

CESC

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

1. Details to be furnished in Formats:

- a) In format A1, the provisional figures for FY11 indicate transmission loss of 8.80%. Similarly for FY12 transmission loss is considered at 5.81%. CESC shall furnish revised data considering actual transmission loss for FY11 and approved transmission loss for FY12.
- b) As per format A2, it is observed that, a negative networth of Rs.349.40 Crores has been indicated for FY11 and negative networth of Rs.300.34 Crores has been indicated for FY12 as against a negative networth of Rs.125.46 Crores in FY10. This calls for immediate intervention for infusion of equity. CESC shall inform action taken in this regard.
- c) In format A2 it is observed that the receivables against sale of power has increased year on year and is almost equal to revenue demanded for the respective years. CESC shall furnish the action taken to arrest huge receivables.
- d) In respect of employee cost, CESC 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) CESC shall clarify whether the increase in pay due to proposed revision due from 1.4.2010 has been factored in the employee cost data furnished under Form D6. Further, CESC shall separately indicate the employee cost component due to proposed

revision of pay for FY11 & FY12 since interim relief has already been indicated for FY11.

- f) As per format D6 (a) it is observed that the number of sanctioned posts projected for FY12 is less than the actual number of sanctioned posts in FY11.
- g) As per the formats D9, D15, D16 & D17 it is observed that the assets proposed to be created (including WIP) FY12 is Rs.399.00 Crores whereas estimated increase in loans is Rs.172.90 Crores. As such there is a mismatch between the asset proposed to be created and the estimated loan amount.
- h) In format D10 the details of expenses capitalized has not been indicated by CESC.
- i) In respect of format D13, for FY11 it is indicated that Rs.4.11 Crores is power purchase cost relating to previous years for which CESC is required to furnish the details.
- j) Format D19(a) regarding commercial losses identified and assess for FY11 & FY12 respectively has not been furnished.

2. Annual Performance Review 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) CESC is required to furnish provisional / audited accounts. This is to ensure that any deficit or surplus for FY11 is carried forward to the ERC of the next control period.

The Commission in its Tariff Order 2010, had provided for Rs.0.50 Crores towards fund for consumer relations/consumer education. CESC has not indicated whether it has actually incurred expenditure under this head.

As regards variation in quantum of actual power purchase and allocation by GoK, it is suggested that CESC has to take up reconciliation of energy and cost between allocation and actuals every year. Accordingly, CESC shall furnish correct data of power purchase quantum and cost.

Further, CESC has not furnished details of capital expenditure incurred for FY11 as per the formats specified by the Commission for carrying out prudence check.

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:

1. The following discrepancies in Revenue are noted between D-2 and D-21 formats:

Category	D-2 Revenue-Rs. Crs	D-21 revenue Rs. Crs.
LT-1	0.0	34.69
LT 4A(I)	0	606.31
LT 4A(II)	0	17.93
TOTAL	1209.52	1781.72

The figures shall be reconciled between D2 & D21.

2. 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.	3.07 to 49.60	26.08	15.61	0.41
Sales	-9.75 to 54.77	18.09	17.82	9.50
LT-2a Instl.	-3.81 to 3.54	1.84	3.19	5.50
Sales	4.20 to 11.32	7.77	6.76	8.95
LT-2b Instl.	-15.99 to 84.81	13.55	6.66	5.47
Sales	-6.72 to 37.57	14.65	2.63	8.93
LT-3 Instl.	1.05 to 13.09	5.61	4.71	4.00
Sales	11.31 to 19.32	15.91	14.44	8.86
LT-4a Instl.	2.7 to 5.63	4.45	3.90	5.00
Sales	-6.05 to 49.62	11.40	6.80	9.04
LT-5 Instl.	2.49 to 5.23	3.76	3.67	4.00
Sales	-0.30 to 6.71	2.54	2.16	5.79
LT-6 WS Instl.	3.44 to 6.41	5.14	4.42	5.00
Sales	0.11 to 10.05	6.04	4.79	4.24
LT-6 SL Instl.	3.18 to 21.09	9.24	4.40	7.00
Sales	-39.20 to 49.28	-0.65	2.13	9.71
HT-1 Instl.	1.69 to 9.62	5.51	4.8	8.82
Sales	0.77 to 5.65	3.18	4.05	13.91
HT-2a Instl.	10.38 to 27.42	16.24	14.55	8.97
Sales	6.80 to 22.46	13.81	11.96	13.90
HT-2b Instl.	11.79 to 17.65	14.87	13.23	9.07
Sales	14.54 to 25.75	19.07	16.54	13.90
HT-4 Instl.	0 to 10.53	2.57	4.27	9.52
Sales	-0.17 to 22.65	10.21	11.15	13.64
Total Instl.	2.58 to 8.70	5.71	5.72	4.25
Sales	1.10 to 27.40	9.99	7.64	10.04

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

- a. **LT-1**- The specific consumption has increased from 12.33 units in FY11 to 13.44units/installation/month in FY12. This shall be clarified.
- b. **LT-2a**: Considering the past trends the growth rate of 5.5% for installations and 8.95% for sales seems to be on higher side.
- c. **LT-3**: The growth rate of 8.86% considered for sales is on the lower side when compared to past trends.
- d. **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 7786 units as against the actual of 7496 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 7097units/IP/year. CESC shall explain the reasons for considering higher specific consumption.
- e. **LT-5**: considering the past trends, a sales growth of 5.79% seems to be on higher side.
- f. **LT-6 Streetlights**: Specific consumption/kW/month of connected load as per FY-11 actual meter readings shall be furnished.
- g. **HT-1**: The growth in installations is estimated at 8.82% and the sales growth is estimated at 13.91%, which is too high considering the past trends. Reasons for the same shall be furnished.
- h. **HT-2a**: Considering the normal trends in growth rates, the installations growth at 8.97% is on the lower side. Reasons for

the same shall be furnished. Details of pending applications shall be furnished along with Contract Demand for this category.

- i. **HT-2b:** Considering the normal trends in growth rates, the number of installations at 9.07% growth and sales estimate at 13.90% is on the lower side. Further it is noted that in the last 5 years, the minimum growth rate achieved is 14.54% for sales. Reasons for estimating lower growth rate shall be furnished.
 - j. **HT-4:** Considering the past trends, the growth rate for installations as well as sales is on the higher side.
3. Actual category wise sales for the months of April, May and June for the years FY10, FY11 and FY12 shall be furnished.
 4. The Fixed charges as per D-21(b) at proposed tariff is Rs.140.19 Crores. Considering the fixed cost liability of Rs.126.80 Crores towards power purchase as indicated in D-1, there would not be much funds left to meet the other fixed charges like transmission charge etc. The reasons for not estimating FC appropriately may be furnished.

b. Distribution Losses:

It is observed that, CESC has reported distribution losses of 15.48% as against a targeted distribution loss of 15.50% for FY11. It is to be noted that CESC has reduced the distribution losses from 16.42% in FY10 to 15.48% in FY11, which shows a reduction of 0.94%. However, while projecting for FY12, CESC has proposed a distribution loss of 15.25% thereby showing a reduction in distribution loss by 0.23% from FY11. Further considering the CAPEX programme of CESC in the past and the proposed CAPEX for FY12 and based on its achievements in reduction of

distribution losses in the past, CESC shall indicate loss reduction as achieved in FY11.

4. Power Purchase:

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 (CESC)							
Source	FY-12 Tariff filing			Actuals of FY-11			Difference in Avg Rate (Ps/KWH)
	Energy in MU	Cost in Rs. Crs	Avg Rate (Ps/KWH)	Energy in MU	Cost in Rs. Crs	Avg Rate (Ps/KWH)	
KPCL Hydel	2293.55	156.30	68.15	1181.71	74.13	62.73	5.42
KPCL Thermal	490.60	140.26	285.89	1107.24	321.37	290.24	-4.35
CGS	1096.77	333.14	303.75	1169.59	296.57	253.57	50.18
Major IPPs	541.40	228.47	422.00	914.77	415.26	453.95	-31.95
NCE (Minor IPPs)	625.12	212.65	340.17	629.14	221.56	352.16	-11.99
Others	409.74	97.40	237.71	132.77	28.59	215.33	22.38
Short-term	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	5457.18	1168.22	214.07	5135.22	1357.48	264.35	-50.28

CESC is required to clarify the variation in its projections especially with respect to average cost.

5. Revision of Tariff for FY12

It is observed that the actual average cost of supply for FY11 is Rs.4.83 per unit whereas the same is proposed at Rs.4.27 per unit for FY12 on the basis of revised ARR for FY12. As such CESC shall clarify its proposal of tariff hike at 88paise per unit.

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 + 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 CESC is required to propose with suitable corrections in line with the Tariff Policy.

Category	Avg.cost of supply (Paise/unit)	Avg. Realn. (Paise/unit)	Percentage cross subsidy
LT 2 (a)			
LT2(a)(I)	427	441.76	3.46%
LT2(a)(II)	427	383.51	-10.18%
LT 2 (b)			
LT2(b)(I)	427	727.98	70.49%
LT2(b)(II)	427	691.43	61.93%
LT 3			
LT 3(I)	427	800.98	87.58%
LT 3(II)	427	754.06	76.60%
LT 4 (b)	427	470.59	10.21%
LT 4 (c), LT 4(c i)	427	255.16	-40.24%
LT 4 (c ii)	427	296.67	-30.52%
LT 5	427	598.24	
LT 6(a)	427	510.95	19.66%
LT 6(b)	427	540.00	26.46%
LT 7	427	1260.02	195.09%
HT 1	427	491.94	15.21%
HT 2 a	427	634.47	48.59%
HT 2(b)	427	731.83	71.39%
HT 3 a			
HT 3(a)(i)	427	363.80	-14.80%
HT 3 b	427	400.00	-6.32%
HT 4			
HT 4(a)	427	581.15	36.10%
HT 4(b)	427	623.97	46.13%

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/10/11/

Dated: 28th June 2011

1. CESC 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/10/11/

Date: 28th June 2011

The Managing Director,
Chamundeshwari Electricity Supply Corporation Ltd.,
Corporate office
No.927, L.J.Avenue
New Kantharaja Urs Road
Saraswathipuram
MYSORE – 570 009

Sir,

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

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