

## K P T C L

### Preliminary Observations on the Applications filed by the KPTCL for approval of APR for FY18, ARR & Transmission Tariff for FY20 to FY22 under MYT Framework

#### **A. Observations on APR for FY18:**

##### **1. Commission's Directives:**

###### **a. Reactive Power Compensation and restoration of failed Capacitors:**

The No. of capacitors not working has remained at 162 at end of 2<sup>nd</sup> Quarter of FY19 which is the same as that of the previous quarter. There is no improvement in restoration of failed capacitors. KPTCL shall prioritize repairs and replacements of capacitors not working. KPTCL is not complying to the directions issued. Action plan in this aspect shall be submitted.

###### **b. Transmission System Availability (TSA)-Monthly report:**

The Commission has noted that though the availability is over 99%, some of the wind generators in Basavanabagewadi and Itagi have brought to the notice of the Commission that due to non-availability of the Transmission network, the wind generators are directed to shut down the generation, resulting in huge loss in generation of energy. Hence developers have requested the Commission to direct KPTCL to make good the loss in generation.

Therefore, the KPTCL shall examine and provide details of all such cases (Transmission line or Sub-Stations) of forced outages of the generators for want of transmission network and submit suitable action plan to address them suitably.

###### **c. Implementation of Intra State ABT:**

KPTCL has to furnish the financial adjustments made between ESCOMs during the implementation of intra-State ABT.

d. **Study conducted (Man Power study):**

KPTCL has been furnishing the same status for the last couple of years. The explanation provided by KPTCL is not satisfactory and it shall submit a time bound action plan.

e. **Prevention of Electrical Accidents:**

It is submitted by the KPTCL that, it has rectified 164 hazardous locations as against 779 identified locations at the end of the 2<sup>nd</sup> Quarter of FY19. The Commission notes that only 21% of identified hazardous locations have been rectified. KPTCL shall provide suitable action plan to rectify all the hazardous locations, in order to avoid accidents.

2. **Revenue Gap/ Surplus for FY18:**

- i. The KPTCL, in its application filed for approval of the Annual Performance Review for FY 18, has claimed a net gap of Rs.417.82 Crores as per Table-21 and Table-22 and has requested the Commission to allow recovery of the gap from the ESCOMs by carrying forward the gap to the ARR of FY 20. The same is not included in the ARR for FY20. Further, as per Format-A1, the KPTCL has arrived at a surplus of Rs.212.14 Crores for FY18, but the same has not been carried forward to the ARR of FY 20. Thus, there is inconsistency in arriving at the deficit/surplus for FY18. KPTCL shall furnish the correct amount to be considered for the approval of APR for FY8.
- ii. **Additional Employee Cost:** The KPTCL, in its application for approval of APR for FY18, has claimed an amount of Rs.333.65 Crores towards additional employees cost for FY18. This amount includes an amount of Rs.140.91 Crores as arrears of pay revision with effective from 01.04.2017. As per the audited account of KPTCL for FY18, out of Rs.712.06 Crores of salary expenditure, an amount of Rs.140.91 Crores has been included as provisions towards arrears of revision of pay scale with effect from 01.04.17. The KPTCL shall furnish the details of actual amount of additional employee cost incurred towards payment of pay revision arrears from 1.4.17 to 31.3.18, besides furnishing the computation sheet for the claims of Rs.140.91 Crores, included in the salary account during FY18.

iii. **Provision for Taxation:** The KPTCL, in its filing as per the audited accounts, for FY18, has claimed an amount of Rs.574.52 Crores towards provision for taxation by including an amount of Rs.170.02 Crores as current year's income tax and Rs.414.50 Crores against deferred tax liability. The KPTCL shall furnish the details of actual amount of income tax paid to the Income Tax Department, during FY18 along with proof of payment.

iv. **Contribution towards P & G Trust:** As per the audited accounts for FY18, KPTCL has claimed an amount of Rs.167.66 Crores towards contribution to P&G Trust for FY18. KPTCL shall furnish the details for claiming this amount in the APR for FY18 along with the relevant Actuarial Valuation Report.

**B. Observation on ARR for FY 20-22:**

**1) Transmission Capacity:** As per the audited accounts of KPTCL for FY18, the installed Transmission capacity for FY18 is indicated as 19763 MW. The same is shown also in Table-1 of the ARR filing. However, as per Format-A1, both under APR and ARR proposals, the installed Transmission capacity for FY18 is indicated as 20570 MW. The KPTCL shall examine the anomaly and submit correct figure in the revised Format- A1, in respect of APR for FY18 and ARR for FY20 to FY22.

**2) Projected Transmission Losses:** KPTCL in its application for approval of ARR for FY20-22, has projected the transmission losses of 3.19%, 3.17% and 3.15% respectively for FY20-22. As per the audited accounts of KPTCL for FY18, the actual transmission losses are indicated as 3.283% for FY17 and 3.222% for FY 18 and there is a reduction of 0.061 percentage points over FY17. Considering the huge capex proposed for the control period, the projected transmission losses, with a reduction of the 0.02 percentage point uniformly for all the years of the control period, is not justifiable. KPTCL shall furnish the justification for considering the reduction of 0.02 percentage point for each year of the control period and may reconsider the projected transmission losses for FY20-22.

### **3) Transmission load forecast for the Fifth Control Period**

- a) The source-wise details of the existing and year-wise addition of generation capacity considered, shall be furnished.
- b) The ESCOM-wise details of Demand considered and methodology adopted in arriving at the Demand Forecast shall be provided.
- c) On the State map, Pictorial representation of existing and planned addition of Transmission capacity, indicating the details in sub para(a) and sub para-b above, shall be provided.

### **4) Actual system Availability for 2017-18:**

Zone-wise availability in soft copy form shall be furnished. Further, the details of Transmission constraints, if any, shall be provided along with an action plan for overcoming such constraints.

### **5) System Availability Projections for FY 20, FY21 and FY22:**

The methodology adopted to arrive at the system availability and the measures for improving the system availability, year on year, by 0.05 percentage point shall be provided.

**6) Energy handled during the control period:** It is observed that the energy required by the ESCOMs for the next Control Period also includes the following:

- i. Energy exported under open Access;
- ii. Energy handled under Wheeling & Banking Agreement;
- iii. Energy imported by ESCOMs and the Open Access customers;

In the tariff application filed by the KPTCL, the energy to be handled has been clubbed into one figure and furnished as the ESCOMS requirement after deducting the transmission losses. In order to arrive at the actual requirement of ESCOMs (which is based on their sales), KPTCL shall segregate the energy requirement figures and furnish the same in the following format:

Sl. No.	MYT- year	2017-18 Actual	2018-19 Approved	2019-20 Projected	2020-21 Projected	2021-22 Projected
1	Total Energy Handled(1)					
2	Total Energy Requirement of ESCOMs(2)					
3	Energy handled under W& B Agreement(3)					
4	Energy imported by EHT & HT consumer (O.A.)(4)					
5	Energy Exported by OA Generator(5)					
	<b>Total= (2+3+4-5)</b>					

**7) Contribution to Pension Fund:** The KPTCL, in its ARR application for FY20-22, has claimed an amount of Rs.287.73 Crores, Rs.332.50 crores and Rs.380.68 Crores towards contribution to the Pension and Gratuity Trust for FY 20 to FY22 respectively. KPTCL shall furnish the computation sheet for the claims made for FY20-22 supported by the relevant Actuarial Valuation Report.

**8) Provision for Income Tax:** KPTCL in its application for approval of ARR for FY20-22, while projecting a net revenue gap of Rs.843.81 Crores, Rs.1242.22 Crores and Rs.1332.69 Crores for FY20, FY21 and FY22 respectively, has made a provision for income tax of Rs.162.11 Crores, Rs.190.55 Crores and Rs.223.39 Crores for FY20-22 respectively. KPTCL shall furnish the reason for claiming the income tax even while projecting a huge amount of revenue deficit for FY20-22.

**9) Capex for FY20 to FY22**

KPTCL has proposed the following amounts towards capex for the next control period as follows:

Fin. Year	No. of Works	Capex proposed (Rs. Crores)
FY20	667	3207.97
FY21	573	3269.64
FY22	419	3287.77

The Commission notes that the number of works and the capex amounts proposed is towards the works that are completed and which are likely to be

completed during the control period FY20 to FY22. On a review of the list of proposed capex, the following observations are made:

**a) Rationale for Capital Investment Programme for FY 20, FY 21 and FY 22**

- i. The addition of RE capacity in the State is much more than what was planned when the Power Grid conducted the study for Green Energy Corridors. The KPTCL shall provide the details of its planning and implementation of the Green Corridor in the State considering the present status of RE and future growth in RE capacity, by revising its earlier plan. KPTCL shall also provide complete details of works being carried out and to be carried out, to meet the anticipated RE Additions.
- ii. The '24X7 Power for All' Programme initiated by the Government of India began few years ago. Whether KPTCL network, as existing now, is adequate to provide '24X7 Power for All' throughout the State, without any constraints, during the Control Period FY20-FY22, needs to be examined. If it is not adequate, the KPTCL shall indicate the measures already initiated and the action plan to provide 24X7 Power for all during the said Control Period.

The KPTCL has to assess the network capability for harnessing the solar power by shifting the 11kV Agricultural feeders simultaneously during the solar peak generation period and take necessary action to cater the loads without any constraints. Action taken in this regard may be furnished.

- iii. Whether the KPTCL has done any study to know the percentage of utilisation of Transmission lines meant for evacuation of RE Power? And whether it has considered any cost-effective and efficient methods for evacuation of Power from RE Power depending upon the requirement? If so details thereof may please be provided.
- iv. Whether KPTCL has done Analysis on impact of delay in projects on increase in cost and increase in per unit of cost of transmission.

**b) List of capital Works:** It is seen from the tariff application that a list containing 667 number of capital works (prepared in a chronological order), which are

planned to be undertaken/ executed during next control period, is furnished. From the list so prepared, the Commission is unable to categorise the works into completed works, ongoing works and works to be taken up in the near future. It is not clear from the list as to how the KPTCL will prioritise the works to be undertaken / executed. Therefore, the KPTCL shall prepare the list as per the Annexures enclosed to the observations and submit it with the its compliance to the observations.

**c) Financing of the Capex:**

Though huge amounts of over Rs.3200 crores, for each of the years of the control period, are proposed to be incurred, KPTCL has not indicated the sources of funding the capex. As per Format T-9, new loans to be raised from commercial banks to the tune of over Rs.2600 crores annually, are indicated. This indicates that the financing of future capex as specified in the MYT Regulations (Debt: Equity norm of 70:30) is not being complied with. Hence, KPTCL shall furnish the details of funding of capex for the control period, duly considering the internal resources such as depreciation, retained earnings, consumer contribution/grants etc. to arrive at the net requirement of funding the capex.

**d) Budget for Completed works:**

The budget for the completed works is indicated as Rs.371.19 Crores, Rs. 665.32 Crores and Rs. 752 Crores for FY20, FY21 and FY22 respectively. It is understandable that for the completed works, any outstanding amount towards non-submission of bills, disputes in the quantification of additional works/ deviations etc. would be paid in the immediate next year of completion of work, by providing the budget, in the immediate next year i.e. FY20. But the purpose for providing budgets towards completed works for the subsequent two years (FY21 & FY22) that too by providing huge amounts of Rs. 665.32 Crores and Rs. 752 Crores respectively, is not clear. KPTCL shall suitably clarify the same.

**e) Inclusion of R & M works under capex:**

In the proposed list of capex, works pertaining to R & M have been included vide Sl. Nos. 27, 28, 31 and 33. The expenses on these works are chargeable

to Revenue Expenditure, but KPTCL has classified these works under capex. The reasons thereof need to be explained. If these works are to be undertaken under R & M, the same shall be excluded from the list of proposed capex.

**f) Incomplete works brought forward from the previous control period and huge amount of works in progress to be converted into assets:**

From the list of capex works, it is observed that many works that were included in the earlier control period i.e. FY17 to FY19 have been included in the current list for FY20-FY22 also (example: Sl. Nos. 10, 11,12,20, 21). This would mean that, these works have not been completed during the previous control period but again included in the current list and are likely to be completed in this control period. As a result of non-completion of works, the money already spent would remain as idle investment till the assets are put to use.

Further, it is seen from the audited accounts for FY18 that as on 31.03.2018, an amount of Rs. 3,033 Crores is remaining under the head of account 'Work in Progress'. This is a huge amount representing the money which is already spent but the assets thereon are not yet commissioned. It is to be pointed out here that, the capital works taken up shall be completed in a time bound manner by addressing all the issues (like RoW etc.) and if the assets are not put to use despite incurring huge capex, the capital investment will become idle and the consumers are made to bear the interest burden without deriving any benefit from such works, for an indefinite period. The KPTCL shall analyse the work-in-progress by preparing an age-wise analysis and explain the reasons for the keeping such a huge amount under work in progress besides taking remedial action to reduce the huge balance under the 'Work In Progress'.

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