

## CHAPTER – 5

## ANNUAL REVENUE REQUIREMENT FOR FY24

## 5.0 Annual Revenue Requirement (ARR) for FY24- HESCOM's Filing:

HESCOM, in its application dated 30<sup>th</sup> November, 2022, has sought Annual Performance Review (APR) for FY22, approval of the Commission for the revised ARR for the FY24, and the revision of retail supply tariff for FY24. The summary of the proposed ARR for FY24 is as follows:

TABLE – 5.1

## Proposed ARR for FY24

Sl. No.	Particulars	Amount in Rs. Crores	
		As Approved in T.O 04.04.2022	As Filed on 30.11.2022
1	Energy @ Gen Bus (With HRECS & AEQUS) MU	15154.64	15575.23
2	Energy at Generation Point (Without HRECS & AEQUS) (MU)	14796.89	15113.98
3	Transmission Losses in %	2.764%	2.764%
4	Energy @ Interface in MU	14387.91	14696.23
5	Distribution Losses in %	12.50%	12.50%
6	<b>Sales in MU</b>		
	Sales to other than IP & BJ/KJ	6036.06	5547.79
	Sales to BJ/KJ	186.56	162.92
	Sales to IP	6366.80	7148.49
	<b>Total Sales</b>	<b>12589.42</b>	<b>12859.20</b>
7	<b>Revenue at existing tariff</b>		
	Revenue from tariff and Misc. Charges	0.00	4948.52
	Tariff Subsidy to BJ/KJ	0.00	135.38
	Tariff Subsidy to IP	0.00	5111.17
	<b>Total Existing Revenue</b>	<b>10021.03</b>	<b>10195.07</b>
8	<b>Expenditure:</b>		
	Power Purchase Cost	6847.99	6541.67
	Tr. Charges - KPTCL	1011.45	1011.45
	SLDC Charges	5.98	5.98
	Power Purchase Liability on account of KERC/ APTEL/ Court Orders	0.00	150.70
	<b>Power Purchase Cost including cost of transmission</b>	<b>7865.42</b>	<b>7709.80</b>
	Employee Cost		1178.21
	Repairs & Maintenance	1541.46	158.89
	Admin & General Expenses		199.09
	<b>Total O&amp;M Expenses</b>	<b>1541.46</b>	<b>1536.19</b>

Sl. No.	Particulars	As Approved in T.O 04.04.2022	As Filed on 30.11.2022
9	Depreciation	340.77	362.67
<b>10</b>	<b>Interest &amp; Finance charges</b>		
11	Interest on Capital Loans	342.64	423.53
12	Interest on Working capital loans	180.92	314.59
13	Interest on belated payment on PP Cost	0.00	0.00
14	Interest on consumer security deposits	44.61	48.15
15	Other Interest & Finance charges	10.00	28.29
16	Less: interest & other expenses capitalised	-40.00	-40.00
	<b>Total Interest &amp; Finance charges</b>	<b>538.17</b>	<b>774.56</b>
17	Other Debits	0.00	67.78
18	Carrying Cost on Deficit of FY22 @15%	0.00	313.62
	Carrying Cost @15% on Power Purchase liability paid on account of KERC/ APTEL/ Court Orders (Rs.142.76 Crores *2*15%)	0.00	42.83
19	Return on Equity	0.00	0.00
22	Funds towards Consumer Relations/Consumer Education	0.50	0.50
23	Less: Other Income	-336.27	-431.43
	<b>ARR</b>	<b>9950.05</b>	<b>10376.52</b>
24	Deficit for FY22 carried forward	0.00	-1723.48
	<b>Net ARR</b>	<b>9950.05</b>	<b>12100.00</b>
	<b>REVENUE –Surplus / (-) Deficit</b>	<b>70.98</b>	<b>-1904.93</b>

The HESCOM in its application has requested the Commission to approve the Annual Revenue Requirement of Rs.12100.00 Crores for FY24, which includes the revenue deficit of Rs.1723.48 Crores of FY22. Considering the estimated revenue of Rs.10195.07 Crores from sale of power to the consumers and miscellaneous revenue at the existing retail supply tariff, HESCOM has projected the revenue gap of Rs.1904.93 Crores for FY24. In order to bridge the revenue gap of Rs.1904.93 Crores for FY24, the HESCOM has proposed the average increase in retail supply tariff by 148 paise per unit in respect of all category of consumers including BJ/KJ and IP set consumers for FY24.

### 5.1 Annual Performance Review for FY22 & FY23:

As discussed in the preceding chapter of this Order, the Commission has carried out the Annual Performance Review for FY22 based on the audited accounts and other relevant records furnished by HESCOM. Accordingly, a

deficit of Rs.1537.18 Crores of FY22 is required to be carried forward to the ARR of FY24.

As regards APR for FY23, it is noted that financial year 2022-23 is yet to be completed and the audited accounts for FY23 are yet to be finalized, hence the Commission decides to take up the APR of FY23, while taking up the determination of ARR / Retail Tariff for FY25.

## **5.2 Annual Revenue Requirement for FY24:**

### **5.2.1 Capital Investments for FY24:**

#### **1. HESCOM Proposal:**

The HESCOM, in its Tariff application, has proposed the Capex requirement of Rs.1860.14 Crores for FY24, as against the Commission recognized capex of Rs.1200 Crores and for tariff purpose of Rs.1050 Crores as per MYT Order 2022.

#### **2. Commission's Analysis and Decision:**

The Commission, in its MYT Order 2022, based on the previous years' achievements and the projected works to be undertaken as per the GoI/ GoK schemes, to be partly met by the capital grants and the available internal resources had recognized Rs.1200 Crores as HESCOM's expected overall capital expenditure for FY24. However, to avoid front-loading of the elements like Interest on Loans and depreciation on the assets, in the retail supply tariff, the Commission had decided to consider Rs.1050 Crores, as capex to be incurred by HESCOM, for FY24, subject to prudence check. Considering HESCOM's projected availability of capital grants from GoI / GoK and the internal resources by HESCOM, for the execution of capex, the Commission had considered Rs.600 Crores towards new capital borrowings for FY24. for the purpose of ARR. The Commission notes that HESCOM, in its tariff application for FY24 has proposed the Capex of Rs.1860.14 Crores for FY24 as against Rs.1200 Crores approved in the MYT Order dated 4<sup>th</sup> April, 2022. Since HESCOM had proposed a higher amount of capex, the Commission, in its preliminary

observations had directed the HESCOM to provide necessary justification on the proposed capex towards each of the works in terms of its purpose, requirement (prioritization as per Capex guidelines), cost and timelines of completion along with the number of works proposed to be taken up vis-à-vis the actual requirement duly backed up by justifiable data regarding load growth, loss reduction, improvement in the system reliability etc., and also keeping in view the financial capability of HESCOM to meet the debt servicing obligations and the tariff impact on the end consumers.

The Commission notes that the replies furnished by HESCOM are not satisfactory. HESCOM has not justified the huge Capex proposal duly backed up by the quantified data in respect of load growth, improvement in the system reliability, financial capability to meet the debt servicing obligations and the tariff impact on the end consumers. In view of absence of justification, the Commission is unable to accept the huge capex proposal.

**a. RDSS for Rs.425 Crores:**

HESCOM, in its reply to justify the huge capex proposal has submitted that RDSS involving the works such as construction of link lines, bifurcation of NJY feeders and IT related works is approved and same will be submitted during Tariff Filing for FY24. Further, HESCOM has not furnished the copy of the letter approving the said scheme. It observed that RDSS was not proposed in the Tariff filing for ARR of FY24 but included this scheme, while furnishing replies. In view of this, the Commission is unable to approve this expenditure.

**b. Capex of Rs.325 Crores towards UNIP works:**

In preliminary observations, HESCOM was directed to furnish the Division-wise abstract of number of beneficiaries and works pertaining to creation of infrastructure to UAIP to be carried out for the proposed capex of Rs.325 Crores.

In reply, HESCOM has furnished the division-wise capex break up for creation of infrastructure to 24984 numbers of IP sets. Considering the replies to the Commission observations, the Commission notes that HESCOM shall have to incur the capex in a phased manner by spreading the proposed capex over a period of two to three years. **Hence, the Commission has considered a capex of Rs.200 Crores towards UNIP/ providing infrastructure to IP sets.**

**c. Capex of Rs.300 Crores towards Construction of new 11 KV Lines/ Link-Lines:**

In the preliminary observations, HESCOM was directed to furnish the Division-wise abstract of total number of stations constructed/ to be constructed, number of new 11 KV lines for 33 KV / 110 KV sub-stations/ link-lines for bifurcation of load to be carried out against the proposed capex of Rs.300 Crores. Details of stations and associated switchgears to be commissioned in FY24.

HESCOM has not furnished the complete details sought by the Commission. However, considering the anticipated capex of Rs.96.64 Crores towards awarded Link lines and to be awarded link lines, the Commission has considered a capex of Rs.96 Crores towards the said works. HESCOM shall take a note that proposed capex of Rs.424.93 Crores towards RDSS has not been approved by the Commission.

**d. Capex of Rs.15 Crores towards Construction of new 33 KV stations & lines:**

In preliminary observations, HESCOM was directed to furnish the details of proposed new 33 KV stations and lines for the proposed capex of Rs.15.00 Crores.

The details furnished by HESCOM are as under:

Sl no	Name of the Work	Award Cost in Rs. Crores	Expenditure for FY23 in Rs. Crores	Spill over for the FY24 in Rs. Crores	Status
1	Establishing 2X5 MVA, 33/11 KV Sub-Station at Bailur & Construction of 33KV S/c line using coyote conductor for a distance of 17 Kms from 110 KV/33/11 Substation Mache to proposed 33/11 KV MUSS Bailur in Khanapur Taluk, Belagavi Dist.	7.14	1.07	6.07	Work in progress
2	Establishing 2X5 MVA, 33/11 KV Sub-Station at Halasi & construction of 33 KV S/C line using coyote conductor for a distance of 9.5 Kms from 110/11 KV Substation Bidi.	6.00	3.00	3.00	Work in progress
3	Construction of 33KV S/C Kalakeri line to an extent of 10.96 Kms, using coyote ACSR conductor feeding from 110/33/11KV S/S Aski to 33/11KV Sub-station Kalakeri.	1.26	1.01	0.25	Work in progress
4	Construction of 33KV OH S/c line using coyote conductor for a distance of 21 Km from existing 33/11 KV Sub-station Gudigeri to 33/11 KV Substation Kundagol 33 KV line as an alternate source in O&M Rural Division, Hubli.	2.73	2.45	0.27	Work in progress
5	Establishing 2X5 MVA, 33/11 KV Sub-Station with associates line at Arabhavi in Mudalagi Taluk, Belagavi Dist	--	--	5.09	To be tendered
<b>Total</b>		<b>17.13</b>	<b>7.53</b>	<b>14.68</b>	

**e. Capex of Rs.15 Crores towards Replacement of 11 KV OH feeders by UG Cables:**

In preliminary observations, HESCOM was directed to furnish the details of replacement of 11 KV OH feeders by UG Cables for the proposed capex of Rs.15.00 Crores.

In reply, HESCOM has submitted that replacement of 11 KV OH feeders by UG Cables has been proposed in some areas of Uttara Kannada district having reserve forest and wild life areas, where running of overhead lines is prohibited. Replacement of OH by UG cable in Ulavi of Uttara Kannada district is in progress with estimated cost of Rs.9 Crores. Further, HESCOM has stated that provision of capex of Rs.15 Crores for FY24 has been made for electrification of remote localities/ habitats. This capex will only be utilized if the work is really found essential.

**f. Capex of Rs.250 Crores towards providing Single Phase Transformers (SPH) to farm houses:**

The HESCOM has proposed capex of Rs.250 Crores for providing Single Phase transformers to farm houses in HESCOM's jurisdiction. Earlier, HESCOM vide its letter dated:07.12.2022, had requested the Commission for approval of capex of Rs.890 Crores towards providing single phase transformers to farm houses.

On an examination of the proposal submitted by the HESCOM, the Commission notes that proposal lacks necessary justification in terms of both technical and financial aspects. Hence, the Commission, in its preliminary observations, had directed the HESCOM not to incur any expenditure on this and informed HESCOM that this issue will be dealt with separately. The said direction was accepted by HESCOM, in its reply to the preliminary observations of the Commission.

**The Commission notes that the scheme of providing specially designed SPH transformers to farm houses was not successful in BESCO and resulted in a wasteful expenditure. Some of the stakeholders had filed petition before the Commission to discontinue the Special Design Transformers (SDTs) and to disallow the costs in the ARR. Accordingly, during the course of proceedings to deal with the said petition, BESCO had agreed to discontinue the scheme. In view of this, the Commission is unable to approve this scheme and directs HESCOM not to incur any capex on this scheme.**

**g. Capex of Rs.81.27 Crores towards PMREA:**

In preliminary observations, HESCOM was directed to furnish the details of Division-wise, work-wise abstract pertaining to preventive measures to reduce the accidents for proposed capex of Rs.81.27 Crores along with progress achieved in terms of reduction in accidents, in the previous control period till date.

In reply, HESCOM has submitted that PMREA scheme includes the works such as providing intermediate poles, restringing of sagging lines(HT), restringing of sagging lines(LT), providing guy & studs, providing guarding, reconditioning of earthing, replacement of deteriorated poles in accident prone area.

HESCOM has submitted that it has incurred capex of Rs.30.97 Crores towards PMREA works in FY22. Achievement in respect of reduction in electrical accidents as compared with last 3 years figures is noticeable during FY22, where the number of accidents are only 338 as compared to 318 in the previous year i.e. FY21. 307 numbers of accidents were witnessed in current financial year up to Nov-22.

All the hazardous locations identified near school, college, hostels are relocated and 1938 numbers shifting is completed with balance 142 number to be completed.

The Commission notes that the no. of accidents has not been reduced as compared to the previous years.

**h. Capex of Rs.100 Crores towards Civil engineering works:**

In preliminary observations, HESCOM was directed to furnish the details of Civil engineering works for the proposed capex of Rs.100 Crores.

HESCOM has furnished the work-wise list for the proposed capex of Rs.100 Crores. In view of this, the Commission has considered the capex of Rs.70 Crores towards civil works.

**i. Sources of funding for the proposed capex:**

In preliminary observations, HESCOM was directed to furnish the details of sources of funding (like grants, debt, equity and internal sources) for the proposed capex along with the details of the tariff impact on consumers for the proposed capex to be met from borrowing.



The details of Source of Funding for the proposed capex, as submitted by HESCOM is as under:

Amount in Rs. Crores

Capital Budget proposed for FY24	Consumer contribution	Loan tie up done from REC/PFC and other financial institutional loans	Loan to be taken from REC/PFC and financial institutions	Equity/Grant	Equity/Grant to be received	Internal resources
1860.13	85.21	0	1185.827	43.827	10.326	534.94

The Commission has examined the capex proposals of HESCOM's for FY24. In light of the preliminary observations and the replies thereon, the Commission concludes that HESCOM has not justified the huge capex proposed in terms of its purpose, requirement, benefits in terms of reduction in losses, increase in revenue sales, reduction in power interruptions, impact of tariff etc., and also not backed up by any techno-economic studies to support the proposals.

**In view of this, the Commission directs HESCOM to take up only result oriented prudent projects, which have already yielded real benefits to consumers. Keeping in view of technical constraints and financial viability i.e. network issues, adaption of new technologies in large scale and its challenges, HESCOM shall wisely select the projects to be taken up, under the capex programme.**

The Commission would like to point out that HESCOM has incurred huge capex towards schemes like RLMS, DTC metering etc., in the past and has not shown any perceptible benefits or advantage coming out of those investments to the consumers, and these investments have resulted in stranded assets and a burden on the consumers. Further, it is also observed that till this day HESCOM has failed to conduct the 100% Energy Audit of metered DTCs.

The HESCOM's achievement of capex vis-à-vis the approved capex, in the last five years, is shown in the following table:

**TABLE – 5.2**  
**HESCOM's Capex achievements for the previous Years**

(Amount in Rs. Crores)

<b>Approved and Actual Capex incurred</b>					
<b>Particulars</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Capital investment filed	748.55	1298.16	1877.75	1567.00	1329.64
Capital investment approved by the Commission	743.55	1298.16	1200.00	1205.51	825.00
Actual capital investment incurred as per audited accounts *	1102.19	977.86	1317.94	1165.59	934.89
Percentage of actual capital investment to the approved capital investment	148.23%	75.33%	109.83	96.69%	113.32%
<b>* Without considering capital investment disallowed due to prudence check.</b>					

The Commission notes that the capex proposed by the HESCOM for FY24 is on the higher side as compared to the actual capex incurred in the previous years.

Considering the actual capex as indicated above, the Commission notes that the average capex for the last five years works out to Rs.1100 Crores and the capex now proposed for FY24 is 161% of the capex approved in MYT Order 2022.

Further, the Commission, in its preliminary observation, has observed that the closing balance of work-in-progress amount indicated under Format D-17 is showing an increasing trend for FY23 and FY24. The expenditure made on the works are required to be completed on time and categorized as assets to claim the depreciation on such assets. HESCOM was directed to submit the reasons for the accumulation of huge amounts under balance of work-in-progress along with the action plan to reduce the same.

HESCOM, in its reply to the preliminary observation, has submitted that the projected growth in fixed assets is worked out on the basis of creation of assets out of the capex proposed of Rs.1275 Crores and Rs.1860.14 Crores for FY23 and FY24 respectively. 70% of the capex proposed is considered as the assets of the particular year for projection. Hence, the balance of work-in-progress is in an increasing trend. However, HESCOM has assured that action will be taken

to complete the works in time and to categorize the balance capex in order to reduce the CWIP.

Based on the previous years' achievements and the projected works to be undertaken, as per the GoI/ GoK schemes, to be partly met by the capital grants and the available internal resources, the Commission recognizes the expected capital expenditure of HESCOM of Rs.1200 Crores, as against Rs.1860.14 Crores proposed by HESCOM. However, to avoid front-loading of the elements like Interest on Loans and depreciation on the capex, in the retail supply tariff, the Commission decides to recognize capex of Rs.1050 Crores for FY24, subject to prudence check to be taken up by the Commission. Considering HESCOM's projected availability of capital grants from GoI / GoK and the internal resources by HESCOM, for the execution of capex, the Commission considers Rs.735 Crores for the purpose of ARR, as capital borrowings for each of the year from FY24.

The HESCOM's Proposed and Approved Capex for FY24 is as under:

Sl. No.	Scheme	Proposed capex in Rs.Crores	Commission approved capex in Rs.Crores
<b>1</b>	<b>GOK Sponsored Works</b>		
a	Gangakalyan total	78.51	70.00
b	Special Development Plan for backward talukas under Nanjundappa scheme(SDP)	24.75	24.00
c	Rural Electrification under SCSP	7.00	7.00
d	Rural Electrification under TSP	3.00	3.00
e	Energisation of IP sets under Sheegra Samparka	56.71	55.00
f	Creating infrastructure to UAIP Sets (Before and after 2014 GOK circular)	325.00	200.00
<b>2</b>	<b>Expansion of network and system improvement works</b>		
a	Additional DTCs	81.86	80.00
b	Enhancement of Distribution Transformers	7.95	7.00
c	Shifting of existing transformer to load centre	1.79	1.00
d	LT line conversion of 1Ph 2 wire or 1Ph 3 wire to 3ph 5 wire	7.14	7.00
e	Other E & I Works (DP & GOS)	2.48	2.00
f	Construction of new 11 KV lines for 33 KV / 110 KV sub-stations/ link lines for bifurcation of load	300.00	96.00

g	11 KV Re-conductoring.	80.00	80.00
h	LT Re-conductoring.	70.00	70.00
<b>3</b>	<b>33 kV Stations</b>		
8	Construction of new 33 kV stations	15.00	15.00
9	Construction of new 33 kV lines.	15.00	15.00
10	Augmentation of 33 kV stations.	5.00	5.00
11	Replacement of 33 kV lines Rabbit conductor by Coyote conductor.	5.00	5.00
12	Replacement of old and failed equipment's and other works of existing 33 kV stations and lines.	21.76	20.00
<b>4</b>	<b>UG Cable</b>		
	Replacement of 11 KV OH feeders by UG Cables	15.00	15.00
<b>5</b>	<b>Reduction of T &amp; D and ATC loss</b>		
a	Providing meters to un-metered BJ/KJ installations.	5.00	5.00
b	Replacement of electromechanical energy meters by static meters.	40.00	40.00
<b>6</b>	<b>General (In House)</b>		
a	Service connections	34.04	30.00
b	Providing single phase transformers to farm houses	250.00	0.00
c	T&P materials.	5.00	5.00
<b>7</b>	<b>New initiatives works</b>		
a	IT initiatives, automation and call centre	20.00	20.00
b	IPDS IT initiative Phase II	20.00	20.00
c	Establishing ALDC & SCADA.	2.00	2.00
d	DSM Projects	1.00	1.00
<b>8</b>	<b>Immediate Execution (Planned/Unplanned)</b>		
a	Replacement of failed distribution transformers.	10.00	10.00
b	Replacement of Power Transformers.	5.00	5.00
c	Preventive measures to reduce the accidents. (Providing intermediate poles, Restranging of sagging lines, providing guy & Struts, providing guarding, DTC earthing )	81.27	65.00
d	Flood Affected Works	88.87	80.00
e	Belaku Yojane	75.00	70.00
<b>9</b>	<b>Civil works</b>		
	Civil Engineering works like Construction of new office buildings/ Sub-station civil works, Modernisation/Repairs to existing buildings, regular maintenance to immovable properties	100.00	70.00
<b>Total</b>		<b>1860.14</b>	<b>1200.00</b>

**The approved capex for FY24 is subject to the following directions:**

- i) HESCOM shall not incur any capex on the unapproved heads indicated in the above table without prior approval of the Commission.**
- ii) If there is any excess expenditure in any head of expenditure, the same shall be met from the savings in any other approved heads of expenditure within the capex approved by the Commission, excluding the Central / State scheme works.**
- iii) The capex approved by the Commission to carry-out the Central / State scheme works shall not be re-appropriated to any other category of capital expenditure head.**
- iv) In case, the approved capex is likely to be exceeded prior approval of the Commission may be obtained duly furnishing all the details with due justification.**
- v) Comply with the capital expenditure guidelines and monitor the physical progress as well as financial progress in respect of the works carried out under Capex ensuring adherence to set timelines of completion, cost to benefit ratio, etc.
- vi) HESCOM is directed to ensure that the investments made under any of the schemes, i.e. whether the funding is either met through grants, internal resources or through capital borrowings, should not become waste/futile expenditure resulting in creation of stranded assets.
- vii) take concrete measures to complete and capitalize the works, which are pending since many years so that, the benefits envisaged are realized and passed on to the consumers effectively;
- viii) identify the high loss Sub-Divisions/Divisions and prioritize its capex specifically to reduce the distribution loss, improve the reliability of the distribution system and improve the voltage regulations.
- ix) prepare a detailed perspective plan by conducting 11 kV feeder-wise and DTC-wise load flow studies to ascertain the present and projected loads on the feeders and to arrive at least cost, techno-economically feasible improvement plan for:

- a. Reducing distribution losses.
- b. Reducing the HT:LT Ratio.
- c. Reduce Transformer failures.
- d. Segregation the loads in the feeders.
- e. Reduction in Power theft.
- f. Bringing programs for the awareness among the people on usage and conservation of energy.
- g. Improving the sales to metered category and Power factor of the IP set loads by installing switched capacitors of suitable capacity to the secondary of the transformers.

## 5.2.2 Sales for FY24:

### A. Category-wise sales- Other than IP sets for FY24:

i) HESCOM in its filing has estimated the number of installations as 6172855 numbers and energy sales as 12859.20 MU excluding sales to HRECS. HESCOM has submitted that the number of installations and sales are estimated adopting the following approach.

a) The HESCOM, in its filing has stated that the estimates depend upon population, government policies & schemes, hours of supply etc. Further, it is submitted that HESCOM has analyzed data from FY17 to FY22 and has also considered dismantled installations.

HESCOM has worked out 5-year and 3-year CAGR and has submitted that it has considered lower of CAGRs for the period FY17 to FY22 and FY19 to FY22 for estimating the number of installations.

Further, for energy sales estimates for FY23 and FY24, lower of the CAGR for the period FY17 to FY22 and FY19 to FY22 is considered by HESCOM. However, where the growth rate is not appropriate, certain modifications are made.

b) HESCOM has estimated the number of installations for all the categories except for BJ/KJ, LT-4a, LT-3 and HT-5 based on CAGR for

the period FY17 to FY22. For LT-3 and HT-5, HESCOM has adopted the CAGR for the period FY19 to FY22. The sales to BJ/KJ is retained at FY22 level.

**ii) The observations of the Commission, replies furnished by HESCOM and the Commission's views thereon are discussed in the following paragraphs:**

a) HESCOM shall furnish the breakup of EHT and HT sales under HT categories for FY24.

HESCOM in its replies has submitted that the HT sales is 1348.70 MU and EHT sales is 858.65MU for FY24

b) The Commission had noted that, the growth rate considered for estimating the number of installations for FY24 for HT-4 is higher compared to the normal growth rates. Therefore, the HESCOM was suggested to consider revising the data for this category.

HESCOM in its replies has submitted that it has considered the CAGR of 1.30% based on 2016-17 to 2021-22 CAGR.

c) The Commission had noted that excluding LT-2a, LT-6 water supply, HT-1, HT-2a and HT-4, the FY22 growth over FY21 is considerably higher, probably due to the reduced sales in FY21 due to Covid and therefore, the above growth rate cannot be considered for estimation of FY24 sales.

Further, the Commission had observed that the sales growth rate considered for LT-2b, LT-5, LT-6 street lights, HT-2a, HT-2b and HT-2c categories is higher as compared to the CAGR. HESCOM was suggested to consider revising the estimates for these categories.

HESCOM in its replies has submitted as follows:

i) In case of LT2b and LT5, the CAGR is low and the sales is assessed based on FY22 specific consumption.

ii) In case of LT6 street lights, the CAGR is too low. Hence, the present growth rate of 3.64% is considered.

iii) In case of HT2a, HT2b and HT2c, the growth rate based on CAGR is too low. During April 2022 to October 2022, sales above base consumption is 48.70 MU. Therefore, the growth rate considering the specific consumption of FY22 is adopted.

iii. To validate the sales, HESCOM was directed to furnish category wise information in the specified format.

HESCOM in its replies has furnished the data.

**iv. Sales to HRECS:**

For FY22 to FY-24, HRECS has considered the following quantum of purchase (interface points) from HESCOM (including AEQUS sales):

	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
HRECS Estimate-MU	340.00	350.99	461.25

HESCOM shall confirm, whether the above quantum of sales to HRECS is considered, while arriving at the overall power purchase requirement for HESCOM.

HESCOM in its replies has submitted that while arriving at the power purchase requirement, HESCOM has considered the following data:

	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>
HRECS Estimate-MU	340.00	355.99	461.25

The Commission notes that for FY23, while HESCOM has considered 355.99 MU, HRECS has considered 350.99MU. The sales to HRECS is discussed in the order of HRECS.

The Commission while noting the above replies of HESCOM, has discussed the Commission's approach in estimating the number of installations and energy sales in the following paragraphs:



**v. The Commission's approach for estimating the number of installations and sales for FY24:**

**1) No. of Installations:**

**i)** While estimating the number of installations (excluding BJ/KJ and IP) for FY24, the following approach is adopted:

a. The Commission has validated both the number of installations and energy sales to various categories considering the actuals as on 30<sup>th</sup> November, 2022 and has estimated the number of installations and sales for the remaining period reasonably. Accordingly, the base year estimation has been revised which has an impact on the estimates on the number of installations and sales for the FY24.

b. Wherever the number of installations estimated by the HESCOM for the FY24 is within the range of the estimates based on the CAGR for the period FY17 to FY22 and for the period FY19 to FY22, the estimates of the HESCOM are retained.

c. Wherever the number of installations estimated by the HESCOM for the FY24 is lower than the estimates based on the CAGRs for the period FY17 to FY22 and for the period FY19 to FY22, the estimates based on the lower of the CAGRs for the period FY17 to FY22 and for the period FY19 to FY22 are considered.

d. Wherever the number of installations estimated by HESCOM for the FY24 is higher than the estimates based on the CAGRs for the FY17 to FY22 and for the period FY19 to FY22, the estimates based on the higher of the CAGRs for the period FY17 to FY22 and for the period FY19 to FY22 are considered.

e. For LT-7 & HT-5 category, the estimates of HESCOM are retained.

**Based on the above approach, the total number of installations (excluding BJ/KJ consuming  $\leq 40$  units/month and IP installations) estimated by the Commission for the FY24 is indicated in the table below:**

**Approved Number of installations**

FY24	
Filed	Approved
4441486	4455844

**2) Energy Sales:**

(i) The sales estimates for FY24 are being estimated, considering the following approach:

- a. The base year sale for FY23 as estimated by the HESCOM has been validated, duly considering the actual sale upto November, 2022 and modified suitably as stated earlier.
- b. Wherever the sale estimated by the HESCOM, for the for FY24, is within the range of the estimates based on the CAGR for the period FY17 to FY22 and for the period FY19 to FY22, the estimates of the HESCOM are considered.
- c. Wherever the sales estimated by the HESCOM for the FY24 is lower than the estimates based on the CAGRs for the period FY17 to FY22 and for the period FY19 to FY22, the estimates based on the lower of the CAGRs for the period FY17 to FY22 and for the period FY19 to FY22 are considered.
- d. Wherever sale estimated by HESCOM for FY24 is higher than the estimates based on the CAGRs for the period FY17 to FY22 and for the period FY19 to FY22, the estimates based on the higher CAGRs for the period FY17 to FY22 and for the period FY19 to FY22 are considered.
- e. For LT2b and LT4b FY23 specific consumption is considered
- f. For LT-7 and HT-5 categories, the estimates of HESCOM are retained.

**Based on the above approach, the sales (excluding BJ/KJ consuming  $\leq$  40 units/month and IP sales) estimated by the Commission, for FY24, is indicated in the following table:**

**Approved Energy Sales**

in Million Units

FY24	
Filed	Approved
5547.790	5468.405

Excluding HRECS

**(ii) Sales to BJ/KJ:**

The break-up of sales to BJ/KJ installations considered for FY22 is as indicated below:

Particulars	No. of Installations	Consumption in MU	Specific consumption per installation per month (kWh)
Installations consuming less than or equal to 40 units	702063	162.92	19.340
Installations consuming more than 40 units and billed under LT2(a)	55906	72.88	108.630

The Commission notes that, the specific consumption works out to 19.34 units / installation / month for BJ/KJ installations consuming less than or equal to 40 units per month which is considered for estimating the sales to BJ/KJ installations consuming less than or equal to 40 units for the control period.

Since, HESCOM has not proposed any additional installations during the control period, as there is no GoK policy to extend the benefit of free power to any new BJ/KJ installations, the number of BJ/KJ installations consuming less than or equal to 40 units per month and more than 40 units per month is retained as existing on 30.11.2022. Further, the specific consumption for installations consuming more than 40 units / month is 108.63 units which is higher than the specific consumption of LT 2a category at 44.51 Units. The Commission notes that the number of installations and consumption of BJ/KJ installations consuming more than 40 units/month varies from month to month. Therefore, considering the overall consumption and year end installations, the specific consumption

would be higher. Thus, the Commission has estimated the sales for this category on pro-rata basis of consumption upto November 2022.

The sales worked out as per the above for FY24 is as indicated in the following Table:

Particulars	Million Units	
	FY24	
	No. of Installations	Sales-MU
Installations consuming less than or equal to 40 units	688814	159.85
Installations consuming more than 40 units and billed under LT2(a)	69386	70.37

NOTE: HESCOM has not proposed any additions to the number of BJ/KJ installations.

## B. Sales to IP sets – projections for ARR FY24:

### HESCOM's Proposal:

HESCOM, in its application for approval of ARR and Tariff for FY24, has projected IP sets consumption of 7,148.49 MU against 10,29,306 number of IP set installations. As per D-2 Format, HESCOM has reported actual consumption of 6,603.46 MU against 9,95,372 number of IP set installations for FY22. HESCOM has reported the number of installations as 9,79,306 in the month-wise, feeder-wise computation sheets. In its replies to preliminary observations, HESCOM has informed that, it has considered the figures after deducting the dried-up installations in the month wise, feeder-wise calculations format. With this submission, the dried-up installations work out to 16,066. HESCOM, in its current tariff filing, has reported that the growth rate as per 5-year CAGR is 8.47%, which is stated to be huge growth. Hence, HESCOM has submitted that for projecting number of IP installations for FY23 and FY24, it has considered addition of 25,000 number of IP installations, which were added during the previous years. While, considering the same, HESCOM has accounted for the dried-up installations. With these assumptions, HESCOM has estimated 10,04,306 number of IP installations for FY23 and hence, 10,29,306 for FY24. HESCOM has projected the energy sales to IP installations for FY23 as 6,865.62 MU and considering specific consumption of 7,030.34 units per IP per annum has projected energy sales as 7,148.49 MU for FY24.

**Commission's Analysis and Decision:**

- a. While verifying the computations of IP sets consumption, it is found that, the actual sales to IP set installations for FY22 is 6,603.46 MU. The Commission has accepted and considered the number of IP set installations furnished by HESCOM in the computations done by deducting the dried-up IP installations i.e., 9,79,306 for FY22. Based on the actual sales to IP sets and actual IP installations, the Commission has arrived at the specific consumption as 6,814.33 units per installation per annum for the FY22, by considering the mid-year installations of 9,69,054.
- b. While estimating the energy sales to IP installations for FY24, HESCOM has informed that, it has considered addition of the actual number of IP installations which were added during the FY22 i.e., 25,000 numbers. From the previous data, the projections of HESCOM by adding 25,000 number of installations of FY22 for FY23 i.e., 10,04,306 by deducting the dried up installations, is acceptable.
- c. HESCOM has considered the specific consumption of 7,030.34 units per IP set per annum while projecting the sales to IP set installations for the period FY24, HESCOM has not provided the details of calculation for arriving at the specific consumption of 7,030.34 units per IP set per annum. In its replies to preliminary observations, HESCOM has submitted that specific consumption in units/installation/annum for FY22 is 6,814.34 and the same is likely to increase and has projected as 6,914.34 units/installation/annum for FY23 and 7,030.34 units/installation/annum for FY24. However, it is noted that calculation for the same is not explicitly submitted by the HESCOM. Therefore, projected specific consumption FY24 by HESCOM is not acceptable.
- d. As the proposal of HESCOM in projecting the specific consumption in units/installation/annum for FY24 is found to be huge and unacceptable, the Commission considers specific consumption of FY22 i.e., 6,814.33 units/installation/annum as most appropriate for calculating the energy sales

for FY24. Thus, the specific consumption considered for FY24 is 6,814.33 units/installation/annum.

- e. Considering the data of FY19, FY20, FY21 and the number of installations for FY23 worked out by the HESCOM, the Commission has computed duly considering CAGR and arrived at 10,21,548 number of installations for FY24. Thus, the number of IP set installations for FY24 is projected as 10,21,548.
- f. Now, by calculating the mid-year installations based on the number of installations estimated as detailed above and the specific consumption of 6,814.33 units/IP/annum the details of energy sales projections to IP set consumers for FY24, are as indicated below:

**TABLE – 5.3**  
**Computation of IP Sets Consumption**

Particulars	FY24		
	As approved by the Commission in TO 2022	As submitted by HESCOM in its Tariff Application	As approved by the Commission (Revised)
<b>No. of Installations</b>	10,31,244	10,29,306	10,21,548
<b>Mid-year number of Installations</b>	10,18,744		10,12,927
<b>Specific consumption in units/installation/annum</b>	6,249.66	7,030.34	6,814.33
<b>Sales in MU</b>	<b>6,366.80</b>	<b>7,148.49</b>	<b>6,902.41</b>

Accordingly, the Commission approves 6,902.41 MU as energy sales to IP-sets as against the HESCOM's projections of 7,148.49 MU, for the FY24. The number of installations approved for FY24 is 10,21,548. This approved IP set consumption for FY24 is with the assumption that the Government of Karnataka would release full subsidy to meet the revenue requirement on the approved quantum of IP sets sales. However, if there is any variation/ shortfall in the subsidy allocation by the GoK, the quantum of sales to IP sets of 10 HP and below shall be proportionately regulated. The HESCOM shall therefore, regulate the number of hours of power supply to exclusive agricultural feeders with reference to the subsidy allocation by the Government.

Government of Karnataka vide letter dated 29.03.2023 has informed the Commission that for FY24, Government have allocated an amount of Rs.13,143.00 Crores for providing free electricity supply to BJ/KJ consumers (consuming up to 40 Units) and IP sets consumers with a sanctioned load of 10 HP & below and requested the Commission to determine the tariff for these categories considering the same.

In this regard, it is explicitly made clear that the Commission is determining the tariff for various category of consumers duly considering the cross subsidy from other category of consumers. As such, while determining the tariff for BJ/KJ consumers (consuming up to 40 Units) and IP sets consumers with a sanctioned load of 10 HP and below, the Commission has to consider the level of cross subsidization from other consumer categories and also the increase in the various cost components. Resultantly, it is not possible for the Commission to determine the tariff for the above categories restricting to the amount of subsidy allocated by the Government. Further, as per Section 62 of the EA, 2003, the Commission is required to determine the tariff. Therefore, the request of the Government to limit the tariff of these categories to match the amount of allocated subsidy would be against the decision of the Government in the matter of providing free electricity supply to these categories vide its order 04.09.2008.

In the light of this, the Government shall fully meet the cost of such subsidized supply at the rate of Commission Determined Tariff in respect of for BJ/KJ consumers (consuming up to 40 Units) and IP sets consumers with a sanctioned load of 10 HP & below. In case, the Government is not able to provide the subsidy to the extent of CDT approved by the Commission, then GoK shall direct the ESCOMs to regulate the power supply to the extent the subsidy provided.

g. The Commission notes that HESCOM has taken up GPS survey of IP-sets to identify the defunct / dried up installations in the field and to arrive at the correct number of IP-sets by deducting such defunct / dried up IP-sets

installations from its account, on the basis of GPS survey results. The HESCOM has not furnished the data of GPS survey by reconciling with the number of installations in the DCB as on 31.03.2021 and 31.03.2022. Instead, in its replies to the preliminary observations, HESCOM has submitted that the GPS survey is completed to an extent of 93.81% as at the end of FY21 and to an extent of 98.45% as at the end of FY22. Thus, the Commission notes that the GPS survey is not only incomplete, but also inconsistent compared with the DCB statement data and hence, the Commission is unable to accept the same.

- h. In view of fact that the GPS survey of IP-sets is incomplete, the number of installations reckoned for FY22 and estimates for FY24 are subject to change based on the GPS survey results. Accordingly, after completion of the survey and finalization of the report, HESCOM shall furnish the correct number of IP set installations duly deducting the number of dried up / defunct IP sets from the total numbers. Thereafter, any variation in the sales due to change in the number of installations would be trued up during the Annual Performance Review for the FY23.
- i. **The feeder-wise, month-wise data of assessment of IP sets for the period from April 2022 to September 2022 as furnished by HESCOM, in its tariff filing, has been considered provisionally for the purpose of projecting the sales for FY23 and FY24. The Commission would consider revising the same, based on the GPS survey data. Hence, HESCOM is directed to submit the final survey Report within 3 (three) months from the date of this Order. The survey data should be reconciled with the DCB Statement data and thereafter report the total IP-set consumption to the Commission, month-on month regularly, as per the format prescribed in the previous tariff orders of the Commission.**

### **C. Approved sales for FY24**

Based on the above discussions, the category wise approved number of installations for the FY24 vis-à-vis the estimates made by HESCOM is indicated below:



TABLE - 5.4

## Category-wise Approved number of installations for FY24

Tariff	Category of Consumers	No. of installations	
		HESCOM FY24	KERC FY24
LT-1 (a)	Bhagya Jyoti <=40 units	702063	688814
LT-1 (a)	Bhagya Jyoti>40	55906	69386
LT-2a	Domestic AEH	3347211	3347212
LT-2b	Pvt. Institutions	8084	8116
LT-3	Commercial - Applicable to areas coming under VPs	483552	483552
LT-4 (a)	IP sets - Less than 10 HP - General	1029306	1021548
LT-4 (b)	Irrigation Pump sets - More than 10 HP	934	934
LT-4 (c)	Private Horticulture Nurseries, Coffee & Tea Plantations	560	560
LT-5	Lt Industries	143621	143621
LT-6	Water Supply	59578	59578
LT-6	Street Lights	30470	31337
LT-7	Temporary Power Supply	306806	306806
	LT Total	6168091	6161464
HT-1	HT Water Supply	477	477
HT-2 (a)	HT Industries	2427	2405
HT-2 (b)	HT Commercial	830	830
HT-2(c)		432	432
HT-3(a) & (b)	HT Irrigation & LI Societies	430	430
HT-4	Res. Apartments - Applicable to Mangalore Municipal Corporation Area	33	33
HT-5	Temporary	135	135
	HT Total	4764	4742
	*Grand Total	6172855	6166206
	Categories other than IP sets and BJ/KJ consuming less than or equal to 40 units/month./installations	4441486	4455844
	IP sets and BJ/KJ consuming less than or equal to 40 units/month./installations	1731369	1710362

\* Excludes HRECS

The category wise approved energy sales for the FY24 vis-à-vis the estimates made by HESCOM are indicated below:

**TABLE - 5.5**  
**Category-wise Approved Energy sales**

Million Units			
Tariff	Category of Consumers	HESCOM FY24	KERC FY24
LT-1 (a)	Bhagya Jyoti < =40 units	162.92	159.85
LT-1 (a)	Bhagya Jyoti>40	72.88	70.37
LT-2a	Domestic AEH	1749.12	1749.12
LT-2b	Pvt. Institutions	18.14	24.73
LT-3	Commercial - Applicable to areas coming under VPs	539.75	551.63
LT-4 (a)	IP sets - Less than 10 HP - General	7148.49	6902.41
LT-4 (b)	Irrigation Pump sets - More than 10 HP	16.40	16.41
LT-4 (c)	Private Horticulture Nurseries, Coffee & Tea Plantations	0.86	0.90
LT-5	Lt Industries	359.28	346.29
LT-6	Water Supply	374.42	376.73
LT-6	Street Lights	169.44	166.32
LT-7	Temporary Power Supply	40.15	40.15
	<b>LT Total</b>	<b>10651.85</b>	<b>10404.91</b>
HT-1	HT Water Supply	405.24	394.15
HT-2 (a)	HT Industries	1021.09	969.49
HT-2 (b)	HT Commercial	130.18	134.21
HT-2(c)		70.56	70.56
HT-3(a) & (b)	HT Irrigation & LI Societies	554.33	531.40
HT-4	Res. Apartments - Applicable to Mangalore Municipal Corporation Area	16.90	16.90
HT-5	Temporary	9.05	9.05
	<b>HT Total</b>	<b>2207.35</b>	<b>2125.76</b>
	<b>Grand Total</b>	<b>12859.20</b>	<b>12530.67</b>
	<b>Categories other than IP sets and BJ/KJ consuming less than or equal to 40 units/month./installations</b>	<b>5547.79</b>	<b>5468.405</b>
	<b>IP sets and BJ/KJ consuming less than or equal to 40 units/month./installations</b>	<b>7311.41</b>	<b>7062.260</b>

\*Excludes HRECS

In addition to the above, the energy estimated to be sold to HRECS at interface point is as approved in the HRECS Tariff Order, 2023.

### 5.2.3 Distribution Losses for FY24:

HESCOM, in its ARR filing has proposed to achieve the distribution losses of 12.50% for FY24 as approved by the Commission, in its MYT Order dated 04.04.2022.

#### Commission's Analysis and Decisions:

The performance of HESCOM in achieving the loss target set by the Commission in the past 10 years is as follows:

**TABLE – 5.6**  
**Approved & Actual Distribution Loss – FY18 to FY24**

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24
<b>Approved Distribution losses in %</b>	15.50	14.90	14.40	13.75	13.50	12.75	12.50
<b>Actual Distribution losses in %</b>	14.76	14.64	14.10	13.25	13.50	12.75 (proposed)	12.50 (proposed)

The Commission, in its preliminary observations had directed HESCOM to reassess and submit the revised distribution losses of less than 12.50%, for FY24 and to submit the action plan for reducing the loss for FY24.

The HESCOM in its reply has submitted the initiatives taken to reduce the distribution loss and as detailed below:

1. All the 670 interface points as at the end of November 22 between KPTCL & HESCOM are metered and the energy received at all these points is measured and accounted.
2. 198900 numbers of MNR/old meters are replaced for FY22. All efforts are being made to ensure that DC or MNR installations are within 1%.

3. Rigorous vigilance activities are being done to detect and curb theft of electricity regularly. Cognizable cases-1509 numbers and Non-Cognizable cases-4397 numbers were identified during inspection for FY22.
4. Re-conductoring of HT Line 326kms and LT lines 770 kms and bifurcation of lengthy feeders by providing 284 months of link lines has been carried out.
5. Rating of HT and LT installations by MT staff, is being conducted regularly as per KEREC Regulations.
6. Load balancing on the DTRs.
7. Achieving 100% reading and billing of LT installations.
8. Minimizing the Door Lock & unread installations (i.e., by taking readings on subsequent dates).
9. Proper metering of street light and water supply (LT-6) installations for monitoring the consumption.
10. To continue all out-efforts in increasing the metered consumption & issuing 100% bills.
11. Customer awareness programme is being conducted to educate and create awareness for saving of electricity and using energy efficient equipment.

The Commission notes that, in FY22, the distribution loss has come down by 0.25 percentage point. Overall, in the past years, (with base year as FY18), HESCOM has been able to achieve distribution loss reduction of 1.26 percentage point. The proposed target of 12.50% distribution loss for FY24 is not commensurate with the capex plan proposed.

In light of the above the Commission reiterates its directions and decides to retain the distribution loss target as in the Tariff Order 2022 and is as detailed below:

Particulars	FY 24
Upper limit	12.75%
Average	12.50%
Lower limit	12.25%

#### 5.2.4 Power Purchase for FY24

The ESCOMs, in their tariff applications have submitted the D-1 Format indicating their power purchase requirement for the FY24. The consolidated statement showing the energy requirement of the ESCOMs in the State for FY24, is shown hereunder:

**TABLE – 5.7**  
**Requirement of Energy as filed by ESCOMs**

ESCOMs	Energy requirement for FY24 (in MU)
BESCOM	34766.29
MESCOM	6313.75
CESC	8245.68
HESCOM	15575.23
GESCOM	9732.79
<b>Total</b>	<b>74633.74</b>

#### HESCOM's submission:

The HESCOM has submitted its power purchase requirement for the FY24 based on the projected sales, as follows:

**TABLE – 5.8**  
**Energy Requirement as filed by HESCOM**

Particulars	FY24
Sales (MU)	12859.20
Distribution losses %	12.50
Energy at IF point (MU)	14696.23
Transmission Losses %	2.764
<b>Energy Required at generation Bus, to meet the sales of HESCOM (MU)</b>	15113.98
<b>Energy Required at generation Bus, to meet the sales of HESCOM (MU) including HRECs and AEQUS</b>	15575.23

### 5.2.5 Sources of Power:

#### HESCOM's submission;

The HESCOM, in its tariff application, has submitted the source-wise power purchase requirement for FY24. Also HESCOM has submitted the basis for considering the availability of power from different sources, as follows:

- (i) The availability/ power procurement from KPCL Thermal and Hydel stations is on the basis of Power Purchase Agreement dated 22.05.2010, based on norms approved by the State Commission, vide its order dated 03.08.2009 and 25.02.2015 and also by considering the data submitted by KPCL through e-mail dated 15.11.2022.
- (ii) Availability of power from Central Generating Stations (CGS) is as per LGBR and the quantum of energy to be drawn by Karnataka is based on the percentage of allocation to the State.
- (iii) In respect of major IPPS, RE and other sources such as RE generators and others sources such as Jurala Power & TB Dam Power and UPCL, etc., the availability is considered based on State's share and the contracted capacity of the Power Purchase Agreement respectively.
- (iv) The energy available for FY24, from different generating sources in the State of Karnataka is as detailed below:

Generating Station	Energy in MUs	Source
KPCL Hydro	<b>12203.73</b>	KPCL
RTPS- 1 to 7	8827.85	KPCL
RTPS 8	1554.37	KPCL
BTPS Unit-I	3051.84	KPCL
BTPS Unit-II	2899.06	KPCL
BTPS Unit-III	4873.50	KPCL
Yeramarus TPS- 1&2	10905.24	KPCL
CGS	18279.16	LGBR of SRPC for 2023-24
Kudigi	9363.68	LGBR of SRPC for 2023-24
DVC	3048.25	DVC
UPCL	7482.78	90% of 85% installed capacity
NCE Projects	19929.29	Actuals of ESCOMs for the FY 2021-22
TBHE & Jurala Projects	207.28	Actuals of 21-22
<b>Total</b>	<b>102626.04</b>	

(v) The generation capacity of the existing generation sources and the envisaged additional sources vis-à-vis the energy requirement for the entire State, fixed charges and variable charges are indicated in the tariff application of HESCOM. The summary of the same is shown in the following Table:

**TABLE – 5.9****Power purchase requirement for FY24 – HESCOM's Submission**

SOURCES	FINANCIAL YEAR 23-24		
	Energy in MU	Cost in Rs Crs.	Avg. cost Per unit Rs./unit
KPCL Hydel Energy	5281.46	575.27	1.09
KPCL Thermal Energy	1041.12	749.59	7.20
CGS Energy	4181.71	2304.17	5.51
UPCL	93.24	183.28	19.66
Renewable Energy/Bundled power	4933.30	2343.93	4.75
Other State Hydel	44.22	1.54	0.35
CTUIL & POSOCO Charges		383.64	
KPTCL Transmission & SLDC		1017.43	
Allocation to other ESCOMs	0.19	0.25	13.16
Other Power Purchase liability		150.70	
<b>TOTAL</b>	<b>15575.23</b>	<b>7709.80</b>	<b>4.95</b>

**Commission's Analysis and Decisions**

The energy requirement of the ESCOMs, including HESCOM, is being met from the following sources, through long-term Power Purchase Agreement (PPAs) with:

- a) Karnataka Power Corporation Limited (KPCL) Generating stations;
- b) Central Generating Stations (CGS);
- c) Major Independent Power producers (IPPs) and
- d) Renewable Energy (RE) sources.
- e) Other Hydro projects.

**i) Quantum of energy available from Karnataka Power Corporation Limited (KPCL) Generating stations:**

To arrive at the available quantum of energy and power for the year FY24, the Commission has considered the availability as furnished by KPCL for KPCL Generating Stations.

**ii) Quantum of energy available from Central Generating Stations (CGS):**

To arrive at the availability quantum of energy and power for the year FY24, the Commission has considered the availability furnished by the SRPC/PCKL for Central Generating Stations. The availability of CGS stations is based on the share of Karnataka, as notified from time to time.

**iii) Major Independent Power producers (IPPs):**

The Major IPPs in Karnataka is UPCL with a generation capacity of 1200MW having unit-1 and unit 2. Out of this station 85% of 90% of installed capacity is considered and correspondingly the energy is considered for FY24.

**iv) Renewable Energy (RE) sources**

In the case of availability from the Renewable Energy sources, the actual generation capacity contracted by the ESCOMs, as indicated in D-1 Format and as per the contracted PPAs, has been considered.

**v) Other Hydro projects**

The availability from the other sources such as Jurala Hydel Station and TB dam Power Stations of Telangana State has been considered based on Karnataka's share in the installed capacity and as per the contracts executed with these generators.

Based on the above availability criteria, the energy requirement for the State, with reference to the sales target approved for FY24, is given in the following Table.



**TABLE – 5.10****ABSTRACT OF POWER PURCHASE REQUIREMENT OF THE STATE  
FOR FY24**

SOURCES	FINANCIAL YEAR 23-24		
	Energy in MU	Total Cost in Rs Crs.	Avg. cost per unit Rs./unit
KPCL Hydel Energy	12203.73	1264.87	1.04
KPCL Thermal Energy	16847.62	12378.98	7.35
CGS Energy	22758.59	11739.93	5.16
UPCL	1500.00	2711.48	18.08
Renewable Energy:	18222.29	7277.35	3.99
Other State Hydel	207.28	63.50	3.06
Bundled Power	2007.16	1269.43	6.32
CTUIL & POSOCO Charges		2122.751	
KPTCL Transmission & SLDC		5603.5905	
<b>TOTAL</b>	<b>73746.6760</b>	<b>44431.880</b>	<b>6.02493</b>

**5.2.6 HESCOM's Power Purchase Quantum, Cost & Transmission charges for FY24:****HESCOM's Submission**

HESCOM has submitted the Power Purchase requirement along with the cost including the transmission charges and SLDC charges, in D-1 Format. HESCOM has sought approval of the Commission for purchase of power to an extent of 15575.23 MU at a cost of Rs.7709.80 Crores, which includes transmission and SLDC charges and power purchase liability on account of court cases, for the year FY24.

As regards the cost of power, the HESCOM has submitted that, same is considered as per the norms defined in contracts (PPAs)/ Regulations and based on the tariff indicated by KPCL for its Stations and the tariff determined by the CERC in respect of Central Generating Stations, DVC Stations and UPCL stations.

**Commission's Analysis and Decisions:**

After a detailed analysis of the power purchase costs claimed by the HESCOM, the Commission has arrived at the power purchase quantum and cost, to be allowed in the ARR for FY24. The basis for computation of power purchase quantum and cost for the FY24 is as indicated below:

1. Quantum of Power: Based on the approved sales and the allowable transmission and distribution losses, the requirement of Power for the HESCOM, for the year FY24, is worked out as detailed below:

**TABLE – 5.11****Power Purchase requirement for the HESCOM for FY24**

<b>Particulars</b>	<b>FY24</b>
Sales (MU)	12530.67
Distribution losses (%)	12.50
Energy at IF point (MU)	14320.77
Transmission Losses (%)	2.764
<b>Energy at Generation Bus required to meet the sales target of HESCOM (MU) including HRECs and AEQUS</b>	<b>15192.594</b>

2. While approving the cost of power purchase, the Commission has determined the quantum of power from various sources in accordance with the principles of Merit Order Dispatch (MOD), based on the ranking according to the variable cost of the approved sources of supply.
3. The rates considered in respect of the KPCL stations are based on the Commission's order dated 03.08.2009 for hydel stations, except for Shivasamudram, Shimsha, Munirabad & MGHE for which separate rates, as per Order dated 25th February 2015, are applicable.
4. The variable costs of State thermal stations and UPCL, are considered based on the recent power purchase bills passed by the HESCOM and also based on the recent landed cost of fuel and other variable components.
5. The fixed charges and the variable charges in respect of the Central Generating Stations, UPCL Stations and the DVC Stations have been

considered based on the Tariff determined by the CERC as per the CERC norms. However, the energy has been considered from these units by limiting the quantum of energy as per the requirement of ESCOMs, to meet the sales target on the basis of Merit Order Despatch. It is expected that any surplus energy available from tied up sources of energy would be traded by the ESCOMs through PCKL on commercial principles. Similarly, any requirement over and above the quantum approved in this Tariff Order, shall be procured from the contracted/ tied up sources only.

6. The variations, if any, in the power purchase costs allowed now and the power purchase costs incurred, shall be claimed by HESCOM by notifying the PPCA charges as per the amended Regulations on Fuel and Power Purchase Adjustment (FPPCA Regulations). **While computing the variations in the FPPCA, HESCOM shall not include the interest towards Late Payment Surcharge being incurred in the normal course, in view of the fact that the Commission is allowing interest on working capital as per MYT norms. However, the interest paid as per the Court/ Commission's Order may be included in the FPPCA Claims.**

The Commission notes that, HESCOM in its filing has claimed Rs.150.70 Crores as the additional power purchase cost on account of Orders of KERC / APTEL for FY24.

The Commission in its preliminary observations has directed HESCOM to submit the KERC/APTEL Order wise details for having claimed the amount of Rs.150.70 Crores as an additional power purchase cost for FY24. In response to this observations, the HESCOM has submitted the statement to the Commission. The Commission notes the reply submitted by HESCOM.

The Commission notes that, the Commission / Hon'ble Tribunal in its Orders has allowed the incremental power purchase tariff on account of admissibility of Safeguard Duty / GST to some of the Solar PPA's as submitted by HESCOM which is liable to be paid to the concerned firm by HESCOM.

Thus, the Commission by considering the Orders issued on such PPA's, has reckoned and factored the additional incremental power purchase cost in allowing the approved total power purchase cost of Rs.7040.80 Crores for FY24.

However, HESCOM cannot claim this amount allowed on payment to the concerned firms in claiming the FPPCA from the consumers.

7. The Commission has allowed the KPTCL transmission charges and SLDC charges to be paid by the ESCOMs, in the Power Purchase Cost as detailed below:

**TABLE – 5.12**  
**Transmission & SLDC Charges**

Name of ESCOM	KPTCL Transmission Charges in Rs. Crores	SLDC Charges in Rs. Crores
BESCOM	2864.9084	14.381
MESCOM	424.5323	2.015
CESC	615.6697	2.841
HESCOM	1066.2217	5.364
GESCOM	604.5184	3.139
<b>Total</b>	<b>5575.8505</b>	<b>27.740</b>

8. The PoC charges payable by ESCOMs has been computed by considering the amounts claimed by CTUIL (Central Transmission Utility of India Limited) based on to GNA quantum of 4376 MW allocated to Karnataka in Annexure-I of Central Electricity Regulatory Commission (Connectivity and General Network Access to the Inter-State Transmission System) Regulations, 2022 notified on 07.06.2022, the State Transmission Utility on behalf of intra-state entities including distribution licensees.
9. Based on the requirement of energy allowed and the power allocation given by the Government of Karnataka, the source-wise Power Purchase quantum and costs are approved in the ARR of HESCOM for the year FY24.
10. The consolidated power purchase quantum and cost for the FY24, as approved by the Commission, is shown in the following Table:

**TABLE – 5.13**  
**ABSTRACT OF POWER PURCHASE APPROVED**  
**FOR HESCOM FOR FY24**

SOURCES	FINANCIAL YEAR 23-24		
	Energy in MU	Cost in Rs. Crores	Cost Per unit In Rs.
KPCL Hydel Energy	4748.497	524.84	1.11
KPCL Thermal Energy	1010.857	742.74	7.35
CGS Energy	4430.04	2080.24	4.70
UPCL	120	216.92	18.08
Renewable Energy	4458.65	1892.96	3.90
Other State Hydel	42.702	13.08	3.06
Total Bundled Power	381.85	241.53	6.32
CTUIL & POSOCO Charges		256.906	
KPTCL Transmission & SLDC Charges		1071.5857	
<b>TOTAL</b>	<b>15192.59</b>	<b>7040.8</b>	<b>4.63</b>

Thus, the Commission hereby approves power purchase quantum of 15192.5940 MU at a cost of Rs.7040.80 Crores, for FY24. The breakup of source-wise Power and the cost thereon, is shown in Annexure- 1 and 2 of this Order.

HESCOM shall regulate the quantum and cost of power, as approved by the Commission in the above Table, to avoid any further burden on the consumer

#### 5.2.7 Renewable Purchase Obligation (RPO) target for FY24:

The ESCOMs are required to comply with the Renewable Purchase obligations as per KERC (Procurement of Energy from Renewable Sources) Regulations, 2011 as amended from time to time. In case the ESCOMs are unable to fulfil the RPO as per Regulations, by purchase of energy they shall purchase the required number of RE Certificates and furnish the same while submitting the compliance of RPO.

#### 5.2.8 O & M Expenses for FY24:

##### HESCOM's Proposal:

HESCOM in its application has claimed an amount of Rs.1536.19 Crores as against Rs.1541.46 Crores as approved by the Commission towards O&M

expense for FY24. HESCOM, in its application, has submitted that it has considered following assumptions for computing the O&M expenses for FY24:

- a) Actual O&M expenses for FY22 inclusive of contribution to pension and gratuity trust of Rs.1284.25 Crores;
- b) Consumer Growth Rate (CGI) of 4.70% for FY24 based on Three Year CAGR considering the actual number of installations as per the audited accounts of FY22 and the projected for FY23 and FY24.
- c) Weighted inflation index at 6.9602%.
- d) Efficiency factor at 2%;

Based on the above indices, HESCOM has sought the O & M expenses for FY24 as detailed below:

**TABLE – 5.14**

**O&M Expenses for FY24-HESCOM's Proposal**

Particulars	Amount in Rs. Crores	
		FY24
No of installations as per audited accounts		
Number of installations projected		6172855
Weighted Inflation Index (WII) in %		6.9602
CGI based on 3-year CAGR in %		4.70
Actual O &M expenses for FY22 Rs. Crores		1284.25
O & M Expenses: O & M (t-1) * (1+Wii+CGI-X) in Crores		1536.19

Based on the above, HESCOM has projected total normative O & M expenses as shown in the following Table:

**TABLE – 5.15**

**O & M Expenses- HESCOM's Submission for FY24**

Particulars	Amount in Rs. Crores	
		FY24
R&M cost		158.89
Employee cost		1178.21
A&G expenses		199.09
<b>O&amp;M cost</b>		<b>1536.19</b>

HESCOM in its filing, has submitted that the additional employee cost on account of pay revision w.e.f., 01.04.2022 is estimated provisionally around Rs.103.00 Crores per year considering 20-22% increase over the existing pay.

Accordingly, HESCOM has proposed Rs.206.00 Crores towards pay revision arrears as additional employee cost for FY24.

### **Commission's Analysis & Decision:**

The Commission in its preliminary observations, had noted that HESCOM has claimed Rs.206 Crores as impact of revision of pay scales w.e.f. 01.04.2022. thus, HESCOM was directed to submit the Orders issued by competent authority in support of its claims besides submitting the actuarial valuation report applicable for FY22 and FY24.

HESCOM in its reply to preliminary observations, has submitted that the additional employee cost on account of pay revision w.e.f. 01.04.2022 is estimated provisionally around Rs.103.00 Crores per year, considering 20-22% increase over the existing pay expecting the issue of GoK Order before the tariff finalization. Accordingly, HESCOM requested the Commission to consider the impact of revision of pay scales w.e.f. 01.04.2022 in ARR of FY24.

The Commission, as per the norms specified under the provisions of MYT Regulations, for computation of O&M expenses has considered the consumer growth rate (CPI) based on 3-year CAGR and inflation rate index based on the methodology followed by the CERC.

The Commission has computed the O & M expenses, duly considering the actual O & M expenses of FY22 as per the audited accounts (being the latest data available as per the audited accounts) for Rs.1283.83 Crores which is inclusive of contribution to P&G Trust as the base year O&M expenses to arrive at the O & M expenses for FY23 and FY24. Considering the Wholesale Price Index (WPI) as per the data available from the Ministry of Commerce & Industry, Government of India and Consumer Price Index (CPI) as per the data available from the Labour Bureau, Government of India and adopting the methodology followed by CERC with CPI and WPI in a ratio of 80:20 in line with the methodology followed by the Commission in its Tariff Order issued earlier, the allowable annual escalation inflation rate for FY24 is computed as follows:

**TABLE – 5.16**  
**Computation of Inflation Index for FY24**

Year	WPI	CPI	Composite Series	Yt/Y1=Rt	Ln Rt	Year (t-1)	Product [(t-1)* (LnRt)]
2010	89.7	61.1	66.82				
2011	98.2	66.5	72.84	1.09	0.09	1	0.09
2012	105.7	72.7	79.3	1.19	0.17	2	0.34
2013	111.1	80.6	86.7	1.30	0.26	3	0.78
2014	114.8	85.7	91.52	1.37	0.31	4	1.26
2015	110.3	90.8	94.7	1.42	0.35	5	1.74
2016	110.3	95.3	98.3	1.47	0.39	6	2.32
2017	114.1	97.6	100.9	1.51	0.41	7	2.88
2018	118.9	102.4	105.7	1.58	0.46	8	3.67
2019	121.2	110.2	112.4	1.68	0.52	9	4.68
2020	121.8	116.3	117.4	1.76	0.56	10	5.64
2021	135.0	122.0	124.6	1.86	0.62	11	6.85
A= Sum of the product column							30.25
B= 6 Times of A							181.51
C= (n-1) *n*(2n-1) where n= No of years of data=12							3036.00
D=B/C							0.06
g (Exponential factor) = Exponential (D)-1							0.0616
e=Annual Escalation Rate (%) =g*100							<b>6.1611</b>

**As per CERC Notification No.ECOTI/2022 dated 30.03.2022 weightage of 80% on CPI and 20% On WPI**

For the purpose of determining the normative O & M expenses for FY24, the Commission has considered the following:

- The actual O & M expenses incurred as per the audited accounts for FY22, inclusive of the contribution of terminal benefit to the Pension and Gratuity Trust to arrive at the O & M expenses for the base year.
- The three-year Compounded Annual Growth Rate (CAGR) of 4.09% for FY24 of the number of installations considering the actual number of installations as per the audited accounts upto FY22 and the projected for FY23 and FY24.
- The weighted inflation index (WII) at 6.1611% as computed above.
- Efficiency factor at 2% is considered.



The above said parameters are computed duly considering the same methodology as was followed in the earlier Tariff Orders of the Commission and the relevant Orders of the Commission, on the various Review Petitions filed by the ESCOMs. Accordingly, the normative O & M expenses for FY24 are as follows:

**TABLE – 5.17**  
**Approved O & M expenses for FY24**

Amount in Rs. Crores	
Particulars	FY24
No. of Installations	6166206
CGI based on 3 Year CAGR in %	4.09%
Inflation index in %	6.1611%
Base year O&M expenses ( as per actuals of FY22)	1283.832
Normative O&M expenses = O&M Index= O&M (t-1) *(1+WII+CGI-X)	1498.99
Additional employee cost on account of Pay Revision amount for FY24	156.00
<b>Allowable Normative O&amp;M Expenses</b>	<b>1654.99</b>

Since, the base year O&M expenses also include the contribution to the P & G Trust, the Commission has not considered allowing contribution to the P & G Trust and pay revision arrears separately for FY24.

As per the norms specified under the MYT Regulations, the O&M expenses are controllable expenses and the distribution licensee is required to incur these expenses within the approved limits. The Commission decides to approve the normative O&M expenses along with the additional employee cost on account of revision of pay of its employees / officers of Rs.1654.99 Crores for FY24.

Further, KPTCL has submitted to the Commission vide their letter No.KPTCL/B36/33996/2022-23/2058 dated 23.03.2023 that, the KPTCL in its Order dated 20.03.2023 has approved the Revision of pay scales by 20% in respect of Workmen and Officers with effect from 01.04.2022 and submitted the additional revenue requirement consequent to revision of pay scales for KPTCL and ESCOMs would be as follows:

## Amount in Rs. Crores

	FY23	FY24
KPTCL	184.00	195.00
BESCOM	248.00	259.00
MESCOM	82.00	86.00
CESC	99.00	107.00
HESCOM	142.00	156.00
GESCOM	111.00	116.00
Total	866.00	919.00

The Commission notes that, the estimations made as above by KPTCL is after duly considering the savings on account of the retirement of employees / officers during the relevant period. As the claims are inevitable and the MYT Regulations provide for factoring such additional expenses on account of revisions of pay scales, the Commission has decided to factor the estimated additional employee cost relating to the financial year FY24 in the ARR of FY24 as the same is payable from April 2023. Hence, the Commission decides to consider the same while carrying out the annual performance review in the ensuing year on incurring the actual expenditure. The amount towards additional employee cost on account pay revision, which is payable with effect from 1<sup>st</sup> April 2022, the Commission notes that, the manner of payment of arrears is yet to be decided. The amount payable for FY23 is an outstanding liability yet to be accounted in the books of accounts of ESCOMs.

**Thus the allowable O&M expenses for FY24 is as detailed below:**

## Rs. In Crores.

Particulars	FY24
Normative O&M Expenses	1498.99
Additional employee expenses due to revision of pay scales.	156.00
<b>Total allowable O&amp;M Expenses. Rs in Crores</b>	<b>1654.99</b>

**Thus, the Commission decides to approve O&M expenses of Rs.1654.99 Crores for FY24, as follows.**

## 5.2.9 Depreciation:

### HESCOM's Proposal:

The HESCOM in its filing has claimed amount of Rs.362.67 Crores towards depreciation for FY24 based on the following assumptions:

- 1) Depreciation has been computed as per the CERC Regulations with effect from 1<sup>st</sup> April, 2009.
- 2) Projected growth in the fixed assets is worked out on the basis of creation of assets out of the capex proposed for FY24.
- 3) 70% of the proposed capex is considered as the assets created for FY24.
- 4) Depreciation at 5.28% of value of assets created out of consumer contributions grants is deducted from the total depreciation for FY24.

Depreciation claimed by HESCOM for FY24 is as detailed below:

**TABLE – 5.18**

### Depreciation-FY24- HESCOM's Submission

Amount in Rs. Crores	
Particulars	FY24
Land and rights	
Buildings	7.84
Hydraulics Works	0.66
Other Civil Works	0.55
Plant & Machinery	75.64
Lines Cable Networks	430.97
Vehicles	0.98
Furniture & Fixtures	0.60
Office Equipment	0.55
Intangible assets	2.66
<b>Total</b>	<b>520.44</b>
<b>Less:</b> Depreciation on assets created out of consumer contribution / grants	-157.78
<b>Net Depreciation</b>	<b>362.67</b>

HESCOM has submitted that the amount of Capital Grants received from Government's towards cost of capital assets, has been reduced from the Gross Block. The capital asset created out of Consumer Contribution and Government grants towards cost of capital assets cannot be identified to

relevant fixed assets, the same is treated as related to the Lines, Cables and Networks Assets group and deducted directly from the total Gross Fixed Assets. Further, the depreciation on these assets provided at respective Accounting Units has been reduced from depreciation for the FY24 @5.28% and the net depreciation is Rs.362.67 Crores for FY24.

### **Commission's Analysis and Decision:**

The Commission notes that, HESCOM in its filing, as shown in table 5.18 above, has claimed the gross depreciation of Rs.520.44 Crores on the fixed assets for FY24. The HESCOM has claimed the net depreciation of Rs.362.67 Crores for FY24, after deducting Rs.157.78 Crores towards depreciation on assets created out of consumers' contribution/grant. The Commission also takes note of the amount of depreciation claimed on each category of assets as per D-6 Format for having claimed an amount of Rs.362.67 Crores as net depreciation for FY24. The Commission, as made out in the pre-para of this chapter, has considered the amount of capex and the categorization of assets thereon in computation of the net depreciation for FY24.

In accordance with the provisions of the MYT Regulations and amendments thereon, the Commission has determined the depreciation for FY24 considering the following:

- a) The actual rate of depreciation of category-wise assets is determined considering the depreciation and gross block of opening and closing balances of fixed assets as per the audited accounts for FY22.
- b) This actual rate of depreciation of FY22 is considered on the of average of opening and closing balance of gross block of fixed assets projections made on the approved capex and the categorization of assets thereon by the Commission for computing depreciation for FY23 and FY24.
- c) The depreciation on account of assets created out of consumers' contribution / grants are considered (deducted) based on the opening and

closing balance of such assets duly considering the addition of assets as considered and projected by the Commission at 5.28% for FY24.

Accordingly, the computation of depreciation for FY24 is shown as follows:

**TABLE – 5.19**  
**Approved Depreciation for FY24**

Amount in Rs. Crores	
Particulars	Depreciation
Buildings	7.56
Civil Works	0.33
Other Civil Works	0.35
Plant & Machinery	90.32
Line, Cable Network	434.84
Vehicles	0.40
Furniture	0.41
Office Equipment	0.21
Land/Lease hold	0.00
Intangible Assets	3.21
Depreciation on Small and Low value assets	0.06
<b>Total Depreciation</b>	<b>537.68</b>
<b>Less:</b> Depreciation as the assets created on Consumer contribution/grants	156.21
<b>Allowable Net Depreciation</b>	<b>381.47</b>

**Thus, the Commission decides to approve an amount of Rs.381.47 Crores after considering the depreciation on assets created out of consumer contribution / grants towards the net depreciation for FY24.**

#### 5.2.10 Interest on Capital Loans:

##### **HESCOM's proposal:**

HESCOM, in its filing, has claimed the interest on capital loan for Rs.423.53 Crores as against Rs.342.64 Crores approved by the Commission for FY24. HESCOM in its application has submitted that it has worked out and claimed the interest on individual source-wise loan basis for FY24.

HESCOM has requested the Commission to approve interest on capital loans for FY24 as follows:

**TABLE – 5.20**  
**Interest on Capital Loans for FY24**  
**HESCOM's Proposal**

Amount in Rs. Crores	
Particulars	FY24
Opening balance	3184.38
Add: New loans	1185.89
Less: Repayment	434.60
Closing balance loans	3935.66
Average loans	3560.02
<b>Interest on capital Loans</b>	<b>423.53</b>

**Commission's Analysis and Decision:**

The Commission has taken note of the capital loan portfolio of HESCOM for FY22 and as at 30<sup>th</sup> September 2022, besides the capex and capital loans proposed for FY24, as discussed in the preceding paragraphs of this Chapter.

The Commission, in its preliminary observations, has observed that, HESCOM has claimed the interest on capital loan at the weighted average interest rate of approximately 12% for FY24 which is comparatively on the higher side as compared with the present SBI lending rates. Accordingly, HESCOM was directed to furnish proper justification in support of the interest rates, it has claimed.

HESCOM in its reply, has submitted that HESCOM has availed majority of capex loans from M/s REC which is mainly related to govt. projects for which grants are released from Gol. HESCOM informed that the nationalized bank will not assist for funding capex projects and thus, HESCOM has availed capex loan from M/s REC even though the interest rates are higher than the interest rates offered by nationalized banks.

HESCOM also informed that, few projects are covered under NEF schemes. Out of the interest amount paid under REF scheme, 3% - 4% will be reimbursed by the MoP through M/s REC to HESCOM. M/s REC will lend the loan at the interest rates based on the integrated rating of the company issued by the MoP.

The Commission notes that the HESCOM has proposed capex amount of Rs.1860.14 Crores for FY24. As against this, the Commission has organised the capex of Rs.1200 Crores and reckoned Rs.1050 Crores on capex for tariff

purpose as approved under MYT Tariff Order 2022. The Commission notes the various works executed under capital grants from Gol / GoK, and the availability of internal resources and the consumer's contributions towards capital works, has considered new loans of Rs.735 Crores for FY24, in accordance with the debt equity ratio of 70:30 as per MYT Regulations.

As per the audited accounts and as per the APR of FY22, the HESCOM had incurred interest on capital loan at a weighted average rate of interest of 10.29% per annum, with majority of capital loans availed from REC and PFC at a higher rate of interest. The Commission, by considering the financial position of HESCOM and the existing loans portfolios with the interest rate thereon, decides to consider the weighted average rate of interest for FY24 at 10.26% for the existing loan balances for which interest has to be factored during FY23. Further, for new loans to be drawn during FY24, the Commission as per the provisions of MYT norms, has considered interest rate of 8.60% being the SBI MCLR rate as on 15.01.2022 for term loans of 3 years and above plus 200 basis points and allowed interest rate of 10.60%. It shall be noted that, the rate of interest now considered by the Commission on the new capital loans for FY24, is subject to review during APR and revision of ARR of FY24.

Accordingly, the approved interests on capital loans for FY24 are as follows:

**TABLE – 5.21**  
**Approved Interest on Capital Loans for FY24**

Amount in Rs. Crores	
Particulars	FY24
Secured Loans & Unsecured loans	3201.20
Add: New Loans Borrowed	735.00
Less: Repayments of loan	377.24
Total loan at the end of the year	3558.96
Average Loan	<b>3380.08</b>
Interest allowed on existing long term loans as per schedule 26 and on new loans	348.01
Weighted average interest rate considered on existing loan balance	10.26%
Interest rate per annum Allowed on new loans in %	10.60%
<b>Allowable Interest on Capital Loan</b>	<b>348.01</b>

**Thus, the Commission decides to approve interest on capital loans of Rs.348.01 Crores for FY24.**

### 5.2.11 Interest on Working Capital:

#### HESCOM's proposal:

HESCOM, in its filing, has claimed Rs.314.59 Crores as against Rs.180.92 Crores as approved by the Commission towards interest on working capital for FY24. HESCOM has submitted that the normative interest on working capital based on the norms prescribed under the provisions of MYT Regulations works out to Rs.216.34 Crores. However, HESCOM has claimed Rs.314.59 Crores on the basis of interest to be paid on individual loan wise balances for FY24. HESCOM in its Petition, has submitted that 31% of its consumers are covered under free and subsidized category of power supply by the government and account for 56% of the total energy consumption. HESCOM is experiencing shortfall in working capital as the GoK is not releasing subsidy at the beginning of each quarter. Also, the subsidy is being restricted to the amount allocated in the annual budget. Further, towards the orders issued by the Commission / APTEL Other Courts on the Appeal filed by the petitioners has resulted in additional power purchase cost liability to HESCOM. Accordingly, HESCOM is not in a position to make payments towards power purchase and has borrowed loans from various banks and financial institutions. Thus, HESCOM in its Petition, has requested the Commission to approve Rs.314.59 Crores as against the normative interest of Rs.216.34 Crores on working capital for FY24.

**TABLE – 5.22**

#### Interest on Working Capital for FY24 HESCOM's Submission

Amount in Rs. Crores	
Particulars	FY24
One -twelfth of the amount of O & M Expenses	145.18
Opening GFA	12240.05
Stores, materials and supplies - 1% of opening balance of GFA	122.40
One-Sixth of the Revenue	1699.18
Total Working Capital	1966.76
Rate of Interest per annum	11.00%
<b>Normative Interest on Working Capital</b>	<b>216.34</b>
<b>Interest on Working Capital claimed</b>	<b>314.59</b>



The Commission notes that, HESCOM has claimed the working capital interest at 11% per annum on the basis of Bank Prime Lending Rates (BPLR) for FY24 which is no more existence and applicable to new loans. Presently, the Banks and Financial Institutions are lending loans on the basis of Marginal Cost of Lending Rates (MCLR) only. The present MCLR based rate of interest charged on working capital by the Commercial Banks / Financial Institutions is on the lower side when compared with the BPLR rates. HESCOM was directed to furnish the basis for considering the rate of interest on working capital at 11%.

HESCOM in its reply has submitted that the rate of interest on working capital at 11% has been considered by reckoning the loans availed from PFC, REC and Commercial banks and the interest rate charged thereon. HESCOM has informed that 31% of its consumer base which accounts for 56% of total power consumption is subsidized by the Government. As the GoK is not releasing subsidy on time, HESCOM has requested the Commission to allow the proposed interest on working capital as a special case.

The Commission allows interest on working capital to the ESCOMs to meet their day-to-day expenses and to pay the generators. Accordingly, the Commission in accordance with the norms specified under the MYT Regulations, has computed the interest on working capital which consists of one months' O & M expenses, 1% of Opening Balance of GFA and two months' revenue.

The Commission notes that the present interest rates by commercial banks and financial institutions are charged mainly on the basis of MCLR rates declared from time to time. Hence, the Commission would consider MCLR, depending upon the tenure of the loan. Thus, the Commission as per the provisions of the MYT Regulations by considering the present SBI MCLR of 8.40% per annum for loan with tenure of one year along with a reasonable spread of 250 basis points, decides to consider interest on working capital at 10.90% per annum for FY24.

Accordingly, the approved interest on working capital loans for FY24 is as follows:

**TABLE – 5.23**  
**Approved Interest on Working Capital loans for FY24**

Amount in Rs. Crores	
Particulars	FY 24
One-twelfth of the amount of O&M Exp.	137.92
Opening GFA	12649.65
Stores, materials and supplies - 1% of Opening balance of GFA	126.50
One-sixth of the Revenue	1668.89
Total Working Capital	1933.30
Rate of Interest (% p.a.) (8.40% + 250 Basis Point)	10.90%
<b>Allowable Interest on Working Capital</b>	<b>210.73</b>

**Thus, the Commission decides to approve Rs.210.73 Crores towards interest on working capital loans for FY24.**

#### **5.2.12 Interest on Consumer Security Deposit:**

##### **HESCOM's proposal:**

HESCOM in its filing has claimed an amount of Rs.48.15 Crores towards interest on Consumer Security Deposits as against Rs.44.61 Crores approved by the Commission under MYT Tariff Order 2022 for FY24.

HESCOM has submitted that it has considered an additional consumer security deposit of Rs.80 Crores every year on the closing balance of consumer security deposit for FY22 while projecting consumer security deposits for FY24 and has computed the interest on consumer security deposit, at the Bank rate of 4.25% per annum for FY24. The abstract of interest on consumer security deposit for FY24 is as follows:

**TABLE – 5.24**  
**Interest on Consumer Security Deposits for FY24**  
**HESCOM's Submission**

Amount in Rs. Crores	
Particulars	FY24
Opening balance of consumer security deposits	1092.97
Closing balance of consumer security deposits	1172.97
Average balance of consumer security deposit	1132.97
Rate of Interest % per annum	4.25%
Interest payable to Consumers	48.15

**Commission's Analysis and Decision:**

In accordance with the KERC (Interest on Security Deposit) Regulations 2005, the interest rate to be allowed is the Bank Rate prevailing on the 1<sup>st</sup> of April of the financial year for which the interest is due. As per Reserve Bank of India Notification dated 07.12.2022, the bank rate is 6.50% per annum. This being the latest available bank rate, the Commission has considered the same, for computation of interest on consumer deposits for FY24.

The Commission has considered the consumer security deposits as per the audited accounts of FY22 and half yearly accounts of FY23 and has noted the additional amount of deposit collected from the consumers during the previous years. Based on the additional security deposits collected during FY22, the Commission has decided to factor Rs.60 Crores each for FY23 and FY24 as the additional security deposit likely to be collected for projected the interest on consumer security deposit. Thus, the allowable interest on consumer deposits for FY24 is as follows:

**TABLE – 5.25**  
**Approved Interest on Consumer Security Deposits for FY24**  
Amount in Rs. Crores

Particulars	FY24
Opening balance of consumer security deposits for FY24	1072.97
Closing Balance of Consumer Security deposit	1132.97
Average balance of consumer security deposit.	1102.97
Allowable interest rate per annum	6.50%
<b>Allowable Interest on Consumer Security Deposit</b>	<b>71.69</b>

**Thus, the Commission decides to approve interest on consumer security deposits of Rs.71.69 Crores for FY24.**

#### **5.2.13 Other Interest and Finance Charges:**

HESCOM in its filing, has claimed Rs.28.29 Crores as against Rs.10.00 Crores approved by the Commission in MYT Tariff Order 2022 towards other interest & Finance Charges for FY24.

#### **Commission's Analysis and Decision:**

The Commission as per audited accounts notes the other financial charges incurred by HESCOM during the previous years. Accordingly, the Commission decides to approve Rs.28.29 Crores towards other interest & Finance Charges for FY24.

#### **5.2.14 Interest and other expenses capitalised:**

HESCOM in its filing, has claimed Rs.40.00 Crores towards Interest and other expenses capitalized for FY24.

#### **Commission's Analysis and Decision:**

The Commission notes the amount of expenses capitalized as per the audited accounts of HESCOM during the previous years.

Accordingly, the Commission decides to approve Rs.40.00 Crores towards Interest and other expenses capitalized for FY24.

The abstract of approved interest and finance charges for FY24 are as follows:

**TABLE – 5.26**  
**Approved Interest and finance charges for FY24**

Amount in Rs. Crores	
Particulars	FY24
Interest on Loan Capital	348.01
Interest on Working Capital	210.73
Interest on Consumer Security Deposit	71.69
Other Interest & Finance charges	28.29
Less interest & other expenses capitalised	-40.00
<b>Approved Interest &amp; Finance Charges</b>	<b>618.72</b>

**5.2.15 Other Debits:**

HESCOM has claimed Rs.67.78 Crores towards other debits for FY24. Other expenses consist of asset decommissioning cost, value written off, loss relating to fixed assets, bad and doubtful debts written off, material Cost variance, income from sale of scrap materials, etc. HESCOM has informed that it has also considered compensation payable to consumer for damages, injury caused etc., in pursuance with standard performance regulations under other debits. The details of other debits are as follows:

**Details of other debits**

Sl. No.	Particulars	Amount in Rs. Crores
		FY-24 (Projected)
1	Asset Decommissioning cost	3.88
2	Losses relating to fixed Assets	0.42
3	Material Cost Variance	31.97
4	Bad & Doubtful Debts written off/provided for	11.04
5	Miscellaneous losses and Write offs	20.47
	<b>Grand Total</b>	<b>67.78</b>

**Commission's Analysis and Decision:**

As per the provision of MYT Regulations, the Commission has not been allowing provisions for anticipated expenses and hence the same is not allowed for FY24.

**5.2.16 Return on Equity:****HESCOM's proposal:**

HESCOM has not claimed any amount towards Return on Equity, in view of the negative net-worth estimated for FY24.

**Commission's analysis and decision:**

The Commission notes the actual equity position as per the audited accounts of HESCOM for FY22.

The Commission in its preliminary observations, has directed HESCOM to submit the equity amount infused by GoK during FY23 along with details of the Government Orders.

HESCOM, in its reply to the preliminary observations, has submitted the statement of equity infused by GoK during FY23 which is noted by the Commission.

The Commission notes the status of debt-equity ratio with reference to the projected gross fixed assets for FY24. The Commission has considered the actual amount of share capital, share deposits and the accumulated surplus / deficit under reserves & surplus as per the audited accounts for FY22 and the additional equity received from the GoK during FY23 for arriving at the allowable equity base for FY24.

Further, in compliance of the Orders of the Hon'ble ATE in Appeal No.46/2014, wherein it was directed to indicate the opening and closing balances of gross fixed assets along with break-up of equity and loan component in the Tariff Order henceforth, the details of GFA, debt and equity (net-worth) for FY24 are indicated as follows:

**TABLE – 5.27**  
**Status of Debt Equity Ratio for FY24**

Amount in Rs. Crores								
Year	Particulars	GFA	Debt	Equity (Net worth)	Normative Debt @ 70% of GFA	Normative Equity @ 30% of GFA	%age of actual debt on GFA	%age of actual equity on GFA
FY24	Opening Balance	9818.46	3201.2	-4389.83	6872.92	2945.54	32.60	-44.71
	Closing Balance	10618.46	3558.96	-4389.83	7432.92	3185.54	33.52	-41.34

From the above table it is evident that while the debt ratio lies within the normative 30% on the opening and closing balances of projected GFA for FY24, the equity ratio is showing a negative percentage in view of the negative net worth of HESCOM. Further, the Commission will review the same during the

Annual Performance Review, based on the actual data as per the audited accounts.

The Return on Equity FY24, that could be allowed, based on the above data, is worked out as follows:

**TABLE – 5.28**  
**Approved Return on Equity for FY24**

Amount in Rs. Crores	
Particulars	FY24
Opening balance of Paid Up Share Capital	2050.42
Opening balance of Share Deposit	15.62
Opening balance of Accumulated deficit	-6421.87
Less: Recapitalized Security Deposit	-34.00
Net Equity at the beginning of the year	-4389.83
<b>Allowable Normative RoE grossed with MAT</b>	<b>0.00</b>

**The net-equity at the beginning of the year of HESCOM is showing a negative balance of Rs.4389.83 for FY24. Thus, the Commission decides not to allow any amount towards return on equity, for FY24.**

#### 5.2.17 Other Income:

##### **HESCOM's proposal:**

HESCOM, in its filing as per Format A-1, has claimed other income of Rs.431.43 Crores for FY24 which comprises of Rs.181.90 Crores towards interest on bank deposits and loan provided to employee societies, income from trading such as sale of stores/scrap, miscellaneous receipts such as rentals from staff quarters and miscellaneous recoveries made etc. and Rs.249.54 Crores (including transmission loss) as revenue demand from sales of 461.25 MU at the rate of Rs.5.41 per unit to HRECS & AEQUS. HESCOM has claimed the other income for FY24 as under:

**TABLE – 5.29**  
**Other Income for FY24 – HESCOM's Proposal**

Amount in Rs. Crores	
Particulars	FY24
Other income from other items	181.90
Sale of Power to HRECS & AEQUS	249.54
<b>Total other income</b>	<b>431.44</b>

**Commission's Analysis and Decision:**

The Commission notes that HESCOM while projecting the other income for FY24 has considered Rs.181.90 Crores, which mainly includes interest on bank deposits and loan provided to employee societies, income from trading such as sale of stores/scrap, miscellaneous receipts such as rentals from staff quarters and miscellaneous recoveries made etc. commission for collection of electricity duty, etc. The actual 'other income' earned by HESCOM as per the audited accounts for FY22 was Rs.118.2455 Crores.

Thus, considering the other income of Rs.118.2455 Crores for FY22 with the marginal increase in each year of FY23 & FY24, and the income of Rs.218.3053 Crores from sale of 453.1489 MU power at IF points to Hukeri RECS including AEQUS SEZ (at generating bus 466.0299 MU\* Rs.4.6344 per unit+ 5 paise margin =Rs.218.3053 Crores), the total other income expected to be earned by HESCOM is Rs.344.05 Crores for FY24.

**Thus, Commission decides to approve other income of Rs.344.05 Crores for FY24.**

**5.2.18 Fund towards Consumer Relations / Consumer Education:**

HESCOM in its filing, under O&M expenses, has claimed an amount of Rs.0.50 Crores towards consumer relation/education for FY24.

The Commission has been allowing an amount of Rs.0.50 Crore per year towards consumer relations/education. This amount is earmarked to conduct consumer awareness and grievance redressal meetings periodically and to



institutionalize a mechanism for addressing common problems of the consumers. The Commission has already issued guidelines for consumer education and grievance redressal activities.

The Commission decides to continue to provide an amount of Rs.0.50 Crore for FY24 towards meeting the expenditure on consumer relations / consumer education.

#### **5.2.19 Power Purchase Cost and Carrying cost on account of APTEL Orders:**

HESCOM in its application claimed that Rs.142.76 Crores has been paid towards power purchase cost on account of KERC/APTEL Orders in FY22 by borrowing loans from various banks and financial institutions and also internal resources which is an additional burden which is not a pass through in the tariff. Accordingly, HESCOM has proposed Rs.42.83 Crores as the carrying cost @ 15% on Power purchase liability paid on account of KERC/APTEL/Court Orders (Rs.142.76 Crores\*2\*15%) for FY24.

#### **Commission's Analysis and Decision:**

The Commission notes the details submitted on the preliminary observation. HESCOM has paid Rs.142.76 Crores towards power purchase dues on account of KERC/APTEL/Court Orders during FY22 itself by borrowing loans from various banks and financial institutions and also from its internal resources. The Commission is of the view that any financial obligation towards payment of power purchase dues arising out of legal obligation has to be allowed in the tariff. Accordingly, the Commission as per the statement of details submitted by HESCOM in payment of power purchase dues at different periods during FY22, has allowed the carrying cost of Rs.13.56 Crores as an additional expenses and included the same in allowance of interest on working of Rs.171.31 Crores as per APR for FY22 (normative Rs.157.75 Crores + carrying cost Rs.13.56 Cores). Thus, the allowance of carrying cost once again in the revised ARR for FY24 does not arise.

### 5.2.20 Carrying Cost on Deficit of FY22:

HESCOM in its application has claimed Rs.313.62 Crores towards carrying cost on the carry forward deficit as per APR proposal for FY24.

HESCOM in its application has submitted that as per the APR proposal, there is a deficit of Rs.2090.79 Crores for FY22. In accordance with MYT Regulations such deficit is carried forward and included in ARR of FY24. This deferment of deficit has significant impact on HESCOM's financials as the Company has to meet its revenue obligations in relevant financial year without any source of income and expect to recover the same through tariff after a gap of more than one year. HESCOM has proposed to carry forward the deficit after truing up which is similar to Regulatory Asset for which carrying cost needs to be considered. The Commission is allowing the Interest on Working Capital as per MYT norms and not based on actuals. Even if the interest is covered in ARR subsequently, the repayment of borrowings for working capital without any additional source will be a burden on HESCOM and affect the cash flow adversely. HESCOM is not able to avail short term loan or overdraft easily due to poor financial condition.

HESCOM has submitted that carrying forward of the revenue gap has an effect on Reserve and Surplus. Since RoE is determined by considering the Reserve & Surplus amount also, RoE allowed by KERC would be less, as deficit (gap) would have resulted in negative financial results in that particular year. HESCOM has requested the Commission to allow the carrying cost of Rs.313.62 Crores at the rate of 15% per annum on deficit determined in Annual Performance Review of a particular financial year carried forward to the ARR of the year next to the following year to mitigate the loss of revenue.

#### **Commission's Analysis and Decision:**

The Commission notes that, HESCOM in its application has claimed Rs.313.62 Crores towards carrying cost at the rate of 15% per annum on the net revenue deficit of Rs.2090.79 Crores claimed as per APR for FY22, carried forward to the

revised ARR of FY24. The Commission in its preliminary observations has directed HESCOM to justify its claims with reference to the Regulations / Rules / Orders of the competent authorities.

HESCOM in its reply to the preliminary observations has submitted that as per the audited accounts of HESCOM, there is a deficit of Rs.1723.48 Crores for FY22. Such deficit is carried forward and included in ARR of FY24. This deferment of deficit has significant impact on HESCOM's financials as Company has to meet its revenue obligations in relevant financial year without any source of income and expect to recover the same through tariff after a gap of more than one year. On account of this, HESCOM is not able to make immediate payments in accordance with the Orders issued by various Court Orders. HESCOM has submitted that the delayed payment of electricity bills attracts interest of 12% per annum. However, HESCOM has to pay late payment charge to power generators at 18% to 24% per annum. Accordingly, HESCOM has claimed carrying cost of Rs.313.62 Crores at the interest rate of 15% per annum for FY24. However, HESCOM has not stated the provisions under which it has claimed the interest on the deficit of the previous years.

**The Commission notes that, as per the audited account, HESCOM has incurred the net deficit of Rs.1293.63 Crores for FY22.**

Basically, the deficit in the financial accounts may be due to several factors including the excess expenditure incurred without complying with the norms of the MYT Regulations. The Commission has been allowing full recovery of tariff against the ARR approved for the relevant financial years. The question of deficit would arise only when target of revenue and expenses and distribution losses are not achieved by HESCOM. The Commission notes that, HESCOM has incurred the deficit in FY22 particularly due to under recovery of revenue from sale of power than the approved figure by Rs.715.23 Crores and increase in power purchase by Rs.564.16 Crores besides increase in other items of expenditure.

Further, the Commission notes that, the energy sales to paying category of consumers is reduced by 458.16 MU which has resulted in under recovery of revenue to an extent of Rs.865.14 Crores and increase in sale of power to IP set by 342.05 MU than the approved sales and revenue for FY22. HESCOM has achieved the higher distribution loss of 14.15% as against the approved target of 13.50% for FY22. This has resulted in incurring higher revenue losses by HESCOM for FY22 for which HESCOM itself is responsible.

As the final accounts of any year of any ESCOM will be prepared after the completion of the financial years and the AG certified audited accounts is made available only after filing of the application for the approval of ARR for the ensuing years. As per the provisions of MYT Regulations, the APR of any distribution licensee can be undertaken only after the receipt of Accountant General certified audited accounts and accordingly the gap in revenue will be determined for that years. Hence, the question of delay in undertaking of APR exercise and allowing the interest on carry forward revenue deficit as per APR does not arise and not provided under any provisions of MYT Regulations.

**Thus, the Commission decides not to consider the carrying cost of Rs.313.62 Crores as claimed by HESCOM for FY24.**

### **5.3 Tariff Subsidy for FY24**

The Commission has allowed 159.85 MU and 6902.41 MU as the sale of power to BJ/KJ and IP installations respectively for FY24. Accordingly, for the sale of power to these category of consumers, the approved tariff subsidy at the revised retail supply tariff is Rs.138.91 Crores and Rs.5068.52 Crores respectively. Thus, the total subsidy payable by GoK as per the prevailing Government Order to HESCOM is Rs.5207.43 Crores for FY24.

### **5.4 Revenue for FY24:**

HESCOM in its Petition, has claimed a total revenue of Rs.10195.07 Crores which includes revenue of Rs.4948.52 Crores from tariff and miscellaneous charges and Rs.5246.55 Crores from BJ/KJ and IP sets.

**Commission's Analysis and Decision:**

The Commission considering the approved sales for FY24, has recognized a total revenue of Rs.10013.31 Crores which includes revenue of Rs.4945.25 Crores from tariff and miscellaneous charges and Rs.5068.06 Crores from sale of power to BJ/KJ and IP sets.

In the light of the above analysis and decisions of the Commission, the following is the approved ARR for FY24:

**TABLE – 5.30**  
**Approved ARR for FY24**

Amount in Rs. Crores				
Sl. No	Particulars	As Approved in Tariff Order 04.04.2022	As Filed on 30.11.2022	Approved ARR for FY24
1	Energy @ Gen Bus (With HRECS & AEQUS) in MU	15154.64	15575.23	15192.594
2	Energy @ Interface in MU (Without HRECS & AEQUS)	14796.89	15113.98	14727.84
3	Transmission Losses in %	2.764%	2.764%	2.764%
4	Energy @ Interface in MU (HESCOM only)	14387.91	14696.23	14320.77
5	Distribution Losses in %	12.50%	12.50%	12.50%
6	<b>Sales in MU</b>			
	Sales to other than IP & BJ/KJ	6036.06	5547.79	5468.41
	Sales to BJ/KJ	186.56	162.92	159.85
	Sales to IP	6366.80	7148.49	6902.41
	<b>Total Sales</b>	<b>12589.42</b>	<b>12859.20</b>	<b>12530.67</b>
7	<b>Revenue at existing tariff in Rs. Crores.</b>			
	Revenue from tariff and Misc. Charges	0.00	4948.52	4945.25
	Tariff Subsidy to BJ/KJ	0.00	135.38	132.84
	Tariff Subsidy to IP	0.00	5111.17	4935.22
	<b>Total Existing Revenue</b>	<b>10021.03</b>	<b>10195.07</b>	<b>10013.31</b>
8	<b>Expenditure in Rs. Crores.</b>			
	Power Purchase Cost	6847.99	6541.67	5818.51
	Transmission charges of KPTCL	1011.45	1011.45	1066.22
	SLDC Charges	5.98	5.98	5.364
	Power Purchase Liability on account of KERC/ APTEL/ Court Orders	0.00	150.70	150.70

Sl. No	Particulars	As Approved in Tariff Order 04.04.2022	As Filed on 30.11.2022	Approved ARR for FY24
	<b>Total Power Purchase Cost including cost of transmission &amp; SLDC Charges</b>	<b>7865.42</b>	<b>7709.80</b>	<b>7040.80</b>
9	O&M Expenses	<b>1541.46</b>	<b>1536.19</b>	<b>1654.99</b>
10	Depreciation	340.77	362.67	381.47
	<b>Interest &amp; Finance charges</b>			
11	Interest on Capital Loans	342.64	423.53	348.01
12	Interest on Working capital loans	180.92	314.59	210.73
13	Interest on belated payment on PP Cost	0.00	0.00	0.00
14	Interest on consumer security deposits	44.61	48.15	71.69
15	Other Interest & Finance charges	10.00	28.29	28.29
16	Less interest & other expenses capitalised	-40.00	-40.00	-40.00
	<b>Total Interest &amp; Finance charges</b>	<b>538.17</b>	<b>774.56</b>	<b>618.72</b>
17	Other Debits	0.00	67.78	0.00
18	Return on Equity	0.00	0.00	0.00
19	Funds towards Consumer Relations/Consumer Education	0.50	0.50	0.50
20	Carrying Cost on Deficit of FY22 @15%	0.00	313.62	0.00
21	Carrying Cost @15% on Power Purchase liability paid on account of KERC/ APTEL/ Court Orders (Rs.142.76 Crs *2*15%)	0.00	42.83	0.00
22	Less: Other Income	-336.27	-431.43	-344.05
23	<b>ARR</b>	<b>9950.05</b>	<b>10376.52</b>	<b>9352.43</b>
24	Add: Deficit for FY22 carried forward (APR)	0.00	-1723.48	-1537.18
25	<b>Net ARR</b>	<b>9950.05</b>	<b>12100.00</b>	<b>10889.60</b>
26	<b>Net Surplus/ (-) Deficit for FY24</b>	<b>70.98</b>	<b>-1904.93</b>	<b>-876.29</b>

### 5.5 Segregation of ARR into ARR for Distribution Business and ARR for Retail Supply Business:

HESCOM in its application has not proposed any new ratio for segregation of consolidated ARR into ARR for Distribution Business and ARR for Retail Supply Business.

**Commission's Analysis and Decision:**

The Commission notes that HESCOM did not propose any new ARR for Retail Supply Business. Hence, the Commission decides to continue with the existing ratio of segregation of ARR, as detailed below:

**TABLE – 5.31**  
**Approved Segregation of ARR – FY24**

Particulars	Distribution Business	Retail Supply Business
O&M Expenses	63%	37%
Depreciation	84%	16%
Interest on Capital Loan	100%	0%
Interest on Consumer Deposits	0%	100%
RoE	82%	18%
GFA	84%	16%
Non-Tariff Income	0%	100%

Accordingly, the following is the approved ARR for Distribution Business and Retail supply business:

**TABLE – 5.32**  
**APPROVED REVISED ARR FOR DISTRIBUTION BUSINESS – FY24**

Sl. No	Particulars	Amount in Rs. Crores
		FY24
1	R&M Expenses	1042.64
2	Employee Expenses	
3	A&G Expenses	
4	Depreciation	320.43
	<b>Interest &amp; Finance Charges</b>	
5	Interest on Capital Loans	348.01
6	Interest on Working capital loans	55.11
7	Interest on consumer security deposits	0.00
8	Other Interest & Finance charges	28.29
9	Less: interest & other expenses capitalised	-40.00
10	<b>Total</b>	<b>1754.48</b>
11	ROE	0.00
12	Less: Other Income	0.00
	<b>NET ARR</b>	<b>1754.48</b>

**TABLE – 5.33**  
**APPROVED ARR FOR RETAIL SUPPLY BUSINESS – FY24**

Amount in Rs. Crores

Sl. No	Particulars	FY24
1	Power Purchase & SLDC Charges	7040.79
2	Transmission Charges	0.00
3	R&M Expenses	612.35
4	Employee Expenses	
5	A&G Expenses	
6	Depreciation	61.04
7	Interest on Capital Loans	0.00
8	Interest on Working capital loans	155.62
9	Interest on consumer security deposits	71.69
10	Other Interest & Finance charges	0.00
11	Less interest & other expenses capitalised	0.00
12	ROE	0.00
13	Other Income	-344.05
14	Fund towards Consumer Relations / Consumer Education	0.50
	<b>NET ARR</b>	<b>7597.94</b>

#### 5.6 Gap in Revenue for FY24:

As discussed above, the Commission decides to approve the Annual Revenue Requirement (ARR) of HESCOM, for its operations in FY24, at Rs.10889.60 Crores as against HESCOM's proposal of Rs.12100.00 Crores. The approved ARR includes an amount of Rs.1537.18 Crores which is determined as the deficit as per APR of FY22, as discussed in Chapter-4.

Based on the existing retail supply tariff, the total revenue from sale of power, for FY24 will be Rs.10013.31 Crores, which would fall short of the approved ARR by Rs.876.29 Crores, which needs to be recovered through revision of retail supply tariff.

The net ARR and the gap in revenue for FY24 are shown in the following table:



**TABLE – 5.34**  
**Revenue Deficit for FY24**

Amount in Rs. Crores	
Particulars	FY24
Net ARR including carry forward deficit of FY22 (Rs. Crores)	10889.60
Approved sales (MU)	12530.67
Average cost of supply for FY24 (Rs. / unit)	8.69
Revenue at existing tariff (Rs. Crores)	10013.31
<b>Net Deficit in revenue for FY24 (Rs. Crores)</b>	<b>(-)876.29</b>

The determination of revised retail supply tariff on the basis of the above approved ARR is dealt with in Chapter-6 of this Order.