

19.03.2018

To

Shri. M.K. Shankaralinge Gowda, IAS (Rtd.)
Honorable Chairman,
Karnataka Electricity Regulatory Commission (KERC)
No.9/2, 7th Floor, Mahalaxmi Chambers, MG Road
Bangalore – 560001

Subject: B.PAC Submission on state of affairs in BESCO before Hon'ble Commission

Reference:

1. Truing up for FY-17, Annual Performance Review for FY18, Annual Revenue Requirement for FY19 and revision of tariff for FY19 along with Commission's preliminary observations and replies of BESCO

2. B.PAC submission (Observations/remarks/objections) to the proposal for determination of tariff for FY-19 for BESCO during public hearing organized by Hon'ble KERC

Respected Sir,

Greetings from B.PAC!

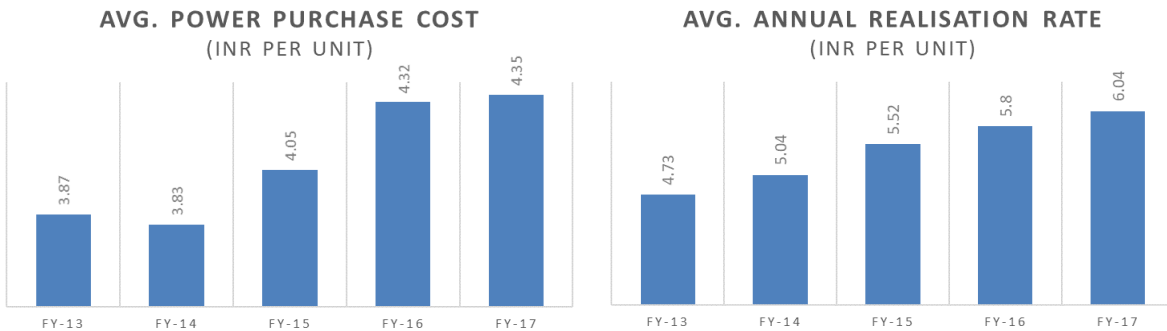
Further to B.PAC submissions during the public hearing organized by Hon'ble KERC on Mon, Feb 12th. On behalf of the BESCO power consumers submit the following petition for your kind perusal and appealing appropriate decision in favor of all concerned consumers.

As your good-self is fully aware of the present power situation in Karnataka & Bengaluru city. We draw your attention to following areas:

1. **BESCO's track record Analysis: (FY 13 to FY 17)**
2. **Distribution Loss**
3. **HT Sales**
4. **Cross subsidy level**
5. **BESCO's collection efficiency**
6. **Specific consumption of IP sets**
7. **Power purchase**

Below are details for your kind perusal:

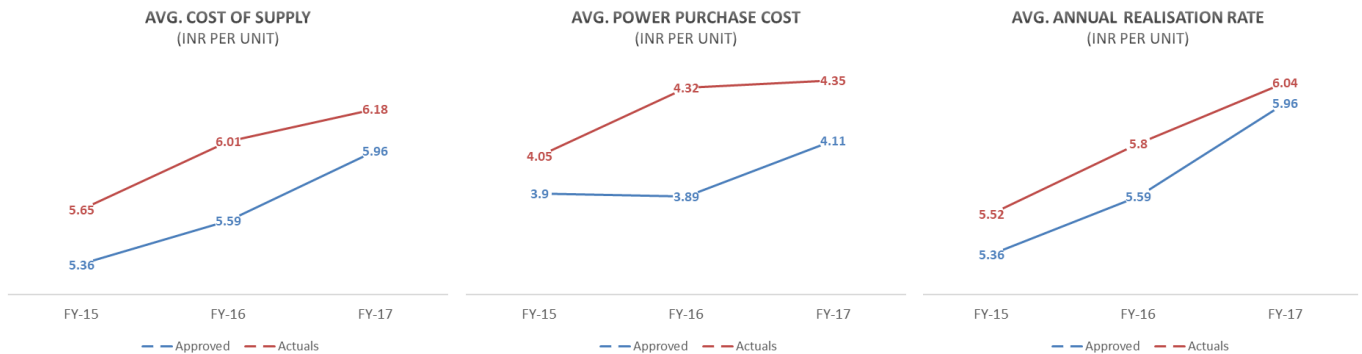
1. BESCOM's track record Analysis: (FY 13 to FY 17)



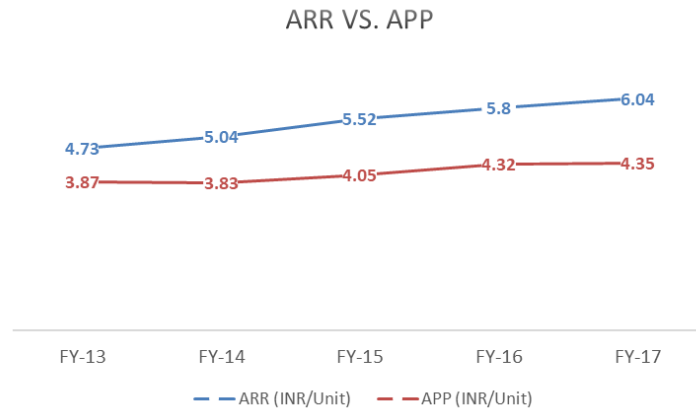
As shown in the above table, data from last 5 years clearly shows that

- The Average Power Purchase Cost has gone up from **INR 3.87/unit to INR 4.35/unit with an increase of 12.5%**.
- The Average Annual Revenue Realization Rate has gone up from **Rs. 4.73/unit to Rs. 6.04/unit** with an increase of 28%
- Margin went up **from 0.86 paise/unit to 1.69 paise/unit from 22% to 39%**

Past 3 years data shows that **BESCOM has never met the Commission's approved rates** of Avg. Cost of Supply (ACS), Avg. Revenue Realization (ARR) and Avg. Power Purchase Cost (APP). Chart below clearly demonstrates that BESCOM has **realised higher rates than what was approved without bringing in efficiency** with respect to the cost of power purchase



Further, in all the past 5 years, BESCOM has been keeping significant margins for itself. The ARR (Average Realization Rate) has always been more than the APP (Power Purchase cost)



This has led to BESCOM's revenue shooting up from INR 10,783.62 Cr to INR 15,861.15 Cr, with a disproportionate increase in power purchase cost from Rs. 10780.55 Cr to 13700.83 Cr as can be seen in the below chart. Chart below shows that BESCOM is making a bigger margin while only being more and more inefficient

	FY-13	FY-14	FY-15	FY-16	FY-17	Trend
Power Purchase Cost (INR Crs)	10,780.55	10,702.76	11,917.42	12,600.53	13,700.83	▬ ▬ ▬ ▬ ▬
Revenue (INR Crs)	10,783.62	11,617.35	13,479.60	14,226.85	15,861.15	▬ ▬ ▬ ▬ ▬
Margin (INR Crs)	3.07	914.60	1,562.18	1,626.32	2,160.32	▬ ▬ ▬ ▬ ▬
Margin (%)	0.03%	8.55%	13.11%	12.91%	15.77%	▬ ▬ ▬ ▬ ▬

Our Ask:

- **Consumer protection is one of the primary objectives of the KERC, we urge you to take notice of the above data-based insights and not allow BESCOM to pass the burden of its inefficiencies on citizens through its FY-19 tariff increase proposal. Especially when it is already rewarding itself with handsome margins over and above the approved limits set by the KERC.**

2. Distribution Loss

Hon'ble Commission approved distribution loss of 12.75% for FY 18 (up to Nov 2017). BESCOM distribution loss presented at 11.86%. Further analysis of date of energy audit for towns and cities shows that distribution loss in 5 towns varies between 18.41% to 28.53%. Whereas few towns have been able to bring down the distribution loss from 9.56% to 7.45% and 10.32% to 6.74% and from 10.91% to 4.87%.

SI No	Town Name	The FY-17			The FY-18 (Cumulative as at the end of Nov-2017)		
		Net Input Energy (MU)	Energy sold (MU)	% Distribution losses	Net Input Energy (MU)	Energy sold (MU)	% Distribution losses
1	Channapattana	43.02	37.54	12.74	25.71	23.65	8.04
2	Chitradurga	61.34	54.65	10.91	35.74	34	4.87
3	Doddaballapura	64.64	54.5	15.7	36.51	34.17	6.39
4	Kunigal	20.16	18.55	7.98	9.68	9.11	5.92
5	Tiptur	41.86	37.86	9.56	23.92	22.14	7.45
6	Tumkur	312.42	280.19	10.32	181.38	169.16	6.74

Town Name	Net Input Energy (Mn Units)	% Distribution Loss	Difference from KERC Approved @ 12.75%	Inefficient Loss (Mn Units)	% Average Loss
Anekal	26.04	15.63%	2.88%	0.75	
Bangarpete	29.56	25.51%	12.76%	3.77	
Challekere	16.12	13.96%	1.21%	0.20	
Chickaballapura	27.34	21.49%	8.74%	2.39	
Chinthamani	32.17	18.41%	5.66%	1.82	
Hiriyur	15.01	18.18%	5.43%	0.82	
Hosekete	27.47	18.14%	5.39%	1.48	
KGF	41.45	20.30%	7.55%	3.13	
Kunigal	47.03	18.52%	5.77%	2.71	
Mulabagilu	15.58	18.06%	5.31%	0.83	
Shidlagatta	17.48	28.53%	15.78%	2.76	
Shira Town	15.01	20.64%	7.89%	1.18	
Total	310.26			21.84	7.0%

The above table shows that from a sample of 24 towns obtained from BESCOM (Energy Audit Report Pg. 5), 12 towns faced a loss upwards of the permitted 12.75% as directed by KERC. The average loss across the 12 towns works out to be 7%, or 3.5% across the entire sample size. The divisions where the distribution loss is higher than the commission allowed limit of 12.75% distribution loss indicates the inefficiency in losses.

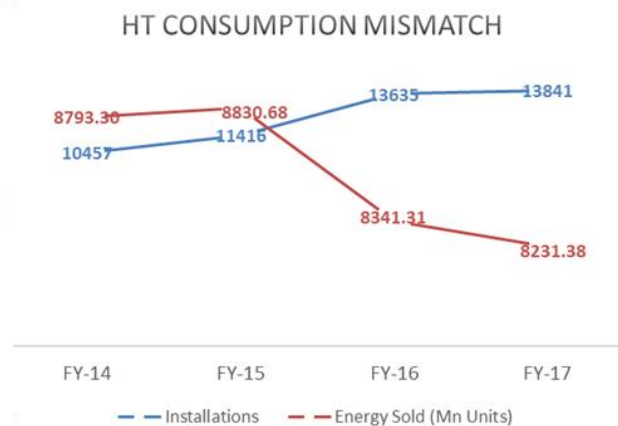
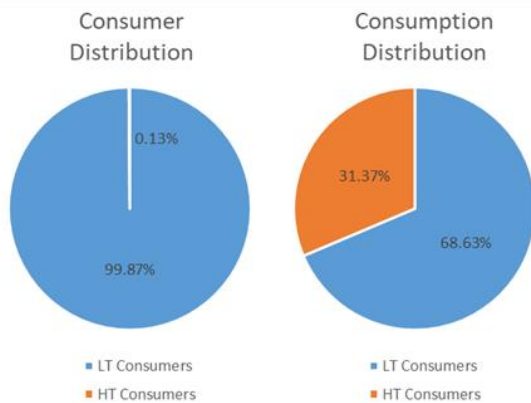
Our Ask:

- **We request the commission to instruct BESCO no distribution loss at division above 12.75% should be allowed**
- **Towns/Divisions with losses above 12.75% should not be added to BESCO's overall loss**
- **Controlling distribution losses at Towns/Divisions where currently the loss is above 12.75% should be BESCO's responsibility.**

3. **HT Sales**

HT Sales is an integral part of BESCO's revenue. At a time where Bangalore Metropolitan Region and its adjoining districts are prospering, and Karnataka is growing at 8.5% CAGR (ECONOMIC SURVEY OF KARNATAKA 2017-18), many businesses are being set up (as can be seen from the increase in the number of installations). It is disheartening to see that these businesses are choosing not to procure power from the BESCO (energy sold units are falling), this is solely driven by the unfair & uncompetitive increasing rates by BESCO in HT category.

	FY-14	FY-15	FY-16	FY-17	Trend
Installations	10,457.00	11,416.00	13,635.00	13,841.00	
Energy Sold (Mn Units)	8,793.30	8,830.68	8,341.31	8,231.38	
Revenue (Rs in Crs)	5,701.77	5,994.12	6,414.77	6,613.53	
Avg. Realn. (INR/unit)	6.48	6.79	7.69	8.03	



Our Ask:

- **We urge the Commission to direct BESCO to take note of this declining HT consumption and reduce HT rates across categories by 20%. This will safeguard the industrial sector which fuels the growth and job creation in any geography, especially given the fact that Bengaluru alone contributes almost 60% of Karnataka's GDP and has to compete with increasingly well-governed and business-friendly cities like Hyderabad and Chennai and not increase rates on HT.**

4. Cross subsidy level

The National Tariff Policy guidelines directs to restrict CCS to 20%. BESCO has not given details of LT4(a) Irrigation Pump sets (< 10 HP) in its filing document. We request the commission to direct BESCO to furnish details of this category as shown in other categories. The amount of revenue forgone needs to be quantified and displayed transparently and this entire amount should be paid by Govt since it is Govt's policy to give free power and not through metered power. This is no reason for consumer to pay for Govt policy decision. This should come as general revenue

Our Ask:

- **As agreed by Hon'ble Chairman during the public hearing, DBT to farmers will bring in full disclosure and ensure benefits of multiple IP sets does not accrue to a single individual.**
- **We urge the Hon'ble Commission to write to GoK to create a policy for Direct Benefit Transfer (DBT) to farmers. DBT of INR. 40,000 per IP for each farmer holding up to 2 ha be provided. We also proposed subsidy for dry land farmers similar to "Raita Belaku" scheme for the economic independence of dry land farmers from Karnataka State Budget 18-19.**

5. BESCOM's collection efficiency

Particulars	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18 (P)	FY 19 (P)
Revenue (INR Crs)	10,783.62	11,617.35	13,479.60	14,226.85	15,861.15	16,791.06	17,377.41
Receivables (INR Crs)							
Receivables against sale of Power	4727.99	5892.88	4371.30	5659.96	7178.6	8550.11	9970.77
Loans & Advances	539.24	677.79	664.10	811.99	1216.94	1296.94	1516.94
Sundry Receivables	574.67	582.81	2742.28	2170.07	1817.36	2170	2371.59
Total Receivables (INR Crs)	5841.9	7153.48	7777.68	8642.02	10212.9	12017.05	13859.3
Borrowings	3324.86	2370.63	5329.42	6816.65	8263.62		
Monthly revenue	898.64	968.11	1123.30	1185.57	1321.76	1399.26	1448.12
No of sales Month outstanding	6.50	7.39	6.92	7.29	7.73	8.59	9.57

From the above table, we see BESCOM's collection efficiency has drastically worsened from 6.50 months sales to 7.73 months sales and for FY 19 is projected at 9.57 months sales. Further pertaining to BESCOM Half year ended Sept 2017 financials, it is to be noted that BESCOM receivables have gone up even further to an alarming 8.77 months sale.

Below table shows the BESCOM's revenue from Operations and trade receivables

Particulars	Mar-15	Mar-16	Mar-17	As at 30th Sept 2017
	INR Cr			
Revenue from Operations (Half year April - Sept 2017)	13479.60	14148.23	15861.15	8857.99
Trade Receivables				
Particulars	Mar-15	Mar-16	Mar-17	As at 30th Sept 2017
Secured, considered good	3884.59	3920.18	Data not available in public	4444.44
Receivable from PCKL towards gram panchayat electricity dues	519.82	522.79		1797.38
Unbilled Revenue (LT+HT)	1020.92	1163.90		1222.10
Doubtful	1241.80	1180.08		1173.51
Cash receivables from Associates - KPTCL/ESCOMS	452.63	449.61		459.00
Other receivables	9.75	81.31		9.54
Inter ESCOMs Energy balancing & energy charges at IF points	1279.84	1694.58		1580.25
Inter unit Accounts	11.49	17.70		1089.07
Total	8420.84	9030.14		11775.29

The liquidity crisis as claimed by BESCOM in the system is because the cash has been used to finance other ESCOMs and others without charging interest. We urge the commission to take note of this and direct BESCOM to bring in discipline in collecting receivables. Further, we draw commission's attention to direct the BESCOM to identify the names of the doubtful receivables and furnish the same to commission and make it public.

Our Ask:

- **BESCOM is diverting funds to other ESCOMS and Associates without charging interest. BESCOM should be made responsible to bring in discipline in collecting receivables.**
- **Interest above 2 months of sales should be disallowed during the truing up exercise.**
- **Full details of bad and doubtful debts should be identified. BESCOM has made a huge provision of Rs.1173.51 Cr towards doubtful debts. The commission should direct the BESCOM to identify the names of the doubtful receivables and furnish the same to commission and make it public and disallow Rs. 1173.51cr from truing up exercise.**
- **Reduction of sundry receivables, loans and advances to 2 months sales will do away with the need for any increase in the tariff.**

Calculation of depreciation

SI No	Particulars	INR Cr
1	Security deposit from consumers	3896.64
2	Total deferred Income (contributions and grants towards cost of capital assets)	2441.81
3	Total	6338.46

Our Ask:

- **As indicated in the above table, BESCOM has received security deposit from consumers of INR. 3896.64 Cr and Govt contributions and grants towards capital assets treated as deferred income in the Balance Sheet to the tune of INR.2441.81 cr. Both these items total to INR.6338.46 and need to be reduced from the cost of fixed assets and depreciation should be claimed only on the residual amount for tariff purposes. The Commission may suitable give directions to BESCOM to follow financial standards.**

6. Specific consumption of IP sets

Details	FY - 16	FY - 17	FY - 18	FY -19
No of Consumers	809170	830790	887879	902879

Details	FY - 16	FY - 17
No of Consumers	809170	830790
Subsidy in Cr	5,152	4,688
Subsidy per year per unit per IP set (INR)	63,680	86,826

From the above projections made by BESCO consumers drawing power for IP sets will continue to increase. 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.

Our Ask:

- **We propose Subsidy to be limited to INR. 40,000 per IP set for only farmers holding up to 2 Ha. This would be in the lines of subsidy for dry land farmers similar to “Raita Belaku” scheme for the economic independence of dry land farmers from Karnataka State Budget 18-19**
- **We request the commission to write to Govt that the full subsidy amount for IP sets to be paid by Government to BESCO and bring in transparency through Direct Benefit Transfer (DBT) to farmer’s bank account.**
- **The objective of Commission’s order to carry out GPS survey which will remove duplicate and multiple IP set per farmer is not yet completed in 4 BESCO circles namely North, South, East & West. The commission should penalize BESCO for not following the order to of IP sets**

7. Power purchase:

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	3636.159	407.226	1.12	1859.32	176.81	0.95	-1776.84	-230.42	-0.17
KPCL THERMAL	9912.495	4044.07	4.08	9424.57	3977.06	4.22	-487.925	-67.007	0.14
CGS Energy	10286.42	3335.99	3.24	10619.4	3631.4	3.42	332.965	295.406	0.18
UPCL	3566.25	1478.4	4.15	3378.86	1387.45	4.11	-187.394	-90.949	-0.04
Renewal Energy	3522.21	1439.08	4.09	3380.62	1329.25	3.93	-141.59	-109.83	-0.15
Other State Hydel	68.85	32.367	4.7	57.43	28.86	5.03	-11.424	-3.507	0.32
Short Term	529.872	267.058	5.04	2225.21	988.3	4.44	1695.338	721.242	-0.6

BESCOM has stated in the filing that Increase in average cost of power is due to increase in the quantum of short term power. The average cost of power in Energy Exchanges were at INR. 3.16, All short-term power requirements should be met through the exchange, hence providing for transparent price discovery. (source: Indian Energy Exchange)

BESCOM has been overshooting the approved limits of the total Power Purchase Cost for the past two years as shown in the below table. This indicates BESCOM's poor power purchase planning when power in the open market available at average of Rs.3.16/unit. There is no reason why consumer must bear the excessive cost of poor power purchase planning.

Power Purchase Cost (INR Crs)	FY-13	FY-14	FY-15	FY-16	FY-17	Trend
Approved	11,292.61	10,914.80	11,922.09	11,840.15	12,954.19	
Actuals	10,780.55	10,702.76	11,917.42	12,600.53	13,700.83	
Gap	-512.06	-212.05	-4.67	760.38	746.64	

As shown in the above table, BESCOM has been overshooting the approved limits of the total Power Purchase Cost for the past two years. This indicates **BESCOM's poor power purchase planning when power in the open market is available at lower cost.**

Our Ask:

- **We request the commission to direct BESCO to purchase 10% of the total short-term power from power exchange**
- **We request you to direct BESCO to start an active trading desk so that cheap power can be purchased from power exchanges to reduce the overall cost of power and use the hydel power available as a buffer to be back down so that overall cost is reduced.**

With all the above submissions there is no case for proposal to increase tariff. Brining discipline in BESCO's operations will do away with the need for any increase in the tariff.

Sir, your good-self, with your result-oriented initiatives during your tenure, has already paved solid trust in the minds of consumers across the state and we do trust that your timely intervention on the above highlighted subjects will bring discipline in BESCO's operations and confidence to power users.

Looking forward for a favorable decision from your good office, resulting betterment of power situation in Bengaluru Metropolitan Region and Karnataka state at large.

Thanking you,
Yours faithfully

-Sd-

Revathy Ashok
Hon Managing Trustee & Chief Executive Officer

CC:

Shri. H D Arun Kumar, Hon'ble Member, KERC
Shri. D B Manival Raju, Hon'ble Member, KERC
Dr. Siddaramaiah, Secretary, KERC
Shri Safiulla Khan, Director (Tariff)

Encl: [B.PAC submission](#) (Observations/remarks/objections) to the proposal for determination of tariff for FY-19 for BESCO during public hearing organized by Hon'ble KERC