

KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present: **Shri. R. Preman Dinaraj, Chairman**
Shri. S. Venugopal, Member
Shri. K. Vikraman Nair, Member

OA. No.5/2018

- In the matter of : Application on the Truing up of accounts for the years 2016-17 filed by M/s Cochin Special Economic Zone Authority (CSEZA)
- Applicant(s) : The Development Commissioner
Cochin Special Economic Zone Authority
Ministry of Commerce and Industry,
Government of India,
Kakkanad
Cochin 682037
- Applicant (s) represented by :
1. Sri. K.C.Ramakrishnan, Assistant OC, CSEZA
2. Sri.K.C.Seetharaman,Chartered Accountant
3. Sri. Krishna Varma, Consultant, CSEZA
4. Sri. K.V.Venugopalan, WAPCOS for CSEZA

Daily Order dated 24-05-2018

The hearing was conducted at the Court Room, Office of the Kerala State Electricity Regulatory Commission on 25-04-2018 at 11.00 AM. Heard the applicant M/s Cochin Special Economic Zone Authority represented by Sri. K.C.Ramakrishnan, Assistant OC, CSEZA, officers and consultants of CSEZA. Sri. K. C Seetharaman Chartered Accountant presented the details of the application on the truing up of accounts for the year 2016-17 and responded to the queries of the Commission.

The main points made by the licensee are,-

- (a) Revenue from Sale of Power claimed is Rs 3405.92 lakh for the energy sale of 55.20 MU and the Non Tariff Income is Rs 128.68 lakh which includes interest on investments, fixed and call deposits, bank balances, and interest on advances etc.

- (b) The power purchase cost for the year 2016-17 is Rs 3371.04 lakh for purchase of 56.08 MU. The distribution loss is 1.49 MU which is 1.56% of the energy input. The approved level of distribution loss is 1.50%.
- (c) The O&M expenses (i.e., R&M expenses, employee costs and A&G expenses excluding section 3(1) duty) accounted are lower than that of approved amount.
- (d) No interest and financing charges is claimed as the Government has met the entire investment on the infrastructure for the power distribution.
- (e) Asset addition of Rs.58.55 lakh was made during the year 2016-17 ie;
 - (1) Rs.25.12 lakh towards CT-PT & ABT meters.
 - (2) New software for prepaid metering for Rs.33.43 lakh
- (f) Depreciation claimed is Rs.71.89 lakh for the year 2016-17 includes deprecation for the asset addition of Rs.58.55 lakh.
- (g) Rs.114.03 lakh is claimed as Return on equity on the total capital cost of Rs.1018.13 lakh in accordance with debt equity ratio of 70:30. Rs 42.76 lakh is computed towards return on equity at the rate of 14% on equity portion (30% of Rs.1018.13 lakh) and Rs.71.27 lakh is towards the interest at 10% on the normative loan portion (70% of Rs.1018.13 lakh)

Accordingly the licensee has claimed an Aggregate Revenue Requirement (ARR) of Rs 3756.67 lakh, Expected Revenue from Charges (ERC) of Rs 3534.60 lakh with a revenue gap of Rs 222.07 lakh for the year 2016-17.

Sri. Bipin Shankar, Deputy Chief Engineer (TRAC), Smt. Mehrunisa, Executive Engineer, TRAC and Sri. Rajesh.R, AEE, TRAC, represented KSEB Ltd. Sri. Bipin Shankar presented the counter statement/comments of KSEB Ltd. and submitted written remarks on the application. The major points raised by KSEB Ltd are the following:

- a. The actual distribution loss claimed is 1.56% which is higher when compared to 1.50% approved by the Commission. However the actual distribution loss for 2015-16 was 1.40%. Since distribution loss is a controllable item and the area of operation of CSEZA is limited, the distribution loss for the year 2016-17 should have been less than the actual loss of 2015-16.
- b. The R&M expense claimed is much less than the approved amount. This may be due to either no real work was carried out in the area or the approved amount is substantially higher than what is actually required.

The reduction in the R&M cost was not due to any effort taken by the licensee and the same cannot be treated as an efficiency gain.

- c. The employee cost claimed by the CSEZA for the year 2016-17 is lower than that claimed in the year 2015-16 whereas the salary and the benefits paid to the employees & contract employees is showing an increasing trend. Therefore the reduction in the employee cost cannot be taken as an efficiency gain for attracting incentives.
- d. The Commission may take uniform approach of disallowance on the claim of the licensee regarding section 3 duty and the interest on Section 3(1) Electricity duty.
- e. The asset addition of Rs.33.43 lakh made during the year on new software for prepaid metering system cannot be considered and reasonable GFA and depreciation for the year 2016-17, may be approved.
- f. The licensee has claimed return on equity of Rs.114.03 lakh which is 403% higher than the approved amount for 2016-17 and Return for the year 2016-17 may be limited to 3% of net fixed assets.
- g. The claim made by the licensee under power purchase tally with the accounts of KSEB Ltd.

The Chairman in his remarks stated that there is a serious lapse on the part of the licensee for non-compliance of Regulation 27 of the KSERC (Conduct of Business) Regulations 2003, as the licensee has not served notice regarding the truing up petition to the consumers of CSEZA. He further stated that proper vakalatnama is required for a person other than the employee or officer of the licensee to represent before the Commission. He mentioned that the Commission shall approve only reasonable expenses based on the explanations & documentation placed by the licensee before the Commission.

The Commission sought clarifications on the accounts and directed the licensee to submit the following details.

- 1) The circumstances under which the claims made as per the audited segment-wise report and the concerned forms submitted for the purpose of truing up of accounts for the year 2016-17 vary.
- 2) The total income from the Power Distribution operation as per the segment-wise income report on page no.67 is Rs.3655.91 lakh whereas the income shown by the licensee for the power distribution business as per Forms D.2.1 and D.2.4 (forms part of truing up of accounts) is Rs.3534.60 lakh only. The details are given below. This is to be explained

Form No.	Particulars	Page No.	Amount (Rs lakh)
D.2.1	Revenue from sale of power	109	3405.92
D.2.4	Non-tariff Income	112	128.68
	Total		3534.60

- 3) As per schedule 5 of the segment report on page no.85, the deposit account as on 31-03-2017 is only Rs.1327.53 lakh whereas as on 31-03-2016 it was Rs.1683.43 lakh. Further, the total balance available with scheduled banks (on current account as well as deposit account) as on 31-03-2017 is only Rs.1567.83 lakh in comparison with Rs.2135.20 lakh as on 31-03-2016. The reason for such reduction should be explained.
- 4) In the year 2016-17, the licensee has made a capital investment of Rs.33.43 lakh for developing new software for prepaid metering system. It is to be noted that capital expenditure of Rs.33.43 lakh was incurred without prior approval of the Commission. Hence this cannot be considered as part of the fixed assets for allowing the claims of the licensee. The reason, if any, may be furnished for substantiating the investments made by the licensee in this regard without the Commission's approval
- 5) The reason for holding an amount of Rs.2.40 crore in the current account and consequent loss of interest as on 31-03-2017 is to be explained.
- 6) In Form D 3.8, the equity at the beginning of the financial year 2016-17 is shown as Rs.1018.13 lakh which is used for computation of return on equity. The licensee shall submit the details substantiating equity investment to this extent and its period(s). The licensee may also clarify whether there is any equity component in the capital structure.
- 7) It is seen that the average rate of interest on security deposits with KSEB Ltd considered in the segment report is at the rate of 5.17% p.a. whereas the rate at which KSEB Ltd makes interest payment for the year under consideration is 8.5%. The reason for this variation, if any, may be explained.
- 8) The power purchase expense of Rs.3371.04 lakh as shown in Form D 3.1 does not tally with the figures shown under Schedule-9 on page no.86 of the petition. The reason, if any, may be explained.
- 9) The licensee has estimated RoE based on the normative level of debt & equity at 70:30 basis. The licensee shall substantiate with documentary evidence that whether the capital structure contains any equity or loan portion. If so, why such equity amount and loan amount are not taken into account in the Balance Sheet as on 31/03/2017.

10)Is there any specific order from the Government to treat the grant as equity capital? If so, the details may be furnished.

11)The Commission in its order dated 11-07-2017 vide OA 14/2017 directed the licensee to keep the cumulative surplus of Rs.1321.71 lakh till 2015-16 in a separate fund. However, the licensee has in its letter dated 26/03/2018 vide point no.14 clarified that creation of separate fund for the surplus amount may not be workable. The licensee shall explain the reasons for non-compliance of the directions by the Commission.

The Commission observed that the accounts of the licensee are not properly maintained. Being a licensee, the Authority is required to have officers maintaining such accounts in house who are properly qualified in finance and accounting procedures as well as of regulations issued by the Commission. Non-compliance of the statutes and regulations shall be viewed seriously. The Commission directs M/s CSEZA to submit documentary evidence/details, if any, that need to be submitted before the Commission to substantiate the claims made in the application on or before 31-05-2018.

Sd/-
K.Vikraman Nair
Member

Sd/-
S.Venugopal
Member

Sd/-
Preman Dinaraj
Chairman

Approved for issue
Sd/-
Santhosh Kumar.K.B
Secretary