

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

Present : **Shri. R. Preman Dinaraj, Chairman**  
**Shri. A J Wilson, Member (Law)**

**OP No.41/2020**

**In the matter of** : **Truing up of Accounts of Kanan Devan Plantations Company Private Ltd. (KDHPCL) for the year 2019-20**

**Applicant** : **M/s Kanan Devan Hills Plantations Company Private Ltd.**

**Date of hearing** : **1<sup>st</sup> hearing on 05.02.2021 at 11.00 A.M**

**ORDER DATED 12/05/2021**

1. M/s Kanan Devan Hill Plantations Company Private Limited (hereinafter referred to as KDHPCL, the petitioner or the licensee) is the distribution licensee supplying electricity in its license area at Munnar. KDHPCL procures electricity from KSEB Ltd for the supply to its consumers and for its own consumption. The Commission had notified the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 (hereinafter referred to as Tariff Regulations, 2018) for the control period 2018- 19 to 2021-22. Regulation 10(1) of the said Regulation mandates the filing of yearly petition for truing up of accounts for the respective years. In compliance to the Regulations, the licensee filed the instant petition for the truing up of accounts for second year of the control period, i.e., 2019-20 vide letter dated 25-11-2020.
2. The Commission vide Order dated 11-11-2019 had approved the ARR & ERC for the Control Period from 2018-19 to 2021-22. As per the ARR Order dated 11-11-2019, the Commission had approved a revenue surplus of Rs.59.76 lakh for the year 2019-20 as against a revenue deficit of Rs.95.05 lakh proposed by the Licensee. Now KDHPCL in the petition for Truing Up of the Accounts for the F.Y 2019-20 has claimed a revenue gap of Rs.7.34 lakh. A comparison of the actual amounts claimed for 2019-20, amount approved in the Order on the ARR & ERC for the year 2019-20 and the trued up figures of the previous year 2018-19 is shown below.

**Table-1**  
**Comparison of True Up claim with ARR for 2019-20 and Trued up values for 2018-19**

(Rs. Lakh)

Particulars	2018-19	2019-20		
	Trued Up	Approved in ARR	For Truing Up	Variance
Revenue from sale of Power	2844.86	3282.44	2980.06	-302.38
Non-tariff Income	77.51	70.24	26.99	-43.25
<b>Total Income</b>	<b>2922.37</b>	<b>3352.68</b>	<b>3007.05</b>	<b>-345.63</b>
<b>Expenses:</b>				
Power Purchase Cost	2668.84	3017.73	2748.73	-269.00
R&M Expenses	51.93	38.27	36.59	-1.68
Employee Cost	126.40	132.52	155.22	22.70
A&G Expenses	16.57	14.41	13.11	-1.30
Depreciation	15.90	22.24	22.52	0.28
Interest and finance charges	53.09	63.35	23.31	-40.04
Other Debts	0.61	0.57	14.91	14.34
Return on Equity	3.83	3.83	0.00	-3.83
<b>Total expenditure</b>	<b>2937.17</b>	<b>3292.92</b>	<b>3014.39</b>	<b>-278.53</b>
<b>Revenue Surplus/(Gap)</b>	<b>(14.80)</b>	<b>59.76</b>	<b>(7.34)</b>	<b>(67.10)</b>

3. Even though the licensee has submitted the Form D.1.1 showing the net revenue gap at Rs.7.34 lakhs, the licensee has given revised workings in the petition itself in respect of miscellaneous receipts forming part of Other Income and Interest and Finance Charges. The licensee submits in the petition itself that interest on deposit with KSEB is only Rs.14.52 lakhs and not Rs.16.44 lakhs as grouped under Other Income in form D.1.1. Also, the interest and finance charges have been reworked by the licensee and shown as Rs.62.69 lakhs in the petition itself but the Aggregate Revenue Requirement in Form D.1.1 has not been revised/updated by the licensee in the above lines.
4. The Commission vide letter dated 06.01.2021 sought clarifications from the licensee on the petition. The licensee in their letter dated 13-01-2021 and 15-01-2021 furnished the clarifications. The Commission admitted the petition as OP No.41/2020.

## Hearing on the matter

5. Hearing on the Truing up petition on the of accounts of the licensee for the year 2019-20 was held at the Kanan Devan Hills club, Munnar at 11 AM on 05-02-2021. Sri. P.M. Srikrishnan, Executive Director, KDHPCL representing the petitioner, briefed the details of the petition and responded to the queries of the Commission.
6. The Commission enquired regarding the status of pending court cases filed by the licensee. The petitioner submitted that the challenge to the Tariff Revision, 2007 regarding enhancement of tariff with retrospective effect and the matter relating to Aggregate Revenue Surplus/Gap for the period 2005-06 to 2009-10 were admitted by the Hon'ble Supreme Court and was awaiting hearing.
7. The main points submitted in the original petition and additional submissions are summarized below: -
  - ❖ The actual number of consumers for 2019-20 is 16,045 and the energy sale for the year is 436.68 lakh units. During 2018-19, the figures were 15,964 and sale was 439.80 lakh units. The sales were lower compared to the previous year due to lower demand.
  - ❖ "Other income" for the year at Rs.26.99 lakh was lower than the previous year's trued-up figure of Rs.77.51 lakh and the ARR approved figure of Rs.70.24 lakh.
  - ❖ Against the Commission approved distribution loss of 10.75% for 2019-20, the actual distribution loss for the year is 10.47%
  - ❖ The licensee has claimed an actual power purchase cost of Rs. 2748.73 lakh for the purchase of 499.30 lakh units which is higher by Rs. 79.89 lakh when compared to the previous year's trued up figure of Rs.2668.84 lakh.
  - ❖ The O&M expenses were Rs.204.92 lakhs in comparison with the trued-up figure of Rs.194.90 lakhs for the previous years and the ARR approved figure of Rs.185.20 lakhs.
  - ❖ The employee cost claimed at Rs.155.22 lakhs is the actual expenses incurred which is significantly higher than the ARR approved amount of Rs. 132.52 lakhs and the trued-up figure of Rs.126.40 lakhs for the previous year.
  - ❖ The licensee submitted that the worker's wage increase is based on the Minimum Wage Notification and Dearness Allowance by UPASI every quarter. The licensee has submitted subsequently the notifications to substantiate the claims.
  - ❖ The actual R&M amount claimed for transmission lines, substations, 11 kV lines and associated works, LT line service etc.is Rs.36.59 lakh as against the ARR approved figure of Rs.38.27 lakhs and the trued-up figure of

Rs.51.93 lakhs for the previous year.

- ❖ The actual Administrative and General Expense booked is Rs.13.11 lakh as against the ARR approved amount of Rs.14.41 lakhs and the previous year figure of Rs.16.57 lakhs.
- ❖ The licensee submitted that they may be allowed to claim the cost of funds set apart for furnishing Bank Guarantees for meeting the cash deposit requirements of KSEB Ltd. This is claimed in the backdrop that the interest received from KSEB Ltd is treated as income under non-tariff income while computing the net surplus/gap.

8. The counter points raised by KSEB Ltd vide their letter no: KSEB/TRAC/KDHPCL/R3/1303 dated 27-01-2021 is the following: -

- ❖ Even though the consumption is almost equal compared to 2018-19, the increase in revenue due to tariff revision is not seen properly reflected in the revenue realization.
- ❖ The licensee has not accounted any interest on accumulated surplus as part of the non-tariff income for the year 2018-19.
- ❖ The rate of depreciation based on norms for assets may be allowed only after due consideration of the vintage of the assets. The asset register furnished shows that for assets which have completed more than 12 years also lower rates are not seen applied. Also, depreciation corresponding to consumer contribution not seen deducted.
- ❖ The licensee has claimed O & M expenses higher than the norms approved by the Commission. This may be limited to the approved level.
- ❖ The licensee claim of Rs.13.12 lakhs under Section 3(1) Electricity Duty may be disallowed.
- ❖ The claim of Rs.6.10 lakhs towards bank guarantee charges for Rs 7.18 crore provided to KSEB Ltd. as security as per directions of the Hon'ble Supreme Court not to be included under allowable expenses as was done in the previous year 2018-19.
- ❖ The quantity of power purchased and claimed by the petitioner is matching with the KSEB Ltd. records.

9. KSEB Ltd vide their letter No. KSEB/TRAC/KDHPCL/R3/1431 dated 17-03-2021 has further clarified that the power purchase cost of M/s Kannan Devan Hills Plantations Company Private Limited for the year 2019-20 as per KSEB Ltd records is Rs.2748.81 lakhs as against the figure of Rs.2748.73 lakhs reported by KDHPCL.

10. The Commission observed the submissions made by the licensee and remarks of

KSEBL and directed as under:-

- In view of the long pendency of the legal proceedings, review the litigations pending before Courts /Tribunals for arriving at an amicable settlement.
- The licensee has to submit documentary evidence for claiming the wage revisions and DA enhancements.
- The petitioner is required to furnish replies/clarifications/justifications to the counter statement of KSEB Ltd. if any.
- The replies and additional documents to be submitted before 26-02-2021.

### **Analysis and decision of the Commission**

11. The Commission considered the petition for truing up of accounts for the year 2019-20 and additional submission furnished by the licensee vide letters dated 23-06-2020, 13-01-2021,15-01-2021,12-02-2021 and 01-03-2021 and e-mails dated 08-03-2021 and 26-03-2021. The counter statement filed by KSEB Ltd vide letter dated 27-01-2021 and 17-03-2021. Based on these submissions, proceedings during the hearing and its analysis the Commission's findings on the licensee's truing up petition of accounts for the year 2019-20 are detailed below:

### **No. of Consumers and Sale of Power**

12. The licensee has submitted that the actual number of consumers for the year 2018-19 was 15964. During the year 2019-20, the number of consumers increased to16045. Though the number of consumers has increased by 81, the data reveals that the total sales has decreased over the previous year. The actual sale of power during 2018-19 was 439.80 lakh units, whereas the sale during the year 2019-20 is only 436.68 lakh Units. The details of the number of consumers and the total sale of power are given below.

**Table-2**  
**Comparison of no. of consumers & sales**

<b>Particular</b>	<b>2018-19</b>	<b>2019-20</b>	
	<b>Trued Up</b>	<b>ARR Order</b>	<b>Truing Up</b>
No of consumers	15964	15884	16045
Sales in lakh units	439.80	480.70	436.68

13. A comparison of the category wise sale of power is tabulated hereunder.

**Table-3**  
**Category-wise consumers and sales**

Particulars	Trued Up in 2018-19		Truing Up 2019-20	
	No. of Consumers	Sales (lakh units)	No. of Consumers	Sales (lakh units)
HT I A Industrial	22	286.20	22	281.38
HT II General	3	4.00	3	4.45
HT III Agriculture	2	2.80	2	3.01
HT IV Commercial	9	20.10	9	19.93
LT I Domestic	13490	73.10	13543	72.99
LT IV Industries	90	5.60	89	4.77
LT V Agriculture	5	0.30	6	0.08
LT VI Non-Domestic	917	15.90	928	16.09
LT VII Commercial	1172	28.50	1179	30.24
Street Lighting	252	3.20	261	3.65
LT TOD Tariff	2	0.10	3	0.09
<b>Total</b>	<b>15964</b>	<b>439.80</b>	<b>16045</b>	<b>436.68</b>

14. As mentioned in previous para, the licensee has submitted the number of consumers for 2019-20 as 16,045 and the sale for the year is 436.68 lakh units whereas in 2018-19 the number of consumers was 15,964 and sale was 439.80 lakhs unit. The licensee in their petition has submitted that the, sale during the year was almost at the same level as at the previous year though it was much lower than what was projected in ARR-ERC 480.70 lakh units which was arrived at by considering a CAGR of 2% per annum over the actuals for the year 2017-18.
15. The licensee further submitted that the deficits were mostly in Commercial and Industrial consumptions arising mainly from lack of growth in these sectors for the last two years. The Commission further noted that while the maximum number of consumers falls in the LT I Domestic category, the maximum sale of power was in the HT I A Industrial category. The total sale for the year was lower by 3.12 lakh units for the year 2019-20 when compared to the previous year 2018-19. Thus, the total sale of KDHPCL decreased by around 0.71%, when compared to the previous year. ***Considering the details presented and the licensee's clarifications thereof, the Commission hereby approves the sale of 436.68 lakh units for the year 2019-20.***

### **Energy Requirement and Distribution Loss**

16. The Commission in the licensee's ARR & ERC Order dated 11-11-2019 had

approved a distribution loss reduction trajectory for the control period 2018-19 to 2021-22. For the year 2019-20, the approved distribution loss was 10.75%. The licensee in the truing up petition has claimed the distribution loss for the year 2019-20 as 10.47% which is definitely an improvement over the distribution loss target for the year. The detail of the distribution loss as per the truing up petition and email dated 26-03-2021 is given below.

**Table-4**  
**Distribution loss claimed for 2019-20 as per the petition**

Sl. No	Particulars	2018-19	2019-20	
		Trued Up	Approved in ARR	For Truing up
1	Energy purchased (In lakh Units)	506.33	549.80	499.26
2	KSEB Energy Feedback (In lakh Units)	91.40	93.30	98.43
3	Gross energy in the system (In lakh Units) (1+2)	597.73	643.10	597.69
4	Energy Sales (In lakh Units)	439.80	480.70	436.68
5	Distribution loss (In lakh Units) (1-4)	66.53	69.10	62.58
6	<b>Distribution loss % (5/3)</b>	<b>11.13%</b>	<b>10.75%</b>	<b>10.47%</b>

17. Feedback energy of KSEB Ltd wheeled through the licensee's system is 98.40 lakh units. Feedback is the energy wheeled though the system of KDHPCL for the consumers of KSEB Ltd. Since the feedback is wheeled through the distribution lines of KDHPCL, the same is considered for the computation of distribution loss. As shown above, the actual distribution loss reported by the licensee at 10.47% is lower than the level of 10.75% fixed by the Commission in the ARR.
18. Distribution loss is a controllable parameter as per Tariff Regulations, 2018. Regulation 72(4) clearly specifies the methodology to be considered to account for any variation between the actual level of distribution loss and the approved level of the distribution losses. The relevant portions of the Regulation are as shown below:

*72. Distribution loss...*

*(4) Any variation between the actual level of distribution loss and the approved level of the distribution losses shall be dealt with, as part of the truing up of the respective financial year in the following manner:-*

- (a) if the actual distribution loss is higher than the approved level of distribution loss for any particular financial year of the control period, then the quantum of power purchase corresponding to the excess distribution loss for that*

financial year shall be disallowed at the average cost of power purchase for the respective financial year;

- (b) if the actual distribution loss is lower than the approved level of distribution loss for any particular financial year of the control period, then the savings in the power purchase cost corresponding to the difference in distribution loss for that financial year at the average cost of power purchase for the respective financial year, shall be shared between the distribution business/licensee and the consumers in the ratio of 2:1

19. While the licensee has been able to bring out good reduction of 0.28% in the distribution loss, they have not furnished any specific improvements made in the system due to which they were able to achieve a lower distribution loss than the approved ARR figures. It is pertinent to note that, during the year 2018-19, the licensee had reported a distribution loss of 11.44% in their truing up petition. Against this figure, the Commission had approved 11.13% while truing up the accounts for the year.
20. As clearly brought vide Regulation 72, distribution loss is a controllable item, and its reduction is an efficiency parameter. Hence, the licensee has to take efforts to limit the distribution loss to the approved level or better it. The Commission notes with appreciation that the licensee has indeed bettered the target of 10.75% set for the year. **Accordingly, the Commission hereby approves the energy requirement for the year 2019-20 shown below:**

**Table-5**  
**Approved Energy input & Distribution Loss for the year 2019-20**

Sl No	Particulars	Approved in ARR for 2019-20	As per Truing up petition for 2019-20	Approved for Trued up for 2019-20
1	Energy Sales (In lakh Units)	480.70	436.68	436.68
2	KSEB Energy Feedback (In lakh Units)	93.30	98.43	98.43
3	Distribution loss	10.75%	10.47%	10.75%
4	Gross energy (In lakh Units)	643.10	597.69	599.56
5	Distribution loss (In lakh Units) (4x3)	69.10	62.58	64.45
6	<b>Approved Energy Input (in lakh Units) (4-2)</b>	<b>549.80</b>	<b>499.26</b>	<b>501.13</b>

### **Power purchase cost**

21. The licensee has claimed Rs.2748.73 lakh for the purchase of 499.26 lakh units against the Commission approved cost of Rs.3017.73 for 549.80 lakh units in the ARR & ERC. As per the details given, the claim includes an excess demand of 6051 KVA for which Rs.9.82 lakh has been paid as excess demand charges. This

payment is the penal charge paid by the licensee for the energy purchased over and above the contract demand.

22. The licensee has submitted that the average rate for the year following the BST revision from July 2019 vide Order of the Commission dated 8th July 2019, works out to Rs. 4.74/kWh for energy charge and demand charge is Rs.327.78/kVA. The details of Power Purchase cost are tabulated below.

**Table-6**  
**Details of the cost of power purchase claimed for 2019-20**

Sl.No	Particulars	As per petition 2019-20
1	Total Consumption in lakh units	597.69
2	Less: Feed Back to KSEB in lakh units	98.43
<b>3</b>	<b>Billed Units</b>	<b>499.26</b>
4	Demand Charges (Rs. lakh)	370.39
5	Excess Demand Charges (Rs. lakh)	9.82
6	Energy Cost (Rs. lakh)	2368.52
<b>7</b>	<b>Total Power purchase cost (Rs. lakh)</b>	<b>2748.73</b>
<b>8</b>	<b>Average power purchase Cost (Rs. /kWh)</b>	<b>5.51</b>

23. As seen from the above Table, the power purchase cost claimed by the licensee for the year 2019-20 is Rs. 2748.73 lakh. At a distribution loss of 10.47%, the average power purchase cost works out at Rs.5.51 per kWh.
24. The licensee has stated the reason for increase in the power purchase cost in the clarification vide letter dated: 13.01.2021. They have mentioned that the increase is mainly on account of increase in BST tariff from July 2019 from Rs.4.60 per unit to Rs.4.80 per unit and increase in Demand charges from Rs.300/kVA to Rs.340/kVA. **Having considered the above submissions, the Commission hereby approves the power purchase cost as Rs.2755.60 lakhs for the year 2019-20 as shown below.**

**Table-7**  
**Details of approved power purchase cost for 2019-20**

1	Actual distribution loss (In lakh units) (Table 4)	62.58
2	Approved distribution loss (In lakh units) (Table-5)	64.45
3	Saving in distribution loss (2-1) (In lakh units)	1.87
4	Average power purchase cost Rs. /kWh	5.51
5	Efficiency gain in power purchase	10.30

6	Efficiency gain to be retained by the licensee (Rs. lakh) (1.87*5.51*2/3)	6.87
7	Efficiency gain to be passed on to the consumers (Rs. lakh) (1.87*5.51*1/3)	3.43
8	Actual power purchase cost (Rs. lakh)	2748.73
9	Approved power purchase cost (Rs. lakh)(8+6)	2755.60

### Operation & Maintenance expenses

25. Operation & Maintenance expenses are controllable expenses and include expenses of Employee cost, Repair & Maintenance Expenses and Administrative & General Expenses. The relevant portion of Regulation 79(6) of the Tariff Regulations 2018 is reproduced hereunder;

**79. Operation and maintenance expenses**.....

.....  
(6) The distribution business of Kanan Devan Hills Plantation Company Private Ltd. (KDHPCL) shall be allowed to recover operation and maintenance expenses as per the norms specified in Annexure-IX to these Regulations for each financial year of the Control Period.

26. The Commission as per the above Regulation of the Tariff Regulations, 2018 had approved the licensee to recover O&M costs of Rs.185.20 lakh as per norms in the Regulations for the year 2019-20. The licensee has claimed as O&M expenses Rs.204.92 lakh in the petition. The comparison is shown below

**Table-8**  
**O&M Expenses approved in 2018-19 and claimed for 2019-20**

Particulars	2018-19	2019-20	
	Trued up Figure (Rs.lakh)	As per Tariff regulations2018/ Approved ARR(Rs.lakh)	As per Petition (Rs.lakh)
Employee Cost	126.40	132.52	155.22
R&M Expenses	51.93	38.27	36.59
A&G Expenses	16.57	14.41	13.11
<b>Total O&amp;M Expenses</b>	194.90	185.20	204.92

27. The Commission has carefully examined each of these items included under the head O & M and has the following decisions.

### Employee Cost

28. In their petition, the licensee has claimed Rs.155.22 lakh as employee cost. As per the Regulation 79(6) the Commission had approved an amount of Rs.132.52 in the ARR Order for the year 2019-20. The details of the claim made by the licensee are as shown below:

**Table-9**  
**Details of employee cost claimed for the year**

Particulars	As per petition 2018-19 Rs.lakh	Trued Up 2018-19	As per ARR Order 2019-20	As per petition 2019-20 Rs.lakh
Basic salary	68.11	126.40	132.52	69.06
DA	9.74			11.30.
Leave Travel Allowance	0.25			0.32
Earned Leave Encashment	1.60			1.42
Other Allowance	5.62			6.92
Medical Reimbursement	0.52			0.32
Overtime Payment	33.37			27.01
Bonus/Ex-gratia payments	6.10			3.28
Staff welfare expenses	1.17			1.25
PF Contribution	9.48			8.86
Salary of managers and Executive electrical	38.50			11.49
Share of directors. Mngt Staff salaries	13.64			13.99
<b>Total Employee Expenses</b>	<b>188.10</b>			<b>126.40</b>

29. The Commission during the previous years of the control period had approved the employee cost as per the normative amount fixed by the Commission. The employee expenses approved for the licensee as per the Tariff Regulations 2018 for the year 2019-20 is Rs.132.52 lakh. The actual employee cost claimed for the year 2019-20 is Rs.155.22 lakh is Rs. 22.70 lakh more than the amount approved in the Tariff Regulations 2018.
30. In the truing up petition, the licensee submitted that they have claimed employee expenses for 64 employees as against 71 in the previous year. The licensee has stated in the truing up petition that, out of the above 64 employees, 29 employees are located at various estates spread over the licensed area. The licensee further submitted in the truing up petition that for 25 employees out of the above said 29 employees, only 50% of their cost is charged to the distribution operations.
31. In response to the additional clarifications sought by the Commission vide letter dated 05-01-2021, the licensee vide their reply dated 13-01-2021 submitted that

the reason for increase in employee expenses is because the employees in the categories up to staff grade are eligible for Dearness Allowance, which is revised every quarter, as per the industry-wide settlement. Documents to illustrate the quarterly DA increase to the various categories of employees was also submitted by the licensee vide their letter dated 12-02-2021.

32. The licensee has submitted in their truing up petition for 2019-20 that there are two types of overtime expenses included in the employee costs which are fixed and variable overtime. Fixed overtime is paid to staff and non-staff category of workers and variable overtime is paid for working beyond normal working hours and weekends, holidays. The licensee submitted that the variable overtime is mainly required to restore line faults happening after office hours and they have been monitoring and maintaining close control on overtime payouts and substantial reduction in the amount as compared to the previous year is seen in the current year. The amount of variable overtime for this year was Rs.6.02 lakh compared to Rs.11.01 lakh in the previous year. The Licensee further submitted that the salary structure is as per industry-wide wage settlement.
33. The category-wise split up of the employee costs claimed by the licensee is shown below:

**Table-10**  
**Category-wise split of the employee costs claim by the licensee**

Particulars	Actual for 2018-19		Truing up claim for 2019-20	
	No.	Rs. Lakh	No.	Rs. Lakh
Junior Technical Officers	3	12.25	3	13.47
Switching Station Operations	4	12.67	4	12.85
Technical Staff	47	82.90	41	75.55
Other Workers	14	14.83	13	15.66
Non-Technical Staff	3	10.73	3	9.58
Share of Management Staff Expenses		52.14		25.48
Other Allowances, Medical & Welfare Expenses		2.58		2.63
<b>Total</b>	<b>71</b>	<b>188.10</b>	<b>64</b>	<b>155.22</b>

34. The licensee also submitted vide their letter dated 13-01-2021 that during 2018-19 the services of 8 contingent workers were availed to repair damages caused by the monsoon resulting in incremental cost of Rs.7.46 lakhs for that year. Out of these, services of 7 workers were discontinued from the operations this year. The licensee also submitted that the share of expenses of management staff involved in the operations were also rationalized during the year which resulted in a reduction of employee cost by Rs.26.66 lakhs for the current year.

35. The Commission has examined the details furnished by the licensee. The Commission notes that employee cost of Rs. 155.22 lakh claimed by the licensee during the year 2019-20 is higher than Rs.126.40 lakhs, the trued-up figure for 2018-19 and the ARR approved amount of Rs.132.52 lakhs for 2019-20. However, the Commission has also noted that the licensee has made earnest efforts to comply with the Commission's Orders dated 24.04.2020. Rationalisation of wages and reduction in the number of employees, discontinuance of contingent staff etc. has indeed been carried out by the licensee resulting in overall reduction of employee cost by Rs 32.88 lakh booked expenditure. The Commission also noted that during this period, the impact of triennial wage revision for workers amounting to Rs.7.35 lakh also escalated the total employee cost which is to be allowed as per the provisions of Tariff Regulations 2018. Further, the variable over-time during the year has been reduced to Rs.6.02 lakh from 11.02 lakhs in 2018-19 after exercising proper controls by the licensee. Hence, the Commission is of the view that, the amount paid of Rs.6.02 lakhs towards variable overtime and Rs.7.35 lakhs towards wage revision is to be allowed in addition to the amount approved in ARR Oder dated 11-11-2019.
36. **Accordingly, the Commission against the licensee's claim of Rs. 155.22 lakh hereby approves the employee expenses of Rs. 145.89 lakh for the year 2019-20 as shown below.**

**Table-11**  
**Employee Cost approved for the year 2019-20**

Particulars	Approved Employee Cost for 2019-20 (in lakhs)
Employee Cost approved in ARR Order dated 11-11-2019	132.52
Variable Over-time paid	6.02
Impact of wage revision for Workers	7.35
<b>Total</b>	<b>145.89</b>

**Claims deferred in the Truing up for 2018-19**

37. The Commission had issued specific directions to the licensee in the truing up Order for 2018-19 dated 24-04-2020 to furnish additional information for considering the licensee's claim of wages of contingent workers, overtime & salary increase paid. The licensee was also directed to review the employee strength and its deployment and to furnish the complete details of workers/staff, their qualification, place of deployment, category, salaries, wages and all other benefits paid to them to arrive at firm employee requirement and deployment norms.
38. In compliance of the Commission's direction in Order dated 24-04-2020, the

licensee vide submission dated 23-06-2020 has submitted the detailed justification for the claim under employee expenses and revised the claim as below.

**Table-12**  
**Revised Employee Cost claim for the year 2018-19**

Particulars	Truing up claim for 2018-19 (in lakhs)	Revised claim for 2018-19 (in lakhs)
Employees' wages (Other than for Contingent workers and members of the Management Staff)	128.49	128.49
Salary & wages relating to contingent workers	7.46	5.94
Impact of wage revision for Workers	-	1.26
Share of Management Staff Salary	52.14	26.48
<b>Total</b>	<b>188.10</b>	<b>162.17</b>

39. The licensee submitted that the contingent workers were engaged during the flood period for work relating to the monsoon damages viz. restoring the power lines, repairs to HT & LT posts/replacement, sub-station work, transformer replacement, CT/PT structure relocation, etc. The licensee further submitted that the contingent workers were deployed during the period from June-2018 to February-2019 and all these employees were in the category of daily rated workers. The licensee has also submitted the component-wise details of the amount of Rs.7.46 lakhs paid to contingent workers as well as the rates and revised their claim to Rs. 5.94 lakhs by removing the wages paid to these workers for the period during which they were not fully engaged in the distribution business.
40. In respect of the additional employee cost due to salary revision, the licensee submitted that wage increase was settled at Rs.52/- per man day with effect from 1st January 2019 and an amount of Rs. 1.26 lakh was paid and furnished a copy of the Circular for wage revision by the Association of Planters of Kerala. Regarding the overtime paid, the licensee submitted there are two elements for overtime expenses, fixed and variable, fixed overtime is paid as per the Industry-wide staff settlement whereas variable overtime is paid for the repair work that could not be completed during normal working hours. As per the licensee substantial reduction in overtime pay-outs has been achieved in the year 2019-20 by close monitoring and maintaining control. The amount claimed towards variable over-time for 2018-19 and 2019-20 were Rs.11.01 lakh and Rs.6.02 lakh respectively.

41. Further, the licensee also furnished the complete details of workers/staff, their qualification, place of deployment, category, salary, wages and other benefits in compliance of Commission's direction vide Para 31 of the Order dated 24-04-2020. The licensee also claimed an amount of Rs. 26.48 lakhs towards the share of Management Staff expenses for Distribution Operations and submitted the employee-wise CTC of management staff allocated to Distribution Operations.
42. The Commission has examined in detail the submissions by the licensee vide submission dated 23-06-2020 and is of the view that the revised claim of Rs. 5.94 lakhs towards the salary of contingent workers engaged during the flood period can be allowed as these workers are engaged for the service restoration and allied works. Further, the amount of Rs. 1.26 lakhs incurred towards the revision of salary can also be allowed as this was paid as a part of industry-wide wage settlement. As per the provisions of Regulation 14(3) of Tariff Regulations 2018, expenses relating to pay revision, if any, during the control period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the distribution licensee may be considered as pass through after due prudence check.
43. The licensee, as part of the additional details furnished on the employee cost for 2018-19, included the allocated expenses towards the share of Management and Staff charged to distribution business. According to the licensee, the revised share of the Management staff expenses is reduced from the original truing up claim and the revised allocation is Rs. 26.48 lakh. The Commission examined the details furnished by the licensee. It is to be noted that the Commission has, while determining the norms for the control period 2018-19 to 2021-22 has additionally allowed the cost for the management staff adequately during the base year 2016-17. Hence the same cannot be considered additionally. As regards the details of the employees engaged and the deployment details sought as per the para 31 of the Order dated 24-04-2020, the Commission hereby directs that the same shall be filed as separate petition for consideration.
44. Regarding the admissibility of variable overtime of Rs.11.01 lakhs, the Commission has noted that there is a substantial reduction of expenses in the year 2019-20 and the licensee submitted that the reduction has been achieved by continuous monitoring and maintaining close control. Hence, the Commission is of the opinion that the expense incurred during 2018-19 includes expenses which was controllable in nature and the allowable expenses has to be limited to an amount likely to incur after exercising proper controls. Accordingly, the Commission has decided to restrict the admissibility of variable over-time expenses at the same level that of 2019-20 and allows Rs.6.02 lakh towards variable overtime.
45. ***Based on discussions above, the Commission hereby approves Rs. 13.22***

**lakh towards employee cost as shown below for the year 2018-19 in addition to the employee cost approved in the Truing up Order dated 24-04-2020.**

**Table-13**

**Additional employee Cost approved for the year 2018-19**

<b>Particulars</b>	<b>Additional cost approved for 2018-19 (in lakhs)</b>
Variable over-time included in wages	6.02
Salaries & wages relating to contingent workers	5.94
Increase in employee cost due to wage revision	1.26
<b>Total</b>	<b>13.22</b>

**Repair and Maintenance Expenses:**

46. The licensee in their truing up petition for the year 2019-20 has claimed Rs.36.59 lakh, for the repair and maintenance of transmission lines, substations, 11 kV lines & associated works, LT line service etc. As per the Tariff Regulations 2018, the approved R&M expense for 2019-20 is Rs.38.27 lakh. The split up of the R&M expenses as per the petition is shown below.

**Table-14**

**Details of R&M expenses claimed by the licensee**

<b>Particulars</b>	<b>2018-19 as per petition Rs.lakhs</b>	<b>Trued Up 2018-19</b>	<b>As per ARR order 2019-20</b>	<b>2019-20 as per petition Rs.lakh</b>
Maintenance of Building	10.55	51.93	38.27	2.01
Cable, HT Lines	31.52			23.46
LT lines	7.53			6.95
Vehicles/fuel	2.47			3.16
Plant & Machinery	0.59			1.01
<b>Total</b>	<b>52.66</b>	<b>51.93`</b>	<b>38.27</b>	<b>36.59</b>

47. As seen above, the licensee's claim for the year 2019-20 at Rs. 36.59 lakh is lower than the trued-up amount of Rs.51.93 lakh for the previous year by Rs.15.34 lakh. The licensee has submitted vide their letter dated 13-01-2021 that out of this claim of the year 2019-20, Rs.23.46 lakh is on account of repair and maintenance works of cables and line works for maintaining the distribution system. They have furnished breakup of the amount of Rs.23.46 lakhs as under.

**Table 15**

**Details of expenses incurred for R&M works of cables and line works**

Particulars	Rs.Lakhs
Transformer service charges paid to power link services	4.18
Transportation charges for Transformer	0.19
Cost of sand & rubbles	5.06
Cost of MS Angles, Transformer oil, paint & painting charges	10.66
Under growth cutting charges	2.29
Employee's transportation charges	0.74
Cost of refreshments to workers	0.26
Transformer inspection charges	0.08
<b>Total</b>	<b>23.46</b>

48. The Commission had vide letter dated 06-01-2021 sought the reason for the repairs and maintenance expenses being on the lower side in comparison with the previous year. The licensee submitted vide their letter dated 13-01-2021 that, during the year 2018-19, the licensee had claimed additional expenses amounting to Rs.8.98 lakh on account of the severe monsoon damages during that year and another Rs.6.46 lakh towards cost of work towards voltage improvement totaling Rs.15.43 lakh. This additional amount allowed resulted in the overall increase beyond the normal costs for that year. Since there was no such contingency in 2019-20, the cost has been lower for 2019-20 in comparison with 2018-19.
49. The Commission has carefully examined the details of the claim of R&M expenses. The explanations submitted by the licensee vide their letter dated 13-01-2021 was also considered. **Based on the explanations submitted by the licensee, the Commission hereby approves the R&M expenses Rs. 36.59 lakh for the year 2019-20.** The Commission would however advice the licensee that, it is duty bound to maintain the reliability and quality of their service and must take timely action to ensure this commitment.

#### **Administration and General Expenses:**

50. As per the Tariff Regulation 2018, the approved A&G expenses are Rs.14.41 lakh. The licensee in their petition has claimed A&G expense of Rs.13.11 lakh. A comparison of the Administrative and General expenses claimed for over the previous years is tabulated hereunder.

**Table 16**  
**Details of A&G expenses claimed over the years**

Particulars	2018-19 As per petition Rs. lakh	Trued Up 2018-19	As per ARR order 2019-20	2019-20 As per petition Rs.lakh
Rents, Rates and Taxes	2.88	16.57	14.41	0.39
Security Arrangement	1.78			1.83
Insurance	0.47			0.62
Telephone/Telex charges	0.06			0.04
Audit fees	0.50			0.50
Legal charges	2.47			1.02
Travelling expenses	0.17			0.20
Conveyance and vehicle charges	2.82			0.80
Fees and subscription	0.89			0.85
Printing and Stationery	0.27			2.04
Electricity charges	0.71			0.57
Miscellaneous expenses	3.87			4.25
<b>Total</b>	<b>16.89</b>			<b>16.57</b>

51. As seen from the Table above, the claim of the petitioner for the current year at Rs.13.11 lakh is lower than the ARR approved amount of Rs.14.41 lakh and trued up figure of Rs. 16.57 lakh by Rs.1.30 lakh and Rs. 3.46 lakh respectively. The Table above reveals that, the A&G expenses for the current year is about 22% lower than the previous year. The major variations in expenses booked under the head are towards rent rates and taxes, legal charges, Conveyance and vehicle hire charges, printing and stationery and miscellaneous expenses. The Commission vide letter dated 06-01-2021 had directed the licensee to furnish the reason for the variations in the rent, rates & taxes, conveyance and vehicle higher charges, printing and stationery and legal charges.

52. The licensee has vide their letter dated 13-01-2021 furnished their replies for variance in A & G expenses which is as stated below:

- **Rent Rates and Taxes lower by Rs 2.49 lakh compared to previous year-** In the previous year an amount of Rs 2.58 lakh was incurred towards filing fee for ARR-ERC for the period 2018-19 to 2021-22.
- **Conveyance and vehicle hire charges lower by Rs 2.02 lakhs compared to the previous year-** This is because, in the previous year, there was unprecedented heavy monsoon in the months of June, July and August 2018 which required hiring of vehicles to travel to distant hilly terrain to attend to HT line faults.
- **Legal Charges incurred Rs.1.02 lakhs** – this was incurred towards fee and expenses paid to the advocates to file appeal before Appellate

Tribunal for Electricity (Appeal no. 115 of 2018) against the Order of KSERC.

- **Reason for increasing the cost of printing and stationery By Rs.1.77 lakh:** During the year expenditure, Rs 0.84 lakh was incurred towards supply of consumer bills stationery to replenish stock and Rs 0.97 lakhs towards computer stationery. These amounts were not incurred in the previous year.
- **Details of miscellaneous expenses Rs 4.25 lakhs under A & G Expenses:-** The particulars of miscellaneous expenses furnished by the licensee is as under:

**Table -17**  
**Split up of Miscellaneous Expenses**

Particulars	Amount (In Lakhs)
Bus fare and Batta for the employees	3.88
Information Technology Expenses	0.22
Collection Centre swiping machine rental	0.03
Pooja Expenses	0.07
Other miscellaneous expenses	0.05
Total	4.25

53. The Commission has examined in detail the A&G expenses claimed. It is noticed that legal expense of Rs.1.02 lakhs was incurred towards fee and expenses paid to advocates for filing of appeal before the Appellate Tribunal. The Commission has taken a consistent stand that the expense incurred towards legal proceedings cannot be charged to the A&G expenses unless there is an Order from the respective Courts regarding payment of costs. ***Hence this amount of Rs.1.02 lakhs is disallowed by the Commission.***

**Table -18**  
**Details of A&G expenses Approved for 2019-20**

Particulars	As per petition 2019-20 Rs. lakh	As per ARR order 2019-20	Approved for 2019-20 Rs. lakh
Rents, Rates and Taxes	0.39	14.41	0.39
Security Arrangement	1.83		1.83
Insurance	0.62		0.62
Telephone/Telex charges	0.04		0.04
Audit fees	0.50		0.50
Legal charges	1.02		0.00

Travelling expenses	0.20		0.20
Conveyance and vehicle charges	0.80		0.80
Fees and subscription	0.85		0.85
Printing and Stationery	2.04		2.04
Electricity charges	0.57		0.57
Miscellaneous expenses	4.25		4.25
<b>Total</b>	<b>13.11</b>	<b>14.41</b>	<b>12.09</b>

54. **Based on the details furnished by the licensee, the Commission hereby approves Rs.12.09 lakh as the A&G expenses for the year 2019-20.**

#### **Summary of O&M Expenses approved for 2019-20**

55. The summary of O&M expenses approved by the Commission for the year 2019-20 is shown below.

**Table -19**  
**Approved O & M expenses for the year 2019-20**

Particulars	2019-20		
	ARR approved	Truing Up petition	Approved for Truing Up
	(Rs. in Lakh)	(Rs. in Lakh)	(Rs. in Lakh)
Employee Cost	132.52	155.22	145.89
R & M expenses	38.27	36.59	36.59
A & G expenses	14.41	13.11	12.09
<b>Total</b>	<b>185.20</b>	<b>204.92</b>	<b>194.57</b>

#### **Capital expenditure**

56. The Commission had approved Rs.52.77 lakhs approved in the ARR Order dated 11-11-2019 for the year 2019-20. The in-principle approval was granted in the ARR order for Rs.52.77 lakh with a condition that the works proposed shall be executed as per the proposed time frame with due prudence and the licensee shall furnish the details, including the source of funds, details of execution of works while filing the petition for truing up of accounts. In the truing up petition, the licensee has claimed only Rs. 2.78 lakhs for the year 2019-20 as shown below.

**Table -20**  
**Details of expenditure capitalised for 2019-20**

Particulars	Amount (Rs. in lakh)
RCCB Tester-1No	0.22
Switch Meter-11 kv-10 Nos	2.56

<b>Total</b>	<b>2.78</b>
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57. As per the provisions of Tariff Regulations, capital expenditure beyond Rs. 5 lakh requires Commission's prior approval. ***Since the amount capitalized is less than the threshold, the Commission hereby approves Rs. 2.78 lakh as the licensee's Capital Expenditure for Truing Up of accounts for the year 2019-20.***

### **Depreciation**

58. The licensee in their petition has claimed depreciation in the straight-line method as per the Tariff Regulations, 2018. The relevant provision in the Regulations is extracted below.

*"27. Depreciation. – (1) The value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission:*

*Provided that no depreciation shall be allowed on increase in the value of assets on account of revaluation of assets. Provided further that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.*

*(2) The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner:-*

*(a) depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation....."*

59. The Commission notes that the licensee in the truing up petition has claimed depreciation of Rs 22.51 lakh as against Rs.22.24 lakh approved for the year. The claim of the licensee is shown below.

**Table -21  
Depreciation claimed for the year 2019-20**

<b>Asset Group</b>	<b>2019-20</b>			<b>Rate of depreciation</b>
	<b>GFA (Rs.lakh)</b>	<b>Asset Addition (Rs. lakh)</b>	<b>Depreciation (Rs.lakh)</b>	
Transformers	270.83	0.00	14.28	5.28%
Distribution lines	40.16	0.00	2.12	5.28%

Meters	82.69	2.56	4.37	5.28%
Others	25.76	0.21	1.60	6.33%
I T Equipment	0.91	0.01	0.14	15.00%
<b>Total</b>	<b>420.35</b>	<b>2.78</b>	<b>22.51</b>	

60. The Commission while issuing the order on ARR & ERC had noted that, the licensee had furnished the value of the assets transferred/taken over from the erstwhile licensee M/s Tata Tea Limited as at 01-08-2007. Since assets of Rs.127.76 lakh had already completed 12 years, depreciation was allowed at a lower rate for the remaining life period. Accordingly, depreciation of Rs.22.24 lakh was approved in the ARR for the year. It is seen that the licensee in the petition for 2019-20 has claimed depreciation at higher rate.
61. As mentioned in para 56 above, Commission in its order on the ARR & ERC for the control period had approved an amount of Rs.52.77 lakh towards the capital investment for 2019-20. However, as per the truing up petition, the asset addition claimed is Rs.2.78 lakh only. The Asset addition of Rs.2.78 lakhs during the current year is below the threshold limit of Rs.5 lakhs, above which prior approval is required to be obtained.
62. As per Tariff Regulations 2018, the depreciation on assets created out of consumer contribution is not allowable. The assets for Rs 14.96 lakhs is created out of consumer contribution. Considering the lower rate of depreciation for the assets that have completed 12 years and higher rates for rest of the assets and proportionate depreciation for asset additions during the year, the depreciation approved for the year 2019-20 is shown below.

**Table -22**  
**Depreciation approved for 2019-20**

<b>Asset group</b>	<b>GFA ( Rs. In Lakh)</b>	<b>Asset Addition (Rs.lakh)</b>	<b>Depreciation (Rs.lakh)</b>	<b>Rate of depreciation</b>
<b><i>Assets prior to transfer</i></b>				
Transformers	80.38		0.92	1.14%
Distribution lines	40.16		0.46	1.14%
Meters	7.22		0.63	8.74%
Others	0.00		-	
IT Equipment	0.00		-	
<b>Sub-Total</b>	<b>127.76</b>		<b>2.01</b>	

<b>Assets added from 2007-08 to 2019-20</b>				
Transformers	190.45	-	10.06	5.28%
Distribution lines	-	-	-	5.28%
Meters	75.47	2.56	3.99	5.28%
Others	25.76	0.21	1.63	6.33%
IT Equipment	0.91	0.01	0.14	15.00%
<b>Sub-Total</b>	<b>292.59</b>	<b>2.78</b>	<b>15.82</b>	
<b>TOTAL</b>	<b>420.35</b>	<b>2.78</b>	<b>17.83</b>	
Less: Consumer Contribution	14.96	--	0.79	5.28%
<b>Total assets after excluding Consumer contribution</b>	<b>405.39</b>	<b>2.78</b>	<b>17.04</b>	

63. *As shown above, Commission approves a depreciation of Rs.17.04 lakh for the year 2019-20. The Commission hereby also directs the licensee to submit their assets register indicating their year of acquisition, cost, depreciation provided till date, etc. within three months of issue of this Order.*

#### **Interest and Finance Charges**

64. In the licensee's ARR & ERC for 2019-20, the Commission had approved Rs.63.35 lakh as interest on finance charges including interest on normative loan, interest on working capital, interest on security deposits and the Bank Charges on Bank Guarantee/L.C to KSEB. The licensee in this petition has claimed Rs.62.99 lakh as interest and finance charges for the year. A comparison of the interest and finance charges claimed is tabulated hereunder.

**Table-23**  
**Split up of Interest & Finance charges claimed**

<b>Particulars</b>	<b>2018-19</b>	<b>2019-20</b>	
	<b>Trued Up (Rs.lakh)</b>	<b>Approved in ARR (Rs.lakh)</b>	<b>For Truing Up (Rs.lakh)</b>
Interest on Normative Loan	8.08	15.98	8.69
Interest on Working Capital	25.52	27.70	30.77
Interest on Security deposits	14.15	17.06	12.03
Bank Charges on LC to secure cost of monthly power purchase from KSEBL	5.34	2.61	5.10

Bank Charges on Rs 7.18 Cr Bank Guarantee to KSEB	--		6.10
<b>Total</b>	<b>53.09</b>	<b>63.35</b>	<b>62.69</b>

65. Each of the items claimed under interest and finance charge is examined below.

**(a) Interest on normative loan**

66. The licensee has in this petition claimed interest on normative loan as shown below.

**Table-24**  
**Interest on Normative Loan Claimed**

Particulars	ARR Approved 2019-20 (Rs.Lakh)	Claim as per the petition 2019-20 (Rs.Lakh)
GFA eligible for Return/Net Normative loan- 1st April 2019	180.80	113.38
Net Increase decrease of assets during the year ended March 2020.	52.77	2.78
Depreciation during the year ended 31st March 2020	22.24	22.52
Net Normative loan for the year ended 31st March 2020	211.34	93.64
Average Normative Loan during the year	196.07	103.51
Average Base Rate of SBI during the year (%)	8.15	8.40
Interest on the normative loan for the year	15.98	8.69

67. The licensee has stated that SBI's 3-year average MCLR as on 1st April 2019 being 8.75% and MCLR as on 31st March 2020 which was 8.05% has been considered, to arrive at the average rate of 8.40% which has been adopted for the computation of interest on normative loan.

68. In the licensee's truing up Orders dated 24-04-2020, the Commission has worked out the closing normative loan for 2018-19 as Rs.113.38 lakhs. This amount was arrived at by considering an amount of Rs.44.30 lakhs as approved capital expenditure for the period 2018-19. However, the actual capital expenditure approved for 2018-19 was Rs.40.33 lakhs and considering this correct figure, the closing normative loan as on 31.03.2019 is to be revised as Rs.109.41 lakhs.

69. The Commission has examined the licensee submission with reference to the provisions of the Regulations. As per Regulation 22(1) of Tariff Regulations 2018,

in the case of existing distribution system assets, the capital cost approved by the Commission prior to the First day of April 2018, including additional capitalisation, if any, and the expenditure projected for the respective financial years of the Control Period, shall form the basis for determination of tariff.

70. As per Regulation 27(3) of Tariff Regulations 2018, in the case of existing assets, the balance depreciable value as on the First day of April, 2018 shall be worked out by deducting the cumulative depreciation approved by the Commission up to the Thirty First day of March, 2018 from the gross depreciable value of the assets. Further, Regulation 26(4) says that if any fixed asset is capitalised on account of capital expenditure incurred prior to the First day of April, 2018, the debt-equity ratio allowed by the Commission for determination of tariff for the period ending the Thirty First day of March, 2018 shall be considered. In addition, Regulation 29(2) provides that the normative loan outstanding as on the First day of April 2018 shall be worked out by deducting the amount of cumulative repayment as approved by the Commission up to the Thirty First day of March, 2018 from the normative loan.
71. The GFA as on 1-4-2019 is Rs.420.35 lakh. The Commission in their truing up order for the years 2005-06 to 2009-10 had not approved GFA of Rs.127.76 lakh at the time of the transfer of the license from the erstwhile licensee M/s Tata Tea and consumer contribution of Rs. 14.96 lakh. The accumulated depreciation is Rs.168.22 lakh. Based on the above, the GFA eligible for interest is as shown below:

**Table-25**  
**Value of Fixed assets as on 1-4-2019**

Particulars	Rs. Lakh
GFA as on 01-04-2019	420.35
<u>Less</u> GFA disallowed at the time of transfer of licence	127.76
<u>Less</u> Consumer contribution and grants	14.96
Balance GFA to be considered	277.63
Accumulated depreciation up to 31-03-2019	168.22
<b>GFA eligible for Interest and Return as on 01-04-2019</b>	<b>109.41</b>

72. As shown above, the normative loan for the purpose of interest charges as on 01-04-2019 is Rs.109.41 lakh. Further vide Para 57 of this Order, the Commission has accepted the capital expenditure during 2019-20 as Rs. 2.78 lakhs. As per second proviso to Regulation 29 (4) of the Tariff Regulations 2018, if there is no actual loan portfolio, interest charges is to be allowed at the base rate. The base rate is the Marginal Cost of Funds based Lending Rate (MCLR) declared by the State Bank of India as applicable on first day of April of respective financial year

for a tenor of one year. Based on the asset addition for the year, the normative loan is worked out as shown below.

**Table-26**  
**Normative loan approved for 2019-20**

	Particulars	2019-20 (Rs. In lakh)
1	<b>GFA eligible for Return as on 01-04-2019</b>	<b>109.41</b>
2	(Normative loan at the beginning of the year)	109.41
3	Asset Addition during the year	2.78
4	Less Depreciation for the year	17.04
5	<b>Closing Normative loan for the year (2+3-4)</b>	<b>95.15</b>
6	Average Loan for the year (2+5)/2	102.28
7	Rate of Interest (Base rate as on 01-04-2019 one year tenor)	8.55%
8	<b>Interest charges for the year</b>	<b>8.74</b>

**73. Accordingly, the interest on normative loan approved by the Commission for the year 2019-20 is Rs.8.74 lakh.**

**(b) Interest on the security deposit**

74. The licensee in their petition has submitted that the interest provided on security deposit from consumers at the rate of 5.40% was Rs.11.45 lakh and an amount of Rs. 0.58 short provided for the previous year was also provided totaling Rs. 12.03 lakh against approved amount of Rs.17.06 lakh. The licensee also submitted that the actual interest paid for the year on security deposit from consumers was Rs.11.34 lakh. The excess amount provided of Rs. 0.11 lakh will be adjusted against the amount payable for the current financial year 2020-21.

75. The Commission has examined the claims on interest on the security deposit of the licensee. In this connection, Regulation 72 of the Kerala Electricity Supply Code, 2014 is reproduced hereunder.

**72. Interest on security deposit.**- (1) *The licensee shall pay to the consumer, interest on the security deposit furnished by him at the bank rate prevailing on the first of April of that year and it shall be payable annually with effect from date of such deposit.*

(2) *The interest accrued during the financial year shall be adjusted in the energy bill of the consumer during the first quarter of the ensuing financial year.*

(3) *If the adjustment of interest is delayed, interest at twice the bank rate shall be payable for the delayed period.*

76. As per Regulation 72 of the Kerala Electricity Supply Code, 2014 cited above, the licensee has to pay interest on the security deposit at the bank rate prevailing in

the first April of that year. The bank rate is defined in Regulation 2(16) of the Kerala Electricity Supply Code, 2014 as under.

*“2(16) **“bank rate”** means the standard rate notified by the Reserve Bank of India as per Section 49 of the Reserve Bank of India Act, 1934 (Central Act 2 of 1934), at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase thereunder”.*

77. As per the website of Reserve Bank of India, the bank rate for April 2019 is 6.25%. The licensee has to pay the interest to the consumers as per the bank rates of RBI applicable for the relevant years. **However, considering the actual interest paid, Commission approves Rs.11.34 lakh being the actual interest paid on security deposit for the purpose of truing up for the year 2019-20.**

**(c) Bank Charges on Bank Guarantee/L.C to KSEB Ltd**

78. The licensee has claimed Bank charges amounting to Rs.11.20 lakhs for the year 2019-20 out of which Rs.5.10 lakh is relating to the Letter of Credit issued in favour of KSEBL to secure monthly power purchase bills and the balance Rs.6.10 lakh is towards the bank charges on Rs.7.18 Crore Bank Guarantee provided to KSEBL as per the directions of the Hon. Supreme Court in India civil appeal 2144/2011. The split up of the claim is shown below.

**Table-27  
Bank Charges Claimed**

<b>Particulars</b>	<b>(Rs. In lakh)</b>
Bank Charges on LC to secure cost of monthly power purchase from KSEBL	5.10
Bank Charges on Rs 7.18 Crores for Bank Guarantee to KSEB	6.10
<b>Total</b>	<b>11.20</b>

79. The licensee has submitted that the claim of Rs.5.10 lakh is towards the bank guarantee charges to KSEB Ltd as per the power purchase agreement and for opening of the letter of credit. **Considering the same, the Commission approves the bank guarantee charges for opening letter of credit Rs. 5.10 lakh.**
80. In respect of the bank guarantee provided to KSEBL as per the Orders of Hon. Supreme Court, the Commission in the previous orders has specifically directed the licensee that bank guarantee charges for the above purpose shall not be included in the allowable expenses. This is because the licensee has filed first appeal against the order of the Commission approving the arrear amount payable to KSEB Ltd. In the first Appeal, Hon. APTEL has upheld the order of the Commission. The licensee has filed second appeal before the Hon. Supreme Court

and Hon. Supreme Court in the interim order, directed to provide bank guarantee for the said amount. The Commission is of the opinion that pending the outcome of the case before the Hon'ble Supreme Court, this amount shall not be considered at present.

81. **Accordingly, the Commission approves only Rs.5.10 lakh, i.e., the Bank Charges on Bank Guarantee/ L.C to KSEB Ltd. as part of interest and finance charges.**

**(d) Interest on Working Capital**

82. In the licensee's truing up petition for 2019-20, they have sought interest on working capital of Rs.30.77 lakh as against the ARR approved amount of Rs.27.70 lakh and the details are shown below.

**Table -28  
Working capital proposed by the licensee for 2019-20**

Particulars	Approved ARR/ERC 2019- 20 ( In lakhs)	Claimed for the year 2019-20 ( In lakhs)
O & M Expenses- One month	15.43	17.08
Maintenance spares		
Receivables-2 months	545.90	495.33
Less: security Deposit from consumers	272.95	220.73
Total working Capital	272.95	291.68
Interest rate	10.15	*10.55
Interest on working capital	27.70	30.77

\*SBI 1 year MCLR 8.55% on 01-04-2019 plus 2% thereof total 10.55%

83. As per the Tariff Regulations 2018, Regulation 32 states that interest on working capital for a distribution licensee is to be computed in the following manner. The relevant portion of Regulation 32 is quoted hereunder;

“32. Interest on working capital. – (1) The generation *business/company or transmission business/licensee or distribution business/licensee or the state load despatch centre shall be allowed interest on the normative level of working capital for the financial year, computed as under,-*

.....  
(e) *In the case of distribution business/licensee the working capital shall comprise of,-*

- I. operation and maintenance expenses for one month; plus*
- II. cost of maintenance spares equivalent to one-twelfth of the average of the book value of stores, materials and supplies at the beginning and end of the financial year; plus*

III. receivables equal to the expected revenue from sale of electricity for two months at the prevailing tariff:

Provided that the amount, if any, held as security deposits except the security deposits held in the form of Bank Guarantee from users of the distribution system and consumers shall be reduced while computing the working capital requirement;

Provided further that for distribution business/licensees who supply electricity to their consumers on prepaid metering system, no interest on working capital shall be allowed.”

84. The licensee has worked out the interest on working capital requirement as per the provisions of the Tariff Regulations 2018. Based on the approved O&M expenses and power purchase cost, the interest on working capital approved for the year 2019-20 is worked out by the Commission as under.

**Table -29**  
**Interest on Working capital approved for 2019-20**

Particulars	Actual 2019-20 (Rs. Lakh)
Approved O & M Expenses for One month (194.57/12)	16.21
Maintenance Spares	---
Receivables-2 months Revenue from sale of power (2980.06/12 x 2)	496.68
Less: Security Deposit from Consumers	220.73
<b>Total Working Capital</b>	<b>292.16</b>
Interest Rate (%) (base rate+2%)	10.55
<b>Interest on Working Capital</b>	<b>30.82</b>

### Summary of the interest and finance charges

85. The interest and finance charges approved for the year 2019-20 in the process of truing up is detailed below.

**Table – 30**  
**Interest & Finance charges approved for the year 2019-20**

Particulars	Amount approved for truing up (Rs. Lakh)
Interest on normative loan	8.74
Interest on security deposits	11.34
Bank Charges on Bank Guarantee	5.10
Interest on working capital	30.82
<b>Total</b>	<b>56.00</b>

## Other Debits

86. The licensee has vide their letter dated 13-01-2021 has given the breakup of Rs.14.91 lakhs claimed under 'Any other item' in form D.1.1. as other debits as against Rs.15.39 lakh approved in the ARR Order issued as 'Other debits'. The details of the amount detailed under the head 'Any other item' is as furnished by the licensee in their letter dated 13-01-2021 is as under.

**Table-31**  
**Details of Any other items**

Particulars	Rs.in lakhs		
	2018-19 Truing up	In ARR 2019-20	2019-20 truing up
Duty III	12.97	0.57	13.12
Inspection Charges	0.61		1.17
Provision for doubtful Debt	4.73		0.62
<b>Total</b>	<b>18.31</b>	<b>0.57</b>	<b>14.91</b>

87. As shown above, the licensee has included Section III duty, inspection charges and provision for doubtful debts under other debits. Commission has not been admitting Section 3(1) Duty as a revenue expenditure since as per the Kerala Electricity Duty Act, the Electricity Duty under this Section on the sales of energy should be borne by the Licensee and shall not be passed on to the consumers. Section 3 of the Kerala Electricity Duty Act, 1963 is quoted hereunder,

*“3. Levy of electricity duty-(1) on sales*

*Save as otherwise provided in sub-section (2); every licensee in the State of Kerala shall pay every month to the Government in the prescribed manner, a duty calculated at 6 naye paise per unit of energy sold or a price more than 12 naye paise per unit; that no duty under this sub-section shall payable by the Kerala State Electricity Board on the energy sold by it to another licensee.*

*(2) Where a licensee holds more than one license , duty shall be calculated and levied under this section separately in respect of each license.*

*(3) The duty under this Section on the sales of energy should be borne by the licensee and shall not be passed on to the consumer.”*

88. From the above statutory provision, it can be concluded that,
- (1) the Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, is payable by the licensee to the Government

- (2) the Duty shall be calculated at the rate of 6 paise per unit of energy which is sold at a price of more than 12 paise per unit.
- (3) Duty shall be calculated only on the energy sold.
- (4) the Duty paid by the licensee under Section 3 (1) cannot be passed on the consumer and therefore it cannot be claimed as an expenditure in the Truing Up petition.

89. The amount of Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, cannot be admitted as an item of expenditure in the truing up petition. The Commission has, in its previous orders also, consistently pointed out that the Electricity Duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act cannot be included in the A&G expenses and passed on to the consumers. Hence, here too the Commission declines to approve the licensee's claim of Rs.13.12 lakh on account of section 3(1) duty. **Hence the Commission disallows the licensee's claim of Rs.13.12 lakhs as Duty III.**
90. With regard to the licensee's claim of provision for doubtful debts, while issuing the order on the truing up of accounts for the year 2017-18, Commission had specifically directed the licensee to conduct an age wise analysis of the receivables and to take steps to realise the receivables and to write off the receivables which are bad and uncollectable against the provisions already available. Commission had also stated that unless the direction is complied with, additional provision for doubtful debts will not be considered in the future. Since the licensee has not submitted any such compliance, the claim for provision for doubtful debts for 2018-19 was also disallowed vide Commission's Order dated 24-04-2020. **Since the same situation is still prevailing, the Commission hereby disallows the claim of provision for doubtful debts Rs.0.62 lakhs in 2019-20 also and approves only the inspection charges of Rs.1.17 lakh under the head of 'Any other item'.**

### **Return on Equity**

91. The licensee in the petition for Truing up of accounts for the year 2019-20 has not claimed any amount under RoE. The Commission while approving the ARR & ERC for the year 2019-20 had approved a RoNFA of Rs.3.83 lakh as against the projection of Rs.9.73 lakh. The Commission in the ARR of the licensee had allowed only for Rs. 127.76 lakh for calculation of RoNFA, since, for the balance amount interest on normative loan is allowed. In the current year 2019-20 also the licensee has been allowed interest on normative basis for gross fixed assets added since transfer of license (after deducting depreciation) treating the same as fully funded through loans. Hence, it is not fair to allow additional return in the form of return

on NFA for the entire assets. The Commission is of the considered view that return is to be allowed only for Rs.127.76 lakh which is the value of assets at the time of transfer for which no return is allowed. **Accordingly, the Commission approves the return on NFA of 127.76 lakhs @ 3% amounting to Rs.3.83 lakh as eligible return for the year 2019-20.**

**Table-32  
Computation of ROE for 2019-20**

Sl.No.	Particulars	Rs. in Lakhs
1.	GFA as on 01-04-2019	420.35
2	Less: Accumulated Depreciation as on 31.03.2019	168.22
3	Less: Consumer Contribution	14.96
4	Less: GFA for which Interest charges are allowed on normative basis	109.41
5	Balance Value of NFA at the beginning of the year	127.76
6	Rate of Return	3%
7	<b>Eligible Return</b>	<b>3.83</b>

**Revenue from sale of power**

92. A comparison of the category wise revenue from sale of power approved by the Commission for the year 2018-19 and the claim by the licensee for 2019-20 is as shown below.

**Table -33  
Revenue from sale of power**

Particulars	Approved in 2018-19				Truing up 2019-20			
	No. of Consumers	Sales in lakh units	Total Revenue	Average Realisation	No. of Consumers	Sales in lakh units	Total Revenue	Average Realisation
HT IA Industrial	22	286.20	1843.2	6.44	22	281.38	1922.36	6.83
HT II (Non Ind/Comml)	3	4.00	34.49	8.62	3	4.45	38.52	8.66
HT III Agriculture	2	2.80	12.29	4.39	2	3.01	14.06	4.67
HT IV Commercial	9	20.10	170.42	8.48	9	19.93	169.87	8.52
LT I Domestic	13490	73.10	305.42	4.18	13543	72.99	330.21	4.52

LT IV Industries	90	5.60	35.51	6.34	89	4.77	31.9	6.69
LT V Agriculture	5	0.30	0.59	1.97	6	0.08	0.18	2.25
LT VI Non-Domestic	917	15.90	138.93	8.74	928	16.09	142.57	8.86
LT VII Commercial	1172	28.50	281.84	9.89	1179	30.24	304.11	10.06
LT VIII Public Lighting	252	3.20	13.87	4.33	261	3.65	17.54	4.81
LT TOD Tariff	2	0.10	1	10.00	3	0.09	0.68	7.56
<b>Sub Total</b>	<b>15964</b>	<b>439.80</b>	<b>2837.56</b>	<b>6.45</b>	<b>16045</b>	<b>436.68</b>	<b>2972</b>	<b>6.81</b>
Electricity Duty Recovery			129.91				132.31	
Other state Levies Recovery/Fuel Surcharge & Excess Over quota			16.43				4.78	
Miscellaneous Charges from consumers								
(i) Fuse off calls/New Application Fee			0.04				0.02	
(ii) Reconnection fee			0.23				0.43	
(iii) Public lighting			2.30				2.26	
(iv) Maintenance charges			0.17				0.21	
(vi) Delayed payment charges			3.88				4.81	
(vii) Other receipts- Power Theft. Etc.			0.68				0.33	
<b>Gross Revenue From Sale of Power</b>			<b>2991.2</b>				<b>3117.15</b>	
Less: i) Electricity Duty Payable to Govt. (Contra)			129.91				132.31	
ii) Other State Levies Payable to Govt. (Contra)			16.43				4.78	
<b>Net Revenue from Sale of Power</b>	<b>15964</b>	<b>439.80</b>	<b>2844.86</b>	<b>6.45</b>	<b>16045</b>	<b>436.68</b>	<b>2980.06</b>	

93. As per the details submitted in the petition, during the year 2019-20, the number of consumers has increased from 15964 to 16045. The total sale has decreased marginally over the previous year. The actual sale of power during 2018-19 was 439.80 lakh units for Rs.2844.86 lakhs, whereas the sale during the year 2019-20 is only 436.68 lakh Units for Rs.2980.06 lakhs. The licensee has submitted that the sale during the year was almost at the same level as at the previous year, but was much lower than what was projected in ARR-ERC 480.70 lakh units for Rs.3282.44 lakhs which was arrived at a CAGR of 2% per annum over the actuals for the year 2017-18. The licensee further submitted that the deficits are mostly in Commercial and Industrial consumptions arising mainly from lack of growth in these sectors for the last two years.

94. The Commission has further noted that while the maximum number of consumers

falls in the LT I Domestic category, maximum sale of power was in the HT I Industrial category. The total sale is lower by 3.12 lakh units for the year 2019-20 when compared to the previous year 2018-19, i.e., a reduction by around 0.71 % when compared to the previous year. ***The Commission hereby approves the actual energy sales of 436.68 lakh units and the actual revenue from sale of power of Rs.2980.06 lakh.***

## Non-Tariff Income

95. The non-tariff income accounted by the licensee in the application includes interest on KDHPCL deposit with KSEB Ltd and miscellaneous recoveries. A comparison of the non-tariff income is tabulated hereunder.

**Table 34**  
**Details of Non-Tariff income claimed**

Particulars	2018-19	2019-20	
	Trued Up (Rs. lakh)	In ARR	For Truing Up (Rs. lakh)
Interest on Deposit with KSEB	15.04	13.42	14.52
Miscellaneous recoveries	3.27	2.35	10.55
Interest on accumulated Surplus	59.20	54.47	-
<b>Total</b>	<b>77.51</b>	<b>70.24</b>	<b>25.07</b>

96. The licensee has submitted vide their letter dated 13-01-2021 that the interest on security deposit placed with KSEBL is the amount of interest at 6% per annum on the security deposit of Rs 247.28 Lakhs placed with KSEBL which is incorrectly recorded in the Truing Up petition as Rs. 16.44 lakhs. The licensee has clarified that the correct interest figure is Rs.14.52 lakhs. Hence, Rs.14.52 lakhs is considered as the claim of the petitioner towards interest on KSEB deposits.
97. The Commission further notes that the licensee has not accounted the interest on accumulated surplus as part of the non-tariff income in the Truing Up petition. The licensee has stated in their Truing Up petition that Regulatory surplus does not generate any real cash surplus of corresponding amount in the hands of the Licensee for placement of funds. The Commission does not accept this view and has consistently over the years approved notional interest on the accumulated surplus. The cumulative accumulated surplus at the end of the year 2018-19 as per the Truing Up Order dated 24.04.2020 is Rs. 932.41 lakh.
98. The Commission has been approving the notional interest on accumulated

revenue surplus at the SBI base rate. However, for the control period from 2018-19 to 2020-21, the Commission is of the view that the notional interest may be allowed on the SBI fixed term interest for a tenor of one year, considering the current interest rate scenario. Accordingly, the interest on the revenue surplus of Rs. 932.41 lakh is approved at a rate of 6.80% which is the retail term deposit interest rate of SBI for a tenor of one year as on 01.04.2019.

99. **Considering the above, a notional interest of Rs.63.40 lakh on the accumulated surplus is hereby approved by the Commission. Hence, the total non-tariff income of Rs.88.47 lakh as per Table 35 given hereunder for the purpose of truing up of accounts for the year 2019-20.**

**Table – 35**  
**Non-Tariff Income allowed for truing up for 2019-20**

Particulars	Trued Up (Rs lakh)
Non-Tariff Income	25.07
Interest on accumulated surplus	63.40
<b>Total</b>	<b>88.47</b>

### Revenue Surplus/Gap

100. The Commission after considering the petition of the licensee for truing up of the accounts for the year 2019-20, clarifications and additional details submitted by the licensee and the comments of KSEB Ltd, approves the truing up of accounts for the financial year 2019-20 as tabulated below.

**Table – 36**  
**Revenue / Surplus Gap after Truing Up of Accounts for 2019-20**

Particulars	2019-20		
	Approved in ARR (Rs. Lakh)	For Truing Up (Rs. Lakh)	Trued Up (Rs. Lakh)
Revenue from sale of Power	3282.44	2980.06	2980.06
Non-tariff Income	70.24	26.99	88.47
<b>Total Income</b>	<b>3352.68</b>	<b>3007.05</b>	<b>3068.53</b>
<b>Expenses:</b>			
Power Purchase Cost	3017.73	2748.73	2755.60

R&M Expenses	38.27	36.59	36.59
Employee Cost	132.52	155.22	145.89
Addl. Employee Cost for 2018-19			13.22
A&G Expenses	14.41	13.11	12.09
Depreciation	22.24	22.52	17.04
Interest and finance charges	63.35	23.31	56.00
Other Debits	0.57	14.91	1.17
Return on Equity/NFA	3.83	0.00	3.83
<b>Total expenditure</b>	<b>3292.92</b>	<b>3014.39</b>	<b>3041.43</b>
<b>Revenue Surplus/(Gap)</b>	<b>59.76</b>	<b>(7.34)</b>	<b>27.10</b>

### Orders of the Commission

101. The Commission after considering the application filed by M/s. KDHPCL for truing up of accounts for the year 2019-20, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following;

- a) Total revenue is Rs. 3068.53 lakh
- b) Total expenditure is Rs.3041.43 lakh
- c) The revenue surplus for the year is Rs.27.10 lakh.
- d) The cumulative revenue surplus till 2019-20 will be Rs. 959.51 Lakh (Rs.932.41 lakh + Rs.27.10 lakh). The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.
- e) The licensee shall within 3 months of issue of this Order submit to the Commission through a petition, their Assets Register containing complete details such as name and cost of the asset, date of acquisition/ put to use, rate of depreciation, useful life, depreciated value as on 31-03-2021, etc. for consideration and approval by the Commission.

102. With the above, the petition is disposed of. Ordered accordingly.

Sd/-  
**Adv. A. J. Wilson**  
**Member (Law)**

Sd/-  
**Preman Dinaraj**  
**Chairman**

Approved for issue

Secretary