

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

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

**OA.No.13/2020**

In the matter of **Petition for the Truing up of accounts of  
M/s KSEB Ltd for the financial year 2018-19**

Petitioner **Kerala State Electricity Board Ltd**  
**Vydhyuthi Bhavanam, Pattom**  
**Thiruvananthapuram**

**ORDER DATED 14/06/2022**

In compliance to Regulation 27(6) of KSERC (Conduct of Business) Regulations, 2003, the Kerala State Electricity Regulatory Commission having considered the petition for approval of the Truing up of Accounts for the year 2018-19 filed by the Kerala State Electricity Board Limited on 27.03.2020, published a summary of this petition in the Malayala Manorama daily, Madhyamam daily and Times of India daily on 31.12.2020. Thereafter, as per Regulation 32 of KSERC (Conduct of Business) Regulations, 2003 a public hearing on the petition was held on 29.07.2021 through video conference, wherein stakeholders presented their views and objections.

After having carefully considered the submissions and documents on record filed by KSEB Ltd, electricity consumers/general public and other stakeholders and in exercise of the powers vested in the Commission under Section 62 and 64 of the Electricity Act, 2003 (Central Act 36 of 2003) and KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018, the Commission hereby pass the following Order.

Dated this the 14<sup>th</sup> day on June 2022

**Sd/-**  
A.J.Wilson

Member (Law)

**Sd/-**  
Preman Dinaraj

Chairman

## CHAPTER -1 INTRODUCTION

### Background

- 1.1. Kerala State Electricity Board Limited (hereinafter referred to as KSEB Ltd or licensee), on 27.03.2020, filed the petition before the Commission for approval of truing up of accounts of their Three Strategic Business Units viz., SBU-G, SBU-T and SBU-D of KSEB Ltd for the year 2018-19 and mid-term performance review. The petition was filed as per the provisions of KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 (*hereinafter referred to as the Regulations*). The petition was filed during period of lockdown imposed by Government of Kerala on account of the Covid 19 pandemic.
- 1.2. The copy of the petition was placed in the website of the Commission for the information and comments of the public and stakeholders. Further, as per the directions of the Commission and also as per the provisions of the Electricity Act, 2003 and KSERC (Conduct of Business) Regulations 2003 and its amendments, KSEB Ltd published the summary of the petition in the following dailies:
  - Malayala Manorama daily dated 31-12-2020
  - Madhyamam daily dated 31-12-2020 and
  - Times of India daily dated 31-12-2020.
- 1.3. Based on the above, and considering the prevailing Covid 19 pandemic, the Commission scheduled the hearing on truing up for 2018-19 on 22-12-2020 through video conference mode and also directed to furnish the details and clarifications by 30-11-2020. However, considering the requests of various consumers and association for conducting off-line hearing for this type of important petitions so that the stakeholders can directly appear before the Commission and express the comments, the Commission decided to postpone the video conference hearing for the time being. The Commission thereafter considering all matters connected to it, decided to conduct the hearing on direct mode following all Covid 19 protocols strictly, at Ernakulam on 29-07-2021. The Commission also issued press release regarding the conduct of the hearing at Ernakulam observing Covid protocol guidelines. However, taking into consideration the guidelines issued by Government subsequently on Covid protocol, the hearing was again converted into video conference mode.
- 1.4. The Commission has, in exercise of its powers under Section 61 of the Act, and after following the due process as specified in the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 (*hereinafter referred to as Tariff Regulations, 2018*), which specify the detailed principles and

procedures for determination of tariff has decided to process the petition. The present truing up petition filed by KSEB Ltd is in compliance of with the Tariff Regulations 2018 and the ARR&ERC Order and Multi Year Tariff Order for the years 2018-19 to 2021-22 (*hereinafter referred to as MYT Order*) dated 08-07-2019 issued by the Commission for the control period 2018-19 to 2021-22.

- 1.5. A summary of the claims in the Truing up petition for the year 2018-19 of KSEB Ltd is given below:

Table 1.1  
Summary of the Audited Accounts and Truing up the year 2018-19 of KSEB Ltd

Particulars	Approved as per MYT Order dated 08-07-2019	As per accounts	As per truing up petition
	Rs. crore	Rs. crore	Rs. crore
Generation of Power	0.00	3.29	3.29
Purchase of power	7850.77	7869.32	7826.86
Interest & Finance Charges	1805.76	1598.90	2117.13
Depreciation	348.84	805.03	404.47
Employee Cost (excluding terminal benefits)	2713.46	2892.01	2898.27
Repair & Maintenance		303.75	
Administration & General Expenses		598.16	
Other Expenses	0.00	222.48	319.59
Interest on Additional Bond to Trust	200.00	0.00	200.00
Over achievement of loss reduction claim	0.00	0.00	28.59
Incentive for transmission availability	0.00	0.00	8.38
Amortization of past gap	400.00	0.00	0.00
<b>Net Expenditure (A)</b>	<b>13318.83</b>	<b>14292.94</b>	<b>13806.58</b>
Statutory Surplus/ RoE (B)	489.87	0.00	489.87
<b>ARR (C) = (A) + (B)</b>	<b>13808.70</b>	<b>14292.94</b>	<b>14296.45</b>
Non-Tariff Income	586.23	481.73	597.37
Revenue from Tariff	13190.32	13521.21	12939.20
<b>Total Income (D)</b>	<b>13776.55</b>	<b>14002.94</b>	<b>13536.57</b>

- 1.6. The SBU wise split up of ARR & ERC furnished in the petition is as shown below:

Table 1.2  
SBU wise Revenue gap for 2018-19 as per Petition

Particulars	2018-19 KSEB Ltd TU Petition			
	SBU G	SBU T	SBU D	Total
	Rs. crore	Rs. crore	Rs. crore	Rs. crore
Cost of Generation (SBU-G)			506.79	506.79
Cost of Power Purchase			7826.86	7826.86

Cost of Intra-State Transmission (SBU-T)			858.64	858.64
Cost of generation of power	3.29			3.29
<b>Interest &amp; Financial Charges</b>				
Interest on loans	69.88	90.89	180.27	341.04
Interest on GPF	8.92	16.57	136.68	162.17
Other interest charges			18.41	18.41
Interest on Master Trust	42.56	79.04	652.08	773.68
Interest on SD			170.75	170.75
Working capital interest	6.21	15.76		21.97
Carrying cost			592.63	592.63
Carrying cost on current year gap			36.48	36.48
Interest on un funded liability	10.26	22.64	167.10	200.00
Depreciation	137.60	158.88	107.97	404.47
O&M Expenses	124.47	363.23	2234.57	2722.27
Provision for Pay Revision	8.05	23.48	144.47	176.00
Total O&M Expenses	<b>132.52</b>	<b>386.71</b>	<b>2379.04</b>	<b>2898.27</b>
Return on equity (14%)	116.38	119.99	253.50	489.87
Other Expenses & PP expenses	-4.68	-2.11	291.38	284.59
Incentive for over achievement of T&D loss reduction target			28.59	28.59
Transmission availability incentive		8.38		8.38
Onetime expenses-CMDRF	1.79	3.96	29.25	35.00
Total ARR	<b>524.73</b>	<b>900.71</b>	<b>14236.44</b>	<b>14296.45</b>
Less Tariff Income/ Rev from operation			12939.20	12939.20
Less Non-Tariff Income	17.94	42.07	537.36	597.37
Total ERC/ Transfer price	<b>506.79</b>	<b>858.64</b>	<b>13476.56</b>	<b>13536.57</b>
<b>Net Revenue Gap</b>			<b>759.88</b>	<b>759.88</b>

- 1.7. KSEB Ltd submitted that, it had been adopting Ind AS for preparation of accounts from 2016-17. KSEB Ltd further submitted that the Accounts till 31-3-2016 were prepared line with IGAAP accounting standards and applicable provisions of Companies Act and Electricity Act, 2003. However, the Annual Accounting statements for the year 2016-17 onwards were prepared in compliance with Ind AS notified by the Ministry of Corporate Affairs on 16-02-2015. This standard converges with International Financial Reporting Standards (IFRS). The adoption of Ind AS entails a significant change in the financial reporting framework used by Indian companies to report their financial results. According to KSEB Ltd, adoption of Ind AS considering the fact that the net worth of Kerala State Electricity Board Limited is more than Rs.500.00 crore and hence KSEB Ltd has to mandatorily apply the provisions of Ind AS in the preparation of Financial Statements for accounting periods beginning on or after 01-04-2016. Ind AS has some significant business consequences and the change process was a major one.

- 1.8. The summary of the audited Annual statement of Accounts of the KSEB Ltd for the year 2018-19 vis-à-vis the petition for truing up is given below:

Table 1.3  
Summary of comparison of truing up petition and accounts of KSEB Ltd for the year 2018-19

No	Particulars	Approved in the MYT Order*	As per Audited accounts	As per Truing up petition	Difference
		(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)
		(A)	(B)	(C)	(D=C-A)
1	ARR	13808.70	14292.94	14296.45	-487.75
2	ERC	13776.55	14002.94	13536.57	239.98
3	Revenue surplus/(gap)	<b>(32.15)</b>	<b>(290.00)</b>	<b>(759.88)</b>	<b>727.73</b>

\*Approved Vide MY Tariff Order dated 08-07-2019.

- 1.9. According to KSEB Ltd, the difference between audited accounts and true-up values are mainly due to inclusion of Return on Equity, claw back depreciation, actuarial liability, IND AS adjustment impact, and undisbursed interest on security deposit, and the claim of O&M expenses including employee costs strictly on normative basis in the truing-up values. The function wise segregation of expenses, revenue and profit / loss are summarized below.

Table 1.4  
Strategic Business Unit wise ARR, ERC and Revenue Gap as per petition

No	Particulars	SBU-G	SBU-T	SBU-D
		Rs. Crore	Rs. Crore	Rs. Crore
1	ARR	390.41	738.65	14236.44
2	Revenue from charges / Transfer Value	506.79	858.64	13476.56
3	Revenue Return (2-1)	116.38	119.99	(759.88)

### Public hearing on the petition

- 1.10. Public hearing on the petition was held through video conference mode on 29.07.2021 at 11.00 AM. The list of participants appeared before the Commission for the hearing is given in Annexure. The summary of the deliberations during the hearing is given below.

- (i) Sri. K.G.P. Namboothiri, Executive Engineer, presented the petition on behalf of the petitioner KSEB Ltd. KSEB Ltd held a detailed presentation on the subject matter and explained each claim in detail and the deviations between the actuals and the same approved in the MYT order dated 08.07.2019.

On a query to the Commission, KSEB Ltd clarified that, all power purchases are having the approval of the Commission except the power procured on DBFOO contracts.

- (ii) Shri. Dijo Kappen, raised concern over the delay in filing the truing up petitions by the licensee. He further submitted that increase in the recent pay revision implemented by KSEB Ltd had huge impact on the financials of KSEB Ltd. He further submitted that the employee cost in Kerala is very high when compared to other States. He also raised concern over the sale of surplus energy at lower rates in the market and slow recovery of receivables. He also requested the Commission not to allow the contribution by the licensee to CMDRF as expense.
- (iii) Shri. Joy M. A, FACT submitted that the energy rates are high in Kerala and this situation is not conducive for the smooth running of business enterprises.
- (iv) Shri. Shaji Sebastian representing the small scale industries submitted that, the solar projects under Saura scheme are getting delayed due to procedural issues and suggested for a self certification procedure for the projects up to 500 kVA to be introduced. He further submitted that the incorrect auxiliary consumption figures and distribution loss figures will affect the commercial consumers adversely.
- (v) Sri. Saji Mathew, MRF submitted that, the incorrect auxiliary consumption and transmission loss will adversely affect the open access consumers.
- (vi) Sri. Rajesh Kuruvilla, CUMI submitted that, since the year 2018-19 is an excess monsoon year, there is no justification in the shortfall in hydel generation for the year 2018-19. KSEB Ltd. in reply submitted that the reduction in generation is not due to insufficient water-flow and the shortfall is due to the break-down of certain machineries during the flood time.
- (vii) Sri Pradeep, Hindalco and Sri. Renjith Jacob, Apollo Tyres, also raised the issue of wrong auxiliary consumption data and requested the Commission to issue necessary directions to the licensee for the

implementation of a proper metering system to ensure the measuring of auxiliary consumption at a reasonable accuracy.

- (viii) Sri. Hareesh, HOCL submitted that the contribution to CMDRF by the licensee should not be allowed as expense.
- (ix) The HT & EHT Consumers' Association represented by Sri. A.R Sathish submitted that, there is a lack of clarity in many of the accounting procedures adopted by the petitioner. He also raised a doubt over the reliability of data given in the truing up petition as well as in the website of the licensee. He further stated that the rate of power purchase for wind projects shown in the petition for truing up of accounts for 2018-19 is not consistent with the rates approved by the Commission. He also pointed out some of the differences in the power purchase rates with that of the approval by the Commission.

The HT&EHT Association further submitted that, in respect of the truing up of accounts for the year 2018-19, the amount claimed under repair & maintenance, employee cost and O&M expenses should be allowed only based on the norms specified in the Tariff Regulations.

Mr. Satheesh also commented on the pay revision implemented by the KSEB Ltd. According to him, KSEB Ltd is a company having equity eroded three times the original equity. He further stated that that the provision to allow pay revision in the Regulation would result in passing through the pay revision expenses without prudence check.

It is also pointed out that KSEB Ltd has not furnished the petition for fuel surcharge for the year 2018-19, which is not a desirable trend since translating the fuel cost increase during the truing up stage will result in increase in tariff permanently. Regarding RoE, the Association pointed out that they would stick to their stated position that increase in Equity shall not be considered and the matter is before the Supreme Court in the form of the second appeal filed by KSEB Ltd.

Shri. Satheesh further submitted that the contribution by the petitioner to CMDRF should not be allowed. The total surplus in the truing up as per the calculation of the Association is about Rs.1281 crore instead of the revenue gap of Rs.759.88 crore shown in the petition.

- (x) Shri. Viswanath represented the Association for presenting the comments on mid-term performance review. Regarding the midterm performance review for the period ending 30th September 2019 and revision of estimates for the remaining period, Sri. Viswanath submitted that the cost of small hydro projects proposed is on the higher side. He also requested the Commission to check the viability of the solar projects before according approvals, as the cost of many projects seems to be high. He further submitted that only 50% of the estimated cost is to be approved for the Transgrid Project and the estimates prepared by the petitioner for Repairs & Maintenance and O&M expenses need to be verified as these are prepared without any valid basis.

The Commission also directed that the respondents may furnish their written comments, if any, to the Commission immediately with a copy to the petitioner.

1.11. Based on the deliberations during the hearing and clarifications submitted by KSEB Ltd and other documents and records placed before it, the Commission decided the following.

- (1) Decided to true-up the accounts of KSEB Ltd for the year 2018-19 as detailed in the subsequent chapters of this order.
- (2) Though KSEB Ltd filed the 'Mid-term performance Review' also for the MYT period 2018-19 to 2021-22, the Commission decided not to process the Mid-term Performance Review due to the following reasons.
  - (i) The control period of the MYT period 2018-19 to 2021-22 is already over, hence it is futile exercise to appraise the Mid-term Performance Review at this stage.
  - (ii) KSEB Ltd already filed the petition for the approval of the truing up of accounts of three years of the MYT period from 2018-19, 2019-20 and 2020-21 out of the 4 year MYT period. The Commission appraise the issues raised in the Mid-term performance review while appraising the Truing up of accounts of the respective years.

1.12. Subsequently, KSEB Ltd vide the additional submission dated 30.07.2021 had revised the claim of Truing up of accounts as given below.



**Table 1.5**  
**Comparison of Approval and TU Petition (Rs Cr)**

Sl.No	Particulars	As per MYT order	As per TU Petition	Additional claim	Revised	Difference
1	Fuel charges for generation	0.00	3.29		3.29	3.29
2	POP & Interstate transmission	7850.77	7826.86	7.89	7834.75	-16.02
3	Interest & Finance charges	1805.76	2117.13	73.18	2190.31	384.55
4	Depreciation	348.84	404.47	-22.25	382.22	33.38
5	O&M Expenses	2713.46	2898.27		2898.27	184.81
6	Other expenses and PP items	0.00	284.59		284.59	284.59
7	Retaining gains out of T&D loss reduction beyond target	0.00	28.59		28.59	28.59
8	Incentive on transmission availability	0.00	8.38		8.38	8.38
9	Interest on additional bond to Trust	200.00	200.00		200.00	0.00
10	RoE	489.87	489.87		489.87	0.00
11	Onetime expenses-CMDRF (Included under A&G expenses in Accounts)	0.00	35.00		35.00	35.00
12	Amortization of past gap	400.00	0.00		0.00	-400.00
13	<b>ARR (1 to 13)</b>	<b>13808.70</b>	<b>14296.45</b>	<b>58.82</b>	<b>14355.27</b>	<b>546.57</b>
14	Revenue from tariff	13190.32	12939.20		12939.20	-251.12
15	Non-tariff income	586.23	597.37		597.37	11.14
16	<b>ERC</b>	<b>13776.55</b>	<b>13536.57</b>		13536.57	-239.98
17	<b>Revenue (gap)/Surplus</b>	<b>-32.15</b>	<b>-759.88</b>		<b>-818.70</b>	<b>-786.55</b>

1.13. The details of the Truing up of accounts of KSEB Ltd for the year 2018-19 is discussed and deliberated in detail in the subsequent paragraphs.

## **Annexure**

### **List of Respondents present in the Video Conference Hearing**

1. Shri. Dijo Kappen
2. Shri. Shaji Sebastain, Small Scale Industries Association
3. Shri. A.R.Satheesh, President, HT-EHT Association
4. Shri. Viswanath, Vice President, HT EHT Association
5. Shri. Ratheesh Kumar, HT-EHT Association
6. Shri. K.K. George, HT-EHT Association
7. Shri. Joy. M.A, FACT
8. Shri. Sarath, FACT
9. Shri. Renjith Kuruvila, CUMI
10. Shri. Radhakrishnan, CUMI
11. Shri. Renjith Jacob, Apollo Tyres
12. Shri. Hareesh Madhavan, HOCL
13. Shri. Bijukumar, FACT
14. Shri. Saji Mathew, MRF
15. Shri. M. Pradeep, Hindalco
16. Shri. Jiji R. Patspin
17. Shri. Nair Nandakumar, CUMI
18. Shri. Ajmal, TCC
19. Shri. Shibu Kurien, TCC
20. Shri. Saju Thomas, BPCL

## CHAPTER -2

### TRUING UP OF ACCOUNTS OF STRATEGIC BUSINESS UNIT GENERATION (SBU-G)

#### Introduction

- 2.1 In exercise of its powers under Section 131 of the Electricity Act, 2003, the Government of Kerala vide G.O(P) No. 46/2013/PD dated 31-10-2013 had notified a transfer scheme, re-vesting the properties, liabilities, interests, rights and obligations of the erstwhile KSEB into KSEB Ltd, a Limited company incorporated under the provisions of the Companies Act, 1956. The three distinct functions of the erstwhile Board, i.e., Generation, Transmission and Distribution were separated into three independent Strategic Business Units (SBUs) viz., SBU-Generation (SBU-G), SBU-Transmission (SBU-T), and SBU-Distribution (SBU-D). SBU-G is vested with the task of managing the generating stations of erstwhile KSEB and for establishing and managing new generating stations with in the State.
- 2.2 As per the Annual Report for 2018-19, as on 31.03.2019, KSEB Ltd has 38 hydel stations with a total capacity of 2058.76 MW, two LSHS based thermal station with a capacity of 159.96MW, 1 wind plant with a capacity of 2.025MW and 22 solar PV plants with a capacity of 16.419MW. Thus, the total installed capacity of KSEB Ltd own power stations as on 31.03.2019 is 2235.14 MW. The details are given below.

Table 2.1  
Installed capacity of Generating Stations

Sl. No	Name of the Station	Installed Capacity (MW)
1	Pallivasal	37.50
2	Sengulam	51.20
3	Neriamangalam	52.65
4	Neriaangalam Extension	25.00
5	Panniar	32.40
6	Poringalkuthu	36.00
7	Sholayar	54.00
8	Sabarigiri	340.00
9	Kuttiyadi scheme	75.00
10	Kuttiadi Extensioon	50.00
11	Kuttiadi Additional Extension	100.00
12	Idukki	780.00
13	Idamalayar	75.00
14	Kallada	15.00

15	Peppara	3.00
16	Lower Periyar	180.00
17	Mattupetty	2.00
18	Poringalkutuy LBE	16.00
19.	Kakkad	50.00
20	Kuttiadi Tail race	3.75
21	Malampuzha	2.50
22	Chembukadavu Stage –I	2.70
23	Chembukadavu Stage-II	3.75
24	Urumi Stage-I	3.75
25	Urumi Stage-II	2.40
26	Malankara	10.50
27	Lower Meenmutty	3.50
28	Poozhithode	4.80
29	Ranni Perinad	4.00
30	Peechi	1.25
31	Vilangad	7.50
32	Chimony	2.50
33	Adyanpara	3.50
34	Barapole	15.00
35	Prongalkuthu micro	0.01
36	Vellathooval	3.60
37	Perumthenaruvi	6.00
	<b>Total Hydel</b>	<b>2055.76</b>
1	Kanjikode	2.025
	<b>Total Wind</b>	<b>2.025</b>
1	Brahmapuram Diesel Power Plant	63.96
2	Kozhikode Diesel Power Plant	96.00
	<b>Total Thermal</b>	<b>159.96</b>
1.	Kanjikode	1.00
2	Kollamkode	1.00
3	Chaliyoor Colony, Agali	0.096
4	Idayar S/s	1.25
5	Thalakupathoor, Kozhikode	0.65
6	Manjeswaram ground mounted	0.50
7	Kuttippuram	0.50
8	Pezhakkappally	1.25
9	Pothencode	2.00
10	Barapole canal top/bank	4.00
11	Poringalkuthu power house	0.05
12	Banasurasagar, Wyanad	0.51
13	Other roof tops	2.54
	<b>Total Solar</b>	<b>15.25</b>
	<b>TOTAL</b>	<b>2235.14</b>

2.3 The summary of the ARR&ERC of SBU-G for the year 2018-19 claimed by KSEB Ltd is given below.

Table 2.2  
Transfer Cost of SBU-G as per truing up petition (Rs. Crore)

No	Particulars	True up Order dated 25.06.2021	2018-19			
		2017-18	ARR Approval	Actuals	True up petition	Difference over approval
1	Fuel cost	2.08	0.00	3.29	3.29	3.29
2	Interest & Finance Charges	124.27	126.27	127.94	127.58	1.31
3	Depreciation	132.61	130.19	132.36	137.60	7.41
4	O&M Expenses ( <i>Excl terminal benefits</i> )	138.36	124.15	197.31	132.52	8.37
5	RoE (14% of Rs 1454.53 Cr)	116.38	116.38	153.33	116.38	0.00
6	Other Expenses & PP expenses	-1.75	0.00	-4.68	-4.68	-4.68
7	Exceptional Items - Flood		0.00	3.11	0.00	0.00
8	One Time Expense CMDRF		0.00	0.00	1.79	1.79
9	Fair Value adjustments			-1.52		
10	Interest on additional bond to Master Trust	10.54	10.26		10.26	0.00
<b>11</b>	<b>ARR</b>	<b>522.49</b>	<b>507.24</b>	<b>611.14</b>	<b>524.73</b>	<b>17.49</b>
12	Less Non-Tariff Income	24.99	25.83	24.48	17.94	-7.89
<b>13</b>	<b>Net ARR (Transferred to SBU-D)</b>	<b>497.50</b>	<b>481.41</b>	<b>586.66</b>	<b>506.79</b>	<b>25.38</b>

2.4 Details of each of the items are given below:

### Expenses of SBU-G

#### Generation from internal generating stations

2.5 KSEB Ltd in their submission has indicated the total gross generation from internal generating stations for the year 2018-19 was 7626.37 MU. The total auxiliary consumption reported is 33.25MU and the net generation is 7593.119MU. The total gross hydro generation was 7602.41 MU. The generation from BDPP and KDPP together was 4.089 MU and the net generation after accounting for auxiliary consumption was 2.649 MU only. The generation from renewable sources such as wind and solar was 1.33 MU and 18.54 MU respectively. The details are given below:

Table 2.3  
Generation from internal generating stations for the year 2018-19  
(as per Truing Up Petition)

Source	Gross Generation (MU)	Aux consumption (MU)	Net Generation (MU)
Hydro	7602.41	31.81	7570.60
BDPP	0.29	0.62	-0.33

KDPP	3.80	0.82	2.98
Wind	1.33	0.00	1.33
Solar	18.54	0.00	18.54
<b>Subtotal</b>	<b>7626.37</b>	<b>33.25</b>	7593.12

### Hydro generating stations

2.6 The total generation from all hydro generating stations owned by KSEB Ltd for the year 2018-19 was 7602.41 MU as against the approved quantity of 7889.48 MU. The actual generation was less by 287.07 MU over the approved level. KSEB Ltd submitted that, this reduction was not due to the shortfall in monsoon during the FY 2018-19, but due to the breakdown of generating stations due to the flood happened in the FY 2018-19. The summary of the hydel generation for the year 2018-19 is given below.

Table 2.4

#### Hydro generation for the year 2018-19

Source	Gross generation	Auxiliary consumption	Net Generation
<b>Approved in ARR</b>	7889.48	82.05	7807.42
<b>As per Truing Up Petition</b>	7602.41	31.81	7570.60

2.7 The station wise details of the hydro generation during the year 2018-19 is given below.

Table 2.5

#### Station wise hydro generation as per the petition for 2018-19

No	Hydro Electric Stations	Generation	No	Hydro Electric Stations	Generation
1	Idukki	2921.48	19	Chembukadav I & II	7.11
2	Sabarigiri	1513.19	20	Kuttiady Tail Race	8.45
3	Kuttiady (Units :1 - 6)	692.75	21	Ranni-Perinadu	3.73
4	Lower Periyar	524.26	22	Addyanpara	0.32
5	Neriamangalam+NES	377.84	23	Peppara	8.23
6	Poringalkuthu + PLBE	192.80	24	Vellathuval SHEP	2.74
7	Idamalayar	345.47	25	Lower Meenmutty	6.11
8	Sholayar	202.63	26	Madupetty	1.63
9	Pallivasal	185.25	27	Chimony	6.69
10	Kakkad	221.57	28	Malampuzha	4.32
11	Sengulam	123.03	29	Peechi	2.48
12	Panniar	114.95	30	Perunthenaruvi	7.72
13	Kallada	68.34	31	Kakkayam	2.63
14	Malankara	33.25		KSEB Hydro (TOTAL)	7602.41
15	Barapole	1.20		Aux Consumption	31.81

16	Vilangad	7.82	Auxiliary consumption	0.42%
17	Poozhithode	7.56	Net Generation in MU	7570.60

### Comments of the Stakeholders

2.8 High Tension and Extra High Tension (HT-EHT) Association submitted the following comments regarding the internal generation.

- (i) Despite very good monsoon, the actual hydel generation was less by 287.07MU over approval. KSEB Ltd has not provided the details regarding the impact of flood on the generation from each station.
- (ii) The auxiliary consumption reported is much less than the norms specified in the Tariff Regulations, 2018. Association requested to re-work the auxiliary consumption as per Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2014 for the old stations and new norms as per latest Regulations for new stations. Thus, the total Auxiliary energy consumption by applying the norms comes at 28.89 MU as compared to 31.81 MU submitted by petitioner. Thus, difference in Auxiliary consumption w.r.t to the Petitioner and the Association is 2.92 MU.

2.9 In reply to the objections of the HT&EHT Association, KSEB Ltd submitted that, the auxiliary consumption shown in the petition is related to the equipments at the generating point only and does not include the auxiliary consumption of the step-up transformers and other associated equipments and lines in the switch yard. As per the petitioner, there is no metering system at the point of evacuation and hence the auxiliary consumption shown in the petition is limited to the consumption by the equipments at the generating point only and the consumption by the remaining equipments till the point of evacuation is presently reflected as distribution loss.

### Provisions in the Regulations

2.10 Regulation 41 of the Tariff Regulations, 2018 specifies the norms of operation for hydroelectric generating stations. Regulation 41(2) specifies the normative auxiliary consumption of the existing and new hydro-electric generation which is extracted below.

“41(2) Auxiliary energy consumption including transformation losses for existing and new hydro-electric generating stations shall be as specified in the table below:

**Table 2.6**

Sl. No.	Type of station	Auxiliary consumption
(i)	Surface hydro-electric generating stations with rotating exciters mounted on the generator shaft	0.7 Percent
(ii)	Surface hydro-electric generating stations with static excitation system	1 percent.
(iii)	Underground hydro-electric generating station with rotating exciters mounted on the generator shaft	0.9 percent
(iv)	Underground hydro-electric generating station with static excitation system	1.2 percent.

2.11 In the case of SHPs and other Renewable projects, the first proviso to Regulation 35 of the Tariff Regulations, 2018 provide as follows.

**“35. Applicability.** – (1) *The Regulations specified in this Chapter shall apply to the determination of tariff for supply of electricity to the distribution business/licensee by a generating company from conventional sources of generation such as coal, gas, liquid fuel and medium as well as large scale hydro-electric plants:*

*Provided that determination of tariff for supply of electricity to the distribution business/licensee from cogeneration plants, solar plants, small hydro-electric projects, wind energy projects and other renewable energy sources of generation shall be governed by separate Regulations specified by the Commission from time to time.”*

Accordingly, the provisions of KSERC (Renewable Energy) Regulations 2015 shall apply to the other small hydro projects. As per Annexure G and H of the KSERC (Renewable Energy) Regulations, the auxiliary consumption for the small hydro projects is fixed at 1%.

### **Analysis and decision of the Commission**

2.12 The Commission carefully examined the details of the hydel generating stations of KSEB Ltd for the year 2018-19. The Commission also took note of the fact that excessive flood occurred during year 2018-19 had severely damaged many small hydro electric projects and run-of the river generating stations of KSEB Ltd.

2.13 The Commission also noted that the normative auxiliary consumption provided under Regulation 41(2) of the Tariff Regulations, 2018, i.e, 82.05MU is much



higher than the actual auxiliary consumption of 31.81 MU as per the Truing Up petition. KSEB Ltd during the deliberations on the subject matter clarified that, the auxiliary consumption shown in the petition is related to the equipments at the generation point upto the switchyard only and does not include the auxiliary consumption of the step-up transformers and other associated equipments and lines in the switch yard. They further clarified that, there is no metering system at the point of evacuation and hence the auxiliary consumption shown in the petition is limited to the consumption by the equipments at the generating point only and the consumption by the remaining equipments beyond generating point till the point of evacuation at present is reflected as distribution loss.

2.14 **The Commission noted the submission of KSEB Ltd. The Commission is of the considered view that, there is laxity from the part of KSEB Ltd in not providing metering equipments at the point of evacuation of each generating station. Hence, this part of the auxiliary consumption is presently being accounted for distribution loss of KSEB Ltd and thus overstating distribution loss of KSEB Ltd. This is not an ideal situation and cannot be accepted in future. Hence, the Commission hereby direct that, KSEB Ltd shall take immediate steps to provide metering arrangements at evacuation point of each generating station of KSEB Ltd. This shall be done within three months from the date of this Order and shall be reported to the Commission. The Commission cannot consider the understatement and overstatement of auxiliary consumption of the generating station and distribution system respectively, compared to the norm. Also, these norms are specified as an efficiency parameter of the licensee and Regulation provide for incentive for the same.**

2.15 ***With these observation and direction, the Commission here by approve the hydel generation and auxiliary consumption as per the Truing up petitions. However, KSEB Ltd is not eligible for any incentive for the auxiliary consumption reported in the Truing-up petitions with respect to the norms, since the present level of auxiliary consumption reported does not reflect the actual auxiliary consumption.***

#### **Diesel Stations**

2.16 KSEB Ltd submitted that, due to high variable cost, KSEB Ltd had not proposed to schedule power from BDPP and KDPP plants during the year

2018-19 except during contingencies. KSEB Ltd had scheduled 3.799 MU from KDPP and 0.89 MU from BDPP in the year 2018-19. The monthwise details of the schedule of energy from BDPP and KDPP is given below.

Table 2.7  
Generation from BDPP and KDPP (in MU)

Month	BDPP	KDPP		Month	BDPP	KDPP
Apr-18		1.04		Nov-18		
May-18				Dec-18	0.13	
Jun-18				Jan-19		
Jul-18				Feb-19	0.17	
Aug-18				Mar-19		2.68
Sep-18		0.07				
Oct-18				<b>Total</b>	<b>0.29</b>	<b>3.799</b>

2.17 The Commission in the MYT Order dated 08.07.2019 has not approved any generation from the diesel stations of KSEB Ltd. The licensee in their truing up petition submitted that, scheduling from these stations was done during contingencies and these units were forced to generate a small quantum as shown in Table above for meeting the system requirements. KSEB Ltd further submitted that, the licensee had consumed 3200 MT (approximate) of LSHS of BPCL at KDPP at a negotiated cost of Rs.17, 240/MT during March 2019 and hence able to generate power at the reduced rate of Rs 4.00 per unit from KDPP during summer. The licensee had pointed out that, at that point of time, the market price of LSHS was Rs 50000/MT including GST and transportation.

2.18 KSEB Ltd further submitted that, Rs.3.29 crore was actually incurred during the year towards the cost of fuel and lubricants for generation of stations owned by KSEB Ltd. Its details are given below.

Table-2.8  
Fuel cost for internal generation (Rs. Cr)

Particulars	KDPP	BDPP	Hydro stations	Total
Oil	1.63	0.16		1.79
HSD oil	0.06	0.15		0.21
Lub oil	0.05	0.00		0.05
Lubricants and consumable stores	0.01	0.37	0.85	1.23
Station supplies				0.01
<b>Total</b>	<b>1.75</b>	<b>0.69</b>	<b>0.85</b>	<b>3.29</b>

## Comments of the Stakeholders

2.19 The HT&EHT Association submitted that due to high variable costs no generation has been approved by this Hon'ble Commission from the thermal power stations, BDPP & KDPP for the entire control period of FY 2018-19 to FY 2021-22, in the MYT Order. The petitioner submitted that, due to system requirements, KSEB Ltd was forced to generate a small quantum of energy from KDPP& BDPP stations. However, KSEB Ltd has not submitted the reasons as to under which circumstances these stations were scheduled. Further, KSEB Ltd has not submitted the schedule given to SLDC whereby SLDC has scheduled these stations or the system requirements which forced KSEB Ltd to use these stations. Hence the Association requested before the Commission to not to approve the power from these stations.

## Analysis and decision of the Commission

2.20 The Commission examined the details of generation from the diesel stations of KSEB Ltd during the year 2018-19. As per the details submitted as above the generation from these stations were not significant and are limited to few months of the year 2018-19, during contingencies. The Commission also noted that the actual cost per unit of electricity generated was Rs 4.61/unit at KDPP. Therefore, the Commission approves the fuel cost of these two stations at actuals for the purpose of truing up.

2.21 ***In view of the stated system requirement and taking note of the fact that such costly generating stations are required to be maintained in a generation ready condition, the Commission approves fuel cost of Rs. 3.29 crore for the year 2018-19 as per the truing up petition.***

## O&M expenses

2.22 As per the Commission's Regulations, O&M expenses comprises of Employee Expenses, R&M Expenses and A&G Expenses. The O&M expenses of SBU-G claimed by the KSEB Ltd in the truing up petitions as per the audited accounts is given below.

Table-2.9  
O&M expenses of SBU-G claimed by KSEB Ltd

No	Particulars	Approved	Actual	TU requirement	Difference
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Employee Cost	NA	128.37		NA
2	A&G Expenses	NA	41.81		NA

3	R&M Expenses	NA	27.13		NA
4	<b>Sub total</b>	<b>124.15</b>	<b>197.31</b>	<b>132.52</b>	<b>8.37</b>
5	Terminal benefits	NA	NA		NA
6	<b>Total</b>	<b>124.15</b>	<b>197.31</b>	<b>132.52</b>	<b>8.37</b>

2.23 The O&M expenses claimed by KSEB Ltd include Rs 0.7011 crore claimed for the new power stations commissioned during the year 2018-19. The details are given below.

Table-2.10  
O&M cost of New Generating Stations

Project	CoD	Capacity- MW	Energy-MU	Capital cost	Addl. O&M cost (Cr)
				(RS Cr)	
Kakkayam	16.07.2018	3	10.39	43.20	0.61
<b>Solar Projects</b>					
Peerumede	23.04.2018	0.500			0.035
Roof Top So-lar (Tr. Wing)	09.07.2018	0.910		7.640	0.047
Roof Top IPDS South	31.12.2018	0.233			0.005
Ponani	16.01.2019	0.500	0.770	3.539	0.006
<b>Total</b>		<b>5.143</b>			<b>0.701</b>

2.24 KSEB Ltd further submitted that, the revision of pay and allowances are due from July/August 2018 onwards. A sum of Rs.176.00 crore was provided in the accounts for provision of pay revision for the employees of KSEB Ltd. KSEB Ltd further submitted that, as per Regulation 14(3) of the Tariff Regulations, 2018 provides that expenses related to pay revision, if any, during the control period for the same level of employees will be admitted in the truing up of accounts for the year 2016-17 of the Generation Business/ company after prudence check. Accordingly, KSEB Ltd provided Rs.8.05 crore towards provision for pay revision for SBU-G in the financial year 2018-19.

2.25 Accordingly, the total O&M expenses claimed by KSEB Ltd for the year 2018-19 is given below.

Table-2.11  
O&M cost of SBU-G claimed by KSEB Ltd for the year 2018-19

Particulars	Amount (Rs.)
O&M expenses for existing Stations	123.77
O&M expenses for new stations	0.70
Provision for pay revision	8.05
<b>Total O&amp;M expense claimed</b>	<b>132.52</b>

### **Comments of the Stakeholders**

2.26 The HT-EHT Association submitted that, the O&M expenses approved in the MYT Order is Rs 124.15 crore, which is inclusive of Rs 123.77 crore for existing stations and Rs 0.38 crore for new stations. The Commission may limit the O&M cost to the approved level.

The Association further submitted that, KSEB Ltd has not actually expended any amount on account of pay revision during the year, but had only booked provision in their accounts. As per Terms and Conditions for Determination of Tariff Regulations, 2018, expense related to pay revision shall only be allowed if the same is actually incurred by the petitioner. Therefore, the claim of KSEB Ltd for pay revision stands null and void and the consumers cannot be burdened by an expense not incurred by KSEB Ltd. In addition to the above, the Association submitted that KSEB Ltd is a loss-making company and hence pay revision cannot be allowed.

### **Analysis and Decision of the Commission**

2.27 The Commission had examined in detail the O&M expenses of SBU-G as per the audited accounts and the KSEB Ltd claim in the Truing up as per the provisions of the Tariff Regulations, 2018. The details are discussed in the following paragraphs.

2.28 O&M cost of SBU-G includes the following expenses, namely,  
(1) Employee expenses,  
(2) Administration and General expenses (A&G expenses), and  
(3) Repair and Maintenance Expenses (R&M expenses).

2.29 The Commission vide the Tariff Regulations, 2018, has specified the norms for O&M expenses for each SBUs of KSEB Ltd separately. The norms are arrived based on the O&M cost including 'employee cost, A&G expenses and R&M expenses' approved in Truing up for the year 2016-17.

2.30 The relevant provisions in the Tariff Regulations 2018, with respect to the O&M expenses is discussed in the following paragraphs.

### **Provisions in the Regulations**

2.31 Regulation 45 of the Tariff Regulations, 2018 deals with the Operation and Maintenance Expenses of SBU-Generation of KSEB Ltd. The relevant Regulation is extracted below.

*“45. Operation and maintenance expenses. – (1) (a) In the case of existing generating stations of the generation business of KSEB Limited shall be allowed to recover operation and maintenance expenses for each financial year of the Control Period, as per the norms specified in Annexure-VII to these Regulations:*

*Provided that in the case of one time maintenance of special nature, not in the form of routine repair and maintenance if any is required and is undertaken for the generating stations/unit, expenses for such maintenance may be allowed by the Commission after prudence check considering the details and justification furnished by the Generating business/company for incurring such an expenditure to the satisfaction of the Commission.*

*(b) The generation business of KSEB Limited shall, subject to prudence check by the Commission, be allowed to recover, in addition to the above specified normative operation and maintenance expenses, the annual pension contribution payable by KSEB Limited to the Master Trust, based on actuarial valuation in respect of the personnel allocated to the generation business of KSEB Limited.*

*(2) In the case of new generating stations, the generating company shall be allowed to recover during the Control Period, the operation and maintenance expenses as specified hereunder,-*

*a) the operation and maintenance expenses in the first year of operation shall be four percent of the original project cost (excluding cost of rehabilitation and resettlement works); and*

*b) the operation and maintenance expenses for each subsequent financial year of the Control Period shall be determined using the escalation rate on the operation and maintenance expenses for the first year as determined above.*

*(3) The Commission may revise the norms for operation and maintenance expenses applicable to subsequent Control Periods.”*

2.32 The note to the Tariff Regulation, 2018 specify the methodology adopted by the Commission for specifying normative O&M expenses for each of the SBUs of KSEB Ltd for the period from 2018-19 to 2021-22, which is extracted below.

**“ NOTE**

*(This does not form part of these Regulations, but is intended for explaining the methodology for computation of normative O&M costs)*

**Methodology Adopted for Specifying Normative O&M Costs for the Businesses of KSEB Limited for the Second Control Period (2018-19 to 2021-22).**

The objective of the tariff determination process taken up by the Commission for licensees and generating companies is to achieve the goals of promotion of investments in the sector, encouraging efficiency and optimization of cost, balancing the interest of the consumers and to ensure recovery of reasonable cost of electricity so as to sustain the utilities and for providing efficient service to the consumers. Certainty in regulatory decisions and providing appropriate signals for the consumers and producers/service providers is of paramount important in tariff determination process.

The basic rationale for MYT regime is to provide long term perspective for tariff determination and reducing the regulatory risk both for consumers and the licensees. The other benefits of the scheme include the provision of adequate incentive for encouraging performance and through disincentives for penalizing non-performance and insulating the licensees from factors which are beyond their control. The Commission in the second control period has proposed to specify the norms for the licensees and for the business of generation taking into consideration the basic principles of Multi Year Tariff regime compared to annual determinations. While devising the norms for the second control period, the Commission has in fact had to consider many issues. Firstly, the Commission is of the view that the control period should be fairly long so as to enable the utilities to develop the practice of medium to long term planning. A capital intensive sector such as electricity has a fairly long gestation period and hence there is a requirement for long term planning. Though this being the case, the control period should also be not too long that short term uncertainties appropriately addressed. Hence the Commission has proposed a four year control period from the present three year period.

The Commission while formulating the current four year Multi Year Tariff has considered the following judicial pronouncements: Order of the Hon'ble High Court of Kerala in the Writ Petition WPC No.465/2015(G) wherein KSEB Ltd had challenged the O&M norms for determining the expenditure specified in the 2014 Regulations as inadequate and resulting in under recovery of its expenses. Hon'ble High Court on 28-02-2018 issued the final judgment and disposed of the petition WP(C) 465/2015,

Orders of the Hon APTEL dated 10-11-2014 in Appeal No. 1 and 19 of 2013 and the Orders of Hon. High Court of Kerala dated 28-2-2018 in the Writ Petition WPC No.465/2015(G) has also been appropriately As per the Orders of Hon. APTEL the employee costs for the years from 2009-10 to 2013-14 has been revised and the Commission has issued truing up orders and consequential/remand orders for the said period, thereby revising the employee cost attributable to KSEB Ltd in line with APTEL orders. Further, as per the directions contained in the Orders of Hon. High Court, the Commission has issued orders on truing up of accounts of KSEB Ltd for the years 2015-16 and 2016-17. As the Commission has already completed the truing up of accounts for KSEB Ltd till 2016-17 (except for the year 2014-15, which is reserved as per the directions of Hon. Supreme Court of Kerala), the

relevant data for the next control period has been taken as basis for the present Regulation.

Escalation factors have been appropriately to be considered for the control period considering the fact inflation is considered as an uncontrollable factor and the licensee has to be mitigated from inflation risk. The Commission during the first control period (2015-16 to 2017-18) has considered the escalation rates as allowed by CERC for the period from 2009-2014. The main feature of the CERC escalation indices is that it follows the actual increase in O&M expenses of the central utilities rather than actual inflation parameters. In order to address the issue, the Commission has decided to propose the average inflation linked to CPI and WPI at 70:30 weightage for the previous four years during this control period, which is expected to address the inflation risk. In this context it is to be pointed out that Government of India has revised the base year for WPI to 2011-12 and officially the indices are effective from 2017, Hence the old series data is no more available for the future years. However, Govt of India has also given indices from 2012-13 to 2016-17 in the new format and the Commission has used the revised WPI data for the purpose of CPI:WPI indexation and for working out the four year average of CPI:WPI at 70:30 weightage from 2013-14 to 2016-17.

In the succeeding sections, the methodology employed for arriving at the norms for recovery of O&M expenses for the licensees and generating companies is dealt with.

#### **Common Steps Adopted for Generation, Transmission & Distribution Businesses.**

1. For determining the norms for the second control period 2018-19 to 2021-22, the latest trued up orders for the year 2016-17 of KSEB Ltd is used. The trued up O&M expenses for the year 2016-17 (net of capitalization, terminal benefits and electricity duty under section 3 of the Kerala Electricity Duty Act) for KSEB Ltd are as shown below:

**Table 2.12**

	SBU-G (Rs. crore)	SBU-T (Rs. crore)	SBU-D (Rs. crore)	KSEB Ltd (Rs. crore)
Employee expense	81.89	233.76	1,606.72	1,922.37
R&M expenses	19.83	70.20	198.22	288.24
A&G expenses	4.59	16.53	90.82	111.94
O&M for new Stations	6.30	-	-	6.30
Total O&M expenses	112.61	320.48	1,895.76	2,328.85

2. **Escalation rates:** As mentioned earlier, escalation rates is based on the CPI:WPI indices at 70:30 weightage for the past four years is shown below:

**Table 2.13**

<b>Escalation Factors</b>	2013-14	2014-15	2015-16	2016-17
CPI	236	250.83	265	275.92
CPI Increase (%)	9.68%	6.28%	5.65%	4.12%
WPI (2011-12 series)	112.5	113.9	109.7	111.6
WPI increase (%)	5.24%	1.24%	-3.69%	1.73%
<b>CPI:WPI (70:30) increase</b>	<b>8.35%</b>	<b>4.77%</b>	<b>2.85%</b>	<b>3.40%</b>



Average increase (2013-14 to 2016-17)				4.84%
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Since the control period is four years, the average inflation for the past four years is 4.84% is used for the purpose of determination of norms.

**Normative O&M Costs for Generation Business of KSEB Limited for the Control Period.**

3. The average employee costs, repair & maintenance costs and administrative & general costs for the generation business of KSEBL, as given above in para 2 for the financial year 2016-17, have been escalated based on the escalation rate of 4.84% per annum (based on the average escalation rate based on CPI:WPI for 2013-14 to 2016-17), for determining the O&M expenses if the Generation business for the control period as given in the following table:

**Table 2.14  
O&M Costs for Generation business**

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)
O&M Expenses	112.61	118.06	<b>123.77</b>	<b>129.77</b>	<b>136.05</b>	<b>142.63</b>

**Normative O&M Costs for Transmission Business of KSEB Limited for the Control Period.**

4. O&M expenses for Transmission business is allowed based on the normative number for Bays and Circuit kilometers of transmission lines. The data regarding the number of bays (66 kV and above) and circuit kilometers for the year 2015-16 and 2016-17 are available as shown below:

**Table 2.15**

<b>Year</b>	<b>2015-16</b>	<b>2016-17</b>
No. of Bays (66 kV and above)	2466	2488
Circuit length (Ckt-km)	9,377.03	9451

The employee costs, repair & maintenance costs and administrative & general costs for the transmission business of KSEB Limited (Rs.320.48 crore), as computed in para 2 above, for the financial year 2016-17, have been allocated amongst the number of bays and line length in circuit kilometer in the ratio of 75:25, respectively, for working out the normative O&M expenses for the transmission business for the financial year 2016-17

5. The above normative O&M expenses for the financial year 2016-17 have been escalated at 4.84% per annum for determining the normative O&M expenses for the control period, as given in the following table:

**Table 2.16**

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
O&M cost for Bay (Rs.lakh/Bay)	9.75	10.22	10.71	11.23	11.77	12.34
O&M cost per Circuit km (Rs.lakh/circuit km)	0.85	0.89	0.93	0.98	1.03	1.08

6. The O&M expenses for any year of the control period shall be allowed by multiplying the normative O&M costs for that year with the actual number of bays and transmission line length in circuit kilometer at the end of the previous year, i.e., the O&M expenses for the financial year 2018-19 shall be allowed by multiplying the normative O&M costs for the financial year 2018-19 with the actual number of bays and transmission line length in circuit kilometer at the end of the previous financial year 2017-18.

**Normative O&M Costs for the Distribution Business of KSEB Limited for the Control Period.**

7. The parameters used for allowing O&M expenses (employee costs and A&G expenses) for distribution is the number of consumers, number of distribution transformers, length of HT lines in kilometer and sales. R&M expense is benchmarked against the Distribution Gross Fixed Assets. These parameters for the distribution business at the end of the financial year 2017-18 have been considered as the output parameters for the financial year 2018-19, for the purpose of working out the normative O&M expenses.

8. The employee costs, and administrative & general costs for the distribution business of KSEB Limited (Rs. 1697.54 crore), as computed above in para 2 for 2016-17 have been allocated to the number of consumers, number of distribution transformers, length of HT lines in kilometer and the sales, in the ratio of 30:25:25:20, respectively, for working out the normative O&M costs for the distribution business. The parameters for the distribution business for the year 2015-16 and 2016-17 is as shown below:

**Table 2.17**

Particulars	2015-16	2016-17
No. of consumers	1,16,68,031	1,19,94,853
No. of Distribution Transformers	73,460	75,759
Length of HT lines (kms)	59,47.66	61,364
Energy Sales (MU)	19,325	20,055

9. The normative O&M costs for the financial year 2016-17 have been escalated by the growth rate of 4.84% per annum for determining the normative O&M costs for the financial years in the control period.

Table 2.18

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
No. of consumers (Rs. Lakh/'000 consumers)	4.36	4.58	4.80	5.03	5.27	5.53
No. of Distribution transformers (Rs.lakh/Distribution transformer)	0.58	0.61	0.64	0.67	0.7	0.73
Length of HT line (Rs.lakh/km of HT line)	0.71	0.75	0.79	0.83	0.87	0.91
Energy sales (Rs.per unit)	0.18	0.18	0.19	0.2	0.21	0.22

10. The O&M expenses (excluding R&M expenses) for any year of the control period shall be allowed by multiplying the normative O&M costs for that year with the actual number of consumers, number of distribution transformers, length of HT line in kilometer, sales, and GFA for the previous year, i.e., the O&M expenses for the financial year 2018-19 shall be allowed by multiplying the normative O&M costs for the financial year 2018-19 with the actual number of number of consumers, number of distribution transformers, length of HT lines in kilometer and sales for the financial year 2017-18.

11. R&M expenses for distribution business (SBU-D) is allowed based on the 3% of opening level of GFA (excluding land and land under lease) for the respective years of Distribution business.”

2.33 The Annexure-VII of the Tariff Regulations, 2018 specifies the O&M expenses of SBU-G of KSEB Ltd for the Control Period, is as follows.

**Annexure-VII**

**O&M norms for existing generating stations of generation business of KSEB Limited**

	Control period			
	2018-19 (Rs. crore)	2019-20 (Rs. crore)	2020-21 (Rs. crore)	2021-22 (Rs. crore)
O&M Expenses	<b>123.77</b>	<b>129.77</b>	<b>136.05</b>	<b>142.63</b>

2.34 Further, Regulation 14(3) of the Tariff Regulations, 2018 deals with the ‘pay revision and related issues’ which is extracted below:

“(3) Expenses relating to pay revision, if any, during the control period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of

*the Generation business/company or Transmission business/licensee or distribution business/licensee may be considered for pass through after due prudence check.”*

- 2.35 The Commission has examined the O&M expenses allowable as per the norms specified in the Tariff Regulations, 2018, and also the prudence of the O&M expenses as per the audited accounts in detail in the subsequent paragraphs.

**O&M expenses of SBU-G as per Norms**

**2.36 O&M expenses for Existing Generating Stations as on 31.03.2018.**

- (1) As discussed in the preceding paragraphs and as specified under Annexure-VII of the Tariff Regulations, 2018, O&M expenses admissible for the 'existing generating stations of KSEB Ltd' as on 31.03.2018, is Rs 123.77 crore.
- (2) The O&M expenses, as specified in the Regulation is based on the approved True up O&M cost such as 'Employee Expenses, A&G expenses and R&M expenses' for the year 2016-17. The Commission noted that, each of the components of O&M expenses such as 'Employee Expenses, A&G expenses and R&M expenses' are separate cost elements and controllable parameter. Further, KSEB Ltd is also accounting each item separately in their audited accounts. Hence, the Commission has decided to approve each item of the O&M expenses separately in the True up process so that, each component of the O&M expenses is carefully considered and approved with reference to the audited accounts. Such an effect also facilitates identification of areas of cost reduction, inefficiency, lack of prudent cost control etc which will enable the utility to effect appropriate corrective action.
- (3) Hence the Commission decided to apportion the O&M expenses admissible as per norms among the three components of O&M expenses viz-a-viz Employee Expenses, A&G expense and R&M expenses in the ratio of these expenses in approved True up O&M expenses of SBU-G for the year 2016-17, since 2016-17 is considered as the base year for arriving at the norms specified in the Tariff Regulations, 2018.

Table 2.19  
Ratio of approved O&M expenses of the year 2016-17 among O&M components

Particulars	SBU-G for 2016-17	Ratio of the components of O&M expenses
	(Rs. crore)	(%)
Employee expense	81.89	77.03%
R&M expenses	19.83	18.65%
A&G expenses	4.59	4.32%
Total	106.31	100.00%

- (4) Based on the above, the O&M expenses allowable for each component of SBU-G is apportioned as detailed below.

Table 2.20  
Component wise O&M cost of SBU-G of existing stations eligible as per Tariff Regulations

Particulars	Amount	Ratio of the
Employee expense	95.34	77.03%
R&M expenses	23.09	18.65%
A&G expenses	5.34	4.32%
Total	123.77	100.00%

### 2.37 O&M expenses of New Generating Stations added during the Year 2018-19.

- (1) As detailed under paragraph 2.23 above, KSEB Ltd had claimed that, they had commissioned 5.143 MW new generating stations during the year 2018-19. Out of this 3 MW is SHP and balance 2.143 MW is solar plants at various locations of the State.
- (2) As per the Regulation 45(2) of the Tariff Regulations 2018, the O&M expenses for new stations is allowable @4% of the original project cost excluding cost of rehabilitation and re-settlement work.

However, the new generating stations commissioned during the year 2018-19 under paragraph 2.23 above are Renewable Power plants such as solar and Small Hydel Plants. The operating norms and other

technical and financial norms for determination of tariff of such RE plants are governed by separate RE Regulations.

The paragraph 3.48 of the MYT Order dated 08.07.2019 specified the O&M expenses applicable for the SHPs and Solar plants during the MYT period from 2018-19 to 2021-22, and the same is extracted below.

“ 3.48 The Commission has examined the details furnished by KSEB Ltd. The O&M expenses for the SHPs and new solar projects are to be as per the KSERC (Renewable Energy) Regulations and in its absence, norms of Central Commission are applicable. Since for the year 2018-19, norms are not available under the Commission’s Regulations, CERC norms are to be made applicable. The escalation rates for the control period is 4.84%. Accordingly, the O&M expenses per MW for the SHPs and solar projects for the control period are determined as shown below:

Table : 2.21  
Base level and escalated O&M expenses for new SHP and Solar projects

	2017-18	2018-19	2019-20	2020-21	2021-22
SHP >5MW	21.00	22.02	23.08	24.20	25.37
SHP < 5MW	29.00	30.40	31.88	33.42	35.04
Solar	7.34	7.69	8.07	8.46	8.87

- (3) Based on the above, the O&M expenses approved for the new generating stations commissioned during the year 2018-19 is given below.

Table : 2.22

O&M expenses approved for New Generating Stations commissioned during the year 2018-19

Project	CoD	Capacity- MW	O&M	O&M admissible
			(Rs. Lakh/	(Rs. Cr)
Kakkayam	16.07.2018	3.000	30.40	0.647
<b>Solar Projects</b>				
Peerumede	23.04.2018	0.500	7.69	0.036
Roof Top So-lar (Tr. Wing)	09.07.2018	0.910	7.69	0.051
Roof Top IPDS South	31.12.2018	0.233	7.69	0.004
Ponnani	16.01.2019	0.500	7.69	0.008
<b>Total</b>		<b>5.143</b>		<b>0.746</b>

As above, the additional O&M expenses that can be allowed for new Generating stations is Rs 0.746 crore for the year 2018-19.

- (4) The additional O&M expenses is also apportioned among the various O&M components in the ratio discussed in the paragraph 2.36(3) above. The details are given below.

Table 2.23

O&M expenses eligible for New Generating Stations for the year 2018-19

Particulars	Amount (Rs.Cr)	Ratio of the total O&M
Employee expense	0.575	77.03%
R&M expenses	0.139	18.65%
A&G expenses	0.032	4.32%
Total	0.746	100.00%

- (5) Thus, the total O&M expenses of generating stations (including new stations) eligible as per the norms specified in the Regulations is given below.

Table 2.24

O&M expenses eligible for SBU-G as per the Tariff Regulations, 2018

Particulars	Amount (Rs.Cr)
Employee expense	95.91
R&M expenses	23.23
A&G expenses	5.38
Total	124.52

As above, the O&M expenses allowable as per the provisions of Tariff Regulations, 2018 is Rs.124.52 crore for the year 2018-19.

### **Appraisal of the Employee Expenses as per the audited accounts with the same allowable as per norms.**

2.38 In order to get clarity on the various components of the O&M expenses allowable as per Tariff Regulations, 2018 and the actual expenses incurred as per the audited accounts, the Commission has examined each component of the O&M expenses with respect to the norms as per Tariff Regulations, 2018 and the actuals. The details are discussed below.

2.39 The details of the employee expenses claimed as per the audited accounts is given below.

Table 2.25  
Employee expenses of SBU-G of KSEB Ltd as per audited accounts for the  
year 2018-19

S. No.	Particulars	Amount
		(Rs. Cr)
1	Basic Salary	166.44
2	Dearness Allowance (DA)	38.49
3	House Rent Allowance	1.77
4	Conveyance Allowance	0.00
5	Leave Travel Allowance	0.03
6	Earned Leave Encashment	11.95
7	Other Allowances	4.23
8	Medical Reimbursement	0.80
9	Overtime Payment	0.24
10	Bonus/Ex-Gratia Payments	0.46
11	Staff welfare expenses	0.14
12	<b>Net Employee Costs</b>	<b>224.55</b>
13	Contribution of KSEB Ltd. towards NPS	0.98
14	Others	0.02
15	<b>Gross Employee Expenses</b>	<b>225.56</b>
16	Less: Expenses Capitalised	<b>97.18</b>
17	<b>Net Employee Expenses</b>	<b>128.37</b>

2.40 As detailed above, the employee expenses of SBU-G as per the audited accounts is Rs.128.37 crore as against the employee cost of Rs.95.91 crore allowable as per norms. The Commission noted that, the higher employee expenses as per the audited accounts is mainly due to the following reasons.

- (1) The employee expenses of KSEB Ltd as per the audited accounts is the salary and allowances of all 33,000 plus employees as on 31.03.2019, where as the employee cost as per norms reflects only the salary and allowances of 27,175 number of employees as on 31.03.2009.
- (2) The employee expenses as per the audited accounts include the provision of pay revision. However, the Commission has taken the considered decision that, the impact of pay revision will be approved only in the year in which the actual cash outflow occurs and subject to prudence check including approvals of the KSEB Ltd's Board of Directors and the State Government.
- (3) The employee expenses as per the audited accounts also include the provision for unfunded actuarial liability. However, the Commission after



due consideration has decided that, the additional unfunded liability as per the actuarial valuation report can be appraised separately based on a separate petition to be filed by KSEB Ltd with all supporting details if they desire to avail these amounts. Till such time, the Commission has permitted an ad-hoc provision of additional funds to the Master Trust, and the same is discussed in the subsequent paragraphs.

2.41 The Commission notes that KSEB Ltd has not submitted sufficient details to enable appraising the employee expenses as per the audited accounts. Hence, the Commission is unable to prudently estimate the employee expenses as claimed in the audited accounts. Therefore, the Commission is constrained to limit the employee expenses of KSEB Ltd provisionally to the levels as per the norms specified in the Tariff Regulations 2018. **However, KSEB Ltd, may at its liberty, submit the necessary and sufficient details with proper justification for the additional employee expenses as per the audited accounts, through a petition as per the KSERC (Conduct of Business) Regulations 2003.** The Commission may take appropriate decision on such petition after completing all due procedures including prepublication, stakeholder consultation and public hearings.

2.42 Based on the above consideration, the Commission hereby approve, provisionally, the employee cost of SBU-G of KSEB Ltd for the year 2018-19 as follows.

Table 2.26  
Employee expenses of SBU-G approved for the year 2018-19

Particulars	As per audited accounts	KSERC Approval in True up as per norms
	(Rs. Cr)	(Rs. Cr)
Employee expenses	128.37	95.91

**As above, the Commission approve the employee expenses of SBU-G of KSEB Ltd provisionally at Rs. 95.91 crore for the year 2018-19 as per the Tariff Regulations, 2018.**

**Appraisal of the A&G Expenses as per the audited accounts with the same allowable as per norms.**

2.43 The details of the A&G expenses of SBU-G claimed by KSEB Ltd in their truing up petition as per the audited accounts for the year 2018-19 is given below.

Table 2.27  
A&G expenses

S. No.	Particulars	Claimed as per the audited accounts
1	Rent Rates & Taxes	1.32
2	Insurance	0.45
3	Telephone & Postage, etc.	1.45
4	Legal charges	0.55
5	Audit Fees	-0.08
6	Consultancy charges	0.04
6	Other Professional charges	0.98
7	Conveyance	4.04
8	Vehicle Running Expenses Truck / Delivery	0.07
9	Vehicle Hiring Expenses Truck / Delivery Van	0.07
10	Electricity charges	0.11
11	Water charges	0.05
11	Entertainment	0.11
12	Fees & subscription	0.34
13	Printing & Stationery	0.34
14	Advertisements, exhibition publicity	0.28
15	Contribution/Donations	0.40
16	Training expenses	0.97
16	Miscellaneous Expenses	0.27
17	SRPC expenses	0.15
18	Sports and related activities	0.08
19	Freight	1.42
20	Purchase Related Advertisement Expenses	0.80
21	Office Expenses	11.07
21	License Fee and other related fee	4.01
22	Books & periodicals	0.03
23	Others	12.56
24	Others- Other Purchase related Expenses	-0.17
25	Others - Expenditure inconnection with	0.11
26	<b>Gross A&amp;G Expenses</b>	<b>41.80</b>
27	Less: Expenses Capitalised	0.00
28	<b>Net A&amp;G Expenses</b>	<b>41.80</b>

2.44 The Commission, vide the Truing up Order dated 25.06.2021 had approved the A&G expenses of SBU-G for the year 2017-18 at Rs 4.86 crore. The A&G expenses mentioned as per norms for the year 2018-19 is Rs.5.37 crore only, which is about 10.5% higher than the amount approved in the previous year. However, the A&G expenses as per the audited accounts for the year 2018-19 is **'8.7 times'** higher than the amount approved for the year 2017-18.

The Commission also noted that KSEB Ltd has not submitted proper justification for such excessive expenditure under certain heads booked in A&G expenses. Without proper justifications, the Commission cannot approve any such expenses. Further, the A&G expenses being controllable expenses, optimization and economy must be the guiding principle while incurring expenditure by the utility.

2.45 Considering these aspects in detail, the Commission hereby provisionally to approve the A&G expenses of KSEB Ltd as per the norms specified in the Tariff Regulations. 2018. The details are given below.

Table 2.28  
A&G expenses of SBU-G approved for the year 2018-19

Particulars	Approved for the year 2017-18	2018-19	
		As per audited accounts	KSERC Approval in True up as per norms
	(Rs.Cr)	(Rs. Cr)	(Rs. Cr)
A&G expenses	4.86	41.81	5.38

***The Commission also hereby allows KSEB Ltd to provide complete details with proper justification, if they so desire for consideration of the Commission. These details, if KSEB Ltd so desires shall be made available through a proper petition within 3 months of the date of this Order. The Commission hereby further clarify that this period of 3 months is sacrosanct and no extension for what ever reason shall be considered by the Commission beyond these 3 months.***

***As above, the Commission hereby provisionally approve the A&G expenses of SBU-G for the year 2018-19 at Rs 5.38 crore.***

**R&M Expenses:**

2.46 The details of the R&M expenses of SBU-G claimed as per the audited accounts is given below.

Table 2.29  
R&M expenses of SBU-G claimed for the year 2018-19

S. No.	Particulars	As per the audited accounts (Rs.Cr)
1	Plant & Machinery	13.39
2	Buildings	2.93
3	Civil Works	6.06
4	Hydraulic Works	3.72
5	Lines & Cable Networks	0.05
6	Vehicles	0.60
7	Furniture & Fixtures	0.05
8	Office Equipment	0.34
9	<b>Gross R&amp;M Expenses</b>	<b>27.13</b>
10	Less: Expenses Capitalised	0.00
11	<b>Net R&amp;M Expenses</b>	<b>27.13</b>

2.47 As seen from the Table above, the R&M expenses of SBU-G as per the audited accounts is Rs 27.13 crore as against Rs 23.23 crore provided for as per the norms. The R&M expenses of SBU-G approved for the year 2017-18 is Rs 20.99 crore.

2.48 The Commission is of the firm view that R&M expenses is one of the critical expense essential for maintaining the utility's assets in good working conditions till its useful life. The Commission also noted that, most of the generation assets of KSEB Ltd are very old and completed its useful life.

2.49 However, the Commission has been approving the O&M expenses as per norms only. The R&M expenses is one of the components of O&M expenses. Hence the Commission decided to limit the R&M expenses also as per norms for the year 2018-19 as per the provisions of the Tariff Regulations, 2018. Considering these aspects in detail, the Commission decided to approve the R&M expenses of SBU-G for the year 2018-19 as detailed below.

Table 2.30  
R&M expenses of SBU-G approved for the year 2018-19

Particulars	Approved for the year 2017-18	2018-19		
		As per audited accounts	KSERC	
	(Rs.Cr)		(Rs. Cr)	Eligible as per norms (Rs. Cr)
R&M expenses	20.99	27.33	23.23	23.23

**As above, the Commission approves the R&M cost of SBU-G of KSEB Ltd at Rs 23.23 crore.**

**Provision for pay revision.**

- 2.50 KSEB Ltd submitted that, the pay revision of the KSEB Ltd employees was due from July/ August 2018. Accordingly, on accrual basis, KSEB Ltd had provided Rs 176.00 crore as provision for pay revision. Out of this total of Rs 176 Crores, the provision for SBU-G was Rs 8.05 crore.

The Commission noted that, as stated under paragraph 2.34 above, the Regulation 14(3) of the Tariff Regulations 2018 provides that, the Commission may allow the expenses related to pay revision during the control period from 2018-19 to 2021-22, for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the SBU-G, SBU-T and SBU-D of KSEB Ltd.

- 2.51 The Commission also noted that, Hon'ble APTEL vide the judgment dated 10.11.2014, in Appeal Petition No. 01 of 2013 and 19 of 2013, had issued the following observations and directions regarding the pay revision and related matters of the employees of KSEB Ltd.

"Paragraphs 8.4 to 8.5 of the Judgement of the Hon'ble APTEL dated 10.11.2014 in Appeal Petition No.01 of 2013 and 19 of 2013.

*8.4 The State Commission has rightly shown concern about the high employees cost but we are not able to appreciate magnitude in the absence of a specific finding about the excess manpower and non-availability of Regulations. We feel that DA increase which is effected as per the Government orders have to be accounted for and allowed in the ARR as it compensates the employees for the inflation. **The pay revision as per the agreements reached between the management and the unions have also to be honoured. The terminal benefits have also to be provided for.***

*8.5 We find that the State Commission has taken the actual expenses trued-up for FY 2008-09 as the base. The State Commission should have at least allowed the actual basic pay and DA increase, **pay revision** and terminal benefits over the actual base year expenses without accounting for increase in manpower from 2008-09 to 2012-13. The gratuity directed to be paid as per the judgments of the High court dated 10.03.2003 as the Division bench of the High Court had dismissed the Appeal filed against this judgment, and which were disallowed by the State Commission by order in Appeal no. 1 of 2013 should also be allowed.*

2.52 KSEB Ltd submitted before the Hon. High Court in its petition WPC 465/2015 that,

*“in case the truing up of Accounts for the year 2014-15 onwards are also considered in the light of the revised Orders passed for the year 2010-11 onwards in tune with the judgments of the APTEL, the difficulties faced by the petitioner on account of the Regulations would be addressed to some extent”.*

2.53 The Commission also submitted before the Hon. High Court that while considering the truing up applications of the petitioner for the year 2015-16, 2016-17 and 2017-18, the Commission would take into account the judgment of APTEL and the consequential orders passed thereafter, Hon’ble High Court on 28-02-2018 issued the final judgment and disposed off the Petition No WP(C) 465/2015, without going into the broad contentions raised in the writ petition as the Regulation under challenge is a sub-ordinate legislation issued under the Section 181(2)(d) of the Electricity Act 2003. The Hon. High Court in the judgment, directed the Commission to pass order on the application of the petitioner KSEB Ltd for truing up of accounts for the years 2015-16, 2016-17, 2017-18 with due regards to the findings in APTEL Judgments in Appeal Nos. 1 and 19 of 2013 and consequential orders passed by the Commission for 2010-11 onwards, in the case of KSEB Ltd. The relevant portion of the judgment of the Hon. High Court is quoted below:

*“In view of the submission made by learned senior counsel that the Commission would take into account Ext.P6 judgment of the APTEL while taking up the applications for truing up of accounts, I direct the 1<sup>st</sup> respondent to pass orders on the applications of the petitioner for truing up of accounts for the year 2015-16, 2016-17, and in 2017-18 with due regard to the findings in Ext.P6 judgment and the consequential orders passed by the commission for the year 2010-11 onwards in the case of petitioner.”*

As discussed in the preceding paragraphs, and also as per the Tariff Regulations, 2018, the pay revision expenses **as per the agreements reached between the management and the unions has to be allowed.**

2.54 As per the details submitted before the Commission, the pay revision due from July / August 2018 was implemented from the months of March 2021 only, and thus no cash flow was incurred towards pay revision in the Year 2018-19. Since KSEB Ltd is preparing the accounts on accrual basis, KSEB Ltd has created a provision of Rs 176 crore towards pay revision during the year 2018-19.

2.55 **Since the Commission has been approving the Truing up of accounts on cash basis after appraising the prudence of the amount incurred, the**

Commission is not in a position to approve the provision for pay revision created on accrual basis for the year 2018-19. However, the Commission hereby clarify that, KSEB Ltd is permitted to take up the actual amount incurred for pay revision with all relevant details including the approvals of the Director Board of KSEB Ltd and the State Government at the time of truing up of the relevant years in which actual cash flow incurred towards pay revision which is due from July/August 2018 onwards.

#### Total O&M expenses approved for SBU-G of KSEB Ltd.

2.56 As discussed in the preceding paragraphs, the total O&M expenses approved for SBU-G in the Truing up of accounts for the year 2018-19 is detailed below.

Table 2.31

Total O&M expenses of SBU-G of KSEB Ltd approved for the year 2018-19

Particulars	ARR Order dated 08.07.2019	As per audited accounts*	KSEB claim in the Truing up petition	KSERC approval
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Employee cost	124.15	128.37	124.47	95.91
A&G expenses		41.81		5.38
R&M expenses		27.13		23.23
Provision for pay revision	Nil		8.05	Nil
<b>Total</b>	<b>124.15</b>	<b>197.31</b>	<b>132.52</b>	<b>124.52</b>

\* Inclusive of provision for pay revision

#### Capital Additions of SBU-G of KSEB Ltd for the year 2018-19

2.57 KSEB Ltd submitted that, as per Accounts, KSEB Ltd had executed capital works to the tune of Rs.2215.24 crore during the year. The completed works which were capitalized during the year was Rs.1672.80 crore. Of this, Rs.103.66 crore was the asset addition for SBU-G as per Accounts, as shown below:

Table 2.32

Summary of capitalisation during the year 2018-19 as per petition

Sl. No	SBU	CWIP as on 01/04/2018	Works executed during the year	GFA Addition	CWIP as on 31/03/2019
		Rs. Crore	Rs. crore	Rs. crore	Rs. crore
1	Generation	1,130.89	220.15	103.66	1,247.39
2	Transmission	440.71	560.43	365.43	635.71
3	Distribution	877.29	1,434.67	1,203.72	1,108.24
<b>4</b>	<b>GRAND TOTAL</b>	<b>2,448.90</b>	<b>2,215.24</b>	<b>1,672.80</b>	<b>2,991.34</b>

2.58 The asset class wise details of fixed assets addition under the Strategic Business Units of SBU G, SBU T and SBU D during the year 2018-19 is given below:

Table 2.33

SBU wise, Asset class wise GFA addition for the year 2018-19 (Rs in Crore)

Sl.No	Description	2018-19			
		SBU G	SBU T	SBU D	Total
1	Land	0.46	6.76	0.24	7.46
2	Building	20.61	22.74	-4.72	38.63
3	Hydraulic works	36.95	0.26	0.00	37.21
4	Other Civil works		21.14	2.47	23.61
5	Plant & Machinery	43.78	173.49	241.73	459.00
6	Lines, cable networks etc.	0.60	137.92	952.81	1091.33
7	Vehicle	0.52	0.58	0.27	1.37
8	Furniture & Fixtures	0.30	0.82	2.75	3.87
9	Office equipment	0.36	1.39	6.94	8.69
10	Decommissioning liability	0.09	0.34	1.22	1.65
<b>11</b>	<b>Total</b>	<b>103.66</b>	<b>365.43</b>	<b>1203.72</b>	<b>1672.80</b>

2.59 SBU wise details of the capital subsidies and grants received during the year 2018-19 as per accounts and claimed in the truing up is detailed below.

Table 2.34

SBU wise break up of Consumer contribution, subsidies & Grants (Rs Cr)

Particulars	SBU G	SBU T	SBU D	Total
Consumer contribution & Grants as per petition	13.34	289.69	452.93	755.96
Less: Grants not considered as the projects not commissioned in 2018-19.		232.78		232.78
Consumer contribution & Grants etc considered for 2018-19	13.34	56.91	452.93	523.18

2.60 The GFA addition claimed for as per Tariff Regulation, 2018 for claiming interest on loan and depreciation for the year 2018-19 is given below.

Table 2.35

Breakup of additional capitalization as per Accounts and as per KSERC Regulations (Rs. Cr)

Sl.No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	Addition as per Accounts	103.66	365.43	1203.72	1672.81
2	Less: Decommissioning liability	0.09	0.34	1.22	1.65
3	Less: Part capitalization	0.77	26.74	0.00	27.51
4	Add: Part capitalization in 2016-17 but commissioned during 2018-19	0.00	1.78	0.00	1.78
5	Add: Part capitalization in 2017-18 but commissioned during 2018-20	1.06	7.04	0.00	8.10
6	<b>GFA addition eligible as per Regulation</b>	<b>103.86</b>	<b>347.17</b>	<b>1202.50</b>	<b>1653.53</b>
7	Less: Consumer contribution & grants	13.34	56.91	452.93	523.18
8	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>90.52</b>	<b>290.26</b>	<b>749.57</b>	<b>1130.35</b>
9	Less: Land value addition excluding the portion under part capitalization	0.46	3.89	0.24	4.59
10	<b>GFA addition eligible for depreciation</b>	<b>90.06</b>	<b>286.37</b>	<b>749.33</b>	<b>1125.76</b>



## Asset additions for SBU-G

2.61 KSEB Ltd in the Truing up petition claimed that, the total assets capitalized in SBU-G was Rs.103.66 crore. The project wise details of asset addition furnished by KSEB Ltd is as follows:

Table 2.36  
Project wise Asset addition for the year 2018-19

A/c Code	Name of Project	Rs.crore	A/c Code	Name of Project	Rs.crore
14.02	Idamalayar H E Project	0.48	14.76	Adyanpara Small Hydro Electric Project	0.18
14.03	Solar Power Project.	6.41	14.78	Barapole S.H. Scheme	1.60
14.07	Kakkad Scheme	0.54	14.80	Achencoil SHEP	0.02
14.10	Kuttiadi Augmentation Scheme	5.00	14.83	Peechi SHEP	-
14.16	Lower Periyar Tunnel Works - Other than W B Aided Works	0.65	14.84	Maripuzha SHEP(2 X 3 MW)	-
14.21	Malampuzha Power Gen. Scheme	0.01	14.85	Bhramapuram D P P	0.04
14.25	RMU SHOLAYAR	1.64	14.86	120 MW DGPP Kozhikode	0.18
14.27	Chimoney Small H E Scheme	0.07	14.89	LADRUM SHEP	0.02
14.30	Wind Generator, Kottamala, Palakkad	0.01	14.90	CWIP - General	22.35
14.36	Anakkayam Small HE Scheme	1.66	14.92	Renovation Modernisation & Upgradation of Sabarigiri HE Project	0.26
14.39	Chathankottu Nada Small HE Scheme	-	14.93	Vilangad Small Hydro Project	0.08
14.40	DRIP Project	0.02	14.95	Perunthenaruvi- SHE schemes	56.71
14.41	Renovation Division for Idukki H.E.P.	1.09	14.96	Thottiyar HES	0.08
14.42	Valanthode SHEP	-	14.97	CWIP - Closed Projects	1.43
14.44	Sengulam Augmentation Scheme	-	14.98	Poringalkuthu Addl.Extn. Scheme	0.38
14.45	Athirapally H E Project	-	14.15	Olikkal Small H.E Scheme	0.01
14.46	Chembukadavu Mini HEP Stage II	0.02	14.32	Poringalkuthu Left Bank H E Project Extension Scheme	0.61
14.48	Urumi Mini H E Project II	0.07	14.44	Sengulam Augmentation Scheme	0.01
14.49	Poovaramthode Small H.E Scheme	-	14.66	Upper Kallar HE Scheme	0.05
14.61	Expenditure due to Natural Calamity	0.46	14.72	Chembukadavu III Small H.E Scheme	0.01
14.64	MARMALA SHEP	0.02	14.75	Pazhassi Sagar Small H.E Scheme	0.04
14.65	Kuttiadi Small Hydro Electric Project	0.78	14.77	Pallivasal Extension Scheme	0.04
14.69	RMU-Poringalkuthu	0.53		<b>SUB TOTAL (A)</b>	<b>103.57</b>
14.71	Peruvannamuzhi Small Hydro Electric Project	-		De com Liab	0.09
14.74	Chinnar HES	-		<b>Total</b>	<b>103.66</b>

2.62 As per the details submitted in their petition, KSEB Ltd stated that the asset addition for SBU-G is inclusive of Perunthenaruvi SHEP (6MW), which was achieved CoD on 24-10-2017. Though this project was commissioned in the

year 2017-18, capitalization of the expense was included in the accounts only in 2018-19.

2.63 The details of the part capitalization under SBU-G is given below.

Table 2.37

Breakup of part capitalisation of project cost under SBU-G for 2018-19

Name of Project	10-Group Break-up (in Rs. Crore)									Total
	Land	Building	Hydraulic Works	Other Civil Works	Plant and Machinery	Lines, Cable network, etc.	Vehicles	Furniture & Fixtures	Office Equipmts.	
Olikkal Small H.E Scheme	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01
Poringalkuthu Left Bank H E Project Extension Scheme	0.00	0.00	0.02	0.56	0.03	0.00	0.00	0.00	0.00	0.61
Sengulam Augmentation Scheme	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.01
Upper Kallar HE Scheme	0.00	0.00	0.00	0.00	0.05	0.00	0.00	0.00	0.00	0.05
Chembukadavu III Small H.E Scheme	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	0.01
Pazhassi Sagar Small H.E Scheme	0.00	0.00	0.00	0.00	0.04	0.00	0.00	0.00	0.00	0.04
Pallivasal Extension Scheme	0.00	0.00	0.00	0.01	0.00	0.00	0.02	0.01	0.00	0.04
<b>TOTAL</b>	<b>0.00</b>	<b>0.00</b>	<b>0.02</b>	<b>0.57</b>	<b>0.12</b>	<b>0.00</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>	<b>0.77</b>

2.64 KSEB Ltd also claimed decommissioning liability of Rs 0.09 crore. Thus, the GFA addition of SBU-G claimed by KSEB Ltd is given below.

Table 2.38  
GFA addition eligible for SBU G as per petition

No.	Particulars	Gross fixed assets for 2018-19 as per Accounts			Part capitalization	Decommissioning liability	Addition net of adjustments
		Year beginning	Additions	Year End			
1	Land & land rights	1495.39	0.46	1495.85			0.46
2	Hydraulic works	1361.72	36.95	1398.67	0.02		36.93
3	Building & Civil works of Power plant	554.74	20.61	575.35	0.57		20.04
4	Plant & machinery including sub-station equipments	13417.75	43.78	13461.53	0.12		43.66
5	Line, cable network etc	6.88	0.60	7.48			0.60
6	Vehicles	9.57	0.52	10.09	0.02		0.50
7	Furniture & fixtures	4.69	0.30	4.99	0.02		0.28
8	Office Equipments	10.83	0.36	11.19	0.02		0.34
9	Decommissioning liability		0.09	0.09		0.09	0.00
	Total (1) to (9)	16861.56	103.66	16965.21	0.77	0.09	102.80
	Add: Part capitalized cost in 2017-18-Perumthenaruvi						1.06
	True up claim for 2018-19						103.86
	Enhancement in value due to revaluation	11988.98		11988.98			
	Net of enhancement in value	4872.58		4976.23			

## **Grants and contributions**

2.65 KSEB Ltd in their petition stated that the consumer contribution and grants received during the year 2018-19 is Rs.755.96 crore, out of which Rs.13.34 crore is for SBU-G. The details are given under Table 2.34 above.

Hence KSEB Ltd has claimed that, the GFA of SBU-G eligible for normative loan is Rs.90.52 crore (103.86-13.34). The land value of the GFA of SBU-G for the year 2018-19 is Rs 0.46 crore. Thus, according to KSEB Ltd, the GFA addition of SBU-G eligible for depreciation is Rs 90.06 crore. The SBU wise details of the GFA eligible for normative loan and depreciation for the year 2018-19 as claimed by KSEB Ltd is given in the Table 2.35 above.

## **Provisions in the Regulations regarding addition of assets**

2.66 As per the provisions of Tariff Regulation, 2018, only when an asset is ready and put into use, the costs relating to such assets are to be included for determination of tariff as shown below:

- *As per proviso to Regulation 22(2) the value of assets forming part of the project but not put to use or not in use, shall be excluded from the capital cost.*
- *As per Regulation 23(4), the assets forming part of the project cost but not put to use, shall not be approved for determination of tariff.*
- *Proviso to Regulation 28, RoE shall be allowed on the amount of equity capital approved by the Commission for the assets put to use at the commencement of the financial year.*
- *Regulation 29(1)(b) provides that the interest and finance charges on capital works in progress shall be excluded from such consideration. Hence, the provisions of Regulation clearly excludes the assets which are part capitalized.*

## **Analysis and decision of the Commission**

2.67 The Commission had examined in detail the GFA addition of SBU-G claimed by KSEB Ltd in the truing up petition. The total capital cost of each of the SBUs of KSEB Ltd forms the basis for tariff determination.

In the MYT Order dated 08-07-2019, the Commission had provisionally approved the asset addition of Rs.65.79 crore for the SBU-G of KSEB Ltd. However, as per the Truing up petition, the GFA addition in SBU-G for the year 2018-19 is Rs 103.86 crore as detailed in the preceding paragraphs.

Out of the total GFA addition of Rs.103.86 crore, Rs.56.71 crore is the GFA addition of Perunthenaruvi SHP. KSEB Ltd has rightly excluded the part capitalisation amounting to Rs.0.77 crore and decommissioning liability of 0.09 crore.

2.68 Based on the above, the Commission approves the GFA addition of SBU-G of KSEB Ltd as follows.

Table 2.39

GFA addition approved for SBU-G for normative loan and depreciation

Sl.No	Particulars	SBU G
1	Addition as per Accounts	103.66
2	Less: Decommissioning liability	0.09
3	Less: Part capitalization	0.77
4	Add: Part capitalization in 2016-17 but commissioned during 2018-19	0.00
5	Add: Part capitalization in 2017-18 but commissioned during 2018-20	1.06
6	<b>GFA addition eligible as per Regulation</b>	<b>103.86</b>
7	Less: Consumer contribution & grants	13.34
8	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>90.52</b>
9	Less: Land value addition excluding the portion under part capitalization	0.46
10	<b>GFA addition eligible for depreciation</b>	<b>90.06</b>

2.69 **Summary of the GFA (historical cost as on 31.03.2019)**

As per the Order of the Commission dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts for the year 2017-18, the GFA of SBU-G approved as on 31.03.2018 is Rs 4729.74 crore. The GFA addition approved for the year 2018-19 as per Table 2.39 above is Rs 103.86 crore. Thus, the closing balance of GFA as on 31.03.2019 is Rs 4833.60 crore. The details are given in the Table below.

Table 2.40  
Summary of GFA of SBU-G of KSEB Ltd as on 31.03.2019

Sl No	Particulars	Amount (Rs. Cr)
1	Opening level of GFA approved as on 01.04.2018 (Table 38 of the Order dated 25.06.2021 in OA No. 09/2020 (True up 2017-18)	4729.74
2	Asset addition approved for 2018-19	103.86
3	Closing balance of GFA as on 31.03.2019	4833.60

## Depreciation

2.70 KSEB Ltd in their Truing up petition dated 27.03.2010 submitted that, the depreciation as per the audited accounts is Rs.805.03 crore at the rates specified in the Tariff Regulations, 2018. From this amount, claw back depreciation was determined at Rs.158.25 crore and credited to other income under Note 25(b) of the Annual accounts. Since depreciation is claimed as per Regulations after deducting applicable claw back, KSEB Ltd requested that the income accounted under note 25(b) towards claw back as per accounts may not be considered in True up.

2.71 KSEB Ltd further submitted that, MYT Regulation for the control period 2018-22 specifies depreciation rates as well as methodology to be followed. Accordingly, allowable depreciation for the year 2018-19 as per the Truing-up petition is worked out in the following lines:

- (i) GFA (net of consumer contribution grants and subsidy) as on 31.03.2016 determined by the Hon'ble Commission in the MYT Order (Rs.10611 88 Cr) has been considered as GFA eligible for depreciation as per Regulations on that date.
- (ii) GFA addition net of contribution etc for the year 2016-17 and 2017-18 has been considered as per the claims made in this regard in the submission/ TU petition for the respective years.
- (iii) Rate of depreciation as specified by the Hon'ble Commission in the MYT Order has been adopted for working out depreciation. Paragraph 3.65 of the order is extracted below for ready reference.

*Based on the mix of assets, for the first 12 years the average rate of depreciation will be 5.14%. Since the weighted average life of the assets is 31 years, the balance 27% of the value of assets (90%-63%) is to be depreciated in balance 19 years (31-12 years) of the useful life. Hence the average rate of depreciation for assets more than 12 years old will be 27%/19 ie., 1.4% per year on a straight line basis.*

- (iv) Function wise capital contribution and grants till 31.03.2018 has been reduced from GFA value so that depreciation is claimed only on eligible GFA as per Regulations. Gross Consumer Contribution and grants till 31.03.2018 as per accounts amounted to Rs.2170.39 Cr and after excluding concessional loans and decommissioning liability, the actual amounts is Rs.2078.85 Cr {2170.39- (70.97+20.56)}.

2.72 Based on the above, KSEB Ltd has claimed the depreciation for the year 2018-19 as follows

**Table 2.41**  
**Computation of depreciation claimed by KSEB Ltd (Rs Cr)**

Sl No	Particulars	SBU-G	SBU-T	SBU-D	Total
1	GFA (net of contribution) 31.03.2016 as per MYT Order	4,454.06	4,374.89	1,782.93	10,611.88
2	GFA addition 2016-17-As per Regulations	298.75	324.9	939.94	1563.59
3	Consumer contribution, Grants and Subsidies received during 2016-17-Actuals as per accounts	0	79.12	567.82	646.94
4	IND AS addition considered in TU Order 2015-16 (included in 1 above)	13.32	81.26	188.15	282.73
5	GFA Addition 2016-17 eligible for depreciation {2-(3+4)}	285.43	164.52	183.97	633.92
6	GFA as on 31.03.2017 net of contribution (1+5)	4,739.49	4,539.41	1,966.90	11,245.80
7	GFA addition 2017-18 as per TU petition	117.66	384.37	699.45	1201.48
8	Consumer contribution, Grants and Subsidies received during 2017-18	75.31	103.99	394.15	573.45
9	Net GFA addition for 2017-18 (7-8)	42.35	280.38	305.3	628.03
10	GFA as on 31.03.2018 net of contribution (6+9)	4,781.84	4,819.79	2,272.20	11,873.83
11	Assets more than 12 yrs old- GFA as on 01.04.2006 as per Accounts	2923.03	2399.22	2389.37	7711.62
12	Contribution & grants as on 01.04.2006 as per accounts			1678.96	1678.96
13	GFA as on 31.03.2006 net of contribution	2923.03	2399.22	710.41	6032.66
14	Land value @ 2.80% on 11 above	81.84	67.18	19.89	168.91
15	Net GFA eligible for depreciation (more than 12 years old) (13-14)	2841.19	2332.04	690.52	5863.75
16	GFA with <12 years old (10-15)	1,940.65	2,487.75	1,581.68	6,010.08
17	Land value @ 2.80% on 16 above	54.34	69.66	44.29	168.28
18	GFA < 12 years old excluding land value (16-17)	1,886.32	2,418.09	1,537.39	5,841.80
19	Dep on assets > 12 years old (15 @ 1.40%)	39.78	32.65	9.67	82.09
20	Dep on assets < 12 years old (18 @ 5.14 %)	96.96	124.29	79.02	300.27
21	Depreciation on GFA till 31.03.2018 (19+20)	136.73	156.94	88.69	382.36
22	Depreciation on GFA addition in 2018-19 as per Table 5.7	0.86	1.95	19.30	22.11
<b>23</b>	<b>Depreciation for 2018-19 (21+22)</b>	<b>137.60</b>	<b>158.88</b>	<b>107.98</b>	<b>404.47</b>

2.73 In the meantime, the Commission vide Order dated 25.06.2021 in OA No. 09/2021 had approved the Truing up of accounts for the year 2017-18, where in the Commission has specified the methodology for computing the depreciation on normative basis in the process of truing up. Based on the methodology approved by the Commission vide the order on Truing up of accounts for the year 2017-18, KSEB Ltd vide the additional submission dated 30.07.2021 had computed the depreciation on normative basis for the year 2018-19 as detailed below.

**Table 2.42**  
**Depreciation claimed by KSEB Ltd (Revised vide letter dated 30.07.2021) for 2018-19 (Rs Cr)**

	Particulars	SBU-G	SBU-T	SBU-D	KSEBL
1	Opening GFA as on 1-4-2017 (As per TU Order 2017-18 (OA 9/2020 Dt 25.06.2021))	4658.32	4628.56	7530.50	16817.38
2	Total asset addition approved As per Order dt 25.06.2021 for 2017-18	71.42	388.82	699.45	1159.69
3=(1+2)	Approved GFA as on 31.03.2018	4729.74	5017.38	8229.95	17977.07
4	Add: Relief sought as per RP 1/2021-Pending disposal	23.33	11.36	0.00	34.69
5=(3+4)	GFA as on 31.03.2018 considered for depreciation	4753.07	5028.74	8229.95	18011.76
6	Assets >12 years old (GFA as on 1-4-2006)	2923.03	2399.22	2389.37	7711.62
7	Fully depreciated Assets (assets up to 1-4-1988)	192.79	90.88	264.93	548.60
8=(6-7)	Assets having life 12-30 yrs	2730.24	2308.34	2124.44	7163.02
9=(8*2.80%)	Value of land (Average 2.8% of GFA)	76.45	64.63	59.48	200.56
10	Grants and contributions (upto 1-4-2006)			1678.96	1678.96
11=(8-9-10)	<b>Assets having life 12-30 yrs eligible for depreciation</b>	<b>2653.79</b>	<b>2243.71</b>	<b>386.00</b>	<b>5283.50</b>
12=(11*1.42%)	<b>Depreciation for Assets 12-30 years (@1.42%)</b>	<b>37.68</b>	<b>31.86</b>	<b>5.48</b>	<b>75.03</b>
13=(5-6)	Assets < 12 years old (1-4-2006 to 31-3-2018)	1830.04	2629.52	5840.58	10300.14
14=(13*2.80%)	Value of land (Average 2.8% of GFA)	51.24	73.63	163.54	288.40
15	Grants and contributions (1-4-2006 to 31-3-2018)	101.47	199.94	4267.86	4569.27
16=(13-14-15)	Opening balance of Assets < 12 years old	1677.33	2355.95	1409.18	5442.47
17	Asset addition for 2018-19 as per this submission	46.09	347.16	1202.50	1595.75
18	Grants and Contributions for 2018-19	13.34	56.91	452.93	523.18
19	Value of land	0.46	3.89	0.24	4.59
20=(16+17-18-19)	Closing balance of Assets <12 years Old (1-4-2006 to 31-3-2019)	1709.62	2642.31	2158.51	6510.45
21=(16+20)/2	Average Value of Assets <12 Years old	1693.47	2499.13	1783.85	5976.46
22=(21*5.14%)	<b>Depreciation for assets &lt;12 years (@5.14%)</b>	<b>87.04</b>	<b>128.46</b>	<b>91.69</b>	<b>307.19</b>
23=(12+22)	Total Depreciation for assets for 2018-19	<b>124.73</b>	<b>160.32</b>	<b>97.17</b>	<b>382.22</b>

2.74 Out of the above total depreciation amounting to Rs.382.22 crore, the normative depreciation claimed by KSEB Ltd for SBU G is Rs 124.73 crore as above.

### Comments of the stakeholders

2.75 HT&EHT Association requested before the Commission to allow depreciation strictly as per the provision of the Regulations. The Association computed the depreciation at Rs.366.36 crore for the year 2018-19, out of which the share of SBU-G is Rs.131.70 crore.

### Provisions in the Regulations

2.76 Regulations 27 of the Tariff Regulations, 2018 provides the depreciation for the purposes of Tariff determination. The relevant Regulations is extracted below.

*“27. Depreciation. – (1) The value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission:*

*Provided that no depreciation shall be allowed on increase in the value of assets on account of revaluation of assets,*

*Provided further that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.*

*(2) The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner:-*

*(a) depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation;*

*(b) the remaining depreciable value as on the Thirty First day of March of the financial year ending after a period of twelve financial years from the date of commercial operation shall be spread over the balance useful life of the assets as specified in Annexure- I;*

*(c) the generating business/company or transmission business / licensee or distribution business/licensee, shall submit all such details and documentary evidence, as may be required under these Regulations and as may be required by the Commission from time to time, to substantiate the above claims;*

*(d) the salvage value of the asset shall be ten per cent of the allowable capital cost as approved by the Commission excluding cost of assets created out of contributions and grants and depreciation shall be a maximum of ninety per cent of such approved capital cost of the asset.*

*(3) In the case of existing assets, the balance depreciable value as on the First day of April, 2018, shall be worked out by deducting the cumulative depreciation approved by the Commission upto the Thirty First day of March, 2018, from the gross depreciable value of the assets.*

*(4) Depreciation shall be chargeable from the first financial year of commercial operation: Provided that in the case of commercial operation of the asset for part of the financial year, depreciation shall be charged on pro-rata basis:*

*Provided further that depreciation shall be re-calculated for assets capitalised during the financial year at the time of truing up, based on documentary evidence for capitalisation of assets submitted by the applicant, subject to the prudence check of the Commission, in such a way that the depreciation is calculated proportionately from the date of capitalisation.*

*(5) In case a single tariff needs to be determined for all the units of the generating station, the depreciation shall be computed from the effective date of commercial operation of each of the unit taking into consideration the depreciation of individual generating units thereof.”*



## Analysis and Decision of the Commission

- 2.77 The Commission has examined in detail the depreciation claimed by KSEB Ltd in their Truing up petition for the year 2018-19. The Commission has been approving the depreciation on normative basis strictly as per the provisions of the Tariff Regulations, 2018. The Commission has been following the consistent stand that, the assets created out of consumer contribution and grants shall not qualify for depreciation. Further, the Tariff Regulations, 2018 provides the methodology and rates for determining the depreciation for Tariff determination.
- 2.78 The Commission vide Order dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts for the financial year 2017-18 has approved the GFA as on 31.03.2018 as Rs. 17977.07 crore, wherein the GFA of SBU-G is approved as Rs 4729.74 crore (Table 38 under paragraph 2.127(d) of the said Order). The details are given below.

**Table 2.43**  
**Summary of approved Asset addition in 2017-18 and GFA vide Order dated 25.06.2021 in petition OA No.09 of 2020**

	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
	<b>Rs. Crore</b>	Rs. Crore	Rs. Crore	Rs. Crore
Opening level of Approved GFA (as on 01-04-2017)	<b>4,658.32</b>	4,628.56	7,530.50	16,817.38
Asset Additions approved in 2017-18	<b>71.42</b>	388.82	699.45	1,159.69
<b>Closing balance of GFA (as on 31-03-2018)</b>	<b>4,729.74</b>	<b>5,017.38</b>	<b>8,229.95</b>	<b>17,977.07</b>

- 2.79 The summary of the asset addition of SBU-G approved by the Commission as given under Table 2.39 above is Rs 103.86 crore. Accordingly, as per the Table-2.40 above, the GFA of SBU-G as on 31.03.2019 is Rs. 4833.60 crore.
- 2.80 As per the provisions of the Tariff Regulations, 2018, land is a non-depreciable asset. Based on the past practice and to ensure consistency in accounting policy, the value of land is taken as 2.80% of the total GFA of KSEB Ltd. The average rate of depreciation of assets having life less than 12 year is arrived @5.14% and the average depreciation rate of assets having life more than 12 years and upto 30 years is taken as 1.42%. All assets aged more than 30 years old is taken as fully depreciated assets and no further depreciation is provided.
- 2.81 Based on the above, and adopting the same methodology as for the year 2017-18, for approving depreciation, the depreciation of SBU-G of KSEB Ltd for the year 2018-19 is arrived at as below.

Table 2.44  
Depreciation approved for SBU-G for the year 2018-19

Sl No	Particulars	Amount (Rs. Cr)
1	GFA approved as on 01.04.2018	4729.74
2	Consumer contribution & grants as on 01.04.2018	101.47
3	Value of land (2.8% of the GFA)	129.59
4	Depreciable Assets as on 01.04.2018	4498.68
5	Depreciation for asset as on 01.04.2018	122.73
6	Depreciation for assets added during the year 2018-19	2.31
<b>7</b>	<b>Total depreciation of SBU-G allowable for the year 2018-19</b>	<b>125.05</b>

2.82 **Based on the above, the Commission approves the depreciation of Rs 125.05 crore for the SBU-G for the purpose of truing up for the year 2018-19 as against the claim of Rs 137.60 crore in the original petition.**

#### **Interest and financing charges**

2.83 The interest charges claimed by KSEB Ltd for SBU-G in the truing-up petition is Rs 127.58 crore as against Rs 126.27 crore approved in the MYT Order dated 08.07.2019. The details are given below.

Table 2.45  
Interest and financing charges claimed in the petition for 2018-19 (Rs in crore)

No	Particulars	Approved	Actual	TU	Difference
1	Interest on Outstanding Capital Liabilities	71.15	67.26	69.88	-1.27
2	Interest on GPF	9.37	8.92	8.92	-0.45
3	Other Interests		1.01		
4	Interest on Master Trust Bonds	39.67	42.56	42.56	2.89
5	Interest on Working capital	6.08	8.19	6.21	0.13
<b>6</b>	<b>Total</b>	<b>126.27</b>	<b>127.94</b>	<b>127.58</b>	<b>1.31</b>

2.84 The Commission has carefully considered each item of the interest and financing charges for SBU-G for the year 2018-19 as discussed in the subsequent paragraphs.

## Interest on long term loans on normative basis

### 2.85 Interest on normative loan

- (1) KSEB Ltd vide the Truing up petition had submitted the details of the loans availed for the year 2018-19 for all the SBUs of KSEB Ltd. Its summary as per the petition is given below.

Table 2.46  
KSEB Ltd claim of summary of the loans and interest rate for the year 2018-19 (Rs.Cr)

SBU	Opening (01/04/18)	Add: additions during the Year	Less: Repayments during the year	Closing (31/03/19)	Interest on loan	Average loan	Average interest rate (%)
SBU G	1468.47	319.88	812.88	975.47	101.98	1221.97	8.35
SBU T	1406.58	496.27	666.11	1236.73	119.67	1321.66	9.05
SBU D	3604.3	905.09	1143	3366.39	348.47	3485.34	10.00
<b>Total</b>	<b>6479.35</b>	<b>1721.24</b>	<b>2621.99</b>	<b>5578.59</b>	<b>570.12</b>	6028.97	9.46

- (2) KSEB Ltd further submitted that, Regulation 26 of the Tariff Regulations specifies the approval of the loan interest on normative basis. While issuing MYT Order dated 08.07.2019, the Commission had approved the opening level of SBU-G as on 01.04.2018 as Rs.794.60 crore. The normative loan and interest thereon approved by the Commission vide the MYT Order dated 08.07.2019 is extracted below.

Table : 2.47  
Normative loan and interest charges of SBU-G approved for the MYT period 2018-19 to 2021-22

SBU-G	2018-19	2019-20	2020-21	2021-22
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
Opening level of Normative loan (as of 1st April)	794.6	730.2	1,036.89	1,456.13
Provisional Asset Additions for the year	65.79	448.07	593.59	153.76
Contributions and Grants for the year	-	-	-	-
Net Addition to normative loan for the year	65.79	448.07	593.59	153.76
Repayment for the year (Depreciation)	130.19	141.38	174.35	196.26
Closing provisional Normative loan (as on 31st March)	730.2	1,036.89	1,456.13	1,413.64
Average loan	762.4	883.55	1,246.51	1,434.88
Rate of interest	9.33%	9.33%	9.33%	9.33%
Interest Charges	71.15	82.45	116.32	133.90

- 2.86 Based on the provisions of the Tariff Regulations, 2018, and also as per the methodology followed by KSEB Ltd in the MYT Order dated 08.07.2019, the normative interest on loan till 31.03.2019 arrived by KSEB Ltd is given below.

**Table 2.48**  
**KSEB Ltd computation of normative interest for loan till 31.03.2019 (Rs Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	Normative loan as on 01.04.2017 as per TU Order	564.38	547.59	839.54	1951.51
2	KSEBL claim before Hon'ble APTEL	135.23	131.21	201.16	467.60
3	Additional normative loan for 2016-17- As per additional submission	291.21	241.44	367.26	899.91
4=(1+2+3)	Normative loan as on 01.04.2017	990.82	920.24	1407.96	3319.02
5	Normative loan 2017-18 as per TU Petition	42.35	280.38	305.30	628.03
6=(4+5)	Gross normative loan as on 31.03.2018	1033.17	1200.62	1713.26	3947.05
7	Less: Normative repayment as per TU 2017-18	143.48	156.36	236.78	536.62
8=(6-7)	Normative loan as on 31.03.2018	889.69	1044.26	1476.48	3410.43
9	Depreciation on opening GFA for 2018-19	136.73	156.94	88.69	382.36
10=(8-9)	Net Normative loan as on 31.03.2019	752.96	887.32	1387.79	3028.07
11=(8+10)/2	Average loan (without considering addition during 2018-19)	821.32	965.79	1432.14	3219.25
<b>12</b>	<b>Interest on above A</b>	<b>68.50</b>	<b>87.50</b>	<b>143.21</b>	<b>299.21</b>

2.87 KSEB Ltd claim on normative interest on GFA added during the year 2018-19 is given below.

**Table 2.49**  
**KSEB Ltd computation of normative loan for the GFA addition during 2018-19 (Rs. Cr)**

SI No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	GFA addition for 2018-19 as per accounts	103.66	365.43	1203.72	1672.80
2	Less: Perumthenaruvi project-capitalized in 2017-18	56.71			56.71
3	Less: Consumer contribution, Grants and Subsidies received during the year	13.34	289.69	452.93	755.96
4	Equity infusion during the year	0.00	0.00	0.00	0.00
5=(1-2-3-4)	Additional normative loan for 2018-19	<b>33.61</b>	<b>75.74</b>	<b>750.79</b>	860.14
6	Less: Normative repayment for 2018-19 (Depreciation on assets added in 2018-19 at half the normal rate (@ 5.14%/2=2.57%)	<b>0.86</b>	<b>1.95</b>	<b>19.30</b>	<b>22.11</b>
7=(5-6)	Net additional normative loan	<b>32.74</b>	<b>73.79</b>	<b>731.50</b>	838.03
8 ={(5+7)/2}	Average additional normative loan	<b>33.17</b>	<b>74.76</b>	<b>741.15</b>	849.08
9	Average rate of Interest % (Actual)	8.35	9.05	10.00	
10 =(8*9%)	Normative interest on GFA addition for 2018-19	<b>1.38</b>	<b>3.39</b>	<b>37.06</b>	<b>41.83</b>

2.88 The total normative interest for the normative loan for the year 2018-19 and normative loan balance as on 31.03.2019 as per the claim of KSEB Ltd is given below.

**Table -2.50**  
**Normative interest on loan for 2018-19 (Rs Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	Normative interest on loan till 01.04.2018	68.50	87.50	143.21	299.21
2	Normative interest on loan during 2018-19	1.38	3.39	37.06	37.63
<b>3</b>	<b>Total</b>	<b>69.88</b>	<b>90.89</b>	<b>180.27</b>	<b>341.04</b>
4	Normative loan balance on assets added till 31.03.2018	752.96	887.32	1387.79	3028.07
5	Normative loan balance on assets added during 2018-19	32.74	73.79	731.50	838.03
6	Normative loan as on 31.03.2019	785.70	961.11	2119.29	3866.10

2.89 As detailed above, the normative interest on loans claimed by KSEB Ltd for the year 2018-19 is Rs 69.88 crore as detailed in Table 2.50 above.

2.90 Subsequently, KSEB Ltd vide the letter dated 30.07.2021 had revised the computation of normative interest for the year 2018-19 as below.

**Table 2.50(a)**  
**Computation of normative interest for 2018-19**

	Particulars	SBU-G	SBU-T	SBU-D	Total
1	Normative loan as on 01.04.2018 as per TU Order	627.78	917.23	1439.64	2984.67
2	Add: KSEBL claim before Hon'ble APTEL	135.23	131.21	201.16	467.60
3=(1+2)	Opening normative loan considered in this submission	763.01	1048.44	1640.80	3452.27
4	Add: Additional normative loan during 2018-19	90.52	290.26	749.57	1130.35
5=(3+4)	Total normative loan	853.53	1338.70	2390.37	4582.62
6	Normative depreciation	124.73	160.32	97.17	382.22
7=(5-6)	Closing normative loan	728.80	1178.38	2293.20	4200.40
8=(3+7)/2	Average normative loan	791.17	1258.54	2341.78	4391.51
9	Average interest rate %	8.34	9.06	10.00	
<b>10=8*9%</b>	<b>Normative interest</b>	<b>65.98</b>	<b>114.02</b>	<b>234.18</b>	<b>414.19</b>

2.91 As above, the revised claim of interest on normative loan is Rs.65.98 crore as above.

### **Comments of stakeholders**

2.92 HT&EHT Association in their counter has stated that Rs.50.75 Crores only is to be allowed as interest charges for existing and new loans (SBU-G) by KSEB Ltd in FY 2018-19 as against KSEB Ltd's claim of Rs.69.88 Crore.

### **Provisions in the Regulation**

2.93 Regarding approval of the interest charges, following Regulations provide the detailed procedure for the approval of interest and financing charges.

Regulation 26 of the Tariff Regulations specifies the normative debt-equity ratio and procedure for the approval of the interest on normative loan. The relevant Regulations is extracted 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.*

*(4) If any fixed asset is capitalised on account of capital expenditure incurred prior to the First day of April, 2018, the debt-equity ratio allowed by the Commission for determination of tariff for the period ending the Thirty First day of March, 2018 shall be considered.*

*(5) The equity invested in foreign currency if any shall be designated in equivalent Indian rupees at the exchange rate specified by Reserve Bank of India as on the date of each such investment.*

*(6) In the case of retirement or replacement of assets, the equity capital approved as mentioned above, shall be reduced to the extent of thirty percent or actual equity component based on documentary evidence, if it is lower than thirty percent of the original cost of the retired or replaced asset.*

*(7) (a) Swapping of foreign currency loans shall be permitted provided it does not have the effect of increasing the tariff;*

*(b) Cost of swapping and interest expenses thereon, shall be allowed by the Commission only after prudence check;*

*(c) The generating business/company or transmission business/licensee or distribution business/licensee shall provide full particulars of the swapped loans.*

(8) (a) *Restructuring of capital in terms of relative share of equity and loan shall be permitted during the life of the project provided it does not have the effect of increasing the tariff.*

(b) *Any benefit from such restructuring shall be shared in the ratio 1:1 among,-*

- (i) the generating business/company and the persons sharing the capacity charge; or*
- (ii) transmission business/licensee and long-term intra-State open access customers including distribution business/licensee; or*
- (iii) distribution business/licensee and consumers.”*

2.94 Regulation 29 of the Tariff Regulation 2018, specifies the procedures for the approval of the interest and finance charges. The relevant Regulation is extracted below.

*“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.*

*(b) The interest and finance charges on capital works in progress shall be excluded from such consideration and not be considered in the ARR and truing up processes.*

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

*(2) The normative loan outstanding as on the First day of April, 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.*

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

*(4) The rate of interest allowed shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each financial year applicable to the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre:*

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

*Provided further that if the regulated business of the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre does not have actual loan, but normative loan is outstanding, then interest shall be allowed at the base rate.*

*(5) The interest on loan shall be calculated average loan as per the norms approved by the Commission for the financial year by applying the weighted average rate of interest.*

*(6) The generating business/company or the transmission business/licensee or the distribution business/licensee or the State Load Despatch Centre, as the case may be, shall make every effort to re-finance the loan as long as it results in net savings on interest and in that event the costs associated with such re-financing shall be borne by the beneficiaries and any benefit from such refinancing shall be shared in the ratio 1:1 among,-*

*(i) the generating business/company and the persons sharing the capacity charge; or*

*(ii) transmission business/licensee and long-term intra-State open access customers including distribution business/licensee; or*

*(iii) distribution business/licensee and consumers.*

*(7) The changes to the terms and conditions of the loans during the financial year, if any, shall be effective from the date of coming into force of such changes.*

*(8) Interest shall be allowed on the amount held as security deposit in cash from users of the transmission system or distribution system and consumers at the bank rate as on the First day of April of the financial year in respect of in which the petition is filed:*

*Provided that interest on security deposit actually paid to the users of the transmission system or distribution system and to the consumers during the financial year, shall only be considered at the time of truing up for the financial year.”*

### **Analysis and Decision of the Commission**

- 2.95 The Commission has examined in detail the interest on loans on normative basis as per the provisions of the Tariff Regulations, 2018, the objections raised by the HT&EHT Association and other stake holders. The decision of the Commission is detailed in the subsequent paragraphs.
- 2.96 The Commission has been approving the interest on loan to the licensee on normative basis, strictly as per the provisions of the Tariff Regulations, 2018, duly considering the equity, assets created out of consumer contribution and factors and other relevant factors, and its details are given below.
- 2.97 The Commission vide Order dated 25.06.2021 in OA No.09/2020 had approved the Truing up of accounts for the year 2017-18. As per the paragraph 2.179 (Table-56) of the said Order, the normative loan of SBU-G as on 01.04.2018 is Rs 627.78 crore. The relevant table is extracted below.



Table 2.51  
Normative loan approved for 2017-18

Normative loan Summary	SBU-G	SBU-T	SBU-D	KSEB Ltd
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
<b>Normative loan as on 1-4-2015</b>	789.34	628.83	857.99	2,276.17
Add Asset additions approved 2015-16	34.79	212.24	491.41	738.44
Less Grants & contributions	13.11	12.93	332.31	358.35
Less Depreciation-2015-16	122.05	132.84	79.98	334.86
<b>Net Normative loan as on 1-4-2016</b>	688.97	695.30	937.11	2,321.40
Add Asset Additions approved 2016-17	217.47	319.1	923.3	1459.87
Less Grants & contributions	13.05	79.12	554.77	646.94
Less Depreciation 2016-17	129.11	151.14	102.18	382.43
<b>Normative loan as on 1-4-2017</b>	764.28	784.14	1,203.46	2,751.90
Add Asset Additions approved 2017-18	71.42	388.82	699.45	1,159.69
Less Grants & contributions	75.31	103.99	394.15	573.45
Less Depreciation 2017-18	132.61	151.74	69.12	353.47
Closing normative loan as on 31-3-2018	627.78	917.23	1,439.64	2,984.67

- 2.98 As per the SBU wise details of the loans as on 31.03.2019, the average interest on loan of SBU-G for the year 2018-19 is 8.35%.
- 2.99 The Commission has also noted that KSEB Ltd in their claims has included Rs 467.00 crore, which was pending dispute before Hon. APTEL . Since this matter is sub-judice, the Commission cannot at this stage consider this claim and hence excluded it from the calculations at present.
- 2.100 Based on the above, the interest charges on normative loan approved for SBU-G for the FY 2018-19 is Rs.50.92 crore as against the revised claim of KSEB Ltd amounting to Rs.65.98 crore is detailed in the table below.

Table 2.52  
Interest charges approved for the year 2018-19

Sl. No	Description	SBU G (Rs. Cr)
1	Opening normative loan as on 01.04.2018	627.78
2	Normative r GFA addition 2018-19 qualifying for loan	90.52
3	Less Depreciation for the year 2018-19	125.05
4= (1+2-3)	Closing normative loan as on 01.04.2019	593.25
5= (1+3)/2	Average Normative loan for the year 2018-19	610.52
6	Weighted average interest rate for 2018-19(%)	8.34
7=6*5	<b>Normative interest for 2018-19</b>	<b>50.92</b>

- 2.101 **As above, the interest charges for normative loan approved for SBU-G of KSEB Ltd is Rs 50.92 crore.**

## Interest on working capital

2.102 The Commission vide the MYT Order dated 08.07.2019 in OA No. 15/2018 had approved Rs.6.08 crore towards the interest on working capital of SBU-G for the FY 2018-19. However, in the truing up petition, KSEB Ltd has claimed Rs 6.21 crore towards interest on working capital for SBU-G. The details are given below.

**Table 2.53**  
**Computation of interest on working capital for 2018-19**

Sl. No	Particulars	Amount (Rs.Cr)
1	Cost of fuel for 1 month	1.19
2	O&M expense for 1 month	10.36
3	1% of GFA towards maintenance spares	49.61
4	Total	61.16
5	Less: Security deposit	0
6	Net working capital	61.16
7	Base rate as on 01.04.2018	8.15%
8	Interest rate @2% above base rate	10.15%
9	<b>Interest on Working capital (6x8)</b>	<b>6.21</b>

## Comments of the Stakeholders

2.103 The HT&EHT Association submitted that, since KSEB Ltd is a cash flow rich entity, and hence no interest on working capital has to be allowed to the SBU-G of KSEB Ltd.

## Provisions in the Regulations

2.104 The Regulation 32(1)(a) to 32(1)(c) of the Tariff Regulations 2018 deals with the computation of the working capital requirement of generating business of KSEB Ltd. The relevant Regulations is extracted below.

*“32. Interest on working capital. –(1) The generation business/company or transmission business/licensee or distribution business/licensee or the State Load Despatch Centre shall be allowed interest on the normative level of working capital for the financial year, computed as under,-*

*(a) In the case of liquid fuel based generating stations the working capital shall comprise of,-*

- (i) cost of liquid fuel for one month corresponding to approved generation; plus*
- (ii) operation and maintenance expenses for one month; plus*
- (iii) cost of maintenance spares at one per cent of the historical cost of plant and equipments; plus*

*(iv) receivables equivalent to fixed charges and energy charges for sale of electricity for one month calculated at the approved generation: Provided that in the case of own generating stations, no amount shall, in the computation of working capital in accordance with these Regulations, be allowed towards receivables, to the extent of supply of power by the generation business to the distribution business.*

*(b) In the case of gas turbine/combined cycle generating stations the working capital shall comprise of,-*

*(i) cost of gas and liquid fuel for one month corresponding to approved generation; plus*

*(ii) operation and maintenance expenses for one month; plus*

*(iii) cost of maintenance spares at one per cent of the historical cost of plant and equipments; plus*

*(iv) receivables equivalent to fixed charge and energy charge for sale of electricity for one month calculated at approved generation:*

*Provided that in the case of own generating stations, no amount shall, in the computation of working capital in accordance with these Regulations, be allowed towards receivables, to the extent of supply of power by the generation business to the distribution business.*

*(c) In the case of hydro-electric generating stations the working capital shall comprise of,-*

*(i) operation and maintenance expenses for one month; plus*

*(ii) cost of maintenance spares at one per cent of the historical cost of plant and equipments; plus*

*(iii) receivables equivalent to fixed cost of one month: Provided that in the case of own generating stations, no amount shall, in the computation of working capital in accordance with these Regulations, be allowed towards receivables, to the extent of supply of power by the generation business to the distribution business.”*

### **Analysis and Decision of the Commission**

2.105 As per the Regulation 32 of the Tariff Regulations, 2018, interest on working capital is allowed on a normative basis for each business separately. The Commission has carefully examined the details furnished by KSEB Ltd.

2.106 During the year 2018-19, the generation of SBU-G is mainly limited to its own hydel generation. Further, in the MYT Order dated 08.07.2019, the Commission has not allowed any schedule from the liquid fuel stations, though KSEB Ltd had scheduled a meagre generation of 0.29MU from BDPP and 3.799MU from KDPP during contingencies. Since the Commission has not approved any schedule from liquid fuel stations BDPP and KDPP, the

Commission in this Order also not approves any fuel cost as part of working capital requirement.

2.107 Considering these aspects, as per the Regulation 32 of the Tariff Regulations, 2018, the working capital requirement of KSEB Ltd includes the following;

- (1) O&M expenses for one month (as per norms)
- (2) Cost of maintenance of spares (1% of the historical cost of the plants and equipment)
- (3) Receivables – nil (since there is no cash flow between SBU – G, SBU-T and SBU-D of KSEB Ltd).

2.108 As per the Regulation 32(2) of the Tariff Regulations, 2018, interest rate for computing interest on working capital for the year 2018-19 is 2% higher than Base Rate (MCLR) of SBI on 1<sup>st</sup> April 2018 for a tenor of one year.

Base rate as on 01.04.2018 for one month tenor = 8.15%

Accordingly, the interest rate for arriving 'interest on working capital' = 10.15%

2.109 Based on the above, the interest on normative working capital of SBU-G approved in the Truing up of accounts for the year 2018-19 is detailed below.

Table 2.54  
Interest on working capital approved for SBU-G for the year 2018-19

Sl No	Particulars	Amount (Rs. Cr)
1	O&M expenses of SBU-G for the year 2018-19	124.52
2	O&M expenses of SBU-G for one month = (1)/12	10.38
3	Gross Fixed Asset (historical cost only) as on 31.03.2018	4729.74
4	Cost of maintenance of spares (1% of the historical cost)	47.30
5	Total working capital eligible as per Regulation = (2)+(4)	57.67
6	Base rate as on 01.04.2018	8.15%
7	Interest rate on working capital = Base rate+2%	10.15%
8	Interest on working capital = (5)x (7)	5.85

2.110 ***As above, the interest on working capital approved for SBU-G is Rs 5.85 crore for the year 2018-19, as against Rs.6.21 crore claimed by KSEB Ltd.***

### **Interest on security deposits**

2.111 ***Since there is no security deposit available with SBU-G, no interest charges are provided for SBU-G by KSEB Ltd in their truing up petition. Hence no amount on this account is allowed by the Commission during 2018-19.***

### **Interest on GPF**

2.112 KSEB Ltd submitted that, vide the MYT Order dated 08.07.2019, the Commission has approved Rs.9.37 crore towards interest on GPF. But as per the audited accounts, the actual interest paid on GPF accounted under GPF was Rs 8.92 crore. Following are the reasons submitted by KSEB Ltd for the variation in the interest on GPF.

- (1) The average GPF balance considered by the Commission in the MYT Order dated 08.07.2018 was Rs.2282.33 crore. However, the actual average GPF balance for 2018-19 is Rs 2208.40 crore.
- (2) The Commission had considered 8% as the interest on GPF, however the actual was 7.80% initially, later it had raised to 8%.

The actual interest on GPF as per the audited accounts is given below.

**Table 2.55**  
**Interest on GPF (Rs Cr)**

<b>Item</b>	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
Interest on GPF	8.92	16.57	136.68	162.17

### **Comments of the stakeholders**

2.113 The HT -EHT Association submitted that, the actual interest on GPF as per the audited accounts may be allowed to KSEB Ltd.

### **Analysis and decision of the Commission**

2.114 ***As per the Accounts, the interest charges booked for GPF is Rs.162.17 crore. Out of this, the share of SBU-G is Rs.8.92 crore, which is allowed for 2018-19.***

### **Interest on Master Trust Bonds**

2.115 KSEB Ltd in their petition submitted that the State Government, as per notifications dated 31.10.2013 and 28.01.2015, ordered creation of a Master Trust for meeting the unfunded liability of pension, gratuity and leave surrender as on 31.10.2013, in respect of the personnel transferred from

erstwhile KSEB to KSEB Ltd. The total liability as on 31.10.2013 was estimated at Rs.12,418.72 Crore and necessary funding arrangements were put in place through issue of 2 series of Bonds.

The Commission has recognized the unfunded pension liabilities as above and approved recovery of interest on KSEB Ltd share of bonds as per Tariff Regulations 2018. The Commission vide the MYT Order dated 08.07.2019, had approved Rs 773.68 crore towards interest on bonds issued to the Master Trust.

2.116 KSEB Ltd further submitted that, Kerala Service Rules as applicable in the Government are applicable to employees of KSEB Ltd. During the year 2018-19 KSEB Ltd had disbursed Rs 1378.04 crore of terminal benefits to the retired employees in FY 2018-19. The details are given below.

**Table 2.56**  
Amount paid to pensioners by the trust

Month	Rs. Cr
Apr-18	104.16
May-18	103.33
Jun-18	121.55
Jul-18	116.52
Aug-18	219.04
Sep-18	35.14
Oct-18	134.01
Nov-18	118.86
Dec-18	127.41
Jan-19	99.67
Feb-19	100.39
Mar-19	97.96
<b>Total</b>	<b>1378.04</b>

2.117 KSEB Ltd further submitted that, the pension and terminal liabilities are not claimed as part of the employee cost in the audited accounts. As per the KSEB Ltd bond of Rs 8144.00 crore to the Master Trust, the total interest liabilities for the year 2018-19 is Rs 773.68 crore. The total interest liabilities of the of the bond to the Trust is apportioned on the basis of the employee ratio among the SBUs, and its contribution by each SBU is detailed below.

**Table 2.57**  
Interest on Master Trust Bonds (Rs Cr)

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	42.56	79.04	652.08	773.68

2.118 KSEB Ltd further submitted that, there is no deviation between interest approved for the year as per the MYT Order dated 08.07.2019 and the actual interest as per audited accounts. However, there has been minor difference between approval and actual under SBU wise segregation of total interest. In the MYT Order, the Commission adopted employee cost ratio for 2017-18 as the basis for SBU wise segregation of allowable interest whereas the ratio of working employee strength in SBUs was considered for the purpose in the audited accounts.

### **Comments of the stakeholders**

2.119 The HT-EHT Association submitted that the Commission should approve interest on Master Trust Bonds strictly as per the audited accounts for the year 2018-19.

### **Provisions in the Regulation**

2.120 Regulation 30 of the Tariff Regulations 2018, provide as follows.

*“30. Interest on bonds issued by KSEB Limited to service the terminal liabilities of its employees. – (1) The interest on the bonds issued by KSEB Limited to service the terminal liabilities of its employees shall be allowed for recovery through tariffs, at the rates stipulated in the relevant orders issued by the Government of Kerala.*

*(2) The bonds shall be amortised at the same rate as prescribed in the Transfer Scheme notified by the Government of Kerala.*

*(3) The funds required for repayment of the bonds issued by KSEB Limited to service the terminal liabilities of its employees shall not be allowed for recovery through tariffs.”*

2.121 Regulation 34 of the Tariff Regulations, 2018 provide as follows.

*“34. Principles for adoption of Transfer Scheme under Section 131 of the Act. - The Commission may, for the purpose of approval of Aggregate Revenue Requirements and determination of tariff, adopt the changes in the balance sheet, due to the re-organisation of the erstwhile Kerala State Electricity Board as per the provisions of the Transfer Scheme published by the Kerala State Government under Section 131 of the Act, subject to the following principles,-*

*(a) Increase in the value of assets consequent to the revaluation of assets shall not qualify for computation of depreciation or for return on net fixed assets;*

*(b) The equity of the Government of Kerala as per the above Transfer Scheme published under Section 131 of the Act will be considered for computation of return on equity.*

(c) The reduction of the contribution from consumers, grants and such other subventions for creation of assets, made as a part of Transfer Scheme, shall not be considered while computing the depreciation or return on net fixed assets;

(d) Only the payment of interest on the bonds issued to the Master Trust will be approved for computation of Aggregate Revenue Requirement and the amount of repayment of such bonds shall not be reckoned for computation of Aggregate Revenue Requirement.

(e) The Commission subject to the petition by KSEB Ltd may take appropriate decision on the other issues relating to the Transfer Scheme and its implementation on a case to case basis.”

### **Analysis and decision of the Commission**

2.122 The Commission has examined the submissions of KSEB Ltd regarding interest on bonds issued to Master Trust. As per the details submitted by KSEB Ltd, the Master Trust is operational only from 2017-18.

2.123 The Commission also noted that as per the Kerala Electricity Second Transfer (Amendment) Scheme (Re-vesting) 2015 dated 28.01.2015, the actuarial liability as on 31-10-2013 was assessed at Rs. 12418.72 crore. The paragraphs 6(8) and 6(9) of the Kerala Electricity Second Transfer (Amendment) Scheme (Re-vesting) 2015, provides the following regarding the funding of pension and terminal liabilities of personnel transferred as follows.

(1) Paragraphs 6(8) and 6(9) of the Amendment Notification 2015 is extracted below.

*“6(8) The State Government shall make appropriate arrangements in respect of funding of the terminal liabilities to the extent they are unfunded on the date of transfer of the personnel from the erstwhile Board or KSEB, as mentioned in subclause (9) of clause 6 of this Scheme. **As per the actuarial valuation carried out by the registered valuer, the net present value of unfunded liability is approximately 12419.00 crore as on the date of revesting i.e. 31<sup>st</sup> October 2013.** Till such time arrangements are made, the transferee and State Government shall be jointly and severally responsible to duly make such arrangements to the existing pensioners as well as the personnel who retire after the date of transfer but before the arrangement are put in place. The State Government, Kerala State Electricity Board Limited, and Employee Unions have entered into a tripartite agreement on 1<sup>st</sup> August 2014, in consideration of the promises and mutual conditions set forth therein. The Tripartite Agreement which forms part of this Scheme is appended as Schedule C.”*



“ 6(9) The State Government will fund Rs 5861 crore ( Rupees Five thousand eight hundred and sixty one crores) over a period of next 10 years from the date of transfer to the KSEB Ltd on annual basis for meeting the unfunded liabilities by way of retention of electricity duty.

- (a) Kerala State Electricity Board Ltd will issue two series of bonds to a Master Trust:
- 20 year bond with a coupon rate of 10% p.a. for Rs.8144 Cr (Rupees eight thousand one hundred and forty four crores)
  - 10 year bond with a coupon rate of 9% p.a. for Rs. 3751 Cr (Rupees three thousand seven hundred and fifty one crores).
- (b) Bonds will be issued to the trust shall meet the liability of pension etc. in future from the **interest and principal repayment from KSEB Ltd against the bonds issued in favour of the trust.** With these arrangements the net present value of the fund towards pension etc. shall be Rs 12419.00 crores (approx) as on 31<sup>st</sup> October 2013 with matching investments in securities issued by the KSEB Ltd for Rs 11895.00 crore on net present value basis.
- (c) Another, Rs 524 crore will be funded by the State Government through budgetary provision over a period of 10 years in equal installments as per G.O (Ms) No. 43/2011/PD dated 3<sup>rd</sup> November 2011. Accordingly an amount of Rs 52.4 crore is being provided in the budget from the FY 2012-13 onwards.
- (d) State Government will permit the electricity duty collected by KSEB for the period from 01.04.2008 to 31.03.2012 to be retained by the KSEBL as its contribution for funding the terminal liability.
- (e) In addition to the interest on bonds and repayment of principal, KSEB Ltd will be paying the annual pension contribution based on actuarial valuation to the master trust in respect of the personnel transferred to KSEBL.”

2.124 Based on the above KSEB Ltd had issued two sets of bonds to the Master Trust on 01.04.2017.

- (1) 20 year bond with a coupon rate of 10% p.a. for Rs.8144 Cr (Rupees eight thousand one hundred and forty four crores)
- (2) 10 year bond with a coupon rate of 9% p.a. for Rs. 3751 Cr (Rupees three thousand seven hundred and fifty one crores).

Out of the above, the interest and repayment of the 10 year bond for the amount of Rs 3751.00 crore is being borne by the State Government as envisaged in the Scheme.

2.125 However, as per the re-vesting notifications, the interest and repayment of the bond for Rs 8144.00 crore to the pension has to be borne by KSEB Ltd. The

year wise details of the principal and repayment of the 20-year bond of KSEB Ltd is given below.

Table-2.58  
Principal and interest to be paid by KSEB Ltd to the Trust as per  
the bond certificate issued for Rs 8144.00 crore

Year	Principal (Rs. Cr)	Interest (Rs. Cr)	Total (Rs.Cr)	Year	Principal (Rs. Cr)	Interest (Rs. Cr)	Total (Rs.Cr)
1	407.20	814.40	1221.60	11	407.20	407.20	814.40
2	407.20	773.68	1180.88	12	407.20	366.48	773.68
3	407.20	732.96	1140.16	13	407.20	325.76	732.96
4	407.20	692.24	1099.44	14	407.20	285.04	692.24
5	407.20	651.52	1058.72	15	407.20	244.32	651.52
6	407.20	610.80	1018.00	16	407.20	203.60	610.80
7	407.20	570.08	977.28	17	407.20	162.88	570.08
8	407.20	529.36	936.56	18	407.20	122.16	529.36
9	407.20	488.64	895.84	19	407.20	81.44	488.64
10	407.20	447.92	855.12	20	407.20	40.72	447.92

- 2.126 Since the year 2018-19 is the 2<sup>nd</sup> year of operation of the Master Trust, the interest liability to be borne by the KSEB Ltd is Rs 773.68 crore.
- 2.127 As per the Regulation 30 of the Tariff Regulations 2018, the interest on bonds issued by KSEB Ltd to service the terminal liabilities of its employees shall be allowed for recovery through tariffs, at the rates specified in the revesting notifications of the State Government. However, the funds required for repayment of the bonds shall not be allowed for recovery through tariff.
- 2.128 Considering these aspects, the Commission hereby allows to pass on the interest liability of the bond issued by KSEB Ltd for the amount of Rs 8144.00 crore at the coupon rate @10%, amounting to Rs 773.68 crore in the true up of accounts of KSEB Ltd for the year 2018-19.
- 2.129 However, the Commission has serious observation regarding the laxity from the part of KSEB Ltd for not operationalizing the Master Trust. At present KSEB Ltd has been operating the Trust Accounts like a “Current Account” by remitting money into the account on requirement basis for dispersal and fulfilment of retirement benefits. Hence, the payments into the Trust account by KSEB Ltd is not as per the original scheme envisaged but only as per the fund requirements to disburse the pension.
- 2.130 The above facts very clearly reveal that from the first year itself, the fund is not functioning as envisaged. This is highly objectionable and contrary to the very intent of setting up of the Master Trust. The Commission directs KSEB Ltd to

take urgent corrective action to overcome this serious deviation from the Scheme. The Commission warns that, if KSEB Ltd does not urgently take corrective action, the very payment of the pension will be jeopardized and the retirement financial security of the retirees of KSEB Ltd shall be compromised.

With this observation, ***the Commission hereby approve the interest on bonds to the Master Trust for the 2<sup>nd</sup> year of operation of the trust, i.e, for the year 2018-19 as given in the Table below.***

**Table 2.59**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	42.56	79.04	652.08	773.68

### **Summary of the interest and finance charges of SBU-G**

2.131 As detailed in the preceding paragraphs, the summary of the interest and finance charges are as follows:

**Table 2.60**  
**Summary of the interest and finance charges of SBU-G**

Sl No	Particulars	KSEBL petition	KSERC approval
		(Rs.Cr)	(Rs.Cr)
1	Interest on normative loan	69.88	50.92
2	Interest on working capital	6.21	5.85
3	Interest on GPF	8.92	8.92
4	Interest on Master Trust bonds	42.56	42.56
	Total	127.57	108.25

### **Additional funds to the Master Trust**

2.132 KSEB Ltd submitted that, the Commission vide the MYT Order dated 08.07.2019 had provisionally approved Rs 200.00 crore towards the unfunded actuarial liability till 31.03.2017 amounts to Rs.3728.98 crore with the observation that it shall hold separate proceedings to determine the funding arrangements of the unfunded actuarial liability.

2.133 KSEB Ltd further submitted that, the Actuarial liability as on 31.03.2017 towards the unfunded pension liability, gratuity liability and leave surrender liability stood at Rs.16147.70 Cr i.e., Rs.3728.98 Cr increase in liability for the period from 01.11.2013 to 31.03.2017. As per the actuarial valuation as on 31.03.2018 and as on 31.03.2019, the liability on this count has been assessed at Rs.17732.57

Cr and Rs.19327.73 Cr respectively. The increase for the year 2018-19 has been Rs.1595.16 Cr and the same was captured in audited accounts as follows:

- (i) Liability pertaining to 2018-19 amounting to Rs.498.37 Cr has been booked under employee cost for the year and
- (ii) Remaining portion, pertaining to earlier years Rs.1096.79 Cr under other comprehensive income in P&L account.

2.134 KSEB Ltd had also submitted that, the Tariff Regulations 2018 provide for annual pension contribution by KSEB Ltd to the Master Trust based on the actuarial valuation is to be recovered through tariff on annual basis. KSEB Ltd has not claimed the entire additional contribution to the Master Trust in one-go as it is likely to result in huge accumulation of Regulatory Asset and subsequent tariff shock. Therefore, KSEB Ltd has sought interest on unfunded portion of actuarial liability in the MYT petition against which the Hon'ble Commission provisionally approved Rs.200.00 Cr with the following observation:

*.....Considering all these factors, the Commission is decided to hold a separate proceedings towards the determination of funds requirements of Master Trust. Till such time, the Commission provisionally allows Rs.200 crore as an additional funding for the Master Trust. Hence the figures shown as additional funding for the trust is only provisional and is subject to a prudency check before the same is finally allowed.*

2.135 Actual pension and terminal benefit disbursement exceeded interest on bonds by Rs. 604.36 Cr. (Rs.1378.04 Cr-Rs.773.68 Cr). KSEB Ltd has also accounted Rs.498.37 Cr against employee expenses to take care of the additional actuarial liability. KSEB Ltd requested that the Hon'ble Commission may kindly true up an additional Rs.200 Cr as approved in MYT Order for 2018-19, which may be subject to the final decision on the matter, in view of the fact that KSEB Ltd has no other source to meet this expenses. Therefore, KSEB Ltd prayed that the Hon'ble Commission may be pleased to provisionally approve Rs.200 Cr as detailed below against the huge additional actuarial liability.

**Table 2.61**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	10.26	22.64	167.10	200.00

### **Comments of the stakeholders**

2.136 The HT-EHT Association submitted that, additional funds to the Master Trust based on the actuarial liability shall not be allowed.

## **Provisions in the Regulations**

### **2.137 Regulation 45(1)(b) of the Tariff Regulations, 2018 provides as follows.**

“(b) The generation business of KSEB Limited shall, subject to prudence check by the Commission, be allowed to recover, in addition to the above specified normative operation and maintenance expenses, the annual pension contribution payable by KSEB Limited to the Master Trust, based on actuarial valuation in respect of the personnel allocated to the generation business of KSEB Limited.”

### **2.138 Second proviso to Regulation 58 of the Tariff Regulations, 2018 provide as follows.**

“Provided further that the transmission business of KSEB Limited shall be allowed to recover the annual pension contribution to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the transmission business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses.”

### **2.139 First proviso to Regulation 79 of the Tariff Regulation 2018 provide as follows.**

“Provided that the distribution business of KSEB Limited shall be allowed to recover the annual pension contribution paid to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the distribution business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses.”

## **Analysis and Decision of the Commission**

2.140 The Commission vide the MYT Order dated 08.07.2019 noted that, as per the actuarial valuation report as on 31.03.2019 the unfunded actuarial liability is assessed at Rs.19,327.73 crore instead of the unfunded liability as on 31.10.2013 assessed at Rs 12,418.72 crore. Hence there is an increase of Rs 6909.01 Crore on account of unfunded terminal liabilities as on 31.03.2019. The Commission is of the firm view that KSEB Ltd is required to operationalize the Master Trust account. Payment of pension to retired employees during their twilight years deserve sympathetic consideration. The Commission also places on record that in spite of the Commission’s advice to KSEB Ltd in various meetings KSEB Ltd management has displayed a lackadaisical, couldn’t care less attitude during 2018-19. Even the Commission’s suggestion to submit a suitable proposal to fund the uncovered liability with the approval of the State Government in this regard has fallen on deaf ears. The Commission also noted that, as discussed earlier, KSEB Ltd is operating the Master Trust account as

a 'Current Account' for discharging the pension liabilities in each month and no surplus fund is accumulated in the Trust till date. Considering all these factors, the Commission vide the MYT Order dated 08.07.2019 had decided to hold a separate proceedings towards the determination of the fund requirements based on actuarial valuation year to year as envisaged under Clause 6(9) (e) of the Revesting Amendment Notification dated 28.01.2015. However, this proceedings is yet to materialize since there is no proposal from KSEB Ltd's side. Till such time the Commission provisionally allowed Rs 200.00 crore as additional funds to the Master Trust.

2.141 Taking into consideration the serious situation emerging wherein the pension of retired employees would be jeopardized and considering huge unfunded liability as on date, ***the Commission hereby revises the provisional allotment of Rs 200 Crore to Rs 300.00 crore as additional fund to the Master Trust, subject to the condition that the same is to be transferred to the Trust fund. Further, within three months from the date of this Order, KSEB Ltd shall assess the actuarial liability as on 31.03.2022, and submit a suitable proposal to fund the unfunded liability with the approval of the State Government.***

2.142 The SBU wise allocation of the additional fund to the Master Trust as per the Truing up petition is approved herewith, as is given below.

**Table 2.62**  
**Additional fund to the Master Trust for the Year 2018-19**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	15.39	33.96	250.65	300

2.143 ***As above, the Commission provisionally approves Rs.15.39 crore as additional fund to the Master Trust towards unfunded actuarial liability for the year 2018-19.***

**Other expenses:**

2.144 Other expenses as accounted for by KSEB Ltd includes other debits, fair value adjustments, prior period expenses and income. The Other debits include Material cost Variance, R&D Expenses, Bad Debts and Misc Losses Written-off. The material cost variance represents the difference between the actual rate at which material was procured and the standard rate at which materials are issued. Bad and doubtful debts written off/ provided for represent the withdrawal of credits to revenue in earlier years. The miscellaneous losses

and write off represent the compensation paid to staff and outsiders for injuries/death. The Other debits as per the petition for SBU-G is Rs. -4.68 crore. The total Other expenses include other debits (Rs. 202.61Crore) and Rs 81.98 crore towards the differential interest of KWA pertains to SBU-D. The details of other debits as per the Truing up petition for the year 2018-19 is given below.

Table 2.63  
Other expenses claimed by KSEB Ltd for the year 2018-19

Item	SBU G	SBU T	SBU D	Total
Other expenses as per accounts	-4.68	-2.11	209.4	202.61
Add: Differential interest (Rs.245.95 Cr-Rs.163.97 Cr)			81.98	81.98
Total	-4.68	-2.11	291.38	284.59

### Analysis and Decision of the Commission

2.145 Many of the items under the head 'Other Expenses' relates to other SBUs. Hence the same is dealt with in detail in the respective sections. The share of SBU-G amounts to a gain of Rs.4.68 crore for the year 2018-19. ***The Commission approves Other Expense of Rs. -4.68 crore as per the KSEB Ltd truing up petition for SBU-G***

### Return on equity

2.146 KSEB Ltd in their truing up petition has claimed return on equity at the rate of 14%. As per the petition, the total equity mentioned for KSEB Ltd is Rs.3499 crore. KSEB Ltd in their petition sought RoE of Rs.116.38 crore based on the SBU wise breakup of equity, made on the basis of equity allocation among the SBUs in the trifurcated balance sheet as shown below:

Table 2.64  
RoE claimed by KSEB Ltd for 2018-19

Particulars	SBU G	SBU T	SBU D	Total
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
Equity Capital	831.27	857.05	1810.73	3499.05
RoE @14% on above	116.38	119.99	253.50	489.87

### Comments of the stakeholders

2.147 The HT-EHT Association, invited the attention of the Commission on the suggestions of the consultant engaged by the State Commission on Return on equity, which are quoted below.

*"...Further, in the case of new capitalization, RoE is allowed only when actual equity is infused into the Company for incurring capital expenditure, else only interest is allowed on the loan component. According to the consultant even*

*under the Companies Act, 1956 and the relevant Accounting Standards, the Revaluation Reserve is not allowed as a source to increase the equity capital, and only actual paid-up equity capital is considered for all purposes. Hence, they recommended that the Commission may allow RoE either on the equity capital allowed earlier by the Commission or on the reduced equity capital of Rs. 283.91 Cr. (Rs. 1553 Cr. - Rs. 1269 Cr.).” “..*

Based on the suggestions of the Consultant, Hon'ble APTEL in the Order dated 18-11-2015 in Appeal No.247 of 2014, decided as follows.

*“We are of the view that since the consultant appointed by the State Commission has studied the whole system and recommended the equity value, hence, we direct the Commission to consider the equity amount specified by the Consultant and 14% rate of return on this amount has to be considered..”* According to the Association, any equity base taken more than Rs.1,553 Crores. will be the violation of APTEL judgement. Accordingly, the Association requested to consider 14% on equity capital of Rs.1,553 Cr. for the calculation of return on equity.

### **Provisions in the Regulation**

2.148 **“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:*

*Provided that, at the time of approving Aggregate Revenue Requirements return on equity share capital for generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, shall be allowed on the amount of equity share capital approved by the Commission for the assets put to use at the commencement of the financial year and on fifty percent of equity share capital portion of the approved capital cost for the investment put to use during the financial year:*

*Provided further that at the time of truing up for the generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, return on equity share shall be allowed on monthly pro-rata basis, taking into consideration the documentary evidence provided for the assets put to use during the financial year.*



*Provided also that if the equity or any portion of it, is invested in the generating business/company, transmission business /licensee or distribution business/licensee is part of the scheme or programme funded by the Central Government or State Government for which no return is payable, such portion of the equity shall not be eligible for any form of return.*

*(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:*

*Provided that net fixed assets shall be exclusive of the assets created out of consumer contribution, deposit works, capital subsidy or grants.”*

2.149 Regulation 34 provides as follows:

*34. Principles for adoption of Transfer Scheme under Section 131 of the Act.- The Commission may, for the purpose of approval of Aggregate Revenue Requirements and determination of tariff, adopt the changes in the balance sheet, due to the re-organisation of the erstwhile Kerala State Electricity Board as per the provisions of the Transfer Scheme published by the Kerala State Government under Section 131 of the Act, subject to the following principles,-*

*(a) Increase in the value of assets consequent to the revaluation of assets shall not qualify for computation of depreciation or for return on net fixed assets;*

*(b) The equity of the Government of Kerala as per the above Transfer Scheme published under Section 131 of the Act will be considered for computation of return on equity.*

*(c) The reduction of the contribution from consumers, grants and such other subventions for creation of assets, made as a part of Transfer Scheme, shall not be considered while computing the depreciation or return on net fixed assets;*

*(d) Only the payment of interest on the bonds issued to the Master Trust will be approved for computation of Aggregate Revenue Requirement and the amount of repayment of such bonds shall not be reckoned for computation of Aggregate Revenue Requirement.*

*(e) The Commission subject to the petition by KSEB Ltd may take appropriate decision on the other issues relating to the Transfer Scheme and its implementation on a case to case basis.*

## **Analysis and decision of the Commission**

2.150 The Commission has carefully considered the issue of equity especially with regard to the amount that is required to be considered for its calculations. KSEB Ltd in their submission has claimed RoE @ of 14% per annum for an equity amount of Rs.3499.00 crore. KSEB Ltd has submitted that Regulation 34(b)

provides that equity of the Government of Kerala as per the transfer scheme published under section 131 of the Act will be considered for computation of return on equity. As per clause 5 of the second transfer scheme “Kerala Electricity Second Transfer Scheme (Revesting) 2013” notified by Government of Kerala vide G.O.(P) No.46/2013/PD dated 13-10-2013, asset and liabilities of the erstwhile KSEB, which was vested into Government of Kerala, has been revested into the Company namely Kerala State Electricity Board Limited and opening balance sheet has been notified as part II of Schedule A of the said G.O, with and Equity amount of Rs.3499.00 crore.

The HT & EHT Association has drawn attention of the Commission to the Order of the Hon’ble APTEL wherein, the Commission was directed to determine the recommendation of the consultant. In this context, the Commission notes that the Government of Kerala subsequent to the G.O dated 13-10-2013 had issued G.O. (P) NO.3/2015/PD dated 28-1-2015 and G.O. (Ms) No.17/2015/PD dated 13-5-2015. The G.O. dated 28-1-2015 pertains to the amendments to Kerala Electricity Transfer Scheme (Revesting) 2013 and G.O dated 13-5-2015 pertains to the netting off of dues between Government and KSEB as on 13-10-2013 ie., the date of revesting. In the G.O dated 13-5-2013, it is stated that :

*“.....Taking into consideration that netting off of dues between KSEB Ltd and Government forms an integral part of re-structuring of KSEB along with cleaning up of KSEB Limited’s Balance sheet, a part of the duty collected ie., Rs.1946 crore stands converted into the increased portion of equity (3499-1553) so as to ensure that the increase equity is a result of cash infusion to KSEB Ltd by Government thereby enabling the Government to participate in the increased return on equity in future years...”*

The Commission also notes that in compliance to the above GO, KSEB Ltd has issued 349,92,00,000 equity shares of Rs.10 each in favour of Government Kerala for Rs.3499 crore as per the provisions of the Companies Act, 2013, deals with the issue of equity shares and its allotments. In this regard the Commission is satisfied that the allotment of equity shares for Rs.3499.20 crore in compliance to the GO conforms to the requirement for allotment of equity shares as per the provisions of the Companies Act, 2013. It was on this basis that, the Commission while considering the truing up petitions of KSEB Ltd for 2015-16, 2016-17 and 2017-18 had recognized the equity amount as Rs. 3499 crore and allowed RoE @ of 14% per annum.

Considering the above facts, the Commission is of the considered view that the claim of KSEB Ltd for an RoE @ 14% per annum for an amount of Rs.3499

crore is established and justified. Therefore, the Commission allows Rs.116.38 crore as the RoE in the ARR of SBU-G.

As per the provisions of the Regulation 34, the Commission is allowing the amount of equity as per the provisions of the Transfer Scheme and RoE of 14% is permissible on this amount of equity. The Regulations were finalised by the Commission after following the due process such as previous publication, public hearing etc., Once the Regulation has been finalised and notified after following the due procedure, it is binding on all the parties concerned and there is no scope for any deviation what so ever. Therefore, the arguments of the Association cannot be accepted. **Accordingly, the share of RoE for SBU-G amounts to Rs.116.38 crore at the rate of 14% is allowed in the Truing up of accounts for the year 2018-19.**

### **One time expenses- Contributions to CMDRF**

2.151 KSEB Ltd in the petition submitted that, its 'Director Board' accorded sanction to contribute Rs 35.00 crore to Chief Ministers Relief Fund in connection with the natural calamity and damages caused due to floods and land slide during August 2018. The function wise contribution to CMDRF during the year 2018-19 is given below.

Table 2.65  
Function wise details of contributions to CMDRF

Item	SBU G	SBU T	SBU D	Total
Contribution to CMDRF	1.79	3.96	29.25	35.00

KSEB Ltd requested to approve the same as one time expenses.

### **Comments of the stake holders**

2.152 HT&EHT Association strongly objected the claim and requested to disallow the same since this contribution was made by KSEB Ltd Management without any consultation with its consumers. Hence such contribution cannot be passed on to the consumers through tariff.

### **Analysis and Decision of the Commission**

2.153 The Commission examined in detail the claim of contribution to CMDRF by KSEB Ltd as one time expenses for the year 2018-19. The Commission has also noted that, in the MYT petition dated 31-10-2018 also, KSEB Ltd has requested to allow its contribution to CMDRF during the year 2018-19 as one

time expenses as part of ARR. However, the Commission disallowed the same with the following observations and decisions.

*“ 3.133 The Commission has examined the proposal of KSEB Ltd in this regard. As per the information furnished by KSEB Ltd, the Full Board and Extra ordinary General meeting dated 20-8-2018 resolved to contribute to the Chief Ministers’ Distress Relief Fund on behalf of the KSEB Ltd an amount of Rs.35.00 crore in view of the huge destruction caused by natural calamity during August 2018 in the State of Kerala. The decision was taken as per Section 181 and applicable provisions of the Companies Act 2013 and subject to clause 42(12) of the Articles of Association of the Company. In the Board of Directors meeting held on 20-8-2018, it was decided to contribute Rs.35 crore to CMDRF, subject to the approval of the EGM, since KSEB Ltd is not having average profit for the last three years. EGM held on the same day also resolved to contribute to the said amount.*

*3.134 The Companies Act 2013 provides for three kinds of contributions under Section 181, 182 & 183. Section 181 pertains to charitable contributions, Section 182 pertains to contribution to Political Parties and Section 183 pertains to contribution to National Defence Fund. In the present case, the contribution has been made under Section 181 of the Companies Act. The said Section is quoted below:*

*Section 181. The Board of Directors of a company may contribute to bona fide charitable and other funds:*

*Provided that prior permission of the company in general meeting shall be required for such contribution in case any amount the aggregate of which, in any financial year, exceed five per cent. of its average net profits for the three immediately preceding financial years.*

*3.135 From the above, it is clear that under section 181 such contributions to charitable and other funds can be made only if there is a profit and contribution is out of the profit of the company. Based on the above statutory provision, KSEB Ltd can contribute the amount out of their profit. Such payments cannot be made as a charge on the company’s expenses ie., in the ARR and subsequently recovered from the consumers through the tariff.”*

2.154 As above, vide the MYT Order dated 08.07.2019, the Commission had taken the considered decision that, contribution to any relief funds and such similar expenses has to be met out of its RoE/profit and cannot be charged as an expenses to be recovered from the consumers through tariff. **Hence, the Commission hereby disallows the contribution to CMDRF as an expenses in the Truing up of accounts for the year 2018-19. Hence the request of the KSEB Ltd to approve the contribution to CMDRF as an expense of KSEB Ltd is rejected.**

## Non-Tariff income

2.155 In the truing up petition, SBU-G has claimed, based on apportionment, a non-tariff income of Rs.17.94 crore which include income from sale of scrap, interest on advances to contractors, interest on staff loans and advances, rent from buildings etc., The different components of non- tariff income as submitted by KSEB Ltd in their truing up petition is shown in the Table below:

Table 2.66  
Non-Tariff income of SBU-G for 2018-19 (Rs. Cr)

Sl. No	Particulars	SBU G
1	<b>Other Income-As per Accounts (Note No. 25) (A)</b>	<b>24.48</b>
2	Items sought to be excluded in TU	
3	Claw back of grant-Considered separately	6.54
4	Cost of LED Bulbs booked under A&G expenses	
5	<b>Total exclusions (3+4) (B)</b>	<b>6.54</b>
6	Expenses booked under A&G expenses sought to be deducted from NTI	
7	Refund of 80% of solar registration fee for eligible consumers	
8	Refund of liquidated damages	
9	Total (8+9) (C)	0
10	Total deductions D (B+C)	6.54
11	<b>Balance E (A-D)</b>	<b>17.94</b>
12	Non tariff income booked under Revenue from operation ( <b>Note no. 24 of accounts</b> )	
13	RE Charges	
14	Meter rent	
15	Recovery of theft/malpractices	
16	Miscellaneous charges from consumers	
17	Less: Interest accounted on KWA arrears	
18	Balance (16-17)	
19	<b>Total Non tariff income as per accounts considered for TU (F) (13+14+15+18)</b>	<b>0</b>
20	<b>NT Income sought for TU 2018-19 G (E+F)</b>	<b>17.94</b>

## Comments of Stakeholders

2.156 The HT-EHT Association submitted that the Non-tariff income of SBU-G amounts to Rs 17.94 crore may be true-up as claimed by KSEB Ltd.

## Provisions in the Regulations

2.157 Relevant Regulations regarding Non-Tariff income is given below:

*“46. Other income. - (1) The amount of Other income of the generation business/company as approved by the Commission shall be deducted from*

*the annual fixed charges while determining the annual fixed charges of the generation business/company.”*

### **Analysis and decision of the Commission**

**2.158 The Commission after considering KSEB Ltd’s submission of the details, approves the non-tariff income of Rs.17.94 crore for SBU-G for the year 2018-19 as claimed by KSEB Ltd for SBU-G.**

### **Summary and Transfer Cost of SBU-G**

2.159 The primary role of SBU-G envisaged in the Transfer Scheme is to generate electricity and transfer it to SBU-D. All expenses incurred for the generation of electricity by the different stations of SBU-G is recovered from SBU-D as Transfer Cost, which is treated as the income from operations of SBU-G. As against an ARR&ERC approved cost of Rs.481.41 crore KSEB Ltd in their truing up petition has claimed the SBU-G transfer cost as Rs.506.79 crore i.e., an excess of Rs.25.38 crore over the approved ARR&ERC figures.

2.160 SBU-G does not have any separate tariff income. Instead, its tariff income is derived considering expenses such as cost of power generation, interest and finance charges, depreciation, O&M expenses, Return on Equity, etc., and after deducting the non-tariff income. This amount is considered as the transfer cost which it charges from the SBU-D. The approved transfer cost is arrived at as Rs.470.26 crore. Total approved revenue requirements for SBU-G are the transfer cost of internal Generation to SBU-D as shown below:

Table 2.67  
Approved Transfer Cost of SBU-G for 2018-19 (Rs. Cr)

No	Particulars	KSERC	KSEB Ltd		KSERC - Approved for Truing up
		ARR approval	As per accounts	Claimed for Truing up	
1	Cost of Generation of Power	0.00	3.29	3.29	3.29
2	Interest & Finance Charges	126.27	127.94	127.58	108.25
3	Depreciation	130.19	132.36	137.60	125.05
4	O&M Expenses				
	(i) Employee cost *		128.37		95.91
	(ii) A&G expenses *	124.15	41.81	124.47	5.38
	(ii) R&M expenses		27.13		23.23
	(iv) Provision for pay revision			8.05	
	(v) Total O&M cost	124.15	197.31	132.52	124.52
5	RoE (14% of Rs 1454.53 Cr)	116.38	153.33	116.38	116.38
6	Other Expenses & PP expenses	0.00	-4.68	-4.68	-4.68
7	Exceptional Items – Flood	0.00	3.11	0.00	0.00

8	One Time Expense CMDRF	0.00	0.00	1.79	0.00
9	Fair Value adjustments		-1.52		0.00
10	Interest on additional bond to Master Trust	10.26		10.26	15.39
11	ARR	507.24	611.14	524.73	488.20
12	Less Non-Tariff Income	25.83	24.48	17.94	17.94
13	<b>Net ARR (Transferred to SBU-D)</b>	<b>481.41</b>	<b>586.66</b>	<b>506.79</b>	<b>470.26</b>

\* Provisional

2.161 As shown in the Table above, the approved gross transfer cost of SBU-G is Rs.488.20 crore. After deducting Rs.17.94 crore on account of Non-Tariff Income the net transfer cost of Rs.470.26 crore is arrived at.

### **Revenue Gap/Surplus of SBU-G**

2.162 The Commission after analyzing the petition and the arguments of the petitioner KSEB Ltd and the stakeholders, arrives at a net transfer cost of Rs.470.26 crore which is transferred as internal cost of generation to SBU-D. Since the entire cost of SBU-G is transferred to SBU-D as internal generation cost, ***there is no revenue gap or surplus for SBU-G for 2018-19.***

## **CHAPTER -3**

### **TRUING UP OF ACCOUNTS OF STRATEGIC BUSINESS UNIT – TRANSMISSION (SBU-T)**

#### **Introduction**

- 3.1 SBU-Transmission (SBU-T) is vested with the functions of development and management of the transmission network in the State and is the State Transmission Utility of the Kerala State. It is responsible for the construction, operation and maintenance of EHT substations and transmission lines. It is also entrusted with coordinating the activities of transmission system development. At present SBU-T is also responsible for controlling the State Load Despatch Centre (SLDC) activities and of the management of protection and communication systems of KSEB Ltd.
- 3.2 SBU-T of KSEB Ltd operates at the following the voltage levels , 220kV, 110kV, 66kV and 33kV. As on 31.09.2019, there is one 400 kV substation, 22 nos of 220kV substations, 157 nos of 110kV substations, 74 nos of 66kV substations and 153 nos of 33kV substations. The 400kV lines and the other 400kV substations in the State are owned and managed by the PGCIL. There are 2856km of 220kV lines, 4662.28 km of 110 kV lines 2134.44 km of 66kV lines and 2006.54 km of 33 kV lines in the State.
- 3.3 The SBU-T is geographically organized into two zones, North and South, each headed by a Chief Engineer stationed at Kozhikode and Thiruvananthapuram. The system operations wing performs the real time management of the Kerala Power System and is headed by a Chief Engineer with headquarters at Kalamassery.

#### **Transmission loss:**

- 3.4 The Commission noted that during 2018-19, the total energy handled by the transmission system was 24865.25 MU. The actual peak demand met during the year 2018-19 was 4316 MW. Based on the load flow studies conducted upto 33 kV level using computer simulation model in “Mi-Power” Software, the transmission losses are segregated. The methodology adopted for this study is similar to that suggested by CEA and adopted by Forum of Regulators (FOR) for loss assessment. The actual energy losses in the transmission system were 929.57 MU. The transmission loss approved by the Commission for the year 2018-19 and the actuals are as furnished below:



**Table 3.1**  
**Transmission Losses in 2018-19 estimated by KSEB Ltd**

No	Voltage Level (kV)	ARR Approved	Actual Losses	Losses at the voltage level	Actual Losses at voltage level
		(%)	MU	MU	(%)
1	400		55.83	55.83	0.22
2	220		404.129	459.959	1.85
3	110		375.354	835.313	3.36
4	66		94.26	929.573	3.74
<b>5</b>	<b>Transmission loss (%)</b>	<b>4.05</b>			<b>3.74</b>

The above Table indicates that against an ARR &ERC approved transmission loss of 4.05%, SBU -T has estimated the actual loss at 3.74%

**Auxiliary consumption of substations of Transmission SBU:**

3.5 The Commission had in the ARR & ERC approved an auxiliary consumption of **15.58 MU** for the year 2018-19. The actual auxiliary consumption claimed by KSEB Ltd in their petition was **16.11 MU** as tabulated below. The Commission was informed that the auxiliary consumption in substations comprised of energy required for lighting, air compressors, battery charging, switch gears operating mechanism etc. KSEB Ltd in their petition has submitted the month wise auxiliary consumption as follows:

**Table 3.2**  
**Total Auxiliary consumption of Substations for 2018-19**

Month	Auxiliary consumption in KWH		
	North	South	Total
April	0.72	0.72	1.44
May	0.65	0.68	1.33
June	0.58	0.64	1.21
July	0.56	0.65	1.21
August	0.57	0.66	1.23
September	0.62	0.67	1.29
October	0.62	0.68	1.30
November	0.65	0.71	1.36
December	0.72	0.72	1.44
January	0.72	0.69	1.41
February	0.64	0.68	1.32
March	0.78	0.77	1.55
Total	7.82	8.28	16.11

3.6 KSEB Ltd in their petition clarified that the auxiliary energy consumption is measured by meters in the respective substations. Against the energy inducted into the system at 24,865.25 Mus, the energy delivered to SBU-D including sales at EHT level was 23,919.57 MU after deducting transmission losses and auxiliary consumption.

**Expenses of SBU-T**

3.7 In their Truing Up petition, KSEB Ltd has claimed the expenses of SBU-T inclusive of Return on equity as Rs.858.64 crore. The details are given below.

**Table 3.3**  
**Expenses of SBU-T as per Petition for 2018-19**

Particulars	Approved in MYT Order	As per accounts	As per Truing up petition
	Rs. Crore	Rs. crore	Rs. crore
Interest & Finance Charges	251.18	207.64	202.26
Depreciation	146.41	239.43	158.88
O&M Expenses	363.23	466.88	363.23
Provision for pay revision		23.48	23.48
Return on equity (14%)	119.99	189.30	119.99
Other debits and prior period income		-2.11	-2.11
Onetime expense-Flood restoration		0.44	0.00
-Do- CMDRF contribution			3.96
Interest on additional bond to Master Trust	22.64		22.64
Fair value adjustment		0.08	0
Incentive on transmission availability			8.38
<b>ARR</b>	<b>903.45</b>	<b>1125.14</b>	<b>900.71</b>
Less: Non tariff Income	28.85	56.45	42.07
<b>Net ARR (Cost Transferred to SBU-D )</b>	<b>874.60</b>	<b>1068.69</b>	<b>858.64</b>

3.8 Based on the above claim, the Commission carried out a prudence check of each of the heads of expenditure viz-a-viz the Regulations. The details, comments and results of this check are discussed in the subsequent paragraphs.

### **O&M Expenses**

3.9 As per the Commission's Regulations, O&M expenses comprises of Employee Expenses, R&M Expenses and A&G Expenses. According to KSEB Ltd, the total O&M expenses for the year 2018-19 of SBU-T was Rs.490.81 crore as per the audited accounts. However, KSEB Ltd in their petition had claimed Rs.386.71 crore as O&M expenses based on the Regulation approved norms as shown below:

**Table 3.4**  
**O&M expenses for SBU-T for 2018-19 as per petition**

No	Particulars	Approved in MYT Order	As per Accounts	As per True- up petition
		Rs.crore	Rs.crore	Rs.crore
1	Employee Cost	(Total O&M cost as per norms)	336.4	(Total O&M cost as per norms)
2	A&G Expenses		108.37	
3	R&M Expenses		43.66	
<b>4</b>	<b>Sub Total (O&amp;M Expenses)</b>	<b>363.23</b>	<b>490.36</b>	<b>363.23</b>
5	Provision for pay revision			23.48
<b>6</b>	<b>Total</b>	<b>363.23</b>	<b>490.81</b>	<b>386.71</b>

3.10 The Commission noted that as per the Regulations, O&M cost of SBU -T is governed by the following two parameters i.e., no. of bays and length of lines in circuit kilometers. The no. of bays and circuit kilometers and the O&M expenses based on the norms approved for 2018-19 and actuals are as given below:

Table 3.5  
Approved and Actual cost drivers as per petition

Item	Approved in MYT Order	Actual
Substation Bays*	2564	2564
Tran Lines***	9529.589	9529.589
* Excluding 33 kV bays	*** (in CktKms)	

- 3.11 Since the MYT tariff Order 2018-22, was issued only 08.07.2019 and the data for the above norms was available, KSEB Ltd clarified that the data reflected in Table 3.5 was collected by the Commission and included in the MYT Order. Hence, there is no variation between the figures approved in the MYT Order and the actuals claimed by KSEB Ltd.
- 3.12 KSEB Ltd also stated that the pay revision is due from July/ August 2018 and a sum of Rs.176 Crore has been provided in the consolidated Accounts of KSEB Ltd as provision for pay revision. Therefore, they requested to approve Rs. 23.48 Crore as provision for pay revision, as share for SBU-T over and above normative O&M expenses.

#### Comments of the Stakeholders

- 3.13 The HT-EHT Association submitted that, O&M cost of SBU-T may be allowed only as per the norms specified in the Tariff Regulations, 2018.

The Association further submitted that, since KSEB Ltd has not implemented the Pay revision and has only booked the provision in their accounts, the expense related to pay revision should not be allowed. The Association further submitted that, the claim of KSEB Ltd for pay revision stands null and void and the consumers shall not be burdened for the expense that is still not incurred by KSEB Ltd. The Association also stated that KSEB Ltd is a loss-making company and hence wage revision shall not be allowed.

#### Analysis and Decisions of the Commission

- 3.14 The Commission had examined in detail the O&M expenses of SBU-T as per the audited accounts and the KSEB Ltd claim in the Truing up as per the provisions of the Tariff Regulations, 2018. The details are discussed in the following paragraphs.
- 3.15 O&M cost of SBU-T includes the following expenses, namely,  
 (1) Employee expenses,  
 (2) Administration and General expenses (A&G expenses), and  
 (3) Repair and Maintenance Expenses (R&M expenses).
- 3.16 The Commission vide the Tariff Regulations, 2018, has specified the norms for O&M expenses for each SBUs of KSEB Ltd separately. The norms are arrived

based on the O&M cost including 'employee cost, A&G expenses and R&M expenses' approved in the Truing up of the year 2016-17.

- 3.17 The various provisions in the Tariff Regulations 2018, with respect to the O&M expenses is discussed in the following paragraphs.

### **Provisions in the Regulations**

- 3.18 Regulation 58 of the Tariff Regulations 2018, deals with the Operation and Maintenance expenses of SBU-T of KSEB Ltd. The relevant Regulations is extracted below.

**“58. Operation and maintenance expenses.**—*The transmission business/licensee shall be allowed to recover operation and maintenance expenses as per the norms specified in Annexure-VIII to these Regulations for each financial year of the Control Period:*

*Provided that in case one time maintenance of special nature not in the form of routine repair and maintenance if any is required and is undertaken for transmission system, expenses for such maintenance may be allowed by the Commission after prudence check considering the details and justification furnished by the Transmission business/licensee for incurring such an expenditure to the satisfaction of the Commission*

*Provided further that the transmission business of KSEB Limited shall be allowed to recover the annual pension contribution to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the transmission business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses.*

*Explanation :-*

- (i) For the purpose of deriving normative O&M expenses, 'bay' shall mean a set of accessories that are required to connect an electrical equipment at 66 kV and above voltages such as transmission line, bus section breakers, potential transformers, power transformers, capacitors and transfer breaker and the feeders emanating from the bus at sub-station of the transmission business/licensee.*
- (ii) For the purpose of deriving normative O&M expenses, 'ckt km' means the length in circuit kilometres, of the transmission lines at voltages of and above 66 kV. ”*

- 3.19 Further, Annexure VIII of the Tariff Regulations 2018, specifies the O&M expenses of SBU-T for the Control Period as follows.

“

**O&M norms for the transmission business of KSEB Limited**

	Control period			
	2018-19	2019-20	2020-21	2021-22
O&M cost for Bay (Rs.lakh/Bay)	10.71	11.23	11.77	12.34
O&M cost per Circuit km (Rs.lakh/circuit km)	0.93	0.98	1.03	1.08

**Explanation:** The O&M expenses for any year of the Control Period shall be allowed by multiplying the O&M norms for that year with the actual number of bays and transmission line length in ckt km for the previous year, i.e., the O&M expenses for FY 2018-19 shall be allowed by multiplying the O&M norms for FY 2018-19 with the actual number of bays and transmission line length in ckt km for FY 2017-18.”

3.20 The note to the Tariff Regulation, 2018 also specify the methodology adopted by the Commission for specifying the normative O&M expenses for each of the SBUs of KSEB Ltd for the period from 2018-19 to 2021-22, which is extracted below.

**NOTE**

*(This does not form part of these Regulations, but is intended for explaining the methodology for computation of normative O&M costs)*

**Methodology Adopted for Specifying Normative O&M Costs for the Businesses of KSEB Limited for the Second Control Period (2018-19 to 2021-22).**

*The objective of the tariff determination process taken up by the Commission for licensees and generating companies is to achieve the goals of promotion of investments in the sector, encouraging efficiency and optimization of cost, balancing the interest of the consumers and to ensure recovery of reasonable cost of electricity so as to sustain the utilities and for providing efficient service to the consumers. Certainty in regulatory decisions and providing appropriate signals for the consumers and producers/service providers is of paramount important in tariff determination process.*

*The basic rationale for MYT regime is to provide long term perspective for tariff determination and reducing the regulatory risk both for consumers and the licensees. The other benefits of the scheme include the provision of adequate incentive for encouraging performance and through disincentives for penalizing non-performance and insulating the licensees from factors which are beyond their control. The Commission in the second control period has proposed to specify the norms for the licensees and for the business of generation taking into consideration the basic principles of Multi Year Tariff regime compared to annual determinations. While devising the norms for the second control period, the Commission has in fact had to consider many issues. Firstly, the Commission is of the view that the control period should be fairly long so as to enable the utilities to develop the practice of medium to long term planning. A capital intensive sector such as electricity has a fairly long gestation period and hence there is a requirement for long term planning. Though this being the case, the control period should also be not too long that*

short term uncertainties appropriately addressed. Hence the Commission has proposed a four year control period from the present three year period.

The Commission while formulating the current four year Multi Year Tariff has considered the following judicial pronouncements: Order of the Hon'ble High Court of Kerala in the Writ Petition WPC No.465/2015(G) wherein KSEB Ltd had challenged the O&M norms for determining the expenditure specified in the 2014 Regulations as inadequate and resulting in under recovery of its expenses. Hon'ble High Court on 28-02-2018 issued the final judgment and disposed of the petition WP(C) 465/2015,

Orders of the Hon APTEL dated 10-11-2014 in Appeal No. 1 and 19 of 2013 and the Orders of Hon. High Court of Kerala dated 28-2-2018 in the Writ Petition WPC No.465/2015(G) has also been appropriately As per the Orders of Hon. APTEL the employee costs for the years from 2009-10 to 2013-14 has been revised and the Commission has issued truing up orders and consequential/remand orders for the said period, thereby revising the employee cost attributable to KSEB Ltd in line with APTEL orders. Further, as per the directions contained in the Orders of Hon. High Court, the Commission has issued orders on truing up of accounts of KSEB Ltd for the years 2015-16 and 2016-17. As the Commission has already completed the truing up of accounts for KSEB Ltd till 2016-17 (except for the year 2014-15, which is reserved as per the directions of Hon. Supreme Court of Kerala), the relevant data for the next control period has been taken as basis for the present Regulation.

Escalation factors have been appropriately to be considered for the control period considering the fact inflation is considered as an uncontrollable factor and the licensee has to be mitigated from inflation risk. The Commission during the first control period (2015-16 to 2017-18) has considered the escalation rates as allowed by CERC for the period from 2009-2014. The main feature of the CERC escalation indices is that it follows the actual increase in O&M expenses of the central utilities rather than actual inflation parameters. In order to address the issue, the Commission has decided to propose the average inflation linked to CPI and WPI at 70:30 weightage for the previous four years during this control period, which is expected to address the inflation risk. In this context it is to be pointed out that Government of India has revised the base year for WPI to 2011-12 and officially the indices are effective from 2017, Hence the old series data is no more available for the future years. However, Govt of India has also given indices from 2012-13 to 2016-17 in the new format and the Commission has used the revised WPI data for the purpose of CPI:WPI indexation and for working out the four year average of CPI:WPI at 70:30 weightage from 2013-14 to 2016-17.

In the succeeding sections, the methodology employed for arriving at the norms for recovery of O&M expenses for the licensees and generating companies is dealt with.

#### **Common Steps Adopted for Generation, Transmission & Distribution Businesses.**

12. For determining the norms for the second control period 2018-19 to 2021-22, the latest trued up orders for the year 2016-17 of KSEB Ltd is used. The trued up O&M expenses for the year 2016-17 (net of capitalization, terminal benefits

and electricity duty under section 3 of the Kerala Electricity Duty Act) for KSEB Ltd are as shown below:

	SBU-G (Rs. crore)	SBU-T (Rs. crore)	SBU-D (Rs. crore)	KSEB Ltd (Rs. crore)
Employee expense	81.89	233.76	1,606.72	1,922.37
R&M expenses	19.83	70.20	198.22	288.24
A&G expenses	4.59	16.53	90.82	111.94
O&M for new Stations	6.30	-	-	6.30
Total O&M expenses	112.61	320.48	1,895.76	2,328.85

13. **Escalation rates:** As mentioned earlier, escalation rates is based on the CPI:WPI indices at 70:30 weightage for the past four years is shown below:

Escalation Factors	2013-14	2014-15	2015-16	2016-17
CPI	236	250.83	265	275.92
CPI Increase (%)	9.68%	6.28%	5.65%	4.12%
WPI (2011-12 series)	112.5	113.9	109.7	111.6
WPI increase (%)	5.24%	1.24%	-3.69%	1.73%
<b>CPI:WPI (70:30) increase</b>	8.35%	4.77%	2.85%	3.40%
Average increase (2013-14 to 2016-17)				4.84%

Since the control period is four years, the average inflation for the past four years is 4.84% is used for the purpose of determination of norms.

**Normative O&M Costs for Generation Business of KSEB Limited for the Control Period.**

14. The average employee costs, repair & maintenance costs and administrative & general costs for the generation business of KSEBL, as given above in para 2 for the financial year 2016-17, have been escalated based on the escalation rate of 4.84% per annum (based on the average escalation rate based on CPI:WPI for 2013-14 to 2016-17), for determining the O&M expenses if the Generation business for the control period as given in the following table:

**O&M Costs for Generation business**

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)
O&M Expenses	112.61	118.06	123.77	129.77	136.05	142.63

**Normative O&M Costs for Transmission Business of KSEB Limited for the Control Period.**

15. O&M expenses for Transmission business is allowed based on the normative number for Bays and Circuit kilometers of transmission lines. The data regarding the number of bays (66 kV and above) and circuit kilometers for the year 2015-16 and 2016-17 are available as shown below:

Year	2015-16	2016-17
No. of Bays (66 kV and above)	2466	2488
Circuit length (Ckt-km)	9,377.03	9451

The employee costs, repair & maintenance costs and administrative & general costs for the transmission business of KSEB Limited (Rs.320.48 crore), as computed in para 2 above, for the financial year 2016-17, have been allocated amongst the number of bays and line length in circuit kilometer in the ratio of 75:25, respectively, for working out the normative O&M expenses for the transmission business for the financial year 2016-17

16. The above normative O&M expenses for the financial year 2016-17 have been escalated at 4.84% per annum for determining the normative O&M expenses for the control period, as given in the following table:

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
O&M cost for Bay (Rs.lakh/Bay)	9.75	10.22	10.71	11.23	11.77	12.34
O&M cost per Circuit km (Rs.lakh/circuit km)	0.85	0.89	0.93	0.98	1.03	1.08

17. The O&M expenses for any year of the control period shall be allowed by multiplying the normative O&M costs for that year with the actual number of bays and transmission line length in circuit kilometer at the end of the previous year, i.e., the O&M expenses for the financial year 2018-19 shall be allowed by multiplying the normative O&M costs for the financial year 2018-19 with the actual number of bays and transmission line length in circuit kilometer at the end of the previous financial year 2017-18.

**Normative O&M Costs for the Distribution Business of KSEB Limited for the Control Period.**

18. The parameters used for allowing O&M expenses (employee costs and A&G expenses) for distribution is the number of consumers, number of distribution transformers, length of HT lines in kilometer and sales. R&M expense is benchmarked against the Distribution Gross Fixed Assets. These parameters for the distribution business at the end of the financial year 2017-18 have been considered as the output parameters for the financial year 2018-19, for the purpose of working out the normative O&M expenses.

19. The employee costs, and administrative & general costs for the distribution business of KSEB Limited (Rs. 1697.54 crore), as computed above in para 2 for 2016-17 have been allocated to the number of consumers, number of distribution transformers, length of HT lines in kilometer and the sales, in the ratio of



30:25:25:20, respectively, for working out the normative O&M costs for the distribution business. The parameters for the distribution business for the year 2015-16 and 2016-17 is as shown below:

Particulars	2015-16	2016-17
No. of consumers	1,16,68,031	1,19,94,853
No. of Distribution Transformers	73,460	75,759
Length of HT lines (kms)	59,47.66	61,364
Energy Sales (MU)	19,325	20,055

20. The normative O&M costs for the financial year 2016-17 have been escalated by the growth rate of 4.84% per annum for determining the normative O&M costs for the financial years in the control period.

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
No. of consumers (Rs. Lakh/'000 consumers)	4.36	4.58	4.80	5.03	5.27	5.53
No. of Distribution transformers (Rs.lakh/Distribution transformer)	0.58	0.61	0.64	0.67	0.7	0.73
Length of HT line (Rs.lakh/km of HT line)	0.71	0.75	0.79	0.83	0.87	0.91
Energy sales (Rs.per unit)	0.18	0.18	0.19	0.2	0.21	0.22

21. The O&M expenses (excluding R&M expenses) for any year of the control period shall be allowed by multiplying the normative O&M costs for that year with the actual number of consumers, number of distribution transformers, length of HT line in kilometer, sales, and GFA for the previous year, i.e., the O&M expenses for the financial year 2018-19 shall be allowed by multiplying the normative O&M costs for the financial year 2018-19 with the actual number of number of consumers, number of distribution transformers, length of HT lines in kilometer and sales for the financial year 2017-18.

22. R&M expenses for distribution business (SBU-D) is allowed based on the 3% of opening level of GFA (excluding land and land under lease) for the respective years of Distribution business.”

3.21 Further, the Regulation 14(3) of the Tariff Regulations, 2018 deals with the ‘pay revision and related issues’ which is extracted below:

“(3) Expenses relating to pay revision, if any, during the control period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of

*the Generation business/company or Transmission business/licensee or distribution business/licensee may be considered for pass through after due prudence check.”*

- 3.22 The Commission has examined the O&M expenses allowable as per the norms specified in the Tariff Regulations, 2018, and also the prudence of the O&M expenses as per the audited accounts in detail in the subsequent paragraphs.

**O&M expenses of SBU-T as per Norms**

- 3.23 The Commission has examined in detail the O&M cost of SBU-T claimed by KSEB Ltd in the process of Truing up of accounts for the year 2018-19. KSEB Ltd has claimed the O&M expenses as per the Regulation 58 of the Tariff Regulations, 2018.

- 3.24 As per Regulation 58, SBU-T is entitled for recovery of O&M expenses (employee costs, R&M expenses, A&G expenses) in a composite manner benchmarking against the no. of bays and circuit length (kms) as shown below:

Table 3.6  
Norms for O&M expenses for Bays as per Regulation

Item	2018-19		
	As Approved in MYT Order	As per petition	Allowable as per norms
O&M cost for Bay (Rs lakh /Bay)	10.71	10.71	10.71
O&M cost (Rs. lakh /circuit km)	0.93	0.93	0.93
Bays (No.) (for Previous year)	2564	2564	2564
Line (Ckt-Km)(for previous year)	9529.589	9529.589	9529.589
<b>Normative O&amp;M cost (Rs.Crore.)</b>	<b>363.23</b>	<b>363.23</b>	<b>363.23</b>

- 3.25 The O&M expenses, as specified in the Regulation is based on the Trued Up O&M cost such as ‘Employee Expenses, A&G expenses and R&M expenses’ for the year 2016-17. The Commission noted that, each of the components of O&M expenses such as ‘Employee Expenses, A&G expenses and R&M expenses’ are separate cost elements and controllable parameter. Further, KSEB Ltd is also accounting each item separately in their audited accounts. Hence, the Commission has decided to approve each item of the O&M expenses separately in the True up process so that, each component of the O&M expenses is carefully considered and approved with reference to the audited accounts. Such an effect also facilitates identification of areas of cost reduction, inefficiency, lack of prudent cost control etc which will enable the utility to effect appropriate corrective action.
- 3.26 Hence, the Commission decided to apportion the O&M cost admissible as per norms among the three O&M cost components viz-a-viz Employee Expenses, A&G expense and R&M expenses in the ratio of these expenses in approved

True up O&M cost of SBU-T for the year 2016-17, since 2016-17 is considered as the base year for arriving at the norms specified in the Tariff Regulations, 2018.

Table-3.7  
Ratio of the Trued up O&M cost 2016-17

Particulars	SBU-T for 2016-17	Ratio of the components of O&M expenses
	(Rs. crore)	(%)
Employee expense	233.76	72.94%
R&M expenses	70.20	21.90%
A&G expenses	16.53	5.16%
Total	320.49	100.00%

3.27 Based on the above, the O&M expenses allowable for each component of SBU-T is apportioned as detailed below:

Table 3.8  
Component wise O&M cost of SBU-T allowable for the year 2018-19

Particulars	Amount (Rs.Cr)	Ratio of the total O&M
Employee expense	264.93	72.94%
R&M expenses	79.56	21.90%
A&G expenses	18.73	5.16%
Total	363.23	100.00%

### **Appraisal of Employee Expenses as per accounts with respect to the employee cost allowable as per norms.**

3.28 In order to get clarity on the various components of the O&M expenses allowable as per Tariff Regulations, 2018 and the actual expenses incurred as per the audited accounts, the Commission has examined the each component of the O&M expenses with respect to the norms as per Tariff Regulations, 2018 and the actuals. The details are discussed below.

3.29 The details of the employee expenses claimed as per the audited accounts is given below.

Table 3.9  
Employee expenses of SBU-T as per the audited accounts for the year 2018-19

S. No.	Particulars	Amount
		(Rs. Cr)
1	Basic Salary	300.38
2	Dearness Allowance (DA)	69.23
3	House Rent Allowance	5.37
4	Conveyance Allowance	0.00
5	Leave Travel Allowance	0.02

6	Earned Leave Encashment	21.02
7	Other Allowances	1.93
8	Medical Reimbursement	1.77
9	Overtime Payment	0.00
10	Bonus/Ex-Gratia Payments	0.96
11	Interim Relief / Wage Revision	0.00
12	Staff welfare expenses	0.17
13	VRS Expenses/Retrenchment Compensation	0.00
14	Commission to Directors	0.00
15	Training Expenses	0.00
16	Payment under Workmen's Compensation Act	0.00
17	<b>Net Employee Costs</b>	<b>400.84</b>
18	Terminal Benefits	
18.1	Provident Fund Contribution	
18.2	Provision for PF Fund	
18.3	Pension Payments	
18.4	Gratuity Payment	
18.5	Annual Contribution for Terminal Liabilities based on actuarial valuation	
19	Contribution of KSEB Ltd towards National Pension Scheme	1.83
20	Others	0.04
21	<b>Gross Employee Expenses</b>	<b>402.71</b>
22	Less: Expenses Capitalised	64.49
23	<b>Net Employee Expenses</b>	<b>338.22</b>

3.30 As detailed above, the employee expenses of SBU-T as per the audited accounts is RS 338.22 crore as against the employee cost of Rs 264.93 crore allowable as per norms. The Commission noted that, the higher employee cost as per the audited accounts is mainly due to the following reasons.

- (1) The employee expenses of KSEB Ltd as per the audited accounts is the salary and allowances of all 33,000 plus employees as on 31.03.2019, whereas the employee cost as per norms reflects only the salary and allowances of 27,175 number of employees as on 31.03.2009.
- (2) The employee expenses as per the audited accounts include the provision of pay revision. However, the Commission has taken the considered decision that, the impact of pay revision will be approved only in the year in which the actual cash outflow occurs and subject to prudence check including approvals of the KSEB Ltd's Board of Directors and the State Government.
- (3) The employee expenses as per the audited accounts also include the provision for unfunded actuarial liability. However, the Commission after due consideration has decided that, the additional unfunded liability as per the actuarial valuation report can be appraised separately based on a separate

petition to be filed by KSEB Ltd with all supporting details if they desire to avail these amounts. Till such time, the Commission has permitted an ad-hoc provision of additional funds to the Master Trust, and the same is discussed in the subsequent paragraphs.

- 3.31 The Commission notes that KSEB Ltd has not submitted sufficient details to enable appraising the employee expenses as per the audited accounts. Hence, the Commission is unable to prudently estimate the employee expenses as claimed in the audited accounts. Therefore, the Commission is constrained to limit the employee expenses of KSEB Ltd provisionally to the levels as per the norms specified in the Tariff Regulations 2018. **However, KSEB Ltd, may at its liberty, submit the necessary and sufficient details with proper justification for the additional employee expenses as per the audited accounts, through a petition as per the KSERC (Conduct of Business) Regulations 2003.** The Commission may take appropriate decision on such petition after completing all due procedures including prepublication, stakeholder consultation and public hearings.
- 3.32 Based on the above consideration, the Commission hereby approve, provisionally, the employee expenses of SBU-T of KSEB Ltd for the year 2018-19 as follows.

Table 3.10  
Employee cost of SBU-T approved for the year 2018-19

Particulars	As per audited accounts	Eligible as per norms	KSERC Approval in True up
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Employee cost	338.22	264.93	264.93

**As above, the Commission approve the employee cost of SBU-T of KSEB Ltd provisionally at Rs 264.93 crore for the year 2018-19 as per the Tariff Regulations, 2018.**

**Appraisal of the A&G Expenses as per accounts with respect to the same allowable as per norms:**

- 3.33 The details of the A&G expenses of SBU-T claimed by KSEB Ltd in their truing up petition as per the audited accounts for the year 2018-19 is given below.

Table 3.11  
A&G expenses

S. No.	Particulars	Amount
		(Rs. Cr)
1	Rent Rates & Taxes	0.66
2	Insurance	0.36
3	Telephone & Postage, etc.	2.59

4	Legal charges	0.56
5	Audit Fees	-0.03
6	Consultancy charges	0.02
7	Other Professional charges	0.85
8	Conveyance	6.89
9	Vehicle Running Expenses Truck / Delivery Van	0.19
10	Vehicle Hiring Expenses Truck / Delivery Van	0.27
11	Electricity charges	0.06
12	Water charges	0.16
13	Entertainment	0.22
14	Fees & subscription	0.51
15	Printing & Stationery	0.99
16	Advertisements, exhibition publicity	0.28
17	Contribution/Donations	0.42
18	Training expenses	0.07
19	Miscellaneous Expenses	0.58
20	DSM activities	0.00
21	SRPC expenses	0.22
22	Sports and related activities	0.08
23	Freight	0.90
24	Purchase Related Advertisement Expenses	0.79
25	Bank Charges	0.00
26	Office Expenses	73.40
27	License Fee and other related fee	3.96
28	Cost of services procured	0.00
29	Outsourcing of metering and billing system	0.00
30	V-sat, Internet and related charges	0.03
31	Security arrangements	0.00
32	Books & periodicals	0.01
33	Computer Stationery	0.00
34	Others	12.31
	Others- Other Purchase related Expenses	1.02
	Others - Expenditure inconnection with distribution of LED	0.11
35	<b>Gross A&amp;G Expenses</b>	<b>108.48</b>
36	<b>Ele. Duty u/s 3(I), KED Act</b>	<b>0.00</b>
37	Less: Expenses Capitalised	
38	<b>Net A&amp;G Expenses</b>	<b>108.48</b>

3.34 As seen from above Table, the A&G expenses as per the audited accounts is Rs 108.48 crore as against Rs 18.73 crore mentioned as per norm. The actual A&G expenses is about 5.8 times higher than the same as per norms. Further, the Commission, vide the Truing up Order dated 25.06.2021 had approved the A&G expenses of SBU-T for the year 2017-18 at Rs 17.41 crore. Accordingly,

the A&G expenses as per norms was estimated for the year 2018-19 and is 7.60% higher than the amount approved in the previous year.

The Commission also noted that KSEB Ltd has not submitted proper justification for such excessive expenditure under certain heads booked in A&G expenses. Without proper justifications, the Commission cannot approve any such expenses. Further, the A&G expenses being controllable expenses, optimization and economy must be the guiding principle while incurring expenditure by the utility.

- 3.35 Considering these aspects in detail, the Commission hereby provisionally approve the A&G expenses of SBU-T of KSEB Ltd as per the norms specified in the Tariff Regulations. 2018. The details are given below.

Table 3.12  
A&G expenses of SBU-T approved for the year 2018-19

Particulars	Approved for the year 2017- 18	2018-19		
		As per audited accounts	Eligible as per norms	KSERC Approval in True up as per norms
	(Rs.Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
A&G expenses	17.41	108.48	18.73	18.73

***The Commission also hereby allows KSEB Ltd to provide complete details with proper justification, if they so desire for consideration of the Commission. These details, if KSEB Ltd so desires shall be made available through a proper petition within 3 months of the date of this Order. The Commission hereby further clarify that this period of 3 months is sacrosanct and no extension for what ever reason shall be considered by the Commission beyond these 3 months.***

***As above, the Commission hereby approve the A&G expenses of SBU-T for the year 2018-19 at Rs 18.73 crore.***

**Appraisal of the R&M Expenses as per accounts with respect to the same allowable as per norms**

- 3.36 The details of the R&M expenses of SBU-T claimed for the year 2018-19 as per the audited accounts is given below.

Table 3.13  
R&M expenses of SBU-T claimed for 2018-19

S. No.	Particulars	Amount
		(Rs.Cr)
1	Plant & Machinery	27.41
2	Buildings	2.47
3	Civil Works	4.86
4	Hydraulic Works	0.07
5	Lines & Cable Networks	7.6
6	Vehicles	0.82
7	Furniture & Fixtures	0.11
8	Office Equipment	0.44
9	<b>Gross R&amp;M Expenses</b>	<b>43.66</b>
10	Less: Expenses Capitalised	
11	<b>Net R&amp;M Expenses</b>	<b>43.66</b>

3.37 As seen from the Table above, the R&M expenses of SBU-T as per the audited accounts for the year 2018-19 is Rs 43.66 crore as against Rs 79.56 crore provided for as per the norms. The R&M expenses of SBU-T approved for the year 2017-18 is Rs 74.73 crore.

3.38 The Commission is of the firm view that R&M expenses is one of the critical expense essential for maintaining the utility's assets in good working conditions till its useful life. No compromise what so ever can or shall be made by the utility on this account. Further, it is also true that the Commission in MYT Regulation 2018-22 has provided a consolidated amount as O&M expenses without delineating the three heads separately. Hence the apportionment done here is only to estimate the probable variation in figures rather than to limit it which in any case shall not stand the test of any legal challenge. Hence, ***the Commission after due and careful consideration has decided and hereby approves Rs.79.56 crore as R&M expenses of SBU-T for the year 2018-19 for the purpose of Truing up.***

Table 3.14  
R&M expenses of SBU-T approved for the year 2018-19

Particulars	Approved for the year 2017-18 (Rs.Cr)	2018-19		
		As per audited accounts (Rs. Cr)	KSERC	
			Eligible as per norms (Rs. Cr)	Approved for 2018-19 (Rs. Cr)
R&M expenses	74.73	43.66	79.56	79.56

### Provision for Pay revision

3.39 KSEB Ltd submitted that, the pay revision of the KSEB Ltd employees was due from July/ August 2018. Accordingly, on accrual basis, KSEB Ltd had provided Rs 176.00 crore as provision for pay revision. Out of this total provision of Rs176 Crores, the share of SBU-T was Rs 23.48 crore.



3.40 The Commission has examined in detail, the issue as to whether the provision created for pay revision can be allowed in the process of Truing up on accrual basis in spite of the fact that the pay revision was not implemented in the year 2018-19 and actual cash out flow did not happen during this year. This issue was discussed in detail under paragraphs 2.50 to 2.55 of this Order, which is extracted below to get a considered view of this Commission regarding pay revision and related matters.

*“ 2.50 KSEB Ltd submitted that, the pay revision of the KSEB Ltd employees was due from July/ August 2018. Accordingly, on accrual basis, KSEB Ltd had provided Rs 176.00 crore as provision for pay revision. Out of this total of Rs 176 Crores, the provision for SBU-G was Rs 8.05 crore.*

*The Commission noted that, as stated under paragraph 2.29 above, the Regulation 14(3) of the Tariff Regulations 2018 provides that, the Commission may allow the expenses related to pay revision during the control period from 2018-19 to 2021-22, for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the SBU-G, SBU-T and SBU-D of KSEB Ltd.*

*2.51 The Commission also noted that, Hon'ble APTEL vide the judgment dated 10.11.2014, in Appeal Petition No. 01 of 2013 and 19 of 2013, had issued the following observations and directions regarding the pay revision and related matters of the employees of KSEB Ltd.*

*“Paragraphs 8.4 to 8.5 of the Judgement of the Hon'ble APTEL dated 10.11.2014 in Appeal Petition No.01 of 2013 and 19 of 2013.*

*8.4 The State Commission has rightly shown concern about the high employees cost but we are not able to appreciate magnitude in the absence of a specific finding about the excess manpower and non-availability of Regulations. We feel that DA increase which is effected as per the Government orders have to be accounted for and allowed in the ARR as it compensates the employees for the inflation. **The pay revision as per the agreements reached between the management and the unions have also to be honoured. The terminal benefits have also to be provided for.***

*8.5 We find that the State Commission has taken the actual expenses trued-up for FY 2008-09 as the base. The State Commission should have at least allowed the actual basic pay and DA increase, **pay revision** and terminal benefits over the*

*actual base year expenses without accounting for increase in manpower from 2008-09 to 2012-13. The gratuity directed to be paid as per the judgments of the High court dated 10.03.2003 as the Division bench of the High Court had dismissed the Appeal filed against this judgment, and which were disallowed by the State Commission by order in Appeal no. 1 of 2013 should also be allowed.*

*2.52 KSEB Ltd submitted before the Hon. High Court in its petition WPC 465/2015 that,*

*“in case the truing up of Accounts for the year 2014-15 onwards are also considered in the light of the revised Orders passed for the year 2010-11 onwards in tune with the judgments of the APTEL, the difficulties faced by the petitioner on account of the Regulations would be addressed to some extent”.*

*2.53 The Commission also submitted before the Hon. High Court that while considering the truing up applications of the petitioner for the year 2015-16, 2016-17 and 2017-18, the Commission would take into account the judgment of APTEL and the consequential orders passed thereafter, Hon’ble High Court on 28-02-2018 issued the final judgment and disposed off the Petition No WP(C) 465/2015, without going into the broad contentions raised in the writ petition as the Regulation under challenge is a sub-ordinate legislation issued under the Section 181(2)(d) of the Electricity Act 2003. The Hon. High Court in the judgment, directed the Commission to pass order on the application of the petitioner KSEB Ltd for truing up of accounts for the years 2015-16, 2016-17, 2017-18 with due regards to the findings in APTEL Judgments in Appeal Nos. 1 and 19 of 2013 and consequential orders passed by the Commission for 2010-11 onwards, in the case of KSEB Ltd. The relevant portion of the judgment of the Hon. High Court is quoted below:*

*“In view of the submission made by learned senior counsel that the Commission would take into account Ext.P6 judgment of the APTEL while taking up the applications for truing up of accounts, I direct the 1<sup>st</sup> respondent to pass orders on the applications of the petitioner for truing up of accounts for the year 2015-16, 2016-17, and in 2017-18 with due regard to the findings in Ext.P6 judgment and the consequential orders passed by the commission for the year 2010-11 onwards in the case of petitioner.”*

*As discussed in the preceding paragraphs, and also as per the Tariff Regulations, 2018, the pay revision expenses **as per the agreements reached between the management and the unions has to be allowed.***

*2.54 As per the details submitted before the Commission, the pay revision due from July / August 2018 was implemented from the months of March 2021 only, and thus no cash flow was incurred towards pay revision in the Year 2018-19. Since KSEB Ltd is preparing the accounts on accrual basis, KSEB Ltd has created a provision of Rs 176 crore towards pay revision during the year 2018-19.*

***2.55 Since the Commission has been approving the Truing up of accounts on cash basis after appraising the prudence of the amount incurred, the Commission is not in a position to approve the provision for pay revision created on accrual basis for the year 2018-19. However, the Commission hereby clarify that, KSEB Ltd is permitted to take up the actual amount incurred for pay revision with all relevant details including the approvals of the Director Board of KSEB Ltd and the State Government at the time of truing up of the relevant years in which actual cash flow incurred towards pay revision which is due from July/August 2018 onwards.”***

- 3.41 As extracted above, the Commission has decided that, the provisions created for pay revision for the year 2018-19 cannot allowed in the Truing up due to the reasons explained therein. However, KSEB Ltd is permitted to take up the actual amount paid to employees due to pay revision with all supporting documents including the approvals of the KSEB Ltd Board of Directors and the State Government at the time of Truing up of accounts of the relevant years in which the actual outflow of funds had occurred and the arrears are credited to the employees account as prior period expenses for the respective years.**

**Total O&M expenses approved for SBU-T of KSEB Ltd.**

- 3.42 As discussed in the preceding paragraphs, the total O&M expenses approved for SBU-T in the Truing up of accounts for the year 2018-19 is detailed below.**

Table 3.15  
Total O&M expenses of SBU-T of KSEB Ltd approved for the year 2018-19

Particulars	ARR Order dated 08.07.2019	As per audited accounts*	KSEB claim in the Truing up petition	KSERC approval as per norms
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Employee cost	363.23	338.22	363.23	264.93
A&G expenses		108.48		18.73
R&M expenses		43.66		79.56
Provision for pay revision	Nil		23.48	Nil
<b>Total</b>	<b>363.23</b>	<b>490.36</b>	<b>386.71</b>	<b>363.22</b>

\* Inclusive of provision for pay revision

***As above the Commission hereby approves the O&M cost of SBU T for the year 2018-19 at Rs.363.22 crore***

**Asset additions of SBU-T of KSEB Ltd for the year 2018-19**

3.43 KSEB Ltd submitted that, as per the audited accounts, the GFA addition in SBU-T for the year 2018-19 was Rs.365.43 Cr. Out of the GFA addition of Rs.365.43 Cr; assets worth Rs.26.75 Cr represent part capitalization within the meaning of Tariff Regulations. Hence, this amount of Rs.26.75 crore is deducted from the GFA addition for the year. The decommissioning liability for the year booked is Rs.0.34 crore. Further, during the year assets worth Rs.1.78 crore and Rs.7.04 crore were commissioned and capitalised against the part capitalised projects for 2016-17 and 2017-18 respectively which is required to be added back to the GFA for 2018-19 since these projects were commissioned in 2018-19. Accordingly, KSEB Ltd has claimed Rs.347.17 crore as eligible asset addition for the year 2018-19. The details are given below.

Table 3.16  
GFA addition of SBU-T for the year 2018-19

No	Assets Group	Gross fixed assets			Adjustments for the year 2018-19				
		As on 1st April 2018	Addition	As on 31st March 2019	Part capitalized (less)	Decommissioning liability (less)	Part capitalized in 2016-17	Part capitalized in 2017-18	Addition as per Regulation
1	Land & land rights	268.75	6.76	275.51	3.39		0	0.52	3.89
2	Other Civil works	426.25	21.14	447.39	2.45		0.25	1.77	20.71
	(a) Transmission lines	1125.46	89.01	1214.47			1.25	2.85	93.11
	(b) Sub-station equipments	982.39	84.92	1067.31	5.92		0.26	1.52	80.78
	(i) Transformers	879.08	43.3	922.38					43.3
	(ii) Switchgears etc	48.16	12.37	60.53					12.37

	(iii) Batteries	24.21	1.63	25.84				1.63
	(iv) Others	160.98	18.41	179.39				18.41
	(a) Transmission lines	741.74	48.91	790.65	12.54			36.37
	(b) Sub-station equipments							0
	(i) Transformers etc	68.65	4.98	73.63				4.98
5	Communication equipment	69.39	7.64	77.03				7.64
6	Meters	12.62	0.24	12.86				0.24
7	Vehicles	6.99	0.58	7.57				0.58
8	Furniture and Fixtures	5.65	0.82	6.47				0.82
9	Office Equipments	4.31	0.44	4.75				0.44
10	IT equipments	7.59	0.95	8.54				0.95
11	Buildings	336.23	22.74	358.97	0.64	0.02	0.38	22.5
12	Any other items (Hydraulic Works)	10.2	0.26	10.46	1.8			-1.54
13	Decommissioning liability		0.34	0.34		0.34		0
14	Gross Asset (Total (1) to (14))	<b>5178.65</b>	<b>365.43</b>	<b>5544.08</b>	<b>26.74</b>	<b>0.34</b>	<b>1.78</b>	<b>347.17</b>

3.44 In these clarifications issued vide letter dated 30.07.2021, KSEB Ltd has submitted the details of the new transmission lines and capacities added during the year 2018-19, details of the part commissioned assets in 2018-19, 2017-18 and 2016-17.

3.45 KSEB Ltd has in their petition also given the details of the consumer contribution and grants received during the year 2018-19 is given below.

**Table 3.17**  
**SBU wise break up of Consumer contribution, subsidies & Grants (Rs Cr)**

Particulars	SBU G	SBU T	SBU D	Total
Consumer contribution & Grants as per petition	13.34	289.69	452.93	755.96
Less: Grants not considered as the projects not commissioned in 2018-19.		232.78		232.78
Consumer contribution & Grants considered for 2018-19	13.34	56.91	452.93	523.18

3.46 KSEB Ltd further submitted that, out of the consumer contribution of Rs 289.69 crore received for SBU-T during the year, Rs 232.78 crore pertains to grants received for the projects not commissioned in 2018-19. Hence, this amount is required to be deducted from the capital addition for the year. The details as per KSEB Ltd petition is as given below.

**Table 3.18**  
**Grants received for projects not commissioned in 2018-19**

Sl No	Project	Amount Rs Cr
1	Ernad Lines package	221.84
3	ADMS under PSDF	0.95
4	NRHTLS	9.99
5	Total	232.78

3.47 Accordingly, KSEB Ltd has requested to approve the GFA addition for different purposes as follows.

Table 3.19  
GFA addition claimed for normative loan and depreciation for the year 2018-19

Sl No	Particulars	Amount (Rs.Cr)
1	GFA addition	347.17
2	Consumer contribution and grants	56.91
3	GFA addition eligible for normative loan = (1)-(2)	290.26
4	Land value	3.89
5	GFA addition eligible for depreciation = (3)-(4)	286.37

Analysis and Decision of the Commission regarding the GFA addition of SBU-T

3.48 The Commission has examined the details furnished by KSEB Ltd on asset addition for SBU-T. As per the revised details furnished by KSEB Ltd vide letter dated 30.07.2021, the GFA addition for SBU-T is Rs.347.17 crore, after deducting the part capitalisation (Rs.26.75 crore), decommissioning liability (Rs.0.34 crore) and after including Rs.8.82 Crore of part-capitalised assets which were removed in the previous years, but has since achieved CoD in 2018-19.

3.49 The Commission also noted that, KSEB Ltd has received the grants and contributions amounting to Rs.289.69 crore. KSEB Ltd in the petition has made a significant adjustment in the assets addition eligible for the year by deducting the grants amounting to Rs.232.78 crore received and taken in the books, but the assets were not commissioned during the year. The Commission has examined the adjustments made by KSEB Ltd and found the accounting treatment to conform to the Commission's consistent policy. Accordingly, net grants of Rs.56.16 crore only is accounted against the assets capitalized, compared to the grants of Rs.289.69 crore received during the year.

- 3.50 **Accordingly, the breakup details of the GFA addition of SBU-T approved for the year 2018-19 is given below.**

**Table 3.20  
GFA addition approved for the Year 2018-19 of SBU-T**

Sl.No	Particulars	(Rs.Cr)
1	Addition as per Truing up petition	365.43
2	Less: Decommissioning liability	0.34
3	Less: Part capitalization	26.74
4	Add: Part capitalization in 2016-17 but commissioned during 2018-19	1.78
5	Add: Part capitalization in 2017-18 but commissioned during 2018-19	7.04
6	<b>GFA addition eligible as per Regulation</b>	<b>347.17</b>
7	<b>Less : Consumer contribution and grants</b>	<b>56.91</b>
8	<b>Net Asset addition (for Normative loan)</b>	<b>290.26</b>
9	Less: Land value addition excluding the portion under part capitalization	3.89
10	<b>GFA addition eligible for depreciation as per petition</b>	<b>286.37</b>

- 3.51 **As seen from the Table above the asset addition for the year 2018-19 for SBU-T is Rs.347.17 crore. After deducting the grants and contribution amounting to Rs.56.91 crore, the net asset addition for SBU-T eligible for claiming normative loan for 2018-19 is Rs.290.26 crore. After deducting the land value amounts to Rs 3.89 crore of the newly added but not achieved CoD assets, the GFA addition eligible for depreciation is Rs 286.37 crore.**

- 3.52 **Summary of the GFA of SBU-T as on 31.03.2019**

As per the order of the Commission dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts for the year 2017-18, the GFA of SBU-T approved as on 31.03.2018 is Rs 5017.38 crore. The GFA addition approved for the year 2018-19 as per Table 3.20 above is Rs.347.17 crore. Thus the closing balance of GFA of SBU-T as on 31.03.2019 is Rs 5364.55 crore crore. The details are given in the Table below.

**Table 3.21  
Summary of GFA of SBU-T as on 31.03.2019**

Sl No	Particulars	Amount (Rs. Cr)
1	Opening level of GFA approved as on 01.04.2018 (Table 38 of the Order dated 25.06.2021 in OA No. 09/2020 (True up 2017-18)	5017.38
2	Asset addition approved for 2018-19	347.17
3	Closing balance of GFA as on 31.03.2019	5364.55

## Depreciation claimed and approved for SBU-T of KSEB Ltd

- 3.53 KSEB Ltd in their letter dated 30.07.2021 submitted that, the depreciation as per the audited accounts is Rs 805.03 crore at the rates specified in the Tariff Regulations, 2018. From this amount, claw back depreciation was determined at Rs 158.25 crore and credited to other income under Note 25(b) of the Annual accounts. The share of depreciation of SBU-T as per the audited accounts is Rs 239.31 crore. Since depreciation is claimed as per Regulations after deducting applicable claw back, KSEB Ltd requested that the income accounted under note 25(b) towards claw back as per accounts may not be considered in True up.
- 3.54 The Commission vide the MYT Order dated 08.07.2019 had provisionally approved the normative depreciation for the year 2018-19 at Rs 146.41 crore as per the provisions of the Tariff Regulations 2018. As against this, KSEB Ltd computed the depreciation allowable as per the Tariff Regulations 2018 for the purpose of Truing up at Rs 158.88 crore.
- 3.55 The summary of the depreciation claimed by KSEB Ltd for SBU-T for the year 2018-19 is given below.

Table 3.22  
Depreciation sought by KSEB Ltd for SBU-T for 2018-19

No	Particulars	Approved in MYT Order Rs. crore	Actual as per accounts Rs. crore	True-up requirement As per petition Rs. crore
1	Depreciation	146.41	239.31	158.88

- 3.56 KSEB Ltd further submitted that, the depreciation in the Truing up petition 2018-19 is arrived as per the methodology specified in the Tariff Regulations, 2018, where in the depreciation rates as well as methodology for computing depreciation on normative basis was specified in detail. Accordingly, allowable depreciation for the year 2018-19 as per the Truing-up petition is worked out in the following lines:
- GFA (net of consumer contribution grants and subsidy) as on 31.03.2016 determined by the Hon'ble Commission in the MYT Order dated 08.07.2019 (Rs.10,611 88 Cr) has been considered as GFA eligible for depreciation as per Regulations on that date.
  - GFA addition net of contribution etc for the year 2016-17 and 2017-18 has been considered as per the claims made in this regard in the submission/ TU petition for the respective years.
  - Rate of depreciation as specified by the Hon'ble Commission in the MYT Order has been adopted for working out depreciation. Paragraph 3.65 of the order is extracted below for ready reference.

*Based on the mix of assets, for the first 12 years the average rate of depreciation will be 5.14%. Since the weighted average life of the assets*



is 31 years, the balance 27% of the value of assets (90%-63%) is to be depreciated in balance 19 years (31-12 years) of the useful life. Hence the average rate of depreciation for assets more than 12 years old will be 27%/19 ie., 1.4% per year on a straight-line basis.

- (iv) Function wise capital contribution and grants till 31.03.2018 has been reduced from GFA value so that depreciation is claimed only on eligible GFA as per Regulations. Gross Consumer Contribution and grants till 31.03.2018 as per accounts amounted to Rs.2170.39 Cr and after excluding concessional loans and decommissioning liability, the actual amount is Rs.2078.85 Cr {2170.39- (70.97+20.56)}.

3.57 Based on the above, KSEB Ltd has claimed the normative depreciation for the year 2018-19 for its SBUs was arrived as follows

**Table 3.23**  
**KSEB Ltd claim of depreciation for the year 2018-19 as per Tariff Regulations, 2018 (Rs Cr)**

Sl No	Particulars	SBU-G	SBU-T	SBU-D	Total
1	GFA (net of contribution) 31.03.2016 as per MYT Order	4,454.06	4,374.89	1,782.93	10,611.88
2	GFA addition 2016-17-As per Regulations	298.75	324.9	939.94	1563.59
3	Consumer contribution, Grants and Subsidies received during 2016-17-Actuals as per accounts	0	79.12	567.82	646.94
4	IND AS addition considered in TU Order 2015-16 (included in 1 above)	13.32	81.26	188.15	282.73
5	GFA Addition 2016-17 eligible for depreciation {2-(3+4)}	285.43	164.52	183.97	633.92
6	GFA as on 31.03.2017 net of contribution (1+5)	4,739.49	4,539.41	1,966.90	11,245.80
7	GFA addition 2017-18 as per TU petition	117.66	384.37	699.45	1201.48
8	Consumer contribution, Grants and Subsidies received during 2017-18	75.31	103.99	394.15	573.45
9	Net GFA addition for 2017-18 (7-8)	42.35	280.38	305.3	628.03
10	GFA as on 31.03.2018 net of contribution (6+9)	4,781.84	4,819.79	2,272.20	11,873.83
11	Assets more than 12 yrs old- GFA as on 01.04.2006 as per Accounts	2923.03	2399.22	2389.37	7711.62
12	Contribution & grants as on 01.04.2006 as per accounts			1678.96	1678.96
13	GFA as on 31.03.2006 net of contribution	2923.03	2399.22	710.41	6032.66
14	Land value @ 2.80% on 11 above	81.84	67.18	19.89	168.91
15	Net GFA eligible for depreciation (more than 12 years old) (13-14)	2841.19	2332.04	690.52	5863.75
16	GFA with <12 years old (10-15)	1,940.65	2,487.75	1,581.68	6,010.08
17	Land value @ 2.80% on 16 above	54.34	69.66	44.29	168.28
18	GFA < 12 years old excluding land value (16-17)	1,886.32	2,418.09	1,537.39	5,841.80
19	Dep on assets > 12 years old (15 @ 1.40%)	39.78	32.65	9.67	82.09
20	Dep on assets < 12 years old (18 @ 5.14 %)	96.96	124.29	79.02	300.27
21	Depreciation on GFA till 31.03.2018 (19+20)	136.73	156.94	88.69	382.36
22	Depreciation on GFA addition in 2018-19 as per Table 5.7	0.86	1.95	19.30	22.11
<b>23</b>	<b>Depreciation for 2018-19 (21+22)</b>	<b>137.60</b>	<b>158.88</b>	<b>107.98</b>	<b>404.47</b>

3.58 In the meantime, the Commission vide Order dated 25.06.2021 in OA No. 09/2021 had approved the Truing up of accounts for the year 2017-18, where in the Commission has specified the methodology for computing the

depreciation on normative basis in the process of truing up. Based on the methodology approved by the Commission vide the order on Truing up of accounts for the year 2017-18, KSEB Ltd vide the additional submission dated 30.07.2021 had computed the depreciation on normative basis for the year 2018-19 as detailed below.

**Table 3.24**  
**KSEB Ltd- Revised claim of Depreciation for 2018-19 (Rs Cr)**

	Particulars	SBU-G	SBU-T	SBU-D	KSEBL
1	Opening GFA as on 1-4-2017 (As per TU Order 2017-18 (OA 9/2020 Dt 25.06.2021)	4658.32	4628.56	7530.50	16817.38
2	Total asset addition approved As per Order dt 25.06.2021 for 2017-18	71.42	388.82	699.45	1159.69
3=(1+2)	Approved GFA as on 31.03.2018	4729.74	5017.38	8229.95	17977.07
4	Add: Relief sought as per RP 1/2021-Pending disposal	23.33	11.36	0.00	34.69
5=(3+4)	GFA as on 31.03.2018 considered for depreciation	4753.07	5028.74	8229.95	18011.76
6	Assets >12 years old (GFA as on 1-4-2006)	2923.03	2399.22	2389.37	7711.62
7	Fully depreciated Assets (assets up to 1-4-1988)	192.79	90.88	264.93	548.60
8=(6-7)	Assets having life 12-30 yrs	2730.24	2308.34	2124.44	7163.02
9=(8*2.80%)	Value of land (Average 2.8% of GFA)	76.45	64.63	59.48	200.56
10	Grants and contributions (upto 1-4-2006)			1678.96	1678.96
11=(8-9-10)	<b>Assets having life 12-30 yrs eligible for depreciation</b>	<b>2653.79</b>	<b>2243.71</b>	<b>386.00</b>	<b>5283.50</b>
12=(11*1.42%)	<b>Depreciation for Assets 12-30 years (@1.42%)</b>	<b>37.68</b>	<b>31.86</b>	<b>5.48</b>	<b>75.03</b>
13=(5-6)	Assets < 12 years old (1-4-2006 to 31-3-2018)	1830.04	2629.52	5840.58	10300.14
14=(13*2.80%)	Value of land (Average 2.8% of GFA)	51.24	73.63	163.54	288.40
15	Grants and contributions (1-4-2006 to 31-3-2018)	101.47	199.94	4267.86	4569.27
16=(13-14-15)	Opening balance of Assets < 12 years old	1677.33	2355.95	1409.18	5442.47
17	Asset addition for 2018-19 as per this submission	46.09	347.16	1202.50	1595.75
18	Grants and Contributions for 2018-19	13.34	56.91	452.93	523.18
19	Value of land	0.46	3.89	0.24	4.59
20=(16+17-18-19)	Closing balance of Assets <12 years Old (1-4-2006 to 31-3-2019)	1709.62	2642.31	2158.51	6510.45
21=(16+20)/2	Average Value of Assets <12 Years old	1693.47	2499.13	1783.85	5976.46
22=(21*5.14%)	<b>Depreciation for assets &lt;12 years (@5.14%)</b>	<b>87.04</b>	<b>128.46</b>	<b>91.69</b>	<b>307.19</b>
23=(12+22)	Total Depreciation for assets for 2018-19	<b>124.73</b>	<b>160.32</b>	<b>97.17</b>	<b>382.22</b>

3.59 KSEB Ltd requested to approve the depreciation amounting to Rs 382.22 crore as above and its share of SBU-T is Rs 160.32 crore.

### Comments of the stakeholders

3.60 HT&EHT Association requested before the Commission to allow depreciation strictly as per the provision of the Regulations. The Association computed the depreciation at Rs 366.36 crore for the year 2018-19, out of which the share of SBU-T is arrived at Rs 153.46 crore. The Association requested to approve the depreciation for SBU-T at Rs 153.46 crore as estimated by the Association

### Provisions in the Regulations

3.61 Regulations 27 of the Tariff Regulations, 2018 provides the depreciation for the purposes of Tariff determination. The relevant Regulations is extracted below.

*“27. Depreciation. – (1) The value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission:*

*Provided that no depreciation shall be allowed on increase in the value of assets on account of revaluation of assets,*

*Provided further that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.*

*(2) The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner:-*

*(a) depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation;*

*(b) the remaining depreciable value as on the Thirty First day of March of the financial year ending after a period of twelve financial years from the date of commercial operation shall be spread over the balance useful life of the assets as specified in Annexure- I;*

*(c) the generating business/company or transmission business / licensee or distribution business/licensee, shall submit all such details and documentary evidence, as may be required under these Regulations and as may be required by the Commission from time to time, to substantiate the above claims;*

*(d) the salvage value of the asset shall be ten per cent of the allowable capital cost as approved by the Commission excluding cost of assets created out of contributions and grants and depreciation shall be a maximum of ninety per cent of such approved capital cost of the asset.*

*(3) In the case of existing assets, the balance depreciable value as on the First day of April, 2018, shall be worked out by deducting the cumulative depreciation approved by the Commission upto the Thirty First day of March, 2018, from the gross depreciable value of the assets.*

*(4) Depreciation shall be chargeable from the first financial year of commercial operation: Provided that in the case of commercial operation of the asset for part of the financial year, depreciation shall be charged on pro-rata basis:*

*Provided further that depreciation shall be re-calculated for assets capitalised during the financial year at the time of truing up, based on documentary evidence for capitalisation of assets submitted by the applicant, subject to the prudence check of the Commission, in such a way that the depreciation is calculated proportionately from the date of capitalisation.*

*(5) In case a single tariff needs to be determined for all the units of the generating station, the depreciation shall be computed from the effective date of commercial operation of each of the unit taking into consideration the depreciation of individual generating units thereof.”*

## Analysis and Decision of the Commission

3.62 The Commission has examined in detail the depreciation claimed by KSEB Ltd in their Truing up petition for the year 2018-19. The Commission has been approving the depreciation strictly as per the provisions of the Tariff Regulations, 2018. The Commission has been following the consistent stand that, the assets created out of consumer contribution and grants shall not qualify for depreciation. The Tariff Regulations, 2018 provides the methodology and rates for determining the depreciation for Tariff determination.

3.63 The Commission vide Order dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts for the financial year 2017-18 has approved the GFA as on 31.03.2018 as Rs17,977.07 crore, wherein the GFA of SBU-T is approved as Rs 5017.38 crore (Table 38 under paragraph 2.127(d) of the said order). The details are given below.

**Table 3.25**  
**Summary of approved Asset addition in 2017-18 and GFA vide Order dated 25.06.2021 in petition OA No.09 of 2020**

	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
Opening level of Approved GFA (as on 01-04-2017)	4,658.32	4,628.56	7,530.50	16,817.38
Asset Additions approved in 2017-18	71.42	388.82	699.45	1,159.69
<b>Closing balance of GFA (as on 31-03-2018)</b>	<b>4,729.74</b>	<b>5,017.38</b>	<b>8,229.95</b>	<b>17,977.07</b>

3.64 The summary of the asset addition of SBU-T approved by the Commission for the year 2018-19 as given in Table 3.20 is Rs 347.17 crore. Further as per the Table 3.21, the GFA of SBU – T as on 31.03.2019 is Rs.5364.55 crore.

3.65 As per the provisions of the Tariff Regulations, 2018, land is a non-depreciable asset. Based on the past practice and to ensure consistency in accounting policy, the value of land is taken as 2.80% of the total GFA of KSEB Ltd. The average rate of depreciation of assets having life less than 12 year is arrived @5.14% and the average depreciation rate of assets having life more than 12 years and upto 30 years is taken as 1.42%. All assets aged more than 30 years old is taken as fully depreciated assets and no further depreciation is provided.

3.66 Based on the above, and adopting the same methodology as for the year 2017-18, for approving depreciation, the depreciation of SBU-T of KSEB Ltd for the year 2018-19 is arrived at as below.

Table 3.26  
Depreciation approved for SBU-T for the year 2018-19

Sl No	Particulars	Amount (Rs. Cr)
1	GFA approved as on 01.04.2018	5017.38
2	Consumer contribution & grants as on 01.04.2018	199.94
3	Value of land (2.8% of the GFA)	134.89
4	Depreciable Assets	4682.55
5	Depreciation of asset as on 01.04.2018	152.39
6	Depreciation for assets added during the year 2018-19	7.36
<b>7</b>	<b>Total depreciation of SBU-T allowable for the year 2018-19</b>	<b>159.75</b>

3.67 ***As above, the Commission approves the depreciation of Rs 159.75 crore for the SBU-T for the purpose of truing up for the year 2018-19 as against the claim of Rs.160.32 crore claimed in the revised submission by KSEB Ltd.***

#### **Interest and financing charges of SBU-T for the year 2018-19**

3.68 KSEB Ltd has claimed Rs.202.26 crore towards the interest and finance charges of SBU-T as against Rs.251.18 crore approved vide the MYT Order dated 08.07.2019 in Petition OA No. 15/2018. Interest charges include interest on secured loans, master trust interest, interest on working capital, interest on PF balance etc., in the case of SBU-T. The claim of KSEB Ltd on interest and financing charges for the year 2018-19 is given below:

Table 3.27  
Interest and financing charges claimed for 2018-19 as per petition

No	Particulars	Approved in MYT ARR Rs. crore	As per Accounts Rs. crore	As per True-up petition Rs. crore
1	Interest on Outstanding Capital Liabilities	127.28	96.32	90.89
2	Interest on GPF	20.67	16.57	16.57
3	Interest on Master Trust Bonds	87.56	79.04	79.04
4	Interest on Working capital	15.67	15.22	15.76
<b>5</b>	<b>Total</b>	<b>251.18</b>	<b>207.64</b>	<b>202.26</b>

3.69 The Commission has carefully considered each item of the interest and financing charges for SBU-T for the year 2018-19 as discussed in the subsequent paragraphs.

#### **Interest on long term loans on normative basis**

3.70 KSEB Ltd stated that in the MYT Order, the Commission has considered a loan amount of Rs.1192.98 crore for SBU-T as on 01-04-2018 after considering provisional asset addition for the years 2016-17 and 2017-18 and contributions and grants. The average interest rate was approved at 9.25%. Further, provisional approval of Rs.511.60 Crore was granted for the asset addition during 2018-19.

3.71 The summary of the loan, interest and average rate of interest for the year 2018-19 availed for all the SBUs of KSEB Ltd is given below.

**Table 3.28**  
**Summary of the loans and interest rate of KSEBL**  
**( as per petition) (Rs. Cr)**

SBU	Opening (01/04/18)	Add: additions during the Year	Less: Repayments during the year	Closing (31/03/19)	Interest on loan	Average loan	Average interest rate (%)
SBU G	1468.47	319.88	812.88	975.47	101.98	1221.97	8.35
SBU T	1406.58	496.27	666.11	1236.73	119.67	1321.66	9.05
SBU D	3604.3	905.09	1143	3366.39	348.47	3485.34	10.00
<b>Total</b>	<b>6479.35</b>	<b>1721.24</b>	<b>2621.99</b>	<b>5578.59</b>	<b>570.12</b>	<b>6028.97</b>	<b>9.46</b>

3.72 KSEB Ltd further submitted that, Regulation 26 of the Tariff Regulations specifies the approval of the loan interest on normative basis. While issuing MYT Order dated 08.07.2019, the Commission had approved the opening level of normative loan SBU-T as on 01.04.2018 as Rs.1192.98 crore. The normative loan and interest there on approved by the Commission vide the MYT Order dated 08.07.2019 is extracted below.

Table : 3.29  
 Normative loan and interest charges of SBU-T approved for the MYT period 2018-19 to 2021-22

SBU-T	2018-19	2019-20	2020-21	2021-22
	Rs. crore	Rs. crore	Rs. crore	Rs. crore
Opening level of Normative loan (as of 1st April)	1,192.98	1,558.17	2,441.81	3,257.06
Provisional Asset Additions for the year	511.60	1,082.11	1,427.76	615.21
Contributions and Grants for the year	-	25.00	389.58	100.00
Net Addition to normative loan for the year	511.60	1,057.11	1,038.18	515.21
Repayment for the year (Depreciation)	146.41	173.47	222.92	261.09
Closing provisional Normative loan (as on 31st March)	1,558.17	2,441.81	3,257.06	3,511.18
Average loan	1,375.57	1,999.99	2,849.43	3,384.12
Rate of interest	9.25%	9.25%	9.25%	9.25%
Interest Charges	127.28	185.05	263.65	313.12

3.73 Based on the provisions of the Tariff Regulations, 2018, and also as per the methodology followed by KSEB Ltd in the MYT Order dated 08.07.2019, the normative interest on loan till 31.03.2019 for the existing assets as on 01-04-2018 arrived by KSEB Ltd is given below.

**Table 3.30**  
**KSEBL computation of normative interest for loan till 31.03.2019 (Rs Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	Normative loan as on 01.04.2017 as per TU Order	564.38	547.59	839.54	1951.51
2	KSEBL claim before Hon'ble APTEL	135.23	131.21	201.16	467.60
3	Additional normative loan for 2016-17- As per additional submission	291.21	241.44	367.26	899.91
4=(1+2+3)	Normative loan as on 01.04.2017	990.82	920.24	1407.96	3319.02
5	Normative loan 2017-18 as per TU Petition	42.35	280.38	305.30	628.03

6=(4+5)	Gross normative loan as on 31.03.2018	1033.17	1200.62	1713.26	3947.05
7	Less: Normative repayment as per TU 2017-18	143.48	156.36	236.78	536.62
8=(6-7)	Normative loan as on 31.03.2018	889.69	1044.26	1476.48	3410.43
9	Depreciation on opening GFA for 2018-19	136.73	156.94	88.69	382.36
10=(8-9)	Net Normative loan as on 31.03.2019	752.96	887.32	1387.79	3028.07
11=(8+10)/2	Average loan (without considering addition during 2018-19)	821.32	965.79	1432.14	3219.25
12	<b>Interest on above A</b>	<b>68.50</b>	<b>87.50</b>	<b>143.21</b>	<b>299.21</b>

3.74 Normative interest on GFA added during the year 2018-19 is given below.

**Table 3.31**  
**KSEBL computation of normative loan for the GFA addition during 2018-19 (Rs. Cr)**

SI No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	GFA addition for 2018-19 as per accounts	103.66	365.43	1203.72	1672.80
2	Less: Perumthenaruvi project-capitalized in 2017-18	56.71			56.71
3	Less: Consumer contribution, Grants and Subsidies received during the year	13.34	289.69	452.93	755.96
4	Equity infusion during the year	0.00	0.00	0.00	0.00
5=(1-2-3-4)	Additional normative loan for 2018-19	<b>33.61</b>	<b>75.74</b>	<b>750.79</b>	860.14
6	Less: Normative repayment for 2018-19 (Depreciation on assets added in 2018-19 at half the normal rate (@ 5.14%/2=2.57%)	<b>0.86</b>	<b>1.95</b>	<b>19.30</b>	<b>22.11</b>
7=(5-6)	Net additional normative loan	<b>32.74</b>	<b>73.79</b>	<b>731.50</b>	838.03
8 ={(5+7)/2}	Average additional normative loan	<b>33.17</b>	<b>74.76</b>	<b>741.15</b>	849.08
9	Average rate of Interest % (Actual)	8.35	9.05	10.00	
10 =(8*9%)	Normative interest on GFA addition for 2018-19	<b>1.38</b>	<b>3.39</b>	<b>37.06</b>	<b>41.83</b>

3.75 The total normative interest for the normative loan for the year 2018-19 and normative loan balance as on 31.03.2019 as per the claim of KSEB Ltd is given below.

**Table 3.32**  
**KSEBL claim of normative interest on loan for 2018-19 (Rs Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	Normative interest on loan till 01.04.2018	68.50	87.50	143.21	299.21
2	Normative interest on loan during 2018-19	1.38	3.39	37.06	37.63
3	<b>Total</b>	<b>69.88</b>	<b>90.89</b>	<b>180.27</b>	<b>341.04</b>
4	Normative loan balance on assets added till 31.03.2018	752.96	887.32	1387.79	3028.07
5	Normative loan balance on assets added during 2018-19	32.74	73.79	731.50	838.03
6	Normative loan as on 31.03.2019	785.70	961.11	2119.29	3866.10

3.76 As detailed above, the normative interest on loans claimed by KSEB Ltd for the year 2018-19 is Rs 90.89 crore for SBU-T as detailed in Table 3.32 above.

3.77 Subsequently, KSEB Ltd vide the letter dated 30.07.2021 had revised the computation of normative interest for the year 2018-19 as below.

**Table 3.33**  
**Computation of normative interest for 2018-19**

	Particulars	SBU-G	SBU-T	SBU-D	Total
1	Normative loan as on 01.04.2018 as per TU Order	627.78	917.23	1439.64	2984.67
2	Add: KSEBL claim before Hon'ble APTEL	135.23	131.21	201.16	467.60
3=(1+2)	Opening normative loan considered in this submission	763.01	1048.44	1640.80	3452.27
4	Add: Additional normative loan during 2018-19	90.52	290.26	749.57	1130.35
5=(3+4)	Total normative loan	853.53	1338.70	2390.37	4582.62
6	Normative depreciation	124.73	160.32	97.17	382.22
7=(5-6)	Closing normative loan	728.80	1178.38	2293.20	4200.40
8=(3+7)/2	Average normative loan	791.17	1258.54	2341.78	4391.51
9	Average interest rate %	8.34	9.06	10.00	
10=8*9%	<b>Normative interest</b>	<b>65.98</b>	<b>114.02</b>	<b>234.18</b>	<b>414.19</b>

### Objection of stakeholders

3.78 The HT -EHT Association in their counter has stated that Rs. 84.44 crore only is to be allowed as interest charges for the loans as against Rs. 90.89 crore proposed by KSEB Ltd, which is since revised to Rs 114.02 Crore.

### Provisions in the Regulation

3.79 Regarding approval of the interest charges, following Regulations provide the detailed procedure for the approval of interest and financing charges.

Regulation 26 of the Tariff Regulations specifies the normative debt-equity ratio and procedure for the approval of the interest on normative loan. The relevant Regulations is extracted 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.

(4) If any fixed asset is capitalised on account of capital expenditure incurred prior to the First day of April, 2018, the debt-equity ratio allowed by the Commission for determination of tariff for the period ending the Thirty First day of March, 2018 shall be considered.

(5) The equity invested in foreign currency if any shall be designated in equivalent Indian rupees at the exchange rate specified by Reserve Bank of India as on the date of each such investment.

(6) In the case of retirement or replacement of assets, the equity capital approved as mentioned above, shall be reduced to the extent of thirty percent or actual equity component based on documentary evidence, if it is lower than thirty percent of the original cost of the retired or replaced asset.

(7) (a) Swapping of foreign currency loans shall be permitted provided it does not have the effect of increasing the tariff;

(b) Cost of swapping and interest expenses thereon, shall be allowed by the Commission only after prudence check;

(c) The generating business/company or transmission business/licensee or distribution business/licensee shall provide full particulars of the swapped loans.

(8) (a) Restructuring of capital in terms of relative share of equity and loan shall be permitted during the life of the project provided it does not have the effect of increasing the tariff.

(b) Any benefit from such restructuring shall be shared in the ratio 1:1 among,-

(i) the generating business/company and the persons sharing the capacity charge; or

(ii) transmission business/licensee and long-term intra-State open access customers including distribution business/licensee; or

(iii) distribution business/licensee and consumers.”

3.80 Regulation 29 of the Tariff Regulation 2018, specifies the procedures for the approval of the interest and finance charges. The relevant Regulation is extracted below.

“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.

(b) The interest and finance charges on capital works in progress shall be excluded from such consideration and not be considered in the ARR and trueing up processes.

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

*(2) The normative loan outstanding as on the First day of April, 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.*

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

*(4) The rate of interest allowed shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each financial year applicable to the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre:*

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

*Provided further that if the regulated business of the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre does not have actual loan, but normative loan is outstanding, then interest shall be allowed at the base rate.*

*(5) The interest on loan shall be calculated average loan as per the norms approved by the Commission for the financial year by applying the weighted average rate of interest.*

*(6) The generating business/company or the transmission business/licensee or the distribution business/licensee or the State Load Despatch Centre, as the case may be, shall make every effort to re-finance the loan as long as it results in net savings on interest and in that event the costs associated with such re-financing shall be borne by the beneficiaries and any benefit from such refinancing shall be shared in the ratio 1:1 among,-*

- (i) the generating business/company and the persons sharing the capacity charge; or*
- (ii) transmission business/licensee and long-term intra-State open access customers including distribution business/licensee; or*
- (iii) distribution business/licensee and consumers.*

*(7) The changes to the terms and conditions of the loans during the financial year, if any, shall be effective from the date of coming into force of such changes.*

*(8) Interest shall be allowed on the amount held as security deposit in cash from users of the transmission system or distribution system and consumers at the bank rate as on the First day of April of the financial year in respect of in which the petition is filed:*

*Provided that interest on security deposit actually paid to the users of the transmission system or distribution system and to the consumers during the financial year, shall only be considered at the time of truing up for the financial year.”*

- 3.81 As per the provisions of the Regulations, while allowing interest on loans, interest charges for capital works in progress is not allowable. Further, the Regulation provides that funds received in the form of grants and contributions to be deducted from the fund requirements.

### **Analysis and decision of the Commission**

- 3.82 The Commission has examined in detail the interest on loans on normative basis as per the provisions of the Tariff Regulations, 2018, the objections raised by the HT&EHT Association and other stake holders. The decision of the Commission is detailed in the subsequent paragraphs.
- 3.83 The Commission has been approving the interest on loan to the licensee on normative basis, strictly as per the provisions of the Tariff Regulations, 2018, duly considering the equity, assets created out of consumer contribution and factors and other relevant factors, and its details are given below.
- 3.84 The Commission vide Order dated 25.06.2021 in OA No.09/2020 had approved the Truing up of accounts for the year 2017-18. As per the paragraph 2.179 (Table-56) of the said Order, the normative loan of SBU-T as on 01.04.2018 is Rs 917.23 crore. The relevant paragraph is extracted below.

Table 3.34  
Normative loan approved for 2017-18

Normative loan Summary	SBU-G	SBU-T	SBU-D	KSEB Ltd
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
<b>Normative loan as on 1-4-2015</b>	789.34	628.83	857.99	2,276.17
Add Asset additions approved 2015-16	34.79	212.24	491.41	738.44
Less Grants & contributions	13.11	12.93	332.31	358.35
Less Depreciation-2015-16	122.05	132.84	79.98	334.86
<b>Net Normative loan as on 1-4-2016</b>	688.97	695.30	937.11	2,321.40
Add Asset Additions approved 2016-17	217.47	319.1	923.3	1459.87
Less Grants & contributions	13.05	79.12	554.77	646.94
Less Depreciation 2016-17	129.11	151.14	102.18	382.43
<b>Normative loan as on 1-4-2017</b>	764.28	784.14	1,203.46	2,751.90
Add Asset Additions approved 2017-18	71.42	388.82	699.45	1,159.69
Less Grants & contributions	75.31	103.99	394.15	573.45
Less Depreciation 2017-18	132.61	151.74	69.12	353.47
Closing normative loan as on 31-3-2018	627.78	917.23	1,439.64	2,984.67

- 3.85 As per the SBU wise details of the loans as on 31.03.2019 in Table 3.28 above, the average interest on loan of SBU-T for the year 2018-19 is 9.05%.

The Commission has noted that KSEB Ltd vide their letter dated 30.07.2021 had revised this normative interest to Rs 114.02 Crore. The Commission has

also noted that KSEB Ltd in their claims has included their claim before Hon. APTEL. Since this matter is sub-judice, the Commission cannot at this stage consider this claim and hence has not included it in the calculations at present.

- 3.86 Based on the above, the interest charges on normative loan approved for SBU-T for the FY 2018-19 is Rs 88.91 crore as detailed in the table below.

Table 3.35  
Interest charges for normative loan of SBU-T for the year 2018-19 (Rs. Cr)

Sl. No	Description	SBU T	Remarks
1	Opening normative loan as on 01.04.2018	917.23	True up Order 2017-18
2	Normative GFA addition 2018-19 qualify for loan	290.26	Table 3.20 above
3	Less Depreciation 2018-19	159.75	Table 3.26 above
4= (1+2-3)	Closing normative loan as on 01.04.2019	1047.74	
5= (1+4)/2	Average Normative loan for the year 2018-19	982.49	
6	Weighted average interest rate for 2018-19(%)	9.05	Table 3.28 above
7=6*5	<b>Normative interest for 2018-19</b>	<b>88.91</b>	

- 3.87 ***As above, the normative interest charges approved for SBU-T of KSEB Ltd for the year 2018-19 is Rs 88.91 crore.***

### Interest on working capital

- 3.88 KSEB Ltd submitted that, as per the Regulation 32(2) of the Tariff Regulations 2018, interest on working capital for SBU-T is allowed on normative basis at a rate equal to two per cent higher than the base rate as on the first day of the financial year in which petition is filed. The Commission vide the MYT Order dated 08.07.2019 has approved the Interest on Working capital at a rate of 10.15% on the working capital of Rs.154.42 Crore and approved the interest on working capital at Rs.15.67 Crore in MYT Order dated 08-07-2019. However, in the Truing up petition, KSEB Ltd has claimed Rs 15.76 crore towards the interest on working capital of SBU-T for the year 2018-19. The details are given below.

Table 3.36  
Interest on working capital claimed by KSEB Ltd

	Approved	Actual	True up requirement
O&M Expenses	363.23		386.71
GFA Plants and Equipment	5,126.26		<b>5178.65</b>
Transmission charges	874.60		
O&M Expenses for one month	30.27		32.23
1% of Historical cost of plants & Equipment	51.26		51.79
Receivables (Transmission charges for one month)	72.88		71.30
Total requirement of working capital	154.42		155.32
Rate of interest	10.15%		10.15%
<b>Interest on Working Capital</b>	<b>15.67</b>	<b>15.22</b>	<b>15.76</b>

### Provisions in the Regulations

3.89 Regulation 32(1)(d) of the Tariff Regulations, 2018 provides for computation of working capital requirements of the Transmission business/ licensee. The relevant Regulations is extracted below.

*“32(2)(d) In the case of transmission business/licensee the working capital shall comprise of,-*

- (i) operation and maintenance expenses for one month; plus*
- (ii) cost of maintenance spares at one per cent of the historical cost of plant and equipment; plus*
- (iii) receivables equivalent to transmission charges for one month calculated at target availability:*

*Provided that the amount, if any, held as security deposits except the security deposits held in the form of bank guarantee from users of the transmission system shall be reduced while computing the working capital requirement.”*

### Comments of stakeholders

3.90 HT&EHT Association submitted that, KSEB Ltd is a cash rich entity with negative working capital requirements. Hence no interest on working capital needs to be allowed to the SBU-T of KSEB Ltd.

### Analysis and decision of the Commission

3.91 As per the Regulation 32 of the Tariff Regulations, 2018, interest on working capital is allowed on a normative basis for each business separately. The Commission has carefully examined the details furnished by KSEB Ltd.

3.92 As per Regulation 32(1)(d) of the Tariff Regulations, 2018, the working capital requirement of KSEB Ltd includes the following.

- (1) O&M cost for one month; plus
- (2) Cost of maintenance of spares at 1% of the historical cost of the plants and equipment; plus
- (3) Receivables equivalent to transmission charges for one month.

3.93 Based on the above, the interest on working capital is estimated as follows:

Table 3.37  
Estimation of interest on working capital for SBU-T

Sl No	Particulars	Amount (Rs. Cr)
1	O&M cost of SBU-T for the year 2018-19	363.23
2	O&M cost of SBU-T for one month = (1)/12	30.27
3	Gross Fixed Asset (historical cost only) as on 31.03.2018	5017.38
4	Cost of maintenance of spares (1% of the historical cost)	50.17
5	Receivables of SBU T (ARR of SBU T)	867.49

6	One Month Receivable	72.29
7	Total working capital eligible as per Regulation = (2)+(4)+(6)	152.73
8	Base rate as on 01.04.2018	8.15%
9	Interest rate on working capital = Base rate+2%	10.15%
10	Interest on working capital = (7)x (9)	15.50

3.94 ***The interest on working capital for SBU-T as per the provisions of the Regulations is Rs.15.50 crore, which is approved for the year 2018-19***

### **Interest on security deposits**

3.95 In the case of SBU-T, since the SBU does not hold any security deposit and hence no amount of interest is assigned on this account.

### **Interest charges for GPF**

3.96 KSEB Ltd submitted that the actual interest of Provident Fund balance apportioned under SBU-T is Rs 16.57 crore as against the approval of Rs.20.67 crore. KSEB Ltd submitted the following reasons for the variation between the approval vide the MYT Order dated 08.07.2019 and the actual vide the audited accounts.

- (1) The average GPF considered by the Commission in the MYT Order dated 08.07.2018 was Rs 2282.33 crore. However, the actual average PF balance for 2018-19 is Rs 2208.40 crore.
- (2) The Commission had considered 8% as the interest on GPF, however the actual was 7.80% initially, later it had raised to 8%.

The actual interest on GPF as per the audited accounts is given below.

**Table 3.38**  
**Interest on GPF (Rs Cr)**

Item	SBU G		SBU T		SBU D		Total	
	ARR approval	Actual	ARR approval	Actual	ARR approval	Actual	ARR approval	Actual
Interest on GPF	9.37	8.92	20.67	16.57	152.55	136.68	182.59	162.17

### **Objections of the stakeholders**

3.97 The Association submitted that the actual interest on GPF as per the audited accounts may be allowed to KSEB Ltd.

### Analysis and decision of the Commission

3.98 **As per the Accounts, the interest charges booked for GPF is Rs.162.17 crore. Out of this, the share of SBU-T is Rs.16.57 crore, which is allowed for 2018-19.**

### Interest on Master Trust Bonds

3.99 As discussed in the paragraphs 2.115 to 2.118 of this Order, KSEB Ltd in their truing up petition, as per the Regulation 30 of the Tariff Regulations, 2018 read along with the Regulation 34 of the Tariff Regulations, 2018, has claimed Rs 773.68 crore as interest on KSEB Ltd bond of Rs 8144.00 crore to the Master Trust. The contribution of SBU-T, apportioned on the basis of the employee ratio is Rs 79.04 crore. The details are given below.

Table 3.39  
Interest on Master Trust Bonds sought in the petition for 2018-19

Item	SBU G	SBU T	SBU D	Total
	Rs. crore	Rs. crore	Rs. crore	Rs. crore
Interest on Bonds	42.56	79.04	652.08	773.68

3.100 KSEB Ltd further submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved Rs 773.68 crore as interest on the KSEBL bond of Rs 8144.00 crore, but the contribution of SBU-T approved as Rs 87.56 crore for the year 2018-19. KSEB Ltd submitted that there is no deviation between interest approved for the year as per the MYT Order dated 08.07.2019 and the actual interest as per audited accounts. However, there has been minor difference between approval and actual under SBU wise segregation of total interest because. In the MYT Order, the Commission adopted employee cost ratio as the basis for SBU wise segregation of allowable interest whereas the ratio of working employee strength in SBUs was considered for the purpose in the audited accounts.

### Comments of the stakeholders

3.101 The Association submitted that, the interest on Master Trust as per the audited accounts only be allowed to KSEB Ltd in the process of Truing up.

### Provisions in the Regulations

3.102 Provisions in the Tariff Regulations 2018 regarding the interest allowable on the bonds issued by KSEB Ltd to the Master Trust is discussed under paragraph 2.120 and 2.121 of this Regulation. The same provisions are applicable for approving the interest on bonds issued by the KSEB Ltd to the Master Trust.

### Analysis and decision of the Commission

3.103 The considered decision on the interest on the bonds issued by the KSEB Ltd to the Master Trust created for discharging the pension and terminal benefits of the employees and pensioners of erstwhile KSEB as on 31.10.2013 is discussed in detail under paragraph 2.122 to 2.130 of this Order.

3.104 The Commission vide the paragraph 2.130 of this Order has approved the interest on the KSEB Ltd bonds amounts to Rs 8144.00 crore to the Master Trust for the year 2018-19 as given below.

Table 3.40  
Interest on Master Trust Bonds approved for 2018-19

Item	SBU G	SBU T	SBU D	Total
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
Interest on Master Trust Bonds	42.56	79.04	652.08	773.68

3.105 ***As above, the Commission, approves the share of interest on KSEB Ltd bonds of Rs 8144.00 crore to the Master Trust for 2018-19 for SBU-T as Rs.79.04 crore.***

### Summary of Interest and financing charges

3.106 Summary of the total interest charges allowable for the SBU-T for the year 2018-19 is as shown below:

Table: 3.41  
Interest charges allowable for SBU-T for 2018-19

Sl No	Particulars	KSEBL petition	KSERC approval
		(Rs.Cr)	(Rs.Cr)
1	Interest on normative loan	90.89	88.91
2	Interest on working capital	15.76	15.50
3	Interest on GPF	16.57	16.57
4	Interest on Master Trust bonds	79.04	79.04
	Total	202.26	200.02

3.107 ***Thus, the total interest and financing charges approved for the year 2018-19 for SBU-T is Rs.200.02 crore against Rs.202.26 crore claimed as per the petition.***

### Additional funds to the Master Trust

3.108 KSEB Ltd submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved Rs 200.00 crore annually towards unfunded actuarial liability over and above the actuarial liability assessed at Rs.12,418.72 crore based the actuarial valuation as on 31.03.2017.

3.109 KSEB Ltd further submitted that, the Actuarial liability as on 31.03.2017 towards the unfunded pension liability, gratuity liability and leave surrender liability stood at Rs.16147.70 Cr i.e., Rs.3728.98 Cr increase in liability for the period from 01.11.2013 to 31.03.2017. As per the actuarial valuation as on 31.03.2018 and as on 31.03.2019, the liability on this count has been assessed at Rs. 17732.57 Cr and Rs.19327.73 Cr respectively. The increase for the year 2018-19 has been Rs.1595.16 Cr and the same was captured in audited accounts as follows:

- (i) Liability pertaining to 2018-19 amounting to Rs.498.37 Cr has been booked under employee cost for the year and



- (ii) Remaining portion, pertaining to earlier years Rs.1096.79 Cr under other comprehensive income in P&L account.

3.110 KSEB Ltd had also submitted that, the Tariff Regulations 2018 provide for annual pension contribution by KSEB Ltd to the Master Trust based on the actuarial valuation to be recovered through tariff on annual basis. KSEB Ltd has not claimed the entire additional contribution to the Master Trust in one-go as it is likely to result in huge accumulation of Regulatory Asset and subsequent tariff shock. Therefore, KSEB Ltd has sought interest on unfunded portion of actuarial liability in the MYT petition against which the Hon'ble Commission provisionally approved Rs. 200 Cr with the following observation:

*.....Considering all these factors, the Commission is decided to hold a separate proceedings towards the determination of funds requirements of Master Trust. Till such time, the Commission provisionally allows Rs.200 crore as an additional funding for the Master Trust. Hence the figures shown as additional funding for the trust is only provisional and is subject to a prudency check before the same is finally allowed.*

3.111 Actual pension and terminal benefit disbursement exceeded interest on bonds by Rs. 604.36 Cr. (Rs.1378.04 Cr-Rs.773.68 Cr). KSEB Ltd has also accounted Rs.498.37 Cr against employee expenses to take care of the additional actuarial liability. KSEB Ltd requested that the Commission may kindly true up an additional Rs.200 Cr as approved in MYT Order for 2018-19, which may be subject to the final decision on the matter, in view of the fact that KSEB Ltd has no other source to meet these expenses. Therefore, KSEB Ltd prayed that the Hon'ble Commission may be pleased to provisionally approve Rs.200 Cr as detailed below against the huge additional actuarial liability.

**Table 3.42**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	10.26	22.64	167.10	200.00

#### **Comments of the stakeholders**

3.112 The HT-EHT Association submitted that, additional funds to the Master Trust based on the actuarial liability shall not be allowed.

#### **Provisions in the Regulations**

3.113 **Regulation 45(1)(b) of the Tariff Regulations, 2018 provides as follows.**

“(b) The generation business of KSEB Limited shall, subject to prudence check by the Commission, be allowed to recover, in addition to the above specified normative operation and maintenance expenses, the annual pension contribution payable by KSEB Limited to the Master Trust, based on actuarial valuation in respect of the personnel allocated to the generation business of KSEB Limited.”

3.114 **Second proviso to Regulation 58 of the Tariff Regulations, 2018 provide as follows.**

“Provided further that the transmission business of KSEB Limited shall be allowed to recover the annual pension contribution to the Master Trust, based on actuarial

valuation, in respect of the personnel allocated to the transmission business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses.”

- 3.115 **First proviso to Regulation 79 of the Tariff Regulation 2018 provide as follows.** “Provided that the distribution business of KSEB Limited shall be allowed to recover the annual pension contribution paid to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the distribution business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses:”

### **Analysis and Decision of the Commission**

- 3.116 The Commission vide the MYT Order dated 08.07.2019 noted that, as per the actuarial valuation report as on 31.03.2019 the unfunded actuarial liability is assessed at Rs 19,327.73 crore instead of the unfunded liability as on 31.10.2013 assessed at Rs 12,418.72 crore. Hence there is an increase of Rs 6909.01 Crore on account of unfunded terminal liabilities as on 31.03.2019. The Commission is of the firm view that KSEB Ltd is required to operationalize the Master Trust account. Payment of pension to retired employees during their twilight years deserve sympathetic consideration. The Commission also places on record that in spite of the Commission’s advice to KSEB Ltd in various meetings KSEB Ltd management has displayed a lackadaisical, couldn’t care less attitude during 2018-19. Even the Commission’s suggestion to submit a suitable proposal to fund the uncovered liability with the approval of the State Government in this regard has fallen on deaf ears. The Commission also noted that, as discussed earlier, KSEB Ltd is operating the Master Trust account as a ‘Current Account’ for discharging the pension liabilities each month and no surplus fund is accumulated in the Trust till date. Considering all these factors, the Commission vide the MYT Order dated 08.07.2019 had decided to hold a separate proceedings towards the determination of the fund requirements based on actuarial valuation year to year as envisaged under Clause 6(9) (e) of the Revesting Amendment Notification dated 28.01.2015. However, this proceedings is yet to materialize since there is no proposal from KSEB Ltd’s side. Till such time the Commission had provisionally allowed Rs 200.00 crore as additional funds to the Master Trust.
- 3.117 Taking into consideration the serious situation emerging wherein the pension of retired employees would be jeopardized and considering huge unfunded liability as on date, the Commission hereby revises the provisional allotment of Rs 200 Crore to Rs 300.00 crore as additional fund to the Master Trust, subject to the condition that the same is to be transferred to the Trust fund. Further, within three months from the date of this Order, KSEB Ltd shall assess the actuarial liability as on 31.03.2022, and submit a suitable proposal to fund the unfunded liability with the approval of the State Government.
- 3.118 The SBU wise allocation of the additional fund to the Master Trust as per the Truing up petition is approved herewith, as is given below.

**Table 3.43**  
**Additional fund to the Master Trust for the Year 2018-19**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	15.39	33.96	250.65	300

***As above, the Commission provisionally approves Rs 33.96 crore as additional fund to the Master Trust towards unfunded actuarial liability for the year 2018-19.***

**Other expenses:**

3.119 As per the audited accounts and Truing up petitions, KSEB Ltd has claimed Rs 2.11 crore towards the gain under other expenses. This includes the prior period expenses and Other debits. The details are given below.

**Table 3.44**  
**Other expenses claimed as per petition for 2018-19**

Particulars (specify items)	As per Audited accounts	As per Truing up petition
Material Cost Variance	-2.32	-2.32
Research and Development Expenses	-	-
Cost Of Trading/Manufacturing Activity	-	-
Miscellaneous Losses and Write Offs	0.23	0.23
Loss/(compensation) on account of flood cyclone etc	-	-
<b>Total</b>	<b>-2.11</b>	<b>-2.11</b>
Less		
Chargeable to Capital Expenses		
<b>Net chargeable to revenue(A-B)</b>	<b>-2.11</b>	<b>-2.11</b>

3.120 ***The Commission after examining the details, hereby approves the other expenses as per accounts and truing up petition at a gain of Rs.2.11 crore for 2018-19.***

**Return on equity**

3.121 KSEB Ltd in their truing up petition has claimed return on equity at the rate of 14% on its total equity of Rs.3499 crore. The RoE allocated among the different SBUs are given in the table on the basis of equity allocation among the SBUs in the trifurcated balance sheet is as shown below:

**Table 3.45**  
**RoE claimed by KSEB Ltd for 2018-19**

Particulars	SBU G	SBU T	SBU D	Total
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
Equity Capital	831.27	857.05	1810.73	3499.05
RoE @14% on above	116.38	119.99	253.50	489.87

## Comments of the stakeholders

3.122 The HT-EHT Association, invited the attention of the Commission on the suggestions of the consultant engaged by the State Commission on Return on equity, which are quoted below.

*"...Further, in the case of new capitalization, RoE is allowed only when actual equity is infused into the Company for incurring capital expenditure, else only interest is allowed on the loan component. According to the consultant even under the Companies Act, 1956 and the relevant Accounting Standards, the Revaluation Reserve is not allowed as a source to increase the equity capital, and only actual paid-up equity capital is considered for all purposes. Hence, they recommended that the Commission may allow RoE either on the equity capital allowed earlier by the Commission or on the reduced equity capital of Rs. 283.91 Cr. (Rs. 1553 Cr. - Rs. 1269 Cr.)...."* "

Based on the suggestions of the Consultant, Hon'ble APTEL in the Order dated 18-11-2015 in Appeal No.247 of 2014, decided as follows.

*"We are of the view that since the consultant appointed by the State Commission has studied the whole system and recommended the equity value, hence, we direct the Commission to consider the equity amount specified by the Consultant and 14% rate of return on this amount has to be considered.."* According to the Association, any equity base taken more than Rs.1,553 Crores. will be the violation of APTEL judgement. Accordingly, the Association requested to consider 14% on equity capital of Rs.1,553 Cr. for the calculation of return on equity.

## Provisions in the Regulation

3.123 **"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:*

*Provided that, at the time of approving Aggregate Revenue Requirements return on equity share capital for generating business/ company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, shall be allowed on the amount of equity share capital approved by the Commission for the assets put to use at the commencement of the financial year and on fifty percent of equity share capital portion of the approved capital cost for the investment put to use during the financial year:*

*Provided further that at the time of truing up for the generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, return on equity share shall be allowed on monthly pro-rata basis, taking into consideration the documentary evidence provided for the assets put to use during the financial year.*

*Provided also that if the equity or any portion of it, is invested in the generating business/company, transmission business /licensee or distribution business/licensee is part of the scheme or programme funded by the Central Government or State Government for which no return is payable, such portion of the equity shall not be eligible for any form of return.*

*(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:*

*Provided that net fixed assets shall be exclusive of the assets created out of consumer contribution, deposit works, capital subsidy or grants.”*

3.124 Regulation 34 provides as follows:

*34. Principles for adoption of Transfer Scheme under Section 131 of the Act.- The Commission may, for the purpose of approval of Aggregate Revenue Requirements and determination of tariff, adopt the changes in the balance sheet, due to the re-organisation of the erstwhile Kerala State Electricity Board as per the provisions of the Transfer Scheme published by the Kerala State Government under Section 131 of the Act, subject to the following principles,-*

*(a) Increase in the value of assets consequent to the revaluation of assets shall not qualify for computation of depreciation or for return on net fixed assets;*

*(b) The equity of the Government of Kerala as per the above Transfer Scheme published under Section 131 of the Act will be considered for computation of return on equity.*

*(c) The reduction of the contribution from consumers, grants and such other subventions for creation of assets, made as a part of Transfer Scheme, shall not be considered while computing the depreciation or return on net fixed assets;*

*(d) Only the payment of interest on the bonds issued to the Master Trust will be approved for computation of Aggregate Revenue Requirement and the amount of repayment of such bonds shall not be reckoned for computation of Aggregate Revenue Requirement.*

*(e) The Commission subject to the petition by KSEB Ltd may take appropriate decision on the other issues relating to the Transfer Scheme and its implementation on a case to case basis.*

## Analysis and decision of the Commission

3.125 The Commission examined the matter of allowing return on the Government equity of Rs 3499.00 crore in detail in the MYT Order dated 08.07.2019 and ordered as follows.

*“3.141 The Commission has carefully considered the issue of equity especially with regard to the amount that is required to be considered for its calculations. KSEB Ltd in their submission has claimed an RoE @ of 14% per annum for an equity amount of Rs.3499 crore. KSEB Ltd has submitted that Regulation 34(b) provides that equity of the Government of Kerala as per the transfer scheme published under section 131 of the Act will be considered for computation of return on equity. As per clause 5 of the second transfer scheme “Kerala Electricity Second Transfer Scheme (Revesting) 2013” notified by Government of Kerala vide G.O.(P) No.46/2013/PD dated 13-10-2013, asset and liabilities of the erstwhile KSEB, which was vested into Government of Kerala, has been revested into the Company namely Kerala State Electricity Board Limited and opening balance sheet has been notified as part II of Schedule A of the said G.O, with and Equity amount of Rs.3499 crore.*

*The HT & EHT Association has drawn attention of the Commission to the order of the Hon’ble APTEL wherein, the Commission was directed to determine the recommendation of the consultant. In this context, the Commission notes that the Government of Kerala subsequent to the Government notification dated had issued amendment notification G.O. (P) NO.3/2015/PD dated 28-1-2015 and G.O. (Ms) No.17/2015/PD dated 13-5-2015. The G.O. dated 28-1-2015 pertains to the amendments to Kerala Electricity Transfer Scheme (Revesting) 2013 and G.O dated 13-5-2015 pertains to the netting off of dues between Government and KSEB as on 13-10-2013 ie., the date of re-vesting. In the G.O dated 13-5-2013, it is mentioned that:*

*“.....Taking into consideration that netting off of dues between KSEB Ltd and Government forms an integral part of re-structuring of KSEB along with cleaning up of KSEB Limited’s Balance sheet, a part of the duty collected ie., Rs.1946 crore stands converted into the increased portion of equity (3499-1553) so as to ensure that the increase equity is a result of cash infusion to KSEB Ltd by Government thereby enabling the Government to participate in the increased return on equity in future years...”.*

*The Commission also notes that in compliance to the above GO, KSEB Ltd has issued 349,92,00,000 equity shares of Rs.10 each in favour of Government Kerala for Rs.3499 crore as per the provisions of the Companies Act, 2013, deals with the issue of equity shares and its allotments. In this regard the Commission is satisfied that the allotment of equity shares for Rs.3499.2 crore in compliance to the GO conforms to the requirement for allotment of equity shares as per the provisions of the Companies Act, 2013. It was on this basis that, the Commission while considering the truing up petitions of KSEB Ltd for 2015-16 and 2016-17 had recognized the equity amount as Rs. 3499 crore and allowed RoE @ of 14% per annum.*

*Considering the above facts, the Commission is of the considered view that the claim of KSEB Ltd for an RoE @ 14% per annum for an amount of Rs.3499 crore is*

established and justified. Therefore the Commission allows Rs.116.38 crore as the RoE in the ARR of SBU-G.

3.142 As per the provisions of the Regulation 34, the Commission is allowing the amount of equity as per the provisions of the Transfer Scheme and RoE of 14% is permissible on this amount of equity. The Regulations were finalised by the Commission after following the due process such as previous publication, public hearing etc., Once the Regulation has been finalised and notified after following the due procedure, it is binding on all the parties concerned and there is no scope for any deviation what so ever. Therefore the arguments of the Association cannot be accepted. Accordingly the share of RoE for SBU-G at the rate of 14% is allowed to be included in the ARR. Accordingly Rs.116.38 crore is included in the ARR.”

3.126 As above, the Commission vide the MYT Order dated 08.07.2019 had approved RoE @14% on the Government equity of Rs 3499.00 crore. The total RoE approved is Rs 489.87 crore and its share of SBU-T is Rs 119.99 crore. RoE on the Government equity of Rs 3499.00 crore is allowed strictly as per the Regulation 34(b) of the Tariff Regulations 2018.

3.127 Accordingly, the RoE allowable for the SBU-T for the year 2018-19 is as shown below:

Table 3.46  
Return on equity approved for the year 2018-19

	Equity As per petition		Approved for Truing up	
	Equity (Rs. crore)	RoE @ 14% (Rs. crore)	Equity (Rs. crore)	RoE @ 14% (Rs. crore)
SBU-T	857.05	119.99	857.05	119.99
Total	3,499.00	489.86	3,499.05	489.87

3.128 As shown above, **the Commission approves Rs.119.99 crore as ROE for SBU-T for 2018-19.**

### One time expenses- Contributions to CMDRF

3.129 KSEB Ltd in the petition submitted that, its ‘Director Board’ had accorded sanction to contribute Rs 35.00 crore to Chief Ministers Relief Fund in connection with the natural calamity and damages caused due to floods and land slide during August 2018. The function wise contribution to CMDRF during the year 2018-19 is given below.

Table 3.47  
Function wise details of contributions to CMDRF

Item	SBU G	SBU T	SBU D	Total
Contribution to CMDRF	1.79	3.96	29.25	35

KSEB Ltd requested to approve the same as one time expenses.

## **Comments of the stake holders**

3.130 HT&EHT Association strongly objected the claim and requested to disallow the same since this contribution was made by KSEB Ltd Management without any consultation with its consumers. Hence such contribution cannot be passed on to the consumers through tariff.

## **Analysis and Decision of the Commission**

3.131 The Commission examined in detail the claim of contribution to CMDRF by KSEB Ltd as one time expenses for the year 2018-19. The Commission has also noted that, in the MYT petition dated 31-10-2018 also, KSEB Ltd has requested to allow its contribution to CMDRF during the year 2018-19 as one time expenses as part of ARR. However, the Commission disallowed the same with the following observations and decisions.

*“ 3.133 The Commission has examined the proposal of KSEB Ltd in this regard. As per the information furnished by KSEB Ltd, the Full Board and Extra ordinary General meeting dated 20-8-2018 resolved to contribute to the Chief Ministers’ Distress Relief Fund on behalf of the KSEB Ltd an amount of Rs.35.00 crore in view of the huge destruction caused by natural calamity during August 2018 in the State of Kerala. The decision was taken as per Section 181 and applicable provisions of the Companies Act 2013 and subject to clause 42(12) of the Articles of Association of the Company. In the Board of Directors meeting held on 20-8-2018, it was decided to contribute Rs.35 crore to CMDRF, subject to the approval of the EGM, since KSEB Ltd is not having average profit for the last three years. EGM held on the same day also resolved to contribute to the said amount.*

*3.134 The Companies Act 2013 provides for three kinds of contributions under Section 181, 182 & 183. Section 181 pertains to charitable contributions, Section 182 pertains to contribution to Political Parties and Section 183 pertains to contribution to National Defence Fund. In the present case, the contribution has been made under Section 181 of the Companies Act. The said Section is quoted below:*

*Section 181. The Board of Directors of a company may contribute to bona fide charitable and other funds:*

*Provided that prior permission of the company in general meeting shall be required for such contribution in case any amount the aggregate of which, in any financial year, exceed five per cent. of its average net profits for the three immediately preceding financial years.*

*3.135 From the above, it is clear that under section 181 such contributions to charitable and other funds can be made only if there is a profit and contribution is out of the profit of the company. Based on the above statutory provision, KSEB Ltd can contribute the amount out of their profit. Such payments cannot be made as a charge on the*



company's expenses ie., in the ARR and subsequently recovered from the consumers through the tariff."

3.132 As above, vide the MYT Order dated 08.07.2019, the Commission had taken the considered decision that, contribution to any relief funds and such similar expenses has to be met out of its RoE/profit and cannot be charged as an expenses to be recovered from the consumers through tariff. Hence, **the Commission hereby disallows the contribution to CMDRF as an expenses in the Truing up of accounts for the year 2018-19. Hence the request of the KSEB Ltd to approve the contribution to CMDRF as an expense of KSEB Ltd is rejected.**

#### **Total ARR of the SBU-T of KSEB Ltd excluding incentive for transmission availability above normative level**

3.133 The summary of the ARR of SBU-T of KSEB Ltd for the year 2018-19 excluding incentive for transmission availability above normative level is given below.

Table 3.48  
Summary of the ARR approved of SBU-T for the year 2018-19

Particulars	KSERC Approved in MYT Order	As per audited accounts	Truing up petition'	Approved in Truing up
	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
O&M expense				
(i) Employee expenses*	363.23	338.22	363.23	264.93
(ii) A&G expenses*		108.49		18.73
(iii) R&M expenses		43.66		79.56
(iv) Sub total		490.37	363.23	363.22
Provision for pay revision			23.48	0.00
Total O&M expenses	363.23	490.37	386.71	363.22
Interest and financing charges	251.18	207.64	202.26	200.02
Additional fund to Master Trust	22.64		22.64	33.96
Depreciation	146.41	239.43	158.88	159.75
RoE	119.99	189.3	119.99	119.99
Other expenses		-2.11	-2.11	-2.11
CMDRF			3.96	0.00
One time expenses		0.44		
Fair value adjustment		0.08		
Total	903.45	1125.15	892.33	874.83

\* Provisional

## Transmission availability

3.134 In the petition KSEB Ltd claimed that the transmission system of KSEB Ltd could achieve an availability of 98.92% for the year 2018-19. KSEB Ltd also produced the certificate of SLDC of Kerala, certifying the availability as claimed by KSEB Ltd. As per Regulation 56 of the Tariff Regulations 2018, target availability for recovering the full fixed charge is 98%. The Transmission licensee is entitled to an incentive on achieving annual availability above the target availability, in line with the following formula:-

$$\text{Incentive} = \frac{\text{Aggregate Revenue Requirements} \times [\text{Annual availability achieved} - \text{Target Availability}]}{\text{Target Availability}}$$

3.135 As per the certificate for availability of Kerala Transmission system, the availability at each voltage level certified by SLDC is given below.

Table 3.49

Actual availability of Kerala transmission system certified by SLDC for the year 2018-19

Transmission elements	Target availability	Actual Availability
400kV system		98.99%
220kV System	98%	98.74%
110kV system	98%	99.06%
66kV system	98%	98.83%
<b>System availability</b>	<b>98%</b>	<b>98.91%</b>

3.136 The Regulation further stipulates that the computation of incentive shall be undertaken during truing up for each financial year. Accordingly, KSEB Ltd requested to approve Rs. 8.38 Crore as incentive as below.

Table 3.50

Incentive for transmission availability claimed by KSEB Ltd

ARR excluding incentive as per petition (Rs.Crore.)	892.59
Annual availability achieved	98.92%
Target availability	98%
Incentive claimed	8.38

## Objections of stakeholders

3.137 The HT-EHT Association stated that incentive shall not be allowed to KSEB Ltd, considering the fact that KSEB Ltd has sought relaxation of norms in 2018-19 on account of flood situation.

## Provisions in the Regulations

3.138 Regulation 56 of the Tariff Regulations 2018 provide as follows.

**“56 Norms for operation.–**(1) Target availability for full recovery of annual transmission charges for alternating current (AC) system shall be 98 per cent:

*Provided that the recovery of annual transmission charges below the level of target availability shall be on pro-rata basis and that no transmission charges shall be payable at zero availability:*

*Provided further that the availability shall be calculated in accordance with the procedure specified in the Annexure-II to these Regulations and shall be certified by the State Load Despatch Centre.*

(2) The transmission licensee shall be entitled to incentive on achieving annual availability above the target availability, in accordance with the following formula:-

$$\text{Incentive} = \frac{\text{Aggregate Revenue Requirements} \times [\text{Annual availability achieved} - \text{Target Availability}]}{\text{Target Availability}}$$

*Provided that no incentive shall be payable for the availability above 99.75 percent for AC system.*

(3) The computation of reduction in transmission charges as per the first proviso under sub-regulation (1) and the computation of incentive as per sub-regulation (2) shall be undertaken during truing up for each financial year.

### **Analysis and decision of the Commission**

3.139 The **Commission** examined the transmission availability achieved by the SBU-T of KSEB Ltd during the year 2018-19 and the certificate issued by the Kerala SLDC in this regard.

3.140 The ARR of the SBU-T in the process of Truing up is Rs.874.83 crore. Since the actual transmission availability certified by SLDC is 98.92% as against the normative availability of 98%, the incentive available is computed as per the formula specified under Regulation 56 of the Tariff Regulations as follows.

$$\begin{aligned} \text{Incentive} &= 874.83 \times (98.92\% - 98\%) / 98\% \\ &= \text{Rs } 8.21 \text{ crore.} \end{aligned}$$

3.141 **As above, the Commission hereby approve the incentive for achieving higher transmission availability above the target availability specified in the Tariff Regulations is Rs.8.21 crore for the year 2018-19.**

### **Non-Tariff income**

3.142 KSEB Ltd has claimed Rs 42.07 crore towards Non-tariff income from the SBU-Transmission. The details are given below.

Table 3.51  
Non-Tariff income claimed for SBU-T for 2018-19

		Approved in Tariff Order	As per accounts	Truing up requirement
	<b>Non Tariff Income</b>			
1	Interest on staff loans and advances	0.01	0.02	0.02
2	Income from statutory investments	.0 00	0.00	0.00
3	Income from rent of land or buildings	0.47	0.11	0.11
4	Income from sale of scrap	5.07	18.24	18.24
5	Income from staff welfare activities	0.00		0.00
6	Rental from staff quarters	0.11	0.11	0.11
7	Excess found on physical verification	0.03	0.00	0.00
8	Interest on investments, fixed and call deposits and bank balances	1.75	2.00	2.00
9	Interest on advances to suppliers/contractors	0.33	0.91	0.91
10	Income from hire charges from contractors and others	0.01	0.00	0.00
11	Income due to right of way granted for paying fibre optic cables/co-axial cables on transmission system	3.79		0.00
12	Income from advertisements, etc.	0		0.00
13	Miscellaneous receipts	17.28	20.68	20.68
14	Interest on delayed or deferred payment of bills			0.00
	Clawback of Grant		14.38	
	<b>Total Non-Tariff Income</b>	<b>28.85</b>	<b>56.45</b>	<b>42.07</b>

### Comments of the Stakeholders

3.143 The HT&EHT Association submitted that non-tariff income may be approved as sought by KSEB Ltd for SBU-T for the year 2018-19.

### Analysis and decision of the Commission

3.144 The Commission examined the claim of KSEB Ltd. KSEB Ltd has deducted Rs.14.38 crore towards clawback of grants booked in the accounts, in the truing up petition since the entire amount of grants is considered in the truing up petition and the depreciation is also not allowable to the assets created out of grants.

3.145 ***The Commission after considering KSEB Ltd's submission of the details, approves the non-tariff income of Rs. 42.07 crore for SBU-T for the year 2018-19 as claimed by KSEB Ltd for SBU-T.***

### Summary and Transfer cost of SBU-T

3.146 The primary role of SBU-T envisaged in the Transfer Scheme is to transmit electricity to SBU-D. All expenses incurred for the transmission of electricity by SBU-T is recovered from SBU-D as Transfer Cost, which is treated as the income from operations of SBU-T. As against an ARR&ERC approved cost of Rs.874.60 crore KSEB Ltd in their truing up petition has claimed the SBU-T transfer cost as Rs.858.64 crore i.e., a decrease of Rs.15.95 crore over the approved ARR&ERC figures.

3.147 SBU-T does not have any separate tariff income. Instead, its tariff income is derived considering expenses such as interest and finance charges, depreciation, O&M expenses, Return on Equity, etc., and after deducting the non-tariff income. This amount is considered as the transfer cost to the SBU-D of KSEB Ltd. The transfer cost of SBU-T to the SBU-D approved for the year 2018-19 is Rs.840.97 crore as detailed below:

Table 3.52  
Approved Transfer Cost of SBU-T for 2018-19

Particulars	KSERC Approved in MYT Order	As per audited accounts	Truing up petition'	Approved in Truing up
	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
O&M expense				
(i) Employee expenses*	363.23	338.22	363.23	264.93
(ii) A&G expenses*		108.49		18.73
(iii) R&M expenses		43.66		79.56
(iv) Sub total		490.37	363.23	363.22
Provision for pay revision			23.48	0
Total O&M expenses	363.23	490.37	386.71	363.22
Interest and financing charges	251.18	207.64	202.26	200.02
Additional fund to Master Trust	22.64		22.64	33.96
Depreciation	146.41	239.43	158.88	159.75
RoE	119.99	189.3	119.99	119.99
Other expenses		-2.11	-2.11	-2.11
CMDRF			3.96	
One time expenses		0.44		
Fair value adjustment		0.08		
Incentive for transmission Availability			8.38	8.21
<b>Gross Expenses</b>	<b>903.45</b>	<b>1125.14</b>	<b>900.71</b>	<b>883.04</b>
Non-Tariff income	28.85	56.45	42.07	42.07
<b>Transfer Cost of SBU-T</b>	<b>874.60</b>	<b>1068.69</b>	<b>858.64</b>	<b>840.97</b>

\*Provisional

3.148 ***As above, the Commission hereby approve the gross ARR of SBU-T in the process of Truing up at Rs 883.04 crore for the year 2018-19. The net transfer cost after accounting for the Non-Tariff Income is Rs.840.97 crore for the year 2018-19.***

#### **Revenue Gap/Surplus of SBU-T**

3.149 The Commission after analyzing the petition and the arguments of the petitioner KSEB Ltd and the stakeholders, arrives at a net transfer cost of Rs.840.97 crore which is transferred as internal cost of transmission to SBU-D. Since the entire cost of SBU-T is transferred to SBU-D as internal transmission cost, there is no revenue gap or surplus for SBU-T for the year 2018-19.

**CHAPTER -4**  
**ENERGY SALES AND T&D LOSS**

**Energy Sales**

- 4.1 KSEB Ltd submitted that, the Commission in the *MYT* Order for the control period for 2018-19 to 2021-22 dated 08-07-2019 had approved an energy sale of 21647.29 MU for the year 2018-19. The actual energy sale of KSEB Ltd within the State in the year 2018-19 was 21536.77 MU. In addition to the direct sale by KSEB Ltd, the embedded open access consumers had availed 205.44MU through open access. Further, the captive consumers had generated and consumed 152.34 MU from captive generation. Further RGCCPP has availed 8.04 MU during non-operative period as auxiliary consumption during 2018-19. Thus, the total energy consumption at the consumer end was 21902.59 MU.
- 4.2 The comparison of the energy sales approved and the actual energy consumed by the consumers with in the State is given below.

**Table –4.1**  
**Energy consumed by consumers in the Year 2018-19 in Million Units**

Category	ARR Approval	Direct sale by KSEB Ltd	Open access consumption	Energy incl open access	% increase against approval
<b>LT Category</b>					
Domestic	10856.52	10860.01		10860.01	0.03
Commercial	3168.22	3219.41		3219.41	1.60
Industrial	1100.98	1111.67		1111.67	0.97
Agricultural	350.02	337.65		337.65	-3.53
Street Lights	380.84	377.78		377.78	-0.80
LT II	4.90	4.33		4.33	-11.63
Advertisement & Hoardings	2.01	2.02		2.02	0.50
<b>LT Total</b>	<b>15863.49</b>	<b>15912.87</b>		<b>15912.87</b>	<b>0.31</b>
<b>HT Category</b>					
HT I	2137.66	2152.18	15.69	2167.86	1.41
HT II	797.91	783.12	7.36	790.48	-0.93
HTIII	9.69	8.92		8.92	-7.91
HT IV	671.26	696.39	0.00	696.39	3.74
HT V	15.41	16.31		16.31	5.85
<b>HT Total</b>	<b>3631.93</b>	<b>3656.92</b>	<b>23.04</b>	<b>3679.96</b>	<b>1.32</b>
<b>EHT Category</b>					
EHT-I	355.56	268.73	66.68	335.4	-5.67
EHT-II	748.67	610.01	105.74	715.75	-4.4

EHT-III	94.83	106.63	9.05	115.68	21.99
EHTGeneral	70.48	66.54		66.54	-5.59
Railway Traction	273.51	303.13		303.13	10.83
KMRL	15.79	14.91		14.91	-5.58
<b>EHT Total</b>	<b>1558.84</b>	<b>1369.95</b>	<b>181.47</b>	<b>1551.418</b>	<b>-0.48</b>
Bulk consumers/Licensees	593.03	597.04	0.93	597.97	0.83
<b>HT.EHT &amp; Licensees total</b>	<b>5783.8</b>	<b>5623.9</b>	<b>205.44</b>	<b>5829.345</b>	<b>0.79</b>
<b>Total</b>	<b>21647.29</b>	<b>21536.77</b>	<b>205.44</b>	<b>21742.21</b>	<b>0.44</b>

- 4.3 KSEB Ltd further submitted that, the energy sale of KSEB Ltd in the year 2018-19 was 21536.77 MU against 20880.70 MU in the year 2017-18. A comparison of the energy consumption by different categories of consumers in the year 2018-19 as against the consumption in the year 2017-18 is given below.

**Table-4.2**  
**Energy sales in MU for FY 2018-19 Comparison with FY 2017-18**

Category	Tariff code	Energy in MU		Increase in 2018-19 over 2017-18	Increase in (%)
		2017-18	2018-19		
LT category					
Domestic	LT I	10569.99	10860.01	290.02	2.74%
Colonies	LT II	4.85	4.33	-0.52	-10.72%
Temporary Connections	LT III	1.47	1.06	-0.41	-27.89%
Industrial	LT IV	1112.33	1111.67	-0.66	-0.06%
Agriculture	LT V	346.03	337.65	-8.38	-2.42%
General	LT VI	1525.03	1567.41	42.38	2.78%
Commercial	LT VII	1534.99	1650.93	115.94	7.55%
Public Lighting	LT VIII	373.48	377.78	4.3	1.15%
Adv and Hoardings	LT IX	1.99	2.02	0.03	1.51%
<b>LT total</b>		<b>15470.15</b>	<b>15912.87</b>	<b>442.72</b>	<b>2.86%</b>
HT Category					
HT Industrial	HT I	2062.99	2152.18	89.19	4.32%
HT General	HT II	761.64	783.12	21.48	2.82%
HT Agriculture	HT III	9.61	8.92	-0.69	-7.18%
HT Commercial	HT IV	644.82	696.39	51.57	8.00%
HT Domestic	HT V	14.97	16.31	1.34	8.95%
EHT category					
EHT 66 KV Industrial	EHT I	247.34	268.73	21.39	8.65%
EHT 110 KV Industrial	EHT II	631.13	610.01	-21.12	-3.35%
EHT 220 KV Industrial	EHT III	77.99	106.63	28.64	36.72%
EHT General		70.14	66.54	-3.6	-5.13%
Railway Traction		265.8	303.13	37.33	14.04%
KMRL		15.35	14.91	-0.44	-2.87%
Bulk Licensees		<b>608.77</b>	<b>597.04</b>	-11.73	-1.93%
HT & EHT & Bulk Supply		<b>5410.55</b>	<b>5623.9</b>	213.35	3.94%

<b>Total</b>		<b>20880.70</b>	<b>21536.77</b>	656.07	3.14%
Open Access Drawal		269.86	<b>205.44</b>	-64.42	-23.87%
Captive Consumption		108.16	152.34	44.18	40.85%
<b>RGCCPP</b>		<b>8.6326</b>	<b>8.04</b>	-0.5926	-6.86%
<b>Grand Total</b>		<b>21267.35</b>	<b>21902.59</b>	635.24	2.99%

4.4 As per the details submitted by KSEB Ltd, the energy sales increased from 20880.70 MU in 2017-18 to 21536.77 MU i.e., an increase of 656.07 MU compared to 2017-18. The total energy consumption (including open access and captive generation) at consumer end for the year 2018-19 is 21902.59 MU as against 21267.35 MU in the year 2017-18. The overall growth in energy sale by KSEB Ltd in 2018-19 over 2017-18 was 3.14%. The overall growth in energy consumption at consumer end including open access and captive generation compared to that of previous year was 2.99%.

4.5 The energy consumption in 2018-19 in respect of certain categories of consumers has shown changes when compared to the consumption in previous year. Domestic consumption increased by only 2.74% against 5.54% estimated (CAGR from 2011-12 to 2017-18). KSEB Ltd submitted that, this is mainly due to the DSM programme and captive solar generation.

4.6 The energy consumed by embedded consumers through open access during the year 2018-19 is 205.44 MU as against 269.86 MU approved in the year 2017-18. Further, one private generator had availed open access and sold 39.17 MU through open access out side the State. The T&D loss associated with wheeling of electricity by open access is given below.

**Table –4.3**  
**Energy availed and sold through OA by embedded open access consumers in FY- 2018-19(MU)**

<b>Particulars</b>	<b>Energy at Kerala Periphery</b>	<b>Energy at injection/drawal point</b>	<b>Loss on accounting of wheeled units</b>
Energy (Import)	216.60	205.44	11.16
Energy (Export)	-37.40	-39.17	1.76
Total loss			12.92

4.7 The consumption pattern of different categories of consumers for the year 2018-19 is given in the petition is as shown below:



Table 4.4

Consumption pattern of different categories of consumers for the year 2018-19

No	Category	Energy sales	
		MU	%
1	Domestic	10864.34	50.45
2	Industrial	1111.67	5.16
3	Agriculture	337.65	1.57
4	Commercial	3221.43	14.96
5	Public Lighting	377.78	1.75
6	HT &EHT Total	4708.82	21.86
7	Railway Traction	303.13	1.41
8	KMRL	14.91	0.07
9	Bulk Supply	597.04	2.77
10	<b>Total sales (within state)</b>	21536.77	100.00

- 4.8 The Commission has examined in detail the energy sale of KSEB Ltd to different categories of consumers as above. The Commission noted that, during the year 2018-19, KSEB Ltd had supplied 8.04 MU to RGCCPP Kayakulam for its auxiliary consumption during the shutdown period. This supply also has to be considered as part of energy sale of KSEB Ltd. Thus, **after examining the details submitted by KSEB Ltd, the Commission approves the energy sale of 21544.81 MU as per the accounts for the year 2018-19.**

#### Transmission and Distribution Loss (T&D Loss) for the year 2018-19

- 4.9 KSEB Ltd submitted that the Commission vide the MYT order dated 08.07.2019 had approved the loss reduction target for the year 2018-19 of 0.25% over the loss level of 13.07% in 2017-18. Thus, the loss level approved for the year 2018-19 is (13.07%-0.25%) is 12.82%.
- 4.10 KSEB Ltd further submitted that, the actual T&D loss target achieved during the year 2018-19 was 0.60% as against the 0.25% approved by the Commission. The actual T&D loss level for the year 2018-19 was 12.47% from 13.07% in the year 2017-18.
- 4.11 The T&D loss for the year 2018-19 is worked out by KSEB Ltd as shown below:

Table 4.5  
T&D loss calculation for the year 2018-19 as per petition

Sl No	Particulars	2018-19
A	Energy generation by KSEBL excl auxiliary consumption (MU)	7593.12
B	Power Purchase /energy banked at Kerala periphery(MU)	18046.57
C	Sub Total (MU) (A+B)	25639.69
D	Energy injected to the grid by private IPPs for sale outside the State through OA (MU)	39.17
E	Energy wheeled by embedded open access consumers from outside the State at KSEB end (MU)	216.60
F	Energy sales by KSEBL outside the State	824.78

G	Energy transfer outside the State by KSEBL through banking arrangement	168.02
H	Energy sale by private IPPs for sale outside the State through open access (MU)	37.40
I	Energy Input (MU)(C+D+E-F-G-H)	24865.25
J	Substation auxiliary consumption(MU)	16.11
K	Net Energy Input excluding auxiliary consumption(MU) (I-J)	24849.15
L	Energy sales by KSEBL	21536.77
M	Energy consumed by embedded open access consumers at consumer end by wheeling from outside the State (MU)	205.44
N	Energy supplied to RGCCPP for auxiliary consumption during non operative period (MU)	8.04
O	Energy supplied at consumer end(MU) (L+M+N)	21750.25
P	T&D loss (MU) (K-O)	3098.90
Q	<b>T&amp; D loss for 2018-19 in %(P*100/K)</b>	<b>12.47</b>
R	T& D loss in % for 2017-18	13.07
S	<b>Loss reduction achieved during 2018-19</b>	<b>0.60</b>
T	T& D loss target approved for 2018-19 in %	12.82
Q	T& D loss reduction target approved for 2018-19 in %	0.25
R	<b>Achievement in loss reduction in excess of target approved (%)</b>	<b>0.35</b>

4.12 KSEB Ltd further submitted that, the transmission loss upto 66kV level was 3.74%. Based on the above KSEB Ltd has assessed the distribution loss for the year 2018-19 at 9.07%. The details are given below.

**Table 4.6**  
**Segregation of distribution loss for 2018-19**

SI No	Particulars	2017-18 MU	2018-19 MU
(i)	Total Generation and Power Purchase at Kerala periphery (K of table D6 of the petition)	24340.79	24,849.15
(ii)	Transmission loss @3.74%	988.2362	929.5737
(iii)	Total energy input into the distribution system (i)-(ii)	23352.56	23,919.57
(iv)	Sale of energy at EHT level	2031.19	2157.42
(v)	Distribution loss associated with sale at EHT level	0	0
(vi)	Energy available for sale at HT&LT levels (iii)-(iv)-(v)	21321.36	21,762.15
(vii)	Sale of energy at HT level	3657.85	3679.96
(viii)	Sale of energy at LT level	15470.15	15912.87
(ix)	HT & LT loss (vi)-(vii)-(viii)	2193.37	2,169.32
(xi)	Total distribution loss with EHT sales of energy also taken as energy sales by SBU-D (ix)*100/(iii)	9.39	9.07

4.13 The AT&C loss level achieved by KSEB Ltd during the year 2018-19 is estimated at 8.85% as detailed below.

**Table 4.7**  
**AT&C loss for FY 2018-19**

	Particulars	Quantum
A	Energy Input (MU)	24,849.15
B	Transmission loss (MU)	929.57
C	Net Energy input (MU) (A-B)	23,919.57
D	Energy Sold (MU)	21,750.25
E	Revenue from sale of power (Rs. Crore)	13053.26
F	Adjusted Revenue based on subsidy received basis (Rs. Cr.)	13053.26

G	Net Opening debtors (Rs. Crore)	2121.96
H	Adjusted closing debtors (Rs. Crore)	2079.85
I	Collection efficiency (F+G-H)/E*100	100.24
J	Units realised (MU) (D*I/100)	21,802.45
K	Units unrealised (MU) (C-J)	2,117.12
L	AT&C Loss (%) (K-C*100)	8.85%

4.14 KSEB Ltd submitted that, it had taken a serious of measures as detailed below to achieve the loss reduction as above.

**Table 4.8**  
**Steps taken for T&D loss reduction**

Particulars	Achievement during 2018-19
Substations Commissioned	
220 kV	
110 kV	3
66 kV	1
33 kV	5
Total	9
Lines Commissioned(Ckt km)	
220 kV	
110 kV	119.15
66 kV	43
33 kV	60.9
Total	223.05
Capacity addition/enhancement(MVA)	913.70 MVA
11 KV line constructed(km)	1772.83
11 KV feeder outlets added	
LT line constructed(km)	3400.78
No. of distribution transformers	2410
HT re conductoring (km)	840
LT re conductoring (km)	8355
1 phase to 3 phase conversion(km)	1292
Meter Replacement(Nos)	837858

4.15 KSEB Ltd has also submitted that, by way of the excess loss reduction of 0.35% achieved above the target approved by the Commission in the MYT order dated 08.07.2019, KSEB Ltd was able to avoid the power purchase quantum of 98.82 MU. Considering the average power purchase rate of

Rs.4.34/unit, KSEB Ltd could save Rs.42.89 crore in power purchase in the year 2018-19.

4.16 KSEB Ltd also submitted that, *as per Regulation 14 of Tariff Regulations, 2014 the aggregate gain on account of controllable factors shall be dealt with the following manner:*

- a. *One-third of the amount of such gain shall be passed on to consumers as a rebate in tariffs.*
- b. *The remaining two third of the amount of such gain may be utilised at the discretion of licensee”*

4.17 Thus the gain on over achievement of T&D loss reduction to be retained by KSEB Ltd amounts to Rs.28.59 crore as detailed below:

Table 4.9

Gain to be retained by KSEB Ltd for excess achievement of T&D loss for 2018-19

Particulars	Quantum	Unit
Energy sales by KSEBL	21536.77	MU
Energy taken by RGCCPP during non-operative periods	8.04	MU
Total energy	21544.81	MU
Energy input needed at 12.82% loss	24713.02	MU
Energy input needed at 12.47% loss	24614.2	MU
Energy savings	98.82	MU
Power Purchase cost saved due to over achievement of loss	42.89	Cr.
2/3 of savings	28.59	Cr.

4.18 KSEB Ltd also submitted the comparison of actual energy sales and energy input as against the approval, and the details are given below.

Table- 4.10  
Summary of energy balance

Particulars	Approved	Actual	Difference
Energy sales by KSEBL in MU	21647.29	21544.81*	-102.48
Energy input for meeting the energy sales in MU(C-F-G-J) of table D6 of the petition	24846.15	24630.78	-215.37
Internal Generation in MU (excl aux)			
Hydro	7807.42	7570.60	-236.82
Thermal	0.00	2.66	2.66
Solar & wind	16.58	19.87	3.29
Subtotal generation	7824.00	7593.12	-230.88
Power Purchase in MU at Kerala periphery			
CGS	10255.41	9241.09	-1014.32
RGCCPP	0.00	0.81	0.81
IPP-wind & SHPs CPPs & solar prosumers	280.70	280.41	-0.29
LTA	7999.32	7652.05	-347.27
Short term purchase	0.00	872.21	872.21
Sub Total generation & Power Purchase by KSEBL	26359.43	25639.69	-719.74
Substation auxiliary consumption (MU)	15.58	16.11	0.53
Energy availability	26343.85	25623.58	-720.27

External sale/swap return	1497.70**	992.80	-504.90
<b>Grand Total</b>	<b>24846.15</b>	<b>24630.78</b>	<b>-215.37</b>

\*Energy sales by KSEBL to its consumers (21536.77 MU) along with the supply to RGCCPP (8.04 MU) for meeting the auxiliary consumption during non-operative period (21536.77+8.04)

\*\*External sale only

## Comments of the Stakeholders

4.19 HT&EHT Association submitted that, since the KSEB Ltd has been recovering the wheeling charges and system losses from the open access consumers, the energy sale by KSEB Ltd and energy generation and purchase of KSEB Ltd may only be considered for assessing the T&D loss achieved in the year 2018-19. According to the Association, the excess loss reduction achieved is 0.29% only as against 0.35% claimed by KSEB Ltd.

## Provisions in the Regulations

4.20 Regulation 72 of the Tariff Regulations 2018 deals with 'distribution loss', which is extracted below for ready reference.

*"72. 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 in the system:*

*(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 petition for approval of Aggregate Revenue Requirement for the Control Period, the information on actual total distribution losses and voltage-wise distribution losses in the preceding four financial years and estimates for each year of the Control Period 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, the proposed loss levels with necessary studies and their results.*

*(3) The Commission shall approve the target of distribution loss for each financial year of the Control Period considering 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 Control Period, 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 purchased 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.*

*(c) Export of power to other states if any and the revenue thereof shall be considered by the Commission appropriately while determining the disallowance on account of excess distribution loss.”*

#### **Analysis and decision of the Commission**

4.21 The Commission examined the details submitted by KSEB Ltd and comments of the HT&EHT Association. Prima facie, the Commission here by clarify that, the transmission loss in a transmission system and distribution loss in a distribution system is depends on the total electricity flow through the system, irrespective of the source, mode of purchase and licensee/person who use the system. After the introduction of non discriminatory open access, in addition to the KSEB Ltd, many embedded open access consumers and captive users also using the transmission and distribution system of KSEB Ltd. Hence while assessing the T&D losses in the KSEB Ltd system, all the energy transactions through the system including the transactions of open access consumers and captive consumption also has to be considered.

4.22 Based on the details submitted by the KSEB Ltd in the True Up petition and also based on the data in the audited accounts, the Commission assessed the T&D loss of KSEB Ltd system as follows.

Table 4.11  
T&D loss approved for the year 2018-19

Sl No	Particulars	2018-19	Remarks
	<b>ENERGY INPUT</b>		
	<b>Generation and Power purchase by KSEBL</b>		
1	Energy generation by KSEBL excl auxiliary consumption (MU)	7593.12	Table 2.3
2	Power Purchase /energy banked at Kerala periphery (MU)	18048.62	Table 5.33

3	<b>Sub Total of energy generation and power purchase by KSEB Ltd (MU) (1+2)</b>	<b>25641.74</b>	
4	<b>Energy sale by KSEB Ltd outside the State</b>	<b>824.78</b>	Table 5.109
5	Energy transfer outside the State by KSEBL through banking arrangement	168.02	Table 5.32
6	Substation auxiliary consumption (MU)	16.11	
7	<b>Net Energy generation and power purchase by KSEB Ltd for sale within the State [3- (4+5+6)]</b>	<b>24632.83</b>	
8	<b>Energy input by other parties to the Kerala system for their use</b>		
9	Energy injected to the grid by private IPPs for sale outside the State through OA (MU)	39.17	
10	Energy wheeled by embedded open access consumers from outside the State at KSEB periphery (MU)	216.60	
11	Energy input for captive consumers - Maniar & Kuthumkal		
12	(Less): Energy sale by private IPPs for sale outside the State through open access (MU)	37.40	
13	<b>Subtotal of energy input into Kerala system by others (9+10-12)</b>	<b>218.37</b>	
14	<b>Total energy input to the KSEB syem = (7)+(13)</b>	<b>24851.20</b>	
15	<b>ENERGY SALES / CONSUMED BY DIFFERENT USERS (within the State)</b>		
16	Energy sale of KSEB Ltd to the consumers (including aux consumption of RGCCPP)	21544.81	
17	Energy consumed by embedded open access consumers at consumer end by wheeling from outside the State (MU)	205.44	
18	<b>Total energy sale/out put through Kerala power system (16+17)</b>	<b>21750.25</b>	
19	<b>T&amp;D Losses = (14)-(18)</b>	<b>3100.95</b>	
20	T&D loss achieved for 2018-19 = (19)/(14) (%)	12.48	
21	T& D loss in % for 2017-18	13.07	
22	<b>Loss reduction achieved during 2018-19 (%) (21-20)</b>	<b>0.60</b>	
23	T& D loss target approved for 2018-19 in %	12.82	
24	T& D loss reduction target approved for 2018-19 in %	0.25	
25	<b>Achievement in loss reduction in excess of target approved (%) (22-24)</b>	<b>0.35</b>	

4.23 As detailed above, the excess loss level achieved is 0.35% compared to the target fixed by the Commission. The savings in power purchase by KSEB Ltd due to the excess loss reduction is given below.

Table 4.12  
Savings in power purchase due to higher T&D loss target

	Particulars	Quantum	
1	Energy sale by KSEB Ltd (including aux supply to RGCCPP)	21544.81	MU
2	Energy input required at 12.82% loss level	24713.02	MU
3	Energy input required at 12.47% loss level	24614.20	MU
4	Savings in power purchase = (2)-(3)	98.82	MU
5	Average power purchase cost	4.31	Rs/unit
6	Savings in cost of power purchase	42.59	Rs. Cr)
7	2/3rd savings	28.39	(Rs. Cr)

**4.24** As detailed above the, the total savings in power purchase cost due to excess target of T&D loss achieved by KSEB Ltd is Rs.42.59 crore. Further, as per the Regulation 72(4) of the Tariff Regulation, 2/3<sup>rd</sup> of the savings in cost of power purchase due to excess loss target achieved can be retain by KSEB Ltd. Accordingly, ***the Commission allow to retain Rs.28.39 crore as incentive for excess T&D loss achieved for the year 2018-19.***



**CHAPTER -5**  
**TRUING UP OF ACCOUNTS OF STRATEGIC BUSINESS UNIT DISTRIBUTION**  
**(SBU-D)**

- 5.1 KSEB Ltd is the incumbent distribution licensee in the State of Kerala. As on 31.03.2019, KSEB Ltd has been supplying electricity to about 126 lakh consumers in the State. The key statistics of the distribution network of KSEB Ltd as on 31.03.2019 is given below.

Table 5.1  
Key parameters of SBU-D as per petition

Particulars	As on 31-03-2019
Area Sq.km.	38863 km <sup>2</sup>
Districts No's	14
Electrical Circle Offices	25
Population in Crore	3.47
Consumers (Nos)	<b>12552206</b>
Distribution transformers (Nos)	79876
HT lines (Ckt. Kms )	64568.02
LT lines (Ckt. Kms )	289804
Energy sales in MU	21536.77
Energy consumption (incl open access & captive consumption) in MU	21902.59
Per capita consumption in units	626
Consumption per consumer in units	1731.69
Distribution loss in %	9.07%
AT & C loss in %	8.85%
T&D loss in % (including transmission loss)	12.47%

- 5.2 KSEB Ltd further submitted that, it had ensured 100% availability of electricity in State. There was no power cut or load shedding in the State even during peak summer months, except during the natural calamities which happen in the monsoon months due to heavy flood.

**Energy sales**

- 5.3 The details of the energy sales, T&D loss and steps taken for its reduction during the year 2018-19 is discussed in detail in Chapter-4 of this Order. The total energy sale by KSEB Ltd to its consumers is 21,544.81 MU including auxiliary consumption of RGCCPP, Kayakulam. The T&D loss level attained in the year 2018-19 is 12.47 %. Accordingly, for supplying 21544.81 MU to the various categories of consumers, the total power requirement, i.e., generation and power purchase in the KSEB system was 24,614.20 MU.

- 5.4 Summary of the Aggregate Revenue Requirement, Revenue from Tariff, Non-Tariff Income and the Revenue gap as per the petition filed by KSEB Ltd is given in the Table below.

Table 5.2  
ARR, ERC and Revenue gap claimed in the Truing up petition for the year 2018-19

Particulars	Approved	Actual	True up
<b>Cost of Generation (SBU-G)</b>	481.41	586.66	506.79
Cost of Power Purchase	7847.77	7869.32	7826.86
<b>Cost of Intra-State Transmission (SBU-T)</b>	874.60	1068.69	858.64
NLDC charges	3.00		
Interest & Finance Charges	1428.31	1263.32	1787.30
Depreciation	72.24	433.24	107.98
O&M Expenses	2226.08	3106.25	2379.04
Return on equity (14%)	253.50	147.23	253.50
Other Expenses		209.40	291.38
Income under FV Adjustments		5.37	
Sharing of gains on account of higher T&D loss reduction			28.59
Recovery of previous gap	400.00		
Onetime expenses-CMDRF			29.25
One Time Expenses-Flood related R&M		12.39	
Interest on additional bond to Master Trust	167.10		167.10
<b>Total ARR</b>	<b>13754.02</b>	<b>14701.87</b>	<b>14236.44</b>
Revenue from Tariff	12433.68	13181.87	12599.86
Revenue from external sale	756.64	339.34	339.34
Non-Tariff Income	531.55	400.80	537.36
<b>Total ERC</b>	<b>13721.87</b>	<b>13922.01</b>	<b>13476.56</b>
<b>Net Revenue Gap(-)/Surplus (+)</b>	<b>-32.15</b>	<b>-779.86</b>	<b>-759.88</b>

- 5.5 The Commission has examined in detail, the various expenses as claimed by KSEB Ltd in the petition for the Truing Up of accounts for the year 2018-19. The analysis and decision of the Commission on various expense components of KSEB Ltd for the year 2018-19 is discussed in the subsequent paragraphs.

### **Cost of Internal Generation (Transfer cost of SBU-G)**

- 5.6 Cost of generation claimed by KSEB Ltd in their truing up petition is the transfer cost of SBU-G of KSEB Ltd, which includes the cost of internal hydel generation and its two LSHS stations BDPP and KDPP. The transfer cost of SBU-G is discussed in detail under Chapter-2 of this Order. As against the claim of Rs 506.79 crore, the Commission has approved Rs.470.26 crore as transfer cost of SBU-G of KSEB Ltd.
- 5.7 The summary of the internal generation and transfer cost of SBU-G approved for the year 2018-19 is given below.

Table 5.3  
Summary of the internal generation and transfer cost of SBU-G approved for  
the year 2018-19

Source	Gross Generation MUs	Aux consumption MUs	Net Generation MUs	Transfer cost of SBU-G approved (Rs. Cr)
Hydro	7602.41	31.81	7570.60	470.26
BDPP	0.29	0.62	-0.33	
KDPP	3.80	0.82	2.98	
Wind	1.33	0.00	1.33	
Solar	18.54	0.00	18.54	
<b>Subtotal</b>	<b>7626.37</b>	<b>33.25</b>	7593.12	

### Cost of Intra State Transmission (Transfer Cost of SBU-T)

5.8 Cost of Intra State Transmission is the transfer cost of SBU-T to SBU-D. The Commission has appraised in detail the transfer cost of SBU-T in detail and approved the transfer cost of intra-state transmission at Rs.840.97 crore as against the claim of Rs.858.64 crore.

### Purchase of Power

5.9 KSEB Ltd in their petition has submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved the purchase of 18535.41 MU at a total cost of Rs 7847.77 crore for the year 2018-19. As against the approval, the actual power purchased was 18,046.57 MU at the total cost of Rs 7869.32 crore. However, in the petition for True up, KSEB Ltd requested to approve Rs 7826.66 crore for the year 2018-19. The reduction in claim was on account of the unadmitted claim of power purchase through DBFOO contracts.

5.10 The summary of the power purchase and cost claimed by KSEB Ltd from different sources is given below.

Table 5.4  
Summary of the power purchase for the year 2018-19

No	Particulars	Approved		Actual		Truing up	
		Energy (MU)*	Cost (Rs Cr)	Energy (MU)*	Cost (Rs Cr)	Energy (MU)*	Cost (Rs Cr)
1	Central Gen. Stations	10255.42	3684.51	9241.09	3418.17	9241.09	3418.17
2	Small IPPs within the State	280.70	103.78	280.41	108.97	280.41	101.08
3	<i>RGCCPP, Kayamkulam (net)</i>	<i>0.00</i>	<i>200.00</i>	<i>0.81</i>	<i>181.70</i>	<i>0.81</i>	<i>204.13</i>
4	IPPs / Traders outside state	7999.32	3319.64	7652.05	3371.19	7652.05	3314.19
5	Short term / Exchanges/UI			872.21	235.84	872.21	235.84

6	PTC Balco				32.37		32.37
7	Transmission charges		539.84		513.41		513.41
8	Charges in connection with banking of power o/s State				2.28		2.28
9	Other charges in connection with sale				5.38		5.38
<b>10</b>	<b>Total</b>	<b>18535.44</b>	<b>7847.77</b>	<b>18046.57</b>	<b>7869.32</b>	<b>18046.57</b>	<b>7826.86</b>

5.11 As seen above, KSEB Ltd during the year 2018-19 had purchased power from the following sources;

- (1) Central Generating Stations,
- (2) Wind, solar, small hydro and other IPPs within the State,
- (3) Power Purchase from Thermal IPPs,
- (4) Power purchase from IPPs/Traders outside the state through approved contracts,
- (5) Power purchase considered under short term contracts including Traders, exchanges and Deviation Settlement Mechanism (DSM) and DBFOO contracts not approved vide Suo motu Order No1007/F&T/2016/KSERC dated 17th April, 2017

Before going into the details of the power purchase, the Commission has examined the provisions in the Tariff Regulations, 2018 regarding the power purchase and related aspects.

### **Provisions in the Regulations**

5.12 Regulations 76 and 77 of the Tariff Regulations, 2018 deals with power purchase and related issues. The relevant Regulations are extracted below.

*“76. Approval of power purchase agreement. –(1) Every agreement for procurement of power by the distribution business/licensee from the generating business/company or licensee or from other sources of supply entered into after the date of commencement of these Regulations shall come into effect only with the approval of the Commission:*

*Provided that the approval of the Commission shall also be required in accordance with this Regulation for any change to an existing agreement for power procurement, whether or not such existing agreement was approved by the Commission.*

*(2) The Commission shall examine a petition for approval of Power Purchase Agreement having regard to the approved Power Procurement Plan of the distribution business/licensee and the following factors:-*

*(a) requirement of power under the approved Power Procurement Plan;*

- (b) adherence to a transparent process of bidding in accordance with guidelines issued by the Central Government under Section 63 of the Act;*
- (c) adherence to the terms and conditions for determination of tariff specified under Chapter VI of these Regulations where the process specified in clause (b) above has not been adopted;*
- (d) availability (or expected availability) of capacity in the intra-State transmission system for evacuation and supply of power procured under the agreement; and*
- (e) need to promote co-generation and generation of electricity from renewable sources of energy.*

*(3) Where the terms and conditions specified under chapter VI of these Regulations are proposed to be adopted, the approval of the power purchase agreement between the generating business/company and the distribution business/licensee for supply of electricity from a new generating station may comprise of the following two steps, at the discretion of the applicant:-*

*(a) approval of a provisional tariff, on the basis of a petition made to the Commission at any time prior to the petition made under clause (b) below; and*

*(b) approval of the final tariff, on the basis of a petition made not later than three months from the cut-off date.”*

*“77. Additional short-term power procurement.– (1) The distribution business/licensee may undertake additional short-term power procurement during the financial year, over and above the power procurement plan approved by the Commission, in accordance with this Regulation.*

*(2) (a) Where there has been a shortfall or failure in the supply of electricity from any approved source of supply during the financial year, the distribution business/licensee may enter into an agreement for additional short-term procurement of power.*

*(b) If the total power purchase cost for any quarter including such short-term power procurement exceeds by five percent of the power purchase cost approved by the Commission for the respective quarter, the distribution business/licensee shall have to obtain approval of the Commission.*

*(3) The distribution business/licensee may enter into a short-term power procurement agreement or arrangement under the following circumstances subject to the ceiling tariff approved by the Commission:*

- (a) where the distribution business/licensee is able to source new short-term source of supply from which power can be procured at a tariff that reduces its approved total power procurement cost;*
- (b) when faced with emergency conditions that threaten the stability of the distribution system or when directed to do so by the State Load Despatch Centre to prevent grid failure*
- (c) where the tariff for power procured under such agreement or arrangement is in accordance with guidelines for short-term procurement of power by distribution licensees through tariff based bidding process issued by the Central Government:*
- (d) when there is any contingency situation and power purchase price is within such ceiling price;*
- (e) procurement of short-term power through power-exchange; and*
- (f) procurement by way of exchange of energy under 'banking' transactions.*

*Provided that prior approval of the Commission and the ceiling rate shall not be applicable to the short term purchases under sub regulation (b) and (e) above*

*(4) The Commission may stipulate the ceiling quantum and ceiling rate for purchase of power from short-term sources.*

*(5) Within fifteen days from the date of entering into an agreement or arrangement for short-term power procurement for which prior approval has not been obtained, the distribution business/licensee shall obtain the approval of the Commission by submitting full details of such agreement or arrangement, including quantum, tariff calculations, duration, supplier details, method for supplier selection and such other details as the Commission may require to assess that the conditions specified in this Regulation have been complied with:*

*Provided that where the Commission has reasonable grounds to believe that the agreement or arrangement entered into by the distribution business/licensee does not meet the criteria specified in this Regulation, the Commission may disallow from the annual revenue requirements, the net increase in the cost of power on account of such procurement.”*

5.13 Based on the above provisions of the Tariff Regulations, 2018, the Commission has carefully examined the purchase of power from each source in detail, and the Commission's analysis, finding results and recommendations are given in the subsequent paragraphs.

## (1) Purchase of power from Central Generating Stations (CGS)

5.14 The total power purchased from the CGS for 2018-19 is 9642.01 MU (ex-bus) and the cost of this power purchase as per the accounts is Rs.3418.17 crore. The details of the power purchased from CGS is given below.

**Table – 5.5**  
**Power Purchase from Central Generating Stations for the year 2018-19**

Station	MYT Order dated 08.07.2019			Audited accounts		True up requirement			Variation over approval	
	Energy	Cost	Avg. Tariff	Energy	Cost	Energy	Cost	Avg. Tariff	Energy*	Cost
	( MU)	(Rs Cr)	(Rs/KWh)	( MU)	(Rs Cr)	( MU)	(Rs Cr)	(Rs/ KWh)	(MU)	(Rs Cr)
RSTPS I & II	1763.58	555.18	3.15	1608.17	530.31	1608.17	530.31	3.30	-155.41	-24.87
RSTPS III	426.10	135.16	3.17	400.76	132.78	400.76	132.78	3.31	-25.34	-2.38
Talcher Stage-II	3105.98	743.31	2.39	2889.61	715.24	2889.61	715.24	2.48	-216.37	-28.07
Simhadri TPS Stg II	550.33	244.85	4.45	541.92	260.58	541.92	260.58	4.81	-8.41	15.73
NLC Stage-I	397.35	132.69	3.34	396.01	127.61	396.01	127.61	3.22	-1.34	-5.08
NLC Stage-II	557.67	188.45	3.38	586.18	189.00	586.18	189.00	3.22	28.51	0.55
NLC 1 Expansion	429.02	146.59	3.42	429.78	151.66	429.78	151.66	3.53	0.76	5.07
NLC II Expansion	282.58	140.95	4.99	281.08	133.64	281.08	133.64	4.75	-1.50	-7.31
Vallur STPS	346.70	168.02	4.85	267.73	145.30	267.73	145.30	5.43	-78.97	-22.72
MAPS	85.30	23.26	2.73	60.72	16.63	60.72	16.63	2.74	-24.58	-6.63
KAIGA	486.75	176.96	3.64	541.76	201.73	541.76	201.73	3.72	55.01	24.77
Kudankulam	1285.78	527.94	4.11	759.53	330.14	759.53	330.14	4.35	-526.25	197.80
NTPL	486.64	232.35	4.77	420.25	207.58	420.25	207.58	4.94	-66.39	-24.77
Kudgi	472.19	268.82	5.69	458.51	275.99	458.51	275.99	6.02	-13.68	7.17
Eastern Region					-0.02		-0.02		0.00	-0.02
<b>Total</b>	<b>10675.97</b>	<b>3684.53</b>	<b>3.45</b>	<b>9642.01</b>	<b>3418.17</b>	<b>9642.01</b>	<b>3418.17</b>	<b>3.55</b>	<b>-1033.96</b>	<b>266.34</b>

5.15 KSEB Ltd also submitted that, the inter-state transmission losses associated with transmission of power from sources outside the State is 400.92 MU. Thus the net availability of power from CGS at Kerala periphery is 9241.09 MU during the year 2018-19.

5.16 The Commission notes that as per the detailed above, the actual availability of power from CGS is less by 1033.96 MU compared to the approval of schedule given in the MYT Order dated 08.07.2019. KSEB Ltd submitted the following reasons for the less availability of power from CGS during the year 2018-19.

- (i) Coal shortage.
- (ii) Reduction of 526.25 MU from Kudamkulam power Station owing to the shutdown of Unit II from February to July -18 and Unit I from August to March-19.

- (iii) Unit I of MAPS was under urgent maintenance from 30.01.2018 till September 2018.
- (iv) NTECL Vallur was under shutdown due to turbine side problem during October 2018 and then due to coal shortage up to December 2018.
- (v) Flood during August 2018, and consequent reduction in demand, forcing to surrender schedule of power during flood months.

Accordingly, the overall reduction in availability from CGS in the year 2018-19 is 1033.96 MU when compared to the approved level. The actual cost of power purchase is less by Rs.266.34 Crore from the amount approved by the Commission as detailed in table above. The average cost of power purchase was Rs 3.55/unit as against Rs.3.45 /unit approved in the MYT Order. This increase is mainly due to the variation in fuel cost.

- 5.17 The refund on account of revision of ULDC charges (Farakka and Kahalgaon stations under Eastern Region) for the period 01.03.2010 to 30.04.2013 amounting to Rs 1,31,144 and Rs 67,959 was obtained during the year on account of the revision of ULDC Fees and Charges of ER stations - Farakka I, Kahalgaon I and Talcher I for the control period 2009-14 based on CERC Order dt 20/9/2018 on Petition no. 213/TT/2017 for truing up of Fees and charges for 2009-14 period.

#### **Comments of the stakeholders**

- 5.18 According to the HT /EHT Association, the cost of power purchased from CGS may be limited to Rs 3303.64 crore, instead of Rs 3418.70 crore as claimed by KSEB Ltd.

#### **Analysis and decision of the Commission**

- 5.19 The Commission has examined in detail the power purchased from CGS in the year 2018-19. All the sources of CGS are the approved sources of power purchase as per the MYT Order dated 08.07.2019. The Commission has also noted the reason submitted by KSEB Ltd for the reduction in schedule of power from CGS, and also the fact that there was surrender of power during the high flood months in the year 2018-19. The tariff of all the CGS except the power plants coming under Department of Atomic Energy is determined by CERC as per the provisions of the Electricity Act, 2003. The tariff of the atomic power plants such as MAPS, KAIGA and Kudamkulam plants are determined by the Department of Atomic Energy, Government of India.

- 5.20 ***The Commission, after examining the details furnished by KSEB Ltd hereby approve the total power purchase of 9642.01 MU at ex-bus at a***



**total cost of Rs.3418.17 crore from Central Generating Stations (CGS) for the year 2018-19. The details are given below.**

Table 5.6  
CGS- cost of power purchase approved for the year 2018-19

Station	Audited accounts		True up requirement		KSERC Approval	
	Energy at Ex bus	Cost	Energy at Ex bus	Cost	Energy at Ex bus	Cost
	( MU)	(Rs Cr)	( MU)	(Rs Cr)	( MU)	(Rs Cr)
RSTPS I & II	1608.17	530.31	1608.17	530.31	1608.17	530.31
RSTPS III	400.76	132.78	400.76	132.78	400.76	132.78
Talcher Stage-II	2889.61	715.24	2889.61	715.24	2889.61	715.24
Simhadri TPS Stg II	541.92	260.58	541.92	260.58	541.92	260.58
NLC Stage-I	396.01	127.61	396.01	127.61	396.01	127.61
NLC Stage-II	586.18	189.00	586.18	189.00	586.18	189.00
NLC 1 Expansion	429.78	151.66	429.78	151.66	429.78	151.66
NLC II Expansion	281.08	133.64	281.08	133.64	281.08	133.64
Vallur STPS	267.73	145.30	267.73	145.30	267.73	145.30
MAPS	60.72	16.63	60.72	16.63	60.72	16.63
KAIGA	541.76	201.73	541.76	201.73	541.76	201.73
Kudankulam	759.53	330.14	759.53	330.14	759.53	330.14
NTPL	420.25	207.58	420.25	207.58	420.25	207.58
Kudgi	458.51	275.99	458.51	275.99	458.51	275.99
Eastern Region		-0.02		-0.02		-0.02
<b>Total</b>	<b>9642.01</b>	<b>3418.17</b>	<b>9642.01</b>	<b>3418.17</b>	<b>9642.01</b>	<b>3418.17</b>

(2) **Power Purchase from Wind and small IPPs within the state:**

5.21 KSEB Ltd submitted that, it had purchased 295.09 MU for Rs.108.97 Crore against the MYT approved quantum of 280.70 MU at Rs 103.78 Crore. The sources of this purchase of power include captive generation from Maniar and Kuthumkal also. The details of the power purchased from wind and small IPPs located within the State is given below.

Table 5.7  
Cost of power purchase from wind, SHPs, Solar and other IPPs in the State for the year 2018-19

Station	Approved vide MYT Order dated 08.07.2019		Audited Accounts		TU requirement		Variation over ARR approval	
	( MU)	(Rs Cr)	( MU)	(Rs Cr)	( MU)	(Rs Cr)	(MU)	(Rs Cr)
<b>Wind</b>								
Wind- Ramakkalmedu	27.87	8.75	49.73	18.18	49.73	18.18	-20.42	-3.84
Wind-Koundikkal	12.56	3.94						
Wind- Agali	29.72	9.33						

Wind Ahalya	20.98	10.97	18.15	9.48	18.15	9.48	-2.83	-1.49
INOX	30.84	12.61	38.90	23.49	38.90	15.60	8.06	2.99
Kosamattom	0.00	0.00	1.13	0.06	1.13	0.06	1.13	0.06
Wind Sub total	121.97	45.61	107.90	51.22	107.91	43.32	-14.06	-2.29
<b>SHPs</b>								
Ullunkal(EDCL)	17.79	4.34	10.75	2.66	10.75	2.66	-7.04	-1.68
Iruttukanam Stage-I & II(Viyyat)	24.69	6.67	10.51	2.71	10.51	2.71	-14.18	-3.96
Karikkayam HEP(AHPL)	37.56	15.62	45.78	18.92	45.78	18.92	8.22	3.30
Meenvallom(PSHCL)	8.44	4.12	7.41	3.65	7.41	3.65	-1.03	-0.47
Kallar of Idukki District Panchayat	0.08	0.04	0.00	0.00	0.00	0.00	-0.08	-0.04
Mankulam of Grama Panchayat	0.09	0.04	0.00	0.03	0.00	0.03	-0.09	-0.01
Minar Renewable energy project Ltd	0.00	0.00	0.07	0.00	0.07	0.00	0.07	0.00
SHEP subtotal	88.65	30.84	74.51	27.98	74.51	27.98	-14.14	-2.86
<b>Solar</b>								
Solar IREDA	70.08	27.33	76.53	28.89	76.53	28.89	6.45	1.56
Solar IPP ANERT			2.54	0.00	2.54	0.00	2.54	0.00
Grid connected average pooled power purchase cost-solar			18.92	0.75	18.92	0.75	18.92	0.75
Solar subtotal	70.08	27.33	97.99	29.64	97.99	29.64	27.91	2.31
Captive consumers net injection to grid			12.63	0.00	12.63	0.00	12.63	0.00
PCBL(Deviation adjustment)			2.05	0.12	2.05	0.12	2.05	0.12
<b>Total</b>	<b>280.70</b>	<b>103.78</b>	<b>295.09</b>	<b>108.97</b>	<b>295.09</b>	<b>101.06</b>	<b>14.39</b>	<b>-2.72</b>

### Wind IPPs:

- 5.22 KSEB Ltd in the petition has submitted that the Commission vide the MYT Order dated 08.07.2019 had approved 121.97 MU from various wind IPPs for a total cost of Rs.45.61 crore against which, KSEB Ltd purchased 107.90 MU for a total cost of Rs 51.22 Crore. KSEB Ltd further submitted that, the cost of power purchased from M/s INOX as per audited accounts of 2018-19 is Rs 23.49 Cr which includes the power purchase cost of Rs 7.89 crore pertaining to the year 2017-18, which was claimed in the truing up petition for 2017-18. Hence, KSEB Ltd in the petition has reduced this amount and has sought approval for Rs. 15.60 Cr toward power purchase cost of INOX for the year 2018-19.
- 5.23 Subsequently KSEB Ltd vide the additional submission dated 30.07.2021 submitted that, the truing up petition for the year 2018-19 was filed on 27.03.2020, prior to the pronouncement of the Order dated 25.06.2021 in the matter of Truing up of accounts of the year 2017-18. KSEB Ltd in the Truing up petition for the year 2017-18 has claimed Rs.7.89 Cr towards power purchase from M/s INOX, but the Hon'ble Commission has directed to claim the

amount in the year in which the same is included in the accounts. The relevant portion of the Order is extracted below for ready reference:

*“5.23 Further, the procurement of power from M/s INOX Renewables Ltd, a wind IPP commissioned on 28.03.2017 was also approved by the Commission vide order dated 03.10.2018. The power injected during 2017-18 was 16.33 MU. As PPA was not entered into during 2017-18, provision for power purchase cost was not created in the accounts for 2017-18. An amount of Rs.7.89 Crore has been provided in the annual accounts for the year 2018-19 towards purchase cost 2017-18 and 2016-17. KSEB Ltd requested to approve Rs. 7.89 Crore in 2017-18 itself.*

.....  
*5.31 The Commission notes that it is not a desirable practice to claim an amount which is not included in the accounts. **Hence, the Commission cannot allow the cost of power purchase from Inox Renewables (Rs.7.89 crore) in the truing up for 2017-18. KSEB Ltd may claim the amount as and when the same is included in the accounts and for the year in which the same is included in the accounts.***

Based on the above Order KSEB Ltd has requested the Hon'ble Commission to consider Rs.7.89 Cr under purchase of power for the year 2018-19 in addition to the claim made in the Mid-term Performance Review (MPR) petition.

- 5.24 In addition, the Commission has approved power purchase from M/s Kosamattom Finance Ltd, which was connected to grid on 20.03.2018 and injected 1.13 MU during the year 2018-19 at a total cost of Rs 0.06 Crore. KSEB Ltd has initialed the draft PPA with M/s Kosamattom Finance Ltd on 27.10.2018 @ interim tariff of Rs 3.07 per unit and submitted the same before the Commission for approval. The Commission vide the Order dated 27.10.2020 have approved the draft initialed PPA between M/s Kosamattom Finance Ltd and KSEB Ltd for the purchase of power from the 1 MW wind energy generating unit at Ramakkalmedu, Idukki District.
- 5.25 **Small Hydro IPPs:** The Commission vide Order dated 08.07.2019 had approved 88.65 MU from various small hydel IPPs @ Rs 30.84 Crore. However, the actual purchase was 74.51 MU at a cost of Rs 27.98 Crore. There was a reduction of 14.14 MU from the approved quantum, which was stated to be mainly due to flood related destructions.
- 5.26 **Solar IPPs:** The Commission in the MYT Order of 08.07.2019 had approved 70.08 MU from Kasargod solar park (IREDA) for a total power purchase cost of Rs 27.33 Crore. KSEB Ltd has purchased 76.53 MU from IREDA at a cost of Rs 28.89 Crore. In addition, 2.54 MU was procured from solar Project Kuzhalmannam of ANERT. Since the PPA with M/s ANERT is under approval, the cost of this purchase is not accounted in Accounts of 2018-19.

- 5.27 **CPPs:** KSEB Ltd also in their petition submitted that there was a net injection of 12.63 MU by CPPs such as Maniyar, Kuthungal, major solar prosumer CIAL etc during the financial year 2018-19. However, this injection is considered only for loss calculation purpose. Further there is a net injection of 2.05 MU to grid during 2018-19 in connection with the sale of power through open access by Philips Carbon Black Ltd and the cost accounted is Rs 0.12 Crore.
- 5.28 **Solar prosumers:** A net injection of about 4.24 MU has been made by various solar prosumers and the power purchase cost accounted during 2018-19 is Rs 0.75 Crore at APPC rate. The Commission noted that KSEB Ltd had not filed any petition for determination of APPC for the year 2018-19. Therefore, the Commission is of the opinion that payment of Rs 0.75 Cr made to various solar prosumers is irregular. Therefore, KSEB Ltd is hereby directed to file separate petition for approval of the APPC for 2018-19 within 3 months from the date of this order.

### **Analysis and decision of the Commission**

- 5.29 The Commission has examined the power purchase from wind, SHPs and solar plants in the State. The Commission noted that, KSEB Ltd had accounted 12.63 MU of energy injected by the captive consumers as its power purchase. The energy injected by the captive consumers is exclusively for their own use and no sale or purchase between the captive consumer and KSEB Ltd is involved in this transaction. Hence, the energy injected by the captive consumers into the grid for transmission/wheeling power to the industrial location cannot be accounted under the power purchase of the licensee. However, as clarified under Chapter-4, while assessing the T&D losses in the transmission and distribution system, the total energy handled in the system including electricity wheeled by the embedded open access consumers and captive consumers has been considered.
- 5.30 In the original petition, KSEB Ltd has sought approval of Rs.101.06 crore for the purchase of power from small IPPs as against Rs.108.97 crore as per the accounts. KSEB Ltd in the petition stated that since Rs.7.89 crore on account of power purchase cost of Inox was included in the truing up for 2017-18, the same is not claimed in the petition. The Commission notes that the electricity from the 16MW Wind plant of M/s INOX at Kanjikode was synchronized with the grid on 28.03.2017. During the year 2017-18, 16.33MU from INOX plant was injected into the grid for which Rs.7.89 crore was claimed as power purchase cost, though no such expenditure was booked in the accounts in the year 2017-18. This liability has been discharged only in the accounts for 2018-19. Hence, the Commission in the Truing up Order for 2017-18 has not approved the cost citing the reason that, the payment was not effected in the year 2017-18 and hence the said amount was not reflected in the accounts.

Since the payment of RS 7.89 crore to the INOX for the 16.33 MU of energy injected into the grid during 2017-18 was effected in the year 2018-19, ***the Commission has decided to approve Rs 7.89 crore paid to M/s INOX as part of the power purchase cost for the year 2018-19, as a prior period expense.***

- 5.31 Though KSEB Ltd has included the energy from Minar Renewable Energy Project Limited and solar IPP of ANERT, no amount was included as part of the accounts or in the Truing up petition. The Commission notes that KSEB Ltd has not finalized the PPA with ANERT and hence any payment to ANERT without the approval of the Commission is irregular.
- 5.32 The Commission notes that KSEB Ltd procured 295.09 MU from the various small IPPs within the State for an average rate of Rs.3.42/kWh. However, KSEB Ltd has included in the accounts, only these sources with which PPA has been entered into and effected payments only to such generators who have entered into PPA with KSEB Ltd. It is further noted that, the payment to other RE sources who already started injecting power into the grid has to be effected early after entering PPA with them.
- 5.33 **Regarding, Kosamattam, KSEB Ltd stated that the project was connected to the Grid on 20-03-2018 and injected 1.13 MU in 2018-19 at a total cost of 0.06 crore. KSEB Ltd initialed the draft PPA on 27-10-2018 and submitted before the Commission for approval.** The Commission vide Order dated 04-12-2019 approved the levelised tariff for the electricity generated from the 1 MW WEG at Rs 4.23 per unit without the benefit of accelerated depreciation and Rs 3.93 per unit with the benefit of accelerated depreciation. Further, the Commission vide Order dated 27-10-2020 approved the PPA initialed between KSEB Ltd and M/s Kosamattom.
- 5.34 **KSEB Ltd has claimed a very small amount as the cost of power purchase from Kosamattom, Mankulam Micro SHP, Solar IPP of ANERT etc. Since full payment was not made and the same is also not included in the Accounts and no claim is sought for since these purchases are not included in the accounts, the same has not been considered by the Commission in the Truing up.**

Table 5.8  
Approved Cost of Purchase of power from Renewable IPPs for 2018-19

Station	Audited Accounts		As per truing up petition		Approved in Truing up	
	Energy (MU)	Cost (Rs Crore)	Energy (MU)	Cost (Rs Crore)	Energy (MU)	Cost (Rs Crore)
Wind Total	107.90	51.22	107.91	43.33	107.91	43.33
SHEP subtotal	74.51	27.98	74.51	27.98	74.51	27.98

Solar subtotal	97.99	29.64	97.99	29.64	97.99	29.64
Others captive etc.,	14.68	0.12	14.68	0.12	2.05	0.12
<b>Subtotal</b>	<b>295.08</b>	<b>108.96</b>	<b>295.09</b>	<b>101.07</b>	<b>282.46</b>	<b>101.07</b>
Cost of Inox excluded in 2017-18*				7.89		7.89
<b>Total</b>			295.09	108.96	<b>282.46</b>	<b>108.96</b>
Power injected by Captive consumers**					12.63	

\* Claimed by KSEB Ltd vide the additional submission dated 30.07.2021

\*\* Captive consumption shall be considered only for assessing the T&D loss for the total electricity handled by the transmission and distribution system of KSEB Ltd

5.35 ***After examining the details, the Commission approves the cost of power from the renewable IPPs of Rs.108.96 crore for 282.46 MU, including the cost of power injected during 2017-18 from Inox of Rs 7.89 Crore which is allowed as a prior period expenses.***

(3) **Power purchase from RGCCPP- Kayamkulam:**

5.36 KSEB Ltd submitted that, the Commission vide the MYT Order dated 08.07.2019, did not approve any schedule from RGCCPP Kayamkulam for the year 2018-19 due to its high variable cost. However, the Commission had approved Rs 200.00 crore towards fixed cost for the year 2018-19. KSEB Ltd further submitted that, RGCCPP had injected 0.81 MU on 02.02.2019 as part of conducting mandatory energy audit. The energy injected was billed at DSM rate based on the decision taken in the OCC meeting of SRPC held on 03.12.2018.

5.37 The total cost payable to RGCCPP as per the accounts is Rs 181.79 crore as detailed below.

**Table 5.9**  
**Power Purchase from RGCCPP (Rs Cr)**

SI No	Particulars	Rs Cr	Remarks
1	Annual Fixed Charges for FY-19	200	
2	Revision of Capacity charges for FY-15 (Capacity charge revised from Rs 206.77 Cr to Rs 200 Cr.)	-6.77	
3	Revision of Capacity charges for FY-16(Rs 207.13 - Rs 200 Cr.)	-7.13	Disallowed as per true up Order for FY 16.
4	Revision of Capacity charges for FY 17(Rs 207.13 Cr - Rs 200 Cr.)	-7.13	Disallowed as per true up Order for FY 17.
5	<b>Net annual fixed charges (A)</b>	<b>178.97</b>	
6	Deviation charges	-2.62	
7	Income Tax	5.15	
8	Other charges	0.2	
9	<b>Others (B)</b>	<b>2.73</b>	
10	<b>Total cost for the year 2018-19 as per accounts (A+B)</b>	<b>181.70</b>	

5.38 KSEB Ltd further submitted that, as shown in Table above, Rs 21.03 crore (Rs. 6.77 crore in 2014-15, Rs.7.13 crore in 2015-16 and Rs.7.13 crore in 2016-17) pertains to the previous years.

5.39 KSEB Ltd also submitted that, after a series of discussions between KSEB Ltd and NTPC Ltd, the AFC commitment of RGCCPP was agreed to be reduced to Rs 200.00 crore per year during the tariff period 2014-15 to 2018-19. However, the reduction in FC was not made in one go and hence adjustments were required to be done in successive years. The details of the adjustment made in the subsequent years is given below.

**Table-5.10**  
**Details of revision of AFC of RGCCPP (Rs. Cr)**

No	Particulars	2014-15	2015-16	2016-17	2017-18	2018-19	Remarks
1	AFC as per true up petition	221.84	211.22	207.13	200	200	
2	AFC approved by KSERC in TU Order	NA	200	200			Order not issued for 2014-15
3	<b>Disallowance (1-2) (A)</b>	<b>NA</b>	<b>11.22</b>	<b>7.13</b>			
4	<b>AFC adjusted in same year under different sub head or in accounts of subsequent years</b>						
5	AFC as per true up petition	221.84	211.22	207.13	200	200	
6	2014-15- Amount towards revision of capacity charge from 4/2014 to 3/2015- accounted under supplementary claim under RGCCPP and Simhadri as reduction of power purchase cost		13.54	1.53		6.77	Claimed Rs.221.84 Cr in 2014-15. Refund of AFC accounted and trued up in FY 16 (Rs.13.54 Cr) & FY 17 (Rs.1.53 Cr under other charges in Form D3.1) aggregating Rs.15.07 Cr. Balance refund ie over Rs.200 Cr, Rs.6.77 Cr (Rs.21.84 Cr- Rs.14.07 Cr) offered as reduction on power purchase cost in 2018-19.
7	2015-16-Amount towards revision of capacity charge from 4/2015 to 5/2015- accounted as reduction in power purchase cost.		2.13	1.96		7.13	Claimed Rs.211.22 Cr in 2015-16. Refund of AFC accounted and trued up in FY 16 (Rs.2.13 Cr) & FY 17 (Rs.1.96 Cr under other charges of Simhadri in Form D 3.1) aggregating Rs.4.09 Cr. Balance refund ie over Rs.200 Cr, Rs.7.13 Cr (Rs.11.22 Cr-Rs.4.09 Cr) accounted as reduction on power purchase cost in 2018-19 but already disallowed in truing up.
8	2016-17- Refund of AFC obtained for 2016-17 and accounted in 2018-19					7.13	Accounted as reduction in cost for 2018-19, but this sum has already been disallowed in 2016-17 TU.
9	<b>AFC reduction disclosed as part of supplementary claims in TU petition and actually trued up during the year</b>						

10	Pertaining to 2014-15		13.54	1.53			Adjusted in 2015-16 and 2016-17 against the AFC claim for 2014-15 (Rs.15.07 Cr)
11	Pertaining to 2015-16		2.13	1.96			Adjusted in 2015-16 and 2016-17 against the AFC claim for 2015-16 (Rs.4.09 Cr)
12	Total adjustments made for FY 15 and FY 16 (10+11)		<b>15.66</b>	<b>3.49</b>			
13	Disallowance in AFC by KSERC	NA	11.22	7.13			
14	Refund of AFC considered under supplementary claims (6 & 7 above)	15.07	4.09				Refund for 2014-15 (Rs.13.54 Cr+ Rs.1.53 Cr) and (Rs.2.13 Cr and Rs 1.96 Cr) for 2015-16.
15	Disallowance under AFC and double count under supplementary claim as reduction in cost. (14+15)	15.07	15.31	7.13	0	0	For 2014-15, Rs.15.07 Cr already deducted in TU for 2015-16 and 2016-17. Remaining Rs.6.77 Cr is now offered as reduction in cost for 2018-19.
16	Correct disallowance (207.13 Cr-200 Cr)		7.13	7.13			
17	<b>Excess disallowance (15-16)</b>		<b>8.18</b>				

5.40 Accordingly, after making adjustments towards the credit/ adjustments on fixed charge of RGCCPP at Rs 200.00 crore per annum during the period from 2014-15 to 2018-19, the net fixed charge claimed for Truing up for the year 2018-19 is claimed at Rs 204.14 crore. The details are given below.

**Table 5.11**  
**Cost of power purchase from RGCCPP in 2018-19 (Rs Cr)**

Total PP cost for FY-19 as per accounts (Item No 10 of Table D15 of the petition)	181.7
Add AFC disallowed in Truing up petition FY-16 but accounted in FY-19	7.13
Add AFC disallowed in Truing up petition FY-17 but accounted in FY-19	7.13
Add Excess disallowance in Truing up petition FY-16 & FY-17	8.18
<b>Total power purchase cost for RGCCPP claimed</b>	<b>204.14</b>

### **Analysis and Decision of the Commission**

5.41 The Commission examined the claim of KSEB Ltd towards power purchase cost of RGCCPP Kayamkulam in detail. The observation of the Commission in the MYT Order dated 08.07.2019 is extracted below.

“The Commission has been consistently insisting that the fixed cost commitments from this plant has to be reduced. The Commission had approved the fixed cost of Rs.200 crore as part of the truing up of accounts for 2015-16 and 2016-17, as NTPC and KSEB Ltd has renegotiated the fixed cost as per the directions of the Commission. Based on the negotiations the fixed cost has been reduced to Rs.200 crore per year with ***a provision in the***



**agreement for reviewing this cost in 2018-19.** Accordingly, the Government Kerala also consented to this and in its letter no..185/B1/17/PD dated 10-5-2018 has conveyed to KSEB Ltd that:

*“However, the CMD, NTPC agreed to settle AFC payable by KSEBL to NTPC for Kayamkulam plant for entire control period 2014-19 at Rs.200 crore per annum with the liberty to review in 2018-19.NTPC has consented to provide Rs.207.13-Rs.200 crore =7.13 crore directly in the adjustment of this current year payment or reimburse the amount by way of CSR funding to KSEBL*

*Hence I am to request you to take necessary steps to get the excess amount paid to NTPC in prior years reimbursed rather than taking CSR funding”*

5.42 As discussed above, the Commission while Trueing up the accounts of KSEB Ltd for the years 2015-16, 2016-17 and 2017-18 had approved the fixed cost of RGCCPP at Rs 200.00 crore per annum. The True up Order for the year 2014-15 is yet to be approved since the matter is sub judice before the Hon'ble APEX Court. The decision on the settlement of fixed charge of RGCCPP Kayamkulam at Rs 200.00 crore per annum for the period 2014-15 to 2018-19 was reached at Government level in the month of May 2018 only. From this, it is evident that, NTPC has been claiming the fixed charges at the rate approved by CERC during the period from 2014-15 to 2017-18. Hence, the credit adjustment towards fixed charges for the amount already claimed by NTPC towards RGCCPP Kayamkulam has to be duly recognized.

5.43 **Considering these aspects in detail, the Commission hereby approve the power purchase cost of RGCCPP Kayamkulam including the negotiated fixed charge for the year 2018-19 at Rs 204.14 crore as claimed by KSEB Ltd. The details are given below.**

**Table 5.12**  
**Cost of power purchase from RGCCPP in 2018-19 (Rs Cr)**

Total PP cost for FY-19 as per accounts (Item No 9 of Table D15 of the petition)	181.7
Add AFC disallowed in Truing up petition FY-16 but accounted in FY-19	7.13
Add AFC disallowed in Truing up petition FY-17 but accounted in FY-19	7.13
Add Excess disallowance in Truing up petition FY-16 & FY-17	8.18
<b>Total power purchase cost for RGCCPP claimed</b>	<b>204.14</b>

#### **(4) Power Purchase through Long Term Contracts:**

5.44 KSEB Ltd submitted that, since the power demand of the State cannot be met fully from the resources within the State, KSEB Ltd had entered into agreements with various generators outside the state. The Commission vide

the MYT Order dated 08.07.2019 had approved 8321.14 MU at a total cost of Rs 3458.09 crore from various IPPs inclusive of the DBFOO contracts for the year 2018-19. As against this, the actual power purchase was 7951.08 MU at a total cost of Rs 3371.19 crore. The details are given below.

Table 5.13  
Power purchase claimed by KSEB Ltd through various IPPs outside the State for the year 2018-19

Source	KSERC approval		Actual		Truing up		Difference	
	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)
Maithon Power Ltd-I	991.63	415.79	1042.84	441.78	1042.84	441.78	51.21	25.99
Maithon Power Ltd-II	991.63	415.79	1042.86	440.07	1042.86	440.07	51.23	24.28
DVC Mejia	686.96	273.27	586.91	241.26	586.91	241.26	-100.05	-32.01
DVC RTPS	244.94	136.92	131.08	50.63	131.08	50.63	-113.86	-86.29
Jindal Power Ltd-Bid I	1,486.29	555.28	1,410.26	492.5	1410.26	521.98	-76.03	-33.3
Jhabua Power Ltd-PSA II	733.26	332.47	683.83	326.2	683.83	267.41	-49.43	-65.06
Jindal Power Ltd-Bid II	1,117.19	466.45	1,050.85	456.97	1,050.85	472.11	-66.34	5.66
Jhabua Power Ltd-Bid II	625.27	261.06	593.32	317.5	593.32	274.65	-31.95	13.59
JITPL	695.25	290.28	680.58	309.49	680.58	309.49	-14.67	19.21
BALCO	748.98	310.78	728.54	294.8	728.54	294.8	-20.44	-15.98
<b>Subtotal</b>	<b>8321.4</b>	<b>3458.09</b>	<b>7951.08</b>	<b>3371.19</b>	<b>7951.08</b>	<b>3314.19</b>	<b>-370.32</b>	<b>-143.9</b>
* Energy at ex bus								

5.45 KSEB Ltd further submitted that, the power purchase sought for Truing up is different from the power purchase cost as per the audited accounts due to the following.

- 1) In the case of Jindal Power Ltd-PSA I (200 MW) and Jindal Power Ltd-PSA II (150 MW), a provision of Rs -44.63 Cr (Rs 29.48 Cr.+ Rs 15.14 Cr.) is made in accounts towards deduction of various charges claimed during 2017-18. This was subsequently withdrawn by the generator during 2018-19. KSEB Ltd has already incorporated this deduction from the power purchase cost of FY-18 in the truing up petition for that year. Therefore, the accounting adjustment made in 2018-19 of Rs.44.63 Cr has to be discarded to reflect the actual power purchase cost of M/s Jindal power Ltd. Thus KSEB Ltd is claiming the actual power purchase cost of M/s Jindal Power Ltd (200 MW) amounting to Rs 521.98 Cr. and the actual cost of M/s s Jindal Power Ltd (150 MW) amounting to Rs 472.11 Cr for truing up petition. Hon'ble Commission may kindly approve these figures.
- 2) Further Rs 58.79 Cr claimed by Jhabua power Ltd (115 MW) under PSA-I, and 42.84 Cr claimed by Jhabua Power Ltd (100 MW) under

PSA II towards claims on fixed charges and variable charges was not admitted by KSEB Ltd during FY-19. This is mainly due to difference in value of station heat rate taken by the utility and generator for the computation of fixed charges and fuel charges and due to the difference in methodology taken by KSEB Ltd and generator for the calculation of fuel charges. As a result, Rs 101.63 Cr towards fixed and variable charges for 2018-19 had not been admitted.

- 3) KSEB Ltd has not paid these charges during 2018-19 and therefore not claiming Rs 101.63 Cr (Rs.58.79 Cr.+ Rs 42.84 Cr.) in the truing p petition for FY-19.
- 4) The details of the claims under sub para (1), (2) and (3) above is given in the Table below.

Table 5.14  
Power purchase Cost of Jindal Power Stations and Jhabua Power Ltd I & II (Rs Cr)

Source	Power purchase cost for FY-19 as per accounts	Reversal in accounts for FY-19 of various charges accounted in FY-18 but not claimed in TU-18	Power purchase cost claimed for FY-19
	Rs Cr.	Rs Cr.	Rs Cr.
Jindal Power Ltd-Bid I	492.50	29.48	521.98
Jindal Power Ltd-Bid II	456.97	15.14	472.11
<b>Total</b>	<b>949.47</b>	<b>44.63</b>	<b>994.10</b>
Source	Power purchase cost for FY-19 as per accounts	Unadmitted claims	Power purchase cost claimed for FY-19
	Rs Cr.	Rs Cr.	Rs Cr.
Jhabua Power Ltd-Bid I	326.20	58.79	267.41
Jhabua Power Ltd-Bid II	317.50	42.84	274.65
<b>Total</b>	<b>643.70</b>	<b>101.63</b>	<b>542.07</b>

- 5) In the case of M/s Jindal Power Limited (150 MW), M/s Jhabua Power Limited (100 MW) and M/s Jindal India Thermal Power Ltd (100 MW), under bid II, the Commission approved scheduling of power for the limited purpose of estimating the ARR&ERC for the control period at rate equivalent to that of power from BALCO, as the final approvals from Gol and State Government was still awaited.
- 6) KSEB Ltd further submitted that, the Commission vide letter dated 22.12.2017 has allowed the petitioner to draw power from M/s Jindal Power Ltd (150 MW), M/s Jhabua Power Ltd (100 MW), and M/s Jindal India Thermal Power Ltd (100 MW) in view of PSA based on Bid 2. KSEB Ltd submitted that the claims based on the actual expenses incurred in accordance with these PSAs be trued up.
- 7) KSEB Ltd vide letter dated 07.11.2019 has again taken up the matter of getting approval of Government of India for the deviations in the Standard bidding guidelines, with the Government of Kerala for appropriate orders in this matter. Subsequently, MoP vide letter dated

11-12-2019 intimated that the matter has been examined and approval for deviation can be considered by Ministry before issuance of RFQ, RFP and PSA only. The deviations noted by the Commission were not in the RFQ, RFP and PSA and was on the matter of evaluation and award of the bid. MoP has remarked that Government of Kerala/KSEB Ltd may take action as appropriate in consultation with Hon'ble Commission on the matter of deviation during evaluation/award. KSEB Ltd has appraised the matter before Government of Kerala for appropriate decision and the same has been intimated to Hon'ble Commission vide letter dated 26.12.2019.

- 8) There was significant **reduction in energy** supplied from **DVC Mejia** and **DVC Reghunathpur**. The availability of power from Mejia and Reghunathpur TPS was affected due to shortage of coal.

**Analysis and Decisions of the Commission regarding the power purchase from IPPs**

5.46 The Commission has examined in detail the cost of power purchase by KSEB Ltd from various IPPs outside the State. In this matter, the Commission decided to appraise the power purchase under following heads.

- (1) Power purchase from DVC stations and Maithon stations
- (2) Power purchase from approved DBFOO contracts,
- (3) Power purchase from provisionally approved DBFOO contracts and,
- (4) Power purchase from unapproved DBFOO contracts.

**Power purchase from DVC stations and Maithon stations**

5.47 The Commission in the MYT Order dated 08.07.2019 has approved the power purchase from Maithon and DVC Stations as per the approvals given below.

Table 5.15  
Details of power purchase approvals given for Maithon and DVC stations

Source	Contracted Capacity (MW)	Date of approval	Period of contract	Approved Tariff
Maithon Power	150	No.2158/C.Engg/Maithon/2013/1398 dated 26.12.2013	25 years	Approved under Section 62 of Electricity Act 2003
Maithon Power	150	Order dated 08 - 07- 2015	25 years	
DVC Mejia	100	No.500/C.Engg/DVC/2014/348 dated 28.03.2014 & Order dated 21.01.2016	25 years	
DVC RTPS	50		25 years	

5.48 The tariff of these stations are being determined by the Central Electricity Regulatory Commission, as per the Tariff Regulations notified by the Commission from time to time. The Commission vide the MYT Order dated

08.07.2019 had approved the energy drawal from the above stations as given below.

**Table 5.16**  
Energy drawal from Maithon and DVC Stations as per the MYT Order dated 08.07.2019

Trader/Source	contracted capacity	Aux. consumption	PLF	2018-19		2019-20 to 2021-22	
				Ex-bus Energy	Energy at KSEB periphery	Ex-bus Energy	Energy at KSEB periphery
	MW	%	(%)	MU	MU	MU	MU
Maithon power limited	150	6.5	90%	991.63	960.83	1,105.73	1,070.92
Maithon power limited	150	6.5	90%	991.63	960.83	1,105.73	1,070.92
DVC-Mejia TPS	100	5.25	85%	686.96	666.03	705.50	683.99
DVC-Reghunathpur TPS	50	6.5	85%	244.94	237.45	348.10	337.49
Total	450			2,915.16	2,825.14	3,265.06	3,163.32

5.49 The Commission has also examined the actual power purchase and cost from the above stations. The comparison of the actual power purchase from DVC stations with the approvals is given in the Table below.

**Table 5.17**  
Power purchase from Maithon and DVC stations claimed by KSEB Ltd

Source	ARR approval			Actual		Truing up		
	Energy* (MU)	Cost (Rs Cr)	Avg. tariff (Rs/ kWh)	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)	Avg. tariff (Rs/ kWh)
Maithon Power Ltd-I	991.63	387.03	3.90	1042.84	441.78	1042.84	441.78	4.24
Maithon Power Ltd-II	991.63	387.03	3.90	1042.86	440.07	1042.86	440.07	4.22
DVC Mejia	686.96	267.44	3.89	586.91	241.26	586.91	241.26	4.11
DVC RTPS	244.94	113.29	4.63	131.08	50.63	131.08	50.63	3.86
Total	2915.16	1154.79	3.96	2803.69	1173.74	2803.69	1173.74	4.19

5.50 The Commission has examined the power purchase and cost details of the Maithon and DVC stations submitted by KSEB Ltd. As detailed in paragraph 5.47 above, the Commission had approved the power purchase from these stations. The tariff of these stations are being determined by the CERC as per Section 62 of the Electricity Act, 2003. The Commission vide the MYT Order dated 08.07.2019 had approved the power purchase from these stations for the MYT period from 2018-19 to 2021-22. The Commission after appraising the entire aspects of power purchase from Maithon and DVC stations, hereby approve the power purchase from these stations for the year 2018-19, as detailed below.

Table 5.18

True up of power purchase from Maithon and DVC stations for the year 2018-19

Source	ARR		True up 2018-19					
	Approval		Actual		KSEB Ltd Truing up		KSERC Approval	
	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)	Energy* (MU)	Cost (Rs Cr)
Maithon Power Ltd-I	991.63	387.03	1042.84	441.78	1042.84	441.78	1042.84	441.78
Maithon Power Ltd-II	991.63	387.03	1042.86	440.07	1042.86	440.07	1042.86	440.07
DVC Mejia	686.96	267.44	586.91	241.26	586.91	241.26	586.91	241.26
DVC RTPS	244.94	113.29	131.08	50.63	131.08	50.63	131.08	50.63
Total	2915.16	1154.79			2803.69	1173.74	2803.69	1173.74

\* At exbus

- 5.51 ***As detailed above, the Commission hereby approve Rs 1173.74 crore towards the cost of power purchase for 2803.69 MU in the year 2018-19 at an average tariff of Rs 4.19/kWh.***

#### **Power purchase from approved DBFOO contracts**

- 5.52 KSEB Ltd had invited two separate bids, on Design, Build, Finance, Own and Operate (DBFOO) basis for procuring 450MW power from December-2016 onwards for 25 years, and for procuring 400MW power from October-2017 onwards for 25years. Accordingly, the first bid was invited on 05.03.2014 (referred to as Bid 1) and the second bid was invited on 25.04.2014 (referred to as Bid 2). Bid 1 was opened on 31.10.2014 and Bid 2 was opened on 14.11.2014.
- 5.53 Though the bids were invited for 850MW of power, KSEB Ltd sought approval of the Commission for the purchase of 865 MW of power under Section 63 of the Act as per petition No. OP 13 of 2015 dated 21-4-2015. The Commission, after due examination, vide Order dated 30-8-2016 gave approval for purchase of 200 MW of power from M/s Jindal Power Ltd at the rate of Rs.3.60 / kWh being L1 of Bid -1. In the said Order the Commission also approved the purchase of 100 MW of power by KSEB Ltd from M/s Bharat Aluminium Company Ltd, Chhattisgarh at the rate of Rs.4.29/ kWh being the L1 of the Bid -2 dated 25.05.2014. The Order of the Commission is reproduced below:

40. *In view of the facts, circumstances and legal provisions explained above the Commission hereby issues the following orders,-*

- (1) *The purchase of 200 MW of power by KSEB Ltd from M/s Jindal Power Ltd, New Delhi at the rate of Rs.3.60 / kWh as per the Bid -1 dated 05.03.2014 which was opened on 31.10.2014, is approved.*
- (2) *The purchase of 100 MW of power by KSEB Ltd from M/s Bharat Aluminium Company Ltd, Chhattisgarh at the rate of Rs.4.29/ kWh as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014, is approved.*

(3) The approval of the following purchases of power by KSEB Ltd from the bidders other than the lowest bidder (L1) will be considered on getting the approval from Government of India for the deviations from the guidelines and on getting the views from Government of Kerala on the issues raised in paragraphs 34 and 38 of this order.

(a)	The purchase of 115 MW of power by KSEB Ltd from M/s Jhabua Power Ltd, Gurgaon at the rate of Rs.4.15/ kWh as per the Bid -1 dated 05.03.2014 which was opened on 31.10.2014.
(b)	The purchase of 100 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s Jindal India Thermal Power Ltd, New Delhi (L2) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.
(c)	The purchase of 100 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s Jhabua Power Limited, Gurgaon (L3) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.
(d)	The purchase of 150 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s Jindal Power Limited, New Delhi (L4) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.
(e)	The purchase of 100 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s East Coast Energy Private Limited, Andhra Pradesh (L5) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.

(4) A copy of this order will be submitted to Government of Kerala with request to communicate their views after duly considering the relevant facts and legal provisions in view of the Government Order GO (MS) No. 45/2014/PD dated 20.12.2014 sanctioning the purchase of 865 MW of power by KSEB Ltd on DBFOO basis.

(5) KSEB Ltd is directed to follow up the matter in Government of India and in Government of Kerala and to submit the results to the Commission as early as possible, considering the fact that the power purchases as per Bid-1 will have to commence with effect from December, 2016.

(6) All the orders above are subject to the final decisions of the Hon'ble High Court in Writ Petition No. WP (C) 33100/2014.

5.54 As detailed above, the Commission vide the Order dated 30.08.2016 had approved only the purchase of power from L1 of Bid-1 M/s Jindal Power Ltd and L1 of Bid-2 M/s BALCO Ltd. The details of approvals for DBFOO contracts is given in the Table below.

Table 5.19  
Details of power purchase approvals given for projects under DBFOO

Source	Contracted Capacity (MW)	Date of approval	Period of contract
Jindal Power Ltd-Bid I (DBFOO)	200	Order dated 30.8.2016	25 years
BALCO -Bid-I (DBFOO)	100	Order dated 30.8.2016	25 years

5.55 The Commission vide the MYT Order dated 08.07.2019 has approved the power purchase from these sources as given below.

**Table 5.20**  
Summary of the power purchase approved vide the MYT Order dated 08.07.2019 from DBFOO approved contracts

Trader/Source	contracted capacity	Aux. consumption	PLF	Energy		Cost				Avg. Tariff at Kerala periphery (Rs/kWh)
				Ex-bus Energy	Energy at KSEB periphery	Fixed charges	Variable charges	Other charges	Total	
	MW	%	(%)	MU	MU	Rs Cr	Rs Cr	Rs Cr	RsCr	
Jindal Power Limited	200	5.00	90%	1,486.29	1,420.67	389.41	187.29	-22.03	554.67	3.90
BALCO	100	5.00	90%	748.98	718.46	237.43	87.63	-12.34	312.72	4.35
<b>SubTotal</b>	<b>300</b>			<b>2,235.27</b>	<b>2,139.13</b>	<b>626.84</b>	<b>274.92</b>	<b>-34.37</b>	<b>867.39</b>	<b>4.05</b>

5.56 As against the approval, the actual schedule and the cost incurred for the purchase of power from the approved DBFOO contract is given below.

**Table 5.21**  
KSEB petition- Cost of Power purchase claimed from approved DBFOO contracts

Source	KSERC approval			Actual			Truing up		
	Energy at Kerala periphery(MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)	Energy at Kerala periphery(MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)	Energy at Kerala periphery(MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)
Jindal Power Ltd- Bid I	1420.67	554.67	3.90	1343.61	492.50	3.67	1343.61	521.98	3.88
BALCO	718.46	312.72	4.35	700.75	294.80	4.21	700.75	294.80	4.21
<b>Total</b>	<b>2139.13</b>	<b>867.39</b>	<b>4.05</b>	<b>2044.36</b>	<b>787.30</b>	<b>3.85</b>	<b>2044.36</b>	<b>816.78</b>	<b>4.00</b>

5.57 KSEB Ltd has claimed following adjustments in the truing up petition as against the claim in the audited accounts for the following DBFOO contracts.

- (i) Jindal Power Ltd – Bid-1 (200 MW).  
A provision of (-) 29.48 crore was made as deduction of various charges claimed by them during 2017-18, but it was subsequently withdrawn by the generator in 2018-19. KSEB Ltd already incorporated the deduction from the power purchase cost of 2017-18 in the truing petition for that year. Hence this has to reversed while truing up of accounts for the year 2018-19.

Thus the summary of adjustment of power purchase cost proposed in the approved DBFOO contracts is given below.



**Table 5.22**  
**Adjustments proposed in power purchase cost of Jindal India Ltd**

Source	Power purchase cost for FY-19 as per accounts	Reversal in accounts for FY-19 of various charges accounted in FY-18 but not claimed in TU-18	Power purchase cost claimed for FY-19
	Rs Cr.	Rs Cr.	Rs Cr.
Jindal Power Ltd-Bid I	492.50	29.48	521.98

5.58 The Commission has examined the power purchase from the approved DBFOO contracts in detail, the cost as per the audited accounts and the adjustments made in the Truing up petition for the year 2018-19. In the process of Truing up, the Commission has after prudence check been approving the admitted claims of power purchase. Accordingly, while Truing up the cost of power purchase of the approved DBFOO contracts for the year 2017-18, the Commission has not admitted Rs 29.48 crore towards the unadmitted claim of Jindal Power Ltd. However, KSEB Ltd clarified that this claim of Rs 29.48 crore was settled during 2018-19 by reducing it from the bills of Jindal Power Ltd for 2018-19 purchase. Hence this claim is now requested to adjust from the power purchase cost for the year 2018-19, the corresponding adjustments has to be made in the accounts for the year 2018-19.

5.59 ***The Commission after appraising the entire aspects in detail, hereby approve a total cost of Rs.816.78 crore as the cost of power purchase of 2044.36 MU at Kerala periphery from the approved DBFOO contracts at an average tariff of Rs.3.82/kwh as detailed below.***

**Table 5.23**  
**Approved DBFOO contracts- cost of power purchase approved**

Source	Actual			Truing up			KSERC approval		
	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/ kWh)	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/ kWh)	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/ kWh)
Jindal Power Ltd-Bid I	1343.61	492.50	3.67	1343.61	521.98	3.88	1343.61	521.98	3.88
BALCO	700.75	294.80	4.21	700.75	294.80	4.21	700.75	294.80	4.21
Total	2044.36	787.30	3.85	2044.36	816.78	4.00	2044.36	816.78	4.00

**Power purchase from provisionally approved contracts**

5.60 KSEB Ltd in its letter 15.11.2016 had requested to approve the the purchase of 115 MW of power from the L2 bidder of Bid 1, i.e., M/s Jhabua Power Ltd. The Commission in the Order dated 22-12-2016, had **provisionally approved** the purchase of 115MW of power from Jabhua Power Ltd, L2 bidder of Bid 1, in view of the facts, circumstances and urgency explained by KSEB Ltd and in view of the decision of Government of Kerala in GO (Rt) No.238/2016/PD dated 31.11.2016. Relevant portion of the Order is given below:

*“In view of the facts, circumstances and urgency explained by KSEB Ltd and in view of the decision of Government of Kerala in GO (Rt) No.238/2016/PD dated 31.11.2016, the Commission hereby approves provisionally the purchase of 115 MW of power by KSEB Ltd from M/s Jhabua Power Ltd at the rate of Rs.4.15 /kWh as per the power purchase agreement dated 31.12.2014, subject to the clearance from Government of India and subject to the final decision of the Hon’ble High Court in Writ Petition No. WP (C) 33100/2014.”*

- 5.61 As mentioned above, the Commission had given a conditional provisional approval for purchase of power from M/s Jhabua Power Ltd, subject to the approval of the Central Government on this matter. In the meantime, However, Ministry of Power, vide its letter dated 18.11.2016 clarified that,

*“the deviations as pointed out by the KSERC would have been got vetted and approved by the before the issuance of RFQ, RFP and PSA and not at this stage. As per the Guidelines deviations on the provisions of the bidding documents are approved if necessary and not the actions taken by the utility as per practice or precedent.”*

Further, the Central Government vide the letter dated 11<sup>th</sup> December 2019, stated that

*“The views of Ministry of Power as communicated earlier vide letter dated 18.11.2016 are reiterated. The deviations as pointed out by KSERC would have been got vetted and approved by the Central Government before issuance of RFQ, RFP and PSA and not at this stage. Government of Kerala/ KSEB Ltd may take actions as appropriate in consultation with KSERC.”*

The Commission also noted that while the Central Government had refused to approve the unauthorized deviations by KSEB Ltd in the tender process. The State Government has also neither approved the deviations pointed out by KSERC nor accorded final approval to the purchase of the unapproved DBFOO contracts.

- 5.62 As above, the Central Government has affirmatively communicated that, it shall not grant approval for the deviations made by KSEB Ltd for accepting the L2 bidder of Bid-1 also. Hence it is clear that the tenders floated by KSEB Ltd and its further processes did not comply with the requirements of Section 63 of the Electricity Act, 2003, which is reproduced below.

*“63. Determination of tariff by bidding process,- Notwithstanding anything contained in Section 62, the Appropriate Commission shall adopt the tariff if such tariff has been determined through transparent process of bidding in accordance with the guidelines issued by the Central Government’.*

- 5.63 Under such circumstances, the Commission is not in a position to approve the tariff of L2 of Bid-1 M/s Jhabua Power Ltd. However, the Commission noted the

fact that, the power from M/s Jhabua Power Ltd, L2 bidder of Bid-1 was scheduled and supplied to the consumers of the State during this period.

5.64 It is here relevant to point out that, the Commission, vide the MYT Order dated 08.07.2019 in petition OA No.15/2018 had, in a similar situation of scheduling of power from unapproved DBFOO contracts in Bid-2, has decided to adopt the L1 rate of Bid-2, i.e. of M/s BALCO. Since it is now clear that the Central Government has refused to approve the post tender deviations made by KSEB Ltd. while finalizing and awarding the contracts other than to L1 bidder, the Commission has decided to follow the same principle for approving the cost of purchase of power from M/s Jhabua Power Ltd for Bid-1 also. It is also very important to point out that KSEB Ltd had while finalizing the bids and awarding the PPA to M/s Jhabua Power Ltd accepted their price bid of Rs.4.15/kWh in violation of the Central guidelines *which neither authorized bucket filling nor purchase at differential price as in this case*. The additional financial commitment agreed to with the L2 bidder of Bid 1 M/s Jhabua Power Ltd was a whopping 0.55 paise i.e. Rs.4.15/kWh over the L1 price of Jindal Power Ltd. of Rs.3.60/kWh. Under such circumstances, the Commission has decided to restrict the rate to that of Jindal Power Ltd (L1 of Bid-1 of DBFOO contracts) for the approval of cost of power purchase from M/s Jhabua Power Ltd.

5.65 As detailed in Table 5.21 above, the rate of Jindal Power Ltd (L1 of Bid-1) approved for the year 2018-19 is Rs 3.88/unit. Based on this rate, the cost of power purchase from the M/s Jhabua Power Ltd (L2 of Bid-1) contract is detailed below.

Table 5.23(a)  
Cost of power purchase approved from Jabua Power Ltd (115) MW (L2 of Bid-1)

Source	Actual			Truing up			KSERC approval			Dis-allowance (Rs.Cr)
	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)	
Jhabua Power Ltd-Bid-1	655.21	326.20	4.98	655.21	267.41	4.08	655.21	254.22	3.88	13.19

The above Table reveals that KSEB Ltd had during 2018-19 purchased 683.83 MU of power at a total cost of Rs. 326.20 crore at an average tariff of Rs.4.98/kWh. KSEB Ltd however has in their truing up petition claimed Rs.267.41 crore only. KSEB Ltd submitted that Rs.58.79 crore claimed by M/s Jhabua Power Ltd-(115 MW-L2 of Bid 1) was not admitted by KSEB Ltd during the year 2018-19. This is due to the difference in value of station heat rate adopted by KSEB Ltd and the generator for the computation of fixed charge and fuel charge. Thereafter, based on an appeal, this dispute was decided by Hon. APTEL in favor of KSEB Ltd. However, the generator filed an appeal against the judgement of Hon. APTEL before the Hon. Supreme Court of India

and there is no stay on this matter. Since the matter is pending dispute, KSEB Ltd has based on accrual accounting principles accounted this amount of Rs 58.79 crore as a contingent liability.

***As detailed above, the Commission provisionally approves the cost of power purchase from M/s Jhabua Power Ltd (Bid-1 of L2) at Rs.254.22 crore as against Rs 267.41 crore claimed by KSEB Ltd. Excess payment of Rs 13.19 crore paid over and above the L1 rate is hereby dis allowed.***

### **Power Purchase from unapproved DBFOO contracts**

5.66 The Commission has noted that, KSEB Ltd had in their petition included the cost of power purchase from the following three unapproved DBFOO contracts for True up in the year 2018-19.

- (1) 150MW from Jindal Power Limited
- (2) 100MW from Jindal India Thermal Limited
- (3) 100 MW from Jhabua Power Limited.

5.67 In this matter, the Commission has noted the following.

- (1) KSEB Ltd had invited two separate bids, on Design, Build, Finance, Own and Operate (DBFOO) basis for procuring 450MW power from December-2016 onwards for 25 years, and for procuring 400MW power from October-2017 onwards for 25years. Accordingly, the first bid was invited on 05.03.2014 (referred to as Bid 1) and the second bid was invited on 25.04.2014 (referred to as Bid 2). Bid 1 was opened on 31.10.2014 and Bid 2 was opened on 14.11.2014.
- (2) KSEB Ltd sought approval of the Commission for the purchase of 865 MW of power under Section 63 of the Act as per petition No. OP 13 of 2015 dated 21-04-2015. The Commission vide order dated 31-08-2016 gave approval for purchase of 200 MW of power from M/s Jindal Power Ltd at the rate of Rs.3.60/ kWh being L1 of Bid -1. In the same order, the Commission had also approved the purchase of 100 MW of power by KSEB Ltd from M/s Bharat Aluminium Company Ltd, Chhattisgarh at the rate of Rs.4.29/ kWh being the L1 of the Bid -2 dated 25.04.2014. The relevant portion of the order is extracted below.

*“40. In view of the facts, circumstances and legal provisions explained above the Commission hereby issues the following orders,-*

*(1) The purchase of 200 MW of power by KSEB Ltd from M/s Jindal Power Ltd, New Delhi at the rate of Rs.3.60 / kWh as per the Bid -1 dated 05.03.2014 which was opened on 31.10.2014, is approved.*

*(2) The purchase of 100 MW of power by KSEB Ltd from M/s Bharat Aluminium Company Ltd, Chhattisgarh at the rate of Rs.4.29/ kWh as*

per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014, is approved.

(3) The approval of the following purchases of power by KSEB Ltd from the bidders other than the lowest bidder (L1) will be considered on getting the approval from Government of India for the deviations from the guidelines and on getting the views from Government of Kerala on the issues raised in paragraphs 34 and 38 of this order.

(a) The purchase of 115 MW of power by KSEB Ltd from M/s Jhabua Power Ltd, Gurgaon at the rate of Rs.4.15/ kWh as per the Bid -1 dated 05.03.2014 which was opened on 31.10.2014.

(b) The purchase of 100 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s Jindal India Thermal Power Ltd, New Delhi (L2) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.

(c) The purchase of 100 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s Jhabua Power Limited, Gurgaon (L3) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.

(d) The purchase of 150 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s Jindal Power Limited, New Delhi (L4) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.

(e) The purchase of 100 MW of power at the rate of Rs.4.29/ kWh by KSEB Ltd from M/s East Coast Energy Private Limited, Andhra Pradesh (L5) as per the Bid -2 dated 25.05.2014 which was opened on 14.11.2014.

(4) A copy of this order will be submitted to Government of Kerala with request to communicate their views after duly considering the relevant facts and legal provisions in view of the Government Order GO (MS) No. 45/2014/PD dated 20.12.2014 sanctioning the purchase of 865 MW of power by KSEB Ltd on DBFOO basis.

(5) KSEB Ltd is directed to follow up the matter in Government of India and in Government of Kerala and to submit the results to the Commission as early as possible, considering the fact that the power purchases as per Bid-1 will have to commence with effect from December, 2016.

- (3) As is clear from the foregoing paras, the Commission had not given approval for the purchase of the following 450 MW of power contracted through DBFOO basis under-bid2, for want of approval from the Central Government for the deviations from the Central Government and on getting approval of the State Government on the purchase.

Table 5.24

Details of contracted quantum for which approval is not given

Name of generator	Quantum contracted
Jindal Power Ltd Bid-II,	150 MW

Jhabua Power Ltd-Bid II	100 MW
Jindal India thermal power Limited-Bid-II	100 MW
East coast energy Pvt Ltd-Bid-II	100 MW
Total	450 MW

The Commission also noted that since M/s East Coast Energy Pvt Ltd did not commission the project as scheduled, the contract with them was cancelled by KSEB Ltd. Thus the quantity of the unapproved contract was reduced to 350MW.

- (4) KSEB Ltd further submitted that though they had approached the Government of India for approval of deviations from the guidelines, the Central Government has not approved the deviations.

Central Government , vide its letter dated 18.11.2016 clarified that,

*“the deviations as pointed out by the KSERC would have been got vetted and approved by the before the issuance of RFQ, RFP and PSA and not at this stage. As per the Guidelines deviations on the provisions of the bidding documents are approved if necessary and not the actions taken by the utility as per practice or precedent.”*

Further, the Central Government vide the letter dated 11<sup>th</sup> December 2019, stated that

*“The views of Ministry of Power as communicated earlier vide letter dated 18.11.2016 are reiterated. The deviations as pointed out by KSERC would have been got vetted and approved by the Central Government before issuance of RFQ, RFP and PSA and not at this stage. Government of Kerala/ KSEB Ltd may take actions as appropriate in consultation with KSERC.”*

The Commission also noted that while the Central Government had refused to approve the unauthorized deviations by KSEB Ltd in the tender process. The State Government has also neither approved the deviations pointed out by KSERC nor accorded final approval to the purchase of the unapproved DBFOO contracts.

- (5) As above, the Central Government has affirmatively communicated that, it shall not grant approval for the deviations made by KSEB Ltd for accepting the L2 bidder of Bid-1 also. Hence it is clear that the tenders floated by KSEB Ltd and its further processes did not comply with the requirements of Section 63 of the Electricity Act, 2003, which is reproduced below.

“63. Determination of tariff by bidding process,- Notwithstanding anything contained in Section 62, the Appropriate Commission shall adopt the tariff if such tariff has been determined through transparent process of bidding in accordance with the guidelines issued by the Central Government’.

- (6) Subsequently, as per the request of KSEB Ltd and in view of the Government Order G.O.(Ms) No.22/2017/PD dated 21-10-2017, the Commission as per the letter dated 22-12-2017, allowed KSEB Ltd to schedule the contracted power of 350MW from 1-10-2017 from three projects of bid 2, ie., 100 MW of power from M/s Jindal India Thermal Power Ltd, New Delhi, 100 MW of power from M/s Jhabua Power Limited and 150 MW of power M/s Jindal Power Limited. The State Government vide the GO (Ms) No.22/2017/PD dated 21.10.2017 ordered as follows

*“ KSEBL has concluded long term agreements for 25 years for 550MW of power on the basis of e-tenders on DBFOO terms with effect from 01.01.2017. These contracts were concluded on the basis of an analysis of the demand-supply gap in Kerala and the projected availability of transmission corridors from the States in which the generating plants are located, to Kerala. Pending detailed consideration of the matter, Government are pleased to hereby permit KSEBL to draw the contracted power with effect from 01.10.2017. Final orders in the matter shall be issued in due course.”*

The letter of the Commission dated 22.12.2017 is extracted below for ready reference.

“ The Commission has examined the order of State Government vide order No G.O.(Ms)No.22/2017/PD dated 21.10.2017 permitting K S E B Ltd. to draw the power contracted power and the request of K S E B Ltd., to grant approval to draw the power contracted power under DBFOO from 01/10/2017 on wards.

In view of the State Government order dated 21.10.2017, K S E B Ltd. may draw the contracted power on DBFOO from 01/10/2017 onwards. It may please be noted that the Power Department G.O dated 21.10.2017 is only an interim measure and final orders are yet to be issued. Since the Government is yet to give its final decision, it is informed that, the Commission may approve the power purchase proposal including the rate for the pending approvals under DBFOO only after the State Government accords the final approval for the entire power purchase under DBFOO.”

As seen from the Commission’s letter, the Commission has made it clear that since the G.O dated 21-10-2017 is only an interim measure and final orders are yet to be issued, the Commission may approve the power purchase proposal including the rate for the pending approvals under DBFOO only after State Government accords final approval for the entire power purchase under DBFOO.

- (7) Thereafter, KSEB Ltd in their MYT petition dated 31.10.2018 for the period from 2018-19 to 2021-22 had included the schedule of power from

the three unapproved DFBOO contracts also as the sources of power purchase.

- (8) The Commission after detailed examination of the projected power requirement vis-à-vis the availability, permitted scheduling of power from the unapproved DBFOO contracts vide the MYT Order dated 08.07.2019 strictly at the rate to be paid to BALCO generator, which is the L1 in Bid-2. It is here important to note that the Commission had used the word “rate” which is singular and not “rates” which means more than one. Further, as per the tender this “rate” is for delivery at Kerala Periphery. The Commission further clarifies that, though the price of electricity may have a fixed and variable cost, usage of the term “rate” is clearly indicated that it is the total of both these cost and is a unitary price at Kerala Periphery.
- (9) Hence KSEB Ltd is not at liberty to separately calculate the fixed and variable cost component for these 3 unapproved contract, but instead must pay the final ‘rate’ ie the fixed cost plus variable cost paid to M/s BALCO at the Kerala periphery on each and every bill. No deviation from this rate is allowed and any amount paid over and above the rate paid to L1 of Bid-2 BALCO is irregular and not allowable.
- (10) In addition, the Commission also clearly stated in the order that, the consideration of schedule strictly as per the request of KSEB Ltd shall not be **construed as an approval of the power purchase, rate or of the PPA itself as per Section 63 of the Act 2003.**

The relevant portion of the MYT order is extracted below.

**“5.104 Hence the Commission has considered scheduling power from the three projects of Bid-2, ie., 100 MW of power from M/s Jindal India Thermal Power Ltd, New Delhi, 100 MW of power from M/s Jhabua Power Limited and 150 MW of power M/s Jindal Power Limited for the limited purpose of estimating the ARR&ERC for the control period. Since the required approvals from Gol and State Government is still awaited, the Commission is constrained to use the rate equivalent to the cost of power from Balco, which is the L1 of Bid 2. The Commission emphasises that this consideration is only for the purposes of estimating the cost of power provisionally in the ARR and shall not be construed as an approval of the power purchase, rate or of the PPA itself as per Section 63 of the Act which can be considered only after the fulfilment of conditions specified by the Commission in its order dated 31-8-2016. It is relevant here to note that the Commission in their Order on suomotu determination of Tariff dated 17-4-2017 had approved**



***Rs.4.00 per unit for the purchase of additional quantity of power for meeting the deficit from traders and exchanges.”***

- 5.68 Accordingly, the Commission vide the MYT Order dated 08.07.2019 had allowed KSEB Ltd to schedule power from unapproved DBFOO contracts strictly at the rate of BALCO generator, which is the L1 in Bid-2. The Commission also clearly stated in the Order that, the consideration of schedule strictly as per the request of KSEB Ltd shall not be **construed as an approval of the power purchase, rate or of the PPA itself as per Section 63 of the Act 2003.**
- 5.69 The above Order makes the distinction clear regarding the difference between “approval of PPA” and “allowing to schedule power” from the DBFOO unapproved generators. It is to be noted that the scheduling of power from any source is based on SLDCs assessment of power demand and its availability. Hence ‘scheduling of power” is directly dependent upon demand which varies intraday as well as on inter day basis. It is therefore clear that, merely allowing the scheduling of power from any source did not give a free license to KSEB Ltd to misconstrue it as “approval of PPA or power purchase” and to proceed as per the unapproved PPA terms and conditions.
- 5.70 The Commission had allowed the scheduling of power considering the request of KSEB Ltd on regarding the anticipated shortage of power vide letter dated 22-12-2017. Hence letter the Commission allowed KSEB Ltd to schedule power of 350MW from 01-10-2017 from the three projects of Bid-II, i.e., 100 MW of power from M/s Jindal India Thermal Power Ltd, New Delhi, 100 MW of power from M/s Jhabua Power Limited and 150 MW of power M/s Jindal Power Limited. It is to be specifically noted that in the said letter, ***the Commission has made it clear that since the State Government’s G.O dated 21-10-2017 is only an interim measure and final orders are yet to be issued, the Commission may approve the power purchase proposal including the rate for the pending approvals under DBFOO only after State Government accords final approval for the entire power purchase under DBFOO.*** The details are given below:

Table 5.25  
Details of power scheduling

Source	Contracted Capacity (MW)	Date of Commission’s Letter
Jindal Power Ltd-Bid II (DBFOO)*	150	Letter dated 22.12.2017
Jhabua Power Ltd-Bid-II (DBFOO)*	100	Letter dated 22.12.2017
JITPL* - Bid-II (DBFOO)	100	Letter dated 22.12.2017

- 5.71 The Commission further notes that in the MYT Tariff Order for 2018-19 to 2021-22 dated 08-07-2019, the Commission has specifically stated that the

scheduled power from the three unapproved PSAs in Bid-2 shall be at the rate equivalent to the cost of power of BALCO, which is L1 of Bid-2. The relevant portion of the Order is reproduced below:

*“5.104 Hence the Commission has considered scheduling power from the three projects of Bid-2, i.e., 100 MW of power from M/s Jindal India Thermal Power Ltd, New Delhi, 100 MW of power from M/s Jhabua Power Limited and 150 MW of power M/s Jindal Power Limited for the limited purpose of estimating the ARR&ERC for the control period. Since the required approvals from Gol and State Government is still awaited, the Commission is constrained to use the rate equivalent to the cost of power from Balco, which is the L1 of Bid 2. The Commission emphasizes that this consideration is only for the purposes of estimating the cost of power provisionally in the ARR and shall not be construed as an approval of the power purchase, rate or of the PPA itself as per Section 63 of the Act which can be considered only after the fulfilment of conditions specified by the Commission in its order dated 31-8-2016.”*

- 5.72 The Commission further clarify that, in the in the MYT Tariff Order dated 08-07-2019, the Commission has stated that for the scheduling of power from the unapproved PSAs in Bid II, the Commission will consider only the same rate as that of BALCO, which is L1 of Bid-II. At this stage, it is important to specifically state as to what the Commission meant by the word ‘rate’. It is an established fact in all conventional power purchase, the cost of power has two elements – fixed cost and variable or fuel costs. While the fixed cost is generally predetermined and included in the PPAs, the variable in fuel cost will vary based on factors such as cost of fuel, calorific value, transportation cost, heat rate, etc.
- 5.73 The Commission notes that KSEB Ltd’s bid was for delivery of power at Kerala periphery and while finalizing the bids, the aggregate of fixed and variable costs were taken as the criteria to determine the L1 bidder. Hence this aggregate cost at Kerala periphery as used by KSEB Ltd to determine the L1 bidder is the same cost referred to by the Commission as “rate”. To put it clearly, it is the sum total of the fixed and variable cost at the Kerala periphery and does not distinguish between the different components of the cost for delivery at Kerala periphery. It is also important to note that the Commission has used “rate” and not rates, clearly converging its intent not to allow any amount greater than what is paid to L1 bidder as per their monthly billing. To elaborate, if L1 bidder of Bid 2, i.e., M/s BALCO supplies power at say, Rs.4.17/kWh at Kerala Periphery, then the other 3 bidders who were allowed to schedule power shall also obtain a maximum amount of Rs.4.17/kWh and not a paise more.

- 5.74 The Commission also noted that in response to Government of Kerala's letter dated 15.09.2016, Ministry of Power, vide its letter dated 18.11.2016 clarified that, *"the deviations as pointed out by the KSERC would have been got vetted and approved by the before the issuance of RFQ, RFP and PSA and not at this stage. As per the Guidelines deviations on the provisions of the bidding documents are approved if necessary and not the actions taken by the utility as per practice or precedent."*

Further, the Central Government vide the letter dated 11<sup>th</sup> December 2019, reiterated the same position. "Appropriate actions on the deviations as pointed out by the KSERC may take by Government of Kerala/ KSEB Ltd in consultation with KSERC." It is also true that the State Government has neither approved the deviations pointed out by KSERC nor accorded final approval of the purchase of power from the unapproved DBFOO contracts.

- 5.75 Under such circumstances, the Commission cannot approve the PPA of the above three DBFOO contracts and, KSEB Ltd cannot be permitted to make payments to these generators as per the unapproved PSAs rates and conditions in the unapproved PPAs. As per the Article 4 of the signed PSA, Commission's approval of the PSA is a condition precedent for the PSAs coming into effect. The relevant Clauses of the PSA is extracted below.

*"4.112. The supplier may, upon providing the Performance Security to the utility in accordance with Article 9, at any time after 60 (sixty) days from the date of this Agreement or an earlier day acceptable to the Utility, by notice require the Utility to satisfy any or all of the Conditions Precedent set forth in this Clause 4.1.2 within a period of 30(thirty) days of notice, or such longer period not exceeding 60 (sixty) days as may be specified therein, and the Conditions Precedent required to be satisfied by the Utility shall be deemed to have been fulfilled when the utility shall have:*

- (a) executed and procured execution of the Default Escrow Agreement in accordance with the provisions of Clause 23.1;*
- (b) executed the Deed of Hypothecation in accordance with the provisions of Clause 23.1.2;*
- (c) procured approval of the Commission for payment of Tariff by the Utility to the Supplier in accordance with the provisions of this Agreement; and*
- (d) deleted*

*Provided that upon request in writing by the Utility, the Supplier may, in its discretion, grant extension of time, not exceeding 180 (one hundred and eighty) days, for fulfilment of the Conditions Precedent set forth in this Clause 4.1.2.*

Hence the PSA lapsed. Also the Section 86 of the EA-2003 stipulate that prior approval of the State Commission is mandatory for entering into PPA by the distribution licensees with generators.

5.76 It was very clearly and emphatically directed in the MYT Order that, the rate for scheduling of power from these unapproved/ lapsed PPAs was considered solely for the purpose of ARR and limited to the BALCO rate, i.e, the rate at Kerala periphery for the purchase of power from BALCO generator, the L1 bidder in Bid-2.

5.77 Thus, as mentioned in the Commission's Order dated 08-07-2019, the Commission cannot consider the excess payment made to these generators in the cost of purchase of power from these projects as part of truing up for 2018-19. Further, such purchases made shall not under any circumstances be construed as an approval of PPA or adoption of tariff under Section 86 or Section 63 respectively of the Electricity Act. The consideration was purely for estimating the power purchase cost for the year 2018-19. The Commission is of the view that since the scheduled power was drawn by KSEB Ltd, it cannot deny payment to the generator. Hence, as specifically mentioned in the MYT Order dated 08-07-2019, the Commission is constrained to **use the rate equivalent to cost of power from BALCO** i.e., the rate/kWh paid to BALCO for delivery at Kerala Periphery. Based on this Order, and considering the fact that a PSU cannot deny payment for the power drawn, the Commission for the purpose of truing up has considered the rate, i.e., price /kwh of power purchased from these PPAs at the actual rate paid to BALCO(kwh rate) under Bid -II for the year 2018-19.

5.78 As detailed under Table 5.21 above, the rate of BALCO approved in the Truing up for the year 2018-19 is Rs 4.21/unit at Kerala periphery. Based on this rate, the cost of power purchase from the three unapproved DBFOO contracts for the year 2018-19 is calculated below.

Table 5.26  
Summary of the power purchase of unapproved DBFOO contracts

Source	Actual			Truing up			KSERC approval			
	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/ kWh)	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/ kWh)	Energy at Kerala periphery (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/ kWh)	Dis allowance (Rs.Cr)
BALCO	700.75	294.80	4.21	700.75	294.80	4.21	700.75	294.80	4.21	
Un approved DBFOO contracts										
Jindal Power Ltd-Bid II	1011.31	456.97	4.52	1011.31	472.11	4.67	1011.31	425.76	4.21	46.35
Jhabua Power Ltd-Bid II	568.48	317.50	5.59	568.48	274.65	4.83	568.48	239.33	4.21	35.32

JITPL	653.99	309.49	4.73	653.99	309.49	4.73	653.99	275.33	4.21	34.16
Sub total	2233.79	1083.96	4.85	2233.79	1056.25	4.73	2233.79	940.42	4.21	115.83

***The Commission hereby approves Rs 940.42 crore for the purchase of 2233.79 MU from the three unapproved DBFOO PSAs at an average rate of Rs 4.21/unit at Kerala periphery***

5.79 The above table clearly shows that, KSEB Ltd had paid an excess amount of Rs 115.83 crore for the year 2018-19. This payment is unauthorized and ***the Commission hereby disallows the amount of Rs. 115.83 crore from the trued up power purchase cost.***

5.80 ***The excess payment made to the unapproved DBFOO contracts are given below.***

Table 5.26(a)  
Power purchase cost disallowed due to payment at higher rate.

Source	Energy (MU)	Actual Paid (Rs. Cr)	Actual due (Rs Cr)	Over Payment (Rs. Cr)
Jhabua Power Ltd-Bid -1	655.21	267.41	254.22	13.19
Jindal Power Ltd-Bid II	1011.31	472.11	425.76	46.35
Jhabua Power Ltd-Bid II	568.48	274.65	239.33	35.32
JITPL	653.99	309.49	275.33	34.16
<b>Total</b>	<b>2324.75</b>	<b>1323.66</b>	<b>1194.65</b>	<b>129.01</b>

In view of the significant overpayment made by KSEB Ltd as shown in Table above amounting to Rs.129.01 crore, ***the Commission hereby directs KSEB Ltd to bring this matter to the notice of the KSEB Ltd's Board of Directors for further necessary action as deemed appropriate.***

**Power purchase considered under short term contracts:**

5.81 KSEB Ltd in their Truing up petition submitted that, in the year 2018-19, there was a reduction in energy availability from CGS by 1033.96 MU, reduction in energy availability from long term contracts by 370.32 MU and hydro generation by 236.27 MU from the approved level. Thus, the total reduction in energy availability was 1610.64 MU. In order to meet the shortages, KSEB Ltd had purchased 476.99 MU at Kerala periphery through energy exchanges, 252.45 MU through deviation settlement and availed 142.77 MU through banking arrangements totaling 872.21 MU.

(a) Power purchase from Energy exchanges

5.82 KSEB Ltd has submitted that, during the year 2018-19, KSEB Ltd had purchased 467.99 MU at Kerala periphery at a cost of Rs 165.61 Cr from IEX

and 9 MU at Kerala periphery for a cost of Rs.4.53 Cr from PXIL. The details are as follows:

**Table 5.27**  
**Power purchase through exchanges**

Source	Energy* ( MU)	Cost (Rs Cr)	Avg. rate (Rs/ kWh)
IEX	467.99	165.61	3.54
PXIL	9.00	4.53	5.03
Sub total	476.99	170.14	3.57

\* Energy at Kerala periphery

### **Analysis and Decision of the Commission**

- 5.83 The Commission noted that it has been permitting the licensee to purchase electricity from the exchanges through day ahead market for meeting contingency, and also for optimizing the cost of power purchase.

As seen from the Table above, during the year 2018-19, KSEB Ltd had purchased 476.99 MU at an average rate of Rs 3.57/unit. The Commission noted the rate of purchase from the PXIL is higher than the average cost of power purchase @Rs 3.54/unit purchased from IEX at Kerala periphery. However, considering meagre quantum of 9 MU and also considering the fact of PXIL is also a competitive bidding platform for day ahead electricity market and is regulated by CERC, ***the Commission hereby approves the power purchase through exchanges of 476.99 MU at Kerala periphery at the total cost of Rs 170.14 crore.***

#### **(b) Power availed through swap arrangements**

- 5.84 KSEB Ltd submitted that, the Commission had vide Order dated 28.05.2019 on OP No 33/2019 approved the banking arrangements with M/s Rajasthan Urja Vikas Nigam Ltd (RUVNL) through the trader M/s TPTCL with a trading margin of Ps 0.47/unit, and through the trader M/s NVVN with a trading margin of paise 0.47/unit.

Further, the Commission vide Order dated 24.10.2019 on OP No 47/2019 approved the banking arrangements with M/s HPPC through the trader MPPL for 150MW with a trading margin of Ps 3.20/unit, with NPCL through the trader MPPL for 50MW with a trading margin of Ps 3.50/unit and with HPPC through Arunachal Pradesh Power Corporation Pvt Ltd (APPCPL) for 100 MW at a trading margin of paise 3/unit for availing power in FY-19. The summary of the banking arrangements including its supply period, trading margin, return period, quantum of power to be returned etc are given below.

**Table 5.28**  
**Details of contracts through banking arrangement**

SI No	Supply						Return					
	Trader	Utility	Period		Quantum MW	Duration Hrs	Utility	Return %	Period		Return duration hrs	Total Return MW
			From	To					From	To		
1	MPPL	HPPC	16-02-2019	15-03-2019	150	20-24	KSEB Ltd	100%	01-07-2019	31-07-2019	0-6	90.32
2	MPPL	NPCL	01-03-2019	31-03-2019	50	RTC	KSEB Ltd	105%	01-07-2019	30-09-2019	RTC	17.69
3	APPCPL	HPPC	01-03-2019	15-03-2019	100	RTC	KSEB Ltd L	105%	01-07-2019	31-08-2019	RTC	25.4
4	APPCPL	HPPC	16-03-2019	31-03-2019	150	RTC	KSEB Ltd	105%	01-07-2019	31-08-2019	RTC	40.65
5	NVVN	KSEB Ltd	01-11-2018	15-11-2018	90	06-Nov	RUVNL	102%	01-05-2019	30-06-2019	RTC	11.91
			15-11-2018	30-11-2018	60							
			01-12-2018	15-12-2018	30							
			16-12-2018	31-12-2018	45							
6	TPTCL	KSEB Ltd	01-11-2018	15-11-2018	60	06-Nov	RUVNL	102%	01-05-2019	30-06-2019	RTC	7.94
			15-11-2018	30-11-2018	40							
			01-12-2018	15-12-2018	20							
			16-12-2018	31-12-2018	30							

Based on the above arrangements, KSEB Ltd received 142.77 MU at Kerala periphery in the year 2018-19 and the total cost incurred is Rs 1.989 crore. The details are given below.

**Table 5.29**  
**Power availed through banking arrangement thru swap**

Particulars	Energy at exbus (MU)	Energy at Kerala periphery (MU)	(Rs Cr)
Power from HPPC through MPPL	16.8	16.39	1.989
Power from HPPC through APPCPL	92.24	90.06	
Power from NPCL through MPPL	37.2	36.32	
<b>Subtotal</b>	<b>146.24</b>	<b>142.77</b>	

KSEB Ltd further submitted that, it had banked 28.90 MU with the traders TATA and NVVN, as item 5 and 6 in the Table 5.28 above, which will be returnable only in 2019-20.

### Analysis and Decision of the Commission

- 5.85 The Commission has examined the banking arrangements made in the year 2018-19 with the approval of this Commission, and the energy availed through banking arrangements as detailed above. **The Commission has also noted that, 28.90 MU banked during the year will be returned only in the year 2019-20. After due consideration, the Commission hereby approves Rs. 1.989 crore for the electricity availed through banking as given in the Table 5.28 and 5.29 above, and also the cost incurred for banking transactions.**
- 5.86 **KSEB Ltd is hereby directed to keep proper account of this energy transactions and to ensure its return its schedule.**

#### (c) Deviation settlement mechanism

- 5.87 KSEB Ltd submitted that, it had received 252.45 MU from the grid through DSM at an average rate of Rs 2.49/unit and a total cost of Rs 62.76 crore.

Since the DSM is a grid balancing mechanism to enforce the grid discipline, **the Commission hereby approve the energy availed through DSM for the quantum of 252.45 MU at the total cost of Rs 62.76 crore.**

#### (d) Energy sale outside the State

- 5.88 KSEB Ltd submitted that, it had sold 144.16 MU through traders during the year as detailed below through DEEP portal and realized Rs 69.77 Crore at an average rate of Rs 4.85 /kwh. The details are given below.

Table 5.30  
Energy sale o/s State through contracts

No	Utility	Period	Timing in Hrs	Quantum	Rate	Sale at Kerala periphery
				MW	Rs /unit	MU
1	BSHOPCL	01-06-2018 to 30.06.2018	19.00 to 24.00	50	5.95	75.1
	BSHOPCL	01-08-2018 to 31.08.2018	19.00 to 24.00	100	6.00	
	BSHOPCL	01-08-2018 to 31.08.2018	00.00 to 06.00	100	4.23	
	BSHOPCL	01.09.2018 to 30.09.2018	19.00 to 24.00	100	6.00	
	BSHOPCL	01.10.2018 to 31.10.2018	18.00 to 24.00	100	6.50	
2	CSPDCL	01.10.2018 to 31.10.2018	00.00 to 7.00	150	4.09	32.99
	CSPDCL	01.11.2018 to 30.11.2018	06.00 to 10.00	200	5.16	36.07



	CSPDCL	01.11.2018 to 30.11.2018	10.00 to 13.00	149	4.37		
	<b>Total</b>				<b>4.85 (Kerala periphery)</b>	<b>144.16</b>	
	<b>Total revenue (Rs. Cr)</b>					<b>69.77</b>	

5.89 KSEB Ltd further submitted that, it had also sold excess power in the year 2018-19 through exchanges. The total sale outside the State through exchange is 680.63MU @ Rs 3.85/unit. Out of it 656.45MU sold through IEX @Rs 3.84/unit and 24.18 sold through PXIL @ Rs 4.07/unit. The details of the power sale through exchanges is given below.

**Table.5.31**  
**Energy sale o/s State through contracts**

SI No	Source	Energy at SR periphery	Energy at KSEB periphery
		MU	MU
1	IEX TAM	6.87	6.96
2	IEX DAM	639.73	649.48
3	IEX Total	646.6	656.45
4	PXIL TAM	14.21	14.43
5	PXIL DAM	9.61	9.76
6	PXIL Total	23.82	24.18
	<b>Total</b>	<b>670.42</b>	<b>680.63</b>

**Table.5.31 (a)**  
**Revenue realized from sale o/s State**

Particulars	Energy at SR periphery	Energy at Kerala periphery	Power Purchase cost (Rs Cr)
Sale to BSHPCL	72.92	75.10	41.33
Sale to CSPDCL	66.75	69.06	30.04
Reactive charges from tangedco and pondicherry			0.64
IEX Total	646.60	656.45	257.29
PXIL Total	23.82	24.18	10.03
<b>Total</b>	<b>810.09</b>	<b>824.79</b>	<b>339.34</b>

KSEB Ltd submitted that, the expenditure associated with sale of power through exchanges is Rs 5.34 crore.

As detailed above, the sale of power outside State during the year 2018-19 is (144.16+680.63) is 824.79 MU. The total revenue earned is Rs 339.34 crore @4.11/unit.

## Analysis and Decision of the Commission

5.90 The Commission has examined the energy sale through traders and exchanges as detailed under paragraphs 5.88 and 5.89 above. The average rate for sale of power through traders is Rs 4.85/unit, whereas the average rate of sale of power through exchanges is Rs 3.85/unit. The Commission is of the view that had KSEB Ltd estimated the surplus energy in time and in advance and sold it through DEEP portal to the other utilities in other States, KSEB Ltd may have earned better revenue through the sale of surplus power. With this observation, ***the Commission hereby approve the sale of surplus energy of 824.79 MU and the amount of Rs.339.34 realized thereon as detailed in paragraph 5.88 and 5.89 above.***

### (e) Power returned by KSEB Ltd through banking arrangements in the year 2018-19

5.91 KSEB Ltd submitted that, it had returned 139.12 MU from 16<sup>th</sup> June 2018 to 30<sup>th</sup> September 2018 with time duration from 00.00 hrs to 4.00 hrs and 22.00 hrs to 24 hrs through GMRETL through banking arrangement (swap), which was availed during the previous year 2017-18. Further KSEB Ltd supplied 28.90 MU through NVVN and TATA to RUVNL which will be returnable in 2019-20. Thus, the total energy transacted outside the State through banking arrangement during 2018-19 is 168.018 MU as detailed in table below.

Table 5.32  
Energy transacted outside State thru banking arrangement during FY-19

Utility	Trader	Period	Energy at delivery point (MU)	Energy at Kerala periphery (MU)	Expenditure
					(Rs Cr.)
PSPCL	GMRETL	June-September 2018 (return of previous year supply)	135.90	139.12	1.87
RUVNL	NVVN	November-December 2018	17.10	17.32	0.25
RUVNL	TATA	November-December 2018	11.40	11.58	
		Sub total	164.40	168.02	2.28

As above, KSEB Ltd had supplied 168.02 MU as swap return/banking in the year 2018-19. The total cost associated with the transaction is Rs 2.28 crore. KSEB Ltd requested to approve this transaction in the process of Truing up of accounts.

***The Commission after examining the details, hereby approve the transaction of 168.02 MUs as swap return/banking at a cost of Rs 2.28 Crore.***

**(f) Rs 32.37 crore released to M/s PTC (generator-BALCO)- Medium term contract**

5.92 KSEB Ltd submitted that, they had executed PPA with M/s.PTC India Ltd on 13.06.2013 for the supply of 100 MW RTC power from M/s. BALCO, Chhattisgarh through Case I bidding for the period from 1.3.2014 to 28.02.2017. The Commission approved the contract vide Order No No.828/C.Engg/Case.1/KSERC/2013/594 dated 24.05.2013. KSEB Ltd received power from BALCO through PTC from March 2015 to February 2017.

Thereafter, BALCO has filed petition before CERC seeking compensation for the change in law events during the operating period vide Petition No. 18/MP/2017 amounting to Rs 38.90Cr. CERC, vide Order dated 18.04.2018 had allowed some of the events and disallowed certain other events. KSEB Ltd filed appeal before the APTEL on 16.07.2018 against the CERC Order dated 18.04.2018. M/s BALCO also approached Hon'ble APTEL for release of amount allowed by the CERC. Hon'ble APTEL, through interim orders, directed to work out the amount due on account of change in law with full details and figures and directed the Appellant to furnish specific details of which have to be paid in respect of change in law items covered under Impugned Order.

Accordingly, M/s BALCO had forwarded a revised claim amounting to Rs. 54,98,20,333/-. However, this claim did not bear certification by the auditors. As per CERC Order dated 18.04.2018, BALCO was entitled to reconcile the actual payment received vis-à-vis the amount receivable due to change in law with the books of accounts duly audited and certified by the auditor. However, BALCO failed to furnish certified copies of the required documents to the satisfaction of KSEB Ltd. Meanwhile, in compliance to the order of Hon'ble APTEL, KSEB Ltd calculated the provisional amount due, as per change in law Order of CERC, as Rs.32.37 Cr. The Commission noted that this amount may change if proper documents are submitted as well as the final outcome of the appeal before Hon'ble APTEL. Upon placing it on record, Hon'ble APTEL vide Order 15.05.2019 directed that KSEB Ltd to immediately release the admitted amount i.e., Rs. 32.37 Cr. Even though KSEB Ltd approached Hon'ble Supreme Court challenging the interim order of Hon'ble APTEL, the same was not successful.

Accordingly, an amount of Rs 32.37 Cr has been released towards M/s BALCO through PTC towards compensation for change in law, as per the Daily Orders of Hon'ble APTEL dated 15.05.2019 and 20.05.2019 in IA No. 37 of 2019 in Appeal No. 30 of 2019 and as per the as per the Order dated 26.08.2019 of the Hon'ble Supreme Court of India. The same may be admitted.

### Analysis and Decision of the Commission

5.93 The Commission had examined the submission of the KSEB Ltd that an amount of Rs 32.37 crore released to M/s BALCO through PTC due to change in law may be admitted in the Truing up of accounts. The Commission noted that, KSEB Ltd had effected the payment consequent to the directions of the Hon'ble APTEL vide the judgment dated 15.05.2019 and 20.05.2019. **Hence the Commission allow the claim of Rs. 32.37 crore as part of Truing Up of accounts for the year 2018-19.**

### Interstate Transmission charges

5.94 KSEB Ltd submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved Rs.539.84 crore towards interstate transmission charges for the year 2018-19. The actual interstate transmission charges incurred in the year 2018-19 is Rs 513.41 crore as per the audited accounts. KSEB Ltd requested before the Commission to approve the same.

### Analysis and decision of the Commission

5.95 **The interstate transmission charges are governed by the Regulations and Orders of CERC. After examining the details, the Commission hereby approves Rs.513.41 crore towards the interstate transmission charges incurred by KSEB Ltd as per audited accounts.**

### Summary of the cost of power purchase approved for the year 2018-19

5.96 The summary of the cost of power purchase approved for the year 2018-19 as detailed in the preceding paragraphs is given below.

Table 5.33  
Summary of the Power Purchase & Cost approved for the Year 2018-19

Sl No	Particulars	Energy scheduled at Ex bus (MU)	Energy at Kerala periphery (MU)	KSEB L claim		KSERC Approval (Rs. Cr)	Remarks
				Audited accounts (Rs. Cr)	Truing up petition (Rs. Cr)		
1	Central Generating Stations (CGS)	9642.01	9241.09	3418.17	3418.17	3418.17	Table 5.6
2	Small IPPs within the State (wind, SHP, solar etc)	282.46	282.46	108.96	108.96	108.96	Table 5.8
3	RGCCPP Kayamkulam	0.81	0.81	181.70	204.14	204.14	Table 5.12
4	LTA- Maithon & DVC stations	2803.66	2718.70	1173.74	1173.74	1173.74	Table 5.18
5	LTA - Approved DBFOO contracts	2138.80	2044.36	787.30	816.78	816.78	Table 5.23
6	LTA- provisionally approved DBFOO contracts	683.83	655.21	326.20	267.41	254.22	Table 5.23(a)
7	LTA- unapproved DBFOO contracts	2324.75	2233.78	1083.96	1056.26	940.42	Table 5.26
8	Power purchase through Exchanges	488.47	476.99	170.14	170.14	170.14	Para 5.83

9	Power purchase through banking/swap during the year	146.24	142.77	1.99	1.99	1.99	Para 5.85
10	Deviation settlement	252.45	252.45	62.76	62.76	62.76	Para 5.87
11	Compensation to PTC Balco			32.37	32.37	32.37	Para 5.93
12	Interstate Transmission charges			513.41	513.41	513.41	Para 5.95
13	Sale outside the State						
	(a) Through traders		144.16	5.38	5.38	5.38	Para 5.88 & 5.89
	(b) Exchanges		680.63				
14	Less energy banked (not returned during 2018-19)		168.02	2.28	2.28	2.28	Table 5.32
15	Net power purchase (exclu. energy sale outside the State and energy banked/returned)	18763.48	18048.62	7868.36	7833.79	7704.77	

### Average Power Purchase Cost

5.97 Based on the approvals given, the average power purchase cost approved for the year 2018-19 is as shown below:

Table 5.34  
Approved Power Purchase Cost for 2018-19

Sl No	Particulars	Qunatity	Cost	Remarks
		(MU)	(Rs. Cr)	
1	Total power purchase	18048.62	7704.77	Cost
	Less			
2	(i) Energy sale during the year	824.79	339.34	Revenue
3	(ii) Energy banked	168.02		
4	Net power purchase	17055.81	7365.43	
	Average power purchase cost (Rs/unit)		4.32	

***As above, the average cost of power purchase for the year 2018-19 is Rs 4.32/unit.***

### O&M Expenses

5.98 KSEB Ltd submitted in their petition that, O&M expenses of SBU-D comprises of Employee Expenses, R&M expenses and A&G expenses. According to KSEB Ltd, total O&M expenses for the year 2018-19 of SBU-D is 3106.25 crore. However, KSEB Ltd in the petition had claimed Rs. 2379.04 crore as O&M expenses based on the approved norms as per the Regulations as shown below:

**Table 5.35**  
O&M expenses for SBU-D for 2018-19 as per petition

No	Particulars	Approved in MYT Order	As per audited accounts	As per True-up petition
		Rs.crore	Rs.crore	Rs.crore
1	Employee Expenses	1979.83	2425.42	1982.22
2	A&G Expenses		447.87	
3	R&M Expenses	246.25	232.96	252.35
4	Sub Total (O&M Expenses)	2226.08	3106.25	2234.57
5	Provision for pay revision			144.47
6	Total	2226.08	3106.25	2379.04

5.99 KSEB Ltd further submitted that, the Commission vide the Tariff Regulations 2018, has specified that the O&M expenses shall be allowed only as per the norms specified in the Tariff Regulations 2018. The normative employee cost and A&G expenses of SBU-D is specified in terms of number of consumers, number of distribution transformers, length of HT lines and energy sales. The R&M expenses of SBU-D is specified in terms of the Gross Fixed Asset of KSEB Ltd.

5.100 The distribution parameters adopted by KSEB Ltd for arriving the 'employee expenses and A&G expenses' for the year 2018-19 and the computation of the normative values of employee expenses and A&G expenses is given in table below:

**Table 5.36**  
KSEB Ltd claim for Normative employee expenses & A&G expenses for 2018-19

No	Parameters	Quantity
1	No. of consumers (Rs. Lakh/1000)	4.8
2	Dist Transformers (Rs. Lakh/DTr)	0.64
3	Length of HT line (Rs. Lakh/km)	0.79
4	Energy sales (Rs/unit)	0.19
5	No. of consumers	12276321
6	No. of Dist Transformers (Nos)	77724
7	HT Line (Ckt-Km)	62855
8	Energy sales in MU	20998
9	Employee, A&G Expenses (Rs Cr)	1982.22

5.101 KSEB Ltd further submitted that, as per the provision 79 and Annexure IX of Tariff regulations 2018, R&M expenses of Distribution licensees is:

- (i) *3% of Opening GFA (excluding value of land and land under lease) of distribution business of each year of the control period.*

- (ii) *Repair and Maintenance expenses for assets added during the year of the control period shall be allowed after prudence check by the Commission on a pro-rata basis subject to production of details of the assets.*

Based on the above KSEB Ltd estimated the normative R&M expense is calculated as follows:

**Table 5.37**  
**KSEB Ltd claim of normative R&M expenses of SBU-D(Rs Cr.)**

Particulars	Amount (Rs Cr)		
Opening GFA Excluding Land value (Rs Cr.)	8246.59		
Land value as per Balance sheet of SBU D	19.91		
Opening GFA less Land value	8226.68		
R&M expenses on opening GFA @ 3% -A	246.80		
Add: Addition of assets during the year	1203.72		
<b>R&amp;M at pro rata basis for assets added during the year</b>			
	GFA addition	Pro rata % based on works in 2018-19	Pro rata R&M expenses
April,2018	68.42	5.68	1.88
May,2018	79.31	6.59	1.98
June,2018	73.71	6.12	1.66
July,2018	184.10	15.29	3.68
August,2018	0.00	0.00	0.00
September,2018	0.00	0.00	0.00
October,2018	0.00	0.00	0.00
November,2018	159.05	13.21	1.59
December,2018	47.75	3.97	0.36
January,2019	145.97	12.13	0.73
February,2019	0.00	0.00	0.00
March,2019	445.43	37.00	0.00
<b>R&amp;M expenses for assets added during FY-19 -B</b>			<b>11.88</b>
<b>Total R&amp;M expenses (A+B)</b>			<b>252.35</b>

5.102 KSEB Ltd also submitted that, the pay revision to its employees is due from July/August 2018 onwards. A provision for Rs 144.47 crore has been created in the accounts for pay revision.

5.103 Considering the above, KSEB Ltd requested to approve the normative O&M expenses of Rs 2379.04 crore, which is inclusive of Rs 1982.22 crore towards normative 'employee expenses and A&G expenses', Rs 252.35 crore towards R&M expenses and Rs 144.47 crore towards provision for pay revision.

## Comments of the Stakeholders

5.104 The HT-EHT Association submitted that, O&M expenses of SBU-D may be allowed as per the norms specified in the Tariff Regulations, 2018. The Commission may verify the parameters for computing the normative O&M expenses while appraising the petition.

The Association further submitted that, since KSEB Ltd has not implemented the Pay revision and has only booked provision in their accounts, the expense related to pay revision shall not be allowed. The Association further submitted that, the claim of KSEB Ltd for pay revision stands null and void and the consumers shall not be burdened for the expense that is still not incurred by KSEB Ltd. The Association further submits that KSEB Ltd is a loss making company and hence wage revision shall not be allowed.

## Analysis and Decisions of the Commission

5.105 The Commission had examined in detail the O&M expenses of SBU-D as per the audited accounts and the KSEB Ltd claim in the Truing up as per the provisions of the Tariff Regulations, 2018. The details are discussed in the following paragraphs.

5.106 O&M expenses of SBU-D includes the following expenses, namely,

- (i) Employee expenses,
- (ii) Administration and General expenses (A&G expenses), and
- (iii) Repair and Maintenance Expenses (R&M expenses).

5.107 The Commission vide the Tariff Regulations, 2018, has specified the norms for O&M expenses for each SBUs of KSEB Ltd separately. The norms are arrived based on the O&M expenses including 'employee expenses, A&G expenses and R&M expenses' approved for True up of the year 2016-17.

5.108 The various provisions in the Tariff Regulations 2018 with respect to the O&M expenses is discussed in the following paragraphs.

## Provisions in the Regulations

5.109 Regulation 79 of the Tariff Regulations, 2018, deals with the Operation and Maintenance expenses of SBU – D of KSEB Ltd. The relevant Regulation is extracted below:

***“79. Operation and maintenance expenses.– (1) The distribution business of KSEB Limited shall be allowed to recover operation and maintenance expenses as per the norms specified in Annexure-IX to these Regulations for each financial year of the Control Period:***



Provided that the distribution business of KSEB Limited shall be allowed to recover the annual pension contribution paid to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the distribution business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses:”

5.110 Further, Annexure IX of the Tariff Regulations 2018, specifies the O&M expenses of SBU-D for the Control Period as follows.

“

**Annexure-IX**  
**O&M norms for the distribution business/licensees**

**Table 1 (a) : O&M norms (Employee expenses and Administration & General expenses) for distribution business of KSEB Limited**

	Control period			
	2018-19	2019-20	2020-21	2021-22
No. of consumers (Rs. Lakh/000 consumers)	4.80	5.03	5.27	5.53
No. of Distribution transformers (Rs.lakh/Distribution transformer)	0.64	0.67	0.70	0.73
Length of HT line (Rs.lakh/km of HT line)	0.79	0.83	0.87	0.91
Energy sales (Rs.per unit)	0.19	0.20	0.21	0.22

**Explanation:** The O&M expenses (Employee expenses and Administration & General expenses) for any year of the Control Period shall be allowed by multiplying the norms for that year with the actual number of consumers, distribution transformers, km of HT line and sales for the previous year, i.e., the O&M expenses (excluding R&M expenses) for FY 2018-19 shall be allowed by multiplying the norms for FY 2018-19 with the actual number of consumers, distribution transformers, km of HT line and sales for FY 2017-18.

**(b) Repair and Maintenance expenses of distribution business of KSEB Ltd:**

(i) 3% of Opening GFA (excluding value of land and land under lease) of distribution business of each year of the control period.

(ii) Repair and Maintenance expenses for assets added during the year of the control period shall be allowed after prudence check by the Commission on a pro-rata basis subject to production of details of the assets.”

**O&M norms for the transmission business of KSEB Limited**

	Control period			
	2018-19	2019-20	2020-21	2021-22
O&M expenses for Bay (Rs.lakh/Bay)	10.71	11.23	11.77	12.34
O&M expenses per Circuit km (Rs.lakh/circuit km)	0.93	0.98	1.03	1.08

**Explanation:** *The O&M expenses for any year of the Control Period shall be allowed by multiplying the O&M norms for that year with the actual number of bays and transmission line length in ckt km for the previous year, i.e., the O&M expenses for FY 2018-19 shall be allowed by multiplying the O&M norms for FY 2018-19 with the actual number of bays and transmission line length in ckt km for FY 2017-18.”*

5.111 The note to the Tariff Regulation, 2018 also specify the methodology adopted by the Commission for specifying the normative O&M expenses for each of the SBUs of KSEB Ltd for the period from 2018-19 to 2021-22, which is extracted below.

**“ NOTE**

*(This does not form part of these Regulations, but is intended for explaining the methodology for computation of normative O&M costs)*

**Methodology Adopted for Specifying Normative O&M Costs for the Businesses of KSEB Limited for the Second Control Period (2018-19 to 2021-22).**

*The objective of the tariff determination process taken up by the Commission for licensees and generating companies is to achieve the goals of promotion of investments in the sector, encouraging efficiency and optimization of cost, balancing the interest of the consumers and to ensure recovery of reasonable cost of electricity so as to sustain the utilities and for providing efficient service to the consumers. Certainty in regulatory decisions and providing appropriate signals for the consumers and producers/service providers is of paramount important in tariff determination process.*

*The basic rationale for MYT regime is to provide long term perspective for tariff determination and reducing the regulatory risk both for consumers and the licensees. The other benefits of the scheme include the provision of adequate incentive for encouraging performance and through disincentives for penalizing non-performance and insulating the licensees from factors which are beyond their control. The Commission in the second control period has proposed to specify the norms for the licensees and for the business of generation taking into consideration the basic principles of Multi Year Tariff regime compared to annual determinations. While devising the norms for the second control period, the Commission has in fact had to consider many issues. Firstly, the Commission is of the view that the control period should be fairly long so as to enable the utilities to develop the practice of medium to long term planning. A capital intensive sector such as electricity has a fairly long gestation period and hence there is a requirement for long term planning. Though this being the case, the control period should also be not too long that short term uncertainties appropriately addressed. Hence the Commission has proposed a four year control period from the present three year period.*

*The Commission while formulating the current four year Multi Year Tariff has considered the following judicial pronouncements: Order of the Hon'ble High Court of Kerala in the Writ Petition WPC No.465/2015(G) wherein KSEB Ltd had challenged the O&M norms for determining the expenditure specified in the 2014 Regulations as inadequate and resulting in under recovery of its expenses.*

Hon'ble High Court on 28-02-2018 issued the final judgment and disposed of the petition WP(C) 465/2015,

Orders of the Hon APTEL dated 10-11-2014 in Appeal No. 1 and 19 of 2013 and the Orders of Hon. High Court of Kerala dated 28-2-2018 in the Writ Petition WPC No.465/2015(G) has also been appropriately As per the Orders of Hon. APTEL the employee costs for the years from 2009-10 to 2013-14 has been revised and the Commission has issued truing up orders and consequential/remand orders for the said period, thereby revising the employee cost attributable to KSEB Ltd in line with APTEL orders. Further, as per the directions contained in the Orders of Hon. High Court, the Commission has issued orders on truing up of accounts of KSEB Ltd for the years 2015-16 and 2016-17. As the Commission has already completed the truing up of accounts for KSEB Ltd till 2016-17 (except for the year 2014-15, which is reserved as per the directions of Hon. Supreme Court of Kerala), the relevant data for the next control period has been taken as basis for the present Regulation.

Escalation factors have been appropriately to be considered for the control period considering the fact inflation is considered as an uncontrollable factor and the licensee has to be mitigated from inflation risk. The Commission during the first control period (2015-16 to 2017-18) has considered the escalation rates as allowed by CERC for the period from 2009-2014. The main feature of the CERC escalation indices is that it follows the actual increase in O&M expenses of the central utilities rather than actual inflation parameters. In order to address the issue, the Commission has decided to propose the average inflation linked to CPI and WPI at 70:30 weightage for the previous four years during this control period, which is expected to address the inflation risk. In this context it is to be pointed out that Government of India has revised the base year for WPI to 2011-12 and officially the indices are effective from 2017, Hence the old series data is no more available for the future years. However, Govt of India has also given indices from 2012-13 to 2016-17 in the new format and the Commission has used the revised WPI data for the purpose of CPI:WPI indexation and for working out the four year average of CPI:WPI at 70:30 weightage from 2013-14 to 2016-17.

In the succeeding sections, the methodology employed for arriving at the norms for recovery of O&M expenses for the licensees and generating companies is dealt with.

**Common Steps Adopted for Generation, Transmission & Distribution Businesses.**

23. For determining the norms for the second control period 2018-19 to 2021-22, the latest trued up orders for the year 2016-17 of KSEB Ltd is used. The trued up O&M expenses for the year 2016-17 (net of capitalization, terminal benefits and electricity duty under section 3 of the Kerala Electricity Duty Act) for KSEB Ltd are as shown below:

	SBU-G (Rs. crore)	SBU-T (Rs. crore)	SBU-D (Rs. crore)	KSEB Ltd (Rs. crore)
Employee expense	81.89	233.76	1,606.72	1,922.37
R&M expenses	19.83	70.20	198.22	288.24

A&G expenses	4.59	16.53	90.82	111.94
O&M for new Stations	6.30	-	-	6.30
Total O&M expenses	112.61	320.48	1,895.76	2,328.85

24. **Escalation rates:** As mentioned earlier, escalation rates is based on the CPI:WPI indices at 70:30 weightage for the past four years is shown below:

Escalation Factors	2013-14	2014-15	2015-16	2016-17
CPI	236	250.83	265	275.92
CPI Increase (%)	9.68%	6.28%	5.65%	4.12%
WPI (2011-12 series)	112.5	113.9	109.7	111.6
WPI increase (%)	5.24%	1.24%	-3.69%	1.73%
<b>CPI:WPI (70:30) increase</b>	8.35%	4.77%	2.85%	3.40%
Average increase (2013-14 to 2016-17)				4.84%

Since the control period is four years, the average inflation for the past four years is 4.84% is used for the purpose of determination of norms.

**Normative O&M Costs for Generation Business of KSEB Limited for the Control Period.**

25. The average employee costs, repair & maintenance costs and administrative & general costs for the generation business of KSEBL, as given above in para 2 for the financial year 2016-17, have been escalated based on the escalation rate of 4.84% per annum (based on the average escalation rate based on CPI:WPI for 2013-14 to 2016-17), for determining the O&M expenses if the Generation business for the control period as given in the following table:

**O&M Costs for Generation business**

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)	(Rs. crore)
O&M Expenses	112.61	118.06	<b>123.77</b>	<b>129.77</b>	<b>136.05</b>	<b>142.63</b>

**Normative O&M Costs for Transmission Business of KSEB Limited for the Control Period.**

26. O&M expenses for Transmission business is allowed based on the normative number for Bays and Circuit kilometers of transmission lines. The data regarding the number of bays (66 kV and above) and circuit kilometers for the year 2015-16 and 2016-17 are available as shown below:

Year	2015-16	2016-17
No. of Bays (66 kV and above)	2466	2488
Circuit length (Ckt-km)	9,377.03	9451

The employee costs, repair & maintenance costs and administrative & general costs for the transmission business of KSEB Limited (Rs.320.48 crore), as computed in para 2 above, for the financial year 2016-17, have been allocated amongst the number of bays and line length in circuit kilometer in the ratio of 75:25, respectively, for working out the normative O&M expenses for the transmission business for the financial year 2016-17

27. The above normative O&M expenses for the financial year 2016-17 have been escalated at 4.84% per annum for determining the normative O&M expenses for the control period, as given in the following table:

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
O&M cost for Bay (Rs.lakh/Bay)	9.75	10.22	10.71	11.23	11.77	12.34
O&M cost per Circuit km (Rs.lakh/circuit km)	0.85	0.89	0.93	0.98	1.03	1.08

28. The O&M expenses for any year of the control period shall be allowed by multiplying the normative O&M costs for that year with the actual number of bays and transmission line length in circuit kilometer at the end of the previous year, i.e., the O&M expenses for the financial year 2018-19 shall be allowed by multiplying the normative O&M costs for the financial year 2018-19 with the actual number of bays and transmission line length in circuit kilometer at the end of the previous financial year 2017-18.

**Normative O&M Costs for the Distribution Business of KSEB Limited for the Control Period.**

29. The parameters used for allowing O&M expenses (employee costs and A&G expenses) for distribution is the number of consumers, number of distribution transformers, length of HT lines in kilometer and sales. R&M expense is benchmarked against the Distribution Gross Fixed Assets. These parameters for the distribution business at the end of the financial year 2017-18 have been considered as the output parameters for the financial year 2018-19, for the purpose of working out the normative O&M expenses.

30. The employee costs, and administrative & general costs for the distribution business of KSEB Limited (Rs. 1697.54 crore), as computed above in para 2 for 2016-17 have been allocated to the number of consumers, number of distribution transformers, length of HT lines in kilometer and the sales, in the ratio of 30:25:25:20, respectively, for working out the normative O&M costs for the distribution business. The parameters for the distribution business for the year 2015-16 and 2016-17 is as shown below:

Particulars	2015-16	2016-17
No. of consumers	1,16,68,031	1,19,94,853
No. of Distribution Transformers	73,460	75,759
Length of HT lines (kms)	59,47.66	61,364
Energy Sales (MU)	19,325	20,055

31. The normative O&M costs for the financial year 2016-17 have been escalated by the growth rate of 4.84% per annum for determining the normative O&M costs for the financial years in the control period.

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22

No. of consumers (Rs. Lakh/'000 consumers)	4.36	4.58	4.80	5.03	5.27	5.53
No. of Distribution transformers (Rs.lakh/Distribution transformer)	0.58	0.61	0.64	0.67	0.7	0.73
Length of HT line (Rs.lakh/km of HT line)	0.71	0.75	0.79	0.83	0.87	0.91
Energy sales (Rs.per unit)	0.18	0.18	0.19	0.2	0.21	0.22

32. *The O&M expenses (excluding R&M expenses) for any year of the control period shall be allowed by multiplying the normative O&M costs for that year with the actual number of consumers, number of distribution transformers, length of HT line in kilometer, sales, and GFA for the previous year, i.e., the O&M expenses for the financial year 2018-19 shall be allowed by multiplying the normative O&M costs for the financial year 2018-19 with the actual number of number of consumers, number of distribution transformers, length of HT lines in kilometer and sales for the financial year 2017-18.*

33. *R&M expenses for distribution business (SBU-D) is allowed based on the 3% of opening level of GFA (excluding land and land under lease) for the respective years of Distribution business.”*

5.112 Further, the Regulation 14(3) of the Tariff Regulations, 2018 deals with the ‘pay revision and related issues’ which is extracted below:

*“(3) Expenses relating to pay revision, if any, during the control period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the Generation business/company or Transmission business/licensee or distribution business/licensee may be considered for pass through after due prudence check.”*

5.113 The Commission has examined the O&M expenses allowable as per the norms specified in the Tariff Regulations, 2018, and also the prudence of the O&M expenses as per the audited accounts in detail in the subsequent paragraphs.

### **O&M expenses**

#### **Employee Expenses & A&G expenses as per Norms**

5.114 The Commission has examined in detail the ‘employee expenses & A&G expenses’ of SBU-D claimed by KSEB Ltd for Truing up of accounts for the year 2018-19. The Commission notes that KSEB Ltd has claimed the O&M expenses of SBU-D as per the Regulation 79 of the Tariff Regulations, 2018.

5.115 As per Regulation 79, SBU-D is entitled for recovery of employee expenses and A&G expenses, in a composite manner benchmarking against the following parameters.

1. Number of consumers,

2. Number of Distribution transformers,
3. Length of HT lines and
4. Energy sales

5.116 The parameters adopted for 'employee expenses and A&G expenses' adopted in the MYT Order dated 08.07.2019 and the actuals is given below.

Table 5.38  
Distribution parameters for estimating the normative employee expenses and A&G expenses for the year 2018-19

S. No.	Particulars	Previous Year of 2018-19		
		Approved in Tariff Order	Audited	Truing up requirement
1	Number of Consumers ('000)	12276321	12276321	12276321
2	Distribution Transformers (no.)	77724	77724	77724
3	HT line (km)	62835	62855	62855
4	Sales (kWh)	20880.7	20998	20998

5.117 As specified under Annexure-IX of the Tariff Regulations 2018, the norms for allowing the 'employee expenses and A&G expenses' is extracted below.

Table-5.39  
Norms specified in the Tariff Regulations for computing allowable employee expenses and A&G expenses

Particulars	2016-17	2017-18	Control period			
			2018-19	2019-20	2020-21	2021-22
No. of consumers (Rs. Lakh/'000 consumers)	4.36	4.58	4.80	5.03	5.27	5.53
No. of Distribution transformers (Rs.lakh/Distribution transformer)	0.58	0.61	0.64	0.67	0.7	0.73
Length of HT line (Rs.lakh/km of HT line)	0.71	0.75	0.79	0.83	0.87	0.91
Energy sales (Rs.per unit)	0.18	0.18	0.19	0.2	0.21	0.22

5.118 Based on the parameters and norms given in the Table 5.38 above, the consolidated 'employee expenses and A&G expenses' allowable as per the Tariff Regulations, 2018 is given below.

Table 5.40  
Normative 'employee expenses and A&G expenses' allowable for the year 2018-19

Particulars	Allowable expenses (Rs. Cr)
(i) Linked to number of consumers	589.26
(ii) Liked to Distribution transformers	497.43
(iii) Linked to HT lines	496.55

(iv) Linked to energy sales	398.96
Total	1982.21

5.119 The allowable 'employee expenses and A&G expenses' as specified in the Regulation is based on the approved 'employee expenses and A&G expenses' for the year 2016-17. The Commission noted that, each of the components of O&M expenses such as 'employee expenses, A&G expenses and R&M expenses' are separate cost elements and controllable parameter. Further, KSEB Ltd is also accounting each item separately in their audited accounts.

Hence, the Commission has decided to examine the prudence of each of these items of the O&M expenses separately so that, each component of the O&M expenses is carefully considered and approved with reference to the audited accounts. Such an effort also facilitates the identification of areas of cost reduction, inefficiency, lack of prudent cost control etc which will enable the utility to effect appropriate corrective action. The Commission also took note of the fact that a petition OP No. 63/2021 has been filed by KSEB Ltd regarding redetermination of allowable employee strength since 31.03.2009. Since a final decision of the matter is yet to be taken, the Commission decided to approve provisionally the employee expenses for the period 2018-19.

5.120 Based on the foregoing, the Commission decided to apportion the O&M expenses admissible among the three O&M expenses components viz-a-viz Employee Expenses, A&G expense and R&M expenses in the ratio of these expenses in approved True up O&M expenses of SBU-T for the year 2016-17, since 2016-17 is considered as the base year arriving at the norms specified in the Tariff Regulations, 2018.

Table-5.41  
Ratio of the approved employee expenses and A&G expenses

Particulars	SBU-D for 2016-17	Ratio of the components of 'employee expenses and A&G expenses
	(Rs. crore)	(%)
Employee expense	1606.72	94.65%
A&G expenses	90.82	5.35%
Total	1697.54	100.00%

5.121 Based on the above, the 'employee expenses and A&G expenses' allowable for each component of SBU-D is apportioned, as detailed below.



Table 5.42  
Employee expenses and A&G expenses allowable for the year 2018-19

Particulars	Amount allowable as per norms for 2018-19	Ratio of the components of 'employee expenses and A&G expenses
	(Rs. crore)	(%)
Employee expense*	1876.16	94.65%
A&G expenses	106.05	5.35%
Total	1982.21	100.00%

\*provisional

### **Normative Repair and Maintenance (R&M) expenses allowable as per norms**

5.122 As per the Annexure-IX to Tariff Regulations, 2018, the normative R&M expenses allowable is as follows.

- (i) 3% of Opening GFA (excluding value of land and land under lease) of distribution business of each year of the control period.
- (ii) Repair and Maintenance expenses for assets added during the year of the control period shall be allowed after prudence check by the Commission on a pro-rata basis subject to production of details of the assets.

5.123 The Commission vide Order dated 25.06.2021 in petition OA No. 09/2021 had approved the Gross Fixed Asset of the SBUs as on 31.03.2018 as follows.

**Table 5.43  
Summary of approved Asset addition in 2017-18 and GFA**

	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
	<b>Rs. Crore</b>	Rs. Crore	Rs. Crore	Rs. Crore
Opening level of Approved GFA (as on 01-04-2017)	<b>4,658.32</b>	4,628.56	7,530.50	16,817.38
Asset Additions approved in 2017-18	<b>71.42</b>	388.82	699.45	1,159.69
<b>Closing balance of GFA (as on 31-03-2018)</b>	<b>4,729.74</b>	<b>5,017.38</b>	<b>8,229.95</b>	<b>17,977.07</b>

5.124 The exact details of the value of land is not specified in the audited accounts, the Commission has been adopting the value of land is taken as 2.8% of the GFA. After excluding value of land, the opening GFA as on 31.03.2018 eligible for R&M expenses is arrived as below.

Table 5.44  
GFA of SBU-D as on 01.04.2018 and Normative R&M expenses allowable

Particulars	Amount (Rs.Cr)
Opening GFA as on 01.04.2018	8,229.95
Value of Land (2.8% of the GFA)	230.44
GFA as on 01.04.2018 (excluding land )	7999.51
R&M expenses allowable for GFA of SBU-D as on 01.04.2018	239.99

5.125 The Annexure-IX of the Tariff Regulations, 2018 also allows R&M expenses for the GFA added during the year 2018-19. KSEB Ltd had submitted the month wise details of the GFA of SBU-D added during the year 2018-19. The R&M expenses allowable for the GFA added during the year 2018-19 is estimated as below.

Table 5.45  
R&M expenses of newly added assets for the year 2018-19

Month	GFA addition (Rs.Cr)	R&M expenses allowable as per norms (Rs.Cr)
April,2018	68.42	1.83
May,2018	79.31	1.93
June,2018	73.71	1.61
July,2018	184.10	3.58
August,2018	0.00	0.00
September,2018	0.00	0.00
October,2018	0.00	0.00
November,2018	159.05	1.55
December,2018	47.75	0.35
January,2019	145.97	0.71
February,2019	0.00	0.00
March,2019	445.43	0.00
<b>Total</b>	<b>1203.74</b>	<b>11.6</b>

5.126 Based on the above details and taking into considerations of the Tariff Regulations 2018, the Commission has calculated the total normative R&M expenses allowable to the SBU-D as given below.

Table 5.46  
Normative R&M expenses allowable for the year 2018-19

Particulars	Amount (Rs. Cr)
R&M expenses allowable for the GFA as on 01.08.2018	239.99
R&M expense for GFA added during the year 2018-19	11.55
<b>Total</b>	<b>251.54</b>

5.127 As discussed under Table 5.42 and Table 5.46 above, the total normative O&M expenses allowable as per Tariff Regulations 2018-19 is given below.

Table 5.47

Normative O&M expenses of SBU-D allowable as per Tariff Regulations 2018 for the year 2018-19

Sl No	Particulars	Amount (Rs. Cr)
1	Employee expense*	1876.16
2	A&G expenses	106.05
3	R&M expenses	251.54
	Total	2233.75

\*provisional

***As above, the O&M cost allowable as per the norms is Rs.2233.75 crore for the year 2018-19.***

### **Appraisal of the Employee Expenses as per the audited accounts with the same allowable as per norms**

5.128 In order to get clarity on the various components of the O&M expenses allowable as per Tariff Regulations, 2018 and the actual expenses incurred by KSEB Ltd as per the audited accounts, the Commission has examined each component of the O&M expenses with respect to the norms as per Tariff Regulations, 2018 and the actuals. The details are discussed below.

5.129 The details of the employee expenses of SBU-D claimed as per the audited accounts of KSEB Ltd is given below.

Table 5.48

Employee expenses of SBU-D as per the audited accounts for the year 2018-19

S. No.	Particulars	Amount (Rs.Cr)
1	Basic Salary	2035.90
2	Dearness Allowance (DA)	439.71
3	House Rent Allowance	37.87
4	Conveyance Allowance	0.00
5	Leave Travel Allowance	0.18
6	Earned Leave Encashment	148.13
7	Other Allowances	26.23
8	Medical Reimbursement	10.30
9	Overtime Payment	0.05
10	Bonus/Ex-Gratia Payments	8.02
11	Interim Relief / Wage Revision	0.00
12	Staff welfare expenses	3.99

13	VRS Expenses/Retrenchment Compensation	0.00
14	Commission to Directors	0.00
15	Training Expenses	0.00
16	Payment under Workmen's Compensation Act	0.54
17	<b>Net Employee Expenses</b>	<b>2710.92</b>
18	Terminal Benefits	
18.1	Provident Fund Contribution	
18.2	Provision for PF Fund	
18.3	Pension Payments	
18.4	Gratuity Payment	
18.6	Contribution of KSEB Ltd towards National Pension Scheme	15.07
19	Others	0.37
20	<b>Gross Employee Expenses</b>	<b>2726.36</b>
21	Less: Expenses Capitalised	300.95
22	<b>Net Employee Expenses</b>	<b>2425.42</b>

5.130 As detailed above, the employee expenses of SBU-D as per the audited accounts is Rs. 2425.42 crore as against Rs 1876.16 crore allowable as per norms. The Commission noted that, the higher employee expenses as per the audited accounts is mainly due to the following reasons.

- (1) The employee expenses of KSEB Ltd as per the audited accounts is the salary and allowances of all 33,000 plus employees as on 31.03.2019, where as, the employee expenses as per the Commission's norms reflects only the salary and allowances of 27,175 number of employees as on 31.03.2009.
- (2) The employee expenses as per the audited accounts include the provision of Rs.176.00 crore towards pay revision. However, the Commission has taken the considered decision that, the impact of pay revision will be approved only in the year in which the actual cash outflow occurs and subject to prudence check including approvals of the KSEB Ltd's Board of Directors and the State Government.
- (3) The employee expenses as per the audited accounts also include the provision for unfunded actuarial liability. However, the Commission after due consideration has decided that, the additional unfunded liability as per the actuarial valuation report can be appraised separately based on a separate petition to be filed by KSEB Ltd with all supporting details if they desire to avail these amounts. Till such time, the Commission has permitted an ad-hoc provision of additional funds to the Master Trust, and the same is discussed in the subsequent paragraphs.

5.131 The employee cost as per the accounts is much higher than the same allowable as per norms. Commission notes that KSEB Ltd has not submitted sufficient details to enable appraising the employee expenses as per the audited accounts. Hence, the Commission is unable to prudently estimate the employee expenses as claimed in the audited accounts. Therefore, the Commission is constrained to limit the employee expenses of KSEB Ltd provisionally to the levels as per the norms specified in the Tariff Regulations 2018. The employee cost approved for the year 2017-18 is Rs 1637.34 crore. As against this, the employee cost allowable as per the norms specified in the Tariff Regulation 2018 is Rs 1876.16 crore.

Since the petition OP 63/2021, filed by KSEB Ltd is pending for final orders before the Commission, this amount of Rs 1876.16 crore is provisional.

5.132 Based on the above consideration, the Commission hereby approve, provisionally, the employee expenses of SBU-D of KSEB Ltd for the year 2018-19 as follows.

Table 5.49  
Employee expenses of SBU-D provisionally approved for the year 2018-19

Particulars	As per audited accounts	KSERC Approval in True up
	(Rs. Cr)	(Rs. Cr)
Employee Expenses	2425.42	1876.16

***As above, the Commission approve the employee expenses of SBU-D of KSEB Ltd provisionally at Rs 1876.16 crore for the year 2018-19 as per the Tariff Regulations, 2018. The Commission also clarifies that this approval is subject to the final decision in OP No 63/2021 submitted by KSEB Ltd in the matter of 'Petition seeking determination of allowable employee strength since 2009.'***

#### **Appraisal of the A&G Expenses as per audited accounts with the same allowable as per norms**

5.133 The details of the A&G expenses of SBU-D claimed by KSEB Ltd in their truing up petition as per the audited accounts for the year 2018-19 is given below.

Table 5.50  
A&G expenses of SBU-D as per the audited accounts

S. No.	Particulars	Amount (Rs. Cr)
1	Rent Rates & Taxes	8.75
2	Insurance	0.42
3	Telephone & Postage, etc.	9.11
4	Legal charges	1.05
5	Audit Fees	0.57
6	Consultancy charges	0.06
7	Other Professional charges	0.84
8	Conveyance	51.92
9	Vehicle Running Expenses Truck / Delivery Van	0.67
10	Vehicle Hiring Expenses Truck / Delivery Van	2.69
11	Electricity charges	-0.17
12	Water charges	1.17
13	Entertainment	0.73
14	Fees & subscription	0.03
15	Printing & Stationery	5.80
16	Advertisements, exhibition publicity	0.57
17	Contribution/Donations	1.38
18	Training expenses	1.77
19	Miscellaneous Expenses	4.26
20	DSM activities	0.00
21	SRPC expenses	0.15
22	Sports and related activities	0.10
23	Freight	0.80
24	Purchase Related Advertisement Expenses	0.81
25	Bank Charges	0.00
26	Office Expenses	82.87
27	License Fee and other related fee	3.97
28	Cost of services procured	0.00
29	Outsourcing of metering and billing system	0.00
30	V-sat, Internet and related charges	2.67
31	Security arrangements	0.00
32	Books & periodicals	0.04
33	Computer Stationery	0.00
34	Others	134.09
	Others- Other Purchase related Expenses	0.89
	Others - Expenditure inconnection with distribution of LED	6.43
35	<b>Gross A&amp;G Expenses</b>	<b>324.46</b>
36	<b>Ele. Duty u/s 3(I), KED Act</b>	<b>123.81</b>
37	Less: Expenses Capitalised	0.40
38	<b>Net A&amp;G Expenses</b>	<b>447.87</b>

5.134 As per the provisions of the Kerala Electricity (Duty) Act, 1963, electricity duty amounts to Rs 123.81 crore is not allowable. As seen from above Table, the A&G expenses as per the audited accounts is Rs 447.87 crore as against Rs 106.05 crore mentioned as per norm. The actual A&G expenses is about 4.22 times higher than the same as per norms. Further, the Commission, vide the Truing up Order dated 25.06.2021 had approved the A&G expenses of SBU-D for the year 2017-18 at Rs.94.96 crore, and thus the A&G expenses as per norms was estimated for the year 2018-19 and is about 11.50% higher than the amount approved in the previous year.

The Commission also noted that KSEB Ltd has not submitted proper justification for such excessive expenditure under certain heads booked in A&G expenses such as Others, Rs.134.09 crore and office expenses Rs.82.87 crore. Without proper justifications, the Commission cannot approve any such expenses. Further, the A&G expenses being controllable expenses, optimization and economy must be the guiding principle while incurring such expenditure by the utility.

5.135 Considering these aspects in detail, the Commission decided to approve the A&G expenses of SBU-D of KSEB Ltd as per the norms specified in the Tariff Regulations. 2018. The details are given below.

Table 5.51  
A&G expenses of SBU-D provisionally approved for the year 2018-19

Particulars	Approved for the year 2017- 18	2018-19	
		As per audited accounts	KSERC Approval in True up as per norms
	(Rs.Cr)	(Rs. Cr)	(Rs. Cr)
A&G expenses	94.96	447.87	106.05

***The Commission also hereby allows KSEB Ltd to provide complete details with proper justification, if they so desire for consideration of the Commission. These details, if KSEB Ltd so desires shall be made available through a proper petition within 3 months of the date of this Order. The Commission hereby further clarify that this period of 3 months is sacrosanct and no extension for what ever reason shall be considered by the Commission beyond these 3 months.***

***As above, the Commission hereby provisionally approves the A&G expenses of SBU-D for the year 2018-19 at Rs 106.05 crore.***

**Appraisal of R&M Expenses as per audited accounts with the same allowable as per norms.**

5.136 The details of the R&M expenses of SBU-D claimed for the year 2018-19 as per the audited accounts is given below.

Table 5.52  
R&M expenses of SBU-D claimed for the year 2018-19

SI No	Particulars	Amount (Rs. Cr)
1	Plant & Machinery	3.41
2	Buildings	4.57
3	Civil Works	0.26
4	Hydraulic Works	0.13
5	Lines & Cable Networks	221.72
6	Vehicles	0.64
7	Furniture & Fixtures	0.32
8	Office Equipment	1.91
9	<b>Gross R&amp;M Expenses</b>	<b>232.96</b>
10	Less: Expenses Capitalised	
11	<b>Net R&amp;M Expenses</b>	<b>232.96</b>

5.137 As seen from the Table above, the R&M expenses of SBU-D as per the audited accounts for the year 2018-19 is Rs 232.96 crore as against Rs 251.54 crore provided for as per the norms. The R&M expenses of SBU-D approved for the year 2017-18 is Rs.225.92 crore.

5.138 The R&M expenses is one of the critical expense components for maintaining its assets in good working conditions till its useful life. No compromise what so ever can or shall be made by the utility on this account. Further, it is also true that the Commission in MYT Regulation 2018-22 has provided a consolidated amount as O&M expenses without delineating the three heads separately. Hence the apportionment done here is only to estimate the probable variation in figures rather than to limit it which in any case shall not stand the test of any legal challenge. Hence, the Commission after due and careful consideration has decided and hereby approves Rs.251.54 crore as the R&M expenses of SBU-D for the year 2018-19 for the purpose of Truing up.



Table 5.53  
R&M expenses of SBU-D approved for the year 2018-19

Particulars	Approved for the year 2017-18	2018-19		
		As per audited accounts	KSERC	
	(Rs.Cr)		(Rs. Cr)	Eligible as per norms
			(Rs. Cr)	(Rs. Cr)
R&M expenses	225.92	232.96	251.54	251.54

***As above, the Commission approves Rs 251.54 crore as R&M expenses of SBU-D for the purpose of Truing up for the year 2018-19.***

### **Provision for Pay revision**

- 5.139 KSEB Ltd in their Truing up petition has submitted that, the pay revision of the KSEB Ltd employees was due from July/ August 2018. Accordingly, based on accrual accounting principles, KSEB Ltd had provided Rs 176.00 crore as provision for pay revision. Out of this total provision of Rs 176 Crores, the share of SBU-D is Rs 144.47 crore.
- 5.140 The Commission has examined in detail the issue of making provisions in the accounts for pay revision and whether such provision can be allowed in the process of Truing up, in spite of the fact that the pay revision was not implemented in the year 2018-19 and actual cash out flow did not happen during this year. This issue was discussed in detail under paragraphs 2.50 to 2.55 of this Order, which is extracted below to get a considered view of this Commission regarding pay revision and related matters.

*“ 2.50 KSEB Ltd submitted that, the pay revision of the KSEB Ltd employees was due from July/ August 2018. Accordingly, on accrual basis, KSEB Ltd had provided Rs 176.00 crore as provision for pay revision. Out of this total of Rs 176 Crores, the provision for SBU-G was Rs 8.05 crore.*

*The Commission noted that, as stated under paragraph 2.29 above, the Regulation 14(3) of the Tariff Regulations 2018 provides that, the Commission may allow the expenses related to pay revision during the control period from 2018-19 to 2021-22, for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the SBU-G, SBU-T and SBU-D of KSEB Ltd.*

*2.51 The Commission also noted that, Hon'ble APTEL vide the judgment dated 10.11.2014, in Appeal Petition No. 01 of 2013 and 19 of 2013, had*

issued the following observations and directions regarding the pay revision and related matters of the employees of KSEB Ltd.

*“Paragraphs 8.4 to 8.5 of the Judgement of the Hon’ble APTEL dated 10.11.2014 in Appeal Petition No.01 of 2013 and 19 of 2013.*

*8.4 The State Commission has rightly shown concern about the high employees cost but we are not able to appreciate magnitude in the absence of a specific finding about the excess manpower and non-availability of Regulations. We feel that DA increase which is effected as per the Government orders have to be accounted for and allowed in the ARR as it compensates the employees for the inflation. **The pay revision as per the agreements reached between the management and the unions have also to be honoured. The terminal benefits have also to be provided for.***

*8.5 We find that the State Commission has taken the actual expenses trued-up for FY 2008-09 as the base. The State Commission should have at least allowed the actual basic pay and DA increase, **pay revision** and terminal benefits over the actual base year expenses without accounting for increase in manpower from 2008-09 to 2012-13. The gratuity directed to be paid as per the judgments of the High court dated 10.03.2003 as the Division bench of the High Court had dismissed the Appeal filed against this judgment, and which were disallowed by the State Commission by order in Appeal no. 1 of 2013 should also be allowed.*

*2.52 KSEB Ltd submitted before the Hon. High Court in its petition WPC 465/2015 that,*

*“in case the truing up of Accounts for the year 2014-15 onwards are also considered in the light of the revised Orders passed for the year 2010-11 onwards in tune with the judgments of the APTEL, the difficulties faced by the petitioner on account of the Regulations would be addressed to some extent”.*

*2.53 The Commission also submitted before the Hon. High Court that while considering the truing up applications of the petitioner for the year 2015-16, 2016-17 and 2017-18, the Commission would take into account the judgment of APTEL and the consequential orders passed thereafter, Hon’ble High Court on 28-02-2018 issued the final judgment and disposed off the Petition No WP(C) 465/2015, without going into the broad contentions raised in the writ petition as the Regulation under*

challenge is a sub-ordinate legislation issued under the Section 181(2)(d) of the Electricity Act 2003. The Hon. High Court in the judgment, directed the Commission to pass order on the application of the petitioner KSEB Ltd for truing up of accounts for the years 2015-16, 2016-17, 2017-18 with due regards to the findings in APTEL Judgments in Appeal Nos. 1 and 19 of 2013 and consequential orders passed by the Commission for 2010-11 onwards, in the case of KSEB Ltd. The relevant portion of the judgment of the Hon. High Court is quoted below:

*“In view of the submission made by learned senior counsel that the Commission would take into account Ext.P6 judgment of the APTEL while taking up the applications for truing up of accounts, I direct the 1<sup>st</sup> respondent to pass orders on the applications of the petitioner for truing up of accounts for the year 2015-16, 2016-17, and in 2017-18 with due regard to the findings in Ext.P6 judgment and the consequential orders passed by the commission for the year 2010-11 onwards in the case of petitioner.”*

As discussed in the preceding paragraphs, and also as per the Tariff Regulations, 2018, the pay revision expenses **as per the agreements reached between the management and the unions has to be allowed.**

2.54 As per the details submitted before the Commission, the pay revision due from July / August 2018 was implemented from the months of March 2021 only, and thus no cash flow was incurred towards pay revision in the Year 2018-19. Since KSEB Ltd is preparing the accounts on accrual basis, KSEB Ltd has created a provision of Rs 176 crore towards pay revision during the year 2018-19.

2.55 Since the Commission has been approving the Truing up of accounts on cash basis after appraising the prudence of the amount incurred, the Commission is not in a position to approve the provision for pay revision created on accrual basis for the year 2018-19. However, the Commission hereby clarify that, KSEB Ltd is permitted to take up the actual amount incurred for pay revision with all relevant details including the approvals of the Director Board of KSEB Ltd and the State Government at the time of truing up of the relevant years in which actual cash flow incurred towards pay revision which is due from July/August 2018 onwards.”

5.141 **As extracted above, the Commission has decided that, the provisions created for pay revision for the year 2018-19 cannot be allowed in the Truing up due to the reasons explained therein. However, KSEB Ltd is permitted to take up the actual amount paid to employees due to pay revision with all supporting documents including the approvals of the KSEB Ltd Board of Directors and the State Government at the time of Truing up of accounts of the relevant years in which the actual outflow of funds occur and the arrears are actually credited to the employees accounts.**

**Total O&M expenses approved for SBU-D of KSEB Ltd.**

5.142 As discussed in the preceding paragraphs, the total O&M expenses approved for SBU-D for the purpose of Truing up of accounts for the year 2018-19 is detailed below.

Table 5.54  
Total O&M expenses of SBU-D of KSEB Ltd approved for the year 2018-19

No	Particulars	Approved in MYT Order	As per audited accounts	As per True-up petition	KSERC approval
		Rs.crore	Rs.crore	Rs.crore	Rs.crore
1	Employee Expenses	1979.83	2425.42	1982.22	1876.16
2	A&G Expenses		447.87		106.05
3	R&M Expenses	246.25	232.96	252.35	251.54
4	Sub Total (O&M Expenses)	2226.08	3106.25	2234.57	2233.75
5	Provision for pay revision			144.47	0.00
6	Total	2226.08	3106.25	2379.04	2233.75

**The Commission hereby provisionally approves Rs.2233.75 crore as O&M expense for the year 2018-19 for truing up.**

**Asset additions of SBU-D of KSEB Ltd for the year 2018-19**

5.143 KSEB Ltd submitted that, as per Accounts, KSEB Ltd had executed capital works to the tune of Rs.2215.24 crore during the year. The completed works which were capitalized during the year was Rs.1672.80 crore. Of this, the asset addition of SBU-D was Rs 1203.72 crore. The details are given below.

Table 5.55  
Summary of capitalisation during the year 2018-19 as per petition

Sl. No	SBU	CWIP as on 01/04/2018	Works executed during the year	GFA Addition	CWIP as on 31/03/2019
		Rs. Crore	Rs. crore	Rs. crore	Rs. crore
1	Generation	1,130.89	220.15	103.66	1,247.39
2	Transmission	440.71	560.43	365.43	635.71
3	Distribution	877.29	1,434.67	1,203.72	1,108.24
4	<b>GRAND TOTAL</b>	2,448.90	2,215.24	1,672.80	2,991.34

5.144 The asset class wise details of fixed assets addition under the Strategic Business Units of SBU G, SBU T and SBU D during the year 2018-19 is given below:

Table 5.56

SBU wise, Asset class wise GFA addition for the year 2018-19 (Rs in Crore)

Sl.No	Description	2018-19			
		SBU G	SBU T	SBU D	Total
1	Land	0.46	6.76	0.24	7.46
2	Building	20.61	22.74	-4.72	38.63
3	Hydraulic works	36.95	0.26	0.00	37.21
4	Other Civil works		21.14	2.47	23.61
5	Plant & Machinery	43.78	173.49	241.73	459.00
6	Lines, cable networks etc.	0.60	137.92	952.81	1091.33
7	Vehicle	0.52	0.58	0.27	1.37
8	Furniture & Fixtures	0.30	0.82	2.75	3.87
9	Office equipment	0.36	1.39	6.94	8.69
10	Decommissioning liability	0.09	0.34	1.22	1.65
<b>11</b>	<b>Total</b>	<b>103.66</b>	<b>365.43</b>	<b>1203.72</b>	<b>1672.80</b>

5.145 SBU wise details of the capital subsidies and grants received during the year 2018-19 as per accounts and claimed in the truing up is detailed below.

Table 5.57

SBU wise break up of Consumer contribution, subsidies & Grants (Rs Cr)

Particulars	SBU G	SBU T	SBU D	Total
Consumer contribution & Grants as per petition	13.34	289.69	452.93	755.96
Less: Grants not considered as the projects not commissioned in 2018-19.		232.78		232.78
Grants etc considered for 2018-19	13.34	56.91	452.93	523.18

5.146 The GFA addition claimed for as per Tariff Regulation, 2018 for claiming interest on loan and depreciation for the year 2018-19 is given below.

Table 5.58

Breakup of additional capitalization as per Accounts and as per KSERC Regulations (Rs. Cr)

Sl.No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	Addition as per Accounts	103.66	365.43	1203.72	1672.81
2	Less: Decommissioning liability	0.09	0.34	1.22	1.65
3	Less: Part capitalization	0.77	26.74	0.00	27.51
4	Add: Part capitalization in 2016-17 but commissioned during 2018-19	0.00	1.78	0.00	1.78
5	Add: Part capitalization in 2017-18 but commissioned during 2018-20	1.06	7.04	0.00	8.10
6	<b>GFA addition eligible as per Regulation</b>	<b>103.86</b>	<b>347.17</b>	<b>1202.50</b>	<b>1653.53</b>
7	Less: Consumer contribution & grants	13.34	56.91	452.93	523.18
8	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>90.52</b>	<b>290.26</b>	<b>749.57</b>	<b>1130.35</b>
9	Less: Land value addition excluding the portion under part capitalization	0.46	3.89	0.24	4.59
10	<b>GFA addition eligible for depreciation</b>	<b>90.06</b>	<b>286.37</b>	<b>749.33</b>	<b>1125.76</b>

5.147 The scheme wise capital expenditure and GFA addition under SBU-D is given below..

**Table 5.59**  
**Scheme wise capital expenditure and GFA addition under SBU D for 2018-19 (Rs. Cr)**

<b>Project Code</b>	<b>Brief Description of Project</b>	<b>Cost as on 01/04/2018</b>	<b>Incurred during the year</b>	<b>Capitalized during the year</b>	<b>Balance at the end of 31/03/2019</b>
14.05	Deen Dayal Upadhyay Gram Jyothi Yojana (DDU GJY)	21.480	232.820	187.070	<b>67.230</b>
14.13	Integrated Power Development Scheme (IPDS)	3.830	122.570	69.700	<b>56.700</b>
14.26	Kerala Power Improvement Scheme (KPIS)	0.000	0.390	0.390	<b>0.000</b>
14.5	Rural Electrification Scheme	0.000	0.870	0.830	<b>0.040</b>
14.51	Distribution Line Extension	0.180	81.920	80.770	<b>1.330</b>
14.52	Distribution Service Connection	2.280	132.600	130.940	<b>3.950</b>
14.53	Distribution System Improvement	3.390	186.500	180.670	<b>9.220</b>
14.54	Electrification of Harijan Colonies	0.000	0.110	0.110	<b>0.000</b>
14.55	Electrification of Tribal Colonies	0.000	1.250	1.250	<b>0.000</b>
14.57	Punja Package	0.000	0.490	0.410	<b>0.080</b>
14.58	System Improvement in other areas	0.000	3.430	3.170	<b>0.260</b>
14.59	Distbn. Capacitor Installation Scheme	0.000	0.000	0.000	<b>0.000</b>
14.6	Street Lights	0.660	27.040	25.570	<b>2.130</b>
14.61	Expenditure due to Natural Calamity		13.630	13.570	<b>0.060</b>
14.62	RGGVY-Village electrification Infrastructure	-22.720	25.860	0.000	<b>3.130</b>
14.63	RGGVY-For effecting BPL Service Connection	0.240	0.000		<b>0.240</b>
14.67	Part B Projects of R-APDRP	176.210	102.820	237.900	<b>41.140</b>
14.81	MLA Asset Development Fund Scheme (MLA ADF)	0.000	1.210	1.210	<b>0.000</b>
14.82	R- APDRP Scheme	511.620	22.370	136.300	<b>397.680</b>
14.87	APDRP-Scheme	0.010	0.010	0.020	<b>0.000</b>
14.9	CWIP - General	178.690	477.560	132.670	<b>523.580</b>
14.91	Innovation fund	0.000	0.140	0.030	<b>0.110</b>
14.99	Projects not Identified	1.420	1.090	1.140	<b>1.370</b>
	<b>SUB TOTAL (C)</b>	<b>877.290</b>	<b>1434.670</b>	<b>1203.720</b>	<b>1108.240</b>

5.148 KSEB Ltd also submitted that, most of the capital works in SBU-D are with smaller capital outlay and has shorter gestation periods. Hence there is very remote chance for part capitalization of distribution projects.

5.149 KSEB Ltd claimed that, the consumer contribution and grants received during the year under SBU-D was Rs 452.93 crore. Considering all these aspects in detail, KSEB Ltd has claimed the GFA addition of Rs 749.57 crore for computing interest for normative loan and Rs.749.33 crore after excluding land value of Rs 0.24 crore for claiming depreciation.

5.150 The summary of the GFA addition as per the Tariff Regulations 2018, the GFA to be considered for normative loan, GFA addition for depreciation of SBU-D as claimed by KSEB Ltd is given below.

Table 5.60  
GFA addition claimed by KSEB Ltd for SBU-D

Sl No	Particulars	Amount (Rs.Cr)
1	GFA addition as per accounts	1203.72
2	Less Decommissioning liability	1.22
3	GFA addition as per Regulation	1202.50
4	Consumer contribution and grants	452.92
5	GFA addition eligible for normative loan = (3)-(4)	749.57
6	Land value	0.24
7	GFA addition eligible for depreciation = (3)-(4)	749.33

### **Provisions in the Regulations regarding addition of assets**

5.151 As per the provisions of Tariff Regulation, 2018, only when an asset is ready and put into use, the costs relating to such assets are to be included for determination of tariff as shown below:

- *As per proviso to Regulation 22(2) the value of assets forming part of the project but not put to use or not in use, shall be excluded from the capital cost.*
- *As per Regulation 23(4), the assets forming part of the project cost but not put to use, shall not be approved for determination of tariff.*
- *Proviso to Regulation 28, RoE shall be allowed on the amount of equity capital approved by the Commission for the assets put to use at the commencement of the financial year.*

*Regulation 29(1)(b) provides that the interest and finance charges on capital works in progress shall be excluded from such consideration. Hence, the provisions of Regulation clearly excludes the assets which are part capitalized.*

### **Analysis and Decision of the Commission regarding the GFA addition of SBU-D**

5.152 The Commission has examined the details furnished by KSEB Ltd on asset addition for SBU-D. As per the revised details furnished by KSEB Ltd, vide their letter dated 30.07.2021, the GFA addition for SBU-D as per accounts is Rs 1203.72 crore. After deducting the decommissioning liability of Rs 1.22 crore, the GFA addition of SBU-D as per Tariff Regulations is 1202.50 crore.

5.153 Further, as per the details submitted, KSEB Ltd has received the grants and contributions amounting to Rs 452.93 crore.

5.154 ***Accordingly, the breakup details of the GFA addition of SBU-D approved for the year 2018-19 is given below.***

**Table 5.61**  
**GFA addition approved for the Year 2018-19 of SBU-D**

Sl.No	Particulars	Amount (Rs.Cr)
1	Addition as per Accounts	1203.72
2	Less: Decommissioning liability	1.22
3	Less: Part capitalization	0.00
4	Add: Part capitalization in 2016-17 but commissioned during 2018-19	0.00
5	Add: Part capitalization in 2017-18 but commissioned during 2018-19	0.00
6	<b>GFA addition eligible as per Regulation</b>	<b>1202.50</b>
7	<b>Consumer contribution and grants</b>	452.93
8	<b>Net Asset addition (for Normative loan)</b>	<b>749.57</b>
9	Less: Land value addition excluding the portion under part capitalization	0.24
10	<b>GFA addition eligible for depreciation as per petition</b>	<b>749.33</b>

5.155 As seen from the Table above, the asset addition approved for the year 2018-19 for SBU-D is Rs.1202.50 crore. After deducting the grants and contribution amounting to Rs.452.93 crore, the net asset addition for SBU-D eligible for claiming normative loan for 2018-19 is Rs.749.57 crore. **After deducting the land value amounts to Rs 0.24 crore of the newly added but not achieved CoD assets, the GFA addition approved and eligible for depreciation is Rs 749.33 crore.**

**Summary of the GFA of SBU-D as on 31.03.2019**

5.156 As per the order of the Commission dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts for the year 2017-18, the GFA of SBU-D approved as on 31.03.2018 is Rs 8229.95 crore. The GFA addition approved for the year 2018-19 as per Table 5.61 above is Rs 1202.50 crore. Thus the closing balance of GFA of SBU-D as on 31.03.2019 is Rs 9432.45 crore. The details are given in the Table below.

**Table 5.62**  
**Summary of GFA of SBU-D as on 31.03.2019**

Sl No	Particulars	Amount (Rs. Cr)
1	Opening level of GFA approved as on 01.04.2018 (Table 38 of the Order dated 25.06.2021 in OA No. 09/2020 (True up 2017-18))	8229.95
2	Asset addition approved for 2018-19	1202.50
3	Closing balance of GFA as on 31.03.2019	9432.45



## Depreciation

5.157 KSEB Ltd in the petition stated that, the depreciation as per the audited accounts is Rs 805.03 crore. From this amount, claw back depreciation was determined at Rs 158.25 crore and credited to other income under Note 25(b) of the Annual accounts. The share of depreciation of SBU-D as per the audited accounts is Rs 433.24 crore. Since depreciation is claimed as per Regulations after deducting applicable claw back, KSEB Ltd requested that the income accounted under note 25(b) towards claw back as per accounts may not be considered in True up.

5.158 The Commission vide the MYT Order dated 08.07.2019 had provisionally approved the normative depreciation for SBU-D for the year 2018-19 at Rs.72.24 crore as per the provisions of the Tariff Regulations 2018. As against this, KSEB Ltd computed the depreciation allowable as per the Tariff Regulations 2018 for the purpose of Truing up at Rs 107.98 crore.

5.159 The summary of the depreciation claimed by KSEB Ltd for SBU-D for the year 2018-19 is given below.

Table 5.63  
Depreciation sought by KSEB Ltd for SBU-D for 2018-19

No	Particulars	Approved in MYT Order	Actual as per accounts	True-up requirement As per petition
		Rs. crore	Rs. crore	Rs. Crore
1	Depreciation	72.24	433.24	107.98

5.160 KSEB Ltd further submitted that, the depreciation in the Truing up petition 2018-19 is arrived as per the methodology specified in the Tariff Regulations, 2018, where in the depreciation rates as well as methodology for computing depreciation on normative basis was specified in detail. Accordingly, allowable depreciation for the year 2018-19 as per the Truing-up petition is worked out in the following lines:

- (i) GFA (net of consumer contribution grants and subsidy) as on 31.03.2016 determined by the Hon'ble Commission in the MYT Order dated 08.07.2019 (Rs.10611 88 Cr) has been considered as GFA eligible for depreciation as per Regulations on that date..
- (ii) GFA addition net of contribution etc for the year 2016-17 and 2017-18 has been considered as per the claims made in this regard in the submission/ TU petition for the respective years.
- (iii) Rate of depreciation as specified by the Hon'ble Commission in the MYT Order has been adopted for working out depreciation. Paragraph 3.65 of the Order is extracted below for ready reference.  
*Based on the mix of assets, for the first 12 years the average rate of depreciation will be 5.14%. Since the weighted average life of the assets is 31 years, the balance 27% of the value of assets (90%-63%) is to be*

depreciated in balance 19 years (31-12 years) of the useful life. Hence the average rate of depreciation for assets more than 12 years old will be 27%/19 ie., 1.4% per year on a straight line basis.

- (iv) Function wise capital contribution and grants till 31.03.2018 has been reduced from GFA value so that depreciation is claimed only on eligible GFA as per Regulations. Gross Consumer Contribution and grants till 31.03.2018 as per accounts amounted to Rs.2170.39 Cr and after excluding concessional loans and decommissioning liability, the actual amounts is Rs.2078.85 Cr {2170.39- (70.97+20.56)}.

5.161 Based on the above, KSEB Ltd has claimed the normative depreciation for the year 2018-19 for its SBUs was arrived as follows

**Table 5.64**  
**KSEB Ltd claim of depreciation for the year 2018-19 as per Tariff Regulations, 2018 (Rs Cr)**

SI No	Particulars	SBU-G	SBU-T	SBU-D	Total
1	GFA (net of contribution) 31.03.2016 as per MYT Order	4,454.06	4,374.89	1,782.93	10,611.88
2	GFA addition 2016-17-As per Regulations	298.75	324.9	939.94	1563.59
3	Consumer contribution, Grants and Subsidies received during 2016-17-Actuals as per accounts	0	79.12	567.82	646.94
4	IND AS addition considered in TU Order 2015-16 (included in 1 above)	13.32	81.26	188.15	282.73
5	GFA Addition 2016-17 eligible for depreciation {2-(3+4)}	285.43	164.52	183.97	633.92
6	GFA as on 31.03.2017 net of contribution (1+5)	4,739.49	4,539.41	1,966.90	11,245.80
7	GFA addition 2017-18 as per TU petition	117.66	384.37	699.45	1201.48
8	Consumer contribution, Grants and Subsidies received during 2017-18	75.31	103.99	394.15	573.45
9	Net GFA addition for 2017-18 (7-8)	42.35	280.38	305.3	628.03
10	GFA as on 31.03.2018 net of contribution (6+9)	4,781.84	4,819.79	2,272.20	11,873.83
11	Assets more than 12 yrs old- GFA as on 01.04.2006 as per Accounts	2923.03	2399.22	2389.37	7711.62
12	Contribution & grants as on 01.04.2006 as per accounts			1678.96	1678.96
13	GFA as on 31.03.2006 net of contribution	2923.03	2399.22	710.41	6032.66
14	Land value @ 2.80% on 11 above	81.84	67.18	19.89	168.91
15	Net GFA eligible for depreciation (more than 12 years old) (13-14)	2841.19	2332.04	690.52	5863.75
16	GFA with <12 years old (10-15)	1,940.65	2,487.75	1,581.68	6,010.08
17	Land value @ 2.80% on 16 above	54.34	69.66	44.29	168.28
18	GFA < 12 years old excluding land value (16-17)	1,886.32	2,418.09	1,537.39	5,841.80
19	Dep on assets > 12 years old (15 @ 1.40%)	39.78	32.65	9.67	82.09
20	Dep on assets < 12 years old (18 @ 5.14 %)	96.96	124.29	79.02	300.27
21	Depreciation on GFA till 31.03.2018 (19+20)	136.73	156.94	88.69	382.36
22	Depreciation on GFA addition in 2018-19 as per Table 5.7	0.86	1.95	19.30	22.11
23	<b>Depreciation for 2018-19 (21+22)</b>	<b>137.60</b>	<b>158.88</b>	<b>107.98</b>	<b>404.47</b>

5.162 In the meantime, the Commission vide Order dated 25.06.2021 in OA No. 09/2021 had approved the Truing up of accounts for the year 2017-18, where in the Commission has specified the methodology for computing the depreciation on normative basis in the process of truing up. Based on the methodology approved by the Commission vide the order on Truing up of

accounts for the year 2017-18, KSEB Ltd vide the additional submission dated 30.07.2021 had computed the depreciation on normative basis for the year 2018-19 as detailed below.

**Table 5.65**  
**KSEB Ltd- Revised claim of Depreciation for 2018-19 (Rs Cr)**

	Particulars	SBU-G	SBU-T	SBU-D	KSEB Ltd
1	Opening GFA as on 1-4-2017 (As per TU Order 2017-18 (OA 9/2020 Dt 25.06.2021)	4658.32	4628.56	7530.50	16817.38
2	Total asset addition approved As per Order dt 25.06.2021 for 2017-18	71.42	388.82	699.45	1159.69
3=(1+2)	Approved GFA as on 31.03.2018	4729.74	5017.38	8229.95	17977.07
4	Add: Relief sought as per RP 1/2021-Pending disposal	23.33	11.36	0.00	34.69
5=(3+4)	GFA as on 31.03.2018 considered for depreciation	4753.07	5028.74	8229.95	18011.76
6	Assets >12 years old (GFA as on 1-4-2006)	2923.03	2399.22	2389.37	7711.62
7	Fully depreciated Assets (assets up to 1-4-1988)	192.79	90.88	264.93	548.60
8=(6-7)	Assets having life 12-30 yrs	2730.24	2308.34	2124.44	7163.02
9=(8*2.80%)	Value of land (Average 2.8% of GFA)	76.45	64.63	59.48	200.56
10	Grants and contributions (upto 1-4-2006)			1678.96	1678.96
11=(8-9-10)	<b>Assets having life 12-30 yrs eligible for depreciation</b>	<b>2653.79</b>	<b>2243.71</b>	<b>386.00</b>	<b>5283.50</b>
12=(11*1.42%)	<b>Depreciation for Assets 12-30 years (@1.42%)</b>	<b>37.68</b>	<b>31.86</b>	<b>5.48</b>	<b>75.03</b>
13=(5-6)	Assets < 12 years old (1-4-2006 to 31-3-2018)	1830.04	2629.52	5840.58	10300.14
14=(13*2.80%)	Value of land (Average 2.8% of GFA)	51.24	73.63	163.54	288.40
15	Grants and contributions (1-4-2006 to 31-3-2018)	101.47	199.94	4267.86	4569.27
16=(13-14-15)	Opening balance of Assets < 12 years old	1677.33	2355.95	1409.18	5442.47
17	Asset addition for 2018-19 as per this submission	46.09	347.16	1202.50	1595.75
18	Grants and Contributions for 2018-19	13.34	56.91	452.93	523.18
19	Value of land	0.46	3.89	0.24	4.59
20=(16+17-18-19)	Closing balance of Assets <12 years Old (1-4-2006 to 31-3-2019)	1709.62	2642.31	2158.51	6510.45
21=(16+20)/2	Average Value of Assets <12 Years old	1693.47	2499.13	1783.85	5976.46
22=(21*5.14%)	<b>Depreciation for assets &lt;12 years (@5.14%)</b>	<b>87.04</b>	<b>128.46</b>	<b>91.69</b>	<b>307.19</b>
23=(12+22)	Total Depreciation for assets for 2018-19	<b>124.73</b>	<b>160.32</b>	<b>97.17</b>	<b>382.22</b>

5.163 KSEB Ltd requested to approve the depreciation amounts to Rs 382.22 crore as above and its share of SBU-D is Rs 97.17 crore

### Comments of the stakeholders

5.164 HT&EHT Association requested before the Commission to allow depreciation strictly as per the provision of the Regulations. The Association computed the depreciation at Rs 366.36 crore for the year 2018-19, out of which the contribution of SBU-D is arrived at Rs 81.19 crore. The Association requested to approve the depreciation for SBU-D at Rs 81.19 crore as estimated by the Association.

### Provisions in the Regulations

5.165 Regulations 27 of the Tariff Regulations, 2018 provides the depreciation for the purposes of Tariff determination. The relevant Regulations is extracted below.

*“27. Depreciation. – (1) The value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission:*

*Provided that no depreciation shall be allowed on increase in the value of assets on account of revaluation of assets,*

*Provided further that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.*

*(2) The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner:-*

*(a) depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation;*

*(b) the remaining depreciable value as on the Thirty First day of March of the financial year ending after a period of twelve financial years from the date of commercial operation shall be spread over the balance useful life of the assets as specified in Annexure- I;*

*(c) the generating business/company or transmission business / licensee or distribution business/licensee, shall submit all such details and documentary evidence, as may be required under these Regulations and as may be required by the Commission from time to time, to substantiate the above claims;*

*(d) the salvage value of the asset shall be ten per cent of the allowable capital cost as approved by the Commission excluding cost of assets created out of contributions and grants and depreciation shall be a maximum of ninety per cent of such approved capital cost of the asset.*

*(3) In the case of existing assets, the balance depreciable value as on the First day of April, 2018, shall be worked out by deducting the cumulative depreciation approved by the Commission upto the Thirty First day of March, 2018, from the gross depreciable value of the assets.*

*(4) Depreciation shall be chargeable from the first financial year of commercial operation: Provided that in the case of commercial operation of the asset for part of the financial year, depreciation shall be charged on pro-rata basis:*

*Provided further that depreciation shall be re-calculated for assets capitalised during the financial year at the time of truing up, based on documentary evidence for capitalisation of assets submitted by the applicant, subject to the prudence check of the Commission, in such a way that the depreciation is calculated proportionately from the date of capitalisation.*

*(5) In case a single tariff needs to be determined for all the units of the generating station, the depreciation shall be computed from the effective date of commercial*

operation of each of the unit taking into consideration the depreciation of individual generating units thereof.”

## Analysis and Decision of the Commission

5.166 The Commission has examined in detail the depreciation claimed by KSEB Ltd in their Truing up petition for the year 2018-19. The Commission has been approving the depreciation on normative basis strictly as per the provisions of the Tariff Regulations 2018. The Commission has been following the consistent stand that, the assets created out of consumer contribution and grants shall not qualify for depreciation. The Tariff Regulation 2018 provides the methodology and rates for determining the depreciation for Tariff determination.

5.167 The Commission vide Order dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts for the financial year 2017-18 has approved the GFA as on 31.03.2018 as Rs.17977.07 crore, where in the GFA of SBU-D is approved as Rs 8229.95 crore (Table 38 under paragraph 2.127(d) of the said order). The details are given below.

**Table 5.66**  
**Summary of approved Asset addition in 2017-18 and GFA vide Order dated 25.06.2021 in petition OA No.09 of 2020**

	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
	<b>Rs. Crore</b>	Rs. Crore	Rs. Crore	Rs. Crore
Opening level of Approved GFA (as on 01-04-2017)	<b>4,658.32</b>	4,628.56	7,530.50	16,817.38
Asset Additions approved in 2017-18	<b>71.42</b>	388.82	699.45	1,159.69
<b>Closing balance of GFA (as on 31-03-2018)</b>	<b>4,729.74</b>	<b>5,017.38</b>	<b>8,229.95</b>	<b>17,977.07</b>

5.168 The summary of the asset addition of SBU-D approved by the Commission as per this Order under Table 5.61 is Rs 1202.50 crore. Further as per the Table 5.62, the total GFA as on 31.03.2019 is Rs 9432.45 crore

5.169 As per the provisions of the Tariff Regulations, 2018, land is a non-depreciable asset. Based on the past practice and to ensure consistency in accounting policy, the value of land is taken as 2.80% of the total GFA of KSEB Ltd. The average rate of depreciation of assets having life less than 12 year is arrived @5.14% and the average depreciation rate of assets having life more than 12 years and upto 30 years is taken as 1.42%. All assets aged more than 30 years old is considered as fully depreciated assets and no further depreciation is provided..

5.170 Based on the above, and adopting the same methodology as for the year 2017-18, for approving depreciation, the depreciation of SBU-D of KSEB Ltd for the year 2018-19 is arrived at as below.

Table 5.67  
Depreciation approved for SBU-D for the year 2018-19

Sl No	Particulars	Amount (Rs. Cr)
1	GFA approved as on 01.04.2018	8229.95
2	Consumer contribution & grants as on 01.04.2018 (as per Petition)	5947.32
3	Value of land (2.8% of the GFA)	63.91
4	Depreciable Assets on 01.04.2018	2218.72
5	Depreciation for asset as on 01.04.2018	77.89
6	Depreciation for assets added during the year 2018-19	19.26
7	<b>Total depreciation of SBU-D allowable for the year 2018-19</b>	<b>97.15</b>

5.171 As above, the Commission approves the depreciation of Rs 97.15 crore for the SBU-D for the purpose of truing up for the year 2018-19 as against the claim of Rs 97.17 crore claimed in the revised submission by KSEB Ltd.

#### Interest and financing charges of SBU-D for the year 2019-20

5.172 KSEB Ltd has claimed Rs 1787.30 crore towards the interest and finance charges as against Rs 1428.31 crore approved vide the MYT Order dated 08.07.2019 in Petition OA No. 15/2018. Interest charges include interest on secured loans, master trust interest, interest on working capital, interest on PF balance etc. The claim of KSEB Ltd on interest and financing charges of SBU-D for the year 2018-19 is given below:

Table 5.68  
Interest and financing charges claimed for 2018-19 as per petition

Item	Approval	Actual	TU requirement	Difference over approval
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Interest on Loan	149.90	348.47	180.27	28.78
Security Deposit Interest	175.33	177.31	170.75	-4.58
Master Trust Bond Interest	646.45	652.08	652.08	5.63
Overdraft interest	0.00	125.54		0.00
PF interest	152.55	136.68	136.68	-15.87
Other interests	0.00	18.41	18.41	18.41
Interest on fair valuation	0.00	9.13		0.00
Carrying cost	304.08	0.00	629.11	325.03
<b>Total</b>	<b>1428.31</b>	<b>1467.62</b>	<b>1787.30</b>	<b>358.99</b>
Less: Interest capitalized		202.80		
<b>I&amp;FC net of capitalization</b>		<b>1263.32</b>		

5.173 The Commission has carefully considered on each item of the interest and financing charges for SBU-D for the year 2018-19 as discussed in the subsequent paragraphs.

### Interest on long term loans on normative basis

5.174 The summary of the loan, interest and average rate of interest for the year 2018-19 availed for all the SBUs of KSEB Ltd is given below.

Table 5.69  
Summary of the loans and interest claimed by KSEB Ltd

SBU	Opening (01/04/18)	Add: additions during the Year	Less: Repayments during the year	Closing (31/03/19)	Interest on loan	Average loan	Average interest rate (%)
SBU G	1468.47	319.88	812.88	975.47	101.98	1221.97	8.35
SBU T	1406.58	496.27	666.11	1236.73	119.67	1321.66	9.05
SBU D	3604.3	905.09	1143	3366.39	348.47	3485.34	10.00
<b>Total</b>	<b>6479.35</b>	<b>1721.24</b>	<b>2621.99</b>	<b>5578.59</b>	<b>570.12</b>	<b>6028.97</b>	<b>9.46</b>

5.175 KSEB Ltd further submitted that, Regulation 26 of the Tariff Regulations, 2018 specifies the approval of the loan interest on normative basis. While issuing MYT Order dated 08.07.2019, the Commission had approved the opening level of SBU-D as on 01.04.2018 as 1164.06 crore. The normative loan and interest thereon approved by the Commission for SBU-D, vide the MYT Order dated 08.07.2019 is extracted below.

Table: 5.70  
KSEB Ltd- Normative loan and interest charges of SBU-D approved for the MYT period 2018-19 to 2021-22

Particulars	2018-19	2019-20	2020-21	2021-22
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
Opening level of Normative loan (as of 1st April)	1,164.06	1,953.58	2,683.01	3,169.46
Provisional Asset Additions for the year	1,768.70	1,222.17	811.69	880.75
Contributions and Grants for the year	906.94	399.28	203.71	205.74
Net Addition to normative loan for the year	861.76	822.90	607.98	675.01
Repayment for the year (Depreciation)	72.24	93.47	121.53	154.91
<b>Closing provisional Normative loan (as on 31st March)</b>	<b>1,953.58</b>	<b>2,683.01</b>	<b>3,169.46</b>	<b>3,689.56</b>
Average loan	1,558.82	2,318.29	2,926.23	3,429.51
Rate of interest	9.62%	9.62%	9.62%	9.62%
<b>Interest Charges</b>	<b>149.90</b>	<b>222.94</b>	<b>281.40</b>	<b>329.80</b>

5.176 Based on the provisions of the Tariff Regulations, 2018, and also as per the methodology followed by KSEB Ltd in the MYT Order dated 08.07.2019, the normative interest on loan till 31.03.2019 arrived by KSEB Ltd for the SBUs is given below.

**Table 5.71**  
**KSEB Ltd computation of normative interest for the 'existing loan' loan till 31.03.2019 (Rs Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	Normative loan as on 01.04.2017 as per TU Order	564.38	547.59	839.54	1951.51
2	KSEB Ltd claim before Hon'ble APTEL	135.23	131.21	201.16	467.60
3	Additional normative loan for 2016-17- As per additional submission	291.21	241.44	367.26	899.91
4=(1+2+3)	Normative loan as on 01.04.2017	990.82	920.24	1407.96	3319.02
5	Normative loan 2017-18 as per TU Petition	42.35	280.38	305.30	628.03
6=(4+5)	Gross normative loan as on 31.03.2018	1033.17	1200.62	1713.26	3947.05
7	Less: Normative repayment as per TU 2017-18	143.48	156.36	236.78	536.62
8=(6-7)	Normative loan as on 31.03.2018	889.69	1044.26	1476.48	3410.43
9	Depreciation on opening GFA for 2018-19	136.73	156.94	88.69	382.36
10=(8-9)	Net Normative loan as on 31.03.2019	752.96	887.32	1387.79	3028.07
11=(8+10)/2	Average loan (without considering addition during 2018-19)	821.32	965.79	1432.14	3219.25
<b>12</b>	<b>Interest on above A</b>	<b>68.50</b>	<b>87.50</b>	<b>143.21</b>	<b>299.21</b>

5.177 In addition to the above, KSEB Ltd has also claimed normative interest on GFA added during the year 2018-19 is given below.

**Table 5.72**  
**KSEB Ltd computation of normative loan for the GFA addition during 2018-19 (Rs. Cr)**

SI No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	GFA addition for 2018-19 as per accounts	103.66	365.43	1203.72	1672.80
2	Less: Perumthenaruvi project-capitalized in 2017-18	56.71			56.71
3	Less: Consumer contribution, Grants and Subsidies received during the year	13.34	289.69	452.93	755.96
4	Equity infusion during the year	0.00	0.00	0.00	0.00
5=(1-2-3-4)	Additional normative loan for 2018-19	<b>33.61</b>	<b>75.74</b>	<b>750.79</b>	860.14
6	Less: Normative repayment for 2018-19 (Depreciation on assets added in 2018-19 at half the normal rate (@ 5.14%/2=2.57%)	<b>0.86</b>	<b>1.95</b>	<b>19.30</b>	<b>22.11</b>
7=(5-6)	Net additional normative loan	<b>32.74</b>	<b>73.79</b>	<b>731.50</b>	838.03
8 ={(5+7)/2}	Average additional normative loan	<b>33.17</b>	<b>74.76</b>	<b>741.15</b>	849.08
9	Average rate of Interest % (Actual)	8.35	9.05	10.00	
10 =(8*9%)	Normative interest on GFA addition for 2018-19	<b>1.38</b>	<b>3.39</b>	<b>37.06</b>	<b>41.83</b>

5.178 The total normative interest for the normative loan for the year 2018-19 and normative loan balance as on 31.03.2019 as per the claim of KSEB Ltd is given below.



**Table -5.73**  
**KSEB Ltd claim of normative interest on loan for 2018-19 (Rs Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	Normative interest on loan till 01.04.2018	68.50	87.50	143.21	299.21
2	Normative interest on loan during 2018-19	1.38	3.39	37.06	37.63
<b>3</b>	<b>Total</b>	<b>69.88</b>	<b>90.89</b>	<b>180.27</b>	<b>341.04</b>
4	Normative loan balance on assets added till 31.03.2018	752.96	887.32	1387.79	3028.07
5	Normative loan balance on assets added during 2018-19	32.74	73.79	731.50	838.03
6	Normative loan as on 31.03.2019	785.70	961.11	2119.29	3866.10

5.179 As detailed above, the normative interest on loans claimed by KSEB Ltd for the year 2018-19 is Rs 180.27 crore for SBU-D as detailed in Table 5.73 above.

### **Objection of stakeholders**

5.180 The HT -EHT Association in their counter has stated that as per their calculations, Rs. 129.33 crore only is to be allowed as interest charges for the loans as against Rs. 180.27 crore claimed by KSEB Ltd

### **Provisions in the Regulation**

5.181 Regarding approval of the interest charges, Regulations 26 of the Tariff Regulations, 2018, provide the detailed procedure for the approval of interest and financing charges.

Regulation 26 of the Tariff Regulations, 2018, specifies the normative debt-equity ratio and procedure for the approval of the interest on normative loan. The relevant Regulations is extracted 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.

(4) If any fixed asset is capitalised on account of capital expenditure incurred prior to the First day of April, 2018, the debt-equity ratio allowed by the Commission for determination of tariff for the period ending the Thirty First day of March, 2018 shall be considered.

(5) The equity invested in foreign currency if any shall be designated in equivalent Indian rupees at the exchange rate specified by Reserve Bank of India as on the date of each such investment.

(6) In the case of retirement or replacement of assets, the equity capital approved as mentioned above, shall be reduced to the extent of thirty percent or actual equity component based on documentary evidence, if it is lower than thirty percent of the original cost of the retired or replaced asset.

(7) (a) Swapping of foreign currency loans shall be permitted provided it does not have the effect of increasing the tariff;

(b) Cost of swapping and interest expenses thereon, shall be allowed by the Commission only after prudence check;

(c) The generating business/company or transmission business/licensee or distribution business/licensee shall provide full particulars of the swapped loans.

(8) (a) Restructuring of capital in terms of relative share of equity and loan shall be permitted during the life of the project provided it does not have the effect of increasing the tariff.

(b) Any benefit from such restructuring shall be shared in the ratio 1:1 among,-

(i) the generating business/company and the persons sharing the capacity charge; or

(ii) transmission business/licensee and long-term intra-State open access customers including distribution business/licensee; or

(iii) distribution business/licensee and consumers.”

5.182 Regulation 29 of the Tariff Regulation 2018, specifies the procedures for the approval of the interest and finance charges. The relevant Regulation is extracted below.

“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.

(b) The interest and finance charges on capital works in progress shall be excluded from such consideration and not be considered in the ARR and trueing up processes.

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

*(2) The normative loan outstanding as on the First day of April, 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.*

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

*(4) The rate of interest allowed shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each financial year applicable to the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre:*

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

*Provided further that if the regulated business of the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre does not have actual loan, but normative loan is outstanding, then interest shall be allowed at the base rate.*

*(5) The interest on loan shall be calculated average loan as per the norms approved by the Commission for the financial year by applying the weighted average rate of interest.*

*(6) The generating business/company or the transmission business/licensee or the distribution business/licensee or the State Load Despatch Centre, as the case may be, shall make every effort to re-finance the loan as long as it results in net savings on interest and in that event the costs associated with such re-financing shall be borne by the beneficiaries and any benefit from such refinancing shall be shared in the ratio 1:1 among,-*

- (i) the generating business/company and the persons sharing the capacity charge; or*
- (ii) transmission business/licensee and long-term intra-State open access customers including distribution business/licensee; or*
- (iii) distribution business/licensee and consumers.*

*(7) The changes to the terms and conditions of the loans during the financial year, if any, shall be effective from the date of coming into force of such changes.*

*(8) Interest shall be allowed on the amount held as security deposit in cash from users of the transmission system or distribution system and consumers at the bank rate as on the First day of April of the financial year in respect of in which the petition is filed:*

*Provided that interest on security deposit actually paid to the users of the transmission system or distribution system and to the consumers during the financial year, shall only be considered at the time of truing up for the financial year.”*

5.183 As per the provisions of the Regulations, while allowing interest on loans, interest charges for capital works in progress is not allowable. Further, the Regulation provides that funds received in the form of grants and contributions to be deducted from the fund requirements.

### **Analysis and decision of the Commission**

5.184 The Commission has examined in detail the interest on loans computed on normative basis as per the provisions of the Tariff Regulations, 2018, the objections raised by the HT&EHT Association and other stake holders and the claim made by KSEB Ltd in their Truing Up petition. The decision of the Commission is detailed in the subsequent paragraphs.

5.185 The Commission has been approving the interest on loan to the licensee on normative basis, strictly as per the provisions of the Tariff Regulations, 2018, duly considering the asset addition during the year, the assets created out of consumer contribution and grants, normative loan repayment and other relevant factors, and its details are given below.

5.186 The Commission vide Order dated 25.06.2021 in OA No.09/2020 had approved the Truing up of accounts for the year 2017-18. As per the paragraph 2.179 (Table-56) of the said Order, the normative loan of SBU-D as on 01.04.2018 is Rs 1439.64 crore. The relevant paragraph is extracted below.

Table 5.74  
Normative loan approved for 2017-18

Normative loan Summary	SBU-G	SBU-T	SBU-D	KSEB Ltd
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
<b>Normative loan as on 1-4-2015</b>	789.34	628.83	857.99	2,276.17
Add Asset additions approved 2015-16	34.79	212.24	491.41	738.44
Less Grants & contributions	13.11	12.93	332.31	358.35
Less Depreciation-2015-16	122.05	132.84	79.98	334.86
<b>Net Normative loan as on 1-4-2016</b>	688.97	695.30	937.11	2,321.40
Add Asset Additions approved 2016-17	217.47	319.1	923.3	1459.87
Less Grants & contributions	13.05	79.12	554.77	646.94
Less Depreciation 2016-17	129.11	151.14	102.18	382.43
<b>Normative loan as on 1-4-2017</b>	764.28	784.14	1,203.46	2,751.90
Add Asset Additions approved 2017-18	71.42	388.82	699.45	1,159.69
Less Grants & contributions	75.31	103.99	394.15	573.45
Less Depreciation 2017-18	132.61	151.74	69.12	353.47
Closing normative loan as on 31-3-2018	627.78	917.23	1,439.64	2,984.67

5.187 As per the SBU wise details of the loans as on 31.03.2019 in Table 5.69, the average interest on loan of SBU-D for the year 2018-19 is 10.00%. The

Commission has also noted that KSEB Ltd in their claims has included Rs 467.60 crore which was not considered by the Commission, since the same is disputed and pending before Hon. APTEL. Since this matter is sub-judice, the Commission cannot at this stage consider this claim and hence has not included it in the calculations at present.

5.188 Based on the above, the interest charges on normative loan approved for SBU-D for the FY 2018-19 is Rs 176.59 crore as detailed in the table below.

Table 5.75  
Interest charges for normative loan of SBU-D for the year 2018-19 (Rs. Cr)

Sl. No	Description	SBU-D	Remarks
1	Opening normative loan as on 01.04.2018	1439.64	True up Order 2017-18
2	Normative GFA addition 2018-19 qualify for loan	749.57	Table 5.61 above
3	Less Depreciation for 2018-19	97.15	Table 5.67 above
4= (1+2-3)	Closing normative loan as on 01.04.2019	2092.06	
5= (1+4)/2	Average Normative loan for the year 2018-19	1765.85	
6	Weighted average interest rate for 2018-19(%)	10	Table 5.69 above
7=6*5	<b>Normative interest for 2018-19</b>	<b>176.59</b>	

5.189 ***As above, the normative interest charges approved for SBU-D of KSEB Ltd for the year 2018-19 is Rs 176.59 crore.***

### Interest on security deposit

5.190 KSEB Ltd in the petition submitted that, the Commission, vide the MYT Order dated 08.07.2019 had approved interest on SD for the year at Rs.175.33 Cr. The Actual Security Deposit balance as per accounts was **Rs3019.12 Cr** at the beginning of the year (01-04-2018) on which the interest at 6.75 % was provided in FY 2018-19 (**Rs 177.31 Cr**). However, the actual sum disbursed in the FY 2018-19 was against the provision made for FY 2017-18 was Rs 170.75 Cr. KSEB Ltd requested to approve the actual disbursement of Rs.170.75 Cr under SBU-D for the purpose of Truing up of accounts for the year 2018-19.

### Provisions in the Tariff Regulations 2018

5.191 Regulation 29(8) of the Tariff Regulation 2018 provides that, interest on security deposit is allowable only to the extent of actual disbursement of interest to the consumers. The relevant provisions are quoted below

*“ 29(8) Interest shall be allowed on the amount held as security deposit in cash from users of the transmission system or distribution system and consumers at the bank rate as on the First day of April of the financial year in respect of in which the petition is filed:*

*Provided that interest on security deposit actually paid to the users of the transmission system or distribution system and to the consumers during the financial year, shall only be considered at the time of truing up for the financial year.”*

## **Analysis and decision of the Commission**

**5.192 Since an amount of Rs.170.75 crore has been disbursed to consumers as interest on security deposit in the year 2018-19, the Commission approves same for the purpose of truing up.**

## **Interest on working capital**

5.193 KSEB Ltd submitted that, as per the Regulation 32(2) (e) of the Tariff Regulations 2018, interest on working capital for SBU-D is allowed on normative basis at a rate equal to two per cent higher than the base rate as on the first day of the financial year in which petition is filed.

The Commission vide the MYT Order dated 08.07.2019 has assessed KSEBL's negative working capital requirements for SBU-D as negative as shown in Table 5.76 below. Hence, interest on working capital was not approved by the Commission for SBU-D for the MYT period from 2018-19 to 2022-23.

5.194 The computation of working capital requirement as per the Tariff Regulations, 2018 submitted by KSEB Ltd is given below.

**Table 5.76**  
**Interest on working capital (Rs Cr)**

<b>Particulars</b>	<b>Amount (Rs. Cr)</b>
O&M Exp for 1 month	186.21
Maintenance of spares @ One twelfth of average of opening and closing balance of Inventory	28.72
Revenue (2 months)	2175.54
Total	2390.47
Less Security deposit	3019.12
Net Working Capital	-628.65

Since the working capital requirements is negative, KSEB Ltd had not claimed interest on working capital for the purpose of Truing up for the year 2018-19.

## **Provisions in the Regulations**

5.195 Regulation 32(1)(e) of the Tariff Regulations, 2018 provides for computation of working capital requirements of the distribution business/ licensee. The relevant Regulations is extracted below.

“ 32 (1)(e). In the case of distribution business/licensee the working capital shall comprise of,-

- (i) operation and maintenance expenses for one month; plus
- (ii) cost of maintenance spares equivalent to one-twelfth of the average of the book value of stores, materials and supplies at the beginning and end of the financial year; plus
- (iii) receivables equivalent to the expected revenue from sale of electricity for two months at the prevailing tariff:

*Provided that the amount, if any, held as security deposits except the security deposits held in the form of Bank Guarantee from users of the distribution system and consumers shall be reduced while computing the working capital requirement;*

*Provided further that for distribution business/licensees who supply electricity to their consumers on prepaid metering system, no interest on working capital shall be allowed.”*

### **Analysis and decision of the Commission**

5.196 As per the Regulation 32 of the Tariff Regulations, 2018, interest on working capital is allowed on a normative basis for each business separately. The Commission has carefully examined the details furnished by KSEB Ltd.

5.197 As per Regulation 32(1)(e) of the Tariff Regulations, 2018, the working capital requirement of SBU-D of KSEB Ltd includes the following.

- (4) O&M expenses for one month; plus
- (5) Cost of maintenance of spares *equivalent to one-twelfth of the average of the book value of stores, materials and supplies at the beginning and end of the financial year; plus*
- (6) *receivables equivalent to the expected revenue from sale of electricity for two months at the prevailing tariff:*

5.198 Accordingly, the parameters required for estimating the working capital and the same estimated is given below.

Table 5.77  
Working capital requirement of SBU-D for the year 2018-19

	Particulars	Amount (Rs. Cr)
1	O&M expenses approved for 2018-19	2233.75
2	O&M expenses for one month	186.15
3	Inventories	344.64
4	Inventories for one month	28.72
5	Total revenue from sale of power	12939.20
6	Two months receivable	2156.53

7	Total working capital requirement= (2)+(4)+ (6)	2371.40
8	Less Security Deposit	3019.12
9	Net working capital requirement = (7)-(8)	-647.72

***Since the working capital requirement as per the Tariff Regulations 2018 is negative, KSEB Ltd is not eligible for interest on working capital for SBU-D.***

### **Interest charges for GPF**

5.199 KSEB Ltd submitted that the actual interest of Provident Fund balance apportioned under SBU-D is Rs 136.68 crore as against the same approved in the MYT Order dated 08.07.2019 amounts to Rs 152.55 crore. KSEB Ltd submitted the following reasons for the variation between the approval vide the MYT Order dated 08.07.2019 and the actual vide the audited accounts.

- (1) The average GPF considered by the Commission in the MYT Order dated 08.07.2018 was Rs 2282.33 crore. However, the actual average PF balance for 2018-19 is Rs 2208.40 crore.
- (2) The Commission had considered 8% as the interest on GPF, however the actual was 7.80% initially, later it had raised to 8%.

The actual interest on GPF as per the audited accounts is given below.

**Table 5.78**  
**Interest on GPF (Rs Cr)**

Item	SBU G		SBU T		SBU D		Total	
	ARR approval	Actual	ARR approval	Actual	ARR approval	Actual	ARR approval	Actual
Interest on GPF	9.37	8.92	20.67	16.57	152.55	136.68	182.59	162.17

### **Objections of the stakeholders**

5.200 The Association submitted that the actual interest on GPF as per the audited accounts may be allowed to KSEB Ltd.

### **Analysis and decision of the Commission**

5.201 ***As per the Accounts, the interest charges booked for GPF is Rs.162.17 crore. Out of this, the share of SBU-D is Rs.136.68 crore, which is allowed for 2018-19.***



### Interest on Master Trust Bonds

5.202 As discussed in the paragraphs 2.115 to 2.118 of this Order, KSEB Ltd submitted that, as per the Regulation 30 of the Tariff Regulations, 2018 read along with the Regulation 34 of the Tariff Regulations, 2018, KSEB Ltd has claimed Rs 773.68 crore as interest on KSEB Ltd bond of Rs 8144.00 crore to the Master Trust. The contribution of SBU-D, apportioned on the basis of the employee ratio is Rs 652.08 crore. The details are given below.

Table 5.79  
Interest on Master Trust Bonds sought in the petition for 2018-19

Item	SBU G	SBU T	SBU D	Total
	Rs. crore	Rs. crore	Rs. crore	Rs. crore
Interest on Bonds	42.56	79.04	652.08	773.68

5.203 KSEB Ltd further submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved Rs 773.68 crore as interest on the KSEB Ltd bond of Rs 8144.00 crore, but the contribution of SBU- D approved is Rs 646.45 crore for the year 2018-19. KSEB Ltd submitted that there is no deviation between interest approved for the year as per the MYT Order dated 08.07.2019 and the actual interest as per audited accounts. However, there has been minor difference between approval and actual under SBU wise segregation of total interest because. In the MYT Order, the Commission adopted employee expenses ratio as the basis for SBU wise segregation of allowable interest whereas the ratio of working employee strength in SBUs was considered for the purpose in the audited accounts.

### Comments of the stakeholders

5.204 The Association submitted that, the interest on Master Trust as per the audited accounts only be allowed to KSEB Ltd in the process of Truing up.

### Provisions in the Regulations

5.205 Provisions in the Tariff Regulations 2018 regarding the interest allowable on the bonds issued by KSEB Ltd to the Master Trust is discussed under paragraph 2.120 and 2.121 of this Order. The same provisions are applicable for approving the interest on bonds issued by the KSEB Ltd to the Master Trust.

### Analysis and decision of the Commission

5.206 The Commission has examined the submissions of KSEB Ltd regarding interest on bonds issued to Master Trust. As per the details submitted by KSEB Ltd, the Master Trust has been made operational only from 2017-18.

5.207 The Commission also noted that as per the Kerala Electricity Second Transfer (Amendment) Scheme (Re-vesting) 2015 dated 28.01.2015, the actuarial

liability as on 31-10-2013 was assessed at Rs.12418.72 crore. The paragraphs 6(8) and 6(9) of the Kerala Electricity Second Transfer (Amendment) Scheme (Re-vesting) 2015, provides the following regarding the funding of pension and terminal liabilities of personnel transferred as follows.

- (1) Paragraphs 6(8) and 6(9) of the Amendment Notification 2015 is extracted below.

*“6(8) The State Government shall make appropriate arrangements in respect of funding of the terminal liabilities to the extent they are unfunded on the date of transfer of the personnel from the erstwhile Board or KSEB, as mentioned in subclause (9) of clause 6 of this Scheme. **As per the actuarial valuation carried out by the registered valuer, the net present value of unfunded liability is approximately 12419.00 crore as on the date of re-vesting i.e. 31<sup>st</sup> October 2013.** Till such time arrangements are made, the transferee and State Government shall be jointly and severally responsible to duly make such arrangements to the existing pensioners as well as the personnel who retire after the date of transfer but before the arrangement are put in place. The State Government, Kerala State Electricity Board Limited, and Employee Unions have entered into a tripartite agreement on 1<sup>st</sup> August 2014, in consideration of the promises and mutual conditions set forth therein. The Tripartite Agreement which forms part of this Scheme is appended as Schedule C.”*

*“ 6(9) The State Government will fund Rs 5861 crore ( Rupees Five thousand eight hundred and sixty one crores) over a period of next 10 years from the date of transfer to the KSEB Ltd on annual basis for meeting the unfunded liabilities by way of retention of electricity duty.*

*i. Kerala State Electricity Board Ltd will issue two series of bonds to a Master Trust:*

- 20 year bond with a coupon rate of 10% p.a. for Rs.8144 Cr (Rupees eight thousand one hundred and forty four crores)*
- 10 year bond with a coupon rate of 9% p.a. for Rs. 3751 Cr (Rupees three thousand seven hundred and fifty one crores).*

*ii. Bonds will be issued to the trust shall meet the liability of pension etc. in future from the **interest and principal repayment from KSEB Ltd against the bonds issued in favour of the trust.** With these arrangements the net present value of the fund towards pension etc. shall be Rs 12419.00 crores (approx) as on 31<sup>st</sup> October 2013 with matching investments in securities issued by the KSEB Ltd for Rs 11895.00 crore on net present value basis.*

*iii. Another, Rs 524 crore will be funded by the State Government through budgetary provision over a period of 10 years in equal installments as per G.O (Ms) No. 43/2011/PD dated 3<sup>rd</sup> November*

2011. Accordingly an amount of Rs 52.4 crore is being provided in the budget from the FY 2012-13 onwards.

*iv. State Government will permit the electricity duty collected by KSEB for the period from 01.04.2008 to 31.03.2012 to be retained by the KSEBL as its contribution for funding the terminal liability.*

*v. In addition to the interest on bonds and repayment of principal, KSEB Ltd will be paying the annual pension contribution based on actuarial valuation to the master trust in respect of the personnel transferred to KSEBL.”*

5.208 Based on the above KSEB Ltd had issued two sets of bonds to the Master Trust on 01.04.2017.

(3) 20 year bond with a coupon rate of 10% p.a. for Rs.8144 Cr (Rupees eight thousand one hundred and forty four crores)

(4) 10 year bond with a coupon rate of 9% p.a. for Rs. 3751 Cr (Rupees three thousand seven hundred and fifty one crores).

Out of the above, the interest and repayment of the 10 year bond for the amount of Rs 3751.00 crore is being borne by the State Government as envisaged in the Scheme.

5.209 However, as per the re-vesting notifications, the interest and repayment of the bond for Rs 8144.00 crore to the pension has to be borne by KSEB Ltd. The year wise details of the principal and repayment of the 20-year bond of KSEB Ltd is given below.

Table-5.80

Principal and interest to be paid by KSEB Ltd to the Trust as per the bond certificate issued for Rs 8144.00 crore

Year	Principal (Rs. Cr)	Interest (Rs. Cr)	Total (Rs.Cr)	Year	Principal (Rs. Cr)	Interest (Rs. Cr)	Total (Rs.Cr)
1	407.20	814.40	1221.60	11	407.20	407.20	814.40
2	407.20	773.68	1180.88	12	407.20	366.48	773.68
3	407.20	732.96	1140.16	13	407.20	325.76	732.96
4	407.20	692.24	1099.44	14	407.20	285.04	692.24
5	407.20	651.52	1058.72	15	407.20	244.32	651.52
6	407.20	610.80	1018.00	16	407.20	203.60	610.80
7	407.20	570.08	977.28	17	407.20	162.88	570.08
8	407.20	529.36	936.56	18	407.20	122.16	529.36
9	407.20	488.64	895.84	19	407.20	81.44	488.64
10	407.20	447.92	855.12	20	407.20	40.72	447.92

5.210 Since the year 2018-19 is the 2<sup>nd</sup> year of operation of the Master Trust, the interest liability to be borne by the KSEB Ltd is Rs 773.68 crore.

- 5.211 As per the Regulation 30 of the Tariff Regulations 2018, the interest on bonds issued by KSEB Ltd to service the terminal liabilities of its employees shall be allowed for recovery through tariffs, at the rates specified in the re-vesting notifications of the State Government. However, the funds required for repayment of the bonds shall not be allowed for recovery through tariff.
- 5.212 Considering these aspects, ***the Commission hereby allows to pass on the interest liability of the bond issued by KSEB Ltd for the amount of Rs 8144.00 crore at the coupon rate @10%, amounting to Rs 773.68 crore in the true up of accounts of KSEB Ltd for the year 2018-19.***
- 5.213 However, the Commission has serious observation regarding the laxity on the part of KSEB Ltd for not operationalizing the Master Trust. At present KSEB Ltd has been operating the Trust Accounts like a “Current Account” by remitting money into the account on requirement basis for disbursement and fulfilment of retirement benefits. Hence, the payments into the Trust account by KSEB Ltd is not as per the original scheme envisaged but only as per the fund requirements to disburse the pension.
- 5.214 The above facts very clearly reveal that from the first year itself, the fund is not functioning as envisaged. This is highly objectionable and contrary to the very intent of setting up of the Master Trust. The Commission directs KSEB Ltd to take urgent corrective action to overcome this serious deviation from the Scheme. The Commission warns that, if KSEB Ltd does not urgently take corrective action, the very payment of the pension will be jeopardized and the retirement financial security of the retirees of KSEB Ltd shall be compromised.

With this observation, the Commission hereby approve the interest on bonds to the Master Trust for the 2<sup>nd</sup> year of operation of the trust, i.e, for the year 2018-19 as given in the Table below.

Table 5.81  
Interest on Master Trust Bonds approved for 2018-19

Item	SBU G	SBU T	SBU D	Total
	Rs. Crore	Rs. Crore	Rs. Crore	Rs. Crore
Interest on Master Trust Bonds	42.56	79.04	652.08	773.68

- 5.215 ***As above, the Commission, approves the share of interest on KSEB Ltd bonds of Rs 8144.00 crore to the Master Trust for 2018-19 for SBU-D as Rs.652.08 crore.***

#### **Carrying cost for past revenue gaps**

- 5.216 KSEB Ltd submitted that, the Commission had in the Trued up Orders computed the cumulative revenue gap of Rs 6739.13 crore till 2016-17. For

computing the carrying cost for approved revenue gap, the Commission had deducted the GPF balance from the approved revenue gap. The average interest on loans during 2018-19 was 10%. Accordingly, KSEB Ltd had estimated the carrying cost for the approved revenue gap upto 31.03.2017 as follows.

**Table 5.82**  
**Computation of carrying cost on approved revenue gap**

	Particulars	Amount (Rs.Cr)
1	Total un bridged revenue gap as on 31-03-2011	424.11
2	Revenue gap as per the Orders on truing up for the year 2011-12	1386.97
3	Revenue gap as per the orders on truing up for the year 2012-13	3132.97
4	Remand Order dated 09.05.17-2009-10	107.90
5	Remand Order dated 19.05.17-2010-11	204.70
6	True up Order 2013-14 dated 20.06.2017	195.50
7	RP 2/2017 dated 07.09.2017 on TU 2011-12	4.96
8	True up Order 2015-16 dated 21.08.2018	202.97
9	True up Order 2016-17 dated 14.09.2018	1031.06
10	RP 3/2019 on TU 2016-17	47.99
11	Total trued up revenue gap	6739.13
12	Less: Average PF balance for 2018-19 (2207.33+2209.47)/2	2208.40
13	Net revenue gap	4530.73
14	Carrying cost at average interest rate of 10 % on above	453.07

5.217 Further, KSEB Ltd had requested to approve Rs 139.56 carrying cost for revenue gap as per the Truing up petition for the year 2017-18 amounts to Rs 1331.81 crore and additional revenue gap of Rs 63.76 crore for the year 2016-17 (total 1331.81+63.76 = Rs 1395.67 crore). Further, KSEB Ltd had also requested to approve the carrying cost for the current year revenue gap of Rs729.60 crore. Thus, the total carrying cost for revenue gap claimed by KSEB Ltd for the year 2018-19 is given below.

**Table 5.83**  
**Computation of carrying cost on additional revenue gap**

	Particulars	Amount (Rs. Cr)
1	On approved revenue gap till 2016-17	453.07
2	On additional revenue gap for TU 2016-17 & gap for 2017-18. (Rs.63.76 Cr+Rs.1331.81 Cr)	139.56
3	On current year revenue gap Rs. 743.33 Cr	36.48
	Total	629.11

### **Analysis and Decision of the Commission**

5.218 The Commission had examined in detail the claim for allowing carrying cost for the accumulated revenue gap. The details are given below.

**Table 5.84**  
**Details of the unbridged approved revenue gap as on 01.04.2018**

Sl No	Particulars	Amount (Rs.Cr)	Remarks
1	Total revenue gap till 01.04.2017	6778.74	True up Order 2017-18 dated 25.06.2021
2	Revenue gap approved for the year 2017-18	84.14	
3	Addl gap approved for 2016-17 (RP 1/2021 TU 2016-17 dated 21.07.2021)	1.26	Review Order dated 21.07.2021
4	Total revenue gap as on 01.04.2018	6864.14	
5	Less: Average PF balance for 2018-19 (2207.33+ 2209.47)/2	2208.40	As per petition
6	Less Balance Security Deposit Available as on 01.04.2018(after working capital requirements)	647.72	
7	Balance revenue gap as on 01-04-2018	4008.02	

5.219 As detailed above under row (4) of the Table 5.84, the total unbridged revenue gap as on 01.04.2018 is Rs 6864.14 crore. The Commission notes that it is allowing interest on the 'provident fund' retained by the licensee as part of interest and finance charges. The average PF balance for the year 2018-19 was Rs 2208.40 crore. This is an amount available with the company for its working capital requirement.

5.220 Further, interest on the balance security deposit available with KSEB Ltd after meeting the working capital requirement is also allowed by the Commission. The balance security deposit after meeting the working capital requirement as per Table 5.77 is Rs 647.72 crore.

5.221 Hence, the Commission while allowing the carrying cost on the outstanding unbridged revenue gap as on 01.04.2018 has taken into account, the availability of fund from GPF and balance security deposit available with KSEB Ltd after meeting the working capital requirements also considered. Thus, the unbridged revenue gap eligible for carrying cost as per Table 5.84 is Rs 4008.02 crore.

5.222 Carrying cost is to be allowed to the licensee considering the cost of funds actually incurred for funding the revenue gap. The average interest for the loan by the SBU-D for the year 2018-19 is 10%. The carrying cost eligible for the year 2018-19 for the net unbridged revenue gap as on 01.04.2018 is Rs 400.80 crore.

5.223 ***Thus, the Commission hereby approves the carrying cost for the outstanding unbridged revenue gap of Rs.4008.02 crore as on 01.04.2018 at Rs 400.80 crore for the purpose of Truing up accounts for the year 2018-19.***

## Other interest

5.224 KSEB Ltd submitted that, the Commission has not approved any amount towards other interest. Actual interest on other liabilities as per accounts amounts claimed by KSEB Ltd is detailed below:

Table 5.85  
Details of Other interest and charges claimed by KSEB Ltd(Rs Cr)

Item	
Power purchase interest	15.42
Interest on fair valuation of concessional loans	9.13
Rebate allowed for prompt payment	0.83
Discount to consumers for timely payment of bills	2.16
Total	27.54

5.225 KSEB Ltd submitted that, an amount of Rs. 15.42 Cr incurred towards interest on power purchase bills has been classified under interest to suppliers/contractors. The bills were raised by generators in line with tariff revision ordered by CERC for the control period 2014-19 and the payment is strictly in line with CERC regulations, which allow interest for the differential amount between provisional AFC and final AFC. Further, interest on fair valuation of concessional loans of Rs.9.13 Cr charged as expense under this head, but this amount does not involve any cash flow and only an adjustment entry is made in line with IND AS compliance, hence the same was not claimed for Truing up. Excluding interest on fair valuation, the other interest claimed by KSEB Ltd for the purpose of Truing up for the year 2018-19 is given below.

Table 5.86  
Other interest (Rs Cr)

Item	Amount (Rs. Cr)
Power purchase interest	15.42
Rebate allowed for prompt payment	0.83
Discount to consumers for timely payment of bills	2.16
Total	18.41

## Analysis and Decision of the Commission

5.226 The Commission has examined the other interest claimed by KSEB Ltd. A major portion of the other interests i.e., Rs 15.42 crore represent interest charges on power purchase bills as per the orders issued by CERC. Discount to consumers for advance payment is claimed as Rs 2.16 crore. KSEB Ltd has not claimed the adjustment on account of fair valuation under Ind AS accounts.

5.227 After careful consideration, ***the Commission approves the other interest charges of Rs 18.41 crore for the purpose of Truing up for the year 2018-19.***

**Summary of the approved interest and finance charges**

5.228 The summary of the total interest and finance charges allowed for SBU-D of KSEB Ltd for the year 2018-19 is given below.

Table 5.87  
Interest and finance charges approved for the year 2018-19

Item	MYT Order dated 08.07.2010	KSEB Ltd		KSERC
		Actual	TU requirement	
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Interest on Normative Loan	149.90	348.47	180.27	176.59
Security Deposit Interest	175.33	177.31	170.75	170.75
Master Trust Bond Interest	646.45	652.08	652.08	652.08
Interest on working capital	0.00	125.54	0.00	0
PF interest	152.55	136.68	136.68	136.68
Other interests	0.00	27.54	18.41	18.41
Carrying cost	304.08	0.00	629.11	400.80
<b>Total</b>	<b>1428.31</b>	<b>1467.62</b>	<b>1787.30</b>	1555.31

As shown in the Table above, ***the Commission hereby approves Rs 1555.31 crore as interest and finance charges against Rs 1787.30 crore claimed by KSEB Ltd in their petition.***

**Additional funds to the Master Trust**

5.229 KSEB Ltd submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved Rs.200.00 crore annually towards unfunded actuarial liability over and above the actuarial liability assessed at Rs 12418.72 crore based the actuarial valuation as on 31.10.2013.

5.230 KSEB Ltd further submitted that, the Actuarial liability as on 31.03.2017 towards the unfunded pension liability, gratuity liability and leave surrender liability stood at Rs.16147.70 Cr i.e., Rs.3728.98 Cr increase in liability for the period from 01.11.2013 to 31.03.2017. As per the actuarial valuation as on 31.03.2018 and as on 31.03.2019, the liability on this count has been assessed at Rs.17732.57 Cr and Rs.19327.73 Cr respectively. The increase for the year 2018-19 has been Rs.1595.16 Cr and the same was captured in audited accounts as follows:



- (i) Liability pertaining to 2018-19 amounting to Rs.498.37 Cr has been booked under employee cost for the year and
- (ii) Remaining portion, pertaining to earlier years Rs.1096.79 Cr under other comprehensive income in P&L account.

5.231 KSEB Ltd had also submitted that, the Tariff Regulations 2018 provide for annual pension contribution by KSEB Ltd to the Master Trust based on the actuarial valuation which is to be recovered through tariff on annual basis. KSEB Ltd has not claimed the entire additional contribution to the Master Trust in one-go as it is likely to result in huge accumulation of Regulatory Asset and subsequent tariff shock. Therefore, KSEB Ltd has sought interest on the unfunded portion of actuarial liability in the MYT petition against which the Hon'ble Commission provisionally approved Rs. 200 Cr with the following observation:

*.....Considering all these factors, the Commission is decided to hold a separate proceedings towards the determination of funds requirements of Master Trust. Till such time, the Commission provisionally allows Rs.200 crore as an additional funding for the Master Trust. Hence the figures shown as additional funding for the trust is only provisional and is subject to a prudency check before the same is finally allowed.*

5.232 The Commission has noted that the actual pension and terminal benefit disbursement exceeded the interest on bonds by Rs. 604.36 Cr. (Rs.1378.04 Cr-Rs.773.68 Cr). KSEB Ltd has also accounted Rs.498.37 Cr against employee expenses to take care of the additional actuarial liability. KSEB Ltd requested that the Commission may kindly true up an additional Rs.200 Cr as approved in MYT Order for 2018-19, which may be subject to the final decision on the matter, in view of the fact that KSEB Ltd has no other source to meet this expenses. Therefore, KSEB Ltd prayed that the Hon'ble Commission may be pleased to provisionally approve Rs.200 Cr as detailed below against the huge additional actuarial liability.

**Table 5.88**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	10.26	22.64	167.10	200.00

### **Comments of the stakeholders**

5.233 The HT-EHT Association submitted that, additional funds to the Master Trust based on the actuarial liability shall not be allowed.

### **Provisions in the Regulations**

5.234 **Regulation 45(1)(b) of the Tariff Regulations, 2018 provides as follows.**

“(b) The generation business of KSEB Limited shall, subject to prudence check by the Commission, be allowed to recover, in addition to the above specified normative operation and maintenance expenses, the annual pension contribution payable by

KSEB Limited to the Master Trust, based on actuarial valuation in respect of the personnel allocated to the generation business of KSEB Limited.”

**5.235 Second proviso to Regulation 58 of the Tariff Regulations, 2018 provide as follows.**

“Provided further that the transmission business of KSEB Limited shall be allowed to recover the annual pension contribution to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the transmission business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses.”

**5.236 First proviso to Regulation 79 of the Tariff Regulation 2018 provide as follows.**

“Provided that the distribution business of KSEB Limited shall be allowed to recover the annual pension contribution paid to the Master Trust, based on actuarial valuation, in respect of the personnel allocated to the distribution business of KSEB Limited, in addition to the above specified normative operation and maintenance expenses:”

### **Analysis and Decision of the Commission**

5.237 The Commission vide the MYT Order dated 08.07.2019 noted that, as per the Actuarial Valuation Report as on 31.03.2019 the unfunded actuarial liability is assessed at Rs 19,327.73 crore whereas the unfunded liability as on 31.10.2013 was assessed at Rs 12,418.72 crore. Hence there is an increase of Rs.6909.01 Crore on account of unfunded terminal liabilities as on 31.03.2019. The Commission is of the firm view that KSEB Ltd is required to operationalize the Master Trust Account continuously. Payment of pension to retired employees during their twilight years deserve sympathetic consideration. The Commission also places on record that in spite of the Commission’s advice to KSEB Ltd in various meetings KSEB Ltd management has displayed a lackadaisical, couldn’t care less attitude during 2018-19. Even the Commission’s suggestion to submit a suitable proposal to fund the uncovered liability with the approval of the State Government in this regard has fallen on deaf ears.

The Commission also noted that, as discussed earlier, KSEB Ltd is operating the Master Trust account as a ‘Current Account’ for discharging the pension liabilities on a month to month basis and no surplus fund is accumulated in the Trust till date. Considering all these factors, the Commission vide the MYT Order dated 08.07.2019 had decided to hold a separate proceedings towards the determination of the fund requirements based on actuarial valuation year to year as envisaged under Clause 6(9) (e) of the Revesting Amendment

Notification dated 28.01.2015. However, this proceedings is yet to materialize since there is no proposal from KSEB Ltd's side. Till such time the Commission had provisionally allowed Rs 200.00 crore as additional funds to the Master Trust.

5.238 Taking into consideration the serious situation emerging, wherein the pension of retired employees would be jeopardized and considering the huge unfunded liability as on date, the Commission hereby revises the provisional allotment of Rs 200 Crore to Rs 300.00 crore as an additional fund to the Master Trust, subject to the condition that the same is to be transferred to the Trust fund account. Further, within three months from the date of this Order, KSEB Ltd shall assess the actuarial liability as on 31.03.2022, and submit a suitable proposal to fund the unfunded liability with the approval of the State Government.

5.239 The SBU wise allocation of the additional fund to the Master Trust as per the Truing up petition is approved herewith, as is given below.

**Table 5.89**  
**Additional fund to the Master Trust for the Year 2018-19**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	15.39	33.96	250.65	300

5.240 ***As above, the Commission provisionally approves Rs.250.65 crore as additional fund to the Master Trust of SBU D towards unfunded actuarial liability for the year 2018-19.***

### Return on equity

5.241 KSEB Ltd in their truing up petition has claimed return on equity at the rate of 14% on its total equity of Rs.3499 crore. The RoE allocated among the different SBUs are given in the table on the basis of equity allocation among the SBUs in the trifurcated balance sheet is as shown below:

**Table 5.90**  
**RoE claimed by KSEB Ltd for 2018-19**

Particulars	SBU G	SBU T	SBU D	Total
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
Equity Capital	831.27	857.05	1810.73	3499.05
RoE @14% on above	116.38	119.99	253.50	489.87

### Comments of the stakeholders

5.242 The HT-EHT Association, invited the attention of the Commission on the suggestions of the consultant engaged by the State Commission on Return on equity, which are quoted below.

*"...Further, in the case of new capitalization, RoE is allowed only when actual equity is infused into the Company for incurring capital expenditure, else only interest is allowed on the loan component. According to the consultant even under the Companies Act, 1956 and the relevant Accounting Standards, the Revaluation Reserve is not allowed as a source to increase the equity capital, and only actual paid-up equity capital is considered for all purposes. Hence, they recommended that the Commission may allow RoE either on the equity capital allowed earlier by the Commission or on the reduced equity capital of Rs. 283.91 Cr. (Rs. 1553 Cr. - Rs. 1269 Cr.)...." ..*

Based on the suggestions of the Consultant, Hon'ble APTEL in the Order dated 18-11-2015 in Appeal No.247 of 2014, decided as follows.

*"We are of the view that since the consultant appointed by the State Commission has studied the whole system and recommended the equity value, hence, we direct the Commission to consider the equity amount specified by the Consultant and 14% rate of return on this amount has to be considered.."* According to the Association, any equity base taken more than Rs.1,553 Crores. will be the violation of APTEL judgement. Accordingly, the Association requested to consider 14% on equity capital of Rs.1,553 Cr. for the calculation of return on equity.

## **Provisions in the Regulation**

5.243 ***"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:***

*Provided that, at the time of approving Aggregate Revenue Requirements return on equity share capital for generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, shall be allowed on the amount of equity share capital approved by the Commission for the assets put to use at the commencement of the financial year and on fifty percent of equity share capital portion of the approved capital cost for the investment put to use during the financial year:*

*Provided further that at the time of truing up for the generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, return on equity share shall be allowed on monthly pro-rata basis, taking into consideration the*

documentary evidence provided for the assets put to use during the financial year.

*Provided also that if the equity or any portion of it, is invested in the generating business/company, transmission business /licensee or distribution business/licensee is part of the scheme or programme funded by the Central Government or State Government for which no return is payable, such portion of the equity shall not be eligible for any form of return.*

*(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:*

*Provided that net fixed assets shall be exclusive of the assets created out of consumer contribution, deposit works, capital subsidy or grants.”*

5.244 Regulation 34 provides as follows:

*34. Principles for adoption of Transfer Scheme under Section 131 of the Act.- The Commission may, for the purpose of approval of Aggregate Revenue Requirements and determination of tariff, adopt the changes in the balance sheet, due to the re-organisation of the erstwhile Kerala State Electricity Board as per the provisions of the Transfer Scheme published by the Kerala State Government under Section 131 of the Act, subject to the following principles,-*

*(a) Increase in the value of assets consequent to the revaluation of assets shall not qualify for computation of depreciation or for return on net fixed assets;*

*(b) The equity of the Government of Kerala as per the above Transfer Scheme published under Section 131 of the Act will be considered for computation of return on equity.*

*(c) The reduction of the contribution from consumers, grants and such other subventions for creation of assets, made as a part of Transfer Scheme, shall not be considered while computing the depreciation or return on net fixed assets;*

*(d) Only the payment of interest on the bonds issued to the Master Trust will be approved for computation of Aggregate Revenue Requirement and the amount of repayment of such bonds shall not be reckoned for computation of Aggregate Revenue Requirement.*

*(e) The Commission subject to the petition by KSEB Ltd may take appropriate decision on the other issues relating to the Transfer Scheme and its implementation on a case to case basis.*

## Analysis and decision of the Commission

5.245 The Commission examined the matter of allowing return on the Government equity of Rs 3499.00 crore in detail in the MYT Order dated 08.07.2019 and ordered as follows.

*“3.141 The Commission has carefully considered the issue of equity especially with regard to the amount that is required to be considered for its calculations. KSEB Ltd in their submission has claimed an RoE @ of 14% per annum for an equity amount of Rs.3499 crore. KSEB Ltd has submitted that Regulation 34(b) provides that equity of the Government of Kerala as per the transfer scheme published under section 131 of the Act will be considered for computation of return on equity. As per clause 5 of the second transfer scheme “Kerala Electricity Second Transfer Scheme (Revesting) 2013” notified by Government of Kerala vide G.O.(P) No.46/2013/PD dated 13-10-2013, asset and liabilities of the erstwhile KSEB, which was vested into Government of Kerala, has been revested into the Company namely Kerala State Electricity Board Limited and opening balance sheet has been notified as part II of Schedule A of the said G.O, with and Equity amount of Rs.3499 crore.*

*The HT & EHT Association has drawn attention of the Commission to the order of the Hon’ble APTEL wherein, the Commission was directed to determine the recommendation of the consultant. In this context, the Commission notes that the Government of Kerala subsequent to the Government notification dated had issued amendment notification G.O. (P) NO.3/2015/PD dated 28-1-2015 and G.O. (Ms) No.17/2015/PD dated 13-5-2015. The G.O. dated 28-1-2015 pertains to the amendments to Kerala Electricity Transfer Scheme (Revesting) 2013 and G.O dated 13-5-2015 pertains to the netting off of dues between Government and KSEB as on 13-10-2013 ie., the date of re-vesting. In the G.O dated 13-5-2013, it is mentioned that :*

*“.....Taking into consideration that netting off of dues between KSEB Ltd and Government forms an integral part of re-structuring of KSEB along with cleaning up of KSEB Limited’s Balance sheet, a part of the duty collected ie., Rs.1946 crore stands converted into the increased portion of equity (3499-1553) so as to ensure that the increase equity is a result of cash infusion to KSEB Ltd by Government thereby enabling the Government to participate in the increased return on equity in future years...”.*

*The Commission also notes that in compliance to the above GO, KSEB Ltd has issued 349,92,00,000 equity shares of Rs.10 each in favour of Government Kerala for Rs.3499 crore as per the provisions of the Companies Act, 2013, deals with the issue of equity shares and its allotments. In this regard the Commission is satisfied that the allotment of equity shares for Rs.3499.2 crore in compliance to the GO conforms to the requirement for allotment of equity shares as per the provisions of the Companies Act, 2013. It was on this basis that, the Commission while considering the truing up petitions of KSEB Ltd for 2015-16 and 2016-17 had recognized the equity amount as Rs. 3499 crore and allowed RoE @ of 14% per annum.*

Considering the above facts, the Commission is of the considered view that the claim of KSEB Ltd for an RoE @ 14% per annum for an amount of Rs.3499 crore is established and justified. Therefore the Commission allows Rs.116.38 crore as the RoE in the ARR of SBU-G.

3.142 As per the provisions of the Regulation 34, the Commission is allowing the amount of equity as per the provisions of the Transfer Scheme and RoE of 14% is permissible on this amount of equity. The Regulations were finalised by the Commission after following the due process such as previous publication, public hearing etc., Once the Regulation has been finalised and notified after following the due procedure, it is binding on all the parties concerned and there is no scope for any deviation what so ever. Therefore the arguments of the Association cannot be accepted. Accordingly the share of RoE for SBU-G at the rate of 14% is allowed to be included in the ARR. Accordingly Rs.116.38 crore is included in the ARR.”

5.246 As above, the Commission vide the MYT Order dated 08.07.2019 had approved RoE @14% on the Government equity of Rs 3499.00 crore. The total RoE approved is Rs 489.87 crore and its share of SBU-D is Rs.253.50 crore. RoE on the Government equity of Rs 3499.00 crore is allowed strictly as per the Regulation 34(b) of the Tariff Regulations 2018.

5.247 Accordingly, the RoE allowable for the SBU-T for the year 2018-19 is as shown below:

Table 5.91  
Return on equity approved for the year 2018-19

Particulars	SBU G	SBU T	SBU D	Total
	Rs.crore	Rs.crore	Rs.crore	Rs.crore
Equity Capital	831.27	857.05	1810.73	3499.05
RoE @14% on above	116.38	119.99	253.50	489.87

5.248 **As shown above, the Commission approves Rs.253.50 crore as ROE for SBU-T for 2018-19.**

#### **One time expenses- Contributions to CMDRF**

5.249 KSEB Ltd in the petition submitted that, its ‘Director Board’ had accorded sanction to contribute Rs 35.00 crore to Chief Ministers Relief Fund in connection with the natural calamity and damages caused due to floods and land slide during August 2018. The function wise contribution to CMDRF during the year 2018-19 is given below.

Table 5.92  
Function wise details of contributions to CMDRF

Item	SBU G	SBU T	SBU D	Total
Contribution to CMDRF	1.79	3.96	29.25	35

KSEB Ltd requested to approve the same as one time expenses.

### **Comments of the stake holders**

5.250 HT&EHT Association strongly objected the claim and requested to disallow the same since this contribution was made by KSEB Ltd Management without any consultation with its consumers. Hence such contribution cannot be passed on to the consumers through tariff.

### **Analysis and Decision of the Commission**

5.251 The Commission examined in detail the claim of contribution to CMDRF by KSEB Ltd as one time expenses for the year 2018-19. The Commission has also noted that, in the MYT petition dated 31-10-2018 also, KSEB Ltd has requested to allow its contribution to CMDRF during the year 2018-19 as one time expenses as part of ARR. However, the Commission disallowed the same with the following observations and decisions.

*“ 3.133 The Commission has examined the proposal of KSEB Ltd in this regard. As per the information furnished by KSEB Ltd, the Full Board and Extra ordinary General meeting dated 20-8-2018 resolved to contribute to the Chief Ministers’ Distress Relief Fund on behalf of the KSEB Ltd an amount of Rs.35.00 crore in view of the huge destruction caused by natural calamity during August 2018 in the State of Kerala. The decision was taken as per Section 181 and applicable provisions of the Companies Act 2013 and subject to clause 42(12) of the Articles of Association of the Company. In the Board of Directors meeting held on 20-8-2018, it was decided to contribute Rs.35 crore to CMDRF, subject to the approval of the EGM, since KSEB Ltd is not having average profit for the last three years. EGM held on the same day also resolved to contribute to the said amount.*

*3.134 The Companies Act 2013 provides for three kinds of contributions under Section 181, 182 & 183. Section 181 pertains to charitable contributions, Section 182 pertains to contribution to Political Parties and Section 183 pertains to contribution to National Defence Fund. In the present case, the contribution has been made under Section 181 of the Companies Act. The said Section is quoted below:*

*Section 181. The Board of Directors of a company may contribute to bona fide charitable and other funds:*

*Provided that prior permission of the company in general meeting shall be required for such contribution in case any amount the aggregate of which, in any financial year, exceed five per cent. of its average net profits for the three immediately preceding financial years.*

*3.135 From the above, it is clear that under section 181 such contributions to charitable and other funds can be made only if there is a profit and contribution is out of the profit of the company. Based on the above statutory provision, KSEB Ltd can contribute the amount out of their profit. Such payments cannot be made as a charge on the*



company's expenses ie., in the ARR and subsequently recovered from the consumers through the tariff."

5.252 As above, vide the MYT Order dated 08.07.2019, the Commission had taken the considered decision that, contribution to any relief funds and such similar expenses has to be met out of its profit and cannot be charged as an expenses to be recovered from the consumers through tariff. **Hence the Commission hereby disallows the contribution to CMDRF as an expense in the Truing up of accounts for the year 2018-19 and rejects KSEB Ltd.'s appeal in this regard.**

### **Other Expenses**

5.253 KSEB Ltd vide the truing petition has claimed Rs 291.38 crore as other expenses of SBU-D as against Rs 209.40 crore in the audited accounts. The SBU wise details of the other expenses claimed in the Truing up petition for the year 2018-19 is given below.

**Table 5.93**  
**Other expenses (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Other expenses as per accounts	-4.68	-2.11	209.4	202.61
Add: Differential interest (Rs.245.95 Cr- Rs.163.97 Cr)			81.98	81.98
Total	-4.68	-2.11	291.38	284.59

5.254 Other expenses as accounted for by KSEB Ltd includes other debits, fair value adjustments, prior period expenses and income. The Other debits include Material cost Variance, R&D Expenses, Bad Debts and Misc Losses Written-off. The material cost variance represents the difference between the actual rate at which material was procured and the standard rate at which materials are issued. Bad and doubtful debts written off/ provided for represent the withdrawal of credits to revenue in earlier years. The miscellaneous losses and write off represent the compensation paid to staff and outsiders for injuries/death.

5.255 The summary of the other as per the audited accounts is given below.

**Table-5.94**  
**Details of Other Expenses (Note 33 of Annual accounts) (Rs Cr)**

No	Particulars	Amount
1	Research and Development Expenses	0.06
2	Bad and Doubtful debts written off/ provided for	12.68
3	Miscellaneous Losses and write-offs	3.32
4	Material cost variance	-2.55

5	Sundries	-0.04
6	<b>Others Total (1 to 5) A</b>	<b>13.47</b>
	<b>Prior period expenses and losses</b>	
7	Operating expenses	2.78
8	Interest	6.55
9	Other charges	192.22
10	Prior period expenses (7+8+9)	201.55
11	Prior period income	12.41
12	<b>Prior period expenses (net) (10-11) B</b>	<b>189.14</b>
13	<b>Other expenses (6+12)</b>	<b>202.61</b>

5.256 Detailed explanation on the each item claimed under other expenses and decision of the Commission on each expenses claimed is given below.

### Bad and doubtful debts written off

5.257 Bad and doubtful debts written off provided for represent withdrawal of credits to revenue in earlier years. KSEB Ltd submitted the details of the bad and doubtful debts written off, and its summary is given below.

5.95

#### Details of the bad and doubtful debts written off

Sl. No	Name	Category	Amount (Rs Cr)	remarks
1	COCHIN SPECIAL ECONOMIC ZONE (CSEZ)	Licensee: CSEZ	2.50	Order No. SOR /AMU/CSEZ/08/4201/2018-19/20.10.2018 of SOR
2	AMRITHA INST.OF MEDICAL SCI.&RES. CENTRE	HT II (B) GENERAL	0.01	Order No.SOR/HTB-12/ 1254/2017-18/13.04.2018 of SO(R )
3	MICRO OBJECTS (P) LTD	HT I (B) INDUSTRIAL	0.01	Order No.SOR/CU/HTB-27/4530/bogus/2018-19/25.4.2018 of SO (R )
4	CHILDRENS AMUSEMENT PARK, KOTTAKKUNNU	HT IV (COMMERCIAL)	0.02	Order No.SOR/HTB-25/4816/2018-19/19/dated 31/5/2018 of SOR
5	VELAKODE RUBBER&RECLAIMS PVT LTD	HT I (A) INDUSTRIAL	0.02	Order No.SOR/CU/HTB 17/5674/UCM/2018-19/31.05.2018 of SOR
6	EASWAR OIL MILLS	HT I (A) INDUSTRIAL	0.03	Order No.SOR/CU/HTB 12/ Arr/2018-19/dated 11/6/2018 of S O ( R )
7	SUPRA EDIBLE OIL	HT I (A) INDUSTRIAL	0.01	Order No.SOR/CU/HTB 12/Arr/2018-19/dated 11/6/2018 of S O ( R )
8	MRM CRUMB RUBBER FACTORY	HT I (A) INDUSTRIAL	0.30	Order No.SOR/HTB-17/1536/2018-19/14/06/2018 of SO(R)
9	MERCHEM INDIA PVT. LTD.	HT I (A) INDUSTRIAL	0.05	Order No.SOR/HTB-25/46224/2018-19/28/7.7.2018 of SOR
10	MERCHEM LTD	HT I (A) INDUSTRIAL	0.06	Order No.SOR/HTB-25/3284/2018-19/28/7.7.2018 of SOR

11	VENGAD RESORTS & RETREATS LTD	HT IV (COMMERCIAL)	0.01	Order No.SOR/CU/Withdrawal/2018- 19/10.7.2018 of SOR
12	HIC-ABF SPECIAL FOOD PVT. LTD.	HT I (A) INDUSTRIAL	0.07	Order No. SOR/CU/Withdrawal/2018- 19/26.7.2018 of SO( R)
13	RAJIV GHANDHI CENTRE FOR BIO TECHNOLOGY	HT II (A) GENERAL	0.13	Order No. SOR/CU/Withdrawal/2018- 19/26.7.2018 of SO( R)
14	BHARTI AIRTEL, NADAKKAVU, KOZHICODE	HT II (B) GENERAL	0.06	Order No. SOR/CU/Withdrawal/2018- 19/26.7.2018 of SO( R)
15	BSNL TELEPHONE EXCHANGE ,PONKUNNAM	HT II (B) GENERAL	0.03	Order No. SOR/CU/BSNL/Withdrawal/2018- 19/23.7.2018 of SO( R)
16	BSNL,TELEGRAPHS,KANDASSANKADAV U	HT II (B) GENERAL	0.10	Order No. SOR/CU/BSNL/Withdrawal/2018- 19/23.7.2018 of SO( R)
17	BSNL TELEPHONE EXCHANGE,KANNUR	HT II (B) GENERAL	0.03	Order No. SOR/CU/BSNL/Withdrawal/2018- 19/23.7.2018 of SO( R)
18	ISRO(APEP), ALUVA	HT I (A) INDUSTRIAL	0.02	Order No.SOR/AMU/HTB-12/2018- 19/23.07.2018 of SOR
19	RIPPON ESTATE(PODDAR PLANTATIONS)	HT I (A) INDUSTRIAL	0.05	Order No.SOR/AMU/HTB-12/2018- 19/23.07.2018 of SOR
20	BSNL ICP TELEPHONE EXCHANGE,ALAPPUZHA	HT II (B) GENERAL	0.14	Order No.SOR/CU/Bogus withdrawal 2018-19/20.8.2018 of SOR
21	BSNL TELEPHONE EXCHANGE, KARUNAGAPALLY	HT II (B) GENERAL	0.01	Order No.SOR/AMU/HTB 6/3812/- BSNL-2018-19/10.10.2018 of SOR
22	BSNL TELEPHONE EXCHANGE, VADAKANCHERY	HT II (B) GENERAL	0.03	Order No.SOR/AMU/HTB-27/4261- BSNL-2018-19/25.10.2018 of SOR
23	GOVT:POLYTECHNIC,VENNIKULAM	HT II (A) GENERAL	0.01	Withdrawal as per Order No. SOR/AMU/Polytechnic/30/3243/201 8-19/17.11.2018 of SOR
24	STEELMAX ROLLING MILLS PVT LTD	HT I (A) INDUSTRIAL	0.13	Order No.SOR/AMU/HTB.31/43802018- 19/10.12.2018 of Special Officer (Revenue)
25	JOHN POLYMERS	HT I (A) INDUSTRIAL	0.01	Order No. SOR/AMU/HTB6/4707/2018- 19/15.12.2018 of SOR
26	ASSET SIGNATURE APARTMENTS, MENAMKULAM	HT V (DOMESTIC)	0.01	Order No. SOR/CU/bOGUS WITHDRAWAL/2018-19 dated 4/1/2019 of SOR
27	ST.JOSEPHS HOSPITAL, ANCHAL	HT II (B) GENERAL	0.02	Order No.SOR/AMU/HTB-1/Enrgise reconciliation/2018-19/2.03.201 9of SOR
28	BSNL TELEPHONE EXCHANGE,ALATHUR	HT II (B) GENERAL	0.01	Order No.SOR/CU/Arrear withdrawal/2018-19/4.02.2019 of SO(R)
29	TRAVANCORE GRANITE LTD, AMBOORI	HT I (A) INDUSTRIAL	0.04	Order No. SOR/AMU/Travancore Granites /8/3394/2018-19/5.3.2019 of SOR
30	SAINT GOBAIN INDIA (P) LIMITED	EHT II (110 kV) INDUSTRIAL	2.29	Order No. SOR/AMU/Saint Gobain/8/1140/ 2018- 19/19.12.2018 of SOR

31	PUDUKKAD ESTATE(COCHIN MALABAR ESTATE)	HT I (A) INDUSTRIAL	0.01	Withdrawal as per Order No. SOR/AMU/Pudukkad Estate /04/3208/2018-19/19.11.2018 of SOR
32	BSNL TELEPHONE EXCHANGE, ANCHAL	HT II (B) GENERAL	0.05	Withdrawal as per Order No.SOR/AMU/HTB 26/4098-2019/15.2.2019 of SOR
33	HOTEL ROYAL INDRAPRASTHA	HT IV (COMMERCIAL)	0.03	Order No.SOR/AMU/HTB-23/5030/2018-19/30.07.2018 of SOR
34	BSNL TELEPHONE EXCHANGE, KUNDARA	HT II (B) GENERAL	0.13	Order No. SOR/CU/BSNL/Withdrawal/2018-19/23.7.2018 of SO( R)
35	PHILLIPS CARBON BLACK LTD	EHT I (66 kV) INDUSTRIAL	0.28	Order No.SOR/CU/HTB-9/333/Open Access/2018-19/5/6/2018
36	MANJERI GRANITES	HT I (A) INDUSTRIAL	0.07	Withdrawal as per Order No. SOR/HTB 10/6248/2018-19/17.10.2018 of SOR
37	KARACHIRA COIR MANUFACTURERS	HT I (A) INDUSTRIAL	0.07	Order No,SOR/HTB-4/6331/2017-18/1.1.2019 of SOR
38	CALICUT UNIVERSITY	HT II (A) GENERAL	0.03	Order No. SOR/HTB-12/1226/2018-19/96/25.01.2019 of SOR
39	POOVELIL AGGREGATES	HT I (A) INDUSTRIAL	0.02	Order No. SOR/CU/Withdrawal/2018-19/26.7.2018 of SO( R)
40	HINDUSTAN ORGANIC CHEMICALS LTD	EHT I (66 kV) INDUSTRIAL	0.69	Order No.SOR/CCU/AMU/HTB15/1515/2018-19.20.10.2018 of SOR
41	STERLING HOLIDAY RESORTS (I) LTD	HT IV (COMMERCIAL)	5.10	Order No.SOR/HTB-29/2963/2018/17.04.2018 of SOR cancelling the APTS bill.
			12.68	

KSEB Ltd also submitted the explanation on the withdrawal of demand of each case separately.

#### **Decision of the Commission**

5.258 After appraising the detailed explanation submitted by KSEB Ltd, ***the Commission approves the bad and doubtful debts written off as per audited accounts amounts to Rs 12.68 crore.***

5.259 The **miscellaneous losses and write-offs** represent the total compensation paid for injuries, death and danger to staff and outsiders. Amount booked under this head is Rs 3.32 crore.

#### **Decision of the Commission**

After appraising the detailed explanation submitted by KSEB Ltd, ***the Commission approves the miscellaneous losses and write-offs as per audited accounts amounts to Rs 3.32 crore.***

5.260 **The material cost variance** represents the difference between the actual rate at which material was procured and the standard rate at which pricing the issue

of material was made. As per the ESAAR-1985, the material cost are first accounted as per the standard rates and subsequently difference between the actual and standards are accounted under material cost variance. This policy has been dispensed with consequent to the integration of SCM software (material issues) and SARAS (accounting) software on 01.07.2017 for the distribution function. The credit balance under this head is mainly on account of transactions prior to the integration of SCM & SARAS software ie till 30.06.2017. The SBU wise breakup of material cost variance claimed is given below.

Table 5.96  
Material cost variance claimed for the year 2018-19

	SBU-G	SBU-T	SBU-D	Total
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Material cost variance	-4.68	-2.11	4.24	-2.55

#### **Decision of the Commission**

- 5.261 The Commission examined the details submitted by KSEB Ltd. KSEB Ltd submitted that the policy of booking material cost variance has been dispensed with consequent to the integration of SCM software and accounting software on 01-07-2017 for the distribution function. **Accordingly, the credit balance is mainly on the transaction prior to integration of SCM and SARAS software ie., prior to 30-06-2017. Considering the details, the Commission hereby allows Rs.4.24crore if SBU-D for 2018-19.**

#### **Operating expenses claimed under prior period expenses.**

- 5.262 KSEB Ltd has claimed Rs 2.78 crore towards 'operating expenses' under prior period expenses. KSEB Ltd. has not submitted the detailed explanation on this claim in their petition.

#### **Decision of the Commission**

- 5.263 The Commission has been approving the O&M expenses comprising the 'employee expenses, A&G expenses and R&M expenses' based on norms. The operating expenses is the O&M expenses related to prior period. Hence the **Commission hereby dis-allow the operating expenses amounts to Rs 2.78 crore for the purpose of Truing up for the year 2018-19.**

#### **Interest claimed under prior period expenses and losses.**

- 5.264 KSEB Ltd in the Truing up petition has claimed Rs 6.55 crore as interest.

### **Decision of the Commission**

5.265 The Commission, examined the claim of KSEB Ltd and ***hereby allows the interest claimed under prior period expenses amounting to Rs 6.55 crore for the purpose of Truing up for the year 2018-19.***

### **Other charges claimed under prior period expenses**

5.266 KSEB Ltd submitted the breakup details of other charges claimed under period expenses is given below.

Table 5.97  
Details other expenses claimed for the year 2018-19

Sl No	Particulars	Amount (Rs. Cr)
1	Reversal of interest income claimed under Non tariff income in the year 2015-16 as part of settlement of arrears of KWA	163.97
2	Administrative expenses	10.37
3	Material related expenses	17.65
	Total	192.22

KSEB Ltd submitted explanation on each item claimed under other charges under prior period expenses and, the analysis and decision of the Commission on each item is discussed in the following paragraphs.

Reversal of interest income claimed under Non tariff income in the year 2015-16 as part of settlement of arrears of KWA amounts to Rs 164.20 crore.

5.267 KSEB Ltd submitted that, other charges under prior period expenses amounting to Rs. 192.22 C is inclusive of Rs.163.97 Cr on account of reversal of interest income recognized in 2015-16 on the arrear settlement of Kerala Water Authority. Relevant portion of the clarification furnished by KSEB Ltd as part of Truing up proceedings for 2015-16 is extracted below for ready reference:

#### ***Item No. 33 : KWA dues netted off in Duty***

*Government of Kerala, as per order G.O.(Ms) No. 24/2015/PD dated 29.06.2015 ordered to set off Rs.500 crore against the Electricity duty payable by KSEBL for clearing a part of arrears of electricity dues of Kerala Water Authority. KSEBL apportioned the amount under various heads as furnished below:*

<b>Table- 28 : Details of duty set off against KWA arrears</b>	
Item	Amount (Rs Cr)
Electricity charges	218.04
Duty	8.82
Supply Surcharge	1.74
Meter rent	0.01
Excess consumption penalty	20.79
Fuel surcharge	4.65
Interest	245.95
<b>Total</b>	<b>500.00</b>

A copy of the G.O is attached as **Annexure 2.**

5.268 KSEB Ltd further submitted that, the Commission in the Truing up Order dated 21.08.2018 for the year 2015-16 has Trued up the interest income of Rs.245.95 crore under Non-tariff income. KSEB Ltd clarified that, the interest was calculated @18% per annum for the arrears as per the provisions of the Supply Code, 2014. The scheme was implemented in the year 2015-16 and accounted in the year 2015-16 as above.

5.269 However, the State Government in a meeting chaired by the Chief Secretary, while appraising appropriate strategy to sett off the electricity dues of KWA, directed to sett-off the Rs 500.00 against the electricity duty payable as per the GO dated 29.06.2015, fully against the principal portion of the arrears. Subsequently, in the meeting chaired by Principal Secretary (Finance) has determined the arrears of KWA till 30.09.2018 at Rs 1062.98 crore after adjusting Rs 500.00 crore earlier sanctioned against the principal. The interest is arrived at 6% amounts to Rs 1326.69 crore. The State Government vide the Order GO (Rt) No. 10/2019/power dated 14.01.2019 has accorded to sanction to settle the electricity dues of KWA amounts to Rs 1326.69 crore as on 30.09.2018 in four annual installments @ Rs 331.67 crore per annum.

5.270 KSEB Ltd received the installments @Rs 331.67 crore per annum during the years 2019-20, 2020-21 and 2021-22 as detailed below.

Table 5.98  
Amount received from Statement towards settlement of arrears of KWA

Release pertains to FY	G.O. Reference	Amount Rs. Cr	Date of release	Release in FY
2019-20	G.O (Rt) No. 96/2020/Power dated 18.08.2020.	100.00	26.08.2020	2020-21
		188.00	03.09.2020	
		43.67	08.09.2020	
2020-21	G.O (Rt) No. 135/2020/Power dated 18.12.2020	331.67	31.12.2020	2020-21
2021-22	G.O (Rt) No. 92/2021/Power dated 12.07.2021	100.00	28.07.2021	2021-22
		100.00	12.10.2021	
		100.00	14.12.2021	
		31.67	14.03.2022	
	G.O (Rt) No.25/2022 dated 25.02.2022.			

5.271 KSEB Ltd submitted that, in view of the above decisions of the State Government, the accounting treatments were required to be made for the year 2015-16.

- (i) Out of the total interest of Rs 245.95 crore assessed @18%, Rs 81.98 crore assessed @6% interest continued in the 2015-16 accounts and balance Rs 163.97 crore has been booked under prior period expenses of the year 2018-19.
- (ii) KSEB Ltd further submitted that, since no interest income was received till the year 2018-19, the interest Rs 81.98 crore allowed to retain in 2015-16 also requested to reverse.
- (iii) Thus, KSEB Ltd has requested to reverse the entire interest income of Rs 245.95 crore booked in Non-tariff income is requested to reverse in the year 2018-19 as prior period expenses.

5.272 KSEB Ltd further submitted that, as per the settlement of KWA arrears as on 30.09.2018 amounts to Rs 1326.69 crore includes the principal of Rs 1062.98 crore and interest of Rs 263.71 crore @6% interest. Out of the total interest income of Rs 263.71 crore, Rs 81.98 crore is allowed to retain in 2015-16 accounts, which KSEB Ltd requested to reverse as prior period expenses of the year 2018-19. KSEB Ltd further submitted that, the balance interest income of Rs 182.36 crore (Rs.263.71 crore – Rs.81.98 crore +Rs.0.63 crore) was recognized as miscellaneous charges from the consumers under Non-tariff income.

5.273 KSEB Ltd further submitted that, as part of the settlement of arrears, no interest income was received till 31.03.2019. However, from 2019-10 onwards, the amount received from the Government in four installments @Rs 331.67 crore per year includes interest also. Thus KSEB Ltd could realise the interest only on receipt of the arrears including interest, which was implemented only from the year 2019-20 onwards. Hence KSEB Ltd requested to exclude the amount of Rs.182.34 crore booked in the year 2018-19 from the Non tariff income, and allow KSEB Ltd to claim interest income received on cash basis from the year 2019-20 onwards.

### **Analysis and Decision of the Commission**

5.274 The Commission has examined the accounting of settlement of arrears including interest due from Kerala Water Authority as per the orders of the State Government.

The Commission vide the Order dated 21.08.2018 in Petition OA No. 08/2018 in the matter of Truing up of Accounts of KSEB Ltd for the year 2015-16 has recognized the GO dated 29.06.2015 to set off Rs 500.00 crore from the electricity duty payable against the part of arrears of KWA. The Commission



had also approved Rs 245.95 crore as interest income as part of Non-Tariff income as claimed by KSEB Ltd. The interest was claimed @18% per annum.

5.275 Now in this petition, KSEB Ltd submitted that, the entire issue of settlement of arrears of KWA was re-opened in the year 2018-19 and the amount of Rs 500.00 crore ordered to adjust from electricity duty payable, is adjusted against the principal of arrears. Balance arrears as on 30.09.2018 was arrived at Rs 1326.69 crore, which includes the principal of Rs 1062.98 crore and interest @6% amounts to Rs 263.71 crore (later the interest is recognized @Rs 264.34 crore, Rs 0.63 crore higher than the amount already claimed). The Commission noted that as per Note 1.15 of KSEB Ltd.'s Accounting Policy in the annual accounts, interest income is recognized on 'cash basis' and not on 'accrual basis'. Hence this reduction of interest income of Rs.163.97 crore will not have any material impact as far as the truing up process is concerned.

5.276 Further, as part of the settlement, the Government agreed to repay the amount settled as above in four installments @Rs 331.67 crore per year from 2019-20 onwards. As agreed, the Government has already remitted the three installment from 2019-20 onwards.

5.277 ***Considering these aspects above, the Commission noted that, KSEB Ltd is due to receive the interest income as part of the settlement of arrears from 2019-20 onwards only. Hence any amount booked as non-tariff income has to be reversed. Considering these aspects in details, the Commission decided as follows on these issue.***

***(i) Agree with the proposal of KSEB Ltd to reverse Rs 245.95 crore booked as Non tariff Income in the year 2015-16 as prior period expense in the year 2018-19.***

***(ii) Agree with the proposal of KSEB Ltd to reverse the amount of Rs 182.34 crore as interest income under Non tariff income for the year 2018-19.***

***(iii) The Commission shall account the interest income of arrears of KWA from the year 2019-20 onwards on the basis of the installment amount received from the Government under this head from 2019-20 onwards.***

**Administrative expenses and Material related expenses booked under prior period expenses.**

5.278 KSEB Ltd claimed that, an amount of Rs 10.37 crore is booked as administrative expenses of prior period and Rs 17.65 crore towards the Material related expenses of prior period. These expenses are related to A&G expenses

of KSEB Ltd. Since the A&G expenses is approved based on norms specified in the Tariff Regulations notified by the Commission from time to time, ***the Commission disallow the claim of these expenses related to prior period also.***

5.279 **Prior period income.** Similarly, ***KSEB Ltd had claimed Rs 12.41 crore towards income related to prior period. The Commission recognize the same for the purpose of Truing up.***

5.280 Based on the above discussions, the Commission approve the other expenses of SBU-D of KSEB Ltd for the purpose of Truing up for the year 2018-19 as follows.

Table 5.99  
Other expenses of SBU-D approved for the year 2018-19

No	Particulars	Claimed by KSEB Ltd	Approved by KSERC
		(Rs.CR)	(Rs.CR)
1	Research and Development Expenses	0.06	0.06
2	Bad and Doubtful debts written off/ provided for	12.68	12.68
3	Miscellaneous Losses and write-offs	3.32	3.32
4	Material cost variance	4.24	4.24
5	Sundries	-0.04	-0.04
6	<b>Others Total (1 to 5) A</b>	20.26	20.26
	<b>Prior period expenses and losses</b>		
7	Operating expenses	2.78	0
8	Interest	6.55	6.55
9	Other charges	192.22	163.97
10	Prior period expenses (7+8+9)	201.55	170.52
11	Prior period income	12.41	12.41
12	<b>Prior period expenses (net) (10-11) B</b>	<b>189.14</b>	158.11
13	<b>Other expenses (6+12)</b>	<b>209.4</b>	178.37
14	Reversal of interest income of KWA arrears booked in 2015-16 (part)	81.98	81.98
	<b>Total</b>	<b>291.38</b>	<b>260.35</b>

***As above, the Commission approve the other expenses of SBU-D for the year 2018-19 at Rs.260.35 crore for the purpose of Truing up.***

### **Non Tariff Income**

5.281 KSEB Ltd, in the Truing petition submitted that as per the audited accounts, the Non tariff income booked is 949.68 crore as detailed below.

**Table- 5.100  
Non Tariff Income**

Description	Rs. Cr
<b>Revenue from operations Note 24.</b>	
Reactive energy charges	20.63
Meter rent/ Service line rental	94.38
Recovery from theft/malpractices	8.66
Misc charges from consumers	344.27
<b>Subtotal A</b>	<b>467.94</b>
<b>Other operating income Note No. 25 .a</b>	
Rebate received	134.11
Interest from suppliers/contractors	7.11
Income from sale of scrap/Tender form	72.63
Miscellaneous receipts	101.96
<b>Subtotal B</b>	<b>315.81</b>
<b>Other income Note No.24.b</b>	
Interest on staff loans and advances	0.01
Income from loans others	0.51
Interest from banks	7.16
Claw back of grant	158.25
<b>Subtotal C</b>	<b>165.93</b>
<b>Non-tariff income considered in True up petition (A+B+C)</b>	<b>949.68</b>

5.282 KSEB Ltd submitted that, as already submitted under 'prior period expenses under paragraph 5.266 to 5.277 above, KSEB Ltd had included interest income of Rs.182.34 crore on the arrears under miscellaneous charges from consumers. KSEB Ltd further submitted that, the State Government ordered to settle the arrears dues from KWA as on 30.09.2018 amounts to Rs 1362.69 crore including the interest of Rs 263.71 crore in '4' annual installments from 2019-20 onwards.

5.283 KSEB Ltd further submitted that, it had not realized/ received any income on account of the settlement in the year 2018-19. Hence KSEB Ltd proposed to exclude Rs 182.34 crore from the year 2018-19 and account such income in the year of receipt.

5.284 The income booked under 'miscellaneous receipts from consumers' is detailed below.

**Table 5.101  
Miscellaneous charge from consumers**

NO	PARTICULARS	Rs Cr
1	Other item (including interest on KWA arrears on LT connections Rs.126.09 Cr)	158.54
2	TF/RF	17.98
3	Other levies on fees(including interest on KWA arrears on HT connections Rs.56.27 Cr)	97.2
4	LE/SC Minimum	0.44
5	Processing fee power allocation	2.73
6	STOA Registration and application	0.23

7	STOA Open access charges	11.1
8	Registration & Application fee grid connectivity	4.49
9	Energization charges	0.36
10	Misc charges-PF penalty	51.2
	<b>TOTAL</b>	<b>344.27</b>

5.285 The details of the income from sale of scrap/ tender form amounting to Rs 72.63 crore is detailed below.

**Table 5.102**  
**INCOME FROM SALE OF SCRAP/TENDER FORM**  
**(Rs. Cr)**

No	Particulars	Total
1	Sale of scrap	62.35
2	Sale of tender forms	4.23
3	Sale of LED Bulbs	5.94
4	Sale of safety equipments	0.10
5	Hire charge	0.01
4	Total	72.63

5.286 Income from sale of scrap/tender form amounting to Rs.72.63 Cr includes Rs.5.94 Cr towards sale proceeds of LED bulbs. Further, the cost of LED bulbs amounting to Rs. 6.65 Cr has been accounted under A&G expenses. KSEB Ltd further submitted that the purchase value of LED accounted in 2018-19 exceeds sale proceeds by Rs.0.71 Cr primarily because of the delay in accounting. While approving Non-Tariff Income for the previous years, the Commission was pleased to True up the net income of LED sale by deducting the cost of LED bulbs from sale proceeds, as detailed below.

**Table- 5.103**  
**Details of income through sale of LED bulbs FY 16 to FY 19**

Particulars	2015-16	2016-17	2017-18	2018-19	Total
Sale proceeds of LED bulbs	25.76	45.94	32.66	5.94	110.3
Cost of LED bulbs	12.9	23.59	41.59	6.65	84.73
<b>Income trued up</b>	<b>12.86</b>	<b>22.35</b>	<b>-8.93</b>	<b>-0.71</b>	<b>25.57</b>

Hence, KSEB Ltd requested to True up (-)0.71 crore under Non tariff income for the year 2018-19.

5.287 The Non tariff income include the claw back of depreciation of assets created out of consumer contribution and grants amounts to Rs 158.25 crore.

5.288 The summary of the Non tariff income claimed by KSEB Ltd for the purpose of Truing up is given below.

**Table 5.104**  
**KSEB Ltd- Non tariff income claimed for True up (Rs. Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	<b>Other Income-As per Accounts (Note No. 25) (A)</b>	<b>24.48</b>	<b>56.45</b>	<b>400.80</b>	<b>481.73</b>
2	Items sought to be excluded in TU				
3	Claw back of grant-Considered separately	6.54	14.38	137.33	158.25
4	Cost of LED Bulbs booked under A&G expenses			6.65	6.65
5	<b>Total exclusions (3+4) (B)</b>	<b>6.54</b>	<b>14.38</b>	<b>143.98</b>	<b>164.90</b>
6	Expenses booked under A&G expenses sought to be deducted from NTI				
7	Refund of 80% of solar registration fee for eligible consumers			0.82	0.82
8	Refund of liquidated damages			4.24	4.24
9	Total (8+9) (C)	0.00	0.00	5.06	5.06
10	Total deductions D (B+C)	6.54	14.38	149.04	169.96
11	<b>Balance E (A-D)</b>	<b>17.94</b>	<b>42.07</b>	<b>251.76</b>	<b>311.77</b>
12	Non tariff income booked under Revenue from operation (Note no. 24 of accounts)				
13	RE Charges			20.63	20.63
14	Meter rent			94.38	94.38
15	Recovery of theft/malpractices			8.66	8.66
16	Miscellaneous charges from consumers			344.27	344.27
17	Less: Interest accounted on KWA arrears			182.34	182.34
18	Balance (16-17)			161.93	161.93
19	<b>Total Non tariff income as per accounts considered for TU (F) (13+14+15+18)</b>	<b>0.00</b>	<b>0.00</b>	<b>285.60</b>	<b>285.60</b>
20	<b>NT Income sought for TU 2018-19 G (E+F)</b>	<b>17.94</b>	<b>42.07</b>	<b>537.36</b>	<b>597.37</b>

As detailed above, as against Rs 949.68 crore booked under Non-tariff income, the income claimed for True up is 597.37 crore only, i.e, KSEB Ltd requested to exclude Rs 352.31 crore.

5.289 The amount proposed to exclude by KSEB Ltd from Non tariff income include the following.

**Table 5.105**  
**Items proposed by KSEB Ltd to exclude from the Non tariff income as per Accounts**

Sl. No	Particulars	SBU G (Rs. Cr)	SBU T (Rs. Cr)	SBU D (Rs. Cr)	Total (Rs. Cr)
1	Clawback of depreciation	6.54	14.38	137.33	158.25
2	Interest income of KWA arrears			182.34	182.34
3	Cost of LED bulbs			6.65	6.65
5	Refund of 80% of solar registration fee for eligible consumers			0.82	0.82

6	Refund of liquidated damages			4.24	4.24
7	Total	6.54	14.38	331.38	352.30

### Provisions in the Tariff Regulations, 2018

5.290 The Regulation 82(1) of the Tariff Regulations, 2018 deals with 'non tariff income', which is extracted below.

**“82.Other income.–(1) The receipts of Other income of the distribution business/licensee as approved by the Commission shall be deducted from the Aggregate Revenue Requirement in determining the tariff of the distribution business/licensee.**

**(2) The indicative list of items to be considered as Other Income includes:-**

- (i) interest on staff loans and advances;
- (ii) income from statutory investments;
- (iii) income from trading;
- (iv) income from rent of land or buildings;
- (v) income from sale of scrap;
- (vi) income from staff welfare activities;
- (vii) rental from staff quarters;
- (viii) excess found on physical verification;
- (ix) interest on investments, fixed and call deposits and bank balances;
- (x) interest on advances to suppliers/contractors;
- (xi) income from hire charges from contractors and others;
- (xii) income due to right of way granted for laying fibre optic cables/co-axial cables on distribution system;
- (xiii) income from advertisements, etc.;
- (xiv) miscellaneous receipts;
- (xv) commission for collection of electricity duty;
- (xvi) interest on delayed or deferred payment on bills;
- (xvii) rebate from central generating stations; and
- (xviii) Any other receipts

**(3) The distribution business/licensee shall submit full details of its forecast of non-tariff income and Other Income to the Commission along with its petition for approval of Aggregate Revenue Requirements.**

**(4) The interest earned from investments made out of return on investment by the distribution business/licensee shall not be included in other Income.”**

### Analysis and Decision of the Commission

5.291 The Commission has examined the Non tariff income claimed by KSEB Ltd and the same as per the audited accounts. The Commission has been allowing depreciation on the assets excluding the assets created out of consumer

contribution and grants for the purposed of Truing up. Hence the Commission agree with the proposal of the KSEB Ltd to exclude the consumer contribution and grants from the Non tariff Income as per accounts.

5.292 Another major expenses proposed by KSEB Ltd to exclude from the consumer contribution and grants is 'interest income of KWA arrears' for the year 2018-19. As already discussed under paragraph 5.272 above, as part of the settlement of arrears of KWA as on 30.09.2018, the total arrears including principal and interest is Rs.1326.69 crore. Government Order to repay the settled arrears in '4' annual instalments from 2019-20 onwards. KSEB Ltd further submitted that, it had not realized/ received any income on account of the settlement in the year 2018-19. **Hence KSEB Ltd proposed to exclude Rs 182.34 crore from the year 2018-19 and account such income in the year of receipt.**

**The Commission agree with the proposal of KSEB Ltd.**

5.293 KSEB Ltd submitted that the cost of LED bulbs has to be deducted from the sale proceeds of LED bulbs booked under Non-tariff Income. Accordingly, KSEB Ltd proposed to deduct Rs 6.65 crore from the sale of scrap etc. **The Commission agree with proposal of the KSEB Ltd that, the cost of LED bulbs and associated costs of Rs. 6.65 crore has to be reduced from the sale of LED bulbs and resultant income only treated as Non-tariff income.**

5.294 KSEB Ltd claim of the refund of the 80% of the solar registration fee and liquidated damages is also agreed to and the Commission approves the claim of Rs.0.82 crore as proposed by KSEB Ltd.

5.295 Based on the above considerations, the Non-tariff income approved for the year 2018-19 is detailed below.

**Table 5.106**  
**Non tariff income approved for 2018-19 (Rs. Cr)**

Sl. No	Particulars	Claim of KSEB Ltd				KSERC approval			
		SBU G	SBU T	SBU D	Total	SBU G	SBU T	SBU D	Total
		(RsCr)	(RsCr)	(RsCr)	(RsCr)	(RsCr)	(RsCr)	(RsCr)	(RsCr)
1	<b>Other Income-As per Accounts (Note No. 25) (A)</b>	<b>24.48</b>	<b>56.45</b>	<b>400.80</b>	<b>481.73</b>	<b>24.48</b>	<b>56.45</b>	<b>400.80</b>	<b>481.73</b>
2	<b>Items sought to be excluded in TU</b>								
3	Claw back of grant-Considered separately	6.54	14.38	137.33	158.25	6.54	14.38	137.33	158.25
4	Cost of LED Bulbs booked under A&G expenses			6.65	6.65			6.65	6.65
5	<b>Total exclusions (3+4) (B)</b>	<b>6.54</b>	<b>14.38</b>	<b>143.98</b>	<b>164.90</b>	<b>6.54</b>	<b>14.38</b>	<b>143.98</b>	<b>164.90</b>
6	Expenses booked under A&G expenses sought to be deducted from NTI								

7	Refund of 80% of solar registration fee for eligible consumers			0.82	0.82			0.82	0.82
8	Refund of liquidated damages			4.24	4.24				
9	Total (7+8) (C)	0.00	0.00	5.06	5.06			0.82	0.82
10	Total deductions D (B+C)	6.54	14.38	149.04	169.96	6.54	14.38	144.80	165.72
11	<b>Balance E (A-D)</b>	<b>17.94</b>	<b>42.07</b>	<b>251.76</b>	<b>311.77</b>	<b>17.94</b>	<b>42.07</b>	<b>256.00</b>	<b>316.01</b>
12	Non tariff income booked under Revenue from operation ( <b>Note no. 24 of accounts</b> )								
13	RE Charges			20.63	20.63			20.63	20.63
14	Meter rent			94.38	94.38			94.38	94.38
15	Recovery of theft/malpractices			8.66	8.66			8.66	8.66
16	Miscellaneous charges from consumers			344.27	344.27			344.27	344.27
17	Less: Interest accounted on KWA arrears			182.34	182.34			182.34	182.34
18	Balance (16-17)			161.93	161.93			161.93	161.93
19	<b>Total Non tariff income as per accounts considered for TU (F) (13+14+15+18)</b>	<b>0.00</b>	<b>0.00</b>	<b>285.60</b>	<b>285.60</b>	<b>0.00</b>	<b>0.00</b>	<b>285.60</b>	<b>285.60</b>
20	<b>NT Income sought for TU 2018-19 G (E+F)</b>	<b>17.94</b>	<b>42.07</b>	<b>537.36</b>	<b>597.37</b>	<b>17.94</b>	<b>42.07</b>	<b>541.60</b>	<b>601.61</b>

**5.296 As detailed above, the Commission approves Rs.541.60 crore as Non tariff income of SBU-D for the year 2018-19.**

### Summary of the ARR Trued up for SBU-D for the year 2018-19

5.297 As discussed in the preceding paragraphs, the summary of the ARR approved in the process of Truing up for the year 2018-19 is given in the Table below.

Table 5.107

#### Aggregate Revenue Requirement for the purpose of Truing up of SBU-D

Particulars	Approved vide MYT Order dated 08.07.2019 (Rs. Crore)	KSEB Ltd claim		KSERC
		As per accounts	As per Petition	Approved in true up
		(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
Cost of Generation	481.41	586.66	506.79	470.26
Cost of intra state transmission	877.60	1,068.69	858.64	840.97
Power Purchase	7,847.77	7,869.32	7,826.86	7,704.77
O&M expenses				
(i) Employee expense*	1,979.83	2,425.42	1,982.22	1,876.16
(ii) A&G expenses*		447.87		106.05
(iii) R&M expenses		246.25		252.35
(iv) Provision for pay revision			144.47	
Total O&M expenses	2,226.08	3,106.25	2,379.04	2,233.75
Depreciation	72.24	433.24	107.98	97.15



Interest and financing charges	1,428.31	1,263.32	1,787.30	1,555.31
Recovery of past gap	400.00			
Additional fund to Master Trust	167.10		167.10	250.65
Return on Equity	253.50	147.23	253.50	253.50
Other expenses		209.40	291.38	260.35
Contribution to CMDRF			29.25	0.00
Sharing of T&D loss			28.59	28.39
One time expense-flood		12.39		0.00
Income Under FV Adjustments		5.37		
Total ARR	13754.01	14,701.87	14,236.44	13,695.10
Less				
Non Tariff Income	531.55	400.80	537.36	541.60
Net ARR for True up	13,222.46	14,301.07	13,699.08	13,153.50

\*Provisional

## Revenue from Sale of Power

5.298 KSEB Ltd submitted that, the revenue from sale of power during the year 2018-19 was Rs 12713.93 crore for the sale of 21536.77 MU. The revenue earned through external sale was Rs 339.34 crore for the sale of 824.78MU. The power factor incentive of Rs 114.07 crore deducted from the revenue from sale of power to arrive the net operating income from sale of power. KSEB Ltd further submitted that, the Commission vide Order dated 13.08.2018 has allowed to recover Rs.81.65 crore @Rs 0.15/unit as fuel surcharge from Aug/Sep 2018 onwards. The actual category wise revenue from sale of power is inclusive of the fuel surcharge demanded from each category of consumers.

5.299 The summary of the revenue from sale of power during the year 2018-19 is given in the Table below.

Table 5.108  
Revenue from Sale of Power of SBU-D for the year 2018-19

No	Category	Energy sales (MU)		Revenue (Rs. Cr)		Average Tariff (Rs/kWh)	
		MYT approval	Actual	MYT approval	Actual	Approved	Actual
1	Domestic	10861.42	10864.34	4485.19	4621.04	4.13	4.25
2	Industrial	1100.98	1111.67	784.29	792.76	7.12	7.13
3	Agriculture	350.01	337.65	83.86	86.78	2.40	2.57
4	Commercial	3168.22	3221.43	2931.98	3062.8	9.25	9.51
5	Public Lighting	382.85	377.78	177.06	172.77	4.62	4.57
6	HT & EHT Total	4917.25	4708.82	3448.96	3422.07	7.01	7.27
7	Railway Traction	273.51	318.04	167.89	186.38	6.14	5.86
8	Bulk Supply	593.03	597.04	370.59	369.13	6.25	6.18

9	Fuel surcharge			81.65			
10	<b>Total sales (within state)</b>	<b>21647.27</b>	<b>21536.77</b>	<b>12531.47</b>	<b>12713.72</b>	5.79	5.90
11	Interstate sale	1513.27	824.78	756.64	339.34	5.00	4.11
12	Misc				0.1969		
13	<b>Total</b>	<b>23160.54</b>	<b>22361.55</b>	<b>13288.11</b>	<b>13053.26</b>	5.74	5.84
14	Less Power Factor incentive			97.79	114.07		
15	<b>Revenue from Sale of power</b>	<b>23160.54</b>	<b>22361.55</b>	<b>13190.32</b>	<b>12939.20</b>	5.70	5.79

### **Analysis and Decision of the Commission**

5.300 The Commission has examined in detail the revenue from sale of power submitted by KSEB Ltd during the year 2018-19. KSEB Ltd has also submitted the tariff category wise sale and revenue from sale of power during the year 2018-19. The total sale within the State was 21536.77 MU as against 21647.27 MU as detailed in Chapter-4. The total revenue from sale of power was Rs 12713.93 crore as against Rs 12531.47 crore approved. The revenue from sale of power is inclusive of the fuel surcharge of Rs 81.65 crore ordered to collect @Rs 0.15/unit for a period of three months.

5.301 In addition to the revenue from sale of power KSEB Ltd had also sold 824.78 MU outside the State and earned Rs 339.34 crore as additional revenue.

5.302 The power factor incentive allowed to the HT&EHT consumers as per the Tariff Order issued by the Commission in the year 2018-19 was Rs 114.07 crore. Thus the net revenue from sale of power claimed by KSEB Ltd is Rs 12939.20 crore.

**5.303 *The Commission, after carefully examining the details furnished by KSEB Ltd, approves the revenue from sale of power as Rs 12939.20 crore as submitted by KSEB Ltd for the year 2018-19.***

### **Revenue gap approved for the year 2018-19**

5.304 As discussed in the preceding paragraphs, the revenue gap approved for the year 2018-19 for SBU-D is given below.

Table 5.109  
Revenue gap approved for SBU-D for the year 2018-19

Particulars	Approved vide MYT Order dated 08.07.2019	KSEB Ltd claim		KSERC
		As per accounts	As per Petition	Approved in true up
	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
Annual Revenue Requirement	13,222.96	14,301.07	13,699.08	13,153.50
Revenue from Sale of Power	13190.32	13,521.21	12,939.20	12,939.20
Revenue gap	32.64	779.86	759.88	214.30

**5.305 As above, the total revenue gap approved in the process of Truing up of accounts of KSEB Ltd for SBU D for the year 2018-19 is Rs.214.30 crore as against Rs.759.88 crore claimed for the year 2018-19.**

**CHAPTER - 6**  
**CONSOLIDATED TRUING UP ACCOUNTS OF KSEB LTD**

**Introduction**

6.1 The consolidated details of the Truing up of accounts of KSEB Ltd for the year 2018-19 is presented in this chapter. A comparison of the ARR&ERC approved in the MYT order dated 08.07.2019, consolidated audited accounts and the truing up petition is given below.

Table 6.1  
Summary of the Audited Accounts and Truing up petition the year 2018-19

Particulars	MYT order dated 08.07.2019	As per audited accounts	True up petition
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation Of Power	0.00	3.29	3.29
Purchase of power	7850.77	7869.32	7826.86
Interest & Finance Charges	1805.76	1598.90	2117.13
Depreciation	348.84	805.03	404.47
Employee Cost (excluding terminal benefits)	2713.46	2892.01	2898.27
Repair & Maintenance		303.75	
Administration & General Expenses		598.16	
Other Expenses	0.00	222.48	345.91
Interest on Additional Bond to Trust	200.00	0.00	200.00
Over achievement of loss reduction claim			28.59
Incentive for transmission availability			8.38
Amortization of past gap	400.00		
<b>Net Expenditure (A)</b>	<b>13318.83</b>	<b>14292.94</b>	<b>13806.58</b>
Statutory Surplus/ Roe (B)	489.86	0.00	489.87
<b>ARR (C) = (A) + (B)</b>	<b>13808.69</b>	<b>14292.94</b>	<b>14296.45</b>
Non-Tariff Income	586.23	481.73	597.37
Revenue from Tariff	13190.32	13521.21	12939.20
<b>Total Income (D)</b>	<b>13776.55</b>	<b>14002.94</b>	<b>13536.57</b>
<b>Revenue surplus (Gap) (D-C)</b>	<b>32.15</b>	<b>290.00</b>	<b>759.88</b>

6.2 Detailed appraisal of each expense components is discussed in the following paragraphs.

**Generation of Power**

6.3 KSEB Ltd has claimed Rs 3.29 crore towards fuel cost of its generating stations. After analyzing the matter in detail, the Commission in Chapter 2 of this order has allowed the fuel cost of Rs. 3.29 crore as per the accounts.

### **Cost of Generation of Power or Transfer cost of SBU-G**

6.4 The Cost of generation of power is the transfer cost booked by SBU-G to SBU-D. After examining various expenses, the Commission has determined the transfer cost of Generation or the net cost of generation of power of SBU-G at Rs 470.26 crore as against Rs.506.79 crore claimed by KSEB Ltd. Details are given in Chapter 2 of this Order.

### **Cost of Intra-state Transmission or Transfer cost of SBU-T**

6.5 The cost of intra state transmission is the transfer cost of SBU-T to the SBU-D. After examining various expenses, the Commission has determined the transfer cost of Transmission or the net cost of intra transmission of power of SBU-T at Rs. 840.97 crore as against Rs.858.64 crore claimed by KSEB Ltd. Details in this regard are shown in Chapter 3 of this Order.

### **Cost of purchase of power**

6.6 The cost of power purchase including intra-state transmission charges as per the petition is Rs.7826.86 crore. Of this, the inter-state transmission charges paid to PGCIL is Rs.513.41 crore. As detailed in Chapter 5, the Commission after examining the details has approved the cost of power purchase at Rs.7704.77 crore for the year 2018-19. The details are given in Chapter-5 of this order. This dis-allowance mainly the excess payment to the unapproved DBFOO contracts.

### **O&M Expenses**

6.7 As per the petition, the O&M expenses claimed by KSEB Ltd is Rs. 2898.27 crore, which is inclusive of employee costs, repair and maintenance expenses and administration and general expenses. KSEB Ltd has claimed the O&M expenses as per the norms specified in the Tariff Regulations. In addition to the normative O&M expenses KSEB Ltd also requested to approve the provision of Rs 176 crore provide for pay revision due from July/August 2018 onwards.

6.8 The O&M cost claimed and approved is given in the Table below.

Table 6.2  
Summary of the O&M cost claimed and approved for the year 2018-19

Particulars	KSERC	KSEB Ltd		KSERC - Approved for Truing Up (based on norms)
	ARR approval	As per accounts	Claimed for Truing Up	
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
O&M Expenses				
(i) Employee cost*		2892.01		
(ii) A&G expenses*	2713.46	598.16	2,722.27	2721.49
(ii) R&M expenses		303.75		
(iv) Provision for pay revision			176.00	0
(v) Total O&M cost	2713.46	3793.92	2,898.27	2,721.49

\*Provisional

### Interest and financing charges

6.9 Interest charges include, interest on long term and short term loans, interest on GPF, interest on security deposits, interest on working capital, interest on Master Trust funds, and other interest charges.

The summary of the interest and finance charges claimed and approved is given in the Table below.

Table 6.3  
Interest and Finance charges claimed and approved for the year 2018-19

Sl No	Item	MYT Approval	KSEB petition	KSERC approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Interest on Loan	348.33	341.01	316.42
2	Security Deposit Interest	175.33	170.75	170.75
3	Master Trust Bond Interest	773.68	773.68	773.68
4	Working capital/ OD interest	21.75	21.97	21.35
5	PF interest	182.59	162.17	162.17
6	Other interests	0	18.41	18.41
7	Interest on fair valuation	0	0	0.00
8	Carrying cost on past approved revenue gap	304.08	592.63	400.80
9	Carrying cost on current year revenue gap		36.48	0.00
11	Total	1805.76	2117.13	1863.58

### Depreciation

6.10 Depreciation as per the audited accounts of KSEB Ltd for the year 2018-19 is Rs 805.03. Depreciation as per accounts has been worked out in line with IND AS and claw back depreciation was determined and credited to Claw back of grant under Note 33 (Changes in fair valuation and adjustments). But, as per MYT Regulation for the control period 2018-19 to 2021-22,

depreciation is allowable as per the provisions contained in the Tariff Regulations, 2018 in which applicable rates as well as methodology to be followed are specified therein.

- 6.11 As per the provisions of the Regulations, no depreciation is allowed on the assets created out of contribution and grants and the write off, if any, of the consumer contribution and grants at the time of the transfer scheme is also not to be considered. Based on the provisions of the Regulations, depreciation approved for each SBU for the year 2018-19 is as shown below:
- 6.12 KSEB Ltd in the Truing petition has claimed depreciation as per the provisions of the Tariff Regulations 2018 only.
- 6.13 The comparison of the depreciation claimed in the Truing Up petition and the actuals are given in the Table below.

Table 6.4  
Depreciation claimed and approved

	As per audited accounts	As per the True Up petition	Approved in the True up order
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
SBU-G	132.36	137.60	125.05
SBU-T	239.43	158.88	159.75
SBU-D	433.24	107.98	97.15
<b>Total</b>	<b>805.03</b>	<b>404.46</b>	<b>381.95</b>

**Other expenses:**

- 6.14 Other expenses included other debits and prior period expenses and income. The Other debits include Material cost Variance, R&D Expenses, Bad Debts and Misc Losses Written-off. The SBU wise details of the other expenses claimed and approved is detailed in Chapter 2,3 and 5. Its summary is given below.

Table 6.5  
Other expenses approved for the year 2018-19

	As per truing up Petition	Approved in truing up
	(Rs.crore)	(Rs. crore)
SBU-G	-4.68	-4.68
SBU-T	-2.11	-2.11
SBU-D	291.38	260.35
<b>KSEB Ltd</b>	<b>284.59</b>	<b>253.56</b>

## Return on equity

- 6.15 KSEB Ltd in their petition claimed return on equity of Rs.489.87 crore at the rate of 14% for the SBUs. As per the petition, the total equity mentioned for KSEB Ltd is Rs.3499 crore. The SBU wise apportionment of equity is as shown below:

Table 6.6  
Return on equity claimed and approved for 2018-19.

	As per truing up petition		As approved
	Amount of Equity	Return on equity	Return on equity
	Rs. Crore	Rs. crore	Rs. Crore
SBU-G	831	116.38	116.38
SBU-T	857	119.99	119.99
SBU-D	1,811	253.50	253.50
Total	3,499	489.87	489.87

## Carrying cost for past revenue gaps

- 6.16 KSEB Ltd claimed carrying cost of Rs 629.11 crore for the unbridged revenue gap as on 31.03.2018. The Commission after appraising the claim of KSEB Ltd in detail in the Chapter-5 of this order and determined the carrying cost for the year 2018-19 after deducting considering the funds available as GPF contribution and the balance amount of security deposit after considering the working capital requirements.

The carrying cost approved for the year 2018-19 is Rs 400.80 crore.

## Non Tariff income

- 6.17 As per the details furnished in the petition, consolidated non-tariff income for the year is Rs.597.37 crore as per the petition. After considering the details, the Commission has approved the SBU wise non-Tariff income as shown below:

Table 6.7  
Non Tariff income approved for 2018-19

	SBU-G	SBU-T	SBU-D	Total
	(Rs.crore)	(Rs.crore)	(Rs.crore)	(Rs.crore)
Non Tariff Income as per petition	17.94	42.07	537.36	597.37
Non-Tariff income approved	17.94	42.07	541.60	601.61



## Revenue from Sale of Power

6.18 The total revenue from sale within the State is Rs 12713.72 crore for the sale of 21536.77 MU. The revenue from external sale is Rs 339.34 crore for the sale of 824.78 MU during the year. The power factor incentive of Rs 114.07 crore is deducted from the revenue from sale of Power. Accordingly, the net revenue from sale of power during the year 2018-19 is Rs 12939.20 crore.

## Summary of Income, Expenses and Revenue gap after truing up

6.19 The summary of the ARR approved for SBU-G is detailed in Chapter-2 and its summary is given below.

Table 6.8  
ARR of the SBU-G Trued up for the year 2018-19

No	Particulars	KSERC	KSEB Ltd		KSERC - Approved for Truing Up
		ARR approval	As per accounts	Claimed for Truing Up	
1	Cost of Generation of Power	0.00	3.29	3.29	3.29
2	Interest & Finance Charges	126.27	127.94	127.58	108.25
3	Depreciation	130.19	132.36	137.60	125.05
4	O&M Expenses				
	(i) Employee cost*		128.37		95.91
	(ii) A&G expenses*		41.81	124.47	5.38
	(ii) R&M expenses	124.15	27.13		23.23
	(iv) Provision for pay revision			8.05	
	(v) Total O&M cost	124.15	197.31	132.52	124.52
5	RoE (14% of Rs 1454.53 Cr)	116.38	153.33	116.38	116.38
6	Other Expenses & PP expenses	0.00	-4.68	-4.68	-4.68
7	Exceptional Items – Flood	0.00	3.11	0.00	0.00
8	One Time Expense CMDRF	0.00	0.00	1.79	0.00
9	Fair Value adjustments		-1.52		0.00
10	Additional fund to Master Trust	10.26		10.26	15.39
11	ARR	507.24	611.14	524.73	488.20
12	Less Non-Tariff Income	25.83	24.48	17.94	17.94
13	<b>Net ARR (Transferred to SBU-D)</b>	<b>481.41</b>	<b>586.66</b>	<b>506.79</b>	<b>470.26</b>

\*Provisional

6.20 The details of the Truing up of SBU-T of KSEB Ltd is detailed in Chapter-3 of this order. The summary of the Trued up ARR of SBU-T of KSEB Ltd for the year 2018-19 is given in the Table below.

Table 6.9  
ARR of the SBU-T Trued up for the year 2018-19

No	Particulars	KSERC	KSEB Ltd		KSERC - Approved for Truing Up  (Rs. Crore)
		ARR approval	As per accounts	Claimed for Truing Up	
		(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	
1	O&M expense				
	(i) Employee expenses*		338.22		264.93
	(ii) A&G expenses*	363.23	108.49	363.23	18.73
	(iii) R&M expenses		43.66		79.56
	(iv) Sub total		490.37	363.23	363.22
	Provision for pay revision			23.48	0
2	Total O&M expenses	363.23	490.37	386.71	363.22
3	Interest and financing charges	251.18	207.64	202.26	200.02
4	Additional fund to Master Trust	22.64		22.64	33.96
5	Depreciation	146.41	239.43	158.88	159.75
6	RoE	119.99	189.3	119.99	119.99
7	Other expenses		-2.11	-2.11	-2.11
8	CMDRF			3.96	
9	One time expenses		0.44		
10	Fair value adjustment		0.08		
11	Incentive for tans/Dist			8.38	8.21
12	<b>Gross Expenses</b>	<b>903.45</b>	<b>1125.14</b>	<b>900.71</b>	<b>883.04</b>
13	Non-Tariff income	28.85	56.45	42.07	42.07
14	<b>Transfer Cost of SBU-T</b>	<b>874.6</b>	<b>1068.69</b>	<b>858.64</b>	<b>840.97</b>

\*Provisional

6.21 The details of the Truing up of SBU-D of KSEB Ltd is detailed in Chapter-5 of this order. The summary of the Trued up ARR of SBU-D of KSEB Ltd for the year 2018-19 is given in the Table below.

Table 6.10  
ARR of the SBU-D Trued up for the year 2018-19

Particulars	Approved vide MYT order dated 08.07.2019  (Rs. Crore)	KSEBL claim		KSERC
		As per accounts	As per Petition	Approved in true up
		(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
Cost of Generation	481.41	586.66	506.79	470.26
Cost of intra state transmission	877.60	1,068.69	858.64	840.97
Power Purchase	7,847.77	7,869.32	7,826.86	7,704.77
O&M expenses				
(i) Employee expense*	1,979.83	2,425.42	1,982.22	1,876.16
(ii) A&G expenses*		447.87		106.05
(iii) R&M expenses		246.25	232.96	252.35

(iv) Provision for pay revision			144.47	
Total O&M expenses	2,226.08	3,106.25	2,379.04	2,233.75
Depreciation	72.24	433.24	107.98	97.15
Interest and financing charges	1,428.31	1,263.32	1,787.30	1,555.31
Recovery of past gap	400.00			
Additional fund to Master Trust	167.10		167.10	250.65
Return on Equity	253.50	147.23	253.50	253.50
Other expenses		209.40	291.38	260.35
Contribution to CMDRF			29.25	0.00
Sharing of T&D loss			28.59	28.39
One time expense-flood		12.39		0.00
<b>Total ARR</b>	<b>13,754.01</b>	<b>14,696.50</b>	<b>14,236.44</b>	<b>13,695.10</b>
Less				
Non Tariff Income	531.55	400.8	537.36	541.60
Net ARR for True Up	13,222.46	14,295.70	13,699.08	13,153.50
Revenue from Sale of Power	13190.32	13,515.84	12,939.20	12,939.20
Net revenue gap	32.14	779.86	759.88	214.30

\*Provisional

6.22 The consolidated summary of the ARR, ERC and Revenue gap of KSEB Ltd for the year 2018-19 is given below.

Table 6.11  
Consolidate summary of the ARR&ERC Trued up for the year 2018-19

Sl No	Particulars	MYT order dated 08.07.2019	As per audited accounts	True up petition	KSERC Approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Generation Of Power	0.00	3.29	3.29	3.29
2	Purchase of power	7850.77	7869.32	7826.86	7704.77
3	Interest & Finance Charges	1805.76	1598.90	2117.13	1863.57
4	Depreciation	348.84	805.03	404.47	381.95
5	O&M expenses				
	(i)Employee Cost (excluding terminal benefits)*		2892.01		2237.00
	(iii) Administration & General Expenses*	2713.46	598.16	2898.27	130.16
	(iii) R&M expenses		303.75		354.33
	Sub total	2713.46	3793.92	2898.27	2721.49
6	Other Expenses	0.00	222.48	284.59	253.56
7	Interest on Additional Bond to Trust	200.00	0.00	200.00	300.00
8	CMDRF			34.99	0.00
8	Over achievement of loss reduction claim			28.59	28.39

9	Incentive for transmission availability			8.38	8.21
10	Amortization of past gap	400.00			0.00
11	<b>Net Expenditure (A)</b>	<b>13318.83</b>	<b>14292.94</b>	<b>13806.57</b>	<b>13265.23</b>
12	Statutory Surplus/ Roe (B)	489.86	0.00	489.87	489.87
13	<b>ARR (C) = (A) + (B)</b>	<b>13808.69</b>	<b>14292.94</b>	<b>14296.45</b>	<b>13755.10</b>
14	Non-Tariff Income	586.23	481.73	597.37	601.61
15	Revenue from Tariff	13190.32	13521.21	12939.20	12939.20
16	<b>Total Income (D)</b>	<b>13776.55</b>	<b>14002.94</b>	<b>13536.57</b>	<b>13540.81</b>
17	<b>Revenue surplus (Gap) (D-C)</b>	<b>32.15</b>	<b>290.00</b>	<b>759.88</b>	<b>214.30</b>

\*Provisional

6.23 ***As above, the revenue gap of KSEB Ltd in the process of Truing up of accounts for the year 2018-19 is Rs 214.30 crore as against Rs 759.88 crore claimed by KSEB Ltd vide the original petition.***

#### **Orders of the Commission**

6.24 *The Commission after examined in detail, the petition filed by KSEB Ltd, the objections from stakeholders and other materials placed before it, hereby approve the following for the purpose of Truing up of accounts for the year 2018-19.*

- (1) *Net ARR of SBU-G for the year 2018-19 at Rs 470.26 crore as against Rs 506.79 crore claimed by KSEB Ltd.*
- (2) *Net ARR of SBU-T for the year 2018-19 at Rs 840.97 crore as against Rs 858.64 crore claimed by KSEB Ltd.*
- (3) *Net ARR of SBU-D for the year 2018-19 at Rs.13153.50 crore as against Rs.13699.08 crore claimed by KSEB Ltd.*
- (4) *Revenue gap of KSEB Ltd for the year 2018-19 at Rs.214.30 crore as against Rs 759.88 crore claimed by KSEB Ltd.*

#### **6.25 Directives**

The following directions are issued to KSEB Ltd for immediate compliance and report.

- (1) KSEB Ltd shall take immediate steps to provide metering arrangements at evacuation point of each generating station of KSEB Ltd, within three months from the date of this order and shall be reported to the Commission.
- (2) KSEB Ltd, if desires, shall submit proper petition with all necessary and sufficient details for the additional employee expenses as per the audited accounts, within three months from the date of this order.
- (3) KSEB Ltd, if desires, shall file a petition with complete details with all necessary and sufficient details for the approval of the A&G expenses

as per the audited accounts, within three months from the date of this order.

- (4) KSEB Ltd shall, within three months from the date of this order, file a proper petition with complete details on the unfunded actuarial liability as on 31.03.2019 and suitable proposal to fund the additional liability over the schemes already approved, with the approval of the Director Board of KSEB Ltd and with the approval of the State Government.
- (5) KSEB Ltd shall deposit the balance unfunded actuarial liability based on the already approved schemes to the Master Trust Account, within three months from the date of this Order.
- (6) KSEB Ltd shall, also deposit the Rs 300.00 crore provisionally allowed to meet the unfunded liability of the pension and gratuity to the Master Trust within three months from the date of this order.
- (7) The Commission hereby clarify that, the revenue gap of Rs.214.30 crore approved is as per Regulatory Accounts, and for Regulatory purpose only.

With the above, the petition is disposed off and ordered accordingly.

**Sd/-**

A.J.Wilson

Member (Law)

**Sd/-**

Preman Dinaraj

Chairman

Approved for Issue

Sd/-

Secretary