

BESCOM

Preliminary Observations on Approval of APR for FY12, Business Plan and ARR for F14 – FY16 & 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 BESCOM the following formats are not enclosed to the tariff application.

- i) A3 Cash flow statement
- ii) Audited Accounts for FY12 and half yearly accounts ending 30.09.2012.
- iii) Format D19 for FY12 as per actuals and FY13 as projected.

Further in Format D6(a) BESCOM has indicated number of employees both sanctioned and working at the same level for FY12 to FY16. BESCOM should indicate realistic number duly considering retirement and recruitments if any. In addition BESCOM has not furnished full details of salaries and other allowances for FY13 to FY16.

Further, it is noticed that, in D21 format load and number of installations indicated is not commensurate with fixed charges estimated for FY14. The same shall be reviewed and correct copy of D21 shall be furnished.

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

2. Annual Performance Review for FY12:

a) Power Purchase:

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

BESCOM in its filing has stated that, 1242.22 MU of energy at a cost of Rs.431.61 Crores is reconciled with other ESCOMs. The claims of BESCOM are not acceptable in the absence of details of recovery due from other ESCOMs.

The Commission in its Tariff order dated 28th 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, BESCOM 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 shall be intimated.

b) O & M expenses:

The Commission while allowing O & M expenses for FY12 had considered an amount of Rs.92.68 Crores towards additional employee cost on account of pay revision. In this regard BESCOM is directed to furnish the details of actual additional employee cost incurred on account of pay revision for FY12.

c) Interest on Loan:

In the D9 format for FY12, the opening balance of loan is shown as Rs.246.25 Crores and Rs.772.49 Crores as overdraft and fresh borrowings respectively, whereas in the note 5 to Accounts for FY12, Rs.375.00

Crores is indicated as short term loan and Rs.566.76 Crores as overdraft. Discrepancies in these figures should be explained.

d) Interest on working capital:

The interest on working capital for FY12 is claimed as Rs.196.51 Crores, whereas the actual amount incurred is indicated as Rs.104.23 Crores. Further, in format D9, the same is indicated as Rs.123.98 Crores. BESCO shall furnish the correct amount incurred towards interest on working capital for FY12.

3. Annual Revenue Requirement for FY14 – FY16:

a) Sales estimates for FY14:

- i) BESCO has worked out the sales forecast adopting four methodologies based on, (1) per-capita consumption, (2) EPS projection, (3) Circle wise projection and (4) CAGR. However, for the control period BESCO has adopted CAGR methodology for the reasons that it is time tested.
- ii) It is noted that CAGR is worked out CAGR in blocks for various years starting from one year to eight years. However, BESCO has adopted four years CAGR for the purpose of forecast for the control period stating that four year CAGR is consistent. CAGR has been calculated considering four year block from FY03 – FY07 to FY09 – FY 13. Thus seven blocks have been considered and for arriving at the average the following empirical formula has been adopted.

Average = [(Optimistic+pessiimistic+4(most likely)]/6
Where minima is pessimistic maxima is optimistic and
Most likely is the average of the rest.

Perusal of the empirical formula indicates that it is nothing but the average of the seven blocks of CAGR. Thus it is the average of the

average growth rates in different blocks. Further, it is noted that the CAGR of the earlier time blocks (like FY03 – FY07, FY04 – FY08, etc) may not be relevant for future projections of FY14 – FY17 as the business environment would be different in different time block periods. BESCO is directed to furnish revised projections in the light of the above observations.

iii) BESCO has considered the figures for sales & number of installations, as on 30.9.2012 for estimating sales & number of installations for FY13. Since the actual data is available till the end of November-12, BESCO 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.

iv) For the purpose of validating the sales, BESCO 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

v) BESCO shall furnish the details of installations as under:

Numbers									
Month	FY11			FY12			FY13*		
	Metered	BJ/KJ	Total	Metered	BJ/KJ	Total	Metered	BJ/KJ	Total

	[other than BJ/KJ & IP	& IP		[other than BJ/KJ & IP	& IP		[other than BJ/KJ & IP	& IP	
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 BESCOM	Proposed %increase for FY-15 by BESCOM	Proposed %increase for FY-16 by BESCOM
LT-1 Instl.	1.49% to 34.66%	9.71%	1.72%	0.00%	0.00%	0.00%
Sales	-5.76%to 22.32%	7.25%	-0.83%	3.57%	0.00%	0.00%
LT-2a Instl	4.08% to 6.77%	5.28%	4.31%	5.75%	5.75%	5.75%
Sales	6.49% to 10.22%	8.71%	8.01%	8.72%	9.69%	9.69%

LT-3 Instl.	5.42% to 8.55%	6.68%	5.60%	6.59%	6.59%	6.59%
Sales	9.31% to 14.05%	11.58%	11.22%	14.03%	13.59%	13.59%
LT-4a Instl.	-7.26% to 19.99%	4.08%	-0.29%	7.22%	2.24%	2.20%
Sales	-9.30% to 19.71%	6.12%	10.65%	6.65%	4.65%	2.22%
LT-5 Instl.	2.7% to 6.17%	4.93%	4.11%	4.20%	4.20%	4.20%
Sales	-5.02% to 8.17%	2.17%	4.67%	2.77%	2.34%	2.34%
LT-6 WS Instl.	3.75% to 11.02%	7.62%	9.13%	7.47%	7.47%	7.47%
Sales	10.73% to 14.36%	12.60%	12.60%	9.94%	9.43%	9.43%
LT-6 SL Instl.	4.30% to 18.01%	9.03%	5.54%	14.61%	14.61%	14.61%
Sales	- 26.44%to 16.71%	2.76%	14.01%	6.72%	6.11%	6.11%
HT-1 Instl.	-2.02% to 13.21%	6.08%	8.46%	6.38%	6.67%	6.25%
Sales	-2.76% to5.83%	0.84%	2.07%	3.20%	2.98%	2.99%
HT-2a Instl.	6.73% to 12.08%	9.47%	7.76%	10.81%	10.79%	10.79%
Sales	6.10% to 15.26%	10.46%	9.69%	13.82%	13.37%	13.37%
HT-2b Instl.	9.73% to 17.81%	13.15%	11.25%	15.55%	15.54%	15.55%
Sales	5.13% to 25.37%	12.89%	8.35%	12.53%	12.06%	12.06%
HT-4 Instl.	0.66% to 8.52%	5.81%	7.83%	6.17%	6.22%	6.25%
Sales	-2.54% to 13.07%	5.38%	9.98%	8.39%	8.01%	8.01%

Total Instl.	3.53% to 10.37%	5.98%	4.11%	5.95%	5.67%	5.80%
Sales	5.62% to 12.31%	8.29%	9.07%	9.70%	9.31%	8.90%

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

LT: 1-Reasons for not considering any additions of installations in this category for the control period shall be furnished. Further BESCO shall furnish the following details for the year FY13:

Particulars	Number of installations as on 30.11.2012	Cumulative sales in MU as on 30.11.2012 from January 2012
BJ/KJ consuming less than 18 units/month		
BJ/KJ consuming more than 18 units/month		

The data in the above format for BJ/KJ shall be furnished for FY13 to FY16 also.

Also, the additions of installations under RGGVY, if any, and the corresponding sales for the Control period under BJ/KJ shall be indicated.

LT-2a: The additions of installations under RGGVY, if any, and the corresponding sales for the Control period shall be indicated.

LT-3: The growth rate of 14% considered for sales is slightly on the higher side in comparison to CAGR [3 yr. & 5 yr.] of about 11.5% and FY12 growth of 12%.

LT 4a: BESCO 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 total consumption for FY12 – 5265.23 MU and specific consumption works out 8571 units per installation, whereas as per BESCO ERC filing data, the total consumption is given as 5352.7 MU and specific consumption given as 8750 units per installation. The difference in total consumption and specific consumption is 87.47 MU and 250 units respectively. Therefore, the reasons for the difference in specific consumption and total consumption shall be furnished to the Commission.

The table below indicates approved sales and actual sales for FY12 & FY13 and estimated for FY14, which would go to show that there is increased hours of supply which has resulted in increased consumption which results in additional subsidy burden to the State Government. In this connection you are requested to intimate whether the State Government has consented to give power supply to IP sets beyond 6 hours to this category.

YEAR	INSTALLATIONS	QUANTITY SUPPLIED IN MU		TARIFF SUBSIDY	
		Approved	Actuals	Approved	Actuals
FY12	626825	4577.62	5352.68	555.26	717.41
FY13	664727	4676.87	5650.53	612.67	729.77
FY14 (Estimated)	712727	6026.36		789.45	

LT-5: considering the growth rate in the past 3-years in the range of 6-8%, a sales growth of 2% seems to be on lower side.

LT-6 W/s: Sales growth rate of about 10% considered by BESCO appears to be on lower side considering the CAGR [3 yr. & 5 yr.] of about 13% and growth in the previous year of about 13%.

LT-6 Streetlights: The growth rate of about 15% for installations considered by BESCO is on the higher side keeping in view the CAGR [3 yr. & 5 yr.] is about 6 to 9%. Further, the year on year growth in the

past three years is in the range of 4 to 7% for installations. Further, in the last three years, the year on year growth for sales to this category is in the range of 13 to 17%. In view of the above the sales growth of 6% is on the lower side.

HT-2a: Considering the CAGR [3 yr. & 5 yr.] of about 10% and previous two years growth of about 12% the estimation of sales at 14% is on the higher side.

HT-2b: CAGR [3 yr. & 5 yr.] for the number of installations is in the range of 11 to 13% and the year on year growth in the last three years is in the range of 10 to 12%. Hence, considering growth above 15% is on the higher side.

Further, considering the year on year growth in the last two years which ranges from 9 to 11%, the growth rate for sales considered by BESCOM above 12% is on the higher side.

b) Power Purchase for FY14:

BESCOM 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.

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

c) Distribution Losses for FY14:

BESCOM has proposed distribution loss of 13.80% for FY14, 13.60% for FY15 and 13.40% for FY16. The actual distribution loss of 14.46% achieved during FY12. The Commission in its Tariff Order dated 28th October 2011

had retained a distribution loss target of 14.50% for FY12 as approved in the MYT order dated 7th December 2010. As per the tariff order dated 30th April 2012, the targeted distribution loss for FY13 is 14%. Considering the actuals for FY12 the proposed loss of 13.80% for FY13 works out to a reduction of 0.64% in two years. Considering the substantial capex incurred in FY12 and proposed for FY13, loss reduction of 0.64% in FY14 0.2% for FY15 and FY16 appears to be meager. As such BESCO is directed to justify its proposed loss levels for the control period FY14 to FY16.

d) Observation on Capex:

As against an approved capex of Rs.660 Crores for FY12, BESCO has reported an expenditure of Rs.557.68 Crores. Whereas the same is indicated under format D17 as Rs.630.97 Crores. BESCO is directed to explain the discrepancies in the filing.

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

4) Observations on items of ARR:

a) O & M expenses:

BESCO has indicated employee cost of Rs.690.66 Crores for FY12 whereas the same has been projected at Rs.870.17 Crores for FY13 and at Rs.957.40 Crores for FY14. The complete details as per format D6 shall be furnished. Also, the reasons for abnormal increase should be furnished.

b) Interest and Finance charges:

An amount of Rs.397.47 Crores is claimed as interest and finance charges for FY12 whereas the same is projected at Rs.421.86 Crores for FY13 and Rs.703.85 Crores for FY14. Abnormal increase in the interest

cost on consumer security deposit from Rs.105.87 Crores in FY12 to Rs.201.14 Crores in FY14 and Rs.88.75 Crores of interest on working capital in FY12 has increased to Rs.319.97 Crores in FY14. Justification for increase in these two items should be explained.

c) Funds towards consumer relations / consumer education:

BESCOM has indicated an amount of Rs.1.00 Crore towards consumer relations / consumer education for FY13 and no amount has been set apart for FY14, FY15 and FY16. Necessary amount required should be indicated for consumer relations / consumer education for the next control period also. Further, BESCOM shall furnish the details of its proposed expenditure for FY14. Also, BESCOM is directed to furnish the details of such actual expenditure incurred during FY12 and expenditure incurred upto 30th November 2012 in the current year.

5. Retail Supply Tariff for FY14:

Tariff Proposal:

BESCOM 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 for consumers except IP set upto 10 HP and BJ/KJ installations and no increase for IP set upto 10 HP and BJ/KJ installations shall be explained.

6. Kannada Version of Tariff Filing:

BESCOM 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.

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/23/12/

Dated: 21st December 2012

1. BESCOM vide its letter dated 10th 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