

THE KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

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

October 25, 2012

OP No.27 of 2011

In the matter of
Truing up of Accounts of Kerala State Electricity Board for the year 2009-10

Kerala State Electricity Board, Thiruvananthapuram

..... Petitioner

ORDER

Background

1. Kerala State Electricity Board (herein after referred to as the *Board or KSEB*) has filed the truing up petition on 1-9-2011 for the years 2009-10. After getting the defects rectified, the petition was admitted by the Commission on 22-11-2011. Clarifications sought by the Commission vide letter dated 6-12-2011 were received from the Board vide letter dated 23-1-2012. However, on many issues, the details were not still furnished by the Board. Hence, the Commission in its letter dated 9-2-2012 sought further clarifications and they were received from the Board vide letter dated 14-5-2012. The Commission notes that the reply given is not yet complete in some of the issues, which have been discussed in the following sections at the appropriate places.
2. While the petition for truing up for 2007-08 & 2008-09 were under the consideration of the Commission, the Board had filed a review petition on the Orders of the Commission on the truing up of accounts for the year 2006-07. In the review petition, the Board had requested the Commission to reconsider the decision of disallowance of return on equity amount of Rs.1553 crore, based on a Government Order dated 13-12-2010 in which the Government reversed the conversion of equity into grant with retrospective effect. In the mean time, tenure of the two

members of the Commission who originally heard the truing up petitions ended. Considering this and the fact that the decision on the issue of equity had a bearing on the truing up petitions for the succeeding years, the Commission reheard the matter on 16-3-2011. APTEL in their orders dated 17-1-2012 (Appeal No. 158 of 2010 KSEB Vs KSERC) had also directed the Commission to reconsider the issue of equity based on the Govt. Order dated 13-12-2010. In the light of the above, the Commission in its order dated 13-4-2012 disposed of the review petition where it was held that.

“Pending a decision based on the Consultant’s report/the second transfer scheme, the Commission will continue the practice of providing returns treating Rs.1553 crore as Government’s Capital in KSEB provisionally and the matter will be reviewed later.”

3. Accordingly, in the ARR&ERC Order for 2012-13, the Commission had allowed the RoE based on the equity of Rs.1553 crore provisionally. The above position will be applicable to the truing up of accounts of 2009-10 also.
4. The Board had filed the petition with provisional accounts and the audit report was subsequently furnished. The Commission in its ARR&ERC Order for 2009-10 had approved an ARR of Rs 5316.30 crore and ERC of Rs 4981.00 crore and arrived at a revenue gap of Rs 335.30 crore. As against this, the truing up petition for the year 2009-10 shows a revenue gap of Rs 1227.50 crore. A comparison of approved ARR&ERC and actuals as per the truing up petition is given below:

Comparison of Approved and Actual ARR &ERC for 2009-10

Particulars	Approved	Actuals (Audited)	Difference
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation Of Power	301.54	364.35	62.81
Purchase of power	2,781.99	3,384.52	602.53
Interest & Finance Charges	333.11	263.57	(69.54)
Depreciation	477.90	451.22	(26.68)
Employee Cost	1,069.96	1,451.53	381.57
Repairs & Maintenance	152.74	173.16	20.42
Administration & General Expenses	64.22	166.96	102.74
Other Expenses	1.11	23.15	22.04
Gross Expenditure	5,182.57	6,278.46	1,095.89
Less : Expenses Capitalized	55.82	85.35	29.53
Less : Interest Capitalized	27.87	22.45	(5.42)
Total Expenditure	5,098.88	6,170.66	1,071.78

Particulars	Approved	Actuals (Audited)	Difference
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Return on Equity/Statutory Surplus	217.42	240.71	23.29
Aggregate Revenue Requirements	5,316.30	6,411.37	1,095.07
Revenue from energy sale within the State	4489.99	4679.66	189.67
Revenue from non-tariff income	491.01	436.69	(54.32)
Revenue from sale of power to other States	-	41.66	41.66
Revenue from sale of power to M/s.NVVN & PTC	-	13.89	13.89
Sale through Power Exchange	-	11.96	11.96
Total Revenue	4,981.00	5,183.86	202.86
Revenue Gap	335.30	1,227.51	892.21

5. The Government in exercise of the powers conferred under Section 131 of the Electricity Act 2003, vested all functions, properties, interests, rights, obligations and liabilities of KSEB in Government till it is re-vested in a corporate entity. Re-vesting is not complete till date. In their petition, KSEB stated that though the Electricity (Supply) Act, 1948 stands repealed, the rules made under Section 69(1) of the said Act shall continue to have effect until such rules are rescinded or modified. Accordingly the Electricity (Supply) (Annual Accounts) Rules (ESAAR) 1985, are in force, and the Board is bound to follow the rules and the annual accounts are prepared in accordance with the above rules, which are certified and audited by the Comptroller and Auditor General of India.
6. It is also pertinent that the Board had approached the Hon. Appellate Tribunal for Electricity, New Delhi against the ARR&ERC order for 2009-10 dated 17-4-2009 issued by the Commission and the Tariff order dated 2-12-2009, against the following issues:
- (i) Estimation of power purchase cost for Central Generating Stations.
 - (ii) Disallowance of interest and Finance Charges;
 - (iii) Reduction in Interest on working capital
 - (iv) Disallowance of depreciation
 - (v) Disallowance of electricity duty
 - (vi) Disallowance of A&G expenses
 - (vii) Disallowance of prior period charges and other debits;
 - (viii) Recovery of revenue shortfall due to withdrawal of power cuts
 - (ix) Denial of appropriate tariff increase to cover the revenue gap
 - (x) Mechanism of fuel price adjustment charges.

The Hon. APTEL in the Order dated 4-9-2012 (Appeal No.190 of 2009 and 46 of 2010) after considering the matter in detail had rejected the grounds raised by the Board with regard to estimation of power purchase from Central Stations of NTPC and NLC, interest and financing charges, depreciation, electricity duty, other debits, T&D loss targets and revenue gap. Interest on working capital, A&G expenses, prior period expenses and revenue shortfall due to power cuts, are to be considered after prudence check in the truing up. The Commission while considering this petition, has given due consideration to the observations made by the Hon. APTEL in the Order dated 4-9-2012.

Public hearing on the petition:

7. The public hearing on the petition was held on 25-1-2012. During the hearing, objections were filed by the Kerala HT-EHT Industrial Electricity Consumers Association and some other industrial consumers. Shri. A.R Satheesh, representing M/s Carborandum Universal stated that the Commission may not allow any controllable expenses over the approved level. Uncontrollable expenses in the form of fuel cost variations are addressed through Fuel Surcharge Regulations. Employee cost which is a controllable item has increased by 36% over the approved level. R&M expense has increased by 13.37% and A&G expense by 160%. He submitted that such cost increases in controllable items may not be allowed. The excess T&D loss may also be disallowed. The HT-EHT Association represented by Shri. George Thomas, presented detailed objections. Regarding the T&D loss reduction, the Association pointed out that the Board has made several claims in the 2009-10 ARR&ERC petition. However, details on many of the issues in commercial loss reduction are not available. Unless such information is available, the issue of commercial losses can not be addressed. According to him the case of technical losses, the Board has been presenting manipulated data to show huge claims on loss reduction. They have requested the Commission to take cognisance of the loss figures from 1997-98 and stated that the actual loss levels are far lower than what the board has reported since 2001-02 and therefore aggregate sales have been higher, which is the reason for the Board to operate profitably without tariff hike for long. They also pointed out that as per the Orders of Hon. APTEL in 100 of 2007, 94 of 2008 and 5 of 2009, the loss reduction target fixed by the Commission is bound to be achieved by the utility. Hence the loss target of 16.92% approved shall be allowed and the excess T&D loss should be disallowed at the cost of highest marginal cost stations. The Association has worked out the quantum of power purchase to be disallowed as 161MU considering the reported loss level of 17.71% and target level of 16.92%

and the cost to be disallowed as Rs.148 crore. Regarding interest and financing charges, the Association argued that the Board has claimed that a total of Rs.1253 crore was utilised including Section 4 duty, depreciation, RoE and cash flow from financing. If the Board has made capital expenditure of Rs.870 crore, then there is no requirement of borrowing of Rs.309 crore as claimed by the Board. Hence, they requested to disallow the interest on working capital claimed by the Board. Regarding depreciation, the Association stated that the Commission has allowed depreciation as per the revised norms of CERC on a condition that in the truing up process, the Board has to update the accounts and provide the depreciation calculated strictly in accordance with the revised norms. The Commission has made it clear in the Order that in its absence, the depreciation based on earlier norms alone will be allowed. In these circumstances, the Association argued that based on earlier norms, the Board is eligible for Rs.312.02 crore only as depreciation. In the case of employee costs, the Board has now claimed Rs.1452 crore though the Commission has allowed Rs.1070 crore as projected by the Board in the ARR petition. The Association contended that though the Commission insisted to have proper manpower studies to determine the appropriate staffing levels, no efforts have been taken in this direction duly disregarding the directions of the Commission. The Association has shown that from FY 2000, the employee cost has increased by 226% and the terminal liabilities from 26% in 1999-00 to 42% in 2009-10. The Board so far has not set up the pension and gratuity fund to handle the pension liabilities and not taken steps for securing separation of past and present employee costs. Hence, action under section 142 to ensure compliance is required on this highly critical issue. The Board has tried to explain the variance by saying that the provision for pay revision and DA was not created and pension liabilities have increased in tandem. The Association pointed out that Order of Full Bench of Hon. APTEL in Appeal Nos. 4,13,14,23,25,26,35,36,54 &55 of 2005, has ruled that pay revisions are not mandatory and automatic but are discretionary and based on employee performance. Hence they requested to disallow the additional claim of Rs.382 crore and allow only Rs.1070 crore as approved in the ARR order.

8. Regarding R&M expenses, the Commission has given a conditional order stating that additional claim will be allowed only if detailed qualified assessment of the function-wise R&M expenses and necessary plan for carrying out the scheme are submitted within one month of the Order. In its absence, only 10% compounded increase over the actual expenses of 2007-08 will be allowed in the truing up process. Since the Board has not given the statement, it is eligible only for

Rs.140 crore. As against the Orders of APTEL, the Board is claiming Section 3(1) duty under A&G expenses. For the year 2009-10, the Board is claiming about 34% increase in cost over the approved level, and the reasons mentioned for the increase do not justify the increase. Accordingly only approved level of expenses need be given under this head. Regarding other expenses also the Association sought to allow only approved level of expenses and argued that the foreign exchange variation may not be allowed. As per the estimates of the Association, an amount of Rs.5432 crore needs to be allowed instead of Rs.6519 crore sought by the petitioner. Based on these estimates the Association arrived at a revenue gap of Rs.58 crore as against Rs.1228 Crore projected by the Board.

9. Shri. AAM Nawas representing M/s Binani Zinc limited stated that the Board has not taken steps to limit the employee expenses, The major industries in the State have controlled the expenses in the past due to competitive pressures. The T&D loss reduction can be possible through effective replacement of faulty meters. The R&M expenditure of the Board is much higher than the approved levels. The representative of M/s Western India Plywoods limited has endorsed the submission of the HT-EHT association.
10. M/s TCC limited also presented their objections. According to M/s TCC limited only increase in uncontrollable expenses needs to be allowed. The excess T&D loss has to be disallowed from the power purchase. Regarding interest and financing charges, the claim on interest on electricity duty may be disallowed. Further depreciation on assets created out of consumer contribution need not be allowed to the Board. The employee cost has increased by 36% than the approved amount. In other States, the cost per unit is in the range of 30 paise where as in the Board it is about 77 paise per unit. R&M expenses & A&G expenses need to be allowed only at the approved level and section 3(1) duty need not be allowed. In the absence of any equity capital, the Commission shall allow only the amount approved in the ARR as ROE.

Analysis and decision of the Commission

11. The Commission has considered the petition, the arguments of the Board and the objections and its findings on various items as follows:

Energy Sales:

12. In the order on ARR&ERC, the Commission had approved energy sales of 13680MU, but the actual energy sale within the State during 2009-10 reported by the Board was 13971MU. The details are given below:

Energy sale for 2009-10

Category	Approved sales	Actual as per accounts
	(MU)	(MU)
LT Domestic	6577	6559
Industrial	1092	1064
Commercial & Non Domestic	1672	1793
Irrigation	238	257
Public Lighting	305	303
Sub total	9884	9976
HT Industrial	1432	1450
Non-Industrial	115	117
Agriculture	10	8
Commercial	686	693
Subtotal	2243	2268
EHT 66KV	325	363
110 KV	705	786
Railways	149	165
Subtotal	1179	1314
Bulk Supply	374	413
Total	13680	13971

13. According to the Board, there is an increase of about 2% in energy sales compared to the approved level mainly on account of no restrictions on the use of power except in the month of April 2009 and due to new connections effected. The Commission allows the actual energy sales reported by the Board.

T&D Loss

14. The Board in the petition has stated that the actual energy loss for 2009-10 was 17.71%. The loss figure was arrived at as follows.

Actual Transmission and distribution loss in 2009-10

Particulars	Unit	Approved	Actuals
Net Generation and Power Purchase at KSEB periphery	(MU)	16726	17032
Surplus energy sale through displacement mode	(MU)	61	54
Net Energy input into the KSEB system	(MU)	16665	16978
Energy sales within the State	(MU)	13844	13971
T&D Losses	(MU)	2821	3007
T&D Loss as percentage of total energy input	(%)	16.92	17.71

15. The Board in para 4.3 of the petition has stated that the loss reduction target fixed by the Commission is 1% for the year and the actual loss reduction achieved by the Board is 1.12%, which is 0.12% higher than target fixed by the Commission. Further in para 4.8 of the petition, the Board has requested to approve the loss level of 17.71% achieved for the year.
16. The Commission has considered the request of the Board. The loss reduction target approved by the Commission for the year was 1% and the loss target fixed by the Commission for the year 2009-10 was 16.92%, whereas the actual loss was 17.71%. The loss reduction target approved by the Commission for the year 2009-10 was 1% considering the fact that in the previous years, the Board could not achieve the loss target approved by the Commission and even the loss targets proposed by the Board itself. The actual T&D loss for the year 2009-10 reported by the Board is 17.71%, whereas the loss level in 2008-09 was 18.83%. Thus the loss reduction achieved for the year 2009-10 is 1.12% as against the loss reduction target of 1% fixed by the Commission. However, it may be noted that the Commission has fixed the loss target of 16.92%, which could not be achieved by the Board for the year 2009-10. Further, considering the approved loss target after truing up for the year 2008-09 of 18.39%, the loss reduction achieved by the Board works out to only 0.68%, which is lower than the 1% target fixed by the Board. Further, if we proceed with the loss level approved in the truing up for 2008-09 (18.39%), the actual loss reduction achieved by the Board is only 0.68%. Hence, taking a lenient stand, the loss reduction achieved by the Board of 1.12% based on the actual T&D loss in 2008-09, as requested is allowed and accordingly, the T&D loss level for 2009-10 is approved as 17.71%.

	2009-10		
	ARR Order	Actual as per Audited accounts	Allowed in True UP
T&D Loss	16.92%	17.71%	17.71%

T&D Loss and Loss Reduction targets

Year	Proposed in the ARR	Approved level	Actual	True up	Proposed in the ARR	Loss Reduction Approved	Actual achieved by KSEB	Loss reduction approved in Trueing up
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
2003-04	26.60	26.60	27.45	26.60				
2004-05	24.77	24.50	24.95	24.50	2.33	3.00	2.50	2.95
2005-06	22.59	21.89	22.96	22.23	2.72	2.72	1.99	2.72
2006-07	21.58	20.45	21.47	20.46	1.76	2.50	1.50	2.50
2007-08	19.72	19.55	20.02	19.55	1.83	2.00	1.45	1.92
2008-09	18.49	17.92	18.83	18.39	1.63	1.63	1.32	1.63
2009-10	17.43	16.92	17.71	17.71	1.27	1.00	1.12	1.12

Generation and Power purchase

17. The Commission in the ARR order for 2009-10 had approved hydel generation of 6651MU. The actual hydel generation for 2009-10 was only 6624MU. The hydel generation was about 27MU lower than the approved level. The Commission had approved 605MU from the diesel stations at a cost of Rs.300.94 crore. The Board had however, generated 575 MU from these stations at a cost of Rs.364.35 crore. KSEB also sold 76.66 MU of energy from these stations for Rs.67.51 crore. For the year 2009-10, from the diesel stations, the Commission had approved the quantity proposed by KSEB at a variable cost of Rs 4.85 per unit. As against the approval of 182.50MU from BDPP, the actual generation was 223.77MU and 350.69MU from KDPP, against the approval of 427.05 MU. Thus, the actual generation from BDPP was 45.84 MU higher than the approved quantity. According to the Board, the increase in scheduling was mainly during the summer months i.e., April-2009, May-2009 and March-2010. However, KSEB had reduced the scheduling from KDPP by 76.36 MU over the approved level. The Board reported that the actual average variable cost of BDPP & KDPP was Rs 6.10 per unit & Rs 6.18 per unit respectively against the approved rate of Rs 4.85 per unit. The Board has stated that the increase in cost is due to the increase on account of the price hike of LSHS and HSD. A summary of the generation from BDPP & KDPP and the cost incurred is given below.

Summary of the generation from BDPP and KDPP for the year 2009-10

Month	KSERC Approval			Actual			Difference	
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Amount
	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs.Cr)
BDPP	183	4.85	88.51	232.84	6.10	142.03	49.84	53.52
KDPP	438	4.85	212.43	359.48	6.18	222.32	-78.52	9.89
Total	621		300.94	592.32		364.35	-28.68	63.41

18. As per the petition, the details of power purchase from central generating stations given by the Board are as shown below:

Energy Scheduled form CGS during 2009-10

CGS	KSERC Approval		Actuals		Difference	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Thalcher – II	3079	431.31	3177.63	651.59	98.63	220.28
NLC-II - Stage-1	348	66.43	383.85	59.51	35.85	-6.92
NTPC- RSTPS (I& II))	2217	399.14	2402.24	458.01	185.24	58.87
NLCII - Stage II	534	88.58	596.63	93.75	62.63	5.17
NLC – Exp	471	93.64	401.76	84.05	-69.24	-9.59
MAPS	124	25.73	87.71	16.99	-36.29	-8.74
Kaiga	419	132.34	236.01	71.91	-182.99	-60.43
NLC- Exp- stage-II	206	43.75	0	0	-206	-43.75
Kudamkulam	255	82.82	0	0	-255	-82.82
UI			371.4	92.62	371.4	92.62
Total	7653	1363.74	7657.23	1528.43	4.23	164.69

19. Details of power purchase from IPPs and CGS given by the Board are shown below :

Summary of the cost of power purchase for the year 2009-10

Station	Approved by the Commission		Actuals		Difference	
	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
CGS	7653.00	1363.74	7657.23	1528.43	4.23	164.69
IPPs						
KPCL	124.78	72.87	75.06	61.73	-49.72	-11.14
BSES	969.00	551.89	576.70	457.59	-392.30	-94.30
Kayamkulam	1000.00	571.68	1153.90	845.02	153.90	273.34
Wind	30.00	9.26	66.48	20.87	36.48	11.61
Ullumkal	34.00	8.30	16.73	3.35	-17.27	-4.95

Station	Approved by the Commission		Actuals		Difference	
	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
MP Steel			37.16	8.65	37.16	8.65
Traders			617.01	265.89	617.01	265.89
Sub total	2157.78	1214.00	2543.04	1663.10	385.26	449.10
Transmission Charges						
Eastern Region		0.05		0.00	0.00	-0.05
Southern Region		171.90		181.69	0.00	9.79
Kayamkulam		32.30		11.29	0.00	-21.01
Sub total		204.25		192.98	0.00	-11.27
Total	9810.78	2781.99	10200.27	3384.51	389.49	602.52

20.As can be seen from the above, the Board has purchased about 617MU from traders during 2009-10 at an average rate of Rs.4.31 per unit. The details of purchase from the traders are given below

Summary of the energy procurement through traders and energy exchanges

Sl No.	Particulars	Quantity procured at KSEB bus	Total amount	Per unit cost
		(MU)	(Rs.Cr)	(Rs/ kWh)
1	TATA	9.41	4.24	4.51
2	NVVN	24.86	11.70	4.71
3	GMRETL	13.10	8.45	6.45
4	JSWPTC	65.99	35.63	5.40
5	GEL	12.97	6.05	4.67
6	PTC	2.41	1.49	6.16
7	LANCO	46.49	23.10	4.97
8	IEX	226.43	79.77	3.52
9	PXIL	160.79	68.05	4.23
10	RGPTC	24.95	13.14	5.27
11	RETL	29.61	14.26	4.82
12	Subtotal	617.01	265.89	4.31

21.The transmission charges paid to PGCIL for the year 2009-10 is Rs.192.98 crore. The Board has requested to approve the power purchase cost as per the accounts.

22. The Commission has examined the power purchase details of the Board. The Commission for the year 2009-10 had approved fuel surcharge on three occasions. For the first and second quarters, an amount of Rs.196.59 crore, for the third quarter Rs.100.90 crore, and for the last quarter Rs.165.87 crore totalling to Rs.463.36 crore has been allowed as fuel surcharge. The first instalment of fuel surcharge was collected from April to September 2010 at the rate of 25 paise per unit. The third and last quarter fuel surcharge of Rs.265.84 crore was adjusted against the revenue surplus of Rs.350.57 crore estimated for the year 2010 also considering the subsidy of Rs.99.97 crore available from the Government. The total fuel surcharge approved for 2009-10 is shown below:

Fuel surcharge applicable for the year 2009-10

	Allowable Quantity	Amount admissible as Surcharge
	(MU)	(Rs.Cr)
BDPP	169.09	21.64
KDPP	337.79	46.51
RGCCPP	923.43	161.03
BSES- Kochi	472.58	70.07
KPCL	57.87	10.59
Talcher-II	2,972.65	106.77
Ramagundam	2,187.34	46.75
Total	7,120.75	463.36

23. The Commission has sought the details of provisions made for power purchase in the accounts. As per the audited accounts, an amount of Rs.552.11 crore as on 1-4-2009 and an amount of Rs. 726.37 crore as on 31-3-2010 was available as provisions for power purchase. The Commission has sought the split up details of the provisions already created in the accounts. In the letter dated 14-5-2012, the Board has submitted the following details.

	Rs. crore
Opening balance	552.11
Add: Sundry creditors for purchase of power for the month of March 2010	498.49
Less : Payment made from sundry creditors and provision utilised during the year 2009-10	333.03
Add: Provision created during the year 2009-10	8.80
Total	726.37

24. Though the Commission has sought the split up details of provisions made for the Rs.726.37 crore, the Board has given only the provision created for the year 2009-10. As per the details given by the Board, a provision of Rs. 498.49 crore has been created for the power purchase bills due for the month of March 2010. It can be noted that average power purchase cost per month (including CGS, IPPs, transmission charges and the provision of Rs.498.49 crore) works out to only Rs.282 crore, which is Rs.216.5 crore less than the provision created. It can be noticed that as on 31-3-2009, already an unutilised provision of Rs.552.11 crore is available to the Board, which has already been passed on to the consumers and in addition for the year, the Board has created a net provision of Rs. 174.26 crore. Since the Board has not furnished the details of provisions already created for the earlier years and also the reasons as to why the provisions are created for current year, the Commission is not in a position to ascertain the reasonableness of the excess provisions. In any case, the Board may not need further provision more than Rs.552.11 crore already available, even if the revision of tariff applicable to CGS is also considered. Accordingly, the Commission is of the view that the extra provision created of Rs.174.26 crore (Rs.726.37 crore-Rs.552.11 crore) is not necessary. Accordingly it has been decided to deduct this amount from the power purchase cost. Accordingly the power purchase cost for the year 2009-10 is allowed as given below:

	Approved in the ARR		Actuals		True up	
	MU	Cost (Rs. crore)	MU	Cost (Rs. crore)	MU	Cost (Rs. crore)
Generation	621	300.94	592.32	364.35	592.32	364.35
Power Purchase	9811	2781.99	10200	3384.51	10200	3384.51
Less excess provisions						174.26
						3210.25

25. The Hon. APTEL in its order on the appeal no.190 of 2009 and 46 of 2010 had ruled that in view of the non-availability of power from Koodamkulam Plant, the power purchase cost may be allowed with carrying cost in the truing up after prudence check. The Hon. APTEL has also directed to specify the fuel cost adjustment formula/mechanism immediately as per its Order dated 11-11-2011 in OP NO.1 of 2011. In this context, it is to be noted that the Commission has specified the KSERC (Fuel surcharge formula) Regulations, 2009 on January 8, 2010 itself. Further, the Commission has allowed fuel surcharge for the year 2009-10 based on the regulations. The deficit in terms of non-availability of power from

Koodamkulam has been compensated by the purchase of power from traders and substituting the high cost Naphtha stations. The Commission has already considered the actual purchase of energy as per the audited accounts for the purpose of truing up.

Interest and finance charges

26. The actual interest and financing charges as per the accounts for 2009-10 was Rs.263.55 Crore as against Rs. 333.11 Crore approved by the Commission as given below:

Actual interest and financing charges for 2009-10

Sl.No	Particulars	ARR Order	Actual
		(Rs. Cr)	(Rs. Cr)
I	Interest on Loans and Bonds during 2009-10		
(a)	Interest on existing loans as on 31-3-2009	108.31	123.08
(b)	Interest for additional borrowing	30.40	
(c)	Interest on Government loans	50.23	-
(d)	Total interest on capital liabilities	188.94	123.08
II	Interest on Security Deposit	50.50	58.04
III	Other Interest and Finance Charges		
	a) Interest on borrowings for working capital	5.31	24.58
	b) Discount to consumers for timely payment of Charges	5.50	2.74
	c) Interest on PF	64.88	44.41
	d) Other Interest charges	0.01	-
	e) Cost of raising finance	1.00	-
	f) Guarantee Commission	3.97	10.70
	g) Bank Charges	13.00	
	Total of III	93.67	82.43
	Grand Total (I+II+III)	333.11	263.55

27. The additional borrowing approved was Rs. 382.44 crore, where as the actual borrowing was Rs.991.94 crore. The total repayment was Rs.682.86 Crore as against the Rs.227.65 crore proposed in the ARR. The total outstanding liabilities as on 31-3-2010 was reported as Rs.1409.50 crore. Board has retained the electricity duty under Section 4 to the tune of Rs.252.26 crores, payable to the Government, against the subsidy receivable from the Government. The Board has reported that the netting off of dues from the Government as on 31-2-2006 is finalised and all the Government loans were adjusted against the dues from the Government. However, the details on the netting off have not been given along

with the petition. The actual capital expenditure for the year was Rs.869.71 crore as against Rs.1377.10 crore proposed in the ARR. But increase in capital liabilities was Rs.309.13 crore.

28. The Board has stated that interest on security deposit based on the outstanding level of security deposit as on 1-4-2009 is Rs.58.04 crore against Rs.50.50 crore approved in the ARR. The interest on working capital ie., interest on overdraft taken is reported as Rs.24.58 crore. According to the Board, the interest on working capital is required because the revenue gap for the year 2008-09 was Rs.749.17 crore and the Commission approved the revenue gap as Rs.429.61 crore. In 2009-10, the revenue gap approved by the Commission was Rs.335.30 crore where as the actual revenue gap as per the accounts was Rs.1227.50 crore. Since no tariff revision was effected in these years, the Board has availed loans for working capital, which is over and above the addition to security deposits.

29. The Board has stated that the discount allowed to the consumers for prompt payment is Rs.1.90 crore. The Board has also provided the consumer category wise details of discount provided in the year 2009-10. Another items claimed under the head is discount allowed to traders for the sale of electricity. In 2009-10, the Board has allowed Rs.0.84 crore as discount @2% on the bill. The interest on GPF balance provided was Rs.44.41 crore in place of Rs.64.88 Crore given in the ARR. The main reason for lower balance is that the addition to GPF was only Rs.23.56 crore against the provision of Rs.100 Crore made in the ARR. The other bank charges for 2009-10 claimed by the Board is Rs.10.70 crore. The details given are shown below:

Other Bank charges for the year 2009-10

Particulars	2008-09	2009-10
	(Rs. Cr)	(Rs. Cr)
Bank Charges for fund transfer from Head office to field units.	2.68	1.60
Bank commission for collection from consumers	2.28	0.41
Other bank charges	4.40	4.55
Service tax recovered by bank	0.57	0.10
Banking cash transaction tax	0.17	0.02
Guarantee commission	6.86	4.02
Interest on Electricity Duty @ 9%	50.25	0.00
Total	67.21	10.70

30.. The Commission has considered the contentions of the Board regarding interest and financing charges. The details of additional borrowing given by the Board is shown below

Details of additional borrowing

Sl No	Item	Opening Balance		Borrowing		Redemption		Closing Balance	
		KSERC Order Rs.crore	Actuals Rs.crore	KSERC Order Rs.crore	Actuals Rs.crore	KSERC Order Rs.crore	Actuals Rs.crore	KSERC Order Rs.crore	Actuals Rs.crore
I	Loans from GOK	436.78	0	0	0	0	0	436.78	0
II	Existing Bonds	43.2	43.2	0	0	20.9	22.3	22.3	20.9
III	Loans from FIs	1387.61	1057.17	382.44	991.99	206.75	660.56	1563.3	1388.6
	Sub Total (II+III)	1430.81	1100.37	382.44	991.99	227.65	682.86	1585.6	1409.5
	Total (I+II+III)	1867.59	1100.37	382.44	991.99	227.65	682.86	2022.38	1409.5

31.As shown above, the net additional borrowing for the year was about Rs.309.13 crore against Rs.382.44 crore approved by the Commission. The Board has approached Hon. Appellate Tribunal (appeal No. 190 of 2009 and 46 of 2010) against the order of the Commission on interest & financing charges and interest on working capital. The APTEL in its order, did not interfere with the Order of the Commission, but directed to consider the actual interest and financing charges in the true up process. As against Rs.138.71 crore approved in the ARR order for interest on existing bonds and additional borrowing, the actual interest charged by the Board is Rs.123.08 crore. The Commission allows the interest charges claimed for the existing/additional loans.

32.The Commission has been following a policy that in the truing up only the actual interest on security deposit which is passed on to the consumers is allowed. This approach was upheld by the Hon. APTEL. Accordingly, the Commission sought the details of actual interest paid on the security deposit from the Board. In its letter dated 14-5-2012, the Board stated that Rs.38.28 crore has been disbursed as interest on security deposit. Hence, the Commission allows Rs.38.28 crore under this head for the purpose of truing up.

33.The Board has claimed Rs.24.58 crore as interest on working capital, which is the interest on overdraft taken during the year. The Commission considered the details given by the Board. As per the details, the total overdraft at the end of March 2010 is Rs.153.20 crore. The Board has given the monthwise details of overdraft availed from the different banks. The overdraft is availed mainly due to

the revenue gap. The Commission in the ARR order has approved the revenue gap of Rs.335.30 crore, but the actual revenue gap as per the accounts is Rs.1227.50 crore. In 2009-10, there was an increase of about Rs.600 crore under power purchase and Rs. 62 crore under generation. Though the Commission has allowed fuel surcharge for the excess fuel cost, the same was collected from next financial year. Considering this, the Commission allows the interest on working capital as per the audited accounts. However, the interest on working capital allowed is provisional, since the Board has kept the Section 4 duty and additional security deposit for cash management. The impact of duty retained can be assessed only after a clear picture on netting off is available. Hence, the Commission will review the interest on working capital once the information on netting off is made available.

34. The Board has claimed the interest on PF balance as Rs.44.41 crore, against the approved level of Rs.64.88 crore. The Board explained that the decrease is due to lower additions in the GPF account. As per the details given by the Board the opening balance of GPF is Rs.603.97 crore, addition amounts to Rs.188.47 crore and withdrawal is Rs.164.91 crore. The balance available is Rs.627.53 crore. The Commission notes the observation of the C&AG in this regard that the GPF balance as per the accounts does not reflect the correct picture and the balance in the GPF account as per the GFP Section of the Board is only Rs.571.68 crore, as against Rs.627.53 crore as per the accounts. The Board shall reconcile the difference immediately and report to the Commission within two months. **The Commission approves the interest on GPF as claimed by the Board provisionally pending reconciliation.** The interest claimed will be adjusted retrospectively thereafter.

35. The Board has claimed Rs.2.74 crore under discount to consumers for timely payment and discount allowed to traders for sale of power. The Commission in the previous order has clearly directed as *“The Commission further points out that the inappropriateness of booking the rebate allowed under Interest and Financing charges. The Board shall now on include the item under miscellaneous expenses or other appropriate head. The Commission also directed KSEB to look for other options on reducing the prompt payment rebate”* However, it shows that the Board has not complied with this direction. The Commission therefore reiterates that the above direction is to be complied with immediately for future accounts. The Commission allows the charges claimed by the Board under this head.

36. The Board has also given the details of other bank charges and guarantee commission. As per the details the interest charges claimed is Rs.10.70 crore and the same is allowed. Accordingly the total interest and financing charges approved is are shown below:

Sl.No	Particulars	ARR Order	Actual	True up
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
I	Interest on Loans and Bonds during 2009-10			
(a)	Interest on existing loans as on 31-3-2010	108.31	123.08	123.08
(b)	Interest for additional borrowing	30.40		
(c)	Interest on Government loans	50.23	-	
(d)	Total interest on capital liabilities	188.94	123.08	123.08
II	Interest on Security Deposit	50.50	58.04	38.28
III	Other Interest and Finance Charges			
	a) Interest on borrowings for working capital	5.31	24.58	24.58
	b) Discount to consumers for timely payment of Charges	5.50	2.74	2.74
	c) Interest on PF	64.88	44.41	44.41
	d) Other Interest charges	0.01	-	
	e) Cost of raising finance	1.00	-	
	f) Guarantee Commission	3.97	10.70	4.02
	g) Bank Charges	13.00		6.68
	Total of III	93.67	82.43	82.43
	Grand Total (I+II+III)	333.11	263.55	243.79

37. The Commission has approved the interest charges on a provisional basis without going into the merits since the ambiguity of netting off proposal still persists. Though the Board has stated that the Government has approved the netting off proposal and also issued the Government Order. However, the details are not given to the Commission. In the absence of a complete picture of the netting off proposal, the Commission is not in a position to finally conclude the matter. Hence it is directed that the Board shall furnish the complete details of accounts on the netting off clearly showing the details of amount claimed and adjusted against the dues from the Government, immediately. It goes without saying that, the Commission will have a relook if necessary on the interest charges claimed by the Board based on the netting off.

Depreciation

38. The Board has claimed depreciation of Rs.451.22 Crore in the accounts as per the ESAA Rules 1985 & Government of India Norms of 1994. The depreciation claimed by the Board is shown below:

Sl.No.	Asset class	KSERC order	Actuals
		(Rs.Cr)	(Rs.Cr)
1	Land and Rights	0	0
2	Buildings	17.61	16.54
3	Hydraulic works	50.04	21.92
4	Other Civil works	10.44	9.12
5	Plant & Machinery	184.18	189.12
6	Lines, Cable networks	211.35	209.79
7	Vehicles	1.13	0.47
8	Furniture & fixtures	0.89	0.65
9	Office equipment	2.25	3.61
	Total	477.9	451.22

39. The Commission in its order had allowed the depreciation as per the CERC norms applicable to the tariff period 2009-14. The Board in its petition has requested for accepting the depreciation as per the audited accounts which is prepared based on the Government of India notification dated 26-3-1994. The Board had also raised the matter in the appeal (Appeal No.190/2009). However, the Hon. Appellate Tribunal had rejected the contention of the Board on this issue. While allowing depreciation as per the new norms, the Commission in the ARR&ERC Order for 2009-10 had specifically mentioned as quoted below:

“The Commission has been following the CERC norms for allowing depreciation. CERC recently issued Terms and Condition of Tariff Regulations applicable for the tariff period 2009-14 for Generating Companies and Transmission utilities. In the said regulations, CERC has made significant changes in the manner of calculation of Depreciation. In the said regulations, the CERC has considered 12 year repayment period for long term loans and adjusted the depreciation for the loan component in such a way that cash flow is available to meet the repayment obligation. Accordingly the actual depreciation would increase. The provision under the Regulation is as follows:

17. Depreciation. (1) *The value base for the purpose of depreciation shall be the capital cost of the asset admitted by the Commission.*

- (2) *The salvage value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the capital cost of the asset.*

Provided that in case of hydro generating stations, the salvage value shall be as provided in the agreement signed by the developers with the State Government for creation of the site:

Provided further that the capital cost of the assets of the hydro generating station for the purpose of computation of depreciable value shall correspond to the percentage of sale of electricity under long-term power purchase agreement at regulated tariff.

- (3) *Land other than the land held under lease and the land for reservoir in case of hydro generating station shall not be a depreciable asset and its cost shall be excluded from the capital cost while computing depreciable value of the asset.*

- (4) *Depreciation shall be calculated annually based on Straight Line Method and at rates specified in Appendix-III to these regulations for the assets of the generating station and transmission system:*

Provided that, the remaining depreciable value as on 31st March of the year closing after a period of 12 years from date of commercial operation shall be spread over the balance useful life of the assets.

- (5) *In case of the existing projects, the balance depreciable value as on 1.4.2009 shall be worked out by deducting the cumulative depreciation as admitted by the Commission upto 31.3.2009 from the gross depreciable value of the assets.*

- (6) *Depreciation shall be chargeable from the first year of commercial operation. In case of commercial operation of the asset for part of the year, depreciation shall be charged on pro rata basis.*

The Commission has sought clarification from the Board on the estimation of depreciation, and the Board has provided a working on depreciation at Rs.477 Crore based on the new norms. In the letter dated 23-3-2009, the Board has requested to allow depreciation rates as per new CERC norms if the Commission is not allowing depreciation as per Gol norms which are being followed by the Board. However, the estimation given by the Board was not entirely based on the revised CERC norms. The Board has applied the rates provided in the Appendix III of the regulations of CERC on the estimates of GFA as on 1-4-2009 without considering the vintage of assets

as provided in the revised regulation. Though the Commission has directed the Board to revise the estimates based on new norms, the Board did not do so. In the absence of details on vintage of assets, the Commission is finding it difficult to allow depreciation on the revised norms. However, as a matter of consistency, the Commission decides to allow the depreciation on the revised CERC norms. Since the estimation provided by the Board is not strictly in line with the revised norms, in the absence of any other better estimates, the Commission provisionally allows the estimates of Rs. 477.90 crore by the Board, on the condition that in the truing up, the Board has to update the accounts and provide depreciation calculated strictly in accordance with the revised norms. In its absence, the Commission would resort to earlier norms.”

40. Considering this, the Commission sought the details of estimation of depreciation as per the revised CERC Norms. The Board in its letter dated 23-1-2012, has given the estimation of Rs.459.30 crore as shown below:

Details of Assets	Approved Rate of Depreciation	Gross block as on 1-4-2009	Depreciation for 2009-10
	(%)	(Rs. Crore)	(Rs. Crore)
Land & Rights	0.00%	280.8	0
Buildings	3.34%	497.3	16.61
Hydraulic Works	5.28%	899.02	47.47
Other Civil Works	3.34%	301.93	10.08
Plant & Machinery	5.28%	3454.35	182.39
Cable Network etc	5.28%	3753.53	198.4
Vehicles	9.50%	13.05	1.24
Furniture and Fixtures	6.33%	13.92	0.88
Office Equipments	6.33%	35.22	2.23
Total		9249.12	459.3

41. However, it is clear that the estimation given by the Board is not as per the provisions of the new depreciation norms specified by the CERC. The vintage of assets is not at all considered. The Commission has allowed the depreciation under the new norms on the condition that the Board shall update the accounts to provide the depreciation on the revised norms. It seems that even after the lapse of three years, the Board has not taken any steps to update the accounts to provide the data in line the with the revised norms. However, the Board has specifically mentioned that depreciation is estimated based on Government of

India norms. Hence as decided in the Order, the Commission has no other option but to allow the depreciation as has been done in the previous years based on the earlier CERC norms. Accordingly, the depreciation allowed for the year is estimated as follows:

Depreciation allowed for Truing up

Details of Assets	Approved Rate of Depreciation	Gross block as on 1-4-2009	Depreciation for 2009-10
	(%)	(Rs. Crore)	(Rs. Crore)
Land & Rights	0.00%	280.8	-
Buildings	2.57%	497.3	12.78
Hydraulic Works	1.80%	899.02	16.18
Other Civil Works	2.57%	301.93	7.76
Plant & Machinery	3.60%	3454.35	124.36
Cable Network etc	3.60%	3753.53	135.13
Vehicles	6.00%	13.05	0.78
Furniture and Fixtures	6.00%	13.92	0.84
Office Equipments	6.00%	35.22	2.11
Total		9249.12	299.94

42. Accordingly, the Commission allows Rs.299.94 crore as depreciation based on the CERC norms as the Board could not update the accounts to provide details of depreciation as directed by the Commission based on the revised CERC norms. The Commission also analysed the capital expenditure, borrowing and repayment made by the Board in 2009-10. As shown above, the net repayment obligation was Rs.309.13 crore. The Board has an accumulated surplus of Rs.1162.74 crore as on 1-4-2009. The fund availability after considering the addition to security deposit (Rs.111.50 crore), accumulated surplus, retaining electricity Duty (Rs.256.26 crore) etc., is about Rs.1530.5 crore, and hence, the reduction in depreciation is not going to affect the operations of the Board. The Commission notes that there is clear laxity on the part of the Board to maintain the accounts as directed by the Commission. The Board could not justify the delay in updating the accounts, but simply stated that Gol norms could be adopted. The Hon. APTEL in Appeal No.5 of 2009 has already upheld the decision of the Commission in this regard. Hence, depreciation as per the CERC norms is allowed to the Board for 2009-10.

Employee Cost:

43. The Commission had approved an employee cost of Rs.1069.96 crore in the ARR, against which the actuals as per the provisional accounts is Rs.1451.53 crore as shown below:

Actual employee cost booked for 2009-10

SI No	Particulars	2008-09 (Rs.crore)	2009-10 (Rs.crore)	
		Actuals	KSERC Approval	Actuals
1	Salaries	429.81	387.86	452.19
2	DA	235.42	187.39	300.92
3	Overtime, other allowances, Bonus.	31.59	30.50	33.00
4	Earned Leave encashment	57.58	40.00	56.03
5	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,	4.97	4.95	5.08
6	Terminal benefits	495.82	419.26	604.31
	Grand total	1,255.19	1,069.96	1,451.53

44. The total employee cost is Rs.381.57 crore more than the approved level and about Rs.196.34 crore more than actual in 2008-09. According to the Board the major reason for the difference was that no provision was created for pay revision while projecting the ARR for 2009-10 and the Commission approved the projections of KSEB as such. However, in the actual accounts, provision for pay revision, pension revision, DA revision and DR revision are included. As per the information given by KSEB total provisions booked are as follows:

Comparison of Employee cost with provisions (2007-08 to 2009-10)

Categories	Rs. Crore		
	2007-08	2008-09	2009-10
Basic pay	348.41	378.70	387.85
DA	74.80	173.17	244.73
Sub total	423.21	551.87	632.58
Overtime/holiday wages	0.06	0.08	0.18
Other allowances (HRA etc.,)	24.84	27.33	27.86
Bonus	2.85	4.18	4.95
Medical reimbursement	2.87	3.55	3.60
Earned Leave encashment & Terminal surrender	36.65	57.58	56.03

Categories	Rs. Crore		
	2007-08	2008-09	2009-10
Payment under workmen compensation Act	0.59	0.46	0.29
Leave salary & pension contribution	0.15	0.17	0.11
Staff welfare expenses	0.55	0.79	1.10
Sub Total Allowances	68.56	94.14	94.12
Monthly pension	291.81	378.08	495.62
Gratuity	25.08	22.82	27.16
Commutation	24.45	25.02	38.30
Medical allowance	0.90	1.53	4.18
Special festival allowance	0.67	0.62	0.72
Sub Total Terminal benefits	342.91	428.07	565.98
Provision for pay revision		51.10	64.34
Provision for DA	23.10	31.00	13.38
Provision for DA for pay revision		31.25	42.81
Provision for pension revision	30.00	43.75	30.41
Provision for DR revision	17.10	24.00	7.92
Total provisions	70.20	181.10	158.86
Total Employee costs	904.88	1,255.18	1,451.54

45. The Commission sought the clarification for the increase in controllable expenses substantially over the approved level. In its reply dated 14-5-2012, the Board has stated that Dearness allowance was payable as per the Government rules and accordingly, in 2009-10 DA was increased from 45% to 78% for which no provision was created in the ARR petition. Another reason given was the provision for pay revision. According to the Board, the revision of pay and allowances to the employees and officers was due from July/August 2008 onwards. The Board has provided about Rs.107.14 crore for pay revision in 2009-10. Similarly for pension and other allowances, though the Commission has allowed Rs.419.26 crore as the expenses as projected by the Board, the actual was Rs.604.31 crore. As on 31-3-2010, the total pensioners were 30567. Increase in pension expenses is mainly due to pension revision effected during the previous year as well as the additional dearness relief sanctioned. Another reason for the increase is EL surrender, HRA etc, The EL encashment was Rs.56.03 crore against Rs.40 crore approved. The Board stated that the projections on Earned Leave surrender were made based on the pre-revised pay and the actual payment was made based on the revised pay.

46. The ever burgeoning employee cost is an item of expense coming under severe criticism by the stakeholders during the public hearings and this is also a matter of

serious concern for the Commission. The main argument of the Board regarding employee cost is that they have no control over it. This is not a valid reason that can stand scrutiny in a public process. Employee costs become uncontrollable when no positive and concrete action is attempted to assess the manpower requirement based on scientific work study and improve the productivity through contemporary management techniques. No initiative is also forthcoming for proper financial structuring of pension liabilities. The Commission has been continuously directing the Board to have a consultancy study by a professional agency to assess the reasonable level of employees in various cadres with focus on HR strategies, so that recruitments, re-deployment and training requirements can be suitably planned. Unfortunately this is not done so far. As requested by the Board, the Commission also provided broad terms of reference for the proposed manpower study. The Commission has also issued clear directions for wage negotiations. The Board has not touched upon these aspects while seeking additional expenses for wage revision. Even though the Commission had communicated the outline of the terms of reference and scope of the man power study as requested by the Board vide letter dated 29-6-2010, the Board could give the consultancy only recently. In between the period from 31-9-2010 to 1-1-2012 there was an increase in the number of employees by 3545. Though the Commission sought the reasons for increase in controllable expenses, the Board could not provide justifiable reasons for the same.

47. Considering the uncontrolled increase of O&M expenses that is getting highly prejudicial to consumer interests year after year, the Commission has adopted a methodology based on CPI:WPI weighted method for benchmarking the employee expenses from the ARR of 2011-12, taking the actuals of 2008-09 as a base. While allowing the employee expenses at CPI:WPI basis, the salary component was inflated at 3% per annum considering the increments involved. Since the controllable expenses are allowed to increase at the inflation level, incentive is available to the licensee to limit the costs below the approved level and reap the benefits of savings. The allowable expenses based on this method is as shown below:

Employee costs based on CPI-WPI based index

	2008-09	2009-10	2010-11
	Rs. Crore	(Rs. Crore)	(Rs. Crore)
Basic Pay Projection (3% increase)	378.70	390.06	401.76
<i>Other components</i>			
CPI weightage (70%)	613.54	689.43	761.45
WPI Weightage (30%)	262.94	272.96	298.90
Total	1,255.18	1,352.45	1,462.11
% increase		7.75%	8.11%

48. The Commission in the previous truing up orders have noted the levels of current liabilities under Staff related provision/liabilities. The Commission had sought the details of staff related liabilities of Rs.910.63 crore and Rs.1198.71 crore. In its letter dated 14-5-2012, the Board stated that liability as on 1-4-2009 is inclusive of the provision created for the restoration of commuted value of pension and additional liability towards enhanced gratuity amount. The liability as on 31-3-2010 consists of provision towards pay and pension revision to the tune of Rs.263 crore. Detailed explanation was given as part of the clarifications for truing up for 2010-11 vide letters dated 14-5-2012. The details given by the Board are shown below:

Details of provisions created under Staff Related Expenses

	2008-09	2009-10	2010-11
Opening Balance	757.70	850.80	897.12
Net unit balance	3.41	4.11	12.07
Provision for arrear DA – Employees	31.90	13.38	12.51
Provision for Arrear DA - Pensioners	24.20	7.92	6.39
Provision for pay revision	81.25	107.15	107.15
Provision for Pension revision	43.75	30.41	30.41
Provision for increased Gratuity			131.34
Total	942.21	993.88	1,196.99
Less Payment made at ARUs	111.30	96.76	16.22
	830.91	897.12	1,180.77
Other liability	19.89	13.51	77.94
Balance at the end of the year	850.80	910.63	1,198.71

49. The Commission has examined the figures given by the Board for the three years. The Commission notes some discrepancies in the figures in the accounts. In 2008-09, a total provision of Rs.181.10 crore was created, out of which payment worth Rs.111.30 crore was made by the ARUs resulting in a balance of Rs. 850.80 Crore at the end of the year under the head, which was the opening balance as on 1-4-2009. The total provisions created for 2009-10 was Rs.158.86

crore and the payment made out of provisions for the year was Rs.96.76 crore. By considering the net unit balance and other liability, the closing balance would have been Rs.930.52 crore, instead of Rs.910.63 crore given in the table. However, as against this, the opening balance for the year 2010-11 was shown as Rs.930.52 crore instead of Rs.897.12 crore as shown below:

	2008-09	2009-10	2010-11
Opening Balance	757.70	850.80	930.52
Net unit balance	3.41	4.11	12.07
Provision for arrear DA - Employees	31.90	13.38	12.51
Provision for Arrear DA - Pensioners	24.20	7.92	6.39
Provision for pay revision	81.25	107.15	107.15
Provision for Pension revision	43.75	30.41	30.41
Provision for increased Gratuity			131.34
Total	942.21	1,013.77	1,230.39
Less Payment made at ARU	111.30	96.76	16.22
	830.91	917.01	1,214.17
Other liability	19.89	13.51	77.94
Balance at the end of the year	850.80	930.52	1,292.11

50. The Board in its reply also stated that as on 31-3-2011 a total provision of Rs.934.18 crore is to be maintained in the accounts as shown below:

	RS. crore
Estimated provision for pay revision of officers/workmen due from 7/2008 to 3/2001	439.8
Provision for pension revision due from 7/2008	245.5
Provision for gratuity due to implementation of gratuity Act	229.98
Provision for the DA Arrears (upto 3/2011, due to DA revision ordered B.O dated 9-5-2011)	18.90
	934.18

51. The Commission notes that the above estimates are not in line with the provisions made in the accounts. The details provided by the Board clearly show that there is no diligence exercised in creating provisions regarding staff related liabilities. It is not explained how Rs.757.70 crore has been in the accounts as opening balances, after the pay revision has been effected in the year 2007-08. The split up details given are also not consistent to give a clear picture of the accounts. Due to the

above discrepancies, **the Commission has no choice, but to give a conditional order on the employee costs.**

52. The Board further stated that prior to the regulatory regime, there were book losses and the provisions created was not passed on to the consumers due to administered tariff determination mechanism. Since the Board is in the process of restructuring and is in the process of creation of pension fund, the provisions prior to regulatory regime and excess provisions if any on actual implementation of pay revision/pension revision will be utilised for creation of pension fund. The Commission views this justification of the Board with caution. It cannot be admitted that prior to the regulatory regime the provisions created in excess is not passed on to the consumers. It was an accepted principle that the differences in revenue gap was booked as subsidy receivable from the Government and accounted from public funds. Further the reply of the Board that excess provision can be utilised for pension fund itself, is a clear admission that the Board has created excess provisions under staff related liabilities. Considering the above position, the Commission is of the considered view that the employee costs allowed is subject to a detailed review of staff related liabilities. The Board shall provide the details of each item of provisions created in each year under the head and the details of adjustments made each year to the Commission along with split up of opening balance of each year

53. In the ARR&ERC Order for 2009-10, the Commission was concerned with the over projections made by the Board. The Commission has noted as shown below:

As stated above, these estimates are comparatively higher, it is becoming more difficult to fund the present escalation of employee costs from the revenue from tariffs. The Board has to take stern commitment to reduce the employee costs. The benefit of computerization and technology improvements adopted by the Board should reflect as reduction in employee expenses. The Commission time and again have suggested to explore various options. Unless the management of KSEB and the Government take positive steps to bring down the employee cost at par with the utilities of other states, the reduction in employee costs would remain a dream. With these observations, the Commission approves the projections of KSEB subject to the condition that during the truing up exercise only actual expenses would be allowed.

54. As mentioned above, the Board has taken a position that employee costs are uncontrollable, which is unfortunate and cannot be accepted especially when no serious attempt is made by the Board even to initiate a much required manpower study. The directions issued by the Commission in earlier orders have not been

complied with. The Board is not able to give an assurance that the directions issued for wage negotiations have been fulfilled. The per unit employee costs has been unsustainably high. Even without proper man power study, net no. of employees at many levels have been substantially enhanced. Coupled with increase in number of pensioners and terminal liabilities, the impact on employee cost to be passed on to the consumers have substantially increased. The commitment of the Commission in the ARR order that “during the truing up process only actual expenses would be allowed’ was with the fervent hope that Board would exercise the required alacrity to limit the employee cost within the approved levels. Unfortunately Board did not bother to. In these circumstances, the Commission has no other way but to resort to unilateral action for containing the components of O&M expenses at reasonable levels for regulatory purposes.

55. If the employee costs are computed including the eligible DA and the provisions as per actual audited accounts it will work out to Rs.1286.15 crore. However as per the CPI:WPI basis with 2008-09 as the base year (as discussed in para 47 above) the eligible amount under employee costs come to Rs.1352.45 crore. Though this amount is more by Rs.66.30 crore, the Commission allows this amount of Rs. 1352.45 crore as the employee cost for the year 2009-10 which will be subject to the review as mentioned above. Accordingly, the approved employee expenses are as given below:

Particulars	2009-10 (Rs.crore)			
	ARR Order	Actuals	Salary and DA at actual and other expense at approved levels with provisions	Trueup (CPI:WPI weightage taking 2008-09 as base year)
(1)	(2)	(3)	(4)	(5)
Salaries	387.86	452.19	387.85	390.06
DA	187.39	300.92	244.73	962.39
Overtime, other allowances, Bonus.	30.50	33.00	30.50	
Earned Leave encashment	40.00	56.03	40.00	
Medical expenses etc.,	4.95	5.08	4.95	
Terminal benefits	419.26	604.31	419.26	
Provisions			158.86	
Grand total	1,069.96	1,451.53	1286.15	1,352.45

56. The figures in column 4 are worked out allowing Salary & DA at actual and all other components at the approved level including terminal benefits. Provisions for salary revision, DA revision, pension revision etc., has been allowed as per the accounts. This is only for demonstration purposes to highlight the fact that the actual expenses is in excess of even this figure by about Rs.165 crore. For truing up purposes Commission has adopted the formula as stated in para 47 for consistency, and allow Rs.1352.45 crore under this head.

Repair and maintenance Expenses

57. The repair and maintenance expenses as per the audited accounts is Rs.173.16 crore, which is Rs.20.42 crore higher than that approved by the Commission and about Rs. 34.36 crore (24.8%) more than the previous year. A comparison of R&M expenses for 2008-09 and 2009-10 is given below.

Particulars	2008-09 (Rs. Crore)	2009-10 (Rs.crore)	
	Actuals	ARR Order	Actuals
Plant & Machinery	41.12	36.93	52.93
Buildings	3.69	5.01	4.41
Other Civil works	4.99	5.53	5.34
Hydraulic works	1.79	3.62	2.01
Lines, Cable networks	81.29	95.12	101.53
Vehicles	5.18	5.92	5.50
Furniture and Fixtures	0.22	0.10	0.50
Office equipment	0.51	0.51	0.94
Total	138.80	152.74	173.16

R&M expenses as percentage of GFA (2007-08 to 2009-10)

Particulars	2008-09			2009-10		
	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA
Land & Rights	256.67	0.00	0.00	280.80	0.00	0.00
Buildings	487.09	3.69	0.76	497.30	4.41	0.89
Hydraulic Works	886.94	1.79	0.20	899.02	2.01	0.22
Other Civil Works	272.94	4.99	1.83	301.93	5.34	1.79

Particulars	2008-09			2009-10		
	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA
Plant and Machinery	3256.54	41.12	1.26	3454.35	52.93	1.53
Lines, Cable Network,	3466.86	81.29	2.34	3753.53	101.53	2.70
Vehicles	11.91	5.18	43.49	13.05	5.50	42.14
Furniture and Fixtures	13.17	0.22	1.67	13.91	0.50	3.59
Office Equipments	32.43	0.52	1.60	35.22	0.94	2.67
Total	8684.55	138.80	1.60	9249.11	173.16	1.87

Particulars	2007-2008			2008-09		
	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA
Land & Rights	253.76	-	0.0%	256.67	-	0.0%
Buildings	466.61	3.16	0.7%	487.09	3.69	0.8%
Hydraulic Works	856.46	1.24	0.1%	886.94	1.79	0.2%
Other Civil Works	252.23	3.93	1.6%	272.94	4.99	1.8%
Plant and Machinery	3,138.48	29.20	0.9%	3,256.54	41.12	1.3%
Lines, Cable Network, etc.	3,193.90	73.68	2.3%	3,466.86	81.29	2.3%
Vehicles	11.90	4.57	38.4%	11.91	5.18	43.5%
Furniture and Fixtures	12.68	0.08	0.6%	13.17	0.22	1.7%
Office Equipments	30.83	0.40	1.3%	32.43	0.52	1.6%
Total	8,216.85	116.26	1.4%	8,684.55	138.80	1.6%

58. According to the Board, of the total R&M expenses, 62.85% is towards distribution and 26.4% for transmission and balance for generation as shown below.

Function wise break up of R&M costs

Particulars	2008-09	2009-10	%of increase
	(Rs. Cr)	(Rs. Cr)	
Generation	14.9	18.14	21.74
Transmission	36.7	45.76	24.69
Distribution	87.2	109.26	25.30
Total	138.8	173.16	24.76

59. In order to justify about 25% increase in R&M expenses, the Board has given several reasons. According to the Board, the R&M expenses are highly susceptible to inflation and age of assets. The inflation is about 12.32% for 2009-10. Further, there is an increase in GFA of 10.12% for the same year. Both coupled with the actual increase that can be possible is about 23.7%. The Board has further stated that about 1000MW out of 1990 MW of generation capacity and more than 50% of the EHT, HT, and LT lines are more than 25 years old.
60. The Commission had analysed the claims of the Board in detail with respect to the data provided by the Board. In the ARR Order the Commission has directed the Board as quoted below:

“5.7.2. Analysis and decision of the Commission

*The Commission on several occasions had directed the Board to make a R&M plan so as to effectively track the expenses. However, the Board could not provide the same. The repeated accidents in the Board’s system amply point out the need for a comprehensive analysis and planning of R&M requirements in the system. The Board has projected about 15% increase over the revised estimates of 2008-09 and about 31.4% over the actual of 2007-08. As mentioned earlier, the increased provision under hydraulic works, plant and machinery, and other civil works for 2008-09 was allowed by the Commission considering the accident at Panniyar as requested by the Board. However, for 2009-10, projections have been made over 2008-09 and hence it could be higher than normal. Though it is an increased provision, the Commission allows the R&M as projected by the Board considering the urgent need of R&M works necessary in the system. **However, the higher provision is allowed on the condition that Board has to provide detailed quantified assessment showing the function wise R&M works necessary and plan for carrying out the same, within one month of this order. In the absence of it, the Commission would allow only 10% compounded increase over the actual expenses in 2007-08 (ie., Rs.140.36 Crore based on provisional accounts) during the truing up process.”***

61. The increase in R&M expenses compared to previous year has been given below:

Year	R&M expense as % of GFA	Approved R&M		Actual		True up	
		Rs. Crore	% increase over previous year	Rs. Crore	% increase over previous year	Rs. Crore	% increase over previous year
2005-06	1.33%	85.25		93.82		85.25	
2006-07	1.44%	90.00	5.6%	110.99	18.3%	110.99	30.2%
2007-08	1.41%	101.47	12.7%	116.26	4.7%	116.26	4.7%
2008-09	1.60%	131.05	29.2%	138.80	19.4%	138.8	19.4%
2009-10	1.87%	152.74	16.6%	173.16	24.8%		

62. As shown above, the increase in R&M expenses has been erratic. Further, as established by the reply given by the Board, there is no planning and control systems installed by the Board to limit the controllable expenses, as has been noted in the previous orders. The Commission sought the reasons for increase in controllable expenses. The Board in its reply dated 14-5-2012 has quoted the following as the reasons for increase in R&M expenses:

- “i) Inflationary factors
- ii) Growth of fixed assets
- iii) implementation of KSERC Standards of performance regulation.”

The Commission analysed the reasons for increase in R&M expenses. Regarding inflationary factors, the Board has stated that though the inflation is about 12%, the actual increase in R&M expenses over the previous year is about 24%. Another reason given by the Board is the increase in growth of fixed assets. Though in the petition the Board has stated that about 50% of assets are more than 15 years old, the details given by the Board vide letter dated 18-5-2012 show that ‘out of the total assets of Rs.10185.02 crore, the assets worth Rs.7909.89 crore have been created in the past 12 years, clearly showing that about 78% of the assets are below 12 years old, and are relatively new. Another reason given by the Board for increase in R&M expenses is implementation of standards of performance. This is also not true. The Board has not implemented the Standards of performance regulations in 2009-10 and the Commission has analysed implementation of the SoP by the Board in its Order dated 17-5-2010 of ARR&ERC for the year 2010-11 as shown below:

“2.6. Compliance on Standards of Performance:

The Commission has issued Kerala State Electricity Regulatory Commission (Licensees' Standards of Performance) Regulations, 2006 applicable to distribution licensees as per section 57 and Section 59 of the Act with effect from 1-11-2006. All other licensees in the State except KSEB have implemented the regulations. The implementation of the regulation was extended based on the request of the Board, initially to 1-5-2007 and further to 1-11-2007, 1-5-2008, 1-11-2008 and finally to 1-4-2009. The Board has agreed to implement the regulation with effect from 1-4-2009. On inspection of various 'Model Sections' by the Commission, it was revealed that no basic facilities are made available to implement the performance standards. In many cases, proper registers are not even maintained for registering and monitoring complaints. The Commission vide letter dated 26-8-2009 instructed the Special Officer, KSEB to issue necessary directions appropriately to maintain all registers in the section offices and also direct them to furnish monthly reports as per clause 8(1)(a) of the Regulation directly to the Commission. The Commission also directed the Chief Engineer (Distribution North) to issue direction to maintain proper complaint registers in the distribution sections under him. The Commission again vide letter dated 10-2-2010 addressed the Special Officer to furnish the correct data on achievement of performance with supporting details from the section offices for evaluation. Reminders were also issued on 29-3-2010, but no report has been received by the Commission till date.

*The Commission views the non-implementation of distribution standards of performance by the Board very seriously. Hon. APTEL has directed all distribution licensees to implement the standards of performance specified by the Commission. The Commission has practically extended the date of effect by about 30 months for KSEB. The Commission also reviewed and relaxed the standards based on requests of KSEB. It is not the standards that is an issue, but proper system have not been created to evaluate the performance. After the lapse of considerable time, the so called 'model' sections are not seen maintaining the basic registers. **Considering this issue in detail the Commission directs that KSEB shall within in one month prepare a status report on implementation of standards of performance regulation at the circle levels of KSEB and the monitoring mechanism if any created by higher offices. The baseline data on standards shall also be provided for***

each circle with the status report. It may also be noted that KSEB had requested only one year period with effect from 1-4-2009 to implement the standards of performance without compensation and hence the compensation clause shall be applicable from 1-4-2010 onwards. The amount of compensation paid to consumers may be reported monthly as envisaged in Section 59(a) &(b) of the Act.”

63. Thus, the argument of the Board that increase in R&M expenses is due to the implementation of Standards of Performance regulations turns out to be incorrect. It is proved beyond doubt that the increase in expenses is due to lack of cost control measures taken by the Board to limit the R&M expenses. The Commission in almost all ARR&ERC orders have flagged the issue of rising O&M expenses and also directed the Board to take action for controlling the expenses. However, none of the directions have been implemented. The Commission is duty bound to ensure that the approved expenses, which are passed on to the consumers are reasonable and prudent. Hence, the Commission has attempted to benchmark the costs with respect to well defined parameters in the ARR&ERC order in 2011-12. Accordingly, the O&M Expenses were linked to inflationary parameters of CPI & WPI with a weightage of 70:30. Taking 2008-09 as base year, the O&M expenses worked out for 2009-10 and 2010-11 based on CPI:WPI at 70:30 basis as given below:

Estimated R&M Expenses Based on CPI:WPI

R&M Expenses	Estimates only*		
	2008-09 (Rs. Crore)	2009-10 (Rs.crore)	2010-11 (Rs.crore)
CPI weightage (70%)	97.15	109.17	120.57
WPI weightage (30%)	41.64	43.22	47.33
Total R&M Expenses	138.79	152.39	167.91

64. Based on the norms, the R&M expenses for 2009-10 works out to be Rs. 152.39 Crore. Thus even the benchmark level of R&M expenses, is below the approved level of expenses. Hence, based on the reasons given above, the Commission has a considered view that R&M expenses may be limited to the approved level for 2009-10 for the purpose of truing up. The R&M expense approved for 2009-10 is shown below:

R&M Expenses allowed in Truing up

	2009-10 (Rs. Crore)		
	ARR Order	Actual as per accounts	Allowed in True UP
R&M Expenses	152.74	173.16	152.74

Administration and General Expenses

65. The actual A&G expenses booked by the Board including electricity duty under section 3(1), is Rs.166.96 Crore for the year 2009-10. The A&G expenses net of electricity duty is Rs.86.17 Crore against the approved level of Rs.63.61 crore. The details are given below

Sl No.	Particulars	2006-07	2007-08	2008-09	2009-2010	
		Actual	Actual	Actual	ARR Order	Actual
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Rent, Rates and Taxes	3.65	3.45	3.89	4.46	4.30
2	Insurance	0.86	0.6	0.50	1.21	0.40
3	Telephone/telex/internet	3.42	3.61	3.94	4.44	3.74
4	Legal charges	4.11	2.42	1.75	5.00	2.80
5	Audit fees	1.85	2.27	2.25	2.15	2.30
6	Consultancy charges	0.21	0.24	0.06	0.20	0.30
8	Other Professional charges	0.21	0.21	0.50	0.42	0.56
9	Conveyance and vehicle hire charges	11.57	11.21	13.44	15.74	17.11
11	Sub Total (Total of 1 to 9)	25.88	24.01	26.33	33.62	31.51
12	OTHER EXPENSES					
	a) Fess and subscriptions	0.24	0.48	0.25	0.29	0.56
	b) Printing & Stationary	3.6	3.91	7.25	4.33	8.78
	c) Advertisements	0.66	1.22	3.30	0.75	6.40
	e) Contributions/Donations	1	0.78	0.33	1.00	0.54
	f) Electricity Charges	3.27	3.38	3.45	3.74	4.91
	g) Water charges	0.1	0.11	0.27	0.17	0.23
	h) Entertainment	0.47	0.59	0.13	0.31	0.22
	i)Exhibition/publicity			0.05	-	0.08
	j)Sports and related activity			0.12	-	0.21
	k)Study tour/Training			0.84	-	1.87
	l)SRPC expenses			0.31	-	0.74
	m)DSM expenses			-	-	3.86
	n)APTS expenses			0.02	-	0.02
	o) Miscellaneous expenses	4.79	5.78	7.24	8.84	8.74
	Sub total	14.13	16.25	23.56	19.42	37.16
13	Freight	6.61	5.3	6.98	7.81	14.61
14	Other purchase related	2.87	2.25	4.12	3.39	2.89
	Total (11+12+13+14)	49.49	47.81	60.99	64.24	86.17

66. The Board has stated that the A&G expenses for the year has been increased by Rs. 21.93 Crore (34.14%) over the approved level and about Rs.25.18 crore (41.3%) from the previous year 2008-09. The major deviations are under the heads printing and stationery, Advertisement, & DSM Expenses and freight which accounts for about Rs.20.76 crore. The Board has given explanation for the increase in expenses under different accounts. In the case of printing and stationery, the increase is due to computerisation of LT billing and the use of computer stationery. According to the Board, this item has been under projected in the ARR. The increase in advertisement charges is due to the publicity campaign through print and visual media on importance of energy conservation. In this head also Board has underestimated the projections. The expenses towards conveyance and vehicle hire charges have been increasing over the years, which would ideally reduce the overall expenses in case hired vehicles are used. However, it can be noted that in 2009-10, the GFA on Vehicles have increased by Rs.54.33 lakhs, as new vehicles have been added on the existing fleet. Further Board has not given provision for sports related expenses, study tour, training, SRPC meeting, DSM activities etc. Another major increase is under Freight related expenses, as the transportation and related charges of materials are booked under freight.

67. The Commission in its ARR&ERC order for 2009-10 has given 10% increase over the approved level of A&G expenses in 2008-09 for the year 2009-10, specifically to give signal for the need to control the A&G expenses. However, the actual increase over the approved level of expenses is much higher - about 34% over the approved level, which is by any standard is unreasonable. The Commission has also limited the legal expenses to Rs.5 Crore, which was twice than that of 2007-08 level. The increase of 34% over the approved level and about 41% over the previous year in any standards cannot be justified. A&G expenses is a controllable item of expenses and the Board has to take conscious efforts to limit the expenses. Generally increases in controllable expenses are allowed to cover the inflation only. The Commission has examined the level of inflation during the period. As per the CPI and WPI data inflation in 2009-10 is as shown below:

Recorded CPI and WPI indices over the years

Year	WPI*	Yearly		
		Increase	CPI	Increase
2004-05	100.0			
2005-06	104.5	4.44%		
2006-07	111.4	6.59%	125.00	
2007-08	116.6	4.74%	132.75	6.20%
2008-09	126.0	8.05%	144.83	9.10%
2009-10	130.8	3.81%	162.75	12.37%
2010-11	143.3	9.50%	179.75	10.45%

68. In 2009-10, general inflation based on WPI was only 3.81%, where as inflation based on CPI is about 12.5%. On a composite level, it would work out to about 10% in 2009-10, for which provision was already given in the ARR&ERC order for 2009-10. Significantly, considering the uncontrollable nature of expenses, the Commission introduced CPI-WPI weighted benchmark for O&M expenses in 2011-12 keeping the expenses in 2008-09 as base. Based on the CPI-WPI benchmark, the A&G expenses is worked out for 2009-10 is as shown below. Based on the index, it would workout to Rs.66.97 Crore only.

A&G Expenses linked to CPI:WPI index

A&G Expenses			
	2008-09 Rs. Crore	2009-10 Rs.crore	2010-11 Rs.crore
CPI weightage (70%)	42.69	47.97	52.99
WPI weightage (30%)	18.30	18.99	20.80
Total A&G Expenses	60.99	66.97	73.78
Yearly increase		9.80%	10.18%

69. The Commission has sought the reasons for increasing the controllable expenses over the approved level. The Board has given the reason for increase in expenses. The major items on which cost escalation have been incurred are freight related expenses, DSM, Advertisement, & printing and stationery. However, Board could not provide any evidence on the steps taken for limiting expenses at the approved level. All the reasons given are for justifying the actual expenses, which is not expected of while analysing the prudence of expenses. In the ARR&ERC Order for 2011-12, the Commission has concluded that increase in A&G expenses is unreasonable in the past with respect to the many parameters which can be considered as benchmark such as number of consumers, sales, GFA, circuit lines, installed capacity etc., The Commission is much concerned on

the lack of cost control & planning in the Board, which has been elaborately given in all ARR&ERC and truing up orders. As pointed out earlier, the Commission has to ensure that the expenses passed on are reasonable. Hon. APTEL in its order dated 4-9-2012 had also ordered to consider the A&G expenses for 2009-10 based on the audited accounts after prudence check. After considering reasons given above, and the explanation of the Board, the Commission arrives at a considered view that A&G expenses may be allowed as per the approved level for the purpose of Truing up. However, as per inflation based index, the allowable expenses works out to Rs.66.97 crore, the Commission allows the same amount for truing up as shown below:

	2009-10 (Rs. Crore)		
	ARR Order	Actual	Allowed in True UP
A&G expenses other than Electricity duty	64.22	86.17	66.97

Other expenses

70. The other expenses include 'Other debits' and 'Net prior period charges'. The Board has booked Rs.23.15 Crore under Other debits, against the approved level of Rs.1.11 Crore. The 'other debits' booked by the Board are given below:

Sl No	Particulars	2008-09 (Rs. Cr)	2009-10		
			Approved (Rs. Cr)	Actuals (Rs. Cr)	Difference over approval (Rs. Cr)
1	Research and Development Expenses	0.13	0.40	1.11	0.71
2	Provision for Bad and Doubtful debts	364.47	0.70	8.75	8.05
3	Miscellaneous Losses and write-offs	2.38	-	9.88	9.88
4	Material cost variance	-	-	51.82	51.82
	Total	366.98	1.10	71.56	70.46

71. Major item of expenses is the material cost variance booked by the Board. The provision for bad and doubtful expenses comprises of Rs.8.75 crore on account of withdrawal of prior period credits and Rs. 9.88 crore as the miscellaneous losses & write offs which include foreign exchange rate variation of Rs. 7.31 crore and compensation for death and injuries Rs.2.57 crore. The Board has given explanation for unreasonably higher provision for material cost variance. As on 31-3-2009, the reserve for material cost variance was Rs.35.86 crore. In 2009-10, the difference between material cost actually incurred and material cost charged to capital works was Rs.87.68 crore as against the credit balance available to set off

under 'reserve for material cost variance of Rs.35.86 crore. Hence the Board has charged the difference amount of Rs.51.2 crore as on 31-3-2010 as the debit balance under material cost variance reserve account. The Commission allows the other debits as per the accounts.

72. Under prior period credit and charges as per audited accounts is Rs.48.81 crore credit (income) as shown below:

Sl.No.	Particulars	2009-10 (As per accounts) (Rs. Cr)
I. Income relating to previous year		
1	Receipt from consumers	13.04
2	Excess provision for Depreciation in prior period	-
3	Excess interest and finance charges	-
4	Other excess provision made in previous year	0.77
5	Other income relating to prior period	114.68
	Total	128.49
II. Expenditure relating to previous years		
1	Short provision of purchase	76.17
2	Fuel related expenses relating to prior period	-
3	Operating expenses relating to prior period	0.51
4	Employee cost relating to prior period	-
5	Depreciation under provided in prior period	-
6	Interest & finance charges	0.06
7	Other charges relating to previous years	2.94
	Total	79.68
	Net prior period credit/charges (I-II)	48.81

73. As per the details given above, the major item of income is other income relating to prior period. The Board has given the details of the prior period income. The account mainly includes the credits given by CGS and CTU. The Commission after analysing the details approves the prior period income/charges as per the audited accounts.

74. Total admissible amount under Other Expenses is as follows:

	2009-10 (Rs. crore)		
	ARR Order	Actuals	True up
Other expenses	1.10	23.15	23.15

Expense capitalised

75. The actual expenses capitalised as per the audited accounts is Rs.22.45 Crore as interest and financing charges and Rs.85.35 crore as other expenses capitalised. As per the principle adopted in the first true up order, the Commission allows the provision as per the audited accounts.

Return on equity

76. The Board in the accounts booked return on equity as 15.5% of the equity capital of Rs.1553 crore. Thus the Board claimed return of Rs.240.7 crore. According to the Board, as per the CERC terms and conditions of Tariff, RoE is decided as 15.5%. The Commission in its order dated 13-4-2012 has provisionally allowed to consider the equity of Rs.1553 crore. Accordingly, RoE of Rs.217.42 crore at the rate of 14% is allowed provisionally for the year 2009-10.

Non Tariff income:

77. The total non-tariff income for the year 2008-09 is Rs.436.66 Crore, which is inclusive of Meter rent/service line rental (Rs.148.22 Crore), rebate received (Rs.65.70 Crore), interest from banks (Rs.105.55 Crore), service connection, penalty, recovery for theft of energy, etc. (Rs.55.18 Crore). The Commission for the purpose of truing up allows the non-tariff income as per the accounts.

Revenue from tariffs

78. The total revenue from sale of power within the State as per the accounts is Rs.4679.66 Crore for a sale of 13971MU. According to the Board the additional revenue of Rs.67.51 crore was earned through sale of surplus power.

79. The Commission for the purpose of truing up allows the income from sale of surplus power as per the audited accounts. Hence the total revenue from tariff for the purpose of truing up is given below.

	2009-10 (Rs. Crore)		
	ARR Order	Actual	Allowed in True UP
Revenue from sale of power within the State	4489.99	4679.66	4679.66
Revenue from sale of power outside		67.51	67.51
Revenue from Non- Tariff income	491.01	436.69	436.69
Total Revenue	4981.00	5183.86	5183.86

Total Revenue gap/Surplus after Truing up:

80. As per the ARR & ERC order for 2009-10, the total revenue gap approved was Rs.335.30 Crore, against which the revenue gap reported by the Board as per the accounts was Rs.1227.51 Crore. As explained in the previous paragraphs, the Commission arrived at a revenue gap of Rs.639.43 Crore for 2009-10 after the Truing up, as shown below.

Approved Revenue gap after truing up

Particulars	ARR Order	Actuals	Trueup
	Rs. crore	Rs. crore	Rs. crore
Generation Of Power	301.54	364.35	364.35
Purchase of power	2,781.99	3,384.52	3,210.28
Interest & Finance Charges	333.11	263.57	243.79
Depreciation	477.90	451.22	299.94
Employee Cost	1,069.96	1,451.53	1,352.45
Repair & Maintenance	152.74	173.16	152.74
Administration & General Expenses	64.22	166.96	66.97
Other Expenses	1.11	23.15	23.15
Gross Expenditure (A)	5,182.57	6,278.46	5,713.67
Less : Expenses Capitalised	55.82	85.35	85.35
Less : Interest Capitalised	27.87	22.45	22.45
Net Expenditure (B)	5,098.88	6,170.66	5,605.87
Statutory Surplus/ RoE (C)	217.42	240.71	217.42
ARR (D) = (B) + (C)	5,316.30	6,411.37	5,823.29
Less Non-Tariff Income	491.01	436.69	436.69
Less : Revenue from Tariff			
(a) With in the State	4,489.99	4,679.66	4,679.66
(b) Outside the State		67.51	67.51
Total Income	4,981.00	5,183.86	5,183.86
Revenue Gap	335.30	1,227.51	639.43

81. The APTEL in its order dated 4-9-2012 has ordered that actual Power purchase expenses, Interest on working capital, A&G expenses, revenue shortfall due to withdrawal of restrictions etc., are to be considered after prudence check with carrying costs. The Commission has examined the directions of the Hon.. APTEL. The position after the completion of truing up of accounts till 2008-09 is as shown below:

Revenue gap/Surplus (Rs. crore)							
	Year	ARR Order	Actual as per accounts	Truing up	Subsidy Adjustment*	Other Adjustment**	Truing up final
Truing up completed	2003-04	-556	-1007.43	-931.32	556.46		-374.86
	2004-05	-296.46	-342.77	-281.13	222.06		-59.07
	2005-06	-51.31	-144.57	181.36			181.36
	2006-07	184.62	-142.23	1035.85		-167.42	868.43
	2007-08	329.73	-91.28	1338.93		-186.25	1152.68
	2008-09	-3.93	-749.17	-429.62		-176.18	-605.80
	Total	-393.35	-2477.45	914.07	778.52	-529.85	1162.74
	2009-10	-335.30	-1227.51	-639.43			-639.43

* Subsidy Received from Govt/Duty Adjustment

** Rebate given for traders for sale of power adjusted in Review Order on truing up (Rs.18.83 cr. in 2007-08, Rs.8.76 crore in 2008-09)

** Recognition of adjustment of difference in RoE of Rs.167.42 crore each for 2006-07, 2007-08 & 2008-09, as per the Order dated 13-4-2012.

82. The Commission after completing the truing up upto 2008-09 has arrived at a net surplus of Rs.1162.74 crore. Even after considering the revenue gap for the year 2009-10, revenue surplus is available. Hence the Commission is of the view that since already sufficient surplus is held by the Board in the beginning of the financial year 2009-10 and interest on working capital as per accounts has been allowed to the Board for 2009-10, there is no need for separately allowing carrying cost and hence decided accordingly.

Order of the Commission

83. The Commission after considering in detail, the petition of the Board, the objections of the stakeholders and other materials placed before it hereby arrives at a **revenue gap of Rs. 639.43 Crore as against a revenue gap of Rs.1227.51 Crore** presented by the Board based on the accounts, subject to the observations in the Order. The revenue gap so arrived would be adjusted against the revenue surplus in the previous years and accounts of subsequent years.

84. The petition disposed of. Ordered accordingly.

Sd/-

**P.Parameswaran
Member**

Sd/-

**Mathew George
Member**

Approved for issue

Secretary