KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

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

April 25, 2012

Petition OP No.4 / 2012

In the matter of
ARR&ERC of Cochin Special Economic Zone for 2012-13

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 Cochin Special Economic Zone Authority (CSEZ) constituted under the SEZ Act 2005 is the developer of the Zone providing infrastructure and other related services to the Zone. The Zone comprises 105 acres of land in Kakkanad, Kochi. Distribution License was granted to CSEZ by Government of Kerala vide G.O (Rt) No. 118/02/PD dated 20-06-02. As per the provisions of the Electricity Act 2003, CESZ has become a deemed licensee of the Commission. As per the information provided by the licensee, there are three categories of consumers in CSEZ viz. HT, LT and temporary. As on 31.11.2011 there are 30 HT connections, 105 LT connections and 4 temporary connections. The Government of India has invested about Rs.12.46 crore for Commissioning the Power distribution system in the zone and also provided Rs.2.28 crore as security deposit for purchase of power.

2. The licensee submitted its petition in complete form for approval of ARR&ERC on 05-01-2012. The petition was admitted as OP No.4 of 2012. In the petition, the licensee has estimated the total revenue gap as Rs.77.71 lakhs for 2012-13 excluding return on investment. The total projected income from the sale of 60MU of power is Rs.2521.15 lakhs and the estimated expenditure is Rs.2702.76 lakhs.

The non-tariff income is projected as Rs.105.90 lakhs. Summary of the ARR&ERC petition of the licensee is given below:

Summary of ARR&ERC of CSEZA for 2012-13

	2010-11 (Approved) (Rs. Lakhs)	2011-12 (Approved) (Rs.lakhs)	2012-13 (Projected) (Rs.lakhs)
Revenue from sale of power	1,880.89	2,580.00	2,521.15
Non-Tariff Revenue	-	5.42	105.90
Total Revenue	**1,880.89**	**2,585.42**	**2,627.05**
Expenses			
Purchase of power	1,563.86	2,362.48	2,409.29
Repair & Maintenance	7.59	12.96	26.41
Employee costs	83.74	110.76	122.50
A&G expenses	30.61	31.88	32.16
Depreciation	39.96	46.76	54.24
Interest & Financing charges	-	-	58.16
Provisional Return		10.00	
Total Expenses	**1,725.76**	**2,574.84**	**2,702.76**
Surplus/(deficit)	**155.13**	**10.58**	**(75.71)**

3. In the petition the licensee has projected energy sales of 60MU for 2012-13, which is about 3 MU more than the current year estimates. As per the provisions for Renewable Purchase Obligation, the licensee is expected to purchase at least 3% of the energy from renewable sources ie., about 1.8 MU. Efforts made to purchase energy from small hydel sources, did not succeed and hence the licensee requested the Commission to waive the stipulation of RPO. As part of the capital expenditure programme, the licensee proposed to install two additional 11kV VCB panels for providing new connections and as standby at a cost of Rs.14 lakhs. The Commission sought certain clarifications vide its letter dated 16-1-2012, which the licensee furnished vide its letter dated 13-2-2012.

Hearing on the matter

4. The hearing on the petition was held on 24-2-2012 at the licensee’s premises. After the presentation, the licensee requested for enhancing the power allocation from 10MVA to 13 MVA. Shri. Satheesh representing M/s Carborandum Universal, stated that the distribution loss reported by the licensee is very low. The contribution is 22 paise and revenue gap is about 12.55 paise unit. He mentioned that the power purchase cost is inflated due to the excess demand

charges. He suggested to introduce the kVAh billng system for the licensees since the CSEZ can introduce the system easily. He also suggested that the modified ToD tariff approved by the Commission for KSEB may be made applicable to CSEZ.

5. During the hearing KSEB raised some objections on the petition. According to KSEB, from the truing up figures for 2009-10, the O&M expenses have increased by 2.5 times, employee cost by 34% and A&G expenses by 3 times, but the increase in number of consumers in LT is 9 and HT 4 only. Hence, a prudence check on the projections of the expenses is required. The licensee has so far not complied with the directive of the Commission for appointing the O&M agency through transparent process. The Board further stated that comparing the operating expenses of KPUPL and Technopark with that of CSEZ, the better efficiency level of CSEZ is due to the high consumption pattern of few consumers in the area of supply. Since the licensee is using UG cabling and prepaid metering system, the R&M expenses can be lower. Though the licensee is projecting Rs.14.50 lakhs as salaries, no employees are shown in Form L. Regarding request for additional power by the licensee, it is the duty of the licensee to procure power and the Board has no obligation to provide power to the licensee. The Board also objected to the claim of the licensee on interest on working capital. Regarding capital investment, the Board stated that if the requirement for providing VCB is to provide connections to consumers, then the cost has to be met by the respective consumers as per the Supply Code. The depreciation on assets is to be allowed for the assets in operation, but the licensee has claimed the depreciation for the assets which are not commissioned. The licensee has claimed the insurance charges of Rs.12 lakhs. The Commission has already noticed the matter in the order on ARR&ERC for 2011-12 of the licensee. The licensee has not provided the details of own consumption as directed by the Commission. In the tariff policy for the year 2012-13, the licensee has not mentioned about the ToD tariff for HT consumers. The Commission may call for the reason for non-implementation of ToD tariff.

6. The licensee in its reply to the objections of the Board stated that the comparison with other licensees is not proper since the projections for the year 2012-13 is compared with the actuals of 2009-10 of Technopark and KPUPL. The Commission has not fixed any time limit for the selection of the O&M agency. Further, there are many limitations in engaging other agencies for O&M work. The licensee also objected to the argument of the Board that surplus is to be passed on to the Board in the form of BST. At present KSEB is the sole agency

for the development of hydro resources and hence the average cost of energy including purchase is within the limit. Hence, the small licensees are to depend on KSEB. Till such time the Board is unbundled the existing practice should continue. CSEZ is forced to become a distribution licensee, since the Board has failed to fulfil the obligation of supplying power. The staff under the Authority is essential for co-ordination supervision and management of the park. The claim on interest on working capital is as per the regulations of the Commission. The Government of India has decided to take back the liquid cash given to KSEB as security. The depreciation claimed is based on the projections, but in the truing up only actual will be claimed.

Analysis and decision of the Commission

7. **Energy Sales:** The licensee has projected total sales for the year 2012-13 as 60MU. The total energy requirement projected is 60.48MU. The Licensee has estimated an increase of 4% in consumption to meet the increase in the demand of consumers. After considering the past data, the Commission has arrived at a view that the projections of the licensee is reasonable. Accordingly, energy sale as projected by the licensee is accepted for 2012-13.

8. The Commission has directed the licensee to provide the details of self consumption and the notional revenue booked for such consumption separately. The licensee in the filing has not provided the same in a proper manner. Though the Commission sought the details, the licensee in its clarifications dated 13-2-2012 has not properly quantified the sales, but stated that the same is included in sales and revenue. The clarification of the licensee is not convincing. **The Commission directs that if the licensee has no mechanism for measuring own consumption, it to be established immediately and such details should be provided separately along with the ARR&ERC and truing up filing**.

Energy sales projections for 2012-13

Category	2009-10 (Actuals)	2010-11 (Actuals)	2011-12 (Provisional)	2012-13 (Projections)	2012-13 (Approved)
	(MU)	(MU)	(MU)	(MU)	(MU)
HT	38.76	50.35	51.30	52.00	52.00
LT	5.44	5.72	6.20	7.75	7.75
Temporary connections		0.32	0.15	0.25	0.25
Self consumption	0.04				
Total Sales	**44.24**	**56.39**	**57.65**	**60.00**	**60.00**

9. **Distribution loss and Energy requirement:** The energy loss projected by the licensee is around 0.7% for 2012-13, though the calculations show that the loss level is 0.79%. The distribution system has underground cabling and pre-paid meters of 0.5 accuracy class. Further , there is a constant real time computerized monitoring arrangement. In the previous ARR&ERC Order, the Commission has fixed the distribution loss target for the licensee as 0.70%. Considering the distribution loss levels in the previous years, the Commission retains the loss target for 2012-13 as the same as that approved in 2011-12. Accordingly, the target T&D loss for 2012-13 is 0.7%.

Distribution loss projected and approved for 2012-13

Category	2010-11 (Actual)	2011-12 (provisional)	2011-12 (Proposed)	2011-12 (Approved)
Total Sales (MU)	56.39	57.65	60.00	60.00
Distribution Loss (MU)	(1.51)	0.44	0.48	0.42
Gross energy requirement (MU)	54.88	58.09	60.48	60.42
Distribution Loss (%)	-2.75%	0.76%	0.79%	0.70%

10. **AT&C Loss:** In the distribution business, distribution loss and AT&C loss are the common performance parameters employed. The collection efficiency reported by the licensee is nearly 100% due to pre-paid meters. Hence, the A&TC loss target for 2012-13 is fixed as 0.7%.

11. **Power purchase cost :** In the ARR, the licensee has projected the power purchase cost as Rs.2409.29 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 31-12-2009. Application for enhancement of power allocation to 12000kVA is pending with KSEB. The power purchase cost estimated by the licensee is as follows:

Estimated power purchase cost for 2012-13

	Proposed by Licensee
Units purchased (MU)	60.48
Fixed charges (Rs. lakhs)	346.92
Variable charges (Rs.lakhs)	1911.17
Fuel escalation charges (Rs.lakhs)	151.20
Total charges (Rs.lakhs)	2409.29
Average rate (Rs./kWh)	3.98

Based on the approved energy requirements and revised BST, the approved power purchase cost for 2012-13 is estimated as follows:

Approved power purchase cost for 2012-13

	Approved by the Commission
Energy requirement (MU)	60.42
Contract Demand (kVA)	10000
Fixed Charges (Rs./kVA)	245.00
Total Fixed Charges (Rs.lakhs)	294.00
Variable Charges (Rs./kWh)	3.16
Total Variable Charges (Rs.lakhs)	1,909.27
Total Charges (Rs.lakhs)	**2,203.27**

12. **Interest and financing charges :** The Govt. of India met the entire expenditure on infrastructure for power distribution in CSEZ. The licensee has proposed Rs.58.16 lakhs towards interest on working capital worked out on a normative basis. The licensee has claimed interest on working capital based on the provisions in the regulations. The licensee has been following pre-paid meter system in which the revenue has been received in advance before sales. The provisions in the regulations are for the post payment system. The licensee did not have any working capital requirements, since major items of expense such as power purchase, employee cost etc are paid after being incurred. Hence, there is no rationale for projecting interest on working capital Further, the licensee has not shown any evidence on the requirement of working capital. Hence, the licensee is not eligible for interest on working capital and the proposal on interest on working capital is rejected.

13. **Depreciation:** The licensee has claimed depreciation of Rs.54.24 lakhs for the year 2012-13, which is inclusive of depreciation on assets to be created during the year on a proportionate basis. The GFA at the beginning of the year 2012-13 proposed by the licensee is Rs.1191.83 lakhs. The total addition to GFA proposed is Rs.20.50 lakhs, which is the provision for VCBs. The Commission approves the estimate of depreciation of the licensee for the year 2012-13. In the Truing up of accounts for the years 2006-07 to 2009-10 the Commission has allowed depreciation and directed the licensee to create a fund for depreciation reserve. **This direction shall be applicable to ARR&ERC for 2012-13 also.**

14. **Employee costs:** The employee costs proposed by the licensee is Rs.122.50 lakhs as against Rs. 110.76 lakhs approved for the year 2011-12. The licensee has given the revised estimate of employee costs for 2011-12 as Rs.121.63

lakhs mainly on account of O&M charges payable to M/s,Kitco Limited. The O&M charges to M/s Kitco is Rs.108.00 lakhs for 2012-13. The proportion of employee costs of CSEZ employee is taken as Rs.14.50 lakhs. The licensee has given a detailed justification on employing M/s. Kitco as the O&M agency. The licensee has stated that the Commission in its truing up order dated 6-5-2011 observed that the selection of O&M agency has to be on a transparent competitive tendering process. By the time order was issued, the CSEZ authority had already taken the decision to engage M/s Kitco for the year 2011-12. The enhancement of O&M charges given was almost nil. There are number of factors which necessitated engagement of Kitco as the O&M Agency. M/s Kitco was the consultants as well as implementing agency for the distribution system. CSEZ being a Government Agency preferred another Government Agency for O&M of the distribution system. In the initial stages, the agency was entrusted with the collection, expenditure, maintenance of accounts and management of funds. With the approval of Government of India, M/s.Kitco was selected as the Agency. There are not many agencies in the public sector offering such services. Considering the size of operations, rates of major players in the private sector may not be feasible. Further there is no regulation or norms prevalent to fix a benchmark rate. Another concern expressed by the licensee is that if a tendering process is initiated and if the big players quote unaffordable rates, then the licensee has to go back to M/s.Kitco, which may strengthen their bargaining position. At present, the agency is continuing the contract with marginal increase. The cost is only 4.85% of the total costs. In the absence of the present system, the licensee has to create full-fledged establishment for power distribution, which may be an ideal option for consumers. Hence, according to the licensee present system is the best suitable option.

15. The Commission has considered the detailed argument of the licensee for engaging M/s Kitco. The arguments given by the licensee supporting the selection of O&M agency are not only unconvincing, but weak too. Selection of the agency for maintenance of distribution is entirely an internal affair of the licensee on which the Commission does not wish to intervene. However, the Commission has to ensure that the expenses incurred are reasonable, prudent and economical. The Commission is not against engaging any particular agency for O&M work. However, it is prudent and reasonable to ensure that such engagement is carried out in an economical manner and hence the Commission has insisted on having transparent competitive bidding process for selecting the agency. The justification given by the licensee is only hypothetical and is not entirely convincing. However, it is also true that the Commission so far has not

determined a benchmark level of O&M expenses for the distribution business. The Commission has engaged a consultant with such mandate and the report is expected to be received soon. Till such time, the Commission allows the licensee to continue the present practice.

16. The licensee has proposed Rs.122.50 lakhs as the employee cost for 2012-13, which is about 10.6% more than the employee cost approved for 2011-12. In order to provide a reasonable increase to cover inflation, the Commission allowed 10% compounded increase in employee costs for the year 2011-12 from the actual in 2009-10. Considering that level, the projections of the licensee is reasonable and hence the employee cost as projected by the licensee is allowed for 2012-13.

17. **Repair and maintenance expenses :** The licensee has projected Rs.26.41 lakhs for repair and maintenance expenses. As per the petition, a provision of Rs.25 lakhs is given for R&M which includes replacement of top of RMUs, other maintenance works of RMUs, earthing, painting, relay testing etc., Further, a provision of Rs.1.41 lakhs is given for own power consumption for the distribution system which relates to substation and testing lab. The Commission is of the view that the proposed R&M expenses are high considering the past trend. The past figures for the last seven years 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 (Actual)	13.61
2011-12 (Approved)	12.96
2012-13	26.41

18. The projected R&M expenses shows about 40% annual increase compared to 2009-10 level. Further it is about 104% higher than the approved expenses for 2011-12.. This shows that the projection of R&M expenses is unreasonable. 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.15 lakh, which is Rs.2.04 lakhs more than the approved level in 2011-12.

19. The licensee has included electricity charges of Rs.1.41 lakhs under R&M expenses. The Commission has pointed out in the previous order that inclusion of cost of electricity under R&M expenses is not proper. However, this time, the licensee has clarified that the income arrived at on a notional basis for own consumption is included in the revenue. Hence, it reflects both in receipts and expenditure. However, it is not clear from the estimations of the licensee that revenue from own consumption is included in the revenue.

20. **Administration and General expenses:** The Administration and General expenses proposed by the licensee is Rs.32.16 lakhs for 2012-13 where as the actual expenses for 2010-11 is only Rs.14.31 lakhs. The Licensee has included insurance charges of Rs.12 lakhs and a provision for energy audit studies (Rs.2 lakhs), which inflated the A&G expenses.

21. The A&G expenses is a controllable item. The actual expenses for 2010-11 is only Rs.14.31 lakh. The increases, provided under the heads other than consultancy charges & insurance, seem to be nominal. Regarding insurance, in the earlier years also the licensee has made a provision though 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 has allowed Rs.6 lakhs for energy audit studies in the previous year. However, the Commission notes that the loss levels in the system is at a low level and energy audit study is essential. **The licensee shall complete the study in a time bound manner and shall submit the copy of the energy audit report after completing the study.** The licensee has also provided Rs.3 lakhs under legal expenses. Considering the above, the Commission is inclined to approve the A&G expenses as projected by the licensee. Accordingly, the total A&G expenses allowed for 2012-13 is Rs.32.16 lakh. The licensee shall limit the expenses at the approved level.

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

23. **Return on equity:** The licensee has claimed Rs.42.76 lakhs as ROE estimated based on 30% of the funds invested as equity. The Commission in the Truing up process in respect of licensee had considered the matter and allowed Rs.10 lakhs per year as surplus which is transferred to the reserves. The Commission hence allows a token amount of Rs.10 lakhs as return for the licensee. The reasonable level of return can be considered once a decision, based on the results of the consultancy assignment initiated for small licensees, is taken.

24. **Gross Aggregate revenue requirements:** Based on the above, the Aggregate Revenue Requirements proposed and approved for 2012-13 are as given below.

Aggregate Revenue Requirements approved for 2012-13

	2010-11 (Actuals) (Rs. Lakhs)	2011-12 (Approved) (Rs.lakhs)	2012-13 (Projected) (Rs.lakhs)	2012-13 (Approved) (Rs.lakhs)
Expenses				
Purchase of power	2,006.29	2,362.48	2,409.29	2,203.27
Repair & Maintenance	13.61	12.96	26.41	15.00
Employee costs	112.71	110.76	122.50	122.50
A&G expenses	14.31	31.88	32.16	32.16
Depreciation	39.93	46.76	54.24	54.24
Interest & Financing charges	-	-	58.16	
Provisional Return		10.00		10.00
Total Expenses	**2,186.85**	**2,574.84**	**2,702.76**	**2,437.17**

25. **Revenue from tariff :** The licensee has projected the revenue as Rs.2521.15 lakhs. Under this, Rs.2366.68 lakhs is the revenue from sale of power and the balance is miscellaneous receipts. The licensee has included revenue from fuel surcharge as part of the power purchase cost and also in the revenue. Since it is collected from consumers and passed on to the Board, the Commission has treated it separately. The Commission has noted the discrepancies in average realization in different years and sought estimation based on the tariff category and rates. However, the licensee could not provide the complete details. Hence, the Commission for the purpose of approving ERC, has relied on estimation of revenue from sale of power given by the licensee. Based on the details furnished by the licensee, the Commission approves the revenue from sale of power as Rs.2371.03 lakhs.

Sl. No.	Particulars	2012-13 (Projected)				Approved for 2012-13			
		No. of consumers	*Energy sold MU*	*Revenue Rs.lakhs*	*Average Realisation Rs / kwh*	*No. of consumers*	*Energy sold MU*	*Revenue Rs.lakhs*	*Average Realisation Rs / kwh*
I	Consumer category wise								
	(I) H T Consumers	30	52.00	2,064.80	3.97	30	52.00	2,064.80	3.97
	(ii) L T Consumers	110	7.75	292.50	3.77	110	7.75	292.50	3.77
	(iii) Temporary Connections	5	0.25	9.38	3.75	5	0.25	9.38	3.75
	Total	**145**	**60.00**	**2,366.68**	**3.94**	**145**	**60.00**	**2,366.68**	**3.94**
II	Recovery of electricity duty and other State levies			88.30				88.30	
III	Wheeling charges recovery								
IV	Misc. charges from consumers								

Sl. No.	Particulars	2012-13 (Projected)				Approved for 2012-13			
		No. of consumers	*Energy sold MU*	*Revenue Rs.lakhs*	*Average Realisation Rs / kwh*	*No. of consumers*	*Energy sold MU*	*Revenue Rs.lakhs*	*Average Realisation Rs / kwh*
	c) Meter rent			4.35				4.35	
	d) Fuel surcharge			150.12					
	e) SMS Charges								
	Total of IV			**242.77**				**92.65**	
V	Gross Revenue from sale of power			**2,609.45**				**2,459.33**	
VI	Less								
	(I) Electricity duty payable			88.30				88.30	
	Total of VI			**88.30**				**88.30**	
VII	**Net Revenue from sale of power (V - VI)**			**2,521.15**	**-**	**-**	**-**	**2,371.03**	

26. **Non Tariff Revenue:** The licensee has estimated Rs.105.90 lakhs as revenue from non-tariff, which includes interest on security deposit with KSEB about Rs.9 lakhs and interest from fixed deposits is taken as Rs.96 lakhs. The Commission approves provisionally the non-tariff income projected by the license for the year 2012-13.

27. **Revenue Surplus/gap:** The revenue gap proposed by the licensee is Rs. 75.71 lakhs. After considering the materials and explanation by the licensee, the Commission has arrived at a surplus of Rs.39.76 lakhs for the year 2012-13 as follows:

Approved ARR&ERC for 2012-13

Particulars	2012-13 (Projected) (Rs.lakhs)	2012-13 (Approved) (Rs.lakhs)
Expenses		
Purchase of power	2,409.29	2,203.27
R&M Expenses	26.41	15.00
Employee costs	122.50	122.50
A&G expenses	32.16	32.16
Depreciation	54.24	54.24
Interest & Financing charges	58.16	
Provisional Return		10.00
Total Expenses	**2,702.76**	**2,437.17**
Revenue from sale of power	2,521.15	2,371.03
Non-Tariff Revenue	105.90	105.90
Total Revenue	**2,627.05**	**2,476.93**
Revenue Gap/Surplus	**(75.71)**	**39.76**

Orders of the Commission

28. After an analysis of the ARR&ERC and the clarifications thereon submitted by the licensee, the Commission approves the ARR of Rs.2437.17 lakhs and estimated revenue as Rs.2476.93 lakhs, leaving a revenue surplus of Rs.39.76 lakh for the year 2012-13 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 report on the energy audit and shall comply with the directions on reporting the own consumption. The licensee shall invest the surplus cash judiciously and intimate details thereof to the Commission.

29. With the above directions, the petition is disposed of. Ordered accordingly.

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

Approved for Issue

Secretary