

## **CESC**

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

#### **1. Provisional Accounts:**

CESC has filed an application for approval of ERC for FY11 to FY13 and Tariff revisions for FY11. CESC has not furnished the audited/ provisional accounts for FY10. The same shall be submitted to the Commission immediately.

#### **2. Annual Review of Performance for FY10**

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), CESC shall make an application for Annual Review of performance for FY10. Since CESC 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 account, 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. Formats to be furnished:**

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

- a) 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.
- b) Format 20 indicating existing tariff and proposed tariff for FY11 is not furnished. The same shall be furnished.
- c) Format 22 indicating revenue when proposed tariff is introduced for part of the year is not furnished for FY11. The same shall be furnished

d) The statement pertaining to Embedded cost of supply (D23) has not been furnished. The same shall be furnished.

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

CESC has proposed a capex of Rs.1128 Crores for the control period FY11 to FY13. The Commission had considered a capex of Rs.321.50 Crores for FY10. In order to undertake prudence check of the capex actually incurred for FY10, CESC shall furnish the details of actual capital works undertaken during FY10, in the formats prescribed by the Commission.

#### **5. Distribution Loss**

a. As required to be furnished under clause 2.5.1(d) of MYT Regulations, CESC 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. CESC shall comply with the provisions of MYT regulations in this regard.

b. CESC has furnished energy flow diagram as per formats D-19 for FY11, FY12 & FY13. However, it is observed that LT losses, transformation losses and other losses are indicated as 5.80%, 2.50% and 1.50% respectively for all the three years of the Control period. CESC shall explain how these figures could be same for all the three years. Further, as per distribution loss trajectory furnished on page 71 of the filing, it is indicated that HT losses are more than LT losses for each year of the control period. CESC shall explain why losses on HT side is more than that on the LT side.

c. The loss reduction for the control period shown on page 72 of the filing is 0.56%, 0.46% and 0.14% respectively. Whereas the proposed CAPEX is Rs.438 Crores, Rs. 485 Crores and Rs. 205 Crores for three years of the control period. The proposed loss reduction is not commensurate with

the proposed investments. CESC shall propose loss reduction on a more realistic basis.

## 6. Power Purchase:

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

b) CESC 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) CESC 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

d) 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.

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

f) CESC has indicated a surplus energy of 1009 MU in FY12 and 1331 MU in FY13 and the same is proposed to be traded with in the state or through trading. CESC shall clarify as to whether this surplus energy is arrived at after considering 24 hours unrestricted power supply to all its consumers.

## **7. Depreciation:**

The Depreciation is stated to have been computed as per CERC norms, which are worked out at 4.37% on mid-year average of GFA for the control period. Detailed working sheet indicating the percentage of depreciation adopted for individual assets may be furnished for all the three years of the control period.

## **8. Return on Equity**

CESC has proposed RoE as per the revised rates of CERC. However, it has not submitted its provisional/Audited accounts for FY10. In order to determine the reserves and surplus from FY11 onwards, CESC is requested to furnish its provisional/Audited accounts for FY10. Further, it is observed from A2 format that, reserves and surplus from FY11 to FY13 show a negative figure for all the three years of the control period, thus making

the share holders fund as negative. CESC shall justify as to how it can claim RoE on negative shareholders' fund.

## **9. Interest & finance Charges:**

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

## **10. Other debits/Expenses:**

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

Year	Other Debits	Provision for Bad & doubtful debts included in other debits
FY11	15.18	9.07
FY12	20.18	12.05
FY13	25.18	15.04

The Commission in its MYT order dated 22<sup>nd</sup> January 2008 had decided that the provision for bad debts etc, cannot be estimated over a three year period and hence had not allowed the said provision. The Commission had decided to allow the bad debts actual written off (as per actuals) for which CESC has to submit specific proposals to the Commission. In the light of this CESC shall suitably revise the proposal for other debit

## **11. Subsidy Computations:**

CESC in its filing has indicated an amount of Rs.416.00 Crores as subsidy towards free power to BJ/KJ and IP set installations, payable by GoK for

FY11. CESC 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. CESC 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 Forecast:

1. The number of installations and sales for FY-10 as per the DCB furnished to the Commission and as per D-2 format is indicated below:

	As per DCB	As per D-2
Installations –Nos.	2181208	2300708
Sales-MU	1946	2665

The figures shall be reconciled and the correct figures for FY-10 shall be furnished.

2. CESC has considered Scenario-7 for estimating sales. As per this scenario CESC has considered total sales of 3999 MU. Considering, FY-10 sales of 3548 MU, the growth rate would be 12.71%. The year on year growth from FY08 is in the range of 1-8%. The overall Growth of 12.71% seems to be higher. CESC itself has considered 7% growth for FY-12 & FY-13.

In arriving at the above sales CESC has assumed correction factors assuming that power supply position would improve and therefore additional hours of supply is considered. 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. Thus increasing sales in proportion to increase in hours of supply may not be correct. 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 CESC.

CEA in the 17<sup>th</sup> EPS has also estimated unrestricted requirement. Thus applying correction factors to the unrestricted forecasts leads to double accounting.

Further, in scenario-7, it is stated that projections are made based on Average consumption. Such approach for HT-categories and LT-industries may not be correct, as these categories would have consumers with wide range of energy intensities.

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

Category	FY-11 % Growth rate based on estimates of CESC	FY-05 to FY-10 CAGR [Actual]	FY-07 to FY-10 CAGR [Actual]	Year on Year Growth since FY 07 [Range]	Observation
LT-1	24.0	18.4	29.3	-9.75 to 54.77	
LT-2a	13.9	6.2	5.45	4.2 to 11.32	Growth rate considered by CESC is high
LT-2b	13.9	13.7	10.4	-6.72 to 37.57	
LT-3	14.2	14.2	15.0	11.31 to 19.32	
LT-5	7.9	2.3	0.43	-0.3 to 4.89	Growth rate considered by CESC is high
LT-6 WS	5.2	5.8	6.0	0.11 to 10.05	
LT-6 SL	14.7	-4.97	-11.86	-39.20	Growth rate

				to 49.28	considered by CESC is high
HT-1	15.1	3.17	3.99	0.77 to 5.65	Growth rate considered by CESC is high
HT-2a	15.1	12.38	9.65	6.8 to 17.92	
HT-2b	15.1	14.72	16.65	14.54 to 25.75	
HT-4	15.0	6.2	5.15	-0.17 to 13.86	Growth rate considered by CESC is high

Note: LT-4 separate observations has been made.

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

Category	FY-11 % Growth rate based on estimates of CESC	FY-05 to FY-10 CAGR [Actual]	FY-07 to FY-10 CAGR [Actual]	Year on Year Growth since FY 07 [Range]	Observation
LT-1	7.4	28.2	27.1	14.86 to 49.60	Growth rate considered by CESC is low
LT-2a	5.5	1.4	0.80	-3.81 to 3.54	Growth rate considered by CESC is high
LT-2b	5.5	16.8	25.6	-15.99 to 84.81	Growth rate considered by CESC is low
LT-3	3.9	5.4	3.5	1.05 to 13.09	
LT-5	3.9	5.1	3.4	2.49 to 5.23	
LT-6 WS	5.0	4.6	5.4	4.59 to 6.41	
LT-6 SL	6.9	11.7	7.5	3.18 to 21.09	
HT-1	9.4	5.5	3.9	1.69 to 9.62	Growth rate considered by CESC is high
HT-2a	9.1	15.8	13.1	13.76 to 27.42	Growth rate considered by CESC is low
HT-2b	9.0	15.3	14.1	11.79 to 17.65	Growth rate considered by

					CESC is low
HT-4	7.9	2.3	0.88	0 to 2.70	Growth rate considered by CESC is high

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

3. CESC 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 for Apr-09 to Jul-09 shall also be furnished.
4. CESC has considered 13 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. Further, BJ/KJ installations are being added as per GoK targets. Hence, CESC shall furnish details of targets as per GoK, if any.
5. Since most of the Street Light installations are metered and read, specific consumption based on meter readings for FY-10 shall be furnished.
6. CESC shall furnish details of household electrification (both BPL & non-BPL) under RGGVY, specifying the targets and achievements, as on 31.03.2010.

\*\*\*\*\*

