

CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY17

4.0 GESCOM's Application for APR for FY17:

The GESCOM has filed its application on 30th November, 2017 for Annual Performance Review (APR) for FY17 based on the audited accounts and revision of Annual Revenue Requirement (ARR) along with revision of retail supply tariff for FY19, under the provisions of the relevant Regulations.

The Commission in its letter dated 21st December, 2017 had communicated its preliminary observations on the application of the GESCOM. The GESCOM, in its letter dated 29th December, 2017, has furnished replies to the preliminary observations of the Commission.

The Commission in its Multi Year Tariff (MYT) Order dated 30th March, 2016 had approved the GESCOM's Annual Revenue Requirement (ARR) for FY17, along with retail supply Tariff for FY17.

As per the application filed by the GESCOM, the Annual Performance Review to revise the Annual Revenue Requirement of the GESCOM for FY17, based on the audited accounts, is discussed in this Chapter.

4.1 GESCOM's Submission:

The GESCOM has submitted its proposals for revision of ARR as per APR for FY17 based on the Audited Accounts, as follows:

TABLE – 4.1
ARR for FY17 – GESCOM's Submission

Rs. Crores		
Sl. No	Particulars	As Filed
1	Energy at Gen Bus in MU	8046.46
2	Energy at Interface in MU	7691.05
3	Distribution Losses in %	17.33
Sales in MU		
4	Sales to other than IP & BJ/KJ	3127.51
5	Sales to BJ/KJ	108.14
6	Sales to IP	3122.71
Total Sales		6358.36
Revenue		
7	Revenue from other than IP & BJ/KJ and Miscellaneous Charges	2132.07
8	Tariff Subsidy to BJ/KJ	65.28
9	Tariff Subsidy to IP	1575.93
Total Revenue		3773.28
Expenditure		
10	Power Purchase Cost	2858.68
11	Transmission charges of KPTCL	589.85
12	SLDC Charges	2.67
Power Purchase Cost including cost of transmission		3451.20
13	Employee Cost	335.16
14	Repairs & Maintenance	33.37
15	Admin. & General Expenses	80.01
Total O&M Expenses		448.54
16	Depreciation	120.14
Interest & Finance charges		
17	Interest on Loans	89.71
18	Interest on Working capital	14.52
19	Interest on belated payment of PP Cost	210.92
20	Interest on consumer deposits	34.03
21	Other Interest & Finance charges	1.11
22	Less: interest & other expenses capitalised	0.00
Total Interest & Finance charges		350.29
23	Other Debits	88.91
24	Net Prior period Debit/Credit	57.79
25	Return on Equity	0.00
26	Provision for taxation	0.00
27	Funds towards Consumer Relations/Consumer Education	0.00
28	Other Income	87.61
Net ARR		4429.26

Considering the revenue of Rs.3773.28 Crores against the net ARR of Rs.4429.26 Crores, the GESCOM has reported a gap in revenue of Rs.655.98 Crores for FY17.

4.2 GESCOM's Financial Performance as per the Audited Accounts for FY17:

An overview of the financial performance of the GESCOM for FY17 as per its Audited Accounts is given below:

TABLE – 4.2
Financial Performance of GESCOM for FY17

		Rs. Crores
Sl. No.	Particulars	FY17
	Receipts	
1	Revenue from Tariff and miscellaneous charges	2133.11
2	Tariff Subsidy	1641.21
	Adjustment of Regulatory Asset for the year/Truing up Subsidy	353.77
	Total Revenue	4128.09
	Expenditure	
3	Power Purchase Cost	3056.98
4	Transmission charges of KPTCL	402.84
5	SLDC Charges	2.67
	Power Purchase Cost including cost of transmission	3462.49
6	O&M Expenses	452.14
7	Depreciation	122.28
	Interest & Finance charges	
8	Interest on Loans	93.19
9	Interest on Working capital	11.04
	Interest on belated payment of power purchase	210.92
10	Interest on consumer deposits	32.98
11	Other Interest & Finance charges	1.11
12	Less: Interest and other expenses capitalized	0.00
	Total Interest & Finance charges	349.24
13	Other Debits	85.44
14	Net Prior Period Debit/Credit	57.80
15	Other income	88.02
16	Income tax	0.002
	Total Expenditure	4441.37

As per the Audited Accounts, the GESCOM has incurred loss of Rs.313.28 Crores for FY17. The yearly profits / losses reported by the GESCOM in its audited accounts in the previous years are as follows:

TABLE – 4.3
GESCOM's Accumulated Profit / Losses

Particulars	Amount in Rs. Crores
Accumulated losses as at the end of FY10	(216.60)
Profit earned in FY11	61.30
Losses incurred in FY12	(4.62)
Losses incurred in FY13	(188.58)
Profits earned in FY14	37.52
Losses incurred in FY15	(109.86)
Losses incurred in FY 16	(131.25)
Losses incurred in FY 17	(313.28)
Accumulated losses as at the end of FY17	(865.38)

As seen from the above table, the GESCOM has accumulated losses of Rs.865.38 Crores, as at the end of FY17.

Commission's analysis and decisions:

The Annual Performance Review for FY17 has been taken up as per the provision of MYT Regulations duly considering the actual revenue and expenditure as per the Audited Accounts vis-à-vis the revenue and expenditure approved by the Commission in its Tariff Order dated 30th March, 2016. The item-wise review of revenue and expenditure and the decisions of the Commission thereon are as discussed in the following paragraphs:

4.2.1 Sales for FY17:

A. Sales -other than IP Sets:

The Commission in its Tariff Order, 2016 dated 30.03.2016 had approved total sale of 6897.24 MU to various consumer categories, as against the GESCOM's proposal of 6808.08 MU. The actual sales of the GESCOM, as per the current APR filing [D-2 FORMAT] is 6358.34 MU, indicating a reduction in

sales to the extent of 538.90 MU as compared to the approved sales. There is a reduction in sales to LT-categories by 239.89 MU and HT-categories by 299.01 MU. As against approved sales of 3471.76 MU to categories other than BJ/KJ and IP sets, the actual sale achieved by the GESCOM is 3127.49 MU, resulting in reduction in sales to these categories by 344.27 MU. Further, the GESCOM has sold 3230.85 MU to BJ/KJ and IP category against approved sales of 3425.48 MU resulting in reduced sales to these categories by 194.63 MU.

The category-wise sales approved by Commission and the actuals as filed by GESCOM for the FY17 are indicated in the table below:

TABLE- 4.4
category-wise sales approved & actuals for FY17

Category	Figures in Mus		
	Approved	Actuals	Difference
1	2	3	(3-2)
LT-2a	1068.07*	1041.76	-26.31
LT-2b	9.20	10.45	1.25
LT-3	289.14	278.41	-10.73
LT-4b	11.81	1.91	-9.90
LT-4c	1.44	1.22	-0.22
LT-5	172.17	163.86	-8.31
LT-6	167.15	201.38	34.23
LT-6	237.51	213.77	-23.74
LT-7	18.43	16.90	-1.53
HT-1	86.87	92.81	5.94
HT-2a	1192.42	905.86	-286.56
HT-2b	72.19	70.74	-1.45
HT-2c	11.95	18.07	6.12
HT-3a & b	114.63	89.45	-25.18
HT-4	13.31	13.07	-0.24
HT-5	5.46	7.83	2.37
Sub total	3471.76	3127.79	-344.27
BJ/KJ	118.60	108.14	-10.46
IP	3306.88	3122.71	-184.17
Sub total	3425.48	3230.85	-194.63
Grand total	6897.24	6358.34	-538.90

*Including BJ/KJ installations consuming more than 18 units/month.

The observations of the Commission and replies furnished by the GESCOM are discussed below:

- i. The Commission had noted that the major categories contributing to the reduction in sales when compared to the approved sales are HT industries (286.56 MU) and LT -4a (184.17 MU). Further, it is observed there is increase in sales to LT-6 WS (34.23 MU). The Commission had directed the GESCOM to analyze and furnish the reasons for the variations.

The GESCOM, in their replies have attributed reduction in HT-2a sales to eighteen number of consumers opting for open access and the reduction in IP-set sales to decreased ground water level due to shortage of rainfall. Further, the increase in sales in LT-water supply is attributed to servicing of more number of installations in Zilla panchayat and Town Municipal Corporation areas.

The Commission notes that in case of HT-2a, as per the information furnished by the GESCOM, 83.56 MU has been consumed under OA/wheeling and is attributable for reduction in HT-2a sales out of 286.56 MU reduction. Further, the increase in LT-WS attributed to increase in number of installations is accepted as there are 680 more installations in this category, than the approved number of installations. The IP-set sales is discussed in the subsequent paragraphs.

- ii. In order to analyze reduction in HT sales, the GESCOM was directed to furnish the data of sales to HT2(a), HT2(b) and HT-2c categories along with the consumption from open access / wheeling for the period 2014-15, 2015-16 & 2016-17 in the specified format.

GESCOM in their replies have stated that only HT-2a installations have opted for OA and has furnished the data for FY17 and FY18 (up to November, 2017). The Commission notes that GESCOM has not furnished data for FY15 & FY16. GESCOM has not furnished any satisfactory reason for reduction of sales in the HT categories.

- iii. The Commission had directed GESCOM to furnish the breakup of installations consuming less than or equal 18 units and above 18 units for the FY17.

GESCOM has furnished the details as indicated below:

Particulars	No. of Installations	Consumption in MU
Installations Consuming less than 18 Units	575693	98.75
Installations consuming more than 18 units and build under LT 2a	21502	9.39

B. Sales to IP-sets:

- a) The Commission in its Tariff Order dated 30th March, 2016, had approved a specific consumption of 9,503 units' / IP set/annum at for FY17, whereas as per the data of IP-sets' consumption reported by the GESCOM, in its Tariff filing for FY17, the specific consumption works out to 9,314 units / installation / annum. Thus, there is decrease in the specific consumption by 189 units/installation / annum. This corresponds to decrease in specific consumption by around 2 per cent over the approved figure.
- b) The total IP-set consumption reported for FY17 as per the Format D-2 is 3,122.71 MU, whereas the IP-set consumption approved by the Commission was 3,306.88 MU. The difference in consumption between the approved and reported consumption for FY17 is 184.17 MU. Thus, the quantum of sales to the IP-sets has decreased by around 6 per cent over the approved figure.
- c) Further, the Commission had approved 3,58,483 as the number of IP-set installations for the FY17, but, the actual number of installations as reported by the GESCOM, is 3,39,639. The difference in the number of installations is 18,844 and this corresponds to decrease in the number of installations by about 5 per cent, as against the approved number of installations for the FY17.
- d) The Commission, in its Tariff Order dated 30th March, 2016, had directed the GESCOM to furnish feeder-wise, month-wise IP-set consumption based on the specific consumption arrived at as per the data from 11 kV feeders' energy meter, in respect of exclusive

agricultural feeders segregated under NJY scheme, for the reason that the energy consumed by the IP-sets can be accurately measured at the 11 kV level at the substations after deducting the losses prevailing in the distribution system. The Commission has been following this methodology since FY15, considering the fact that ESCOMs have bifurcated the 11 KV feeders into separate rural and agricultural feeders.

- e) Accordingly, the GESCOM was directed to furnish month-wise, 11 kV feeder-wise IP-set consumption based on the energy meter reading data in respect of agriculture feeders segregated under NJY scheme, duly deducting the prevailing distribution losses in 11 kV lines, distribution transformers and LT system, to the Commission, every month.

However, the GESCOM did not submit the month-wise IP-set consumption based on the feeder-wise meter reading data of 11 kV segregated agricultural feeders regularly, to the Commission. Also, the GESCOM did not submit, in its Tariff filing, the data indicating the distribution losses prevailing in 11 kV lines, distribution transformers & LT system, has been deducted from the gross consumption to arrive at the net IP sets' consumption and the methodology adopted to arrive at the loss figures for FY17.

- f) The Commission, in its preliminary observations, had directed the GESCOM to furnish necessary month-wise feeder-wise consumption data as per the energy recorded in the segregated agricultural feeders, in support of its claims of IP-set consumption for the FY17 including the details of initial & final readings and the net consumption considering the multiplying constant as per the prescribed format.
- g) Further, during the KPTCL and ESCOMs Review meeting held on 25.10.2017, the GESCOM has submitted that out of 1,92,527 number of IP sets for which GPS survey was completed, 10,259 IP sets have been declared as not-in-use/dried up installations. Hence, the

GESCOM was directed to deduct 10,259 number of dried up installations from the account in FY17, identified by it, while conducting GPS survey and submit revised consumption for FY17 considering GPS survey data.

- h) The GESCOM, in its reply to the preliminary observations, has submitted the consolidated subdivision-wise month-wise IP-set consumption data in respect of the 11 kV exclusive agricultural feeders segregated under NJY, but, it has not indicated the basis for arriving at the energy losses in the feeders while computing the IP-set consumption and also has not furnished the details of initial, final readings and net energy arrived at considering the multiplying factor in respect of all the feeders. Further, the GESCOM has requested the Commission to approve the sales for FY17 as 3,122.71 MU instead of 3,020 MU as submitted by it during the time of KPTCL and the ESCOMs' Review meeting on 25.10.2017 as the same was incorrect and not based on DCB data.
- i) In its subsequent submissions before the Commission, the GESCOM has submitted the consolidated month-wise IP-set consumption data in respect of the exclusive agricultural feeders segregated under NJY indicating the initial, final readings and the multiplying constants of the energy meters to arrive at net energy. On a verification of the said data, it is observed that the percentage of distribution loss in the 11 kV feeders'/LT lines reckoned to compute the net IP-set consumption, is not based on actual calculation considering the distribution network sketches, but based on standard losses uniformly considered for the Company. Therefore, henceforth the GESCOM is directed to calculate the actual losses considering the distribution network sketches instead of standard losses, to arrive at the net consumption.
- j) The Commission notes that the overall IP-set consumption of 3,122.71 MU based on the segregated agricultural feeders' meter readings considering the initial & final readings and multiplication

factor submitted by the GESCOM is less than the approved quantum of 3,306.88 MU for FY17. In view of the above, the Commission decides to approve 3,122.71 MU towards sales to IP-sets on the basis of the energy meter readings data of the segregated agricultural feeders, reported for the FY17.

In the light of the above discussion, the Commission approves total sales of 6358.36 MU for FY17 and the category wise sales as indicated in the table below:

TABLE-4.5
category wise sales - GESCOM

Category	Million Units	
	Approved	Actuals/ Approved under APR for FY17
LT-2a	1068.07*	1051.15
LT-2b	9.20	10.45
LT-3	289.14	278.41
LT-4b	11.81	1.91
LT-4c	1.44	1.22
LT-5	172.17	163.86
LT-6	167.15	201.38
LT-6	237.51	213.77
LT-7	18.43	16.90
HT-1	86.87	92.81
HT-2a	1192.42	905.86
HT-2b	72.19	70.74
HT-2c	11.95	18.07
HT-3a & b	114.63	89.45
HT-4	13.31	13.07
HT-5	5.46	7.83
Sub total	3471.76	3136.90
BJ/KJ	118.60	98.75
IP	3306.88	3122.71
Sub total	3425.48	3221.46
Grand total	6897.24	6358.36

*Including BJ/KJ installations consuming more than 18 units/month.

4.2.2 Distribution Losses for FY17:

The Commission in its Tariff Order dated 30thMarch,2016 had approved the distribution losses for FY17 as follows:

Range	FY17
Upper limit	17.50
Average	17.00
Lower Limit	16.50

The GESCOM, in its annual accounts, has reported the distribution losses at 17.33 per cent for FY17 as under:

1	Energy at Interface Points in MU	7,691.05
2	Total sales including wheeled energy in MU	6,358.36
3	Distribution losses as a percentage of input energy at IF points	17.33%

Commission's Analysis and Decisions:

The Commission notes that, distribution loss of 17.33 per cent reported by the GESCOM, as per the audited accounts exceeds the targeted losses fixed by the Commission for FY17 by 0.33 percentage points. However, compared to the capex incurred by GESCOM during the previous years and also in the current year under various schemes, the achievement made in the distribution loss reduction is not satisfactory. The Commission directs GESCOM to take corrective measures to reduce the distribution losses by 1% to 2% every year.

The actual distribution losses of 17.33 per cent reported by GESCOM fall within the approved upper limit of losses of 17.50 per cent for FY17. Therefore, allowing any incentive or levy of any penalty for non-achievement of loss targets, will not arise. Accordingly, the Commission has not factored the same for FY17.

Thus, the Commission decides to approve the distribution loss of 17.33% for FY17 with the direction to reduce the distribution losses below the lower level fixed by the Commission for the respective years.

4.2.3 Power Purchase for FY17:

GESCOM Submission:

The Commission in its Tariff order dated 30th March, 2016, had approved source-wise quantum and cost of power purchase for FY17. GESCOM, in its

application has submitted the details of actual power purchase for FY17 for the purpose of Annual Performance Review. The details of power purchase are as under:

TABLE – 4.6

Power Purchase for FY17- Approved and Actuals

Source of Generation	Actuals for FY17			Approved in T.O. Dt. 30.03.2016 for FY17			Difference-between Actuals and Approved-for FY17			% increase (+)/decrease (-) over an approved figures	
	Energy in MUs	Cost in Rs. Crores	Rate in Rs. per Unit	Energy in MUs	Cost in Rs. Crores	Rate in Rs. per Unit	Energy in MUs	Cost in Rs. Crores	Rate in Rs. per Unit	Energy	Cost
KPCL Hydel Stations	1461.840	132.62	0.91	2322.59	178.37	0.77	-860.75	-45.75	0.14	-37.06	-25.65
KPCL-Thermal Stations	1275.35	582.61	4.57	1556.80	656.91	4.22	-281.45	-74.30	0.35	-18.08	-11.31
CGS	3128.72	1068.66	3.42	2945.32	955.20	3.24	183.40	113.46	0.17	6.23	11.88
Major IPPs	1013.68	454.36	4.48	1021.13	423.31	4.15	-7.45	31.05	0.34	-0.73	7.33
IPPs -Minor (RE Projects)	462.59	199.15	4.31	591.38	262.84	4.44	-128.79	-63.69	-0.14	-21.78	-24.23
Other States Projects	18.13	7.39	4.08	19.72	9.27	4.70	-1.59	-1.88	-0.62	-8.04	-20.25
Short /Medium term ,UI & Sec-11	573.71	241.65	4.21	151.72	76.47	5.04	421.99	165.18	-0.83	278.14	216.02
Transmission Charges (KPTCL & PGCIL)		589.85			532.72			57.13		10.72	
SLDC / POSOCO Charges		2.67			2.65			-2.65			-100.0
Misc/Other sources of Energy	34.25	139.56									
Energy Balancing	78.19	46.64	5.96				78.19	46.64	5.96		
TOTAL	8046.46	3462.49	4.30	8608.65	3097.73	3.60	-562.19	364.76	-6.49	-6.53	11.78

Commission's analysis and decisions:

1. The actual power purchase quantum and cost for FY17, as filed by GESCOM for approval of Annual Performance Review is 8046.46 MU amounting to Rs.3462.49 Crores respectively, as against the approved quantum of 8608.65MU amounting to Rs.3097.73 Crores. This represents decrease in quantum of power purchased to an extent of 562.19 MU (6.53%) and increase in the cost by Rs.364.76 Crores (11.78%), as compared with the approved quantum and cost.

2. On an analysis of the source-wise approved and actual power purchases, the following deviations in the quantum of energy purchased and its cost are observed:
- i. There is shortfall in supply from sources of power from KPCL Hydel and KPCL Thermal generating stations as indicated below:

TABLE-4.7**Short-fall in supply from KPCL Hydel Stations**

Approved Energy	Actual Energy	Shortfall in energy compared with approved availability in MU	Cost of Shortfall Energy in Rs. Crores.
10704.90	6563.74	4141.16	380.99

The shortfall from the above Hydel sources, which is the cheaper source of power, has been met by procuring power from the following sources by ESCOMs.

Short/Medium term purchases	3061.41 MU	Rs.1310.28 Crores
Un-requisitioned surplus power from CGS	357.85 MU	Rs.127.39 Crores
Imposition of Sec-11 on the State Embedded Generators (during April and May 2016)	721.90 MU	Rs. 346.33 Crores

Thus, the ESCOMs have met the deficit from hydro sources with other sources such as Short/Medium term purchases, Un-requisitioned surplus power from CGS, and drawl of energy under Section-11 from the Generators embedded in the State (during April and May 2016) at the additional cost of Rs.1403.01 Crores.

The short fall in 917.52 MU energy compared with approved availability from the KPCL thermal sources also has been met by procuring un-requisitioned surplus power from CGS, without any significant cost implications.

- ii. The change in the source-wise mix of supply, reconciliation of energy and its cost among ESCOMs has resulted in increase in average power purchase cost of GESCOM to Rs.4.30 per KWh as against the approved rate of Rs.3.60 per KWh.

3. In order to ensure proper accounting of energy and its cost by the ESCOMs, GESCOM is directed to reconcile the inter-ESCOM energy exchanges and their costs every month and it shall collect/pay the amounts out of the tariff subsidy received from the Government of Karnataka.
4. The Commission notes that, so far the SLDC has not implemented the intra-state ABT. As per the directions issued by the Government of Karnataka, vide its letter dated 28th January, 2016, intra-State ABT has to be implemented immediately by the KPTCL and ESCOMs. **The Commission therefore directs the SLDC, KPCL and the GESCOM to take appropriate action immediately to implement intra-state ABT and to host the details thereof, on their respective websites.**
5. The power purchases made by the GESCOM during FY17 from different sources of generation also include the energy purchased during April and May, 2016, under Section 11 of the Electricity Act, 2003, in pursuance of a Government Order dated 16.09.2015. The Government, in the said order, had fixed a provisional tariff of Rs.5.08 Per unit subject to determination of final tariff by this Commission. The Commission in its order dated 18th August, 2016, has fixed the final tariff at Rs.4.67 per unit and has ordered recovery of the excess amount paid, if any, from the generators. However, some of the generators have filed petitions before the Hon'ble High Court, which reminded the matter, back to the Commission for fresh disposal. However, the decision in writ petitions has been challenged by the ESCOMs and the Commission in writ appeals. Hence, the Power Purchase cost allowed for 2 months is subject to outcome of the writ appeals and any consequential proceedings thereafter.

Accordingly, the Commission decides to approve power purchases of 8046.46 MU at a cost of Rs.3462.49 Crores for the purpose of Annual Performance Review for FY17.

4.2.4 Renewable Purchase Obligation (RPO) compliance by GESCOM for FY17:

1. The GESCOM in its Tariff Petition had stated that it has met solar RPO of 0.90% against the target of 0.75% and Non-solar RPO of 5.69% against the

target of 5.50% in the FY17. The Commission directed the GESCOM to confirm whether the same is in accordance with the Government Order No. EN 43 PSR 2017 dated 26.09.2017 and if not, shall give reasons for the deviation from the GO. Further, for validating the RPO compliance and to work out APPC, the GESCOM was directed to furnish the data as per the specified format, duly reconciling the data with the audited accounts for the FY17.

2. The GESCOM, in its replies, has furnished the following details:

TABLE-4.8

Non-solar RPO Compliance by GESCOM For FY17

SI No.	Particulars	Quantum in MU	Cost- Rs. Crores
1	Total Power Purchase quantum from all sources	8046.458	3451.203
2	Non-solar Renewable energy purchased under PPA route at Generic tariff including Non-solar RE purchased from KPCL	392.570	144.318
3	Non-solar Short-Term purchase from RE sources, excluding sec-11 purchase	30.212	14.830
4	Non-solar Short-Term purchase from RE sources under sec-11	24.345	12.367
5	Non-solar RE purchased at APPC	10.515	3.257
6	Non-solar RE pertaining to green energy sold to consumers under green tariff	0	0
7	Non-solar RE purchased from other ESCOMs	0	0
8	Non-solar RE sold to other ESCOMs	0	0
9	Non-solar RE purchased from any other source like banked energy purchased at 85% of Generic tariff	10.704	4.099
10	Total Non-Solar RE Energy Purchased [No.2+ No.3+No.4+No.5 +No.7+No.9]	468.346	178.872
11	Non-Solar RE accounted for the purpose of RPO [No.10- No.5-No.6-No.8]	457.831	175.614
12	Non-solar RPO complied in % [No11/No1]*100	5.690%	5.088%

TABLE-4.9

Solar RPO Compliance by GESCOM for FY17:

SI No.	Particulars	Quantum in MU	Cost- Rs. Crores.
1	Total Power Purchase quantum from all sources	8046.458	3451.203
2	Solar energy purchased under PPA route at Generic tariff including solar energy purchased from KPCL	47.040	36.697

3	Solar energy purchased under Short-Term, excluding sec-11 purchase		
4	Solar Short-Term purchase from RE under sec-11		
5	Solar energy purchased under APPC		
6	Solar energy pertaining to green energy sold to consumers under green tariff		
7	Solar energy purchased from other ESCOMs		
8	Solar energy sold to other ESCOMs		
9	Solar energy purchased from NTPC (or others) as bundled power	16.41	17.28
10	Solar energy purchased from any other source like banked energy purchased at 85% of Generic tariff	5.185	2.867
11	Total Solar Energy Purchased [No.2+ No.3+No.4+No.5+No.7+No.9+No.10]	68.633	56.848
12	Solar energy accounted for the purpose of RPO [No.11- No.5-No.6-No.8]	68.633	56.848
13	Solar RPO complied in % [No.12/No.1]*100	0.853%	

The Commission notes that GESCOM in its replies, has not confirmed whether the RPO compliance is in accordance with the GO dated 26.09.2018. Nevertheless, the Commission has relied upon the prevailing Regulations, the Government Order No. EN 43 PSR 2017 dated 26.09.2017 and the available data with the Commission, for ascertaining the RPO compliance for FY17.

The Commission notes that as per the GO dated 26.09.2017, the input energy for the GESCOM is 8046.46 MU and as per the APR, the Commission has also approved 8046.46 MU, as per audited accounts.

Regarding the Non-Solar RPO, considering the input energy of 8046.46 MU, the Non-solar RPO target at 5.50% works out to 442.56 MU. In the GO, the Non-solar energy purchased is indicated as 464.37 MU. As per the replies furnished by the GESCOM, the Non-Solar energy purchased is 457.831 MU. Thus, the Commission has considered 457.83 MU. Further, adding 4.26 MU of energy of Shimshapura power plant [which is Small Hydro as per MNRE definition], the total energy accounted for Non-solar RPO would be 462.09 MU [457.83+4.26]. **Thus, as per actuals, the GESCOM has surplus of 19.53 MU against 21.81 MU surplus considered by GoK in its GO dated 26.09.2017. Therefore, the Commission has considered 19.53MU as the surplus Non-solar energy available in GESCOM, which is allocated to BESCO instead of 21.81MU. Therefore, the Commission concludes that GESCOM has met its Non-Solar RPO for FY17.**

Regarding the Solar RPO, considering the input energy of 8046.46 MU, the Solar RPO target at 0.75% works out to 60.35 MU. In the GO, the Solar energy purchased is indicated as 72.15 MU. As per the replies furnished by GESCOM, the Solar energy purchased is 68.63 MU. Thus, the Commission has considered 68.63 MU. **Thus, as per actuals, the GESCOM has surplus of 8.28 MU against 11.81 MU surplus considered by GoK in its GO dated 26.09.2017. Therefore, the Commission has reckoned 8.28 MU as the surplus Solar energy available in GESCOM, which is allocated to HESCOM instead of 11.81MU. Therefore, the Commission concludes that GESCOM has met its Solar RPO for FY17.**

4.2.5 Operation and Maintenance Expenses:

GESCOM's Submission:

In its application, GESCOM, as per audited accounts has sought approval of O&M expenditure of Rs.448.54 Crores for FY17. The break-up of O&M expenses are as follows:

TABLE – 4.10

O & M Expenses – GESCOM's submission

Particulars	Rs. Crores
	FY17
Employee cost	335.16
Administrative & General Expenses	80.01
Repairs and Maintenance	33.37
Total O & M Expenses	448.54

Commission's analysis and decisions:

The Commission in its Tariff Order dated 30th March, 2016 had approved O&M expenses for FY17 as detailed below:

TABLE – 4.11

Approved O&M Expenses as per Tariff Order dated 30.03.2016

Particulars	FY17
No. of installations as per actuals as per Audited Accts	2858887
Weighted Inflation Index	7.24%
CGI based on 3 Year CAGR	4.61%
Actual O&M expenses for FY16 - in Rs. Crores.	400.99
Total approved O&M Expenses for FY16 – in Rs. Crores.	440.47

The Commission in its preliminary observations, on the application of GESCOM, had sought the details of certain expenses booked under A & G expenses during FY17 and has noted the replies furnished. The Commission has been directing the ESCOMs to take necessary action to minimize the O&M expenses in order to bring down the expenses within the approved amount.

The Commission notes that the actual O&M expenses reported by GESCOM are more than the approved O&M expenses by Rs.11.67 Crores. The Commission, in accordance with the provision of MYT Regulations and the methodology adopted while approving the ARR for the control period and for previous periods for FY14-16 and subsequent APRs, proceeds with the determination of normative O&M expenses based on the 12 Year data of WPI and CPI besides considering 3 year compounded annual growth rate (CAGR) of consumers. Considering the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce & Industry, Government of India and Consumer Price Index (CPI) as per the data available from the Labour Bureau, Government of India and adopting the methodology followed by the CERC with CPI and WPI in a ratio of 80: 20, the allowable rate of inflation for FY17 is computed as follows:

TABLE-4.12
Computation of Allowable Inflation Rate

Year	WPI	CPI	Composite Series	$Y_t/Y_{t-1}=R_t$	$\ln R_t$	Year (t-1)	Product $1[[t-1] * (\ln R_t)]$
2005	103.37	115.8	113.314				
2006	109.59	122.9	120.238	1.06	0.06	1	0.06
2007	114.94	130.8	127.628	1.13	0.12	2	0.24
2008	124.92	141.7	138.344	1.22	0.20	3	0.60
2009	127.86	157.1	151.252	1.33	0.29	4	1.16
2010	140.08	175.9	168.736	1.49	0.40	5	1.99
2011	153.35	191.5	183.87	1.62	0.48	6	2.90
2012	164.93	209.3	200.426	1.77	0.57	7	3.99
2013	175.35	232.2	220.83	1.95	0.67	8	5.34
2014	182.00	246.90	233.92	2.06	0.72	9	6.52
2015	177.03	261.42	244.542	2.16	0.77	10	7.69
2016	180.6	274.3	255.56	2.26	0.81	11	8.95
A= Sum of the product column							39.44
B= 6 Times of A							236.63
C= (n-1)*n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.08
g(Exponential factor)= Exponential (D)-1							0.0811
e=Annual Escalation Rate (%)=g*100							8.1059

For the purpose of determining the normative O & M expenses for FY17, the Commission has considered the following:

- a) The actual O & M expenses for FY16 excluding contribution to Pension and Gratuity Trust.
- b) The three year compounded annual growth rate (CAGR) at 4.40% of the number of installations considering the actual number of installations as per the audited accounts up to FY17.
- c) The weighted inflation index (WII) at 8.1059% as computed above.
- d) Efficiency factor at 2% as considered in the earlier two control periods.

Thus, the normative O & M expenses for FY17 are computed as follows:

TABLE-4.13
Normative O & M Expenses

Particulars	Rs.Crores
	FY17
No. of Installations As per actuals as per Audited Accts	2842454
Weighted Inflation Index	8.1059%
Consumer Growth Index (CGI) based on 3 Year CAGR	4.40%
Base year O& M expenses for FY16 excluding P&G contribution - Rs. Crores	362.19
O&M Index= O&M (t-1)*(1+WII+CGI-X)- Rs. Crores.	400.25

The above normative O & M expenses have been computed without considering the contribution to Pension and Gratuity Trust for FY 17.

The Commission, as per the provision of MYT Regulations, has treated the employee costs on account of contribution to P&G Trust as uncontrollable O&M expenses. This component has been allowed over and above the normative O&M expenses to enable the ESCOMs to meet their actual employee costs.

The GESCOM has incurred an amount of Rs.58.18 Crores towards contribution to the Pension and Gratuity Trust for FY17. Considering the request of the GESCOM to treat the pension and gratuity contribution as uncontrollable O & M expenses and as per the provisions of the MYT Regulations, the computation of the allowable O & M expenses for FY17 is as under:

TABLE – 4.14
Allowable O & M Expenses for FY17

Sl. No.	Particulars	Rs. Crores
		FY17
1	Normative O & M expenses	400.25
2	Additional employee cost (uncontrollable O & M expenses)	58.18
3.	Allowable O & M expenses for FY17	458.43

Thus, the Commission decides to allow an amount of Rs.458.43 Crores as O&M expenses for FY17 with the directions to control the O&M expenditure in future to the approved level.

4.2.6 Depreciation:

GESCOM's Submission:

The **GESCOM** in its application, as per the provisional accounts for FY17, has claimed an amount of Rs.120.14 Crores as the net depreciation, after deducting an amount of Rs.27.17 Crores towards the depreciation on account of assets created out of consumers' contributions / grants as per Accounting Standards (AS) – 12.

The asset-wise depreciation claimed by GESCOM is as follows:

TABLE – 4.15
Depreciation for FY17- GESCOM's submission

Particulars	Rs. Crores		
	Opening Balance of GFA as on 01.04.2016	Closing Balance of GFA as on 31.03.2017	Depreciation for FY17
Buildings	55.46	69.14	2.07
Civil	6.69	0	0
Other Civil	0	0	0

Plant & M/c	525.88	607.27	27.71
Line, Cable Network	2449.12	2853.82	116.82
Vehicles	5.37	5.86	0.20
Furniture	4.81	5.31	0.23
Office Equipment	6.01	6.16	0.33
Total	3053.27	3556.28	147.30
Depreciations on assets created out of consumer contribution/grants			(27.16)
Total			120.14

Commission's analysis and decisions:

The Commission notes that, as per the audited accounts of GESCOM for FY17, the amount of depreciation factored is Rs.122.28 Crores and depreciation withdrawn on assets created out of consumer contribution and grants is Rs.27.17 Crores.

In accordance with the provisions of the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 and amendments thereon, the Commission has determined the depreciation for FY17. Based on the opening and closing balances of gross blocks of fixed assets for FY17 and the depreciation as per the audited accounts, the weighted average rate of depreciation works out to 4.47%.

Further, as per the audited accounts and the Accounting Standards (AS)-12, the Commission has recognized an amount, of Rs.27.17 Crores of depreciation on assets created out of consumer contribution / grants.

The computation of asset-wise depreciation is as follows:

TABLE – 4.16
Allowable Depreciation for FY17

Particulars	Rs. Crores		
	Opening Balance of Asset as on 01.04.2016	Closing Balance of Asset as on 31.03.2017	Depreciation for FY17
Land	6.62	8.72	0.00
Buildings	48.77	60.74	1.93
Civil	6.69	8.40	0.08
Plant & M/c	526.67	609.82	27.90
Line, Cable Network	2448.34	2879.91	118.78

Vehicles	5.38	5.86	0.20
Furniture	4.81	5.31	0.23
Office Equipment	6.01	6.16	0.33
Total	3053.29	3584.91	149.45
Less: Depreciation on account of Assets created out of grants/Consumer contribution			27.17
Net Depreciation			122.28

Based on the above, the Commission decides to allow a net depreciation of Rs.122.28 Crores for FY17.

4.2.7 Capital Expenditure for FY17;

A. GESCOM's submission:

GESCOM in its filings for the APR for FY17 has indicated a capital expenditure of Rs.530 Crores in D17 Format. The GESCOM has furnished the category-wise expenditure for Rs.486.61 Crores for the FY17 and the details are as follows:

Table -4.17

Capital expenditure of GESCOM for the FY17

SI No	Schemes	Rs. Crores		
		Proposed Capex for FY17	Capex expected to be incurred	Actual expenditure for FY17
1	33kV Sub-station, 33kV line works & Augmentation of 33kV S/S's	20	8	45.85
2	RGGVY works REC	10	3	4.25
3	RAPDRP works			
	Part-A	25	10	20.39
	Part-B	85	20	13.79
	IPDS	183.1	50	
4	Re-conductoring works:			
	a) 33kV lines	3	1	
	b) 11kV lines	5	2	9.67
5	DTC metering works	45	10	0.29
6	Water supply works	5	2	12.53
7	Additional DTC's works:			
	a) New DTC's	5	2	21.75
	b) Enhancement of DTC's	3	1	12.67
8	Replacement failed 11 KV transformers	12	10	53.93
9	Replacement of Power transformers	2	1	0.96
10	Replacement of MNR meters	5	3	2.73
11	Providing ETV meters	1	1	

12	Providing HT metering Cubicles for ring fencing	0.5	0.5	
13	Service Connection works:			
	a) General works	10	10	4.47
	b) IP set works	2	2	4.67
14A	SI works (33KV link line / Express feeders)	1	1	6.48
14B	SI works (11KV Link line / Express feeders,)	15	6	5.07
15	a) Nirantara Jyoti works	125	50	51.32
	b) Deen Dayal Upadhay Gram Jyothi Yojane	496.8	50	0.64
16	a) Major Replacements in S/S's & lines	5	2	0.2
	b) Replacement of Age old Equipment in existing S/S & lines	5	3	
17	Civil Engineering works	10	6	8.14
18	IT initiatives	3	1.5	
19	HVDS Works	25	12	
20	Providing ABC, UG Cables & RMUs	605	65	18.52
21	SCADA works	1	1	
22	SCP & TSP works			85.36
	a) Energisation of IP sets	1	1	
	b) Electrification of HB's/JC's	0.5	0.5	
	c) Kutir Jyoti	0.5	0.5	
23	Ganga Kalyan scheme works	25	12	66.12
24	T & P Articles	1	1	0.77
25	Replacing of Electro Magnetic meters by Static meters	1	0.5	1.09
26	Metering of IP/St. Lights/BJ&KJ sets	1	0.5	4.12
27	Providing Infrastructure to Regularization of Unauthorized IP sets	60	20	10.41
28	R.E General works:			
	a) Kutir Jyoti	0	0	
39	Prevention of electrical accident & safety	5	2	20.42
30	Electrification of Rehabilitation villages	2	1.5	
31	Taluka wise segregation of 11kV feeders	0	0	
Total		1810.4	374	486.61

Commissions analysis and decision:

The Commission, in its Tariff Order dated 30.03.2016 had observed that, the GESCOM has **proposed** huge amount of capex for FY17, FY18 and FY19 and had directed it to recast the same in a realistic manner as per the "Capital expenditure guidelines" issued by the Commission. However, the GESCOM had indicated a capex of Rs.1810 Cores for the FY17 and the likely expenditure to be incurred at Rs.374 Cores. Considering the huge difference

in the proposed capex and the likely expenditure to be incurred by GESCOM with the available financial limitation, the Commission had approved a capex of Rs.500 Crores for the FY17.

From the above table, it is noted that, though the GESCOM has actually incurred an amount of Rs.486.61 Crores, which is more than the anticipated expenditure informed by GESCOM. However, it is well within the amount of capex of Rs.500 Crores approved by the Commission. It is seen that, there are certain categories of works in which the GESCOM has exceeded/ under achieved its capex as indicated below:

- i. In the case of **33kV Sub-station, 33kV line works & Augmentation of 33kV S/S's**, the GESCOM has achieved a capex of Rs.45.85 Crores as against an allocation of Rs.20 Crores. The GESCOM in its replies to the observations, has stated that, the excess capex is due commissioning of 4 nos. of 33 kV GIS stations, namely, Tholamamidi, Yaragole, Lakhangaon, Idapanur and also on the capex spent on the works under progress in respect of 33kV Sannati, Inapur, Kolkunda, Kavalaga cross, Rajalabanda, Medikanal, Alandi station.
- ii. In the case of works relating to **IPDS**, though the GESCOM had proposed an amount of Rs.183 Crores and stated that it will achieve a capex of Rs.50 Crores during the FY17, it has not achieved any capex during the FY17. The GESCOM in its replies to the preliminary observations, has stated that, the tenders have been invited circle wise through e- procurement portal and the works are being awarded.
- iii. In the case of **Additional DTC's** works, the GESCOM has achieved Rs.34.42 cores against Rs.8 Crores. The GESCOM in its replies to the observations made by the Commission has stated that, providing additional DTCs in the system has helped in reducing interruptions, avoid low voltage problems and reduced transformer failure rate from 17.32% in FY16 to 10.4% in FY17.
- iv. In respect of **Replacement failed 11kV transformers**, the GESCOM has achieved Rs.53.93 cores against Rs.12 Crores approved which far exceeds the approved capex. The GESCOM in its replies to the preliminary

observations, has stated that, it has since revised the accounting procedure and considered the replacement of failed transformer under the revenue head. The GESCOM has also stated that, 532 No. of failed transformers which were beyond repairs had been replaced by 532 Nos. of new transformers costing Rs.5.09 Crores. **Hence, the actual capex of GESCOM would be Rs.437.77 Crores instead of Rs.486.61 Crores.** In any case, the Commission notes that the outlay has been exceed as compared to the approved amount.

- v. In the case of Providing **ABC, UG Cables & RMUs**, the GESCOM has achieved Rs.18.53 Crores against the proposed capex of Rs.605 Crores. The GESCOM in its replies to the observations has stated that, the tender was called for conversion of overhead 11kV lines by underground cable and was dropped since it was highly capital intensive. But, GESCOM has not furnished the details of the cost incurred.
- vi. In the case of Prevention of **electrical accident & safety**, the capex incurred is shown as Rs.20.42 Crores against the approved capex of Rs.5 Crores. The GESCOM in its replies to the observations made by the Commission has furnished the details of capex incurred on different types of works carried out in which periodical and preventive maintenance works shown at a cost of Rs.2.48 Crores should be accounted in Revenue account which will be covered by the O&M costs. The GESCOM has furnished the hazardous locations identified and the rectification carried out as shown below:

TABLE-4.18

Details of Hazardous Installations Rectified during FY17

Sl. no	Division	No. of Hazardous installations yet to be rectified at the end of March-16	No. of Hazardous installations (both HT& LT)identified during FY-17	No. of Hazardous installations Rectified during FY-17	No. of Hazardous installations yet to be rectified
1	2	3	4	5	6
1	Gulbarga Urban	8	0	7	1
2	Gulbarga Div-1	13	9	20	2
3	Gulbarga Div-2	108	9	105	12

4	Sedam	4	9	5	8
5	Yadgir	8	11	7	12
6	Bidar	34	21	45	10
7	Humnabad	42	1	36	7
8	Koppal	2	60	56	6
9	Gangavathi	19	0	1	18
10	Urban Raichur	8	37	18	27
11	Raichur Rural	18	37	35	20
12	Sindhnoor	28	108	125	11
13	Urban Hospet	50	51	60	41
14	HospetRual	344	197	512	29
15	Ballari Urban	0	32	8	24
16	Ballari Rural	79	9	75	13
Total		765	591	1115	241

vii. Further, the GESCOM was directed to furnish the details of the works funded through grants/loans from the GoI, GoK and financial institutions, along with the details of amounts sanctioned, utilized and the balance yet to utilized. The GESCOM in its replies to the observations made by the Commission has stated that:

- In case of RAPDRP Part-A, the 100% loan is by PFC and the entire Loan will be converted into grant on achievements of milestones,
- In case of RAPDRP Part-B, the 25% loan by PFC will be converted into grant on achievements of milestones,
- In case of RAPDRP Part-B, the 50% loan will be converted into grant on achievements of milestones,
- In case of DDUGJY and IPDS schemes 60% grant by REC.

The Commission after taking note of the clarifications/ replies, decides to consider the capital expenditure of Rs.437.77 Crores for FY17, subject to disallowance if any, as per the result of the Prudence check to be conducted for FY17 during the APR of FY18.

A. Post Commissioning analysis of the capital expenditure of categorised works for FY17 by GESCOM:

The Commission has directed the KPTCL & ESCOMs to conduct the Post analysis of the works which have been completed and categorized during FY17 and submit the report. The Commission also, has specified the methodology and formats for conducting the post commissioning analysis of the works.

The Commission decides to take up the Prudence Check of the works of FY17 along with works of FY18 through a third party by selecting the random sample of the works in different categories for deciding any disallowance.

4.2.8 Interest and Finance Charges:

a) Interest on Capital loan:

GESCOM's Submission:

The GESCOM in its application has claimed an amount of Rs.89.71Crores towards interest on capital loans drawn from Banks/Financial Institutions for FY17 and requested the Commission to approve the same, considering the opening balance of loans, new borrowings, repayment and the closing balance of capital loan amount, the weighted average rate of interest on the interest on capital loan claimed by GESCOM works out to 10.88%.

Commission's analysis and decisions:

The Commission has noted the opening and closing balances of capital loans as per the audited accounts for FY17 and the data in format D9 of the filings and the additional information furnished by GESCOM to the Commission. The loan details and the interest amount indicated under D9

format by GESCOM is totally not tallied to the audited accounts figures. The GESCOM in its filing under format D9 has mixed the both long term capital loans and short term loans availed for working capital amount and the interest thereon. The GESCOM in its replies to the preliminary observations has furnished the bifurcated figures for the capital loans and interest amount towards long term and short term loans as per the audited accounts as shown below:

TABLE – 4.19

Allowable Interest on Loans – FY17

Particulars	Rs. Crores
	FY17
Opening balance of capital loans	764.81
Add: New Loans	198.66
Less: Repayments	80.86
Total loan at the end of the year	882.61
Average Loan	823.71
Allowable Interest on Capital Loans	93.19

As per the audited accounts of the GESCOM for FY17, the actual interest on both capital and short term loans is Rs.104.23 Crores. The interest on capital loan is Rs.93.19 Crores and interest on short term loan /overdraft is Rs.11.04 Crores. Considering the average loan of Rs.823.71 Crores and an amount of Rs.93.19 Crores incurred towards interest on capital loans, the weighted average of interest works out to 11.31%. Considering the rate of interest at which the capital loan borrowed by GESCOM as indicated in the loan details furnished under D-9 Format and the additional information submitted, the actual weighted average rate of interest is comparable with the prevailing rate of interest for long term capital loans.

Thus, the Commission decides to allow an amount of Rs.93.19 Crores towards interest on capital loans for FY17.

b) Interest on Working Capital:

GESCOM's Submission:

The GESCOM in its application has claimed an amount of Rs.14.52 Crores as interest on short term loans and cash credits from Banks for FY17 from the commercial Banks and financial institutions and sought approval of the Commission for the same.

Commission's analysis and decisions:

As per the audited accounts and replies to the preliminary observations of the Commission, the GESCOM has incurred an interest of Rs.11.04 Crores on short

term loans and cash credit to meet its working capital requirement for FY17. The Commission notes that the GESCOM has claimed the interest on working capital on the basis of provisional accounts for FY17.

The Commission in its Tariff Order dated 30th March, 2016 while approving the ARR for the control period for FY17 to FY19, has computed the working capital interest at 11.75 %. The Commission notes the rate of interest at which the short term loans and the cash credit availed by GESCOM during the FY17 is on the higher side when compared to the interest rate at which the other ESCOMs had availed the working capital. The Commission notes the GESCOM has not taken advantage of the reduction in the rate of interest in the Banking sector, by availing loans towards its working capital requirement.

Thus, the Commission decides to allow working capital loans at a normative interest rate of 11.75% for FY17.

As per the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail sale of electricity) Regulations, 2006 and amendments thereon, the Commission has computed the allowable interest on working capital for FY17 as follows:

TABLE – 4.20

Allowable Interest on Working Capital for FY17

Particulars	Rs. Crores
	FY 17
One-twelfth of the amount of O&M Exp.	38.20
Opening GFA as per Audited Accts	3053.29
Stores, materials and supplies 1% of Opening balance of GFA	30.53
One-sixth of the Revenue	629.05
Total Working Capital	697.79
Rate of Interest (% p.a.)	11.75%
Interest on Working Capital	81.99
Actual interest on WC	11.04
Allowable In on WC	46.52

The Commission, therefore, decides to allow an amount of Rs.46.52 Crores towards interest on working capital for FY17 with the direction that, GESCOM should put in efforts in future to avail the working capital at a reasonable rate of interest and to reduce the interest burden on the consumers.

c) Interest on Consumers' Security Deposits:**GESCOM's Submission:**

The GESCOM in its application as per provisional accounts has claimed an amount of Rs.34.03 Crores towards payment of interest on consumers' security deposits for FY17 and sought approval of the Commission for the same.

Commission's analysis and decisions:

The Commission notes the opening and closing balance of consumer security deposit as per audited accounts for FY17. The actual interest on the consumer deposit as per the audited accounts submitted by the GESCOM is Rs.32.98 Crores for FY17. Based on the average amount of consumer security deposits, the actual interest on consumer security deposits amounting to Rs.32.98 Crores as per its audited accounts works out to the weighted average rate of interest of 7.48%. As per the KERC (Interest on Security Deposit) Regulations, 2005, the interest on consumers' security deposits is to be allowed as per the Bank Rate prevailing on the 1st of April of the relevant year. The bank rate as on 1st April, 2016 was 7.75%. The weighted average rate of interest claimed by the GESCOM as per the audited accounts is well within the applicable bank rate.

Hence, the Commission decides to allow an amount of Rs.32.98 Crores towards interest on consumers' security deposits for FY17.

d) Other Interest and Finance charges:

The GESCOM, as per the audited accounts has claimed an amount of Rs.1.11 Crores towards other interest and finance charges paid to raise the loans from banks / financial institutions for FY17. The Commission decides to allow the same for FY17.

e) Interest on belated payment of Power Purchase Cost:

The Commission notes that, as per the audited accounts, the GESCOM has incurred an amount of Rs.210.92 Crores towards interest on belated payment of Power Purchase dues for FY17. The Commission has been consistently allowing the interest on working capital as per the norms under MYT Regulations to meet the day to day expenses of the ESCOMs.

Therefore, there is no justification for the delay in arranging payment of the power purchase bills and incurring the interest on power purchase dues. **The Commission directs the GESCOM to settle the power purchase bills by availing the working capital loan and avoid payment of interest thereon.** Hence, the Commission decides not to allow any interest on power purchase dues in the APR for FY17.

The total allowable interest and finance charges for FY17 are as follows:

TABLE – 4.21
Allowable Interest and Finance Charges

Sl. No.	Particulars	Rs. Crores
		FY17
1.	Interest on Loan capital	93.19
2.	Interest on working capital	46.52
3.	Interest on consumers' security deposits	32.98
4.	Interest on Power Purchase dues	0.00
5.	Other interest and finance charges	1.11
	Total interest and finance charges	173.79

4.2.9 Other Debits:

GESCOM's Submission:

The GESCOM, in its application has claimed an amount of Rs.88.91 Crores towards Other debits for FY17.

Commission's analysis and decisions:

The Commission notes from the items of expenditure accounted under other debits for FY17 that the other debits also include the provision for Bad and Doubtful Debts of Rs.78.34 Crores as per the audited account of GESCOM for FY17. As per the provisions of MYT Regulations, the allowable Other debits excluding the provision for bad and doubtful debts for FY17 are as detailed below:

TABLE – 4.22
Allowable Other Debits

Sl. No	Particulars	Rs. Crores
		FY17
1	Compensation for death, injuries and damages	1.73
3	Assets decommissioning cost	1.53
4	Miscellaneous losses and write offs	3.84
	Total	7.10

Thus, the Commission decides to consider an amount of Rs.7.10 Crores as other debits for FY17.

4.2.10 Net Prior Period Charges:

GESCOM's Submission:

GESCOM in its filings has claimed net Prior Period charges (debit) of Rs.57.79 Crores for FY17.

Commission's analysis and decisions:

As per the Audited Accounts for FY17, the prior period expenses (debit) are shown as Rs.75.97 Crores on account of employee costs, under-provision of depreciation, power purchase expenses and expenses in the previous years. Further the prior period income (credit) of Rs.18.17 Crores is on account of income relating to prior period excess provision for depreciation and other prior period excess provisions. By excluding this amount, **the Commission decides to allow a net prior period charges (debit) of Rs.57.80 Crores for FY17.**

4.2.11 Return on Equity:

GESCOM's Submission:

The GESCOM in its filings has not claimed any Return on Equity on the pretext that, the **opening** balance of equity as per the audited accounts depicts a negative net worth for FY17.

Commission's analysis and decisions:**a. Status of Debt & Equity to GFA:**

The closing balances of gross fixed assets along with break-up of equity and loan **component** and the details of GFA, debt and equity (net-worth) for FY17 as per the actual data as per the audited accounts are indicated as follows:

TABLE – 4.23**Status of Debt Equity Ratio for FY17**

	Rs. Crores						
	GFA (Actuals)	Debt (Actuals)	Equity (Net- worth) (Actuals)	Normative Debt @ 70% of GFA	Normative Equity @ 30% of GFA	%age of actual debt on GFA	%age of actual equity on GFA
Opening Balance	3053.29	764.81	202.04	2137.30	915.99	25.05	6.62
Closing Balance	3584.91	882.61	83.78	2509.44	1075.47	24.62	2.34

From the above table it is evident that the amounts of debt equity are within the normative debt equity amounts in of 70:30 ratio on the opening and closing balances of GFA for FY17.

b. Allowable RoE:

As per the provisions of the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail sale of electricity) Regulations, 2006 and amendments thereto, the allowable Return on Equity at 15.5% has to be computed on the share capital, share deposit, accumulated balance of profit/loss as per the audited accounts at the beginning of the year and also factoring the recapitalization of consumers' security deposit amount in compliance with the Orders of the Hon'ble ATE in appeal No.46/2014. The allowable RoE for FY17 accordingly is considered. The total net worth at the beginning of FY17 is Rs.202.04 Crores and hence, the allowable RoE is determined as detailed below:

TABLE – 4.24**Allowable Return on Equity**

Particulars	Rs. Crores
	FY17
Opening balance of Paid Up Share Capital	305.14
Opening balance of Share deposit	471.00
Opening balance of Accumulated losses	(552.10)
Recapitalization of Consumers' security deposit	(22.00)
Total Equity	202.04
Allowable RoE @ 15.50%	31.32

Further, as reported by the GESCOM an additional equity of Rs.193.95 Crores has been received during the year at different dates from Government of Karnataka. Considering the actual date of receipt of this additional equity as reported and as per the provisions of the MYT Regulations, the Commission has determined the allowable return on additional equity as detailed below:

TABLE-4.25**Return on equity for the additional equity received during FY17**

RoE allowed	Amount in Rs. Crores	Received on	No. of Months	RoE allowed
EN 27 PSR 2016 dated 31.05.2016	30.00	10.06.2016	9	3.49
EN 10 PSR 2016 dated 27.06.2016	8.07	12.07.2016	8	0.83
EN 27 PSR 2016 dated 31.08.2016	20.00	24.09.2016	6	1.55
EN 23 PSR 2016 dated 01.09.2016	41.26	22.09.2016	6	3.20
EN 10 PSR 2016 dated 17.09.2016	8.07	06.10.2016	5	0.52
EN 27 PSR 2016 dated 07.12.2016	20.00	17.12.2016	3	0.78
EN 23 PSR 2016 dated 24.12.2016	13.55	13.01.2017	2	0.35
EN 10 PSR 2016 dated 24.12.2016	8.07	10.01.2017	2	0.21
EN 10 PSR 2016 dated 31.01.2017	8.09	23.02.2017	1	0.10
EN 23 PSR 2016 dated 03.02.2017	11.84	23.02.2017	1	0.15
EN 27 PSR 2016 dated 09.02.2017	25.00	23.02.2017	1	0.32
TOTAL	193.95			11.50

Thus, the GESCOM is entitled to Return on Equity of Rs.42.82 Crores for FY17.

4.2.12 Income Tax:

GESCOM, in its application has not factored any Income Tax liability for FY17. However, the Commission notes that, the GESCOM has factored

Rs.0.002 Crores as income tax for FY17. The Commission decides to allow the same for FY17.

4.2.13 Other Income:

GESCOM's Submission:

The GESCOM in its application has claimed an amount of Rs.87.61 Crores as Other Income for FY17.

Commission's analysis and decisions:

As per the audited accounts of GESCOM, Rs.85.19 Crores has been factored as other income for FY17. This includes income from interest earned, income from sale of scrap, income from rent, rebate for collection of electricity duty, also an amount of Rs.24.18 Crores pertaining to incentive received for early payment of power purchase bills is considered as other income. Further, as decided in the earlier Tariff Orders, to encourage and bring in financial discipline by ensuring timely payment of monthly power purchase bills, the Commission continues to allow 10% of the total incentive amounting to Rs.2.42 Crores towards early payment of power purchase bills, to be retained by GESCOM for FY17.

Thus, the Commission decides to allow an amount of Rs.85.60 Crores as other income for FY17.

4.2.14 Fund towards Consumer Relations / Consumer Education:

The Commission has been allowing an amount of Rs.0.50 Crore per year towards consumer relations / consumer education. Though the GESCOM has not claimed any amount on the Consumer Relations/Consumer Education in its filing, but it has indicated an amount of Rs.0.27 Crore as expenditure for FY17 in format D7. The Commission as per the audited accounts notes that, an amount of Rs.0.27 Crores has been incurred towards Consumer Relations/Consumer Education for FY17.

Thus, the Commission decides to approve Rs.0.27 Crores towards Consumer Relations / Consumer Education for FY17.

4.2.15 Revenue for FY17:

The GESCOM, in its application has considered Rs.3773.28 Crores as revenue from sale of power from consumers and miscellaneous charges from consumers and Regulatory income. This revenue includes the notional income on accounts of Regulatory Assets of Rs.353.77 Crores which is not a revenue amount to be considered in real terms. As per the audited accounts for FY17, as submitted by the GESCOM, the revenue from sale of power is Rs.3774.32 Crores. Accordingly, the Commission decides to consider Rs.3774.32 Crores as revenue from sale of power and miscellaneous charges from consumers in the approval of revised ARR as per APR of GESCOM for FY17.

4.2.16 Subsidy for FY17:

The Commission in its tariff order dated 30th March, 2016 has approved tariff subsidy of Rs.1731.79 Crores towards sale of power to BJ/KJ and IP sets for FY17 in accordance with the prevailing Government Order. The Commission notes that, as per the audited accounts and the replies to the preliminary observations of the Commission, the tariff subsidy towards sale of power to BJ/KJ and IP Sets is Rs.1641.21 Crores for FY17. Thus the Commission while computing the revised ARR as per the APR for FY17 has approved the revised tariff subsidy of Rs.1641.21 Crores towards sale of power to BJ/KJ and IP sets for FY17 (a reduction of Rs. 90.58 Crores).

Thus, the tariff subsidy payable by the GoK to GESCOM is Rs.1641.21 Crores only for FY17.

4.3 Abstract of Approved ARR for FY17:

As per the above item-wise decisions of the Commission, the consolidated Statement of revised ARR for FY17 is as follows:

TABLE – 4.26
Approved revised ARR for FY17 as per APR

Sl. No	Particulars	Rs. Crores		
		As Appd 30.03.2016	As filed 30.11.2017	As per APR
1	Energy at Gen Bus	8608.65	8046.46	8046.46
2	Transmission Losses in %	3.47%	4.42%	4.42%
3	Energy at Interface in MU	8309.93	7691.05	7691.05
4	Distribution Losses in %	17.00%	17.33%	17.33%
	Sales in MU			
5	Sales to other than IP & BJ/KJ installation	3471.76	3127.51	3136.90
6	Sales to BJ/KJ installation	118.60	108.14	98.75
7	Sales to IP	3306.88	3122.71	3122.71
8	Total Sales	6897.24	6358.36	6358.36
	Revenue at existing tariff in Rs Crores			
9	Revenue from tariff and Miscellaneous Charges	2246.77	2132.07	2133.11
10	Tariff Subsidy for BJ/KJ installation	68.43	65.28	65.28
11	Tariff Subsidy for IP	1663.36	1575.93	1575.93
	Total Existing Revenue	3978.56	3773.28	3773.32
	Expenditure in Rs Crores			
12	Power Purchase Cost	2692.24	2858.68	3056.98
13	Transmission charges of KPTCL	402.84	589.85	402.84
14	SLDC Charges	2.65	2.67	2.67
	Power Purchase Cost including cost of transmission	3097.73	3451.20	3462.49
15	Employee Cost		335.16	
16	Repairs & Maintenance		33.37	
17	Admin & General Expenses		80.01	
	Total O&M Expenses	440.47	448.54	458.43
18	Depreciation	125.00	120.14	122.28
	Interest & Finance charges			
19	Interest on Loans	115.59	89.71	93.19
20	Interest on Working capital	81.00	14.52	46.52
21	Interest on belated payment on PP Cost	0.00	210.92	0.00
22	Interest on consumer deposits	35.29	34.03	32.98
23	Other Interest & Finance charges	0	1.11	1.11
24	Less interest capitalized	7.87	0.00	0.00
	Total Interest & Finance charges	224.01	350.29	173.80
25	Other Debits	0.00	88.91	7.10
26	Net Prior Period Debit/Credit	0.00	57.79	57.80
27	Return on Equity	53.33	0.00	42.82
28	Provision for taxation	0.00	0.00	0.002
29	Funds towards Consumer Relations/Consumer Education	0.50	0.00	0.27
30	Other Income	46.00	87.61	85.19
	ARR	3895.04	4429.26	4239.38
31	Surplus of FY16 carry forward	69.43	0.00	0.00
32	Regulatory Asset carry forward/carrying cost to FY17	152.94	0.00	0.00
	Net ARR For FY17	3978.56	4429.26	4239.38

4.3.1 Gap in Revenue for FY17:

As against an approved ARR of Rs.3895.04 Crores, the Commission, after the Annual Performance Review of GESCOM, decides to allow a revised ARR of Rs.4239.38 Crores for FY17. Considering the revenue of Rs.3774.32 Crores, the deficit in revenue of Rs.465.06 Crores is determined for the year FY17.

The Commission decides to carry forward the deficit of Rs.465.06 Crores of FY17 to the proposed ARR for FY19 as discussed in the subsequent Chapter of this Order.