

**BEFORE THE HONOURABLE KERALA STATE ELECTRICITY
REGULATORY COMMISSION**

at its office at C.V. Raman Pillai Road, Vellayambalam, Thiruvananthapuram.

FILING NO /2020

CASE No.

IN THE MATTER OF:


Review Petition against KSERC order dated 12th October 2020 in Petition OA No 64/2019 in the matter of approval of addition of assets for the year 2016-17 as part of truing up of accounts for the financial year 2016-17, as per the direction contained in order dated 14.09.2019 in OA 12/2018.

AND

IN THE MATTER OF:

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

Applicant


Deputy Chief Engineer (Commercial & Planning)
With full powers of Chief Engineer
Kerala State Electricity Board Limited

AFFIDAVIT VERIFYING THE APPLICATION ACCOMPANYING THE REVIEW PETITION AGAINST KSERC ORDER DATED 12th OCTOBER 2020 IN PETITION OA No 64/2019 IN THE MATTER OF APPROVAL OF ADDITION OF ASSETD FOR THE YEAR 2016-17 AS PER THE DIRECTION CONTAINED IN TU 17 ORDER DATED 14.09.2019 IN OA 12/2018.

I, **B. PRADEEP**, son of Sri. P. Balachandran, aged 55 years residing at Vipanchika, Anayara P O, Thiruvananthapuram do solemnly affirm and say as follows:

I am working as Deputy Chief Engineer (Commercial & Planning) with full powers of Chief Engineer, Kerala State Electricity Board Limited, Vidyuthi Bhavanam, Pattom, Thiruvananthapuram, and the petitioner in the above matter and I am duly authorized by the Board to make this affidavit on its behalf. I solemnly affirm at Thiruvananthapuram on this the 29th day of December 2020 that the contents of the above petition are true to my information, knowledge and belief. I believe that no part of it is false and no material has been concealed there from.

Deponent

Deputy Chief Engineer (Commercial & Planning)
With full powers of Chief Engineer
Kerala State Electricity Board Limited,
Vidyuthi Bhavanam, Pattom
Thiruvananthapuram – 695 004

VERIFICATION

I, the above-named deponent, solemnly affirm at Thiruvananthapuram on this, the 29th day of December 2020 that the contents of the affidavit are true to my information, knowledge and belief, that no part of it is false and that no material has been concealed there from.

Deponent

Deputy Chief Engineer (Commercial & Planning)
With full powers of Chief Engineer
Kerala State Electricity Board Limited
Vidyuthi Bhavanam, Pattom
Thiruvananthapuram – 695 004.

Solemnly affirmed and signed before me.

T.N. Omana
29.12.2020
Advocate and Notary:

T.N. OMANA
Advocate & Notary
Thiruvananthapuram Revenue District
Kerala State South India



**BEFORE THE KERALA STATE ELECTRICITY
REGULATORY COMMISSION**

In the Matter of: **Review Petition against KSERC order dated 12th October 2020 in Petition OA No 64/2019 in the matter of approval of addition of assets for the year 2016-17 as part of truing up of accounts for the financial year 2016-17, as per the direction contained in order dated 14.09.2019 in OA 12/2018.**

Petitioner: **Kerala State Electricity Board Limited,
Vydyuthi Bhavanam, Pattom,
Thiruvananthapuram**

THE PETITIONER HUMBLY STATES THAT:

1. Hon'ble Commission as per order dated **12th October 2020** in Petition **OA No 64/2020** in the matter of approval of addition of assets for the year 2016-17 as part of truing up of accounts for the financial year 2016-17, as per the direction contained in order dated 14.09.2019 in OA 12/2018 has approved additional revenue gap of Rs. 39.61 Cr as against Rs 63.76 Cr sought by KSEBL. A summary of claim preferred by KSEBL, approval granted by the Hon'ble Commission and disallowance made is tabulated below:

Table 1 Comparison of claim and approval (Rs. Cr)												
GFA as per Audited accounts	Summary of KSEBL claim (Rs Cr)				Approved by KSERC				Disallowance			
	SBU G	SBU T	SBU D	TOTAL	SBU G	SBU T	SBU D	TOTAL	SBU G	SBU T	SBU D	TOTAL
Capitalized during the year-As per IND AS Accounts	450.22	410.19	908.25	1768.66	450.22	410.19	908.25	1768.66	0	0	0	0
Less: Duplication - rectified in 2017-18	81.98	53.31	0	135.29	81.98	53.31	0	135.29	0	0	0	0
Less: Part capitalization	37.8	31.98	0	69.78	37.80	31.98	0	69.78	0	0	0	0
Part capitalization during previous years					81.28	5.80	0	87.08	-81.28	-5.80	0	-87.08
GFA addition under SBU D wrongly included under SBU G	-31.69	0	31.69	0	-31.69	0	31.69	0	0	0	0	0
Decommissioning liability							16.64	16.64	0	0	-16.64	-16.64
GFA addition admissible as per Tariff Regulation	298.75	324.9	939.94	1563.59	217.47	319.1	923.3	1459.87	81.28	5.8	16.64	103.72
Less: Consumer contribution, Grants and Subsidies received during the year	0	79.12	567.82	646.94	13.05	79.12	554.77	646.94	-13.05	0	13.05	0
Less: IND AS addition already considered in TU order	13.32	81.26	188.15	282.73	13.32	81.26	188.15	282.73	0	0	0	0
Less: Land value					15.17	25.4	0.85	41.42	-15.17	-25.4	-0.85	-41.42
GFA Addition eligible for depreciation	285.43	164.52	183.97	633.92	175.93	133.32	179.53	488.78	109.5	31.2	4.44	145.14
Depreciation for assets added in 2016-17	7.54	4.34	4.86	16.74	4.52	3.43	4.61	12.56	3.02	0.91	0.25	4.18
Computation of normative loan and interest									0	0	0	0
GFA addition 2016-17 - eligible for normative loan	298.75	324.90	939.94	1563.59	217.47	319.1	923.3	1459.87	81.28	5.80	16.64	103.72
Less: Consumer contribution etc	0	79.12	567.82	646.94	13.05	79.12	554.77	646.94	-13.05	0	13.05	0
IND AS addition allowed in 15-16					13.32	81.26	188.15	282.73	-13.32	-81.26	-188.15	-282.73
Depreciation on 2016-17 GFA addition	7.54	4.34	4.86	16.74	4.52	3.43	4.61	12.56	3.02	0.91	0.25	4.18
Net additional Normative loan for 2016-17	291.21	241.44	367.26	899.91	186.58	155.29	175.77	517.64	104.63	86.15	191.49	382.27
Average rate of Interest % as per TU order for 2016-17	10.45	10.45	10.45	10.45	10.45	10.45	10.45	10.45	0	0	0	0
Normative interest on GFA addition	15.12	12.62	19.19	47.02	9.75	8.11	9.18	27.05	5.37	4.51	10.01	19.97

2. KSEBL submits that, certain apparent errors have crept in while approving depreciation and normative interest. Hence, KSEBL submits this petition before the Hon'ble Commission for the kind review of the order dated 12th October 2020.

I. Approved GFA addition for the purpose of depreciation and normative depreciation thereon

- (i) It is respectfully submitted that the Hon'ble Commission, as per truing up order dated 14.09.2018 for 2016-17 has approved depreciation in respect of GFA addition till 31.03.2016 of Rs. 369.87 Cr at 5.28% as extracted below:

2.183 Accordingly, the depreciation allowable for the year 2016-17 is worked out as shown below:

*Table 48
Depreciation for the year 2016-17*

		SBU-G	SBU-T	SBU-D	KSEB Ltd
		(Rs.crore)	(Rs.crore)	(Rs.crore)	(Rs.crore)
1	1 Depreciation allowed in 2015-16	122.05	132.84	79.98	334.87
2	2 Asset Addition 2015-16	34.79	212.24	491.40	738.43
3	3 Ind AS addition	13.32	81.26	188.15	282.73
4=2+3	Total Asset Addition in 2015-16	48.11	293.50	679.55	1021.16
5	5 Less Contribution & Grants 2015-16	0.00	12.02	346.33	358.35
6=4-5	Balance value of assets added	48.11	281.48	333.22	662.81
7=6x5.28%	Depreciation for assets added in 2015-16 (@5.28%)	2.54	14.87	17.59	35.00
8=1+7	Depreciation for 2016-17	124.59	147.71	97.57	369.87

- (ii) However, while approving depreciation for the addition of GFA during 2016-17 as per order dated 12.10.2020, the rate percentage adopted was 5.14% based on the deliberations in the MYT order dated 08.07.2019 for the control period 2018-19 to 2021-22 considering the weighted average life of 31 years. Thus, two different rates were adopted for the same financial year. Hon'ble Commission may kindly approve depreciation at 5.28% for the addition of GFA during 2016-17 also since the rate of 5.14% is applicable only wef 2018-19.
- (iii) KSEBL claimed normative depreciation on GFA addition during 2016-17 after excluding Contributions and grants as well as addition till 31.03.2016 (as per IND AS made in the accounts for 2016-17) considered in TU order dated 14.09.2018. Hon'ble Commission excluded the entire land value addition for 2016-17 amounting to Rs.41.42 Cr to arrive at the GFA eligible for depreciation. Thus, depreciation approved for GFA addition to the tune of Rs. 488.78 Cr only.
- (iv) It may please be noted that part capitalization of Rs.69.78 Cr (Rs. 37.80 Cr for SBU G and Rs.31.98 Cr for SBU T) has already been excluded in the claim by KSEBL in the petition itself. This includes land value of Rs. 34.69 Cr (Rs. 23.33 Cr

for SBU G and Rs.11.36 Cr for SBU T). Hon'ble commission did approve the reduction proposed by KSEBL towards part capitalization as such and therefore land value addition to the extent of Rs.34.69 Cr out of Rs. 41.42 Cr has already been excluded in the GFA value eligible for depreciation. Therefore, the exclusion of land value to the extent of Rs.6.73 Cr alone should have been made in the order.

- (v) Thus, by deducting the entire land value addition of Rs. 41.42 Cr by the Hon'ble Commission in the order to ascertain the GFA eligible for depreciation has resulted in a total exclusion of Rs. 76.11 Cr under land value, which is an error apparent on face of records.
- (vi) While excluding entire land value addition in 2016-17, Hon'ble Commission did not consider the fact that land value addition of Rs. 34.69 Cr has already been disallowed under part capitalized assets. Thus, the decision of the Hon'ble Commission has resulted in excessive reduction of Rs.34.69 Cr in the GFA value eligible for depreciation and resultant depreciation claim by Rs.0.92 Cr.
- (vii) Hon'ble Commission may kindly review the order and rectify the error apparent on the face of records with regard to the depreciation rate adopted as well as land value addition by re determining the GFA addition eligible for depreciation at Rs.523.47 Cr and depreciation at Rs. 13.82 Cr as detailed below:

Table 1 Computation of normative depreciation for GFA addition in 2016-17													
	GFA as per Audited accounts	Approved by KSERC				KSEBL claim in this petition (Rs Cr)				Review sought			
		SBU G	SBU T	SBU D	TOTAL	SBU G	SBU T	SBU D	TOTAL	SBU G	SBU T	SBU D	TOTAL
1	Capitalized during the year-As per IND AS Accounts	450.22	410.19	908.25	1768.66	450.22	410.19	908.25	1768.66	0	0	0	0
2	Less: Duplication - rectified in 2017-18	81.98	53.31	0	135.29	81.98	53.31	0	135.29	0	0	0	0
3	Less: Part capitalization	37.8	31.98	0	69.78	37.8	31.98	0	69.78	0	0	0	0
4	Part capitalization during previous years	81.28	5.8	0	87.08	81.28	5.8	0	87.08	0	0	0	0
5	GFA addition under SBU D wrongly included under SBU G	-31.69	0	31.69	0	-31.69	0	31.69	0	0	0	0	0
6	Decommissioning liability			16.64	16.64			16.64	16.64	0	0	0	0
7	GFA addition eligible for normative loan and depreciation as per Regulation	217.47	319.1	923.3	1459.87	217.47	319.1	923.3	1459.87	0	0	0	0
8	Less: Consumer contribution, Grants and Subsidies received during the year	13.05	79.12	554.77	646.94	13.05	79.12	554.77	646.94	0	0	0	0
9	Less: IND AS addition already considered in TU order	13.32	81.26	188.15	282.73	13.32	81.26	188.15	282.73	0	0	0	0
10	Less: Land value	15.17	25.4	0.85	41.42	-8.16	14.04	0.85	6.73	23.3	11.4	0	34.69
11	GFA Addition eligible for depreciation	175.93	133.32	179.53	488.78	199.26	144.68	179.53	523.47	-23.3	-11.4	0	-34.69
12	Depreciation for assets added in 2016-17	4.52	3.43	4.61	12.56	5.26	3.82	4.74	13.82	-0.74	-0.39	-0.13	-1.26

II. Approved additional normative loan for the year 2016-17 without considering the GFA addition in 2016-17 (pertaining to 2014-15 & 2015-16) by virtue of IND AS adoption in FY 17.

- (i) Hon'ble Commission, while determining additional normative loan for 2016-17 based on the approved GFA addition for the year, has excluded the GFA addition pertaining to 2014-15 and 2015-16 amounting to Rs.282.73 Cr (accounted in 2016-17 by virtue of initial adoption of IND AS).
- (ii) It is respectfully submitted that the Hon'ble Commission did consider this GFA addition of Rs.282.73 Cr for the purpose of depreciation in 2016-17 (as per truing up order) and allowed depreciation as may be seen from Table 48 extracted above. While deciding this issue, Hon'ble Commission made the following observation:

2.182 In this context it is also pertinent to mention that the Commission considered the asset addition of Rs.1021.16 crore for the year 2015-16 for the purpose of depreciation, which is inclusive of the asset addition of Rs.282.73 crore made as part of the adjustments on account of Ind AS adoption. The Commission has excluded this portion of addition to assets while approving the interest and financing charges for want of the proper details furnished by KSEB Ltd. Thus, while approving the interest charges subsequently, on submission of the details, revision if any on the addition to assets, the corresponding adjustment if any needed in depreciation will also be carried out.

- (iii) Accordingly, KSEBL filed the petition (OP 64/2019) containing the requisite GFA addition details for favor of approval.
- (iv) It is pertinent to note here that the audited accounts till 2015-16 was prepared as per I GAAP and the truing up till 2015-16 had been made based on the audited accounts. However, consequent to the mandatory adoption of IND AS in 2016-17, GFA actually added in 2014-15 and 2015-16 but remained to be capitalized amounting to Rs.282.73 were transferred to the GFA account in 2016-17. Since such addition to GFA was not considered in TU for 2014-15 and 2015-16, KSEBL preferred the claim in 2016-17. As stated earlier, Hon'ble Commission did consider this addition for granting depreciation in 2016-17.
- (v) But, based on the observation extracted above, Hon'ble Commission did not consider this addition while computing normative loan till 31.03.2016. Thus, GFA addition to the tune of Rs.282.73 (pertaining to 2014-15 & 2015-16) could only be claimed along with GFA addition for 2016-17 in the petition 64/2019 (filed in compliance of the direction contained in order dated 14.09.2018). Accordingly, KSEBL did not exclude this

amount in the computation of additional normative loan for 2016-17 (as had been done in the depreciation computation)

- (vi) Hon'ble Commission, however, excluded this amount while computing additional normative loan presumably on the premise that all the claims till 2015-16 had already been granted. It may kindly be noted that non approval of normative loan attributable to this GFA addition and that of normative interest is an error apparent on face of records since depreciation on such assets were already approved.

2.129 The Commission has arrived at the normative loan as per the Regulations for the year 2016-17 as shown below:

Table 36
Normative existing loans for the year 2016-17

	3.	Rs. crore
1	Net Fixed Assets as on 1-4-2015	8483.82
2	Equity as per accounts	3,499.05
3	Grants and Contribution (after depreciation)	2,708.60
4=1-2-3	Normative Loan as on 1-4-2015	2,276.17
5	Repayment equivalent to depreciation for the year	334.87
6=4-5	Normative loan as at the end of the year	1,941.30
7	Addition to loans in 2015-16	380.08
8=6+7	Opening levels of Loan (as on 1-4-2016)	2,321.38
9	Repayment for the year 2016-17(Depreciation)	369.87
10=8-9	Closing level of loans (31-3-2017)	1,951.51
11=(8+10)/2	Average loan	2,136.45
12	Weighted Average rate of Interest	10.45%
13=11x12	Interest charges (existing normative loan)	223.26

2.130 The Commission in the truing up order for 2015-16 had arrived at, for the purpose of estimating the normative loans, the net fixed assets as on 1-4-2015 as Rs.8483.82 crore. After deducting the sources of funding such as grants and contribution and equity, normative loan as on 1-4-2015 was Rs.2276.17 crore. After deducting the normative repayment equivalent to the depreciation, the net normative loan at the end of 2015-16 was Rs.1941.30 crore. **The addition to normative loan ie., net increase in fixed assets excluding grants and contribution, was Rs.380.08 crore.** Thus closing level of normative loan (31-3-2016) was Rs.2321.38 crore.

- vii. It is respectfully submitted that addition to loans in 2015-16 considered for normative loan and interest thereon as per truing up order for 2016-17 amounting to Rs.380.08 Cr did not take into account the Ind AS GFA addition of Rs.282.73 Cr. The asset addition for 2015-16 was Rs.738.43 Cr only (as per I GAAP account) as may be seen from the truing up order for 2015-16 (OA 6/2018 dated 21.08.2018) extracted below for ready reference:

145. Thus, the net loan for addition of assets for which interest is to be provided for the year is Rs.380.08 crore and the interest charges at the average rate of interest of 10.82% is Rs.20.57 crore ($380.08/2 * 10.82\%$) as shown below:

Table 33


Interest charges for addition of Assets KSEB Ltd		(Rs. crore)
Asset Addition 2015-16	738.43	
Less Contribution & Grants	358.35	
Balance value of assets for which interest is to be provided	380.08	
Average Rate of interest	10.82%	
Interest charges for addition of assets	20.57	

viii. In view of the above, it is evident that the GFA addition to the tune of Rs.282.73 Cr during 2014-15 and 2015-16 has not been considered for the computation of normative loan. Hon'ble Commission may kindly approve net additional normative loan of Rs.281.47 Cr and additional normative interest of Rs.14.71 Cr as detailed below:

		As per OA 64/2019	Review sought	Total
1	Additional normative loan approved for 2016-17	530.20	282.73	812.93
2	Less: Depreciation approved (normative repayment)	12.56	1.26	13.82
3= (1-2)	Net additional normative loan approved for 2016-17	517.64	281.47	799.11
4= (3*10.45%)/2	Normative interest approved	27.05	14.71	41.76

Prayer

Considering the reasons, facts and circumstances on the matters as detailed in the paragraphs above, KSEBL requests before the Hon'ble Commission to kindly review the order dated 12th October 2020 in Petition OA No. 64 of 2019 in the matter of approval of addition of assets for the year 2016-17 as part of truing up of accounts for the financial year 2016-17, as per the direction contained in order dated 14.09.2019 in OA 12/2018 on the items as detailed above in the petition.


 Deputy Chief Engineer (Commercial & Planning)
 With full powers of Chief Engineer