

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

Present :

Shri. P.Parameswaran, Member
Shri. Mathew George, Member

September 17, 2012

Petition OP No. 14/2012

In the matter of

Truing up of Accounts of Thrissur Corporation for the Year for the FYs 2006-07

Petition OP No. 15/2012

In the matter of

Truing up of Accounts of Thrissur Corporation for the Year for the FYs 2007-08

Petition OP No. 16/2012

In the matter of

Truing up of Accounts of Thrissur Corporation for the Year for the FYs 2008-09

Petition OP No. 17/2012

In the matter of

Truing up of Accounts of Thrissur Corporation for the Year for the FYs 2009-10

Petition OP No. 18/2012

In the matter of

Truing up of Accounts of Thrissur Corporation for the Year for the FYs 2010-11

Thrissur Corporation, Thrissur Petitioner

ORDER

Background

1. Thrissur Corporation, Thrissur, (*herein after called the Corporation or licensee*) filed truing up petitions for 2006-07 to 2009-10 on 09.01.2012 and for 2010-11 on 09.03.2012. Distribution of electricity is done by the Electricity department of the Corporation. So the licensee business is separately accounted and audited as

distinguished from the main activities of the Corporation. The statutory auditors of the licensee namely the Local Fund Audit Department has audited the accounts of the distribution business only upto the 2007-08. Hence for the purpose of truing up, the licensee has submitted unaudited accounts for the years 2008-09, 2009-10 and 2010-11. Since all the petitions are on the truing up of accounts, the Commission decided to consider the petitions together.

2. The Corporation had earlier filed the ARR & ERC petition for the years 2010-11 and 2011-12 and truing up petitions for the years 2006-07 to 2009-10 together as a single petition. Since the petition was not in order and the prescribed fee was not remitted, the Commission conveyed the defects and directed the Licensee to file the petitions in proper form. The procedure to be followed in filing the petitions and the relevant information to be provided in these petitions were explained to the officials in a meeting on 14-6-2011. The licensee was given time up to 15.07.2011 for curing the defects in the truing up petitions as agreed to by the licensee in the meeting. The licensee was again reminded to file the truing up petitions for the years 2006-07 to 2009-10 as per the Commission's letter dated 28.07.2011. However, the Licensee did not file the petitions. Since the licensee did not comply with the direction, the Commission initiated action against the licensee and issued notice under Section 142 of the Electricity Act 2003 for the delay in filing the petitions. The licensee submitted the explanation on the notice on 21.10.2011 and sought one month time to file the truing up petitions. Though the explanation was not satisfactory, taking a lenient view, the Commission decided not to proceed further against the licensee. However, the licensee sought further time of one month on the same reasons vide its letter dated 21.11.2011. On this request, the Commission took a view that such excuses are unsatisfactory and ought not to be accepted. Therefore the Commission decided to proceed further in the matter and issued notice to the Secretary of the Corporation to explain in person the reasons if any for not taking action and imposing penalty under Section 142 of the Act. The hearing was held on 10.01.2012. Shri. Baby Antony, the Secretary of the Corporation was present. He submitted that the truing up petitions were submitted on 09. 01.2012. He filed a written statement in which he repeated the same reasons presented by him in the hearing. The Commission, after detailed analysis of the reasons furnished by the licensee, found that the reasons were quite unsatisfactory and were not convincing. The Commission upheld the view that regulatory compliance is mandatory for all licensees and Thrissur Corporation is not an exception. The Commission therefore imposed a penalty of Rs.25,000/-on the licensee for non-

compliance of the directions of the Commission vide order dt.19.01.2012. The licensee remitted the amount by Demand draft dated 16.02.2012.

3. The Commission had also deputed a team for an inspection cum audit on the functioning of the licensee and for an overall assessment of the ability of the licensee to perform the duties and responsibilities as a distribution licensee as per the Act and Regulations. The team conducted the audit from 10.8.2011 to 12.08.2011. On the basis of the report submitted by the team, the Commission had directed the licensee, vide letter dated 28.10.2011 to take action on the issues which required the urgent attention of the licensee and to submit the action taken report within two months. The Commission had also issued a Notice dated 28.10.2011, based on the findings of the team, for non - compliance of certain provisions of the Electricity Act 2003, Kerala Electricity Supply Code, Regulations and Orders of the Commission with specific direction to initiate urgent corrective measures and submit a report to the Commission within two months from the date of the notice. The licensee submitted an Action Taken Report on the notice. But the ATR mainly dealt with the directions issued by the licensee to its officers for compliance. The licensee has not submitted a report on the implementation of the directions.

4. After receiving the truing up petitions, the Commission sought clarifications on the petitions vide letter dated 26-3-2012. The licensee forwarded the clarifications vide its letter dated 18-4-2012. The licensee in its letter dated 26-6-2012 informed that there were certain errors in the original petition regarding employee cost and cash and bank balance and requested for correction of the same, before the hearing scheduled on 28-6-2012. The licensee further submitted the modified version of the petition for 2008-09, 2009-10 & 2010-11. The licensee filed the reply on the objections of the Board vide letter dated 5-7-2012. An abstract of the petitions filed by the licensee for the years 2006-07 to 2010-11 is given below:

Abstract of the petitions filed by the licensee

Particulars	2006-07		2007-08	
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)
Revenue				
Revenue from sale of power	3381.00	3931.48	4307.19	4302.73
Other Income	139.00	396.03	190.06	251.94
Total Revenue	3520.00	4327.51	4497.25	4554.67
Expenses				
Power purchase cost	2403.00	2497.48	2805.00	2914.19
Interest and Financing charges	0.00	365.16	100.00	0.00
Repairs and Maintenance	57.00	83.10	237.16	118.75
Employee costs	497.00	428.35	397.00	411.44
A&G Expenses	82.00	31.40	38.52	38.29
Depreciation	65.71	129.02	74.31	145.92
Other Debits	37.00	98.29	0.00	107.57
Total expenses	3141.71	3632.80	3651.99	3736.16
Return on Investment	192.00	231.01	189.00	267.55
Aggregate Revenue Requirement	3333.71	3863.81	3840.99	4003.71
Revenue Surplus/(gap)	186.29	463.70	656.26	550.96

Particulars	2008-09		2009-10	
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)
Revenue				
Revenue from sale of power	4646.00	5165.26	5023.00	5596.83
Other Income	193.00	349.70	197.00	193.70
Total Revenue	4839.00	5514.97	5220.00	5790.53
Expenses				
Power purchase cost	2940.00	3666.10	3046.00	3886.02
Interest and Financing charges	0.00	181.41	0.00	-
Repairs and Maintenance	243.58	136.85	257.85	135.95
Employee costs	412.00	485.50	433.00	699.13
A&G Expenses	35.94	36.36	41.73	31.53
Depreciation	145.05	165.91	192.54	172.15
Other Debits	0.00	129.13	0.00	139.92
Total expenses	3776.57	4801.26	3971.12	5064.70
Return on Investment	217.00	229.20	241.00	267.78
Aggregate Revenue Requirement	3993.57	5030.46	4212.12	5332.48
Revenue Surplus/(gap)	845.43	484.51	1007.88	458.05

Particulars	2010-11	
	Approved	Actual (Rs.lakhs)
Revenue		
Revenue from sale of power	-	5778.60
Other Income		750.45
Total Revenue		6529.05
Expenses		
Power purchase cost		4120.44
Interest and Financing charges		0.00
Repairs and Maintenance		173.11
Employee costs		656.40
A&G Expenses		109.02
Depreciation		177.12
Other Debits		144.06
Total expenses		5380.15
Return on Investment		301.36
Aggregate Revenue Requirement		5681.51
Revenue Surplus/(gap)		847.54

A summary of the actual and approved surplus of the licensee is given below:

Approved and Actual Revenue Surplus

Year	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2006-07	186.29	463.69
2007-08	656.26	550.96
2008-09	845.43	484.51
2009-10	1007.88	458.05
2010-11	-	846.56

Hearing on the petition

5. All the petitions were heard on 28.06.2012. During the hearing, representatives of the licensee and KSEB were present. The licensee was represented by following persons for the hearing:

1. Shri.P.Ramkrishnan, Assistant Secretary, Thrissur Corporation
2. Shri.T.S. Jose, Electrical Engineer, Thrissur Corporation Electricity Department (TCED)
4. Smt. Sathidevi. K.S, Senior Supdt., TCED
5. Smt. Thressiama Kurian, Senior Supdt., TCED
6. Shri. Baburaj, Senior Assistant, TCED
7. Shri. Avinash, Accountant, TCED

KSEB was represented by the following persons:

1. Smt. Gayatri Nair.R, Chief Engineer, (C&T)
2. Smt. Sreedevi. B, Deputy chief Engineer (TRAC)
3. Shri.B. Pradeep, Executive Engineer,(TRAC)
4. Shri .S. Prasad, Assistant Executive Engineer (TRAC)

6. Smt. Sathidevi, TCED presented the petitions and replied to the queries of the Commission. The licensee stated during the hearing that they had switched over to the Double Entry System of accounting with effect from 01.04.2012. Shri. B. Pradeep, Executive Engineer, (TRAC), presented objections of KSEB and filed their written remarks. According to the Board, the approach followed by the Commission in allowing Section 3(1) duty and ROE has to be extended to the Thrissur Corporation also. The Board further pointed out that the provision of 2.5% of revenue towards bad and doubtful debts is on the higher side. According to the Board, the licensee has claimed huge amount towards Interest and Finance charges which may be disallowed as there is no basis. The interest on deposit which is booked under non-tariff income is not commensurate with the increasing cash and bank balances. Receivables against sale of power is about 33% of the revenue from sale of power. The Board has also pointed out the differences in the approved figures as per ARR&ERC orders issued by the Commission and the approved figures furnished by the licensee in the filings. The Board has pointed out certain expenditure booked by the licensee in heads such as "Other Debits" which were not approved by the Commission in the ARR&ERC Order. The depreciation accounted by the licensee in 2006-07 and 2007-08 is double the depreciation approved by the Commission. The Board also pointed out the decreasing average realisation and number of consumers in the domestic and agriculture category.

Analysis and Decision of the Commission

7. The Commission has considered the petition of the licensee, objections of KSEB and clarifications thereon given by the petitioner in detail. The following sections, analyse the different items in the petitions:

Capital Expenditure

8. Asset additions for the five years from 2006-07 to 2010-11 as per the filings are as follows:

Capital Assets Addition from 2006-07 to 2010-11

Asset description	2006-07	2007-08	2008-09	2009-10	2010-11
	Rs. lakhs	Rs. lakhs	Rs. lakhs	Rs. lakhs	Rs. lakhs
Substation - Machineries	37.12	830.30	93.97	34.16	72.46
Distribution	26.39	35.28	146.34	79.42	104.16
Furniture & Fixtures	0.29	0.45	0.47	0.71	0.37
Computer & Accessories	3.56	1.83		2.51	7.80
Total	67.36	867.86	240.78	116.80	184.79

9. In 2006-07, the Corporation had enhanced the installed capacity of the substation from 20 MVA to 30 MVA by commissioning a new 10 MVA 66/11KV Transformer. The licensee also overhauled the existing two 66/11 KV Transformers and a new feeder was commissioned on the western side of the licence area. In 2007-08 one 110 KV substation with 2 Nos of 12 MVA/11KV Transformers and one 16 MVA transformer was commissioned. A single circuit 110 KV Transmission line was drawn from Viyyur substation of KSEB to the licensee's substation at Patturaikkal. Commissioning of two 11k V feeders on the eastern side of the licence area (Paravattani feeder and Jubilee Mission Hospital feeder), replacing aged copper conductors with ACSR conductors and replacing mechanical meters with electronic meters were the important capital works executed during 2008-09. The main capital works executed during 2009-10 was Commissioning of one DH feeder in the central area, replacement of more than 5000 mechanical meters with electronic meters, and replacement of aged copper conductors with ACSR conductors, commencement of the work of new 33 kV substation in the southern area, commissioning of 24 nos High masts of different heights and commissioning of 4 nos 11 KV feeder. The capital works during 2010-11 include completion of the 33 KV substation and DC line for which works started in 2009-10. Replacement of aged copper conductors, replacement of more than 5000 mechanical meters with electronic meters and commissioning of new feeder at Kottappuram were also completed in 2010-11. The licensee has installed distribution transformers of different rating during the period as shown below:

	2006-07	2007-08	2008-09	2009-10	2010-11
New transformers	6	37	12	25	94
Replacement of transformers	---	----	15	---	---

10. In the light of the details given by the licensee, the capital expenditure incurred during the years is accepted with the following directions.

- a) The licensee shall in future obtain approval for capital expenditure programme by including the capital expenditure plan in the ARR&ERC petitions every year.
- b) Asset Register showing technical particulars and cost of the assets should be maintained
- c) Asset accounting shall be computerised

Energy Sales

11. Actual energy sales reported by the Corporation for 2006-07 to 2010-11 are as follows:

Actual Energy sales from 2006-07 to 2010-11

Category	2006-07		2007-08		2008-09	
	No.of consumers	Sales (MU)	No.of consumers	Sales (MU)	No.of consumers	Sales (MU)
Domestic	17600	25.11	17748	25.57	17937	27.08
Non- Domestic	14970	45.10	15600	51.98	15625	53.14
Agricultural	521	0.13	520	0.13	522	0.12
Industry	1062	3.99	1090	3.90	1098	3.98
Total	34153	74.33	34958	81.58	35182	84.32

Category	2009-10		2010-11	
	No.of consumers	Sales (MU)	No.of consumers	Sales (MU)
Domestic	18055	29.73	18405	31.04
Non- Domestic	15673	62.59	15613	66.03
Agricultural	535	0.11	433	0.11
Industry	1098	4.06	1105	3.95
Total	35361	96.49	35556	101.13

12. The licensee has revised the consumer strength from 35361 to 34958 for the year 2010-11. As per the clarification given vide letter dated 5-7-2012, the reduction in number of consumers is due to the dismantling drive taken up by the licensee. The licensee has reported that the installations of the Corporation except streetlights are billed and accounted in the total demand. Hence, no estimate on the streetlight consumption was reported in the truing up petitions. In the ARR&ERC filing for 2012-13, the Commission has noted that substantial quantity of energy is being consumed towards street lighting. So the exclusion of street light consumption results in reporting of higher distribution losses and lower revenue from sale of power. Hence, estimate of street lighting consumption needs to be accounted for the purpose of truing up.

13. In the ARR&ERC petitions, the licensee has reported street light consumption for 2011-12 and 2012-13 as 2.84% and 2.64% respectively of purchased energy. Based on this, the Commission considers street light consumption as average of the above two years i.e., 2.74% of sales for the purpose of truing up. Accordingly,

the sales figures have been re-estimated for the purpose of truing up as shown below:

Allowable Energy sales including street lights

	2006-07	2007-08	2008-09	2009-10	2010-11
Reported Sales (MU)	74.33	81.58	84.32	96.49	101.13
Streetlights (@ 2.74%) (MU)	2.61	2.77	2.87	3.17	3.24
Total Sales (MU)	76.94	84.35	87.19	99.66	104.37

Distribution Loss

14. Distribution loss reported is as follows:

Actual distribution loss reported by the licensee

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
	Actual	Actual	Actual	Actual	Actual
Energy Sales (MU)	74.33	81.58	84.32	96.49	101.12
Energy input (MU)	95.30	101.17	104.82	115.58	118.19
Distribution loss (MU)	20.97	19.59	20.50	19.09	17.07
Distribution loss (%)	22.00	19.36	19.56	16.52	14.44

Comparison of actual and distribution loss approved in the ARR&ERC Orders is given below:

Comparison of Approved and Actual losses

Year	Approved	Actual
2006-07	31.0%	22.0%
2007-08	23.0%	19.4%
2008-09	21.0%	19.6%
2009-10	19.0%	16.5%
2010-11		14.4%

15. The actual loss is lower than the approved level in all the years in which ARR&ERC Orders have been issued. The losses will be further lower if the street lights consumption is included in the sales. Based on the approved sales considering the consumption street lights, the distribution loss for the years under consideration is worked out as follows:

Distribution loss based on allowable sales

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11
Energy sales in MU	76.94	84.35	87.19	99.66	104.37
Energy purchase in MU	95.30	101.17	104.82	115.58	118.19
Distribution loss in MU	25.63	16.82	17.63	15.92	13.82
Distribution loss in %	19.3%	16.6%	16.8%	13.8%	11.7%

16. Thus, the allowable losses is comparatively lower than the actual losses, which is a good sign. The licensee deserves appreciation for reducing the losses considerably over the years and to reach a level below 12%. A comparison of actual and allowable distribution losses for the purpose of truing up is given below:

Actual and allowable distribution loss

	Actual/ reported losses	Allowable losses
2006-07	22.0%	19.3%
2007-08	19.4%	16.6%
2008-09	19.6%	16.8%
2009-10	16.5%	13.8%
2010-11	14.4%	11.7%

Power Purchase Cost

17. The Approved and Actual power purchase cost of the licensee for the years 2006-07 to 2010-11 are as follows:

	2006-07	2007-08	2008-09	2009-10	2010-11
Approved (Rs.in lakh)	2403.00	2805.00	2940.00	3046.00	---
Actual (Rs.in lakh)	2497.48	2914.19	3666.10	3886.02	4120.44
Excess over the approved	94.48	109.19	726.10	840.02	--

The split up details of power purchase cost as per the details furnished by the licensee are as follows:

Details of actual power purchase cost

	2006-07	2007-08	2008-09	2009-10	2010-11
Energy purchased (MU)	95.30	101.17	104.82	115.58	118.19
Maximum Demand (KVA)	226639	240590	274147	278644	291243
Excess Demand ,if any,(KVA)	-	-			
Demand Charges (Rs. lakhs)	543.93	595.43	694.47	697.27	728.87
Total Energy Charges (Rs. lakhs)	1953.55	2318.76	2882.67	3178.40	3416.00
Fuel escalation charges, if any	-		-		35.75
Any other charges	-		88.96	10.36	0.40
Total charges	2497.48	2914.19	3666.10	3886.02	4181.02

18. The licensee has claimed Rs.35.75 lakhs towards fuel escalation charges. Since the amount is collected from the consumers and remitted to KSEB, the same need not be part of the power purchase cost. Further, in Form G, this amount

has been deducted from the revenue from sale of power. Thus the power purchase cost allowed for the purpose of truing up is given below:

Power purchase cost allowed for truing up

Year	Power purchase Cost reported (Rs.lakhs)	Less FSA charges (Rs.lakhs)	Power purchase cost allowed (Rs.lakhs)
2006-07	2,497.48		2,497.48
2007-08	2,914.19		2,914.19
2008-09	3,666.10		3,666.10
2009-10	3,886.02		3,886.02
2010-11	4,181.02	35.75	4,145.27

Interest and Financing Charges

19. The interest and Financing claimed by the licensee is as follows:

	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2006.07	-	365.16
2007-08	100.00	-
2008-09	-	181.41
2009-10	-	-
2010-11	-	-

20. The licensee has reported that there are no loans taken and no interest charges have been paid. As part of the clarifications, the licensee has stated that the amount charged under Interest and Financing Charges in 2006-07 and 2008-09 is the interest paid to KSEB on the dues on power purchase cost. The licensee has paid only 75% of the power purchase bill amount to KSEB on the assumption that the Board would extend the discount allowed previously.

21. The Commission has analysed the claim of the licensee on interest charges. The interest charges pertains to the interest on delayed payments on power purchase. The licensee unilaterally withheld about 25% of the bills in the anticipation of discount from the Board. The licensee had to pay all such arrears after the Order of APTEL. The Commission is of the opinion that deliberate non – payment of any of the dues of the licensee is not desirable. So the Commission decides that the interest on amount due to the Board on account of power purchased cannot be passed on to the consumers and so the interest charges

accounted Rs.365.16 lakhs during 2006-07 and Rs.181.41 lakhs during 2008-09 are disallowed.

Depreciation

22. The licensee has claimed the depreciation as per the CERC rates as shown below:

Depreciation claimed by the licensee

Asset description	2006-07			2007-08			2008-09		
	Average asset value (Rs. lakhs)	Depreciation claimed (Rs.lakhs)	Rate of Depreciation (%)	Average asset value (Rs. lakhs)	Depreciation claimed (Rs.lakhs)	Rate of Depreciation (%)	Average asset value (Rs. lakhs)	Depreciation claimed (Rs.lakhs)	Rate of Depreciation (%)
Substation	1,656.72	59.64	3.60	2,090.43	75.26	3.60	2,552.56	91.89	3.60
Distribution	1,746.70	62.88	3.60	1,777.53	63.99	3.60	1,868.34	67.26	3.60
Furniture & Fixtures	5.77	0.35	6.06	6.13	0.37	6.03	6.36	0.38	5.93
Computers	79.71	4.78	6.00	82.40	4.94	6.00	83.55	5.01	6.00
Vehicles	14.00	0.84	6.00	14.00	0.84	6.00	14.00	0.84	6.00
Tools & Testing equipments	12.64	0.46	3.64	12.64	0.46	3.64	12.64	0.46	3.64
Photostat & Duplicator	1.17	0.07	6.00	1.17	0.07	6.00	1.17	0.07	6.00
Total	3,516.71	129.02		3,984.30	145.92		4,538.62	165.91	

Asset description	2009-10			2010-11		
	Average asset value (Rs. lakhs)	Depreciation claimed (Rs.lakhs)	Rate of Depreciation (%)	Average asset value (Rs. lakhs)	Depreciation claimed (Rs.lakhs)	Rate of Depreciation (%)
Substation	2,616.63	94.20	3.60	2,669.95	96.12	3.60
Distribution	1,981.22	71.32	3.60	2,073.01	74.63	3.60
Furni: & Fixtures	6.72	0.40	5.95	7.25	0.44	6.07
Computer	85.03	5.10	6.00	90.19	5.41	6.00
Vehicles	14.00	0.60	4.28	14.00	-	-
Tools & Testing Equip:	12.64	0.46	3.64	12.64	0.46	3.64
Photostat & Duplicator	1.17	0.07	6.00	1.17	0.07	6.00
Total	4747.41	172.15		4868.21	177.12	

23. The licensee has stated that the depreciation is as per the CERC Norms. Considering this, the Commission allows the depreciation claimed by the licensee for the purpose of truing up.

Employee cost

24. The licensee has stated that the employee costs include the payments for salary and pension. The employee cost reported by the licensee is shown below:

Comparison of actual and approved employee costs

	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Difference
2006-07	428.35	497.00	(68.65)
2007-08	411.44	397.00	14.44
2008-09	485.50	412.00	73.50
2009-10	699.13	433.00	266.13
2010-11	656.40		

25. The employee cost is increasing over the years and the difference between actual and approved expenses is also much higher. As a percentage of total revenue, employee cost is about 9 to 12% as shown below:

Employee cost as percentage of total revenue

	2006-07	2007-08	2008-09	2009-10	2010-11
Employee cost	428.35	411.44	485.50	699.13	656.40
Revenue as per the filing	3931.48	4302.73	5165.26	5596.83	5778.60
Percentage	10.89%	9.56%	9.40%	12.49%	11.36%

Employee strength reported by the licensee

Particulars	Sanctioned strength	2006-07	2007-08	2008-09	2009-10	2010-11
Asst. Exe. Engineer	1	1	1	1	1	1
Asst. Engineers	9	9	7	6	7	7
Other Technical staff	152	112	101	95	96	96
Non –Technical Staff	67	40	48	46	46	46
Total	229	162	157	148	150	150

As per the details given by the licensee, split up details of employee cost is given below:

	2006-07 (Rs. lakhs)	2007-08 (Rs. lakhs)	2008-09 (Rs. lakhs)	2009-10 (Rs. lakhs)	2010-11 (Rs. lakhs)
Salaries	255.43	302.71	376.23	414.93	471.08
Pay revision Arrears				157.64	24.96
Stipend and daily wages	8.77	7.35	10.20	8.73	8.78
Pension contribution (CVP) existing employees	38.53	40.17	48.18	86.37	62.79
CVP of retirees	101.91	34.70	19.92	26.67	42.00
Other allowances	2.11	2.02	2.15	2.35	2.43
Bonus	1.62	1.63	1.81	2.21	2.56

Medical expenses	0.16	0.15	0.13	0.01	0.03
Earned leave encashment	19.09	22.70	26.89	26.26	40.64
Staff welfare expenses	0.73			0.63	1.14
Total	428.35	411.43	485.51	725.80	656.41

26. As can be seen from the above table, pension contribution for the existing employees and pension contribution (Contributory Value of Pension –CVP) for retired employees are charged under the employee expenses. As per the details, the contribution for pension has been started from 10/1991 for the employees in the service. In the case of employees who entered the service prior to this period the licensee has to remit the balance CVP if there is pay revision at the time of their retirement.

27. The Audit report as well as the inspection report of the Commission shows that the licensee is incurring double payment towards pension. In paragraph 3.7 of the Local Fund Audit Report for the year 2006-07, it was reported that the licensee has to receive about Rs.4 crore from the Directorate for the period from 2003-04 to 2007-08 and in paragraph 3.1 of the audit Report for 2007-08, it is pointed out that Rs.1.71 cores was disbursed from the fund of the licensee towards pension. The actual pension disbursements and the pension contribution made by the licensee from own fund provided by the licensee is given below:

Pension contribution and actual pension disbursement from own funds

Year	Pension Contribution	Pension Payment
	(Rs.)	(Rs.)
2006-07	14,044,355	9,624,572
2007-08	7,487,031	13,778,961
2008-09	6,809,679	13,680,490
2009-10	8,637,065	15,361,192
2010-11	10,478,635	18,032,657
Total	4,74,56,765	7,04,77,872

28. The above details suggest that in the last five years, the licensee has remitted about Rs.4.75 crore as pension contribution and also paid out about Rs.7.04 crore towards pension to the employees. Though the licensee has clarified that the amount is not included in the ARR, this practice of double payment cannot be allowed, which results in serious cash flow problems. The licensee has shown this amount as receivable from the Department. The licensee has to take urgent steps to realise the amount from the respective agency and pension payment

from electricity business in addition to contribution will not be allowed. With this observation, the employee cost reported by the licensee is allowed for the purpose of truing up.

Repairs and Maintenance Expenditure

29. Comparison of actual and approved R&M expenditure is furnished below:

	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Difference
2006-07	83.10	57.00	26.10
2007-08	118.75	237.16	(118.41)
2008-09	136.85	243.57	(106.71)
2009-10	135.95	257.85	(121.90)
2010-11	173.11	-	-

30. There is substantial increase in R&M expenses over the years. The Commission has sought the details of R&M expenses. The licensee, as part of the clarifications, stated that the R&M expenses includes the electricity duty under Section 3(1) of the Electricity Duty Act and cost of maintenance of streetlights. The details given by the licensee are shown below:

	Section 3(1) duty (Rs.lakhs)	Maintenance of street lights (Rs.lakhs)	Total
2006-07	44.60	1.33	45.93
2007-08	48.95	32.27	81.22
2008-09	50.59	27.59	78.18
2009-10	57.89	29.00	86.89
2010-11	60.67	43.39	104.06

31. In any case the Section 3(1) duty is not admissible considering the provisions of Kerala Electricity Duty Act and the rulings of APTEL. Regarding maintenance of street lights, the Commission has noted that the licensee neither billed nor demanded the electricity charges on street lights. As per the details given by the licensee, the present practice is that it is carried out as part of the licensed activity. However, maintenance of street lights is not part of the licensed activity and the same has to be charged on to the local authority concerned. Since the licensee has been conducting the same as a single entity, the Commission as a one time measure, allows the expenses of maintenance street lights in the truing up. The licensee shall separately account the details and claim the same from

the Corporation in future. Thus the R&M expenses allowed for the purpose of truing up is as shown below:

R&M Expenses allowable for truing up

	Actual (Rs.lakhs)	Less Section 3(1) Duty (Rs.lakhs)	R&M Expenses allowable (Rs.lakhs)
2006-07	83.10	44.60	38.50
2007-08	118.75	48.95	69.80
2008-09	136.85	50.59	86.26
2009-10	135.95	57.89	78.06
2010-11	173.11	60.67	112.44

32. The Commission notes that even the allowable R&M expenses as percentage of average asset value has been increasing substantially. The licensee shall take appropriate steps to limit the R&M expenses to a reasonable level.

R&M Expenses as % of Assets

	R&M Expenses allowable (Rs.lakhs)	Average Asset value (Rs.lakhs)	R&M as % of Asset value
2006-07	38.50	3,516.71	1.09%
2007-08	69.80	3,984.30	1.75%
2008-09	86.26	4,538.62	1.90%
2009-10	78.06	4,717.41	1.65%
2010-11	112.44	4,868.21	2.31%

A&G Expenses

33. The Approved and the Actual A&G Expenses as per the filings are given below:

Comparison of Actual and approved A&G expenses

	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Difference
2006-07	31.40	82.00	(50.60)
2007-08	38.29	38.52	(0.23)
2008-09	36.36	41.14	(4.78)
2009-10	31.53	41.73	(10.20)
2010-11	109.02		

34. The actual expenses are relatively lower than the approved level. However in 2010-11, the A&G expenses booked was substantially higher than that of the previous years. The split up details of A&G expenses are given below:

Split up details of A&G expenses

Particulars	2006-07 (Rs.lakhs)		2007-08 (Rs.lakhs)		2008-09 (Rs.lakhs)	
	Approved	Actual	Approved	Actual	Approved	Actual
Insurance	3.49	1.64	4.00	2.92	4.20	2.65
Telephone charges	3.57	1.72	2.22	1.53	2.10	1.26
Legal charges	5.51	5.51	6.20	3.90	6.51	1.85
Audit fees	40.02	9.21	5.00	8.10	5.00	9.00
Technical fee	0.05	0.05	2.00	0.01	2.10	0.39
Interest on Security Deposit						7.48
Other expenses	9.49	3.40	5.00	6.47	5.48	1.56
Books, periodicals	0.03	0.03	0.10	0.03	0.15	0.05
Printing and Stationery	9.91	5.91	8.00	3.10	8.40	1.53
Advertisements	9.93	3.93	2.00	12.20	2.00	10.61
Miscellaneous expenses		-	4.00	0.02	4.20	
Total	82.00	31.40	38.52	38.29	41.14	36.36

Particulars	2009-10 (Rs.lakhs)		2010-11 (Rs.lakhs)	
	Approved	Actual	Approved	Actual
Insurance	4.41	2.48	-	2.23
Telephone charges	2.20	1.42	-	1.36
Legal charges	6.83	0.75	-	0.72
Audit fees	5.00	8.00	-	10.00
Technical fee	2.44	0.16	-	0.41
Interest on Security Deposit		2.81	-	25.31
Other expenses	5.51	7.08	-	3.24
Books, periodicals	0.11	0.04	-	0.08
Printing and Stationery	8.82	2.49	-	1.57
Advertisements	2.00	6.30	-	64.10
Miscellaneous expenses	4.41			
Total	41.73	31.53	-	109.02

35. In majority of heads, the expenses are nominal except under advertisements, interest on security deposits and audit fees. The interest on security deposit is booked from 2008-09 only and there is substantial variation year by year. The Commission also notes that interest on security deposits is to be booked under interest and financial charges rather than in A&G expenses. According to the licensee, increase in advertisement expenditure is due to publication of all tender notice of value of above Rs.20,000. However, in 2010-11, the advertisement expenditure booked is about Rs.64 lakhs, which is more than 10 times over the previous year. According to the licensee, it is transfer of revenue of Rs.61.75 lakhs received from advertisements in electric posts to the Corporation. In the letter dated 5-7-2012, the licensee stated that the revenue is from advertisement

tax, belonging to the local body and hence it is transferred to the Corporation. The Commission is of the view that revenue realised from the utilisation of assets of the distribution licensee has to be utilised for the benefit of the consumers of the licensee, as provided in the Act. Since the licensee has clarified that the amount received was in the nature of tax, the same is admitted provisionally. However, it is made clear that if any income is received using the assets of the licensee, the same shall be accounted as the income of the licensee. Further, if it is collected as tax, supporting details such as specific notifications on imposition of the tax have to be produced to support the claim.

Other Debits:

36. Other debits consist of provision for doubtful assets. The licensee has accounted 2.5% of the revenue from sale of power as the provision for doubtful debts as shown below:

Details of Other debits (provision for doubtful debts)

Year	Provision for doubtful debts (Rs.lakhs)	Revenue from sale of power during the year (Rs.lakhs)	Percentage of Doubtful debts on Revenue (Rs.lakhs)	Amount Receivable During the year (Rs.lakhs)
2006-07	98.29	3931.48	2.5 %	1528.60
2007-08	107.57	4302.73	2.5 %	1534.37
2008-09	129.13	5165.26	2.5%	1699.40
2009.10	139.92	5596.83	2.5%	1797.60
2010-11	144.06	5778.60	2.5%	1843.84

37. As per the balance sheet, the receivable from sale of power has been increasing over the years. The accumulated provision for doubtful debts up to 2010-11 is Rs.1426.92 lakhs and the receivables after the provision is Rs.416.92 lakhs. The licensee has explained the actions taken to collect the arrears such as temporary disconnection, dismantling of about 450 connections, initiating revenue recovery actions on 18 consumers, action for implementing 'one time settlement' etc., The Commission is of the view that the increase in receivables over the years is not justifiable as the licensee has all the means to collect the revenue due from its consumers. Hence, the provision given by the licensee cannot be accepted. However, the Commission is of the view that as a business practice, if the arrears are proved to be bad, the same can be allowed to be written off. Accordingly, the licensee with sufficient details can approach the Commission to write off the receivables which are proved to be bad. Further, any provision in this account can be allowed in future only if effective are steps taken by the licensee for arrear collection.

38. In this regard, it is directed that the licensee may take the following steps and submit an Action Taken Report along with the ARR&ERC petition for 2013-14.

1. Initiate prompt disconnection and dismantling of defaulted consumers as per the provisions of Kerala Electricity Supply Code.
2. Prompt adjustment of Security Deposit against the dues of dismantled consumers.
3. Initiate action for Revenue Recovery for the amount due from dismantled consumers.
4. Initiate action for clearing the amount in disputed cases / court cases.

Reasonable Return

39. In the petition in Form B, the licensee has arrived at the surplus as the difference between revenue and expenses. However, in Form E, the licensee has arrived at the eligible return as the 14% of the 30% of Net Fixed Assets as shown below:

Year	Revenue return (Rs.lakhs)
2006-07	231.01
2007-08	267.55
2008-09	229.20
2009-10	267.78
2010-11	301.36

40. As per the petition, the licensee has no equity as such and the investment is mainly the excess funds accumulated over the years. As per the provisions, licensees are eligible for reasonable return based on pre-determined criteria. The Commission has been allowing reasonable return as 14% of the equity capital invested in the business. However, in the case of Thrissur Corporation and other small licensees, definite equity capital is not available and a basis for allowing return is not ascertainable. The Commission has already engaged a Consultant for studying the appropriate rate base for allowing Return for the small licensees. Till their study report is received and adopted, the Commission allows a provisional return of Rs.10 lakhs each year.

Aggregate Revenue Requirements:

41. Based on the above, the Aggregate Revenue Requirements allowed by the Commission based on the truing up is given below:

Particulars	2006-07			2007-08		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Expenses						
Power Purchase cost	2,403.00	2,497.48	2,497.48	2,805.00	2,914.19	2,914.19
Interest & Financing charges	-	365.16		100.00	-	-
Depreciation	65.71	129.02	129.02	74.31	145.92	145.92
Employee Cost	497.00	428.35	428.35	397.00	411.44	411.44
Repair & Maintenance Cost	57.00	83.10	38.50	237.10	118.75	69.80
Administrative & General	82.00	31.40	31.40	38.52	38.29	38.29
Other Debits	37.00	98.29		-	107.57	
Return on Investment	192.00	231.01	10.00	189.00	267.55	10.00
Total Expenses	3,333.71	3,863.81	3,134.75	3,840.99	4,003.71	3,589.64

Particulars	2008-09			2009-10		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Power Purchase cost	2,940.00	3,666.10	3,666.10	3,046.00	3,886.02	3,886.02
Interest & Fin: Charge	-	181.41	-	-	-	-
Depreciation	145.05	165.91	165.91	192.54	172.15	172.15
Employee Cost	412.00	485.50	485.50	433.00	699.13	699.13
Repair & Maintenance Cost	243.57	136.85	86.26	257.85	135.95	78.06
Administrative & General	41.14	36.36	36.36	41.73	31.53	31.53
Other Debits	-	129.13		-	139.92	
Return on Investment	217.00	229.20	10.00	241.00	267.78	10.00
Total Expenses	3,993.57	5,030.46	4,450.13	4,212.12	5,332.50	4,876.89

Particulars	2010-11		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Expenses			
Power Purchase cost	-	4,120.44	4,181.02
Interest & Fin: Charge	-		
Depreciation	-	177.12	177.12
Employee Cost	-	656.40	656.40
Repair & Maintenance Cost	-	173.11	112.44
Administrative & General	-	109.02	109.02
Other Debits	-	144.06	
Return on Investment	-	301.36	10.00
Total Expenses		5,681.51	5,246.00

Revenue from Tariff

42. The revenue from sale of power reported by the licensee is shown below: The revenue given against each consumer class is inclusive of electricity duty.

Revenue from sale of power reported by the license

Description	2006-07 (Rs.lakhs)	2007-08 (Rs.lakhs)	2008-09 (Rs.lakhs)	2009-10 (Rs.lakhs)	2010-11 (Rs.lakhs)
Domestic	599.48	656.21	844.76	870.77	925.54
Non-domestic	3,356.50	3,686.21	4,532.52	4,692.95	5,038.59
Agriculture	3.06	3.03	3.49	2.74	2.59
Industry	200.64	203.40	222.84	304.78	226.88
Total	4,159.68	4,548.85	5,603.61	5,871.24	6,193.60
Reconnection fee	5.00	6.51	6.47	6.94	7.94
Delayed payment charges	45.67	44.51	37.16	148.45	94.90
Gross Revenue	4,210.35	4,599.87	5,647.24	6,026.63	6,296.44
Less Electricity duty	271.44	292.59	316.55	353.92	370.04
Other State levies	7.43	4.56	165.44	75.52	147.80
Net Revenue	3,931.48	4,302.72	5,165.25	5,597.19	5,778.60

43. The licensee has clarified that the revenue from sale of power is the total demand including electricity duty, Surcharge, Thermal surcharge, Fuel Surcharge etc. So electricity duty and other state levies are to be deducted from the gross revenue. The Commission observes that the method of accounting adopted by the licensee is not proper. The revenue from sale of power is to be accounted net of electricity duty and other levies and duties and other levies shall be accounted as contra entry as per the form G. The licensee is directed to adhere to such an accounting procedure strictly in future.

44. The licensee has clarified that street light consumption has not been billed and accounted. The Commission has accounted the estimated consumption of street lights in the sales and the distribution loss has been arrived at based on the consumption from street lighting. Street lighting should be billed at appropriate rates in future and the revenue accounted in the Licensee's books. Considering average tariff of Rs.2/kWh for street lights, the revenue from sale of power allowed for truing up is given below:

Revenue from Sale of power allowable for truing up

	Revenue from sale of power as per Accounts (Rs.lakhs)	Estimated sales to Street lighting (lakh units)	Estimated revenue from street lighting (@Rs.2/kWh)	Total revenue from Sale of Power (Rs.lakhs)
2006-07	3,931.48	26.10	52.20	3,983.68
2007-08	4,302.72	27.70	55.40	4,358.12
2008-09	5,165.25	28.70	57.40	5,222.65
2009-10	5,597.19	31.70	63.40	5,660.59
2010-11	5,778.60	32.40	64.80	5,843.40

45. As per the details given by the licensee the collection efficiency for the years is given below:

Details of Collection Efficiency

	Opening Balance (Rs.lakhs)	Current year Demand (Rs.lakhs)	Collection (Rs.lakhs)	Balance (Rs.lakhs)	Collection Efficiency against total demand	Collection efficiency against current Demand
2006-07	1,429.34	4,159.67	4,060.41	1,528.60	73%	98%
2007-08	1,528.60	4,549.31	4,543.53	1,534.38	75%	100%
2008-09	1,534.37	5,603.61	5,438.58	1,699.40	76%	97%
2009-10	1,699.40	5,871.24	5,773.04	1,797.60	76%	98%
2010-11	1,797.60	6,193.60	6,147.36	1,843.84	77%	99%

As can be seen from the above, the collection efficiency against current demand is showing an increasing trend, but the arrears remain to be collected. The licensee has to take concerted efforts to reduce the outstanding against the consumers immediately.

Non-Tariff Income

46. Non – tariff income reported by the licensee as per the filing is as follows:

Description	2006-07	2007-08	2008-09	2009-10	2010-11
Interest on FD	321.51	158.55	208.51	64.86	550.64
Rent from Quarters	0.64	0.83	1.13	1.08	0.96
Commission for Collection of Duty	2.71	2.93	3.17	3.54	3.70
Misc. Recoveries	71.17	56.43	131.75	112.86	195.15
Sale of Scrap		33.21	5.15	11.36	
Total	396.03	251.94	349.70	193.70	750.45

47. The major portion of the non-tariff income is from interest on Fixed Deposits. As shown above, the licensee has been accounting the interest as and when received rather than on accrual basis. The Commission has already directed the licensee to follow double entry method of accounting to avoid such accounting lapses. The miscellaneous recoveries also include income from advertisement placed in electric poles. The Commission allows the non-tariff income as reported by the licensee.

Revenue Surplus/gap after truing up

48. The ARR & ERC and revenue surplus after truing up is as given below:

Particulars	2006-07			2007-08		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Revenue						
Revenue from Sale of Power	3,381.00	3,931.48	3,983.68	4,307.19	4,302.73	4,358.12
Other Income	139.00	396.03	396.03	190.06	251.94	251.94
Total Income	3,520.00	4,327.51	4,379.71	4,497.25	4,554.67	4,610.06
Expenses						
Power Purchase cost	2,403.00	2,497.48	2,497.48	2,805.00	2,914.19	2,914.19
Interest & Financing charges	-	365.16		100.00	-	-
Depreciation	65.71	129.02	129.02	74.31	145.92	145.92
Employee Cost	497.00	428.35	428.35	397.00	411.44	411.44
Repair & Maintenance Cost	57.00	83.10	38.50	237.10	118.75	69.80
Administrative & General	82.00	31.40	31.40	38.52	38.29	38.29
Other Debits	37.00	98.29		-	107.57	
Return on Investment	192.00	231.01	10.00	189.00	267.55	10.00
Total Expenses	3,333.71	3,863.81	3,134.75	3,840.99	4,003.71	3,589.64
Revenue Surplus/gap	186.29	463.70	1,244.96	656.26	550.96	1,020.42

Particulars	2008-09			2009-10		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Revenue						
Revenue from Sale of Power	4,646.00	5,165.26	5,222.65	5,023.00	5,596.83	5,660.59
Other Income	193.00	349.70	349.70	197.00	193.70	193.70
Total Income	4,839.00	5,514.96	5,572.35	5,220.00	5,790.53	5,854.29
Expenses						
Power Purchase cost	2,940.00	3,666.10	3,666.10	3,046.00	3,886.02	3,886.02
Interest & Fin: Charge	-	181.41	-	-	-	-
Depreciation	145.05	165.91	165.91	192.54	172.15	172.15
Employee Cost	412.00	485.50	485.50	433.00	699.13	699.13
Repair & Maintenance Cost	243.57	136.85	86.26	257.85	135.95	78.06
Administrative & General	41.14	36.36	36.36	41.73	31.53	31.53

Particulars	2008-09			2009-10		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Other Debits	-	129.13		-	139.92	
Return on Investment	217.00	229.20	10.00	241.00	267.78	10.00
Total Expenses	3,993.57	5,030.46	4,450.13	4,212.12	5,332.50	4,876.89
Revenue Surplus/gap	845.43	484.51	1,122.22	1,007.88	458.03	977.40

Particulars	2010-11		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True Up (Rs.lakhs)
Revenue			
Revenue from Sale of Power	-	5,778.00	5,843.40
Other Income	-	750.45	750.45
Total Income	-	6,528.45	6,593.85
Expenses			
Power Purchase cost	-	4,120.44	4,181.02
Interest & Fin: Charge	-		
Depreciation	-	177.12	177.12
Employee Cost	-	656.40	656.40
Repair & Maintenance Cost	-	173.11	112.44
Administrative & General	-	109.02	109.02
Other Debits	-	144.06	
Return on Investment	-	301.36	10.00
Total Expenses		5,681.51	5,246.00
Revenue Surplus/gap		847.54	1,347.85

Total Revenue Surplus after True up is as follows

	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True up (Rs.lakhs)
2006-07	186.29	463.70	1,244.96
2007-08	656.26	550.96	1,020.42
2008-09	845.43	484.51	1,122.22
2009-10	1,007.88	458.03	977.40
2010-11		847.54	1,347.85
Total		2,804.74	5,712.85

Orders of the Commission

49. The Commission after considering the truing up petitions of Thrissur Corporation for the years from 2006-07 to 2010-11 and the details and clarifications of the Corporation thereon, hereby arrive at a total Revenue Surplus of Rs.5712.85 lakhs. The Licensee shall keep the Surplus so arrived at after the truing up process in a separate fund and utilise it as per the Orders of the Commission.

Directives

- i. Action Taken Report on the issues pointed out by the Commission as per letter dated 28.10.2011, shall be submitted within one month from the date of receipt of this order.
- ii. Second stage of the Compliance Report on the directives issued by the Commission's Notice dated 28.10.2011 shall also be submitted within one month from the date of receipt of this order.
- iii. The Licensee should take immediate action to get the accounts of the distribution business up to 2011-12 audited and copies of the Audit Report is to be forwarded to the Commission. Action taken to get the accounts audited should be reported within one month
- iv. The licensee shall rectify the accounting discrepancies pointed out in this Order.
- v. The licensee shall take immediate action to realise the amount spent for pension payment from the concerned authorities. A report on the action taken and result thereof should be submitted within a period of three month.
- vi. The Commission's prior approval for capital expenditure shall be obtained as part of the ARR&ERC exercise in future. Asset Register showing technical particulars and cost of the assets should be maintained and asset accounting including depreciation accounting shall be computerised. Action Taken Report is to be forwarded within two months from the date of receipt of this Order.
- vii. Time bound action shall be taken to realise the arrears and complete details on the status of arrears should be reported to the Commission along with the ARR&ERC petition for 2013-14. .

The Petitions are disposed of with above directions. Ordered accordingly.

Sd/-
P.Parameswaran
Member

Sd/-
Mathew George
Member

Approved for issue

Secretary