

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

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

**OP. No 22/2022**

In the matter of Petition for the Truing up of accounts of  
M/s KSEB Ltd for the financial year 2019-20

Petitioner Kerala State Electricity Board Ltd  
Vydyuthi Bhavanam, Pattom  
Thiruvananthapuram

**ORDER DATED 21.06.2022**

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 2019-20 filed by the Kerala State Electricity Board Limited on 10.01.2022, published a summary of this petition in the Malayala Manorama daily, Kerala Kaumudi daily and Indian Express daily on 10.04.2022. Thereafter, as per Regulation 32 of KSERC (Conduct of Business) Regulations, 2003, a public hearing on the petition was held on 25.04.2022 at PWD Rest House, Pathadipalam, Ernakulam, 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 21<sup>st</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 the licensee), on 07.01.2022, 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 2019-20. 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*).
- 1.2. Along with the petition, KSEB Ltd has filed a petition for condonation of delay in filing the truing up accounts for 2019-20. KSEB Ltd submitted that as per proviso to Regulation 10 (1) (b) of the KSERC (Terms and Conditions for the Determination of Tariff) Regulations, 2018 truing up petition for 2019-20 was due to be filed on 30.11.2020. However, the petition could be filed only on 07.01.2022. KSEB Ltd submitted the following reasons for the delay in filing the petition:
  - (i) Truing up petition is filed on the basis of the accounts audited and certified by the statutory auditors, received on 16.02.2020. The supplementary audit report was issued by C&AG on 19.06.2021.
  - (ii) The truing up Order for 2017-18 was issued on 25.06.2021 and KSEB Ltd filed a review on the same on 22.10.2021. Also, the Commission directed KSEB Ltd to file additional details after conducting public hearing on the MPR petition (OA No 13/2020) comprising of Truing up petition for 2018-19, midyear review for 2019-20 and revised projection for 2020-21 and 2021-22 on 29.07.2021. KSEB Ltd filed the reply on 30.07.2021 and 01.10.2021.
  - (iii) Meanwhile, draft Tariff Regulation, 2021 was notified on 06.08.2021. Numerous related works were to be attended by KSEB Ltd. The final Tariff Regulation, 2021 was notified on 16.11.2021, on which also certain urgent works, which are directly connected with O&M norms, were to be undertaken.
  - (iv) KSEB Ltd submitted that the delay in filing of truing up petition for 2019-20 was not due to any laches or negligence, but there was some procedural delay in getting comments/ remarks/additional details from various offices based on which the petition is prepared.
  - (v) Hon'ble Supreme Court of India, vide Judgment dated 23.09.2021 in MA No. 665 of 2021 in S. M. W. (C) No.3 of 2020, ordered that in computing the period of limitation for any suit, appeal, application or proceeding, the period from 15/03/2020 till 02/10/2021 shall stand excluded. Hon'ble Apex Court further ordered that all persons shall have a limitation period of 90 days from 03/10/2021.

- (vi) Hon'ble Commission, as per letter 2515/Con (F) /2021/KSERC/1105 dated 22.12.2021 was pleased to extend the time limit for submitting truing up petitions for 2019-20 and 2020-21 up to 05.01.2022. The truing up petition was filed on 07.01.2022.

KSEB Ltd, therefore, prayed before the Hon'ble Commission that the delay in filing the Truing up Petition for the year 2019-20 may kindly be condoned.

The Commission examined the delay condonation petition in detail and observed that the Judgement of the Hon'ble Apex Court was applicable for any proceedings upto a period of 02/10/2021, with 90 days limitation period. Hence the petition were to be filed on or before 31.12.2021.

The Commission, based on the request of KSEB Ltd, allowed time upto 05.01.2022 to KSEB Ltd to file petition. However, the petition for truing up for the FY 2019-20 was received at the Office of the Commission on 10.01.2022. Also, even though time upto 05.01.2022 was given to file the petition considering the request of KSEB Ltd, the condonation for delay was to be obtained by KSEB Ltd by filing a proper petition Hence there was a delay of 9 days in filing the petition.

The Commission, considering all these reasons for delay as above stated by the petitioner, vide the order dated 08.02.2022, ordered to condone the delay of '9' days in filing the truing up petition for the year 2019-20, and admitted the petition as OP No. 22/2022.

### **Statutory provisions**

- 1.3 Section 61 of the Electricity Act 2003 (EA-2003) confers power on the Electricity Regulatory Commissions to specify by regulations, the terms and conditions for the determination of tariff in accordance with the principles stipulated therein. Section 62 of the EA-2003 empowers the Commission to determine tariff for generation of electricity, transmission of electricity, wheeling of electricity and for retail sale of electricity. Section 64 of the Act prescribes the procedure for determination of tariff and issuance of tariff order. The Commission has, in exercise of its powers under Section 61 of the Act, and after following the due process issued vide notification No.2076/F&T/2017/KSERC dated 26-10-2018, the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018, which specify the detailed principles and procedures for determination of tariff.
- 1.4 Clause (f) of Section 61 of the Electricity Act, 2003, stipulates that MYT Principles shall be introduced while issuing the tariff regulations and the Commission has incorporated MYT Principles in the Tariff Regulations, 2014. Clause (h) of para 5.11 of the Tariff Policy, 2016, also stipulates the guidelines for introduction of MYT Tariff. As per Regulation 8, for determination of Tariff, multi year tariff frame work shall be applicable. Relevant provisions are extracted below:

**8. Multi-year tariff (MYT) framework.** – (1) *The multi-year tariff framework under these Regulations shall be applicable for determination of tariff for a generating business/company, transmission business/licensee, distribution business/licensee and the State Load Despatch Centre.*

(2) *The multi-year tariff framework for the generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre shall, for calculation of Aggregate Revenue Requirement and expected revenue from tariff and charges, be based on the following elements:*

(a) *Forecast of Aggregate Revenue Requirement (ARR) for the Control Period along with the expected revenue from existing and proposed tariffs and charges separately for each year of the Control Period;*

(b) *Truing up of expenses and revenue of the respective year based on audited accounts of the business/licensee vis-à-vis the Commission approved forecast and variation caused by controllable factors and uncontrollable factors, as specified in Regulation 15 of these Regulations;*

(c) *The mechanism for pass-through of approved gains or losses on account of uncontrollable factors as specified by the Commission in Regulation 13 of these Regulations;*

(d) *The mechanism for sharing of approved gains arising out of controllable factors as specified by the Commission in Regulation 14 of these Regulations;*

(e) *Approval of the Aggregate Revenue Requirement of the business/licensee by the Commission for the Control Period along with the determination of tariff for each year of the Control Period;*

(f) *Mid-term Performance Review (MPR) in the year 2019-20 which shall comprise the truing up of the year 2018-19 and annual performance review upto September 2019 on account of uncontrollable parameters and for the variations in performance on account of controllable parameters for the Control Period vis-à-vis the ARR approved for the Control Period and the revised forecast for the years 2020-21 and 2021-22 on account of unanticipated variations if any on controllable and uncontrollable parameters;*

- 1.5 Regulation 9 of the Tariff Regulations 2018, provides that the control period shall be four years starting from 2018-19 to 2021-22. The relevant provisions are given below:

**9. Control Period.** – (1) *The Control Period is the period for which the principle and norms specified under these Regulations shall be applicable.*

(2) *The Control Period shall be a block of four financial years starting from the First day of April, 2018 and ending on the Thirty First day of March 2022.*

*Provided that the Commission may if considered necessary, through an Order extend the validity of these Regulations beyond the Thirty First day of March 2022 to such period or periods as deemed appropriate*

- 1.6 As per the Second Transfer Scheme notified by the Government under Section 131 of the Electricity Act, 2003, the activities of the KSEB Ltd are being carried out through the three Strategic Business Units (SBUs) for each of the functions of generation, transmission and distribution. Accordingly, in compliance of with the provisions in the Tariff Regulations 2018 and the *MYT Order* dated 08-07-2019 issued by the Commission for the control period 2018-19 to 2021-22, KSEB Ltd had filed the function wise details of the ARR and ERC for True up for the year 2019-20.
- 1.7 The summary of the consolidated ARR, ERC and Revenue gap claimed by KSEB Ltd for True up for the year 2019-20 is given below.

Table-1.1  
Summary of the ARR, ERC and Revenue gap claimed for True up

Sl.No	Particulars	As per MYT order	T.U Petition	Difference
		(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
1	Fuel charges for generation	0.00	5.71	-5.71
2	Purchase of Power & Interstate transmission	8616.94	8616.54	0.40
3	Interest & Finance charges	1865.14	2111.23	-246.09
4	Depreciation	408.32	407.90	0.42
5	O&M Expenses	2991.45	2961.47	29.98
6	Pay revision provision	0.00	250.00	-250.00
7	Other expenses	0.00	50.57	-50.57
8	Retaining gains out of T&D loss reduction beyond target	0.00	19.44	-19.44
9	Incentive on transmission availability	0.00	9.79	-9.79
10	Additional contribution to Master Trust	200.00	200.00	0.00
11	Return on Equity	489.87	489.87	0.00
12	Amortization of past gap	1000.00	0.00	1000.00
13	Amortization and interest	0.00	1.22	-1.22
14	<b>ARR (1 to 13)</b>	<b>15571.72</b>	<b>15123.74</b>	<b>447.98</b>
15	Revenue from tariff	14152.38	14018.91	133.47
16	Non-tariff income	618.78	551.73	67.05
17	<b>ERC</b>	<b>14771.16</b>	<b>14570.64</b>	<b>200.52</b>
18	<b>Revenue (gap)/Surplus</b>	<b>-800.56</b>	<b>-553.10</b>	<b>-247.46</b>

- 1.8 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 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 10.04.2022
  - Kerala Kaumudi dated 10.04.2022, and
  - Indian Express daily dated 10.04.2022.
- 1.9 The Commission conducted Public hearing on the petition on 25.04.2022 at Ernakulam. The list of stakeholders participated in the hearing is given as

Annexure-1. The summary of the deliberations during the hearing is given below.

- (1) Sri. Sasankan Nair, Chief Engineer, Sri. M. P Rajan, Deputy Chief Engineer and Sri. Girish Kumar V S, Finance Officer and other officials of Tariff & Regulatory Affairs Cell (TRAC) of KSEB Ltd, appeared before the Commission on behalf of the petitioner KSEB Ltd. Summary of the presentation of KSEB Ltd is listed below.
  - (a) Energy sales. The total energy sale for the year 2019-20 as per the petition is 22660.93 MU. Additionally, the embedded open access consumers availed 386.52 MU through open access.
  - (b) The net energy input (excluding substation auxiliary consumption of 19.60 MU) for the year 2019-20 is 26226.08 MU.
  - (c) The Transmission and Distribution loss reported by KSEB Ltd for the year 2019-20 is 12.08% as against the approved target level of T&D was 12.42%.
  - (d) The fuel cost for own generation of power is Rs.5.71 Cr.
  - (e) The cost of power purchase including the inter-state transmission charges incurred by KSEB Ltd for 2019-20 amounts to Rs.8616.54 Cr.
  - (f) The Interest and finance charges is Rs.2111.23 Cr which includes interest on normative loan, security deposit interest, Master Trust Bond interest, working capital/ overdraft interest, PF interest etc.
  - (g) The total depreciation claimed for the year 2019-20 is Rs.407.90 crore which includes the depreciation of Rs.125.93 Cr for SBU G, Rs.162.70 Cr for SBU-T and Rs.119.27 Cr for SBU D.
  - (h) O&M cost is claimed as per the norms specified in the Tariff Regulations, 2018. The O&M cost claimed for True up as per the petition is Rs.3211.47 Cr (including Rs.250.00 Cr as Pay revision provision) as against the actual O&M cost as per accounts amounts to Rs.3893.94 Cr.
  - (i) Total return on equity claimed is Rs.489.87 crore.
  - (j) The total ARR for SBU-G, SBU-T & SBU D is Rs.15123.74 crore.
  - (k) Revenue from Tariff claimed is Rs 14018.91 crore and the non-tariff claimed is Rs 551.53 crore.
- (2) During the hearing, the Commission sought clarification on the difference between the Non-tariff income as per the accounts and the same claimed for True-up. The Commission directed the petitioner to

submit a detailed note on the same with supporting documents.

The Commission also sought clarification on the other expenses and exceptional items claimed in the Truing Up petition.

The Commission also directed to submit a detailed note on the other interest charges.

- (3) Sri. Eloor Gopinath representing domestic consumers submitted that, the intention of the KSEB Ltd is to eliminate the cross subsidy burden and to pass the cost of inefficiency to the domestic consumers. KSEB Ltd has been not taking initiatives for the collection of the arrears. KSEB Ltd also no encouraging the installation of the roof top solar installation. He further submitted that employee cost of KSEB Ltd is very high and it cannot be passed on to the consumers through tariff.
- (4) Sri. A K George, a domestic consumer submitted that the salary of the unqualified employees of KSEB Ltd is very high. The per MW employee of KSEB Ltd also very high compared to other generating companies.
- (5) Shri. Sambasivan submitted that, the Commission shall not revise the tariff. He also pointed out that the e
- (6) Sri. Unnikrishnan Nair, a domestic consumer and retired employee of BPCL submitted the difficulties faced by him for the installation of additional capacity roof top solar plants at his house. He requested the Commission to issue necessary directions to KSEB Ltd to promote installation of solar plants by the individual consumers. He also pointed that, in addition to the roof solar PV plants, small hydro plants also has to be promoted. He further suggested that, in the event the Commission go ahead with the tariff revision, the tariff may be increased to those who consume electricity more.
- (7) Sri. A.R. Satheesh, President, HT & EHT Consumers' Association submitted that, though the petitions were filed before the Commission in the months of January and February 2022, these petitions were uploaded at the website only during the first week of April 2022. Hence the Association could not get sufficient time. He also requested to allow two weeks time from the date of hearing to submit its written comments.

The Commission clarified that, all the petitions filed before the Commission may be uploaded at its website as soon as the Commission admit the petition as per the KSERC (Conduct of Business) Regulations 2003. The Commission also allowed two weeks time, i.e., up to 09.05.2022 to file the written comments.

- (8) Shri. Nair Nandakumar P and Shri. Rajesh Kuruvila were presented the detailed comments on the petition on the behalf of HT-EHT Consumers Association. The summary of the presentation of the Association is given below.

- (a) KSEB Ltd has not submitted the station wise auxiliary consumption of its hydel plants. The auxiliary consumption may be allowed only as per norms after verifying the actuals.
  - (b) The Commission has not allowed to schedule generation from BDPP and KDPP due to its high variable cost. KSEB Ltd has not submitted the sufficient reasons scheduling power from KDPP during the months of April and May-2019. Hence the Commission may dis-allow the fuel cost of BDPP and KDPP or only allowed based on additional data justification.
  - (c) Even though 2019-20 is a good monsoon year, the hydel generation is much less than the approval. Commission may seek reasons from KSEB Ltd for the same.
  - (d) O&M cost may be allowed only as per norms. Since the pay revision was not implemented in the year 2019-20, the same shall not be allowed in the Truing Up of 2019-20.
  - (e) KSEB Ltd has claimed interest charges for the disputed normative loan amounts pending before the Hon'ble APTEL. Interest on the disputed amounts may be dis-allowed.
  - (f) Interest rate adopted for computing interest on working capital is on the higher side and not as per norms. The same shall be allowed only as per norms.
  - (g) RoE may be allowed only as per the judgment of the Hon'ble APTEL in the judgment dated 18.11.2015 in Appeal Petition No. 247 of 2014.
  - (h) KSEB Ltd projecting transmission availability levels of 99% and claiming incentive for the availability above 98% as per norms. But there are instances of interruptions in the transmission system lasting for more than 24 hours in the year 2019-20.
  - (i) The power purchase rates of unapproved DBFOO contracts Jindal- Bid 2 Jhabua Bid 2 and JTPL need to be capped at the rate of BALCO, L1 bidder in Bid-2.
  - (j) While computing the carrying cost all the revenue gap dis-allowed by the Commission and that pending before the Hon'ble APTEL shall be dis-allowed.
- (9) The Commission during the hearing clarified that, Truing up of accounts is based on cash basis instead of accrual basis. Hence the provisions created in anticipation of future cash flows shall not be considered in the process of Truing Up. Since the pay revision which is due from July/August 2018 was implemented only on March-2021, the provisions



created for meeting the pay revision during the year 2019-20 and 2020-21 shall not be considered in the Truing Up of these accounts. However, the Commission may allow the pay revision as per the provisions of the Tariff Regulations and also based on the judgments of the Hon'ble APTEL and relevant rules and Regulations, after prudence check, while Truing Up the accounts of the respective years in which the actual cash flow incurred and amount of arrears was paid/ credited to the employees account.

- (10) Based on the deliberations during the hearing held on 25.04.2022 in the matter of Truing Up of accounts for the years 2019-20, the Commission directed KSEB Ltd to submit the following details by return.
- (i) Station wise details of auxiliary consumption of each hydel stations during the year 2019-20, and the specific reasons for the variations, if any, with respect to the norms for auxiliary consumption specified in the Tariff Regulations, 2018.
  - (ii) Specific reasons for scheduling power from KDPP during the months of April and May 2019, and the actual per unit cost of generation from these stations during that period. Also provide the IEX rates during the period of schedule of power from these stations.
  - (iii) To provide the month wise details of the hydel generation from each stations and the specific reasons for the reduction in month wise hydel generation though 2019-20 is a normal monsoon year.
  - (iv) The basis for declaring the transmission availability at 99% with documentary evidence.
  - (v) Detailed explanation on the difference between the Non-tariff Income as per the accounts (Notes 27 and 28 of the audited accounts) and the Non-tariff income claimed for True up for the year 2019-20.
  - (vi) Detailed explanation on each item claimed as 'Other expenses' in the True up petitions.

1.10 KSEB Ltd submitted the clarifications vide its letter dated 03.06.2022.

1.11 The Commission after examining the petition and the clarifications furnished thereon in detail and the objections of the stakeholders, has arrived at the truing up of accounts of the KSEB Ltd for the year 2019-20 as detailed in the ensuing chapters.

## **Annexure-1**

### **List of Stake holders attended the public hearing held on 25.04.2022**

1. Shri. Eloor Gopinath, RACCO
2. Shri. A. K. George, Consumer
3. Shri. M Sambasivan, REPCOS
4. Shri. Unnikrishnan Nair, Residents Association
5. Shri. Cherian M S, Farmer
6. Shri. A R Satheesh, President, HT-EHT Association
7. Shri. Nair Nandakumar P, Vice President, HT EHT Association
8. Shri. Viswanathan K, Vice President, HT EHT Association
9. Shri. Rajesh Kuruvila, Joint Secretary, HT EHT Association
10. Shri. Prabhakaran K V, HT EHT Association
11. Shri. Mahesh Kumar P. R, Mathrubhumi, Kozhikode

## 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, revesting 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 2019-20, as on 31.03.2020, KSEB Ltd has 38 hydel stations with a total capacity of 2058.76MW, 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 the KSEB Ltd own power stations as on 31.03.2019 is 2235.14MW. The details are given below.

Table 2.1  
Installed capacity of Generating Stations

Sl. No	Name of the Station	Installed Capacity (MW)
<b>I.</b>	<b><u>Hydel generating stations</u></b>	
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	Vellathoval	3.60
37	Perumthenaruvi	6.00
38	Kakkayam SHP	3.00
	<b>Total Hydel</b>	<b>2058.76</b>
II	<b>KSEB Wind</b>	
1	Kanjikode	2.03
	<b>Total Wind</b>	<b>2.03</b>
III	<b>KSEB Thermal plants</b>	
1	Brahmapuram Diesel Power Plant	63.96
2	Kozhikode Diesel Power Plant	96.00
	<b>Total Thermal</b>	<b>159.96</b>
IV	KSEB solar plants	<b>16.42</b>
	<b>Total</b>	<b>2237.16</b>

2.3 The summary of the ARR&ERC of SBU-G for the year 2019-20 claimed by KSEB Ltd is given below.

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

No	Particulars	Approval	Actuals	TU	Difference over approval
1	Cost of Generation of Power		5.71	5.71	-5.71
2	Interest & Finance Charges	136.24	95.57	115.51	20.73
3	Depreciation	141.38	186.04	125.93	15.45
4	O&M Expenses ( <i>Excl terminal benefits</i> )	135.04	205.81	132.16	2.88
5	RoE (14% of Rs 1454.53 Cr)	116.38	132.69	116.38	0.00
6	Other Expenses & PP expenses		0.02	0.02	-0.02
7	Exceptional Items - Flood		3.75	3.75	-3.75
8	Interest on additional bond to Master Trust	10.26		10.26	0.00
9	Provision for pay revision			15.94	-15.94
10	ARR	539.30	629.59	525.66	13.64
11	Less Non-Tariff Income	33.38	16.30	10.86	22.52
12	<b>Net ARR (Transferred to SBU-D)</b>	<b>505.92</b>	<b>613.29</b>	<b>514.80</b>	<b>-8.88</b>

2.4 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.

### Expenses of SBU-G

#### Generation from internal generating stations

2.5 KSEB Ltd in their submission has submitted that the total gross generation from internal generating stations for the year 2019-20 was 5781.23MU. The total auxiliary consumption reported is 38.81 MU and the net generation is 5742.42 MU. The source wise details of the internal generation is given below:

Table 2.3  
Generation from internal generating stations for the year 2019-20

Source	MYT Order dated 08.07.2019			Truing up petition as per accounts		
	Gross generation	Aux. consumption	Net generation	Gross generation	Aux. consumption	Net generation
	(MU)	(MU)	(MU)	(MU)	(MU)	(MU)
Hydro	6998.42	72.36	6926.06	5741.83	37.16	5704.67
BDPP	0.00	0.00	0.00	0.1	0.62	-0.52
KDPP	0.00	0.00	0.00	11.93	1.03	10.90
Wind	2.04	0.00	2.04	1.42	0	1.42
Solar	42.61	0.45	42.16	25.95	0	25.95
<b>Total</b>	<b>7043.07</b>	<b>72.81</b>	<b>6970.26</b>	<b>5781.23</b>	<b>38.81</b>	<b>5742.42</b>

## Hydro generating stations

2.6 The total generation from all hydro generating stations owned by KSEB Ltd for the year 2019-20 was 5741.83MU as against the approved quantity of 6998.42 MU. The actual generation was less by 1256.59 MU (17.90%) over the approved level. KSEB Ltd submitted that, the monsoon in the months of June and July 2019 was very week. The actual inflow during the year 2019-20 was 5834.51MU against the anticipated inflow of 6498.72MU. Further, KSEB Ltd has reserved higher storage for the summer months of 2019-20. The reservoir storage as on 01.04.2020 was 2082.10MU as against 1797.87MU as on 01.04.2019. Further, during the flood during August 2018 shattered the northern part of the State of Kerala. The operation of the three generators with 50MW capacity each in Kakkayam power plant was interrupted due to land slide and also damages occurred in seven small hydro plants and floating solar plant at Barapole.

2.7 The station wise details of the hydro generation during the year 2019-20 is given below.

Table 2.4  
Station wise hydro generation as per the petition for 2019-20

No	Hydro Electric Stations	Generation (MU)	No	Hydro Electric Stations	Generation (MU)
1	Idamalayar	260.54	21	Chembukadavu- II	3.99
2	Idukki	1829.85	22	Urumi - I	7.11
3	Kakkad	176.23	23	Urumi - II	4.24
4	Kallada	33.43	24	Poozhithode	6.70
5	Kuttiyadi+KES+KAES	593.08	25	Ranni-Perinadu	7.35
6	KuttiyadiTail Race	6.06	26	Peechi	2.42
7	Lower Meenmutty	4.87	27	Vilangadu	14.71
8	Lower Periyar	427.14	28	Chimmony	6.43
9	Maduppatty	3.44	29	Addyanpara	2.24
10	Malampuzha	4.14	30	Barapole	20.95
11	Malankara	30.32	31	Perunthenaruvi	12.28
12	Neriamangalam+NES	309.90	32	Kakkayam SHEP	8.12
13	Pallivasal	142.12	33	Poringal screw generation	0.07
14	Panniyar	139.48		<b>KSEB Hydro (TOTAL)</b>	<b>5741.83</b>
15	Peppara	5.75		Aux Consumption (MU)	37.16
16	Poringalkuthu +PLBE	209.47		Auxiliary consumption %	0.01
17	Sabarigiri	1099.10		<b>Net Generation in MU</b>	<b>5704.67</b>
18	Sengualm	150.82			
19	Sholayar	216.30			
20	Chembukadvu - I	3.23			

2.8 KSEB Ltd has also submitted the month wise hydro generation and auxiliary consumption. The details are given below.

Table-2.5  
Hydel Generation for FY 2019-20 (MU)

Month	Generation	Aux Consumption	Net hydro Generation	Month	Generation	Aux Consumption	Net hydro Generation
Apr-19	625.93	3.07	622.86	Oct-19	548.9	3.47	545.43
May-19	694.32	3.17	691.15	Nov-19	474.12	2.9	471.22
Jun-19	374.19	2.28	371.91	Dec-19	391.99	2.59	389.4
Jul-19	322.44	2.21	320.23	Jan-20	440.07	2.68	437.39
Aug-19	453.99	2.7	451.29	Feb-20	398.82	6.45	392.37
Sep-19	556.43	3.19	553.24	Mar-20	460.63	2.45	458.18
				Total	5741.83	37.16	5704.67

### Comments of the Stakeholders

2.9 High Tension and Extra High Tension (HT-EHT) Association submitted that the auxiliary consumption shall be allowed as per the norms specified in the Tariff Regulations, 2018.

### Provisions in the Regulations

2.10 Regulation 41 of the Tariff Regulations, 2018 specifies the norms of operation for hydro electric generating stations. Regulation 41(2) specifies the normative auxiliary consumption of the existing and new hydro electric generations 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 Commission carefully examined the details of the hydel generating stations of KSEB Ltd for the year 2019-20. The Commission also took note of the fact that, though 2019-20 is below normal monsoon year, the flood occurred in August 2019 severely damaged the hydel generating stations in the northern part of the State including Kuttiadi Generating Stations (3x 50= 150MW).
- 2.13 The Commission also noted that the normative auxiliary consumption provided under Regulation 41(2) of the Tariff Regulations, 2018, is much higher than the actual auxiliary consumption. As per the MYT Order dated 08.07.2020, the Commission has allowed the auxiliary consumption of 72.36 MU out of 6998.42 MU of gross hydel generation. i.e, the auxiliary consumption allowed as per the Regulation is 1.03% of the gross generation. However, the actual auxiliary consumption reported for 5741.83 MU of hydel generation is 37.16MU, which is only 0.65% of the hydel generation.

KSEB Ltd during the hearing on the subject matter clarified that, the auxiliary consumption shown in the petition is relates only to the equipments at the generating point 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 the each generating station. Hence, this part of the auxiliary consumption is presently being accounted for distribution loss of KSEB Ltd and while 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 it shall be reported before the Commission. The Commission cannot consider the under statement and over statement of auxiliary consumption of the generating station and distribution system respectively, compared to the norm. Also these norms are an 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 control period from 2018-19 to 2021-22. As per the system requirement, KSEB Ltd was forced to schedule a small quantum of 12.03 MU (11.93 MU from KDPP and 0.10 MU from BDPP) in the year 2019-20.
- 2.17 The month wise details of generation from BDPP and KDPP is given below.

**Table-2.7**  
**Generation from BDPP and KDPP (MU)**

Month	BDPP	KDPP		Month	BDPP	KDPP
Apr-19	0.00	5.47		Nov-19	0.00	0.00
May-19	0.00	6.50		Dec-19	0.00	0.00
Jun-19	0.00	0.00		Jan-20	0.00	0.00
Jul-19	0.10	0.00		Feb-20	0.00	0.00
Aug-19	<b>0.00</b>	<b>0.00</b>		Mar-20	<b>0.00</b>	<b>0.00</b>
Sep-19	0.00	0.00				
Oct-19	0.00	0.00		<b>Total</b>	<b>0.10</b>	<b>11.93</b>

2.18 KSEB Ltd submitted the following reasons for the schedule of 11.93 MU from KDPP in the months of April-2019 and May-2019.

- (i) Northern part of the State was experiencing severe low voltage in summer. The situation was particularly worse during the months of March and April. As such low voltage operation is a real threat and highly detrimental to the power system operation as well as the reliability of the grid. The Southern Regional Load Despatch Centre (SRLDC) had issued several warnings requiring Kerala SLDC to adopt all possible measures to improve the 400kV side voltage at Kozhikode.
- (ii) The months of March, April and May 2019 witness excessive high demand in the State. The average daily consumption crosses 80.51 MU most of the days. The increase in demand also due to the Lok Sabha elections scheduled in April 2019.

2.19 The details of the generation and its cost of generation is given below.

Table 2.8

Cost of generation from KDPP in the months of April & May 2019

Month	Generation	Heavy Fuel Oil (Furnace Oil, LSHS, Etc.)	H.S.D. Oil	Lube. Oil	Lubricants & Consumable etc	Total (Rs)	Per Unit Cost (Rs/Unit)
	(MU)	(Rs. Lakh)	(Rs. Lakh)	(Rs. Lakh)	(Rs. Lakh)	(Rs. Lakh)	(Rs/ kWh)
Apr-19	5.47	199.11	4.83	6.55	0.22	210.71	<b>3.85</b>
May-19	6.50	261.57	2.94	7.13	0.18	271.82	<b>4.18</b>
Total	11.97	460.68	7.77	13.67	0.40	482.53	<b>4.03</b>

2.20 KSEB Ltd further submitted that, Rs 5.71 crore was incurred towards the cost of fuel and lubricants for all generating stations including hydel stations owned by KSEB Ltd. Its details are given below.

Table 2.9  
Fuel cost of generation claimed by KSEB Ltd

Particulars	Amount (Rs.Cr)
Oil	4.65
HSD	0.21
Lubrication oil	0.15
Consumable stores	0.70
Total	5.71

### Objection of the Stakeholders

2.21 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. KSEB Ltd has not submitted detailed explanation on the circumstances necessitated to schedule power from these stations. The Association requested before the Commission to not to approve the power from these stations.

### Analysis and decision of the Commission

2.22 The Commission examined the details of generation from the diesel stations of KSEB Ltd during the year 2019-20. As per the details submitted as above the generation from these stations were not significant and are limited to few months of the year 2019-20 during contingencies. The generation from diesel station is mainly in the months of April-2019 and May-2019. Total generation from diesel stations is 12.03 MU, out of it 11.93 MU from KDPP during the months of April-2019 and May-2019. The average cost of generation for 11.93 MU generated from KDPP is Rs 4.03/unit as detailed in the Table 2.8 above.

2.23 ***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.5.71 crore for the year as cost of generation for the year 2019-20 for the purpose of Truing up.***

### O&M expenses

2.24 As per the Commission's Regulations, O&M expenses comprises of Employee Expenses, R&M Expenses and A&G Expenses. The O&M expenses as per

the audited accounts and the same claimed by the KSEB Ltd in the truing up petitions is given below.

Table 2.10  
O&M expenses of SBU-G claimed by KSEB Ltd

No	Particulars	MYT dated Order 08.07.2019	Actual as per accounts	Truing up petition
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Employee Expenses	135.04	154.41	132.16
2	A&G Expenses		25.92	
3	R&M Expenses		25.48	
4	<b>Sub total</b>		<b>205.81</b>	

2.25 KSEB Ltd submitted that, the actual O&M expenses of SBU-G as per the audited accounts was Rs 205.81 crore as against the approved O&M expenses as per the MYT Order dated 08.07.2019 amounts to Rs 135.04 crore. However, for the purpose of truing-up KSEB Ltd has claimed the O&M expenses of Rs 132.16 crore strictly as per the norms only. KSEB Ltd had also submitted that, as per the Tariff Regulations, 2018, the O&M expenses for existing generating stations of KSEB Ltd is Rs 129.77 crore.

2.26 In addition to the above, KSEB Ltd had claimed O&M expenses of the following new generating stations, which was not commissioned while finalizing the Regulations. The details of the O&M expenses of New Generating Stations claimed by KSEB Ltd is given below.

Table 2.11  
O&M expense of New Generating stations Commissioned

Project	CoD	Capacity- MW	Energy- MU	Capital cost	Addl. O&M Expenses (Cr)
				(RS Cr)	
Perunthenaruvi	23.10.2017	3.6	12.17		1.15
Kakkayam	16.07.2018	3	10.39		0.96
<b>Solar Projects</b>					
Solar Project (Annexure G1)	FY 2018-19	3.315			0.27
Solar Project commissioned FY 2019-20 (Annexure G2)	24.01.2020	0.65			0.009

<b>Total</b>		<b>10.565</b>			<b>2.39</b>
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KSEB Ltd further submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved 5.27 Cr as O&M expenses for new and ongoing hydro and solar projects for 2019-20. Though Perunthenaruvi SHEP was commissioned on 24.10.2017, but the same is capitalised only on 2018-19, hence the same is not considered for finalising the operation and maintenance cost of existing station of KSEB Ltd under SBUG.

- 2.27 Accordingly, the total O&M expenses claimed by KSEB Ltd for the year 2019-20 is given below.

Table-2.12

O&M expenses of SBU-G claimed by KSEB Ltd for the year 2019-20

Particulars	Amount (RS.Cr)
O&M expenses for existing Stations	129.77
O&M expenses for new stations commissioned after finalising the Tariff Regulations, 2018	2.39
Total O&M expense claimed	132.16

### Objection of the Stakeholders

- 2.28 The HT-EHT Association submitted that, the O&M expenses may be approved only as per the norms specified in the Tariff Regulations, 2018.

### Analysis and Decision of the Commission

- 2.29 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.
- 2.30 As per the Commission's Regulations, O&M expenses 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).
- 2.31 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.

- 2.32 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.**

- 2.33 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.”*

2.34 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:

	SBU-G	SBU-T (Rs. crore)	SBU-D (Rs. crore)	KSEB Ltd (Rs. crore)
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	(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:

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.**

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:

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:

Year	2015-16	2016-17
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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:

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:

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.

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."

2.35 The Annexure-VII of the Tariff Regulations, 2018 specifies the O&M expenses of SBU-G of KSEB Ltd, for the Control Period 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	123.77	129.77	136.05	142.63
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- 2.36 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.”*

- 2.37 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 for the Control Period as per the audited accounts in detail in the subsequent paragraphs.

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

#### **2.38 O&M for the Control Period for Existing Generating Stations**

- (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' for the year 2019-20, is Rs 129.77 crore.
- (2) The O&M expenses, as specified in the Regulation is based on the approved True up O&M expenses 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 expenses 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 Truing 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 adopted for arriving the norms specified in the Tariff Regulations, 2018.

Table 2.13  
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 2.14  
Component wise O&M expenses of SBU-G of existing stations eligible as per Tariff Regulations

Particulars	Amount (Rs.Cr)	Ratio of the total O&M
Employee expense	99.96	77.03%
R&M expenses	24.20	18.65%
A&G expenses	5.61	4.32%
Total	129.77	100.00%

### 2.39 O&M expenses of New Generating Stations added after finalizing the Tariff Regulations 2018 (added during the control period)

- (1) As detailed under paragraph 2.26 above, KSEB Ltd had claimed that, they had commissioned 10.565 MW new generating stations during the control period 2018-22 upto 31.03.2020. Out of this 6.60 MW is SHP and balance 3.965 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 as detailed in paragraph 2.26 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 : 2.15

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 2019-20 is given below.

Table : 2.16

O&M expenses approved for New Generating Stations commissioned during the year 2019-20

Project	CoD	Capacity- MW	O&M Norms	Addl. O&M expenses (Cr)
			(Rs. Lakh/ MW)	
Small Hydro Projects				
Perunthenaruvi	23.10.2017	3.60	31.88	1.148

Kakkayam	16.07.2018	3.00	31.88	0.956
<b>Solar Projects</b>				
Solar Projects commissioned in 2018-19	FY 2018-19	3.315	8.07	0.268
Solar Project commissioned FY 2019-20	24.01.2020	0.65	8.07	0.010
<b>Total</b>		<b>10.565</b>		<b>2.381</b>

As above, the additional O&M expenses that can be allowed for new Generating stations is Rs 2.381 crore for the year 2019-20.

- (4) The additional O&M expenses also apportioned among the various O&M components in the ratio discussed in the paragraph 2.38 above. The details are given below.

Table 2.17

O&M expenses eligible for New Generating Stations for the year 2019-20

Particulars	Amount (Rs.Cr)	Ratio of the total O&M
Employee expense	1.83	77.03%
R&M expenses	0.44	18.65%
A&G expenses	0.10	4.32%
<b>Total</b>	<b>2.381</b>	<b>100.00%</b>

- (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 2.18

Total O&M expenses eligible for SBU-G as per norms for the year 2019-20

Particulars	Existing stations	New Stations	Total
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Employee expense	99.96	1.83	101.80
R&M expenses	24.20	0.44	24.65
A&G expenses	5.61	0.10	5.71
<b>Total</b>	<b>129.77</b>	<b>2.38</b>	<b>132.16</b>

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

- 2.40 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.

2.41 The details of the employee expenses claimed for SBU-G for the year 2019-20, as per the audited accounts is given below.

Table 2.19

Employee expenses of SBU-G of KSEB Ltd as per audited accounts for the year 2019-20

S. No.	Particulars	Amount
		(Rs.Cr)
1	Basic Salary	140.49
2	Dearness Allowance (DA)	48.09
3	House Rent Allowance	1.64
4	Conveyance Allowance	0.00
5	Leave Travel Allowance	0.03
6	Earned Leave Encashment	10.97
7	Other Allowances	4.05
8	Medical Reimbursement	0.65
9	Overtime Payment	0.31
10	Bonus/Ex-Gratia Payments	0.46
11	Interim Relief / Wage Revision	0.00
12	Staff welfare expenses	0.13
13	VRS Expenses/Retrenchment Compensation	0.00
14	Commission to Directors	0.00
15	Pay revision provision	15.94
16	Payment under Workmen's Compensation Act	0.00
17	<b>Net Employee expenses</b>	<b>222.75</b>
18	Terminal Benefits	0.00
18.1	Provident Fund Contribution	0.00
18.2	Provision for PF Fund	0.00
18.3	Pension Payments	0.00
18.4	Gratuity Payment	0.00
18.5	Annual Contribution for Terminal Liabilities based on actuarial valuation	0.00
	Contribution of KSEB Ltd towards National Pension Scheme	0.98
19	Others	0.02
20	<b>Gross Employee Expenses</b>	<b>223.75</b>
21	Less: Expenses Capitalised	69.34
22	<b>Net Employee Expenses</b>	<b>154.41</b>

2.42 As detailed above, the employee expenses of SBU-G as per the audited accounts is Rs 154.41 crore as against the employee expenses of Rs 101.80



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 33000 plus employees as on 31.03.2019, whereas the employee expenses as per norms reflects only the salary and allowances of 27175 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. The Commission also noted that the Additional Chief Secretary, Finance, vide its circular 04/2021 dated 18.01.2021 has instructed to the Head of the Departments of all PSU's owned by the State Government that "the revision of pay and allowance to its employees" shall be implemented only with the prior approval of the Cabinet. It is also stated in the circular that the Government shall take action against the Head of the Department those who violate the government directions.
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.

2.43 Since KSEB Ltd has not submitted the necessary and sufficient details to appraise the employee expenses as per the audited accounts, the Commission cannot apply prudence on the employee expenses provided in the audited accounts. Hence the Commission is constrained to limit the employee expenses of KSEB Ltd provisionally to the level as per the norms specified in the Tariff Regulations 2018.

Since the petition OP 63/2021, filed by KSEB Ltd is pending for final orders before the Commission, this amount of Rs.101.80 crore is provisional.

2.44 Accordingly, the Commission hereby approve, provisionally, the employee expenses of SBU-G of KSEB Ltd for the year 2019-20 as follows.

Table 2.20

Employee expenses of SBU-G approved for the year 2019-20

Particulars	As per audited accounts	Eligible as per norms	KSERC Approval in True up as per norms
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Employee expenses	154.41	101.80	101.80

***As above, the Commission hereby provisionally approves the employee expenses of SBU-G of KSEB Ltd at Rs 101.80 crore for the year 2019-20 as per the Tariff Regulations, 2018.***

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

2.45 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 2019-20 is given below.

Table 2.21

A&G expenses as per the audited accounts for the year 2019-20

S. No.	Particulars	Amount
		(Rs.Cr)
1	Rent Rates & Taxes	1.00
2	Insurance	-0.31
3	Telephone & Postage, etc.	-0.24
4	Legal charges	0.43
5	Audit Fees	0.14
6	Consultancy charges	0.02
7	Other Professional charges	0.61
8	Conveyance	4.22
9	Vehicle Running Expenses Truck / Delivery Van	0.04
10	Vehicle Hiring Expenses Truck / Delivery Van	0.00
11	Electricity charges	-2.57
12	Water charges	0.01
13	Entertainment	0.10
14	Fees & subscription	0.41
15	Printing & Stationery	0.29

16	Advertisements, exhibition publicity	0.07
17	Contribution/Donations	0.14
18	Training expenses	1.11
19	Miscellaneous Expenses	0.27
20	DSM activities	0.00
21	SRPC expenses	0.18
22	Sports and related activities	0.10
23	Freight	1.15
24	Purchase Related Advertisement Expenses	0.73
25	Bank Charges	0.00
26	Office Expenses	15.94
27	License Fee and other related fee	1.52
28	Cost of services procured	0.00
29	Outsourcing of metering and billing system	0.00
30	V-sat, Internet and related charges	0.00
31	Security arrangements	0.00
32	Books & periodicals	0.02
33	Computer Stationery	0.00
34	Others	0.69
	Others- Other Purchase related Expenses	0.28
	Others - Expenditure in connection with distribution of LED	0.00
35	<b>Gross A&amp;G Expenses</b>	<b>26.34</b>
36	<b>Ele. Duty u/s 3(l), KED Act</b>	<b>0.00</b>
37	Less: Expenses Capitalised	0.42
38	<b>Net A&amp;G Expenses</b>	<b>25.92</b>

2.46 As stated in Table above, the A&G expenses as per the audited accounts is Rs.25.92 crore in the year 2019-20, as against the A&G expenses mentioned as per norms amounts to Rs 5.71 crore. The A&G expense as per the accounts is '4.54 times' higher than the amount allowable as per norms. KSEB Ltd has not submitted proper justification for such excessive increase 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.

2.47 Considering these aspects in detail, the provisionally approved A&G expenses of SBU-G for the year 2019-20 as per the norms specified in the Tariff Regulations, 2018 are given below.

Table 2.22  
A&G expenses of SBU-G approved for the year 2019-20

Particulars	As per audited accounts	Eligible as per norms	KSERC Approval in True up as per norms
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
A&G expenses	25.92	5.71	5.71

***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 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 whatever 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 2019-20 at Rs 5.71 crore.**

**Appraisal of R&M Expenses as per audited accounts with the same allowable as per norms.**

2.48 The details of the R&M expenses of SBU-G claimed for the year 2019-20 as per the audited accounts is given below.

Table 2.23

R&M expenses of SBU-G claimed for the year 2019-20

S. No.	Particulars	Amount
		(Rs.Cr)
1	Plant & Machinery	14.66
2	Buildings	2.12
3	Civil Works	4.00
4	Hydraulic Works	3.26
5	Lines & Cable Networks	0.61
6	Vehicles	0.72
7	Furniture & Fixtures	0.04
8	Office Equipment	0.08
9	<b>Gross R&amp;M Expenses</b>	<b>25.48</b>
10	Less: Expenses Capitalised	
11	<b>Net R&amp;M Expenses</b>	<b>25.48</b>

2.49 As seen from the Table above, the R&M expenses of SBU-G as per the audited accounts is Rs 25.48 crore as against Rs 24.65 crore provided for as per the norms.

2.50 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.

The Commission also noted that, most of the generation assets of KSEB Ltd are very old and completed its useful life.

2.51 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 2019-20 as per the provisions of the Tariff Regulations, 2018 as given below.

Table 2.24  
R&M expenses of SBU-G approved for the year 2019-20

Particulars	As per audited accounts	Eligible as per norms	KSERC Approval in True up as per norms
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
R&M expenses	25.48	24.65	24.65

***The Commission hereby approves the R&M expenses of SBU-G for the year 2019-20 as Rs.24.65 crore.***

**Provision for pay revision.**

2.52 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 250.00 crore as provision for pay revision.

Further, Regulation 14 (3) of Tariff Regulation, 2018 provides that 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. KSEB Ltd submitted that the pay revision process has been completed in February, 2021. As per the prevailing practice, the revised pay is

granted with retrospective effect and therefore, complete impact will be in the year of implementation. KSEB Ltd is of the view that this can be minimized if annual provisions are approved in truing up. With this view, KSEB Ltd seeks truing up of Rs.250 Cr over and above its normative entitlement.

- 2.53 The SBU wise details of the provision created towards pay revision for the year 2019-20 is given in the Table below.

Table 2.25

SBU wise details of the provision created in the accounts towards pay revision

Particulars	SBU G	SBU T	SBU D	Total
Provision for pay revision (Rs. Crore)	15.94	29.5	204.56	250

As above, the provision for pay revision for SBU-G of KSEB Ltd is Rs 15.94 crore for the year 2019-20.

### Provisions in the Regulations

- 2.54 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.”*

### Analysis and Decision of the Commission

- 2.55 KSEB Ltd, in the Truing up petition for the year 2019-20 submitted that, the licensee had created a provision of Rs 250.00 crore towards the revision of pay and allowances of its employees, which was due from July/August 2018 onwards. The Commission noted that as stated under paragraph 2.54 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.

2.56 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.*

2.57 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”.*

2.58 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 after prudence check.**

2.59 However, as per the details submitted before the Commission, the pay revision due from July / August 2018 was implemented from March 2021 only, and thus no out cash flow was incurred towards pay revision in the year 2019-20. Since KSEB Ltd is preparing the accounts on accrual basis, KSEB Ltd has created a provision of Rs 250 crore towards pay revision for the year 2019-20.

2.60 **However, the Commission is approving such expenditure in the Truing up of accounts only on cash basis after appraising the prudence of the amount incurred. Considering the facts that no actual out flow of cash had occurred during this period, the Commission is not in a position to approve the provision for pay revision created on accrual basis for the year 2019-20.**

#### **Total O&M expenses approved for SBU-G of KSEB Ltd including pay revision**

2.61 As discussed in the preceding paragraphs, the total O&M expenses approved for SBU-G in the Truing up of accounts for the year 2019-20 is detailed below.

Table 2.26

Total O&M expenses of SBU-G of KSEB Ltd approved for the year 2019-20



Particulars	ARR Order dated 08.07.2019	As per audited accounts*	KSEB Ltd claim in the Truing up petition	KSERC approval
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Employee expenses*	135.04	154.41	132.16	101.80
A&G expenses*		25.92		24.65
R&M expenses		25.48		5.71
Provision for pay revision	Nil		15.94	Nil
<b>Total</b>	<b>135.04</b>	<b>205.81</b>	<b>148.1</b>	<b>132.16</b>

\* Provisional

### Capital Additions of SBU-G of KSEB Ltd for the year 2019-20

2.62 KSEB Ltd submitted that, as per Accounts, KSEB Ltd had executed capital works to the tune of Rs. 2902.36 crore during the year 2019-20. The assets capitalized during the year was Rs.2143.64 crore. Out of the total GFA addition, Rs.121.24 crore was the asset addition for SBU-G as shown below:

Table 2.27

Summary of capitalisation during the year 2019-20 as per petition

Sl. No	SBU	CWIP as on 01/04/2019	Works executed during the year	GFA Addition	CWIP as on 31/03/2020
1	Generation	1,247.39	458.35	121.24	1,584.50
2	Transmission	635.71	899.36	378.62	1,156.44
3	Distribution	1,108.24	1,544.65	1,643.78	1,009.12
4	<b>GRAND TOTAL</b>	<b>2,991.34</b>	<b>2,902.36</b>	<b>2,143.64</b>	<b>3,750.06</b>

2.63 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 2019-20 is given below:

Table 2.28

**SBU wise -Asset class wise GFA addition for 2019-20 (Rs Cr)**

	Particulars	SBU G	SBU T	SBU D	Total
1	Land	8.80	4.77	0.35	13.92
2	Building	40.04	22.80	13.63	76.47
3	Hydraulic works	2.69	0.62		3.31
4	Other Civil works		26.39	2.22	28.61
5	Plant & Machinery	66.68	166.30	164.63	397.61
6	Lines, cable networks etc.	0.89	154.52	1420.77	1576.18
7	Vehicle	0.11	0.25	0.09	0.44
8	Furniture & Fixtures	1.22	0.62	2.07	3.91
9	Office equipment	0.73	2.00	38.44	41.17
10	Decommissioning liability	0.08	0.35	1.59	2.01
<b>11</b>	<b>Total</b>	<b>121.24</b>	<b>378.62</b>	<b>1643.78</b>	<b>2143.64</b>

2.64 KSEB Ltd has also submitted the project wise analysis of the capital expenditure for the year 2019-20 and also the account code wise breakup of capitalization of SBU-G during the year 2019-20.

2.65 KSEB Ltd has also submitted the details of the break up the part capitalization of project cost during the year 2019-20. The details are given below.

**Table 2.29**  
**Details of the part capitalization of the project cost in the year 2019-20**

Name of Project	A/c Code	Land	Buildings	Hydraulic Works	Other Civil Works	Office Equipment	Total (in Rs.Cr)
Olikkal Small H.E Scheme	14.15	2.75					2.75
Sengulam Augmentation Scheme	14.44			0.41	0.02		0.43
Poovaramthode Small H.E Scheme	14.49	2.84					2.84
MARMALA SHEP	14.64		0.03				0.03
Peruvannamuzhi Small Hydro Electric Project	14.71	0.82				0.02	0.84
Chembukadavu III Small H.E Scheme	14.72	0.08					0.08
Chinnar HES	14.74			0.07			0.07
Pazhassi Sagar Small H.E Scheme	14.75	1.27					1.27
Pallivasal Extension Scheme	14.77					0.03	0.03
Mangulam Hydroelectric Scheme	14.79					0.01	0.01
LADRUM SHEP	14.89	0.03					0.03
Thottiyar HES	14.96			0.03			0.03
Poringalkuthu Addl.Extn. Scheme	14.98			0.64			0.64
<b>TOTAL</b>		<b>7.79</b>	<b>0.03</b>	<b>1.15</b>	<b>0.02</b>	<b>0.06</b>	<b>9.05</b>

2.66 The decommissioning liability by virtue of IND AS provision during the year 2019-20 was Rs.0.08 crore. The part capitalized value of assets in 2016-17 amounts to Rs 4.16 crore.

2.67 After excluding the part capitalized value in 2019-20 amounts to Rs 9.05 crore and the decommissioning liability of Rs 0.08 crore, and also adding the part capitalized amount of Rs 4.16 crore in 2016-17, the GFA claimed for Truing up as per the Tariff Regulation is Rs.116.27 crore (121.24-9.05-0.08+4.16). The details are given below.

**Table 2.30**  
**GFA addition eligible as per Tariff Regulation for SBU G (Rs. Cr)**

Sl No.	Particulars	Gross fixed assets for 2019-20 as per Accounts			Part capitalization	Decommissioning liability	Net GFA addition
		Year beginning	Additions	Year End			
1	Land & land rights	1495.85	8.80	1504.65	7.79		1.01
2	Hydraulic works	1398.67	2.69	1401.36	1.15		1.54
3	Building & Civil works of Power plant	575.35	40.04	615.39	0.05		39.99
4	Plant & machinery including sub-station equipment	13461.53	66.68	13528.21			66.68
5	Line, cable network etc	7.48	0.89	8.37			0.89
6	Vehicles	10.09	0.11	10.20			0.11
7	Furniture & fixtures	4.99	1.22	6.21			1.22
8	Office Equipment	11.19	0.73	11.92	0.06		0.67
9	Decommissioning liability		0.08	0.08		0.08	0.00
	Total (1) to (9)	16965.12	121.24	17086.35	9.05	0.08	112.11
	Add: Part capitalized cost in 2016-17- Kuttiadi & Poringal			0.00			4.16
	True up claim for 2019-20			0.00			116.27
	Enhancement in value due to revaluation	11988.98		11988.98			
	Net of enhancement in value	4976.14		4976.14			

2.68 SBU wise details of the capital subsidies and grants received during the year 2019-20 as per the truing up petition is detailed below.

**Table 2.31**  
**SBU wise break up of Contribution & grants received during 2019-20 (Rs Cr)**

SL No.	PARTICULARS	GEN	TRANS	DIST	TOTAL
1	Consumer contribution	0.00	58.86	342.25	401.11
2	Subsidies	2.10	0.00	0.00	2.10
3	Grants Recd. Towards Cost of Fixed Assets	0.00	101.17	152.08	253.25

4	Others	0.00	1.64	39.14	40.78
5	<b>Gross Total</b>	<b>2.10</b>	<b>161.68</b>	<b>533.46</b>	<b>697.24</b>

2.69 The GFA addition claimed for as per Tariff Regulation, 2018 for claiming interest on loan and depreciation for the year 2019-20 is given below.

Table 2.32

**Breakup of additional capitalization as per Tariff Regulations (Rs. Cr)**

Sl.No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	Addition as per Accounts	121.24	378.62	1643.78	2143.64
2	Less: Decommissioning liability	0.08	0.35	1.59	2.02
3	Less: Part capitalization	9.05	30.15	0.00	39.20
4	Add: Part capitalization in 2016-17 but commissioned during 2019-20	4.16	11.21	0.00	15.37
5	Add: Part capitalization in 2017-18 but commissioned during 2019-20	0.00	8.55	0.00	8.55
6	Add: Part capitalization in 2018-19 but commissioned during 2019-20	0.00	16.29	0.00	16.29
7	<b>GFA addition eligible as per Regulation</b>	<b>116.27</b>	<b>384.17</b>	<b>1642.19</b>	<b>2142.63</b>
8	Less: Consumer contribution & grants	2.10	161.68	533.46	697.24
9	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>114.17</b>	<b>222.49</b>	<b>1108.73</b>	<b>1445.39</b>
10	Less: Land value addition excluding the portion under part capitalization	1.01	8.65	0.35	10.01
11	<b>GFA addition eligible for depreciation</b>	<b>113.16</b>	<b>213.84</b>	<b>1108.38</b>	<b>1435.38</b>

2.70 As detailed above, KSEB Ltd in their petition submitted that, the total GFA addition of SBU-G in the year 2019-20 is Rs 116.27 crore. Out of it Rs 114.27 crore is eligible for normative loan and Rs 113.16 crore is eligible for depreciation.

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

2.71 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**

2.72 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 provisionally had approved the asset addition of Rs 448.07 crore for the SBU-G of KSEB Ltd for the year 2019-20. However, as per the Truing up petition, the GFA addition in SBU-G for the year 2019-20 is Rs 116.27 crore as detailed in the preceding paragraphs, after excluding the part capitalization amounts to Rs 9.05 crore and decommissioning liability of Rs 0.08 crore. However, the Commission had considered the part capitalization amount of Rs 4.16 crore in 2016-17.

2.73 Based on the above, the Commission approves the GFA addition of SBU-G of KSEB Ltd for the year 2019-20 as given below.

Table 2.33

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

<b>Sl.No</b>	<b>Particulars</b>	<b>Amount (Rs.Cr)</b>
1	Addition as per Truing up petition	121.24
2	Less: Decommissioning liability	0.08
3	Less: Part capitalization	9.05
4	Add: Part capitalization in 2016-17 but commissioned during 2019-20	4.16
5	<b>GFA addition eligible as per Regulation</b>	<b>116.27</b>
6	Less: Consumer contribution & grants	2.10
7	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>114.17</b>
8	Less: Land value addition excluding the portion under part capitalization	1.01
9	<b>GFA addition eligible for depreciation</b>	<b>113.16</b>

### Summary of the GFA of SBU-G as on 31.03.2020

2.74 As per the Order of the Commission dated 14-06-2022 in petition OA No.13/2020 had approved the GFA of SBU-G as on 31.03.2019 as Rs.4833.60 crore. The GFA addition of SBU-G approved for the year 2019-20 is Rs 116.27 crore. Thus, the closing balance of GFA as on 31.03.2020 is Rs 4949.87 crore. The details are given in the Table below.

Table 2.34

Summary of GFA of SBU-G of KSEB Ltd as on 31.03.2020

Sl No	Particulars	Amount (Rs. Cr)
1	Opening level of GFA approved as on 01.04.2019 (approved vide True up Order for 2018-19 dated 14.06.2022)	4833.60
2	Asset addition approved for 2019-20	116.27
3	Closing balance of GFA as on 31.03.2020	4949.87

### Depreciation

2.75 KSEB Ltd in the petition submitted that, the actual depreciation as per accounts of SBU-G for the year 2019-20 was Rs 186.04 crore, however the amount claimed for Truing up for the year 2019-20 is Rs 125.93 crore only. KSEB Ltd further submitted that, actual depreciation as per accounts has been worked out in line with IND AS and claw back depreciation was determined and credited to other Income of Annual accounts. But as per the provisions of the Tariff Regulations, 2018, depreciation is allowable as per the methodology and also at the rates specified therein. Accordingly, allowable depreciation for SBU G has been worked out at Rs. 125.93 Cr for the year 2019-20.

2.76 KSEB Ltd further submitted that, as per the provisions of the Tariff Regulations 2018, allowable depreciation for the year 2019-20 as per the Truing-up petition is worked out in the following lines:

- (i) GFA (net of consumer contribution grants and subsidy) as on 31.03.2018 determined by the Commission vide Order dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing up of accounts of the year 2017-18 is taken as the base for determining depreciation. The opening GFA of SBU-G as on 31.03.2018 was Rs 4729.74 crore.

- (ii) 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.*

- (iii) 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.
- (iv) Based on the above, KSEB Ltd has claimed the depreciation for the year 2019-20 as follows

**Table 2.35**  
**Normative Depreciation for 2019-20 (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	GFA addition claimed for depreciation as per submission dt 30.07.2021 (2018-19)	90.06	286.37	749.33	1125.76
5=(3+4)	GFA as on 31.03.2019 considered for depreciation	4819.80	5303.75	8979.28	19102.83
6	Assets >12 years old (GFA as on 1-4-2007)	2995.64	2580.85	2640.35	8216.84
7	Fully depreciated Assets (assets up to 1-4-1989)	257.91	90.90	282.76	631.57
8=(6-7)	Assets having life 12-30 yrs	2737.73	2489.95	2357.59	7585.27
9=(8*2.80%)	Value of land (Average 2.8% of GFA)	76.66	69.72	66.01	212.39
10	Grants and contributions (upto 1-4-2007)			1895.10	1895.10
11=(8-9-10)	<b>Assets having life 12-30 yrs eligible for depreciation</b>	<b>2661.07</b>	<b>2420.23</b>	<b>396.48</b>	<b>5477.78</b>
12=(11*1.42%)	<b>Depreciation for Assets 12-30 years (@1.42%)</b>	<b>37.79</b>	<b>34.37</b>	<b>5.63</b>	<b>77.78</b>
13=(5-6)	Assets < 12 years old (1-4-2007 to 31-3-2019)	1824.16	2722.90	6338.93	10885.99
14=(13*2.80%)	Value of land (Average 2.8% of GFA)	51.08	76.24	177.49	304.81
15	Grants and contributions (1-4-2007 to 31-3-2019)	114.81	256.85	4504.65	4876.31
16=(13-14-15)	Opening balance of Assets < 12 years old	1658.27	2389.81	1656.79	5704.87
17	Asset addition for 2019-20 as per this submission	113.16	213.84	1108.38	1435.38
18=(16+17)	Closing balance of Assets <12 years Old (1-4-2007 to 31-3-2020)	1771.43	2603.65	2765.17	7140.25
19=(16+18)/2	Average Value of Assets <12 Years old	1714.85	2496.73	2210.98	6422.56
20=(19*5.14%)	<b>Depreciation for assets &lt;12 years (@5.14%)</b>	<b>88.14</b>	<b>128.33</b>	<b>113.64</b>	<b>330.12</b>
21=(12+20)	Total Depreciation for assets for 2019-20	<b>125.93</b>	<b>162.70</b>	<b>119.27</b>	<b>407.90</b>

## Comments of the stakeholders

- 2.77 HT&EHT Association requested before the Commission to allow depreciation strictly as per the provision of the Regulations. The Association also estimated the depreciation of SBU-G for the year 2019-20 at Rs 125.93 crore, same as the amount claimed by the KSEB Ltd.

## Provisions in the Regulations

- 2.78 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**

2.79 The Commission has examined in detail the depreciation claimed by KSEB Ltd in their Truing up petition for the year 2019-20. 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 be qualify for depreciation.

2.80 The Tariff Regulation 2018 provides the methodology and rates for determining the depreciation for Tariff determination.

2.81 The Commission vide Order dated 14.06.2022 in OA No.13/2020 in the matter of Truing up of accounts for the financial year 2018-19 had approved the GFA of SBU-G as on 31.03.2019 at Rs.4833.60 crore (Table 2.40 in Paragraph 2.69).

**Table 2.36**  
**Summary of approved Asset addition in 2018-19 and GFA approved as on 01.04.2019**

Particulars	Amount
	Rs. Crore
Opening level of Approved GFA (as on 01-04-2018)	4,729.74
Asset Additions approved in 2018-19	103.86
Closing balance of GFA (as on 31-03-2019)	4,833.60

- 2.82 The summary of the asset addition of SBU-G approved by the Commission for the year 2019-20 as given in Table 2.34 is Rs.116.27 crore. Accordingly, as per Table 2.34 above, the GFA of SBU-G as on 31.03.2020 is Rs.4949.87 crore.
- 2.83 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 Commission, duly considering the mix of various assets of KSEB Ltd with different useful life, 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.
- 2.84 Based on the above, and adopting the same methodology as for the year 2018-19 for approving depreciation, the depreciation of SBU-G of KSEB Ltd for the year 2019-20 is arrived at as below.

Table 2.37  
Depreciation approved for SBU-G for the year 2019-20

Sl No	Particulars	Amount (Rs. Cr)
1	GFA approved as on 01.04.2019	4833.60
2	Consumer contribution & grants as on 01.04.2019	114.81
3	Value of land (2.8% of the GFA)	132.13
4	Depreciable Assets	4586.66
5	Depreciation of asset as on 01.04.2019	122.94
6	Depreciation for assets added during the year 2019-20	2.99
7	<b>Total depreciation of SBU-D allowable for the year 2019-20</b>	<b>125.93</b>

- 2.85 ***Based on the above, the Commission approves the depreciation of Rs.125.93 crore for the SBU-G for the purpose of truing up for the year 2019-20 as against Rs.130.19 crore approved in the MYT Order dated 08.07.2019.***

## Interest and financing charges

2.86 The interest charges claimed by KSEB Ltd for SBU-G in the truing-up petition is Rs 115.51 crore as against Rs 136.24 crore approved in the MYT Order dated 08.07.2019. The details are given below.

Table 2.38

Interest and financing charges claimed in the petition for 2019-20 (Rs in crore)

No	Particulars	Approved	Actual	TU	Difference
1	Interest on Outstanding Capital Liabilities	82.45	46.26	68.14	14.31
2	Interest on GPF	9.98	7.72	7.72	2.26
3	Other Interests				
4	Interest on Master Trust Bonds	37.58	33.06	33.06	4.52
5	Interest on Working capital	6.23	8.53	6.59	-0.36
<b>6</b>	<b>Total</b>	<b>136.24</b>	<b>95.57</b>	<b>115.51</b>	<b>20.73</b>

2.87 The Commission has carefully considered each item of the interest and financing charges for SBU-G for the year 2019-20 as discussed in the subsequent paragraphs.

## Interest on long term loans on normative basis

2.88 Interest on normative loan

(1) KSEB Ltd vide the Truing up petition had submitted the details of the loans availed for the year 2019-20 for all the SBUs of KSEB Ltd. Its summary as per the petition is given below.

Table 2.39  
Summary of loans, interest and average rate of interest (Rs. Cr)

SBU	Opening (01/04/19)	additions during the Year	Repayments during the year	Closing (31/03/20)	Average loan	Interest on loan	Average interest rate (%)
SBU G	926.26	732.89	383.54	1275.61	1100.94	103.77	9.43
SBU T	1195.66	845.28	550.99	1489.95	1342.81	122.09	9.09
SBU D	3366.39	1938.79	1061.8	4243.38	3804.89	371.45	9.76
<b>Total</b>	<b>5488.31</b>	<b>3516.97</b>	<b>1996.33</b>	<b>7008.95</b>	<b>6248.63</b>	<b>597.31</b>	<b>9.56</b>

(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 approved the opening level of SBU-G as on 01.04.2019 as Rs.730.20 crore. The normative interest on loan approved by the Commission vide the MYT Order dated 08.07.2019 is extracted below.

Table : 2.40

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

2.89 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 31.03.2020 arrived by KSEB Ltd is given below.

**Table 2.41**  
**KSEB Ltd Computation of Normative loan as on 01.04.2020 (Rs.Cr)**

Sl. No	Description	SBU G	SBU T	SBU D	Total
1	Closing balance of Normative loan as per True up Order for 2017-18 (OA 09/2020 dated 25.06.2021)	627.78	917.23	1439.64	2984.67
2	Add: Disputed claim pending before APTEL	135.23	131.21	201.16	467.6
3	Normative loan for GFA addition 2018-19	90.52	290.26	749.57	1130.35
4	Less Normative repayment 2018-19	124.73	160.32	97.17	382.22
5= (1+2+3-4)	Opening normative loan as on 01.04.2019	728.8	1178.38	2293.2	4200.4
6	Additional normative loan for 2019-20	114.17	222.49	1108.73	1445.39
7	Normative repayment 2019-20	125.93	162.7	119.27	407.9
<b>8= (5+6-7)</b>	<b>Closing normative loan 31.03.2020</b>	<b>717.04</b>	<b>1238.17</b>	<b>3282.66</b>	<b>5237.89</b>

9= (5+8)/2	Average Normative loan for the year 2019-20	722.92	1208.28	2787.93	4719.14
10	Weighted average interest rate for 2019-20 (%)	9.43	9.09	9.76	9.56
11=9*10%	<b>Normative interest for 2019-20</b>	<b>68.14</b>	<b>109.86</b>	<b>272.17</b>	<b>450.17</b>

2.90 As detailed above, the normative interest on loans claimed by KSEB Ltd for the year 2019-20 is Rs 68.14 crore as detailed in Table 2.41 above.

### Comments of stakeholders

2.91 HT&EHT Association in their counter has stated that Rs. 55.39 Crores only is to be allowed as interest charges for existing and new loans (SBU-G) by KSEB Ltd in FY 2019-20 as against KSEB Ltd's claim of Rs. 68.14 Crore.

### Provisions in the Regulation

2.92 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.”*

2.93 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**

- 2.94 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.
- 2.95 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 other relevant factors, and its details are given below.
- 2.96 The Commission vide Order dated 14.06.2022 in Petition OA No.13/2020 had issued orders on Truing up of accounts of KSEB Ltd for the year 2018-19. As per the paragraph 2.100 the said Order, the normative loan of SBU-G as on 01.04.2019 is Rs 593.25 crore.
- 2.97 As per the SBU wise details of the loans as on 31.03.2020, the average interest on loan of SBU-G for the year 2019-20 is 9.43%.

The Commission has also noted that KSEB Ltd in their claims has included Rs.467.60 crore, which is in dispute 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 present approval.

- 2.98 Based on the above, the interest charges on normative loan approved for SBU-G for the FY 2019-20 is Rs 55.39 crore as against Rs 68.14 Crore claimed by KSEB Ltd as detailed in the table below.

Table 2.42  
Interest charges approved for the year 2019-20

Sl. No	Description	Amount (Rs.Cr)
1	Opening normative loan as on 01.04.2019	593.25
2	Normative GFA addition qualifying for loan in the year 2019-20	114.17
3	Less Depreciation for the year 2019-20	125.93
4= (1+2-3)	Closing normative loan as on 01.04.2020	581.49
5= (1+3)/2	Average Normative loan for the year 2019-20	587.37
6	Weighted average interest rate for 2019-20 (%)	9.43%
7=6*5	<b>Normative interest for 2019-20</b>	<b>55.39</b>

- 2.99 ***As above, the Commission hereby approves the interest charge for SBU-G of KSEB Ltd as Rs 55.39 crore.***



## Interest on working capital

2.100 The Commission vide the MYT Order dated 08.07.2019 in OP No. 15/2018 had approved Rs 6.23 crore towards the interest on working capital of SBU-G for the FY 2019-20. However, in the truing up petition, KSEB Ltd has claimed Rs 6.59 crore towards interest on working capital for SBU-G. The details are given below.

Table 2.43

KSEB Ltd claim on Interest on working capital for SBU-G for the year 2019-20

Sl No	Particulars	Amount (Rs.Cr)
1	Cost of fuel for FY 2019-20	4.72
2=(1/12)	<b>Cost of fuel for one month</b>	0.393
3	Approved O&M expenses FY 2019-20	129.77
4	O&M Expenses for new stations	2.389
5=(3+4)/12	<b>O&amp;M Expenses for one month</b>	11.013
6	Approved GFA as on 31.03.2018	4729.74
7	GFA addition claimed for depreciation FY 2018-19	90.06
8=(6+7)	Opening GFA - Plants and Equipment for FY 2019-20	4819.8
9=(8*1%)	Cost of maintenance of spares at 1% of historical cost	48.198
10=(2+5+9)	<b>Total requirement of working Capital</b>	59.605
11	Base rate as on 01-04-2019	9.05%
12	Interest rate on working capital (%)	11.05%
13=(10*12)	<b>Interest on working capital (Rs Cr)</b>	6.59

## Comments of the Stakeholders

2.101 The HT&EHT Association submitted that, the licensee is eligible for the interest on working capital of Rs. 6.25 Crore against Rs. 6.59 Crore filed by SBU-G of KSEB Ltd for FY 2019-20.

## Provisions in the Regulations

2.102 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**

2.103 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.

- 2.104 The Commission vide the MYT Order dated 08.07.2019, has not allowed any schedule from the liquid fuel stations, though KSEB Ltd had scheduled a meagre generation of 0.10 MU from BDPP and 11.93 MU 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.
- 2.105 Considering these aspects, as per the Regulation 32 of the Tariff Regulations, 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).
- 2.106 As per the Regulation 32(2) of the Tariff Regulations, 2018, interest rate for computing interest on working capital for the year 2019-20 is 2% higher than base rate of SBI on 1<sup>st</sup> April 2019 for a tenor of one year.

Base rate as on 01.04.2019 for one month tenor = 8.50%

Accordingly, the interest rate for arriving 'interest on working capital' = 10.50%

- 2.107 Based on the above, the interest on normative working capital of SBU-G approved in the Truing up of accounts for the year 2019-20 is detailed below.

Table 2.44

Interest on working capital approved for SBU-G for the year 2019-20

Sl No	Particulars	Amount (Rs. Cr)
1	O&M expenses of SBU-G for the year 2019-20	132.16
2	O&M expenses of SBU-G for one month = (1)/12	11.01
3	Gross Fixed Asset of SBU-G as on 31.03.2019	4833.60
4	Cost of maintenance of spares (1% of the historical cost)	48.34
5	Total working capital eligible as per Regulation = (2)+(4)	59.35
6	Base rate as on 01.04.2019	8.50%
7	Interest rate on working capital = Base rate+2%	10.50%
8	Interest on working capital = (5)x (7)	6.23

2.108 ***As above, the interest on working capital approved for SBU-G is Rs 6.23 crore for the year 2019-20, as against Rs 6.59 crore claimed by KSEB Ltd.***

#### **Interest on security deposits**

2.109 ***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 2019-20.***

#### **Interest on GPF**

2.110 KSEB Ltd submitted that, vide the MYT Order dated 08.07.2019, the Commission has approved Rs 9.98 crore towards interest on GPF. But the actual interest paid on PF accounted under PF was Rs 7.72 crore. Following are the reasons submitted by KSEB Ltd for the variation in the interest on GPF.

- (1) The average GPF considered by the Commission in the MYT Order dated 08.07.2018 was Rs 2432.33 crore. However, the actual average GPF balance for 2019-20 is 2276.22 crore.
- (2) The Commission had considered 8% as the interest on GPF, however the actual was 7.90% initially, later it had raised to 8%.

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

**Table 2.45**  
**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	7.72	16.9	146.63	171.26

#### **Comments of the stakeholders**

2.111 The HT -EHT Association requests to approve the Interest on the General Provident Fund as per the audited accounts for FY 2019-20 at Rs. 7.72 Crore for SBU-G. as claimed by SBU-G.

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

2.112 ***As per the Accounts, the interest charges booked for GPF is Rs.171.26 crore. Out of this, the share of SBU-G is Rs. 7.72 crore, which is allowed for 2019-20.***

## Interest on Master Trust Bonds

2.113 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 732.97 crore towards interest on bonds issued to the Master trust.

2.114 KSEB Ltd further submitted that, Kerala Service Rules as applicable in the Government are applicable to employees of KSEB Ltd. During the year 2019-20 KSEB Ltd had disbursed Rs 1558.88 crore of terminal benefits to the retired employees. The details are given below.

Table 2.46  
Amount paid to pensioners by the trust

Month	Amount paid to pensioners by Trust
	(Rs. Cr)
Apr-19	101.84
May-19	111.49
Jun-19	109.26
Jul-19	133.35
Aug-19	164.80
Sep-19	160.56
Oct-19	156.56
Nov-19	99.67
Dec-19	191.95
Jan-20	110.65
Feb-20	106.72
Mar-20	112.03
Total	1558.88

2.115 KSEB Ltd further submitted that, the pension and terminal liabilities are not claimed as part of the employee expenses 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 2019-20 is Rs 732.96 crore. The total interest liabilities 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 2.47**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	33.06	72.35	627.56	732.97

2.116 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 expenses 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**

2.117 The HT-EHT Association submitted that the Commission may approve the interest as per audited annual accounts of FY 2019-20. Accordingly an amount of Rs 33.06 Crore may be allowed for SBU-G as claimed by SBU-G.

### **Provisions in the Regulation**

2.118 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.”*

2.119 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**

2.120 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.

2.121 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.”

2.122 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.

- 2.123 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-2.48**  
**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

- 2.124 Since the year 2019-20 is the 3<sup>rd</sup> year of operation of the Master Trust, the interest liability to be borne by the KSEB Ltd is Rs 732.96 crore as above.
- 2.125 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.
- 2.126 Considering these aspects, ***the Commission hereby allow 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 732.96 crore in the true up of accounts of KSEB Ltd for the year 2019-20.***
- 2.127 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.

2.128 **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 3<sup>rd</sup> year of operation of the trust, i.e, for the year 2019-20 as given in the Table below.**

**Table 2.49**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	33.06	72.35	627.56	732.97

***As above, the Commission hereby approve Rs 33.06 crore towards the interest on Master Trust of SBU-G for the year 2019-20.***

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

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

**Table 2.50**  
**Summary of the interest and finance charges of SBU-G for the year 2019-20**

No	Particulars	Truing up petition	KSERC Approval
		Rs. Cr)	Rs. Cr)
1	Interest on Outstanding Capital Liabilities	68.14	55.39
2	Interest on GPF	7.72	7.72
4	Interest on Master Trust Bonds	33.06	33.06
5	Interest on Working capital	6.59	6.23
<b>6</b>	<b>Total</b>	<b>115.51</b>	<b>102.40</b>

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

2.130 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.

2.131 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, 31.03.2019 and 31.03.2020, the liability on this count has been assessed at Rs. 17732.57 Cr, Rs.19327.73 Cr and Rs. 20359.73 Cr respectively. The increase for the year 2019-20 has been Rs.1032.00 Cr and the same was captured in audited accounts as follows:

- (i) Liability pertaining to 2019-20 amounting to Rs.435.64 Cr has been booked under employee expenses for the year and
- (ii) Remaining portion, pertaining to earlier years Rs.596.35 Cr under other comprehensive income in P&L account.

2.132 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 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.*

2.133 KSEB Ltd further submitted that, the actual pension and terminal benefit disbursement exceeded interest on bonds by Rs.825.91 Cr. (Rs.1558.88 Cr- Rs.732.97 Cr). KSEB Ltd has also accounted Rs.435.64 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 2019-20, 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 2.51**

**Additional fund to Master Trust Bonds (Rs Cr)**

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Item	SBU G	SBU T	SBU D	Total
Additional fund	10.26	22.64	167.10	200.00

2.134 KSEB Ltd also submitted that, current service cost as per actuarial valuation for 2019-20 amounts to Rs.435.64 Cr and the same has been included in the employee expenses for the year as per accounts. Hon'ble Commission may be pleased to consider the current service cost for the year over Rs.200 Cr amounting to Rs. 235.64 Cr with interest as and when the scheme is finalized.

### Comments of the stakeholders

2.135 The HT-EHT Association submitted that, the Commission may allow Additional Contribution to Master Trust as per the provisional approval, with SBU-G share of Rs. 10.26 Crore, as claimed by SBU-G

### Provisions in the Regulations

2.136 **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.”

2.137 **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.”

2.138 **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

2.139 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 19327.73 crore instead of the unfunded liability as on 31.10.2013 assessed at Rs 12418.72 crore. KSEB Ltd yet to submit suitable proposal to fund the uncovered liability with the approval of the State Government in this regard. 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 and 2019-20. 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 proceeding 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 proceeding 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.

2.140 KSEB Ltd in the Truing Petition for the year 2019-20 submitted that, as per the actuarial valuation as on 31.03.2018, 31.03.2019 and 31.03.2020, the additional liability to the trust based has been assessed at Rs. 17732.57 Cr, Rs.19327.73 Cr and Rs. 20359.73 Cr respectively. KSEB Ltd further submitted that, as against the interest to the trust of Rs 732.97 crore, the actual pension disbursement to the pensioners during the year 2019-20 was Rs 1558.88 crore.

2.141 The Commission has appraised the matter in detail and of the view that, unless KSEB Ltd transfer the following fund to the trust promptly, the Master trust established for the pension and terminal liabilities become bankruptcy.

- (i) Interest and principal payment of the KSEB L bond of Rs 8144.00 crore.

- (ii) Interest and principal repayment of the bond issued by KSEB Ltd on behalf of the State Government for the amount of Rs 3751.00 crore.
- (iii) Additional liability based on the actuarial valuation done every year since the first year of operation of the trust.

2.142 However, KSEB Ltd is yet to operate the Trust as envisaged in the Revesting Notification dated 31.10.2013 and its subsequent amendment dated 28.01.2015. Taking into consideration of 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 200.00 crore to Rs.300 crore, 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.***

2.143 The SBU wise allocation of the additional fund to the Master Trust approved herewith is as given below.

**Table 2.52**  
**Additional fund to the Master Trust for the Year 2019-20 (Rs. Cr)**

Item	SBU G	SBU T	SBU D	Total
Additional fund	15.39	33.96	250.65	300

2.144 ***As above, the Commission provisionally approves Rs.15.39 crore as additional fund to the Master Trust towards unfunded actuarial liability for the year 2019-20.***

**Other expenses:**

2.145 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. 0.02 crore.

2.146 SBU wise details of the other expenses claimed is given below.

Table 2.53  
SBU wise details of the other expenses claimed for the year 2020-21 (Rs. Cr)

Item	SBU G	SBU T	SBU D	Total
Other expenses as per accounts	0.02	1.36	20.59	21.97

### Analysis and Decision of the Commission

2.147 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 other expenses SBU-G amounts to Rs 0.02 crore only. ***The Commission approves Other Expense of Rs. 0.02 crore as per the KSEB Ltd truing up petition for SBU-G.***

### Return on equity

2.148 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 2.54  
RoE claimed by KSEB Ltd for 2019-20

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

2.149 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**

2.150 ***"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.”*

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**

2.151 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 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 re-vested 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 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 re-vesting. 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 of the Tariff Regulations 2018, 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 2019-20.**

### Exceptional items

2.152 Expenses incurred for the restoration of assets damaged due to natural calamities are accounted under this head. SBU wise break up of exceptional items claimed by KSEB Ltd is given below.

Table 2.55  
Exceptional items (Rs.Cr)

Item	SBU G	SBU T	SBU D	Total
Exceptional items	3.75	0.13	24.72	28.60

KSEB Ltd requested before the Commission to approve the exceptional items as above.

### Analysis and Decision of the Commission

2.153 The Commission noted that, during this period, the State of Kerala has faced a huge deluge resulting in massive loss of life and property. KSEB Ltd claimed that they had incurred Rs 28.60 Crore towards one-time urgent steps taken to overcome the situation and to restore supply and to ensure safety of the general public. It is true that 2018-19 was indeed a catastrophic year to the State in general and KSEB Ltd with the full support and co-operation of its officers and staff had indeed done commendable work in ensuring safety of the general public by preventing electrocution.

***In view of the unexpected circumstances, the Commission hereby approves KSEB Ltd's claim of Rs 28.60 Crore with Rs 3.75 crore being the allocation to SBU – G.***

### Non-Tariff income

2.154 In the truing up petition, SBU-G has claimed, based on apportionment, a non-tariff income of Rs 16.30 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 2.56  
Non-tariff income

Sl No	Particulars	Amount (Rs. Cr)
1	Interest on staff loans and advances	
2	Income from rent of land or buildings	0.76
3	Income from sale of scrap	1.92
4	Rental from staff quarters	0.05
5	Excess found on physical verification	
6	Interest on investments, fixed and call deposits and bank balances	2.69
7	Interest on advances to suppliers/contractors	1.68
8	Income from hire charges from contractors and others	
9	Income due to right of way granted for laying fibre optic cables/co-axial cables on distribution system	
10	Income from advertisements, etc.	
11	Miscellaneous receipts	3.76
12	Rebate from Central Generating Stations	
13	Recovery for theft and pilferage of energy	
14	Meter/metering equipment/service line rentals	
15	Miscellaneous Charges from consumers	
16	Wheeling charges recovery	
17	Reactive energy charges	
18	Clawback of Grant	5.44
	<b>Total</b>	<b>16.30</b>

2.155 The clawback of depreciation on grants and contribution of SBU-G is Rs 5.44 crore. After excluding claw back of depreciation net Non Tariff claimed is Rs 10.86 crore.

#### **Comments of Stakeholders**

2.156 The HT-EHT Association submitted that the Non-tariff income of SBU-G amounts to Rs 16.30 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.10.86 crore for SBU-G for the year 2019-20 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.505.92 crore KSEB Ltd in their truing up petition has claimed the SBU-G transfer cost as Rs. 514.80 crore i.e., an excess of Rs 8.88 crore over the approved ARR&ERC figures for the year 2019-20.
- 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 490.88 crore. Total approved revenue requirements for SBU-G are the transfer cost of internal Generation to SBU-D as shown below:

Table 2.57  
Approved Transfer Cost of SBU-G for 2019-20 (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	5.71	5.71	5.71
2	Interest & Finance Charges	136.24	95.57	115.51	102.40
3	Depreciation	141.38	186.04	125.93	125.93
4	O&M Expenses				
	(i) Employee expenses*	135.04	154.41	132.16	101.80
	(ii) A&G expenses*		25.92		5.71
	(ii) R&M expenses		25.48		24.65
	(iv) Provision for pay revision				15.94
	(v) Total O&M expenses	135.04	205.81	148.1	132.16
5	RoE (14% of Rs 1454.53 Cr)	116.38	132.69	116.38	116.38
6	Other Expenses & PP expenses	0	0.02	0.02	0.02
7	Exceptional Items – Flood	0	3.75	3.75	3.75
10	Interest on additional bond to Master Trust	10.26		10.26	15.39
11	ARR	539.30	629.59	525.66	501.74
12	Less Non-Tariff Income	33.38	16.30	10.86	10.86
13	<b>Net ARR (Transferred to SBU-D)</b>	<b>505.92</b>	<b>613.29</b>	<b>514.80</b>	<b>490.88</b>

\*provisional

2.161 As shown in the Table above the approved gross transfer cost of SBU-G is Rs. 501.74 crore. After deducting Rs.10.86 crore on account of Non-Tariff Income the net transfer cost of Rs. 490.88 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. 490.88 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 2019-20.***

## **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 Kerala State. It manages the construction, operation and maintenance of EHT substations and transmission lines. It also coordinating the activities of transmission system development. At present SBU-T is also entrusted with the responsibility of controls the State Load Despatch Centre (SLDC) activities and of the management of protection and communication system.
- 3.2 SBU-T of KSEB Ltd at present operates the following the voltage levels, 220kV, 110kV, 66kV and 33kV. As on 31.03.2020, KSEB Ltd owns one 400 kV substation, 23 nos of 220kV substations, 166 nos of 110kV substations, 68 nos of 66kV substations and 159 nos of 33kV substations. The 400kV lines and the other 400kV substations in the State are owned and managed by the PGCIL. There are 2953km of 220kV lines, 4798 km of 110 kV lines, 2001 km of 66kV lines and 2057 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 Kerala Power System and is headed by a Chief Engineer with headquarters at Kalamassery.

#### **Transmission loss:**

- 3.4 The total energy delivered to the transmission system during 2019-20 was 26549.92 MU. The actual peak demand met during the year 2019-20 was 4316MW. 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 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 971.24 MU with. The transmission loss approved by the Commission for the year 2019-20 and the actual are furnished below.

Table 3.1  
Transmission Losses in 2019-20 estimated by KSEB Ltd

No	Voltage Level (kV)	Approved	Losses	Losses upto the voltage level	Ascertained Losses up to voltage level (%)
		(%)	MU	MU	
1	400		64.07	64.07	
2	220		369.735	433.805	
3	110		354.102	787.907	
4	66		104.559	892.466	
5	33		78.778	971.244	
6	<b>Transmission loss (%)</b>	<b>3.95</b>	<b>971.24</b>		<b>3.70</b>

3.4 (a) The Commission noted with concern that KSEB Ltd is yet to take any efforts for measuring the actual losses in the transmission system and actual energy input into the SBU -D. Instead of the same, KSEB Ltd has been estimating the transmission losses based on the load flow studies using the computer simulation model in "MI- Power" Software. It is a fact that the computer simulation model is being used for planning purposes only and the loss level estimation based on the study cannot be used for assessing the transmission losses. The Commission noticed that KSEB Ltd has already installed meters at all its transmission substations. By taking proper reading of the metered data of the substations, KSEB Ltd can accurately assess the transmission losses and the losses in the distribution system of KSEB Ltd. The licensee is also aware that distribution loss is a performance indicator of the distribution utility. So, the transmission losses can be segregated from the present practice of accounting Transmission and Distribution losses (T&D losses) together.

***Hence, the Commission hereby directs that KSEB Ltd shall within 3 months from the date of this order takes steps to measure and account the transmission losses in the SBU-T of KSEB Ltd separately by taking measurement of meter readings of meters installed at each substation of SBU-T.***

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

3.5 The Commission had approved an auxiliary consumption of 16.36 MU for the year 2019-20. The actual auxiliary consumption claimed by KSEB Ltd was 19.60 MU as tabulated below. The auxiliary consumption in substations comprise 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 2019-20 in MU**

April	1.69
May	1.74
June	1.56
July	1.55
August	1.42
September	1.45
October	1.58
November	1.61
December	1.6
January	1.75
February	1.81
March	1.86
<b>Total</b>	<b>19.60</b>

3.6 The auxiliary energy consumption is actually measured by meters in the respective substations.

**Expenses of SBU-T**

3.7 As per the Truing up petition filed by KSEB Ltd, the expenses of SBU-T inclusive of Return on equity is Rs.909.89 crore as against Rs.983.69 crore approved by the Commission vide the MYT Order dated 08.07.2019. The details are given below.

**Table 3.3**

**KSEB Ltd- Expenses of SBU-T as per the True up petition for 2019-20 (Rs. Cr)**

No	Particulars	MYT order dated 08.07.2019	Actual	Truing up petition	Variation
1	Interest & Finance Charges	185.05	84.36	109.86	75.19
2	Depreciation	173.47	235.46	162.70	10.77
3	O&M Expenses	397.46	488.39	386.87	10.59
4	Provision for pay revision	0.00		29.50	-29.50
5	GPF Interest	22.03	16.90	16.90	5.13
6	Return on equity (14%)	119.99	190.86	119.99	0.00
7	Interest on unfunded Master Trust liability	82.95	72.35	72.35	10.60
8	Additional contribution to Master Trust	22.64		22.64	0.00
9	Interest on working capital	17.40	18.68	17.12	0.28
10	Other expenses		1.36	1.36	-1.36
11	Exceptional items		0.13	0.13	-0.13
12	Incentive on transmission availability			9.79	-9.79
13	Amortization and interest on compensation paid			1.22	-1.22

14	<b>ARR</b>	<b>1020.99</b>	<b>1108.49</b>	<b>950.43</b>	<b>70.56</b>
15	Less: Non-tariff Income	37.30	70.86	40.54	-3.24
16	<b>Net ARR (Cost Transferred to SBU-D)</b>	<b>983.69</b>	<b>1037.63</b>	<b>909.89</b>	<b>73.80</b>

3.8 The Commission has carried out a prudence check of each of the heads of expenditure viz-a-viz the Regulations. The details are discussed under subsequent paragraphs.

### O&M Expenses

3.9 O&M expenses comprises of Employee expenses, R&M expenses and A&G expenses. According to KSEB Ltd, total O&M expenses for the year 2019-20 of SBU-T was Rs.488.39 crore as per the accounts. However, KSEB Ltd in the petition had claimed Rs.386.87 crore as O&M expenses based on the approved norms as per the Regulations as shown below:

Table 3.4  
O&M expenses for SBU-T for 2019-20 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 expenses	(Total O&M expenses as per norms)	352.63	(Total O&M expenses as per norms)
2	A&G Expenses		96.70	
3	R&M Expenses		39.06	
4	<b>Sub Total (O&amp;M Expenses)</b>	<b>397.46</b>	<b>488.39</b>	<b>386.87</b>
5	Provision for pay revision			29.50
6	<b>Total</b>	<b>397.46</b>	<b>488.39</b>	<b>416.37</b>

\* Includes provision for pay revision

3.10 As per the Regulations, O&M expenses of Transmission is governed by the following two parameters i.e., no. of bays and length of circuit lines. The number of bays and circuit kilometers and the O&M expenses based on the norms approved for 2019-20 and actuals are as given below:

Table 3.5  
Actual and approved expenses drivers for transmission business as per petition

Item	Approved in MYT Order	Actual
Substation Bays*	2682	2607
Tran Lines***	9823.20	9602.24
* Excluding 33 kV bays	*** (in Ckt Kms)	

3.11 KSEB Ltd further submitted the norms for O&M expenses and the amount of O&M expenses admissible as per the norms specified in the Regulation. The details are given below.

**Table-3.6**  
**O&M of Transmission Business for 2019-20**

Item	Actual	Norm
Substation Bays*	2607	Rs.11.23 Lakh/bay
Tran Lines***	9602.24	Rs.0.98 Lakh/Ckt-km
* Excluding 33 kV bays                      *** (in Ckt Kms)		
O&M expenses = Rs. (11.23 * 2607 + 9602.240 * 0.98) Lakh = <b>Rs.386.87 Cr</b>		

3.12 KSEB Ltd stated that the pay revision is due from July/ August 2018 and a sum of Rs.250.00 Crore has been provided in the consolidated Accounts of KSEB Ltd as provision for pay revision. The contribution of SBU-T was Rs.29.50 crore. Therefore, KSEB Ltd requested to approve Rs.29.50 crore towards the 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 expenses of SBU-T may be allowed 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 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.

### **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 KSEBL 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 expenses 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 expenses including ‘employee expenses, A&G expenses and R&M expenses’ approved for True 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 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.”

- 3.20 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.**

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	<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.**

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
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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 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 expenses of SBU-T claimed by KSEB Ltd in the process of Trueing up of accounts for the year 2019-20. 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 expenses, R&M expenses, A&G expenses) in a composite manner benchmarking against the no. of bays and circuit length (kms) as shown below:

Table 3.7

Norms for O&M expenses for Bays as per Regulation for the Year 2019-20

Item	As Approved in MYT Order	As per petition	Allowable as per norms
O&M expenses for Bay (Rs. lakh /Bay)	11.23	11.23	11.23
O&M expenses (Rs. lakh /circuit km)	0.98	0.98	0.98
Bays (No.) (for Previous year)	2682	2607	2607
Line (Ckt-Km) (for previous year)	9823.195	9602.24	9602.24
<b>Normative O&amp;M expenses (Rs.Crore.)</b>	<b>397.46</b>	<b>386.87</b>	<b>386.87</b>

- 3.25 The O&M expenses, as specified in the Regulation is based on the approved True up O&M expenses 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 expenses elements and controllable parameter. Further, KSEB Ltd also accounting each item separately in its 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 expenses admissible as per norms 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 for arriving at the norms specified in the Tariff Regulations, 2018.

Table-3.8  
Ratio of the Trued up O&M expenses 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 SBU-T as per Tariff Regulations 2018 is apportioned among the various components of the O&M expenses, as detailed below.

Table 3.9  
Component wise O&M expenses of SBU-T allowable as per norms for the year 2019-20

Particulars	Amount (Rs.Cr)	Ratio of the total O&M
Employee expense	282.18	72.94%
R&M expenses	84.72	21.90%
A&G expenses	19.96	5.16%
Total	386.87	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 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 accounts is given below.

Table 3.10  
Employee expenses of SBU-T as per the audited accounts for the year 2019-20

S. No.	Particulars	Amount (Rs. Cr)
1	Basic Salary	294.50
2	Dearness Allowance (DA)	87.52
3	House Rent Allowance	5.12
4	Conveyance Allowance	0.00
5	Leave Travel Allowance	0.02
6	Earned Leave Encashment	19.71
7	Other Allowances	1.87
8	Medical Reimbursement	1.75
9	Overtime Payment	0.00
10	Bonus/Ex-Gratia Payments	0.99
11	Interim Relief / Wage Revision	0.00
12	Staff welfare expenses	0.18
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	0.07
17	<b>Net Employee expenses</b>	<b>411.73</b>
18	Terminal Benefits	0.00
18.1	Provident Fund Contribution	0.00
18.2	Provision for PF Fund	0.00
18.3	Pension Payments	0.00
18.4	Gratuity Payment	0.00
18.5	Annual Contribution for Terminal Liabilities based on actuarial valuation	0.00
	Contribution of KSEB Ltd towards National Pension Scheme	2.16
19	Others	0.04
20	<b>Gross Employee Expenses</b>	<b>413.92</b>
21	Less: Expenses Capitalised	61.29
22	<b>Net Employee Expenses</b>	<b>352.63</b>

3.30 As detailed above, the employee expenses of SBU-T as per the audited accounts is RS 352.63 crore as against the employee expenses of Rs 282.18 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 33000 plus employees as on 31.03.2019, whereas the employee expenses as per norms reflects only the salary and allowances of 27175 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 pay revision may be approved in the year

in which the pay revision is implemented and actual cash basis, after prudence check. The Commission also noted that the Additional Chief Secretary, Finance, vide its circular 04/2021 dated 18.01.2021 has instructed to the Head of the Departments of all PSU's owned by the State Government that "the revision of pay and allowance to its employees" shall be implemented only with the prior approval of the Cabinet. It is also stated in the circular that the Government shall take action against the Head of the Department those who violate the government directions.

3. The employee expenses as per the audited accounts also include the provision for unfunded actuarial liability. However, the Commission decided that, the additional unfunded liability as per the actuarial valuation report may be appraised separately based on a petition filed by KSEB Ltd with all supporting details. Till such time, the Commission has made a provision for additional fund to the Master Trust, and the same is discussed in the subsequent paragraphs.

- 3.31 Since KSEB Ltd has not submitted the necessary and sufficient details to appraise the employee expenses as per the audited accounts, the Commission cannot apply prudence on the employee expenses provided in the audited accounts. Hence the Commission is constrained to limit the employee expenses of KSEB Ltd provisionally to the level as per the norms specified in the Tariff Regulations 2018.

Since the petition OP 63/2021, filed by KSEB Ltd is pending for final orders before the Commission, this amount of Rs.282.18 crore is provisional.

- 3.32 Accordingly, the Commission hereby approve, provisionally, the employee expenses of SBU-T of KSEB Ltd for the year 2019-20 as follows.

Table 3.11  
Employee expenses of SBU-T approved for the year 2019-20

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

Employee expenses	352.63	282.18	282.18
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***As above, the Commission hereby provisionally approves the employee expenses of SBU-T of KSEB Ltd at Rs.282.18 crore for the year 2019-20 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 as per the audited accounts for the year 2019-20 is given below.

Table 3.12  
A&G expenses

<b>S. No.</b>	<b>Particulars</b>	<b>Amount (Rs.Cr)</b>
1	Rent Rates & Taxes	0.56
2	Insurance	-0.29
3	Telephone & Postage, etc.	1.29
4	Legal charges	0.46
5	Audit Fees	0.13
6	Consultancy charges	0.00
7	Other Professional charges	0.74
8	Conveyance	7.10
9	Vehicle Running Expenses Truck / Delivery Van	0.15
10	Vehicle Hiring Expenses Truck / Delivery Van	0.19
11	Electricity charges	-2.38
12	Water charges	0.15
13	Entertainment	0.28
14	Fees & subscription	0.37
15	Printing & Stationery	1.04
16	Advertisements, exhibition publicity	0.13
17	Contribution/Donations	0.26
18	Training expenses	0.02
19	Miscellaneous Expenses	0.69
20	DSM activities	0.00
21	SRPC expenses	0.25
22	Sports and related activities	0.10
23	Freight	1.33
24	Purchase Related Advertisement Expenses	0.74
25	Bank Charges	0.00
26	Office Expenses	80.24
27	License Fee and other related fee	1.45
28	Expenses of services procured	0.00
29	Outsourcing of metering and billing system	0.00

30	V-sat, Internet and related charges	0.06
31	Security arrangements	0.00
32	Books & periodicals	0.02
33	Computer Stationery	0.00
34	Others	0.89
	Others- Other Purchase related Expenses	1.61
35	<b>Gross A&amp;G Expenses</b>	<b>97.54</b>
36	<b>Ele. Duty u/s 3(I), KED Act</b>	<b>0.00</b>
37	Less: Expenses Capitalised	0.83
38	<b>Net A&amp;G Expenses</b>	<b>96.70</b>

- 3.34 As above, the A&G expenses as per the audited accounts is Rs.96.70 crore as against Rs.19.96 crore allowable as per norm. The actual A&G expenses is about 4.8 times higher than the same eligible as per norms.

The Commission also noted that KSEB Ltd has not submitted proper justification for such excessive increase in A&G expenses. Without proper justifications, the Commission cannot approve such excessive 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 3.13

A&G expenses of SBU-T approved for the year 2019-20

Particulars	As per audited accounts	Eligible as per norms	KSERC Approval in True Up
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
A&G expenses	96.70	19.96	19.96

***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 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 whatever reason shall be considered by the Commission beyond these 3 months.***

***As above, the Commission hereby provisionally approve the A&G expenses of SBU-T for the year 2019-20 at Rs 19.96 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 2019-20 as per the audited accounts is given below.

Table 3.14  
R&M expenses of SBU-T as per the audited accounts for the year 2019-20

S. No.	Particulars	Amount (Rs.Cr)
1	Plant & Machinery	23.17
2	Buildings	2.72
3	Civil Works	5.19
4	Hydraulic Works	0.15
5	Lines & Cable Networks	6.55
6	Vehicles	0.82
7	Furniture & Fixtures	0.11
8	Office Equipment	0.34
9	<b>Gross R&amp;M Expenses</b>	<b>39.06</b>
10	Less: Expenses Capitalised	
11	<b>Net R&amp;M Expenses</b>	<b>39.06</b>

3.37 As above, the R&M expenses of SBU-T as per the audited accounts for the year 2019-20 is Rs 39.06 crore. The actual R&M expenses booked is less than the R&M expenses as per norms amounts to Rs 84.72 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 84.72 crore as R&M expenses of SBU-T for the year 2019-20 for the purpose of Truing up.***

Table 3.15  
R&M expenses of SBU-T approved for the year 2019-20

Particulars	As per audited accounts	Eligible as per norms	KSERC Approval in True up
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
R&M expenses	39.06	84.72	84.72



## 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 250.00 crore towards provision for pay revision. Out of this total provision, the share of SBU-T was Rs 29.50 crore.
- 3.40 The Commission has examined in detail, whether the provision created for pay revision can be allowed in the process of Truing up on accrual basis irrespective of the fact that the pay revision was not implemented in the year 2019-20 and actual cash out flow was not happened on this account. This issue was discussed in detail under paragraphs 2.52 to 2.60 of this Order, which is extracted below to get a considered view of this Commission regarding pay revision and related matters.

“

*2.52 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 250.00 crore as provision for pay revision.*

*Further, Regulation 14 (3) of Tariff Regulation, 2018 provides that 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. KSEB Ltd submitted that the pay revision process has been completed in February, 2021. As per the prevailing practice, the revised pay is granted with retrospective effect and therefore, complete impact will be in the year of implementation. KSEB Ltd is of the view that this can be minimized if annual provisions are approved in truing up. With this view, KSEB Ltd seeks truing up of Rs.250 Cr over and above its normative entitlement.*

*2.53 The SBU wise details of the provision created towards pay revision for the year 2019-20 is given in the Table below.*

Table 3.16

*SBU wise details of the provision created in the accounts towards pay revision*

<i>Particulars</i>	<i>SBU G</i>	<i>SBU T</i>	<i>SBU D</i>	<i>Total</i>
<i>Provision for pay revision (Rs. Crore)</i>	15.94	29.5	204.56	250

As above, the provision for pay revision for SBU-G of KSEB Ltd is Rs 15.94 crore for the year 2019-20.

### **Provisions in the Regulations**

- 2.54 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.”*

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

- 2.55 KSEB Ltd, in the Truing up petition for the year 2019-20 submitted that, the licensee had created a provision of Rs 250.00 crore towards the revision of pay and allowances of its employees, which was due from July/August 2018 onwards. The Commission noted that as stated under paragraph 2.42 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.
- 2.56 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.

2.57 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”.*

2.58 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 after prudence check.***

2.59 *However, as per the details submitted before the Commission, the pay revision due from July / August 2018 was implemented from March 2021 only, and thus no out cash flow was incurred towards pay revision in the Year 2019-20. Since KSEB Ltd is preparing the accounts on accrual basis, KSEB Ltd has created a provision of Rs 250 crore towards pay revision for the year 2019-20.*

2.60 ***However, the Commission is approving such expenditure in the Truing up of accounts only on cash basis after appraising the prudence of the amount incurred. Considering the facts that no actual out flow of cash had occurred during this period, the Commission is not in a position to approve the provision for pay revision created on accrual basis for the year 2019-20.”***

3.41 ***As extracted above, the Commission has decided that, the provisions created for pay revision for the year 2019-20 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 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 2019-20 is detailed below.

Table 3.17

Total O&M expenses of SBU-T of KSEB Ltd approved for the year 2019-20

No	Particulars	Approved in MYT Order	As per Accounts*	As per True-up petition	KSERC approval as per norms
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		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Employee expenses*	(Total O&M expenses as per norms)	352.63	(Total O&M expenses as per norms)	282.18
2	A&G Expenses*		96.70		19.96
3	R&M Expenses		39.06		84.72
<b>4</b>	<b>Sub Total (O&amp;M Expenses)</b>	<b>397.46</b>	<b>488.39</b>	<b>386.87</b>	<b>386.87</b>
5	Provision for pay revision			29.50	0
<b>6</b>	<b>Total</b>	<b>397.46</b>	<b>488.39</b>	<b>416.37</b>	<b>386.87</b>

\*Provisional

### **Asset additions of SBU-T of KSEB Ltd for the year 2019-20**

3.43 KSEB Ltd submitted that, as per Accounts, KSEB Ltd had executed capital works to the tune of Rs. 2902.36 crore during the year 2019-20. The assets capitalized during the year was 2143.64 crore. Out of the total GFA addition, Rs. 378.62 crore was the asset addition for SBU-T as shown below:

Table 3.18

Summary of capitalisation during the year 2019-20 as per petition

Sl. No	SBU	CWIP as on 01/04/2019	Works executed during the year	GFA Addition	CWIP as on 31/03/2020
1	SBU-Generation	1,247.39	458.35	121.24	1,584.50
2	SBU-Transmission	635.71	899.36	378.62	1,156.44
3	SBU- Distribution	1,108.24	1,544.65	1,643.78	1,009.12
<b>4</b>	<b>GRAND TOTAL</b>	<b>2,991.34</b>	<b>2,902.36</b>	<b>2,143.64</b>	<b>3,750.06</b>

3.44 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 2019-20 is given below:

Table 3.19

SBU wise -Asset class wise GFA addition for 2019-20 (Rs Cr)

	Particulars	SBU G	SBU T	SBU D	Total
1	Land	8.80	4.77	0.35	13.92
2	Building	40.04	22.80	13.63	76.47
3	Hydraulic works	2.69	0.62		3.31
4	Other Civil works		26.39	2.22	28.61
5	Plant & Machinery	66.68	166.30	164.63	397.61
6	Lines, cable networks etc.	0.89	154.52	1420.77	1576.18
7	Vehicle	0.11	0.25	0.09	0.44
8	Furniture & Fixtures	1.22	0.62	2.07	3.91
9	Office equipment	0.73	2.00	38.44	41.17
10	Decommissioning liability	0.08	0.35	1.59	2.01
<b>11</b>	<b>Total</b>	<b>121.24</b>	<b>378.62</b>	<b>1643.78</b>	<b>2143.64</b>

- 3.45 KSEB Ltd submitted that, as above the GFA addition of SBU-T during the year 2019-20 was Rs 378.62 crore. KSEB Ltd submitted the project wise details and asset category wise details of the capitalized assets along with the petition.
- 3.46 KSEB Ltd further submitted that, out of the GFA addition of Rs 378.62 crore in SBU-T Rs 30.15 crore represent the part capitalization within the meaning of Tariff Regulation. Rs 0.35 crore represent the de-commissioning liability. KSEB Ltd submitted the project wise details of the part capitalized assets along with the petition.
- 3.47 KSEB Ltd also submitted that, as per Truing up petitions for 2016-17 to 2018-19 has excluded part capitalized projects in respect of SBU T as envisaged in the Tariff Regulations. Out of the projects part capitalized in 2016-17, 2017-18 and 2018-19, projects cost amounting to Rs. 11.21 Cr, Rs. 8.55 Cr and Rs. 16.29 Cr (aggregating to Rs. 36.05 Cr) were commissioned in 2019-20. Details of these assets also submitted along with the Truing up petition for the year 2019-20.
- 3.48 After deducting the part capitalized assets and decommissioning liability from the total GFA addition and also adding the asset addition of part commissioned assets in earlier years but commissioned in the year 2019-20, the GFA addition eligible for considering tariff determination as per the provisions of the Tariff Regulations, 2018 is Rs 384.17 crore. The details are given in the Table below.

**Table 3.20**  
**GFA addition for SBU T for Regulatory purpose ( 2019-20) (Rs Cr)**

No	Assets Group	Gross fixed assets			Adjustments-Deductions		Adjustments-Additions			GFA Addition as per Regulation
		0-04-2019	Addition	31-03-2020	Part capitalized (19-20)	Decommissioning liability (19-20)	Part capitalized in 2016-17	Part capitalized in 2017-18	Part capitalized in 2018-19	
1	Land & land rights	275.51	4.77	280.28	0.28		1.20	2.43	0.53	8.65
2	Buildings	358.97	22.80	381.77	0.74		0.16	0.60	0.56	23.38
3	Hydraulic Works	10.46	0.62	11.08	0.00		0.00	0.00	1.80	2.42
4	Other Civil works	447.39	26.39	473.78	0.37		0.37	0.31	2.28	28.98
5	Plant & Machinery	2418.97	166.30	2585.27	2.91		9.44	2.97	3.37	179.17
6	Lines, cable networks etc.	2005.12	154.52	2159.64	25.83		0.03	2.24	7.76	138.72
7	Vehicle	7.57	0.25	7.82	0.00		0.00	0.00	0.00	0.25
8	Furniture and Fixtures	6.47	0.62	7.09	0.01		0.00	0.00	0.00	0.61
9	Office Equipment	13.29	2.00	15.29	0.01		0.00	0.00	0.00	1.99
10	Decommissioning liability	0.34	0.35	0.69		0.35				0.00
11	Gross Asset (Total (1) to (10))	<b>5544.08</b>	<b>378.62</b>	<b>5922.70</b>	<b>30.15</b>	<b>0.35</b>	<b>11.21</b>	<b>8.55</b>	<b>16.29</b>	<b>384.17</b>

- 3.49 SBU wise details of the capital subsidies and grants received during the year 2019-20 as per the truing up petition is detailed below.

**Table 3.21**  
**SBU wise break up of Contribution & grants received during 2019-20 (Rs Cr)**

SL No.	PARTICULARS	GEN	TRANS	DIST	TOTAL
1	Consumer contribution	0.00	58.86	342.25	401.11
2	Subsidies	2.10	0.00	0.00	2.10
3	Grants Recd. Towards cost of Fixed Assets	0.00	101.17	152.08	253.25
4	Others	0.00	1.64	39.14	40.78
5	<b>Gross Total</b>	<b>2.10</b>	<b>161.68</b>	<b>533.46</b>	<b>697.24</b>

3.50 The GFA addition claimed for as per Tariff Regulation, 2018 for claiming interest on loan and depreciation for the year 2019-20 is given below.

**Table 3.22**  
**Breakup of additional capitalization as per Tariff Regulations (Rs. Cr)**

Sl.No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	Addition as per Accounts	121.24	378.62	1643.78	2143.64
2	Less: Decommissioning liability	0.08	0.35	1.59	2.02
3	Less: Part capitalization	9.05	30.15	0.00	39.20
4	Add: Part capitalization in 2016-17 but commissioned during 2019-20	4.16	11.21	0.00	15.37
5	Add: Part capitalization in 2017-18 but commissioned during 2019-20	0.00	8.55	0.00	8.55
6	Add: Part capitalization in 2018-19 but commissioned during 2019-20	0.00	16.29	0.00	16.29
7	<b>GFA addition eligible as per Regulation</b>	<b>116.27</b>	<b>384.17</b>	<b>1642.19</b>	<b>2142.63</b>
8	Less: Consumer contribution & grants	2.10	161.68	533.46	697.24
9	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>114.17</b>	<b>222.49</b>	<b>1108.73</b>	<b>1445.39</b>
10	Less: Land value addition excluding the portion under part capitalization	1.01	8.65	0.35	10.01
11	<b>GFA addition eligible for depreciation</b>	<b>113.16</b>	<b>213.84</b>	<b>1108.38</b>	<b>1435.38</b>

3.51 As detailed above, KSEB Ltd in their petition submitted that, the total GFA addition of SBU-T in the year 2019-20 is Rs 384.17 crore. Out of it Rs 222.49 crore is eligible for normative loan and Rs 213.84 crore is eligible for depreciation.

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

3.52 As per the provisions of Tariff Regulation, 2018, only when an asset is ready and put into use, the cost 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-T

- 3.53 The Commission has examined the details furnished by KSEB Ltd on asset addition for SBU-T, as per the provisions of the Tariff Regulations, 2018.
- 3.54 As per the details submitted by KSEB Ltd, the total GFA addition during the year 2019-20 was Rs 378.62 crore. KSEB Ltd further submitted that, out of it, Rs.30.15 crore represent the part capitalization during the year 2019-20 within the meaning of Tariff Regulation. Further Rs 0.35 crore represent the decommissioning liability during the year 2019-20. KSEB Ltd has also submitted that, in the Truing Up of accounts of KSEB Ltd for the years 2016-17 to 2018-19, the transmission projects part capitalised in the years 2016-17, 2017-18, and 2018-19 amounts to Rs 11.21 crore, Rs 8.55 crore and Rs 16.29 crore (aggregating to Rs 36.05 crore) were commissioned in the year 2019-20. KSEB Ltd has submitted the project wise details of the part capitalised projects earlier and commissioned during the year 2019-20 in the Truing Up petition.
- 3.55 The Commission has also noted that, Rs 161.68 crore was received towards the consumer contribution and grants at SBU-T in the year 2019-20.
- 3.56 After detailed examination of the details submitted by KSEB Ltd, the Commission hereby approve the GFA addition of SBU-T of KSEB Ltd for the year 2019-20 as follows.

**Table 3.23**  
**GFA addition approved for the Year 2019-20 of SBU-T**

SI.No	Particulars	(Rs.Cr)
1	Addition as per Accounts	378.62
2	Less: Decommissioning liability	0.35
3	Less: Part capitalization	30.15
4	Add: Part capitalization in 2016-17 but commissioned during 2019-20	11.21



5	Add: Part capitalization in 2017-18 but commissioned during 2019-20	8.55
6	Add: Part capitalization in 2018-19 but commissioned during 2019-20	16.29
7	<b>GFA addition eligible as per Regulation</b>	<b>384.17</b>
8	Less: Consumer contribution & grants	<b>161.68</b>
9	<b>GFA addition eligible for normative loan as per Regulation</b>	222.49
10	Less: Land value addition excluding the portion under part capitalization	<b>8.65</b>
11	<b>GFA addition eligible for depreciation</b>	213.84

3.57 **As above the asset addition approved for the year 2019-20 of SBU-T is Rs.384.17 crore. After deducting the grants and contribution amounting to Rs. 161.68 crore, the net asset addition for SBU-T eligible for claiming normative loan in the year 2019-20 is Rs.222.49crore. After deducting the land value amounts to Rs 8.65 crore of the newly added but not achieved CoD assets, the GFA addition eligible for depreciation is Rs.213.84 crore.**

#### **Summary of the GFA of SBU-T as on 31.03.2020**

3.58 As per the Order of the Commission dated 14.06.2022 in petition OA No.13/2020, the GFA of SBU-T as on 31.03.2019 is Rs 5364.55 crore. The GFA addition of SBU-T approved for the year 2019-20 is Rs 384.17 crore. Thus the closing balance of GFA of SBU-T as on 31.03.2020 is Rs 5748.72 crore. The details are given in the Table below.

Table 3.24  
Summary of GFA of SBU-T of KSEB Ltd as on 31.03.2020

Sl No	Particulars	Amount (Rs. Cr)
1	Opening level of GFA approved as on 01.04.2019 (approved vide True up Order for 2018-19 dated 14.06.2022)	5364.55
2	Asset addition approved for 2019-20	384.17
3	Closing balance of GFA as on 31.03.2020	5748.72

**As above, the Commission approve the GFA of SBU-T as on 31.03.2020 at Rs 5748.72 crore for regulatory accounts.**

## Depreciation:

3.59 KSEB Ltd in the petition has claimed Rs 162.70 crore as depreciation as per the provisions of the Tariff Regulations, 2018, as against Rs 173.47 crore approved vide the MYT Order dated 08.07.2019.

3.60 The comparison of the depreciation as approved in the MYT Order dated 08.07.2019, as per the audited accounts and the actuals is given in the Table below.

Table-3.25  
Depreciation claimed by KSEB Ltd (Rs Cr)

No	Particulars	MYT Order dated 08.07.2019	Actual	True-up petition
1	Depreciation	173.47	235.46	162.70

3.61 KSEB Ltd further submitted that, as per the provisions of the Tariff Regulations 2018, allowable depreciation for the year 2019-20 as per the Truing-up petition is worked out in the following lines:

(i) GFA (net of consumer contribution grants and subsidy) as on 31.03.2018 determined by the Commission vide Order dated 25.06.2021 in petition OA No. 09/2020 in the matter of Truing Up of accounts of the year 2017-18 is taken as the base for determining depreciation. The opening GFA of SBU-G as on 31.03.2018 was Rs 4729.74 crore.

(ii) 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.*

(iii) 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.

3.62 Based on the above, KSEB Ltd has claimed the depreciation for the year 2019-20 as follows

Table 3.26  
KSEBL- Depreciation for 2019-20 as per norms (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	GFA addition claimed for depreciation as per submission dt 30.07.2021 (2018-19)	90.06	286.37	749.33	1125.76
5=(3+4)	GFA as on 31.03.2019 considered for depreciation	4819.80	5303.75	8979.28	19102.83
6	Assets >12 years old (GFA as on 1-4-2007)	2995.64	2580.85	2640.35	8216.84
7	Fully depreciated Assets (assets up to 1-4-1989)	257.91	90.90	282.76	631.57
8=(6-7)	Assets having life 12-30 yrs	2737.73	2489.95	2357.59	7585.27
9=(8*2.80%)	Value of land (Average 2.8% of GFA)	76.66	69.72	66.01	212.39
10	Grants and contributions (upto 1-4-2007)			1895.10	1895.10
11=(8-9-10)	<b>Assets having life 12-30 yrs eligible for depreciation</b>	<b>2661.07</b>	<b>2420.23</b>	<b>396.48</b>	<b>5477.78</b>
12=(11*1.42%)	<b>Depreciation for Assets 12-30 years (@1.42%)</b>	<b>37.79</b>	<b>34.37</b>	<b>5.63</b>	<b>77.78</b>
13=(5-6)	Assets < 12 years old (1-4-2007 to 31-3-2019)	1824.16	2722.90	6338.93	10885.99
14=(13*2.80%)	Value of land (Average 2.8% of GFA)	51.08	76.24	177.49	304.81
15	Grants and contributions (1-4-2007 to 31-3-2019)	114.81	256.85	4504.65	4876.31
16=(13-14-15)	Opening balance of Assets < 12 years old	1658.27	2389.81	1656.79	5704.87
17	Asset addition for 2019-20 as per this submission	113.16	213.84	1108.38	1435.38
18=(16+17)	Closing balance of Assets <12 years Old (1-4-2007 to 31-3-2020)	1771.43	2603.65	2765.17	7140.25
19=(16+18)/2	Average Value of Assets <12 Years old	1714.85	2496.73	2210.98	6422.56
20=(19*5.14%)	<b>Depreciation for assets &lt;12 years (@5.14%)</b>	<b>88.14</b>	<b>128.33</b>	<b>113.64</b>	<b>330.12</b>
21=(12+20)	Total Depreciation for assets for 2019-20	<b>125.93</b>	<b>162.70</b>	<b>119.27</b>	<b>407.90</b>

As above, KSEB Ltd had claimed Rs 162.70 crore towards depreciation of SBU-T for the year 2019-20.

### Comments of the stakeholders

3.63 HT&EHT Association requested before the Commission to allow depreciation strictly as per the provision of the Regulations. Association proposes to allow depreciation at Rs 162.70 Crore for SBU-T, as claimed by SBU-T.

### Provisions in the Regulations

3.64 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**

- 3.65 The Commission has examined in detail the depreciation claimed for the purpose of truing up for the year 2019-20. 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.
- 3.66 The Tariff Regulation 2018 provides the methodology and rates for determining the depreciation for Tariff determination.
- 3.67 The Commission vide Order dated 14.06.2022 in petition OA No.13/2020 in the matter of Truing Up of accounts for the financial year 2018-19 had approved the GFA of SBU-T as on 31.03.2019 at Rs 5364.55 crore (Table 3.21 in Paragraph 3.52).

**Table 3.27**  
**Summary of approved Asset addition of SBU- T as on 01.04.2019**

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

- 3.68 The summary of the asset addition of SBU-G approved by the Commission for the year 2019-20 as given in Table 3.23 above is Rs.384.17 crore. Accordingly as per Table 3.24 above, the GFA of SBU-T as on 31.03.2020 is Rs 5748.72 crore
- 3.69 Land is a non-depreciable asset. Based on the past data, the value of land is taken as 2.80% of the total GFA of KSEB Ltd. The Commission, duly considering the mix of various assets of KSEB Ltd with different useful life, 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.
- 3.70 Based on the above, and also as per the methodology adopted by the Commission for the year 2018-19 for approving depreciation, the depreciation of SBU-T of KSEB Ltd for the year 2019-20 is arrived as below.

Table 3.28  
Depreciation approved for SBU-T for the year 2019-20

Sl No	Particulars	Amount (Rs. Cr)
1	GFA approved as on 01.04.2019	5364.55

2	Consumer contribution & grants as on 01.04.2018	256.85
3	Value of land (2.8% of the GFA)	143.02
4	Depreciable Assets as on 01.04.2019	4964.68
5	Depreciation of asset as on 01.04.2019	152.83
6	Depreciation for assets added during the year 2019-20	9.87
7	<b>Total depreciation of SBU-D allowable for the year 2019-20</b>	<b>162.70</b>

3.71 **Based on the above, the Commission approves the depreciation of Rs.162.70 crore for the SBU-T for the purpose of truing up for the year 2019-20 as against Rs 173.47 crore approved in the MYT Order dated 08.07.2019.**

### **Interest and financing charges of SBU-T for the year 2019-20**

3.72 KSEB Ltd has claimed Rs 216.23 crore towards the interest and finance charges of SBU-T as against Rs 307.43 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 2019-20 is given below:

**Table-3.29**  
**Summary of Interest and Finance charges (Rs Cr)**

No	Particulars	MYT Order dated 08.07.2019	Actual	True-up petition
1	Interest on Outstanding Capital Liabilities	185.05	84.36	109.86
2	Interest on GPF	22.03	16.90	16.90
3	Interest on Master Trust Bonds	82.95	72.35	72.35
4	Interest on Working capital	17.40	18.68	17.12
5	<b>Total</b>	<b>307.43</b>	<b>192.29</b>	<b>216.23</b>

3.73 The Commission has examined each item of the interest and financing charges for SBU-T for the year 2019-20 and the decision of the Commission is discussed in the following paragraphs.

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

3.74 KSEB Ltd vide the Truing up petition had submitted the details of the loans availed for the year 2019-20 for all the SBUs of KSEB Ltd. Its summary as per the petition is given below.

**Table 3.30**  
**Summary of loans, interest and average rate of interest (Rs. Cr)**

SBU	Opening (01/04/19)	additions during the Year	Repayments during the year	Closing (31/03/20)	Average loan	Interest on loan	Average interest rate (%)
SBU G	926.26	732.89	383.54	1275.61	1100.94	103.77	9.43
SBU T	1195.66	845.28	550.99	1489.95	1342.81	122.09	9.09
SBU D	3366.39	1938.79	1061.8	4243.38	3804.89	371.45	9.76

<b>Total</b>	5488.31	3516.97	1996.33	7008.95	6248.63	597.31	9.56
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- 3.75 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 approved the opening level of normative loan SBU-T as on 01.04.2019 as Rs.1558.17 crore. The normative interest on loan approved by the Commission vide the MYT Order dated 08.07.2019 is extracted below.

Table : 3.31

Normative loan and interest charges of SBU-T approved for the MYT Order dated 08.07.2019 for the year 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)	1192.98	1558.17	2441.81	3257.06
Provisional Asset Additions for the year	511.60	1082.11	1427.76	615.21
Contributions and Grants for the year		25.00	389.58	100.00
Net Addition to normative loan for the year	511.60	1057.11	1038.18	515.21
Repayment for the year (Depreciation)	146.41	173.47	222.92	261.09
Closing provisional Normative loan (as on 31st March)	1558.17	2441.81	3257.06	3511.18
Average loan	1375.57	1999.99	2849.43	3384.12
Rate of interest	0.09	0.09	0.09	0.09
Interest Charges	127.28	185.05	263.65	313.12

- 3.76 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 31.03.2020 arrived by KSEB Ltd is given below.

Table 3.32

**KSEB Ltd Computation of Normative loan as on 01.04.2020**

Sl. No	Description	SBU G	SBU T	SBU D	Total
1	Closing balance of Normative loan as per True up Order for 2017-18 (OA 09/2020 dated 25.06.2021)	627.78	917.23	1439.64	2984.67
2	Add: Disputed claim pending before APTEL	135.23	131.21	201.16	467.6
3	Normative loan for GFA addition 2018-19	90.52	290.26	749.57	1130.35
4	Less Normative repayment 2018-19	124.73	160.32	97.17	382.22
5= (1+2+3-4)	Opening normative loan as on 01.04.2019	728.8	1178.38	2293.2	4200.4

6	Additional normative loan for 2019-20	114.17	222.49	1108.73	1445.39
7	Normative repayment 2019-20	125.93	162.7	119.27	407.9
<b>8= (5+6-7)</b>	<b>Closing normative loan 31.03.2020</b>	<b>717.04</b>	<b>1238.17</b>	<b>3282.66</b>	<b>5237.89</b>
9= (5+8)/2	Average Normative loan for the year 2019-20	722.92	1208.28	2787.93	4719.14
10	Weighted average interest rate for 2019-20 (%)	9.43	9.09	9.76	9.56
<b>11=9*10%</b>	<b>Normative interest for 2019-20</b>	<b>68.14</b>	<b>109.86</b>	<b>272.17</b>	<b>450.17</b>

3.77 As detailed above, the normative interest on loans claimed by KSEB Ltd for SBU-T for the year 2019-20 is Rs 109.86 crore as detailed in Table 3.32 above.

### Comments of stakeholders

3.78 HT&EHT Association has computed interest charges for existing and new loans by KSEB Ltd SBU-T for FY 2019-20 as Rs. 97.93 Crore, as compared to Rs. 109.86 Crore claimed by KSEB Ltd.

### 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 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."*

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, as discussed in the following paragraphs.

3.84 The Commission vide Order dated 14.06.2022 in Petition OA No.13/2020 had issued orders on Truing up of accounts of KSEB Ltd for the year 2018-19. As per the paragraph 3.86 the said order, the normative loan of SBU-T as on 01.04.2019 is Rs 1047.74 crore.

3.85 As per the SBU wise details of the loans as on 31.03.2020, the average interest on loan of SBU-T for the year 2019-20 is 9.09%.

3.86 Based on the above, the interest charges on normative loan approved for SBU-T for the FY 2019-20 is Rs 97.96 crore as detailed in the table below.

Table 3.33

SBU-T Interest charges approved for the year 2019-20

Sl. No	Description	Amount (Rs.Cr)
1	Opening normative loan as on 01.04.2019	1047.74
2	Add: Normative GFA addition qualifying for loan in the year 2019-20	222.49
3	Less: Depreciation for the year 2019-20	162.70
4= (1+2-3)	Closing normative loan as on 31.03-2020	1107.53
5= (1+3)/2	Average Normative loan for the year 2019-20	1077.64
6	Weighted average interest rate for 2019-20(%)	9.09%
7=6*5	<b>Normative interest for 2019-20</b>	<b>97.96</b>

3.87 ***As above, the interest charge approved for SBU-T of KSEB Ltd is Rs 97.96 crore as against Rs 109.86 crore claimed by KSEB Ltd.***

### **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 dated 08.07.2019 has approved the Interest on Working capital at a rate of the order

of 10.15% on the working capital of Rs. 171.47 Crore and approved the interest on working capital at Rs.17.40 Crore in MYT Order dated 08-07-2019. However, in the Truing up petition, KSEB Ltd has claimed Rs 17.12 crore towards the interest on working capital of SBU-T for the year 2019-20. The details are given below.

**Table- 3.34**  
**KSEB Ltd- Interest on working capital claimed for the year 2019-20(Rs Cr)**

	Approved	Actual	True up requirement
O&M Expenses	397.46		396.49
Provision for pay revision			29.50
Additional contribution to Master Trust			22.64
O&M Expenses			<b>448.63</b>
GFA Plants and Equipment	<b>5637.86</b>		<b>5544.08</b>
Transmission charges	983.69		909.89
O&M Expenses for one month	33.12		37.39
1% of Historical cost of plants & Equipment	56.38		55.44
Receivables (Transmission charges for one month)	81.97		75.82
Total requirement of working capital	<b>171.47</b>		<b>168.65</b>
Rate of interest	10.15%		10.15%
<b>Interest on Working Capital</b>	<b>17.40</b>	<b>18.68</b>	<b>17.12</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 estimated the interest on working capital eligible for the year 2019-20 as Rs.16.01 crore as against Rs.17.12 crore claimed by 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 expenses 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 As per the Regulation 32(2) of the Tariff Regulations, 2018, interest rate for computing interest on working capital for the year 2019-20 is 2% higher than base rate of SBI on 1<sup>st</sup> April 2019 for a tenor of one year.

Base rate as on 01.04.2019 for one month tenor = 8.50%  
Accordingly, the interest rate for arriving 'interest on working capital' = 10.50%

- 3.94 Based on the above, the interest on working capital is estimated as follows:

Table 3.35  
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 2019-20	386.87
2	O&M cost of SBU-T for one month = (1)/12	32.24
3	Gross Fixed Asset (historical cost only) as on 31.03.2019	5364.55
4	Cost of maintenance of spares (1% of the historical cost)	53.65
5	ARR of SBU-T	871.00
6	Receivable for one month	72.58
7	Total working capital eligible as per Regulation = (2)+(4)+(6)	158.47
8	Base rate as on 01.04.2018	8.50%
9	Interest rate on working capital = Base rate+2%	10.50%
10	Interest on working capital = (7)x (9)	16.64

- 3.95 ***As above, the Commission approves Rs 16.64 crore towards interest on working capital of SBU-T for the year 2019-20.***

#### **Interest on security deposits**

- 3.96 ***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 on GPF

3.97 KSEB Ltd submitted that, vide the MYT Order dated 08.07.2019, the Commission has approved Rs.22.03 crore towards interest on GPF. But the actual interest paid on PF accounted under PF was Rs.16.90 crore. Following are the reasons submitted by KSEB Ltd for the variation in the interest on GPF.

- (1) The average GPF considered by the Commission in the MYT Order dated 08.07.2018 was Rs.2432.33 crore. However, the actual average PF balance for 2019-20 is 2276.22 crore.
- (2) The Commission had considered 8% as the interest on GPF, however the actual was 7.90% initially, later it had raised to 8%.

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

**Table 3.36**  
**Interest on GPF (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on GPF	7.72	16.90	146.63	171.26

### Comments of the stakeholders

3.98 The HT -EHT Association requests to approve the Interest on the General Provident Fund as per the audited accounts for FY 2019-20 at Rs.16.90 Crore for SBU-T. as claimed by SBU-T.

### Analysis and decision of the Commission

3.99 ***As per the Accounts, the interest charges booked for GPF is Rs.171.26 crore. Out of this, the share of SBU-T is Rs. 16.90 crore, which is allowed for 2019-20.***

### Interest on Master Trust Bonds

3.100 KSEB Ltd submitted that the State Government, as per notifications dated 31.10.2013 and 28.01.2015, ordered to create 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 732.96 crore for the year 2019-20 towards interest on bonds issued to the Master trust.

3.101 KSEB Ltd further submitted that, Kerala Service Rules as applicable in the Government are applicable to employees of KSEB Ltd. During the year 2019-20 KSEB Ltd had disbursed Rs 1558.88 crore of terminal benefits to the retired employees. The details are given below.

**Table 3.37**  
Amount paid to pensioners by the trust

Month	Amount paid to pensioners by Trust
	(Rs. Cr)
Apr-19	101.84
May-19	111.49
Jun-19	109.26
Jul-19	133.35
Aug-19	164.80
Sep-19	160.56
Oct-19	156.56
Nov-19	99.67
Dec-19	191.95
Jan-20	110.65
Feb-20	106.72
Mar-20	112.03
<b>Total</b>	<b>1558.88</b>

3.102 KSEB Ltd further submitted that, the pension and terminal liabilities are not claimed as part of the employee expenses 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 2019-20 is Rs 732.96 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 3.38**  
Interest on Master Trust Bonds (Rs Cr)

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	33.06	72.35	627.56	732.97

3.103 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 expenses 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

3.104 The HT-EHT Association submitted that the Commission may approve the interest as per audited annual accounts of FY 2019-20. Accordingly, an amount of Rs 72.35 Crore may be allowed for SBU-G as claimed by SBU-G for the year 2019-20.

### **Provisions in the Regulation**

3.105 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.”*

3.106 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**



3.107 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.

3.108 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.

(2) 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.*

(f) *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).*

(g) *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.*

- (h) 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.
- (i) 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.
- (j) 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.

3.109 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.

3.110 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-3.39**  
**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

- 3.111 Since the year 2019-20 is the 3<sup>rd</sup> year of operation of the Master Trust, the interest liability to be borne by the KSEB Ltd is Rs 732.96 crore as above.
- 3.112 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.
- 3.113 Considering these aspects, the Commission hereby allow 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 732.96 crore in the true up of accounts of KSEB Ltd for the year 2019-20.
- 3.114 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.
- 3.115 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 3<sup>rd</sup> year of operation of the trust, i.e., for the year 2019-20 as given in the Table below.**

**Table 3.40**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	33.06	72.35	627.56	732.97

**As above, the Commission hereby approve Rs 72.35 crore towards the interest on Master Trust of SBU-T for the year 2019-20.**

### Summary of Interest and financing charges

- 3.116 Summary of the total interest charges allowable for the SBU-T for the year 2019-20 is as shown below:

Table: 3.41  
Interest charges allowable for SBU-T for 2019-20

No	Particulars	Truing up petition	KSERC Approval
		Rs. Cr)	Rs. Cr)
1	Interest on normative loan	109.86	97.96
2	Interest on GPF	16.90	16.90
4	Interest on Master Trust Bonds	72.35	72.35
5	Interest on Working capital	17.12	16.64
6	<b>Total</b>	<b>216.23</b>	203.85

**3.117 As above, the Commission approves Rs.203.85 crore towards the total interest and finance charges for SBU-T for the year 2019-20 as against Rs.216.23 crore claimed by KSEB Ltd as per the petition.**

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

3.118 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, over and above the actuarial liability of Rs 12418.72 crore as on 31.10.2013, with the observation that it shall hold separate proceedings to determine the funding arrangements of the unfunded actuarial liability.

3.119 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 ie 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, 31.03.2019 and 31.03.2020, the liability on this count has been assessed at Rs. 17732.57 Cr, Rs.19327.73 Cr and Rs. 20359.73 Cr respectively. The increase for the year 2019-20 has been Rs.1032.00 Cr and the same was captured in audited accounts as follows:

- (i) Liability pertaining to 2019-20 amounting to Rs.435.64 Cr has been booked under employee expenses for the year and
- (ii) Remaining portion, pertaining to earlier years Rs.596.35 Cr under other comprehensive income in P&L account.

3.120 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 un funded portion of actuarial liability in the MYT petition against which Hon'ble Commission provisionally approved Rs. 200 Cr with the following observation:

*.....Considering all these factors, the Commission is decided to hold a separate proceeding 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.*

3.121 KSEB Ltd further submitted that, the actual pension and terminal benefit disbursement exceeded interest on bonds by Rs.825.91 Cr. (Rs.1558.88 Cr- Rs.732.97 Cr). KSEB Ltd has also accounted Rs.435.64 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 expense 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**  
**Additional fund to Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Additional fund	10.26	22.64	167.10	200.00

3.122 KSEB Ltd also submitted that, current service cost as per actuarial valuation for 2019-20 amounts to Rs.435.64 Cr and the same has been included in the employee expenses for the year as per accounts. Hon'ble Commission may be pleased to consider the current service cost for the year over Rs.200 Cr amounting to Rs. 235.64 Cr with interest as and when the scheme is finalized.

### **Comments of the stakeholders**

3.123 The HT-EHT Association submitted that, the Commission may allow Additional Contribution to Master Trust as per the provisional approval, with SBU-T share of Rs. 22.64 Crore, as claimed by SBU-T

### **Provisions in the Regulations**

3.124 **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.”

3.125 **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.”

**3.126 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**

3.127 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 and 2019-20. 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.

3.128 KSEB Ltd in the Truing Petition for the year 2019-20 submitted that, as per the actuarial valuation as on 31.03.2018, 31.03.2019 and 31.03.2020, the additional liability to the trust based has been assessed at Rs. 17,732.57 Cr, Rs.19,327.73 Cr and Rs. 20,359.73 Cr respectively. KSEB Ltd further submitted that, as against the interest to the trust of Rs 732.97 crore, the actual pension disbursement to the pensioners during the year 2019-20 was Rs 1558.88 crore.

3.129 The Commission has appraised the matter in detail and is of the view that, unless KSEB Ltd transfer the following fund to the trust promptly, the Master trust established for meeting the pension and terminal liabilities will become bankrupt.

- (i) Interest and principal payment of the KSEB Ltd bond of Rs 8144.00 crore.

- (ii) Interest and principal repayment of the bond issued by KSEB Ltd on behalf of the State Government for the amount of Rs 3751.00 crore.
- (iii) Additional liability based on the actuarial valuation done every year since the first year of operation of the trust.

3.130 However, KSEB Ltd is yet to operate the Trust as envisaged in the Revesting Notification dated 31.10.2013 and its subsequent amendment dated 28.01.2015. 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.

3.131 The SBU wise allocation of the additional fund to the Master Trust approved herewith is as given below

**Table 3.43**  
**Additional fund to the Master Trust for the Year 2019-20 (Rs. Cr)**

Item	SBU G	SBU T	SBU D	Total
Additional fund	15.39	33.96	250.65	300

3.132 ***As above, the Commission provisionally approve Rs.33.96 crore as additional fund to the Master Trust of SBU-T as unfunded actuarial liability for the year 2019-20.***

#### **Other expenses:**

3.133 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-T is Rs. 1.36 crore.

3.134 SBU wise details of the other expenses claimed is given below.

**Table 3.44**  
**SBU wise details of the other expenses claimed for the year 2019-20 (Rs. Cr)**

Item	SBU G	SBU T	SBU D	Total
Other expenses as per accounts	0.02	1.36	20.59	21.97

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

3.135 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 other expenses SBU-T amounts to Rs 1.36 crore only. ***The Commission hereby approves Other Expense of Rs. 1.36 crore of SBU T for the year 2019-20 as per the KSEB Ltd truing up petition.***

### Return on equity

3.136 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 2019-20

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

3.137 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**

3.138 **“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.”*

3.139 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**

3.140 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 revesting. 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.”

- 3.141 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.

3.142 Accordingly, the RoE allowable for the SBU-T for the year 2019-20 is as shown below:

Table 3.46  
Return on equity approved for the year 2019-20

	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

3.143 ***As shown above, the Commission approves Rs.119.99 crore as ROE for SBU-T for 2019-20.***

#### **Exceptional items**

3.144 Expenses incurred for the restoration of assets damaged due to natural calamities are accounted under this head. SBU wise break up of exceptional items claimed by KSEB Ltd is given below.

Table 3.47  
Exceptional items

Item	SBU G	SBU T	SBU D	Total
Exceptional items	3.75	0.13	24.72	28.6

KSEB Ltd requested before the Commission to approve Rs 0.13 crore towards the exceptional items as above.

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

3.145 The Commission noted that, during this period, the State of Kerala has faced a huge deluge resulting in massive loss of life and property. KSEB Ltd claimed that they had incurred Rs 28.60 Crore towards one-time urgent steps taken to overcome the situation and to restore supply and to ensure safety of the general public. It is true that 2018-19 was indeed a catastrophic year to the State in general and KSEB Ltd with the full support and co-operation of its officers and staff had indeed done commendable work in ensuring safety of the general public by preventing electrocution.

**In view of the unexpected circumstances, the Commission hereby approves KSEB Ltd's claim of Rs 28.60 Crore with Rs 0.13 crore being the allocation to SBU – T.**

#### **Amortisation of intangible assets**

- 3.146 KSEB Ltd submitted that, the State Government vide G.O.(Ms) No.29/ 2015/ PD dated 30/07/2015 of Power (C) Department, approved a revised Special Compensation Package, meant exclusively for the construction of 400 kV transmission line in the Edmon – Kochi sector, as a special case. The *additional financial liability* due to the aforesaid special compensation package, roughly estimated to be around *Rs.1020.00 Crore will be borne and shared equally by Government of Kerala and Kerala State Electricity Board Limited*. In the first instance, the amount for implementing the special compensation package will be met by KSEB Ltd by availing loan. Government share will be granted subsequently.
- 3.147 KSEB Ltd further submitted that, the Commission, as per Order dated 09.08.2019 in OP 58/2018, has provisionally approved 50% of the additional financial liability due to the special compensation package of the 400 KV Edamon - Kochi transmission line as KSEB Ltd's share as per the orders of the Government. KSEBL share of compensation actually paid was allowed to be recovered in 12 years with interest as part of truing up.
- 3.148 KSEB Ltd claimed that, as part of compensation, an amount of Rs.18.00 Crore has been transferred to the District Collector, Ernakulam during the year 2019-20 as detailed below.

Table 3.48  
Amount disbursed under Special Compensation Package During 2019-20

Sl.No	Amount	Payment Details	Remarks
1	Rs.5.20 Crore	Cheque No. 524635 dated 12.04.2019	Sanctioned vide B.O.(DB) No.202/D(T&SO)/T2/ Koodamkulam/2018-19 dated 05.03.2019
	Rs.80 Lakh	Cheque No. 582512 dated 25.10.2019	
2	Rs.12.00 Crore	Cheque No. 582552 dated 14.11.2019	Sanctioned vide B.O.(FTD) No.762/2019/D (T, SO & S)/T2/ Koodamkulam/2019-20 dated 05.03.2019

- 3.149 Out of the above, Rs.9.00 Cr has been accounted under Intangible Assets and a sum of Rs. 0.75 Cr amortized during the year as per audited accounts. Thus, a total sum of Rs. 0.75 Cr has been booked as "Amortization of intangible assets" in annual accounts.
- 3.150 Hon'ble Commission may kindly note that an amount of Rs. 0.47 Cr towards interest (average interest rate for 2019-20) at 9.56% by virtue of order of the Commission dated 09.08.2019. KSEB Ltd requested to approve Rs.0.75 Cr (Rs.9 Cr/12) towards amortization of intangible asset and Rs. 0.47 Cr towards interest as part of truing up for the year 2019-20.

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

- 3.151 The Commission has examined in detail the amortization of intangible assets as part of Special Compensation package of Edamon- Kochi Transmission line, part of Kudankulam Transmission system.

3.152 The Commission vide Order dated 09.08.2019 in Petition OP No. 58/2018 had approved the special compensation package of Edamon-Kochi Transmission system. The relevant part of the Order is extracted below/

*“18. The Commission after examining the petition filed by KSEB Ltd as per the provisions of the Electricity Act, 2003, KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018, Ind As 38 and other relevant facts and documents, hereby orders the following.*

*(1) The Commission provisionally approves 50% of the additional financial liability due to the ‘special compensation package’ of the 400 kV Edamon- Kochi Transmission line, as KSEB Ltd’s share as per the orders of the State Government.*

*(2) The share of KSEB Ltd under additional special compensation package shall be treated as the ‘intangible assets’ of KSEB Ltd of the financial year(s) in which KSEB Ltd actually make the payment to the farmers and landowners, and it shall be allowed to be amortized over a period of 12 years from the year(s) from which KSEB Ltd actually make the payment.*

*(3) KSEB Ltd shall, along with the petitions on truing up of the relevant year(s) in which the payment towards the additional special compensation is made, submit the details of the additional special compensation paid to farmers and landowners in connection with the construction of the 400 kV Edamon-Kochi line.*

*(4) The Commission shall allow recovery of the yearly amortization amount along with interest, as expense of KSEB Ltd and to be recovered through tariff.*

*(5) The Commission shall not allow O&M expenses, return on equity or any such expenses over and above the ‘amortisation amount with interest’ to the intangible assets so created towards the KSEB Ltd share of additional special compensation package as per the orders of the State Government. Further, since the intangible asset so created is being amortised over a period of 12 years no separate provision for depreciation shall be provided.*

*The petition is disposed of accordingly.”*

3.153 As extracted above, the Commission vide Order dated 09.08.2019 in OP No. 58/2018 ordered that, KSEB Ltd shall share 50% of the amount paid to land owners and farmers as compensation as part of the special compensation package of Edamon-Kochi transmission system. The Commission further ordered that, the share of KSEB Ltd shall be treated as ‘intangible assets’ and permit KSEB Ltd to amortize the same over a period of 12 years. *The Commission shall allow recovery of the yearly amortization amount along with interest, as expense of KSEB Ltd. KSEB Ltd is permitted to claim these amount as part of Truing up petition.*

3.154 With the above provisions of the Order dated 09.08.2019, the Commission has examined the amount paid by KSEB Ltd as part of special compensation package and noted the following.

- (i) As detailed under Table 3.48 above, the total amount of Rs.18.00 crore disbursed during the year 2019-20 as part of special compensation package.
- (ii) As per the order of the Commission dated 09.08.2019, the share of KSEB Ltd allowed to pass on to the consumers is Rs 9.00 crore.
- (iii) **Further, as per the Order dated 09.08.2019, KSEB Ltd has to treat its share of Rs 9.00 crore as 'intangible assets'. Hence the accounting of the KSEBL to treat its share of Rs.9.00 crore as 'intangible assets' is as per the directions of the Commission and hence approved.**

3.155 The Commission has permitted KSEB Ltd to amortise the intangible assets over a period of 12 years. Hence the yearly amortization amount is Rs 0.75 crore (Rs 9.00 crore/12). KSEB Ltd requested to allow the amortisation of Rs.0.75 crore for the year 2019-20 as revenue expenditure as part of Truing up for the year 2019-20. **The Commission examined the claim in detail and hereby allow Rs 0.75 crore as part of ARR in the process of Truing up.**

3.156 KSEB Ltd also requested to allow Rs 0.47 crore towards interest of the intangible assets @9.56%. The Commission examined the claim and re-work the interest admissible as follows.

- (1) Average interest of the loan availed by KSEB Ltd for SBU-T is 9.09% only instead of 9.56% interest rate adopted by the licensee for the computation of the interest.
- (2) The interest admissible is computed as below.

Table 3.49  
Interest admissible for the 'intangible assets' as part of special compensation package

Sl No	Particulars	Amount (Rs. Cr)
1	Opening balance of 'intangible asset as on 01.04.2019'	9.00
2	Closing balance of 'intangible asset as on 31.03.2020' after accounting the amortisation of Rs 0.75 crore	8.25
3	Average intangible asset for the year 2019-20	8.63
4	Average Interest rate	9.09%
5	<b>Interest amount admissible</b>	<b>0.43</b>

As computed above, the interest amount admissible for the 'intangible assets' created for the KSEBL share of compensation is Rs 0.43 crore instead of Rs.0.47 crore claimed by KSEB Ltd.

**3.157 As discussed in the preceding paragraphs, the Commission here by approve 'Rs 0.75 crore towards amortization and Rs 0.43 crore as interest' towards (total Rs 1.18 crore) KSEB Ltd share of Rs 9.00 crore towards the disbursement under special compensation package of Edamon-Kochi Transmission system in the year 2019-20.**

**Total ARR of the SBU-T of KSEB Ltd excluding incentive for transmission availability above normative level**

3.158 The summary of the ARR of SBU-T of KSEB Ltd for the year 2019-20 excluding incentive for transmission availability above normative level is given below.

Table 3.50

Summary of the ARR approved of SBU-T for the year 2019-20

No	Particulars	MYT Order dated 08.07.2019	Actual	Truing up petition	KSERC approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Interest & Finance Charges	307.43	192.29	216.23	203.85
2	Depreciation	173.47	235.46	162.70	162.70
3	O&M Expenses				
	(i) Employee expenses *	397.46	352.63	386.87	282.18
	(ii) A&G expenses*		96.70		19.96
	(ii) R&M expenses		39.06		84.72
	(iv) Provision for pay revision	0.00		29.50	0.00
	(v) Total O&M cost	397.46	488.39	416.37	386.87
4	Return on equity (14%)	119.99	190.86	119.99	119.99
5	Additional contribution to Master Trust	22.64		22.64	33.96
6	Other expenses		1.36	1.36	1.36
7	Exceptional items		0.13	0.13	0.13
8	Amortization and interest on compensation paid			1.22	1.18
9	<b>ARR</b>	1020.99	1108.49	940.64	910.04

\*provisional

**Transmission availability**

3.159 In the petition KSEB Ltd claimed that the transmission system of KSEB Ltd could achieve an availability of 99.01% for the year 2019-20. 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:-



$$\text{Incentive} = \frac{\text{Aggregate Revenue Requirements} \times [\text{Annual availability achieved} - \text{Target Availability}]}{\text{Target Availability}}$$

3.160 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.9.69 Crore as incentive as below.

Table 3.51  
Incentive for transmission availability claimed by KSEB Ltd

ARR excluding incentive (Rs Cr)	940.64
Annual availability achieved	99.01%
Target availability	98%
Incentive	ARR*(Annual availability-Target availability)/ Target availability
Incentive for 2019-20 (Rs Cr)	9.69

3.161 KSEB Ltd requested to allow the incentive amounting to Rs.9.69 Crore for SBU-T in the year 2019-20.

### Objections of stakeholders

3.162 The HT-EHT Association computed the intensive admissible at Rs 8.55 crore as against Rs 9.79 crore claimed by KSEB Ltd based on the reduced ARR of SBU-T.

### Provisions in the Regulations

3.163 **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

3.164 The Commission examined the transmission availability achieved by the SBU-T of KSEB Ltd during the year 2019-20 and the certificate issued by the Kerala SLDC in this regard.

3.165 The Commission is of the considered view that, incentive for transmission availability has to be allowed on the ARR of SBU-T approved in the MYT Order dated 08.07.2019 instead of the ARR as per the Truing up petition. The ARR of SBU-T approved is Rs 910.04 crore exclusive of incentive. Since the actual transmission availability certified by SLDC is 99.01% 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.

$$\begin{aligned} \text{Incentive} &= 910.04 \times (99.01\% - 98\%) / 98\% \\ &= \text{Rs } 9.38 \text{ crore.} \end{aligned}$$

3.166 ***As above, the Commission hereby approve the incentive for achieving higher transmission availability above the target availability specified in the Tariff Regulations is Rs 9.38 crore for the year 2019-20 as against Rs.9.69 crore claimed by KSEB Ltd.***

### Non-Tariff income

3.167 KSEB Ltd has claimed Rs.40.54 crore towards Non-tariff income from the SBU-Transmission. The details are given below.

Table 3.52  
Non-Tariff income claimed for SBU-T for 2019-20 (Rs. Cr)

SI No	Particulars	MYT Order dated 08.07.2019	Accounts	Truing up petition
	Non Tariff Income			

1	Interest on staff loans and advances	0.02		0.00
2	Income from statutory investments	0.00		0.00
3	Income from rent of land or buildings	0.50	0.98	0.98
4	Income from sale of scrap	2.88	11.06	11.06
5	Income from staff welfare activities	0.00		0.00
6	Rental from staff quarters	0.12	0.10	0.10
7	Excess found on physical verification	0.03	0.01	0.01
8	Interest on investments, fixed and call deposits and bank balances	0.05	2.50	2.50
9	Interest on advances to suppliers/contractors	0.05	2.01	2.01
10	Income from hire charges from contractors and others	0.00		0.00
11	Income due to right of way granted for paying fibre optic cables/co-axial cables on transmission system	3.90		
12	Income from advertisements, etc.	0.00		
13	Miscellaneous receipts	29.76	23.88	23.88
14	Interest on delayed or deferred payment of bills			
15	Clawback of Grant		30.33	
	<b>Total Non-Tariff Income</b>	<b>37.30</b>	<b>70.86</b>	<b>40.54</b>

### Comments of the Stakeholders

3.168 The HT&EHT Association submitted that non-tariff income may be approved as sought by KSEB Ltd for SBU-T for the year 2019-20.

### Analysis and decision of the Commission

3.169 The Commission examined the claim of KSEB Ltd. KSEB Ltd has deducted Rs. 30.33 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.

3.170 ***The Commission after considering KSEB Ltd's submission of the details, approves the non-tariff income of Rs.40.54 crore for SBU-T for the year 2019-20 as claimed by KSEB Ltd for SBU-T.***

### Summary and Transfer cost of SBU-T

3.171 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.983.69 crore KSEB Ltd in their truing up petition has claimed the SBU-T transfer cost as Rs. 909.89 crore i.e., a decrease of Rs. 73.80 crore over the approved ARR&ERC figures.

3.172 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 2019-20 is Rs 878.88 crore as detailed below:

Table 3.53  
Approved Transfer Cost of SBU-T for 2019-20

No	Particulars	MYT Order dated 08.07.2019	Actual	Truing up petition	KSERC approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Interest & Finance Charges	307.43	192.29	216.23	203.85
2	Depreciation	173.47	235.46	162.70	162.70
3	O&M Expenses				
	(i) Employee expenses		352.63		282.18
	(ii) A&G expenses	397.46	96.70	386.87	19.96
	(ii) R&M expenses		39.06		84.72
	(iv) Provision for pay revision	0.00		29.50	0.00
	(v) Total O&M expenses (provisional)	397.46	488.39	416.37	386.87
4	Return on equity (14%)	119.99	190.86	119.99	119.99
5	Additional contribution to Master Trust	22.64		22.64	33.96
6	Other expenses		1.36	1.36	1.36
7	Exceptional items		0.13	0.13	0.13
8	Amortization and interest on compensation paid			1.22	1.18
9	Incentive for transmission availability			9.79	9.38
9	<b>ARR</b>	<b>1020.99</b>	<b>1108.49</b>	<b>950.43</b>	<b>919.42</b>
15	Less: Non-tariff Income	37.30	70.86	40.54	40.54
16	<b>Net ARR (Cost Transferred to SBU-D )</b>	<b>983.69</b>	<b>1037.63</b>	<b>909.89</b>	<b>878.88</b>

3.173 ***As above, the Commission hereby approve the gross ARR of SBU-T in the process of Truing Up at Rs.919.42 crore for the year 2019-20. The net transfer cost after accounting the Non-Tariff Income is Rs.878.88 crore for the year 2019-20.***

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

3.174 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.878.88 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 2019-20.

**CHAPTER -4**  
**ENERGY SALES AND T&D LOSS**

**Energy Sales**

4.1 KSEB Ltd in the Truing up petition 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 22969.69 MU for the year 2019-20. As against the approval, the actual energy sale was 22660.93 MU. In addition to the direct sale by KSEB Ltd, 11.47 MU was supplied to RGCCPP for meeting auxiliary consumption for non-operative periods.

Table 4.1  
KSEB petition- Energy sale within the State by KSEB Ltd for the year 2019-20

Category	Approved vide MYT Order dated 08.07.2019	Actual consumption (MU)	Difference (MU)
<b>LT Category</b>			
Domestic	11439.87	11894.15	454.28
VI & VII Commercial	3448.97	3424.42	-24.55
Industrial	1134.68	1085.16	-49.52
Agricultural	368.65	348.48	-20.17
Street Lights	404.36	365.86	-38.50
LT II	5.05	3.97	-1.08
Advertisement & Hoardings	2.12	1.95	-0.17
EV charging stations		0.11	0.11
<b>LT Total</b>	<b>16803.70</b>	<b>17124.10</b>	320.40
<b>HT Category</b>			
HT I	2280.91	2137.59	-143.32
HT II	864.87	835.87	-29.00
HTIII	10.17	10.06	-0.11
HT IV	727.59	737.43	9.84
HT V	16.51	17.74	1.23
HT VI		0.00	0.00
HT VII		0.08	0.08
<b>HT Total</b>	<b>3900.05</b>	<b>3738.77</b>	-161.28
<b>EHT Category</b>			
EHT-I	369.22	193.37	-175.85
EHT-II	778.40	496.52	-281.88
EHT-III	101.61	104.51	2.90
EHTGeneral	73.75	64.97	-8.78
Railway Traction	293.05	305.21	12.16
KMRL	16.92	17.75	0.83
<b>EHT Total</b>	<b>1632.95</b>	<b>1182.33</b>	-450.62
Bulk consumers/Licensees	632.99	615.73	-17.26
<b>HT.EHT &amp; Licensees total</b>	<b>6165.99</b>	<b>5536.83</b>	-629.16
<b>Total</b>	<b>22969.69</b>	<b>22660.93</b>	-308.76
<b>Energy given to RGCCPP to meet the auxiliary</b>		<b>11.47</b>	11.47

consumption during non-operative periods			
<b>Total</b>	<b>22969.69</b>	<b>22672.40</b>	<b>-297.29</b>

As detailed above, the energy sale within the State was 22672.40 MU as against 22969.69 MU approved by the Commission vide the MYT Order dated 08.07.2019.

- 4.2 In addition to the above, the embedded open access consumers availed 386.52 MU through open access at consumer end. Further 224.80 MU was consumed by captive consumers. Thus, the total energy consumption within the State including open access consumption and energy generation of captive consumers was 23283.71 MU as detailed below.

**Table-4.2**  
**Comparison of Energy consumption inside the State in MU for year 2019-20**

Category	Tariff code	Energy sales by KSEB Ltd inside the State	Energy wheeled through open access	Energy against captive generation	Total consumption of the State
LT category					
Domestic	LT I	11894.15		39.78	11933.93
Colonies	LT II	3.97		0.00	3.97
Temporary Connections	LT III	1.06		0.00	1.06
Industrial	LT IV	1085.16		0.37	1085.54
Agriculture	LT V	348.48		0.06	348.54
General	LT VI	1628.24		22.86	3446.22
Commercial	LT VII	1795.13		0.00	365.86
Public Lighting	LT VIII	365.86		0.00	1.95
Adv and Hoardings	LT IX	1.95		0.00	0.11
Electrical vehicle	LT X	0.11		0.00	
<b>LT total</b>		<b>17124.11</b>		<b>63.06</b>	<b>17187.17</b>
HT Category					
HT Industrial	HT I	2137.59	25.71	0.92	2164.23
HT General	HT II	835.87	14.78	37.00	887.65
HT Agriculture	HT III	10.06	0.00	0.08	10.14
HT Commercial	HT IV	737.43	8.50	22.40	768.32
HT Domestic	HT V	17.74	0.00	0.23	17.98
HT Temporary	HT VII	0.08	0.00	0.00	0.08
HT Total		<b>3738.77</b>	<b>48.99</b>	<b>60.63</b>	<b>3848.39</b>
EHT category					
EHT 66 KV Industrial	EHT I	193.37	111.00	50.59	354.96
EHT 110 KV Industrial	EHT II	496.52	207.95	2.55	707.01
EHT 220 KV Industrial	EHT III	104.51	17.06	0.00	121.57
EHT General		64.97	0.00	43.09	108.06

Railway Traction		305.21	0.00	0.00	305.21
KMRL		17.75	0.00	4.87	22.62
<b>EHT Total</b>		<b>1182.32</b>	<b>336.01</b>	<b>101.11</b>	<b>1619.44</b>
Bulk Licensees		615.73	1.53	0.00	617.25
HT &EHT & Bulk Supply		5536.82	386.52	161.74	6085.08
<b>Total</b>		<b>22660.93</b>	<b>386.52</b>	<b>224.80</b>	<b>23272.25</b>
<b>RGCCPP</b>		<b>11.47</b>			<b>11.47</b>
<b>Grand Total</b>		<b>22672.39</b>	<b>386.52</b>	<b>224.80</b>	<b>23283.71</b>

4.3 A comparison of the energy consumption by different categories of consumers in the year 2019-20 against the consumption in 2018-19 is given below.

Table 4.3

**Comparison of energy sales in MU in the year 2018-19 & 2019-20**

Category	Tariff code	Energy sale MU)			(% of increase over 2018-19
		2018-19	2019-20	Difference	
LT category					
Domestic	LT I	10860.01	11894.15	1034.14	9.52%
Colonies	LT II	4.33	3.97	-0.36	-8.31%
Temporary Connections	LT III	1.06	1.06	0.00	0.00%
Industrial	LT IV	1111.67	1085.16	-26.51	-2.38%
Agriculture	LT V	337.65	348.48	10.83	3.21%
General	LT VI	1567.41	1628.24	60.83	3.88%
Commercial	LT VII	1650.93	1795.13	144.20	8.73%
Public Lighting	LT VIII	377.78	365.86	-11.92	-3.16%
Adv and Hoardings	LT IX	2.02	1.95	-0.07	-3.47%
Electrical vehicle	LT X		0.11	0.11	
LT total		15912.86	17124.11	1211.25	7.61%
HT Category					
HT Industrial	HT I	2152.18	2137.59	-14.59	-0.68%
HT General	HT II	783.12	835.87	52.75	6.74%
HT Agriculture	HT III	8.92	10.06	1.14	12.78%
HT Commercial	HT IV	696.39	737.43	41.04	5.89%
HT Domestic	HT V	16.31	17.74	1.43	8.77%
HT Temporary			0.08	0.08	
HT Total		3656.92	3738.77	81.85	2.24%
EHT category					
EHT 66 KV Industrial	EHT I	268.73	193.37	-75.36	-28.04%
EHT 110 KV Industrial	EHT II	610.01	496.52	-113.49	-18.60%
EHT 220 KV Industrial	EHT III	106.63	104.51	-2.12	-1.99%
EHT General		66.54	64.97	-1.57	-2.36%
Railway Traction		303.13	305.21	2.08	0.69%
KMRL		14.91	17.75	2.84	19.05%
EHT Total		1369.95	1182.33	-187.62	-13.70%

Bulk Licensees		597.04	615.73	18.69	3.13%
HT & EHT & Bulk Supply		5623.91	5536.83	-87.08	-1.55%
Total		21536.77	22660.94	1124.17	5.22%
RGCCPP		8.04	11.47	3.43	42.66%
Sub total		21544.81	22672.41	1127.60	5.23%
Open Access Drawal		205.44	386.52	181.08	88.14%
Captive Consumption		152.34	224.80	72.46	47.56%
Grand Total		21902.59	23283.71	1381.12	6.31%

4.4 As detailed above, there is increase in energy sale of 1381.12 MU in the year 2019-20 over the year 2018-19, i.e. 6.31% increase over 2018-19. The Commission has also noted that, the increase in energy sale of LT categories was about 9.52%, HT category was 2.24%. However, EHT category shows a negative growth of (-)13.70% mainly due to purchase through open access.

4.5 KSEB Ltd further submitted that the energy consumed by embedded consumers through open access during the year 2019-20 is 386.52 MU. Further, one private generator had availed open access and sold 37.50 MU through open access out side the State. The loss in energy associated with wheeling of electricity by open access consumers within the State is given below.

**Table –4.4**  
**Energy availed and sold through OA by embedded open access consumers in FY- 2019-20(MU)**

Particulars	Energy at Kerala Periphery	Energy at injection/drawal point	Loss on accounting of wheeled units
	(MU)	(MU)	(MU)
Energy (Import)	405.86	386.52	19.34
Energy (Export)	35.96	37.50	1.54
Total loss			20.88

4.6 The consumption pattern of different categories of consumers for the year 2019-20 is given in the petition is as shown below:

**Table 4.5**

Consumption pattern of different categories of consumers for the year 2019-20

No	Category	Energy sales	
		MU	%
1	LT Domestic	11898.13	52.5%
2	LT Industrial	1085.16	4.8%
3	LT Agriculture	348.48	1.5%
4	LT Commercial	3426.48	15.1%
5	LT Public Lighting	365.86	1.6%



6	HT & EHT Total	4598.14	20.3%
7	EHT Railway Traction	305.21	1.3%
8	KMRL	17.75	0.1%
9	Bulk Supply	615.73	2.7%
<b>10</b>	<b>Total sales to consumers (within state)</b>	<b>22660.94</b>	<b>100.00</b>

4.7 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 2019-20, KSEB Ltd had supplied 11.47 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 22672.40 MU as energy sale for the year 2019-20.***

#### **Transmission and Distribution Loss (T&D Loss) for the year 2019-20**

4.8 KSEB Ltd in the Truing up petition submitted that the Commission vide the MYT Order dated 08.07.2019 had approved the loss reduction target of 0.40% for the year 2019-20 from the previous year 2018-19. The approved loss target for the year 2019-20 was 12.42% when compared with the previous year approved loss level target of 12.82%.

4.9 KSEB Ltd further submitted that, the actual T&D loss achieved for the year 2019-20 was 12.08% as against the approved level of 12.42%. Thus, KSEB Ltd was able to reduce the loss by 0.34% (12.42%-12.08%) over and above the target approved by the Commission.

4.10 The T&D loss for the year 2019-20 is worked out by KSEB Ltd as shown below:

Table 4.6  
KSEB Ltd- T&D loss calculation for the year 2019-20 as per petition in MU

SI No	Particulars	2019-20
A	Energy generation by KSEB Ltd excl auxiliary consumption	5742.41
B	Power Purchase /energy banked at Kerala periphery	20383.76
C	Sub Total (MU) (A+B)	26126.17
D	Energy injected to the grid by private IPPs for sale outside the State through OA	37.50
E	Energy wheeled by embedded open access consumers from outside the State at KSEB end	405.86
F	Energy sales by KSEB Ltd outside the State	55.95
G	Energy transfer outside the State by KSEB Ltd through banking arrangement	231.93
H	Energy sale by private IPPs for sale outside the State through open access	35.96

I	Energy Input (MU)(C+D+E-F-G-H)	26245.69
J	Substation auxiliary consumption (MU)	19.60
K	Net Energy Input excluding auxiliary consumption (MU) (I-J)	26226.08
L	Energy sales by KSEB Ltd	22660.93
M	Energy consumed by embedded open access consumers at consumer end by wheeling from outside the State	386.52
N	Energy supplied to RGCCPP for auxiliary consumption during non-operative period	11.47
O	Energy supplied at consumer end (MU) (L+M+N)	23058.91
P	T&D loss (MU) (K-O)	3167.17
Q	<b>T &amp; D loss for 2019-20 in % (P*100/K)</b>	<b>12.08</b>
T	T & D loss target approved for 2019-20 in %	12.42
R	<b>Achievement in loss reduction in excess of target approved (%)</b>	<b>0.34</b>

4.11 KSEB Ltd further submitted that, the transmission loss upto 66kV level was 971.24 MU. Based on the above KSEB Ltd has assessed the distribution loss for the year 2019-20 at 8.70%. The details are given below.

Table- 4.7  
Segregation of distribution loss for 2019-20

SI No	Particulars	Quantum	Unit
(i)	Total Generation and Power Purchase at Kerala periphery (item k of table D7 in petition)	26,226.08	MU
(ii)	Transmission loss	971.24	MU
(iii)	Total energy input into the distribution system (i)-(ii)	25,254.84	MU
(iv)	Total energy output (item O of Table D7 in petition)	23,058.91	MU
(v)	Distribution loss (iii)-(iv)	2,195.93	MU
(vi)	Distribution loss in % (v)*100/(iii)	8.70	%

4.12 The AT&C loss level claimed to have been achieved by KSEB Ltd in the year 2019-20 is given below.

Table 4.8  
AT&C loss for FY 2019-20

	Particulars	Quantum
A	Energy Input (MU)	26,226.08
B	Transmission loss (MU)	971.24
C	Net Energy input (MU) (A-B)	25,254.84
D	Energy Sold (MU)	23,058.91
E	Revenue from sale of power (Rs. Crore)	14273.49
F	Adjusted Revenue based on subsidy received basis (Rs. Cr.)	14273.49
G	Net Opening debtors (Rs. Crore)	2353.2
H	Adjusted closing debtors (Rs. Crore)	3041.61
I	Collection efficiency (F+G-H)/E*100	95.177
J	Units realised (MU) (D*I/100)	21,946.78
K	Units unrealised (MU) (C-J)	3,308.06
L	AT&C Loss (%) (K-C*100)	13.10%

4.13 KSEB Ltd submitted that, they had taken a series of steps during 2019-20 as detailed below to achieve the loss reduction as above.

Table- 4.9  
Steps taken for T&D loss reduction

Particulars	Achievement during 2019-20
Substations Commissioned	
400 kV	
220 kV	1
110 kV	9
66 kV	2
33 kV	6
Total	18
Lines Commissioned (Ckt km)	
400kV	92
220kV	55
110 kV	165.17
66 kV	18.7
33 kV	53.05
Total	383.92
Capacity addition/enhancement (MVA)	362
11 KV line constructed(km)	1931
LT line constructed(km)	3689
No. of distribution transformers	2023
HT re conductoring (km)	786.47
LT re conductoring (km)	20141.54
1 phase to 3 phase conversion(km)	2244.51
Meter Replacement (Nos)	1197183

4.14 KSEB Ltd has also submitted that, by effecting the excess loss reduction of 0.34% above the target approved by the Commission in the MYT Order dated 08.07.2019, KSEB Ltd was able to avoid the power purchase of 68.95 MU. Considering the average power purchase rate of Rs 4.23/unit, KSEB Ltd could save Rs 29.17 crore in power purchase in the year 2019-20.

4.15 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”*

4.16 Thus, the gain due to over achievement of T&D loss reduction to be retained by KSEB Ltd amounts to Rs. 19.54 crore as detailed below:

**Table- 4.10**  
Gain attributable to KSEB Ltd on over achievement of T&D loss reduction target.

Particulars	Quantum	Unit
Energy sales by KSEB Ltd	22660.93	MU
Energy taken by RGCCPP during non-operative periods	11.47	MU
Total energy	22672.39	MU
Energy input needed at 12.42% loss	25887.64	MU
Energy input needed for 2019-20	25818.69	MU
Energy savings	68.95	MU
Power Purchase cost saved due to over achievement of loss	29.17	Cr.
2/3 of savings	19.44	Cr.

4.17 KSEB Ltd also submitted the comparison of actual energy sales and energy input as against the approval, and the details are given below.

**Table- 4.11**  
Comparison of energy availability

Particulars	Approved	Actual	Difference
Energy sales by KSEB Ltd in MU	22969.69	22672.39	-297.30
Energy input for meeting the energy sales in MU(C-F-G-J) of table D6 in petition	26243.43	25818.69	-424.74
Internal Generation in MU (excl aux)			0.00
Hydro	6926.06	5704.67	-1221.39
Thermal	0.00	10.38	10.38
Solar & wind	44.20	27.36	-16.84
Subtotal generation	6970.26	5742.41	-1227.85
Power Purchase in MU at Kerala periphery			0.00
CGS	11241.96	10082.00	-1159.96
RGCCPP	0.00	0.00	0.00
IPP-wind & SHPs CPPs & solar prosumers	280.70	308.23	27.53
LTA	8647.06	8137.11	-509.95
RPO-solar	485.51		-485.51
RPO-non solar	503.35		-503.35
Short term purchase (MU)	0.00	1856.42	1856.42
Sub Total generation & Power Purchase by KSEB Ltd (MU)	28128.84	26126.17	-2002.67
Substation auxiliary consumption (MU)		19.60	19.60
Energy availability(MU)	28128.84	26106.57	-2022.27
External sale/swap return(MU)	1885.40	287.88	-1597.52
<b>Energy requirement for sale inside the State</b>	<b>26243.43</b>	<b>25818.69</b>	<b>-424.74</b>

## Comments of the Stakeholders

- 4.18 HT&EHT Association requested to approve the incentive for over achievement of T&D loss reduction at Rs. 19.21 Crore against Rs. 19.44 Crore claimed by KSEB Ltd (SBU-D) based on the reduced Average Power Purchase Cost (APPC) of Rs 4.18/kWh of SBU-D as proposed by the Association.

### **Provisions in the Regulations**

- 4.19 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**

4.20 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 i 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 supply, many embedded open access consumers and captive users are 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.

4.21 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 assed the T&D loss of KSEB Ltd system as follows.

Table 4.12  
T&D loss approved for the year 2019-20

SI No	Particulars	2019-20	Remarks
<b>I.</b>	<b>ENERGY INPUT</b>		
<b>1</b>	<b>Generation and Power purchase by KSEB Ltd</b>		
	Energy generation by KSEB Ltd excl auxiliary consumption (MU)	5742.42	Table 2.3
	Power Purchase /energy banked at Kerala periphery (MU)	20383.77	Table 5.36
	<b>Sub Total of energy generation and power purchase by KSEB Ltd (MU)</b>	<b>26126.19</b>	
	<b>Energy sale by KSEB Ltd out side the State</b>	<b>55.95</b>	Table 5.35
	Energy transfer outside the State by KSEB Ltd through banking arrangement	228.83	Table 5.34
	Substation auxiliary consumption (MU)	19.60	
	<b>Net Energy generation and power purchase by KSEB Ltd for sale within the State</b>	<b>25821.81</b>	
<b>2</b>	<b>Energy input by other parties to the Kerala system for their use</b>		
	Energy injected to the grid by private IPPs for sale outside the State through OA (MU)	37.50	

	Energy wheeled by embedded open access consumers from outside the State at KSEB periphery(MU)	405.86	
	Less Energy sale by private IPPs for sale outside the State through open access (MU)	35.96	
	<b>Subtotal of energy input into Kerala system by others</b>	<b>407.40</b>	
<b>3</b>	<b>Total energy input to the KSEB system = (1)+(2)</b>	<b>26229.21</b>	
<b>4</b>	<b>ENERGY SALES / CONSUMED BY DIFFERENT USERS (within the State)</b>		
	Energy sale of KSEB Ltd to the consumers (including aux consumption of RGCCPP)	22672.39	
	Energy consumed by embedded open access consumers at consumer end by wheeling from outside the State (MU)	386.52	
	<b>Total energy sale/out put through Kerala power system</b>	<b>23058.91</b>	
<b>5</b>	<b>T&amp;D Losses = (3)-(4)</b>	<b>3170.30</b>	
6	T&D loss achieved for 2019-20 = (5)/(3) (%)	12.09	
7	T& D loss target for 2019-20 (%)	12.42	
<b>8</b>	<b>Excess loss reduction target achieved (7-6) (%)</b>	<b>0.33</b>	
<b>9</b>	<b>Achievement in loss reduction in excess of target approved (%)</b>	<b>0.33</b>	

4.22 As detailed in the Table above, the actual T&D loss in the KSEB system for the year 2019-20 was 12.09%. The Commission vide MYT Order dated 08.07.2019 had approved the loss reduction target for the year 2019-20 at 12.42%. As against the target of 12.42%, the T&D loss achieved was 12.09%. i.e., KSEB Ltd could achieve an excess loss reduction of 0.33%, compared to the approved level. By achieving excess loss reduction over approved level, KSEB Ltd could reduce the power purchase by 65.82 MU as detailed below.

Table 4.13  
Savings in power purchase due to excess T&D loss reduction achieved for the year 2019-20

	Particulars	Quantum	
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1	Energy sale by KSEB Ltd (including aux supply to RGCCPP)	22672.39	MU
2	Energy input required at the actual level of 12.09%	25821.81	MU
3	Actual Energy input approved at the approved loss level of 12.42%	25887.63	MU
4	Savings in Power Purchase= (3)-(2)	65.82	MU

4.23 The average cost of power purchase approved for the year 2019-20 is Rs. 4.22/unit. The savings in cost of power purchase due to the excess loss reduction achieved is Rs.27.78 crore in the year 2019-20.

4.24 As per the provisions of Tariff Regulations,2018, 2/3rd of the savings in cost of power purchase due to excess loss reduction target may be allowed to be retained by the licensee and balance 1/3rd is allowed to pass on to the consumers.

**4.25 Accordingly, KSEB Ltd is allowed to retain 2/3rd of Rs.27.78 crore. i.e., Rs.18.52 crore is allowed to be retained by KSEB Ltd.**



## 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 31.03.2020, KSEB Ltd has been supplying electricity to about 128 lakh consumers in the State. The key statistics of the distribution network of KSEB Ltd as on 31.03.2020 is given below.

Table 5.1  
Key parameters of SBU-D as per petition

Particulars	As on 31.03.2020
Area Sq.km.	38863 km <sup>2</sup>
Districts No's	14
Electrical Circle Offices	25
Population in Cr	3.47
Consumers (Nos)	12826185
Distribution transformers (Nos)	81470
HT lines (Ckt. Kms)	66269.49
LT lines (Kms)	293280
Energy sales including external sales MU	22728.34
Energy consumption (incl open access & captive consumption) in MU	23283.71
Sales per consumer in units	1767
Consumption per consumer in units	1815.32
T&D loss in % (including transmission loss)	12.08%
Distribution loss in %	8.70%
AT&C loss in %	13.10%

- 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 extreme summer months, except during the natural calamities which happened in the monsoon months due to heavy flood. The gross availability of electricity supply for the year 2019-20 as per Tariff Regulations 2018 was 102.54%.

### Energy sales

- 5.3 The details of the energy sales and T&D loss and steps taken for its reduction during the year 2019-20 is discussed in detail in Chapter-4 of this Order. The total energy sale by KSEB Ltd to its consumers is 22672.39 MU. The T&D loss level was attained in the year 2019-20 was 12.09%.
- 5.4 Summary of the Aggregate Revenue Requirement, Revenue from Tariff and the Revenue gap of SBU-D as per the petition filed by KSEB Ltd for the year 2019-20 is given in the Table below.

Table 5.2

KSEB Ltd claim- ARR, ERC and Revenue gap of SBU-D (Rs. Cr)

Particulars	Approved	Actual	True up	Difference
<b>Cost of Generation (SBU-G)</b>	505.93	613.29	514.80	-8.87
<b>Cost of Power Purchase</b>	8613.94	8680.00	8616.54	-2.60
<b>Cost of Intra-State Transmission (SBU-T)</b>	983.69	1037.63	909.89	73.80
NLDC charges	3.00			3.00
Interest & Finance Charges	1197.88	1304.17	1231.38	-33.50
Carrying cost of revenue gap	223.59		548.11	-324.52
Depreciation	93.47	480.42	119.27	-25.80
<b>O&amp;M Expenses</b>	2458.95	3199.72	2442.44	16.51
<b>Pay revision provision</b>			204.56	-204.56
<b>Return on equity (14%)</b>	253.50		253.50	0.00
<b>Other Expenses</b>		20.59	20.59	-20.59
<b>Exceptional items</b>		24.72	24.72	-24.72
<b>Sharing of gains on account of higher T&amp;D loss reduction</b>			19.44	-19.44
<b>Recovery of previous gap</b>	1000.00			1000.00
<b>Interest on un funded actuarial liability</b>	167.10		167.10	0.00
<b>Total ARR</b>	<b>15501.04</b>	<b>15360.52</b>	<b>15072.34</b>	<b>428.70</b>
Tariff Income incl fuel surcharge	13254.67	14363.38	14056.75	-802.08
Less Power factor incentive	44.99	102.65	56.95	-11.96
Revenue from external sale	942.70	19.11	19.11	923.59
Non-Tariff Income	548.10	487.58	500.33	47.77
<b>Total ERC</b>	<b>14700.48</b>	<b>14767.42</b>	<b>14519.24</b>	<b>181.24</b>
<b>Net Revenue Gap (-)/ Surplus (+)</b>	<b>-800.56</b>	<b>-593.10</b>	<b>-553.10</b>	<b>-247.46</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 2019-20. The analysis and decision of the Commission on various expense components of KSEB Ltd for the year 2019-20 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 the 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 514.80 crore, the Commission has approved Rs 490.88 crore as transfer cost of SBU-G of KSEB Ltd for the year 2019-20.

5.7 The summary of the internal generation and transfer cost of SBU-G approved for the year 2019-20 is given below.

Table 5.3

Summary of the internal generation and transfer cost of SBU-G approved for the year 2019-20

Source	Gross Generation (MU)	Aux consumption (MU)	Net Generation (MU)	Transfer cost of SBU-G approved (Rs. Cr)
Hydro	5741.83	37.16	5704.67	490.88
BDPP	0.10	0.62	-0.52	
KDPP	11.93	1.03	10.90	
Wind	1.42	0.00	1.42	
Solar	25.95	0.00	25.95	
<b>Subtotal</b>	<b>5781.23</b>	<b>38.81</b>	<b>5742.42</b>	

As above, the net transfer cost of SBU-G approved for transfer to SBU-D of KSEB Ltd is Rs 490.88 crore for the year 2019-20.

**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.878.88 crore as against the claim of Rs 909.89 crore for the year 2019-20.

**Purchase of Power**

5.9 KSEB Ltd, in the petition has submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved the purchase of 21158.58 MU at a total cost of Rs 8613.94 crore for the year 2019-20. As against the approval, the actual power purchase from other than internal generation was 20383.76 MU at the total cost of Rs 8679.82 crore. However, in the petition for True up, KSEB Ltd requested to approve Rs 8616.54 crore for the year 2019-20. The details of the power purchase along with the reasons for the variations over approval detailed in the subsequent paragraphs.

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 2019-20

No	Particulars	MYT Approved			Actual			Truing up		
		Energy (MU)*	Cost	Avg. Tariff	Energy (MU)*	Cost	Avg. Tariff	Energy (MU)*	Cost	Avg. Tariff
			(Rs Cr)	(Rs/kWh)		(Rs Cr)	(Rs/kWh)		(Rs Cr)	(Rs/kWh)
1	Central Gen. Stations	11241.96	4135.05	3.68	10082.00	3835.91	3.80	10082.00	3835.91	3.80
2	Small IPPs within the State	280.70	103.78	3.70	308.23	102.36	3.32	308.23	102.36	3.32
3	RGCCPP, Kayamkulam (net)					100.22		0.00	100.22	
4	IPPs / Traders outside state	8647.06	3528.02	4.08	8137.11	3606.79	4.43	8137.11	3543.50	4.35
5	Short term / Exchanges/UI/Swap				1503.75	460.47	3.06	1503.75	460.47	3.06
6	RPO solar	485.51	145.65	3.00				0.00	0.00	
7	RPO non solar	503.35	145.97	2.90				0.00	0.00	
8	Transmission charges (ISTS)		555.46			567.34		0.00	567.34	
9	Charges in connection with banking of power o/s State				352.67	6.00	0.17	352.67	6.00	0.17
10	Other charges in connection with sale					0.74		0.00	0.74	
11	Total	21158.58	8613.94	4.07	20383.76	8679.83	4.26	20383.76	8616.54	4.23
	Average Power Purchase cost (Rs/unit)	Rs 4.23/unit								

5.11 As above, KSEB Ltd during the year 2019-20 had purchased power from the following sources such as;

- (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)

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. The Commission’s analysis, findings, results and recommendations are given in the subsequent paragraphs.

**(1) Purchase of power from Central Generating Stations (CGS)**

5.14 The total power purchase from the CGS for 2019-20 is 10470.29 MU (ex-bus) and the cost of this power purchase as per the accounts is Rs.3835.91 crore. The details of the power purchase from CGS is given below.

**Table – 5.5  
Power Purchase from Central Generating Stations for the year 2019-20**

Station	MYT Order dated 08.07.2019			Audited accounts		True up requirement			Variation	
	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	1808.01	577.40	3.19	1791.47	589.07	1791.47	589.07	3.29	-16.54	11.67
RSTPS III	453.27	144.50	3.19	444.05	147.60	444.05	147.60	3.32	-9.22	3.10
Talcher Stage-II	3172.90	770.00	2.43	2829.95	786.11	2829.95	786.11	2.78	-342.95	16.11
Simhadri TPS Stg II	584.87	256.20	4.38	564.87	279.79	564.87	279.79	4.95	-20.00	23.59
NLC Stage-I	397.35	134.10	3.37	457.87	157.18	457.87	157.18	3.43	60.52	23.08
NLC Stage-II	567.42	193.00	3.40	620.91	217.37	620.91	217.37	3.50	53.49	24.37
NLC 1 Expansion	429.02	147.80	3.45	520.95	210.12	520.95	210.12	4.03	91.93	62.32
NLC II Expansion	282.78	140.90	4.98	242.70	119.19	242.70	119.19	4.91	-40.08	-21.71
MAPS	123.59	34.37	2.78	75.94	3.68	75.94	3.68	0.48	-47.65	-30.69
KAIGA	486.76	180.50	3.71	545.38	122.39	545.38	122.39	2.24	58.62	-58.11
Kudankulam	1538.37	644.30	4.19	1403.35	586.97	1403.35	586.97	4.18	-135.02	-57.33
Vallur	347.05	169.00	4.87	255.94	161.76	255.94	161.76	6.32	-91.11	-7.24
NTPL	501.99	238.80	4.76	415.08	198.81	415.08	198.81	4.79	-86.91	-39.99

Kudgi	742.20	404.90	5.46	284.12	247.61	284.12	247.61	8.71	-458.08	-
Bhavini	237.31	99.39	4.19			0.00	0.00		-237.31	-99.39
NNTPS (16.2MW)				17.71	8.24	17.71	8.24	4.65	17.71	8.24
Eastern region					0.01	0.00	0.01		0.00	0.01
<b>Total</b>	<b>11672.89</b>	<b>4135.16</b>	3.54	<b>10470.29</b>	<b>3835.91</b>	<b>10470.29</b>	<b>3835.91</b>	3.66	<b>-1202.60</b>	<b>-299.25</b>
*Energy at ex-bus										

5.15 The Commission noted that, vide the MYT Order dated 08.07.2019, the Commission has not approved the schedule of power from New Neyveli Thermal Power Station (NNTPS). In this regard, KSEB Ltd submitted the following.

- (i) KSEB Ltd submitted that, Unit I of New Neyveli Thermal Power Station (NNTPS) which was not included in the approved sources of CGS in the MYT Order dated 08.07.2019. The plant commenced its commercial operation on 28.12.2019. KSEB Ltd has an allocation of 16.2 MW. Hon'ble CERC vide Order dated 29.01.2020 has determined the interim tariff of NNTPS for the period from anticipated COD of units to 31.03.2021. KSEB Ltd scheduled 17.71 MU during 2019-20 for Rs 8.24 Cr.
- (ii) KSEB Ltd further submitted that, it had entered into the PPA with NLC for power allocation from NNTPS on 10.12.2010. Regulation 18 of Tariff Regulation, 2014 (for the control period from 2015-16 to 2017-18) stipulated that in the case of existing generating stations, approval shall not be required in the case of purchase of power based on Central allocation of generation capacity of Central Generating Stations to the State or in the case of purchase of power from generating stations/units at a tariff approved by Central Electricity Regulatory Commission though not under central allocation of generation capacity to the State or in case of purchase of power from generating stations/units at tariff approved by other State Electricity Regulatory Commissions. The same is reiterated in Tariff regulations 2018 (applicable for the control period from 2018-19 to 2021-22) also.
- (iii) Till the issuance of Tariff Regulations, 2014, KSEB Ltd has been seeking approval for power allocation from Central Generating Stations (allocation of power by Ministry of Power) in the petition for approval for ARR & ERC for the financial year as and when the power started scheduling from Central Generating Stations and Honorable Commission was pleased to approve the same vide ARR & ERC orders. As per the Tariff regulations 2014 also, KSEB Ltd has been continuing the same approach for all the PPAs with Central Generating Stations entered before November 2014.
- (iv) KSEB Ltd also submitted that, similar procedure was adopted for all Central Generating Stations whose power is allocated as per Ministry of Power such as NTPC Kudgi, NLC II Expansion, NTPL, NTECL Vallur,



NTPC Simhadri, NPCIL Kudamkulam etc whose PPA was entered before FY 2010. But, as per Regulation 76 of Tariff Regulations 2018, KSEB Ltd had sought approval for all power procurements through long term contracts, medium term contracts and short-term contracts entered into with IPPs and private generators, entered after FY 2014.

- (v) KSEB Ltd further requested that, as NNTPS did not commence its operation at the time of filing of MYT petition and it was not certain about the date of commencement of scheduled operation, KSEB Ltd did not submit the energy schedule of NNTPS in the MYT petition dated 31.10.2018. The date of commercial operation of unit I of NNTPS was declared on 28.12.2019. KSEB Ltd considered the energy schedule of the Station in Mid Term review petition filed by KSEB Ltd on 24.03.2020, but formal approval of the Mid term performance review is yet to be issued.
- (vi) Considering the fact that KSEB Ltd entered PPA with M/s NNTPP before the issuance of Regulations KSEB Ltd humbly requests before the Hon'ble Commission to kindly consider the power procurement of NNTPS and allow the power purchase cost of M/s NNTPP.

5.16 KSEB Ltd further submitted that, as detailed in Table 5.5 above, there is an overall reduction in power availability from CGS by 1202.60 MU from the approved quantum during the year 2019-20 due to the following reasons.

- (i) Reduction in generation due to coal shortage at Talcher-II station during December and March.
- (ii) Forced shut down of Talcher-II stations in the months of May, August, September and October.
- (iii) Forced shutdown of NLC stations in the months of May and July.
- (iv) Reserve shut down of Vallur, NTPL and Kudgi stations.
- (v) Surrender costly stations such as Kudgi, Vallur and Simhadri power stations.

5.17 KSEB Ltd also submitted that the tariff of the CGS is determined by CERC. The power purchase cost of CGS includes fixed cost, variable charges RLDC charges, incentive claims and the various supplementary claims approved vide corresponding regulations/CERC orders.

5.18 As detailed in the Table 5.5 above, the total cost of power purchase from CGS is Rs.3835.91 crore @average tariff of Rs.3.66/unit for the purchase of 10470.29 MU as against Rs 4135.16 crore approved @Rs 3.54/unit for the purchase of 11672.89 MU. There is a reduction in overall cost of power purchase by Rs.299.25 crore due to the reduction in energy availability by 1202.60 crore. However, the average cost of power purchase as per the actuals was Rs 3.66/unit as against Rs 3.54/unit approved by the Commission.

- 5.19 KSEB Ltd also submitted that, there is a reduction in cost of power purchase from the Nuclear stations MAPS and KAIGA due to the revised fuel price as per DAE notification dated 18.02.2020. Rs(-16.07 )Cr credited for the period from 2009-10 to 2018-19 as tariff adjustment due to DAE notification dtd 18-02-2020 in the accounts of FY 2020 for MAPS and Rs (-68.66) Cr for KAIGA station.
- 5.20 KSEB Ltd has also submitted that refund on account of revision of RLDC charges (Farakka and Kahalgon stations under Eastern Region) for the period 01.03.2010 to 30.04.2013 amounting to Rs.83,057.00 and Rs.21,957.00 was made 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.
- 5.21 KSEB Ltd requested to approve the cost of power purchase from CGS amounting to Rs 3835.91 crore for the purchase of 10470.29 MU as above.

#### **Comments of the stakeholders**

- 5.22 The HT & EHT Association recommended to approve the quantum of power purchase and cost as per the audited accounts. The Association point out that, after accounting the PGCIL losses of 388.28 MU reported by KSEB Ltd, the net power purchase at Kerala periphery is 10082.00 MU and may approve the total cost of Rs 3835.91 crore for purchasing the power.

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

- 5.23 The Commission has examined in detail the power purchase from CGS in the year 2019-20.
- 5.24 The Commission noted that, except the power purchase from New Neyveli Thermal Power Station (NNTPS), all other sources are approved in the MYT Order dated 08.07.2019. KSEB Ltd submitted that, they had signed PPA for power purchase from NNTPS in 10.10.2010. However, the Commercial Operation of the generating station started only on 28.12.2019. Since there was uncertainty in the commercial operation of the plant, the licensee has not included the NNTPS as sources of power purchase in the MYT petition. KSEB Ltd purchased 17.71 MU from the NNTPS in the year 2019-20 and the total cost of power purchase was Rs 8.24 crore at an average rate of Rs.4.65 per unit.

KSEB Ltd further submitted that, Tariff Regulations 2014, and Tariff Regulations 2018, which stipulate that all the PPAs entered into after the notifications of these Tariff Regulations shall be only be done with the prior approval of this Commission. Since the PPA of the NNTPS was signed on 10.10.2010, much before the notifications of the Tariff Regulations, 2014 and Tariff Regulations, 2018, KSEB Ltd was not sought separate approval for scheduling power from

this station after its CoD. KSEB Ltd further submitted, all the PPAs signed after notifications of the Tariff Regulations 2018 shall be done only with the prior approval of the Hon'ble Commission.

The Commission has examined the submission of KSEB Ltd regarding the power purchase from NNTPS since December 2019. The Commission also noted that, though the PPA was signed on 10.10.2010, the COD was only on 28.12.2019, i.e after 9 years and 58 days from the date of signing PPA. It is also a fact that, the power situation in the country and the overall power situation in the State has also considerably changed since then. The maturity of the short-term power market including power exchanges and also the electricity generation RE sources such as solar and wind has resulted in overall reduction in cost of power purchase. Hence, KSEB Ltd is required to exercise the choice of whether to continue or not to continue with the PPA at the time of CoD of such delayed projects. The Commission specifically points out that such large time overruns completely alter the economic viability of power generated from such plants due to cost overrun. Hence, a project which is viable at the time of sanctioning of the project may not be so after such larger time gaps. The Commission also states that, any contract entered into between the generator and KSEB Ltd is mutually binding and time is the essence of any contract. Hence, if CoD and provisional tariff mentioned in the PPA is substantially altered, there is no obligation on the part of KSEB Ltd to purchase such power due to non honoring of the generator's commitments.

The Commission further directs KSEB Ltd that mere allocation of power by the Ministry of Power does not make it obligatory to purchase such power. In fact, all power purchase have to be done only after it is approved by the Appropriate Commission as mandated in Section 86(1)(b) of the EA-2003. **Hence the Commission hereby direct that, KSEB Ltd shall obtain the fresh approvals for all power purchase from CGS whose CoD was delayed even though the PPA of such projects are signed earlier. If KSEB Ltd fail to get the fresh approval for such PPAs, the Commission shall dis-allow cost of such power purchase at the time of Truing up and treat such purchase as unauthorised.**

- 5.25 The Commission has also noted the reason submitted by KSEB Ltd for the reduction in schedule of power from CGS. 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.

Table 5.6

CGS- cost of power purchase approved for the year 2019-20

Station	MYT Order dated 08.07.2019		True up requirement		KSERC Approval	
	Energy at exbus	Cost	Energy at exbus	Cost	Energy	Energy at exbus
	(MU)	(Rs Cr)	(MU)	(Rs Cr)	(MU)	(Rs Cr)
RSTPS I & II	1808.01	577.40	1791.47	589.07	1791.47	589.07

RSTPS III	453.27	144.50	444.05	147.60	444.05	147.60
Talcher Stage-II	3172.90	770.00	2829.95	786.11	2829.95	786.11
Simhadri TPS Stg II	584.87	256.20	564.87	279.79	564.87	279.79
NLC Stage-I	397.35	134.10	457.87	157.18	457.87	157.18
NLC Stage-II	567.42	193.00	620.91	217.37	620.91	217.37
NLC 1 Expansion	429.02	147.80	520.95	210.12	520.95	210.12
NLC II Expansion	282.78	140.90	242.70	119.19	242.70	119.19
MAPS	123.59	34.37	75.94	3.68	75.94	3.68
KAIGA	486.76	180.50	545.38	122.39	545.38	122.39
Kudankulam	1538.37	644.30	1403.35	586.97	1403.35	586.97
Vallur	347.05	169.00	255.94	161.76	255.94	161.76
NTPL	501.99	238.80	415.08	198.81	415.08	198.81
Kudgi	742.20	404.90	284.12	247.61	284.12	247.61
Bhavini	237.31	99.39	0.00	0.00	0.00	0.00
NNTPS (16.2MW)			17.71	8.24	17.71	8.24
Eastern region			0.00	0.01	0.00	0.01
Aravally Corporation Ltd				0.00		0.00
<b>Total</b>	<b>11672.89</b>	<b>4135.16</b>	<b>10470.29</b>	<b>3835.91</b>	<b>10470.29</b>	<b>3835.91</b>

5.26 **The Commission, after examining the details furnished by KSEB Ltd hereby approve the total power purchase of 10470.29 MU at ex-bus at a total cost of Rs.3835.91 crore from Central Generating Stations (CGS) for the year 2019-20 as per the details given above.**

**(2) Power Purchase from Wind and small IPPs within the state:**

5.27 KSEB Ltd, in their petition has submitted that, it had purchased 308.23 MU at the cost of Rs 108.97 crore against the MYT approved quantum of 280.70 MU at Rs 103.78 Crore from wind and small independent power producers within the State. The sources of this purchase of power include captive generation from Maniar and Kuthumkal also. The details of the power purchase from wind and small IPPs located within the State in the year 2019-20 is given below.

Table 5.7

Cost of power purchase from wind, SHPs, Solar and other IPPs in the State for the year 2019-20

Station	MYT Order dated 08.07.2019			Audited Accounts		KSEB Truing up			Difference	
	(MU)	(Rs Cr)	Avg tariff (Rs/kWh)	(MU)	(Rs Cr)	(MU)*	(Rs Cr)	Avg tariff (Rs/kWh)	(MU)	(Rs Cr)
Wind-Ramakkalmedu	27.87	8.75	3.14	23.10	19.00	23.10	19.00	3.14	9.60	3.02
Wind-Koundikkal	12.56	3.94	3.14	26.70		26.70				
Wind- Agali	29.72	9.33	3.14	10.75		10.75				
Wind Ahalya	20.98	10.97	5.23	19.23	10.06	19.23	10.05	5.23	-1.75	-0.92
INOX	30.84	12.61	4.09	37.21	15.22	37.21	15.22	4.09	6.37	2.61

Kosamattom				1.61	0.50	1.61	0.50	3.11	1.61	0.50
<b>Wind Sub total</b>	<b>121.97</b>	<b>45.61</b>	<b>3.74</b>	<b>118.60</b>	<b>44.77</b>	<b>118.60</b>	<b>44.77</b>	<b>3.77</b>	<b>-3.37</b>	<b>-0.84</b>
Ullunkal (EDCL)	17.79	4.34	2.44	18.10	4.42	18.10	4.42	2.44	0.31	0.08
Iruttukanam Stage-I & II(Viyyat)	24.69	6.67	2.70	18.25	5.03	18.25	5.03	2.76	-6.44	-1.64
Karikkayam HEP(AHPL)	37.56	15.62	4.16	36.37	15.13	36.37	15.13	4.16	-1.20	-0.50
Meenvalloam(PSHCL)	8.44	4.12	4.88	6.80	3.29	6.80	3.29	4.84	-1.64	-0.83
Kallar of Idukki District Panchayat	0.08	0.04	5.00	0.00	0.03	0.00	0.03		-0.08	-0.01
Mankulam of Grama Panchayat				0.00	0.00	0.00	0.00		0.00	0.00
Minar Renewable energy project Ltd *				0.00	0.18	0.00	0.18		0.00	0.18
<b>SHEP subtotal</b>	<b>88.65</b>	<b>30.84</b>	<b>3.48</b>	<b>79.51</b>	<b>28.07</b>	<b>79.51</b>	<b>28.07</b>	<b>3.53</b>	<b>-9.14</b>	<b>-2.77</b>
Solar						0.00	0.00		0.00	0.00
Solar IREDA	70.08	27.33	3.90	73.16	28.04	73.16	28.04	3.83	3.08	0.71
Solar IPP ANERT				2.59		2.59	0.00	0.00	2.59	0.00
Grid connected average pooled power purchase cost-solar				8.74	1.47	8.74	1.47	1.68	8.74	1.47
Solar subtotal	<b>70.08</b>	<b>27.33</b>	<b>3.90</b>	<b>84.49</b>	<b>29.51</b>	<b>84.49</b>	<b>29.51</b>	<b>3.49</b>	<b>14.41</b>	<b>2.18</b>
<b>Total KSEB purchase</b>	<b>280.70</b>	<b>103.78</b>	<b>3.70</b>	<b>282.60</b>	<b>102.36</b>	<b>282.60</b>	<b>102.35</b>	<b>3.62</b>	<b>1.90</b>	
Captive consumers net injection to grid				22.46		22.46			22.46	
PCBL(Deviation adjustment)				3.18		3.18			3.18	
<b>Total</b>	<b>280.70</b>	<b>103.78</b>	<b>3.70</b>	<b>308.23</b>	<b>102.36</b>	<b>308.23</b>	<b>102.35</b>	<b>0.00</b>	<b>27.53</b>	

Details of the power purchase from each RE sources is detailed below.

### Wind IPPs:

5.28 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 118.60 MU at the total cost of Rs 44.77 Crore.

Out of the total wind purchase of 118.60 MU, 60.55 MU pertains to the Wind plants at Ramakkalmedu, Koundikkal and Agali together at the tariff @Rs 3.14 /unit, 19.23 MU from the wind plant developed by Ahalya @Rs 5.23/unit, 37.21 MU from the wind plants of INOX @Rs 4.09/unit.

KSEB Ltd further submitted that, in the MYT Order dated 08.07.2019, the power purchase from Kosamattom wind plant was not included. The Kosamattom plant was connected to the grid on 20.03.2018 and injected 1.61 MU in the year 2019-20. The Commission vide Order dated 04.12.2019 had approved the tariff of the project @Rs 3.93/unit with the benefit of accelerated depreciation. Subsequently, the Commission vide Order dated 27.10.2020 had approved the PPA to be signed with 1MW wind plant of Kosamattom.

**Small Hydro IPPs:**

- 5.29 KSEB Ltd in the petition submitted that, the Commission vide Order dated 08.07.2019 approved 88.65 MU from various small hydel IPPs @ of Rs.30.84 Cr. KSEB Ltd has purchased 79.51 MU at a cost of Rs 28.07 crore in the year 2019-20.

KSEB Ltd had included Rs 0.18 lakh as cost of power purchase from M/s Minar Renewable energy project Ltd. This cost pertains to the energy injected into the grid in the year 2018-19, but the cost paid during the current financial year 2019-20.

**Solar IPPs:**

- 5.30 KSEB Ltd in the petition submitted that the Commission approved 70.08 MU from Kasargod solar park (IREDA) for a total power purchase cost of Rs 27.33 Crore. KSEB Ltd has purchased 73.16 MU from IREDA at a cost of Rs 28.04 crore. In addition, 2.59 MU was procured from solar Project Kuzhalmannam of ANERT. Since the PPA is yet to be signed with ANERT, hence the cost of power purchase from ANERT was not included in the cost of power purchase.

**Solar prosumers:**

- 5.31 KSEB Ltd in their petition claimed that, a net injection of about 8.74 MU has been made by various solar prosumers and the power purchase cost accounted during 2019-20 is Rs 1.47 Cr. at APPC rate.

**CPPs:**

- 5.32 There was a net injection/ banking of 22.46 MU by CPPs such as Maniyar, Kuthungal, during the financial year 2019-20. KSEB Ltd consumed this energy as part of their internal consumption. Since these banked energy is allowed to use in the next financial year basis, no cost is provided in the accounts for this energy. However, in the next financial year, KSEB Ltd has to purchase additional quantum to the extent of this banked energy to provide to the captive consumers at free of cost.

Further there is a net injection of 3.18 MU to grid during 2019-20 in connection with the sale of power through open access by Philips Carbon Black Ltd. However, no cost is claimed in the year 2019-20 for the same.

### 5.33 Summary of the cost of power purchase claimed.

The summary of the power purchase claimed by KSEB Ltd from renewable sources, small IPPs and captive consumers and its cost is given in the Table below.

Table 5.8

Summary of the power purchase from Renewable IPPs in the State for the year 2019-20

Station	KSERC approval		Audited Accounts		Truing up requirement		Difference	
	Energy	Cost	Energy	Cost	Energy	Cost	Energy	Cost
	(MU)	(Rs Cr)	(MU)	(Rs Cr)	(MU)	(Rs Cr)	(MU)	(Rs Cr)
Wind & SHEP	210.62	76.45	198.11	72.85	198.11	72.85	-12.51	-3.60
Solar-IREDA and ANERT	70.08	27.33	75.75	28.04	75.75	28.04	5.67	0.71
Grid connected solar prosumers	0.00	0.00	8.74	1.47	8.74	1.47	8.74	1.47
CPPs/PCBL	0.00	0.00	25.64	0.00	25.64	0.00	0.00	0.00
Subtotal	280.70	103.78	308.24	102.36	308.24	102.36	1.90	-1.42

### Analysis and decision of the Commission

5.34 The Commission examined the power purchase from wind, SHPs and solar plants in the State and noted the following.

#### (1) Wind IPPs.

All the sources of wind IPPs except power purchase from the Kosamattom plant (1MW) are approved by the Commission in the MYT Order dated 08.07.2019. The tariff for power purchase from the respective wind IPPs and their rates are also approved by the Commission.

The Commission vide Order dated 04.12.2019 had approved Rs 3.93/unit as the tariff with the benefit of accelerated depreciation of Kosamattam plant. Subsequently, the Commission vide Order dated 27.10.2020 had approved the PPA of the Kosamattom plant to be entered with the licensee KSEB Ltd.

Based on the above approvals, the total cost of power purchase from wind IPPs is Rs 44.77 crore for the purchase of 118.60 MU. **The Commission hereby approves Rs.44.77 crore as the cost of power purchase of wind IPPs as claimed by KSEB Ltd.**

**(2) Small Hydro IPPs**

The Commission noted that, all sources of SHPs except Minar Renewable Ltd (8MW) was approved by the Commission in the MYT Order dated 08.07.2019. The Commission vide Order dated 06.09.2019 had approved the tariff of Rs.3.94/kWh of the 8MW SHP developed by M/s Minar Renewle Energy Project Limited. While there was no commercial generation from the project during the year 2019-20, a cost of Rs 0.18 crore has been expended by KSEB Ltd towards the power injected into the grid from the project since its synchronization in January 2017.

KSEB Ltd had incurred Rs 28.07 crore for the purchase of 79.51 MU from the SHPs within the State. The Commission further notes that all these SHP have a must run must buy status and therefore KSEB Ltd is obliged to purchase this power. ***The Commission here by approve the cost of power purchase of Rs. 28.07 crore from SHPs as claimed by KSEB Ltd.***

**(3) Solar IPPs**

During this period, KSEB Ltd purchased 73.16 MU from IREDA generating station at the total cost of Rs 28.04 crore. The Commission also noted that, KSEB Ltd has purchased 2.59 MU from the Solar plant developed by ANERT. However, KSEB Ltd had not effected any payment for this purchase. As per the records, the Commission has not yet approved power purchase quantum and its rate from the Solar plant developed by ANERT.

KSEB Ltd had also claimed that, it had purchase 8.74 MU at the APPC of Rs.1.47 crore during the year 2019-20. It is not understood as to how KSEB Ltd without any authority and disregarding the essential procedures of filing a petition has unilaterally and without even holding any public consultation decided the APPC. This is a serious violation and therefore the Commission does not allow it at present. Further, ***the Commission hereby directs KSEB Ltd to file a proper petition before this Commission for determination of the APPC for this period within 3 months of the date of issue of this Order. The Commission further directs that till the Commission decides the APPC for the year 2019-20, the amount of Rs.1.47 crore shall not be recovered from the prosumers.***

***The Commission after examining the details submitted by KSEB Ltd, hereby approve the purchase of 75.75 MU Solar power within the State at the cost of Rs 28.04 crore.***



**(4) CPPs**

The Commission noted that, KSEB Ltd had accounted 22.46 MU of energy injected by the captive consumers as part of its power purchase. The energy injected by the captive consumers is exclusively for their own use and there is no sale or purchase between the captive consumer and KSEB Ltd in this transaction. However, since the energy settlement of SHPs are done on water year basis, the excess energy of 22.46 MU banked as on 31.03.2020 has to be provided to the captive consumers for their own use till 30.06.2020 free of cost. Considering these aspects in detail, the Commission decided as follows.

- (i) Allow to account the net energy banked by captive consumers of 22.46MU as on 31.03.2020 as part of KSEB's energy input during the year 2019-20. However, no cost is provided for this energy.
  - (ii) The settlement of the banked energy may be done in the next financial year 2020-21, and KSEB Ltd shall provide the details of the same to the Commission during the next truing up.
- (5) The summary of the approved cost of power purchase from the small renewable power plants within the State is given below.

Table 5.9  
Power purchase from small renewable plants within the State for the year 2019-20

Station	MYT order dated 08.07.2019		KSEB True up petition		KSERC Approval	
	Energy	Cost	Energy	Cost	Energy	Cost
	(MU)	(Rs Cr)	(MU)	(Rs Cr)	(MU)	(Rs Cr)
Wind & SHEP	210.62	76.45	198.11	72.85	198.11	72.85
Solar-IREDA and Anert	70.08	27.33	75.75	28.04	75.75	28.04
Grid connected solar prosumers	0.00	0.00	8.74	1.47	8.74	0.00
PCBL- deviation adjustment			3.18		3.18	
CPPs- Maniar & Kuthumkal*			22.46		22.46	
<b>Sub total for KSEB use/accounting</b>	<b>280.70</b>	<b>103.78</b>	<b>308.24</b>	<b>102.36</b>	<b>308.24</b>	<b>100.89</b>

\* Energy banked by captive consumers has to be allowed to use in next financial year

***The Commission after due consideration hereby approves the purchase /banking of MUs of energy at a cost of Rs 100.89 Crores***

**Fixed cost of RGCCPP- Kayamkulam plant of NTPC**

5.35 KSEB Ltd in the petition submitted that, the Commission, vide Order dated 08.07.2019, did not approve any scheduling of power from RGCCPP for the year 2019-20 and also had not approved the fixed cost payable from 2019-20 onwards. The Commission had directed KSEB Ltd to negotiate with NTPC Ltd for bringing down the Annual Fixed Cost. As per the direction of Hon'ble Commission, KSEB Ltd and NTPC Ltd. held several rounds of discussions and in the meeting held on 12-11-2020, NTPC and KSEB Ltd agreed on a sum of Rs. 100.22 crores per annum as Annual Fixed Charges of RGCCPP, Kayamkulam for the period starting from 01.04.2019 to the end of station life as per PPA i.e up to 28.02.2025. The matter was brought to the kind attention of the Commission vide petition dated 11.01.2021 and the Commission vide Order dated 17.03.2021 was pleased to approve the fixed charges for the PPA period. KSEB Ltd requested to the Commission approve Rs.100.22 Cr as per the accounts of KSEB Ltd for the year 2019-20.

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

5.36 KSEB Ltd had in the Truing Petition had claimed Rs 100.22 crore towards the fixed cost of RGCCPP Kayamkulam power plant. The Commission vide the MYT Order dated 08.07.2019 had not approved any cost towards the fixed cost of RGCCPP Kayamkulam, and directed KSEB Ltd to negotiate with NTPC Ltd to reduce the fixed cost liability and to submit the results for the consideration of the Commission.

In compliance of the directions of the Commission, KSEB Ltd filed a petition before the Commission to approve the settlement reached in compliance with the direction of the Commission contained in the Order dated 08-07-2019, between KSEB Ltd and NTPC Ltd and approved by Government of Kerala in respect of the PPA of Rajiv Gandhi Combined Cycle Power Project (RGCCPP), Kayamkulam, for the years from 2019-20 till the end of the current PPA period (i.e. till 28-2-2025) under Section 86 of the Electricity Act 2003.

5.37 The Commission vide Order dated 15.03.2021 in petition OP No. 02/2021 had approved the settlement. The relevant portion of the order is extracted below.

*“25. After considering the matter in details along with the submissions of the parties and the stakeholders, the Commission hereby orders as follows:*

*a. The extension of PPA with RGCCPP for a period up to 28-02-2025 is approved under Section 86 of the Electricity Act 2003, based on the settlement reached between M/s KSEB Ltd and M/s NTPC Limited as per minutes of the meeting held on 12-11-2020, on the condition that the continuation of the compensatory allocation of 180MW*

of cheaper 13 power from Talcher is provided by NTPC Limited for the entire period of PPA. KSEB Ltd has to ensure the compliance to this condition.

b. The annual fixed charge of Rs. 100 crore per annum as agreed to by the parties is also approved for the PPA period

c. The rate of energy charges as agreed to by the parties is also approved considering the fact that the stock of Naphtha is to be exhausted for reducing the Fixed charges. KSEB Ltd shall seek prior approval from the Commission for further scheduling of the Plant.

d. KSEB Ltd shall provide necessary schedule to RGCCPP, Kayamkulam for exhausting the stock of Naphtha available with RGCCPP/ BPCL as per the terms of Agreement.

e. KSEB Ltd shall ensure that all litigations pending in various Courts and other judicial forum, if any are withdrawn before releasing any AFC as per this Order.”

5.38 Fixed cost of RGCCPP Kayamkulam approved for the year 2019-20 is given below.

Table 5.10  
RGCCPP Kayamkulam- fixed cost approved for 2019-20

Particulars	MYT Order dated 08.07.2019	KSEB Ltd claim in the Truing up petition	KSERC Truing up approval
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
<b>Fixed cost of RGCCPP- Kayamkulam</b>	0.00	100.22	100.00

**Considering the above settled position, the Commission hereby approve Rs 100.00 crore towards fixed cost of RGCCPP Kayamkulam for the FY 2019-20.**

### (3) Power Purchase through Long Term Agreements:

5.39 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 8994.76MU at a total amount of Rs 3528.03 crore from various IPPs inclusive of the DBFOO contracts for the year 2019-20. As against this, the actual power purchase was 8454.81 MU at a total cost of Rs 3606.79 crore. The details are given below.

Table 5.11

Power purchase claimed by KSEB Ltd through various IPPs outside the State for the year 2019-20

Source	KSERC approval	Actual	Truing up	Difference
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	Energy	Cost	Energy	Cost	Energy	Cost	Energy	Cost
	(MU)	(Rs Cr)	(MU)	(Rs Cr)	(MU)	(Rs Cr)	(MU)	(Rs Cr)
Maithon Power Ltd-I	1105.73	415.79	1047.56	436.66	1047.56	436.66	-58.17	20.87
Maithon Power Ltd-II	1105.73	415.79	1047.54	436.81	1047.54	436.81	-58.19	21.02
DVC Mejia	705.50	273.27	593.58	261.62	593.58	261.62	-111.92	-11.65
DVC RTPS	348.10	136.92	266.41	127.84	266.41	127.84	-81.69	-9.08
Jindal Power Ltd-Bid I	1497.96	555.28	1428.54	537.31	1428.54	537.31	-69.42	-17.97
Jhabua Power Ltd-PSA I	861.33	332.47	793.97	349.11	793.97	313.22	-67.36	-19.25
Jindal Power Ltd-Bid II	1123.47	466.17	1071.64	470.71	1071.64	470.71	-51.83	4.54
Jhabua Power Ltd-Bid II	748.98	310.78	690.43	348.99	690.43	321.60	-58.55	10.82
JITPL	748.98	310.78	751.11	327.18	751.11	327.18	2.13	16.40
BALCO	748.98	310.78	764.03	310.54	764.03	310.54	15.05	-0.24
Subtotal	8994.76	3528.03	8454.81	3606.79	8454.81	3543.50	-539.95	15.47
* Energy at ex bus								

5.40 The power purchase from LTA is grouped into the following three categories for detailed examination and approval.

- (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.

#### 1. Power purchase from DVC stations and Maithon Stations.

5.41 KSEB Ltd in the petition submitted that, the Commission had approved 3265.06MU for a total cost of Rs 1241.77 crore for the year 2019-20 from DVC and Maithon stations. As against the approval, the actual purchase was 2955.09 MU at the total cost of Rs 1262.93 crore. The details are given below.

Table 5.12

KSEB Ltd claim- power purchase from Maithon stations and DVC stations

Source	KSERC approval			Actual		
	Energy* (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)	Energy* (MU)	Cost (Rs Cr)	Avg. Tariff (Rs/kWh)
Maithon Power Ltd-I	1105.73	415.79	3.76	1047.56	436.66	4.17
Maithon Power Ltd-II	1105.73	415.79	3.76	1047.54	436.81	4.17
DVC Mejia	705.5	273.27	3.87	593.58	261.62	4.41
DVC RTPS	348.1	136.92	3.93	266.41	127.84	4.80
Total	3265.06	1241.77	3.80	2955.09	1262.93	4.27

5.42 KSEB Ltd submitted the following reasons for the variation in cost of power purchase from the Maithon and DVC stations.

(1) Maithon Stations.

The actual cost of power purchase from the Maithon stations are more than the approved cost. The tariff of the Maithon stations are determined by the CERC and the CERC vide Order dated 01.10.2019 had revised the fixed cost of Maithon stations. As per the orders of CERC, the fixed cost of Maithon stations was increased upto 10% over the provisional figures adopted by the Commission for the approval of the ARR vide the MYT Order dated 08.07.2019.

Further, CERC vide the Tariff Regulations 2019 had increased the auxiliary consumption of thermal stations from 5.75% to 6.25%. Coupled with the variation in the price of fuel, the variable cost of Maithon Stations has increased.

(2) DVC stations.

KSEB Ltd submitted that, the revised gross station heat rate in the revised CERC Tariff Regulations and usage of high cost coke grade coal resulted in increase in cost in these stations. The gross station heat rate was increased from 2371.61 to 2374.1 kCal/kWh and auxiliary consumption increased from 5.25% to 5.75% for DVC Mejja. Similarly, the gross station heat rate was increased from 2339.78 to 23352.87 kCal/kWh and auxiliary consumption was increased from 5.25% to 5.75% for DVC RTPS. Further the variation in coal prices and transportation charges also contributed to the variation in energy charges.

### **Analysis and Decisions of the Commission**

5.43 The Commission has in the MYT Order dated 08.07.2019 approved the power purchase from Maithon and DVC Stations as per the approvals given below.

Table 5.13  
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 Mejja	100	No.500/C.Engg/DVC/2014/348 dated 28.03.2014 & Order dated 21.01.2016	25 years	
DVC RTPS	50		25 years	

5.44 The Commission notes that tariff of these stations are being determined by the Central Electricity Regulatory Commission, as per the Tariff Regulations notified by that Commission from time to time. KSERC vide the MYT Order dated 08.07.2019 approved the energy drawal from the above stations as given below.

**Table 5.14**  
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

5.45 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 MYT approvals is given in the Table below.

**Table 5.15**  
Power purchase from Maithon and DVC stations claimed by KSEB Ltd

Source	KSERC approval			Actual		KSEB Truing up		
	Energy at exbus	Cost	Avg. Tariff	Energy at exbus	Cost	Energy at exbus	Cost	Avg. Tariff
	(MU)	(Rs.Cr)	(Rs/kWh)	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs/kWh)
Maithon Power Ltd-I	1105.73	415.79	3.76	1047.56	436.66	1047.56	436.66	4.17
Maithon Power Ltd-II	1105.73	415.79	3.76	1047.54	436.81	1047.54	436.81	4.17
DVC Mejia	705.5	273.27	3.87	593.58	261.62	593.58	261.62	4.41
DVC RTPS	348.1	136.92	3.93	266.41	127.84	266.41	127.84	4.80
Total	3265.06	1241.8	3.80	2955.09	1262.93	2955.09	1262.93	4.27

5.46 Based on the cost details and as detailed in paragraph 5.43 above, the Commission had approved the power purchase from these stations. As mentioned earlier, 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 and taking note of the revisions effected by CERC in their Tariff Regulations hereby

approves the power purchase from these stations for the year 2019-20, as detailed below.

Table 5.16  
True up of power purchase from Maithon and DVC stations approved for the year 2019-20

Source	MYT Order dated 08.07.2019		KSEB Truing up		KSERC approval for True Up	
	Energy at exbus	Cost	Energy at exbus	Cost	Energy at exbus	Cost
	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)
Maithon Power Ltd-I	1105.73	415.79	1047.56	436.66	1047.56	436.66
Maithon Power Ltd-II	1105.73	415.79	1047.54	436.81	1047.54	436.81
DVC Mejia	705.5	273.27	593.58	261.62	593.58	261.62
DVC RTPS	348.1	136.92	266.41	127.84	266.41	127.84
Total	3265.06	1241.77	2955.09	1262.93	2955.09	1262.93

5.47 ***As detailed above, the Commission hereby approve Rs 1262.93 crore towards the cost of power purchase for 2955.09 MU in the year 2019-20 at the average tariff of Rs 4.27/unit.***

## **2. Power purchase from approved DBFOO contracts**

5.48 KSEB Ltd in their petition submitted that, the Commission vide Order dated 31.08.2016 had approved for the purchase of 200MW power from the L1 bidder in Bid-1, M/s Jindal Power Limited at the rate of Rs 3.60/unit. In the same Order, the Commission had also approved the purchase of 100MW of power from M/s BALCO, the L1 bidder of Bid-2 @Rs 4.29/unit.

5.49 The details of the power purchase from these approved DBFOO contracts and the actuals for the year 2019-20 is given in the following table.

Table 5.17  
KSEB Ltd- Details of the power purchase from approved DBFOO contracts

Source	KSERC approval			Actual		KSEB Truing up		
	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at exbus	Cost	Energy at exbus	Cost	Avg. Tariff
	(MU)	(Rs.Cr)	(Rs/ kWh)	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs/ kWh)
Jindal Power Ltd- Bid I	1,431.81	555.28	3.88	1368.37	537.31	1368.37	537.31	3.93
BALCO – Bid 2	718.32	310.78	4.33	732.84	310.54	732.84	310.54	4.24
Total	2150.13	866.06	4.03	2101.21	847.85	2101.21	847.85	4.04

As detailed above, as against the ARR & ERC approval of 2150.13 MU at the cost of Rs 866.06 crore @Rs 4.03/unit, the actual power purchase during 2019-20 was 2101.21 MU at the total cost of Rs 847.85 crore @Rs 4.04/unit.

KSEB Ltd submitted the following reasons for the variation in cost of power purchase from these stations.

- (i) The Commission in the MYT Order dated 08.07.2019 had approved fixed charges for the Financial year 2019-20 of the approved DBFOO contracts by deducting 2 % on the fixed charges for FY 2018-19. But as per PSA the base fixed charges for a particular year is obtained by applying a depreciation of 2 % on the base fixed charges of previous year. The base fixed charges so arrived is escalated with 30% of variation in whole price index of January of corresponding year from that of January 2014.
- (ii) The variable charges of FY 2019-20 for the year 2019-20 is arrived by applying an escalation of 2 % on the variable charges for first half FY 2018-19. As per PSA, the variable charges is dependent on the landed cost of fuel, station heat rate, and gross calorific value of fuel. The variation in variable charges is due to the variation in landed cost of fuel and variations in calorific value of fuel.

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

5.50 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.

5.51 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 vide Order dated 31-8-2016 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 only. 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 KSEBLtd 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 -2dated 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.*

5.52 The details of approvals for DBFOO contracts is given in the Table below.

Table 5.18

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

5.53 The Commission vide the MYT Order dated 08.07.2019 has approved the power purchase from these sources as given below.

Table 5.19  
Summary of the power purchase approved vide the MYT Order dated 08.07.2019

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	
Jindal Power Limited	200	5.00	90%	1,497.96	1,431.81	384.62	192.53	-21.87	555.28	3.88
BALCO	100	5.00	90%	748.98	718.32	232.68	89.38	-11.28	310.78	4.33
<b>SubTotal</b>	<b>300</b>			<b>2246.94</b>	<b>2150.13</b>	<b>617.3</b>	<b>281.91</b>	<b>-33.15</b>	<b>866.06</b>	4.03

5.54 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 5.20  
Cost of Power purchase claimed from approved DBFOO contracts

Source	KSERC approval			Actual		KSEB Truing up		
	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at exbus	Cost	Energy at exbus	Cost	Avg. Tariff
	(MU)	(Rs.Cr)	(Rs/ kWh)	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs/ kWh)
Jindal Power Ltd-Bid I	1,431.81	555.28	3.71	1368.37	537.31	1368.37	537.31	3.93
BALCO	718.32	310.78	4.15	732.84	310.54	732.84	310.54	4.24
Total	2150.13	866.06	4.03	2101.21	847.85	2101.21	847.85	4.04

5.55 The Commission after appraising the entire aspects in detail, hereby approve the cost of power purchase of the approved DBFOO contracts as detailed below.

Table 5.21  
Approved DBFOO contracts- cost of power purchase approved

Source	Actual			KSEB Truing up			KSERC Approval		
	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at Kerala periphery	Cost	Avg. Tariff

	(MU)	(Rs.Cr)	(Rs/ kWh)	(MU)	(Rs.Cr)	(Rs/ kWh)	(MU)	(Rs.Cr)	(Rs/ kWh)
Jindal Power Ltd-Bid I	1368.37	537.31	3.93	1368.37	537.31	3.93	1368.37	537.31	3.93
BALCO	732.84	310.54	4.24	732.84	310.54	4.24	732.84	310.54	4.24
Total	2101.21	847.85	4.04	2101.21	847.85	4.04	2101.21	847.85	4.04

**As above, the Commission approves Rs 847.85 crores towards the purchase of 2101.21 MU at Kerala periphery from the approved DBFOO contracts.**

### **3. Power purchase from provisionally approved DBFOO contracts**

5.56 KSEB Ltd submitted that the Commission had provisionally approved the purchase of 115 MW from M/s Jhabua Power Ltd, the L2 bidder of Bid-1 @Rs 4.15/unit, vide Order dated 22.12.2016.

The details of the power purchase from Jhabua Power Ltd under Bid 1 for the year 2019-20 is given in the following table.

Table-5.22

KSEBL claim- power purchase from provisionally approved DBFOO contracts

Source	KSERC approval			Actual		Truing up		
	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at exbus	Cost	Energy at exbus	Cost	Avg. Tariff
	(MU)	(Rs.Cr)	(Rs/ kWh)	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs/ kWh)
Jhabua Power Ltd-PSA I	822.57	332.46	4.041723	767.32	349.11	767.32	313.22	4.08

5.57 KSEB Ltd further submitted that, Rs.41.82 crore out of the total power purchase claim of Jhabua Power Ltd (L2 of Bid-1, 115 MW) was not admitted for payment. This is mainly due to the difference in SHR adopted by KSEB Ltd and the generator for the computation of fixed charge and fuel cost. Since this payment was not made during the year 2019-20, KSEB Ltd had not claimed the same in the process of Truing up.

KSEB Ltd has also submitted that, during the year 2017-18 and 2018-19, KSEB Ltd had not allowed Rs 5.93 crore towards fixed charges, claimed as deemed availability due to the no-availability of concessional fuel by the fuel suppliers. Subsequently M/s Jhabua Power Limited submitted supporting documents and periodic reconciliation sheets signed by the coal suppliers M/s Mahanadi Coalfields Limited (MCL) and South Eastern Coal Fields Limited (SECL). As per the details submitted by the fuel suppliers, there was shortfall in coal supply by M/s MCL and M/s SECL to M/s Jhabua Power Limited. As per Clause 21.4.2 of the PSA, the Utility is liable to pay Fixed Charges for Availability

corresponding to 70% due to fuel shortage and the firm is not liable to pay damages for this non availability. Based on the provisions of the PSA, KSEB Ltd admitted Rs 5.93 Cr for the year 2017-18 and 2018-19 during November 2019 towards M/s Jhabua Power Ltd (115 MW under Bid I). KSEB Ltd also submitted the month wise computation fixed charge based on deemed availability.

- 5.58 Accordingly, the cost of power purchase of M/s Jhabua Power Limited in Bid-1 (L2 of Bid-1, 115MW), claimed for the year 2019-20 is given below.

Table 5.23  
KSEB Ltd claim- cost of Jhabua Power Ltd- Bid-1 (115MW) (Rs Cr)

Source	Power purchase cost for FY 2019-20 as per accounts	Unadmitted charges accounted in FY-20 but not claimed in TU-20	Amount claimed under deemed availability provisions as per PSA pertaining to FY 2017-18 and 2018-19	Power purchase cost claimed for FY19-20
	A	B	C	D=A-B+C
	Rs Cr.	Rs Cr.	Rs Cr	Rs Cr.
Jhabua Power Ltd-Bid I	349.11	41.82	5.93	313.22

### Analysis and Decision of the Commission

- 5.59 KSEB Ltd in its letter 15.11.2016 had requested the Commission to take appropriate decision relating to 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.”*

- 5.60 As mentioned above, the Commission had only 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, 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.

- 5.61 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 amply 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’.*

- 5.62 Under such circumstances, **the Commission cannot 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. The details of the purchase of power from M/s Jhabua Power Ltd of (L2 of Bid-1) is detailed below.

Table 5.24  
Summary of the power purchase as per MYT Order dated 08.07.2019

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	
				MU	MU	Rs Cr	Rs Cr	Rs Cr	RsCr	
Jhabua Power Limited	115	5.00	90%	861.33	822.57	177.26	164.29	-9.09	332.46	4.04

- 5.63 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 vide 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.

- 5.64 As detailed in Table 5.21 above, the rate of Jindal Power Ltd (L1 of Bid-1) approved for the year 2019-20 is Rs 3.93/unit at Kerala periphery. 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 5.25  
Cost of power purchase approved from Jabua Power Ltd (115) MW (L2 of Bid-1)

Source	Actual			KSEB Truing up			KSERC Approval			Dis-allowance
	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at Kerala periphery	Cost	Avg. Tariff	
	(MU)	(Rs.Cr)	(Rs/kWh)	(MU)	(Rs.Cr)	(Rs/kWh)	(MU)	(Rs.Cr)	(Rs/kWh)	
Jhabua Power Ltd-PSA I	767.32	349.11	4.55	767.32	313.22	4.08	767.32	301.56	3.93	11.66

The above Table reveals that, KSEB Ltd had during 2019-20 purchased 767.32 MU of power at a total cost of Rs. 349.11 crore at an average tariff of Rs 4.55/kWh. KSEB Ltd however has in their truing up petition claimed Rs.313.22 crore only. KSEB Ltd submitted that Rs.35.89 crore claimed by M/s Jhabua Power Ltd-(115 MW-L2 of Bid 1) was not admitted by KSEB Ltd during the year 2019-20. 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 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.301.56 crore as against Rs 313.22 crore claimed by KSEB Ltd. Excess payment of Rs.11.66 crore paid over and above the L1 rate by KSEB Ltd is hereby dis allowed.**

#### **4. Power Purchase from unapproved DBFOO contracts**

- 5.65 KSEB Ltd in the Truing Up petition submitted that, in the case of unapproved DBFOO contracts, the Commission vide the MYT Order dated 08.07.2019 had approved scheduling of power from 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, for the limited purpose of estimating the ARR&ERC for the control period at rate equivalent to that of power from BALCO, the L1 in Bid-2 of the DBFOO contracts.
- 5.66 KSEB Ltd further submitted that, the Commission has directed to limit the payment towards power purchase from the above mentioned three stations to the rate of M/s BALCO at Kerala periphery during 2020-21 only. In compliance of the order of the Commission, from August 2021 onwards, KSEB Ltd has limited the payment towards the power purchase of these stations at BALCO rate at Kerala periphery.
- 5.67 As KSEB Ltd had already remitted the power purchase cost of these stations by that time, KSEB Ltd requests before the Commission to approve the actual expenses claimed in this petition. Further KSEB Ltd humbly requests before the Hon'ble Commission to pass on the amount payable as per final orders in this matter, as and when the same materializes.
- 5.68 The details of the power purchase from the unapproved DBFOO contracts is given below.

**Table-5.26  
Power Purchase thru various LTA as per audited accounts approved for FY 2019-20**

Source	MYT order dated 08.07.2019			Actual			Truing up		
	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at Kerala periphery	Cost	Avg. Tariff	Energy at Kerala periphery	Cost	Avg. Tariff
	(MU)	(Rs.Cr)	(Rs/kWh)	(MU)	(Rs.Cr)	(Rs/kWh)	(MU)	(Rs.Cr)	(Rs/kWh)
Jindal Power Ltd-Bid II	1,073.86	466.17	4.34	1026.5	470.71	4.59	1026.5	470.71	4.59
Jhabua Power Ltd-Bid II	721.90	310.78	4.31	667.25	348.99	5.23	667.25	321.60	4.82

JITPL	715.28	310.78	4.34	725.5	327.18	4.51	725.5	327.18	4.51
<b>Subtotal</b>	<b>2,511.04</b>	<b>1,087.73</b>	4.33	<b>2,419.25</b>	<b>1146.89</b>	4.74	<b>2,419.25</b>	<b>1,119.49</b>	4.63

## Analysis and Decision of the Commission

5.69 The Commission has examined in detail the purchase of power from the following three unapproved DBFOO contracts for True up in the year 2019-20.

- (1) 150MW from Jindal Power Limited
- (2) 100MW from Jindal India Thermal Limited
- (3) 100 MW from Jhabua Power Limited.

5.70 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. During the examination of OP 13/2015, the Commission noted serious deviations from the standard bidding guidelines, existing on the date of NIT. These deviations were appropriately brought out in the Commission's Order dated 30.08.2016 and is reproduced below:

*32..... The Commission has noted the following deviations from the standard bidding documents and guidelines issued by Government of India on 08.11.2013 and 09.11.2013 and from the provisions in the Tariff Regulations, 2014 issued by the Commission,-*

- (i) *KSEB Ltd has awarded power purchase contract to the second lower bidder at its quoted rate of Rs.4.15 / kWh which is higher than the lowest rate of Rs.3.60 / kWh in Bid-1, whereas the guidelines issued by the Government of India are only for the selection of the lowest bidder.*
- (ii) *KSEB Ltd has not invited all the remaining bidders other than L1 to revalidate or extend their respective bid security and to match their rates with that of L1.*
- (iii) *KSEB Ltd has purchased 550 MW of power in Bid-2 as against the tendered quantity of 400 MW.*
- (iv) *KSEB Ltd has obtained only 200 MW from the lowest bidder in Bid-1 at a rate of Rs.3.60 / kWh. Thereafter 115 MW power from L2 has also been purchased at a higher rate of Rs.4.15 / kWh. Thus*



*a total quantity of 315 MW was purchased as against the tendered quantity of 450 MW leaving a balance of 135 MW. KSEB Ltd has purchased more quantity of power than the tendered quantity in Bid-2 stating the reason that it could not get the full tendered quantity in Bid-1. Such purchase of more than the tendered quantity is not in accordance with the general principles of tender process.*

- (v) Even if the above 135 MW is considered for procurement from Bid-2, the total quantity that can be purchased is only 535 MW (400 MW + 135 MW). However KSEB Ltd has purchased 550 MW deviating from the conditions prescribed by Government of India in the para 3.3.3 in the guidelines notified by Government of India on 5th May 2015, which has been relied upon by KSEB Ltd to justify award of power purchase contracts to bidders other than the lowest bidder in Bid-2.*
- (vi) KSEB Ltd has not obtained prior approval from Government of India for the deviations from the standard bidding documents and the guidelines.*
- (vii) KSEB Ltd has not obtained approval from the Commission before executing the power purchase agreements.*
- (viii) KSEB Ltd has not included any clause in the impugned PPAs to the effect that the PPA shall have the effect only with the approval by the Commission as specified in sub-regulation (1) of regulation 78 of the Tariff Regulations, 2014.*

*33. The award of power supply contract to M/s Jhabua Power Ltd. Gurgaon (L2 of Bid-1) at a higher rate of Rs. 4.15 / kWh is not found to be in order for the reasons explained below. KSEB Ltd had requested the bidders L2 to L4 in Bid 1 to match their rates with that of L1. But none of them matched their rates with that of L1. In the normal course of tender process, KSEB Ltd should have followed the procedures prescribed by Government of India in para 3.3.4 of the guidelines which states as follows,-*

*“3.3.4 In the event that no Bidder offers to match the Lowest Bidder in the second round of bidding as specified in Clause 3.3.3, the Utility may, in its discretion, invite fresh Bids (the “third round of bidding”) from all Bidders except the Lowest Bidder of the first round of bidding, or annul the Bidding Process, as the case may be. In case the Bidders are invited in the third round of bidding to revalidate or extend their Bid Security, as necessary, and offer fresh Bids, they shall be eligible for submission of fresh Bids provided, however, that in such third round of bidding only such Bids shall be eligible for consideration which are lower than the Bid of the second lowest Bidder in the first round of bidding.”*

*On the other hand KSEB Ltd is seen to have accepted the second lower offer of M/s Jhabua Power Ltd. Gurgaon (L2) also at a rate of Rs.4.15 / kWh (Rs.2.39 as fixed cost and Rs.1.76 as fuel charge). The justification given by KSEB Ltd for accepting L2 rate of Rs.4.15 kWh in the Bid-1 dated 5/3/2014 is that it is lower than the L1 rate of Rs.4.29/ kWh, in Bid-2 dated 25/04/2014. The rationale and basis adopted by KSEB Ltd for accepting the higher rate offered by L2 in Bid 1, are not in accordance with the*

*guidelines issued by GoI or with the general principles of financial propriety in tender processes for the following reasons,-*

- (i) The guidelines issued by GoI of India categorically state that the bid process shall be open, transparent, and competitive based on the offer of lowest tariff. Hence there is absolutely no scope for accepting the second lower offer (L2) as per the provisions of the guidelines issued by GoI under Section 63 of the Electricity Act, 2003.*
- (ii) The offers obtained in both Bid 1 dated 5/3/2014 and Bid 2 dated 25/04/2014 have to be evaluated and decisions taken independently and therefore the rates obtained in Bid 1 dated 5/3/2014 cannot be compared with the rates obtained in Bid 2 dated 25/04/2014 in any manner.*
- (iii) As per the guidelines issued by the Government of India, the tender process is to discover the lowest tariff and the second round of bidding can be adopted only if the bidders other than L1 offer the lowest rate offered by L1. The licensee cannot accept any higher rate in order to meet its requirements, since it is against the very principle of discovering the lowest tariff in an open, transparent and competitive tender process in accordance with the guidelines issued by GoI.*
- (iv) The Bid 1 dated 5/3/2014 is for supply of power with effect from December 2016 whereas Bid 2 is for supply of power from October 2017. In the case of Bid 2, the date of commencement of supply of power is after 3 years and hence the generator / supplier need not submit the project specific details as specified in clause 2.2.1 (e) of the Model RFQ. As per clause 2.2.1 (e) of the Model RFQ, the applicant should,-
  - (a) possess at least one half of the land required for power station,*
  - (b) obtain environmental and forests clearances,*
  - (c) commence the construction of the power station,*
  - (d) have assured supply of fuel, and*
  - (e) other project specific conditions stipulated by the licensee.*The above conditions are not required if the date of commencement of power supply is after 3 years from the date of the RFQ. The date of commencement of supply as per the Bid 1 dated 5/3/2014 is December, 2016 which is within 3 years from the date of RFQ and the date of commencement of supply as per the Bid 2 dated 25/04/2014 is, October 2017 which is after 3 years from the date of RFQ. As admitted by the licensee, no eligibility conditions as stated above have been insisted in the case of Bid 2 dated 25.04.2014. Thus the conditions of tender for the supply of power as per Bid 1 and Bid 2 are different and distinct. Therefore the rates discovered in Bid 1 dated 5/3/2014 and the rates discovered in Bid 2 dated 25/04/2014 cannot be compared.*
- (v) It is also noticed that KSEB Ltd had not invited all the remaining bidders to revalidate or extend their bid security as specified in paragraph 3.3.3 of the RFP document*

- (3) The Commission vide Order dated 30-08-2016 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, Chattisgarh 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.

- (4) As above, 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 approval of the State Government on the purchase.

Table 5.27

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.

- (5) 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.

- (6) 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’.*

- (7) 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.

- (8) KSEB Ltd in the MYT petition OP No. 15/2018 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.
- (9) 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.
- (10) 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.
- (11) 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.”**

5.71 The Commission also clarify the difference between “approval of PPA” and “allowing to schedule power” from the DBFOO unapproved generators. It is to be noted that scheduling of power is based on SLDCs assessment of power demand and its availability. Hence ‘scheduling of power” is directly dependent upon demand and does not give a free licence to KSEB Ltd to construe it as “approval of PPA or power purchase”.

5.72 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, the Commission had 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 5.28  
Details of power scheduling

Source	Contracted Capacity (MW)	Date of Commission’s Letter
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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

- 5.73 The Commission further notes that in the MYT tariff Order for 2018-19 to 2021-22 dated 08-07-2019, the Commission has stated specifically that the scheduled power from the three unapproved PSAs in Bid II shall be at the rate equivalent to the cost of power of BALCO, which is L1 of Bid-II.
- 5.74 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 rates same 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 that 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.,
- 5.75 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 arrive at the 'rate' 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 at which is 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. 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.
- 5.76 Under such circumstances, till date, the Commission has not approved the PSA of the above three DBFOO contracts. Hence, KSEB Ltd shall not be permitted to make payments to these generators as per the unapproved PSA rates and conditions entered into. It is very clearly and emphatically directed in the MYT Order that, the rate considered for the purpose of ARR is at the BALCO rate, i.e, the rate at Kerala periphery for the purchase of power from BALCO generator, the L1 bidder in Bid-2.

In the meantime, MoP, GoI, vide letter dated 11.12.2019 addressed to the Principal Secretary, Power Department, Government of Kerala has stated as follows:

*".....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 action as appropriate / consultation with KSERC.”

5.77 Thus, as mentioned in the Commission’s Order dated 08-07-2019, the consideration of purchase of power from these projects as part of truing up for 2019-20 shall not be construed as an approval of PPA or adoption of tariff under Section 86 or Section 63 respectively of the Electricity Act. The consideration is purely for estimating the power purchase cost for the year 2019-20. Since, the scheduled power has been drawn by KSEB Ltd, it cannot deny essential payment to the generator. Hence the Commission has specifically mentioned that the Commission is constrained to use the rate equivalent to cost of power from BALCO. Based on this Order and considering the fact that the Commission for the purpose of truing up has considered the cost of power purchase from these projects at the actual rate of BALCO under Bid -II for the year 2019-20.

5.78 As detailed under Table 5.21 above, the rate of BALCO approved in the Truing up for the year 2019-20 is Rs 4.24/unit. Based on the above, the cost of power purchased from the three unapproved DBFOO contracts for the year 2019-20 is given below.

Table 5.29  
Summary of the power purchase of unapproved DBFOO contracts for the year 2019-20

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 (for reference)	732.84	310.54	4.24	732.84	310.54	4.24	732.84	310.54	4.24	
Un approved DBFOO contracts										
Jindal Power Ltd-Bid II	1026.5	470.71	4.59	1026.5	470.71	4.59	1026.50	435.24	4.24	35.47
Jhabua Power Ltd-Bid II	667.25	348.99	5.23	667.25	321.60	4.82	667.25	282.91	4.24	38.69
JITPL	725.5	327.18	4.51	725.5	327.18	4.51	725.5	307.61	4.24	19.57
Sub total	2419.25	1146.89	4.74	2419.25	1119.49	4.63	2419.25	1025.76	4.24	93.73

**The Commission hereby approves Rs.1025.76 crore for the purchase of 2419.25 MU from the three unapproved DBFOO PSAs at an average rate of Rs 4.24/unit at Kerala periphery as against the claim of Rs.1119.49 crore @ Rs 4.63/unit.**

5.79 The above table clearly shows that, KSEB Ltd had paid an excess amount of Rs.93.73 crore for the year 2019-20. This payment is unauthorized and the **Commission hereby disallows the amount of Rs.93.73 crore from the trued-up power purchase cost for the year 2019-20.**

5.80 **The excess payment made to the unapproved and provisionally approved DBFOO contracts are given below.**

Table 5.30  
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	767.32	313.22	301.56	11.66
Jindal Power Ltd-Bid II	1026.50	470.71	435.24	35.47
Jhabua Power Ltd-Bid II	667.25	321.60	282.91	38.69
JITPL	725.50	327.18	307.61	19.57
<b>Total</b>	<b>3186.57</b>	<b>1432.71</b>	1327.32	105.39

The above table clearly shows that KSEB Ltd has made unauthorised payment of Rs.105.39 crore to these unapproved contracts in the year 2019-20. Similarly, in the year 2018-19 also, KSEB Ltd has made the unauthorized payment of Rs.129.01 crore to these unapproved sources. ***The Commission hereby directs that this unauthorized payment of Rs.234.40 crore be brought to the notice of KSEB Ltd's Board of Directors and the Government for further necessary action.***

**Power purchase considered under short term contracts:**

5.81 KSEB Ltd submitted that, during 2019-20 there was reduction in energy procurement from Central Generating Stations by 1202.60 MU, energy availability from long term contracts was also less by 539.95 MU and the hydro generation by 1256.59 MU when compared with the approved quantum. This resulted in a total reduction in energy availability by 2870.23 MU over the approved quantum. Further purchase of renewable energy amounting to 988.86 MU approved by the Hon'ble Commission was not materialised. In order to meet the short fall, peak demand and exigencies, KSEB Ltd purchased 990.25 MU at Kerala periphery through energy exchanges through Day ahead markets and term ahead markets and 513.50 MU through deviation settlement mechanism and availed 352.67 MU through banking arrangement. The details of the power availed through short-term markets and its are detailed in the subsequent paragraphs.

(a) Power purchase from Energy exchanges

5.82 KSEB Ltd in the Truing up petition submitted that, during the year 2019-20, KSEB Ltd had purchased 928.68 MU at Kerala periphery at a cost of Rs 313.63 crore from IEX and 61.57 MU at Kerala periphery for a cost of Rs 24.71 crore from PXIL. The details are as follows:

Table 5.31  
Power purchase through exchanges

Source	Energy* (MU)	Cost (Rs Cr)	Avg. tariff (Rs/ kWh)
IEX	928.68	313.63	3.38
PXIL	61.57	24.71	4.01
Sub total	990.25	338.34	3.42
* Energy at Kerala periphery			

### Analysis and Decision of the Commission

- 5.83 Since the establishment of the Power Exchanges, the Commission 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.

During the year 2019-20, KSEB Ltd had purchased 990.25 MU at an average rate of Rs 3.42/unit. The Commission noted the rate of purchase from the PXIL is higher compared to the purchase of IEX. The Power Exchanges are competitive bidding platform for day ahead electricity market regulated by CERC. Further the average tariff at Rs 3.42 /kWh is the cheapest source of power procured by KSEB Ltd. The Commission appreciates the sincere and proactive role played by KSEB Ltd officers and staff entrusted with this responsibility.

**After examining the purchase of power from 'Power exchanges' in detail, the Commission hereby approve the power purchase of Rs 338.34 Crores through exchanges of 990.25 MU at an average rate of Rs 3.42/unit in the year 2019-20.**

#### (b) Deviation settlement mechanism

- 5.84 KSEB Ltd in the Truing up petition submitted that, it had received 513.50 MU from the grid through DSM at an average rate of Rs 2.38/unit at a total cost of Rs 122.13 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 513.50 MU at the total cost of Rs 122.13 crore.**

#### (c) Power availed through swap arrangements

- 5.85 KSEB Ltd in the Truing up petition submitted that, during the year 2019-20, it had entered into the following power swap transactions with the approval of the Commission.

**Table 5.32  
Details of power procurement through banking arrangement for FY 2019-20**

Sl No	Supply						Return				
	Trader	Utility	Period		Quantum MW	Duration Hrs	Utility	Return %	Period		Return duration hrs
			From	To					From	To	
1	GMRETL	PSPCL	01.04.19	30.04.19	100	RTC	KSEB Ltd	106%	15.06.19	15.07.19	RTC
2	PTC	TPDDL	01.02.20	29.02.20	50	RTC	KSEB Ltd	102%	16.06.20 20	30.09.20 20	0-4 & 17-18.30 & 22.30 to 24.00 (uniformly distributed)
					50	0-6	KSEB Ltd	102%			
			01.03.20	31.03.20	100	20-24	KSEB Ltd	102%			
					50	RTC	KSEB Ltd	102%			
100	0-6	KSEB Ltd	102%								

					50	18-20	KSEB Ltd	102%			
					100	20-24	KSEB Ltd	102%			
			01.04.2020	30.04.2020	50	RTC	KSEB Ltd	102%			
					100	0-6	KSEB Ltd	102%			
					25	18-23	KSEB Ltd	102%			
3	BYPL	BYPL	16.02.2020	29.02.2020	75	RTC	KSEB Ltd	103%	16.06.2020	30.09.2020	0-3 & 13-17 & 22-24. (uniformly distributed)
			01.03.2020	31.03.2020	75	RTC	KSEB Ltd	103%	16.06.2020	30.09.2020	
4	Manikaran Power Ltd	BRPL	01.03.2020	31.03.2020		RTC	KSEB Ltd	104%	01.07.2020	31.08.2020	04.00 to 18.00 in a uniformly distributed pattern
						14.00 to 24.00	KSEB Ltd	104%			
5	NVVN	KSEB Ltd	01-11-2018	15-11-2018	90	06-Nov	RUVNL	102%	05-01-2019	6/30/2019	RTC
			15-11-2018	30-11-2018	60						
			12-01-2018	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%	05-01-2019	6/30/2019	RTC

5.86 KSEB Ltd has also submitted the details of the power availed through banking in the year 2019-20. Its details are given below.

Table 5.33  
Power availed through banking arrangement for 2019-20

Sl No	Utility	Trader	Period	Energy at ex bus	Energy at Kerala periphery
				MU	MU
1	PSPCL	GMRETL	01-04-2019 to 30-04-2019	71.81	69.93
2	TPDDL	PTCIL	01-02-2020 to 31-03-2020	126.40	119.32
3	BYPL	BYPL	16-02-2020 to 31-03-2020	81.00	79.21
4	BRPL	MPL	01-03-2020 to 31-03-2020	57.20	55.90
5	RUVNL	TATA	01-05-2019 to 30-06-2019	11.63	11.32
6	RUVNL	NVVN	01-05-2019 to 30-06-2019	17.44	16.99
	Total			<b>365.48</b>	<b>352.67</b>

5.87 KSEB Ltd had also submitted the details of the power returned through banking arrangement during the year 2019-20 and its details are given below.

Table 5.34  
Power returned to utilities outside State

Sl No	Utility	Trader	Return Period	Energy at Kerala periphery (MU)	Energy at delivery point (MU)
1	PSPCL	GMRETL	June-July 2019	77.21	76.12
2	HPPC	Mittal	July-August 2019	44.41	43.65
3	HPPC	APCPL	July-August 2019	97.86	96.86
4	NPCL	Mittal	July-September 2019	12.45	12.20
			<b>Sub total</b>	<b>231.93</b>	<b>228.83</b>

KSEB Ltd submitted that, the total expenditure incurred towards the banking transaction is Rs 6.00 crore in the year 2019-20.

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

5.88 The Commission has examined the banking arrangements made in the year 2019-20 with the approval of the Commission as detailed in the Table 5.32 and Table 5.33 above. Out of the six supply transactions above received during 2019-20, for the 1<sup>st</sup> transaction only the power is returnable during the year 2019-20. For the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> transactions, the availed power through banking is to be supplied only in the year 2020-21. In the case of 5<sup>th</sup> and 6<sup>th</sup> transactions, the power was banked in the year 2018-19 for returning the same in the year 2019-20.

5.89 Commission has also examined the power returned during the year 2019-20 as part of banking transactions. It is noted that, out of the four transactions as detailed in Table 5.34 as above, the 1<sup>st</sup> transactions only supplied during the year 2019-20. In the case of 2<sup>nd</sup> to 4<sup>th</sup> transactions, the power was supplied to KSEB Ltd in the year 2018-19.

5.90 **The Commission after examining the details submitted by KSEB Ltd as detailed in Tables 5.32, 5.33 and 5.34 above, approve the following banking transactions of the year 2019-20.**

- (i) **352.67 MU of power at Kerala periphery availed through banking during the year 2019-20.**
- (ii) **228.83 MU of power returned at Kerala periphery during the year 2019-20 as part of banking transactions.**
- (iii) **The total expenditure of Rs 6.00 crore incurred during the year 2019-20 towards the banking transaction.**

#### **(d) Energy sale outside the State**

5.91 KSEB Ltd submitted that, it had sold 55.95 MU of power through exchanges during 2019-20 for a total revenue of Rs.19.11 crore. The total expenditure

incurred on such sales was Rs.0.74 crore. The details of energy sale through exchanges are given below.

**Table 5.35**  
**Energy sale outside the State through contracts**

Particulars	Energy sale at SR periphery (MU)	Energy sale at KSEB periphery (MU)	Amount	Avg. rate (RS/ kWh)
IEX Total	41.86	42.59	14.81	3.48
PXIL Total	13.18	13.35	4.30	3.22
Total	55.04	55.95	19.11	3.42

As seen above, KSEB Ltd has sold 55.95 MU for a total amount of Rs.19.11 crore @ Rs 3.42/unit. The expenditure associated with sale through power exchanges amounts to Rs 0.74 crore.

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

- 5.92 The Commission has examined the energy sale through traders and exchanges as detailed under paragraph 5.91 above. As per the details submitted by KSEB Ltd, the licensee has sold 55.95 MU through power exchanges during the year 2019-20 and earned Rs 19.11 crore at an average rate of Rs 3.41/unit. The total expenditure incurred for the sale outside the State is Rs 0.74 crore. **Hence the net realization from these transactions is Rs. 18.37 Crore and the net realization is rate is Rs 3.28/kWh.**

### **Interstate Transmission charges**

- 5.93 **KSEB Ltd submitted that, the Commission vide the MYT Order dated 08.07.2019 had approved Rs.555.46 crore towards interstate transmission charges for the year 2019-20. The actual interstate transmission charges incurred in the year 2019-20 is Rs 567.34 crore as per the audited accounts. KSEB Ltd requested before the Commission to approve the same.**

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

- 5.94 The interstate transmission charges are governed by the Regulations and Orders of CERC. After examining the details, **the Commission hereby approves the actual amount of Rs.567.34 crore towards the interstate transmission charges incurred by KSEB Ltd as per audited accounts for the purpose of Truing up for the year 2019-20.**

### **Summary of the cost of power purchase approved for the year 2019-20**

- 5.95 The summary of the cost of power purchase approved for the year 2019-20 as detailed in the preceding paragraphs is given below.

**Table 5.36**  
**Summary of the Power Purchase & Cost approved for the Year 2019-20**

Sl No	Particulars	Energy schedule d at Ex bus	Energy at Kerala periphery	KSEB L claim		KSERC Approval	Disallowance
				Auditted accounts	Truing Up petition		
				(Rs. Cr)	(Rs. Cr)		
1	Central Generating Stations (CGS)	10470.29	10082.01	4135.16	3835.91	3835.91	0.00
2	IPPs within the State (wind, SHP, solar etc)	308.24	308.24	102.36	102.36	100.89	1.47
3	RGCCPP Kayamkulam	0.00	0.00	100.22	100.22	100.00	0.22
4	LTA- Maithon & DVC stations	2955.09	2849.32	1262.93	1262.93	1262.93	0.00
5	LTA - Approved DBFOO contracts	2192.57	2101.21	847.85	847.85	847.85	0.00
6	LTA- provisionally approved DBFOO contracts	793.97	767.32	349.11	313.22	301.56	11.66
7	LTA- unapproved DBFOO contracts	2513.18	2419.25	1146.89	1119.49	1025.76	93.73
8	Power purchase through Exchanges	1016.20	990.25	338.34	338.34	338.34	0.00
9	Deviation settlement	513.50	513.50	122.13	122.13	122.13	0.00
10	Interstate Transmission charges			567.34	567.34	567.34	0.00
11	Power purchase through banking/swap during the year	365.48	352.67	6.00	6.00	6.00	0.00
12	Less Power returned through banking	-231.93	-228.83				0.00
13	Less cost of Sale outside the State		-55.95	0.74	0.74	0.74	0.00
14	Net Power Purchase for KSEBL use for the year 2019-20 (excluding ext. sale and energy banked/ returned)	21128.52	20383.77	8979.07	8616.53	8509.45	107.08

**Average Power Purchase Cost**

5.96 Based on the approvals given, the average power purchase cost approved for the year 2019-20 is as shown below:

**Table 5.37**  
**Approved Power Purchase Cost for 2019-20**

Sl No	Particulars	Quantity	Amount
		(MU)	(Rs. Cr)
1	Power purchase and cost	20383.77	8509.45
2	Less		
	(i) Energy sale outside the	55.95	19.11
	(ii) Energy banked/return	228.83	
3	Net Power purchase and cost	20098.99	8490.34
2	Average power purchase cost excluding own generation (Rs/unit)	4.22	

**As above, the average cost of power purchase for the year 2019-20 is Rs 4.22/unit.**

## O&M Expenses

5.97 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, the total O&M expenses for the year 2019-20 of SBU-D is Rs 3224.44 crore. However, KSEB Ltd in the petition had claimed Rs. 2442.44 crore as O&M expenses based on the approved norms as per the Regulations as shown below:

**Table 5.38**  
**O&M expenses for SBU-D for 2019-20 as per Truing up 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	2142.56	2540.44	2148.40
2	A&G Expenses		442.02	
3	R&M Expenses	316.39	217.26	294.04
4	Sub Total (O&M Expenses)	2458.95	3199.72	2442.44
5	Provision for pay revision			204.56
6	Total	2458.95	3199.72	2647.00

5.98 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.

5.99 The distribution parameters adopted by KSEB Ltd for arriving the 'employee expenses and A&G expenses' for the year 2019-20 and the computation of the normative values of employee expenses and A&G expenses is given in table below:

**Table 5.39**  
**Normative O& M expenses for 2019-20**

No	Parameters	Quantity
1	No. of consumers (Rs. Lakh/1000)	5.03
2	Dist Transformers (Rs. Lakh/DTr)	0.67
3	Length of HT line (Rs. Lakh/km)	0.83
4	Energy sales (Rs/unit)	0.2
5	No. of consumers	12552206
6	No. of Dist Transformers (Nos)	79876
7	HT Line (Ckt-Km)	64393.5
8	Energy sales in MU	22369.59
9	<b>Employee, A&amp;G Cost (Rs Cr)</b>	<b>2148.403</b>



5.100 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 5.40**  
**Normative R&M expenses (Rs Cr.)**

Particulars	Amount (Rs Cr)		
Opening GFA Excluding Land value (Rs Cr.)	9271.04		
Less land	19.91		
<b>R&amp; M @ 3% on opening GFA-A</b>	277.53		
Addition of assets during the year	1641.84		
<b>R&amp;M at prorata basis for assets added during the year</b>			
	Pro rata GFA addition	Pro rata % based on works in 2018-19	Pro rata R&M expenses
April	67.37	4.1	1.85
May	150.84	9.19	3.77
June	123.7	7.53	2.78
July	55.63	3.39	1.11
August	91.77	5.59	1.61
September	74.86	4.56	1.12
October	65.51	3.99	0.82
November	70.15	4.27	0.7
December	103.31	6.29	0.77
January	207.56	12.64	1.04
February	367.96	22.41	0.92
March	263.19	16.03	0
<b>Total</b>	<b>1641.84</b>		
<b>R&amp;M expenses for assets added during FY-19 -B</b>			<b>16.5</b>
<b>Total R&amp;M expenses (A+B)</b>			<b>294.04</b>

5.101 KSEB Ltd also submitted that, the pay revision to its employees is due from July/August 2018 onwards. A provision for Rs 204.56 crore has been created in the accounts for pay revision.

5.102 Considering the above, KSEB Ltd requested to approve the normative O&M expenses of Rs 2442.44 crore, which is inclusive of Rs 2148.40 crore towards normative 'employee expenses and A&G expenses', Rs 294.04 crore towards R&M expenses. In addition to the above, KSEB Ltd requested to approve Rs 204.56 crore towards provision for pay revision.

### **Comments of the Stakeholders**

5.103 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 computed the O&M expenses as Rs 2428.32 crore as against Rs 2442.44 crore claimed by KSEB Ltd. 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**

5.104 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.

5.105 O&M expenses of SBU-D 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).

5.106 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.

5.107 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**

5.108 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.”*

5.109 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.”

5.110 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:

Table

O&M Costs for Generation business

**O&M Costs for Generation business**

Particulars	2016-17 (Rs. crore)	2017-18 (Rs. crore)	Control period			
			2018-19 (Rs. crore)	2019-20 (Rs. crore)	2020-21 (Rs. crore)	2021-22 (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.”*

5.111 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.”*

5.112 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.

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

### **Employee Expenses & A&G expenses**

5.113 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 2019-20. KSEB Ltd has claimed the O&M expenses of SBU-D as per the Regulation 79 of the Tariff Regulations, 2018.

5.114 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

5.115 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 5.41  
Distribution parameters for estimating the normative employee expenses and A&G expenses for the year 2019-20

	Particulars	Previous Year of 2019-20
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S. No.		Approved in Tariff Order	Audited	Truing up requirement
1	Number of Consumers ('000)	12611100	12552206	12552206
2	Distribution Transformers (no.)	79674	79876	79876
3	HT line (km)	65236	64394	64393.5
4	Sales (kWh)	21647.29	22369.59	22369.59

5.116 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-5.42  
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

5.117 Based on the parameters given in the Table 5.41 and norms given in the Table 5.42 above, the consolidated 'employee expenses and A&G expenses' allowable as per the Tariff Regulations, 2018 is given below.

Table 5.43  
Normative 'employee expenses and A&G expenses' allowable for the year 2019-20

Particulars	Allowable expenses (Rs. Cr)
(i) Linked to number of consumers	631.38
(ii) Liked to Distribution transformers	535.17
(iii) Linked to HT lines	534.47
(iv) Linked to energy sales	447.39
Total	2148.40

5.118 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 will also facilitates the identification of areas for possible 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 dated 06.12.2021 has been filed by KSEB Ltd regarding redetermination of allowable employee strength since 31.03.2009. Since a final decision in this matter is yet to be taken, **the Commission decided to approve provisionally the employee expenses for the period 2019-20.**

5.119 Hence, the Commission decided to apportion the O&M expenses admissible as per norms 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-5.44  
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%

\*Provisional

5.120 Based on the above, the 'employee expenses and A&G expenses' allowable for each component of SBU-D is apportioned, as detailed below.

Table 5.45  
Employee expenses and A&G expenses allowable for the year 2019-20

Particulars	Amount allowable as per norms for 2019-20	Ratio of the components of 'employee expenses and A&G expenses
	(Rs. crore)	(%)
Employee expense	2033.46	94.65%
A&G expenses	114.94	5.35%
Total	2148.40	100.00%

**Normative Repair and Maintenance (R&M) expenses allowable as per norms**

5.121 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.
- (iii) 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.

5.122 The Commission vide Order dated 14.06.2022 in petition OA No. 13/2020 had approved the Gross Fixed Asset of the SBU-D as on 31.03.2019 as follows.

Table 5.46  
Summary of approved GFA as on 31.03.2020

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	1202.5
3	Closing balance of GFA as on 31.03.2019	9432.45

5.123 Since the exact details of the cost of land is not specified in the audited accounts, the Commission has been consistently adopting the cost of land as 2.8% of the GFA. After excluding cost of land, the opening GFA as on 31.03.2019 eligible for R&M expenses is arrived as below.

Table 5.47  
GFA of SBU-D as on 01.04.2019 and Normative R&M expenses allowable

Particulars	Amount (Rs.Cr)
Opening GFA as on 01.04.2018 excluding land	7999.51
GFA added during the year 2018-19 excluding land	1202.26
GFA as on 01.04.2019 eligible for R&M expenses (excluding land)	9201.77
R&M expenses allowable for GFA of SBU-D as on 01.04.2019	276.05

5.124 The Annexure-IX of the Tariff Regulations, 2018 also allows R&M expenses for the GFA added during the year 2019-20. KSEB Ltd had submitted the month wise details of the GFA of SBU-D added during the year 2019-20. The R&M expenses allowable for the GFA added during the year 2019-20 is estimated as below.

Table 5.48  
R&M expenses of newly added assets for the year 2019-20

Month	GFA addition during the month (Rs. Cr)	O&M cost for the newly added assets (Rs.Cr)
-------	----------------------------------------	---------------------------------------------

Apr-19	67.37	1.80
May-19	150.84	3.67
Jun-19	123.7	2.71
Jul-19	55.63	1.08
Aug-19	91.77	1.56
Sep-19	74.86	1.09
Oct-19	65.51	0.80
Nov-19	70.15	0.68
Dec-19	103.31	0.75
Jan-20	207.56	1.01
Feb-20	367.96	0.89
Mar-20	263.19	0.00
Total	1641.85	16.04

5.125 Based on the above details and taking into consideration the provisions of Tariff Regulations 2018-22, the Commission has calculated the total normative R&M expenses allowable to the SBU-D for the year 2019-20 as given below:

Table 5.49

Normative R&M expenses allowable for the year 2019-20

Particulars	Amount (Rs. Cr)
R&M expenses allowable for the GFA as on 01.04.2019	276.05
R&M expense for GFA added during the year 2019-20	16.04
Total	292.09

The Commission noted that though the R&M Expenses as per audited accounts is only Rs 217.26 Crore, since the O&M expenses are being allowed as per norms, the normative R&M Expenses as per Regulation is being approved. Therefore Rs.292.09 crore is hereby approved as R& M Expenses for 2019-20.

5.126 As discussed under Table 5.45 and Table 5.49 above, the total normative O&M expenses allowable as per Tariff Regulations 2019-20 is given below.

Table 5.50

Normative O&M expenses of SBU-D allowable as per Tariff Regulations 2018 for the year 2019-20

Sl No	Particulars	Amount (Rs.Cr)
1	Employee expense*	2033.46
2	A&G expenses	114.94
3	R&M expenses	292.09
	Total	2440.49

\*Provisional

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

5.127 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.

5.128 The details of the employee expenses of SBU-D claimed as per the audited accounts is given below.

Table 5.51  
Employee expenses of SBU-D as per the audited accounts for the year 2019-20

S. No.	Particulars	Amount (Rs.Cr)
1	Basic Salary	2062.16
2	Dearness Allowance (DA)	572.27
3	House Rent Allowance	37.70
4	Conveyance Allowance	0.00
5	Leave Travel Allowance	0.21
6	Earned Leave Encashment	129.77
7	Other Allowances	26.33
8	Medical Reimbursement	10.45
9	Overtime Payment	0.05
10	Bonus/Ex-Gratia Payments	8.29
11	Interim Relief / Wage Revision	0.00
12	Staff welfare expenses	4.22
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	0.16
17	<b>Net Employee Costs</b>	<b>2851.60</b>
18	Terminal Benefits	0.07
18.1	Provident Fund Contribution	0.00
18.2	Provision for PF Fund	0.00
18.3	Pension Payments	0.00
18.4	Gratuity Payment	0.00
18.6	Contribution of KSEB Ltd towards National Pension Scheme	18.70

19	Others	0.37
20	<b>Gross Employee Expenses</b>	<b>2870.74</b>
21	Less: Expenses Capitalised	330.30
22	<b>Net Employee Expenses</b>	<b>2540.44</b>

5.129 As detailed above, the employee expenses of SBU-D as per the audited accounts is Rs.2540.44 crore as against Rs 2033.46 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 31.03.2020, 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 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. The Commission also noted that the Additional Chief Secretary, Finance, vide its circular 04/2021 dated 18.01.2021 has instructed to the Head of the Departments of all PSU's owned by the State Government that "the revision of pay and allowance to its employees" shall be implemented only with the prior approval of the Cabinet. It is also stated in the circular that the Government shall take action against the Head of the Department those who violate the government directions.
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.

5.130 The Commission notes that there is a gap of Rs 837.28 Crores between the gross employee expenses and that allowable as per norms. Hence, the

Commission is required to prudently estimate the employee expenses as per norms and that claimed in the audited accounts. The Commission also took note of the fact that a petition OP No. 63/2021 dated 06.12.2021 has been filed by KSEB Ltd regarding redetermination of allowable employee strength since 31.03.2009. Since a final decision in this matter is yet to be taken, the Commission decided to approve provisionally the employee expenses for the period 2019-20. 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.

Since the petition OP 63/2021, filed by KSEB Ltd is pending for final orders before the Commission, this amount of Rs.2033.46 crore is provisional.

5.131 Based on the above consideration, the Commission hereby approve, provisionally, the employee expenses of SBU-D of KSEB Ltd for the year 2019-20 as follows.

Table 5.52

Employee expenses of SBU-D provisionally approved for the year 2019-20

Particulars	As per audited accounts	KSERC Approval in True up
	(Rs. Cr)	(Rs. Cr)
Employee Expenses	2540.44	2033.46

***As above, the Commission provisionally approve the employee expenses of SBU-D of KSEB Ltd at Rs 2033.46 crore for the year 2019-20 as per the Tariff Regulations, 2018.***

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

5.132 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 2019-20 is given below.

Table 5.53

A&G expenses of SBU-D as per the audited accounts for the year 2019-20

S. No.	Particulars	Amount (Rs.Cr)
1	Rent Rates & Taxes	10.09
2	Insurance	-0.45
3	Telephone & Postage, etc.	8.88
4	Legal charges	0.91
5	Audit Fees	0.23



6	Consultancy charges	0.04
7	Other Professional charges	0.72
8	Conveyance	54.11
9	Vehicle Running Expenses Truck / Delivery Van	0.64
10	Vehicle Hiring Expenses Truck / Delivery Van	2.86
11	Electricity charges	4.96
12	Water charges	0.84
13	Entertainment	0.88
14	Fees & subscription	0.04
15	Printing & Stationery	5.93
16	Advertisements, exhibition publicity	0.29
17	Contribution/Donations	1.99
18	Training expenses	1.79
19	Miscellaneous Expenses	4.24
20	DSM activities	0.00
21	SRPC expenses	0.18
22	Sports and related activities	0.10
23	Freight	0.48
24	Purchase Related Advertisement Expenses	0.74
25	Bank Charges	0.00
26	Office Expenses	103.21
27	License Fee and other related fee	1.45
28	Cost of services procured	0.00
29	Outsourcing of metering and billing system	0.00
30	V-sat, Internet and related charges	0.45
31	Security arrangements	0.00
32	Books & periodicals	0.04
33	Computer Stationery	0.00
34	Others	2.05
	Others- Other Purchase related Expenses	1.66
	Others - Power Factor Incentive given to consumers	205.90
35	<b>Gross A&amp;G Expenses</b>	<b>312.01</b>
36	<b>Ele. Duty u/s 3(I), KED Act</b>	<b>130.43</b>
37	Less: Expenses Capitalised	0.42
38	<b>Net A&amp;G Expenses</b>	<b>442.02</b>

5.133 As seen from above Table, the A&G expenses as per the audited accounts is Rs 442.02 crore as against Rs 114.94 crore mentioned as per norm. The actual A&G expenses is about 3.84 times higher than the same as per norms.

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.

5.134 Considering these aspects in detail, the Commission has 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 5.54  
A&G expenses of SBU-D provisionally approved for the year 2019-20

Particulars	As per audited accounts	KSERC Approval in True up
	(Rs. Cr)	(Rs. Cr)
A&G expenses	442.02	114.94

***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 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-D for the year 2019-20 at Rs 114.94 crore.***

**Appraisal of R&M Expenses as per audited accounts with the same allowable as per norms.**

5.135 The details of the R&M expenses of SBU-D claimed for the year 2019-20 as per the audited accounts is given below.

Table 5.55  
R&M expenses of SBU-D claimed for the year 2019-20

S. No.	Particulars	Amount (Rs.Cr)
1	Plant & Machinery	3.58

2	Buildings	3.58
3	Civil Works	0.52
4	Hydraulic Works	0.10
5	Lines & Cable Networks	207.00
6	Vehicles	0.67
7	Furniture & Fixtures	0.25
8	Office Equipment	1.54
9	<b>Gross R&amp;M Expenses</b>	<b>217.26</b>
10	Less: Expenses Capitalised	
11	<b>Net R&amp;M Expenses</b>	<b>217.26</b>

5.136 As seen from the Table above, the R&M expenses of SBU-D as per the audited accounts for the year 2019-20 is Rs 217.26 crore as against Rs 292.09 crore allowable as per the norms.

5.137 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 and to check its prudence 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. 292.09 crore as the R&M expenses of SBU-D for the year 2019-20 for the purpose of Truing up.***

Table 5.56

R&M expenses of SBU-D approved for the year 2019-20

Particulars	As per audited accounts	KSERC Approval in True up
	(Rs. Cr)	(Rs. Cr)
R&M expenses	217.26	292.09

### Provision for Pay revision

5.138 KSEB Ltd submitted that, the pay revision of the KSEB Ltd officers and staff is due from July/ August 2018. Accordingly, on accrual basis, KSEB Ltd had provided Rs 250.00 crore as provision for pay revision. Out of this total provision of Rs 250.00 Crores, the share of SBU-D is Rs 204.56 crore.

5.139 The Commission has examined in detail, whether the provision created for pay revision can be allowed in the process of Truing up, irrespective of the fact that

the pay revision was not implemented in the year 2019-20 and actual cash out flow did not happen on this account. This issue has been discussed in detail under paragraphs 2.52 to 2.60 of this Order, which is extracted below to present a considered view of this Commission regarding pay revision and related matters.

“

2.52 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 250.00 crore as provision for pay revision.

Further, Regulation 14 (3) of Tariff Regulation, 2018 provides that 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. KSEB Ltd submitted that the pay revision process has been completed in February, 2021. As per the prevailing practice, the revised pay is granted with retrospective effect and therefore, complete impact will be in the year of implementation. KSEB Ltd is of the view that this can be minimized if annual provisions are approved in truing up. With this view, KSEB Ltd seeks truing up of Rs.250 Cr over and above its normative entitlement.

2.53 The SBU wise details of the provision created towards pay revision for the year 2019-20 is given in the Table below.

Table 2.25

SBU wise details of the provision created in the accounts towards pay revision

<b>Particulars</b>	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
Provision for pay revision (Rs. Crore)	15.94	29.5	204.56	250

As above, the provision for pay revision for SBU-G of KSEB Ltd is Rs 15.94 crore for the year 2019-20.

#### **Provisions in the Regulations**

2.54 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.”*

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

- 2.55 *KSEB Ltd, in the Truing up petition for the year 2019-20 submitted that, the licensee had created a provision of Rs 250.00 crore towards the revision of pay and allowances of its employees, which was due from July/August 2018 onwards. The Commission noted that as stated under paragraph 2.42 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.*
- 2.56 *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.*

2.57 *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”.*

2.58 *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 after prudence check.**

2.59 However, as per the details submitted before the Commission, the pay revision due from July / August 2018 was implemented from March 2021 only, and thus no out cash flow was incurred towards pay revision in the Year 2019-20. Since KSEB Ltd is preparing the accounts on accrual basis, KSEB Ltd has created a provision of Rs 250 crore towards pay revision for the year 2019-20.

2.60 However, the Commission is approving such expenditure in the Truing up of accounts only on cash basis after appraising the prudence of the amount incurred. Considering the facts that no actual out flow of cash had occurred during this period, the Commission is not in a position to approve the provision for pay revision created on accrual basis for the year 2019-20.”

5.140 As extracted above, the Commission has decided that, the provisions created for pay revision for the year 2019-20 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.**

5.141 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 2019-20 is detailed below.

Table 5.57

Total O&M expenses of SBU-D of KSEB Ltd approved for the year 2019-20

No	Particulars	Approved in MYT Order	As per audited accounts	As per True-up petition	KSERC Approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Employee Expenses*	2142.56	2540.44	2148.4	2033.46

2	A&G Expenses*		442.02		114.94
3	R&M Expenses	316.39	217.26	294.04	292.09
4	Sub Total (O&M Expenses)	2458.95	3199.72	2442.44	2440.49
5	Provision for pay revision			204.56	0.00
6	Total	2458.95	3199.72	2647.00	2440.49

\*provisional

**The Commission hereby provisionally allows Rs.2440.49 crore as O&M expenses of SBU D for the year 2019-20.**

### **Asset additions of SBU-D of KSEB Ltd for the year 2019-20**

5.142 KSEB Ltd submitted that, as per Accounts, KSEB Ltd had executed capital works to the tune of Rs. 2902.36 crore during the year 2019-20. The assets capitalized during the year was Rs.2143.64 crore. Out of the total GFA addition, Rs.1643.78 crore was the asset addition for SBU-D as shown below:

Table 5.58  
Summary of capitalisation during the year 2019-20 as per petition

Sl. No	SBU	CWIP as on 01/04/2019	Works executed during the year	GFA Addition	CWIP as on 31/03/2020
1	Generation	1,247.39	458.35	121.24	1,584.50
2	Transmission	635.71	899.36	378.62	1,156.44
3	Distribution	1,108.24	1,544.65	1,643.78	1,009.12
4	<b>GRAND TOTAL</b>	<b>2,991.34</b>	<b>2,902.36</b>	<b>2,143.64</b>	<b>3,750.06</b>

5.143 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 2019-20 is given below:

Table 5.59  
SBU wise -Asset class wise GFA addition for 2019-20 (Rs Cr)

	Particulars	SBU G	SBU T	SBU D	Total
1	Land	8.80	4.77	0.35	13.92
2	Building	40.04	22.80	13.63	76.47
3	Hydraulic works	2.69	0.62		3.31
4	Other Civil works		26.39	2.22	28.61
5	Plant & Machinery	66.68	166.30	164.63	397.61
6	Lines, cable networks etc.	0.89	154.52	1420.77	1576.18
7	Vehicle	0.11	0.25	0.09	0.44
8	Furniture & Fixtures	1.22	0.62	2.07	3.91
9	Office equipment	0.73	2.00	38.44	41.17
10	Decommissioning liability	0.08	0.35	1.59	2.01
11	<b>Total</b>	<b>121.24</b>	<b>378.62</b>	<b>1643.78</b>	<b>2143.64</b>



5.144 The scheme wise capital expenditure and GFA addition under SBU-D for the year 2019-20 is given below.

**Table 5.60**  
**Scheme wise capital expenditure and GFA addition under SBU D for 2019-20 (Rs. Cr)**

Project Code	Brief Description of Project	Cost as on 01/04/2019	Incurred during the year	Capitalized during the year	Balance as on 31/03/2020
14.05	Deen Dayal Upadhyay Gram Jyothi Yojana (DDU GJY)	67.23	149.67	213.11	3.79
14.13	Integrated Power Development Scheme (IPDS)	56.70	358.08	365.88	48.90
14.5	Rural Electrification Scheme	0.04	0.33	0.32	0.04
14.51	Distribution Line Extension	1.33	130.59	130.93	0.99
14.52	Distribution Service Connection	3.95	148.70	147.79	4.87
14.53	Distribution System Improvement	9.22	408.15	399.68	17.69
14.54	Electrification of Harijan Colonies	0.00	0.29	0.29	0.00
14.55	Electrification of Tribal Colonies	0.00	0.40	0.40	0.00
14.57	Punja Package	0.08	0.39	0.35	0.12
14.58	System Improvement in other areas	0.26	4.89	5.08	0.07
14.59	Distbn. Capacitor Installation Scheme	0.00	0.99	0.00	0.99
14.6	Street Lights	2.13	41.96	41.49	2.59
14.61	Expenditure due to Natural Calamity	0.06	8.86	8.88	0.05
14.62	RGGVY-Village electrification Infrastructure	3.13	-0.25	2.88	0.00
14.63	RGGVY-For effecting BPL Service Connection	0.24	0.04	0.27	0.00
14.67	Part B Projects of R-APDRP	41.14	89.14	114.41	15.87
14.81	MLA Asset Development Fund Scheme (MLA ADF)	0.00	0.13	0.13	0.00
14.82	R- APDRP Scheme	397.68	66.31	56.07	407.93
14.9	CWIP – General	523.58	133.81	153.48	503.91
14.91	Innovation fund	0.11	0.54	0.63	0.02
14.99	Projects not Identified	1.37	1.62	1.70	1.29
	<b>SUB TOTAL (C)</b>	<b>1108.24</b>	<b>1544.65</b>	<b>1643.78</b>	<b>1009.12</b>

KSEB Ltd also submitted that, most of the capital works in SBU-D are with small works with smaller capital outlay and has shorter gestation periods. Hence there is very remote chance for part capitalization of distribution assets. However, decommissioning liability of Rs 1.59 crore is included in the GFA addition for the year 2019-20.

5.145 Details of the capital subsidies and grants received for SBU -D during the year 2019-20 as per the truing up petition is detailed below.

**Table 5.61**  
**SBU wise break up of Contribution & grants received during 2019-20 (Rs Cr)**

SL No.	PARTICULARS	GEN	TRANS	DIST	TOTAL
1	Consumer contribution	0.00	58.86	342.25	401.11
2	Subsidies	2.10	0.00	0.00	2.10
3	Grants Recd. Towards Cost of Fixed Assets	0.00	101.17	152.08	253.25
4	Others	0.00	1.64	39.14	40.78
5	<b>Gross Total</b>	<b>2.10</b>	<b>161.68</b>	<b>533.46</b>	<b>697.24</b>

KSEB Ltd in their petition has claimed the consumer contribution, grants and subsidies received during the year was Rs 533.46 crore.

5.146 The GFA addition for SBU - D claimed, as per Tariff Regulation, 2018 for the purpose of claiming interest on loan and depreciation for the year 2019-20 is given below.

Table 5.62  
Breakup of additional capitalization as per Tariff Regulations (Rs. Cr)

SI.No	Particulars	SBU G	SBU T	SBU D	TOTAL
1	Addition as per Accounts	121.24	378.62	1643.78	2143.64
2	Less: Decommissioning liability	0.08	0.35	1.59	2.02
3	Less: Part capitalization	9.05	30.15	0.00	39.20
4	Add: Part capitalization in 2016-17 but commissioned during 2019-20	4.16	11.21	0.00	15.37
5	Add: Part capitalization in 2017-18 but commissioned during 2019-20	0.00	8.55	0.00	8.55
6	Add: Part capitalization in 2018-19 but commissioned during 2019-20	0.00	16.29	0.00	16.29
7	<b>GFA addition eligible as per Regulation</b>	<b>116.27</b>	<b>384.17</b>	<b>1642.19</b>	<b>2142.63</b>
8	Less: Consumer contribution & grants	2.10	161.68	533.46	697.24
9	<b>GFA addition eligible for normative loan as per Regulation</b>	<b>114.17</b>	<b>222.49</b>	<b>1108.73</b>	<b>1445.39</b>
10	Less: Land value addition excluding the portion under part capitalization	1.01	8.65	0.35	10.01
11	<b>GFA addition eligible for depreciation</b>	<b>113.16</b>	<b>213.84</b>	<b>1108.38</b>	<b>1435.38</b>

5.147 As detailed above, KSEB Ltd in their petition submitted that, the total GFA addition of SBU-D in the year 2019-20 is Rs 1642.19 Crore after excluding the decommissioning liability of Rs 1.59 crore. Out of it Rs 1108.73 crore is eligible for normative loan and Rs 1108.38 crore is eligible for depreciation.

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

5.148 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-T**

- 5.149 The Commission has examined the details furnished by KSEB Ltd on asset addition for SBU-D. As per the details furnished by KSEB Ltd, GFA addition for SBU-D as per accounts is Rs 1643.78 crore. After removing the decommissioning liability of Rs 1.59 crore, the GFA addition of SBU-D as per Tariff Regulations is **Rs.1642.19 crore**.
- 5.150 Further, as per the details submitted, KSEB Ltd has received the grants and contributions amounting to Rs 533.46 crore. ***This amount is to be deducted for arriving at the net assets addition during the year.***
- 5.151 ***Accordingly, the breakup details of the GFA addition of SBU-D approved for the year 2019-20 is given below.***

**Table 5.63  
GFA addition approved for the Year 2019-20 of SBU-D**

Sl.No	Particulars	Amount (Rs. Cr)
1	Addition as per Accounts	1643.78
2	Less: Decommissioning liability	1.59
3	GFA addition	1642.19
4	(Less) Consumer contribution and grants	533.46
5	<b>Net Asset addition (for Normative loan)</b>	1108.73
6	Less: Land value addition excluding the portion under part capitalization	0.35
6	<b>GFA addition eligible for depreciation as per petition</b>	1108.38

- 5.152 ***As above the asset addition approved for the year 2019-20 for SBU-D is Rs.1642.19 crore. After deducting the grants and contribution amounting to Rs.533.46 crore and the land value amounting to Rs 0.35 crore of the***

***newly added land which has not achieved CoD, the GFA addition eligible for depreciation for the year 2019-20 is Rs 1108.38 crore.***

#### 5.153 Summary of the GFA of SBU-D as on 31.03.2020

The Commission notes that in the Commission Order dated 14-06-2022 in petition OA No.13/2020 in the matter of Truing Up of accounts for the year 2018-19, the GFA of SBU-D approved as on 31.03.2019 is Rs 9432.45 crore. The GFA addition approved as per Regulation for the year 2019-20 as per Table 5.63 above is Rs 1642.19 crore. Thus, the closing balance of GFA of SBU-D as on 31.03.2020 is Rs 11074.64 crore. The details are given in the Table below.

**Table 5.64  
Summary of GFA of SBU-D as on 31.03.2020**

Sl No	Particulars	Amount (Rs. Cr)
1	Opening level of GFA approved as on 01.04.2019	9432.45
2	Asset addition approved for 2019-20	1642.19
3	Closing balance of GFA as on 31.03.2020	11074.64

#### **Depreciation claimed and approved for SBU-D of KSEB Ltd**

5.154 KSEB Ltd in their submission have stated that, the Commission vide the MYT Order dated 08.07.2019 had provisionally approved the normative depreciation for SBU-D for the year 2019-20 at Rs 93.47 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 119.27 crore as against Rs 480.82 crore as per the audited accounts. KSEB Ltd submitted, the depreciation as per the audited accounts includes the depreciation of the assets created out of the consumer contribution and grants. From this amount, claw back depreciation of the consumer contribution is separately accounted as income. However, for the purpose of truing up, the depreciation is computed for the Fixed Assets excluding the assets created out consumer and grants as per the provisions of the Tariff Regulations, 2018.

5.155 The summary of the depreciation claimed by KSEB Ltd for SBU-D for the year 2019-20 is given below.

**Table 5.65  
Depreciation sought by KSEB Ltd for SBU-D for 2019-20**

No	Particulars	Approved in MYT Order	Actual as per accounts	True-up requirement
		Rs. crore	Rs. crore	Rs. Crore
1	Depreciation	93.47	480.82	119.27

5.156 KSEB Ltd further submitted that, the depreciation in the Truing up petition 2019-20 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 2019-20 as per the Truing-up petition is worked out in the following lines:

- (i) GFA (net of consumer contribution grants and subsidy) as on 31.03.2019 determined by the Commission vide Order dated 14-06-2022 in petition OA No. 13/2020 in the matter of Truing Up of accounts of the year 2018-19 is taken as the base for determining depreciation.
- (ii) 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.'*

- (iii) 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.
- (iv) Based on the above, KSEB Ltd has claimed the depreciation for the year 2019-20 as follows.

**Table 5.66**  
**Normative Depreciation for 2019-20 (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	GFA addition claimed for depreciation as per submission dt 30.07.2021 (2018-19)	90.06	286.37	749.33	1125.76
5=(3+4)	GFA as on 31.03.2019 considered for depreciation	4819.80	5303.75	8979.28	19102.83
6	Assets >12 years old (GFA as on 1-4-2007)	2995.64	2580.85	2640.35	8216.84

7	Fully depreciated Assets (assets up to 1-4-1989)	257.91	90.90	282.76	631.57
8=(6-7)	Assets having life 12-30 yrs	2737.73	2489.95	2357.59	7585.27
9=(8*2.80%)	Value of land (Average 2.8% of GFA)	76.66	69.72	66.01	212.39
10	Grants and contributions (upto 1-4-2007)			1895.10	1895.10
11=(8-9-10)	<b>Assets having life 12-30 yrs eligible for depreciation</b>	<b>2661.07</b>	<b>2420.23</b>	<b>396.48</b>	5477.78
12=(11*1.42%)	<b>Depreciation for Assets 12-30 years (@1.42%)</b>	<b>37.79</b>	<b>34.37</b>	<b>5.63</b>	<b>77.78</b>
13=(5-6)	Assets < 12 years old (1-4-2007 to 31-3-2019)	1824.16	2722.90	6338.93	10885.99
14=(13*2.80%)	Value of land (Average 2.8% of GFA)	51.08	76.24	177.49	304.81
15	Grants and contributions (1-4-2007 to 31-3-2019)	114.81	256.85	4504.65	4876.31
16=(13-14-15)	Opening balance of Assets < 12 years old	1658.27	2389.81	1656.79	5704.87
17	Asset addition for 2019-20 as per this submission	113.16	213.84	1108.38	1435.38
18=(16+17)	Closing balance of Assets <12 years Old (1-4-2007 to 31-3-2020)	1771.43	2603.65	2765.17	7140.25
19=(16+18)/2	Average Value of Assets <12 Years old	1714.85	2496.73	2210.98	6422.56
20=(19*5.14%)	<b>Depreciation for assets &lt;12 years (@5.14%)</b>	<b>88.14</b>	<b>128.33</b>	<b>113.64</b>	<b>330.12</b>
21=(12+20)	Total Depreciation for assets for 2019-20	<b>125.93</b>	<b>162.70</b>	<b>119.27</b>	<b>407.90</b>

5.157 KSEB Ltd requested to approves Rs.407.90 crore towards depreciation for its SBUs and its share of SBU-D is Rs 119.27 crore

#### Comments of the stakeholders

5.158 HT&EHT Association requested before the Commission to allow depreciation strictly as per the provision of the Regulations. The Association also proposes to allow Rs 119.27 crore as depreciation, the same amount claimed by KSEB Ltd.

#### Provisions in the Regulations

5.159 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.*

*(v) 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**

5.160 The Commission has examined in detail the depreciation claimed for the purpose of truing up for the year 2019-20. 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 be qualify for depreciation.

5.161 The Tariff Regulation 2018 provides the methodology and rates for determining the depreciation for Tariff determination.

5.162 The Commission vide Order dated 14-06-2022 in petition OA No.13/2020 in the matter of Truing Up of accounts for the financial year 2018-19 had approved the GFA of SBU-D as on 31.03.2019 as Rs 9432.45 crore (Table 5.62 under paragraph 5.156). The details are given below.

**Table 5.67**  
**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

5.163 The summary of the asset addition of SBU-D approved by the Commission for the year 2019-20 is Rs 1642.19 crore.

5.164 As per the provisions of the Tariff Regulations, 2018, land is a non-depreciable asset. Based on the past data, 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.

5.165 Based on the above, and also as per the methodology adopted by the Commission for the year 2018-19 for approving depreciation, the depreciation of SBU-D of KSEB Ltd for the year 2019-20 is arrived as below.

**Table 5.68**  
**Depreciation approved for SBU-D for the year 2019-20**

Sl No	Particulars	Amount (Rs. Cr)
1	Depreciable Assets as on 01.04.2018	2218.17
2	Depreciable Assets added during the year 2018-19	749.33
3	Depreciable assets as on 01-04-2019	2967.50
4	Depreciable Assets added during the year 2019-20	1108.38
5	Depreciation of asset as on 01.04.2019	90.79
6	Depreciation for assets added during the year 2019-20	28.49



7	<b>Total depreciation of SBU-D allowable for the year 2019-20</b>	<b>119.27</b>
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5.166 As above, the Commission approves the depreciation of Rs 119.27 crore for the SBU-D for the purpose of truing up for the year 2019-20.

### **Interest and financing charges of SBU-D for the year 2019-20**

5.167 KSEB Ltd has claimed Rs 1779.49 crore towards the interest and finance charges as against Rs 1421.47 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 2019-20 is given below:

Table 5.69  
Interest and financing charges as per petition

No	Particulars	Approved	Accounts	True up sought
1	Interest on outstanding Loans and Bonds	222.94	371.45	
2	Less: Interest capitalized	0.00	211.77	
3	Net interest	222.94	159.68	272.17
4	Interest on Security Deposit	199.93	196.29	173.05
5	Interest on GPF	162.58	146.63	146.63
6	Other Interest	0.00	11.97	11.97
7	Interest on Master Trust Bond	612.43	627.56	627.56
8	Carrying cost on revenue gap till 2018-19	223.59		521.94
9	Carrying cost on revenue gap for 2019-20	0.00		26.16
9	Interest on working capital	0.00	162.04	0.00
10	<b>Grand Total</b>	<b>1421.47</b>	<b>1304.17</b>	<b>1779.49</b>

5.168 The Commission has carefully examined each item of the interest and financing charges for SBU- D for the year 2019-20 and the findings are discussed in the subsequent paragraphs.

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

5.169 KSEB Ltd vide the Truing up petition had submitted the details of the loans availed for the year 2019-20 for all the SBUs of KSEB Ltd. Its summary as per the petition is given below.

Table 5.70  
Summary of loans, interest and average rate of interest (Rs. Cr)

SBU	Opening (01/04/19)	Additions during the Year	Repayments during the year	Closing (31/03/20)	Average loan	Interest on loan	Average interest rate (%)
SBU D	3366.39	1938.79	1061.8	4243.38	3804.89	371.45	9.76

5.170 KSEB Ltd further submitted that, Regulation 26 of the Tariff Regulations specifies the approval of the loan interest only on normative basis. While issuing MYT Order dated 08.07.2019, the Commission had approved the opening level of SBU-D as on 01.04.2019 as Rs.730.20 crore. The normative interest on loan approved by the Commission vide the MYT Order dated 08.07.2019 is extracted below

Table : 5.71

Normative loan and interest charges of SBU-D approved for the MYT period 2018-19 to 2021-22

SBU-D	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)	794.60	730.20	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)	730.20	1,036.89	1,456.13	1,413.64
Average loan	762.40	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

5.171 KSEB Ltd has estimated the loan, based on the provisions of the Tariff Regulations, 2018, and also as per the methodology followed by KSERC in the MYT Order dated 08.07.2019. By this method, the normative interest on loan till 31.03.2020 arrived by KSEB Ltd is given below.

**Table 5.72**  
**KSEB Ltd Computation of Normative loan as on 01.04.2020**

Sl. No	Description	SBU G	SBU T	SBU D	Total
1	Closing balance of Normative loan as per True up Order for 2017-18 (OA 09/2020 dated 25.06.2021)	627.78	917.23	1439.64	2984.67
2	Add: Disputed claim pending before APTEL	135.23	131.21	201.16	467.6
3	Normative loan for GFA addition 2018-19	90.52	290.26	749.57	1130.35
4	Less Normative repayment 2018-19	124.73	160.32	97.17	382.22

5= (1+2+3-4)	Opening normative loan as on 01.04.2019	728.8	1178.38	2293.2	4200.4
6	Additional normative loan for 2019-20	114.17	222.49	1108.73	1445.39
7	Normative repayment 2019-20	125.93	162.7	119.27	407.9
<b>8= (5+6-7)</b>	<b>Closing normative loan 31.03.2020</b>	<b>717.04</b>	<b>1238.17</b>	<b>3282.66</b>	<b>5237.89</b>
9= (5+8)/2	Average Normative loan for the year 2019-20	722.92	1208.28	2787.93	4719.14
10	Weighted average interest rate for 2019-20 (%)	9.43	9.09	9.76	9.56
<b>11=9*10%</b>	<b>Normative interest for 2019-20</b>	<b>68.14</b>	<b>109.86</b>	<b>272.17</b>	<b>450.17</b>

5.172 As detailed above, the normative interest on loans claimed by KSEB Ltd for the year 2019-20 is Rs 272.17 crore for SBU-D as detailed in Table 5.72 above.

### **Objection of stakeholders**

5.173 The HT -EHT Association estimated the interest charges for existing and new loans at Rs 252.53 crore as against Rs 272.17 crore claimed by KSEB Ltd.

### **Provisions in the Regulation**

5.174 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.”

5.175 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.”*

5.176 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**

5.177 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.

5.178 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 grants, if any factors and other relevant factors, and its details are given below.

5.179 The Commission vide Order dated 14.06.2022 in OA No.13/2020 had approved the Truing Up of accounts for the year 2018-19. As per the Table 5.75 (row 4) under paragraph 5.188, the normative loan of SBU-D as on 01.04.2019 is Rs 2092.06 crore. The details are given below.

Table 5.73

Normative loan approved as on 01.04.2019

Sl. No	Description	SBU-D
1	Opening normative loan as on 01.04.2018	1439.64
2	Normative GFA addition 2018-19 qualify for loan	749.57
3	Less Depreciation for 2018-19	97.15
4= (1+2-3)	Closing normative loan as on 31.03.2019	2092.06

5.180 As per the details of the loans as on 31.03.2020 in Table 5.70 above, the average interest on loan of SBU-D for the year 2019-20 is 9.76%.

5.181 Based on the above, the interest charges on normative loan for SBU-D for the FY 2019-20 is calculated as detailed in the table below.

Table 5.74

Interest charges for normative loan of SBU-D for the year 2019-20 (Rs. Cr)

Sl. No	Description	SBU-D	Remarks
1	Opening normative loan as on 01.04.2019	2092.06	
2	Normative GFA addition 2019-20 qualify for loan	1108.73	
3	Less Depreciation for 2019-20	119.27	
4= (1+2-3)	Closing normative loan as on 01.04.2020	3081.52	
5= (1+4)/2	Average Normative loan for the year 2019-20	2586.79	
6	Weighted average interest rate for 2019-20 (%)	9.76	
7=6*5	Normative interest for 2019-20	252.47	

5.182 ***As above, the normative interest charges approved for SBU-D of KSEB Ltd for the year 2019-20 is Rs 252.47 crore.***

### **Interest on security deposit**

5.183 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 2019-20 at Rs.199.93 crore. The actual disbursement made during the year was Rs 173.05 crore. KSEB Ltd requested to approve the same.

### **Provisions in the Tariff Regulations 2018**

5.184 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**

5.185 ***Since an amount of Rs.173.05 crore has been disbursed to consumers as interest on security deposit in the year 2019-20, the Commission approves same for the purpose of truing up.***

### **Interest on working capital**

5.186 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 negative working capital requirements for SBU-D of KSEB Ltd. Hence, interest on working capital was not approved by the Commission for SBU-D for the MYT period from 2018-19 to 2022-23.

5.187 The computation of working capital requirement as per the Tariff Regulations, 2018 submitted by KSEB Ltd is given below.

Table 5.75  
KSEB Ltd- estimation of working capital requirement of SBU-D (Rs. Cr)

Particulars	Amount (Rs. Cr)
O&M Exp for 1 month	234.51
Maintenance spares @ One twelfth of average of opening and closing balance of Inventory	59.62
Revenue (2 months)	2339.61
Total	2633.74
Less Security deposit	3205.21
Net Working Capital	-571.47

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

5.188 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**

5.189 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.

5.190 As per Regulation 32(1)(e) of the Tariff Regulations, 2018, the working capital requirement of SBU-D of KSEB Ltd includes the following.

- (1) O&M cost for one month; plus
- (2) 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*
- (3) *receivables equivalent to the expected revenue from sale of electricity for two months at the prevailing tariff:*

5.191 Accordingly, the parameters required for estimating the working capital and the same estimated is given below.

Table 5.76  
Working capital requirement of SBU-D for the year 2019-20

	Particulars	Amount (Rs. Cr)
1	O&M cost approved for 2019-20	2440.49
2	Inventories	715.44
3	Total revenue from sale of power	13999.80
4	O&M cost for one month	203.37
5	Inventories for one month	59.62
6	Two months receivable	2333.30
7	Total working capital requirement= (4)+(5)+ (6)	2596.29
8	Less Security Deposit	3205.21
9	Net working capital requirement = (7)-(8)	-608.92

***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

5.192 KSEB Ltd submitted in the petition that the actual interest of Provident Fund balance apportioned under SBU-D is Rs 146.63 crore as against the same approved in the MYT Order dated 08.07.2019 amounts to Rs 162.58 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.

- (3) The average GPF considered by the Commission in the MYT Order dated 08.07.2018 was Rs 2432.33 crore. However, the actual average PF balance for 2019-20 was Rs 2276.22 crore.
- (4) Commission had considered 8% as the interest on GPF, however the actual was 8% till June 2019 and thereafter it reduced to 7.9% till March 2020.

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

**Table 5.77**  
**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	9.98	7.72	22.03	16.90	162.58	146.63	194.59	171.26

## Objections of the stakeholders

5.193 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

**5.194 As per the Accounts, the interest charges booked for GPF is Rs.171.26 crore. Out of this, the share of SBU-D is Rs. 146.63 crore, which is allowed for 2019-20.**

## Interest on Master Trust Bonds

5.195 As discussed in the paragraphs 2.113 to 2.116 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 732.97 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 627.56 crore. The details are given below.

**Table 5.78**  
**Interest on Master Trust Bonds for 2019-20 (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	33.06	72.35	627.56	732.97

5.196 KSEB Ltd further submitted that there is no deviation between interest on Master Trust Bonds 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**

5.197 The Association submitted that, the interest on Master Trust as per the audited accounts may be allowed to KSEB Ltd in the process of TruingUp.

#### **Provisions in the Regulations**

5.198 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 2.118 to 2.119 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**

5.199 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 2.120 to 2.128 of this Order.

5.200 The Commission vide the paragraph 2.128 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 2019-20 as given below.

**Table 5.79**  
**Interest on Master Trust Bonds (Rs Cr)**

Item	SBU G	SBU T	SBU D	Total
Interest on Bonds	33.06	72.35	627.56	732.97

5.201 *As above, the Commission, approves the share of interest on KSEB Ltd bonds of Rs 8144.00 crore to the Master Trust of SBU-D for the year 2019-20 as Rs.627.56 crore.*

### Carrying cost for past revenue gaps

5.202 KSEB Ltd submitted that, based on the truing up Order for 2017-18, the unbridged revenue gap is Rs 6864.13 crore. 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 2019-20 was 9.76%. Accordingly, KSEB Ltd had estimated the carrying cost for the approved revenue gap upto 31.03.2018 as follows.

**Table 5.80**  
**Computation of carrying cost on approved revenue gap for gap upto 31.03.2018**

SI No	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	Gap as per additional submission FY 17- OA 64/2019 dt 12.10.2020	39.61
12	OA 9/2020 on True up 2017-18 dated 25.06.2021	84.13
13	RP 1/2021 TU 2016-17 dated 21.07.2021	1.26
14	Total trued up revenue gap (1 to 13)	6864.13
15	Less: Average PF balance for 2019-20 (2209.47+2342.96)/2	2276.22
16	Net revenue gap	4587.92
17	Carrying cost at average interest rate of 9.76 % on above	447.78

5.203 Further, KSEB Ltd had requested to approves Rs 74.16 crore towards carrying cost for revenue gap as per the Truing Up petition for the year 2018-19 crore and additional Rs 26.16 crore towards the carrying cost for current year revenue

gap. Thus the total carrying cost revenue gap claimed by KSEB Ltd for the year 2019-20 is given below.

**Table 5.81**  
**Total carrying cost claimed for the year 2019-20**

1	On approved revenue gap till 2017-18	447.78
2	On revenue gap sought for TU 2018-19 of Rs.759.88 Cr.	74.16
3	On current year revenue gap	26.16
4	Total	548.11

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

5.204 The Commission had examined in detail the claim for allowing carrying cost for the accumulated revenue gap. The actual revenue gap approved as on 01.04.2019 is given below.

**Table 5.82**  
**Details of the unbridged approved revenue gap as on 01.04.2019**

Sl No	Particulars	Amount (Rs.Cr)	Remarks
1	Total revenue gap till 01.04.2018	6864.14	Truing Up 2018-19
2	Revenue gap approved for the year 2018-19	207.33	
4	Total revenue gap as on 01.04.2019	7071.47	
5	Less: Average PF balance for 2019-20	2276.22	Accounts
6	Less Balance Security Deposit Available as on 01.04.2019(after working capital requirements)	608.92	
7	Balance revenue gap as on 01.04.2019	4186.33	

5.205 The Commission is allowing interest on the entire 'provident fund amount' retained by the licensee as part of interest and finance charges. The average PF balance for the year 2019-20 was Rs 2276.22 crore. This amount is available with the licensee for their cash requirements. Hence as per procedure the Commission has deducted the PF balance of Rs 2276.22 crore for estimating the revenue gap and carrying cost to the licensee.

5.206 The Commission has also allowed interest on security deposit as per accounts. After estimating the working capital requirements as per norms, the Commission as shown in Table 5.76 has estimated that KSEB Ltd is holding Rs 608.92 Crore after deducting their working capital requirements of Rs 3205.21 Crore from the security deposit. Since the excess amount held by KSEB Ltd and the Commission has already allowed interest on the entire amount held as Security Deposit, the Commission deducts the excess security deposit held after meeting the working capital requirement also while allowing carrying cost for the approved revenue gap.

5.207 Hence, the Commission while calculating the carrying cost on the outstanding unbridged revenue gap as on 01.04.2019, is required to consider the availability of funds from GPF and excess security deposit held by KSEB Ltd after meeting their working capital requirements. Thus, the unbridged revenue gap eligible for carrying cost as per Table 5.82 is Rs 4186.33 crore.

5.208 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 2019-20 9.76%. The carrying cost eligible for the year 2019-20 for the net unbridged revenue gap as on 01.04.2019 is Rs 408.58 crore. The details are given below.

**Table 5.83**  
**Carrying cost approved for the revenue gap as on 01.04.2019**

Sl No	Particulars	Amount (Rs. Cr)	
1	Net revenue gap as on 01.04.2019 (after deducting PF balance and balance security deposit after meeting working capital requirement)	4186.33	Table 5.82 above
2	Average interest rate of SBU-D for the year 2019-20	9.76%	
3	Carrying cost allowable for the year 2019-20	408.58	

**5.209 Thus, the Commission hereby approve the carrying cost for the outstanding unbridged revenue gap as on 01.04.2019 is Rs 408.58 crore for the purpose of Truing up accounts for the year 2019-20`.**

#### **Other interest**

5.210 KSEB Ltd submitted that, the Commission has not approved any amount towards other interest. Actual interest on other liabilities as per accounts claimed by KSEB Ltd is detailed below:

**Table 5.84**  
**Details of Other interest and charges (Rs Cr)**

Item	Amount (Rs. Cr)
Power purchase and other interest paid (as per CERC orders)	9.38
Interest to suppliers/ contractors	0.23
Discount to consumers for timely payment of bills	2.33
Cost of raising finance	0.02
<b>Total</b>	<b>11.97</b>

5.211 KSEB Ltd submitted that, out of the major component of other expenses, i.e., Rs 9.38 crore pertains to the interest on power purchase bills. These 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. Discount to consumers is the discount allowed to the consumers for advance payment. KSEB Ltd requested to approve the other interest as part of interest and finance charges.

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

5.212 The Commission examined the other interest claimed by KSEB Ltd. A major portion of the other interests represent interest charges on power purchase bills as per the orders issued by CERC. Discount to consumers for advance payment is claimed as Rs 2.33 crore. KSEB Ltd not claimed the adjustment on account of fair valuation under Ind AS accounts.

**5.213 *The Commission approves the other interest charges of Rs 11.97 crore for the purpose of Truing Up for the year 2019-20.***

### **Summary of the approved interest and finance charges**

5.214 The summary of the total interest and finance charges allowed for SBU-D of KSEB Ltd for the year 2019-20 is given below.

Table 5.85  
Interest and finance charges approved for the year 2019-20

No	Particulars	MYT Order dated 08.07.2019	Accounts	KSEB Truing up petition	KSERC Approval for 2019-20
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Interest on loans (normative basis)	222.94	159.68	272.17	252.47
2	Interest on Security Deposit	199.93	196.29	173.05	173.05
3	Interest on GPF	162.58	146.63	146.63	146.63
4	Other Interest	0.00	11.97	11.97	11.97
5	Interest on Master Trust Bond	612.43	627.56	627.56	627.56
6	Carrying cost on revenue gap till 2018-19	223.59		521.94	408.58
7	Carrying cost on revenue gap for 2019-20	0.00		26.16	0
8	Interest on working capital	0.00	162.04	0.00	0
9	<b>Grand Total</b>	<b>1421.47</b>	<b>1304.17</b>	<b>1779.48</b>	<b>1620.26</b>

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

5.215 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 amount of Rs 3728.98 crore till 31.03.2017, over and above the actuarial liability of Rs 12418.72 crore as on 31.10.2013, with the observation that it shall hold separate proceedings to determine the funding arrangements of the unfunded actuarial liability.

5.216 KSEB Ltd further submitted that, the Actuarial liability assessed as on 31.03.2017 towards the unfunded pension liability, gratuity liability and leave surrender liability stood at Rs.16147.70 Cr ie 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, 31.03.2019 and 31.03.2020, the liability on this count has been assessed at Rs. 17732.57 Cr, Rs.19327.73 Cr and Rs. 20359.73 Cr respectively. The increase for the year 2019-20 has been Rs.1032.00 Cr and the same was captured in audited accounts as follows:

- (iii) Liability pertaining to 2019-20 amounting to Rs.435.64 Cr has been booked under employee cost for the year and
- (iv) Remaining portion, pertaining to earlier years Rs.596.35 Cr under other comprehensive income in P&L account.

5.217 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 allowed to recover 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 un funded portion of actuarial liability in the MYT petition against which 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.*

5.218 KSEB Ltd further submitted that, the actual pension and terminal benefit disbursement exceeded interest on bonds by Rs.825.91 Cr. (Rs.1558.88 Cr- Rs.732.97 Cr). KSEB Ltd requested that the Hon'ble Commission may kindly true up an additional Rs.200 Cr as approved in MYT Order for 2019-20, 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 5.86**  
**Additional fund to Master Trust Bonds (Rs Cr)**

<b>Item</b>	<b>SBU G</b>	<b>SBU T</b>	<b>SBU D</b>	<b>Total</b>
Additional fund	10.26	22.64	167.10	200.00

5.219 KSEB Ltd also submitted that, current service cost as per actuarial valuation for 2019-20 amounts to Rs.435.64 Cr and the same has been included in the employee cost for the year as per accounts.

### **Comments of the stakeholders**

5.220 The HT-EHT Association submitted that, the Commission may allow Additional Contribution to Master Trust as per the provisional approval, with SBU-T share of Rs. 167.10 Crore, as claimed by SBU-D.

### **Provisions in the Regulations**

5.221 **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**

5.222 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 as against 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 shall operationalize the Master Trust account immediately. Payment of pension to retired employees during their twilight years deserve sympathetic consideration. The Commission also places on record the facts 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.

5.223 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 proceeding 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.

5.224 The Commission has taken note of the fact that the unfunded liability as on 31.03.2019 has increased by Rs 6909.01 crores from 31.10.2013 levels. It is also a fact that during 2018-19, the actual discharge of retirement benefits exceeded the bond interest of Rs 732.97 Crore by Rs. 825.91 Crores. This is indicative of a serious emerging financial crisis in discharging the pension and other retirement liabilities. In fact, the bond interest is just 47 % of the actual fund requirement to meet the pensionary liability during 2018-19. This is not at all an acceptable situation and urgent action is required to address this emerging catastrophe. Hence, 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.***

5.225 The SBU wise allocation of the additional fund to the Master Trust approved herewith is as given below

**Table 5.87**  
**Additional fund to the Master Trust for the Year 2018-19**

Item	SBU G	SBU T	SBU D	Total
Additional fund	15.39	33.96	250.65	300

5.226 ***As above, the Commission provisionally approves Rs 250.65 crore as additional fund to SBU-D on account of the Master Trust towards unfunded actuarial liability for the year 2019-20.***

## Return on equity

5.227 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 5.88  
RoE claimed by KSEB Ltd for 2019-20

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

5.228 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

5.229 **“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.”*

5.230 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**

5.231 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 revesting. 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.”*

5.232 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.

5.233 Accordingly, the RoE allowable for the SBU-D for the year 2019-20 is as shown below:

Table 5.89

Return on equity approved for the year 2019-20

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

5.234 **As shown above, the Commission approves Rs.253.50 crore as ROE for SBU-D for 2019-20.**

**Exceptional items**

5.235 Expenses incurred for the restoration of assets damaged due to natural calamities are accounted under this head. SBU wise break up of exceptional items claimed by KSEB Ltd is given below.

Table 5.90  
Exceptional items

Item	SBU G	SBU T	SBU D	Total
Exceptional items	3.75	0.13	24.72	28.60

KSEB Ltd requested before the Commission to approve Rs 24.72 crore toward the exceptional items as above.

**Analysis and Decision of the Commission**

5.236 The Commission noted that, during this period, the State of Kerala has faced a huge deluge resulting in massive loss of life and property. KSEB Ltd claimed that they had incurred Rs 28.60 Crore towards one-time urgent steps taken to overcome the situation and to restore supply and to ensure safety of the general public. It is true that 2018-19 was indeed a catastrophic year to the State in general and KSEB Ltd with the full support and co-operation of its officers and staff had indeed done commendable work in ensuring safety of the general public by preventing electrocution.

**In view of the unexpected circumstances, the Commission hereby approves KSEB Ltd's claim of Rs 28.60 Crore with Rs 24.72 crore being the allocation to SBU – D.**

**Other debits and prior period expenses**

5.237 KSEB Ltd vide the truing petition has claimed Rs 21.97 crore towards other debits and prior period expenses. Its details are given below.

**Table-5.91**  
**Details of Other Expenses (Note 36 of Annual accounts) (Rs Cr)**

No	Particulars	Amount
1	Research and Development Expenses	0.10
2	Miscellaneous	-0.20
3	Miscellaneous Losses and write-offs	21.81
4	Material cost variance	-4.68
5	Loss on account of flood/ cyclone etc	4.94
6	<b>Others Total (1 to 5)</b>	<b>21.97</b>

5.238 Out of the above, the contribution of SBU-D is Rs 20.59 crore and balance of Rs.1.37 crore and Rs. 0.02 crore pertains to SBU-T and SBU-G respectively.

5.239 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. Each of these items are examined separately.

**5.240 Miscellaneous losses and write offs. Rs 21.81 crore.**

Out of the above, major portion of the other expenses claimed is miscellaneous losses and write offs. KSEB Ltd vide the letter dated 03.06.2022 has submitted the details of the miscellaneous losses and write-offs in the year 2019-20, and its summary is detailed below.

**Table 5.92**  
**Summary of the miscellaneous losses and write-offs**

Sl.No.	Location code	Details	Amount (Rs. Cr)
1	436	Other Debits To Revenue A/c - Bad and doubtful debts written off	0.01
2	954	Other Debits To Revenue A/c - Bad and doubtful debts written off	22.45
3		Adjustment	-0.66
		<b>Total</b>	<b>21.81</b>

The details of the withdrawal of credit to revenue account amount to Rs 22.45 is detailed in the Table below.



**Table 5.93**  
**Withdrawal of credit to revenue account for the year 2019-20**

Sl No	Legacy code	Name of consumer	Rs Cr	Order Ref
1	1/128	SCID-CHEMIE (INDIA) LTD	0.07	SOR/AMU 4/HTB 1/128/2019-20 DT 02.03.2020
2	10/5503	MILMA,TRCMPU LTD, PATHANAMTHITTA	0.26	SOR/SMU/HTB 10/5303 DT 24.07.2019
3	11/3894	BOMBAY RAYONS FASHION LTD, KINFRA, THUMBA	0.18	SOR/AMU VI/HTB-11/3894/2019-20/4 DT 14.08.2019
4	13/6818	SONIA TOURIST HOME	0.03	SOR/HTB/13/6818/2019 DT 17.12.2019
5	16/3848	POMSY FOOD PRODUCTS PVT LTD	0.06	SOR/HTB 16/3848/2019-20/55 DT 13.08.2019
6	17/3727	SREE ANANTH REFINERIES LTD	0.03	SOR/AMU/HTB-17/3727/2019-20 DT 01.08.2019
7	18/1035	TRI-TEE SEA FOODS	0.05	SOR/AMU/HTB 18/1035/2018-19 DT 09.11.2018.
8	19/916	MILK PROJECT,EDAPALLY	0.28	SOR/AMU/HTB 19/916/2019/25 DT 27.06.2019
9	24/2461	ST.JOSEPHS HOSPITAL, ANCHAL	0.03	SOR/AMU/HTB-24/2461/2018-19 DT 23.01.2019
10	24/6100	GOVT.MEDICAL COLLEGE HOSPITAL,KOTTAYAM	0.67	BO (FTD) NO 993/2019 (SOR/HTB 24/6100/2019-20) DT 13.12.2019
11	24/8058	SOUTHERN AUTO PRODUCTS COMPANY	0.01	SOR/HTB/24/8058/2019 DT 19.11.2019
12	25/2513	ABA SONS	0.25	SOR/AMU 2/HTB 25/2513/2019-20 DT 13.03.2020
13	27/2775	GRAMOX PAPER & BOARDS LTD	0.01	SOR/AMU/HTB 27/2775-Gramox Paper/2019-20 DT 05.04.2019
14	28/2865	KAYPEE WIRE PRODUCTS	0.16	SOR/AMU 4/HTB 28/2865/2019-20 DT 03.03.2020
15	30/14/3242	NEDIYARA EXTRUSIONS (P) LTD	0.04	SOR/HTB/30/14/3242/2019-20 DT 21.06.2019
16	31/3804	THOMSON PAPERS PVT LTD	0.08	SOR/HTB 31/3804/2019-20 DT 08.07.2019
17	31/5161	HOTEL ELEGANCE, KIDANGOOR,KOTTAYAM	0.02	SOR/AMU/HTB 31/5161/2019-20 DT 04.05.2019.
18	32/5993	EZHIMALA FISH MEAL& OIL PRODUCTS	0.05	SOR/AMU/8/HTB 32/5993/2019-20/22 DT 21.12.2019
19	4/3947	MINAR ALLOYS&FORGINGS PVT LTD	0.48	SOR/HTB/4/3947/2019-20 DT 25.07.2019
20	4/403	EUROSPIN INDUSTRIES LTD	6.18	SOR/AMU/HTB 4/403/Arrear/2019-20 dt 04.11.2019
21	4/426	SANGAM THEATRE, KOZHIKODE	0.06	SOR/AMU 4/HTB 4/426/Arrear/2019-20 dt 28.11.2019
22	4/438	PREMIER TYRES LTD	2.57	BO (DB) No. 213/2020 (SOR/AMU 4/HTB 4/438) DT 18.03.2020.
23	5/507	VANAJA TEXTILES,THRISSUR	1.07	SOR/AMU/HTB 5/507 ENERGISE/2019 DT 15.07.2019
24	5/554	STEEL MAX ALLOYS LTD	1.84	SOR/AMU/M/s Steel Max/HTB 5/554/2019 DT 01.06.2019
25	6/4244	HIC-ABF SPECIAL FOOD PVT. LTD.	0.22	SOR/HTB 6/4244/2019-20 DT 13.02.2020
26	7/4528	SREESAKTHI PAPER MILLS LTD.	0.24	SOR/AMU/HTB 7/748& 7/4528/2019-20 DT 04.07.2019
27	8/6010	HI TECH WEAVING MILL	0.36	SOR/AMU/HTB 8/6010/2019 DT 29.07.2019
28	8/7427	GOODWIN PACKPET (P) LTD	0.02	SOR/HTB/8/7427/2019 DT 26.10.2019

29	8/864	KOZHICODE DAIRY MILK PROCESSING PLANT KUN	1.02	SOR/CU/HTB 8/864/2019-20 DT 05.02.2020.
30	26/6607	MALAYALA MANORAMA ,THRISSUR	0.25	SOR/ CPP-Manorama/2019-20 dt 03.02.2020
	25/8491	MALAYALA MANORAMA co LTD	0.3	SOR/ CPP-Manorama/2019-20 dt 03.02.2021
	27/5954	MALAYALA MANORAMA, ALAPPUZHA	0.18	SOR/ CPP-Manorama/2019-20 dt 03.02.2022
	17/6547	MALAYALA MANORAMA, AROOR,ALAPUZHA	0.41	SOR/ CPP-Manorama/2019-20 dt 03.02.2023
	11/4553	MALAYALA MANORAMA, PATHANAMTHITTA	0.17	SOR/ CPP-Manorama/2019-20 dt 03.02.2024
	11/7575	MALAYALA MANORAMA	0.26	SOR/ CPP-Manorama/2019-20 dt 03.02.2025
	8/7229	MALAYALA MANORAMA	0.2	SOR/ CPP-Manorama/2019-20 dt 03.02.2026
	9/6732	MALAYALA MANORAMA ,THOTTADA, CHOVA,KANNU	0.15	SOR/ CPP-Manorama/2019-20 dt 03.02.2027
	20/3706	MALAYALA MANORAMA CO LTD.,MALAPPURAM	0.17	SOR/ CPP-Manorama/2019-20 dt 03.02.2028
	28/4597	MALAYALA MANORAMA FM STUDIO,KOZHICODE	0.03	SOR/ CPP-Manorama/2019-20 dt 03.02.2029
	8/866	MALAYALA MANORAMA WORKS UNIT, KODIMATHA	0.81	SOR/ CPP-Manorama/2019-20 dt 03.02.2030
	25/2569	MALAYALA MANORAMA, KADAPPAKADA,KOLLAM	0.01	SOR/ CPP-Manorama/2019-20 dt 03.02.2031
	11/1156	MALAYALA MANORAMA,KANNUR	0.02	SOR/ CPP-Manorama/2019-20 dt 03.02.2032
	25/2501	MALAYALA MANORAMA,KOCHI	0.21	SOR/ CPP-Manorama/2019-20 dt 03.02.2033
	7/442	MALAYALA MANORAMA,KOTTAYAM	0.43	SOR/ CPP-Manorama/2019-20 dt 03.02.2034
	8/722	MALAYALA MANORAMA,KOZHICODE	0.05	SOR/ CPP-Manorama/2019-20 dt 03.02.2035
	4/440	MALAYALA MANORAMA,PALAKKAD	0.18	SOR/ CPP-Manorama/2019-20 dt 03.02.2036
	15/1531	MALAYALA MANORAMA,THIRUVANANTHAPURAM	0.06	SOR/ CPP-Manorama/2019-20 dt 03.02.2037
31	5/5664	INDU INNOVATIVE FOODS	0.13	SOR/AMU/HT-EHT/Energize updation 2018-19 dt 29.04.2019
32	28/4230	POABS GRANITE PRODUCTS PVT LTD- (REG)	0.04	(SOR/AMU/HT/EHT/energise reconciliation/2018-19 dtd.16.4.2019)
33	24/2412	STEEL INDUSTRIES KERALA LTD(SILK) SN PURAM,A	0.02	SOR/AMU/HT/EHT/Energize reconciliation/2018-19 dt 16.04.2019.
34	20/1984	ALUVA FERTILISERS	0.09	SOR/AMU/HTB-20/DCB/Corr/2017-18 dt 03.10.2017
35	32/3593	BSNL TELEPHONE EXCHANGE,RANNI	0.01	SOR/AMU/BSNL/Energize reconciliation/2018-19 dt 23.03.2019
36	9/835	COASTAL FOOD PACKERS	0.15	(SOR/AMU/HTB-9/2017-18/DCB corrections dtd.3.10.2017)
37	31/4078	HOTEL INDRAPURI	0.01	SOR/AMU/HT/EHT/Energize reconciliation/2018-19 dt 26.04.2019.
38	26/2664	HOTEL RENAISSANCE	0.02	(SOR/CU/26/2664/2019-20 dtd.2.3.2020)
39	33/7178	INFOPARK PHASE-II KAKKANAD	0.07	(SOR/AMU/GCB-1/Enrgise reconciliation/2018-19 dtd.28.3.2019)

40	6/5873	KERALA FEEDS LTD,CATTLE FEED PLANT,KARUNAG/	0.07	SOR/AMU/HT/EHT/Energize reconciliation/2018-19 dt 16.04.2019.
41	21/5467	KERALA FURNITURE CONSORTIUM PVT LTDm (p) Ltd	0.02	SOR/AMU/HT-EHT/Energize updation 2018-19 dt 29.04.2019
42	19/6098	KONDODY AUTOCRAFT	0.01	SOR/HTB-19/6098/2019-20 dated 05.03.2020
43	15/14/1337	MALABAR CEMENTS, WALAYAR (15/14/1337)	0.45	SOR/AMU/HTB 15, 19 & 31/Energize updation 2018-19 dt 27.02.2019
44	21/5797	MATHRUBHUMI PRG&PUB.CO LTD,THIRUVANANTHAÉ	0.01	(SOR/AMU/HT-EHT/Engrise Updation/2018-19 dtd.29.4.2019)
45	1/112	PASUPARA ESTATE	0.04	(SOR/AMU/HTB-1/energise reconcillation/2018-19 dtd.2.3.2019)
46	29/2961	PERIYAR FERRO ALLOYS	0.46	(SOR/AMU/HTB-29/DCB/corr/2017-18 dtd.11.10.2017)
47	12/1228	RIPPON ESTATE(PODDAR PLANTATIONS)	0.05	(SOR/AMU/HTB-12/2018-19 dtd.23.7.2018)
48	1/109	SEMNIVALLEY ESTATE	0.04	SOR/AMU/HT/EHT/energise reconcillation/2018-19 dtd.16.4.2019)
49	21/1827	THOMSON TOOLS LTD	0.33	SOR/AMU/HT-EHT/Energize updation 2018-19 dt 29.04.2019
50	6/602	TRANSFORMERS & ELECTRICALS KERALA LTD	0.05	SOR/AMU/HT/EHT/Energize reconciliation/2018-19 dt 16.04.2019.
		Other small write offs	0.16	
	<b>Grand Total</b>		<b>22.45</b>	

KSEB Ltd had also submitted the brief explanation on the necessity of withdrawal of credit as above.

### **Decision of the Commission**

The Commission examined the details submitted by KSEB Ltd, and noted the explanation given for the miscellaneous losses and write-offs provided in the account for the year 2019-20. After examining the details, ***the Commission hereby approves the miscellaneous losses and write-offs amounts to Rs 21.81 crore provided in the accounts for the year 2019-20.***

#### **5.241 Material cost variance Rs.-6.06 Cr.**

This 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 is 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 i.e., till 30.06.2017.

**Decision of the Commission**

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 i.e., prior to 30-06-2017. Considering the details, the Commission allow the same for 2019-20.**

**5.242 Losses on account of Flood etc Rs.4.94 Cr.**

This denotes compensation for death and danger to staff (0.53 Cr) and outsiders (Rs.4.45 Cr) and Loss on obsolescence (-0.05 Cr).

**Analysis and Decision of the Commission**

**The Commission examined the details submitted by KSEB Ltd and allow the same for the year 2019-20 as claimed by KSEB Ltd.**

5.243 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 2019-20 as follows.

**Table- 5.94  
Other Expenses for the year 2019-20**

No	Particulars	Claimed by KSEB Ltd	Approved by the Commission
1	Research and Development Expenses	0.10	0.10
2	Miscellaneous	-0.20	-0.20
3	Miscellaneous Losses and write-offs	21.81	21.81
4	Material cost variance	-6.06	-6.06
5	Loss on account of flood/ cyclone etc	4.94	4.94
6	<b>Others Total (1 to 5)</b>	<b>20.59</b>	<b>20.59</b>

**As above, the Commission approve the other expenses of SBU-D for the year 2019-20 at Rs.20.59 crore for the purpose of Truing Up.**

## Non-Tariff Income

5.244 KSEB Ltd, in the Truing petition submitted that as per the audited accounts, the Non-tariff income booked is Rs 797.85 crore as detailed below.

**Table- 5.95**  
**Non-Tariff Income**

Description	Rs. Cr
<b>Revenue from operations (Note 27 A)</b>	
Reactive energy charges	16.02
Meter rent/ Service line rental	96.95
Recovery from theft/malpractices	7.67
Wheeling charges recoveries	3.65
Miscellaneous charges from consumers	203.41
<b>Subtotal A</b>	<b>327.70</b>
<b>Other operating income under Revenue from operations (Note No. 27 B)</b>	
Rebate received	109.14
Interest from suppliers/contractors	6.80
Income from sale of scrap/Tender form	41.51
Miscellaneous receipts	102.54
<b>Subtotal B</b>	<b>259.99</b>
<b>Other income (Note No.28)</b>	
Interest on staff loans and advances	0.05
Income from loans others	0.09
Interest from banks	9.81
Claw back of grant	200.21
<b>Subtotal C</b>	<b>210.16</b>
<b>Income as per audited accounts considered as Non-Tariff income in True up petition (A+B+C)</b>	<b>797.85</b>

5.245 The SBU wise details of the Non tariff income claimed by KSEB Ltd is given below.

**Table 5.96**  
**SBU wise break up of Non-Tariff Income (Rs. Cr)**

Sl No	Particulars	SBU G	SBU T	SBU D	Total
1	Interest on staff loans and advances			0.05	0.05
2	Income from rent of land or buildings	0.76	0.98	1.95	3.69
3	Income from sale of scrap	1.92	11.06	23.88	36.86
4	Rental from staff quarters	0.05	0.10	0.15	0.30
5	Excess found on physical verification		0.01		0.01
6	Interest on investments, fixed and call deposits and bank balances	2.69	2.50	4.71	9.90
7	Interest on advances to suppliers/contractors	1.68	2.01	3.11	6.80
8	Income from hire charges from contractors and others			0.01	0.01

9	Income due to right of way granted for laying fibre optic cables/co-axial cables on distribution system			32.04	32.04
10	Income from advertisements, etc.				0.00
11	Miscellaneous receipts	3.76	23.88	43.55	71.18
12	Rebate from Central Generating Stations			109.10	109.10
13	Recovery for theft and pilferage of energy			7.67	7.67
14	Meter/metering equipment/service line rentals			96.95	96.95
15	Miscellaneous Charges from consumers			203.41	203.41
16	Wheeling charges recovery			3.65	3.65
17	Reactive energy charges			16.02	16.02
18	Clawback of Grant	5.44	30.33	164.44	200.21
	<b>Total</b>	<b>16.30</b>	<b>70.87</b>	<b>710.66</b>	<b>797.85</b>

5.246 The details of the 'miscellaneous charges from consumers' is given in the Table below.

**Table 5.97**  
**Miscellaneous charge from consumers (Rs Cr)**

No	Particulars	Amount
1	Other item	65.66
2	TF/RF	19.72
3	LE/SC Minimum	0.04
4	Processing fee power allocation	3.07
5	STOA Registration and application	0.23
6	STOA Open access charges	21.17
7	Energization charges	0.37
8	Misc. charges-PF penalty	87.94
9	Application fee & Registration fee for grid connectivity to solar plants	5.21
10	<b>TOTAL</b>	<b>203.41</b>

5.247 The income booked under 'miscellaneous receipts from consumers' is detailed below.

**Table-5.98**  
**MISCELLANEOUS RECEIPTS (Rs Cr)**

No	Particulars	Amount
1	Rental from staff quarters	0.29
2	Rental from contractors	0.14
3	Rent from others	3.26
4	Pole rent Cable TV Operators	32.04
5	Infra dev charges and supervision charges	6.06
6	SD Forfeited	0.56
7	Sale of trees	0.08
8	Usufructs	0.14
9	Penalty/LD from contractors/suppliers	14.21
10	Interest/penalty on pole rent SD	1.37

11	Outside students-project	0.44
12	Fee for providing information	0.01
13	Revenue Energy audit consultancy	0.03
14	Rent from office cum complex	0.28
15	Optical fibre cable leasing	5.49
16	Testing fee from contractors	0.85
17	Centage to SPVs for KHFB project	6.51
18	Centage from Govt dept./ agencies	1.37
19	Commission for collection of electricity duty	9.20
20	Others	20.21
24	<b>Total</b>	<b>102.54</b>

5.248 The details of the income from sale of scrap/ tender form amounting to Rs 41.51 crore is detailed below.

**Table 5.99**  
**INCOME FROM SALE OF SCRAP/TENDER FORM (Rs. Cr)**

No	Particulars	Amount
1	Sale of scrap	36.86
2	Sale of tender forms	3.95
3	Sale of LED Bulbs	0.61
4	Sale of safety equipment	0.08
5	Hire charge	0.01
4	<b>Total</b>	<b>41.51</b>

5.249 KSEB Ltd has claimed following adjustments from the total Non tariff Income of Rs 797.87 crore claimed in the year 2019-20, out of which Rs 710.66 crore pertains to the SBU-D.

- (1) Claw back of grant and consumer contribution – amounting to Rs 200.31 crore since as per Tariff Regulations, 2018, the depreciation is allowed for the assets excluding the assets created out of consumer contributions and grants. The share of SBU-D is Rs 164.44 crore.
- (2) Cost of LED bulbs- Rs 0.19 crore.

KSEB Ltd claimed that, in the accounts the cost of LED bulbs was accounted under cost of power purchase. However, the same is excluded from the cost of power purchase claimed in the Truing up petition.

- (3) Power factor penalty- accounting error of Rs 45.70 crore  
KSEB Ltd submitted that, the power factor penalty booked under Miscellaneous charges from consumers of Non-tariff income was Rs 87.94crore. However, the actuals was Rs 42.24 crore only. Hence, the

KSEB Ltd requested to approve Rs 42.24 crore only as power factor penalty and requested to deduct Rs 45.70 crore from the miscellaneous receipt from consumers.

5.250 Accordingly, the SBU wise details of the Non-tariff income claimed by KSEB Ltd for the year 2019-20 is given below.

**Table 5.100**  
**Non-tariff income for 2019-20 (Rs. Cr)**

Sl. No	Particulars	SBU G	SBU T	SBU D	Total
1	<b>Non-tariff Income as per Appendix 7</b>	<b>16.3</b>	<b>70.87</b>	<b>710.66</b>	<b>797.85</b>
2	Items sought to be excluded in TU				
3	Claw back of grant-Considered separately	5.44	30.33	164.44	200.21
4	Cost of LED Bulbs booked under Power purchase			0.19	0.19
5	Accounting error under power factor penalty			45.7	45.7
6	Total exclusions (3+4)	5.44	30.33	210.33	246.1
7	<b>NT Income sought for TU 2019-20 (1-5)</b>	<b>10.86</b>	<b>40.54</b>	<b>500.33</b>	<b>551.75</b>

### **Provisions in the Tariff Regulations, 2018**

5.251 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**

5.252 The Commission has examined the Non tariff income claimed by KSEB Ltd and the same as per the audited accounts. The Commission noted that it has been allowing depreciation on the capitalised assets excluding the assets created out of consumer contribution and grants for the purposed of Truing Up. Hence, the Commission agrees with the proposal of the KSEB Ltd to exclude the consumer contribution and grants from the Non tariff Income as per accounts.

5.253 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. The Commission noted that, Rs 0.18 crore towards the cost of LED bulb was included in the cost of power purchase for the year 2019-20. However, the same was not claimed by KSEB Ltd in the power purchase cost in the Truing petition. The sale proceeds of LED bulbs included in under the head ‘sale of scrap etc’ includes the total amount collected through sale, which include the cost of bulbs also. Hence, the Commission decided to deduct cost of LED bulbs amounting to Rs 0.18 crore from the Non tariff Income as per accounts.

5.254 KSEB Ltd also submitted that, power factor penalty booked under Miscellaneous charges from consumers under Non-tariff income was wrongly booked as Rs 87.94crore instead of Rs 42.24 crore. The penalty booked was excess by Rs 45.70 crore (87.94-42.20). The Commission also perused the month wise details of the power factor penalty and incentive as per the Truing petition filed by KSEB Ltd.

After examining the details submitted by KSEB Ltd in the Truing up petition, the Commission **hereby approves the proposal of KSEB Ltd to deduct Rs 45.70 core from the power factor penalty of Rs 87.94 crore accounted under PF penalty.**

5.255 As discussed above, the SBU wise details of the Non-Tariff Income approved for the purpose of Truing up for the year 2019-20 is detailed below.

Table 5.101  
Non tariff income of KSEB Ltd approved for the year 2019-20

Sl. No	Particulars	KSEB Ltd petition for truing up				KSERC approval for Truing up			
		SBU G	SBU T	SBU D	Total	SBU G	SBU T	SBU D	Total
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	<b>Non-tariff Income as per Appendix 7</b>	16.30	70.87	710.66	797.85	16.30	70.87	710.66	797.85
2	Items sought to be excluded in TU								
	(i) Claw back of grant-Considered separately	5.44	30.33	164.44	200.21	5.44	30.33	164.44	200.21
	(ii) Cost of LED Bulbs booked under Power purchase			0.19	0.19			0.19	0.18
	(iii) Accounting error under power factor penalty			45.70	45.70			45.70	45.70
	(iv) Total exclusions (3+4)	5.44	30.33	210.33	246.10	5.44	30.33	210.33	246.09
3	<b>NT Income sought for TU 2019-20 (1-2)</b>	10.86	40.54	500.33	551.75	10.86	40.54	500.33	551.76

**5.256 As detailed above, the Commission approves Rs 500.33 crore as Non-tariff income of SBU-D for the year 2019-20.**

**Summary of the ARR Trued Up for SBU-D for the year 2019-20**

5.257 As discussed in the preceding paragraphs, the summary of the ARR approved in the process of Truing Up for the year 2019-20 is given in the Table below.

Table 5.102  
Aggregate Revenue Requirement for the purpose of Truing up of SBU-D

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	505.93	613.29	514.80	490.88
Cost of intra state transmission	986.69	1,037.63	909.89	878.88
Power Purchase	8,613.94	8,680.00	8,616.54	8,509.45
O&M expenses				
(i) Employee expense	2,142.56	2,540.44	2,148.40	2,033.46
(ii) A&G expenses		442.02		114.94
(iii) R&M expenses	316.39	217.26	294.04	292.09
(iv) Provision for pay revision			204.56	
Total O&M expenses	2,458.95	3,199.72	2,647.00	2,440.49
Depreciation	93.47	480.42	119.27	119.27
Interest and financing charges	1,421.47	1,304.17	1,779.49	1,620.26
Recovery of past gap	1,000.00			

Additional fund to Master Trust	167.10		167.10	250.65
Return on Equity	253.50		253.50	253.50
Other expenses		20.59	20.59	20.59
Exceptional items		24.72	24.72	24.72
Incentive on T&D loss reduction			19.44	18.52
Total ARR	15,501.05	15,360.54	15,072.34	14,627.21
Less				
Non Tariff Income	548.10	797.85	500.33	500.33
Net ARR for True Up	14,952.95	14,562.69	14,572.01	14,126.88

**As detailed above, the Net ARR of SBU-D of KSEB Ltd in the process of Truing up of accounts for the year 2019-20 is Rs 14126.88 crore as against Rs.14572.01 crore claimed by KSEB Ltd.**

### Revenue from Sale of Power

5.258 KSEB Ltd in the petition submitted that, vide the MYT Order dated 08.07.2019, the Commission had approved the revenue from sale of power as Rs 13254.67 Cr (22969.69 MU) and net revenue as Rs 13209.68 Cr after deducting Rs 44.99 Cr as power factor incentive. Further, the MYT Order had approved Rs 942.7Cr (1885 MU) towards revenue from surplus energy sales outside the State.

Hon'ble Commission vide tariff Order dated 08.07.2019 (w.e.f. 08.07.2019) approved to recover an additional amount of Rs. 902.90 Cr through revision during the year 2019-20. Thereafter, vide Order dated 14.02.2020 in OA No 29/2019, the Commission had allowed to recover an amount of Rs 62.26 Cr as fuel surcharge from LT consumers and from HT & EHT consumers from February onwards for three months. Against these, the actual revenue from internal sale of power including fuel surcharge during the year 2019-20 was Rs. 14037.64 Cr (22660.93 MU) and external sale Rs. 19.11Cr (55.95 MU).

Thus, the revenue from tariff during the year 2019-20 has been Rs. 14037.64 crore.

**Table – 5.103**  
**Revenue from Sale of Power within the State**

No	Category	Energy sales		Revenue		Avg. Tariff
		MU	%	Rs Cr	%	(Rs/ kWh)
1	Domestic	11898.13	52.51	5262.80	37.49	4.42
2	Commercial	3426.48	15.12	3394.22	24.18	9.91
3	Public lighting	365.86	1.61	175.59	1.25	4.80
4	Irrigation & Dewatering	348.48	1.54	97.60	0.70	2.80
5	Industrial LT	1085.16	4.79	837.70	5.97	7.72
6	Railway Traction	305.21	1.35	194.20	1.38	6.36
7	Bulk Supply	615.73	2.72	396.74	2.83	6.44
9	HT	3738.77	16.50	3057.71	21.78	8.18

10	EHT	877.11	3.87	621.08	4.42	7.08
11	<b>Total sales (within state)</b>	<b>22660.93</b>	100.00	<b>14037.64</b>	100.00	<b>6.19</b>
12	Interstate sale	55.95		19.11		3.42
13	<b>Total</b>	<b>22716.88</b>		<b>14056.75</b>		<b>6.19</b>

5.259 KSEB Ltd further submitted that, the Commission while approving the revenue from sale of power had deducted Rs 44.99 Cr. as power factor incentive. The actual disbursement of power factor incentive as per the audited accounts is Rs 56.95 Cr. The comparison of the revenue from sale of power as per the MYT Order dated 08.07.2019 and actuals are given below.

**Table – 5.104**  
**Revenue comparison Approved Vs Actuals**

No	Category	MYT Order dated 08.07.2019			Actuals		
		Energy sales	Revenue from sale of power	Avg. Tariff	Energy sales	Revenue from sale of power	Avg. Tariff
		(MU)	(Rs. Cr(	(Rs/ kWh)	(MU)	(Rs. Cr(	(Rs/ kWh)
1	Domestic	11444.92	4747.70	4.15	11898.13	5262.80	4.42
2	Industrial	1134.68	804.74	7.09	1085.16	837.70	7.72
3	Agriculture	368.65	88.06	2.39	348.48	97.60	2.80
4	Commercial	3451.09	3178.93	9.21	3426.48	3394.22	9.91
5	Public Lighting	404.36	187.93	4.65	365.86	175.59	4.80
6	HT & EHT Total	5239.95	3673.61	7.01	4615.89	3678.79	7.97
7	Railway Traction	293.05	179.27	6.12	305.21	194.20	6.36
8	Bulk Supply	632.99	394.43	6.23	615.73	396.74	6.44
9	Total sales (within state)	22969.65	13254.67	5.77	22660.93	14037.64	6.19
10	Interstate sale	1885.40	942.70	5.00	55.95	19.11	3.42
11	Total	24855.05	14197.37	5.71	22716.88	14056.75	6.19
12	Less Power Factor incentive		44.99			56.95	
13	Revenue from Sale of power	24855.05	14152.38	5.69	22716.88	13999.80	6.16

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

5.260 The Commission has examined in detail the revenue from sale of power submitted by KSEB Ltd during the year 2019-20. KSEB Ltd has also submitted the tariff category wise sale and revenue from sale of power during the year 2019-20. The total sale within the State was 22660.93MU as against 22969.65 MU approved vide the MYT Order dated 08.07.2019. The total net revenue from sale of power is Rs.13999.80 crore after deducting the power factor incentive payable to the consumers amounts to Rs 56.95 crore. The revenue from sale of power is inclusive of the fuel surcharge of Rs 62.65 crore approved to

implement from 15.02.2020 @10 paise per unit for a period of 3 months. Since the fuel surcharge order is implemented only from 15.02.2020, a part of the fuel surcharge only reflected in the accounts of the year 2019-20 and the balance may be reflected in the audited accounts of the year 2020-21.

5.261 The Commission had, vide Tariff Order dated 08.07.2019 enhanced the tariff of all categories of consumers. In addition to the above, KSEB Ltd had sold 55.95MU outside the State and earned an additional revenue of Rs 19.11 crore.

5.262 KSEB Ltd has to pay power factor incentive to the consumers along with the invoice for electricity consumption as per the tariff orders issued by the Commission from time to time. The total revenue from sale of power approved is Rs 13999.80 crore as claimed by KSEB as detailed below.

**5.263 *The Commission, after carefully examining the details furnished by KSEB Ltd, approves the revenue from sale of power as Rs 13999.80 crore as submitted by KSEB Ltd for the year 2019-20.***

**Revenue gap approved for the year 2019-20**

5.264 KSEB Ltd during the public hearing submitted that, the revenue from sale of power amounts to Rs.19.11 crore was accounted twice while estimating the revenue gap for the year 2019-20. Hence, the revenue gap estimated in the Truing up petition amounts to Rs 553.10 crore was under stated by Rs 19.11 crore. Accordingly, KSEB Ltd requested to approve the revenue gap for the year 2019-20 at Rs 572.21 crore.

5.265 However as discussed in the preceding paragraphs, the revenue gap approved for the year 2019-20 for SBU-D is given below.

Table 5.105

Revenue gap approved for SBU-D for the year 2019-20

Particulars		KSEBL claim	KSERC
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	Approved vide MYT order dated 08.07.2019	As per accounts	As per Petition	Approved in true up
	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
Cost of Generation	505.93	613.29	514.80	490.88
Cost of intra state transmission	986.69	1,037.63	909.89	878.88
Power Purchase	8,613.94	8,680.00	8,616.54	8,509.45
O&M expenses				
(i) Employee expense	2,142.56	2,540.44	2,148.40	2,033.46
(ii) A&G expenses		442.02		114.94
(iii) R&M expenses	316.39	217.26	294.04	292.09
(iv) Provision for pay revision			204.56	
Total O&M expenses	2,458.95	3,199.72	2,647.00	2,440.49
Depreciation	93.47	480.42	119.27	119.27
Interest and financing charges	1,421.47	1,304.17	1,779.49	1,620.26
Recovery of past gap	1,000.00			
Additional fund to Master Trust	167.10		167.10	250.65
Return on Equity	253.50		253.50	253.50
Other expenses		20.59	20.59	20.59
Exceptional items		24.72	24.72	24.72
Incentive on T&D loss reduction			19.44	18.52
Total ARR	15,501.05	15,360.54	15,072.34	14,627.21
Less				
Non Tariff Income	548.10	797.85	500.33	500.33
Net ARR for True Up	14,952.95	14,562.69	14,572.01	14,126.88
Revenue from Sale of Power	14,152.38	13,969.58	13,999.80	13,999.80
Net revenue gap	800.57	593.11	572.21	127.08

5.266 As above, the total revenue gap approved for the year 2019-20 as part of Truing up of accounts for the year 2019-20 is Rs 127.08 crore as against Rs.572.11 crore claimed by KSEB Ltd for the year 2019-20.

**CHAPTER - 6**  
**CONSOLIDATED TRUING UP ACCOUNTS OF KSEB LTD FOR THE**  
**YEAR 2019-2020**

**Introduction**

6.1 The consolidated details of the Truing up of accounts of KSEB Ltd for the year 2019-20 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 2019-20

Particulars	MYT Order dated 08.07.2021	Actual	Sought for TU
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation Of Power	0.00	5.71	5.71
Purchase of power	8616.94	8680.00	8616.54
Interest & Finance Charges	1865.14	1592.03	2111.23
Depreciation	408.32	901.92	407.90
O&M expenses	2991.45	3893.92	3211.47
Repair & Maintenance			
Administration & General Expenses			
Other Expenses	0.00	50.57	50.57
Interest on Additional Bond to Trust	200.00	0.00	200.00
Retaining gains out of T&D loss reduction beyond target			19.44
Incentive for transmission availability			9.79
Amortization of past gap	1000.00		0.00
RoE	489.87		489.87
Amortization and interest			1.22
<b>Net Expenditure (A)</b>	<b>15571.72</b>	<b>15124.15</b>	<b>15123.74</b>
Non-Tariff Income	618.78	210.16	551.73
Revenue from Tariff	14152.38	14644.44	14018.91
<b>Total Income (D)</b>	<b>14771.16</b>	<b>14854.60</b>	<b>14570.64</b>
<b>Revenue surplus (Gap) (D-C)</b>	<b>-800.56</b>	<b>-269.55</b>	<b>-553.10</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 5.71 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. 5.71 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 490.88 crore as against Rs. 514.80 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. 878.88 crore as against Rs.909.89 crore claimed by KSEB Ltd for the year 2019-20. 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.8679.82 crore. Of this, the inter-state transmission charges paid to PGCIL is Rs. 567.34 crore. As detailed in Chapter 5, the Commission after examining the details has approved the cost of power purchase at Rs. 8509.45 crore for the year 2019-20. The details are given in Chapter-5 of this Order. This dis-allowance is mainly due to 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. 3211.47 crore, which is inclusive of employee expenses, repair and maintenance expenses, administration and general expenses, and provision for pay revision. KSEB Ltd has claimed the O&M expenses as per the norms specified in the Tariff Regulations. The provisions of pay revision claimed is Rs.250 crore, which is due from July/August 2018 onwards.

6.8 The O&M expenses claimed and approved is given in the Table below.



**Table 6.2**  
Summary of the O&M expenses claimed and approved for the year 2019-20

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 expenses	2991.45	3047.48	2,961.47	2,417.44
(ii) A&G expenses		564.64		140.61
(ii) R&M expenses		281.80		401.46
(iv) Provision for pay revision			250.00	
(v) Total O&M expenses	2991.45	3893.92	3,211.47	2,959.52

### 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 2019-20

Sl No	Item	MYT Approval	KSEB petition	KSERC approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Interest on Loan	490.44	450.17	405.82
2	Security Deposit Interest	199.93	173.05	173.05
3	Master Trust Bond Interest	732.96	732.97	732.97
4	Working capital/ OD interest	23.63	23.71	22.87
5	PF interest	194.59	171.25	171.25
6	Other interests	0	11.97	11.97
7	Interest on fair valuation	0	0	0
8	Carrying cost on past approved revenue gap	223.59	521.94	408.58
9	Carrying cost on current year revenue gap		26.16	0
11	Total	1865.14	2111.22	1926.51

### Depreciation

6.10 Depreciation as per the audited accounts of KSEB Ltd for the year 2019-20 is Rs.901.92 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 202-22, 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 2019-20 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	186.04	125.93	125.93
SBU-T	235.46	162.70	162.70
SBU-D	480.42	119.27	119.27
<b>Total</b>	<b>901.92</b>	<b>407.90</b>	<b>407.90</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 2019-20

	As per truing up Petition	Approved in truing up
	(Rs.crore)	(Rs. crore)
SBU-G	0.02	0.02
SBU-T	1.36	1.36
SBU-D	20.59	20.59
<b>KSEB Ltd</b>	<b>21.97</b>	<b>21.97</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 2019-20

	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

## Non-Tariff income

6.16 As per the details furnished in the petition, consolidated non-tariff income for the year is Rs.551.75 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 2019-20

	SBU-G	SBU-T	SBU-D	Total
	(Rs.crore)	(Rs.crore)	(Rs.crore)	(Rs.crore)
Non Tariff Income as per petition	10.86	40.54	500.33	551.73
Non-Tariff income approved	10.86	40.54	500.34	551.74

## Revenue from Sale of Power

6.17 The total revenue from sale within the State is Rs.13999.80 crore for the sale of 22716.88 MU. This includes the revenue from external sale of Rs 19.11 crore for the sale of 55.95 MU during the year. The power factor incentive of Rs.56.95 crore is also deducted from the revenue from sale of Power.

## Summary of Income, Expenses and Revenue gap after truing up

6.18 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 2019-20 (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	5.71	5.71	5.71	
2	Interest & Finance Charges	136.24	95.57	115.51	102.40	
3	Depreciation	141.38	186.04	125.93	125.93	
4	O&M Expenses					
	(i) Employee expenses*	135.04	154.41	132.16	101.80	
	(ii) A&G expenses*		25.92		5.71	
	(ii) R&M expenses		25.48		24.65	
	(iv) Provision for pay revision				15.94	0
	(v) Total O&M expenses		135.04		205.81	148.1
5	RoE (14% of Rs 1454.53 Cr)	116.38	132.69	116.38	116.38	
6	Other Expenses & PP expenses	0	0.02	0.02	0.02	
7	Exceptional Items – Flood	0	3.75	3.75	3.75	
10	Interest on additional bond to Master Trust	10.26		10.26	15.39	
11	ARR	539.30	629.59	525.66	501.74	
12	Less Non-Tariff Income	33.38	16.30	10.86	10.86	
13	<b>Net ARR</b> (Transferred to SBU- D)	<b>505.92</b>	<b>613.29</b>	<b>514.80</b>	<b>490.88</b>	

\*provisional

6.19 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 2019-20 is given in the Table below.

**Table 6.9**  
**ARR of the SBU-T Trued up for the year 2019-20**

No	Particulars	MYT Order dated 08.07.2019	Actual	Truing up petition	KSERC approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Interest & Finance Charges	307.43	192.29	216.23	203.85
2	Depreciation	173.47	235.46	162.70	162.70
3	O&M Expenses				
	(i) Employee expenses	397.46	352.63	386.87	282.18
	(ii) A&G expenses		96.70		19.96
	(ii) R&M expenses		39.06		84.72
	(iv) Provision for pay revision		0.00		29.50

	(v) Total O&M expenses (provisional)	397.46	488.39	416.37	386.87
4	Return on equity (14%)	119.99	190.86	119.99	119.99
5	Additional contribution to Master Trust	22.64		22.64	33.96
6	Other expenses		1.36	1.36	1.36
7	Exceptional items		0.13	0.13	0.13
8	Amortization and interest on compensation paid			1.22	1.18
9	Incentive for transmission availability			9.79	9.38
9	<b>ARR</b>	<b>1020.99</b>	<b>1108.49</b>	<b>950.43</b>	<b>919.42</b>
15	Less: Non-tariff Income	37.30	70.86	40.54	40.54
16	<b>Net ARR (Cost Transferred to SBU-D)</b>	<b>983.69</b>	<b>1037.63</b>	<b>909.89</b>	<b>878.88</b>

6.20 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 2019-20 is given in the Table below.

Table 6.10  
ARR of the SBU-D Trued up for the year 2019-20

Particulars	Approved vide MYT order dated 08.07.2019	KSEBL claim		KSERC
		As per accounts	As per Petition	Approved in true up
	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)	(Rs. Crore)
Cost of Generation	505.93	613.29	514.80	490.88
Cost of intra state transmission	986.69	1,037.63	909.89	878.88
Power Purchase	8,613.94	8,680.00	8,616.54	8,509.45
O&M expenses				
(i) Employee expense	2,142.56	2,540.44	2,148.40	2,033.46
(ii) A&G expenses		442.02		114.94
(iii) R&M expenses		316.39		294.04
(iv) Provision for pay revision			204.56	
Total O&M expenses	2,458.95	3,199.72	2,647.00	2,440.49
Depreciation	93.47	480.42	119.27	119.27
Interest and financing charges	1,421.47	1,304.17	1,779.49	1,620.26
Recovery of past gap	1,000.00			
Additional fund to Master Trust	167.10		167.10	250.65
Return on Equity	253.50		253.50	253.50
Other expenses		20.59	20.59	20.59
Exceptional items		24.72	24.72	24.72
Incentive on T&D loss reduction			19.44	18.52

Total ARR	15,501.05	15,360.54	15,072.34	14,627.21
Less				
Non Tariff Income	548.10	797.85	500.33	500.33
Net ARR for True Up	14,952.95	14,562.69	14,572.01	14,126.88
Revenue from Sale of Power	14,152.38	13,969.58	13,999.80	13,999.80
Net revenue gap	800.57	593.11	572.21	127.08

6.21 The consolidated summary of the ARR, ERC and Revenue gap of KSEB Ltd for the year 2019-20 is given below.

Table 6.11  
Consolidate summary of the ARR&ERC Trued up for the year 2019-20

Particulars	MYT order dated 08.07.2019	Actual	Truing up petition	KSERC approval
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation Of Power	0.00	5.71	5.71	5.71
Purchase of power	8616.94	8680.00	8616.54	8509.45
Interest & Finance Charges	1865.14	1592.03	2111.23	1926.51
Depreciation	408.32	901.92	407.90	407.90
O&M expenses				
(i) Employee expense		3047.48		2417.44
(ii) A&G expenses	2991.45	564.64	3211.47	140.61
(iii) R&M expenses		281.80		401.46
(iv) Provision for pay revision	0.00	0.00	0.00	0.00
Total O&M expenses	2991.45	3893.92	3211.47	2959.52
Additional fund to Master Trust	200.00	0.00	200.00	300.00
Return on equity	489.87		489.87	489.87
Other Expenses	0.00	21.97	21.97	21.97
Exceptional items	0.00	28.60	28.60	28.6
Incentive on T&D loss reduction			19.44	18.58
Incentive for transmission availability			9.79	9.33
Amortization of past gap	1000.00		0.00	
Amortization and interest			1.22	1.18
<b>Net Expenditure (A)</b>	<b>15571.72</b>	<b>15124.15</b>	<b>15123.74</b>	<b>14678.61</b>
Non-Tariff Income	618.78	210.16	551.73	551.74
Revenue from Tariff	14152.38	14644.44	13999.80	13999.80
<b>Total Income (D)</b>	<b>14771.16</b>	<b>14854.60</b>	<b>14551.53</b>	<b>14551.54</b>
<b>Revenue surplus (Gap) (D-C)</b>	<b>-800.56</b>	<b>-269.55</b>	<b>-572.21</b>	<b>127.08</b>

6.22 As above, the revenue gap of KSEB Ltd in the process of Truing up of accounts for the year 2019-20 is 127.08 crore as against Rs 572.21 crore claimed by KSEB Ltd.

## Orders of the Commission

- 6.23 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 2019-20.
- (1) *Net ARR of SBU-G for the year 2019-20 at Rs 490.88 crore as against Rs.514.80 crore claimed by KSEB Ltd.*
  - (2) *Net ARR of SBU-T for the year 2019-20 at Rs 878.88 crore as against Rs 909.89 crore claimed by KSEB Ltd.*
  - (3) *Net ARR of SBU-D for the year 2019-20 at Rs.14126.88 crore as against Rs.14572.01 crore claimed by KSEB Ltd.*
  - (4) *Revenue gap of KSEB Ltd for the year 2019-20 at Rs.127.08 crore as against Rs .572.21 crore claimed by KSEB Ltd.*

## Directives

- 6.24 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 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) ***KSEB Ltd shall, within 3 months from the date of this order take steps to measure the energy transferred from SBU-T to SBU-D on monthly basis and report the compliance before the Commission.***
- 8) ***KSEB Ltd shall, within 3 months from the date of this order file a petition with all relevant details to approve Average Pooled Power Purchase cost for the year 2019-20 for effecting payments to the prosumers at the end of the settlement period as per the provisions of the KSERC (Renewable Energy and Net Metering) Regulations, 2020.***
- 9) ***Henceforth, KSEB Ltd shall file petition for obtaining fresh approval for the Power Purchase Agreement from CGS whose COD was delayed even though the PPA of such projects are signed earlier before the notification of the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2021.***
- 10) ***The Commission hereby clarify that, the revenue gap of Rs.127.08 crore approved is as per Regulatory Accounts, and for Regulatory purpose only.***

6.25 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