

HRECS- Preliminary Observations on APR for FY21 and ARR for FY23 to FY25 & Retail Supply Tariff for FY23

1. Observations on APR FY21

1. Sales for FY21- Other than IP sets:

The Commission in its Tariff Order dated 04.11.2020, had approved total sales to various consumer categories at 275.903 MU for FY21, against HRECS proposal of 295.937 MU [excluding sales to AEQUS]. The actual sales of HRECS as per the current APR filing [d-2 FORMAT] is 256.881 MU indicating a decrease in the sales to an extent of 19.022 MU with respect to the approved sales.

The Commission notes that, this decrease is mainly in LT categories, HT2b, HT2c and HT-3 categories.

HRECS shall analyze and report the reasons for decrease in sales category-wise.

2. Sales-IP Sets for FY21:

- a. The Commission, in the APR for FY20, vide its tariff order 2021 has approved the total sales to IP sets as 175.71 MU for 29,445 installations. The specific consumption as per the approved sales works out to 6066.29 unit per IP set per annum for FY20. HRECS, in its current filing has indicated the total sales to IP sets as 175.355 MU for FY21 against 30,443 numbers of IP installations, with a specific consumption of 5951.50 units per IP set per annum. The Commission notes that there is a decrease in sales by 0.355 MU and the specific consumption by 114.79 units per IP set per annum for FY21 as compared to FY20 actuals. HRECS shall furnish the reasons for decrease in sales and specific consumption when there is an increase in number of consumers by 998 (30443 - 29445).

- b. The details of sales to IP sets for FY21 as approved by the Commission, in its tariff order 2020 and the actual sales as furnished by HRECS in its Tariff Filing for FY21 are as follows;

Particulars	As approved by the Commission in ARR for FY21	As submitted by HRECS in its TF for FY21
Number of installations	30,885	30,443
Mid-year number of installations	30,285	29,464
Specific consumption in units / installation / annum	6,324	5,951.50
Sales in MU	191.52	175.355

- c. HRECS shall furnish the reasons for, decrease in specific consumption by 372.50 units / installation / annum and decrease in sales by 16.165 MU, when there is a decrease in number of installations by 442.
- d. HRECS has submitted the feeder-wise month-wise data of average consumption per IP per month for FY21 which do not contain the calculation of total sales of IP sets for the FY21. The connected load of IP set installations coming under the segregated agricultural feeders is not mentioned in the calculation sheet.
- e. Based on the feeder-wise, month-wise average sales per IP assessment sheets, it is observed that, HRECS has considered the distribution losses varying from 8% to 38.7%. The losses considered for each feeder is different and is different from month to month. HRECS shall have to substantiate the losses so considered for arriving at the sales to IP set installations. It shall furnish the distribution losses in a different column and consumption by other loads in a different column, in order to identify the losses considered by HRECS.
- f. The Commission had given directions to assess the sales to IP sets based on the per IP set basis. Based on this methodology, HRECS has not submitted the computation sheets, substantiating the assessment of sales of 175.355 MU to IP installations for FY21. HRECS has to submit the duly attested calculation sheet substantiating the sales giving clarity on the data.
- g. While calculating the specific consumption for FY21, it is observed that the HRECS has not considered the mid-month installations.

- h. HRECS, in its Tariff Filing had informed that it has taken up segregation of 19 number of agriculture feeders and the balance 2 feeders will be charged during December 2019 and the readings of all the 19 feeders will be considered for assessment of IP sets from January 2020. Whereas, as per the data submitted, HRECS has taken the readings of only 17 feeders from April 2020 to September 2020 and 19 feeders from October 2020 to March 2021. HRECS has to furnish the reasons for not considering the data of 2 feeders for the assessment during the first 6 months of FY21.
- i. HRECS has not furnished the details of the unauthorized IP sets identified in its area in the report and has not mentioned the action taken to regularize them.
- j. The quantum of sales furnished by HRECS for FY21 to FY25 is different in different in page numbers 82, 83 and 90 of the tariff filing. HRECS has to furnish the correct data giving clarity.
- k. HRECS shall furnish the number of installations, mid-year installations, specific consumption and the sales approved by the Commission for the previous 5 years in the following format:

Particulars	FY-17		FY-18		FY-19		FY-20		FY-21	
	April 2016 to Sept 2016	Oct. to Mar 2017	April 2017 to Sept 2017	Oct. to Mar 2018	April 2018 to Sept 2018	Oct. to Mar 2019	April 2019 to Sept 2019	Oct. to Mar 2020	April 2020 to Sept 2020	Oct. to Mar 2021
LT4a – Installations (Nos)										
Midyear installations (Nos)										
LT4a – sales (MU)										
Specific consumption in units / IP/ annum										

Based on the above observations, HRECS shall re-submit the assessment of sales to IP sets for FY21, duly furnishing clarity on the data. If consistent data is not received, the Commission will not consider the data submitted and would

take necessary action as deemed appropriate to arrive at appropriate consumption for FY21.

3. Capital Expenditure for FY21:

1. Commission, in its Tariff Order 2020, had recognized capex of Rs.4.00 Crores for determination of tariff for FY21 by considering the details of sources of funding and the capex proposal submitted by HRECS. HRECS, in its filling has indicated a capital expenditure of Rs.16.72 Crores in Page No.3, whereas in format D-17, the Capital expenditure is shown as Rs.15.24 Crores. The HRECS shall indicate the capex incurred for FY21 correctly vis-à-vis the Commission approved capex. In view of the inconsistency in furnishing the details, HRECS shall furnish the details of actual capex incurred for FY21 as per **Annexure-1**, besides furnishing the following details:
 - a. Total number of IP sets regularized under creation of infrastructure to UNIP/Akarma Sakrama scheme for having incurred capex of Rs.1.99 Crores.
 - b. Breakup details for own fund / internal source of funding amounting to Rs.6.14 Crores. It should be noted that the internal sources refer to the retained earnings/ profits, depreciation and equity for the current year. HERCS need to clarify as to how an amount of Rs.6.14 Crores is spent from the internal sources.

4. Other Observations on APR FY21:

a. Distribution Losses:

Hukkeri RECS in its filling (page 80), has indicated 14.71% as the actual distribution losses for FY21 as against the approved losses of 13.75%, which is higher by 0.96%. The Commission notes that as compared to the actual distribution losses of 14.83% achieved by Hukeri RECS in FY20, the reduction in distribution losses achieved is not satisfactory despite the huge capital investment made on the distribution network system. Hukeri RECS shall explain the reasons for not achieving the targeted distribution loss in FY21 and

measures HERCS is going to adopt to reduce the losses in the control period FY23-25.

b. O& M Expenses

HRECS, in its filing as per Format-D7, has claimed Rs.24.69 lakhs, as the actual expenditure towards advertisement expenses for FY21 as against Rs.15.98 lakhs for FY20 and projected Rs.27.41 lakhs, Rs.30.65 lakhs Rs.33.78 lakhs and Rs.37.14 lakhs besides claiming Rs.11.59 lakhs, Rs.12.96 lakhs Rs.14.28 lakhs and Rs.15.75 lakhs as legal charges for FY22 to FY25 respectively, which is considered to be on a higher side. The Commission, in its Tariff Orders has directed HRECS to control the expenses under A&G head of account. In spite of the Commission's direction, the expenditure under these head of accounts is increasing year on year. HRECS shall explain the reason for having incurred /claiming the higher expenses under this head of account covered under A&G expenses.

5. Capex and capital loans:

HRECS in its application as per Format - D9, has not availed any new long term capital loans as against the capital expenditure of Rs.1672.35 lakhs incurred for FY21. HRECS shall submit as to how it has managed the capital expenditure of Rs.1672.35 lakhs during FY21 besides furnishing the source of fund in respect of each of the category of works undertaken during FY21.

6. Power Purchase Dues:

HERCS has indicated Rs.277.39 Crores as outstanding dues payable towards power purchase to HESCOM as on 31.03.2021, as per the audited accounts. In spite of allowing the revenue to the level of the approved ARR every year, in the retail supply tariff, HRECS is not able to settle the power purchase dues to HESCOM on time and as a result HESCOM is made to bear interest burden on late payment of power purchase to the generators and interest on working capital as well. HRECS shall submit the reason for accumulation of huge arrears of power purchase cost as on 31.03.2021 despite allowing adequate tariff in the tariff orders.

7. Other Observations:

HRECS as per audited accounts under Note 6, has indicated Rs.84.30 Crores as Fixed Deposit amount as on 31.03.2021 and earned the interest on deposit of Rs.7.05 Crores for FY21. HRECS shall submit why even with the fixed deposit amount of Rs.84.30 Crores, the huge power purchase dues having higher interest burden are not settled.

8. Outstanding receivables:

HRECS, in its audited Balance Sheet has indicated Rs.71.05 Crores and Rs.53.79 Crores, as the opening and closing balance of trade receivables for FY21 respectively, which indicates that even the current year revenue demand is not recovered in full. HRECS in Format A-2, has indicated Rs.39.52 Crores as the closing balance of receivable from consumers for sale of power, as against the actual revenue demand of Rs.185.46 Crores for FY21. It shall be noted that, 100% recovery of the bill amount is the key to ensure Society's financial viability. The recovery of billed amount is very crucial in arriving at a favorable percentages of AT & C losses of the Society, which also help in reducing the interest burden on the power purchase dues and bank loans. HRECS shall furnish the reasons for the accumulation of revenue receivables from the consumers during FY21 and efforts made and the action plan envisaged for the recovery of huge balances of arrears.

2. Observations on ARR FY23-25:

1. Sales Other than IP sets:

- a. HRECS has stated that the number of installations and energy sales for metered categories are worked out considering the CAGR for the period FY17 to FY21, the hours of supply to various consumers and other factors like population, Government policy etc. It is also submitted that abnormal variations in growth are not considered for estimation.
- b. The table indicating the growth rates for the number of installations is given below:

Category	Percentage Growth Rates					
	2015-16 to 2020-21 CAGR	2017-18 to 2020-21 CAGR	FY21 growth over FY20	Growth rate proposed by HRECS for FY23	Growth rate proposed by HRECS for FY24	Growth rate proposed by HRECS for FY25
LT-2a	3.77%	4.84%	12.63%	4.25%	4.25%	4.26%
LT-2b	3.21%	4.05%	2.30%	3.26%	3.16%	3.06%
LT-3	2.41%	2.42%	3.14%	2.55%	2.55%	2.56%
LT-5	3.45%	1.03%	0.96%	1.17%	1.19%	1.18%
LT-6 WS	2.71%	3.82%	5.30%	4.01%	3.98%	3.96%
LT-6 SL	6.86%	8.80%	10.87%	8.50%	8.50%	8.45%
HT-1	12.89%	0.00%	0.00%	9.09%	0.00%	8.33%
HT-2 (a)	10.35%	17.84%	38.46%	14.29%	16.67%	14.29%
HT-2 (b)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
HT-2 (c)	3.71%	6.27%	20.00%	0.00%	0.00%	0.00%
HT-3(a)& (b)	22.42%	30.06%	10.00%	0.00%	0.00%	7.69%

The Commission notes that the growth rate considered for HT-2c & HT-3 is lower compared to the normal growth rates based on CAGR. HRECS shall consider revising the estimates to these categories.

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

Category	Percentage Growth Rates					
	2015-16 to 2020-21 CAGR	2017-18 to 2020-21 CAGR	FY20 growth over FY19	Growth rate proposed by HRECS for FY23	Growth rate proposed by HRECS for FY24	Growth rate proposed by HRECS for FY25
LT-2a	3.62%	3.26%	5.27	2.50%	2.50%	2.51%
LT-2b	-5.16%	-	5.85	5.35%	5.43%	5.51%
LT-3	4.22%	3.67%	4.09	5.28%	5.29%	5.30%
LT-5	4.57%	1.13%	0.91	3.02%	3.02%	3.02%
LT-6 WS	0.79%	2.30%	4.23	2.30%	2.30%	2.30%
LT-6 SL	1.15%	1.24%	0.33	1.24%	1.24%	1.24%
HT-1	14.35%	13.12%	-3.45	14.90%	14.90%	14.90%
HT-2 (a)	2.60%	-5.90%	9.21	7.23%	7.23%	7.23%
HT-2 (b)	-17.51%	-	-16.35	0.00%	0.00%	0.00%
HT-2 (c)	-4.50%	-	-3.94	0.20%	0.21%	0.21%
HT-3(a)& (b)	32.97%	59.44%	-58.62	16.96%	13.58%	13.77%

The Commission notes that the CAGR as well as the growth rate for FY21 in respect of energy sales, in most of the categories is negative, due to reduction in sales during FY21 on account of Covid-19. Thus, comparing with FY20 growth rate, the Commission observations are as follows:

- d. The growth rate is lower for LT-2a, LT-6WS and HT-2a categories and the growth rate is higher for LT3, LT-5, LT6 SL, HT-1 and HT-3 categories.
- e. 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
FY22	260.51	258.12
FY23	305.54	265.86
FY24	358.35	270.10
FY25	420.28	301.27

HRECS shall reconcile the data pertaining to AEQUS.

2. Projected sales to IP Sets for the FY23 to FY25:

The Commission has made the following observations on the sales to IP sets for FY23-25:

- i. Details of the number of consumers as per actuals added to the system during the period April 2021 to September 2021 is not considered for projection of IP sales for FY22.
- ii. HRECS has considered a growth rate of 4.21% based on 5 years CAGR for projection of number of installations. With this consideration, the number of installations added for FY22 is 1281 and for FY25 is 1450. As per the actual data of previous two years, it is observed that an average of 979 installations are added. HRECS has to substantiate its approach for projecting the number of installation.
- iii. While projecting the sales to IP installation, based on the 5-years CAGR, HRECS has indicated the growth rate as 0.00%. But has projected the increased sales for FY22 to FY25. HRECS has to explain the methodology adopted for projection of energy sales.
- iv. The HRECS has not worked out the quantum of energy sales to IP installations in the feeder-wise month-wise calculation sheet for assessment of sales to IP set installations, for the period from April 2021 to September 2021, furnishing details of connected load etc., with an abstract. If the data for the said period is not submitted, the Commission will not be in a position to accept

the assessment of consumption for FY22 and FY23 to FY25, as submitted by HRECS.

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

a. No. of Installations

Category	2019-20 Actuals		2020-21 Actuals		2021-22	
	As on 30 th Nov 2019	As on 31 st March 2020	As on 30 th Nov 2020	As on 31 st March 2021	As on 30 th Nov 2021	As on 31 st March 2022 (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 units/month.						
IP sets-LT-4a						
Sub Total (BJ/KJ and IP)						
Grand Total						

b. Energy Sales

in Million Units

Category	2019-20 Actuals		2020-21 Actuals		2021-22	
	1st April 2019 to 30th Nov 2019 (cumulative)	1st Dec 2019 to 31st March 2020 (cumulative)	1st April 2020 to 30th Nov 2020 (cumulative)	1st Dec 2020 to 31st March 2021 (cumulative)	1st April 2021 to 30th Nov 2021 (cumulative actuals)	1st Dec 2021 to 31st March 2022 (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 IP						
BJ/KJ<=40unit s/month						
BJ/kJ > 40 units/month.						
IP sets LT 4a						
Sub Total (BJ/KJ and IP)						
Grand Total						

4. Wheeling charges, Cross subsidy surcharge & Additional Surcharge:

HRECS shall submit the wheeling charges, cross subsidy surcharge and additional surcharge applicable for FY23, along with the working details.

5. RPO Compliance:

HRECS shall furnish the details of RPO complied for FY21.

6. Capex for FY23-25:

a. HRECS has proposed Capex of Rs.13.28 Crores, Rs.11.64 Crores and Rs.13.00 Crores for FY23, FY24 and FY25 respectively for the next control period, under MYT regime. The total capex proposed for the control period is Rs. 37.64 Crores. Commission notes that the proposed capex for the control period, is not in line with capex proposed as per the perspective plan. This shows that HRECS is not planning its capex properly. These proposals appear to be vague and not backed up with proper data to justify the huge capex. No specific strategy / plan is set out to improve the techno-commercial efficiency of the HRECS by considering reform parameters to cover grey areas, to ensure reliable power supply to increase operational performance, which in turn give the real benefits to the consumers and no proper justification is given for taking up each category of works.

b. HRECS shall provide necessary justification on each of the works in terms of its purpose, requirement, physical progress, cost and timelines of completion along with abstract of works, no. of works proposed to be taken in each of the year for the Control Period, as per the following Format.

Format

Sl. No.	Scheme	Capex proposal from FY23 to FY25(to be furnished for each FY separately)
	Mandatory works, Social obligation and other works	
1	Gangakalyan IP sets: Dr. B. R Ambedkar Development Corporation	
2	Gangakalyan IP sets: Karnataka State Tribal Development Corporation	
3	Gangakalyan IP sets: D. Devraju Urs Backward Class Development Corporation	
4	Gangakalyan IP sets :Karnataka Minority Development Corporation	
5	Gangakalyan IP sets :Karnataka Vishwakarma Samudaya Development Corporation	
6	Gangakalyan IP sets :Bhovi Development Corporation	
	Gangakalyan total	
	GOK Sponsored Works	
7	Special Development Plan for backward talukas under Nanjundappa scheme(SDP)	
8	Rural Electrification under SCSP	
9	Rural Electrification under TSP	
10	Energisation of IP sets under Sheegra Samparka	
11	Creating infrastructure to UAIP Sets	
12	Nirantara Jyoti Yojana.	
	Sub - total	
	GOI Sponsored Works	
13	DDUGVY	
14	R- APDRP.	
15	IPDS	
16	Soubhagya Yojane	
17	RDSS	
	Sub - total	
	Expansion of network and system improvement works.	
18	Additional DTCs	
19	Enhancement of Distribution Transformers	
20	Shifting of existing transformer to load center	

21	11 KV Re-conductoring.	
22	LT Re-conductoring.	
23	Rectification of Hazardous locations.	
	Sub - total	
	Reduction of T & D and ATC loss	
24	Replacement of faulty / MNR energy meters by static meters.	
25	Replacement of electromechanical energy meters by static meters.	
	Sub - total	
26	Water works	
27	Service connections	
28	Improvement Works at 5 Nos of Villages in each MLA Constituency & 5 Nos of Villages in each MP Constituency under MADARI VIDUYAT GRAM .	
	Sub - total	
	Planned/Unplanned	
29	Replacement of failed distribution transformers.	
30	Replacement of broken poles	
31	Flood Affected Works	
	Sub - total	
	Grand Total	

NOTE: If any other type of works is proposed to be carried out by HRECS, the same may be included in the Format.

- c. Under Revamped Reforms-Linked Results-Based Distribution Sector scheme, HERCS has indicated an amount of Rs.484.58 Crores. It is stated that based on the initiative of the Central Government, the same is being taken up in HERCS and the estimate is prepared and proposal sent to GoK and after getting approval, the same will be included in the capex. The Commission notes that this is huge Capex proposed to be spent by HERCS with an ARR of about Rs.250 Crores. It is not known as to whether the Central Government or the State government will meet this capex. The Commission suggests HRECS that any capex proposals made should be realistic in nature, keeping in view the financial capability of the Society to meet the debt servicing obligations. Any capex spent should help the Society to reduce its distribution losses and to increase the financial performance of the Society. The HRECS shall re-examine this and clarify the matter suitably.
- d. HERCS has also proposed to take up electrification of 5335 no. of un-electrified house hold as per the directions of the GoK. The Commission notes that this issue has already been dealt with earlier and the views of the Commission have been

communicated to the HERCs vide commission's letter dated 29th October, 2021. The Commission would like to reiterate that the said expenditure has not been approved. However, if the Government is meeting this expenditure through grants, the HERCS may take up this work, but the Commission would not allow it to be incurred at the cost of exiting consumers of the HERCS.

7. Observation on other items of ARR for FY 23-25

a. O&M expenses:

Hukeri RECS in its ARR filing has projected employees cost at Rs 1594.50 lakhs, Rs. 279.04 lakhs and Rs.292.99 lakhs towards revision of pay scale with effect from 01.04.2017 without submitting any documents in support of its claims. Hukeri RECS shall submit the copy of the wage settlement agreement, if any, in support of its claims.

b. Distribution Losses:

Hukkeri RECS has projected e revised distribution losses of 14.62%, 14.34%, 14.12% and 14.12% for FY22 to FY24 respectively. By considering capital expenditure made in the previous years on the network system, segregation of agriculture feeders and also proposing higher amount of capex for FY23 to FY25, the reduction of distribution losses projected by Hukeri RECS is not justifiable. HRECS shall submit proper reasons for projecting meagre reduction in the distribution losses and the action plan envisaged to reduce the distribution losses for FY22 to FY25.

c. Capex and capital loans:

Hukkeri RECS in its filing of revised ARR as per Format - D9, has proposed Rs.5.94 Crores, Rs.2.79 Crores and Rs.3.23 Crores as borrowings of new long term loan as against the proposed Capex of Rs.13.29, Rs.11.64 Crores and Rs.13.01 Crores respectively for FY23 to FY25. HRECS shall explain as to how it will manage the fund requirement by availing inadequate new loans to meet the Capex proposed for FY23 to FY25.

d. Special Incentive Scheme and Discounted Energy Rate Scheme:

The Commission in its previous Tariff Orders had approved Special Incentive Scheme and Discounted Energy Rate Scheme to HT consumers with a view to bring back the consumers, who have opted for open access/wheeling/captive power and also to sell the surplus power in the state at the reduced rate of energy charges. Hukkeri RECS is required to submit the details of the HT consumers who have opted and availed the benefits of these schemes besides furnishing its views on continuation of these schemes, during FY23 in its area of supply.

8. Observations on compliance to Commission's Directives:

Sl. No	Directives Issued by the Commission	Observation made
1	Consumer interaction meeting at Subdivision level.	HRECS shall furnish the consolidated data of conducting CIMs in its area for FY21 and till September 2021 in the format prescribed giving details of the name of the Sub-division / Section, date of conducting, the Officer chaired etc.,
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	Optimizing Transformer capacities	HRECS in its Tariff Filing has said that the compliance will be submitted to the Commission on quarterly basis. In every tariff filing, HRECS is committing and not adhering to the commitment. HRECS shall submit the action plan and the time line immediately.

Annexure

Sl. No.	Particular of the works under Major/ Minor heads	Commission approved Capex in Rs. Crores	Expenditure incurred for FY21		Expenditure pertains to spill over works		Expenditure pertains to Fresh/New works		Remarks
			No. of works	Amount in Rs. Crores	No. of works	Amount in Rs. Crores	No. of works	Amount in Rs. Crores	
1	Flood Relief Works								
2	Akrama-Sakrama								
3	Saubhagya								
4	DDUGJY								
5	SDP								
6	SCSP/TSP								
7	NJY								
8	Improvement works & others								
9	Service connections								
Total									