

BEFORE THE KERALA STATE ELECTRICITY REGULATORY COMMISSION

In the matter of : Petition for Truing up of Cost and Revenue of the Kerala State Electricity Board for the year 2007-2008.

Petitioner : Kerala State Electricity Board, Vydyuthi Bhavanam ,
Pattom, Thiruvananthapuram - 4

THE PETITIONER HUMBLY STATES THAT:

1. Introduction

- 1.1 Kerala State Electricity Board (KSEB) had filed the petition for approval of ARR & ERC for the year 2007-2008 before the Hon'ble Commission on 11th December- 2006. KSEB had estimated the Aggregate Revenue Requirement (ARR) as Rs 4545.02crore and Expected Revenue from Charges (ERC) as Rs.4114.91crore, and the revenue gap as Rs.430.11crore for the year 2007-08.
- 1.2 The Hon'ble Commission, however, vide the order dated 26th November 2007 had approved the ARR as Rs 4074.22 crore and ERC as Rs 4403.95 crore and fixed a revenue surplus of Rs 329.73 crore instead of the revenue gap of Rs 430.11 crore estimated by the Board. Further, Hon'ble Commission had adjusted the approved surplus against the net revenue gap of Rs 360.06 crore for the year 2003-04 and 2004-05 as per the order dated 24-11-2007 on Truing Up of accounts of KSEB for the year 2003-04 and 2004-05.
- 1.3 Hon'ble Commission may kindly note that, the order approving ARR&ERC for the year 2007-08 was issued at the fag end of the financial year 2007-08, i.e, after 7 months and 26 days after the commencement of the financial year, leaving hardly four months for complying the order on ARR &ERC. However, KSEB had been carrying out its business activities based on the projections as per ARR on the presumption that Hon'ble Commission may approve the ARR&ERC for the year 2007-08 as such.
- 1.4 During the year 2007-08, KSEB had been operating as a single entity as per the transitional provision under section-172 of the Electricity Act-2003. Since the accounts of the Board is being audited and certified by C&AG, KSEB had prepared the accounts as per the Electricity (Supply) (Annual Accounts) Rules, 1985 (ESAAR-1985). Since, Hon'ble Commission is yet to

issue any regulation on estimating various expenses of ARR of KSEB as a single entity and also not issued any regulation on filing Truing Up of accounts, KSEB has been filing the Truing Up of accounts for the year 2007-08 based on the C&AG audited accounts prepared as per the ESSAR-1985.

- 1.5 It may also be noted that, though the Electricity (Supply) Act, 1948 stands repealed as per Section 185(2)(d) of the Electricity Act, 2003, all rules made under subsection (1) of Section 69 of the Electricity (Supply) Act 1948 shall continue to have effect until such rules are rescinded or modified. Since the Electricity (Supply) (Annual Accounts) Rules, 1985, notified by the Government of India under the Electricity (Supply) Act, 1948 have not been rescinded so far, the Board is bound to follow the said rules. The Annual Statement of Accounts of the Board for 2007-2008 was prepared in accordance with the above rules and the same had been audited and certified by the Comptroller and Auditor General (C&AG) of India.
- 1.6 In the above said background, Board may hereby submits the petition for Truing Up of expenses and revenue for the year 2007-2008, based on the Annual statement of Accounts of the Board duly audited and certified by the C&AG of India. The provisional accounts for the year 2007-08 along with audit certificate issued by C&AG are enclosed as Annexure to this petition.
- 1.7 A comparison of the summary of the actual amounts in the Annual statement of Accounts of the Board duly audited and certified by the C&AG of India vis-à-vis the estimates of the KSEB as per the ARR&ERC and the same approved by the Hon'ble Commission is given below.

Table-1. Comparison of various expenses for the year 2007-08 (Rs. in Crore)

Sl.No.	Particulars	KSEB ARR	KSERC Approval	Actual as per audited accounts
1	Generation Of Power	54.96	143.3	195.97
2	Purchase of power	2020.39	1734.65	2101.08
3	Interest & Finance Charges	458.61	458.61	352.78
4	Depreciation	460.42	260.18	419.09
5	Employee Cost	965	1090	904.88
6	Repairs & Maintenance cost	101.47	101.47	116.26
7	Administration & General Expenses	125.63	54.47	125.35
8	Other Expenses	227	100	871.72
9	Gross Expenditure	4413.48	3942.68	5087.13
10	Less : Expenses Capitalized	37.63	37.63	48.08
11	Less : Interest Capitalized	48.25	48.25	29.33
12	Total Expenditure	4327.6	3856.8	5009.72
13	Return on Equity/Statutory Surplus	217.42	217.42	217.42
14	ARR (12 + 13)	4545.02	4074.22	5227.14

Table-2 Expected revenue from charges (Rs.in Crores)

Sl.No.	Particulars	KSEB ARR	KSERC Approval	Actual as per audited accounts
1	Revenue from energy sale within the State	3753.07	3898.07	3764.83
2	Revenue from non-tariff income	361.84	361.84	438.9
3	Revenue from sale of power to other States		144.04	258.27
4	Revenue from sale of power to M/s.NVVN and PTC			673.85
	Total	4114.91	4403.95	5135.85

Table - 3 Revenue Gap (Rs.in crores)

KSEB ARR	KSERC Approval	Actual as per audited accounts
430.11	-329.73	91.29

2. Energy Consumption

In the ARR &ERC for the year 2007-08, KSE Board had estimated the total energy input into the KSEB system as 15315.0MU, (excluding auxiliary consumption and external losses in PGCIL lines associated with evacuation of power from Central Generating Stations) and Hon'ble Commission has also approved the same for the year 2007-08. But the actual energy input into KSEB system during 2007-2008 was 15065.15 MU, i.e., 249.85 MU less than that approved by the Hon'ble Commission. The details of the energy generation and power purchase approved by the KSERC and the actual are given below.

Table - 4 Energy Generation / Power Purchase for the year 2007-08

Particulars	KSEB ARR	KSERC Approval	Actual as per audited accounts
	(MU)	(MU)	(MU)
Hydro (excluding aux.consn.)	6899.33	7712.56	8282.40
Wind	3.00	3.00	1.96
BDPP (excluding aux.consn.)	40.49	40.49	91.50
KDPP(excluding aux.consn.)	60.74	60.74	271.90
Power purchase to compensate reduction in generation from CGS		147.24	
Power purchase (excluding the external losses in the PGCIL lines)	8311.44	7350.97	7764.20
Total Generation and Power Purchase	15315.00	15315.00	16411.96
Less: Energy sale outside the State through displacement mode			1346.76
Total Input into KSEB system	15315.00	15315.00	15065.20

Hon'ble Commission may please note that, the reduction in total energy input into the KSEB system was mainly due to the reduction in energy consumption of various categories of consumers due to the climatic conditions prevailed in the state during 2007-08. The details of the energy consumption by various categories of consumers are given in following section.

3. Sale of Energy

3.1 In the ARR, KSEB had estimated the annual energy sale for the year 2007-08 as 12294.00 MU, but in the order on ARR, Hon'ble Commission had approved the energy sale as 12321MU, i.e 27MU higher than the projection of KSEB. But the actual energy sale was only 12049.85MU, i.e, 271.15 MU less than the same approved by the Commission. The details are given below.

Table - 5 Details of the category wise energy sale for the year 2007-08

Category	KSEB ARR	KSERC Approval	Actuals as per audited accounts	Difference over KSERC approval
	(MU)	(MU)	(MU)	(MU)
LT Domestic	5700	5700	5602.85	-97.15
Industrial	1030	1040	984.18	-55.82
Commercial & Non Domestic	1390	1402	1378.33	-23.67
Irrigation	237	237	230.55	-6.45
Public Lighting	252	252	248.56	-3.44
Sub total	8609	8631	8444.47	-186.53
HT I Industrial	1563	1563	1460.61	-102.39
HT II Non-Industrial/ Non-Commercial	138	138	138.28	0.28
HT III Agriculture	11	11	9.23	-1.77
HT IV Commercial	464	464	506.79	42.79
Subtotal	2176	2176	2115.01	-60.99
EHT 66KV	328	328	307.54	-20.46
110 KV	756	756	716.95	-39.05
Railways	74	78	109.26	31.26
Subtotal	1158	1162	1133.75	-28.25
Bulk Supply	351	351	356.62	5.62
Total	12294	12321	12049.85	-271.15

3.2 It may be noted that, except HT-IV Commercial category, there was considerable reduction in the energy from the sale approved by the Commission. The reduction in energy consumption is mainly due to the weather conditions prevailed in the State during the year 2007-08 including the month of March-2008.

4. T & D Losses

4.1 The total energy input into the KSEB system, energy sales and the T&D loss reduction as per the ARR, KSERC Order and actuals are detailed below.

Table - 6 Details of T&D loss reductions for the year 2007-08

Sl No.	Particulars	Unit	Proposed in the KSEB ARR	KSERC Approval	Actual
(1)	Net Generation and Power Purchase at KSEB periphery (excl. PGCIL	(MU)	15315.00	15757.00	16411.91
(2)	Surplus energy sale approved through displacement mode	(MU)	0.00	442.00	1346.76
(3)	Net Energy input into the KSEB system = (1) - (2)	(MU)	15315.00	15315.00	15065.15
(4)	Energy sales within the State	(MU)	12294.00	12321.00	12049.85
(5)	T&D Losses (3) - (4)	(MU)	3021.00	2994.00	3015.30
(6)	T&D Loss as percentage of total energy input	(%)	19.73	19.55	20.02

4.2 In the ARR&ERC for the year 2007-08, Board has targeted for a loss reduction of 1.83% from the loss level for the year 2006-07, but in the order dated 26-11-2007 on ARR&ERC for the year 2007-08, Hon'ble Commission has approved a reduction of 2% instead of 1.83% proposed by the Board. But the actual loss reduction achieved was only 1.45%. In this matter kind attention of the Hon'ble Commission is invited to the following facts.

- (i) Hon'ble Commission has issued orders approving ARR&ERC for the year 2007-08 at the fag end of the year, i.e on 26-11-2007. There is hardly four months left since the order on ARR for achieving the targets fixed by the Commission. The actual achievement in loss reduction up to September-2007 was 1.5%, which was known to the Commission while approving the ARR &ERC on 26-11-2007.
- (ii) The T&D loss of a utility is depends on many factors including peak load demand, category wise consumption of LT, HT and EHT consumers. The volume of energy sale also has a direct impact on T&D loss.
- (iii) Hon'ble Commission has yet to fix a road map on T&D reduction targets in consultation with the KSEB as envisaged in the Tariff Policy.
- (iv) However, with all these constraints and our dedicated efforts, Board was able to reduce the loss by 1.45% for the year 2007-08.

4.3 While approving the Truing Up of accounts for the years 2003-04, 2004-05 and 2005-06, Hon'ble Commission had imposed penalty on KSEB for not achieving the T&D loss reduction targets as approved by the Hon'ble Commission as per ARR&ERC orders for the respective years. In this matter, KSEB would like to bring the following facts before the Hon'ble Commission.

(1) KSEB is one among few utilities in the country could reduce the T&D losses consistently since the year 200-02. During the period from 2001-02 to 2007-08, KSEB was able to reduce the T&D loss from 30.76% to 20.02%, ie T&D loss by 10.74% within a span of 6 years. The details are given below.

Table-7. T&D Loss reduction during the period from 2001-02 to 2007-08

Year	T&D Loss within KSEB system (%)	Extent of reduction (%)	
		Yearly	Cumulative
2001-02	30.76		
2002-03	29.08	1.68	1.68
2003-04	27.44	1.64	3.32
2004-05	24.95	2.49	5.81
2005-06	22.96	1.99	7.80
2006-07	21.47	1.49	9.29
2007-08	20.02	1.45	10.74

(2) T&D loss reduction is an achievement of KSEB and it has a direct impact on the Generation and Power purchase. The reduction in Generation and Power purchase due to T&D loss reduction since the year 2001-02 is given below.

Table-8. Savings in cost of Generation and Power purchase due to T&D loss reduction

Year	T&D Loss within KSEB system (%)	Extent of reduction (%)		Total Energy sales within the State (MU)	Savings in Generation & Power Purchase (MU)	Savings in Power purchase cost)* (Rs.Cr)
		Yearly (%)	Cumulative (%)			
2001-02	30.76			8667.32		
2002-03	29.08	1.68	1.68	8873.30	303.58	91.07
2003-04	27.44	1.64	3.32	8910.84	588.85	176.65
2004-05	24.95	2.49	5.81	9384.40	1049.24	314.77
2005-06	22.96	1.99	7.80	10269.80	1501.70	450.51
2006-07	21.47	1.49	9.29	11331.00	1935.94	580.78
2007-08	20.02	1.45	10.74	12049.85	2336.94	701.08

@average power cost of Rs 3.00 per unit

- (3) Over the years, KSEB as a Government Utility has been passing the entire benefit of loss reduction as reduction in cost of generation and power purchase to its consumers. However, KSEB may request before the Hon'ble Commission that, 50% of the savings achieved through T&D loss reduction may be permitted to be retained with KSEB. This will act as a gesture to boost up the morale and encouragement for the efforts put-up by KSEB to achieve further loss reduction. KSEB expect that Hon'ble Commission may favorably consider the proposal of KSEB, since the T&D loss reduction achieved during a year should have continuance benefit to the consumers.
- (4) While fixing T&D loss reduction targets, Hon'ble Commission may kindly consider the unique features of the State of Kerala with thick vegetation, consumer pattern, high peak load etc.
- (5) Even for PGCIL which was operating power system at high voltage of 400kV and above has an average loss of 5% and it varies from 4.5 to 5.5% over different months.
- (6) As proposed by the CEA, KSEB is targeting to reduce the T&D loss by 16% by the end of 11th plan 2011-12. KSEB is one of the few utilities targeting to achieve the ambitious target fixed by the CEA, but the T&D loss of the many of pioneers started reforms still operating at a T&D loss above 30%.
- (7) In the initial years, the major contribution of the loss reduction is through faulty meter replacement, correct auditing and accounting etc. But, Hon'ble Commission should be aware of the fact that, KSEB is one of the very few power utilities in the country has 100% metering of its consumers.
- (8) At present, Board is giving major thrust for T&D loss reduction through adding new substations, lines, converting LT lines to HT etc. It is a known fact that, the incremental cost for reducing the T&D loss may rise exponentially.

4.4 Comparison of the T&D loss of other states for the year 2007-08, based on the study conducted by the PFC is as shown below.

Table-9. Comparison of the T&D losses of Other Power Utilities for the year 2007-08

State	Net Energy Input for Distribution	Energy Sold	T&D Loss
	(MU)	(MU)	(%)
Andhra Pradesh	53328	45554	14.58
Tamilnadu	61184	52229	14.64
KERALA*	14312	12050	15.81
Karnataka	38252	29988	21.60
West Bengal	19204	14908	22.37
Gujarat	45046	34922	22.47
Maharastra	73400	55716	24.09
Haryana	25379	18258	28.06
UP	51031	36474	28.53
Delhi	20931	14901	28.81
Rajasthan	34485	23658	31.40
Assam	3717	2496	32.85
Orissa	17213	10761	37.48
MP	34018	20882	38.61
Bihar	7212	4394	39.07

Source- PFC Report on performance of Power Utilities for the year 2007-08

* Distribution loss for Kerala

- 4.5 T&D losses levels of Andhra Pradesh (AP) and Tamilnadu (TN) appears better than that of KSEB. But it is a fact that in AP more than 40% and in TN about 30% of the energy sales still remains un metered. Here the State Governments are providing subsidy to the Agricultural categories based on assessment energy consumption with out resorting to actual metering. But, in the State of Kerala, 100% electricity supply is metered. It is true that, about 7 to 8% of the meters are becoming faulty every year. Whenever a meter become faulty, the bills of the consumers with faulty meters are also being prepared based on the previous average consumption till the meter is replaced. So contribution to the T&D loss figures due to faulty meters is marginal.
- 4.6 Considering the facts and submission as above, KSEB request before the Hon'ble Commission that, when KSEB rank among the top few power utilities in T&D loss reduction, penalty for not achieving the targets of 0.55% loss reduction may not be imposed on KSEB. Also request that, considering the continuous achievement of T&D loss reduction since 2001-02, Hon'ble Commission may allow to retain 50% of the savings in cost of Generation and Power Purchase from thermal sources with KSEB as a motivation for further loss reduction.

5. Cost for Generation and Purchase of Power

5.1 KSEB s Internal Generation

(a). Hydel Generation.

5.1.1 Expecting normal monsoon during the year 2007-08, KSEB has targeted a hydel generation of 6899.33MU based on the 10 year moving average inflow. KSEB had received good rainfall during the year 2007-08 when compared to the previous years. Hon'ble Commission had approved the ARR on 26th November-2007, then the details of the copious monsoon received during the year was known to a greater extent and accordingly Hon'ble Commission has considered the excess hydel generation while approving the ARR. Hon'ble Commission has approved a total hydel generation as 7783.46MU for the year 2007-08 and adjusted the excess hydel availability against the reduction in Generation from CGS.

5.1.2 KSEB had taken all possible efforts to make use of the excess hydel availability by minimizing the spill. During the year 2007-08, KSEB was able to achieve a generation of 8327.45MU and this is an all time achievement of KSEB in hydel generation. The net hydel generation put into the KSEB system after accounting auxiliary consumption was 8292.78MU.

5.1.3 The month wise generation from the Hydel sources during the year 2007-08 is give below. In order to avoid spillage of water, KSEB was forced to increase the hydel generation up to 32MU per day during monsoon months. KSEB has tried to sell the surplus energy from hydel at competitive rates through traders. The month wise details of surplus energy sold through traders and the additional income earned are given below. More details of the sale are given under the section revenue from tariff.

Table-10. Month wise details of Hydel Generation

Month	Total Gen	Net use	Out side sale	Net amount	Average
	(MU)	for KSEB		earned through	
	(MU)	(MU)	(MU)	(Rs.Cr)	(Rs/Kwh)
Apr-07	654.83	618.59	36.24	25.13	6.93
May-07	612.95	585.99	26.96	18.69	6.93
Jun-07	486.55	465.62	20.94	14.52	6.93
Jul-07	598.25	598.25		0.00	
Aug-07	751.76	599.10	152.66	44.27	2.90
Sep-07	836.28	774.49	61.79	23.16	3.75
Oct-07	1060.14	889.37	170.77	98.61	5.77
Nov-07	848.98	757.87	91.10	57.36	6.30
Dec-07	682.49	620.07	62.43	42.16	6.75
Jan-08	554.32	554.32			
Feb-08	609.05	609.05			
Mar-08	631.85	631.85			
Total	8327.45	7704.58	622.88	323.89	5.20

(b) KSEB Thermal Plants

5.1.4 Considering the high variable cost, KSEB had proposed to schedule energy from BDPP and KDPP mainly for peak load assistance and also during system constraints. Accordingly, in the ARR, KSEB proposed to schedule 41.32MU from BDPP and 61.98MU from KDPP at a total cost of Rs 54.34 crore. While approving the ARR, Hon'ble Commission has approved to schedule an excess generation of 147MU from diesel stations at an additional cost of Rs 88.34 crore. Thus the total generation approved from BDPP and KDPP together in the ARR is 250.30 MU with a total cost of Rs 142.68 crore.

5.1.5 As proposed in the ARR, KSEB had targeted to limit the generation from BDPP and KDPP for peak load assistance. Considering the peak load requirements, KSEB has to schedule the available full capacity during peak hours, at the same time these machines are kept idle during off-peak hours. Hence, KSEB has been trying to sell the off-peak idle power through traders at actual variable cost plus a comfort charge to recover a part of the fixed cost other wise to be borne by KSEB. During the period from Jan-08 to March-2008, KSEB succeeded to sell the off-peak idle capacity through traders at actual variable cost plus a comfort charge of Rs 1.08 per unit. The month wise details of generation from BDPP, KDPP and off-peak sale and revenue earned are given below. More details are given under the section revenue from tariff.

Table-11. Monthwise details of Generation from BDPP and KDPP

Month	Energy Schedule from BDPP & KDPP				Revenue from Off-peak sale from BDPP & KDPP					
	BDPP	KDPP	Total	Net Schedule for KSEB	Off-peak sale	Energy charges		Comfort charges		Total
	(MU)	(MU)	(MU)	(MU)	(MU)	Rate (Rs/kWh)	(Rs.Cr)	Rate (Rs/kWh)	(Rs.Cr)	(Rs.Cr)
Apr-07	4.90	23.94	28.85	28.85						
May-07	12.21	31.52	43.72	43.72						
Jun-07	10.06	18.94	29.01	29.01						
Jul-07	3.62	7.97	11.59	11.59						
Aug-07	0.79	7.37	8.16	8.16						
Sep-07	3.47	5.03	8.50	8.50						
Oct-07	11.26	17.64	28.91	28.91						
Nov-07	8.20	12.83	21.03	21.03						
Dec-07	6.85	26.62	33.46	33.46						
Jan-08	8.80	36.51	45.30	21.04	24.27	6.43	15.60	1.08	2.62	18.22
Feb-08	7.51	50.60	58.11	35.46	22.65	6.14	13.90	1.08	2.45	16.34
Mar-08	18.14	39.37	57.51	30.00	27.51	6.78	18.64	1.08	2.97	21.61
Total	95.80	278.35	374.14	299.72	74.42		48.13		8.04	56.17

5.1.6 Thus KSEB could earn an additional income of Rs 8.04 crore as comfort charge by selling the unutilized energy from BDPP and KDPP during the year 2007-08.

5.1.7 The total internal Generation from KSEB's hydel and Thermal plants is given below.

Table - 12 Internal Generation and Cost for 2007-2008

Source	KSERC approval		Actual as per audited accounts		Remarks
	Energy (MU)	Variable cost (Rs.Cr)	Energy (MU)	Variable cost (Rs.Cr)	
Hydel	7783.46		8327.45		KSEB had sold 622.88MU as surplus energy through traders and earned an additional income of Rs 323.80 cr.
Wind	3	0.62	1.96		
BDPP	250.3	142.68	95.8	50.48	KSEB had sold 74.79 MU from diesel stations and earned a total income of Rs 56.17 crore including a comfort charge of Rs 8.04 crore
KDPP			278.35	145.49	
Total	8036.76	143.3	8703.56	195.97	

5.2 Cost of Power Purchase for the year 2007-2008

(a) Power purchase from CGS

5.2.1 While preparing the ARR&ERC for the year 2007-08, KSEB has a total allocation of 1182MW from CGS. But during the year 2007-08, Ministry of Power, GOI has reduced the allocation from unallocated quota and the allocation to KSEB was reduced to 1036.11 MW. KSEB vide letter dated 11-06-2007 had informed the matter before the Hon'ble Commission and communicated the consequent energy reduction of 960.47MU from CGS due to the reduction in allocation from CGS. Further KSEB has communicated that, due to reduction in energy availability, the cost of power purchase shall also get reduced by Rs 178.47 crore (including fixed and variable cost).

5.2.2 While approving the ARR, Hon'ble Commission had considered the reduction in allocation from CGS and also reduced the cost of power purchase from CGS by Rs 178.47 crore as proposed by the Board. Further, Hon'ble Commission has reduced Rs 105.91 crore as reduction in fixed cost due to the reduction in allocation from CGS on the presumption that the reduction of Rs 178.47 crore proposed is only variable cost for CGS. KSEB has filed a review petition against the order citing above said error, however Hon'ble Commission had dismissed the petition and stated that " the power purchase cost of CGS stations are pass through once they fall in the merit order stack of approved purchase. So the difference if any could be considered in the Truing up process for the year 2007-08".

5.2.3 A comparison of the cost of power purchase approved from CGS and the actual is as given below.

Table-13. Energy Scheduled from CGS

Station	Approved by the Commission		CAG Audited & Approved		Difference	
	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
CGS						
Talcher - II	2755.46	371.99	3418.95	452.12	663.49	80.13
NLC-II - Stage-1	380.13	65.74	401.79	62.72	21.66	-3.02
NTPC- RSTPS	2024.72	289.73	2254.67	375.81	229.95	86.08
NLCII - Stage II	542.02	86.01	568.26	90.02	26.24	4.01
NLC - Exp	410.73	87.25	467.58	95.95	56.85	8.70
MAPS	102.01	18.86	74.58	15.29	-27.43	-3.57
Kaiga	237.36	35.35	188.97	57.61	-48.39	22.26
Kudamkulam	233.28	75.82	0.00	0.00	-233.28	-75.82
Kaiga Stage-II	341.35	88.18	0.00	0.00	-341.35	-88.18
UI Export/sale	529.92	105.98	-141.89	-81.59	-671.81	-187.57
Sub total	7556.98	1224.91	7232.91	1067.93	-324.07	-156.98

5.2.4 Considering the advantage of comparatively cheaper variable cost of CGS, KSEB had scheduled the entire allocation from the CGS during the year 2007-08. Further KSEB was able to export 141.89MU as UI at an average rate of Rs 5.75 per unit. Hon'ble Commission may kindly approve the actual power purchase and cost from CGS as above.

(b) Power Purchase from IPP's

(i) RGCCPP- Kayamkulam

5.2.5 Due to the high variable cost of RGCCPP-Kayamkulam station, KSEB has not proposed to schedule energy from Kayamkulam power plant during the year 2007-08. Considering the high variable cost of RGCCPP plant, Ministry of power had allotted equal quantum (180 MW) of power from the coal based plant Talcher-II, so that the pooled average cost of RGCCPP-Kayamkulam and Talcher plant will be about Rs 4.00 per unit. Considering the low variable cost of Talcher-II plant, KSEB had been fully scheduling power from Talcher-II. But due to the excessive variable cost of RGCCPP-Kayamkulam plant KSEB was not scheduling power from there. NTPC had taken this issue before the Ministry of Power and MoP vide the letter No. 5/SR/CSA/GM/07 dated 21-03-2007 has directed that, KSEB and TNEB shall ensure full utilization of RGCCPP from November to June and also to

ensure 50% of the schedule from July to October every year. MoP vide the letter No. 2/4/2007-OM/568 dated 16th May-2007 continued the existing allocation of 180MW of power from Talcher-II for a period of six months from 1-05-2007 on the condition that, further extension shall be as per the recommendation of the CEA on the utilization of RGCCPP. Hence, KSEB had a compulsion to schedule RGCCPP power over other IPP's BSES and KPCL.

5.2.6 Due to the high variable cost, KSEB had taken all possible efforts to sell the RGCCPP-power through traders recovering actual variable cost plus a comfort charge to recover a part of the fixed cost liability of KSEB.

Table-14. Energy Schedule from RGCCPP- Kayamkulam

Month	Energy Scheduled	Energy sale through traders	Net schedule for KSEB use	Energy Charges		Comfort charges		Total	Remarks
	(MU)	(MU)	(MU)	Rate (Rs/kWh)	Amount (Rs.Cr)	Rate (Rs/kWh)	Amount (Rs.Cr)		
(a) Energy scheduled directly through trader NVVN									
Apr-07	100.67	100.67	0.00			0.81	8.11	8.11	The variable cost is directly paid by TNEB to NTPC
May-07	50.36	50.36	0.00			0.81	4.06	4.06	
Sub total	151.04	151.04							
(b) Energy scheduled through KSEB									
Jun-07	29.81	29.81	0.00	6.67	19.89	1.12	3.34	23.23	
Jul-07	29.88		29.88						
Aug-07	0.10		0.10						
Sep-07	0.00		0.00						
Oct-07	30.72		30.72						
Nov-07	23.48	19.56	3.92	7.34	14.36	0.42	0.82	15.18	
Dec-07	85.97	79.67	6.30	7.75	61.74	0.28	2.23	63.97	
Jan-08	89.18	48.92	40.26	7.95	38.90	0.46	2.25	41.15	
Feb-08	100.64	79.78	20.86	7.75	61.86	0.46	3.67	65.53	
Mar-08	63.50	51.64	11.86	8.39	43.34	0.46	2.38	45.72	
Total	453.28	309.39	143.89		240.09	0.87	26.85	266.94	

5.2.7 Thus KSEB was able to sell 460.43MU (151.04+309.39) through traders and to earn an additional income of Rs 26.85 crore as comfort charges for the year 2007-08. By doing the conscious and dedicated efforts to schedule and sell the RGCCPP- power, KSEB was able to meet the obligation to schedule the RGCCPP station to get the continued the allocation from Talcher-II station and there by able to earn an additional income of Rs 26.85 crore during the year 2007-08.

(ii) BSES power station

5.2.8 In the ARR, KSEB has proposed to schedule 110.09 MU from BSES and Hon'ble Commission had approved the same. But KSEB has scheduled 13.32 MU only from BSES for our own use, sold 339.83 MU through traders at actual variable cost plus a comfort charge to recover a part of the fixed cost commitments. The month wise details of the energy scheduled from BSES, energy sold through traders and revenue earned are as given below.

Table-15. Energy Schedule from BSES

Month	Energy Schedulee	Energy sale	KSEB use	Energy Charges		Comfort charges		Total (Rs.CR)
	(MU)	(MU)	(MU)	Rate (Rs/kWh)	Amount (Rs.Cr)	Rate (Rs/kWh)	Amount (Rs.Cr)	
Apr-07	84.09	83.86	0.22	6.98	58.51	1.12	9.39	67.91
May-07	15.47	13.01	2.46	7.27	9.46	1.12	1.46	10.91
Jun-07	47.45	48.23	-0.78	7.29	35.14	1.12	5.40	40.54
Jul-07	0.15		0.15					0.00
Aug-07	0.01		0.01					0.00
Sep-07	-0.03		-0.03					0.00
Oct-07	19.50	21.04	-1.55	7.11	14.96	0.48	1.01	15.97
Nov-07	-0.02		-0.02					0.00
Dec-07	4.49		4.49					0.00
Jan-08	68.83	52.63	16.20	7.79	40.98	0.46	2.42	43.40
Feb-08	57.64	67.56	-9.92	7.59	51.28	0.46	3.11	54.39
Mar-08	55.59	53.50	2.09	8.28	44.31	0.46	2.46	46.77
Total	353.15	339.83	13.32	7.49	254.64	0.74	25.25	279.89

5.2.9 KSEB had earned additional revenue of Rs 25.25 crore as comfort charge by selling the unutilized energy from BSES through traders during the year 2007-08.

(iii) KPCL plant

5.2.10 In the ARR, KSEB had proposed to schedule 50.24 MU from KPCL plant, but limited the schedule from KPCL to meet the peak load requirements only and hence the actual schedule from KPCL during the year 2007-08 was 35.28MU only

The summary of the cost of power purchase approved by the Hon'ble Commission and the actual is as given below.

Table-16. Summary of the Power purchase approved by the Commission and actuals

Station	Approved by the Commission		CAG Audited & Approved		Difference	
	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
CGS (ref Table -13)	7556.98	1224.91	7232.91	1067.93	-324.07	-156.98
IPPs						
KPCL	50.24	41.60	35.28	26.69	-14.96	-14.91
BSES	110.09	170.15	353.15	342.09	243.06	171.94
Kayamkulam	0.00	98.34	453.28	447.60	453.28	349.26
Sub total	160.33	310.09	841.71	816.38	681.38	506.29
Transmission Charges						
Eastern Region		0.00		0.31		0.31
Southern Region		166.19		184.10		17.91
Kayamkulam		33.46		32.30		-1.16
Sub total		199.65		216.71		17.06
Total	7717.31	1734.65	8074.62	2101.02	357.31	366.37

5.2.11 Considering the dedicated and sincere efforts on optimizing the Generation and power purchase and also utilizing the power market avenues to the best possible manner by selling the unutilized energy through traders, Hon'ble Commission may kindly approve the quantity of Generation and power purchase and cost as detailed above.

6. Interest and Finance Charges

6.1 In the ARR & ERC for 2007-2008, KSEB had projected an amount of Rs.458.61Crores as Interest and Finance Charges for the year 2007-08 and Hon'ble State Commission had approved the same. But the actuals as per the audited accounts of the Board was Rs.352.77Crores. The details are as given below.

Table-17. Summary of the Interest and Finance Charges (Rs. in Crore)

Sl.No	Particulars	KSEB ARR	KSERC Approval	Actuals	Difference
1	Interest on outstanding Loans and Bonds	356.28	356.28	232.84	-123.44
II	a) Interest on Security Deposit	37.44	37.44	42.50	5.06
III	Other Interest and Finance Charges				0.00
	a) Interest on borrowings for working capital	5.41	5.41	2.80	-2.61
	b) Discount to consumers for timely payment of Charges	0.78	0.78	1.44	0.66
	c) Interest on PF	42.11	42.11	33.78	-8.33
	d) Other Interest charges	0.01	0.01	0.00	-0.01
	e) Cost of raising finance	1.00	1.00	0.04	-0.96
	f) Guarantee Commission	9.30	9.30	12.32	3.02
	g) Bank Charges	6.28	6.28	8.23	1.95
	h) Rebate accrued for prompt payment to NVVN	0.00	0.00	18.83	18.83
	Total of III	64.89	64.89	77.43	12.54
	Grand Total (I+II+III)	458.61	458.61	352.77	-105.84

6.2 Hon'ble Commission may please note that the main reason for lesser amount of interest and finance charges was due to the reduced borrowing resorted during the year. During the year 2007-08, KSEB was able to reduce the interest and finance charges by Rs 105.84 crores. Further, KSEB has not availed any loan from financial institutions, even though KSEB had made a capital investment of Rs 373.71 crore during the year 2007-08. The details of the borrowings and repayments during the year 2007-08 are detailed below.

Table-18. Summary of the Interest and Finance Charges (Rs. in Crore)

Sl.No	Item	Opening Balance		Borrowing		Redemption		Closing Balance	
		ARR	Actual	ARR	Actual	ARR	Actual	ARR	Actual
I	Loans from GOK	436.78	0	50	0	0	0	486.78	0
II	Existing Bonds	392.32	392.2	0	0	209.05	328.1	183.27	64.1
III	Loans from Financial Institutions	2587.34	2106.32	534.59	3.08	327.65	316.78	2794.28	1792.62
	Sub Total (I+II)	2979.66	2498.52	534.59	3.08	536.7	644.88	2977.55	1856.72
	Total (I+II+III)	3416.44	2498.52	584.59	3.08	536.7	644.88	3464.33	1856.72

6.3 In the ARR, KSEB has claimed an interest of Rs 45.64 crore on the Government loan of Rs 486.78 crore. But as per the minutes of the discussion between the Principal Secretary (Finance), Principal Secretary (Power) and Chairman, KSEB held on 25-11-2006, on netting of the outstanding dues from State Government to the Board, the outstanding loan of Rs 377.69 crore with an interest of 11.5% to 17.5% was to be adjusted against the subsidy receivable from Government. Hence, in the audited accounts KSEB had not claimed interest on the outstanding Government loans.

- 6.4 Further, during the year 2007-08, KSEB had redeemed loans and bonds to the tune of Rs 644.88 crore, which is in excess of Rs 108.18 crore over the sum projected in the ARR. The details are given as Annexure to the Schedule-32 of the Annual accounts. Further KSEB has made a capital investment of Rs 373.71 crore during the year 2007-08. Thus, the total capital liabilities made during the year 2007-08 was Rs 1018.59 crores (Rs 644.88 crore+ Rs 373.71 crore) as explained above. But as stated earlier, Board has not availed any loan during the year 2007-08. This is a unique achievement of KSEB.
- 6.5 As per the prevailing norms adopted by CERC and other State Commissions, the Board had to limit the loan repayment of high cost loans and bonds to the maximum extent of depreciation claimed only. But the depreciation claimed as per the audited accounts is Rs 419.09 crore only against the total loan repayment of the capital liabilities to the tune of Rs 644.88 crore. Thus, KSEB has made an excess repayment of Rs 225.79 crore from its own internal resources and actually the entire benefit has been passed on to the consumers. It may also be noted that, while approving the ARR, Hon'ble Commission has allowed the depreciation amounts to only Rs 260.18 crore based on the CERC norms.
- 6.6 KSEB has made a total capital investment of Rs 373.71 crore during the year 2007-08. As per the prevailing norms, KSEB was eligible to claim interest on the 70% of the total investment, i.e., Rs 261.60 crore, but KSEB had not availed any loan during 2007-08. Further, KSEB can claim RoE @ 14% rate, for the remaining 30% of the capital investment of Rs 113.11 crore. However, Board has met the entire amount for capital investment from own internal sources and not claimed any interest or RoE for the investment on the same. All the consumers of KSEB were benefited out of this. Considering the dedicated and sincere efforts of the Board to reduce the interest and finance charges, Hon'ble Commission may kindly allow to retain the interest and finance charges as Rs 356.28 crore as approved in the order on ARR.
- 6.7 The actual disbursement of the interest on security deposit necessitated was Rs 42.50 crore against the approval of Rs 37.44 crore. The increase may kindly be approved.
- 6.8 As per the prevailing norms followed throughout the country, KSEB can claim interest on working capital on normative basis for maintaining working requirement of two months receivable, one month O&M costs including employee cost, Repair and Maintenance Expenses and A&G expenses. But KSEB has been claiming interest on working capital for the actual short term borrowings only. The actual interest on working capital was Rs 2.80 crore against Rs 5.41 crore approved. Hence, KSEB request that, interest on working capital as approved by the Commission may kindly be allowed to be retained with KSEB.

- 6.9 The discount to consumers on advance payment of electricity charges increased from the approved level of Rs 0.78 crore to Rs 1.44 crore. At present KSEB has been allowing a rebate of 4% on electricity charges for advance payment for one year or more and 2% on energy charges for the period 6 months to one year. Since, this is an incentive given to consumers; the actuals may be kindly approved.
- 6.10 While preparing the ARR, KSEB has anticipated higher contribution towards GPF on account of arrears of pay revision and DA with retrospective effect to be deposited in the PF account and therefore provided a higher provision of Rs 42.11 crore as interest on PF. But the actual interest on Provident Fund balance was Rs 33.78 crore and the same may be admitted. Since KSEB had not availed loan from financial institutions, the cost of raising finance was Rs 0.039 crore against Rs 1.00 crore approved in the ARR.
- 6.11 In the ARR, Board has estimated the Guarantee Commission payable to the Government as Rs 9.30 crore for the Government guaranteed loan of Rs 1223.92 crore. But the actual Guarantee Commission as per the audited accounts is Rs 12.32 crore, including Rs 2.71 crore paid to the KPFC as additional Guarantee Commission claimed by the Government for the long terms loan of Rs 837.74 crore to KSEB mobilized through KPFC.
- 6.12 The other bank charges as per the accounts is Rs 8.23 crore against Rs 6.28 crore claimed in the ARR. The split-up details of other bank charges for the year 2007-08 is given below.

Table 19. Other Bank charges

Sl No	Particulars	Amount (Rs. Cr)
1	Bank Charges	1.09
2	Bank commission for collection from consumers	2.54
3	Other bank charges	3.81
4	Service tax recovered by bank	0.67
5	Banking cash transaction tax	0.12
	Total	8.23

- 6.13 During the year 2007-08, KSEB had sold 1346.76 MU through traders outside the State. As per the CERC norms, KSEB has to pay rebate @ 2% of the bill amount for the prompt payment and so Rs 18.83 crore was allowed as rebate to the traders for the year 2007-08. The rebate allowed is strictly as per the CERC norms when Board had resorted to sell the off-peak surplus energy at the better rates, the rebate allowed may be kindly be admitted.

7. Depreciation

- 7.1 Depreciation is a measure to compensate the wear out, consumption or other loss of value of a depreciable asset arising from use, efflux of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation includes amortization of assets whose useful life is predetermined.
- 7.2 In the ARR for 2007-2008, KSEB had proposed the depreciation as Rs 460.42 crores as per rates notified by the Ministry of Power, Government of India vide the official Gazette dated 1994 and the Electricity (Supply)(Annual Accounts) Rules, 1985 (ESAAR, 1985). But in the order on ARR&ERC, Hon'ble State Commission had approved only Rs.260.18crores as the depreciation as per the norms prescribed by the Central Electricity Regulatory Commission (CERC) for depreciation for Central Power Sector Utilities (CPSUs). Since KSEB continues to function as the State Electricity Board based on the transitional provisions of the Electricity Act-2003, it was mandatory for KSEB to prepare accounts including depreciation as per Electricity (Supply) (Annual Accounts) Rules, 1985 (ESAAR, 1985). Hence the depreciation claimed in the audited accounts at the rates notified by Ministry of Power.
- 7.3 The GFA at the beginning of the year 2007-2008 is Rs.8216.85crores. The amount of depreciation allowed for each asset class is given in Schedule - 19 of the Annual Statement of Accounts for 2007-2008 audited and certified by the Comptroller and Auditor General of India (C&AG of India). As per the audited accounts, the actual depreciation for 2007-2008 was Rs. 419.09 crores. The details of the depreciation approved as per the ARR, actual audited and certified by C&AG are given below.

Table-20. Depreciation for the year 2007-08 (Rs in Crore)

Sl.No.	Particulars	KSEB ARR	KSERC Approval	Actual	Difference
1	Land and Rights	0	0	0	0
2	Buildings	17.5	12.1	16.53	4.43
3	Hydraulic works	21.8	15.12	21.08	5.96
4	Other Civil works	8.04	6.69	7.62	0.93
5	Plant & Machinery	191.87	109.74	180.31	70.57
6	Lines, Cable networks	218.18	113.96	189.43	75.47
7	Vehicles	0.12	0.69	0.12	-0.57
8	Furniture & fixtures	0.96	0.78	0.7	-0.08
9	Office equipment	1.95	1.1	3.3	2.2
	Total	460.42	260.18	419.09	158.91

- 7.4 Regarding Depreciation, KSEB would like to submit that:
- (i) KSEB continued as State Electricity Board till Government vested the assets and liabilities of the Board vide the notification G.O (Ms) No. 37/2008/PD dated 25th September-2008. Board is still in the transitional stage and Government is yet to re-vest the assets and liabilities into a new company.
 - (ii) Since KSEB continued as the State Electricity Board during the year 2007-08, Board had prepared the Annual Accounts as per Electricity (Supply) (Annual Accounts) Rules, 1985 invoking the repeals and savings under section-185 (2) (d) of the Electricity Act, 2003. Accordingly as per the section-68 and section-69 of the Electricity (Supply) Act-1948, KSEB had arrived the depreciation as per the rates notified by the MOP vide its Gazette dated 29th March-1994.
 - (iii) In this matter, kind attention of the Hon'ble Commission is invited to the para-9 of the policy direction G.O (Ms) No. 34/06/PD dated 16-12-2006 issued by the State Government under section-108 of the Electricity Act, 2003. Under para-9, it is clearly prescribed that, while approving the various expense components of ARR including depreciation of KSEB, Hon'ble Commission may allow KSEB to follow the mandatory Annual Accounting Rules notified by the Central Government. Further, Government vide the letter No. 4695/C1/08/PD dated 15-07-2008, has requested before the Hon'ble Commission to allow KSEB to account the depreciation as per the rates notified vide Gazette dated 29th March-1994 by Ministry of Power based on Annual Accounting Rules 1985.
 - (iv) In this connection, KSEB may invite the kind attention of the Hon'ble Commission on the judgment of the Hon'ble Supreme court on appeal No. 2733 of 2006 dated 15-02-2007, wherein the apex court has dismissed the Stand of the DERC in not allowing depreciation as per the MoP rates during transitional period to the distribution utilities of Delhi and the situation in Kerala is identical.
 - (v) Hon'ble Commission may kindly note that, in the States where SEB's are not unbundled, respective State Commission's allowed depreciation as per MoP rates.
 - (vi) Even though, FOIR has recommended adoption of depreciation at CERC rates, still number of SERC's yet to adopt the same and hence there was no uniform approach in adoption of rate of depreciation.
- 7.5 Since KSEB has been accounting depreciation as per the rates notified by the Ministry of Power, KSEB has not claimed Advance against

Depreciation. But, as per the CERC tariff regulations for the period 2004-09, AAD is allowed to the CPSU's. In the States where depreciation allowed as per CERC norms, Advance against Depreciation is also allowed by the respective State Commission as per the CERC norms for meeting the loan repayments over and above Depreciation. Hon'ble Commission may please note that, for the year 2007-08, KSEB had repaid Rs 644.88 crore against the approved depreciation of Rs 260.18 crore and the actual depreciation of Rs 419.09 crore as per the audited accounts.

7.6 Hence Considering the above said aspects, KSEB may request before the Hon'ble Commission that the Depreciation for the year 2007-08 may be kindly approved as per the Annual Accounting Rules, 1985 at the rates prescribed by the Ministry of Power.

8. Employee Cost

8.1 As per the ARR for 2007-2008, KSEB had estimated the employee cost as Rs 965.00 crore. Subsequently, KSEB has submitted before the Hon'ble Commission that, an additional liability of Rs 125.00 crore may incur due to the pay revision proposed to implement during 2007-08. Accordingly, Hon'ble Commission had approved Rs.1090.00 crores as employee cost proposed by the Board. But the actual employee cost incurred for the year 2007-08 was Rs 904.88 crore. The details are given below.

Table-21 Employee cost for the year 2007-08(Rs in crore)

Sl No.	Particulars	2006-07	2007-2008			
		Actual	Projected by KSEB	KSERC approved	Actual	Difference over approved
1	Salaries	297.76	272.22	272.22	348.41	
2	DA	195.31	236.03	236.03	97.90	
	Salaries + DA	493.07	508.25	508.25	446.31	-61.94
3	Overtime, other allowances, Bonus.	21.56	27.86	27.86	27.75	-0.11
4	Earned Leave encashment	24.46	32.92	32.92	36.65	3.73
5	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,	3.04	4.08	4.08	4.16	0.08
6	Terminal benefits (including terminal Surrender)	355.95	391.89	391.89	390.01	-1.88
7	Provision for pay revision			125.00		-125.00
	Grand total	898.08	965.00	1090.00	904.88	-185.12

8.2 Board after negotiated settlement with Trade Unions, vide the order dated BO (FB) No. 628/2007 (PS1/101/2006) dated 19-3-2007 has ordered to revise the pay and allowance of workmen category w.e.f August-2003. Further vide the Order (FM) No. 2075/22007 (PS1/OPR/2007) Tvm dated 12-09-2007 had revised the pay and allowances of officers' w.e.f July-2003. In the pay revision, the DA of 59% up to July 2003 was merged with

the basic pay. The applicable DA during 2007-08 in the revised scale of pay is as given below.

Table-22. Details of DA admissible at the revised scale of pay

Date of effect	Rate of DA	Month of disbursement	Total DA admissible at the revised scale
01-Jan-04	2% of the Pay		2%
01-Jul-04	3% of the pay		5%
01-Jan-05	3% of the pay		8%
01-Jul-05	4% of the pay		12%
01-Jan-06	3% of the pay	February-08	15%
01-Jul-06	5% of the pay	February-08	20%
01-Jan-07	6% of the pay	March-08	26%
01-Jul-07	6% of the pay	April-08	32%
01-Jan-08	6% of the pay	July-08	38%

8.3 As per the accounting practice, KSEB had made necessary provision for pay revision since the year 04-05 and the additional liability due to pay revision was met from the provision made in the respective years. Further, pension was not revised along with the pay revision of officers and staff and the same was revised subsequently during the year 2008-09. Hence the provision of Rs 125 Crores allowed by the Hon'ble Commission for meeting the additional liability due to pay revision was not utilized during 2007-08 but only during the later years.

8.4 The reduction in the employee cost of the serving employees is due to the following reasons.

- (i) In the ARR, Board has estimated the salary and claims for a total estimated strength of 26170 nos of employees. But the actual working strength of employees during 2007-08 was 24034 nos only, i.e, there was a reduction in the salary and benefits for 2136 nos of employees.
- (ii) The working employee strength during 2006-07 was 25117 nos, that was reduced to 24034 nos during 2007-08, with a reduction of 1083 employees over 2006-07.
- (iii) Even though the orders on pay revision was implemented during 2007-08, pay revision process has not been completed in certain ARUs till 31-03-2008, hence the liabilities due to pay revision was not fully disbursed and accounted in the year 2007-08.

8.5 During the year 2007-08, 1088 employees had retired from Board's service. In the order on ARR, Hon'ble Commission had approved the

terminal benefit as Rs 391.89 crore as proposed by the Board. The terminal benefit claimed as per the audited accounts was Rs 390.01 crore. The split up details of the actual claim of terminal benefits during 2007-08 is given below.

Table 23. Pension liabilities (Rs. in Cr)

Particulars	2006-07	2007-08
Pension	253.16	308.91
Gratuity	32.87	25.08
Provision for pension revision	30.00	30.00
Commutation	38.52	24.45
Others (medical claims etc)	1.40	1.57
Total	355.95	390.01

- 8.6 Hon'ble Commission may please note that, the major contribution of the terminal benefit is the monthly pension liability. The gratuity and commutation vary with the number of employees retiring in a year.
- 8.7 All other claims except earned leave encashment, medical allowances are well below the limit approved by the Commission. Hon'ble Commission may be aware that, KSEB could not deny EL encashment, and the actual reimbursement dependent on the number of employees who claim the benefit, which is not within the control of Board. Hence, the actual claim of the EL encashment and Medical allowances may be kindly approved.
- 8.8 Considering the above facts and submission as above, KSEB may request that the actual employee cost including terminal benefits and other allowances may kindly be approved as per the audited accounts.

9. Repairs and Maintenance (R&M) Expenses

- 9.1 Against Rs 101.47 crores as projected and approved by the Commission towards the R&M expenses for the year 2007-08 the actuals as per the audited accounts is Rs 116.26 crore. The details are given as Schedule-8 of the audited accounts. The asset wise details of the R&M expenses approved and the actual are given below.

Table-24. Repair and Maintenance cost for the year 2007-08

Sl.No	Particulars	KSEB ARR	KSERC Approval	Actuals	Difference
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Plant & Machinery	27.38	27.38	29.2	1.82
2	Buildings	1.85	1.85	3.16	1.31
3	Other Civil works	4.21	4.21	3.93	-0.28
4	Hydraulic works	0.92	0.92	1.24	0.32
5	Lines, Cable networks	62.34	62.34	73.68	11.34
6	Vehicles	4.41	4.41	4.57	0.16
7	Furniture and Fixtures	0.04	0.04	0.08	0.04
8	Office equipment	0.32	0.32	0.4	0.08
	Total	101.47	101.47	116.26	14.79

9.2 A comparison of the actual R&M expenses for the year 2006-07 and 2007-08 is given below.

Table-25. Comparison of the R&M expenses for the year 2006-07 and 2007-08(Rs in crores)

Sl.No	Particulars	2006-07	2007-08	% increase
1	Plant & Machinery	26.55	29.20	9.98
2	Buildings	3.15	3.16	0.32
3	Other Civil works	4.55	3.93	-13.63
4	Hydraulic works	1.06	1.24	16.98
5	Lines, Cable networks	70.60	73.68	4.36
6	Vehicles	4.69	4.57	-2.56
7	Furniture and Fixtures	0.06	0.08	33.33
8	Office equipment	0.33	0.40	21.21
	Total	110.99	116.26	4.75

9.3 It may please be noted that, the R&M expenses for the year 2007-08 was increased by 4.75% only over the same for the year 2006-07 while the GFA had increased from Rs 7711.62 crore in 2006-07 to Rs 8216.85 crore, in 2007-08 (an increase of 6.55%). Further, CERC and Other State Commissions are allowing escalation on R&M cost duly considering inflation. The average inflation during 2007-08 was 5.72% when increase on R&M cost for the year 2007-08 was 4.75% only over the year 2006-07.

9.4 The R&M expenses as a percentage of opening balance of the respective asset classes is given below.

Table-26. R&M expenses as a percentage of opening balance of GFA

Particulars	2006-2007			2007-2008		
	Gross Block (Rs.Cr)	R&M Expense (Rs.Cr)	%	Gross Block (Rs.Cr)	R&M Expense (Rs.Cr)	%
Land & Rights	249.10	0.00	0.00	253.76	0.00	0.00
Buildings	439.98	3.15	0.72	466.61	3.16	0.68
Hydraulic Works	837.30	1.06	0.13	856.46	1.24	0.14
Other Civil Works	227.66	4.55	2.00	252.23	3.93	1.56
Plant and Machinery	2984.47	26.55	0.89	3138.48	29.20	0.93
Lines, Cable Network, etc.	2931.72	70.60	2.41	3193.90	73.68	2.31
Vehicles	11.82	4.69	39.68	11.90	4.57	38.40
Furniture and Fixtures	12.17	0.06	0.49	12.68	0.08	0.63
Office Equipments	17.40	0.33	1.90	30.83	0.40	1.30
Total	7711.62	110.99	1.44	8216.85	116.26	1.41

The R&M expenses as a percentage of GFA had reduced from 1.44% in 2006-07 to 1.41% for the year 2007-08.

- 9.5 The function wise breakup of R&M expense as per the Statement-6 of the audited accounts is given below.

Table-27. Function wise breakup of R&M expense for the year 2007-08

Particulars	GFA at the beginning of the Year	R&M Expenses	Percentage of GFA
	(Rs. In. Cr)	(Rs. In. Cr)	(Rs. In. Cr)
Generation	2995.64	7.02	0.23
Transmission	2580.86	29.75	1.15
Distribution	2640.35	79.49	3.01
Total	8216.85	116.26	1.41

- 9.6 The R&M expense claimed for the Generation wing is 0.23% of the GFA. Hon'ble Commission may further kindly noted that, out of the total R&M cost of Rs 116.26 crore, 88.5% was spent for maintaining plant and machinery and lines, cable network etc. Considering the importance of maintaining quality of supply with minimum interruptions, KSEB had to give adequate attention for maintaining Transmission and Distribution systems. Due to the proper maintenance, the quality of supply and reliability of supply has also improved. The reliability index of 11kV feeders Trivandrum and Kochi during 2007-08 was 99.45% and 99.92 % respectively.
- 9.7 Considering the importance of proper maintenance of the assets of KSEB, it is requested that, the R&M cost as per the C&AG audited accounts may kindly be approved.

10. Administration and General Expenses

- 10.1 The Administration & General (A&G) expenses consist of rents, taxes, insurance, legal charges, audit fees, Electricity Duty under Section 3 (i) of the Kerala Electricity Duty Act 1963 (KED Act, 1963) and other charges such as travel expenses, freight, purchase related expenses, etc. The following table summarizes the A&G expenses as per the KSERC approval and actual.

Table -28. Administration and General Expenses for the year 2007-08

Sl.No.	Particulars	2006-07	2007-2008				% of increase over 2006-07
		Actual	KSEB ARR	KSERC Approval	Actual	Difference	
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(%)
1	Rent, Rates and Taxes	3.65	3.82	3.82	3.45	-0.37	-5.48
2	Insurance	0.86	1.05	1.05	0.6	-0.45	-30.23
3	Telephone/telex charges, etc.	3.41	3.88	3.88	3.6	-0.28	5.57
4	Internet and related charges	0.01	0.08	0.08	0.01	-0.07	0.00
5	Legal charges	17.94	9.08	9.08	2.42	-6.66	-86.51
6	Audit fees	1.85	1.72	1.72	2.27	0.55	22.70
7	Consultancy charges	0.09	0.22	0.22	0.05	-0.17	-44.44
8	Technical Fees	0.12			0.19	0.19	58.33
9	Other Professional charges/Training	0.21	0.26	0.26	0.21	-0.05	0.00
10	Conveyance and vehicle hire charges	11.57	10.52	10.52	11.21	0.69	-3.11
11	Sub Total (Total of 1 to 9)	39.71	30.63	30.63	24.01	-6.62	-39.54
12	OTHER EXPENSES					0	
	a) Fess and subscriptions	0.24	0.24	0.24	0.48	0.24	100.00
	b) Printing & Stationary	3.6	3.85	3.85	3.91	0.06	8.61
	c) Advertisements	0.66	0.65	0.65	1.22	0.57	84.85
	e) Contributions/Donations	1	1.75	1.75	0.78	-0.97	-22.00
	f) Electricity Charges	3.27	2.94	2.94	3.38	0.44	3.36
	g) Water charges	0.1	0.13	0.13	0.11	-0.02	10.00
	h) Entertainment	0.47	0.7	0.7	0.59	-0.11	25.53
	i) Miscellaneous expenses	4.79	9.19	9.19	5.78	-3.41	20.67
13	Total of OTHER EXPENSES	14.13	19.45	19.45	16.25	-3.2	15.00
14	Freight	6.61	2.2	2.2	5.3	3.1	-19.82
15	Other purchase related expenses	2.87	2.19	2.19	2.25	0.06	-21.60
	Total (11+13+14+15)	63.32	54.47	54.47	47.81	-6.66	-24.49
16	Electricity Duty u/s 3(1), KED Act	71.78	71.16	0	77.54	77.54	8.02
	GRAND TOTAL	135.1	125.63	54.47	125.35	70.88	-7.22

10.2 In the ARR, Board has projected the total A&G expenses as Rs. 125.63 crore, which includes Rs 71.16 crore as Section 3(1) duty. However, Hon'ble Commission has not approved the provision of Rs 71.16 crore as section 3(1) duty and approved the A&G expenses as Rs. 54.47 crore for the year 2007-08. The actual A&G expenses for the year 2007-08 was Rs 125.35 crore, which includes Rs 77.54 crore as section 3(1) duty payable to the Government. The actual A&G expense excluding section-3(1) duty was Rs 47.81 crore for the year 2007-08.

10.3 Section 3(1) duty is a statutory levy and necessary a cash outflow under sub-section 1 of Section 3 of Kerala Duty Act, 1963(Section 3(1) duty). The section 3(1) duty accounts for 61.86% of the total A&G expenses for the financial year 2007-'08. The actual duty in 2007-2008 is Rs. 77.54crores as against Rs.71.16crores projected in ARR&ERC by the KSEB.

- 10.4 During the year 2007-08, KSEB was able to contain various items covered under the A&G expenses over the year 2006-07. This has achieved despite the fact that, during the year 2007-08, KSEB has given 3.22 lakhs of new service connections, the volume of energy sale has increased from 12377.89 MU to 13396.61 MU (an increase of 1018.72MU - 8.23% increase over 2006-07). There was only a marginal increase on audit fees, conveyance and vehicle expenses, fees and subscriptions, advertisement, freight charges etc over the approved level.
- 10.5 The breakup of conveyance and vehicle hire charges for the year 2007-08 is given below.

Table -29. Breakup of conveyance and Vehicle hire charges for the year 2007-08

Particulars	Amount (Rs. Cr)
Conveyance	1.82
Traveling expenses to staff	3.15
Traveling expenses to Board Members	0.06
Vehicle running expenses (except trucks etc.)	5.65
Vehicle licenses, registration insurance and taxes	0.53
Total	11.21

Increase in fuel price and other cost escalation on hire charges for the hired vehicles used instead of own vehicles in various field offices are the major reason for increase in conveyance expenses. KSE Board has drastically reduced the purchase of new vehicles. Hired vehicles are used instead of own vehicles used in previous years resulting into increase in conveyance expenses. Considering the essentiality, the amount as per the audited accounts may kindly be approved towards conveyance expenses.

- 10.6 Considering the efforts made by the Board in reducing the A&G expenses, Hon'ble Commission may allow the actual A&G expenses including Section 3(1) duty as per the audited accounts.

11 Other Expenses

- 11.1 Other expenses include **other debits and prior period charges.**

11.2 Other Debits:

- 11.2.1 The items included in the other debits are given in the Schedule -15 of Annual Accounts. The comparison of other debits estimated in the ARR, approved by the Commission and actual expenses audited and approved by C&AG are given below.

Table 30. Other Debits

Sl No.	Particulars	KSEB ARR (Rs.Cr)	KSERC Approval (Rs.Cr)	Actuals (Rs. Cr)
1	Research and Development Expenses	0.59	50.00	0.32
2	Sale of Stores Account	0.00		0.00
3	Provision for Bad and Doubtful debts	115.78		529.80
4	Miscellaneous Losses and write-offs	23.63		402.15
	Total	140.00	50.00	932.27

11.2.2 As per the recommendation of the Committee constituted for netting off the dues of Rs 2002.30 crore due to KSEB from State Government held on 25-11-2006 between Principal Secretary (Finance), Principal Secretary (Power) and Chairman KSEB, Board had to make a provision of Rs 400.00 Crore under miscellaneous losses and write-offs for the year 2007-08. Since the recommendation of the Committee was on 25-11-2006, the Board was not aware of this provision at the time of preparing the ARR for the year 2007-08; the provision was not made in the ARR. The item wise details of miscellaneous losses and write offs are given below.

Table-31. Details of miscellaneous losses and write-offs

Sl No.	Particulars	Amount (Rs. Cr)
(1)	Write-off of net subsidy receivable from Government of Kerala	400.00
(2)	Compensation for injuries death and damage to staff	0.68
(3)	-do- to outsiders	1.23
(4)	Loss on stores	0.24
	Total	402.15

11.2.3 Government vide the Order G.O (Ms) No. 45/08/WRD dated 26-09-2008 has ordered to freeze Rs 524.00 crore due from Kerala Water Authority (KWA) out of Rs 774.00 crore of outstanding arrears from KWA. Government also ordered to KWA to remit Rs 250.00 crore to KSEB in lump sum as 'one-time settlement' of arrears. Accordingly, as per the Government Order, Board had written off Rs 524.00 crore as Bad and Doubtful debts for the year 2007-08, out of the total provision of Rs 529.80 crore provided in the accounts. The item-wise details of the Bad and Doubtful Debts written off during the year 2007-08 are given below.

Table-32. Details of Bad and Doubtful debts written off

Sl No.	Particulars	Amount (Rs. Cr)
(1)	Dues from Kerala Water Authority	524.00
(2)	Withdrawal of prior period credits	5.26
(3)	Provision for other bad and doubtful debts	0.54
	Total	529.80

11.2.4 While approving the ARR&ERC for the year 2009-10, Hon'ble Commission has critically remarked on the decision of the Board to write-off the arrears of KWA. Considering the remarks of Hon'ble Commission, the amount of Rs 524.00 crore receivable from the KWA written off during the financial year is 'written back' and included as prior period income for the year 2008-09.

11.2.5 Hence, while approving the 'Truing Up of Accounts for the years 2007-08 Hon'ble Commission may exclude an amount of Rs 524.00 crore from the Bad and doubtful debts, so that the expenses of the Board for the year 2007-08 shall get reduced to that extent. At the same time, an amount of Rs 524.00 crore may be kindly excluded from prior period income for the year 2008-09, so that the revenue gap of the year 2008-09 shall get increased by Rs 524.00 crore, i.e, revenue gap for the year 2008-09 shall be increased to Rs 1273.17 crore from Rs 749.17 crore.

11.3 Prior period charges

11.3.1 Prior period charges include both income as well as expenses relating to the prior periods. The details of prior period charges are given as Schedule 18 to Annual Statement of Accounts. The Board may receive income from consumers including interest and other income relating to prior periods etc. Similarly expenses relating to prior period also may be liable to pay which includes expenses towards power purchase, fuel related expenses, operating expenses, employee cost, interest and finance charges etc. The details of the prior period charges for the year 2007-08 are given below.

Table-33. Prior period charges for the year 2007-08

Sl No	Particulars	KSEB ARR (Rs. Cr)	KSERC Approval (Rs. Cr)	Actuals (Rs. Cr)
I. Income relating to previous year				
1	Receipt from consumers	140.54		31.89
2	Excess provision for Depreciation in prior period	1.85		
3	Excess interest and finance charges	18.50		9.72
4	Other excess provision made in previous year	0.89		0.03
5	Other income relating to prior period	56.52		44.24
	Total	218.30		85.88
II. Expenditure relating to previous years				
1	Short provision of purchase	83.26		22.27
2	Fuel related expenses relating to prior period	0.93		
3	Operating expenses relating to prior period	16.65		0.22
4	Employee cost relating to prior period	83.58		0.00
5	Depreciation under provided in prior period	18.50		
6	Interest & finance charges	44.09		0.51
7	Other charges relating to previous years	58.29		2.12
	Total	305.30	50.00	25.12
Net prior period credit/charges (I-II)		87.00	50.00	-60.76

11.3.2 Hon'ble Commission may kindly note that, for the year 2006-07, KSEB has wrongly classified Rs 13.83 crore as legal expenses under A&G expenses for the year 2006-07. This misclassification has been subsequently rectified and the amount has accounted as prior-period income for the year 2007-08. KSEB had brought these matters before the Hon'ble Commission under para-10.5 of the Truing Up petition for the year 2006-07 and requested to approve the A&G expenses excluding the misclassification of Rs 13.83 crore as legal expenses under A&G expenses. So the amount Rs 13.83 crore shall not be available as prior period income for the year 2007-08. Hence, while approving Truing Up petition for the year 2007-08, the prior-period income available for the year 2007-08 shall be get reduced by Rs 13.83 crore, i.e get reduced from Rs 72.04 crore from Rs 85.87 crore. Accordingly, the net prior period credit shall also get reduced from Rs 60.76 crore to Rs 46.93 crore.

Table-34. Other Income relating to prior periods

Sl No.	Particulars	Amount (Rs. in. Cr)
1	Deposits wrongly classified as legal charges in 2006-'07	13.83
2	Deposits wrongly classified as legal charges in 2005-'06	4.60
3	Prior Period income booked by other ARU's	0.55
4	Revision of Talcher	6.03
5	L.C. Charges on L.C. 10/2003&11/2003 transferred to Civil Circle, Kothamangalam.	0.11
6	Net Credit from PGCIL due to bill revision	0.60
7	Agency charges from REC	0.10
8	Lease charges receivable	0.12
9	Rebate on interest for prompt payment and refund of excess interest paid.	1.30
10	Rectification of rebate on prompt payment accounted twice.	1.86
11	Wheeling charges from PGCIL	0.37
12	Comfort Charges refunded RSTPS I, II, &III	0.40
13	Comfort Charges refunded Talcher II	0.21
14	FPA revision for 2006-'07	1.13
15	Refund of FERV for the period 2001 to 2009-'04 (RSTPS)	0.75
16	Credit received for the period 2004-'05,2005-'06 on account of Tariff revision as per tariff order	12.28
	Total	44.24

12. Capitalization of Expenses and Methodology

12.1 In the ARR&ERC for the year 2007-08, Board has estimated Rs.48.25crore as capitalization of Interest & Finance charges and Rs.37.63 crore as other Expenses and Hon'ble Commission had approved the same while approving ARR.

12.2 As per the Electricity (Supply) (Annual Accounts) Rules 1985, every year a portion of the interest payable on the borrowings which relate to financing of capital assets at construction stage till the point of commissioning of assets should be capitalized. Accordingly, as detailed in the Annexure to schedule 13 of the Annual Statement of Accounts for 2007-2008, interest and finance charges to the tune of Rs29.33 crore has been capitalized. Similarly the Rules stipulate that all employee costs in respect of construction units should be fully charged as cost of capital asset. However, there are certain categories of staff attending to both Construction and O & M activities. Therefore, only a part of the cost of the common staff is chargeable to capital expenditure. Accordingly a portion of the expenses of head office, which is a supervisory office, has been allocated to capital. The basis of capitalization is detailed in statement 4 of the Board's Accounts, which have been admitted by the Statutory Auditors. Thus as per the Accounts Audited and Certified by C&AG of India, other expenses capitalized is Rs 48.08 crore.

13. Statutory Surplus

13.1 All the power utilities including SEB's and other State and Central Government owned power utilities in the Country are eligible to earn a reasonable return either on the total capital employed or on the equity as per the norms prescribed by the appropriate Commissions. Before the enactment of the Electricity Act-2003, as per the section-59 of the Electricity (Supply) Act-1948, SEB's are allowed to earn a minimum return of 3% on the net capital employed or a higher percentage as specified by the State Government. Accordingly, till the year 2004-05, KSEB had been claiming Statutory Surplus at 3% on the net fixed assets (net capital employed).

13.2 But after the enactment of the Electricity Act-2003, the State Government is not providing any budgetary support to KSEB. But KSEB as the utility engaged in Generation, Transmission and Distribution business has to find adequate internal resources for its investments. Accordingly, KSEB has been claiming 14% return on its Government Equity of Rs 1553.00 crore. Hon'ble Commission is also admitting the same since the year 2005-06. It may be noted that, some of the State Commissions are allowing return on the total capital employed instead of Return on equity. However, the ultimate objective of the provisions is to offer a reasonable return to the power utilities for its investments.

13.3 Central Government also vide the letter dated 8-10-2009 of the Secretary Power, Ministry of Power, Government of India dated 8-10-2009 addressed this issue and expressed serious concern on not claiming permissible return by many State Power utilities. The relevant portion of the Central Government letter is quoted below. "*para-3. Our information is that some State*

power utilities are not seeking permissible return on equity in their annual revenue requirements submitted to the SERCs. These State Utilities are either claiming less than the permissible RoE or are conveying SERCs that the State Governments has directed them to operate on a non profit no loss basis. Foregoing the permissible RoE is a matter of serious concern and is adversely affecting the expansion in the power sector". Further, Central Government had directed the State Government to advice the SERCs to allow RoE and other regulatory initiatives in line with CERC Tariff Regulations, 2009.

- 13.4 In the ARR for the year 2007-2008, the Board has claimed return on the equity of Rs 1553.00 core as Rs 217.42 crore. While approving the ARR, Hon'ble Commission had also approved the same. It may please be noted that, KSEB has to find adequate resources for the various investments proposed. KSEB is eligible to claim RoE on the 30% of the capital investment made in each year and also on the free reserve. However, Board has not claimed RoE for the investment made of internal resources or 30% on the capital investment on normative basis as allowed by Hon'ble Central Commission. Hence, Hon'ble Commission may kindly allow the RoE of Rs 217.42 crore as approved in the orders on ARR.

Table-35. Return on Equity

Particulars	KSEB ARR	KSERC Approval	Actuals
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Equity	1553.00	1553.00	1553.00
Rate of Return (F)	0.14	0.14	0.14
Required Return (G)=(FxE)	217.42	217.42	217.42

14. Non Tariff Income

- 14.1 In the ARR for the year 2007-2008, Board had estimated the non-tariff income as Rs.361.84crores and the Hon'ble Commission had approved the same. But as per the audited accounts, the Non-tariff income for the year 2007-2008 was Rs.438.89Crores. The details are given below.

Table-36. Non-Tariff Income (Rs in crores)

Particulars	2006-07	2007-2008		
	Actuals	KSEB ARR	KSERC Approval	Actuals
Meter Rent/Service Line Rental	132.59	138.6	138.6	137.19
Wheeling Charges Recoveries	19.24	30	30	
Miscellaneous Charges- (UCM, Service connection fee, Fee for maintenance of Public lighting, Testing fee, Reconnection fee, Penalty charges, Minimum Guarantee charges, Charges for Service connection minimum, Meter Box charges, Power allocation charges, reactive energy charges etc.	124.6	78.26	78.26	99.91
Interest on Staff Loans and Advances	1.07	1.46	1.46	0.87
Income from Investments	0.66	1.35	1.35	1.11
Interest on Advances to suppliers/ Contractors	1.07	1.17	1.17	4.24
Interest from Banks	23.53	10.69	10.69	106.00
Rebate Received	66.57	56.22	56.22	57.06
Income from Trading	10.34	12	12	10.32
Miscellaneous Receipts/Others	26.8	32.09	32.09	22.21
TOTAL	406.47	361.84	361.84	438.89

14.2 Non- Tariff Income includes Meter Rent/Service Line Rental, Miscellaneous Charges from Consumers, recoveries through theft etc. It may noted that, for the year 2007-08 the comfort charges received from traders for sale of power from thermal stations are accounted under revenue from tariff, hence the same was not included under Non-tariff income, but in the previous years the same was included under Non-tariff Income as wheeling charges recoveries.

14.3 Hon'ble Commission may please note that, through various efforts taken by the Board including intensive anti power theft detections, penal interest for miscellaneous charges, rebate for prompt payment of electricity dues to CPSUs, income from trading etc, Board was able to increase the Non- tariff income by Rs 77.05 crore over the approval.

15. Revenue from Tariff

15.1 Revenue from Sale of Power within the State

In the ARR, KSEB had estimated the Sale of Power (SOP) within the State as 12294.00 MU and revenue from SOP as Rs.3753.07Crores. While approving the ARR, Hon'ble Commission had approved the Sale of Power within the State as 12320 MU and revenue from SOP as Rs.3898.07Crores. But as detailed under para-3 of this petition, the actual sale within the State during 2007-2008 was 12049.85 MU and the revenue billed from sale was Rs.3764.84Crores. The detailed are as given below. Hon'ble Commission may kindly approve the same.

Table-37. Revenue from Sale of Power within the State

Category	KSEB ARR		KSERC Approval		Actual	
	Sale of energy (MU)	Revenue from Tariff (Rs Cr)	Sale of energy (MU)	Revenue from Tariff (Rs Cr)	Sale of energy (MU)	Revenue from Tariff (Rs Cr)
Domestic	5692.00	975.54	5692.00	1089.27	5595.12	962.92
Commercial	1390.00	927.52	1402.00	954.47	1378.33	921.00
LT Industrial	1030.00	408.19	1040.00	411.52	984.18	408.19
LT Agriculture	237.00	21.17	237.00	21.17	230.55	24.31
Public Lighting	252.00	46.18	252.00	46.18	248.56	47.26
HT Total	2176.10	860.83	2176.10	860.83	2115.00	882.83
EHT	1084.00	386.22	1084.00	386.22	1024.00	376.86
Railway Traction	74.00	24.93	78.00	25.93	109.26	39.23
Bulk Supply	351.00	102.48	351.00	102.48	356.62	102.23
NPG	8.00	0.00	8.00	0.00	7.73	
Total energy sales with in the State	12294.00	3753.07	12320.00	3898.07	12049.85	3764.84

15.2 Revenue from Sale of Power outside the State

15.2.1 In the order on ARR&ERC for the year 2007-08, Hon'ble Commission had approved 442MU as surplus sale through the traders M/s NVVN and PTC and approved Rs 144.04 crore as revenue through sale of surplus power.

(i) Surplus sale from Hydel sources

15.2.2 As detailed under para-5.1 of this petition, KSEB had received good rainfall during the year 2007-08. KSEB had taken all efforts to maximize the generation especially during monsoon months to avoid spillage of water and tried to sell the surplus power through traders at better competitive rates. KSEB had sold 622.88MU from hydel sources during the period from April-07 to Dec-07 and earned additional revenue of Rs 323.89 crore at an average rate of Rs 5.20 per unit. The month wise details of energy sold from hydel source through traders M/s NVVN and PTC are given below.

Table-38 Monthwise details of surplus sale from hydel sources during the year 2007-08

Month	Sale through NVVN			Sale through PTC			Total		
	Unit sold (MU)	Unit Rate (Rs/kWh)	Amount (Rs.Cr)	Unit sold (MU)	Unit Rate (Rs/kWh)	Amount (Rs.Cr)	Unit sold (MU)	Unit Rate (Rs/kWh)	Amount (Rs.Cr)
Apr-07	36.24	6.93	25.13				36.24	6.93	25.13
May-07	26.96	6.93	18.69				26.96	6.93	18.69
Jun-07	20.94	6.93	14.52				20.94	6.93	14.52
Jul-07							0.00		0.00
Aug-07				152.66	2.90	44.27	152.66	2.90	44.27
Sep-07	9.20	4.02	3.70	52.59	3.70	19.46	61.79	3.75	23.16
Oct-07	152.54	5.77	88.09	18.23	5.77	10.52	170.77	5.77	98.61
Nov-07	69.84	6.31	44.07	21.27	6.25	13.29	91.10	6.30	57.36
Dec-07				62.43	6.75	42.16	62.43	6.75	42.16
Total	315.72	6.15	194.19	307.16	4.22	129.70	622.88	5.20	323.89

(ii) Off-peak sale from KSEB thermal plants

15.2.3 As discussed under para 5.1(b) of the petition, due to the high variable cost, KSEB has been limiting the schedule from BDPP and KDPP only for meeting peak hour requirements and system contingencies. KSEB had tried to sell the un-utilized energy during off-peak hours through traders at actual variable cost plus comfort charge. During the period from Jan-08 to Mar-08, KSEB had sold 74.42 MU from BDPP and KDPP at a comfort charge of Rs 1.08/unit and earned additional revenue of Rs 8.04 crore. The details are given below.

Table-39. Details of off-peak sale from BDPP and KDPP

Month	Unit sold (MU)	Energy charges		Comfort charges		Total (Rs.Cr)	Remark
		(Rs/kWh)	(Rs.Cr)	(Rs/kWh)	(Rs.Cr)		
Jan-08	24.27	6.43	15.60	1.08	2.62	18.22	Through NVVN
Feb-08	22.65	6.14	13.90	1.08	2.45	16.34	Through NVVN
Mar-08	27.51	6.78	18.64	1.08	2.97	21.61	Through NVVN
Total	74.42		48.13		8.04	56.17	

(iii) Sale of un-utilised energy from RGCCPP- Kayamkalam

15.2.4 As discussed under para 5.2.5 to 5.2.7 above, KSEB had to schedule power from RGCCPP to continue the additional allocation of cheaper power for Talcher-II power station to pool with RGCCPP power. KSEB had taken all efforts to sell part of the energy scheduled from RGCCPP at actual variable cost plus comfort charge. KSEB has arranged to sell 151.04 MU during the period from April and May-2007 to TNEB and 309.39MU through traders at actual variable cost plus comfort charge. The details of energy from RGCCPP- station during the year 2007-08 is as given below.

Table-40. Details of surplus energy sale from RGCCPP- Kayamkalam

Month	Energy sale (MU)	Energy Charges		Comfort charges		Total (Rs.CR)	Remarks
		Rate (Rs/kWh)	Amount (Rs. Cr)	Rate (Rs/kWh)	Amount (Rs. Cr)		
(a) Energy scheduled directly through trader NVVN							
Apr-07	100.67			0.81	8.11	8.11	The variable cost is directly paid by TNEB to NTPC
May-07	50.36			0.81	4.06	4.06	
Sub total	151.03						
(b) Energy scheduled through KSEB							
Jun-07	29.81	6.67	19.89	1.12	3.34	23.23	PTC
Jul-07							
Aug-07							
Sep-07							
Oct-07							
Nov-07	19.56	7.34	14.36	0.42	0.82	15.18	NVVN
Dec-07	79.67	7.75	61.74	0.28	2.23	63.97	TNEB
Jan-08	48.92	7.95	38.90	0.46	2.25	41.15	TNEB
Feb-08	79.78	7.75	61.86	0.46	3.67	65.53	TNEB
Mar-08	51.64	8.39	43.34	0.46	2.38	45.72	TNEB
Total	309.39		240.09	0.87	26.85	266.94	

15.2.5 KSEB has earned an additional income of Rs 26.85 crore as comfort charge during the year 2007-08 by selling unutilized energy from RGCCPP- Kayamkualm.

(iv) Sale of energy from BSES station

15.2.6 Due to the high variable cost, KSEB was not scheduling energy from BSES except during contingencies. But, KSEB has taken all possible efforts to sell the unutilized energy at actual variable cost plus a comfort charge. The month wise details of energy sale from BSES station is detailed below.

Table-41 Sale of surplus power from BSES for the year 2007-08

Month	Energy sale	Energy Charges		Comfort charges		Total (Rs.CR)	Remark
	(MU)	Rate (Rs/kWh)	Amount (Rs.Cr)	Rate (Rs/kWh)	Amount (Rs.Cr)		
Apr-07	83.86	6.98	58.51	1.12	9.39	67.91	through PTC
May-07	13.01	7.27	9.46	1.12	1.46	10.91	PTC
Jun-07	48.23	7.29	35.14	1.12	5.40	40.54	PTC
Jul-07						0.00	
Aug-07						0.00	
Sep-07						0.00	
Oct-07	21.04	7.11	14.96	0.48	1.01	15.97	TNEB
Nov-07						0.00	
Dec-07						0.00	
Jan-08	52.63	7.79	40.98	0.46	2.42	43.40	through NVVN
Feb-08	67.56	7.59	51.28	0.46	3.11	54.39	through NVVN
Mar-08	53.50	8.28	44.31	0.46	2.46	46.77	through NVVN
Total	339.83	7.49	254.64	0.74	25.25	279.89	

(v) Summary of the additional income earned through sale of surplus power

15.2.7 KSEB had earned a net additional income of Rs 383.93 crore through sale of surplus hydel power and comfort charge for selling the unutilized power from KSEB diesel stations, RGCCPP-Kayamkulam and BSES- Kochi plant.

Table-42. Net additional income earned through sale of surplus power.

Sl No.	Particulars	Amount (Rs. Cr)
(1)	Sale of surplus energy from Hydel Sources	323.89
(2)	Comfort charges received	
	(I) By sale of power from KSEB diesel stations	8.04
	(ii) Sale of power from RGCCPP station	26.85
	(iii) Sale of power from BSES station	25.15
	Sub total	60.04
(3)	Total additional income earned through sale of surplus power for the year 2007-08	383.93

Hon'ble Commission may please note that the additional income earned is through dedicated and sincere efforts of the Board to sell the surplus hydel energy as well as unutilized energy from hydel and thermal stations at better competitive rates. Hence, KSEB request that, 50% of the net additional income earned through sale of surplus power, i.e., Rs 191.97 crore may be allowed to be retained with KSEB as efficiency gain.

16. Summary of the ARR, ERC and Revenue Gap

16.1 The item wise comparison of the ARR, ERC and Revenue gap approved by the Hon'ble Commission and the actuals are as given below.

Table- 43 Summary of the ARR & ERC for the year 2007-08

Particulars	KSERC approval	Actuals	Variation (-) decrease/ (+) increase
Generation Of Power	143.3	195.97	52.67
Purchase of power	1734.65	2101.07	366.42
Interest & Finance Charges	458.61	352.77	-105.84
Depreciation	260.18	419.09	158.91
Employee Cost	1090	904.88	-185.12
Repair & Maintenance	101.47	116.26	14.79
Administration & General Expenses	54.47	125.35	70.88
Other Expenses	100	871.72	771.72
Gross Expenditure (A)	3942.68	5087.11	1144.43
Less : Expenses Capitalised	37.63	48.08	10.45
Less : Interest Capitalised	48.25	29.33	-18.92
Net Expenditure (B)	3856.8	5009.7	1152.9
Statutory Surplus/ RoE (C)	217.42	217.42	0
ARR (D) = (B) + (C)	4074.22	5227.12	1152.9
Less Non-Tariff Income	361.84	438.89	77.05
Less : Revenue from Tariff			
(a) With in the State	3898.07	3764.84	-133.23
(b) Outside the State	144.04	932.11	788.07
Total Income	4403.95	5135.84	731.89
Revenue Gap	-329.73	91.28	421.01

17. Revenue gap and treatment of revenue gap

17.1 As explained in the preceding paragraphs, Hon'ble Commission vide the order dated 26th November 2007 had approved the ARR as Rs.4074.22Crores and ERC as Rs.4403.95Crores, and revenue surplus of Rs.329.73Crores for the year 2007-08. Further Hon'ble Commission has adjusted the approved surplus against the approved net revenue gap of Rs 360.06 crore on True Up of accounts for the year 2003-04 and 2004-05.

17.2 But as per the C&AG audited accounts, the revenue gap for the year 2007-08 was Rs 91.28 crore. KSEB was accounted the revenue gap as regulatory asset under Schedule- 29(b) of the C&AG audited accounts.

18. Comparison of item wise expenditure for 2007-08 with previous year

18.1 An year wise comparison of different expenditure from the year 2001-02 to 2007-'08 is given below.

Table- 44 Comparison of various expenses

Sl No.	Particulars	Expense as per unit cost of total energy sale (Rs/ kWh)						
		2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
1	Generation Of Power	0.10	0.19	0.16	0.09	0.05	0.09	0.15
2	Purchase of power	1.67	2.11	2.12	1.56	1.41	1.32	1.57
3	Interest & Finance Charges	0.75	0.76	0.82	0.65	0.52	0.35	0.26
4	Depreciation	0.25	0.31	0.37	0.40	0.36	0.33	0.31
5	Employee Cost	0.71	0.76	0.88	0.84	0.79	0.73	0.68
6	Repair & Maintenance	0.08	0.07	0.07	0.08	0.09	0.09	0.09
7	Administration & General Expenses	0.08	0.06	0.10	0.10	0.10	0.11	0.09
8	Other Expenses (Other debits + Prior period charges)	0.46	0.10	0.16	0.13	0.20	0.56	0.65
9	Gross Expenditure(1 to 8)	4.09	4.35	4.67	3.84	3.51	3.57	3.80
10	Less : Expenses Capitalised	0.14	0.13	0.12	0.05	0.04	0.03	0.04
11	Less : Interest Capitalised	0.15	0.11	0.09	0.07	0.04	0.03	0.02
12	Total Expenditure(9-10-11)	3.80	4.10	4.46	3.73	3.43	3.51	3.74
13	Statutory Surplus	0.07	0.09	0.10	0.11	0.09	0.18	0.16
14	ARR (12 + 13)	3.87	4.20	4.57	3.84	3.52	3.68	3.90
15	Non-Tariff Income	0.11	0.25	0.34	0.36	0.30	0.33	0.33
16	Revenue from sale of power (including surplus power)	2.25	2.80	3.09	3.11	3.09	3.24	3.51
17	Total Income (15+16)	2.36	3.05	3.43	3.47	3.39	3.57	3.83
18	Revenue Gap (14-17)	1.52	1.14	1.13	0.37	0.13	0.11	0.07

18.2 There was considerable reduction in major cost components such as interest and finance charges, employee cost, Administration & General Expenses during the year 2007-08 over previous years. As a result of the considerable reduction of cost and increase in revenue the Board was able to reduce the revenue gap from Rs 1.13 per unit in 2003-04 to to Rs 0.07 per unit during 2007-2008.

18.3 This remarkable achievement was possible through the following means:

- Increase in hydel generation from the target of 6899.33 MU to 8327.45 MU by optimally utilizing the available hydel sources with minimum spillage of water.
- Scheduling the generation and power purchase strictly on the basis of merit order.
- Limiting the Generation from Liquid fuel stations BDPP, KDPP, KPCL, RGCCPP- Kayamkulam and BSES to the possible extent.
- KSEB was able to sell 622.88 MU of surplus energy from Hydel sources during monsoon months at better competitive rates and earned an additional income of Rs 323.89 crore.
- By sale of un utilized energy from liquid fuel stations BDPP, KDPP, KPCL, RGCCPP- Kayamkulam and BSES, KSEB had earned an additional income of 60.04 crore as comfort charges.

- (vi) Reduction of T&D loss by 1.45% during the year and a total reduction of 10.74 % during the last six years since 2001-02.
- (vii) Substantial reduction in interest liability by Rs 105.84 crores by way of swapping of high cost loans, reduction in outstanding loans due to restricted borrowings, fresh borrowings from least cost sources have lead to overall reduction in interest rate.
- (viii) The employee cost was less by Rs 185.12crores over the approved level.
- (ix) Able to contain the R&M expenses by 4.75% over the previous year even though there is an addition of fixed asset by 6.55% and an inflation of 5.72% during the year 2007-08 over previous year.
- (x) The actual A& G expenses excluding Section 3(1) duty was less by Rs 6.66 crores over the approved level.
- (xi) Non-tariff income has increased by Rs 77.05 crore by the various efforts of the Board.

Prayer

- (1) Truing up of Expenses and Revenues for the year 2007-08 as detailed in the Annual Statement of Accounts for the year 2007-2008 (copy enclosed) and explained in this petition may kindly be approved, in view of the care and caution taken by the Board for carrying out the functions of the Board as a public utility in accordance with the policy of the State Government.
- (2) Hon'ble Commission may allow to retain the following savings/ additional income under various heads with KSEB as a promotional incentive for the sincere and dedicated efforts taken for the efficient operation and fund management by the Board.
 - (a) 50% of the savings in power purchase cost from thermal stations for the year 2007-08, i.e., Rs 350.54 crore for the reduction of T&D loss by 10.74% during the last five years.
 - (b) Reduction in interest and finance charges of Rs 105.84 crore over the approved level, for incentive for the dedicated efforts on reduction on interest liabilities.
 - (c) Allow to retain the approved A&G expenses for the year 2007-08.
 - (d) 50% of the net additional income of Rs 383.93 crore earned through sale of 'surplus power from hydel and unutilized energy from liquid fuel stations of the State' on account of the sincere efforts taken by the Board to sell the power at better competitive rates.
- (3) Honorable Commission may kindly treat the revenue gap of Rs 91.28 crore as Regulatory Asset for the year 2007-08.

Chief Engineer (Commercial & Tariff)