

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

PRESENT : Shri. K.J.Mathew, Chairman  
Shri P Parameswaran, Member  
Shri. Mathew George, Member

**May 16, 2011**

**Petition OP No.53 /2010**

In the matter of

Truing up of accounts of Cochin Port Trust for 2004-05

**Petition OP No.54 /2010**

In the matter of

Truing up of accounts of Cochin Port Trust for 2005-06

**Petition OP No.55 /2010**

In the matter of

Truing up of accounts of Cochin Port Trust for 2006-07

**Petition OP No.56 /2010**

In the matter of

Truing up of accounts of Cochin Port Trust for 2007-08

**Petition OP No.57 /2010**

In the matter of

Truing up of accounts of Cochin Port Trust for 2008-09

Cochin Port Trust, Cochin

- Petitioner

# ORDER

## Background

1. M/s.Cochin Port Trust (hereinafter referred to as CPT or licensee) is a deemed Distribution Licensee of the Commission. The Commission has been approving the ARR&ERC of M/s CPT since 2004-05. The Commission vide letter dated 24-12-2009 directed all licensees to provide the truing up details for the years for which ARR&ERC orders were issued. In reply M/s.CPT provided a comparison of approved and actual income and expenses for the years from 2004-05 to 2008-09 vide its letter dated 25-1-2010. Since the details submitted by M/s CPT were inadequate, the Commission directed the licensee for filing the formal truing up petition providing all information. Accordingly, M/s CPT furnished the truing up petition for the years from 2006-07 to 2008-09 on 16-03-2010. The Commission in its letter dated 22-03-2010 again directed CPT to furnish true up details for the balance years 2004-05 and 2005-06. As per the direction of the Commission, CPT filed the truing up petition for 2004-05 and 2005-06 on 13-1-2011. The Commission proposes to dispose of all the petitions together in this order.
2. The Commission conducted a hearing on the petition on 12-08-2010. Clarifications on the petition were sought vide letter dated 05-08-2010. Considering the inconsistencies in the filing, the Commission insisted to have detailed scrutiny of the petition. M/s.CPT had provided details on the clarification in its letter dated 13-09-2010. On scrutiny, several discrepancies were noticed in the data provided by the licensee. Further, the clarifications provided by the licensee were also inadequate. In order to revise the petition and for seeking further clarifications on many issues, the Commission arranged a meeting with M/s.Cochin Port Trust on 13-1-2011. Many shortcomings and data insufficiencies in the petition were pointed out to M/s.CPT during the meeting. It was pointed to M/s.CPT that the separation of accounts of distribution licence was not done so far and the auditing of the accounts is also pending. The representatives of M/s.CPT stated that they are in the process of implementation of computerization through SAP in the organization and as soon as it is implemented the separation of accounts for the distribution licence at the minutest level will be possible. The representatives of M/s.CPT further assured

that from 2011-12, the new system will be fully in place and all details can be retrieved through the new system. During the meeting it was clarified that joint expenses such as employee costs, A&G expenses, R&M expenses etc., are booked for the purpose of truing up of accounts based on apportionment basis, since the actual expenses incurred on distribution business were not separately available/maintained. The Commission also pointed out the discrepancies in the details filed by M/s.CPT for the years 2006-07, 2007-08 and 2008-09. On the issue of auditing of accounts of licenced business, M/s CPT officials clarified that the accounts of distribution business is not separately shown in the main audited accounts of CPT, which is merged in the accounts, and the same is audited by C&AG.

3. The clarifications and corrected figures were given through various emails and through fax by M/s.CPT during the course of the processing of the petition. The present petition is processed based on the revised filings made by the M/s.CPT in the course of processing the petition. Based on the revised filing and additional information provided, the comparison of actual and approved ARR&ERC of M/s.CPT for 2004-05 to 2008-09 is as follows:

Particulars	2004-05 (Rs.lakhs)		2005-06 (Rs.lakhs)	
	Approved	Actual	Approved	Actual
<b>Revenue</b>				
Revenue from tariff	1,394.34	1,386.44	1,481.78	1,386.48
Other income	6.11	6.08	6.61	6.06
<b>Total Income</b>	<b>1,400.45</b>	<b>1,392.52</b>	<b>1,488.39</b>	<b>1,392.54</b>
<b>Expenses</b>				
Power purchase cost	782.62	790.74	848.68	840.58
Interest & Financing charges	133.64	134.59	134.28	135.54
Depreciation	49.48	47.67	42.55	43.44
Employee costs	177.91	201.76	188.00	186.87
R&M Expenses	84.13	84.98	87.87	75.95
A&G Expenses	92.45	93.89	96.29	78.44
Return on investment	28.87	28.87	-	27.52
<b>Total Expenses</b>	<b>1,349.10</b>	<b>1,382.50</b>	<b>1,397.67</b>	<b>1,388.34</b>
Revenue Surplus/(gap)	51.35	10.02	90.72	4.20

Particulars	2006-07 (Rs.lakhs)		2007-08 (Rs.lakhs)		2008-09 (Rs.lakhs)	
	Approved	Actual	Approved	Actual	Approved	Actual
<b>Revenue</b>						
Revenue from tariff	1,540.16	1,436.68	1,675.78	1,563.79	1,684.12	1,655.73
Other income	6.83	0.78	1.48	1.20	1.48	-
<b>Total Income</b>	<b>1,546.99</b>	<b>1,437.46</b>	<b>1,677.26</b>	<b>1,564.99</b>	<b>1,685.60</b>	<b>1,655.73</b>

<b>Expenses</b>						
Power purchase cost	848.01	854.08	879.03	897.65	1,013.61	1,094.07
Interest & Financing charges	132.68	143.25	145.88	145.93	407.96	363.93
Depreciation	43.72	63.24	46.34	64.17	46.34	95.94
Employee costs	173.72	175.79	206.44	204.33	175.62	138.31
R&M Expenses	74.23	33.12	34.83	20.00	29.66	39.61
A&G Expenses	88.23	98.88	114.44	103.88	114.89	49.13
Return on investment	-	27.20	-	-	-	-
<b>Total Expenses</b>	<b>1,360.59</b>	<b>1,395.56</b>	<b>1,426.96</b>	<b>1,435.96</b>	<b>1,788.08</b>	<b>1,780.99</b>
Revenue Surplus/(gap)	186.40	41.90	250.30	129.03	(102.48)	(125.26)

### Hearing on the matter

4. Hearing on the truing up petition was held on 12-8-2010. List of persons who attended the hearing is given in the annexure. During the hearing Kerala State Electricity Board presented their arguments on the petition.

### Analysis and decision of the Commission

5. While taking up the truing up petition, the Commission viewed with concern the following issues which are to be resolved by M/s.CPT without any delay

#### a. Separation of accounts:

The licensee has not yet separated the accounts from the main business. Though the C&AG is auditing the accounts of the licensee, there is no separate auditing carried out for the distribution business. The Commission has on several occasions directed the licensee to separate the accounts, which have not been complied with. The accounts of the distribution business is included in the main operations of the licensee. It can be seen that it is possible to assign expenses directly on majority of the cost elements in the system except for some portion of employee costs, and overhead expenses. Hence, the Commission is of the view that the practice of apportionment presently followed by M/s CPT has to be immediately stopped. M/s. CPT stated that they are implementing the complete computerization through SAP and the segregated details will be available from 2010-11. They have requested that for the previous years, extracting the details manually from the accounts is not possible, and hence the truing up for the years upto 2008-09 may be done with the present data.

The Commission notes that independent auditing of the accounts of distribution business is not undertaken by the licensee so far. For truing up, separation of accounts and auditing of accounts are necessary. It is clarified by CPT officials that as part of auditing of main business by C&AG, distribution business is also audited. But no separate auditing of distribution business is carried out and it is merged with the main accounts. M/s CPT has agreed to take up the matter with C&AG for separate auditing of distribution business now on. *Based on the undertaking of CPT, the Commission directs that the licensee shall separate the accounts from 2010-11 and separate auditing shall be done preferably by C&AG. The truing up filing shall be done along with separate audit certificate. The Licensee shall submit a report on the issue within a month.*

**b. Assignment of joint costs:**

The major heads of expenses such as employee costs, R&M expenses and A&G expenses have been assigned to the distribution business by M/s. CPT based on apportionment basis. The licensee has been assigning the costs on an adhoc basis. For example, there are fluctuations in many expense items and during the clarification meeting the licensee stated that in the case of employee costs, a lower cost was assigned in 2008-09 since the Commission insisted on reducing the expenditure. The argument that in the manual system of accounting, no direct booking of employee costs in the distribution business is possible is unacceptable. In fact it is seen that in the case of all items of A&G expenses, about 5 to 8% of the total costs were assigned to distribution business on a thumb rule and no direct booking of expenses was done. The Commission considered the issue in detail. It was noted that the expenses are booked first and during the clarification sessions, the licensee has come out with reasons to substantiate the figures given. In the case of employee costs and A&G expenses such adhoc methods are clearly visible. The Commission has recently invited tenders for a consultancy to assist the Commission for separation costs of small licensees. In the mean time the licensee may maintain independent accounts of expenditure. Where ever it can be

easily identified and booked. However, in unavoidable instances, apportionment may be followed with explanatory memorandum providing the basis for such apportionment. However, for this truing up cases the Commission considers the apportionment methods provided by the licensee.

**c. Assignment of cost of diesel generating set:**

The licensee has diesel generating sets having 4 MVA capacity, which is mainly used as a captive set for Port operations. In the previous ARR&ERC orders, based on the details provided by the licensee, the Commission had allowed 50% of the cost of generating sets to the distribution business. However, in the clarification meeting held of 13-1-2011, the M/s.CPT has clarified that the generating sets function as a standby arrangement for the port operations. In such situation, if the cost of generating set is charged in the ARR&ERC, the burden is passed on to all the consumers, who are not the beneficiaries of the investment, which is not fair. The Commission is of the view that if any person is directly benefitted from the captive generating set, the charges may be realised from such persons only. Accordingly, the Commission holds that there is no justification for charging the cost of diesel generating sets in their distribution business.

The above observation on the issues will be duly considered while disposing of the present truing up petitions.

**Energy Sales and T&D loss**

6. Actual energy sales reported by M/s.CPT for the years 2004-05 to 2008-09 is as follows:

**Actual Energy sales (lakh units)**

Category	2004-05	2005-06	2006-07	2007-08	2008-09
HT	115.06	126.13	148.41	146.00	144.39
LT	57.03	62.52	72.26	73.52	76.09
Domestic	9.67	10.60	14.47	15.72	14.66
Self consumption	84.91	84.82	42.67	42.67	42.67
Total sales	266.67	284.07	277.81	277.91	277.81

7. M/s CPT has several times revised the energy sales details compared to the initial filing. The licensee has also clarified that the self consumption includes Water pumping and street lighting (60%), Hospital (25%), School (5%), and offices (10%). The revenue from self consumption is billed at average LT industrial category. The Commission notes that the self consumption booked by the licensee for the years from 2006-07 to 2008-09 is same and is substantially lower than the years 2004-05 and 2005-06. This may be due to the fact that self consumption is treated as residual of purchase and it could be due to lack of proper metering of all installations including street lighting. Since the self consumption is billed and revenue accounted, the Commission for the purpose of this truing up accepts the sales reported by the Licensee. The Commission reiterates that there shall not be any distinction in tariff categorization between own consumption and that of other consumers. The Commission directs that the licensee, as per the provisions of the Act shall install meters in all installations including that of the licensees and properly account the energy sales and revenue of such units in the appropriate category. *The Licensee shall provide a list of connections under 'self consumption' and the appropriate tariff category on which self consumption is to be billed.* The same shall be complied with within one month of the date of this order. *The Commission further directs that the bills for the connections under self consumption shall be appropriately raised based on the periodic meter readings and the same shall be accounted properly without any distinction with other consumers.*

### **T&D Losses**

8. Based on the energy sales and total energy input into the system actual T&D loss reported by the licensee is as follows:

	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>
Total energy sales (lakh units)	266.67	284.07	277.81	277.91	277.81
Total energy input (lakh units)	274.24	292.32	286.57	286.54	284.72
Actual Distribution Loss (lakh units)	7.57	8.25	8.76	8.63	6.91
Actual Distribution loss(%)	2.76	2.82	3.06	3.01	2.43
Approved loss (%)	2.68	2.77	3.30	3.30	3.00
Excess T&D Loss(%)	0.08	0.05	--	--	--

It can be seen that only in 2004-05 and 2005-06, actual losses are higher than the approved losses. Accordingly, the licensee is not able to achieve the loss targets set by the Commission for three years 2004-05 and 2005-06. Since T&D loss is a performance parameter in distribution, non-achievement of T&D loss target would result in the treatment approved by APTEL. The additional cost of energy equivalent to the excess T&D loss has to be deducted from the power purchase cost i.e., additional purchase necessitated due to excess T&D loss shall not be passed on to the consumers. The additional purchase necessitated due to excess T&D loss for the years 2004-05 and 2005-06 is calculated as shown below:

	2004-05	2005-06
Actual Distribution loss(%)	2.76	2.82
Approved loss (%)	2.68	2.77
Excess T&D Loss(%)	0.08	0.05
Excess energy (lakh untis)	0.22	0.15
Average power purchase cost (Rs./kWh)	2.88	2.88
Excess power purchase disallowed (Rs. Lakhs)	0.64	0.44

## Expenses

9. **Power purchase cost** : The approved and actual power purchase cost as per the accounts provided by the licensee is given below:

### Approved and actual Power purchase cost

	Approved Rs.lakhs	Actual Rs.lakhs
2004-05	782.62	790.74
2005-06	848.68	840.58
2006-07	848.01	854.08
2007-08	879.03	897.65
2008-09	1013.61	1094.07

M/s. CPT has provided the split up details of power purchase cost as follows:

	2004-05	2005-06	2006-07	2007-08	2008-09
Units purchased (lakh units)	274.24	292.32	286.57	286.54	284.72
Fixed charges (Rs.lakhs)	194.26	202.92	202.72	211.53	284.72
Variable charges (Rs. lakhs)	589.62	628.49	616.13	683.00	805.10
Other charges (Rs.lakhs)	6.86	9.17	35.23	3.12	4.25

Total charges (Rs.lakhs)	790.74	840.58	854.08	897.65	1,094.07
<b>Per unit cost (Rs./kWh)</b>	<b>2.88</b>	<b>2.88</b>	<b>2.98</b>	<b>3.13</b>	<b>3.84</b>

The licensee has clarified during the meeting held on 13-1-2011 that Section 3(1) duty is not included as part of the power purchase cost. Further, other charges include surcharge imposed by the State Government for self generation and power factor penalty. Additional charges on account of self generation etc., are not allowable as part of licensee business and hence not considered in the truing up process. In the case of power penalty, even after considerable delay the split up details could not be provided by the licensee. Hence the Commission could not verify the details. Accordingly the power purchase cost is admitted without other charges. As shown in **para 8**, the Commission has to disallow additional power purchase cost equivalent to excess T&D loss. Accordingly the power purchase cost that can be allowed in the true up is as shown below:

**Power purchase cost allowed after truing up**

Year	Approved	Actuals	Less Duty & Thermal Surcharge	Less Excess T&D loss	Expenses allowed in the True up
	(Rs,lakhs)	(Rs,lakhs)	(Rs,lakhs)	(Rs,lakhs)	(Rs,lakhs)
2004-05	782.62	790.74	6.86	0.64	783.24
2005-06	848.68	840.58	9.17	0.44	830.97
2006-07	848.01	854.08	35.23		818.85
2007-08	879.03	859.89	3.12		856.77
2008-09	1013.61	1094.07	4.25		1,089.82

**10. Interest and financing charges** : For all the years, M/s.CPT has charged interest and financing charges as part of ARR&ERC. The interest charged is for the loans advanced by the Government of India for M/s.CPT for its operations. A portion of the loan assigned for the development of the distribution system. Interest and financing charges reported by M/s.CPT as per the truing up are as follows:

**Interest and financing charges**

	Approved	Actual
	Rs. lakhs	Rs.lakhs
2004-05	133.64	134.59
2005-06	134.28	135.54
2006-07	132.68	143.25

2007-08	145.88	145.93
2008-09	407.96	363.93

11. In the ARR&ERC orders the Commission has allowed the interest charges as proposed by the licensee considering the loan additions proposed by the licensee. However, in the accounts given as part of the truing up process does not reflect the projections of the licensee. As per the information provided by the licensee, the loan outstanding for the distribution licensee operations is as follows:

**Loan outstanding and interest charges as per truing up petition**

Year	OB as per Accounts (Rs. Lakhs)	Addition (Rs.lakhs)	CB as per Accounts (Rs.lakhs)	Interest Charged (Rs.lakhs)
2004-05	1,272.71	9.09	1,281.80	134.59
2005-06	1,272.71	9.09	1,281.80	135.54
2006-07	1,313.57	50.76	1,364.33	143.25
2007-08	1,364.33	45.90	1,410.23	145.93
2008-09	1,410.95	2,010.63	3,466.03	363.93

12. The Commission also notes discrepancy in the opening/closing balance of outstanding loans and addition to GFA mainly due to the apportionment method followed by the licensee. The same was not corrected even after pointing it out to the licensee. As per the information provided by CPT, the interest is worked out based on the average interest of Government of India loans extended to CPT ie, at the rate of 10.5%. However, during the clarification meetings, M/s. CPT has stated that interest claimed is not paid to the Government since CPT is not paying any interest to the Government. Further loans are also not repaid to the Government, though it is payable to the Government. Hence, the interest commitment on the loans is consistently shown in the accounts. Such accounting methods may not be acceptable in a regulatory regime. The Commission notes that the loan commitments shown by CPT is on the proportionate basis ie., the total loan commitment of the Cochin Port Trust is apportioned /assigned to the distribution business based on the fixed asset addition. The Commission generally allows all the genuine financing charges for

the loans raised for the distribution business, which are prudent and useful for the licensed business. The non-cash expenses are also charged on the distribution business. Accordingly the licensee has to repay the loans so that only the prudent interest commitments should reflect in the tariff determination process. M/s.CPT has stated that the loans are not repaid so far and the interest commitments are also not paid so far. The Commission is of the view that it is not fair to follow such procedure for the purpose of truing up. Hence, the interest that is not paid cannot be allowed as a genuine expenditure for truing up purpose and hence excluded.

13. **Repair and maintenance expenses** : Repair and maintenance expenses as per the approved and actuals are as follows.

**Repair and maintenance expenses**

	Approved (Rs. lakhs)	Actual (Rs.lakhs)
2004-05	84.13	84.98
2005-06	87.87	75.95
2006-07	74.23	33.12
2007-08	34.83	20.00
2008-09	29.66	39.61

14. The repair and maintenance expenses for 2005-06, 2006-07 and 2007-08 are lower than the approved amount. In the clarification meeting, M/s CPT stated that repair & maintenance expenses are also charged based on the apportionment basis as well as direct booking. The reason for 'apportioning' the expenses under the item which is easily identifiable between port operations and electricity distribution business defies logic. However, according to M/s CPT, the total expenses cannot be segregated since the accounts are not separated for the distribution business. M/s.CPT also stated that the Diesel generating set is not connected to the entire grid and is purely working as captive unit for the port operations. M/s.CPT used to charge 50% of the cost on the business due to the fact that few consumers connected to the distribution line may get benefit of the captive unit during outages. The Commission notes that in the previous

ARR&ERC orders, the Commission has allowed the cost of diesel sets based on the submissions of M/s.CPT that the diesel generating sets are used for supplying to the consumers and port operations during interruptions. Accordingly 50% of the cost was allowed. However, now the CPT has clarified that Generating set is mainly for the purpose of port operations and only few consumers who are connected to the same line are occasionally enjoying the benefits and such benefits are not available to the rest of the consumers. In this circumstances, it may be proper to charge only the consumers who are enjoying the benefits of the generating sets and not all consumers. However, CPT stated that it is not possible to assign the cost only to the few consumers and the accounts are prepared on apportionment basis. As per the accounts submitted as part of the truing up process, the R&M expenses booked by the licensee is as follows:

	2004-05	2005-06	2006-07	2007-08	2008-09
	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)
Civil Works	19.00	12.98			
Generating plant & machinery	21.13	21.13	4.15	0.42	9.47
Transmission lines	40.04	37.03	27.62	18.89	28.23
Substations					
11kV lines & associated works					
11kV/0.4kV transformer					
Lt lines, service connections etc					
Vehicles	0.66	0.66	1.12	0.69	1.69
Furniture & fixtures	3.15	3.15	0.22	-	0.22
Office equipments					
Others	1.00	1.00			
Total	84.98	75.95	33.11	20.00	39.61

15. There is large variation in the R&M expenses over the years. It is mainly on account of the fact that the licensee has not separated the distribution operations and expenses are allocated from the main business almost on an adhoc basis. As shown above, the repair and maintenance expenses charged for the diesel generating sets cannot be allowed in the distribution business mainly on the fact that it is incurred for the port operations almost exclusively, which cannot be loaded on to other consumers. Accordingly for the purpose of truing up R&M expenses allowed is as follows:

Years	Approved	Actual	Less R&M for Diesel Generating Set	True up
	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)
2004-05	84.13	84.98	21.13	63.85
2005-06	87.87	75.95	21.13	54.82
2006-07	74.23	33.12	4.15	28.97
2007-08	34.83	20.00	0.42	19.58
2008-09	29.66	39.61	9.47	30.14

16. **Employee costs** : The employee costs approved and actual for the five years under consideration are as follows:

	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2004-05	177.91	201.76
2005-06	188.00	186.87
2006-07	173.72	175.79
2007-08	206.44	204.33
2008-09	175.62	138.31

17. The Commission has always been stressing that the cost under this head is very high. It is noticed that there has been no change in the employee strength for different years. As part of the clarification exercise, the abnormalities in employee costs were explained by the licensee. The matter was discussed in detail with the representatives of the licensee on 31-08-2010. On the basis of the discussions M/s.CPT has provided a report on the deployment of technical staff so as to match the expenses booked under the head vide letter dated 13-09-2010. In the letter the licensee stated that out of the 350 nos of total employees of electrical division, 20% or 70 nos are considered for the distribution division. During 2004-05, CPT received supply from KSEB from two 11 kV incomers at Wellington Island. Eight downstream substations having multiple feeders to and from different stations exist so as to have a ring main facility to ensure trouble free supply. These stations are manned 24 hours with 3 shifts. The assignment of employees given by M/s CPT is as follows:

- Receiving station:  
One switch board attender in each shift and a reliever – 4 nos

- Down stream substations:  
One each in 3 shifts for 8 stations with 50% for relievers – 36 nos
- Maintenance and repairs of distribution lines, cables switch gears etc.  
Asst. foreman -1, lineman -1, Asst -2, Mazdoor -2; for three shifts with 50% as relievers - 21 nos
- Repairs and maintenance of transformers, VCBS, RMUs etc.,  
Asst. foreman – 1, winder -2, Asst -2, Mazdoors -2, Welders-1; Total 8 nos
- Meter reading and testing staff  
Asst. foreman -1, Technicians -2, Meter reader -2, Asst. -1. Mazdoor -1 total 7
- Generating station  
Asst. foreman -1, Diesel engine driver-1, Asst -1, Asst-1, Mazdoor-1, switchboard operator-1 Total 6 nos. For 3 shifts with 50% as relievers 27 nos. of which 50% is assigned for distribution ie., 13 nos

18. The licensee stated that though the total employees deployed is 89, only 70 staff were accounted in the truing up petition. In addition to the above details, the licensee has also given another justification based on the apportionment of time utilized for distribution activities. The details given area as follows:

Category	Nos.	% assigned for distribution business
Chairman	1	5%
Chief Engineer	1	7%
Executive Engineer	1	40%
Asst. Executive Engineer	1	85%
Asst. Engineer	3	100%
Technical Staff		
Non-technical staff		

19. In addition to the above, the licensee has assigned the cost of CISF security staff deployed for the security of port operations in the distribution business. As per the details provided by the licensee the total CISF security staff is about 442 nos, of which about 10 persons work in each shift and in total 36 nos are assigned for security of distribution operations.

20. The Commission has noted the details and justification provided by the licensee for the employee costs. It is to be stated that in the absence of proper separation of functions, the employee costs assigned for each year is different and the assignment is adhoc. The assignment adopted by the licensee is also far from logical. It is clear from the details provided by the licensee that the costs are assigned first and the employee numbers are matched against it later. The licensee has about 1300 consumers and the number of consumers per employee is about 19. If we consider the security staff the ratio will further deteriorate to 12. The ratio is at any standards not comparable to any of the licensees in Kerala. The Commission is not in a position to allow such costs to be passed on to the consumers. The licensee has to reasonably assign the employees for the distribution operation. The present assignment does not reflect any reasonableness. The adhoc assignment of costs is also reflected in the variations in employee costs. According to the licensee, lower cost was assigned in 2008-09 since the Commission insisted to reduce the expenditure. It was also pointed out by the licensee that since manual system was existing, no direct booking of employee costs in the distribution business was possible and hence apportionment method was used. The licensee requested that for the previous years, extracting the details from the accounts is not possible, the truing up for the years upto 2008-09 may be done with the present method. The licensee has stated that as soon as the computerization is complete, separation of accounts can be provided. The Commission notes the reply of the licensee regarding employee costs. The Commission is of the view that it is possible to demarcate the employees for distribution operations in an almost trouble free manner. There can be apportionment for superior staff who handles more than one function. The Commission has already taken up the issue of separation of joint costs of small licensees and floated tenders for a consultancy assignment. In the meantime M/s CPT may keep separate accounts for easily identifiable expenses like employee costs.

21. The Commission after considering the detailed explanations provided by the licensee and also taking in to account the relative higher employee/consumer ration and arbitrary apportionment of the cost followed by M/s CPT, makes reduction of 10% of the employee costs to make the expenditure more rational and allows the employee cost as shown below:

	Approved	Actual	True up
	Rs. lakhs	Rs.lakhs	Rs.lakhs
2004-05	177.91	201.76	181.58
2005-06	188.00	186.87	168.18
2006-07	173.72	175.79	158.21
2007-08	206.44	204.33	183.90
2008-09	175.62	138.31	124.48

22. **Depreciation:** The depreciation booked as per the actual accounts and the approved depreciation is as follows:

	Approved	Actual
	Rs. lakhs	Rs.lakhs
2004-05	49.48	47.67
2005-06	42.55	43.44
2006-07	43.72	63.24
2007-08	46.34	64.17
2008-09	46.34	95.94

23. The depreciation booked by the licensee is substantially higher than the approved figures in the years from 2006-07 to 2008-09. During the meeting held on 13-1-2011, the licensee has clarified that depreciation is estimated based on the CERC norms. Regarding the accounting of the Diesel generating sets, it is clarified by the licensee that it is used as a captive unit for the port operations. The Commission in the previous ARR&ERC orders have allowed a part of the cost of diesel generating set considering the submissions of the licensee that the benefit is available to most of the consumers. However, as clarified by the licensee, the benefit of the captive unit is not available to all consumers. Another reason is that, the supply reliability has improved substantially with the commissioning of new 110kV substation. Hence as mentioned above, it is not fair to assign the cost to all consumers. Hence, for the purpose of truing up, the

depreciation on diesel generating set shall not be included in the truing up exercise. Accordingly the depreciation allowed for the years for truing up is as follows:

	Approved	Actual	<u>Less</u> Depreciation for Diesel generating station	True up
	Rs. lakhs	Rs. lakhs	Rs. lakhs	Rs. lakhs
2004-05	49.48	47.67	39.36	8.31
2005-06	42.55	43.44	35.50	7.94
2006-07	43.72	63.24	35.50	27.74
2007-08	46.34	64.17	35.50	28.67
2008-09	46.34	95.94	35.50	60.44

**24. Administrative and General Expenses :** The A&G expenses approved and the actual as per the accounts are as follows:

	Approved	Actual
	Rs. lakhs	Rs.lakhs
2004-05	92.45	93.89
2005-06	96.29	78.44
2006-07	88.23	98.88
2007-08	114.44	103.88
2008-09	114.89	49.13

25. As in the case of employee costs and R&M expenses, A&G expenses are also assigned to the distribution business on a percentage basis. About 5 to 8% of the total costs were assigned to distribution business and no direct booking of expenses was done. The major item under A&G expenses is security expenses which is also assigned based on apportionment basis. In the meeting held on 13-1-2011, the CPT officials clarified that due to security threats and local area issues, 24 hours security is provided to the Port by CISF. CISF is insisting on increasing the security cover, hence costs booked on apportionment method is required. However, the licensee has agreed to revisit the issue on a fair basis. In 2008-09, the A&G expenses booked are much lower than the approved figures due to the fact that only small portion of the total cost was assigned.

26. The Commission notes that the assignment of costs by the licensee is not rational. The issues are mainly on account of non-separation of accounts. The apportionment estimates of CPT on the cost of security arrangements to the distribution business is also not rational. It is not logical to assign such enormous costs of security to the substations which are supposed to be fully manned. The Commission has already assigned consultancy assignment on assigning the joint costs. The final decision on assigning the joint costs wherever such costs can be identified directly will be taken after the study. The Commission allows the A&G expenses booked by the licensee provisionally for the purpose of true up.

	Approved	Actual	True up
	Rs.lakhs	Rs.lakhs	Rs.lakhs
2004-05	92.45	93.89	93.89
2005-06	96.29	78.44	78.44
2006-07	88.23	98.88	98.88
2007-08	114.44	103.88	103.88
2008-09	114.89	49.13	49.13

27. **Other debits:** The licensee has not shown any expense under other debits.

28. **Return on equity:** The ROE approved and the actual as per the accounts are as follows:

	Approved	Actual
	Rs. lakhs	Rs.lakhs
2004-05	28.87	28.87
2005-06	0.00	27.52
2006-07	0.00	0.00
2007-08	0.00	0.00
2008-09	0.00	0.00

The CPT has claimed return on investment from 2004-05 to 2005-06 based on 3% of the net fixed assets, as per the provisions of Electricity (Supply) Act 1948. Since then no return was claimed. The Commission in the order on ARR&ERC 2005-06 has given the detailed reasoning on denying return on equity. Providing return at 3% of the net fixed assets as per the provisions of Electricity (Supply) Act 1948 is applicable to the State Electricity Boards and not to the licensees. The Commission notes that so far the licensee has developed the distribution system and associated investments completely from the funds available from Government of India and so

far there is no necessity for raising funds from outside sources. However, the Commission is of the view that in order to have financial sustainability, a reasonable amount of surplus is required for the business. As mentioned in para above. The Commission has decided to engage consultants to recommend the appropriate amount of ratebase for calculating returns for the licensees who do not have proper equity in their business. Till then the Commission is of the view that provisionally Rs.10 lakhs may be allowed as return for CPT for all years. Accordingly, the return allowed is as follows:

	Approved	Actual	True up
	Rs. lakhs	Rs.lakhs	Rs.lakhs
2004-05	28.87	28.87	10.00
2005-06	0	27.52	10.00
2006-07	0	27.20	10.00
2007-08	0	0	10.00
2008-09	0	0	10.00

**29. Revenue from Tariff :** The total revenue from sale of power reported by the licensee and the actual are given below:

	Approved	Actual
	Rs.lakhs	Rs.lakhs.
2004-05	1394.34	1386.44
2005-06	1481.78	1386.48
2006-07	1540.16	1436.68
2007-08	1675.78	1563.79
2008-09	1684.12	1655.74

30. The revenue from sale of power from different consumer categories as per the revised accounts given by the licensee after the clarification sessions is as follows:

Category	2004-05	2005-06	2006-07	2007-08	2008-09
	Rs. lakhs	Rs. lakhs	Rs. lakhs	Rs. lakhs	Rs. lakhs
HT	563.71	563.80	663.39	830.74	823.02
LT	507.43	507.04	586.03	563.20	651.40
Domestic	29.35	29.36	40.08	23.42	32.25
Self consumption	307.37	279.91	140.80	141.74	140.81
Miscellaneous	2.77	6.31	6.37	4.78	8.25
Total revenue	1,410.63	1,386.42	1,436.67	1,563.88	1,655.74

Based on the above, the average realization of each consumer category is worked out as follows:

Category	2004-05	2005-06	2006-07	2007-08	2008-09
	Rs./kWh	Rs./kWh	Rs./kWh	Rs./kWh	Rs./kWh
HT	4.90	4.47	4.47	5.69	5.70
LT	8.90	8.11	8.11	7.66	7.70
Domestic	3.04	2.77	2.77	1.49	2.20
Self consumption	3.62	3.30	3.30	3.32	3.30

31. It can be noticed that the licensee has estimated the revenue for the 'self consumption' using an average rate of Rs.3.30/kWh. During the clarification session, the Commission has insisted that the consumption for 'own units' shall be at par with other consumers in appropriate category. Accordingly, the Commission treats the income from the sales to 'own units' at par with other consumers. The APTEL had also taken similar view in KDHP Vs KSERC in Appeal No. 160/193 of 2009. The licensee in its reply during the clarification session mentioned that the self consumption includes Water pumping and street lighting (60%), Hospital (25%), Office premises (10%) and school (5%) and tariff of LT industrial category is applied for estimating the revenue. Since the tariff applied is not substantially different, the Commission accepts the estimates of revenue from 'self consumption'.

32. **Non tariff Income:** The non-tariff income reported by the licensee for different years is given below.

	Interest on deposits	Income from right of way	Total
	Rs. Lakhs	Rs. Lakhs	Rs. Lakhs
2004-05	5.30	0.78	6.08
2005-06	5.28	0.78	6.06
2006-07	-	0.78	0.78
2007-08	-	1.20	1.20
2008-09	-	-	-

33. The licensee has not accounted interest on security deposits paid to KSEB from 2006-07 onwards on the reason that KSEB has not paid the interest. It was clarified by the licensee that only an amount of Rs.5 lakh was given to KSEB towards security deposit. The amount was enhanced to Rs.1.21 Crore in

November 2008. The licensee has also stated that the income received from right of way is also done away with from 2008-09 onwards. The Commission notes the explanation of the licensee but is not in agreement with the explanation given. If the licensee is eligible for getting interest on the security deposit, it has to be accounted as income and cannot be wished away on the reason that KSEB is not paying the same. The licensee has to follow up the matter with KSEB for getting the interest. In the case of income received from right of way, as per Section 51 of the Act, if the assets of the licensee is used for other business the income has to be used for reducing the wheeling charges. Accordingly, the licensee cannot decide unilaterally to give up the income from other sources. The licensee shall within one month provide to the Commission a report on the issue. With this observation, the income from other source is considered for the purpose of truing up is as follows:

	Approved	Actuals	True up
	Rs. Lakhs	Rs. Lakhs	Rs. Lakhs
2004-05		6.08	6.08
2005-06		6.06	6.06
2006-07		0.78	0.78
2007-08		1.20	1.20
2008-09		-	-

**34. Aggregate Revenue Requirement and ERC after truing up :** The ARR&ERC after the truing up process is as follows:

Particulars	2004-05 (Rs.lakhs)			2005-06 (Rs.lakhs)		
	Approved	Actual	True up	Approved	Actual	True up
<b>Revenue</b>						
Revenue from tariff	1,394.34	1,386.44	1,410.63	1,481.78	1,386.48	1,386.48
Other income	6.11	6.08	6.08	6.61	6.06	6.06
<b>Total Income</b>	<b>1,400.45</b>	<b>1,392.52</b>	<b>1,416.71</b>	<b>1,488.39</b>	<b>1,392.54</b>	<b>1,392.54</b>
<b>Expenses</b>						
Power purchase cost	782.62	790.74	783.24	848.68	840.58	830.97
Interest & Financing charges	133.64	134.59	-	134.28	135.54	-
Depreciation	49.48	47.67	8.31	42.55	43.44	7.94
Employee costs	177.91	201.76	181.58	188.00	186.87	168.18
R&M Expenses	84.13	84.98	63.85	87.87	75.95	54.82
A&G Expenses	92.45	93.89	93.89	96.29	78.44	78.44
Return on investment	28.87	28.87	10.00	-	27.52	10.00
<b>Total Expenses</b>	<b>1,349.10</b>	<b>1,382.50</b>	<b>1,140.88</b>	<b>1,397.67</b>	<b>1,388.34</b>	<b>1,150.35</b>
Revenue Surplus/(gap)	51.35	10.02	275.83	90.72	4.20	242.19

Particulars	2006-07 (Rs.lakhs)			2007-08 (Rs.lakhs)		
	Approved	Actual	True up	Approved	Actual	True up
<b>Revenue</b>						
Revenue from tariff	1,540.16	1,436.68	1,436.67	1,675.78	1,563.79	1,563.88
Other income	6.83	0.78	0.78	1.48	1.20	1.20
<b>Total Income</b>	<b>1,546.99</b>	<b>1,437.46</b>	<b>1,437.45</b>	<b>1,677.26</b>	<b>1,564.99</b>	<b>1,565.08</b>
<b>Expenses</b>						
Power purchase cost	848.01	854.08	818.85	879.03	897.65	894.53
Interest & Financing charges	132.68	143.25	-	145.88	145.93	-
Depreciation	43.72	63.24	27.74	46.34	64.17	28.67
Employee costs	173.72	175.79	158.21	206.44	204.33	183.90
R&M Expenses	74.23	33.12	28.97	34.83	20.00	19.58
A&G Expenses	88.23	98.88	98.88	114.44	103.88	103.88
Return on investment	-	27.20	10.00	-	-	10.00
<b>Total Expenses</b>	<b>1,360.59</b>	<b>1,395.56</b>	<b>1,142.65</b>	<b>1,426.96</b>	<b>1,435.96</b>	<b>1,240.56</b>
Revenue Surplus/(gap)	186.40	41.90	294.80	250.30	129.03	324.52

Particulars	2008-09 (Rs.lakhs)		
	Approved	Actual	True up
<b>Revenue</b>			
Revenue from tariff	1,684.12	1,655.73	1,655.74
Other income	1.48	-	-
<b>Total Income</b>	<b>1,685.60</b>	<b>1,655.73</b>	<b>1,655.74</b>
<b>Expenses</b>			
Power purchase cost	1,013.61	1,094.07	1,089.82
Interest & Financing charges	407.96	363.93	-
Depreciation	46.34	95.94	60.44
Employee costs	175.62	138.31	124.48
R&M Expenses	29.66	39.61	30.14
A&G Expenses	114.89	49.13	49.13
Return on investment	-	-	10.00
<b>Total Expenses</b>	<b>1,788.08</b>	<b>1,780.99</b>	<b>1,364.01</b>
Revenue Surplus/(gap)	(102.48)	(125.26)	291.73

35. Total revenue surplus after truing up is as follows:

	Approved	Actual	True up
	Rs.Lakhs	Rs.Lakhs	Rs.Lakhs
2004-05	51.35	10.02	275.83
2005-06	90.72	4.20	242.19
2006-07	186.40	41.90	294.80
2007-08	250.30	129.03	324.52
2008-09	(102.48)	(125.26)	291.73
<b>Total</b>			<b>1,429.06</b>

## **Order of the Commission**

36. The Commission after considering the truing up petitions of M/s CPT for 2004-05 to 2008-09 and the details and clarifications hereby arrive at a total revenue surplus of Rs.1429.06 lakhs after the truing up process for M/s. CPT for the years 2004-05 to 2008-09. The licensee shall keep the additional surplus so arrived at after the truing up process in a separate fund and utilized as per the orders of the Commission. The additional cost on account of increase in power purchase cost may be met from this fund and the utilisation shall be periodically informed to the Commission.
37. Based on the undertaking of M/s.CPT, the Commission directs that the licensee shall separate the accounts from 2010-11 and separate auditing shall be done preferably by C&AG for the distribution business. The licensee shall take up the matter with C&AG immediately. The truing up filing shall be done along with separate audit certificate. The Licensee shall submit a report on the issue within two months.
38. The Licensee shall provide a list of connections under 'self consumption' and the appropriate tariff category on which self consumption is to be billed. The same shall be complied with within one of the date of this order. The Commission further directs that the bills for the connections under self consumption shall be appropriately raised based on the periodic meter readings and the same shall be accounted properly without any difference with other consumers.
39. The petitions are disposed of with the above directions. Ordered accordingly.

Sd/-

**P.Parameswaran**  
**Member**

Sd/-

**Mathew George**  
**Member**

Sd/-

**K.J.Mathew**  
**Chairman**

**Approved for Issue**

**Secretary**

**List of persons attended the Public Hearing held on 12-8-2010**

1. Shri. Abdul Rahim M.M, Cochin Port Trust
2. M.T Samuel, Cochin Port Trust
3. Shri. Ramesh Babu V, Kerala State Electricity Board
4. B. Pradeep, Kerala State Electricity Board
5. Prasad. S, Kerala State Electricity Board