

KERALA STATE ELECTRICITY REGULATORY COMMISSION
Thiruvananthapuram

Present : Shri. K.J.Mathew, Chairman
Shri.M.P.Aiyappan, Member

Petition No. TP.73/2010

**In the matter of
ARR&ERC OF KINESCO POWER AND UTILITIES PRIVATE LTD
FOR THE YEAR 2010-11**

October 15, 2010

**Kinesco Power and Utilities Pvt Ltd
Kakkanad, Kochi : Petitioner**

O R D E R

The Kerala State Electricity Regulatory Commission having scrutinized the Petition on ARR&ERC for 2010-11 filed by Kinesco Power and Utilities Pvt Ltd *vide* their letter No.KINESCO/KSERC/ARR/2010/198 Dated 27th July 2010 , heard the views of the petitioner and the public in the Commission's proceedings on 8th September 2010 and having considered other documents and materials on record, passes the following order in exercise of the powers vested in it under the Electricity Act, 2003 in this behalf.

Sd/-
M.P.Aiyappan
Member

Sd/-
K.J.Mathew
Chairman

Authenticated copy for issue

Secretary

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CHAPTER I

INTRODUCTION

1.1 Preamble

Government of Kerala had granted a license for distribution of power to KINFRA Export Promotion Industrial Parks Limited to supply electricity to various establishments within the park area vide G.O. (P) No: 18/2003/PD dated 8.5.2003. Accordingly, KINFRA Export Promotion Industrial Parks Limited (KEPIP) is a deemed distribution Licensee under the first proviso of Section 14 of Electricity Act, 2003.

Further the Government of Kerala has accorded sanction for the formation of a joint venture company between KINFRA and NTPC Electric Supply Company Ltd (NESCL) vide order G.O.(MS) No.88/2008/ID dated 27th June 2008.

As clearly stated in the G.O dated 27th June 2008, the main objectives of the joint venture company are (1) distribution of power as a licensee in the industrial parks, SEZ and other industrial project (2) system improvement in terms of quality and reliability in the distribution sector and also bring in new technologies.

The G.O dated 27th June 2008, also states that the joint venture company will be incorporated as a private limited company under the Companies Act 1956 with 50% equity held by Kinfra and 50 % equity by NESCL.

As stated in the G.O, the authorized share capital of the Company shall be Rs 15 Crore divided in to 1,50,00,000 (1.5 Crore) equity share of Rs 10/- each.

Vide letter dated 27th March 2009, the Director of KINESCO Power and Utilities Private Ltd, intimated the Commission that a company as approved by Government vide G.O dated 27th June 2008, has been incorporated in the name Kinesco Power and Utilities private Ltd (KPUPL) as a 50:50 joint venture between Kinfra and NESCL on the

17th September 2008. An application for transfer of Licence for distribution of electricity from KEPIP to the newly formed joint venture company was also submitted.

Public hearing on the application was conducted at Thrikkakara Grama Panchayat Hall on 30th July 2009 after giving publicity through the dailies and the visual media.

The Order approving the transfer of Licence for distribution of electricity in the Industrial Parks of Kinfra at Kakkanad, Kalamassery and Palakkad from KEPIP to KPUGL was issued by the Commission on 30-11-2009.

1.2 Procedural History

KPUGL filed a petition for ARR and ERC for the financial year 2010-11 on 27th July 2010, which was placed before the Commission after initial scrutiny for the procedural requirements and was admitted and registered as TP 73 of 2010.

Clarification on certain points were sought from KPUGL vide letter dated 3rd September 2010.

Reply to the clarifications was furnished by KPUGL vide letter dated 20th September 2010.

The Commission held proceedings for a public hearing at the Court Room of the Commission on 8th September 2010.

The Commission has thus ensured that the due process contemplated under the governing Act and Regulations were followed and adequate opportunity was provided at every stage to all individuals and organizations concerned, to express their views.

In finalizing the order on the ARR & ERC for the FY 2010-11, the Commission has taken into consideration the materials filed by the Licensee the clarifications furnished by the Licensee in the meeting with the Commission, and further views expressed by the Stakeholders during the proceedings held for hearing their objections if any.

Chapter II

ENERGY REQUIREMENT PROJECTIONS FOR 2010-11

The energy requirement projections for 2009-10 proposed by KEPIP was 62.86 MU and that projected by KPUPL for 2010-11 is 71.96 MU. The number of consumers estimated for 2009-10 by KEPIP and that estimated by KPUPL for 2010-11 are as follows.

	<i>2009-10 (KEPIP projection) Nos</i>	<i>2010-11 (KPUPL projection) Nos</i>
<i>HT consumers</i>	35	24
<i>LT consumers</i>	75	75
<i>Temporary connections</i>	15	8
<i>Total</i>	125	107

The ARR for 2009-10 was submitted by KEPIP in February 2008. There was general recession in the year 2008-09 and 2009-10 and it is noted that actual growth in 2009-10 was negative. But for the year 2010-11, other SEZ based Licensees have projected higher demand. Thus it can be concluded that there is no close similarity in the consumption in 2009-10 and the consumption estimates for 2010-11 and the higher projection is justifiable.

CHAPTER III

T & D LOSSES

The T&D loss for 2009-10 estimated by KEPIP was 2.6%. The loss estimated by KPUPL for the year 2010-11 is 3%. This was taken up with the Licensee who has clarified that as the area of operation is expected to be larger, a small increase in loss is

anticipated. A point on this aspect was raised by KSEB also. This can be reviewed at the time of truing up. No change in the Line loss is proposed.

CHAPTER IV

AGGREGATE REVENUE REQUIREMENT FOR 2010-11

The ARR& ERC submitted by the Licensee gives the following details.

Sl No	Particulars	2010-11 Rs lakh
1	ROE	139.65
2	Power Purchase Cost	2324.3
3	Operation & Maintenance Cost	45.14
4	Employee cost	83.26
5	A&G Expenses	45.16
6	Depreciation	106.25
7	Interest & Finance Charges	161.7
8	Total	2905.46

4.1 Purchase of Power

The energy to be purchased from KSEB for the year 2009-10 projected by KEPIP was 62.86 MU. The corresponding figure for 2010-11 estimated by KPUPL is 71.96 MU.

Licensee has given the cost for purchase of power as given below.

Year	Energy Purchased- MU	Energy charge-Rs lakh	Demand charge-Rs lakh	Total - Rs lakh
2010-11	71.96	1978.85	345.45	2324.3

The demand charge applicable for 110kV Licensees is Rs 245 per kVA of MD. The MD corresponding to the demand charge of Rs 345.45 lakh works out to 11750 kVA.

As no change in Distribution Loss was proposed above, the power purchase cost of Rs 2324.30 lakh is approved

4.2 Interest and Finance Charges

The interest and finance charges estimated by KEPIP for the year 2009-10 was Rs 153.19 lakh. The charges proposed by KPUPL for 2010-11 is Rs 161.70 lakh. Loan outstanding at the beginning of the year is given as Nil. Loan availed during the year is given as Rs 2350.00 lakh. Interest at 11% is seen taken.

This was discussed with the Licensee in detail. It was clarified that the amount shown as Rs 2350 lakh includes Rs 1750 lakh required for the investment in Kalamassery Park. Interest on this amount for 6 months has been taken. Thus the total is Rs 162.25 lakh.

In the ARR & ERC petition filed by KEPIP in the year 2008, the loan outstanding at the end of 2009-10 is given as Rs 1831.89 lakh. As clarified by KPUPL, the loan at the beginning of 2010-11 is only Rs 600 lakh.

KPUPL has stated that they cannot comment on the loan projections made by KEPIP. The extent to which the loan repayment has been done by KEPIP will be known only by completing the truing up process. Also the surplus available with KEPIP has to be known for allowing the loan for new investment.

Pending the completion of the truing up process, no change in the Interest and Finance charges are proposed.

4.3 Depreciation

Depreciation estimated for 2009-10 as given in the order on ARR & ERC for 2009-10 is Rs 88.76 lakh. This was approved on the basis of the asset details furnished by KEPIP. Depreciation estimated by KPUPL for the year 2010-11 in the petition is Rs 106.25 lakh. In the clarification furnished vide letter dated 20th September 2010, the figure has been revised to Rs 81 lakh. The split up is as follows.

Sl No	Item	2010-11 (Rs lakh)
1	Sub Stations	70
2	11 kV works	9
3	Metering equipment	2
4	Others	0
5	Total	81

KPUPL has clarified that the assets presently owned by them and that belonged to KEPIP are one and the same.

As clarified by KPUPL, the value of assets as on 01.02-2010 and additions in 2010 and depreciation for 2010-11 are given below.

Asset Type	Value as on 01.02.2010-Rs lakh	Depreciation up to march 2010- Rs lakh	Additions in 2010- Rs lakh	Depreciation for 2010-11- Rs lakh
Substation	1276	46	2706	70
11 kV Lines	259	9		9
Metering Equipment	24	2		2
Total	1559	57	2706	81

In the details of assets furnished by KEPIP, there were items under substations, 11 kV lines, metering equipments and "Others". In the asset details submitted by KPUPL, the item "Others" is not included.

KPUPL has clarified vide letter dated 20th September 2010 that the ARR & ERC has been prepared based on the book value.. It is further stated that the book value will be different from the value of assets available from the ARR & ERC of KEPIP. The argument is not correct. As the same assets are transferred, the same NAV should be carried forward and depreciated as per norms. This requires actual NAV of assets as on the date of transfer.

A detailed study is required to settle this issue. This can be worked out during the truing up. Also asset addition in 2010-11 cannot be taken for calculation of depreciation in the same year.

Pending finalization of asset value as on 31-03-2010, the depreciation allowed for 2009-10 i.e. Rs 88.76 lakh is taken for provisionally for the purpose of calculation of ARR.

4.4 Employee Cost

The cost approved for the year 2009-10 in the estimate proposed by KEPIP was Rs 34.55 lakh. KPUPL has estimated the cost for 2010-11 as Rs 83.26 lakh. KPUPL has taken the salary and allowances of only three employees each at Rs 27.09 lakh. This highly unscientific and exorbitant. It is not correct to pay the same salary of CEO to others also.

It is noted that the personnel now employed are on deputation from NTPC. It is not correct to debit such huge salaries to a small distribution business. KPUPL should find ways to manage the business at reasonable costs. It is also noted that the Licensee manages the operation and maintenance of the system through outside agencies.

A point on this was raised by KSEB also. Commission finds it reasonable to allow an employee cost of Rs 25 lakh only for the year 2010-11.

4.5 Repair and Maintenance Charges

The cost estimated for 2009-10 by KEPIP was Rs 65.92 lakh. The cost estimated for 2010-11 by KPUPL is Rs 45.14 lakh. It is noted that KEPIP had estimated the O&M cost for substations at Rs 42.0 lakh whereas KPUPL has estimated it at Rs 22.80 lakh only. No change in the estimate is proposed.

4.6 Administration & General Expenses

The cost estimated for 2009-10 by KEPIP was Rs 70.72 lakh. The cost estimated for 2010-11 by KPUPL is Rs 45.16 lakh. KPUPL has taken lower figures in most of the

sub items when compared to the estimates by KEPIP. No change in the estimate is proposed.

4.7 Return On Equity

The NAV of assets as on 01-04-2010 is given as Rs 14.86 crore. When claiming interest on loan licensee has clarified that the loan for existing assets as on 01-04-2010 is Rs 6 crore. 30% of Rs 14.86 crore is Rs 4.46 crore and 14% of the same is Rs 65.44 lakh.

Pending finalization of truing up, ROE is deferred. KPUPL has to be submit the balance sheet as on the date of taking over from KEPIP. Also KEPIP has to submit the opening balance sheet as on the date of transfer to KPUPL.

4.8 OVERALL POSITION REGARDING AGGREGATE REVENUE REQUIREMENT FOR 2010-11

Based on the above discussion, the overall position regarding the Aggregate Revenue Requirement for 2008-09 to 2010-11 would be as given below:

Sl No	Particulars	2009-10 Rs lakh	2010-11 Rs lakh
1	Power Purchase Cost	2125.22	2324.3
2	Operation & Maintenance Cost	65.92	45.14
3	Employee cost	33.55	25
4	A&G Expenses	70.72	43.16
5	Depreciation	88.76	88.76
6	Interest & Finance Charges	153.19	162.75
7	Total	2537.36	2689.11

CHAPTER V

REVENUE RECEIPTS DURING 2010-11

5.1 Revenue from Tariff Income

Revenue from tariff as approved in the ARR for 2009-10 was Rs 2465.23 lakh. KPUPL has estimated the revenue as Rs 2757 lakh. The increase in power purchase cost over the projected figure for 2009-10 is Rs 199.08 lakh. The increase in revenue over the estimate for 2009-10 is Rs 291.77 lakh. The same is accepted.

5.2 Revenue from Non Tariff Income

An income of Rs 24.5 lakh is given under this item. Licensee has clarified that of this amount, Rs 10.5 lakh is interest at 6% on the amount deposited with KSEB and Rs 14 lakh is interest from Bank on the margin money provided for obtaining the BG. No change is proposed.

5.3 Expected Revenue From Charges

Based on the above discussion, the Commission would place the expected revenue from charges as follows

Revenue from Tariff	Rs 2757 lakh
Non-tariff income	Rs 24.5 lakh.
Total	Rs 2781.5 lakh.

CHAPTER VI

REVENUE SURPLUS

Based on the above analysis and revisions, the gap between ARR&ERC is as follows.

ARR	Rs 2689.11 lakh
Income	Rs 2781.5 lakh
Surplus	Rs 92.39 lakh

CHAPTER VII

COMMISSION'S ORDER

Pending finalization of the value of asset at the time of transfer, a decision on equity and consequently ROE are deferred. The retail tariff will continue without any change.

CHAPTER VIII

COMMISSION'S DIRECTIVES

- 1) On finalization of accounts for 2010-11, Licence shall submit the actual audited accounts.
- 2) Licensee shall file the truing up petition for 2009-10 before 30th November 2010.
- 3) Licensee shall submit the opening balance sheet within a fortnight.
- 4) KEPIP shall submit the closing balance sheet as on the date of transfer of the licence to KPUPL within a fortnight.
- 5) Quarterly report on achievement of standards of performance has to be submitted.
- 6) 5% of the total sale of energy shall be met from renewable energy sources.