CHAPTER - 3

ANNUAL REVENUE REQUIREMENT FOR FY21

3.0 Annual Revenue Requirement for FY21:

The Hukeri Rural Electric Co-operative Society (HRECS), in its application dated 27th November, 2019, has sought approval of revised ARR and retail supply tariff for FY21. The summary of the proposed revised ARR for FY21 is as follows:

TABLE – 3.1

Revised ARR for FY21-HRECS's Submission

Amount in Rs. Lakhs

Particulars	As per filing for FY21
Power Purchase in MU (Including AEQUS SEZ)	
Energy @ IF Point including AEQUS SEZ in MU	381.94
Sales to other than IP & BJ/KJ in MU including AEQUS sales	107.08
Sales to BJ/KJ installations consuming less than or equal to 40 units/month in MU	3.83
Sales to IP in MU	213.89
Total Sales	324.80
Distribution Loss in % (excluding AEQUS sales)	14.96%
Revenue from Sale of power and Miscellaneous charges:	
Revenue from Sale to other than IP & BJ/KJ	7467.81
Revenue from Sale to BJ/KJ	233.09
Revenue from Sale to IP	12833.58
Total Revenue	**20534.48**
Expenditure:	
Power Purchase Cost	20817.43
Employee Expenses	1058.15
R&M Expenses	391.21
A&G Expenses	147.19
Total O&M Expenses	**1596.55**
Depreciation	258.70
Interest & Financing Charges:	
Interest on Loan Capital	188.49
Interest on Working Capital	410.85
Interest on Consumer Deposit	104.75
Less: Expenses Capitalized	-77.35
Other Debits/Extraordinary Items	0.00
Net Prior Period Credit	0.00
RoE	164.64
Taxes	37.09
Other Income	-463.57
ARR	**23037.58**
Deficit for FY21	-2503.10

The HRECS has requested the Commission to approve the Annual Revenue Requirement of Rs.230.3758 Crores for FY21. HRECS has not considered the carry forward of the proposed gap in revenue of Rs.33.35 Crores as per APR for FY19. Considering the revenue realization of Rs.205.3448 Crores at the existing tariff, the overall gap in revenue for FY21 is projected at Rs.25.031 Crores. HRECS submitted that the average cost of supply for FY21 is Rs.8.12 per unit (including a deficit of Rs.33.3489 Crores of FY19). The HERCS has claimed increase in retail supply tariff by Rs.1.80 paise per unit, for all the category of consumers, including IP set consumers.

3.1 Annual Performance Review for FY19 & FY20:

As discussed in the preceding Chapter of this Order, the Commission, as per the provision of the MYT Regulations, has carried out the Annual Performance Review for FY19 based on the audited accounts furnished by the HRECS. Pursuant to the same, revenue surplus of Rs.2.9546 Crores shall have to be carried forward to the revised ARR of FY21.

Since the Financial year 2020 is not yet complete and the audited financial statements for the year FY20 are yet to be finalized and furnished by the HRECS, the Commission decides to take up the APR of FY20 during revision of ARR / Tariff for FY22.

3.1.1. Capital expenditure of HRECS for FY21:

HRECS Proposal:

The HRECS, in its Tariff application, has proposed capex of Rs.26.28 Crores and Rs.6.35 Crores for FY20 and FY21 respectively as below:

TABLE - 3.2

Capex Proposal of HRECS

Amount in Rs. Crores

Sl. No	Particulars of Work	FY20	FY21
1	**H.T Lines**		
	a) 11 KV Lines	1.04	1.28
2	**L.T Lines**		
	a) 3 Phase 5 Wire	-	-

	b) 3 Phase 4 Wire	0.33	0.40
	c) 1 Phase 3 Wire	0.34	0.41
	d) 1 Phase 2 Wire	0.38	0.42
3	**Transformer Centres**		
	a) 500 KVA Transform Centre	-	-
	b) 250 KVA Transform Centre	-	-
	c) 200 KVA Transformer	-	-
	d) 150 KVA Transform Center	-	-
	e) 100 KVA Transform Center	0.25	0.34
	f) 63/50 KVA Transform Center	0.56	0.69
	g) 25 KVA Transform Center	0.21	0.26
	h) Others (10 & 15 KVA)	-	-
4	**Service connection**		
	a) Agriculture -HT	-	-
	b) Industrial -HT & others	-	-
	c) Agriculture -LT	0.44	0.47
	d) Industrial -LT	0.06	0.06
	e) Domestic	0.34	0.35
	f) Commercial	0.03	0.03
	g) Street Light Brackets	-	-
	h) Water Supply	-	-
	Sub-Total	**3.99**	**4.71**
5	**Improvement Works**		
	a) 11 KV Line	0.59	0.75
	b) 100 KVA Transform Center	0.38	0.42
	c) LT Line 3 Ph.4 Wire	0.40	0.47
	Sub-Total	**1.37**	**1.64**
5	**DDUGJY Scheme**		
	a) 11 KV Line Feeder Separation	-	-
	b) 11 KV Line System Strengthening	-	-
	c) 11 KV Line Re-Conductoring	-	-
	d) No of 1-ph Meter (5-30 A) replacement Electro Mechanical Energy Meter by Electro Static Energy Meter	-	-
	e) No of 3-ph Meter (5-30 A) replacement Electro Mechanical Energy Meter by Electro Static Energy Meter	-	-
6	**SAUBHAGYA Scheme**		
	a) Electrification of Households Service Connections to HHS	3.61	0.00
	b) New 11KV Line for DTC	0.17	0.00
	c) LT 1Phase 3 Wire	6.97	0.00
	d) LT 3 Phase 4 Wire	0.14	0.00
	e) New Transformer Center 25KVA	0.39	0.00
	f) Fixing of Sing Board under Soubhagya Scheme	0.24	0.00
	Sub-Total	**11.54**	**0.00**

7	**FLOOD Relief work**		
	11KV Line.	1.27	0.00
	Transformer Centres	6.02	0.00
	LT Line	1.07	0.00
	METERING CUBICAL	0.42	0.00
	ENERGY METERS	0.32	0.00
	D B TOWERS	0.28	0.00
	Sub-Total	**9.38**	**0.00**
	Grand Total	**26.28**	**6.35**

HRECS has submitted that, Interest on the loan for the proposed Capex requirement has been factored in the ARR. The loan component in the capex investment programme is claimed on the basis of actual requirement of loan to be drawn for other category of works not covered by capital grant and consumer's contribution for the year FY20 and FY21. In case of DDUGJY (Deena Dayal Upadhyaya Gram Jyoti Yojane), considering 40% of cost of the estimates, to be funded, the remaining amount has to come as grants from Govt. of India. The details of loans and interest rate are brought out in Format D-9. Thus, the Capital works programme has been proposed taking into consideration the support from the Govt. of India to carry out DDUGJY and other works which mainly enhance the functioning of distribution network and improve the quality of service to consumer. Besides, an amount of Rs.11.53 Crores have been proposed to be allocated to Soubhagya scheme of Government of India for FY20, which is also funded through grants from Government of India and loans from Banks for FY20. HRECS also considered the Flood Relief works cost of Rs.9.38 Crores in the capex programme for FY20. Therefore, HERCS has requested the Commission to approve the capital works programme of Rs.26.28 Crores for FY20 and the capex programmes of Rs.6.35 Crores for FY21, as indicated in the above Table.

Commission's Analysis and decision:

In the preliminary observations, the Commission directed the HRECS to explain the rationale behind submitting the proposal for incurring higher amounts of Capex than the amounts already approved for the next Control Period for FY20 to FY22. The Commission after having reckoned the availability of GoI / GoK grants to the proposed schemes and the availability of consumer contributions, has approved the capital expenditure of Rs.10 Crores and Rs.3.17 crores for FY20 and FY21 respectively in terms of the MYT Regulations and accordingly the HRECS has to limit its capex within the approved amounts as per Tariff Order 2019.

HRECS in its reply has submitted that, HRECS had to formulate revised Capital Works Programme on account of Soubhagya scheme introduced by the Government of India and Deena Dayal Upadhyaya gram Jyothi Yojana Scheme which is also introduced by the Government of India. Further devastating flood in the Hukkeri taluk necessitated flood relief works. The Government of Karnataka have also directed HRECS to take up flood relief work.

As directed by the Commission, in its reply to the preliminary observations of the Commission, the HRECS has submitted the source of funding in respect of following categories of works proposed for FY20 and FY21 as under:

SL. No	Source of Fund (Rs in Lakhs)		FY20 (Rs. In lakhs)	FY21 (Rs. In lakhs)
1	Soubhagya scheme		1154.00	--
	Government of India	614.00		--
	Loan	307.00		--
	Own contribution	233.00		--
2	Flood Relief works		938.43	--
	Government of Karnataka	938.43		--
3	Consumer contribution		398.62	470.62
4	Own source		136.65	164.15
	Total		**2627.70**	**634.77**

Further, the HRECS submitted that, during FY21, it has proposed to undertake the Capital Works Programme to the extent of Rs.6.34 crores, which mainly consists of HT line, LT line, transformer Centre, Service connection and improvement works only. All these works are being taken up strictly in accordance with guidelines issued by Hon'ble Commission.

The Commission notes that, HRECS has filed its application for APR of FY19 and approval of ARR and retail supply tariff for FY21. Hence, the current proceedings do not cover the approvals for FY20 and hence, the question of revised capex for FY20 will not arise. The Government of India, under National Disaster Response Fund has released / releasing fund to the Government of Karnataka to take up relief works in the flood affected areas. The same available fund shall be utilized by HRECS to meet the capital budget incurred/to be incurred for restoration of power supply and reconstruction of distribution network in the flood affected areas. Hence, the capex for FY20 may be incurred within the already approved amount by the Commission by making suitable appropriation/ re-appropriation. The flood relief works may be taken up duly obtaining the relief grants from the Government. Further, HRECS is hereby informed that for any capex incurred without the approval of the Commission, the cost on such capex will not be considered while approving the revised ARR and retail supply tariff for FY21.

On the observation on indicating the capital expenditure of Rs.24.54 Crores and Rs.6.35 Crores for FY20 and FY21 in D-17 Format, HRECS has submitted that the difference in D-17 Format may kindly be ignored and confirmed the Capex proposal for FY20 as Rs.26.28 Crores.

The HRECS's previous years' achievement of capex is shown in the following table:

						Rs in Crores
Particulars	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Capital investment filed	6.56	5.94	7.35	3.47	9.90	11.13
Capital investment approved by the Commission	6.56	5.94	5.57	3.47	9.90	11.13
Actual capital investment incurred as per audited accounts*	4.47	13.54	15.40	4.91	6.93	6.42
Percentage achievement	**68.12%**	**227.79%**	**276.47%**	**141.79%**	**70.06%**	**57.68%**
***without considering capital investment disallowed under prudence check**						

The Commission, based on the previous years' achievements and the break up to the capex proposal submitted by the HRECS along with the source of funding details, recognizes the capex of Rs.4.00 Crores for determination of Tariff for FY21.

The Commission directs HRECS to maintain the physical progress as well as financial progress in respect of the works carried out under Capex indicating timelines of completion, cost to benefit ratio, etc. These details shall be furnished to the Commission as and when Commission directs.

The Commission directs HRECS to take concrete measures to complete and capitalize the works in the prescribed time schedule, so that, its benefits are being passed on to the consumers effectively and capitalize the works proposed as far as possible during each financial year.

The Commission directs the HRECS to put sincere efforts towards achieving the following objectives of the proposed schemes under capex on due priority:

1. Reducing distribution losses,
2. Reducing the HT:LT Ratio
3. Reduce Transformer failures
4. Segregate the loads in the feeders.
5. Reduce Power theft and
6. Bring programs for the awareness among the people on usage and conservation of energy.
7. Improve the sales to metered category.
8. Improve the Power factor of the IP set loads by installing switched capacitors of suitable capacity to the secondary of the transformers.

3.1.2. Sales Forecast:

A. Sales- other than IP sets:

1. Methodology adopted by HRECS for sales estimates:

HRECS in its filing submitted that the sales estimates for FY20 are based on the actual sales data for the period from April' 19 to September' 19 and the estimates for the period from October' 19 to March' 20 are made on the basis of CAGR of later six months of FY15 to FY19. Further, HRECS has stated that for FY21, the number of installations and energy sales is worked out considering the CAGR for the period FY16 to FY20. In order to arrive at the estimated energy sale for FY21, HRECS has made assumption that power supply to the consumers in for FY21 would be as follows:

a) 24 hours supply will be available to urban consumers;

b) 7 hours 3 phase and 6 hours single phase supply will be arranged to consumers in rural areas, however hours of power supply changes in the course of the year depending upon the availability of power and instructions of SLDC/GoK norms.

c) Energy sale is closely linked with number of live installations in each category. HRECS has considered consumption pattern for a period of previous 5 years and growth as per CAGR of each category has been arrived except IP sets 10 HP and below and BJ/KJ.

2. The Commission's Preliminary observations, replies furnished by HRECS and the Commission's view thereon are discussed below:

a) HRECs had estimated the sales for second half of FY20, by applying CAGR, which is not correct, since the CAGR is based on the annual growth. HRECs should have computed the same considering the growth rate during the second half of the year of FY19 over FY18 or should have computed the same on pro-rata basis.

HRECS in its reply has submitted that in view of the Commission observation that it is not correct to make six months' estimate assessment in the previous year to the filing year. To address this observation, the Applicant HRECS has taken CAGR of later six months of FY15 to FY19. However, the Applicant HRECS submits that any decision taken in this regard by the Hon'ble Commission will be abided by the Applicant.

The Commission notes that HRECS has not replied satisfactorily.

b) HRECS, while computing the CAGR has included the year FY20 data also, which in itself is an estimated figure. Therefore, HRECS should have considered the actual data available upto FY19 for estimating the CAGR to arrive at the actual growth rates. In spite of the above observations having been made by the Commission in its earlier Tariff proceedings, HRECs is repeating the same irregularity year after year.

Henceforth, HRECS while, computing CAGR shall not include the current year data (i.e. FY20 data), which is an estimated figure.

HRECS has submitted that it has taken six months of the available data in the FY19 and has estimated for the remaining period on the basis of CAGR of later six months of FY15 to FY19.

The Commission reiterates its direction that HRECS while, computing CAGR shall not include the current year data.

c) The Commission noted that the installation growth rate considered for LT-2a, LT-3, LT 5 & HT-1 is lower and for LT-6 SL is higher compared to the normal growth rates based on CAGR. HRECS was directed to reconsider revising the estimates to these categories.

HRECS submitted that growth rate proposed by the HRECS is based on CAGR and has requested the Commission to approve the growth rate as proposed. HRECS also submitted that considering only one-year growth rate may not be correct.

d) The Commission noted that growth rates considered for LT-6 SL is lower and in case of LT-2b, HT-2a and HT-2c it is higher as compared with the CAGR. HRECS was directed to reconsider revising the estimates to these categories.

HRECS submitted that since growth rate proposed by the HRECS is based on CAGR and has requested the Commission to approve the growth rate as proposed by the HRECS.

e) The Commission had noted that HRECS had considered the sales to AEQUS different from what has been proposed by AEQUS and therefore was directed to reconcile the data.

HRECS has stated that all the ESCOMs, the consumption of previous month is billed in the subsequent month, whereas, AEQUS is accounting the consumption of the particular month in the same month. Further, it is stated that HRECS is reconciling the consumption data annually.

The Commission has noted the reply furnished by HRECS and has considered the sales to AEQUS SEZ as approved in the AEQUS SEZ Order.

3. The Commission has noted the replies furnished and the Commission's approach for estimating the number of installations and sales for the FY21 for categories excluding BJ/KJ and IP sets is discussed below:

1) No. of Installations:

While estimating the number of installations (Excluding BJ/KJ and IP), the following approach is adopted:

a. The base year number of installations for FY20 is retained as proposed by HRECS.

b. Wherever the number of installations estimated by the HRECS for the FY21 is within the range of the estimates based on the CAGR for the period FY14 – FY19 and for the period FY16 - FY19, the estimates of the HRECS are retained.

c. Wherever the number of installations estimated by the HRECS for the FY21 is lower than the estimates based on the CAGR for the period FY14 – FY19 and for the period FY16 - FY19, the estimates based on the lower of the CAGRs for the period FY14 – FY19 and for the period FY16 - FY19 are considered.

d. Wherever the number of installations estimated by HRECS for the FY 21 is higher than the estimates based on the CAGRs for the period FY14 – FY19 and for the period FY16 - FY19, and for the period FY15 - FY18, the estimates based on the higher of the CAGRs for the period FY14 – FY19 and for the period FY16 - FY19 are considered.

e. For LT-4b, LT-4c and LT-7 categories, the estimates of HRECS are retained as the growth rate is inconsistent.

Based on the above approach, the total number of installations (Excluding BJ/KJ consuming less than or equal to 40 units /month and IP) estimated by the Commission for the for FY21 is 88458 installations.

2) Sales:

For categories other than BJ/KJ and IP sets, generally the sales are estimated considering the following approach:

a. The base year sales for FY20, as estimated by HRECS, are validated duly considering the actual sales up to November, 2019 and modified suitably.

b. Wherever the sales estimated by HRECS for the FY21 is within the range of the estimates based on the CAGR for the period FY14 – FY19 and for the period FY16 - FY19, the estimates of HRECS are retained.

c. Wherever the sales estimated by HRECS for the FY21 is lower than the estimates based on the CAGRs for the period FY14 – FY19 and for the period FY16 - FY19, the estimate based on the lower of the CAGRs are considered.

d. Wherever sales estimated by HRECS for the FY21 is higher than the estimates based on the CAGRs for the period FY14 – FY19 and for the period FY16 - FY19, the estimate based on the higher of the CAGRs are considered.

e. In respect of LT-4b and 4C, the sales are retained at FY19 level, as there are no additions to the number of installations during FY21

f. In respect of LT6 water supply, the estimate is based on specific consumption of FY19.

g. In respect of LT-7 the sales estimate of HRECS is retained due to inconsistency in growth rates.

h. HT2a sales retained at FY20 level as the CAGR and previous year growth is negative.

i. HT2b and HT2c, the sales retained at FY19 level, as there are no additions to the number of installations.

Based on the above approach, the estimated sales (Excluding BJ/KJ consuming less than or equal to 40 units /month and IP sets) estimated by the Commission for the for FY21 is 77.406 MU.

4) Sales to BJ/KJ and IP Sets:

i) Sales to BJ/ KJ:

The break-up of sales to BJ/KJ installations as filed by HRECS for FY19 is as indicated in the following Table:

Particulars	No. of Installations	Consumption in Lakh units	Specific consumption per installation per month (kWh)
Installations consuming less than or equal to 40 units	12100	38.49	26.51
Installations consuming more than 40 units and billed under LT2(a)	354	3.37	79.43

Considering the above specific consumption and considering the number of installations as proposed by HRECS, the sales approved for FY21 for BJ/KJ is as indicated below:

in MU

Particulars	FY21
Installations consuming less than or equal to 40 units	**3.829**
Installations consuming more than 40 units and billed under LT2(a)	**0.418**

B. Sales to IP sets – projections for ARR FY21;

HRECS Proposal:

HRECS, in its tariff application, has projected IP sets consumption of 213.89 MU against 33,205 number of IP set installations for FY21. HRECS, has reported the actual consumption of 183.49 MU against 28,485 number of IP set installations for FY19. HRECS, has not mentioned any details of the methodology adopted for estimating the number of IP installations for FY20 and FY21, either in the Tariff filing or in its replies to the preliminary observations. Instead, HRECS has considered an addition of 3,430 number of IP installations for FY20 and an addition of 1,290 number of IP installations for FY21.

Commission's Analysis and Decision:

a. While verifying the computations of IP set, it is found that, the actual sales to IP set installations for FY19 works out to 183.4887 MU (as detailed in previous Chapter- Sales portion). Based on the actual sales to IP sets, the Commission has arrived at the specific consumption as 6,573 units per installation per annum for the FY19, by considering the mid-year installations of 27,916 numbers.

b. Considering the data of previous four years, the Commission has found an average addition of 1,200 number of IP installations every year. As per the submissions made by HRECS, it is observed that, HRECS has considered the addition of 3,430 number of IP installations for FY20 and an addition of 1,290 number of IP installations for FY21. As the proposal of HRECS in projecting the number of installations for FY20 is high and is not reasonable, the Commission has considered the increase in number of IP installations every year based on the average increase in number of IP installations in the past four years and the number of installations are projected for FY21. The number of installations for FY20 is 29,685 (28,485 + 1,200) and for FY21 is 30,885 (29,685 + 1,200).

c. The actual sales to IP sets for FY20, till November 2019, as reported by HRECS, in its replies to preliminary observations for tariff filing is 78.25 MU against 28,782 number of IP installations. The consumption during the same period in the previous year i.e., April 2018 to November 2018 was 124.53 MU for 28,100 installations with the specific consumption of 554 units per IP per month. Likewise, the specific consumption for the period April 2017 to November 2017 worked out to be 562, December 2017 to March 2018 is 339 and for the period December 2018 to March 2019 as 527 (approx.) units per IP per month respectively. The Commission decided to consider the optimum value of 527 units per IP per month and hence the actual specific consumption per IP per annum worked out amounts to 6,324 (approx..) units / IP / annum. By considering this specific consumption and the mid-year IP installations based on the projected number of installations, sales to FY20 is estimated. The specific consumption for the revised sales for FY20 is worked out and the same is applied for projecting the sales to IP sets for FY21. The Commission has decided to the consider the data of actual sales to IP sets for FY20, till November 2019 as furnished by HRECS in its replies to preliminary observations, only provisionally for making the estimates for FY21.

d. Based on the estimated number of installations and consumption for FY20 and by considering the revised specific consumption for FY19, the details of energy sales projections to IP set consumers for FY21, are as indicated below;

Particulars	FY21		
	As approved by the Commission in TO 2019	As submitted by HRECS in its Tariff Application	As approved by the Commission (Revised)
No. of Installations	32,100	33,205	30,885
Mid-year number of Installations	31,230	32,560	30,285
Specific consumption in units/installation/annum	7,510	6,569	6,324
Sales in MU	**234.54**	**213.89**	**191.52**

Accordingly, the Commission approves 191.52 MU as energy sales to IP-sets as against the projections of HRECS of 213.89 MU, for the FY21. The number of installations approved for FY21 is 30,885. This approved IP set consumption for FY21 is with the assumption that the Government of Karnataka would release full subsidy to cover the approved quantum of IP-sales. However, if there is any reduction in the subsidy allocation by the GoK, the quantum of sales to IP sets of 10 HP and below, shall be proportionately regulated. The HRECS shall therefore, regulate the number of hours of power supply to exclusive agricultural feeders accordingly.

e. The Commission notes that HRECS has taken up the census (not GPS survey) of IP-sets to identify the defunct / not in use / dried up installations in the field in its jurisdiction and to arrive at the correct number of IP-sets by deducting such defunct / not in use / dried up IP-set installations from its account, on the basis of census results. HRECS has submitted the copy of the IP set census report to the Commission vide letter No HRECS/RE/2018-19/5741 dated 28.03.2019. However, HRECS has not submitted the data of census with clarity giving details of working and defunct / not in use / dried up installations and unauthorized IP installations. From the data of census furnished by HRECS, it is observed that there is a difference in number of installations to that of the number of IP installations in the DCB and accounts. Thus, the Commission observed inconsistency in the GPS survey data furnished by HRECS and hence the Commission is unable to accept the same.

f. In view of fact that the census data of IP-sets as furnished by HRECS is not satisfactory, the number of installations reckoned for FY19 and estimates for FY21 are subject to change based on the census results. Accordingly, after completing census survey, HRECS shall furnish the correct number of IP set installations, duly deducting the number of installations not in use / dried up / defunct IP sets from the total number. Thereafter, any variation in the sales due to change in the number of installations would be trued up during the Annual Performance Review for the FY20/21.

g. While assessing the sales to IP sets for FY19, the Commission had observed that, HRECS, instead of furnishing the data of all the 19 segregated agricultural feeders, it has furnished the readings of only 5 feeders from April 2018 to November 2018 and 10 feeders from December 2018 to March 2019. In its replies to preliminary observations, HRECS has informed that the delay in commissioning the balance 2 feeders is due to delay in commissioning 110 kV / 11 kV Isalmapur Substation, getting forest clearance and the devastating floods in its operational area and submitted that it will charge the balance 2 feeders by December 2019. Hence, the feeder wise, month wise-data of assessment of IP sets for the period from April 2019 to November 2019 furnished by HRECS, in its replies to preliminary observations, has been considered provisionally for the purpose of projecting the sales for FY20 and FY21. The Commission would consider revision of the same, based on the actual census data and the readings of the segregated agriculture feeders as committed by HRECS. **Hence, HRECS is directed to submit the final survey Report within 3 (three) months from the date of this Order. The survey data should be reconciled with the DCB Statement data and thereafter report the total IP-set consumption to the Commission, month-on month regularly, as per the format prescribed in the previous tariff orders of the Commission.**

Hence, the Commission approves 272.76 MU as the sales for FY21, excluding sales to AEQUS.

3.1.3 Distribution Losses for FY21:

HRECs in its filing has proposed to achieve distribution Losses of 14.96% for FY21 considering an energy input of 381.94 MU and sales of 324.803 MU.

The Commission in its preliminary observation, has observed that Hukeri RECS has projected the revised distribution losses of 15.00% and 14.96% for FY20 and FY21 against the Commission's approved distribution losses of 14.00%, for FY20 and 13.75% for FY21. For FY21 a meagre reduction of 0.04% over the revised proposed distribution loss of FY20 is proposed. Thus, the distribution loss level targets proposed by the Hukeri RECS for FY20 and FY21 are not justifiable. Hukeri RECS was directed to have a re-look on the issue and re-assess and submit the revised projected distribution loss targets for FY20 and FY21.

The HRECS, in its replies, has submitted that its area of supply mainly consists of secondary lines resulting in higher distribution loss. HRECS has identified un-authorised IP sets responsible for higher losses and has drafted a plan to regularise it. HRECS has requested the Commission to allow the loss levels as projected by HRECS for FY21.

The Commission notes the reply furnished by HRECS. The Commission is of the opinion that HRECs is operating in a considerably smaller geographical area and it is possible to reduce the losses further downwards. Considering the investments proposed for improvement of its distribution system and also feeder segregation works under NJY scheme, meagre reduction in losses of 0.04% for FY21 over the revised proposed distribution loss of FY 20, as proposed by HRECS is not agreeable. **HRECS is directed to initiate the process of energy accounting and energy auditing at distribution transformer level and at the feeder level for identification of higher loss making pockets and take suitable remedial action to reduce the current level of losses and submit the action plan in this regard within three months from the date of this Order.**

Hence, considering the capex made so far and proposed capex for FY21, the Commission decides to retain the distribution loss level target for FY21 as approved in the MYT Order dated 30th May, 2019, as follows:

TABLE - 3.3

Approved Distribution Losses for FY 21

Figures in % Losses

Particulars	FY21
Upper limit	14.00
Average	**13.75**
Lower limit	13.50

3.1.4 Power Purchase:

Hukeri RECS in its filing has proposed to purchase energy of 381.94 MU at interface point at Rs.208.17 Crores for FY21. The Commission notes that HRECS has included an amount of Rs.16.16 Crores as interest on outstanding power purchase balance. The Commission, as a principle is not allowing interest on power purchase and instead allowing the interest on working capital along with the entire power purchase cost for the relevant year. Hence, the Commission has not reckoned the HRECS claim of Rs.16.1630 Crores towards interest on power purchase for FY21. The Commission has proceeded to determine the power purchase cost as indicated below:

As per the data furnished in Format D-19, the HRECS has indicated the energy at interface points at 110/11kV and 33/11kV for the control period FY21. Since, the supply at 33/11kV is met by distribution system of HESCOM, the HRECS is required to bear the losses of handling the energy received at 33 kV. HESCOM, in its application has projected the distribution losses at 33 kV level at 2.5097% for FY21. The Commission has considered the same percentage on the estimated energy to be received at 33kV level, energy to be allowed at IF points and power purchase to HRECS for FY21 as follows:

TABLE - 3.4

Allowable Energy at IF points and Power Purchase for FY21

Particulars	FY21
Total Energy at IF of HRECS in MU by considering the energy loss at 33kV of HESCOM including energy sales to AEQUS SEZ.	346.5229
Approved Transmission Losses of KPTCL	3.039%
Approved power purchase for HRECS in MU including AEQUS SEZ energy in MU	357.3838

The actual losses at 33kV level are already accounted along with the distribution loss computation of the HESCOM. However, the energy loss estimated at 33kV level of HESCOM is considered to cater to the requirement of the HRECS only for the purpose of payment of power purchase charges.

Based on the weighted average cost of power supply inclusive of transmission charges as approved for the HESCOM for FY21, the Commission decides to allow power purchase cost of HRECS for FY21as follows:

TABLE - 3.5
Approved Power Purchase for FY21

Particulars	FY21
Approved power purchase quantum in MU including AEQUS SEZ	357.3838
Approved rate of power purchase of HESCOM in Rs/Unit	4.8023
Trading margin in Re. per unit	0.05
Approved rate of power purchase from HESCOM in Rs. per unit including trading margin	4.8523
Approved Power Purchase Cost in Rs. Lakhs	**173.42**

Since, the cost of power purchase indicated above is inclusive of transmission charges, the Commission has not allowed transmission charges payable to KPTCL separately. Further, the energy supplied to the Hukeri RECS by the HESCOM is measured and billed at interface points of the Hukeri RECS, the HRECS shall pay the power purchase cost at Rs.5.0044 per unit for the energy purchased at interface points for FY21.

3.1.5 RPO Compliance:

The Commission in its preliminary observation directed HRECS to furnish the action plan for meeting RPO of FY20 and FY21.

HRECS in its replies to the preliminary observation has submitted that HRECS purchases power from HESCOM at the weighted average rate cost of power purchase of HESCOM and therefore, if HESCOM has complied with the RPO obligation, HRECS is deemed to have complied with the RPO obligation. Further, it is submitted that HRECS is exploring the possibility of putting up a solar power plant to meet its RPO obligation.

The Commission has noted the replies. As per the prevailing Regulations HRECS and deemed licensees procuring bulk power supply from ESCOMs are deemed to have complied with RPO to the extent of such procurement from ESCOMs. Further, the Regulations also specify that in case of non-compliance, the onus of meeting the RPO lies with HRECS or the deemed licensees, as the case maybe.

3.1.6 O&M Expenses:

HRECS, in its application, has estimated the normative O&M expenses of Rs.15.9655 Crores for FY21 by reckoning the actual O&M expenses of FY19 for Rs.13.0907 Crores as the base year O&M expenses. HRECS has considered WPI data as available from Ministry of Commerce & Industry, GoI and CPI data as available from Labour Bureau, in the ratio 80:20, for arriving at an inflation rate of 8.2606% for projecting the O&M expenses for FY21 and has computed the normative O&M expenses as follows:

TABLE – 3.6

O&M Expenses for FY21–HRECS's Proposal

Amount in Rs. Crores

Sl. No.	Particulars	FY21
1	No of installation	133551
2	CGI based on 3-year CAGR in %	2.53%
3	Weighted Inflation Rate in %	8.2606%
4	Efficiency factor in %	0.50%
5	Net growth rate in %	10.291%
	Projected O&M Expenses	**15.9655**

Further, HRECS has also requested the Commission to allow the effect of the revision of pay to its employees as and when it is incurred, as an additional employees cost.

Commission's analysis and decisions:

The Commission in its preliminary observation, had noted that, as per the provisions of MYT Regulations, the O&M expenses are controllable expenditure and every distribution licensee needs to control the expenditure under this head in a prudent manner. HRECS was directed to furnish the reasons for incurring such huge amounts towards Insurance charges, Advertisement and Legal charges under A & G expenses for FY19 and FY21 besides re-examining the amount considered for FY21.

HRECS in its replies has submitted the details and the same have been noted by the Commission.

The Commission, as per the provisions of MYT Regulations has computed the O&M expenses for FY21 duly considering the actual O&M expenses of FY19 as per the audited accounts (the latest available data as per the audited accounts), to arrive at the O & M expenses for base year i.e. FY20. The actual O& M expenses incurred for FY19 is Rs 13.0869 Crores. 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 CERC with CPI and WPI in a ratio of 80: 20, the allowable annual escalation inflation rate for FY21 is computed as follows:

TABLE – 3.7
Computation of Inflation Index for FY21

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2007	73.6	130.8	119.36				
2008	80	141.7	129.36	1.08	0.08	1	0.08
2009	81.9	157.1	142.06	1.19	0.17	2	0.35
2010	89.7	175.9	158.66	1.33	0.28	3	0.85
2011	98.2	191.5	172.84	1.45	0.37	4	1.48
2012	105.7	209.3	188.58	1.58	0.46	5	2.29
2013	111.1	232.2	207.98	1.74	0.56	6	3.33
2014	114.8	246.9	220.48	1.85	0.61	7	4.30
2015	110.3	261.42	231.20	1.94	0.66	8	5.29
2016	110.3	274.3	241.50	2.02	0.70	9	6.34
2017	114.1	281.2	247.78	2.08	0.73	10	7.30
2018	118.9	294.8	259.62	2.18	0.78	11	8.55
A= Sum of the product column							40.16
B= 6 Times of A							240.97
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							0.0826
e=Annual Escalation Rate (%) =g*100							**8.2604**

For the purpose of determining the normative O & M expenses for FY21, the Commission has considered the following:

a) The actual O & M expenses incurred as per audited accounts for FY19 as the base year O&M expenses to arrive at the O&M expenses for FY20 and FY21.

b) The three-year compounded annual growth rate (CAGR) of the number of installations considering the actual number of installations as per audited accounts upto FY19 and as projected by the Commission for FY20 and FY21 at 1.97%.

c) The weighted inflation index (WII) at 8.2604% as computed above.

d) Efficiency factor at 0.50%.

The above said parameters are computed duly considering the same methodology as being followed in the earlier tariff orders of the Commission.

Accordingly, the normative O & M expenses for FY21 are worked out in the following Table:

TABLE – 3.8
Approved O & M expenses for FY21

Amount in Rs. Crores

Particulars	FY21
No. of Installations	131379
CGI based on 3 Year CAGR in %	1.97%
Weighted Inflation Index in %	8.2604%
Base Year O&M Cost (FY19 as per actuals)	13.0869
O&M Index= O&M (t-1) *(1+WII+CGI-X)	15.7964
Allowable O&M expenses	**15.7964**

Thus, the Commission decides to approve the O&M expenses of Rs 15.7964 Crores for FY21.

3.1.7 Depreciation:

HRECS, in its filing, has claimed Depreciation for FY21 considering the proposed capex and deducting the Depreciation on assets created out of consumer contribution and grants as follows:

TABLE- 3.9
Depreciation for FY21– HRECS Proposal

Amount in Rs. Crores

Particulars	FY21
Buildings	0.0098
Civil	0.0001
Plant & Machinery	0.7040
Line, Cable Network including plant/Machinery	2.9011
Vehicles	0.0439

Particulars	FY21
Furniture	0.0059
Office Equipment	0.0007
Total	**3.6655**
Less: Depreciation on Contribution	1.0785
Net Depreciation	**2.5870**

Commission's analysis and decisions:

In accordance with the provisions of the MYT Regulations, the Commission has determined the depreciation for FY21 considering the following:

a) The actual rate of depreciation of category-wise assets is determined considering the depreciation and gross block of opening and closing balance of fixed assets as per the audited accounts for FY19.

b) This actual rate of depreciation is considered to gross block of average of opening and closing balance of fixed assets projections as approved by the Commission for FY21.

c) The depreciation on account of assets created out of consumers' contribution / grants are considered (deducted) based on the opening and closing balance of such assets duly considering the addition of assets as considered by HRECS for FY21.

Accordingly, the depreciation approved for FY21 is as follows:

TABLE – 3.10

Approved Depreciation for FY21

Amount in Rs. Crores

Particulars	FY21
Buildings	0.0110
Civil	0.0140
Other Civil	0.0001
Plant & Machinery	1.1191
Line, Cable Network including plant/Machinery	1.7647
Vehicles	0.0439
Furniture	0.0063
Office Equipment	0.0492
Total	**3.0083**
Less: Depreciation on Contribution	1.1493
Allowable Net Depreciation	**1.8590**

Thus, the Commission decides to approve the net depreciation of Rs.1.8590 Crores for FY21.

3.1.8 Interest & Finance Charges:

a) Interest on Capital Loans:

The HRECS in its filing has claimed an amount of Rs.1.8849 Crores for FY21, towards Interest on Capital Loans at the interest rate of 11.75% from REC Limited, for the existing loans and at 13.00% for the new capital loans from B.D.C.C Bank.

Commission's analysis and decisions:

The Commission takes note of the existing loans as per the audited accounts for FY19 and the interest rates at which the loans were drawn and the proposed new capital loans for carrying out the capex for FY21. The Commission further notes that, HRECS has availed the loan from BDCC Bank at the higher interest rate of 13%. The present interest rates by commercial banks and financial institutions are charged mainly on the basis of Marginal Cost of Fund Based Lending Rates (MCLR). These rates are comparatively lower than the base rates considered earlier. Further, in view of the changing economic scenario, it is observed that there is a considerable reduction in the MCLR and also downward trend is evident in the interest rates. Hence, in such a situation, the Commission is of the view that, the Hukeri RECS being the Society can avail Capital loans at competitive interest rates from the Commercial Banks. The Commission notes that, the present SBI MCLR rate for capital loans with a tenure of 3 years is 8.15%. Considering the present MCLR and the allowable basis points, the Commission decides to allow an interest rate of 11.00% for the new Capital loans. However, the interest liability on existing loan balances are computed at the rate of 11.29%, being the weighted average interest rate computed for FY20.

The Commission, as discussed in the earlier paragraphs of this Chapter has approved capex of Rs.4.00 Crores as against Rs.3.17 Crores approved in MYT Tariff Order dated 30th May, 2019 for FY21. The Commission, by considering the amount of capital grants available for the capital works proposed under

Central / State Government Schemes and also the internal resources and the amount of consumer contribution to be receivable during relevant years, has decides to factor Rs.2.00 Crores for FY21, as new capital loans at the interest rate of 11% per annum. It shall be noted that, the amount of interest and the rate of interest now considered by the Commission on the capital loans for FY21 is subject to review during the APR of FY21.

Accordingly, the interest on capital loan for FY21 is as follows:

TABLE – 3.11

Approved Interest on Capital Loans for FY21

Amount in Rs. Crores

Particulars	FY21
Opening balance of capital loans	6.0283
Add: new Loans	2.0000
Less: Repayments	-0.6483
Total loan at the end of the year	7.3800
Average Loan	**6.7041**
Allowable interest	**0.7543**
Weighted Average interest rate on the existing loan	**11.29%**
Interest Rate allowed on new loans in %	11.00%
Allowable Interest on Capital Loan	**0.7543**

Thus, the Commission decides to approve the interest on capital loans of Rs.0.7543 Crores for FY21.

b) Interest on working Capital:

HRECS in its filing has claimed an amount of Rs.4.1085 Crores for FY21, towards interest on working capital based on the norms under MYT Regulations and considering Interest on working capital equal to the short-term Prime Lending Rate of State Bank of India as on 1st April of the year calculated at 11%.

HRECS requested the Commission to allow the interest on working capital without any deductions as HESCOM is claiming interest on belated payment of power purchase dues of HRECS, due to delay in release of IP set subsidy.

Commission's analysis and decisions:

The Commission has been computing the interest on working capital as per the norms specified in the MYT Regulations, which consists of one month's O & M expenses, 1% of opening GFA and two months' revenue as receivables. The Banks / Financial institutions have now switched over from Prime Lending Rate to Base Rate to MCLR in charging the interest on loan. As discussed earlier, the present SBI MCLR for loan with tenure of One year is 7.60 % to 8.15%. The Commission notes that, the Hukeri RECS has not availed any working capital loan during the preceding years. Therefore, the Commission by taking the downward trends in the interest rates as per the provisions of MYT Regulations, by the reckoning the present MCLR with a spread of basis points, decides to consider interest in working capital at 11.00% per annum for FY21.

Accordingly, the approved interest on working capital loans for FY21 is as follows:

TABLE – 3.12

Approved Interest on Working Capital loans for FY21

Amount in Rs. Crores

Particulars	FY 21
One-twelfth of the amount of O&M Exp.	1.316
Opening GFA as per Audited Accts	95.068
Stores, materials and supplies 1% of Opening balance of GFA	0.951
One-sixth of the Revenue	27.850
Total Working Capital	30.117
Rate of Interest (% p.a.)	11.00%
Allowable Interest on Working Capital	**3.313**

Thus, the Commission decides to approve the interest on working capital of Rs.3.313 Crores for FY21.

c) **Interest on Consumer Security Deposit:**

The Hukeri RECS in its filing has claimed an amount of Rs.1.0475 Crores for FY21, towards interest on consumer security deposits, at the bank rate of 6.50% and requested the Commission to approve the same.

Commission's analysis and decisions:

In accordance with the KERC (Interest on Security Deposit) Regulations 2005, the interest rate to be allowed is the bank rate prevailing on the 1st of April of the financial year for which the interest is due. As per Reserve Bank of India Notification dated 4th October, 2019, the bank rate is 5.40%. This being the latest available bank rate, the Commission has considered the same, for computation of interest on consumer deposits for FY21.

The Commission has considered the consumer security deposits as per audited accounts of FY19 for further projection for FY20 and FY21. Based on the additional security deposits collected during the previous years, the Commission decides to factor in Rs.80.00 lakhs as the additional security deposit likely to be collected during FY20 and FY21. Thus, the allowable interest on consumer deposits for FY21 are as follows:

TABLE – 3.13
Approved Interest on Consumer Security Deposits for FY21

Amount in Rs. Crores

Particulars	FY21
Opening Balance of Consumer Deposits as per Accounts	15.75
Closing balance of Consumer Deposits	16.55
Average of Consumer Deposits	16.15
Allowable Rate of Interest in %	5.40%
Allowable Interest on Consumer Deposit	**0.8721**

Thus, the Commission decides to approve the interest on consumer security deposits of Rs.0.8721 Crores for FY21.

The abstract of the approved Interest and Finance charges is indicated in the following Table:

TABLE – 3.14
Approved Interest and finance charges for FY21

Amount in Rs. Cores

Particulars	FY21
Interest on Loan Capital	0.7543
Interest on Working Capital	3.3130
Interest on Consumers Deposit	0.8721
Approved Interest & Finance Charges	**4.9394**

3.1.9 Return on Equity:

The HRECS, has claimed an amount of Rs.1.6464 Crores as return on equity (RoE) and Rs.0.3709 Crores towards income tax on the RoE for FY21 towards Return on Equity (RoE) by considering RoE at 15.5% and grossed up with normative Tax Rate of 31.20% which comes to 22.53% as follows:

TABLE – 3.15
Return on Equity for FY21 – HRECS Submission

Amount in Rs. Crores

Particulars	FY21
Equity at the beginning of the year	8.8666
Addition during the year	0.4433
Surplus	1.3118
Total Equity	10.6217
ROE @ 15.5%	1.6464
IT @ 22.53%	**0.3709**
Total RoE	**2.0173**

Commission's analysis and decisions:

The Commission, as per the provisions of the MYT Regulations, has considered the actual amount of share capital, share deposits and the accumulated profits / losses under reserves & surplus at the beginning of the year, as per the audited accounts for FY19 for arriving at the allowable equity base for FY21 as detailed below.

TABLE – 3.16
Allowable Return on Equity for FY21

Amount in Rs. Crores

Particulars	FY21
Opening balance of Share Capital	7.8967
Opening balance of Share Deposit	0.0000
OB of Carried forward Loss/Profit	-77.4701
Total Equity	-69.5734
RoE	0.0000
Approved by Commission	**0.0000**

Since the net-worth of HRECS is negative for FY21, the Commission decides not to factor in any amount towards return on equity grossed up with Income tax, for FY21.

3.1.10 Other Income

HRECS in its filing has considered an amount of Rs.4.6357 Crores towards other income without factored in the amounts to be received towards the sale of power to AEQUS SEZ for FY21.

Commission's Decision and Analysis:

The other income received by HRECS mainly includes interest on bank deposits, other miscellaneous receipts from trading, rent from staff quarters and commission for collection of electricity duty. The Commission notes that HRECS also receives income from sale of power to AEQUS SEZ which needs to be factored in as other income by considering the power purchase of AEQUS SEZ, as approved by the Commission, while approving the revenue requirement of AEQUS SEZ, for FY21.

Based on the average other income earned by HRECS in the previous years and considering the expected revenue from sale of 29.203 MU power to AEQUS SEZ at IF point at Rs.6.6458 per unit of Rs.19.4078 Crores, the Commission decides to approve the other income for FY21, as follows:

TABLE – 3.17

Approved Other Income for FY21

Amount in Rs. Crores

Particulars	FY21
Other Income	4.6400
Receipts for sale of power to AEQUS SEZ	19.4078
Allowable Total other income	**24.0478**

Thus, the Commission decides to approve Rs.24.0478 Crores towards other income for FY21.

3.2 Abstract of Approved ARR for FY21:

An Abstract of the approved consolidated Revised Annual Revenue Requirement of the Hukeri RECS for FY21 is as follows:

TABLE – 3.18
Approved ARR for FY21

Amount in Rs. Crores

Particulars	FY21 Approved revised ARR
Power Purchase (MU) (Including AEQUS SEZ)	357.384
Energy @ IF Point including AEQUS SEZ in MU	346.523
Sales to other than IP & BJ/KJ in MU	77.406
Sales to BJ/KJ in MU	3.829
Sales to IP in MU	191.520
Total Sales in MU	**272.755**
Distribution Loss in %	**13.75%**
Revenue at existing tariff from sale of power and miscellaneous charges:	
Revenue from Sale to other than IP & BJ/KJ	49.85
Revenue from Sale to BJ/KJ	2.33
Revenue from Sale to IP	114.91
Total Revenue	**167.10**
Expenditure:	
Power Purchase Cost	173.41
O&M Expenses	**15.80**
Depreciation	1.86
Interest on Loan Capital	0.75
Interest on Working Capital	3.31
Interest on Consumer Deposit	0.87
Less: Expenses Capitalised	-0.77
Return on Equity	0.000
Taxes	0.000
Less: Other Income including the receipts for sale of power to AEQUS SEZ	-24.05
ARR	**171.19**
Less: Surplus of FY19 carried forward	2.95
Total ARR for FY21	**168.23**

Thus, the Commission decides to approve the revised ARR of Rs.168.23 Crores for FY21.

3.3 Average Cost of Supply for FY21:

Based on the approved ARR, the average cost of supply of the Hukeri RECS for FY21 is as follows:

TABLE – 3.19

Average Cost of Supply for FY21

Sl. No.	Particulars	FY21
1	ARR in Rs. Crores	168.23
2	Approved Sales in MU	272.755
3	**Average Cost of Supply (Rs. per unit)**	**6.168**

3.4 Gap in Revenue for FY21:

As discussed above, the Commission decides to approve the revised Annual Revenue Requirement (ARR) of the Hukeri RECS for its operations in FY21 of Rs.168.23 Crores which includes a surplus amount of Rs.2.955 Crores approved for FY19, as against the HRECS's application proposing a ARR of Rs.263.72 Crores. Considering the estimated revenue for FY21 at the existing retail supply tariff, the total realisation of revenue will be Rs.167.098 Crores which results in the net deficit of Rs.1.136 Crores for FY21.

The Commission decides to bridge this gap in revenue of Rs.1.136 Crores for FY21, by revising the retail supply tariff to consumers of HRECS, as discussed in the subsequent Chapter of this Order.

However, the Commission was unable to issue the Tariff Orders for FY21 till October 2020 for the following reasons:

a) Due to total lock down declared by the Government of India / Government of Karnataka on account of Covid-19 pandemic and pendency
b) Pendency of Appeal No.97/2020 filed by the KPTCL before the Hon'ble Tribunal against the Commission's Order dated 16.01.2020 and disposal of the said Appeal by the Hon'ble Tribunal vide Order dated 05.10.2020.
c) Applicability of the Code of Conduct on account of announcement of bye-Election to Assembly Constituency No.136-Sira and 154-Rajajageswari Nagar scheduled on 03.11.2020, by the Election Commission of India, vide Gazette Notification dated 09.10.2020.

The Commission has taken note of the various restriction and measures initiated and enforced by the GoI/Gok during lock down period, to prevent the spread of Corona Virus which has been declared as a Pandemic (COVID-19). This has resulted in setback to all the economic activities, hugely affecting all the sections of the Society, socially and economically. Hence, the consumers could not be burdened with tariff increase from 01.04.2020. However, the tariff increase is imminent due to substantial increase in power purchase cost and other costs to be incurred by the HRECS.

In order to tide over the present adverse financial situation, the Commission has decided to give effect to the Order to increase the Tariff from 1st November, 2020. This, in effect, would give relief on account of increased tariff for seven months to the consumers and the Commission hopes that due to gradual relaxation of lockdown conditions, the economic activities would resume and the consumers have to bear the revised tariff from 1st November 2020 onwards.

Due to the postponement of the recovery of the revised tariff, out of the projected additional revenue of Rs.1.136 Crores from revision of tariff, the Commission decides to create the unrecovered portion of the revenue gap of seven months amounting to Rs.0.665 Crores of FY21 as Regulatory Asset to be recovered in the tariff over the next two years (FY22 and FY23). The Commission also decides to allow carrying cost at 10% per annum (based on the current MCLR plus reasonable Basis points) on the amount of Regulatory Asset which will be assessed at the time of the Annual Performance Review (APR) of FY22 and FY23. The balance amount of Rs.0.475 Crores in gap in revenue for FY21 is proposed to be realized as additional revenue through the revision of tariff for the different category of consumers during FY21.

The net ARR and the gap in revenue for FY21 is shown in the following table:

TABLE – 3.20

Revenue gap for FY21

Particulars	FY21
Net ARR including carry forward deficit of FY19 (Rs. Crores)	168.234
Approved sales (MU)	272.76
Average cost of supply for FY21 (Rs. / unit)	6.17
Revenue at existing tariff (Rs. Crores)	167.098
Gap in revenue for FY21 (Rs. Crores)	**1.136**
Regulatory Asset to be recovered over next two years (in Rs.Crores) in FY22 & FY23	**0.665**
Balance revenue gap to be collected over a period of five months during FY21 by revision of tariff (Rs.in Crores)	**0.475**

The details of revised retail supply tariff, on the basis of the above approved ARR, is discussed and approved in Chapter-6 of this Order.

3.5 Subsidy payable by GoK:

On the basis of the revised average cost and the revised CDT, the total subsidy payable by GoK, to HRECS for FY21 is as follows:

TABLE – 3.21

Subsidy Payable by GoK – FY21

Sl. No.	Particulars	Amount in Rs. Crores
1	Subsidy at average cost of supply on estimated sales to BJ/KJ during FY21	2.345
2	Subsidy at Commission determined tariff on estimated sales to IP sets during FY21	114.114
	TOTAL	**116.459**