Preliminary Observations on APR for FY11 and Revised ERC and Transmission Tariff Application of KPTCL for FY13

1. Audited / Provisional Accounts:

KPTCL has filed its application for revision of ERC and Tariff for FY13. The Audited Accounts for FY11 has been furnished along with the filing. However, KPTCL is requested to furnish the Provisional Accounts for first half year of the financial year 2011-12.

2. Annual Review of Performance:

KPTCL has sought revision of Tariff, in accordance with Clause 5(4) of KERC (Fees) Regulations 2004, KPTCL has to pay a fee of Rs.2.00 lakhs towards determination of Transmission Tariff. Since KPTCL has already paid Rs.1000/- along with the application, KPTCL is requested to pay balance of Rs.1.99 lakhs towards fee for determination of Transmission Tariff.

3. Revision of ARR and Transmission Tariff for FY13:

KPTCL in its application has sought revision of ARR and the transmission Tariff for FY13 considering the actual gap in revenue to an extent of Rs.237.38 Crores from FY11. However KPTCL has not furnished item wise proposed / revised expenditure for FY13 based on actual accounts of FY11 / first half of FY12. As such, KPTCL is requested to furnish these information in prescribed formats as per KERC (Tariff) Regulations 2000.

4. Capital Investment / Interest and Finance Charges:

The Commission in its Tariff Order dated 7th December 2010, had approved CAPEX for the control period as follows:

FY11	Rs.1692.38 Crores
FY12	Rs.2300.00 Crores
FY13	Rs.2500.00 Crores

KPTCL, in its filing has stated that it has incurred a CAPEX of Rs.1133.00 Crores as against a proposed / approved CAPEX of Rs.1692.38 Crores for FY11. It is observed from the Audited Accounts submitted by KPTCL that Rs.2591.29 Crores is shown as work in progress under T17 statement which is on the higher side when compared to the actual expenditure incurred of Rs.1132.76 Crores. This indicates that blockage of huge investment made by KPTCL without yielding intended objectives. KPTCL shall furnish details with reasons for such huge accumulated work in progress.

In order to carry out prudence check of capex for FY11, KPTCL shall furnish

a) System study report conducted by KPTCL for the period 1999 to 2012 and the report on evaluations on the benefits due to commissioning of new stations made by ABB.
b) Station wise details of whether the intended objectives as per the DPR has been achieved.

5. Transmission losses:

The Commission in its Tariff Order dated 07.12.2010 had fixed following range of transmission losses for the control period FY11-13:

Approved Percentage of Loss Levels (in %age terms)

Control Period	FY11	FY12	FY13
Upper Range	4.10	4.08	4.06
Average	4.00	3.98	3.96
Lower Range	3.90	3.88	3.86

KPTCL in its filing, (on page 17 and Form T19) has stated that the actual transmission loss for FY11 is 3.82%. However as per the data of energy indicated under form A1, the same works out to 4.69%. Further, as per the

Annual Audited Accounts furnished for FY11, the transmission losses for FY11 is indicated as 4.39%.

KPTCL in its correspondence with the Commission has stated that the methodology for determination of transmission losses has been revised and has informed that the transmission losses for FY11 would be 3.82%. However, subsequently in its Audited Accounts, KPTCL has continued to indicate transmission losses at 4.39% as per the earlier methodology. KPTCL is requested to furnish details of revised methodology duly explaining the changes from the earlier methodology and also to furnish correct transmission losses for FY11 consistently under the prescribed formats.

As regards calculation of system availability of transmission network for FY11, KPTCL has stated that the actual system availability for FY11 was 99.85%. However, KPTCL has not furnished calculations of system availability justifying its claim for FY11. As such, KPTCL shall furnish calculation sheet along with data as per Appendix - 1 to the MYT Regulations.

Further, as per the Energy Flow Diagram under Form T19, the energy at interface points of ESCOMs is indicated as 45464 MU, whereas, the aggregate of the IF energy as furnished in the Annual Accounts is 48297.13 MU. Further, as per the filings of the ESCOMs, the same was indicated as 44584.05 MU. KPTCL shall furnish the correct figures of interface energy delivered to the ESCOMs duly reconciling the same among ESCOMs.

6. O & M Expenses:

KPTCL in its APR has only furnished the total expenditure incurred under each head for Rs.516.35 Crores as against the approved figure of Rs.420.18 Crores during FY11. It is observed that there is an increase of Rs.163.85 Crores in employee costs over the actual expenditure of FY10 on account of pay revision and DA increase. The details pertaining to revision of pay scales included in the employee cost is not clearly brought out in the APR submitted by KPTCL. The details in this respect may be provided.

As per the filing for Annual Performance Review, KPTCL has stated (under para 6.2(b) that the employee cost includes contribution to pension trust which is computed considering actuarial valuation of 21% basic pay, dearness pay and dearness allowance towards pension and 1.77% on basic pay and dearness pay towards Gratuity. In this connection it is requested to forward Actuarial valuation report and further it may also be informed whether actuarial valuation is done every year.

It is observed that, the contribution towards pension and gratuity trust for FY10 is Rs.6.72 Crores whereas the same is indicated as Rs.73.97 Crores for FY11 i.e. an increase of about 12 times over FY10. Reasons for abnormal increase during FY11 needs to be explained.

7. Manpower studies:

The Commission had directed KPTCL to confirm whether the man power study report submitted by ASCI is accepted or not and in case if it is accepted, KPTCL shall furnish the action plan for implementation of recommendation of man power study report and also furnish the progress achieved in the implementing the recommendation of the report. In this connection KPTCL has stated that the recommendation in the report are being reviewed and finalized shortly.

The Commission notes that, since the report is already furnished about a year back, KPTCL has to inform the action taken on implementation of the recommendations in the report.

8. Interest & finance Charges:

The Commission in its Tariff Order dated 07.12.2010, has decided to disallow the interest on belated payment of power purchase cost.

However as per form T 9 of the filing, it is observed that an amount of Rs 108.21 crores towards interest on power purchase has been included under interest and finance charges for FY11. KPTCL is requested to revise its Interest and Finance charges in accordance with the Commission's decision in its Tariff Order dated 07.12.2010.

Date: 10th February 2012

NOTE

Sub: Response to Commission observation on APR of KPTCL For FY11

KPTCL in the letter No.KPTCL/B-36/24289/2011-12/528 dated 30.01.2012 has submitted response to Commission's observations made on KPTCL Annual Performance Review for FY11. Copy of the same is placed in the file for kind perusal. K.E.R.C's observations and KPTCL submissions are made out as below.

KERC OBSERVATIONS:

a) To furnish provisional accounts for first half year of the FY-12

RESPONSE FROM KPTCL;

The respective accounting units will pass several adjustments entries only at the year end. Also several items of expenditure will get reflected only in the second half of the year. Hence KPTCL is not following the practice of preparing half yearly accounts because it may not be true indicator of the annual expenses.

KERC OBSERVATIONS:

b) To pay fees for Determination of Transmission Tariff

RESPONSE FROM KPTCL:

KERC has already determined tariff for KPTCL for three years of the second MYT period for FY11, FY12 & FY13 vide tariff order dated 07.12.2010. Now the KPTCL has filed only review of Annual Performance for FY11.

Consequent to the review by the Commission, there may be modifications of tariff which is not the same as determination of tariff. Hence the payment fees for Determination of Transmission tariff may not arise in this case.

KERC OBSERVATIONS:

c) To provide item wise proposed / revised expenditure for FY13 based on actual accounts of FY11 and first half of FY12.

RESPONSE FROM KPTCL:

KPTCL has not sought revision of ARR items for FY13 the net effect of FY11 has been requested to be added to the approved ARR of FY13. KPTCL will file actuals for FY13 based on the audited accounts. Hence KPTCL is not seeking any revision of ARR items for FY13.

KERC OBSERVATIONS:

d) Capital investment / interest on Finance Charges. Furnish details with reasons for accumulation of huge work in progress, system study report conducted by KPTCL for the period 1999 to 2012 and the reports on evaluation on the benefits due to commissioning of new stations made by ABB and its achievement of intended objective as per DPR.

RESPONSE FROM KPTCL:

The capital work in progress of Rs.2591.29 Crores shown in audited accounts includes CWIP balances which represents cost of material issued to turn key contractors for execution of works. KPTCL is making all out efforts to complete the works as per schedule and capitalise the outlay on commissioning of assets by regular monitoring progress of capital works.

KERC OBSERVATIONS:

e) Furnish the details of methodology adopted for determination of transmission loss and correct transmission loss for FY11 besides furnishing figures pertaining energy delivered at interface point duly reconciling the same amongst ESCOMs.

RESPONSE FROM KPTCL:

Transmission loss shown in the annual accounts is based on the methodology either to in practice, however 3.82% is worked out without considering the southern region losses. The transmission loss shown in the audited accounts are correct losses.

KERC OBSERVATIONS:

f) Reason for increase in employees cost and contribution to P&G trust:

RESPONSE FROM KPTCL:

The reasons for increase in employees cost is on account of provision made for arrears of pay revision of employees, interim relief paid to the employees and provision for pension and gratuity contribution and release of two instalments of dearness allowance to employees. Regarding contribution to P &G trust for FY11 the actual amount booked in account is Rs.55.42 Crores and not Rs.73.97 Crores, Rs.6.72 Crores shown in FY10 is arrived at after write back of provisions made in the earlier years. The actuarial valuation report for year ending March 2011 furnished.

KERC OBSERVATIONS:

g) Acceptance of Man power study and action plan for implementation of the recommendations:

RESPONSE FROM KPTCL:

Certain issues in the report are still being sorted out. Further time period of three months is required to arrive at final decision on the report.

KERC OBSERVATIONS:

h) Revise the interest and finance charges in accordance with Commission's decision in tariff order 07.12.2010.

RESPONSE FROM KPTCL:

Interest amount include interest on power purchase related expenditure of the past period and pass the order to recover the power purchase cost and interest from ESCOMs.

From the above one issue which is confronting the registry of the Commission is that whether KPTCL is bound or not to file application for revision of transmission tariff. In this connection the relevant extract of Multi Year Tariff Framework and Approach is extracted as below:

2.6 ANNUAL REVIEW OF PERFORMANCE

2.7.1 The Transmission Licensee shall be subject to an annual performance review during the Control Period. The Licensee shall make an application for annual performance review not less than 120 days before the close of each financial year in the Control Period. The Licensee shall provide such information as may be stipulated by the Commission from time to time to assess the reasons and extent of any variation in the performance from the approved forecast.

2.7.2 The Transmission Licensee may, as a result of additional information not previously known or available to him at the time of forecast under the MYT framework for the Control Period, apply for modification of the ARR and ERC for the remainder of the control period, as part of annual performance review.

2.7.3 In case the variation in expenses or income in any financial year in the control period is more than 10% of the approved expenses/income for that year, the licensee can seek readjustment of the tariff for the subsequent period.

2.7.4 The Commission may, as a result of additional information not previously known or available to it at the time of approval of the forecast under the MYT framework for the Control Period, either suo motu or on application made by any interested party, modify the approved forecast of ARR/ ERC and tariff for the remainder of the control period as part of the annual performance review.

2.7.5 The Commission shall review an application in the same manner as the original application for determination of ARR/ERC and tariff and upon completion of such review, either approve the proposed modification with such changes as it deems appropriate or reject the application for reasons to be recorded in writing.

2.7.6 Upon completion of annual performance review, the Commission shall pass an order recording:

a) *The approved aggregate gain or loss to the Licensee on account of uncontrollable factors and the mechanism by which the Licensee shall pass through such gains or losses.*

b) *The approved aggregate gain or loss to the Licensee on account of Controllable factors and the mechanism to share such gains or losses.*

c) *The approved modifications to the forecast for the remainder period of the Control period, if any.*

d) *The approved modification to the tariff, if any, for the remainder period of the control period.*

In the light of above provisions and contention of KPTCL as made out in the pre paras the subject is placed before the Hon'ble Commission for a decision in regard to:

1) Whether the KPTCL should file for annual determination of tariff even though the Commission has determined tariff for three years ending FY13.
2) Whether seeking the modification of the annual revenue requirement already determined by the Commission constitute tariff revision. In other words annual performance review constitute tariff revision proposal.

DIRECTOR (TARIFF)

SECRETARY