

GESCOM

Preliminary Observations on the Annual Performance Review for FY11 **and Tariff filing for FY12**

1. Details to be furnished in Formats:

- a) As per format A2, it is observed that, a negative networth of Rs.146.87 Crores has been indicated for FY11 and negative networth of Rs.326.92 Crores has been indicated for FY12 as against networth of Rs.88.54 Crores in FY10. This calls for immediate intervention for infusion of equity. GESCOM shall inform action taken in this regard.

- b) In format A2 it is observed that the receivables against sale of power has increased year on year and is almost equal to revenue demanded for the respective years. GESCOM shall furnish the action taken to arrest huge receivables and time bound action plan may also be prepared and furnished to the Commission.

- c) The details of Power purchase for FY11 have not been furnished as per the specified format D1 duly indicating fixed cost and variable cost.

- d) In the format D2, it is indicated that for FY12 the revenues have been calculated based on existing tariff for April to July and for the remaining months at the revised rates. The revenue for entire year needs to be calculated as per the proposed revision in tariff both in format D2 and D21 (b).

- e) In format D3 the details for FY11, FY12 and FY13 have not been furnished.
- f) In respect of employee cost, GESCOM shall furnish whether actuarial valuation for providing future liability in respect of pension and gratuity has been taken up and if so, the same shall be furnished.
- g) GESCOM shall clarify whether the increase in pay due to proposed revision due from 1.4.2010 has been factored in the employee cost data furnished under Form D6. Further, GESCOM shall separately indicate the employee cost component due to proposed revision of pay for FY11 & FY12 since interim relief has already been indicated for FY11.
- h) GESCOM has not furnished details of additional information on employee cost as per format D6(a).
- i) In the format D8 the weighted average rate depreciation for FY11 is indicated at 4.59% and the same for FY12 is indicated as 5.47% thereby showing a variation of 0.88%. GESCOM shall clarify with reasons for such variations.
- j) As per the formats D9, D15, D16 & D17 it is observed that the assets proposed to be created (including WIP) FY12 is Rs.287.05 Crores whereas estimated increase in loans is Rs.129.96 Crores. As such there is a mismatch between the asset proposed to be created and the estimated loan amount.

2. Annual Performance Review for FY11:

In terms of Clause 2.8 of the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006 (MYT Regulations) GESCO is required to furnish provisional / audited accounts. This is to ensure that any deficit or surplus for FY11 is carried forward to the ERC of the next control period.

The Commission in its Tariff Order 2010, had provided for Rs.0.50 Crores towards fund for consumer relations/consumer education. GESCO has not indicated whether it has actually incurred expenditure under this head.

As regards variation in quantum of actual power purchase and allocation by GoK, it is suggested that GESCO has to take up reconciliation of energy and cost between allocation and actuals every year. Accordingly, GESCO shall furnish correct data of power purchase quantum and cost.

In the Tariff Order 2009 and 2010 pertaining to KPTCL, the Commission has not allowed power purchase cost claimed by KPTCL for the period prior to 10.06.2005 and incurred in subsequent years on the ground that, ESCOMs have to bear such expenditure. KPTCL was directed to claim such amount from ESCOMs. As such, ESCOMs have to factor such costs incurred earlier by KPTCL in the ARR of ESCOMs. ESCOMs shall clarify whether the same has been factored in its ARR.

Further, GESCOM has not furnished details of capital expenditure incurred for FY11 as per the formats specified by the Commission for carrying out prudence check.

3. ARR and Tariff Revision for FY12:

1. Format D-21 (b) has not been furnished.
2. The range in year on year growth rate in the number of installation and sales from FY06 to FY11 and the CAGR for the period FY06 to FY-11 & for the period FY08 to FY-11 and the proposed increase for FY-12 for various major categories is indicated below:

Category	FY06-FY11 range of %Growth	CAGR for the period FY06 to FY-11	CAGR for the period FY08 to FY-11	Proposed %increase for FY-12
LT-1 Instl.	1.57 to 14.88	5.44	7.70	10.00
Sales	-17.11 to 11.42	3.64	9.67	12.20
LT-2a Instl	1.70 to 3.77	2.62	2.81	3.75
Sales	8.48 to 12.85	10.32	10.67	13.13
LT-2b Instl.	4.23 to 41.01	17.47	18.91	15.0
Sales	-3.97 to 18.51	11.00	8.93	22.12
LT-3 Instl.	2.76 to 6.87	4.58	4.12	4.48
Sales	13.07 to 18.80	16.12	16.86	19.02
LT-4a Instl.	1.52 to 14.15	5.47	4.00	5.00
Sales	-4.34 to 33.56	7.73	1.37	8.15
LT-5 Instl.	3.48 to 6.82	5.32	4.59	5.00
Sales	-0.54 to 5.83	2.53	1.74	11.30
LT-6 WS Instl.	2.73 to 11.86	7.42	5.67	6.00
Sales	-1.17 to 26.50	8.12	2.40	9.17
LT-6 SL Instl.	0.28 to 12.32	5.70	5.20	6.00
Sales	-8.93 to 79.59	12.99	3.99	11.30

HT-1 Instl.	0 to 7.27	4.88	3.77	4.55
Sales	0.75 to 9.31	6.22	7.39	11.12
HT-2a Instl.	14.25 to 20.41	17.44	17.16	20.05
Sales	-11.01 to 38.81	15.04	5.83	26.60
HT-2b Instl.	6.84 to 15.22	9.68	7.89	10.05
Sales	-8.67 to 26.62	8.21	7.45	14.41
HT-4 Instl.	-12.90 to 6.90	0	4.66	6.45
Sales	4.74 to 11.49	8.16	6.85	20.74
Total Instl.	2.69 to 6.71	3.87	4.29	5.62
Sales	1.16 to 25.20	9.68	4.55	13.49

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

- a. **Total Sales:** The estimated growth rate of 13.49% for total sales in GESCOM area is high. Excluding FY07, the highest growth achieved is the last 5-years is 10.77%. The reasons for estimating such high growth rates shall be furnished.

- b. **LT-2a:** Considering the past trends the growth rate of 13.13% for sales seems to be on higher side. This also indicates that the specification consumption has increased from 46 to 50 units/installation/month. This shall be clarified in the light of DSM programs being initiated by GESCOM.

- c. **LT-2b:** Considering the past trends the growth rate of 22.12% for sales seems to be on higher side. The highest growth achieved in the past 5-years is 18.51%. Reasons for such high growth rate shall be furnished.

- d. **LT 4a:** since it is not metered, there is wide variation in sales growth. Based on the D-2 format filings, the specific consumption per installation per year for FY-12 is 8315 units as

against the actual of 8073 units for FY11. The reason for increased specific consumption shall be explained. Further, as per monthly reports furnished to the Commission, the Specific Consumption is 8138 units/IP/year. GESCOM shall explain the reasons for considering higher specific consumption.

- e. **LT-5:** considering the highest growth rate in the past 5-years of 5.83%, a sales growth of 11.30% seems to be on higher side.
- f. **LT-6 W/s:** Sales growth rate of 9.71% appears to be on higher side considering the negative growth rate in the past two years.
- g. **LT-6 Streetlights:** Specific consumption/kW/month of connected load as per FY-11 actual meter readings shall be furnished.
- h. **HT-1:** The sales growth is estimated as 11.12%, is high. Reasons for the same shall be furnished. The highest growth achieved in the last 5-years is 9.31%.
- i. **HT-2a:** Considering the normal trends in growth rates, the sales estimate at 26.60% and the installations growth at 20.05% is on the higher side. Reasons for the same shall be furnished. Details of pending applications shall be furnished along with Contract Demand for this category.
- j. **HT-2b:** Considering the normal trends in growth rates, the sales estimate at 14.41% is on the higher side. Reasons for such high growth rate shall be furnished.
- k. **HT4:** Considering the past trends, sales growth rate of 20.74% for FY12 is on higher side.

3. Actual category wise sales for the months of April, May and June for the years FY10, FY11 and FY12 shall be furnished.
4. The Fixed charges as per D-21(b) at proposed tariff is Rs.142.47 Crs. Thus the fixed charges will not even cover the estimated fixed cost liability of Rs291.89 Crs towards power purchase. The reasons for not estimating FC appropriately may be furnished.

b. Distribution Losses:

It is observed that, GESCOM has reported distribution losses of 22.06% as against a targeted distribution loss of 23% for FY11. It is to be noted that GESCOM has reduced the distribution losses from 24.02% in FY10 to 22.06% in FY11, which shows a reduction of 1.96%. However, while projecting for FY12, GESCOM has proposed a distribution loss of 21% thereby showing a reduction in distribution loss by 1.02% from FY11. Further considering the CAPEX programme of GESCOM in the past and the proposed CAPEX for FY12 and based on its achievements in reduction of distribution losses in the past, GESCOM shall indicate loss reduction as achieved in FY11.

4. Power Purchase:

It is observed that there is variation in average cost of power purchase projected for FY12 as compared to the actuals in FY11 as indicated in the following table:

Power Purchase Quantum & Cost (GESCOM)							
Source	FY-12 Tariff filing			Actuals of FY-11			Difference in Avg Rate (Ps/KWH)
	Energy in MU	Cost in Rs. Crs	Avg Rate (Ps/KWH)	Energy in MU	Cost in Rs. Crs	Avg Rate (Ps/KWH)	
KPCL Hydel	2984.25	158.07	52.97	1825.32	111.15	60.89	-7.93
KPCL Thermal	1183.65	341.94	288.89	1217.7	360.57	296.11	-7.22
CGS	1370.72	416.35	303.75	1367.59	317.01	231.80	71.94
Major IPPs	532.35	197.18	370.40	1111.28	494.13	444.65	-74.25
NCE (Minor IPPs)	741.97	264.51	356.50	718.58	261.87	364.43	-7.93
Others	36	7.92	220.00	90.3	18.03	199.67	20.33
Short-term	149.04	85.26	572.06	0.00	0.00	0.00	0.00
TOTAL	6997.98	1471.23	210.24	6330.77	1562.76	246.85	-36.62

GESCOM is required to clarify the variation in its projections especially with respect to average cost.

5. Revision of Tariff for FY12

It is observed that the actual average cost of supply for FY11 is Rs.4.39 per unit whereas the same is proposed at Rs.4.19 per unit for FY12 on the basis of revised ARR for FY12. As such GESCOM shall clarify its proposal of tariff hike at 88paise per unit.

The whole Tariff proposal is made out for an increase of Rs.0.88 per unit uniformly without taking into consideration average cost of supply v/s average billing rate for each category of consumers. As per the Tariff Policy cross subsidy surcharge to any category should not exceed + or minus 20% for the year FY10-11 onwards. The following table indicates average cost of supply v/s average billing rates and the variation in some categories is beyond 20%. As such GESCOM is required to propose with suitable corrections in line with the Tariff Policy.

Category	Avg. cost of supply (Paise/unit)	Avg. Realn. (Paise/unit)	Percentage cross subsidy
LT 2 (a)			
LT2(a)(I)	419	364.63	-12.98%
LT2(a)(II)	419	443.37	5.82%
LT 2 (b)			
LT2(b)(I)	419	618.32	47.57%
LT2(b)(II)	419	580.65	38.58%
LT 3			
LT 3(I)	419	659.60	57.42%
LT 3(II)	419	660.77	57.70%
LT 4 (b)	419	170.96	-59.20%
LT 4 ©,	419	132.95	-68.27%
LT 5	419	525.32	
LT 6(a)	419	413.95	-1.21%
LT 6(b)	419	388.56	-7.27%
LT 7	419	749.87	78.97%
HT 1	419	429.54	2.52%
HT 2 a	419	529.98	26.49%
HT 2(b)	419	673.86	60.83%
HT 3 a			
HT 3(a)(i)	419	152.18	-63.68%
HT 3(a)(ii)	419	98.72	-76.44%
HT 4			
HT 4(a)	419	921.05	119.82%
HT 4(b)	419	408.04	-2.62%

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/09/11/

Dated: 28th June 2011

1. GESCOM vide its letter dated 15th June 2011, has filed its application for Annual Performance Review for FY11 and Revised ARR & Tariff application for FY12. After verification / scrutiny of the ERC and Tariff application, the staff of the Commission has prepared preliminary observations on the filing.
2. A draft copy of the preliminary observations is placed in the file for perusal and approval of the Commission.

Director (Tech.) / Director (Tariff)

3. Secretary

No.B/09/11/

Date: 28th June 2011

The Managing Director,
Gulbarga Electricity Supply Company Ltd.,
Corporate Office
Station Main Road
GULBARGA – 585 102.

Sir,

Sub: ERC of GESCOm for FY11 to FY13 filed under MYT Regulations.

Ref: 1. Letter No.GESCOm/CGMT/BC-19/F-1001/8458 dated 13th August 2010
2.Letter No.GESCOm/BC-26/2411/2009-10/8925 dated 06.09.2010

Referring to your letters cited above, I am directed to inform you that the application filed by you has been treated as petition in terms of Tariff Regulations, subject to further verification and validation. You are requested to publish a summary of your application in the news paper as required under Regulation 5(1) of the KERC (Tariff) Regulations 2000 within a week from the date of this letter, Further, in order to expedite the process of receiving objections and furnishing replies to the objections, the stake holders/interested persons may be notified that while filing their objections with KERC, they shall send a copy of their objections to the GESCOm directly to enable the GESCOm to send replies to them directly under intimation to the Commission. The last date for receipt of objections from the public may be indicated as 04.11.2010. The replies to the written objections may be furnished to the objectors within a week's time positively duly forwarding a copy to the Commission.

Copies of ERC and Tariff application, along with other relevant documents shall be made available to interested persons if requested. You may also take action to host the ERC and Tariff proposal along with the Commission's observations and GESCOm's replies thereon on your website. Extract of notices published in the newspaper may please be submitted to the Commission for information.

I am also directed to inform you that, the Commission will hold a public hearing in the matter on 10th /11th November 2010 at Bangalore. The same will be confirmed separately.

You are directed further to furnish the following information within a week's time.

- a) Energy flow diagram as per Form D 19
- b) Details of CAPEX for FY10 for carrying out prudence check
- c) Segregation of technical and commercial losses
- d) Reconciled figures of IF energy with KPTCL
- e) Mechanism to share gains and losses of O & M expenses

Thanking you,

Yours faithfully,
For KARNATAKA ELECTRICITY REGULATORY COMMISSION,

Secretary