

## MESCOM

### Preliminary Observations on Revision of ERC & Tariff filing for FY14

#### **1. General Observations on ERC / Tariff filing application:**

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, audited accounts and half yearly accounts. However in the present filing of MESCOM the following formats are not enclosed to the tariff application.

- i) Audited Accounts for FY12 and half yearly accounts ending 30.09.2012.
- ii) D6(a)

MESCOM is directed to furnish required formats duly filled in as observed above and shall also furnish the full details.

#### **2. Annual Performance Review for FY12**

##### **a) Power Purchase:**

MESCOM shall furnish source wise details of power purchase duly indicating fixed and variable charges in D1 format for FY12.

The Commission in its Tariff order dated 28<sup>th</sup> October 2011, while allowing cost of power purchase for FY11 had directed to reconcile energy / costs among the ESCOMs and reflect the same in their books of accounts. In this regard, MESCOM is requested to furnish the status of energy balance and reconciliation for FY11 and FY12 with reference to cost and quantum and clarify whether the same is reflected in the

accounts and action taken to liquidate payables / receivables on account of reconciliation with other ESCOMs. MESCOM is directed to furnish the information as sought above.

**Distribution Losses:**

MESCOM in its filing for FY12 had requested the Commission to adopt computation of distribution losses in future based on the comparison of sales as per DCB for the period April to March and corresponding interface energy recorded during the same period. Accordingly, the Commission in its tariff order dated 28<sup>th</sup> October 2011 had accepted the revised methodology and had reckoned the loss level of 12.10% for FY12. As against this target, MESCOM has reported a loss level of 12.09%.

Since all the ESCOMs in the State are following the similar methodology of comparing sales as per DCB and interface energy recorded during the same period, MESCOM shall also follow the same methodology. Accordingly, the computation of losses for FY12 shall be furnished.

**b) O & M expenses:**

The Commission while allowing O & M expenses for FY12 had considered an amount of Rs.26.87 Crores towards additional employee cost on account of pay revision. In this regard MESCOM shall furnish the details of actual employee cost incurred on account of pay revision for FY12.

**c) Return on Equity:**

Return on Equity for FY12 is computed considering the share capital and the balances covering under capital reserve, material cost variance and balance of profit / loss account instead of considering share

capital and balance of profit / loss from P & L account. As such, MESCOM shall compute RoE for FY12 by taking the correct amount.

### **3. Annual Revenue Requirement for FY14 to FY16:**

#### **a) Sales estimates for FY14:**

MESCOM has worked out the forecast for number of installations and sales adopting CAGR for the period FY09 to FY12 for all categories except BJ/KJ and IP sets. For BJ/KJ and IP sets, it is estimated on the basis of specific consumption. It is noted that in case of LT domestic, LT commercial, LT & HT industries, LT & HT water supply, the sales CAGR has been increased by 2% stating that due to increased reliability there would be increase in energy sales by 2% in these categories. MESCOM has not justified the same by supporting documents. It may be noted that the correlation between reliability and energy sales depends upon the category of consumer, the hours of supply and the timing of supply. In certain categories like domestic, increased hours of supply may not considerably alter the energy sales, as certain loads like washing machines etc may be used when power supply is available. i.e. Shifting of loads. Thus, MESCOM shall justify the additional 2% growth considered for these categories with back up working details.

Since the actual data is available till the end of November-12, MESCOM needs to estimate the sales & number of installations considering actuals up to November-12 and reasonable estimates for the remaining period. Based on these, projections needs to be re-estimated for FY13.

For the purpose of validating the sales, MESCOM shall furnish the following data for the years FY11, FY12 & FY13:

Sales-MU

Month	FY11			FY12			FY13*		
	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: FY13 actual up to Nov-12 & estimates for the remaining period**

MESCOM shall furnish the details of installations as under:

Numbers

Month	FY11			FY12			FY13*		
	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: FY13 actual up to Nov-12 & estimates for the remaining period**

The following are the category wise observations on sales forecast for the control period FY14 – FY16:

The range in year on year growth rate in the number of installation and sales from FY07 to FY12 (five year CAGR) and the CAGR for the period FY09 to FY-12(3year CAGR) & for the period FY08 to FY-12 and the proposed increase for the control period for various major categories is indicated below:

Category	FY08- FY12 range of %Growth	CAGR for the period FY07 to FY- 12	CAGR for the period FY09 to FY- 12	Proposed %increase for FY-14 by MESCOM	Proposed %increase for FY-15 by MESCOM	Proposed %increase for FY-16 by MESCOM
LT-1 Instl.	1.75% to 21.63%	8.26%	10.23%	7.53%	9.93%	1.29%
Sales	-13.77% to 37.81%	5.07%	10.68%	3.45%	6.73%	4.22%
LT-2a Instl	3.35% to 4.05%	3.81%	3.84%	4.32%	4.09%	3.24%
Sales	8% to 10.76%	9.25%	8.82%	10.23%	10.66%	10.10%
LT-3 Instl.	2.10% to 3.88%	3.15%	3.59%	3.63%	3.63%	3.63%
Sales	9.11% to 16.82%	12.88%	12.73%	15.24%	15,37%	15,50%
LT-4a Instl.	3.18% to 7.93%	4.81%	5.35%	2.08%	2.04%	1.99%
Sales	-9.04% to 36.14%	7.03%	10.47%	5.95%	2.06%	2.02%
LT-5 Instl.	2.31% to 6.17%	4.44%	5.36%	5.51%	5.53%	5.54%
Sales	-0.18% to 5.37%	1.85%	3.07%	5.50%	5.55%	5.61%
LT-6 WS Instl.	2.39% to 6.28%	4.30%	3.29%	3.32%	3.32%	3.32%
Sales	1.93% to 10.12%	6.64%	8.11%	10.20%	10.20%	10.20%

LT-6	SL	-0.05% to 8.66%	3.78%	2.59%	2.62%	2.62%	2.62%
	Sales	-14.33% to 10.20%	-0.88%	8.82%	8.91%	8.91%	8.91%
HT-1	Instl.	2.63% to 17.02%	8.45%	9.75%	8.06%	7.46%	6.94%
	Sales	6.37% to 28.96%	13.84%	17.28%	8.37%	8.37%	8.37%
HT-2a	Instl.	12.47% to 14.68%	13.59%	12.76%	10.06%	9.14%	8.38%
	Sales	-3.43% to 14.65%	4.58%	5.36%	7.42%	7.42%	7.42%
HT-2b	Instl.	4.52% to 8.63%	6.49%	6.90%	7.36%	6.86%	6.42%
	Sales	7.72% to 15.80%	12.73%	12.49%	12.62%	12.62%	12.62%
HT-4	Instl.	-9.38% to 9.26%	2.8%	-1.04%	3.13%	3.03%	2.94%
	Sales	-21.50% to 12.14%	1.36%	7.96%	8.23%	8.21%	8.23%
Total	Instl.	3.67% to 5.52%	4.32%	4.63%	4.26%	4.36%	2.94%
	Sales	1.8% to 12.64%	7.67%	9.28%	8.60%	7.73%	7.72%

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

**LT: 1-** It is noted that the number of installations consuming more than 18 units is estimated at 57649 for all the years of control period. With growth in population, the number of BPL households will also increase and hence assuming a constant figure for all the years is not correct.

For installation under BJ/KJ consuming less than 18 units, the specific consumption is considered as 18 units per installation per month. Since

the actual specific consumption for fy12 and the actual consumption up to November for the current years is available, the same shall be considered for estimating the sales for the installations who consume less than 18 units.

**LT-2a:** As against the normal growth of sales at 9%, the estimates of MESCOM at about 10.5% for the control period is on the higher side. Even though, MESCOM has stated that due to improved reliability there would be an increase of 2% in sales the same needs to be justified by facts.

**LT-3:** As against the normal growth of sales at 13%, the estimates of MESCOM at about 15.5% for the control period is on the higher side. Even though, MESCOM has stated that due to improved reliability there would be an increase of 2% in sales the same needs to be justified by facts.

**LT 4a:** MESCOM shall furnish the specific consumption based on actual data available from Apr-12 to Nov.-12. As per the monthly reports submitted to the Commission, number of installations for FY12 - 220695, and total consumption - 1003.74 MU and specific consumption works out as 4720 units per installation, whereas as per MESCOM ERC filing data for FY12, the total number of installations 218349, total consumption given as 1058.95 MU and specific consumption given as 5035 units per installation. The difference in total consumption and specific consumption is 55.21 MU and 315 units respectively. Therefore the reasons for the difference in specific consumption, number of installations and total consumption shall be furnished to the Commission. Further, it is observed that the MESCOM had given increased hours of three phase power supply ranging from 7 to 19 hours in rural areas this means extra hours of supply to IP sets than approved by the State Government. In this connection MESCOM shall indicate whether there is any Government Order amending instructions from 6 hours to 7 to 19 hours.

**LT-5:** As against the normal growth of sales in the range of 2 to 3%, the estimates of MESCOM at about 5.5% for the control period is on the higher side. Even though, MESCOM has stated that due to improved reliability there would be an increase of 2% in sales the same needs to be justified by facts.

**LT-6 W/s:** As against the normal growth of sales in the range of 7 to 8%, the estimates of MESCOM at about 10.0% for the control period is on the higher side. Even though, MESCOM has stated that due to improved reliability there would be an increase of 2% in sales the same needs to be justified by facts.

**HT-1:** MESCOM has considered a growth rate of 8% for sales to this category. The CAGR for the period FY07 to FY12 is 14% and for the period FY9 to FY12 is 17%. In view of the above, HT1 sales is under estimated by MESCOM.

**HT-2a:** As against the normal growth of sales at 5%, the estimates of MESCOM at about 7% for the control period is on the higher side. Even though, MESCOM has stated that due to improved reliability there would be an increase of 2% in sales the same needs to be justified by facts.

**b) Power Purchase for FY14:**

MESCOM shall clarify whether the rates on which power purchase cost (fixed cost and variable cost per unit of energy generator) is being projected is based on the power purchase agreements executed with the respective Generators.

MESCOM shall furnish the details of estimates of meeting solar and non solar RPO for the period FY14 – FY16. MESCOM shall also clarify whether charges to meet RPO has been included in its projections of power purchase for FY14 – FY16.



**c) Observation on Capex:**

The closing of balance of work in progress as stated in D17 for FY13 , FY14, FY15 and FY16 is Rs.83.80, Rs.95.53, Rs.106.99 and Rs.117.69 Crores respectively whereas in A2 format the same is indicated Rs.60.15 Crores, Rs.78.90 Crores, Rs.75.73 Crores and Rs.72.88 Crores for these years. MESCOM is directed to explain the reason for this discrepancy.

Further MESCOM shall indicate scheme wise expenditure approved Vs incurred for FY12.

**4) Observations on items of ARR:**

**a) O & M expenses:**

MESCOM has estimated its establishment cost by taking additional dearness allowance at 13% for all the years. However increase in DA at present is at 4% for every six months. MESCOM shall re-estimate its employee cost taking realistic rise in dearness allowance.

**b) Return on Equity:**

Return on Equity for FY14 to FY16 is computed considering the share capital and the balances covering under capital reserve, material cost variance and balance of profit / loss account instead of considering share capital and balance of profit / loss from P & L account. As such, MESCOM shall compute RoE for FY14 to FY16 by taking the correct amount.

**c) Funds towards consumer relations / consumer education:**

MESCOM has indicated in its filing requirement of funds towards consumer relations at Rs.50.00 lakhs for FY14 to FY16. However actual expenditure incurred on this account for FY12 is only Rs.7.00 lakhs.

Reasons for a meager utilization of funds for FY12 may please be explained. MESCOM is directed furnish details of expenditure under this account upto 30<sup>th</sup> November 2012 in the current year.

**5) Retail Supply Tariff for FY14:**

**Tariff Proposal:**

MESCOM in its filing has proposed to increase the tariff by 70 paise per unit in respect of all categories of consumers except IP set upto 10 HP and BJ/KJ installations. Reasons for uniform increase proposal of 70 paise and no increase for IP set upto 10 HP and BJ/KJ installations may be explained.

**6) Kannada Version of Tariff Filing:**

MESCOM is directed to furnish copies of the tariff filing in Kannada. Also copies in Kannada shall be made available to public after acceptance of the application by the Commission.

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## KARNATAKA ELECTRICITY REGULATORY COMMISSION

### NOTE

**NO.B/24/12/**

**Dated: 24<sup>th</sup> December 2012**

1. MESCOM vide its letter dated 10<sup>th</sup> December 2012, has filed its application for Approval of APR for FY12, Approval of ERC for FY14 to FY16 and Tariff for FY14. 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