

HRECS

Preliminary Observations on Application for Approval of APR for FY17 and Revision of Retail Supply Tariff & ARR for FY19

I. Annual Performance Review for FY-17

A. Sales- other than IP sets:

The Commission in its Tariff Order dated 30.03.2016, had approved total sales to various consumer categories at 2458.22 Lakh units for FY17, against the HRECS proposal of 2648.56 lakh units [excluding sales to AEQUS]. The actual sales of the HRECS as per the current APR filing [D-2 FORMAT] is 2538.92 Lakh units indicating an increase in sales to an extent of 80.69 Lakh units with respect to the approved sales.

The Commission notes that, as against approved sales of 629.44 Lakh units to categories other than BJ/KJ and IP sets, the actual sales achieved by the HRECS is 683.59 Lakh units, resulting in an increase of sales to these categories by 56.36 Lakh units. It is observed that this increase is mainly in HT-2a industrial category to an extent of 39.65 lakh units. On the other hand, the HRECS has sold 1855.33 Lakh units to BJ/KJ and IP category against approved sales of 1828.78 Lakh units resulting in increased sales to these categories by 24.34 Lakh units. The increase is mainly in IP sets to an extent of 21.43 lakh units. The Commission's observation on IP set consumption is dealt in the subsequent paragraphs.

The HRECS shall analyze and report the reasons for increased sales in HT-2a category.

B. Sales to IP Set:

It is noted that the overall sales have increased by 21.43 lakhs units (1.1%) as against the approved sales of 1828.78 lakhs units as per the Tariff Order dated

30th March 2016 for FY17. Further, the Commission had approved a specific consumption of IP-sets as 7,341 units / installation / annum for FY17. As per the consumption reported in Format- D-2 of the filing, the specific consumption works out to 7,329 units / installation/annum for FY17. This indicates an increase of 12 units / installation/annum in specific consumption for FY17. Further, the actual number of installations for FY17 has increased by 800 numbers when compared to the approved number of installations of 25,016. The HRECS shall furnish the reasons for increase in specific consumption as well as total IP consumption for FY17.

The Commission in its Tariff Order dated 30th March 2015 had directed HRECS to furnish feeder wise IP-set consumption based on meter data of the feeders to the Commission, every month in respect of agriculture feeders segregated under NJY. The HRECS has not submitted in its application the consumption data of agricultural feeders indicating the losses in 11 kV, distribution transformers & LT system which are deducted from the gross consumption, to arrive at the net consumption and the methodology adopted to arrive at the loss figures for FY17.

The HRECS shall furnish necessary data to justify the IP-consumption claimed for FY17 as per the format given below in the subsequent paragraph.

C. Capital Expenditure for FY17:

The Commission had approved a capital expenditure of Rs.346.51 Lakhs for FY17, against which, the HRECS has indicated an actual capital expenditure of Rs.491.30 Lakhs in Format-D-17 of the APR application. The HRECS has shown a capital expenditure of Rs.1127.52 Lakhs as the asset categorized in Format- D-17. HRECS has not submitted the category-wise expenditure for FY17. Hence, the same shall be furnished in the format given below:

Amount in Rs. Lakhs			
Sl. No	Particulars	FY17	Actual Expenditure during FY17 Rs. Lakhs
1	H.T Lines		
	a) 11 KV Lines	68.38	

2	L.T Lines		
	a) 3 Phase 5 wire	-	
	b) 3 Phase 4 Wire	27.72	
	c) 1 Phase 3 Wire	9.61	
	d) 1 Phase 2 Wire	16.79	
3	Transformer Centres		
	a) 500 KVA Transform Centre	-	
	b) 250 KVA Transform Centre	-	
	c) 200 KVA Transformer	-	
	d) 150 KVA Transform Centre	-	
	e) 100 KVA Transform Centre	27.06	
	f) 63/50 KVA Transform Centre	53.31	
	g) 25 KVA Transform Centre	26.89	
	h) Others (10 & 15 KVA)	-	
4	Service connection		
	a) Agriculture -HT	-	
	b) Industrial -HT & others	-	
	c) Agriculture -LT	16.83	
	d) Industrial -LT	2.43	
	e) Domestic	14.24	
	f) Commercial	1.20	
	g) Street Light Brackets	-	
5	Improvement Works		
	a) 11 KV Line	41.03	
	b) 100 KVA Transform Centre	22.55	
	c) LT Line 3 Ph.4 Wire	18.48	
	Total	346.51	

The HRECs is required to furnish the details of actual expenditure and the reasons for increase/decrease in capex in each category of works during the FY17 with reference to the approved capex.

Further, the HRECS shall furnish the details of the works which are being funded through grants/loans from the GoI, GoK and financial institutions along with the details of amounts sanctioned, utilized and the balance yet to utilized, in the following format:

Amount in Rs. Lakhs

Sl No	Type of work	Total Cost of the Project	Cost of works award	Sanctioned source of Funding		Actual amount received/availed		Cost of the completed work	Cost of works which are in progress (WIP)
				Loan	Grants	Loan	Grants		
	1	2	3	4	5	6	7	8	9
1	RAPDRP								
2	DDUGJY								
3	IPDS								
4									
	Any other works								

Cost of Balance works	Scheduled /targeted date of completion	Actual date of completion of work	Delay if any	Whether the grant has been converted to Loan due to delay	Amount of loan converted to loan	Interest on the converted grant into loan	Reason for the Delay
10	11	12	13	14	15	16	17

II. Annual Revenue Requirement for FY19

A. Sales- other than IP sets:

1. The HRECS, in its application, has stated that the estimates for FY18 is based on the actual data for April, 2017 to September, 2017 and the estimates for October, 2017 to March, 2018 is made on the basis of growth from September 16 to March 17 over April 16 to September 16.

2. Further, it is stated that for FY19, the number of installations and the energy sales is worked out considering the CAGR for the period FY14 to FY18 and that, while estimating the number of installations and sales, the negative growth rates are not considered.
3. The Commission notes that the HRECS, while computing the CAGR, has included the year FY18 data also, which itself is an estimated figure. Therefore, the HRECS should have considered the actual data available up to FY17 for estimating the CAGR to arrive at the actual growth rates.
4. The table indicating the growth rates for the no. of installations is furnished below:

Category	Percentage Growth Rates			
	2011-12 to 2016-17 CAGR	2013-14 to 2016-17 CAGR	FY17 growth over FY16	Growth rate proposed by HRECS for FY19
LT-2a	2	2	2	2
LT-2b	5	4	3	3
LT-3	2	3	2	2
LT-5	5	5	5	5
LT-6 WS	2	1	-2	1
LT-6 SL	8	1	1	1
HT-1	15	15	0	27
HT-2 (a)	15	26	-9	33
HT-2 (b)	-4	0	0	0
HT-2 (c)	-	19	0	0
HT-3(a)& (b)	5	8	25	33

It is noted that the growth rate considered for HT-1, HT-2a and HT-3 is higher and for LT-2b and HT-2c it is lower compared to the normal growth rates based on CAGR. The HRECS shall reconsider revising the estimates to these categories.

5. The table indicating the growth rates for the energy sales is furnished below:

Category	Percentage Growth Rates			
	2011-12 to 2016-17 CAGR	2013-14 to 2016-17 CAGR	FY17 growth over FY16	Growth rate proposed by HRECS
LT-2a	6	6	8	5
LT-2b	5	1	6	4
LT-3	8	9	8	7
LT-5	3	4	11	5
LT-6 WS	4	3	9	-1
LT-6 SL	2	2	6	-1
HT-1	3	5	12	11
HT-2 (a)	12	4	34	18
HT-2 (b)	-2	5	-11	-0.5
HT-2(c)	-	5	12	7
HT-3(a)&	-7	-8	24	83

It is noted that the growth rates considered for LT-2a, LT-3, LT-6WS & SL are lower and in case of LT-5, HT-1, HT-2a and HT-3, the growth rates are higher as compared to the normal growth rates. Further in the case of HT-2b & HT-2c, in spite of number of installations remaining same, the energy sales are decreasing in case of HT-2b and increasing in case of HT-2c. Also in case of LT-6 WS & SL, even though there is positive growth in number of installations, sales are decreasing. The HRECS shall furnish the reasons for the same.

6. Sales to AEQUS: The energy sold to AEQUS as per the HRECS filing and as filed by AEQUS is indicated below:

Year	As filed by HRECS	As filed by AEQUS
FY17	117.39	133.39
FY18	202.49	173.90
FY19	293.96	207.80

The HRECS shall reconcile the data pertaining to AEQUS.

7. The HRECS shall furnish the details of BJ/KJ installations as on 30.11.2017 in the following format:

Particulars	No. of Installations	Consumption in MU
Installations Consuming up to 40 Units		
Installations consuming more than 40 units and build under LT-2a		

8. To validate the sales, category wise information in the following format shall be furnished:

i. No. of Installations

Category	2015-16 Actuals		2016-17 Actuals		2017-18	
	As on 30 th Nov 2015	As on 31 st March 2016	As on 30 th Nov 2016	As on 31 st March 2017	As on 30 th Nov 2017	As on 31 st March 2018 (Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-3(a)&						
HT-4						
HT-5						
Sub Total (Other)						
BJ/KJ						
IP						
Sub Total (BJ/KJ and IP)						
Grand Total						

ii. Energy Sales

Energy in Million Units

Category	2015-16 Actuals		2016-17 Actuals		2017-18	
	1 st April 2015 to 30 th Nov 2015 (cumulative)	1 st Dec 2015 to 31 st March 2016 (cumulative)	1 st April 2016 to 30 th Nov 2016 (cumulative)	1 st Dec 2016 to 31 st March 2017 (cumulative)	1 st April 2017 to 30 th Nov 2017 (cumulative actuals)	1 st Dec 2017 to 31 st March 2018 (cumulative Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-3(a)& (b)						
HT-4						
HT-5						
Sub Total (Other than BJ/KJ and IP)						
BJ/KJ						
IP						
Sub Total (BJ/KJ and IP)						
Grand Total						

9. Wheeling charges & Cross subsidy surcharge:

HRECS shall furnish the details of wheeling charges & cross subsidy surcharge applicable for FY-19 along with the working details.

10. RPO Compliance:

HRECS shall furnish the details of RPO complied for FY-17 and the action plan for meeting RPO of FY-19.

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2. As per Format-D-2 of its Tariff application, the HRECS has projected a specific consumption of at 7,713 units/installation /annum for FY19, as against the specific consumption of 7,341 units / installation/annum approved by the Commission for FY18. Further, the HRECS on the basis of specific consumption of 7,713 units/installation /annum has projected a consumption of 212.58 MU for FY19. The HRECS is required to furnish the rationale for projecting IP-consumption for FY19.

3. Further, the HRECS was directed to take up enumeration of IP-sets to identify defunct/dried up wells in the field and take further necessary action to arrive at the correct number of working IP-sets on the basis of enumeration report. The HRECS has not complied with this direction. The HRECS shall furnish compliance on this, in order to arrive at the correct number of IP-set installations/consumption and also for projecting the correct number of installations/consumption for FY19.

C. Capital expenditure of HRECS for FY19:

The Commission had approved capex of Rs.283.48 Lakhs for F19 as per the MYT Order. Against this, the HRECS has proposed a revised capex of Rs.1113.05 Lakhs for FY19. The HRECS has stated that the increase is due to increase outlay for the DDUGJY works to an amount of Rs.699.99 Lakhs in addition to some modifications to other categories of works proposed for FY19.

The details of the capex program of HRECS is stated below:

Amount in Rs. Lakhs			
Sl. No	Particulars	Capex approved for FY19, As per MYT Order	Capex Proposed for FY19
1	H.T Lines		

	a) 11 KV Lines	54.70	79.97
2	L.T Lines		
	b) 3 Phase 4 Wire	18.48	27.34
	c) 1 Phase 3 Wire	9.61	21.32
	d) 1 Phase 2 Wire	16.79	28.57
3	Transformer Centers		
	e) 100 KVA Transform Center	31.57	21.06
	f) 63/50 KVA Transform Center	27.57	49.38
	g) 25 KVA Transform Center	20.17	17.78
4	Service connection		
	c) Agriculture -LT	17.67	30.54
	d) Industrial -LT	2.61	3.33
	e) Domestic	14.69	19.52
	f) Commercial	1.23	2.01
5	Improvement Works		
	a) 11 KV Line	27.35	53.31
	b) 100 KVA Transform Center	22.55	31.59
	c) LT Line 3 Ph.4 Wire	18.48	27.34
5	DDUGJY Scheme		
	a) 11 KV Line Feeder Separation	-	200
	b) 11 KV Line System Strengthening	-	75.48
	c) 11 KV Line Re_Conductor	-	124.51
	d) No of 1-ph Meter (5-30 A) replacement Electro Mechanical Energy Meter by Electro Static Energy Meter	-	281.1
	e) No of 3-ph Meter (5-30 A) replacement Electro Mechanical Energy Meter by Electro Static Energy Meter	-	18.9
	Grand Total	283.48	1113.05

From the above table it is noted that, the HRECS has proposed Rs.829.57 Lakhs in addition to the already approved capex of Rs.283.48 Lakhs, which is almost three times the approved capex resulting in increase of capex by four times the overall capex approved for FY19. The HRECS shall explain the reasons for proposing the increase or decrease in capex for each of the categories of work as per the above Table.

It may be noted here that, the HRECS has proposed DDUGJY scheme which includes 11kV Line Feeder separation, 11kV line system strengthening and 11kV Line Reconductoring at Rs.699.99 Lakhs. The HRECS shall explain as to whether these works are being taken up afresh for FY19 or it has started the

10	11	12	13	14	15	16	17

The HRECS shall also submit the physical and financial progress of works as on 31st October, 2017 (or latest by 30th November, 2017) for all major works being undertaken against the approved capex for FY18, in the format approved for FY18, indicating the capex incurred against each category.

The HRECS shall furnish the details of high value works proposed for FY19, indicating the number of DPRs prepared, Tendered /ready to be tendered, cost of each project and the timelines within which the works are going to be completed.

The HRECS shall also furnish the sources of funding such as loans, grants from Central/ State Governments, internal sources, borrowings and equity, to meet the capex for FY19.

D. Distribution Loss:

1. The actual distribution losses reported by the HRECS for FY17 is 14.93% as against 14.25% approved by the Commission in its Order dated 30th March, 2016. The actual distribution loss of 14.93%, as reported by the HRECS for FY17 is higher by 0.44% than the approved loss level. As discussed in the observations on sales to IP Sets, the Commission notes that, there is increase in IP-Set consumption and the metered sales under other Categories of consumer. Since the sale to IP Set is not backed up by the consumption figures on the basis of segregated feeder-wise data under NJY, the Commission is unable to accept the distribution loss figures claimed by the HRECS. Hence, feeder wise number of IP sets along with consumption, based on segregated feeders, besides Division wise data of numbers and consumption of IP sets as per DCB, shall be furnished, along with connected load.

2. The Commission, in its Order dated 30th March, 2016 has fixed the distribution losses at 14% and 13.75% for FY18 and FY19. The HRECS, in the present filing, has projected the revised distribution losses as 15.09% and 15.06% for FY18 and FY19. Considering the capital investment incurred in the recent past and proposed Capex for FY18 and FY19, and the achievement made in reduction of distribution loss levels in FY16 and FY17, the HRECS has projected higher losses and is required to reassess the distribution losses for FY18 and FY19.
3. Further, the HRECS shall furnish the data of Energy Audit for Hukkeri Town and large O & M sections of the Society in the following format considering the annual energy sale and input energy at the feeder levels:

Name of the Town/ Section	FY17			FY18 (Cumulative as at the end of Nov, 2017)		
	Energy Input in MU	Energy Sold in MU	% Distribution Losses	Energy Input in MU	Energy Sold in MU	% Distribution Losses
TOTAL						

E. Observations on Revenue & Expenses:

1. The HRECS in its filing under format D-6(O&M expenses), has factored Rs.1.85 Crores as the additional employee's cost for the recruitment of 104 employees and confirmation of 152 temporary employees for FY19. The number of employee's proposed for recruitment along with the confirmation of temporary employees are considered as very high when compared with the geographical area, number of consumers and the network system of the HRECS. The HRECS shall re-examine the proposal and justify its claims besides submitting the breakup of costs and computation sheet thereon.
2. The HRECS in its filing in page No.98, has indicated the details of Distribution transformers for FY17 and up to September, 2018 are as detailed below:

Sl. No.	Year	No. of Transformer centres	No. of Transformer failed and repaired	% of failure
1	2016-17	2204	583	26.45
2	2017-18	2317	326	14.07

The number and the rate of transformers failure during FY17 and in the first 6 months during FY18 is very high, considering the number of transformer centres existing in the HRECS. The HRECS shall furnish a section-wise detailed analysis for the failure of the transformers and the action taken for the reduction of failure rate.

3. As per the information under format D-5(R&M expenses), has factored Rs.1.85 Crores as the additional employee's cost for the recruitment of 104 employees and confirmation of 152 temporary employees for FY19. The number of employee's proposed for recruitment along with the confirmation of temporary employees are considered as very high when compared with the geographical area, number of consumers and the network system of The HRECS. The HRECS shall require to re-examine the proposal and justify its claims besides submitting the computation sheet.
4. The HRECS in its filings under format D-1, has reckoned Rs.155.31 Crores as the power purchase cost for FY17 by including Rs.28.77 Crores being the difference of rate revision for FY16 and Rs 4.73 Crores of interest on power purchase. Further, the HRECS has projected Rs.136.23 Crores and Rs.157.24 Crores as power purchase cost for FY18 and FY19. There is abnormal variation in reckoning the power purchase cost for FY17 to FY19. The HRECS shall furnish the provisions for claiming the difference of rate revision for FY16 and interest on power purchase amount for FY17 and the reason for abnormal variations in projecting the power purchase cost for FY19.
5. The HRECS shall furnish the details in respect of actual amount of Rs.33 lakhs spent on advertisement for FY17.
6. HRECS shall furnish the amount of subsidy claimed and received from GoK along with sales figures in respect of BJ/KJ and IP set installations for FY17.

7. HRECS shall furnish the equity amount received from GoK along with Government Order number and date and the actual date of receipt during FY17 and up to November, 2017 during FY18.

8. HRECS shall furnish the details for the expenditure incurred towards consumer relations/education for FY17.

9. Simplification of Tariff:

The ESCOMs in their filings have informed that the detailed report of the Simplification of Tariff Committee has been submitted to the Energy Department. The HRECS shall examine the same and furnish its comments along with its recommendations, in case it is desirous of implementing the recommendations in the ensuing year.

10. The BESCOM in its Tariff application has proposed the following new proposals. The HRECS shall examine the same and offer its comments and in case it wants to implement them, it shall give justification for implementing the same, on each of the proposals:

- i. Separate Tariff for 1 MW and above consumers:
- ii. Additional charges for maximum demand exceeding the C.D:
- iii. Increase in Re-connection charges:
- iv. Billing Cycle for Temporary installations:
- v. Separate Tariff for battery charging facility for motor vehicles:

F. Compliance to directives issued by the Commission

HRECS		
Sl. No	Directives issued by the Commission	Observations made

1	Consumer interaction meetings at O&M sections.	<p>It was directed to conduct consumer interaction meetings at O&M sections chaired by the MD once in a quarter to redress the consumer complaints. The HRECS has conducted the consumer interaction meetings only in 3rd quarter of FY18.</p> <p>The HRECS shall furnish the reasons for not conducting consumer interaction meetings during 1st & 2nd quarter, of FY18 .</p>
2.	Directive on Energy Conservation	<p>The HRECS has not submitted the details of servicing of all streetlight installations with LED/energy efficient lamps and also the details of awareness programs being taken up in its jurisdiction. The HRECS shall submit compliance thereon.</p>
3	Implementation of NJY	<p>HRECS has submitted that still one NJY feeder out of 17 feeders has not been commissioned yet. HRECS shall furnish the reasons for inordinate delay in commissioning the feeders taken up under NJY scheme.</p>
