KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present: **Shri. R. Preman Dinaraj, Chairman**

OA Nos. 27/2019, 28/2019 & 8/20

In the matter of Petition filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) for approval of ARR& ERC for the period 2018-19 to 2021-22.

Petitioner	:	KINESCO Power and Utilities Private Limited, Room No.302-306, 2nd Floor, CFC Buildings Kinfra Park Office, Infopark P.O, Kakkanad Kochi
Respondent	:	Kerala State Electricity Board Limited, Vydyuthi Bhavanam, Pattom, Thiruvananthapuram

<u>Order dated 01 .10.2020</u>

The second Public hearing on the petition for approval of ARR and ERC filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) for the years from 2018-19 to 2021-22 was conducted by video conference on 17-09-2020. M/s KINESCO Power and Utilities Private Limited (KPUPL) was represented by Sri. Sajeev, Resident Engineer, Sri. S.N. Ashok Kumar Manager (Finance) and other officers of the petitioner who gave replies to queries of the Commission.

The ARR and ERC petition for the control period 2018-19 to 2021-22 and the Capital Investment Plan was presented before the Commission. The major issues were relating to T&D losses, Power Factor Incentive, exempting KPUPL from RPO obligation and to allow Section (3) Duty as expenditure. The Capital Investment proposals for the control period was also submitted for approval.

KPUPL stated that the majority of their customers belonged to HT and DHT category. The total sales and revenue expected was presented by the petitioners for the period 2018-19 to 2021-22. They submitted that due to the Covid 19 pandemic, their operations were adversely affected and the maximum demand had fallen by almost 46%.

The Commission enquired whether any application had been filed with KSEB to reduce the Contract Demand. The Commission categorically informed that it is the primary duty of the licensee to study and modify if required the Contract Demand and thus to reduce the Fixed Charges. Under no circumstances will these incremental charges be allowed to be passed on to the consumers.

KPUPL submitted that they may be allowed a higher Distribution Loss target as the target fixed by the Commission was stringent. Further the energy audit conducted has shown that the Distribution Loss was due to vast area covered wherein the customers were few in number. The Commission directed KPUPL to prepare the Distribution Loss for the parks on a stand-alone basis for each park.

As KPUPL has reported a substantial fall in revenue, the Commission directed KPUPL to revise the figures for 2020-21 and 2021-22 on a realistic basis and to do midterm corrections, if necessary. Since the first two years of the control period was already over, the actuals for 2018-19 and 2019-20 shall be finalized as True up Petitions. For the remaining two years of the control period, the ARR &ERC shall be finalized based on the true up figures to be submitted by KPUPL.

KPUPL submitted that the power purchase cost submitted for 2018-19 and 2019-20 was higher due to the provision for RPO charges. The Commission informed that provision cannot be allowed since the licensee has no intention to spend these amounts.

KPUPL informed that the increase in O&M expenses was mainly due to increase in employee cost and R&M expenses. Employee cost was high on account of higher cost incurred for outsourced employees. The Commission advised KPUPL to invite tenders directly for man power supply and to ensure wide participation so as to bring down the cost. The same procedure was to be adopted for R&M expenses also.

The Commission observed that the A&G expenses was also on the higher side and needs to be pruned down. KPUPL informed that this was due to the rent charged by KINFRA and that the terms of rental was on the basis of an annual increase of 10%. Commission informed that 10% annual increase is very high and this will have to be reduced to 5% or lower based on norms prevalent in the market. It was also advised to reduce the dependence on external professionals by examining the works presently outsourced and to explore the possibility of getting these works done inhouse so as to bring down the cost on this front. The fees fixed for the external professionals was to be reviewed. The Commission also observed that the bank charges were steeply increasing and this is needs to be looked into. KPUPL informed that bank charges were incurred for maintaining the Bank Guarantees and Letters of credit.

The Commission advised the licensee to maintain proper Fixed Asset Register showing all the required particulars.

The capital expenditure proposals submitted were examined by the Commission. It was observed that proper DPRs have not been submitted as required for proposals costing more than Rs.15 lakhs. Also, a proper cost benefit analysis for each proposal is to be done so as to ascertain its viability. Regarding proposals for purchase of smart meters, the Commission advised KPUPL to get the EOI from Tamil Nadu, Karnataka and Gujarat and Maharashtra for obtaining more competitive bids.

Sri. Manoj.G, Asst.Executive Engineer (TRAC) presented the counter statement /comments of the respondent KSEB Ltd. and informed that the written remarks shall be submitted on the next day. The major points presented by the respondent KSEB Ltd are summarized as below.

a. Before going to the merits of the petition, KSEB Ltd submitted that, the area wise split up details of all revenue and expenses have not been submitted by the Licensee. Most of the figures given in the original petition have been revised by the licensee vide the revised statements.
b. The T&D losses are on the higher side and the controllable matters are not attended to. Since KPUPL is operating in limited area and the supply is mainly through underground cables, the T&D losses can be kept at a minimum level. Hence the claim for a higher loss may be disallowed.
c. The O&M expenses projected by the licensee is very much on the higher side and this may be considered only as per norms specified in the KSERC Regulations.
d. KSEB Ltd pointed out that the Licensee has not purchased any REC for its obligation towards RPO.
e. KSEB Ltd also pointed out that KPUPL should segregate the assets created out of Grants and Consumer contribution while doing the computation of depreciation.
f. KSEB also remarked that huge amount is projected as capital investment leading to nearly doubling of amount provided as depreciation.
g. The interest on the accumulated revenue surplus is to be shown under other income.
h. KSEB also suggested that instead of working out ROI based on return on Net Fixed asset value, the equity may be considered and the rate of return be applied which will be a less costly option. The equity may be limited to Rs 284 lakhs.

i. The licensee may be directed to submit cost benefit analysis for all capital works costing more than Rs.15 lakhs.

j. KSEBL has also advised not to approve the capital expenditure of Rs.200 lakhs for erecting 22KV Substation at KIITP Palakkad. KSEB has already provided the area with adequate distribution system and hence this proposal is likely to create redundant assets. The majority of consumers in this area are availing power from KSEB.

k. The entire details for financing the capital investment may be submitted by the licensee to the Commission along with petition seeking approval.

Based on the hearings conducted, the Commission hereby orders the following, -

1) Since the first two years of the control period of the Tariff Regulations, 2018, ie., 2018-19 and 2019-20 has already elapsed, no purpose will be served by approving the ARR & ERC of this period. Instead KPUPL shall submit the true up of accounts for consideration of the Commission not later than 31st October, 2020 for financial year 2017-18, 30th November, 2020 for financial year 2018-19 and 31st December, 2020 for financial year 2019-20.
2) As required in the Tariff Regulations, 2018-22, KPUPL based on the true up accounts shall also finalize their midterm review for the financial year 2020-21 and 2021-22 and submit the same to the Commission by 31st January, 2021.

Petition disposed of accordingly.

Sd/-
Preman Dinaraj
Chairman

Approved for issue,

Secretary i/c