

CHAPTER-7

Aggregate Revenue Requirement for FY-24

Distribution Loss:

HESCOM proposes the Distribution Loss for FY23 and FY 24 as noted below.

Particulars	FY-23 (Revised)	FY-24
Energy Sales (Mus)	12290.36	12859.20
Distribution Loss (%)	12.75	12.50
Energy at interface point (Mus)	14086.37	14696.23
Transmission Loss (%)	2.864	2.764
Energy Required to meet the sales of HESCOM	14501.70	15113.98
HRECS Hukkeri (Including Transmission loss) in MUs)	329.39	436.61
AEQUS (Including Transmission loss) in MUs)	26.60	24.64
Total	14857.69	15575.23

The Hon'ble KERC has approved distribution loss of 12.75 % for FY-23 and 12.50% for FY-24 vide
Tariff Order Dtd: 04.04.2022.

Proposed Capital outlay for FY- 24:

Proposed Capital outlay proposed for FY 24 is Rs.1860.14 crores. Capital Budget is distributed among
all the essential works.

The details of Annual Investment Plan is appended below:

- ❖ Annual Investment Plan includes all the planned and Non Plan works
- ❖ Capital budget provision is made for commissioned works, on going works and works that have
been proposed to be taken up.
- ❖ As per the circular from GOK vide: No:EN41/VSC/2014/ P1 Dt:14-07-2014 to arrange power
supply to the IP Sets , tender has been initiated for which budgetary provision has been made
for execution of all works under this scheme. Also provision for IP Sets under Sheegra
Samparaka is being made.
- ❖ Provision is made for metering which in turn yield in reduction in Technical and Commercial
losses and also supports in Energy Auditing in more technical way.
- ❖ Appropriate provision is made for Social obligatory works such as Ganga Kalyan works, SDP,
TSP, SCSP to meet the objectives of GOK



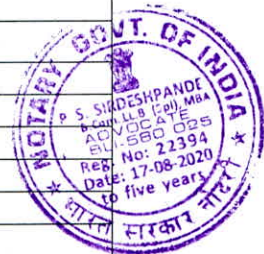
- ❖ Budget provision for construction of new link lines from new 110 KV sub stations is proposed.
- ❖ Investment provision is made on System strengthening works such as Reconductoring, of 33/11 KV lines.
- ❖ Preventive Measure works will be taken in order to improve tail end voltage and reduction of losses and prevents Accidents. All the hazardous installations are covered under this scheme.
- ❖ Investment provision is made on E & I works like additional DTCs, feeder bifurcation, line conversion, shifting of transformer to load centre, enhancement of transformers etc are considered for energy saving and Quality supply and reduction of over load thus improving voltage
- ❖ Investment is made on New Stations/ Agumentation and also replacement works in Stations are to be taken up in order to improve quality power supply and reduce distribution losses and to cater load growth.
- ❖ New Projects under IT have been included and payment unde IPDS IT initiative is included for which huge budgetary provision is being made.
- ❖ Provision has been made for providing single phase transformers to farm houses.
- ❖ Provision has been made for Belaku Yojane Scheme.

Considering all the above factors Annual Investment plan for FY-24 is proposed.

The schemewise detailed provision is as below:

(Rs in crores)

Sl. No.	Scheme	Capital Budget proposed for 2023-24
	GOK Sponsered Works	
1	Gangakalyan total	78.51
2	Special Development Plan for backward talukas under Nanjundappa scheme(SDP)	24.75
3	Rural Electrification under SCSP	7
4	Rural Electrification under TSP	3
5	Energisation of IP sets under Sheegra Samparka	56.71
6	Creating infrastructre to UAIP Sets (Before and after 2014 GOK circular)	325
	Sub - total	416.46
7	Expansion of network and system improvement works.	
a	Additional DTCs	81.86
b	Enhancement of Distribution Transformers	7.95
c	Shifting of existing transformer to load centre	1.79
d	LT line conversion of 1Ph 2 wire or 1Ph 3 wire to 3ph 5 wire	7.14
e	Other E & I Works (DP & GOS)	2.48
f	Construction of new 11 KV lines for 33 KV / 110 KV sub-stations/ linklines for bifurcation of load	300
g	11 KV Re-conductoring.	80
h	LT Re-conductoring.	70
	Sub - total	551.22
8	Construction of new 33 KV stations	15



Application for Approval of Annual Performance Review for FY-22 and Approval for ARR & ERC for FY-24 and
Tariff Filing for FY-24.

9	Construction of new 33 KV lines.	15
10	Augmentation of 33 KV stations.	5
11	Replacement of 33 KV lines Rabbit conductor by Coyote conductor.	5
12	Replacement of old and failed equipments and other works of existing 33 KV stations and lines.	21.76
	Sub - total	61.76
	UG Cable	
13	Replacement of 11 KV OH feeders by UG Cables	15
	Sub-total	15
	Reduction of T & D and ATC loss	
14	Providing meters to un-metered BJ/KJ installations.	5
15	Replacement of electromechanical energy meters by static meters.	40
	Sub - total	45
	General (In House)	
16	Service connections	34.04
17	Providing single phase transformers to farm houses	250
18	T&P materials.	5
	Sub - total	289.04
Sl. No.	Scheme	Capital Budget proposed for 2023-24
	New initiatives works	
19	IT initiatives, automation and call centre	20
20	IPDS IT initiative Phase II	20
21	Establishing ALDC & SCADA.	2
22	DSM Projects	1
	Sub - total	43
	Immediate Execution (Planned/Unplanned)	
23	Replacement of failed distribution transformers.	10
24	Replacement of Power Transformers.	5
25	Preventive measures to reduce the accidents. (Providing intermediate poles, Restraining of sagging lines, providing guy & struds, providing guarding, DTC earthing)	81.27
26	Flood Affected Works	88.87
27	Belaku Yojane	75
	Sub - total	260.14
28	Civil Engineering works like Construction of new office buildings/ Sub station civil works, Mordenisaton/Repairs to existing buildings, regular maintainance to immovable properties	100
	Sub - total	100
	Total	1860.14



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Segregation of accounts in to distribution business and retail supply business.

As per Regulation 2.2, the accounts of licensee shall be segregated between Distribution and Retail Supply Business. It is provided in the regulation that till such time there is complete segregation, the ARR of the licensee shall be apportioned between the distribution business and retail supply business by appropriate methodology.

Considering the above, the expenditure is segregated between DB and RSB as furnished below.

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

The main business of HESCOM is distribution of power in 7 districts of North Karnataka. As per Regulation, HESCOM has to forecast the annual revenue requirement for FY-24 and furnish in application under MYT Framework. The details of estimation of ARR for FY-24 is explained in the following Paras.

**PROJECTED ENERGY AVAILABILITY & COST FOR
FINANCIAL YEAR 2023-24**

Submitted in ANNEXURE-D



Payment of additional power purchase cost on account of orders of KERC/ APTEL

The Hon'ble Commission had approved ARR for FY-22 and FY-23 vide Tariff Orders dtd. 04.11.2020 and 09.06.2021 respectively. The Hon'ble Commission and the Hon'ble APTEL have passed several orders which have imposed additional financial liability on the HESCOM. The quantum to be paid to Generators on account of orders of the Hon'ble

Commission and the Hon'ble APTEL are significant and the HESCOM is in a precarious financial condition as resources are not available immediately with the HESCOM to comply with the order. The HESCOM is not in a position to immediately make payments that have been ordered in the present situation as the additional burden is not a pass through in the tariff. Unless the Hon'ble Commission includes additional power purchase cost in ARR and retail tariff for that particular, the HESCOM's rights would be prejudicially affected and the HESCOM would suffer gravely.

At present HESCOM has to make payment of Rs. **150.70 Crs** (as per Annexure-C) to various Generators on account of orders of the Hon'ble Commission and the Hon'ble APTEL.

Hence the HESCOM is proposing Rs. 150.70 Crs for FY-24, towards additional power purchase cost on account of orders of KERC/ APTEL.

Operation and Maintenance Expenses:

HESCOM has calculated the O & M expenses for FY-23 & FY-24 as noted below.

- a) The actual O & M expenses for FY-22 inclusive of contribution to pension and Gratuity Trust -Rs. 1284.25. Crs.
- b) CGI based on 3-year CAGR (in %), considering the actual number of installations as per the audited accounts of FY-22 and projected for FY-23 and FY-24 - 4.12% and 4.70% for FY-23 & FY-24 respectively.
- c) The WII at 6.9602%
- d) Efficiency factor at 2%.

O & M expenses for FY-23 and FY-24 are calculated as follows.

Particulars	FY-22	FY-23	FY-24
No of installations as per audited accounts	5663978		
No of installations projected.		5898567	6172855
Weighted Inflation Index (in %)		6.9602	6.9602
CGI based on 3-year CAGR (in %)		4.12	4.70
Actual O & M expenses for FY-21 Rs. Crs	1284.25		
O & M Expenses: O & M (t-1) * (1+Wii+CGI-X) in Crs.		1400.86	1536.19

Based on the above the O & M Expenses are segregated as noted below on pro-rata basis considering the actual O & M Expenses of FY-22.



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Details of Normative O & M expenses

Rs.in Crs

Particulars	FY-22 (Actual)	FY-23 (Projected)	FY-24 (Projected)
R&M cost	132.83	144.89	158.89
Employee cost	984.98	1074.42	1178.21
A&G expenses	166.44	181.55	199.09
O&M cost	1284.25	1400.86	1536.19

HESCOM is proposing Rs.1536.19 Crs. as O & M expenses for FY-24.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Note:

1) Impact of Pay Revision w.e.f. 01.04.2022:

The additional Employee cost on account of pay revision w,e,f 01.04.2022 is estimated provisionally around Rs. 103.00 Crs, per year considering 20-22% increase over the existing pay. Hence HESCOM is proposing Rs **206.00 Crs towards pay revision arrears as additional employee cost for FY-24.**



Depreciation:

Depreciation is calculated as per the CERC Regulations with effect from 01.04.2009.

Growth of fixed Assets:

The projected growth in the fixed assets is worked out on the basis of creation of assets out of the Capex proposed for FY-24. 70% of the Capex is considered as the assets of the particular year. Accordingly, the closing balance is worked out as noted below.

Particulars	FY-22 (Actual)	FY-23 (Proposed)	FY-24 (Proposed)
Capex(Rs. in Crs)	1248.08	1275.00	1860.14
Additions of Capex (Rs. in Crs)	3450.05	892.50	1302.10
Previous year closing balance of assets (Rs. in Crs)	8615.47	11721.74	12240.05
Total closing balance of Assets worked on Capex (Rs. in Crs)	12065.52	12614.24	13542.15
Less retirement of Assets (Rs. in Crs)	343.78	374.19	446.95
Balance of Assets in Crs	11721.74	12240.05	13095.20

The individual group wise assets are calculated on pro rata basis on the figures of FY-22 (as per Format D-15)

Rs. In Crores

Application for Approval of Annual Performance Review for FY-22 and Approval for ARR & ERC for FY-24 and
Tariff Filing for FY-24.

Asset group	FY-22				FY-23			FY-24		
	OB	Addition	Retirement	CB	Projected Addition	Retirement	CB	Projected Addition	Retirement	CB
Land & Rights	25.20	2323.40	-	2,348.60	4.54	-	2,353.14	6.62	-	2,359.76
Buildings	170.72	37.80	-	208.52	26.18	-	234.70	38.19	-	272.89
Hydraulics Works	6.32	0.62	-	6.94	5.56	-	12.50	8.11	-	20.61
Other Civil Works	7.01	2.78	-	9.79	6.72	-	16.51	9.80	-	26.31
Plant & Machinery	1,337.91	388.83	263.76	1,462.98	262.11	292.60	1,432.49	382.40	358.12	1,456.77
Lines Cable Networks	7,043.56	693.05	75.19	7,661.42	577.42	76.61	8,162.23	842.42	81.62	8,923.02
Vehicles	9.09	0.31	0.09	9.31	1.05	0.09	10.27	1.53	0.10	11.70
Furniture & Fixtures	8.09	0.22	0.13	8.18	1.36	0.08	9.46	1.98	0.09	11.35
Other Equipment's	7.57	3.04	4.61	6.00	7.56	4.80	8.76	11.03	7.01	12.78
Total	8,615.47	3,450.05	343.78	11,721.74	892.50	374.19	12,240.05	1,302.10	446.95	13,095.20
Assets created out of contributions & grants	2406.10			2658.51			2988.17			3358.70
Net Assets	6209.37	3450.05	343.78	9063.23	892.50	374.19	9251.89	1302.10	446.95	9736.50

Based on the above closing balance of the assets, the depreciation is calculated as noted below (as per Format D-8).

Rs. In Crores

Particulars	FY-22 (As per audited A/c)				FY-23 (projected)			FY-24 (projected)			
	Balance of accumulated depreciation at the end of the year	Depreciation provided for the year	Withdrawal of depreciation	Balance of accumulated depreciation at the end of the year	Depreciation provided for the year	Withdrawal of depreciation	Balance of accumulated depreciation at the end of the year	Depreciation provided for the year	Withdrawal of depreciation	Balance of accumulated depreciation at the end of the year	
Land and rights	0.00	0.00	0.00	0.00	-	-	0.00	-	-	0.00	
Buildings	42.03	6.00	(0.17)	48.20	6.96	2.89	52.27	7.84	3.14	63.25	
Hydraulic Works	2.34	0.30	-	2.64	0.37	0.16	2.85	0.66	0.17	3.34	
Other Civil Works	1.45	0.25	-	1.70	0.33	0.10	1.92	0.55	0.12	2.36	
Plant & Machinery	330.65	77.07	39.81	367.91	77.25	22.07	423.08	75.64	25.38	473.33	
Lines, Cables, Networks	1,227.25	217.71	71.33	1,373.63	404.52	82.42	1,695.74	430.97	101.74	2,024.96	
Vehicles	5.67	0.35	0.04	5.98	0.88	0.36	6.51	0.98	0.39	7.09	
Furniture Fixtures	3.92	0.36	0.13	4.15	0.52	0.25	4.42	0.60	0.27	4.75	
Office Equipment's	1.16	0.21	0.12	1.25	0.38	0.08	1.55	0.55	0.09	2.02	
Intangible Assets- software		2.66		2.66	2.66		5.32	2.66		7.98	
TOTAL	1,614.47	304.91	111.26	1,808.12	493.87	108.33	2,193.66	520.44	131.30	2,589.08	
Assets (DCW & grants)		127.04		less	140.37			157.78			
Net Depreciation		304.91			353.50			362.67			

Note: Average of 5.28% of value of assets created out of grants is deducted in total depreciation in FY-23 and FY-24.



Note: The Capital Grants received from Government contribution towards cost of capital assets is reduced from Gross Block. The Consumer contribution and Government grants towards cost of capital assets cannot be identified to relevant fixed assets. Hence, the same is treated as related to the Lines, Cables and Networks Assets group and deducted directly from the total Gross Fixed Assets. The corresponding depreciation on these assets provided at respective Accounting Units has been reduced from depreciation for FY-24 and FY-25 @ 5.28% which works out to Rs. 353.50 Crs. and Rs. 362.67 Crs. for, FY-24 and FY-25 respectively.

HESCOM is proposing Rs. 353.50 Crs. and Rs. 362.67 Crs for FY-23 and FY-24 as depreciation.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Interest and Finance Charges:

Capital Loan:

HESCOM proposes to draw loan and make the repayments and interest charges. The source wise details are furnished in D-9 statements. HESCOM has drawn capital loan Rs. 643.99 Crs during FY-22 and desires to draw capital loan of about Rs. 808.89 Crs, and Rs. 1185.89 Crs for FY-23 & FY-24 respectively.

HESCOM is proposing the interest on loan capital as noted below. HESCOM has worked out individual source wise loan and interest which are indicated in D-9.

Particulars	FY-23	FY-24
Opening balance	2848.17	3184.38
Add new loans	808.89	1185.89
Less repayment	472.68	434.60
Closing balance loans	3184.38	3935.66
Average loans	3016.28	3560.02
Interest on loans	395.68	423.53



HESCOM is proposing Rs. 395.68 Crs & Rs. 423.53 Crs for FY-23 & FY-24 respectively as interest on loan capital.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Interest on working capital: As per Regulation 3.1 the interest on working Capital is one of the Components for estimation of ARR of the Distribution Licensee. As per regulation 3.11.1, working capital comprises O & M expenses for one month, maintenance spares at 1% of the

cost of the asset at the beginning of the year and two months average revenue. The details of calculation are as noted below.

Particulars	FY-23 (Projected)	FY-24 (Projected)
One -twelfth of the amount of O & M Exp	116.74	145.18
Opening GFA	11721.74	12240.05
Stores, materials and supplies 1% of opening balance of GFA	117.22	122.40
One-Sixth of the Revenue	1605.42	1699.18
Total Working Capital	1839.38	1966.76
Rate of Interest (% p.a) BPLR	11.00%	11.00%
Interest on Working Capital calculated on normative basis	202.33	216.34
Interest on Working Capital proposed	428.60	314.59

HESCOM is covering the areas where the agricultural consumption is comparatively on higher side. HESCOM has consumer base of about 55 lakhs, out of which 31% are covered under free / subsidized power supply by the Government. The supply of energy to free & subsidized power supply category account for 56% of the total. Subsidy amount towards supply of energy to free & subsidized power supply category is about 53 % out of revenue of the HESCOM. Power purchase cost is about 75 to 80 % out of total expenditure of the HESCOM. HESCOM has taken the prompt action in issue and collection of bills from the consumers under non-subsidized category. HESCOM is experiencing Working Capital short fall every year as the 53% of total revenue demand depends on the release of the subsidy by the GOK, which the GOK is not releasing at the beginning of the each quarter as per "Karnataka Electricity Regulatory Commission (Manner of payment of subsidy by State Government) Regulations 2008". The GOK is not releasing the subsidy as per the IP Set subsidy approved in the Tariff Order. The GOK is restricting the subsidy to the amount allocated in the annual budget.

The Hon'ble Commission and also the Hon'ble APTEL are passing several orders relating to power purchase liability and the additional burden on account of which is not a pass through in the tariff. The HESCOM is not in a position to immediately make payments that have been ordered in the present situation and ultimately HESCOM has to borrow loans from various banks and financial institutions to make payment of the said amount.

HESCOM has worked out individual source wise loan and interest which are indicated in D-9. **HESCOM is proposing Rs. 428.60 Crs & Rs. 314.59 Crs . for FY-23 & FY-24 respectively as interest on working capital.**

(HESCOM is not proposing any modification for FY-23 in this filing.)



Interest on security Deposit: As per KERC (Interest on Security Deposit) regulation 2005, the licensee has to pay interest on security deposit of the consumer at the bank rate every year. The audited accounts for FY-22 are available. Considering the closing balance of security deposit held HESCOM proposes the interest on the security deposit of consumers as noted below.

HESCOM is considering Rs. 80 Crores each for every year as the additional security deposit likely to be collected based on the collection of security deposit in FY-22 and accordingly, the interest on consumer deposit is calculated as noted below.

Particulars	FY-22	FY-23	FY-24
	(Actual)	(Proposed)	(Proposed)
Opening balance of consumer security deposits	924.70	1012.97	1092.97
Closing balance of consumer security deposits	1012.97	1092.97	1172.97
Average balance of consumer security deposit		1052.97	1132.97
Rate of Interest % approved as per Tariff Order 2022		4.25%	4.25%
Interest payable to Consumers		44.75	48.15

HESCOM is proposing 44.75 Crs, and Rs. 48.15 Crs. as interest on consumer security deposit for FY-23 & FY-24 respectively.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Other Interest and Finance charges:

To meet the other cost of financing and bank charges, HESCOM is proposing Rs. 28.29 Crs. per year for FY-23 and FY-24 towards Other Interest and Finance charges. Details are furnished in D-9 statement.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Capitalization of interest and finance charges:

HESCOM is proposing Rs. 40 Crs. for each year of FY-23 and FY-24 towards Capitalization of interest and finance charges as approved in MYT Tariff Order dtd. 04.04.2022.

(HESCOM is not proposing any modification for FY-23 in this filing.)



Other Debits:

Other expenses consist of asset decommissioning cost, value written off, loss relating to fixed assets, bad and doubtful debts written off, material Cost variance etc. HESCOM has continued the process of decommissioning of old assets and to identify old and obsolete materials /assets, scrap materials, which are not useful. Such assets/materials will be sold at accost less than written down value maintained in the book of accounts. There is a provision for payment of compensation payable to consumer for damages, injury caused etc, and also in pursuance with standard performance regulations. HESCOM has considered actual expenses for previous years and estimated for FY-23 & FY-24. The details are as follows.

Details of other debits: -

Rs. in Crs.

Sl. No.	Particulars	FY-22	FY-23	FY-24
		(As per Audited Accounts)	(Projected)	(Projected)
1	Asset Decommissioning cost	3.21	3.53	3.88
2	Small & Low value Items written off	-	-	-
3	Losses relating to fixed Assets	0.35	0.39	0.42
4	Gain on sale of assets	-	-	-
5	Material Cost Variance	26.42	29.06	31.97
6	Bad & Doubtful Debts written off/provided for	9.12	10.03	11.04
7	Miscellaneous losses and Write offs	16.92	18.61	20.47
8	Prior Period Expenses	-	-	-
	Grand Total	56.02	61.62	67.78

HESCOM is proposing 61.62 Crs, and Rs. 67.78 Crs. as other expenses for FY-23 & FY-24 respectively.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Prior Period Charges: As per accounting principles, HESCOM has to take in to account both the income and expenses relating to the prior period. The Prior period income comprises interest, income tax, excess provision for depreciation, excess provision for interest and finance charges, receipt from consumer etc. The prior period expenses comprise power purchase cost, operating employee cost, depreciation, interest and finance charges, material related cost variance etc. HESCOM has not estimated prior period charges for FY-23t and FY-24. However, the Hon`ble Commission is requested to allow such prior charges as pass through in case such charges accounted during relevant year.

Prior period expenses:

Sl. No	Particulars	FY-22	FY-23	FY-24
		(As per Audited Accounts)	(Projection)	(Projection)
Income relating to previous years:				
1	Receipts from consumers			-
2	Excess Provision for Depreciation	-26.49		-
3	Income Tax prior period			-
4	Excess Provision for Interest and Fin. Charges	-0.30		-
5	Other Excess Provision	-94.13		-
6	Others Income	-6.85		-
7	Prior period tariff / RE subsidy			-
8	Other Misclenouse from trading	1.82		-

TOTAL		-125.95		-
Expenditure relating to previous years				
1	Power Purchase	1.64	-	-
2	Operating Expenses	0.03	-	-
3	Excise Duty on generation	-	-	-
4	Employee Cost	0.11	-	-
5	Depreciation	20.97	-	-
6	Interest and Finance Charges	0.12	-	-
7	Provision for Deferred tax liability / Income Tax	0.12	-	-
8	Admn. Expenses	0.02	-	-
9	Other	41.93	-	-
TOTAL		64.94	-	-
Grand Total		-61.01	-	-

(HESCOM is not proposing prior period charges for FY-23 and FY-24, not proposing any modification for FY-23 in this filing.)

Return on Equity: Return on Equity (ROE) is considered as a component of ARR of distribution Licensee. As per regulation 3.9, ROE only is considered as component of ARR of Distribution licensee. As per the said regulation, ROE will be computed at 15.5% per annum on share capital, Share Deposit, reserves and surplus held by the company. In view of huge negative reserves and surplus and net-worth of HESCOM is negative, ROE for FY-23 and FY-24 is not proposed.

Details of ROE:

Particulars	Amount (Rs. Crs.)
Opening Balance of Paid up Share Capital	1554.24
Share Deposit (Opening balance)	481.59
Reserves & Surplus (Opening balance)	(5128.24)
Total Equity	(3092.41)

Rs. in Crs



As the net-worth is negative, HESCOM is not proposing ROE for FY-23 and FY-24.

Provision for Taxation: As per regulation 3.1.2, taxes on income payable by Distribution Business is considered as one of the components of ARR. HESCOM has an accumulated loss of Rs. 6421.87 Crs. of which Rs. 1243.07 Crs. pertains to the unabsorbed depreciation. HESCOM is not proposing taxes for FY-24. The Hon'ble Commission is requested to approve the same.

Other Income: The other income component shall be deducted in total expenditure to arrive net ARR of HESCOM. Other income comprises 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. HESCOM is proposing "other Income" as noted below:

(i) Other Income:

Sl. No.	Particulars	FY-22 (As per audited)	FY-23 (Projection)	FY-24 (Projection)
1	Interest on staff loans and advances	-		
2	Income from Investments:			
a	Interest on securities	-		
b	Interest on Bank fixed deposits & Others (62.222, 62.360)	1.10	1.36	1.69
c	Income on other investments			
d	Interest on loans/advances to suppliers/ Contractors			
e	Interest from Banks			
f	Interest on loans to Societies			
	Sub Total-2	1.10	1.36	1.69
3	Income from Trading:			
a	Profit on sale of fixed assets, hire etc of apparatus			
b	Hire charges from Contractors			
c	Profit on sale of stores (62.330)	1.38	1.71	2.12
d	Sale of Scrap (62.340)	0.38	0.47	0.58
e	Meter Readings and Calibration of Meter-Charges of Wind Mill Project (62.363)	0.63	0.78	0.97
f	Income relating to reactive energy charges (62.364)	-	-	-
g	Reactive energy charges demanded on IPPs (62.361)	0.90	1.12	1.38
h	Processing fees (62.625)			
i	Other Misc Receipts from trading (62.360)	22.75	28.19	34.93
	Sub Total-3	26.04	32.26	39.98
4	Income/Fees collections against staff welfare activities:			
a	Recoveries for transport facilities	-	-	-
5	Miscellaneous Receipts:			
a	Income due to right of way granted for laying fibre optic cables/co-axial cables on T&D system			
b	Rental from Staff Quarters (62.901, 62.902)	0.92	1.14	1.41
c	Rental from others (62.903)	0.06	0.07	0.09
d	Leave contribution		-	-
e	Excess found on physical verification of cash		-	-
f	Excess found on physical verification of stock (62.905)	0.15	0.19	0.23
g	Sundry Credit balance written back (62.912)	-	-	-
h	Excess found on physical verification of Assets			



I	Recovery from transport & vehicle expenses			
j	Commission for collection of electricity duty (62.916)	1.50	1.86	2.30
k	Misc. recoveries (62.917)	86.22	106.83	132.37
L	Rebate from Power Generators (62.919)	2.49	3.09	3.82
3	Consultancy charges(62.921)	0.01	0.01	0.01
	Sub Total-5	91.35	113.18	140.23
	GRAND TOTAL:	118.49	146.81	181.90

(ii) Income from sale of power to HRECS & AEQUS:

HESCOM proposes the power purchase cost paid by HRECS, Hukkeri & AEQUS as the other income for FY-23 and FY-24 as noted below. HESCOM has supplied 340.00 MU to HRECS Hukkeri & AEQUS at the rate of Rs 5.41 per unit amounting to Rs. 183.87 Crs. for FY-22.

SI No :	Particulars	FY-23	FY-23	FY-24	FY-24
		(Projected Sales)	(Projected Cost) in Crs	(Projected Sales)	(Projected Cost) in Crs
(a)	Sale of Power to HRECS	329.39	178.20	436.61	236.21
(b)	Sale of Power to AEQUS	26.60	14.39	24.64	13.33
	Total	355.99	192.59	461.25	249.54

HESCOM proposing 461.25 MU at the Power Purchase Cost of Rs. 249.54 Crs for FY-24 (including transmission loss) to be supplied to HRECS Hukkeri & AEQUS at the rate of power purchase cost of Rs. 5.41 per unit.

Total other income:

SI No :	Particulars	FY-23	FY-24
		(Projected Cost)	(Projected Cost)
(a)	Other income	146.81	181.90
(b)	Sale of Power to HRECS & AEQUS	192.59	249.54
	Total other income	339.40	431.43



HESCOM is proposing 339.40 Crs, and Rs. 431.43 Crs. as other income for FY-23 & FY-24 respectively.

(HESCOM is not proposing any modification for FY-23 in this filing.)

Carrying cost on deficit carried forward:

As per the proposal of HESCOM for truing up of FY-22 with reference to audited accounts of the HESCOM, there is a deficit of Rs. 2090.79 Crs for FY-22.

Normally, KERC carry forward the surplus/deficit if any determined during APR of a financial year to the year next to the following year and include in the ARR of that year. Such deficit is carried forward and included in ARR of FY-24. Logically, this amount has been incurred by HESCOM in FY -22 and recovery of the same would be in FY -24. This method of considering and 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. Time value of money in the entire process is to be considered. Hon'ble KERC considers and allows carrying cost on Regulatory Asset recognized and factored into the ARR. Deficit carried forward after truing up is similar to Regulatory Asset for which also carrying cost needs to be considered.

Even the Interest on Working Capital is allowed by KERC as per norms and not based on actuals. The interest on Working Capital for meeting shortfall in revenue (which would be considered subsequently) will not be considered. Further, 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 ESCOMs and affect the cash flow adversely.

HESCOM is not able to avail short term loan or overdraft easily due to poor financial condition depicted in the financial statement.

Other impact of such carried forward method is impact on surplus of the Company which has an effect on Reserve and Surplus. Since RoE is determined considering Reserve & Surplus also, RoE would be allowed less by KERC as deficit (gap) would have resulted in negative financial results in that particular year.

In view of the above points, Commission is requested to consider allowing carrying cost of @ 15% on deficit determined in Annual Review of Performance of a particular financial year carried forward to the ARR of the year next to the following year to mitigate the loss of revenue.

HESCOM is proposing Rs.313.62 Crs. as the carrying cost @ 15% on deficit for FY-22.



Carrying cost on Regulatory Assets for FY-22:

The Hon'ble Commission in the Tariff Order 2021 had decided to allow carrying cost at 10 % per annum on the amount of Regulatory Asset of Rs. 288.14 Crs. which will be assessed

at the time of APR of FY 22. HESCOM requests to consider carrying cost at 10 % per annum on the amount of Regulatory Asset of Rs. 288.14 Crs.

HESCOM is proposing to add the carrying cost @ 10 % per annum on the amount of Regulatory Asset of Rs. 288.14 Crs.

Carrying cost on Power purchase liability paid on account of KERC/APTEL/Court Orders (Rs.142.76 Crs.*2*15%):

HESCOM has paid Rs. 142.76 Crs. towards power purchase dues on account of KERC/APTEL Orders in FY-22 (Annexure-B) borrowing loans from various banks and financial institutions and also internal resources. This is an additional burden on account of which is not a pass through in the tariff.

HESCOM is proposing Rs.42.83 Crs. as the carrying cost @ 15% on Power purchase liability paid on account of KERC/APTEL/Court Orders (Rs.142.76 Crs.*2*15%) in FY-22.

Expected Revenue from Charges: HESCOM has been earning revenue as per tariff determined by the Honorable Commission from time to time. The new Tariff order came in to effect from 01.04.2022. HESCOM has estimated expected revenue charges for FY-24 on the basis of the new Tariff Order 2022 Dtd : 04.04.2022. The Format D-21 is prepared as per the actual consumption and load pattern available of FY-22. The Projections for FY-23 & FY-24 are made on the basis of CAGR from FY-17 to FY-22 and CAGR from FY-19 to FY-22. Wherever the clear CAGR is not available, the trend is considered. The energy availability at generation point as provided by PCKL, approved transmission loss and the proposed distribution loss are considered for estimating the sales and thereby expected revenue from charges at existing rates as per tariff order 2022 Dtd: 04.04.2022.



[Signature]
CONTROLLER (A&R)
HESCOM, HUBLI

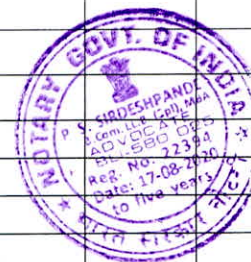
Application for Approval of Annual Performance Review for FY-22 and Approval for ARR & ERC for FY-24 and
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Expected Revenue from charges at existing tariff and proposed tariff:

Rs. In Crs

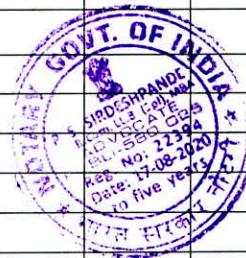
(From D2)

Sl. No.	Tariff Category	Category Description	FY-22				FY-23			
			(ACTUAL)				Projected			
			Instal.	Energy	Revenue	Avg.	Instal.	Energy	Revenue	Avg.
			(No.s)	Sales (Mus)	(Crs) Pr Act	Real. [Ps/Unit]	(No.s)	Sales (Mus)	(Crs) Pr Act	Real. [Ps/Unit]
1	LT-1	BJ/K]: =<40 units	702063	162.92	128.70	789.97	702063	162.92	135.38	830.97
		BJ/K]: >40 units	55906	72.88	35.88	492.31	55906	72.88	32.66	448.13
2	LT-2 (a)	Domestic / AEH	3063379	1636.12	1155.57	706.29	3202152	1691.68	1369.30	809.43
3	LT-2 (b)		7635	17.13	17.68	1031.93	7857	17.63	23.00	1304.54
4	LT-3	Commercial	436098	508.45	549.18	1080.12	459212	523.86	638.31	1218.47
5	LT-4 (a)	IP sets - Less than 10 HP - General	995372	6603.46	4585.92	694.47	1004306	6865.62	4908.92	715.00
6	LT-4 (b)	Irrigation Pump sets - More than 10 HP	896	15.74	7.58	481.71	915	16.07	9.32	579.99
7	LT-4 (c)	Private Horticulture Nurseries, Coffee & Tea Plantations	487	0.83	0.60	718.70	523	0.85	0.62	732.63
8	LT-5	Industries	132760	332.11	306.44	922.71	138084	345.43	361.51	1046.56
9	LT-6 a	Water Supply	53724	347.94	236.75	680.43	56575	360.94	219.55	608.27
10	LT-6 b	Street Lights	27617	157.74	136.49	865.26	29008	163.49	144.75	885.40
11	LT-7	Temporary Power Supply	183855	37.00	104.71	2830.00	237503	38.54	85.75	2224.88
12		FAC(LT)			-102.72					
	LT Total		5659792	9892.32	7162.78	724.07	5894104	10259.90	7929.07	772.82
13	HT-1	Water Supply	428	344.98	223.01	646.45	452	373.90	242.02	647.29
14	HT-2 (a)	Industries	2134	897.82	892.92	994.55	2276	957.56	927.50	968.61
15	HT-2 (b)	Commercial	743	116.54	130.50	1119.82	785	123.12	142.36	1156.23
16	HT-2 (c)	Hospitals	385	62.89	60.86	967.72	407	66.48	63.98	962.37
17	HT-3(a)	Irrigation & LI Societies	358	422.91	185.48	438.58	390	484.17	178.15	367.95
18	HT-3 (b)	Irrigation & LI Societies	3	0.01	0.01	0.00	3	0.01	0.03	0.00
19	HT-4	Residential Apartments	32	15.87	12.51	788.39	32	16.38	13.43	820.01
20	HT-5	Temporary Power Supply	103	8.64	14.77	1709.09	118	8.84	14.47	1636.60
21		FAC(HT)			-21.15					
	HT Total		4186	1869.66	1498.91	801.70	4463	2030.46	1581.94	779.10
	Total		5663978	11761.98	8661.69	736.41	5898567	12290.36	9511.01	773.86
Other Operating revenues										
20		Reconnection fee (D&R) (61.901, 61.902)			0.22				0.23	
21		Service Connection (Supervision Charges) (61.904)			17.94				18.66	
22		Delayed payment charges from consumers (61.905)			111.56				116.02	
23		Other Receipts from consumers(61.906, 61.600)			6.04				6.28	
24		Registration fee towards SRTPV (61.907)			0.03				0.03	
25		Facilitation fee towards SRTPV (61.908)			0.24				0.25	
26		Supervision Charges for Self Execution works (61.909)			3.92				4.08	
27		Maintenance charges for the layouts created by the Developers (61.910)			1.47				1.53	
		Gross Revenue from Sale of Power (20 to 27)			141.42				147.08	
LESS: Rebate and Incentives										
28		Solar Rebate allowed to consumers (78.822)			3.51				3.65	
29		Incentives for prompt payment (78.823)			0.11				0.11	
30		Time of day (TOD) Tariff Incentive(78.826)			0.03				0.03	
		Total (28 to 30)			3.65				3.80	
31		Provision for withdrawal of Revenue Demand (83.830 to 83.832)			20.92				21.76	
		Total			24.57				25.55	
	GRAND TOTAL		5663978	11761.98	8778.54		5898567	12290.36	9632.53	



Application for Approval of Annual Performance Review for FY-22 and Approval for ARR & ERC for FY-24 and
Tariff Filing for FY-24.

Sl. No.	Tariff Category	Category Description	FY-24				FY-24			
			At existing tariff				At proposed tariff			
			Instal.	Energy	Revenue	Avg.	Instal.	Energy	Revenue	Avg.
			(No.s)	Sales (Mus)	(Cr�) Pr Act	Real. [Ps/Unit]	(No.s)	Sales (Mus)	(Cr�) Pr Act	Real. [Ps/Unit]
1	LT-1	BJ/KJ: =<40 units	702063	162.92	135.38	831.00	702063	162.92	153.31	941.00
		BJ/KJ: >40 units	55906	72.88	38.76	531.80	55906	72.88	38.03	521.80
2	LT-2 (a)	Domestic / AEH	3347211	1749.12	1416.96	810.10	3347211	1749.12	1522.28	870.31
3	LT-2 (b)		8084	18.14	24.22	1335.35	8084	18.14	26.10	1438.82
4	LT-3	Commercial	483552	539.75	627.37	1162.34	483552	539.75	639.29	1184.42
5	LT-4 (a)	IP sets - Less than 10 HP - General	1029306	7148.49	5111.17	715.00	1029306	7148.49	6726.73	941.00
6	LT-4 (b)	Irrigation Pump sets - More than 10 HP	934	16.40	10.34	630.50	934	16.40	11.07	675.16
7	LT-4 (c)	Private Horticulture Nurseries, Coffee & Tea Plantations	560	0.86	0.82	958.61	560	0.86	0.94	1090.76
8	LT-5	Industries	143621	359.28	357.84	996.01	143621	359.28	396.43	1103.42
9	LT-6 a	Water Supply	59578	374.42	270.50	752.90	59578	374.42	321.93	896.05
10	LT-6 b	Street Lights	30470	169.44	156.38	417.66	30470	169.44	189.28	505.52
11	LT-7	Temporary Power Supply	306806	40.15	120.76	712.72	306806	40.15	111.67	659.09
12		FAC(LT)								
	LT Total		6168091	10651.85	8270.51	776.44	6168091	10651.85	10137.06	951.67
13	HT-1	Water Supply	477	405.24	268.49	662.54	477	405.24	268.59	662.79
14	HT-2 (a)	Industries	2427	1021.09	1017.66	996.64	2427	1021.09	1032.05	1010.74
15	HT-2 (b)	Commercial	830	130.18	164.45	1263.21	830	130.18	167.14	1283.92
16	HT-2 (c)	Hospitals	432	70.56	69.15	979.93	432	70.56	69.94	991.10
17	HT-3(a)	Irrigation & LI Societies	426	554.32	248.19	447.74	426	554.32	268.08	483.63
18	HT-3 (b)	Irrigation & LI Societies	4	0.01	0.02	0.00	4	0.01	0.03	0.00
19	HT-4	Residential Apartments	33	16.90	13.93	823.93	33	16.90	14.05	830.92
20	HT-5	Temporary Power Supply	135	9.05	16.28	1800.02	135	9.05	16.67	1842.33
21		FAC(HT)								
	HT Total		4764	2207.35	1798.17	814.63	4764	2207.36	1836.55	832.01
	Total		6172855	12859.20	10068.68	782.99	6172855	12859.20	11973.61	931.13
Other Operating revenues										
20		Reconnection fee (D&R) (61.901, 61.902)			0.24				0.24	
21		Service Connection (Supervision Charges) (61.904)			19.40				19.40	
22		Delayed payment charges from consumers (61.905)			120.66				120.66	
23		Other Receipts from consumers(61.906, 61.600)			6.53				6.53	
24		Registration fee towards SRTPV (61.907)			0.03				0.03	
25		Facilitation fee towards SRTPV (61.908)			0.26				0.26	
26		Supervision Charges for Self Execution works (61.909)			4.24				4.24	
27		Maintenance charges for the layouts created by the Developers (61.910)			1.59				1.59	
		Gross Revenue from Sale of Power (20 to 27)			152.96				152.96	
		LESS: Rebate and Incentives								
28		Solar Rebate allowed to consumers (78.822)			3.80				3.80	
29		Incentives for prompt payment (78.823)			0.12				0.12	
30		Time of day (TOD) Tariff Incentive(78.826)			0.03				0.03	
		Total (28 to 30)			3.94				3.94	
31		Provision for withdrawal of Revenue Demand (83.830 to 83.832)			22.63				22.63	
		Total			26.56				26.56	
		GRAND TOTAL	6172855	12859.20	10195.07		6172855	12859.20	12100.00	



HESCOM is not proposing any modification for FY-23.

Revenue from Miscellaneous Charges: The income from reconnection fee, service connection charges, delayed payment charges and other receipts are shown under this Head. HESCOM has accounted miscellaneous charges of Rs. 116.85 Crs, for FY-22. The details are furnished below.

Details of from Miscellaneous Charges:

Particulars	(From D2) Rs. In Crs		
	FY-22 (Actual)	FY-23 Projected	FY-24 Projected
Reconnection fee (D&R)	0.22	0.23	0.24
Service Connection (Supervision Charges)	17.94	18.66	19.40
Delayed payment charges from consumers	111.56	116.02	120.66
Other Receipts from consumers	6.04	6.28	6.53
Registration fee towards SRTPV	0.03	0.03	0.03
Facilitation fee towards SRTPV	0.24	0.25	0.26
Supervision Charges for Self Execution works	3.92	4.08	4.24
Maintenance charges for the layouts created by the Developers	1.47	1.53	1.59
Total	141.42	147.08	152.96
LESS:			
Solar Rebate allowed to consumers	3.51	3.65	3.80
Incentives for prompt payment	0.11	0.11	0.12
Time of day (TOD) Tariff Incentive	0.03	0.03	0.03
Provision for withdrawal of Revenue Demand	20.92	21.76	22.63
Total	24.57	25.55	26.58
Net total	116.85	121.53	126.38

HESCOM is not proposing any modification for FY-23.

Net Revenue Expected: Considering the revenue from existing Tariff Order-2022 across the categories and revenue from miscellaneous charges duly deducting rebate to be allowed, the net revenue expected for FY-23 and FY-24 is furnished below.

Details of Net Revenue at existing Tariff:

(From D2)

Sl. No	Particulars	FY-23	FY-24
1	Revenue at existing tariff from all categories	9511.00	10068.69
2	Miscellaneous Charges	121.53	126.38
3	Net Revenue Expected	9632.53	10195.07

HESCOM is not proposing any modification for FY-23.



ANNUAL REVENUE REQUIREMENT for FY-24.

Rs. in Crs.

Ref. Form	Particulars	FY-24 At Existing tariff Projection
D-1	Energy at Generation Point (Mus)(Including HRECS and AEQUS)	15575.23
	Energy at Generation Point (Mus)(HESCOM)	15113.98
	Transmission Loss (units)	417.75
	Transmission Loss (%)	2.764%
D-1	Energy at Interface Point (Mus)	14696.23
D-2	Energy Sales (Mus)	12859.20
	Distribution Loss (%)	12.50%
INCOME:		
D-2	Revenue from sale of power	4948.52
D-3	Revenue subsidies & grants	5246.56
TOTAL INCOME		10195.07
EXPENDITURE:		
D-1	Purchase of Power	6158.03
	Tr. Charges (PGCIL & POSCO)	383.64
	Tr. Charges (KPTCL & SLDC) Charges	1017.43
	Power purchase liability on account of KERC/APTEL/Court Orders	150.70
Total Power Purchase Cost		7709.80
D-5	Repairs & maintenance	158.89
D-6	Employee Costs	1178.21
D-7	Administrative & General expenses	199.09
Total O&M expenses		1536.19
D-8	Depreciation & related debits	362.67
D-9	Interest & Finance charges	
	Interest on loan capital	423.53
	Interest on working capital	314.59
	Interest on consumer deposit	48.15
	Other interest and finance charges	28.29
	Interest on belated payments of IPPs	-
D-10	LESS: Int. & Fin. charges capitalized	40.00
Total Interest and Finance Charges		774.57
D-11	Other debits (incl. Bad debts)	67.78
D-12	Extraordinary Items (Exceptional Items : Adjustment of Excess Subsidy paid)	-
D-13	Net prior period (credits) / charges	-
	Provision for Taxes	-
	Funds towards consumer Relations	0.50
A-4	Return on Equity	-
	Pension and Gratuity Trust arrears	-
	LESS: Excess RoE	-
	LESS: Other income	431.43
ARR		10020.08
	Add: Previous year's deficit carried forward to next year	1723.48
	Add Carrying cost @ 15% on deficit of FY-22	313.62
	Carrying cost @ 15% on Power purchase liability paid on account of KERC/APTEL/Court Orders	42.83
Net ARR		12100.00
REVENUE SURPLUS / (DEFICIT):		-1904.93



ARR for Distribution Business and Retails Supply Business. FY-24.

Rs. in Crs.

EXPENDITURE / ARR	Distribution Business	Retails Supply Business
	FY-24	FY-24
Power Purchase Cost	0.00	6158.03
Tr. Charges Cost(PGCIL & POSCO)	0.00	383.64
Tr. Charges Cost (KPTCL & SLDC) Charges	0.00	1017.43
Power purchase liability on account of Court Orders	0.00	150.70
Total Power purchase Cost	0.00	7709.80
a) Repairs and Maintenance cost	100.10	58.79
b) Employee cost	742.27	435.94
c) Administration and General expenses	125.43	73.66
O & M Total	967.80	568.39
Depreciation	304.64	58.03
Interest on loan	423.53	0.00
Interest on working capital	78.65	235.95
Interest on security deposit	0.00	48.15
other interest and finance charges	28.29	0.00
Interest on belated payment of PPC	0.00	0.00
Less Interest & Other expenses capitalised	40.00	0.00
Total interest and Finance charges	490.47	284.10
Pension and Gratuity Trust arrears	0.00	0.00
Other expenses, if any	67.78	0.00
Extraordinary Items (Exceptional Items : Adjustment of Excess Subsidy paid)	0.00	0.00
Add Distribution loss incentive	0.00	0.00
funds towards consumer education	0.00	0.50
Prior Period Charges	0.00	0.00
Return on equity	0.00	0.00
Provision for Taxation	0.00	0.00
LESS: Non-Tariff income	81.97	349.46
ARR	1748.72	8271.35
Previous years' deficit/surplus carried forward	1723.48	0.00
Carrying cost @ 15% on deficit of FY-22	313.62	0.00
Carrying cost @ 15% on Power purchase liability paid on account of KERC/APTEL/Court Orders	42.83	0.00
Net ARR	3828.65	8271.35

ATTESTED

NOTARY



**CONTROLLER (A&R)
HESCOM, HUBLI**