KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

OA 14/2018

In the matter of Truing up of accounts of M/s Rubber Park India Private Limited (RPIL) for the financial year 2016-17

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
Shri. K. Vikraman Nair, Member

ORDER DATED 15/07/2019

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. The Licensee has entered into a PPA with Kerala State Electricity Board Ltd (herein *after referred to as KSEBL*) to purchase power at 110 kV 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 an order on OA 10/2015 approving the ARR & ERC 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, and the Commission on 10-05-2016 in OA 1/2016 had approved the revised ARR&ERC for 2016-17. The Commission had issued the order on the truing up of accounts for the year 2015-16 on 26-07-2017. The licensee had filed review petition against the order on the truing up of accounts for 2015-16. The Commission vide order dated 13-12-2017 in RP 9/2017 had issued the order on the matter.

3. The licensee vide letter No.RP/F/04/12880 dated 13th March 2018 has filed an application for the truing up of accounts for the financial year 2016-17 along with the audited accounts of the entire park business. A comparison for the years 2015-16 and 2016-17 as per the approved ARR and application for truing up is tabulated hereunder.

Table-1
Comparison of Truing Up of accounts and the ARR & ERC

Particulars	2015-16 (Rs. lakh)		2016-17 (Rs. lakh)		
	For Truing Up	**Trued Up**	**ARR Approved**	**For Truing Up**	**Difference**
Purchase of Power	1514.36	1459.67	1416.10	1757.61	341.51
Repair and Maintenance cost	31.91	27.16*	25.75	31.35	5.60
Employee Cost	44.82	26.10	27.62	55.26	27.64
Administrative & General Expenses	23.72	18.02	19.07	47.07	28.00
Depreciation	47.03	45.69	50.05	47.35	-2.70
Interest on Normative loan	40.27	-	35.57	41.99	6.42
Interest & Finance Charges	0.43	0.43	-	1.29	1.29
Return on Equity	38.78	37.80	37.93	41.83	3.90
Repayment of principle amount on normative loan	47.03	-	-	-	-
Aggregate Revenue Requirement	**1788.35**	**1614.87***	**1612.09**	**2023.75**	**411.66**
Less Non-Tariff income	48.53	48.46	10.34	0.61	-9.73
Less income from wheeling charges	-	0.06	0.04	0.19	0.15
Aggregate Revenue Requirement from Tariff	**1739.82**	**1566.35***	**1601.71**	**2022.95**	**421.24**
Revenue from existing tariffs	**1593.41**	**1609.30**	**1503.04**	**1905.08**	**402.04**
Revenue gap/Surplus	**(146.41)**	**42.95***	**(98.67)**	**(117.87)**	

**The Commission as per order dated 13-12-2017 on the review petition had allowed a one time expense of Rs.2.83 lakh towards relay testing and OLTC overhauling which is added to R&M*

4. In the application, the licensee has arrived at a **revenue gap of Rs.117.87 lakh** for the year 2016-17 as against a revenue gap of Rs.98.67 lakh approved by the Commission in the revised ARR order dated 10-05-2016.

5. The Commission vide letter dated 23-04-2018 sought clarifications on the application on the truing up of accounts for the year 2016-17 and directed the licensee to submit separate audit of the distribution business. Accordingly the licensee submitted separate audit of the distribution licensee as per Regulation 11(b) of the Tariff Regulations 2014 along with the clarifications on 12-07-2018. The Commission admitted the application as OA No.14/18. The licensee had made certain revisions in the petition as shown below.

Income

- The revenue from sale of power is revised to Rs.1905.67 lakh as against Rs.1905.08 lakh initially submitted. The licensee stated that the increase is on account of the increase in the miscellaneous recoveries from Rs.0.295 lakh to Rs.0.889 lakh.

Expenditure

- The power purchase cost of Rs.1757.61 lakh is revised to Rs.1759.45 lakh due to the GST applicable on the RPO certificate.
- The licensee had initially calculated the interest on normative loan of Rs.41.99 lakh based on NFA. The licensee revised the same to Rs.67.62 lakh based on the GFA.

6. Thus the licensee has revised both income and expenditure leading to a higher revenue gap as shown below.

Table-2
ARR & ERC and Truing Up of accounts for 2016-17

Particulars	2016-17 (Rs. lakh)		
	ARR Approved	**Initial submission dated 13-03-2018**	**Revised submission dated 12-07-2018**
Purchase of Power	1416.10	1757.61	**1759.45**
Repair and Maintenance cost	25.75	31.35	31.35
Employee Cost	27.62	55.26	55.26
Administrative & General Expenses	19.07	47.07	47.07
Depreciation	50.05	47.35	47.35
Interest on Normative loan	35.57	41.99	**67.62**
Interest & Finance Charges	-	1.29	1.29
Return on Equity	37.93	41.83	41.83
Repayment of principle amount on normative loan	-	-	-
Aggregate Revenue Requirement	**1612.09**	**2023.75**	**2051.22**
Less Non-Tariff income	10.34	0.61	0.61
Less income from wheeling charges	0.04	0.19	0.19
Aggregate Revenue Requirement from Tariff	**1601.71**	**2022.95**	**2050.42**
Revenue from existing tariffs	**1503.04**	**1905.08**	**1905.67**
Revenue gap/Surplus	**(98.67)**	**(117.87)**	**(144.76)**

7. Thus the licensee arrived at a **revised revenue gap of Rs.144.76 lakh** for the year 2016-17 as against a revenue gap of Rs.98.67 lakh approved by the Commission in the revised ARR order dated 10-05-2016.

Hearing on the matter

8. Public hearing on the application was held at the Court Room, Office of the Commission on 14-11-2018. M/s Rubber Park India (P) Ltd. was represented by Sri.J.Krishna Kumar MD, Sri.Anees.T.M, Resident Engineer & Smt.Asha. P, Accounts Officer. Sri.Anees.T.M, Resident Engineer, Rubber Park India (P) Ltd. presented the details of the application on the truing up of accounts for the year 2016-17 and gave clarifications on the queries raised by the Commission.

The main points made by RPIL are:-

- The energy sale as per the application for truing up for 2016-17 is 31.52 MU, the energy purchased is 32.22 MU and the actual distribution loss for the year is 2.20%.
- The power purchase cost for the year 2016-17 is Rs.1759.45 lakh for a purchase of 32.22 MU which also includes the cost of Rs. 71.84 lakh for the purchase of Renewable energy certificates for meeting the renewable purchase obligation.
- The employee cost booked for the year 2016-17 is Rs.55.26 lakh
- A&G expense claimed is Rs.47.07 lakh, which includes Rs.18.92 lakh under Section 3(1) Duty
- The Repair and maintenance cost incurred by the licensee for the year 2016-17 is Rs.31.35 lakh of which Rs.26.38 lakh, was the cost to the O&M contractor.
- The depreciation claimed as per the application is Rs.47.35 lakh.
- The interest and financing charges of Rs.43.28 lakh claimed in the application for truing up for 2016-17 includes interest on normative loan of Rs.41.99 lakh and Rs.1.29 lakh as bank charges for the security provided to KSEB Ltd.
- Rs.41.83 lakh is claimed as RoE, which is calculated at the rate of 14% on 30% of the opening gross fixed asset during the year 2016-17.
- The licensee has accounted total revenue from sale for power of Rs.1905.08 lakh for a sale of 31.52 MU and a wheeling charge of Rs.0.19 lakh for wheeling power of 0.064 MU to M/s M Fuel.

- The non-tariff income booked is Rs 0.61 lakh which includes miscellaneous receipts and commission for collection of electricity duty
- Accordingly RPIL has arrived at a revenue gap of Rs.144.76 lakh for the year 2016-17

9. Smt. Mehrunisa, Executive Engineer TRAC, Sri. Manoj.G, AEE, TRAC and Sri.Rajesh.R AEE, TRAC, represented KSEB Ltd. Sri. Manoj.G presented the counter statement/comments of KSEB Ltd. and submitted written remarks on the application. The major points raised by KSEB Ltd are the following:

a) T&D Loss - M/s KSEB Ltd submitted that the licensee has claimed a higher T&D loss as against the approved loss of 2.00%. M/s KSEB Ltd requested Commission that the additional cost on power purchase incurred by the licensee on account of higher distribution loss may be disallowed.

b) 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. It was submitted that the Operation and Maintenance cost may be limited to the norms fixed by the Commission.

c) The Commission may take uniform approach regarding section 3 duty and the claim of the licensee on Electricity duty may be disallowed

d) RPIL has claimed the interest on normative loan of Rs. 41.99 lakh. Commission may disallow the amount as decided in review order on true up for 2015-16.

e) The quantum of energy purchased and the energy charges for 2016-17 claimed by the licensee shows slight difference. The demand charges remain the same.

10. During the hearing, the Commission sought the following clarifications;

(a) Category wise Sanctioned strength, category wise actual number of permanent and contract employees working (for distribution business & other business separately), pay scale, grade, and a comparison of the increase on a year to year basis for past 7 years.

(b) Break up details of creditors and debtors

(c) Reason for abnormal increase in vehicle hire charges, and the amount of vehicle hire charges apportioned to RPIL park business.

(d) Split up details of loans and advances (Rs.191 lakh for 2016-17 and Rs.117 lakh for 2015-16) and Cash and bank balances (Rs.184 lakh for 2016-17 and Rs.302 lakh for 2015-16)

(e) The reason for not following segmented reporting in the consolidated accounts of RPIL.

11. The Commission directed the licensee to submit the details before the Commission to substantiate the claims made in the application for the truing up of accounts for the year 2016-17. The licensee vide letter No.RP/E/02/B/13410 dated 20-12-2018 submitted the details sought by the Commission.

Analysis and decision of the Commission

12. The Commission considered the application of the licensee for truing up of accounts for the year 2016-17, 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 2016-17 are detailed below:

13. **Sales and Consumer Mix :**The energy sale as per the application for truing up for 2016-17 is 31.52 MU as against the approved sale of 26.16 MU as per ARR order. Compared to the previous year, the over all increase in the sale is 18%. The consumption of the different consumer categories is detailed below.

Table-3

Comparison on the number of consumers and Sale of power for the year 2015-16 & 2016-17

Category	2015-16 Trued up		2016-17 Truing up	
	No. of consumers	Energy sold in MU	No. of consumers	Energy sold in MU
HT Consumers	16	24.78	16	29.39
LT IV	19	1.76	20	1.97
LT VI B	1	0.04	1	0.01
LT VI C	1	0.01	1	0.01
LT VII A	16	0.09	16	0.12
Public lighting	1	0.02	1	0.02
Total	54	26.69	55	31.52

As per the application for truing up for the FY 2016-17, the major quantum of sale of 29.39 MU pertains to the HT category which consists of 16 consumers and is about 93% of total sale of power. The Commission approves the actual energy sales of the licensee as per accounts for the purpose of truing up for the financial year 2016-17.

14. **Distribution loss:** The distribution loss as per the application for truing up for the year 2016-17 is 2.20%. The Commission had approved a distribution loss of 2.00% for the year as per the order on ARR&ERC. The actual distribution loss incurred by the licensee for the year 2015-16 was 2.10%. The details of the distribution loss are tabulated hereunder.

Table-4
Comparison of Distribution loss

Particulars	As per accounts 2015-16	Trued Up 2015-16	Approved in ARR 2016-17	For Truing Up 2016-17
Total Energy Sales (MU)	26.69	26.69	26.16	31.52
Energy Requirement (MU)	27.26	27.23	26.69	32.22
Distribution loss (MU)	0.57	0.54	0.53	0.70
Distribution loss %	**2.10%**	**2.00%**	**2.00%**	**2.20%**

15. The licensee is having a 110/11 kV, 25 MVA capacity EHT substation with two numbers of 110/11 kV, 12.5 MVA Power transformers. The licensee has stated that the entire loads of the consumers are fed through the single power transformer at a time and the second power transformer is kept as standby on energized state. The licensee has an open access consumer and has claimed a wheeling charge of Rs.0.19 lakh for wheeling power of 0.064 MU to M/s M Fuel. The licensee has stated that the overall distribution loss directly increases with the increase in consumption of the open access consumer.

16. As per Regulation 13 of the Tariff Regulations, 2014, distribution loss is a controllable item and Regulation 15 specifies the mechanism for sharing the gains or losses on account of controllable factors. Regulation 15 (2) states that the aggregate loss to the distribution licensee shall not be passed on to the consumer in any manner.

17. Accordingly, after taking into consideration the limited geographical area of operation and the consumer mix, the Commission notes that the licensee is capable of attaining the distribution loss of 2.00% fixed by the Commission. The Commission approves the distribution loss at 2.00%, as approved in the order on ARR and ERC for the year 2016-17. Accordingly, for the truing up process, the quantum of power purchase approved based on the distribution loss of 2.00% is detailed below.

Table-5
Approved Distribution loss

Particulars	Approved in ARR 2016-17	For Truing Up 2016-17	**Trued Up 2016-17**
Energy Requirement (MU)	26.69	32.22	32.15
Distribution loss %	2.00%	2.20%	2.00%
Distribution loss (MU)	0.53	0.70	0.63
Total Energy Sales (MU)	26.16	31.52	31.52
Excess Distribution loss (MU)			**0.07**

18. **Revenue from Sale of Power:** The licensee has accounted total revenue from sale for power of Rs.1905.63 lakh for a sale of 31.52 MU against approved amount of Rs. 1503.04 lakh in the Order on ARR In the order, the Commission had approved a total sale of 26.16 MU. The increase in revenue is mainly on account of the increase in sale for the year 2016-17.

Table 6
Details of Revenue from Sale of Power for 2016-17

Particulars	2015-16 Trued Up				2016-17 Actual			
	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	24.78	1483.76	5.99	16	29.39	1769.89	6.02
LT IV	19	1.76	110.86	6.31	20	1.97	121.39	6.18
LT VI B	1	0.04	3.09	7.74	1	0.01	1.12	8.32
LT VI C	1	0.01	0.74	9.77	1	0.01	0.76	9.71
LT VII A	16	0.09	10.31	11.31	16	0.12	11.78	9.93
Public	1	0.02	0.54	3.57	1	0.02	0.72	4.30
Total	54	26.69	1609.30		55	31.52	1905.67	

19. As per the details, there is a significant increase in the revenue from sale of power when compared to the previous year. Compared to the actual sales over the previous year, the sales of the licensee have increase by 18%. The licensee has stated that the actual sales during the year 2016-17 was higher than the proposed sales on account of increased production of the industrial consumers. The major increase in the sales was to the HT consumers. The Commission had approved power sale of 24.21 MU to the HT consumers, whereas the actual sales to the HT consumers were 29.39 MU. The Commission approves the actual revenue from sale of power of Rs.1905.67 lakh for the purpose of truing up of accounts for the year 2016-17.

20. **Wheeling Charges:** In the application for truing up of accounts for the year 2016-17 the licensee has claimed a wheeling charge of Rs.0.19 lakh for wheeling power of 0.064 MU to M/s M Fuel. The Commission in the order on ARR&ERC had approved a wheeling charge of Rs 0.40 lakh. The Commission approves the wheeling charges of Rs.0.19 lakh as claimed in the application

21. **Non tariff income**: The actual non-tariff income accounted by the licensee is Rs 0.61 lakh as against the approved amount of Rs 10.34 lakh vide ARR order dated 10-05-2016. The Commission in the ARR order had approved the non-tariff income as proposed by the licensee. However in the revised truing up of accounts, the non tariff

income shown is Rs.0.61 lakh only. As per the details, the amount includes a tender fee of Rs.0.05 lakh, processing fee of Rs.0.03 lakh, storage charges of Rs.0.04 lakh and collection charges on electricity/ surcharge duty of Rs. 0.49 lakh. In 2015-16, the actual non tariff income approved was Rs.48.46 which included Rs.10.40 as interest on investments, Rs.37.66 lakh as miscellaneous receipts and Rs.0.40 lakh as commission for collection of electricity duty. The licensee has stated that the reason for the decrease is that Rs.37.66 lakh represented the refund of excess demand charges which was a onetime refund. The licensee has also omitted the income from investments in 2016-17.

22. The licensee in the letter dated 9-5-2018 stated that *"security deposit with KSEB was met from the funds of Rubber park only and so the interest earned thereon is also considered as income of Rubber park only. Hence interest received from KSEB is not being included in the truing up statements for FY 2016-17 onwards"*

23. The Commission has examined the claim of the licensee regarding non-tariff income including interest from security provided to KSEB Ltd. According to the licensee, the interest on investments, which represents the interest on the security provided to KSEB Ltd is from the Rubber park's main business and hence, interest is also accounted in the Rubber park main business. The Commission notes that, the licensee has been accounting security deposit paid to KSEB Ltd continuously under the head 'loans and advances' in the balance sheet of licensed business as shown below.

Particulars	As on 31-3-2014	As on 31-3-2015	As on 31-3-2016	As on 31-3-2017
Loans and advances (Rs. Lakhs)	115.53	115.53	117.00	191.00

24. Further, in reply to the clarification sought by the Commission, the licensee vide letter dated 20-12-2018 had given the split up details of 'Loans and advances' in the balance sheet as shown below:

Table 7
Details of Loans and advances

Particulars	2015-16 Rs.lakh	2016-17 Rs.lakh
KSEB Ltd	115.53	173.37
Tax deducted by KSEB Ltd	1.04	0.98
Receivable from M/s Telenova Networks	0.00	16.66
Total	**116.57**	**191.01**

25. The Commission also notes that KSEB Ltd had also communicated as part of the comments on the truing up of accounts of M/s RPL for the year 2014-15, that the amount of security deposit available with them from M/s RPL at the end 31-3-2014 was Rs. 115.53 lakh. Hence it is clear that the amount of security deposit paid to KSEB Ltd is booked consciously under the head ‘loans and advances’ which is part of the asset side of the balance sheet of RPL’s licensed business. Since, the amount is continuously shown as part of the balance sheet of distribution business, the licensee now cannot claim that the said amount is part of the main business of RPL. Accordingly, the argument of the licensee cannot be accepted and the interest accrued on the security deposit shall be accounted as part of the distribution business. Since the amount outstanding at the beginning of previous year 2015-16 and 2016-17 is almost same, the amount of interest of Rs.10.40 lakh booked for the previous year is taken for the purpose of truing up for 2016-17.

26. The Commission also notes that licensee has not properly apprised the audit team on the changes in accounting of interest charges and hence the same was not figured in the audit report. It is also reminded that the details furnished by the licensee are under affidavit and in future Commission will be constrained to invoke punitive clauses for such wrong declarations.

27. The Commission had sought clarification on the cash and bank balances and as per the reply dated 20-12-2018 submitted to the Commission, the licensee has shown an amount of Rs.183.94 lakh as cash. The average monthly power purchase cost for the year is about Rs.138 lakh and the balance amount may be the accumulated surplus available with the licensee.

28. As per the order of the Commission dated 31-12-2017, the licensee is holding an accumulated surplus of Rs.40.29 lakh at the end of the year 2015-16. The Commission also approves a notional interest of Rs. 3.75 lakh which is 9.30 % of the accumulated surplus considering the base rate of SBI as on 01-04-2016, and the same is included under non-tariff income approved for truing up of the year. Accordingly the total non-tariff income approved for the year 2016-17 is shown below.

Table 8
Details of Non-Tariff Income approved for 2016-17

Particulars	Rs. Lakh
Interest on security deposits with KSEB Ltd	10.40
Miscellaneous receipts	0.61
Interest on accumulated surplus	3.75
Grand Total	**14.76**

29. **<u>Power purchase Cost:</u>** The power purchase cost for the year 2016-17 as per the application is Rs.1759.45 lakh which includes Rs.71.84 lakh claimed for the purchase of Renewable energy certificates. The cost for the purchase of 32.22 MU is Rs. 1687.61 lakh. The Commission had in the order on revised ARR approved a power purchase of 26.69 MU at a purchase cost of Rs.1416.10 lakh. The licensee has stated that the increase in the power purchase cost over the approved cost is due to the increase in the actual purchase during the year. The details of the claim made by the licensee is shown below.

Table-9
Power Purchase Cost claimed

Particulars	Approved ARR 2016-17	For Truing Up 2016-17
Energy purchase (MU)	26.69	32.218
Demand Charge (Rs.kVA)	300	300
Demand Charges (Rs in Lakh)	201.70	221.706
Energy Charge (Rs/kWh)	4.55	4.55
Energy Charges (Rs in Lakh)	1214.40	1465.905
Total (Rs in Lakh)	**1416.10**	**1687.61**
RPO Purchase (Rs in Lakh)	0.00	71.84
Total (Rs in Lakh)	**1416.10**	**1759.45**

30. Regulation 74 of the Tariff Regulations, 2014 deals with Distribution loss. The relevant portion is quoted hereunder.

> *"(4) Any variation between the actual level of distribution losses and the approved level of 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;"*

31. Thus as per Regulation 74(4), the excess distribution loss is to be disallowed at the average cost of power purchase. The approved distribution loss of 2.00% and the actual distribution loss is 2.20%. The excess loss is 0.07 MU (32.22 MU – 32.15 MU) as shown below.

Table-10
Approved Power Purchase Cost

Particulars	Approved
Total cost of power purchase (Rs. lakh)	1687.61
Actual quantum of power purchased (MU)	32.22
Average cost of purchase (Rs./kWh)	**5.24**
Power purchase approved (MU)	32.15
Actual Energy loss at 2.20% (MU)	0.70
Energy loss at approved distribution loss of 2.00% (MU)	0.63
Excess distribution loss (MU)	0.07
Excess power purchase cost to be deducted (Rs. lakh) [0.07*5.24]	**0.37**
Power purchase approved for 2016-17 (Rs. lakh)	**1687.24**

32. The excess cost of power purchased is estimated at the average cost of power purchase of Rs. 5.24/kWh. Accordingly, the Commission approved a power purchase cost of Rs. 1687.24 lakh considering the approved distribution loss of 2.00%.

33. Renewable Energy Certificates: In the application, as part of power purchase cost, the licensee has claimed an amount of Rs.71.84 lakh for the purchase of Non Solar and Solar Renewable Energy Certificates (REC's) from the Indian Energy Exchange through the open bidding process for meeting the RPO obligation of the licensee. As per the details, the claim made is for the purchase of Renewable energy certificates for meeting the renewable purchase obligation from 2011-12 to 2014-15 and for the current year 2016-17. In the MYT petition for the approval of ARR & ERC, the licensee had not proposed any cost for the purchase of RE Certificates. The Commission had also not considered the cost for meeting the RP Obligation while approving the revised ARR & ERC for 2016-17.

34. The licensee vide letter dated 23-12-2015 had requested the Commission to exempt Rubber Park from the non-solar RPO for the period 2010-2014. The Commission had issued a clarification Order No.2176/D(F&T)/2015 dated 04-02-2016, as follows.

"18.In view of the above facts and circumstances and the relevant statutory provisions it is clarified that,-

(i) Each distribution licensee within the State including every small licensee shall have its RPO based on the consumption of electricity within its area of supply as specified in the KSERC (Power Procurement from Renewable Energy

Sources by Distribution Licensees) Regulations, 2006, the KSERC (Renewable Purchase Obligation and Its Compliance) Regulations, 2010 and the KSERC (Power Procurement from Renewable Energy Sources by Distribution Licensees) Regulations, 2013.

(ii) KSEB Ltd shall have separate solar RPO and non-solar RPO from the year 2013-14 as specified in the KSERC (Renewable Purchase Obligation and Its Compliance) Regulations, 2010.

(iii) Each of the small distribution licensees within the State which purchases electricity from KSEB Ltd for supply within its area, shall have separate solar RPO and non-solar RPO from the year 2014-15, based on the consumption of electricity within its area of supply as specified in the KSERC (Renewable Purchase Obligation and Its Compliance) Regulations, 2010."

35. Thus the Commission had made the RPO compulsory for the respective licensee by the purchase of solar and non-solar RPO separately. The licensee while truing up the accounts for the financial year 2015-16 had claimed an amount of Rs. 20.87 lakh for the purchase of RE certificates for 2015-16. The Commission in the order issued on the truing up for 2015-16 dated 26-07-2017 had observed that,

> ***"RPO** refers to the **obligation** imposed by law on the entities to either buy electricity generated by specified 'green' sources, or buy, in lieu of that, RECs from the market. The obligation imposed by the law on the licensee is to purchase certain percentage of power from renewable energy sources and to create demand for renewable energy. RECs are aimed at addressing the mismatch of renewable energy resources in the State and its RPO requirements. It is, therefore, the statutory duty of the licensee to purchase the specified percentage of power from the renewable energy sources which cannot be fulfilled by means of purchase of RECs alone. If there is any mismatch of renewable energy generation in the State and their RPO requirements, then such mismatch can be addressed by purchase of RECs. Hence, the priority of the licensee should always be to purchase of renewable energy than that of purchase of RECs. Purchase of RECs may simplify the statutory duty of the licensee but will create burden to the consumers. Hence, the licensee shall endeavour to take concrete measures for sourcing renewable energy for meeting the RPO. With this observation the Commission approves the cost of purchase of REC for 2015-16"*

36. The licensee has submitted the details of the purchase along with the copy of the certificates before the Commission.

37. The details of the compliance of the Renewable Purchase Obligation of the licensee are tabulated hereunder.

Table-11
Details of Renewable Purchase Obligation

Year		Total sales (MU)	RPO IN %		RPO in MU		No.of Certificates Required		No.of Certificates purchased in 2015-16		Balance No. of Certificates to be purchased to meet RPO		Number of Certificates Purchased in 2016-17		Balance certificates to be purchased	
			Non Solar %	Solar %	Non Solar MU	Solar MU	Non Solar REC	Solar REC	Non solar REC	Solar REC	Non solar REC	Solar REC	Non Solar	Solar	Non Solar	Solar
2011-12		18.49	3.03		0.560	-	560	0	0	0	560	0	560	0	0	0
2012-13		22.36	3.30		0.738	-	738	0	0	0	738	0	738	0	0	0
2013-14		24.00	3.58		0.859	-	859	0	0	0	859	0	859	0	0	0
2014-15		23.70	3.85	0.25	0.912	0.059	912	59	0	0	912	59	912	26	0	0
2015-16*	Up to Jan 2016	19.42	4.13	0.28	0.802	0.054	802	54	1081	121	15	-33	15	0	0	0
	Jan to March 2016	7.27	4.05	0.45	0.294	0.033	294	33								
2016-17		31.51	4.50	0.50	1.418	0.158	1418	158	0	0	1418	157	1418	0	0	157
Total											**4501**	**183**	**4501**	**26**	**0**	**157**

38. The licensee had purchased REC certificates in 2015-16 for meeting the RPO obligation for the entire sales as per the Regulation 2013. The Commission had revised the RPO obligation with effect from 07.01.2016. Hence, the company had excess purchase of 33 number of solar REC and shortage of 15 numbers of non solar certificates in the year 2015-16.The excess 33 solar certificates are adjusted with the purchase of certificates for 2014-15. The licensee had not purchased any Solar REC for the year 2016-17, as the Hon'ble Supreme Court of India had suspended the trading of Solar REC from 24-05-2017. The details of the purchases done by the licensee are tabulated below.

Table-12
Details of Renewable Purchase Certificates

Year	Number of Certificates Purchased		Date of Purchase	Cert. cost (Rs Lakh)	PTC Margin (Rs Lakh)	IEX fee (Rs Lakh)	Tax on PTC & IEX fee (Rs Lakh)	GST on trade value	Total cost (Rs. Lakh)
	Non Solar	Solar							
2011-12	560	0	28/12/2016	8.4	0.112	0.056	0.025	0	8.593
2012-13	738	0	28/12/2016	11.07	0.145	0.074	0.033	0	11.322
2013-14	859	0	28/12/2016	12.88	0.172	0.086	0.039	0	13.177
2014-15	912	26	28/12/2016	14.59	0.188	0.094	0.042	0	14.914
2015-16	16	0	28/12/2016	0.24	0.003	0.002	0.001	0	0.246
2016-17	392	0	28/12/2016	5.88	0.078	0.039	0.018	0	6.015
	1024	0	27/09/2017	15.36	0.205	0.102	0.055	1.843	17.565
Total	**4501**	**26**		**68.42**	**0.903**	**0.453**	**0.213**	**1.843**	**71.84**

***** Price of Solar Certificate- Rs.3500/- & Price of Non-Solar Certificate- Rs.1500/-

39. Accordingly, the licensee has met the RPO obligation for the years 2011-12 to 2016-17. As mentioned above, the licensee could not purchase any Solar REC for the year 2016-17 (0.158 MU), as the Hon'ble Supreme Court of India had suspended the trading of Solar REC from 24-05-2017.

40. Considering the details, the Commission approves the actual expense of Rs.71.84 lakh incurred by the licensee for the purchase of certificates. The total power purchase cost approved for the year is shown below

Table-13
Cost of power purchase approved in truing up for 2016-17

Particulars	Rs.lakh
Power purchase approved for 2016-17	1687.24
RPO Purchase	71.84
Total Power Purchase cost Approved for 2016-17	**1759.08**

41. **O&M expenses:** Operation & maintenance 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 2016-17. RPIL has claimed the O&M over and above the ceiling level specified in the Regulations. The comparison of the claim and the ceiling amount approved in the Regulations is tabulated hereunder.

Table-14
Comparison of the O&M expenses for 2016-17

O&M Expenses	As per the Regulations	As per the application for truing up
Employee expenses (Rs. lakh)	27.62	55.26
R&M expenses (Rs. lakh)	25.75	31.35
A&G expenses (Rs. lakh)	19.07	47.07
Total O&M expenses (Rs. lakh)	**72.44**	**133.68**

42. **Employee Cost:** The employee cost incurred by the licensee for the year 2016-17 is Rs.55.26 lakh as against an approved employee cost of Rs.27.62 lakh. The split up of the employee cost for 2015-16 and 2016-17 as per the accounts is shown below.

Table 15
Comparison of employee cost for the year 2015-16 and 2016-17

Particulars	As per accounts 2015-16 (Rs.lakh)	Trued Up 2015-16 (Rs.lakh)	Approved ARR 2016-17 (Rs.lakh)	As per accounts 2016-17 (Rs.lakh)
Basic Salary	15.97	26.10	27.62	20.22
Dearness Allowance (DA)	17.09			16.72
House Rent Allowance	1.13			1.58
Conveyance Allowance	0.26			0.26
Earned Leave Encashment	2.23			3.46
Other Allowances/Festival Allowance	0.13			0.13
Medical Reimbursement	3.63			2.88
Interim Relief / Wage Revision	-			5.50
Staff welfare expenses	0.29			0.30
Net Employee Costs	**40.74**			**51.04**
Provident Fund Contribution	4.09			3.72
Gratuity Payment	-			0.49
Gross Employee Expenses	**44.82**	**26.10**	**27.62**	**55.26**

43. As shown in the table above, the actual employee cost for the year 2016-17 is higher than the approved level of expenses. According to the licensee the higher employee cost is on account of the following:

- The Company had appointed the full time Managing Director on 06-07-2015 with pay scale and remuneration equivalent to the CEO of Class B PSU under Government of Kerala
- While determining the normative employee cost for the control period, the Commission has used the actual employee expenses for the year 2011-12. In 2011-12, salary of the part time managing director was only included in the employee costs. The employee cost for 2016-17 includes the salary of full time managing director.
- Pay revision were not covered in the normative employee cost as the same was effected at a later period.

44. 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-16
Apportionment details of employee cost

	Allocation (%)	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Managing Director	50%	Working	Incharge	Incharge	Incharge	Incharge	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	Nil	Working	Working	Working	Working	Nil
Accounts Officer	100%	Nil	Nil	Working	Working	Working	Working	Nil
Electrician	100%	Working	Working	Working	Nil	Working	Nil	Nil
Electrical supervisor	100%	Working	Working	Nil	Nil	Nil	Nil	Nil
Accountant	100%	Working	Working	Nil	Nil	Nil	Nil	Nil
Receptionist cum accountant	100%	Working	Working	Working	Nil	Nil	Nil	Nil

45. As per the details furnished by the licensee, the salary of the managing director in 2011-12 is as shown below:

Employee Expense details of Managing Director in 2011-12			
	Total in Rs.	% Apportioned	Power Distribution business in Rs.
Consolidated Pay*	180000	50%	90000

46. As against the above, the present details of the salary of the Managing Director as furnished by the licensee is as shown below:

Employee Expense details of Managing Director in 2016-17			
	Total	% Apportioned	Power Distribution business in Rs.
Consolidated Pay	771000	50%	385500
HRA	274800	50%	137400
Festival Allowance	2400	50%	1200
Medical Reimbursement	49182	50%	24591
Earned Leave	88200	50%	44100
Total (Rs.)	1185582		592791
Rs in Lakhs	**11.86**		**5.93**

47. As per the details submitted, the licensee has apportioned 50% of the salary of the Managing Director towards distribution business. In addition to the above, the additional expenses is towards the wage revision effected. As per the details furnished by the licensee, the wage revision resulted in an average hike of 15% and the company has incurred an additional expenditure of Rs.5.50 lakh in 2016-17. The licensee requested to allow the additional expenses towards the salary of the Managing Director and wage revision as part of the employee expenses.

48. The Commission has examined the submission of the licensee. The licensee has requested to allow additional employee cost in terms of pay revision expenses and salary of Managing Director. The Commission notes that while determining the normative employee cost for the control period, the Commission had considered the actual employee expenses for the year 2011-12. The licensee submitted that the actual employee expenses for the year 2011-12 included the consolidated pay of the Managing Director in charge and not the full time Managing Director. The Company had appointed the full time Managing Director on 06-07-2015. Considering this, the Commission decides to rework the employee cost for the year 2016-17 with the salary of Managing Director in 2016-17 as furnished by the licensee as shown below:

49. As per the details submitted, the allocated share to the distribution business on the consolidated pay of the Managing Director in charge during 2011-12 was Rs. 0.90 lakh. Based on the escalation rates considered in the Tariff Regulations 2014, the consolidated pay to the Managing Director in 2016-17 would be Rs.1.19 lakh. The actual apportioned salary paid to the full time Managing Director during the year 2016-17 was Rs.5.93 lakh. Thus, the normative employee cost including the full time Managing Director for the year 2016-17 would be Rs. 32.36 lakh (Rs.27.62 lakh – Rs.1.19 lakh + Rs.5.93 lakh).

50. Regarding wage revision expenses of Rs.5.50 lakhs, the Commission notes that the same was not factored in while determining the norms for the control period (2015-16 - 2017-18). Hence, the Commission is inclined to allow the same as part of the employee cost. Accordingly, after duly considering the wage revision expenses of Rs.5.50 lakh along with the employee cost approved in para.49, employee expenses for the year 2016-17 would be Rs.37.86 lakh (Rs. 32.36 lakh + Rs.5.50 lakh).

Table – 17
Employee cost allowed for truing up for 2016-17

Particulars	Approved ARR (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
Gross Employee Expenses	**27.62**	**55.26**	**37.86**

51. **A&G expense**: A&G expense claimed is Rs.47.07 lakh which is Rs.28.00 lakh higher than the approved amount. The Commission has approved an amount of Rs.19.07 lakh for the year 2016-17.The licensee has stated that the hike in the A&G cost due to tendering of the security services which was not reflected in the normative A&G expenses fixed in the MYT regulations

Table – 18
Details of A&G Expense

Particulars	As per accounts 2015-16 (Rs.lakh)	Trued Up 2015-16 (Rs.lakh)	Approved ARR 2016-17 (Rs.lakh)	As per accounts 2016-17 (Rs.lakh)
Rent Rates & Taxes	0.95			0.48
Insurance	1.68			2.80
Telephone & Postage, etc.	0.69			0.47
Legal charges	0.25			0.31
Audit Fees	0.78			0.80
Consultancy charges/ Truing up Audit fee	0.90			0.50
Other Professional charges	0.23			0.57
Conveyance	2.11			0.39
Vehicle Running Expenses Truck / Delivery Van	5.21			9.26
Electricity charges	0.37			1.20
Water charges	-	18.02	19.07	0.10
Printing & Stationery	0.63			0.71
Advertisements, exhibition publicity	0.29			0.38
Training expenses	-			0.28
Miscellaneous Expenses	-			0.09
Office Expenses	0.41			1.62
License Fee and other related fee	1.77			0.64
V-sat, Internet and related charges	-			0.19
Security arrangements	6.95			6.63
Others	0.50			0.75
Gross A&G Expenses	**23.72**			**28.15**
Ele. Duty u/s 3(I), KED Act	-			18.92
Net A&G Expenses	**23.72**	**18.02**	**19.07**	**47.07**

52. The major expense item booked under A&G expense is the duty payable by the licensee to the Government under Section 3(1) of the Kerala Electricity Duty Act 1963 which is Rs.18.92 lakh. The A&G expenses excluding the claim under Section 3(1) duty is Rs.28.15 lakh. Another major expense is Rs.9.26 lakh towards vehicle running expense and Rs.6.63 lakh towards security arrangements. With regard to the claim on vehicle running cost, RPIL has submitted that Rs.2.76 lakh is the rental charges and Rs.6.50 lakh is towards the car rent of MD. RPIL has also stated that they have claimed only 50% of the security service charges for distribution business.

53. In reply to the clarification sought on the vehicle running expense, the licensee on 20-12-2018 has submitted that the company had accounted the entire vehicle hire charge inadvertently in the licensee business. The licensee has further stated that the company would only account 50% of the vehicle hire charge in the licensee business hence forth.

54. In this context it is to be noted that Regulation 9 of the Kerala State Electricity Regulatory Commission (Conditions of Licence for Existing Distribution Licensees) Regulations, 2006 clearly specifies the modality to be followed by the licensees in keeping the accounts. Sub regulation 3 to regulation 9 of the said regulations states that the distribution licensee shall not normally change the basis of charge or apportionment or allocation of revenues or expenses in relation to the preparation of the accounting statements in respect of a financial year from those applied in respect of the previous financial year, without prior intimation to the Commission. The licensee has not followed a consistent method for apportioning the cost. The Commission also notes that there was no reference in the audited accounts with regard to such change in apportionment methods. The Commission shall look into the matters seriously while truing up the accounts in future years

55. The licensee has booked Rs.18.92 lakh towards Electricity Duty under A&G expenses. The Commission has, in its previous orders taken consistent stand on the issue relating to electricity duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act that the same cannot be admitted as an item of expenditure and cannot be passed on to the consumers.

56. Considering the limited area of the licensee and the norms of operation specified under these Regulations being the ceiling norms, the Commission approves only be admissible A&G expenses as per the Tariff Regulations 2014 and accordingly the A&G expense approved for truing up is Rs.19.07 lakh**.**

Table – 19
A&G expenses allowed for truing up for 2016-17

Particulars	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
A&G expenses	19.07	47.07	**19.07**

57. **<u>R & M Expenses</u>:** The Repair and maintenance cost incurred by the licensee for the year 2016-17 is Rs.31.35 lakh as against the approved cost of Rs. 25.75 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. 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-20
Details of R&M expenses for the year 2016-17

Particulars	**As per accounts (Rs lakh)**
Service Bill of O&M of substation (M/s. Electrotek)	26.38
Current Transformer Overhauling	3.13
Maintenance of substation including consumables and spares from store	1.84
Gross R&M Expenses	**31.35**

58. 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. 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.

59. The licensee has submitted that during the year 2016-17, Rs. 3.13 lakh was incurred towards the one time repair and maintenance for overhauling two current transformers. The licensee submitted that the excessive oil leakage from the current transformers may lead to total failure of the current transformers. As the current transformers are hermetically nitrogen sealed, the repairing of the said current transformers can be carried out only at the factory of the manufacturer. Accordingly the transformers were sent for necessary overhauling works to the factory of the manufacturer M/s.TELK.

60. The Commission has considered the request of the licensee. The overhauling expenditures being onetime expenses, is approved for the financial year 2016-17. Accordingly the repair and maintenance cost approved for the year 2016-17 is Rs. 28.88 lakh (Rs. 25.75 lakh + Rs. 3.13 lakh).

Table – 21
R&M expenses allowed for truing up for 2016-17

Particulars	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	25.75	31.35	**28.88**

61. **Depreciation:** The licensee in the application has claimed a depreciation of Rs.47.35 lakh as against an amount of Rs.50.05 lakh approved by the Commission. The licensee has claimed depreciation for the asset addition of Rs.66.49 lakh for the ABT Meter and related modification of 110/11 kV EHT substation for the year 2015-16. The licensee has claimed the depreciation for the year 2016-17 as per the Tariff Regulations 2014. The details of the claim made by the licensee is shown below.

Table 22
Depreciation for 2016-17

Particulars	Gross Fixed Assets (Rs.lakh)	Rate of Depreciation (%)	Depreciation (Rs. Lakh)
Land & Rights	26.85	-	-
Civil works on EHT Substation	9.26	3.34%	0.31
Transmission lines	99.00	5.28%	5.23
HT Distribution lines	118.27	5.28%	6.24
Substations	481.46	5.28%	25.42
Switch gear, control gear and protection	30.38	5.28%	1.60
LT Distribution system	0.28	5.28%	0.01
Metering Equipment	1.18	5.28%	0.06
Furniture and fixtures	0.66	6.33%	0.04
IT Equipments	0.55	15.00%	0.08
Others			
Leasehold land	27.00	-	-
Building	148.00	3.34%	4.95
Plant and machinery	7.00	5.28%	0.37
Electronic equipment	18.00	5.28%	0.96
Office equipment	-	6.33%	0.01
Computers	4.00	15.00%	0.53
Furniture and fittings	25.00	6.33%	1.56
Sub total	**228.00**		
Total	**995.89**		**47.35**

62. The Commission in the order on truing up of accounts for 2015-16 had approved a depreciation of Rs.45.69 lakh. The higher claim of the licensee for the year 2016-17 is due to the asset additions. Considering the same, the depreciation of Rs.47.35 lakh is approved for the purpose of truing up of accounts for the year 2016-17.

63. **Interest and Finance Charges:** The licensee has claimed a total interest and financing charges of **Rs.68.91 lakh** in the application for truing up for 2016-17 including interest on normative loan of Rs.67.62 lakh and Rs.1.29 lakh as bank charges for the security provided to KSEB Ltd.

64. **Interest on Normative Loan**: The calculation of the normative loan made by the licensee for the year 2016-17 is shown below.

Table 23
Interest on normative loan for claimed 2016-17

Particulars	As per Truing up (Rs.lakh)
Capital cost approved by the Commission	995.89
70% of asset Gross Fixed Assets	697.12
Gross Normative loan – Opening	697.12
Cumulative repayment of Normative Loan upto previous year	-
Net Normative loan – Opening	697.12
Increase/Decrease due to ACE/ Retirement/disposal during the Year	-
Repayments of Normative Loan during the year	-
Net Normative loan – Closing	697.12
Average Normative Loan	
Weighted average Rate of Interest of actual Loans (Ruling base rate of SBI)	9.70%
Interest on Normative loan	**67.62**

65. 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 to 1-4-2015, 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."

66. As shown above, Rubber park has no actual loan portfolio as per the accounts from the 2004-05, the period from where, the Commission has been approving the ARR&ERC and Truing up of accounts. Till 2015-16, the licensee had neither raised any claim on interest charges in the ARR&ERC petitions, nor had the Commission approved any interest charges as there were no loans or cash out flow. Until 2015-16, the licensee has not challenged any of the truing up orders of the Commission and had not raised any dispute regarding interest charges. Hence the decision of the Commission has become final which is consistent with the provisions of the Regulation 12 of the KSERC (terms and conditions of tariff for retail sale of electricity) Regulations 2006. It is to be noted that the provisions of the Tariff Regulations 2014 is a continuation of the earlier Regulations.

67. It is worthwhile to note that the RPL was established with the grants from Government of India and State Government for Research activities relating to Rubber and rubber industries. The licence was granted for providing reliable power to the rubber based industries in the park at lower cost. There is no profit motive behind the establishment of the enterprise as the company has so far not declared any dividend to the promoter Kinfra or Rubber Board. In such circumstances, providing interest on free money would be undue enrichment for the licensee as there is no corresponding cash outflow. In this context it is pertinent to note that the licensee has not claimed any interest and financing charges either normative or actual till the year 2014-15 in the ARR&ERC petition and truing up petitions as per the provisions of KSERC (terms and conditions of tariff for distribution and retail sale of electricity under MTY framework) Regulation 2006. Since there is no normative loan outstanding as on 31-3-2015 as per the regulatory accounts, the Commission is of the considered view that the licensee is not eligible for interest on normative loan under the provisions of Regulation 27(4) of Tariff Regulations, 2014. Accordingly no interest on normative loan is admissible.

68. **Bank charges:** The licensee has also claimed an amount of Rs.1.29 lakh during the year 2016-17 on account of bank guarantee and letter of credit charges as demanded by KSEB Ltd. The claim is for the double security mechanism for executing the PPA for additional power of 2200kVA at 110kV. The details of the bank charges for the security provided to KSEB Ltd are shown below.

Table 24
Other Interest charges claimed for 2016-17

Particulars	(Rs. in Lakh)
L C Opening Charge for PPA	0.54
BG Commission	0.59
Bank Charges	0.16
Net Bank Charges	**1.29**

The amount of Rs.1.29 lakh claimed on account of bank guarantee and letter of credit charges is approved under interest and financing charges for the year 2016-17.

Table 25
Interest and Finance Charges approved for the year 2016-17

Particulars	As per accounts **(Rs. Lakh)**	Amount approved for truing up (Rs. Lakh)
Interest and Finance Charges	68.91	**1.29**

69. **Return on Equity:** 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 2016-17, the licensee has sought for RoE of Rs.41.83 lakh which is calculated at the rate of 14% on 30% of the opening gross fixed asset during the year 2016-17.

70. 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 despatch centre, 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 despatch 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.*

71. As per the details furnished by the licensee, the amount of equity is Rs.966 lakh and 30% of the equity is Rs.289.80 lakh. As per regulation 27(1) of the Tariff Regulations 2014, the rate of RoE is 14%. Thus, an amount of Rs.40.57 lakh is approved as RoE for the year 2016-17.

72. Revenue Surplus/Gap for 2016-17 : Based on the above, the approved expenditure and revenue for the year 2016-17 after truing up is as shown below:

Table 26
Gross Revenue Requirements after truing up for 2016-17

Particulars	2016-17 (Rs.Lakh)		
	ARR Approved	**For Truing Up**	**Trued Up**
Purchase of Power	1416.10	1759.45	1759.08
Repair and Maintenance cost	25.75	31.35	28.88
Employee Cost	27.62	55.26	37.86
Administrative & General Expenses	19.07	47.07	19.07
Depreciation	50.05	47.35	47.35
Interest on Normative loan	35.57	67.62	**-**
Interest & Finance Charges	-	1.29	1.29
Return on Equity	37.93	41.83	40.57
Aggregate Revenue Requirement	**1612.09**	**2051.22**	**1934.10**
Less Non-Tariff income	10.34	0.61	14.76
Less income from wheeling charges	0.04	0.19	0.19
Aggregate Revenue Requirement from Tariff	**1601.71**	**2050.42**	**1919.15**
Revenue from existing tariffs	**1503.04**	**1905.67**	**1905.67**
Revenue gap/Surplus	**(98.67)**	**(144.76)**	**(13.48)**

Orders of the Commission

73. The Commission after considering the application filed by M/s. RPIL for truing up of accounts for the year 2016-17, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the total expenditure of Rs.1934.10 lakh and total revenue of Rs.1920.62 lakh with a revenue gap of Rs.13.48 lakh. The licensee is holding an accumulated surplus of Rs.40.29 lakh at the end of the year 2015-16. Thus the cumulative revenue surplus till 2016-17 will be Rs. 26.81 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.

74. The application is disposed of. Ordered accordingly.

Sd/-	Sd/-	Sd/-
K.Vikraman Nair	**S.Venugopal**	**Preman Dinaraj**
Member	**Member**	**Chairman**

Approved for issue
Sd/-
Secretary