KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT: Sri.P.Parameswaran, Member
Sri.Mathew George, Member

April 13, 2012

Petition OP No. 1/2012

In the matter of
ARR&ERC of Kanan Deven Hills Plantations Company Private Limited (KDHPCL) for 2012-13

M/s. Kanan Deven Hill Plantations Company Private Limited - Petitioner

ORDER

Background

1. Kanan Deven Hill Plantations Company Private Limited (*hereinafter referred to as KDHPCL or licensee*) is a distribution licensee supplying electricity in Munnar. The KDHPCL obtained the Licensee for distribution through the transfer of license from M/s Tata Tea limited as per the order dated 9-1-2007 of the Commission. The licensee filed its ARR&ERC petition for 2012-13 as per the provisions of KSERC (Tariff) Regulations 2003 vide its letter dated 28-11-2011. The petition was admitted on 4-12-2011. A public hearing was held at the Licensee's area in Munnar on 5-3-2012. In the petition, KDHPCL has projected an ARR of Rs.1792.20 lakhs before return on capital and total revenue of Rs..1578.41 lakh leaving a deficit of Rs.213.79 lakh. The licensee proposed to meet the deficit by reducing the BST from Rs.3.28/kWh to Rs.2.86/kWh.

2. As per the directions of the Commission, the licensee published the abstract of the petition in the news papers as shown below:

   - Malayala Manorama (Kottayam edition) : 21-1-2012
   - Indian Express (Kochi edition) : 23-1-2012

Hearing on the matter

3. In the hearing held on 05.03.2012 in Munnar, representatives of the Licensee, KSEB and one consumer were present. Sri.Srikrishnan, Exe. Director of KDHPCL presented the ARR & ERC for 2012-13. Smt.Gayathri Nair Chief Engineer (Commercial & Tariff), KSEB, presented response of KSEB after providing written comments on the petition. In their comments, KSEB mentioned that revenue from sale of power needs to be reassessed based on the increase/ decrease of consumer strength projected by the Licensee for the year 2012-13. The T& D loss of 12.78% projected by the Licensee is same as the actuals of 2010-11 and the Commission may fix a loss level lower than the actuals recorded for 2010-11. The Licensee has not taken any action to adhere to the directive of the Commission to undertake detailed study of the distribution system and to submit a loss reduction programme for reduction of loss @ 1 % every year. The employee cost projected by the licensee, such as 'overtime expenses', salary of Executive and Manager – Finance, cannot be justified. So, in the case of employee cost, the Commission may follow the same approach as was done in the order on ARR &ERC petition of the Licensee for the FY 2011-12. Interest on Working Capital projected by the Licensee need not be admitted as the Licensee has a cash surplus amounting to Rs.11.34 Crore. The opening balance of Consumer contribution for 2012-13 differs from the closing balance for 2011-12 and the same needs clarification. Details of Capital Expenditure for 2012-13 amounting to Rs.32.57 lakh are not given. Legal charges and Miscellaneous expense under A&G expenses for 2012-13 have doubled the approved level of the previous year. The projected bank charges are also on the higher side. Category wise details of own consumption may be insisted on. The Board also pointed out that the projected Receivables against sale of power has shot up which warrants stringent revenue realization measures.

Analysis and decision of the Commission

4. The Commission considered the comments/suggestions of participants in the hearing. The item wise details are examined below:

Energy Sales: The licensee has projected the total sales for the year 2012-13 as 37.36 MU, by assuming a 3% increase in sales over 2010-11. Unlike in the previous years, the licensee has included the sales to own units (Own consumption) in appropriate categories. However, it had been directed in the previous order that the appropriate category-wise own consumption shall be provided separately. The Commission is of the view that instead of applying overall percentage increase in sales, consumer category wise projection of sales is necessary. In the absence of more information, the Commission approves the energy sales uniformly applying the 3% growth in all categories as shown below:

Proposed and approved Energy sales for 2012-13

	Energy Sales (lakh units)				
	2009-10 Actual	2010-11 Actual	2011-12 Approved	2012-13 Projected	2012-13 Approved
HT I Industrial	8.50	24.17	8.58	24.17	24.90
HT IV Commercial	0.90	1.49	0.91	1.49	1.53
LT I Domestic	4.25	5.11	4.30	5.11	5.26
LT II Colonies	1.14	1.21	1.16	1.21	1.25
LT IV Industries	0.28	0.46	0.29	0.46	0.47
LT V Agriculture		0.04		0.04	0.04
LT VI Non-Domestic	0.72	1.00	0.73	1.00	1.03
LT VII Commercial	2.10	2.55	2.12	2.55	2.63
Street Light	0.23	0.23	0.23	0.23	0.24
Own Consumption *	16.42		16.59		
Projected increase in sale of units @ 3% from 2010-11				1.10	
Total	**34.54**	**36.26**	**34.91**	**37.36**	**37.36**

5. **Distribution loss and Energy requirement:** The energy loss reported for the year 2010-11 is 13.63% as against the approved level of 14%. For 2011-12, as decided in the ARR&ERC order for 2011-12, the loss target was 13%. In 2012-13, the licensee has projected a loss level of 12.77%. Considering the actual level of loss in 2010-11, there is no loss reduction proposed by the licensee. However, the Commission is of the view that there is considerable scope for reduction in losses. In the ARR&ERC order for 2010-11, the Commission had fixed a loss reduction target of 1% for 2011-12 and 2012-13. The licensee is also proposing capital works such as recoductoring which may help to reduce the loss. The Commission has also directed the licensee to take up with KSEB to strengthen the primary distribution system in the licensed area. Considering all these, the Commission endorses the earlier decision of 1% loss reduction for the year 2012-13. Accordingly, the loss target for the year 2012-13 shall be 12%.

6. Based on the approved sales and approved loss level, the gross energy requirement would be 49.20 MU for 2012-13, as against 49.64MU proposed by the licensee. After considering the feedback energy, the net energy to be purchased would be 43.26 MU.

Approved distribution loss for 2012-13

	2009-10 Actual	2010-11 Actual	2011-12 (approved)	2012-13 Projected	2012-13 Approved
Total Energy sales (MU)	34.54	36.26	34.91	37.36	37.36
Distribution loss (MU)	6.37	6.16	6.09	6.34	5.90
Feedback (MU)	5.74	5.77	5.80	5.94	5.94
Total (MU)	**46.65**	**48.19**	**46.80**	**49.64**	49.20
Distribution loss (%)	13.65%	12.78%	13.01%	12.77%	12.00%

7. **AT&C Loss:** In the distribution business, distribution loss and AT&C loss are the common performance parameters employed. The collection efficiency reported by the licensee for the previous year is 100%. The projected Receivables from Sale of Power for the year 2012-13 is too high to be admitted. The licensee should take all possible steps to achieve 100% collection efficiency. The provisions of the Electricity Act and the Supply Code can be employed to achieve 100% collection efficiency. Accordingly, the AT&C loss target fixed for the year 2012-13 is fixed as **12%.**

8. **Capital expenditure programme:** The licensee has proposed a capital expenditure of Rs.32.57 lakhs for the year 2012-13 as shown below:

Particulars	Rs in Lakhs
Replacement of distribution lines: approximately 9 kilometers	27.50
Portable hacksaw machine	0.07
HT Line Guarding.	5.00
Total	32.57

9. The source of funds for the above capex programe is proposed to be from the main business ie., the tea plantations. The licensee vide letter dated 8-9-2011 has reported that reconductoring work of 11kV line in Madupatty feeder of about 5.2km costing about Rs.14 lakhs will be taken up. However, the progress of the work is not given in the present petition. In the previous year, the licensee had proposed total capital works of Rs.51.95 lakhs for the year 2010-11. The licensee has clarified that the distribution operations are undertaken as a division of the main business and not as a separate entity as the distribution business cannot have any equity capital. Therefore, the proposed capital costs of Rs.32.57 lakhs is to be funded from the working capital assistance from the main business which is reflected as current account balances with other operations in the Balance sheet. The licensee further stated that the entire funding requirements including capital costs and losses from the operations are met only

by working capital funded through main operations. Hence, there is no funding facility like equity or term loan for the distribution operations.

10. The Commission would like to reiterate that the organization attending the distribution business has to be treated as a separate entity and it shall maintain separate accounts, to ensure that the distribution business operates independently. As per the statements of the licensee, even the capital investments are funded through working capital arrangements by the parent organisation. As per the present scheme, the licensee is eligible to get reasonable financing charges (cost of capital and depreciation) for the investments made in the system. Further, the revenue gap or losses , which are at the approved level, are also funded from the distribution business by way of adjustments in tariff. Hence, the present arrangement being followed by the licensee cannot be accepted. The licensee has to undertake capital expenditure with proper funding and repayment plan. <u>The Commission hence directs that the licensee may provide proper capital expenditure plan with financing scheme for approval of the Commission including that pertaining to the year 2010-11 & 2011-12</u>. The Commission will examine the matter and approve the same to be funded through the ARR of the licensee.

11. **Power purchase cost :** In the ARR, the licensee has projected the power purchase cost as Rs.1577.15 lakhs based on the revised BST. Considering the approved energy requirements, the total power purchase cost approved for the year 2012-13 is as shown below:

Power purchase cost projected and approved for 2012-13

	2012-13 (projections)	2012-13 (Approved)
Total Projected Consumption [MU]	49.64	49.20
Less: Feed Back Units [MU}	5.94	5.94
Billed Units (MU)	**43.70**	**43.26**
Contract Demand [KVA]	7,000	7,000
Excess Demand [KVA]	-	
Total Projected Demand [KVA]	**7,000**	**7,000**
ENERGY CHARGES		
Energy Charges	1,433.36	1,418.93
Contract Demand Charges	226.80	226.80
Excess Demand	-	
Total Demand Charges	**226.80**	**226.80**
Total Power purchase cost	**1,660.16**	**1,645.73**
Rebate 5%	83.01	82.29
Total Power purchase cost	**1,577.15**	**1,563.44**

12. **Interest and financing charges :** The licensee has projected the interest and financing charges as Rs.52.45 lakhs, which consists of the interest on security deposits of Rs.8.34 lakhs and interest on working capital of Rs.57.46 lakhs. the licensee has shown a net income of Rs.13.35 lakhs against the interest on bank deposits against the bank guarantee. The working capital is based on the average current account balance of Rs. 560.59 lakhs from other operations. The licensee has mentioned that the current account balance with other operations as on 31-3-2011 was Rs.320.24 lakhs and as on 31-3-2013 it will be Rs.800.93 lakhs and. As part of the clarifications, the licensee has mentioned that capital expenditure and revenue loss are funded from the working capital assistance from the main business which is reflected as current account balance. The working capital, as since clarified by the licensee for the year 2012-13 is Rs.100.94 lakhs.

13. The Commission is not in a position to accept the approach taken by the licensee for funding the losses and capital expenses. However, the Commission is considerate on the requirement of a reasonable working capital for the business. The Commission has also arrived at a revenue deficit of Rs.120.63 lakhs for the year 2012-13. Hence, a reasonable provision may be given as interest on working capital for the licensee. Accordingly, The Commission allows a provisional interest of Rs.11 lakhs for working capital requirements. The provision given shall be examined during the truing up process and only prudent and reasonable expenses shall be allowed to pass on. Accordingly, the interest and financing charges allowed for the year is **Rs.19.34 lakhs. The** Commission directs that the interest on security deposit shall be credited promptly to the consumer's account as per the provisions of the Kerala Electricity Supply Code and the actual interest paid to the consumers alone will be admitted in the truing up process.

14. **Depreciation:** The GFA at the beginning of the year 2012-13 proposed by the licensee is Rs.287.87 lakhs. The total addition to GFA proposed is Rs.32.57 lakhs. GFA at the end of the year will be Rs.320.44 lakh. The total depreciation estimated by the licensee is Rs.16.49 lakh. The rate of depreciation proposed by the licensee is as per the revised CERC norms applicable to the period 2009-14. The Commission has to point out that as per the revised norms, the depreciation has to be estimated based on the vintage of assets. Accordingly, during the truing up, the licensee has to estimate the depreciation as provided in the CERC regulations. The Commission approves depreciation as proposed by the licensee

provisionally, which shall be finalized during the truing up process when the actual details of assets will be available.

15. **Employee costs:** The employee costs proposed by the licensee is Rs.99.66 lakhs as against Rs. 58.23 lakhs approved for the year 2011-12. The licensee has included Rs. 15.56 lakhs as the salary of Manager and Rs. 19.46 lakhs as the proportion of Executive Director's salaries and allowances amounting to Rs.35.02 lakhs as part of employee costs. The salary of regular staff is estimated as Rs.64.64 lakhs. The licensee has also mentioned that there was a salary revision to the staff approximating to 24% with effect from 1-1-2011 as per the industry wide settlement with staff unions. As per settlement, the staff are entitled to a fixed over time allowance per day which is part of salary amounting to Rs.10.46 lakhs and Rs.5.67 lakhs towards variable overtime for repair line faults outside normal working hours of the staff stationed at Munnar who have to travel long distances for fault repair. As has been stated in the previous orders, the Commission in principle agrees to book a portion of salary of Manager/Executive director if their time is allotted on a permanent basis. Till such time a decision is taken based on the consultancy studies, a notional provision of Rs.5 lakhs is allowed as a proportion of salary of senior management. Hence, the employee costs allowed provisionally for the year 2012-13 is Rs.71.64 lakhs.

16. **Repair and maintenance expenses :** The licensee has been maintaining 170 km of 11kV overhead lines and 180km of 3 phase line with 113 number of distribution transformers having different capacities. The licensee has projected the R&M expenses for 2012-13 for OH lines, buildings, transformers etc., as follows:

Particulars	2010-11	2011-12	2012-13
	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Projection (Rs.lakhs)
Buildings	0.77	1.58	0.80
Cable, Lines new works [Upkeep Transmission Line - HT]	8.00	8.62	8.00
Upkeep LT Lines	1.87	3.05	3.00
Vehicles/Fuel & Maintenance	1.76	2.03	2.50
Others (Upkeep lighting installations)	0.39	0.40	0.50
Total:	**12.79**	**15.68**	**14.80**

17. The actual expenses for 2010-11 reported by the licensee is Rs.12.79 lakhs, The projections for 2012-13 is lower than the approved R&M expenses for 2011-12.

However, the projection for 2012-13 is about 15.7% more than the actual expenses for 2010-11. The licensee has also projected Rs.0.50 lakhs for the upkeep of lighting systems. Considering the importance of upkeep of distribution system for trouble free supply, the Commission approves the projections of the licensee on R&M expenses, subject to the condition that the expenses projected under upkeep of lighting systems shall be allowed in truing up process after prudence check.

18. **Administration and General expenses:** The administration and general expenses proposed by the licensee is Rs.19.15 lakhs for 2012-13 whereas the approved expenses for 2011-12 was only Rs.7.39 lakhs. The increase is mainly on account of the increased provision (Rs.5 lakhs) made for legal expenses and Bank charges on bank guarantee (Rs.5.43 lakhs). The Bank guarantee charges have been calculated at 0.65% on the amount of bank guarantee of Rs.8.35 crore provided to KSEB including that on the BG of Rs.7.18 crore provided as per the direction of the Hon. Supreme Court in the Civil Appeal No.2144/2011 against the order dated 25-5-2010 revising the BST retrospectively from 1-12-2011. Since A&G expenses constitute a controllable item Commission would allow 10% increase over the approved level of expenses for 2011-12. The claim of bank guarantee charges is not admitted which will be considered once the actual accounts are available during the truing up process. Accordingly the approved A&G expenses for the year 2012-13 shall be Rs.8.13 lakhs. The licensee shall limit the expenses at the approved level.

19. **Other debits:** The licensee has included duty on line losses, Section 3 duty and periodical inspection charges under other debits totaling to Rs.12.50 lakhs. Section 3 duty shall not be passed on to the consumers and duty on line loss is as part of Section 4 duty. Hence, the Commission is in a position to allow only the inspection charges under other debits, which is Rs.0.20 lakhs as projected by the licensee.

20. **Return on equity:** The licensee has not projected any return on capital for 2012-13. The licensee has also mentioned that there is no equity shown against the distribution business. The Commission is of the view that a reasonable level of return shall be allowed to the distribution operations of the licensee for financial viability. The Commission is in the process of ascertaining the eligible level of rate base for allowing return for the licensees through an independent study. Till the outcome of the study a provisional return on equity of Rs.5 lakhs is allowed, which will be finalized based on a detailed examination of the accounts of the licensee with the help of an independent agency.

21. **Gross Aggregate revenue requirements:** Based on the above, the gross ARR proposed and approved for 2012-13 is as given below.

Approved ARR of KDHPCL for 2012-13

Particulars	Proposed by the licensee	Approved by the Commission
	(Rs. Lakhs)	(Rs. Lakhs)
Power purchase cost	1,577.15	1,563.44
Repair and maintenance	14.80	14.80
Employee cost	99.66	71.64
Interest & financing charges	52.45	19.34
A&G expenses	19.15	8.13
Depreciation	16.49	16.49
Other debits	12.50	0.20
Return on Equity		5.00
Gross ARR	**1,792.20**	**1,699.04**

22. **Revenue from tariff :** The licensee has projected the revenue from tariff as Rs.1568.93 lakhs as shown below:

Estimate of Revenue given by the Licensee for 2010-11 to 2012-13

Particulars	Sales (MU)			Revenue (Rs.lakhs)			Average realisation (Rs./kWh)		
	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13	2010-11	2011-12	2012-13
	Actual	Approved	Projection	Actual	Approved	Projection	Actual	Approved	Projection
HT I Industrial	24.17	8.58	24.17	992.66	349.07	992.82	4.11	4.07	4.11
HT IV Commercial	1.49	0.91	1.49	72.47	46.57	72.25	4.86	5.12	4.85
LT I Domestic	5.11	4.3	5.11	82.87	62.45	82.81	1.62	1.45	1.62
LT II Colonies	1.21	1.16	1.21	70.27	72.36	70.28	5.81	6.24	5.81
LT IV Industries	0.46	0.29	0.46	17.04	12.25	17.15	3.70	4.22	3.73
LT V Agriculture	0.04		0.04	0.29		0.26	0.73		0.65
LT VI Non-Domestic	1	0.73	1	63.79	60.34	63.99	6.38	8.27	6.40
LT VII Commercial	2.55	2.12	2.55	213.41	176.57	213.15	8.37	8.33	8.36
Street Light	0.23	0.23	0.23	9.93	9.71	10.02	4.32	4.22	4.36
Increase at 3%	-	-	1.1	-	-	46.2			4.20
Own Consumption*	-	16.59	-	-	674.96	-		4.07	
Total	**36.26**	**34.91**	**37.36**	**1522.73**	**1464.28**	**1568.93**	4.20	4.19	4.20

23. The licensee has included the own consumption in the appropriate categories for estimating the revenue from sales. The Commission approves the revenue from tariff as estimated by the licensee.

24. **Non Tariff Revenue:** The licensee has estimated Rs.9.48 lakhs as the revenue from non-tariff, which includes Rs.6.72 lakhs as interest on deposit with KSEB, and Rs.2.76 lakhs from miscellaneous charges. The Commission accepts the projection of the licensee on non-tariff income.

25. **Revenue Surplus/gap:** Based on the above, the revenue surplus/gap for the year 2012-13 estimated by the licensee and that approved by the Commission are as follows:

Approved A&&ERC for 2012-13

Particulars	Proposed by the licensee	Approved by the Commission
	(Rs. Lakhs)	(Rs. Lakhs)
Power purchase cost	1,577.15	1,563.44
R&M Expenses	14.80	14.80
Employee cost	99.66	71.64
Interest & financing charges	52.45	19.34
A&G expenses	19.15	8.13
Depreciation	16.49	16.49
Other debits	12.50	0.20
Return on Equity		5.00
Gross ARR	**1,792.20**	**1,699.04**
Revenue from Tariffs	1,568.93	1,568.93
Non tariff income	9.48	9.48
Total Revenue	1,578.41	1,578.41
Revenue gap	**(213.79)**	**(120.63)**

26. The revenue gap estimated by the licensee is Rs.213.79 lakhs for 2012-13. The Commission based on the reasons discussed above provisionally approves a gross ARR of Rs.1699.04 lakhs and a revenue from tariffs of Rs.1578.41 lakhs. Thus the net revenue gap is provisionally approved as Rs.120.63 lakhs, as against Rs.213.79 lakhs proposed by the licensee. The revenue gap is mainly on account of increase in power purchase cost due to revision of BST as per the Commission Order dated 13-12-2010. The Commission notes that the revenue from tariff based on the existing tariff is just sufficient for meeting the power purchase cost.

27. **Proposal for meeting the revenue gap:** The licensee has proposed to cover the revenue gap by reducing the BST to Rs.2.86/unit from Rs.3.28/unit. However, the Commission would consider the revision of BST at the appropriate time. The Board has filed petition for revision of retail supply tariff to all categories. After the finalization of the proposal, revenue gap of the licensee can be reviewed separately.

Orders of the Commission

28. After the analysis of the ARR & ERC petition and the clarification thereon submitted by the licensee M/s KDHPCL, the Commission provisionally approves the ARR of Rs.1699.04 lakhs and estimated revenue of Rs.1578.41lakhs, leaving a revenue gap of Rs.120.63 lakhs for the year 2012-13 as stated above. The licensee shall take earnest efforts to limit the expenses at the approved level. The existing Retail Supply Tariff shall continue till further orders .

Directives

1) The licensee shall take immediate stops for strengthening of the system for drawing power to the licensed area.

2) The licensee shall take action for achieving 100 % collection efficiency invoking the provisions of the Supply Code and that in the Act and take steps to bring down the T&D loss to the target level of 12%.

3) The licensee shall provide proper capital expenditure plan with financing scheme for approval of the Commission including that relating to the years 2010-11 & 2011-12.

4) Interest on Security Deposit furnished by the consumers shall be credited to their account as per provisions in the Supply Code and in the Act and report thereon shall be submitted to the Commission before 31.07.2012

Sd/-	Sd/-
Mathew George	**P.Parameswaran**
Member	**Member**

Approved for Issue

Secretary