KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

OA 3/2020

In the matter of :Truing up of accounts of M/s Cochin Special Economic Zone Authority (CSEZA) for the financial year 2017-18

Applicant : M/s Cochin Special Economic Zone Authority

Respondent : M/s Kerala State Electricity Board Limited

PRESENT :Shri. R. Preman Dinaraj, Chairman
Shri S.Venugopal, Member

ORDER DATED 16/03/2020

1. The Cochin Special Economic Zone Authority (hereinafter referred to as CSEZA or the licensee) vide letter No.H.12/02/2019:CSEZA/1786 has filed an application for the truing up of accounts for the financial year 2017-18 as per the provisions of the KSERC (Terms and Conditions for determination of Tariff) Regulations 2014 (*hereinafter referred to as the Regulations*). The licensee has submitted the accounts audited by C&AG of India. The licensee has stated that C&AG does the audit of the complete CSEZA operations which includes segments viz; estate, power distribution system and integrated water management system. The Commission after considering the details admitted the petition as OA No.3/2020.

2. The Commission had issued the order on the approval of the ARR&ERC for the entire control period (2015-16 to 2017-18) on 09-09-2015. A comparative statement of the various expenses approved for the year 2017-18 as per the order dated 09-09-2015 and the actual expenses claimed by the licensee for the year 2017-18 as per the petition for truing up is tabulated below.

Table 1
Comparison of approved and actual figures for the year 2017-18

Particulars	**2017-18**		
	ARR &ERC Approved (Rs lakh)	Truing up petition (Rs lakh)	Variance (Rs lakh)
Purchase of Power	3349.89	3395.74	45.85
Depreciation	58.68	89.84	31.16
Employee Cost	170.65	135.65	-35.00
R&M Expenses	8.74	9.47	0.73
A&G Expenses	28.90	21.83	-7.07
Return on NFA	21.07	21.57	0.50
Total Expenditure	**3637.93**	**3674.10**	36.17
Revenue from Sale of Power	3291.28	3557.82	266.54
Other Income	175.94	112.76	-63.18
Total Income	**3467.22**	**3670.58**	203.36
Net Surplus/(Deficit)	**(170.71)**	**(3.52)**	

3. In the petition, the licensee has arrived at a **revenue gap of Rs.3.52 lakh** for the year 2017-18 as against a revenue gap of Rs.170.71 lakh approved by the Commission in the order dated 09-09-2015. A comparison between the figures for 2016-17 and 2017-18 is also tabulated hereunder.

Table 2
Comparison of figures for 2016-17 & 2017-18

Particulars	**2016-17**		**2017-18**	
	Truing up petition (Rs lakh) (A)	Trued up (Rs lakh) (B)	ARR &ERC Approved (Rs lakh) (C)	Truing up petition (Rs lakh) (D)
Revenue from Sale of Power	3405.92	3405.92	3291.28	3557.82
Other Income	128.68	128.68	175.94	112.76
Total Income	**3534.60**	**3534.60**	**3467.22**	**3670.58**
Purchase of Power	3371.04	3370.80	3349.89	3395.74
Depreciation	71.89	68.27	58.68	89.84
Employee Cost	143.60	155.35	170.65	135.65
R&M Expenses	2.70	6.41	8.74	9.47
A&G Expenses	53.41	24.74	28.90	21.83
Return on NFA	114.03	21.86	21.07	21.57
Total Expenditure	**3756.67**	**3647.43**	**3637.93**	**3674.10**
Net Surplus/(Deficit)	**(222.07)**	**(112.83)**	**(170.71)**	**(3.52)**

4. While processing the petition, the Commission had sought clarifications on the petition for truing up vide letter dated 13-01-2020. The licensee vide letter No.H-12/02/2019:CSEZA/530 dated 28-01-2020 furnished the reply to the clarifications sought by the Commission

Public Hearing on the matter

5. The hearing on the petition for the truing up of accounts for the year 2017-18 was conducted at the Court Room, Office of the Kerala State Electricity Regulatory Commission on 14-02-2020 at 11.00 AM. The petitioner, M/s Cochin Special Economic Zone Authority was represented by Sri.K.C.Ramakrishnan, Assistant D C, CSEZA, officers and consultants of CSEZA. Sri. K. C Seetharaman Chartered Accountant presented the details of the application on the truing up of accounts for the year 2017-18 and responded to the queries of the Commission.

   The main points made by the licensee are,-

   (a) Revenue from Sale of Power claimed is Rs 3557.82 lakh for the energy sale of 55.39 MU and the Non Tariff Income is Rs 112.76 lakh which includes interest on investments, fixed and call deposits, bank balances, and interest on advances etc.

   (b) The power purchase cost for the year 2017-18 is Rs 3395.74 lakh for purchase of 56.26 MU. The distribution loss is 0.87 MU which is 1.54% of the energy input. The approved level of distribution loss is 1.50%.

(c) The R&M expenses claimed is higher than the norms fixed whereas the employee cost and the A&G expenses are lower than the approved amount.

(d) No interest and financing charges is claimed as the Government has met the entire investment on the infrastructure for the power distribution.

(e) Asset addition of Rs.630.46 lakh was made during the year 2017-18 which includes the cost of 636 kWp solar PV plant, RMU etc

(f) Depreciation claim of Rs.89.84 lakh for the year includes deprecation for the asset addition also.

(g) Rs.21.57 lakh is claimed as return at the rate of 3% of NFA.

6. Accordingly the licensee has claimed an Aggregate Revenue Requirement (ARR) of Rs 3674.10 lakh, Expected Revenue from Charges (ERC) of Rs 3670.58 lakh with a revenue gap of Rs 3.52 lakh for the year 2017-18.

7. Sri Suresh.A, Executive Engineer, TRAC and Sri. Manoj.G, AEE, TRAC represented KSEB Ltd. Sri. Manoj.G presented the counter statement/comments of KSEB Ltd. The major points raised by KSEB Ltd are the following:

   a. The actual distribution loss claimed is 1.54% which is higher when compared to 1.50% approved by the Commission. Since distribution loss is a controllable item and the area of operation of CSEZA is limited, the distribution loss may be limited to the approved level.
   b. The R&M expense claimed is higher by 8.61% compared to the approved amount. R&M expense may be limited to the normative amount approved by the Commission.
   c. The Commission may take uniform approach of disallowance on the claim of the licensee regarding Section 3(1) duty under Kerala Electricity Duty Act.
   d. With regard to the asset addition of the 636 kWp solar PV plant, the cost claimed is significantly higher than the bench mark cost notified by MNRE. The depreciation for the year may be allowed after duly considering the incentive allowable for the roof top solar plants.
   e. The claim made by the licensee under power purchase tally with the accounts of KSEB Ltd.

8. The Commission during the hearing directed the licensee to furnish details of the fixed deposits made from surplus and the policy being followed regarding such deposits. The Commission also directed the licensee to properly follow up the matter regarding incentive receivable from MNRE for the solar energy plant and to properly apprise the top management regarding the seriousness of the issue.

The licensee was directed to furnish the additional details if any on or before 03-03-2020. The licensee had so far not furnished any additional details before the Commission.

Analysis and decision of the Commission

9. The Commission considered the petition of the licensee for truing up of accounts for the year 2017-18, the additional submissions/clarifications along with the comments of KSEB Ltd. The analysis and decisions of the Commission on the petition for truing up of accounts for the year 2017-18 are detailed below:

10. **Energy Sales, Consumer Mix and Distribution loss:** The energy sale as per the application for truing up for the year 2017-18 is 55.39 MU as against the approved sale of 54.70 MU in the order on ARR & ERC. The actual sale of the licensee during the previous year is 55.20 MU. There is only a marginal increase in the sale compared to the previous year. A comparison of the actual category wise sales is shown below.

Table 3
CSEZA – Comparison on the number of consumers and Sale of power for the year 2016-17 & 2017-18

Category	Trued Up 2016-17		As per truing up petition 2017-18	
	No.of consumers	**MU**	No.of consumers	**MU**
HT – Industrial [HT-I(A) & I(B)]	26	44.91	27	45.84
HT- Agricultural [HT-III(B)]	1	1.53	1	1.38
DHT – Industrial	5	1.24	-	-
LT – Industrial [LT-IV(A) &IV(B)]	101	6.95	93	7.78
LT – Commercial [LT-VII(A)]	1	0.01	13	0.098
LT – Other categories [LT-VI(A),VI(B),VI(D),VI(F) &VIII(B)]	19	0.56	20	0.29
Total Sales	**153**	**55.20**	**154**	**55.39**

11. As shown above, the Commission approves the actual sale of 55.39 MU for the year 2017-18, as per the petition.

12. The total energy requirement claimed by the licensee is 56.254 MU which includes 55.742 MU purchased from KSEB Ltd and 0.512 MU of solar generation. The Commission had approved a purchase of 55.53 MU for the year 2017-18. While approving the ARR&ERC for the year 2017-18, the Commission had approved a distribution loss of 1.50% as per the order dated 09-09-2016. The actual distribution loss for the year is slightly higher than the approved level. The distribution loss as per the application for truing up for the year 2017-18 is 1.542%.

13. Regarding the distribution loss, the licensee has stated that CSEZA avails power at 110kV and the same is stepped down to 11kV using two numbers of 10/12.5 MVA power transformers in the substation. According to the licensee, the total loss of

1.542% comprises of 0.553% in the 110kV side and 0.989% in the 11kV and LT distribution system. The loss estimation furnished by the licensee is as shown below:

Table 4
Loss estimation of the licensee

Particulars	Lakh units
Energy purchase from KSEB at 110kV	557.42
Internal generation 636KWP solar PV plant	5.12
Total Energy input	**562.54**
% loss in 110kV transformer	0.553%
Total energy available for sale	559.43
Energy sales to HT consumers	471.39
Energy sales to LT/DHT consumers	82.47
Total sales	**553.87**
% Loss in 11kV cables/Transformers	0.989%
Energy Loss	5.56
Total loss	8.674
Percentage loss	**1.542%**

14. The details of the distribution loss furnished by the licensee is shown below.

Table 5
Distribution loss and energy input for the year 2016-17& 2017-18

Particulars	**2016-17**		**2017-18**	
	For Truing Up	Trued Up	ARR Approved	As per petition
Energy Requirement (MU)	56.08	56.04	55.53	56.254
Total Energy Sales (MU)	55.20	55.20	54.70	55.387
Distribution loss (MU)	0.88	0.84	0.83	0.8674
Distribution loss %	**1.56%**	**1.50%**	**1.50%**	**1.542%**

15. As mentioned above, the actual distribution loss reported by the licensee is higher than that was approved by the Commission. Distribution loss is a controllable parameter and the licensee has to take all earnest efforts to limit the distribution loss at the approved level. ***Since the distribution loss is a controllable item, the Commission decides to retain the approved distribution loss of 1.50% for the purpose of truing up also***.Accordingly based on the approved distribution loss the energy requirement approved for the year 2017-18 for the purpose of truing up of accounts is as shown below.

Table 6
Distribution loss and energy input for the year 2017-18

Particulars	Approved in ARR	As per petition	**Trued Up**
Energy Purchased from KSEB Ltd. (MU)	55.53	55.741	55.718
Energy generation from Solar PV		0.512	0.512
Total Energy Input (MU)	**55.53**	**56.254**	**56.230**
Total Energy Sales (MU)	54.70	55.386	55.386
Distribution loss (MU)	0.83	0.876	0.843
Distribution loss %	**1.50%**	**1.542%**	**1.50%**
Excess Distribution loss (MU)	**0.87 MU - 0.84 MU = 0.033 MU**		

Power Purchase Cost

16. As per the petition for truing up, the total cost for 55.74 MU purchased from KSEB Ltd is Rs 3395.74 lakh. The Commission had in the order on ARR approved a power purchase of 55.53 MU at a purchase cost of Rs.3371.04 lakh. The licensee has stated that the increase in the power purchase cost over the approved cost is due to the increase in the actual purchase during the year. The details of the power purchase cost claimed by the licensee are shown below.

Table-7
Cost of power purchase for the year 2017-18

Particulars	Claimed by the licensee
Energy Requirement (MU)	55.74
Maximum Billed Demand (kVA)	126246
Rate of Demand Charge (Rs/kVA)	300
Demand charges (Rs.lakh)	378.74
Excess Demand Charges (Rs.lakh)	9.37
Rate of Energy charge (Rs.kWh)	Rs.5.30 upto 17-04-17 & Rs.5.40 from 18-04-17
Energy charges (Rs.lakh)	3007.63
Total charges (Rs. Lakh)	**3395.74**
Average power purchase cost (Rs./kWh)	6. 09

17. The total power purchase cost claimed by the license for 2017-18 is Rs.3395.74 lakh, which includes an amount of Rs.9.37 lakh towards excess demand charges. The excess demand charge is a penal charge for exceeding the contract demand as per the Power Purchase Aggrement.

18. The Commission while truing up the accounts for the year 2016-17 has stated that the licensee is consistently exceeding the contract demand, which results in payment of excess demand charges to KSEB Ltd. The Commission had also viewed that the licensee has to either review the existing contract demand and take necessary steps to increase the contract demand or examine the demand pattern of its consumers and manage the load within the contract demand. It is not desirable to continue the situation of consistently breaching the existing contract demand and paying excess demand charges. The Commission had also directed the licensee to take appropriate steps in this regard. The Commission notes that the licensee has not reported any steps taken to review the existing contract demand. If increasing the contract demand is not found economically viable, the licensee may take demand side management efforts to limit the excess demand. The same is to be practiced and to be reported to the Commission within one month from the date of this order. From now on the excess demand charges will not be allowed in the future.

19. As per Regulation 73(4)(a) of Tariff Regulations, 2014, the quantum of power purchase corresponding to the excess distribution loss shall be disallowed at the average cost of power purchase. Accordingly, based on the approved distribution loss of 1.50%, the power purchase cost approved for the year is as shown below.

Table 8
Details of the cost of power purchase approved for 2017-18

1	Energy Requirement at actual distribution loss (MU)	56.26
2	Energy Requirement at approved distribution loss(MU)	56.23
3	Excess Distribution loss (MU) (1-2)	0.033
4	Total Cost of power purchase	3395.74
5	Average power purchase cost(Rs./kWh) (4/1)	6.04
6	Excess power purchase cost to be deducted(Rs.lakh) [0.033 MU *6.09]	0.20
7	**Approved Power purchase cost** (Rs.lakh) (4-6)	**3395.94**

20. Considering the approved distribution loss of 1.50% and details furnished by the licensee, ***the Commission approves the power purchase cost of Rs.3395.94 lakh for the year 2017-18***

O&M expenses:

21. The Commission while approving the ARR for the year 2017-18 as per order dated 09-09-2015, had approved the O&M expenses in accordance with the norms fixed by the Commission in the KSERC (terms and conditions for determination of tariff) Regulations 2014.The details of the O&M expenses claimed by the CSEZA for 2017-18 in comparison with the amounts as per the Tariff Regulation 2014 is as shown below:

Table 9
O&M Expenses for 2017-18

Particulars	As per the Regulations (Rs. lakh)	As per the petition for truing up (Rs. lakh)
Employee expenses	170.65	135.65
R&M expenses	8.74	9.47
A&G expenses	28.90	21.83
Total	**208.29**	**166.95**

22. As shown above, the actual O&M expenses were lower than the amount as per the Regulations 81(2). Regulation 15 of the Tariff Regulations, 2014 details the mechanism for sharing of gains or losses on account of controllable factors which is quoted hereunder.

> ***15. Mechanism for sharing of gains or losses on account of controllable factors. –*** *(1) The aggregate gain to the generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre, as approved by the Commission, on account of controllable factors shall be dealt with in the following manner:-*
> *(a) one-third of the amount of such gain shall be passed on to consumers as a rebate in tariffs;*
> *(b) the balance two-third of the amount of such gain, may be utilised at the discretion of the generating business/company or transmission business/licensee or distribution business/licensee:*
> *Provided that the net gain or loss to the generating business/company on account of normative operational parameters specified in sub-*

regulations (5), (6), (7), (8), and (9) of regulation 47 shall be shared as specified in regulation 41 of these Regulations.
(2) The aggregate loss to the generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre, as approved by the Commission, on account of controllable factors shall be borne by such generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre and shall not be passed on to the consumer in any manner.

23. Each item of O&M expenses is dealt with in subsequent section.

Employee cost:

24. The actual employee cost claimed by the licensee is lower than the norms approved by the Commission. The Commission while approving the ARR&ERC had approved Rs.170.65 lakh as per regulation 81(2) of the Regulations whereas as per the petition for truing up of accounts submitted by the licensee the actual employee cost incurred by the licensee is Rs.135.65 lakh. As per the split up of the employee cost submitted by the licensee, the major claim is for the charges of the O&M agency. The details submitted by the licensee is tabulated below.

Table 10
Details of employee cost

<table>
<tr><th>Particulars</th><th>As per the petition for truing up
2016-17
(Rs. lakh)</th><th>As per the Regulations
(Rs. lakh)</th><th>As per the petition for truing up
2017-18
(Rs. lakh)</th></tr>
<tr><td>Employee Expenses</td><td></td><td rowspan="2">170.65</td><td>19.25</td></tr>
<tr><td>Charges to O & M Agency</td><td></td><td>116.40</td></tr>
<tr><td>Total Employee Cost</td><td>143.60</td><td>170.65</td><td>135.65</td></tr>
</table>

25. The actual employee cost claimed by the licensee for the year 2017-18 is lower than the previous year. The actual employee cost incurred by the licensee for the year 2016-17 was Rs.143.60 lakh. ***Commission appreciates the fact that the licensee has reduced the employee cost than that of the previous year and approves Rs.135.65 lakh as per the petition.***

Repair and Maintenance Expenses:

26. The Repair and Maintenance cost claimed as per the accounts for the year 2017-18 is Rs.9.47 lakh as against Rs.8.74 lakh approved by the Commission while approving the ARR & ERC for the year. The actual R&M expense for the year 2015-16 & 2016-17 was much on the lower side compared to the expense in 2017-18. The actual expense during 2015-16 and 2016-17 was Rs.0.22 lakh and Rs.2.70 lakh respectively. The Commission in the orders on truing up of the previous years had directed the licensee to undertake the maintenance activities as planned for maintaining the reliability of the system.

Now the licensee has submitted the split up of the R&M expenses incurred during the year 2017-18. As per the details major expenses is towards spare consumption. The split up is as shown below.

Table 11
Details of R&M expenses for the year 2017-18

Particulars	**Rs.lakh**
Purchasing of consumables for 110 kV substation	0.015
Maintenance of 400kVA transformer and allied electrical work at	1.37
Replacement of components in 110kV substation in CSEZ	0.44
Replacement of faulty trip circuit supervision relay in 110kV substation (Urgent work)	0.79
Leakage rectification and oil filtration of distribution transformer near WTP	0.10
Refilling of fire extinguishers of EHT Yard substation	0.12
Spare consumption	6.65
Total	**9.47**

27. As shown above, the spares etc are part of the regular maintenance activities of the licensee. The licensee has not furnished the periodic maintenance plan to the Commission. The same is to be furnished from the upcoming year onwards. ***The Commission hereby approves Rs.9.47 lakh as R&M expenses for the year 2017-18.***

Administration and General Expenses:

28. The Administrative & General expense claimed by the licensee for the year 2017-18 is Rs.21.83 lakh as against Rs.28.90 lakh approved by the Commission. The claim is lower than the normative amount approved by the Commission. A comparison of the A&G expenses over the years is tabulated below.

Table 12
A&G Expenses claimed

Particulars	2015-16	2016-17	2017-18
	Rs.lakh	Rs.lakh	Rs.lakh
Rent Rates & Taxes	9.13	9.13	10.04
Insurance	1.47	1.61	1.69
Telephone & Postage, etc.	0.07	0.04	0.00
Electricity charges & Water charges	1.78	1.60	0.19
Fees & subscription	4.52	2.04	0.70
Licensee fee and other related fee	0.00	1.09	0.86
Printing & Stationery	0.05	0.00	0.15
Advertisements, exhibition publicity	0.65	0.00	0.00
Bank Charges	0.00	0.00	0.00
V-sat, Internet and related charges	4.22	3.56	3.22
Others	0.37	0.30	0.00
Travelling Expenses	0.49	0.46	0.03
Meeting Expenses	0.43	0.57	0.00
Charges for monitoring and managing pre paid metering	-	-	4.95
Gross A&G Expenses	23.18	20.39	21.83

29. The licensee has claimed Rs.4.95 lakh as Charges for monitoring and managing the new pre paid metering software system and had clarified that

the cost was for the additional man power required for monitoring and managing the new pre paid metering software system. ***The Commission hereby approves the actual amount of Rs. 21.83 lakh as the Administrative and General expenses for the year 2017-18.***

O&M expenses approved for 2017-18:

30. As mentioned in the preceding paragraphs, the Commission hereby approves the operation and maintenance expense of Rs.166.95 lakh as per the petition. This amount is lower than the O&M expenses of Rs.208.29 lakh approved as per the Regulations. Hence there is an efficiency gain of Rs.41.34 lakh. As per Regulation 15 of the Tariff Regulations, 2014, the aggregate gain on the controllable parameters is to be shared at the ratio of 2:1 ie, 2/3rd of gain is to be retained by the licensee and 1/3rd is to be passed on to the consumers. Hence, the Commission approves O&M expenses for the year 2017-18 as shown below.

Table 13
O&M Expenses approved for the year 2017-18

Sl.no	Particulars	Rs.lakh
1	Total O&M claimed as per the petition for truing up	166.95
2	Total O&M approved as per the Regulations	208.29
3	Total Efficiency Gain (3-2)	41.34
4	Efficiency Gain to be retained by the licensee (2/3rdof 3)	27.56
5	**Approved O&M for the truing up of 2017-18 (1+4)**	**194.51**

31. ***Accordingly the Commission approves Rs.194.51 lakh as the Operation and Maintenance cost for the year 2017-18***

Capital expenditure

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

Table 14
Details of expenditure capitalised for 2017-18

Asset Description	Rs.Lakh	Date of Commissioning
11kV RMU	114.17	28.03.2018
Laptop	3.50	31.01.2018
Photocopy Machine	3.99	29.03.2018
636 kWp solar PV plant	508.80	25.08.2017
Total Asset Addition	**630.46**	

33. The Commission vide order dated 18-07-2016 in RP1/2016 had approved an amount of Rs.177.00 lakh for installation of RMUs in three phases during the MYT control period 2015-16 to 2017-18 as proposed by the licensee, whereas as per the details furnished by the licensee, it was stated that they had implemented

the work in one phase and the actual cost for the installation of RMUs was only Rs.114.17 lakh which was lower than the amount approved by the Commission. The Commission in the order had also approved Rs.7.50 lakh towards the purchase of office equipments.

34. With regard to the capital expenditure of Rs.508.80 lakh towards the 636 kWp solar PV, the Commission had approved an amount Rs.405.45 lakh and had directed the licensee to avail the achievement linked incentive from MNRE. Since the licensee has not obtained the incentive as directed, the Commission in the daily order dated 25-02-2020 has directed the licensee to properly follow up the matter and to properly apprise the top management regarding the seriousness of the issue. Thus, the total capital additions approved for the year 2017-18 is Rs.527.11 lakh

Depreciation:

35. The licensee in the petition has claimed a depreciation of Rs.89.84 lakh as against an amount of Rs.58.68 lakh approved by the Commission. The licensee has stated that the increase in depreciation is due to the asset addition of Rs.630.46 lakh as shown in table 14 above. The depreciation claimed by the licensee as per the petition for truing up is detailed below.

Table 15
Depreciation claimed for 2017-18 (Rs Lakh)

Asset group	Rate of depreciation	GFA			Depreciation claimed
		At the beginning 2017-18	Asset additions	Total	
Distribution lines	5.28%	496.79	-	496.79	26.23
11kV RMU	5.28%	-	114.17	114.17	0.05
Distribution transformer	5.28%	3.50	-	3.50	0.18
Substations	5.28%	510.09	-	510.09	26.93
LT distribution system	5.28%	15.56	-	15.56	0.82
Switchgears, Control gear & Protection-	5.28%	1.35	-	1.35	0.07
Communication Equipment	6.33%	54.41	-	54.41	3.44
Metering Equipment	5.28%	164.75	-	164.75	8.70
Plant & Machinery (11 kV RMU)	5.28%	9.84	-	9.84	0.52
Furniture & Fixtures	6.33%	0.44	-	0.44	0.03
Office Equipments	6.33%	1.38	7.49	8.88	0.13
New soft ware for prepaid metering	15.00%	33.43	-	33.43	5.01
Solar PV Plant	5.83%	-	508.80	508.80	17.72
Total		**1291.56**	**630.46**	**1922.02**	**89.84**

36. It is seen that the Commission while truing up the accounts for the year 2016-17 had approved a depreciation of Rs.68.27 lakh. The increase in the deprecation

claimed by the licensee for the year 2017-18 is due to the asset addition of Rs.630.46 lakh as given in Table 14.

37. The Commission has duly considered the submission of the petitioner in this regard. The opening GFA as on 01-04-2017 was Rs. 1291.56 lakh. As mentioned in paragraph 34 the asset addition approved by the Commission during 2017-18 is Rs. 527.11 lakh (excluding the incentive portion of the 636kWp solar PV plant). .

38. Further Regulation 28 of the Tariff Regulations 2014 provides the manner in which depreciation is to be calculated which is quoted 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 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….. "*

39. As per the Tariff Regulations 2014, licensees shall be permitted to recover depreciation on the value of fixed assets used in their business provided that no depreciation shall be allowed on revaluation reserve created on account of revaluation of assets. Depreciation shall not be allowed on the assets funded through consumer contribution, deposit works, capital subsidies and grants. As per the clause (a) of sub-regulation 2 of Regulation 28, depreciation shall be computed annually based on straight line method at the rates specified in the Regulations. The second proviso to the sub regulation (5) of Regulation 28 regulation further specifies that depreciation shall be calculated for the assets capitalised during the financial year at the time of truing up, based on documentary evidence and prudence check for capitalisation of assets submitted by the applicant to the Commission. Further such calculation shall be done in such a way that the deprecation is calculated proportionately from the date of capitalisation.

40. As per the details on the date of commissioning of the projects submitted by the licensee, it is seen that the 11kV RMUs and the photocopy machine were commissioned only during the fag end of the year. Thus no depreciation is allowed on these items.

41. With regard to investment of Rs.508.80 lakh towards the 636 kWp solar PV, the Commission had approved only a cost of Rs.405.45 lakh considering the incentive to be obtained from the Ministry. As per Commission's consistent policy, no depreciation is allowed for the assets created out of the accumulated surplus held by the licensee.

42. On the basis of the above considerations, the depreciation approved for the purpose of truing up of accounts for the year 2017-18 is shown below.

Table 16
Depreciation approved for the truing up of 2017-18

Asset group	Rate of depreciation	GFA			Depreciation Approved (Rs.lakh)
		At the beginning 2017-18 (Rs.lakh)	Asset additions (Rs.lakh)	Total (Rs.lakh)	
Distribution lines	5.28%	496.79	-	496.79	26.23
11kV RMU	5.28%	-	114.17	114.17	0.00
Distribution transformer	5.28%	3.50	-	3.50	0.18
Substations	5.28%	510.09	-	510.09	26.93
LT distribution system	5.28%	15.56	-	15.56	0.82
Switchgears, Control gear & Protection	5.28%	1.35	-	1.35	0.07
Communication Equipment	6.33%	54.41	-	54.41	3.44
Metering Equipment	5.28%	164.75	-	164.75	8.70
Plant & Machinery (11 kV RMU)	5.28%	9.84	-	9.84	0.52
Furniture & Fixtures	6.33%	0.44	-	0.44	0.03
Office Equipments	6.33%	1.38	-	1.38	0.09
Laptop	6.33%	-	3.50	3.50	0.04
Photocopy Machine	6.33%	-	3.99	3.99	0.00
New soft ware for prepaid metering	15.00%	33.43	-	33.43	5.01
Solar PV Plant	5.83%	-	405.45	405.45	0.00
Total		**1291.56**	**527.11**	**1818.67**	**72.07**

43. ***Accordingly, the Commission approves a depreciation of Rs.72.07 lakh for the year 2017-18. Since the licensee has not received any incentive from MNRE with regard to the solar PV, the Commission once again directs the licensee to take up the issue on priority with the Ministry and to ensure availment of this benefit which is legally due to the licensee.***

Interest and Finance Charges:

44. As the Government of India has met the entire investment on the infrastructure for the power distribution in CSEZA, the licensee has not claimed any interest and finance charges for 2017-18.

Return on Equity:

45. The licensee in the petition for truing up of accounts for the year 2017-18 has claimed an amount of Rs.21.57 lakh which is 3% of net fixed assets at the beginning of the year.As per sub-regulation (2) of Regulation 29, if the equity invested in the regulated business is not clearly identifiable, return at the rate of 3% shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business.

46. The Commission while truing up the accounts over the previous year of the control period had allowed return at a rate of 3% of the NFA at the beginning of the year. As per the petition, the net fixed assets at the beginning of the year is Rs.719.07 lakh. ***Accordingly the Commission approves Rs.21.57 lakh as return on the basis of net fixed assets at the rate of 3%.***

47. **Gross Revenue requirements:** Based on the above, the Gross revenue requirement for the year 2017-18 after truing up is as shown below:

Table 17
Gross Revenue Requirements after truing up for 2017-18

Particulars	2017-18		
	ARR &ERC Approved (Rs lakh)	Truing up petition (Rs lakh)	Trued Up (Rs lakh)
Purchase of Power	3349.89	3395.74	3395.94
Depreciation	58.68	89.84	72. 07
Employee Cost	170.65	135.65	194.51
R&M Expenses	8.74	9.47	
A&G Expenses	28.90	21.83	
Return on NFA	21.07	21.57	21.57
Total Expenditure	**3637.93**	**3674.10**	**3684. 09**

Revenue from Sale of Power:

48. The licensee has accounted total revenue from sale for power of Rs.3557.82lakh for a sale of 55.39 MU against approved amount of Rs. 3291.28lakh for a total sale of 54.70 MU. The details of the revenue from sale of power for 2017-18 are tabulated below.

Table- 18
Details of Revenue from Sale of Power for 2017-18

Particulars	Number of consumers	Units Sold (MU)	Total Revenue	Avg. realisation
LT Categories				
LT.IV(A) Industry	59	5.44	390.98	7.19
LT-IV(B) IT & IT Enabled Service	34	2.34	170.30	7.28
LT-VI General (A)	1	0. 01	0.28	5.84
LT-VI General (B)	2	0. 02	1.35	7.18
LT-VI General (C)	3	0. 001	0.13	25.54
LT-VI General(D)	1	0.00	0. 01	1.80
LT-VI General (F)	12	0.23	24.41	10.54
LT-VII(A)	13	0. 098	10.62	10.81
LT-VIII B Metered Streetlights	1	0. 03	1.20	3.90
LT Sub Total (A)	**126**	**8.16**	**599.28**	**7.34**
HT Categories				
HT-I Industrial (A)	25	39.78	2520.17	6.34
HT-I Industrial (B)	2	5.98	382.40	6.40
HT-III(B) Agricultural	1	1.38	49.06	3.55
DHT1 Industrial (A)	0	0. 09	6.91	8.00
HT/DHT Sub Total (B)	**28**	**47.23**	**2958.54**	**6.26**
TOTAL (A+B)	**154**	**55.39**	**3557.82**	
Electrical Duty Recovery			136.99	
Other State Levies Recovery			11.70	
Gross Revenue			**3706.51**	
Less: Electricity Duty payable to Govt			136.99	
Less: Other State Levies payable to Govt			11.70	
Net Revenue			**3557.82**	

49. As per the details, there is increase in the revenue compared to the previous year. The Commission had revised the tariff during the period. The Commission has analysed the power consumption pattern and it is seen that majority of the consumption of power is accounted by the HT industrial category. As per the details, 39.78 MU is sold to HT-I Industrial (A) category representing about 72% of the sale of power. The licensee has clarified that the revenue realised is as per the revised tariff applicable for the period. The licensee in the petition had claimed DHT consumption and had shown revenue realisation from the category. The Commission had sought clarification on the matter. The licensee clarified that the DHT category was recategorised under LT based on the revised tariff order.

50. A comparison of the revenue from sale of power for 2016-17 and 2017-18 is tabulated below.

Table 19

Comparison of the revenue from sale of power for 2016-17 and 2017-18

Particulars	No. of Consumers		Energy Sale (MU)		Revenue (Rs Lakh)		Avg. Realisation (Rs/kWh)	
	2016-17	**2017-18**	**2016-17**	**2017-18**	**2016-17**	**2017-18**	**2016-17**	**2017-18**
HT Consumers	32	28	47.68	47.23	2907.10	2958.54	6.10	6.26
LT Consumers	121	126	7.52	8.16	498.82	599.28	6.63	7.34
Total	**153**	**154**	**55.20**	**55.39**	**3405.92**	**3557.82**	**6.17**	**6.42**

51. From the table above it is seen that there is an increase in the total revenue compared to the previous year. ***The Commission approves the actual energy sales of 55.39 MU and the revenue from sale of power of Rs.3557.82 lakh as per the petition for the year 2017-18.***

Non- Tariff Income:

52. The actual non-tariff income accounted by the licensee is Rs 112.76 lakh as against the approved amount of Rs 175.94 lakh. The non tariff income for the year 2015-16 was Rs.128.68 lakh. The split up details are given below.

Table 20

Comparison of Non Tariff income

Particulars	2016-17 Trued Up (Rs Lakh)	2017-18 As per Truing up petition (Rs.lakh)
Interest on investments, fixed and calls deposits and bank balances.	110.09	83.34
Interest on advances	15.59	22.11
Miscellaneous Receipts	0.87	4.88
Commission for collection of electricity duty	1.23	1.51
Meter/service line rentals	0.91	0.92
Non Tariff income	**128.68**	**112.76**

53. As per the details submitted, the non tariff income include interest on investments, fixed and calls deposits and bank balances, interest on advances, commission for collection of electricity duty etc. The claim of the licensee for the year 2017-18 is lower than the actual non-tariff income in 2016-17.There is significant decrease in the interest on investments, fixed and call deposits and bank balances. The licensee during the hearing had clarified that the reason for the decrease was with regard to the investment on 636 kWp solar PV plant with the surplus amount available with the licensee.

54. The accumulated surplus after truing up at the end of the year 2016-17 was Rs. 1208.88 lakh. The Commission has approved an amount of Rs.405.45 lakh for the investment on 636 kWp solar PV plant. After deducting this amount, the accumulated surplus available with the licensee is Rs.803.43 lakh. The licensee has claimed Rs.83.34 lakh as the Interest on investments, fixed and calls deposits and bank balances. Considering the same, ***the Commission approves the actual non tariff income of Rs.112.78 lakh as claimed by the licensee for truing up of accounts of 2017-18.***

Total Income

55. Based on the above, the total income for the year 2017-18 after truing up is as shown below.

Table – 21
Total Income approved after truing up for 2017-18

Particulars	**2017-18**		
	ARR Approved (Rs lakh)	As per petition (Rs lakh)	**Trued up** (Rs lakh)
Revenue from Sale of Power.	3291.28	3557.82	3557.82
Other Income	175.94	112.76	112.76
Total Income	**3467.22**	**3670.58**	**3670.58**

Summary of Truing up of Accounts 2017-18

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

Table 22
Details of amounts approved in Truing up for the year 2017-18

Particulars	**2017-18**		
	ARR &ERC Approved (Rs lakh)	Truing up petition (Rs lakh)	Trued Up (Rs lakh)
Revenue from Sale of Power	3291.28	3557.82	3557.82
Other Income	175.94	112.76	112.76
Total Income	**3467.22**	**3670.58**	**3670.58**
Purchase of Power	3349.89	3395.74	3395.94
Depreciation	58.68	89.84	72. 07

Employee Cost	170.65	135.65	194.51
R&M Expenses	8.74	9.47	
A&G Expenses	28.90	21.83	
Return on NFA	21.07	21.57	21.57
Total Expenditure	**3637.93**	**3674.10**	**3684. 09**
Net Surplus/(Deficit)	**(170.71)**	**(3.52)**	**(13.51)**

Directives

57. The Commission directs the licensee to comply with the following directives.

  a. The licensee shall within one month from the date of this order, furnish the periodic maintenance plans for the year 2020-21.
  b. The licensee shall furnish the demand side management plan for the year 2020-21 as mentioned in the order for limiting the maximum demand

Orders of the Commission

58. The Commission after considering the petition filed by M/s. CSEZA for truing up of accounts for the year 2017-18, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following;

  a. The total expenditure is Rs.3684.07 lakh
  b. The total revenue is Rs.3670.58 lakh
  c. The revenue gap for the year 2017-18 is Rs.13.51 lakh.
  d. The cumulative revenue surplus till 2017-18 will be Rs.789.94 Lakh (Rs.803.43 lakh – Rs.13.51 lakh).The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.

59. The petition is disposed of. Ordered accordingly.

Sd/-
S.Venugopal
Member

Sd/-
Preman Dinaraj
Chairman

Approved for issue

Sd/-
Secretary