

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

PRESENT: Sri.K.J.Mathew, Chairman

May 11, 2011

Petition No. OP 41 /2010

In the matter of

Truing up of Accounts of Technopark for the year 2007-08

Petition No. OP 42 /2010

In the matter of

Truing up of Accounts of Technopark for the year 2008-09

Technopark, Thiruvananthapuram

- Petitioner

ORDER

Background

1. M/s Technopark, Thiruvananthapuram (*herein after mentioned as Technopark or the licensee*) is a deemed distribution licensee of the Commission. The Commission in its order on ARR&ERC for 2007-08, had observed that separation of accounts of Technopark and opening balance sheet as on 1-4-2007 is required. Accordingly a due diligence study was conducted and in the Order dated 31-12-2009, the Commission approved the opening balance sheet for the distribution operations of M/s Technopark. The ARR&ERC petitions for the year 2008-09 and 2009-10 was not filed by Technopark since the due diligence study was in progress. Technopark, as per the letter dated 30-7-2010 filed the audited accounts for 2007-08. Later on 7-10-2010, the audited accounts for 2008-09 were provided by the licensee. The Commission accepted the accounts as the petition on truing up. The Commission in its letter dated 25-10-2010, sought clarifications on the truing up petition for both the years. Further clarifications were sought as per letter dated 29-10-2010. The licensee provided the details as per letter dated 28-10-2010 and 8-11-2010. A clarification meeting with Technopark officials were also held at the office of the Commission on 19-1-2011. Reply on the clarification sought during the meeting was provided as per

letter dated 31-1-2011. As per the petition filed by the licensee the actual expenses reported for 2007-08 and 2008-09 are as follows:

Category	2007-08 (Rs.lakhs)		2008-09 (Rs.lakhs)	
	Approved	Actual	Approved	Actual
Power Purchase cost	1,353.39	1,383.20		1,723.95
Interest & Financing charges	58.29	50.99		56.67
Depreciation	45.96	46.79		65.75
Employee costs	10.35	6.36		9.11
R&M Expenses	32.71	32.21		54.49
A&G Expenses	73.32	47.99		59.92
Prior period adjustments	-	(0.79)		4.82
Extra ordinary items		(17.20)		(1.00)
Total expenditure	1,574.02	1,549.55		1,973.71
Revenue from Tariff	1,534.15	1,570.87		2,025.39
Other income	68.38	26.25		31.50
Total Revenue	1,602.53	1,597.12		2,056.89
Revenue (Gap)/Surplus	28.51	47.57		83.18

2. As shown above, there is no approved figures for 2008-09 since there was no petition on ARR&ERC filed by the licensee for the year. The Commission observes that the justification of the licensee is not sustainable for non-filing of ARR&ERC. The licensee had not formally sought any exemption for filing the ARR&ERC. The Commission would take appropriate steps on this issue in due course.

Hearing on the petition

3. The hearing on the petition was scheduled on 10-11-2010 at the Office of the Commission. Representatives of Technopark and Kerala State Electricity Board were present for the hearing. The Board raised the following objections:
 - a. The cost structure of Technopark is high. The A&G expenses for the electricity distribution business of Technopark is much higher than KSEB.
 - b. The proportional allocation followed for assigning A&G expenses, R&M expenses, employee cost etc. in not proper. The telephone charges and electricity charges booked are much higher.
 - c. Since Technopark has a compact area, the T&D loss is very high
4. In reply to the objections/comments, the licensee stated that the repair and maintenance expenses in the licensee area is outsourced and amount of contract is only included as part of the expenses. In the case of employee costs, only the cost of persons working for the distribution business is charged into the business.

The self consumption or electricity for common purposes are charged at the appropriate tariff (LT 2A) and income is booked. In the case where expenses are not able to assign directly, 40% is assigned to the distribution business.

Analysis and decisions of the Commission

- The Commission has considered the objections and the reply and clarifications given by Technopark in finalising the truing up. The truing up petition for 2007-08 and 2008-09 of the licensee are considered together as mentioned in sections below:

Energy sales and T&D Loss

- In 2007-08, the Commission had approved energy sales of 37.19 MU and energy requirement/purchase from KSEB as 40.60 MU. Accordingly the T&D loss approved for 2007-08 was 8.5% as shown below.

	2007-08 (Approved)
Energy Billed by KSEB (with 3% loss) at 110 kV level (lakh units)	406.40
Net Energy to the System (at 11 kV) (lakh units)	394.21
Energy Sales (lakh units)	371.85
Loss %	8.5%

As against this, the actual distribution loss reported by the licensee was 8.3% and 3% respectively for 2007-08 and 2008-09. In 2008-09, the loss was comparatively low. For the purpose of truing up the actual loss level reported by the licensee is accepted.

	2007-08	2008-09
Total Energy purchase (lakh units)	415.40	434.80
Energy sales (lakh units)	381.00	421.70
Distribution loss (%)	8.3%	3.0%

Power purchase:

- The actual power purchase reported by the licensee was Rs.1383.21 lakhs and Rs.1724 lakhs for 2007-08 and 2008-09. The licensee has clarified that the amount booked under power purchase is net of electricity duty under Section

3(1). The split up details filed by the licensee on power purchase cost is as follows:

	2007-08	2008-09
Energy purchased (MU)	41.54	43.48
Fixed charges (Rs.lakhs)	279.68	318.99
Variable charges (Rs.lakhs)	1,103.53	1,177.08
section 3 duty (Rs.lakhs)	21.11	32.05
Fuel surcharge (Rs.lakhs)		227.88
Total charges (Rs.lakhs)	1,404.32	1,756.00

8. The section 3 duty is not admissible in the ARR&ERC. Accordingly , the power purchase cost net of electricity duty allowed for the purpose of truing up is as follows.

	Actuals		True up	
	2007-08	2008-09	2007-08	2008-09
Energy purchased (MU)	41.54	43.48	41.54	43.48
Fixed charges (Rs.lakhs)	279.68	318.99	279.68	318.99
Variable charges (Rs.lakhs)	1,103.53	1,177.08	1,103.53	1,177.08
Section 3 duty (Rs.lakhs)	21.11	32.05		
Fuel surcharge (Rs.lakhs)		227.88	-	227.88
Total charges (Rs.lakhs)	1,404.32	1,756.00	1,383.21	1,723.95

Employee costs:

9. The actual employee costs for both years reported by Technopark for 2007-08 is Rs.6.36 lakhs and for 2008-09 is Rs. 9.11 lakhs. In 2007-08, the approved employee cost was Rs. 10.35 lakhs. In the clarifications the licensee has provided the details of employees fully and partially assigned to the distribution business. As part of employee costs 25% of the total staff welfare expenses of Technopark is also charged in the distribution business. The Commission noted the apportionment method adopted by the licensee. In the case of staff welfare expenses, the percentage allocation should have been based on the total allocated expenses to the distribution business rather than a fixed percentage of 25%. The Commission has already initiated steps for engaging a consultancy for apportioning the joint costs of the small licensees. Based on the study, the Commission will finalise its view on joint costs. Till then the present method adopted by the licensee is accepted for the purpose of truing up process for 2007-08 and 2008-09.

R&M expenses

10. The R&M operations of the licensee is carried out by an outside agency. The actual R&M expenses booked for 2007-08 was Rs.32.21 lakhs and Rs.54.49 lakhs for 2008-09. The reason provided by the licensee for increase in A&G expenses was the asset addition during 2007-08. As part of the details provided by the licensee, it was stated that the outsourced agency is entrusted with the maintenance of total infrastructure. The licensee has also provided a copy of the agreement with the agency. The Commission has examined the agreement which includes all electrical equipments in the park, including equipments not part of distribution business such as for water supply and Diesel generators. During the clarification meeting the Commission directed the licensee for segregation/apportionment of the cost of the distribution business alone. In reply, the licensee in its letter dated 31-1-2011 has provided separate estimate of R&M expenses. As per the details, about 68% of the contract amount is for electrical distribution, about 22% for plumbing/waterworks and 10% for fire and safety. As per the agreement equipments included in the contract consists of a total 20MVA transformers, 79 HT circuit breakers, 36 LT circuit breakers, 12.5km UG 11kV cables, about 42 batteries, 23 nos of diesel generators (total 8.56 MVA), 14 motors (total 227kW), 29 elevators (total 170 passengers capacity), 13 water pumps (total 330kW), 4 compressors (166 tonne) etc., The Commission notes that the licensee as part of its main operations, separately charges the clients/consumers for water, diesel generation and other miscellaneous services. Further, other than transformers, circuit breakers and cables, other items are not part of the distribution assets. Accordingly, the apportionment used by the licensee is not completely convincing. Considering the fact that the Commission has initiated the process of segregation of joint costs, for the purpose of truing up the estimates of apportionment provided by the licensee is accepted. Accordingly, the R&M expenses allowed for truing up is as follows:

R&M Expenses Approved for Truing up (Rs.lakhs)

	Approved	Actuals	Truing up
2007-08	32.71	32.21	21.90
2008-09		54.49	37.05

11. In this context, the Commission directs that, the licensee now on shall outsource the operations by following transparent bidding process and segregate the

assets of electricity distribution for the purpose of operation and maintenance, so that the expenses are easily identifiable.

A&G Expenses

12. The actual A&G expenses booked by the licensee under this head is Rs.47.99 lakhs and Rs.59.92 lakhs respectively for 2007-08 and 2008-09. As against this, the approved expenses for 2007-08 was Rs.73.32 lakhs. The major item of expenses booked under A&G expenses was security charges, which is about 18% in 2007-08 and 37% in 2008-09 of total A&G expenses. According to the licensee, the 25% of total security charges are apportioned for the distribution business. The licensee in its letter dated 31.1.2011 stated that 3 persons each for 11 substations (total 33 persons) are assigned for security. The Commission notes that as part of O&M expenses round the clock operation and maintenance persons are being engaged and further, the Technopark campus is well secured as part of Park operations. There is no justification for separate security for each substation in a well fortified complex. Accordingly, the Commission is not in a position to accept the provision for security for substations in addition to the maintenance personnel. Other charges under A&G expenses are allocated at 25% of the total business. Another major item of expenses is electricity charges, which is about Rs.20 lakhs. The total income accounted as part of self consumption is about Rs.48 to 50 lakhs only. The licensee in its letter dated 31-1-2011 clarified that out of the total business, the distribution business accounts for 50% of the total revenue. Considering this, 40% of the electricity charges are assigned to the distribution business. The Commission notes that the rationale provided by the licensee is not convincing since, the business income generated is not based on the electricity consumption. The Commission directs that as far as possible the consumption on account of distribution business shall be separated and all the consumption on account of the licensees business (distribution as well as other business) shall be separately metered and billed as per the appropriate tariff. The licensee shall provide the details of such connections including consumption and billing category on account of self consumption within one month of the date of this order. Till such time the Commission allows the electricity charges as reported by the licensee.

A&G expenses allowed for Truing up (Rs.lakhs)

	Approved	Actuals	Truing up
2007-08	73.32	47.99	39.17
2008-09		59.92	37.56

Depreciation:

13. The depreciation claimed by the licensee is as per the CERC norm. The total addition to the Gross fixed assets and the depreciation claimed for the three years is as follows:

Asset class	GFA beginning of the year (Rs.lakhs)		Depreciation (Rs.lakhs)		Rate of depreciation
	2007-08	2008-09	2007-08	2008-09	
Civil works	188.95	188.95	3.40	3.40	1.8%
Transmission lines	281.57	654.96	10.13	23.57	3.6%
Substations	815.12	967.56	29.34	34.83	2.6%
11kV works	83.28	83.28	2.99	2.99	3.6%
LT lines, service connections	24.41	24.41	0.87	0.87	3.6%
Metering equipments	0.83	0.83	0.02	0.03	3.5%
Others	0.91	0.91	-	0.03	3.3%
Total	1,395.07	1,920.90	46.75	65.72	2.9%

As per the established regulatory principles, depreciation on assets created out of grants are to be excluded from allowable expenses unless the replacement of capital assets are segregated from routine capital additions. The Commission is formulating a policy on claiming depreciation on the assets made out of grants and contribution from consumers. Hence a final view on this issue will be taken after the finalisation of the policy. The Commission has taken up a due diligence study of the accounts of the licensee and an order was issued on the opening balance sheet of the licensee. The source of funds (liabilities) as per the opening balance sheet of the licensee as on 1-4-2007 approved by the Commission is as follows:

Source of Funds	Rs. Lakhs
Capital funds	572.95
Government Grant	412.98
Corpus fund	159.97
One time connection charges	118.47
Income & expenditure A/c	(5.31)
Secured loan	161.00
Unsecured loan - Technopark	638.17
Total	1,485.28

14. As per the above, the grant/contribution of consumers/Government is about Rs.531.45 lakhs. Accordingly, about 38% of the fixed assets can be treated as funded through contribution. Hence, 38% of the total depreciation booked shall be on account of the assets created out of contribution, which shall not be on the

accounts of the consumers. Hence it is directed that the 38% of the depreciation booked (Rs.42.76 lakhs) shall be kept separately in a fund and shall be utilised for additional capital expenditure with the approval of the Commission. The utilisation of the fund can be taken up along with each ARR&ERC exercise with proper capital expenditure programme. The Commission provisionally allows the claim of depreciation in the truing up, which is liable to be clawed back once a final view is taken by the Commission.

Interest and financing charges:

15. The interest and financing charges booked for the year 2007-08 and 2008-09 are Rs.50.99 lakhs and Rs.56.66 lakhs. The licensee has provided the details of the loans availed and the interest thereon. The interest charges booked also include interest on security deposits of the consumers. As per the information provided by the licensee two loans worth Rs.53 crore were taken for the purpose of establishing Bhavani, Gayathri and Tejeswani blocks. Of this, 11.78% and 11.22% are assigned for the distribution assets. Accordingly proportion of the actual interest paid is allocated to the distribution business. Based on the details provided by the licensee, the Commission allows the interest charges as booked by the licensee for the purpose of truing up.

Interest and expenses capitalised

16. The licensee has not booked any item under this head

Return on equity

17. The licensee has not booked any return in the books and also not claimed any return. The Commission feels that, as a separate entity, the licensee has to carry out financial operations independently. The proposed consultancy assignment taken up for the licensees will look into the issues of amount of equity in the small licensees' business. Considering this, the Commission decides that a token amount of Rs.10 lakhs per year from the surplus can be transferred to reserves.

Non tariff Income

18. As per the licensee, the revenue earned under this head is the interest received on the security deposit held by KSEB and interest on bank deposits. The total non-tariff income booked by the licensee is Rs.26.25 lakhs and Rs.31.50 lakhs

respectively for 2007-08 and 2008-09. The Commission approves the non-tariff income as per the actuals for the purpose of truing up.

Revenue from tariff

19. The licensee has stated that all the income received is booked under this head, which includes, revenue from sale of power, electricity duty collected, reconnection fee, meter rent etc. The total revenue from sale of power for 2007-08 was Rs.1570.87 lakhs and Rs.2025.39 lakhs for 2008-09. The Commission notes that the licensee has not provided the revenue from sale of power according to tariff category. After considering the details submitted by the licensee, the Commission approves the income from tariff as shown by the licensee for purpose of truing up. However, the licensee shall provide the details of revenue from tariff as per the tariff category separately showing the connections under self consumption within one month.

Aggregate Revenue Requirements and Revenue surplus after truing up

20. The revenue surplus reported by the licensee for the year 2007-08 and 2008-09 was Rs.47.57 lakhs and Rs.83.10 lakhs respectively. The revenue surplus arrived after the truing up exercise for the year 2007-08 and 2008-09 is as follows:

Category	2007-08 (Rs. Lakhs)			2008-09 (Rs.lakhs)		
	Approved	Actual	Truing up	Approved	Actual	Truing up
Power Purchase cost	1,353.39	1,383.20	1,383.20		1,723.95	1,723.95
Interest & Financing charges	58.29	50.99	50.99		56.67	56.67
Depreciation	45.96	46.79	46.79		65.75	65.75
Employee costs	10.35	6.36	6.36		9.11	9.11
R&M Expenses	32.71	32.21	21.90		54.49	37.05
A&G Expenses	73.32	47.99	39.17		59.92	37.55
Prior period adjustments	-	(0.79)	(0.79)		4.82	4.82
Extra ordinary items		(17.20)	(17.20)		(1.00)	(1.00)
Return on investment			10.00			10.00
Total expenditure	1,574.02	1,549.55	1,540.42		1,973.71	1,943.91
Revenue from Tariff	1,534.15	1,570.87	1,570.87		2,025.39	2,025.39
Other income	68.38	26.25	26.25		31.50	31.50
Total Revenue	1,602.53	1,597.12	1,597.12		2,056.89	2,056.89
Revenue (Gap)/Surplus	28.51	47.57	56.70		83.18	112.98

The total surplus after truing up for the 2007-08 and 2008-09 is as follows:

Year	Revenue Surplus (Rs.Lakh.)		
	Approved	Actual	True Up
2007-08	28.51	47.57	56.70
2008-09		83.18	112.98
Total		130.75	169.68

21. The total revenue surplus after the true up is Rs.169.68 lakh. The surplus so arrived at shall be separately held in an account and shall be utilised only as per the direction of the Commission. The surplus may be appropriated for meeting the additional power purchase cost due to revision of BST with the permission of the Commission.

Orders of the Commission

22. The Commission after considering the petition filed by the licensee and the objections thereof, additional details and clarifications and other materials placed before it, came to the conclusion that the total revenue surplus after truing up process for the year 2007-08 and 2008-09 of Technopark is Rs.169.68 lakhs. The revenue surplus shall be separately held in an account and shall be utilised as per the directions of the Commission. The Surplus may be utilised for meeting the additional power purchase cost due to revision of BST with the permission of the Commission.

23. The licensee while outsourcing the operation and maintenance of plants and machinery, lines, cables etc., has to necessarily follow a transparent process of competitive bidding for selecting the O&M agency. While doing so, as far as possible should segregate the assets of electricity distribution, so that expenses can be easily identifiable.

24. The licensee shall install meters for self consumption and such consumption shall be billed in appropriate tariff. The licensee shall provide the details of such connections including consumption and billing category on account of self consumption within one month of the date of this order.

25. The licensee shall provide the tariff category wise details of sales and revenue from sale of power within one month.

26. The licensee shall create a separate fund for crediting the depreciation on account of contributions and grants. The fund may be utilised for capital expenditure with the prior approval of the Commission. The utilisation of the fund can be taken up along with each ARR&ERC exercise with proper capital expenditure programme.

The petitions disposed off . Ordered accordingly.

Sd/-

K.J.Mathew
Chairman

Approved for Issue

Secretary