

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

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

OA No.18/2020

In the matter of : **Truing up of Accounts of M/s Infopark,
Kerala for the year 2017-18.**

Petitioner : **M/s Infopark, Kerala**

Date of hearing : 1st hearing on 19.11.2020
2nd hearing on 23.12.2020

ORDER DATED 19/06/2021

1. M/s. Infopark, Kerala, Kochi a Government of Kerala undertaking (hereinafter referred to as Infopark or the applicant or the petitioner or the licensee), engaged in the development of infrastructure for information technology (IT) and information technology enabled services (IT enabled Services) was granted distribution license vide Order dated 10-5-2010 of the Commission and the electricity distribution operation was commenced from 1-7-2013. The infopark has filed the instant petition for the truing up of accounts for the year 2017-18 in accordance with the provisions of the KSERC (Terms and conditions for determination of Tariff) Regulations 2014 (hereinafter referred to as Tariff Regulations 2014). The petition was admitted as OA 18/2020 after condoning a delay of 21 months in filing.

Background

2. The Commission had issued the order on the ARR&ERC of the licensee for the first control period from 2015-16 to 2017-18 on 11.11.2015. Subsequently, the ARR & ERC of the licensee for the year 2017-18 was revised by the Commission vide Order dated 26.07.2017 approving a revenue gap of Rs.56.34 lakhs. As per Regulation 16 of the Tariff regulations 2014, the aggregate revenue requirement and expected

revenue from tariff and charges of a generating business/company or transmission business/licensee or distribution business/ licensee or state load despatch centre shall be subject to truing up of expenses and revenue in accordance with the provisions in this regulation. Accordingly, the petitioner now filed the instant petition for the truing up of accounts for the year 2017-18. The revenue gap as per the original truing up petition was Rs.255.70 lakhs. However, the licensee has subsequently revised the revenue gap twice through additional submissions. A comparison of the ARR approved in the Order dated 26.07.2017 and the latest truing up claim vide submission dated 04.01.2021 along with the trued-up figures for 2016-17 is shown below

Table-1
Comparison of the truing up of accounts for 2016-17 & 2017-18

Particulars	2016-17		2017-18 (as per submission dated 04.01.2021)		
	Truing Up Petition (Rs. lakh)	Trued Up (Rs.lakh)	Approved in ARR(In lakhs)	For Truing up (Rs.lakh)	Variance (Rs.Lakh)
Revenue					
Revenue from sale of power	457.58	461.56	644.39	537.19	-107.2
Non-Tariff Income	3.46	3.46	2.20	3.46	1.26
Total Revenue	461.04	465.02	646.59	540.65	-105.94
Expenditure					
Purchase of Power	470.01	470.01	597.35	502.79	-94.56
R&M Expenses	15.86	15.86	20.16	17.12	-3.04
Employee costs	13.57	10.56	3.70	14.19	10.49
A & G expenses	9.75	4.06	4.51	1.41	-3.1
Interest and finance charges	-	5.69	-	8.82	8.82
Depreciation	228.03	-	46.46	46.46	0
Return on Equity	22.85	-	30.75	30.75	0.00
Total expenditure	760.05	506.18	702.93	621.54	-81.39
Prior Period Expenses				4.59	4.59
Revenue Surplus/(Gap)	(298.85)	(41.16)	(56.34)	(85.47)	(29.13)

- The licensee has initially claimed a Revenue gap of Rs. 255.76 lakhs for 2017-18 in the truing up petition as against an approved revenue gap of Rs.56.34 lakh in the ARR Order dated 26.07.2017. After detailed scrutiny of the petition, the Commission

vide letter dated 12.11.2020 sought certain clarifications and additional information on the petition. The petitioner has submitted the details of power purchase during 2017-18 and clarifications sought vide its submission dated 16.11.2020 and important submissions of the petitioner are

- a) The reason for reduction in power purchase cost is due to the less consumption by major HT consumer M/s. Cognizant Technology Solutions. Further the actual number of consumers was less (62 Nos) from the estimated number (65 Nos.)
- b) The connected load of both the location is low and the number of Consumers in Cherthala has decreased from 34 to 31 during 2017-18 which resulted in a high distribution loss. Further, the auxiliary consumption of around 2% of the total purchase is not considered for the calculation of distribution loss.
- c) Only minimum staff is employed in both the locations of the infopark and further reduction of employee cost is not possible. The percentage-wise high employee cost is due to the low volume of business at both the locations
- d) The increase in vehicle hire charges is due to official trips to KSEB and KSERC offices.
- e) The increase in interest on security deposits is due to the increase in deposit consequent to increase of consumers in Kakkanad Phase II area.
- f) The bank charges are mainly the amount debited by the bank for maintaining Letter of Credit account for the remittances to KSEB Ltd.

Hearing on the matter

4. Taking into consideration the Covid-19 protocol, the first hearing on the application for Truing up of accounts for the year 2017-18 was conducted through Video Conferencing on 19.11.2020 at 11.00 A.M. The licensee explained the important submissions in the petitions and items of expenditure resulted in a revenue gap claim of Rs.255.76 lakhs in the original petition. Further, the petitioner submitted that the sale of power could not reach expected levels as the actual demand of one of their major HT consumers was only 1000 KVA as against a contracted demand of 3000 KVA which resulted in a reduction of revenue from the expected levels. The petitioner also submitted that the depreciation was being disallowed during the truing up for the past two years and this is to be considered favourably for the current year.
5. The Commission has made the following observations/remarks on the petition during the hearing.

- a) The licensee had wrongly included Electricity Duty and Surcharge collected along with the sales revenue figures in the earlier submitted True up claim submitted for 2017-18.
 - b) The licensee has to confirm that whether the consumers having leased land from Infopark were following the maximum load limit and whether the load actually connected exceeded the maximum load as per the Kerala Electricity supply code.
 - c) The licensee has to ensure that the capital expenditure for providing additional facilities to consumers is recovered from them and this expenditure should not be included under licensee's own expenditure.
 - d) The employee cost submitted was on the higher side and also in certain cases like earned leave encashment, other allowances, pay revision arrears, etc. proper accounting was not seen done.
 - e) The licensee has wrongly grouped expenses such as interest paid to consumers and bank charges under the head A&G expenses.
6. Shri Manoj, AEE, TRAC, appeared for KSEB Ltd made the following remarks on the petition and also submitted a counter statement on 20.11.2020;
- a) The Distribution loss of the licensee should be based on the norms fixed in the approved ARR&ERC and power purchase cost of the licensee need to be adjusted accordingly.
 - b) The petitioner had incurred employee cost of Rs.14.19 lakhs for 2017-18 against approved cost of Rs.3.70 lakhs. The increase is 283.50% above the approved level for 2017-18.As the licensee has not submitted required details, the claim may not be allowed.
 - c) Depreciation claimed by the licensee shows an abnormal hike compared to the previous years. The depreciation claimed is Rs.228.03 lakhs against the approved cost of 46.46 lakhs. As mentioned in the earlier Truing Up Orders of the Commission, the depreciation and ROE need not be allowed till all the required details called for vide Truing up Orders of the Commission for 2015-16 are submitted by the licensee.
 - d) The power purchase in units furnished by M/s Infopark are matching with the details available at KSEB Ltd. but the total billed amount is not matching with KSEB Ltd accounts. For 2017-18 Infopark has reported Rs.5.14 Crore as power purchase cost whereas as per KSEB Ltd books it was only Rs.5.04 Crore.
7. The Commission after hearing both sides had issued the following directions vide its daily Order dated 24.11.2020.

- a) The licensee has to verify the inconsistencies pointed out by the Commission and to furnish the correct figures so as to have a true and fair view of the accounts. Further, the licensee has to furnish the revised financial statements and all the connected forms certified by a practicing chartered accountant.
 - b) The Distribution loss to be reworked after including the complete power injected into the system so as to get a correct figure of the Distribution loss.
 - c) The licensee has to give details of consumers including connected load, contract demand, maximum recorded consumption etc whose actual demand is consistently lower than the contracted demand to analyse the deviations in the expected revenue.
 - d) The licensee has to furnish authenticated details of loan availed and the proportionate principal portion of the loan utilized for the creation of distribution assets and related interest be re-appropriated from corporate accounts and bring it to the accounts of the power distribution business with Board approval.
 - e) Separate petition to be filed in respect of complete Assets and Liabilities for cleaning up the books of accounts of the licensee with the approval the Board of Directors of the licensee.
 - f) The licensee has to furnish details of capital expenditure proposals pending for approval with sources of funding.
8. In compliance to the directions of the Commission's daily order dated 24.11.2020, the licensee has furnished point-wise reply/compliance vide its submission dated 17.12.2020. The licensee also revised the ARR claim with a revenue gap of Rs. 52.93 lakh and submitted revised tariff forms duly certified by a practicing chartered accountant. The important changes made in the revised forms are
- a) Purchase and sale of power are accounted without considering the electricity duty and surcharge.
 - b) Rectified the inconsistencies in the accounts pointed out by the Commission during hearing.
 - c) Segregated the Interest and Finance charges from A&G expenses and shown separately.
 - d) Revised the distribution loss after considering the complete power injected into the system and own consumption.
9. Further, the licensee has submitted the details of consumers whose maximum recorded consumption is consistently lower than the contracted demand. The

licensee has also confirmed in the additional submission that the Capital expenditure for additional facilities to consumers is not included in licensee's own expenditure.

10. The licensee also submitted justifications for high employee cost and repair and maintenance expenses. The licensee submitted that, two pay revisions to employees were pending, the first revision was implemented in 2017-18 in line with that of KSIDC and Technopark and submitted the minutes of 50th meeting of Board of Governors of Infoparks Kerala held on 28-09-2017 approving the pay revision. The revision was effective from 01.04.2012 and the arrear was paid in the month of March 2018.
11. The licensee further submitted that the assets at infopark Cherthala is funded by loan from South Indian Bank and hence claimed depreciation of Rs.46.46 lakhs and also submitted the details of assets created out of term loan. As per the petitioner, the assets at kakkanad phase-2 are created out of Government grants and hence not claimed any depreciation.
12. The licensee also claimed return on Return on Net Fixed Assets on the assets at Cherthala as the same was created out of term loan from South Indian Bank
13. Subsequently, a second public hearing was conducted on 23.12.2020 at park office, Infopark, Kochi. The petitioner explained the compliances of the directions given by the Commission vide order dated 24.11.2020 and also justified the increase in the expenses which resulted in a revenue gap of Rs.52.93 lakh. The Commission after hearing the petitioner issued the following directions vide daily order dated 06.01.2021.
 - a) Separate petition to be filed in respect of the complete Assets and Liabilities for cleaning up the books of accounts of the licensee with the approval of their Board before 10th February 2021
 - b) Details of all Capital expenditure proposals pending for approval to be submitted with sources of funding.
 - c) The loan availed for procuring electricity distribution assets to be segregated from the corporate accounts along with interest thereon and to transfer the same to regulatory accounts.
14. The licensee has once again revised the revenue gap for the year 2017-18 vide submission dated 04.01.2021 to Rs.85.47 lakh consequent to the revision of profit and loss account for the year 2017-18 due to the change in claim of interest and finance charges.

Analysis and decision of the Commission

15. The Commission has analysed in detail, the petition, and the additional submissions by the petitioner and also the points raised in the counter statement by KSEB Ltd. The analysis and decision of the Commission are detailed in the following paragraphs.

Energy Sales and Consumer Mix: -

16. A comparison of the actual number of consumers and the sale of power claimed for the year 2017-18 with that of trued up figures for 2016-17 is shown below.

Table-2
Comparison on the number of consumers and Sale of power

Category	2016-17 Actuals		2017-18 Approved ARR		2017-18 Actuals	
	Consumers	Sale (units in lakhs)	Consumers	Sale (units in lakhs)	Consumers	Sale (units in lakhs)
Industrial	36	3.10	45	5.00	43	5.45
Commercial*	11	1.90	14	9.70	16	2.70
Street Lighting	2	1.00	2	1.80	2	0.92
HT 1 B	3	54.20	4	73.00	3	60.70
Total	52	60.30	65	88.60	64	69.77
Increase in Sales Over the previous year						15.70%

*includes Construction Power

17. The Commission has noted that against the sale recorded in the petition at 68.30 lakh units, the sales submitted vide the licensee's revised Form D.2.1 is shown as 69.77 lakh units. The licensee submitted that, though it was estimated that the sale would reach 88.60 lakh units for 2017-18 based on the tabulation above, the actual sale was only 69.77 lakh units. As per the licensee, the reason for drop in sale of power and revenue generation was mainly due to the reduction of contract demand of M/s. Cognizant Technologies from 3000 KVA to 2000 KVA. The licensee further submitted that the contract demand of this HT consumer was reduced to 2000 KVA based on their request as their load is consistently low and the actual demand is only around 1000 KVA, even though they commenced the operations in December 2014.

18. The licensee has submitted details of consumers whose maximum recorded consumption is consistently lower than the contracted demand and the details are as shown below

Table-2(a)
Consumption Pattern of Consumers

Sl. No.	Name of Consumer	Connected Load	Contract Demand	Maximum Consumption	Voltage Level
1.	M/s. Cognizant	5675 KW	3000KVA	1200 KVA	11KV
2.	M/s. Trans Asia	2247 KW	600 KVA	324.6 KVA	11KV
3.	M/s. Media Systems	607 KW	480 KVA	work in progress	11 KV
4.	M/s. Muthoot			work not started	
5.	M/s. UST Global			work not started	
6.	M/s. Caspian Techpark	1250 KW	500 KVA	work in progress	11KV
7.	M/s. Muthoot School	71.62 KW	71.62 KVA	25.99 KVA	415V

19. For the current year 2017-18, the major sale at 60.70 lakh units is of the HT I B category. The total revenue from the sale of power for the above 69.80 lakh units is reported as Rs.537.19 lakhs.

Energy Requirement & Distribution Loss

20. In the revised application for approval of ARR & ERC for the year 2017-18, the licensee had proposed a distribution loss target of 1.80% and the Commission had approved this distribution loss of 1.80% for the year 2017-18. However, in the further revised figures submitted vide letter dated 22.06.2017, this loss was proposed at 9.96%. Since this loss was very high and the licensee could not state valid reasons for this loss, the Commission retained the original target of 1.80% for the year in the ARR Order dated 26-07-2017.

In the ARR & ERC for the control period the Commission has approved a loss reduction target at 1.80%. In the revised application for approval of ARR & ERC for the year 2017-18, the licensee proposed a distribution loss reduction target of 1.80%. However, in the further revised figures submitted vide letter dated 22.06.2017, this loss was proposed at 9.96%. Since this loss was very high and the licensee could not state valid reasons for this loss, the Commission retained the original target of 1.80% for the year.

21. In the Truing Up petition, the licensee has submitted the details of actual distribution loss of Infopark for 2017-18 as shown below.

Table-3
Phase wise distribution loss

Year	Cherthala	Phase II Kakkanad	Total
Energy Requirement (in lakh units)	14.34	59.91	74.25
Energy sales (in lakh units)	12.58	57.19	69.77
Distribution loss (in lakh units)	1.76	2.72	4.48
Distribution loss (%)	12.27%	4.54%	6.04%

22. The licensee has submitted that the Commission had while trying up the accounts for 2016-17, approved a distribution loss of 6% considering the no load loss of 31.50 MVA Transformer at phase II and 12.5 MVA Transformer at Infopark Cherthala. The licensee further submitted that in the year 2017-18 also there is no considerable increase in the connected load of both the locations resulting in a higher distribution loss. Further, in the case of Cherthala, the number of consumers has decreased from 34 to 31 during the year 2017-18.
23. The Commission is of the view that since, reduction in distribution loss is an important parameter which has a direct impact on power purchase cost and available energy for distribution, licensees should continuously strive to improve upon the target set for this parameter. ***However, taking into consideration the limited geographical area of its operation and the nature of infrastructure build up, and the fall in the number of consumers, the Commission approves the actual loss of 6.04%. The Commission also hereby directs that Infopark shall conduct a study on the distribution loss at Cherthala and if the loss is still high, submit an alternate loss reduction plan for this location to the Commission.***

Table-4
Distribution loss Approved for 2017-18

Year	2017-18
Energy Requirement (in lakh units)	74.252
Energy sales (in lakh units)	69.764
Distribution loss (in lakh units)	4.488
Distribution loss (%)	6.04%

Power Purchase Cost:

24. The power purchase cost claimed for the 2017-18 is Rs.502.79 lakh as against the amount of Rs.597.35 lakh approved by the Commission in the ARR Order 2017-18 dated 26-07-2017. The details of power purchase cost claimed by the licensee is shown below.

Table-5
Break-up of Power Purchase Cost for 2017-18

	Approved in ARR	Actual claimed by the Licensee		
		Infopark Cherthala	Kakkanad Phase-II	Total
Energy Purchase (In lakh units)	90.20	14.34	59.92	74.25
Contract Demand (KVA)	3750	550	3000	3550
Maximum Demand (KVA)	3720	404	1440	1844
Excess Demand (KVA)	NIL	NIL	NIL	NIL
Demand Charges (Rs/KVA)	300	300	300	300
Total Demand Charges (Rs. In lakh) (A)	101.25	15.99	81.00	96.99
Energy Charges (Rs/ lakh)	5.50	5.50	5.50	5.50
Total Energy Charges (Rs. In lakh) (B)	496.10	76.12	329.68	405.80
RPO purchase, if any (C)	-	-	-	-
Cost of Power purchase (A)+ (B) +(C) (Rs. In lakh)	597.35	92.11	410.68	502.79

25. The Commission notes that the power purchase cost at Rs.502.79 lakhs is lower than the amount approved by the Commission in the revised ARR Order for the year 2017-18 at Rs.597.35 lakhs. However, the units purchased at 74.25 lakh units is 15.95 lakh units less than the 90.20 lakh units approved in the ARR & ERC for 2017-18. The licensee submitted in reply to the clarification sought by the Commission that, the actual power purchase cost is Rs.502.79 lakhs during the year 2017-18 as against the approved power purchase cost of Rs.597.35 lakhs in the revised ARR order dated 26.07.2017 and the variation of Rs.94.56 Lakhs is mainly because of less consumption by a major HT consumer M/s. Cognizant Technology Solutions. The licensee also submitted that the reduction in number of consumers also contributed for a lower purchase cost and the actual number of consumers was 64 only as against the estimated number of 65 consumers. The KSEB Ltd had pointed out

during hearing that there is a difference in the total amount of power purchase submitted by the petitioner with that of details available with KSEB Ltd.

26. The Commission has examined in detail the submissions by the petitioner in respect of lower power purchase cost and deviations from the ARR Order. Considering the actual distribution loss of 6.04% and the justifications by the petitioner for the lower power purchase, ***the Commission approves the power purchase cost of Rs.502.79 lakh for the truing up of accounts for the year 2017-18.*** The licensee is also directed to reconcile the differences, if any, in the total amount of power purchase with KSEB Ltd.

O & M Expenses:

27. Operation & maintenance includes controllable expenses like Employee cost, Repair & Maintenance Expenses & Administrative & General Expenses. The Commission had approved the operation & maintenance cost of Infopark for the control period as per Regulation 81(9) of the Tariff Regulations, 2014 in the ARR Order dated 26.07.2017.
28. Infopark has claimed in the truing up petition, Rs.14.19 lakhs as Employee cost which is higher than the ceiling level specified in the regulation, whereas has incurred a lower R&M expense and A&G Expenses for the year 2017-18. The expenditure claimed towards R&M expenses and A&G expenses are Rs. 17.12 lakh and Rs. 1.41 lakh respectively. A comparison of the claim made by the licensee and the normative amount approved by the Commission for the year 2017-18 is shown below.

**Table-6
Comparison of the O&M expenses**

Particulars	2016-17			2017-18	
	Normative amount approved by Commission (Rs. Lakh)	Claim of Infopark for Truing up (Rs. Lakh)	Trued Up (Rs.Lakh)	Normative amount approved by Commission (Rs. Lakh)	Claim of Infopark for Truing up (Rs. Lakh)
Employee cost	3.50	13.57	10.56	3.70	14.19
R&M Expenses	19.05	15.86	15.86	20.16	17.12
A&G Expenses	4.26	9.75	4.06	4.51	1.41
Total	26.81	39.18	30.48	28.37	32.72

Employee cost:

29. The licensee has claimed employee cost higher than the normative amount fixed for the year 2017-18 by the Commission. The licensee has claimed Rs.14.19 lakh as against Rs.3.70 lakh approved by the Commission in the ARR Order for 2017-18 dated 26-07-2017.
30. The licensee has submitted that the employee cost of one Resident Engineer at Cherthala and one Resident Engineer at phase II and half salary of an accountant is considered to arrive at the total employee cost of the power distribution business. Licensee further submitted that this is the minimum cost considering the operations at two locations and the staff strength cannot be reduced further. Citing the above reasons, the licensee requests the Commission to approve the actual employee cost of Rs.14.19 lakh. The licensee also submitted that the Commission had kindly considered this matter while finalizing truing up of 2015-16 &2016-17 due to the specific scenario at both the locations.
31. The details of the actual employee cost claim are shown below.

Table 7
Comparison of employee cost

Particulars	2016-17 (Actual) (Rs. Lakh)	2017-18(Actual) (Rs. Lakh)
Basic Salary	3.49	3.44
Dearness Allowance (DA)	8.39	8.90
House Rent Allowance	0.23	0.20
Conveyance Allowance	0.04	0.02
Earned Leave Encashment	0.97	1.03
Medical Reimbursement	0.45	-
Interim Relief	-	0.60
Total	13.57	14.19

32. On clarification sought by the Commission for the increase, the licensee submitted that, the Infopark has considered the cost of one Resident Engineer at Cherthala & One Resident Engineer at Phase-II and half salary of an accountant and is the minimum cost possible considering operations at two locations and the staff strength cannot be reduced further. According to the petitioner, percentage wise employee cost is high due to the low volume of business at both the locations. The licensee also requested to approve the actual employee cost of Rs.14.19 lakh and mentioned

that the Commission has taken a considered view during the Truing Up of 2015-16 & 2016-17 considering the specific scenario at both the locations. The details of the employee cost claim is shown below

Table-8
Apportionment of employee expenses

Particulars				Amount in Rs
Resident Engineer-I				
Salary	4,28,048.00		100%	
Leave Salary	33,710.00	4,61,758.00		4,61,758.00
Resident Engineer-II				
Salary	6,75,972.00		100%	
Leave salary	52,952.00	7,28,924.00		7,28,924.00
Accountant				
Salary	4,23,338.00		50%	
Leave salary	32,992.00	4,56,330.00		228165.00
Total		16,47,012.00		14,18,847.00

33. The Commission during the year 2016-17 had approved an amount of Rs.10.56 lakh against the claim of Rs.13.57 lakh in the Truing up of Accounts. As per the details submitted in the application, the actual claim of employee cost for 2017-18 is 4.57% higher than the previous year. Post-wise employee cost claimed by the licensee is shown below

Table 9
Post-wise employee cost claimed

No	Designation	Amount in Rupees
1	Resident Engineer - Cherthala	Rs. 38,480X12= Rs. 4,61,758
2	Resident Engineer – Phase II	Rs. 60,744X12= Rs. 7,28,924
3	Accountant	Rs. 38,027X12 = Rs. 4,56,330
4	Half salary of accountant	Rs. 2,28,165
	Employee cost claimed	Rs. 14,18,847 (1+2+4)

34. The licensee further submitted that, out of the two pending pay revisions, one revision was implemented during the current year. The pay revision arrear of Rs.4.59 lakhs paid in 2017-18 is shown as prior period expenses in the revised forms filed. The year-wise details of pay arrears paid in 2017 -18 as per annexure to revised Form D.3.4(a) is shown below

Table 9A

Year	Amount Paid in Rs.
2012-13	138161
2013-14	155929
2014-15	164889
Total	458979

35. The Commission has examined the issue in detail. As per the Tariff Regulations, 2014, the normative employee cost fixed for the licensee for the year 2017-18 is Rs.3.70 lakh. However, as this norm was fixed when the operations of the licensee was at nascent stage, the Commission had taken a stand at the time of approving the ARR and ERC for the control period vide order dated 26.07.2017 that, the actual employee cost incurred by the licensee can be allowed after prudence check at the time of the truing up of the accounts of the relevant financial year after making suitable adjustments in the normative values specified in the Regulations. The relevant portion of the Commission's Order dated 26.07.2017 is extracted below.

"24. As the functions of the licensee is yet to be fully operational and being in the growing stage, the Commission decides that the actual employee cost incurred by the licensee shall be allowed after prudence check at the time of truing up of accounts of the relevant financial year after making suitable amendments in the normative value specified in the Tariff Regulations 2014, The licensee may provide necessary details to the Commission for the prudence check on the actual."

36. Accordingly, as decided by the Commission in Order dated 26.07.2017 actual employee cost of the licensee can be allowed subject to the prudence check by the Commission.
37. The Commission has examined the employee-wise salary details and other particulars submitted by the licensee. The licensee has employed one engineer each at both the locations and also utilised the service of an accountant for the

maintenance of accounts related to distribution business. Further, the licensee has claimed the salary for 12 months and leave salary (i.e., salary for 30 days) as employee cost. The Commission notes that, the licensee has deployed only the minimum essential staff to run the power distribution business and also claimed only salary and leave salary of these employees as employee cost. Hence, ***the Commission approves the actual expense of Rs.14.19 lakhs towards employee cost for the year 2017-18.***

38. As regard to pay revision arrears, the licensee has submitted all supporting documents to establish that the arrears are paid after taking necessary approvals from the Board/Government and the Commission therefore ***approves an amount of Rs.4.59 lakhs towards pay revision arrears*** consequent to the revision in line with the pay revision implemented at Technopark

R&M Expenses

39. Infopark has claimed a Repair & Maintenance expense lower than the norms approved in the Tariff Regulation, 2014. The Commission as per the Tariff Regulations 2014, had approved an amount of Rs.20.16 lakh, whereas the actual expenses is only Rs.17.12 lakh. The expenses is incurred for the maintenance of Cherthala and Kakkanad Phase-II.
40. The details of repairs and maintenance expenses are as under.

Table-10
Comparison of R & M Expenses

Particulars	Trued up 2016-17	Normative amount approved in ARR 2017-18 (in lakhs)	Truing Up claim 2017-18 (In lakhs)
Operation and maintenance expenses	15.86	20.16	17.12

41. The Commission notes that though the actual expense of Rs.17.12 lakh is less than the normative amount approved, there is an increase of around 8% in the Repairs and maintenance cost from that of the previous year. The licensee has not submitted any detailed justification for the increase. However, the licensee submitted that all reasonable steps were taken to keep the repair and maintenance expenses to the minimum viz awarding of work based on competitive bids, procurement of materials through open tenders, preventive and break down maintenance by the operating staff, etc. During the year 2016-17, actual expense of Repair & Maintenance of Rs. 15.86 lakh was approved at truing up. As per the provision of Tariff Regulations,

2014, a growth rate of 5.85% per annum (based on escalation index notified by CERC) can be considered to arrive at the normative O&M cost for small distribution licensees. **The Commission however notes that the licensee's claim at Rs.17.12 lakh is lower by Rs. 3.04 lakh over the ARR & ERC approved figure of Rs. 20.16 lakh. Since the claim is lower than the ARR & ERC approved figure, the Commission hereby approves, the actual R&M expenses of Rs.17.12 lakh as R & M expenses for the year 2017-18.**

A & G Expenses.

42. The actual A & G Expenses claimed by the licensee includes telephone, postage, audit charge, vehicle expenses, bank charges, licensee fee etc. The claim made by the licensee is lower than the norms approved by the Commission. The Commission had approved an amount of Rs.4.51 lakh whereas the actual claim is Rs.1.41. The details are shown hereunder.

**Table-11
Comparison of A&G Expenses**

Particulars	2016-17(Actual) (Rs. In lakhs)	2017-18 ARR Approved (Rs. In lakhs)	2017-18 (Actual) (Rs. In lakhs)
Telephone & Postage, etc.	0.43		0.27
Audit Fees	0.22		0.08
Conveyance	0.11		0.00
Vehicle Hiring Expenses Truck / Delivery Van	0.30		0.76
Printing & Stationery	0.29		0.25
V-sat, Internet and related charges			0.00
Periodical inspection charges	0.00		0.00
Water Charges	0.00		0.00
RPO Expenses	0.00		0.00
Interest paid to consumers	1.32		0.00
Rates and Taxes (inspection fee, ARR submission, License fee)	2.70		0.05
Bank Charges	4.37		0.00
Gross A&G Expenses	9.74	4.51	1.41

43. The major expenses claimed are towards vehicle hiring expenses, printing & stationery and Telephone & Postage etc. The A&G expenses claim is also within the ARR approved limits. Further, the licensee in reply to a clarification sought by the Commission submitted vide letter dated 16.11.2020 that, the increase of vehicle hiring charges is due to various officials trips to KSEB Ltd & KSERC offices at Trivandrum and due to more travel expenses inside the campus. Considering the reply by the petitioner, ***the Commission approves the actual A & G expenses of Rs. 1.41 lakhs for the year 2017-18.***
44. Approved O & M expenses for the year 2017-18 are shown below.

Table-12
O & M Expenses approved for the year 2017-18

Particulars	2016-17	2017-18		
	Trued Up (Rs. in lakhs)	Approved in ARR (Rs. in lakhs)	For Truing up (Rs. in lakhs)	Trued Up (Rs. in lakhs)
Employee Cost	10.56	3.70	14.19	14.19
R&M Expenses	15.86	20.16	17.12	17.12
A & G expenses	4.06	4.51	1.41	1.41
Total	30.48	28.37	32.72	32.72

Interest and Finance charges

45. The Commission in the ARR Order dated: 26.07.2017 has not approved the Interest and Finance charges for the year 2017-18. The licensee in the Truing Up petition has claimed Rs. 8.82 lakh under interest and finance charges for the year 2017-18. The interest and finance charges claimed for the year 2017-18 as shown below.

Table-13
Details of Interest and Finance charges claimed

Particulars	2016-17	2017-18	
	Trued Up (Rs. in lakhs)	Approved in ARR (Rs. in lakhs)	For Truing up (Rs. in lakhs)
Interest paid to consumers	1.32	0.00	2.25
Bank charges	4.37		0.51
Interest on loan			6.06
Total	5.69	0.00	8.82

46. During 2016-17, Rs. 5.69 lakh was approved towards interest and finance charges. In the year 2017-18, the licensee has claimed Rs.8.82 lakhs as Interest and Finance charges which includes Rs. 2.25 lakhs on interest on security deposit and Rs.0.51 lakh towards bank charges for Letter of Credit for KSEB Ltd. remittances. The balance Rs.6.06 lakhs has been claimed as interest on normative loan. As per Regulation 30(1) (a), “the loans arrived at in the manner indicated in regulation 27 shall be considered as gross normative loan for calculation of interest on loan”. However, no details of loans have been submitted. In the absence of required details for Rs.6.06 lakh, ***the Commission approves Rs.2.76 lakh as Interest and Finance charges for the year 2017-18. The petitioner is at liberty to produce all the relevant loan details with documents, if they so desire, for consideration within three months of the date of issue of this Order.***

Depreciation

47. The licensee has claimed Rs.46.46 lakhs towards depreciation which is the approved amount in the approved ARR & ERC for 2017-18. The depreciation claimed by the licensee for the year 2017-18 is as follows

Table-14
Depreciation claimed for the 2017-18

Particulars	Cherthala 110 kV substation		
	Asset value(in lakhs)	Depreciation rate (%)	Depreciation Claimed(In lakhs)
Land & Land rights	150.00	0.00%	0.00
Civil works	186.94	3.34%	6.24
Transformers	180.30	5.28%	9.52
Switch gear	288.03	5.28%	15.21
Batteries	13.45	5.28%	0.71
Others	52.70	3.34%	1.76
Distribution Lines	14.61	5.28%	0.77
Transformers	20.26	5.28%	1.07
Switch gear	110.00	5.28%	5.81
Batteries	1.67	5.28%	0.09
Others / DG	99.97	5.28%	5.28
Total	1117.93		46.46

48. The Commission, in the Orders on the truing up of accounts for the year 2015-16 & 2016-17 had not approved the depreciation for the assets are created out of external contributions/grant. During the process of truing up of the accounts for 2015-16, the

licensee had in letter dated 22-06-2017 stated that depreciation is claimed on a proportionate basis for the year 2015-16 for the 220kV substation which is being developed with the Government grant. The licensee has also stated that the assets of 110kV substation in Cherthala and the 220kV substation at Kakkanad were constructed through budgetary support from Government and hence not booked in the licensee account. The statement made by the licensee vide letter dated 22.06.2017 is extracted below.

“In the case of Infopark power licensee account policy we have accounted the major assets like 110kV substation of Infopark Cherthala and 220kV substation at Infopark Phase II as a contribution from the infrastructure provider. The loan amount from South Indian Bank for construction of 110kV substation at Cherthala as well as the budgetary support obtained from Government for construction of 220kV at Infopark phase II Kakkanad is not booked in the licensee account. Once this substation is commissioned, it is getting transferred from the infrastructure provider to the asset register of Infopark Kerala Power Licensee. As the asset is transferred to the licensee as an infrastructure provider contribution we have worked out the depreciation as per accounting practices. Hon’ble commission may take note on this.”

49. However, in reply to the Commission’s direction to submit the phase wise details of the Assets created out of own funds, borrowed funds, grants & other contributions separately along with details of the date of commissioning of the assets, the licensee submitted vide letter dated 16.11.2020 that the construction of 220 kV substation at Infopark Cherthala was funded through a term loan from South Indian Bank and the assets were commissioned on 30-09-2013. Regarding the details of assets at kakkanad Phase II, the licensee submitted that the major asset is a 220 kV substation which was carried out through budget allocation from Govt of Kerala and the assets were commissioned on 27-10-2015.
50. The admissibility of expenditure on assets created out of consumer contribution, deposit work, capital subsidy or grants are being dealt by Regulation 26 of the Tariff Regulations 2014 and the relevant provisions are extracted hereunder.

“26.Consumer contribution, deposit work, capital subsidy or grant. –

(1) *The works of the following nature carried out by the transmission business/licensee or distribution business/licensee shall be classified under the categories of consumer contribution, deposit work, capital subsidy or grant,-*

(a) *capital works undertaken after obtaining a part or all of the funds from the users/consumers in the context of deposit works, consumer contribution, capital*

subsidy or grant ;

(b) capital works undertaken by utilising capital subsidies or grants received from the State and/or Central Governments;

(c) any other capital subsidy or grant of similar nature received without any obligation to return the same and with no interest costs attached to such subvention.

(2) The expenses on such capital expenditure assets shall be treated as follows:-

(a) Normative O&M expenses as specified in these Regulations shall be allowed;

(b) provisions for depreciation, as specified in Regulation 28, shall not be allowed to the extent of financial support provided through consumer contribution, deposit work, capital subsidy or grant; and

(c) provisions related to return on equity share capital or net fixed assets as applicable, as per Regulation 29 shall not be allowed to the extent of financial support provided through consumer contribution, deposit work, capital subsidy or grant.”

51. Accordingly, for the assets created out of contribution/capital subsidy/grants, depreciation cannot be allowed. The Commission while issuing the order on the truing up of accounts for the year 2015-16 had directed the licensee to show details of assets created out of consumer contributions/subsidy/grants separately in the books of accounts and also maintain a fixed asset register for the distribution licensee operations clearly showing the source of funding of each asset. The licensee has not yet complied with the direction fully. The Commission reiterates the same as the admissibility of depreciation and interest on loan can be decided only after receiving this information.
52. Further, the Commission had in the daily Order dated 06.01.2021 given specific directions to the licensee to sort out the issues related to Fixed Assets and its funding. The directions are as under.
- a) Separate petition to be filed in respect of the complete Assets and Liabilities for cleaning up the books of accounts of the licensee with the approval of their Board before 10th February 2021. The Hearing shall be conducted on 23rd February 2021.
 - b) Details of Capital expenditure proposals pending for approval to be submitted with sources of funding specified. i.e., whether from own funds, borrowed funds, consumer contributions, Grants or subsidies etc.

- c) The Principal portion of the loan availed for procuring electricity distribution assets be segregated from the corporate accounts along with interest thereon and to transfer the same to the regulatory accounts.

The licensee is yet to comply with the above directions. Hence, the Commission is unable to identify the assets on which depreciation can be allowed and ***decides to defer the approval of depreciation and interest on normative loan until the directions are fully complied with. As a Final chance, the Commission hereby directs the licensee to submit complete details of all fixed assets, its year of COD, capital cost, source of funds, etc. within 3 months from the date of issue of this Order. No further time shall be given to the licensee and non-compliance to the above direction shall be viewed seriously and action initiated against the licensee under section 142 of the Electricity Act, 2003 and provisions of KSERC (Conditions of Licensee for Existing Distribution Licensees) Regulations, 2006.***

Return on Equity

53. As per Regulation 29(2) of the Tariff Regulations 2014, if there is no equity invested in the business or equity invested in the regulated business of the distribution licensee is not clearly identifiable, return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business. The licensee has claimed a RoNFA of Rs.30.75 lakhs for 2017-18 as shown below.

Table-15
RoNFA claimed for 2017-18 (Rs Lakh)

Sl.No	Particulars		2017-18
1	NFA at the beginning of the year		1025.01
2	Return on NFA at the beginning of the year	3%	30.75
	Total		30.75

54. The Commission notes that the licensee has not computed the Return on Net Fixed Assets (RoNFA) as specified in the Tariff Regulations, 2014. Regulation 29 of Tariff Regulation 2014 provides for computation of Return on Equity Share capital or Net Fixed Assets as shown below.

“29. Return on Equity Share capital or Net Fixed Assets. –

(1) Return on equity shall be computed in rupee terms, on the paid up equity

capital determined in accordance with the regulation 26 and shall be allowed at the rate of fourteen percent for generating business/companies, transmission business/licensee, distribution business/licensee and state load despatch centre:

(2) If the equity invested in the regulated business of the generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre is not clearly identifiable, return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business:

Provided that net fixed assets shall be exclusive of the assets created out of consumer contribution, deposit works, capital subsidy or grants”

55. Accordingly, as per proviso to Regulation 29(2), the net fixed assets eligible for returns shall be exclusive of grants/contribution. However, the licensee has not submitted the full details of assets created out of funds other than grants/contributions/subsidy and the details of loan taken for the creation of assets. Hence, the Commission is unable to identify the assets eligible for return and **decides to defer the approval of Return on Net Fixed Assets till the licensee submits details to establish the creation of assets from funds other than contributions/grant/subsidies. If the licensee desires to make this claim, it shall be preferred within three months of date of this Order.**

Prior period expenses

56. An amount of Rs.4.59 lakhs has been claimed as prior period expense by the licensee. This amount is the pay arrears pertain to the previous years and paid during the year 2017-18. The Commission examined the claim as detailed in para 30 to 34 above and allows Rs.4.59 lakh as expenditure for prior period.

Total Revenue

57. The licensee has submitted that total revenue includes Rs.537.19 lakh from the Sale of Power and Rs.3.46 lakhs from Non-Tariff income.

Revenue from Sale of Power

58. The licensee has submitted the category-wise revenue from sale of power for the year 2017-18 and is tabulated as under.

Table 16
Details of Revenue from Sale of Power for 2017-18

Category	No of Consumers	Sales (in lakh units)	Revenue from sale of power(Rs.Lakh)	Average Tariff (Rs./kwh)
Industrial	43	5.45	39.11	7.18
Commercial	6	0.42	4.64	11.60
Construction Power	10	2.28	27.19	11.82
Street lighting	2	0.92	3.59	3.98
HT 1 B (Cherthala)	1	9.70	66.88	6.89
HT 1 B (Kakkanad)	2	51.00	395.80	7.76
Total	64	69.77	537.21	7.70

59. The major revenue is from the sale of power to Phase II- Kakkanad Campus (HT I B). The Commission also noted that there is a decline in revenue from sale of power from the ARR & ERC order dated 26.07.2017 in which Rs.644.39 lakhs was approved towards revenue from sale of power. As per the submission of the licensee, though it had estimated a sale of 88.60 lakh units during the year 2017-18 the actual sale was only 69.80 lakh units. According to the licensee, the drop in sale of power was mainly due to the reduction of contract demand of M/s. Cognizant Technologies from 3000 KVA to 2000 KVA and the actual demand of this major consumer was consistently around 1000 kva only during 2017-18. After detailed analysis as detailed in para 16 to 19 above, ***the Commission approves Rs.537.19 lakhs as revenue from sale of power for the year 2017-18.***

Non-Tariff Income

60. The Non tariff income for 2017-18 as per the certified accounts is Rs.3.46 lakh, which mainly includes interest on security deposit of Rs.2.12 lakh received from KSEB Ltd and Rs.0.85 lakh interest received from bank. The item-wise details are shown below.

Table 17
Details of Non-Tariff Income

Non-Tariff Income	2016-17 (Actual) (Rs. Lakh)	2017-18 (Actual) (Rs. Lakh)
Interest received from bank	0.74	0.85

Interest received from others (KSEB)	2.14	2.12
Meter cost	0.21	0.26
Meter installation charge	0.37	0.23
Total	3.46	3.46

61. Though the licensee has shown interest received on KSEBL deposit as income, the corresponding security deposit with KSEBL has not been shown under current assets, loans and advances in the assets side of the Balance Sheet. Similar inconsistencies were noticed in earlier instances also. ***The licensee is therefore directed to revamp its regulatory accounts to correct all such inconsistencies and misclassifications in order to reflect its financial statements a true and fair view of the power distribution business. However, the Commission approves the non-tariff income of Rs.3.46 lakh as claimed by the licensee for the year 2017-18.***

Revenue Surplus/Gap

62. Based on the above, the approved expenditure and revenue for the year 2017-18 after truing up is as shown below.

Table 18
Revenue Requirements after truing up for 2017-18

Particulars	Approved in ARR (Rs. in lakhs)	For Truing up (Rs. in lakhs)	Trued Up (Rs. in lakhs)
Revenue from sale of power	644.39	537.19	537.19
Non-Tariff Income	2.2	3.46	3.46
Total Revenue	646.59	540.65	540.65
Purchase of Power	597.35	502.79	502.79
R&M Expenses	20.16	17.12	17.12
Employee costs	3.7	14.19	14.19
A & G expenses	4.51	1.41	1.41
Interest and finance charges	-	8.82	2.76
Depreciation	46.46	46.46	0.00
Return on Equity	30.75	30.75	0.00
Total expenditure	702.93	621.54	538.27
Prior Period Expenses		4.59	4.59
Revenue Surplus/(Gap)	(56.34)	(85.48)	(2.21)

Orders of the Commission

63. The Commission after considering the application filed by M/s. Infopark for truing up of accounts for the year 2017-18, objections raised by KSEB Ltd. and the clarifications and other details provided by the licensee approves the total expenditure of Rs.542.86 lakh and total revenue of Rs.540.65 lakh with a revenue gap of Rs.2.21 lakh. The cumulative revenue gap of the licensee till 2016-17 was Rs. 123.05 lakh. Thus, the cumulative revenue gap till 2017-18 will be Rs. 125.26 Lakh.
64. 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