



Observations/remarks/objections on the proposal for determination of tariff for FY-18 for



submission during public hearing
to



Monday, February 20, 2017

INTRODUCTION:

Karnataka Electricity Regulatory Commission (KERC) was set up in the state of Karnataka during 1999 as a professional and independent body

OBJECTIVES:

- To regulate all aspects of the electricity sector in an **objective, professional and transparent manner.**
- To safeguard consumers' interests.
- To ensure **reliable, least – cost power supply as a basic input for the economic and social development of the state.**

Statistics:

Particulars	FY - 09	FY - 10	FY -11	FY -12	FY -13	FY - 14	FY -15	FY -16
Cost per unit to Consumer (in paisa)	3.32	4.21	4.66	4.75	5.04	5.04	5.36	5.59
Commission has allowed an increase (paisa per unit Average)	40.11	30.75	29.75	13	24	32	18	48
Consumers (in Lakhs)	69.42	72.56	76.78	79.15	79.48	89.25	94.45	101.47
LT Consumers (in Lakhs)	69.35	72.49	76.70	79.06	79.39	88.66	94.33	101.33
HT Consumers (in Lakhs)	0.07	0.07	0.08	0.09	0.09	0.10	0.11	0.14
Energy Consumption (MU)	16310.48	17252.00	18736.16	21029.91	22796.00	23065.00	24436.08	24538.19
IP Set consumers	568741	585038		626825	620313	691785	768577	809178
Demand (Rs. in Crores)	6190.00	6792.00	8246.00	9405.38	10724.00	11560.00	13385.00	14148.24
Collection (Rs. in Crores)	6132.00	6600.00	7942.00	8851.06	10096.00	11147.00	12884.00	14038.00
ARR approved by Commission (Rs. in Crores)		7381.92	8582.71	10184.8	12759.47	12498.31	14213.19	14418.74
Sales (as per audited accounts)	16310.48	17252.00	18736.16	21029.91	22796.00	23065.00	24436.08	24538.19

OUR APPEAL:

- Over the last **several years the performance improvement of the BESCO** has improved marginally
- BESCO continues to have **poor and unreliable quality of power supply, continuously increasing price of power, high distribution losses, poor working capital management and poor governance and transparency.**
- Distribution of power by BESCO's is a **commercial activity and not sovereign act of Government**
- BESCO, a Govt of Karnataka undertaking where the **owner has almost no equity**
- **Honest citizens should not be penalized for the acts of mismanaged PSU's** due to various Government and private entities who are responsible for the following:
 - **Power theft/ Un-authorized power connections**
 - **Chronic defaulters in payment** of power consumption charges
 - **Default by Govt departments caused due to non-payment of electricity bills**
 - **Gross mismanagement by BESCO in power purchase and distribution, poor revenue collection etc.**
- KERC must **focus on consumer protection and penalize inefficient BESCO which continues to failed in providing quality power supply to consumers**

Out **Observations/remarks/objections on the proposal for determination of tariff for FY-18 for BESCO** is as below:

1. Truing up for FY 15-16
2. Tariff revision for FY 17-18
3. New Proposals
4. BESCO Prayer for Leave of the Commission

1. Truing up for FY 15-16

1.1 Distribution Losses (Chapter 2, Ref Page No. 9 – 10)

- Distribution loss at 12.03% for FY 16 and **claim of Rs. 190.92 Cr by BESCO should not be allowed by the commission, since these are line losses.**
- 5 Division with Lowest distribution loss recorded in FY – 16

Town Name	Energy input in Mu	Energy sold in Mu	% Distribution Loss
Ramanagara	58.51	53.25	8.99
Davangere	222.29	200.91	9.62
Chitradurga	59.20	53.40	9.81
Harappanahalli	13.48	12.20	9.51
Harihara	44.66	40.12	10.15

- 5 Division with highest distribution loss recorded in FY – 16 for **11 kV Feeder (Ref page No.102 of BESCO reply to commission's observations - 11 kV feeder wise Energy Audit report)**

Town Name	Feeder Type	% Distribution Loss
Kunigal	NJY	76.83
Chinnagiri	Agriculture	74.48
Harohally	Industrial	76.30
Molakalmur	Mixed load	74.58
Gowribidanur	Water works	69.81

Prayer:

- All divisions/towns in BESCO with **distribution loss above average 15% should be borne by the owner of the company and should not be loaded to the consumer.**

1.2 Power purchase Cost (Chapter 2, Ref Page No. 10-12)

Particulars	Approved			Actuals			Variation		
	Energy in MU	Cost of Energy Rs. Crs	Unit cost of Energy Rs/Kwh	Energy in MU	Cost of Energy Rs. Crs	Unit cost of Energy Rs/Kwh	Energy in MU	Cost of Energy Rs. Crs	Unit cost of Energy Rs/Kwh
KPCL HYDEL	3314.7	205.55	0.62	1949.26	175.85	0.9	-1365	-29.7	-0.28
KPCL THERMAL	10793.6	4214.11	3.9	8705.01	3704.88	4.26	-2089		-0.35
CGS SUPPLY	7265.97	2229.25	3.07	8240.82	2577.84	3.13	974.85	348.59	-0.06
IPPS	4992.75	2063.2	4.13	5104.06	2139.78	4.19	111.31	76.58	-0.06
NEC	3277.1	1202.25	3.67	4048.84	1609.91	3.98	771.75	407.65	-0.31
Short Term	694.06	364.38	5.52	3610.27	1835.32	5.08	2916.2	1470.94	0.17
Other State Projects	80.9	14.56	1.8	319.74	94.87	2.97	238.84	80.31	-1.17

- Unit cost of Short term purchase of power at Rs. 5.08/ unit though lower than the approved price of Rs.5.25/unit, the actual units purchased at 3610 MU is more than 2.64 times the approved limit of 694 MU. It may be noted here that Short term power was available at Rs. 2.51/unit in Indian Energy Exchange (IEX) during FY 16. (Source: Kotak Institutional Equities Research Feb 2017 report)

Prayer:

- Since the short-term power was available at Rs.2.51/unit in the exchange. BESCO purchased short term power throughout the year at high price. **The difference between Rs.5.08/units and Rs. 2.51/unit for 3610MU i.e. Rs. 927.7 Crs should be disallowed and not to be considered in granting tariff.** We urge the commission to enquire why BESCO purchased power at higher prices
- The need for short term power has been caused by the **significant reduction of 2088 MU in supply by KPCL Thermal because of its underperformance.** Even the reduced quantities have been supplied at a higher unit cost of Rs. 4.26/unit as compared to the approved price of Rs.3.90/unit. **KPCL should be penalized in collecting the difference.**

- The difference between **Rs. 4.26/unit and Rs.3.90/unit which is 0.36 paise/unit cost works out to Rs. 313.4 Crs.** This should be disallowed in granting a tariff to BESCO and consumer should not be made to pay this amount. As it is **there is a 30 % increase cost for KPCL as against center Govt supplies, there is no need to pay for KPCL's inefficiency.** An enquiry should be heard as to why short term power purchase at higher rate has increase at the cost of KPCL thermal.
- The approval from the State Government is to enable power purchase **but not to purchase power at higher cost.** Commercial judgement should have been applied while procuring the power from the highest source when sufficient quantum (Average of 3,609 Mus all through the year) of power was available in IEX. **Even if Govt authorizes BESCO to purchase high cost power, it does not mean that the Regulator should accept that without looking at the alternative as Govt is a related party.**
- All the above reasons have contributed to the **adverse variation of Rs.724.9 Crs in purchase price which cannot be accepted.** The lack of proper planning, purchasing efficiency and transparency resulting in higher cost cannot be passed on to the consumer.
- Hence our submission that the **claim to true up Rs.724.9 Crs of purchase variance where the average cost of supply of power has gone up from approved Rs.5.69/ unit to Rs. 6.49/unit be summarily rejected.**

1.3 HT Sales (Chapter 1, Ref Page No. 3-4)

No of Units Sold (MU)	FY -14	FY - 15	FY - 16	% Change
LT				
Domestic	5369.87	5854.57	6156.1	5.15
Commercial	1536.91	1663.33	1754.07	5.46
Industrial	1109.44	1134.22	1150.4	1.43
Others	1009.28	1014.45	938.46	-7.49
Total LT excluding Agricultural	9025.50	9666.57	9999.03	3.44
Agricultural	5246.57	5938.79	6197.85	4.36
Total LT including Agricultural	14272.07	15605.4	16196.88	3.79
HT				
Industrial	5069.16	4750.15	4593.21	-3.3
Commercial	2855.68	2795.89	2614.9	-6.47

Others	859.24	1266.39	1076.09	-15.03
Total HT excluding Agricultural	8784.08	8812.44	8284.2	-5.99
Agricultural	9.22	18.29	57.11	212.24
Total HT including Agricultural	8793.3	8830.72	8341.31	-5.54
Total LT+HT	23065.37	24436.08	24538.19	0.42

OUR SUBMISSION:

- In its response to Commission's preliminary observations, BESCO has claimed that during FY -16, **2000 MU is procured by HT consumers through Wheeling and Banking and there is a fall in HT sales than the approved.**
- The consumption pattern for Fiscal Year 15-16 show that in **HT category consumption by industrial users has declined by 3.3%, commercial users by 6.47% and others declined by 15.03%** showing sensitivity to price rises.
- **Karnataka GDP has grown at 16% during FY 15 -16 and therefore the decline in energy consumption in HT is solely due to high prices and not decline in business. (Source: IBEF.org)**
- Note: As per Niti Aayog, **The CAGR of energy supply will grow at 4.8% which will be able to support a GDP CAGR of 7.9%.**

Sales Revenue	In Crs.		%	Rs. /unit		%
	FY - 16	FY - 15		Change	FY - 16	
LT						
Domestic	3027.99	2779.69	8.93	4.92	4.75	3.6
Commercial	1493.07	1368.04	9.14	8.51	8.22	3.49
Industrial	751.14	722.5	3.96	6.53	6.37	2.5
Others	811.63	879.29	-7.69	8.65	8.67	-0.22
Total LT excluding Agriculture	6083.83	5749.52	5.81	6.08	5.95	2.3
Agriculture	1587.48	1375.76	15.39	2.56	2.32	10.57
Total LT including Agriculture	7671.31	7125.28	7.66	4.74	4.57	3.73

HT						
Commercial	3387.37	3313.01	2.24	7.37	6.97	5.74
Industrial	2383.31	2335.44	2.05	9.11	8.35	9.11
Others	631.73	607.55	3.98	5.87	4.8	22.37
Total HT excluding Agriculture	6402.41	6256	2.34	7.73	7.1	8.87
Agriculture	12.36	4.18	195.77	2.16	2.28	-5.27
Total HT including Agriculture	6414.77	6260.18	2.47	7.69	7.09	8.48
Non-Tariff	62.16	94.15	-33.98	0.03	0.04	-34.25
Total HT+LT	14148.24	13479.6	4.96	5.77	5.52	4.52

Further analysis of BESCO sales figures shows:

- **HT cost has gone up to 8.48% as against only 3.73% under LT leading to massive diversion.**
- The cost between **LT at Rs. 4.74** and **HT at Rs. 7.69** is **very high**. Further tariff increase in HT will see resistance from the consumers in HT market
- **BESCO has incurred Rs. 347 Crs revenue loss due to reduction in HT during FY – 16 compare to previous years at previous year rates. please do not allow any increase to the tariff this year**
- The data above proves that **BESCO is an inefficient supplier of power and succeeds only in supplying high cost power** when cost can be lowered disregarding customer needs.
- On both **supply and sales side, BESCO has not demonstrated any efficiency there by losing customers who can afford to move away from BESCO and got alternatives under the law leaving hapless retail customers under their tender mercy**
- **Consumer - There is great consumer resistance in HT side because of very high cost and bad quality.**
- Below table submitted by BESCO with details of sales of HT2a, HT2b and HT2c category sales along with the open access/wheeling details (*Ref Page No – 19 in BESCO's reply*)

Year	HT2a HT2b and HT2c sales in MU	BESCOM YoY - Growth rate	Wheeling/Banking in MU	HT energy handled in BESCOM grid	Grid YoY - Growth rate
FY 11	6295.4		331	6626.41	
FY 12	7010.5	11%	673	7683.5	16%
FY 13	7693.4	10%	683	8376.43	9%
FY 14	8014.5	4%	971	8985.52	7%
FY 15	7735.3	-3%	1067	8802.34	-2%
FY 16	7440.6	-4%	1590	9030.64	3%

- The above figures will only increase in the coming years since BESCOM is losing HT consumers

2 Tariff revision for FY 17-18

2.1 Cross Subsidy level (Chapter 2, Ref Page No.50)

Category	Approved for FY - 16				Actuals for FY - 16				
	Sales MU	Rev in Cr	ARR Rs./Unit	Level of Cross subsidy (%)	Sales MU	Rev. in Cr	Interests in Cr.	ARR Rs./unit	Level of cross subsidy considering Rs. 6.5/unit(%)
LT 2 (a)(i)	5235.91	2600.55	4.97	89	5385.62	2686.81	9.85	4.99	77
LT 2 (a)(ii)	588.88	232.05	3.94	70	599.15	231.69	4.19	3.87	59
LT 2 (b)(i)	37.85	27.97	7.39	132	37.19	28.3	0.07	7.61	117
LT 2 (b)(ii)	5.22	3.57	6.84	122	5.4	4.67	0.02	8.66	133
LT 3(i)	1576.35	1339.32	8.5	152	1620.55	1384.99	4.9	8.55	131
LT 3(ii)	136.14	96.99	7.12	127	133.52	102.71	0.47	7.69	118
LT 5(a)	798.01	531.53	6.66	119	774.57	514.96	1.66	6.65	102
LT 5(b)	369.19	238.5	6.46	116	375.82	233.37	1.15	6.21	96
LT 6 WS	474.54	203.3	4.28	77	404.68	195.46	136.82	4.83	74
LT 6 SL	449.53	249.76	5.56	99	366.26	205.12	79.96	5.6	86
LT 7	167.43	230.76	13.78	247	167.52	193.73	0.54	11.56	178
HT1	743.65	341.98	4.6	82	672.75	307.34	7.02	4.57	70
HT 2a(i)	3832.39	2451.28	6.4	114	2336.83	1665.17	3.33	7.13	110
HT 2a(ii)	1972.51	1487.11	7.54	135	2256.38	1717.47	1.4	7.61	117

HT 2b(i)	2837.21	2229.87	7.86	141	2413.55	2206.21	3.39	9.14	141
HT 2b(ii)	132.35	111.43	8.42	151	201.35	173.58	0.13	8.62	133
HT 2c(i)	36.45	26.66	7.31	131	111.62	75.49	2.46	6.76	104
HT 2c(ii)	53.23	37.3	7.01	125	120.91	101.27	0.15	8.38	129
HT 3a(i)	17.69	3.01	1.7	30	56.91	11.49	0.52	2.02	31
HT 3a(ii)	0.51	0.18	3.53	63	0	0.21	0	0	0
HT 3b	0.78	0.29	3.72	67	0.2	0.14	0.002	6.89	106
HT 4	116.07	76.57	6.6	118	96.59	59.62	0.122	6.17	95
HT 5	66.3	101.56	15.32	274	74.22	78.24	0.016	10.54	162
LT 1	58.64	32.78	5.59	100	128.73	56.87	5.52	4.42	68
LT 4a(i)	5625.26	1338.81	2.38	43	6189.8	1474.59	109.84	2.38	37
LT 4(b)	3.71	1.16	3.13	56	3.44	1.16	0.35	3.37	52
LT 4c(i)	6.11	1.85	3.03	54	4.61	1.34	0.2	2.9	45
Total	25341.91	13996.14	5.52	99	24538.17	13712		5.59	86
Misc Revenue		178.15	0.07	1		62.16	374.08	0.18	2
Grand Total	25341.9	14174.3	5.59	1	24538.17	14148.24		5.77	88

OUR SUBMISSION:

- Cross subsidy leads to **inefficient and unproductive use of scarce electricity and sends a wrong signal to consumers who pay less**. It also **undermines the operation of the utility in the long run** because the cross-subsidizing category leave the utility's system and switch to other available sources
- Electricity Act 2013 recommends that **cross subsidies shall be progressively reduced and eliminated** in the manner as may be specified by the State
- The National Tariff policy 2006 mentioned that the SERC would notify roadmap to bring down the cross subsidy within $\pm 20\%$ of the average cost of supply
- **BESCOM has agreed in its submission not meeting approved level of Cross subsidy**. During FY - 15-16 following are the **Cross-subsidy levels at Rs. 6.5/unit cost of power (actual Rs. 5.69/unit) and**
 - **LT 2 (b)(i) is 117%**
 - **LT 2 (b)(ii) is 133 %**
 - **LT 3(i) is 131%**

- **LT 3(ii) is 118%**
 - **LT 5(a) is 102%**
 - **LT 7 is 178%**
- While the National Tariff Policy directs the ESCOM's to **recover 50 % of the total power cost from agriculture, BESCO data show under LT4a category, level of cross subsidy is 63%. This is against the rule of law**
 - **In the case of Agriculture, BESCO has recovered only 37 % of the cost. The commission should direct BESCO to recover at least 50 % of the cost**
 - The cross-subsidy variations of BESCO are not within the prescribed limits. **BESCO incurred a cost of nearly Rs. 3000 Crs as total cross subsidy this year which should be eliminated** while determining the tariff

Prayer:

- The commission should direct the **BESCO to eliminate Cross subsidy**
- BESCO collection of **amounts from state for budget allocation should not be considered in the tariff revision**

2.2 Annual Accounts FY 15-16

- BESCO balance sheet shows **the following as at 31 March 2016.**

Sl No	Particulars	Current Year 2015-16 (Amt in Crs.)
1	Sundry Debtors -supply of Power (LT+HT)	3920.17
2	Tariff subsidy receivable from GoK towards BJ/KJ installation	1258.68
3	Unbilled revenue - LT+HT	1163.90
	Total	6342.77
	Less bad debts	1180.07
	Total – Less bad debts	5162.7
4	BESCO Annual Revenue for FY -16	14148.24
5	Less 2 months	2358.04
	Excess receivable	2804.66
	BESCO claim of Interest on working capital at 11.5 % (in Crs)	322.53

Prayer:

- The commission is urged to **disallow Rs. 322.53 Crs claim by BESCO as interest on working capital on Excessive receivable of Rs. 2804.66 Crs as it is above 60 days limit allowed by the regulator**

Further Ref Note 22 to the financial statement

Sl No	Particulars	Current Year 2015-16 (Amt in Crs.)	Previous Year 2014-15 (Amt in Crs.)
1	Cash receivables from Associates -KPTCL/ESCOs	447.43	452.64
2	Inter ESCOMs Energy balancing & Energy charges at IF points	1694.45	1279.84
3	Total	2141.88	1732.48

- BESCO is subsidizing other ESCOMs' and KPTCL out of consumer's money and claiming Rs. 246.31 Crs as interest on working capital at 11.5 % which should be disallowed as Rs. 2141.88 Crs of BESCO money is being used interest free by other ESCOM's and associates

Prayer:

- The commission should disallow **Trade receivables above 2 months while doing tariff revision and the amount should be recovered by the Govt.**

3. New Proposals (Chapter 7)

3.1 New Proposals: Increase in Fixed charges - HT (Ref Page No. 115)

We support the BESCO's proposal to increase demand charges to Rs. 300/kVA from current Rs.190/kVA provided this exercise is tariff neutral approach

3.2 New Proposals: Open Access (Ref Page No. 119-121)

- BESCO has said during FY 2015-16 total consumption of power through open access is 528.95 mu and up to sept 2016 is 522.78 mu.

BESCOM has also highlighted the drawbacks to the utility and 3 new proposal are being placed before the commission.

- **B.PAC do not support the BESCOM's proposal of**
 - Restricting the banking facility to 3 month period,
 - Not allowing to withdraw banked power during peak and
 - TOD hours and lapse of banked power

Since these initiatives are regressive move.

3.3 New Proposals: Time of Day Tariff (Ref Page 125)

- **B.PAC supports BESCOM's proposal of having two peak periods one during the morning and the other during the evening**

3.4 New Proposals: Specific consumption of IP Sets (Ref Page 126)

- **BESCOM has submitted an increase of 21620 consumers drawing power for IP sets during FY 17.**

Details	FY - 16	FY - 17
No of Consumers	809170	830790

- **For FY 17 BESCOM has computed specific consumption of 9797 units/installation/annum**
- Below table depicts the **excessive consumption by IP set consumers**

Particulars	No.
Approved consumption MU	8037
Average consumption MU	9797.14
Difference of Approved & Average consumption MU	-1760.14
Unit Cost of power in Rs. during FY - 16	6.50
Excess money Rs. Per unit	11,440
No of IP sets Consumers in FY - 16	809170
Excess consumption by IP set consumers Rs. in Crs	925.74

Our submission

- The commission should **disallow excess of Rs. 925.74 Crs than the approved amt.** We urge the commission to direct BESCO to collect the difference amount from Government.
- This clearly **indicates in the name of farmers an excess of Rs. 925.74 Crs is being robbed.** It is obvious that in the name of farmers there is large scale robbery of power and Government is turning a blind eye for various reasons.
- Below table summarizes excessive **Subsidy per year per unit per IP set for FY 17**

Particulars	No.
Average consumption MU	9797.14
No of IP set Consumers	809170
Total consumption of units by IP set consumers MU	7927
Unit Cost of power in Rs. during FY - 16	6.50
Cost in Crs	5,152
No of IP sets Consumers	809170
Subsidy in Rs. per year per unit per IP set	63,680

We suggest the following:

- **Regularization of illegal IP sets should not be considered for any Cross Subsidy or tariff hike to be paid by other consumers.** Any regularization of pump sets **should be paid for fully by Government** and not by the consumers.
- The full **subsidy of Rs. 5,152 Crs for IP sets to be paid by Government to BESCO** and not paid by consumers.
- Duplicate and multiple IP set per farmer should be removed to avoid subsidy to the rich.
- To bring in transparency, **Direct Benefit Transfer (DBT) to be done to farmer's bank/shadow accounts and full charges can be debit.**

4. BESCOM Prayer for Leave of the Commission (Ref Page No. 183)

4.1 Tariff for FY 2017-18

BESCOM's prayer allowing to hike the average tariff by 148 paise across all categories should not be passed on as a burden to consumers for the following reasons.

- **Power purchase cost are inflated to higher rates and the power is available at Rs. 2.51/unit at IEX during FY 15-16. (Source: Kotak Institutional Equities Research Feb 2017 report)**
- **Surplus power in the Country – Out of All India installed capacity of 315 GW only 145 GW power is being used, there is surplus power at less cost is available in the country (Source: Kotak Institutional Equities Research Feb 2017 report)**
- **KPCL should be penalized in case they do not produce power at 80% PLF as surplus coal is available in country**
- **The entire subsidy amount of Rs. 5,152 Crs on IP set (assuming the same as last years) to be paid by Government**
- **Interest cost are inflated to the extent of Rs. 578.84 Crs for higher working capital assets, loans given to related enterprises**
- **BESCOM will continue to lose HT consumers in case of any tariff increase in HT category**

Sir, as an **independent regulator** please protect the interest of citizens of Bengaluru in an unbiased manner and not the interest of BESCOM

Hence, on behalf of citizens of Bengaluru, I once again request you to kindly consider the above-mentioned points while evaluating the proposal from BESCOM for increasing the power tariff for FY 18 and to **draw conclusion which will not burden the citizens of Bengaluru further.**

Thanking You

-Sd-

T.V. Mohandas Pai

Vice President | Bangalore Political Action Committee (B.PAC)