

## CHAPTER – 2

### ANNUAL PERFORMANCE REVIEW FOR FY16

#### 2.0 HRECS's Application for APR of FY16:

Hukeri RECS has filed its application dated 28<sup>th</sup> November, 2016 for Annual Performance Review (APR) based on the Audited Accounts for FY16. Further, based on the proposed revenue gap in FY16, HRECS has sought revision of Annual Revenue Requirement (ARR) along with revision of retail supply tariff for FY18.

The Commission, in its Multi Year Tariff (MYT) Order dated 20<sup>th</sup> June, 2013, had approved the Annual Revenue Requirement (ARR) of the Society for FY14 – FY16. Further, in its Tariff Order dated 30<sup>th</sup> March, 2015, the Commission had approved the APR for FY14 and had revised the ARR and the Retail Supply Tariff for FY16.

In this Chapter, the Annual Performance Review for FY16, based on the Audited Accounts of HRECS is discussed.

#### 2.1 HRECS's Submission:

The summary of the proposed ARR based on its filing for FY16 is as follows:

**TABLE – 2.1**  
**ARR for FY16-HRECS's Submission**

Amount in Rs lakhs	
Particulars	FY16
<b>Revenue</b>	
Revenue from Sale of Power	3840.73
Subsidy from sale to BJ/KJ	80.68
Subsidy from sale to IP Sets	9095.79
<b>Total Revenue</b>	<b>13017.20</b>
<b>Expenditure</b>	
Power Purchase Cost	13452.50
Employee Expenses	765.62
R&M Expenses	104.85

A&G Expenses	247.61
<b>Total O&amp;M Expenses</b>	<b>1118.08</b>
Depreciation	106.18
Interest on Loan Capital	8.57
Interest on Working Capital	0.00
Interest on Consumers' Deposit	86.32
RoE	102.75
Less other income	164.33
<b>Net ARR</b>	<b>14710.07</b>

The Society has requested the Commission to approve the revised ARR of Rs.14710.07 lakhs as per the APR for FY16. The Society has projected a revenue deficit of Rs.1692.87 lakhs.

## 2.2 Hukeri RECS Financial Performance as per Audited Accounts:

An overview of the financial performance of Hukeri RECS for FY16, as per its Audited Accounts, is given below:

**TABLE – 2.2**

### Financial Performance of Hukeri RECS for FY16

Amount in Rs. Lakhs	
Particulars	FY16
<b>Revenue</b>	
Revenue from Sale of Power	3840.74
Subsidy from GoK	9176.46
Other income	164.34
<b>Total Revenue</b>	<b>13181.54</b>
<b>Expenditure</b>	
Power Purchase Cost	13452.50
Employee Expenses	765.62
R&M Expenses	247.61
A&G Expenses	104.84
Depreciation	106.18
Interest on Loan Capital	8.57
Interest on Consumers' Deposit	86.32
<b>Total Expenditure</b>	<b>14771.64</b>

As per the Audited Accounts, HRECS has incurred loss of Rs.1590.12 lakhs for FY16.

Considering the data furnished by HRECS in its application and the Audited Accounts for FY16, the Commission has undertaken the Annual Performance Review for FY16, based on the provisions of the MYT Regulations as discussed in the following paragraphs:

### 2.3.1 Capital Investments:

#### a) Capital Expenditure of HRECS for FY16:

##### HRECS's submission:

The HRECS has incurred an actual capital expenditure of Rs.1539.92 lakhs as against the approved capex of Rs.557 lakhs as indicated in Format D-17 of the APR application. The details of the category-wise capital expenditure submitted by HRECS for FY16 are as follows:

**TABLE -2.3**  
**Capital expenditure of HRECS for FY16**

Sl. No.	Particulars	Approved for FY16	Actual Expenditure		
			NJY works	Regular works	Total
1	H.T Lines	198	547.22	26.14	573.36
	a) 11 KV Lines	0	-	-	-
2	L.T Lines	0	-	-	-
	a) 3 Phase 5 wire	13	-	-	-
	b) 3 Phase 4 Wire	6.7	64.03	80.56	144.59
	c) 1 Phase 3 Wire	10.4	-	-	-
	d) 1 Phase 2 Wire	0	-	25.13	25.13
3	Transformer Centres	8	-	-	-
	a) 500 KVA Transformer Centre	0	-	-	-
	b) 250 KVA Transformer Centre	0	-	-	-
	c) 200 KVA Transformer	0	-	-	-
	d) 150 KVA Transformer Centre	0	-	-	-
	e) 100 KVA Transformer Centre	30.7	31.35	13.43	44.78
	f) 63/50 KVA Transformer Centre	111.6	231.7	32.07	263.77
	g) 25 KVA Transformer Centre	0	-	2.81	2.81
	h) Others (10 & 15 KVA)	0	-	2.41	2.41
4	Service connection	0	-	-	-
	a) Agriculture -HT	0	-	0.42	0.42
	b) Industrial -HT & others	25	-	-	-
	c) Agriculture -LT	2.7	-	-	-
	d) Industrial -LT	28.7	-	2.16	2.16
	e) Domestic	0.9	-	16.4	16.4
	f) Commercial	0	-	2.93	2.93
	g) Street Light Brackets	80.5	-	-	-
5	Improvement Works	-	-	-	-
	a) 11 KV Line	75.6	-	64.76	64.76
	b) 100/63/25 KVA Transformer Centre	24.6	-	354.44	354.44
	c) LT Line 3 Ph.4 Wire	19.6	-	26.09	26.09
6	Other Assets like Land & Building, Office furniture & equipment Cement pole factory expansion computer & accessories etc.	119	-	15.87	15.87
	<b>Total</b>	<b>557</b>	<b>874.3</b>	<b>665.62</b>	<b>1539.92</b>

**Commission's analysis and decision:**

The HRECS has achieved a capex of Rs.1539.92 Lakhs which is nearly three times the approved capex for FY16. HRECS, in its replies to the preliminary observations in this regard has stated that, it had taken up the NJY programme in the earlier years and now the NJY works have been completed for which it had to incur a cost of Rs.874.3 Lakhs during FY16. Also, it has spent Rs.665.62 Lakhs towards other regular capital works including the spillover works of the previous years. This has resulted in an overall capex of Rs.1539.92 Crores. For NJY works, an amount of Rs.700 Lakh has been released by the Government of Karnataka during FY16.

Further, HRECS has exceeded the approved capex in respect of the following works:

In respect of HT lines, HRECS has achieved a capex of Rs.573.36 Lakhs, as against the approved capex of Rs.198 Lakhs. HRECS in its replies to the preliminary observations in this regard has stated that, out of Rs.573.36 Lakhs, an amount of Rs.547.22 Lakhs has been spent on the NJY works and the remaining capex is towards the regular capex in respect of extension of HT lines.

In respect of LT lines, HRECS has achieved a capex of Rs.144.59 Lakhs, as against the approved capex of Rs.6.70 Lakhs. HRECS, in its replies to the preliminary observations in this regard has stated that, the LT lines extension associated with the NJY works was completed at a cost of Rs.64.03 Lakhs and the other regular works under capex for LT lines were undertaken at a cost of Rs.80.56 Lakhs.

HRECS has achieved a capex of Rs.44.78 Lakhs & Rs.263.77 Lakhs, in respect of Transformer centres (100kVA and 63/50kVA) as against an approved capex of Rs.30.7 Lakhs & Rs.111.6 Lakhs respectively. HRECS in its replies to the preliminary observations in this regard has stated that, an amount of Rs.231.70 lakhs is associated with the NJY works and the remaining capex was against the transformer centres. Further, HRECS has stated that, the

capex achieved over and above the approved capex, has helped the Society to facilitate 24 Hours power supply to the households, rural industries and water supply installations. This has enabled economic development of the villages, encouraged the students to attend to their studies during evening hours, improved the tail end voltages and overall consumer satisfaction, etc.

The performance of HRECS in the previous years (during FY14 and FY15) in respect of capital expenditure shows that, it was not achieving the targeted capex and the percentage achievement was far less, which may be attributable to non-completion of the NJY programmes in time. In FY16 the HRECS has achieved almost three times the approved capex as shown in the following table:

**TABLE – 2.4**  
**Capital investment of HRECS- Approved Vs Actual**

Particulars	Amount in Rs. lakhs				
	FY12	FY13	FY14	FY15	FY16
Capital investment proposed & approved	270	238	656	594	557
Capital investment actually incurred	389	556	447	271.62	1539.92
Excess /Short fall(-)	119	318	-209	-322.38	-982.92
Percentage Achievement	144.07%	233.61%	68.14%	45.73%	276.5%

**In light of the above discussions and considering the valid reasons furnished by the HRECS on exceeding the approved capital investment, the Commission decides to consider the expenditure of Rs.1539.92 lakhs for APR of FY16, subject to disallowance, if any, after prudence check of the works and material procurement as discussed in the succeeding paras.**

**The prudence check of capex and material procurement of HRECS for FY16:**

The Commission has got the Prudence check of capital expenditure for FY16, done through third party verification of the capital works categorized and the material procurement of HRECS during FY16. This was taken up in two parts:

- a) Prudence check of execution of the capital works of FY16:
- b) Prudence check of material Procurement process of FY16:

**a) Prudence check of execution of the capital works of FY16:**

The capital expenditure as proposed by HRECS is being allowed by the Commission as per the filing every year, subject to prudence check. Accordingly, the prudence check of the capital expenditure incurred by HRECS for the FY16 was got done along with the prudence check of HESCOM by the Commission by engaging the services of M/s Deloitte Touche Tohmatsu India Private Limited, (M/s. Deloitte) as consultant, being the lowest bidder for the said job, through a transparent process of e-tendering to evaluate the capital expenditure of FY16 pertaining to completed and categorized works.

M/s. Deloitte has collected the list of 94 capital works amounting to a cost of Rs.1195 Lakh for the prudence check of capital expenditure for FY16. The works were divided into three categories based on their cost (a) works costing above Rs.6 Lakh, Rs.3 to 6 Lakh and works below Rs.3 Lakhs and the sample size was selected in each category as indicated in the table below:

**TABLE -2.5**

**Summary of total works and the sample selected**

Category	Master List		Sample List	
	Number of works	Cost of works Rs. Lakh	Number of works	Cost of works Rs. Lakh
Works costing more than Rs.6 lakhs	6	1,066	6	1,066
Works costing between Rs.3 to Rs.6 lakhs	5	22	5	22
Works costing less than Rs.6 lakhs	83	107	12	21
<b>Total</b>	<b>94</b>	<b>1,195</b>	<b>23</b>	<b>1,109</b>

The sampling included the category of works taken up by HRECS under various schemes like E&I, Niranthara Jyothi Schemes, service connection, transformer replacement and Emergency works. A representative sample in each category was selected covering the geographical area of the Company as per the Scope of work and the details are as follows:

**TABLE – 2.6****Summary of categorized works**

Type of work	Number of works	Cost of works Rs. Lakh
E&I	32	58
NJY	1	985
Service Connection	18	110
Transformer Replacement	40	40
Emergency	3	2
<b>Total</b>	<b>94</b>	<b>1,195</b>

The consultant has stated that, all the projects were found to be meeting the norms of prudence. Also, the consultant in the report of prudence check has discussed the time and cost over-run of projects as follows:

**Time over-run:** In most of the works are carried out by HRECS, no time-over run was observed, except in the case of some NJY works which are still on-going.

**Cost over-run:** In most of the works are carried out by HRECS, no cost-over run was observed.

**The Consultant has made the following observations on NJY works in HRECS:**

**i. Non-availability of feeder-wise progress:**

HRECS has listed one NJY work with cost of Rs.9.85 Crore as categorized work available for the prudence check. However, during the field visits, it was revealed that the entry corresponds to multiple number of NJY works awarded under the same DWA. However, it was admitted by HRECS that capitalization of the expenses corresponding to NJY DWA are being done without segregating them in a feeder wise manner, and therefore separate feeder-wise break-up of cost of NJY was not

readily available. However, upon request, HRECS has provided the feeder-wise breakup of cost capitalized against each NJY feeder in FY 2015-16. Hence, the HRECS should make it a practice to award such works on a feeder wise basis and categorize in the same manner to facilitate verification without difficulties.

**ii. Possibility of incomplete segregation of IP set loads from NJY:**

Ideally, for NJY lines in rural areas, the peak load is expected to be significantly lower in comparison to that of IP set / mixed feeders. As the load in NJY feeders are predominantly lighting loads, a peak load of only up to 20 A is typically expected at 11 KV on NJY feeders. However, in case of some NJY feeders, substantially higher peak load (more than 50 A) has been observed. Though this could also be due to substantially higher number of consumers being connected to the feeder with more loads, there is also a possibility that segregation of IP loads has been incomplete to some extent. Some of the NJY feeders where high peak load was observed are listed below.

HRECS should take necessary action to monitor and segregate all IP set installations to the separated Agriculture feeders.

**b) Prudence check of Material Procurement process of FY16:**

The Commission noting that, the procurement of material is a part of capex exercise by HRECS, has directed that a prudence check of the material procurement process be conducted along with the prudence check of capital expenditure for execution of works.

M/s Deloitte who undertook such prudence check, has stated that, the analysis of inventory levels of HRECS against their actual utilization in FY16 indicated a higher level of inventory in the case of:

- a) Poles
- b) Guy strain insulator No. 15
- c) 3 Phase Energy Meters
- d) DTC Meters

Table -2.7

## Analysis of inventory levels of HRECS

Material	Unit	Average Inventory	Utilization	Inventory as % of utilization
PCC Pole 8 Mtrs.long, PSC Pole 8 Mtrs.long PSC Pole 9 Mtrs.long	Nos.	2,098	3,131	67%
RCC Pole 9 Mtrs long	Nos.	233	335	69%
Pin Insulator Shell 1.1 KV	Nos.	2,235	6,244	36%
Pin Insulator Shell 11 KV	Nos.	1,277	4,575	28%
Guy Strain Insulator No. 15	Nos.	1,033	921	112%
Distribution Transformers 63 KVA 3 Star	Nos.	12	46	25%
Distribution Transformers 100 KVA 3 Star	Nos.	36	95	37%
Energy meters L&T 1Ph Static 5-30A	Nos.	1,020	2,327	44%
Energy meters L&T 3Ph Static 5-20A	Nos.	79	132	59%
Energy meters L&T 3Ph Static 10-40A	Nos.	29	31	92%
ETV Meter DTC	Nos.	31	22	139%

The consultant further states that, however, it is also noted that the licensee may have additional considerations such as criticality of equipment and re-order delays, which may force it to maintain additional inventory. HRECS is using a combined calculation of Schedule Rate of other utilities and its own estimates while evaluating the purchases. When the purchase rate is compared with ESCOM schedule of rates, wherever available, it is seen that HRECS has managed to procure material at lesser cost than the schedule rate.

**The Commission after noting the above observations of the consultant, directs HRECS to -**

- i. Take action to monitor its capital works, complete and categorize the works within the target time, without giving room for time overrun and cost overrun;**

- ii. **Monitor the stock position continuously to ensure that, no material is kept as idle stock. Further, HRECS has to plan its procurement in a phased manner such that, the material flow would be continuous and would not result in keeping idle stock for longer duration.**

### 2.3.2 Sales- APR for FY16:

#### a) Sales –other than IP sets:

HRECS in its proposal for APR of FY16 had requested for approval for total sales of 2643.60 Lakh units. The Commission in its Tariff order dated 30.03.2015 had approved total sales of 2483.11 Lakh units to the various consumer categories, for FY16. Thus, the actual sales of HRECS as per the APR filing [D-2 Format] of 2643.60 Lakh units indicated an increase in sales to an extent of 160.49 Lakh units as compared to the approved sales. As against approved sales of 672.31 Lakh units to categories other than BJ/KJ and IP sets, the actual sale achieved by HRECS is 691.05 Lakh units, resulting in an increase in sales to these categories by 18.74 Lakh units. It is observed that this increase is mainly in HT-2a industrial category to an extent of 32.65 lakh units. On the other hand, HRECS has sold 1952.55 Lakh units to BJ/KJ and IP category against the approved sales of 1810.80 Lakh units, resulting in increased sales to these categories by 141.75 Lakh units. The increase is mainly in IP sets to an extent of 140.23 lakh units.

The Commission had directed the HRECS to analyze and report the reasons for increased sales in HT-2a category and IP sets. HRECS in its replies has stated that, under HT2a category the consumption was higher as sales to AEQUS SEZ was accounted under HT2A category during FY16. The Commission notes that AEQUS, SEZ has reported sale of 85.5 lakhs units to its consumers in FY16, which is reckoned by the Commission.

#### b) Sales to IP Sets

- i. The Commission in its Tariff Order dated 30<sup>th</sup> March, 2015, had approved 179.66 MU as sales to the IP sets, by considering a specific consumption of 7391 units / installation / annum, for FY16. As per the tariff application filed by the HRECS, the actual sales is 193.683 MU as

against the approved sales, resulting in increase in sales to IP sets category by 14.023 MU. The specific consumption of IP sets works out to 8,053 units / installation / annum for FY16, considering the IP-set consumption of 193.683 MU reported by the HRECS. Thus, the specific consumption has increased by 662 units / installation / annum in FY16 from the approved level. Further, the actual number of installations for FY16 is less by 355 numbers as against 24,638 approved number of installations.

- ii. The consumption of IP sets is being computed by the HRECS on the basis of metered consumption of 249 sample IP-set installations, as per the Commission's Order dated 20.01.2015. The HRECS has submitted the monthly consumption data of sample IP set installations, to the Commission for FY16.
- iii. It is observed that the specific consumption of 8,053 units / installation / annum, which is worked out based on the IP sales reported for FY16, is on a higher side considering that three phase power supply to agricultural feeders is restricted to 6-7 hours per day in its jurisdiction of HRECS as stipulated by the Government. The reasons for increase in specific consumption could be that HRECS has supplied more hours of power to the IP sets than the stipulated hours of power supply, resulting in higher specific consumption or the sample IP-sets selected for metering may not be representative of the actual IP sets in the field.
- iv. The Commission had directed the HRECS to submit IP set consumption on the basis of readings of meters fixed at the substations to exclusive agricultural feeders segregated under NJY, duly deducting the prevailing 11 kV system losses and consumption of any other loads on the feeder, as it should be able to measure the

consumption of IP sets accurately, after segregation of feeders. However, the HRECS has not submitted this data to the Commission in its tariff Filing.

- v. The Commission had raised this issue in its preliminary observations communicated to the HRECS and had directed it to submit the data of IP sets' consumption based on segregated agricultural feeders' meter readings. But, the HRECS in its reply has not submitted the consumption of exclusive IP-set feeders based on the feeders' meter reading data at the substation level. It has stated that due to some domestic installations are also being catered from these feeders and after completion of identification of the same and taking into account the consumption of these installations to arrive at the net IP consumption, it would submit the details to the Commission in due course.
- vi. It is noted that HRECS has already segregated 16 feeders and one more feeder is nearing completion under NJY. Hence, in view of commissioning of exclusive agricultural feeders, the overall consumption of IP sets can be computed on the basis of specific consumption arrived at from meter readings of such feeders. This will provide larger samples than the 249 installations being considered now for computation of IP sets' consumption.
- vii. **The Commission, therefore directs that, henceforth, the HRECS should furnish the feeder-wise monthly readings on the basis of the data from agriculture feeder meter readings, every month regularly to the Commission and stop assessing the IP-set consumption based on the meter readings of 249 sample IP sets, hitherto(FY16) being considered.**
- viii. **However, for the present, in the absence of a larger sample, the Commission decides to approve the sales of 193.683 MU as claimed**

**in Format D-2 of the Tariff filing as per the audited accounts filed by the HRECS, for the purpose of Annual Performance Review for FY16.**

- ix. The HRECS is also directed to adhere to the duration of power supply as fixed by the Government and also take up enumeration of IP-sets through a GPS survey, to identify installations not-in-use and un-authorized IP-sets for accurate computation of the IP set consumption.

**Thus, the Commission approves 264.36 MU for FY16 including the energy sold to AEQUS SEZ.**

### 2.3.3 Distribution Losses

The Commission, in its Tariff Order dated 30<sup>th</sup> March, 2015, had approved distribution losses of 14.50% for FY16. The Hukeri RECS in its application has reported actual distribution losses of 15.12%. Thus, HRECS has not achieved the loss target fixed by the Commission. The actual losses are more than the targeted losses by 0.62%

Hence, in accordance with the provisions of the MYT Regulations, the following is the penalty to be levied for non-achievement of targeted losses:

#### **Penalty for non-achievement of targeted Distribution losses in FY16**

**TABLE-2.8**

#### **Computation of Penalty for non-achievement of loss targets**

<b>Particulars</b>	<b>FY16</b>
Actual input at IF points in MU	311.46
Retail sales as per audited accounts in MU	264.36
Percentage of distribution losses	15.12%
Target Upper limit of distribution loss	14.75%
Increase in loss - in percentage point	0.37%
Input at target loss for actual sales in MU	310.10
Increase in input due to increase in distribution losses in MU	1.36
Average cost of power purchase at IF points in Rs./unit	3.8126
Increase in power purchase cost due to increased losses in Rs.Lakh	52.54
<b>Penalty for non- achievement of approved loss levels in Rs. lakhs</b>	<b>51.86</b>

**Accordingly, the Commission decides to deduct an amount of Rs.51.86 lakhs from the allowable ARR for FY16 towards penalty for not achieving the loss reduction target.**

#### **2.3.4 Power Purchase for FY16:**

The Society has received energy of 311.46 MU at the interface points during FY16. The cost of the power purchase is indicated as Rs.13452.50 lakhs. The Commission in its tariff order dated 30<sup>th</sup> March, 2015, had approved power purchase of 303.43 MU (at generation bus) at a cost of Rs.9287.92 lakhs for FY16.

As per the Format D-19 of the application, the HERCS has received energy of 273.94 MU at 110/11 kV and 37.52 MU at 33/11 kV. Since supply at 33/11 kV is met by the distribution system of HESCOM, the Society is required to bear the losses for handling 37.52 MU at 33/11 kV. HESCOM in its filing under Format D1-9 has indicated distribution losses of 3.22% at 33 kV for FY16. Hence, the losses at 33/11 kV would be 1.21 MU and the energy at interface point with the transmission system would be 312.67 MU. **Based on the actual transmission losses of KPTCL at 3.54% for FY16, the allowable quantum of power purchase (at the generation bus) will be 324.13 MU.**

The Commission, in its APR for HESCOM for FY16, has approved power purchase at an average cost of Rs.3.8126/unit. **On the basis of this average cost of power purchase, the allowable cost of power purchase payable to HESCOM for FY16 will be Rs.12519.72 lakhs.**

#### **2.3.5 O & M Expenses:**

HRECS in its application has sought approval of actual O & M expenditure of Rs.1118.08 lakhs for F16 as follows:

TABLE – 2.9

## O &amp; M Expenses – Hukeri RECS submission

Amount in Rs. lakhs	
Particulars	FY16
Employees cost	765.62
Repair and Maintenance	104.85
A&G Expenses	247.61
<b>Total O &amp; M Expenses</b>	<b>1118.08</b>

Considering the inflation rate and growth in the consumer base, the O & M expenses as per norms would be as detailed below:

TABLE -2.10

## Normative O &amp; M expenses for FY16

Amount in Rs. Lakhs	
Particulars	FY16
No. of Installations	116958
CGI based on 3 Year CAGR	5.53%
Weighted Inflation Index	7.71%
Base Year O&M Cost(FY13 as per actuals)	945.89
<b>O&amp;M Index= O&amp;M (t-1)*(1+WII+CGI-X)</b>	<b>1337.59</b>

Note: The efficiency factor is 0.5%.

**As the O&M expenses based on norms exceeds the actual O&M expenses incurred, the Commission decides to allow the actual O & M expenses of Rs.1118.08 lakhs for FY16.**

### 2.3.6 Depreciation

HRECS in its application has claimed an amount of Rs. 106.18 lakhs towards depreciation for FY16 after deducting the depreciation on assets created out of consumers' contribution/grants.

The Commission in its Tariff Order dated 30<sup>th</sup> March, 2015 had approved an amount of Rs.105.47 lakhs towards depreciation for FY16. Against the same, HRECS has claimed depreciation of Rs.106.18 lakhs.

Since HRECS has claimed the depreciation on the basis of actual category-wise assets as per Audited Accounts as detailed below, the Commission considers the same for the purpose of APR for FY16.

**TABLE – 2.11**  
**Allowable Depreciation for FY16**

Particulars	Amount in Rs. Lakhs		
	Opening Balance of Asset as on 01.04.2015	Closing Balance of Asset as on 31.03.2016	Allowable Depreciation
Buildings	52.20	52.20	0.94
Civil	75.87	75.87	1.37
Other Civil	4.34	4.34	0.01
Plant & M/c	1689.55	2110.12	57.61
Line, Cable Network including plant and machinery	3396.87	4241.82	91.53
Vehicles	27.68	38.50	1.70
Furniture	18.02	18.02	0.52
Office Equipments	87.46	92.51	4.24
<b>Total</b>	<b>5351.99</b>	<b>6633.38</b>	<b>157.92</b>
Less: Depreciation on assets created out of Consumer Contribution/Grants			51.74
<b>Net Depreciation</b>			<b>106.18</b>

Thus, the Commission decides to allow a depreciation of Rs.106.18 lakhs for FY16.

### 2.3.7 Interest & Finance Charges

#### i) Interest on Loan Capital:

HRECS has claimed an amount of Rs.8.57 lakhs as interest and finance charges for FY16. The Commission notes that as per the Audited Accounts, the society has incurred Rs.8.57 lakhs towards interest on loans drawn from REC. As per the Audited Accounts for FY16, the opening balance of the loans is Rs.74.57 lakhs and the total outstanding balance of loans at the end of the year remains at Rs.74.57 lakhs. Considering the average loan of Rs.74.57 lakhs, the Commission notes that the interest on loans of Rs.8.57 lakhs works out to a weighted average rate of interest of 11.49%.

Hence, the Commission decides to allow the interest on loan capital of Rs.8.57 lakhs as proposed by HRECS for FY16.

**ii) Interest on working Capital:**

HRECS has not claimed any interest on working capital for FY16. As per the Audited Accounts, also HRECS has not incurred any amount towards interest on working capital.

The Commission, as per the norms under MYT Regulations, determines the allowable interest on working capital as under:

**TABLE – 2.12**

**Allowable Interest on Working Capital for FY16**

Particulars	Amount in Rs. lakhs	
	FY 16	
One-twelfth of the amount of O&M Expenses	93.17	
Opening Gross Fixed Assets	5352.15	
Stores, materials and supplies 1% of Opening balance of GFA	53.52	
One-sixth of the Revenue	2169.53	
Total Working Capital	2316.22	
Rate of Interest (% p.a.)	11.75%	
<b>Interest on Working Capital</b>	<b>272.16</b>	
Actual interest on WC as per accts	0.00	
As per regulations actual plus 50% of difference between actual and normative	<b>136.08</b>	

Thus, the Commission allows an amount of Rs.136.08 lakhs towards interest on working capital for FY16.

**iii) Interest on Consumers' Security Deposit:**

HRECS as per the audited accounts has claimed an amount of Rs.86.32 lakhs towards Interest on consumers' security deposit for FY16. Considering the average of opening and closing balance of consumers' security deposits at Rs.1192.06 lakhs, the average rate of interest works out to 7.24%.

As per KERC (Interest on Security Deposit) Regulations, 2005 the interest on consumer security deposits shall be allowed as per the bank rate prevailing on the 1<sup>st</sup> day of April of the financial year for which the interest is due. The bank rate as on 1<sup>st</sup> April 2015 was 8.50%.

**Since the actual interest claimed is well within the allowable rate, the Commission decides to allow an amount of Rs.86.32 lakhs claimed towards interest on consumers' security deposits for FY16.**

The abstract of the approved Interest and Finance charges is indicated below:

**TABLE – 2.13**

**Abstract of Interest & Finance Charges for FY16**

Particulars	Amount in Rs. lakhs
	FY16
Interest on Capital Loan	8.57
Interest on Working Capital Loan	136.08
Interest on Consumers' Security Deposit	86.32
<b>Total</b>	<b>230.97</b>

**2.3.8 Return on Equity:**

The society has claimed an amount of Rs.102.75 lakhs towards RoE for FY16. However, as per the Audited Accounts, the HRECS has an accumulated loss of Rs.1743.48 lakhs as at the beginning of FY16.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 as amended, the Commission has to compute the allowable Return on Equity at 15.5% on equity plus reserves and surplus as at the beginning of the year, besides allowing taxes as per actuals. Considering the status of equity as per audited accounts for FY16, the allowable RoE is computed as follows:

**TABLE – 2.14****Approved RoE for FY16**

Particulars	Amount in Rs. lakhs	
	FY16	
Paid Up Share Capital	459.99	
Share Deposit	4.10	
Carried forward Loss/Profit	(2207.58)	
Total Equity	(1743.48)	
<b>Approved RoE by Commission in Rs. lakhs</b>	<b>0.00</b>	

Since HRECS has a negative net worth for FY16, the HRECS is not entitled to any RoE for FY16. Further, as per the audited accounts, since the Society has not paid any Income Tax for FY16, the Commission has not considered allowing any separate provision for Income Tax payment.

**2.3.9 Carrying Cost on the Regulatory Asset:**

As per Tariff Order dated 20<sup>th</sup> June, 2013, an amount of Rs. 100 lakhs was created as Regulatory Asset, to be recovered through tariff over the next two years i.e. during FY16 and FY17. Accordingly, an amount of Rs.50 lakhs was considered in the ARR for FY16 to be recovered in the tariff for FY16. The remaining Rs.50 lakhs has been considered in the ARR of FY17. The Commission, while carrying out the APR of HRECS for FY16, decides to allow Rs.6 lakhs as carrying cost on the Regulatory Asset of Rs.50 lakhs. The said carrying cost, along with the Revenue gap of FY16, after the APR for FY16, shall be carried forward to the ARR of FY18 and recovered through tariff approved for FY18.

**2.3.10 Other Income:**

As per the Audited Accounts, the HRECS has indicated an amount of Rs.164.33 lakhs as other income for FY16. This amount includes income from interest on bank deposits, rent from staff quarters, rebate on electricity duty and miscellaneous recoveries / income. **Hence, the Commission decides to consider an amount of Rs.164.33 lakhs towards other income for FY16.**

**2.3.11 Subsidy for FY16:**

The Commission in its Tariff Order dated 2<sup>nd</sup> March, 2015 has approved tariff subsidy of Rs.84.39 Crores towards sale of power to BJ/KJ and IP sets for FY 16 in accordance with the prevailing Government Order. The Commission in computation of APR for FY16 approves the revised tariff subsidy of Rs.9176.47 lakhs towards sale of power to BJ/KJ and IP sets for FY 16.

**2.4 Abstract of Allowable ARR for FY16:**

The Abstract of the allowable consolidated Annual Revenue Requirement for FY16 is as follows:

**TABLE-2.15**  
**Allowable consolidated ARR for FY16**

Particulars	Amount in Rs. lakhs	
	As filed	As Approved
Power Purchase Cost inclusive of transmission and SLDC Charges	13452.50	12519.72
Employee Expenses	765.62	
R&M Expenses	104.62	
A&G Expenses	247.61	
Total O&M Expenses	1118.08	1118.08
Depreciation	106.18	106.18
Interest on Capital Loan	8.57	8.57
Interest on Working Capital loan	0.00	136.08
Interest on Consumer Security Deposit	86.32	86.32
Return on Equity	102.75	0.00
Less other income	164.33	-164.33
Less -Penalty for non-achievement of targeted losses		-51.86
<b>ARR</b>	<b>14710.07</b>	<b>13758.75</b>
Carrying cost on Regulatory Asset		6.00
<b>Net ARR</b>	<b>14710.07</b>	<b>13764.75</b>

The Commission allows ARR of Rs.13764.75 lakhs as against the HRECS's claims of Rs.14710.07 lakhs for FY16. Considering the revenue of Rs. 13017.20 Lakhs, there is a deficit of Rs.747.55 lakhs for FY16.

**The Commission decides to carry forward the deficit of Rs.747.55 lakhs of FY16 to the ARR for FY18, as discussed in the subsequent Chapter of this Order.**