MESCOM

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

1. General Observations:

i. MESCOM 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, MESCOM has to furnish half yearly accounts for FY14.

ii. The Revenue gap for FY13 is indicated as Rs.340.52 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 its application, MESCOM, on page 114 has indicated that the gap of Rs.340.52 Crores for FY13 is to be met by GoK. Hence MESCOM is required to furnish a commitment letter of GoK to meet the gap of Rs.340.52 Crores of FY13.

iii. MESCOM in its accounts for FY13, on page 133 has indicated income on account of regulatory assets / truing up subsidy for FY13 at Rs.168.90 Crores. The same has been included in the revenue demand in A1 statement. Also, on page 131, MESCOM has shown an amount of Rs.202.56 Crores as regulatory asset for accounting accumulated excess power purchase cost indicated under other current assets. The creation of regulatory assets is within the purview of the Commission while approving the ARR. Hence, the MESCOM's claims of creating regulatory assets in its accounting process cannot be accepted.

iv. MESCOM in its application under format A2, A3, D14, D15, D16 and D17 has indicated inconsistent figures of contributions, grants and subsidies towards cost of capital, gross block of assets, net fixed assets and capital work in progress. The same need to be corrected.

i. MESCOM 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 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 3855 MUs for MESCOM as against MESCOMs proposal of 3836 MUs. The Actual sales of MESCOM as per the current filing is 3733 MU indicating a short fall in sales to the extent of 122 MUs with respect to the approved sales.

It is noted that, as against approved sales of 2923 MUs to categories other than BJ/KJ and IP sets, the actual sales achieved by MESCOM is only 2658 MUs, resulting in the reduction of sales to these categories by 266 MUs. On the other hand the sales to BJ/KJ and IP category has increased by 144 MUs as against the approved sales 932 MUs to this category.

The category wise sales approved by the Commission and the actuals for FY 13 are indicated in the table below:

Category	Approved	Actuals	Approved-Actuals
LT-2a	1117.79	1084.03	33.76
LT-2b	10.3	9.47	0.83
LT-3	308.28	271.44	36.84
LT-4b	1.96	1.08	0.88
LT-4c	9.18	6.5	2.68
LT-5	151.60	130.99	20.61

LT-6	99.28	97.46	1.82
LT-6	63.78	57.49	6.29
LT-7	24.99	27.22	-2.33
HT-1	101.04	77.44	23.3
HT-2a	771.77	628.48	143.29
HT-2b	239.34	225.81	13.53
HT-3a & b	1.44	19.4	-17.96
HT-4	22.82	17.09	5.73
HT-5	0	3.42	-3.42
Sub total	**2923.57**	**2657.32**	**265.95**
BJ/KJ	30.58	15.33	15.25
IP	900.63	1060.21	-159.58
Sub total	**931.21**	**1075.54**	**-144.32**
Grand total	**3854.78**	**3733.16**	**121.62**

From the above table it is noted that the major categories contributing to the reduction in sales are LT Domestic (34 MU), LT Commercial (37 MU), LT Industries (21 MU) and HT Industries (143 MU), On the other hand it is noted that the sales to IP sets have increased by 160 MU.

b) Revised Estimated Sales Forecast for FY 15

MESCOM in their filing has furnished the following revised sales for FY-15

Category	Comparison of approved and revised sales for FY-15		Comparison of approved and revised No. of installation for FY-15	
	Approved MUs	Revised sales MU	Approved No. of Installation	Revised No. of Installation
LT-2a	1362.18	1251.44	1497505	1422214
LT-2b	11.86	11.05	3202	3163
LT-3	381.00	309.51	176195	180312
LT-4 (b)	2.24	1.08	169	176
LT-4 (c)	7.22	6.77	2486	3001
LT-5	151.75	132.32	24601	25413
LT-6	110.83	114.14	11252	11591
LT-6	57.41	66.96	15081	16158
LT-7	20.15	27.22	8964	10534

HT-1	115.73	82.80	73	64
HT-2 (a)	693.99	615.99	795	708
HT-2 (b)	290.61	236.05	662	586
HT2C	0	77.16	0	178
HT-3(a)& (b)	14.24	19.39	14	15
HT-4	21.85	13.84	68	52
HT-5	2.44	18.6	2	18
BJ/KJ	21.16	16.79	159093	14114
IP	1140.75	1142.08	250651	248638
Total	**4405.41**	**4143.19**	**2150813**	**2063968**

MESCOM has stated that it has arrived at the Energy sales projections by considering the CAGR for the period FY 09 to FY 12 for categories other than BJ/KJ and IP sets. It is stated that, for BJ/KJ and IP sets the estimate is based on specific consumption

The Commission notes that even though MESCOM at para 5.1 of the filing has stated that CAGR for the period FY 09 to FY 12 is considered, in the subsequent paragraphs relating to individual category wise forecast, MESCOM has considered different CAGRs. Based on the information available the CAGRs for the period FY-08 to FY-13 and for the period FY10- to FY-13 both for no. of installations and the energy sales are worked out and compared with the growth rates proposed by MESCOM which is discussed below:

i) No. of installations

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

Category	**Percentage Growth Rates**			
	2007-08 to 2012-13 CAGR	**2009-10 to 2012-13 CAGR**	**Growth in 2013 over 2012**	**Growth rate proposed by MESCOM**
LT-2a	4.75	5.22	8.15	3.90
LT-2b	4.11	4.12	4.18	4.18

LT-3	3.51	3.97	4.58	3.87
LT-4 (b)	-5.38	-3.81	5.39	0
LT-4 (c)	6.40	8.96	19.85	6.38
LT-5	5.38	6.18	6.98	5.61
LT-6	4.46	3.67	6.11	4.46
LT-6	4.46	6.58	12.22	4.46
LT-7	17.79	19.34	17.51	0
HT-1	7.12	5.32	-3.51	6.67
HT-2 (a)	13.18	12.82	12.64	9.26
HT-2 (b)	7.41	8.53	9.43	7.92
HT2C				
HT-3(a)& (b)	20.11	23.05	36.36	0.0
HT-4	1.64	3.30	3.23	0
HT-5				
Sub Total (Other than BJ/KJ and IP	**4.68**	**5.18**	**7.83**	**3.91**
BJ/KJ	0.95	-0.15	-24.6	1.8
IP	5.72	7.21	9.29	2.05
Sub Total (BJ/KJ and IP)	3.83	4.29	-6.06	1.96
Grand Total	**4.52**	**5.01**	**4.81**	**3.54**

2. The overall growth rate for the no. of installations excluding BJ/KJ and IP seems to be rather low, especially for the categories of LT Domestic, LT Temporary, HT Industries, HT Irrigation and HT Residential. MESCOM shall furnish the reasons for the above.

ii) Energy Sales

1. The table indicating the growth rates for the energy sales is furnished below:

Category	**Percentage Growth Rates**			
	2007-08 to 2012-13 CAGR	**2009-10 to 2012-13 CAGR**	**Growth in 2013 over 2012**	**Growth rate proposed by MESCOM**

LT-2a	9.45	8.52	9.81	7.45
LT-2b	9.27	7.48	7.25	8.02
LT-3	11.40	8.66	4.50	6.78
LT-4 (b)	-7.90	-9.26	-40.99	0
LT-4 (c)	-0.37	5.10	6.73	2.11
LT-5	1.13	1.45	-3.31	0.59
LT-6	7.30	8.13	10.19	8.22
LT-6	3.49	7.85	7.26	7.93
LT-7	33.94	16.16	35.09	0
HT-1	12.00	7.88	0.13	3.20
HT-2 (a)	5.03	6.08	7.99	2.12
HT-2 (b)	11.95	13.68	11.21	11.21
HT2C				0
HT-3(a)& (b)	181.37	287.50	46.75	0
HT-4	3.46	0.57	-13.03	0
HT-5				
Sub Total (Other than BJ/KJ and IP	8.24	8.17	8.17	5.7
BJ/KJ	-11.26	-19.27	-62.95	1.82
IP	9.10	13.50	0.12	2.07
Sub Total (BJ/KJ and IP)	8.55	12.56	-2.25	2.07
Grand Total	8.33	9.36	4.95	4.66

2. The overall growth rate of 4.66% considered by MESCOM is low when compared to the normal growth in the range of 8.0 % to 9.4 %. It is observed that growth rates considered by the MESCOM are low for LT domestic, LT commercial, LT Temporary, HT water Supply, HT commercial, HT Irrigation and HT Industries. MESCOM shall furnish the reasons for the above.

3. Regarding the no. of installations under BJ/KJ category, MESCOM shall intimate as to whether there is any target specified by the GoK.

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 30th Nov 2011	As on 31st March 2012	As on 30th Nov 2012	As on 31st March 2013	As on 30th Nov 2013	As on 31st 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)& (b)						
HT-4						
HT-5						
Sub Total (Other than BJ/KJ and						
BJ/KJ						
IP						
Sub Total (BJ/KJ and IP)						
Grand Total						

iv) Energy Sales

	2011-12 Actuals		2012-13 Actuals		2013-14	
Category	**1st April 2011 to 30th Nov 2011 (cumulative)**	**1st Dec 2011 to 31st March 2012 (cumulative)**	**1st April 2012 to 30th Nov 2012 (cumulative)**	**1st Dec 2012 to 31st March 2013 (cumulative)**	**1st April 2013 to 30th Nov 2013 (cumulative actuals)**	**1st Dec 2013 to 31st 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-						
HT-4						
HT-5						
Sub Total						
BJ/KJ						
IP						
Sub Total (BJ/KJ and IP)						
Grand Total						

v) Sales to IP sets

As per the Tariff Order dated 30th April 2012 for FY 13, the Commission had approved a specific consumption of IP Sets as **3916** units / installation / annum for MESCOM. As per the consumption reported in the filing, the specific consumption works out to 4640 units/IP/annum. This indicates an increase of 724 units/IP/annum. Hence MESCOM is required to furnish the basis for its assessment of IP consumption for FY13 along with factors contributing to the abnormal increase in specific consumption.

As per the monthly reports received in the Commission for FY13, the total consumption reported is 1060.79 MU and No. of IP Set Installations as on 31st March 2013 is 239185. But, as per Tariff filing, MESCOM has indicated a consumption of 1060.21MU and No. of Installations as on 31st March 2013 as 238638. Thus, there is a difference of 0.58 MU in consumption and 547 in number of IP installations between the filing data and the monthly reports furnished to the Commission earlier. 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 4597 units / installation / annum for FY14 to FY16. But, MESCOM has considered a specific consumption of 4640 units/installation/annum for FY15, a slightly higher value than the approved figures. Based on the specific consumption of 4640 units/installation/annum, the estimated consumption for FY15 is given as 1142.08 MU. Therefore, MESCOM has to revise IP Set consumption for FY15 based on the Commission's approved specific consumption of 4597 units / installation / annum.

vi) Wheeling and Banking:

MESCOM has requested the Commission to charge normal transmission/wheeling charges to all open access transaction including NCE projects and also to close existing WBA and to determine common wheeling charges. They have also requested to charge normal technical losses for such transactions and also to do away with yearly banking facility. Referring to the Commission's discussion paper issued earlier, It is also proposed by MESCOM to charge 85% of tariff as proposed in the discussion paper earlier by the Commission and at APPC for RE generator opting for REC for the excess energy injected to grid and remaining unutilized at month end.

The above proposal of MESCOM is not supported by working details to indicate that they are incurring losses due to current concessional and banking facility. MESCOM has to furnish calculations to justify their stand.

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 the year 2011-12 is to be furnished.

c) MESCOM is required to furnish power purchase data as per format D1 for FY13 duly indicating all the particulars as specified in the Regulations.

d) Details of generator wise short term / medium term power purchases 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.64.79 Crores and cost of energy balancing of previous years to an extent of(-) Rs.44.84 Crores is indicated without details.

i) Renewable Purchase Obligation:

MESCOM is required to furnish the RPO compliance for FY13 duly considering the reconciled figures for power purchase. While accounting for RE purchased, MESCOM shall include RE purchased under PPA at preferential tariff and also RE purchases made under short-term as well as under section-11. MESCOM shall exclude RE purchase made under APPC and RE purchase corresponding to energy sold under green tariff.

MESCOM is required to 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:

MESCOM is required to indicate the action plan for meeting RPO in FY15.

Details of NCE sources not furnished for FY15.

4) O & M Expenses:

For FY13 KERC had allowed an amount of Rs.40.90 Crores in the Tariff order 2012 as an additional employee cost. MESCOM 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.

5) Capital Investment:

i) Capital Investment for FY13:

On page No. 25, of the filing, the capital expenditure data for FY13 is stated as 130.92 Crores. MESCOM shall furnish the details of actual capital expenditure incurred as against approved capex in the following table:

Sl . No.	Particulars		Approved Capex FY13	Actual Expenditure In FY13
1	HVDS and Improvement works		60.00	
2	Replacement of electro mechanical meters by static meters, universal metering		5.00	
3	Smart Grid		1.00	
4	APDRP		23.00	
5	Replacement of faulty distribution Transformers		15.00	
6	Service Connection including promoter vanished layout works		15.00	
7	RE General			
	a. Electrification of Hamlets/JCs/Tandas	RGGVY	55.00	
		RE General	5.00	
	b. IP Sets		10.00	
	c. KutirJyothi		0.50	
8	Sub-Total		70.50	
	Tribal Sub Plan			
	a. Electrification of Tribal Colonies		0.72	
	b. Energization of IP sets		1.125	
	c. KutirJyothi		0.075	
9	Sub-Total		1.920	
	Special Component Plan			
	a. Electrification SC colonies		1.80	
	b. Energization of IP sets		1.50	
	c. KutirJyothi		0.125	
	Sub-Total		3.425	
10	T&P and Computers		2.00	
11	Civil Engineering Works		8.00	
12	33KV Station Works		45.00	
TOTAL			**249.85**	

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

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

1	2	3	4	5	6
Name of the Division	Scheme / work	Nomen clature 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 comm encem ent	Date of completio n	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:

On page no. 63, MESCOM has proposed a capital expenditure of Rs. 262.33 Crores which is Rs.45.93 Crore more than the Commission approved Capital Investment plan of Rs.216.4 Crores for FY15.

The MESCOM should furnish details of additional provisions made in the capex along with substantiating reasons.

	Particulars	**FY15 (Proj.)**
1.	Extension & Improvement (Addl. DTCs, Link-Lines, HT/LT Reconductoring, providing intermediate poles, HVDS, etc.)	95.00
2.	DTC Metering	-
3.	R-APDRP Programme	25.00
4.	Replacement of faulty DTCs	20.00
5.	Service Connections	30.00
6.	**Rural Electrification (General)**	
a.	RGGVY Programme	20.00
b.	Electrification of Hamlets	2.00

c.	Energization of IP sets (including providing infrastructure of UA IP sets)	35.00
d.	Kutir Jyothi	0.25
	Sub-Total (a+b+c+d)	**57.25**
7.	**Tribal Sub Plan**	
a.	Electrification of Tribal Colonies	0.60
b.	Energization of IP Sets	0.35
c.	Kutir Jyothi	0.03
	Sub-Total	**0.98**
8.	**Special Component Plan**	
a.	Electrification of S.C. Colonies	1.00
b.	Energization of IP sets	1.00
c.	Kutir Jyothi	0.10
	Sub-Total:	**2.10**
9.	Tools & Plants and Computers	2.00
10.	Civil Engineering Works	15.00
11.	33 kV Sub stations & Line works	15.00
	GRAND TOTAL:	**262.33**

Upon looking at the proposed capex, the E&I capex is increased from approved Rs.65 Cr to Rs.95 Cr, Rural electrification capex increased from 16.58 Cr to 57.25 Cr and tribal sub plan and special component plan have been reduced from the approved figures. Further, MESCOM has not shown any budget for DTC metering even though the DTC metering was provisioned as Rs.45 Crores during the MYT filing. MESCOM is required to furnish the reason for not allocating any budget for DTC metering.

Further, MESCOM has not furnished the details of the major objectives under which the above capital investments are made. Hence, the same shall be furnished.

6) Return on Equity:

The Balance Sheet for FY13 indicates an additional amount of Rs.19.00 Crores under share capital. MESCOM is required to furnish the details of the same including date of infusion.