KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT : Shri. K.J.Mathew, Chairman
Shri P Parameswaran, Member
Shri. Mathew George, Member

May 6, 2011

Petition OP No.3 / 2011

In the matter of
ARR&ERC of Cochin Special Economic Zone for 2011-12

Cochin Special Economic Zone - Petitioner

ORDER

Background

1. The Cochin Special Economic Zone (hereinafter called CSEZ) is a Government of India owned Special Economic Zone under the Ministry of Commerce and Industry, Government of India. The Zone comprises of 105 acres of land in Kakkanad, Kochi. Distribution Licence was granted to CSEZ by Government of Kerala vide G.O (Rt) No.118/02/PD dated 20-06-02. As per the information provided by the licensee, there are three categories of consumers in CSEZ viz. HT, LT and temporary. As on 31.11.2010 there are 26 HT connections, 96 LT connections and 5 temporary connections.

2. The licensee has submitted its petition for approval of ARR&ERC by its petition dated 13-01-2011. The petition was admitted as OP No.3 of 2011. In the petition, the licensee has estimated the total revenue gap as Rs.78.30 lakhs for 2011-12 mainly on account of increase in power purchase cost due to revision of BST. The total projected income is Rs.2585.42 lakhs against estimated expenditure of Rs.2663.72 lakhs. The licensee has not made any provision for return on investment. A summary of the ARR&ERC petition of the licensee is given below:

	2010-11 (Approved) (Rs. Lakhs)	2011-12 (projected) (Rs.lakhs)
Revenue from sale of power	1,880.89	2,580.00
Non-Tariff Revenue	-	5.42
Total Revenue	**1,880.89**	**2,585.42**
Expenses		
Purchase of power	1,563.86	2,425.92
Repair & Maintenance	7.59	20.01
Employee costs	83.74	124.00
A&G expenses	30.61	38.02
Depreciation	39.96	55.77
Interest & Financing charges	-	-
Total Expenses	**1,725.76**	**2,663.72**
Surplus/(deficit)	**155.13**	**(78.30)**

3. In the petition the licensee has stated that though, no increase in number of consumers are expected, because of space limitations the energy sales is estimated increase by 20%. As per the renewable purchase obligation, the licensee is expected to purchase at least 3% of the energy from renewable sources ie., about 1.5 MU. Considering the non-availability of power from renewable sources such as solar and wind, the licensee is planning to purchase about 1 MU from small hydel sources and the preliminary negotiations are in progress. As part of the capital expenditure programme, the licensee is planning to install SCADA and Web enabled Data management system for power distribution. Total capital expenditure programme proposed is Rs.320.25 lakhs. The streetlights in the campus is being revamped with solar power backup with an estimated cost of Rs.290.25 lakh. The Government of India has committed Rs.90 lakhs for the capital expenditure. The Commission sought certain clarification vide its letter dated 27-1-2011 and the licensee has provided the same on 9-2-2011.

Hearing on the matter

4. The hearing on the petition was held on 23-2-2011 at licensee's premise. During the hearing KSEB raised some issues on the petition. According to KSEB, loss level allowed in the previous year ie., 0.6% shall be allowed. Further depreciation

shall be as per norms fixed by the Commission. KSEB also stated that the licensee cannot invest in street lighting system as part of the distribution activity. The deficit projected by the licensee shall be adjusted against the surplus available in the previous years. The Government has given the licence to the CSEZ on the condition that 15MWA captive power shall be used for supplying power to the units. However, the licensee has not fulfilled the obligation. Shri,.Varma, representing the consumers association stated that all the consumers are satisfied with the service provided by CSEZ. However the consumers are concerned about the deficit projected by the licensee. Shri. A.R Satheesh, CUMI, stated that efficiency shall not be penalized by the Commission. The cost of employees is about 19 paise/kWh, but the margin is only 23 paise/kWh. The licensee shall introduce ToD tariff for both HT and LT consumers and also use kVAh metering and tariff structure may be introduced along with ToD. He suggested that the licensee shall also explore the option of buying on a short term basis by utilizing the open access.

5. The licensee in its reply stated that the captive unit was not established due to lack of space in the zone and also the operational expenses are much higher. However, the licensee is exploring the methods for meeting the renewable energy obligation by forming joint ventures.

Analysis and decision of the Commission

6. **Energy Sales:** The licensee has projected total sales for the year 2011-12 as 65MU. Of this, own consumption is estimated as 0.02 MU and the total energy requirement projected is 65.71MU for 2011-12.The Licensee has estimated an increase of 20% in consumption to meet the increase in the demand of the existing consumers.

7. After considering the past data, the Commission is of the view that 20% increase in sales without any change in number of consumers is not likely. However, the Commission without adequate support data is not inclined to change the projections of the licensee. Accordingly, energy sales as projected by the licensee is accepted for 2011-12.

Proposed and approved Energy sales for 2010-11

Category	2009-10 (Actuals)	2010-11 (provisional)	2011-12 (Projection)	2011-12 (Approved)
	(MU)	(MU)	(MU)	(MU)
HT	38.76	48.78	58.30	58.30
LT	5.44	5.55	6.68	6.68
Self consumption	0.04	0.01	0.02	0.02
Total Sales	**44.24**	**54.34**	**65.00**	**65.00**

8. **T&D loss and Energy requirement:** The energy loss reported by the licensee is around 1%. The distribution system has underground cabling and pre-paid meters of 0.5 accuracy class. Besides, there is a constant real time computerized monitoring arrangement. In the previous ARR&ERC Order the Commission has fixed the T&D loss target for the licensee as 0.70%. The licensee projects the loss for 2010-11 as 0.69%. Hence, the higher T&D loss for 2011-12 is not acceptable and the target given by the Commission is retained for 2011-12. Accordingly, the target T&D loss for 2011-12 is 0.7%.

Category	2010-11 (provisional)	2011-12 (Projection)	2011-12 (Approved)
Total Sales (MU)	**54.34**	**65.00**	**65.00**
Distribution Loss (MU)	0.38	0.66	0.46
Gross energy requirement (MU)	**54.72**	**65.66**	**65.46**
Distribution Loss (%)	**0.69**	**1.01**	**0.70%**

9. **AT&C Loss:** In the distribution business, T&D loss and AT&C loss are the common performance parameters employed. The collection efficiency reported by the licensee is nearly 100% due to use of pre-paid meters. Hence the A&TC loss for 2011-12 is fixed as 0.7%.

10. **Power purchase cost :** In the ARR, the licensee has projected the power purchase cost as Rs.2425.92 lakhs. The power purchase cost was estimated considering the revision of BST, which is effective from 1/12/2010. The licensee has stated that Power Purchase Agreement with KSEB for supply of 10000 kVA energy has been executed on 31/12/2010. The power purchase cost estimated by the licensee is as follows:

	Proposed by Licensee
Units purchased (MU)	65.66
Fixed charges (Rs. lakhs)	351.06
Variable charges (Rs.lakhs)	2074.86
Total charges (Rs.lakhs)	2425.92
Average rate (Rs./kWh)	3.69

Based on the approved energy requirements and revised BST, the approved power purchase cost for 2011-12 is estimated as follows:

	Approved by the Commission
Energy requirement (MU)	65.46
Contract Demand (kVA)	10000
Fixed Charges (Rs./kVA)	245
Total Fixed Charges (Rs.lakhs)	294
Variable Charges (Rs./kWh)	3.16
Total Variable Charges (Rs.lakhs)	2,068.48
Total Charges (Rs.lakhs)	**2,362.48**

11. **Interest and financing charges :** The Govt. of India met the entire expenditure on infrastructure for power distribution in CSEZ. The licensee has not proposed any charges under this head. Thus there is no expenditure on interest payments.

12. **Depreciation:** The GFA at the beginning of the year 2011-12 proposed by the licensee is Rs.1070.52 lakhs. The total addition to GFA proposed is Rs.410.25 lakhs. The licensee has proposed Rs.60 lakhs each for Substations and software for power distribution. Rs.200.25 lakhs is provided for street lights out of which Rs.90 lakhs is grants. Accordingly, the total depreciation estimated by the licensee is Rs.55.77 lakhs. As part of the clarification, the licensee has stated that depreciation for software has been taken as per Companies Act since there is no provision as per CERC regulations.

13. The Commission analysed the claim of depreciation by the licensee. The Commission notes that the licensee has not obtained approval for the capital expenditure proposed. *The licensee shall submit the complete details of the proposed capital expenditure for the consideration of the Commission within one month from the date of this Order.* The total asset addition proposed by the licensee is Rs.410.25 crore, of which Rs.200 lakhs is for street lighting. The Commission has already commented on the legitimacy of including such assets as part of distribution licensing activity. Hence, the Commission excludes the

depreciation charged on street lighting. The Commission will scrutinize in detail the asset addition for the year once the details are provided to the Commission. Till then the depreciation estimated by the licensee less the depreciation provided for street lighting system is allowed in the ARR for 2011-12, subject to the final decision on depreciation on assets created out of contribution. The total depreciation accordingly allowed is **Rs.46.76 lakhs**. In the Truing up of accounts for the 2006-07 to 2009-10 the Commission has allowed depreciation and directed the licensee to create a fund for depreciation reserve. The direction shall be applicable to ARR&ERC for 2011-12 also.

14. **Employee costs:** The employee costs proposed by the licensee is Rs.124 lakhs as against Rs. 83.74 lakhs approved for the year 2010-11. The licensee has given the revised estimate of employee costs for 2010-11 as Rs.110.89 lakhs mainly on account of increase in O&M charges payable to M/s,Kitco Limited. The Commission has sought clarification on this and the Licensee has explained the reason behind this increase. In its reply the licensee has stated that the employee cost consists of the O&M charges to M/s Kitco Ltd. and the proportionate allocation of the cost of employees of the zone looking after the power distribution functions. The O&M charges are negotiated and fixed on a year to year basis. Therefore, a mere projection is only given in the ARR submission. The actual expenditure was higher than the projection given in 2010-11.

15. The Commission is not in favour of negotiated settlement of selection of contractors for O&M. As stated by the licensee the major share is the O&M cost given to M/s Kitco limited. The cost escalation from 2006-07 to 2009-10 is to the tune of about 19%, where as the asset addition is only 1.3%. The average increase from 2009-10 to 2011-12 is about 16.4%, which is much higher than growth in WPI. The Commission is also inclined to provide reasonable escalation for accounting inflation. Accordingly, for 2011-12, the Commission is of the view that 10% compounded increase from actual for 2009-10 is reasonable to be allowed as employee cost for 2011-12. Hence the employee cost for 2011-12 is Rs.110.76 lakh.

16. Repair and maintenance expenses : The licensee has projected Rs.20.01 lakhs for repair and maintenance expenses. Commission is of the view that the proposed R&M expenses cannot be accepted after analyzing the past trend. The past figures for the last five years in the R&M expenses are as follows:

Year	R&M expense (Rs. lakhs)
2006-07	7.39
2007-08	4.77
2008-09	10.52
2009-10	9.80
2010-11 (Approved)	7.59
2010-11 (revised)	14.66
2011-12 (projected)	20.01

17. The projected R&M expenses is about 43% annual increase than 2009-10 level. Further it is about 164% more than 2010-11 approved level. The Licensee has also revised the estimates for 2010-11 to Rs.14.66%. The projected expenses for 2010-11 is about more than 36% from the revised estimates of 2010-11. This shows that the projection of R&M expenses is unreasonable. The clarification provided by the licensee is that though the approved amount for 2010-11 is Rs.7.59 lakhs, the revised estimate is Rs.14.66 and the increase of Rs.3.74 lakhs includes maintenance/replacement of one 11kV feeder VCB in the substation. The Commission notes that in the case of licensee, the R&M expenses is mainly on cost of spares. The licensee has included electricity charges of Rs.1.57 lakhs in R&M expenses, which is also not proper. The licensee may properly account the electricity charges in the accounts. The Commission does not discount the need for proper R&M for maintaining supply to the consumers. Considering the above, the Commission is inclined to provide 15% compounded increase from the actual level in 2009-10. Accordingly the approved level of R&M expenses is Rs.12.96 lakh, which is Rs.5.37 lakhs more than the approved level in 2010-11, which amply cover the proposed additional expenses for replacement/ maintenance of 11kV feeder VCB.

18. **Administration and General expenses:** The Administration and General expenses proposed by the licensee is Rs.38.02 lakhs for 2011-12 where as the estimated expenses for 2010-11 is Rs.30.61 lakhs. The Licensee has clarified that the provision for energy audit which is proposed to be conducted in 2011-12 is Rs.6 lakhs. Further Rs.12 lakhs is provided for insurance. This has raised the total A&G expenses.

19. The A&G expenses is a controllable item. The actual expenses for 2009-10 is only Rs.11.47 lakh. The increases provided under the heads other than consultancy charges & insurance seems to be nominal. Regarding insurance, in the earlier years also the licensee has made a provision through no expenditure

was incurred since as per the existing rules, assets of Government of India are not covered under insurance. Now the CSEZ is notified as an Authority. The Commission would consider the rationale of insurance expenses. The Commission also considers additional provision of Rs.6 lakhs for energy audit by the licensee. However, the Commission notes that the loss levels in the system is at a low level. The licensee may submit the copy of the energy audit report after completing the study. The licensee has also provided Rs.6 lakhs under legal expenses, which is about 16% of the total projected expenses. Considering the above, the Commission inclined to provide 10% compounded increase in A&G expenses over the actual in 2009-10. Further as projected by the licensee additional provision for insurance (Rs.12 lakhs) and consultancy for energy audit (Rs.6 lakhs) is also allowed, which shall be subjected to the actuals found in the truing up process. Accordingly, the total A&G expenses allowed for 2011-12 is Rs.31.88 lakh. The licensee shall limit the expenses at the approved level.

20. **Other debits:** The licensee has not included any expenses under other debits.

21. **Return on equity:** No ROE has been claimed by the Licensee. The Commission in the Truing up Order of the licensee considered the matter and allowed Rs.10 lakhs per year as surplus which is transferred to the reserves. The Commission hence allows token amount of Rs.10 lakhs as return for the licensee. The reasonable level of return can be considered once the decision based on the results of the consultancy assignment initiated for small licensees is taken.

22. **Gross Aggregate revenue requirements:** Based on the above, the Aggregate Revenue Requirements proposed and approved for 2011-12 is as given below.

Expenses	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
Purchase of power	2,425.92	2,362.48
Repair & Maintenance	20.01	12.96
Employee costs	124.00	110.76
A& G expenses	38.02	31.88
Depreciation	55.77	46.76
Interest & Financing charges	-	-
Return on investment		10.00
Total Expenses	**2,663.72**	**2,574.84**

23. **Revenue from tariff :** The licensee has projected the revenue from tariff as Rs.2580 lakhs. Under this, Rs.3.96 lakhs is included as meter rent based on the revised meter rental charges for which the proposal is given to the Commission. Based on the details furnished by the licensee, the Commission approves the revenue from sale of power as Rs.2580 lakhs.

24. **Non Tariff Revenue:** The licensee has estimated Rs.5.42 lakhs as revenue from non-tariff, which is the interest on security deposit with KSEB. In the previous year the licensee has included Rs.50.39 lakhs as interest on deposit with Banks. The same provision was not included in 2011-12 though the balance sheet shows Rs.1411.38 lakh as cash and bank balances and Rs. 54.34 lakhs as loans and advances. The Commission has also arrived at a Rs.831 lakhs as surplus after the truing up process. Interest on such amounts is not seen included as part of the revenue, though it can substantially contribute to the revenue. The Commission directs that the licensee shall properly invest the surplus amount so as to generate additional resources with the approval of the Commission. Considering this, the Commission allows provisionally the non-tariff income proposed by the license for the year 2011-12.

25. **Revenue Surplus/gap:** The revenue gap proposed by the licensee is Rs. 78.30 lakhs. After considering the materials and explanation by the licensee, the Commission has arrived at a surplus of Rs.10.58 lakhs for the year 2011-12 as follows:

Particulars	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
Purchase of power	2,425.92	2,362.48
Repair & Maintenance	20.01	12.96
Employee costs	124.00	110.76
A&G expenses	38.02	31.88
Depreciation	55.77	46.76
Interest & Financing charges	-	-
Return on investment		10.00
Total Expenses	**2,663.72**	**2,574.84**
Revenue from sale of power	2,580.00	2,580.00
Other income	5.42	5.42
Total Revenue	**2,585.42**	**2,585.42**
Surplus/(deficit)	**(78.30)**	**10.58**

Orders of the Commission

26. After the analysis of the ARR&ERC and the clarifications thereof submitted by the licensee, the Commission provisionally approves the ARR of Rs.2574.84 lakhs and estimated revenue as Rs.2585.42 lakhs, leaving a revenue surplus of Rs.0.58 lakh for the year 2011-12 for M/s CSEZ as stated above. The licensee shall take earnest efforts to limit the expenses at the approved level. The licensee shall furnish the complete details of proposed capital expenditure within one month. The licensee shall also furnish the report once the energy audit is complete. The licensee shall invest the surplus cash judiciously and intimate the Commission.

27. With above directions, the petition disposed off. Ordered accordingly.

Sd/-	Sd/-	Sd/-
P.Parameswaran **Member**	**Mathew George** **Member**	**K.J.Mathew** **Chairman**

Approved for Issue

Secretary