

MESCOM

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

1. Audited/Provisional Accounts:

MESCOM 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 13th 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), MESCOM shall make an application for Annual Review of performance for FY10. Since MESCOM 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:

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

D-18 Details of DCB for FY 08 , FY09 & FY10

D-18A Division –wise DCB for FY08, FY09, FY10

D-19 Energy Flow Diagram for FY10, FY12 & FY13

D-19A Details of Assessment of Commercial Losses, back billing charges demanded, collected and balance etc.

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

4. Capital Investments:

- (i) MESCOM has proposed a capex of Rs. 257 Crores in FY11 for augmenting and strengthening of distribution network to bring down technical losses in the system. However, MESCOM has projected a loss reduction of 0.1% over FY10 loss levels. In view of substantial investment proposed by MESCOM, the loss reduction should be commensurate with the investment.

- (ii) The Commission had considered capex of Rs. 401.64 Crores for FY10 and had allowed interest and finance charges subject to prudence check. To undertake prudence check of the capex for FY10, MESCOM 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, MESCOM 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.

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

6. Power Purchase:

- a) MESCOM has considered power purchase rates of KPCL stations as per approved PPAs in respect of different hydro and thermal stations. MESCOM shall furnish the detailed tariff working sheets for all the three years of the control period.

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

e) MESCOM 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:

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

7. O & M Expenses:

MESCOM has proposed R &M expenses, Employee Cost and A & G expenses separately by applying an inflation rate of 5.26% without justifying the same. The same has not been computed as per the provisions of MYT Regulation (Clause 3.10). 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 figure. Appropriate inflation rate with weightage 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 MESCOM shall furnish revised O & M costs based on the above formula duly considering the efficiency parameters. Further, MESCOM shall propose a mechanism for sharing of losses / gains towards efficiency in incurring the O&M expenses over the control period.

8. Return on Equity

As per Form A-1, MESCOM has indicated a net loss of Rs.558.30 Crores for FY11, which has to be carried forward to the Balance Sheet as a reduction in net worth. Thus, for the purpose of computing the RoE for FY12, the carried forward loss for FY11 has not been factored in to arrive at the equity. Accordingly, the RoE for FY12 onwards needs to be revised.

9. Interest & finance Charges:

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

FY11	Rs. 257.05 Crores
FY12	Rs. 271.73 Cores
FY13	Rs. 260.45 Crores

MESCOM has not indicated the sources of funding of the above capex i.e. through equity, borrowing and internal resources. MESCOM 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. MESCOM 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) MESCOM has not indicated the amount of interest on working capital separately. If MESCOM has incurred any interest on working capital for FY10, the details of actual amount, if any, incurred, may please be furnished along with the head of account under which the same is booked. Computations of interest For FY11-13 on working capital may be furnished as per the MYT Regulations.

10. Other Expenses/Other Debits:

MESCOM in its filing has included the following amounts towards other Expenses/ Other Debits after applying inflation factor.

Year	Amount
FY10	4.41
FY11	4.78
FY12	5.18

The above amount also includes Provisions towards bad & doubtful debts. 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. Hence, the provisions cannot be estimated before hand, the provision for other debits may be revised appropriately.

11. Subsidy Computations:

MESCOM in its filing has indicated an amount of Rs.393.34 Crores as subsidy towards free power to BJ/KJ and IP set installations, payable by GoK for FY11. MESCOM 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. MESCOM shall inform if ESCOM-wise allocation has been approved by the GoK and if so a copy of Government Order may be furnished.

12. Sales of MESCOM:

1. The number of installations and sales for FY-10 as per the DCB Statement furnished to the Commission does not match with that indicated in D-2 format in the filing. This shall be reconciled and the correct figures for FY-10 shall be furnished.
2. MESCOM 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 energy sales from Apr-10 to Jul-10 and the corresponding figures for Apr-09 to Jul-09 shall also be furnished.
3. The overall sales as estimated by MESCOM is as follows:

	FY-10	FY-11	FY-12	FY-13
Sales -MU	2846.38	3396.75	4187.54	4802.84
% Growth		19.34	23.28	14.69

The year on year growth since FY07 is in the range of 2%-9%. Thus, the estimates of MESCOM at 19.34% growth rate for FY 11, 23.28% for FY-12 and 14.69% for FY-13 are on the higher side. MESCOM shall justify this substantial increase. Category wise sales are discussed in the subsequent paragraphs.

4. LT-1: MESCOM has stated that it would add 5247 installations each year in the control period. MESCOM shall clarify whether these additions are under RGGVY or any other scheme approved by GoK. It may be noted that, BESCOM in their filing have stated that there is no special scheme under this category for FY-11 to FY-13.

Further, details of target under RGGVY and status as on 31.3.2010 shall be furnished.

Annexure-b & c regarding working sheet referred in pages 43 & 44, is missing. The same shall be furnished.

MESCOM has considered 18 units/month/installation as the specific consumption. Since most of the BJ/KJ installations are metered and read, specific consumption based on meter readings for FY-10 shall be furnished.

5. LT 2a:

MESCOM has made the following projections:

Category	FY10		FY11		FY12		FY13	
	Instlns. nos.	Sales-MU	Instlns.- nos.	Sales-MU	Instlns. nos.	Sales-MU	Instlns. nos.	Sales-MU
LT 2a(i)	118751	191.96	131018	255.26	144552	329.99	159484	390.95
LT 2a(ii)	308732	258.44	313980	304.34	319318	348.41	324746	365.53
LT 2a (iii)	701666	395.82	807833	504.08	839226	621.79	871966	691.78
Total	1129149	846.22	1252831	1063.68	1303096	1300.19	1356196	1448.26
%Growth rate			10.96	25.69	4.01	22.30	4.07	11.39

Additional sales considered by MESCOM due to additional power supply hours & RGGVY in rural areas:

Category	FY11	FY12	FY13
LT 2a(i)	27.29	59.25	69.42
LT 2a(ii)	32.54	62.56	64.90
LT 2a (iii)	61.29	126.43	137.62
Total	121.12	248.24	271.94
% of total sales	11.39	19.09	18.77

The Commission notes that for LT-2a category the CAGR for installations is 3.12% for the period FY 05 to FY10 and 3.73% for the period FY07 to FY10. Further, year on year growth since FY07 is in the range of 3%-4%.

Similarly, for sales, the CAGR is 9.24% for the period FY 05 to FY10 and 9.99% for the period FY 07 to FY10. Further, year on year growth since FY07 is in the range of 7%-11%.

In view of the above facts, the growth rate of 10.96% for installations & 25.69% for sales estimated for FY10 is too high and may not be achievable. Similarly 22% growth in sales for FY-12 needs to be justified.

MESCOM has stated that due to increased generation availability, there would be increased hours of supply and therefore, has estimated additional sales which accounts for 11% of total sales in FY11 going up to 19% in FY-13. 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 to domestic sector, the increase in consumption may not be substantial to push the growth rate from 11% to 25%. Therefore, the Commission suggests that forecast be made considering the normal growth rate for the current control period. Also, DSM measures such as solar water heaters, CFLs etc.

would bring down the consumption, which is not factored in by MESCOM.

The Commission also notes that under RGGVY 76,066 additional installations is considered for each of the year of the Control period, whereas, for the same number of RGGVY installations in each year, the sales considered is different i.e 21.95 MU for FY-11 and 43.89 MU in FY12 & FY13. The reasons for the difference may be explained. Further, it shall be clarified whether the installations considered include BPL households. Details of target under RGGVY and status as on 31.3.2010 shall be furnished.

Annexures b & c regarding working sheet referred in pages 44 to 48, are not found in the ERC application. The same shall be furnished.

6. LT-2b

MESCOM has made the following sales projections:

	Sales -MU	Sales-MU	Sales-MU	Sales-MU
LT 2b(i)	4.97	6.6	8.51	10.06
LT 2b(ii)	2.64	3.76	5.23	6.66
Total	7.61	10.36	13.74	16.72
%Growth rate		36.14	32.63	21.69

For sales, the CAGR is 15.64% for the period FY 05 to FY10 and 13.32% for the period FY 07 to FY10. Further, year on year growth since FY07 is in the range of 10%-27%. Thus, the estimates of MESCOM at 36% growth rate for FY 11 & 33% rate for FY-12 is on the higher side.

Annexure-b & c regarding working sheet referred to in pages 49 to 51 is missing. The same shall be furnished.

7. LT-3:

MESCOM has made the following projections:

Category	FY10		FY11		FY12		FY13	
	Instlns. nos.	Sales -MU	Instlns. nos.	Sales-MU	Instlns. nos.	Sales-MU	Instlns. nos.	Sales-MU
LT 3a(i)	88296	146.88	90450	186.83	92657	231.00	94918	261.76
LT 3a(ii)	60241	64.14	62470	88.87	64781	119.70	67178	147.77
Total	148537	211.02	152920	275.7	157438	350.7	162096	409.53
%Growth rate			2.95	30.59	2.95	27.20	2.95	16.78

Additional sales considered by MESCOM due to additional power supply hours:

Category	FY11	FY12	FY13
LT 3a(i)	19.98	41.48	46.48
LT 3a(ii)	9.5	21.49	26.24
Total	29.48	62.97	72.72
% of total sales	10.69	17.96	17.76

For sales, the CAGR is 13.06% for the period FY 05 to FY10 and 14.04% for the period FY 07 to FY10. Further, year on year growth since FY07 is in the range of 11%-17%.

In view of the above facts, the growth rate of 30.59% for sales estimated for FY10 and 27.20% for FY-12 is too high and may not be achievable, that too when normal growth rate is estimated for the number of installations.

As far as additional sales, the Commission's views indicated for LT-2a category are reiterated. Therefore, the Commission suggests that forecast be made considering the normal growth rate for the current control period.

Annexures b & c regarding working sheet referred to in pages 51 to 53 are missing. The same shall be furnished.

8. LT-5:

MESCOM has made the following projections:

Category	FY10		FY11		FY12		FY13	
	Instlns. nos.	Sales-MU	Instlns nos.	Sales -MU	Instlns nos.	Sales-MU	Instlns nos.	Sales-MU
LT 5a	19012	125.38	19672	142.27	20355	156.94	21061	158.66
%Growth rate			3.47	13.87	3.47	10.31	3.47	1.09

Additional sales considered by MESCOM due to additional power supply hours:

Category	FY11	FY12	FY13
LT-5	15.21	28.18	28.17
% of total sales	10.69	17.96	17.75

For sales, the CAGR is 1.55% for the period FY 05 to FY10 and 0.48% for the period FY 07 to FY10. Further, year on year growth since FY07 is in the range of -0.13%-3.84%.

In view of the above facts, the growth rate of 13.87% for sales estimated for FY10 and 10.31% for FY-12 is too high and may not be achievable, that too when normal growth rate is estimated for the number of installations.

As far as additional sales, the Commission's views indicated for LT-2a category are reiterated. Therefore, the Commission suggests that forecast be made considering the normal growth rate for the current control period.

Annexures b & c regarding working sheet referred to in pages 59 & 60 are missing. The same shall be furnished.

9. LT-6 Water Supply

MESCOM has made the following sales projections:

	Sales -MU	Sales-MU	Sales-MU	Sales-MU
LT-6	76.90	91.80	106.54	113.27
%Growth rate		19.37	16.05	6.03

Additional sales considered by MESCOM due to additional power supply hours:

Category	FY11	FY12	FY13
LT-6	9.82	19.13	20.11
% of total sales	10.69	17.95	17.75

For sales, the CAGR is 5.77% for the period FY 05 to FY10 and 6.16% for the period FY 07 to FY10. Further, year on year growth since FY07 is in the range of 1%-7%, except in FY10 (11%). Thus, the estimates of MESCOM at 19.37% growth rate for FY 11 & 16.05% rate for FY-12 are on the higher side.

As far as additional sales, the Commission's views indicated for LT-2a category are reiterated. Therefore, the Commission suggests that forecast be made considering the normal growth rate for the current control period.

Annexures b & c regarding working sheet referred in pages 61 & 62 are missing. The same shall be furnished.

10. LT-6 Street Lighting

Additional sales considered by MESCOM due to additional power supply hours:

Category	FY11	FY12	FY13
LT-6	5.49	10.07	9.96
% of total sales	10.69	17.95	17.76

As far as additional sales is concerned, the Commission's views indicated for LT-2a category are reiterated. Further, street lights would be normally switched on from 6.00PM to 6.00 AM. Even though there is load shedding in the current year, the same was not there for the past 2-3 years. In such a case there would not be any curtailment to streetlights in the earlier years. As such the need for additional sales to the extent proposed may not arise.

Since most of the Street Light installations are metered and read, specific consumption based on meter readings for FY-10 shall be furnished.

Annexures b & c regarding working sheet referred in pages 63 are missing. The same shall be furnished.

11. HT-2a:

Additional sales considered by MESCOM for SEZ installations:

Category	FY11	FY12	FY13
HT-2a	37.37	276.54	530.66
% Of total sales	6.4	32.73	47.32

MESCOM shall furnish the working details in arriving at the above additional sales. MESCOM shall also give details of industries under SEZ who have applied for connection with CD details.

In D-21 sales is considered as 549 MU and number of installations as 503 numbers as against 504 installations in page-74 and 583.86 MU indicated in Page-75. The figures shall be reconciled.

12. HT-4a

Additional sales considered by MESCOM for SEZ installations:

Category	FY11	FY12	FY13
HT-2a	4.25	9.92	12.05
% Of total sales	32.71	50.56	52.80

MESCOM shall furnish the working details in arriving at the above additional sales. MESCOM shall also give details of Residential installations under SEZ who have applied for connection with CD details.

13. Under SEZ, MESCOM has considered 6 additional installations for FY-11, 2 installations for FY-12 and 2 installations for FY-13 for LT-6 Water Supply, LT-6 Street lights and for HT-4a categories. MESCOM shall explain how the number of additions be the same for all these categories.
