

HESCOM

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.4596.96 Crores, the fee payable would be Rs.11491500/- However HESCOM has paid a fee of Rs.5764500/- along with the tariff filing. As such HESCOM is required to pay balance amount of Rs.5727000/.

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 HESCOM 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. HESCOM shall furnish correct statement of D21.

2. Sales Projections for FY13:

1. The category wise number of installations for FY12 projected at page 74 of the filing does not match with those indicated in D-2 format. HESCOM shall reconcile the figures.
2. The projected number of installations in HT 4(b) category for FY13 is indicated as 114 at page 74, whereas in D-2 it is indicated as 50. Similar

discrepancy is noted in HT-total and total number of installations for FY13. HESCOM shall reconcile the figures.

3. The category wise LT-sales for FY11 indicated at page 74 of the filing does not match with those indicated in D-2 format. HESCOM shall reconcile the figures.
4. The category wise sales for FY12 indicated at page 74 does not tally with those indicated in D-2 format for LT-2a, LT-2b, LT-3, LT-4(b) & (c) and HT 4 categories. HESCOM shall reconcile the figures.
5. While re-estimating the sales for FY-12, HESCOM has considered the actuals for the first five months only. Since the actual data is available till the end of January-12, HESCOM 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.
6. To account for load shedding, HESCOM has estimated compensating factor on pro-rata basis of hours not supplied. In some of the categories like domestic, there may be load shifting when power is shed and there may not be appreciable savings in terms of energy. Thus applying compensating factor uniformly to all the categories is not correct. The analysis of supply restrictions needs to be done category wise.
7. Average of three-year growth rates is indicated as CAGR. CAGR has to be calculated as under:

$$\text{CAGR} = [(Y_n/Y_i)^{1/(n-1)} - 1] * 100$$

For estimating CAGR for the period FY08 to FY11,
Y_n is the data pertaining to FY11
Y_i is the data pertaining to FY08 and
n=4

The above formula shall be used for estimating CAGR.

8. For the purpose of validating the sales, HESCOM shall furnish the following data for the years FY10, FY11 & FY12:

Month	FY10			FY11			Sales-MU 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

9. HESCOM 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									

10. 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 FY11 & for

the period FY08 to FY11 and the proposed increase for FY12 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 by HESCOM for FY-13
LT-1 Instl.	2.85% to 12.79%	8.05%	8.00%	8.19%
Sales	2.42% to 99.0%	23.27%	8.94%	50.31%
LT-2a Instl	0.85% to 4.68%	2.90%	3.65%	8.01%
Sales	1.75% to 8.39%	6.00%	7.15%	27.54%
LT-2b Instl.	4.39% to 10.92%	8.46%	10.17%	-32.54%
Sales	7.79% to 29.73%	7.96%	9.27%	23.70%
LT-3 Instl.	4.56% to 6.82%	5.24%	5.37%	5.58%
Sales	9.89% to 16.86%	13.55%	14.22%	34.43%
LT-4a Instl.	2.29% to 11.43%	4.49%	2.53%	1.45%
Sales	-4.35% to 18.22%	5.75%	6.68%	10.45%
LT-5 Instl.	5.66% to 9.95%	7.00%	7.65%	8.61%
Sales	1.26% to 6.49%	4.03%	2.68%	14.05%
LT-6 WS Instl.	5.64% to 9.69%	7.46%	7.76%	8.25%
Sales	2.11% to 18.21%	8.02%	8.38%	42.47%
LT-6 SL Instl.	3.55% to 17.04%	8.84%	4.82%	0.94%
Sales	-3.55% to 10.60%	4.04%	5.48%	39.06%
HT-1 Instl.	1.05% to 16.19%	9.86%	12.98%	16.77%
Sales	0.95% to 6.29%	4.29%	4.32%	13.57%
HT-2a Instl.	14.19% to 19.47%	17.28%	15.97%	15.06%

Sales	1.62% 17.33%	to	11.76%	10.34%	22.66%
HT-2b Instl.	5.12% to 8.16%		6.47%	6.64%	6.99%
Sales	7.56% 19.62%	to	12.41%	10.15%	20.61%
HT-3 Instl.	-1.09% to 9.89%		4.2%	4.12%	7.76%
sales	0.86% 85.90%	to	27.53%	10.71%	17.97%
HT-4 Instl.	10.32% 12.93%	to	1.61%	2.68%	5.66%
Sales	4.35% 15.82%	to	-4.30%	-7.27%	34.85%
Total Instl.	2.18% to 6.02%		4.46%	4.67%	6.94%
Sales	1.23% 14.43%	to	7.06%	7.31%	17.80%

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

a. LT:1- While normal growth rate is estimated for number of installations, sales is estimated at 50.31% growth rate, which is higher. Further HESCOM 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 8.01% for installations and 27.54% for sales seems to be on higher side.

b. **LT-2b:** while negative growth rate is estimated for the number of installations, 27.54% growth is assumed for sales, which is very high.

- c. **LT-3:** Considering the past trends the growth rate of 8.01% for installations and 27.54% for sales seems to be on higher side.
- d. **LT 4a: HESCOM** shall furnish the specific consumption based on actual data available from Apr-11 to Jan-12.
- e. **LT-5:** considering the past trends, a sales growth of 14.05% seems to be on higher side.
- f. **LT-6 Water supply:** While normal growth rate is estimated for number of installations, sales is estimated at 42.47% growth rate, which is higher.
- g. **LT-6 Streetlights:** Specific consumption/kW/month of connected load as per FY-12 actual meter readings shall be furnished.
- h. **HT-1:** The growth in installations is estimated at 16.77% and the sales growth is estimated at 13.57%, which is too high considering the past trends.
- i. **HT-2a:** Considering the normal trends in growth rates, the sales growth at 22.66% is on the higher side.
- j. **HT-2b:** While normal growth rate is estimated for number of installations, sales are estimated at 20.61% growth rate, which is higher.
- k. **HT-4:** Considering the past trends, the growth rate for installations as well as sales is on the higher side.
- l) 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:

HESCOM 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 HESCOM 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.

HESCOM in its Form D1 has indicated 487.22 MU as medium / short / peak power procurement at an average rate of 426.93 paise / unit. In this regard HESCOM is required to furnish details of sources identified for procurement of 487.22 MU.

4) Distribution Losses for FY13:

HESCOM has proposed distribution loss of 19% for FY13 as against an actual distribution loss of 19.85 achieved during FY11. The Commission in its Tariff Order dated 28th October 2011 had fixed distribution loss target of 19.35% for FY12 as approved in the MYT order dated 28th October 2011. The proposal of HESCOM indicates a reduction of 0.85% from the loss levels achieved in FY11.

Considering the substantial CAPEX programmes taken up by HESCOM in the past two years, the proposed loss reduction should have been more than 0.85%. HESCOM is requested to review its distribution loss level proposals duly considering its CAPEX programmes.

5) Observations on items of ARR:

i) O & M expenses:

HESCOM has not furnished details of its projected O & M expenses as specified under MYT Regulations. In the present filing O & M expenses for FY13 have been projected at Rs.512.53 Crores which is more than 34.19% of the approved O & M expenses for FY12. HESCOM shall furnish detail calculation sheet of proposed O & M expenses as specified under MYT Regulations.

ii) Interest and Finance charges:

An amount of Rs.296.92 Crores is claimed as interest and finance charges for FY13 without properly furnishing details of interest on loan, interest on consumer deposit and interest on working capital. HESCOM is requested to furnish the same as per formats / MYT Regulations.

iii) Return on Equity:

HESCOM has not claimed any amount as RoE for FY13. However it is observed that B/Sheet indicates positive Net Worth. HESCOM shall furnish the details.

iv) Funds towards consumer relations / consumer education:

HESCOM has indicated an amount of Rs.0.5 Crore towards consumer relations / consumer education for FY13 as approved by the Commission for FY12. HESCOM 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 HESCOM 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 HESCOM 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) 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 HESCOM 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)	478	465	2.72%
LT2(a)(II)	478	378	20.92%
LT 2 (b)			
LT2(b)(I)	478	716	-49.79%
LT2(b)(II)	478	642	-34.31%
LT 3			
LT 3(I)	478	770	-61.09%
LT 3(II)	478	703	-47.07%
LT 4 ©, LT 4(b)	478	231	51.67%
LT 4 (d), LT 4©	478	216	54.81%
LT 5			
LT 5(a)	478	610	-27.62%
LT 5(b)			
LT 6(a)	478	705	-47.49%
LT 6(a)	478	493	-3.14%
LT 7	478	957	-100.21%
HT 1	478	504	-5.44%
HT 2 a			
HT 2(a)(I)	478	637	-33.26%
HT 2(a)(II)			
HT 2 b			
HT 2(b)(I)	478	781	-63.39%
HT 2(b)(II)			
HT 3 a			
HT 3(a)(I)	543	178	67.22%
HT 3(a)(II)	543	154	71.64%

HT 3 b			
HT 4			
HT 4(a)	543	565	-4.05%
HT 4(b)	543	573	-5.52%

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

8) Other Observation:

- i) The amount under other debits and net prior period credits / charges are indicated and further stated that this will be considered at the time of APR on actual expenditure basis. The amount may be indicated based on past year expenditure.
- ii) CAPEX proposed for FY12 and FY13 is Rs.1495.17 Crores and Rs.1189.22 Crores the actual expenditure incurred upto September 2011 is only Rs.90.74 Crores. The capital expenditure likely to be incurred in FY12 and FY13 are shown as Rs.1054.39 and Rs.1053.28 Crores respectively. In view of the above justification for considering the CAPEX proposal and funding may be intimated.
- iii) The closing balance figure as made out under format D15, D16 & D17 are not tallied with the figures appeared in A2 format. This needs to be corrected and resubmitted to the Commission.
- iv) The details under D9 format for FY13 is not furnished the same shall be furnished.
- v) Half yearly accounts for the period ending 30.09.2011 may please be furnished.

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/05/12/

Dated: 6th February 2012

1. HESCOM 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

