

ANDHRA PRADESH ELECTRICITY REGULATORY COMMISSION

Hyderabad

Present

Sri K. Swaminathan, Chairman

Sri K Sreerama Murthy, Member

Sri Surinder Pal, Member

Dated: 23-03-2006

O.P. No. 08 of 2006

Kuppam Rural Electric Co-operative Society Limited

... Applicant

The Commission having carefully examined the Aggregate Revenue Requirement / Expected Revenue from Charges (hereinafter referred to as the 'ARR/ERC') filings for the year 2006-07, the additional information and documents made available by the Applicant (hereinafter referred to as the "RESCO") and the matter having stood over for consideration till this day passed the following:

ORDER

1. The Kuppam Rural Electric Co-operative Society Limited has been exempted from the requirement of obtaining a Distribution and Retail Supply Licence for the supply area specified in the Licence granted to it earlier under AP Electricity Reform Act, 1998 for one year, from 10-06-2004 to 09-06-2005 as per the orders of the Commission dated 15-06-2004 which has been extended further up to 31.03.2007 as per the orders of the Commission dated 09.06.2005. As per terms and conditions contained in the said exemption order, the RESCO is required to file its ARR / ERC for the ensuing year by 30th November of each year.

2. The RESCO filed its ARR/ERC for the year 2006-07 on 26th December 2005. The ARR/ERC filings by the RESCO were found to be deficient in certain aspects and therefore, clarifications were sought from it. The Staff of the Commission were asked to

discuss certain issues related to the ARR/ERC computations with the officials of RESCO on 08-03-2006. The Staff placed before the Commission the clarifications made available and further details furnished by the RESCO, with their own comments /findings.

3. The Commission analyzed the RESCO's filings for 2006-07 and considered the additional information submitted and clarifications provided by the RESCO. The Commission's decisions thereon are detailed herein below:

4. Revenue Requirement

(a) CAPITAL BASE

- (i) Original Cost of Fixed Assets (OCFA) and Capital Works - in – Progress (CWIP):

The RESCO has projected Rs.2684.38 lakhs under OCFA and Rs. 174.50 lakhs under CWIP in its ARR / ERC filings for 2006-07. Based on the audited accounts for the year 2004-05 and the approved ARR for FY 2005-06 and projections for the ensuing year submitted by the RESCO, the OCFA (Rs. 2684.38 lakhs) has been accepted, as projected. The incorrect projection by RESCO of CWIP(Rs.174.50 lakhs) has been corrected to Rs.143.25 lakhs as per information available in its filings.

- (ii) Working Capital consists of :

- (a) Average Cost of Stores, and
(b) Average Cash and Bank Balances

The RESCO has projected Rs. 5.00 lakhs towards average cost of stores and Rs. 1.50 lakhs towards average cash and bank balance. The Commission has examined these projections and admits Rs.2.50 lakhs towards average cost of stores representing one month's average repairs and maintenance expenses and Rs.16.46 lakhs towards average cash and bank balance representing one month's all other expenses excluding the power purchase cost .

- (iii) Accumulated Depreciation:

The figure projected by the RESCO (Rs. 2142.95 lakhs) in the filing has been accepted without change, based on the latest audited accounts for the year 2004-05 and the projections for the current year and the ensuing year.

(iv) Other items:

The RESCO has projected Rs. 698.00 lakhs towards approved loans, Rs. 97.74 lakhs for consumer security deposits and the Commission has accepted the same.

(v) Summary of Capital Base:

With the above changes, the Net Capital Base of (-) Rs. 78.45 lakhs projected by the RESCO comes down to (-) Rs. 97.24 lakhs as per the details given in the following table:

Table- 1
Statement of Capital Base

(Rs. in lakhs)

Sl. No.	Positive elements	RESCO	APERC
1	Original Cost of Fixed Assets	2684.38	2684.38
2	Capital Works-in-progress	174.50	143.25
3	Working Capital		
	a) Average Cost of Stores	5.00	2.50
	b) Avg Cash and Bank balance	1.50	16.46
A	Total of positive elements of Capital Base	2865.38	2846.59
	Negative elements		
1	Accumulated Depreciation	2142.95	2142.95
2	Approved Loans	698.00	698.00
3	Consumer Security Deposit	97.74	97.74
4	SD Interest to consumer	5.14	5.14
B	Total of negative elements of Capital Base	2943.83	2943.83
	Net Capital Base (A-B)	-78.45	-97.24

(b) Expenditure Items:

(i) Wages and Salaries:

The RESCO has projected Rs.155.00 lakhs under this head which has been revised to Rs.130.00 lakhs after discussion with the officials of the RESCO.

(ii) Administration & General Expenses and Repairs & Maintenance:

The RESCO made projections of Rs.15.00 lakhs and Rs. 40.00 lakhs under these heads which are changed to Rs.15.00 lakhs and Rs.30.00 lakhs respectively based on the audited accounts for the year 2004-05 and approved ARR for FY 2005-06.

(iii) Contributions to Contingencies Reserve :

Since the RESCO has already accumulated more than 5% of Original Cost of Fixed Assets (OCFA) as the Contingencies Reserve, the maximum admissible as per the provisions of the Sixth Schedule to the Electricity (Supply) Act, 1948, the projection of the RESCO under Contributions to Contingencies Reserve (Rs.8.00 lakhs) has not been accepted. The RESCO has a Contingencies Reserve of Rs. 98.49 lakhs which together with interest accumulated to Rs.167.92 lakhs as on 31.03.2006 which the Commission notes is invested in the form of Special Reserve Fund.

The Commission regrets that the RESCO has not invested the sums appropriated to the Contingencies Reserve in securities authorized under the Indian Trusts Act, 1882. Accordingly, therefore,

The Commission directs that the RESCO shall invest the sums appropriated to the Contingencies Reserve in securities authorized under the Indian Trusts Act,1882, and such investment shall be made within a period of 6 months of the close of the year of accounts in which such appropriation is made. The sums already deposited otherwise shall be

invested in such securities immediately after the expiry of the maturity periods of the present deposits/securities.

(iv) Other expenditure items :

The projections of the RESCO under Rent, rates and taxes (Rs.0.80 lakhs), Approved loan interest (Rs.80.97 lakhs), Depreciation (Rs.284.04 lakhs), Legal charges (Rs.1.00 lakh), and Auditors' Fees (Rs. 0.80 lakh) have been allowed without any change. Contribution to Employee funds (Rs.20.00 lakhs), and Interest on Security Deposits (Rs. 5.14 lakhs) and other expenses (Rs.5.00 lakhs) have been adjusted to the actual calculated figures of Rs.17.88 lakhs, Rs.5.86 lakhs and Rs. 3.00 lakhs respectively based on prescribed norms.

(v) Total expenditure:

Based on the above changes, the total expenditure (exclusive of expenditure on power purchase) works out to Rs. 569.35 lakhs as against the RESCO's projection of Rs. 615.75 lakhs as detailed in the following Table:

Table – 2
Statement of Expenditure

(Rs. in lakhs)

Sl. No.	Particulars	RESCO	APERC
1	Wages and Salaries	155.00	130.00
2	Admn & General Expenses	15.00	15.00
3	Repairs and Maintenance	40.00	30.00
4	Rent, Rates & Taxes	0.80	0.80
5	Approved Loan Interest	80.97	80.97
6	Depreciation	284.04	284.04
7	Contbn. to Employee Funds	20.00	17.88
8	Contbn. to Contingency Reserve	8.00	0.00
9	Interest on Security Deposit	5.14	5.86
10	Legal Charges	1.00	1.00
11	Auditors' Fees	0.80	0.80
12	Other Expenses	5.00	3.00
13	Total Expenditure (excluding purchase of energy)	615.75	569.35

(c) Reasonable Return:

Based on the changes made to the Capital Base (accepted by the RESCO), the reasonable return of Rs.3.49 lakhs projected by RESCO has been accepted by the Commission.

(d) Non-tariff Income:

The RESCO has projected an amount of Rs. 95.00 lakhs under this head which has been enhanced to Rs. 100.00 lakhs based on the approved ARR for 2005-06.

(e) Recovery of advance made to a Polytechnic:

As directed by the Commission, in the earlier Orders for FY 2001-02, FY 2002-03, FY 2003-04, FY 2004-05 and FY 2005-06, the RESCO has to recover Rs.110 lakhs advanced by it to a Polytechnic in Kuppam. Hence, the RESCO shall continue to recover the balance amount in regular installments with intimations to the Commission on the status of recovery at the end of every quarter.

(f) Revenue Requirement for FY 2006-07

(Excluding power purchase cost)

The Aggregate Revenue Requirement (excluding power purchase cost) works out to Rs. 472.84 lakhs as against Rs. 504.24 lakhs projected by the RESCO. This is after taking into account the Reasonable Return of Rs.3.49 lakhs and Non-Tariff income of Rs.100.00 lakhs.

(g) Efficiency Gains

The Commission desires that the RESCO should make better efforts to improve its efficiency to reduce losses and collect arrears. Considering the HVDS scheme with investment of more than Rs. 500.00 lakhs by the RESCO, its total power demand of 186.00 MU and the efficiency already achieved by it during the last six years, the Commission is of the view that it can achieve efficiency gains of Rs.50.00 lakhs. The efficiency gains to this extent have been adopted by the Commission to arrive at the net aggregate revenue requirement of Rs.422.84 lakhs.

(h) Expected revenue from charges (ERC):

The RESCO has filed the ERC at Rs. 808.45 lakhs (excluding customer charges) based on current tariff rates effective from 01-04-2005 except for Agricultural

category, where the revenue has been revised by the RESCO as per new modified Agricultural policy of Government of Andhra Pradesh. This is adopted for the calculation of amount available with the RESCO for power purchases. Category-wise sales and revenue projected by the RESCO and as approved by the Commission is given in the table below:

Table – 3
Category-wise Sales and Revenue

Sl. No.	CATEGORY	RESCO		APERC	
		Sales (MU)	Revenue (Rs. lakhs)	Sales (MU)	Revenue (Rs.lakhs)
1	LT I – Domestic	12.49	348.51	12.49	348.51
2	LT II - Non-Domestic	3.47	209.74	3.47	209.74
3	LT III – Industrial	3.02	138.93	3.02	138.93
4	LT IV - Cottage Industries				
5	LT V - Irrigation and Agriculture	131.32	54.82	131.32	54.82
6	LT VI - Local Bodies, Street Lighting	6.19	44.45	6.19	44.45
7	LT VI B - PWS schemes				
8	LT VII - General Purpose	0.24	10.70	0.24	10.70
9	LT VIII - Temporary Supply	0.02	1.30	0.02	1.30
	Total	156.75	808.45	156.75	808.45

(i) Amount available with the RESCO for power purchases

The amount available with the RESCO for power purchases has been computed at Rs. 385.61 lakhs as per details given below:

Table – 4
Amount available with RESCO for power purchase
(Rs. in lakhs)

Sl. No.	Particulars	RESCO	APERC
1	Expenditure	615.75	569.35
2	Reasonable Return	3.49	3.49
3	Less: Non-Tariff income	95.00	100.00
4	Revenue Requirement (1+2-3)	524.24	472.84
5	Less: Efficiency Gains	20.00	50.00
6	Net Revenue Requirement (4 - 5)	504.24	422.84
7	Revenue from sale of Power	808.45	808.45
8	Amount available for Power Purchase (7-6)	304.21	385.61
	Units to be purchased (in MU)	190.00	186.00
	Power purchase price : Re/Unit	0.16	0.21

5. Quantum of power purchases by RESCO:

The RESCO has projected purchase of 190.00 MU (gross) during FY 2006-07 which the Commission has reduced to 186.00 MU based on agricultural growth rate allowed for the respective DISCOM (APSPDCL).

6. Power purchase price

Based on the above - mentioned power purchases of 186.00 MU, the power purchase price for the RESCO works out to 21 paise per unit of energy supplied by the APSPDCL for FY 2006-07. However, for any additional purchase over and above the limit specified in paragraph 5 above, the RESCO has to pay at the power purchase rate for excess drawals by APSPDCL or at the Bulk Supply Tariff (BST) applicable to APSPDCL if the additional purchase by the RESCO does not result in excess drawal by the DISCOM, as the case may be. The RESCO shall follow all the guidelines / regulations applicable to Licensees for power purchases.

7. Tariffs

The RESCO shall charge Tariffs as per the Commission's Order in O.P.Nos. 02 to 05 of 2006 dated: 23-3-2006 on Distribution Tariffs and Retail Supply Tariffs for 2006-07, issued separately as applicable in the case of APSPDCL. The RESCO shall also comply with all Directives contained in that Order insofar as those are applicable to it.

8. Compliance with Commission's Directives

The Commission reviewed the status of compliance of its directives issued to the RESCO in its orders on ARR / ERC for the FY 2000-01, FY 2001-02, FY 2002-03, FY 2003-04 and FY 2004-05. Annexure - A shows a summary of the status of compliance of the directives as reported by the RESCO. As can be seen there from, many of the directives are ongoing in nature, and it was observed that the RESCO needs to make better efforts to comply with the directives relating to reduction in loss levels, transformer failures and collection of its dues/arrears (Sl.No.3,4,7 &5 of Annexure-A).

The Commission directs that the RESCO shall comply with such ongoing directives and further directs that RESCO should devise a special action plan and

make concerted efforts on the important issues cited below and file reports on status of compliance thereto at the end of every quarter during FY 2006-07:

- (i) The RESCO shall fix meters to all services including new agricultural consumers by the end of FY 2006-07 (directed in part vide paragraph 7 of list of Commission's directives in ARR orders for FY 2000-01 and FY 2001-02) and file quarterly status reports on metering. RESCO shall also file a metering plan to fix meters to all agricultural consumers by June, 2006.
- (ii) The RESCO shall build the sales database for the entire RESCO as directed in paragraph 4.7.1 of the Commission's Order on the RESCO's ARR/ERC filings for FY 2002-03.
- (iii) In continuation to Commission's directives on collection of arrears in the Commission's Order on the RESCO's ARR/ERC filings for FY 2000-01 and FY 2001-02, the Commission directs that the RESCO shall collect 100% of outstanding dues, as at 31-03-2006, from consumers.
- (iv) The RESCO shall collect 100% current consumption charges and effect immediate disconnection for consumers with pending dues (including arrears) of more than two months' current billing amount.
- (v) The RESCO shall regularly pay the full amount due to SPDCL for power purchase at the rate fixed by the Commission, failing which the SPDCL shall stop power supply to the RESCO immediately.
- (vi) The RESCO shall limit agricultural consumption to 131.32 MU in FY2006-07.
- (vii) Prevailing loss level for calculation of power purchase has been taken at 15.83%. The RESCO shall put in its best efforts to bring down the losses to 15.00% by the end of FY 2006-07.
- (viii) The RESCO shall bring down Transformer failure to 10.00 % per annum by the end of FY 2006-07.
- (ix) The RESCO shall identify and disconnect multiple connections (in Domestic and Commercial categories) to the same premises (meant for the same family / organization).
- (x) The RESCO shall conduct energy audit in all Mandal headquarters in its licensed area and file quarterly reports, also indicating therein the progress made month-wise.

9. The Commission does not consider the RESCO's expenditure / revenue calculations as filed to be in accordance with the requirement. The Commission has instead proposed alternative calculations for the ARR / ERC and the rates for power purchases from APSPDCL which the RESCO shall accept and implement as contained in this order.

This order is signed on this 23rd March, 2006.

Sd/-
SURINDER PAL
MEMBER

Sd/-
K. SREERAMA MURTHY
MEMBER

Sd/-
K. SWAMINATHAN
CHAIRMAN

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ANNEXURE – A
COMPLIANCE TO DIRECTIVES ISSUED IN APERC ORDERS ON
ARR / ERC FILED BY THE RESCO FOR FY 2001-02, 2002-03 & 2003-04

Sl. No	APERC DIRECTIVE	ACHIEVEMENT REPORTED BY RESCO FY 2005-06
1	The RESCO shall fix metes to all services including new agricultural consumers to the end of FY 2005-2006 (directed in part vide paragraph 7 of list of commission's directives in ARR orders for FY 2000-01 and FY 2001-02). RESCO shall also file a metering plan to fix meters to all agricultural consumer by 30 th June, 2005.	RESCO is able to fix 3 Phase meters only to new Agricultural Services released since 01.04.2003. After receipt of agricultural arrears due from the Government of Andhra Pradesh. RESCO shall procure 3 phase meters required for old agricultural services and complete the task of fixing by 31.03.2007.
2	The RESCO shall limit Agricultural Consumption to 112.00 MU FY 2005-06.	Agricultural Consumption has increased due to un precadented rain fall and recharging dry wells and RESCO request for additional Agricultural Quota may please be considered.
3	The prevailing loss level for calculation of power purchase has been taken at 15.83% . The RESCO shall put in its best efforts to bring down the losses to 15% by the end of FY 2005-06.	Losses shall be brought down to about 15% level.
4	The RESCO shall bring down Transformer failure to 12% per annum by the end of FY 2005-06.	Transformer failure rate has gone up to a sudden increase of Agricultural Consumption and all efforts shall be made to reduce failure rate to about 12%.
5	In continuation to commission's directives on collection of arrears in Commission's order on the RESCO's ARR/ERC filings for FY 2000-01 and FY 2001-02 the commission directs that the RESCO shall collect 100% of outstanding dues as on 31.03.2005 from consumers.	All efforts are put to increase arrears collection which has gone up three fold from 03/2004 to 03/2006 and it is targeted to realize at least 50% of arrears during 06-07.
6	The RESCO shall regularly pay the full amount due to SPDCL for power purchase at the rate fixed by the Commission, failing which the SPDCL shall stop power supply to the RESCO immediately.	Yes. Monthly SPDCL bill is being paid now.
7	The RESCO shall collect 100% Current consumption charges and effect immediate disconnection for consumers with pending dues (including arrears) of more than two months' current billing amount.	Collection of current demand charges have also increased three fold from March, 2004 to March, 2006 and it is targeted to achieve at least 90% demand during 2006-07 every month.
8	The RESCO shall identify and disconnect Multiple connections (in Domestic and commercial categories) to the same premises	Multiple connections are being monitored and attended regularly.

	(meant for the same family/organization)	
9	The RESCO shall conduct energy audit in all Mandal headquarters in its licensed area and file quarterly reports also indicating therein the progress made month-wise.	Energy Audit in Kuppam town and 1 No.11KV rural feeder are being submitted during half- yearly review.
10	The RESCO shall build the Sales Database for the entire RESCO as directed in paragraph 4.7.1 of the commission's order on the RESCO's ARR/ERC filings for FY 2002-03.	Sales Data base is being done since 01.04.2003 regularly.