Observations/remarks/objections on the proposal for determination of tariff for FY-17 for BESCOM

Submission to

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KARNATAKA ELECTRICITY
REGULATORY COMMISSION

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Reference:

- **BESCOM submissions: Truing up of FY-15, Annual Revenue Requirement(ARR) for the financial years 2016-17 and Determination of Tariff for FY-17 and Compliance to Preliminary Observations of Commission**

Truing up for FY – 15: Power Purchase

Issues	Chapter	Subject	Observations/Remarks/Objections
Truing up for FY-15	Chapter 3, Page No 19 - 21	Power Purchase	As per the claim of BESCOM power purchase cost has increased by 7 paise above the approved cost. BESCOM has requested to true up actual power purchase cost of Rs. 11,689.55 Cr.
			Actual purchase cost is Rs. 11, 689 Cr v/s KERC approved cost of Rs. 11, 922.09 Cr. The actual cost incurred has been lower by 233 Crores. However, unit cost of energy has gone up to Rs.3.97/KWh against approved Rs. 3.90/KWh.
			The short term power has the highest cost of power/KWh.
			Of the total 30566 Mu of power approved, only 6.36 % was to be procured from short term power because this is expensive and every attempt should have been made to minimize purchase of power from short term sources. However, regretfully the total share of short term most expensive power increased from 6.36% to 11.48% - an increase of 1523 Mu nearly 80%. This is the single largest reason for increase in weighted average purchase cost per unit of power.
			This is an unacceptable situation. We expect BESCOM to have better planning.
			Even though the actual per unit cost of purchase of short term power was lower than the approved per unit cost, since the quantum of purchase of short term power increased so significantly, it has had an adverse effect on the average purchase cost per unit.
			Remarks: We submit that the truing up of purchase cost of Rs. 11,689.55 Cr not be permitted. Since the average cost per unit cost has increased because of poor planning by BESCOM.
			Also the Profit before tax has increased from Rs. 81 cr in 2013- 14 to Rs. 139 Cr in 2014-15 . Truing up of Purchase Cost is therefore not required.

Truing up for FY – 15: Capital Expenditure

Issues	Chapter	Subject	Observations/Remarks/Objections
Truing up for FY-15	Chapter 3, Page No 21	Capital Expenditure	CAPEX for FY15 has nearly doubled - Sanctioned budget was Rs. 763 Cr, whereas actual CAPEX has increased to Rs. 1474 Cr in 2014-15. This is amounting to an increase of Rs. 711 Cr. Such a significant increase in unplanned CAPEX has very adverse impact on both cash flow, as well as higher interest cost.
			Observation: The increase in CAPEX is merely because of poor planning and improper forecasting of replacement and preventive maintenance CAPEX. BESCOM needs to bring in proficiency in working out realistic budgets and timely execution of works within budget periods. For any variations from the approved projections, prior approval of the commission to be sought. We submit that, there is no case of truing the CAPEX cost.

Truing up for FY – 15: Operation & Maintenance

Issues	Chapter	Subject	Observations/Remarks/Objections
Truing up for FY-15	Chapter 3, Page No 22 - 25	O & M	Actual O & M expenses for FY 15 are only Rs. 1084 Cr, as against approved O & M expenses of Rs. 1110 Cr.
			Remarks: The actual cost incurred by BESCOM is lower than the approved cost and there is no case for truing up the O & M cost to a higher number; based on weighted inflation index.

Truing up for FY – 15: Depreciation

Issues	Chapter	Subject	Observations/Remarks/Objections
Truing up for FY-15	Chapter 3, Page No 28 - 29	Depreciation	The approved depreciation Rs. 168 Cr, whereas actual depreciation of Rs. 199 Cr. This increase of Rs. 31 Cr, is because of increase in unplanned CAPEX.
			Observation: The increase in depreciation because of poor planning of CAPEX. BESCOM needs to bring in proficiency in working out realistic budgets.

Truing up for FY – 15: Interest & Finance Charges

Issues	Chapter	Subject	Observations/Remarks/Objections
Truing up for FY-15	Chapter 3, Page No 29	Interest and Finance Charges	Interest Cost is higher than projected because of the following: poor CAPEX budgeting and working capital management.
			1. CAPEX - as mentioned above, CAPEX being higher than budgeting resulting in higher loans and increased interest costs.
			2. Working Capital: Trade receivables of Rs. 6672 Cr - close to 6 months of sales, reflecting very poor collection efficiency by BESCOM.
			Further Rs. 702 cr are receivable from GoK for free power supply to IP Sets supply and tariff subsidy from GoK on BJ/KJ installation. All of these delays in collection result in higher borrowings and higher interest cost.
			3. Carrying Cost: The Carrying cost of Regulatory Asset at 12% amounting to Rs.138 Cr should not be accepted because most of the outstandings are from Government and through future tariff hikes.
			Objection: All efforts must be made by BESCOM to reduce interest cost by -
			(a) Having strict control over CAPEX to remain within budget and
			(b) To increase collection efficiency.
			There is no case for truing up interest cost to a higher number on normative basis.

Conclusion:

- **For all the mentioned reason, Commission is hereby requested to disallow the request for approval of truing up increase in average cost of supply from Rs. 5.36/unit to Rs.5.65/unit**

Determination of Tariff for FY-17: Cross Subsidy level

Issues	Chapter	Subject	Observations/Remarks/Objections
Determination of Tariff for FY-17	Chapter 7, Page 207-10	Cross subsidy level	(While Electricity Act 2013 recommends that cross subsidies shall be progressively reduced and eliminated in the manner as may be specified by the State Commission, National Tariff Policy recommends the following:
			1. The State Governments can give subsidy to the extent they consider appropriate as per the provisions of section 65 of the Act.
			2. However, the tariff should be minimum 50% of the cost of electricity.
			3. The cross subsidy variation should be brought down gradually and to the extent of not more than (+/-) 20% of the cost by FY2011.)
			The cross subsidy variations of BESCOM are not within the above prescribed limits.
			Recommendations: Commission need to ensure that BESCOM brings down the cost of power, through competitive bidding for PP and shedding its inefficiencies in the distribution system, thereby making the cost affordable to different sections of the society and bringing down the cross subsidy within the prescribed limits. A separate line item should be provided in the bill showing cross subsidy in the tariff so consumers are made aware of this fact in a transparent manner

Annual Revenue Requirement for the 4rd Control Period : Power Purchase

Issues	Chapter	Subject	Observations/Remarks/Objections
Annual Revenue Requirement for the 4rd Control Period (FY-17 to FY-19)	Chapter 5, Page No 80- 93	Power Purchase	Since Power exchange rates are all time low in the country, cost of imported coal is reduced drastically & cost of power purchase has come down all over the country. There is no case for allowing any increase in power purchase.
			In 2014-15 , the quantity variation in high cost short term power was as high 80% . Commission to direct BESCOM to take all steps to keep consumption of high cost power to the bare minimum and tightly manage the weighted average cost of capital.

Determination of Tariff for FY-17: T & D loss

Issues	Chapter	Subject	Observations/Remarks/Objections
Annual Revenue Requirement for the 4rd Control Period (FY-17 to FY-19)	Chapter 5, Item 5.2 Page No 115-117	Transmission & Distribution loss	a. The breakup of losses at various voltage level need to be analyzed to identify the causes of higher losses.
			b. The % loss need to be bench marked with the best of the distribution companies in the country.
			c. Since BESCOM has invested in a high-tech SCADA, the same need to be utilized for identifying and plugging the leakages/pilferages in the system.
			Objection: Projected distribution loss of 13.3% is much higher compared to many of the urban distribution companies in India. The higher losses, without proper break-up and technical justifications, indicates the inefficiency of the distribution company. Why the consumers should absorb the burdens as a result of inefficient distribution system/theft/pilferages?
			Recommendation: Commission should fix more stringent targets to bring down the % losses at par with the average % losses recorded 5 distribution companies who are best in India with least losses.

Determination of Tariff for FY-17: Interest Cost

Issues	Chapter	Subject	Observations/Remarks/Objections
	Chapter 5, Item 5.6 Page No 127-133	Interest Cost	Interest Cost is projected at Rs. 897 Cr. The issue of high interest cost because of poor CAPEX & working capital management as already being discussed above. BESCOM needs to reduce its interest cost by improving collection efficiency. The proposed increase in tariff because of higher interest cost cannot be passed on to consumer

Conclusion

- **For all the mentioned reasons, Commission is hereby requested to disallow the request for approval of increase in average cost of supply from Rs. 5.36/unit to Rs.5.65/unit.**
- **Provisional P&L for 2015 shows a healthy profit figure and there is no case for increase in power tariff**

Compliance of Directives: Strategic Business Units

Issues	Chapter	Subject	Observations/Remarks/Objections
Compliance of Directives	Chapter 6 Item 8- Page 191-192	Strategic Business Units	- The progress on SBU wise analytical dashboards has been too slow. Commission is requested to direct BESCOM to implement monitoring & review systems for all areas 1-6 stated in page No- 191-92. Further we suggest the following:
			- Performance based incentive system for all divisions
			- Annual settings of KPIs for all divisions
			- Periodical measurement of performance
			- Reward and recognition system for outstanding performances

Compliance of Directives: Electrical Accidents

Issues	Chapter	Subject	Observations/Remarks/Objections
Compliance of Directives	Chapter 6, Page 192-93	Electrical accidents	The compliance submitted by BESCOM is far from reality and the actions taken are inadequate. Throughout in the Bangalore city, the pole mounted transformers and bare live conductors are accessible to the passerby, making it highly risky. The installations are totally in violating the IE standards. The bare wires, exposed distribution transformers and outdated switchgears are becoming death traps on footpaths and streets, causing death and disability of many citizens.
			B.PAC has already submitted a detailed letter to KERC in this regard vide No. BPAC/REG/2015/3 Dt. 09. 11. 2015 with many recommendations for the last 2 years. We see no improvement at all. Request the commission to kindly consider our suggestions and insist upon BESCOM to improve the safety standards of electrical installations on war footing.

Compliance of Directives: Standard of Performance

Issues	Chapter	Subject	Observations/Remarks/Objections
Compliance of Directives	Chapter 6, Item 1 Page 142	Standard of Performance	Inspite of raising this issue during last 2 years, we see no significant progress in improving Standards of Performance. The submissions made by BESCOM in this regards are too generic and vague. SoP's needs to be measurable & visible to consumers.
			To enhance the standards of performance,
			1. BESCOM may be insisted for establishing hotline call centers for complaints and reporting accidents for all divisions and monitoring through a centralized control center.
			2. BESCOM may be asked to set up multiple mobile service units (zone wise) for attending faults and emergencies (AEC of Ahmedabad could be a right model).
			3. BESCOM may be asked to declare their performance standards and KPIs in agreement with the commission. The compliance report with supporting documents need to be submitted to the commission for quarterly review.
			(As per the National Tariff Policy, the State Commission should determine and notify the standards of performance of licensees with respect to quality, continuity and reliability of service for all consumers. A suitable transition framework could be provided for the licensees to reach the desired levels of service as quickly as possible. Penalties may be imposed on licensees in accordance with section 57 of the Act for failure to meet the standards.)
			Recommendation: Stringent penalty for non-compliance to the agreed level of performance may be implemented.

Compliance of Directives: Energy audit

Chapter	Subject	Observations/Remarks/Objections
Chapter 6, item 3 , Page No - 149	Energy audit	Commission has directed BESCOM to compete installations of meters at DTC's by 31st Dec 2010. This work is yet to be completed & energy audit in the city of Bengaluru City is not submitted.
		Suggestion: Commission May instruct BESCOM to complete this activity in time bound manner with the sense of urgency
		.In view of the large variations in distribution losses among divisions (ATC losses varying from 4% to 42.5%), annual energy auditing to be made mandatory in all divisions by independent energy auditors (division vise) to understand the sources of losses and to identify the possibilities for improvement in performance. Many other commissions have made such periodical audits mandatory and the performance of the distribution companies have increased as a result. BESCOM may be insisted for strict compliance.
		(As per para 5.4.6 of National Electricity Policy, a time-bound program should be drawn up by the State Electricity Regulatory Commissions (SERC) for segregation of technical and commercial losses through energy audits. Energy accounting and declaration of its results in each defined unit, as determined by SERCs, should be mandatory not later than March 2007. An action plan for reduction of the losses with adequate investments and suitable improvements in governance should be drawn up. Standards for reliability and quality of supply as well as for loss levels shall also be specified, from time to time, so as to bring these in line with international practices by year 2012.)
		b. BESCOM may be insisted upon complying with the provisions of Energy Conservation act 2001, as implemented or being implanted by other distribution companies in other states.
		c. CEA has issued clear directives regarding conformity to the power supply harmonics to be maintained within the specified limits. This is not being implemented by BESCOM so far.
		Recommendation: KERC should issue clear guidelines to BESCOM on the compliance of Commission's directives, as well as compliance to various provisions of policies and acts, as mentioned above.

New Proposals: Telescopic tariff for LT2a Category

Issues	Chapter	Subject	Observations/Remarks/Objections
New Proposals	Page 210	Telescopic tariff for LT2a category	While the concept of telescopic tariff is welcome, however hike in tariff due to inefficacy of BESCOM should not be passed on to the consumer whether rich or poor.
Others		Agricultural consumption	The unmetered connections for agricultural usage (IP Pump sets) lead to anomalous figures of consumption and possible misuse/inefficient use of power in the sector. In the absence of measured data of consumption in the sector, the claims of BESCOM for government subsidy need a thorough scrutiny. Without the measured figures, BESCOM should not be permitted for claiming subsidies.
			(Para 5.4.8 and 5.4.9 of the National Electricity Policy makes metering mandatory for all consumers.
			National Tariff Policy recommends direct cash subsidy. Also, free electricity and subsidy beyond a certain level of consumption is not recommended. The metering to agriculture to be achieved in a friendly manner.)
			Recommendation: Metering to all sectors to be made mandatory. Subsidy to be disallowed without submission of measured data. Direct cash subsidy to farmers to be implemented.

Our submission

Sir, as an independent regulator, you have been discharging your duties in setting up high performance standards and protecting the consumer interest in an unbiased manner, as the citizens of Bangalore are well aware.

Hence, we once again request you to kindly consider the above mentioned points while evaluating the proposal from BESCOM for increasing the energy tariff for FY 17 and to draw conclusion which will not burden the citizens of Bangalore further.

Thank You