THE KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

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

October 30, 2012

OP No.34 of 2011

In the matter of
Truing up of Accounts of Kerala State Electricity Board for the year 2010-11

Kerala State Electricity Board, Thiruvananthapuram ………… Petitioner

ORDER

Background

1. Kerala State Electricity Board (herein after referred to as the *Board or KSEB*) filed the truing up petition for the year 2010-11 on 30-11-2011. The petition was admitted as OPNo.34 of 2011 on 8-12-2011. Commission sought clarifications on the petition vide letter dated 9-12-11 and the Board furnished reply vide letter dated 23-1-2012, but it lacked details on many issues. Hence, the Commission in its letter dated 9-2-2012 sought further clarifications, which the Board furnished vide letter dated 14-5-2012. The Commission notes that the reply given is not complete in the case of some of the issues, which have been dealt with appropriately in the following sections.

2. When 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 truing up for the year 2006-07, requesting to reconsider the decision of the Commission on not recognising the equity 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. Hon. APTEL in their order 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 G.O dated 13-12-2010. In the light of the above, the Commission in its

order dated 13-4-2012 had disposed of the review petition. In the Order, the Commission held as follows:

> *"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 provisionally allowed the RoE based on the equity of Rs.1553 crore. The above position will be applicable to the truing up of accounts of 2010-11 also.

4. In the meantime, the Board also filed an appeal against the order on ARR&ERC for 2010-11 before the Appellate Tribunal for Electricity (APTEL), New Delhi. During the hearing held on 28-7-2011, the Board submitted before the APTEL that the financial year 2010-11 is already over and actual expenditure on all disputed items are available. The Board also submitted that many issues raised in the appeal are likely to be settled once the truing up petition for 2010-11 is approved by the Commission. Hence, the Board requested for eight week's time to file the truing up petition and accordingly the filed this petition before the Commission. The Hon. APTEL also had deferred the matter for the disposal of the Truing up petition.

5. The Board had filed the petition with provisional accounts and the audit report was provided later. The Commission in its ARR&ERC Order for 2010-11 of the Board had approved an ARR of Rs 5931.85 crore and ERC as Rs 5474.38 crore and arrived at a revenue gap as Rs 457.47 crore. As against this, actual as per accounts shows a revenue gap of Rs 1229.63 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 2010-11

Sl.No	Particulars	ARR Order	As per provisional Accounts	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Generation of Power	263.17	237.39	25.78
2	Purchase of power	3,439.56	3,721.59	(282.03)
3	Interest & Finance Charges	268.29	280.91	(12.62)
4	Depreciation	490.53	473.43	17.10

Sl.No	Particulars	ARR Order	As per provisional Accounts	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
5	Employee Cost	1,247.31	1,712.80	(465.49)
6	Repairs & Maintenance	161.47	231.85	(70.38)
7	Administration & General Expenses	68.76	174.56	(105.80)
8	Other Expenses	10.10	(28.39)	38.49
9	Gross Expenditure	5,949.19	6,804.14	(854.95)
10	Less : Expenses Capitalized	94.10	95.84	(1.74)
11	Less : Interest Capitalized	23.24	23.96	(0.72)
12	**Total Expenditure**	**5,831.85**	**6,684.34**	**(852.49)**
13	Return on Equity	100.00	240.71	(140.71)
14	**ARR (12 + 13)**	**5,931.85**	**6,925.05**	**(993.20)**
15	Revenue from energy sale within the State including fuel surcharge	5,057.25	5,058.49	1.24
16	Revenue from non-tariff income	417.13	442.74	25.61
17	Revenue from sale of power to other States	-	140.03	140.03
18	Subsidy received from Government (for exempting domestic consumers with monthly consumption upto 120 units from payment of fuel surcharge)	-	54.16	54.16
19	Total Revenue (15+16+18+18)	5,474.38	5,695.42	221.04
20	**Revenue Gap (19-14)**	**(457.47)**	**(1,229.63)**	**-772.16**

6. 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 revested in a corporate entity. Revesting 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.

Public hearing on the petition:

7. A Public hearing on the petition was held on 25-1-2012 in the Commission's premises at Thiruvananthapuram. 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 should not allow any controllable expenses over than 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 37% over the approved level. R&M expense has increased by 43.59% and A&G expense by 154%. He submitted that such cost increases in controllable items should not be allowed. He also stated that the excess T&D loss should also be disallowed. The HT-EHT Association represented by Shri. George Thomas, presented detailed objections. According to the Association, the Commission has given directives for maintaining the sales data base for robust demand forecasting and hence the compliance of the same by KSEB has to be verified. Regarding the T&D loss reduction, the Association pointed out that the details on many of the issues in commercial loss reduction are not available. Unless such information is available, the issue of commercial losses cannot be addressed. According to them in 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. According the Association, the reason for the Board to operate profitably without tariff hike for long is due to the manipulation of loss data. They also pointed out that as per the Orders of Hon. APTEL in Appeal NO. 100/2007, Appeal NO.94 of 2008 and Appeal NO.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% 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 19MU considering the reported loss level of 16.09% and target level of 16% and the cost to be disallowed as Rs.80 crore Regarding interest and financing charges, the Association argued that the Board has claimed that a total of Rs.1240 crore was utilised including Section 4 duty, depreciation, RoE and cash flow from financing. If the Board has made capital expenditure of Rs.980 crore, the surplus amount available will be Rs.260 crore. Thus there is no requirement of borrowing for capital expenditure. 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 with 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 with vintage of assets. The Commission has made it clear in the Order that in its absence, the depreciation based on earlier norms alone will be allowed. Since the Board has failed to provide the details of assets and estimation as per the CERC norms, the Association argued that based on earlier norms, the Board is eligible only for Rs.330.9 crore as depreciation. In the case of employee costs, the Board has now claimed Rs.1690 crore though the Commission has allowed Rs.1247 crore which was 16.5% more than the approved figure for 2009-10. However, the Board in the actual accounts claimed Rs.1713 Crore which shows an increase of 37% from the approved levels. 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 pointed out that the employee cost is a controllable item. 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 sought 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 the Hon. APTEL in its Full Bench order in Appeal No. 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 employees' performance. Hence they requested to allow only the earlier approved figure of Rs.1247 crore under employee costs, which itself is translated to 86 paise per unit.

8. Regarding R&M expenses, the Association stated that the reasons given by the Board are not convincing for higher R&M expenses. The Board has claimed Rs.232 crore, which is about 34% more than the level in 2009-10. As against the claim of the Board, about 2/3rd of asset base is less than 10 years old. Hence, they requested to allow only approved amount of Rs.161 crore under R&M expenses. As against the Orders of APTEL, the Board is claiming Section 3(1) duty under A&G expenses. In 2010-11, the Board is claiming about 31% 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 to be given under this head. Regarding other expenses also the Association sought to allow only approved level of expenses. As per the

estimates of the Association, an amount of Rs.5892 crore needs to be allowed instead of Rs.7045 crore sought by the petitioner. Based on these estimates the Association arrived at a revenue gap of Rs.63 crore as against Rs.1230 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 Plywood limited has endorsed the submission of 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. Depreciation on assets created out of consumer contribution is also not to be allowed to the Board. R&M expenses & A&G expenses according to the respondent need to be allowed 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.

Analysis and decision of the Commission

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

Energy Sales:

12. In the order on ARR&ERC, the Commission had approved energy sales of 14667 MU, but the actual energy sale within the State during 2010-11 reported by the Board was 14548 MU. The details are given below:

Energy sale for 2010-11 (MU)

Category	2009-10	2010-11	
	Actuals (MU)	Approved (MU)	Actuals (MU)
LT Domestic	6559	7078	6878
Industrial	1064	1211	1053
Commercial & Non Domestic	1793	1886	1952

Category	2009-10 Actuals (MU)	2010-11 Approved (MU)	2010-11 Actuals (MU)
Irrigation	257	250	232
Public Lighting	303	325	266
Sub total	9976	10750	10380
HT Industrial	1450	1485	1516
Non-Industrial	117	119	102
Commercial & Non Domestic	693	723	756
Others (Irrigation)	8	10	8
Subtotal	2268	2337	2382
EHT 66KV	363	354	341
110 KV	786	804	840
Railways	165	168	156
Subtotal	1314	1326	1338
Bulk Supply	413	417	448
Total	13971	14830	14548
Less reduction due to power restrictions		163	
Net Sales	13971	14667	14548

13. According to the Board, the decrease in energy demand is due to the demand side management activities taken up for the year and the 10% power restrictions imposed during April and May 2010. The Commission allows the actual energy sales reported by the Board for the purpose of truing up.

T&D Loss

14. The Board in the petition has stated that the actual energy loss for 2010-11 was 16.09%. The loss figure was arrived at as follows.

Actual Transmission and distribution loss reported for 2010-11

Sl No.	Particulars	Unit	ARR Order	As per Provisional Accounts
(1)	Net Generation and Power Purchase at KSEB periphery (excl. PGCIL	(MU)	17461	17338
(2)	Energy sales within the State	(MU)	14667	14548
(3)	T&D Losses (3)- (4)	(MU)	2794	2790
(4)	T&D Loss as percentage of total energy input	(%)	16.00	16.09

15. In the ARR&ERC Order for 2010-11, the Commission has fixed the loss reduction target as 0.92%, as proposed by the Board and decided the T&D loss level as 16% considering the approved level of losses of 16.92% for 2009-10. However, the actual loss reported by the Board for the year 2009-10 was 17.71%. Accordingly the Board stated that the T&D loss reduction achieved by the Board for the year was in fact 1.62% (17.71%-16.09%). The Board further mentioned in the petition that the remarkable achievement made by the Board is due to the following efforts:

- Faulty meter replacement: KSEB had replaced 10.21 lakhs faulty meters during the year 2009-10 and 7.10 lakhs faulty meters during the year 2010-11, with good quality meters.
- Reduction in peak demand and energy consumption through DSM activities:
    - About 1.30 crore incandescent bulbs were replaced by Compact Fluorescent Lamps.
    - Consumer awareness program through print and visual media.

- KSEB added 3398 km of 11kV lines and 7837 km of LT lines during the year 2009-10. Further, KSEB has added 3644 km of 11 kV lines and 6978.69km of LT lines during the year 2010-11.

16. The Commission has considered the details provided by the Board on loss reduction. The loss reduction target approved by the Commission for the year was 0.92% and the loss target fixed by the Commission for the year 2010-11 was 16%, where as the actual loss was 16.06%. It can be seen that in the previous years, the Board has been repeatedly making complaints on the loss reduction targets approved by the Commission, though in most cases it was based on the loss level proposed by the Board itself. The loss reduction & loss targets approved and achieved in the previous years are given below:

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 Truing 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
2010-11	16.78	16.00	16.09	16.09	0.92	0.92	1.62	1.62

17. Based on the figures given by the Board, the actual loss reduction is in fact 1.62%. The Board has given reasons for such reduction as DSM measures and capital investment, though it is not conclusively evident from the details given in the petition. In any case, the Commission for the purpose of truing up approves the loss levels as per the audited accounts as shown below.

	2010-11		
	ARR Order	**Actual as per accounts**	**Allowed in True UP**
T&D Loss	16.00%	16.06%	16.06%

Generation and Power purchase

18. The Commission in the ARR order for 2010-11 had approved hydel generation of 7187MU, whereas the actual hydel generation was 7096MU. The Commission had approved 363MU from the diesel stations at a cost of Rs.263.17 crore. The Board had however, generated 315.35 MU from these stations at a cost of Rs.237.39 crore. For the year 2010-11, the Commission had approved the quantity at a variable cost of Rs. 7.10 per unit for BDPP and Rs.7.07 per unit for KDPP based on the approved benchmark parameters and a price of LSHS as Rs.35,000 MT. The actual generation was about 50 MU less than the approved level for BDPP and about 8MU less for KDPP. According to KSEB, the Board has reduced the generation from diesel stations by substituting purchase from open market at a lower cost. A summary of the generation and cost from BDPP & KDPP and the cost incurred is given below.

Summary of the generation and cost from BDPP and KDPP for the year 2010-11

	KSERC Approval			Actual		
	Quantity	Rate	Amount	Quantity	Rate	Amount
Month	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs/kWh)	(Rs.Cr)
BDPP	142	7.10	103.09	87.96	7.68	67.64
KDPP	221	7.07	160.08	216.56	7.87	169.75
Total	363		263.17	304.52		237.39

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

Energy Scheduled form CGS during 2010-11

CGS	ARR Order		Actuals		Difference	
	Quantity (MU)	Amount (Rs. Cr)	Quantity (MU)	Amount (Rs. Cr)	Quantity (MU)	Amount (Rs. Cr)
Thalcher – II	2997.00	501.22	3082.59	718.61	85.59	217.39
ER			2.96	0.79	2.96	0.79
NLC-II - Stage-1	372.00	68.12	412.61	71.96	40.61	3.84
NTPC- RSTPS (including new)	2217.00	446.17	2380.01	479.64	163.01	33.47
NLCII - Stage II	532.00	84.15	594.19	105.13	62.19	20.98
NLC – Exp	372.00	80.08	382.42	160.97	10.42	80.89
MAPS	124.00	25.29	98.55	19.45	-25.45	-5.84
Kaiga	225.00	73.07	291.97	88.91	66.97	15.84
Kaiga- Stage-II	207.00	67.22			-207.00	-67.22
NLC- Exp- stage-II	442.00	95.24			-442.00	-95.24
Kudamkulam	916.00	283.74			-916.00	-283.74
Simhadry Exp	88.00	19.24			-88.00	-19.24
Sub total	8492.00	1743.54	7245.30	1645.45	-1246.70	-98.09
UI(net)			796.30	121.36	796.30	121.36
Total	8492.00	1743.54	8041.60	1766.81	-450.40	23.27

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

Summary of the cost of power purchase for the year 2010-11

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	8491	1743.53	8041.6	1766.81	-449.40	18.74
IPPs						
KPCL	69	59.24	27.06	29.03	-41.94	-30.21
BSES	468	424.58	223.3	276.16	-244.70	-148.42
Kayamkulam	1011	841.01	1008.23	903.14	-2.77	62.13
Wind	61	19.17	62.88	19.74	1.88	0.57
Ullumkal	34	6.80	24.29	4.86	-9.71	-1.94
MP Steels	41	9.55	38.68	7.87	-2.32	-1.68
Iruttukkanam			8.87	1.61	8.87	1.61
Traders	165	82.66	1077.38	490.78	912.38	408.12
Sub total	1848	1443.00	2470.69	1733.19	621.69	290.18
Transmission Charges						

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)
Eastern Region		0.05		0.07	0.00	0.02
Southern Region		241.70		201.63	0.00	-40.07
Kayamkulam		11.28		24.42	0.00	13.14
Sub total		253.03		226.12	0.00	-26.91
Total	10340	3439.56	10512.29	3721.58	172.29	282.01

21. As shown above, the Board has purchased about 1077MU from traders during 2010-11 at an average rate of Rs.4.56 per unit. The details of purchase from the traders is given below

Summary of the energy procurement through traders and energy exchanges

	Particulars	Energy procured (KSEB periphery)	Total Amount	Per unit cost
		(MU)	(Rs.Cr)	(Rs/ kWh)
1	TATA	15.97	6.09	3.81
2	GMRETL	326.58	170.78	5.23
3	JSWPTC	154.13	76.35	4.95
4	IEX	205.62	82.89	4.03
5	PXIL	191.88	77.89	4.06
6	RPTCL	6.48	4.79	7.39
7	RETL	23.30	8.76	3.76
8	BRPL	7.10	3.36	4.73
9	RPGPTCL	30.08	11.09	3.69
10	TATA HALDIA	23.15	9.73	4.20
11	TATA Steel	28.02	11.77	4.20
12	Global	35.69	13.86	3.88
13	TPTCL HSSKN	1.74	0.81	4.68
14	TPTCL VSL	1.22	0.57	4.68
15	TPTCL USWL	1.63	0.76	4.68
16	APLMUNDRA	24.79	11.27	4.55
	Total	1077.37	490.78	4.56

22. The transmission charges paid to PGCIL for the year 2010-11 was Rs.226.12 crore. The Board has requested to approve the power purchase cost as per the accounts.

23. The Commission has examined the power purchase details of the Board. The Commission had approved fuel surcharge for the year 2009-10 on three occasions which were billed and collected in 2010-11 as shown below:

	Allowable Quantity	Amount admissible as Surcharge
	(MU)	(Rs.Cr)
BDPP	0	(2.36)
KDPP	0	(2.09)
RGCCPP	861	32.44
BSES- Kochi	143	11.82
KPCL	27	1.79
Talcher-II	2864	162.14
NLC-TPS -1 Exp	351	20.63
Ramagundam	2191	41.49
Total	6437	265.86

24. For the first and second quarters, an amount of Rs.115.58 crore, and for the 3rd and 4th quarter an amount of Rs. 150.29 crore were allowed as fuel surcharge. The first instalment of fuel surcharge was adjusted against the balance revenue surplus of Rs.84.73 crore available out of the Rs.350.57 crore estimated for the year 2010. The balance Rs.30.85 crore and second instalment of fuel surcharge of Rs.150.29 totalling Rs.181.14 crore was allowed to be recovered from October 2011 for 6 months @25 paise per unit.

25. The Commission noted the substantially high level of payables under Power Purchase and sought the details of provisions made in the accounts, for power purchase The provisions created over the years as per the accounts are given below:

Power purchase related liabilities as per accounts

Year	Power Purchase	
	As on 31st March	Increase Over previous year
2001-02	1,234.74	
2002-03	405.50	(829.24)
2003-04	344.63	(60.87)
2004-05	436.29	91.66
2005-06	543.36	107.07
2006-07	417.41	(125.95)
2007-08	473.74	56.33

2008-09	552.11	78.37
2009-10	726.37	174.26
2010-11	768.59	42.22

26. As per the audited accounts, an amount of Rs.726.37crore as on 1-4-2010 and an amount of Rs. 768.75 crore as of 31-3-2011 was available. The Commission sought the split up details of the provisions already created in the accounts and as per the letter dated 14-5-2012, the Board submitted the following details.

Provisions created for power purchase

	2009-10 Rs. crore	2010-11 (Rs.crore)
Opening balance	552.11	726.37
Add: Sundry creditors for purchase of power for the month of March	498.49	452.96
Less : Payment made from sundry creditors and provision utilised during the year	333.03	512.35
Add: Provision created during the year	8.80	101.77
Total	726.37	768.75

27. As per the details given, Rs.452.96 crore is for payment of bills for the month of March. The total provisions created for the year is Rs.554.73 crore, out of which Rs.512.35 crore has been paid out. The additional provision created might be for revised bills as per the new CERC norms. The Board has given an analysis of the Rs.768.75 crore as shown below:

	Rs. crore	
Closing Balance as on 31-3-2011	768.59	
Less payments made subsequently 2011-12	468.88	
Balance	**299.71**	
Break up		
Amount payable to NLC on account of KFW loan exchange rate variation, FBT claim income tax claims, out standing before 2003-04	110.3	
Amount withheld from BSES bill including MAT	21.32	
Amount withheld from KPCL bill including MAT	19.62	
Payable to NPCL towards FBT and MAT	8.34	
Payable to TNEB & PKCL due to pending issues	3.67	
Outstanding before 2002-03, TNEB, PKCL & other SEBs	21.16	
Amount withheld from EDCL bill	2.11	
Other disputed items yet to be reconciled	113.19	
		299.71

28. While justifying the provisions made, the Board has now revealed certain information which were not available for analysis. About Rs.113.19 crore, treated as other disputed items, is yet to be reconciled. Though split up details of Rs.186.52 crore are available (out of Rs.299.71 crore), the above details do not include provisions to be made for the year. Further, earlier provisions created on account of revision of tariff for CGS as per new CERC norms are also not given. It cannot be a matter of dispute that on a year to year basis the closing balance of the liability has been increasing showing excess provisions created over the years. Unless the Board provides the complete details, the claims of the Board cannot be ascertained. The Commission in the truing up order for 2009-10 had disallowed excess provision of Rs. 174.26 crore, pending the details available from the Board. Considering this, the power purchase cost for the year 2010-11 is provisionally allowed and the final view on the same will be taken after the analysis of the claims on the generation and power purchase for 2009-10 and 2010-11.

Power purchase and generation cost provisionally allowed for 2010-11

	2010-11 (Rs. Crore)		
	ARR Order	**Actual**	**Allowed in True UP**
Internal Generation Cost	263.17	237.39	237.39
Power Purchase Cost	3186.53	3495.46	3495.46
Transmission Charges	253.03	226.12	226.12
Total Generation & Power Purchase Cost	**3702.73**	**3958.97**	**3958.97**

Interest and finance charges

29. The actual interest and financing charges as per the accounts for 2010-11 amounted to Rs.280.90 Crore as against Rs. 268.29 Crore approved by the Commission as shown below:

Actual interest and financing charges for 2010-11

Sl.No	Particulars	KSERC Order	Actual
		(Rs. Cr)	(Rs. Cr)
I	**Interest on Loans and Bonds during 2010-11**		
	a) Interest on existing loans as on 31-3-2010	82.03	120.85
	b) Interest for additional borrowing	34.68	
	Total interest on capital liabilities	**116.71**	**120.85**

II	Interest on Security Deposit	64.18	64.74
III	Other Interest and Finance Charges		
	a) Interest on borrowings for working capital	5.31	35.78
	b) Discount to consumers for timely payment of Charges	2.00	1.57
	c) Interest on PF	55.59	50.07
	d) Other Interest charges	0.01	1.10
	e) Cost of raising finance	1.00	-
	f) Guarantee Commission	3.49	2.50
	g)Bank Charges	20.00	4.29
	Total of III	87.40	95.31
	Grand Total (I+II+III)	268.29	280.90

30. The additional borrowing approved for the year 2010-11 was Rs. 450 crore, where as the actual borrowing was Rs.1778.53 crore. The total repayment was Rs.2121.52 Crore as against the Rs.653.35 crore proposed in the ARR. The total outstanding liabilities as on 31-3-2011 was reported as Rs.1066.50 crore. The capital expenditure for the year was Rs.979.96 crore. The Board has retained the electricity duty under Section 4 to the tune of Rs.290.12 crore payable to the Government against the subsidy receivable from the Government. An amount of Rs.389.17 crore was available as maturity proceeds of fixed deposits. Fuel surcharge of Rs.190 crore was also available in 2010-11. In addition to the above, the Board has deferred some of the payments. According to the Board, in 2010-11, short term loans of Rs.1700 crore was availed and about Rs.1662 crore was repaid. The outstanding balance of short term loans was Rs.500 crores.

31. The Board has claimed Rs.35.78 crore as interest on working capital. According to the Board, the revenue short fall for the year 2008-09 was Rs.749.17 crore and that of 2009-10 as per the accounts is Rs.1227.50 crore. The revenue gap for 2010-11 as per the accounts is Rs.1229.63 crore. The Board did not have the operating surplus since the surplus was deployed as fixed deposits and the same was used for meeting the capital liabilities in the subsequent years. The Board has given month wise details of overdraft and the interest thereof. According to the Board, the reason for increase in working capital is the revenue gap.

32. The Board has stated that interest on security deposit based on the outstanding level of security deposit is Rs.64.73 crore against Rs.64.18 crore approved in the ARR. The addition to security deposits for the year 2010-11 was Rs.163.62 crore. The Board has stated that the discount allowed to the consumers for

prompt payment is Rs.1.18 crore. Other items claimed under the head is discount allowed to traders for the sale of electricity. In 2010-11, the Board had allowed Rs.0.38 crore as rebate for the prompt payment of the bill. Thus the total claim under the head was Rs.1.57 crore. The interest on GPF balance provided was Rs.50.08 crore in place of Rs.55.59 Crore given in the ARR. The other bank charges for 2010-11 claimed by the Board is Rs.7.89 crore. The details given are shown below:

Other Bank charges for the year 2010-11

Particulars	2008-09 (Rs. Cr)	2009-10 (Rs. Cr)	2010-11 Rs.cr
Bank Charges for fund transfer from Head office to field units.	2.68	1.60	5.32
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	0.07
Banking cash transaction tax	0.17	0.02	0.00
Guarantee commission	6.86	4.02	2.50
Interest on Electricity Duty @ 9%	50.25	0.00	0.00
Total	67.21	10.70	7.89

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

Sl.No	Item	Opening Balance		Borrowing		Redemption		Closing Balance	
		ARR	Accounts	ARR	Accounts	ARR	Accounts	ARR	Accounts
I	Loans from GOK	-	-	-	-	-	-	-	-
II	Existing Bonds	20.90	20.90	-	-	10.45	10.45	10.45	10.45
III	Long term loans	851.09	926.92	-	78.53	447.90	449.40	403.19	556.05
IV	Short term loans	335.00	461.67	450.00	1,700.00	195.00	1,661.67	590.00	500.00
V	Loans from Financial Institutions (III)+(IV)	1,186.09	1,388.59	450.00	1,778.53	642.90	2,111.07	993.19	1,056.05
	Total (I+II+III)	1,206.99	1,409.49	450.00	1,778.53	653.35	2,121.52	1,003.64	1,066.50

34. As shown above, the additional borrowing for the year was about Rs.1778.53 crore against Rs.450 crore approved by the Commission. As against Rs.116.71 crore approved in the ARR order for interest on existing bonds and additional borrowing, the actual interest charged by the Board is Rs.120.85 crore. The major part of the additional borrowing are the short term loans, which were redeemed in the same year. The Commission allows the interest charges claimed for the existing/additional loans.

35. 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. Accordingly, the Commission sought the details of actual interest paid on the security deposit from the Board. In the letter dated 14-5-2012, the Board has stated that Rs.44.80 crore has been disbursed as interest on security deposit. Hence, the Commission allows Rs.44.80 crore under this head for the purpose of truing up.

36. The Board has claimed Rs.35.78 crore as interest on working capital, which is the interest on overdrafts 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.310.37 crore. The Board has given the monthwise details of overdraft availed from the different banks. According to the Board, the overdraft is availed mainly due to the revenue gap. The Commission in the ARR order has approved the revenue gap of Rs.457.47crore, but the actual revenue gap as per the accounts is Rs.1229.63crore. After considering the details given by the Board, the Commission allows the interest on working capital.

37. The Board has claimed the interest on PF balance as Rs.50.07 crore, against the approved level of Rs.55.59 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.627.53 crore, addition is Rs.204.87 crore, withdrawls Rs.144.10 crore. The balance available is Rs.688.30 crore. The Commission notes the observation of the C&AG in this regard. In the truing up order for 2009-10, the Commission directed the Board to reconcile the GPF balance in the accounts. However, in para 2.2.4 of the Audit Report for the year 2010-11 it is stated that interest on GPF account is over stated by Rs.1.53 Crore. The Commission uses the estimates of the C&AG in this regard ie., Rs.48.54 crore.

38. The Board has claimed Rs.1.57 crore under discount to consumers for timely payment and discount allowed to traders for sale of power. The Commission in the previous order had clearly directed as follows: *"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 directs KSEB to look for other options on reducing the prompt payment rebate"* It

shows that the Board has not complied with this direction. **The Commission further directs 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.

39. The Board has also given the details of other bank charges and guarantee commission. As per the details the other interest charges claimed is Rs.1.10 crore and the same is allowed. Accordingly the total interest and financing charges approved are as shown below:

Sl.No	Particulars	ARR Order	Actual	True up
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
I	**Interest on Loans and Bonds during 2010-11**			
	a) Interest on existing loans as on 31-3-2010	82.03	120.85	120.85
	b) Interest for additional borrowing	34.68		
	Total interest on capital liabilities	**116.71**	**120.85**	120.85
II	Interest on Security Deposit	64.18	64.74	44.80
III	Other Interest and Finance Charges			
	a) Interest on borrowings for working capital	5.31	35.78	35.78
	b) Discount to consumers for timely payment of Charges	2.00	1.57	1.57
	c) Interest on PF	55.59	50.07	48.54
	d) Other Interest charges	0.01	1.10	1.10
	e) Cost of raising finance	1.00	-	-
	f) Guarantee Commission	3.49	2.50	2.50
	g)Bank Charges	20.00	4.29	4.29
	Total of III	87.40	95.31	93.78
	Grand Total (I+II+III)	268.29	280.90	259.43

40. 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. The Board has stated that the Government has approved the netting off proposal and also issued the Government Order. However, the details of the proposal are not given to the Commission. Unless a complete picture on the netting off is available the Commission is not in 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

41. The Board has claimed depreciation of Rs.473.43 Crore in the accounts as per the ESAA Rules 1985. The depreciation claimed by the Board is shown below:

Sl No	Asset class	KSERC approval	Actuals as per the prov. accounts	Difference over approval
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Land and Rights	0	0	0
2	Buildings	17.00	15.43	(1.57)
3	Hydraulic works	48.19	23.88	(24.31)
4	Other Civil work	11.18	9.71	(1.47)
5	Plant & Machinery	194.19	183.88	(10.31)
6	Lines, Cable networks	215.27	235.03	19.76
7	Vehicles	1.36	0.56	(0.80)
8	Furniture & fixtures	0.92	0.68	(0.24)
9	Office equipment	2.43	4.26	1.83
	Total	490.54	473.43	(17.11)

42. 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, 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) before APTEL. 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 observed as follows:

"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 GoI 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."*

43. Further in the Order on ARR&ERC for 2010-11, the Commission has stated as quoted here under:

"*As per the para 5.3(c) of Tariff Policy, the Forum of Regulators (FOR) vide letter dated 23-6-2006 had communicated that depreciation as per CERC (Terms and conditions of Tariff) Regulations 2004 shall be applicable for distribution. FOR has not taken any decision on depreciation consequent to the revision of rates by CERC since the said regulation was applicable for the period 2004-09 only. Hence, the depreciation allowed would be subject to the revision by FOR if any*."

44. 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, had given the estimation of depreciation as Rs.506.04 crore. However, the estimation given by the Board is not as per the provisions of the depreciation norms specified by the CERC for the tariff period 2009-14 and it is without considering the vintage of assets. 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 revised norms. While providing reply, the Board has specifically mentioned that depreciation is estimated based on Government of India norms. Hence, as directed in the ARR 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:

Details of Assets	Approved Rate of Depreciation	Gross block as on 1-4-2010	Depreciation for 2009-10
	(%)	(Rs. Crore)	(Rs. Crore)
Land & Rights	0.00%	306.27	-
Buildings	2.57%	536.50	13.79
Hydraulic Works	1.80%	974.37	17.54
Other Civil Works	2.57%	325.36	8.36
Plant & Machinery	3.60%	3,767.85	135.64
Cable Network etc	3.60%	4,205.45	151.40
Vehicles	6.00%	13.57	0.81
Furniture and Fixtures	6.00%	15.04	0.90
Office Equipments	6.00%	40.62	2.44
Total		**10,185.03**	**330.88**

45. Accordingly, the Commission estimates the depreciation for the year 2010-11 as Rs.330.88 crore as per 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.

46. The Commission in its order dated 13-4-2012, has decided that depreciation on assets created out of contribution/grants need not be allowed from 2010-11. In the said order, the Commission has decided as follows:

   a. *"Depreciation need not be allowed on assets created out of contributions and grants by any Licensee in the State as a general rule. In the case of KSEB, this will be made applicable from 2010-11 and proposal for clawing back the depreciation already claimed upto 2009-10 is dispensed with.*

   b. *In future, all licensees shall provide separate statements under capital works programme for assets to be created out of contributions and grants in their ARR&ERC / truing up petitions. The depreciation estimations in these petitions shall also distinctly indicate the value of assets for which depreciation is claimed and that which is created out of contributions and grants."*

47. Hence, the Board is not eligible for depreciation on assets created out of contributions and grants. The Board has not provided estimation on the depreciation on assets created out of grants and contribution, the Commission has independently estimated the depreciation. The GFA of distribution for 2010-

11 was Rs.4067.18 crores and grants and contribution were Rs.3308.49 crore. The share of depreciation on assets created out of grants and contribution is estimated for 2010-11 is shown below:

	As per Accounts		Approved by the Commission		
Year	Total depreciation	Depreciation for distribution Assets	Total depreciation	Depreciation for distribution Assets	Share of Depreciation for assets created out of Contribution/ grants
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
2009-10	451.22	173.64	299.94	115.42	96.60
2010-11	473.42	201.45	330.88	140.80	114.53

48. As shown above, the depreciation for assets created out of contribution is estimated to be Rs.114.53 crore for 2010-11. Thus for 2010-11, the depreciation allowable **for the purpose of truing up is Rs.216.35 crore.**

Employee Cost:

49. The Commission has approved an employee cost of Rs.1247.31 crore, against which the actual as per the provisional accounts is Rs.1712.80 crore as shown below:

Actual employee cost booked for 2010-11

			2010-11			
		2009-10	SERC Approved	Actuals	Difference over approval	Difference over 2009-10
Sl.No	Particulars	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Salaries	387.85	415.01	406.59	(8.42)	18.74
2	DA	258.11	302.96	357.93	54.97	99.82
3	Provision for Pay revision	107.15	-	107.15	107.15	-
4	Overtime, other allowances, Bonus.	32.99	32.63	33.19	0.56	0.20
5	Earned Leave encashment	56.03	42.80	63.45	20.65	7.42
6	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation	5.08	5.30	5.29	(0.01)	0.21
7	Terminal benefits (excluding terminal Surrender)	604.31	448.61	739.20	290.59	134.89
	Grand total	1,451.52	1,247.31	1,712.80	465.49	261.28

50. The total employee cost is Rs.465.49 crore more than the approved level and about Rs.261.28 crore more than actual in 2009-10. According to the Board the major reason for the increase was that while projecting the ARR, provision for pay revision was not provided, but in the actual accounts, the same was included. As per the information given by KSEB total provisions booked are as follows:

Employee cost provisions (2007-08 to 2010-11)

	Rs. Crore			
Categories	**2007-08**	**2008-09**	**2009-10**	**2010-11**
Basic pay	348.41	378.70	387.85	406.59
DA	74.80	173.17	244.73	345.42
Sub total	**423.21**	**551.87**	**632.58**	**752.01**
Overtime/holiday wages	0.06	0.08	0.18	0.20
Other allowances (HRA etc.,)	24.84	27.33	27.86	27.62
Bonus	2.85	4.18	4.95	5.37
Medical reimbursement	2.87	3.55	3.60	3.80
Earned Leave encashment & Terminal surrender	36.65	57.58	56.03	63.45
Payment under workmen compensation Act	0.59	0.46	0.29	0.30
Leave salary & pension contribution	0.15	0.17	0.11	0.09
Staff welfare expenses	0.55	0.79	1.10	1.10
Sub Total Allowances	**68.56**	**94.14**	**94.12**	**101.93**
Monthly pension	291.81	378.08	495.62	517.80
Gratuity	25.08	22.82	27.16	20.92
Commutation	24.45	25.02	38.30	28.23
Medical allowance	0.90	1.53	4.18	3.22
Special festival allowance	0.67	0.62	0.72	0.88
Sub Total Terminal benefits	**342.91**	**428.07**	**565.98**	**571.05**
Provision for pay revision		51.10	64.34	64.34
Provision for DA	23.10	31.00	13.38	12.51
Provision for DA for pay revision		31.25	42.81	42.81
Provision for pension revision	30.00	43.75	30.41	30.41
Provision for DR revision	17.10	24.00	7.92	6.39
Provision for gratuity/commutation				131.34
Total provisions	**70.20**	**181.10**	**158.86**	**287.80**
Total Employee costs	**904.88**	**1,255.18**	**1,451.54**	**1,712.80**

51. The Commission had 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 created 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 and 2010-11. Similarly for pension and other allowances, the Commission has allowed Rs.448.61 crore but the actual was Rs.739.20 crore, which includes Rs.131.14 crore created towards provision for gratuity as per the Gratuity Act. Another reason for the increase is EL surrender, HRA etc. The EL encashment was Rs.63.45 crore against Rs.42.80crore approved. The Board stated that the projections on EL was made based on the pre-revised pay and the actual payment was made based on the revised pay.

52. The Board stated in the petition that the increase in employee cost is due to (1) inadequate provision for DA (2)disallowance of amount provided for pay revision, terminal benefits and disallowance of EL encashment. According to the Board, the increase in DA has to be provided to the employees as per wage settlement. At present the level of DA is 78% from January 2010 and 106% from January 2011. The pay revision to the employees was due from July/August 2008. But the actual implementation was from April 2011. The Board had communicated vide letter dated 28-3-2011 - the long term settlement reached between the representative of the registered trade unions and Board Management on pay revision. The yearly increase is about 14% of the salary and other emoluments at the pre-revised scale. According to the Board the estimated additional commitment is as shown below:

Particulars	01-07-2008 to 31-03-2009	01-04-2009 to 31-03-2010	01-04-2010 to 31-03-2011	Total for the FY 2008-09 to 2010-11
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Revision of Pay and Allowances	84.50	133.28	159.88	377.66
Revision of Pension	38.80	51.74	62.06	152.60
Total	123.30	185.02	221.94	530.26

53. The Board had made provision of Rs.126.10 crore in 2008-09, and 137.56 crore in 2009-10 for pay & pension revision. Board has further stated that it is impossible to fund the entire increase of 14% due to wage revision through efficiency gain alone. By referring the decision of APTEL in appeal no.250 of 2006, Board stated that wage revision and arrears have to be allowed. Further to support the claim of employee expenses, the Board stated that as part of the

negotiation on wage revision as well as the part of reform process Board has taken steps for improving productivity. The measures taken are:

(i) KSEB has converted all section offices as model sections and also re-arranged the employees working in each model sections. As a result, the lineman and Overseer requirement of the section offices has been considerably reduced as detailed below.

Category	Norm-based employee requirement	Requirement as per Model Sections	Reduction
Lineman	11045	8218	2827
Overseer	6667	4004	2663
Total	17712	12222	5490

(ii) Withdrawal of Incentive Allowances: As part of the Long Term Settlement entered into with the Trade Unions during February 2011, the Board has decided to discontinue the payment of all types of incentive allowances and the number based work norms has been replaced by time related nature of duty, except in the case of Meter Readers for whom the incentive allowance will be continued for the time being until introduction of PDA and other new technologies.

(iii) Limiting the Spread over Allowance only to the Breakdown Wing: As part of the Long Term Settlement entered into with the Trade Unions during February 2011, the Board has decided to limit the payment of Spread over allowance only to those employees who are actually engaged in the EHT line maintenance work and who are members of the Breakdown Wing. Earlier this allowance had been given to all employees of the Section office, irrespective of their nature of duty.

(iv) KSEB has been computerizing its major areas of activities including LT, HT & EHT billing, Accounting at ARU level, Supply Chain Management, HRM activities etc. All these efforts on computerization may ultimately lead to reduction on employee requirement and costs.

54. According to the Board, through all these efforts, productivity of the employees has increased in a phased manner, at least 1% of the total additional increase shall be met through employee productivity. The Board also decided to implement the Payment of Gratuity Act 1972 in KSEB which has resulted in

providing Rs.131.34 crore for the year 2010-11 for the payment of gratuity for the employees already retired. The total number of pensioners as on 31-3-2011 is 31108, on which the Board has no control.

55. The detailed submissions of the Board regarding increase in employee costs over the approved level have been examined by 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 to submit before the public process. Employee costs become an uncontrollable expenses when no positive and concrete action is taken to improve the productivity and without adopting proper financial structuring of pension liabilities. The Commission has been continuously insisting that new recruitments shall be made only after a detailed and scientific man power study, which was not made. The methods narrated by the Board on improvement in employee productivity are cosmetic since the norms mentioned are not supported by the proper man power study and they are without taking into account the improvements in technology. Hence the same cannot be accepted. Further even as per the claims of the Board, the improvement in productivity is only 1% of the increase, which is miniscule comparing the total employee costs. The Commission had issued clear directions for wage negotiations. The Board has not touched upon that aspect 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 in April 2012. In between, during the period from 31-9-2010 to 1-1-2012 net increase (after accounting retirements) in the number of employees was 3545, which is about 15%. Though the Commission sought the reasons for increase in controllable expenses, the Board could not provide justifiable reasons for the same.

56. The Commission in the previous truing up orders have noted that the levels of current liabilities under Staff related provision/liabilities. The Staff related liabilities as per the accounts from 2001-02 is as shown below:

Staff Related liabilities as per Accounts

	Staff related Liabilities	
	As on 31st March	Increase Over previous year
2001-02	205.78	
2002-03	259.90	54.12
2003-04	374.03	114.13
2004-05	478.78	104.75
2005-06	640.74	161.96
2006-07	856.68	215.94
2007-08	772.54	(84.14)
2008-09	850.80	78.26
2009-10	910.63	59.83
2010-11	1,198.71	288.08

57. The Commission has sought the details of staff related liabilities of Rs.910.63 crore and Rs.1198.71 crore as at the end of the year 2009-10 & 2010-11. In its letter dated 14-5-2012, the Board stated that liability as on 1-4-2009 was 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 letter dated 14-5-2012. The details given by the Board are shown below:

	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**

58. 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 of 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 was shown as Rs.897.12 crore instead of Rs.930.52 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**

59. 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

60. 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 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. All the above, force the Commission to allow only a provisional and conditional order on the employee costs.

61. The Board further stated that prior to the regulatory regime there was book losses and the provisions created were not passed on to the consumers due to administered tariff determination mechanism. The Board further stated that since the Board is in the process of restructuring and 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 that 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 difference in revenue gap was booked as subsidy receivable from the Government and accounted against the public money. Further the reply of the Board that excess provision can be utilised for pension fund, itself, is 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 review through review of the 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.

62. The ever increasing employee costs virtually become unsustainable to fund through tariffs as the per unit employee costs is about 118 paise per unit. Of the total Rs.1712.80 crore booked by the Board, total pay and DA is about Rs.752.01 crore (44%) and Rs.571.05 crore (33.3%) is for terminal benefits. About Rs.287.80 crore (17%) is provisions created. As per the details given by the Board, of the total provisions, Rs.131.34 crore is for paying gratuity as per the gratuity Act. According to the Board, the same is as per the directions of the Hon. High Court. The reason given by the Board is given below:

> *"Hon'ble High Court of Kerala vide the judgment dated 10-03-2003 on OP No. 674/2002 has ordered that, the Board employee who had filed the petition is eligible to get gratuity as per the Gratuity Act, 1972. The appeal*

filed by the Board against the judgment before the Division Bench of the High Court was dismissed by the High Court vide its judgment dated 8-1-2008. Even though the Board approached the Government for granting exemption by invoking section 5 of the Act, the State Government declined to exempt the Board from the purview of Payment of Gratuity Act, 1972.

Consequent to the judgment in OP 674/2002, thousands of petitions were filed by other retired employees of the Board before the Hon'ble High Court and the Court has directed them to approach the controlling authorities under the payment of Gratuity Act. During the bilateral discussion with the recognized trade unions for revising the pay and allowances, the Unions have demanded implementation of the Gratuity Act, 1972. The Legal Advisor and Disciplinary Enquiry Officer (Serving District Judge) has also remarked that the employees of KSEB are entitled to the Gratuity as envisaged under the Payment of Gratuity Act, 1972.

Considering all these aspects, Board vide the Order dated 24-05-2011 has decided to implement the Payment Gratuity Act, 1972 in KSEB. Accordingly based on the audit observation of C&AG, KSEB had made a provision of Rs 131.34 crore for the year 2010-11 for payment of Gratuity for the already retired employees.

63. The additional burden on payment of gratuity is estimated as Rs.131.34 crore. The Commission notes that the Board has not released payments under this head. Further, the Board has not exhausted the legal remedies available to it, before earmarking such substantial financial commitment. It can be observed that always best of the terms are implemented in the case of employee costs. The Board still follows 'pay as you go' scheme for pensions, which is as per the terms applicable to the employees of Government of Kerala. The pension calculation formula and the General Provident Fund Scheme as applicable to State Government employees are available to the Board employees even then extending the benefit of Gratuity under the Payment of Gratuity Act 1961 which is much higher than the DCRG applicable to the Government Employees, appear to be *prima facie* a case of largesse, without exhausting negotiation routes and legal remedies. Hence, the Commission is not in a position to accept the said provision for the time being.

64. Considering the uncontrolled increase of O&M expenses that is getting highly prejudicial to consumer interests year after year, the Commission has no other way but to resort to the unilateral action for containing the components of O&M expenses at reasonable levels for regulatory purposes. 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 Rs. Crore	2009-10 (Rs. Crore)	2010-11 (Rs. Crore)
Basic Pay Projection (3% increase)	378.70	390.06	401.76
Other components			
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%*

65. If the employee costs are computed including the salary, eligible DA and the provisions as per actual audited accounts, and other claims as per approved figures, the employee costs will works to be Rs.1437.81 crore only as shown below.

		2010-11 (Rs.crore)		
Particulars	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	415.01	406.59	406.59	401.76
DA	302.96	345.42	345.42	1,060.35
Overtime, other allowances, Bonus.	32.63	34.68	32.63	
Earned Leave encashment	42.80	63.45	42.80	
Medical expenses etc.,	5.30	3.80	5.30	

Terminal benefits	448.61	571.05	448.61	
Provisions		287.80	156.46	
Grand total	**1,247.31**	**1,712.79**	**1,437.81**	**1,462.11**

66. However as per the CPI:WPI basis with 2008-09 as the base year, the eligible amount under employee costs come to Rs.1462.11 crore. Though this amount is more by Rs.24.30 crore, the Commission allows this amount of Rs.1462.11 crore as the employee cost for the year 2010-11 which will be subject to the review as mentioned above. Accordingly, the approved employee expenses are as given below:

	2010-11 (Rs. Crore)		
	ARR Order	**Actual as per accounts**	**Allowed in True UP**
Employee expenses	1,247.31	1,712.80	1462.11

Repair and maintenance Expenses

67. The repair and maintenance expenses as per the audited accounts is Rs.231.85 crore, which is higher than Rs.70.37 crore approved by the Commission and about Rs. 58.69 crore (34%) more than the previous year. A comparison of R&M expenses for 2008-09, 2009-10 and 2010-11 is given below.

Particulars	2008-09 Actuals	2009-10 Actuals	ARR Order	Actuals
Plant & Machinery	41.12	52.93	43.87	61.28
Buildings	3.69	4.41	4.53	5.06
Other Civil works	4.99	5.34	5.76	5.63
Hydraulic works	1.79	2.01	1.95	1.99
Lines, Cable networks	81.29	101.53	99.00	152.09
Vehicles	5.18	5.50	5.54	4.70
Furniture and Fixtures	0.22	0.50	0.26	0.12
Office equipment	0.51	0.94	0.57	0.98
Total	138.80	173.16	161.48	231.85

68. The Board has stated that the increase in R&M expenses for the year 2010-11 is Rs.70.37 crore more than the approved level. It is mainly due to two components (a) lines cable, networks by Rs.53.09 crore and Plant & machinery (Rs.17.41 crore). The details are given below:

Functional area	2009-10			2010-11			Increase over 2009-10	
	Material Costs	Payment to contractor	Total	Material Costs	Payment to contractor	Total		
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(%)
Generation	0.04	0.11	0.15	0.005	0.09	0.09	-0.06	-40.00
Transmission	1.18	2.27	3.45	1.68	1.94	3.62	0.17	5.08
Distribution	42.19	55.74	97.93	81.82	66.56	148.38	50.45	51.52
Total	43.41	58.12	101.53	83.51	68.58	152.09	50.56	49.80

69. According to the Board, the increase of 51.52% is in distribution compared to the previous year. There is a uniform increase in R&M expenses under the lines, cable networks etc., in each division in 2010-11. In addition there is an increase in R&M expenses under Plant & machinery also. The GFA has increased over the years and it also increases with the age of assets. The reasons for such increase are:

(i) After the implementation of the KSERC Licensees (Standards of performance) Regulations, KSEB has been giving due care and attention on the maintenance of the distribution system.

(ii) Through centralized procurement, KSEB has been providing necessary materials for maintenance to the distribution without much time delay.

(iii) All the section offices of the Board have converted into 'Model Sections' since January-2011. There is a separate wing for maintenance in each model section with one Sub Engineer, two overseers, two lineman and four electricity workers with vehicle.

(iv) The R&M works is highly susceptible to inflation. The inflation during the year was about 10.53% during the year 2010-11.

(v) Increase in the consumer strength- Number of consumer strength has increased from 97.43 lakhs as on 31-03-2010 to 101.28 lakhs as on 31-03-2011.

(vi) Increase in the distribution assets from Rs 3529.34 crore as on 31-03-2010 to Rs 4067.19 crore as on 31-03-2011, i.e., an increase of Rs 537.85 crore during the year 2010-11, which was about 15.24 % on the assets at the beginning of the FY 2010-11. More than 1/4th of the GFA under line, cable network etc had been added in the past 3 years, which means that there has been an addition of Rs.1253.74 crore during the past 3 years, which is 26.56% of GFA under the head.

70. As per the data given by the Board, R&M expenses as a percentage of GFA is 2.28%, as against 1.87% in 2009-10. Since the R&M expenses is essential for maintaining the system, the Board has requested for the approval of the R&M expenses as per the accounts.

71. The Commission analysed the claims of the Board in detail with respect to the data provided by the Board. In the ARR Order the Commission has allowed the R&M expenses at 1.69% of GFA. The Board has given many reasons for increase in R&M expenses which are not supported with facts. As per the estimates of the Board, inflation is only 10.50%. The actual expenses is about 43.58% over the approved level and about 34% over 2009-10 level. On a compounded level, the R&M expenses increase at 29% from 2008-09. Regarding the age of assets, it is seen that about 80% of assets are less than 12 years old. Thus, the arguments given by the Board in support of the increase is not convincing. It has been amply clear that over the years, the Board has not taken any steps to limit the controllable expenses at the approved level. The Board could not point out concrete reasons and the steps taken for limiting the expenses. All the arguments now presented are simply to justify the actual figures, without much basis, which is the main reason for the lack of force in the arguments of the Board.

72. The increase in R&M expenses compared to previous year is as given below:

		Approved R&M		Actual		True up	
	R&M expense as % of GFA	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%		
2010-11	2.28%	161.48		231.85	33.9%		

73. As shown above, the increase in R&M expenses has been erratic and it has been established by the reply given by the Board that there is no planning and control systems as stated by the Board to limit the controllable expenses, as has been

noted in the previous orders. The Commission had sought the reasons for increase in controllable expenses. In the reply dated 14-5-2012, the Board has given the following as reasons beyond the control of the Board.

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

74. The Commission analysed the reasons for the increase in R&M expenses. Regarding inflationary factors, the Board has stated that the inflation is about 12%, where as the actual increase 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 15years old, the details given by the Board in the letter dated 18-5-2012 slow 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 new. Another reason given by the Board is that implementation of standards of performance is the reason for increase in R&M expenses. However, this is also not true. The Board has not implemented the Standards of performance regulations in 2009-10 and the Commission has analysed the action the Board in its Order dated 17-5-2010 of ARR&ERC of the Board 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."

75. 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. Thus, it is proved beyond doubt that the increase in expenses is due to lack of cost control measures taken by the Board.

76. The Commission has been harping on the increase in controllable expenses over the years. By nature, such expenses cannot increase in a normal situation by about 30% compounded level. In order to understand the nature of increase, the Commission has decided to examine the accounts of R&M expenses on a sample level at the distribution office. Accordingly, staff of the Commission visited Electrical Division, Kundara and examined the nature of expenses undertaken at the Division for a sample month (December, 2010) on 20-1-2012. The team noticed substantial misclassification of expenses, especially like booking capital items as revenue expenses. It was noted on a sample level that about 36% of the total expenses booked are misclassified as revenue expenses. Main misclassification noted was in respect of re-conductoring & conversion of lines which were classified as revenue expenses. Further, out of the total

expenses about 5% of the expenses constitutes salary to meter readers, which is ideally to be booked under employee expenses. It is clear that even though such items are small by nature it will boost up the revenue expenses.

77. Thus, as against the reasons pointed out by the Board, *prima facie*, increase in R&M expenses is mainly on account of misclassification of capital expenses into revenue expenses, though a detailed study is required to arrive at a final conclusion. 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 2010-11 based on CPI:WPI at 70:30 basis as given below:

Estimated R&M Expenses Based on CPI:WPI

		Estimates only*	
R&M Expenses	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*

78. Based on the norms, the R&M expenses for 2010-11 works out to be Rs. 167.91 Crore. Though this is higher than the approved level of Rs.161.48 crore, the Commission allows this for the truing up purpose.

R&M Expenses allowed in Truing up

	2010-11 (Rs. Crore)		
	ARR Order	**Actual as per Audited accounts**	**Allowed in True UP**
R&M Expenses	161.48	231.85	167.91

Administration and General Expenses

79. The actual A&G expenses booked by the Board including electricity duty under section 3(1), is Rs.174.56 Crore for the year 2010-11. The A&G expenses net of electricity duty is Rs.90.14 Crore against the approved level of Rs.68.76 crore. The details are given below:

Sl No.	Particulars	**2006-07**	**2007-08**	2008-09	2009-10	2010-11	
		Actual	Actual	Actual	Actual	KSERC order	Actual
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Rent, Rates and Taxes	3.65	3.45	3.89	4.3	4.37	4.30
2	Insurance	0.86	0.6	0.5	0.4	0.56	0.38
3	Telephone/telex/internet charges	3.42	3.61	3.94	3.74	4.43	3.46
4	Legal charges	4.11	2.42	1.75	2.8	1.96	3.24
5	Audit fees	1.85	2.27	2.25	2.3	2.53	2.30
6	Consultancy charges	0.21	0.24	0.06	0.3	0.07	0.25
8	Other Professional charges	0.21	0.21	0.5	0.56	0.57	0.58
9	Conveyance and vehicle hire charges	11.57	11.21	13.44	17.11	15.10	23.99
11	Sub Total (Total of 1 to 9)	**25.88**	**24.01**	**26.33**	**31.51**	**29.59**	**38.50**
12	OTHER EXPENSES						
	a) Fess and subscriptions	0.24	0.48	0.25	0.56	0.28	0.53
	b) Printing & Stationary	3.6	3.91	7.25	8.78	8.15	7.65
	c) Advertisements	0.66	1.22	3.3	6.4	4.00	7.50
	e) Contributions/Donations	1	0.78	0.33	0.54	0.37	1.09
	f) Electricity Charges	3.27	3.38	3.45	4.91	3.88	5.26
	g) Water charges	0.1	0.11	0.27	0.23	0.30	0.28
	h) Entertainment	0.47	0.59	0.13	0.22	0.28	0.27
	i)Exhibition/publicity			0.05	0.08		0.19
	j)Sports and related activity			0.12	0.21		0.26
	k)Study tour/Training			0.84	1.87		1.58
	l)SRPC expenses			0.31	0.74		0.84
	m)DSM expenses			-	3.86		0.92
	n)APTS expenses			0.02	0.02		0.02
	o) Miscellaneous expenses	4.79	5.78	7.24	8.74	9.45	10.67
	Sub total	**14.13**	**16.25**	**23.56**	**37.16**	**26.70**	**37.06**
13	Freight	6.61	5.3	6.98	14.61	7.84	11.27
14	Other purchase related expenses	2.87	2.25	4.12	2.89	4.63	3.31
	Total (11+12+13+14)	**49.49**	**47.81**	**60.99**	**86.17**	**68.76**	**90.14**

80. The Board has stated that the A&G expenses for the year have increased by less than 5% over 2009-10. The average inflation for the year 2010-11 was 10.53%. Further 4 lakh service connections were given and energy sales have increased by 4.12%. According to the Board, despite the business growth and inflation, the growth in A&G expenses has been moderate. However, in the following items, the expenses were more than the approved level as shown below:

Sl.No	Particulars	2009-10	2010-11		
		Actual	KSERC order	Actual	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Legal charges	2.80	1.96	3.24	1.28
2	Conveyance and vehicle hire charges	17.11	15.10	23.99	8.89
3	Advertisements	6.40	4.00	7.50	3.50
4	Contributions/Donations	0.54	0.37	1.09	0.72
5	Electricity Charges	4.91	3.88	5.26	1.38
6	Exhibition/publicity	0.08		0.19	0.19
7	Sports and related activity	0.21		0.26	0.26
8	Study tour/Training	1.87		1.58	1.58
9	SRPC expense	0.74		0.84	0.84
10	DSM expenses	3.86		0.92	0.92
11	Freight	14.61	7.84	11.27	3.43
	Total	**53.13**	**33.15**	**56.14**	**22.99**

81. According to the Board, the legal expenses have increased by Rs.1.28 crore due to the increased litigation costs in various courts. Though the CGRF and Ombudsman are functioning, many consumers are still approaching other forums for redressal. Hence, the Board has to incur legal expenses which is comparatively low considering the consumer base. Another major increase is in conveyance and hire charges of vehicle. The increase is due to the increase in fuel prices and consequent increase in hire charges. The introduction of model sections and providing vehicles for maintenance for 24 hours is also another reason for increase in costs. Increase in advertisement charges is on account of publicity through print and visual media on energy conservation. The increase in 'contribution' is due to increase in the share of the Board in Welfare fund for the employees. The share has been increased from Rs.10 to Rs.30 per employee

per month. Accordingly, the Board requested to approve the A&G expenses as per the accounts.

82. The Commission in its ARR&ERC order for 2010-11 has given 6% compounded increase over the actuals A&G expenses in 2008-09 for the year 2010-11. However, the actual increase over the approved level of expenses is much higher and is about 31% over the approved level. The Board has also introduced several new expenses items under A&G expenses. 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 2010-11 based on WPI was about 9.5% and based on CPI was 10.45%, which is much lower than the actual level of inflation.

Recorded CPI and WPI indices over the years

		Yearly		
Year	WPI*	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%

83. Significantly, considering the uncontrollable nature of O&M 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 2010-11 is as shown below. Based on the index, it would workout to Rs.73.78 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%*

84. According to the Board, 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. The reasons given by the Board is for justifying actual expenses rather than the prudency of expenses. In the previous proceedings, 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., As has been mentioned earlier, the Commission has to ensure that the expenses passed on are reasonable. 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.73.78 crore, the Commission allows the same amount for truing up as shown below:

85.

	2010-11 (Rs. Crore)		
	ARR Order	**Actual**	**Allowed in True UP**
A&G expenses other than Electricity duty	68.76	90.14	73.78

Other expenses

86. The other expenses include 'Other debits' and 'Net prior period charges'. The Board has booked Rs.45.17 Crore under Other debits, against the approved level of Rs.10.10 Crore. The 'other debits' booked by the Board is given below:

Sl No	Particulars	2009-10 (actual)	2010-11		
			KSERC order	Actuals as per accounts	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Research and Development Expenses	1.11	0.40	0.39	(0.01)
2	Provision for Bad and Doubtful debts	8.75	6.70	36.09	29.39
3	Miscellaneous Losses and write-offs	9.88	3.00	8.69	5.69
4	Material cost variance	51.82	-	-	-
	Total	71.56	10.10	45.17	35.07

87. The major item of expenses is the provision given for bad and doubtful debts on account of withdrawl of prior period credits to revenue account. The Commission has sought the details of prior period credits withdrawn. The Board has given the details. As per the information given by the Board, most of the item involve withdrawl of demand on account of One time Settlement scheme. The Commission allows the amount as per the accounts.. Other items such as miscellaneous losses and research and development expenses are allowed as per the accounts.

88. Under prior period credit and charges as per audited accounts is Rs.73.56 crore credit (income) as shown below:

Particulars	2009-10 (Actual) (Rs. Cr)	2010-11 Actual (Rs. Cr)
I. Income relating to previous year		
Receipt from consumers	13.04	65.61
Excess provision for Depreciation in prior period	-	-
Excess interest and finance charges	-	1.30
Other excess provision made in previous year	0.77	0.07
Other income relating to prior period	114.68	32.68
Total	**128.49**	**99.66**
II. Expenditure relating to previous years		
Short provision of power purchase	76.17	25.32
Fuel related expenses relating to prior period	-	-
Operating expenses relating to prior period	0.51	0.35
Employee cost relating to prior period	-	-
Depreciation under provided in prior period	-	-
Interest & finance charges	0.06	0.02
Other charges relating to previous years	2.94	0.41
Total	**79.68**	**26.10**
Net prior period credit/charges (I-II)	**48.81**	**73.56**

89. 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 short provision for power purchase also consists of short payment to CGS. The Commission after analysing the details approves the prior period income/charges as per the audited accounts.

90. Total admissible amount under Other Expenses are as follows:

	2010-11 (Rs. crore)		
	ARR Order	**Actuals**	**True up**
Other expenses	10.10	(28.39)	(28.39)

Expense capitalised

91. The actual expenses capitalised as per the audited accounts is Rs.23.96 Crore as interest and financing charges and Rs.95.84 crore as 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

92. 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 had 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 2010-11.

Non Tariff income:

93. The total non-tariff income for the year 2010-11 is Rs.442.74 Crore, which is inclusive of Meter rent/service line rental (Rs.154.38 Crore), rebate received (Rs.72.65 Crore), interest from banks (Rs.84.43 Crore), service connection, penalty, recovery for theft of energy, etc. (Rs.50.86 Crore). The Commission for the purpose of truing up allows the non-tariff income as per the accounts.

94. The Board also received Rs.45.97 crore as subsidy as per the G.O. (Ms) NO.24/10/PD dt.8-10-2010 on 31-3-2011. The amount is credited under Regulatory Asset Account. Hence, the same has to be treated as revenue for the year.

Revenue from tariffs

95. The total revenue from sale of power including fuel surcharge within the State as per the accounts is Rs.5058.49 Crore for a sale of 14547MU. According to the Board the additional revenue of Rs.140.03 crore was earned through sale of surplus power. The Board stated that the Government has released Rs.54.crore as subsidy for exempting domestic consumers having consumption below 120 units per month from fuel surcharge. This amount, though included in the Revenue from sale of power, was separately accounted as revenue from subsidies resulting in double counting. According to the Board this error will be rectified in the accounts subsequently. The Commission notes that the Board has accounted Rs.54 crore as revenue from subsidies. If the total demand from sale of power includes the fuel surcharge, the subsidy from Government need not be separately included as income. However, the Commission in 2010-11 had initiated action to stop collection of fuel surcharge mainly on the reason that the subsidy details are not properly accounted in the bills. Hence the Commission is not in a position to ascertain the claim of the Board. It is to be noted that C&AG also has not pointed out the discrepancy in the accounts. Accordingly, the revenue from the subsidies as in the accounts is taken for the purpose of truing up. The Board may approach the Commission with full details on the demand raised for the fuel surcharge for the period and the actual subsidy received for ascertaining the facts.

96. 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.

	2010-11 (Rs. Crore)		
	ARR Order	**Actual (as per petition)***	**Allowed in True UP**
Revenue from sale of power within the State	5057.25	5058.49	5058.49
Revenue from sale of power outside		140.03	140.03
Revenue from Subsidy on account of fuel surcharge			54.16
Revenue Subsidy Received			45.97
Revenue from Non- Tariff income	417.13	442.74	442.74
Total Revenue	**5474.38**	**5641.26**	**5741.39**

Total Revenue gap/Surplus after Truing up:

97. As per the ARR & ERC order for 2009-10, the total revenue gap approved was Rs.457.47 Crore, against which the revenue gap reported by the Board as per the accounts was Rs.1229.63 Crore. As explained in the previous paragraphs, the Commission arrived at a revenue gap of Rs.466.29 Crore for 2010-11 provisionally after the Truing up subject to the conditions mentioned in the Order, as shown below.

ARR&ERC for 2010-11 after Truing up

Sl.No	Particulars	ARR Order	As per Accounts	True up
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Generation Of Power	263.17	237.39	237.39
2	Purchase of power	3,439.56	3,721.59	3,721.59
3	Interest & Finance Charges	268.29	280.91	259.43
4	Depreciation	490.53	473.43	216.35
5	Employee Cost	1,247.31	1,712.80	1,462.00
6	Repairs & Maintenance	161.47	231.85	167.91
7	Administration & General Expenses	68.76	174.56	73.78
8	Other Expenses	10.10	(28.39)	(28.39)
9	**Gross Expenditure**	**5,949.19**	**6,804.14**	**6,110.06**
10	Less : Expenses Capitalized	94.10	95.84	95.84
11	Less : Interest Capitalized	23.24	23.96	23.96
12	Total Expenditure	5,831.85	6,684.34	5,990.26
13	Return on Equity/Statutory Surplus	100.00	240.71	217.42
14	**ARR (12 + 13)**	**5,931.85**	**6,925.05**	**6,207.68**
15	Revenue from sale of power within the State	5057.25	5058.49	5058.49
16	Revenue from sale of power outside		140.03	140.03
17	Revenue from Subsidy on account of fuel surcharge			54.16
18	Revenue Subsidy Received			45.97
19	Revenue from Non- Tariff income	417.13	442.74	442.74
20	**Total Revenue (15+16+18+18+19)**	**5474.38**	**5641.26**	**5741.39**
21	**Revenue Gap (20-14)**	**(457.47)**	**(1,283.79)**	**(466.29)**

Order of the Commission

98. The Commission after considering in detail, the petition filed by the Board, the objections from stakeholders and other materials placed before it hereby arrives

at a provisional **revenue gap of Rs. 466.29 Crore as against a revenue gap of Rs. 1283.79 Crore** presented by the Board based on the accounts.

99. The petition disposed of. Ordered accordingly.

Sd/-	**Sd/-**
P.Parameswaran **Member**	**Mathew George** **Member**

Approved for issue

Secretary