

HRECS

Preliminary Observations on the Applications filed by the HRECS for approval of APR for FY18, ARR & Retail Supply Tariff for FY20 to FY22 under MYT Framework

1. Sales:

A. Sales Other than IP sets:

I. Annual Performance Review for FY-18

The Commission in its Tariff Order dated 11.04.2017, had approved total sales to various consumer categories at 2623.80 Lakh units for FY18, against HRECS's proposal of 2748.60 lakh units [excluding sales to AEQUS]. The actual sales of HRECS as per the current APR filing [D-2 FORMAT] is 2661.00 Lakh units, indicating an increase in sales to an extent of 37.20 Lakh units with respect to the approved sales.

The Commission notes that, as against approved sales of 729.64 Lakh units to categories other than BJ/KJ and IP sets, the actual sales achieved by HRECS is 686.12 Lakh units, resulting in a decrease of sales to these categories by 43.52 Lakh units. It is observed that this decrease is mainly in LT-2a domestic category to an extent of 36.47 lakh units. On the other hand, HRECS has sold 1974.89 Lakh units to BJ/KJ and IP category as against approved sales of 1894.16 Lakh units resulting in increased sales to these categories by 80.69 Lakh units. The increase is mainly in IP sets to an extent of 72.70 lakh units. The Commission's observation on IP set consumption is dealt in the subsequent paragraphs.

HRECS shall analyse and report the reasons for decrease in sales to LT-2a category.

II. Sales Forecast for the Control Period

1. HRECS in its filing has stated that the estimates for FY19 is based on the actual data for April 18 to September 18 and the estimates for October 18 to March 19 is made on the basis of CAGR of later six months of FY14 to FY18.
2. Further, it is stated that for FY-20 to FY-22, the number of installations and energy sales is worked out considering the CAGR for the period FY15 to FY19 for categories other than BJ/KJ and IP sets, excluding negative CAGR and abnormal growth rates.
3. It is observed that HRECS has estimated the sales for second half of FY19, by applying CAGR, which is not correct, as CAGR is an annual growth rate. HRECS should have computed the same considering the growth rate during the second half of the year of FY18 over FY17 or should have computed the same on prorata basis.
4. The Commission notes that HRECS while computing the CAGR has included the FY19 data also, which itself is an estimated figure. Therefore, HRECS should have considered the actual data available upto FY18 for estimating the CAGR to arrive at the actual growth rates.
5. The table indicating the growth rates for the no. of installations is furnished below:

Category	Percentage Growth Rates			
	2012-13 to 2017-18 CAGR	2014-15 to 2017-18 CAGR	FY18 growth over FY17	Growth rate proposed by HRECS
LT-2a	1.81	2.04	2.47	2.16
LT-2b	3.04	3.14	1.28	2.56
LT-3	2.49	2.89	2.89	3.19
LT-5	5.50	6.39	9.15	7.05
LT-6 WS	2.20	1.55	4.54	2.58
LT-6 SL	2.27	2.94	7.61	12.61
HT-1	22.42	40.10	83.33	27.27
HT-2 (a)	12.89	11.20	10.00	9.09
HT-2 (b)	-6.51	0.00	0.00	0.00
HT-2 (c)	-	0.00	0.00	0.00
HT-3(a)& (b)	4.56	60.00	0.00	60.00

It is noted that the growth rate considered for LT-3, LT 5 and LT-6 SL is higher and for HT-2a, it is lower compared to the normal growth rates based on CAGR. The HRECS shall reconsider revising the estimates relating to these categories.

6. The table indicating the growth rates for the energy sales is furnished below:

Category	Percentage Growth Rates			
	2012-13 to 2017-18 CAGR	2014-15 to 2017-18 CAGR	FY18 growth over FY17	Growth rate proposed by HRECS
LT-2a	5.28	3.97	0.21	3.57
LT-2b	9.49	15.71	12.67	11.19
LT-3	7.27	6.54	2.05	6.20
LT-5	4.96	7.08	8.91	7.01
LT-6 WS	0.92	1.42	-10.86	0.88
LT-6 SL	1.43	0.64	-3.92	1.64
HT-1	6.84	11.49	20.40	16.32
HT-2 (a)	7.22	-4.06	1.81	12.34
HT-2 (b)	-7.83	2.34	1.21	2.96
HT-2(c)	-	6.32	3.88	8.27
HT-3(a)& (b)	-8.88	-14.08	-17.44	-2.84

It is noted that the growth rate in FY18 over FY17 has reduced in LT-2a, LT-3, LT-6 categories. HRECS shall analyse the reasons for reduction.

Growth considered for LT-2a, LT-3, LT-6WS is lower and in the case of LT-6 SL, HT-1, HT-2a and HT-2c, is higher when compared to the normal growth rates. Further in the case of LT-7, HT-2b and HT-2c, in spite of the number of installations remaining same, the energy sales are increasing and in the case of HT-3, it is decreasing. **HRECS shall reconsider revising the estimates to these categories.**

7. **Sales to AEQUS:** The energy sold to AEQUS as per HRECS filing and as filed by AEQUS is indicated below:

Year	Lakh units	
	HRECS	AEQUS
FY18	184.34	189.87
FY19	250.16	215.73
FY20	354.27	248.00
FY21	501.71	288.70
FY22	710.52	311.80

HRECS shall reconcile the data pertaining to AEQUS.

B. Sales to IP sets:

- a) An overall increase in sales by 7.35 (194.19 – 186.84) MU at 3.93%, is noted as against the Commission approved sales of 186.84 MU as per the tariff Order dated 11.04.2017 for the FY18. The increase in number of IP installations is 1882 (27347 – 25465) at 7.39%.
- b) In the previous tariff Order dated 14.05.2018 for the FY19, the Commission had directed HRECS to adhere to the instructions in the matter of computing the IP set consumption which shall only be based on the meter reading data of exclusive agricultural feeder, if submitted in the prescribed table. And the Commission had informed that it should reject the whole claim of the IP set consumption, if HRECS do not justify the IP set consumption as directed.
- c) HRECS has submitted the IP set consumption for FY18 based on the meter reading data of only 5 agricultural feeders instead of 17 feeders. The total energy sales from these 5 feeders, for FY18 is only 3.053 MU as against the total sales OF 194.1912 MU claimed by HRECS.

In this regard, HRECS is directed to substantiate the sales to IP installations by furnishing the meter reading data of agricultural feeders for FY18. Similarly, HRECS shall submit the data for FY19 till September 2018.

- d) HRECS was directed to take up enumeration of IP-sets to identify defunct /dried up wells in the field and take further necessary action to arrive at the correct number of working IP installations on the basis of enumeration report. The HRECS has not submitted such report yet. The

HRECS shall furnish compliance on this, in order to arrive at the correct number of IP installations / consumption and also for projecting the correct number of installations / consumption for FY19 onwards.

C. To validate the sales, category-wise information in the following format shall be furnished:

a. No. of Installations

Category	2016-17 Actuals		2017-18 Actuals		2018-19	
	As on 30 th Nov 2016	As on 31 st March 2017	As on 30 th Nov 2017	As on 31 st March 2018	As on 30 th Nov 2018	As on 31 st March 2019 (Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-3(a)& (b)						
HT-4						
HT-5						
Sub Total (Other than BJ/KJ and IP)						
BJ/KJ<=40units/month						
BJ/kJ > 40						
IP sets-LT-4a						
Sub Total (BJ/KJ and IP)						
Grand Total						

b. Energy Sales in MU

Category	2016-17 Actuals		2017-18 Actuals		2018-19	
	1 st April 2016 to 30 th Nov 2016 (cumulative)	1 st Dec 2016 to 31 st March 2017 (cumulative)	1 st April 2017 to 30 th Nov 2017 (cumulative)	1 st Dec 2017 to 31 st March 2018 (cumulative)	1 st April 2017 to 30 th Nov 2018 (cumulative actuals)	1 st Dec 2018 to 31 st March 2019 (cumulative Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-3(a)& (b)						
HT-4						
HT-5						
Sub Total (Other than BJ/KJ and						
BJ/KJ<=40 units/month						
BJ/kJ > 40 units/month						
IP sets LT 4a						
Sub Total (BJ/KJ and						
Grand Total						

III. Wheeling charges & Cross subsidy surcharge:

HRECS shall furnish the details of wheeling charges & cross subsidy surcharge applicable for FY-20 along with the working details.

IV. RPO Compliance:

HRECS shall furnish the details of RPO complied for FY-18 and the action plan for meeting RPO of FY-19 to FY-22.

2. Observations on APR for FY 18 & ARR for FY 20-22 - Observations:

1. **Distribution Losses:** Hukeri RECS in its application, as per the audited accounts has reported the actual distribution loss of 14.48%, as against 14.50% approved by the Commission in its Tariff Order dated 11th April 2017, which is within the approved loss level for FY18. Further, Hukeri RECS has projected the distribution losses of 14.47%, as against the approved loss of 14.32% for FY19 and 14.46%, 14.45% and 14.44% for FY20-22. The Commission notes that, considering the actual distribution losses of 15.12% for FY16, 14.93% for FY17 and 14.48% for FY18 achieved by the Hukeri RECS, the projected losses with the meagre reduction of **0.01%** in each year for FY19-22 even with the proposed substantial amount of Capex of Rs.11.13 Crores for FY19 and Rs.15.16 Crores, Rs.6.35 Crores and Rs.7.17 Crores for FY20-22 is insignificant. Hukeri RECS may reconsider the projected distribution losses for FY19-22.
2. **O & M Expenses:** Hukeri RECS in its APR filing, has claimed an amount of Rs.10.93 Crores as the O&M expenses as against the approved amount of Rs.13.57 Crores for FY18. The Commission notes that, as per the audited accounts for FY18, the actual employees cost for FY16, FY17 and FY18 is Rs.7.66 Crores, Rs.7.46 Crores and Rs.7.26 Crores. Thus, there is a continuous decrease in the employees cost for two years. Hukeri RECS has claimed Rs.8.07 Crores, Rs.8.96 Crores, Rs.9.94 Crores and Rs.11.04 Crores for FY19 to FY22. Hukeri RECS may reconsider the projections for FY19 to FY22.
3. **Staff Welfare Expenses:** Hukeri RECS its filings of APR for FY18 and ARR for FY20-22, has claimed Rs.0.82 Crores, Rs.0.96 Crores, Rs.1.10 Crores, Rs.1.27 Crores and Rs.1.46 Crores towards staff welfare expenses for FY18 to FY22 under employee cost. The Hukeri RECS shall furnish the nature of expenses for claiming this amount.
4. **Regularisation of IP Sets:** Hukeri RECS in its ARR filing has not furnished the details about the regularisation of un-authorized IP set installations (UNIP). Hukeri RECS shall furnish the details of the number of IP sets regularised during FY18 and the proposed numbers for FY18 to FY22.

- 5. Equity Infusion by the GoK:** Hukeri RECS shall furnish the amount of equity infused by the GoK, if any, vide various Government Orders and the actual date of receipt during FY18 and amounts received upto date, during FY 19.
- 6. Details of Capex:** Hukeri RECS in its application for approval of APR for FY18 has not furnished the details of the amounts incurred on the capital expenditure for FY18. Hukeri RECS shall furnish the item-wise details of expenditure incurred during FY18 with the details of the source of funding besides furnishing the actual expenditure incurred up to November,2018 for FY19.
- 7. Subsidy from GoK:** Hukeri RECS shall furnish the details of quantum of sales and the amount of subsidy claims submitted to the GOK in respect of BJ/KJ and IP set installations for FY18.
- 8. Revenue Gap:** Hukeri RECS has requested for the approval of the revenue gap of Rs. 32.81 Crores for FY18 and included the same amount to the ARR of FY20 and proposed an increase in retail supply tariff by 113 paise per unit for all the category of consumers. The Commission notes that, as per the Format A-I, the revenue gap is Rs.17.82 Crores for FY18.The Hukeri RECS shall analyse and furnish the reasons for claiming two different figures of revenue gap for FY18.
- 9. Power Purchase Costs:** Hukeri RECS has claimed Rs.177.78 Crores as the power purchase cost as against the actual amount of Rs.143.21 Crores as per audited accounts for FY18. The Commission notes from in the D-I Format that, the Hukeri RECS has included the interest on belated payment of power purchase cost of Rs.8.05 Crores and also Rs.26.53 Crores being the difference in power purchase cost on account of the revision of power purchase rate by the Commission, as per approved APR for FY17. As the difference in power purchase cost of FY17 has already been added to the ARR of FY19 and allowed to be recovered in the retail supply tariff approved for FY19, the question of claiming the said difference amount, once again in the APR for FY18, does not arise. Hukeri RECS shall re-examine the same and revise the power purchase cost.
- 10. Administrative Expenses:** Hukeri RECS, as per the audited accounts, in Format D-8 has claimed Rs.0.126 Crores towards other administrative expenses for FY18. Hukeri RECS shall furnish the details for the same.

3. Compliance to Directives:

A. Compliance to directives issued by the Commission:

Sl No	Directives Issued by the Commission	Observation made
1	Consumer interaction meeting at Subdivision level.	<p>It was directed to conduct consumer interaction meetings at O&M sections chaired by the MD, once in a quarter to address the consumer complaints. As per the data given, it appears that the HRECS has conducted the consumer interaction meetings only in 3rd quarter of FY19.</p> <p>The HRECS shall furnish the reasons for not conducting consumer interaction meetings during 1st & 2nd quarters, of FY19.</p>
2	Directive on Energy Conservation	The HRECS has not submitted the details of servicing of streetlight installations with LED / energy efficient lamps and also the details of awareness programs, it has taken up in its jurisdiction in promoting the use of energy efficient appliances. The HRECS shall submit compliance thereon.
3	Implementation of NJY	HRECS in its earlier tariff filings has submitted that 1 (one) NJY feeder out of 17 feeders has not been commissioned. In the present tariff filing, HRECS has informed that two out of nineteen feeders are not commissioned and the timeline for commissioning those 2 feeders is March, 2019. HRECS shall furnish the exact number of feeders taken up for implementation of NJY scheme and the reasons for inordinate delay in commissioning the feeders.
