KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present : Shri. Preman Dinaraj, Chairman

: Adv. A.J. Wilson, Member

OP No.34/2020

In the matter of : Petition for truing up of accounts filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) for the year 2017-18.

Petitioner : KINESCO Power and Utilities Private Limited,
Room No.302-306, 2nd Floor,
CFC Buildings, Kinfra Park Office,
Infopark P.O, Kakkanad, Kochi.

Petitioner represented by : Shri.T.M.AjithKumar,CEO
Shri.S.N.Asokkumar, Manager(Fin)
Shri Sajeev Resident Engineer

Hearing No & date : 1st hearing held on 17-12-2020

Order dated 29-03-2021

1. The KINESCO Power and Utilities Private Limited (hereinafter called *KPUPL or the licensee*) is a joint venture company established on 17.09.2008, under the Companies Act, 1956, for the distribution of electricity in the industrial parks of KINFRA at Kakkanad, Kalamassery and Palakkad. The license for distribution of power was transferred to M/s KPUPL from M/s. KINFRA Export Promotion Industrial Parks Limited (KEPIP), a deemed distribution licensee**,** as per the first proviso of Section 14 of Electricity Act 2003.

2. The Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2014 (hereinafter referred to as Tariff Regulations, 2014), was notified on 14.11.2014 as per Notification No.787/SEA/2011/KSERC for the control period 2015-16 to 2017-18. Regulation 11(1)(b) of the said Regulation mandates the filing of yearly petition for truing up of accounts for the respective years. As per the provisions of the said Regulations, the licensee should submit the application for truing up for the financial year 2017-18 on or before 30.11.2018. The licensee had filed OA No.34/2020 only on 12.11.2020 along with petition for condonation of delay. The Commission admitted the petition as OP No.34/2020.

3. The Commission noted that the Government of Kerala had vide GO(P)

No. 18/2003/PD dated 08-05-2003 granted a license to M/s. Kinfra Export Promotion Industrial park (KEPIP) for supply of electricity to various establishments at the KEPIP campus at Kakkanad, Cochin. Subsequently during 2008, new areas at Kakkanad in 2011at Kalamassery and in 2016 at Palakkad were included in the license.

4. In the meantime, Government vide GO.(Ms).No.88/2008/ID dated 27-06-2008 decided to form a Joint venture company between KINFRA and NTPC Electric Company Ltd with the objective to distribute power to industrial parks and also for system improvement and to promote new technology.

5. The Commission was informed of the incorporation of Kinesco Power and Utilities Private Ltd as a 50:50 Joint venture between NTPC and KINFRA. The new company also requested for transfer of license for distribution of electricity from KEPIP to the new company.

6. Since the proposed Joint Venture with NTPC did not achieve the desired results, Government of Kerala in July 2014, accorded sanction for termination of joint venture between NTPC and KINFRA. Accordingly, KINFRA took over the 50% stake held by NTPC, making KPUPL a 100% subsidy of KINFRA.

7. Thereafter on 07-09-2016 an Asset Transfer Agreement was executed between KEPIP and KPUPL and the assets of KEPIP was transferred to KPUPL at the book value in the accounts of KEPIP. However final settlement of asset transfer between the parties was not effected during that period.

8. Though the Commission vide Order dated 06.12.2011 in the matter of truing up of accounts of KEPIP for the years 2004-05 to 2008-09, directed the licensee to complete the transfer process immediately, due to termination of the Joint Venture Agreement, the transfer process got delayed till 07-09-2016.

9. The Commission based on truing up of accounts for the respective years has determined an accumulated surplus of Rs.3375.63 lakh for the years from 2004-05 to 2016-17 vide Commissions Order dated 19-08-2020. Since M/s KPUPL is the licensee in succession, the transfer of surplus from KEPIP to KPUPL and the notional interest chargeable on the regulatory surplus are to be borne by KPUPL.

10. The licensee has now filed the petition for truing up of accounts for the year2017-18 along with the audited accounts in accordance with the financial reporting requirements of the Kerala State Electricity Regulatory Commission. The petition was filed on 12.11.2020 and the Commission allotted it as OA 34/2020.

11. The reasons stated in the petitions by the licensee for filing the truing up petitions are as shown below:

- The Commission vide its order dated 06-12-2011 in the truing up of accounts of KEPIP from 2004-05to 2008-09 had directed to complete the transfer process from KEPIP to KPUPL immediately and to submit the transfer scheme with complete details before the Commission for approval. However, the Asset Transfer Agreements were delayed due to delay in termination of Joint Venture Agreement between KINFRA & KEPIP. The termination of joint venture was approved by Government only in July 2014.
- The truing up petitions filed by the company from2009-10 to 2014-15 was not processed by the Commission due to the absence of Asset Transfer Agreement.
- Thereafter the Commission vide Order dated 31-03-2020 while considering the truing up of accounts for 2009-10 to 2014-15, disallowed a majority of expenses like return on equity, interest and finance charges due to defects in the Asset Transfer Agreement.
- Thereafter the company executed a Supplementary Asset Transfer Agreements dated 27-10-2017 rectifying the defects in the initial agreement; the company has now submitted the true up petition for 2017-18.

12. In the petition, the prayers by the licensee are as follows:

a. Approve the true up petition based on the revised forms and annexures submitted herewith for the financial year 2017-18.
b. Approve the actual T&D loss of 1.72% for the year 2017-18.
c. Compute interest on the regulatory surplus to include in other income, after removing the expenses that have not been approved by the Hon'ble Commission like Electricity duty u/s.3 till the year 2017-18.
d. Approve the revenue deficit of Rs.19.62 lakh for the financial year 2017-18 and the cumulative revenue surplus of Rs.3356.01 lakh.
e. Approve the capital expenditure of Rs.32.66Lakhs for 2017-18.
f. Condone any inadvertent omissions, errors, shortcomings and permit KPUPL to add/change/modify/alter this filing and make further submissions as may be required at a future date.
g. Pass such other and further order as deemed fit and proper in the facts and circumstances of the case.

13. After examining the petition, the Commission vide letter dated 03-12-2020 sought the following clarifications on the petition giving time till 11-12-2020 for the licensee to reply to the clarifications.

- Details of power purchase cost (phase wise) to be furnished in the specified format.
- The statutory information as per the Regulation 2014 are not submitted in the prescribed format.
- In Revenue from sale of Power, the number of consumers in LT category has increased but the energy units sold has decreased for the F.Y 2017-18 compared to the Truing up Order 2016-17.
- The overall revenue from sale of power is decreased when compared to the Revised ARR Order.
- Detailed split up of Non Tariff Income of Rs.68.71 lakh to be furnished.
- Whether the RPO obligation of Rs. 70.16 lakh grouped under power purchase cost is representing any actual expenditure or merely a provision.
- The distribution loss approved at the rate of 1.50% in the Truing Up Order for the year 2016-17. The actual distribution loss claimed by the licensee is 1.72% is higher than the approved level of 1.50% and that of previous year.
- The O & M expenses claimed Rs.238.70 lakh for the Financial Year 2017-18 is 57.13 % higher than the Previous Year Trued Up figures.
- The split up of salaries Rs.13.51 lakh shown in Employee cost as basic pay, DA, other allowances, and bonus etc.
- In A & G Rs. 13.84 lakh showed as miscellaneous expenses. Split up to be provided.
- The Repair and Maintenance for 2017-18 is Rs. 89.01 lakh when compared with the Trued up figure for 2016-17 is Rs.66.80 lakh.
- The licensee may clarify whether depreciation of Rs. 71.40 lakh includes the assets created out of consumer contribution and grants.
- Provide the details in statutory forms prescribed for depreciation and fixed assets schedule as per the 2014 Regulations.

- The licensee to furnish the source of funding of capital assets additions made during the year and clarify whether such asset addition was made with the approval of the Commission.
- The licensee may clarify whether the amount of Rs. 0.24 lakh represents income tax/MAT paid during 2017-18. If so, the details of payment of income tax/MAT and the computation of tax may be furnished

14. The licensee furnished the details vide letter dated 15.12.2020. Thereafter, the Commission issued notices to the petitioner for public hearing on the petition on. Due to the Covid 19 pandemic, the scheduled public hearing was held via videoconferencing on 17.12.2020 as brought out below:

Public hearing on the petitions through Video conferencing on 17-12-2020

15. The Public hearing on the petitions for truing up of accounts filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) for the year 2017-18 was conducted by video conference on 17-12-2020. M/s KINESCO Power and Utilities Private Limited (KPUPL) was represented by Shri. T.M. Ajith Kumar, Chief Executive Officer, Sri. S.N. Ashok Kumar Manager (Finance) and Shri. Sajeev Resident Engineer of the petitioner who gave replies to queries of the Commission.

16. The petitioners in their submission stated that the majority of customers of KPUPL belonged to HT and EHT category. It was informed that the total sales was 810.40 lakhs unit as against the ARR & ERC approved 1056.40 lakhs unit and the previous year figure of 81.15 MU. The licensee reported that the slight dip in sales volume was due to two DHT consumers ceasing their operations. The revenue generated from operations was Rs.5663.71 lakhs as against Rs.7328.00 lakh approved in the ARR for the period.

17. The licensee submitted that the power cost was Rs 5214.96 lakhs and the units purchased was 824.70 lakhs unit compared with the ARR approved cost Rs.6708.00 lakhs with corresponding units purchased 1072.50 lakhs unit. The licensee submitted that they have included a provision for RPO of Rs.70.16 lakhs along with the power purchase cost.

18. The Commission informed that this being a case where no actual expenditure has been incurred, this expense of Rs 70.16 lakhs will be disallowed. More over the Commission advised the licensee to take up the matter with KSEB and to enquire whether the licensee's renewable power obligation can be covered by KSEB.

19. The Licensee also submitted that they have achieved a distribution loss of 1.72% which was lower than the previous year figure of 1.77%.The Commission enquired as to the steps taken by the licensee to minimize the distribution loss. The licensee submitted that the energy audit conducted has revealed that the distribution loss was due to the vast area covered, whereas the customers were few in number.

20. Further an energy audit was being undertaken for assessing the loss contributed by each transformer by including certain consumers also and also was planning to replace old transformers so as to minimize the distribution loss. This study report is awaited. Hence, they requested for approval of actual distribution loss of 1.72% for the year. The Commission observed that since area wise loss is not being submitted it is not possible for the Commission to assess the performance of each area.

21. The licensee stated that the increase in O&M expenses of Rs.238.70 lakhs as against Rs.125.44 lakhs approved in the ARR and the trued-up figure of Rs 151.92 lakhs of the previous year was mainly due to increase in Employee Cost, Administration and General Expenses and R&M Expenses.

22. The licensee submitted that as the truing up of accounts of the former licensee KEPIP was delayed, the last trued up figures were that of 2008-09 pertaining to the period of KEPIP based on which the ARR figures for 2017-18 was finalized by the Commission.

23. This was not having a representative character as KEPIP was conducting the power distribution business along with IT park business using the same resources. KPUPL on the other hand is an exclusive power distribution company and is not engaged in any other business. This was the main reason for the increase in expenses.

24. The licensee had reported in the truing up petition the Employee Cost Rs.49.72 lakhs as against the approved level of Rs.24.54 lakhs and the trued up figure for 2016-17 of Rs.43.41 lakh. The licensee stated in their response that this was due to the fact that during 2017-18the

Chief Executive Officer and Accounts Officer were engaged on regular basis and the day-to-day office functioning was outsourced through a manpower agency.

25. The licensee had claimed that the Administration and General expenses including electricity duty during this period amounted to Rs.99.97 lakhs (expenses Rs.51.35 lakhs and electricity duty Rs.48.62 lakhs) as against the ARR approved level of Rs.66.78 lakhs and the trued-up figure of Rs.41.71 lakhs. The licensee explained that this was due to the grouping of electricity duty of Rs.48.62 lakhs also under the Administration and General expenses.

26. The licensee explained that the main reason for the increase in R&M expenses of Rs.89.01 lakhs as against the ARR approved amount of Rs.34.12lakhs was due to the increase in expenditure for operation and maintenance of sub stations, which was awarded to licensed contractors based on tenders. Other components of R&M expenses were the contracts for pre-paid metering etc. The licensee requested that the above expenses be approved.

27. The licensee informed that Interest and Finance Charges of Rs.120.89 lakhs as against Rs.4.29 lakhs provision in the approved ARR represents interest on normative loan for the debt component for the consideration of asset transfer received from KEPIP. This is inclusive of interest on security deposit to consumers of Rs.2.77 lakhs and interest of Rs.32.82 lakhs paid for loan amount of Rs 235.00 lakhs availed from Kinfra.

28. The licensee explained that ROE of Rs.45.64 lakhs at 14% on equity of Rs.326.00 lakhs has been claimed being the equity participation by the promoter in connection with the transfer of assets. The licensee has made this claim from the date of vesting of assets. The Commission pointed out that the total number of equity shares issued was 2,16,438 at a face value of Rs.10/- per share which works out to Rs.21.64 lakhs along with existing equity of Rs.10.00 lakhs which will be the equity capital under the regulatory accounts. Share premium amount will not be considered for working out the total equity.

29. In their response M/s KSEB Ltd furnished their written comments.

Sri.Manoj.G, Asst. Executive Engineer (TRAC) presented the comments of the respondent KSEB Ltd. and submitted the written remarks. The major points presented by the respondent KSEB Ltd are summarized as below.

- KSEB Ltd submitted that, the T&D losses are on the higher side and the controllable factors are not attended to. The trued-up distribution loss claimed by KPUPL for the year 2017-18 is 1.72%. KSEB Ltd submitted that the cost incurred for the additional power procurement due to higher loss may be disallowed.

- O&M expenses including R&M expenses, Employee Cost, Administration and General expenses are higher than the approved level and may be limited to the approved level.

- The KSEB Ltd pointed out that the Commission had deducted Rs.6.36 lakhs from the depreciation arrived at being the share of Government grants. The share of Government grant to be deducted from the depreciation claimed.

- Return on equity is claimed as 14% of Rs 326.03 lakhs. In the true-up order for 2016-17 the equity is shown as Rs 284 lakhs. The Commission may consider equity only on the basis of convincing documents.

- KPUPL has sought approval for capital expenditure of Rs.32.66 lakhs incurred in 2017-18. The licensee ought to have sought prior approval for the same.

- KSEB ltd further pointed out that KPUPL has claimed Rs.120.89 lakhs being interest and finance charges for 2016-17.As the Commission has in the truing up order for 2016-17 it is stated that the Commission is yet to take a considered view on the transfer value of assets for want of clarity on the entire process .Hence interest charges may be limited to the approved level of Rs 4.29 lakhs.

- KSEB Ltd has submitted that the power purchase cost of KPUPL differs slightly with the accounts of KSEBL.

- KSEB ltd further pointed out that KPUPL has claimed Rs.70.16 lakhs being provision for meeting Renewable Power Purchase obligation. They have reported that the provision for RPO need not be considered if RE certificates are not purchased.

Analysis and decision of the Commission

30. The Commission has carefully considered the licensee’s petition, their additional clarifications and submissions vide their letter dated 15-12-2020 along with the comments of M/s KSEB Ltd. The analysis and decisions of the Commission on each item of this petition are detailed below:

Truing up of accounts for the year 2017-18

31. In the petition, the licensee has arrived at a revenue deficit of Rs.19.62 lakh for the year 2017-18, as against a revenue surplus of Rs.452.55 lakh approved by the Commission in the ARR Order dated 12-07-2017. The comparison of ARR&ERC Order and the truing up petition for the year 2017-18 and the trued-up figures for the immediate previous year is tabulated hereunder.

Table-1

Comparison of ARR & ERC, Approved Trued up figures for 2016-17 and True up claimed values for 2017-18

Amt In lakhs

	2016-17	**2017-18**		
Particulars	Trued Up	**Approved in ARR**	**Trueup claim**	**Variance**
Revenue from sale of power	5528.45	7328.00	5673.16	-1654.84
Non-tariff Income	267.79	34.00	68.71	+34.71
Total Income	**5796.24**	**7362.00**	**5741.87**	**-1620.13**
Expenses:				
Power Purchase Cost	4796.17	6708.00	5285.12	-1422.88
R&M Expenses	66.80	34.12	89.01	54.89
Employee Cost	43.41	24.54	49.72	25.18
A&G Expenses	41.71	66.78	99.97	-33.19
Depreciation	56.41	70.32	71.40	1.08
Interest &Fin Charges	0.00	4.29	120.39	116.10
ROE	26.82	1.40	45.64	44.24
Provision for income tax/ MAT	0.00	0.00	0.24	0.24
Total expenditure	**5211.32**	**6909.45**	**5761.49**	**-1147.96**
Revenue Surplus (Gap)	**584.92**	**452.55**	**-19.62**	

No. of Consumers and Energy Sale:

32. The number of consumers and their category wise sale of power by the Company during the year is detailed in Table-2 below.

Table – 2
Sale of Energy

Category	Trued up2016-17		Approved in ARR 2017-18		Truing up Petition 2017-18	
	No. of Consumers	Sales (lakh units)	No. of Consumers	Sales (lakh units)	No. of Consumers	Sales (lakh units)
HT Consumers	71	716.40	37	801.60	33	594.00
DHTConsumers			46	149.50	40	123.40
LT Consumers	224	95.10	249	105.20	253	93.30
Total	**295**	**811.50**	**332**	**1056.40**	**326**	**810.40**

33. The Table above indicates that number of consumers as on 31-3-2018 is 326, whereas the same for the previous year was 295. Though there is an increase of 31 consumers during this period, andthetotalsalehasdecreasedby1.10lakhunits from811.50lakhto810.40lakhunits when compared to the previous year.

Table -3
Total consumers and category wise energy sold

Category	Trued Up 2016-17		For Truing Up 2017-18	
	No of consumers	Energy Sold (lakh units)	No of consumers	Energy Sold (lakh units)
HT Consumers				
HT IA	10	171.70	12	172.50
HT IB	15	396.60	17	406.80
HT II A	2	4.40	2	6.40
HT II B	1	1.90	1	1.90
HT III B	1	7.70	1	6.40
DHT consumers				
DHT I A	1	0.40	1	1.00
DHT I B	40	128.50	38	118.00
DHT IV	1	5.30	1	4.40
LT consumers				
LT IV A	17	7.20	28	7.20
LT IV B	145	65.00	149	65.30
LT VI A	2	0.80	2	0.70
LT VI B	1	0.00	3	0.10
LT VI C	9	0.60	8	0.60
LT VI F	40	19.90	49	17.70
LT VII A	8	1.60	10	1.40
LT VII B	1		1	0.00
LT VIIIB	1		3	0.00
Total	**295**	**811.50**	**326**	**810.40**

34. After examining the details furnished by the licensee, ***the Commission approves the actual energy sales of 810.40lakh units reported by the licensee for the purpose of truing up of accounts for the year 2017-18.***

35. **Energy Requirement and Distribution Loss:** The details of the energy input and the distribution loss approved in the ARR for the year 2017-18 by the Commission along with the trued up figure for 2016-17 for the licensee is tabulated below along with the claim as per the truing up petition submitted by the licensee.

Table 4
Energy Requirement and Distribution Loss claimed

Particulars	**2016-17**	**2017-18**	
	Approved in True-up	**Approved in ARR**	**Claimed in True-up**
Energy sales (lakh units)	811.5	1056.4	810.4
Energy Requirement / Purchase (lakh units)	823.9	1072.5	824.7
Distribution loss ((lakh units))	12.4	16.1	14.3
Distribution loss (%)	1.50%	1.50%	1.72%
Excess Distribution loss (lakh units)	2.1		

The licensee vide their letter dated 15-12-2020 submitted that technical losses during the FY 2014-15 and 2015-16 were 3.75%& 2.03%respectively and they could achieve reduction in T&D loss to 1.77% & 1.72% for the FY 2016-17 and 2017-18 respectively due to the following facts;

i. In Kakkanad licensee area, an Energy Audit was conducted by M/s. Kerala State Productivity Council (KSPC) during the FY 2015-16. Corrective measures have been taken on the deviations and the root cause of the rising T&D losses in the system.
ii. Licensee is having underground cabling system for the distribution of power in their licensee areas which itself reduces the technical loss.
iii. Proper routine maintenance, preventive maintenance and shut down maintenance have been effectively executed to ensure safe and reliable operation of the switch gears and distribution system.

The licensee further submitted that the increasing trend in distribution technical loss is mainly due to the following.

a) The power is distributed among 260 consumers (estimated) in different locations within the area of 280.126 acres in Kakkanad at 110 KV level at receiving end, around 240 acres of land to feed about 32 consumers (estimated) at Kalamassery at 11KV and around 350 acres of land to feed about only 4 consumers at Palakkad at 22KV.

b) For good reliable power, there is provision for 100% back feeding for feeders and transformers. Hence, transformers are not loaded more than 50% to ensure the back-feeding reliability. So, the transformers could not be operated at the maximum efficiency level (nearly at 90%).

c). The details of power distribution area with voltage level, consumer strength etc. as on 31.03.2017(previous period) are tabulated in table –5 below, to overview the reason for increase in the T&D loss.

Table – 5: Area wise distribution

Licensee Area	Details	Acres	Voltage Level	No. of Consumers
Kakkanad	1. KEPIP 2. Infopark- phase 1	180.126 acres 100 acres	110 KV	260
Kalamassery	KINFRA Hi Tech Park	240 acres	11 KV	32
Kanjikode	KINFRA Integrated Industrial and Textiles Park.	350 acres	22 KV	3

d). As such, they were facing much higher technical losses at Kalamassery and Palakkad licensee areas which will be reduced if more and more consumers turned up in these areas and consume more power. KSEBL has agreed in principle to transfer the existing KSEBL consumers to KPUPL at KIITP, Kanjikode. After this, it is expected that the distribution efficiency will improve at KIITP, Palakkad.

e) The distribution loss also increased due to the ageing of electrical installations at Kakkanad and Kalamassery area.

Considering the above facts and the initiatives taken by KPUPL in this respect, the licensee requests the Commission to allow T&D loss at 1.72% for the year 2017-18. The Commission notes that the actual distribution loss is higher than the approved ARR level of losses. As per the truing up petition submitted by the licensee, the total energy sales is 810.40lakh units against an ARR approved sale of 1056.40lakh units and the trued up figure of 811.50 lakh units for 2016-17.

36. Considering the sales and energy requirement for the year, the distribution loss works out to be 1.73% of the energy input. The Commission in the ARR&ERC Order dated 14.07.2016for the year 2017-18 had approved the distribution loss of 1.50%. The details of the sales, energy requirement and distribution loss for 2017-18is given below in Table-6.

37. As shown in Table-4 above, the actual distribution loss at 1.72% is higher than the level of 1.50% approved by the Commission. Since distribution loss is a controllable parameter and there is an efficiency loss, then the provisions of clause 74(4) of Tariff Regulations 2014 will apply.

The relevant portions of the Regulation are shown below:

Quote

"74. Distribution losses:

(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"

Unquote

Table 6

Approved Distribution loss for 2017-18

		2016-17	2017-18	
Particulars	**Unit**	**As per approved truing up**	**As per Truing up petition**	**Approved in Truing up**
Total Energy Sales	Lakh units	811.50	810.40	810.40
Energy requirement/ purchase from KSEBL	Lakh units	823.90	824.70	822.70
Distribution loss	Lakh units	12.40	14.30	12.30
Distribution loss %	%	1.50%	1.72%	1.50%
Excess Distribution Loss	Lakh units			2.00

38. Table above indicates that, the actual distribution loss is 1.72% whereas the approved level is 1.50%. The licensee in their petition has furnished reasons for the higher distribution loss which on a perusal is seen as not relating to the current period. Distribution loss is a controllable factor and lower distribution loss can be attributed as a measure for better performance of the licensee. The quantum of power purchase to be approved by the Commission is to be based on the distribution loss of 1.50%. The distribution loss as approved by the Commission in the Order dated 12-07-2017 for approving the ARR&ERC for the year 2017-18 is used for computing power purchase/sale of power to consumers for that year. ***The Commission is of the view that the excess distribution loss of 0.22% amounting to 2 lakh units above the norms fixed by the Commission has to be borne by the licensee, which will be deducted from the power purchase cost.***

Power purchase cost

39. The power purchase cost claimed by the licensee for 2017-18 is as under;

Table 7

Power purchase cost as claimed in true-up

Particulars	**Unit**	**Trued up 2016-17**	**ARR Approved 2017-18**	**True up Claim 2017-18**
Units purchased	Lakh units	826.00	1072.50	824.70
Fixed charges	Rs.lakh	611.95	702.00	609.16
Variable Charges	Rs.lakh	4377.09	6006.00	4605.80
Total	Rs.lakh	4989.04	6708.00	5214.96
Average Rate	Rs./kWh	6.13	6.25	6.32
Efficiency loss	Rs.lakh	(12.87)		
RPO obligation	Rs.lakh	0.00	0.00	70.16
Total Power Purchase Cost	Rs.lakh	4976.17	6708.00	**5285.12**

40. The Commission has carefully examined the licensees claim for power purchase cost of Rs 5285.12 lakhs as shown in the table above. ***The licensee's claim of a provision towards RPO liability of Rs.70.16lakhs for 2017-18 is disallowed, since the licensee has admitted that the company has not purchased any RE certificate during the year. The licensee is also directed if they so desire, to request KSEB Ltd to fulfill their renewable power purchase obligation along with the RE purchase by KSEB Ltd.***

41. KSEB Ltd has vide their letter No. KSEB/TRAC/KPUPL/2020/R1/1208 dated 22-12-2020 informed that the power purchase cost for the year 2017-18 of the licensee as per their accounts was Rs.5215.10 lakh as against the petition figure of Rs.5214.96 lakhs .Since this difference is only Rs.0.14 lakhs, the licensee shall sort this out with KSEB Ltd so that both their accounts match perfectly.

42. As mentioned above, the approved power purchase cost is to be based on the approved distribution loss. The efficiency gain/loss is to be adjusted against the power purchase cost as shown below:

Table 8
Efficiency gain/loss based on approved distribution loss

Year	**Total Energy Input** (Lakh units)	**Approved Loss** (%)	**Excess distribution loss** %	Lakh units	**Average power Purchase cost (Rs./kWh)**	**Efficiency (+)gain/ (-)loss** (**Rs.**Lakh)
2016-17	826.00	1.50%	-0.27%	2.10	6.13	**-12.87**
2017-18	824.70	1.50%	-0.23%	2.00	6.32	**-12.64**

43. ***Since the power purchase figures with KSEB Ltd for the previous years is yet to be reconciled, the Commission had reiterated it's previous directions vide truing up Order dated 19-08-2020, that the power purchase details from 2009-10 onwards shall be treated as provisional and adjustments shall be made retrospectively as and when accounts of the two parties are reconciled. Since no action is seen to be taken on this account, the Commission hereby directs the licensee to reconcile the accounts and submit the figures within three months of issue of this Order.***

Table 9
Approved power purchase cost

Actual	Unit	2016-17	2017-18
Units purchased	Lakh units	826.00	824.07
Fixed charges	Rs.lakh	611.95	609.16
Variable Charges	Rs.lakh	4377.09	4605.80
Total (A)	**Rs.lakh**	**4989.04**	**5214.96**
Average Power purchase cost	Rs./kWh	6.13	6.32
Excess Distribution Loss	MU	0.21	0.20
Efficiency loss (-)/Gain (+) (B)	Rs.lakh	**-12.87**	**-12.64**
Approved Power purchase cost(A) –(B)	**Rs.lakh**	**4976.17**	**5202.32**

44. ***The efficiency loss due to the excess distribution loss of 2.00lakh units costing Rs.12.64 lakhs has been*** **deducted** ***from the power purchase cost. The Commission hereby approves provisionally the power purchase cost of Rs.5202.32 lakhs for the purpose of truing-up for 2017-18.***

Operation & Maintenance expenses

45. Operation &Maintenance expenses include controllable expenses like Employee cost, Repair & Maintenance Expenses and Administrative & General Expenses. The Commission as per Regulation 81(4) of the Tariff Regulations, 2014 had approved the licensee to recover O&M costs as per norms in the Regulations for the year 2017-18 but the licensee's O&M expenses has exceeded the amounts specified therein.

46. The comparison of the trued-up expenses for the previous year 2016-17, truing up claim in the petitions for 2017-18, and the O&M expenses approved in the ARR is tabulated hereunder.

Table 10

Comparison of the previous year trued up, ARR approved and actual O&M expenses claimed for 2017-18

Amt(Rs.Lakhs)

Particulars	2016-17	2017-18	
	Trued up	**Approved in revised ARR**	**True up claim**
R&M expenses (Rs. Lakh)	66.80	34.12	89.01
Employee expenses (Rs. lakh)	43.41	24.54	49.72
A&G expenses (Rs. lakh))	41.71	66.78	51.35
Electricity Duty		0.00	48.62
Total O&M expenses (Rs. lakh)	**151.92**	**125.44**	**238.70**

47. The Commission has conducted a detailed analysis of each of the components mentioned above and its decisions are given below:

Employee Cost

48. As per the Tariff Regulations 2014 norms, the Commission had in the licensee's revised ARR petition approved an amount of Rs.24.54 lakh towards employee expense for 2017-18. In the true-up petition for the year 2016-17 the Commission after carefully considering the justification provided by the licensee towards additional employee cost had approved Rs.43.41 lakh as against the licensee's claim of Rs.47.17 lakh for the year 2016-17.

49. The licensee states that, during the year2017-18, the Chief Executive Officer and the Accounts Officer (part of the year) were engaged on regular rolls of the Company and all day to day technical and administrative functions were outsourced to a manpower supply agency to keep the employee cost on lower side. The employee cost comprises the following table:

Table 11
Employee expenses claimed 2017-18

	Amount(Rs.lacs)
Basic pay (AO Only)	1.72
Dearness Allowance(AO)	4.45
Consolidated pay (CEO)	6.00
PF, leave encashment & other allowances	1.34
Bonus	0.00
Staff welfare expenses	1.08
Manpower outsourced for support functions	35.13
Total employee cost claimed	49.72

50. The licensee had reported in the truing up petition that the increase in Employee Cost to Rs.49.72 lakhs as against the trued up level for 2016-17 of Rs.43.41 lakhs, was due to the above mentioned fact .

51. The Commission notes that there is an increase by Rs 6.31 lakhs (14.54%) over the previous years trued up figure. The licensee in their reply dated 15-12-2020 stated as follows. The license area at KIITP Kanjikode was made fully operational during the year 2017-18 and additional cost was incurred for operation of sub-station on full shifts. The license area, is at a distance of 150 Kms from Kakkanad from where the activities were being managed. The increase in O&M cost was due to the increase in the activity level and also due to the overall escalation in the cost due to the loading of GST in bills w.e.f July17which was higher than VAT and Service tax applicable till that date. The Commission has also noted that the payment made to the CEO and AO is most reasonable.

52. The licensee in their clarification also pointed out that the wages of outsourced manpower at Kakkanad, Kalamassery and Kanjikode are based on competitive tenders and considering the distance involved, **the Commission accepts the licensee's claim of Rs.49.72 lakhs *as employee expenses for 2017-18.***

53. ***In order to make the licensee's operations more cost effective, the licensee is hereby directed to pursue with KSEB Ltd for the***

early transfer of the existing KSEB Ltd consumers at Kanjikode to KPUPL so that there is full justification and value for money for the investment made at Kanjikode.

54. ***The Commission further directs that the licensee shall file a separate petition on the required/available employee strength, qualifications, experience, scale of pay, number engaged in shifts etc based on CEA norms to arrive at an optimal employee strength. This has to be filed at the earliest and not later than three months from the date of this Order***.

Administration and General Expenses

55. In the true up petition filed, the licensee had claimed an amount of Rs.99.97lakh which was inclusive of Section (3) Electricity Duty of Rs.48.62lakh.

Table 12
A&G Expenses claimed **Amt in Lakhs**

	Trued up 2016-17	**True up claim 2017-18**
Rent, rates &Taxes	7.68	12.95
Insurance	0.66	1.48
Consultancy charges	6.73	6.04
Telephone charges	0.43	0.43
Legal charges	7.25	0.64
Audit fees	1.38	1.66
Other professional	0.00	0.00
Travelling Expense	8.23	8.52
Conveyance &Vehicle	0.00	0.00
Printing &stationery	0.68	0.72
Advertisements	0.27	2.37
Loss on sale of fixed Asset	0.00	2.70
Miscellaneous Exp	8.40	13.84
Electricity Duty	0.00	48.62
Total	41.71	**99.97**

56. The licensee has claimed in the truing up petition for the previous year 2016-17 Rs. 90.83 lakh as A&G expenses. In the true up petition for 2017-18, the licensee has claimed Rs. 99.97 lakh. The Administration and General Expenses includes the Electricity Duty amount of Rs.48.62 lakh.

57. Commission has not been admitting section 3(1) Duty as a revenue expenditure since as per the Kerala Electricity Duty Act, the Electricity Duty under this section on the sales of energy should be borne by the Licensee and shall not be passed on to the consumers.

Section 3 of the Kerala Electricity Duty Act, 1963 is quoted hereunder, -

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

Save as otherwise provided in sub-section (2); every licensee in the State of Kerala shall pay every month to the Government in the prescribed manner, a duty calculated at 6 naye paise per unit of energy sold or a price more than 12 naye paise per unit;

that no duty under this sub-section shall payable by the Kerala State Electricity Board on the energy sold by it to another licensee.

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

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

From the above statutory provision, it can be concluded that,

(i) the Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, is payable by the licensee to the Government

(ii) the Duty shall be calculated at the rate of 6 paise per unit of energy which is sold at a price of more than 12 paise per unit.

(iii) Duty shall be calculated only on the energy sold.

(iv) the Duty paid by the licensee under Section 3 (1) cannot be passed on the consumer and therefore it cannot be claimed as an expenditure in the truing up petition.

58. The amount of Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, cannot be admitted as an item of expenditure in the truing up petition. The Commission has, in its previous orders also, consistently pointed out that the Electricity Duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act cannot be included in the A&G expenses and passed on to the consumers. Hence, here too the Commission declines to approve the licensees claim of Rs.48.62 lakh on account of section 3(1) duty.

59. The amount approved in the revised ARR 2017-18 is Rs. 66.78 lakh as per the norms and the trued-up figure for previous year 2016-17is Rs.41.71 lakhs. The licensee has in reply to clarifications provided the breakup of Miscellaneous expenses of Rs.13.84 lakhs included under A&G expenses which is as under;

Table 13

Miscellaneous Expenses

Sl no	Particulars	Amount(Rs.)
1	News papers& periodicals	5260.00
2	Regn fee	3000.00
3	Office Expenses	7897.00
4	postage	8279.00
5	Common facility chgs	37501.00
6	Bank charges	847032.00
7	Hospitality exp	58767.00
8	Donation	10000.00
9	Interest on consumer deposits	279278.00
10	Testing charges	36970.00
11	Training expenses	25000.00
12	Electricity exp	65081.00
	Total	**13,84,065.00**

60. The Commission hereby directs that the amount shown as Bank charges of Rs.8,47,032/-and the interest on consumer deposits of Rs.2,79,278/-need to be claimed under interest and finance charges.

61. ***The amount of Rs 10000.00 shown as Donations is disallowed since any donation made by the licensee without the concurrence of their consumers cannot be passed on to them. The Commission hereby directs that Bank charges of Rs. 8,47,032.00 and interest on consumer deposits of Rs.2,79,278.00may be claimed as part of interest and finance charges. Thus, the Miscellaneous expenses allowed is as under;***

Table 14

Approved Miscellaneous Expenses

Sl no	Particulars	Amount (Rs.)
1	Newspapers& periodicals	5260.00
2	Regn fee	3000.00
3	Office Expenses	7897.00
4	Postage	8279.00
5	Common facility chgs	37501.00

6	Bank charges	0.00
7	Hospitality exp	58767.00
8	Donation	0.00
9	Interest on consumer deposits	0.00
10	Testing charges	36970.00
11	Training expenses	25000.00
12	Electricity exp	65081.00
	Total	**2,47,755.00**

62. Based on the foregoing, the A&G expenses approved after excluding the in-eligible expenses is as under;

Table 15
Approved A&G Expenses

Amount Rs. Lakhs

	Trued up 2016-17	**True up Claim 2017-18**	**Trued up 2017-18**
Rent, rates &Taxes	7.68	12.95	12.95
Insurance	0.66	1.48	1.48
Consultancy charges	6.73	6.04	6.04
Telephone charges	0.43	0.43	0.43
Legal charges	7.25	0.64	0.64
Audit fees	1.38	1.66	1.66
Other professional	0.00	0.00	0.00
Travelling Expense	8.23	8.52	8.52
Conveyance &Vehicle	0.00	0.00	0.00
Printing &stationery	0.68	0.72	0.72
Advertisements	0.27	2.37	2.37
Loss on sale of fixed asset	0.00	2.70	2.70
Miscellaneous Exp	8.40	13.84	2.48
Electricity Duty	0.00	48.62	0.00
Total	**41.71**	**99.97**	**39.99**

63. The Commission has carefully considered each of the above expenses based on the clarifications provided by the licensee. ***Accordingly, the A&G expenses approved by the Commission for 2017-18 is Rs.39.99 lakhs as enumerated vide Table no.15 above.***

R&M Expenses

64. In the petition filed, the licensee had claimed an amount of Rs.89.01 lakh as R&M expenses under the Operation and Maintenance expenses for the Financial Year 2017-18. In the immediate previous year 2016-17,as against a claim of Rs.83.07 lakhs, the amount approved in truing up was Rs.66.80 lakhs. The split-up details of R&M expenses is shown in the Table below.

Table 16
Split up details of Repairs & Maintenance Expenses

Amt Rs Lakhs

Particulars	Trued up for 2016-17	Claimed for 2017-18
Operation and maintenance of Kakkanad SS	39.39	44.94
-------do------------- Kalamassery LA	7.20	17.27
-------do------------- Kanjikode LA	7.07	16.28
Pre-paid meter billing contract (CMS)	4.85	4.53
GSM Bills (Airtel) for transfer of energy data	2.63	1.07
Breakdown maintenance of distribution network and sub-station	2.60	4.18
Repair & Maintenance Office equipment	0.25	0.74
Repair & Maintenance of building	1.78	
Testing charges	0.89	0.00
Training to staff	0.14	0.00
Total	**66.80**	**89.01**

65. Regarding R&M expenses the licensee stated in the petition that a major part of the R&M Expenses was incurred for the operation and maintenance of the sub-stations. The licensee submitted that the O&M works were done on contract basis which was awarded through proper tendering. However, there was limited contribution for contracts of such small magnitude. In order to examine the licensee's claim, the Commission had called for the details, which was furnished by the licensee.

66. In their clarification dated 15-12-2020,the licensee stated that KPUPL is maintaining 110KV sub-station at Kakkanad, 11KV distribution feeder at Kalamassery and a 22/11KV sub-station at Kanjikode. The distribution network is spread over an area of 100 acres in Infopark, 180.126 acres in KEPIP park at Kakkanad, 240 acres in Hitech park at Kalamassery and 350 acres in KIITP at Kanjikode license areas. Kanjikode sub-station was commissioned on 05.08.2016 and hence the same was fully operational during the year 2017-18 only. Additional qualified manpower had to be engaged at Kanjikode for the operation of the sub-station on all shifts. Moreover, the operating standards of CEA and KSERC are strictly adhered to and hence, only qualified personnel were engaged for the operation.

67. The Commission noted that a major portion of the R&M cost is for the operation and maintenance of sub-stations and the distribution network at various license areas at Kakkanad, Kalamassery and Kanjikode. Copy of the break-up of R&M expenses was also provided. The annual contract of O&M is seen awarded to 'A' grade electrical contractors who usually show very limited interest for quoting for contracts of such small magnitude and for operation spread over various license areas. The licensee also submitted that the contract is awarded to the L1 bidder against open tender and hence to be considered as competitive. The increase in R&M cost was due to the increase in the license area at Kanjikode and due to lack of participation of tenders apart from the impact on cost due to GST.

68. Licensee has also reported that some emergency break-down maintenance had to be taken up at 110KV substation Kakkanad, Kalamassery and Kanjikode.

69. The Commission has carefully examined each of the items in the Table above and have the following observations. The Commission notes that in the previous year 2016-17, the trued-up O&M figures for Kakkanad SS and Kalamassery LA and Kanjikode were Rs.39.39 Lakhs, Rs.7.20 lakhs& Rs.7.07 Lakhs respectively. However, for 2017-18, the Licensee has claimed Rs.44.94Lakhs, Rs.17.27lakhs& Rs.16.28 Lakhs respectively. Of the above, the licensee clarified that the increase in R&M cost of Kanjikode substation was due to the unit becoming operational during this year. However, no such explanation is provided for Kalmassery substation for which the expenses has increased from Rs. 7.20 lakhs to Rs.17.27 lakhs. As explained in previous paragraphs, repairs and maintenance expense are controllable items and due diligence is required to be exercised while accepting claims .

70. Since the expenses claimed for Kakkanad at (+) 14.09% and Kalamssery substations at (+) 140% are far in excess of the approved normative amounts, and the trued up amounts for the previous year 2016-17, the Commission limits the claim of these two substations by escalating the trued up amounts of these substations for 2016-17 by the growth rate of 5.85% per annum (based on the escalation index notified by CERC). Since the licensee's area at Kakkanad and Kalamassery are quite close to each other, the licensee is hereby directed to explore the possibility of sharing the maintenance staff between these areas. The Commission further directs the Licensee to ensure that such excess is not permitted henceforth and proper tendering with appropriate and sufficient details to be obtained, failing which re-tendering is required to be resorted to.

Table 17
Approved Repairs & Maintenance Expenses

Amt.Rs. Lakhs

Particulars	Trued up for 2016-17	Claimed for 2017-18	Approved for 2017-18
Operation and maintenance of Kakkanad SS	39.39	44.94	41.69
-------do---- Kalamassery LA	7.20	17.27	7.62
-------do----- Kanjikode LA	7.07	16.28	16.28
Pre-paid meter billing contract (CMS)	4.85	4.53	4.53
GSM Bills (Airtel) for transfer of energy data	2.63	1.07	1.07
Providing Manpower support (UPL)	0.00	0.00	0.00
Breakdown maintenance of distribution network and sub-station	2.60	4.18	4.18
Repair & Maintenance Office equipment	0.25	0.00	0.00
Repair & Maintenance of building	1.78	0.74	0.74
Testing charges	0.89	0.00	0.00
Training to staff	0.14	0.00	0.00
Total	**66.80**	**89.01**	**76.11**

71. **Based on careful consideration, the Commission hereby approves *Rs.76.11 lakhs towards R&M expenses for 2017-18.***

Approved O&M Expenses

The O&M expenses approved by the Commission for the year 2017-18 are as under.

Table - 18
Approved O&M expenses for 2017-18

	Trued up 2016-17	True up claim 2017-18	**Approved 2017-18**
Employee expenses	43.41	49.72	**49.72**
A&G Expenses	41.71	99.97	**39.99**
R&M Expenses	66.80	89.01	**76.11**
Total	151.92	238.70	**165.82**

The Commission hereby approves Rs.165.82 lakhs as the licensee's O&M expenses for 2017-18.

72. Capital Addition

The details of the additional capitalization made by the company during the year 2017-18are tabulated in Table-16below.

Table – 19
Capital Additions made in 2017-18

(Rs in Lakhs)

Sl No	Description of asset	Amount
01	Metering equipments	5.70
02	Lightening Arrestors	0.14
03	Switchgears	0.24
04	Transformers	18.41
05	Cables	4.53
06	Sub-station equipments	1.55
07	Furniture & fixtures	0.05
08	Personal computers	0.89
09	Software	1.09
10	Office equipments	0.06
	Total amount	32.66

The licensee submitted that the expenditures being within the Rs.5 lakh limit prescribed by the Commission for prior approval, these may be approved as capital addition for the year 2017-18.

The split-up details of the above capital additions as submitted by the licensee is given in Table 20 below.

Table - 20

DETAILS OF FIXED ASSETS PROCURED DURING THE FINANCIAL YEAR 2017-18

Sl No	DETAILS OF ADDITIONS FOR THE PERIOD	AMOUNT (RS)	Approval status (with Order date)	Commissioning date	Sources of fund	JUSTIFICATION
	CABLES			-		

1	Purchase of control cable &ancilaries for Kakkanad sub-station	50,731.00	Expenditure being within the limit prescribed by the Commission for prior approval, as per Tariff regulation 2014, approval not obtained.	27.06.17	Own fund	For upgradation to 0.2S class of metering equipments as per CEA norms
2	Purchase of 11KV, XLPE, 3 CORE 300MM Aluminium cable for Palakkad	402,500.00		13.07.17	Own fund	For use of 11KV distribution network development for providing new HT connections at KIITP Palakkad
	Sub-total	453,231.00				
	<u>FURNITURE & FIXTURES</u>			-		
3	Purchase of Ceiling fan (3Nos) for office rooms.	5,186.00		20.02.18	Own fund	Replacement of damaged ceiling fans
	Sub-total	5,186.00				
	<u>LIGHTENING ARRESTORS</u>			-		
4	Erection of Protection LAs for 12.5 MVA Transformer II bay at 110KV s/s, KKD	13,892.00		31.01.18	Own fund	Replacement of faulty LAs for transformer at bay-2
	Sub-total	13,892.00				
	<u>METERING EQUIPMENTS</u>			-		
5	Purchase of TOD Meter (5Nos)	70,933.00		02.06.17	Own fund	For providing new connections
6	Purchase of PG clamps for wolf conductor atKakkanad	9,346.00		15.07.17	Own fund	For replacement of 110KV metering equipments with 0.25 class
7	Purchase of Aluminium Isolator clamps for Wolf conductor	4,673.00		21.07.17	Own fund	
8	Purchase of materials for replacement of existing	6,042.00		09.08.17	Own fund	

	metering equipments					CT & PT at 110KV S/S, KKD
	Purchase of Aluminium T clamp without drilling, hot dip bolt, nut& washer	10,556.00		12.08.17	Own fund	
10	Purchase of finolex& copper wire	8,704.00		22.08.17	Own fund	For providing service connection to consumers
11	Purchase of 8 nos of LT & 5 nos of HT Meters	187,614.00		26.08.17	Own fund	
12	Purchase of GI strip as part of replacing existing Metering Equipment	3,572.00		13.09.17	Own fund	For replacement of 110KV metering equipments with 0.25 class CT & PT at 110KV S/S, KKD
13	Purchase of Clamps as part of replacing existing Metering Equipment	16,608.00		13.09.17	Own fund	
14	Purchase of consumables for fixing metering equipments	520.00		16.09.17	Own fund	
15	Fabrication &Supply of outdoor ABT metering cubicle & connector as part of replacing existing metering equipments	53,760.00		10.10.17	Own fund	
16	Inspection fee paid to CEI in connection with the replacement works of existing metering equipments	10,000.00		01.11.17	Own fund	
17	Purchase of 8 nos of LT & 5 nos of HT Meters	187,614.00		23.11.17	Own fund	For providing service connection to consumers
	Sub-total	569,942.00				
	OFFICE EQUIPMENTS			-		
18	Purchase of External Hard disk	4,750.00		17.05.17	Own fund	For replacement of damaged HDD
19	Purchase of mobile phone & sim (Kalamassery S/S)	1,500.00		28.09.17	Own fund	For use in control room for common use
	Sub-total	6,250.00				
	PERSONAL COMPUTERS AND PERIPHERALS			-		
20	Purchase of UPS (5Nos)	8,500.00		07.04.17	Own fund	For the protection of office computers at Kakkanad office

21	Purchase of Network Printer, Thoshiba make	80,900.00		25.10.17	Own fund	For meeting the bulk printing requirements of office
	Sub-total	89,400.00				
	SOFTWARE			-		
22	Purchase of Windows OS and MS office	106,762.00		13.07.17	Own fund	Windows Operating system & MS Office software for the computers procured in 2016-17
23	GST up gradation in Tally software	2,360.00		31.07.17	Own fund	To comply with the GST implementati on
	Sub-total	109,122.00				
	SUB STATION EQUIPMENTS			-		
24	Purchase of single float cum boost type battery charger for 110KV S/S, KKD	154,580.00		22.02.18	Own fund	For replacement of outlived battery charger at 110KV substation,Kak kanad
	Sub-total	154,580.00				
	SWITCHGEAR			-		
25	Purchase of Relay	23,364.00		07.12.17	Own fund	For earth fault & over current protection of transformer pannel at 110KV ss at Kakkanad
	Sub-total	23,364.00				
	TRANSFORMER			-		
26	Supporting structure for 110KV CT	149,700.00		02.05.17	Own fund	For replacement of 110KV metering equipments with 0.25 class CT & PT at 110KV S/S, KKD

27	Preparation of schematic drawing for getting approval, arranging inspection& obtaining order from CEI for 160KVA Transformer at KIITP, Kanjikode	86,250.00		17.05.17	Own fund	For energising 160KVA transformer for providing new connections at KIITP, Knajikode
28	Construction & Foundation for 110Kv LA, erection of lattic structure for CTs & earthing of 110KV CTs & Las	146,221.00		27.05.17	Own fund	For replacement of 110KV metering equipments with 0.25 class CT & PT at 110KV S/S, KKD
29	Purchase of CT	344,277.00		22.06.17	Own fund	
30	Purchase of PT	344,277.00		22.06.17	Own fund	
31	Purchase of CT (including GST)	574,372.00	Approved vide OP. No.03/ 2018 dt 28.05. 2018 for Rs.4.69 lakhs (basic price)	28.09.17	Own fund	Replacement of faulty CT for transformer at bay-2 Approved vide OP. No.03/2018 dt 28.05.2018 for Rs.4.69 lakhs (basic price)
32	Replacement of existing metering equipment with 0.2S class CT & PT at 110KV S/S	161,228.00		31.01.18	Own fund	
33	Erection of protection CTs for 12.5MVA Transformer II bay at 110KV S/S, KKD	34,505.00		31.01.18	Own fund	Replacement of faulty CT for transformer at bay-2
	Sub-total	1,840,830.00				
	Total Amount (Rs)	**32,65,797.00**				

73. The licensee clarified that the items procured as shown above are for amounts lower than the threshold limit of Rs.5 lakh/item fixed requiring prior approval except item no.31 for which the licensee had obtained the Commission’s approval vide Order dated 28-05-2018.

74. ***The Commission after examining the above details hereby approves the Asset additions for Rs 32.66 lakhs based on the explanations given.***

Depreciation

75. The licensee in the petition has claimed depreciation of Rs.71.40 lakhs on the straight-line method as per the Tariff Regulations 2014 for 2017-18 as against Rs.70.32 lakh approved in revised ARR for the year. The Commission while truing up the accounts for the year 2016-17 had approved depreciation of Rs.56.41 lakh.

76. The depreciation claim made by the licensee for the year 2017-18 is shown below.

Table-21
Depreciation claimed for the year 2017-18

Particulars	2017-18 (Rs. lakh)				
	GFA as on 1/4/2017	Asset Additions during the year	Retirement of asset during the year	GFA ason 31-03-2018	Depreciation Claimed 2017-18
Land & land rights	239.11	0.00	0.00	239.11	*4.30
Sub-Stations	716.52	20.33	3.64	733.21	26.53
11 KV works	757.54	4.53	0.00	762.27	27.44
Metering equipments	129.13	5.70	0.00	134.83	8.99
Building	114.35	0.00	0.00	114.35	2.06
others	19.79	2.10	0.00	21.89	2.08
Total	**1976.64**	**32.66**	**3.64**	**2005.66**	**71.40**

*Depreciation claimed on land represents value of leasehold rights amortised over the lease period

77. On a detailed scrutiny of the depreciation worked out, it was noticed that the rates as specified in the 2014-18 Regulations was not adopted. Hence the depreciation has been reworked by the Commission by applying the rates prescribed in the 2014-18 Tariff Regulations for the current year provisionally.

78. The revised provisional workings mentioned in para 77 above are given in Table 22 hereunder.

Table-22

Provisional reworking of Depreciation for the year 2017-18

	2017-18 (Rs. lakh)					
Particulars	**GFA as on**	**Asset**	**Retirement of asset during the year**	**GFA as on**	**Depreciation**	**Rates as per Annex-1 of 2014 Regulations**
	1/4/2017	**Additions**		**31-03-2018**	**Claimed**	**%**
					2017-18	
Land & land rights	239.11	0	0	239.11	4.30	
Sub-Stations	716.52	20.33	3.64	733.21	38.37	5.28
11 KV works	757.74	4.53	0	762.27	40.13	5.28
Metering equipment	129.13	5.70	0	134.83	6.97	5.28
Building	114.35	0	0	114.35	3.82	3.34
others	21.00	2.10	0	23.10	1.40	6.33
Total	**1977.85**	**32.66**	**3.64**	**2006.87**	**94.98**	

79. The depreciation provisionally reworked out by the Commission vide Table 22 above for the year 2017-18 is Rs.94.98 lakhs.

80. ***The Commission hereby directs the licensee to rectify the application of incorrect rates for working out depreciation. Despite there being clear directions in the 2014-18 Tariff Regulations the licensee has so far failed to do so. The Commission views this seriously and the licensee is directed to cure above defects with reference to prior periods and submit updated corrected depreciation workings with all details and submit it along with the next truing up petition***.

81. The licensee in the petition stated that it had entered into the Asset Transfer Agreement on 07-09-2016 and Supplementary Agreement on 27-10-2017, with the effective date of transfer as 01-02-2010. The assets created out of consumer contribution and Government grants including ASIDE grants were separated and depreciation has not been allowed on these assets.

82. The Commission has noted that vide it's Truing Up Order dated 19-08-2020, for the immediate previous year 2016-17 had pointed out as under;

"*The licensee in the petition stated that it had entered into the Asset Transfer Agreement on 07-09-2016 and Supplementary Agreement on 27-10-2017, with the effective date of transfer as 01-02-2010. The assets created out of consumer contribution and Government grants including ASIDE grants were separated and depreciation was not allowed on these assets. However, the Commission had in the True-Up Order dated 31-03-2020 for the previous year 2014-15 had pointed out that the licensee had not taken into consideration the share of GOI grants to the tune of Rs.177.62 lakh, which has been revealed during the clarification stage. Thus, the depreciation for these assets was deducted from the depreciation claimed. Despite this, the licensee for 2015-16 &2016-17 also has not modified the Asset value on which depreciation is worked out*."

The licensee for 2017-18 also has not modified the Asset value on which depreciation is worked out.

83. ***The provisionally worked out Depreciation is Rs.94.98 lakhs is revised to Rs.88.62 lakhs by excluding assets for Rs.177.62 lakhs mentioned in para82above.***

Table 23
Depreciation approved for 2017-18

	2017-18 (Rs. lakh)					
Particulars	**GFA as on**	**Asset**	**Retirement of asset during the year**	**GFA as on**	**Depreciation**	**Rate**
	1/4/2017	**Additions**		**31-03-2018**		**%**
					2017-18	
Land & land rights	239.11	0	0	239.11	4.30	
Sub-Stations	716.52	20.33	3.64	733.21	38.37	5.28
11 KV works	757.74	4.53	0	762.27	40.13	5.28
Metering equipment	129.13	5.70	0	134.83	6.97	5.28
Building	114.35	0	0	114.35	3.82	3.34
others	21.00	2.10	0	23.10	1.40	6.33
Total	**1977.85**	**32.66**	**3.64**	**2006.87**	**94.98**	
Less depreciation for the share of GOI grants					**6.36**	
Depreciation allowed for 2017-18					**88.62**	

84. ***As shown above, the GFA at the beginning of the year 2017-18 was Rs.1977.85 lakhs, capital additions were Rs.32.66 lakhs and Asset retirement was Rs.3.64 lakh. For the Asset addition of Rs.32.66 lakhs during the year, the Commission hereby allows the depreciation claimed for the asset addition at 50 % depreciation for the assets put in use during the year and the additions are allowed to be included in the Gross Block considering that the approved ARR for 2017-18 had projected this capital expenditure and also considering the explanations provided by the licensee in the additional clarifications given as explained in para 72,73 above.***

Table 24
Schedule of depreciation

Particulars	Amount In Rs.lakhs
Cumulative depreciation as on 31-03 -2017	629.56
Add: depreciation provided for the year 2017-18	88.62
Cumulative depreciation as on 31-03-2018	718.18

85. ***The Commission notes that the licensee in their true up and petition had claimed Rs.71.40 lakhs towards depreciation. As shown in Table 22 the Commission has worked this amount as Rs.94.98 lakhs. After excluding assets created out of Government grants of Rs.177.62 lakhs this amount is reworked to Rs.88.62 lakhs for the year as shown above and as explained in para 83 above. The Depreciation is allowed accordingly.***

86. ***The Commission hereby approves depreciation of Rs.88.62 lakh for the year 2017-18.***

Interest and finance charges

87. The interest and financing charges claimed by the licensee in their petition for the year2017-18 is Rs.120.89 lakhs.The licensee has submitted as under;
As per the Regulation 17 of the Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity under MYT Framework) Regulations, 2006"*For financing of future capital cost of projects, a Debt: Equity ratio of 70:30 should be adopted. The Distribution Licensee would be free to have higher quantum of equity investments. The equity in excess of this norm should be treated as loans advanced at the weighted average rate of interest and for a weighted average*

tenor of the long-term debt component of the project after ascertaining the reasonableness of the interest rates and taking into account the effect of debt restructuring done, if any.”

88. The licensee further submitted that the debt: equity ratio as per the asset transfer agreement executed on 07.09.2016 and the Supplementary Agreement dated 27.10.2017 is 70:30. The effective date of transfer of the assets is considered as 01.02.2010. Accordingly, the company has issued 2,16,438 equity shares of Rs.10/- each at a premium of Rs.136/- each, aggregating to an amount of Rs.3,15,99,948/- and availed loan from the promoter KINFRA for an amount of Rs.7,37,40,737/-. Licensee further submits that, the total equity participation by the promoter is increased from Rs.10,00,000/- to Rs.3,25,99,948/- and the debt portion had been revised to Rs.7,37,40,737/-. The effect of the same was brought to the books in the year 2017-18 to comply with the requirements of the Companies Act, 2013.

89. The Commission has noted that an increase in equity capital from Rs.10 lakhs to Rs.31.64 lakhs has occurred due to issue of shares for consideration other than cash. Moreover, the transaction has occurred between a holding company and it’s 100% subsidy which is classified as a related party transaction.

90. The licensee submitted that they had earlier availed a loan of Rs.235 Lakhs from KINFRA during 2014-15 at an interest rate of 11.50% per annum, the rate at which KINFRA has been obtaining investment fund from Govt. of Kerala, for completion of the first phase of the sub-station at KINFRA Integrated Industrial & Textile Park at Palakkad. Refund of the loan of Rs.235 lakhs commenced at 60 equated monthly instalments (EMI) from April 2017.

91. The licensee claimed that interest on loan of Rs.737.41 lakhs was provided in books in the year 2017-18 and refund of the same commenced from 01.04.2018 at 180 EMIs. The details of interest on loans claimed by the licensee in their petition for the year 2017-18 is tabulated in Table-24 below:

Table 25
Interest charges claimed by the licensee

Rs.In Lakhs

	Trued up 2016-17	**ARR Approved 2017-18**	**Claimed for 2017-18**
Debt portion of consideration for Asset Transfer Rs 737.41 lakhs			84.80
Security deposit to consumers & others			2.77
Interest paid to Kinfra for the loan of Rs.235 lakhs with interest @ 11.50% p.a.			32.82
Total			120.39
Less: Interest capitalised			0.00
Net amount of interest claimed	NIL	NIL	120.39

92. The licensee has claimed that repayment for interest on loan of Rs 737.41 lakhs has started from 01-04-2018 ie. from the year 2018-19 onwards. Since the repayment has commenced only from 01-04-2018, the Commission cannot provide any interest which neither fell due nor was repaid during the year. The Commission has examined in detail the issue of increase in equity from Rs 10 lakhs to Rs 326 lakhs by issue of 2,16,438 equity shares at a premium of Rs.136/- each aggregating to Rs.3,15,99,948/-during the year. As per the Commission's Regulations and based on prudent financial principles, equity investment is accounted for at its face value. Any premium paid for this equity has to be accounted for in the share premium account and cannot be treated as equity per se. The Statutory Auditor too has adopted the same approach as seen in Note1of the Notes to Financial statements and Note No.2, Reserves and Surplus-Share premium account wherein Rs.2,95,35,568/- has been accounted. Hence, the Commission considered the investment other than the equity portion as normative loan.

<u>Interest on normative loan</u>

93. The Commission has examined the matter in detail. The licensee has submitted that the debt: equity ratio as per the Asset Transfer Agreement executed on 07.09.2016 and the Supplementary Agreement dated 27.10.2017 is 70:30 and the transfer value is Rs.10,53,40,685 /-. The effective date of transfer of the assets is considered as 01.02.2010. The licensee has claimed that as consideration for the above mentioned asset transfer, the licensee has issued 2,16,438 equity shares of Rs.10/- each at a premium of Rs.136/- each, aggregating to an amount of Rs.3,15,99,948/- and the balance portion of the consideration i.e.Rs.7,37,40,737 /- is treated as loan received from the promoter KINFRA. The licensee further submitted that, the total equity participation by the promoter thus increased from Rs.10,00,000/- to Rs.3,25,99,948/- and the debt portion had been revised to Rs.7,37,40,737/-. The licensee further submitted that the effect of the same was brought to the books in the year 2017-18 to comply with the requirements of the Companies Act, 2013.

94. The Commission has noted that the transactions as mentioned by the licensee has been brought into the books in the current year 2017-18. The increase in equity capital from Rs.10 lakhs to Rs.31.64 lakhs has occurred due to issue of shares for consideration other than cash. Moreover, the transaction has occurred between a holding company and it's 100% subsidy which is classified as a related party transaction. However as per the Regulations 2014 the equity contribution shall be as per the actual paid up capital at the face value of the share.ie @Rs.10/- per share.

95. However, it is a fact that as per the Asset Transfer Agreement, assets valued at Rs.10.53 crores as shown below was transferred to the licensee. Since the equity contribution accepted by the Commission is limited to Rs.31.64 lakhs considering its face value and taking into account the fact that assets valued at Rs.10.53 crores was transferred, the Commission has taken a considered decision to treat the balance amount of Rs.2,84,35,568 /- as normative loan.

96. Accordingly, the Commission after excluding the premium, has arrived at Rs.31.64 lakh as equity portion and the balance amount of Rs.2.84 crore is treated as normative loan as per Regulation 27 (2) of the 2014 Tariff Regulations as under.

Table -26

Computation of Loan Rs.in .Lakhs

1.	The total consideration for the Asset transfer for Kakkanad & Kalamassery-Asset transfer at book value as on 01-02-2010. i. Share transfer proceeds -Rs.3,15,99,948.00 ii Deemed Loan -Rs.7,37,40,737.00 Total Rs.10,53,40,685.00	Rs.	1053.41
2.	Add: Loan from KINFRA for creation of Electrical assets at Palakkad	Rs.	235.00
3	Total book value as on 01-02-2010 of Assets at Kakkanad , Kalamassery and Palakkad.(1+2)	Rs.	1288.41
4.	Less: Depreciation charged from 01-02-2010 to 31-03-2017**	Rs.	345.70
5.	Less: Government of India Grant not considered by the licensee.	Rs.	177.62
6.	Less: Difference in consumer contribution and Aside/Govt Grant between loan agreement and Order dated 31-03-2020. (Rs.701.41 L+Rs.380.82 L) – (Rs.641.66 L+Rs.355.69 L)	Rs.	84.88
7.	Less: Equity portion of the consideration 216438@Rs10.00 for purchase of Assets at Kakkanad& Kalamassery	Rs	21.64
8.	Less: Existing equity(100000@Rs10/- each)	Rs.	10.00
9.	Opening Normative loan as on 1-04-2017	Rs.	648.57

**The depreciation charged from 01-02-2010 to 31-03-2017 is computed as per table given hereunder

Table-27

Computation of depreciation from 01-02-2010 to 31-03-2017

Amt Rs Lakhs

Period	Depreciation	Cumulative Depreciation from 1-02-2010
*01-02-2010 to 31-03-2010	7.41	7.41
01-04-2010 to 31-03-2011	41.79	49.20
01-04-2011 to 31-03-2012	47.70	96.90
01-04-2012 to 31-03-2013	49.50	146.40
01-04-2013 to 31-03-2014	49.50	195.90
01-04-2014 to 31-03-2015	49.23	245.13
01-04-2015 to 31-03-2016	44.16	289.29
01-04-2016 to 31-03-2017	56.41	345.70

*Truing up Order dated 31-03-2020

97. The computation of interest on the above normative loan is as under;

Table-28

Interest on normative Loan

Particulars	Rs. Lakh
Net Asset value to be treated as opening Normative loan on 1-04-2017	648.57
Add. Asset addition during the year	32.66
Less. Depreciation for 2017-18	88.62
Closing normative loan as on 31-03-2018	592.61
Average normative loan	620.59
Interest on Govt Loans	11.50%
Interest on normative loan for the year 2017-18	**71.37**

98. ***Accordingly, the interest on normative loan approved by the Commission for the year 2017-18 is Rs.71.37 lakh.***

99. Though the licensee has claimed interest on security deposits of Rs.2.77 lakhs, they have not enclosed any proof of effecting payments. As per the Regulations and Order of Hon. APTEL, interest on security deposit actually paid to the consumers can only be claimed by the licensee***.***

100. ***The Commission noted that in the Order dated 31-03-2020, the licensee was directed to do a proper reconciliation of accounts. No such reconciliation or details on the security deposits have been provided by the licensee to the Commission till date. Hence, the interest on security deposit Rs.2.77 lakhs is not considered here. If the licensee so desires, they may file the details within three months from the date of this Order for consideration of the Commission.***

101. ***The amount of Rs.8.47 lakhs claimed under A&G expenses included in miscellaneous expenses is allowed.***

Table 29

Interest & Finance charges Approved

Rs.in lakhs

	Approved 2016-17	**ARR Approved 2017-18**	**Claimed for 2017-18**	**Approved for 2017-18**
Debt portion of consideration for Asset transfers 737.41 lakhs		NIL	@84.80	
Security deposit to consumers & others			2.77	0.00
Interest on Normative loan for Asset transfer of Rs 1053.41 lakhs				71.37
Interest paid to Kinfra for the loan of Rs.235 lakhs.			32.82	0.00#
Bank charges			8.47*	8.47
Net amount of interest	**Nil**		120.39	**79.84**

@ Interest on loan amount of 737.41 lakhs considered under interest on normative loans.

 # This loan amount of Rs 235 lakhs(para 90) being loan taken for creation of electrical assets at Palakkad has been transferred to table-25 for computation of total loan and interest is allowed along with interest on normative loan Rs.71.37 lakhs.

**** Claimed under A&G Expenses***

102. ***The claim of the licensee for interest on debt portion of asset transfer Rs 737.41 lakhs and interest on loan Rs.235 lakhs availed from KINFRA for purchase of Electrical assets at Palakkad have been grouped under Interest on normative loans and interest of Rs.71.37 shown above is inclusive of these amounts. As against the claim of the licensee for Rs.120.39 lakhs, Rs.79.84 lakhs is allowed by the Commission as interest and finance charges for the year 2017-18.***

Return on Equity:

103. The licensee submits that as per the regulation 20 of the Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity under MYT Framework) Regulations, 2006 the Return on equity shall be computed on the equity base determined in accordance with clause 17 above and shall be @ 14% per annum.

104. The Hon'ble APTEL in Para 27 of the order on Appel No. 121 of 2011 dated 3rd October 2011 in the matter of Madhya Pradesh Power Generating Company Limited Versus MPERC stated that "*In the light of the above we are of the opinion that the Commission should have applied the Tariff Regulations, 2005 dealing with the excess equity with reference to the date of the opening of the balance sheet i.e. 1.6.2005, the date on which the generation undertakings of MPSEB got vested in the Appellant and not from the date of commercial operation. The Commission has wrongly calculated the interest on equity by considering the normative repayment of excess equity in 10 yearly instalments from the date of commercial operation of the respective power station instead of acknowledging the excess equity as on the date of transfer of equity to the Appellant. We, therefore, direct the Commission to recalculate the interest on 'normative loan' i.e. equity in excess of 30% from the date of opening balance sheet*."

The licensee submits that from the above order of Hon'ble APTEL the RoE should be allowed from the date of vesting of assets with the transferee.

105. The licensee further submits that as per the assets transfer agreement dated 07.09.2016 and the supplementary agreement dated 27.10.2017, the effective date of transfer of the assets was considered as 01.02.2010. The debt: equity ratio as per the asset transfer agreement is 70:30. Accordingly, the company has issued 2,16,438 equity shares of Rs.10/- each at a premium of Rs.136/- each, aggregating to an amount of Rs.3,15,99,948/- during the year. Hence, the total equity participation by the promoter is increased from Rs.10,00,000/- to Rs.3,25,99,948/-. The licensee claims that the company is, therefore, eligible to get ROE of Rs.45.64 Lakhs for the year 2017-18.

106. The calculation of Return on Equity for the year 2017-18 worked out and claimed by the licensee is shown hereunder;

Table 30

Details of ROE claimed (Rs. in Lakhs)

Equity at the end of the year	Rate of return	Return on Equity
326.00	14%	45.64

107. According to the licensee, as per the orders of the Hon. APTEL in appeal No. 121 of 2011 (MP Genco Vs MPERC), ROE should be allowed from the date of vesting. The licensee has claimed in the present petition a rate of return of 14%. on equity of Rs.326.03 lakhs. However, even the copy of revised Agreement forwarded by KPUPL shows only Rs.284 lakhs as equity.

108. The Commission has examined the contention of the licensee. The case law pertaining to RoE cited by the petitioner is not applicable in this case since the same is as per transfer scheme in accordance with Section 131 of the Electricity Act, 2003. In the case of this licensee Section 131 is not applicable. Since Section 131 pertains to Vesting of Property of the State Electricity Board in the State Government. Further, as contented by the licensee, the entire funds were sourced from KINFRA in the form of loans and KINFRA in turn sourced it from Government of Kerala in the form of loans. Since the promoter is the same before and after the transfer and the source of funding is also the same, the transfer itself needs to be established. The licensee in the petition also stated that share certificates are also issued in the year 2017-18 in favour of KINFRA for the amount of equity shown as per the supplementary asset transfer agreement.

109. The Commission has examined the matter in detail and noted that that as per licensee's notes to audited financial statements for 2017-18 prepared under the Company's Act 2103, as per note No.1 of the said statements, the issued subscribed and fully paid up shares were 316438 no's issued at par with face value of Rs.10 per share. This is as per the audited accounts of the company which is attached along with the truing up petition. It is an accepted position that returns such as ROE or dividend is always paid only on the face value of the equity share and not at its inflated value. It has been the consistent policy of the Commission that any share premium paid is not treated as part of paid-up equity share capital and hence not considered for calculation of ROE.

110. Accordingly, the Return on Capital investment is worked out as under;

Table 31
Return on equity approved for the year 2017-18

	Rs.lakh
Equity capital at the beginning of the year	10.00
50% of equity added during the year(21.64/2)	10.82
ROE approved for the year(20.82x14%)	**2.91**

111. ***Hence, the Commission is of the considered view that for the regulatory purpose, 14% return on Equity of Rs 31.64 lakhs is to be considered and Rs.2.91 lakhs is approved as Return on equity for the year 2017-18.***

Revenue from sale of power

112. The total revenue from sale for power as per petition is Rs.5673.16 lakh for 810.40 lakh units as against ARR approved revenue from sale of power of Rs.7328.00 lakh for 1056.40 lakh units. The trued up figure for 2016-17 was 811.50 lakh units sold for Rs. 5528.45 lakhs..As per the application, the major revenue is from the sale to the HT – Industrial [HT-I(A) & I(B)] category. Compared to the previous year there is an increase in the revenue from the sales.The net revenue reported by the licensee for the current year along with the trued -up figures for the previous year are as given below,-

Table –32
Sale of Power (Rs in Lakhs)

Rs.Lakh

Particulars	Trued up 2016-17	pproved inARR 2017-18	True up claim 2017-18
HT/EHT Consumers	4846.52	6525.00	4955.30
LT Consumers	681.93	803.00	708.40
Total	**5528.45**	**7328.00**	**5663.70**
Other revenue from operations			9.46
Electricity duty &Supply surcharge	213.43	0.00	216.01
Gross Revenue from sale of Power	5741.88	7328.00	5889.17
Less: Electricity duty &Supply surcharge remitted	213.43	0.00	216.01
Net Revenue from sale of power	5528.45	7328.00	**5673.16**

113. The Commission notes that the amount of Rs.9.46 lakhs being miscellaneous income comprising of meter rent, service connection charges, and other receipts which do not form a part of sale of power has been transferred and regrouped under non -tariff income. The detail split up of sales for the current year 2017-18 in comparison with the previous year 2016-17 is as given in Table 32 hereunder.

Table 33

Comparison of consumer wise split up of Revenue from sale of Power for 2016-17&2017-18

		2016-17 Trued-up				**2017-18**			
Sl. No	**Particulars**	**No.of Installations /Consumers**	**Energy Sold in MU**	**Revenue Rs. Lakhs**	**Average Realisation Rs/kWh**	**No.of Installations /Consumers**	**Energy Sold in MU**	**Revenue Rs. Lakhs**	**Average Realisation Rs/kWh**
I	Consumers								
	i) HT Consumer								
	HT I A	10	17.17	1,060.17	6.17	12	17.25	1069.18	6.20
	HT I B	15	39.66	2,743.91	6.92	17	40.68	2788.34	6.86
	HT II A	2	0.44	29.23	6.65	2	0.64	42.33	6.63
	HT II B	1	0.19	13.65	7.26	1	0.19	13.65	7.28
	HT III B	1	0.77	27.24	3.55	1	0.64	23.73	3.72
	ii) DHT Consumers								
	DHT I A	1	0.04	4.84	10.93	1	0.03	2.81	9.37
	DHT I B	40	12.85	909.89	7.08	38	11.80	962.77	8.16
	DHT IV	1	0.53	57.58	10.93	1	0.44	52.51	12.06
	iii) LT Consumers								
	LT IV A	17	0.72	49.13	6.86	28	0.72	52.37	7.30
	LT IV B	145	6.50	417.99	6.43	149	6.53	454.91	6.97
	LT VI A	2	0.08	5.77	7.22	2	0.07	4.84	7.24
	LT VI B	1	0.01	0.10	9.75	3	0.01	1.30	9.13
	LT VI C	9	0.06	8.38	13.08	8	0.06	7.38	12.69
	LT VI F	40	1.99	183.71	9.25	49	1.77	171.92	9.73
	LT VII A	8	0.16	16.80	10.19	10	0.14	14.62	10.71
	LT VII B	1	0.01	0.01	5.06	1	0.00	0.04	5.62
	LT VIII B	1	0.01	0.03	3.63	3	0.03	1.03	4.10
	Total	295	81.15	5,528.45	6.81	326	81.04	5,663.71	6.99

114. The licensee submitted that the consumers falling under tariff category HT1A & LT IV A comprise of 25 percent of the total sales and the retail rate of supply (variable cost) has been fixed below the purchase cost of power. This, the licensee contends, has been a drain on their net revenue. The licensee also submitted that most of their new consumers are of industrial category.

115. The Commission has examined the issue and is of the opinion that this aspect is considered while fixing the BST rates and the trued-up accounts of the company is considered while fixing the rates. Since the licensee delayed finalisation of their regulatory accounts as per schedule, it resulted in heavy backlog in filing the truing up statements adversely impacting the BST determination.

116. The Commission however notes that the licensee is compensated in the other sectors like IT which form a major portion of the park consumers, wherein the rates are more beneficial.

117. ***After carefully considering the licensees submissions, the Commission hereby approves the revenue from sale of power as Rs.5663.70 lakhs as submitted by the licensee for the purpose of truing up of accounts for the year 2017-18.***

Non -Tariff Income

118. The licensee in their petition dated 30.09.2020 had reported the Non- tariff income for the year as under,-

Table –34
Non -Tariff Income
(Rs in Lakhs)

Sl.No.	Particulars	Trued up 2016-17	ARR Approved	True-up claim
1	Interest on bank fixed deposits	45.21	14.00	67.55
2	Notional interest on accumulated surplus	202.71		
3	Income from operations	19.13		
4	Excess provision of depreciation written back		0.00	0.53
5	Meter shifting & reconnection charges			0.05
6	Interest on overdues		0.00	0.33
	Other Miscellaneous receipts	0.74	20.00	0.20
	Total	267.79	34.00	**68.71**

119. The Commission noted that the main component in the non-tariff income of Rs.67.55 lakhs was interest received from bank fixed deposits. It is also seen that the licensee has neither accounted for the accumulated surplus of Rs.3375.63 lakhs nor provided interest on this accumulated surplus carried forward from the earlier periods as per Commission's Order dated 19-08-2020. Further, the interest on accumulated revenue surplus, as in the case of other licensees, KPUPL was also required to account the same from 2013-14 onwards using the SBI base rate for estimating the interest charges.

120. However, in the instant case, the licensee has not accounted for the notional interest charges while arriving at the non-tariff income, which is not in line with the accrual accounting requirements. This fact had been pointed out in the truing up order for 2014-15 dated 31-03-2020 and 2015-16 dated 30-07-2020.Under such circumstances, the Commission is required to account for the notional interest charges for the accumulated revenue surplus from 2013-14 onwards at the applicable SBI base rate, as in the case of other licensees.

121. As submitted by the licensee, the erstwhile licensee M/s KEPIP had erroneously reported the revenue from sale of power including Section 4 duty for the period from 2004-05 to 2008-09. Arising from the above, from 2006-07 to 2008-09, the revenue approved in the Order dated 06-12-2011 was inclusive of the Electricity Duty under section 4. The total amount of duty for the three years is Rs.124.80 lakhs. Since the said amount was already remitted to the Government, based on the request submitted by the licensee, the Commission in Order dated 31-03-2020 had decided to exclude this amount only for the limited purpose of calculating the interest on accumulated revenue surplus as a special case.

122. Accordingly, the interest income on the accumulated Revenue surplus applicable for 2017-18 is as shown below:

Table 35

Revenue from accumulated revenue surplus

Rs.in lakhs

	Unit	**2016-17**	**2017-18**
Accumulated Revenue surplus at the beginning of the year	Rs.lakh	2,790.71	3375.63
Less: Section 4 duty			124.80
Surplus excluding the Duty remitted	Rs.lakh	2665.91	3250.83
Applicable interest rate	%	9.30	*6.90
Revenue from Accumulated surplus	Rs.lakh	247.92	**224.31**

*SBI FD rate for one year tenor as at 1st April 2017.

123. For the purpose of truing up, the Commission has considered the interest on bank deposits of Rs.67.55 lakhs actually booked by the licensee. Since this amount is already accounted for as income, the notional interest on accumulated regulatory surplus of Rs.224.31 lakh is reduced to this extent. Based on the above, the income from non-tariff sources is revised as shown below:

Table 36

Approved non-tariff income

Rs.Lakh

Particulars	2016-17	2017-18
Notional Interest on accumulated Surplus	247.92	224.31
Interest on Bank deposits	45.21	67.55
Notional interest less interest on bank deposits	202.71	156.76
Income from operations	19.13	9.46
Other miscellaneous receipts	0.74	1.16
Total	267.79	**234.93**

** *This amount shown by the licensee under revenue from sale of power. Since this is not a revenue from sale of power, this amount is shifted under non-tariff income.*

124. The interest on bank deposits are considered at actuals and the interest on revenue surplus is adjusted based on the interest from bank deposits. ***The Non -tariff income of Rs.234.93 lakhs is approved by the Commission for the year 2017-18.***

Total revenue

125. Based on the above, the total income approved is as given below:

Table 37

Total revenue for the year 2017-18 (Rs.Lakh)

Particulars	2016-17	2017-18	
	Approved in true up	As per petition	Approved in true up
Revenue from sale of power	5,528.45	5,673.16	5663.70
Non- tariff income	267.79	68.71	234.93
Total Revenue	5,796.24	5741.87	**5,898.63**

The Commission approves the total revenue of Rs.5,898.63 lakhs for the year 2017-18.

Revenue Surplus/(gap):

126. The Commission after duly considering the petition of the licensee for truing up of account for the year 2017-18, clarifications and the additional details submitted by the licensee thereon along with the comments/objections of KSEB Ltd, the revenue surplus/gap approved for truing up of accounts for the financial year 2017-18 is tabulated below:

Table 38
Approved Revenue Surplus/ Gap for the year 2017-18 after truing up
Rs.in lakhs

Particulars	Trued up 2016-17	True up claim 2017-18	Approved in truing up 2017-18
Revenue from sale of power	5528.45	5673.16	5663.70
Add : Non-Tariff Income	267.79	68.71	234.93
Total Income	**5796.24**	**5741.87**	**5898.63**
Power Purchase Cost	4976.17	5285.12	5202.32
R&M Expenses	66.80	89.01	76.11
Employee cost	43.41	49.72	49.72
A&G expenses	41.71	99.97	39.99
Depreciation	56.41	71.40	88.62
Interest charges		120.39	79.84
RoE/RoNFA	26.82	45.64	2.91
Provision for Income tax/MAT	----	0.24	----
Total Expenditure	**5211.32**	**5761.49**	**5539.51**
Surplus / (Gap)	**584.92**	**-19.62**	**359.12**
Accumulated Surplus/(Gap)	**3375.63**	**3356.01**	**3734.75**

127. The revenue surplus for the year 2017-18 after truing up of accounts is Rs.359.12 lakh as against a revenue deficit of Rs.19.62 lakh presented by the licensee as per the truing up petition. ***The accumulated revenue surplus including Rs.359.12 lakh after this truing up of accounts for the financial year 2017-18 will be Rs.3734.75 lakh.***

Orders of the Commission

128. The Commission after considering the petition filed by M/s.KPUPL 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 following:

- Total revenue approved **Rs.5898.63** lakh
- Total expenditure approved **Rs.5539.51** lakh
- The revenue surplus for the year is **Rs.359.12** lakh.
- The cumulative revenue surplus upto **2017-18** will be **Rs.3734.75**lakh (Rs.3375.63 lakh + Rs.359.12 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.
- The directions of the Commission in paragraphs **43,53,54,80** and **100** be attended to expeditiously.

- The licensee to reconcile the accounts with KSEBL as directed in para **43** and submit the figures within three months from the date of this order.

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

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

Approved for issue

Secretary(i/c)