KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

OA 01/2020

In the matter of Truing up of accounts of M/s Rubber Park India Private Limited (RPIL) for the financial year 2017-18

Applicant : **M/s Rubber Park India Private Limited**

Respondent : **M/s Kerala State Electricity Board Limited**

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

ORDER DATED 24-03-2020

1. M/s.Rubber Park India (P) Limited (*hereinafter referred to as RPIL or the Licensee*), is a distribution licensee under the Electricity Act, 2003 for distribution to the Industrial units within the industrial park at Valayanchirangara near Perumbavoor in Ernakulam District.

2. The Commission had on 03-09-2015 issued order on OA 10/2015 approving the ARR & ERC of the licensee for the first control period (2015-16 to 2017-18). The licensee based on the provisions of the KSERC (Terms and Conditions for determination of tariff) Regulations 2014 (hereinafter referred to as Tariff Regulations 2014) filed the petition for revising the ARR & ERC for 2017-18 and Commission had revised ARR&ERC for the year 2017-18 vide order dated on 13-07-2017.

3. The licensee vide letter No. RP/F/04/13527 dated 18th February 2019 has filed a petition for the truing up of accounts for the financial year 2017-18. A comparison for the years 2016-17 and 2017-18 as per the approved ARR and application for truing up is tabulated hereunder.

Table-1
Comparison of Truing Up of accounts for the year 2016-17 and 2017-18

Particulars	2016-17		2017-18		
	As per Truing Up Petition (Rs. lakh)	Approved in Trued Up (Rs. lakh)	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	Difference (Rs. lakh)
Cost of Purchase of Power	1759.45	1759.08	1486.70	1589.60	102.9
Repair and Maintenance cost	31.35	28.88	27.26	33.87	6.61
Employee Cost	55.26	37.86	29.24	58.74	29.5
Administrative & General Expenses	47.07	19.07	20.19	48.50	28.31
Depreciation	47.35	47.35	50.05	49.94	(-0.11)
Interest on Normative loan	67.62	-	32.17	39.26	7.09
Other Interest & Finance Charges	1.29	1.29	2.19	0.94	(-1.25)
Return on Equity	41.83	40.57	37.93	42.16	4.23
Aggregate Revenue Requirement	**2051.22**	**1934.10**	**1685.73**	**1863.01**	**177.28**
Less Non-Tariff income	0.61	14.76	8.30	0.60	(-7.7)
Less income from wheeling charges	0.19	0.19	0.04	0.21	0.17
Aggregate Revenue Requirement from Tariff	**2050.42**	**1919.15**	**1677.39**	**1862.2**	**184.81**
Revenue from existing tariffs	**1905.67**	**1905.67**	**1693.39**	**1871.33**	**177.94**
Revenue (Gap)/Surplus	**(144.76)**	**(13.48)**	**16.00**	**9.13**	**(-6.87)**

4. In the application, the licensee has arrived at a **revenue surplus of Rs.9.13 lakh** for the year 2017-18 as against a revenue surplus of Rs.16.00 lakh approved by the Commission in the revised ARR order dated 13-07-2017.
5. After receiving the petition, the Commission has sought clarification vide letter dated 13-01-2020 and the licensee has furnished the clarification as on 23-01-2020

Hearing on the matter

6. Public hearing on the petition was held at the Court Room, Office of the Commission on 28-01-2020. M/s Rubber Park India (P) Ltd. was represented by Sri.J.Krishna Kumar MD and Sri. Anees. T.M., Resident Engineer. Sri, Anees, presented the details of the petition for truing up of accounts.

   The main points in the petition made by RPIL are:-

   - The energy sale as per the petition for 2017-18 is 296.30 lakh units, the energy purchased is 302.10 lakh units and the distribution loss for the year is 1.94%. The efficiency gain with regard to the reduction in the distribution loss over the approved level may be passed on to the licensee.

- The power purchase cost for the year 2017-18 is Rs.1589.60 lakh for a purchase of 302.10 lakh units.
- The employee cost booked for the year 2017-18 is Rs.58.74 lakh
- A&G expense claimed is Rs.48.50 lakh, which includes Rs.17.80 lakh under Section 3(1) Duty. The increase in the licence fee and legal fee are to be approved as onetime expense incurred under A&G expenses.
- The Repair and maintenance cost incurred for the year 2017-18 is Rs.33.87 lakh of which Rs.29.01 lakh, was the cost paid to the O&M contractor. Rs.2.62 lakh was claimed as onetime expense towards the repair charges of distribution transformer.
- The depreciation claimed as per the application is Rs.49.94 lakh.
- The interest and financing charges of Rs.40.20 lakh claimed in the application for truing up for 2017-18 includes interest on normative loan of Rs.39.26 lakh and Rs.0.94 lakh as bank charges for the security provided to KSEB Ltd.
- Rs.42.16 lakh is claimed as RoE, which is calculated at the rate of 14% on 30% of the opening gross fixed asset during the year 2017-18.
- The licensee has accounted total revenue from sale for power of Rs.1871.33 lakh for a sale of 296.30 lakh units and a wheeling charge of Rs.0.21 lakh for wheeling power to M/s M Fuel.
- The non-tariff income booked is Rs 0.60 lakh which includes miscellaneous receipts and commission for collection of electricity duty.
- There is a revenue surplus of Rs.9.13 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:

- The claim of the licensee on the Operation and Maintenance cost such as R&M expenses, Employee cost and A&G expenses are higher than the same approved by the Commission. Hence, the Operation and Maintenance cost may be limited to the norms fixed by the Commission.
- The Commission may take uniform approach regarding Electricity Duty under section 3 of Electricity Act and the claim of the licensee on Electricity duty may be disallowed.
- RPIL has claimed the interest on normative loan of Rs. 39.26 lakh. Commission may disallow the amount as decided in review orders issued by the Commission.

- There is a significant decrease in the non-tariff income booked by the licensee as the licensee has not included the interest on security provided with KSEB Ltd and the interest on accumulated surplus as part of non-tariff income.
- The quantum of energy purchased and the energy charges for 2017-18 claimed by the licensee shows slight difference with the accounts of KSEB Ltd. The demand charges remain the same.

8. During the hearing, the Commission sought the following clarifications

1. Whether input tax credit is availed for the GST, if not, the reason for the same.
2. Whether the medical reimbursement claim under employee costs is a provision or actual payment. If so the details.

9. The Commission directed the licensee to submit the details, if any, within two weeks so as to substantiate the claims made in the application for the truing up of accounts for the year 2017-18. The licensee vide letter No. RP/F/04/14141 dated 26-02-2020 has submitted the replay to clarifications sought by the Commission.

Analysis and decision of the Commission

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

Sales and Consumer mix: -

11. The Commission noted that during 2017-18, the licensee had purchased 302.10 lakh units from KSEBL. The energy sale as per the application for truing up for 2017-18 is 296.30 lakh units as against the approved sale of 274.50 lakh units as per ARR order. It may be seen that the actual sale for the year is lower than the previous year. Compared to the previous year, there is a decrease in the sales by about 6%.A comparison of the actual sale of power for the different consumer categories for the year 2016-17 and 2017-18 is given below

Table-2

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

Category	As per Truing Up Petition 2016-17		As per Truing Up Petition 2017-18	
	No. of consumers	Energy sold in lakh units	No. of consumers	Energy sold in lakh units
HT Consumers	16	293.90	16	269.50
LT IV	20	19.70	23	25.00
LT VI B	1	0.10	1	0.10
LT VI C	1	0.10	1	0.04
LT VI F			2	0.96
LT VII A	16	1.20	14	0.45
Street light	1	0.20	1	0.20
Total	**55**	**315.20**	**58**	**296.30**

12. As per the petition for truing up for the FY 2017-18, the major - sale of 269.5 lakh units is towards the HT category which consists of 16 consumers and is about 91% of total sale of power. It may be seen that the sale to HT Consumers for the year is lower than the previous year. According to the licensee, the reduction in demand is attributed to the after effects of demonetization and teething problems of GST, which affected the industrial growth. After analyzing the details, the Commission approves the actual energy sales of 296.30 lakh units as per petition for the purpose of truing up for the financial year 2017-18.

Distribution loss: -

13. The distribution loss as per the licensee application for truing up for the year 2017-18 is 1.94%. The Commission had approved a distribution loss of 2.00% for the year as per the order on ARR&ERC. The details as presented by the licensee are tabulated below:

Table-3
Comparison of Distribution loss

Particulars	As per Truing Up Petition 2016-17	Approved in Trued Up 2016-17	Approved in ARR 2017-18	As per Truing Up Petition 2017-18
Total Energy Sales (lakh units)	315.20	315.20	274.60	296.30
Energy Requirement(lakh units)	322.20	321.50	280.20	302.10
Distribution loss (lakh units)	7.00	6.30	5.60	5.80
Distribution loss %	**2.20%**	**2.00%**	**2.00%**	**1.94%**

14. The Commission notes that M/S M Fuel is drawing energy from KSEBL through RPIL distribution system through open access. However the licensee has estimated the distribution loss based on the net energy input (net of wheeled energy), i.e., energy wheeled through their system to M/s M fuel has not been taken into consideration while estimating the losses. Since the energy wheeled is through the RPL distribution system, the same has to be accounted for estimation of distribution loss. Though, the Commission has sought the details of wheeled energy, the licensee has furnished only the net billed energy of M/s M fuels. ***The licensee is hereby directed that henceforth they shall show the energy input including the energy used for wheeling and also the wheeled energy as per the consumer meter, for properly accounting of the distribution loss***. As per the details furnished by the licensee, the energy wheeled in the year is 0.66 lakh units for M/s M Fuels. Based on the information furnished by the licensee, the distribution loss is reworked as shown below:

Table-4

Approved distribution loss for 2017-18

Particulars	Approved for the year
Total Energy Sales including wheeled energy (lakh units)	296.96
Energy input (including wheeled energy) (lakh units)	302.76
Distribution loss (lakh units)	5.80
Distribution loss %	1.92%

15. As shown above, the actual distribution loss reported by the licensee @ 1.94% is slightly lower than the level approved by the Commission. Since distribution loss is a controllable parameter and there is an efficiency gain, the licensee can retain a portion of this efficiency gain as per the provisions of clause 74(4) of the Tariff Regulations 2014. The relevant portions of the regulation is shown below:

"74*. Distribution loss:.......*

....

(4) Any variation between the actual level of distribution loss and the approved level of the distribution losses shall be dealt with, as part of the truing up of the respective financial year in the following manner:-

(a) if the actual distribution loss is higher than the approved level of distribution loss for any particular financial year of the control period, then the quantum of power purchase corresponding to the excess distribution loss for that financial year shall be disallowed at the average cost of power purchase for the respective financial year;

(b) if the actual distribution loss is lower than the approved level of distribution loss for any particular financial year of the control period, then the savings in the power purchase cost corresponding to the

difference in distribution loss for that financial year at the average cost of power purchase for the respective financial year, shall be shared between the distribution business/licensee and the consumers in the ratio of 2:1"

16. ***The Commission hereby directs that, efficiency gain on distribution loss has to be shared in the ratio of 2:1 between the licensee and consumers i.e., 2/3rd of gain is to be retained by the licensee and 1/3rd is to be passed on to the consumers***.

Power purchase Cost: -

17. The power purchase cost for the year 2017-18 as per the licensee's application is Rs.1589.60 lakh for the purchase of 302.10 lakh units. The Commission in the licensee's ARR for 2017-18 had approved a purchase of 280.20 lakh units at a cost of Rs.1486.70 lakh. The licensee has stated that the increase in the power purchase cost over the approved level is due to the increase in the actual quantity of purchase during the year. The details of the claim made by the licensee are shown below.

Table-5
Power Purchase Cost claimed for 2017-18

Particulars	Approved ARR 2017-18	As per Truing Up Petition 2017-18
Energy purchase (lakh units) (A)	280.20	302.1
Contract Demand (kVA) (B)	5883	6628
Demand Charge (Rs. kVA) (C)	300	300
Demand Charges (Rs in lakh) (D)	211.79	215.24
Energy Charge (Rs/kWh) (E)	4.55	4.55
Energy Charges (Rs in lakh) (F)= (A) x (E)	1247.91	1374.36
Total Power Purchase Cost (Rs in lakh) (G)= (F)+(D)	**1486.70**	**1589.60**
Average Power Purchase Cost (Rs./ Per unit) (H)= (G)/ (A)	**5.30**	**5.26**

18. As mentioned above, as per clause 74(4) of the Tariff Regulations 2014, the licensee is required to pass on 1/3rd of the efficiency gain to the consumers and balance 2/3rd can be retained by the licensee. Accordingly, the power purchase cost for the year 2017-18 duly considering the Regulation 74(4) of Tariff Regulations 2014 is as shown below:

Table-6

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

Actual Energy loss (lakh units)	1.92%	5.80
Energy loss at approved distribution loss (lakh units)	2%	6.05
Efficiency gain (lakh units)		0.25
Efficiency gain at average power purchase cost (Rs. lakh) (0.25lakh units x Rs.5.26/unit)		1.315
Efficiency gain to be retained by licensee (2/3rd) (Rs. lakh)		**0.88**
Actual Power purchase cost (Rs. lakh)		1589.60
Approved Power purchase cost (Rs. lakh)		**1590.48**

19. The distribution loss as per the approved ARR at 2% would amount to a loss of 6.05 lakh units. However the actual distribution loss was 5.80 lakh units only, showing an efficiency gain of 0.25 lakh units over the approved level. Of these 0.25 lakh units, 2/3rd is to be retained by the licensee and balance 1/3rd passed on to the consumers as reflected in the reduction in power purchase cost. The total efficiency gain at average power purchase cost is Rs.1.315 lakh (0.25 lakh units x Rs.5.26/unit). In other words the power purchase cost at the approved distribution loss would have been Rs.1590.92 lakh (Rs.1589.60 lakh + Rs 1.315 lakh). Out of the total efficiency gain of Rs.1.315 lakh, 1/3rd (Rs.0.44 lakh) is passed on to the consumers as reduction in power purchase cost and 2/3rd (Rs.0.88 lakh) is retained by the licensee. The Commission hereby approves the total power purchase cost approved for the year 2017-18 at Rs.1590.48 lakh.

Renewable Energy Certificates: -

20. The licensee has neither met there RPO nor purchased REC during 2017-18. In reply to the clarification sought by the Commission, the licensee submitted the following reply :

“The Hon. CERC had fixed the floor and forbearance price of the solar and non solar RE Certificate vide the order dated 30.03.2017. The Hon. Supreme court of India had granted stay on the CERC order dated 30.03.2017 in petition no. 2/SM/2017 vide order dated 08.05.2017 in civil appeal no. 6083/2017 and 6334/2014. As such the CERC had advised the energy exchanges to suspend the trading session in respect of both solar and non solar REC. The trading of non solar RECs resumed on September 2017 as per the orders of CERC. However, the solar REC trading remained suspended. The Honorable Central Electricity Regulatory Commission (CERC) vide its letter dated 23rd April, 2018 (copy attached), has lifted the stay on solar RECs and directed the Energy Exchanges to resume the trading in RECs in view of the Hon. APTEL's Order dated 12.04.2018. The trading of the Solar RECS was resumed by the Energy Exchanges only in May 2018. In the

mean time, the company had taken the matter of assigning the RP Obligation of the small distribution licensees in the state through KSEB Ltd in the co ordination meeting held on 17/12/2018. As such, the company had further requested KSEB Ltd to meet the Renewable Power Purchase obligation of Rubber Park from the year 2017-18 onwards vide the letter dated 14.04.2019 based on the minutes of the coordination forum. KSEB Ltd vide the letter dated 28.05.2019 informed that the request can be considered from 2021-22 onwards only. In this context, we humbly request that the Hon. Commission may kindly accord approval to carry forward the RP obligation of the year 2017-18 to the next control period."

21. The Commission examined the reason given by the licensee regarding non-compliance of RPO. The licensee has stated the inability to purchase REC on account of suspension and subsequent resumption of trading in REC as the reason. Further for meeting the obligation for the year 2017-18, the licensee wrote to KSEB Ltd on 14-04-2019 based on the decision in the Co-ordination Committee meeting. However, it is clear that the licensee has not made any effort towards purchase or generation of renewable energy during 2017-18 for meeting RPO. ***Further the statement that they had taken up the issue with KSEBL is an afterthought and done much after the close of the financial year 2017-18. Hence the Commission rejects the licensee's contention on this account***. The Commission has also mentioned that purchase of REC is to be resorted only as the last option for meeting REC and only after exploring purchase or generation of renewable energy. In this regard, the explanation given by the licensee is neither convincing nor accepted. ***The request of the licensee to carry forward the RPO of 2017-18 for future year will be considered by the Commission while taking up the RPO compliance exercise of the licensee and subject to the licensee submitting and getting approval of the Commission for a RPO fulfillment time table within the next 3 months.***

Operation & Maintenance expenses:-

22. Operation & maintenance expense includes controllable expenses like Employee cost, Repair & Maintenance Expenses & Administrative & General Expenses. The Commission as per the Regulation 5 of the Tariff Regulations, 2014 has stated that the norms of operation specified are the ceiling norms. The Commission as per Regulation 81(5) of the Tariff Regulations, 2014 has approved the Operation & Maintenance cost of RPIL for 2017-18. RPIL has claimed the O&M expense for 2017-18 over and above the ceiling level specified in the Regulations. The comparison of the claim and the norms approved in the Regulations is tabulated hereunder.

Table-7
Comparison of the O&M expenses for 2017-18

O&M Expenses	As per the Regulations	As per Truing Up Petition 2017-18
Employee expenses (Rs. lakh)	29.24	58.74
R&M expenses (Rs. lakh)	27.26	33.87
A&G expenses (Rs. lakh)	20.19	48.50
Total O&M expenses (Rs. lakh)	**76.69**	**141.11**

23. Each of these items is discussed below:

Employee Cost: -

24. The employee cost incurred by the licensee for the year 2017-18 is Rs.58.74 lakh as against an approved employee cost of Rs.29.24 lakh. The split up of the employee cost for 2016-17 and 2017-18 as per the truing up petition is shown below.

Table-8
Comparison of employee cost for the year 2016-17 and 2017-18

Particulars	As per Truing up Petition 2016-17 (Rs. lakh)	Trued Up 2016-17 (Rs. lakh)	Approved ARR 2017-18 (Rs. lakh)	As per Truing up Petition 2017-18 (Rs. lakh)
Basic Salary	20.22	37.86	29.24	25.18
Dearness Allowance (DA)	16.72			15.73
House Rent Allowance	1.58			1.66
Conveyance Allowance	0.26			0.88
Earned Leave Encashment	3.46			5.03
Other Allowances/Festival Allowance	0.13			0.19
Medical Reimbursement	2.88			3.64
Interim Relief / Wage Revision	5.50			0.00
Staff welfare expenses	0.30			0.32
Net Employee Costs	**51.04**			**52.62**
Provident Fund Contribution	3.72			4.67
Gratuity Payment	0.49			1.45
Gross Employee Expenses	**55.26**	**37.86**	**29.24**	**58.74**

25. As shown in the table above, the actual employee cost for the year 2017-18 is higher than the approved level of expenses. According to the licensee the higher employee cost is due to the reason of appointment of a full time Managing Director and pay revision effected during the previous year.

26. The licensee has also furnished the details of sanctioned strength, category wise number of permanent and contract employees working, pay scale, grade for the last 7 years. The summary of the categorization of employees and allocation details by the licensee for the distribution business is given below:

Table-9
Apportionment details of employee cost

	Allocation (%)	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Managing Director	50%	Incharge	Incharge	Incharge	Incharge	Working	Working	Working
Asst/Dy Manager	100%	Working	Working	Working	Working	Working	Working	Working
Asst. Company secretary	60%	Working	Working	Working	Working	Working	Working	Working
Asst. Manager (HR)	50%	Working	Working	Working	Working	Working	Working	Working
Resident Engineer	100%	Working	Working	Working	Working	Working	Working	Working
Asst Resident Engineer	100%	Nil	Working	Working	Working	Working	Nil	Working
Accounts Officer	100%	Nil	Working	Working	Working	Working	Nil	Working
Electrician	100%	Working	Working	Nil	Working	Nil	Nil	Nil
Electrical supervisor	100%	Working	Nil	Nil	Nil	Nil	Nil	Nil
Accountant	100%	Working	Nil	Nil	Nil	Nil	Nil	Nil
Receptionist cum accountant	100%	Working	Working	Nil	Nil	Nil	Nil	Nil

27. As per the details submitted, the licensee has apportioned 50% of the salary of the Managing Director towards distribution business. The salary and allowances claimed by the licensee is inclusive of the wage revision effected in the previous year. According to the licensee, the Pay revision resulted in an average hike of 5% in the salary of employees in the year 2012-13 compared to the year 2011-12. As per the estimates of the licensee, additional expense on account of revised pay is Rs.3.01 lakh in 2017-18. The licensee requested to allow the additional expenses towards the salary of the full time Managing Director and wage revision as part of the employee expenses.

28. The licensee has also furnished the details medical reimbursement booked under the employee cost. The licensee has apportioned the expense on the basis of actual payment. The details of medical reimbursement paid during the year are given below.

Table - 10

Details of medical Reimbursement paid during the year 2017-18

Designation	Medical reimbursement paid (Rs. lakh)	Proportion charged to Licensee Business	Amount in Truing up (Rs. lakh)
Managing Director	0.65	0.5	0.33
CFO & CS	0.99	0.6	0.59
Electrical Engineer	0.57	1	0.57
Manager Technical	1.03	1	1.03
Asst. Manager (Admin)	0.86	0.5	0.43
Accounts Office	0.54	1	0.53
Asst. Resident Engineer	0.14	1	0.14
Total			3.64

29. The Commission has examined the submission of the licensee. ***It is seen that the medical reimbursement expense is significantly high which is not desirable. Further it is not clear as to whether this reimbursement has been considered while computing the income for tax purpose.*** The Commission had allowed in 2016-17, the additional cost on account of wage revision and also the share of the salary of the Managing Director, as part of the truing up process. The Commission is of the view that the same methodology needs to be adopted for approving the employee cost in 2017-18 also. The net apportioned salary approved for the full time Managing Director for the year 2016-17 was Rs.4.74 lakh. Based on the escalation rate of 5.85% considered in the Tariff Regulations 2014 the approved salary for full time MD would Rs.5.02 lakh for the year 2017-18. Similarly, the impact of wage revision as per the estimate of the licensee is Rs.3.01 lakh. Thus, the normative employee cost approved including the salary of full time managing director and wage revision for the year 2017-18 would be Rs.37.27lakh (Rs.29.24 lakh+Rs.5.02 lakh+Rs.3.01lakh).

Table – 11

Employee cost allowed for truing up for 2017-18

Particulars	Approved ARR (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
Gross Employee Cost	29.24	58.74	37.27

A&G expenses

30. ARR expense claimed is Rs.48.50 lakh which is Rs.28.31 lakh higher than the approved amount. The Commission has approved an amount of Rs.20.19 lakh in the ARR& ERC for the year 2017-18.

Table- 12
Details of A&G Expense for the year 2016-17 and 2017-18

Particulars	As per Truing up Petition 2016-17 (Rs. lakh)	Trued Up 2016-17 (Rs. lakh)	Approved ARR 2017-18 (Rs. lakh)	As per Truing up Petition 2017-18 (Rs. lakh)
Rent Rates & Taxes	0.48	19.07	20.19	0.90
Insurance	2.80			4.83
Telephone & Postage, etc.	0.47			0.35
Legal charges	0.31			1.03
Audit Fees	0.80			1.18
Consultancy charges/ Truing up Audit fee	0.50			-
Other Professional charges	0.57			-
Conveyance	0.39			0.78
Vehicle Running Expenses Truck / Delivery Van	9.26			4.28
Electricity charges	1.20			1.09
Water charges	0.10			0.74
Printing & Stationery	0.71			-
Advertisements, exhibition publicity	0.38			1.12
Training expenses	0.28			0.12
Miscellaneous Expenses	0.09			1.14
Office Expenses	1.62			0.22
License Fee and other related fee	0.64			3.01
V-sat, Internet and related charges	0.19			0.18
Security arrangements	6.63			9.15
Others	0.75			0.57
Gross A&G Expenses	**28.15**			**30.70**
Ele. Duty u/s 3(I), KED Act	18.92			17.80
Net A&G Expenses	**47.07**	**19.07**	**20.19**	**48.50**

31. The major expense item booked under A&G expense is the electricity duty payable by the licensee to the Government under Section 3(1) of the Kerala Electricity Duty Act 1963 which is Rs.17.80 lakh. The A&G expenses excluding the claim under Section 3(1) duty is Rs.30.70 lakh.

32. Another major expense is Rs.9.15 lakh towards security arrangements, Rs.3.01 lakh license fee and other related fee and Rs.4.83 lakh towards insurance. In the petition, it is stated that the company had outsourced the security services through competition tendering process after 2011-12. The company is forced to provide minimum salary as stipulated in the Minimum wages Act for the persons engaged for the security services. This resulted in hike of 98% in the security service charges of the licensee. The licensee further stated that the hike in security charges was due to tendering of security services. Regarding the increase in insurance cost, the licensee stated that the company is following the practice of revision of the sum insured of the equipment to cover the present cost of equipment. Thus, the licensee submitted that hike in security charges and insurance expenses are to be approved as onetime expenses incurred for the year 2017-18. According to the licensee, the approved A&G expenses in the ARR order are arrived at based on the actual expenses of the licensee during the year 2011-12 which is inadequate for the smooth functioning of the licensee operations. The licensee also claims that the hike in the O&M costs due to tendering of security services was not reflected in the normative O&M expenses fixed in the MYT regulation and hence the fixation of normative O&M expenses based on the actual expenses of 2011-12 was not adequate for the functioning of the licensee.

33. In reply to the clarification sought on the major expense under A&G, the licensee vide letter date on 23-01-2020 has submitted that introduction of GST has resulted in 3% hike in tax. The licensee claims that the tax applicable for the service provided by the outsourced agency was increased from 15% to 18%. Consequent to this, there is an additional expenditure of Rs.37845 for 9 months. The licensee has clarified that they have not availed input tax credit as per the provision of CGST Act and it has allocated to the GST expenses of distribution business on the basis of total turnover. The licensee further pointed out that, as per Regulation 13(1) of the Tariff Regulations 2014, change in tax is uncontrollable factor and hence the same is to be considered. The licensee has further stated that the increase in license fee and other related fee due to Revised ARR petition and Review petition of Truing Up contributed to increase in A&G expenses.

34. The Commission has examined the contentions of the licensee regarding A&G expenses. The licensee has claimed additional expenses under A&G expenses over and above the normative expenses on account of increase in taxes (GST), insurance expenses, security charges and other fees (licence fee etc.,).The licensee has repeatedly argued that ‘competitive tendering process’ has increased the cost towards security charges and R&M expenses. However, this statement of the licensee is contrary to the generally accepted business scenario. Commission cannot be accept such arguments of the licensee. As per the provisions of the Regulations, A&G expenses are controllable. Further, most of the items under A&G expenses are apportioned expenses, some of which are unrelated to distribution operations. As per the provisions of the Regulations, the controllable expenses are allowed to increase based on the escalation rate of 5.85% fixed in the Regulations. It is a well established principle that competition will bring in reduction in costs and hence the argument that 'competitive tendering' has increased the cost cannot be acceptable. Any increase due to implementation of the minimum wages under Minimum Wages Act can be allowed. However, since the licensee has not quantified this increase, the Commission cannot estimate its impact and hence the claim is not possible to be allowed. Similar is the case with insurance expenses. Regarding, GST, the licensee has estimated the additional expenses as Rs.0.38 lakh. The same is allowed in addition to the normative expenses. ***The Commission hereby directs that the licensee shall segregate common expenses such as security service charges, printing and stationery and postage charges etc., towards the distribution business in further truing up submissions.***

35. The licensee has booked Rs.17.80 lakh towards Electricity Duty under A&G expenses. The Commission in the previous orders had stated that Duty under section 3 cannot be passed on to the consumers in view of the statutory provisions of the Kerala Electricity Duty Act, 1963.

36. Accordingly, after duly considering the cost due to implementation of GST of Rs.0.38 lakh, A&G expenses for the year 2017-18 would be Rs.20.57 lakh (Rs.20.19 lakh + Rs.0.38 lakh)

R & M Expenses: -

37. The Repair and maintenance cost incurred by the licensee for the year 2017-18 is Rs.33.87 lakh as against the approved cost of Rs. 27.26 lakh. The expense is for the maintenance of lines and cable works. The license in the application has submitted that the hike in the R&M cost was due to the tendering of R&M operations and cost due to implementation of GST. According to the licensee, the increase in the cost was not reflected in the normative R&M expenses fixed in the regulations. The split up of the R&M is as shown below.

Table-13
Details of R&M expenses for the year 2017-18

Particulars	Approved ARR (Rs. lakh)	As per Truing Up Petition (Rs. lakh)
Service Bill of O&M of substation (M/s. Electrotek)		29.01
General Repair & Maintenance	27.26	2.24
Repair charges of distribution transformer		2.62
Gross R&M Expenses	27.26	**33.87**

38. As per the details furnished by the licensee, the major part of the R&M expenditure is the cost of the O&M contractor M/s. Electrotek Engineers (P) Ltd amounting Rs.29.01 lakh. The licensee in the application has submitted that the approved expenses as per the norms in the Tariff Regulations 2014 is inadequate compared to the actual expenditure.The licensee has submitted that during the year 2017-18, Rs.2.62 lakh was incurred towards the one time repair and maintenance for overhauling two current distribution transformers, OLTCs, repainting of the power equipments, maintenance of the circuit breakers. The licensee submitted that, the distribution transformers shifted for necessary overhauling works to the factory of the manufacturer M/s.KEL. The licensee also claims that the tax applicable for the service provided by the outsourced R&M agency was increased from 15% to 18%. In this regard, there is an additional expenditure of Rs.56493 for 9 months incurred by the Licensee.

39. Commission while truing up the accounts for the year 2016-17 had approved Rs.28.88 lakh which included Rs.25.75 lakh as per the norms and Rs.3.13 lakh as the onetime expense under transformer overhauling. For 2017-18, the approved expenses as per the norms are Rs.27.26 lakh. The licensee has claimed the transformer overhauling expenses and increase in expenses due to GST implementation as onetime expenses. Accordingly the repair and maintenance cost approved for the year 2017-18 is Rs. 30.44 lakh (Rs. 27.26lakh + Rs. 2.62 lakh +Rs. 0.56 lakh).

Table-14
R&M expenses approved for truing up for 2017-18

Particulars	ARR Approved (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	27.26	33.87	30.44

Depreciation: -

40. The licensee in the application has claimed a depreciation of Rs.49.94 lakh as against an amount of Rs.50.05 lakh approved by the Commission. The licensee has claimed the depreciation for the year 2017-18 as per the Tariff Regulations 2014. The details of the claim made by the licensee are shown below.

Table-15
Depreciation for the year 2017-18

Particulars	Rate of Depreciation (%)	Gross Fixed Assets (Rs. lakh)	Asset Addition (Rs. lakh)	Adjustment & Deduction (Rs. lakh)	Depreciation (Rs. lakh)
Land & Rights	-	26.85			-
Civil works on EHT Substation	3.34%	9.26			0.31
Transmission lines	5.28%	99.00			3.26
HT Distribution lines	5.28%	118.27	3.76		4.29
Substations	5.28%	481.46		2.50	26.67
Switch gear, control gear and protection	5.28%	30.38	3.50		1.88
LT Distribution system	5.28%	0.28			0.01
Testing Equipment			9.79		0.10
Metering Equipment	5.28%	1.18			0.06
Furniture and fixtures	6.33%	0.66	0.11		0.01
IT Equipments	15.00%	0.55	1.47		0.20
Other Items		228.00			13.16
Total		**995.89**	**18.63**	**2.50**	**49.94**

41. The asset addition for the year 2017-18 as per the form D 4.2 is tabulated below

Table-16
Asset Addition for the year 2017-18

Particulars	**Asset Additions Rs. lakh**	**Date of Commissioning**	**Remarks**
Power quality and energy analyser	4.49	04-01-18	Received Approval of the Commission In order dated
Digital Insulation Tester	4.81	05-02-18	
Digital Clamp Meter	0.39	28-02-18	
Digital Multimeter	0.09	28-02-18	
Computer	1.47	15-09-17	
Battery Charger	3.50	29-06-17	No approval
CT Type Meter Box	0.14	10-05-17	
LT Distribution line extension (340 meters)	3.29	28-07-17	

MCCB	0.34	28-02-18	
File Cabinet	0.11	04-05-17	
Total	**18.63**		

42. The Commission vide order dated 22-07-2017 had granted approval for a capital expenditure of Rs.31.95 lakh as against a proposal of Rs.52.20 lakh. Out of the Rs.31.95 lakh approved for the year, the licensee has actually incurred only Rs.11.25 lakh. The balance additions of Rs.7.38 lakh is done without the approval of the Commission. The licensee has explained the rationale for incurring such expenses since the same was undertaken on an emergency basis to maintain supply of power to the consumers. Considering the same the Commission has approved the capital expenditure for the year 2017-18.

43. The Commission has examined the estimation of depreciation of the licensee. The approved depreciation for the year 2016-17 was Rs.47.35 lakh. The depreciation claimed for the year was Rs.49.94 lakh, which is due to increase in addition of Rs. 18.63 lakh. The licensee has claimed proportionate depreciation for the asset addition during the year. Considering this, depreciation of Rs.49.94 lakh is approved for the purpose of truing up of accounts for the year 2017-18.

Interest and Finance Charges: -

44. The licensee has claimed a total interest and financing charges of Rs.40.20 lakh in the application for truing up for 2017-18 including interest on normative loan of Rs.39.26 lakh and Rs.0.94 lakh as bank charges for the security provided to KSEB Ltd. The details are given below:

Interest on Normative Loan:

45. The interest charges claimed by the licensee for the year 2017-18 are shown below.

Table-17

Interest on normative loan for claimed 2017-18

	Rs. In lakh
Opening Level of NFA	571.10
Net Addition during the year	17.99
Net Addition during the year on pro rata basis	8.08
70% of capital cost approved by the Commission	405.42
Increase / Decrease due to de-capitalization	0.65
Net normative loan closing	404.77
Base Rate (%)	9.70%
Total Normative Interest	39.26

46. The licensee has claimed the normative interest of Rs.39.26 lakh for the year 2017-18, which is inclusive of the additional capitalization made during the year. In this context it is to be noted that the Commission as per the order dated 26-07-2017 on truing up of accounts for the year 2015-16 had taken a stand on the interest on normative loan as follows.

"21. As per the details furnished by the licensee, there is no loan portfolio in the accounts of the licensee and the assets are funded by equity. Thus, as per regulation 27(4), in order to qualify ***for the normative loan*** *for the assets capitalised prior to1-4-2015, the debt equity ratio allowed by the Commission for determination of tariff for the period ending 31-3-2015 shall be considered. Hence the debt-equity ratio or the loan portfolio approved by the Commission in the truing up of accounts for the year 2014-15 shall be used for allowing normative loan if any.*

22. In the order dated 9-3-2016 on truing up of accounts of the licensee for the year 2014-15, the Commission has noted that 'the licensee has not booked any amount under interest and financing charges for the truing up of accounts for the year 2014-15'. Further, the Commission had allowed only Rs.10 lakh as return on equity stating the reason that there is no convincing reason to substantiate higher return. It is also to be noted that the order on truing up of accounts for 2013-14 dated 1-3-2016 neither considered normative loan nor allowed any interest charges. Hence, as per the provision of the Tariff regulations, the licensee will be eligible for normative loan for the assets created after 1-4-2015 if the equity is more than 30% of the approved project cost or in the case of existing assets as on 1-4-2015, the debt: equity ratio approved by the Commission is to be considered. In the instant case, as per the orders of truing up for 2014-15, the Commission has not approved any interest cost and hence there is no normative loan existing, as per the regulatory accounts. Accordingly, no interest on normative loan can be admissible.

23. As per the audited accounts submitted by the licensee for the financial year 2015-16, there is no long-term borrowings under the head "Non-current liabilities" and no short-term borrowings under the head "Current Liabilities". Hence there is no outflow on this account to the licensee."

47. As shown above, as per the provisions of Regulation 27(4), the licensee has no actual loan portfolio as on 31-3-2015. Accordingly, no interest charges on normative loan were approved. In the present petition, the licensee has made capital additions to the tune of Rs.18.63 lakh in 2017-18. The licensee has claimed that the assets are developed using equity. As per Regulation 27(1) debt equity ratio as on the date of operation, for new distribution line or substation commissioned or capacity expanded on or after 1-4-2015 shall be 70:30 of the capital cost approved by the Commission. Further, as per Regulation second proviso to Regulation 30(4), if the licensee has no actual loan portfolio interest charges shall be calculated at Base rate. Accordingly, the interest charges for the capital addition for the year is approved as shown below:

Table-18
Interest on normative loan for approved in 2017-18

	Rs. In lakh
Opening Value of NFA on 01-04-2015	0.00
Assets Addition during the year 2015-16	66.49
Cumulative Depreciation for the assets additions made during the year 2015-16	5.96
Opening value of NFA as on 01-04-2017	60.53
Current year addition	18.63
Average Addition during the year 2017-18(on pro rata basis)	9.315
Total Assets Additions	69.85
Normative loan for the assets addtion	48.89
Rate of interest (Base Rate as on 1-4-2017)	9.10%
Total Normative Interest charges	**4.45**

Bank charges:

48. The licensee has also claimed an amount of Rs.0.94 lakh during the year 2017-18 on account of bank guarantee and letter of credit charges as demanded by KSEB Ltd and bank charges. The claim is for the double security mechanism for executing the PPA for additional power of 2200kWA at 110kV. The details of the bank charges for the security provided to KSEB Ltd are shown below.

Table-19
Other Interest charges claimed for 2017-18

Particulars	As per Truing up (Rs. lakh)
LC & BG charges	0.89
Bank Charges	0.05
Net Bank Charges	**0.94**

49. The amount of Rs.0.94 lakh claimed on account of bank guarantee and letter of credit charges and Rs.0.59 towards interest charges for asset addition are approved under interest and financing charges for the year 2017-18.

Table-20
Interest and Finance Charges approved for the year 2017-18

Particulars	As per Truing up petition (Rs. lakh)	Amount approved for truing up (Rs. lakh)
Interest charges for addition of assets	39.26	4.45
Bank Charges	0.94	0.94
Total	**40.20**	**5.39**

Return on Equity: -

50. The Commission in its order on ARR & ERC has allowed the licensee a RoE of Rs.37.93 lakh for each year of the control period which was 14% of the normative equity. In the application for truing up of accounts for the year 2017-18, the licensee has sought for RoE of Rs.42.16 lakh which is calculated at the rate of 14% on 30% of the opening gross fixed asset during the year 2017-18.

51. Regulation 29 of the Tariff Regulations, 2014 provides for Return on investment.

> "***29. Return on investment.*** *– (1) Return on equity shall be computed in rupee terms, on the paid up equity capital determined in accordance with the regulation 27 and shall be allowed at the rate of fourteen percent for generating business/companies, transmission business/licensee, distribution business/licensee and state load despatch centre:*
> *Provided that, return on equity for generating business/company, transmission business/licensee, distribution business/licensee and state load despatchcentre, 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 and on fifty percent of equity capital portion of the approved capital cost for the investment put to use during the financial year:*
> *Provided further that at the time of truing up for the generating business/company, transmission business/licensee, distribution business/licensee and state load dispatch centre, return on equity shall be allowed on pro-rata basis, taking into consideration the documentary evidence provided for the assets put to use during the financial year.*

As per the above, RoE shall be allowed for the paid up equity capital determined as per Regulation 27. As per the details furnished by the licensee, the amount of equity as on beginning of the year 2017-18 is Rs.966.00 lakh. The proportionate share of asset addition for the year is Rs.5.59 lakh (30% of Rs.18.63 lakh). Thus, the RoE of 14% shall be applicable for 30% of the average equity i.e., Rs.968.80 lakh ([Rs.966 + 971.59)]/2). Thus an amount of Rs.40.69 lakh is approved for the year 2017-18.

Revenue from Sale of Power: -

52. The licensee has accounted total revenue from sale for power of Rs.1873.33 lakh for a sale of 29.63 MU against approved amount of Rs.1693.39 lakh in the Order on ARR. In the order, the Commission had approved a total sale of 27.46 MU.

Table 21
Details of Revenue from Sale of Power for 2016-17& 2017-18

Particulars	2016-17 Trued Up				2017-18 As per Truing Up Petition			
	No. of Consumers	Energy Sales (MU)	Revenue in Rs. lakh	Avg. Realisation (Rs/kWh)	No. of Consumers	Energy Sales (MU)	Revenue in Rs. lakh	Avg. realisation (Rs/kWh)
HT	16	29.39	1769.89	6.02	16	26.95	1688.89	6.27
LT IV	20	1.97	121.39	6.18	23	2.499	166.23	6.65
LT VI B	1	0.01	1.12	8.32	1	0.015	1.31	8.98
LT VI C	1	0.01	0.76	9.71	1	0.004	0.34	9.53
LT VI F					2	0.096	9.00	9.38
LT VII A	16	0.12	11.78	9.93	14	0.045	4.80	10.60
Public	1	0.02	0.72	4.30	1	0.021	0.77	3.75
Total	**55**	**31.52**	**1905.67**		**58**	**29.63**	**1871.33**	

53. As per the application for truing up for the FY 2017-18, the major quantum of sale of 26.95 MU pertains to the HT category which consists of 16 consumers and is about 91% of total sale of power. It may be seen that the actual sale for the year of HT Consumers lower than the previous year. According to the licensee, the decrease in sales is due to the effects of demonetization and teething problems of GST which affected the industrial demand. The same had reflected in the energy sale to HT-I category during 2017-18. The Commission approves the actual revenue from sale of power of Rs.1871.33 lakh for the purpose of truing up of accounts for the year 2017-18.

Wheeling Charges:

54. In the application for truing up of accounts for the year 2017-18 the licensee has claimed a wheeling charge of Rs.0.21 lakh for wheeling power of 0.66 lakh units to M/s M Fuel. The Commission approves the wheeling charges of Rs.0.21 lakh as claimed in the application.

Non tariff income

55. The actual non-tariff income accounted by the licensee is Rs 0.60 lakh as against the approved amount of Rs 8.30 lakh vide ARR order dated 13/07/2017. The Commission in the ARR order had approved the non-tariff income as proposed by the licensee.

56. The Commission has examined the claim of non-tariff income of the licensee. In the truing up petition, the licensee has omitted to include the interest on security deposit with KSEB Ltd in 2017-18.The licensee as part of the truing up for 2016-

17 has stated that the amount of security deposit furnished to KSEB Ltd was taken from the main business of RPL and hence the interest charges has not been accounted as part of the distribution business. However, the Commission did not accepted the same due to the reason that the balance sheet shown as part of the distribution business has included the security deposit amount given to KSEB Ltd as part of ‘short term loans and advances. In 2017-18, the closing balance under this head is shown as Rs.173.37 lakh. Since the licensee has not shown the interest received from KSEB Ltd in the petition, the Commission has taken the interest charges of Rs.10.40 lakh approved for the year 2016-17 for 2017-18 also.

57. As per the order of the Commission dated 15-07-2019, the licensee is holding an accumulated surplus of Rs.26.81 lakh at the end of the year 2016-17.The Commission also approves a notional interest of Rs. 2.44 lakh which is at a rate of 9.10 % of the accumulated surplus considering the base rate of SBI as on 01-04-2017. Accordingly the total non-tariff income approved for the year 2017-18 is shown below.

Table 22

Details of Non-Tariff Income approved for 2017-18

Particulars	Rs. lakh
Interest on security deposits with KSEB Ltd	10.40
Miscellaneous receipts	0.60
Interest on accumulated surplus	2.44
Grand Total	**13.44**

Revenue Surplus for 2017-18:-

58. Based on the above, the approved expenditure and revenue for the year 2017-18 after truing up is as shown below:

Table-23

Gross Revenue Requirements after truing up for 2017-18

Particulars	2017-18		
	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	Approved in Trued Up (Rs. lakh)
Purchase of Power	1486.70	1589.60	1590.48
Repair and Maintenance cost	27.26	33.87	30.44
Employee Cost	29.24	58.74	37.27
Administrative & General Expenses	20.19	48.50	20.57
Depreciation	50.05	49.94	49.94
Interest on Normative loan	32.17	39.26	5.39

Interest & Finance Charges	2.19	0.94	
Return on Equity	37.93	42.16	40.69
Aggregate Revenue Requirement	**1685.73**	**1863.01**	**1774.78**
Less Non-Tariff income	8.30	0.60	13.44
Less income from wheeling charges	0.04	0.21	0.21
Aggregate Revenue Requirement from Tariff	**1677.39**	**1862.2**	**1761.13**
Revenue from existing tariffs	**1693.39**	**1871.33**	**1871.33**
Revenue gap/Surplus	**16.00**	**9.13**	**110.20**

Orders of the Commission

59. The Commission after considering the application filed by M/s. RPIL 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 total expenditure of Rs.1774.78 lakh and total revenue of Rs.1884.98 lakh with a revenue surplus of Rs.110.20 lakh. The licensee is holding an accumulated surplus of Rs. 26.81 lakh at the end of the year 2016-17. Thus the cumulative revenue surplus till 2017-18 will be Rs.137.01 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.

60. The application is disposed of. Ordered accordingly.

Sd/-
S. Venugopal
Member

Sd/-
Preman Dinaraj
Chairman

Approved for issue

Sd/-
Secretary (i/c)