

KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present : Shri. Preman Dinaraj, Chairman

OA No.28/2019

In the matter of : Petitions for truing up of accounts filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) for the year 2016-17.

Petitioner : KINESCO Power and Utilities Private Limited,
Room No.302-306, 2nd Floor, CFC Buildings Kinfra Park Office, Infopark P.O, Kakkanad, Kochi.

Respondent : Kerala State Electricity Board Limited, Vidyuthi Bhavanam, Pattom, Thiruvananthapuram.

Order dated 19-08-2020

1. The KINESCO Power and Utilities Private Limited (hereinafter called *KPUPL or the licensee*) is a joint venture company established on 17.09.2008, under the Companies Act, 1956, for the distribution of electricity in the industrial parks of KINFRA at Kakkanad, Kalamassery and Palakkad. The license for distribution of power was transferred to M/s KPUPL from M/s. KINFRA Export Promotion Industrial Parks Limited (KEPIP), a deemed distribution licensee, as per the first proviso of Section 14 of Electricity Act 2003.
2. The Kerala State Electricity Regulatory Commission (Terms and Conditions for Determination of Tariff) Regulations, 2014 (hereinafter referred to as Tariff Regulations, 2014), was notified on 14.11.2014 as per Notification No.787/SEA/2011/KSERC for the control period 2015-16 to 2017-18. Regulation 11(1)(b) of the said Regulation mandates the filing of yearly petition for truing up of accounts for the respective years. As per the provisions of the said Regulations, the licensee should submit the application for truing up for the financial year 2016-17 on or before 30.11.2017. The licensee had filed OA No.28/2019 only on 30.01.2019.
3. The Commission had already issued truing up orders for 2004-05 to 2014-15. However, the licensee had again filed truing up petitions for the period from 2004-05 to 2014-15. The licensee had filed the re-truing up petitions mainly for

approving the changes that have occurred on account of the finalization of the Transfer of Assets from erstwhile licensee KEPIP to KPUPL. The licensee has claimed in the petitions filed that a final Asset Transfer Agreement was signed on 27-10-2017 among KINFRA, KEPIP and KPUPL and finalized the Asset Registers and consideration payable for the transfer.

4. The matter of delay in filing of the truing up petition was put up before the Commission at its meeting held on 15-05-2019. The Commission considering the fact that the truing up from 2004-05 to 2014-15 were pending to be finalized, decided that the petition for truing up of the accounts of the licensee are to be considered from 2004-05 to 2014-15 first. Thereafter, the true up of accounts of 2015-16 to 2017-18 and value of assets can be finalized after regulatory scrutiny. The petitions for truing up of accounts for the years 2004-05 to 2015-16 have been completed and orders have been issued.
5. The Commission noted that the Government of Kerala had vide GO(P) No. 18/2003/PD dated 08-05-2003 granted a license to M/s. Kinfra Export Promotion Industrial park (KEPIP) for supply of electricity to various establishments at the KEPIP campus at Kakkanad, Cochin. Subsequently during 2008, new areas at Kakkanad in 2011 at Kalamassery and in 2016 at Palakkad were included in the license.
6. In the meantime, Government vide GO(Ms) No.88/2008/ID dated 27-06-2008 decided to form a Joint venture company between KINFRA and NTPC Electric Company Ltd with the objective to distribute power to industrial parks and also for system improvement and to promote new technology.
7. The Commission was informed of the incorporation of Kinesco Power and Utilities Private Ltd as a 50:50 Joint venture between NTPC and KINFRA. The new company also requested for transfer of license for distribution of electricity from KEPIP to the new company.
8. Since the proposed Joint Venture with NTPC did not achieve the desired results, Government of Kerala in July 2014, accorded sanction for termination of joint venture between NTPC and KINFRA. Accordingly, KINFRA took over the 50% stake held by NTPC, making KPUPL a 100% subsidiary of KINFRA.
9. Thereafter on 07-09-2016 an Asset transfer Agreement was executed between KEPIP and KPUPL and the Assets of KEPIP was transferred to KPUPL at the book value of assets in the accounts of KEPIP. However final settlement of asset transfer between the parties have not been effected during that period.

10. Though the Commission vide order dated 06.12.2011 in the matter of truing up of accounts of KEPIP for the years 2004-05 to 2008-09, directed to complete the transfer process immediately, due to termination of Joint Venture Agreement, the transfer process got delayed till 07-09-2016.
11. The Commission based on truing up of accounts for the respective years has determined a surplus of Rs.2790.71lakhs for the years from 2004-05 to 2015-16 vide Commissions Orders dated 31-03-2020 and 30-07-2020. Since M/s KPUPL is the licensee in succession, the transfer of surplus from KEPIP to KPUPL and the notional interest chargeable on the regulatory surplus are presently to be borne by KPUPL.
12. The licensee has now filed the petition for truing up of accounts for the year 2016-17 along with the audited accounts in accordance with the financial reporting requirements of the Kerala State Electricity Regulatory Commission. The petition was filed on 30.01.2019 and the Commission allotted it as OA 28/2019.
13. The reasons stated in the petitions by the licensee for filing the truing up petitions are as shown below:
 - The Commission vide its order dated 06-12-2011 in the truing up of accounts of KEPIP from 2004-05 to 2008-09 had directed to complete the transfer process from KEPIP to KPUPL immediately and to submit the transfer scheme with complete details before the Commission for approval. However, the Asset Transfer Agreements were delayed due to delay in termination of Joint Venture Agreement between KINFRA & KEPIP. The termination of joint venture was approved by Government only in July 2014.
 - The truing up petitions filed by the company from 2009-10 to 2014-15 was not processed by the Commission due to the absence of Asset Transfer Agreement.
 - The Commission while considering the truing up of accounts for 2009-10 to 2014-15, disallowed a majority of expenses like return on equity, interest and finance charges due to defects in the Asset Transfer Agreement.
 - Thereafter the company executed a Supplementary Asset Transfer Agreements dated 27-10-2017 rectifying the defects in the initial Agreement, the company has now submitted the true up petition for 2016-17.

14. In the petition, the prayers by the licensee are as follows:
- a. Approve the true up petition based on the revised Forms and Annexures submitted herewith for the financial year 2016-17.
 - b. Approve the revenue deficit of Rs.54.62lakhs for the financial year 2016-17 and the cumulative revenue deficit of Rs.631.54lakhs.
 - c. Approve the capital expenditure of Rs.512.16lakhs for the year.
 - d. Condone any inadvertent omissions, errors, shortcomings and permit KPUPL to add/change/modify/alter this filing and make further submissions as may be required at a future date.
 - e. Pass such other and further order as deemed fit and proper in the facts and circumstances of the case.
15. After examining the petition, the Commission vide letter dated 06-08-2019 sought the following clarifications on the petition giving time till 22-8-2019 for the licensee to reply to the clarifications.
- License area wise no. of consumers, sales, revenue, purchase power, cost of purchase and distribution loss for the year.
 - Internal generation if any in the license area (solar etc.,) may be furnished for the year 2016-17.
 - The O&M expense of the licensee is much higher than approved level, defeating the purpose of creation of new entity and cost reduction. Detailed justification for incurring higher O&M expenses (R&M, A&G and Employee costs) for the year shall be furnished.
 - Rationale for claiming Income Tax/MAT credit, when there is revenue loss.
 - The licensee may clarify whether the Income Tax/MAT was paid during the year 2016-17. If So, the details of payment of Income Tax/MAT and the calculation of tax for the year may be furnished.
 - It is seen that the licensee has booked Rs.23.20 lakhs for manpower support under employee costs in 2016-17, whereas the same is booked under R&M expenses for the previous year 2015-16. The change may be clarified
 - The licensee has booked Rs.23.19 lakhs for the year 2016-17 towards man power support, in addition to employee costs and outsourcing of O&M expenses. The rationale for the expenses may be furnished.
 - The amount of duty /penalty paid as per inspection report dated 07-12-2017 of Chief Electrical Inspector and the year and head in which the same is accounted.

- Details of the RPO for the year 2016-17 and its compliance. (The quantity of REC purchased for the year and its date of purchase and rate)
 - There is substantial variation in the heads viz., Rent & Rates, Legal charges/statutory levies, Travelling expenses under A&G expenses. The same may be clarified.
 - The rationale for the interest and financing charges and the rates booked may be furnished.
 - The licensee may clarify whether depreciation is booked for the assets created out of contribution and grants. If so the amount of depreciation claimed may be furnished.
16. The licensee furnished the details vide letter dated nil which was received on 24.01.2020. Thereafter, the Commission issued notices to the petitioner & KSEB Ltd for public hearing on the petition on 16.03.2020. However, due to the Covid 19 pandemic and lockdown, the scheduled public hearings had to be postponed. The hearing of the petition was held via videoconferencing on 22.06.2020 as brought out below:

Public hearing on the petitions through Video conferencing on 22-06-2020

17. The Public hearing on the petitions for truing up of accounts filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) for the year 2016-17 was conducted by video conference on 22-06-2020. M/s KINESCO Power and Utilities Private Limited (KPUPL) was represented by Smt. D.S.Girija Devi, Chief Executive Officer, Sri. S.N. Ashok Kumar Manager (Finance) of the petitioner who gave replies to queries of the Commission.
18. The petitioners in their submission stated that the majority of customers of KPUPL belonged to HT and EHT category. It was informed that the total sales was 81.15 MU as against the ARR & ERC approved 86.27 MU and revenue generated was Rs.5528.45 lakhs as against Rs.5920.00 lakhs approved in the ARR for the period.
19. The Licensee also submitted that they may be allowed a higher distribution loss target as against the target fixed by the Commission, as the target of 1.50% was stringent. It was submitted that the energy audit conducted has shown that the distribution loss was due to the vast area covered whereas the customers were few in number. Hence they requested for approval of actual distribution loss of 1.77% for the year.

20. The licensee stated that the increase in O&M expenses of Rs.221.06 lakhs as against Rs.100.83 lakhs approved in the ARR was mainly due to increase in Employee Cost, Administration and General Expenses and R&M Expenses. The licensee submitted that as the truing up of accounts of the former licensee KEPIP was delayed, the last trued up figures were that of 2008-09 pertaining to the period of KEPIP based on which the ARR figures for 2016-17 were finalized by the Commission. This was not having a representative character as KEPIP was conducting the power distribution business along with IT park business using the same resources. KPUPL on the other hand is an exclusive power distribution company and is not engaged in any other business. This was the main reason for the increase in expenses.
21. The licensee reported that the increase in Employee Cost of Rs.34.23 lakhs (later revised as Rs.47.17 lakhs) as against the approved level of Rs.23.18 lakhs, was due to the fact that during 2016-17 Chief Executive Officer and Accounts Officer was engaged on regular role and day to day office functioning was outsourced through a manpower agency.
22. The Commission was informed that the Administration and General expenses during this period amounted to Rs.103.76 lakhs (expenses Rs.54.64 lakhs and electricity duty Rs.49.12 lakhs, which was later revised as Rs 41.71 lakhs expenses and Duty Rs.49.12 lakhs) as against the ARR approved level of Rs.45.42 lakhs. The licensee explained that this was due to the grouping of electricity duty of Rs.49.12 lakhs also under the Administration and General expenses.
23. The licensee explained that the main reason for the increase in R&M expenses of Rs.83.07 lakhs as against the ARR approved amount of Rs.32.23lakhs was due to the increase in expenditure for operation and maintenance of sub stations, which was awarded to licensed contractors based on tenders. Other components of R&M expenses were the contracts for pre-paid metering etc. The licensee requested that the above expenses be approved.
24. The licensee informed that Interest and Finance Charges of Rs.106.89 lakhs as against nil provision in the approved ARR represents interest on normative loan for the debt component for the consideration of asset transfer received from KEPIP. This is inclusive of interest on security deposit to consumers of Rs.4.30 lakhs and provision for interest for loan payable to KinfraRs.17.75 lakhs.
25. The licensee explained that ROE at 14% on Rs.326.23 lakhs has been claimed being the equity participation by the promoter in connection with the transfer of assets. The licensee has made this claim from the date of vesting of assets.

26. In their response M/s KSEB Ltd furnished their written comments.

Sri.Manoj.G, Asst. Executive Engineer (TRAC) presented the counter statement /comments of the respondent KSEB Ltd. and submitted the written remarks. The major points presented by the respondent KSEB Ltd are summarized as below.

- a. KSEB Ltd submitted that, as per Regulation 11(14) of the KSERC (Terms and conditions for determination of Tariff) Regulations 2014, provides that “in case of a licensee having more than one area of supply, it shall submit separate calculation for each area of supply.” Even though the licensee is having multiple area of supply viz. Kakkanad, Kalamassery and Palakkad, they have not submitted separate calculation in respect of many items including power purchase details.
- b. Area wise split up details of all revenue and expenses have not been submitted by the Licensee. Most of the figures given in the petition have been revised by the licensee vide the presentation made at the public hearing on 22-06-2020.
- c. The T&D losses are on the higher side and the controllable factors are not attended to. The trued-up distribution loss claimed by KPUGL for the year 2016-17 is 1.77%. KSEB Ltd submitted that the cost incurred for the additional power procurement due to higher loss may be disallowed.
- d. O&M expenses including R&M expenses, Employee Cost, Administration and General expenses are higher than the approved level and may be limited to the approved level.
- e. The KSEB Ltd also pointed out that KPUGL should segregate assets created out of grants and consumer contribution while doing computation of depreciation.
- f. Return on equity may be limited to 3% of the Net Fixed Assets.
- g. KSEB Ltd has submitted that the power purchase cost tallies with the accounts of KSEBL.
- h. KSEB Ltd further pointed out that KPUGL has claimed Rs.71.15 lakhs being provision for meeting Renewable Power Purchase obligation. They have reported that the provision for RPO need not be considered if RE certificates are not purchased.

27. The Commission as per the daily order dated 22-06-2020 allowed time up to 03-07-2020 to the licensee to furnish the following additional details;
- i. Area wise split up of all revenue and expenses.
 - ii. Details of tenders for O&M expenses and for outsourcing of manpower in compliance to the Commission's directions, the licensee filed their written submission on 25-06-2020.

Analysis and decision of the Commission

28. The Commission has carefully considered the licensee's petition, their additional clarifications and submissions along with the comments of M/s KSEB Ltd. The analysis and decisions of the Commission on this petition are detailed below:

Truing up of accounts for the year 2016-17

29. M/s KPUPL in their petition had stated the rationale for the present petition for truing up for the year 2016-17. The petitioner mentioned that the Commission in the Order dated 06.12.2011, had pointed out certain issues on the matter of investments in the form of grant from Govt. of India and of assets surrendered by the consumers, apart from loan of KINFRA in KEPIP (ref para 31 of the mentioned order). This para31 of Order dated 06.12.2011 reads as under:

“The share of grants is not specifically mentioned in the licensed business accounts. Thus, while preparing the balance sheet of the licensed business, the effort was mainly to show higher share of funding from the loans, though no such loan was seen availed actually. This approach of the licensee is not reasonable. The licensee has mentioned that loan shown in the licensed business is taken from Kinfra, and interest is booked on accrual basis. However, it is noted that in the books of accounts of the consolidated accounts of Kinfra, this fact is not disclosed. Though the Commission has sought the details of the commitment for repayment, the licensee could not provide any details on this account.”

30. The licensee stated that the matter has since been clarified by KINFRA. The details of investments by KINFRA in KEPIP for developing the electrical assets along with the relevant Government Orders have now been provided by them. Moreover, park development and its maintenance being the main objective of KEPIP, the assets were shown in the books of KEPIP with the depreciation rates

worked out based on The Companies Act, 1956. Since the depreciation rates and accordingly, the written down value of assets as per KSERC norms were different, it mandated the reworking of the assets and the consideration, thereof.

31. The licensee has informed that the Supplementary Agreement dated 27.10.2017 entered into between KINFRA/ KEPIP and KPUPL consists of the reworked values of assets based on the depreciation rates as per KSERC norms and after removing the assets created out of grants and also of items surrendered by the consumers. It is submitted that since the asset value and the investment base has undergone major changes, the depreciation, interest on normative loan and the return on equity would also have corresponding changes.
32. The Commission had vide its Order dated 06-02-2011 cited in para 19 above had raised its reservations in the transfer of assets and the manner of not disclosing clearly the Government funded and consumer contributed assets. **In the list of Assets transferred to KPUPL by KEPIP/KINFRA, the cost is shown as cost of acquisition whereas it is claimed in the agreement executed between the above parties that the transfer is at book value.** The agreements evidencing transfer of assets is a mere **transfer of assets from a holding company to its 100% subsidiary which cannot be treated as equivalent to sale to a third party as these are related party transactions and hence there is no absolute ownership change.** The GO copies submitted as evidence for funding by KINFRA, are for financing of the Industrial park business and only Rs.5 crores is seen to be for electricity business. Rest of the fund transfers to KINFRA from Government is for creation of Industrial parks. **There is no clear evidence for expenditure incurred by the licensee for electricity business for claiming return on investment.**
33. The licensee has furnished revised details of revenue requirement for the year 2016-17. In the subsequent filing vide letter No. KPUPL/KSERC/Truing up/2020-21 dated 15-06-2020, received at the Commission's office on 25-06-2020, revisions/regroupings were made in A&G expenses and employee cost. Each of the items are dealt with in the subsequent sections later on. A comparison of the approved trued up figures for 2015-16 and the amount claimed in this truing up petition is as under.

Table-1
Comparison of Approved Trued up figures for 2015-16 and True up claimed values for 2016-17.

Particulars	Rs.in Lakhs			
	2015-16	2016-17		
	Trued-up for the previous year	ARR Approved	True up claim	Variance
Revenue from sale of power	5172.96	5920.00	5547.59	-372.41
Non-tariff Income	238.06	30.10	45.95	15.85
Total Income	5411.02	5950.10	5593.54	-356.56
Expenses:				
Power Purchase Cost	4726.76	5353.57	5060.19	-293.38
R&M Expenses	53.51	32.23	83.07	50.84
Employee Cost	54.10	23.18	47.17	23.99
A&G Expenses	28.60	45.42	41.71	-3.71
Electricity Duty	0.00		49.12	49.12
Depreciation	44.16	70.32	69.83	-0.49
Interest & Fin Charges	0.00		106.89	106.89
ROE	27.82	1.40	45.64	44.24
Total expenditure	4934.95	5526.12	5503.62	-22.50
Revenue Surplus/(Gap)	476.07	423.98	89.92	-334.06
Less: Provision for income tax/ MAT	0.00		144.54	144.54
Net Revenue Surplus/(Gap)	476.07	423.98	-54.62	-478.60

No. of Consumers and Energy Sale:

34. The number of consumers and their category wise sale of power by the Company during the year is detailed in Table-2 below.

**Table – 2
Sale of Energy**

Category	Trued up2015-16		ARR Approved2016-17		True up Petition2016-17	
	No. of Consumers	Sales (MU)	No. of Consumers	Sales (MU)	No. of Consumers	Sales (MU)
HT Consumers	68	68.61	22	60.78	71	71.64
DHT Consumers			51	16.77		
LT Consumers	196	7.55	229	8.72	224	9.51
Total	264	76.16	302	86.27	295	81.15

35. The number of consumers as on 31-3-2017 is 295, whereas the same for the previous year was 264. There is an increase of 31 consumers during this period, and the total sale has increased by 4.99 MUs from 76.16 MUs to 81.15 MU when compared to the previous year.

**Table 3
Total consumers and category wise energy sold**

Category	For Truing Up2016-17	
	No of consumers	Energy Sold (MU)
HT Consumers		
HT IA	10	17.17
HT IB	15	39.66
HT II A	2	0.44
HT II B	1	0.19
HT III B	1	0.77
DHT consumers		
DHT I A	1	0.04
DHT I B	40	12.85
DHT IV	1	0.53
LT consumers		
LT IV A	17	0.72
LT IV B	145	6.5
LT VI A	2	0.08
LT VI B	1	0.00
LT VI C	9	0.06
LT VI F	40	1.99
LT VII A	8	0.16
LT VII B	1	
LT VIII B	1	
Total	295	81.15

After examining the details furnished by the licensee, ***the Commission approves the actual energy sales of 81.15 MU reported by the licensee for the purpose of truing up of accounts for the year 2016-17.***

36. **Energy Requirement and Distribution Loss:** The details of the energy input and the distribution loss approved in the ARR for the year 2016-17 by the Commission for the licensee is tabulated below along with the claim as per the truing up petition submitted by the licensee.

Table 4
Energy Requirement and Distribution Loss

Particulars	2015-16	2016-17	
	Approved in True-up	ARR Approved	Claimed in True-up
Energy sales (MU)	76.16	86.27	81.15
Energy Requirement / Purchase (MU)	77.32	87.58	82.60
Distribution loss (MU)	1.16	1.31	1.45
Distribution loss (%)	1.50	1.50%	1.76

37. As shown above, the actual loss is higher than the approved ARR level of losses. According to the licensee, the new area ie., Kalamassery was added from 06.02.2011. This has resulted in increase in losses due to limited operations in the initial periods. The licensee has further submitted that vide ARR order dated 16.12.2015 it was directed that KPUGL should undertake an Energy Audit at the earliest in view of higher distribution loss. Accordingly, Energy Audit was conducted by M/s. Kerala State Productivity Council (KSPC) during the FY 2016-17.
38. The increasing trend in distribution technical loss as stated by the licensee was due to the less consumer density when compared to the vast distribution area.
39. The licensee submitted that technical losses during the FY 2015-16 was 2.03% whereas during 2016-17, they were able to reduce this loss to 1.77 %.
40. The licensee has reported much higher technical losses at Kalamassery and Palakkad licensee areas which will be reduced if more and more consumers took connections in these areas and consume more power. Licensee stated that KSEBL has agreed in principle to transfer the existing KSEBL consumers to KPUGL at KIITP, Kanjikode. After this transfer, the licensee expects that the distribution efficiency will marginally improve at KIITP, Palakkad.

41. As per the truing up petition submitted by the licensee, the total energy sales was 81.15 MU against an ARR approved sale of 86.27 MU. Licensee has reported that there was no generation of power from internal resources.
42. Considering the sales and energy requirement for the year, the distribution loss works out to be 1.77% of the energy input. The Commission in the ARR&ERC Order dated 14.07.2016 for the year 2016-17 had approved the distribution loss of 1.50%. The details of the sales, energy requirement and distribution loss for 2016-17 in the present petition are given below.

Table 5
Distribution loss claimed for 2016-17

Particulars	Unit	2015-16	2016-17	
		As per approved truing up	Approved in ARR	As per truing up petition
Total energy sales	MU	76.16	86.27	81.15
Energy requirement / purchase from KSEBL	MU	77.32	87.58	82.60
Distribution loss	MU	1.16	1.31	1.45
Distribution loss %	%	1.5	1.5	1.77

43. As shown above, the actual distribution loss of 1.77% reported by the licensee is higher than the level approved by the Commission. Since distribution loss is a controllable parameter and there is an efficiency loss, then the provisions of clause 74(4) of Tariff Regulations 2014 will apply.

The relevant portions of the Regulation are shown below:

Quote

"74. Distribution losses:

(4) Any variation between the actual level of distribution loss and the approved level of the distribution losses shall be dealt with, as part of the truing up of the respective financial year in the following manner: -

(a) if the actual distribution loss is higher than the approved level of distribution loss for any particular financial year of the control period, then the quantum of power purchase corresponding to the excess distribution loss for that financial year shall be disallowed at the average cost of power purchase for the respective financial year;

(b) if the actual distribution loss is lower than the approved level of distribution loss for any particular financial year of the control period, then the savings in the 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".

Unquote

Table 6
Approved Distribution loss for 2016-17

Particulars	Unit	2015-16	2016-17	
		As per approved truing up	As per Truing up petition	Approved in Truing up
Total Energy Sales	MU	76.16	81.15	81.15
Energy requirement/ purchase from KSEBL	MU	77.32	82.60	82.39
Distribution loss	MU	1.16	1.45	1.24
Distribution loss %	%	1.50%	1.77	1.50
Excess Distribution Loss	MU			0.21

44. As shown above, the actual distribution loss is 1.77% whereas the approved level is 1.50%. The licensee has not furnished any justifiable reason for the higher distribution loss than the approved figures except for those mentioned in the foregoing paras. Distribution loss is a controllable factor and lower distribution loss can be attributed as a measure for better performance of the licensee. The quantum of power purchase to be approved by the Commission is to be based on the distribution loss of 1.50%. The distribution loss as approved by the Commission in the Order dated 14-07-2016 for approving the ARR&ERC for the year 2016-17 is used for computing power purchase/sale of power to consumers for that year. ***The Commission is of the view that the excess distribution loss of 0.27% amounting to 0.21 MU above the norms fixed by the Commission has to be borne by the licensee, which will be deducted from the power purchase cost.***

Power purchase cost

45. A comparison of the trued up values for 2015-16 and the ARR approved cost for 2016-17 for power purchase cost is shown in Table below:

Table 7
Power purchase cost Approved in ARR

Particulars		Trued up 2015-16	ARR approved 2016-17
Units purchased	MU	77.74	87.58
Fixed charges	Rs.lakh	632	711.83
Variable Charges	Rs.lakh	4120.42	4641.74
Total Power purchase cost	Rs.lakh	4752.42	5353.57

The power purchase cost claimed by the licensee for 2016-17 is as under;

Table 8
Power purchase cost as claimed in true-up

Particulars	Unit	2015-16	ARR Approved 2016-17	True up Claim 2016-17
Units purchased	MU	77.74	87.58	82.60
Fixed charges	Rs.lakh	632.00	711.83	611.95
Variable Charges	Rs.lakh	4,120.42	4641.74	4377.09
Total	Rs.lakh	4,752.42	5353.57	4989.04
Average Rate	Rs./kWh	6.11	5.30	6.13
Charges for exceeding CD limit	Rs.lakh	45.26	0.00	0.00
Renewable power obligation	Rs.lakh	60.69	0.00	71.15
Total Power Purchase Cost	Rs.lakh	4858.37	5353.57	5060.19

The Commission has carefully examined the licensee's claim for power purchase cost of Rs 5060.19 lakhs as shown in the table above.

The licensee's claim towards RPO liability of Rs.71.15 lakhs for 2016-17 is disallowed, since the licensee has admitted that the company had not purchased any RE certificate during the year.

However KSEB Ltd has vide their letter No.KSEB/TRAC/TC/R1/2020/846 dated 18-06-2020 informed that the power purchase cost for the year 2016-17 of the licensee differs with their accounts. The Licensee explains that this is due to the fact that the power purchase Agreement for Kalamassery area was entered into only in September 2016.

46. As mentioned above, the approved power purchase cost is to be based on the approved distribution loss. The efficiency gain/loss is to be adjusted against the power purchase cost as shown below:

Table 9
Efficiency gain/loss based on approved distribution loss

Year	Total Energy Input (MU)	Approved Loss (%)	Excess distribution loss		Average power purchase cost (Rs./kWh)	Efficiency (+)gain/ (-)loss (Rs.Lakh)
			%	MU		
2015-16	77.74	1.50%	-0.53%	-0.42	6.11	-25.66
2016-17	82.6	1.50%	-0.27%	0.21	6.13	-12.87

Since the power purchase figures with KSEBL is yet to be reconciled, the Commission had already given directions vide truing up Order dated 31-03-2020 that the power purchase details from 2009-10 shall be treated as provisional and adjustments shall be made retrospectively while considering truing up for 2016-17 or 2017-18.

**Table 10
Approved power purchase cost**

Actual	Unit	2015-16	2016-17
Units purchased	MU	77.74	82.6
Fixed charges	Rs.lakh	632	611.95
Variable Charges	Rs.lakh	4120.42	4377.09
Total (A)	Rs.lakh	4752.42	4989.04
Average Power purchase cost	Rs./kWh	6.11	6.13
Excess Distribution Loss	MU	0.42	0.21
Efficiency loss (-)/Gain (+) (B)	Rs.lakh	-25.66	-12.87
Approved Power purchase cost (A) – (B)	Rs.lakh	4726.76	4976.17

47. **The efficiency loss for the excess distribution loss Rs.12.87 lakhs has been deducted from the power purchase cost. The Commission hereby approves provisionally the power purchase cost of Rs.4976.17 lakhs for the purpose of truing-up for 2016-17.**

Operation & Maintenance expenses

48. Operation & Maintenance expenses includes controllable expenses like Employee cost, Repair & Maintenance Expenses and Administrative & General Expenses. The Commission as per Regulation 81(4) of the Tariff Regulations, 2014 had approved the licensee to recover O&M costs as per norms in the Regulations for the year 2016-17 but the licensee's O&M expenses in the petition has exceeded the amounts specified therein.
49. Subsequent to the Public hearing of the truing up petitions held on 22-06-2020, the licensee has further filed a revised claim by regrouping of O&M expenses vide their letter dated 15-06-2020 which was received on 25-06-20 at the Commission's office. The comparison of the trued-up expenses for the previous year 2015-16, truing up claim in the petitions for 2016-17, the revised claim submitted and the O&M expenses approved in the ARR is tabulated hereunder.

Table 11**Comparison of the approved and actual O&M expenses for 2016-17**

Particulars	2015-16	2016-17		
	Trued up	Approved in ARR	True up claim	Revised claim
Employee expenses (Rs. lakh)	54.10	23.18	34.23	47.17
A&G expenses (Rs. lakh)	28.60	45.42	103.76	41.71
Electricity Duty	0.00	0.00	0.00	49.12
R&M expenses (Rs. Lakh)	53.51	32.23	83.07	83.07
Total O&M expenses (Rs. lakh)	136.21	100.83	221.06	221.07

50. The Commission has conducted a detailed analysis of each of the components mentioned above and its decisions are given below:

Employee Cost

51. As per the Tariff Regulations 2014 norms, the Commission had in the licensee's ARR petition approved an amount of Rs.23.18 lakh towards employee expense for 2016-17. In the true-up petition for the year, the licensee has booked an amount of Rs.34.23 lakh as employee cost in the petition and later revised it upward to Rs.47.17 lakhs.
52. As is evident, the Employee cost which was at a peak at the time of NTPC management (from 01-02-2010 to 15-12-2015) fell sharply from 2015-16 which is clearly visible from the audited figures. However, the licensee has claimed that the reduction in the employee strength has been offset by engaging employees on contract basis and these expenses have been claimed as under.

Table 12
Employee expenses Revised 2016-17

Particulars	Rs.in Lakhs
	Revised Claim
CEO	6.00
HOF	0.00
Part time AGM	0.00
Accounts Officer	5.03
Senior Consultant (Tech)	7.20
Part time consultant	3.76
Accountant	1.97
Consultant Finance	8.25
Resident Engineer	2.35
Accounts Assistant	0.00
Commercial Assistant	1.83
Office Assistant	1.80
Electrical Engineers	4.71
Systems Engineer	4.27
Provision for March 2018	0.00
Total	47.17

53. The Licensee has clarified that Rs3.76lakhs was paid to Consultant for liaison with KINFRA. The Commission is of the view that such activities do not form a part of the licensee's operational requirements and therefore disallows Rs.3.76 lakhs paid to the consultant for liaison.

Table 13
Approved Employee expenses 2016-17

Particulars	Rs in Lakhs
	Trued up
CEO	6.00
HOF	0.00
Part time AGM	0.00
Accounts Officer	5.03
Senior Consultant (Tech)	7.20
Part time consultant	
Accountant	1.97
Consultant Finance	8.25
Resident Engineer	2.35
Accounts Assistant	0.00
Commercial Assistant	1.83
Office Assistant	1.80
Electrical Engineers	4.71
Systems Engineer	4.27
Provision for March 2018	0.00
Total	43.41

54. **The Commission after duly examining the accounts has decided that the remaining expenses other than those disallowed above are reasonable and is comparable with the trued-up accounts for the previous year 2015-16 and hereby approves the employee expenses amounting to Rs.43.41Lakhs for 2016-17.**

Administration and General Expenses

55. In the true up petition filed, the licensee had claimed an amount of Rs.78.07 lakhs which was inclusive of Section (3) Electricity Duty of Rs.46.10 lakhs.

Table 14
Split up details of A&G Expenses
Rs in lakhs

	Trued-up 2015-16	Original 2016-17	Claim	Revised claim 2016-17
Rent, rates & Taxes	8.90		7.68	7.68
Insurance	0.71		0.66	0.66
Consultancy charges			19.66	6.73
Telephone charges	0.31		0.43	0.43
Legal charges	1.41		7.25	7.25
Audit fees	1.28		1.38	1.38
Other professional	4.95		0.00	0.00
Travelling Expense	0.70		8.23	8.23
Conveyance & Vehicle	0.52		0.00	0.00
Printing & stationery	0.42		0.68	0.68
Advertisements	1.37		0.27	0.27
Miscellaneous Exp	8.03		8.40	8.40
Electricity Duty			49.12	49.12
Total	28.60		103.76	90.83

The licensee has as per revised statements filed claim for Rs.90.83 lakhs as Administration and General Expenses which again includes the Electricity Duty

amount of Rs.46.10 lakhs. During the previous year 2015-16 as per trued up accounts an amount of Rs.28.60 lakhs was approved by the Commission towards Administrative and General Expenses after disallowing the Duty amount of Rs.46.10 lakhs.

56. Duty under Section 3(1) for the year 2016-17 is Rs.49.12 lakh. Commission has not been admitting duty as a revenue expenditure since the Electricity Duty under this section on the sales of energy should be borne by the Licensee and shall not be passed on to the consumers.

Section 3 of the Kerala Electricity Duty Act, 1963 is quoted hereunder, -

“3. Levy of electricity duty-(1) on sales

Save as otherwise provided in sub-section (2); every licensee in the State of Kerala shall pay every month to the Government in the prescribed manner, a duty calculated at 6 naye paise per unit of energy sold or a price more than 12 naye paise per unit;

that no duty under this sub-section shall payable by the Kerala State Electricity Board on the energy sold by it to another licensee.

(2) Where a licensee holds more than one licence, duty shall be calculated and levied under this section separately in respect of each license.

(3) The duty under this Section on the sales of energy should be borne by the licensee and shall not be passed on to the consumer.”

From the above statutory provision it can be concluded that,

- (i) the electricity duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, is payable by the licensee to the Government
 - (ii) the duty shall be calculated at the rate of 6 paise per unit of energy which is sold at a price of more than 12 paise per unit.
 - (iii) duty shall be calculated only on the energy sold.
 - (iv) the duty paid by the licensee under Section 3 (1) cannot be passed on the consumer and therefore it cannot be claimed as an expenditure in the ARR.
57. The amount of Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, cannot be admitted as an item of expenditure in the ARR. The Commission has, in its previous orders also, taken this consistent stand on the issue relating to Electricity Duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act.

Table 15
Approved A&G Expenses

	Rs in lakhs			
	Trued-up 2015-16	Original Claim 2016-17	Revised claim 2016-17	Approved for 2016-17
Rent, rates & Taxes	8.90	7.68	7.68	7.68
Security arrangements				
Insurance	0.71	0.66	0.66	0.66
Consultancy charges		19.66	6.73	6.73
Telephone charges	0.31	0.43	0.43	0.43
Legal charges	1.41	7.25	7.25	7.25
Audit fees	1.28	1.38	1.38	1.38
Other professional	4.95	0.00	0.00	0.00
Travelling Expense	0.70	8.23	8.23	8.23
Conveyance & Vehicle	0.52	0.00	0.00	0.00
Printing & stationery	0.42	0.68	0.68	0.68
Advertisements	1.37	0.27	0.27	0.27
Miscellaneous Exp	8.03	8.40	8.40	8.40
Electricity Duty		49.12	49.12	0.00
Total	28.60	103.76	90.83	41.71

58. During the hearing the licensee explained that travelling expenses of Rs .8.23 lakhs was incurred being hiring of vehicle for use of CEO and due to the frequent meetings held in Trivandrum. Though A&G is a controllable expense, due to the inevitable nature of the expenditure the Commission accepts the licensee's explanation and allows this amount.
59. The Commission had asked the licensee to justify the expenses of Rs.6.73 lakhs towards consultancy charges and Rs.7.25 lakhs towards legal charges. The licensee has consequently filed details of consultancy charges and legal expenses. Legal expenses is seen to be relating to statutory payments made and charges paid to Supreme Court Advocate for representing the company before APTEL. Consultancy charges were those incurred towards engagement of external professionals for carrying out works in compliance of various statutory requirements. The Commission notes that during 2016-17, the company was having shortage of in-house professionals for carrying out these works. However, now that new professionals have been inducted into the company, the Commission is of the opinion that the company should develop core competency for carrying out these works in house and thus minimize the consultancy charges. In view of these facts, the Commission hereby allows Rs.13.98 lakhs claimed towards these expenses.

60. The Commission has carefully considered each of the above expenses based on the clarifications provided by the licensee.

Accordingly, the A&G expenses approved by the Commission for 2016-17 is limited to Rs.41.71 lakhs as enumerated vide Table no.15 above.

R&M Expenses

61. In the petition filed, the licensee had claimed an amount of Rs.83.07 lakhs as R&M expenses under the Operation and Maintenance category. Regarding R&M expenses the licensee has stated in the petition that major part of R&M Expenses was incurred for the operation and maintenance of the sub-stations.

Table 16
Split up details of Repairs & Maintenance Expenses
Rs in lakhs

Particulars	Trued up for 2015-16	Claimed for 2016-17	Revised claim for 2016-17
Operation and maintenance of Kakkanad SS	37.21	51.64	51.64
-----do----- Kalamassery LA	6.80	11.22	11.22
-----do----- Kanjikode LA		7.07	7.07
Pre-paid meter billing contract (CMS)	5.12	4.85	4.85
GSM Bills (Airtel) for transfer of energy data	2.58	2.63	2.63
Providing Manpower support (UPL)		23.20	0.00
Breakdown maintenance of distribution network and sub-station	1.50	2.60	2.60
Repair & Maintenance Office equipment	0.30	0.25	0.25
Repair & Maintenance of building		1.78	1.78
Testing charges			0.89
Training to staff			0.14
Total	53.51	105.24	83.07

62. The licensee submitted that the O&M works were done on contract basis which the licensee claimed was awarded through proper tendering. In view of the limited competition for contracts of such small magnitude, details were called for, which was furnished by the licensee. Other components of R&M expenses were support contract for pre-paid metering services (PPMS), manpower outsourcing for the support functions etc.

63. Licensee has also reported that some emergency break-down maintenance had to be taken up at 110KV substation, Kakkanad and the labour and materials used for the same was also booked during the year.
64. The Commission has carefully examined each of the items in the table above and has made the following observations. The Commission notes that trued up O&M figures for Kakkanad SS and Kalamassery LA were Rs.37.21 Lakhs & Rs.6.80 Lakhs respectively. However for 2016-17, the Licensee has claimed Rs.51.64 Lakhs & Rs.11.22 Lakhs respectively as explained in previous paragraphs, repairs and maintenance expense are controllable items and due diligence is to be exercised when accepting claims which are 39% and 65%.
65. Since the above percentages are far in excess to the Commission approved annual escalation rate of 5.85%, the Commission limits the claim of these two expenditures at 5.85% above the trued up values for 2015-16. The Commission further directs the Licensee to ensure that such escalations are not permitted and proper tendering with appropriate and sufficient details are obtained, failing which re-tendering is required to be resorted to.

Table 17
Approved Repairs & Maintenance Expenses
Rs.in Lakhs

Particulars	Trued up for 2015-16	Claimed for 2016-17	Revised claim for 2016-17	Approved for 2016-17
Operation and maintenance of Kakkanad SS	37.21	51.64	51.64	39.39
-----do----- Kalamassery LA	6.80	11.22	11.22	7.20
-----do----- Kanjikode LA		7.07	7.07	7.07
Pre-paid meter billing contract (CMS)	5.12	4.85	4.85	4.85
GSM Bills (Airtel) for transfer of energy data	2.58	2.63	2.63	2.63
Providing Manpower support (UPL)		23.20	0.00	0.00
Breakdown maintenance of distribution network and sub-station	1.50	2.60	2.60	2.60
Repair & Maintenance Office equipment	0.30	0.25	0.25	0.25
Repair & Maintenance of building		1.78	1.78	1.78
Testing charges			0.89	0.89
Training to staff			0.14	0.14
Total	53.51	105.24	83.07	66.80

Based on careful consideration, the Commission hereby approves Rs.66.80 lakhs towards R&M expenses for 2016-17.

Depreciation

66. The licensee in the petition has claimed depreciation in the straight-line method as per the Tariff Regulations 2014. The licensee has claimed depreciation of Rs.58.15 lakh as against Rs.70.32 lakhs approved in ARR for the year. The Commission while truing up the accounts for the year 2015-16 had approved depreciation of Rs.44.16 lakh, which was for all the assets created till 2015-16, except for the assets created out of consumer contribution and grants.

67. The details of the depreciation claim made by the licensee are shown below.

Table 18
Depreciation claimed for the year 2016-17

Particulars	2016-17 (Rs. lakh)				ARR Approved
	GFA as on 1/4/2016	Asset Additions	GFA as on 31-03-2017	Depreciation	
Land & land rights	226.07	13.04	239.11	4.30	
Sub-Stations	469.38	247.14	716.52	25.79	
Metering equipments	113.51	15.62	129.13	8.61	
Building		114.35	114.35	2.06	
others	9.49	11.51	21.00	1.78	
Total	1467.26	510.59	1977.85	69.83	70.32

68. The licensee in the petition stated that it had entered into the Asset Transfer Agreement on 07-09-2016 and Supplementary Agreement on 27-10-2017, with the effective date of transfer as 01-02-2010. The assets created out of consumer contribution and Government grants including ASIDE grants were separated and depreciation was not allowed on these assets. However, the Commission had in the true-up Order dated 31-03-2020 for the previous year 2014-15 had pointed out that the licensee had not taken into consideration the share of GOI grants to the tune of Rs.177.62 lakh, which has been revealed during the clarification stage. Thus, the depreciation for these assets was deducted from the depreciation claimed. Despite this, the licensee for 2015-16 & 2016-17 also has not modified the Asset value on which depreciation is worked out.

Asset Additions

69. In the petition, the licensee stated that the additional capitalization made by the company during 2016-17 for Rs.512.16 lakhs. The licensee requested to approve the above asset additions.

The Commission examined the details of the asset additions made by the licensee. The licensee had not taken prior approval for the Asset addition as is stipulated. **Commission hereby allows the depreciation claimed for the asset addition at 50 % depreciation for the assets put in use during the year and the additions are allowed to be included in the Gross Block considering that the approved ARR for 2016-17 has projected this capital expenditure.**

The Depreciation claimed by the licensee was Rs.69.83 lakhs which is revised to Rs.62.77 lakhs by allowing 50% depreciation for the asset additions during the year and as explained in para above, as done in the previous year, the eligible depreciation is reworked for by excluding assets for Rs.177.62 lakhs for the year as shown below:

The Depreciation is allowed accordingly.

Table 19
Depreciation approved for 2016-17

Particulars	2016-17 (Rs. lakh)			
	GFA as on 1/4/2016	Asset Additions	GFA as on 31-03-2017	Depreciation
Land & land rights	226.07	13.04	239.11	4.30
Sub-Stations	469.38	247.14	716.52	23.42
11 KV works	648.81	108.93	757.74	26.24
Metering equipments	113.51	15.62	129.13	6.10
Building		114.35	114.35	1.91
Others	9.49	11.51	21.00	0.80
Total	1467.26	510.59	1977.85	62.77
Less Depreciation for the share of the Gol grants				6.36
Depreciation approved for 2016-17				56.41

The Commission hereby approves depreciation of Rs.56.41 lakh for the year 2016-17.

Interest and finance charges

70. The interest and financing charges claimed by the licensee for the year 2016-17 is as under.

Table 20
Interest charges claimed by the licensee

	Claimed for 2015-16	ARR Approved 2016-17	Claimed for 2016-17
Debt portion of consideration for Asset transfer	84.80	NIL	84.80
Security deposit to consumers & others	4.30		4.30
Interest difference paid to KEPIP			
Provision for interest payable to Kinfra	27.03		17.75
Total	116.13		106.89
Less: Interest capitalised	27.03		0
Net amount of interest	89.10		106.89

71. The licensee has stated that the debt equity ratio as per the Asset Transfer Agreement dated 27-10-2017 is 70:30 and the effective date of transfer is 01.02.2010. Further the company has issued 2,16,438 numbers of equity shares worth Rs.10 each at a premium of Rs.136 each, to Kinfra as per the Extraordinary General Meeting dated 23.03.2018. It was also stated that a loan from the promoter Kinfra for an amount of Rs.737.41 lakh was availed. The licensee stated that the equity participation by the promoter is increased from Rs.10 lakh to Rs.325.99 lakh. The licensee stated that the effect of this transaction was taken into the books in the year 2017-18
72. The Commission observed that the transaction in contention is not relating to the current period for which petition has been filed. This matter can be taken up for consideration at the time of truing up of 2017-18 accounts along with all other contentions raised at that time.
73. Though the licensee has claimed interest on security deposits, they have not enclosed any proof of effecting payments. As per the Regulations and Order of Hon. APTEL, interest on security deposit actually paid to the consumers can only be claimed by the licensee. ***The Commission noted that in the Order dated 31-03-2020, the licensee was directed to do a proper reconciliation of accounts. However, the licensee has not so far submitted before the Commission the details and hence the interest on security deposit Rs.4.30 lakhs is not considered here. If the licensee so desires, they may file the details within two months from the date of this Order for consideration of the Commission.***

74. The Commission as stated earlier has decided that assets created from funds excluding assets created out of consumer contribution, share of Gol grants and ASIDE grants can be treated as loans from KINFRA and given by Government of Kerala. However, since the terms and conditions of the loan including the interest rate is yet to be finalized, the Commission does not consider it prudent to allow any interest at present. The Commission also notes that as on date, there is neither any claim for interest from KINFRA, nor has any payment on account of interest charges been made by KPUPL. Thus, both, the rate of interest for the funds as well as any claim for its payment is indeterminate at present. **Hence, the Commission cannot accept the claim for interest of Rs.106.89 lakhs as proposed by the licensee at present.**

Table 21
Interest charges Approved

	Approved 2015-16	ARR Approved 2016-17	Claimed for 2016-17	Approved 2016-17
Debt portion of consideration for Asset transfer	84.80	NIL	84.80	NIL
Security deposit to consumers & others	4.30		4.30	
Interest difference paid to KEPIP				
Provision for interest payable to Kinfra	27.03		17.75	
Total	116.13		106.89	
Less: Interest capitalised	27.03		0.00	
Net amount of interest	89.10		106.89	

The Commission therefore directs that as and when the interest rates and other terms and conditions of the loan are fixed by the Government and claim raised for servicing the debt, the licensee can file a petition before the Commission for its consideration.

Return on Equity:

75. According to the licensee, as per the orders of the Hon. APTEL in appeal No. 121 of 2011 (MP Genco Vs MPERC), ROE should be allowed from the date of vesting. The licensee has claimed in the present petition a rate of return of 14% on equity of Rs.326.03 lakhs. However, even the copy of revised Agreement forwarded by KPUPL shows only Rs.284 lakhs as equity.

76. The Commission has examined the contention of the licensee. The case law pertaining to RoE cited by the petitioner is not applicable in this case since the same is as per transfer scheme in accordance with Section 131 of the Electricity Act, 2003. In the case of this licensee Section 131 is not applicable. Since Section 131 pertains to Vesting of Property of the State Electricity Board in the State Government. Further, as contented by the licensee, the entire funds were sourced from KINFRA in the form of loans and KINFRA in turn sourced it from Government of Kerala in the form of loans. Since the promoter is the same before and after the transfer and the source of funding is also the same, the transfer itself needs to be established. The licensee in the petition also stated that share certificates are also issued in the year 2017-18 in favour of KINFRA for the amount of equity shown as per the supplementary asset transfer agreement. These transactions have taken place subsequent to the date of transfer and as such the amount of equity in the business at the beginning of the year is not determinate.

Table 22
Return on NFA approved for the year 2016-17

	2016-17
	Rs.lakh
GFA as on 31-03-2015	1456.18
Less Contributions	
Less ASIDE grants	
Less share of Gol Grant	
Additions during 2015-16	11.08
Deductions	
GFA as on 31-03-2016	1467.26
Cumulative Depreciation allowed upto 2015-16	573.15
NFA at the End of the year 31-03-2016	894.11
3% NFA at the beginning of the Year 2016-17	26.82

Hence, the Commission is of the considered view that for the regulatory purpose, 3% return on Net Fixed Assets amounting to Rs.26.82 lakhs is approved for the year 2016-17.

Revenue from sale of power

77. The net revenue reported by the licensee for the current year along with the trued up figures for the previous year are as given below,-

**Table –23
Sale of Power (Rs in Lakhs)**

Particulars	Trued up 2015-16	True up claim 2016-17
HT/EHT Consumers	4617.56	4846.52
LT Consumers	555.4	681.93
Total	5172.96	5528.45
Electricity duty & Supply surcharge	148.24	213.43
Gross Revenue from sale of Power	5321.2	5741.88
Less: Electricity duty & Supply surcharge remitted	148.24	213.43
Net Revenue from sale of power	5172.96	5528.45

The net revenue from sale of power Rs.5528.45 lakhs submitted by the licensee is approved by the Commission for the purpose of truing up of accounts for the year 2016-17.

Non -Tariff Income

78. The licensee in their petition dated 30.01.2019 had reported the Non- tariff income for the year as under,-

**Table – 24
Non- tariff income**

Particulars	Rs in lakhs	
	Trued up 2015-16 Rs.Lakh	2016-17 Rs.Lakh
Interest on bank deposits	20.19	45.21
Notional Interest on accumulated surplus less bank interest above (Rs.218.98 – Rs.20.19 = Rs.198.79)	198.79	
Prior Period Income	7.38	
Application fee received	0.06	
Collection charges	1.33	
Installation charges	4.37	
Meter rent	--	--
Other miscellaneous charges	5.94	0.74
Total	238.06	45.95

The Commission noted that the main component in the non-tariff income was interest received from bank fixed deposits. It is also seen that the licensee has neither accounted for the accumulated surplus of Rs.2790.71 lakhs nor provided interest on this accumulated surplus carried forward from the earlier periods.

79. As seen from the Commission's Order dated 30-07-2020 regarding the truing up petition for 2015-16, the Commission has worked out this surplus as Rs.2790.71lakhs. Regarding the interest on accumulated revenue surplus, as in the case of other licensees, KPUPL was required to account the same from 2013-14 onwards using the SBI base rate for estimating the interest charges. In the instant case, the licensee has not accounted for the notional interest charges while arriving at the non-tariff income, which is not in line with the accrual accounting requirements. This fact had been pointed out in the truing up order for 2014-15 dated 31-03-2020 and 2015-16 dated 30-07-2020. Under such circumstances, the Commission has accounted the notional interest charges for the accumulated revenue surplus from 2013-14 onwards at the applicable SBI base rate, as in the case of other licensees.
80. As submitted by the licensee, the erstwhile licensee M/s KEPIP had erroneously reported the revenue from sale of power including Section 4 duty for the period from 2004-05 to 2008-09. Arising from the above, from 2006-07 to 2008-09, the revenue approved in the Order dated 6-12-2011 was inclusive of the Electricity Duty under section 4. The total amount of duty for the three years is Rs.124.80 lakhs. Since the said amount was already remitted to the Government, based on the request submitted by the licensee, the Commission in Order dated 31-03-2020 had decided to exclude this amount only for the limited purpose of calculating the interest on accumulated revenue surplus as a special case.
81. Accordingly, the interest income applicable for 2016-17 is as shown below:

Table 25
Revenue from accumulated revenue surplus

	Unit	2015-16	2016-17
Accumulated Revenue surplus at the beginning of the year	Rs.lakh	2,314.64	2,790.71
Surplus excluding the Duty remitted	Rs.lakh	2,189.84	2,665.91
Applicable interest rate	%	10.00	9.30
Revenue from Accumulated surplus	Rs.lakh	218.98	247.92

82. For the purpose of truing up, the Commission has considered the interest on bank deposits actually booked by the licensee. Since this amount is already accounted for as income, the balance amount of the revenue from regulatory surplus is included as part of the non-tariff income. Based on the above, the revenue from non-tariff income is revised as shown below:

Table 26
Approved non-tariff income

Particulars	2015-16	2016-17
	Rs.Lakh	Rs.Lakh
Interest on bank deposits	20.19	45.21
Notional Interest on accumulated surplus less bank interest above (Rs.247.92 – Rs.45.21 = Rs.202.71)	198.79	202.71
Income from operations		19.13 **
Prior Period Income	7.38	0
Application fee received	0.06	0
Collection charges	1.33	0
Installation charges	4.37	0
Meter rent	--	--
Other miscellaneous charges	5.94	0.74
Total	238.06	267.79

** This amount shown by the licensee under revenue from sale of power. Since this is not a revenue from sale of power, this amount is shifted under non-tariff income.

The interest on bank deposits are considered at actuals and the interest on revenue surplus is adjusted based on the interest from bank deposits. **The Non -tariff income of Rs.267.79 lakhs is approved by the Commission for the year 2016-17.**

Total revenue from operations

83. Based on the above, the total revenue approved for each year is as given below:

Table 27
Total revenue for the year 2016-17

Particulars	2015-16		2016-17	
	As per petition	Approved in true up	As per petition	Approved in true up
Revenue from sale of power	5,172.96	5,172.96	5,547.58	5,528.45
Non- tariff income	31.89	238.06	45.95	267.79
Total Revenue	4,695.78	5,411.02	5,593.53	5,796.24

The Commission approves the total revenue of Rs.5,796.24 lakhs for the year 2016-17.

Revenue Surplus/(gap):

84. The Commission after duly considering the petition of the licensee for truing up of account for the year 2016-17, clarifications and the additional details submitted by the licensee thereon along with the comments/objections of KSEB Ltd, the revenue surplus/gap approved for truing up of accounts for the financial year 2016-17 is tabulated below:

Table 28
Approved Revenue Surplus/ Gap for the year 2016-17 after truing up

Particulars	Trued up 2015-16	True up claim 2016-17	Approved in truing up 2016-17
Revenue from sale of power	5172.96	5547.59	5528.45
Add : Non-Tariff Income	238.06	45.95	267.79
Total Income	5411.02	5593.54	5796.24
Power Purchase Cost	4726.76	5060.19	4976.17
R&M Expenses	53.51	83.07	66.80
Employee cost	54.1	47.17	43.41
A&G expenses	28.6	90.83	41.71
Depreciation	44.16	69.83	56.41
Interest charges		106.89	
RoE/RoNFA	27.82	45.64	26.82
Prior period income	--		--
Provision for Income tax/MAT	----	144.54	----
Total Expenditure	4934.95	5648.16	5211.32
Surplus / (Gap)	476.07	-54.62	584.92
Accumulated Surplus / (Gap)	2790.71	-631.54	3375.63

85. The revenue surplus for the year 2016-17 after truing up of accounts is Rs.584.92 lakh as against a revenue deficit of Rs.54.62 lakh presented by the licensee as per the truing up application. ***The accumulated revenue surplus including Rs.584.92lakh after this truing up of accounts for the financial year 2016-17 will be Rs.3375.63 lakh.***

Orders of the Commission

86. The Commission after considering the petition filed by M/s.KPUPL for truing up of accounts for the year 2016-17, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following:
- Total revenue is **Rs.5796.24** lakh
 - Total expenditure is **Rs.5211.32**lakh
 - The revenue surplus for the year is **Rs.584.92** lakh.
 - The cumulative revenue surplus upto**2016-17** will be **Rs.3375.63** lakh (Rs.2790.71 lakh + Rs.584.92 lakh). The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.
 - The directions of the Commission in paragraphs 46, 73 and 74 be attended to expeditiously.
87. With the above, the petition is disposed of. Ordered accordingly.

Sd/-
Preman Dinaraj
Chairman

Approved for Issue

Secretary (i/c)