

## CESC

### **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 CESC the following formats are not enclosed to the tariff application.

- i) Audited accounts for FY12 and half yearly accounts ending 30.09.2012.
- i) Format D19 for FY12 as per actuals.

Further in Format D6(a) CESC has indicated number of employees both sanctioned and working at the same level for FY12 to FY16. CESC should indicate realistic number duly considering retirement and recruitments if any.

Besides, the number of LT4 installations as mentioned in the ERC and Tariff filing for FY13 was 215 and the sanctioned load for the same was mentioned as 5406.27 HP. Whereas in the present tariff filing, the number of LT4(b) installations is shown as 202 and the sanction load for the same is mentioned as 8526 HP. Reasons for showing abnormal increase in the sanctioned load under LT4(b) category shall be explained.

CESC 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:**

CESC is directed to furnish the status of energy balance and reconciliation for FY11 and FY12 with reference to cost and quantum and whether the same is reflected in the accounts and action taken to liquidate payables / receivables on account of reconciliation shall also be furnished.

### **b) Distribution Loss:**

The actual distribution losses reported for FY12 is 16.20% as against an approved loss of 15.24%. Further, the actual loss for FY11 was 15.48%. It is reported that various measures like DSM, HVDS and NJY have been implemented and have facilitated reduction in losses. However the losses reported is more than the actual loss levels achieved in the previous year. CESC is directed to furnish reasons with details for not meeting the loss levels approved by the Commission for FY12.

### **c) O & M Expenses:**

The Commission while allowing O & M expenses for FY12 had considered an amount of Rs.47.31. Crores towards additional employee cost on account of pay revision. In this regard CESC shall furnish the details of actual employee cost incurred on account of pay revision for FY12.

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

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

CESC has worked out the forecast for number of installations based on CAGR for the period FY09 to FY13 for all categories except IP sets. For

IP sets based on the actual additions in FY13 a growth rate of 4.10% is considered.

For sales projections it is stated that it is based on specific consumption of FY13 adjusted for correction factor. It is stated that the correction factor has been worked out as the difference in hours of supply between the requirement and availability. The comments on correction factor is as under:

It is noted that the correction factor for the categories BJ/KJ, domestic, LT commercial, LT industrial and HT consumers is worked out as the ratio of hours of supply required to the hours actually supplied. It may be noted that the correlation of energy consumption and hours of supply depends upon the category of consumers, duration of load shedding and timing of load shedding. As such in some of the categories like domestic, the consumers may shift their load and use the equipments whenever the power supply is available. Similarly, in case of industries that work in one or two shifts, the load shedding may not impact their energy consumption when the same is done when the industry is not working. Thus, applying the correction factor uniformly to all categories of consumers based on the hours of load shed is not correct. It requires feeder wise, category wise detailed analysis.

It is also noted that CESC has assumed that restrictions would be removed for a five year period and hence the correction factors has been gradually increased by assuming certain percentage of the estimated correction factor for different years from FY14 to FY18. Since, the supply depends on the availability of power, the percentages assumed needs to be linked to the availability of power i.e. yearwise addition of capacity in the State as well as increase in CGS share and the proposed purchases from outside.

Further, it is noted that the specific consumption for HT installations is worked out on per installation basis for the purpose of projection.

Normally, for HT installations the specific consumption would be worked out on the basis of connected load. Also, break up of category wise sales projections for HT installations is not discussed.

CESC has considered CAGR for the period FY08 to FY12 for estimating the number of installations for FY13 for all categories except IP sets and BJ/KJ. Further for sales estimation of FY13 CESC has considered the actuals up to September 2012 and for the remaining period it is stated that the growth rate based on actuals of FY12 over FY 11 is considered. Since the actual data is available till the end of November-12, CESC 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, CESC shall furnish the following data for the years FY11, FY12 & FY13:

Month	Sales-MU								
	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**

CESC shall furnish the details of installations as under:

Month	FY11			FY12			Numbers 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 CESC	Proposed %increase for FY-15 by CESC	Proposed %increase for FY-16 by CESC
LT-1 Instl.	1.23 to 37.22	16.61	6.15	5.05	5.05	5.05
Sales	15.8 to 54.77	24.12	16.93	5.80	7.48	7.43
LT-2a Instl	-3.81 to 3.28	1.76	3.19	3.22	3.22	3.22
	4.20 to	7.47	8.26	6.38	3.16	6.23

Sales	11.19						
LT-3 Instl.	1.05 to 5.32	3.91	4.69	4.71	4.71	4.71	
Sales	11.31 to 19.32	15.21	15.02	7.81	4.72	7.76.	
LT-4a Instl.	2.7 to 6.67	4.65	4.65	6.47	4.10	4.10	
Sales	-6.05 to 24.96	7.46	11.90	6.75	12.45	9.10	
LT-5 Instl.	2.49 to 4.49	3.57	3.94	3.94	3.94	3.94	
Sales	-0.30 to 6.71	2.62	3.82	5.74	3.94	3.94	
LT-6 WSInstl.	2.47 to 6.41	4.45	3.71	4.77	4.78	4.77	
Sales	0.37 to 10.05	6.10	4.11	6.29	4.78	4.78	
LT-6 SL Instl.	1.55 to 12.73	5.46	2.62	2.91	2.91	2.91	
Sales	-39.20 to 19.90	-6.47	-0.61	6.40	2.91	5.91	
HT-1 Instl.	1.69 to 10.29	5.64	7.64	11.25	12.36	11.00	
Sales	0.43 to 5.65	3.11	3.00	13.73	11.66	11.66	
HT-2a Instl.	6.53 to 15.73	12.16	12.09	11.66	11.69	11.59	
Sales	6.80 to 22.46	14.36	16.29	13.73	11.66	11.66	
HT-2b Instl.	8.09 to 17.65	13.13	11.98	11.74	11.59	11.69	
Sales	14.54 to 21.34	18.22	18.78	13.72	11.66	11.66	
HT-4 Instl.	0 to 10.53	3.05	4.16	11.11	12.00	12.50	
Sales	-0.17 to 22.65	10.19	11.56	13.73	11.57	11.72	
Total Instl.	2.58 to 7.93	4.61	4.17	4.25	4.04	4.09	
Sales	1.10 to 17.53	8.23	10.80	8.37	10.00	9.05	

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

**LT: 1-** The normal sales growth for this category is about 16 to 18%. The sales growth of 6 to 7% considered for the control period is on the lower side. Further CESC 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 sales projection for FY15 is estimated at 3% growth which is lower when compared to the normal growth of 7 to 8%. The additions of installations under RGGVY, if any, and the corresponding sales for the Control period shall be indicated.

**LT-3:** The sales growth rate of 5 to 8% considered for the control period is too low compared to the normal growth of about 15% for this category.

**LT 4a:** CESC shall furnish the specific consumption based on actual data available from March -11 to March -12. Further, CESC shall

furnish consumption available from April 2012 to Nov.2012. As per the monthly report furnished to the Commission actual number of installations as at the end of 31.03.2012 is 233779 numbers and consumption works out to 1946.18 MU. Whereas, as per the ERC filing the actual number of installations is 240983 and the consumption is given as 2115.94 MU. Thus there is a difference of 7204 in installations and 169.76 MU in consumption. The reasons for the difference to be furnished.

Further, CESC has considered correction factor based on the missing hours of power supply considering hours supply beyond six hours. CESC shall furnish whether it has taken consent of the Government to estimate power supply to IP sets beyond six hours since the same would have financial implications on the Government.

**LT-5:** The growth rate of 6% considered for FY14 is on the higher side when compared to the three years CAGR of 4% and five years CAGR of 3%. CESC has considered 4% growth for this category during FY15 and FY16.

**LT-6 Streetlights:** The growth rate of about 6% considered for sales to this category is on higher side keeping in view the negative CAGR for the period FY 9 to FY12 and for the period FY7 to FY12.

**HT-1 :** The sales growth rate of 12 to 14% considered for the control period is on the higher side in comparison to CAGR of 3%. The highest year on year on growth rate achieved by this category during the period FY8 to FY11 is about 6%.

**HT-2a:** This category has shown a sales growth rate of more than 20% in FY11 and FY12. The three years CAGR is about 16%. In view of the above, the growth rate of 12 to 14% considered by CESC is on the lower side.



**HT-2b:** This category has shown a sales growth rate of more than 20% in FY11 and FY12. The three years CAGR is about 19%. In view of the above, the growth rate of 12 to 14% considered by CESC is on the lower side.

**HT-4 :** Considering the three years CAGR of 4% and five years CAGR of 3%, the growth in installation estimated by CESC in the range of 11 to 12.5% is on the higher side. Similarly, the sales growth rate estimated at 14% for the year FY14 is on the higher side in comparison three years CAGR of 12% and five years CAGR of 10%.

**b) Power Purchase for FY14:**

CESC 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.

CESC shall furnish the details of estimates of meeting solar and non solar RPO for the period FY14 – FY16. CESC 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:**

CESC has proposed distribution loss of 14.90% for FY14, 14.80% for FY15 and 14.70% for FY16. The approved distribution loss of FY13 was 15% and the same is estimated by CESC in its filing. Considering the estimated loss levels for FY13, the projected loss levels indicates meager reduction of 0.1% every year. Further, the proportion of capex proposed for the control period as well as the capex incurred during FY11 – FY13 should enable CESC to indicate loss reduction of more than 0.1% for every year of the control period FY14 – FY16. As such

CESC is directed to furnish a lower levels for the control period – FY14 to FY16.

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

##### **i) O & M expenses:**

CESC has estimated its employees cost on account of terminal benefit at 21% on basic plus DA, which is not in conformity with actuarial valuation report. CESC shall restate this figure in accordance with the actuarial valuation report.

##### **ii) Funds towards consumer relations / consumer education:**

CESC has not indicated in its filing requirement of funds towards consumer relations for FY14 to FY16. Actual expenditure incurred on this account for FY12 may be intimated. CESC shall furnish details of expenditure under this account upto 30<sup>th</sup> November 2012 in the current year.

#### **5. Retail Supply Tariff for FY14:**

##### **a) Tariff Proposal:**

CESC 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:**

CESC 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/25/12/**

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

1. CESC 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