

BESCOM

Preliminary Observations on the ERC filing for FY11 to FY13 and tariff application for FY11

1. Details to be furnished in Formats:

- a) The details in respect of format A2, A3 and A4 have not been furnished.
- b) In respect of format D3, details have not been furnished.
- c) BESCOM has not furnished hard copies of demand; collection and balance in form D18 & D18A. The same shall be furnished for FY08, FY09 & FY10.
- d) In respect of format D19A, all the details such as commercial losses, back billing charges demanded, collected and balance etc. are not furnished. The same may be furnished for FY09 & FY10.
- e) BESCOM has not furnished the energy flow diagram (format D19) for the control period FY11 – FY13. BESCOM shall furnish the same for FY10 and for each year of the second control period.
- f) The statement pertaining to Embedded cost of supply (D23) has not been furnished. The same shall be furnished.

2. Annual Performance Review for FY10:

BESCOM has filed application for approval of ERC for the control period from FY11 to 13 and Tariff Application for FY11. In terms of Clause 2.8 of the KERC (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity) Regulations, 2006 (MYT Regulations), BESCOM shall make an application for Annual Review of performance. However, BESCOM has indicated that the

application for APR for FY10 would be filed after the audited accounts are available. BESCO is directed to file the application for APR for FY10 as per the provisional accounts in accordance with MYT Regulations. This is to ensure that any deficit or surplus for FY10 is carried forward to the next control period.

3. Capital Investments:

BESCO has proposed a capex of Rs.1920 Crores for the control period FY11 to FY13. It is stated that the broad objectives of CAPEX is to bring about efficiencies by reducing AT & C losses, up-gradation of distribution system and providing reliable quality of power supply.

As regards the AT & C loss reduction works, BESCO has proposed to invest in the following items of works:

i) Reconducturing of HT & LT lines	Rs.71.70 Crores
ii) Strengthening of 11 KV UG cables & Providing RMUs	Rs.99.50 Crores
iii) Establishing new 11 KV lines from new sub stations	Rs.69.80 Crores
iv) Other 11 KV works & DTCs	Rs.127.75 Crores

Total **Rs.368.75 Crores**

The Commission notes that BESCO has not indicated the existing AT & C loss level for FY10 and the targetted year on year reduction in the AT & C losses during control period FY11 – FY13. BESCO shall furnish the same.

Further, it is proposed to incur an amount of Rs.404.00 Crores towards Nirantara Jyothi Yojana for the control period. BESCO

shall furnish breakup of number of feeders proposed and number of feeders to be completed during each year of the control period.

The Commission has to undertake prudence check of the capex actually incurred for FY10. BESCO shall furnish the details of actual capital works undertaken during FY10, in the formats prescribed by the Commission.

4. Distribution Losses:

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

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

- b. As regards conducting studies on segregation of technical and commercial losses, BESCO in its compliance to the directives (page 17 of the filing) has indicated that, CPRI has been assigned to carryout the study of segregation of losses on 8 numbers of 11 KV feeders for which metering has been completed and first report is expected next month. It is observed that in the earlier filing also, BESCO had furnished the same reply and has reproduced the same in the present filing also under 'compliance to the directives'. This indicates lack of follow up action on the part of BESCO to obtain and implement the Report from CPRI. However, if the report is already submitted

please furnish a copy of the report besides informing the status of action thereon.

5. Power Purchase:

- a) BESCOM has considered power purchase rates of KPCL stations as per approved PPAs in respect of different hydro and thermal stations. BESCOM shall furnish the detailed tariff working sheets for all the three years of the control period.
- b) BESCOM shall also furnish the tariff working sheets in respect of the following new stations for which no PPAs have been signed so far:
 - I. RTPS Unit- VIII,
 - II. BTPS Units- I & II
 - III. UPCL
 - IV. Varahi Units- III & IV
 - V. Erstwhile VVNL Hydro Stations
- c) BESCOM has proposed to purchase Solar power at Rs.6 per unit during the control period. However the Commission, vide its order dated 13th July 2010 has determined tariff for solar power plants which is Rs.14.50 per unit. BESCOM shall clarify as to why the approved rates have not been considered for computing power purchase cost from solar plants.
- d. BESCOM shall furnish data pertaining to the quantum of energy purchased from both NCE and other sources for FY10 as per the orders of GoK issued under section 11 of Electricity Act 2003. Purchases including quantum and rates from those sources

covered under PPA and those not covered under PPA shall be furnished separately in the following format:

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

e) Copies of power purchase bills (excluding NCE) passed and paid for the months of January, February and March 2010 may please be furnished along with the replies to the preliminary observations.

f) The IF energy as shown by KPTCL does not match with the aggregate IF energy furnished by ESCOMs as shown below:

Particulars	IF Energy as per KPTCL (MU)	IF Energy as per ESCOMs (MU)	Difference (MU)
FY11	49512	45118	4394
FY12	60856	51191	9665
FY13	66035	55970	10065

The above difference shall be reconciled with KPTCL and the reconciled figures be furnished to the Commission.

g) While computing power purchase cost for FY12, transmission charges have not been considered. The same shall be considered and ARR for FY12 may be revised.

6. O & M Expenses:

The O & M expenses as approved under MYT framework are based on norms (formula based) as per MYT Regulations (performance based Regulations). For arriving at the O & M expenses for the control period, the actual expenses for the years FY08, FY09 and FY10 shall have to be considered and the average of these three years may be considered as base figures. Appropriate inflation rates towards CPI & WPI (as notified by CERC) may be applied on the base figures to arrive at the projections for FY11 to FY13. Additional costs towards pay revision and new recruitments may have to be separately indicated in the working. Hence BESCO shall furnish revised O & M costs based on the above formula duly considering the efficiency parameters. Further, BESCO shall propose a mechanism for sharing of losses / gains towards efficiency in incurring the O&M expenses over the control period.

7. Return on Equity

As per the provisional accounts for FY10, BESCO has indicated a net loss of Rs.360.17 Crores, which has to be carried forward to the Balance Sheet as a reduction in net worth. However, this has been considered as a separate item in the Balance Sheet. Thus, for the purpose of computing the RoE, the carried forward loss for FY10 has not been factored in to arrive at the equity. Accordingly, the RoE for FY11 onwards needs to be revised.

8. Interest & finance Charges:

To meet the proposed CAPEX for the control period, BESCO has indicated the ratio of financing as under:

Particulars	FY11	FY12	FY13
Debt Ratio	43%	45%	22%
Internal Resources	57%	55%	78%

The internal resources considered by BESCOM includes RoE of Rs.174.81 Crores, Rs.63.72 Crores and Rs.73.60 Crores for FY11, FY12 and FY13 respectively. In view of the Commission's observation on RoE vide item No.7 above, the amount of RoE will not be available as an internal source of financing and hence the financing options need to be reexamined and accordingly, the interest and finance charges have to be reworked based on the available internal resources.

9. Sales Forecast:

- a) For estimation of sales in respect of BJ/KJ installations, BESCOM has not considered any additions in installations for the entire control period. It is obvious that due to growth in population, there would be increase in BPL households, which is not considered in the estimates. BESCOM shall clarify this. Further, BESCOM has considered specific consumption for BJ / KJ as 14.27 units per month per installation based on FY09 data. Since most of the BJ /KJ installations are metered and read during FY10, BESCOM shall furnish the specific consumption based on the average metered consumption for FY10.
- b) In respect of no. of LT2(b) installations, the growth rate in the past three years is in the range of 5 to 15% and growth in sales is in the range of 3 to 14%. BESCOM has considered about 26%

growth for both the no. of installations as well as sales in this category, which is higher.

- c) LT6 –Water Supply: The sales growth rate has been considered by BESCO at 7.878%. In the last three years, the sales for this category have shown a growth in the range of 10 to 13%. Thus, the projection of the BESCO is on the lower side.

- d) LT6 –Street Light: The sales growth rate has been considered by BESCO at 1.629%. In the last three years the sales for this category has shown a growth in the range of 5 to 12%. Thus, the projection of the BESCO is on the lower side. BESCO shall furnish specific consumption (units per kw) as per metered sales for FY10.

- e) HT2 (b) Sales: BESCO has considered a growth rate of 9.81%. The CAGR for the period FY05 to FY10 is around 23% and for the period FY07 to FY10, it is around 15%. Further in the last three years except for FY10, the growth rate is around 14.5%. Thus the projection of BESCO is on a the lower side. Further, the sales figure on page No.68 does not match with the sales figure at page 69 for this category. Accordingly, figures shall be reconciled in D2 and D21 formats.

Based on the above observations BESCO shall furnish necessary clarification / compliance.

10. D-21 Statement:

It is seen from the D-21 statement that, a lumpsum amount has been added / deducted in the existing and proposed tariff in addition to

the category-wise fixed and energy charge. The details of amounts (in Rs. Crores) added/deducted are as follows:

Tariff Category	Slab	Lumpsum Amount added (+) / deducted (-) (Rs.in Crores)
LT2a(iii)	FC	-7.17
LT2b(i)	3 rd	0.43
LT2b(ii)	4 th	0.08
LT3 (i)	Last	0.27
LT3(ii)	Last	- 0.554
LT3(iii)	2 nd	0.63
LT4(b)		0.13
LT4©(i)		0.14
LT5(b)	Last	17.02
LT6 WS		6.21
LT 6 SL		20.05
HT1		1.29
HT2(a) (i)	Last	0.45
HT2(a) (ii)	Last	0.64
HT2(b) (i)	Last	54.47
HT2(b) (ii)		0.88
HT3(i)		0.13
HT3(ii)		0.06
HT4(a)		0.09
HT4(b)		0.51

It appears that, the percentages assumed for slab-wise consumption have not been properly arrived at and hence the revenues are not matching. The lumpsum amount cannot be added arbitrarily to tally with the average realization rate. In view of total computerization of the billing activity, the slab-wise consumption should be available for FY10. The same shall be made use of and the existing and proposed revenue may be worked out in the format furnished by the Commission.

11. Subsidy for FY11:

BESCOM has indicated that for supply of free power to BJ/KJ and IP sets Installations subsidy of Rs.593.61 crores is required. The Government, in its budget allocation has indicated that a sum of Rs.2500 crores is allocated for Tariff subsidy towards free power supply to BJ/KJ and IP set installations. Whether ESCOM-wise allocation has been approved by the GoK and if so a copy of Government Order may be furnished.
