

CHAPTER – 2

ANNUAL PERFORMANCE REVIEW FOR FY17

2.0 HRECS's Application for APR of FY17:

Hukeri RECS has filed its application dated 30th November, 2017 for Annual Performance Review (APR) for FY17, revision of ARR and retail supply tariff for FY19. HRECS has sought approval of its revised Annual Revenue Requirement (ARR) for FY17 based on the audited accounts.

The Commission, in its letter dated 21stDecember, 2017, had communicated its preliminary observations on the application filed by HRECS. Hukkeri RECS, in the letter dated 26th December, 2017 has furnished its replies to the preliminary observations, to the Commission.

The Commission, in its Multi Year Tariff (MYT) Order dated 30th March, 2016, had approved the Annual Revenue Requirement (ARR) of the Society for FY17-FY19 and retail supply tariff for FY17.

The revised Annual Revenue Requirement (ARR) of Hukkeri RECS as per Annual Performance Review for FY17, based on the Audited Accounts of HRECS is discussed in this Chapter.

2.1 HRECS's Submission:

Hukkeri RECS has submitted its proposal for revision of ARR as per the APR for FY17 based on the audited accounts is as follows:

TABLE – 2.1
ARR for FY17-HRECS's Submission

Particulars	Rs lakhs
	FY17
Revenue	
Revenue from Sale of Power	4736.16
Subsidy from sale to BJ/KJ	82.15
Subsidy from sale to IP Sets	8560.20

Total Revenue	13378.51
Expenditure	
Power Purchase Cost	15530.51
Employee Expenses	
R&M Expenses	
A&G Expenses	
Total O&M Expenses	1134.87
Depreciation	119.28
Interest on Loan Capital	8.40
Interest on Working Capital	0.00
Interest on Consumers' Deposit	84.95
RoE	0.00
Less other income	294.71
Net ARR	16583.30

The Hukkeri RECS has requested the Commission to approve the revised ARR of Rs.16583.30 lakhs as per the APR for FY17. The HRECS has projected a revenue deficit of Rs.3204.79 lakhs by considering the revenue from the sale of power of Rs.13378.51 lakhs for FY17.

2.2 Hukeri RECS Financial Performance as per Audited Accounts:

An overview of the financial performance of Hukkeri RECS for FY17, as per its Audited Accounts, is given below:

TABLE – 2.2

Financial Performance of Hukeri RECS for FY17

Particulars	Rs. Lakhs
	FY17
Revenue	
Revenue from Sale of Power	5765.36
Subsidy from GoK	7613.15
Total Revenue	13378.51
Expenditure	
Power Purchase Cost	15530.51
Employee Expenses	746.90
R&M Expenses	292.34
A&G Expenses	95.63
Depreciation	119.28
Interest on Loan Capital	8.40
Interest on Consumers' Deposit	84.95
Less Other Income	294.71
Total Expenditure	16583.30

As per the Audited Accounts, Hukkeri RECS has incurred loss of Rs.3204.79 lakhs for FY17.

The Commission has undertaken the Annual Performance Review for FY17 APR, Considering the actual revenue and expenditure as per the audited accounts vis-à-vis the revenue and expenditure approved by the Commission, in its Tariff Order dated 30th March, 2016 and the data furnished by HRECS in its application and replies furnished to the preliminary observation, based on the provisions of the MYT Regulations. The item wise review of the revenue and expenditure and the decision of the Commission thereon are discussed in the following paragraphs:

2.2.1 Capital Investments:

A. Capital Expenditure for FY17:

HRECS's submission:

The HRECS has submitted an actual capital expenditure of Rs.491.30 Lakhs as against the Commission approved capital expenditure of Rs.346.51 Lakhs for FY17. The HRECS has submitted the category-wise expenditure for FY17, as shown below:

Table – 2.3
Capital expenditure of HRECS for FY17

Rs. Lakhs			
Sl. No	Particulars	MYT approved capex for FY17	Actual Expenditure for FY17
1	H.T Lines		
	a) 11 KV Lines	68.38	41.67
2	L.T Lines		
	a) 3 Phase 5 wire	-	
	b) 3 Phase 4 Wire	27.72	79.31
	c) 1 Phase 3 Wire	9.61	27.49
	d) 1 Phase 2 Wire	16.79	48.04
3	Transformer Centres		
	a) 500 KVA Transform Centre	-	
	b) 250 KVA Transform Centre	-	

	c) 200 KVA Transformer	-	
	d) 150 KVA Transform Centre	-	
	e) 100 KVA Transform Centre	27.06	3.58
	f) 63/50 KVA Transform Centre	53.31	132.03
	g) 25 KVA Transform Centre	26.89	17.59
	h) Others (10 & 15 KVA)	-	
4	Service connection		
	a) Agriculture -HT	-	
	b) Industrial -HT & others	-	
	c) Agriculture -LT	16.83	1.79
	d) Industrial -LT	2.43	3.78
	e) Domestic	14.24	10.78
	f) Commercial	1.20	1.30
	g) Street Light Brackets	-	0.12
5	Improvement Works		
	a) 11 KV Line	41.03	40.03
	b) 100 KVA Transform Centre	22.55	73.26
	c) LT Line 3 Ph.4 Wire	18.48	10.53
	Total	346.51	491.30

Commission's analysis and decision:

The actual capex incurred by HRECs as compared with the approved capex of Rs.346.51 lakhs for FY17 has exceeded by 41.78%. From the above table, it is observed that, the actual capex incurred by HRECS has exceeded the approved capex in respect of the following items of expenditure:

- (a) In case of LT line, 3phase- 4 wires category, the HRECS has incurred a cost of Rs.79.31 Lakhs as against, the approved capex of Rs.27.72 Lakhs.
- (b) In case of LT Line 1 Phase 3 Wire and 1 Phase 2 Wire category, the HRECS has incurred a capex of Rs.27.49 lakhs and Rs.48.04 lakhs as against the approved capex of Rs.9.61 lakhs and Rs.16.79 Lakhs respectively.
- (c) In case of works relating to 63/50 KVA Transformer Centre and 100 KVA Transformer Centre, the HRECS has incurred a capex of Rs.132.03 lakhs

and Rs.73.26 lakhs as against the approved capex of Rs.53.31 Lakhs and Rs.22.55 lakhs respectively.

The HRECS, in a separate letter addressed to the Commission, has replied that, due to increased number of applications by the consumers for Irrigation pump-set, Domestic & Commercial categories and by providing additional Transformer centers to the existing over loaded DTCs, it has incurred more capex than the approved figures under extension & improvement works.

The Commission notes that, the extension and improvement works and the service connection works have been taken up by the HRECS to provide power supply to the consumers as per the universal supply obligations.

In light of the above discussions, the Commission decides to consider the capex incurred by HRECS at Rs.491.30 Lakhs for FY17, subject to disallowance, if any, as per the results of Prudence Check of capital expenditure for FY17 to be taken up during APR of FY18.

A. Post Commissioning analysis of the capital expenditure of categorised works for FY17 by HRECS:

The Commission has directed the KPTCL & ESCOMs to conduct the Post Commissioning analysis of the works which have been completed and categorized during FY17 and submit the report. The Commission also, has specified the methodology and formats for conducting the post commissioning analysis of the works. The HRECS is yet to furnish the details to the Commission. The Commission directs HRECS to furnish the data immediately.

The Commission, decides to take up the Prudence Check of these works of FY17 along with works of FY18 through a third party by selecting the random sample of the works in different categories for deciding any disallowance.

2.2.2 Sales- APR for FY17:

A. Sales- other than IP sets:

The Commission, in its Tariff Order dated 30.03.2016, had approved total sale of 2458.22 Lakh units for FY17 to the various consumer categories as against the HRECS proposal of 2648.56 lakh units [excluding sales to AEQUUS]. The actual sales of the HRECS as per the current APR filing [D-2 FORMAT] is 2538.92 Lakh units indicating an increase in sales to an extent of 80.69 Lakh units with respect to the approved sales.

The Commission, in its preliminary observations had noted that, as against approved sales of 629.44 Lakh units to categories other than BJ/KJ and IP sets, the actual sales achieved by the HRECS is 683.59 Lakh units, resulting in an increase in sale to these categories by 56.36 Lakh units. It was also observed that this increase is mainly in HT-2a industrial category to an extent of 39.65 lakh units. Further, the HRECS has sold 1855.33 Lakh units to BJ/KJ and IP set category as against the approved sales of 1828.78 Lakh units resulting in increased sales to these categories by 24.34 Lakh units. The increase is mainly in IP set consumption to an extent of 21.43 lakh units.

The Commission had directed HRECS to analyze and report the reasons for increased sales in HT-2a category. HRECS, in its replies, has stated that under HT2a category, the consumption has gone up due to increased industrial activities and increased demand for the products manufactured in HRECS Area.

The Commission has noted the replies furnished by the HRECS. The Commission's observation on IP set consumption is dealt in the subsequent paragraphs.

B. Sales to IP Sets

- i. The Commission, in its Tariff Order dated 30th March, 2016, had approved 181.59 MU as sales to the IP sets, by considering a specific consumption of

7,341 units / installation / annum, for FY17. The total sale to IP sets for FY17 reported by the HRECS as per the tariff application is 183.9529 MU. This indicates increase in sale to IP sets by 2.3629 MU. Further, the specific consumption of IP sets works out to 7,344 units / installation / annum, for FY17, considering the IP set consumption of 183.95 MU reported by the HRECS. Thus, the specific consumption has decreased by 12 units / installation / annum in FY17 from the approved level of 7,344 units / installation / annum, for FY17.

Further, the actual number of installations for FY17 has exceeded by 800 numbers as against 25,016 approved number of installations. The increase in number of installations for FY17 corresponds to around 3 percent.

- ii. The Commission, in its Tariff Order dated 30th March 2016, had directed the HRECS to furnish the feeder-wise IP set consumption based on feeder energy meter data, to the Commission, every month in respect of agricultural feeders segregated under NJY, along with the meter readings of 249 sample IP sets, regularly to the Commission.
- iii. The HRECS did not submit in its application, the consumption based on the meter reading data of exclusive agricultural feeders segregated under NJY duly indicating the losses in the 11 kV lines, distribution transformers. It is stated that the LT distribution system has been deducted from the gross consumption, to arrive at the net consumption. However, the HRECS has submitted the details of consumption of IP sets computed on the basis of metered consumption in respect of 249 sample IP-set installations, as per the Commission's Order dated 20.01.2015.
- iv. The Commission had raised this issue in its preliminary observations communicated to the HRECS and directed it to submit the data of IP sets' consumption based on segregated agricultural feeders' meter reading in support of the claim of the IP-consumption for FY17 as per the following format:

Month	Name of section	Name of Segregated Agriculture Feeders in the section	Initial energy meter reading in the feeder	Final energy meter reading in the feeder	Meter constant	Monthly Consumption in MU as recorded in all the agricultural feeders at the section	Distribution loss(11kV line, DTCs, & LT line) Plus sales to other consumers if any, in MU (losses in all the agri. feeders only to be considered)	Net consumption duly deducting the Distribution loss (11kV & LT) & any other loads if any	Number of IP sets in the section (as per DCB)			Average consumption of IP / month (specific cons in units /IP/month)	Total no of IP sets in the subdivision (as per DCB)			Total sales of IP sets in MU
									Beginning of the month	Serviced at the month	Mid- month		Beginning of the month	Serviced at the end of month	Mid- month	
1	2	3	3a	3b	3c	4 = (3b-3a) *3c	5	6=(4-5)	7a	7b	7c = (7a +7b)/2	8=6/7c	9a	9b	9c=(9a+9b)/2	10=8*9c
April 2016 To Mar-17	Section-1 section-23 section-3...															
Total																

The HRECS, did not submit the consumption based on the meter readings of exclusive agricultural feeders segregated under NJY, in spite of commissioning of the significant number of agricultural feeders. However, it has stated that due to increase in number of installations serviced during FY17, as compared to the approved number of installations, the consumption has exceeded by 2.01 MU than the approved quantum of energy. The HRECS has also stated that specific consumption has reduced significantly as compared to the approved specific consumption for FY17. It is further reiterated that the HRECS has furnished the IP sets' consumption based on 249 number of meters fixed to sample IP sets as per the earlier Order of the Commission and requested the Commission to approve the quantum of sales claimed for FY17.

- v. The Commission notes that the HRECS has already segregated significant number of feeders into exclusive agricultural and rural feeders under NJY. Therefore, in view of commissioning of exclusive agricultural feeders, the overall consumption of IP sets can be computed realistically on the basis of specific consumption worked out from meter readings of such feeders, which would provide larger samples than the 249 number of IP sets being considered for computation of IP sets' consumption for FY17.

- vi. The Commission, therefore directs that, henceforth, the HRECS should only furnish the feeder-wise monthly readings on the basis of the meter reading data of the agriculture feeders, every month regularly to the Commission as per the above format and assessing the IP-set consumption based on the meter readings of 249 sample IP sets should be put to an end to. The HRECS is hereby directed to adhere to the above requirement scrupulously. In the event of non-compliance by the HRECS in the matter of computing the IP set consumption based on the meter reading data of exclusive agricultural feeders, the Commission would take appropriate action in future including rejecting the whole claim of IP set consumption for the reason that the HRECS has not justified the IP set consumption despite the availability of meter reading data of segregated agriculture feeders.
- vii. Hence, under the circumstances and in view of the fact that the variation in sales is around only one percent, the Commission decides to approve the sales of 183.60 MU as per the audited accounts submitted by the HRECS, for the purpose of Annual Performance Review for FY17.

The HRECS is also directed to adhere to the duration of power supply as fixed by the Government and also take up GPS survey to identify not-in-use/dried up installations for accurate computation of the IP set consumption.

Thus, the Commission approves total sales of 2535.89 lakh units for FY17. In addition, the Commission also approves 133.40 lakh units of energy sold to AEQUS at interface points.

2.2.3 Distribution Losses

The Hukkeri RECS, in its application has reported the actual distribution loss of 14.93% as per the audited accounts as against distribution losses of 14.25% approved by the Commission for FY17, which is 0.68% more than the approved loss, also in excess by 0.18% more than the upper band width of 14.50% specified by the Commission.

Commission's analysis and decisions:

The Commission in its Tariff Order dated 30th March, 2016 had approved the distribution losses for FY17 shown as under:

Range	FY17
Upper limit	14.50
Average	14.25
Lower Limit	14.00

The Hukkeri RECS, in its annual accounts, has reported the distribution losses of 14.93% for FY17 is shown below:

1	Energy at Interface Points in MU(excluding HESCOM's 33 KV loss)	312.34
2	Total sales in MU including wheeled energy	265.63
3	Distribution losses as a percentage of input energy at IF points	14.93%

The Commission notes that, the actual distribution losses of 14.93% reported by the HRECS is more than the approved losses of 14.25% by 0.68% for FY17. The Hukkeri RECS, in its application, had reported the distribution loss of 14.93% based on the energy input from the HESCOM interface point and the sales as per the audited accounts for FY17. Hence, penalty for exceeding the targeted distribution loss levels has been factored in the APR for FY17 as detailed below:

TABLE-2.4**Penalty for exceeding targeted loss levels in FY17**

Particulars	FY17
Actual input at IF points in MU	312.24
Retail sales as per audited accounts in MU	265.63
Percentage distribution losses	14.93%
Target Upper limit of distribution loss	14.50%
Increase in percentage loss	0.43%
Input at target loss for actual sales in MU	310.68
Increase in input due to increase in distribution losses in MU	1.56

Average cost of power purchase in Rs./unit	4.58
Increase in power purchase cost due to increasing of losses (in Lakhs)	71.42
Penalty for excess losses in FY17 (in Rs. Lakhs)	71.42

Thus, the Commission decides to approve the actual distribution losses of HRECS at 14.93% besides levying the penalty of Rs.71.42 Lakhs for exceeding the distribution loss levels targeted for FY17.

2.2.4 Power Purchase for FY17:

The Society has received energy of 312.24 MU at the interface points during FY17. The cost of the power purchase is indicated as Rs.15530.51 lakhs. The Commission in its tariff order dated 30th March, 2016, had approved power purchase of 312.57 MU (at generation bus) at a cost of Rs.12120.84 lakhs for FY17.

As per the Format D-19 of the application, the HRECS has received energy of 275.10 MU at 110/11 kV and 37.14 MU at 33/11 kV. Since supply at 33/11 kV is met by the distribution system of the HESCOM, the Society is required to bear the losses for handling 37.14 MU at 33/11 kV. The HESCOM in its filing under Format D1-9, has indicated distribution losses of 3.002% at 33 kV for FY17. Hence, the losses at 33/11 kV would be 1.12 MU and the energy at interface point with the transmission system would be 313.355 MU. Based on the actual transmission losses of KPTCL at 3.283% for FY17, the allowable quantum of power purchase (at the generation bus) will be 323.992 MU.

The Commission, in its APR for HESCOM for FY17, has approved power purchase cost including trading margin of 5 paise per unit at an average cost of Rs.4.576/unit. On the basis of this average cost of power purchase, the allowable cost of power purchase payable to HESCOM for FY17 is Rs.14827.11 lakhs.

2.2.5 O & M Expenses:

HRECS in its application has sought approval of actual O & M expenditure of Rs.1134.87 lakhs as per the audited accounts for F17 as follows:

TABLE – 2.5

O & M Expenses – Hukeri RECS submission

Particulars	Rs. lakhs
	FY17
Employees cost	746.90
Repair and Maintenance	292.34
A&G Expenses	95.63
Total O & M Expenses	1134.87

Commission analysis and decisions:

The Commission in its Tariff Order dated 30th March, 2016 had approved the O&M expenses for FY17 as detailed below:

Table-2.6

Approved O&M expenses for FY17 as per the Tariff Order dated 30-03-2016

Particulars	Rs. lakhs			
	FY16	FY17	FY18	FY19
No. of Installations	118365	121370	125514	130707
CGI based on 3 Year CAGR	5.96	3.63	3.64	3.36
Inflation index	7.24	7.24	7.24	7.24
Base Year O&M Cost (as per actuals of FY15)	1139.11			
Approved O&M Expenses		1257.28	1387.72	1527.90

The Commission in its preliminary observation had sought the details of certain expenses booked under A&G expenses by the Hukkeri RECS during FY17. The Commission noted the replies furnished by the Hukkeri RECS and directed to initiate adequate measures to control the O&M expenses, so as to be within the approved figures.

The Commission, in accordance with the methodology adopted while approving the ARRs for FY17-19 and subsequent APRs, proceeds with the determination of the normative O&M expenses based on the 12 year data of WPI and CPI and 3 years CAGR of consumers.

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 the CERC, with CPI and WPI in a ratio of 80: 20 and as per the provisions of MYT Regulations, the allowable inflation for FY17 is computed as follows:

TABLE-2.7
Allowable Inflation for FY17

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2005	103.37	115.8	113.314	1.04			
2006	109.59	122.9	120.238	1.11	1.06	1	0.06
2007	114.94	130.8	127.628	1.17	1.13	2	0.24
2008	124.92	141.7	138.344	1.27	1.22	3	0.60
2009	127.86	157.1	151.252	1.39	1.33	4	1.16
2010	140.08	175.9	168.736	1.55	1.49	5	1.99
2011	153.35	191.5	183.87	1.69	1.62	6	2.90
2012	164.93	209.3	200.426	1.85	1.77	7	3.99
2013	175.35	232.2	220.83	2.03	1.95	8	5.34
2014	182.00	246.90	233.92	2.15	2.06	9	6.52
2015	177.03	261.42	244.542	2.25	2.16	10	7.69
2016	180.60	274.30	255.56	2.26	2.26	11	8.95
A= Sum of the product column							39.44
B= 6 Times of A							236.63
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							0.0811
e=Annual Escalation Rate (%)=g*100							8.1059

While determining the normative O & M expenses for FY17, the Commission has considered the following aspects:

- The actual O & M expenses as per the audited accounts for FY16 as base year data.
- The three year compounded annual growth rate (CAGR) 3.29% of the number of installations considering the actual number of installations as per the audited accounts up to FY17.
- The weighted inflation index (WII) at 8.1059% as computed above.
- Efficiency factor at 0.5% as considered in the earlier two control periods.

Thus, the allowable normative O&M expenses for FY17 are as follows:

TABLE -2.8
Allowable O & M expenses for FY17

Particulars	Rs. Lakhs
	FY17
No. of Installations	120179
CGI based on 3 Year CAGR	3.29%
Weighted Inflation Index	8.1059%
Base Year O&M Cost(FY16 as per actuals)	1118.08
Normative O&M Index= O&M (t-1)*(1+WII+CGI-X)	1239.98
Actual O&M expenses as per the audited accounts	1134.86

Note: The efficiency factor is 0.5%.

The Commission notes that, the actual expenditure incurred by Hukkeri RECS in the present and previous years is less than the normative allowable O&M expenses. However, the Commission has allowed the normative expenses as per the MYT Regulations.

Thus, the Commission decides to allow the actual O&M expenses of Rs.1134.86 lakhs as O & M expenses for FY17.

2.2.6 Depreciation

The HRECS, in its application as per the audited accounts has claimed an amount of Rs. 119.28 lakhs towards depreciation for FY17 after deducting the depreciation on assets created out of consumers' contribution/grants.

The Commission, in its Tariff Order dated 30th March, 2016, had approved an amount of Rs.111.70 lakhs towards depreciation for FY17. Against this, the HRECS has claimed depreciation of Rs.119.28 lakhs.

Since, HRECS has claimed the depreciation on the basis of actual category-wise assets, as per the Audited Accounts, as detailed below, the Commission considers the same for the purpose of APR for FY17.

TABLE – 2.9
Allowable Depreciation for FY17

Particulars	Rs. Lakhs		
	Opening Balance of Asset as on 1.04.2016	Closing Balance of Asset as on 31.03.2017	Allowable Depreciation
Buildings	52.20	52.20	0.94

Civil	75.87	76.66	1.37
Other Civil	4.34	4.34	0.01
Plant & M/c	2110.12	2482.05	75.68
Line, Cable Network including plant/M/c	4241.82	4712.41	122.98
Vehicles	38.50	38.50	3.57
Furniture	18.02	18.90	0.52
Office Equipment	92.51	94.17	1.04
Total	6633.38	7479.23	206.11
Land	0.16	0.16	0.00
Less Depreciation on consumer contribution			86.83
Total	6633.54	7479.39	
Net Depreciation			119.28

Thus, the Commission decides to allow a depreciation of Rs.119.28 lakhs for FY17.

2.2.7 Interest & Finance Charges

i. Interest on Loan Capital:

The Hukkeri RECS, in its application as per the audited accounts has claimed an amount of Rs.8.40 lakhs as interest and finance charges for FY17. The Commission notes that as per the Audited Accounts, the HRECS has incurred Rs.8.40 lakhs towards interest on loans drawn from REC.

Thus, the Commission decides to allow the interest on capital loan of Rs.8.40 lakhs for FY17.

ii. Interest on working Capital:

The HRECS, in its filings for APR for FY17 has not claimed any amount of interest on working capital. As per the audited accounts, also the HRECS has not incurred any amount towards interest on working capital.

The Commission, as per the norms under MYT Regulations, determines the allowable interest on working capital as under:

TABLE – 2.10

Allowable Interest on Working Capital for FY17

Particulars	Rs. lakhs
	FY 17
One-twelfth of the amount of O&M Exp.	94.57
Opening GFA	5352.15
Stores, materials and supplies 1% of	53.52

Opening balance of GFA	
One-sixth of the Revenue	2229.75
Total Working Capital	2377.84
Rate of Interest (% p.a.)	11.00%
Interest on Working Capital	261.56
Actual WC as per accts	0.00
As per regulations actual plus 50% of difference between actual and normative	130.78

Thus, the Commission decides to allow an amount of Rs.130.78 lakhs towards interest on working capital for FY17.

iii. Interest on Consumers' Security Deposit:

The Hukeri RECS, as per the audited accounts has claimed an amount of Rs.84.95 lakhs towards Interest on consumers' security deposit for FY17. Considering the average of opening and closing balance of consumers' security deposits of Rs.1291.84 lakhs, the average rate of interest works out to 6.58%. As per KERC (Interest on Security Deposit) Regulations, 2005, the interest on consumer security deposits shall be allowed as per the bank rate prevailing on the 1st day of April of the financial year for which the interest is due. The bank rate as on 1st April 2016 was 7.75%. The actual interest claimed by Hukkeri RECS is well within the allowable rate.

Hence, the Commission decides to allow an amount of Rs.84.95 lakhs towards interest on consumers' security deposits for FY17.

The abstract of the approved Interest and Finance charges is indicated below:

TABLE – 2.11

Abstract of Interest & Finance Charges for FY17

Particulars	Rs. lakhs
	FY17
Interest on Capital Loan	8.40
Interest on Working Capital Loan	130.78
Interest on Consumers' Security Deposit	84.95
Total	224.13

2.2.8 Return on Equity:

The Hukkeri REC Society has not claimed any amount towards RoE for FY17. However, as per the Audited Accounts, the HRECS has an accumulated loss of Rs.7002.49 lakhs as at the beginning of FY17.

As per the KERC (Terms and Conditions for Determination of Tariff) Regulations, 2006 as amended, the Commission has to compute the allowable Return on Equity at 15.5% on equity plus reserves and surplus as at the beginning of the year, besides allowing taxes as per actuals. Considering the status of equity as per audited accounts for FY17, the allowable RoE is computed as follows:

TABLE – 2.12
Approved RoE for FY17

Particulars	Rs. lakhs
	FY17
Paid Up Share Capital	590.99
Share Deposit	0.00
Carried forward Loss/Profit	(3797.69)
Total Equity	(3206.70)
Approved RoE by Commission in Rs. lakhs	0.00

The Hukeri RECS has a negative opening balance of net worth for FY17 and as per the provision of MYT Regulations, it is not entitled to any RoE for FY17. Further, as per the audited accounts, the HRECS has not paid any Income Tax for FY17. Thus, the Commission has not allowed RoE and Income Tax separately for FY17.

2.2.9 Other Income:

The Hukeri RECS, in its filings, as per the audited accounts, has claimed an amount of Rs.294.71 lakhs as Other Income for FY17. This amount includes income from interest on bank deposits, rent from staff quarters, rebate on electricity duty and miscellaneous recoveries / income.

Thus, the Commission decides to allow an amount of Rs.294.71 lakhs towards Other Income for FY17.

2.2.10 Revenue Demand for FY17:

The Hukeri RECS, in its application has indicated an amount of Rs.13378.51 Lakhs, as per the audited accounts, as the revenue from sale of power and miscellaneous charges and tariff subsidy as against the approved revenue of Rs.11848.88 Lakhs. for FY17.

The Commission, decides to consider the total amount of revenue from sale of power and miscellaneous charges of Rs.13378.51 lakhs for FY17.

2.2.11 Subsidy for FY17:

The Commission in its Tariff Order dated 30th March, 2016 has approved tariff subsidy of Rs.8452 Lakhs towards sale of power to BJ/KJ and IP sets for FY17 in accordance with the prevailing Government Order. The Commission, while computing the revised ARR as per APR for FY17, approves the revised tariff subsidy of Rs.8642.35 lakhs towards sale of power to BJ/KJ and IP sets for FY17.

Accordingly, the revised tariff subsidy of Rs.8642.35 lakhs for FY17 shall be paid to Hukeri RECS by Government of Karnataka for FY17.

2.4 Abstract of Allowable ARR for FY17:

The Abstract of the allowable consolidated Annual Revenue Requirement for FY17 is as follows:

TABLE-2.13**Approved revised ARR as per the APR for FY17**

Particulars	Rs. lakhs		
	As Approved as per T.O 30.03.2016	As filed	As per APR
Power Purchase (MU)	312.57		323.99
Energy at IF Point	287.84	312.24	313.36
Sales to Other than IP & BJ/KJ installations	62.94	80.10	80.10
Sales to BJ/KJ installations	1.29	1.58	1.58
Sales to IP-sets	181.59	183.95	183.95
Total Sales in MU	245.82	265.63	265.63
Distribution Loss in %	14.25%	14.93%	14.93%

Revenue			
Revenue from other than IP & BJ/KJ	3,396.88	4736.16	4736.16
Subsidy to BJ/KJ installations	62.08	82.15	82.15
Subsidy to IP-sets	8389.92	8560.20	8560.20
Total Revenue	11848.88	13378.51	13378.51
Expenditure			
Power Purchase Cost inclusive of transmission and SLDC Charges	12,120.84	15530.51	14827.11
Employee Expenses			
R&M Expenses	1257.28	1,134.87	1134.86
A&G Expenses			
Depreciation	111.70	119.28	119.28
Interest & Financing Charges(net)			
Interest on Capital Loan	22.59	8.40	8.40
Interest on Working Capital	247.85	-	130.78
Interest on Consumer Deposit	96.73	84.95	84.95
(Less) Expenses Capitalized		0.00	0.00
Other Debits/Extr.Items		0.00	0.00
Net Prior Period Credit			
RoE	0.00	0.00	0.00
Taxes	0.00	0.00	0.00
Other Income	846.17	294.71	294.71
Surplus/Deficit of FY15 carried forward	1211.94		0.00
Regulatory asset (FY17) and carrying cost	50.00		0.00
Penalty for excess distribution losses			-71.42
ARR	11848.88	16583.30	15939.26
Gap in Revenue	0.00	-3204.79	-2560.75

Gap in revenue for FY17:

The Commission after the Annual Performance Review for FY17 decides to allow the revised ARR of Rs.15939.26 lakhs as against the approved ARR of Rs.11848.88 lakhs for FY17. Considering the revenue of Rs.13378.51 Lakhs, the deficit of Rs.2560.75 lakhs is determined for FY17.

The Commission decides to carry forward the deficit of Rs.2560.75 lakhs of FY17 to the ARR for FY19, as discussed in the subsequent Chapter of this Order.