

**KERALA STATE ELECTRICITY REGULATORY COMMISSION**  
**THIRUVANANTHAPURAM**

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

**OP. No. 39/2021**

In the matter of : Truing Up of Accounts of M/s Smart City (Kochi) Infrastructure Private Limited for the financial year 2017-18

Petitioner : M/s Smart City (Kochi) Infrastructure Private Limited

Date & No. of Hearing: 1<sup>st</sup> Hearing held on 10-09-2021, Video Conference Mode  
2<sup>nd</sup> 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 22.04.2022**

**Background**

1. M/s Smart City (Kochi) Infrastructure Pvt. Ltd. (hereinafter referred to as Smart City or licensee or the petitioner), is an Information Technology Special Economic Zone in Kochi, Kerala. It was formed as Joint venture company by 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 was 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 6.5 lakh sq. ft 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 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 licence 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 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 vide letter No. SCK/P16-P93/115/2020 dated 04-12-2020 had filed a petition for the Truing Up of Accounts for the financial year 2018-19. While examining the said petition it was noticed that, the licensee had not filed any tariff petitions for the year 2016-17 and 2017-18 even though the commercial operations of Phase-I was commenced in the year 2016-17. Further, as per proviso to Regulations 11(2) of KSERC (Terms and Conditions of Tariff) Regulations, 2014, every Distribution licensee shall file the petition for Truing Up of their Aggregate Revenue Requirement for each of the Control Period on or before 30<sup>th</sup> 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 direction of the Commission, the licensee filed petition for the Truing Up of Accounts for the year 2017-18 on 02.08.2021 along with the petition for the condonation of delay in filing the Truing Up petition for the respective year. Considering the fact that the licensee was new, started its operations in 2016-17 and not fully accustomed with the regulatory process, the petition was admitted 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 petitions for the Truing Up of Accounts 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 the licensee shall take efforts to maintain their regulatory accounts as per the Regulations issued by the Commission. After the hearing, the Commission vide Daily Order dated 14-09-2021 sought clarifications on the petitions.
6. In compliance of the directions of the Commission, the licensee vide letter dated 12-10-2021 furnished additional information required on the petition and also submitted the revised petition for the years 2016-17, 2017-18 & 2018-19. Based on the directions given by the Commission the licensee has subsequently revised the Revenue Gap through additional submissions vide letter dated 18-03-2022 and e-mails dated 22-03-2022 and 29-03-2022. A comparison of their latest petition with clarifications for Truing Up of the Accounts for 2017-18 with the Trued Up values for the year 2016-17 are given in the Table below

Table-1  
Comparison of Truing Up petitions for 2017-18 with Trued Up values for 2016-17

Particulars	2016-17		2017-18	
	As per petition For 2016-17 (Rs. lakh)	Trued up 2016-17 (Rs. lakh) (A)	As per petition 2017-18 (B)	Variance (Rs. lakh) C=(B)-(A)
Revenue from sale of power	87.03	87.03	196.75	109.72
Other income	5.35	5.35	6.36	1.01
<b>Total income</b>	<b>92.38</b>	<b>92.38</b>	<b>203.11</b>	<b>110.73</b>
Purchase of power	100.40	100.40	190.69	90.29
R&M Expenses	10.76	10.76	10.85	0.09
Employee Cost	13.44	10.23	9.37	-0.86
A & G Expenses	4.68	4.68	3.99	-0.69
Interest and financing charges	44.94	0.00	67.41	67.41
Depreciation	25.18	0.00	25.40	25.40
Return on equity	25.20	0.00	37.80	37.80
<b>Total Expenditure</b>	<b>224.60</b>	<b>126.07</b>	<b>345.51</b>	<b>220.99</b>
<b>Revenue (Gap)/Surplus</b>	<b>(132.22)</b>	<b>(33.69)</b>	<b>(142.40)</b>	<b>(108.71)</b>

7. The Commission noted that the major change is that the revenue from sale of power has increased to 196.75 lakh during the Truing Up period 2017-18 compared to the same item amounting to Rs.87.03 lakh of the previous year 2016-17, i.e., an increase of Rs.109.72 lakh. Similarly, the power purchase cost was also increased from Rs.100.40 lakh for the year 2016-17 to Rs.190.69 lakh in 2017-18. Total expenditure was also increased to Rs.345.51 lakh in the year 2017-18 compared to Rs.224.60 lakh as per petition of the previous year 2016-17. The main reason for the variation is due to increase in claim made by the licensee for Return on equity and Interest and finance charges.
8. The Commission further noted that the licensee was required to file 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:

**11 “Filing under multi-year tariff (MYT) framework. – (1) 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 the current financial year, the following applications for the control period:**

**a. Application for approval of aggregate revenue requirement for each**

***year of the control period 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.***

***Provided further that the time limit specified for filing applications as per clause (a) and (b) above for the first year of first Control Period shall be the Thirty first day of December, 2014”***

9. Despite the fact that the licensee had started their Electricity Distribution Business from the Financial Year 2016-17 onwards, the petitions were not filed for approval of ARR for the Control Period 2017-18 as required as per the above Regulation. In the absence of any approved parameters/norms for comparison of the actual expenses for the Aggregate Revenue Requirement and Expected Revenue from Charges claimed by the licensee for 2017-18, the Commission critically examined each item included in the above submissions for Truing Up with previous year 2016-17's performance as discussed in the following paragraphs.

### **Public Hearing on the Petition**

10. The first combined public hearing was conducted through Video Conference mode on 10-09-2021 at 11.00 A.M. on all the three petitions for the Truing Up of Accounts 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. The hearing was commenced with a remark of the Commission that the petitions filed by the licensee are devoid of required information and the licensee shall take efforts to maintain their Regulatory Accounts as per the Regulations issued by the Commission. In reply to the Commission's query regarding the approval for incurring capital expenditure, Sri. Jino Jacob submitted that the licensee has not obtained the approval of the Commission for the Capital expenditure and the petition for the approval of the Capital Investment will be filed shortly.
11. The Commission further pointed out that the licensee has shown Rs.16.91 lakhs as head office accounts under shareholders' funds and also enquired whether any approval such as Board Resolution, if any, exists for such allocation.
12. Sri. Ranjithlal, Senior Manager, Asset & Infrastructure, Smart City submitted that the distribution system of the licensee is now undergoing technical upgradation. Till 2018-19, the power distribution was through 11 kV systems and the licensee has decided to convert the Distribution system to 33 kV in the coming years. The licensee also

assured that they will submit all the required details and also file the petition for approval of Capital Investments made. The licensee further submitted that they have also decided to conduct an Energy Audit in the power distribution area of the licensee. With regard to the query of the Commission on the prepaid metering system, the licensee submitted that the building of Smart City is having prepaid metering system and the introduction of prepaid metering system in rest of the areas is in progress.

13. 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 were also participated in the hearing from the consumers side and submitted that they are satisfied with the services rendered by the licensee.
14. After the hearing, the Commission directed vide Daily Order dated 14-09-2021 to the licensee to submit the additional information/clarifications on or before 24-08-2021. The licensee vide their letter dated 12-10-2021 furnished the additional information required on the petition and also submitted the revised petition for the years 2016-17, 2017-18 & 2018-19.
15. Subsequently, the second combined public hearing on the petitions was conducted on 11-03-2022 at Smart City Pavilion, Kochi. The petitioner explained the compliances of the directions given by the Commission vide Daily Order dated 14-09-2021 and also justified the claim as per the revised petition filed on 12-10-2021. Sri. Jinu 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 put up by the licensee are as follows.
  - a. The licensee has considered 50% of the salary drawn by Resident Engineer, Accountant & Engineer considering the work load of Distribution Licensee business.
  - b. Operation and Maintenance are generally outsourced based on competitive tenders. Being IT Park working on 24-hour basis, it is required to engage one shift operator and one shift assistant in all the three shifts. Materials required for maintenance is purchased directly by Smart City (Kochi) based on sealed or open tenders. Same operating staff is arranged for doing preventive and break down maintenance. For specialised breakdown maintenance manpower is outsourced. Since the defect liability period is over for many systems, AMC contracts is signed with contractor which is finalised through competitive bidding process.
  - c. The licensee installed 'prepaid smart metering system' at their SCK01 building. From November 2018 onwards same was put on trial mode and implemented from February 2019 onwards

d. The licensee stated that consciously made sincere efforts to limit the expenditure to the minimum possible. However, the infrastructure being implemented for full occupancy of the building, whereas the occupancy is gradually increasing, there is limit for the reduction. Further, being IT building, as many companies are working on 24-hour basis SCK needs to engage maintenance staff in 3 shifts. This also is a hurdle for minimizing cost of O & M Expenses.

16. 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 with adequate details on a reasonable basis.

### Analysis and Decision of the Commission

17. The Commission considered the petition of the licensee for Truing Up of Accounts for the year 2017-18, the additional clarifications and submissions furnished by the licensee vide letters dated 30-03-2021, 12-10-2021, 18-03-2022 and email dated 22-03-2022, 23-03-2022 and 29-03-2022 and the clarifications provided in the public hearings conducted on 10-09-2021 and 11-03-2022. The analysis and decisions of the Commission on the petition for Truing Up of Accounts for the year 2017-18 are detailed below:

### Energy sales and number of Consumers

18. The energy sale for the year 2017-18 as per the petition for the Truing Up of Accounts is 26.09 lakh units. The details of energy sale Trued Up for the year 2016-17 and those claimed for 2017-18 is shown in the table below.

Table 2  
Energy Sales and Number of Consumers

Category of Consumer	2016-17 (Trued up)		2017-18 (As per petition)		Increase/Decrease compared to P.Y	
	Number of consumers	Energy Sales in lakh Units	Number of consumers	Energy Sales in lakh Units	Increase in No. Consumers	Increase in sales Lakh units
LT	23	3.23	30	9.78	7	6.55
HT	1	7.09	1	16.31	0	9.22
<b>Total</b>	<b>24</b>	<b>10.32</b>	<b>31</b>	<b>26.09</b>	<b>7</b>	<b>15.77</b>

19. As per the petition for Truing Up for the year 2017-18, out of the total sale of 26.09 lakh units, 16.31 lakh units is towards the HT category which consists of only 1 consumer and is about 62.51% of total sale of power. In regard to LT category, the sales units is 9.78 lakh which consist of 30 consumers and is about 37.49% of total sales units of power.

20. The Commission noted the fact that the licensee's business has improved its sale of power in the second year of business in distribution activities in 2017-18 and no approved norms had been fixed for activities including sale of power due to non-filing of petition for approval of ARR for the Control Period 2017-18. **After analyzing the details, the Commission hereby approves the actual energy sales of 26.09 lakh units for the year 2017-18.**

### Energy Requirement & Distribution Loss

21. The licensee has claimed a distribution loss of 4.40% for 1.20 lakh units in their petition for Truing Up of Accounts for the year 2017-18. The detail of the distribution loss furnished by the licensee is shown below.

Table-3  
Comparison of Distribution loss for the years 2016-17 and 2017-18

Particulars	2016-17		2017-18
	As per Truing up petition	Trued Up	As per Truing Up
Energy Purchased (lakh units)	10.79	10.79	27.29
Energy Sales (lakh units)	10.32	10.32	26.09
Distribution Loss (in lakh units)	0.47	0.47	1.20
Distribution Loss %	4.40	4.40	4.40

22. The licensee stated in the petition that the Distribution loss for the year 2017-18 was 4.40% in the distribution network including 11 KV/440V transformer loss. High loss is due to less loading in transformer due to low occupancy. The Commission has noted that against a contract demand of 118.26 lakh units, the actual sale was only 26.09 lakh units. Hence, the sale amounted to just 22% of the energy corresponding to the contract demand entered into. Due to this factor, percentage of distribution loss remained at the high level.
23. The Regulation 74 of Tariff Regulations 2014 has specified the manner in which distribution is to be dealt with, by the distribution licensee for his distribution loss which is reproduced below:

*74. "Distribution losses. –*

- (1) (a) *The distribution business/licensee shall carry out proper studies for the estimation of distribution losses, in order to set a realistic base line of the estimates of losses at different voltage levels and to segregate commercial and technical losses:*
- (b) *The distribution business/licensee shall submit separate details of loss at different voltages, while computing its total energy requirement.*
- (2) (a) *The distribution business/licensee shall submit, along with the application*

*for approval of aggregate revenue requirement for the control period and determination of tariff for the first financial year of the control period, the information on total and voltage-wise distribution losses in the previous financial year and current financial year and the basis on which such losses have been worked out.*

*(b) The distribution business/licensee shall also propose the loss reduction targets for each financial year of the control period, along with absolute loss levels:*

*(c) The distribution business/licensee shall substantiate, along with the application for approval of aggregate revenue requirement and determination of tariff, the proposed loss levels with necessary studies and their results.*

*(3) The Commission shall approve the target of distribution loss for the ensuing financial year as well as subsequent financial years of the control period based on the opening loss levels, filings of the distribution business/licensee, submissions and objections raised by stakeholders and findings of the Commission.*

*(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.”*

24. As per the provision 74(4) as 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. Here in the case of the licensee no specified norm has been approved by the Commission due to non-filing of petition for ARR and ERC for the period 2017-18. In the absence any fixed norm approved the actual performance cannot be evaluated at present.

25. The Commission also notes that taking into consideration the limited geographical area of operation and the limited consumer mix, the licensee can attain the targets



fixed by the Commission if the licensee takes appropriate and efficient measures for the same. However, considering the fact that the high incidence of distribution loss claimed for the year 2017-18 is in the second year of the licensee's operation in distribution business, the actual distribution loss of 4.40% is hereby approved by the Commission for Truing Up for the year 2017-18. **The Commission vide Order dated 11-04-2022 has already directed the licensee 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 2017-18

Particulars	2017-18	
	As per Truing up petition	Trued Up
Energy Purchased (lakh units)	27.29	27.29
Energy Sales (lakh units)	26.09	26.09
Distribution Loss (in lakh units)	1.20	1.20
Distribution Loss %	4.40	4.40

26. Further, the Commission is of the view that since reduction in distribution loss is an important parameter which has a direct impact on power purchase cost and available energy for distribution, licensees should continuously strive to improve upon the target set for this parameter from 2018-19 onwards. **Accordingly, the Commission hereby approves the actual distribution loss of 4.40% of the licensee for the year 2017-18.**

### Power purchase Cost

27. The power purchase cost as per the Truing up petition submitted by the licensee for the year 2017-18 is Rs.190.69 lakh for 27.29 lakh units. The claim of the licensee as per the petition for Truing Up of Accounts for the year 2017-18 is given below.

Table 5  
Power purchase cost claimed for the year 2017-18

Particulars	2016-17 As per Trued Up	2017-18 As per Truing Up petition
Energy Purchase (Units in lakh) (A)	10.79	27.29
Contract Demand (KVA)	1500	1500
Maximum Demand (KW)	468	648
Demand charges (Rs. in lakh) (B)	40.50	40.50
Energy Charges (Rs. in lakh) (C)	59.90	150.19
Total purchased cost (Rs. in lakh) (D)= (B) + ( C )	100.40	190.69
Average power purchase cost (Rs.in lakh) E = (D)/(A)	9.30	6.99

28. The Commission noted that, the licensee has claimed an amount of Rs.40.50 lakh as demand charges and Rs.150.19 lakh as energy charges on account of power purchase cost in the petition as well as in Form D.3.1 for the year 2017-18. As mentioned in the previous paragraph, considering the fact that the licensee is only in the second year of their licensed business operation and no ARR & ERC target for the year has been determined, the Commission had 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, it did not materialise as expected.
29. **Therefore, considering the fact that the claim is for the licensee's second year of operation in the Electricity Distribution Business, the Commission hereby approves the power purchase cost of Rs.190.69 lakh for the year 2017-18.**

### Operation & Maintenance Expense

30. Operation & Maintenance expenses include controllable expenses like Employees Cost, Repair & Maintenance expenses and Administrative & General expenses. A comparison of Employee cost approved for 2016-17 and that was claimed for Truing Up in 2017-18 by the licensee under O&M expenses is as given below.

Table-6

Operation and Maintenance Expenses claimed for the year 2016-17 and 2017-18

Particulars	2016-17		2017-18	Variation
	As per petition (A) (Rs.in lakhs)	Trued Up (Rs.in lakhs)	As per petition (B) (Rs.in lakhs)	(C) =(B-A) (Rs.in lakhs)
Employee Expenses	13.44	10.23	9.37	(-)0.86
A&G Expenses	4.68	4.68	3.99	(-)0.69
R&M Expenses	10.76	10.76	10.85	(-)0.09
<b>Total</b>	<b>28.88</b>	<b>25.67</b>	<b>24.21</b>	<b>(-)1.64</b>

31. The Commission noted that the Operation and Management Expenses claimed by the licensee for the year 2017-18 is Rs.24.21 lakh which is lower by Rs.1.46 lakh compared to the Trued-Up amount of Rs.25.67 lakh for the year 2016-17. The component wise analysis of Operation and Maintenance cost is given below.

### Employee Cost

32. In the petition for the Truing Up of Accounts for the year 2017-18, the licensee has claimed an amount of Rs.9.37 lakh as employee cost as against the Trued Up amount of Rs.10.23 lakh for the same for the year 2016-17. A comparison of the split-up details of the employee cost for the year 2016-17 and 2017-18 is shown below.

Table-7  
Employee cost claimed for the year 2016-17 & 2017-18

Particulars	2016-17		2017-18	
	As per Truing Up Petition (Rs.in lakh)	Trued Up (A)	As per Truing Up Petition (Rs.in lakh) (B)	Variance C=(B)-(A) (Rs. in lakh)
Basic Salary	6.65	5.64	5.00	-64
House Rent Allowance	3.16	2.48	2.90	0.42
Conveyance Allowance	1.78	1.44	1.40	0.04
Other Allowances	3.17	1.82	2.90	1.08
Provision for PF Fund	0.89	0.76	0.55	-0.21
Gratuity Payment	0.25	0.00	0.13	0.13
Others (Personal Accident)	0.00	0.00	0.14	0.14
Gross Employee Expenses	15.90	12.14	13.02	0.88
Less: Expenses Capitalised	2.46	1.91	3.65	1.74
Net Employee Expenses	13.44	10.23	9.37	0.86

33. The Commission noted that the claim of Rs.9.37 lakh towards net employee expenses for Truing Up for the year 2017-18 is lower by Rs.0.86 lakh compared to the approved net employee expenses of the previous year 2016-17.
34. 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.
35. During the hearing held on 11-03-2022 the Commission remarked that, the 50% apportionment made towards the cost of salary and allowance of the Civil Engineer cannot be allowed. However, on examining the details of employee cost for the year 2017-18 furnished by the licensee in clarification dated 12.10.2021, it was noticed that the amount of Rs.9.37 lakh claimed for the year 2017-18 towards employee cost includes an amount Rs.2.05 lakh towards the salary and allowances of Technical Advisor for six months from June 2017 to November 2017. The qualification of the Technical Advisor is BE-Civil who was employed in Electricity Distribution Project.
36. 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.

37. Therefore, the Commission decided to disallow Rs.2.04 lakh claimed in respect of the Technical Advisor, SCK Electricity Distribution Project in view of the clarification furnished by the licensee in their letter dated 12.10.2021 that the Technical Advisor is BE- Civil”
38. ***The Commission has already directed in the Truing Up Order for the year 2016-17 dated 11-04-2022 that the licensee shall take conscious decision in employing appropriate and duly qualified employees in Electrical Engineering for Electricity Distribution business.***
39. The Commission further noted that the licensee claimed an amount of Rs.0.13 lakh as gratuity payment for the year 2017-18. The Commission note that, the licensee is silent about the methodology for the creation of provision and mode/method for actual payment of gratuity when liability for payment arises. In the clarification dated 12-10-2021 the licensee stated that, the provision is done based on Actuarial valuation done year on year basis for Statutory Audit. The apportionment is done based on the basic salary of the employee/total basic salary of the company \* the actual gratuity expense arrived by the Actuary. The amount is not insured and the same is paid by Smart City when the gratuity is payable.
40. The Commission notes that, the gratuity payment expenses cannot be allowed for the year 2017-18 on the reason that no amount has been paid towards gratuity to any employees or to any specified fund for the year 2017-18. Moreover, the Commission vide Order dated 11-04-2022 stated that the cost of gratuity will be allowed only when the actual disbursement of gratuity is made to the employees. The Commission has been also taking the consistent stand that, when the actual disbursement of gratuity payment is made for the year can only be allowed in the process of Truing Up of Accounts. ***Therefore, the amount of Rs.0.13 lakh relating to the gratuity payment is disallowed from the employee’s cost.***
41. Considering the fact that the licensee has maintained only the very essential staff during the year 2017-18, the employee cost approved for the year 2017-18 is shown below.

Table 8  
Employee cost approved for the year 2017-18

Particulars	2017-18	
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Basic Salary	5.00	4.16
House Rent Allowance	2.90	2.34
Conveyance Allowance	1.40	0.98
Other Allowances	2.90	1.92
Provision for PF Fund	0.55	0.55
Gratuity Payment	0.13	0.00
Others (Personal Accident)	0.14	0.12
Gross Employee Expenses	13.02	10.07
Less: Expenses Capitalised	3.65	2.85*
Net Employee Expenses	9.37	7.22

\*Proportionate capitalized amount

42. **After examining the details furnished by the licensee, the Commission hereby approves the employee cost of Rs.7.22 lakh towards employee cost for the year 2017-18.**

### Repair & Maintenance Expenses

43. The licensee in the Truing Up petition has claimed Rs.10.85 lakh for the year 2017-18 towards Operation and Maintenance expenses as shown below.

Table-9  
Details of R&M expenses for the years 2016-17 & 2017-18

Particulars	2016-17		2017-18
	As per Truing Up Petition (Rs. lakh)	Trued up (Rs. lakh)	As per Truing Up Petition (Rs. lakh)
Operation & Maintenance contract	10.76	10.76	10.85
Gross R&M Expenses	10.76	10.76	10.85
Less: Expenses Capitalized	-	-	
Net R&M Expenses	10.76	10.76	10.85

44. The Commission during the hearing held on 11.03.2022 sought clarification regarding the selection and awarding of 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.

45. 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 2017-18. **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 2017-18 is as shown below.

Table-10  
R&M expenses approved for truing up 2017-18

Particulars	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	10.85	10.85

46. **Accordingly, the Commission hereby approves R&M expenses of Rs.10.85 lakh for the year 2017-18.**

### A&G expenses

47. The Administrative and General expense claimed by the licensee as per the petition for Truing Up of Accounts for the year 2017-18 is Rs.3.99 lakh as against the Trued-Up cost of Rs.4.68 lakh for the year 2016-17. **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.** The A&G expenses include various items such as insurance, telephone and postage, periodical inspection charges, bank charges, license fee, and outsourcing of metering billing system etc. The A&G expenses Rs.3.99 lakh claimed by the licensee as given in the table below

Table 11  
Comparison of A&G expenses for the years 2016-17 and 2017-18

Particulars	2016-17		2017-18	
	As per Truing Up Petition (Rs. lakh)	As per Trued Up (Rs. lakh) (A)	As per Truing Up Petition (Rs. lakh) (B)	Variance (C)= (B)-(A) (Rs. lakh)
Insurance	0.07	0.07	0.23	0.16
Telephone & Postage, etc.	0.27	0.27	0.27	0.00
Water charges	0.07	0.07	0.07	0.00
Printing & Stationery	0.04	0.04	0.13	0.09
Bank Charges	2.45	2.45	1.00	-1.45
Office Expenses	0.52	0.52	0.52	0.00
License Fee and other related fee	0.01	0.01	0.03	0.02
Outsourcing of metering and billing system	1.10	1.10	1.44	0.34
V-sat, Internet and related charges	0.25	0.25	0.30	0.05

Gross A&G Expenses	4.68	4.68	3.99	-0.69
(Less) Expenses Capitalised	0.00	0.00	0.00	0.00
Net A&G Expenses	4.68	4.68	3.99	-0.69

48. The Commission noted that the claim of Rs.3.99 lakh submitted by the licensee for the year 2017-18 towards A&G is decreased by Rs.0.69 lakh compared to Trued Up A&G expenses for the year 2016-17. The licensee stated that in the revised petition the licensee has withdrawn the claim of Cost for Security charges, Electricity charges for Office and conveyance charges under the head A&G expenses.
49. The major claim booked under A&G expense is Rs.1.00 lakh towards Bank charges, Rs.1.44 lakh towards outsourcing of metering and billing system, Rs.0.23 towards insurance and Rs.0.27 lakh for telephone and postage.
50. The Commission during the hearing held on 11.03.2022 sought the details of Bank charges of Rs.1.00 lakh which was the major cost under the head A&G for the year 2017-18. 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 was deposited with State Bank of India for availing Bank Guarantee for Kerala State Electricity Board Limited against 100% bank guarantee amount and Rs.30.00 lakh was for availing letter of credit for KSEB Ltd against 100% guarantee amount for monthly bills.
51. ***The Commission has already directed vide Order dated 11-04-2022 that the possibility reducing the bank charges shall be explored by floating tenders for Bank Guarantee and revolving letter of credit and 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.***
52. The licensee in their clarification dated 12-10-2021 stated that, Rs.1.44 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 2017-18.
53. Further, the Commission wanted the reason for the very high increase in the claim for insurance premium in 2017-18. The licensee clarified vide their e-mail dated 11.03.2022 that the increase in the insurance premium of Rs.0.07 lakh during 2016-17 was only for 3 months whereas the premium of Rs.0.23 lakh was for 24 months for the year 2017-18 with consequential increase of Rs.0.16 lakh for the year 2017-18. This insurance was for the licensee’s Electricity Asset valuing Rs.495.16 lakh for 2017-18.
54. Regarding the withdrawal of claims towards Cost for Security charges, Electricity charges for Office and conveyance charges the Commission warned that any justifiable and reasonable expenditure directly attributable to the Electricity Distribution

Business shall be claimed with documentary evidence for the year for which it is incurred because the Commission is earnestly following the principle of consistency.

55. **The Commission clearly directs that, all identifiable distribution business under A&G expenses shall be booked directly and presented to the Commission with proper details and justification for the Truing Up. The common expenses relating to such businesses should be apportioned on a reasonable basis.**
56. The Approved A&G expenses for the year 2017-18 is shown below.

Table-12  
A&G expenses approved for Truing Up for the year 2017-18.

Particulars	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
A&G expenses	3.99	3.99

57. **After carefully considering the licensee's submission, the Commission hereby approves the A&G expenses as Rs.3.99 lakh for the year 2017-18.**

#### **O&M Expenses Approved**

58. The O&M expense, which is inclusive of Employee costs, R&M expenses, and A&G expenses, approved by the Commission for the year 2017-18 is Rs.22.06 lakhs as shown in the Table below.

Table 13  
O&M Expenses approved for the year 2017-18

O&M Expenses	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Employee expenses	9.37	7.22
R&M expenses	10.85	10.85
A&G expenses	3.99	3.99
Total O&M expenses	24.21	22.06

59. **The Commission hereby approves the O&M expenses of Rs.22.06 lakh for the period 2017-18 against the licensee's claim of Rs.24.21 lakh.**

#### **Depreciation**

60. The depreciation claimed by the licensee in the petition for Truing Up for the year 2017-18 is Rs.25.40 lakh for the Gross Fixed Assets amounting to Rs.495.16 lakh including the asset addition of Rs.0.19 lakh towards purchase of I.T equipment during the year 2017-18. In other words, 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.0.19 lakh capitalised during the year 2017-18. The depreciation claimed by the licensee as per the petition for Truing Up of Accounts is detailed below.



Table-14  
Depreciation claimed for the year 2017-18

Asset Group	Rate of depreciation (%)	Gross Fixed assets			Depreciation		
		At the beginning of the year	Addition during the year	At the end of the year	Cumulative up to the beginning of the year	Current year depreciation	Cumulative at the end of year
Land & land rights ***	1.01%	21.14	0.00	21.14	1.32	0.21	1.53
HV Distribution system	5.28%	391.30	0.00	391.30	24.10	20.66	44.76
Distribution lines	5.28%	80.86	0.00	80.86	4.98	4.27	9.25
IT Equipment's	15.00%	1.67	0.19	1.86	0.04	0.26	0.30
<b>Total</b>		<b>494.97</b>	<b>0.19</b>	<b>495.16</b>	<b>30.44</b>	<b>25.40</b>	<b>55.84</b>

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

61. In the original petition the licensee 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 dated 29.03.2022 stated that they considered depreciation for 50 cents of land and the amount considered is Rs.21.14 lakh. The Commission finds that the licensee made the proportionate cost of the land for depreciation.
62. 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 2017-18. The licensee in their clarification dated 12.10.2021 submitted that the funding was term loan from Stat Bank of India @ 10.70 % p.a up to February 2018 and 9.70% p.a from March 2018.
63. The Commission has not allowed depreciation for the assets as the licensee had not submitted petition for Capital Investment Plan 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.
64. The Regulation 71& 72 of Tariff Regulations, 2014 deals with the procedure to be followed for approval of capital Cost which 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.”*

65. Regulation 72 insists that the distribution licensee shall ensure the optimum investments in Capital expenditure projects to enhance efficiency and productivity and to meet performance standards specified by the Commission.
66. 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 approved by the Commission. Here the licensee has not obtained the prior approval of the Commission for the assets created amounting to Rs.494.97 lakh at the beginning of the year 2017-18 for the Truing Up Accounts for 2017-18. Therefore, the Commission directed to file a proper petition, vide Daily Order dated 14.09.2021 and the licensee filed the Capital Investment Plan for the years

2016-17 to 2019-20 vide their letter dated 22.10.2021. Since the petition was not supported with sufficient and adequate information, additional wanting details were sought by the Commission and the same furnished by the licensee vide letter dated 10.02.2022 and it is under the consideration of the Commission.

67. 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 2017-18 will be considered once the capital investment plan of the licensee is approved.
68. ***Therefore, the Commission decides to defer the approval for depreciation claimed for Rs.25.40 for the capital assets for the year 2017-18.***

### **Interest and Finance Charges**

69. The licensee has claimed Rs.67.41 lakh interest and financing charges for the year 2017-18. The Commission has sought clarification vide Daily Order dated 14.09.2021 on the source of funding of assets additions for the year 2017-18 for which the licensee submitted vide their letter dated 12.10.2021 that the funds were contributed through term loan facility. However, in their additional submission vide Email dated 22.03.2022, the licensee has remained in the claim of Rs.67.41 lakh as interest without any substantiating documentary evidence.
70. In this connection the Commission reiterates the requirement of complying with the provisions stipulated in Regulations 30 of the Tariff Regulations, 2014 which has been reproduced in the Truing Up Order of the Commission vide OP 38/2021 dated 11.04.2022.
71. As per the Regulation 30 of Tariff Regulations, 2014, the interest on normative loan is to be allowed based on the normative loan. The Commission notes that, the petition for Capital Investment for the years 2016-17 to 2019-20 is under the consideration of the Commission.
72. ***Therefore, the Commission has decided to allow interest on normative loan once the capital expenditure plan and expenses incurred thereto are finalised and hence the same is deferred at present.***

### **Return on Equity**

73. The licensee has claimed return on equity of Rs.37.80 lakh through letter dated 18.03.2022 for an equity amount of Rs.900 lakh for the year 2017-18.
74. In the present petition, the Commission notes that shareholding pattern in Smart City Infrastructure jointly are held by Smart City (India) FZ LLC, Dubai and Government of

Kerala in the ratio of 84:16 respectively. The Balance Sheet of parent company shows an amount of Rs.195.00 crores as equity amount and the statement attached with the E-mail dt.29.03.2022 shows a balance Share Capital as on 31.03.2017 as Rs.9.00 crore. As per Regulation 29(1), Return on Equity shall be computed in rupee terms, on the paid-up equity capital determined in accordance with Regulation 27 and shall be allowed at the rate of fourteen per cent for generating business/companies, transmission business/licensee, distribution business/licensee and Load Despatch Centre.

75. However, the licensee has not furnished the details of actual equity invested in the distribution business. **The licensee is to furnish the details of actual equity invested in Electricity Distribution business by the licensee as on 31.03.2018 along with copy of Audited Financial Statements and Resolution of the Board approving the financial statements as on 31.03.2018.**
76. ***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

77. The licensee has submitted that revenue realised from sale of 26.09 lakh units of power is Rs.196.75 lakh during the year 2017-18. The details are given in the Table below.

Table-15  
Revenue from sale of power for the year 2017-18

Category	2016-17 (Trued up)		2017-18 (As per petition)	
	Energy sale (in lakh Units)	Revenue (Rs in lakh)	Energy sale (in lakh Units)	Revenue (Rs in lakh)
LT Consumers	3.23	37.90	9.78	92.69
HT Consumers	7.09	49.13	16.31	104.06
Total	10.32	87.03	26.09	196.75

78. As per Form D.2.1 accompanying the Truing Up petition, the major revenue is from the sale of power and when the only one HT Consumer contributes Rs.104.06 lakh (53%), the LT category consumers contribute Rs.92.69 lakh (47%) totaling Rs.196.75 lakh. ***The Commission hereby approves Rs.196.75 lakh as revenue from sale of power for 26.09 lakh units. i.e, an operational income of Rs. 7.54 per unit of power sold.***

## Non-tariff income

79. The Non-tariff income claimed by the licensee for the year 2017-18 is Rs.6.36 lakh. A comparative statement with previous year 2016-17 and 2017-18 is as shown in the table below.

Table 16  
Details of Non-Tariff Income for the years 2016-17 and 2017-18

Particulars	2016-17	2017-18
	Trued up (Rs. Lakh)	As per petition (Rs. Lakhs)
Interest on security deposits	5.35	6.36
<b>Total</b>	<b>5.35</b>	<b>6.36</b>

80. The licensee has claimed Rs.6.36 lakh as interest on security deposit under the head Non-tariff income as against Rs.5.35 lakh of the previous year 2016-17. This includes Rs.0.04 lakh towards interest on delayed/deferred bills. The Balance Sheet of power distribution business of the licensee shows an amount of Rs.30.00 lakh towards security deposits with KSEB Ltd as part of 'long term loans & advances' and Rs.60.00 lakh towards Fixed deposits in bank as part of 'non-current investment'. **Accordingly, the Commission approves Rs.6.36 lakh as actual non-tariff income for the year 2017-18.**
81. Based on the above, the provisionally approved expenditure and revenue for the year 2017-18 after Truing Up is as shown below.

Table-17  
Provisional Income and Expenditure after Truing Up of Accounts for 2017-18

Particulars	2017-18	
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Revenue from sale of power	196.75	196.75
Other income	6.36	6.36
<b>Total income</b>	<b>203.11</b>	<b>203.11</b>
Purchase of power	190.69	190.69
R&M Expenses	10.85	10.85
Employee Cost	9.37	7.22
A & G Expenses	3.99	3.99
Interest and financing charges	67.41	-
Depreciation	25.40	-
Return on equity	37.80	-

<b>Total Expenditure</b>	<b>345.51</b>	<b>212.75</b>
<b>Revenue (Gap)/surplus</b>	<b>(142.40)</b>	<b>(9.64)*</b>

\*Provisional

### Revenue (Gap)/Surplus for 2017-18

82. The licensee in the petition for Truing Up claims a Revenue Gap of Rs.142.40 lakh. The provisionally approved Revenue (Gap)/ Surplus for the year 2017-18 after Truing Up of Accounts is as shown below.

Table -18  
Revenue (Gap)/ Surplus for the year 2017-18

Particulars	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Total Expenditure	345.51	212.75
Total Income	203.11	203.11
<b>Revenue (Gap)/Surplus</b>	<b>-142.40</b>	<b>-9.64*</b>

\*Provisional

### Orders of the Commission

83. The Commission after considering the petition filed by M/s. Smart City for Truing Up of Accounts for the year 2017-18, and the clarifications and details provided by the licensee approves the following:
- Total income is Rs. 203.11 lakh.**
  - Total expenditure is Rs.212.75 lakh.(provisional)**
  - The revenue gap for the year 2017-18 is Rs.9.64 lakh. (provisional)**
  - Total cumulative revenue gap (provisional) till 2017-18 will be Rs. 43.33 lakh (Rs.33.69 lakh as opening cumulative revenue gap + current year revenue gap of Rs.9.64 lakh)**
  - R&M works should be outsourced only through competitive bidding process so as to ensure reasonableness of the rates. (Para 45)**
  - All identifiable distribution business A&G expenses shall be booked directly and presented to the Commission with proper details and justification during Truing Up. The common expenses relating to such business should be apportioned on a reasonable basis. (Para 55)**
  - The licensee is to furnish the details of actual equity invested in Electricity Distribution business by the licensee as on 2017-18 along with copy of Audited Financial Statements and Resolution of the Board approving the financial statements as on 31.03.2018. (Para 75)**

***h) To comply with all the pending directions issued by the Commission in OP 38/2021 dated 11.04.2022 vide Paras 25,38 and 51.***

84. The petition is disposed of. Ordered accordingly.

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

**Sd/-  
Preman Dinaraj  
Chairman**

Approved for issue  
Sd/-  
Secretary