidy to ESCOMs. KERC has not recognised this gap of previous years for passing on the same to the consumers through tariff. As the GoK has borne the burden of gap in the past, the savings in 2004-05 would be adjusted against subsidy requirement of ESCOMs. The above facts are brought to the notice of the Commission "

**3.2.2** The Commission has carefully examined the above letter of the Govt with reference to the Tariff Orders issued by the Commission. The BST and transmission charges approved by the Commission in Tariff Order 2003 which came into effect from 01.04.2004 was 193.57 paise and 18.67 paise respectively. KPTCL and ESCOMs came out with four applications for amendment of tariff between May 03 and Aug 03 for various reasons which have been considered together by the Commission and a Tariff Amendment Order was issued by the Commission on 15.12.2003. In the said order, the commission approved an additional power purchase cost of Rs.444 crores on account of change in hydro thermal mix and accordingly revised the BST from 193.57 paise to 209.35 paise per unit and consequently, retail consumer tariffs were also revised to a few consumer categories. In para 18.9 of the said order it is specifically stated that " Out of the additional requirement of funds of Rs. 444 crores in FY04, the present increase in tariff is estimated to fetch additional revenue of Rs. 41 crores assuming that the revised tariff will be effective for a period of 3 months and the Commission approves to carry forward the balance amount of Rs.403 crores to the next tariff filing".

**3.2.3** KPTCL filed its ERC for FY05 during January 2004 showing a revenue gap of Rs.732.35 crores along with its tariff application seeking upward revision of BST and transmission charges Further. KPTCL filed its revised ERC for FY05 on 10.12.2004 duly proposing upward revision of BST and transmission tariff indicating a combined gap of Rs. 250 crores for FY03 to FY05. The

Commission considered the ERC for FY05 along with ERC for FY06 and issued the Tariff order on 27.09.2005. (Ref: para 2.2 of Tariff Order 2005).

**3.2.4** As soon as revenue surplus was noticed by KPTCL in FY05 due to favourable monsoon, KPTCL should have approached the Commission for adjustment of BST appropriately. But KPTCL, even in their revised ERC for FY05 filed as late as Dec 04, continued to maintain that there is a revenue shortfall in that year and sought upward revision of BST and transmission tariff. KPTCL disclosed to the Commission the revenue surplus for FY05 only after the completion of FY05 i.e. in their letter dated 24.06.2005 (Ref: page 36 of Tariff Order 2005). In the earlier year, after issue of Tariff Order 2003 in March 2003, KPTCL had approached the Commission in August 03 for upward revision of the tariff as soon as adverse hydro thermal mix was noticed in that year, but the same eagerness has not been shown by KPTCL in FY05 for readjustment of tariff when favourable hydro thermal mix was observed. The act of KPTCL in not approaching the Commission in time for readjustment of tariff is irregular and clearly a lapse on the part of KPTCL.

**3.2.5** After transfer of the revenue surplus by KPTCL to the ESCOMs to the extent of Rs. 620.58 crores, GoK has adjusted this revenue surplus against the subsidy due by Govt. stating that all along in the previous years, KERC has approved tariff applicable to consumers on the basis of projections for the coming years but the actual expenditure has been more than the revenue earned as per the approved tariff and that the gap in the Revenue has been met by GoK in the form of subsidy to ESCOMs and therefore the savings in 2004-05 would be adjusted against subsidy requirement of ESCOMs. The Commission would like to state that while the expenses are being allowed based on the estimates at the beginning of the year, KPTCL/ ESCOMs have been including in their subsequent year's ERCs the actual expenses for the previous years and the Commission has been considering such amounts subject to prudence and efficiency

norms set by the Commission. These matters have been discussed in the Tariff Orders of the Commission (Ref: para 5.1 of Tariff Order 2003, para 15 of Tariff Amendment Order 2003, para 3.5 of Tariff order 2005). To make it explicit, the Commission has clearly indicated in para 15.9 of the Tariff Amendment Order dated 15.12.2003 that it would consider variation only in respect of uncontrollable expenses for truing up at the end of the year.

**3.2.6** Details of power purchase cost approved by the Commission in various tariff orders and actual cost incurred by KPTCL/ESCOs in this regard are furnished below:

**TABLE – 3.2**

Particulars	Approved by the Commission		Actuals incurred by KPTCL/ ESCOMs		Remarks
	Energy input in MU	Cost in Rs crores	Energy input in MU	Cost in Rs crores	
Tariff Order 2002 – for FY02	29020	4723.63	29061	4826.25	Actuals include addl fixed charges of TBPCL
Tariff Order May 2002 – for FY03	30552	5420.45	29279	5393.41	Actuals include addl fixed charges of TBPCL
Tariff order March 03/ Tariff Amendment Order Dec 03– for FY04	29946	5439.04 <u>+444.00</u> 5883.04	31217	6024.75	(i) Increase in input energy 1271 MU (ii) Actuals include addl fixed charges of TBPCL Rs.309 crores.
Tariff order 2005 – for FY05	33110	5980.08	33110	6013.56	Actuals include addl fixed cost of TBPCL
Tariff order 2005 – for FY06	35324	6656.57			Actual power purchase is expected to be less by 1000 MU

**3.2.7** If the GoK has met the revenue gap of the KPTCL/ESCOs through subsidy over and above the subsidy committed at the beginning of the

- year for tariff in any of the years, the GoK might have done so to meet the revenue shortfall for its own reasons, either to meet the expenses not allowed by the Commission or to meet additional reliefs granted by the GoK on the tariffs. For those reasons, it would be inappropriate to adjust the revenue surplus earned by a company in any year by reducing the subsidy committed for tariff. The tariffs have been set by the Commission considering the subsidy committed by the GoK and therefore GoK has to meet that subsidy in each year.
- 3.2.8** Therefore, the revenue surplus earned by KPTCL in FY05 on account of favourable hydro-thermal mix should rightfully belong to the consumers only. Such surplus cannot be adjusted against the subsidy due by the Government for any reason. The utilities should be entitled to use such surplus as and when required for readjustment of tariff since the amount belongs to the consumers.
- 3.2.9** As regards RoE of 14% indicated by the GoK as per CERC norms, it is to be stated that RoE at 12% has been allowed by the Commission to KPTCL in FY05 amounting to Rs.99.74 crores, as indicated in Tariff Order 2005, which shall be followed. CERC guidelines cannot be expected to be followed for the purpose of RoE only in isolation without considering the rates of depreciation and other parameters including efficiency parameters as per CERC norms. This would be further discussed in the Chapter on ERC for FY07.
- 3.2.10** In view of all the above, the Commission orders that KPTCL shall transfer the revenue surplus of Rs. 629.66 crores (Rs.729.40 crores minus RoE of Rs.99.74 crores) for FY05 to a special fund which, with the approval of the Commission, should be made use of by the utilities for adjustment of tariffs in future.

### 3.3 ERC for FY 06

#### 3.3.1 BST upto 9<sup>th</sup> June 2005

In Tariff Order 2005, the Commission has approved BST of 148.03 paise per unit for the period from 01.04.2005 to 09.06.2005 based on the actual power purchase figures furnished by KPTCL after considering certain expenses that are not allowed by the Commission as pass through in tariff in the earlier year.

#### 3.3.2 Transmission Charges

In the present ERC for FY07, KPTCL has provided revised estimates of transmission expenses for FY06 and sought approval for the same. Details of expenses for FY06 as approved by the Commission in Tariff Order 2005 and revised estimates furnished by KPTCL in the present ERC are given below:

**TABLE – 3.3**

Rs. crores.

Particulars	Approved by KERC	Revised estimates for FY06 as per ERC for FY 07	Difference
Repairs & Maintenance	32.30	32.30	0
Employee Cost	181.47	183.40	1.93
A&G Expenses	41.86	41.86	0
Depreciation	236.11	236.11	0
Interest & finance Charges	203.37	203.37	0
Less Expenses Capitalised	-59.54	-48.07	11.47
Other debits	1.00	1.00	0
Total Expenditure	636.57	649.97	13.40
Return on Equity	107.63	108.63	1.00
Total	744.20	758.60	14.40
Less Other Income	68.40	23.72	-44.68
Net transmission Expenses	675.80	734.88	59.08
Less SLDC Expenses	5.00		-5.00
Net Transmission expenses	670.8	734.88	54.08



It is seen from the above that, major differences are only in respect of expenses capitalised and in respect of other income. However, since the financial year 06 is just completed and the actual figures for FY06 are not yet available, the Commission would review the same after the audited figures for FY 06 are available.

### **3.3.3 Review of Capital Investment Programme for FY 06**

KPTCL had proposed Capital Investment of Rs. 900 crores for FY06, which was approved by the Commission in Tariff Order 2005, subject to approval of individual schemes costing more than Rs. 5 crores.

1. On furnishing scheme reports by KPTCL, the Commission conveyed approval to the DPRs in respect of the following schemes during 2005-06:
  - a) Establishment of a 110 KV substation at Bhoj in Chikkodi Taluk Belgaum District- Estimated cost Rs. 712.94 lakhs.
  - b) Replacement of existing Lynx ACSR conductor by new Lynx ACSR conductor of 110 KV Shahabad-Bagewadi I & II Circuit - Estimated cost Rs. 606.02 lakhs.
  - c) Establishment of a 110 KV sub-station at Bevoor in Koppal District- Estimated cost Rs. 599.89 lakhs.
  - d) Establishing a 220 KV Sub-station at Yachanahalli in Hassan District- Estimated cost Rs. 2439.07 lakhs.
  - e) Construction of M/C and D/C line from Antharasanahalli to 66 KV Sira Sub-station- Estimated cost Rs. 1762.52 lakhs
2. As regards the progress achieved during 2005-06, KPTCL has stated that 35 nos of new sub-stations are likely to be commissioned during the year. These aspects have been discussed along with capital expenditure programme for FY07 in the subsequent chapter.

### 3.4 Revision of BST & Transmission charges for FY05 & FY06

**3.4.1** KPTCL in their ERC for FY07 have requested the Commission to revise the BST and Transmission charges for FY05 and FY06 by considering the expenses which were not allowed by the Commission for pass through in tariff in the Tariff Order 2005. Details of BST and transmission charges sought by the KPTCL for FY05 and FY06 in the present application are indicated below:

	<b>FY05</b>	<b>FY06</b>
	<b>(paise/unit)</b>	
BST	193.83	206.97
Transmission charges	15.34	20.70

**3.4.2** While KPTCL has sought to include the expenses which were not allowed by the Commission in the ERC for FY05 and FY06 in the present ERC for FY07, KPTCL has neither furnished the details of the expenses it sought to include nor adduced any additional reasons/grounds for such inclusion. The Commission has elaborately discussed the reasons for not allowing such expenses in the previous Tariff Order/s for pass through in tariff and has given its findings in those orders. The Commission notes that KPTCL has filed its appeal before the Hon'ble High Court of Karnataka on the expenses not allowed by the Commission in Tariff Order March 2003/Tariff Amendment Order 2003. Those expenses have not been allowed by the Commission in Tariff Order 2005 also and the appeal is pending before the Hon'ble High Court, except in the matter relating to additional fixed charges of Tanirbavi project. The expenses sought to be included in the BST for FY05 and FY06 in the present ERC includes the additional fixed charges of Tanirbavi power project which is a subject matter of KPTCL's appeal before the Hon'ble High Court of Karnataka in MFA 481/2004 on which the Hon'ble High Court in its judgment dated 22.12.2005, while

setting aside the Tariff Amendment Order December 2003, has remanded the matter for re-decision by the Commission and the proceedings before the Commission for re-decision is in progress.

**3.4.3** Several objectors have objected for inclusion of such expenses not allowed by the Commission in the earlier orders in the present ERC. KPTCL has responded stating that they have included such items subject to their right. During the public hearing, the objectors took strong exception to such statement of KPTCL and argued that KPTCL is trying to threaten/pressurise the Commission and urged that KPTCL shall not include such items once disallowed by the Commission in their future ERCs without valid grounds.

**3.4.4** Considering all the above, the Commission does not find any merit to reconsider the expenses not allowed by the Commission in the earlier Tariff orders at this stage in the present ERC for FY07.