

**KARNATAKA ELECTRICITY REGULATORY COMMISSION
BANGALORE**

**ORDER ON FINAL TRUING UP OF ERC FOR FY08 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 FY-08 as per audited accounts.**

Present:

**Sri K.P.Pandey
Sri Vishwanath Hiremath
Sri K. Srinivasa Rao**

**Chairman
Member
Member**

No.B/01/9/

Dated 30th June 2009

O R D E R

1.0 Introduction:

The Hukeri Rural Electric Co-operative Society (herein after referred 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 for FY02-08

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 ARR's 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 ARR's 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.

The Commission had issued the ERC orders for the period from FY02 to FY07 under the KERC (Tariff) 2000 Regulations, as amended from time to time and the ERC orders for the first control period FY08 to FY10 was issued by the Commission under KERC (Terms and Conditions for Determination of Distribution and Retail Sale of Electricity) Regulations, 2006 (MYT Regulations). In view of this, the Commission has considered the truing up of ERC for FY08 separately.

As per the application filed by the Society, the following is the abstract of the Revenue, expenditure and the Surplus/ Deficit for FY08:

Table-1

(Rs. In Lakhs)

Particulars	FY08
Revenue from sale of power	2108.81
Revenue subsidies and grants	1154.38
Other Income	420.25
Total Revenue	3683.44
Total Expenditure	3899.43
RoE	138.15
Surplus/Deficit(-)	-354.14
Additional subsidy now claimed	354.14

The Society has also submitted the subsidy calculations for the 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 the 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.

Based on the inputs, the Commission has undertaken the truing up exercise for the period from FY02 to FY08 as follows:

3.0 Principles adopted for Truing up:

As per KERC (Terms and Conditions for Determination of Distribution and Retail Sale of Electricity) Regulations, 2006 (MYT Regulations) the expenditure of the Distribution Licensee is classified as controllable and uncontrollable as follows:

Uncontrollable Expenses:

1. Power purchase Costs
2. Expenses on account of Inflation
3. Taxes on Income

Controllable Expenses:

1. Operation & maintenance Cost
2. Employee Cost
3. Admn. & General Expenses
4. Interest & Finance Charges
5. Return on Equity
6. Depreciation

On the basis of the above classification the Commission, while truing up the expenses, has dealt with each of the expenses as follows:

1. **Power Purchase Cost:** The Commission had approved purchase of 183.87 MU at a cost of Rs. 3353.47 lakhs, which includes transmission charges. The licensee has purchased energy of 175.32 MU and the cost incurred thereon is Rs. 3342.06 lakhs. The power purchase cost is considered as un-controllable expenditure and as such the actual cost of Rs. 3342.06 lakhs is considered for true up. However the licensee has not achieved the loss levels of 14.70% as approved in the ERC order. The deviation from the approved loss levels has resulted in purchase of additional 1.38 MU to meet the actual loss levels. The cost thereon works out to Rs.26.38 lakhs, which is disallowed in true up. Thus an amount of Rs.3315.68 lakhs has been considered for true up.
2. **O & M expense** (Repairs & maintenance expenses, Employee Cost & A & G expenses):

In the MYT order dated 8.3.2008, the Commission had approved Rs. 442.80 lakhs towards O & M expenses for FY08. The actual expenses as

per audited accounts are Rs. 391.11 lakhs. There is a saving of Rs. 51.69 lakhs. Since this a controllable expenditure, the Commission will only consider the approved expenses for true up. Any expenditure over and above the approved expenses have to be borne by the licensee. Similarly, any savings could be retained by the licensee. For FY08, the licensee has shown a savings of Rs. 51.69 lakhs. As part of incentivising efficiency, the Commission hereby allows the savings of Rs.51.69 lakhs to be retained by the licensee. For the purpose of truing up the approved expenditure of Rs.442.80 lakhs is considered.

3. **Depreciation:** The Commission had approved Rs. 91.44 lakhs towards depreciation for FY08. The actual depreciation is Rs.135.11 lakhs, which is in excess by Rs. 44.15 lakhs. Since depreciation is a controllable expense, the Commission considers Rs. 91.44 lakhs for true up. The excess amount of Rs. 44.15 lakhs has to be borne by the licensee.
4. **Interest & Finance Charges:** The Commission had approved Rs. 76.98 lakhs towards Interest & Finance charges for FY08. The actual expenses towards this are 30.67 lakhs. There is saving of Rs.46.31lakhs. Since the interest amount is dependent on the actual loans availed, the Commission considers the actual interest & finance charges of Rs. 30.67 lakhs for true up.
5. **Return on Equity:** The Commission had approved RoE of Rs.138.15 lakhs and the Society has also claimed the same. Since this a controllable expenditure the Commission hereby allows the 138.15 lakhs for true up exercise.

A summary of the truing up exercise for FY08 is as per **Annex-1**. An abstract of the surplus/ gap for FY08 is as under:

Table-2**Gap with subsidy as per ERC**

(Rs. Lakhs)

Year	Trued up difference of		(Deficit)/ Surplus	Carrying Cost @ 12% p.a	Total (deficit)/Surplus
	Revenue	Expenses			
FY08	3713.58	4018.74	-305.16	-36.62	-341.78

As seen from the above, the deficit for FY08 after truing up with subsidy as per approved ERC, along with carrying cost works out to Rs. 341.78 Lakhs.

The Society, in its truing application has considered the actual subsidy received from GoK and has arrived at the gap thereafter. The Society has requested the Commission to treat the entire 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, only the cost of subsidised supply to IP sets has to be met by the Government through subsidy and not the entire revenue gap. In order to arrive at the net revenue deficit/surplus for FY08 the Commission has worked out the revenue gap with reference to the subsidy actually received by the Society, which is as follows:

Table-3**Gap with subsidy as per actuals**

(Rs. Lakhs)

Year	Trued up difference of		(Deficit)/ Surplus	Carrying Cost @ 12% p.a	Total (deficit)/Surplus
	Revenue	Expenses			
FY08	3683.44	3899.43	-215.99	-25.92	-241.91

It is seen from the above that after considering the actual subsidy received from the Government; the revenue gap with carrying cost for FY08 works out to Rs. 241.91 Lakhs. In order to decide whether to treat the said gap as subsidy receivable or not, the Commission has computed the actual subsidy requirement of the Society for FY08 towards subsidised power to IP sets. These computations are based on the figures furnished by the Society and the trued up ERC. A statement indicating the IP set subsidy computations, with reference to the trued up ARR, is enclosed to this order vide **Annex-2**. As per the said statement the arrears of subsidy along with carrying cost works out to **Rs. 375.54 lakhs**. With the additional subsidy of Rs.375.54 lakhs, , the revenue gap of Rs.241.91 lakhs for FY08 gets fully covered and the Society would be left with a surplus of Rs.133.63 lakhs. The Commission allows this surplus to be retained by the Society.

In the truing up exercise for the period from FY02 to FY07 for which separate order is issued), the Commission has worked out the balance subsidy receivable from the Government as Rs. 2142.96 lakhs. For FY08 the balance of subsidy is Rs. Rs. 375.54 lakhs. Thus, the total arrears of subsidy receivable from the Government, for the period from FY02 to FY08, works out to Rs. 2518.50 lakhs.

In terms of section 65 of the Electricity Act 2003, the Government of Karnataka has to release the subsidy towards subsidised/free power to IP sets, in advance. Since the Society has extended subsidised/free power to the IP sets in pursuance of the policy of the Government, the Government should have ensured that the required subsidy is released in compliance of the Electricity Act. As the Society has already incurred this amount, which is yet to be made good by the Government, the Government of Karnataka is hereby directed to release the subsidy to the Society in six equal monthly instalments starting from August 2009. The Society is hereby directed to claim the above subsidy by submitting necessary bills to the Government.

If the government does not make the payment of subsidy, as per the proviso to section 65 of the Electricity 2003, the tariff fixed by the Commission shall be applicable.

The Commission in its order dated 7th March 2008 had directed the Society to file the ERC application/application for annual review of performance of ARR for FY09 and also the tariff application if any. The Society has not filed any application for review of performance for FY09 despite specific directions and the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations 2006 mandating the same. The Licensee is expected to comply with the statutory Regulations and non-compliance will attract penal provisions provided under the Electricity Act 2003. The Society is therefore directed to file the review application on or before 1.08.2009 for revision of ARR for FY10 along with tariff application, if any.

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

Sd/-
K.P.Pandey
Chairman

Sd/-
Vishwanath Hiremath
Member

Sd/-
K.Srinivasa Rao
Member