

KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT: Sri.T.M.Manoharan, Chairman
Sri.P.Parameswaran, Member

24th June, 2013

Petition OP No. 5/2013

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2010-11

Rubberpark India (Private) Limited

- **Petitioner**

ORDER

Introduction

1. M/s.Rubber Park India Private Limited (RPIL) (*hereinafter referred to as the Licensee or RPL*) filed its petition for truing up of accounts for 2010-11 vide its letter dated 5-11-2012. After initial scrutiny , the petition was admitted on 7-1-2013 and the Commission sought clarifications vide letter dated 17-1-2013. The clarifications were provided by the licensee vide its letter dated 12-2-2013. The hearing on the petition was held on 27-2-2013 along with the petition on approval of ARR&ERC for the year 2013-14 at the office of the Licensee at Valayanchirangara, Ernakulam.
2. The petition on truing up of accounts of the Licensee for 2010-11 shows an Aggregate Revenue Requirements (ARR) of Rs.654.94 lakhs including a Return on Equity of Rs.32.18 lakhs and Expected Revenue from Charges (ERC) of Rs. 577.43 lakhs, leaving a revenue gap of Rs.77.51 lakhs. Though the Licensee has stated that the petition for truing up is based on audited accounts, no

separate audit was conducted for the distribution business and accounts have not been separated. The abstract of the petition is as given below:

Summary of Approved and Actual ARR&ERC for 2010-11

Particulars	2010-11	
	Approved	Actual
Energy Sales (MU)	22.45	14.23
Energy input (MU)	23.13	14.61
Distribution loss (%)	2.94%	2.60%
Expenses	(Rs.lakhs)	(Rs.lakhs)
Power purchase cost	840.48	542.22
Interest & Finance Charges	---	---
Depreciation	42.15	27.73
Employees cost	25.11	20.68
R& M Expenses	25.61	15.73
A& G Expenses	20.34	16.40
Other Debits	0.60	---
Return on capital	---	32.18
Total Expenses	954.29	654.94
Revenue from Tariff	1,020.77	568.35
Other Income	33.00	9.08
Total Revenue	1,053.77	577.43
Net surplus/(Gap)	99.48	(77.51)

Hearing on the matter

- Hearing on the petition was held on 27-2-2013 at the conference hall, Rubber Park Limited. In the hearing, Shri. M. Ravindran Nair, Consultant, RPL presented the details on the petition. He stated that the revenue gap for the year is Rs.77.51 lakhs and if the deferred taxation liability is included the total gap would be Rs.159.91 lakhs. The estimated RoE for the year is Rs. 32.18 lakhs, which is 15.5% of the 30% Net Fixed Assets. .
- The views of KSEB on the petition were presented by Shri. B. Pradeep, Executive Engineer. According to the Board, though the licensee has worked out the return on equity as 15.5% of the 30% of NFA, the Commission may allow only the same amount as admitted in the previous years. In the A&G expenses, after including all items, the licensee has claimed Rs.6.14 lakhs as miscellaneous expenses, which requires prudence check. It can be seen that the actual A&G expenses have increased by 49% over the previous year (2009-10). The

licensee has been apportioning the A&G expenses arbitrarily between the distribution business and park business. The consultant M/s ABPS Infrastructure Advisory Services, entrusted with the task of advising the apportionment of the joint costs has suggested to allocate only 25% of the joint costs. This has to be considered by the Commission. The depreciation need not be allowed at higher rates for the licensee as the licensee has no repayment obligation. The licensee has claimed Rs.9.2 lakhs under the heading 'others' as part of R&M expenses. This is again an arbitrary apportionment. The consultant has suggested to disallow the expenses in the absence of any sound reasoning and sufficient materials. Similarly under employee costs also such arbitrariness is visible. The licensee is holding Rs.84.65 lakhs as surplus as per the truing up orders of the Commission for the years from 2005-06 to 2009-10. The deficit if any after the truing up process may be adjusted against this surplus. The Board has also pointed out that the Licensee has obtained a Stay from Hon. High Court of Kerala in WP(C)13454 of 2011 against the revision of Bulk Supply Tariff order effective from 1-12-2010. The licensee has to remit an amount of Rs.120.23 lakhs for the period from 12/2010 to 6/2012, being the short remittance in current charges calculated at revised tariff. The licensee has accounted the power purchase cost at pre-revised tariff for the period from 12/2010 to 3/2011. The Board requested that the Commission may approve the power purchase cost subject to the disposal of the above mentioned writ petition.

Analysis and Decision of the Commission

5. The Commission has considered the petitions and the clarifications submitted by licensee. Each item is taken up in the following sections.
6. **Energy Sales and Distribution Losses:** The licensee has not separately provided in the petition the energy booked for own consumption. As per the details provided by the licensee sales for different consumer categories are as follows:

No. of Consumers and Energy Sales for 2010-11

	Approved		Actual	
	No. of consumers	Energy sales (MU)	No. of consumers	Energy sales (MU)
HT Consumers	10	21.04	9	12.85
LT consumers	14	1.2	11	1.12
Temporary connections	10	0.097	13	0.08

Rubber park utilities	1	0.11	1	0.18
Total	35	22.45	34	14.23

7. The licensee in its petition stated that the reduction in sales during the year is due to the fact that expected consumer addition did not take place. Further, power restrictions during the year also reduced the sales. There was also labour problems in one of their major consumer, which also caused lower demand. Based on the explanation, the Commission approves the actual energy sales reported by the licensee for the purpose of truing up. However, the Commission notes that the licensee has not furnished the separate details on the consumption towards Rubber Park Utilities. Accordingly it is directed that separate billing details of Rubber Park Utilities shall be furnished along with the ARR&ERC/Truing up petitions in future.
8. **Energy Input and Distribution Loss:** As per the petition the energy input and distribution loss for the year furnished by the licensee is as shown below:

Energy Input and Distribution Loss

	Approved	Actual
Sales to consumers (MU)	22.45	14.23
Energy Purchase (MU)	23.12	14.61
Distribution loss (%)	2.90	2.60

9. The distribution loss reported by the licensee is 2.6% against 2.9% approved by the Commission. The Commission allows the actual losses for the purpose of truing up.

Expenses :

10. **Power purchase cost :** As per the details given by the Licensee, the power purchase cost is as shown below:

Average Annual Maximum Demand	3315.3
Demand Charge (Rs./kVA)	245
Demand Charges (Rs.lakhs)	97.47
Energy purchased (lakh units)	146.1
Energy Charge (Rs./kWh)	Rs.2.75 (upto Nov.2010) and Rs.3.16 (from Dec.2010)
Energy Charges (Rs.lakhs)	444.75
Total Charges (Rs.lakhs)	542.22

11. As per the details given by the licensee, the power purchase cost is arrived at as per the tariff ordered by the Commission periodically. The Commission for the purpose of truing up allows the power purchase cost as per the accounts for the year 2010-11, subject to the final decision of the Hon. High Court of Kerala. It is also directed that the licensee shall clearly state in the accounts, the details of power purchase cost payable to KSEB on account of the directions of Hon. High Court of Kerala. The Licensee shall intimate details to the Commission for necessary adjustments in the accounts if any required, once the matter is finally disposed of by the Hon. High Court of Kerala.

12. Depreciation: The depreciation booked as per the accounts for the year 2010-11 is as shown below:

Depreciation for the year 2010-11

	Gross Fixed Assets (Rs.lakhs)	Depreciation (Rs.lakhs)	Rate of depreciation (%)
Land and rights	26.85	0	0
Transmission lines	99.00	2.54	2.6%
Substations	404.59	14.57	3.6%
11kV Works	108.05	3.89	3.6%
LT Lines	30.38	1.09	3.6%
Service connections	0.28	0.01	3.6%
Metering equipments	5.6	0.34	6.1%
Others	181.62	5.29	2.9%
Total	856.37	27.73	

13. The depreciation accounted for the distribution business is based on the rates as per the CERC regulation applicable for the tariff period 2004 to 2009. Based on the details submitted by the licensee, the depreciation booked is allowed for the purpose of truing up process.

14. Interest and financing charges: The licensee has not booked any amount under interest and financing charges since all the assets are developed without incurring any loans.

15. Repair and maintenance charges: The licensee has outsourced the repair and maintenance of assets. The comparison of approved and actual repair and maintenance expenses booked by the licensee is as shown below:

Approved and Actual R&M expenses

	Approved (Rs.lakhs)	Actual (Rs.lakhs)
Substations	21.17	15.64
11kV Works	4.92	
Others	9.2	0.09
Total	35.29	15.73

16. The R&M expenses for the year is lower than the approved level. As per the explanation given by the licensee, at the time of filing petition for approval of ARR&ERC new asset additions were planned which did not materialise. Hence, the R&M expenses was lower than anticipated. The Commission allows the R&M expenses as per the accounts for the purpose of truing up.

17. **A&G expenses:** The A&G expenses booked by the licensee for the distribution business is Rs.16.40 lakhs, which is lower compared to Rs.20.34 lakhs approved for the year. The reason given by the licensee for lower A&G expenses is non-materialisation of anticipated expansion. One of the major items of A&G expenses was legal expenses (Rs.1.28 lakhs) and miscellaneous expenses (Rs.6.14 lakhs). As per the details given by the Licensee, the legal expenses include Electrical Inspectorate Fee, petition fee and licence fee paid to the Commission. The miscellaneous expenses include apportionment of 67.54% of the total miscellaneous expenses of the Park, which is based on the proportion of revenue from the distribution business. The Commission for the purpose of truing up approves the A&G expenses. The final decision on the parameters for allocation will be decided based on the inputs from the consultancy assignment.

18. **Employee costs:** The employee cost booked for the distribution business for the year was Rs.20.68 lakhs as against the approved cost of Rs.26.25 lakhs. The licensee has clarified that the employee cost was lower as one employee with higher salary left the organisation during the year and recruitments expected did not take place. The Commission examined the details of employee costs provided by the licensee. The licensee is operating in a limited area and total operations of the licensee other than the licensed business are not substantial. Further the share of employee cost in total cost is also not substantial (less than 3.5%). Hence for the purpose of truing up employee cost booked is allowed.

19. **Return on equity:** The licensee has claimed Return on Equity for the business at 15.5% of the 30% of NFA. The licensee has stated that the business of

Rubber park is entirely funded by the equity contribution from Kinfra and Rubber Board with Rs.10 crore each. The company has not availed any loans. The total equity earmarked for the licensed business is Rs.900 lakhs. The Net Fixed Assets at the beginning of the financial year was Rs.691.95 lakhs. The Commission notes the explanation of the licensee on the investments in equity. In order to ascertain the reasonable level of equity in the distribution business of the licensees, the Commission has already initiated a consultancy study. The exact level of ratebase for providing the return can be ascertained only based on the report of the consultants. Till such time, the Commission allows a provisional return of Rs.10 lakhs for the years for which truing up of accounts is made.

20. **Revenue from sale of power** : The revenue from sale of power booked by the licensee is as shown below:

Details of Revenue from Sale of Power

	No. of consumers	Energy sales (MU)	Revenue (Rs.lakhs)
HT Consumers	9	12.85	512.39
LT consumers	11	1.12	41.63
Temporary connections	13	0.08	8.1
Rubber park utilities	1	0.18	11.26
Total	34	14.23	573.38
Recovery of electricity duty			19.98
Meter Rent			2.42
Fuel surcharge			21.61
Reconnection fee			0.05
Other receipts			1.09
Gross revenue			618.48
Less Electricity Duty payable			19.98
Less Fuel surcharge			21.61
Less Section 3 duty payable			8.54
Total			50.13
Net Revenue from sale of power			568.35

21. The licensee has included duty under section 3 of Kerala Electricity Duty Act 1963 deducted from the revenue. However, duty under Section 3 shall not be passed on to the consumers. Further, it has to be part of the expenses. The Commission has noted that the licensee has not furnished the details of revenue booked from own consumption. The licensee has to provide the billing details of

self consumption/RPL utilities separately as part of ARR&ERC as well as for truing up. With this directions, the revenue from sale of power for the purpose of truing up is approved as Rs.576.89 lakhs after adjusting the amount booked under duty under Section 3 of Electricity Duty Act.

22. **Other income** : The licensee has shown Rs.9.08 lakhs under other income. Out of this, Rs.8.08 lakhs is interest from bank deposits including interest on security deposit to KSEB. The Commission approves the other income as per the accounts.

23. **Summary of ARR&ERC after truing up**: The total revenue gap after the truing up of accounts for the year 2010-11 is Rs 46.79 lakhs as shown below:

	2010-11		
	Approved	Actual	True up
Expenses	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)
Power purchase cost	840.48	542.22	542.22
Interest & Finance Charges	-	-	-
Depreciation	42.15	27.73	27.73
Employees cost	25.11	20.68	20.68
R& M Expenses	25.61	15.73	15.73
A& G Expenses	20.34	16.40	16.40
Other Debits	0.60	-	-
Return on capital		32.18	10.00
Total Expenses	954.29	654.94	632.76
Revenue from Tariff	1,020.77	568.35	576.89
Other Income	33.00	9.08	9.08
Total Revenue	1,053.77	577.43	585.97
Net surplus/(Gap)	99.48	(77.51)	(46.79)

24. The Commission has arrived at a revenue surplus of Rs.84.64 lakhs after truing up of accounts for the years from 2005-06 to 2009-10. Accordingly the net revenue surplus including the revenue gap for 2010-11 is Rs.37.85 lakhs.

Orders of the Commission:

25. The total revenue gap arrived at after the truing up of accounts for 2010-11 is Rs.46.76 lakhs against the revenue gap of Rs.77.51 lakhs as per the accounts furnished by the licensee. The net surplus after adjusting the revenue gap is Rs.37.85 lakhs.

26. The Commission directs that the licensee shall furnish separate audit report on the distribution operations as part of the trueing up process. Further, apportionment if any used for allocating the joint cost under different heads has to be clearly stated in the petition.

27. Petition disposed of. Ordered accordingly.

Sd/-
P.Parameswaran
Member

Sd/-
T.M. Manoharan
Chairman

Approved for issue

Secretary