KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

Present : Shri. R. Preman Dinaraj, Chairman
Adv. A J Wilson, Member (Law)

OP 38/2021

In the matter of	:	Truing Up of Accounts of M/s Smart City (Kochi) Infrastructure Private Limited for the financial year 2016-17
Petitioner	:	M/s Smart City (Kochi) Infrastructure Private Limited
Date& No. Hearing	:	1st Hearing held on 10-09-2021, Video Conference Mode 2nd Hearing held on 11-03-2022 at Smart City Kochi
Represented by	:	1. Sri. Jinu Jacob, Company Secretary & Director (Finance) 2. Sri. Ranjith Lal, Senior Manager, Asset & Infrastructure 3. Smt. Sini P.S, Director, Project

Order Dated 11.04.2022

Background

1. M/s Smart City (Kochi) Infrastructure Pvt. Ltd. (herein after referred to as Smart City or licensee or the petitioner), is an Information Technology Special Economic Zone in Kochi, Kerala. It was formed as a Joint Venture Company by the Government of Kerala (16% holding) and Dubai Holding (84% holding) with the objective of developing infrastructure for knowledge-based industries. The Project is spread over an area of 246 acres (99.6 ha) which is divided into Land A 131.41 acres, Land B -100.66 acres and Land C-13.94 acres. The Phase 1 of the Project, consisting of 6.50 lakh sq. ft of IT building and associated infrastructure was inaugurated in 2016. The licensee entered into a Power Purchase Agreement on 02.12.2015 with a Contract Demand of 1500 KVA with KSEB Ltd. for purchase of 1.50 MVA at 11 Kv voltage for distribution in the licensed area.

2. The Commission as per Notification No.1756/C.Engg/SCK/2013 granted distribution license to the licensee for power distribution to various consumers in the licensed area. The Commission noted that the licensee receives electricity through one no.11 KV feeder from the nearby 220 KV Brahmapuram substation of KSEB Ltd. This 11 KV feeder is connected to 2 nos. of 2000 KVA transformers and LT distribution system at the utility substation which is operated and maintained by

the licensee.

3. After commencing their commercial operations, the licensee filed their first Truing Up Petition on 04.12.2020 for the year 2018-19. While scrutinizing the said Petition for the year, the Commission noticed that the licensee had not filed their Truing Up Petitions for the year 2016-17 and 2017-18, even though the licensee has started commercial operations of Phase -I from the year 2016-17 onwards. Further, as per proviso to Regulations 11 (2) of KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014, every distribution licensee shall file the petition for the Truing Up of their Aggregate Revenue Requirement for each of the Control Period on or before the 30th day of November of the subsequent year. Noticing this serious lapse on the part of the licensee, the Commission vide letter dated 04-05-2021 directed the licensee to file the pending Truing Up petitions.

4. In compliance of the Commission's direction, the licensee filed the petition for the Truing Up of Accounts for the year 2016-17 on 02.08.2021 along with the petition for the condonation of delay in filing the Truing Up petition for the respective year. The Commission after carefully considering the reasons for the delay condoned it and admitted the petition on 06.08.2021.

5. The Commission after duly examining the petitions, conducted the first combined public hearing through Video Conference mode on 10-09-2021 on all the three Truing Up of Accounts petitions for the financial years 2016-17, 2017-18 & 2018-19. During the public hearing, the Commission remarked that the petitions filed by the licensee was devoid of required information and directed the licensee to take all efforts to maintain their regulatory accounts as per the Commission's Regulations. After the hearing, the Commission vide Daily Order dated 14-09-2021 sought clarifications on the petitions.

6. In compliance to the directions of the Commission, the licensee vide letter dated 12-10-2021 furnished the required additional information on the petition and also submitted their revised submissions, revising the ARR and ERC for the Truing Up of Accounts for the years 2016-17, 2017-18 & 2018-19. Thereafter, the licensee revised the Revenue Gap through additional submissions vide letter dated 18-03-2022 and e-mails dated 22.03.202, 29.03.2022 and 07.04.2022. A comparative statement as per the licensee's original submission and their latest revised submissions is given below:

Table-1

Comparison of Truing Up Petition submitted and as per the latest revised submissions for the Truing Up claims for 2016-17

Particulars	2016-17			
	As per the original petition (Rs. lakh) (A)	As per Clarification Revised (In. lakh)	As per vide email.dated 07.04.2022 (B) (In. lakh)	Variance (in lakh) (B)-(A)
Revenue from sale of power	87.03	87.03	87.03	0.00
Other income	5.35	5.35	5.35	0.00
Total income	**92.38**	**92.38**	**92.38**	0.00
Purchase of power	100.40	100.40	100.40	0.00
R&M Expenses	10.76	10.76	10.76	0.00
Employee Cost	32.89	9.89	13.44	19.45
A & G Expenses	11.93	4.68	4.68	7.25
Interest and financing charges	-	44.94	44.94	44.94
Depreciation	44.89	25.18	25.18	19.71
Return on equity	-	25.20	25.20	25.20
Total Expenditure	**200.87**	**221.06**	**224.60**	23.73
Revenue (Gap)/surplus	(108.49)	(128.68)	**(132.22)**	

7. As seen from the above Table, the licensee had initially arrived at a revenue gap of Rs.108.49 lakh for the year 2016-17 as per the Original petition and Rs.132.22 lakh as per their revised figures submitted to the Commission, consequent to the additional information and clarifications sought by the Commission.

8. The Commission noted that the licensee was required to file the Multi-Year Tariff (MYT) petition for approval of Aggregate Revenue Requirement (ARR) & Expected Revenue Charges (ERC) for the years 2016-17 and 2017-18 as per the Regulation 11 of KSERC (Terms and Conditions for Determination of Tariff) Regulations 2014 which is reproduced below:

*"(2)**Every generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre shall file, on or before the Thirtieth day of November of every subsequent financial year during the control period, the following applications:***

a) Application for approval of revised aggregate revenue requirement, if any, for the ensuing financial year and determination of tariff for the ensuing financial year:

b) Application for Truing up of aggregate revenue requirement for the previous financial year:

Provided that truing up for the financial years of the previous control

period prior to the introduction of MYT framework shall be carried out under relevant Regulations applicable to the respective periods".

9. However, the Commission noted that in contravention of the above Regulation, the licensee had not filed the ARR & ERC for the Control Period 2016-17 to 2017-18, despite the fact that the licensee started their Electricity Distribution Business during the financial year 2016-17 onwards.

10. In the absence of any ARR & ERC approved parameters/norms for comparison with the actual expenses claimed by the licensee, the Commission has critically examined each item included in the Truing Up petition for the year 2016-17 as deliberated in the following paragraphs.

Public Hearing on the Petition

11. The first combined public hearing was conducted through Video Conference mode on 10-09-2021 at 11.00 A.M. on all the three Truing Up of Accounts petitions for the for the financial years 2016-17, 2017-18 & 2018-19. Sri. Jino Jacob, Company Secretary & Director (Finance) and other officers of Smart City represented the petitioner and responded to the queries of the Commission.

12. At the outset of the hearing, the Commission pointed out that the petitions filed by the licensee was devoid of required material information. Such an approach by the licensee is not acceptable. However, since the licensee was filing their Truing Up Petitions for the first time, the Commission directed the licensee to take sincere efforts to maintain their regulatory accounts as per the Commission's Regulations.

13. The Commission thereafter queried the licensee as to whether they had sought prior approval of the Commission before incurring capital expenditure as per the Commission's norms. In reply, Sri. Jino Jacob submitted that the licensee had not obtained the Commission's approval for the capital expenditure. He also assured the Commission that the licensee shall be filing their Capital Expenditure Petition post-facto for approval shortly. The Commission remarked that the licensee has not adhered to any of the Commission's Regulations. However, being the first time, the Commission was condoning these lapses. The Commission also warned that such lapses in future shall be viewed very seriously and strict action taken against the licensee.

14. The Commission also pointed out inconsistencies in the licensee's data regarding the amount claimed towards security arrangements and employee expenditure, as huge deviations are noticed in the claims. For instance, while the licensee had incurred Rs.3.77 lakhs and Rs.4.90 lakhs as security expenses for the years 2016-17 and 2017-18 respectively, they had claimed Rs.14.47 lakhs in 2018-19 without any proper justification for the huge increase.

15. The Commission further pointed out that the licensee has shown Rs.16.91 lakhs as

Head Office Accounts under Shareholders' Funds and enquired whether the licensee had sought the approval of the Company's Board of Directors and if so a copy of the relevant Board Resolution for this allocation.

16. Sri. Renjithlal, Senior Manager, Asset & Infrastructure, Smart City submitted that the distribution system of the licensee is now undergoing technical upgradation. Till 2018-19, the distribution was through 11 kV systems and the licensee has since decided to convert the distribution system to 33 kV in the coming years. The licensee also assured the Commission that henceforth, they will file the Capital Investments petition with all the required details as per the Commission's mandate. The licensee further submitted that they have decided to conduct an Energy Audit in the distribution area of the licensee. In reply to the Commission's query regarding the prepaid metering system, the licensee submitted that the building of Smart City is having prepaid metering system, whereas the installation of this system in the other areas is in progress.

17. Smt. Santhi, & Jyothish Kumar, M/s Sands Infiniti, Smt Jeethy George & Sri Dileep SA, M/s Mariapps Marine Solutions (I) Ltd, Sri. Gopakumar, Gems International School, Sri. Kandaswamy, M/s IBS Software Solutions also participated in the hearing from the consumers side and submitted that they are satisfied with the services rendered by the licensee.

18. After the hearing, the Commission vide Daily Order dated 14-09-2021 directed the licensee to submit the additional information/clarifications on or before 24-08-2021. In their response, the licensee vide letter dated 12-10-2021 furnished the additional information required and also submitted their revised petitions (submissions) for the years 2016-17, 2017-18 & 2018-19.

19. Subsequently, a second combined public hearing on the petitions was conducted on 11-03-2022 at Smart City Pavilion, Kochi, at 11.00 A.M. The petitioner explained their compliances to the Commission's directions given vide Daily Order dated 14-09-2021. They further their revised submissions filed on 12-10-2021. Sri. Jino Jacob, Company Secretary & Director (Finance) made a presentation on the Truing Up claim and explained each item in their claim and responded to the queries of the Commission. The main points highlighted by the licensee are:

    a) The licensee has apportioned 50% of the salary drawn by Resident Engineer, Accountant & Engineer to the electricity distribution business, considering the work load of the Distribution Licensee business.

    b) In their revised petition, the licensee has removed the expenses incurred on security arrangement for the utility substation, conveyance charges and electricity charges for the licensee office under the head A&G expenses.

    c) Operation and Maintenance works is outsourced based on competitive tenders. Being an IT Park working on 24-hour basis, there is a requirement to engage one shift operator and one shift assistant in all the three shifts. The materials required for maintenance works are purchased directly by Smart City (Kochi) based on sealed or open tenders. The same operating staff is also entrusted with preventive and break down maintenance. In case of specialised breakdown, the maintenance manpower is outsourced. Since the defect liability period is over for many systems, AMC contracts finalised through competitive bidding are entered into with contractors.

d) Distribution loss for year for the years 2016-17 and 2017-18 is 4.40%, due to under loading of the transformer and low occupancy.

e) The licensee has installed prepaid smart metering system at their SCK01 building. From November 2018 onwards, the same was put on trial mode and implemented from February 2019 onwards.

f) The licensee stated that they had made sincere and conscious efforts to limit the expenditure to the minimum possible. However, while the infrastructure is being implemented to cater to the full occupancy of the building, the actual occupancy is increasing gradually. Hence, there is limit for the reduction. Further, being an IT infrastructure, having many companies working on 24-hour basis, SCK is required to engage maintenance staff in all the 3 shifts. This also has an impact on the licensee’s O & M Expenses.

20. During the hearing, the Commission pointed out that, the licensee has not claimed Interest and Finance Charges and Return on Equity in their petition and the common expenses relating to such businesses can be apportioned on a reasonable basis.

Analysis and decision of the Commission.

21. The Commission considered the application of the licensee for truing up of accounts as per the revised submission for the year 2016-17, the additional submissions along clarifications additionally submitted, the analysis of the issues and decisions taken by the Commission in accordance with Regulations thereof are presented below:

Energy Sales and Consumer Mix

22. The actual revenue from sale of power for the year 2016-17 was Rs.87.03 lakh The energy sale for the year 2016-17 as per the application for the Truing Up of Accounts was 10.32 lakh units. The number of consumers under LT I category was 23 and only one Consumer in HT Category. The details of energy sale during the year 2016-17 as given by the licensee is shown in the table below

Table-2

Energy Sales & No. of consumers

Category	2016-17	
	Number of consumers	Energy sales in lakh Units
LT Consumer	23	3.23
HT consumer	1	7.09
Total	24	10.32

23. As per the petition for Truing Up for the year 2016-17, out of the total sale of 10.32 lakh units, 7.09 lakh units is under the HT category which consists of 1 consumer and contribute about 68.70% of total sale of power. In regards to LT category, the sales units is 3.23 lakh which contributes by 23 consumers and is about 31.30% of total sales units of power.

24. The Commission noted that the fact that the licensee started its distribution business only in 2016-17 and no approved norms have been fixed for electricity distribution business including revenue from sale power. ***After analysing the details, the Commission hereby approves the actual energy sales of 10.32 lakh units as per petition for the purpose of Truing Up of Accounts for the financial year 2016-17.***

Energy Requirement & Distribution Loss

25. In the petition the licensee claimed distribution loss of 4.40% for 0.47 lakh units for Truing Up for the year 2016-17. The details of the distribution loss furnished by the licensee is shown below.

Table-3

Details of Distribution loss for 2016-17

Particulars	As per Truing up petition
Energy Purchased (lakh units)	10.79
Energy Sales (lakh units)	10.32
Distribution Loss (in lakh units)	0.47
Distribution Loss %	4.40

26. Regulation 74 of Tariff Regulations 2014 has specified the manner in which distribution is to be dealt with, which is reproduced below:

74. Distribution losses. – *(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;

(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 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.

27. The licensee stated that the Distribution loss for the year 2016-17 was 4.40% in the distribution network including 11 KV/440V transformer loss. High loss is due to less loading in transformer and due to low occupancy.

28. As per the provision 74(4) a above, 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. However, in the case of the licensee no norm has been approved by the Commission due to non filing of petition for ARR and ERC. In the absence any approved norm the Commission considered the reasons/justification submitted by the licensee for this high loss. The Commission also noted that the licensee was in and electrical infrastructure was in the process of being stabilised. In addition, due to less number of consumers, the loss percentage too will be high. Under such circumstances the Commission has favourably considered the licensee's claim since the actual performance cannot be evaluated at present**. Therefore, considering the fact that the high incidence of distribution loss claimed for the year 2016-17 is in the first year of the licensee's operation in Electricity Distribution Business, the actual distribution loss of 4.40% for 0.47 lakh units is hereby approved by the Commission for Truing Up for the year 2016-17. The licensee is hereby directed to analyse the reasons for the high incidence of loss in the distribution of energy and strive hard to maintain a distribution loss level not exceeding 2% of the total energy received.**

Table-4

Distribution loss approved for 2016-17

Particulars	As per Truing up petition	Trued Up
Energy Purchased (lakh units)	10.79	10.79
Energy Sales (lakh units)	10.32	10.32
Distribution Loss (in lakh units)	0.47	0.47
Distribution Loss %	4.40	4.40

29. ***The Commission hereby approves the actual distribution loss of 4.40% of the licensee for the year 2016-17.***

Power purchase Cost

30. The power purchase cost as per the Truing up petition submitted by the licensee for the year 2016-17 is Rs.100.40 lakh for 10.79 lakh units. The claim of the licensee as per the revised submission for Truing Up of Accounts for the year 2016-17 is given below

Table-5

Details of cost of purchase claimed for the year 2016-17

Particulars	2016-17
Energy Purchase (Units in lakh) (A)	10.79
Contract Demand (KVA)	1500
Maximum Demand (KW)	468
Demand charges (Rs. In lakh) (B)	40.50
Energy Charges (Rs. In lakh) (C)	59.90
Total purchased cost (Rs. In lakh) (D)= (B) + (C)	100.40
Average power purchase cost (Rs.in lakh) E = (D)/ (A)	9.30

31. The Commission noted that, the licensee has claimed an amount of Rs.40.50 lakh as demand charges and Rs.59.90 lakh as energy charges on account of power purchase cost in the petition as well as in Form D.3.1 for the year 2016-17. As mentioned in previous paragraph, the Commission has accepted the distribution loss at 4.40%. During the hearing the licensee also submitted that though there was firm contract demand from their prospective consumers but it did not materialise as expected.

32. ***However, considering the fact the claim is for the licensee's initial year of operation in the distribution business, the Commission hereby approves the power purchase cost of Rs. 100.40 lakh for the year 2016-17.***

Operation & Maintenance Expense

33. Operation & Maintenance expenses include controllable expenses like Employees' cost, Repair & Maintenance expenses and Administrative & General expenses. The actual expenses claimed by the licensee under O&M expenses for the Truing Up for the year 2016-17 are as shown below.

Table 6

O&M Expenses claimed as per revised submission for the year 2016-17

Particulars	2016-17
Employee Expenses (Rs.in lakh)	13.44
A&G Expenses (Rs. In lakh)	4.68
R&M Expenses (Rs. in lakh)	10.76
Total (Rs. in lakhs)	28.88

34. The licensee has claimed Rs.28.88 lakh in the Truing up petition for the year 2016-17. Each of these items is discussed below:

Employee Cost

35. In the petition for the Truing Up of Accounts for the year 2016-17, the licensee has initially claimed an amount of Rs.16.45 lakh as employee cost for carrying out the distribution business. The split up of the employee cost for the year 2016-17 as per the truing up petition is shown below.

Table-7

Comparison of employee cost for the year 2016-17

Particulars	As per Truing Up Petition (Rs. lakh)
Basic Salary	7.67
House Rent Allowance	3.83
Conveyance Allowance	2.12
Other Allowances	4.52
Medical Reimbursement	0.00
Provision for PF Fund	1.02
Gratuity Payment	0.29
Others (Personal Accident)	0.00
Gross Employee Expenses	**19.45**
Less: Expenses Capitalised	3.01
Net Employee Expenses	**16.45**

36. The licensee submitted in the petition that during the initial operation period of licensee, very senior persons were employed for setting up the operation. Hence the cost for the employee is high during the period 2016-17. The licensee also stated that as per the revised submission they had considered only 50% of the salary for employees for licensee operation.

37. As per the split up of the employee cost submitted by the licensee, the major claim is relating to the basis pay, HRA and other allowances to employees.

38. The Commission remarked that the 50 % apportionment made towards the cost of salary and allowance of the Civil Engineer cannot be allowed. Accepting the remark of the Commission, the licensee further reduced the employees cost to 25%.

Accordingly, the employee cost as per the latest claim for 3 persons viz., Senior M&E Engineer, BE (Ele.) Senior Project Manager and Senior Accountant were claimed as Rs.Rs.9.89 lakh for Truing Up of Accounts for the year for the year 2016-17 for electricity distribution business as shown below.

Table-8

Employee Cost for 2016-17

Particulars	2016-17	
	As per Truing Up Petition (1st revision) (Rs. lakh)	As per 2nd revision based on direction of the Commission
Basic Salary	7.67	6.65
House Rent Allowance	3.83	3.16
Conveyance Allowance	2.12	1.78
Other Allowances	4.52	3.17
Provision for PF Fund	1.02	0.89
Gratuity Payment	0.29	0.25
Gross Employee Expenses	19.45	15.90
Less: Expenses Capitalised	3.01	6.01
Net Employee Expenses	16.45	9.89

39. The licensee claimed an amount of Rs.0.25 lakh in the petition as gratuity payment. The Commission noted that, the licensee has not mentioned the methodology for the creation of provision and method for actual payment of gratuity, when liability for this payment arises. In the clarification dated 12-10-2021 the licensee stated that, the provision is done based on Actuarial valuation done on yearly basis of Statutory Audit. The apportionment is done based on the basic salary of the employee/ total basic salary of company and the actual gratuity expense arrived by the Actuary. The same is not insured and the same is paid by Smart City only when it becomes actually payable.

40. The Commission noted from the Annexure 4 attached with the Clarification submitted vide letter dated 12.10.2021, that the licensee revised the employee cost by apportioning 50% of the total emoluments of Rs.15.90 lakh after deducting Rs.6.01 lakh towards staff cost capitalisation. However as per the Form 3.D.4.(a) the capitalised portion was Rs.3.00 lakh. Further, the licensee based on the hearing dt.11.03.2022, submitted vide their e-mail dated 18.03.2022 extract of revised Payroll as annexure I, wherein the employee cost was Rs.9.89 lakh as shown in the Table below:

Table-9

Revised Employee Cost for 2016-17

Particulars	2016-17	
	Amount as per revised submission As per form D.3.4.(a) (Rs.in lakh)	Amount as per pay roll in support of clarification dt.18.03.2022 (Rs.in lakh)
Employee cost	19.45	15.90
Less: expenses capitalised	3.00	6.01
Net Employee Expenses	**16.45**	**9.89**

41. The difference in total emoluments in the last column was due to further reduction of 25% salary of the civil hand in distribution business, based on direction of the Commission.

42. Therefore, the Commission called for the corrected details of employee cost and the actual amount capitalised for the year 2016-17 and the licensee furnished the same vide their e-mail dated 07.04.2022. As per the details furnished, total emoluments of the 3 employees was Rs.15.90 lakh and proportionate staff cost deducted was Rs.2.46 lakh for the year 2016-17 resulting Rs.13.44 lakh as Gross amount for employee cost for the year 2016-17 as shown below

Particulars	2016-17		
	Amount as per revised submission As per form D.3.4.(a) (Rs.in lakh)	Amount as per pay roll in support of clarification dt.18.03.2022 (Rs.in lakh)	As per e mail dt.17.04.2022 (Rs.in lakh)
Employee cost	19.45	15.90	15.90
Less: expenses capitalised	3.00	6.01	2.46
Net Employee Expenses	**16.45**	**9.89**	**13.44**

43. The licensee has also clarified in e-mail dt.07.04.2022 that the qualification of Mr. Santhosh A.V. written as B.E Mechanical, which was a “typo error. His qualification is BE-CIVIL”.

44. The Commission is of the considered view that in an Electricity Distribution Business, only qualified persons in Electrical Engineering shall be appointed. The Commission is at a loss to understand as to how the licensee has appointed a Civil Engineer to handle the electrical systems of the licensee. It is a recognised fact that electricity distribution business is inherently risky to life and property. The Commission is of the strong view that only duly and appropriately qualified engineers and staff must be deployed for electricity distribution business. Utilizing the services of engineers and technicians who are not qualified in the electrical stream is not correct and cannot be permitted, considering the risk involved in the

electricity distribution business. The Commission hereby directs that deployment of inappropriately qualified officers and technicians in the electricity distribution business must be stopped forthwith.

45. **Therefore, the Commission decided to disallow the 25% salary and allowances amounting to Rs.3.55 lakh claimed in respect of Mr. Santhosh A.V., Sr. Project Manager, in view of the clarification furnished by the licensee in their e-mail dated 07.04.2022 that <u>"Mr. Santhosh A.V.'s qualification is BE-Civil"</u>.**

46. **Therefore, the Commission hereby direct that the licensee shall take conscious decision in employing appropriate and duly qualified employees in Electrical Engineering for Electricity Distribution business.**

47. The Commission further notes that, the gratuity payment expenses cannot be allowed for the year 2016-17 on the reason that no amount has been paid towards gratuity to the employee or to any specified fund earmarked for the purpose for the year 2016-17. However, the Commission stated that the cost of gratuity will be allowed as and when the actual disbursement of gratuity is made to the employees. The Commission has been also taking the consistent stand that, the actual disbursement of gratuity payment during the year can only be allowed in the process of Truing Up of Accounts***. Therefore, the amount of Rs.0.21 lakh relates to the gratuity payment in respect of the remaining 2 employees is disallowed from the employee's cost.***

48. Considering the fact that the license has maintained only the very essential staff during the year 2016-17, the employee cost approved for the year 2016-17 is shown below.

Table 10

Table showing employee cost approved for the year 2016-17

Particulars	2016-17		
	As per Truing Up Petition (1st revision) (Rs. lakh)	As per 2nd revision based on direction of the Commission (Rs. in lakh)	Trued UP (Rs. in lakh)
Basic Salary	7.67	6.65	5.64
House Rent Allowance	3.83	3.16	2.48
Conveyance Allowance	2.12	1.78	1.44
Other Allowances	4.52	3.17	1.82
Provision for PF Fund	1.02	0.89	0.76
Gratuity Payment	0.29	0.25	0.00
Gross Employee Expenses	19.45	15.90	12.14
Less: Expenses Capitalised	3.01	6.01	1.91
Net Employee Expenses	16.45	9.89	10.23

49. ***After examining the details furnished by the licensee, the Commission hereby approved the employee cost of Rs.10.23 lakh after disallowing the salary and allowances amounting to Rs.3.55 lakh and staff cost capitalised amounting to Rs.1.91 lakh in addition to Rs.0.21 lakh towards gratuity of the remaining 2 employees as it has not been actually paid during the year 2016-17. [15.90 - (3.55+1.91+0.21)].***

R&M Expenses

50. The licensee in the Truing Up petition claimed Rs.10.76 lakh for the year 2016-17 towards Operation and Maintenance contract as shown below.

Table-11

Details of R&M expenses for the years 2016-17

Particulars	As per Truing Up Petition (Rs. lakh)
Operation & Maintenance contract	10.76
Gross R&M Expenses	10.76
Less: Expenses Capitalized	-
Net R&M Expenses	10.76

51. The Commission during the hearing held on 11.03.2022 sought clarification regarding the selection and awarding the contract for maintenance works and the licensee submitted that no open tender has been called for as per their policy, and tenders were issued only to the short-listed vendors through Email.

52. After Considering the details submitted by the licensee, the Commission is of the view that the actual R&M expenses can be admissible for the year 2016-17. **The Commission hereby directs that, R&M works should be outsourced only through competitive bidding process so as to ensure reasonableness of the rates.** The Approved R&M for the year 2016-17 is as shown below.

Table-12

R&M expenses approved for truing up 2016-17

Particulars	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	10.76	10.76

53. ***Accordingly, the Commission hereby approves R&M expenses for the year 2016-17 is Rs.10.76 lakh.***

A&G expenses

54. The Administrative and General expense claimed by the licensee as per the petition for Truing Up of Accounts for the year 2016-17 is Rs.4.68 lakh. A&G expenses

include various items such insurance, telephone and postage, periodical inspection charges, bank charges, license fee, security arrangement and outsourcing of metering billing system etc. **The Commission notes that A&G expenses are those items of expenditure which are supplementary to and support the actual operation of the licensee. Hence, there is a requirement to keep such directly non-operational expenditure to its absolutely required limits.**

55. The A&G expenses Rs.4.68 lakh claimed by the licensee are as given in the table below

Table 13

Split up details of the A&G expenses claimed for the year 2016-17

Particulars	As per Truing Up Petition (Rs. lakh)
Rent Rates & Taxes	0.00
Insurance	0.07
Telephone & Postage, etc.	0.27
Audit Fees	0.00
Periodical Inspection charges	0.00
Water charges	0.07
Printing & Stationery	0.04
Advertisements, exhibition publicity	0.00
Bank Charges	2.45
Office Expenses	042
License Fee and other related fee	0.01
Outsourcing of metering and billing system	1.10
V-sat, Internet and related charges	0.25
Books & periodicals	0.00
Computer Stationery	0.00
Others -PPA, ARR	0.00
Gross A&G Expenses	4.68
(Less) Ele. Duty u/s 3(I), KED Act	0.00
(Less) Expenses Capitalised	0.00
Net A&G Expenses	4.68

56. The licensee submitted in the petition that in A&G expense that major expense is for security arrangement at substation. However, they have considered only 2 security persons deployed for 24 hr duty and paid minimum wages for these security person.

57. The licensee has withdrawn the claim of Cost for Security charges, Electricity charges for Office and conveyance charges under the head A&G expenses.

58. The major claim booked under A&G expense is Rs.2.45 lakh towards Bank charges, Rs.1.10 lakh towards outsourcing of metering and billing system. Rs.0.07

towards insurance, telephone and Postage Rs.0.27 lakh.

59. The Commission during the hearing held on 11.03.2022 sought the details of Bank charges of Rs.2.45 lakh which was the major cost under the head A&G for the year 2016-17. To a query regarding Fixed Deposit of Rs.60.00 lakh, the licensee in their clarification letter dated 12.10.2021 submitted that the licensee is not availing any Non-Fund based Credit limit with any banker, hence for any limits the company has to deposit 100% margin money. The licensee further stated that Rs.30.00 lakh is for availing Bank guarantee for Kerala State Electricity Board Limited against 100% bank guarantee amount and Rs.30.00 lakh is for availing letter of credit for KSEBL against 100% guarantee amount for monthly bills.

60. The Commission noted that the bank charges paid by the licensee is on the higher side and the possibility of reducing the bank charges shall be explored by floating tenders for Bank Guarantee and revolving letter of credit. **The Commission also directed that the result of action taken to reduce the banks charges shall be intimated to the Commission and the high rate of bank charges cannot be allowed from 2022-23 onwards.**

61. The licensee in their clarification dated 12.10.2021 stated that, Rs.1.10 lakhs paid to third party agency for collection & preparation of bills and which is shown under "outsourcing of metering and billing system" in A& G Expenses for the year 2016-17. The Commission noted that, the prepaid smart metering system has been installed at SCK 01 building.

62. The licensee has further clarified vide their letter dated 12.10.2021 that the insurance expenses of Rs.0.07 lakh incurred towards the cost of insurance premium for an electricity distribution asset of Rs.494.97 lakh for a period of 3 months during the 2016-17.

63. Regarding the withdrawal of claims towards Cost for Security charges, Electricity charges for Office and conveyance charges the Commission advised that justifiable and reasonable expenditure directly attributable to the electricity distribution business can be claimed with documentary evidence as and when it is incurred since the Commission is earnestly following the principle of consistency. **Therefore, the Commission hereby directs that the identifiable electricity distribution business expenses under employee expenses, R&M and A&G expenses shall be booked directly and presented to the Commission with proper details and justification during the Truing Up of Accounts. The Common expenses relating to such business should be apportioned on a reasonable basis**.

64. ***In view of the above Commission hereby accepts the claim of the licensee and allows Rs.4.68 lakh towards these expenditures under A&G expenses for the Truing Up for the year 2016-17.***

Table-14

A&G expenses approved for Truing Up 2016-17

Particulars	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
A&G expenses	4.68	4.68

65. ***After carefully considering the licensees submission, the Commission hereby approves the A&G expenses as Rs.4.68 lakh for the year 2016-17.***

O&M Expenses Approved

66. The O&M expense, which is inclusive of Employee costs, R&M expenses, and A&G expenses, approved by the Commission for the year 206-17 is Rs.25.67 lakhs as shown in Table below.

Table 15

O&M Expenses approved for 2016-17

O&M Expenses	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Employee expenses (Rs. lakh)	13.44	10.23
R&M expenses (Rs. lakh)	10.76	10.76
A&G expenses (Rs. lakh)	4.68	4.68
Total O&M expenses (Rs. lakh)	28.88	25.67

67. ***The Commission hereby approves the O&M expenses of Rs.25.67 lakh for the period 2016-17 against the licensee's revised claim of Rs.28.88 lakh.***

Depreciation

68. The depreciation claimed by the licensee in the petition for Truing Up for the year 2016-17 is Rs.25.18 lakh. The licensee has made an asset addition of Rs. 1.67 lakh for the year 2016-17. The actual depreciation claimed by the licensee included depreciation provided for the existing assets and also pro-rata depreciation for the new assets amounting to Rs.1.67 lakh capitalised during the year 2016-17. The depreciation claimed by the licensee as per the petition for truing up is detailed below.

Table-16

Depreciation claimed for the year 2016-17

Asset Group	Rate of depreciation (%)	Gross Fixed assets			Provision for depreciation		
		At the beginning of the year (Rs. in lakh)	Addition during the year (Rs. in lakh)	At the end of the year (Rs. in lakh)	Cumulative up to the beginning of the year (Rs. in lakh)	Additions during the year (Rs. in lakh)	Cumulative at the end of year (Rs. in lakh)
Land & land rights*	1.01%	21.14	0.00	21.14	1.10	0.21	1.31
HV Distribution system	5.28%	391.30	0.00	391.30	3.44	20.66	24.10
Distribution lines	5.28%	80.86	0.00	80.86	0.71	4.27	4.98
IT Equipment's	15.00%	0.00	1.67	1.67	0.00	0.04	0.04
Total		**493.30**	**1.67**	**494.97**	**5.25**	**25.18**	**30.43**

* Leased the land for 99 years for a consideration of Rs.104.00 crore as land lease premium.

69. In their petition the licensee has provided depreciation for the leased land at a rate of 1.01%. On the verification it is seen that, the company has entered into an agreement with Government of Kerala for leasing land for a period of 99 years in consideration of an amount of Rs.104.00 crore as land lease premium for 246 acres. Out 246 acres, 1.5 acres of land used by the licensee for the construction of licensee distribution system. The licensee in the revised submission through email dt.29.03.2022 stated that they considered depreciation for 50 cents and the amount considered is Rs.21.14 lakh. The Commission finds that the licensee has made the proportionate cost of the land for depreciation.

70. The Commission sought clarification vide letter dated 14.09.2021 for the source of funding of asset addition made and also the details of consumer contribution and grants, if any, received during the year 2016-17. The licensee in their clarification dated 12.10.2021 submitted the funding was term loan from State Bank of India @ 10.70 % for the year 2016-17. As per the details of depreciation statement the amount of Rs.1.67 lakh was utilised for the procurement of IT equipment.

71. The Commission has not allowed depreciation for the assets as the licensee had not submitted petition for prior approval of the Commission. The Commission had in the Daily Order dated 14.09.2021 issued specific directions to the licensee to file a proper petition for the approval of Capital Investment without any delay. Accordingly, the licensee filed petition for Capital Investment for the year 2016-17 to 2019-20 along with the petition for the condonation for delay which was accepted vide Order dated 02.11.2021.

72. Regulation 71 and 72 of Tariff regulations 2014 deals with the procedure to be followed by licensee for approval of Capital Cost. This is reproduced below:

"71. Capital cost. – (1) The sum of annual capital costs from the date of commencement of each capital expenditure project till the date of its commissioning, as approved by the Commission after prudence check, shall be the original capital cost of such project for the purpose of determination of tariff.

72. Capital investment plan. – (1) The distribution business/licensee shall ensure optimum investments in capital expenditure projects to enhance efficiency and productivity and to meet performance standards specified by the Commission.

(2) The distribution business/licensee shall, by the Thirtieth day of September of the current financial year, submit to the Commission for its approval, a detailed capital investment plan, financing plan and physical targets for meeting the requirement of load growth, reduction in distribution losses, improvement in quality of supply, reliability, metering, consumer services, etc., for the ensuing financial year and subsequent financial years of the control period, in accordance with the 'Guidelines for In-principle Clearance of Capital Investment' specified at Annexure-IV.

(3) (a) The capital investment plan shall be accompanied by such information, particulars and documents as may be required to substantiate the need and to justify the proposed investments.

(b) The investment plan shall also include capitalisation schedule and financing plan.

(4) The Commission may approve the capital investment plan of the distribution business/licensee, with appropriate modifications, if required or reject the same, based on the prudence check:

Provided that the Commission shall afford to the distribution business/licensee, a reasonable opportunity of being heard, before rejecting the proposal for approval of the capital investment plan.

(5) The costs corresponding to the approved capital investment plan of the distribution business/licensee for a given financial year shall be considered for its revenue requirement."

73. As per Regulation 28 (1) of Tariff Regulations 2014, applicable to the Control Period 2015-16 to 2017-18, the value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission. Here the licensee has not obtained any prior approval for the assets of Rs.493.30 lakh created at the beginning of the year. As per the directions of the Commission to file a proper petition, issued vide Daily Order dated 14.09.2021 the licensee filed the Capital Investment Plan for the years 2016-17 to 2019-20 vide their letter No.SCK/P16-P93/103/2021 dated.22.10. 2021.

74. After examination of the Capital Investment proposal submitted by the licensee the

Commission directed wanting additional details regarding the Capital Investment Plan again by the Commission vide letter dated 01.02.2022. The licensee has furnished their clarification vide letter dated 10.02.2022 to the Commission and it under the consideration of the Commission.

75. As per Regulation 71 (1) of the Tariff Regulations 2014, the sum of annual capital cost from the date of commencement of each capital expenditure project till the date of its commission as approved by the Commission after prudence check shall be the original Capital cost of such project for the purpose of determination of tariff. Since the Capital Investment Plan is yet to be approved by the Commission, the depreciation for the Truing Up 2016-17 will be considered once the capital investment plan of the licensee is approved. is not in a position to allow the depreciation for the Truing Up 2016-17 now.

76. ***Therefore, the Commission has decided to defer the approval for depreciation claimed for the Capital Assets for the year 2016-17.***

Interest and Finance Charges

77. In the revised submission, the licensee has claimed Rs.44.94 lakh as interest and financing charges for the year 2016-17. The Commission had sought clarification vide Daily Order dated 14.09.2021 of long term loan of Rs. 146.66 lakh shown in the financial statement attached with the Original petition. In their reply dated 12.10.2021, the licensee submitted that the long term borrowings shown in the financials are term loans borrowed from State Bank of India for the project and the interest rate are provided as 10.70%. However, in the additional details furnished vide Email dated 29.03.2022, the licensee has claimed Rs.44.94 lakh as interest and in the statement attached shown the closing balance of loan as on 31.03.2017 as Rs.226.33 lakh without any substantiating documentary evidence.

78. Regulation 30 of the Tariff Regulations 2014 provides for calculation of interest which is quoted here under.

30. Interest and finance charges. – (1) (a) The loans arrived at in the manner indicated in regulation 27 shall be considered as gross normative loan for calculation of interest on loan.

(b) The interest and finance charges on capital works in progress shall be excluded from such consideration.

(c) In the case of retirement or replacement of assets, the loan amount approved by the Commission shall be reduced to the extent of outstanding loan component of the original cost of the retired or replaced assets, based on documentary evidence.

(2) The normative loan outstanding as on the First day of April, 2015, shall be worked out by deducting the amount of cumulative repayment as approved by the

Commission up to the Thirty First day of March, 2015, from the normative loan.

(3) Notwithstanding any moratorium period availed by the generating business/company or the transmission business/licensee or the distribution business/licensee, the repayment of loan shall be considered from the first financial year of commercial operation of the project and shall be equal to the depreciation allowed for that financial year.

(4) The rate of interest shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each financial year applicable to the generating business/company or the transmission business/licensee or the distribution business/licensee or state load despatch centre:

Provided that if there is no actual loan for a particular financial year but normative loan is still outstanding, the weighted average rate of interest on the last available loan shall be considered:

79. As per the above Regulation, interest on normative loan is to be allowed based on the normative loan. Regulation 30(2) states that the normative loan outstanding as on the first day of April 2016 shall be worked out by deducting the amount of cumulative repayment as approved by the Commission upto the thirty first day of March 2016. However, the commission notes that the licensee has commenced their operation only 2016-17. Further, the petition for Capital Investment for the years 2016-17 to 2019-20 is under the consideration of the Commission**. *Therefore, the Commission has decided to allow interest on normative loan once the capital expenditure plan and expenses incurred as finalised and the same is deferred at present*.**

Return on Equity

80. The licensee has claimed Rs.25.20 lakh as Return on Equity vide their revised submission dated 29.03.2022 for truing up for the year 2016-17. As per their Form D.3.8 furnished by the licensee the Equity Share Capital at the beginning of the year 2016-17 is Rs.600.00 lakh. However, this has not been supported by any audited financial statement for the year 2016-17 and Board Approval authenticating that the Paid Up Share Capital of Rs.600.00 lakh was exclusively earmarked for the Electricity Distribution Business for the year 2016-17.

81. In the present petition, the Commission notes that shareholding pattern in Smart City Infrastructure jointly held by Smart City (India) FZ LLC, Dubai and Government of Kerala in the ratio of 84:16 respectively. The Balance Sheet of the parent Company shows an amount of Rs.195.00 crores as equity amount. As per the provision of Regulation 29(1), return on equity shall be computed in rupee terms, on the paid-up equity share 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:

82. However, the licensee has not furnished the details of actual equity invested in the distribution business***. Therefore, the Commission decided to defer the approval of Return on equity till the licensee submits fully authenticated details including Board approval earmarking the equity capital details to paid up equity capital in the distribution business.***

Revenue from Sale of Power

83. The licensee has submitted that revenue realized from sale of 10.32 lakh units of power for Rs.87.03 lakh during the year 2016-17. The category wise details are given in the Table below.

Table-17

Revenue from sale of power during the years 2016-17

Category	Energy sale in Lakh Units	Revenue from the sale of Power (Rs in Lakhs)	Average Realisation (Rs. Per Unit)
LT Consumers	3.23	37.90	11.73
HT Consumers	7.09	49.13	6.93
Total	**10.32**	**87.03**	**8.43**

84. As per the petition, the major revenue is from the sale was from one HT Consumer was Rs.49.13 lakh (56.45%) and the LT category consumers contribute only Rs.37.90 lakh (43.55%). ***The Commission hereby approves Rs.87.03 lakh as the revenue from sale of power for 10.32 lakh units***.

Non-tariff Income

85. The non-tariff income claimed by the licensee for the year 2016-17 is Rs.5.35 lakh The split-up details of Non-Tariff income claimed are shown below

Table 18

Details of Non-Tariff Income for the year 2016-17

Particulars	Rs. In lakhs
Interest on security deposits	5.35
Total	**5.35**

86. The licensee has claimed Rs.5.35 lakh as Interest on security deposit under the head non-tariff income. ***Accordingly, the Commission approves Rs.5.35 lakh as actual non-tariff income for the year 2016-17.***

87. Based on the above, the approved expenditure and revenue for the year 2016-17 after truing up is as shown below.

Table 19

Revenue Requirements after truing up for 2016-17

Particulars	As per Truing Up Petition (In. lakh)	Trued UP (in. lakh)
Revenue from sale of power	87.03	87.03
Other income	5.35	5.35
Total income	**92.38**	**92.38**
Purchase of power	100.40	100.40
R&M Expenses	10.76	10.76
Employee Cost	13.44	10.23
A & G Expenses	4.68	4.68
Interest and financing charges	44.94	0.00
Depreciation	25.18	0.00
Return on equity	25.20	0.00
Total Expenditure	**224.60**	**126.07**
Revenue (Gap)/surplus	**(132.22)**	**(33.69)**

Revenue (Gap)/Surplus for 2016-17

88. Accordingly, as against the claim of Revenue Gap of Rs.132.22 for the financial year 2016-17, as per the revised petition for Truing UP of Accounts for the year 2016-17 the Approved Revenue Gap is Rs.33.69 lakh. The approved total Expenditure and total Revenue for the year 2016-17 after Truing Up is as shown below.

Table 20

Revenue (Gap)/Surplus approved for the year 2016-17

Particulars	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Total Income	92.38	92.38
Total Expenditure	224.60	126.07
Revenue (Gap)/Surplus	(132.22)	(33.69)

Orders of the Commission

89. The Commission after considering the petition filed by M/s Smart City, Kochi for the Truing Up of Accounts for the year 2016-17, and the clarifications and details provided by the licensee approves the following

a) Total Income is Rs.92.38 lakh

b) Total expenditure is Rs.126.07 lakh

c) The Revenue Gap for the year 2016-17 is 33.69 lakh

Directives

90. The Commission issues the following directive for compliance by the licensee.

a) The licensee shall take conscious decision in employing appropriate and duly qualified employees in Electrical Engineering for Electricity Distribution business. (Para 46)

b) The R& M works should be outsourced only through competitive bidding process so as to ensure reasonableness of the rates. (Para 52)

c) The action taken to reduce the banks charges shall be intimated to the Commission. (Para 60)

d) The identifiable distribution business expenses under A&G expenses shall be booked directly and presented to the Commission with proper details and justification during the Truing Up of Accounts. The common expenses relating to such business should be apportioned on a reasonable basis. (Para 63).

91. The petition is disposed of. Ordered accordingly.

Sd/-	Sd/-
Adv.A.J.Wilson	**Preman Dinaraj**
Member (Law)	**Chairman**

Approved for issue

Sd/-

Secretary