KARNATAKA ELECTRICITY REGULATORY COMMISSION

TARIFF ORDER 2014

ON

ANNUAL PERFORMANCE REVIEW FOR FY13

&

REVISED TRANSMISSION TARIFF FOR FY15

OF

KPTCL

12th May 2014

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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
BBMP	Bruhut Bangalore Mahanagara Palike
BDA	Bangalore Development Authority
BESCOM	Bangalore Electricity Supply Company
BMP	Bangalore Mahanagara Palike
BST	Bulk Supply Tariff
BWSSB	Bangalore Water Supply & Sewerage Board
CAPEX	Capital Expenditure
CCS	Consumer Care Society
CERC	Central Electricity Regulatory Commission
CEA	Central Electricity Authority
CESC	Chamundeshwari Electricity Supply Corporation
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
GESCOM	Gulbarga Electricity Supply Company
GFA	Gross Fixed Assets
GoI	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
MESCOM	Mangalore Electricity Supply Company
MFA	Miscellaneous First Appeal
MIS	Management Information System
MoP	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
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
TPC	Tanirbavi Power Company
TR	Transmission Rate
VVNL	Visvesvaraya Vidyuth Nigama Limited
WPI	Wholesale Price Index
WC	Working Capital

KARNATAKA ELECTRICITY REGULATORY COMMISSION
BANGALORE - 560 001

Dated this 12th day of May, 2014

Order on KPTCL's Annual Performance Review for 13 and Revision of Transmission Tariff for FY15

In the matter of:

Application of KPTCL in respect of the Annual Performance Review for FY13 and Revision of Transmission Tariff for FY15 under Multi Year Tariff framework.

Present:	**Shri M.R.Sreenivasa Murthy**	**Chairman**
	Shri H.D.Arun Kumar	**Member**
	Shri D.B.Manival Raju	**Member**

O R D E R

The Karnataka Power Transmission Corporation Ltd (hereinafter referred to as KPTCL) is a Transmission Licensee under the provisions of the Electricity Act, 2003. Under the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations 2006, KPTCL, has filed its application on 29th November, 2013 for the Annual Performance Review for the financial year 2012-13 (FY13) and Revision of Transmission Tariff for FY 2014-15.

In exercise of the powers conferred under Sections 62, 64 and other provisions of the Electricity Act, 2003, read with KERC (Terms and conditions for Determination of Transmission Tariff) Regulations 2006, and other enabling Regulations, the Commission has carefully considered the application and the views and objections submitted by the consumers and other stakeholders. The Commission's decisions are given in this order, Chapter wise.

CHAPTER – 1

INTRODUCTION

1.0 Brief History of KPTCL:

Karnataka Power Transmission Corporation Ltd., (KPTCL) is a transmission licensee under Section 14 and a State Transmission utility under Section 39 of the Electricity Act, 2003 (hereinafter referred to as the Act). A registered company under the Companies Act, 1956, KPTCL was incorporated on 28th July 1999. It has commenced its operations from 1st August 1999 continuing the operations of Transmission and Distribution functions of the erstwhile Karnataka Electricity Board (KEB).

The unbundling of Transmission and Distribution business came into effect in Karnataka from 1st June, 2002, when KPTCL became a Transmission Company and the Distribution business was vested with the newly created Distribution Companies (ESCOMs).

Consequent to the enactment of the Electricity Act, 2003, KPTCL became a wire company with effect from 10th June, 2005 and its bulk power purchase activity was vested with a newly created SPV namely, the State Power Procurement and Coordination Committee (SPPCC) presently renamed as the Power Company of Karnataka Ltd., (PCKL).

KPTCL enables Transmission of power from generating stations to the ESCOMs and to the open access consumers. The company operates **999** sub stations and maintains **31862** circuit kilometers of transmission lines with voltage of 66 KV and above as detailed below.

Type of Substation	Numbers	Transmission line in C-kms
400 kV	4	2650
220 kV	92	9953
110 kV	344	9351
66 kV	559	9908
Total	**999**	**31862**

The area of operation of the Company is divided into 6 Transmission Zones with 14 Circles and 44 Divisions. In addition, there are 30 Transmission line and Sub-station Divisions (TL&SS) for operation and maintenance of the transmission system and implementation of augmentation works. Further, 4 Relay Testing (RT) Circles and 14 Divisions are responsible for maintenance of protective relays and meters and addressing trouble shooting issues of KPTCL Stations. At the Divisional level, there are accounting units which are responsible for accounting of all transactions of KPTCL.

1.1 Tariff Orders Issued By the Commission

Since its constitution in 1999, the Commission has been issuing Tariff Orders for Transmission as well as Retail Supply of electricity from time to time. The Commission, till now, has issued the following Tariff Orders in respect of transmission tariff:

i) Tariff Order - 2002 dated 8th May 2002 approving ERC and determining bulk supply and transmission tariff of KPTCL for FY03.

ii) Tariff Order - 2003 dated 10th March 2003 approving ERC and determining bulk supply and transmission tariff of KPTCL for FY04

iii) Tariff Order - 2005 dated 25th September 2005 approving ERC and determining bulk supply and transmission tariff of KPTCL for FY06.

iv) Tariff Order - 2006 dated 7th April 2006 in respect of ERC & Tariff of KPTCL for FY07.

v) Tariff Order - 2007 dated 6th July, 2007 under MYT frame work in respect of ERC & Tariff of KPTCL for FY08 to FY10.

vi) Supplementary Tariff Order, 2007 dated 31st December, 2007 in respect of ERC & Tariff of KPTCL for FY08 to FY10.

vii) Tariff Order - 2009 dated 25th November 2009 in respect of Revised ERC & Transmission Tariff for FY10 of KPTCL under MYT Framework.

viii) Tariff Order - 2010 dated 7th December 2010 in respect of APR for FY10 and ERC & Transmission Tariff for FY11-13 of KPTCL under MYT Framework.

ix) Tariff Order – 2012 dated 30th April 2012 in respect of APR for FY11 and revised ARR and Transmission Tariff for FY13.

x) Tariff Order - 2013 dated 6th May 2013 in respect of APR for FY12 and ERC & Transmission Tariff for FY14-16 of KPTCL under MYT Frame work.

1.2 Open Access:

The Commission has introduced open access in a phased manner by framing Open Access Regulations, 2004, with the object of encouraging competition in the electricity generation and distribution sectors. The Commission is also determining transmission charges for Open Access consumers.

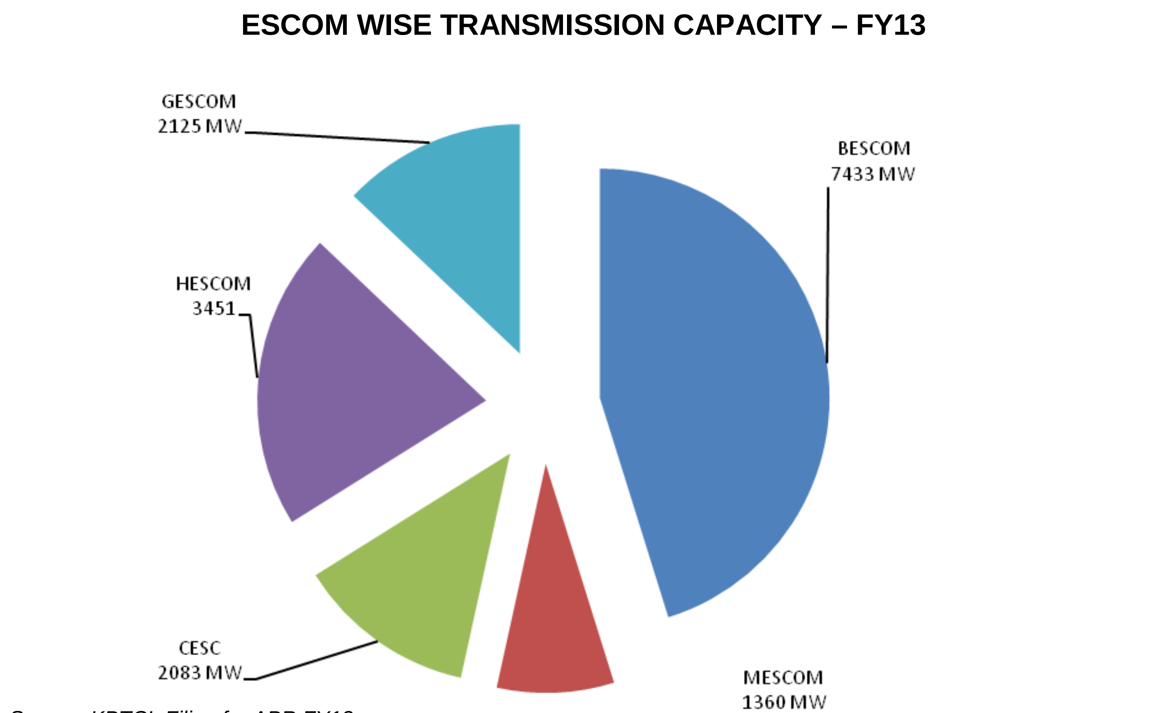
1.3 KPTCL at a glance:

Sl. No	Particulars (As on 31-03-2013)		2012-13
1.	**Generation Capacity (connected to Transmission System)**	MW	**13179**
	a) KPC Hydro and Thermal	MW	6519
	b) CGS (Karnataka Share)	MW	1836
	c) NCE, IPPs and Others	MW	4824
2.	**No. of Receiving Sub-Stations /Length of Tr. Lines (as on 31.03.2013)**	Nos./CKms.	**999/31862**
	a) 400 kV	Nos./CKms.	4/2650
	b) 220 kV	Nos./CKms.	92/9953
	c)110 kV	Nos./CKms.	344/9351
	d)66 kV	Nos./CKms.	559/9908
3.	Assets as at the end of FY13	Rs. in Crores	12516.29
4.	**Total employees:**		
	a) Sanctioned	Nos	14364
	b) Working	Nos	8959
5.	Demand (FY-13) Charges for Transmission of Power to ESCOMs	Rs. in Crores	2038.09
6.	Collections of transmission charges	Rs. in Crores	1928.95

1.4 Transmission capacity of KPTCL in FY13:

The total transmission capacity in the State was 16,452 MW during FY13.

The ESCOM wise transmission capacity for FY13 is as follows:



Source: *KPTCL Filing for APR FY13*

CHAPTER – 2

VALIDATION AND PUBLIC HEARING PROCESS

2.1 BACKGROUND:

In its order dated 07.12.2010, the Commission had approved the ARR and transmission tariff for KPTCL for FY13. The ARR and Transmission tariff for FY13 was revised as per the Commission's tariff order dated 30th April 2012. KPTCL in its application dated 29th November 2013, has sought approval for the Annual Performance Review for FY13 with revision of Transmission Tariff for FY15.

2.2 Commission's Directives & Compliance by KPTCL:

The Commission, in its tariff order dated 7th December 2010, 30th April 2012 and 6th May 2013 has issued directives on various matters pertaining to KPTCL. The Commission had directed KPTCL to ensure full compliance of the directions in a time bound manner. KPTCL has stated that:

i) It has been making sincere efforts to comply with the directives issued by the Commission.

ii) There has been substantial improvement in processes like commercial operation and financial management.

A summary of the various directives issued by the Commission and their compliance by KPTCL is annexed vide Appendix.

2.3 Public hearing process

On receipt of the application of KPTCL, the Commission conveyed its preliminary observations on 12th December, 2013. KPTCL has furnished its replies vide its letter dated 19th December, 2013.

The Commission in its letter dated 20th January, 2014 has treated the application of KPTCL as petition in terms of the Tariff Regulations subject to further verification and validation. Accordingly, KPTCL was directed to publish a summary of the application in the news papers within a week in accordance with the Clause 5(1) of the KERC (Tariff) Regulations, 2000, as amended on 1st February 2012.

In compliance with the above directions of the Commission, KPTCL has published the summary of its application in the following newspapers on 7th & 8th February 2014.

- The Hindu
- Deccan Herald
- Prajavani
- Udayavani

KPTCL's ERC and Tariff Application were also made available on the web-sites of KPTCL & KERC. In response to the notices published in the above newspapers, calling for objections on the APR and the tariff application of KPTCL for FY13, the Commission has not received any written objections.

The Commission held a Public Hearing on KPTCL's APR petition on 21st April 2014 in the Court Hall of the Office of the Commission. The objections raised, and the responses from KPTCL thereon, are discussed in Chapter – 3 of this order.

2.4 Consultation with Advisory Committee of the Commission

A meeting of the Advisory Committee of the Commission was held on 5th May 2014. The members of the Committee discussed the various issues involved in the Annual Performance Review application for FY13 of KPTCL and offered valuable suggestions. These suggestions have been taken note of by the Commission while finalising this order.

CHAPTER – 3

SUGGESTIONS/OBJECTIONS AND REPLIES

The Commission undertook the process of public consultation in order to obtain suggestions/views/objections from the interested Stake-holders on the Tariff Application filed by KPTCL. During the public hearing some Stake-holders and public have raised several objections to the Tariff Application filed by KPTCL.

3.1 List of the persons who made oral submissions during the Public Hearing on 21.04.2014:-

Sl No.	Name & Address of Objectors
1	Sri. Pankaj Kumar Pandey, IAS MD, BESCOM
2	Sri. Sridhar Prabhu. Advocate
3	Sri. Rajagopal from KASSIA, Bangalore-40.
4	Sri. Mallappa Gowda, Secretary, Peenya Industries Association, Bangalore.
5	Sri. Krishnappa, Licensed Electrical Contractor,
6	Sri. A. Raja Rao, Consumer Care Society, Bangalore.

3.2 The above objectors have expressed their views and objections on the following issues during the public hearing held on 21.04.2014 at KERC, Bangalore. The Commission has sought the response of KPTCL and KPTCL has furnished replies as below:

1) The standards of performance are to be prescribed to KPTCL as is being specified for ESCOMs for timely attending of the faults in Sub-station/Transmission lines and replacement of failed transformer etc.

KPTCL's RESPONSE:

KPTCL has stated that, it will abide by the decision of the Commission.

2) KPTCL should provide 100% reliability in transmission net-work as the failure of input to the Sub-stations would cause huge interruptions in low tension supplies to several consumers.

KPTCL's RESPONSE:

KPTCL has stated that, it is maintaining the reliability as per standards and the present reliability is at 99.82% and many Sub-stations are having alternate sources for feeding the load. But, due to ROW problem conversion of existing lines or construction of new lines is becoming increasingly difficult.

3) KPTCL has to undertake preventive and proactive measures instead of reactive approach for repairs and maintenance of its lines and stations.

KPTCL's RESPONSE:

KPTCL has stated that, it has taken measures to take up preventive maintenance besides to taking up regular maintenance as per schedules.

4) The ESCOMs should be allowed to have a say in SLDC functions.

KPTCL's RESPONSE:

KPTCL has stated that, the availability of power is being furnished to all ESCOMs and the ESCOMs are giving their schedules on a day to day basis.

5) All the employees working in ESCOMs are on deputation from KPTCL and are not objecting to the transmission charges claimed by KPTCL.

KPTCL's RESPONSE:

KPTCL has not furnished any comments.

6) The objector wanted to know under which Regulations, the SLDC charges are being collected.

KPTCL's RESPONSE:

KPTCL has informed during the public hearing that, SLDC charges are collected as per Clause 3.3 of KERC (Terms and Conditions of Determination of Tariff for distribution and Retail sale of electricity) Regulations, 2006.

7) The UI charges are being collected as a Central fund and the Objector wanted to know whether such fund is being used for the benefit of the State or KPTCL has made any effort to ask for any portion of the fund to be used for the development of the State grid.

KPTCL's RESPONSE:

KPTCL has informed that, there is a power system development fund (PSDF) created centrally and will be utilized for developing the grid networks and also training the technical staff.

8) The Objector wanted to know whether the Asset Registers are maintained as per the Companies Act, 1956.

KPTCL's RESPONSE:

KPTCL has stated that, it has maintained the Asset Registers and is updating the same regularly.

9) The Objector has stated that, he is not aware of the details of amounts paid by ESCOMs in respect Energy Balancing carried out for FY10 to FY12.

KPTCL's RESPONSE:

KPTCL has stated that, the energy balancing is happening on monthly basis and the ESCOMs have to settle their dues among themselves.

10) The Commission should undertake Prudence Check of Annual Revenue Requirement of KPTCL.

KPTCL's RESPONSE

KPTCL has not responded.

11) The controllable and uncontrollable expenses in O&M are to be clearly split and furnished.

KPTCL's RESPONSE:

KPTCL has not responded.

12) There is a lack of coordination between KPTCL and ESCOMs in sorting out the issues and repairs and rectification of the faults and considerable time is wasted in giving services.

KPTCL's RESPONSE:

KPTCL has stated that, ESCOMs Co-ordination Committee meetings are conducted regularly and all issues pertaining to coordination between KPTCL and ESCOMs are discussed in the meeting.

13) The Repairs and Maintenance works at Peenya have not been completed and the transformers are lying idle for the past two years.

KPTCL's RESPONSE:

The work of installing this transformer as 'standby' was included in 'Renovation and Modernisation' (R&M) works of Peenya Receiving station since strengthening on the 66 KV side of the transformer bay in which this particular transformer was to be erected had to be taken up together with other renovation works planned. Accordingly, the Tender for 'Renovation and Modernisation' work was invited on 01.12.2012, but had to be cancelled on 09.01.2013, as there was no participation as the Renovation and modernization work is complex in nature and had to be carried out on section to section basis under shut down conditions, since complete shutdown of the station cannot be afforded. In the subsequent attempts there was response to the tender and the work was awarded on 12.11.2013. However, in the meanwhile, one of the existing 67.5 MVA Power Transformer of 'Japanese make' failed on 01.3.2014 and repaired 150 MVA power transformer was installed in its place and was commissioned on 29.03.2014, after carrying out necessary strengthening on the 66 KV side to accommodate 150 MVA Transformer.

14) KPTCL has failed to evacuate power from Singanayakanahalli (PGCIL) substation to newly constructed DG plant 220 KV Sub-station.

KPTCL's RESPONSE:

KPTCL has stated that, 220/66/11 kV Yelahanka Sub-station work has been completed. However, the work of constructing 220 kV & 66 kV lines could not be taken up since there was no participation of the bidders for the Tender invited for three times. Now the Tender for the same has been re-invited and is under evaluation.

15) Many of the Sub-stations which have been constructed by KPTCL have not been able to cater to the loads as either the incoming lines are not completed or the infrastructure inside the substation is not fully created to evacuate power to the 11KV lines.

KPTCL's RESPONSE:

KPTCL has stated that, establishing of 66/11 kV sub-station at Mandur, Devanagundi, Hosakote safal (Konadasapura) & Kachamaranahalli are taken up by KPTCL. The work of establishing 66/11kV Sub-station at Devanagundi, Hosakote Safal & Kachmaranahalli are already completed & commissioned. Establishing 66/11 kV Sub-station Mandur is completed & its commissioning is delayed due to Right of way problems in the associated line work.

16) The transmission capacity availability and utilized by each ESCOM is to be studied and the transmission charges are to be paid only after assessing the usage and reliability of transmission infrastructure.

KPTCL's RESPONSE:

KPTCL has stated that, all the projects related to building of Transmission system capacity of KPTCL are being undertaken by KPTCL only after clearance by the Technical Co-ordination Committee (TCC) headed by the Director (Transmission) KPTCL. The Director (Technical) of each ESCOM is a member. The Committee before according its clearances for any of the project proposal put forth by the KPTCL deliberates, in detail, on the necessity of each of the projects.

17) The Commission has observed that, there is a huge difference between Current Assets and Current Liabilities of KPTCL as on 31.03.2013 resulting in mismatch between the two.

KPTCL's RESPONSE:

Till 31st March 2011, the Financial Statements of Companies were required to be prepared and presented as per the Schedule VI of the Companies Act, 1956. **The Ministry of Corporate Affairs, Govt. of India vide Notification dated 28th February 2011 revised the Schedule VI of the Companies Act, 1956 making major changes in the form of presentation of Financial Statements applicable to all Companies with effect from 1st April, 2011 and onwards.**

KPTCL also adopted the changed format and regrouped the items under Current Assets and Current Liabilities to fit into the revised format. Accordingly, the items which were showing under only 'Current Assets' earlier are now being shown under 'Current Assets' and 'Other non-current assets' separately.

Similarly the 'Current Liabilities and Provisions' shown as one item earlier are now being segregated among 'Current Liabilities' and 'Non-Current Liabilities'. **The regrouping of items has been done based on the General Instructions given in the GoI Notification referred above. The classification made by KPTCL has also been concurred by the Statutory Auditors and AG Auditors.**

As at 31-03-2013 total Assets of Rs.12516.29 Crores matches the total Equity and liabilities of Rs.12516.29 Crores Prior to Revision of Schedule VI, there was no classification as Non-current Assets and Non-current Liabilities. It is only after revision of Schedule VI of Companies Act 1956, Non-current Asset and Non-current liability are also been segregated.

3.3 COMMISSION'S FINDINGS:

In terms of Section 64 of Electricity Act, 2003 read with Clause 5 of KERC (Tariff) Regulations, 2000, the Commission undertakes the process of consultations in order to obtain suggestions/views/objections from the interested Stake-holders on the application filed by KPTCL for its Annual Performance Review for FY13.

The Commission notes that, the Stake-holders who participated in the consultations have made very useful submissions. The suggestions, comments and inputs given by the consumers and the representatives on the tariff issues and the working of the utilities will contribute to improving the performance of the Sector.

Sl.No.1 – Regarding Standards of Performance are to be specified to KPTCL as is being done to ESCOMs:

The Commission is of the view that, Standards of Performance have to be specified to KPTCL. The Commission will take further course of action to specify Standards of Performance to KPTCL.

Sl.No.2 – Regarding KPTCL providing 100% reliability in transmission net-work:

The Commission notes that the present availability of KPTCL is at 99.82%. However, KPTCL should take all necessary action to maintain its availability in the interest of giving quality supply to consumers in the downstream.

Sl.No.3 – Regarding KPTCL undertaking preventive and proactive measures instead of reactive approach for repairs and maintenance of its lines and Stations:

The reply given by KTPCL is noted and KPTCL is directed to continue to undertake regular maintenance as per schedule to prevent interruptions and break-downs.

Sl.No.4 – Regarding suggestion that ESCOMs should be allowed to have a say in SLDC functions:

ESCOMs and KPTCL should work in co-ordination and SLDC on its own part should take proactive measures to involve ESCOMs in their day to day scheduling and dispatch.

Sl.No.5 – Regarding the objection that all employees working in ESCOMs are on deputation from KPTCL and are not objecting the transmission charges claimed by KPTCL:

MD, BESCOM attended the public hearing held on 21.4.2014 and expressed his views on APR application of KPTCL for FY 13 filed by KPTCL. However, the Commission notes that, the ESCOMs generally do not furnish their views on various aspects of KPTCL's APR and ARR applications. Since the transmission tariff determined by the Commission has a bearing on the cost of service of ESCOMs, it would be useful to have inputs from ESCOMs on the applications filed by KPTCL.

Sl.No.6 – Regarding Regulations under which the SLDC charges are collected:

The Distribution Licensee is allowed to recover transmission charges payable to the Transmission Licensee for access to and use of intra State transmission system in accordance with the tariff approved by the Commission. Further as per Clause 3.3.2 of KERC (Terms and Conditions for Determination of Tariff for Retain Sale of Electricity) Regulations, 2006, the Distribution Licensee is allowed to collect fees and charges of the RLDC and SLDC.

Sl.No.7 – Regarding utilization of Fund created out of UI charges:

The reply furnished by KPTCL is in order.

Sl.No.8 – Regarding maintenance of the Asset Registers as per the Companies Act, 1956:

The Consultants who have undertaken the Prudence check of capital expenditure incurred for the years 2009-10 to 2011-12 have reported that the Asset Registers are maintained in KPTCL and updated from time to time.

Sl.No.9 – Regarding details of amount paid by ESCOMs in respect of Energy Balancing carried out for FY10 to FY12.

The reply furnished by KPTCL is in order.

Sl.No.10 – Regarding Prudence check of Annual Revenue Requirement of KPTCL:

The Commission is undertaking the Annual Performance Review as per the MYT Regulations, 2006 from time to time. Prudence check of capital expenditure is also undertaken by the Commission.

Sl.No.11 – Regarding controllable and uncontrollable expenses in O&M:

The controllable and uncontrollable expenses are specified in KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006.

Sl.No.12 – Regarding lack of co-ordination between KPTCL and ESCOMS in sorting out the issues pertaining to repairs and rectification of faults:

The reply given by KPTCL that they are conducting ESCOMs Co-ordination Committee Meetings is noted. The Commission directs that, KPTCL and ESCOMs should try to resolve all the issues pertaining to co-ordination as and when they arise in order to provide quality service to the end consumers.

Sl.Nos.13 & 14 – Regarding Repairs and Maintenance works at Peenya and KPTCL's failure to evaluate power from Singanayakanahalli Sub-station:

The replies given by KPTCL are in order.

Sl.No.15 – Regarding KPTCL's inability to commission the Sub-stations constructed by it:

KPTCL is advised to sort out the ROW problems in the associated line work pertaining to establishing 66/11 KV Sub-station, Mandur.

Sl.No.16 – Regarding the objection that transmission capacity availability and utilization by each ESCOM are to be studied and the transmission charges are to be paid only after assessing the usage and reliability of transmission infrastructure:

The Commission directs KPTCL to send copies of the proceedings of the Technical Co-ordination Committee Meetings to give further directions in the matter. It is not correct to defer payment of transmission charges till usage and reliability of transmission infrastructure are assessed.

Sl.No.17 – Regarding the difference between Current Assets and Current Liabilities of KPTCL:

The Commission has taken note of the explanation given by KPTCL.

CHAPTER – 4

ANNUAL PERFORMANCE REVIEW FOR FY13

4.0 *KPTCL's application for APR for FY13:*

KPTCL in its application dated 29th November 2013, has sought approval of the Annual Performance Review (APR) for FY13 based on the Audited Accounts for FY13. The Commission vide its letter dated 12th December, 2013 had communicated its preliminary observations on the filings of KPTCL. KPTCL in its letter dated 19th December 2013 has replied to the preliminary observations of the Commission.

The Commission in its tariff order dated 7th December, 2010, had approved the Annual Revenue Requirement (ARR) and Transmission tariff for the period FY11 – FY13. Further, in its tariff order dated 30th April 2012, the Commission has revised the ARR and Transmission tariff for FY13. In this Chapter, the Commission has taken up the Annual Performance Review for FY13 based on the Audited Accounts filed by KPTCL as discussed below:

4.1 *KPTCL's Submission:*

KPTCL has submitted its proposal for revision of ARR for FY13 as follows:

TABLE – 4.1

KPTCL's filing – APR FY13

Amount in Rs.Crs.

Sl. No	Particulars	As Approved	As per Filing
	Revenue	**1918.77**	**2038.08**
	Expenditure		
1	O&M Expenses	586.29	796.54
2	Depreciation	518.51	520.27
3	Interest & Finance Charges	636.52	531.75
4	Interest on working capital	52.33	65.94
5	RoE	406.50	420.38
6	Provision for taxation	0.00	0.00
7	Other Debits	0.00	115.41
8	Power purchase cost	0.00	-102.08
9	Extraordinary items	0.00	0.29
	Less		
10	SLDC charges	22.31	13.58
11	Interest & Finance Charges capitalized	123.42	59.64
12	Other Expenses capitalized	31.87	33.63
13	Other Income	90.00	22.24
14	Net Prior Period Charges	0.00	68.21
15	Carry forward surplus of FY11	13.78	0.00
	NET ARR	**1918.77**	**2287.62**
	Gap		**(249.54)**

As shown in the table, KPTCL has reported a deficit of Rs.249.54 Crores for FY13. It has proposed to carry forward this gap to the ARR for FY15 approved by the Commission in its Tariff Order dated 6th May 2013.

4.2 *KPTCL's Financial Performance as per Audited Accounts for FY13:*

The overview of the financial performance of KPTCL for FY13 as per their Audited Accounts is as follows:

TABLE – 4.2
Financial Performance of KPTCL – FY13

Amount in Rs.Crs.

Sl. No	Particulars	FY13
	Revenue	**2060.33**
	Expenditure	
1	O&M Expenses	762.90
2	Depreciation	520.27
3	Interest & Finance Charges	538.05
4	Current tax	11.49
5	Other Debits	115.41
6	Extraordinary items	-0.08
7	Power Purchase and wheeling charges	0.21
8	Net Prior Period Charges	68.21
	Total Expenditure	2016.45
	Profit for the Year	**43.88**

As per the Audited Accounts, KPTCL has earned a profit of Rs.43.88 Crores for FY13. Considering the surplus earned by the Company in the previous years, the cumulative surplus is Rs.226.03 Crores (inclusive of profit in FY13).

Commission's Analysis and decisions:

The Annual Performance Review for FY13 has been taken up duly considering the actual expenses as per the Audited Accounts against the expenses approved by the Commission in its tariff order dated 30th April 2012.

The Commission, in accordance with the provisions of the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006 and amendment notified on 1st February 2012 has taken up the Annual Performance Review of KPTCL for FY13. The itemwise review of expenditure and the decisions of the Commission thereon are as discussed in the following paragraphs:

i) Transmission Losses for FY13:

The Commission had approved the annual average transmission loss of 3.96% for FY13. KPTCL, in its filing has reported a transmission loss of 3.81%.

The Commission in its tariff order dated 30th Apri,l 2012, had fixed the target transmission losses of 3.96% for FY13 on the basis of the methodology followed by KPTCL till then (which included overall transmission losses inclusive of losses in the southern region outside KPTCL's network).

The transmission losses of 3.81% reported by KPTCL is based on the input and output of KPTCL transmission system exclusively. The Commission decides that comparing the targeted losses with actual losses reported by KPTCL may not be appropriate as the methodology adopted for fixing the loss reduction target was different from the methodology used to determine actual losses by KPTCL. Hence, the Commission decides not to allow any incentive on the reported transmission losses for FY13.

ii) System Availability:

KPTCL's Submission:-

The transmission system availability submitted by KPTCL for FY13 is as follows:

TABLE – 4.3
System Availability - FY13

Name of the Transmission Zone	Total No of AC Tr. Lines	% Availability of Total No of AC lines	Total No of ICT's	% Availability of Total No of ICT's	Total No of Static VAR Compensators	Availability of Total No of Static VAR Compensators	% System Availability
B' LORE ZONE	290	99.93	499	99.95	31	100	99.94
TUMKUR ZONE	98	99.87	342	99.94	0	0	99.93
HASAN ZONE	198	99.68	268	99.98	16	96.00	99.72
BAGALKOT ZONE	311	99.61	471	99.81	22	99.72	99.73
GULBARGA	173	99.50	311	99.73	19	99.86	99.65
MYSORE ZONE	134	99.95	233	99.96	27	100	99.96
TOTAL	**1204**		**2124**		**115**		**99.82**

The transmission system availability furnished by KPTCL is 99.82% for FY13 which is 0.01% more than the transmission system availability of 99.81% in FY12.

Commission's Views: -

The Commission has verified the data of system availability furnished by KPTCL. It was observed that:

a) In the Hassan transmission zone, the transmission line JST1 between MGHE and Sagar was found to have recorded 496.54 Hrs of unscheduled interruptions leading to 94.33% availability. However, the overall percentage availability of Hassan transmission zone works out to be 99.72%.

b) In Gulbarga Transmission zone, the 220 kV transmission line-I between RTPS and Lingasugur was found to have recorded huge unscheduled interruptions of 552.49 Hrs resulting in reduction in percentage availability of the said line to 93.69%. The Venkatapura and Munirabad substations have recorded 269.46 Hrs and 285.21 Hrs of unscheduled interruptions respectively resulting in 97%

availability. However, the overall percentage availability of Gulbarga transmission zone works out to be 99.65%.

In accordance with Clause 3.17(1) of the MYT Regulations, the transmission licensee is allowed an incentive for achieving system availability above the target availability of 98%. As per Clause 3.17(2) of the MYT Regulations, 50% of the incentive is to be shared with long term customers in the ratio of their average allotted transmission capacity for the year.

The incentive admissible to KPTCL is worked out as follows:

TABLE – 4.4

Approved Incentive for better Transmission System Availability for FY13

Incentive for better Transmission System Availability	
Particulars	**FY13**
System Target Availability	98%
Actual System Availability for FY13	99.82
No incentive allowed beyond 99.75% as per MYT Regulations	99.75%
Availability beyond target levels	1.75
Incentives for Availability beyond target levels linked to approved ARR in Rs. Crs	33.42
50% to be shared with the ESCOMs and balance to be retained by KPTCL Rs.Crs	**16.71**

The Commission directs KPTCL to recover Rs.16.71 Crores from the ESCOMs in proportion of the transmission capacity allocated for FY13.

iii) Power Purchase:

As per the Audited Accounts, KPTCL has indicated an amount of Rs.102.08 Crores to be paid towards the cost related to power purchase pertaining to the period prior to 10th June 2005. Also an amount of Rs.0.21 Crores is indicated as transmission charges of PGCIL. KPTCL has not included this Rs.102.08 Crores expenditure in its APR for FY13. Since power purchase cost and transmission charges payable to PGCIL are not an item of expenditure under KPTCL's transmission business and any such expenses pertaining to prior period are to be borne by the respective ESCOMs, the Commission has decided not to allow the amount of Rs.102.29 Crores in APR of KPTCL for FY13.

iv) Operation and Maintenance Expenses:

The actual O&M Expenses reported by KPTCL is Rs.796.54 Crores. This includes Employee costs of Rs.656.19 Crores, Administrative & General Expenses of Rs.47.15 Crores and Repairs & Maintenance expenses of Rs.93.20 Crores. The Commission in its Tariff Order dated 7th December 2010, had approved O&M Expenses of Rs.586.29 Crores. The actual O&M Expenses are higher than the approved expenses by Rs.210.25 Crores.

KPTCL in its application has requested the Commission to approve O & M expenses as per actuals as the normative O & M expenses are pegged too low as compared to the actuals.

As per the provisions of the MYT Regulations, the normative O &M expenses are determined based on the actual O & M expenses of the base year, number of bays and circuit kilometers of transmission lines and the inflation factor.

The Commission in its Tariff Order dated 7th December 2010, had considered 21371 No of Bays and 35186.62 Ckt. Kms of Lines as projected by KPTCL. Now, as per the actual data reported by KPTCL, the No. of Bays is 19013 and the length of transmission lines is 31862 Ckt. Kms of Lines.

The Commission in its earlier orders on APR of FY11 & FY12 under the second control period of FY11-13, has considered the inflation rates as determined by CERC from time to time. Further, the Commission has also treated certain employee costs on account of pay revision, contribution to P&G trust and change in HRA, change in employee costs on account of recruitment if any as uncontrollable O&M expenses. This component has been allowed beyond the normative O&M expenses to enable KPTCL to meet its O&M expenses. As such, FY13 being the last year of the second control period, the Commission decides to retain the same methodology for APR of FY13 as followed in APR of FY11 & FY12.

Considering the inflation rate of 5.93%, the normative O & M expenses for FY13 will be as follows:

TABLE – 4.5

Approved Normative O & M Expenses – FY13

Particulars	FY13
O&M cost in terms Rs. thousands/bay	68.04
O&M cost in terms Rs. thousands/Km of Line	90.39
Inflation rate in %	5.93
No. of Bays	19013.00
Length of Line in Kms	31862.00
O&M Expenses for Bays Rs.Crs	129.37
O&M Expenses for Lines Rs.Crs	288.00
TOTAL O&M Expenses as per Norms Rs.Crs	**417.37**

The Commission in its tariff order dated 7th December, 2010, while approving the O & M expenses for the control period FY11 to FY13 had considered additional employee costs due to revision of pay, increase in number of employees and increase in contribution to Pension and Gratuity fund. This additional expenses were treated as uncontrollable O & M expenses besides the normative O & M expenses.

The Commission, in its preliminary observations sought details of additional employee cost incurred for FY13 on account of revision in basic pay, pension and gratuity contribution to P & G trust and Newly Defined Contributory Pension Scheme, increase in DA, increase in HRA and additional employee cost on account of recruitment of employees. KPTCL in its replies has stated that, it has incurred the following additional employee costs:

1. P & G contribution - Rs.106.00 Crores
2. Increase in HRA - Rs.14.07 Crores
3. Increase in DA - Rs.11.28 Crores
4. Contribution to NDCPS - Rs.12.49 Crores
5. Employee cost of MRT circle - Rs.35.43 Crores
6. P & G contribution of MRT Circle - Rs.7.31 Crores

Total additional employee cost - Rs.186.58 Crores

Further, KPTCL has claimed an amount of Rs.102.00 Crores in the total O & M expenses towards provision of earned leave encashment as per actuarial valuation report.

The O& M expenses on account of additional employee costs incurred by KPTCL due to revision of pay and change in Pension & Gratuity contribution are treated as uncontrollable O & M expenses as follows:

TABLE – 4.6

Approved Additional Employee Cost (Uncontrollable O&M Expenses)

Particulars	Amount in Rs.Crs.
Basic salary @ 3% increase from FY10	159.25
Increase in pay @ 25%	39.81
DA @ 76.75%	30.56
HRA on increase in pay	4.84
Increase in HRA due to Revision	3.16
Total Increase in Pay due to revision of pay	78.36
P&G Contribution for FY13 as per Audited Accounts of FY13	106.91
Contribution to leave encashment as per actuarial valuation	102.00
Total Uncontrollable O&M Expenses -FY13	**287.27**

An amount of Rs.102.00 Crores towards contribution to earned leave encashment as per actuarial valuation is a new item of employee costs which was not factored earlier. Hence the same is treated as uncontrollable additional O & M expenses up to FY13.

Thus the allowable O & M expenses for FY13 are as follows:

TABLE – 4.7

Approved Allowable O & M expenses for FY13

Amount in Rs.Crs.

Particulars	FY13
Total normative O&M Expenses	417.37
Additional employee cost	287.27
Total O&M Expenses allowable in Rs.Crs.	**704.64**

Thus, the Commission decides to allow O & M expenses of Rs.704.64 Crores for FY13.

v) Depreciation:

KPTCL, in its audited accounts has shown an amount of Rs.520.27 Crores towards depreciation for FY13. The Commission in its tariff order dated 7th December 2010, had approved Rs.518.51 Crores. As such the actual depreciation is higher by Rs.1.76 Crores.

The allowable depreciation for FY13 has been determined by the Commission in accordance with the KERC (Terms and Conditions for Determination of Transmission Tariff) Regulations, 2006 as amended on 1st February 2012. Considering the actual average gross block of fixed assets for FY13, the weighted average rate of depreciation works out to 4.71%.

As per the decision of the Hon'ble Appellate Tribunal for Electricity in Appeal No.108/2010 and consequential orders of the Commission dated 17th October 2013, KPTCL was required to compute depreciation of grants, consumer's contribution etc. in accordance with the accounting standards 12 of the Institute of Chartered Accountants.

KPTCL in its replies to the preliminary observations has reported that an amount of Rs.2.36 Crores is to be reckoned as depreciation on account of assets created out of consumers contribution for FY13. However, considering the opening and closing balance of contribution towards of cost of capital assets during FY13, based on the weighted average rate of depreciation of 4.71%, the depreciation on contributions towards cost of capital for FY13 works out to Rs.14.67 Crores.

Thus, the Commission decides to consider depreciation of Rs.505.60 Crores for FY13.

vi) Prudence Check of Capital Investment for FY10, FY11 & FY12:

In its Tariff Orders for the years FY10 and FY12, the Commission had approved a total capital expenditure of Rs.4984 Crores for KPTCL. The year-wise expenditure incurred by KPTCL against the approved Capex is shown in the following Table:

YEAR	Proposed & Approved Capex	Capital Investment (Actuals)	% age Achievement	Short fall
FY-10	1600	1452	91%	148
FY-11	1692	1133	67%	559
FY-12	1692	944.86	56%	747.14

While determining the tariff for FY14, the Commission had taken up prudence check of the capital expenditure incurred by KPTCL for the period FY10 to FY12. For this purpose, the Commission had engaged the services of The Energy and Resources Institute, (TERI), as consultants initially to evaluate major works costing more than Rs.5 Crores each, taken up as part of capital expenditure during the above period. The consultants had then identified 61 works each costing above Rs.5 Crores and had carried out prudence check, the report of which was available to the Commission before finalising the Tariff Order for FY14. Considering the quantum of Capex incurred and the number of works costing more than Rs.5 Crores and below, the Commission decided to extend the scope of the prudence check to ensure that a larger sample of works of a more representative nature was evaluated before deciding on the prudence of the capital expenditure incurred during the three years.

Since separate consultants were engaged for evaluating the works of KPTCL and the ESCOMs, the Commission felt that, there was a need to have common guidelines for prudence check. In this regard, the Commission, after due consultation with the KPTCL and ESCOMs, finalised the guidelines to be adopted for prudence check. These guidelines included different aspects of the execution of works like planning, implementation and analysis of post completion results. These aspects of evaluation were to be graded by assigning marks and the prudence of the Capex of a particular work decided on the basis of such grading.

Continuing from the earlier prudence check exercise, M/s. TERI were requested to:

i. To examine a more representative and larger sample of works in two categories, viz., (a) works costing more than Rs.5 Crore; and (b) those costing less than the said amount, in each case.
ii. To evaluate different types of works duly covering the entire geographical area of KPTCL.
iii. To ensure that substantial Capex of at least 50% is included in the category of works costing more than Rs.5 Crores each.
iv. Only completed capital works were to be covered, as works in progress could not be valued with reference to the objectives and the completed cost of the works.

Adopting the above methodology and including the sample that was covered during the initial prudence check referred to above:

i. The consultants examined 81 works costing more than Rs.5 Crores and 113 works costing less than Rs.5 Crores executed by KPTCL during the three years covered by the prudence check.

ii. Out of 81 works, costing over Rs.5 Crores each (with a total cost of Rs.1753.07 Crores) checked by the consultants, it was found that 3 works costing Rs.22.57 Crores did not meet the norms of prudence as stipulated in the guidelines issued by this Commission.

iii. Out of the sample of 113 works costing less than Rs.5 Crores, 2 works costing Rs.2.61 Crores failed to meet the norms of prudence as stipulated in the guidelines issued by this Commission.

The consultants' report also reveals that the total capital works executed by KPTCL are 260 in number, out of which 81 works were costing more than Rs.5 Crores each and 179 works were costing less than Rs.5 Crores each in the three years between FY10 and FY12. The completed capital works of more than Rs.5 Crores each numbered 81, excluding civil works, office equipments and vehicles which were not taken up for prudence check.

Some of the other findings of the prudence check are summarized in the following Table:

Particulars	Status of the Project
Number of works costing more than Rs.5 Crores each for which prudence check was carried out.	81
Number of projects completed without time delay	4
Number of works completed with delay of less than a year	18
Number of works completed with delay of more than a year	59
Number of works with no cost over-run	4
Number of works with cost over-run less than 10%	24
Number of works exceeding estimated cost by 10% to 25%	22
Number of works exceeding estimated cost by more than 25%	31

In the prudence check carried out, the total number of capital works which were eligible for prudence check was 81 in the category of works costing above Rs.5 Crores each (with a total cost of Rs.1753.07 Crores) and 113 works in the category of works costing less than Rs.5 Crores (with a total expenditure of Rs.310.9 Crores). Thus, out of the total capital expenditure of Rs.3529.86 Crores incurred by KPTCL during the period FY10 to FY12, the works which were eligible for prudence check involved an expenditure of Rs.3025.06 Crores. The total cost of the works which formed part of the sample amounted to Rs.2063.97 Crores, this amounted to 68 % of the cost of works eligible for prudence check during the period in question. Out this, works costing Rs.25.18 Crores were found not to meet the norms of prudence adopted for the purpose of prudence check.

After considering the Consultants' report, the Commission has obtained the remarks of KPTCL on the findings made by the Consultants.

KPTCL has submitted that, the infrastructure of 33 kV transformer and line bays are created as per the request of the ESCOMs and the works are either being taken up or are under execution. In one work, in which KPTCL is facing a severe ROW problem it is trying to resolve the issue at the earliest.

The Commission having considered the remarks of KPTCL on the report of Consultants decides to consider all the Capital expenditure incurred during FY10 to FY12 as meeting the norms of prudence. However, the Commission directs KPTCL and ESCOMs to execute such investment with proper coordination. HESCOM and GESCOM are directed to complete downstream works in respect of 33 kV lines and report the same to the Commission. Further, KPTCL should resolve the ROW problem and report to the Commission on completion of 66kV line connecting Attibele substation.

vii) Capital Expenditure of KPTCL for FY13:

KPTCL had proposed a Capex programme of Rs.2500 Crores in its Tariff application for FY13 as follows:

Particulars	FY13	
	Nos.	Investment made In Rs. Crores
Completed works	258	965.74
On going stations	64	256.00
On going augmentation	110	440.00
On going lines	50	200.00
New Stations	60	350.00
New Augmentation	110	90.00
New Lines	50	60.00
General including civil works	-	138.26
Total		**2500.00**

However, the Commission in its Tariff Order for FY 13 had approved Rs.1150 Crores. As against this, KPTCL in its filing for APR for FY 13 has reported an actual capital expenditure of Rs.1011.38 Crores. The following table indicates the details of actual expenditure incurred in FY13.

Actual expenditure of Capital Works for FY13

Amount in Rs.Crs.

Sl NO	Particulars	FY13
1	New substations	589.87
2	Transmission Lines	338.92
3	Augmentation of substation and line	136.11
4	Installation of capacitors	0.10
5	Load dispatch centre & Communications	14.39
6	Others	18.08
	Sub total	1097.46
	Less: Capital Expenditure transferred among KPTCL Units through IUA	86.08
	Total	**1011.38**

The Commission having taken note of the actual expenditure of Rs.1011.38 Crores, decides to allow this capital expenditure in the APR for FY13 subject to prudence check which is proposed to be carried out during FY15.

viii) Interest and Finance Charges:

KPTCL has claimed an amount of Rs.531.75 Crores towards interest and finance charges. The Commission in its tariff order dated 7th December 2010, had approved an amount of Rs.636.52 Crores. Thus, the actual interest and finance charges is less than the approved interest and finance charges by Rs.104.77 Crores.

As per the Audited Accounts and data furnished under format T9, considering the opening and closing balances of loans, the average loan for the year FY13 would be Rs.4956.84 Crores. The weighted average rate of interest works out to 10.73%.

Further, the Commission notes that, KPTCL has achieved a capex of Rs.1011 Crores against an approved capital investment of Rs.1150 Crores. In order to meet this capex requirement, as per the Audited Accounts for FY13, KPTCL has availed long term loans of Rs.482 Crores, consumer contribution of Rs.50.42 Crores and additional equity of Rs.250.00 Crores during FY13.

TABLE – 4.8
Allowable Interest and Finance Charges

Amount in Rs.Crs.

Particulars	FY13
Secured Loans	4885.06
Unsecured Loans	17.24
Total	4902.30
Less Interest accrued & dues	0.00
Long term secured & unsecured loans	4902.30
Add new Loans	482.00
Less Repayments	372.93
Total loan at the end of the year	5011.37
Average Loan	4956.84
Interest on long term loans (as filed)	531.75
Weighted average rate of interest based on the actual interest proposed on long term loans in FY13 as per audited accts in %	10.73%
Allowable Interest on long term loans	**531.75**

Since the weighted average rate of interest is less than the prevailing interest rates, the Commission decides to allow actual interest and finance charges of Rs.531.75 Crores for FY13. Further, considering the actual capitalization of interest of Rs.59.64 Crores the net interest and finance charges would be Rs.472.11 Crores.

ix) Interest on Working Capital:

KPTCL has incurred interest on short term loans to an extent of Rs.65.94 Crores. As per the norms under MYT Regulations as amended, KPTCL is entitled to interest on working capital. Accordingly, the allowable interest on working capital for FY13 is as follows:

TABLE – 4.9

Allowable Interest on Working Capital

Particulars	FY13
One-twelfth of the amount of O&M Exp.	58.72
Opening GFA as per Audited Accts	9959.21
Stores, materials and supplies 1% of Opening balance of GFA	99.59
One-sixth of the expected revenue from Transmission user at the prevailing tariffs	339.68
Total Working Capital	497.99
Rate of Interest (% p.a.)	11.75%
Allowable Interest on Working Capital	**58.51**

As per the provisions of the KERC (Tariff) Regulations as amended on 01.02.2012, the Commission decides to allow the interest on working capital of Rs.58.51 Crores for FY13 on a normative basis.

x) Other Debits:

KPTCL in its Audited Accounts has claimed an amount of Rs.115.41 Crores towards other debits. This includes an amount of Rs.102.08 Crores towards interest on belated payment for cost of power purchase. However, KPTCL in its filing has not considered Rs.102.08 Crores while projecting its ARR for FY13. The balance amount of Rs.13.33 Crores pertains to cost of decommissioning of assets, small and low value items written off and miscellaneous losses and write offs. As such the Commission decides to allow an amount of Rs.13.33 Crores towards other debits for FY13.

xi) Return on Equity:

KPTCL has claimed RoE of Rs.420.38 Crores for FY13.

TABLE – 4.10

Return on Equity - KPTCL's Submission

Amount in Rs.Crs.

Calculation of RoE	FY13
Equity as on 31.03.2013	690.32
Shares pending allotment	885.00
Reserves and Surplus	594.14
Equity Considered for Calculation of RoE	2169.46
RoE @ 19.377%	**420.38**

The Commission in its tariff order dated 7th December 2010 had approved RoE of Rs.406.50 Crores.

The Commission, in accordance with the MYT Regulations has considered paid up share capital, share deposits and reserves & surplus as per the audited accounts for FY13.

Further, the Commission has considered to allow RoE at 15.5% of equity and the taxes as per actual as reported in the audited accounts. Accordingly, the allowable RoE for FY13 is as follows:

TABLE – 4.11

Allowable RoE for FY13

Amount in Rs.Crs.

Particulars	FY13
Paid Up Share Capital as on 31.03.2012	1123.26
Share Deposit	552.06
Reserves and Surplus	182.15
Total Equity	**1857.47**
Allowable RoE @ 15.50%	**287.91**

Thus, the Commission decides to allow an amount of Rs.287.91 Crores towards RoE for FY13.

xii) Provision for Taxation:

KPTCL in its Audited Accounts has indicated an amount of Rs.11.49 Crores towards income tax for FY13. Since the Commission has allowed RoE @ 15.5% without considering allowable MAT, the Commission decides to allow the actual expenses towards payment of tax of Rs.11.49 Crores for FY13.

xiii) Net Prior Period Charges:

KPTCL in its Audited Accounts has indicated an amount of Rs.68.21 Crores as net prior period charges. This amount pertains to net of excess / under provisions pertaining to depreciation, employee cost and other administrative expenses.

The Commission allows an amount of Rs.68.21 Crores as net prior period charges for FY13.

xiv) Extraordinary items:

KPTCL in its Audited Accounts has indicated an amount of Rs.0.08 Crores as gains on account of sale of assets. The Commission decides to consider an amount of Rs.0.08 Crores as extraordinary item for FY13.

xv) Other Expenses Capitalized:

KPTCL in its filing has indicated an amount of Rs.33.63 Crores towards capitalization of other expenses. This mainly pertains to capitalization of employee cost, A&G and R&M.

TABLE – 4.12

Other Expenses Capitalized – KPTCL's Submission

Amount in Rs.Crs.

Particulars	FY13
Repairs and Maintenance	0.14
Administration and General Expenses	4.49
Employee Cost	29.00
Total expenses capitalized	**33.63**

The Commission allows an amount of Rs.33.63 Crores towards capitalization of other expenses.

xvi) Other Income:

KPTCL in its Audited Accounts has indicated an amount of Rs.22.24 Crores as other income. This mainly pertains to rent from staff quarters, rent from ESCOMs and interest on bank deposits.

The Commission decides to consider this amount of Rs.22.24 Crores as non-tariff income.

xvii) SLDC Charges:

KPTCL in its filing has claimed an amount of Rs.13.53 Crores pertaining to SLDC charges from the ARR for FY13.This amount pertains to depreciation of assets pertaining to SLDC. Further, as per the audited accounts, an amount of Rs.14.59 Crores has been deducted from the O&M expenses as the same pertains to expenses shared by ESCOMs. Thus the SLDC charges to be shared by ESCOMs/Long term transmission network users will be Rs.28.12 Crores.

The Commission in its Tariff Order dated 7th December 2010 has observed that the system operation by SLDC being not a transmission activity, the SLDC charges cannot be included in the ARR of KPTCL. The Commission has also allowed SLDC charges in the ARR of ESCOMs while determining cost of power purchase.

However, the Commission in its tariff order dated 30th April 2012 had allowed SLDC charges of Rs.22.31 Crores to be collected from ESCOMs in proportion to the allocated installed generation capacity.

Now as per APR the Commission allows carry forward of the difference in SLDC charges for FY13 to be collected by in FY15 as follows:

TABLE – 4.13

Revised SLDC Charges for FY13

Particulars	Capacity Allocation	Share of SLDC Charges as per APR for FY13	Share of SLDC Charges included in ARR of ESCOMs (Tariff Order dated 30.04.2012)	Difference to be collected in FY15
BESCOM	8666	13.09	11.07	2.02
MESCOM	1530	2.31	1.86	0.45
CESC	2253	3.40	2.37	1.03
HESCOM	3706	5.60	4.06	1.54
GESCOM	2465	3.72	2.96	0.76
TOTAL (MW)	**18620**	**28.12**	**22.31**	**5.81**

xviii) Adjustment of AAD as per KERC Order dated 17.10.2013:

The Commission in its order dated 17.10.2013 in case No.B/06/9 had decided to adjust the advance against depreciation provided during FY10 in the APR for FY13. Hence, an amount of Rs.166.39 Crores is adjusted in the APR for FY13.

xix) Abstract of Approved ARR for FY13:

As per the above item wise decisions of the Commission, the consolidated Statement of ARR for FY13 is as follows:

TABLE – 4.14

Abstract of approved ARR for FY13 as per APR

Sl. No	Particulars	FY13		
		As appd	As filed	As per APR
1	Energy available for transmission in MU	60638.03	57476	57476
2	Energy sold at IF Points	58236.76	55286	55286
3	Transmission Losses in MU	2401	2190	2190
4	Transmission Loss in %	3.96%	3.81%	3.81%
5	**Installed Capacity in MW**	14248	14248	14248
6	**Revenue from Transmission of power in Rs.Crs**	**1918.77**	**2038.08**	**2038.08**
	Expenditure in Rs.Crs			
7	Employee Cost		656.19	
8	Repairs & Maintenance		93.20	
9	Admin & General Expenses		47.15	
10	Total O&M Expenses	586.29	796.54	704.64
11	Depreciation	518.51	520.27	505.60
12	Interest & Finance Charges	636.52	531.75	531.75
13	Interest on working capital	52.33	65.94	58.51
14	Return on Equity	406.50	420.38	287.91
15	Provision for taxation	0.00	0.00	11.49
16	Other Debits	0.00	115.62	13.33
17	Extraordinary items	0.00	0.08	-0.08
	Less			
18	Interest & Finance Charges capitalised	123.42	59.64	59.64
19	Other Expenses capitalised	31.87	33.63	33.63
20	Other Income	90.00	22.24	22.24
21	Net Prior Period Charges		-68.21	68.21
22	Carry forward of deficit(-) of FY11 & FY12	13.78		
23	Less SLDC Charges	22.31	13.58	28.12
24	Less provision for Power Purchase		102.08	
25	Deduction of AAD -Case No.B/06/9 Dtd.17.10.2013			166.39
26	**NET ARR**	**1918.77**	**2287.62**	**1871.34**

Thus, as against an approved ARR of Rs.1918.77 Crores and KPTCL's proposed ARR of Rs.2287.62 Crores, the Commission after the annual review of performance for FY13 decides to allow an ARR of Rs.1871.34 Crores for FY13. Considering the actual revenue of Rs.2038.08 Crores, there is a surplus of Rs.166.74 Crores for FY13. The Commission decides to carry forward this surplus to the proposed ARR for FY15 as discussed in the subsequent chapter of this Order.

CHAPTER – 5
REVISED ANNUAL REVENUE REQUIREMENT & TRANSMISSION TARIFF FOR FY15

5.0 *KPTCL's application for ARR for FY15:*

KPTCL in its application dated 29th November, 2013, has sought approval of the Commission to consider the revenue gap of Rs.249.54 Crores of FY13 and allow the same to be recovered from the ESCOMs from 1st April, 2014.

Commission's Analysis and Decision:

The Commission in its Tariff Order dated 6th May, 2013, had approved ERC and Transmission tariff for FY14 – FY16. As per this Tariff Order, the Commission had approved an ARR of Rs.2363.69 Crores for FY15 as detailed below:

TABLE – 5.1

Approved ARR FY15

Amount in Rs.Crs.

Sl. No	Particulars	As approved
	Expenditure	
1	O&M Expenses	776.58
2	Depreciation	607.81
3	Interest & Finance Charges	670.70
4	Interest on working capital	67.35
5	RoE	498.05
	Less	
6	SLDC charges	0.77
7	Interest & Finance Charges capitalized	101.60
8	Other Expenses capitalized	37.43
9	Other Income	117.00
	NET ARR	**2363.69**

KPTCL in its application has sought to add the revenue gap of FY13 to the approved ARR of FY15 without any changes in the existing approved ARR for FY15 as per the Commission's order dated 6th May, 2013.

As discussed in the previous chapter, the Commission has decided to carry forward a surplus of Rs.166.74 Crores based on the APR for FY13. Considering this surplus, the revised ARR for FY15 would be as follows:

TABLE – 5.2
Revised ARR for FY15

Amount in Rs.Crs.

Particulars	FY15
Approved ARR for FY15 as per tariff order dated 6th May 2013	2363.69
Surplus as per APR for FY13	166.74
Revised ARR for FY15	**2196.95**

The Commission decides to approve the revised ARR of Rs.2196.95 Crores for FY15.

i) Revised Transmission tariff for FY15:

KPTCL in its application dated 29th November, 2013 had not indicated the projected transmission capacity for FY15 based on the actual progress during FY14. The Commission in its letter dated 5th February, 2014 had sought the details of transmission capacity projected for FY15. As per the replies of KPTCL vide letter No.KPTCL/B36/2013-14/469 dated 6th March, 2014, the following is the revised transmission capacity projections for FY15:

TABLE- 5.3

ESCOM wise capacity Allocation

ESCOMs	Capacity Allocation in MW
BESCOM	8666
MESCOM	1530
CESC	2253
HESCOM	3706
GESCOM	2465
TOTAL (MW)	**18620**

Based on the above transmission capacity, the ESCOM wise transmission tariff to be recovered from the ESCOMs and users of transmission network are determined as follows:

TABLE – 5.4

Transmission Charges payable by ESCOMs for FY15

Particulars	Capacity Allocation in MW	Transmission charges for FY15 Rs. Crores per annum	Transmission charges for FY15 Rs. Crores per Month
BESCOM	8666	1022.49	85.21
MESCOM	1530	180.52	15.04
CESC	2253	265.83	22.15
HESCOM	3706	437.27	36.44
GESCOM	2465	290.84	24.24
TOTAL (MW)	**18620**	**2196.95**	**183.08**

The revised transmission charges for FY15 are Rs.98324 per MW per month.

The revised transmission charges for short term open access consumers for FY15 are as follows:

TABLE – 5.5

Revised transmission charges for short term open access consumers - FY15

Transmission Charges (Rs/ MW)	Amount in Rs/ MW
More than 12 hrs & up to 24 hrs in a day in one block	808.14
More than 6 hrs & up to 12 hrs in a day in one block	404.07
Up to 6 hrs in a day in one block	202.04

ii) SLDC Charges:

The Commission in its Tariff Order dated 6th May, 2013 had approved the ESCOM wise SLDC charges for FY15 as follows:

TABLE – 5.6
SLDC charges – Approved in Tariff Order 2013

Amount in Rs. Crs

ESCOMs	Capacity Allocation	Share of SLDC Charges included in ARR of ESCOMs
BESCOM	9966	9.87
MESCOM	1615	1.60
CESC	2253	2.23
HESCOM	3867	3.83
GESCOM	2635	2.61
TOTAL (MW)	**20336**	**20.13**

The SLDC charges approved for FY13 in the Commission's Tariff Order dated 30th April 2012, the revised SLDC charges as per the APR for FY13 and revised SLDC charges to be collected for FY15 are as follows:

TABLE – 5.7

Revised SLDC charges of FY15

Amount in Rs.Crs.

ESCOMs	Capacity Allocation	Share of SLDC Charges as per APR for FY13	Share of SLDC Charges included in ARR of ESCOMs for FY13 (Tariff Order dated 30.04.2012)	Difference to be collected in FY15	Approved SLDC Charges for FY15 (Tariff order dated 06.05.2013)	Total SLDC Charges included in ARR of ESCOMs
BESCOM	8666	13.09	11.07	2.02	9.87	11.89
MESCOM	1530	2.31	1.86	0.45	1.60	2.05
CESC	2253	3.40	2.37	1.03	2.23	3.26
HESCOM	3706	5.60	4.06	1.54	3.83	5.37
GESCOM	2465	3.72	2.96	0.76	2.61	3.37
TOTAL (MW)	**18620**	**28.12**	**22.31**	**5.81**	**20.13**	**25.94**

The Commission decides to allow KPTCL to collect the above difference of Rs.5.81 Crores pertaining to SLDC charges for FY13 along with the approved SLDC charges of Rs.20.13 Crores for FY15.

Commission's Order

1. **In exercise of the powers conferred on the Commission under Sections 62 and 64 and other provisions of the Electricity Act 2003, the Commission hereby determines and notifies the revised transmission tariff of KPTCL for FY15 as stated in this order.**

2. **The tariff determined in this Order shall come into effect from 1st May 2014.**

3. **This Order is signed dated and issued by the Karnataka Electricity Regulatory Commission at Bangalore this day, the 12th May 2014**

Sd/-	Sd/-	Sd/-
(M.R.Sreenivasa Murthy) **Chairman**	**(H.D.Arun Kumar)** **Member**	**(D.B.Manival Raju)** **Member**

APPENDIX

COMMISSION'S DIRECTIVES AND COMPLIANCE BY KPTCL

The Commission, in its Tariff Order dated May 6, 2013 and in the earlier Tariff Orders under the MYT framework, had issued the following directives for compliance by KPTCL. Compliance of those directives by KPTCL is discussed in this section.

I. Directive on Management Information System- MIS

The KPTCL shall improve its Management Information System in the next filing to give greater details and explain the basis for all the projections indicating the sources of data and the method of estimating projected values. The Commission notes that the progress in MIS needs improvement. This has also resulted in KPTCL furnishing inconsistent data at different points of time.

The Commission, besides reiterating its earlier directives, had directed KPTCL to furnish consistent data on time regarding the following:

i) Details of Transmission Losses

ii) Voltage-wise Losses

iii) Details of capex as per formats issued by the Commission

iv) Implementation of Intra-State ABT

The Commission has directed KPTCL to furnish the status of implementation of the Intra-State ABT. Further, the Commission also had directed KPTCL to furnish ESCOM-wise UI charges to ensure that the cost of over drawal of power at frequencies below the permissible band, should be borne by the respective ESCOMs.

Compliance by KPTCL

Mock billing exercise of generating Intra-State ABT bills has been implemented by KPTCL at 220 kV level from 1st April 2013. Twenty numbers of weekly bills commencing from 1st April, 2013 to 18th August, 2013 have been generated and sent to all ESCOMs along with the methodology being adopted by KPTCL for implementation of Intra-State ABT. Two Distribution companies namely GESCOM and CESC have accepted the methodology of Intra-State ABT. Acceptance is awaited from other three ESCOMs.

Commission's Views

The Commission observes that there has been an inordinate delay in implementation of Intra-State ABT by KPTCL/ESCOMs. This is in spite of the Managing Director, KPTCL agreeing that the Intra-State ABT would be implemented from April 2011 itself including the generators. But, the actual progress is far from satisfactory as KPTCL/ESCOMs are still conducting mock exercises without resolving basic coordination issues resulting in non implementation of Intra-State ABT regime. This shows there is a lack of serious intent on the part of KPTCL/ESCOMs in implementation of Intra-State ABT. The Commission views this seriously and directs that the KPTCL and the ESCOMs shall initiate immediate necessary measures to complete the remaining activities of Intra-State ABT so as to achieve full implementation and report compliance within the next three months.

II. Directive on Energy Audit

Metering plan for energy audit of KPTCL grid system, voltage level wise such as 400 KV, 220 KV etc., shall be prepared and submitted to the Commission. The work of procurement of metering equipment with accessories and their installation shall also be completed. Further, KPTCL shall ensure that accuracy class of meters match with that of CT/PT so as to measure the parameters accurately. The interface metering system shall be in conformity with the CEA Regulations on (Installation and Operation of Meters) 2006 and its amendments from time to time.

The Commission directs KPTCL to furnish voltage-wise losses on a monthly basis. Further, KPTCL is directed to maintain the entire interface metering system in healthy condition, as accurate readings of the meters are required to be recorded for accurate energy audit/accounting purpose and this is also one of the sound practices to be followed by any utility.

Compliance by KPTCL

Month wise transmission and voltage wise losses for FY 13 has already been submitted to KERC vide letter No: KPTCL / B36/40458/2013-14/63 dated 21.06.2013. The details of voltage wise losses for FY13 are indicated as below:

Voltage Class in kV	% Loss
400	0.356
220	1.999
110	0.408
66	1.048
Total	**3.81**

Commission's Views

The Commission directs KPTCL to analyse the losses on the basis of energy audit conducted and take appropriate remedial measures aimed at bringing down the loss levels further in its transmission system. A regular review by corporate office regarding energy audit conducted and remedial measures initiated needs to be undertaken for a proper follow up and taking corrective action. The Commission reiterates its directive to KPTCL to furnish voltage-wise losses on a monthly basis, regularly.

III. Directive on Quality of Service

KPTCL shall take all measures to improve the Quality of Service i.e. reduction in interruptions and maintenance of good voltage and frequency. KPTCL shall display on its web site the details of interruptions of major Sub-Stations and lines with maximum and minimum voltage at Station bus of each Sub-Station on a monthly basis.

The Commission had directed to take note of the permissible frequency band for operation of the grid between 49.80 Hz and 50.20 Hz as per the IEGC (first amendment) Regulations of CERC dated March 5, 2012. Also, as per the decision taken in the meeting of Forum of Regulators (FOR) held during June 11 & 12, 2009 the penal UI charges for any overdrawal will not be allowed to be passed on to the consumers through tariff. Any such penal charges have to be borne by the ESCOMs from their own finances. In the light of this, KPTCL, through SLDC/ALDCs, shall take necessary steps to avoid overdrawal from the Southern grid when frequency level goes below 49.80 Hz to ensure that payment of additional UI charges is avoided.

Compliance by KPTCL

SLDC is monitoring regularly the grid operations for maintaining grid frequency as per IEGC norms and maintaining the frequency within permissible limits between 49.80 Hz to 50.20 Hz. No violation notice received from SRLDC from the past 3-4 years. Sustained grid discipline by Karnataka SLDC has been appreciated in various forums such as SRPC, TCC, and OCC meetings.

Commission's Views

The Commission notes that SLDC / KPTCL have adhered to the Grid Code norms consistently for the last couple of years in maintaining grid discipline. KPTCL and SLDC shall have to ensure that grid frequency remains within the specified frequency band always. Further, the commission in its previous Tariff Orders had directed KPTCL to take up auditing of all its protective system in the grid to prevent recurrence of the grid collapse of the kind witnessed in the north during 2012 and report compliance.

KPTCL is directed to take up the above preventive measures immediately and report compliance thereon. The Commission reiterates its directive to adhere to the norms of IEGC as amended from time to time in grid operation.

IV. Directive on Capital Works Programme

a) To submit the details of capex actually incurred and capitalisation of assets in the formats already prescribed by the Commission to undertake necessary prudence check during Annual Performance Review.

b) To maintain separate accounts with respect to the costs incurred in respect of lines and bays respectively.

The KPTCL is directed to furnish the details in specified formats used in respect of capex incurred to enable the Commission to carry out prudence check during APR. Further, it is directed to maintain separate accounts with respect to the costs incurred for lines and bays.

Compliance by KPTCL

It is submitted that, information relating to costs incurred in respect of lines and bays is being submitted to KERC based on the Audited Accounts.

Commission's views

The Commission directs KPTCL to continue to

i. Submit the details of capex incurred and capitalisation of assets to undertake necessary prudence check during the APR.

ii. Maintain separate accounts with respect to the costs incurred in respect of lines and bays.

V. Directive on Studies conducted

The Commission has directed KPTCL to have a fresh look into its manpower requirements keeping in view the technological advancements and the changed organisational set-up [i.e. corporatization].

The Commission in its earlier Tariff Orders had directed KPTCL to complete the manpower studies at the earliest and submit the interim report of ASCI.

Compliance by KPTCL

ASCI Final Report was referred to an internal committee to finalize an exhaustive list of recommendations that can be implemented by KPTCL along with justification in costs and or efficiency for each of its recommendations. The internal committee has submitted its report and the same is under consideration of Management of KPTCL.

Commission's Views

The Commission notes that there is no progress at all in finalisation of the report submitted in respect of man power studies conducted by ASCI. The Commission directs KPTCL to take immediate action to finalise the report on manpower study recommendations of ASCI and report the compliance / progress achieved to the Commission whether the recommendations in the report have been accepted or otherwise. Further, KPTCL is also directed to furnish a detailed action plan for implementation of the measures to streamline the operational structure for optimum utilisation of its manpower.

VI. Directive on prevention of electrical accidents

The Commission had directed KPTCL to prepare an action plan to effect improvements in the transmission network and implement safety measures to prevent electrical accidents. Detailed Transmission Line and Sub-Station Division wise action plans were to be submitted to the Commission within two months.

Compliance by KPTCL

Zone-wise action plan for prevention of electrical accidents has been sent to KERC vide letter No: KPTCL/B36/40453/2013-14/25-53 dated 19.08.2013.

KPTCL vide order No: B28 (a) / 39946/13-14 dated 25.07.2013 nominated a safety officer to ensure observance of safety measures specified under the CEA (Measures Relating to Safety of Electricity Supply) Regulations and to reduce electrical accidents in the transmission system. The safety officer in consultation with field engineers is in the process of developing a comprehensive action plan for reduction of electrical accidents

Commission's views

The Commission notes that many works planned under action plan are yet to be taken up by KPTCL which needs to be expedited to ensure that hazardous installations in the transmission network that to in public places which pose great danger to the general public are rectified in a time bound manner. Further, it was also directed KPTCL to hold regular review of action plan works and take remedial measures for rectification of hazardous installations in public places for preventing / minimising electrical accidents. It is also important to create continuous awareness on safety aspects and employees need to be given adequate training on safety measures to be adopted while carrying out work on the network. The compliance of the above shall be submitted to the Commission at the earliest.

The Commission reiterates its directive to KPTCL to regularly submit transmission line and Sub-Station wise details of action plan for prevention of electrical accidents.