

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

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

1st July, 2013

Petition No. OP 4/2013

In the matter of

Truing up of Accounts of Cochin Special Economic Zone for the year 2010-11

Petition No. OP 13/2013

In the matter of

Truing up of Accounts of Cochin Special Economic Zone for the year 2011-12

Cochin Special Economic Zone Authority, Kochi ----- Petitioner

ORDER

Background

1. The Cochin Special Economic Zone Authority (*herein after mentioned as CSEZA or the Licensee*) had filed the petition for truing up of accounts for 2010-11 and 2011-12 vide letter No.H-2/4/2010:CSEZA/4720 dated 7-12-2012. The Commission sought additional details vide letter No.2081/SEA/OPNo.4&13/KSERC/25 dated 4-1-2013 and the licensee has not furnished the details as sought by the Commission. The public hearing on the petition was held along with the hearing on the petition for approval of ARR&ERC of CSEZA for 2013-14, at the Conference Hall, CSEZ on 12-2-2013. As per the accounts provided by CSEZ, the level of approved expenses and actual expenses are as follows:

Summary of the Petition for Truing up of Accounts for 2010—11 and 2011-12

Particulars	2010-11		2011-12	
	Approved	Actual	Approved	Actual
	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)
Power purchase cost	1,563.86	1,944.04	2,362.48	2,078.79
Interest & financing charges	-	-		
Depreciation	39.96	39.93	46.76	40.63

Employee cost	83.74	112.71	110.76	121.63
R&M Expenses	7.59	13.61	12.96	6.23
A&G Expenses	30.61	14.31	31.88	26.21
Net prior period charges		56.08		
Retrun on investment			10.00	
Total Expenses	1,725.76	2,180.68	2,574.84	2,273.49
Revenue From tariff	1,880.89	2,262.49	2,580.00	2,267.11
Other income	-	0.78	5.42	74.50
Total Income	1,880.89	2,263.27	2,585.42	2,341.61
Net Surplus/(Gap)	155.13	82.59	10.58	68.12

2. The Commission considered the both petitions together and are disposed of as detailed in the following paragraphs.

Public Hearing

3. The hearing on the petition was held on 12-2-2013 at the Conference Hall, Cochin Special Economic Zone Authority, Kakkanad. Representatives of CSEZA, M/s KITCO (the O&M Agency engaged by CSEZ) and Kerala State Electricity Board were present for the hearing. The Board raised following objections:
- a. The entire funds for developing the distribution assets were initially provided by the Government and hence there is no equity for CSEZ. Hence, return of Rs.10 lakh allowed by the Commission in the ARR&ERC order may only be allowed the licensee. Further, KSEB has taken up the responsibility of procuring power for the licensees, the cash surplus held by CSEZA may be passed on to KSEB consumers.
 - b. The Board has also pointed out the metering discrepancies as the purchase of power is lower than the sales and the discrepancies in number of consumers reported by the licensee.
 - c. According to the Board, the employee cost has increased by Rs.28.97 lakh even without much increase in number of consumers. The increase in employee cost is on account of awarding the outsourcing work through nomination basis. The Board further stated that the cost per consumer per month for the licensee in 2010-11 was Rs.6856 and that of 2011-12 was Rs.6757 against Rs.151 per consumer in the case of KSEB. Accordingly, the higher employee cost claimed by the petitioner has to be disallowed.

- d. The licensee has claimed electricity charges under A&G expenses, which is not reasonable as the entire own consumption cannot be charged in the distribution business
 - e. The increase in R&M expenses is due to wrong booking of capital expenses under revenue expenses, which needs to be corrected.
 - f. The licensee has claimed Rs.35 lakh as management fee, which needs to be clarified.
4. Shri. A.R Satheesh, representing the consumers of the park raised the following objections.
- a. The figures of distribution loss needs clarification. As per the accounts of the licensee, distribution loss from 2007-08 is negative and till 2012-13, the excess energy billed to SEZ consumers is about 11.36MU accordingly the excess revenue collected from SEZ consumers is to the tune of about Rs.377.83 lakh.
 - b. The variation in controllable expenses should not be allowed and only uncontrollable expenses needs to be considered in the truing up. The employee cost and R&M expenses have exceeded the approved expenses.
 - c. The licensee has charged Rs.28.28 lakh as land rent and Rs.35 lakh as management fee, which was not approved in the ARR&ERC order.

Analysis and Decisions of the Commission

5. The Commission has considered the objections and the details given by CESZA in finalising the truing up.
6. **Energy Sales and Distribution Loss** : In 2010-11, the Commission had approved energy sales of 46.61 MU and energy requirement/purchase from KSEB as 47.08 MU. Accordingly the distribution loss approved was 1%. As against this, the actual loss level reported by the licensee is (-)2.22%. Similarly, for 2011-12 also, as against the approved loss of 0.7%, actual loss was (-)2.31% as shown below.

Approved and Actual Distribution Loss

Particulars	2010-11		2011-12	
	Approved	Actual	Approved	Actual
Energy sales (MU)	46.61	56.10	65.00	57.21
Energy Requirements (MU)	47.08	54.88	65.46	55.92
Distribution losses (%)	1.00%	-2.22%	0.70%	-2.31%

7. As shown above, the actual loss for both years were negative, and sales are higher than power purchase. The Commission has noted this discrepancy in the truing up exercise for 2007-08 onwards. Based on the direction of the Commission, the licensee has taken up energy audit, which has revealed the possibility of positive error in meters of certain HT consumers. As per the estimates of the licensee during the truing up process for 2007-08 to 2008-09, the excess financial gain is Rs.17.79 lakh for 2007-08 and Rs.39.60 lakh for 2008-09. The licensee has also assured that after ascertaining the details and reason for energy loss, if the consumers were over charged, the same can be returned promptly. Accordingly, the Commission in the order on the petition for approval of ARR&ERC for 2013-14, had ordered as follows:

“The Licensee shall take necessary action for investigation of reasons if any on the discrepancy of metering data and to take corrective actions. The compliance shall be reported within three months. It is further directed that, the excess revenue if any generated on account of discrepancy in metering data, shall be kept as a separate fund and refund/adjustment if any required shall be made as per the orders of the Commission”

8. The Commission has already taken a view on this issue and the licensee has to estimate the excess revenue on account of the discrepancy in metering data and transfer the excess revenue to the separate fund and report the matter as directed in the Order dated 15-5-2013. Meanwhile the Licencee has to conduct technical analysis to find out reasons for negative loss in the distribution system. The Licencee may charter the services of technical experts to test all the Meters in service and find out the actual excess realisation from consumers. The Licencee is directed accordingly in para 27 of this order.

9. **Cost of Power Purchase** : The power purchase approved by the Commission and the actual for the years are as given below:

Year	Cost of Power purchase (Rs.lakh)	
	Approved	Actual
2010-11	1679.12	1944.04
2011-12	2362.48	2078.79

10. The licensee has explained that the variations in the actual cost compared to the approved figures in energy purchase is due to changes in the energy sales. The

Commission accepts the actual power purchase cost reported by CSEZ for truing up.

11. **Employee Cost:** The licensee has outsourced the complete operation and maintenance of power distribution system. Accordingly the contractor provides the manpower required for operation and maintenance. A small portion of the costs of CSEZ employees is also charged under the employee cost. For 2010-11, the licensee has charged Rs.112.71 lakh as employee cost out of which Rs.99.88 lakh was for the O&M charges to the M/s KITCO Limited, the agency taken up the O&M operations. In 2011-12, the total employee cost charged was Rs.121.63 lakh out of which Rs.107.63 lakh was for the O&M agency.
12. Though, the employee cost charged is higher than the approved level, the increase is about 10% over 2010-11. The Commission also noted that the apportionment of employee cost of CSEZ employee apart from the outsourced agency is also inflated by about 10%. However, the licensee has not given any rationale for arriving at the share of cost of CSEZ employees. The Commission in the previous truing up order **dated 6-5-2011 for the years from 2006-07 to 2008-09**, had directed the licensee to select the O&M agency through transparent bidding process. However, the licensee has not complied with the direction entirely and selected the same agency stating the reason that response to the tender was lukewarm. However, it is a fact that most of the other licensees, same procedures is being followed for O&M operations and agencies are selected based on competitive tendering process. The Commission allows the employee costs as per the accounts on the condition that the licensee strictly follows the direction now on in awarding the work relating to O&M operations.
13. **R&M Expenses:** The CSEZA has included the cost of spares for maintenance and the electricity charges for distribution auxiliaries and lighting under the R&M expenses. The power consumption is completely metered and notionally LT industrial tariff is applied for arriving at the electricity charges. Since the maintenance works are completely outsourced and the charges are part of the employee costs, only cost of spares are booked as part of R&M expenses. The licensee has booked Rs.13.61 lakh as R&M expenses for 2010-11 and Rs.6.23 lakh for 2011-12. As per the details given by the licensee for 2010-11, the major R&M expenses includes Rs.5.17 lakh for providing hoods for RMUs and MSBs and Rs.5.20 lakh for prepaid metering management and maintenance. Rs.1.46 lakh is booked under electricity charges for own consumption. However, for

2011-12, the licensee has booked Rs.6.23 lakh only and own consumption has not been booked. The Commission noted that the licensee is not consistent in booking expenses. Electricity charges for 2011-12 was booked as part of A&G expenses, whereas for 2010-11, it was booked under R&M expenses. The Commission also noted that certain capital expenses have been booked under R&M expenses. Considering the details provided by the licensee, the Commission approves Rs.12.15 lakh as R&M expenses for 2010-11 and Rs.6.23 lakh for 2011-12.

14. **A&G Expenses:** The licensee has booked Rs.14.31 lakh in 2010-11 and Rs.26.21 lakh in 2011-12 as A&G expenses as shown below:

Details of A&G Expenses Booked for 2010-11 and 2011-12

	2010-11	2011-12
Rent, Rates and taxes	7.22	8.30
Telephone /telex	0.46	0.43
Legal charges		2.50
Audit charges	0.40	
Technical fee - Energy auditing		3.00
Other professional fee	0.16	5.90
Travelling expenses	1.09	0.20
Technical fees	3.50	3.03
Printing and Stationery	0.08	0.06
Advertisements	1.12	0.12
electricity charges		1.40
meeting expenses		0.23
miscellaneous expense		0.82
Postage		0.09
Bank charges		
Water charges	0.04	0.14
Others	0.24	
Total	14.31	26.22

15. The major reason for increase in A&G expense in 2011-12 is on account of Rs.3.00 lakh for technical fee for energy auditing and Rs.5.9 lakh as other professional fee. Further, Rs.3.03 lakh is booked as technical fee. The licensee has not given clarifications on the fees booked under different heads. The licensee has appointed M/s KITCO for O&M and works relating to distribution. Hence, Commission is of the view that claiming fees for differently is not proper. Accordingly, the Commission disallows Rs.5.9 lakh under A&G expenses. As pointed above, electricity charges for 2011-12 is booked as part of A&G

expenses whereas for 2010-11, it was booked under R&M expenses. Hence, considering all aspects, the A&G expenses for 2010-11 and 2011-12 is allowed as shown below:

A&G Expenses Allowed for Truing up

	2010-11 (Rs.lakh)		
	Approved	Actual	True up
A&G Expenses	30.60	14.31	14.31
Add Electricity Charges			1.46
Total	30.60	14.31	15.77

	2011-12 (Rs.lakh)		
	Approved	Actual	True up
A&G Expenses	31.88	26.21	26.21
Less Other professional fee			5.90
Total	31.88	26.21	20.31

16. Depreciation: The licensee has claimed Rs.33.93 lakh towards depreciation for 2010-11 and Rs.40.63 lakh for 2011-12. Depreciation is claimed as per the rates under CERC norm applicable for the tariff period 2004-09. The total addition to the gross fixed assets (GFA) and the depreciation claimed for the three years is as follows:

		Substations	11kV Works	Metering equipments	Total
Gross Fixed Assets (Rs.lakh)	2010-11	482.98	496.79	78.07	1,058.02
	2011-12	484.97	496.79	88.91	1,071.83
Depreciation (Rs.lakh)	2010-11	17.38	17.88	4.65	39.93
	2011-12	17.45	17.88	5.14	40.63

The addition to assets was marginal and was mainly under the metering equipments. The assets of the licensee have been developed using grants from Government of India. As per the established regulatory principles, depreciation on assets created out of grants are to be excluded from allowable expenses unless the replacement of capital assets are segregated from routine capital additions. The Commission is following a policy that depreciation on assets created out of contribution shall not be claimed from the consumers. The Commission in the truing up order dated 6-5-2011 for 2006-07 to 2009-10, had ordered that *Rs.157.15 lakh* booked as depreciation for the years from 2006-07 to 2009-10 shall be kept separately in a fund and shall be utilised for additional capital expenditure/replacement of assets created out of grants with the approval

of the Commission. Similarly, for 2010-11 and 2011-12 also the depreciation claimed shall be added to the fund already created.

17. Interest and Financing Charges: The licensee stated that the total investment made for the distribution assets are part of the grants received from the Government. Hence there is no interest charges booked for the distribution business.

18. Net Prior Period Charges: The licensee has booked Rs.56.08 lakh towards net prior period charges for the year 2010-11 as shown below:

Prior Period Income/Charges Booked for 2010-11

	Rs. lakh
Income relating to previous year	
Electricity duty recovery	7.20
Expenditure relating to previous years	
Land Rent	28.28
Management Fee	35.00
Total	63.28
Net Prior period charges	56.08

19. As shown above, Rs.7.20 lakh is towards short collection towards electricity duty, which is treated as revenue. Rs.63.28 lakh is claimed towards management fee and land rent. The Commission is of the view that the income relating to previous years is not part of the revenue of the licensee, but the amount owe to the Government as taxes. The licensee has not furnished the details of expenses claimed on account of land rent and management fee. Hence, the claim of prior period expenses is rejected.

20. Return on equity: The licensee has not booked any equity in the books but claimed return of 14% of the 30% of the net fixed assets as Rs.122.12 lakh for 2010-11 and Rs.99.77 lakh for 2011-12. However, this amount has not been included while estimating the revenue gap as per Form B. The Commission feels that, as a separate entity CSEZA, the licensee has to carryout financial operations independently. At present no surplus is allowed to CSEZ and considering the requirement of future operations, the Commission allows an amount of Rs.10 lakh per year as has been done for the previous years. The surplus can be transferred to reserves.

21.Total Revenue Requirements: As shown in the above section the total expenses allowed after the truing up process for 2010-11 and 2011-12 are as given below:

Summary of Revenue Requirements after Truing up

Particulars	2010-11			2011-12		
	Approved (Rs. lakh)	Actual (Rs. lakh)	True Up (Rs. lakh)	Approved (Rs. lakh)	Actual (Rs. lakh)	True Up (Rs. lakh)
Power purchase cost	1,563.86	1,944.04	1,944.04	2,362.48	2,078.79	2,078.79
Interest & financing charges	-	-				
Depreciation	39.96	39.93	39.93	46.76	40.63	40.63
Employee cost	83.74	112.71	112.71	110.76	121.63	121.63
R&M Expenses	7.59	13.61	12.15	12.96	6.23	6.23
A&G Expenses	30.61	14.31	15.77	31.88	26.21	20.31
Net prior period charges		56.08	(7.20)			
Return on investment			10.00	10.00		10.00
Total Expenses	1,725.76	2,180.68	2,127.40	2,574.84	2,273.49	2,277.59

22.Revenue from Tariff : The licensee has stated that all the income received is booked under this head, which includes, reconnection fee, meter rent etc. After considering the details submitted by the licensee, the Commission approves the income from tariff as shown below for the two years for the purpose of truing up. The licensee is also directed to ensure that energy consumption for own use as well as common purposes are to be metered, billed and reflected in the accounts.

Actual Revenue from Sale of Power for 2010-11 and 2011-12

	2010-11				2011-12			
	No. of consumers	Energy Sales (MU)	Revenue (Rs.lakh)	Average Tariff (Rs./kWh)	No. of consumers	Energy Sales (MU)	Revenue (Rs.lakh)	Average Tariff (Rs./kWh)
HT consumers	26	48.87	1,914.59	3.92	25	49.08	1,946.60	3.97
DHT consumers	4	1.49	69.49	4.66	4	1.97	85.56	4.34
LT consumers	98	5.56	201.25	3.62	108	5.99	215.60	3.60
LT commercial	6	0.15	12.18	8.12	6	0.16	13.89	8.68
Temporary connections	3	0.03	9.02	30.07	7	0.01	5.46	54.60
Total	137	56.10	2,206.53	3.93	150	57.21	2,267.11	3.96
Recovery of electricity duty			79.37				81.93	
Excess over quota			58.00					
Power factor penalty			10.06				11.89	

Meter rent			0.48				1.54	
Fuel surcharge			63.40				72.13	
SMS Charges			1.08					
Total			212.39				167.49	
Less: Electricity duty payable			79.37				81.93	
Other State levies							12.55	
SMS Charges			2.27				2.35	
Power factor incentive			12.54					
Fuel surcharge			62.25				70.66	
Total			156.43				167.49	
Net Revenue from Sale of Power			2,262.49				2,267.11	

23. Non-Tariff Income: The licensee has booked Rs.0.78 lakh for 2010-11 and Rs.74.50 lakh for 2011-12 as non-tariff income. In 2010-11, the non-tariff income consists only collection charges. In 2011-12, interest on fixed deposits and income from other investments have been included apart from collection charges. The licensee has clarified that the M/s KITCO has been entrusted with the task of accounting and management of funds received from power distribution. The agency has invested the liquid funds into fixed deposits. Subsequent to the settlement and transfer of funds to CSEZA, the interest earned by them in the previous years were also transferred and accounted. The amount of interest (Rs.73.61 lakh) includes the accrued interest on the fixed deposits made by the CSEZA.

24. The non-tariff income should include the interest received on the security deposit held by KSEB. The licensee stated that, the Government of India advanced the funds for payment of security deposits to KSEB and the same is not included as part of the capital expenditure. Hence, the interest earned should be transferred to the Government. Further, KSEB is not providing interest on the funds given as security deposit. The Commission is of the view that, as per the accrual system of accounting, the interest to be receivable should be booked in the books as and when it is due. The Commission approves the non-tariff income as per the actuals.

25. Aggregate Revenue Requirements and Revenue Surplus After Truing up
The revenue surplus arrived at by the Commission after the truing up process is Rs. 135.87 lakh against Rs. 82.59 lakh reported by the licensee for the year 2010-11. The revenue surplus for 2011-12 arrived at by the Commission after the

truing up exercise is Rs. 64.02 lakh against Rs. 68.12 lakh reported by the licensee. The approved revenue surpluses for 2010-11 and 2011-12 are as given below:

Approved Revenue Surpluses for 2010-11 and 2011-12

Particulars	2010-11			2011-12		
	Approved (Rs. lakh)	Actual (Rs. lakh)	True Up (Rs. lakh)	Approved (Rs. lakh)	Actual (Rs. lakh)	True Up (Rs. lakh)
Power purchase cost	1,563.86	1,944.04	1,944.04	2,362.48	2,078.79	2,078.79
Interest & financing charges	-	-				
Depreciation	39.96	39.93	39.93	46.76	40.63	40.63
Employee cost	83.74	112.71	112.71	110.76	121.63	121.63
R&M Expenses	7.59	13.61	12.15	12.96	6.23	6.23
A&G Expenses	30.61	14.31	15.77	31.88	26.21	20.31
Net prior period charges		56.08	(7.20)			
Retrun on investment			10.00	10.00		10.00
Total Expenses	1,725.76	2,180.68	2,127.40	2,574.84	2,273.49	2,277.59
Revenue From tariff	1,880.89	2,262.49	2,262.49	2,580.00	2,267.11	2,267.11
Other income	-	0.78	0.78	5.42	74.50	74.50
Total Income	1,880.89	2,263.27	2,263.27	2,585.42	2,341.61	2,341.61
Net Surplus	155.13	82.59	135.87	10.58	68.12	64.02

The total surplus after truing up for the 2006-07 to 2010-11 was Rs.831.56 lakh. Hence the total surplus till 2011-12 is Rs. 1031.45 lakh. The total surplus arrived at as part of the truing up process shall be separately held as ordered vide order dated 6-5-2011 and the same can be utilised only with the approval of the Commission.

Order of the Commission

26. The Commission after considering the truing up petitions for the years 2010-11 and 2011-12 filed by the licensee M/s CSEZA, objections there of, and the clarifications and details provided by the licensee, has arrived at revenue surplus of Rs.135.87 lakh for 2010-11 and Rs. 64.02 lakh for 2011-12. The total surplus after the truing up process from 2006-07 to 2011-12 is Rs. 1031.45 lakh.

27. **Directions:** The licensee shall comply with the following directions.

- a) The licensee shall constitute a Committee of Technical Experts if necessary chartering the service of serving a retired Engineer in power sector and test all

the Energy Meters of the consumers in the licence area to find out reasons for the “negative” energy loss and calibrate the defective meters in approved laboratories, within a period of 3 months. A report on the compliance and results should be submitted to the Commission thereafter.

- b) The licensee shall transfer the depreciation for 2010-11 and 2011-12 in the separate fund created for this purpose. The utilisation of the fund shall be for system improvement and for creation of fixed assets as per prior approval of the Commission.
- c) The surplus of Rs.199.89 lakhs for the years 2010-11 and 2011-12 shall be added to the fund created for this purpose as ordered in the Order dated 6-5-2011.

With the above, all petitions are disposed of. Ordered accordingly.

Sd/-

P.Parameswaran
Member

Sd/-

Mathew George
Member

Sd/-

T.M. Manoharan
Chairman

Approved for issue

Secretary i/c