**KERALA STATE ELECTRICITY REGULATORY COMMISSION**

**THIRUVANANTHAPURAM**

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

 **Shri. S. Venugopal, Member**

 **Shri. K. Vikraman Nair, Member**

**OA.6/2018**

**In the matter of** Application for the Truing up of accounts of M/s KSEB Ltd. for the financial year 2015-16

Applicant(s) : The Deputy Chief Engineer (Commercial & Planning)

With full powers of Chief Engineer

 Kerala State Electricity Board Ltd

 Vydhyuthi Bhavanam, Pattom

 Thiruvananthapuram

Applicant(s) represented : Sri. B.Pradeep, Deputy Chief Engineer

 Sri. Bipin Shankar, Deputy Chief Engineer (TRAC)

 Sri. Biju. R, Financial Advisor & Chief Accounts Officer

 Sri. K.G.P Namboothiri, Executive Engineer (TRAC)

 Sri.Girish Kumar V.S, Finance Officer, (TRAC)

**Daily Order dated 12.06.2018**

 The public hearing on the application for the Truing up of accounts of M/s KSEB Ltd for the financial year 2015-16 was conducted at the Court Room, Office of the Kerala State Electricity Regulatory Commission, Thiruvananthapuram on 30-05-2018 at 11.00 AM. M/s KSEBL was represented by Sri. B.Pradeep, Deputy Chief Engineer with full powers of Chief Engineer, Sri. Bipin Shankar, Deputy Chief Engineer (TRAC), Sri. Biju.R, Financial Advisor & Chief Accounts Officer, Sri. K.G.P Namboothiri, Executive Engineer (TRAC), Sri. Girish Kumar V.S, Finance Officer, (TRAC) and other officers of KSEB Ltd. Sri. B.Pradeep presented the details of the application before the Commission. Sri. B.Pradeep, Sri. Biju and Sri.Girish Kumar responded to the queries of the Commission on the truing up of accounts for the year.

The main points made by KSEB Ltd are,-

* The total energy sale for the year 2015-16 as per the application submitted by KSEB Ltd is 19325.07 MU. Energy sale outside the State through exchange by KSEB Ltd is 53.48 MU. Sale outside the state by IPPs is 38.63 MU. Open Access purchase by consumers is 135.25MU. Thus the total energy accounted as part of energy sale is 19552.43 MU.
* The total energy consumption for the year 2015-16 is 22819.44 MU.
* The actual Transmission and Distribution loss reported by KSEB Ltd for the year 2015-16 is 14.37%.
* Cost of power purchase incurred by KSEB Ltd for 2015-16 amounted to Rs. 6336.82 crore, comprising Rs.5912.38 crore towards power purchase and Rs. 424.44 crore towards interstate transmission charges.
* The actual net generation from BDPP and KDPP is 145.53 MU at a variable cost of Rs 104.26 crore.
* The actual expense incurred on Interest and financing charges is Rs.909.14 crore which includes loan interest, security deposit interest, overdraft interest, PF interest etc.
* The total depreciation claimed is Rs.491.22 crore which includes the depreciation of SBU G, SBU-T & SBU D.
* The total O&M expenditure is Rs.3692.16 crore which include the repair and maintenance expenses, employee cost, and administrative and general expenses of SBU G, SBU-T & SBU D.
* Total return on equity is Rs.489.86 crore.
* Other expenses include other debits and prior period charges. Other debits include material cost variance, provision for bad and doubtful debts etc. The Net other expenses is Rs.84.58 crore.
* Non-tariff income for the year 2015-16 is Rs. 759.44 crore which includes meter rent/service line rental, miscellaneous charges from consumers, recoveries, income from sale of scrap etc.
* Revenue from tariff for the sale of 19325.07 MU during the year 2015-16 is Rs. 10446.01 crore. The licensee has also earned Rs. 41.70 crore from sale outside the State. Thus the total revenue from sale of power is Rs. 10487.71 crore.
* Accordingly the revenue gap as per the application for truing up of accounts for the year 2015-16 is Rs 808.89 crore.

 Sri. Dijo Kappan representing the Consumer Education Trust, presented the views and objections on the claims made by KSEBL. He submitted that the order on the truing up of accounts for 2015-16 may be issued only after duly considering the suo-motu order dated 17-04-2017 issued by the Commission. He stated that all the long pending arrears of electricity charges are to be recovered by KSEB Ltd, than settling the arrears with One Time Settlement mechanism. The mechanism is in turn leading to loss for KSEB Ltd which is finally passed on to the consumers through tariff as the same is a liability of KSEB Ltd. He also stressed that the capital projects of KSEB Ltd are to be completed on a time bound manner. The Commission may give proper directions to limit controllable cost and time over run. He stated that the licensee may be directed to give proper importance to generation through renewable energy sources as other states across the nation are consistently increasing the generation through renewable energy sources. He also stated that the claim of the licensee on Employee cost and Repair and maintenance cost are on the higher side and the same shall not be passed on to the consumers. The per unit cost of electricity is higher in the state in comparision with other States. He also submitted that KSEB Ltd may settle the arrears under one time settlement only with the prior approval of the Commission.

 Sri. Sukumaran, a domestic consumer submitted that the Commission may not increase the tariff as the same is already high in the state. He further submitted that KSEB Ltd may file the applications on time and the Commission after processing the same may only pass on genuine expenses, to consumers through tariff.

 Sri. Reghunathan, representing the Friends of Electricity Employees and Consumers submitted their comments on the application for the Truing up of accounts of M/s KSEB Ltd for the financial year 2015-16. The main points submitted are the following.

* Transmission & Distribution loss and the number of faulty meters have reduced
* Proper maintenance of plant and machinery is very essential for ensuring the reliability of supply and reduction of accidents .Hence the request of the licensee for revising the norms and approving the O&M cost may be considered. Norms as per CERC regulation may be considered for O&M cost for generating stations
* Requested the intervention of the Commission to improve the financial position of the Master Trust in order to protect the interests of consumers and pensioners of KSEBL
* Carrying cost being a legitimate claim of the utility, the interest on overdraft actually incurred is eligible for pass through. So the interest on overdraft may be approved in full.

 Sri. Shaji Sebastian presented the views of Kerala Small Scale Industries Association. He appreciated the consumer friendly actions done by KSEB Ltd. He mentioned that KSEB Ltd is not giving proper encouragement for promotion of renewable energy. He further submitted that KSEB Ltd has not met the RPO Obligation and the Commission may make sure that the same does not be a burden on the consumers across the State.

 Sri. Jayaprakash, representing the KSEB Workers Association submitted that the number of consumers is increasing in the State, and as compared to the employee strength of KSEB in 80’s the number of employees in KSEB Ltd has come down. So the employee cost claimed by KSEB Ltd in view with the total number of employees may be allowed. He also submitted that the Commission may approve the claims made by KSEVB Ltd while truing up the accounts for the year 2015-16.

 Sri. A.R.Satheesh, President, presented the comments of the HT-EHT Consumers Association on the application filed by KSEB Ltd. The main comments made are briefed below.

* The validity of the submission of true up filings for the year 2015-16 in absence of ARR and ERC order for the year 2015-16 is questionable. It was submitted that KSEBL has justified its expenses against the ARR proposal for the year 2015-16, which is insignificant in the absence of ARR ERC Order by the Commission
* The actual loss levels for the previous year may be considered as the base for approving the loss levels for the current year.
* As the KSERC Tariff Regulations 2014 doesn’t allow the treatment of auxiliary consumption separately it was requested to disallow the auxiliary consumption of hydel generation and substation to the tune of 18.63 MUfrom the energy quantum being procured from the marginal station
* Commission may carry out a prudence check on the capital expenditure to verify the cost-benefit analysis and progress reports to ascertain the prudent capital expenditure to be approved for the purpose of calculation of interest on loans and bonds.
* KSEBL has claimed the terminal liabilities amounting to Rs.1004.50 crore shall be completely disallowed by virtue of prevailing regulations and government order to create separate Master trust.
* It was further submitted that KSEBL has added the terminal liabilities as a part of employee cost, which is not in line with the regulatory requirements.
* The depreciation may be re-estimated as per the KSERC Tariff Regulations 2014 as the amount claimed is net of claw back depreciation.
* IIM Kozikode has provided explicit recommendations on organisational structure, career and training needs. The Association requested the Commission to direct KSEBL to implement the recommendation to improve productivity and quality of service.
* The Repair & Maintenance cost of KSEBL is one of the highest among all Indian states whereas the National average was very low.
* It was also submitted that the O&M expenses may be allowed as per the regulations.
* KSEB Ltd is frequently challenging the order of Commission in APTEL & Supreme Court, resulting in considerable amount being spend as legal fees which is part of A&G head.The legal charges thus paid shall not be passed on to the consumers and KSEBL shall cover this cost from the RoE.
* Commission may undertake a thorough check on variances provided by KSEB Ltd on the material cost variance of Rs.71.84 crore.

 Sri. Jayathilakan, President of the Kerala State Productivity Council submitted that KSEB Ltd may be directed to comply with the Regulations issued by the Commission and the officers of KSEB Ltd are not properly updated on the same. He submitted that the operation and maintenance cost should be brought down by KSEB Ltd and efficiency should be increased. He requested that Open access may be allowed to industrial consumers.

During the hearing, the Commission has pointed out the serious qualifications made by the auditors in the accounts of KSEB Ltd. The Commission directed KSEB Ltd to take corrective steps to address the comments made by the auditors in a time bound manner. Commission insisted that common Accounting Policies are to be followed in all the Accounts Rendering Units and the same is to be circulated to all Accounts Rendering Units. The Commission further stressed the need for correcting the errors and discrepancies in the Strategic Business Unit wise accounts.

The other issues pointed out were the following

* The modality followed in accounting of the bank guarantee collected as security for sale of power.
* Timely completion and accounting of the capital work in progress.
* Furnishing of supporting documents relating to segment reporting.

The Commission directed KSEB Ltd to furnish the reply to the comments of stakeholders and additional details, if any, with supporting documents on the truing up of accounts for 2015-16 immediately.

 Sd/- Sd/- Sd/-

**K.Vikraman Nair S.Venugopal Preman Dinaraj**

 **Member Member Chairman**

 Approved for issue

 **Sd/-**

Santhosh Kumar.K.B

 Secretary