

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

OA 5/2019

**PRESENT : Shri. Preman Dinaraj, Chairman
Shri. K.Vikraman Nair, Member**

In the matter of : Truing up of Accounts of Kanan Devan Hill Plantations Company Private Limited for the year 2017-18

Applicant : M/s Kanan Devan Hill Plantations Company Private Limited

Respondent : M/s Kerala State Electricity Board Limited

ORDER DATED 12/11/2019

1. Kanan Devan Hill Plantations Company Private Limited (*hereinafter referred to as KDHPCL 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 licensee has filed the petition for the truing up of accounts for the year 2017-18. The petition is based on the audited accounts of the distribution business of the licensee and Regulation 11(b) of the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014 (*hereinafter referred to as the Tariff Regulations, 2014*).
2. In the order on ARR & ERC dated 07-09-2015, the Commission had approved a revenue surplus of Rs. 87.81 lakh for the year 2017-18 for KDHPCL. As against this, the licensee in the petition for truing up the accounts for 2017-18 has claimed a **revenue gap of Rs. 98.51 lakh**. A comparison of the actual amounts incurred for 2017-18, the order on the ARR-ERC for the year and the previous year is shown below.

**Table 1
Comparative Statement for the years 2016-17 & 2017-18**

Particulars	2016-17		2017-18	
	For Truing Up (Rs.lakh)	Trued Up (Rs.lakh)	Approved ARR & ERC (Rs.lakh)	For Truing Up (Rs.lakh)
Revenue from Sale of Power	2397.02	2397.02	2490.54	2984.32
Other Income	17.18	81.44	18.48	17.74
Total Income	2414.20	2478.46	2509.02	3002.06

Purchase of Power	2123.88	2134.08	2264.54	2811.98
R&M Expenses	30.83	17.62	18.65	33.11
Employee Cost	155.85	84.78	89.74	180.14
A&G Expenses	35.14	9.18	15.59	11.27
Depreciation	17.55	16.55	14.80	20.26
Interest & Finance Charges	14.21	26.89*	12.83	27.87
Other Debits	13.09	1.74	0.46	15.94
Return on Equity	-	5.82	4.60	-
Total Expenditure.	2390.55	2296.66	2421.21	3100.57
Net Surplus/(Deficit)	23.65	181.80	87.81	(98.51)

*Approved interest and finance charge of Rs.26.89 lakh for 2016-17 includes interest on security deposit of Rs.13.30 lakh, the approved bank charges of Rs.9.47 lakh and interest on working capital of Rs.4.12 lakh

Hearing on the Matter

3. Public hearing on the petition on the Truing up of accounts for the year 2017-18 was held at the KDH Club Hall, Munnar on 05-04-2019. The petitioner was represented by Sri. P.M. Srikrishnan, Executive Director, KDHPCL and other officers of the licensee. Sri. P.M. Srikrishnan, briefed the details of the application and responded to the queries of the Commission. The main points submitted in the petition are briefed below.

- The licensee proposes revenue gap of Rs. 98.51 lakh for the year 2017-18.
- The actual number of consumers for 2017-18 is 15884 and the sale for 2017-18 is 46.21 MU whereas in 2016-17 the sale was 37.87 MU. The licensee has stated the reason for the increase is that, in March 2017, an additional contract demand of 2MVA was sanctioned leading to a higher consumption of grid power and lower own generation station usage.
- The Commission had approved a distribution loss of 12% for 2017-18. The actual distribution loss as per the application for truing up for the year 2017-18 is 11.13%
- The licensee has claimed an actual power purchase cost of Rs.2811.98 lakh for the purchase of 53.17 MU. The average power purchase cost is Rs.5.31 per unit.
- Operation & maintenance includes controllable expenses like Employee cost, R&M Expenses and A&G Expenses. KDHPCL has claimed the O&M higher than that approved by the Commission in ARR.
- The Commission had approved an amount of Rs 89.74 lakh as employee cost for the year 2017-18. In the application the licensee has booked an amount of Rs.180.14 lakh. The claim made by the licensee is for 67 employees. The licensee has stated that 10% of the salary of

Executive director, 5% salary of Sr.Manager and 25% salary of Executive is apportioned to the distribution business.

- The actual amount claimed by the licensee in the application is Rs.33.11 lakh for the repair and maintenance of distribution lines, substations, 11 kV lines & associated works, LT line service etc as against the approved amount of Rs 18.65 lakh as per the norms. The A&G expense claimed by the licensee as per the application for truing up is Rs.11.27 lakh as against the approved amount of Rs 15.59 lakh in the ARR.
 - The interest and finance charges claimed by the licensee for the year 2017-18 includes interest on security deposit (Rs. 12.33 lakh) and interest on bank guarantee charges (Rs.15.22 lakh).
 - The licensee in the petition has claimed depreciation of Rs 20.26 lakh in the straight line method as per the Tariff Regulations 2014 after duly considering the asset added during the year.
 - The licensee has claimed a return at the rate of three percent on the net fixed assets at the beginning of the financial year.
 - The licensee has included duty under Section III of the Kerala Electricity Duty Act and periodical inspection charges under other debits
 - The non-tariff income accounted by the licensee in the application includes interest receivable on KDHPCL deposit with KSEB Ltd and miscellaneous recoveries
4. Sri.Bipin Shankar, Deputy Chief Engineer TRAC and Sri. Ajith Kumar.G, DAO, TRAC represented KSEB Ltd. Sri.Bipin Shankar presented the counter statement/comments of KSEB Ltd. The major points presented by KSEB Ltd are abstracted below.
- a. The licensee has claimed R&M expenses and employee cost higher than the norms approved by the Commission. The Commission may limit the expenses to the approved level. KSEB Ltd also submitted that the O&M expenses may be approved only as per the norms approved by the Commission.
 - b. The depreciation for assets may be allowed only after due consideration of the vintage of the assets and depreciation not to be allowed for the assets created out of consumer contribution.
 - c. The claim of the licensee on Section 3(1) duty may be disallowed.
5. The Commission during the hearing stated that the licensee may approach the banks to negotiate to obtain a higher interest on the accumulated surplus of the licensee. The Commission directed KDHPCL to submit details if any that need to be submitted before the Commission to substantiate the claims made in the

application and the reply on the counter statement submitted by KSEB Ltd, on or before 29-04-2019. The licensee vide letter dated 29-04-2019 submitted that the direction of the Commission to negotiate the interest rates from banks on the funds deposited shall be complied with.

Analysis and decision of the Commission

6. The Commission considered the application of the licensee for truing up of accounts for the year 2017-18, the additional submissions along with the comments of KSEB Ltd. The analysis and decisions of the Commission on the petition on the truing up of accounts for the year 2017-18 in accordance with Regulations thereof are detailed below:

7. **No. of Consumers and Sale of Power:** - The actual number of consumers for the year 2017-18 is 15884. The actual number of consumers during the previous year was 15727 ie an increase of 157 consumers. The increase in the LT I Domestic category, the major consumer category was 107, which is less than 1 %. The details of the number of consumers and the total sale of power are tabulated hereunder.

Table-2
Comparison over the years

Year	No.of Consumers	Sales in lakh units	% Increase in sales
2015-16 (Actual)	15638	371.70	
2016-17 (Actual)	15727	378.70	1.88%
2017-18 (Actual)	15884	462.10	22.02%

8. The Category wise sale of power is tabulated hereunder.

Table-3
Split up of the number of consumers and sales over the years

Particulars	Actual No. of Consumers			Actual Sales in lakh units		
	2015-16	2016-17	2017-18	2015-16	2016-17	2017-18
HT IA Industrial	25	25	25	225.90	227.61	302.98
HT III Agriculture	2	2	2	2.90	2.90	3.29
HT IV Commercial	8	8	8	21.80	22.70	24.46
LT I Domestic	13190	13262	13369	68.10	70.20	73.97
LT II Colonies	-	1	-	-	0.00	-
LT IV Industries	95	96	91	6.10	5.90	6.03
LT V Agriculture	5	5	5	0.10	0.20	0.17
LT VI Non-Domestic	714	715	714	8.00	8.50	9.35
LT VII Commercial	1348	1361	1360	34.00	36.42	38.37
Street Lighting	251	252	310	4.80	4.30	3.89
Total	15638	15727	15884	371.70	378.73	462.51

9. The major falls in number of consumers is in the LT I Domestic category whereas the major increase in sale of power is towards the HT IA Industrial category. Compared to the previous year the total sale of KDHPCL has increased by 22%.

There is a significant increase (33%) in the sale of power to the HT IA Industrial category compared to the previous year. The licensee vide letter dated 15-02-2019 submitted reason for the increase. It was submitted that until 2017, the sanctioned demand with KSEB Ltd. was 7 MVA which fell short of requirements leading to regular usage of diesel generator sets in the factories of KDHPCL to meet the short fall. In March 2017 additional 2 MVA contract demand was sanctioned whereby availability of electricity to HT IA industrial category of consumers including the factories improved leading to higher consumption of grid power and lower usage of generator sets by HT I A consumers. Considering the above, the Commission approves the actual sales for the year 2017-18 at 462.51 lakh units

10. **Energy requirement & Distribution Loss:** In the application for approval of ARR & ERC for the year 2017-18, the Commission had approved a distribution loss of 12% for each year of the control period. The actual distribution loss as per the application for truing up for the year 2017-18 is 11.13% which is lower than the previous year. The licensee has also considered feedback energy for the computation of distribution loss as the feedback energy is wheeled through the lines of KDHPCL for the consumers of KSEB Ltd. The feedback energy to KSEB Ltd is 89.77 lakh units for the year 2017-18.

11. The details of the distribution loss as per the application for truing up submitted by the licensee are given below.

Table-4
Comparison of distribution loss over the years

Sl.No	Particulars	2015-16	2016-17		2017-18	
		Trued Up	Approved in ARR	Trued Up	Approved in ARR	For Truing Up
1	Total Energy Sales (lakh units)	372.00	395.50	378.73	402.90	462.51
2	Billed Energy (lakh units)	429.00	459.60	438.24	468.00	531.69
3	Distribution loss (lakh units) (2-1)	57.00	64.10	59.51	65.10	69.18
4	Feed back (lakh units)	82.00	74.50	83.98	74.50	89.77
5	Gross energy (lakh units) (2+4)	511.00	534.10	522.22	542.50	621.46
6	Distribution loss % (3/5)%	11.12%	12.00%	11.40%	12.00%	11.13%

12. As per the details provided, the licensee has achieved a distribution loss of 11.13% which in turn is lower than the trued up distribution loss of 11.40% in 2016-17 and the ARR target distribution loss of 12% approved for the year 2017-18. The efficiency gain in reduction of distribution loss is 0.87% over 2016-17.

13. Distribution loss is a controllable parameter, and as per Tariff Regulations 2014, the licensee can retain 2/3rd portion of the efficiency gain as per the provisions of clause 74(4) of the KSERC (Terms and conditions for determination of tariff) Regulations, 2014. The relevant portions of the Regulation are as shown below:

74. 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

14. Since the distribution loss achieved by the licensee is lower than the approved level, the licensee is permitted to retain 2/3rd portion of the efficiency gain as per the provisions of clause 74(4) of the KSERC (Terms and conditions for determination of tariff) Regulations, 2014 **and the balance 1/3rd is to be passed on to the consumers**, which is analysed below

15. **Power Purchase Cost:** The licensee has claimed an actual power purchase cost of Rs.2811.98 lakh for the purchase of 531.70 lakh units, as against a power purchase cost of Rs.2264.54 lakh for 468.00 lakh units approved in the ARR for the year 2017-18. As per the details given, the claim includes Rs.16.75 lakh towards excess demand charges which the penal charge is paid by the licensee for the purchase over and above the contract demand. The Commission as per order dated 17-04-2017 had revised the BST applicable to the licensees. Accordingly the applicable BST for KDHPCL, the energy charge is Rs. 4.60/kWh and demand charge is Rs.300/kVA.

Table-5
Details of the cost of power purchase claimed for 2017-18

	Particulars	ARR Approved	For Truing up
1	Total Consumption (lakh units)	542.50	621.46
2	Less: Feed Back to KSEB (lakh units)	74.50	89.77
3	Billed Units (lakh units) (1-2)	468.00	531.69
4	Demand Charges (Rs.lakh)	252.00	357.50
5	Excess Demand Charges (Rs.lakh)	-	16.75
6	Energy Charges (Rs.lakh)	2012.54	2437.74
7	Total Power purchase cost (Rs.lakh) (4+5+6)	2264.54	2811.98
8	Average power purchase Cost (Rs./kWh) (7/3)	4.84	5.29

16. Commission has gone through the claim made by the licensee. The actual power purchase cost for the year 2017-18 is Rs.2811.98 lakh at a distribution loss of 11.13%. The average power purchase cost is Rs.5.29 per kWh.
17. In this context it is to be noted that the power purchase cost approved is related to the distribution loss achieved by the licensee viz-a-viz the targets fixed by the Commission. The actual distribution for the year is 11.13%, which is lower than the distribution loss of 12% approved for the year. Since distribution loss is a controllable item as per the Regulations, gains and losses on account of underachievement and overachievement of such items are to be treated as per the 74(4) of the Regulations. In the present case, the licensee has over achieved the distribution loss target by 0.87% (12.00% - 11.13%). As the actual distribution loss is lower than that approved by the Commission, the licensee can retain 2/3rd portion of the efficiency gain of 0.87% as per the provisions of clause 74(4) of the KSERC (Terms and conditions for determination of tariff) Regulations, 2014. Accordingly, the licensee has to pass on 1/3rd of the efficiency gain to the consumers and balance can be retained. Accordingly the power purchase cost approved for the year 2017-18 is as shown below:

Table 6
Details of the cost of power purchase approved for 2017-18

1	Actual Distribution loss (lakh units)	11.13%	69.18
2	Energy loss at approved distribution loss (lakh units)	12.00%	74.57
3	Efficiency gain (lakh units) (2-1)		5.39
4	Efficiency gain at average power purchase cost (Rs.lakh) (5.39 lakh units x Rs.5.29/unit)		28.51
5	Efficiency gain to be retained by licensee (2/3 rd) (Rs.lakh) [2/3 rd of 4]		19.01
6	Actual Power purchase cost (Rs.lakh)		2811.98
7	Approved Power purchase cost (Rs.lakh) (5+6)		2830.99

18. The energy loss as per the approved distribution loss of 12% would be 74.57 lakh units whereas the actual distribution loss was 69.18 lakh units only. The power purchase cost at the approved loss of 12% would be Rs. 2840.49 lakh as against the actual power purchase cost of Rs.2811.98 lakh at 11.13% distribution loss.
19. Of the efficiency gain of 5.39 lakh units, 2/3rd is to be retained by the licensee and balance 1/3rd is to be passed on to the consumers by effecting a reduction in power purchase cost. The total efficiency gain at an average power purchase cost is Rs.28.51 lakh (Rs.5.39 lakh units x 5.29/unit). Out of the total efficiency gain of Rs.28.51 lakh, 1/3rd (Rs.9.50 lakh) is passed on to the consumers as reduction in power purchase cost and 2/3rd (Rs.19.01 lakh) is retained by the licensee. Thus the total power purchase cost approved for the year 2017-18 is Rs.2830.99 lakh.

Capital expenditure

20. The details of the expenditure capitalised for 2017-18 as per the application for the truing up of accounts for the year 2017-18 is as shown below:

Table 7
Details of expenditure capitalised for 2017-18

Particulars	Rs.Lakh
Computer	0.49
VCB Truck 400 AMPS	1.59
2 Nos Hand Crimping tool	0.06
Total	2.14

21. As shown above, the licensee has claimed capital addition of Rs.2.14 lakh only for the year 2017-18. The Commission accepts the same for the purpose of truing up of accounts for the year 2017-18.

22. **Depreciation:** - The licensee in the petition has claimed depreciation in the straight line method as per the Tariff Regulations 2014. The depreciation claimed by the licensee in the application for truing up for the year 2017-18 is Rs 20.26 lakh as against Rs 14.80 lakh approved for the year. The licensee has claimed depreciation for the assets created during the year. The depreciation claimed by the licensee as per the application for truing up is detailed below.

Table 8
Depreciation claimed for the year 2017-18

Asset group	Rate of depreciation	GFA (Rs.lakh)	Asset Addition (Rs.lakh)	Depreciation (Rs.lakh)
Transformers	5.28%	251.77	1.59	13.29
Distribution lines	5.28%	40.16		2.12
Meters	5.28%	61.34		3.24
Others	6.33%	24.60	0.07	1.56
I T Equipment	10.42%	-	0.48	0.05
Total		377.88	2.14	20.26

23. The licensee has made an asset addition of Rs.2.14 lakh for the year 2017-18. The assets added are a computer, VCB Truck, and hand crimping tool. As per the details furnished, the GFA as on 01-04-2017 is Rs.377.88 lakh. This is inclusive of the addition of assets of Rs.54.28 lakh in 2016-17. The Commission while issuing the truing up of accounts for the year 2016-17 had not considered the assets created during the years as the licensee had not furnished proper details. The licensee has now submitted the details including the date of commissioning of the asset. As per the details the major asset additions during 2016-17 was the drawing of the 11kV line from Chitrapuram (Rs. 26.24 lakh) & Connectivity of new 11kV line (Rs.25.63 lakh) which were commissioned on 02-03-2017. The details of the assets added during 2016-17 & 2017-18 are shown below.

Table-9
Asset Additions for 2016-17 & 2017-18

Particulars	Rs.Lakh
2016-17	
Drawing of 11kV line from Chitrapuram	26.24
Connectivity of new 11kV line	25.63
Cable Crimping tool hydraulic	0.20
Puller 5 ton capacity	0.27
Rotary Hammer	0.12
11 Nos. of fire extinguishers	0.36
CT/PT unit for switching station	1.46
Total	54.28
2017-18	
Computer	0.49
VCB Truck 400 AMPS	1.59
2 Nos Hand Crimping tool	0.06
Total	2.14

24. Considering the details furnished, the asset addition during the year 2016-17 is approved and included in the GFA. Accordingly the GFA as on 01-04-2017 would be Rs. 377.88 lakh. The licensee has a total consumer contribution of Rs.14.96 lakh. As per the Tariff Regulations, 2014, depreciation on assets created out of consumer contribution is not allowable. Accordingly, the depreciation approved for the purpose of truing up of accounts for the year 2017-18 is shown below.

Table 10
Depreciation approved for the truing up of 2017-18

Asset group	Rate of depreciation (%)	GFA at the beginning of the year (Rs.lakh)	Asset Addition (Rs.lakh)	Depreciation (Rs.lakh)
Transformers	5.28%	251.77	1.59	13.33
Distribution lines	5.28%	40.16	-	2.12
Meters	5.28%	61.34	-	3.24
Others	6.33%	24.60	0.07	1.56
IT Equipment	15.00%	-	0.48	0.04
Total		377.88	2.14	20.29
(Less) Consumer contribution	5.28%	14.96	-	0.79
Total assets after excluding Consumer contribution		362.92	2.14	19.50

25. As shown above, **Commission approves a depreciation of Rs.19.50 lakh for the year 2017-18.**

26. **Employee cost:** The Commission approved an amount of Rs 89.74 lakh as employee cost for the year 2017-18 as per the norms in the KSERC (Terms and conditions for determination of tariff) Regulations, 2014. In the application for the truing up of accounts, the licensee has booked an amount of Rs.180.14 lakh as

employee cost for carrying out the distribution business. A comparison of the split up of the employee cost for the year 2016-17 & 2017-18 is tabulated hereunder.

Table-11
Details of employee cost claimed for the year 2016-17 & 2017-18

Particulars	2016-17		2017-18				
	As per Accounts (Rs.lakh)	Trued Up (Rs.lakh)	ARR Approved (Rs.lakh)	Claimed as per accounts (Rs.lakh)	% increase over 2016-17 actuals		
Salaries	56.64	84.78	89.74	68.36	20.69%		
Overtime	26.67			30.93	15.97%		
DA	7.38			7.53	2.03%		
Other allowances	4.98			5.26	5.62%		
Bonus	3.80			5.29	39.21%		
Sub Total	99.47			117.37	18.00%		
Medical Expenses reimbursement	0.41			0.60	46.34%		
Leave Travel Concession	0.23			0.24	4.35%		
Earned leave encashment	1.46			1.14	-21.92%		
Payment under Workmen's Compensation	-			0.04			
Contribution to the PF	8.18			9.14	11.74%		
Sub Total	10.28			11.43	11.19%		
Staff welfare expenses	1.10			0.89	-19.09%		
Terminal benefits	-			-	-		
Salary of Manager & Executive	35.93			38.85	8.13%		
ED/Manager's salary proportion	9.06			11.60	28.04%		
Sub Total	46.09			51.34	11.39%		
Grand Total	155.84			84.78	89.74	180.14	15.59%

27. The actual employee cost for the year 2017-18 claimed by the licensee have increased by 24.30 lakh compared to the actual expense in 2016-17. The main reason for the increase is due to the increase in the salaries and over time expenses of the employees. The actual employee cost claimed is higher than the approved level by Rs.90.40 lakh as against the amount of Rs.89.74 lakh approved in the ARR for the year 2017-18. As per the details submitted by the licensee, the claim made is for 67 employees. In 2017-18 the licensee has followed the same methodology for apportioning the employee cost as followed in 2016-17. The licensee vide letter dated 15-02-2019 submitted the details of the apportionment of the employee cost for the year 2017-18. The licensee has stated that 10% of the salary of Executive director, 5% salary of Sr. Manager and 25% salary of Executive is apportioned to the distribution business.

28. The licensee vide the clarification dated 15-02-2019 submitted the apportionment details of the employee cost as shown below.

Table 12
Apportioned employee cost towards distribution business

Location	Number of Employees	Apportioned charges towards distribution business (Rs.lakh)	% towards distribution business	Works done
Electricity Section Munnar	33	83.82	100%	Managing the switching station at Pullivasal, maintaining HT Lines, OLT lines throughout the licensed area and meter reading in town area
Estate electricians	7	13.16	100%	Maintenance of LT lines and meter reading in respective estates
Factory electricians	22	29.81	50%	Maintenance of LT lines and meter reading in respective areas in addition to attending the requirements of the factory.
Manager Munnar Workshop and Consultant (Electricals)	2	38.85	100%	Manager- Overall in charge of electricity operations Consultant- Qualified person with necessary licences to attend to distribution operations
Executive Director Finance and Senior Manager MIS & systems	3	11.60	ED Finance 10% Senior Manager MISD & systems 5% Executive MISD 25%	ED Fin. Deals with all financial and legal matters relating to the operations. Senior Manager provided MIS and system support to the operations The Executive MIS is responsible for preparation of the regulatory reports and petitions relating to ARR & ERC and truing up of accounts
Other Expenses		2.90		Other expenses like holiday pay, LTC, allowance, medical reimbursement etc.
Total	67	180.14		

29. The Commission during the year 2016-17 had analysed the actual employee cost of the licensee in detail and in the order on the truing up of accounts for 2016-17 dated 05-09-2018 had decided as quoted below.

“Considering the total business of KDHPCL, the distribution business is only a minor activity and apportioned to the employee cost is disproportionately high. Hence the Commission is of the considered view that only the employee costs as per Regulation 81(6) of the KSERC (Terms and Conditions for Determination of Tariff) Regulations 2014 is to be approved.”

30. As per Regulation 13 of the Tariff Regulations 2014, operation and maintenance expenses which includes employee cost, is a controllable expenditure. Regulation 15(2) of the said regulation clearly states that aggregate loss on account of controllable factors shall be borne by the licensee and shall not be passed on to the consumers. Considering the decisions of the Commission over the years, the

approved employee cost for the purpose of truing up of accounts for the year 2017-18 is Rs.89.74 lakh.

Table 13
Employee cost approved for the year 2017-18

Particulars	As per accounts (Rs. Lakh)	Amount approved for truing up (Rs. Lakh)
Employee cost	180.14	89.74

31. Though KDHPCL has claimed the employee expenses for the year 2017-18 at much higher than the approved level, there is no substantiating details furnished to establish that the increase is due to wage revision. Accordingly, the employee cost for the year 2017-18 is approved as per the Tariff Regulations, 2014.

32. **Repair and Maintenance Expenses:** The actual amount claimed by the licensee in the application is Rs.33.11 lakh for the repair and maintenance of transmission lines, substations, 11 kV lines & associated works, LT line service etc as against the approved amount of Rs 18.65 lakh as per the norms. The actual claim made by the licensee is higher by Rs.14.46 lakh when compared to the amount based on the norms in KSERC (Terms and conditions for determination of tariff) Regulations, 2014. Out of the total claim, Rs.21.19 lakh is for the R&M of cables and line works for maintaining the distribution system. The split up of the R&M expenses as per the accounts is shown below.

Table-14
Details of R&M expenses for the year 2016-17 and 2017-18

Particulars	2016-17		2017-18	
	As per accounts (Rs.lakh)	Trued Up (Rs.lakh)	ARR Approved (Rs.lakh)	As per accounts (Rs.lakh)
Maintenance of Building	2.21	17.62	18.65	1.94
Cable, HT Lines	20.76			21.19
LT lines	5.77			6.75
Vehicles/fuel	1.65			2.52
Others	0.44			0.71
Total	30.83	17.62	18.65	33.11

The licensee has submitted the split up of the R&M on Cable, HT Lines as shown below.

Table-15
Split up of cables, HT Lines during 2017-18

Particulars	(Rs.lakh)
Store items for HT Lines/cables	10.25
Amount paid to contractors HT Lines/cables works	8.53
Miscellaneous	0.27
Labour/ Helper wages paid for HT Lines/cables works	1.35
Jeep hire charges for transporting wokkers	0.79
Total	21.19

33.As per Regulation 13(2) of the Tariff Regulations 2014, R&M expense is a controllable expense, and the controllable expenses have to be approved only as per the provisions of Tariff Regulations, 2014. **Accordingly, the R&M expenses approved for the year 2017-18 is Rs.18.65 lakh.**

Table – 16
R&M expenses allowed for truing up for 2017-18

Particulars	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	18.65	33.11	18.65

34.**Administration and General Expenses:** The A&G expense claimed by the licensee as per the application for truing up is Rs.11.27 lakh as against the approved amount of Rs 15.59 lakh in the order on ARR&ERC. The split up of the claim is tabulated hereunder.

Table 17
Details of A&G expenses for 2016-17 and 2017-18

Particulars	2016-17 (Rs lakh)		2017-18 (Rs lakh)			
	As per accounts	Trued Up	ARR Approved	As per accounts		
Rents, Rates and Taxes	0.50	9.18	15.59	0.31		
Security Arrangement	1.28			1.50		
Insurance	0.74			0.75		
Telephone/Telex charges	0.07			0.05		
Legal charges	0.33			0.24		
Travelling expenses	0.16			0.03		
Conveyance and vehicle charges	0.37			0.01		
Fees and subscription	0.70			2.07		
Printing and Stationery	1.61			1.91		
Advertisement	-			-		
Electricity charges	0.72			0.65		
Miscellaneous expenses	3.90			3.75		
Total	10.38			9.18	15.59	11.27

35.The licensee in the letter dated 15-02-2109 has also submitted the split up the amounts claimed as Fees and subscription & Miscellaneous expenses. The major expense under miscellaneous expense is Rs.3.37 lakh towards Bus fare and batta. Since the actual A&G expense claimed by the licensee is lower than the normative amount fixed in the Tariff Regulations, 2014, the Commission approves the actual amount of Rs.11.27 lakh for the purpose of truing up of accounts for the year 2017-18.

Interest and Finance Charges:

36.The interest and finance charges claimed by the licensee for the year 2017-18 includes interest on security deposit and interest on bank guarantee charges and

late payment charges. A comparison of the interest and finance charges approved in the ARR&ERC for the years 2016-17 & 2017-18 and the projections of the licensee for the current control period is tabulated hereunder.

Table-18
Comparison of Interest and finance charges

Interest & Finance Charges	Rs.Lakh
2016-17 Actual	38.97
2016-17 Trued Up	26.89
2017-18 ARR Approved	12.83
2017-18 Actual	27.87

37. The licensee had claimed Rs. 27.87 lakh as the interest and finance charges as against Rs. 12.83 lakh approved in the ARR order for the year. A comparison of the split up of the interest and finance charges approved in the ARR&ERC for the years 2016-17 & 2017-18 is tabulated hereunder.

Table 19
Split up of Interest & Finance charges

Particulars	2016-17 For Truing up Rs.Lakh	2016-17 Trued Up Rs.Lakh	2017-18 ARR Approved Rs.Lakh	2017-18 For Truing up Rs.Lakh
Interest on Working Capital		4.12		
Interest on Security deposits	13.97	13.30	12.83	12.33
Bank Charges on Bank Guarantee/ L.C to KSEB	9.47	9.47		8.53
Bank Charges on Rs 7.18 Crores Bank Guarantee to KSEB*	15.29			6.67
Interest on Late Payment	0.24			0.33
Total Interest and Finance Charges.	38.97	26.89	12.83	27.87

*Being done as per orders of Hon'ble Supreme Court

38. The licensee has stated that the interest on security deposit is Rs.12.33 lakh at a rate of 6.25%.The interest cost also includes Rs.0.33 lakh incorrectly charged by KSEB Ltd on the ground of delayed payment of power purchase bills though there was no delay on the part of KDHPCL .It was also pointed out that the said amount has not yet been refunded despite of repeated requests from the licensee. Bank charges of Rs.15.22 lakh includes Rs.8.53 lakh towards LC issued in favour of KSEB Ltd and Rs.6.67 towards Bank Charges on Rs 7.18 Crores Bank Guarantee to KSEB Ltd as per the direction of Hon'ble Supreme Court. Each of the item under interest and finance charge is explained below.

(a) Interest on the security deposit

39. The licensee has claimed an amount of Rs.12.33 lakh as interest provided n security deposit from consumers as against an approved amount of Rs.12.83 lakh. The licensee has stated that the actual interest paid to the consumers was Rs.12.28 lakh at the rate of 6.25% and the balance amount of Rs.0.04 lakh will

be treated as income in the financial year 2018-19. The Commission has examined the claims on interest on the security deposit of the licensee. As per Regulation 72 of the Kerala Electricity Supply Code, 2014, the licensee has to pay interest on the security deposit at the bank rate prevailing in the first April of that year. As per the website of Reserve Bank of India, the bank rate as on 01-04-2016 is 7.75%. It is seen that the licensee has paid interest to the consumers only a lower rate, which is not a correct practice. The licensee is to pay the interest to the consumers as per the bank rates of RBI applicable for the relevant years. Considering the actual interest paid, Commission approves Rs.12.28 lakh as the interest on security deposit for the purpose of truing up for the year 2017-18.

(b) Interest on late payment

40. The licensee has stated that Rs.0.33 lakh pertain to interest incorrectly charged by KSEB Ltd on the ground of late payment of bills and there was no delay on part of KDHPCL in settlement of the bills of KSEB Ltd and the refund of the amount is being regularly followed up with KSEB Ltd but they are yet to refund the amount. The issue was raised while truing up of accounts for the year 2016-17 also. Commission had viewed that the issue is to be addressed between the licensee and KSEB Ltd. and had not considered the amount for the purpose of truing up of 2016-17. Commission is of the same view and decides that the amount of Rs.0.33 lakh cannot be considered as part of truing up of accounts. The matter is to be addressed between the licensee and KSEB Ltd.

(c) Interest on working capital

41. In the application for approval of truing up of accounts for 2017-18, the licensee has not sought interest on working capital. Instead the amount of accumulated surplus was used for the purpose of working capital requirement. The Commission is of the view that interest on working capital can be allowed as per the provisions of Tariff Regulations 2014. As per the Regulation 33, interest on working capital for a distribution licensee is to be computed as quoted hereunder:

“33. 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 equal to one-twelfth of the sum of the book value of stores, materials and supplies at the end of each month 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 following amounts shall be reduced while computing the working capital requirement:

(i) 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; and

(ii) the amount equivalent to the cost of power purchase for one month, based on the cost of power purchase approved by the Commission:

Provided further that the amount equivalent to the cost of power purchased for one month corresponding to the quantity of electricity supplied from the generating station owned by the distribution licensee shall not be deducted:

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

42. As per the provisions of Tariff Regulations, 2014, the working capital for the M/s KDHPCL is estimated as shown below:

Table 20
Working capital for 2017-18

Particulars	2017-18	For working capital
	(Rs. Lakh)	(Rs. Lakh)
O&M Expenditure (one month)	123.98	10.33
Maintenance spares	-	
Receivable (2 months revenue)	2984.32	497.39
Gross Working Capital	3108.30	507.72
Less : Amount of Security deposit	206.92	206.92
Less : Power purchase cost (one month)	2811.98	234.33
Net Working capital		66.47
Rate of interest on working capital (SBI Base rate as on 1-4-2017 plus 2%)		11.10 %
Interest on working capital (Rs.lakh)		7.39

43. As shown above, Rs.66.47 lakh can be treated as working capital for the year 2017-18. As per the Regulations interest on working capital is to be allowed on a normative manner at 2% higher than the base rate of SBI in which the application for ARR is filed. Hence, the rate of interest for working capital is 11.10% and accordingly the interest on working capital that can be allowed on a normative basis as per the provisions of the Tariff Regulations, 2014 is Rs.7.39 lakh.

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

44. The licensee has booked Rs. 15.22 lakhs towards the bank charges which includes the bank charges on Bank Guarantee/L.C to KSEB and on Rs 7.18 Crores which is the bank Guarantee to KSEB as per the orders of Hon. Supreme Court of India in Civil Appeal No. 2144/2011. The split up of the claim is shown below.

Table – 21
Bank Charges Claimed

Particulars	2017-18 (Rs. Lakh)
Bank Charges on Bank Guarantee/ L.C to KSEB	8.53
Bank Charges on Rs 7.18 Crores for Bank Guarantee to KSEB	6.67

45. The licensee has stated that the claim of Rs.8.53 lakh is towards the bank guarantee charges to KSEB Ltd as per the power purchase agreement and for opening the letter of credit. Considering the same, the Commission approves Rs. 8.53 lakh. With regard to the bank guarantee provided to KSEBL as per the orders of Hon. Supreme Court, the Commission in the previous orders have specifically directed the licensee that charges shall not be included in the allowable expenses. Accordingly, the Commission approves only the Bank Charges on Bank Guarantee/ L.C to KSEB Ltd. as part of interest and finance charges

Summary of the interest and finance charges

46. The interest and finance charges approved for the year 2017-18 in the process of truing up is detailed below.

Table 22
Interest & Finance charges approved for the year 2017-18

Particulars	Amount approved for truing up (Rs. Lakh)
Interest on security deposits	12.28
Interest charged by KSEB Ltd	-
Interest on working capital	7.39
Bank Charges on Bank Guarantee	8.53
Total	28.20

47. As shown above interest and finance charge approved is Rs.28.20 lakh against the claim of Rs.27.87 lakh. The approved amount includes interest on security deposit of Rs.12.28 lakh, bank charges of Rs.8.53 lakh and interest on working capital of Rs.7.39 lakh.

Others debits:

48. The licensee has in the application for truing up of accounts claimed an amount of Rs.15.94 lakh towards other debits as against an amount of Rs.0.46 lakh approved in the ARR order issued for the year 2017-18. A comparison of the actual amount under the head Other debits over the years is as follows.

Table 23
Details of other debits

Particulars	2016-17 Actual (Rs.lakh)	2016-17 Trued Up (Rs.lakh)	2017-18 Actual (Rs.lakh)
Section Duty 3	12.56	-	14.15
Inspection Charges	0.54	0.54	0.51
Provision for doubtful Debt	1.20	1.20	1.28
Total	13.10	1.74	15.94

49. The Commission has already in its order on the ARR &ERC for the control period and the order on the truing up of accounts had stated the legal position with regard to Section 3 duty and had mentioned that it cannot be passed on to the consumers in view of the statutory provisions laid down in the Kerala Electricity Duty Act, 1963. Accordingly, the Commission approves the inspection charges and provision for doubtful debts as part of other debits. **Accordingly the other debits approved for the year 2017-18 is Rs.1.79 lakh (Rs.0.51 lakh + Rs. 1.28 lakh).**

50. In this context, it is to be noted that the Commission has been approving the provision for doubtful debts in the truing up stage in the past few years. The accumulated provision for doubtful debts as on 31-03-2018 is Rs.10.66 lakh. **Accordingly it is directed that the licensee may conduct an age wise analysis of the receivables and take steps to realise the receivables and to write off the receivables which are bad and uncollectable against the provisions already available. Unless the direction is complied with, additional provision for doubtful debts will not be considered in the future.**

51. **Return on Equity:** The licensee has, not claimed any amount under RoE in the application for truing up for the year 2017-18. The Commission in the order on ARR&ERC approved for the first control period (2015-16 to 2017-18) had stated that the contribution of equity is not clearly identifiable and accordingly allowed the return based on Regulation 29(2) which was 3% of the net fixed assets. The Commission had allowed a return of NFA Rs.4.60 lakh while approving the ARR for the year 2017-18. The Commission while truing up the accounts for 2016-17 had allowed an amount of Rs. 5.82 lakh as return on the NFA at the beginning of the year after taking away the assets created out of consumer contribution. The

Commission has examined the details furnished by the licensee and allows RoE of Rs.6.93 lakh considering the net fixed assets at the beginning of the year as shown below:

Table 24
Details of other debits for the year 2017-18

Net Fixed assets at the beginning of the year	Rs. 245.82 lakh
<u>Less</u> Consumer contribution	Rs. 14.96 lakh
Balance Net Fixed assets	Rs. 230.86 lakh
Return on assets @3%	Rs. 6.93 lakh

52. **Gross Revenue requirements:** Based on the above, the Gross revenue requirement for the year 2016-17 after truing up is as shown below:

Table 25
Gross Revenue Requirements after truing up for 2017-18

Particulars	2017-18		
	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued up (Rs lakh)
Purchase of Power	2264.54	2811.98	2830.99
R&M Expenses	18.65	33.11	18.65
Employee Cost	89.74	180.14	89.74
A&G Expenses	15.59	11.27	11.27
Depreciation	14.80	20.26	19.50
Interest & Finance Charges	12.83	27.87	28.20
Other Debits	0.46	15.94	1.79
Return on Equity	4.60	-	6.93
Total Expenditure.	2421.21	3100.57	3007.07

53. **Revenue from sale of power:** A comparison of the category wise revenue from sale of power claimed by the licensee for 2016-17 & 2017-18 is as shown below.

Table 26
Revenue from sale of power for 2017-18

Particulars	2016-17 (Actual)				2017-18 (Actual)			
	No. of Consumers	Sales in lakh units	Total revenue (Rs.lakh)	Average Realisation	No. of Consumers	Sales in lakh units	Total revenue (Rs.lakh)	Average Realisation
HT IA Industrial	25	227.61	1448.16	6.36	25	302.98	1957.02	6.46
HT III Agriculture	2	2.90	12.33	4.30	2	3.29	13.43	4.18
HT IV Commercial	8	22.70	190.16	8.39	8	24.46	199.65	8.17
LT I Domestic	13262	70.20	265.68	3.79	11369	73.97	305.51	4.13
LT IV Industries	96	5.90	34.24	5.81	91	6.03	37.49	6.21
LT V Agriculture	5	0.20	0.41	2.30	5	0.17	0.34	2.39
LT VI Non-Domestic	715	8.50	69.75	8.19	714	9.35	75.15	8.09
LT VII Commercial	1361	36.42	354.88	9.75	1360	38.37	373.11	9.74
Street Lighting	252	4.30	14.81	3.45	310	3.89	16.21	4.22
Total	15727	378.73	2390.56	6.31	15884	462.51	2977.91	6.44

Recovery of electricity duty			122.77				139.35	
Fuse off calls/New Application Fee			0.02				0.02	
Reconnection fee			0.17				0.22	
Public lighting			1.89				2.35	
Maintenance charges			-				0.06	
Delayed payment charges			3.05				3.37	
Other receipts- Power Theft. Etc.			1.33				0.38	
Total			2519.79				3123.67	
Less electricity duty			122.77				139.35	
Net Revenue from sale of power	15727	37.87	2397.02		15884	46.21	2984.32	

54. As per the details submitted in the petition, the revenue from sale of 46.21 MU is Rs.2984.32 lakh which includes Rs.6.41 lakh of other charges such as reconnection fee, delayed payment etc. There is an increase of 157 consumers during the year 2017-18. The increase in the LT I Domestic category, the major consumer category, is almost negligible which is less than 1 %. The major revenue is realized from HT I A Industrial category, LT I Domestic & LT VII Commercial and the revenue from sale of power has increased in view with the increase in the sales and the number of consumers. The average realization for the year 2017-18 is Rs.6.46. There is significant increase in the consumption of HT I A industrial category. The licensee has stated the reason that, in March 2017, an additional 2MVA was sanctioned leading to a higher consumption of grid power and lower generation station usage. The Commission approves the actual energy sales of 46.21 MU as approved in paragraph 9 and the actual revenue from sale of power of Rs.2984.32 lakh.

55. **Non Tariff Income:** The non-tariff income accounted by the licensee in the application includes interest receivable on KDHPCL deposit with KSEB Ltd and miscellaneous recoveries. A comparison of the non-tariff income is tabulated hereunder.

Table 27
Details of Non Tariff income

Items	2016-17		2017-18
	As per accounts (Rs.lakh)	Trued Up (Rs.lakh)	As per accounts (Rs.lakh)
Interest receivable on KDHPCL deposit with KSEB	14.82	14.82	15.40
Miscellaneous recoveries	2.36	2.36	2.34
Interest on accumulated Surplus	-	64.26	-
Total	17.18	81.44	17.74

56. As shown above the non-tariff income claimed by KDHPCL includes interest receivable on KDHPCL deposit with KSEB and Miscellaneous recoveries. The licensee has not included the interest on the accumulated surplus as part of non-tariff income but in the write up has stated that regulatory adjustments do not create any real investable funds for placement with the bank and hence no interest should be accrued on the surplus. As per the order dated 05-09-2018, the licensee is holding an accumulated surplus of Rs.872.80 lakh at the end of the year 2016-17. Considering the notional interest on the accumulated surplus considering the base rate of SBI as on 01-04-2017 (9.10%), the Commission also considers a notional interest of Rs.79.42 lakh as part of non-tariff income. Accordingly, a total non-tariff income of Rs.97.16 for the purpose of truing up of accounts for the year 2017-18

Table – 28
Non-Tariff Income allowed for truing up for 2017-18

Particulars	Trued Up (Rs lakh)
Non-Tariff Income	17.74
Interest on accumulated surplus	79.42
Total	97.16

Revenue Surplus/gap after Truing up of Accounts 2017-18

57. Based on the above details of Truing up taking into consideration the approved expense and revenue is given below:

Table 29
Details of amounts approved in Truing up for the year 2017-18

Particulars	2017-18		
	Approved ARR & ERC (Rs.lakh)	For Truing Up (Rs.lakh)	Trued Up (Rs.lakh)
Revenue from Sale of Power	2490.54	2984.32	2984.32
Other Income	18.48	17.74	97.16
Total Income	2509.02	3002.06	3081.48
Purchase of Power	2264.54	2811.98	2830.99
R&M Expenses	18.65	33.11	18.65
Employee Cost	89.74	180.14	89.74
A&G Expenses	15.59	11.27	11.27
Depreciation	14.80	20.26	19.50
Interest & Finance Charges	12.83	27.87	28.20
Other Debits	0.46	15.94	1.79
Return on Equity	4.60	-	6.93
Total Expenditure.	2421.21	3100.57	3007.07
Net Surplus/(Deficit)	87.81	(98.51)	74.41

Orders of the Commission

58. The Commission after considering the application filed by M/s. KDHPCL for truing up of accounts for the year 2017-18, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the total revenue of Rs.3081.48 lakh and total expenditure of Rs. 3007.07 lakh with a revenue surplus of Rs.74.41 lakh. The cumulative revenue surplus till 2017-18 will be Rs. 947.21 Lakh (Rs.74.41 lakh + Rs.872.80 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.

59. The application is disposed of. Ordered accordingly.

Sd/-
K.Vikraman Nair
Member

Sd/-
Preman Dinaraj
Chairman

Approved for issue
Sd/-
G.Jyothichudan
Secretary