

KERALA STATE ELECTRICITY REGULATORY COMMISSION
Thiruvananthapuram

Petition No. TP 11 of 2005

ARR&ERC of KINFRA Export Promotion Industrial Parks Ltd for FY 2005-06

August 30, 2005

Present:

Shri.M.K.G.Pillai
Chairman

Shri.C.Balakrishnan
Member

KINFRA Export Promotion Industrial Parks Ltd.
Kakkanad, Kochi-30

Petitioner

ORDER

The Kerala State Electricity Regulatory Commission having scrutinized the Petition on ARR&ERC for 2005-06 filed by KINFRA Export Promotion Industrial Parks Limited *vide* their letter No.KEPIP/ERC/2005 dated May 31, 2005 and considered the comments of the KSEB on the petition, heard the views of the petitioner, the KSEB and the consumers of KINFRA Export Promotion Industrial Parks Ltd, in the Commission's proceedings on 23.5.2005 and having considered other documents and materials on record passes the following order in exercise of the powers vested in it under the Electricity Act, 2003 in this behalf.

Sd/-
C.Balakrishnan
Member

Sd/-
M.K.G.Pillai
Chairman

Authenticated copy for issue

Secretary

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

Order on Petition No. TP 11 of 2005

ARR&ERC of KINFRA Export Promotion Industrial Parks Ltd for FY 2005-06

1. Background

Government of Kerala had granted a license for distribution of power to KINFRA Export Promotion Industrial Parks Limited to supply electricity to various establishments within the park area *vide* G.O. (P) No: 18/2003/PD dated 8.5.2003. Accordingly, KINFRA Export Promotion Industrial Parks Limited(KEPIP) is a deemed distribution Licensee under the first proviso of Section 14 of Electricity Act, 2003

Presently, the Park receives power at 110 kV with Contract Demand of 7250 kVA from the Kerala State Electricity Board (KSEB) and supply to the establishments/industrial units within the park area.

KINFRA Export Promotion Industrial Parks Limited had five HT consumers and thirty seven LT consumers and eighteen temporary consumers during FY 2004-05. The number of HT consumers is expected to grow to fifteen and the LT consumers to sixty five and temporary consumers to twenty during the FY 2005-06.

During the year 2004-05, KINFRA Export Promotion Industrial Parks Limited received 16.31 MU of electrical energy from the KSEB and in turn supplied 15.29 MU to the ultimate consumers.

During the year 2005-06, the intake of energy is expected to increase to 30.73 MU with supply of 29.69 MU to the consumers.

The intake, sales, self consumption of energy and distribution loss are tabulated below:

Particulars	FY 2004-05 (Actual)	FY 2005-06(Projected)
Energy Intake, MU	16.31	30.73
Self consumption, MU	0.06	0.10
Energy Sold, MU	15.29	29.69
Distribution Loss,MU	0.96	0.94
% Distribution Loss	5.90	3.06

The load factor of KEPIP was in the range of 48% to 84% and the average power factor was about 0.90 for the FY 2004-05.

2. ARR&ERC for the year 2005-06

The ARR&ERC for 2005-06 filed by KINFRA Export Promotion Industrial Parks Limited projected a revenue gap of Rs.2.94 lakhs during 2005-06 as per details given below:-

(Rs.lakhs)			
Sl. No	Particulars	FY 2004-05	FY 2005-06
1	Power Purchase Cost	520.46	1018.41
2	Interest charges	50.86	66.61
3	Depreciation	33.88	58.13
4	Employee cost	13.05	15.60
5	Repair & Maintenance Cost	31.40	38.00
6	Administration&General Expenses	7.53	21.72
7	Other Expenses	-	-
8	Gross Expenses (total 1 to 7)	657.18	1218.47
9	Less Expenses capitalized	-	-
10	Less Interest capitalized	-	-
11	Aggregate Revenue Requirement	657.18	1218.47
12	Revenue from Tariff	661.51	1210.53
13	Non tariff Income	3.40	5.00
14	Total Revenue	664.91	1215.53
15	Surplus/(Deficit)	7.73	(2.94)

The Commission sought the comments of the KSEB *vide* letter dated 6.6.2005 on the ARR&ERC for 2005-06 filed by KEPIP. . The comments of KSEB *vide* letter No.KSEB/TRAC/A&F/898/565 dated 24.6.2005 and response of KEPIP *vide* letter dated 15.7.2005 are summarized below.

i. Employee Cost

The KSEB pointed out that KEPIP had not given the split up details of employee cost and objected the inclusion of the employee cost of senior staff such as MD, Executive Engineer *etc.*, in the licensee's business and questioned the increase in employee cost.

KEPIP stated that as majority of KEPIP's employees were on contract basis, the split up details like DA, allowances *etc.*, were not applicable. Only portion of the employee cost of the administrative staff was accounted in the licensee's expenses. KEPIP stated that the increase

in employee cost projected for 2005-06, was mainly due to anticipated revision in salary scales.

ii. A&G expenses

KSEB sought explanation on the escalation of A&G expenses and provisions for security arrangements and other professional services and estimation for duty under Section 3(1), payable to the Government as a Licensee.

KEPIP stated that the A&G expenses included various outsourced services such as security and technical services and project management consultancy charges for the proposed expansion of 110 kV Substation. The duty payable under section 3(1) of Electricity Duty Act has been shown in revenue from sale of power.

iii. O&M Expenses

Against the KSEB's objection on details relating to consumption of stores, fuel *etc.*, KEPIP replied that the expenses for stores, fuel *etc.*, were included in the charges payable to the external agencies, engaged in the operation and maintenance of substation and distribution system.

iv. Power Purchase Cost

KEPIP clarified that the projected power purchase cost for 2005-06 was based on the estimated power requirements.

v. Capitalization of expenses

Regarding the objection of the KSEB on capitalization of expenses, KEPIP stated that capitalization was not done as the operations of licensee were started with existing assets transferred by KEPIP.

vi. Service connections charges

KEPIP stated that the service connection charges were accounted as revenue from sale of power, as per the format of Form G in the ARR & ERC filing.

The Commission directed Kinfra Export Promotion Industrial Parks Limited to furnish a copy of the ARR&ERC to each of their consumers, which was complied with by KEPIP. Only five consumers responded to the ARR&ERC. The summary of objections received from consumers and the response of KINFRA are given below.

M/S Kerala Chemicals and Proteins Ltd(KCPL)

a. KPCL complained that published data on AR&ERC by KEPIP was inadequate for detailed study. KEPIP stated that ARR &ERC summary was forwarded to all consumers and KEPIP would be ready to provide any further specific information on request.

b. Against the KCPL's objection on increase in A&G expenses, KEPIP replied that the increase was due to the estimated consultancy charges for the prospective 110 k V expansion project.

c. On the question of apportioning of the administrative charges and assets accounted for depreciation in ARR, KEPIP stated that only a portion of the total administrative charges was included in the Licensee's expenses and depreciation of assets exclusively used for Licensee's business only was accounted in the ARR.

d. Regarding the KCPL's question on the inclusion of capital expenditure, KEPIP stated that capital expenditure to the tune of Rs. 766 Lakhs was projected for 2005-06 which was shown in the schedule of GFA and balance sheet.

e. Regarding the objection raised by KPCL on non-capitalisation of expenses and interest, KEPIP responded that operations of licensee has started with existing assets transferred by KEPIP and hence expenses had not been capitalized.

f. KEPIP confirmed that the details on energy purchase and sales had been given in the ARR&ERC and the power purchase cost was calculated on the estimated energy requirements, based on the prevailing tariff of the KSEB

g. KPCL objected to charging interest on working capital. KEPIP stated that interest @7% on borrowed amount was only included in the ARR and no interest on working capital was considered.

h. KEPIP confirmed that the details on assets and depreciation were given in the ARR filing and ARR&ERC filing did not include tariff petition.

M/S Koyenco Steels Private Limited

Koyenco Steels commented on the cost benefit ratio of KEPIP. KEPIP stated that marginal reduction in the cost benefit ratio was due to increase in contract demand envisaged in 2005-06.

M/S L.J International Ltd and M/S Kinfra Export Park Industries Association

These two consumers sought clarification on depreciation and revenue gap. KEPIP stated that depreciation was being accounted for as per CERC guide lines and no revenue gap was envisaged during the FY 2005-06.

M/S GEOAIR, Air-conditioning & Refrigeration Manufacturers (P) Ltd did not raise any objections on the filing

The Commission *vide* letter dated 9.6.2005 had sought details on the various points and copy of documents related to the ARR&ERC filing and the Licensee's operations. KEPIP submitted the details *vide* letter KEPIP/ARR2005-06/888/2005 dated 4.7.2005. Some of the important points in this submission are given below:

- a. The nominal capital of KEPIP is Rs. 300 Lakhs , out of which paid up capital is only Rs. 25 Lakhs. The equity base for Distribution Licensee business is yet to be decided.
- b. All the consumers of KEPIP are provided with Prepaid meters and meter rental is charged only in the case of consumers transferred from the KSEB who are yet to be provided with prepaid meters.
- c. KEPIP has not planned for any repayment of loan during 2005-06 since the terms and conditions of the loan are yet to be finalized by the government.
- d. KEPIP is not supplying power from captive DG sets. KEPIP is fully dependent on the KSEB for its power requirement.
- e. KEPIP is planning to conduct a detailed energy audit
- f. KEPIP is not engaged renewable energy technology utilization at present.

2. Proceedings of the Commission

The Commission held proceedings on 23rd August 2005 at Commission's Office at Thiruvananthapuram for hearing KINFRA Export Promotion Industrial Parks Limited, Kerala State Electricity Board and consumers availing supply from them, on the petition for ARR&ERC for 2005-06 filed by KEPIP. KEPIP, KSEB and representatives of three consumers of KEPEIP attended the proceedings.

The Commission sought clarification on the T&D loss of the Licensee. The KEPIP informed that the maximum single length of HT line was less than one km and the LT line lengths were insignificant. Therefore, KEPIP attributed the underloading of two Nos. of the 10 kVA., 110/11 kV transformers as well as higher THD (total harmonic distortion) as the major components of the T&D losses. KEPIP stated that an energy audit including study on the harmonics was being planned to be conducted shortly by a competent external agency. The Commission suggested expediting the study so as to identify the consumers

causing exceedingly high THD and providing local filters and suitable measures to mitigate THD in the Licensee's system. The Commission also suggested optimizing the transformer loading and monitoring the total transformer loss.

The Commission called for explanation on the substantial reduction to the tune of 8 MU in the actual sale of energy in 2004-05, as compared to what was assumed in the order on ARR&ERC for 2004-05. KEPIP stated that the estimation was made based on the demand projected for the existing and prospective Consumers in the Park. However, the expected load growth had not taken place during 2004-05, which was beyond the control of KEPIP.

The Commission questioned the hike in employee cost and A&G expense. The KEPIP stated that appointment of resident engineer and some essential technical and operational personnel for the Licensee's business and the anticipated salary revision during 2005-06 were the reasons for the increase in the employee cost. KEPIP explained that the operational expenses for the office being set up for the Licensee and consultancy charges proposed for the prospective 110 kV substation expansion resulted in the increase of the A&G expenses.

The representatives from the Consumers viz. M/s. Infopark and M/s. L.J. International put forth issues relating to tariff categorization. The Commission opined that at present the prevailing tariff structure of the KSEB was followed by KEPIP and specific issue, if any, should be sorted out by taking up the matter by the consumer with the licensees.

Representative of M/s.Koyenco steels raised the issue of delay in enhancing the contract demand. M/s Infopark pointing out an issue related to the development charges and supervision charges for new service connections. The issue of suspected error in metering was raised by M/s L.J. International. The Commission observed that all these issues came under the category of consumer grievances, which should be considered by the licensee in right perspective and fair decisions taken there of.

3. Commission's Order on ARR&ERC for 2004-05

In accordance with the directive of the Commission to revise the depreciation as per CERC guidelines, the KINFRA Export Promotion Industrial Parks Limited had filed a revised ARR&ERC on August 9, 2005, The summary of the ARR&ERC of KEPIP for the FY 2005-06, after making necessary arithmetic corrections, is furnished below:-

(Rs.lakhs)

Sl. No	Particulars	FY 2004-05	FY 2005-06
1	Power Purchase Cost	520.46	1018.41
2	Interest charges	50.86	66.61
3	Depreciation	23.66	22.89
4	Employee cost	13.05	15.60
5	Repair & Maintenance Cost	31.40	38.00
6	Administration&General Expenses	7.53	21.72
7	Other Expenses	-	-
8	Gross Expenses (total 1 to 7)	646.96	1183.23
9	Less Expenses capitalized	-	-
10	Less Interest capitalized	-	-
11	Aggregate Revenue Requirement	646.96	1183.23
12	Revenue from Tariff	661.51	1210.53
13	Non tariff Income	3.40	5.00
14	Total Revenue	664.91	1215.53
15	Surplus	17.95	32.30

The Commission hereby approves an Aggregate Revenue Requirement of Rs.1183.23 lakhs and total Expected Revenue from Charges of Rs.1215.53 crores with a surplus of Rs.32.30 Lakhs. The Commission approves the continuance of the existing tariffs and other charges by KINFRA Export Promotion Industrial Parks Limited till further orders.

5. Commission's Directives

1. KEPIP shall submit the DPR including project schedule for the proposed 110 k V Substation expansion project for Commission's approval.
2. KEPIP shall claw back the surplus generated and depreciation availed in the distribution business for reducing the loan amount and in turn minimizing the interest burden in the subsequent ARRs.
3. On finalization of the accounts for the FY 2004-05, KEPIP shall submit the actual audited accounts for the electricity distribution business for the FY 2004-05 along with following details:
 - i. Actual monthly TOD meter recording of kWh, kVAh, kVARh, maximum demand, average PF and LF for normal, peak and off-

peak period and similar recorded meter reading for selfconsumption and for energy sold to consumers, category wise and voltages wise.

- ii. Monthly cyclic billing and collection data in respect of all categories of consumers.
 - iii. Payments to KSEB along with billing details.
 - iv. actual distribution loss based on the metered figures.
4. The draft power purchase agreement initialed by KSEB and KEPIP shall be submitted to the Commission for approval, as early as possible.
5. KEPEIP shall submit copy of the report of proposed energy audit and measures for mitigating the Harmonic Distortion in the distribution system with action plan to minimize the Distribution Loss.

List of Participants in the Hearing held on 23.8.2005 at the Commission's office.

KINFRA Export Promotion Industrial Parks Ltd

1. Mr. J. Sudhakaran Nair., Technical Advisor (Electrical)
2. Mr. K.G. Narayananakutty , Resident Engineer(I/C), KEPIP
3. Mr. Shreekrishna Bhat, A.O. KEPIP

KSEB, Thiruvananthapuram

4. Mr. V. Ramesh Babu, Dy.C.E-TRAC
5. Mr. P. Devapalan, F.O, TRAC.
6. Mr. S. Prasad, AEE, TRAC

Consumers of KINFRA Export Promotion Industrial Parks Ltd

7. Mr. Sakaria, Electrical Engineer, Infopark
8. Mr. C.V. Sundarabose, Director, CONT/PJ, Infopark
9. Mr. Riyas.K.M, Koyeno Steels (P) Ltd.
10. Mr. V. Unnikrishnanan, L.J. International Ltd.