

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

Petition No. : OP 1/2014

In the matter of : ARR & ERC of M/s Cochin Port Trust for 2014-15

Petitioner : M/s Cochin Port Trust, Kochi

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

ORDER DATED 19-5-2014

Background:

1. M/s Cochin Port Trust (hereinafter referred to as CPT or the licensee) is a deemed distribution licensee. The licensee filed their petition for approval of the Aggregate Revenue Requirement (ARR) & Expected Revenue from Charges (ERC) for 2014-15 on 19-12-2013. After curing the defects vide letter dated 21-1-2014, the Commission admitted the petition on 30-1-2014, after condoning the delay. The licensee has provided the clarification sought by the Commission vide letter dated 19-3-2014. The petition for approval of the ARR&ERC for 2014-15 filed by the licensee shows an Aggregate Revenue Requirement (ARR) of Rs.3462.79 lakh and an Expected Revenue from charges (ERC) of Rs.2656.61 lakh and a revenue gap of Rs.806.18 lakh. The summary of the petition is given below:-

Summary of ARR & ERC projected for 2014-15

Particulars	2011-12 (Actual)	2012-13 (Actual)	2013-14 (Approved)	2014-15 (projections)
Revenue from Sale of power	1,876.78	2,295.15	2,538.60	2,632.69
Non – Tariff Income	16.94	46.12	12.83	23.92
Total Revenue	1,893.72	2,341.27	2,551.43	2,656.61
Expenses				
Purchase of Power	1,393.62	1,933.82	2,349.40	1,985.11

Repair & Maintenance	7.52	12.52	5.50	33.50
Employee costs	432.90	633.63	302.64	784.74
A & G Expenses	28.03	51.78	29.16	55.95
Depreciation	121.42	141.54	104.74	155.19
Interest & Finance Charges	325.88	389.52	-	424.38
Other Debits	11.96	46.12	-	23.92
Return on Capital			10.00	
Total Expenses	2,321.33	3,208.93	2,801.44	3,462.79
Surplus/(Deficit)	-427.61	-867.66	-250.01	-806.18

Hearing on the Petition

2. The hearing on the petition was held on 11-3-2014 at the Conference Hall, Administrative Office, Cochin Port Trust, Wellington Island, Kochi. The petitioner was represented by Shri.K.G.Nath, FA&CAO. Shri.Abdul Rahim, Executive Engineer, presented the petition. Representing KSEB Limited, Shri. Dinesh, Chief Engineer, pointed out that the distribution expenses of the Cochin Port Trust is very high and is about 42.67% of the total expenses. In 2014-15, on a per unit basis it is about Rs.4.41. This is very high in comparison with similar licensees in Kerala. The expenses projected are very high and the licensee could not explain reasonably for such higher projections. The repair and maintenance expense projected is Rs.33.50 lakh for 2014-15 where as the approved expenses for 2013-14 was only Rs.5.50 lakh. Same is the case with A&G expenses, which is a controllable item. Under A&G expense, almost 50% of the cost is towards security expenses. The employee cost projected for serving 1186 consumers is projected as Rs.784.74 lakh which is exorbitantly high. The depreciation for assets created out of consumer contribution need not be allowed to the licensee. While allowing the depreciation, vintage of assets is to be considered. The petitioner has not submitted the details of cost benefit analysis for the assets additions proposed for the year. The claim of interest and financing charges need not be allowed as the same is not paid to Government of India. The licensee has not given the details of other debits and hence the same need not be allowed. The licensee has included several new categories and excluded some of the categories of consumers in their revenue projections. The licensee may be directed to standardise the consumer categories as per the existing tariff approved by the Commission. There has been reduction per unit realisation from domestic category showing under reporting of revenue. The licensee has assumed a distribution loss target at 3.03% as against the approved level of 2.10% for 2013-14. Regarding ROE, the policy followed by the Commission may be followed in this case also.

Analysis and Decision of the Commission.

3. **Energy Sales** : Sale of power projected by the licensee for 2014-15 is 324.12 lakh units, which is lower than the sales approved for 2013-14. The lower sale projection is based on the actual sales in 2013-14 (upto November, 2013-14). The sales for 2014-15 were estimated based on the actual sales upto November 2013, with 2% increase over the previous year. The self consumption is projected as 47.84 lakhs units which includes energy for street lighting also. The licensee has not proposed any increase in number of consumers. Number of consumers projected for 2014-15 is 1186. The estimated number of consumers for 2013-14 and the actual no. of consumers in 2012-13 are also 1186. According to the licensee, due to the recession in maritime activities there is reduction in sales to commercial consumes.
4. The Commission has examined the sales projections of the licensee. The sales pattern of the licensee is not uniform and there is a tendency for reduction in sales. The licensee has provided 2% increase in sales over the current year sales. The projection of sale of power made by the licensee is reasonable and the Commission admits the sales of 324.12 MU for 2014-15.
5. **Distribution Loss & Energy Requirement:** Energy requirement provided by the licensee based on estimated distribution loss of 3.34%. The actual distribution loss in 2012-13 was only 1.67%. According to the licensee the projected increase in distribution loss is due to idling of transformers and its connected lines which were used for catering power to RGCT. The load has been now shifted to Vallarpadam and accordingly, action is taken to shift the some portion of the existing load to this network. The projections given by the licensee is as shown below:

Energy Requirement Proposed by the licensee for 2014-15

Category	Units	2011-12	2012-13	2013-14	2014-15
		(Actual)	(Actual)	(Approved)	(projection)
Energy sales to consumers	Lakh units	298.22	279.71	320.97	276.28
Self - Consumption including Street lights	Lakh units	36.17	45.99	39.30	47.84
Total sales	Lakh units	334.39	325.70	360.27	324.12
Distribution Loss	Lakh units	8.12	5.53	7.73	11.25
Gross Requirement of energy	Lakh units	342.51	331.23	368.00	335.37
Distribution Loss	%	2.37%	1.67%	2.10%	3.35%

6. As per the projections of the licensee, the distribution loss is shown as 11.25 lakh units ie 3.35%. The Commission approved a loss level of 2.25% for 2012-13 and the actual loss reported is 1.67%. The licensee proposes a substantial increase in losses

for the year 2014-15 on the reason that idling of transformers and associated equipments due to shifting of load. However, the licensee has also stated that efforts have been made to shift the load to reduce the losses. The actual loss for 2012-13 is only 1.67% against the approved loss of 2.25% for the year. Considering this, the Commission is of the view that it is only appropriate to fix the loss target for 2014-15 at the same level as that of 2013-14 ie., 2.10%. Accordingly the distribution loss and energy requirement approved for 2014-15 are as follows:

Distribution loss and Energy Requirement Approved for 2014-15

Category	2014-15 (projections)	2014-15 (Approved)
	(Lakh units)	(Lakh units)
Energy sales to consumers	276.28	276.28
Self -consumption including Street lighting	47.84	47.84
Total sales	324.12	324.12
Distribution Loss	11.25	6.95
Gross Requirement of energy	335.37	331.07
Distribution Loss in %	3.35%	2.10%

7. The licensee shall take necessary steps to reduce the loss to the approved level. Based on the above the energy requirement for 2014-15 is approved as 331.07 lakh units.
8. **AT&C Loss:** In the distribution business, distribution and AT&C loss are the common performance parameters employed. The collection efficiency reported by the licensee is nearly 100%. Hence, the AT&C loss for 2013-14 shall be 2.10%.
9. **Cost of Power purchase:** In the ARR petition, the licensee has projected the cost of power purchase at Rs.1985.11 lakh at an average cost of Rs.5.92/ unit. According to the licensee the reason for reduction in cost of power purchase is due to the decrease sales in projected for 2014-15 and corresponding decrease in billing demand from 11.4MW to 9.73MW.

Projected cost of power purchase

Input Voltage	Maximum Demand (in KVA)	Fixed Charge Rs./kVA	Total	Energy Purchase	Rate	Energy	Total Charges (Rs.lakh)
			Fixed Charges	(Lakh units)	Rs./kWh	Charges	
						Rs.lakh	
W.island(110 kV)	69242	300	207.73	266.58	5.05	1,346.24	1,553.96
Vallarpadom	28091	300	84.27	68.69	5.05	346.88	431.15
Total	97333		292.00	335.27		1693.113	1985.11

10. The licensee has estimated the cost of power purchase based on the energy requirement at 3.6% distribution loss. Based on the approved distribution loss of 2.10% and energy requirement, the cost of power purchase approved for 2014-15 is shown below:

Cost of Power Purchase Approved for 2014-15

Particulars	Total
Billing Demand (KVA)	97333
Fixed charge Rate (Rs./kVA)	300
Total Fixed charge (Rs.lakh)	292.00
Energy Purchase (lakh units)	331.07
Energy charge (Rs./Unit)	5.05
Total energy charges (Rs.lakh)	1,671.90
Total charges (Rs.lakh)	1,963.90

11. **Interest and Financing Charges:** The licensee has projected Rs.424.38 lakh as interest on Rs.4241.69 lakh loan taken from the Government of India. The loan amount shown is same as the Gross Fixed assets. The current liabilities and provisions are increased to the extent of the interest payable. The licensee has clarified that Govt. of India has demanded return of loans advanced to CPT with interest and the Port has submitted a proposal for restructuring the liability on with a penal interest @0.25% as on 31-3-2013 amounting to Rs.537.72 crore with re-scheduling the repayment of the frozen amount in 15 years. The proposal is under the consideration of the Ministry.

12. The Commission in the truing up order has not allowed the interest on account of the fact that the licensee has not paid the interest to Government of India. Further, the accumulated interest charges have not been reflected in the balance sheet of the licensee. It can be seen that the licensee has a practice of showing the fixed assets and corresponding liabilities as loan from Government of India. The interest charges proposed for the existing loans can be allowed only if it is likely to be incurred. The licensee has stated that the Government of India has demanded refund of the loans advanced to Cochin Port Trust with interest. However no specific repayment plan was specified. The Commission, in the previous truing up orders, has not allowed the interest charges for the licensee mainly on the reason that the interest was never paid to the Government of India. The licensee is also allowed depreciation every year, which should have been formed as a reserve to meet the repayment obligation. So the Commission considers that it is not fair to pass on the interest on the

accumulated loan to the consumers now. The interest if any paid can be considered in the truing up process after prudence check.

13. **Depreciation:** The depreciation estimated by the licensee for the year is Rs.155.19 lakh. The GFA at the beginning of the year 2014-15 proposed by the licensee is Rs.4041.69 lakh. The depreciation projected by the licensee for 2014-15 is shown below:

Depreciation Proposed for 2014-15		
	GFA at the beginning of 2014-15	Depreciation
	(Rs.lakh)	(Rs. Lakh)
Substations	3,538.35	127.38
11kV works	324.50	11.68
LT lines, Service connections	33.30	1.20
Metering equipment	5.67	0.34
Miscellaneous equipment	94.07	13.77
Others	45.80	0.82
Total	4,041.69	155.19

14. The licensee has estimated that GFA will increase by Rs.200 lakh, on account of the improvement works in Willingdon island for replacing OH lines and RMUs. The licensee has provided a detailed list of assets showing the year of commissioning, original cost, accumulated depreciation etc. In the GFA, items included under miscellaneous equipment are boom crane, van, computer, high mast tower and street lights. Under Other Assets office building and high mast are included for which Rs.13.77 lakh has been claimed as depreciation.

15. The Commission has analysed the details provided by the licensee. As mentioned in the previous orders, the depreciation can be claimed for the assets used for distribution of electricity. The miscellaneous assets which are essentially not part of the assets of distribution business (high mast tower, street light etc.) cannot be considered for depreciation. The Commission disallows the depreciation claimed under miscellaneous equipments which are not part of distribution assets. In some of the assets, the useful life period has already over and depreciation cannot be admitted on such items.

16. At present the Commission is following the depreciation as per the CERC (Terms and Conditions of Tariff) Regulations, 2009. The depreciation notified by the CERC is conditional and linked to repayment obligation and useful life. The Commission in the previous year also allowed the depreciation as per the revised CERC norms effective

from 2009 and accordingly same rates are being allowed for this year also. During the truing up process, the licensee has to provide the details including vintage of assets as per the CERC terms and conditions of tariff 2009 for claiming depreciation.

17. The licensee has proposed the additions to GFA to the tune of Rs.144.20 lakh for 2013-14 on account of improvement of the distribution network. The licensee has also proposed capital additions of Rs.200 lakh for 2014-15. The Commission has not approved these expenditure as no specific proposal has been made. Accordingly, for the purpose of estimation of depreciation, the GFA as on the beginning of the year 2013-14 is taken. The depreciation approved for 2014-15 is as shown below:

Depreciation allowable for 2014-15

	GFA at the beginning of 2013-14 (Rs.lakh)	Depreciation	
		Rate	(Rs. Lakh)
Substations	3,394.15	5.28%	179.21
11kV works	324.50	5.28%	17.13
LT lines, Service connections	33.30	6.30%	2.10
Metering equipment	5.67	6.30%	0.36
Miscellaneous equipment	94.07	6.30%	5.93
Others	45.80	6.30%	2.89
Total	3,897.49		207.61
Less Assets which exceeds useful life	76.53	5.28%	4.04
Depreciation admissible			203.57

As per the Order dated 13-4-2012, the depreciation is not available for assets created out of consumer contributions. However, the licensee has not given details in the petition on consumer contributions and assets created out of consumer contributions. In the truing up process, the depreciation on assets created out of grants and consumer contribution will be deducted from the allowable depreciation.

18. Employee cost: The employee cost proposed by the licensee for 2014-15 is Rs.784.74 lakh. The actual employee cost for 2011-12 given by the licensee is Rs.432.90 lakh and for 2012-13 was Rs.633.63 lakh. The Objectors have commented on the high level of employee cost proposed by the licensee. In fact the per unit employee cost projected is about Rs.2.42/kWh. The Commission in the truing up orders have commented on the high level of employee cost and urged for segregation of licensee activities. According to the licensee, the increase in employee costs is due to revision of wages applicable to class II & IV employees with effect from 1-1-2013.

19. The Commission in the previous ARR&ERC orders have discussed the increase in employee costs charged on to the distribution business. The issues regarding the apportionment of employee costs on the distribution business and transfer of employees to the distribution business have not been accepted by the Commission. It is clear that the employee cost booked for distribution business is substantially high. The number of technical and non-technical employees deployed for distribution business is very high considering the limited area of operation and number of consumers. Such inflated employee costs cannot be allowed to pass on to the consumers unless it is justified properly. The licensee has proposed about 159% increase in employee cost over the approved levels in 2013-14. Such enormous increase has been claimed without increase in sales or other parameters. Considering all aspects, the Commission is inclined to allow 10% increase in employee cost over the approved levels in 2014-15, to cover the inflation. Accordingly, the employee costs allowed for 2014-15 is Rs.332.90 lakh.

20. Repair and Maintenance Expenses : The licensee has projected Rs.33.50 lakh for repair and maintenance expenses for 2014-15 against the actuals of Rs.12.52 lakh for 2012-13 and Rs.7.52 lakh for 2011-12. The approved expense for 2013-14 was Rs.5.50 lakh. According to the licensee, R&M expense in 2013-14 was increased to Rs.30.81 lakh on account of frequent failure of oil filled RMUs, OCBs etc., due to heavy monsoon. The replacement of old OCBs in 11kV network is in progress, which may reduce the R&M cost in coming years.

21. The Commission has noted the explanation of the licensee. As pointed out by the licensee, the increase in expenses projected is based on the assumption that the same repairs/breakdowns will continue in the 2014-15 also. The licensee also stated that measures were taken to replacement of equipments. Accordingly, the Commission is of the view that 10% increase from the approved amount for 2013-14 may be allowed as R&M expenses for 2014-15. The R &M expense approved for 2014-15 is Rs.6.05 lakh. The licensee is directed to limit the R&M expense within the approved level .

22. Administration and General expenses: The Administration and General expenses proposed by the licensee is Rs.55.95 lakh for 2014-15 whereas the actual expenses for 2011-12 was Rs.28.03 lakh and that of 2012-13 was 51.78 lakh. The approved amount for 2013-14 was Rs.29.16 lakh. The licensee has included Rs.24.25 lakh towards security arrangements under A&G expenses. Other than this, the projections under various heads are not substantial. The Commission in the truing up order has taken a position that cost of security arrangements booked by the licensee

is substantial considering the limited distribution operations of the licensee. The Commission has also held that A&G expense is a controllable item of expenditure. The licensee has proposed 92% increase in A&G expenses over the approved expenses in 2013-14. Considering all aspects in detail, the Commission is of view that 10% increase in expenses over the approved level in 2013-14 can be allowed under A&G expenses. Accordingly the approved A&G expense is Rs.32.07 lakh.

23. Other Debits: Though the licensee included Rs.23.92 lakh, no details are provided. Hence, the Commission is not in a position to allow other debits. However, during the truing up process, the Commission can consider the actual expenses under this head.

24. Return on Equity: No ROE has been claimed by the licensee. The Commission has been allowing Rs.10 lakh as return which is transferred to the reserves. Accordingly the Commission allows a token amount of Rs.10 lakh as return for the licensee.

25. Aggregate Revenue Requirements: Based on the above, the Aggregate Revenue Requirements proposed and approved for 2014-15 is as given below.

Approved Aggregate Revenue Requirements for 2014-15

Expenses	2014-15 (projected) (Rs.lakh)	2014-15 (Approved) (Rs.lakh)
Purchase of power	1,985.11	1,963.90
Repair & Maintenance	33.50	6.05
Employee costs	784.74	332.90
A& G expenses	55.95	32.07
Depreciation	155.19	203.57
Interest & Financing charges	424.38	-
Other debits	23.92	
Return on investment		10.00
Total Expenses	3,462.79	2,548.49

Based on the approved ARR, the distribution cost (cost other than power purchase cost) for 2014-15 is Rs. 584.59 lakh which is Rs.1.80 per unit. The approved distribution cost for 2013-14 was Rs.1.25 per unit and that of 2012-13 was Rs.1.34 per unit.

26.Revenue from Tariff: The licensee has projected the revenue from tariff as Rs.2632.69 lakh. However, vide letter dated 19-3-2014, the licensee has revised the revenue projections at Rs.2644.69 lakh as shown below;

Revised Revenue Projections for 2013-14

Tariff category	No of consumers	Connected load/Maximum Demand (kW/kVA)	Billing energy (Lakh units)	Fixed Charges (Rs.lakh)	Energy Charges (Rs.lakh)	Total charges (Rs.lakh)	Average realisation (Rs./unit)
HT II Non industrial	2	4728	8.42	16.55	38.17	54.72	6.50
HT IV Commercial	17	86,156	158.99	344.62	1,112.31	1,456.93	9.16
HT IV Malabar	2	7,515	34.72	30.06	243.50	273.56	7.88
LT1 A - Domestic	679	677	11.16	1.76	26.58	28.34	2.54
LT 2 Colonies	4	50	3.51	1.10	25.95	27.05	7.71
LT-4 Industrial	1	14	0.01	0.01	0.05	0.06	6.00
LT 6 A Non Domestic	10	1006	1.74	0.50	13.08	13.58	7.80
LT 6 B Non Domestic	32	363	2.95	3.18	22.68	25.86	8.77
LT 6 B (G) Non Domestic	9	293	3.63	2.48	29.16	31.64	8.72
LT 6 C Non Domestic	11	324	4.50	7.28	41.49	48.77	10.84
LT 6 C (G) Non Domestic	15	98	0.82	2.55	7.09	9.64	11.76
LT 7 A Commercial-1ph	207	338	2.17	2.63	15.57	18.20	8.39
LT 7 A Commercial- 3 ph	194	5,185	43.38	77.02	397.93	474.95	10.95
LT 7 C Commercial	3	46	0.28	0.81	1.71	2.52	9.00
Self consumption			47.84	24.06	154.79	178.85	3.74
Total	1,186	1,06,793	324.12	514.61	2,130.06	2,644.69	8.16

The Commission notes that the revenue from self consumption has been estimated based on the actual billing of different categories, based on the pre-revised tariff. The KSEB Limited has pointed out that the estimation of revenue from self consumption is not proper as the average realisation is only Rs.3.74 per unit. In the absence of details, the Commission is not in a position to adjust the revenue from self consumption for 2014-15. The licensee shall estimate the revenue from self consumption based on the existing tariff and details estimation is to be provided as part of the filing. The Commission for the purpose of ARR&ERC, the approved the estimate of revenue given by the licensee for 2014-15.

27.Non-tariff Income : The licensee has estimated Rs.23.92 lakh under revenue from non-tariff income which is the interest on deposits and interest on deposit held with KSEB limited. The Commission approves the estimate of the licensee.

28. Revenue Surplus/Gap: The revenue gap proposed by the licensee is Rs.806.18 lakh. After considering the materials and explanation given by the licensee, the Commission has arrived at a revenue surplus of 120.12 lakh for the year 2014-15.

Approved ARR&ERC for 2014-15

Expenses	2014-15 (projected) (Rs.lakh)	2014-15 (Approved) (Rs.lakh)
Purchase of power	1,985.11	1,963.90
Repair & Maintenance	33.50	6.05
Employee costs	784.74	332.90
A& G expenses	55.95	32.07
Depreciation	155.19	203.57
Interest & Financing charges	424.38	--
Other debits	23.92	--
Return on investment	--	10.00
Total Expenses	3,462.79	2,548.49
Revenue from sale of power	2,632.69	2,644.69
Other income	23.92	23.92
Total Revenue	2,656.61	2,668.61
Revenue deficit	-806.18	120.12

Orders of the Commission

29. After the analysis of the ARR&ERC and the clarifications thereon submitted by the licensee, the Commission approves the ARR of Rs.2548.49 lakh and estimated revenue of Rs.2668.61 lakh, leaving a revenue surplus of Rs.120.12 lakh for the year 2014-15 for M/s. Cochin Port Trust as stated above. The licensee shall limit the expenses at the approved level.

30. The petition is disposed of with a direction that the licensee shall submit the revenue from self consumption in categorywise with appropriate tariff category in all the ARR&ERC and truing up petitions.

**Sd/-
P. Parameswaran
Member**

**Sd/-
Mathew George
Member**

**Sd/-
T.M. Manoharan
Chairman**

Approved for issue

Secretary