

## HESCOM

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

#### **1. Audited/Provisional Accounts:**

HESCOM has filed an application for approval of ERC for the second control period-FY11 to FY13 and tariff application for FY11 for revision of tariff for FY11 vide its application dated 13<sup>th</sup> August 2010. The audited/provisional accounts for FY10 have not been submitted along with application. The same shall be submitted to the Commission immediately.

#### **2. Annual Review of Performance:**

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), HESCOM shall make an application for Annual Review of performance for FY10. Since HESCOM has not made any proposal for approval of APR for FY10, it is directed to file an application for APR for FY10 as per the provisional / audited accounts, in accordance with MYT Regulations. This is to ensure that any deficit or surplus for FY10 is carried forward to the ERC of the next control period.

#### **3. Details to be furnished in Formats:**

HESCOM has not furnished the following formats in its ERC application:

D-19A Statement of commercial losses, back billing charges demanded, collected and balance for FY10.

D-20 Statement of existing & Proposed Tariff

D-22 Expected Revenue when proposed tariff is introduced for part of the year

D-23 Embedded cost of service of supply of electricity

As per regulations, these formats shall be furnished.

#### **4. Capital Investments:**

- (i) HESCOM has proposed a capex of Rs. 702.84 Crores in FY11 for catering additional sales, efficiency improvement in terms of loss reduction and to improve quality of supply. However, HESCOM has projected a loss reduction of 0.06% over FY10 loss levels. In FY10, Rs 315.84 crores has been invested and loss reduction of 3.51% has been achieved. In view of substantial investment proposed by HESCOM, the loss reduction should be commensurate with the investment and a more realistic loss level shall be proposed for the control period.
- (ii) The Commission had considered capex of Rs. 719.38 Crores for FY10 and had allowed interest and finance charges subject to prudence check. To undertake prudence check of the capex for FY10, HESCOM shall furnish the details in the formats prescribed by the Commission.

#### **5. Distribution Losses:**

- a. As required under clause 2.5.1(d) of the MYT Regulations, HESCOM has not filed:
  - 1. Range of distribution losses projected for FY11 to FY13
  - 2. Trajectory of loss levels in respect of technical and commercial losses for the control period backed up by proper studies to justify the loss levels indicated.

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

- 3. The Table-17 on page 29, Table-47 on page 46, Table-83 on page 72 and Table 84 on page 73 indicate different loss levels for FY10. HESCOM shall furnish correct figures.

#### **6. Power Purchase:**

- a) HESCOM has considered power purchase rates of KPCL stations as per approved PPAs in respect of different hydro and thermal stations.

HESCOM shall furnish the detailed tariff working sheets for all the three years of the control period.

b) HESCOM 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) HESCOM shall furnish data pertaining to the quantum of NCE energy purchased for FY10 as per the orders of GoK issued under section 11 of Electricity Act. The details of power purchases indicating quantum and rates from those 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

d) HESCOM shall furnish copies of power purchase bills passed and paid by HESCOM for January 2010 to March 2010 in respect of all KPCL stations, CGS and major IPPs.

e) HESCOM shall furnish the percentage of allocation of power along with a copy of the G.O. regarding reallocation of power from each of the sources indicated in Format –D1.

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

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

The IF energy of HESCOM shall be reconciled with KPTCL and the reconciled figures shall be furnished to the Commission.

### **7. O & M Expenses:**

In Form D-6 the additional expenditure towards pay revision is shown as blank. HESCOM shall furnish the same, in case it anticipates additional costs towards pay revision during the control period.

Further, HESCOM shall propose a mechanism for sharing of losses / gains towards efficiency in incurring the O&M expenses over the control period.

### **8. Depreciation**

The amount of Depreciation indicated in Table No 37 & 38 show inconsistent figures and does not match with the figures shown in Form D-8. HESCOM shall furnish correct figures.

Further, detailed working sheet indicating the percentage of depreciation adopted for individual assets may be furnished for all the three years of the control period

## 9. Return on Equity

As per Form A-1, HESCOM has indicated a net loss of Rs.1084.19 Crores for FY11, which has to be carried forward to the Balance Sheet as a reduction in net worth. With this the net worth would be negative and the question of claiming RoE will not arise. Hence HESCOM shall justify as to how it can claim RoE on negative Equity/networkth.

## 10. Interest & finance Charges:

a) HESCOM has proposed capex for the control period as under:

FY11	Rs. 702.84 Crores
FY12	Rs. 529.60 Cores
FY13	Rs. 513.20 Crores

HESCOM has not indicated the sources of funding of the above capex i.e. the amount to be financed through equity, borrowing and internal resources. HESCOM shall furnish the same.

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 FY11 to FY13. HESCOM has furnished only source-wise details of loans. Individual loan-wise details such as source, amount, rate of interest etc., shall be furnished for the control period. Moratorium of loan repayment, if any, shall also be indicated for all existing/ new loans.

c) HESCOM has claimed the following amounts towards interest on belated payment of power purchase cost:

Rs. Crs.

Year	Amount
FY10	100.00
FY11	140.00
FY12	180.00

In terms of MYT Regulations, the Commission has been allowing Interest on Working capital and hence no separate amount towards belated payment is admissible. Accordingly HESCOM shall rework the Interest & Finance charges.

### **11. Other Expenses/Other Debits:**

HESCOM has indicated negative figures towards provisions for bad and doubtful debts for the control period, which needs to be explained. Further, the claim in respect of provision for Bad & doubtful debts are not being accepted by the Commission for the reason that the same cannot be estimated before hand. The Commission would consider the amount of bad & doubtful debts based on actuals at the time of annual performance review for the relevant period. Since, the provisions cannot be estimated before hand, the provision for other debits may be revised appropriately.

### **12. Subsidy Computations:**

HESCOM in its filing has indicated an amount of Rs.886 Crores as subsidy towards free power to BJ/KJ and IP set installations, payable by GoK for FY11. HESCOM shall furnish detailed computation of subsidy for FY11, based on the proposed average cost of supply. Further, 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. HESCOM shall inform whether ESCOM-wise allocation has been approved by the GoK and if so, a copy of Government Order may be furnished.

### **13. Sales of HESCOM:**

1. The number of installations and sales for FY-11 as per the D-2 format of the filing and as indicated in table at page 26 & Page 28 is shown below:

	As per D2 format	As indicated in table at page 26 & Page 28
Installations –Nos.	3360770	3636457 [table-14]
Sales-MU	6353.22	6253.12 [table-16]

The figures shall be reconciled and the correct figures for FY-11 shall be furnished [category wise].

Similar discrepancies are noted for FY 12 and FY-13. The figures for FY-12 & FY-13 shall also be reconciled and the correct figures [category wise] shall be furnished.

2. As per the estimates, HESCOM has considered total sales of 6353 MU [D2 format] for FY-11. Considering, FY-10 sales of 5738 MU, the growth rate would be 10.72%. For FY-12 the sales growth works out to 23.13% and for FY-13 it would be 10.05%. The year on year growth from FY04 is in the range of 1-8% barring FY-07. The overall Growth of 10.72% for FY-11, 23.13% for FY-12 & 10.05% for FY-13 seems to be higher.

The Commission notes that in the current year due to poor monsoon, as on date, additional generation may not be available. The ESCOMs have resorted to load shedding during the current year. Also keeping in view the time needed for new power plants to get commissioned, the shortage situation may continue next year also. As a result additional sales may not fructify in the next two to three years. Also, even if 24-hours of supply is given, certain categories like domestic, IP sets sector, the increase in consumption may not be substantial, as these categories may shift the time of use of appliances, in case restrictions are imposed. Therefore, the Commission suggests that forecast be made considering the normal growth rate for the current control period with marginal increase, if required. Also, DSM measures such as solar water heaters, CFLs etc. would bring down the consumption, which is not factored by HESCOM.

Category wise sales growth rates as estimated by HESCOM for FY-11 and previous trends based on actual is indicated below:

	MU	MU					
	FY-10	FY-11	Growth	FY05-FY10	FY07-FY10	Year On Year %	Observation
			h	% CAGR	%CAGR	growth since FY07	
						[range]	
LT-1	152.15	170.25	12%	11.38	11.66	6% - 19%[Barring FY-07]	
LT-2a	885.39	975.3	10%	5.68	6.63	1.75% to 8.39%	Growth rate considered by HESCOM is high
LT-2b	9.32	10.53	13%	10.88	16.16	-13.57% to 29.73%	
LT-3	241.12	283.57	18%	13.04	13.24	9.89% to 16.86%	Growth rate considered by HESCOM is high
LT-5	269.92	296.93	10%	4.69	3.22	1.26% to 6.49%	Growth rate considered by HESCOM is high
LT-6 WS	130.91	136.87	5%	6.72	4.49	2.11% to 8.99%	
LT-6 SL	100.64	109.01	8%	-2.18	4.49	-3.55% to 7.49%	Growth rate considered by HESCOM is high
HT-1	138.31	143.72	4%	6.27	3.22	0.29% to 6.95%	
HT_2a	652.38	758.88	16%	13	8.52	1.62% to 15.98%	Growth rate considered by HESCOM is high
HT-2b	82.88	98.37	19%	11.48	14.08	9.54% to 19.62%	Growth rate considered by HESCOM is high
HT-3	60.31	112.3	86%	28.62	21.39	3.12% to 85.90%	Growth rate considered by HESCOM is high
HT-4	11.32	26.62	135%	-1.38	-0.65	-5.19% to 2.12	Growth rate considered by HESCOM is high

Note: LT-4 separate observations has been made.

Keeping in view the above observations, HESCOM shall have a re-look into its category-wise sales forecast and the number of installations.

3. HESCOM shall furnish category wise number of installations as on 31.7.2010 and the corresponding figures as on 31.7.2009. Similarly category wise cumulative sales from Apr-10 to Jul-10 and the corresponding figures Apr-09 to Jul-09 shall also be furnished.

4. Since most of the BJ/KJ installations are metered and read, specific consumption based on meter readings for FY-10 shall be furnished. Normally BJ/KJ installations are serviced as per GoK targets. HESCOM shall furnish targets as per GoK, if any.
5. Since most of the Street Light installations are metered and read, specific consumption [units/kW/month] based on meter readings for FY-10 shall be furnished.
6. Status of household [both BPL & Non-BPL] electrification under RGGVY indicating the targets and achievements as on 31.03.2010 shall be furnished.
  
7. The mid-year no. of IP sets as per the monthly reports is 452945 whereas the same as per filing is 485233 resulting in excess no. of 32298 installations, thus inflating the estimated IP set consumption. HESCOM shall furnish the correct figures.

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