

**KERALA STATE ELECTRICITY REGULATORY
COMMISSION
THIRUVANANTHAPURAM**

Petition No: OP 80 / 2022

Present : **Sri. T.K.Jose, Chairman**
Adv. A. J. Wilson, Member
Sri. B. Pradeep, Member

In the matter of : Petition filed by M/s Smart City, Kochi for the Truing Up of Accounts for the financial year 2020-21

Petitioner : M/s Smart City, Kochi Infrastructure Private Limited

Date of Hearing: : 20.01.2023 at SmartCity, Kochi.

Represented by : Sri. Manoj Nair, CEO, SmartCity
Sri.Jinu John Jacob, Company Secretary
Smt. Sini.P.S, Senior Director-Projects
Sri.Ranjithlal, Senior Manager- Asset & Infrastructure

Order Dated 07.06.2023

1. M/s SmartCity (Kochi) Infrastructure Private Limited (hereinafter referred to as SCK or the licensee or the petitioner) is an Information Technology Special Economic Zone in Kochi, Kerala. SCK is a Joint Venture company formed by Government of Kerala (16% holding) and Dubai Holding (84% holding) for development of infrastructure for knowledge-based industries. The Kerala State Electricity Regulatory Commission (hereinafter referred to as 'the Commission') had granted distribution license to SmartCity (Kochi) Infrastructure Private Limited vide Notification No. 1756/C.Engg/SCK/2013 dated 17.07.2014 and commenced distribution business in the year 2016.
2. As per the Regulation 10(1) of KSERC (Terms and Conditions for Determination of Tariff) Regulations 2018, the petition for Truing Up of Accounts for the year 2020-21 should have been filed by 30.11.2021. However, the licensee filed the petition for Truing Up of Accounts only on 24.06.2022 i.e., after delay of 205 days. In the petition filed for condonation of delay, the licensee has stated that COVID 19 pandemic and related issues as the reasons. The Commission after examining the reasons mentioned in the petition, condoned the delay vide Order dated 05.07.2022 and admitted the petition as OP 80/2022.

3. The Commission vide Order dated 08.11.2019 in OA 02/2019 had issued Order on ARR & ERC of the licensee for the control period from 2018-19 to 2021-22. The Commission had approved a revenue surplus of Rs.66.29 lakh in the said ARR&ERC Order, as against revenue deficit of Rs.127.81 lakh proposed by the licensee for the year 2020-21. The revenue gap as per the present petition for Truing Up of Accounts for 2020-21 is Rs.241.56 lakh. A comparison of the ARR approved in the Order dated 08.11.2019 and the Truing up claim for the financial year 2020-21 as per the petition along with the trued-up figures for the year 2019-20 is shown below;

Table 1
Comparative of the Truing up of accounts for the period 2019-20 and 2020-21

Particulars	2019-20		2020-21	
	Truing Up Claim (Rs.lakh)	Trued Up (Rs.lakh)	ARR&ERC Order (Rs. lakh)	Truing Up Petition (Rs. lakh)
Purchase of power	348.28	348.28	605.46	281.32
Employee Cost	13.72	10.66	47.32	16.43
R&M Expenses	19.51	19.51		16.47
A&G Expenses	4.12	4.12		4.46
Depreciation	58.58	56.34	-	81.68
Prior period Depreciation	-	76.07	-	-
Interest and financing charges	88.72	56.18	-	83.12
Prior period Interest and financing charges	-	85.32	-	-
Return on equity	54.60	47.59	-	54.60
Prior period Return on equity	-	62.34	-	-
Total Expenditure	587.53	766.41	652.78	538.08
Revenue from sale of power	388.90	388.90	712.71	291.76
Other income	11.14	11.14	6.36	4.76
Total income	400.04	400.04	719.07	296.52
Revenue(Gap)/surplus	(187.49)*	(366.37)*	66.29	(241.56)

**Increase in trued up Revenue Gap in 2019-20 compared to the corresponding claim of the licensee is because of prior period expenses (depreciation, interest and finance charges and return on equity) approved by the Commission in the Order dated 09.12.2022 on capital expenditure (OP 67/2021)*

Hearing on the Petition

4. The public hearing on the petition was conducted at the Conference Hall, Smart City Pavilion, Kochi on 20-01-2023 at 11.00 A.M. Sri. Manoj Nair, CEO, Smart City, Sri.Jinu John Jacob, Company Secretary, Smt. Sini P.S, Senior Director-Projects and Sri. Ranjithlal, Senior Manager - Asset & Infrastructure represented the petitioner and responded to the queries of the Commission. Sri.Ranjithlal made a presentation on the petition before the Commission and the team representing the petitioner replied to the queries of the Commission. The main points mentioned in the presentation are briefed below;

- a) The number of consumers during the year 2020-21 is 53 and the actual sale for the year is 28.75 lakh units. The sale during 2020-21 is lower compared to the actual sale of 44.21 lakh units in 2019-20. The licensee has stated that the decrease in the sale was due to COVID 19 pandemic and 'work from home' option of the IT companies in the park.
- b) The energy purchased from KSEB Ltd is 30.57 lakh units.
- c) The licensee has stated in the petition that they have commissioned grid connected solar plant at SCK 01 of capacity 564.46 kWp consisting of two units with individual capacity of 475 kWp (Roof top of SCK01 building) 89.46 kWp (Bike parking roof).The electricity injected to the distribution network from solar plant is requested to treat as power generated by prosumer. During the year, 7,33,605 units of solar energy was used for common area lighting, common area loads like lifts, pumps, HVAC units etc.
- d) The overall distribution loss for the year 2020-21 is 5.94% which includes the sharing of Infopark losses.
- e) The actual power purchase cost for the year is Rs. 281.32 lakh. The power purchase cost incurred during the year includes Rs.16.81 lakh towards wheeling charges for drawing power from KSEB Ltd through Infopark 220 KV substation.
- f) As per the norms fixed by the Commission vide Tariff Regulation 2018, ceiling prescribed for Operation and Maintenance expense is Rs.47.32 lakh. Against this, the licensee has claimed a total operation and maintenance expense of Rs.37.36 lakh.
- g) The Employee cost claimed for the year 2020-21 is Rs.16.43 lakh. The licensee has apportioned 50% of the total salary of three employees towards the distribution business activity.
- h) The actual R&M expense for the year is Rs.16.47 lakh, which includes the O&M cost of the outsourced agency. The claim made by the licensee is lower than the expenses incurred during the previous year.
- i) The A&G expenses claimed for the year is Rs.4.46 lakh. The licensee has apportioned some expenses as part of A&G (10% to 15% of the total expense) such as Telephone & Postage, Water charges, Printing & Stationery, Office Expenses, V-sat, Internet and related charges. The actual expense during 2019-20 as approved by the Commission was Rs.4.12 lakh.
- j) The depreciation claimed for the year 2020-21 is Rs. 78.87 lakh which is in line with the Tariff Regulations 2018.
- k) The licensee has claimed interest and finance charges of Rs. 73.21 lakh which includes interest on normative loan of Rs.58.27 lakh, interest on

actual loan of Rs.13.09 lakh and interest on consumer security deposit of Rs.1.85 lakh.

- l) The licensee in the petition has claimed an amount of Rs.48.59 lakh as Return on Equity for the year 2020-21 which is 14% return on the 30% of the equity at the beginning of the year.
- m) The **total expenditure** incurred in 2020-21 is **Rs.519.35 lakh**
- n) The Revenue from sale of power in 2020-21 is Rs. 291.76 lakh. Major revenue realisation is from LT VI B consumers
- o) The Non Tariff Income claimed by the licensee is Rs. 4.76 lakh which includes interest on deposits, interest on delayed payments.
- p) The **total revenue** for the year 2020-21 is **Rs.296.52 lakh**
- q) The petition for the truing up of accounts for the year 2020-21 is submitted with a **revenue gap of Rs.222.83 lakh.**
5. It was noticed that the licensee has revised the claims towards expenses under the heads Depreciation, Interest and Finance Charges and Return on Equity. As a result, the Revenue Gap claimed reduced from Rs.241.56 lakh to Rs.222.83 lakh. The Commission sought clarifications on the petition and directed the licensee to submit the revised petition. The licensee vide letter dated 24.01.2023 submitted the reply to the clarifications sought and the revised petition. The comparison of the revised petition is tabulated below.

Table 2
Truing up of accounts for 2020-21

Particulars	2020-21		
	ARR&ERC Order (Rs. lakh)	Initial Truing Up Petition (Rs. lakh)	Revised Truing Up Petition (Rs. lakh)
Purchase of power	605.46	281.32	281.32
Employee Cost	47.32	16.43	16.43
R&M Expenses		16.47	16.47
A&G Expenses		4.46	4.46
Depreciation	-	81.68	78.87
Interest and financing charges	-	83.12	73.21
Return on equity	-	54.60	48.59
Total Expenditure	652.78	538.08	519.35
Revenue from sale of power	712.71	291.76	291.76
Other income	6.36	4.76	4.76
Total income	719.07	296.52	296.52
Revenue(Gap)/surplus	66.29	(241.56)	(222.83)

6. KSEB Ltd submitted their comments on the petition, which is summarized below;
- a. KSEB Ltd submitted that the repair and maintenance expenses claimed are on the higher side considering similar placed distribution licensees and may be limited to reasonable amount.

- b. The employee cost consists of salary and benefits paid to own employees. It was submitted that as the R&M is on contract basis, the salary of employees projected to serve the limited consumers of around 50 numbers is on the higher side. The employee cost may be limited to reasonable amount.
- c. With regard to depreciation, it was submitted that the same may be approved only after prudent checking of the capital investment expenditure.
- d. The distribution loss claimed in the petition is higher than the distribution loss level approved by the Commission. It was submitted that distribution loss is a controllable factor and higher loss compared to the approved level is to be disallowed.
- e. The energy purchase and the power purchase cost tally with the records of KSEB Ltd.

Analysis and Decision of the Commission

7. The Commission has carefully examined the revised petition submitted by the licensee, the comments and arguments during the hearing, the written submissions and additional clarifications furnished by the licensee. The analysis and decision of the Commission on the petition for truing up of accounts for the year 2020-21 are detailed below:

Energy Sales and Consumer Mix

8. The licensee in the petition for approval of ARR & ERC for the year 2020-21 had estimated energy sales of 88.91 lakh units, which were approved by the Commission as such. The energy sale as per the petition for truing up of accounts for the year 2020-21 is only 28.75 lakh units. The actual sale of the licensee during the previous year 2019-20 was 44.21 lakh units. A comparison of the actual sale of power for different consumer categories for the year 2019-20 and 2020-21 is given below;

Table-3
Comparison of number of consumers and sales during 2019-20 and 2020-21

Tariff Category	2019-20 Trued Up		2020-21 for Truing Up	
	Number of Consumers	Energy sales units (In lakh)	Number of Consumers	Energy sales units (In lakh)
LT IV (B) -Industrial IT &IT Enabled	24	16.84	30	15.26
LT VI (F) -Construction	26	6.62	19	4.74
LT III (B)-Temp connection	-	0.36	-	-
HT I (B)	1	14.56	2	4.42
HT II (B)	2	5.83	2	4.33
TOTAL	53	44.21	53	28.75

9. Compared to the previous year, there is no increase in the number of consumers and the sale during the year is lower when compared to the sales in 2019-20. The licensee in the petition has stated that the sales were projected based on the construction schedule and load projection in 2020-21. But the sale of power had not increased as expected due to Covid-19 pandemic and delay in completion of construction of IT buildings in the licensee area. The licensee has also stated that most of the consumers opted for work from home due to Covid-19, which has been the reason for drastic drop in sales compared to 2019-20.
10. Vide letter dated 19.01.2023, the Commission directed the licensee to propose a plan for optimizing the use of their distribution assets and there by improving the viability of the distribution business. In response, the licensee submitted vide letter dated 24.01.2023 a proposal for power requirements from 2023 to 2035. No discernable information is provided along with.
11. The Commission observes that, the licensee is not initiating necessary and sufficient steps for effective use of the distribution assets in the foreseeable future. As continuance of such impasse adversely affects interests of the consumers, the Commission hereby directs the licensee to take earnest efforts for effective use of distribution assets which were created at their own discretion, failing which the Commission will be constrained to initiate regulatory measures to safeguard consumer interests.
12. ***After analyzing the details and duly considering the impact of Covid 19 and the change in the consumption pattern, the Commission hereby approves the actual energy sales of 28.75 lakh units as per petition for the purpose of Truing Up of Accounts for the financial year 2020-21.***

Energy requirement and Distribution Loss

13. As per details provided in the petition, during the year 2020-21, the energy purchased from KSEB Ltd was 30.57 lakh units. As against the approved distribution loss of 2.20%, the overall distribution loss for the year 2020-21 is 5.94% which includes the sharing of Infopark losses. A comparison of the losses is tabulated below.

**Table-4
Comparison of Distribution loss for 2019-20 & 2020-21**

Particulars	2019-20			2020-21	
	ARR Approved	As per Truing up petition	Trued Up	ARR Approved	As per Truing up petition
Energy Purchased (lakh units)	76.91	46.44	46.44	90.91	30.57
Energy Sold (lakh units)	75.22	44.21	44.21	88.91	28.75
Distribution Loss (lakh units)	1.69	2.23	2.23	2.00	1.82
Distribution Loss %	2.20%	4.80%	4.80%	2.20%	5.94%

14. The tri-party power purchase agreement entered into between KSEB Ltd, Infopark and Smart City in July 2019 was for 5 years and as per clause 8.1 the electrical energy supplied at the delivery point of Smart City shall be calculated by adding the loss in the Infopark system at the rate approved by the Commission, along with consumption recorded in the energy meter at the interconnection point. Accordingly the actual quantum of energy received at the interconnection point of the licensee has been subject to an upward revision to 104.50% for billing purpose of KSEB Ltd. Out of the total energy supplied to the Infopark system by KSEB Ltd, the quantum of energy billed to the licensee as stated above has been deducted and the net quantum of energy is billed to Infopark as their consumption. On a review of the above agreement the Commission note the following discrepancies.
- a) Power purchase of the licensee has been reckoned wrongly by considering 104.50% of the actual quantum of energy received. Instead it should have been assessed taking the actual energy received by the licensee as 95.50% of the energy supplied. (i.e actual energy received / 95.50*100)
 - b) The distribution loss approved by the Commission in the ARR&ERC petition filed by Infopark for the years 2019-20, 2020-21 and 2021-22 are 4.50%,3.00% and 2.50% respectively, where as the parties to the contract has adopted the same rate of 4.50% for purpose of billing in the year 2020-21 also.
 - c) There is no realistic assessment of actual energy loss, happening in the Infopark system which are exclusively used for delivery of power to SmartCity
15. In this connection the Commission has issued directions in OP 59/2022 to review the PPA specifically with regard to clause 8.1. However no significant progress is achieved so far (May 2023). Further, the licensee has stated that the distribution loss of the distribution network is within the approved limit, if loss of Infopark is not considered. Considering the above, the Commission is of the view that no further interference is required in the matter as long as the parties to the contract has no objection on the commercial arrangement followed exclusively for billing purpose.
16. As per the regulations issued by the Commission, distribution loss is a controllable factor and reduction in distribution loss is an important efficiency parameter. Therefore the Commission would be regulating the distribution loss incurred in the system of licensee as shown below. The data will be used for determining the distribution loss targets for future.

**Table-5
Approved Distribution loss for 2020-21**

Particulars	2020-21		
	ARR Approved	As per Truing up petition	Trued Up
Energy delivered at periphery of SmartCity (lakh units)	90.91	30.57	29.25
Energy Sold (lakh units)	88.91	28.75	28.75
Distribution Loss (lakh units)	2.00	1.82	0.50
Distribution Loss %	2.20%	5.94%	1.71%

Accordingly, the Commission approves the distribution loss of 1.71% for the year 2020-21.

Power Purchase Cost

17. The actual cost for the 30.57 lakh units of power purchased at the periphery of Infopark is Rs.281.32 lakh. The power purchase cost incurred during the year includes Rs.16.81 lakh towards wheeling charges for drawing power from KSEB Ltd through Infopark 220 KV substation. Compared to the ARR approved power purchase cost of Rs.605.46 lakh, decrease in the power purchase during 2020-21 is because of reduction in sales due to COVID 19.
18. Smart City has signed (September 2019) Power Purchase agreement for 3000 kVA with KSEB Ltd for availing power through Infopark 220 kV substation. The licensee has also stated that, since the power is wheeled through the network of Infopark, the wheeling charges as per the approved rate and sharing of distribution loss were considered by the licensee while calculating the power purchase cost for the year. The power purchase cost claimed by the licensee is shown below.

**Table- 6
Details of the cost of power purchase claimed for 2020-21**

Energy Purchase (Lakh Units)	30.57
Demand Charges (Rs. Lakh)	91.80
Energy Charges (Rs. Lakh)	172.71
Wheeling Charge to Infopark (Rs. Lakh)	16.81
Total (Rs. Lakh)	281.32

19. The licensee has in the petition stated that they have commissioned (October 2019) grid connected solar plant of capacity 564.46 kWp consisting of two units

with individual capacity of 475 kWp (Roof top of SCK01 building) and 89.46 kWp (Bike parking roof). The licensee also requested that the electricity injected to the distribution network from solar plant to be treated as power generated by a prosumer. During the year the solar generation is 7,33,605 units of energy, which is used for common area lighting, common area loads like lifts, pumps, HVAC units etc. The licensee further confirmed that the solar power generated (7,33,605 units) was less than the quantum of energy consumed (1076006 units) for common area. Thus, the Commission observes that no power (net) injected to the grid, which is to be treated as power generated by a prosumer, and the entire energy can be accounted against the RPO of the licensee.

20. ***After considering the above details, the actual power purchase cost of Rs.281.32 lakh claimed by the licensee in the petition is approved for the year 2020-21.***

Operation & Maintenance Expenses

21. Operation and Maintenance expenses are controllable expenses which include Employee cost, Repair & Maintenance expenses and Administrative & General expenses. The Commission while approving the norms in the Tariff Regulations 2018 had approved the Operation and Maintenance expense of Rs.47.32 lakh for 2020-21. The licensee in the petition has claimed total operation and maintenance expense of Rs.37.36 lakh. During the year 2019-20, the actual O&M claimed was Rs.34.54 lakh as against ARR approved amount of Rs.45.13 lakh. A comparison of the expenses in 2019-20 and 2020-21 is tabulated below.

Table-7
Comparison of the O&M expenses for 2019-20 and 2020-21 (Rs. Lakh)

Particulars	2019-20			2020-21	
	ARR Approved	For Truing Up	Trued Up	ARR Approved	For Truing Up
Employee cost	45.13	10.91	10.66	47.32	16.43
R&M Expenses		19.51	19.51		16.47
A&G Expenses		4.12	4.12		4.46
Total	45.13	34.54	34.29	47.32	37.36

Employee cost

22. The employee cost claimed by the licensee for the year 2020-21 is Rs.16.43 lakh. The Commission while approving the ARR had allowed Rs.21.61 lakh as the employee cost for the year. The licensee in the truing up petition has

apportioned 50% of the total salary of three employees, towards distribution business activity. A comparison of the employee cost claimed is shown below.

Table-8
Comparison of the Employee expenses for 2019-20 and 2020-21 (Rs. lakh)

Particulars	2019-20		ARR Approved	2020-21
	As per Truing Up Petition	Trued Up		As per Truing Up Petition
Basic Salary	6.13	6.13	21.61	6.13
House Rent Allowance	3.91	3.91		3.91
Conveyance Allowance	1.68	1.68		1.68
Other Allowances	3.54	3.54		3.54
Provident Fund Contribution	0.77	0.77		0.77
Gratuity Payment	0.25	0.00		0.19
Others (Personal Accident)	0.23	0.23		0.20
Gross Employee Expenses	16.53	16.26		16.43
Less: Expenses Capitalised	5.61	6.61		-
Net Employee Expenses	10.91	10.66		21.61

23. The employee cost claimed in 2019-20 was Rs.10.91 lakh. Commission had considered the claim and approved Rs.10.66 lakh, after disallowing provision for gratuity of Rs.0.25 lakh, stating the reason that, the expenses of gratuity can only be allowed based on actual disbursement of gratuity payment.
24. The licensee in the petition has submitted the employee wise detailed split up of the employee expenses for the year 2020-21 which is shown below.

Table - 9
Split up of the employee expenses for the year 2020-21 (Rs. lakh)

Particulars	Assistant Director- Asset & Infrastructure	Deputy Manager- MEP	Deputy Manager- Accounts
Basic Pay	5.52	2.90	3.84
HRA	4.44	1.14	2.24
Conveyance	1.44	1.24	0.68
Children Education Allowance	1.92	0.68	1.07
Other Allowances	1.86	0.81	0.74
PF Employer Contribution	0.70	0.37	0.48
Gratuity	0.17	0.09	0.12
Medical Insurance / Expenses	0.14	0.06	0.08
Life Insurance / Expenses	0.06	0.03	0.04
Total	16.25	7.32	9.29
Grand Total	32.87		
50% of the salary considered for Licensee	16.43		

25. Commission had gone through the details submitted by the licensee. It is seen that there is no significant variation in the employee cost over the previous year. The difference between the amounts claimed in the years 2019-20 and 2020-21 is due to capitalization of a portion of expenses incurred in 2019-20. During the year 2020-21, asset addition is a meager amount of Rs.8.09 lakh only and therefore no employee cost has been capitalized.
26. The Commission while truing up the accounts in 2018-19 had clearly stated that, any provision created for discharging future liability cannot be claimed in the truing up petition. It was further stated that Commission will allow the same, as and when the actual disbursement of gratuity is made to the employees. Commission is of the consistent view as in the previous year and directs the licensee to claim only actually disbursed expenses in the truing up of accounts. **Therefore, the amount of Rs.0.19 lakh relating to provision for gratuity payment is disallowed from the employee's cost.** Considering the fact that the licensee has maintained only the very essential staff, **the Commission hereby approves the employee cost of Rs.16.24 lakh for the year 2020-21.**

Repair and Maintenance Expenses

27. The licensee in the petition has claimed Rs.16.47 lakh as R&M expenses for the year 2020-21. The claim of the licensee is lower than the actual expense in 2019-20. The split up is shown below.

Table-10
Details of R&M expenses for the years 2019-20 and 2020-21 (Rs Lakh)

Description	2019-20		2020-21	
	For Truing Up	Trued Up	ARR Approved	For Truing Up
Technical Executive	3.96	3.96	13.12	4.00
Electricians	8.93	8.93		8.19
Housekeeping Staffs	3.75	3.75		2.61
Total	16.64	16.64		14.80
Material & Services	2.87	2.87		1.67
Grand Total	19.51	19.51	13.12	16.47

28. The repair and maintenance expense claimed by the licensee includes Rs.14.80 lakh for the O&M cost of the outsourced agency and Rs.1.67 lakh for materials and services. As per the details submitted, there are seven employees of the outsourced O&M agency, which includes one Technical Executive, four Electricians and two Housekeeping Staffs. The licensee stated that the man power is utilized for operation and maintenance of two 33 KV substations in Land A & Land B. The Commission while truing up the accounts for the year 2019-20 had approved the actual amount of Rs.19.51 lakh claimed by the licensee.

29. **Considering the fact that the R&M expense is lower than the previous year and operation and maintenance of the substation is outsourced to an agency appointed through competitive bidding process, the Commission approves the actual R&M expense of Rs.16.47 lakh incurred in the year 2020-21.**

A&G Expenses

30. The A&G expenses claimed by the licensee as per the petition is Rs.4.46 lakh for the year 2020-21 against the ARR approved amount of Rs.13.83 lakh. There is only a minimal increase in the A&G expenses compared to 2019-20. The Commission while truing up the accounts in the year 2019-20 had approved the actual amount of Rs.4.12 lakh as claimed by the licensee. The split up of the claim made by the licensee is shown below.

Table 11

Comparison of A&G expenses for the years 2019-20 and 2020-21 (Rs. Lakh)

Particulars	2019-20 For Truing Up	2019-20 Trued Up	2020-21 For Truing Up
Insurance	0.90	0.90	1.05
Telephone & Postage, etc.	0.17	0.17	0.16
Audit Fees	0.20	0.20	0.25
Conveyance	-	-	0.14
Periodical Inspection charges	0.01	0.01	-
Water charges	0.09	0.09	0.10
Printing & Stationery	0.13	0.13	0.08
Bank Charges	1.54	1.54	1.46
Office Expenses	0.70	0.70	0.70
License Fee and other related fee	0.13	0.13	0.11
V-sat, Internet and related charges	0.20	0.20	0.20
Books & periodicals	0.00	0.00	0.00
Computer Stationery	0.03	0.03	0.01
Others -PPA, ARR	-	-	0.20
Total A&G Expenses	4.12	4.12	4.46

31. The licensee has apportioned some expenses as part of A&G (10% to 15% of the total expense) such as Telephone & Postage, Water charges, Printing & Stationery, Office Expenses, V-sat, Internet and related charges. The details of the apportionment made by the licensee is shown below;

Table 12
Apportionment of A&G expenses for the year 2020-21 (Rs. lakh)

Particulars	Total Expense	Apportionment %	Distribution Business Expense
Insurance	1.05	100%	1.05
Telephone & Postage, etc.	1.08	15%	0.16
Audit Fees	0.25	100%	0.25
Periodical Inspection charges	0.14	100%	0.14
Water charges	0.96	10%	0.10
Printing & Stationery	0.53	15%	0.08
Bank Charges	1.46	100%	1.46
Office Expenses	4.68	15%	0.71
License Fee and other related fee	0.10	100%	0.10
V-sat, Internet and related charges	1.35	15%	0.20
Books & periodicals	0.03	15%	0.00
Computer Stationery	0.01	100%	0.01
Others – PPA,ARR	0.20	100%	0.20
Total A&G Expenses	11.84		4.46

32. After considering the licensee's submission, the Commission hereby approves the actual A&G expenses of Rs.4.46 lakh for the year 2020-21.

O&M Expenses Approved

33. The O&M expense, which is inclusive of Employee costs, R&M expenses, and A&G expenses, approved by the Commission for the year 2020-21, is Rs.37.17 lakh as shown in table below.

Table 13
O&M Expenses approved for 2020-21 (Rs. lakh)

O&M Expenses	Approved in ARR	Truing Up Petition	Trued Up
Employee expenses	21.61	16.43	16.24
R&M expenses	13.19	16.47	16.47
A&G expenses	12.51	4.46	4.46
Total O&M expenses	47.32	37.36	37.17

34. The Commission hereby approves the O&M expenses of Rs.37.17 lakh for teperiod 2020-21 against the licensee's claim of Rs.37.36 lakh.

Change in the Capital Structure

35. The licensee had filed (October 2021) the petition for approval for the capital expenditure of Rs.1601.56 lakh for the years 2016-17 to 2019-20 incurred towards the development of electrical distribution system in the licensed distribution area. In the hearing conducted on 26.10.2022, with regard to the

petition for approval of capital expenditure, the licensee stated that the source of capital expenditure was equity alone. Accordingly, the Commission vide Order dated 09.12.2022 in OP 67/2021, had approved the capital expenditure of Rs.1601.56 lakh and in the Order on truing up of accounts for the year 2019-20 dated 21.12.2022 had provisionally approved depreciation, interest and finance charges and RoE for years 2016-17 to 2019-20 subject to submission of details of board approval with regard to source of funding of the assets. Commission directed the licensee to furnish extract of the Board Minutes, confirming that the source of capital expenditure was equity.

36. The licensee vide letter dated 16th December 2022, submitted the extracts of the 70th Board minutes, wherein it was stated that the capital expenditure was met out of loan (Rs.4.26 crore) and internal accruals (Rs.11.76 crore) which was in contradiction to the statement made in the hearing. The Commission has also sought the clarification in this regard vide letter dated 19.01.2023. As per the documents submitted by the licensee it is seen that, the SmartCity availed Rs.200.00 crore from State Bank of India (formally known as State Bank of Travancore) for setting up infrastructure facilities. The balance funds are from the internal accruals of SmartCity
37. Regulations 26, 28 and 29 of Tariff Regulations, 2018 deals with provision relating to Debt-Equity ratio, Return on Equity Share capital or Net Fixed Assets and Interest and finance charges for the capital cost approved by the Commission. The relevant portion of the Regulation is stated below.

26. Debt-equity ratio – (1) *For the purpose of determination of tariff, debt equity ratio as on the date of commercial operation in the case of a new generating station, transmission line and distribution line or substation commissioned or capacity expanded on or after the First day of April 2018, shall be 70:30 of the capital cost approved by the Commission:*

Provided that the debt-equity ratio shall be applied only to the balance of such approved capital cost after deducting the financial support provided through consumer contribution, deposit work, capital subsidy or grant, if any.

(2) Where equity employed is more than thirty percent of the approved capital cost, the amount of equity for the purpose of tariff shall be limited to thirty percent and the balance amount shall be considered as normative loan and interest on the same may be allowed at the weighted average rate of interest of the actual loan portfolio.

(3) Where actual equity employed is less than thirty percent of the capital cost, the actual equity shall be considered and the balance of the Commission approved capital cost after adjusting for grants and/or contribution shall be treated as normative loan.

.....

28. Return on Equity Share capital or Net Fixed Assets. – (1) Return on equity shall be computed in rupee terms, on the paid up equity share capital determined in accordance with the Regulation 26 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:

.....
(2) If there is no equity invested in the business or equity invested in the regulated business of the generating business/company or transmission business/licensee or distribution business/licensee or State Load Despatch Centre is not clearly identifiable, return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business:

.....
29. Interest and finance charges. – (1) (a) The loans arrived at in the manner indicated in Regulation 26 shall be considered as gross normative loan for calculation of interest on the loans.

-
38. The aforementioned regulations clearly states that, the Return on Equity Share capital or Net Fixed Assets and Interest and Finance Charges are eligible based on the Debt-equity ratio determined on the basis of Regulation 26 of Tariff Regulations, 2018. Regulation 28(2) states that, if there is no equity invested in the business or equity invested in the regulated business is not clearly identifiable, return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business. Further Regulation 29(1) states that, the loans arrived at, in the manner indicated in Regulation 26 shall be considered as gross normative loan for calculation of interest on the loans.
39. Considering the extracts of the 70th Board minutes submitted by the licensee vide letter dated 16th December 2022, and the provisions of Tariff Regulations, 2018, **the Commission hereby accept and approve the change in the capital structure as 100% Debt Capital. The licensee is directed to file a separate petition before the Commission for redetermination of provisionally approved interest and finance charges and return on equity/ RoNFA for the years 2015-16 to 2019-20, based on the changes approved in the capital structure.**

Depreciation

40. The depreciation claimed by the licensee in the petition for Truing Up of Accounts for the year 2020-21 is Rs. 78.87 lakh. The Commission while truing up the accounts for the year 2019-20 had provisionally approved depreciation of Rs.56.34 lakh. The main reason for the increase in the depreciation in

2020-21 compared to the previous year is due to the addition in capital expenditure of Rs.1098.92 lakh in 2019-20 (Assets additions are made in September 2019, therefore proportionate depreciation had allowed). The depreciation claimed by the licensee as per the petition for Truing Up of Accounts 2020-21 is detailed below;

Table-14
Depreciation claimed for the year 2020-21

Asset Group	Rate of depreciation (%)	Gross Fixed assets		Depreciation		
		At the beginning of the year	Addition during the year	Cumulative in beginning of the year	Additions during the year	Cumulative at the end of year
Land & land rights	1.01%	21.14	0.00	0.85	0.21	1.06
Other Civil works	3.34%	206.38	0.00	3.97	6.89	10.86
HV distribution system						
Distribution lines	5.28%	286.86	0.00	8.71	15.15	23.86
Transformers	5.28%	123.78	0.00	3.76	6.54	10.30
Switchgears, Control gear & Protection	5.28%	229.34	0.00	14.95	12.11	27.06
Batteries	5.28%	9.26	0.00	0.28	0.49	0.77
Others	5.28%	247.75	0.00	14.06	13.08	27.14
LT distribution system						
Distribution lines	5.28%	95.60	0.00	17.53	5.05	22.58
Transformers	5.28%	87.35	0.00	16.13	4.61	20.74
Switchgears, Control gear & Protection	5.28%	61.26	0.00	10.70	3.23	13.93
Batteries	5.28%	4.92	0.00	1.04	0.26	1.30
Others /DG	5.28%	200.24	0.00	39.12	10.57	49.69
Meters	5.28%	7.47	0.00	0.44	0.39	0.83
IT Equipments	15.00%	1.86	0.00	0.87	0.28	1.15
Total		1583.23	0.00	132.41	78.87	211.28

41. The Commission has examined the details furnished by the licensee and observes that, the claim is based on the Tariff Regulations, 2018. Considering the decision in para 39, Commission is of the view that the claim of the licensee can be allowed provisionally. Accordingly, ***the Commission hereby provisionally approves the depreciation of Rs.78.87 lakh as claimed by the licensee for the year 2020-21.***

Interest and Finance Charges

42. The Commission had deferred the approval for interest on normative loan while issuing the Orders on ARR& ERC for the control period (2018-2022) and the truing up of accounts of the previous years (upto 2018-19) as the licensee had not obtained any prior approval from the Commission with regard to Capital Investment. In the Order on truing up of accounts for the year 2019-20, the Commission had provisionally allowed interest and finance charges on the basis of capex petition filed.

43. The licensee for the year 2020-21 has claimed interest and finance charges of Rs. 73.21 lakh which includes interest on normative loan, interest on actual loan and interest on consumer security deposit. The total claim made by the licensee is shown below.

Table 15
Interest and Finance Charges claimed for the year 2020-21

Particulars	Amount (Rs.lakh)
Interest on Normative Loan	58.27
Interest on Actual Loan	13.09
Interest paid to consumer for security deposit	1.85
Total	73.21

44. The item wise interest and finance charges for the year 2020-21 is discussed below.

a) Interest on normative loan:

45. The interest on normative loan claimed in the petition is shown below.

Table 16
Interest on normative loan

Particulars	Rs.lakh
Gross Normative loan - Opening	717.14
Cumulative repayment of Normative Loan up to previous year	0.00
Net Normative loan - Opening	717.14
Increase/Decrease due to ACE/de-capitalization during the Year	
Repayments of Normative Loan during the year	55.21
Net Normative loan - Closing	661.93
Average Normative Loan	689.54
Weighted average Rate of Interest of actual Loans	8.45%
Interest on Normative loan	58.27

b) Interest on Actual Loan

46. The licensee has claimed interest of Rs.13.09 lakh on actual loan for the year 2020-21. The claim made by the licensee is tabulated below.

Table 17
Interest on Actual Loans

Particulars	Rs.lakh
Gross loan - Opening	426.33
Cumulative repayment of Loan up to previous year	-262.20
Net loan - Opening	164.14
Add: drawals during the year	-
Less: Repayment of Loan during the year	-18.57
Net loan - Closing	145.57
Average Normative Loan	154.85
Weighted average Rate of Interest of actual Loans	8.45%
Interest on Actual loan	13.09

47. As per Regulation 29 of Tariff Regulations, 2018, interest is to be allowed based on normative loan. The Regulation 29 (2) states that, the normative loan outstanding as on the First day of April, 2018, shall be worked out by deducting the amount of cumulative repayment as approved by the Commission up to the Thirty First day of March, 2018, from the normative loan. Considering para 39 of this order, **Commission defers the interest on normative loan for the year 2020-21 and directs the licensee to file a separate petition for reconsidering the provisionally approved/deferred interest and finance charges.**
48. An amount of Rs.1.85 lakh has been claimed as Interest on consumer security deposit for the year 2020-21. **The Commission has considered the claim made by the licensee and approves Rs.1.85 lakh as interest on security deposit paid to consumers.**
49. **Thus, the Commission provisionally approves an amount of Rs.1.85 lakh as interest and finance charges for the year 2020-21.**

Return on Equity / Net Fixed Assets

50. The licensee in the petition has claimed an amount of Rs.48.59 lakh as Return on Equity for the year 2020-21 which is 14% return on the 30% of the equity at the beginning of the year. The return on equity claimed by the licensee for the year 2020-21 is shown below.

Table- 18
Return on Equity claimed for the year

Particulars	Rs.lakh
Equity at the beginning of the year	1156.90
Capitalisation	-
Equity portion of capitalization	-
Equity at the end of the year	1156.90
Return on Equity for equity portion (30%) at the rate of 14%	48.59

51. Regulation 28 of the Tariff Regulation clearly specifies the methodology of allowing Return on Equity. Based on the change in the capital structure, the equity invested in the regulated business is not clearly identifiable and therefore the licensee is eligible for Return on Net Fixed Assets instead of Return on Equity. Return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year. Considering the change in the capital structure and para 39 of this order, the **Commission defers the approval of return on net fixed assets for the year 2020-21 and directs the licensee to file a separate petition for approval of return based on the revised Capital structure, with all relevant details.**

Revenue from Sale of Power

52. The total revenue from sale of 28.75 lakh units is Rs.291.76 lakh. The Commission in the Order on ARR&ERC had approved sale of 88.91 lakh units for a total revenue of Rs.712.71 lakh. Category wise comparison of the revenue from sale of power for the year 2019-20 and 2020-21 are as shown below.

Table-19
Comparison of Revenue from Sale of Power for 2019-20 and 2020-21

Tariff Category	2019-20 – Trued Up			2020-21 – Truing Up		
	Energy sales units (In lakh)	Revenue from Sales (Rs. lakh)	Avg. realization (Rs/kWh)	Energy sales units (In lakh)	Revenue from Sales (Rs. lakh)	Avg. realization (Rs/kWh)
LT IV (B) -Industrial IT &IT Enabled	16.84	133.52	7.93	15.26	128.83	8.44
LT VI (F) -Construction	6.62	67.96	10.27	4.74	54.62	11.52
LT VII (A)		5.04	0.00	-	-	-
LT III (B)-Temp connection	0.36			-	-	-
HT I (B)	14.56	110.48	7.59	4.42	48.83	11.05
HT II (B)	5.83	71.90	12.33	4.33	59.48	13.74
TOTAL	44.21	388.90	8.80	28.75	291.76	10.15

53. The Commission has examined the claim made by the licensee and notes that there is a decrease in the revenue from sale of power in 2020-21 compared to previous year 2019-20 which is due to Covid 19 and change in the working pattern of the consumers. As per the petition, the major revenue is from the sale to the LT category. **Considering the above the Commission hereby approves Rs.291.76 lakh as the revenue from sale of power for the year 2020-21.**

Non-tariff income

54. The licensee has claimed non-tariff income of Rs.4.76 lakh for the year 2020-21 which is lower than the previous year. The split-up details of Non-Tariff income claimed are shown below.

Table 20
Comparison of Non-Tariff Income

Particulars	2019-20 Trued Up	2020-21 For Truing Up
	Rs. In lakh	Rs. In lakh
Interest on security deposits	6.61	4.15
Commission for collection of electricity duty	0.19	0.15
Interest on delayed or deferred payment of bills	-	0.45
Application fee (Renewable Energy)	4.34	0.01
Total	11.14	4.76

55. The Balance Sheet of power distribution business of the licensee showed an amount of Rs.30.00 lakh towards security deposit with KSEB Ltd under the head 'loan & advances' and Rs.71.16 lakh under fixed deposits in bank. The major reason for decrease in non-tariff income compared to 2019-20, is due to decrease in application fee (Renewable Energy) and reduction in interest rate. **The Commission considers the claims and approves Rs.4.76 lakh as non-tariff income for the year 2020-21.**
56. Based on the above, the approved provisionally expenditure and revenue for the year 2020-21 after Truing Up is as shown below:

**Table 21
Income and Expenditure Statement after Truing Up of Accounts for 2020-21**

Particulars	2020-21		
	ARR Order (Rs. lakh)	Revised Truing Up Petition (Rs. lakh)	Trued Up (Rs. Lakh)
Purchase of power	605.46	281.32	281.32
Employee Cost	47.32	16.43	16.24
R&M Expenses		16.47	16.47
A&G Expenses		4.46	4.46
Depreciation	-	78.87	78.87
Interest and financing charges	-	73.21	1.85
Return on equity/NFA	-	48.59	-
Total Expenditure	652.78	519.35	399.21
Revenue from sale of power	712.71	291.76	291.76
Other income	6.36	4.76	4.76
Total income	719.07	296.52	296.52
Revenue(Gap)/surplus	66.29	(222.83)	(102.69)

Revenue (Gap)/Surplus for 2020-21

57. Accordingly, as against the approved Revenue surplus of Rs.66.29 lakh for the year 2020-21, the licensee in the revised petition for Truing Up of Accounts has claimed a Revenue Gap of Rs.222.83 lakh. The provisionally approved Revenue (Gap)/ Surplus for the year 2020-21 after Truing Up the accounts is as shown below.

**Table 24
Provisionally Revenue (Gap)/ Surplus Approved for the year 2020-21**

Particulars	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs.lakh)
Total Income	719.07	296.52	296.52
Total Expenditure	652.78	519.35	399.21
Revenue (Gap)/Surplus	66.29	(222.83)	(102.69)

Orders of the Commission

58. The Commission after considering the petition filed by M/s. SmartCity for Truing Up of Accounts for the year 2020-21, views presented by the licensee during the hearing and the clarifications and details provided by the licensee, approves the following:

- a) Total income is Rs.296.52. lakh**
- b) Total provisional expenditure is Rs.399.21 lakh**
- c) The provisional revenue gap for the year 2020-21 is Rs.102.69 lakh**
- d) Total provisional cumulative revenue gap till 2020-21 will be Rs.516.07 lakh (Rs.413.38 lakh as opening cumulative revenue gap + current year provisional revenue gap of Rs.102.69 lakh)**

Directives

59. The Commission issues the following directives for compliance by the licensee.

- a) The licensee shall make sure that the infrastructure created is utilized at optimum level in order to make the licensee's operations more cost effective.
- b) The licensee is directed to file a separate petition before the Commission for redetermination of provisionally approved/deferred interest and finance charges and return on equity/ RoNFA based on the changes approved in the capital structure.

60. The petition is disposed of. Ordered accordingly.

Sd/-
Sri. B. Pradeep
Member

Sd/-
Adv. A. J. Wilson
Member

Sd/-
Sri. T.K Jose
Chairman

Approved for issue
Sd/-
C.R.Satheesh Chandran
Secretary