

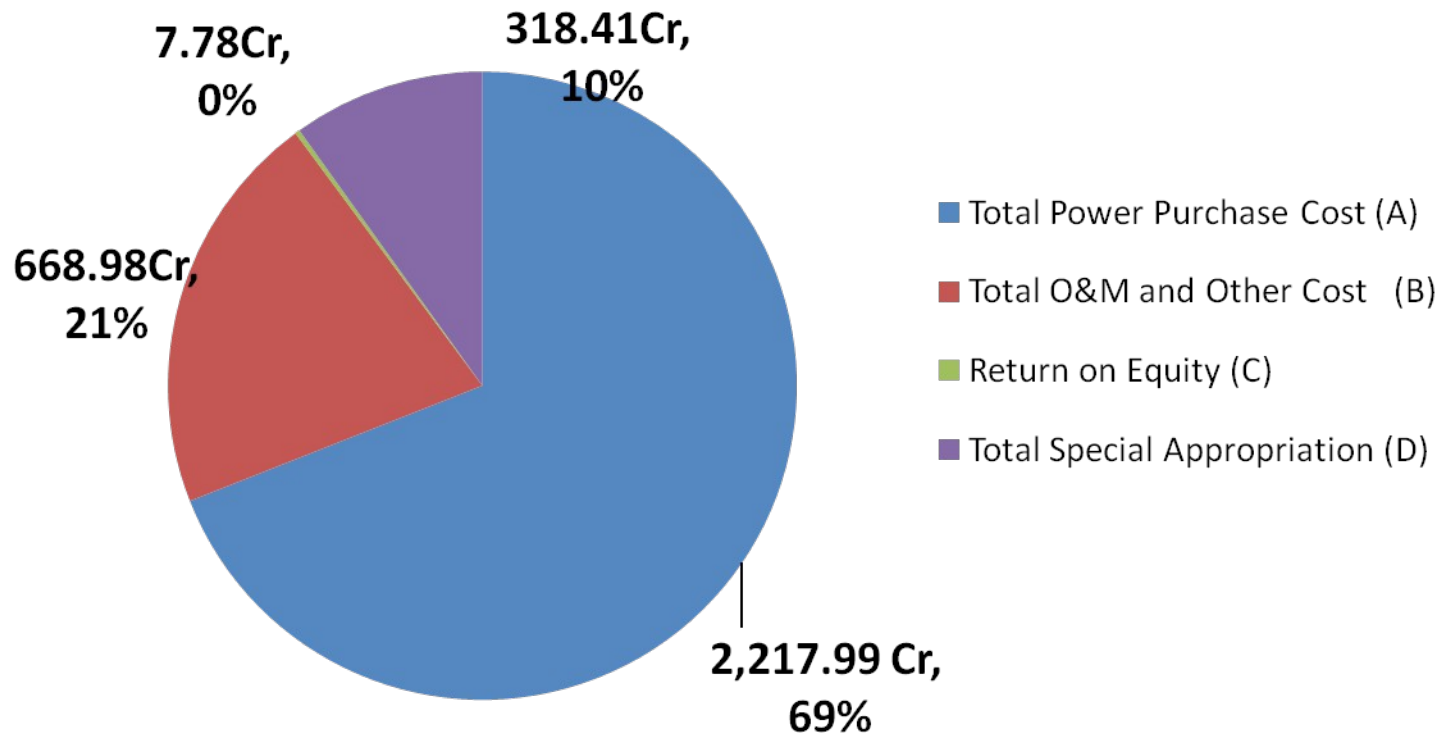
Analysis of ARR & Tariff Proposal of WESCO for FY 2013-14

February 7, 2013

By

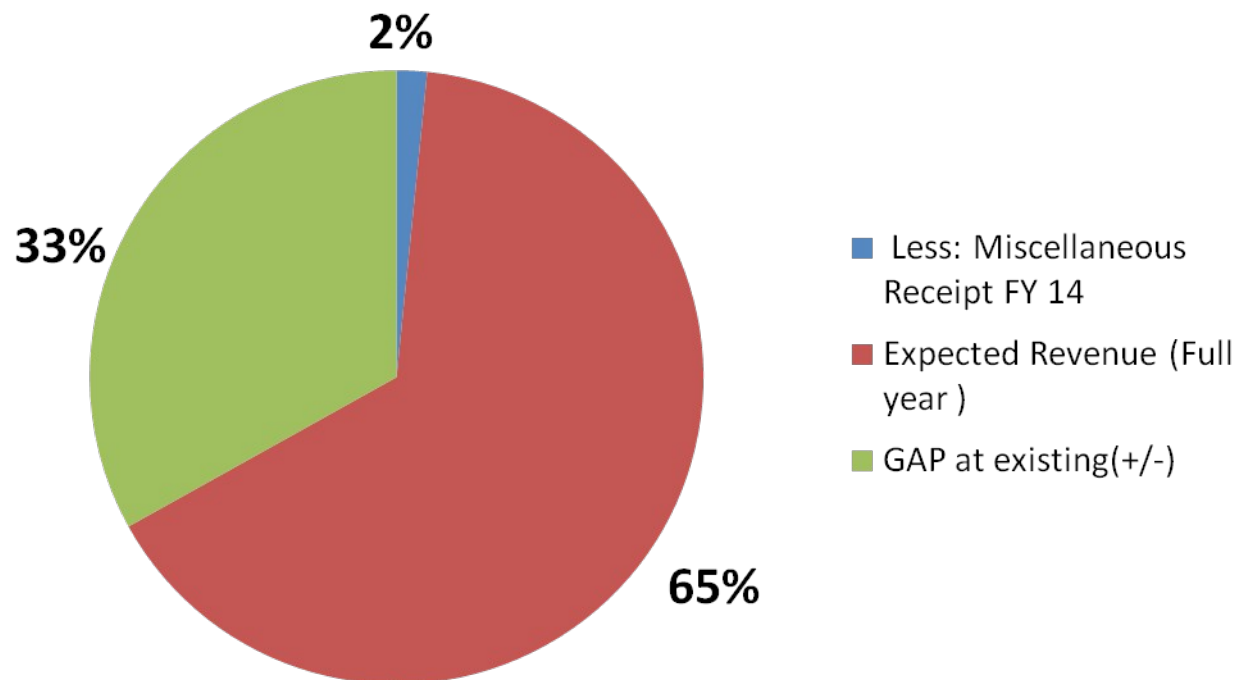
World Institute of Sustainable Energy
(Consumer Counsel)

Cost Components of ARR



Total Power Purchase Cost (A)	2,217.99
Total O&M and Other Cost (B)	668.98
Return on Equity (C)	7.78
Total Distribution Cost (A+B+C)	2,894.75
Total Special Appropriation (D)	318.41
Total Cost (A+B+C+D)	3,213.16

Revenue GAP of WESCO for FY 2013-14



Total Cost for FY 14	3,213.16	Rs. Cr.
Less: Miscellaneous Receipt FY 14	51.23	Rs. Cr
Expected Revenue (Full year)	2,098.80	Rs. Cr
GAP at existing(+/-)	(-) 1,063.13	Rs. Cr

Tariff Proposal of WESCO

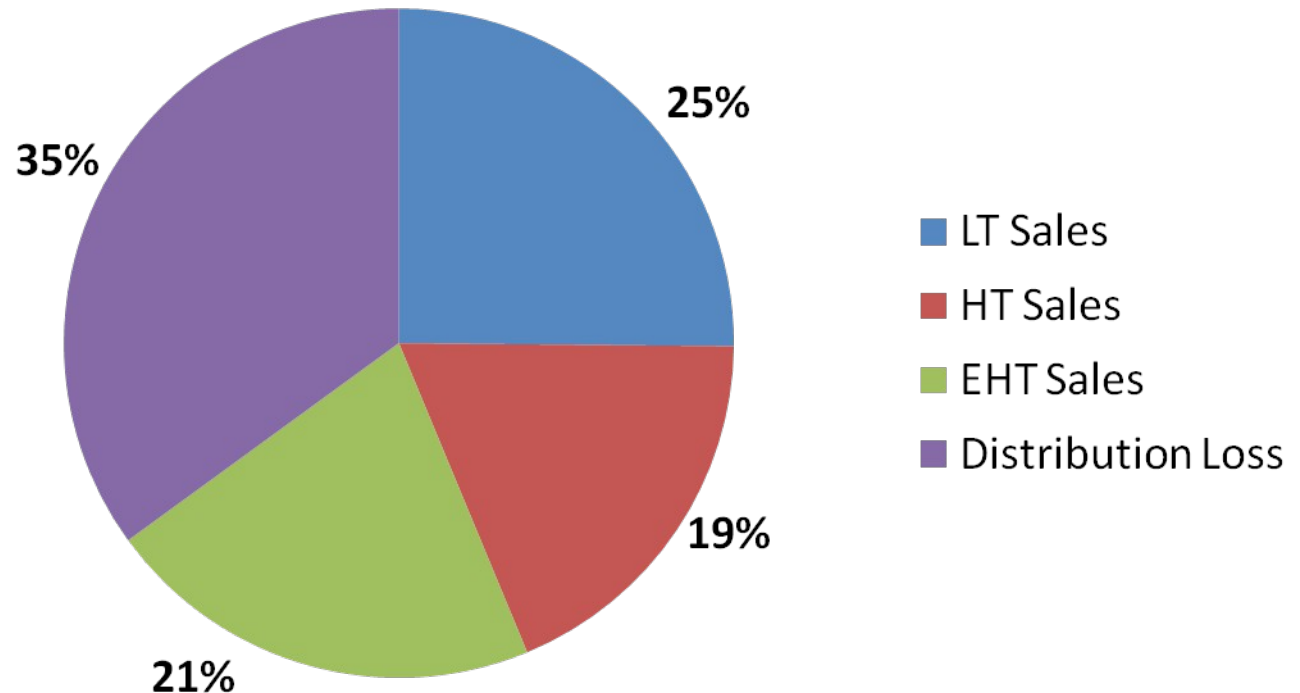
- Take the accompanying ARR and Tariff Petition on record.
- Approve the Annual Revenue Requirement for FY 2013-14 including amortization of regulatory assets on account of uncovered gap up to 2010-11 and truing up for FY 2011-12 and FY 2012-13.
- Bridge the Revenue Gap for the FY 2013-14 through increase in Retail Supply Tariff, reduction in Bulk Supply Tariff (BST), grant/subsidy from the State Government of Orissa etc.
- To consider the servicing of the loan liability as 1st priority on the escrow utilization.
- To give effect to the ATE order dated 8.11.2010 on different issues such as fixation of Distribution loss target, truing up of previous years accordingly.
- GRIDCO and GoO may kindly be advised to implement the earlier order of Hon'ble Commission cede the licensees assets for raising loan.
- Allow the Tariff rationalization measures proposed;
- Allow the licensee to submit additional documents, modify the present petition, if so required, during the proceeding of this application.
- Any other relief order or direction which the Hon'ble Commission deems

Proposed Tariff Rationalisation Measures

- Fixation of Minimum Charges for LT (SI), LT(MI) Category of Consumers
- Applicability Delayed Payment Surcharge to all category consumer
- Introduction of KVAH Billing
- Applicability of PF Penalty
- Two part tariff for Emergency power supply to Captive Power Plants (CPP)
- Discontinuation of Load Factor Incentive and Take or Pay Tariff
- Exclusion of Meter Rent as Misc Revenue
- Revised tariff for the Lift irrigation Points.
- Revision in Demand charges and MMFC to recover full fix distribution cost
- Other Issues
 - Issue of Guidelines for replacement of burnt transformers with precondition of 50% arrear payment be made
 - Creation of dedicated feeders for AG and irrigation purpose
 - Determination of Minimum Fixed Tariff for rice processing units/ rice haulers
 - Exclusive Energy Police Station
 - 2% Rebate on payment of BST bills within 3 days time instead of 2 working days
 - Addressing of Negative cash flow of WESCO

Proposed Power Purchase - Cost and its Utilization

•Utility has proposed to purchase 66821 MU at Rs. 2217.99 Cr at current BSP per unit in the ensuing FY 2013-14.



Observation:

- 35% power purchased will be wasted as loss and actual sale is 65%
- Cost of power purchase will further go up with increase in BSP for the FY 13-14.

Demand Forecasting

	LT	HT	EHT	Total
Est. Power Purchase in MU for FY 2013-14				6821
Power Purchase Approved in MU for FY 2012-13				6496
% Increase in Purchase				5.00
Estt .Sales in MU for FY 2013-14	1715	1268	1450	4433
Est. Sales in MU for FY 2012-13	1406	1210	1411	4028
% Increase in sales	21.95	4.78	2.76	10.07
No of Consumers on 1 April 2013	1233174	656	26	1233856
No of Consumers on 1 April 2012	775168	648	24	775840
% Increase In Consumers	59.08	1.23	8.33	59.03

Observation: Utility has proposed 5% increase in overall power purchase. In its sales forecast the LT sales has been projected a 21% increase over the last financial year due to 59% increase in consumer base. (4.58 Lakh LT consumers)

Growth in LT / BPL consumers

Consumer Category	No of Consumers				Consumption (in MU)			
	FY 12-13	FY 13-14	Diff	% Increase	FY 12-13	FY 13-14	Diff	% Increase
LT Total	7,75,168	12,33,174	4,58,006	59.08	1,406	1,715	309	21.98
BPL	1,29,453	5,40,696	4,11,243	317.68	124.8	264	139.2	111.54
% BPL of LT Total	16.70	43.85			8.88	15.39		

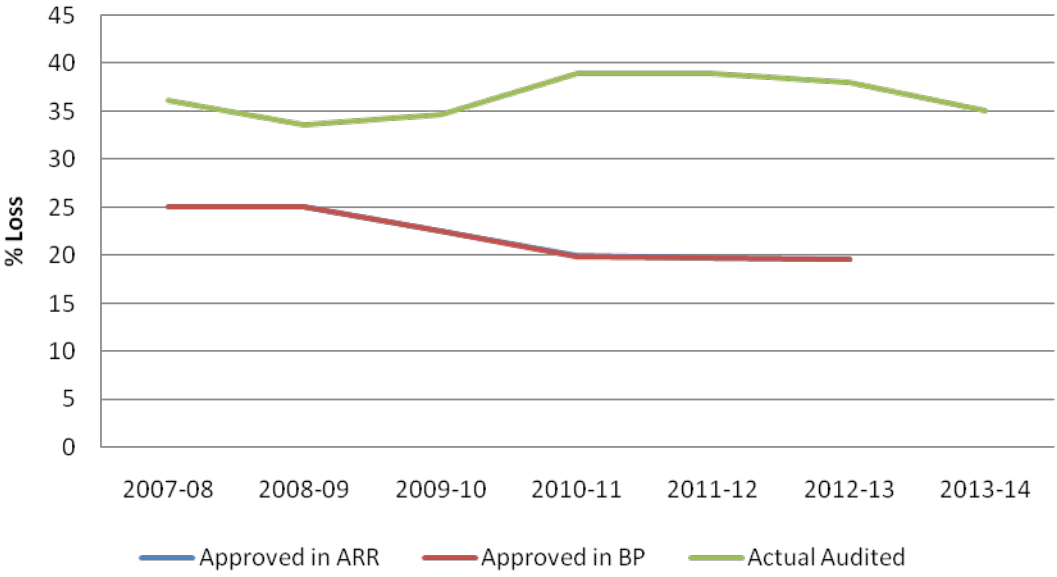
Observation:

-About 15.39% of LT consumption is proposed to be sold to BPL consumers which accounts to 43.85% of the LT consumers.

-Proposed BPL consumption is more than the allowed 30 kWh / consumer / month. Proposed consumption needs to be reviewed. The subsidized BPL tariff should be strictly made applicable to the consumer having monthly energy consumption of 30 units.

-There is need to increase the BPL tariff to the extend of 50% of cost of supply in line with NEP. Or GoO upfront subsidy of equivalent amount is required to reduce the cross subsidy burden.

Distribution Loss (%)



Observation:

- Utility has projected distribution loss of **(34.51%)** over BP approval of **(19.6%)** FY 12-13.
- Further, trend of actual distribution loss is increasing. Audited Dist Loss in FY 11-12 was 38.9% and the revised estimate for FY 12-13 is 38% .
- As per the proposed dist loss in FY 12-13 is higher by 1.87% than Dist loss in FY 07-08. (i.e in last five years loss has been increased)

	Approved in ARR	Approved in BP	Actual Audited /EST	Performance
2007-08	25	25	36.13	11.13
2008-09	25	25	33.55	8.55
2009-10	22.5	22.5	35.09	12.18
2010-11	19.93	19.83	38.89	18.96
2011-12	19.7	19.7	38.84	19.19
2012-13	19.6	19.6	38.00	18.4
2013-14			35.01	

Submission:

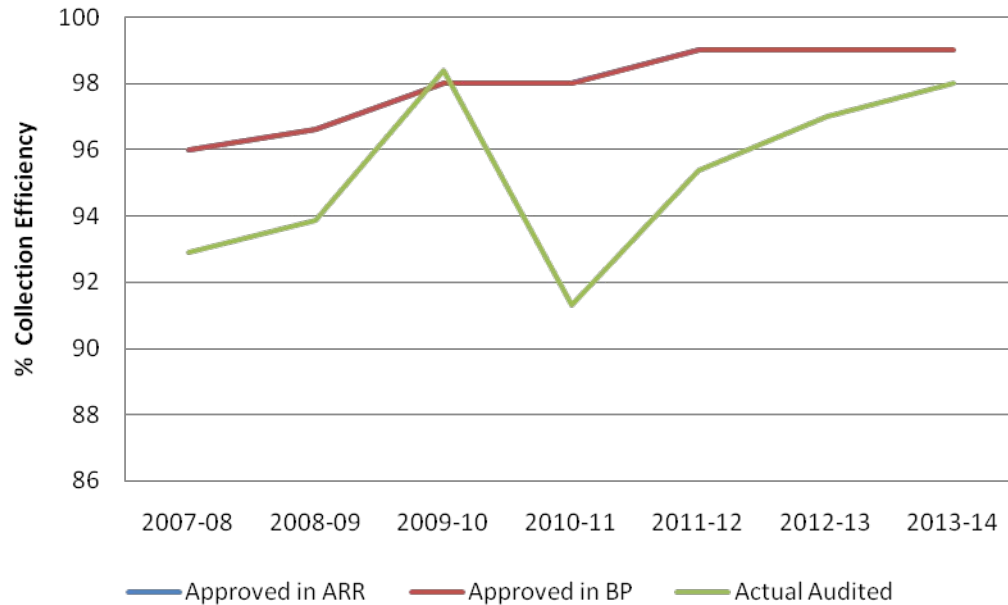
- Licensees request to review the base line distribution loss may not be considered.
- Loss of revenue realization / higher energy purchase due to higher distribution loss should not be allowed to passed on to consumer.

LT Distribution Loss Across the Utilities FY 13-14

	CESU	SOUTHCO	NESCO	WESCO
Overall Distribution Loss proposed	32.00	40.03	32.53	35.01
Distribution Loss Excluding EHT consumption	39.15	45.40	43.76	44.46
LT Distribution Loss (Excluding HT loss of 8%)	41.88	43.64	43.70	53.31
Distribution Loss Approved in BP FY 2012-13	23	25.5	18.35	19.6

Submission: Excessive loss at LT level is the cause of higher power purchase quantity and hence the cost

Collection Efficiency (%)



Observation:

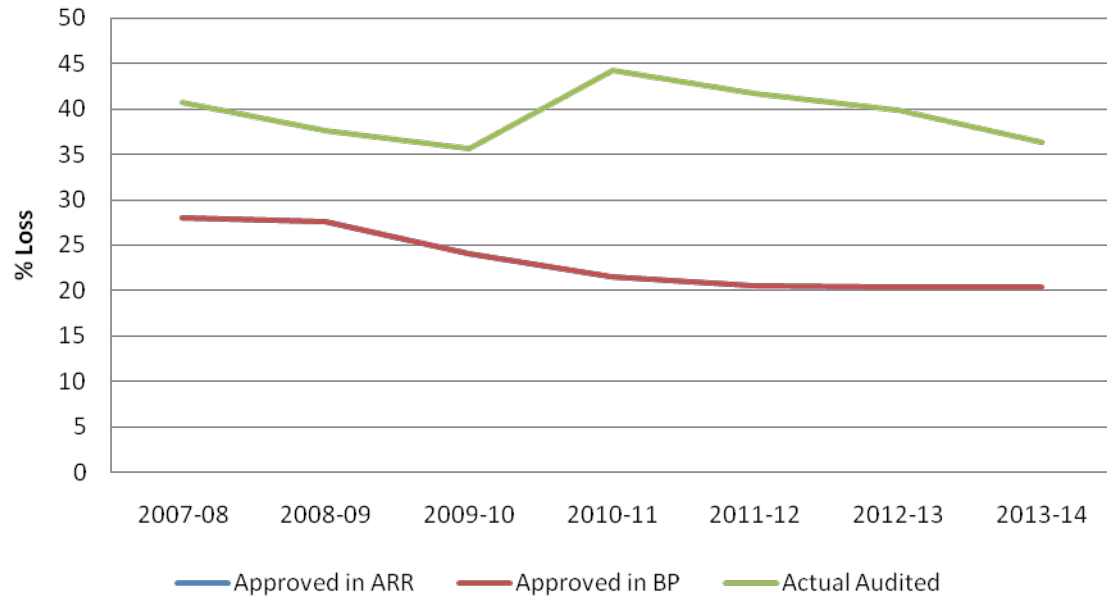
-Collection efficiency proposed is(98%) which is lower by 1 % than that of approved in BP fir FY 12-13.

Submission:

-Loss of revenue realization due to 1% lesser collection efficiency (than that of approved in BP)should not be passed on to consumer.

	Approved in ARR	Approved in BP	Actual Audited	Performance
2007-08	96	96	92.91	-3.09
2008-09	96.6	96.6	93.86	-2.74
2009-10	98	98	96.05	0.38
2010-11	98	98	91.32	-6.68
2011-12	99	99	95.37	-3.63
2012-13	99	99	97	-2
2013-14			98	

AT & C Loss (%)



Observations:

- Licensee has proposed 36.41% AT&C Loss.
- Further AT&C losses have increasing trend. In last five years the AT&C losses have increased by 1.07% (from FY 07-08 to FY 11-12 Audited figures)

	Approved in ARR	Approved in BP	Actual Audited	Performance
2007-08	28	28	40.65	12.65
2008-09	27.55	27.55	37.63	10.08
2009-10	24.05	24.05	37.64	11.59
2010-11	21.53	21.53	44.2	22.67
2011-12	20.5	20.5	41.72	21.22
2012-13	20.4	20.4	39.86	19.46
2013-14			36.31	

Distribution Cost of WESCO for FY 2013-14

Distribution Costs	FY 12-13	FY 13-14	% Change
a) Employees cost	206.82	328.32	58.75
b) Repair and Maintenance cost	40.06	54.75	36.67
c) Admn. & General Expenses	29.25	47.16	61.24
d) Provision for bad and doubtful debts	16.09	57.98	260.32
e) Depreciation	23.13	36.33	57.05
f) Other expenses		82.20	
g) Less expenses capitalized (Emp. Costs, A&G, R&M)	2.09	2.35	12.28
h) Interest and financial charges	37.79	68.42	70.93
i) Less interest capitalized		3.83	
Total Expenses (a + b + c + d + e + f - g + h - i)	351.05	668.99	90.57

Observation:

-WESCO has proposed **90.57% hike** in **Distribution Cost for FY 2013-14** over the approved cost for FY 2012-13

ARR Cost Component – Employee Cost

	Employee Cost (Paise/Unit)						% Rise in FY 13-14 over 12-13
	FY 08-09 (App)	FY 09-10 (App)	FY10-11 (App)	FY 11-12 (App)	FY 12-13 (App)	FY 13-14	
CESU	30.79	32.23	34.83	37.75	41.27	35.27	-14.53
SOUTHCO	47.04	45.62	56.57	56.20	61.10	69.61	13.92
NESCO	21.96	26.67	28.81	29.55	33.93	57.65	69.93
WESCO	19.36	21.60	26.70	25.77	31.84	48.13	51.18

Observation:

- The utility has proposed the employee cost of Rs **328.32 Cr** in ARR with 51% hike over FY 2012-13 employee cost .
- Out of this projected expenses Majority is the Terminal Benefit expenses which accounts to Rs.163.86 Cr. Which needs to be verified. And the other employee cost is towards Actual Salary Expenses of Rs. 139.96 Cr and Other staff costs are Rs.24.50 Cr.

ARR Cost Component – A&G Cost

Observation:

- Utility has proposed A&G expenses of **Rs. 47.16 Cr** for FY 2013-14 which is 61.23% higher over the approved expenses for FY 2012-13.

	A&G Cost (Paise/Unit of Electricity Purchase)						% Rise in FY 13-14 over FY 12-13
	FY 08-09 (App)	FY 09-10 (App)	FY 10-11 (App)	FY 11-12 (App)	FY 12-13 (APP)	FY 13-14 (EST)	
CESU	4.96	4.77	5.59	5.90	4.82	6.17	27.91
SOUTH CO	6.51	6.84	7.58	9.10	6.29	12.82	103.80
NESCO Submission:	3.12	3.68	3.34	4.42	4.03	8.72	116.52
WESCO	3.68	3.55	3.97	4.65	4.50	6.91	53.55

The Commission has approved A&G expenses of Rs 47.16 Cr in ARR for FY 2013-14. As per the MPP order since it is a controllable cost, 7% escalation may be allowed on the approved value of 2012-13 for normal A&G expenses. Commission also approves additional A&G expenses for meeting expenses of customer care, Special Police Station, automation/IT expenses, Inspection of network and compensation for electrical accident (may be verified and allowed).

- Licensee has proposed Cost towards Police Station as 90 Lakhs which is 127% higher than that of last year cost of 39.56 Lakhs. In addition to this the licensee has proposed 50 Lakhs towards special police station additional in additional expenses. (needs to be reviewed)
- Licensee has proposed Additional expenses for Energy Audit as Rs.234 Lakhs (Approx 130000 cons @ 320 per Con per each call centre). (needs to be reviewed as how it is going to help the licensee in auditing sample consumers per call centre or it should be feeder wise energy audit)

ARR Cost Component – R&M

Observation:

Utility has proposed **Rs. 54.74 Cr** as R&M expenses. These expenses were projected as 5.4% of the opening GFA of Rs. 1013.86 Cr. at the beginning of FY-2013-14

Submission:

Utilities GFA approved by commission as on **31.03.2012 were 612.26 Cr.** Utility has projected the GFA as Rs. 1013.86 Cr. at the beginning of ensuring year. Which seems to be on higher side. Therefore the proposed new additional GFA needs to be scrutinized.

ARR Cost Component – Provision for Bad Debt

Observation:

Utility has proposed Rs 57.983 Cr as provision for Bad Debt by considering 98% collection efficiency as against 99% approved in BP for FY 12-13.

Submission:

WESCO had considered Rs 16 Cr as bad debt towards LD/PLD consumers under bad and doubtful debts which should not be allowed to pass on to the ARR.

Further licensee had considered 2% as bad debt (due to the 2% lower collection efficiency). The proposed collection efficiency is lower by 1% than that of which should not be allowed to be passed on to consumer through ARR.

ARR Cost Component-RoE

Observation:

As proposed equity capital is constant for the current and ensuring year. There is no new equity capital infusion from DISCOM. Hence the Return on Equity should remain same as that of approved for FY 2012-13.

Submission:

Proposed RoE of Rs 7.78 Cr is same as approved in the last year.

Per Unit Distribution Cost

	Per Unit Distribution Cost (Paise /Unit)					% Rise in FY 13-14 over FY12-13
	FY 09-10 (App)	FY 10-11 (App)	FY 11-12 (App)	FY 12-13 (App)	FY 13-14 (Estt)	
CESU	61.99	66.07	65.63	67.67	89.44	32.16
SOUTHCO	80.11	93.11	90.76	90.20	138.86	53.94
NESCO	53.25	53.31	57.23	63.08	104.12	65.07
WESCO	41.77	48.99	47.63	55.24	99.22	79.62

$$\text{Per Unit Distribution Cost} = \frac{\text{Total Distribution Cost}}{\text{Total power purchase}}$$

Analysis of Debtors Outstanding as on 30th Sept 2012

Consumer category	Pending dues in Rs Cr
LT Domestic including BPL	693.68
LT GP	73.58
Irrigation and agriculture ind	27.76
Large/Heavy/Power intensive Industries	87.03
Street light, public water works etc	59.93
LT Ind M&S, bulk domestic and other	7.48 Cr
Total Outstanding dues	947.49

DPS to LT domestic category may help the timely recovery of dues

Submission of Consumer Counsel

- Hon. Commission may kindly consider all above facts and decide the retail tariff in the best interest of all category of consumers.
- Request to work out the tariff with and without State Govt. Subsidy within $\pm 20\%$ cross subsidy as per the calculation procedure discussed in OERC (Terms and conditions of determination of tariff) Regulation, 2004.Clause 7 (c) (iii).