

HESCOM

Preliminary Observations on the revised ERC filing for FY08 to FY10 and tariff application for FY10 of HESCOM

1. Provisional Accounts:

HESCOM has filed an application for Annual review of performance for FY08 to FY10 and for revision of tariff for FY10 vide its application dated 30th June 2009. The figures for the review of performance for FY08 & FY09 are based on audited accounts and provisional Accounts respectively. The figures for FY10 are based on revised estimates. While HESCOM has submitted the audited accounts for FY08, the provisional accounts for FY09 have not been submitted. The same shall be submitted to the Commission immediately.

2. **Capital Investments:** The Commission has to undertake prudence check of the capex for FY08 & FY09. The Commission has made several observations on the details of capex for FY08. HESCOM is yet to furnish compliance on the said observations. For taking up the prudence check for FY09, HESCOM shall furnish the details of capex incurred for FY09 in the forms prescribed by the Commission. While submitting the same, HESCOM shall keep in view the observations made in respect of FY08 and ensure that similar discrepancies are not repeated for FY09.

3. Segregation of Accounts:

- a) As per clause 2.2 of KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail sale of Electricity) Regulations 2006, HESCOM is required to segregate its accounts between Distribution and Retail Supply. It is stated that the work of bifurcation is under progress. The timeframe for completion of task may be furnished.

- b) Further HESCOM has furnished bifurcation of expenses into Distribution and Retail Supply in respect of Depreciation, AAD, and Interest & Finance Charges only. Bifurcation in respect of the other expenses has not been furnished.

4. Distribution Loss:

- a) As required to be furnished under clause 2.5.1(d) of MYT Regulations, HESCOM has not filed,
 1. Range of distribution losses projected for FY10
 2. Trajectory of loss levels in respect of technical and commercial losses for FY10, backed up by proper studies to justify the loss levels indicated.

HESCOM shall comply with the provisions of MYT regulations in this regard.

- b. HESCOM has not filed the projected distribution losses for FY10 inclusive and exclusive of EHT sales separately. **The same shall be furnished.**
- c. HESCOM has projected distribution loss of 25.49% for FY10 as against the actual loss of 25.15% for FY09. It is noted that considering substantial investment made in FY08 & FY09 and substantial amounts proposed for FY10, the projected loss levels for FY10 should have been considerably less than the actual loss levels of FY09. Therefore HESCOM shall review the targets of loss reduction and make suitable modifications to the proposals for FY10.

5. Power Purchase:

- a. Source wise power purchase as per format D1 for FY08, FY09 & FY10 has not been furnished. **HESCOM shall furnish the same.**

- b. The basis of projecting KPCL Hydel / Thermal energy for FY10 shall be furnished.
- c. 393.97 MU has been purchased under UI category in FY09. **HESCOM shall furnish source wise breakup of the units and cost of purchase under bilateral trading and under UI separately. The details of penalty paid towards overdrawl of power under ABT may also be furnished month wise for FY08 & FY09.**
- d. The Energy purchased from NCE source for FY09 is 892.02 MU and the projected quantum for FY10 is 829.43 MU. The reason that “Some firms may also leave HESCOM due to attractive price paid by third parties” is not justifiable as HESCOM has entered into PPAs with NCE generators and HESCOM has to enforce the executed PPA . If HESCOM is able to procure at least to the extent purchased in FY09 from these NCE sources, the projected purchases from Bilateral/UI/Trading sources would be reduced to that extent resulting in lower power purchase cost.
- e. HESCOM shall furnish data pertaining to the quantum of NCE energy purchased as per the orders of GoK issued under section 11 of Electricity Act. Purchases including quantum and rates from those covered under PPA and those not covered under PPA shall be furnished separately.

Sl.No,	Name of the supplier	Covered under PPA			Not Covered under PPA		
		Qty(MU)	Rate	Amount	Qty(MU)	Rate	Amount

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- f. In the Table on page 28 & 71, transmission losses of 4.23% for FY08, 4.40% for FY09 are considered to project power purchase. KPTCL has declared an average annual transmission loss of 4.37% for FY08 and 4.30% for FY09. HESCOM shall reconcile the data with reference to KPTCL loss levels and furnish the revised figures for power purchase.
- g) HESCOM shall furnish a copy of the G.O. regarding reallocation of PPAs by the GoK.
- h) The copies of the power purchase bills passed and paid for the months of March' 08 and March'09 in respect of KPCL, CGS and all major IPPs may be furnished.

6. O & M Expenses:

- a) The O & M expenses as approved under MYT framework are based on norms as per MYT Regulations (performance base Regulations), which is formula, based. HESCOM has not computed the O & M Expenses as per the formula for FY08 & FY09, considering the actual inflation rates. In the MYT order, the Commission had considered an inflation factor of 5.37% based on the actual CPI and WPI for FY07. As per the MYT Regulations, inflation is an uncontrollable Parameter. Therefore while arriving at the cost as per the formula the actual CPI and WPI for FY08 & FY09 shall be considered. The normative so arrived have to be compared with actuals to find out the difference between approved and actuals. HESCOM shall have to propose a mechanism for sharing of gains or losses for the differences between approved and actuals as per MYT Regulations. **For FY10, the inflation rate of FY09 shall be considered while arriving at the normative O & M expenses.**

7. Depreciation:

- a) HESCOM has stated in its filing that the Depreciation has been estimated as per the new procedure and considering 7% on 90% of GFA. The Commission has considered the depreciation rates as per MYT Regulations for the control period. Since the MYT Regulations, as existing now, are applicable for the entire control period, depreciation shall have to be computed as per MYT Regulations.

- b) The amounts in respect of Net Fixed Assets in respect of FY10 as per Form-D16 does not match with figures of NFA in Form A-2 (balance Sheet)

8. Return on Equity

For FY09 & FY10, it is stated that the RoE has been computed at 15.5% as per CERC norms. The Commission has considered the same at 14% as per MYT Regulations for the control period. Since the MYT Regulations, as existing now, are applicable for the entire control period, RoE shall have to be computed as per MYT Regulations.

9. Interest & finance Charges:

- a) The actual interest & finance charges as per the filing are Rs.160.03 crores & Rs.145.04 crores for FY08 & FY09 respectively. HESCOM has not shown the details of actual interest on working capital for FY08. For FY09 an amount of Rs.11.46 crores has been shown as interest on working capital not depicted in accounts, in addition to the actual amount incurred. Since interest is a controllable expense as per MYT regulations, HESCOM shall propose the mechanism for sharing of gains & losses for the difference between actuals and normative expenses approved.

b) The loan-wise details, as required under clause 3.8.1 of the MYT Regulations, are not furnished for calculation of interest in respect of FY08 to FY10. HESCOM has furnished only source-wise details of loans. Individual loan-wise details such as source, amount of loan, rate of interest etc., shall be furnished for the control period. Moratorium of loans repayment shall be indicated for all existing/ new loans.

c) It is noted that for FY09, the interest is indicated as 117.19 crores in Form D-9 A whereas the same is indicated as 113.15 crores (Long-term Loan) at page 36. Similar discrepancies are noticed for FY10 as well. Correctness of the figures may be verified and the correct figure intimated.

10. Other Expenses/Other Debits:

HESCOM in its filing has included the following amounts towards other Expenses/ Other Debits.

Year	Amount
FY08	6.89
FY09	14.77
FY10	15.59

In this regard HESCOM's attention is drawn to the decisions of the Commission in Tariff Order dated 16.10.2006(page 57-59) and MYT Order dated 18th January 2008, wherein the Commission has not considered the provisions for Bad debts. In the light of this, the provision for other expenses may be revised considering the actual amount of bad & doubtful debts written off.

11. Sales Forecast:

a) HESCOM shall furnish the details in respect of all installations for FY08 in D-2 format.

b) HESCOM shall furnish the details in respect of BJ/KJ installations as per the following Table:

Sl.No.	Particulars	FY07	FY08	FY09	FY10 (Projection)
1	Opening Balance excluding Installations under RGGVY				
2	Planned additions excluding Installations under RGGVY				
3	Coverion of BJ/KJ to LT2a				
4	Closing Balance without RGGVY (1+2-3)				
5	Cumulative additions under RGGVY				
6	Closing Balance with RGGVY installtions (5+5)				
7	Mid-year No.				
8	Assessed monthly average consumption in units per installation (based on average metered consumption)				
9	Total consumption in MU (7X8) X12 months				

c) **BJ/KJ:**

i) As per tariff filing, for FY08, HESCOM has furnished the no. of installations as 595791 and consumption as 120.28 MU with a specific consumption of 16.82 kwh/ installation/month. The Commission had approved the no. of installations as 637277 nos., 677011nos. & 709651nos.,consumption as 100.13MU,112.84 MU & 119.06 MU and specific consumption as 14.31,14.31 & 14.31 kwh / installation/month for FY08, 09 & 10,respectively in the MYT Order, 2008. HESCOM shall furnish the basis on which the consumption for FY08 is arrived at.

For FY09, HESCOM has furnished the no. of installations, consumption and specific consumption as 671981nos.,128.06 MU & 19.05 ,respectively in the tariff filing,D2 statement & DCB. HESCOM has stated that the specific consumption of 14.31

kwh/installation/month approved by the Commission is low and it has considered 16.82,19.05 & 18.81 kwh/ installation/ month as specific consumption for FY08,09 & 10,respectively.

HESCOM has to explain as to how the total consumption figures for FY08 & 09 are arrived at. It may be noted that once the consumption of BJ/KJ installations exceed 18 units per month, the installation has to be converted into LT2 category. In this context, how a specific consumption of 19.05 units for FY09 and 18.81 units/ installation for FY10 can be considered, needs to be explained.

Since HESCOM has metered 77% of its BJ/KJ installations, the average recorded monthly consumption of the metered installation for FY09 may be furnished to the Commission.

ii) It is also noted that consumption in respect of BJ/KJ Installations for FY08 & FY09 indicated at page 46 & 47 of the filing, does not match with the no.s indicated in page 30 of the filing.

d) In respect of LT2a category details may please be furnished in the following format:

Sl.No.	Particulars	FY07	FY08	FY09	FY10 (Projn)
1	No. of installations due to normal growth excluding RGGVY				
2	Annual Additions due to RGGVY				
3	Cumulative Additions due RGGVY				
4	Annual additions due to conversions of BJ/KJ to LT2a				
5	Cumulative additions due to conversion from BJ/KJ				
6	Total Installations (1+3+5)				

e) **IP sets:**

The mid-year number of installations, specific consumption and the annual consumption approved for the control period is as indicated below:

Particulars	FY08	FY09	FY10
Mid-year number of installations	422690	430190	437690
Specific consumption /IP/Yr	7400	7400	7400
Total Consumption/IP/Yr	3127.91	3183.41	3238.91

The mid-year number of installations, specific consumption and the annual consumption as per the monthly reports for FY08 & FY09 is as under:

Particulars	FY08	FY09
Mid-year number of installations	442846	472536
Total Consumption-MU	2880.11	2951.57
Specific consumption/IP/Yr	6504	6246

The mid-year number of installations, specific consumption and the annual consumption as per the filing for FY08 & FY09 is as under:

Particulars	FY08	FY09
Mid-year number of installations	442846	472536
Total Consumption-MU	2869.98	2963.65
Specific consumption/IP/Yr	6481	6272

It is noted that there is a difference in specific consumption as well as mid-year number of installations as per ERC filings for FY08 & FY09 and as per monthly reports furnished by HESCOM. The reasons for the same shall be explained.

Further, while arriving at the specific consumption, HESCOM shall apply the loss levels as approved by the Commission in its MYT order dated 18.01.2008 [Page 90], which was based on the TERI study.

f) FY10 Forecast

- i) The sales growth rate for LT3 consumption is considered as 10% whereas the CAGR for the period FY05 to FY09 is 12% and for the period FY07 to FY09 it is 12%. The rate of growth is on the lower side, which may please be clarified.
- ii) In respect of LT5 installations, the sales growth rate is considered as 5.23% whereas the CAGR for the period FY05 to FY09 is 5.56% and for the period FY07 to FY09 it is 4.27%. The growth rate for FY09 is only 2%. Thus the growth rate assumed for FY10 appears to be on a higher side. This may please be clarified.
- iii) LT6 –Street Lights: The growth rate assumed for no. of installations is 15.73% whereas the CAGR for FY05 to FY09 is 12.5%.The CAGR for FY07 to FY09 is 8.24%. The growth rate for FY09 is 3.5%. Therefore the growth rate assumed for FY10 appears to be on a higher side. For sale of energy a growth rate of 5% is assumed for FY10 as against actual growth of 2% in FY09. This is on the higher side. This may please be clarified.

The Commission has approved a specific consumption of 589 units per installation per month for the control period. Since 100% metering of street light installation has been achieved by HESCOM, the average consumption per month per installation as per recorded consumption may be furnished.

- iv) HESCOM has estimated a sales growth of 6% for HT_1 category. Even though the CAGR for the period FY05 to FY09 is 6%, considering the CAGR for the period FY07 to FY09 of 2% and the growth in FY09 over FY08 of 1%, the projections is on higher side. This may please be clarified.
- v) HESCOM has estimated a sales growth of 12% for HT_2 (a) category. Even though the CAGR for the period FY05 to FY09 is 13%, considering the CAGR for the period FY07 to FY09 of 6.5% and the growth in FY09 over FY08 of 1.6%, the projections is on higher side. This may please be clarified.
- vi) HESCOM has estimated the growth in installations at 9.57% for HT_2 (b) category. Considering the CAGR for the period FY05 to FY09 of 8%, the CAGR for the period FY07 to FY09 of 6% and the growth in FY09 over FY08 of 6.9%, the projections for the number of installations is on the higher side. This may please be clarified.

12. D-21 Statement:

- a) The Details of Category wise, Slab wise revenue at the Existing Tariff & at proposed Tariff & the revenue Difference is not furnished in the D21(a),D21(b)& Abstract formats sent to you vide this office letter no B/02/9/5634/25-02-09. The details of existing and proposed Revenue along with abstract shall have to be furnished only in the formats sent by the Commission.
- b) In view of total computerization of billing activity, the slab-wise consumption shall have to be arrived at with reference to the actual data and not on the basis of sampling.
- c) The calculations furnished are not properly done as the following fixed values in Crores have been added to the actual revenue figures without giving any reasons

Revenue, LT-2(a)(i) =-0.21, LT-2(a)(ii)=-0.16,
 LT-2(a)(iii)=-0.13 ,LT-4(a)(i)=-.22 ,LT-6 =-1.07

d) Further in respect of LT1 category the revenue is shown as nil. Since the Gok meets the entire cost of supply to BJ/KJ, the revenue computed at the revised average cost has to be considered as revenue and taken in D-21 statement. The D-21 statement may be revised accordingly.

13. Special Incentive Scheme:

HESCOM has proposed to revoke the existing special incentive scheme for HT2a installation. In this regard the following information shall be furnished:

Year	No. of Installations covered under the scheme	Units allotted in MU	Units actually availed	Revenue at Rs.3.80 per unit	Weighted Average power purchase cost per unit
FY08					
FY09					

14. Details of Subsidy

a) Details of IP set arrears written off (during 2003 & onwards), subsidy received, amounts written off and the balance in the following format:

G.O. No.& Date issued for waiver of IP set arrears	Total Amount of arrears actually waived off by HESCOM	Subsidy Received from GoK year wise towards waiver of IP set Arrears	Amount Written off by HESCOM	Balance of subsidy to be received from GoK

b)HESCOM shall furnish the details of RE/Tariff subsidy claimed and subsidy released in the following format for FY08, FY09 & FY10:

Month/year	Amount of subsidy claimed	Amount of subsidy received	Balance	Remarks

15. The following information in respect of LT2(a) consumers availing solar rebate shall be furnished for FY09 =

No.of LT2(a) installations availing solar rebate	Consumption in MU of LT2(a) installations availing solar rebate

16. **Computation of Surcharge & Wheeling Charges:** In terms of clause 2.9.2 of MYT Regulations, ESCOMs are required to include determination of surcharge and wheeling charge in the tariff application, for the purpose of open access. The same has not been included in the tariff application. Hence the same may be furnished. While furnishing the computation of wheeling charge, the same shall be done voltage-wise.
