

KARNATAKA ELECTRICITY REGULATORY COMMISSION

TARIFF ORDER 2018

OF

HESCOM

ANNUAL PERFORMANCE REVIEW FOR FY17

&

REVISION OF ANNUAL REVENUE REQUIREMENT FOR FY19

2

REVISION OF RETAIL SUPPLY TARIFF FOR FY19

14th May, 2018

No. 16 C-1, Miller Tank Bed Area, Vasanthanagar, Bengaluru-560 052

Phone: 080-22268677/22268678/22268679

Fax: 080-22268667/22370214

Website: www.karnataka.gov.in/kerc - E-mail: kerc-ka@nic.in

CONTENTS

CHAPTER		Page No.
1	Introduction	3
1.0	Hubli Electricity Supply Company Ltd.,	3
1.1	HESCOM at a Glance	5
1.2	Number of Consumers, Sales in MU and Revenue detail of HESCOM in FY17	5
2	Summary of Filing and Tariff Determination Process	7
2.0	Background for Current Filing	7
2.1	Preliminary Observations of the Commission	7
2.2	Public Hearing Process	8
2.3	Consultation with the Advisory Committee of the Commission	9
3	Public Consultation – Suggestions / Objections and Replies	10
3.1	List of Persons who filed written objections	10
3.2	List of persons who made oral submission in public hearing	11
3.3	Gist of objections, Replies by HESCOM and the Commission's Views are appended to this order in Appendix-1 .	11
4	Annual Performance Review for FY17	12
4.0	HESCOM's Application for APR for FY17	12
4.1	HESCOM's Submission	12
4.2	HESCOM's Financial Performance as per Audited Accounts for FY17	14
4.2.1	Sales for FY17	15
4.2.2	Distribution Losses for FY17	22
4.2.3	Power Purchase for FY 17	23
4.2.4	Renewable Purchase Obligation(RPO) Compliance by HESCOM for FY17	26
4.2.5	Operation and Maintenance Expenses	30
4.2.6	Depreciation	33
4.2.7	Capital Expenditure for FY17	34
4.2.8	Interest and Finance Charges	39
4.2.9	Interest on Working Capital	40
4.2.10	Interest on Consumer Deposits	42
4.2.11	Other Interest and Finance Charges	42
4.2.12	Interest on belated payment of Power Purchase Cost	43
4.213	Other Debits	44
4.2.14	Prior Period Charges (Debt)/Income(Credit)	44
4.2.15	Return on Equity	45
4.2.16	Other Income	46

4017		47
4.2.17	Fund Towards Consumer Relations / Consumer	47
4010	Education State and the sea	47
4.2.18	Extraordinary Items	47
4.2.19	Revenue for FY17	48
4.2.20	Revenue and Subsidy of FY17	48
4.3	Abstract of Approved ARR for FY17	48
4.3.1	Gap In Revenue for FY17 Revised Applied Revenue Requirement (ARR) for	50 51
5.0	Revised Annual Revenue Requirement (ARR) for FY19 HESCOM's Filing	
5.1	Annual Performance Review for FY17	52
5.2	Revised Annual Revenue Requirement for FY19	52
5.2.1	Capital Investments for FY19	53
5.2.2	Sales Forecast for FY19	58
5.2.3	Distribution Losses for FY19	70
5.2.4	Power Purchase for FY19	71
5.2.5	RPO Target for FY19	75
5.2.6	O & M Expenses for FY19	76
5.2.7	Depreciation	79
5.2.8	Interest on Capital Loans	81
5.2.9	Interest on Working Capital	83
5.2.10	Interest on Consumer Security Deposit	84
5.2.11	Other Debits	86
5.2.12	Exceptional Items (Adjustment of Excess Subsidy)	86
5.2.13	Return on Equity	87
5.2.14	Other Income	88
5.2.15	Fund towards Consumer Relations / Consumer Education	89
5.3	Abstract of ARR for FY19	89
5.4	Segregation of ARR into ARR for Distribution	91
0.4	Business and ARR for Retail Supply Business	
5.5	Gap in Revenue for FY19	93
6	Determination of Retail Supply Tariff for FY18	94
6.0	Revision of Retail Supply Tariff for FY18-HESCOM's Proposals and Commission's Decisions	94
6.1	Tariff Application	94
6.2	Statutory Provisions Guiding Determination of Tariff	94
6.3	Factors Considered for Tariff setting	95
6.4	New Tariff Proposals by HESCOM	96
6.5	Revenue of Existing Tariff and Deficit for FY18	107
6.6	Wheeling and Banking Charges	139
6.6.1	Wheeling within HESCOM area	139
6.6.2	Wheeling of Energy using Transmission Network	141
	or network of more than one licensee	-
6.6.3	Charges for Wheeling of energy by RE sources	142
	(non REC route) to Consumers in the State	
6.6.4	Charges for Wheeling Energy by RE sources Wheeling energy from the State to a consumer / other outside the State and for those opting for renewable energy certificate (REC)	142

6.6.5	Banking Charges and Additional Surcharge	143
6.7	Cross Subsidy Surcharge(CSS)	143
6.8	Other Issues	145
6.8.1	Tariff for Green Power	145
6.9	Other Tariff related issues	145
6.10	Cross Subsidy Levels for FY19	148
6.11	Effect of Revised Tariff	149
6.12	Summary of the Tariff Order	149
6.13	Commission's Order	152
	Appendix	153
	Appendix-I	196

LIST OF ANNEXURES

ANNEXURE NO.	DETAILS OF ANNEXURES	Page No.
I	ESCOM's Total Approved Power Purchase for FY19	221
II	HESCOM's Approved Power Purchase for FY19	225
III	Proposed and Approved Revenue and Realization	229
IV	Electricity Tariff – 2019	230-266

LIST OF TABLES

Table	Content	Page No.
No.		
4.1	ARR for FY 17-HESCOM's Submission	12
4.2	Financial Performance of HESCOM for FY 17	14
4.3	HESCOM's Accumulated Profit/Losses	15
4.4	Category-wise Sales for FY 17	16
4.5	Approved category-wise Sales under Apr for FY 17	21
4.6	Power Purchase for FY 17 – Approved and Actuals	23
4.7	RPO compliance for Solar and Non-Solar RPO for 2016-17	26
4.8	Solar RPO compliance by HESCOM	27
4.9	O & m Expenses- HESCOM's Submission	30
4.10	Approved O & M Expenses as per Tariff Order dated 30.03.2016	30
4.11	Computation of Rate of Inflation	31
4.12	Computation of O & M Expenses based on inflation	32
4.13	Allowable O & M Expenses for FY 17	33
4.14	Depreciation for FY 17	33
4.15	Capital expenditure of HESCOM for the FY 17	34
4.16	Physical Progress of IPDS Works	38
4.17	Allowable Interest on Loans-FY17	40
4.18	Allowable Interest on Working Capital for FY 17	41
4.19	Allowable Interest and Finance Charges	43
4.20	Allowable other debts	44
4.21	Status of Debt Equity Ratio for FY 17	45
4.22	Allowable Return on Equity	46
4.23	HESCOM's Approved revised ARR for FY 17 as per ARR	49
5.1	Revised ARR for FY 19-HESCOM's Submission	51
5.2	Capital expenditure proposed by the HESCOM for the FY 19	53
5.3	Approved Vs Actual capital Investment	58
5.4	Details of BJ/KJ installations	59
5.5	Details of BJ/KJ installations as on 31.11.2017	64
5.6	Computation of IP sets consumption	67
5.7	Format for furnishing IP set Consumption	69
5.8	Approved Sales for FY 19	70
5.9	Approved & Actual Distribution Losses FY 12 to FY 17	70
5.10	Approved Distribution Losses for FY 19	71
5.11	Consolidated projections filed by HESCOM with approved quantum	71
5.12	HESCOM's Approved Power Purchase for FY 19	75
5.13	O & M Expenses FY 19 HESCOM's Submission	76
5.14	Approved O & M Expenses for FY 19 as per Tariff Order 30 th March 2016.	77
5.15	Approved O & M expenses for FY 19	78

5.16	Depreciation FY 19 – HESCOM's Submission	79
5.17	Approved Depreciation for FY 19	81
5.18	Interest on Capital Loan – HESCOM's Proposal	81
5.19	Approved Interest on Loans for FY 19	83
5.20	Approved Interest on Working Capital for FY 19	84
5.21	Approved Interest on Consumer Security Deposits for FY 19	85
5.22	Approved Interest and finance charges for FY 19	85
5.23	Status of Debt Equity Ratio for FY 19	88
5.24	Approved Return on Equity for FY 19	88
5.25	Approved ARR for FY 19	90
5.26	Approved Segregation of ARR FY 19	92
5.27	Approved Revised ARR for Distribution Business FY 19	92
5.28	Approved ARR for Retail Supply Business FY 19	92
5.29	Revenue Gap for FY 19	93

	ABBREVIATIONS
AAD	Advance Against Depreciation
AEH	All Electric Home
ABT	Availability Based Tariff
A & G	Administrative & General Expenses
ARR	Annual Revenue Requirement
ATE	Appellate Tribunal for Electricity
BST	Bulk Supply Tariff
CAPEX	Capital Expenditure
CCS	Consumer Care Society
CERC	Central Electricity Regulatory Commission
CEA	Central Electricity Authority
CPI	Consumer Price Index
CWIP	Capital Work in Progress
DA	Dearness Allowance
DCB	Demand Collection & Balance
DPR	Detailed Project Report
EA	Electricity Act
EC	Energy Charges
ERC	Expected Revenue From Charges
ESAAR	Electricity Supply Annual Accounting Rules
ESCOMs	Electricity Supply Companies
FA	Financial Adviser
FKCCI	Federation of Karnataka Chamber of Commerce & Industry
FR	Feasibility Report
FoR	Forum of Regulators
FY	Financial Year
GFA	Gross Fixed Assets
Gol	Government Of India
GoK	Government Of Karnataka
GRIDCO	Grid Corporation
HESCOM	Hubli Electricity Supply Company
HP	Horse Power
HRIS	Human Resource Information System
ICAI	Institute of Chartered Accountants of India
IFC	Interest and Finance Charges
IW	Industrial Worker
IP SETS	Irrigation Pump Sets
KASSIA	Karnataka Small Scale Industries Association
KEB	Karnataka Electricity Board
KER Act	Karnataka Electricity Reform Act
KERC	Karnataka Electricity Regulatory Commission
KM/Km	Kilometre
KPCL	Karnataka Power Corporation Limited
KPTCL	Karnataka Power Transmission Corporation Limited

kV	Kilo Volts
kVA	Kilo Volt Ampere
kW	Kilo Watt
kWH	Kilo Watt Hour
LDC	Load Despatch Centre
MAT	Minimum Alternate Tax
MD	Managing Director
MFA	Miscellaneous First Appeal
MIS	Management Information System
МоР	Ministry of Power
MU	Million Units
MVA	Mega Volt Ampere
MW	Mega Watt
MYT	Multi Year Tariff
NFA	Net Fixed Assets
NLC	Neyveli Lignite Corporation
NCP	Non Coincident Peak
NTP	National Tariff Policy
O&M	Operation & Maintenance
P & L	Profit & Loss Account
PLR	Prime Lending Rate
PPA	Power Purchase Agreement
PRDC	Power Research & Development Consultants
REL	Reliance Energy Limited
R & M	Repairs and Maintenance
ROE	Return on Equity
ROR	Rate of Return
ROW	Right of Way
RPO	Renewable Purchase Obligation
SBI	State Bank of India
SCADA	Supervisory Control and Data Acquisition System
SERCs	State Electricity Regulatory Commissions
SLDC	State Load Despatch Centre
SRLDC	Southern Regional Load Dispatch Centre
STU	State Transmission Utility
TAC	Technical Advisory Committee
TCC	Total Contracted Capacity
T&D	Transmission & Distribution
TCs	Transformer Centres
TR	Transmission Rate
VVNL	Visvesvaraya Vidyuth Nigama Limited
WPI	Wholesale Price Index
WC	Working Capital