

BESCOM

**Preliminary Observations on APR of FY13 and Revision of ERC &
Tariff application for FY15**

1. General Observations:

- i. BESCOM has filed its application for APR of FY13 based on the Annual Accounts finalized by the statutory auditors. The accounts audited by the C&AG need to be furnished for the purpose of APR. Also, BESCOM has to furnish half yearly accounts for FY14.
- ii. On review of the Balance Sheet in format A2 on page No.148 and A3 on page No.149, it is observed that:
 - a) Cash and Bank balances for FY15 is indicated as Rs.365.12 Crores in Form A2 while the same is indicated in Form A3 as Rs.1306.64 Crores.
 - b) Similarly the loans and advances and sundry receivables for FY14 & FY15 on Format A2 indicate a wide increase over the actual figures of FY13.

BESCOM needs to explain such abnormal variance besides recasting the formats A2 and A3.

- iii. The Revenue gap for FY13 is indicated as Rs.1539.90 Crs. As per the Clause 3(4) of the KERC (Tariff) Regulations, 2000, the licensee is required to file its ERC by proposing measures adequate to cover the deficit. In case such measures are not proposed, the application is liable to be rejected. In the present filing, BESCOM, in its prayer on page 145 has indicated that the gap of Rs.1539.90 Crores for FY13 is to be met by GoK. However, BESCOM has not furnished the

commitment letter of GoK to cover the gap indicated above. Hence BESCO is required to furnish commitment letter, if any, given by GoK to meet the gap of Rs.1539.90 Crores of FY13.

- iv. BESCO needs to clarify whether any subsidy of the past years has been accounted during FY13. If so details shall be furnished with explanation. Also, the details of the quantum of energy supplied and the subsidy claimed from GoK for FY13 in respect of BJ/KJ and IP Sets shall be furnished.

2. Retail Sales:

a) Actuals for FY-13

The Commission in its Tariff order dated 30th April 2012 had approved total sales to various consumer categories at 25856 MU for BESCO as against its proposal of 26512 MU. The actual sales of BESCO as per the current filing is 22,796 MU indicating a shortfall in sales to the extent of 3060 MUs with respect to the approved sales.

It is noted that, as against approved sales of 21070 MU to categories other than BJ/KJ and IP sets, the actual sales achieved by BESCO is only 16945 MU, resulting in the reduction of sales to these categories by 4125 MU. On the other hand the sales to BJ/KJ and IP categories has increased by 1065 MUs as against the approved sales of 4786 MU to these categories.

The category wise sales approved by the Commission and the actuals for FY13 are indicated in the below table

Category	Approved	Actuals	Approved-Actuals
LT-2a	6121.78	4925.20	1196.58
LT-2b	59.58	34.45	25.13
LT-3	1896.52	1472.83	423.69
LT-4b	8.68	5.82	2.86
LT-4c	5.91	4.46	1.45

LT-5	1271.46	1124.15	147.31
LT-6	529.54	464.18	65.36
LT-6	410.02	404.93	5.09
LT-7	235.08	139.83	95.25
HT-1	639.43	523.30	116.13
HT-2a	5871.01	4784.76	1086.25
HT-2b	3878.59	2908.67	969.92
HT-3a & b	3.93	11.68	-7.75
HT-4	138.23	120.22	18.01
HT-5	00	20.17	-20.17
Sub total	21069.76	16944.65	4125.11
BJ/KJ	109.12	125.62	-16.5
IP	4676.87	5725.73	-1048.86
Sub total	4785.99	5851.35	-1065.36
Grand total	25855.75	22796	3059.75

From the above table it is noted that the major categories contributing to the shortfall in sales are LT Domestic (1197 MU), LT Commercial (424 MU), HT Industries (1086 MU) and HT Commercial (970 MU). On the other hand it is noted that the sales to IP sets has exceeded the approved quantity by 1049 MU.

BESCOM in their application has stated that the optimistic sales approved by the Commission have affected their revenue. It is worthwhile to note that the Commission had observed that BESCOM had assumed high growth rates for Domestic, Commercial, Industries and water supply while communicating its observation on the ERC / TARIFF filing made by BESCOM for 2013. However, BESCOM in their replies stated that they had estimated overall growth rate of 21% keeping in view of CAGR, missing hours of supply and energy for absorbing peak demand.

In spite of the above justification furnished by BESCOM, the Commission while approving the sales for FY13, moderated the sales to various categories, and reduced the sales by about 656 MU. The Commission notes that BESCOM has failed to achieve even these reduced targeted sales by 3060 MU in FY13, in spite of justifying their own estimates.

b) Revised Estimated Sales Forecast for FY 15

BESCOM in their filing has furnished the following revised sales for FY15

Category	Comparison of approved and revised sales for FY15		Comparison of approved and revised No. of installation for FY15	
	Approved MUs	Revised sales MU	Approved No. of Installation	Revised No. of Installation
LT-2a	6037.45	5736.00	6730386	6434226
LT-2b	46.69	39.75	24771	7099
LT-3	1867.13	1751.53	876534	858172
LT-4 (b)	8.44	4.67	499	491
LT-4 (c)	6.85	2.56	2112	1563
LT-5	1216.12	1107.95	175672	172378
LT-6	568.4	463.21	54527	57775
LT-6	430.02	398.65	62393	56659
LT-7	146.84	150.37	282591	243024
HT-1	531.98	675.08	159	172
HT-2 (a)	6123.28	5753.39	5532	5299
HT-2 (b)	3866.53	3389.27	5675	5925
HT2C		9.48		90
HT-3(a) & (b)	6.37	9.42	26	24
HT-4	136.52	131.15	254	284
HT-5	18.15	59.07	78	70
BJ/KJ	55.2	129.41	507183	718924
IP	5970.5	6057.42	728727	698604
Total	27036.47	25868.22	9457119	9260779

BESCOM has stated that it has arrived at the above projections by considering the actual half yearly sales of FY14 and one year growth rate of FY14 over FY13.

The Commission is of the view that considering only one year growth without looking into the past trends may not be appropriate, especially when the sales figures of FY14 are also based on estimates. Based on the information available the CAGRs for the period FY08 to FY13 and for the period FY10 to FY13 both for number of installations and the energy sales is worked out and compared with the growth rates proposed by BESCOM which is discussed below:

i) No. of installations

1. The table indicating the growth rates for the no. of installations is furnished below:

Category	Growth Rates			
	2007-08 to 2012-13 CAGR	2009-10 to 2012-13 CAGR	Growth in 2013 over 2012	Growth rate proposed by BESCO
LT-2a	4.99%	4.55%	5.31%	6.41%
LT-2b	7.10%	5.56%	-26%	0%
LT-3	6.03%	5.36%	5.27%	5.32%
LT-4 (b)	2.91%	0.07%	1.27%	1.24%
LT-4 (c)	14.64%	12.09%	20.47%	20.51%
LT-5	4.49%	4.53%	3.97%	4.04%
LT-6	8.30%	8.87%	10.22%	10.22%
LT-6	7.73%	4.57%	4.4%	4.40%
LT-7	27.4%	22.65%	17.54%	17.54%
HT-1	8.37%	10.89%	9.02%	8.86%
HT-2 (a)	8.55%	7.92%	7.21%	7.48%
HT-2 (b)	11.41%	10.09%	8.99%	18.79%
HT2C				
HT-3(a)& (b)	4.78%	6.20%	-4%	4.35%
HT-4	7.52%	9.68%	13.61%	14.52%
HT-5				
Sub Total (Other than BJ/KJ and IP)	5.48%	5.02%	5.52%	6.56%
BJ/KJ	3.47%	1.30%	0.50%	0.28%
IP	1.16%	0.17%	4.05%	3.71%
Sub Total (BJ/KJ and IP)	2.33%	0.76%	2.16%	1.94%
Grand Total	4.92%	4.26%	4.95%	5.83%

2. The overall growth rate for the no. of installations excluding BJ/KJ and IP seems to be rather high, especially for the categories of LT Domestic, LT water supply HT Commercial and HT Residential. Further it is observed that the growth rate considered for HT water supply is low. BESCO shall furnish the reasons for the above. Also, the negative growth in FY13 under LT2(b) category needs to be explained.

ii) Energy Sales

- The table indicating the growth rates for the energy sales to different consumer categories is furnished below:

Category	Growth Rates			
	2007-08 to 2012-13 CAGR	2009-10 to 2012-13 CAGR	Growth in 2013 over 2012	Growth rate proposed by BESCO
LT-2a	8.48	8.86	9.04	7.89
LT-2b	6.62	8.49	-16.65	7.37
LT-3	10.87	11.61	10.47	9.02
LT-4 (b)	10.90	6.52	-11.82	-10.31
LT-4 (c)	15.08	16.88	13.78	-24.22
LT-5	3.26	7.12	7.67	-0.88
LT-6	10.29	9.17	0.82	-0.11
LT-6	9.45	9.74	0.87	-0.78
LT-7	5.39	14.51	10.44	3.7
HT-1	2.69	2.29	6.5	13.58
HT-2 (a)	9.37	10.89	9.65	9.57
HT-2 (b)	9.95	9.94	9.88	7.85
HT2C				
HT-3(a)& (b)	79.72	90	83.36	4.2
HT-4	6.28	8.56	1.7	4.44
HT-5				
Sub Total (Other than BJ/KJ and IP)	8.61	9.61	8.89	7.69
BJ/KJ	5.22	3.77	8.11	0.96
IP	9.68	9.91	6.97	0.39
Sub Total (BJ/KJ and IP)	9.57	9.77	6.99	0.4
Grand Total	8.85	9.65	8.4	5.82

- The overall growth rate of 5.82% considered by BESCO is lower when compared to the normal growth rate in the range of 8.5% to 9.5%. It is observed that growth rates considered by the BESCO are lower for LT domestic, LT commercial, LT Industries, LT water Supply, HT commercial and HT residential. Further it is noted that the growth rate considered for HT water supply is higher. BESCO needs to furnish the reasons for the above.

3. Regarding the no. of installations under BJ/KJ category, BESCO shall intimate as to whether there is any target specified by the GoK. BESCO shall also furnish the breakup of BJ/KJ Installations in the following format for FY13 (Actuals), FY14 (Actuals upto end of Nov and estimates for the remaining period indicating the break up) and FY15 (Estimate):

Particulars	No. of Installations	Consumption in MU
Installations Consuming less than 18 Units		
Installations consuming more than 18 units and build under LT 2a		

4. To validate the sales, category wise information in the following format shall be furnished:

iii) No. of Installations

Category	2011-12 Actuals		2012-13 Actuals		2013-14	
	As on 30 th Nov 2011	As on 31 st March 2012	As on 30 th Nov 2012	As on 31 st March 2013	As on 30 th Nov 2013 (Actuals)	As on 31 st March 2014 (Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-3(a)&						
HT-4						
HT-5						

Sub Total (Other than BJ/KJ						
BJ/KJ						
IP						
Sub Total (BJ/KJ and IP)						
Grand Total						

iv) Energy Sales

Category	2011-12 Actuals		2012-13 Actuals		2013-14	
	1 st April 2011 to 30 th Nov 2011 (cumulative)	1 st Dec 2011 to 31 st March 2012 (cumulative)	1 st April 2012 to 30 th Nov 2012 (cumulative)	1 st Dec 2012 to 31 st March 2013 (cumulative)	1 st April 2013 to 30 th Nov 2013 (cumulative actuals)	1 st Dec 2013 to 31 st March 2014 (cumulative Estimate)
LT-2a						
LT-2b						
LT-3						
LT-4 (b)						
LT-4 (c)						
LT-5						
LT-6						
LT-6						
LT-7						
HT-1						
HT-2 (a)						
HT-2 (b)						
HT2C						
HT-3(a)&						
HT-4						
HT-5						
Sub Total (Other than						
BJ/KJ						
IP						
Sub Total (BJ/KJ and IP)						
Grand Total						

v) Sales to IP Set

As per the Tariff Order dated 30th April 2012 for FY13, the Commission had approved specific consumption of IP Sets as 7534 units / IP / annum. As per the consumption reported in the filing, the specific consumption works out to 8954 units/IP/annum. This indicates an increase of 1420 units/IP/annum. The factors contributing to such steep increase in specific consumption are not explained by BESCO. Hence BESCO is required to explain / revise its assessment of IP consumption for FY13.

As per the monthly reports received in the Commission for FY13, the total consumption reported is 5917.4 MU and No. of IP Set Installations as on 31st March 2013 is 652054. But, as per Tariff filing, BESCO has indicated a consumption of 5725.73 MU and number of Installations as on 31st March 2013 as 652209. Thus, there is a difference of (-) 191.67 MU in consumption and 155 in number of IP Set installations between the filing data and the monthly reports. The reasons for the difference in both consumption and number of installations for FY13 need to be furnished.

In the Tariff Order dated 6th May 2013, the Commission had approved a specific consumption of 8284 units / IP / annum for FY14 to FY16. But, BESCO has considered specific consumption of 8670.8 MU and 8828.7 MU for FY14 and FY15 respectively. Therefore, BESCO has to furnish reasons if any for the proposed increase in IP Set consumption for FY14 (including the remaining period of FY14) and FY15 or revise the same based on the Commission's approved specific consumption of 8284 units / IP / annum.

vi) Wheeling and Banking

On page 108, BESCO has proposed wheeling charges for open access / wheeling charges for using BESCO's network excluding energy wheeled from NCE sources. Thus BESCO has not proposed any charges for wheeling of energy from NCE sources which needs to be clarified. The actual / estimated cost of wheeling NCE energy in BESCO are shall be furnished with details of calculations.

vii) Cross Subsidy Surcharge:

BESCOM has not indicated cross subsidy surcharge for HT2(c) category. This shall be furnished.

3) Power Purchase:

i) Power Purchase for FY13:

- a) Allocated energy does not tally with the energy filed as the energy is not reconciled among ESCOMs.
- b) Details of Power Purchase under Section 11 for 2012-13 is to be furnished.
- c) In format D1, BESCOM has indicated Energy balancing charges of Rs.144.60 Crores. BESCOM is required to furnish the details of this claim.
- d) Details of generator wise short term / medium term power purchase does not tally with the allocation
- e) Details of NCE sources purchased under preferential tariff and under APPC needs to be furnished.
- f) Inter ESCOM energy charges of Rs.7.82 Crores, cost of banked energy of Rs.6.22 Crores, PCKL revenue expenditure of Rs.1.95 Crores and the energy balancing prior period amounting to Rs.136.39 Crores is specified without details.
- g) BESCOM shall clarify whether the proposed power purchase is as per the Orders of the GoK vide No. EN 61 PSR 2011 dated 23rd April 2012 wherein ESCOM wise allocation of power is made. Also BESCOM shall clarify whether the rates on which power purchase cost is being projected is based on the power purchase agreements executed with the respective Generators.

h) BESCOM shall clarify whether any advances to generators have been included in the actual cost of power purchase claimed for FY13. If so, details need to be furnished.

i) Renewable Purchase Obligation:

At page 4 of Chapter 1 BESCOM has stated that it has complied with RPO for FY13. It is noted that, the solar RPO as per the Regulations is 0.25% of the total power purchase and works out to 69.59 MU against which BESCOM has stated that, it has purchased 28.46 MU. Thus there is a non-compliance of solar RPO to the extent of 41.13 MU in FY13.

BESCOM has indicated that the non-solar NCE purchased is 3274.43 MU BESCOM shall clarify has to whether the above energy includes the purchase of NCE under short term as well as under Section 11 and excludes has power purchased under APCC and energy sold under green tariff.

BESCOM shall furnish the status of RPO compliance as on 30th November 2013 for the current year and the action plan to meet the RPO in case of shortage.

ii) Power Purchase for FY15:

BESCOM shall also indicate the action plan for meeting RPO in FY15.

Details of NCE sources not furnished for FY15.

4) O & M Expenses:

1. For FY13 KERC had allowed an amount of Rs.129.45 Crores in the Tariff order 2012 as an additional employee cost. BESCOM shall indicate the actual additional employee cost incurred for the year FY13 on account of revision in basic pay, pension and gratuity contribution to P&G trust and Newly Defined Contributory Pension Scheme, increase in DA, increase in HRA and additional employee cost on account of recruitment of employees etc.

2. BESCO has projected O & M expenses of Rs.1091.50 Crores by considering the contribution of R&M, employee cost and A&G expenses at a ratio of 5 : 85 : 10. The basis of such allocation is not furnished by BESCO. Further, the O & M expenses estimated for FY15 is not as per the provisions of the MYT Regulations. Also, an amount of Rs.182.63 Crores is considered as uncontrollable expenses, which needs to be explained. BESCO is required to adhere to the provisions of the MYT Regulations.

5) Capital Investment:

i) Capital Investment for FY13:

On page No. 2, of the filing, the capital expenditure data for FY13 is stated as provisional. BESCO is required to furnish the data as per actual Capex incurred. Further, the details of actual capital expenditure incurred as against approved capex in the following table is to be furnished:

Sl. No.	Schemes	Approved capex Rs. in lakhs	Amount incurred for FY 13 in Lakhs
1	11 KV Lines for New Stations	1351	
2	11 KV Other Works + DTCs including dedicated DTCs for DWS Schemes.	6257	
3	Re-conducturing of ACSR / Rabbit to Coyote in Bangalore Urban	2065	
4	Re-conducturing of LT line using Rabbit conductor	600	
5	Re-conductoring (Improvement works on 11 KV Rural Feeders)	1800	
6	Strengthening of 11 KV UG cable Network with RMUs	5000	
7	NJY		
8	Providing infrastructure to Un authorized IP Sets	2800	
9	Metering Programme		
10	Metering of BJ/KJ, IP Sets and Street Lights (Un-metered category)	161	
11	RAPDRP & DAS	24662	

12	Service connections	1818	
13	Replacement of failed DTCs by new ones	1515	
14	Civil Engineering works, DSM & Others	760	
15	RE Works (General)		
16	Electrification Hamlets/Villages	2.5	
17	Energisation of IP Sets	240	
18	Kuteer Jyothi		
19	SCP		
20	Electrification of Hamlets/HBs/JCs/Thandas		
21	Energisation of IP Sets	250	
22	Kuteer Jyothi		
23	TSP		
24	Electrification of Tribal Colony		
25	Energisation of IP sets		
26	Kuteer Jyothi		
27	T&P and Computers	369	
28	Other works including Safety measures fund, Local Planning, Formation of ALDC, Spill over works etc.	606	
29	Providing AB Cable	243.50	
Total		51000	

Further, BESCO is required to furnish details of source of funding the capex indicated above.

In order to facilitate prudence check of the capex incurred, BESCO is required to furnish the details of works costing Rs.10.00 lakhs and above and less than Rs.10.00 lakhs need to be furnished division wise duly incorporating the objectives in the following format:

1	2	3	4	5	6
Name of the Division	Scheme / work	Nomenclature of work	Detailed Objectives for taking up of the work	Work order No. & Date	Estimation / DPR cost in lakhs

7	8	9	10	11	12
Actual cost of completion of the work	Date of commencement	Date of completion	Reasons for delay	Cost benefit ratio	Remarks

Note:- In case of works costing less than Rs.10 lakhs, a list may be furnished limiting to a total 100 numbers in descending order covering all categories of works of all divisions.

ii) Capital Investments for FY-15:

The Commission in its tariff order dated 6th May 2013 had approved Capital Investment plan of Rs.763 Crores for FY15. In the present filing, BESCOM has projected a revised capex of Rs.2199 Crs, (which is nearly three times the approved capex).

As per the format D 17 of the filing, BESCOM has indicated opening balance of work in progress at Rs.1040.00 Crores and proposed capex of Rs.763.00 Crores. Thus the total capital expenditure for FY15 would be Rs.1803.00 Crores. However, the capitalization of expenditure is estimated at only Rs.743.03 Crores during FY15. Considering the existing WIP and proposed capex, the capitalization indicated is 41% of the total capex. Further, BESCOM has proposed a revised capex of Rs.2199.00 Crores without factoring the same in the format D17 besides reflecting the same in the depreciation (format D8), gross fixed assets (format D15), net fixed assets (format D16) and interest and finance charges (format D9). This proposal would further alter the ARR and the resultant gap in revenue. BESCOM is required to justify its revised proposal besides recasting its formats of filing as detailed above.

6) Other Debits:

The expenditure under "other debits" (format D11) for FY13 indicates an amount of Rs.59.63 Crores towards miscellaneous losses and write offs. BESCOM is required to furnish the details of this expenditure.

7) Return on Equity:

The Balance Sheet for FY13 indicates an additional amount of Rs.97.50 Crores under shareholder funds. BESCOM is required to furnish the details of this additional fund and date of receipt of this fund.

The form A2 indicates reserves and surplus of Rs.597.89 Crores for all the three years (FY13 to FY15). However the Balance Sheet for FY13 indicates reserves and surplus at Rs.707.78 Crores (considering the cumulative net loss of Rs.665.31 Crores). Considering the projected losses of Rs.1078.41 Crores for FY14 and Rs.1299.99 Crores for FY15, the reserves and surplus for FY14 and FY15 cannot remain at the same level of Rs.597.89 Crores. Further, the amount indicated for FY13 also needs to be restated as per the Balance Sheet at Rs.707.78 Crores.

8) Compliance to Directives issued by the Commission:

The Commission during the validation meeting held on 27.12.2013 has reviewed the compliance of directives issued by the Commission from time to time in respect of NJY works, regularization of un-authorized IP sets, implementation of HVDS, consumers service centers, Strategic Business Unit, energy reconciliation and review of receivables. BESCO is required to furnish the compliance on the observation made by the Commission in the proceedings of the validation meeting.