

BESCOM

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

1. Details to be furnished in Formats:

- a) In respect of format D3, details in respect of FY10 & FY11 have not been furnished.
- b) In format D4 under item 3(c) the material cost variance for the years FY10 & FY11 has not been furnished.
- c) In format D4 (page No.112) it is indicated that the projected non-tariff income for FY12 is Rs.150.46 Crores against actuals of Rs.274.20 Crores for FY11. Reason for under estimation especially under the head other miscellaneous receipts from trading, incentives received shall be explained.
- d) In respect of employee cost, BESCOM 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.
- e) Further, BESCOM shall separately indicate the employee cost component due to proposed revision of pay for FY11 & FY12 since interim relief has been indicated for FY11.
- f) In format D6(a), BESCOM shall clarify whether the data furnished for the years FY11 includes recruitment made during the year. Further Commission desires to know is there any recruitment proposal for FY12 and if so, has the same been factored in the data furnished under format D6(a) and D6.
- g) In format D7, the estimated expenditure under remuneration to contract agencies is shown at 30% higher than the previous year for FY12. Further the expenditure under conveyance and travel

expenses for FY12 has been estimated at 28% higher than the previous year.

- h) As per the formats D9, D15, D16 & D17 it is observed that asset created (including WIP) for FY11 is Rs.132.27 Crores whereas the increase in loan during the period is Rs.801.56 Crores. Further the assets proposed to be created (including WIP) FY12 is Rs.348.22 Crores whereas proposed increase in loans is Rs.127.64Crores. As such there is a mismatch between the asset created/proposed and the loan amount indicated.
- i) In respect of format D10 expenses capitalized is not indicated.
- j) In respect of format D13, under item 5 (other expenses / income relating to prior periods) an amount of Rs.172.69 Crores is withdrawn for FY11. The details of the same may be furnished.
- k) BESCOM has not furnished hard copies of demand; collection and balance in format D18 & D18A.
- l) Format D19 indicating energy flow diagram for FY11 & FY12 is not furnished.

2. Annual Performance Review for FY11:

BESCOM has not furnished details of capital expenditure incurred for FY11 as per the formats specified by the Commission for carrying out prudence check. Also, it is observed that against an estimated capex of Rs.750 Crs, actual capex was Rs 377Crs. However, the interest on loan for Capex was Rs.105.58 Crs as against an approved interest of Rs. 92.80 Crs. Though BESCOM has shown actual capex of 50% of the projected Capex, the interest on capex is more than the approved interest.

The Commission in its Tariff Order 2010, had provided for Rs 1.00 Crs towards fund for consumer relations/consumer education. However, it is observed that, BESCOM has not indicated expenditure under this head.

As per data furnished under Table 24 (page 38), the average short-term power purchase cost is indicated as Rs.4.97 per unit. The Commission in its tariff Order 2010 has specified a price cap of Rs. 4.00 per unit. As such, the details of source wise short-term power purchase shall be furnished. Further, the power purchase under Section 11 shall be indicated source wise separately.

In table 25, as against an approved transmission charges of Rs. 677.68 Crs, BESCOM has indicated an amount of Rs.602.09 Crs. The reason for reduction in transmission charges shall be furnished.

As per Table 23 (Page 37), as per provisional data, the transmission loss is indicated as 1.61%. BESCOM shall clarify the same.

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.

3. ARR and Tariff Revision for FY12

a. Energy input and Sales:

As per table 28 (page 41), the projected sales for FY12 is indicated at 24.23% as against an actual growth of 8.53% in FY11. Excluding FY07, the highest growth achieved in the last 5-years is 8.72%. The reasons for estimating such high growth rates shall be furnished.

Further, the following are the category wise observations on sales forecast for FY12:

For FY-11, in LT 2a (iii) and LT 3(iii), sales in MU is indicated even though the number of installations is indicated as nil. Similarly, for FY-12 in both these categories both the number of installations & sales is indicated as Nil. However in D-21 format, the same is indicated as 1529274 installations & 488.76 MU for FY12 LT 2a (iii) and 84880 installations & 84.90 MU for LT 3(iii). This may be clarified.

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.	1.77% to 34.66%	14.23%	5.11%	-1.91%
Sales	-5.73%to 22.32%	7.37%	4.48%	22.44%
LT-2a Instl	4.41% to 6.77%	5.55%	5.13%	8.54%
Sales	6.49% to 12.83%	9.66%	8.35%	29.34%
LT-2b Instl.	4.91% to 14.01%	9.73%	8.40%	49.13%
Sales	2.56% to 44.63%	13.58%	4.62%	67.81%
LT-3 Instl.	5.42% to 8.55%	6.89%	6.37%	8.32%
Sales	8.0% to 17.02%	12.57%	10.53%	35.81%
LT-4a Instl.	-7.44% to 19.99%	3.71%	-0.76%	1.95%
Sales	-9.30% to 37.84%	9.16%	7.35%	6.38%
LT-5 Instl.	2.7% to 6.17%	5.05%	4.54%	2.27%
Sales	-5.02% to 8.17%	1.74%	1.01%	17.40
LT-6 WS Instl.	3.75% to 11.02%	7.21	7.80	4.46
Sales	6.44% to 15.18%	11.23	12.54	16.90
LT-6 SL Instl.	5.17% to 54.64%	17.97	9.93	28.44
Sales	-26.44%to 17.88%	0.36	11.33	1.38
HT-1 Instl.	-2.02% to 13.21%	3.92%	7.27%	0%
Sales	-2.76% to 5.83%	1.41%	1.70%	24.55%
HT-2a Instl.	6.73% to 13.40%	10.35	8.78%	16.12%
Sales	6.00% to 20.06%	12.08	8.43%	29.31%
HT-2b Instl.	11.91% to 18.98%	15.0%	12.66%	14.58%
Sales	5.13% to 37.94%	17.93%	9.57%	39.34%
HT-4 Instl.	0.66% to 7.89%	4.68%	5.19%	2.84%
Sales	-2.54% to 21.03%	7.11%	6.06%	14.96%
Total Instl.	3.59% to 10.37%	6.44%	5.01%	7.30%
Sales	5.62% to 21.53%	10.01%	7.79%	24.11%

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

LT:1-Reasons for reduction in number of BJ/KJ in FY-12 may be furnished. While there is a reduction in number of installations, the sales for this category has been increased by 22% indicating that

the specific consumption has increased from 13.2 to 16.5 units/installation/month. This shall be clarified.

LT-2a: Considering the past trends the growth rate of 8.5% for installations and 29.34% for sales seems to be on higher side. This also indicates that the specific consumption has increased from 67 to 80 units/installation/month. This shall be clarified in the light of DSM programs being initiated by BESCO.

LT-2b: Considering the past trends the growth rate of 49.13% for installations and 67.81% for sales seems to be on higher side. Reasons for such high growth rate shall be furnished.

LT-3: The growth rate of 35.81% considered for sales is on the higher side

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 7754 units as against the actual of 7431 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 7534 units/IP/year. BESCO shall explain the reasons for considering higher specific consumption.

LT-5: considering the highest growth rate in the past 5-years of 8%, a sales growth of 17% seems to be on higher side.

LT-6 W/s: Sales growth rate of 16.9% appears to be on higher side considering 4.46% Growth in installations. Reasons shall be furnished.

LT-6 Streetlights: Specific consumption/kW/month of connected load as per FY-11 actual meter readings shall be furnished.

HT-1: In case of HT water supply even though there is no addition in the number of installations, the sales growth is estimated as 24.55%, which is too high. Reasons for the same shall be furnished.

HT-2a: Considering the normal trends in growth rates, the sales estimate at 29.31% and the installations growth at 16.12% 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.

HT-2b: Considering the normal trends in growth rates, the sales estimate at 39.34% is on the higher side. Further it is noted that in the last 5 years, except in FY11, the growth rate has a declining trend. Reasons for estimating higher growth rate shall be furnished.

Actual category wise sales for the months of April, May and June for the years FY10, FY11 and FY12 shall be furnished.

The Fixed charges as per D-21 (b) at proposed tariff is Rs. 1013 Crs. Thus the fixed charges will not even cover the estimated fixed cost liability of Rs. 1912.24 Crs towards power purchase. The reasons for not estimating FC appropriately may be furnished.

b. Distribution Losses:

It is observed that, BESCOM has indicated a distribution loss of 14.55% as against a targeted distribution loss of 14.75% for FY11. It is to be noted that BESCOM has reduced the distribution losses from 15.09% in FY10 to 14.55% in FY11, which shows a reduction of 0.54%. However, while projecting for FY12, BESCOM has proposed

a distribution loss of 14.50% thereby showing only 0.05% reduction from FY11. Further considering the CAPEX programme of BESCOM in the past and the proposed CAPEX for FY12 and based on its achievements in reduction of distribution losses in the past, BESCOM shall indicate loss reduction as achieved in FY11.

As regards conducting studies on segregation of technical and commercial losses, BESCOM shall furnish a copy of the final report besides informing the status of action thereon.

4. Power Purchase:

The allocation of power from different sources indicated in Table – 31 (i) (page no.53) is not as per the existing orders issued by Government of Karnataka. As such BESCOM shall clarify on what basis the allocation has been indicated.

Further, 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 (BESCOM)							
Source	FY-12 Tariff filing			Actuals of FY-11			Difference in Avg Rate (Ps/KWH)
	Energy in MU	Cost in ₹ Crs	Avg Rate (Ps/KWH)	Energy in MU	Cost in ₹ Crs	Avg Rate (Ps/KWH)	
KPCL Hydel	890.85	17.72	19.89	3453.81	240.82	69.73	-49.83
KPCL Thermal	12440	4003.5	321.83	5270.43	1448.55	274.84	46.99
CGS	5129.3	1558.03	303.75	5177.86	1350.75	260.87	42.88
Major IPPs	3044.3	1506.78	494.95	1596.74	961.28	602.03	-107.07
NCE (Minor IPPs)	2768.2	978.01	353.31	2693.08	937.91	348.27	5.04
Others	799.68	406.49	508.32	449.01	128.29	285.72	222.60
Short-term	3292	1316.18	399.81	3627.52	1806.31	497.95	-98.14
TOTAL	28364	9786.71	345.04	22268.45	6873.91	308.68	36.36

BESCOM is required to clarify the variation in its projections especially in regard to average cost of power purchase.

It is observed that, BESCOM has not revised its expenditure under the items of depreciation, interest and finance charges and other income. In this regard BESCOM is requested to furnish its revised ARR for FY12 duly considering the actuals of FY11.

5. Return on Equity

As per the provisional accounts for FY11, BESCOM has indicated a net loss of Rs.341.67 Crores, which has to be carried forward to the Balance Sheet and result in erosion of net worth. Thus, for the purpose of computing the RoE, the carried forward loss for FY11 has not been factored in to arrive at the equity. Accordingly, the RoE for FY11 onwards needs to be revised.

6. Revision of Tariff for FY12

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 plus 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 BESCOM is required to propose with suitable corrections in line with the Tariff Policy.

Category	Avg.cost of supply (Paise/unit)	Avg. Realisation. (Paise/unit)	Percentage Cross Subsidy
LT 2 (a)			
LT2(a)(I)	512.00	468.92	-8.41%
LT2(a)(II)	512.00	387.47	-24.32%
LT 2 (b)			
LT2(b)(I)	512.00	732.59	43.08%
LT2(b)(II)	512.00	698.84	36.49%
LT 3			
LT 3(I)	512.00	772.17	50.81%
LT 3(III)	512.00	772.67	50.91%
LT 4 (b)			
LT 4 ©, LT 4(b)	512.00	255.85	-50.03%
LT 4 (d), LT 4©	512.00	274.38	-46.41%
LT 5			
LT 5(a)	512.00	593.52	15.92%
LT 5(b)	512.00	636.12	24.24%
LT 6(a)	512.00	492.89	-3.73%
LT 6(a)	512.00	550.98	7.61%
LT 7	512.00	838.12	63.70%
HT 1	512.00	501.52	-2.05%
HT 2 a			
HT 2(a)(I)	512.00	635.25	24.07%
HT 2(a)(II)	512.00	624.89	22.05%
HT 2 a			
HT 2 b			
HT 2(b)(I)	512.00	797.12	55.69%
HT 2(b)(II)	512.00	792.08	54.70%
HT 3 a			
HT 3(a)(I)	512.00	196.08	-61.70%
HT 3(a)(II)	512.00	366.67	-28.39%
HT 3 b	512.00	383.33	-25.13%
HT 4			
HT 4(a)	512.00	553.31	8.07%
HT 4(b)	512.00	573.29	11.97%

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/06/11/

Dated: 27th June 2011

1. BESCOM 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/06/11/

Date: 28th June 2011

The Managing Director,
BESCOM
K.R. Circle
BANGALORE – 560 001

Sir,

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

Ref: 1. Letter No.BESCOM/CGMT/BC-19/F-1001/8458 dated 13th August 2010
2.Letter No.BESCOM/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 BESCOM directly to enable the BESCOM 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 BESCOM'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

