

MESCOM

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, carrying cost of Rs.9.11Crores is indicated at an interest rate of 12% per annum. MESCOM shall clarify the basis of arriving at 12% rate of interest.
- b) As per format A2, it is observed that, the networth of the Company has come down to Rs.82.74 Crores in FY12 from the approved networth of Rs. 243.93 Crores. Further, the estimated Debt Equity ratio for FY12 is indicated as 1: 5.47 calling for immediate intervention for infusion of equity. MESCOM shall inform action taken in this regard.
- c) In respect of format D3, details in respect of FY10, FY11 & FY12 have not been furnished.
- d) In respect of employee cost, MESCOM 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) As for format D6 it is observed that the employee cost has increased from Rs.151.73 Crores in FY11 to Rs.180.78 Crores in FY12. MESCOM shall clarify whether the increase in pay due to proposed revision from 01.04.2010 has been factored. Further, MESCOM shall separately indicate the employee cost component due to proposed revision of pay for FY11 & FY12 separately since interim relief has been indicated for FY11.

- f) MESCOM has not furnished the details of additional information on employee cost as per format D6(a).
- g) In the format D9, D15, D16 & D17 it is observed that asset created (including WIP) for FY11 is Rs.189.93 Crores whereas the increase in loan balance during the period is Rs.30.44 Crores. Further the assets proposed to be created (including WIP) FY12 is Rs.125.54 Crores whereas estimated increase in loans is Rs.134.09Crores. As such there is a mismatch between the asset created and the loan amount indicated.
- h) In respect of format D13, it is indicated that Rs.8.40 Crores is power purchase cost relating to previous years for which MESCOM is required to furnish the details.
- i) Format D19(a) regarding commercial losses identified and assess for FY11 & FY12 respectively has not been furnished.

2. Annual Performance Review for FY11:

The Commission in its Tariff Order 2010, had provided for Rs.0.50 Crores towards fund for consumer relations/consumer education. However, it is observed that, MESCOM has not indicated expenditure under this head.

MESCOM has raised one substantive issue confronting the gross variation in between the allocation of power government and actual power purchased by MESCOM this type of distortion has been faced by the many of ESCOMs but never slated to commission for a possible solution. MESCOM may take up this issue with the Government so as to reflect true picture of power purchase cost. It is also suggested that MESCOM and other ESCOMs (will be informed) to conduct reconciliation of energy and cost between allocation and actuals every year.

In the present case it is observed that MESCOM has paid its power purchase cost for 4275.86 MU as against an actual consumption of 3750.09 MU thereby indicating payment for an extra 525.77 MU, which has not been consumed by MESCOM. As such MESCOM is required to restrict its claims on actual consumption for FY11 and furnish its revised ARR for FY11.

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

As against an approved transmission charges of Rs.110.87 Crores, MESCOM has indicated an amount of Rs.96.86 Crores. The reason for reduction in transmission charges shall be furnished.

3. ARR and Tariff Revision for FY12:

a. Energy input and Sales:

The following are the category wise observations on sales forecast for FY12:

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

Category	D-2 sales-MU	D-21 sales-MU
LT-5	143.19	140.55
LT-6 W/S	90.91	90.08
LT-6 St. Lts.	55.20	54.72
LT-7	41.31	41.24
HT-1	90.06	89.99
HT-2a	693.86	687.83
HT-2b	201.75	200.02
Total	3566.21	3540.80

Similarly, the following discrepancies in revenue is noted:

Category	D-2 Revenue-Rs. Crs	D-21 Revenue Rs. Crs.
LT 4a	237.82	250.90
HT 2a	384.05	358.29
Total	1727.19	1740.27

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.	1.75% to 21.63%	8.11%	8.52%	1.56%
Sales	-13.77%to 37.81%	9.23%	13.07%	-9.72%
LT-2a Instl	3.35% to 4.05%	3.83%	3.90%	3.74%
Sales	7.09 to 10.76%	9.07%	9.71%	14.35%
LT-2b Instl.	3.99% to 7.78%	4.79%	4.0%	3.91%
Sales	6.57% to 26.76%	14.56%	9.97%	11.22%
LT-3 Instl.	2.10% to 3.88%	3.03%	3.10%	3.73%
Sales	10.68% to 16.82%	13.20%	14.44%	14.80%

LT-4a	Instl.	3.18% to 4.68%	4.03%	3.80%	12.44%
	Sales	-9.04% to 30.81%	6.17%	4.23%	8.64%
LT-5	Instl.	2.31% to 5.57%	3.76%	4.54%	5.28%
	Sales	-0.13% to 5.37%	2.11%	2.16%	8.39%
LT-6	WS Instl.	2.39% to 6.28%	4.27%	4.48%	2.34%
	Sales	0.79% to 11.37%	5.93%	5.79%	11.88%
LT-6 SL	Instl.	-0.05% to 14.39%	5.84%	2.21%	4.08%
	Sales	-14.33%to 10.20%	-4.15%	0.32%	12.88%
HT-1	Instl.	2.63% to 35.71%	14.46%	12.01%	14.55%
	Sales	2.58% to 30.67%	13.02%	18.08%	23.39%
HT-2a	Instl.	10.15% to 14.68%	13.09%	13.41%	11.99%
	Sales	-31.12%to 14.65%	-2.25%	6.94%	15.14%
HT-2b	Instl.	2.33% to 7.79%	5.23%	6.29%	7.23%
	Sales	9.09% to 15.16%	12.02%	10.82%	15.07%
HT-4	Instl.	-9.38% to 9.26%	3.3%	0.56%	3.33%
	Sales	-21.50%to 12.08%	-1.39%	9.20%	13.12%
Total	Instl.	3.67% to 5.52%	4.19%	4.27%	4.61%
	Sales	1.8% to 10.94%	5.54%	7.98%	12.50%

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

- a. **Total Sales:** The estimated growth rate of 12.50% for total sales in MESCOM area is high. Excluding FY11, the highest growth achieved in the last 5-years is 8.60%. The reasons for estimating such high growth rates shall be furnished.
- b. **LT:1-**Reasons for reduction in sales of BJ/KJ in FY-12 may be furnished. While there is an increase in number of installations, the sales for this category has been decreased by 9.72% indicating that the specific consumption has decreased. This shall be clarified by furnishing the actual data based on meter readings of BJ/KJ installations for FY-11.

- c. **LT-2a:** Considering the past trends the growth rate of 14.35% for FY-12 for sales seems to be on the higher side. With normal growth proposed for the number of installations, this indicates that the specification consumption has to increase from 65 to 72 units/installation/month. This shall be clarified in the light of DSM programs being initiated by MESCOM.
- d. **LT 4a:** The reason for increasing the number of installations by 12.44% may be furnished. MESCOM shall also clarify whether there are any specific targets fixed by GoK.
- e. **LT-5:** Considering the highest growth rate in the past 5-years of 5.37%, a sales growth of 8.39% seems to be on higher side.
- f. **LT-6 W/s:** Sales growth rate of 11.88% appears to be on higher side considering 2.34% Growth in installations and sales CAGR of 5.93% in last 5-years. Reasons shall be furnished.
- g. **LT-6 Streetlights:** Specific consumption/kW/month of connected load as per FY-11 actual meter readings shall be furnished.
- h. **HT-1:** The sales growth is estimated as 23.39%, is high considering the past trends. The highest growth, excluding FY-10, is 18.16% in the last 5-years. Reasons for the same shall be furnished.
- i. **HT-2a:** Details of pending applications shall be furnished along with Contract Demand for this category.
- j. **HT-4:** Considering the past trends, the estimated sales growth rate of 13.12% for FY-12 seems to be on 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.142.54 Crores. Thus the fixed charges will not even cover the estimated fixed cost liability of Rs.159.10 Crores towards power purchase. The reasons for not estimating FC appropriately may be furnished.

b. Distribution Losses:

It is observed that, MESCOM has reported distribution losses of 11.92% as against a targeted distribution loss of 12.50% for FY11. It is to be noted that MESCOM has reduced the distribution losses from 12.64% in FY10 to 11.92% in FY11, which shows a reduction of 0.72%. However, while projecting for FY12, MESCOM has proposed a distribution loss of 12.10% thereby showing an increase in distribution loss by 0.18% from FY11. Further considering the CAPEX programme of MESCOM in the past and the proposed CAPEX for FY12 and based on its achievements in reduction of distribution losses in the past, MESCOM 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 (MESCOM)							
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	1909.19	97.47	51.05	1146.30	73.97	64.53	-13.48
KPCL Thermal	396.83	115.92	292.12	892.78	246.72	276.35	15.76
CGS	861.11	261.57	303.76	865.95	230.47	266.15	37.61
Major IPPs	333.33	165.59	496.77	197.33	101.92	516.50	-19.72
NCE (Minor IPPs)	591.27	195.69	330.97	487.99	157.99	323.76	7.21
Others	22.66	4.98	219.77	0.00	0.00	0.00	0.00
Short-term	111.58	63.26	566.95	685.51	320.44	467.45	99.50
TOTAL	4225.97	904.48	214.03	4275.86	1131.51	264.63	-50.60

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

5. Revision of Tariff for FY12

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 MESCOM 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)	500	485.55	-2.89%
LT2(a)(II)	500	447.40	-10.52%

LT2(a)(iii)	500	391.06	-21.79%
LT 2 (b)			
LT2(b)(I)	500	736.25	47.25%
LT2(b)(II)	500	681.82	36.36%
LT 3			
LT 3(I)	500	795.52	59.10%
LT 3(III)	500	750.03	50.01%
LT 4 (b)	500	238.41	-52.32%
LT 4 ©, LT 4(b)	500	247.25	-50.55%
LT 4 (d), LT 4©	500	357.69	-28.46%
LT 5			
LT 5(b)	500	605.98	21.20%
LT 6(a)	500	527.98	5.60%
LT 6(a)	500	531.62	6.32%
LT 7	500	1088.02	117.60%
HT 1	500	503.39	0.68%
HT 2 a			
HT 2(a)(II)	500	619.16	23.83%
HT 2(b)			
HT 2(b)(II)	500	775.17	55.03%
HT 3 a			
HT 3(a)(II)	500	357.14	-28.57%
HT 3 b	500	388.89	-22.22%
HT 4			
HT 4(a)	500	552.04	10.41%
HT 4(b)	500	525.76	5.15%

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE

NO.B/07/11/

Dated: 27th June 2011

1. MESCOM 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

KARNATAKA ELECTRICITY REGULATORY COMMISSION

NOTE - CONTINUATION

NO.B/03/10/

Dated: 14th September 2010

Sub: ERC & Tariff Application of MESCOM for FY11 – FY13 under MYT Regulations

9. The Commission, vide its letter dated 23rd August 2010 had communicated its preliminary observation on the ERC & Tariff Application of MESCOM for FY11 – FY13 filed vide its letter dated 13.08.2010.
10. MESCOM has since submitted para wise replies to the observations, vide its letter dated 06.09.2010.
11. The replies furnished by MESCOM have been examined by the staff and it is found that MESCOM has furnished necessary compliance to the observations except the following:
 - 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) Reconciliation of IF energy with KPTCL
 - e) Mechanism to share gains and losses of O & M expenses
12. It is proposed that the Commission may consider accepting the ERC and Tariff application as a petition in terms of Clause 4 (7) of the Karnataka Electricity Regulatory Commission (Tariff) (Amendment) Regulation 2004, and clear the application for publication of notice for inviting objections from the stake holders. This will however, be subject to obtaining additional information, if any, before taking up the matter for approval.
13. A draft letter clearing the application for publication is placed in file for perusal and approval of the Commission.

Director (Tech.)

14. Secretary]

No.B/07/11/

Date: 28th June 2011

The Managing Director,
Mangalore Electricity Supply Company Ltd.,
Corporate office
Paradigm Plaza
A.B.Shetty Circle
MANGALORE – 575 001 .

Sir,

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

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