

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

PRESENT: Sri.T.M.Manoharan, Chairman
Sri. P. Parameswaran, Member
Sri. Mathew George, Member

20th November, 2013

Petition No. OP 22 /2013

In the matter of
Truing up of Accounts of Technopark for the year 2010-11

M/s.Technopark, Thiruvananthapuram - Petitioner

ORDER

Background

1. M/s Technopark, Thiruvananthapuram (*herein after mentioned as Technopark or the licensee*) filed its truing up petition for 2010-11 vide their letter dated 22-03-2013. The petition was admitted on 24-6-2013. and clarifications on the petition was sought vide letter dated 26-6-2013. The details were submitted by the licensee vide letter dated 12-8-2013. Since the details provided by the licensee were not sufficient, the Commission vide letter dated 29-8-2013, 2-9-2013 & 21-10-2013 sought additional clarifications and the same was furnished vide letter dated 11-9-2013, 28-9-2013 & 31-10-2013.
2. As per the petition filed by the licensee, the actual expenses reported for 2010-11 in the petition are as follows:

Comparison of Approved and Actual ARR&ERC for 2010-11

	2010-11 (approved)	2010-11 (Actual)
Particulars		
Revenue from Sale of power	2,408.12	2,289.71
Non – Tariff Income	33.70	23.95
Total Revenue	2,441.82	2,313.66
Expenses		
Purchase of Power	2,082.68	2,100.56
Repair & Maintenance	65.00	102.71

Employee costs	12.40	14.11
A & G Expenses	55.96	44.81
Depreciation	112.76	101.02
Interest & Finance Charges	129.86	66.23
Prior period adjustments	-	0.19
Total Expenses	2,458.66	2,429.63
Return on Capital	22.39	
Aggregate Revenue Requirements	2,481.05	2,429.63
Surplus/(Deficit)	39.23	-115.97

Hearing on the petition

3. The hearing on the petition was held on 24-7-2013 at the Office of the Commission. Representatives of licensee and Kerala State Electricity Board were present for the hearing. The Board raised the following objections:
- As per the records of KSEB, the power purchase by the petitioner was 5,37,16,275 units for an amount of Rs.21,73,18,635/-. However the details given in Form F are different and are lower by 13,425 units and higher by Rs.29,29,529/-. The interest on security deposit paid by the Board is not included as part of non-tariff income.
 - The distribution loss for the year 2010-11 reported by the licensee is 5.68%, which is higher than the approved loss. Hence the cost incurred for excess purchase of power may be disallowed.
 - The O&M expenses is higher by 58% over the approved expenses. Rs.20.25 lakh is booked towards service connection charges, which needs clarification. The amount of Rs. 82.26 lakhs paid to the agency carrying out the O&M activities needs prudence check and the Commission may take the same approach as done for 2008-09 and 2009-10.
 - The security expenses accounted under A&G expenses is high. The electricity charges accounted as part of A&G expenses may be allowed if the directions in this regard given earlier is complied with.
 - The average realisation for the year is lower compared to previous year. The licensee has not provided the consumer category wise details of self consumption.
 - The Commission has issued specific directions on depreciation and to create separate fund for transferring the depreciation expenses. The licensee has not complied with the above directions.

- g. The interest on security deposit actually paid to the consumers needs to be allowed.
4. Reply of the licensee on the objections/comments of KSEB was furnished vide letter dated 12-8-2013. The licensee has clarified that verification on the details on the power purchase figures are required before furnishing the comments on the discrepancy of power purchase details. Regarding O&M expenses, the licensee stated that the repair and maintenance expenses in the licence area are outsourced and the amount of contract only is included as part of the expenses. The licensee also stated that from 2010-11 onwards, selection of the agency was done on competitive bidding process.
 5. The Commission called for the details of O&M contract entered into by the licensee and further details vide letter dated 2-9-2013 and the licensee furnished part of the details vide letter dated 11-9-2013. After substantial lapse of time, the Commission has to issue notice vide letter dated 21-10-2013 for furnishing balance details, by giving 10 days time. The licensee has furnished the balance details vide letter dated 31-10-2013.

Analysis and decisions of the Commission

6. The Commission considered the petition, objections and the replies thereof by the licensee Technopark and the Board in finalising the truing up. Each item of the petition is discussed below.

Energy sales and Distribution Loss

7. The total sales reported by the licensee for 2010-11 is 50.64MU. In 2010-11, the licensee has availed power connection to phase III campus also. However, as per the details given by the licensee, there is no consumer in phase III at present and hence no sale was reported in phase III. Power connection to phase III is also separate. Thus, for the purpose of distribution loss, sales and energy input in phase I campus only are considered.
8. As per the filing the distribution losses for the year is 5.32% considering the energy purchase of 53.49 MU and sales of 50.64 MU. However, in the reply on the clarification sought by the Commission, the licensee has revised the sales and purchase details vide letter dated 31-10-2013. The details of monthwise demand and copies of power purchase bills were also produced. The revised details given by the licensee are as shown below:

Sales, Energy Purchase and Losses for 2010-11

	2010-11		
	Approved	Initial filing	Revised filing
Energy purchase	63.11	53.49	53.06
Energy sales	60.46	50.64	49.92
Distribution loss	4.20%	5.32%	5.92%

9. The distribution losses approved for the year was 4.2%, where as the actual loss is 5.92%. The licensee has not given any specific reason for the higher losses in 2010-11. As per the practice, the excess cost of purchase of energy on account of non-achievement of distribution loss target has to be deducted from the cost of power purchase. Accordingly, the excess power purchase for 2010-11 is as shown below:

	2010-11	
	Actual	Truing up
Energy sales (MU)	49.92	49.92
Distribution loss (%)	5.92%	4.20%
Energy Requirement (MU)	53.06	52.11
Excess Distribution loss (%)		1.72%
Excess Energy purchase (MU)		0.95

Power purchase:

10. Though power purchase cost reported by the licensee in the filing was Rs.2100.57 lakhs for 2010-11, as per the item wise details furnished by the licensee vide letter dated 31-10-2013, the total power purchase cost is reported as Rs.2037.61 lakhs as shown below:

	2010-11	
	As per the original filing	Revised filing
Energy purchased (MU)	534.91	530.63
Fixed charges (Rs.lakhs)	385.88	367.51
Variable charges (Rs.lakhs)	1545.6	1,532.07
Fuel surcharge (Rs.lakhs)	16.59	60.02
Other charges (Rs.lakhs)	152.48	78.02
Total charges (Rs.lakhs)	2,100.55	2,037.61

11. The Board has commented that the units purchased and the amount of power purchase are not consistent with their records. The licensee has furnished the power purchase details for each phase separately. As per the revised details given by the licensee, the total power purchase includes purchase for phase III and Phase I. The licensee has proposed to include power purchase details of Phase I only in the truing up as no consumers are connected in Phase III during the year. Hence, the difference pointed out would be mainly on account of the power purchase in Phase III.
12. As per the practice, the cost of excess distribution loss has to be disallowed. Accordingly, the power purchase cost net of excess distribution loss, allowed for the purpose of truing up, is as follows.

Power Purchase Cost Allowed for 2010-11

	As per the original filing	Revised filing	(Truing up)
Energy purchased (lakh units)	534.91	530.63	530.63
Fixed charges (Rs.lakhs)	385.88	367.51	367.51
Variable charges (Rs.lakhs)	1545.6	1,532.07	1,532.07
Fuel surcharge (Rs.lakhs)	16.59	60.02	60.02
Other charges (Rs.lakhs)	152.48	78.02	78.02
Total charges (Rs.lakhs)	2,100.55	2,037.61	2,037.61
Average Power purchase cost (Rs./kWh)		3.84	3.84
Excess Power purchase (lakh units)			9.51
Cost of Excess purchase (Rs.lakhs)			36.51
Power purchase cost allowed (Rs.lakhs)			2,001.10

Employee costs:

13. The actual employee costs reported by the licensee for 2010-11 is Rs. 14.11 lakhs. The approved employee costs is Rs.12.40 lakhs. As per the methodology used by the Licensee, 25% of the total staff welfare expense of Technopark (Rs.4.12 lakhs) is also charged to the distribution business. The Commission noted the apportionment method adopted by the licensee. 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

2010-11. Here the employee cost reported by the licensee is allowed for truing up purpose.

R&M expenses

14. The R&M operations of the licensee is carried out by an outside agency. The actual R&M expenses booked for 2010-11 was Rs.102.70 lakhs as against the approved amount of Rs.65 lakhs. The details provided by the licensee is as shown below:

Details of R&M expenses for 2010-11

	Rs. lakhs
Repairs to buildings	0.19
O&M Expenses	82.27
Others-Service connection charges	20.25
Total	102.71

15. The licensee in the clarifications furnished vide letter dated 12-8-2013 has stated that the repair and maintenance of Phase I campus is outsourced to M/s Aegis Power Engineers and the repair and maintenance of 110kV substation at the Technopark phase III is outsourced to M/s Electrotek Engineers Private Limited. The licensee has stated that the agency for O&M activities has been selected through competitive bidding process. In order to ascertain the R&M expenses for the distribution business, the Commission sought the details of R&M expenses exclusively for the distribution business. As per the details furnished by the licensee vide letter dated 11-9-2013, the contract for O&M works at Technopark campus was given to M/s Aegis Power Engineers under the title 'Operation & maintenance of power, water and telephone distribution system in Technopark'. The periodic maintenance details given in agreement shows that the activities carried out are not limited to electricity distribution. The list of equipments includes, distribution transformers, High tension switch gears, 24Volt Battery system, diesel generating sets, Centralised AC, & lifts in Park Centre, pump house motors etc.,. Hence it is clear that O&M charges shown in the filing, are not limited to distribution of electricity alone. The Commission in the Order dated 11-5-2011 on the truing up of accounts for 2007-08 and 2008-09, had arrived at an allocation factor of 68% for distribution business, after examining the details furnished by the licensee. In the same manner, in the present case also, the Commission is inclined to allow only 68% of the expenses claimed (ie., 68% of

Rs.82.27 lakhs) for the reason that the R&M booked is inclusive of assets other than used for distribution business. Accordingly, the R&M expenses allowed for the plant and machinery is Rs.55.94 lakhs for 2010-11 for the purpose of truing up.

16. The licensee has included Rs.20.25 lakhs towards service connection charges. The licensee has clarified that the amount is towards the electricity connection charges paid towards power allocation of initial demand of 5MVA for phase II and III campuses. Since this amount is in the nature of capital expenditure, the same is not admissible under R&M expenses, and hence is excluded. The net R&M expenses allowed for 2010-11 is Rs.56.13 lakhs

A&G Expenses

17. The actual A&G expenses booked by the licensee for 2010-11 amounts to Rs.44.81 lakhs. Major item of expenses booked under A&G expenses are security charges, which is about 36% of the total A&G expenses. According to the licensee, security persons provided to the substations are in addition to the persons engaged in operations of the said stations. The licensee has apportioned 25% of the security charges, telephone expenses, printing expenses under A&G expenses of distribution business. The Commission has already taken a position that O&M expenses include those for the operation and maintenance of persons engaged round the clock. 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. As such, the Commission is not in a position to accept the provision for security for substations in addition to the maintenance personnel. Another major item of expenses is electricity charges, which is about Rs.12.96 lakhs. The total revenue accounted as part of electricity for self use is about Rs.32.40 lakhs. The licensee stated that 40% of the electricity charges of Park Centre is assigned to the distribution business as electricity charges. The Commission in its order on truing up of accounts for 2009-10 of M/s Technopark has noted that the rationale provided by the licensee is not convincing since, the business income generated is not based on the electricity consumption. Hence, the Commission directed that as far as possible the consumption on account of distribution business shall be separated and all the consumption on account of the licensee's business (distribution as well as other business) shall be separately metered and billed as per the appropriate tariff. Accordingly, the Commission has sought the details of electricity consumption of Park Centre. The licensee vide letter dated 31-10-2013 stated

that the self consumption booked is towards the electricity charges at the Park Centre (administrative) building, which is Rs.32.41lakhs, of which 40% is assigned as electricity charges for the distribution business. Thus, it is clear that electricity used by the technopark for purposes such as water pumping etc., has not properly shown as self consumption. Hence a clarity on the self consumption booked by the licensee is required. The Commission has assigned the task of examining the joint costs of the licensee to the consultants and the report is being finalised. Till such time, the claim of the licensee is allowed for the purpose of truing up. Thus the A&G expenses allowed for the purpose of truing up is Rs.28.41 lakhs.

Depreciation:

18.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 years are as follows:

Depreciation claimed for 2010-11

	GFA beginning of the year 2010-11 (Rs.lakhs)	Depreciation (Rs.lakhs)	Rate of depreciation
Civil works	188.95	3.40	1.80%
Transmission lines	661.94	23.83	3.60%
Substations	1,938.68	69.79	3.60%
11kV works	83.28	3.00	3.60%
LT lines, service connections	24.41	0.88	3.61%
Metering equipments	2.53	0.09	3.56%
Others	0.91	0.03	3.30%
Total	2,900.70	101.02	

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 has taken a decision that depreciation on the assets made out of grants and contribution from consumers are not allowable. In the source of funds (liabilities) in the opening balance sheet of the licensee as on 1-4-2007 approved by the Commission, after the due diligence study, the grant/contribution of consumers/Government is about Rs.531.45 lakhs and the same amount of fixed assets can be treated as funded through contribution. Accordingly, the Commission in the previous truing up order has directed the licensee to keep

38% of the total depreciation booked in a separate account which shall be utilised for additional capital expenditure with the approval of the Commission. However, the Commission notes that the licensee so far has not created the separate fund for this purpose, for which the Commission may initiate separate proceedings after due process. Considering these matters, the Commission allows the depreciation for the year 2010-11 for the purpose of truing up as shown below:

Depreciation allowed for 2010-11

	GFA beginning of the year (Rs.lakhs)	Depreciation (Rate %)	Depreciation (Rs.lakhs)
Total GFA	2900.7		101.02
Less Grants/contributions	531.45	3.60%	19.13
Depreciation allowable	2369.25		81.89

Interest and financing charges:

19. The interest and financing charges booked for the year 2010-11 is Rs.66.23 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 (Rs.27.38 lakhs). As per the information provided by the licensee two loans of total worth of 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.

20. The Commission sought the details of actual interest paid on consumers security deposits. As per the information given by the licensee vide letter dated 28-9-2013, Rs.27.25 lakhs has been transferred to the consumers' account as interest on security deposits, which is same as the amount claimed by the licensee for the year. Hence, the same amount is allowed for the purpose of truing up. Accordingly, total interest and financing charges allowed for the purpose of truing up for the year 2010-11 is Rs.66.23 lakhs

Interest and expenses capitalised:

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

Other Expenses:

22. The licensee has included Rs.0.19 lakhs as net prior period charges. The Commission accepts the amount booked by the licensee for the purpose of truing up.

Return on equity

23. 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 carryout financial operations independently. Considering this, the Commission allows an amount of Rs.10 lakhs per year as surplus for the distribution operations.

Non tariff Income

24. 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.23.95 lakhs. The Commission approves the non-tariff income as per the actuals for the purpose of truing up.

Revenue from tariff

25. The revenue from sale of power furnished by the licensee in the filing for the year is Rs.2289.71 lakhs, which is inclusive of income from street lighting, delayed payment charges, meter rent etc. However, as per the revised filing dated 30-10-2013, the revenue from sale of power furnished by the licensee is as shown below:

Revenue from sale of power for 2010-11

	No. of consumers	Energy Sales	Revenue
HT-I General	1	6.44	30.99
HT II(IT&ITES)	11	136.90	556.15
LT IIA (IT & ITES)	59	275.29	1,269.67
LT IIB (IT & ITES)	111	49.47	219.02
LT I General (lph)	57	1.35	12.23
LT I General (3ph)	70	17.06	160.22
Self Consumption	7	9.97	32.41
Public lighting		1.28	4.33
Total	316	497.76	2,285.01
Delayed payment surcharge			5.97

Other receipts			0.19
Total			2,291.17

26. As shown above, the total revenue from sale of power for the year is 2291.17 lakhs, the same is considered for the truing up.

Aggregate Revenue Requirements and Revenue surplus after truing up

27. The revenue surplus arrived at after the truing up exercise for the year 2010-11 is as follows:

Revenue surplus/gap after truing up for the year 2010-11

Category	2010-11 (Rs. Lakhs)		
	Approved	Actual	Truing up
Power Purchase cost	2,082.68	2,037.61	1,995.29
R&M Expenses	65.00	102.71	56.13
Employee costs	12.40	14.11	14.11
A&G Expenses	55.96	44.81	28.41
Depreciation	112.76	101.02	81.89
Interest & Financing charges	129.86	66.23	66.23
Other debits	-	0.19	0.19
Return on investment	22.39		10.00
Total expenditure	2,481.05	2,366.68	2,252.25
Revenue from Tariff	2,408.12	2,291.17	2,291.17
Other income	33.70	23.95	23.95
Total Revenue	2,441.82	2,315.12	2,315.12
Revenue (Gap)/Surplus	(39.23)	(51.56)	62.87

28. The revenue surplus after the true up is Rs.62.87 lakhs as against the revenue gap of Rs.51.56 lakhs based of the revised filing. The surplus so arrived at shall be separately held in an account and shall be utilised only as per the direction of the Commission.

Collection efficiency

29. The licensee reported that as per the directions of the Commission notices were issued to defaulting consumers and substantial arrears have been realised. As per the details furnished by the licensee in 2010-11, 323 disconnection notices were issued and an amount of Rs.1556.72 lakhs worth arrears have been realised. In seven cases disconnection has been made, and no dues is remaining. However, in the 'demand-collection-balance' statement furnished by

the licensee subsequently vide letter dated 31-10-2013, the status of collection efficiency is reported as shown below:

Demand-Collection-Balance Statement for 2010-11

	Opening Balance (Rs.lakhs)	Demand (Rs.lakhs)	Collection (Rs.lakhs)	Closing Balance (Rs.lakhs)	Collection Efficiency (Rs.lakhs)
HT	55.69	556.15	547.97	63.86	89.6%
HT I	3.11	30.99	31.57	2.54	92.6%
LT IIA	95.83	1,269.67	1,263.97	101.53	92.6%
LT II B	21.16	219.02	221.80	18.38	92.3%
LT I Single phase	1.10	12.23	12.50	0.83	93.8%
LT I Three phase	17.49	160.22	157.47	20.23	88.6%
Total	194.38	2,248.27	2,235.28	207.37	91.5%

30. As shown above, the collection efficiency of the licensee is just above 90%, which is not satisfactory. The receivables are increasing every year. Licensees like technopark should have 100% collection efficiency. The Commission in previous occasions have commented on the poor collection efficiency of the license. Though licensee has reported that 323 notices were issued in the year, the data furnished do not corroborate such details. Considering this, the Commission is of a considered view that the licensee has to urgently move towards pre-payment metering system to improve the collection efficiency. Accordingly it is directed that the licensee shall draw up a plan for conversion to pre-payment metering system in the Phase –I area, and furnish the status report to the Commission within two months. While issuing this direction, the Commission has duly considered the direction already issued on conversion of electro-mechanical meters to electronic meters and the slow progress of compliance thereof.

Orders of the Commission

31. The Commission after considering the petition filed by the licensee and the objections thereon, additional details and clarifications and other materials placed before it, came to the conclusion that the total revenue surplus of Technopark after the truing up process for the year 2010-11 is Rs.62.87 lakhs. The revenue surplus shall be separately held in an account and shall be utilised as per the directions of the Commission.

32. The Commission notes with displeasure that the licensee has not furnished required information promptly for completing the truing up process in time.

The Commission has to seek the details on several occasions with reminders, and the required details were provided after inordinate delay. The information furnished by the licensee has been revised subsequently, which reflects the lack of credibility in maintaining the accounts and other required information. The Commission takes note of this lapse seriously.

33. The licensee shall furnish a plan for the progressive migration to pre-payment metering system within two months. As directed in the truing up order for 2009-10, the licensee shall credit the depreciation on the assets created using contributions and grants in the designated fund.. 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.

34. The petition is disposed of . Ordered accordingly.

**Sd/-
P.Parameswaran
Member**

**Sd/-
Mathew George
Member**

**Sd/-
T.M.Manoharan
Chairman**

Approved for Issue

**Sd/-
Secretary**