

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

February 23, 2013

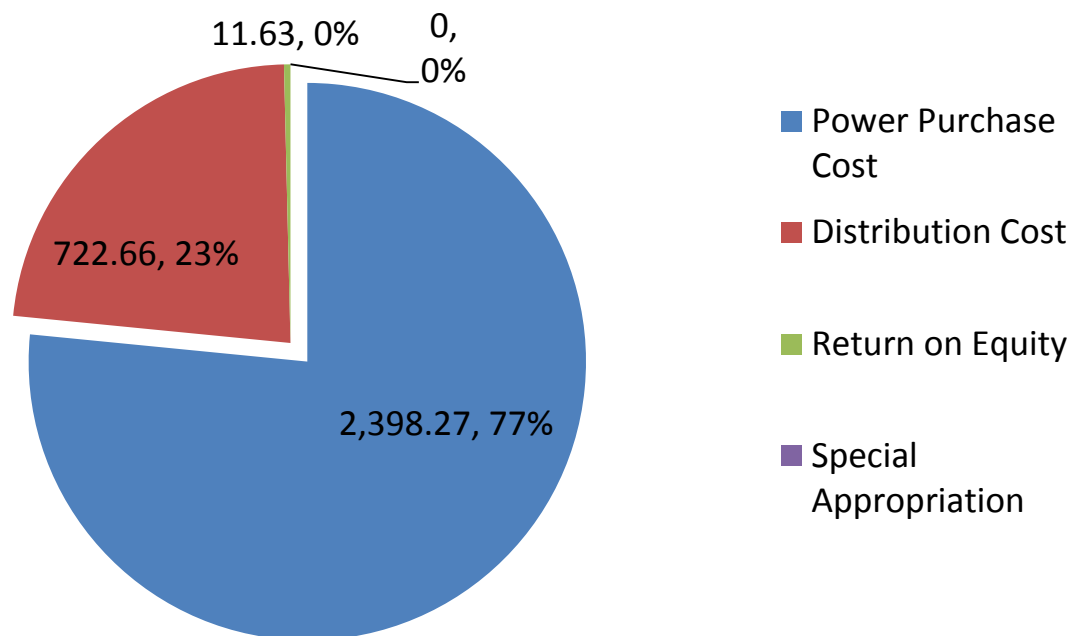
By

World Institute of Sustainable Energy
(Consumer Counsel)

ARR of CESU FY 13-14 (cr)

ARR Components	2013-14 (Projected)
Power purchase cost	2398.28
Employee Cost	298.60
A&G Cost	50.66
R&M Cost	77.65
Depreciation	78.72
Bad Debts provision	26.84
Interest & Finance charges	147.25
Reasonable return	11.64
Discount to consumer	42.95
Total ARR	3132.58
Sale of Power at existing tariff	2683.73
Other non tariff Revenue	102.25
Total Revenue Relisation	2785.98
Revenue Gap with existing Tariff	-(346.60)

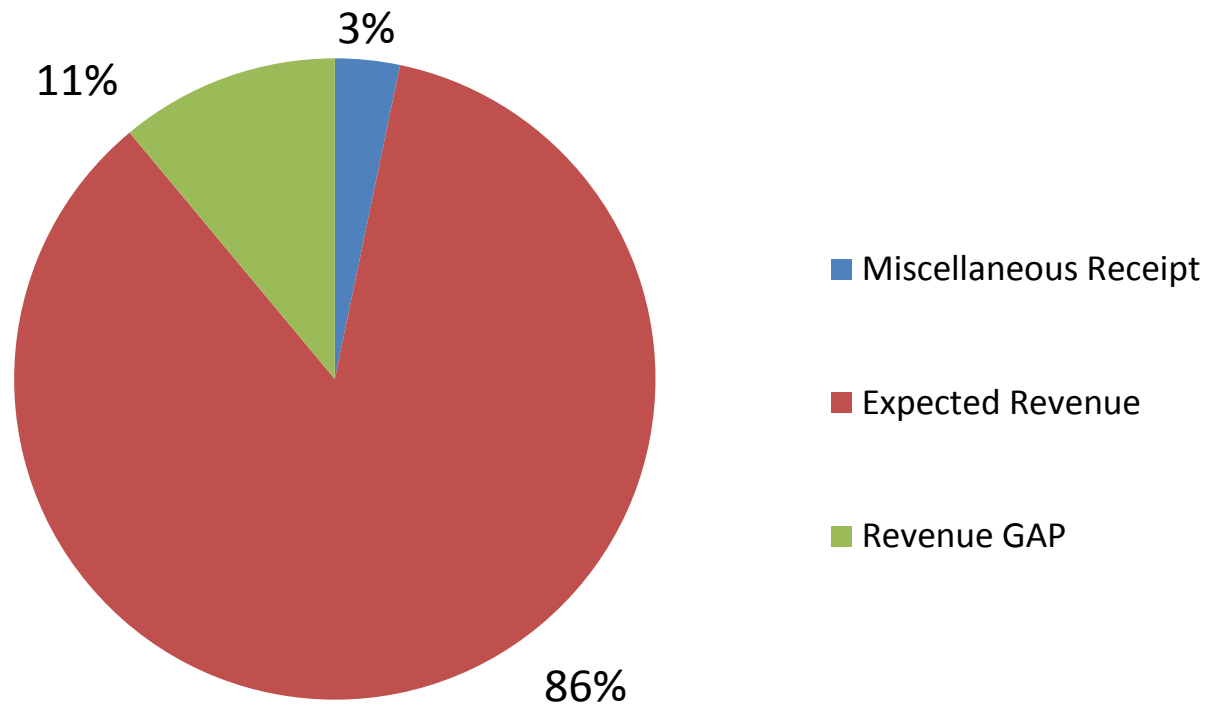
Cost Components of ARR FY 13-14



BSP – 261 P/U

Total Power Purchase Cost including transmission & SLDC cost (A)	2,398.28	Rs Cr
Total Distribution cost (B)	722.67	Rs Cr
Return on Equity (C)	11.64	Rs Cr
Total Cost (A+B+C)	3,132.56	Rs Cr
Total Special Appropriation (D)	0	Rs Cr
Total Cost (A+B+C+D)	3,132.56	Rs Cr

Revenue GAP of CESU for FY 2013-14



Total Cost for FY 13- 14	3,132.58	Rs. Cr.
Less: Miscellaneous Receipt FY 13- 14	102.25	Rs. Cr
Expected Revenue (Full year)	2,683.73	Rs. Cr
GAP at existing(+/-)	(-) 346.60	Rs. Cr

Prayers of CESU

- To consider **actual distribution and AT&C loss** while approving the ARR application for FY 2013-14
- To direct **Government to provide subsidy because of lower tariff in case of BPL** customers, as nos. of BPL customer will be very high during FY 2013-14
- To introduce **System Loading Charges** for using in System Improvement Works
- Consider the **projected T&D loss of 32%** in 2013-14FY.
- Direct/order that, the revenue gap shall be bridged by revision of retail tariff and/or through Government subsidy as the Hon'ble Commission may deem fit.

Proposed RST by CESU

Category of consumer	Present tariff (FY 12-13)	Proposed tariff (FY 13-14)
BPL Consumers	Fixed monthly charge Rs 60 p.m.	Rs 80 p.m.
LT Domestic tariff		
MMFC for first kW (Rs)	20	30
MMFC for additional kW (Rs)	15	20
(Consumption <=50 units/month), Paisa / kWh	220	250
(Consumption >50, <=200 units/month)	390	420
(Consumption >200, <=400 units/month)	490	490
(Consumption >400 units/month)	530	530
Demand Charges for HT and EHT Consumers (Rs / KVA/ month)	250	300

Proposed Energy Charges for HT and EHT consumers

Load Factor %	HT (Paisa/unit)	EHT (Paisa/unit)
Up to 50%	565	560
> 50%=< 60%	490	485
> 60%	435	430

Submission of consumer counsel on Tariff rationalization measures proposed by CESU

SR NO	Rationalization measures proposed	Submission
1	Withdrawal of Take and Pay Tariff	May be continued with modification in design so as to avoid multiple benefits (ToD, normal rebate, PF incentive) to same consumer
2	MMFC for consumers having contract demand less than 110 kVA based on 80% of CD or MD recorded which ever is higher	Hon. Commission has specified separate tariff structures to LT supply up to 100 KVA and above 100 KVA connected load as per the provisions under sec 62(3) of EA 2003. The present method of charging tariff in term of EC and MMFC irrespective of CD or MD may be continued for the consumers having CD < 110 KVA.

Submission of consumer counsel on Tariff rationalization measures proposed by CESU

SR NO	Rationalization measures proposed	Submission
3	Emergency power supply to CGP / IPP	The OERC distribution code 2004 does not distinguish between the start up and emergency power , therefore the present method of charging CGP at flat rate in Rs /kWh may be continued.
a.	in case of start up power demand charges may be levied	
b.	Power factor incentive and power factor penalty should be removed for CGPs	PF incentive / penalty is introduced by the Commission to bring improvement in power system operations . Hence should not be removed.
c.	If SMD of DISCOM increases due to over drawl by CGP then demand charges @ Rs 200/KVA shall be levied	Consumer counsel agrees to the proposal. The Hon Commission also specified this in RST order of FY 2012-13

Submission of consumer counsel on Tariff rationalization measures proposed by CESU

SR NO	Rationalization measures proposed	Submission
4.	Over drawl penalty in Energy charges and demand charges for the HT and EHT consumers which are not included in the ARR including the existing HT and EHT consumers who deviate from their schedule.	In such circumstances the DISCOM should approach the Commission for approving the increase in energy or SMD.
5.	Irreversible conversion of Kutir Jyoti /BPL consumer to domestic consumer	The Kutir Jyoti / BPL consumer may be allowed to over darw in excess of 30 units / month for once or twice in a year to compensate the consumption in festival period. Afterwards, they can be treated as normal LT consumer . Alternatively may allowed to consume avg 360 units per year.
6	Own your transformer scheme	Extension of OYT scheme to individual LT domestic / GPS consumer who want to avail single point HT supply may be considered.

Submission of consumer counsel on Tariff rationalization measures proposed by CESU

SR NO	Rationalization measures proposed	Submission
7.	Introduction of System loading Charges on consumer to make improvement in distribution system	as per EA 2003 , It shall be the duty of DISCOM to develop and maintain <u>an efficient, coordinated and economical distribution system in its area of supply.</u> The licensee is not allowed to charge the consumer for this purpose.
8.	Introduction of Loss surcharge on consumer where A&T C losses are more than 50%	In absence of authentic feeder / distribution side metering and energy audit data , the licensee can not held the consumer responsible for the high A & TC loss . The proposal of licensee is liable to be rejected.
9	Charging of DPS in all categories of consumer	The DPS should be imposed on specific categories of consumer

Submission of consumer counsel on Tariff rationalization measures proposed by CESU

SR NO	Rationalization measures proposed	Submission
10.	Allowing of rebate to the consumers for prompt payment who pays their energy charges in full along with arrears by due date	Present practice of allowing consumers for prompt payment who pays their energy charges in full (excluding arrears) may be continued.
11.	Abolishing food processing unit from agro based tariff	The eligible processes under agro industrial tariff are defined under the OERC distribution code 2004. same may be considered eligible for agro based tariff

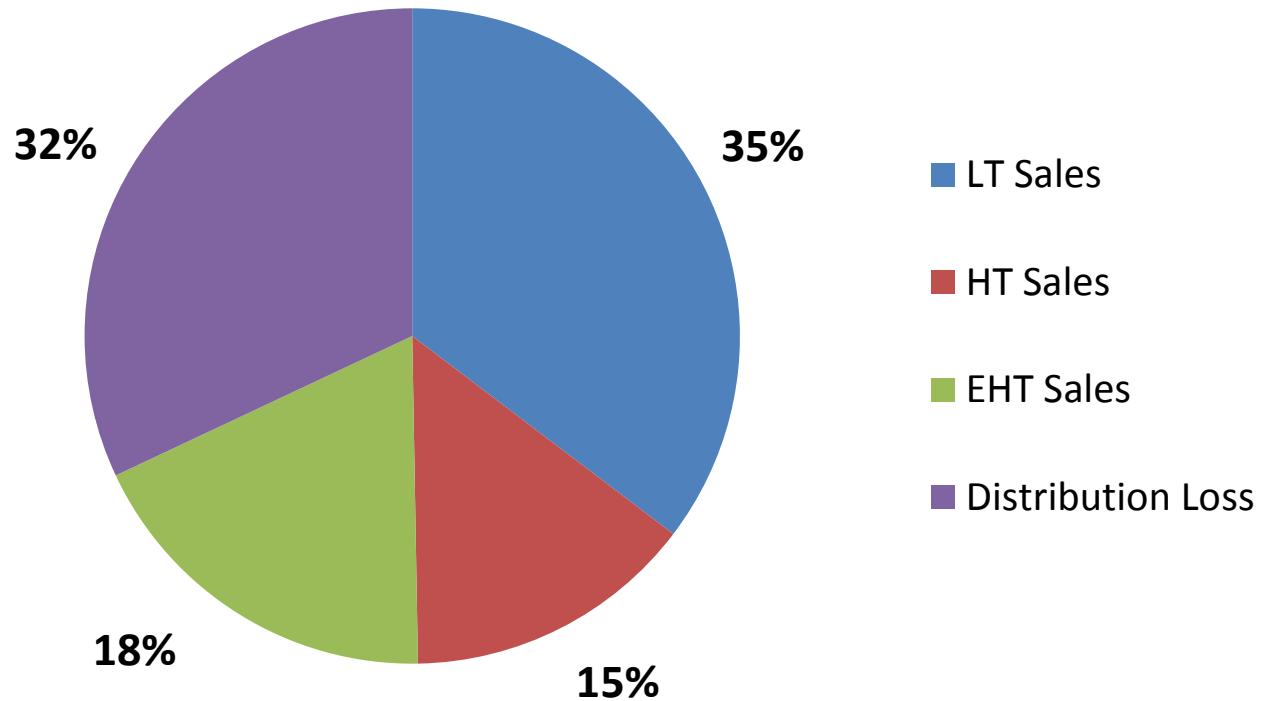
Submission on Cost Components of ARR

Power Purchase Cost

Analysis of Important Factors:

1. Utilization of proposed power
2. Demand forecasts
3. Distribution Loss
4. Collection Efficiency
5. AT & C Loss

Utilization Of purchased Power



Observation:

-Licensee has proposed to purchase **8,210 MU**.

-**32% of purchased power** will be the **distribution loss** and **actual sales projected is 68%**

-At current BSP (261 P/U) the cost of power purchase is **Rs. 2398.28 Cr** for FY 2013-14 and this 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				8210.47
Est. Power Purchase in MU for FY 2012-13				7738
% Increase in energy Purchase				6.11
Est. Sales in MU for FY 2013-14	2900	1182	1501	5583
Est. Sales in MU for FY 2012-13	2487	1011	1338	4837
% Increase in sales	16.60	16.90	12.14	15.43
No of Consumers on 1 April 2013	1698758	3611	22	1702391
No of Consumers on 1 April 2012	1500855	2838	21	1503714
% Increase In Consumers	13.19	27.24	4.76	13.21

Observation: Licensee has **proposed 6.11% increase** in overall power purchase.

In its sales forecast the LT & HT sales has been projected a 16.6 % and 16.9% increase over the last financial year due to 13.19% & 27.24% increase in consumer base. (1.97 Lakh LT consumers and 733 HT consumers)

Growth in LT / BPL consumers

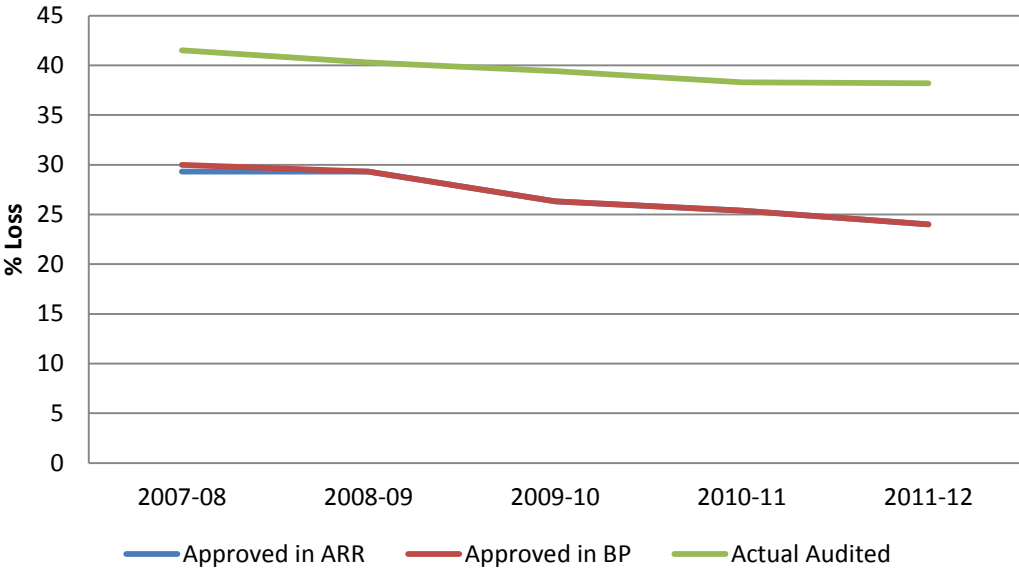
Consumer Category	No of Consumers				Consumption (in MU)			
	FY 12-13	FY 13-14	Diff	% Increase	FY 12-13	FY 13-14	Diff	% Increase
LT Total	15,00,855	16,98,758	1,97,903	13	2487.31	2900.26	412.95	16.
BPL	97,223	2,14,154	1,16,931	120	56.48	139.74	83.26	147
% BPL of LT Total	6.48	12.61			2.27	4.82		

Consumption (in MU)						
Consumer Category	FY 09-10 (Actual)	FY 10-11 (Actual)	FY 11-12 (ARR Projections FY 11-12 ARR)	FY 11-12 (Actual)	FY 12-13 (Projected)	FY 13-14 (Projected)
LT Total	1750.67	2055	2609	2241	2487.31	2900.26
BPL	4.21	NA	150	18	56.48	139.74
% BPL of LT Total	0.24	NA	5.75	0.83	2.27	4.82

Observation:

- In FY 12-13 BPL consumers were 6.48% of total LT consumers which now are projected at 12.61% of LT consumers in FY 2013-14.
- Energy sale to BPL consumer is about 4.82% of total LT sales for FY 2013-14.
- Projected BPL sales is on higher side needs to be reviewed.

Distribution Loss (%)



Observation:

- Licensee has projected distribution loss of **(32%)** over BP approval of **(23%)** FY 13-14.
- Further, trend of actual distribution loss is decreasing. In last five years loss has been decreased by 3.3 %. Audited Dist Loss in FY07-08 was 41.5 % where as audited loss has reduced to 37.98% in FY 11-12 .

Submission:

- Loss of revenue realization due to higher distribution loss should not be allowed to passed on to consumer.

	Approved in ARR	Approved in BP	Actual Audited /EST	Performance
2007-08	29.3	30	41.5	11.5
2008-09	29.3	29.3	40.34	11.04
2009-10	26.3	26.3	39.43	13.13
2010-11	25.37	25.37	38.30	12.93
2011-12	24	24.00	38.20	14.2
2012-13		23	37.5 *	3.3%
2013-14		23	32 *	

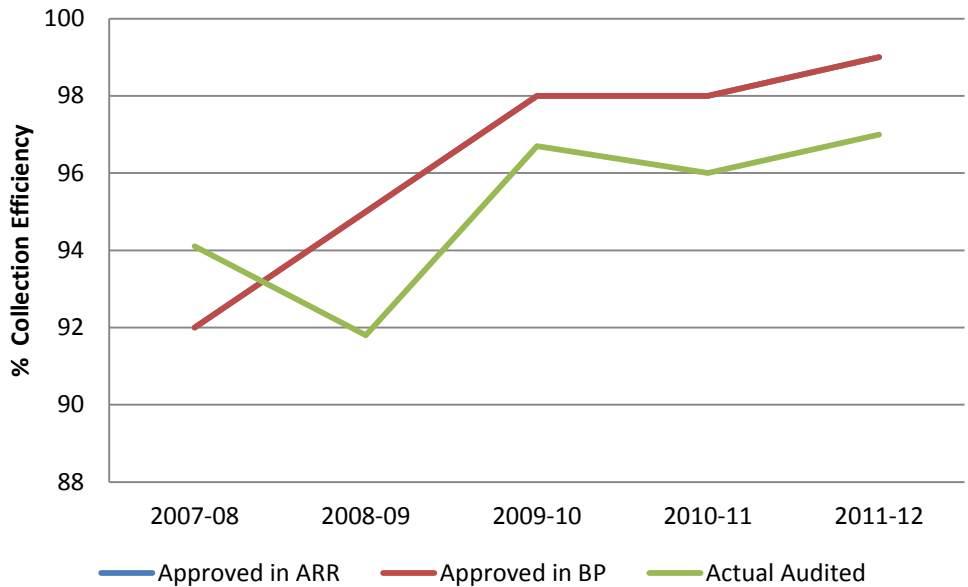
* Provisional

LT Distribution Loss in case of CESU

For FY 13-14	CESU
Overall Distribution Loss proposed	32.00
Distribution Loss Excluding EHT consumption	39.15
LT Distribution Loss (Excluding EHT & HT loss of 8%)	41.88
Distribution Loss Approved in BP FY 2012-13	23

Consumer category	FY 08-09	FY 09-10	FY10- 11	FY 11-12	FY12-13	FY13- 14
EHT	904	1059	1395	1308	1338	1500
HT	810	964	852	942	1011	1181
LT	1669	1750	2114	2241	2487	2900
Total	3383	3773	4361	4491	4836	5581
HT + EHT	1714	2023	2247	2250	2349	2681
% share HT and EHT in total	51	54	52	50	49	48

Collection Efficiency (%)



	Approved in ARR	Approved in BP	Actual Audited	Performance
2007-08	92	92	94.1	2.1
2008-09	95	95	91.8	-3.2
2009-10	98	98	96.7	-1.3
2010-11	98	98	96	-2
2011-12	99	99	97	-2
2012-13		99	99 *	
2013-14		99	99 *	

Observation:

-Licensee has proposed Collection efficiency of 99% which is at par with that of approved in BP for FY 12-13.

-In last five years the collection efficiency has been increased from 94.1% in FY 07-08 to 97% in FY 11-12.

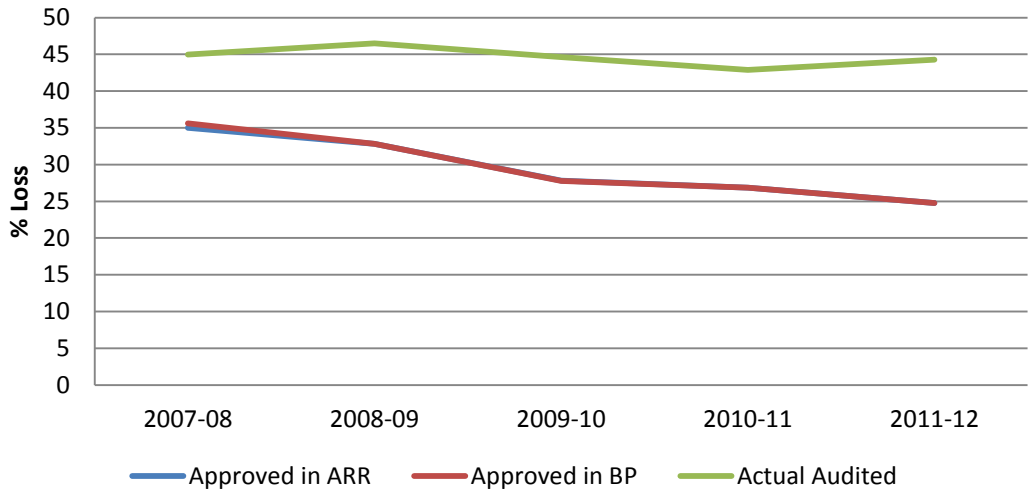
-The revenue collection also includes the past years arrear collection (OTS) and hence the proposed collection efficiency doesn't reflect the actual collection efficiency of the utility.

Submission:

-Revenue collection for current bills and that of past arrears needs to separately analyzed.

* Provisional

AT & C Loss (%)



Observations:

-Licensee has proposed 32.68% AT&C Loss. The proposed losses are higher than the BP approved AT&C losses of 23.77 for FY 13-14

In last five years the AT&C losses have reduced by 0.7% (from FY 07-08 to FY 11-12 (Audited))

FY	Approved in ARR	Approved in BP	Actual Audited	Performance
2007-08	35	35.6	44.96	9.36
2008-09	32.8	32.84	46.51	13.67
2009-10	27.8	27.77	44.61	16.84
2010-11	26.86	26.86	42.86	16.0
2011-12	24.76	24.76	44.26	19.5
2012-13		23.77	37.50 *	0.7%
2013-14		23.77	32.68 *	

* Provisional

Distribution Cost of CESU for FY 2013-14

In Rs Cr

Distribution Costs	FY 12-13	FY 13-14	% Change
a) Employees cost	339.89	298.59	-12.15
b) Repair and Maintenance cost	57.78	77.64	34.37
c) Admin. & General Expenses	39.73	50.66	27.51
d) Provision for bad and doubtful debts	19.44	26.84	38.07
e) Depreciation	35.38	78.72	122.50
f) Other expenses (Discount to Consumers)	0	42.94	
g) Interest and financial charges	53.49	147.24	175.27
Total Expenses (a + b + c + d + e + f + g)	545.71	722.63	32.42

Observation:

-Licensee has proposed **32.42% hike in Distribution Cost for FY 2013-14** over the approved cost for FY 2012-13

ARR Cost Component – Employee Cost

Observations:

- The utility has proposed the Employee cost of Rs 289.59 Cr for FY 13-14 which is 12% lower that approved ARR FY 12-13 (Rs 339.39 cr).
- CESU has reported a net reduction of 160 and 150 numbers of regular employees for FY 12-13 and FY 13-14 .While in last year ARR an addition of new 726 employees was proposed during FY 2012-13

Submission :

- The utility may submit details of employee on its role
- For efficient operation of the distribution system , It is desirable that the staff strength of the utility should increase in proportion to the consumer base , till the franchisee operation get started.

ARR Cost Component – A&G Cost

Observations:

- CESU has proposed A&G expenses of Rs. 50.66 Cr for FY 2013-14 by taking **7% escalation on re-estimated A&G expenses** (Rs 47.28 Cr) for FY 12-13

Submission :

- MYT tariff order of OERC allows a normative escalation of **7% over the FY 12-13 approved A&G expenses** . Therefore A&G cost of Rs **42.51 Cr** may be allowed . (7% on Rs 39.73 cr)
- The performance of Cuttak and Nayagarh EPS in terms of cases registered / cases charge sheeted / accused arrested is not satisfactory
- The performance of Dhenkanal , Kendrapara, EPS in detecting the cases against high value consumers is not satisfactory

ARR Cost Component – R&M

Observation:

- CESU has projected **opening GFA of Rs 1437.89 Cr** as on 1.04.2013 and claimed **5.40% of GFA as R&M**, which comes to Rs. 77.65 Cr

Submission:

- The GFA approved by commission in FY 12-13 order were 940.29 Cr. As on 1.04.2012, **indicating asset addition of Rs 497.6 Cr** during FY 12-13 .
- Assets creation under RGGVY and BGJY schemes should not be considered under GFA as it is not transferred to utility

ARR Cost Component – Provision for Bad Debt & ROE

Observation:

Licensee has proposed Rs 26.84 Cr as provision for Bad Debt by considering 99% collection efficiency as against 99% approved in BP for FY 12-13.

Submission

- Bad debt of Rs 26.84 may be allowed
- There is no new equity capital infusion from DISCOM. Hence the Return on Equity of 11.63 Cr. May be allowed.

	FY 11-12	FY 12-13	FY 13-14
Share capital of CESU (Cr)	72.72	72.72	72.72
Consumers SD (Cr)	379.94	429.33	485.33

ARR Cost Component – Discount to consumer

- Licensee has proposed Rs 42.95 Cr in ARR towards Discount to consumer
- OERC Tariff Regulation does not have provision for such cost component and hence same can not be considered while finalizing ARR

ARR Cost Component – Depreciation

Observation :

CESU has proposed depreciation of Rs 78.72 Cr for FY 13-14 as per Companies Act.

Submission

Depreciation may be allowed at pre-92 rate on the historical cost of asset as on 1 April 1996 & subsequent asset addition up to 1 April 2013.

Computation of Average Cost of Supply

	A	B	C	D	E
	Total ARR (In Rs Cr) FY 13-14	Proposed Power Purchase (In MU)	Total Sales with proposed Dist. Loss (in MU)	Total Sales with Dist Loss as per BP (in MU)	ARR excluding Special Appropriation (in Rs Cr)
CESU	3030.31	8210.47	5583.12	6322.06	3030.31
SOUTHCO	1759.74	3600	2159.06	2682	1238.18
NESCO	2957.16	6140.23	4142.81	5013.49	2615.11
WESCO	3161.93	6821	4433	5484.08	2843.52
Total	10909.14	24771.7	16317.99	19501.64	9727.12

Avg. Cost of Supply for State = $\frac{\text{(A, proposed total ARR)}}{\text{(C, total sales with proposed loss)}} = 668.53 \text{ per kWh}$

Avg. Cost of Supply for State = $\frac{\text{(E, ARR excluding special appropriation)}}{\text{(D sales with distribution loss as per BP)}} = 498.78 \text{ per kWh.}$

Avg. Cost of Supply Approved for FY 12-13 was 460.51 paise per kWh.

For FY 2013-14 it could be close to 498.78 paise PU (+20% is- 598. 54 and -20% is 399.02)

BPL consumers tariff should be minimum – 249.39 paise per unit (50% of Avg. cost of Supp)

THANK YOU