KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present : **Shri. PREMAN DINARAJ, Chairman**

OA.No.64/2019

In the matter of	Petition for the approval of Addition of Assets for the year 2016-17 as part of Truing up of accounts of M/s KSEB Ltd for the financial year 2016-17, as per the Direction contained in Order date 14-09-2019 in OA12/2018
Applicant	Kerala State Electricity Board Ltd Vydhyuthi Bhavanam, Pattom Thiruvananthapuram

ORDER DATED 12/10/2020

1. Kerala State Electricity Board Limited (*hereinafter referred to as KSEB Ltd or the licensee or the petitioner*) filed the instant petition for approval of capital asset addition made during the year 2016-17 in compliance of the Order dated 14-9-2019 in OA No.12/2018 on the Truing up of accounts of KSEB Ltd for the year 2016-17. In the said Order, the Commission has not allowed the capital addition of Rs.1768.65 crore proposed by KSEB Ltd for the year and taken a stand that the said amount of capitalization is deferred till the details furnished as per the provisions of the Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2014 *(hereinafter referred to as Tariff Regulations 2014 or the Regulations)*. The relevant portions of the Order is given below:

> "**2.138** In this context, it is pertinent to mention that the Commission vide letter dated 23-04-2018 had directed KSEB Ltd to furnish the details of capital expenditure under generation, transmission and distribution with full details as per the provisions of Regulations during the truing up process. However, KSEB Ltd failed to furnish the details as directed by the Commission as part of the truing up petition. KSEB Ltd furnished only broad items of capitalization under each projects for generation and on a composite basis for transmission and distribution. KSEB Ltd could not provide the details of components of each project, the funding pattern including that of loans, grants and equity. The details such as sanctioned cost, actual cost of the projects, delays if any and delays beyond the control of KSEB Ltd etc., were also not provided. Further, the details regarding material cost, interest during construction, expenses such as employee cost and A&G expenses capitalized etc., for the assets were

also not provided. It could not be ascertained with the available information whether the projects capitalized are complete in all respects and put into use. In the absence of the details provided by KSEB Ltd, the Commission is not in a position to examine the prudence of the capital expenditure addition made during the year and also consider the requirement of normative loans and interest thereon for assets added during the year 2016-17.

2.139 ***Under these circumstances, the Commission is of the considered view that till such time, complete information on the capital expenditure is furnished as per the provisions of the Regulations, the approval of addition to capital expenditure and consequently the interest amount to be considered for the year is to be deferred. The details to be furnished are essential part of the Regulation formats. As soon as the required information is furnished, the Commission may consider the same for the approval.***

2.140 Accordingly, the interest charges for normative loan for the addition to assets are deferred".

2. The present petition is accordingly, filed by KSEB Ltd. The Commission admitted the petition as OA No.64/2019. In the said petition, KSEB Ltd stated that the total works capitalised in 2016-17 was Rs.1768.66 crore. Out of this, as part of the first time adoption and compliance of *Ind AS* (101), certain capital works to the tune of Rs.414.82 crore, which were still under the head of CWIP were identified and capitalised in the said year. Accordingly, as per the submission of KSEB Ltd, the capital addition for the year 2016-17 was to the tune of Rs.1353.84 crore as per IGAAP accounts and while migrating to *Ind AS*, and a total of Rs.414.82 crore has been added to the year, which was pertaining to previous years. Thus the total asset addition for the year was Rs.1768.66 crore (Rs.1353.84 crore+414.82 crore=Rs.1768.66 crore). The details are given below:

Table 1

Additional capital asset addition as part of *Ind AS* adoption

Year	I GAAP Accounts (Rs. Crore)			Ind AS Accounts (Rs. Crore)			
	Opening Balance	During the year	Closing Balance	Opening Balance	During the year	Closing Balance	Year wise break up of Completed works capitalized
2014-15	25480.05	1127.99	26608.04	25480.05	1329.39	26809.44	201.40
2015-16	26608.04	738.44	27346.48	26809.44	819.77	27629.21	81.33
2016-17	27346.48	1353.84	28700.31	27629.21	1485.94	29115.15	132.10
Total amount under CWIP capitalized in 2016-17 as per *IND AS* 101							**414.82**

Note: Addition includes Rs.16.64 Crore towards de commissioning liability (excluding compounding) as on 31.03.2017.

3. The above asset additions of Rs.414.82 crore pertain to the period 2014-15 to 2016-17. KSEB Ltd stated that these assets which were lying unadjusted in CWIP were transferred to Fixed Assets as part of *Ind AS* adoption. The category wise details of the assets furnished by KSEB Ltd is as shown below:

Table 2
Asset addition details from 2014-15 to 2016-17 as per petition

Item	Depn. Rate (%)	31-03-15 (Rs. Crore)			31-03-16 (Rs. Crore)			31-03-17 (Rs. Crore)		
		As per IGAAP	As per *Ind As*	Addition	As per IGAAP	As per *Ind As*	Addition	As per IGAAP	As per *Ind As*	Addition
Land & Land Rights		1,692.61	1,673.79	-18.82	1,732.06	1,712.18	-19.88	1,773.32	1,773.45	0.13
Buildings	3.34	666.52	667.47	0.95	676.96	679.91	2.95	710.41	787.38	76.97
Hydraulic Works	5.28	1,164.02	1,164.02	-	1,170.40	1,171.03	0.63	1,322.05	1,330.76	8.71
Other Civil Works	3.34	482.82	483.29	0.47	511.87	514.75	2.87	589.53	592.41	2.88
Plant & Machinery	5.28/6.33	15,625.23	15,810.80	185.57	15,781.39	15,991.01	209.62	16,031.01	16,341.08	310.07
Lines, Cable, Network	5.28	6,836.91	6,870.05	33.14	7,322.61	7,408.44	85.83	8,083.49	8,097.46	13.97
Vehicles	9.5	18.97	18.97	-0.00	20.37	20.80	0.43	21.80	22.23	0.43
Furniture & Fixtures	6.33	29.76	29.81	0.05	31.91	32.00	0.10	38.75	40.31	1.56
Office Equipments	6.33/15	91.21	91.23	0.02	98.91	99.09	0.18	129.96	130.06	0.10
TOTAL		26,608.04	26,809.43	201.40	27,346.48	27,629.21	282.73	28,700.31	29,115.13	414.82

4. The SBU wise assets capitalised for the year is as shown below:

Table 3
Summary of SBU wise capital addition in 2016-17 as per petition

Project Code	Brief Description of Project	CWIP as on 01/04/2016 (Rs. Crore)	Cost Incurred during the year (Rs. Crore)	Capitalized during the year (Rs. Crore)	CWIP as on 31/03/2017 (Rs. Crore)
A	Generation	1,112.10	176.56	450.22	838.44
B	Transmission	495.70	280.04	410.19	365.55
C	Distribution	501.36	1,122.80	908.25	715.91
	TOTAL OF A TO C	**2,109.16**	**1,579.40**	**1,768.66**	**1,919.90**
CWIP as on 31.03.2017 include Rs 84.52 Crore, Rs.13.21 Crore and Rs.38.88 Crore (Rs.136.61 Crore in total) towards advance to contractors under SBU G, SBU T and SBU D respectively.2. This advance along with Revenue expenses pending allocation to capital works Rs.234.96 are disclosed under CWIP General.					

5. In the above Table, the opening balance of CWIP, cost incurred during capitalisation of assets during the year and closing balance of the CWIP are given to show the capital additions for the year. The asset additions for the year under generation is Rs.450.22 crore, transmission is Rs.410.19 crore and for distribution is Rs.908.25 crore.

6. Though the GFA addition as per Accounts is Rs. 1768.66 crore, KSEB Ltd in the petition has claimed capital asset addition of Rs.1563.59 crore only. The reasons furnished for the reduction in addition to GFA for the year 2016-17 are on

account of Duplication of assets (Rs.135.29 crore) and Part capitalization (Rs.69.78 crore) besides misclassification of assets, owing to the first time adoption of Ind AS. In other words, according to KSEB Ltd the asset addition to be considered as per the provisions of the Tariff Regulations 2014 is Rs.1563.59 crore only as shown below:

Table 4
GFA Addition proposed for 2016-17 by KSEB Ltd as per petition

As per Audited accounts-Break up	**SBU G**	**SBU T**	**SBU D**	**TOTAL**
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
Addition as per I GAAP	226.49	243.59	883.76	1353.84
Add: *Ind AS* capitalization	141.75	113.29	7.85	262.89
Add: Decommissioning liability till 31.03.2017			16.64	16.64
Duplication- rectified in 2017-18	81.98	53.31	0.00	135.29
Additional Capitalization during the year-As per *IND AS* Accounts	**450.22**	**410.19**	**908.25**	**1768.66**
As per Tariff Regulation				
Capitalized during the year-As per *IND AS* Accounts	**450.22**	**410.19**	**908.25**	**1768.66**
Less: Duplication	81.98	53.31	0.00	135.29
Less: Part capitalization	37.80	31.98	0.00	69.78
GFA addition under SBU D wrongly included under SBU G	-31.69	0.00	31.69	0.00
GFA addition eligible for normative loan and depreciation as per Regulation	**298.75**	**324.90**	**939.94**	**1563.59**

7. Based on the above GFA addition, KSEB Ltd claimed an amount of Rs.16.74 Crore as depreciation for the assets added during the year 2016-17 and Rs.47.02 Crore as interest on normative loan based on a GFA addition claim of Rs.1563.59 Crore.

8. After admitting the petition, the Commission sought following clarifications on the petition vide letter dated 26-12-2019:

    1. *Details of the duplication on the asset additions mentioned in the petition in Generation and Transmission (name and category of assets and the value, year in which duplication is made)*
    2. *Whether such duplication has been made during previous years.*
    3. *It has been reported that there are part capitalised assets in SBU(G) and SBU(T). The interest and financing charges corresponding to such assets booked in ARR/previous truing up of accounts may be furnished*
    4. *KSEB Ltd may furnish the methodology used and accounting policy followed for capitalisation interest and financing charges (IDC) and expenses capitalised in generation, transmission and distribution*
    5. *Details of decommissioning liability (Rs.16.64 crore) mentioned in the petition.*
    6. *It may please be clarified whether the assets decommissioned in previous years, the balance value of assets are removed from the books. If so the details may be furnished.*
    7. *KSEB Ltd may clarify whether misclassification reported regarding central schemes (DDUGJY, LAPDS, IPDS) is limited to in 2016-17 or previous years*
    8. *The difference in value of assets for Barapole canal top Rs. 24.66 crore (Table 6) and Rs.26.62 crore given in Table 9 may be clarified*

9. *Yearwise total value of assets so far capitalised /part capitalised upto 2016-17 under the projects (various projects given in a/c 14.15 to 14.95) given in Appendex-1 (SBU-G) may be furnished.*
10. *Year wise total value of assets so far capitalised /part capitalised upto 2016-17 under the projects given in Appendex-6 (SBU-T) may be furnished.*
11. *Reason for cost over run for the projects capitalised for the year 2016-17 SBU G/T may be furnished*
12. *In the details furnished under Annexure 8 (Transmission circle Palakkad) for various projects the capitalised amount under different heads is same. The same may be clarified*
13. *KSEB Ltd may clarify whether the expenses capitalised at HO during 2014-15 and 2015-16 amounting to Rs.368.97 crore if included again in 2016-17 amounts to duplication. If so the process may be explained.*
14. *KSEB Ltd may clarify the difference in figures on decommissioning liability mentioned in Table 2 (Rs. 16.64 crore) Rs.18.38 crore mentioned in Table 16.*

9. Since the reply was not forth coming, the Commission issued a reminder dated 14-01-2020. KSEB Ltd furnished the details vide letter dated 11-02-2020. After examining the details, the Commission sought following additional details vide letter dated 20-05-2020.

    1. *The Additional submission filed on 21-11-2019, it is stated that there is a duplication of assets to the tune of Rs.81.98 crore in generation and Rs.51.31 crore in transmission respectively. Please confirm whether these amounts have been claimed/included in the capital cost earlier*
    2. *Methodology for arriving/estimating the decommissioning liability and the factors considered for arriving at pre-set percentages along with justification*
    3. *Details of assets decommissioned before its normal life viz., name of the assets, asset class, original value of asset, date of commissioning, normal life, reason for decommissioning, date of decommissioning etc.,*

10. Thereafter, pending details from KSEB Ltd, the Commission scheduled the hearing to be held on 12.06.2020 through video conference mode, complying with the Covid-19 protocols of the Government. A press release was also issued to inform the public about the hearing.

Hearing on the petition

11. The hearing was held on 12-06-2020. KSEB Ltd was represented by Shri.Namboothiri, Exe. Engineer and Shri. Biju, FA&CAO. During the hearing, the KSEB Ltd explained that the present petition is filed for allowing the interest on normative loan and depreciation for the assets added during 2016-17. The participants attended the hearing had raised following issues.

12. Shri.Viswanathan, GM of BPCL stated that delays in finalization of accounts are to be avoided and truing up process should be made faster. Sri. Rajesh, Carborandum Universal citing the example of Vellathooval HEP stated that there

is a discrepancy in commissioning dates of certain generation projects presented in the petition and the details furnished in the Annual Statement of accounts of KSEB Ltd. Sri. Selvendran, HOCL stated that already tariff levels are high, the process should not result in increase in tariff. Shri. Ratheesh Kumar, EICL stated that there is considerable delay in filing of the petitions. Sril Ranjith, Apollo Tyres endorsed the arguments of the Association. Shri. A.A.M Nawas representing M/s Binani Zinc Limited mentioned that capital cost for solar projects are higher than the benchmark costs approved by CERC. Further, the cost benefit analysis of completed projects of transmission in SBU-T should have been given to understand the rationale for such projects. Further, truing up should be done in a time bound manner. Shri Shaji Mathew, MRF also expressed similar views.

13. Shri. A.R Satheesh representing HT-EHT Association pointed out the discrepancy in the commissioning dates given in the petition and the Annual Report of KSEB Ltd indicating differences in capacity additions. According to him, it is not clear whether KSEB Ltd has taken prior approval of the Commission as per the provisions of Regulations for capital expenditure. He further requested the Commission not to allow such capital expenditure where prior approval of the Commission was not obtained as per the Regulations. He also mentioned that the capital costs of solar projects commissioned are much higher than the CERC approved capital cost. Hence, the prudency of capital projects in SBUs should be checked before approving such expenditure. Further in the case of capital additions in distribution, details regarding beneficiaries, benefits from the project, improvements in KPI etc., are not furnished. There is also a possibility of double accounting of capital expenditure and hence, report of independent auditors is to be examined. It is also not clear whether KSEB has added any carrying cost on such amounts while transferring the amount from Capital Works in Progress (CWIP) to Gross Fixed Assets (GFA). The subsidies and grants received from Ministry of New and Renewable Energy (MNRE) for non-conventional projects are not properly accounted under respective SBU.

14. During the hearing, the Commission sought following further clarifications/queries on the petition

   a) *Rs.1922.37 crore was approved as employee expenses in the trued up accounts of KSEB Ltd for the FY 2016-17 as per the Orders of APTEL and Hon. High Court of Kerala. However, Rs.255.86 crore is shown as capitalized during 2016-17 towards employee cost and A&G expenses. Since the employee expenses for 27175 employees is already approved in the truing up, KSEB Ltd has to provide detailed justification for including this amount in the capitalization account in 2016-17.*
   b) *Since there is difference in the amount of grants received from MNRE and the amounts accounted against the grants under each SBU, KSEB Ltd is to reconcile and furnish the figures of grants and*

contribution received from Government of India and booked to SBU-G, SBU-T and SBU-D under different projects

c) *KSEB Ltd is to furnish the details of the amount booked under de-commissioned assets which has to be removed from GFA*
d) *The calculation of interest and expenses (employee & A&G cost) capitalized for the year*
e) *KSEB Ltd is to quantify and specify the controllable and uncontrollable factors attributable to cost overrun and time over run.*

15. The Commission directed the respondents to furnish the written comments, if any, on the petition with a copy to the petitioner KSEB Ltd and allowed time till 19-06-2020 for furnishing comments. Further, KSEB Ltd was directed to furnish the details and reply to the Comments by 06.07.2020. Since these details were not received by the due date, the Commission vide letter dated 13-07-2020 directed KSEB Ltd to seek further time, if any required before 17-07-2020 for furnishing the details. KSEB Ltd furnished the details to the queries of the Commission vide letter dated 23-07-2020. The reply on the objections of the consumers was communicated to KSEB Ltd vide email dated 17-06-2020 and the reply was furnished by KSEB Ltd vide letter dated 27-07-2020.

Reply of KSEB Ltd on the Objections/comments of stakeholders

16. KSEB Ltd has furnished the responses to the comments of stakeholders vide letter dated 27-07-2020. Regarding the variation in MW capacity as per petition vis a vis audited accounts raised by HT-EHT Association, KSEB Ltd stated that three hydro projects viz. Chimony SHEP, Adyanpara SHEP and Barapole SHEP were commissioned in 2015-16 but the capitalization has been done in the books of accounts in 2016-17. As part of the initial adoption of Indian Accounting Standards *(hereinafter referred to as Ind AS)*, KSEB Ltd has identified and transferred these fixed assets commissioned in 2015-16 but lying under CWIP accounts to the fixed assets accounts during 2016-17.

17. Regarding the comment of the HT-EHT Association on the requirement of prior approval of capital investment as per the Regulations, KSEB Ltd stated that the works in respect of projects commissioned and capitalized in 2016-17 commenced before the Tariff Regulations, 2014 came in to existence and therefore was not required to be prior approved. KSEB Ltd further stated that it is to be noted that in response to the Commission’s letter No. 490/F&T/2016/KSERC dated 31-03-2016, KSEB Ltd as per letter dated 30-05-2016 had submitted the details of capital expenditure proposed for 2016-17 along with other details of ongoing projects. The Commission on 02-06-2016 convened a meeting and sought further details as per minutes of the meeting conveyed as per letter no. 490/D(F&T)/2016/KSERC dated 05.09.2016. Reply was furnished by KSEB Ltd on 09-11-2016.

18. In reply to the comment that cost of solar plants claimed is Rs.54.25 crore which is higher than CERC benchmark of Rs.35.80 Crore, KSEB Ltd stated that the bids for these projects were called for prior, to 2014 and the same was through competitive bidding process (e-portal). There was limited number of bidders as RE sector was not attractive at that time. Project specific changes like foundations, structures etc were to be made in these projects whereas bench mark cost by CERC is fixed for ideal conditions. Barapole canal top and canal bank is pilot cum demonstration projects of MNRE for which the above benchmarks are not valid. In view of the above, KSEB Ltd stated that there is no merit in the objections.

19. In reply to the comment that Capital investment sanction as contemplated in Tariff Regulation is expected to be taken and the Scheme wise details not furnished, KSEB Ltd stated that the Capital investment plan for the projects envisaged in the ensuing year is to be furnished as per Regulation. But almost all the projects capitalized in 2016-17 commenced the work prior to the Regulations. In reply to the objection that the details furnished in Appendix 10 of the petition contains details for Rs.120 Crore against Rs.438.20 Cr capitalized under electrical transmission schemes, KSEB Ltd stated that details furnished in Appendix 10 pertains only the new major projects commissioned in 2016-17, whereas substation wise capitalization details have been fully furnished in Appendix 8 of the petition, which contain both new capital projects as well as addition to the GFA in already commissioned projects.

20. Regarding the comment that capital expenditure details of SBU-D is not furnished, KSEB Ltd mentioned that distribution works are of numerous in number, smaller outlay per project and has shorter gestation period. Therefore, there is remote chance of part capitalization as well as time and cost overruns. Generation of data for such large number of projects is not feasible at present from the data captured in the accounts. KSEB Ltd also stated that they are taking earnest efforts in implementing ERP system in a time bound manner and would be capable of providing all desired level data in future.

21. KSEB Ltd further stated that the value of completed but lying under CWIP account alone were transferred to GFA in 2016-17 and the true up claim has been made strictly in accordance with the Tariff Regulations. Hence there is no instance of multiple capitalization as alleged by the stakeholder.

22. It is also clarified that expenses booked under CWIP pending allocation over capital works, represent the expenses to the extent still to be transferred to CWIP account at field office level. This is communicated in next year from HO to field offices for incorporation in CWIP account.

23. Regarding Consumer contribution KSEB Ltd clarified that Rs.1429.22 crore is the balance of consumer contribution and grants net of amortization as on 31-03-2017 (accumulated since 01-11-2013) whereas Rs.646.94 Crore is the contribution and grants received during the year 2016-17.

24. Regarding the comment that cost of finance has to be considered as zero, KSEB Ltd stated that as per the Tariff Regulations, interest charges can be claimed on a normative basis. KSEB Ltd has duly considered the capital receipts while arriving at the normative loan for the year and therefore there is no merit in the objection.

25. On the objection that Grants received for generation projects were not considered under SBU G, KSEB Ltd stated that it is mentioned in the petition that the grants/subsidy applicable for SBU G were inadvertently included under SBU-D and as per letter dated 22.07.2020, KSEB Ltd has furnished the SBU wise break up of capital receipts.

26. Based on the above explanations, KSEB Ltd contended that there is no merit in any of the arguments raised by the objectors and hence, requested that the Commission may reject contentions of the objectors in toto.

27. The Commission has examined the petition in detail and the comments of the stakeholders. KSEB Ltd has sought the approval of addition to GFA for the year 2016-17 to the tune of Rs.1563.59 crore and corresponding depreciation and interest on normative loan for the said amount. In the petition, while considering the asset addition several issues such as duplication of assets, misclassification of assets, part capitalisation of assets, time and cost over runs of projects, claims of decommissioning liability etc., are to be analysed under each of the SBUs. For ease of analysis, the Commission takes up each issue under the SBUs separately in the following sections:

Section – I Asset Addition under SBU-G

GFA addition claimed under SBU G for 2016-17 as per petition

28. As per the petition, out of the GFA addition of Rs.450.22 crore under SBU-G, KSEB Ltd claimed only Rs.298.75 crore. The balance amount of Rs.151.47 crore includes inadvertent misclassification of assets worth Rs.31.69 crore belongs to SBU-D under central scheme, duplication of assets worth Rs.81.98 crore and Rs.37.80 crore worth assets under part capitalisation. Hence, the net asset addition amounting to Rs.298.75 crore is claimed under the petition. The details of project wise assets addition to be approved for SBU-G for 2016-17 as per the petition is shown below:

Table 5
Asset addition for SBU-G for the year 2016-17

Project Code	Brief Description of Project	CoD as per petition	Capital Cost (Rs. Crore)
14.03	Solar Power Project.(Barapole Canal Top)	17-11-2016	24.66
14.27	Chimoney Small H E Scheme	22-05-2015	24.90
14.73	Vellathuval SHEP	8-09-2016	36.98
14.76	Adyanpara Small Hydro Electric Project	3-09-2015	40.25
14.78	Barapole S.H. Scheme	29-2-2016	135.88
			262.67
	Others-On existing projects		36.08
	Total GFA addition as per Tariff Regulation, 2014		**298.75**

29. It can be seen from the above Table that the all projects except Solar PV projects (Barapole canal top) and Vellathooval SHEP, the date of commercial operation is in 2015-16. In reply to the query of the Commission**,** KSEB Ltd stated that the Barapole Canal Top and Canal Bank Solar projects were commissioned in December 2016 and only part value was capitalised in 2016-17. Balance value in CWIP account (Rs.5.10 crore as on 31-03-2017) together with part bill (Rs. 1.40 crore) and 10% value, i.e., Rs. 2.58 crore was released subsequently, upon successful performance and was accounted in 2017-18. Thus capitalisation in 2017-18 was Rs.9.08 crore.

30. The split up details of solar projects under Account code 14.03 furnished by KSEB Ltd is as shown below :

Table 6
Break up cost of Solar projects (Account Code 14.03) in 2016-17

ARU	Description	Asset Category	Amount (Rs. Crore)
CE civil division, North Kozhikode	Barapole Canal top (3MW) and canal bank (1MW)	Hydraulic works	22.97
Transmission Circle, Palakkad	1MW ground mounted Solar plant at 220kV Substation, Palakkad	Plant machinery	1.40
Electrical Division Iritty	Barapole Canal top (3MW) and canal bank (1MW)	Lines &cables	0.06
Electrical Division Chittur	Off grid Solar, Nelliyampathy	Lines &cables	0.23
Total			**24.66**

31. Further, KSEB Ltd also stated in the petition that following solar PV projects are installed and commissioned in 2016-17. .

Table 7
Solar PV projects commissioned in 2016-17 as per the petition

	Project	CoD	Capacity (MW)	Capital cost (Rs.Crore)	Scheme	Remarks
1	Barapole Canal Top Grid connect	17.11.2016	3.000	26.62	MNRE Pilot cum demonstration	Included in GFA
2	Barapole Canal bank Grid connect	07.11.2016	1.000	6.75	-DO-	Not included in the GFA of SBU-G in 2016-17
3	Kollamcode	08.08..2016	1.000	6.75	IPDS	
4	Padinjarethara Dam top	29.08.2016	0.440	4.29	State Plan	
5	Edayar S/s section & office	05.09.2016	1.250	8.00	IPDS	
6	Palakkad Tribal colony (7 Nos)	30.11.2016	0.065	1.84	DDG	

32. As shown above, all the above schemes are either grants or contribution and except for item No.1, GFA of other projects are not seen included in GFA for 2016-17. The Commission noted that there was discrepancy in the figures of the capital cost of Barapole Canal Top Grid connect project furnished by KSEB Ltd (Rs.26.62 core and Rs.24.66 crore). In reply dated 11-02-2020, KSEB Ltd stated that the value given under Account code 14.03 (Rs.24.66 crore) is to be considered.

33. The details of adjustments proposed by KSEB Ltd under SBU-G is as shown below:

Mis-classification under SBU-G

34. KSEB Ltd reported that there were some assets under Central Schemes which were wrongly classified under SBU-G instead of SBU-D. The details of assets belongs to SBU-D, inadvertently classified under SBU G under various central scheme are as shown below:

Table 8
Asset addition wrongly classified under SBU-G in 2016-17

Project Code	Brief Description of Project	CWIP as on 01.04.2016 Rs.crore	Cost Incurred during the year Rs.crore	Capitalized during the year Rs.crore	CWIP as on 31.03.2017 Rs.crore
14.05	Deen Dayal Upadhyay Gram Jyothi Yojana (DDUGJY)	0.18	16.31	14.01	2.48
14.06	Local Area Power Development Scheme (LAPDS)	0.00	0.07	0.07	0.00
14.13	Integrated Power Development Scheme (IPDS)	0.00	15.62	15.03	0.59
14.26	Kerala Power Improvement Scheme (KPIS)	0.04	2.58	2.58	0.04
	Total	**0.22**	**34.58**	**31.69**	**3.11**

35. As per the details furnished by KSEB Ltd, in the above projects, Rs.31.69 crore was wrongly capitalised under SBU-G in 2016-17. The Commission also sought the year since when the misclassification has been continuing in central

schemes. In their reply dated 23-07-2020, KSEB Ltd stated that in DDUGJY and local Area Power development (LAPDS) schemes, the mis-classification is continuing from 2015-16, whereas in IPDS, it was occurred in 2016-17. However, KSEB Ltd did not furnish the total misclassification made under these projects so far in the previous years or confirm whether such misclassifications had occurred in the previous years also.

Duplication of assets under SBU-G

36. KSEB Ltd reported that there is inadvertent duplication in addition of assets under SBU-G to the tune of Rs.81.98 crore. According to KSEB Ltd, this mistake has been rectified in the accounts for 2017-18. According to KSEB Ltd this amount is also to be removed from GFA addition of SBU-G for the year 2016-17.

37. The Commission sought the details of duplication of assets during the year 2016-17 under SBU-G vide letter dated 14-01-2020. In reply, KSEB Ltd furnished the following details:

Table 9
Details of duplication in asset addition under SBU-G in 2016-17

Sl. No	ARU	Project Code	Asset Category	Amount (Rs. Crore)	Remarks
1	CE, Civil Circle Kozhikode	14.03 Solar power project	Building-Solar Plant	22.97	Barapole solar project pending bills wrongly capitalised twice
2	Civil circle, Meencut	14.73 Sengulam Tail Race	Building-Solar Plant	6.56	Duplication during IndAS compliance
			Hydraulic work	1.35	
			Plant and Machinery	3.10	
3	Civil Cirle, Kakkayam	14.88 Kuttiyadi Addl Exten	Plant and Machinery	7.32	Do
4	Generation circle Moozhiyar	Sabarigiri RMU	Plant and Machinery	40.67	Capitalised earlier years, again capitalised as part of IndAS compliance
	Total			81.97	

38. In reply to the query of the Commission that whether any duplication has been made during previous years, KSEB Ltd in their letter dated 11-02-2020 has stated as follows :

> "… consequent to the mandatory adoption of the changes in line with *Ind AS*, ARUs were asked to submit additional details relating to various aspects. Such details were collected, complied and incorporated in the accounts for 2016-17 for the first time by availing the services of professional consultants. Duplication of GFA addition happened upon compilation of accounts primarily as part of *Ind AS* compliance. In order to comply with the provisions of *Ind AS*, the assets which are ready to use, pending capitalisation at Account Rendering Units upto 31-3-2017were

capitalised at Head Office after obtaining the details from the field offices. As part of the initial adoption of *Ind AS*, opening balances for 2016-17 were restated. Details of capital work in progress as on 31-3-2016 and 31-3-2015 were also collected from field offices. During this process certain projects/portion thereof which were completed earlier were mistakenly taken again for capitalisation like earlier capitalised portion Sabarigiri RMU, was again reported as pending for capitalisation, resulting in duplication. Duplication were identified later and reversed during the financial year 2017-18. Till the FY 16, accounting was done as per IGAAP and GFA addition has been made in the accounts only based on the capitalisation made at the field office level and not at HO level. Therefore, the chances for duplication in earlier years were quite remote".

39. Thus, KSEB Ltd has stated that the duplication in the capitalisation of assets occurred on account of *Ind AS* compliance and the same was rectified in the accounts for 2017-18

Part capitalisation of Assets under SBU-G

40. KSEB Ltd reported that there is part capitalisation of assets amounting to Rs.37.80 crore under SBU-G in 2016-17. Since as per the Regulation, assets put into use alone can be considered, the part-capitalised assets have to be removed from the GFA. In the petition, KSEB Ltd however did not mention the projects under which part capitalisation has occurred. Hence, the Commission sought the details of year wise total value of assets so far capitalised /part capitalised up to 2016-17 under the incomplete projects under SBU-G. KSEB Ltd vide letter dated 11-02-2020 has furnished the following details.

Table 10

Project wise Part capitalised Assets under SBU-G as furnished by KSEB Ltd

Project code	Name of the project	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
14.15	Sabarigiri Pumping scheme					1.40	3.01
14.20	Western Kallar SHP						0.01
14.25	RMU Sholayar						0.08
14.49	Poovaramthode SHEP					0.95	0.99
14.64	Marmala SHEP						1.02
14.65	Kuttiadi SHEP	0.05		0.23	1.83		0.02
14.69	RMU-Poringalkuthu						2.03
14.71	Peruvannamuzhi SHEP						2.23
14.72	Chembukadavu III SHEP						2.67
14.74	Chinnar SHEP			5.39	5.82	2.95	3.15
14.77	Pallivasal Extension Scheme	0.09	1.57	1.06	6.72	0.63	0.01
14.79	Mangulam HEP	0.80	4.07	7.26	7.37	5.47	16.33
14.89	LADRUM SHEP				0.05	0.62	1.02
14.95	Perunthenaruvi SHEP	0.46	0.29	18.66	5.93	1.61	5.23
	Total	**1.40**	**5.93**	**32.60**	**27.72**	**13.63**	**37.80**
	Total from 2011-12 to 2016-17						**119.08**

41. As shown in the Table, there are 14 projects under SBU-G where part capitalisation of Rs.37.80 crore has been reported in 2016-17, and in the same projects in the previous years from 2011-12 to 2015-16 also part capitalisation has been occurred to the tune of Rs.81.28 crore. However, from the details furnished it is not clear that other than these 14 projects, part capitalisation has occurred previously or not.

42. The Commission has also sought whether, any Interest and financing charges has been claimed in the past for part capitalised assets. KSEB Ltd in their letter dated 11-02-2020 stated that they are not in a position to cull out the details from the manual ledgers, and whether data available, has to be correlated with field data at that time. After a significant time gap, due to non-availability of all the required details, such correlations of records are not possible. According to KSEB Ltd such part capitalised assets are mostly put to use in subsequent year itself and without any significant time gap.

Time and Cost overrun of Projects under SBU-G

43. KSEB Ltd furnished the project wise details viz. scheduled and actual start of the project, COD, originally envisaged and actual capital cost, reason for delay and cost along with year wise split up of expenditure incurred in respect of generating stations commissioned after 2015-16 as shown below:

Table 11
Project wise analysis of the generating stations commissioned from 2015-16

Sl. No	Name of Substation /Line	Start Date		Commissioning date		AS amount	Actual Expenditure	Remarks
		Scheduled	Actual	Scheduled	Actual			
1	Chimmony SHEP	3/8/2011	18/08/2011	3/2/2014	22/05/2015	21.56	24.90	Delay:-1. Due to the problem with the disperser valve of the irrigation department which made the Board to dismantle the temporary splash control hood. In the unguided irrigation release that followed, the ring bund made was washed off and the work had to be suspended 2. Non availability of dedicated feeder due to delay in line drawal through Forest.

2	**Adyanpara SHEP (Completed in two Phases)**	1/10/2007 17/01/2013	10/10/2007 17/01/2013	30/09/2009 30/07/2015	3/9/2015	28.56	40.52	Delay – As contractor hesitated to undertake the work in agreed PAC it is decided to terminate the contract and retendered the work. Non availability of required quantity of water for conducting trial run
3	**Barapole SHEP**	5/9/2010	29/09/2010	31/01/2016	29/02/2016	138.44	135.88	Delay - in acquiring private land, Public Protest. Change in the size PH and Transmission line
4	**Vellathooval SHEP**	29/12/2011	24/08/2012	29/06/2014	8/9/2016	35.32	39.67	Delay in land acquisition. Further delayed due to flash flood and inclement weather conditions.

44. The Commission has sought the details and reasons for time and cost over runs occurred for the projects commissioned during the year under SBU-G. KSEB Ltd in its reply dated 11-02-2020 has furnished the following details regarding SBU-G.

Table 12

Reasons for Cost Over Run of Assets commissioned from 2015-16

Sl.No	Name of the project	AS amount (Rs.Crore	Actual expenditure (Rs. Crore)	Reasons for Cost over run
1	Chimmony SHEP	21.56	24.90	Variation in tax rate and one extra item on dummy flange suitable for closing the inlet of the turbine spiral casing resulted in Cost over run. Increase in establishment charges due to delay in commissioning is also a reason for cost over run
2	Adyanpara SHEP (completed in two phases)	28.56	40.52	1. During the execution, total quantity of excavation was increased. Also the length of the core wall had to be increased as per site conditions. 2. A retaining wall had to be provided above the core wall to prevent overflow from non overflow portion of weir during flood. 3. As per the suggestion of Geologist more area were to be shotcreted leading to excess quantity. 4. The size of power house was increased and hence design of gantry girder was revised to higher sections. 5. Actual quantity of rocker supports was increased due to design change.

3	Barapole SHEP	138.44	135.88	The civil works of Barapole SHEP was tendered during 2010. At that time, there was major hike in labour cost and price level of construction materials such as cement, steel aggregate and sand. So bidders quoted higher rate above the estimate. The estimate being prepared based on 2009 schedule of rates
4	Vellathooval SHEP	35.32	39.67	Variation in rates and increase in establishment charges due delay in commissioning is the reason for cost over run.

45. The Commission has also asked KSEB Ltd to quantify and specify the controllable and uncontrollable factors attributed to the time and cost overrun. KSEB Ltd in their letter dated 23-07-2020 stated that, the time and cost overruns are due to uncontrollable factors without giving detailed justification for identifying the factors.

Summary of the Asset Addition claimed under SBU-G in 2016-17

46. Based on the above, KSEB Ltd stated that an amount of Rs.151.47 crore (part capitalisation Rs.37.80 crore, duplication Rs.81.98 crore and misclassification Rs.31.69 crore) is to be deducted from the total GFA addition of Rs.450.22 crore for SBU-G as per accounts for arriving at the asset addition of Rs. 298.75 crore as per the provisions of the Regulation. According to KSEB Ltd, the asset addition of Rs.298.75 crore is eligible for normative loan and depreciation as per the Regulations. The GFA addition under SBU-G as per accounts and after adjustments claimed in the petition is as shown below:

Table 13
GFA addition under SBU-G claimed as per Petition

		Gross fixed assets for 2016-17 as per Accounts (Rs. Crore)			Adjustments on addition (Rs. Crore)			Addition net of adj
No.	Particulars	Year beginning	Additions	Year End	Part capitalization	Applicable to SBU D	Duplication	Rs. crore
1	Land & land rights	1480.94	15.17	1496.11	23.33			-8.16
1A	Hydraulic works	1160.33	160.34	1320.67	0			160.34
2	Building & Civil works of Power plant	481.78	107.94	589.72	8.17			99.77
3	Plant & machinery including sub-station equipments	13276.87	163.75	13440.62	6.29	31.69	81.98	43.79
4	Communication equipment	3.31	0.06	3.37				0.06
5	Vehicles	7.2	0.62	7.82				0.62
6	Furniture & fixtures	3.82	0.42	4.24	0.01			0.41
7	Office Equipments	3.45	0.76	4.21				0.76
8	IT Equipments	5.66	0.27	5.93				0.27
9	Any other items	6.46	0.9	7.36				0.90
	Total (1) to (9)	**16429.82**	**450.22**	**16880.05**	**37.80**	**31.69**	**81.98**	**298.75**
	Enhancement in value due to revaluation	11988.98		11988.98				
	Net of enhancement in value	4440.84		4891.07				

Analysis and Decision of the Commission on GFA addition of SBU-G

47. KSEB Ltd has claimed GFA addition of Rs.298.75 crore as against Rs.450.22 crore as per their accounts. Some of the stakeholders have observed that projects for which capital addition is claimed under SBU-G during the year 2016-17 as per the petition and as per Annual Accounts of KSEB Ltd are not matching. KSEB Ltd on the other hand mentioned that though the projects are commissioned in the year 2015-16 itself, the same were accounted for in CWIP and capitalization occurred only in the year 2016-17. Hence, the same is claimed in the present petition.

48. The Commission notes the argument of KSEB Ltd. It is possible that the date of commissioning can be the previous year, whereas the actual assets were added in the books of accounts at a later date. As and when the assets are taken into the books, the licensee can claim the benefits of depreciation .etc. of such projects.

49. In the case of asset additions in SBU-G, KSEB Ltd stated that the following new generating stations were commissioned in the years 2015-16 and 2016-17 and capitalized in 2016-17.

Table 14

Details of projects capitalized under SBU-G as per petition in 2016-17

Project Code	**Brief Description of Project**	COD	Capacity (MW)	**Capitalised Assets (Rs. Crore)**
14.27	Chimoney Small H E Scheme	22-05-2015	2.50	24.90
14.73	Vellathuval SHEP	08-09-2016	3.60	36.98
14.76	Adyanpara Small Hydro Electric Project	03-09-2015	3.50	40.25
14.78	Barapole S.H. Scheme	29-02-2016	15.00	135.88
14.03	Solar Power Project.(Barapole Canal top)	17-11-2016		24.66
	Total New Projects			**262.67**
	Others-On existing projects			36.08
	Total GFA addition as per Tariff Regulation, 2014			**298.75**

50. KSEB Ltd claimed that following solar PV projects were commissioned in the year 2016-17

Table 15

Cost of solar PV projects Commissioned in 2016-17 furnished by KSEB Ltd

Project	CoD	Capacity (MW)	**Capital cost (Rs.Cr)**	Cost per MW
Kollamcode	08.08..2016	1.000	6.75	6.75
Padinjarethara Dam top	29.08.2016	0.440	4.29	9.75
Edayar S/s section & office	05.09.2016	1.250	8.00	6.40
Palakkad Tribal colony (7 Nos)	30.11.2016	0.065	1.84	28.31
Barapole Canal Top Grid connect	**17.11.2016**	**3.000**	26.62	8.87
Barapole Canal bank Grid connect	**07.11.2016**	**1.000**	6.75	6.75
Total			**54.25**	

51. Though projects worth Rs.54.25 crore has been commissioned in the year 2016-17, KSEB has claimed only the capital cost of Barapole Canal Top of Rs.24.66 crore for the solar PV projects in 2016-17. In the letter dated 11-02-2020, KSEB Ltd furnished the following details of capitalization of solar PV projects under the Account Code 14.03

Table 16

Amount capitalized for Solar PV projects in 2016-17

	Amount capitalised (Rs.crore)
Barapole Canal top (3MW)	22.97
Barapole Canal Bank (1MW)	
Barapole	0.06
220kV Substation, Palakkad (1MW)	1.40
Off grid, Nelliampathy	0.23
Total	**24.66**

52. The above Table reveals that against an expenditure of Rs. 33.37 crore (Rs.26.62 crore + 6.75 crore) spent on Barapole canal Top Grid Connect and Barapole Canal Bank Grid Connect, only Rs. 23.03 Crore (Rs.22.97 crore+0.06 crore) was capitalized during 2016-17. KSEB Ltd vide their letter dated 11-02-2020 clarified that an amount of Rs. 9.08 crore was capitalized by KSEB in 2017-18, whereas the balance amount of Rs. 1.26 Crore is yet to be accounted for by KSEB Ltd. It is also to be noted that except for Barapole canal top/canal bank, other schemes were not included under the items capitalized in the year 2016-17.

53. The Commission has examined the admissibility of the capital cost and asset addition of the projects mentioned in the petition. As per the details furnished by KSEB Ltd, all the hydro generation projects fall under the category of Small

Hydro Generating schemes. Provisions in the Tariff Regulations 2014 regarding approval of Generation projects is as shown below:

> *36. Applicability. – (1) The regulations specified in this chapter shall apply to determination of tariff for supply of electricity to the distribution business/licensee by a generating company from conventional sources of generation such as coal, gas, liquid fuel and medium as well as large scale hydro-electric plants:*
>
> *Provided that determination of tariff for supply of electricity to the distribution business/licensee from cogeneration plants, solar plants, small hydro-electric projects, wind energy projects and other renewable energy sources of generation shall be governed by separate Regulations specified by the Commission from time to time:*

54. Thus as shown above, the capital cost and approval of the projects falling under renewable energy projects are governed by the provisions of Kerala State Electricity Regulatory Commission (Renewable Energy) Regulations, 2015 (*hereinafter referred to as Renewable Energy Regulations)* and the amendments thereof. It is also pertinent to note that the Commission in the truing up of accounts for 2015-16, had allowed O&M costs for the new stations commissioned in the year 2015-16 based on the capital cost as per the Renewable Energy Regulations 2015.

55. The Commission has notified the Renewable Energy Regulations, 2015, which is effective from 11-11-2015. As per the said Regulations, control period applicable is for five years from 2012-13. The applicable provisions are given below:

> *18. Control period.-(1) The control period under these regulation shall be five years.*
>
> *(2) The norms for determination of tariff for the electricity generated from each category of renewable source of energy shall remain valid during the control period:*
>
> *Provided that the bench mark capital cost of the renewable energy projects and the rate of interest for loans may be reviewed annually by the Commission and the normative values of capital cost and rate of interest shall be modified accordingly by notification published in the official gazette.*
>
> *(3) On completion of every control period, the Commission may by notification, revise the norms for determination of tariff:*

Provided that the norms for determination of tariff for electricity from renewable sources of energy, shall continue in force till they are revised.

(4) The financial year 2012-13 which is the first year of the control period as per regulation 6 of the Kerala State Electricity Regulatory Commission (Power Procurement from Renewable Sources by Distribution Licensee) Regulations, 2013, shall be deemed to be the first year of the first control period as per these regulations.

56. As shown above, the control period of the Renewable Energy Regulation, 2015 is from 2012-13 and as per Regulation 20(3) and (5) the determination of tariff is applicable from the date of commercial operation of the renewable energy project as shown below

20 (3) The generic tariff shall be applicable to the renewable energy projects commissioned during the financial year for which the generic tariff is determined under sub-regulation (1) above

(5) The tariff period shall be computed from the date of commercial operation of the renewable energy generating unit.

57. As per proviso to Regulation 35 of Tariff Regulations 2014, the determination of tariff for supply of electricity to the distribution business/licensee from cogeneration plants, solar plants, small hydro-electric projects, wind energy project and other renewable energy sources of generation shall be governed by separate Regulations specified by the Commission from time to time. Accordingly, the capital cost of small hydro electric projects shall be governed by the cost specified in the Renewable Energy Regulations 2015. A comparative statement of the benchmark cost and the cost claimed by the KSEB Ltd is shown below:

Table 17
Excess cost of SHE Projects capitalized in 2016-17

Name of the Projects	Capacity (MW)	Benchmark cost as per Regulation (Rs.crore/MW)	Allowable capital cost (Rs.crore)	Actual Capitalised cost*** (Rs. Crore)	Excess capital cost (Rs.crore	Increase in cost (%)
Chimoney Small H E Scheme	2.50	6.46458*	16.16	24.90	8.74	54%
Vellathuval SHEP	3.60	6.46755**	23.28	36.98	13.70	59%
Adyanpara SHEP	3.50	6.46458*	22.63	45.82	23.19	102%
Barapole S.H. Scheme	15.00	5.92586*	88.89	138.61	49.72	56%

*As per KSERC (Renewable Energy) Regulations 2015
**As per KSERC (Renewable Energy)(Amendment) Regulations 2017
****Including balance cost under CWIP*

58. Similarly, in the case of solar projects the bench mark cost and the excess cost incurred is as shown below:

Table 18
Excess cost of solar projects capitalised in 2016-17

Project	CoD	Capacity (MW)	**Capital cost (Rs.Crore)**	Cost per MW (Rs.Crore)	Benchmark cost/MW as per Regulations (Rs.core)*	Excess cost (Rs. Crore)	% increase over benchmark cost
Kollamcode	08.08..2016	1.000	6.75	6.75	5.30	1.45	27.4%
Padinjarethara Dam top	29.08.2016	0.440	4.29	9.75	5.30	1.96	84.0%
Edayar S/s section & office	05.09.2016	1.250	8.00	6.40	5.30	1.37	20.8%
Palakkad Tribal colony (7 Nos)	30.11.2016	0.065	1.84	28.31	5.30	1.50	434.1%
Barapole Canal Top	**17.11.2016**	**3.000**	26.62	8.87	5.30	10.72	67.4%
Barapole Canal bank	**07.11.2016**	**1.000**	6.75	6.75	5.30	1.45	27.4%
Total			54.25				
Amount Capitalised during the year			24.66				
Balance under CWIP			9.39				

*As per KSERC (Renewable Energy)(Amendment) Regulations 2017

59. It is observed that the capital cost claimed in the case of small hydro projects and solar projects are higher than the cost/MW specified in Renewable Energy Regulations 2015, read with its amendments. In their submission, the Kerala HT & LT consumers' Association pointed out the issue that the capital cost of the solar projects are higher than the benchmark cost approved by CERC. In the reply dated 27-07-2020, KSEB Ltd stated that the bids for the solar projects were called for prior to 2014 and the same was through competitive bidding process under e-portal. There was limited number of bidders as RE sector was not attractive at that time. Further project specific changes like foundations, structure, etc. were to be made in these projects, whereas CERC benchmark cost is fixed for ideal conditions. KSEB Ltd also stated that the projects were initiated before the Regulations were notified and hence the same is not applicable.

60. The Commission notes the reply of KSEB Ltd. The provisions of the Renewable Energy Regulations, 2015 provide for the date of commercial operation rather than date of start of the project. Further, the applicability of the provisions of the Regulation is with respect to the COD of the project irrespective of the date of commencement of the project. Hence in a strict sense, KSEB Ltd is not eligible for the excess cost of the projects as shown above. **However, the Commission has duly considered the argument of KSEB Ltd that the tendering of these projects were made before the commencement of the Regulations. Hence as a onetime measure with a condition that such claims shall not be**

applicable to any such cases, the Commission relaxes the said provision and allows the actual cost of the project for recognizing the GFA addition under SBU-G.

Additional capitalization of existing projects

61. KSEB Ltd. in their petition has demanded Rs.298.75 core as GFA addition under SBU-G during 2016-17. Out of this, an amount of Rs.36.08 crore is claimed as additional capital expenditure made for the existing projects. Provisions of the Tariff Regulation 2014, regarding additional capitalization of existing projects are given below:

> *37. Capital Cost.-*
> …………
> ……….
> 37 (2) The capital cost of an existing project shall include the following:-
> a) the capital cost approved by the Commission prior to the First day of April 2015 duly trued up by excluding liability, if any, as on the First day of April 2015;
> b) additional capitalization for the respective financial year as determined in accordance with regulation 24; and
> c) expenditure on account of renovation and modernisation as approved by the Commission in accordance with regulation 39.

62. As per the provisions of Regulation 24 (1) of Tariff Regulation 2014, on additional capitalizations, the Commission may, subject to prudence check, approve the capital expenditure actually incurred after the date of commercial operation and up to the cut-off date, on the following counts, provided such expenditure is ***duly audited and is within the original scope of work.***

    (i) Due to un-discharged liabilities
    (ii) On works deferred for execution
    (iii) To meet award of arbitration or compliance of final an un-appealable order or decree of a court
    (iv) On account of change in law
    (v) On procurement of initial spares included in the original project cost subject the ceiling norms as per the Regulations
    (vi) Any additional works/services, which have become necessary for efficient and successful operation of a generating station or a transmission system or a distribution system, but not included in the original capital cost.

63. In addition to the above, additional capital additions on the project can be considered as per the provisions of renovation and modernization. Provisions regarding Regulation 39 for Renovation and Modernization is given below:

> ***39.Renovation, modernisation or uprating***.– *(1) The generating business/company shall, for meeting the expenditure on renovation, modernization or uprating of the generating station or a generating unit thereof, make an application before the Commission for approval of the proposal with a detailed project report giving complete scope, justification, cost-benefit analysis, estimated life extension from a reference date, financial package, phasing of expenditure, schedule of completion, reference price level, estimated completion cost including foreign exchange component, if any, record of consultation with beneficiaries and any other information considered to be relevant by the generation business/company.*
>
> *(2) Where the generating business/company makes an application for approval of its proposal for renovation, modernisation or uprating, the approval shall be granted after due prudence check of the cost estimates, financing plan, schedule of completion, interest during construction, use of efficient technology, cost-benefit analysis and such other factors as may be considered relevant by the Commission.*
>
> *(3) Any expenditure incurred and approved or projected to be incurred and approved by the Commission after prudence check of the estimates for renovation, modernization or uprating and after deducting the accumulated depreciation already recovered from the original project cost, shall form the basis for determination of tariff.*

64. However, KSEB Ltd has not submitted any explanation/details for the claim of additional capitalization of Rs.36.08 crore on existing projects included under SBU-G. Hence the Commission is unable to exercise any prudence check to assess the admissibility of this expenditure***. The Commission hereby orders that henceforth KSEB Ltd has to provide detailed justification for the additional capital addition for the existing projects as per the provisions of the Regulations for approval.***

Duplication of Assets

65. The petitioner, KSEB Ltd submitted that there is duplication of assets worth Rs.81.98 Crore in SBU-G in the year 2016-17. The duplications have been rectified in the accounts for the year 2017-18. KSEB Ltd requested to remove the duplicate assets from GFA while approving the normative loan and depreciation.

66. As per the petitioner, the duplication of Assets was identified during the process of restating the accounts for 2016-17 for the first time adoption of *Ind AS*. KSEB Ltd also explained that the duplication occurred due to the capitalization process made at HQ level as a part of first time adoption of *Ind AS* unlike in earlier years, when the capitalization process took place at the field office level followed by a consolidation at Head Office level. In such cases, possibility of duplication was limited.

67. Though KSEB Ltd explained that the duplications occurred as part of the first time *Ind AS* adoption, the Commission notes from the details furnished by KSEB Ltd that other instances of duplication of Assets also occurred viz. Solar Power Project Barapole Canal Top – AC 14.03 wherein pending bills of Barapole was wrongly capitalised twice. It is pertinent to note that KSEB Ltd has given the details only for the projects capitalised in the year 2016-17. Thus, the Commission observes that the explanation by the petitioner for duplication of assets may not completely reflect the factual situation and may indicate the possibilities of such occurrence in the past. Though the Commission sought the details of such assets, the details furnished by KSEB Ltd was limited to the projects commissioned in 2016-17. However, the Commission urges that KSEB Ltd should make serious efforts to eliminate the deficiencies if any in the Accounting software/Systems and thereby reduce the chances of occurrence of similar duplications in future, so that the accounts reflect a "true and fair view" picture of the transactions during the year. The Commission observed that, it is the responsibility of the licensee to see that a fool proof accounting system is in place to avoid such duplications which may result in adversely impacting the consumer's tariff. It is all the more important in a situation where financing costs are allowed based on capitalization of assets. ***Hence, the Commission hereby directs KSEB Ltd to conduct a detailed examination of accounts for the previous and succeeding years so as to eliminate the possibility of any further duplication in the accounts.***

68. ***The Commission after examining the details furnished in the petition, excludes Rs.81.98 crore under SBU-G as duplication in the figures of capitalization for the year 2016-17 as proposed by the petitioner.***

Part Capitalization of Assets

69. KSEB Ltd has submitted the details of part capitalization of Assets during the period 2016-17 and requested to remove the same while allowing interest charges and depreciation. . According to KSEB Ltd, assets costing Rs. 37.80 crore were part-capitalised under SBU-G in 2016-17. The Commission has sought the details of the part capitalized assets under SBU-G in the previous years upto 2016-17 in the books of accounts. KSEB Ltd vide their letter dated 11-02-2020 provided the details of SBU-G, which is presented in Table 10, and the summary of which is shown below:

Table 19
Details of part-capitalised Assets under SBU-G

Year	Total amount of 14 schemes (Rs. Crore)
2011-12	1.40
2012-13	5.93
2013-14	32.60
2014-15	27.73
2015-16	13.62
2016-17	37.80
Total up to 2016-17	**119.08**

70. As shown above, KSEB Ltd reported Rs.37.80 crore of part capitalized items under 14 projects in the petition for 2016-17, whereas as per the clarification furnished, under the above projects so far Rs.119.08 crore has been capitalized between 2011-12 and 2016-17. This data reveals that part capitalizations have been occurring from the year 2011-12 and an amount of Rs.81.28 crore has been already capitalized till 2015-16 under these projects.

71. It is also to be noted that 14 projects reported under SBU-G are not the only incomplete projects. These projects were presented in the petition because some capitalization had occurred for these projects in 2016-17. Considering this, the Commission had sought the details of interest and financing charges corresponding to the part capitalized assets. In the reply dated 11-02-2020, KSEB Ltd stated as follows:

> *"…KSEB Ltd is not in a position to cull out the details from manual ledgers which has to be correlated with field work at that time after significant time gap, due to non-availability of all required details for such correlation in records. Further as may be seen from the data submitted along with the truing up for 2016-17 and 2017-18, such part capitalized assets are mostly put into use in subsequent year without any significant time gap"*

72. Hence, from the available records, it cannot be convincingly ruled out that there are no part capitalized projects in the books of accounts for which depreciation and interest and financing charges are being claimed.

73. As per the provisions of Tariff Regulation, only when an asset is ready and put into use, the costs relating to such assets are to be included for determination of tariff as shown below:

- *As per proviso to Regulation 23(2) the value of assets forming part of the project but not put to use or not in use, shall be excluded from the capital cost.*

- *As per Regulation 24(4), the assets forming part of the project cost but not put to use, shall not be approved for determination of tariff.*
- *Proviso to Regulation 29, RoE shall be allowed on the amount of equity capital approved by the Commission for the assets put to use at the commencement of the financial year.*
- *Regulation 30(1)(b) provides that the interest and finance charges on capital works in progress shall be excluded from such consideration. Hence, the provisions of Regulation clearly excludes the assets which are part capitalized.*

74. From the details furnished by KSEB Ltd, it is evident that similar part-capitalisation may have occurred in the case of other projects in SBU-G for which the dates of commercial operation have not been declared. All such part-capitalisation should have been removed from the GFA, since the proviso to Regulation 23 (2)(c) specifies that *the value of assets forming part of the project but not put to use or not in use, shall be excluded from the Capital Cost.* ***Similar exercise should have been done by the petitioner in the case of other projects in each of the SBUs, so as to identify and remove the part-capitalised assets from the GFA and to arrive at the actual value of Assets in use. Accordingly, as per the details furnished by KSEB Ltd. vide clarification dated 11.02.2020 asset costing Rs.119.08 crore has to be removed from the GFA of SBU-G, which includes Rs.81.28 Crore of assets to be removed from the GFA which was part-capitalised from 2011-12 to 2015-16.***

Misclassification of Capital Expenditure and Subsidies/Grants

75. The petitioner submitted that asset costing Rs. 31.69 crore was inadvertently classified under SBU-G instead of SBU-D. As shown in Table 8, misclassification occurred while capitalizing Central /State schemes such as Deen Dayal Upadhyay Gram Jyothi Yojana (DDUGJY), Local area Power Development Scheme (LAPDS), Integrated power development Scheme (IPDS), and Kerala Power Improvement Scheme (KPIS) The petitioner also submitted that, the subsidies/grants received for distribution projects are wrongly accounted under SBU-G. In reply to the clarification to the Commission, KSEB Ltd in its letter dated 11-02-2020 stated that misclassification in the case of IPDS occurred in 2016-17, whereas in the case of DDUGJY and LAPDS, it occurred in the year 2015-16.

76. The Commission notes that though the mis-classification may not substantially impact the consumers, it does have an implication on the cost of each business unit separately. The licensee has a fundamental responsibility to ensure that the transactions under each SBU are accounted properly; as such instances of

misclassifications may create a doubt on the reliability of the system. ***Hence it is directed that all the misclassifications be corrected as soon as it is detected with appropriate correction entries in the accounts. It is also to be noted that the contribution and grants received against the said assets should also be correctly accounted against the respective SBUs. With these comments, the Commission approves the adjustments of Rs. 31.69 crore relating to misclassification of GFA as reported by KSEB Ltd***

Time overrun and cost overrun of projects under SBU-G

77. As per the provisions of the Regulation 13(2), variations in capital expenditure on account of time and/or cost overruns/ inefficiencies in the implementation of a project not attributable to a change approved by the Commission in the scope of such project, capital cost over-run due to delay by equipment supplier and variations in capital expenditure on account of time and/or cost over-runs on account of land acquisition issues are treated as controllable items.

78. Based on the petition and the details furnished by KSEB Ltd the time and cost overrun details of projects commissioned under SBU-G are summarized as shown below:

Table 20
Time and Cost overrun details under SBU-G

	Time over run			Cost overrun*			
SHEP	Scheduled date of completion	Actual date of Commissioning	Delay	AS Amount Rs. Crore	Actual expenditure Rs. Crore	Cost over /under run Rs. crore	Cost over run (%)
Chimmony	03-02-2014	22-05-2015	15 months	21.56	24.90	3.34	15%
Adyanpara	30-07-2015	03-09-2015	1 month	28.56	40.52	11.96	42%
Barapole	31-01-2016	29-02-2016	1 month	138.44	135.88	-2.56	-2%
Vellathooval	29-06-2014	08-09-2016	27 months	35.32	39.67	4.35	12%
Total				**223.88**	**240.97**		
Sum of the increase in Cost						**19.65**	
Sum of the decrease in cost						**2.56**	

**Some Amount still lying under CWIP*

79. As given in Table 11 and 12, the licensee has attributed various factors for the delay in commissioning. The Commission notes that there is a cost overrun of Rs.19.65 Crore and cost saving worth of Rs.2.56 crore under SBU-G under different projects.

80. As per Regulation 23 (4) of the Tariff Regulations 2014, any escalation in the capital cost may be considered subject to prudence check, if ***sufficient justification*** is provided. Accordingly, the time overrun and consequent cost overruns can be allowed only when it is occurred due to the reasons which are

beyond the control of the licensee. Detailed justification is to be submitted by the licensee for the cost escalations clearly explaining the situation and reasons for taking an appropriate decision by the Commission in this matter.

81. The Commission has sought to quantify and specify the controllable and uncontrollable factors attributed to the time and cost overrun. KSEB Ltd, has provided some justification identifying the factors and stated that the time and cost overruns occurred due to uncontrollable factors. The Commission has examined the reasons submitted by KSEB Ltd. vide their letter dated 23-07-2020 to justify the reasons for the cost overruns. The Commission notes that in the case of Chimmony SHEP, the delay was due to a problem with the disperser valve of the Irrigation Department which the Board had to dismantle. The unguided water release caused a temporary flash and washed off the ring bund constructed leading to the work being suspended. Further, delays also occurred due to the non-availability of dedicated feeder line through the forest area. Regarding Bharapole SHEP, the delay was on account of acquiring private land due to public protest. In addition there were changes in the size of PH and transmission lines etc. In Vellathooval SHEP, apart from delay in land acquisition and flash flood, inclement weather also adversely impacted the timely completion of this project.

82. The Commission also noted that in Adyanpara SHEP which was completed in two phases, the delay was on account of the contractor not commencing the work after signing the contract. Consequently the work had to be retendered. From KSEB Ltd. reply, it is not clear as to whether the contract for awarding the retendered work was done at the risk and cost of the contractor. If this clause was available in the contract, then the extra payment made on this account should have been recovered from the original contractor. Non inclusion of the risk and cost clause in the contract works is contrary to KSEB Ltd. interest and consequently passing on the burden to the consumers. ***If such a situation has indeed occurred, the Commission views this lapse seriously and hereby directs KSEB Ltd. to consider including in all contracts a risk and cost clause without any exception.***

83. The Commission also recognizes the fact that a large institution like KSEB Ltd executing projects for more than Rs.1000 crore per year must have already instituted such control mechanism in place for project monitoring. ***It is absolutely essential that such information be furnished along with the petition for prudence check. Hence, the Commission directs that such details and justifications are to be included in future. Otherwise, the Commission may be constrained to exercise its judgment while recognizing time and cost run in project execution. With the above***

comments, the Commission is not making any adjustments for the amount of Rs. 17.09 crore on account of time and cost overrun.

Summary of approved GFA addition for SBU-G in 2016-17

84. After examining the petition, the Commission approves the GFA addition for the year 2016-17 for SBU-G as shown below:

Table 21
GFA addition approved for SBU-G

Particulars	SBU G	
	As per Petition	Approved
	Rs. Crore	Rs. Crore
Capitalized during the year-As per *IND AS* Accounts	450.22	450.22
Less: Duplication	81.98	81.98
Less: Part capitalization	37.80	37.80
Less: Part capitalization during previous years	0.00	81.28
Less: GFA addition under SBU D wrongly included under SBU G	31.69	31.69
Less: Cost attributable to time &Cost overrun	0.00	0.00
GFA addition eligible for normative loan and depreciation as per Regulation	**298.75**	**217.47**

85. ***As shown above, as against Rs.298.75 crore of GFA addition claimed by KSEB Ltd for the year 2016-17, the Commission approves Rs.217.45 crore.***

<u>Section – 2 Asset addition under SBU-T</u>

GFA addition claimed under SBU-T for 2016-17 as per petition

86. KSEB Ltd in the petition has stated that, the GFA addition for SBU-T as per the accounts is Rs.410.19 crore and the CWIP as on 31-03-2017 are as shown below:

Table 22
GFA addition under SBU-T as per accounts for 2016-17

Pr Code	Description of Asset	CWIP as on 01/04/2016	Cost Incurred	Capitalized	CWIP as on 31/03/2017
14.01	Electrical Transmission Schemes	333.76	343.73	438.20	**239.30**
14.18	Power System Development Fund	0.14	38.14	24.80	**13.48**
14.22	SCADA Upgradation Project	6.52	2.19	0.05	**8.65**
14.56	Load Despatch & Communication Schemes	1.58	6.93	6.03	**2.49**
14.90	CWIP – General	153.71	-111.01	-58.88	**101.58**
14.94	TRANSGRID 2.0 PROJECT	0.00	0.05	0.00	**0.05**
	SUB TOTAL (B)	**495.70**	**280.04**	**410.19**	**365.55**

87. However, in the petition KSEB Ltd has claimed asset addition of Rs.324.90 crore only as per the provisions of the Regulation. The balance amount pertains to duplication of assets (Rs.53.31 crore) and part capitalisation of assets (Rs.31.98 crore). The details are given below:

Duplication of Assets under SBU-T

88. The Commission sought the details of duplication of assets for the financial year 2016-17 and KSEB Ltd vide their letter dated 11-02-2020 furnished the following details:

Table 23
Details of duplication of assets for the FY 2016-17 under SBU-T

Sl. No	ARU	Project Code	Asset Category	Amount (Rs. Crore)	Remarks
1	Transmission Circle, Thrissur	14.01	Plant & machinery	53.31	CWIP of World Bank project pending capitalisation for a long time as per audit was done twice in 2016-17

89. As shown above, duplication of assets occurred in Transmission circle Thrissur under the World Bank Projects. KSEB Ltd stated in the petition that, capitalization during the year 2016-17 under SBU-T includes duplication of Rs.53.31 Crore while capitalizing World Bank Projects, which were commissioned long back. This error has been rectified in 2017-18 and the inadvertent mistaken addition has to be excluded in the asset addition during 2016-17.

90. The Commission sought the details of the duplication of assets which occurred prior to 2016-17. KSEB Ltd in the letter dated 23.07.2020 stated that no duplication had occurred and was not claimed on such assets. The reason given by KSEB Ltd vide letter dated 23-7-2020 is given below:

> *"In order to restate the financial statement as part of initial adoption of* Ind AS*, the works already completed and lying under CWIP were to be capitalized. For achieving this end, the details at the end of the financial year 2014-15, 2015-16 and 2016-17 were collected from the ARUs along with the details of subsequent year of capitalization of the asset. Duplication as reported happened by oversight while furnishing /compiling the data for the above three financial years. The first time Ind AS adoption was a onetime exercise and the duplication was traced out and corrected in 2017-18."*

91. According to KSEB Ltd, the duplications occurred due to *Ind AS* adoption and the said duplication is to be removed from the Asset addition in 2016-17..

Part capitalisation of Assets under SBU-T

92. As per the petition, assets worth Rs.31.98 crore included under SBU-T assets were on account of part capilisation. The details of projects under part capitalisation furnished by KSEB Ltd for the year 2016-17 is as shown below:

Table 24
Details of part capitalised projects under SBU-T in 2016-17

	Name of Project	Total (in Rs. Cr)
1	Tower Shifting Work at Mannuthy	0.63
2	Construction of 110KV DC Line from Valappad to Kandassankadavu	1.22
3	66kV SS Cyberpark	0.02
4	Nallalam 220kV SS - Capacity enhancement	8.29
5	SC to DC Conversion -Erection of CB at 220 KV S/s Orkatteri-Panoor feeder bay #2 and CT	0.17
6	SC to DC Conversion -Erection of CB at 220 KV S/s Orkatteri- Vadakara feeder bay #2 and CT	0.15
7	Construction of 110 KV S/s Kinalur.	0.45
8	TS Kaniyambetta-Reconductoring 66kV Kuthumunda-Thamarassery feeder-Detailed survey	0.01
9	TSD Kaniyambetta-Conducting profile surevey-conductor changing of 66kV Kuthumunda-Thamarassery feeder & tower insertion	0.01
10	TSD Kaniyambetta-Conducting profile surevey-upgradation of 66kV Kaniyambetta-Sulthan Bathery SC Tap line to 110kV DC	0.04
11	Conducting profile surevey-upgradation of 66kV Kaniyambetta-Mananthavady SC Tap line to 110kV DC - TSD Kaniyambetta	0.03
12	33kV Substation, Olavakkode	0.16
13	Construction of 220kV Solar Project, Ambalathara	0.17
14	Up-gradation of 66kV Substation to 110kV Substation, Nedumpoyil	0.16
15	Construction of 110kV Substation & lines for KSIDC Valiyavelicham	0.20
16	Construction of Substation & lines for Indian Coast Guard Academy	1.18
17	T C Section, Chemperi - Up-gradation of 66kV Substation to 110kV, Sreekandapuram	0.03
18	110 KVSS Venniyoor	1.41
19	220 KVSS Manjeri	6.40
20	Constuction of 2nd Circuit Malappuram Tirur 110 KV Line	0.20
21	Construction of 33 kv GIS,Thammanam-Soil Investigation	0.01
22	Upgradation of 110 kV S/s,Kaloor to 220 kV-Surveying works of 220 kv O H linesfrom Brahmapuram to Thuthiyoor	0.01
23	Raising of lines of66 kv Kalamassery Njarackal feeder-surveying	0.01
24	Bay extention work at 110 KV S/S Paruthipara	0.21
25	Con. Of 66kV S/s Odakkali	1.98
26	Con. Of 110kV S/s Muttom	0.38
27	Con. Of 110kV S/s New Muvattupuzha	0.04
28	Con. Of 33kV S/s Kumily	0.09
29	Con. Of 33kV S/s Vandanmedu	0.01
30	Con. Of 220kV S/s Kothamangalam	0.01
31	Drawing of 17 Km 33kV SC line	0.06

32	Construction of 10.2KM 33kV SC OH Line from Ranni to Mukkam	1.85
33	Construction of 12.1KM 33kV UG Cable from Perumthenaruvi to Ranni-Perunad via Mukkam	5.00
34	Construction 66kV Substation at Enathu in 110kV Standards	1.38
	Total	31.98

93. The Commission sought the details of total amount capitalised so far under such part capitalised projects in the previous years. In their reply dated 11-02-2020, KSEB Ltd furnished that an additional amount of Rs.5.80 crore (under 110 kV substation Muvattupuzha & 33kV substation Kumily) was capitalised in 2015-16.

Time and Cost overrun of projects under SBU-T

94. Of the many projects capitalised in 2016-17, KSEB Ltd furnished the details of the major sub stations and lines commissioned in 2016-17 viz. scheduled and actual start and COD, originally envisaged and actual capital cost, reason for delay and cost, along with expenditure incurred as given below:

Table 25

Details of projects commissioned in the year 2016-17

Sl. No	Name of Substation /Line	Start Date		Commissioning date		AS amout	Actual Expenditure	Remarks
		Scheduled	Actual	Scheduled	Actual			
1	Kadapra *Edathua – Kadapra*	21/01/1999	30/06/2010	2013	16/06/2016	2.51	6.84	Delay in land acquisition and land clearing
2	Kanhangad Town *110 kV Kanhangad - Kanhangad town*	22/04/2014	22/04/2014	31/5/2016	31/05/2016	7.66	5.76	33 k V UG cable portion was slightly reduced.
3	Kasargod Town *Vidyanagar - Kasargod town*	23/01/2015	23/01/2015	27/01/2017	27/01/2017	4.66	4.86	Slightly deviation in line route.
4	*Mattannur- KIAL 33 kV DC Line*	19/06/2015	19/06/2015	25/01/2017	25/01/2017	15.26	15.27	Deposit Work: Excess expenditure demanded form KIAL
5	Feroke *Nallalam -Feroke (OH+UG)*	8/4/2015	20/07/2015	10/8/2015	25/11/2016	8.04	8.08	Delay due to public protest & non availability of materials
6	Perambra *Meppayur-Perambra SC Line*	14/05/2014	16/05/2014	11/9/2014	14/03/2016	5.81	3.81	Litigation over line routes
7	Parappanagadi *LILO from Chelari - Kizhissery 110 kV line (Chettiarmedu - Parappanangadi)*	29/01/2014	29/01/2014	31/03/2016	29/12/2016	19.2	18.59	Litigation over line routes

	Tap from Edarikode-Thirunavaya line							
8	GIS, Kollam *Ayathil -GIS Kollam DC*	9/3/2015	13/03/2015	8/3/2017	27/03/2017	44.2	42.93	
9	Kallara *Kaduthuruthi-Kallara SC line*	1/3/2015	20/05/2015	30/09/2014	18/03/2017	5.16	6.24*	Delay due to objection from public.
10	*Vytilla - New Vytilla 110 kV UG*	10/1/2015	9/5/2016	31/12/2015	25/10/2016	2.03	1.76	Road cutting sanction delayed.
11	*Tap line from Nedumangad - Vithura* *Nedumangadu - LPSC SCUG*	25/08/2016	10/9/2016	20/02/2017	20/03/2017	6.15	5.55**	Deposit Work.

*6.24 Crs was later revised by KSEB Ltd to 5.62 crore as it was a compilation error .

** 5.55 Crs was later revised by KSEB Ltd to 7.44 crore as it was a compilation error.

95. The Commission has sought the reasons for the time and cost overrun and the nature of such over run whether the same is controllable or uncontrollable. In reply to the clarification sought by the Commission on the time over run, KSEB Ltd vide letter dated 11.02.2020 stated as follows:

Table 26

Reason for Cost overrun/under run on SBU-T Assets commissioned during 2016-17

Sl No	Name of Substation / Line	As amount	Actual Expenditure	Reasons for Cost overrun/underrun
1	Kadapra Edathua-kadapra	2.51	6.84	**Cost Overrun**: The AS was accorded for the work during the year 1999 for Rs. 2.51 Cr. But the major works were carried out in 2013-16 with the rates in 1999 in force for which a revised Administrative sanction for Rs. 5.67 Cr. was requested but not obtained. The reason for delay in execution was due to delay in obtaining land, delay in developing marshy land by filling earth due to interdepartmental formalities & heavy monsoon in 2013, etc. Further, trees in the proposed land were cleared only in 12/2012 due to differences in ownership claim of land among departments. Also there was delay in taking policy decision regarding construction of control room using prefab technology. The proposal of Edathuva – Kadapra line was planned through paddy fields and wet land where construction is possible only during dry weather condition of 3 months in an year. Later on this route was changed along PWD Roads. In a nutshell the delays are dur to. 1. Delay in obtaining land 2.Delay in developing the obtained land due to ownership differences among departments 3. Delay in finalizing the design of structures and line route 4. Cost was escalated since the work was done more than 10 years after the sanctioned date.

2	Kanhangad Town 110kV Kanhangad – Kanhangad town	7.66	5.76	**Cost underrum**: Although the total Labour cost apportioned in the AS comes to Rs. 3.24 crore, the actual labour cost executed as per the work bills comes only to Rs. 1.8 crore and the Actual material cost comes to Rs. 3.93 crores.
3	Kasargod Town Vidyanagar – Kasargod town	4.66	4.86	In the original proposal, the feeder was proposed as UG cable. Later a portion had to be converted to OH due to difficulty in laying cable. Tender excess of 9% in cable laying work and 5% in one part of the OH work. Also due to the difficulty in maintaining clearance of OH line to roads with heavy traffic, and curve in the OH route, more numbers of 14M lattice structures had to be inserted in the OH line. This resulted in hike of the cost by 0.2 crores.
4	Mattannur – KIAL 33kV DC Line	15.26	15.27	Cost overrun – Nominal
5	Feroke Nallalam – Feroke (OH+UG)	8.04	8.08	Cost overrun – Nominal
6	Perambra Meppayur-Perambra SC Line	5.81	3.81	**Cost underrun** : One 5 MVA Transformer installed was a an old one. Hence cost reduced.
7	LILO from Chelari – Kizhissery 110 kV line (Chettiarmedu – Parappananaadi) Tap from Edarikode – Thirunovaya line	19.2	18.59	**Cost underrun**; As was for constructed of 16km 110kV DC line Actual line length constructed – 15.25 km. Reduction in line length and material cost has caused redn in cost.
8	GIS, Kollam Ayothil – GIS Kollam DC	44.2	42.93	**Cost underrun**: The proposal was for 3 storied building for GIS Kollam. But later as per the direction of Board 2 storied building was constructed. Hence the reduction in cost.
9	Kallara Koduthuruthi – Kallara SC line	5.16	5.62*	**Cost Overrun**: Actual expenditure is 5.62 Crs. Instead of 6.24 Crs. And resulted due to estimate revision.
10	Vytilla – New Vytilla 110kV UG	2.03	1.76	**Cost underrun**: Since cable joint is avoided during execution, cost of cable joint, civil work & labour charges reduced as compared to estimate (around 25 lakhs) and cost of cable is also received in reduced cost as compared to estimate (around 5 Lakhs)
11	Tap line from Nedumangad - Vithura Nedumangadu – LPSC SCUG	6.15	7.44**	**Cost Overrun**: Actual expenditure is 7.44 Crs. Instead of 5.55 Crs, the amount exceeded to Rs. 7.44 Crore due to tender excess in labour portion (UG Cable laying work)

*6.24 Crs forwarded as per additional submission is a compilation error actual expenditure is 5.62 Crs.

** 5.55 Crs forwarded as per additional submission is a compilation error actual expenditure is 7.44 Crs.

96. The Commission in its Daily Order dated 16-06-2020 directed to quantity controllable and uncontrollable factors attributable to cost and time over run. However, without furnishing the analysis of the reasons of the time and cost overrun, KSEB Ltd in the letter dated 23-07-2020 stated that the cost and time over run were attributable to uncontrollable factors.

Summary of Asset Addition claimed under SBU-T in 2016-17

97. As per the petition, out of the asset addition of Rs.410.19 crore in the year 2016-17, assets worth Rs.31.98 crore represent part capitalisation and Rs.53.31 crore is duplication. After excluding these items, the asset addition claimed by KSEB Ltd as per the Regulations for SBU-T is Rs. 324.90 crore (Rs.410.19 Crore- Rs.31.98 Crore - Rs.53.31 Crore) as shown below:

Table 27

Asset addition proposed for 2016-17 under SBU-T as per petition

No	Assets Group	Gross fixed assets			Adjustments	Net
		01.04.2016	Addition	31.03.2017	Part capitalized/ Duplication	addition
1	Land & land rights	233.89	25.40	259.30	11.36	14.04
2	Other Civil works	361.12	36.15	397.27	0.95	35.20
	(a) Transmission lines	931.64	63.78	995.42	53.31	10.47
	(b) Sub-station equipments	767.91	17.97	785.88		17.97
	(i) Transformers	732.57	5.05	737.62		5.05
	(ii) Switchgears etc	43.11	8.88	51.99		8.88
	(iii) Batteries	20.02	9.04	29.06		9.04
	(iv) Others	126.18	79.69	205.87		79.69
	(a) Transmission lines	642.06	71.99	714.04	9.21	62.78
	(b) Sub-station equipments					0.00
	(i)Transformers etc	56.49	68.86	125.35	10.02	58.84
5	Communication equipment	51.99	7.10	59.09		7.10
6	Meters	12.22	0.33	12.55		0.33
7	Vehicles	6.02	0.68	6.70		0.68
8	Furniture and Fixtures	4.92	0.35	5.27	0.01	0.34
9	Office Equipments	2.75	1.40	4.15	0.01	1.39
10	IT equipments	6.69	0.41	7.10		0.41
11	Buildings	299.88	13.08	312.95	0.42	12.66
12	Any other items (Hydraulic Works)	10.00	0.02	10.02		0.02
13	Gross Asset (Total (1) to (14))	**4309.46**	**410.19**	**4719.64**	**85.29**	**324.90**

Analysis and decision of the Commission on GFA addition of SBU-T

98. In the case of SBU-T of the total amount of Rs.410.19 crore capitalized as per accounts, the petitioner has claimed an amount of Rs.324.90 crore under SBU-T as Asset addition for the year 2016-17, after excluding duplication, part capitalization etc.

Duplication of Assets

99. In the case of SBU-T, of the total amount of Rs.410.19 crore capitalized, Rs. 113.18 crore pertains to capitalization of assets lying in CWIP which were since capitalised during Ind *AS* addition. As part of the petition, KSEB Ltd has furnished complete list of transmission circle wise transmission assets

capitalized during 2016-17 (Annexure-8 of the petition). Out of this, 53 major schemes worth Rs.123 crore (including lines and substations) are also furnished separately (Annexure-9 of the petition). In the case of major schemes, both existing projects and new projects are also included and the date of commissioning is also shown. From these details it can be inferred that out of the total major schemes capitalized in 2016-17, 18 are new, 8 are upgradation and 27 are capacity additions. Further out of the 53 schemes, 28 schemes were commissioned in the year 2015-16 and balance were commissioned in 2016-17.

100. The Commission has noticed that in Transmission circle Palakkad on numerous occasions, the same amount (Rs.4,22,009/-) is being capitalized for different projects (110 kV SS/66kV SS, 33kV ss) in 2016-17. In the clarification dated 11-02-2020, KSEB Ltd reported the practice followed in the said circle up to 2017-18 was as follows:

> *"The total amount is apportioned to CWIP group 14-012, 14-015 and 14-016 in the proportion of the amount of CWIP incurred during the previous financial year under the respective heads. The total CWIP amount is then capitalized (charged to 10 group) in the proportion of amount capitalized during the previous year to each sub-head under group 10. The amount so apportioned to group 10 is then firstly reapportioned to sub-stations category based on the following percentage which is based on a fair estimate of capitalization made during previous years*
>
> *220kV SS Palakkad - 12%*
> *220kV SS Shornur - 8%*
> *110kV SS -40% (total 15 nos110kV substations under this ARU)*
> *33kV SS - 30% (total 19 nos 33kV substations under this ARU)*
> *66kV SS -10% (total 4 nos 66kV substations under this ARU)*
>
> *The total amount so apportioned to each category is then re-apportioned equally to each substations based on the number of substations in that category. Therefore similar amount appears against substations of similar voltage level.*
>
> *From financial year 2018-19, the difference is that only the amount of interest and financing charges charged to CWIP is capitalized which is proportionate to the capitalized amount to CWIP amount of previous years."*

101. The above clarification indicate these bookings are not based on the actual capitalization works done in these units, but instead is based on apportionment of the total amount capitalised under the respective head of accounts.. ***The Commission is of the opinion that there is a need for an urgent review of the present practice being followed by the petitioner so as to adopt a more appropriate method of apportionment of cost if required in order to reflect the realistic figures under each substation rather than the re-apportioning of equal amount to all the substations.***

102. Out of the total Rs.410.19 crore capitalized under SBU-T, KSEB Ltd vide letter dated 11-02-2020 has submitted that duplication of assets worth Rs.53.31 crore has been identified under Transmission circle Thrissur (Account code 14.01). It was the CWIP of World Bank Projects pending capitalization for a long time and this mistake was rectified in 2016-17.

103. ***Based on the details furnished by KSEB Ltd the Commission has decided to exclude Rs.53.31 crore identified as duplication of assets from the asset addition made under SBU-T during 2016-17.***

Part capitalization of Assets under SBU-T

104. As per the details furnished by KSEB Ltd, part capitalization of assets is worth Rs.31.98 crore in the year 2016-17. In the reply dated 11-02-2020, KSEB Ltd furnished that an amount of Rs.5.80 crore has been capitalized in the previous years under these projects. Thus, the total part capitalization would be Rs.37.78 crore under SBU-T. As per the provisions of Regulation 23(2) and 24(4), value of assets forming part of the project, but not put into use shall be excluded from the capital cost and shall not be approved for determination of tariff. Further, as per Regulation 29 and Regulation 30(1)(b), Return on equity and interest and financing charges shall not be allowed for asset not put into use. ***Considering these provisions, the Commission has decided to exclude the part-captalised assets of Rs. 37.78 crore (Rs.31.98 crore + Rs.5.80 crore) from the GFA under SBU-T***

Time overrun and cost overrun

105. As per the provisions of the Regulation 13(2), variations in capital expenditure on account of time and/or cost overruns/ inefficiencies in the implementation of a project not attributable to a change approved by the Commission in the scope of such project, capital cost over-run due to delay by equipment supplier and variations in capital expenditure on account of time and/or cost over-runs on account of land acquisition issues are treated as controllable items.

106. Based on the details furnished in the petition, the time and cost overrun details of the projects under SBU-T are as shown below:

Table 28
Time and Cost overrun details under SBU-T

Sl. No	Name of Substation /Line	Commissioning date		Delay	AS amout Rs. crore	Actual Expenditure Rs. Crore	Cost over run Rs. crore
		Scheduled	Actual				
1	Kadapra *Edathua – Kadapra*	2013	16-06-2016	42 months	2.51	6.84	4.33

2	Kanhangad Town *110 kV Kanhangad - Kanhangad town*	31-05-2016	31-05-2016	Nil	7.66	5.76	-1.90
3	Kasargod Town *Vidyanagar - Kasargod town*	27-01-2017	27-01-2017	Nil	4.66	4.86	0.20
4	*Mattannur- KIAL 33 kV DC Line*	25-01-2017	25-01-2017	Nil	15.26	15.27	0.01
5	Feroke *Nallalam -Feroke (OH+UG)*	10-08-2015	25-11-2016	15 months	8.04	8.08	0.04
6	Perambra *Meppayur-Perambra SC Line*	11-09-2014	14-03-2016	18 months	5.81	3.81	-2.00
7	Parappanagadi *LILO from Chelari - Kizhissery 110 kV line (Chettiarmedu - Parappanangadi)* *Tap from Edarikode-Thirunavaya line*	31-03-2016	29-12-2016	9 months	19.20	18.59	-0.61
8	GIS, Kollam *Ayathil -GIS Kollam DC*	08-03-2017	27-03-2017	less than one month	44.20	42.93	-1.27
9	Kallara *Kaduthuruthi-Kallara SC line*	30-09-2014	18-03-2017	30 months	5.16	5.62	0.46
10	*Vytilla - New Vytilla 110 kV UG*	31-12-2015	25-10-2016	10 months	2.03	1.76	-0.27
11	*Tap line from Nedumangad – Vithura* *Nedumangadu -LPSC SCUG*	20-02-2017	20-03-2017	1 month	6.15	7.44	1.29
	TOTAL				**120.68**	**120.96**	**0.28**
	Sum of the increase in costs (6 projects)						**6.33**
	Sum of the decreasein costs (5 projects)						**6.05**

107. The Commission notes that KSEB Ltd has not furnished the details of all the transmission projects and for the projects mentioned above has attributed various factors for the delay in commissioning. As per the details, as shown in Table above, against an Administrative Sanction of Rs.120.68 crore of the above 11 projects, the actual expenditure was Rs. 120.96 crore resulting in a net cost overrun of Rs. 0.28 crore.

108. As per Regulation 23 (4) of the Tariff Regulations 2014, any escalation in the capital cost may be considered subject to prudence check, if ***sufficient justification*** is provided. Accordingly, the time overruns and consequent cost overruns can be allowed only when it occurred due to the reasons which are beyond the control of the licensee. Detailed justification is to be submitted by the licensee for the cost escalations clearly explaining the situation and reasons for taking an appropriate decision by the Commission in this matter.

109. The Commission has sought to quantify and specify the controllable and uncontrollable factors attributed to the time and cost overrun. KSEB Ltd in the letter dated 23-07-2020 has stated that, the time and cost overruns are due to uncontrollable factors KSEB Ltd in their letter dated 11-02-2020 furnished the reasons for the difference in cost. The Commission has examined these reasons as detailed below.

110. In the case of Edathua-Kadapra transmission line, KSEB Ltd. clarified that the administrative sanction for the work was given way back in 1999 for Rs.2.51 crores. However, the works were carried out during 2013-16. Though revised administrative sanction for Rs.5.67 crores was requested for by KSEB Ltd., the same was not given. Further, there was delay in land acquisition, land filling of marshy land due to inter-departmental formalities, heavy monsoon etc. Differences in ownership claim of land amongst the different department, delay in decision making for the construction of the control room using prefab technology, passing of the line through paddy fields and wet lands etc., further contributed to the cost and time overruns. As far as Vidyanagar-Kozhikode Town line was concerned, the original proposal was for laying of a portion of which had to be UG cable which was converted to overhead line due to difficulty in cable laying resulting in excess expenditure of Rs.20 lakhs. Nedumangad-Vithura line, the administrative sanction of Rs.6.15 crores was exceeded by Rs.1.29 crores due to excess expenditure in labour for the UG cable line. On the other hand cost under runs were noticed in the Meppayur-Perambra SE line, Parapanangady circle, Ayathil-GIS Kollam DC line and in Vytila-New Vytila 110 kV UG line. Regarding the 110 kV Kanhangad-Kanhangad Town line, the cost under runs of Rs.1.9 crores was due to savings in the labour cost.

111. The Commission notes that against an administrative sanction for Rs.120.68 crore for 11 projects, the actual expenditure incurred was Rs.120.96 crore ie., for 6 projects there was excess cost of Rs.6.33 crore and for 5 projects there is cost saving of Rs.6.05 crore resulting in net excess of Rs.28 lakhs. However this excess has to be viewed, considering the fact that the Edathua-Kadapra line was sanctioned way back in 1999 and the administrative sanction was not revised since there. ***Under such circumstances, the Commission accepts the reasons given by KSEB Ltd. for the cost overruns as mentioned in the Table above and permits the actual expenditure of Rs.120.96 crore expended on the above transmission projects to be considered for asset addition during 2016-17***.

Summary of the GFA Addition approved for SBU-T

112. After analysing the details, the Commission has approved the addition to GFA for the year 2016-17 under SBU-T as shown below:

Table 29
Addition to GFA approved for 2016-17 for SBU-T

	SBU T	
	As per Petition	Approved
	Rs. Crore	Rs. Crore
Capitalized during the year-As per *IND AS* Accounts	410.19	410.19
Less: Duplication	53.31	53.31
Less: Part capitalization	31.98	31.98
Less: Part capitalization during previous years		5.80
Less: Cost attributable to time and cost over run	0.00	0.00
GFA addition eligible for normative loan and depreciation as per Regulation	**324.90**	**319.10**

113. ***As shown above, as against Rs.324.90 crore of GFA addition claimed by KSEB Ltd for the year 2016-17 for SBU-T, the Commission approves Rs.319.10 crore.***

Section – 3 Asset addition under SBU-D

GFA addition claimed under SBU-D as per petition for the year 2016-17

114. As per the details furnished in the petition, the asset addition for SBU-D for the year 2016-17 amounts to Rs.939.94 crore as shown below:

Table 30
Scheme wise capital expenditure and GFA addition under SBU-D for 2016-17

Project Code	Brief Description of Project	CWIP as on 01/04/2016	Cost Incurred	Capitalized	CWIP as on 31/03/2017
14.50	Rural Electrification Scheme	0.00	0.27	0.26	0.00
14.51	Distribution Line Extension	2.43	97.47	99.47	0.43
14.52	Distribution Service Connection	2.63	119.64	120.99	1.29
14.53	Distribution System Improvement	12.51	206.60	212.88	6.23
14.54	Electrification of Harijan Colonies	0.00	0.36	0.35	0.01
14.55	Electrification of Tribal Colonies	0.02	1.44	1.46	0.00
14.57	Punja Package	0.00	0.07	0.00	0.07
14.58	System Improvement in other areas	0.00	2.22	2.22	0.00
14.59	Distbn. Capacitor Installation Scheme	0.00	0.00	0.00	0.00
14.60	Street Lights	0.82	10.78	10.74	0.86
14.62	RGGVY-Village electrification Infrastructure	39.83	9.46	48.99	0.30
14.63	RGGVY-For effecting BPL Service Connection	0.26	0.13	0.15	0.24

14.67	Part B Projects of R-APDRP	102.56	72.00	26.33	148.23
14.81	MLA Asset Development Fund Scheme (MLA ADF)	0.00	0.01	0.01	0.00
14.82	R- APDRP Scheme	289.94	215.25	57.24	447.96
14.87	APDRP-Scheme	6.18	12.33	11.98	6.53
14.90	CWIP – General	42.54	369.16	308.72	102.97
14.91	Innovation fund	0.00	5.03	5.03	0.00
14.99	Projects not Identified	1.63	0.59	1.43	0.78
	Total (A)	**501.36**	**1122.80**	**908.25**	**715.91**
14.05	Deen Dayal Upadhyay Gram Jyothi Yojana (DDU GJY)	0.18	16.31	14.01	2.48
14.06	Local Area Power Development Scheme (LAPDS)	0.00	0.07	0.07	0.00
14.13	Integrated Power Development Scheme (IPDS)	0.00	15.62	15.03	0.59
14.26	Kerala Power Improvement Scheme (KPIS)	0.04	2.58	2.58	0.04
	Total (B)	**0.22**	**34.58**	**31.69**	**3.11**
	Grand Total (A+B)	**501.58**	**1157.38**	**939.94**	**719.02**

Part capitalisation and duplication of assets under SBU-D

115. KSEB Ltd stated in the petition that Distribution works are numerous in number, involve smaller outlay per project and has shorter gestation period. Hence, there is only a remote chance of part capitalization as well as time and cost overruns. Generation of data for such large number of projects is also not feasible at present from the data captured in the accounts. However, KSEB Ltd is taking earnest efforts in implementing the ERP system in a time bound manner and would be capable of making available all the desired minute level data in future. Taking all these in to account, KSEB Ltd requested the Commission to approve GFA addition under SBU D for 2016-17 at Rs.939.94 Crore.

Misclassification of assets

As explained in Section 1, KSEB Ltd has inadvertently classified Rs.31.69 crore of distribution assets under some of the Central / State schemes were under SBU-G and later rectified. As mentioned in Table 8, these projects were Deen Dayal Upadhyay Gram Jyothi Yojana (DDUGJY) (Rs.14.01 crore), Local Area Power Development Scheme (LAPDS) (Rs.0.07 crore), Integrated Power Development Scheme (IPDS) (Rs.15.03 crore) and Kerala Power Improvement Scheme (KPIS) (Rs.2.58 crore), totalling to Rs.31.69 crore. KSEB Ltd requested to approve the rectification made as mentioned above.

Decommissioning liability

116. As per Table 18 of the petition, KSEB Ltd has booked Rs.16.64 crore under GFA as decommissioning liability till 31-3-2017 as per the provisions of *Ind AS*. The Commission sought the clarification on the discrepancy in the figures of de-commissioning liability booked in the accounts of l 2016-17. In reply, KSEB Ltd stated in the letter dated 11-02-2020 that that decommissioning liability as per the accounts for 2016-17 is Rs.18.38 crore and out of this an amount of Rs.16.69 crore is the actual decommissioning liability provided in the petition and the balance amount of Rs.1.68 crore is the compounded amount of the decommissioning liability provided during the previous year. In the letter dated 23-7-2020, KSEB Ltd stated that the pre-set percentage adopted for 2016-17 is 0.10%. KSEB Ltd has included the decommissioning liability as part of the SBU-D. The category wise details of decommissioning liability furnished by KSEB Ltd is as shown below:

Table 31
Category wise decommissioning liability furnished by KSEB Ltd

Year	Hydrauic works (Rs. Crore)	other civil works (Rs. Crore)	Plant & machinery (Rs. Crore)	Lines, cable network etc (Rs. Crore).,	Total (Rs. Crore)
2014-15	1.22	0.5	5.29	7.59	14.6
2015-16	0.01	0.03	0.19	0.53	0.76
2016-17	0.16	0.08	0.28	0.81	1.33
Total	1.39	0.61	5.76	8.93	16.69

**In Table 18 of the petition, decommissioning liability is mentioned as Rs.16.64 crore, which is used in this order*

Summary of GFA addition claimed under SBU-D for 2016-17

117. Based on the above, KSEB Ltd has claimed the GFA addition of Rs.939.94 crore for SBU-D as shown below:

Table 32
GFA Addition Claimed by KSEB Ltd for SBU-D for 2016-17

As per Audited accounts-Break up	SBU-D As per Petition
	Rs. Crore
Addition as per I GAAP	883.76
Add: *Ind AS* capitalization	7.85
Add: Decommissioning liability till 31.03.2017	16.64
Duplication- rectified in 2017-18	0
Additional Capitalization during the year-As per *IND AS* Accounts	**908.25**
As per Tariff Regulation	
Capitalised during the year as per IndAS accounts	**908.25**

Less: Duplication	**0.00**
Less: Part capitalization	0.00
Less: Part capitalization during previous years	0.00
GFA addition under SBU D wrongly included under SBU G	31.69
GFA addition eligible for normative loan and depreciation as per Regulation	**939.94**

Analysis and Decision of the Commission on Asset addition under SBU-D

118. In the case of SBU-D, the total assets capitalized in the year 2016-17 is Rs.939.94 crore, which includes rectification of misclassification of assets worth Rs.31.69 crore under SBU-G transferred to SBU-D. KSEB Ltd stated that distribution works are numerous in number, have smaller outlay per project and has shorter gestation period. Hence the scope of part capitalization and time and cost over runs are remote. KSEB Ltd further stated that generation of data for such large number of projects is not feasible at present from the accounts. However, in future the same would be possible as the ERP system is being implemented in a time bound manner.

Misclassification of capital Expenditure and Subsidies/Grants

119. The petitioner submitted that asset costing Rs. 31.69 Crore was inadvertently classified under SBU-G instead of SBU-D. As shown in Table 8, misclassification occurred while capitalizing Central /State schemes such as Deen Dayal Upadhyay Gram Jyothi Yojana (DDUGJY), Local area Power Development Scheme (LAPDS), Integrated power development Scheme (IPDS), and Kerala Power Improvement Scheme (KPIS) The petitioner also submitted that, the subsidies/grants received for Distribution projects are wrongly accounted under SBU-G. In reply to the clarification raised by the Commission, KSEB Ltd in its letter dated 11-02-2020 has stated that misclassification in case of IPDS has occurred in 2016-17, whereas in the case of DDUGJY and LAPDS occurred in the year 2015-16. The Commission also notes that there is some amount still lying under CWIP as shown in Table 8.

120. The Commission notes that though the mis-classification may not substantially impact the consumers, it does have an implication on the cost of each business unit separately. The licensee has a fundamental responsibility to ensure that the transactions under each SBU are accounted properly; as such instances of misclassifications may create a doubt on the reliability of the system.

121. ***Accordingly, the Commission approves the rectification of misclassification to the tune of Rs.31.69 crore under SBU-D***

Decommissioning liability

122. Regarding decommissioning liability, KSEB Ltd has claimed Rs.16.64 Crore in the petition under SBU-D towards decommissioning liability till 31-03-2017. However, as part of the clarifications the same has been shown as Rs.16.69 crore. Since the claim of the petitioner is Rs.16.64 crore, the same is taken for approving the capital additions.

123. According to KSEB Ltd, these liabilities are created as part of *Ind AS* compliance. In the clarification dated 23-07-2020, KSEB Ltd has stated that for decommissioning liability a pre-set percentage was adopted based on the recommendation of the consultants and for 2016-17 a percentage of 0.10% was adopted. KSEB Ltd also reported that in order to review the percentage fixed for the asset decommissioning cost, a committee has been constituted by KSEB Ltd and their report is under preparation.

124. The Commission notes that *Ind AS* 16 recognizes as part of the cost of Plant, Property and Equipment, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, as the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period while recognised as part of the cost of an item of property, plant and equipment in accordance with *Ind AS* 16; Ind AS 37 recognise it as a liability. The standard also provides for methods of calculation of such future liability.

125. The Commission further noted that de-commission liability was created as part of *Ind AS* compliance towards the expected expenses at the time of decommissioning of the assets. At present KSEB Ltd is using a pre-set percentage and the entire decommissioning liability is booked under SBU-D, though it is equally or more applicable to SBU-G and SBU-D.

126. By including this cost as part of the capital cost of the assets, the same is recovered in the form of depreciation. In this context, it is to be noted that at present there is no provision for allowing decommissioning liability in the Regulations. Further, there is no actual cash outflow associated with the item at present. ***Since there is no provision in the Regulations for allowing decommissioning liability, and also considering the fact that there is no actual cash outflow, the expenditure accounted towards de-commissioning liability cannot be admitted at present***.

GFA addition approved for SBU-D

127. Based on the above observation, the Commission approves the addition to GFA for SBU-D as shown below:

Table 33
GFA Approved for SBU-D for 2016-17

	SBU-D	
As per Audited accounts-Break up	As per Petition	Approved
	Rs. Crore	Rs. Crore
Addition as per I GAAP for 2016-17	883.76	
Add: *Ind AS* capitalization	7.85	
Add: Decommissioning liability till 31.03.2017	16.64	
Total Additional Capitalization during the year-As per *IND AS* Accounts for 2016-17	**908.25**	
As per Tariff Regulation		
Less: Duplication	**908.25**	**908.25**
Less: Part capitalization	0.00	
Less: Part capitalization during previous years	0.00	
Less: Decommissioning Liability	0.00	16.64
Add: GFA addition under SBU D wrongly included under SBU G	31.69	31.69
GFA addition approved as Regulation	**939.94**	**923.30**

Section – 4 General issues

Expenses capitalisation

128. KSEB Ltd in their petition furnished the details of capitalisation of expenses at HO, which were distributed among the ARUs for incorporation in the projects/work executed during the period. The total expenses capitalised and added to GFA for 2016-17 is as shown below:

Table 34
Details of expenses capitalised as per petition

Sl. No	Description	2014-15 (Rs.crore)	2015-16 (Rs.crore)	Total (Rs.crore)
1	Interest and Finance charges	53.44	57.73	111.17
2	Employee cost & A&G expenses	118.81	137.05	255.86
3	Advertisement charges		1.92	1.92
4	**Total**	**172.25**	**196.70**	**368.97**
	SBU G			19.97
	SBU T			139.49
	SBU D			209.51
	Total			**368.97**

129. The Commission as part of the clarifications sought the methodology used for and the accounting policy followed for capitalisation of interest and financing charges and expenses. In the reply dated 11-02-2020, KSEB Ltd has furnished that KSEB Ltd is following rules, policies and standards prescribed in Electricity (Supply) Annual Accounting Rules (ESAAR) 1985 saved as per Section 185(2) of the Electricity Act 2003 for capitalisation of expenditure. Accounting

standards for capitalisation of expenditure is specified in Annexure III Basic accounting Policies and principles. The relevant paragraphs viz., 2.9, 2.11, 2.94, & 2.95 extracted by KSEB Ltd as given below:

2.9 All employee costs in respect of construction units shall be fully charged as cost of capital assets
2.11 All expenses in respect of construction units shall be fully charged as cost of capital assets
2.94 Every year, a portion of interest payable on the interest bearing borrowing which relate to financing of capital asset at construction stage ie., till the point of commissioning of asset shall be computed in the manner prescribed in paragraph 1.42 Annexure V if so directed by Central Government, be capitalised.
2.95 The amount of interest so computed and capitalised shall be reduced from the amount of interest for the year and only the balance amount shall be chargeable to the revenue account for the year.
Para 1.42 of Annexure V (procedural matters relating accounting transactions): IN computing the interest on funds utilised utilised during construction stage of capital asset, the following factors shall be taken into consideration.

(1) The full amount of interest payable for the year shall be considered for the purpose
(2) Arrears of interest shall not distort the computation of interest on funds utilized for construction as these arrears are required to be debited toa restructuring account and then adjusted to surplus/losses
(3) In view of identifying a source to its use, no attempt shall be made for source wise identification
(4) The exercise of computation of capitalizable interest shall be carried out at the Head office of the Board
(5) This exercise shall be carried out considering rupees in thousands only

Paragraph and 1.4 and 15 of the Annexure V dealing with methods of allocation of staff cost and expenses over carious assets are reproduced below:
2.5 Staff costs, materials and related expenses and other expenses which are chargeable to capital works shall be
(1) identified to specific capital job wherever possible
(2) failing which, identified to specific group of capital jobs wherever possible (and within the group allocated on an advalorem basis)
(3) failing with, identified toa project wherever possible (an allocated on advalorem basis over various jobs within the project)
(4) failing which, allocated on an advalorem basis over various projects and various jobs within each project
Identification to one or more jobs should be done only if possible to identify without any allocation. In all other cases, advalorem allocation shall be adopted.
2.5 By advalorem basis is meant allocation of capitalizable expenses as a percent of capital expenditure incurred during the period on that job/project (and not as a percent of total capital expenditure on that job/project including the expenditure incurred in previous periods of allocation)

130. Further to this, KSEB Ltd stated that expenditure incurred in the construction ARUs are being fully capitalised by the ARUs itself. In the case of other ARUs where both capital and O&M works are being undertaken, the employee cost and expenditure is being capitalised at a pre-set percentage such as Transmission – 25%, Distribution – 5% and Head office units- 5%. The interest and financing charges are being capitalised in the Head Office as per the above

accounting policies. These amounts are later allocated to the ARUs on the basis of actual capital expenditure incurred during the period for capitalisation in the concerned project/assets. Capitalisation of borrowing cost is computed based on the weighted average cost of general borrowing that are outstanding during the period and used for the acquisition/construction/erection of capital asset. The interest applicable for loans attributable to capital works in progress is segregated from the total interest burden and only the interest portion applicable to asset put into use is charged to P&L account as well as ARR.

131. The capitalizable portion of expenses at HO level are communicated to the ARUs for inclusion in accounts. Such expenses are booked under CWIP only by the ARUs and therefore the capitalised portion of expenses continue to be carried over under the respective CWIP head of account till its completion and transfer to GFA account. That is the amount mentioned in each year as 'expenses capitalised' will not reflect under GFA addition during the year in its entirely as the amount is spread among all the works- both completed and ongoing. According to KSEB Ltd, the interest cost attributable to capital work in progress(IDC) as envisaged in the Tariff Regulations has been complied with, and not claimed as an expenses as part of the ARR.

132. The Commission has sought the details of expenses and interest capitalisation during 2016-17 and KSEB Ltd vide letter dated 23-07-2020 has furnished the following details:

a. Employee Cost: During the financial year an amount of Rs.242.92 Crore as per the methodology detailed above is allocated for capitalization. The amount has been determined as follows.

Particulars	*Amount booked in the ARU Rs.crore*	*Capitalization %*	*Amount Rs. crore*
Generation (Electrical)	*91.98*	*Nil*	*Nil*
Generation (Civil)	*76.44*	*100*	*76.44*
Transmission	*274.55*	*25*	*68.64*
Distribution	*1785.23*	*5*	*89.26*
Head office	*171.54*	*5*	*8.58*
Total			*242.92*

b. Administration and General Expenses: During the financial year an amount of Rs.25.34 Crore is allocated for capitalization as follows:

Particulars	*Amount booked in the ARU Rs. Crore*	*Capitalization % Rs. Crore*	*Amount Rs. crore*
Generation (Electrical)	*10.45*	*Nil*	
Generation (Civil)	*11.41*	*100*	*7.67*
Transmission	*66.69*	*25*	*16.68*
Head office	*19.88*	*5*	*0.99*
Total			*25.34*

C. During the financial year 2016-17 Interest and finance charges amounting to Rs.64.63 Crore was allocated for capitalization. This was calculated at the rate of average interest cost on the weighted cumulative average capital expenditure for the year. During the financial year Rs.672.49 Crore was the cumulative average capital expenditure and the average cost of capital was 9.61%.

133. Thus, as per the present method, IDC and expense capitalised are first transferred to CWIP and is added to assets once the asset is commissioned and it is not necessary that the entire capitalised expenses in a year will be transferred to GFA.

Analysis and decision of the Commission on expenses capitalisation

134. The petitioner has submitted that an amount of Rs.368.97 crore, comprising of Rs.111.17 Crore and Rs.255.86 Crore towards Interest & Finance charges and A&G Expenses (including employee cost) respectively and Rs.1.92 crore towards advertisement charges, has been capitalized in 2016-17. In the petition, KSEB Ltd stated that Expenses capitalized at HO during 2014-15 (Rs.172.25 Cr) and 2015-16 (Rs.196.70 Cr) were distributed among ARUs for incorporation in the projects/works executed during that period with direction to incorporate the same in the accounts for 12/2016 itself. KSEB Ltd vide letter dated 11-02-2020 had clarified that the capitalized portion of the expenses at the H.O level communicated to ARUs for inclusion in the accounts are booked under CWIP by the ARUs and therefore the capitalized portion of expenses continue to be carried over under the respective CWIP head of account till its completion and transfer to GFA. In other words, the amount of Rs.368.95 crore as expenses capitalized in the year 2016-17 and communicated to field level ARUs will not be completely reflected under GFA addition during the year 2016-17, as the amount is spread among all the works both completed and on going.

129 The petitioner also submitted that the expenses are capitalized as per the procedure prescribed in Electricity (Supply) Annual Accounts Rules (ESAAR) 1985. Petitioner further submitted that in the case of ARUs where both capital and maintenance works are undertaken, the employee cost and expenditure is being capitalized at a pre-set percentage. However, the petitioner has not explained the methodology and factors considered for arriving at the pre-set percentage. The Commission observed that these percentages were set very long back and the relevance/reasonableness of these percentages for each tariff period has to be ensured through periodical reviews. ***Petitioner is therefore directed to review these percentages every three years and to submit a report to the Commission clearly specifying the methodology and justification for the percentages fixed.***

130 Regarding the capitalization of Interest & Finance Charges (IDC), the petitioner may submit a detailed statement along with the ARR and Truing up

petitions showing the calculation of total interest and interest capitalized (project-wise, wherever possible) with justification

Decommissioned Assets

131 The Commission also sought the details of decommissioned assets and the adjustment regarding balance value of decommissioned assets in the books. KSEB Ltd in its reply dated 11-02-2020 stated that values of decommissioned assets are not removed from the books. According to KSEB Ltd, the pre-dominant portion of the decommissioned assets exceed much beyond the useful life of the asset and therefore such assets lies in the books at the fully depreciated (90%) state. Regarding decommissioned assets before the normal life, the Commission vide its letter dated 25-5-2020 sought the details and KSEB Ltd dated 23-07-2020 stated that the accounting software does not contain the provision to capture the details of decommissioned assets. The assets are decommissioned at the field level by following the procedure in vogue. As per this procedure also many details sought viz., original value of the asset, date of commissioning, normal life etc, are not captured. Hence, KSEB Ltd categorically mentioned that it is not in a position to furnish the details of decommissioning assets and balance value of assets in the GFA.

Analysis and decision of the Commission on Decommissioned Assets

132 The Commission observed that the value of Gross Fixed Assets includes de-commissioned assets and on seeking clarification, the petitioner in their reply dated 11-02-2020 stated that the residual value of the de-commissioned assets are not removed from books of accounts. KSEB Ltd further clarified that the predominant portion of decommissioned assets exceed much beyond the useful life of the asset and therefore such assets lies in the books at fully depreciated (90%) state. The petitioner has also submitted vide letter dated 23-07-2020 that the details of the de-commissioned assets are not traceable as the accounting software does not contain the provision to capture the details of decommissioned assets. **The above statement clearly reveals that, KSEB Ltd has not removed the residual value of the decommissioned assets from its books. This means that these amounts are reflected in the calculation of interest on normative loan and provision for depreciation.**

133 As per regulation 34(1), the generation business/company or the transmission licensee or the distribution business/licensee or the State load dispatch centre shall submit to the Commission, along with the application for the approval of the aggregate revenue requirement, the value and such other details of the assets decommissioned, if any, during the previous financial year.

134 Accordingly, the licensee has to submit the details of de-commissioned assets along with the tariff petition to arrive the value of assets actually in use. For facilitating this, KSEB Ltd should have a proper system for identifying the decommissioned assets, its location, residual value, etc and reflect the same in their Annual Accounts. This is more important in the case of assets which are decommissioned before its normal life. Further, these decommissioned assets are to be removed from the Company's asset block in the year of decommissioning in order to arrive at the correct value of assets in use.

135 The Commission also noted that, due to the non-removal of de-commissioned assets from the asset block, the petitioner would be entitled to enjoy the benefits of depreciation or interest on such assets which are actually not in use. The Commission is of the view that in the first instance KSEB Ltd must take efforts to remove the decommissioned/replaced assets from the books of accounts of SBU-G and SBU-T and thereafter embark upon SBU-D. This task is to be taken up in a time bound manner. Though KSEB Ltd claims that most of the decommissioned assets are beyond their useful life and only 10% of the value is remaining in the books, in the absence of details as mentioned above this claim is yet to be established. Even if the contention of KSEB Ltd is accepted for the sake of argument, it is unfair to charge the consumers for the assets which are not in use. Hence, the Commission is of the view that necessary systems are to be put in place urgently to track and remove such assets and clean up the books of account so that the same is not continued in future.

Contribution and grants

136 Consumer contribution and grants received during the year 2016-17 as per the petition is given below:

Table 35
Consumer contribution, grants and subsidies received during 2016-17

Description	**Rs Crore**
Consumer Contribution	285.03
Subsidies MNRE	13.51
90% Capital subsidy RGGVY	55.99
DDG Scheme GOI	1.24
Harijan colony GOK	8.02
Innovation fund	2.60
Grant for Solar plant	1.21
Grant-PSDF	6.47
Grant -DDUGJY	86.93
Grant-IPDS	100.95
Local bodies	11.02
Govt departments	21.67
MP LAD Scheme	3.35
MLA Fund & Local bodies LAPDS	5.56
Public	43.39
Total	**646.94**

137 The SBU wise details of contribution and grants as per the accounts is as shown below:

Table 36
SBU wise contribution and grants

Particulars	SBU G	SBU T	SBU D	Total
Consumer contribution & Grants	0.00	79.12	567.82	646.94

138 As per the petition there is no contribution and grants booked under SBU-G, KSEB Ltd also stated that in para 22 of the petition that, consumer contribution, capital subsidy and grants (including MNRE grant) received till 31-03-2017 has been considered under SBU-D and depreciation clawed back accordingly.

Analysis and decision of the Commission on contribution and grants

139 As per the details furnished by the licensee, the grants and contributions received during the year 2016-17 is Rs.646.94 crore. Out of this, Rs.79.12 crore is for SBU-T and Rs.567.82 crore is Rs.SBU-D. In reply to the details sought by the Commission on grants and contribution, KSEB Ltd in the letter dated 23-07-2020 during the financial year 2016-17 an amount of Rs.13.05 crore was received as grants from MNRE for the projects under SBU-G, which was erroneously classified in the SBU-D instead of SBU-G. Considering this, the grants and contribution under SBUs is as shown below:

Table 37
Grants and contribution for the year 2016-17

	As per Petition Rs. Crore	Adjusted Rs.Crore
SBU-G	-	13.05
SBU-T	79.12	79.12
SBU-D	567.82	554.77
Total	**646.94**	**646.94**

140 The Commission urges that KSEB Ltd should account the grants and contribution received against the respective SBUs properly and rectify the misclassification done earlier in a time bound manner.

Section V – Depreciation and Interest and financing charges

141 Based on the above details, KSEB Ltd stated that GFA addition eligible for normative loan and depreciation amounts to Rs.1563.59 crore for three SBUs as against Rs.1768.66 crore as per accounts as shown below:

Table 38

GFA addition claimed for normative loan and depreciation as per petition

As per Audited accounts-Break up	SBU G	SBU T	SBU D	TOTAL
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
Addition as per I GAAP	226.49	243.59	883.76	1353.84
Add: *Ind AS* capitalization	141.75	113.29	7.85	262.89
Add: Decommissioning liability till 31.03.2017			16.64	16.64
Duplication- rectified in 2017-18	81.98	53.31	0.00	135.29
Additional Capitalization during the year-As per *IND AS* Accounts	**450.22**	**410.19**	**908.25**	**1768.66**
As per Tariff Regulation				
Capitalized during the year-As per *IND AS* Accounts	**450.22**	**410.19**	**908.25**	**1768.66**
Less: Duplication	81.98	53.31	0.00	135.29
Less: Part capitalization	37.80	31.98	0.00	69.78
GFA addition under SBU D wrongly included under SBU G	-31.69	0.00	31.69	0.00
GFA addition eligible for normative loan and depreciation as per Regulation	**298.75**	**324.90**	**939.94**	**1563.59**

Depreciation claimed for addition of assets for 2016-17

142 KSEB Ltd claimed Rs.16.74 crore as depreciation for the asset addition during the year as per the provisions of Regulation 28(5) as shown below:

Table 39

Depreciation claimed for the assets created in 2016-17 as per petition

Sl.No	**Brief Description of Project**	**SBU G Rs. crore**	**SBU T Rs. crore**	**SBU D Rs. crore**	**TOTAL Rs. crore**
1	GFA addition 2016-17	298.75	324.90	939.94	1563.59
2	Less: Consumer contribution, Grants and Subsidies received during 2016-17	0	79.12	567.82	646.94
3	Less: *IND AS* addition considered in TU order	13.32	81.26	188.15	282.73
4	GFA Addition eligible for depreciation	285.43	164.52	183.97	633.92
5	**Depreciation for assets added in 2016-17 at half the normal rate (@ 5.28%/2=2.64%)**	**7.54**	**4.34**	**4.86**	**16.74**

143 On the basis of the above, KSEB Ltd proposed that eligible normative loan for GFA added during 2016-17 amounts to Rs.916.65 Crore as detailed below:

Table 40

Normative loan claimed for addition to GFA as per petition

Sl.No	Brief Description of Project	SBU G Rs. Crore	SBU T Rs. Crore	SBU D Rs. crore	TOTAL Rs. crore
1	GFA addition 2016-17 eligible for normative loan	298.75	324.90	939.94	1563.59
2	Less: Consumer contribution, Grants and Subsidies received during the year	0.00	79.12	567.82	646.94
3	Less: Equity	0.00	0.00	0.00	0.00
4	**Normative loan for 2016-17**	**298.75**	**245.78**	**372.12**	**916.65**

Interest on normative loan

144 Based on the above, KSEB Ltd claimed interest on normative loan as shown below:

Table 41

Interest on normative loan claimed by KSEB Ltd as per petition

Sl.No	Brief Description of Project	SBU G Rs. Crore	SBU T Rs. crore	SBU D Rs. crore	TOTAL Rs. crore
1	Normative loan for 2016-17as per Table 19 above	298.75	245.78	372.12	916.65
2	Depreciation on 2016-17 GFA addition as per Table 20	7.54	4.34	4.86	16.74
3	**Net additional Normative loan for 2016-17 (1-2)**	**291.21**	**241.44**	**367.26**	**899.91**
4	Average rate of Interest % as per TU order for 2016-17	10.45	10.45	10.45	10.45
5*	**Normative interest on GFA addition**	**15.12**	**12.62**	**19.19**	**47.02**

145 Thus, KSEBL Ltd claimed Rs.47.02 crore as interest on normative loan for the year 2016-17.

Analysis and decision of the Commission

146 Based on the decisions arrived in the previous sections, the summary of the asset additions claimed and approved by the Commission is as shown below for each of the SBUs.

Table 42

Summary of the Asset additions claimed for each SBUs for 2016-17

As per Audited accounts-Break up	SBU G	SBU T	SBU D	TOTAL
Capitalized during the year-As per *IND AS* Accounts	**450.22**	**410.19**	**908.25**	**1768.66**
Less: Duplication	81.98	53.31	0.00	135.29
Less: Part capitalization	37.80	31.98	0.00	69.78
GFA addition under SBU D wrongly included under SBU G	-31.69	0.00	31.69	0.00
GFA addition eligible for normative loan and depreciation as per Regulation	**298.75**	**324.90**	**939.94**	**1563.59**

Table 43

Summary of the Asset additions approved for each SBUs for 2016-17

	SBU G	SBU T	SBU D	TOTAL
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
Assets capitalised during the year (as per IndAS)	450.22	410.19	908.25	1768.66
Less: Duplication	81.98	53.31	-	135.29
Less: Part capitalization	37.80	31.98	-	69.78
Less: Part capitalization during previous years	81.28	5.80	-	87.08
Less: Decommissioning Liability	-	-	16.64	16.64
Less: Additional Capitalization for which details are required				0
Less: Cost overrun for which detailed justification pending				0
GFA addition under SBU D wrongly included under SBU G	-31.69	-	31.69	0
GFA addition approved for 2016-17	**217.47**	**319.10**	**923.30**	**1,459.87**

Depreciation for Assets added in 2016-17

147 KSEB Ltd has claimed the depreciation of Rs.16.74 crore for the assets added during the year 2016-17 as per the provisions of Regulation 28 (5). The provisions of Regulation 28 of Tariff Regulations 2014 are reproduced below:

> ***28. Depreciation. –*** *(1) The value base for the purpose of depreciation shall be the original capital cost of the asset approved by the Commission:*
> *Provided that no depreciation shall be allowed on revaluation reserve created on account of revaluation of assets.*
> *(2) The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner:-*
> *(a) Depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation;*
> *(b) the remaining depreciable value as on the Thirty First day of March of the financial year ending after a period of twelve financial years from the date of commercial operation shall be spread over the balance useful life of the assets as specified in Annexure- I;*
> *(c) the generating business/company or transmission business / licensee or distribution business/licensee, shall submit all such details and documentary evidence, as may be required under these Regulations and as stipulated by the Commission from time to time, to substantiate the above claims;*
> *(d) the salvage value of the asset shall be ten per cent of the allowable capital cost approved by the Commission and depreciation shall be*

KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014 a maximum of ninety per cent of the approved capital cost of the asset.

(3) The generating business/company or transmission business/licensee or distribution business/licensee shall be allowed to claim depreciation to the extent of financial contribution in the form of loan and equity, including the loan and equity contribution, provided by them:

Provided that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.

(4) In the case of existing assets, the balance depreciable value as on the First day of April, 2015, shall be worked out by deducting the cumulative depreciation as approved by the Commission up to the Thirty First day of March, 2015, from the gross depreciable value of the assets.

(5) Depreciation shall be chargeable from the first financial year of commercial operation:

Provided that in the case of commercial operation of the asset for part of the financial year, depreciation shall be charged on pro-rata basis:

Provided further that depreciation shall be re-calculated for assets capitalised during the financial year at the time of truing up, based on documentary evidence for capitalisation of assets submitted by the applicant, subject to the prudence check of the Commission, in such a way that the depreciation is calculated proportionately from the date of capitalisation.

(6) In case a single tariff needs to be determined for all the units of the generating station, the depreciation shall be computed from the effective date of commercial operation taking into consideration the depreciation of individual generating units thereof.

148 As per the above provisions, depreciation shall be allowed from the first year of commercial operation and for assets put into commercial operation in between a year, **depreciation shall be allowed proportionately for the period from the date of capitalisation to the end of the financial year based on the documentary evidence for capitalisation of assets submitted by the applicant subject to the prudence check of the Commission**. However, the petitioner has not submitted the date of commercial operation/date of capitalisation of assets except in the case of new generating stations commissioned during 2016-17. Further, the petitioner has neither produced any document indicating the dates of capitalisation of assets under SBU-G, SBU-T and SBU-D. In its absence, KSEB Ltd has claimed depreciation taking average assets addition for the year.

149 In this context, as provided in the Regulation, depreciation can be claimed on a proportionate basis considering the date commercial operation/date of

capitalisation. ***In the absence of these details, the Commission hereby directs that KSEB Ltd shall henceforth endeavour to provide the details along with the documents as required in the Regulations in future while claiming depreciation. In the present scenario, the Commission has decided to allow average depreciation for the assets eligible for depreciation added during the year.***

150 KSEB Ltd has claimed depreciation at the rate of 5.28%. However, the considering the mix of assets, the average depreciation rates would be lower than 5.28%. In order to overcome this issue, the Commission has estimated the average depreciation rates based on the historical mix of assets of KSEB Ltd till 2015-16. Accordingly, the Commission has arrived at an average depreciation rate of 5.14% for the assets having life less than 12 years. The Commission has adopted the same rate for allowing depreciation for the assets added during 2016-17, since about 8% of the assets of KSEB Ltd is having a depreciation rate of 3.34% and the average rate of depreciation of 5.14% would fairly reflect the deprecation for the different categories of new assets having life less than 12 years. As per the details furnished by the licensee, of the total assets commissioned during the year, the value of land is Rs.41.42 crore. Excluding the value of land, the depreciation allowable for the assets added during 2016-17 is worked out as shown below:

Table 44
Depreciation approved for the assets added during the year 2016-17

	SBU-G Rs. crore	SBU-T Rs. crore	SBU-D Rs. crore	Total Rs. crore
GFA addition approved for the year	217.47	319.10	923.30	1,459.87
Less Consumer contribution & Grants	13.05	79.12	554.77	646.94
Less Value of land	15.17	25.40	0.85	41.42
Less value of *Ind AS* addition considered in TU order for 2015-16	13.32	81.26	188.15	282.73
GFA eligible for depreciation	175.93	133.32	179.53	488.78
Depreciation for the year @half of normal rate (5.14%/2)	4.52	3.43	4.61	12.56

Interest on Loan based on the approved GFA addition

151 KSEB Ltd has claimed the interest on normative loan for the assets added during the year 2016-17. The Commission after examining the details has arrived at the interest on normative loan as shown below:

Table 45
Interest on normative loan approved for the year 2016-17

	SBU-G (Rs. Crore)	SBU-T (Rs. Crore)	SBU-D (Rs. Crore)	Total (Rs. Crore)
GFA addition approved for the year	217.47	319.10	923.30	1,459.87
Less Contribution and Grants	13.05	79.12	554.77	646.94
Less *Ind AS* addition allowed in 2015-16	13.32	81.26	188.15	282.73
Less Repayment / Depreciation	4.52	3.43	4.61	12.56
Net Additional Normative Loan for 2016-17	186.58	155.29	175.77	517.64
Rate of Interest approved for the year	10.45%	10.45%	10.45%	10.45%
Interest Charges approved for the year	9.75	8.11	9.18	27.05

152 Thus as shown above, interest charges of Rs.27.05 crore is to be allowed for the year 2016-17 for the assets added during the year.

Revised Revenue gap for the year 2016-17 after truing up

153 The Commission in the Order dated 16-05-2019 had arrived at a revenue gap of Rs.1079.05 crore. After allowing the interest and depreciation as above, the revenue gap is revised as shown below:

Table 46
Revised Approved Revenue gap for 2016-17 after truing up

	Rs. Crore
Revenue gap Approved as per Order dated 16-05-2019	1079.05
Additional Depreciation approved for the year 2016-17	12.56
Additional interest charges approved for the year 2016-17	27.05
Revised Revenue gap for 2016-17 after True up	1118.66

154 Thus, after considering the present petition for approval of asset addition for the year 2016-17, the Commission approves the revised revenue gap of Rs.1118.66 crore for the year 2016-17.

Directives

155 The Commission while examining the petition has noticed several issues and accordingly following directives are issued for compliance by KSEB Ltd

(i) Misclassifications and duplication of Assets

156 The Petitioner shall ensure that, there is a proper system in place for recording the financial transactions and its accounting in line with the provisions

of the Companies Act, Accounting Standards issued by the MCA, Govt. of India/Institute of Chartered Accountants of India and other Regulations/ Guidelines issued in this regard to avoid instances of misclassifications/ duplications in future.

(ii) Decommissioned Assets

157 KSEB Ltd has stated that at present residual value of decommissioned assets and assets replaced are not removed from the books. Since the same would unfairly inflate the GFA and corresponding financing charges, it is an urgent need to put in place proper accounting and removal of assets which are replaced or decommissioned. The Petitioner shall submit the following details of decommissioned Assets included in the GFA under SBU-G and SBU-T as on 31.03.2017 within a period of Six months from the date of Order

a. Name of the Asset with Asset Class
b. Original value of the Asset
c. Date of Commissioning
d. Normal life of the Asset
e. Date of decommissioning of the Asset
f. Reason for Decommissioning
g. Written Down value of the Asset in the books
h. Salvage Value, if any.

158 In the case of SBU-D a representative sample study is to be conducted to assess such assets remain in the books within the time period stipulated as above and the report to be submitted to the Commission. The petitioner is also directed to submit the above details of decommissioned in future in all Tariff petitions in order to arrive the correct value of Assets in use.

(iii) Time overrun and Cost overrun

159 The petitioner shall submit in future detailed justifications which shall enable the Commission to identify and reasonably estimate that the time over runs / cost overruns are due to controllable /uncontrollable factors and to assess the admissibility of the additional capital expenditure claim. In its absence, the entire value of excess cost of assets will be disallowed.

Orders of the Commission

160 The Commission after considering in detail, the petition filed by KSEB Ltd, the objections from stakeholders and other materials placed before it, arrives at a revenue gap of Rs.1118.66 crore after truing up, by allowing additional

depreciation of Rs.12.56 crore and interest on normative loan of Rs.27.05 crore for the asset addition approved for the year 2016-17.

161 Petition disposed of. Ordered accordingly.

Sd/-

Preman Dinaraj
Chairman

Approved for issue

Secretary (i/c)