

## HESCOM

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

In its prayer in the Tariff filing for FY12, HESCOM has not sought approval of APR for FY11 and has sought increase in tariff by 88paise per unit without seeking any revision of ARR for FY12. HESCOM shall clarify.

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

- a) Formats A2, A3, A4, D1 for the year FY11, D3, D4, D5, D6, D6 (a), D7, D8, D9, D10, D11, D12, D13, D14, D15, D16, D17, D18, D18 (a) D19 & D19 (a), as specified under KERC (Tariff) Regulations 2000 has not been furnished.
- b) As per format A1, it is observed that,
  - i) Data pertaining to energy purchase, energy available at interface point does not tally with the transmission loss indicated.
  - ii) The energy purchase indicated for FY12 is at 14.48% whereas increase in sales is indicated at only 12.23%.
- c) In format D2 the projections of sales for FY12 has been made based on the actual data for the month of March 2011 only. The estimated sales for FY12 should be based on the actual sales for the entire year FY11.

## **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) HESCOM 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 year.

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

As regards power purchase quantum and cost incurred for FY11 and allocation made by GoK to each of the ESCOMs, it is suggested that HESCOM and other ESCOMs (will be informed) have to conduct reconciliation of energy and cost between allocation and actuals every year and the same shall be furnished to the Commission.

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.

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

### 3. ARR and Tariff Revision for FY12:

#### a. Energy input and Sales:

1. 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.	2.85% to 12.79%	8.05%	8.00%	15.86%
Sales	2.42% to 99.0%	23.27%	8.94%	-2.42%
LT-2a Instl	0.85% to 4.68%	2.90%	3.65%	5.46%
Sales	1.75% to 8.39%	6.00%	7.15%	-11.71%
LT-2b Instl.	4.39% to 10.92%	8.46%	10.17%	9.50%
Sales	7.79% to 29.73%	7.96%	9.27%	-8.62%
LT-3 Instl.	4.56% to 6.82%	5.24%	5.37%	7.27%
Sales	9.89% to 16.86%	13.55%	14.22%	-8.65%
LT-4a Instl.	2.29% to 11.43%	4.49%	2.53%	5.75%
Sales	-4.35% to 18.22%	5.75%	6.68%	29.87%
LT-5 Instl.	5.66% to 9.95%	7.00%	7.65%	10.67%
Sales	1.26% to 6.49%	4.03%	2.68%	-8.28%
LT-6 WS Instl.	5.64% to 9.69%	7.46%	7.76%	11.94%
Sales	2.11% to 18.21%	8.02%	8.38%	-3.34%
LT-6 SL Instl.	3.55% to 17.04%	8.84%	4.82%	9.97%
Sales	-3.55% to 10.60%	4.04%	5.48%	-6.89%
HT-1 Instl.	1.05% to 16.19%	9.86%	12.98%	5.92%
Sales	0.95% to 6.29%	4.29%	4.32%	-11.68%

HT-2a Instl.	14.19% to 19.47%	17.28%	15.97%	18.76%
Sales	1.62% to 17.33%	11.76%	10.34%	-6.36%
HT-2b Instl.	5.12% to 8.16%	6.47%	6.64%	10.00%
Sales	7.56% to 19.62%	12.41%	10.15%	-12.50%
HT-3 Instl.	-1.09% to 9.89%	4.2%	4.12%	3.54%
sales	0.86% to 85.90%	27.53%	10.71%	20.68%
HT-4 Instl.	-4.17 to 8.33%	1.61%	2.68%	38.46%
Sales	-17.82%to 2.12%	-4.30%	-7.27%	-30.23%
Total Instl.	2.18% to 6.02%	4.46%	4.67%	8.07%
Sales	1.23% to 14.43%	7.06%	7.31%	12.23%

**Note: FY-11 sales information as received through e-mail.**

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

- a. **Total Sales:** The estimated growth rate of 12.23% for total sales in HESCOM area is high. The reasons for estimating such high growth rates shall be furnished.
  
- b. **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 8515 units as against the actual of 6934 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 7960 units/IP/year. HESCOM shall explain the reasons for considering higher specific consumption.
  
- c. The Commission notes that in all the categories excluding LT-4a and HT-3, the sales growth for FY-12 is negative in spite of positive growth in the number of installations. Reasons for the same shall be furnished.

2. Actual category wise sales for the months of April, May and June for the years FY10, FY11 and FY12 shall be furnished.
3. The Fixed charges as per D-21(b) at proposed tariff is Rs.199.44 Crs. Thus the fixed charges will not even cover the estimated fixed cost liability of Rs.379.53 Crs towards power purchase. The reasons for not estimating FC appropriately may be furnished.
4. Revenue from sales for FY 11 as per actuals is indicated as Rs. 2745.27 Crs whereas the revenue from sales after proposed revision is indicated as 1533.03 Crs. Thus there is a reduction of Rs. 1212.24 Crs in revenue for FY12 when compared to FY11 actuals. Reasons for the same shall be explained.

**b. Distribution Losses:**

It is observed that, HESCOM has reported distribution losses of 20.55% as against a targeted distribution loss of 20% for FY11. It is to be noted that HESCOM has reduced the distribution losses from 20.86% in FY10 to 20.55% in FY11, which shows a reduction of 0.31%. However, the data furnished in respect of distribution losses as per A1 does not tally with data furnished under Table-49 on Page 45. HESCOM shall clarify the correct data.

**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 (HESCOM)							
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	4703.22	241.04	51.25	2474.88	155.32	62.76	-11.51
KPCL Thermal	1260.17	364.93	289.59	1632.79	488.64	299.27	-9.68
CGS	1879.31	570.84	303.75	2005.49	513.13	255.86	47.89
Major IPPs	798.53	295.78	370.41	325.24	85.20	261.96	108.45
NCE (Minor IPPs)	832.42	284.13	341.33	830.88	299.00	359.86	-18.53
Others	49.45	10.86	219.62	1361.34	678.77	498.60	-278.99
Short-term	243.54	138.07	566.93	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>9766.64</b>	<b>1905.65</b>	<b>195.12</b>	<b>8630.62</b>	<b>2220.06</b>	<b>257.23</b>	<b>-62.11</b>

HESCOM 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.4.63 per unit whereas the same is proposed at Rs.4.03 per unit for FY12 on the basis of revised ARR for FY12. As such HESCOM 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 HESCOM is required to propose with suitable corrections to comply with the Tariff Policy.

Category	Avg. cost of supply (Paise/unit)	Avg. Realn. (Paise/unit)	Percentage cross subsidy
<b>LT 2 (a)</b>			
LT2(a)(I)	403	483.17	19.89%
LT2(a)(II)	403	519.48	28.90%
<b>LT 2 (b)</b>			
LT2(b)(I)	403	705.64	75.10%
LT2(b)(II)	403	602.09	49.40%
<b>LT 3</b>			
LT 3(I)	403	723.52	79.53%
LT 3(II)	403	675.44	67.60%
<b>LT 4 (b)</b>	403	236.56	-41.30%
<b>LT 4 ©,</b>	403	511.02	26.81%
<b>LT 5</b>	403	129.03	-67.98%
<b>LT 6(a)</b>	403	439.36	9.02%
<b>LT 6(b)</b>	403	425.13	5.49%
<b>LT 7</b>	403	1303.52	223.45%
<b>HT 1</b>	403	444.87	10.39%
<b>HT 2 a</b>	403	559.91	38.94%
HT 2(b)	403	712.44	76.78%
<b>HT 3 a</b>			
HT 3(a)(i)	403	125.33	-68.90%
HT 3(a)(ii)	403	833.33	106.78%
HT 3(a)(iii)	403	111.87	-72.24%
<b>HT 4</b>			
HT 4(a)	403	479.77	19.05%
HT 4(b)	403	348.26	-13.58%

In general, in view of the above observations, the tariff revision proposal submitted by HESCOM needs to be revised substantially.

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## KARNATAKA ELECTRICITY REGULATORY COMMISSION

### NOTE

**NO.B/08/11/**

**Dated: 28<sup>th</sup> June 2011**

1. HESCOM vide its letter dated 15<sup>th</sup> 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/08/11/

Date: 28<sup>th</sup> June 2011

The Managing Director,  
Hubli Electricity Supply Company Ltd.,  
Corporate Office  
Nvanagar, P.B.Road  
HUBLI – 580 025

Sir,

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

Ref: 1. Letter No.HESCOM/CGMT/BC-19/F-1001/8458 dated 13<sup>th</sup> August 2010  
2.Letter No.HESCOM/BC-26/2411/2009-10/8925 dated 06.09.2010

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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 HESCOM directly to enable the HESCOM 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 HESCOM'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 10<sup>th</sup> /11<sup>th</sup> 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