

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

OA 17/2020

In the matter of :Truing up of accounts of M/s Cochin Special Economic Zone Authority (CSEZA) for the financial year 2018-19

Applicant : M/s Cochin Special Economic Zone Authority

Represented by : Sri D. V. Swamy IAS, Development Commissioner & Chairman, CSEZA
Sri.K.C.Ramakrishnan, Assistant D C, CSEZA
Sri. K. C Seetharaman, Consultant, CSEZA
Sri.Krishna Varma K, Consultant, CSEZA
Sri. Ratnesh Kumar Pande, Engineer (E), CSEZA

PRESENT :**Shri. R. Preman Dinaraj, Chairman**

ORDER DATED 18/12/2020

1. The Cochin Special Economic Zone Authority (hereinafter referred to as CSEZA or the licensee) vide letter No.H.12/02/2020:CSEZA/3611 dated 14-9-2020 has filed an application for the truing up of accounts for the financial year 2018-19 as per the provisions of the KSERC (Terms and Conditions for determination of Tariff) Regulations 2018 (*hereinafter referred to as the Tariff Regulations 2018*). However, as per the Regulation 10(2) of the Tariff Regulations, the petition for truing up of accounts for the year 2018-19 has to be filed by 30-11-2019. The defect was rectified by the licensee by filing the IA 08/2020 for condonation of delay. The Commission considered the matter and vide Order dated 30-10-2020, the delay was condoned and the petition was admitted as OA No.17/2020. The licensee has submitted its accounts audited by C&AG along with the petition. 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.17/2020.
2. The Commission had issued the order on the approval of the ARR&ERC for the entire control period (2018-19 to 2021-22) on 02-12-2019. A comparative statement of the various expenses approved for the year 2018-19 as per the Order dated 02-12-2019 and the actual expenses claimed by the licensee for the year 2018-19 as per the petition for truing up is tabulated below.

Table 1
Comparison of approved and actual figures for the year 2018-19

Particulars	2018-19		
	Approved in ARR (Rs.lakh) (A)	Truing Up Petition (Rs. lakh) (B)	Variation (Rs. lakh) (C)=(B)- (A)
Revenue from Sale of Power	3,490.34	3,556.29	65.95
Other Income	112.13	114.60	2.47
Total Income	3,602.47	3,670.89	68.42
Purchase of Power	3,374.89	3,435.90	61.01
R&M Expenses	192.18	12.24	-13.20
Employee Cost		137.58	
A &G Expenses		29.16	
Depreciation	72.03	76.68	4.65
Return on Equity	21.86	37.79	15.93
Total Expenditure	3,660.96	3,729.35	68.39
Surplus/Deficit(-)	-58.49	-58.46	

3. In the petition, the licensee has arrived at a **revenue gap of Rs.58.46 lakh** for the year 2018-19 as against a revenue gap of Rs.58.49 lakh approved by the Commission in the order dated 02-12-2019. A comparison between the figures for 2017-18 and 2018-19 is also tabulated below.

Table 2
Comparison of ARR& ERC for 2017-18 and 2018-19

Particulars	2017-18			2018-19	
	Approved in ARR (Rs. lakh)	Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	Approved in ARR (Rs.lakh) (A)	Truing Up Petition (Rs. lakh) (B)
Revenue from Sale of Power	3,291.28	3,557.82	3,557.82	3,490.34	3,556.29
Other Income	175.94	112.76	112.76	112.13	114.60
Total Income	3,467.22	3,670.58	3,670.58	3,602.47	3,670.89
Purchase of Power	3,349.89	3,395.74	3,395.94	3,374.89	3,435.90
R&M Expenses	8.74	9.47	194.51	192.18	12.24
Employee Cost	170.65	135.65			137.58
A &G Expenses	28.90	21.83			29.16
Depreciation	58.68	89.84	72.07	72.03	76.68
Return on Equity	21.07	21.57	21.57	21.86	37.79
Total Expenditure	3,637.93	3,674.10	3684.09	3,660.96	3,729.35
Surplus/Deficit(-)	-170.71	-3.52	-13.51	-58.49	-58.46

4. While processing the petition, the Commission had sought clarifications on the petition for truing up vide letter dated 6-11-2020. The licensee vide letter No.H-12/02/2020:CSEZA/4386 dated 16-11-2020 furnished the reply to the clarifications sought by the Commission

Hearing on the matter

5. The hearing on the petition for the truing up of accounts for the year 2018-19 was conducted through video conference mode due to the Covid-19 restrictions. The hearing was held on 24-11-2020 at 11.00 AM. The petitioner, M/s Cochin Special Economic Zone Authority was represented by Shri D. V. Swamy IAS Development Commissioner & Chairman, CSEZ Authority Sri.K.C.Ramakrishnan, Assistant D C, CSEZA, officers and consultants of CSEZA. Sri. K. C Seetharaman, the consultant Chartered Accountant presented the details of the application on the truing up of accounts for the year 2018-19 and responded to the queries of the Commission.

The main points made by the licensee are,-

- (a) The connectivity with KSEB Ltd is 13 MVA at 110kV and the power purchase agreement is revised to 13 MVA with effect from 23-3-2020 from the present level of 10 MVA.
- (b) The present average maximum demand for 2018-19 is 10.72 MVA.
- (c) The Revenue from Sale of Power as per the petition is Rs 3556.29 lakh for the energy sale of 559.11 lakh units and the Non Tariff Income is Rs.114.60 lakh which includes interest on fixed deposits, bank balances, and interest on advances etc.
- (d) The power purchase cost for the year 2018-19 is Rs 3435.90 lakh for purchase of 561.89 lakh units. The distribution loss is 11.91 lakh units which is 2.085% of the energy input. The approved level of distribution loss is 1.45%.
- (e) The total O&M expense, comprising of employee cost, R&M expenses and A&G expenses as per the truing up petition is Rs.178.98 lakh
- (f) The R&M expenses claimed (Rs.12.24 lakh) is higher than the norms fixed (Rs.7.65 lakh) whereas the employee cost claimed (Rs.137.58 lakh) is lower than the approved amount of Rs.157.84 lakh. The A&G expenses claimed is Rs.29.16 lakh is also higher than the approved level of Rs.26.70lakh.
- (g) No interest and financing charges is claimed as the Government has met the entire investment on the infrastructure for the power distribution.
- (h) Asset addition of Rs.18.31 lakh was made during the year 2018-19.
- (i) Depreciation claim of Rs.76.68 lakh for the year includes depreciation for the asset addition also.
- (j) Rs.37.79 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 3729.35 lakh, Expected Revenue from Charges (ERC) of Rs 3670.89 lakh with a revenue gap of Rs 58.46 lakh for the year 2018-19.
7. KSEB Ltd furnished their written comments on the petition vide letter dated 23-11-2020. The major points raised by KSEB Ltd are the following:
 - a. The actual distribution loss claimed is 2.085% which is higher when compared to 1.45% 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 for 2018-19.
 - b. The actual O&M expense claimed is Rs.178.98 lakh which is lower than the approved expenses of Rs.192.18 lakhs. Hence O&M expenses may be limited to the actual claimed by the licensee.
 - c. The depreciation claimed is Rs.76.68 lakh against the approved level of Rs.72.03 lakh and the depreciation may be limited to the approved level.
 - d. The licensee has claimed the RoE of Rs.37.79 lakh as 3% of NFA as against the approved value of Rs.21.86 lakh. The additional claim may not be allowed since the additional investment by utilizing the accumulated surplus of the distribution business may not qualify for returns.
 - e. The claim made by the licensee under power purchase tally with that of the bills of KSEB Ltd.

Analysis and decision of the Commission

8. The Commission considered the petition of the licensee for truing up of accounts for the year 2018-19, 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 2018-19 are detailed below:
9. **Energy Sales, Consumer Mix and Distribution loss:** The energy sale as per the application for truing up for the year 2018-19 is 559.11 lakh units as against the approved sale of 554.80 lakh units in the order on ARR & ERC. The actual sale of the licensee during the previous year 2017-18 was 553.86 lakh units. 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
Comparison on the number of consumers and Sale of power for the year 2017-18 and 2018-19

Category	Trued Up 2017-18		As per truing up petition 2018-19	
	No.of consumers	Lakh units	No.of consumers	Lakh units
HT – Industrial [HT-I(A) & I(B)]	27	458.44	28	454.71
HT- Agricultural [HT-III(B)]	1	13.80	1	13.00
LT – Industrial [LT-IV(A) & IV(B)]	93	77.80	92	85.48
LT – Commercial [LT-VII(A)]	13	0.98	13	2.54
LT – Other categories [LT-VI(A), VI(B), VI(D), VI(F) & VIII(B)]	20	2.90	25	3.38
Total Sales	154	553.90	159	559.11

10. As shown above, the actual sales in 2018-19 is higher than the previous year by 5.21 lakh units. **After examining the actual figures, the Commission approves the actual sale of 559.11 lakh units for the year 2018-19, as per the petition.**
11. The total energy requirement claimed by the licensee is 571.02 lakh units which includes 561.89 lakh units purchased from KSEB Ltd and 9.13 lakh units of solar generation. While approving the ARR&ERC for the year 2018-19, the Commission had approved a distribution loss of 1.45% as per the order dated 02-12-2019. The actual distribution loss for the year as per the petition is 2.085%.
12. 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 2.085% comprises of 0.545% in the 110kV side and 1.54% in the 11kV and LT distribution system. The details of the distribution loss furnished by the licensee is shown below.

Table 4
Distribution loss and energy input for the year 2017-18 & 2018-19

Particulars	2017-18		2018-19	
	For Truing Up	Trued Up	ARR Approved	As per petition
Energy Requirement (lakh units)	562.54	562.30	563.00	571.02
Total Energy Sales (lakh units)	553.86	553.86	554.80	559.11
Distribution loss (lakh units)	8.76	8.43	8.20	11.91
Distribution loss %	1.542%	1.50%	1.45%	2.085%

13. As mentioned above, the actual distribution loss reported by the licensee is higher than that was approved by the Commission. The Commission sought the details for higher distribution loss compared to the previous year. The licensee reported that based on the recommendations of the Energy Audit Study, the licensee implemented necessary corrections in the meter calibrations and other configuration. Accordingly, from August 2019, errors were rectified and the distribution loss is for the subsequent year 2019-20 stand reduced to 1.470%. Hence according to the licensee, the distribution loss was higher in 2018-19 due

this.

14. The Commission noted the explanation given by the licensee. It is not the first time, the metering errors are detected in the system during the energy audit study. **The Commission notes that the licensee should create a periodic internal monitoring and audit mechanism for controlling losses. Already periodic recording of data is in place and it is necessary that the recorded data is analysed periodically to prepare reports on system performance and usage. Such reports will provide insights on the issues in the system.** The reply of the licensee clearly reveals that loss is on account of meter calibration issues and the distribution loss in 2019-20 is much lower than the previous year. The target approved for the year 2018-19 was based on the previous year actuals and the actual loss in 2019-20, also justifies the target level of 1.45%.
15. As per the Regulations, 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 1.45% for the purpose of truing up also.** Accordingly based on the approved distribution loss the energy requirement approved for the year 2018-19 for the purpose of truing up of accounts is as shown below.

Table 5
Distribution loss and energy input for the year 2018-19

Particulars	Approved in ARR	As per petition	Trued Up
Energy Purchased from KSEB Ltd. (lakh units)	553.80	561.89	558.21
Energy generation from Solar PV (lakh units)	9.20	9.13	9.13
Total Energy Input (lakh units)	563.00	571.02	567.34
Total Energy Sales (lakh units)	554.80	559.11	559.11
Distribution loss (lakh units)	8.20	11.91	8.23
Distribution loss %	1.46%	2.085%	1.45%
Excess Distribution loss (lakh units)	11.91-8.23 = 3.68 lakh units		

Power Purchase Cost

16. As per the petition for truing up, the total cost for 561.89 lakh units purchased from KSEB Ltd is Rs 3435.90 lakh. The Commission had in the order on ARR approved a power purchase of 553.80 lakh units at a purchase cost of Rs.3374.89 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 power purchased during the year. The details of the power purchase cost claimed by the licensee are shown below.

Table-6
Cost of power purchase for the year 2018-19

Particulars	Actual Claimed by Licensee for FY 2018-19
Energy Purchase (In lakh units)	561.89
Contract Demand (kVA)	10000
Maximum Demand (kVA)	129266
Excess Demand (kVA)	9266
Excess Demand Charges (Rs. lakh) (A)	13.89
Demand charge (Rs./kVA)	300
Total Demand Charges (Rs. lakh) (B)	387.79
Energy charges (Rs. kWh)	5.4
Total Energy Charges (Rs. lakh)(C)	3034.20
Any Other Charges (Specify) (Rs. lakh) (D)	Nil
Cost of power purchase (Rs. lakhs) (A+B+C+D)	3435.90
Average power purchase cost (Rs../kWh)	6.11

17. The total power purchase cost claimed by the license for 2018-19 is Rs.3435.90 lakh, which includes an amount of Rs.13.89 lakh towards excess demand charges. The excess demand charge is a penal charge for exceeding the contract demand as per the Power Purchase Agreement.
18. In this regard, the Commission had directed the licensee in the previous Order to take appropriate steps to increase contract demand. However the licensee pointed out that though they had made this request, there was delay from KSEB's side and hence this payment had to be made for no fault of the licensee. The Commission notes that this issue was also deliberated in one of the hearings in CSEZA premises during ARR hearing held on 03-04-2019, but the actual increase in contract demand got delayed. Under such circumstances, the Commission hereby allows the Excess Demand Charges of Rs.13.89 lakh to KSEB Ltd. In the petition licensee stated that, the new PPA with 13000 kVA contract demand was executed with KSEB Ltd with effect from 23-03-2020 on the basis of order dated 04-11-2019. Hence there is no excess demand recorded thereafter
19. As per Regulation 72(4) of Tariff Regulations, 2018, 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 1.450%, the power purchase cost approved for the year is as shown below.

Table 7
Details of the cost of power purchase approved for 2018-19

1	Energy purchase from KSEB Ltd at actual distribution loss (lakh units)	561.89
2	Energy Requirement at approved distribution loss(lakh units)	558.21
3	Excess Distribution loss (lakh units) (1-2)	3.68
4	Total Cost of power purchase	3435.90
5	Average power purchase cost(Rs./kWh) (4/1)	6.11
6	Excess power purchase cost to be deducted (Rs.lakh) [3.68 lakh units *6.11]	22.48
7	Approved Power purchase cost (Rs.lakh) (4-6)	3413.42

20. Considering the approved distribution loss of 1.450% and details furnished by the licensee, ***the Commission approves the power purchase cost of Rs.3413.42 lakh for the year 2018-19***

O&M expenses:

21. The Commission while approving the ARR for the year 2018-19 as per Order dated 02-12-2019, had approved the O&M expenses in accordance with the norms fixed by the Commission in the Tariff Regulations 2018. The details of the O&M expenses claimed by the CSEZA for 2018-19 in comparison with the amounts as per the Tariff Regulation 2018 is as shown below:

Table 8
O&M Expenses for 2018-19

Particulars	As per the Regulations (Rs. lakh)	As per the petition for truing up (Rs. lakh)
Employee expenses	157.84	137.58
R&M expenses	7.65	12.24
A&G expenses	26.70	29.16
Total	192.18	178.98

22. Operation & maintenance includes controllable expenses like cost of Employees, Repair & Maintenance, and Administrative & General expenses. The Commission as per the provisions of clause 79(8) of the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 has approved the operation & maintenance cost of Cochin Special Economic Zone Authority for 2018-19. However, the actual expense claimed by CSEZ is lower than the level specified in the Regulations. Each item of O&M expenses is dealt with below.

Employee cost:

23. In the petition for the truing up of accounts, the licensee has booked an amount of Rs.137.58 lakh against the approved amount of Rs.157.84 lakh in the Order on ARR&ERC as employee cost for carrying out the distribution business. 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 9
Details of employee cost**

Particulars	2017-18		2018-19	
	As per Truing up petition (Rs. Lakh)	Trued Up (Rs.lakh)	ARR Approved (Rs.lakh)	As per Truing petition (Rs.lakh)
Employee Expenses	19.25	135.65	157.84	21.18
Charges to O&M Agency	116.40			116.40
Total	135.65	135.65	157.84	137.58

24. The actual employee cost claimed by the licensee for the year 2018-19 is slightly higher than the previous year. The actual employee cost incurred by the licensee for the year 2017-18 was Rs.135.65 lakh. The employee cost consists of the components of charges to the O&M agency and the balance Rs.21.18 lakh is the apportionment cost of the employees of CSEZA. The license stated as part of the clarifications that as per the apportionment percentage the apportionment portion of the cost of employees of CSEZA comes to Rs.37.71 lakh, whereas they have claimed only 56% i.e., Rs.21.18 lakh only in the truing up. The Commission also notes that the major component i.e., charges to the O&M agency is same as that of the previous year. The **Commission appreciates the fact that the licensee has limited the employee cost to level lower than the ARR approved cost of Rs.157.84 lakh and approves Rs.137.58 lakh as per the petition.**

Repair and Maintenance Expenses:

25. The Repair and Maintenance cost claimed as per the accounts for the year 2018-19 is Rs.12.24 lakh as against Rs.7.65 lakh approved by the Commission while approving the ARR & ERC for the year. The actual R&M expense for the year 2017-18 was Rs.9.47 lakh. 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 2018-19. The split up is as shown below.

**Table 10
Details of R&M expenses for the year 2018-19**

Description	Amount
	(Rs in lakh)
Servicing of 2Nos OLTC and oil filtration of Power transformers in CSEZ 110 KV substation	2.81
Rectification of Oil Leakage in transformers in Plot No 30 and near SDF 16 in Ring 2 feeder	0.25
Replacement of battery bank in CSEZ 110 KV substation	1.19

Testing of Protective Relays at CSEZ 110kV Substation	1.14
Oil leak rectification work in 2 Nos CTs and 12.5 MVA Power transformer No 1at CSEZ 110 KV Substation (done on emergency basis)	0.15
Oil leak rectification of 500 kVA transformer installed near WTP and on PRV in Explosion Vent of Power Transformer No. 2 at CSEZ 110 KV substation (done on emergency basis)	0.4
Rewinding and bearing replacement of 3 nos Exhaust fans at CSEZ 110 kV Substation	0.08
Distribution Loss study and Energy Audit (part payment made to Kerala State productivity Council)	2.4
Other Miscellaneous expenses in connection O & M of Power Distribution System	0.34
Consumption of Spares	3.47
Total R & M Expenses	12.24

26. As shown above most of the item are in the nature of periodic maintenance. The Commission directed the licensee as per order dated 16-03-2020 for furnishing the periodic maintenance plans for the year 2020-21, however, the same has not been furnished. ***The licensee is again directed to comply with the direction. The Commission hereby approves Rs.12.24 lakh as R&M expenses for the year 2018-19.***

Administration and General Expenses:

27. The Administrative & General expense claimed by the licensee for the year 2017-18 is Rs.29.16 lakh as against Rs.26.70 lakh approved by the Commission in the ARR&ERC orders. However, 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 11
A&G Expenses from 2015-16 to 2018-19

Particulars	2015-16	2016-17	2017-18	2018-19
	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh
Rent Rates & Taxes	9.13	9.13	10.04	10.04
Insurance	1.47	1.61	1.69	1.44
Telephone & Postage, etc.	0.07	0.04	-	
Electricity charges & Water charges	1.78	1.60	0.19	0.18
Inspection Fees & Petition fees	4.52	2.04	0.70	2.32
Licensee fee and other related fee	-	1.09	0.86	1.07
Printing & Stationery	0.05	-	0.15	0.08
Advertisements, exhibition publicity	0.65	-	-	
Bank Charges	-	-	-	0.01
V-sat, Internet and related charges	4.22	3.56	3.22	4.46
Others	0.37	0.30	-	
Travelling Expenses	0.49	0.46	0.03	-
Meeting Expenses	0.43	0.57	-	-

Charges for monitoring and managing pre paid metering	-	-	4.95	9.57
Gross A&G Expenses	23.18	20.39	21.83	29.16

28. The major claim booked under A&G expense are towards Rents & taxes, charges for monitoring & managing prepaid metering software system and towards V-sat internet and related charges expense amounting Rs.10.04 lakh, Rs.9.57 lakh and Rs.4.46 lakh respectively.
29. It may be seen that, charges for monitoring and managing pre paid metering expense during the year is higher (93.33%) compared to previous year. In reply to the clarification sought by the Commission, the licensee stated that there were some modification required in the pre-paid metering system for which Rs.2.97 lakh was incurred and the same was booked under A&G expenses. The regular O & M charge for prepared metering system amounted to Rs.6.60 lakh (Rs.0.55 lakh x 12 months) and additional modification and maintenance charges of Prepaid Metering System amounted to Rs.2.97 lakh, the total amounting to Rs.9.57 lakh. During FY 2017-18, only regular O&M charge of Rs. 4.95 lakh (Rs.0.55 lakh x 9 months) was incurred. The above explains reason for increase in the said charges for 2018-19 compared to 2017-18. **Considering the details furnished by the licensee, the Commission approves the actual amount of Rs.29.16 lakh as the Administrative and General expenses for the year 2018-19.**

O&M expenses approved for 2018-19

30. As mentioned in the preceding paragraphs, the Commission approves the operation and maintenance expense of Rs.178.98 lakh as per the petition. This amount is lower than the O&M expenses of Rs.192.18 lakh approved as per the Regulations. Hence there is an efficiency gain of Rs.13.20 lakh. The Commission notes that the savings is mainly on account of the reduction in charges for the O&M agency. As per Regulation 14 of the Tariff Regulations, 2018, 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. Thus the O&M cost allowed to be passed on to the consumers will be lower by the amount equivalent to the 1/3rd of the total gain (1/3rd of Rs.13.20 lakh ie. Rs.4.40 lakh) than the normative approved cost of Rs.192.18 lakh. Accordingly, the Commission approves O&M expenses for the year 2018-19 as shown below.

Table 12
O&M Expenses approved for the year 2018-19

Sl.no	Particulars	Rs.lakh
1	Total O&M claimed as per the petition for truing up	178.98
2	Total O&M approved as per the Regulations	192.18
3	Total Efficiency Gain (3-2)	13.20

4	Efficiency Gain to be retained by the licensee (2/3 rd of 3)	8.80
5	Approved O&M for the truing up of 2018-19 (1+4)	187.78

31. Accordingly, the Commission approves Rs.187.78 lakh as the Operation and Maintenance cost for the year 2018-19.

Capital expenditure

32. The details of the expenditure capitalised for 2018-19 as per the petition for the truing up of accounts is as shown below:

Table 13
Details of expenditure capitalised for 2018-19

Sl.No	Asset Description	Total Assets Addition	Date of Commissioning	Approval Status
		(Rs in lakh)		
1	Construction of Aluminum fabrication works for operator cabin room at 110 kV Substation control room	1.25	25.10.2018	Approved by the Commission vide Order dated 02-12-2019
2	Supply ,Installation, Testing and commissioning of 2 nos Air Conditioners at 110 kV Substation Control room	0.78	25.10.2018	
3	Purchasing of 5kVA inverter with battery for 110KV substation	0.75	1.2.2019	
4	Construction of Store room at 110 kV substation	5.31	15.3.2019	
5	Construction of Fencing around 110 kV Sub-Station for safety and unauthorized entry.	3.30	12.9.2018	
6	Modification of prepaid monitoring system software			
	Phase 1	0.88	1.11.2018	
	Phase-2	2.25	26.11.2018	
	Phase-3	2.35	12.1.2019	
7	Purchase of Laptop	0.79	20.12.2018	
8	Supply of AIOC-Dell 7460,i5-8Gb Ram,1TB hd, WOS,DVD RW for power distribution system of CSEZA	0.65	18.2.2019	
	Total	18.30		

33. As shown above, some of the items of capital expenditure were already approved by the Commission vide Order dated 02-12-2019. The licensee has stated that the source of funding of capital expenditure is the accumulated surplus. The Commission after considering the items of capital expenditure, approves the same for inclusion in the asset base, subject to the condition that the licensee is not eligible for the financing costs on the said items.

34. With regard to the capital expenditure of Rs.508.80 lakh towards the 636 kWp solar PV made in 2017-18, 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. However, the licensee has not furnished the status of the said direction. **The Commission therefore hereby directs the licensee to follow up the issue with MNRE and to file a status report within 3 months from the date of this order.**

35. As per Commission's consistent policy, no depreciation is allowed for the assets created out of the accumulated surplus held by the licensee. The Commission also sought the details of assets created out of the surplus till the year 2018-19. The details furnished by the licensee are furnished below

Table 14
The Assets created out of accumulated surplus of the licensee

Asset Description	Assets Addition	Source of Fund
	(Rs in lakh)	
110 KV Metering CT& PT and ABT meter	25.12	2016-17
New Prepaid Metering software	33.43	2016-17
Total for 2016-17	58.55	
11 KV RMUs	114.17	2017-18
636 kWp Grid Connected Roof Top Solar PV plants	508.86	2017-18
Office Equipment-Lap top	3.50	2017-18
Office equipment- Photo Copying machine	3.99	2017-18
Total for 2017-18	630.52	
Total for 2016-17 and 2017-18	689.07	

36. Thus, the licensee is not eligible for depreciation for the above assets amounting to Rs. 689.07 lakh.

Depreciation:

37. The licensee in the petition has claimed a depreciation of Rs.76.68 lakh as against an amount of Rs.72.03 lakh approved by the Commission. This actual depreciation claimed included depreciation provided for the existing assets and also pro-rata depreciation for the new assets amounting to Rs.18.31 lakh as shown in Table 13 and capitalised during 2018-19. The depreciation claimed by the licensee as per the petition for truing up is detailed below.

Table 15
Depreciation claimed for 2018-19

Asset Group	Rate of depreciation (%)	Gross fixed assets			Depreciation claimed for 2018-19 Rs. Lakh
		At the beginning of the year Rs. lakh	Additions during the year Rs. lakh	At the end of the year Rs. lakh	

Land & land rights					
Distribution lines	5.28%	496.79		496.79	7.55
11KV RMU	5.28%	114.17		114.17	6.03
Plant & machinery(11KV RMU)	5.28%	9.84		9.84	0.52
110 kV Sub-station equipments		-		-	
Switchgears, Control gear & Protection	5.28%	510.09		510.09	15.70
Others	5.28%		-	-	
Store Room	5.28%		5.31	5.31	0.013
Fencing	5.28%		3.30	3.30	0.10
Control Room(AC)	5.28%		0.78	0.78	0.02
Operator cabin Room	5.28%		1.25	1.25	0.03
LT Distribution system	5.28%	15.56		15.56	0.82
Transformers	5.28%	3.50		3.50	0.18
Switchgears, Control gear & Protection	5.28%	1.35	-	1.35	0.07
Communication equipment	6.33%	54.41		54.41	3.44
Meters	5.28%	164.75		164.75	6.67
Furniture & fixtures	6.33%	0.44		0.44	0.03
Office Equipments	6.33%	8.88	2.19	11.07	0.59
New software for prepaid metering	15.00%	33.43	5.48	38.91	5.26
Solar PV Plant	5.83%	508.80		508.80	29.66
Gross Asset (Total)		1,922.02	18.31	1,940.34	76.68

38. The Commission has duly considered the submission of the petitioner in this regard. The opening GFA as on 01-04-2018 was Rs. 1922.02 lakh. This is inclusive of the assets addition made during the year 2017-18 of Rs. 630.46 lakh, which is inclusive Rs.508.80 lakh on account of the solar PV plant and Rs.9.84 lakh for 11kV RMUs. 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.

39. As per the details furnished by the licensee vide letter dated 16-11-2020, the assets were created using the licensee's cumulative surplus (over and above the regulatory surplus) for 2016-17 is amounting to Rs.58.55 lakh and Rs. Rs.630.52 lakh during 2017-18.

40. Regulation 27 of the Tariff Regulations 2018 provides the manner in which depreciation is to be calculated which is quoted below.

27. Depreciation. – (1) The value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission:

Provided that no depreciation shall be allowed on increase in the value of assets on account of revaluation of assets.

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

(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 may be required 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 as approved by the Commission excluding cost of assets created out of contributions and grants and depreciation shall be a maximum of ninety per cent of such approved capital cost of the asset.*

(3) *In the case of existing assets, the balance depreciable value as on the First day of April, 2018, shall be worked out by deducting the cumulative depreciation approved by the Commission upto the Thirty First day of March, 2018, from the gross depreciable value of the assets.*

(4) *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.

41. As per the Tariff Regulations 2018, 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 27, depreciation shall be computed annually based on straight line method at the rates specified in the Regulations. The second proviso to the sub regulation (4) of Regulation 27 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.

42. As per Commission's consistent policy, no depreciation is allowed for the assets created out of the accumulated surplus held by the licensee. On the basis of the above considerations, the depreciation approved for the purpose of truing up of accounts for the year 2018-19 is shown below:

Table 16
Depreciation approved for the truing up of 2018-19

Asset Group	Gross fixed assets			Depreciation approved for 2018-19
	At the beginning of the year	Additions during the year	At the end of the year	
	Rs. Lakh	Rs.lakh	Rs.lakh	Rs.lakh
Land & land rights				
Distribution lines	496.79		496.79	7.55
11KV RMU	114.17		114.17	6.03
Plant & machinery(11KV RMU)	9.84		9.84	0.52
110 kV Sub-station equipment	-		-	
Switchgears, Control gear & Protection	510.09		510.09	15.70
Store Room		5.31	5.31	0.013
Fencing		3.30	3.30	0.10
Control Room(AC)		0.78	0.78	0.02
Operator cabin Room		1.25	1.25	0.03
LT Distribution system	15.56		15.56	0.82
Transformers	3.50		3.50	0.18
Switchgears, Control gear & Protection	1.35	-	1.35	0.07
Communication equipment	54.41		54.41	3.44
Meters	164.75		164.75	6.67
Furniture & fixtures	0.44		0.44	0.03
Office Equipment	8.88	2.19	11.07	0.59
New software for prepaid metering	33.43	5.48	38.91	5.26
Solar PV Plant	405.45*		405.45*	21.41*
Gross Asset	1,818.67	18.31	1,836.99	68.42
Less Assets added using accumulated surplus				
2016-17	58.55			6.59
2017-18	527.11			27.83
2018-19	18.30			0.16
Net Asset considered for depreciation	1,214.71			33.85

*The GFA as per the CSEZA for the solar PV plant is Rs.508.80 lakh, whereas the Commission has approved an amount of Rs.405.45 lakh only. The balance amount is on account of the subsidy to be receivable from the Govt of India. The depreciation is accordingly reworked.

- 43. Accordingly, as shown above, the depreciation attributable to assets created out of accumulated surplus is deducted from the depreciation claimed by the licensee. Accordingly, against a claim of Rs.76.68 lakh in the truing up petition, the Commission approves a depreciation of Rs.33.85**

lakh for the year 2018-19. In this context it is mentioned that the Commission has approved only Rs.405.45 lakh for the solar PV plant, but the licensee has booked Rs.508.80 lakh as the value of asset. 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. Further, as mentioned in para 34 of this Order, the licensee shall follow up the issue with MNRE and to file a status report within 3 months from the date of this order.

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 2018-19

Return on Net Fixed Assets:

45. The licensee had claimed Return on NFA of Rs.37.79 lakh in the petition for truing up for the year 2018-19. The Commission had approved a return of Rs.21.86 lakh in the order on ARR&ERC which was 3% of the net fixed assets. The licensee has stated that the claim is 3% of the net fixed assets at the beginning of the year. As per sub-regulation (2) of Regulation 28, 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. Accordingly, the licensee is eligible for return on NFA only. The licensee claimed the on NFA as per the petition as shown below:

Table 17

NFA at the beginning of the year as per the petition

As per the Petition	2018-19 (Rs. Lakh)
GFA at the beginning of the year 2018-19	1922.02
Cumulative depreciation as on the beginning of the year	662.33
Net Fixed Assets at the beginning of the year	1259.69

46. While truing up the accounts for the year 2017-18, the Commission had approved an amount of Rs.21.57 lakh as claimed by the licensee. The licensee worked out return on NFA as shown below:

Table 18

Return on Equity for the year 2017-18 and 2018-19 (proposed)

Particulars	2017-18	2018-19
	As per Truing Up Petition /approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)

Net fixed assets at the beginning of the year	719.07	1259.69
Eligible Net Fixed assets on which Returns can be allowed	719.07	1259.69
3% on Net fixed assets	21.57	37.79

47. 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.1259.69 lakh. However, as noted in the previous section, the licensee has created assets from 2016-17 using the accumulated surplus. Since the same has no cost of funds, the return on NFA is not allowable for the said assets. Accordingly, the NFA eligible for return is as shown below:

Table 19
NFA eligible for return

Asset Group	GFA at the beginning of the year	Cumulative depreciation upto the beginning of the year	Net fixed Assets
	Rs.lakh	Rs.lakh	Rs.lakh
Land & land rights			
Distribution lines	496.79	273.43	223.36
11KV RMU	114.17	0.05	114.12
Plant & machinery(11KV RMU)	9.84	1.1	8.77
110 kV Sub-station equipment	-	-	-
Switchgears, Control gear & Protection	510.09	269.70	240.39
LT Distribution system	15.56	2.80	12.76
Transformers	3.50	0.99	2.51
Switchgears, Control gear & Protection	1.35	0.54	0.81
Communication equipment	54.41	12.39	42.02
Meters	164.75	76.42	88.33
Furniture & fixtures	0.44	0.16	0.28
Office Equipment	8.88	0.83	8.05
New software for prepaid metering	33.43	6.22	27.21
Solar PV Plant	405.45	14.12	391.33
Gross Asset	1,818.67	658.73	1,159.94
Less Assets added using accumulated surplus			-
2016-17	58.55	6.22	52.33
2017-18	527.11	14.17	512.94
Net Asset considered for Return	1,214.71	638.34	594.67

48. **Accordingly the Commission approves Rs.17.84 lakh (3% of Rs.594.67 lakh) as return on the basis of net fixed assets for the year 2018-19**

49. **Gross Revenue requirements:** Based on the above, the Gross revenue

requirement for the year 2017-18 after truing up is as shown below:

Table 20
Gross Revenue Requirements after truing up for 2018-19

Particulars	2018-19		
	ARR &ERC approved (Rs.lakhs)	Truing up petition (Rs.lakh)	Trued Up (Rs lakh)
Purchase of Power	3,374.89	3,435.90	3,413.42
Employee Cost	192.18	12.24	187.78
R&M Expenses		137.58	
A&G Expenses		29.16	
Depreciation	72.03	76.68	33.85
Return on NFA	21.86	37.79	17.84
Total Expenditure	3,660.96	3,729.35	3,652.89

Revenue from Sale of Power:

50. The total revenue from sale for power is Rs.3556.29 lakh for 559.11 lakh units against approved revenue from sale of power of Rs.3490.34 lakh for 554.80 lakh units as approved in the Order on ARR.As per the application, the major revenue is from the sale to the HT – Industrial [HT-I(A) & I(B)] category. Compared to the previous year there is an increase in the sales and decrease the revenue from the sale. A category wise comparison of the revenue from sale of power for the years 2017-18 & 2018-19 is as shown below.

Table- 21
Details of Revenue from Sale of Power for 2018-19

Category	For Truing Up 2017-18 (Rs. lakh)			For Truing Up 2018-19 (Rs. lakh)		
	Sales In lakh Units	Revenue from sale	Average Realisation	Sales In lakh Units	Revenue from sale	Average Realisation
HT – Industrial [HT-I(A) & I(B)]	458.44	2909.48	6.35	454.71	2880.49	6.33
HT- Agricultural [HT-III(B)]	13.80	49.06	3.55	13.00	47.26	3.64
LT – Industrial [LT-IV(A) & IV(B)]	77.80	561.28	7.21	85.48	591.21	6.91
LT – Commercial [LT-VII(A)]	0.98	10.62	10.83	2.54	27.65	10.88
LT – Other categories [LT-VI(A),VI(B),VI(D),VI(F) VIII(B)]	2.90	27.38	9.44	3.38	30.70	9.08
Gross Amount	553.90	3557.82	-	559.11	3577.32	-
(Less) Fuel Surcharge	-	0.00	-	-	21.03	-
Total	553.90	3557.82		559.11	3556.29	

51. The Commission approves the actual energy sales of 559.11 lakh units and the revenue from sale of power of Rs.3556.29 lakh as per the petition for the year 2018-19.

Non- Tariff Income:

52. The non-tariff income accounted by the licensee for the year 2018-19 is Rs.114.60 lakh as against the approved amount of Rs 112.13 lakh. The split-up details of Non-Tariff income claimed are shown below.

Table 22
Details of Non-Tariff Income for the year 2017-18 and 2018-19

Particulars	2017-18 As per Truing Up Petition (Rs. lakh)	2018-19 As per Truing Up Petition (Rs. lakh)
Interest on investments, fixed and calls deposits and bank balances.	83.34	92.69
Interest on advances on KSEBL	22.11	19.57
Miscellaneous Receipts	4.88	0.02
Commission for collection of electricity duty	1.51	1.37
Meter/service line rentals	0.92	0.94
Grand Total	112.76	114.60

53. As per the details submitted, the non tariff income include interest on fixed and bank balances, interest on advances, commission for collection of electricity duty etc. The claim of the licensee for the year 2018-19 is slightly higher than the actual non-tariff income in 2017-18. There is significant decrease in the income from miscellaneous receipts during the year 2018-19 and the Commission sought clarification in this regard. The licensee stated that Miscellaneous receipts under non tariff income for 2018-19 consists of Rs.450/- as application fee and Rs.1500/- as testing Charges, rounded to Rs.2000/-. In the year 2017-18, Miscellaneous receipts under non tariff income was Rs.4,88,116/- which included Rs.4,50,816/- as fine imposed for unauthorized usage of power and balance consisting of application fee and testing charges. Thus it can be seen that major difference between 2017-18 and 2018-19 is the fine imposed for unauthorized usage of power in 2017-18, which is not in 2018-19.

54. The accumulated surplus after truing up at the end of the year 2016-17 was Rs. 1208.88 lakh. The revenue gap approved for the year 2017-18 after truing up was Rs.11.93 lakh. Thus, the accumulated revenue surplus at the beginning of the year 2018-19 is Rs.1196.94 lakh. However, the licensee has stated that the capital investment from 2016-17 is made from the accumulated surplus. Thus a total of Rs.707.37 lakh (Rs.58.55 in 2016-17, Rs.630.52 lakh in 2017-18 and Rs.18.30 lakh in 2018-19) is used for capital investments. The licensee has claimed Rs.92.69 lakh as the Interest on investments, fixed and calls deposits and bank balances. Considering the balance revenue surplus available the interest income shown is reasonable. Hence, ***the Commission approves the actual non tariff income of Rs.114.60 lakh as claimed by the licensee for***

truing up of accounts of 2018-19

Total Income

55. Based on the above, the total income for the year 2018-19 after truing up is as shown below.

Table – 23
Total Income approved after truing up for 2018-19

Particulars	2018-19		
	ARR Approved (Rs lakh)	As per petition (Rs lakh)	Trued up (Rs lakh)
Revenue from Sale of Power.	3490.34	3556.29	3556.29
Other Income	112.13	114.60	114.60
Total Income	3602.47	3670.89	3670.89

Summary of Truing up of Accounts 2018-19

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

Table 24
Details of amounts approved in Truing up for the year 2018-19

Particulars	2018-19		
	ARR Approved (Rs lakh)	As per petition (Rs lakh)	Trued up (Rs lakh)
Income			
Revenue from Sale of Power.	3490.34	3556.29	3556.29
Other Income	112.13	114.60	114.60
Total Income	3602.47	3670.89	3670.89
Expenses			
Purchase of Power	3,374.89	3,435.90	3,413.42
Employee Cost		12.24	187.78
R&M Expenses	192.18	137.58	
A&G Expenses		29.16	
Depreciation	72.03	76.68	33.85
Return on NFA	21.86	37.79	17.84
Total Expenditure	3,660.96	3,729.35	3,652.89
Revenue surplus/gap(-)	-58.49	-58.46	18.00

Orders of the Commission

57. The Commission after considering the petition filed by M/s. CSEZA for truing up of accounts for the year 2018-19, comments raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following;

- a. The total expenditure is Rs.3652.89 lakh
- b. The total revenue is Rs.3670.89 lakh

- c. The revenue surplus for the year 2018-19 is Rs.18.00 lakh.
- d. The cumulative revenue surplus at the beginning of the year 2018-19 was Rs.1196.94 lakh (Rs.1208.88 lakh-Rs.11.94 lakh). The accumulated revenue surplus thus, at the end of the year would be Rs.1214.94lakh. However, the licensee has made investments to the tune of Rs.707.37 lakh was used for capital expenditure. Thus the balance available surplus is Rs. 507.57 lakh (Rs.1214.94 lakh – Rs.707.37 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.
- e. As mentioned in para 34 of this Order, the licensee shall follow up the issue with MNRE and to file a status report within 3 months from the date of this order.
58. The petition is disposed of. Ordered accordingly.

Sd/-
Preman Dinaraj
Chairman

Approved for issue
Sd/-
Secretary(i/c)