

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 (KSEB) for the year 2008-2009.

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 2008-2009 before the Hon'ble Commission on 21st December- 2007. As per the ARR& ERC, KSEB had estimated the Aggregate Revenue Requirement (ARR) as Rs 5734.03 crore and Expected Revenue from Charges (ERC) as Rs 4979.34 crore and the revenue gap was Rs 754.69 crore for the year 2008-09.
- 1.2 The Hon'ble State Commission vide the order dated 19th April 2008 had issued orders on approving the ARR&ERC. As per the order, Hon'ble Commissions had approved the ARR as Rs 4983.27 crore and ERC as Rs 4979.34 crore and revenue gap as Rs 3.93 crore against Rs 754.69 crore estimated by the Board.
- 1.3 The power situation in the State during the year 2008-09 subsequent to filing of ARR had become very critical due to the combined impact of the following causes:
 - (a) Failure of South-West and North-East monsoon and consequent reduction in inflow and hydro generation.
 - (b) Reduced availability of power from Central Generating Stations (CGS)
 - (c) Steep rise in prices of petroleum products during the 1st half of the year.
 - (d) Shutdown of Sabarigiri (Moozhiyar) and downstream projects as a result of the severe accident at Sabarigiri HEP on 16 - 5- 2008.
- 1.4 In order to tide over the critical power shortages in the State, KSEB had filed two petitions before the Hon'ble Commission on 17-07-2008, one for restricting the power supply to all HT&EHT consumers and licensees upto 75% of the average consumption and second one for imposing thermal surcharge to all categories of consumers. Hon'ble Commission vide the interim order dated 24th July 2008 has issued directions to restrict the

power supply to HT-EHT consumers in the State including that of licensees with effect from 25-07-2008 and charge the excess consumption above the restriction at the actual cost of additional power purchase on monthly basis as approved by the Commission.

- 1.5 KSERC vide the order dated 18-08-2008 has approved to recover a total amount of Rs 180.00 crore as fuel surcharge @ 50 paise per unit from all consumers except for domestic consumers with monthly consumption 80 units or less. The fuel surcharge approved was the additional liability incurred by KSEB for procuring the approved quantity of energy from liquid fuel stations and UI for the period from April-08 to July-2008 on account of the variation in fuel prices over the approved rate.
- 1.6 Hon'ble Commission vide the order dated 06-10-2008 had extended the power restriction to all LT consumers with effect from 15-10-2008 and also reduced the restrictions to HT&EHT consumers from 25% to 20%. The details of the power restriction w.e.f 15-10-2008 is as detailed below.
 - (a) Restrict the monthly consumption of domestic consumers to the level of 200 units per month.
 - (b) 20% Power restriction shall be imposed to all LT-II, LT- IV, LT- VI (except LT-VI (D), and LT VII categories. The quota shall be fixed as 80% of the average monthly consumption of the previous year 2007-08.
 - (c) 25% power restriction imposed on EHT&HT consumers vide the order dated 24-7-2008 was reduced to 20% with effect from 15-10-2008.
 - (d) Any consumption over and above the restriction shall be charged at the actual cost of additional power purchase on a monthly basis, as approved by the Commission.
- 1.7 KSEB had implemented all the directions of the Hon'ble Commission and thus able to tide over the critical financial situation to some extent. The details of the additional liability incurred on Generation and Power purchase for the year 2008-09 is detailed in the subsequent sections.
- 1.8 As per section 172 (a) of the Electricity Act 2003 and as mutually decided by the Government of India and Government of Kerala, KSEB had continued as a Transmission utility and Distribution licensee till 24-09-2008. In exercise of powers conferred under sub-sections (1), (2), (5), (6) and (7) of section 131 of the Electricity Act, 2003, State Government vide the notification G.O (Ms).37/2008/PD dated 25th September, 2008 has vested all functions, properties, interests, rights, obligations and liabilities of KSEB with the State Government till it is re-vested in a corporate entity. Accordingly, KSEB has been continuing all the functions as a Generator, State Transmission Utility and a Distribution Licensee in the State even now.

- 1.9 The accounts of the Board are being audited and certified by C&AG of India. The auditing of the accounts for the year 2008-09 by C&AG is yet to be completed and hence Board is filing the Truing Up petition for the year 2008-09 based on the provisional accounts. In the event of any material change consequent to audit by the C&AG, Hon'ble Commission may kindly grant permission to file the details separately.
- 1.10 The Board hereby submits the petition for Truing Up of expenses and revenue for the year 2008-2009, based on the provisional accounts. Copy of the provisional accounts is enclosed as Annexure.
- 1.11 The table given below compares the summary of the amounts in the provisional Annual statement of Accounts of the Board vis-à-vis the amount projected by the KSE Board in the ARR&ERC and the same approved by the Hon'ble State Commission.
- 1.12 A comparison of the summary of the ARR, ERC and revenue gap as per the actuals, estimates as per the ARR&ERC and that approved by the Hon'ble Commission is as given below.

Table-1 Comparison of various expenses for the year 2008-09

Sl.No.	Particulars	KSEB ARR	KSERC Approval	Actuals	Difference
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Generation Of Power	207.03	207.03	414.96	207.93
2	Purchase of power	2674.65	2603.92	3417.23	813.31
3	Interest & Finance Charges	357.31	365.60	339.60	-26.00
4	Depreciation	459.30	290.69	434.74	144.05
5	Employee Cost	1136.86	1136.86	1255.19	118.33
6	Repairs & Maintanance	131.05	131.05	138.80	7.75
7	Administration & General Expenses	140.06	63.61	135.46	71.85
8	Other Expenses	495.29	52.03	-160.95	-212.98
9	Gross Expenditure	5601.55	4850.79	5975.03	1124.24
10	Less : Expenses Capitalised	59.19	59.19	70.75	11.56
11	Less : Interest Capitalised	25.75	25.75	22.71	-3.04
12	Total Expenditure	5516.61	4765.85	5881.57	1115.72
13	return on Equity/Statutory Surplus	217.42	217.42	217.42	0.00
14	ARR (12 + 13)	5734.03	4983.27	6098.99	1115.72

Table-2. Comparison of Revenue for the year 2008-09

Sl.No.	Particulars	KSEB ARR	KSERC Approval	Actuals	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Revenue from energy sale within the State	4292.59	4292.59	4454.23	161.64
2	Revenue from non-tariff income	528.21	528.21	456.79	-71.42
3	Revenue from sale of power through traders	158.54	158.54	438.79	280.25
5	Total	4979.34	4979.34	5349.82	370.48

Table-3 Comparison of revenue gap

KSEB ARR	KSERC Approval	Actuals	Difference over approval
(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
754.69	3.93	749.17	745.24

2. Energy Consumption

- 2.1 In the ARR, KSE Board had estimated the total energy input into the KSEB system as 16265.90 MU, (excluding auxiliary consumption and external losses in PGCIL lines associated with evacuation of power from Central Generating Stations). The Commission had approved the same as 16156.00 MU. But the actual energy input into KSEB system during 2008-2009 was 15293.53 MU, i.e, the actual was less by 862.47MU over the approval. The details of the energy generation and power purchase approved by the KSERC and the actual are given below.

Table-4. Energy Generation and Power Purchase for the year 2008-09

Source	KSEB ARR	KSERC Approval	Actuals	Difference over approval
	(MU)	(MU)	(MU)	(MU)
Hydro (excluding aux.consnn.)	7378.50	7378.50	5802.42	-1576.08
Wind	3.00	3.00	1.67	-1.33
BDPP (excluding aux.consnn.)	129.00	129.00	208.49	79.49
KDPP (excluding aux.consnn.)	279.40	279.40	428.08	148.68
Sub total KSEB own Generation	7789.90	7789.90	6440.66	-1349.24
Power purchase (excluding the external losses in the PGCIL lines)	8770.63	8660.42	9316.41	655.99
Total Generation and Power Purchase	16560.53	16450.32	15757.07	-693.25
Less: Energy sale outside the State of displacement mode	294.63	294.63	463.33	168.70
Total Input into KSEB system	16265.90	16155.69	15293.74	-861.95

- 2.2 Hon'ble Commission may please note that due to the power restriction and other energy conservation measures, the total energy demand of the State had reduced by 862.38 MU from the approved level.

3. Sale of Energy

- 3.1 In the ARR, KSEB had estimated the annual energy sale as 13261 MU and Hon'ble State Commission had approved the same. The actual energy sale within the State during 2008-09 was 12414.32 MU, i.e, less by 846.68MU over the approval. The details are as given below.

Table-5. Details of the category wise energy sale for the year 2008-09

Category	KSEB ARR	KSERC Approval	Actuals	Difference over approval
	(MU)	(MU)	(MU)	(MU)
LT Domestic	6200.00	6200.00	5931.27	-268.73
Industrial	1065.00	1065.00	1015.40	-49.60
Commercial & Non Domestic	1610.00	1610.00	1501.60	-108.40
Irrigation	235.00	235.00	225.22	-9.78
Public Lighting	270.00	270.00	294.32	24.32
Sub total	9380.00	9380.00	8967.81	-412.19
HT I Industrial	1517.00	1517.00	1326.26	-190.74
HT II Non-Industrial/ Non-Commercial	155.00	155.00	107.51	-47.49
HT III Agriculture	10.00	10.00	8.76	-1.24
HT IV Commercial	559.60	560.00	578.77	18.77
Subtotal	2241.60	2242.00	2021.30	-220.70
EHT 66KV	340.00	340.00	279.08	-60.92
110 KV	790.00	790.00	686.59	-103.41
Railways	115.00	115.00	142.07	27.07
Subtotal	1245.00	1245.00	1107.74	-137.26
Bulk Supply	394.00	394.00	317.47	-76.53
Total	13260.60	13261.00	12414.32	-846.68

- 3.2 The energy consumption of all categories of consumers except HT-IV commercial, public lighting and railways are much less than the approved level due to the power restriction. Though Hon'ble Commission has ordered to introduce restrictions between 20 to 25%, the total reduction in consumption was about 6.4% only from the approved level.

4. T & D Losses

- 4.1 In the ARR&ERC, KSEB had targeted to reduce the T&D loss for the year 2008-09 from 20.11% to 18.48%, i.e. a loss reduction target of 1.63% during the year 2008-09. However, while approving the ARR, Hon'ble Commission had directed to reduce the loss to 17.92%, a target of 2.19% (0.56% higher than the target proposed by the Board) during the year

2008-09. In this matter, KSEB had filed a review petition before the Hon'ble Commission vide its petition dated 4-06-2008 on the following grounds.

- (i) While approving the T&D loss for the year 2008-09, Hon'ble Commission had adopted the base for the loss reduction as the target approved for the year 2007-08 instead of actuals while approving the ARR&ERC for the year 2007-08 on 26-11-2007.
- (ii) While fixing the base target, Hon'ble Commission had not considered the actual loss reduction during the year 2007-08.
- (iii) Thus by fixing the loss level from an ambitious target for the previous year, Hon'ble Commission had imposing penalty for not achieving the targets for two consecutive years.
- (iv) While fixing the loss reduction targets, Hon'ble Commission had not appraised the genuine reasons for the short fall.
- (v) As per the National Tariff policy, State Commission should have to fix loss reduction trajectories, in consultation with the licensee. But Hon'ble Commission is yet to fix loss reduction trajectories. Hence the Hon'ble Commission has gravely erred in judging the reasonable reduction in T&D loss possible taking in to account all these aspects.
- (vi) KSEB is one among very few utilities in the country which has been continuously reducing the T&D losses and maintaining at a level below 20% despite all difficulties.

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

Table-6. Details of T&D loss reduction for the year 2008-09

Sl No.	Particulars	Unit	Proposed in the KSEB ARR	KSERC Approval	Actuals
(1)	Net Generation and Power Purchase at KSEB periphery (excl. PGCIL)	(MU)	16560.54	16450.34	15756.85
(2)	Surplus energy sale approved through displacement mode	(MU)	294.63	294.63	463.33
(3)	Net Energy input into the KSEB system = (1) -(2)	(MU)	16265.91	16155.71	15293.52
(4)	Energy sales within the State	(MU)	13260.60	13260.60	12414.32
(5)	T&D Losses (3)- (4)	(MU)	3005.31	2895.11	2879.20
(6)	T&D Loss as percentage of total energy input	(%)	18.48	17.92	18.83

4.3 The year wise details of T&D loss reduction since 2001-02 are as given below.

Table-7. Achievement of T&D loss reduction from 2001-02 to 2008-09

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
2008-09	18.83	1.19	11.93

4.4 Hon'ble Commission may kindly note that, despite the power restriction to reduce the consumption especially during off-peak hours, KSEB was able to reduce the loss by 1.19% over previous year. Further, the T&D loss of 18.83% is the total losses in the KSEB system including the losses in the Transmission system. Since the feeder metering at different voltage levels are yet to be completed, the losses at different voltage was not possible to be segregated. The approximate loss in the transmission system of and above 33kV is about 5% only. Thus the losses in the Distribution system (excluding transmission loss) was 13.83% for the year 2008-09, which was far better than the target of 16% fixed by the CEA for distribution utilities.

4.5 Consistent T&D loss reduction was one of the major achievements of the Board. Over the last seven years, since 2001-02, Board could achieve a cumulative loss reduction of 11.93% from the level of 30.76% in 2001-02 to 18.83% in 2008-09. By reducing the T&D loss by 11.93% over the last seven years, KSEB was able to achieve a savings in Generation and Power purchase by 2635.18MU during the year 2008-09. At an average purchase rate of Rs 3.00 per unit, this has resulted in reducing the Generation and Power purchase cost by Rs 790.55 crore. The details are 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
2008-09	18.83	1.19	11.93	12414.32	2635.18	790.55

4.6 But, the Hon'ble Commission and the Stake holders are hesitant to appreciate the remarkable achievement of KSEB in consistently reducing

losses, which could not be achieved so far by any of the similar utilities. KSEB has been taking continued efforts to reduce the losses further. The investment and efforts required for reducing the loss further will be much higher than the same earlier. Hence, the present endeavor of the Board is to maintain the loss level already achieved. This fact may be appreciated by all the stake holders.

- 4.7 Considering the reduction of loss by 11.93% with in a shorter span of 7 years, and also considering the power restrictions and other system constraints, Hon'ble Commission may kindly refrain from imposing any penalty for not achieving the loss reduction targets as fixed in the order on ARR. Further, considering the consistent loss reduction achieved by KSEB, Hon'ble Commission may allow KSE Board to retain 50% of the savings in cost of Generation and Power purchase from thermal sources with KSEB as a motivation as well as to facilitate further incentivised measures for more loss reduction.

5. Cost for internal Generation

(a). Hydel Generation.

- 5.1 Expecting a normal monsoon, KSEB had targeted for a hydel generation of 7378.50 MU (excluding auxiliary consumption) for the year 2008-09 and Hon'ble Commission had also approved the same. But the monsoon received during the water year 2008-09 was less by 1441.88MU over expectation. The month wise details of the inflow expected and the actual inflow received was given below.

Table-9 Comparison of inflow expected and actuals

Month	Inflow Expected (MU)	Inflow received (MU)	Excess/ Reduction (MU)
Jun-08	811.6	433.6	-378.0
Jul-08	1474.6	1144.9	-329.7
Aug-08	1408.9	1358.9	-50.0
Sep-08	811.8	963.0	151.2
Oct-08	869.0	629.4	-239.6
Nov-08	543.4	297.4	-246.0
Dec-08	253.7	169.3	-84.4
Jan-09	140.5	69.9	-70.7
Feb-09	94.1	44.4	-49.7
Mar-09	84.3	78.4	-5.9
Apr-09	103.2	65.7	-37.5
May-09	217.4	115.8	-101.6
Total	6812.4	5370.5	-1441.9

- 5.2 Due to the failure of monsoon, the hydel generation was much less than targeted for the year 2008-09. The month wise details of hydel generation targeted and the actuals are as given below.

Table-10. Month wise details of Hydel Generation (targeted and actuls)

Month	Hydel Generation (MU)		Difference (MU)
	Approved	Actuals	
Apr-08	715.26	731.25	15.99
May-08	739.10	646.55	-92.55
Jun-08	584.61	425.24	-159.37
Jul-08	604.10	457.76	-146.34
Aug-08	604.10	519.18	-84.92
Sep-08	584.61	526.21	-58.41
Oct-08	604.10	506.58	-97.53
Nov-08	584.61	416.13	-168.49
Dec-08	604.10	375.64	-228.46
Jan-09	604.10	337.44	-266.66
Feb-09	545.64	399.70	-145.94
Mar-09	604.10	460.74	-143.36
Total	7378.45	5802.42	-1576.03

5.3 The actual hydel generation was less by 1576.03MU over the approval. Shortfall in hydel generation was compensated partially through limiting the energy demand by power restrictions and remaining part by procuring power through traders and short-term markets, though at higher costs.

(b) KSEB Thermal Plants

5.4 For the year 2008-09, KSEB had proposed a net generation of 129.05MU from BDPP at an average variable cost of Rs 5.17 per unit and 279.42 MU from KDPP at an average variable cost of Rs 5.00 per unit. The total fuel cost proposed for generation at BDPP and KDPP for the year 2008-09 was Rs 206.43 crore. Hon'ble Commission had approved the proposal of KSEB. However, due to the reduction in hydel availability, KSEB was forced to schedule 208.50 MU from BDPP and 428.10 MU from KDPP respectively. The details are given below.

Table-11. Month wise details of energy generation from BDPP and KDPP

Month	BDPP			KDPP		
	Approved	Actuals	Excess over approval	Approved	Actuals	Excess over approval
	(MU)	(MU)	(MU)	(MU)	(MU)	(MU)
Apr-08	9.41	25.76	16.35	21.17	26.02	4.85
May-08	9.72	24.03	14.30	21.87	37.75	15.88
Jun-08	9.41	22.47	13.06	21.17	26.97	5.80
Jul-08	4.86	15.85	10.99	21.87	33.62	11.74
Aug-08	9.72	11.74	2.02	21.87	35.95	14.08
Sep-08	9.41	11.18	1.78	21.17	30.22	9.05
Oct-08	9.72	15.75	6.03	21.87	38.27	16.40
Nov-08	9.41	14.80	5.39	21.17	41.29	20.13
Dec-08	9.72	18.47	8.74	21.87	40.06	18.19
Jan-09	9.72	10.86	1.13	21.87	37.23	15.35
Feb-09	8.78	11.63	2.85	19.76	35.79	16.03
Mar-09	29.16	25.94	-3.22	43.75	44.90	1.15
Total	129.05	208.48	79.43	279.42	428.08	148.66

- 5.5 However, due to the exorbitant price hike of LSHS, the average variable cost of BDPP had increased from Rs 5.17 per unit to Rs 6.62 per unit and that of KDPP had increased from Rs 5.00 per unit to Rs 6.47 per unit. The summary of the excess generation and cost incurred for scheduling energy from BDPP and KDPP are as given below.

Table-12. Summary of the excess generation and additional cost incurred for Generation from BDPP and KDPP

Month	KSERC Approval			Actual			Difference	
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Amount
	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs.Cr)
BDPP	129.05	5.17	66.72	208.50	6.62	138.02	79.45	71.30
KDPP	279.42	5.00	139.71	428.10	6.47	276.92	148.68	137.21
Total	408.47		206.43	636.60		414.94	228.13	208.51

- 5.6 KSEB has been taking all efforts to sell the unutilized energy from liquid fuel stations at variable cost plus a comfort charges. KSEB had sold 20.00 MU from KSEB diesel stations during the year 2008-09 and earned Rs 3.90 crore as comfort charges. The details are given below.

Table-13. Details of off-peak surplus sale from BDPP and KDPP

Month	Energy	Variable cost	Comfort charge	Total
	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Apr-08	8.45	6.12	1.65	7.77
May-08	9.10	7.09	1.77	8.87
Jun-08				0.00
Jul-08	0.90	0.91	0.18	1.09
Aug-08	1.55	1.46	0.30	1.76
Total	20.00	15.59	3.90	19.49

- 5.7 Considering the reasons and other factors as detailed above, Hon'ble Commission may kindly approve the excess generation and cost incurred thereon towards generation from KSEB's own diesel stations KDPP and BDPP for the year 2008-09.

6. Power Purchase for the year 2008-09

(a) Power purchase from Central Generating Stations (CGS)

- 6.1 In the ARR KSEB had anticipated 7817.72MU from CGS including UI at a total cost (fixed and variable cost) of Rs 1426.60 crore. Hon'ble Commission had approved the projection of KSEB.
- 6.2 But the Kaiga-Statge-II, NLC- Expansion-II and Kudamkulam (Nuclear) Power Plants did not start commercial operation as per the schedule. Further, coal based central power stations faced severe coal shortages

during the year 2008-09 and in certain months the energy availability was much less than the normative levels fixed by CERC. However, as per the instructions given to the Generators by the Southern Regional Power Committee (SRPC), the generators started importing coal to the extent of the shortage of the domestic coal though such imports were at higher costs. The details of the energy scheduled and its cost from CGS as per the provisional accounts are detailed below.

Table-14. Energy Scheduled form CGS during 2008-09

CGS	KSERC Approval		Actuals		Difference	
	Quantity (MU)	Amount (Rs. Cr)	Quantity (MU)	Amount (Rs. Cr)	Quantity (MU)	Amount (Rs. Cr)
Thalcher - II	2909.20	419.20	2981.90	463.26	72.70	44.06
NLC-II - Stage-1	400.40	75.20	330.30	61.20	-70.10	-14.00
NTPC- RSTPS (including new)	2107.00	350.80	2375.67	459.99	268.67	109.19
NLCII - Stage II	571.50	101.30	503.02	78.96	-68.48	-22.34
NLC - Exp	433.40	97.40	464.50	99.83	31.10	2.43
MAPS	136.90	28.10	62.93	11.91	-73.97	-16.19
Kaiga	228.00	70.20	201.72	59.43	-26.28	-10.77
Kaiga- Stage-II	341.30	102.10			-341.30	-102.10
NLC- Exp- stage-II	108.90	23.00			-108.90	-23.00
Kudamkulam	189.50	61.60			-189.50	-61.60
UI	391.60	97.90	318.03	152.14	-73.57	54.24
Total	7817.70	1426.60	7238.07	1386.72	-579.63	-40.08

6.3 Considering the comparatively low variable cost of CGS, KSEB had scheduled the full CGS allocation during the year 2008-09. Further KSEB had availed 318.03MU as UI at an average variable cost of Rs 4.78 per unit. Hon'ble Commission may kindly approve the actual power purchase and its cost from CGS as detailed above.

(b) Power Purchase from IPPs

(i) RGCCPP- Kayamkulam

6.4 In order to meet the anticipated energy demand and also considering the compulsion on KSEB to schedule power from RGCCPP to get the equal allocation of RGCCPP from Talcher-II coal based plant to pool with RGCCPP power, KSEB had proposed to schedule 1094.40 MU from RGCCPP at an average variable cost Rs 6.63 per unit for the year 2008-09. Hon'ble Commission had also approved the same.

6.5 The month wise details of the schedule from RGCCPP- Kaymkulam and its cost is as detailed below.

Table-15. Month wise details of the actual generation from RGCCPP- Kayamkulam

Month	Energy purchased (MU)	Fixed cost (Rs.Cr)	Variable cost		Total cost (Rs.Cr)
			Total (Rs.Cr)	per unit (Rs/kWh)	
Apr-08	51.69	7.33	43.88	8.49	51.21
May-08	101.75	7.33	94.04	9.24	101.36
Jun-08	65.98	8.06	70.71	10.72	78.77
Jul-08	90.68	8.06	107.15	11.82	115.21
Aug-08	21.79	8.06	24.27	11.14	32.34
Sep-08	0.00	8.06	0.00	0.00	8.06
Oct-08	102.57	8.06	79.80	7.78	87.86
Nov-08	106.31	8.06	46.93	4.41	54.99
Dec-08	68.06	6.74	22.35	3.28	29.08
Jan-09	117.59	9.39	44.47	3.78	53.86
Feb-09	106.44	8.06	49.25	4.63	57.32
Mar-09	116.62	8.06	54.50	4.67	62.56
Total	949.49	95.27	637.34	6.71	732.62

- 6.6 Considering the excessive variable cost of RGCCPP power during the 1st half of the financial year, KSEB had taken efforts to sell the unutilized energy through traders. The details of 'off-peak' sale from RGCCPP for the year 2008-09 are as given below.

Table-16. Details of off-peak energy sale from RGCCPP- Kayamkulam

Month	Energy	Variable cost	Comfort charge	Total
	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Apr-08	43.37	37.25	5.03	42.28
May-08	45.14	42.19	5.24	47.43
Jun-08	0.00			0.00
Jul-08	15.59	18.63	1.81	20.44
Nov-08	7.50	3.35	1.22	4.57
Total	111.59	101.42	13.29	114.71

By selling the 'off-peak' unutilized energy from RGCCPP at actual variable cost plus comfort charges, KSEB was able to earn an additional income of Rs 13.29 crore as comfort charges during the year 2008-09.

(ii) BSES power

- 6.7 In the ARR, KSEB had proposed to schedule 138.35 MU with a total variable cost 88.96 crore. However, while approving the ARR, Hon'ble Commission had approved only 28.35MU with a total cost of 18.23 crore.
- 6.8 But due to the failure of monsoon and the resultant reduction in hydel generation, KSEB was scheduled 847.25MU from BSES during the year

2008-09. The month wise details of energy generation from BSES are detailed below.

Table-17. Month wise details of energy schedule from BSES for the year 2008-09

Month	Energy purchased (MU)	Fixed cost (Rs.Cr)	Variable cost		Total cost (Rs.Cr)
			Total (Rs.Cr)	per unit (Rs/kWh)	
Apr-08	61.18	6.85	50.78	8.30	57.63
May-08	95.83	7.24	82.60	8.62	89.84
Jun-08	70.52	7.50	68.72	9.74	76.22
Jul-08	20.52	7.65	21.35	10.40	29.00
Aug-08	-0.04	7.65	-0.04	10.40	7.61
Sep-08	50.30	7.58	50.12	9.96	57.70
Oct-08	59.64	7.48	53.43	8.96	60.91
Nov-08	97.07	7.48	61.13	6.30	68.61
Dec-08	87.19	7.48	33.67	3.86	41.15
Jan-09	98.73	7.48	37.75	3.82	45.23
Feb-09	101.04	7.48	44.03	4.36	51.51
Mar-09	105.28	7.48	49.45	4.70	56.93
Total	847.25	89.35	552.97	6.53	642.33

- 6.9 Due to the excessive variable cost, KSEB was not scheduled the full capacity from BSES during the year 2008-09. By availing the market opportunities effectively, KSEB was able to sell the unutilized energy to the tune of 259.50MU through traders and earned an additional revenue of Rs 32.44 crore as comfort charges. The details are as given below.

Table-18. Details of off-peak surplus sale from BSES

Month	Energy (MU)	Variable cost (Rs.Cr)	Comfort charge (Rs.Cr)	Total (Rs.Cr)
Apr-08	55.99	47.80	7.00	54.80
May-08	47.70	41.96	5.96	47.92
Jun-08	25.58	26.90	3.20	30.10
Jul-08	20.30	23.90	2.54	26.44
Sep-08	50.30	50.89	6.29	57.18
Oct-08	59.63	54.23	7.45	61.68
Total	259.50	245.68	32.44	278.12

(iii) KPCL

- 6.10 KSEB had proposed to schedule 54.34 MU from KPCL plant at a total variable cost of Rs 27.93 crore. But due to the reduction in hydel availability, KSEB had scheduled 97.28 MU from KPCL at a total variable cost of Rs 72.14 crore.

(iv) Wind

- 6.11 As directed by the Commission, KSEB had entered into PPA with all wind

developers who had started generation in the State during the year 2008-09. During the year 2008-09, a total 35.23 MU was availed from Wind IPPs at an average variable cost of Rs 3.14 per unit.

6.12 KSEB had paid the transmission charges to PGCIL as per the CERC orders issued from time. The total transmission charges paid during the year was Rs 137.75 crore.

(v) Power purchase through traders and power exchange

6.13 In order to meet the energy shortages during the year 2008-09, KSEB had procured 461.66 MU through traders and energy exchange at an average cost of Rs 7.53 per unit. The details are as given below.

Table-19. Summary of the energy purchased through traders and energy exchange

Sl No.	Trader	Energy procured (MU)	Total cost (Rs.Cr)	Per unit cost (Rs/kWh)	Remarks
1	PSEB	14.06	9.63	6.85	
2	PSEB Swap	10.40	0.66	0.63	Open access charges only. Energy was returned during off-peak hours of October - 2008 (1.2 times)
3	MSEB	1.07	0.01	0.10	
4	NCS sugar	1.01	0.67	6.70	
5	CSEB	26.21	20.54	7.84	
6	IEX	267.11	199.40	7.47	
7	WBSEB	0.64	0.53	8.30	
8	HPSEB	4.54	3.92	8.64	
9	NVVN	38.58	33.38	8.65	
10	TATA	62.23	52.20	8.39	
11	PTC	8.63	7.37	8.54	
12	JSWPTC	3.25	2.86	8.80	
13	GETL	5.10	3.30	6.47	
14	LANCO	16.70	11.51	6.89	
15	RETL	2.09	1.59	7.61	
16	KPDPL	0.04	0.04	9.58	
	Total	461.66	347.61	7.53	

6.14 The summary of the cost of power purchase approved by Hon'ble Commission and the actuals are as given below.

Table-20. Summary of the cost of power purchase for the year 2008-09

Station	Approved by the Commission		Actuals		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 (table-14 above)	7817.70	1426.60	7238.07	1386.72	-579.63	-40.08
IPPs						
KPCL	54.34	40.19	97.28	80.86	42.94	40.67
BSES	28.30	114.23	847.25	642.32	818.95	528.09
Kayamkulam	1094.00	827.05	949.49	734.19	-144.51	-92.86
Wind			35.23	11.06	35.23	11.06
Traders			461.66	347.61	461.66	347.61
Sub total	1176.64	981.47	2390.91	1816.04	1214.27	834.57
Transmission Charges						
Eastern Region		0.00		0.31		0.31
Southern Region		163.55		184.99		21.44
Kayamkulam		32.30		29.17		-3.13
Sub total		195.85		214.47		18.62
Total	8994.34	2603.92	9628.98	3417.23	634.64	813.11

6.15 The revenue earned through sale of surplus power from RGCCPP-Kaymakulam, BSES and Diesel stations are accounted under revenue from Tariff for the year 2008-09, the details are given separately.

6.16 Considering the dedicated efforts on part of the KSEB to procure/schedule energy from the cheapest sources including traders to meet the energy demand of the State and the efforts of the Board to sell the unutilized energy at best competitive rates, Hon'ble Commission may kindly approve the cost of power purchase as detailed above.

7. Interest and Finance Charges

7.1 In the ARR & ERC for 2008-2009, KSEB had projected an amount of Rs.357.31 crore as Interest and Finance Charges. While approving the ARR, Hon'ble Commission approved Rs365.60 Crores, which includes Rs 50.23 crore approved towards interest on the State Government loans. However, in the ARR and provisional accounts, KSEB has not claimed interest on State Government loans since the same was adjusted against the subsidy receivable from Government as part of netting off proposal to adjust the dues between KSEB and the Government. The actual expense

towards interest and finance charges as per the provisional Annual Statement of Accounts of the Board is Rs. 339.60 crore only, and its break up is as given below.

Table-21. Summary of the interest and finance charges for the year 2008-09

Sl.No	Particulars	Projected by KSEB	Approved by the Hon'ble State Commission	Actual	Remarks
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
I	Interest on Loans and Bonds during 2008-09				
(a)	Interest on existing loans as on 31-3-2008	166.14	166.14		
(b)	Interest for addl borrowing	61.49	19.55	151.31	
(c)	Interest on Government loans	-	50.23	-	Govt loan was adjusted against the dues from the Govt. of Kerala as per the netting-off proposal. But Hon'ble Commission had not approved the netting-off proposal.
(d)	Total interest on capital liabilities	227.63	235.92	151.31	
II	Interest on Security Deposit	42.50	42.50	50.50	
III	Other Interest and Finance Charges				
a)	Interest on borrowings for working capital	5.31	5.31	22.15	
b)	Discount to consumers for timely payment of Charges	4.25	4.25	1.70	
c)	Rebate allowed for prompt payment to traders (NVVN etc)			8.76	
c)	Interest on PF	60.70	60.70	37.92	
d)	Other Interest charges	0.01	0.01	0.00	
e)	Cost of raising finance	1.00	1.00	0.03	
f)	Guarantee Commission	7.79	7.79	6.86	
g)	Bank Charges	8.12	8.12	60.35	
	Total of III	87.18	87.18	137.78	
	Grand Total (I+II+III)	357.31	365.60	339.60	

7.2 The summary of the outstanding loans and bonds, loan availed and redeemed during the year and closing balance are detailed below.

Table-22. Borrowing and repayments during the year 2008-09 (Rs. in Crore)

Sl.No	Item	Opening Balance		Borrowing		Redemption		Closing Balance	
		ARR	Actual	ARR order	Actual	ARR	Actual	ARR	Actual
I	Loans from GOK	0.00	0.00		0.00	0.00	0.00		0.00
II	Existing Bonds	64.10	64.10	0.00	0.00	20.90	20.90	43.20	43.20
III	Loans from Financial Institutions	2147.37	1792.62	587.34	94.49	482.37	829.95	2252.34	1057.17
	Sub Total (I+II)	2211.47	1856.72	587.34	94.49	503.27	850.85	2295.54	1100.37
	Total (I+II+III)	2211.47	1856.72	587.34	94.49	503.27	850.85	2295.54	1100.37

7.3 Hon'ble Commission may please note that, the actual borrowings for the year was Rs 94.49 crore (including Rs 9.34 crore towards exchange rate variance) against the proposal of Rs 587.34 crore. The Board has retained the electricity duty collected under section (4) as well as duty payable u/s 3(i) of the Electricity Duty Act-1963, which amounts to Rs 302.16 crore, as huge amounts are receivable as subsidy from the Government. This amount was also used as internal resources and borrowings for capital liabilities were limited to that extent. Repayment during the year

amounted to Rs.850.85 crore against Rs. 503.27 crore proposed. KSEB had exercised call option on bonds raised through KPFC to the tune of Rs.305.16 Crore and loan from PFC to the tune of 24.58 Crore. This had resulted in a reduction of outstanding loan and reduction in interest to the tune of Rs.55.82 crore. Hon'ble Commission may kindly appreciate this fact.

- 7.4 Hon'ble Commission is yet to approve the netting of proposal of the high level committee dated 25-11-2006 on 'netting-off' the dues between KSEB and the Government. Since the Hon'ble Commission has not approved the proposal, several rounds of discussions are being held between KSEB and Govt. of Kerala to settle the issue, but a consensus on the issue is yet to be arrived. So, with the consensus of the Government, Board has been retaining the electricity duty with KSEB. KSEB had used this money for meeting the capital liabilities. Chief Electrical Inspector has demand interest @18% for the Electricity duty retained by KSEB. However, KSEB had provided only an interest @9% for the electricity duty retained with KSEB and included under other charges payable during the year 2008-09. It may be noted that, had the funds been raised from outside to meet capital expenditure, interest would have been payable anyway. The detailed brake up of the other charges is given below.

Table-23. Other Bank charges for the year 2008-09

Particulars	Amount
	(Rs. Cr)
Bank Charges for fund transfer from Head office to field units.	2.68
Bank commission for collection from consumers	2.28
Other bank charges	4.40
Service tax recovered by bank	0.57
Banking cash transaction	0.17
Interest on Electricity Duty @ 9% claimed by the Chief Electrical Inspector	50.25
Total	60.35

- 7.5 Hon'ble Commission may please note that, had the electricity duty paid to Govt, KSEB would have borrowed from financial institutions to that extent. Hence, the interest on the electricity duty may be admitted as interest on borrowing for capital expense. Further, till Government and Board reaches an amicable settlement on the past dues with the approval of the Hon'ble Commission, there is no meaning in timely repaying the duty collected. Further, there is subsidy receivable on account of 20 paise rebate allowed to domestic and commercial consumers and other concessions granted by KSEB to the consumers as directed by the Government from time to time. In addition, Govt. departments have to pay substantial current charges to KSEB. The State Government is also aware of all these facts and not insisting on KSEB to repay the duties. Even though Hon'ble Commission also aware of all these aspects in detail, but critically remarked on KSEB for retaining the electricity duty on several occasions.

- 7.6 As stated earlier, as per the committee report dated 25-11-2006 on 'netting-off' the dues between KSEB and Government, the outstanding loan of Rs 377.69 crore with an interest of 11.5% to 17.5% was adjusted against the subsidy receivable from Government. Hence, KSEB had not claimed any interest on the Government loans. But while approving the ARR, Hon'ble Commission had not approved the netting-off proposal and accordingly allowed an interest on the outstanding Government loan of Rs 436.78 crore as on 01-04-2007. Hence, till Hon'ble Commission approve the netting-off proposal, the interest on Government loan may be admitted in full.
- 7.7 KSEB has made total capital redemption of Rs 850.85 crore during 2008-09. Further, KSEB has also made a total capital investment of Rs 645.20 crore during the year. Thus the total capital liabilities met during the year was Rs 1496.05 crore.
- 7.8 Hon'ble Commission may kindly be note that, the interest on capital liabilities for the year 2003-04 was Rs 622.16 crore. KSEB was able to reduce the same to Rs 151.31 crore during the year 2008-09. If KSEB had availed the loan at the normative basis @70% of the capital investment, the interest charges would have been Rs 562.84 crore for the year 2008-09. During the period from 2003-04 to 2008-09, the savings passed on to the consumers by way of reduction in interest charges alone works out to be Rs 1163.82 crore. The details are given below.

Table-24. Reduction in capital liabilities and interest and finance charges

Year	Actuals		Interest and Finance charges if debt is claimed at normative basis						Net savings in interest charges
	OB at the beginning of the FY	Interest charges (Actuals)	OB at the beginning of the FY	Capital investment (actual)	Debt admissible on normative basis (70% of col(5))	Depreciation allowed by KSERC	OB at the end of the FY	Interest charges (at wt. avg. rate)	
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)=(4)+(6)-(7)	(9)	(10)
2003-04	5094.16	622.16	5094.16	829.00	580.30	326.18	5348.28	621.72	-0.44
2004-05	5355.65	535.54	5348.28	461.92	323.34	374.77	5296.85	576.02	40.48
2005-06	4541.32	451.44	5296.85	499.93	349.95	392.65	5254.16	577.01	125.57
2006-07	3713.62	318.49	5254.16	537.45	376.22	247.43	5382.94	545.35	226.86
2007-08	2498.52	232.83	5382.94	373.71	261.60	260.18	5384.36	575.62	342.79
2008-09	1856.71	151.31	5384.36	645.20	451.64	290.69	5545.31	559.26	407.95
Total	1100.35			3347.21	2343.05				1143.21

But, Hon'ble Commission has yet to be appreciate this facts.

- 7.9 The actual interest on security deposit necessitated was Rs 50.51 crore against the approval of Rs 42.50 crore. The increase may kindly be approved.
- 7.10 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, that too availed on need based. Due to the failure of monsoon and exorbitant price hike of liquid fuel station, the financial position of KSEB was very critical during 2008-09. Though, due to the financial crunch, Board had resorted to overdrafts, they were at interest rates much less than those of long term loans from financial institutions. It may be noted that, the interest rates of short-term loans was less than that of long term loans. The interest on working capital for the year 2008-09 had increased to Rs 22.15 Crores against the approval Rs 5.31 Crores. The details of the short-term borrowings during the year 2008-09 are given below.

Table- 25 Details of overdraft availed during the year 2008-09 (Rs. Cr)

Bank	SBT		Canara		Dhana Lakshmi		SMGB		IOB		SBH		Total	
Month	Amount	Interest	Amount	Interest	Amount	Interest	Amount	Interest	Amount	Interest	Amount	Interest	Amount	Interest
Apr-08			0.26	0.26	25.69	0.19							25.95	0.45
May-08	0.02	0.01	0.03	0.03	20.11	0.11							20.16	0.15
Jun-08			13.49	0.01	39.09	0.10							52.58	0.11
Jul-08			0.86	0.86	35.32	0.32							36.18	1.18
Aug-08	0.02	0.01	51.20	1.34	39.20	0.34	50.44	0.44					140.86	2.13
Sep-08	66.84	0.26	0.40	0.40	34.27	0.27	50.85	0.85	43.98	0.48	50.05	0.05	246.39	2.31
Oct-08	66.69	0.52	0.01	0.01	33.32	0.35	25.41	0.41	43.50	0.41	50.48	0.43	219.41	2.13
Nov-08	0.66	0.01	0.01	0.01	30.24	0.27	50.42	0.42	43.06	0.43	50.90	0.42	175.29	1.56
Dec-08	92.75	0.81	0.61	0.61	39.26	0.36	50.43	0.43	43.97	0.44	50.43	0.43	277.45	3.08
Jan-09	30.47	0.48	141.43	1.07	39.36	0.25	50.24	0.24	43.97	0.44	50.86	0.43	356.33	2.91
Feb-09	29.12	1.12	148.31	1.08	39.30	0.31	50.24	0.24	43.97	0.44	49.99	0.39	360.93	3.58
Mar-09	90.00	0.83	45.84	1.13	39.30	0.31	50.00	0.03	44.14	0.19	50.02	0.42	319.30	2.91
Total		4.03		6.81		3.19		2.70		2.85		2.58		22.15

In the previous orders Hon'ble Commission has remarked that, since the Board is retaining the security deposit, there is not much need for working capital. This is not correct. The total security deposit as on 31-03-2009 was Rs 967.43 crore. This is the total amount collected as security deposit since the inception of the Board from the year 1957. The amount collected as security deposit in each year accounted as deposit from consumers. Since the amount so collected is required to refund only when the consumer dismantle the service connection from KSEB system. Hence it is being utilized for capital investment during the past as internal

resources. Hence, the past security deposit is not available as working capital.

The interest on short term borrowing as detailed above may be kindly be approved.

- 7.11 The discount to consumers on advance payment of electricity charges was Rs 1.70 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.
- 7.12 During the year 2008-09, KSEB had sold 463.33MU 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 8.76 crore was allowed as rebate to the traders for the year 2008-09. The rebate allowed is strictly as per the CERC norms the rebate allowed may be kindly be admitted.
- 7.13 Guarantee Commission payable to Govt. of Kerala for the year amounted to Rs.6.86 crore against Rs. 7.79 crore approved by the Commission. The reduction in expenses under this head was due to swapping of Bonds raised through KPFC during the year.
- 7.14 While preparing the ARR, KSEB has anticipated higher contribution towards GPF on account of arrears of pay revision and DA with retrospective effect. So, KSEB had made a higher provision of Rs 60.70 crore towards interest on PF. However withdrawal against PF during 2007-'08 and 2008-'09 had been to the tune of Rs.305 crore, which was much more than the Board's expectations and hence actual interest on PF had been less by Rs.22.78 Crore. Further, KSEB in line with the rules in Govt., had reduced the time duration for availing Non Refundable advance from 15 years to 10 years with effect from 18.01.2008. This has also contributed to higher withdrawals. Hence the actual interest on Provident Fund balance was Rs 37.92 crore only and the same may be approved.

8. Depreciation

- 8.1 Depreciation is a measure to compensate the wear out, consumption or other loss of value of a depreciable asset arising from use, 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.
- 8.2 In the ARR for 2008-2009, KSEB had proposed the depreciation as Rs 459.30 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.290.69 crores 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 continue 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 provisional accounts is at the rates notified by Ministry of Power.

8.3 Over the years KSEB had been claiming depreciation 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) due to the following reasons.

- (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) Government vide 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 prescribed that, while approving the various expense components of ARR including depreciation of KSEB, Hon'ble Commission may follow the mandatory Annual Accounting Rules notified by the Central Government.
- (iii) 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) Hon'ble Commission may kindly note that, in the States where SEB's are not unbundled, respective State Commission's were allowed depreciation as per MoP rates.
- (v) Even though, FOIR has recommended adoption of CERC rates, still many SERC's are yet to adopt the same and hence there was no uniform approach in adoption of rate of depreciation.

8.4 In spite of the policy directions of the State Government and further request from the Government, Hon'ble Commission is still imposing penalty on KSEB by not allowing depreciation at the rates notified by the MoP, GOI. But the Electricity Act-2003 or National Tariff Policy does not

mandate to protect the consumer interest by affecting the financial viability of the utility. It is painfully submitted that, certain decisions of the Hon'ble Commission in the recent order dated 14th May-2010 denying expenses including depreciation, and thereby projecting surplus which in reality does not exist, had ultimately resulted in a situation which threatened financial sustainability of the KSEB. This is against the basic objective of the enactment of the Electricity Act-2003.

- 8.5 Many of the achievements of the Board including loan repayment over and above depreciation claimed and consequent reduction in capital liabilities, to the tune of Rs.1640.39 crore, as well as interest saved there in were not considered by the Hon'ble Commission while denying depreciation. It is painful to note that the Hon'ble Commission is by and large taking decisions which are not conducive to the long term financial stability of this public utility.

Table-26 Details of depreciation claimed and loan repayment

Year	Capital investment made during the year	Depreciation as per MOP rates	Depreciation allowed by KSERC	Capital Liabilities			Excess repayment over depreciation
				Opening Balance	Closing balance	Net loan repayment	
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
2003-04	809.09	326.19	326.19	5094.16	5355.65	-261.49	-587.68
2004-05	461.92	374.77	374.77	5355.65	4541.32	814.33	439.56
2005-06	499.93	392.65	392.65	4541.32	3713.62	827.7	435.05
2006-07	537.45	405.98	247.43	3713.62	2498.52	1215.1	809.12
2007-08	373.71	419.09	260.18	2498.52	1856.71	641.81	222.72
2008-09	645.20	434.74	290.69	1856.71	1100.35	756.36	321.62
	3327.30	2353.42	1891.91			3993.81	1640.39

- 8.6 The SERC's adopting depreciation rates at the CERC rates are allowing Advance Against Depreciation (AAD) for meeting the excess over and above the depreciation allowed. So far KSEB has not claimed AAD since the depreciation is being claimed at the MoP rates. The details of the loan repayment, depreciation and excess repayment etc is given below.

Table-27. Details of loan repayment, depreciation and AAD can be claimed on normative basis.

Year	Loan repayment	Depreciation allowed by KSERC	Excess repayment can be claimed as AAD
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
2004-05	814.33	374.77	439.56
2005-06	827.70	392.65	435.05
2006-07	1215.10	247.43	967.67
2007-08	641.81	260.18	381.63
2008-09	756.36	290.69	465.67
Total	4255.3	1565.72	2689.58

- 8.7 As per the prevailing norms followed by CERC and other SERCs, the power utilities are allowed to avail loan on normative basis @70% of the capital investment. Further loan repayment can be limited to the maximum extent of depreciation allowed. If KSEB claim the interest on debt at normative basis, the outstanding loan liabilities as on 31-03-2009 should have been Rs 5083.03 crore as detailed below.

Table-28 Details of loans at normative basis.

Year	Loan Details - as per normative basis prevailing in the Country				Actual	Excess repayment made by KSEB
	Opening balance	Loan on normative basis (70% of the capital investment)	Loan repayment (restricted to depreciation claimed)	Closing balance		
2003-04	5094.16	566.36	326.19	5334.33	5355.65	-21.32
2004-05	5334.33	323.34	374.77	5282.90	4541.32	741.58
2005-06	5282.90	349.95	392.65	5240.20	3713.62	1526.58
2006-07	5240.20	376.22	405.98	5210.44	2498.52	2711.92
2007-08	5210.44	261.60	419.09	5052.95	1856.71	3196.24
2008-09	5052.95	451.64	434.74	5069.85	1100.35	3969.50

- 8.8 KSEB has succeeded in reducing capital liabilities from Rs 5355.65 crore in 2003-04 to Rs 1100.35 crore, which is Rs 3969.50 crore less than the capital liabilities admissible on normative basis. But Hon'ble Commission is not at all giving any consideration to these phenomenal achievements. Moreover entire benefits of the reduction in capital liabilities are being passed on to the consumers in the form of reduction in interest and finance charges.
- 8.9 Due to the reasons stated above, KSEB is constrained to project the depreciation at the rates prescribed by the Ministry of Power, Government of India vide the official Gazette dated 1994 and the Electricity (Supply)(Annual Accounts) Rules, 1985 (ESAAR, 1985). The details of the depreciation as per the ARR &ERC, approved by KSERC, and as per the provisional accounts are as detailed below.

Table-29. Details of Depreciation claimed for the year 2008-09

Sl.No.	Asset class	KSEB ARR	KSERC order	Actuals	Difference
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs. Cr)
1	Land and Rights	0.00	0.00	0.00	0.00
2	Buildings	18.31	13.33	17.17	3.84
3	Hydraulic works	21.69	15.81	21.69	5.88
4	Other Civil works	9.10	7.72	8.24	0.52
5	Plant & Machinery	192.37	120.65	187.02	66.37
6	Lines, Cable networks	213.41	129.56	196.58	67.02
7	Vehicles	0.11	0.74	0.02	-0.72
8	Furniture & fixtures	0.76	0.87	0.62	-0.25
9	Office equipment	3.55	2.01	3.40	1.39
	Total	459.30	290.69	434.74	144.05

8.10 Considering the Government policy directive and other factors as detailed above, Hon'ble Commission may kindly approve the depreciation as claimed in the provisional accounts for the year 2008-09.

9 Employee Cost

9.1 In the ARR for the year 2008-09, KSEB had estimated the employee cost as Rs 1136.86 crore and the Commission approved the same amount. The actual employee cost for the year 2008-2009 was Rs.1255.19 crore. The details are as given below

Table-30. Employee Cost for the year 2008-09 (Rs. in crore)

Sl No	Particulars	2007-08	2008-2009			
		Actuals	Projected by KSEB	KSERC Approval	Actuals	Difference
1	Salaries	348.41	497.12	497.12	429.81	-67.31
2	DA	97.9	159.08	159.08	235.42	76.34
3	Overtime, other allowances, Bonus.	27.75	28.65	28.65	31.59	2.94
4	Earned Leave encashment	36.65	36.2	36.2	57.58	21.38
5	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,	4.16	4.21	4.21	4.97	0.76
6	Terminal benefits (including terminal Surrender)	390.01	411.6	411.6	495.82	84.22
	Grand total	904.88	1136.86	1136.86	1255.19	118.33

9.2 It may be noted that, the basic salary was less by Rs 67.31 crore over approval. But the DA release was increased by Rs 76.34 crore. While projecting the ARR, KSEB had considered DA due upto July-2007. During the year 2008-'09 two installments of DA due with effect from 1/2008 and 7/2008 @ 6% and 7% respectively had been declared and disbursed and the DA @ 10% due wef 1/09 has also accounted. The details of DA as per the accounts are given below.

Table- 31 Details of DA 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%
01-Jul-08	7% of the pay	March-09	45%
01-Jan-09	10% of the pay	July-09	55%

- 9.3 In the ARR, KSEB had estimated Earned Leave Surrender at pre revised rates. But in the revised pay, the DA merger and the impact of DA on revised scale of pay has resulted in increase in the DA has resulted in increase of EL surrender. Earned leave surrender is inclusive of Terminal surrender. The details are as detailed below:

Table-32. Details of Earned Leave Surrender

Particulars	Amount (Rs. Cr)
Earned Leave surrender of employees	45.29
Terminal surrender	12.29
Total	57.58

- 9.4 During the year 537 nos of employees were retired from service. The Increase under terminal benefits over ARR was mainly due to the pension revision effected during the year as well the additional Dearness relief to its employees. Detailed break up terminal benefits are shown below.

Table-33. Pension Liabilities (Rs. in Crore)

Particulars	2006-07	2007-'08	2008-'09
Pension including DR relief	283.17	338.91	445.93
Gratuity	28.21	25.08	23.72
Commutation	38.52	24.45	25.03
Provision for Gratuity	4.67	0	0
Others (medical claims etc)	1.38	1.57	1.14
Total	355.95	390.01	495.82

- 9.5 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. Further, the medical allowances claimed by the employees could not be estimated accurately well in advance and actual amount depends on the number of employees who avail the benefit. Hence, the actual claim of the EL encashment and Medical allowances may be kindly approved.
- 9.6 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 provisional accounts.

10. Repairs and Maintenance (R&M) Expenses

10.1 In the ARR, KSEB had projected the R&M expenses for the year 2008-09 as Rs 131.05 crore and while approving the ARR, Hon'ble Commission had kindly admitted the same. The table below shows the comparison of actual R & M Expenses as per the provisional accounts and the same as approved by the Commission. However, the actual R&M expenses incurred for the year 2008-2009 as per the provisional account was Rs 138.80 crore and the details are given below.

Table-34. Repair and Maintenance cost for the year 2008-09

Sl No	Particulars	KSEB ARR	KSERC Approval	Actuals	Difference
1	Plant & Machinery	29.92	29.92	41.12	11.2
2	Buildings	4.35	4.35	3.69	-0.66
3	Other Civil works	5.97	5.97	4.99	-0.98
4	Hydraulic works	3.17	3.17	1.79	-1.38
5	Lines, Cable networks	82.05	82.05	81.29	-0.76
6	Vehicles	5.17	5.17	5.18	0.01
7	Furniture and Fixtures	0.07	0.07	0.22	0.15
8	Office equipment	0.35	0.35	0.52	0.17
	Total	131.05	131.05	138.8	7.75

10.2 The R&M expense as a percentage of opening balance of the respective asset class is as given below.

Table-35. R&M expense as a percentage of the opening balance of GFA

Particulars	2007-2008		2008-09	
	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)
Land & Rights	253.76	0.00	256.67	0.00
Buildings	466.61	3.16	487.09	3.69
Hydraulic Works	856.46	1.24	886.94	1.79
Other Civil Works	252.23	3.93	272.94	4.99
Plant and Machinery	3138.48	29.20	3256.54	41.12
Lines, Cable Network, etc.	3193.90	73.68	3466.86	81.29
Vehicles	11.90	4.57	11.91	5.18
Furniture and Fixtures	12.68	0.08	13.17	0.22
Office Equipments	30.83	0.40	32.43	0.52
Total	8216.85	116.26	8684.55	138.80

- 10.3 After the major accident at Panniar Power Station during November 2007, KSEB has been giving due importance for R&M works of Generation transmission and distribution assets. A comparison of the function wise R&M cost for the year 2007-08 and 2008-09 is given below.

Table-36. function wise break up of R&M costs

Particulars	2007-08	2008-09	%of increase
	(Rs. Cr)	(Rs. Cr)	
Generation	7.0	14.9	112.5
Transmission	29.8	36.7	23.2
Distribution	79.5	87.2	9.7
Overall	116.3	138.8	19.4

- 10.4 Hon'ble Commisison may please note that, GFA at the beginning of the year 2008-09 was 8684.54 crore against Rs 8216.84 crorei in 2007-08. Further, there was an over all increase in inflation of about 5.72% during 2008-09. Also, as stated earlier, after the Panniar Accident, KSEB has been giving due thrust for R&M works. All these factors has resulted into an over all increase of 19.4% in R&M expenses over 2007-08.

- 10.5 The function wise breakup of R&M expenses as per the statement-6 of the provisional accounts is as given below.

Table-37. Function wise percentage of R&M costs as percentage of GFA

Particulars	GFA at the beginning of the Year	R&M Expenses	Percentage of GFA	Pecenatge of total
	(Rs. In. Cr)	(Rs. In. Cr)	(%)	(%)
Generation	3064.26	14.92	0.49	10.75
Transmission	2774.43	36.65	1.32	26.40
Distribution	2845.86	87.23	3.07	62.85
Total	8684.55	138.80	1.60	100.00

- 10.6 It may be noted that, out of the total R&M expenses, 14.92% only accounted in the Generation sector and the balance 88.25% was spent for maintaining the transmission and distribution assets. Considering the importance of maintaining quality of supply with minimum interruptions, KSEB had to give adequate attention for maintaining Transmission and Distribution systems.
- 10.7 Considering the importance of proper maintenance of the assets of KSEB, it is requested that, the R&M cost as per the provisional accounts may kindly be approved.

11. Administration and General Expenses

11.1 The Administration and 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 incurred during the year 2008-09.

Table-38. Administration and General Expenses for the year 2008-09 (Rs. in Crore)

Particulars	2007-08	2008-2009			
	Actuals	KSEB ARR	KSERC Approval	Actuals	Difference
Rent, Rates and Taxes	3.45	4.05	4.05	3.89	-0.16
Insurance	0.6	1.1	1.1	0.5	-0.6
Telephone/telex charges, etc.	3.6	3.97	3.97	3.93	-0.04
Internet and related charges	0.01	0.06	0.06	0.01	-0.05
Legal charges	2.42	9.18	9.18	1.75	-7.43
Audit fees	2.27	1.95	1.95	2.25	0.3
Consultancy charges& Technical fees	0.24	0.18	0.18	0.46	-0.28
Other Professional charges/Training	0.21	0.38	0.38	0.11	-0.27
Conveyance and vehicle hire charges	11.21	14.31	14.31	13.44	-0.87
Sub Total (Total of 1 to 9)	24.01	35.18	35.18	26.34	-8.84
OTHER EXPENSES					
a) Fess and subscriptions	0.48	0.26	0.26	0.25	-0.01
b) Printing & Stationary	3.91	3.94	3.94	7.11	3.17
c) Advertisements	1.22	0.68	0.68	3.48	2.8
e) Contributions/Donations	0.78	1.5	1.5	0.33	-1.17
f) Electricity Charges	3.38	3.4	3.4	3.45	0.05
g) Water charges	0.11	0.15	0.15	0.27	0.12
h) Entertainment	0.59	0.28	0.28	1.09	0.81
i) Miscellaneous expenses	5.78	8.04	8.04	7.57	-0.47
Total of OTHER EXPENSES	16.25	18.25	18.25	23.55	5.3
Freight	5.3	7.1	7.1	6.98	-0.12
Other purchase related expenses	2.25	3.08	3.08	4.12	1.04
Total (11+13+14+15)	47.81	63.61	63.61	60.99	-2.62
Electricity Duty u/s 3(1), KED Act	77.54	76.45	0	74.47	74.47
GRAND TOTAL	125.35	140.06	63.61	135.46	71.85

11.2 In the ARR, Board has projected a total amount of Rs. 140.06 crore as A&G expenses inclusive of Rs 76.45 crore booked under Section 3(1) duty

of KED Act, 1963. However, while approving the ARR, Hon'ble Commission had disallowed the section 3(1) in total and approved the A&G expenses as Rs 63.61 crore. The electricity duty is a necessary levy payable to the Government. KSEB cannot find an alternate means to account this huge amount. In this matter, Hon'ble Commission may give necessary direction to the Government to either not to levy section 3(1) duty or suitably modify the sections of the KED Act, 1963.

- 11.3 Excluding section 3(1) duty, the A&G expenses incurred was Rs 60.99 crore against Rs 63.61 crore approved by the Commission. Even though the Board had succeeded in limiting expenses within the sanctioned level, expenses under certain heads had shown an increase over the sum allowed by the Commission. Audit fee is payable to C&AG and KSEB has no control on this expenses. During the year LT billing software has been introduced at all section offices. This had lead to increase in printing charges are mainly due to bulk printing of computerized billing stationery. Increase on advertisement charges was mainly due to the save energy campaign initiated by the Board during the year, especially to reduce the peak consumption and awareness program on energy conservation. Other major expenses shows a major increase was on the purchase related expenses, the detailed break up of the same are furnished below.

Table- 39 Details of other Purchase related expenses

Particulars	Amount
	(Rs. In Cr)
Vehicle running expenses trucks, delivery vans	1.41
Fabrication charges	1.13
Advertisement of tender notice and other purchase	0.61
Store handling expenses	0.41
Testing charges	0.56
Total	4.12

- 11.4 It may be noted that, Rs 74.47 crore out of the total A&G expenses of Rs 135.46 crore is electricity duty. The rest of the expenditure Rs 60.99 crore was inevitable for other A & G items of expenses. Further, majority of expenses were confined within the sanctioned limit and KSEB had succeeded in containing over all A&G expenses excluding Duty to Rs.60.99 crore against Rs. 63.61 crore approved by the Hon'ble Commission. KSEB request that the A&G expenses including section 3(1) duty may be kindly be approved as per the provisional accounts.

12. Other Expenses

- 12.1 Other expenses include **other debits and prior period charges**. The comparison of other debits estimated in the ARR, approved by the Commission and actual expenses as per the provisional accounts are given below.

Table-40. Other Debits (Rs. in Crore)

Sl No	Particulars	2007-08	2008-2009		
		Actuals	KSEB ARR	KSERC Approval	Actuals
1	Research and Development Expenses	0.32	0.17	52.03	0.13
2	Sale of Stores Account	0.00	0.00		0.00
3	Provision for Bad and Doubtful debts	529.80	51.86		364.47
4	Miscellaneous Losses and write-offs	402.15	402.00		2.38
	Total	932.27	454.03	52.03	366.98

12.2 The break up of Research and Development expenses, Provision for Bad and Doubtful debts and Miscellaneous Losses and write offs are shown below.

Table-41. Details of Research and Development Expenses

Sl No	Particulars	Amount (Rs.Cr)
1	Research and Development Expenses	0.01
2	Research and Development Works (Civil)	0.12
	Total	0.13

12.3 The provision for Bad and Doubtful debts include Rs 47.08 crore on account of withdrawal of prior period credits and Rs 317.39 crore as provision for debtors for the year 2008-09 based on the audit observation of the C&AG during previous years. The detailed computation of additional provision required towards doubtful debts in satisfaction of Audit observation and to make good the shortfall in overall provision in earlier years is furnished below.

Table-42. Provision for Bad and Doubtful debts (Rs. in Crore)

Age of Debtors	Amount Due	Rate (%)	Provision
More than 5 years	804.9	75	603.68
Between 3 to 5 years	318.71	40	127.48
Between 1 to 3 years	336.37	15	50.46
Between 6 months and 1 years	138.8	5	6.94
Less than 6 months	122.66	0	0
Others	7.53	10	0.75
Total	1728.97		789.31
Already provided			471.92
Balance to be provided			317.39

12.4 Hon'ble Commission may be kindly note that, while auditing the accounts of the year 2005-06, C&AG had observed about insufficient provision of bad and doubtful debts against Receivables outstanding for more than 5 years and recommended for 100% provision for debts vide para 6.1.2.xi of

Audit report for the year 2005-06. The Board in the past had been making a provision up to @5% on receivables as bad and doubtful debts, regardless of the age of debt. As per the audit remark, the method of provisioning of bad and doubtful debts has been based on age of debt and a higher provision was provided in the books of accounts. The Board, however, has restricted maximum provision at 75% of the outstanding debtors at the beginning of the year instead of 100% recommended by C&AG. The details are given below.

Table-43. Provision for bad and doubtful debts

Year	Total Debtors at the beginning of the year	Provision for bad and doubtful debts				Remarks
		Required up to the year	Provided upto beginning of the year	Additional provision made during the year	Bad and doubtful debts as (%) of the outstanding debts	
1999-00	690.76	23.32	17.16	6.16	0.89	
2000-01	806.71	32.24	23.32	8.92	1.11	
2001-02	806.71	40.34	32.24	8.10	1.00	Para 1.6 of Audit Report
2002-03	1032.20	51.91	40.34	11.57	1.11	Para 1.6 of Audit Report
2003-04	1225.27	61.26	51.91	9.35	0.76	Para 1.9 of Audit Report
2004-05	1491.04	74.58	61.26	13.32	0.89	Para 1.2 of Audit Report
2005-06	1605.94	195.85	74.58	121.27	7.55	Para 6.1.2 of Audit Report
2006-07	1778.76	471.38	195.85	275.53	15.49	
2007-08	1964.45	471.92	471.38	0.54	0.03	
2008-09	1728.97	789.31	471.92	317.39	18.36	

12.5 The details of miscellaneous losses and write off comprised the following.

Table-44. Details of Miscellaneous losses and Write off

Sl No	Particulars	Amount (Rs.Cr)
1	Compensation for injuries deaths and Danger - Staff	0.48
2	Compensation for injuries deaths and Danger - Outsiders	1.86
3	Loss on Stores	0.04
	Total	2.38

Prior period credit/ charges

- 12.6 Prior period charges include both income as well as expenses relating to the prior periods. Details of the prior period charges as per the provisional accounts are detailed below.

Table-45. Net Prior Period charges

Sl No	Particulars	KSEB ARR	KSERC approval	Actuals
I	Income relating to previous year			
1	Receipt from consumers	24.45		60.06
2	Excess interest and finance charges	3		0
3	Other excess provision made in previous year	35		0.05
4	Other income relating to prior period	55		570.58
	Total	117.45		630.69
II	Expenditure relating to previous years			
1	Short provision of purchase	94.18		49.44
2	Fuel related expenses relating to prior period	1.17		0.00
3	Operating expenses relating to prior period	2.36		0.8
4	Employee cost relating to prior period	50		0
5	Depreciation under provided in prior period	0		0.00
6	Interest & finance charges	1		50.99
7	Other charges relating to previous years	10		1.52
	Total	158.71		102.75
	Net prior period credit/(charges) (I-II)	-41.26		527.94

- 12.7 While approving the ARR, Hon'ble Commission has not approved the prior period charges projected by KSEB and stated that the same could be covered in the truing up exercise.

- 12.8 Hon'ble Commission may please note that the amount of Rs 524.00 crore provided for writing-off the arrears of Kerala Water Authority as part of other debits for the year 2007-08 was written back and included in the other income relating to prior period for the year 2008-09. Since Hon'ble Commission had critically remarked on the writing-off the arrears of KWA, in the truing up petitions for the year 2007-08, KSEB has requested to not to consider the proposal for writing -off the arrears of KWA, accordingly the other debits of 2007-08 will get reduced to Rs 399.27 crore from Rs 923.27 crore. If Hon'ble Commission approves this and make adjustment in the truing up process for the year 2007-08, the prior period income of Rs 524.00 crore will not be available for the year 2008-09. Thus the other income related to prior period given under item I(4) of the table-42 for the year 2008-09 will be get reduced to Rs 46.58 crore instead of Rs 570.58 crore. The details are given below.

Table-46. Other Income relating to Prior Periods

Particulars	As per provisional accounts	Impact of Truing Up petitions for 2007-08	Prior period income (as per this petition)
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Kerala Water Authority dues written off during 2007-'08 - written back	524.00	-524.00	0.00
FPA Charges for 11/2005 to 03/2008	12.79		12.79
Kayamkulam Transmission system for 03/2008	4.88		4.88
PGCIL 2nd installment for the period 04/2007 to 03/2008	4.86		4.86
PGCIL 3rd installment for the period 04/2007 to 03/2008	4.86		4.86
UI income wrongly booked as payment 08/2003 to 03/2004 rectified	4.49		4.49
UI income wrongly booked as payment 04/2004 to 08/2004 rectified	11.33		11.33
PGCIL for the period 02/04/2007 to 31/03/2008	3.37		3.37
Total	570.58		46.58

12.9 Accordingly, after this adjustment, the net prior period charges shall be Rs 3.94 crore against Rs 527.94 crore as per the provisional accounts. The other expenses including other debits and net prior period charges will be Rs 363.05 crore instead of Rs (-) 160.95 crore as per the provisional accounts. The same may be kindly approved.

13. Capitalization of Expenses and Methodology

13.1 In the ARR, the Board has estimated Rs 25.75 crore as capitalization of Interest & Finance charges and Rs.59.19 crore as other Expenses, which were approved by the Hon'ble Commission. As per the provisional annual accounts, Rs 22.71 crore was capitalized as interest and finance charges and Rs 70.75 crore as other expenses. The actuals may kindly be approved.

14. Statutory Surplus

14.1 Hon'ble Commission may kindly note that, 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).

14.2 But after the enactment of the Electricity Act-2003, the State Government is not providing any budgetary support to KSEB. But as the

utility engaged in Generation, Transmission and Distribution business, KSEB 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 had been 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.

14.3 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 advise the SERCs to allow RoE and other regulatory initiatives in line with CERC Tariff Regulations, 2009.

14.4 In the ARR & ERC for the year 2008-09, KSEB has claimed a return of Rs.217.42 crore on the Government Equity of Rs 1553.00 crore at the rate of 14%. Hon'ble Commission had also approved the same. In the provisional accounts also, Board kindly request before the Hon'ble Commission to admit the RoE of Rs 217.00 crore on the Government equity of Rs 1553.00 crore at the rate of 14%. The details are given below.

Table-47. 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)	14%	14%	14%
Required Return (G)=(FxE)	217.42	217.42	217.42

14.5 Hon'ble Commission may kindly be note that, as per the prevailing norms followed throughout the country, KSEB is eligible to get return on the 30% of the capital investment @14% rate in addition on the return on the Government equity of Rs 1553.00 crore. The year wise details of the capital investment, equity as per norms and the additional return eligible to get since the regulatory regime 2003-04 is detailed below.

Table-48. Additional RoE admissible as per norms

Year	Additional return on equity as per norms			
	Capital investment	Equity admissible as per norms (30% of the capital)	Cumulative equity	Additional RoE admissible
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
2003-04	829.00	248.70	248.70	34.82
2004-05	461.92	138.58	387.28	54.22
2005-06	499.93	149.98	537.26	75.22
2006-07	537.45	161.24	698.49	97.79
2007-08	373.71	112.11	810.60	113.48
2008-09	645.20	193.56	1004.16	140.58
Total	3347.21	1004.16		516.11

KSEB is eligible to get a total return of Rs 516.11 crore since the period from 2003-04 to 2008-09 in addition to the return of Rs 217.00 crore on Government Equity of Rs 1553.00 crore. Considering the facts and submission given above, KSEB request that RoE may be approved as per the provisional accounts.

15. Non Tariff Income

15.1 In the ARR for 2008-2009, Board had estimated the non-tariff income as Rs.528.21 crore which the Commission had approved as such. But as per the audited accounts, the Non-tariff income for the year 2008-2009 was Rs.456.79 crore. The details are given below.

Table-48. Non- Tariff Income (Rs in crore)

Particulars	2007-08	2008-2009			
	Actuals	KSEB ARR	KSERC Approval	Actuals	Difference
Meter Rent/Service Line Rental	137.19	145.00	145.00	142.54	-2.46
Wheeling Charges Recoveries	0.00	30.00	30.00	0.00	-30.00
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.	99.91	130.50	130.50	61.92	-68.58
Grant in aid for Research Projects	0.00	0.00	0.00	0.00	0.00
Interest on Staff Loans and Advances	0.87	0.85	0.85	0.63	-0.22
Income from Investments	1.11	0.75	0.75	0.50	-0.25
Interest on Advances to suppliers/ Contractors	4.24	1.25	1.25	5.32	4.07
Interest from Banks	106.00	100.35	100.35	142.84	42.49
Rebate Received	57.05	69.51	69.51	58.50	-11.01
Income from Trading	10.31	15.00	15.00	12.76	-2.24
Miscellaneous Receipts/Others	22.21	35.00	35.00	31.78	-3.22
TOTAL	438.89	528.21	528.21	456.79	-71.42

- 15.2 Non- Tariff Income includes Meter Rent/Service Line Rental, Miscellaneous Charges from Consumers, recoveries through theft etc. In the ARR, KSEB has included the comfort charges received from traders for off-peak sale of power from thermal stations through traders also under Non tariff income under the head wheeling charges recoveries, but in the provisional accounts the same was accounted under revenue from tariff.
- 15.3 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 collect Rs 456.79 crore as non-tariff income.

16. Revenue from Tariff

16.1 Revenue from Sale of Power within the State

- 16.1.1 In the ARR, KSEB had estimated the Sale of Power (SOP) within the State as 13260.60 MU and the revenue from SOP as Rs 4292.59 crore. In the order on ARR&ERC of KSEB for 2008-'09, the Hon'ble Commission had approved the same as proposed by KSEB. But the actual sale was limited to 12414.32 MU due to the power restrictions, load shedding and other measures to tide over the power shortage during the year 2008-09. The details of the category wise energy sale and revenue from SOP are given below.

Table-49. Revenue from Sale of Power within the State

Category	KSEB ARR		Actuals	
	Sale of energy in MU	Revenue from Tariff(Rs Cr)	Sale of energy in MU	Revenue from Tariff(Rs Cr)
Domestic	6190.00	1202.89	5925.23	1135.91
Commercial	1610.00	1068.90	1501.60	1116.67
LT Industrial	1065.00	420.86	1015.40	466.89
LT Agriculture	235.00	21.13	225.22	30.48
Public Lighting	270.00	51.30	294.32	58.96
HT & EHT Total	3371.60	1346.62	2986.97	1433.05
Railway Traction	115.00	47.17	142.07	67.60
Bulk Supply	394.00	133.72	317.47	144.68
NPG	10.00	0.00	6.04	0.00
Total energy sales with in the State	13260.60	4292.59	12414.32	4454.24

- 16.1.2 The total revenue from sale of power of Rs 4454.24 crore is inclusive of the fuel surcharge of Rs 180.00 crore allowed to recovered from consumers and additional revenue on account of charging the excess consumption over the quota at the monthly rate approved by the Hon'ble

Commission. The category wise details of fuel surcharge and excess consumption collected from consumers is given below.

Table-50. Fuel Surcharge and Charges for excess consumption

Category	Fuel surcharge (Rs.Cr)	Charges for excess consumption (Rs. Cr)
Domestic	51.55	36.80
Commercial	29.16	39.95
Public lighting	4.94	0.11
Irrigation and dewatering	3.29	0.86
Paddy cultivation	0.93	0.86
Public Water Works	6.11	14.67
Industrial LT	21.72	41.78
Railway traction	3.43	6.55
Bulk Supply	1.53	9.42
HT	39.43	64.60
EHT	23.04	15.65
Total	185.13	231.25

16.2 Revenue from Sale of Power Outside the State

16.2.1 As discussed earlier, due to the high variable cost of liquid fuel stations, KSEB has been not been scheduling power from these stations during off-peak hours. KSEB had succeeded to sell the off-peak un-utilised power through traders at actual variable cost plus a comfort charges. The details of off-peak energy sold from liquid fuel stations RGCCPP-Kayamkulam, BSES and other diesel stations are as given below.

Table-51. Details of off-peak surplus sale

Month	RGCCPP				BSES				Diesel Stations				Total			
	Energy	Variable cost	Comfort charge	Total	Energy	Variable cost	Comfort charge	Total	Energy	Variable cost	Comfort charge	Total	Energy	Variable cost	Comfort charge	Total
	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Apr-08	43.37	37.25	5.03	42.28	55.99	47.80	7.00	54.80	8.45	6.12	1.65	7.77	107.81	91.17	13.68	104.85
May-08	45.14	42.19	5.24	47.43	47.70	41.96	5.96	47.92	9.10	7.09	1.77	8.87	101.94	91.24	12.97	104.22
Jun-08	0.00			0.00	25.58	26.90	3.20	30.10				0.00	25.58	26.90	3.20	30.10
Jul-08	15.59	18.63	1.81	20.44	20.30	23.90	2.54	26.44	0.90	0.91	0.18	1.09	36.79	43.44	4.52	47.96
Aug-08				0.00				0.00	1.55	1.46	0.30	1.76	1.55	1.46	0.30	1.76
Sep-08				0.00	50.30	50.89	6.29	57.18				0.00	50.30	50.89	6.29	57.18
Oct-08					59.63	54.23	7.45	61.68					59.63	54.23	7.45	61.68
Nov-08	7.50	3.35	1.22	4.57									7.50	3.35	1.22	4.57
Total	111.59	101.42	13.29	114.71	259.50	245.68	32.44	278.12	20.00	15.59	3.90	19.49	391.08	362.69	49.63	412.32

16.2.2 As detailed above, KSEB earned additional revenue of Rs 49.63 crore as comfort charges by selling the off-peak surplus energy through traders. Further, a part of the energy procured through traders during the month of May-2008 (at the time of accident at Sabarigiri) through swap

arrangement was adjusted through sale during subsequent months. The details of swap sale are detailed below.

Table-52 Details of Swap sale

Month	Energy	Variable cost	Remarks
	(MU)	(Rs.Cr)	(Rs.Cr)
Jun-08	37.80	18.86	Sale transaction
Sep-08	16.16	7.60	
Oct-08	15.49		Energy settlement
Nov-08	2.8		Energy settlement
Total	72.25	26.46	

16.2.3 The summary of the off-peak energy sale outside the state including RGCCPP, BSES, Diesel stations and swap sale is detailed below.

Table-53. Summary of the off-peak energy sale during the year 2008-09

Month	Energy	Variable cost	Comfort charge	Total
	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Apr-08	107.81	91.17	13.68	104.85
May-08	101.94	91.24	12.97	104.22
Jun-08	63.38	45.76	3.20	48.96
Jul-08	36.79	43.44	4.52	47.96
Aug-08	1.55	1.46	0.30	1.76
Sep-08	66.46	58.49	6.29	64.78
Oct-08	75.12	54.23	7.45	61.68
Nov-08	10.30	3.35	1.22	4.57
Total	463.34	389.15	49.63	438.78

16.2.4 As stated earlier, by dedicated and sincere efforts, KSEB had succeeded earning additional revenue of Rs 49.63 crore during the year 2008-09 by selling the off-peak surplus energy from liquid fuel stations through traders. Hence it is requested that, 50% of the additional income, i.e Rs 24.85 crore out of the Rs 49.63 crore may be allowed to retain with KSEB as efficiency gain.

17. Summary of the ARR, ERC and Revenue Gap

17.1 The item wise comparison of the ARR, ERC and Revenue gap approved by the Hon'ble Commission and the actual as per the truing up petitions are as given below.

Table-54 Summary of the ARR & ERC for the year 2007-08 (Rs. Cr)

Particulars	KSERC Approval	Provisional Accounts	As per the Truing Petition	Remarks
Generation Of Power	207.03	414.96	414.96	
Purchase of power	2603.92	3417.23	3417.23	
Interest & Finance Charges	365.60	339.60	339.60	
Depreciation	290.69	434.74	434.74	
Employee Cost	1136.86	1255.19	1255.19	
Repair & Maintenance	131.05	138.80	138.80	
Administration & General Expenses	63.61	135.46	135.46	
Other Expenses	52.03	-160.95	363.05	Arrears of KWA proposed to written off during 2007-08
Gross Expenditure (A)	4850.79	5975.03	6499.03	
Less : Expenses Capitalised	59.19	70.75	70.75	
Less : Interest Capitalised	25.75	22.71	22.71	
Net Expenditure (B)	4765.85	5881.57	6405.57	
Statutory Surplus/ RoE (C)	217.42	217.42	217.42	
ARR (D) = (B) + (C)	4983.27	6098.99	6622.99	
Less Non-Tariff Income	528.21	456.79	456.79	
Less : Revenue from Tariff				
(a) With in the State	4292.59	4454.24	4454.24	
(b) Outside the State	158.54	438.79	438.79	
Total Income	4979.34	5349.82	5349.82	
Revenue Gap	3.93	749.17	1273.17	

18. Revenue gap and treatment of revenue gap

- 18.1 As explained in the preceding paragraphs, Hon'ble Commission vide the order dated 19th April-2008 had approved the ARR as Rs.4983.27 crore, ERC as Rs.4979.34 crore and revenue gap as Rs 3.93 crore for the year 2008-09. But as per the truing up petition based on the provisional accounts, the ARR is Rs 6622.99 crore, ERC is Rs 5349.82 crore and the revenue gap is Rs 1273.17 crore. This may kindly be approved.
- 18.2 The C&AG audit of the accounts of KSEB for the year 2008-09 is yet to be completed. Hence the truing up petitions for the year 2008-09 is prepared based on the provisional accounts. In the event of any change in the C&AG audited accounts, KSEB may be permitted to revise the petition to that extent.

Prayer

KSEB request before the Hon'ble Commission that:

1. Truing up of Expenses and Revenue as detailed in the Provisional Annual Statement of Accounts for the year 2008-2009 (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 directions of the Hon'ble Commission and also as per the policy of the State Government.
2. In the event of any change in the C&AG audited accounts, KSEB may be permitted to revise the petition to that extent.
3. Hon'ble Commission may kindly 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 additional revenue as comfort charges of Rs 49.63 crore earned through the sale of off-peak surplus power may be retained with KSEB.
 - (b) The interest and finance charges as approved by the Commission in the order on ARR &ERC may be allowed to retain with KSEB.
 - (c) 50% of the savings in power purchase cost from thermal stations for the year 2008-09 i.e., Rs 395.28 crore may be allowed to retain with KSEB as incentive for the reduction of T&D loss by 11.93% during the last six years .
4. The revenue gap may be allowed to accounted as regulatory asset or any other appropriate means deems fit according to the Hon'ble Commission.

Chief Engineer (Commercial & Tariff)