

CESC

Preliminary Observations on Revision of ERC & Tariff filing for FY13

1. General Observations on ERC / Tariff filing application:

As per KERC (Fees) Regulations, 2004, ESCOMs are required to pay fee of 0.025% of the expected revenue receipts in the year for which the tariff is to be determined by the Commission. The expected revenue receipt sought for approval being Rs.2486.60 Crores, the fee payable would be Rs.62,16,475/-. However CESC has paid a fee of Rs.36,95,450/- along with the tariff filing. As such CESC is required to pay balance amount of Rs.25,21,025/-.

As per KERC (Tariff) Regulations, 2000, ESCOMs are required to file their tariff applications along with relevant forms as specified in the Regulations namely A1 to A4 and D1 to D24. However in the present filing of CESC the following formats are not enclosed to the tariff application.

- i) D22 to D24

In form D21 the number of installations are indicated as at the end of the year instead of mid year figures. CESC shall furnish correct statement of D21.

Under A1 format Rs.48.00 Crores is shown as revenue subsidy and grants in addition to tariff subsidy of Rs.806.22 Crores for FY13. Further, Rs.258.16 Crores is shown without any details. The details for inclusion of these amounts shall be furnished.

2. Sales Projections for FY13:

1. The following discrepancies in number of installations are noted between D-2 and D-21 formats:

Category	D-2	D-21
LT-2a(ii)	928540	928541
LT-5	31768	31767
HT-Total	1476	1475

The figures shall be reconciled between D2 & D21.

2. While re-estimating the sales for FY-12, CESC has considered the actuals for the first six months only. Since the actual data is available till the end of January-12, CESC needs to estimate the sales & number of installations considering actuals up to January-12 and reasonable estimates for Feb-12 & Mar-12. Based on these, projections needs to be re-estimated for FY13.
3. CESC at page 70 of the filing has estimated category wise sales growth rate for which no working details is furnished. CESC shall furnish the working details keeping in view of the observation made at sl.no.2 above.
4. For the purpose of validating the sales, CESC shall furnish the following data for the years FY10, FY11 & FY12:

Month	Sales-MU								
	FY10			FY11			FY12*		
	Metered [other than BJ/KJ & IP	BJ/KJ & IP	Total	Metered [other than BJ/KJ & IP	BJ/KJ & IP	Total	Metered [other than BJ/KJ & IP	BJ/KJ & IP	Total
Apr									
May									
Jun									
Jul									
Aug									
Sep									
Oct									
Nov									
Dec									
Jan									
Feb									
March									
Total									

Note: FY12 actual up to Jan-12 & estimates for Feb12 & Mar12

5. CESC shall furnish the details of installations as under:

Month	FY10			FY11			Numbers FY12*		
	Metered [other than BJ/KJ & IP	BJ/KJ & IP	Total	Metered [other than BJ/KJ & IP	BJ/KJ & IP	Total	Metered [other than BJ/KJ & IP	BJ/KJ & IP	Total
Apr									
May									
Jun									
Jul									
Aug									
Sep									
Oct									
Nov									
Dec									
Jan									
Feb									
March									
Total									

6. The range in year on year growth rate in the number of installation and sales from FY06 to FY11 and the CAGR for the period FY06 to FY-11 & for the period FY08 to FY-11 and the proposed increase for FY-13 for various major categories is indicated below:

Category	FY06-FY11 range of %Growth	CAGR for the period FY06 to FY- 11	CAGR for the period FY08 to FY- 11	Proposed %increase for FY-13
LT-1 Instl.	3.07 to 49.60	26.08	15.61	0.40
Sales	-9.75 to 54.77	18.09	17.82	10.00
LT-2a Instl	-3.81 to 3.54	1.84	3.19	5.50
Sales	4.20 to 11.32	7.77	6.76	8.95
LT-2b Instl.	-15.99 to 84.81	13.55	6.66	5.51
Sales	-6.72 to 37.57	14.65	2.63	8.98
LT-3 Instl.	1.05 to 13.09	5.61	4.71	4.00
Sales	11.31 to 19.32	15.91	14.44	8.86

LT-4a Instl.	2.7 to 5.63	4.45	3.90	5.00
Sales	-6.05 to 49.62	11.40	6.80	15.00
LT-5 Instl.	2.49 to 5.23	3.76	3.67	4.00
Sales	-0.30 to 6.71	2.54	2.16	5.79
LT-6 WS Instl.	3.44 to 6.41	5.14	4.42	5.00
Sales	0.11 to 10.05	6.04	4.79	4.24
LT-6 SL Instl.	3.18 to 21.09	9.24	4.40	7.00
Sales	-39.20 to 49.28	-0.65	2.13	9.71
HT-1 Instl.	1.69 to 9.62	5.51	4.8	9.46
Sales	0.77 to 5.65	3.18	4.05	13.91
HT-2a Instl.	10.38 to 27.42	16.24	14.55	9.07
Sales	6.80 to 22.46	13.81	11.96	13.90
HT-2b Instl.	11.79 to 17.65	14.87	13.23	8.99
Sales	14.54 to 25.75	19.07	16.54	14.22
HT-4 Instl.	0 to 10.53	2.57	4.27	8.70
Sales	-0.17 to 22.65	10.21	11.15	13.72
Total Instl.	2.58 to 8.70	5.71	5.72	4.25
Sales	1.10 to 27.40	9.99	7.64	10.04

Based on the above table the observations of the Commission are as indicated below:

a. LT:1- The proposed increase in the number of installations seems to be on the lower side considering the past additions in the number of installations. Further CESC shall furnish the following details for the current year FY12:

Particulars	Number of installations as on 31.01.2012	Cumulative sales in MU as on 31.01.2012
BJ/KJ consuming less than 18 units/month		
BJ/KJ consuming more than 18 units/month		

- a. **LT-2a:** Considering the past trends the growth rate of 5.5% for installations and 8.95% for sales seems to be on higher side.
- b. **LT-3:** The growth rate of 8.86% considered for sales is on the lower side when compared to past trends.
- c. **LT 4a: CESC** shall furnish the specific consumption based on actual data available from Apr-11 to Jan-12.
- d. **LT-5:** considering the past trends, a sales growth of 5.79% seems to be on higher side.
- e. **LT-6 Streetlights:** Specific consumption/kW/month of connected load as per FY-12 actual meter readings shall be furnished.
- f. **HT-1:** The growth in installations is estimated at 9.46% and the sales growth is estimated at 13.91%, which is too high considering the past trends.
- g. **HT-2a:** Considering the normal trends in growth rates, the installations growth at 9.07% is on the lower side.
- h. **HT-2b:** Considering the normal trends in growth rates, the number of installations at 8.99% growth and sales estimate at 14.22% is on the lower side. Further it is noted that in the last 5 years, the minimum growth rate achieved is 14.54% for sales. Reasons for estimating lower growth rate shall be furnished.
- i) **HT-4:** Considering the past trends, the growth rate for installations as well as sales is on the higher side.

- a) List of pending applications in HT2(a), HT2(b) and LT5 categories along with the requisitioned load as on 31st December 2011 shall be furnished.

3) Power Purchase for FY13:

CESC shall clarify whether the proposed power purchase is as per the Orders of the GoK vide No. EN 126 EMC 2010 dated 4th January 2012 wherein ESCOM wise allocation of power is made. Also CESC shall clarify whether the rates on which power purchase cost is being projected is based on the power purchase agreements executed with the respective Generators.

CESC in its Form D1 has indicated 490.24 MU as medium / short / peak power procurement at an average rate of 427.78 paise / unit. In this regard CESC is required to furnish details of sources identified for procurement of 490.24 MU.

4) Distribution Losses for FY13:

CESC has proposed distribution loss of 15% for FY13 as against an actual distribution loss of 15.48% achieved during FY11. The Commission in its Tariff Order dated 28th October 2011 had fixed distribution loss target of 15.24% for FY12 as approved in the MYT order dated 7th December 2010. The proposal of CESC indicates a reduction of 0.48% from the targeted actual loss levels achieved in FY11.

Considering the substantial CAPEX programmes taken up by CESC in the past two years, the proposed loss reduction should have been more than 0.48%. CESC is requested to review its distribution loss level proposals duly considering its CAPEX programmes.

5) Observations on items of ARR:

i) Determination of O & M cost:

CESC shall indicate whether quantum of provision made for pension, leave and gratuity is as per latest actuarial valuation report. The calculations for inclusion of terminal benefits amount under D6 format shall be furnished. The reason for continuation of Rs.32.07 Crores as provision for P & G and FPF etc. from FY10 onwards without any variation in the format A2 may be explained.

ii) Interest and Finance charges:

CESC in its filing has stated that Rs.782.00 Crores of short term loan would be the closing balance as at the end of FY13. The details for the same is not furnished in Format D9 and has indicated interest on working capital as Rs.37.49 Crores for FY13. In this connection CESC is requested to furnish the details of source wise funds with cost and justification for availing such huge funds.

iii) Return on Equity:

CESC has claimed an amount of Rs.40.77 Crores as RoE for FY13 based on share capital only without taking into consideration negative figure of carry forward losses and reserve surplus. In this connection it is relevant to note that Commission has not approved any RoE for the year FY12. CESC shall furnish the revised RoE for FY13.

iv) Funds towards consumer relations / consumer education:

CESC has indicated an amount of Rs.0.50 Crore towards consumer relations / consumer education for FY13 as approved by the Commission for FY12. CESC shall furnish the details of its proposed expenditure to meet the objectives set by the Commission in its Tariff Order dated 28th October 2011. Further CESC shall furnish the details

of such actual expenditure incurred during FY12 upto 31st January 2012.

6) Observations on projected revenue for FY13:

It is observed that CESC has projected its revenue at existing tariff for FY13 based on the projected average realization indicated in the Tariff Order 2011 without considering the actual realization rate achieved during FY12 after the revision of tariff which came into effect after 28th October 2011.

7) Other Observation:

- i) The projected cash and Bank balance as on 31.03.2013 is Rs.782.46 Crores and the liability for power purchase is shown as Rs.1415.92 Crores, the reason for retaining the huge cash and bank balance without proposing to utilize for liability in respect of power purchase may be explained.
- ii) Half yearly accounts for the period ending 30.09.2011 may please be furnished.

8) Cross subsidy level for FY13:

As per the Tariff Policy cross subsidy surcharge to any category should not exceed plus or minus 20% for the year FY10-11 onwards. In the present filing it is observed that the entire tariff hike proposal is made out for an increase of Rs. 0.73 per unit uniformly without taking into consideration average cost of supply v/s average billing rate for each category of consumers.

The following table indicates average cost of supply v/s average billing rates as proposed by CESC wherein there is variation of cross subsidy contribution beyond permissible +/- 20%.

Category	Avg. cost of supply (Paise/unit)	Avg. Realisation. (Paise/unit)	Percentage
			Cross Subsidy
LT 2 (a)			
LT2(a)(I)	445	448	-0.67%
LT2(a)(II)	445	376	15.51%
LT 2 (b)			
LT2(b)(I)	445	748	-68.09%
LT2(b)(II)	445	837	-88.09%
LT 3			
LT 3(I)	445	813	-82.70%
LT 3(III)	445	763	-71.46%
LT 4 ©, LT 4(b)	445	493	-10.79%
LT 4 (d), LT 4©	445	332	25.39%
LT 5			
LT 5(a)	445	637	-43.15%
LT 5(b)			
LT 6(a)	445	516	-15.96%
LT 6(a)	445	559	-25.62%
LT 7	445	1304	-193.03%
HT 1	445	499	-12.13%
HT 2 a			
HT 2(a)(I)	445	633	-42.25%
HT 2(a)(III)			
HT 2 b			
HT 2(b)(I)	445	798	-79.33%
HT 2(b)(II)			
HT 3 a			
HT 3(a)(I)	445	458	-2.92%
HT 3(a)(II)			
HT 3 b	445	250	43.82%
HT 4			
HT 4(a)	445	679	-52.58%
HT 4(b)	445	631	-41.80%

As such CESC is required to propose its category wise tariff hike proposal with suitable corrections in line with the Tariff Policy.

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/04/12/

Dated: 6th February 2012

1. CESC vide its letter dated 27th January 2012, has filed its application for Revision of ERC and Revision of Tariff for FY13. After verification / scrutiny of the ERC and Tariff application, the staff of the Commission has prepared preliminary observations on the filing.
2. A draft copy of the preliminary observations is placed in the file for perusal and approval of the Commission.

Director (Tech.) / Director (Tariff)

3. Secretary

