

KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

Petition No. : OP 37/2013

In the matter of : ARR & ERC of M/s Kanan Devan Hills Plantations Company Limited for 2014-15

Petitioner : M/s Kanan Devan Hills Plantations Company Limited, Munnar

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

ORDER DATED 7-5-2014

Background

1. Kanan Deven Hill Plantations Company Private Limited (*hereinafter referred to as KDHPCL or the licensee*) is a distribution licensee supplying electricity in Munnar. The licensee vide its letter dated 20-11-2013 filed the petition for approval of ARR & ERC for 2014-15 as per the provisions of KSERC (Tariff) Regulations 2003. The petition was admitted on 13-01-2014. In the petition, M/s. KDHPCL has projected an Aggregate Revenue Requirements (ARR) of Rs.2106.72 lakh and total revenue of Rs.2002.48 lakh leaving a deficit of Rs.104.24 lakh. Abstract of the petition is given below:

Abstract of ARR&ERC for 2014-15

Particulars	2011-12	2012-13	2013-14	2014-15
	Actual	Actual	Approved	Projection
Energy sales (in MU)	35.96	35.83	37.04	36.90
Energy Input(in MU)	49.43	50.08	49.91	50.97
Less Feed Back (in MU)	6.68	7.23	6.88	7.45
Energy Requirement (Billed Unit) (MU)	42.75	42.85	43.03	43.53
Distribution Loss (In (MU)	6.79	7.02	5.99	6.63
Distribution Loss (%)	13.74%	14.02%	12.00%	13.00%
Revenue				
Revenue from Sale of Power	1,499.64	1,719.30	1,953.75	1,994.02
Non – Tariff Income	13.22	34.46	8.43	8.46

Total Revenue	1,512.86	1,753.76	1,962.18	2,002.48
Expenses				
Power purchase cost	1,528.97	1,748.71	1,844.11	1,906.01
Interest and Finance charges	43.10	68.11	10.48	8.46
Depreciation	16.95	15.74	16.51	17.34
Employee cost	87.23	99.50	72.13	120.30
R&M expenses	13.29	21.13	21.05	25.96
A&G expenses	35.77	15.23	8.94	15.81
Other debits	12.58	12.49	0.20	12.84
Return on Investment	34.37		5.00	
Total Expenditure	1,772.26	1,980.91	1,978.42	2,106.72
Revenue Surplus/ (Gap)	-259.40	-227.15	-16.24	-104.24

2. The licensee has published the abstract of the petition in the news papers as shown below:

- Malayala Manorama (Kottayam edition) : 21-1-2014
- Indian Express (Kochi edition) : 21-1-2014
- The Daily Thanthi (Dindigul edition) : 21-1-2014

A public hearing was held on 14-2-2014 at the Panchyath Hall, Munnar.

Hearing on the Matter

3. In the hearing held on 14-02-2014, representatives of the licensee, KSEB Limited and a few consumers were present. Sri.P.M.Srikrishnan, Exe. Director of KDHPCL presented the ARR & ERC for 2014-15 and responded to the queries of the Commission. Shri. B.Pradeep, Executive Engineer, TRAC presented responses of KSEB Limited. Written copy of the comments were also served on the party. In their comments, KSEB Limited mentioned that the distribution loss claimed by the licensee for the year 2014-15 is 13%, which is higher than the approved level of 12% in 2013-14. Hence, the Commission may fix the distribution loss target below 12% for the year 2014-15. M/s KSEB Limited further stated that, the Commission has directed the licensee to upgrade the distribution system and the licensee has agreed to avail power supply at 66kV. The respondent has given the estimates for the same. However, the petitioner has not included the same in the capital expenditure programme for the approval of the Commission. The respondent requested that the petitioner may be directed to file appropriate capital expenditure programme along with funding plans for system improvement in compliance with the directives already issued by the Commission. The petitioner has requested the Commission to reduce the BST to bridge the revenue gap. Since the licensee is already holding a surplus of

Rs.645.63 lakh, the same may be used to bridge the revenue gap if any approved for 2014-15.

4. M/s KSEB Limited further pointed out that the average tariff projected by the petitioner is not in line with the average tariff projected by the Commission while approving the revision of retail supply tariff effective from 1-5-2013. The per unit realization estimated by the licensee is low and the licensee has not adequately explained the reduction in per unit realization. The average realization given in Table 8.1 in the petition is also erroneous and the revenue estimation will be Rs.2117.57 lakh instead of Rs. 1994.02 projected by the licensee. There is considerable decrease in revenue from LT II category consumers under this category were converted into LTI domestic. Accordingly, the underestimation of revenue is about Rs. 80 lakh. The receivables shown by the HT consumers have increased from Rs.92.60 lakh to Rs.122.06 lakh. Since the majority of HT consumers are tea factories, the licensee may take stringent revenue recovery measures to realize the revenue.
5. M/s KSEB Limited further pointed out that the licensee has projected Rs.1.78 lakh towards R&M expenses towards buildings without supporting details. The employee cost has also increased by 66% compared to the previous year. The bank guarantee charges claimed by the licensee under A&G expenses have not been allowed by the Commission in the previous years. The depreciation may be allowed after considering the vintage of assets and also consumer contribution. The Section 3 duty claimed under other debits is also not allowable. The respondent has also updated the details of meetings held with the petitioner on finalisation of PPA and drawing 66kV line for transferring power from KSEB Limited.
6. The licensee vide letter dated 14-2-2014 has furnished reply on the comments of KSEB limited. The licensee stated that, already the matter regarding setting up of 66kV substation in Munnar has taken up with KSEB Limited and various options have been discussed. Once the proposal is finalized and the project cost is firmed up the matter will be taken up before the Commission. The licensee has stated that the comparison made by the KSEB Limited on average revenue as per the tariff order is incorrect. The licensee admitted the clerical errors made in Table 8.1. However, this will not affect the revenue projections in any manner. The revenue projections have been made as per the requirements of the Commission based on the revised tariff. The receivable from sale of electricity is taken as one month's average billing, which is reasonable. The repair charges are the proportionate charges for the buildings in Munnar used for electricity

business. The major increase in employee expenses is on account of increase in DA and overtime payment.

Analysis and decision of the Commission

7. The Commission considered the comments/suggestions of the participants in the public hearing. The item wise details are examined below:

Energy Sales: The licensee has projected the total sales for the year 2014-15 as 36.90 MU, by assuming 3% increase in the sales over 2012-13. The estimate of the licensee is lower than the approved figures for 2013-14. The licensee has given category-wise details of estimation of sales. The details provided by the licensee are as shown below:

Estimated Energy Sales for 2014-15

Consumer category-wise	Energy Sales	Revenue (Rs.lakh)	Average Tariff (Rs./unit)
	(lakh units)		
(i) HT I Industrial	23.06	1,312.64	5.69
(ii) HT III Agriculture	0.24	7.23	2.96
(iii) HT IV Commercial	1.86	144.39	7.78
(iv) LT I Domestic	6.96	147.98	2.13
(v) LT II Colonies	0.31	20.42	6.67
(vi) LT III Temporary	0.61	31.47	5.20
(vii) LT IV Industries	0.02	0.35	1.52
(viii) LT V Agriculture	0.79	60.45	7.65
(ix) LT VI A Non-Domestic	2.73	254.48	9.32
(ix) LT VII A Commercial	0.32	8.11	2.50
(x) Other income		6.50	
Total	36.90	1,994.02	5.40

Out of the above, 16.64MU is for own consumption under different category of consumers (528 nos) and the balance is for consumption by other consumers. The own consumption of the licensee is about 45% of the sales as per the details provided by the licensee.

8. The annual growth projected by the licensee works out to be only 1.5%. As per the sales details given by the licensee, the average annual growth from 2011-12 is about 1.3%. Considering this, the Commission approves the projections of sales for the year 2014-15 as estimated by the licensee.

Proposed and Approved Energy Sales for 2014-15

	Energy Sales (Million units)					
	2010-11	2011-12	2012-13	2013-14	2014-15	2014-15
	Actual	Actual	Actual	Approved	Projected	Approved
HT I Industrial	24.17	22.93	22.63	23.37	23.06	23.06
HT III Agriculture				0.25	0.24	0.24
HT IV Commercial	1.49	1.77	1.80	1.82	1.86	1.86
LT I Domestic	5.11	5.68	6.75	5.85	6.96	6.96
LT II Colonies	1.21	1.34	0.30	1.38	0.31	0.31
LT IV Industries	0.46	0.59	0.59	0.61	0.61	0.61
LT V Agriculture	0.04	0.05	0.02	0.05	0.02	0.02
LT VI Non-Domestic	1.00	0.84	0.77	0.87	0.79	0.79
LT VII Commercial	2.55	2.50	2.65	2.57	2.73	2.73
Street Light	0.23	0.27	0.31	0.28	0.32	0.32
Own Consumption			-			
Total	36.26	35.96	35.83	37.04	36.90	36.90

9. **Distribution Loss and Energy Requirement:** The energy loss reported for the year 2011-12 is 13.74% as against the approved level of 13%. For 2012-13, the target for distribution loss fixed by the Commission was 12% and the actual loss was 14%. In 2013-14, the Commission has approved a distribution loss of 12%. The licensee has projected a distribution loss of 13% for 2014-15. According to the licensee, reconductoring of distribution lines having higher line loss has already been completed and in other areas, not much reduction in losses is expected. Further, HT-LT ratio is almost 1:1 in the area. Hence no significant reduction in distribution loss is expected.
10. The licensee has proposed higher level of distribution loss for 2014-15 when compared to the distribution loss level approved by the Commission. The distribution loss target fixed for the year 2012-13 is 12%. It is not proper to approve a distribution loss target higher than the previous year. Accordingly, the distribution loss for the year 2014-15 is fixed at the same level as that of 2013-14 i.e., 12%. The licensee has to take necessary action for limiting the distribution loss to the approved level. The Commission notes with displeasure that the licensee has not taken earnest steps to upgrade the distribution system in the licensee area by arranging extension of EHT supply to the area, in spite of repeated instructions on the matter. The explanation given by the licensee for the inordinate delay is not satisfactory.
11. Based on the approved sales and approved distribution loss level, the gross energy requirement would be 50.40 MU for 2014-15 as against 50.98 MU

proposed by the licensee. After considering the feedback energy, the net billed energy would be 44.35 MU.

Approved distribution loss for 2014-15

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	
	Actual	Actual	Actual	Actual	Approved	Projected	Approved
Total Energy sales (MU)	34.54	36.26	35.96	35.83	37.04	36.90	36.90
Feedback (MU)	5.74	5.77	6.68	7.23	6.88	7.45	7.45
Distribution loss(MU)	6.37	6.16	6.79	7.02	5.99	6.63	6.05
Billed Energy (MU)	40.28	42.03	42.75	43.26	43.03	43.53	44.35
Total Energy Requirement (MU)	46.65	48.19	49.43	50.08	49.91	50.98	50.40
Distribution loss(%)	13.65%	12.78%	13.74%	14.02%	12.00%	13.00%	12.00%

12. **AT&C Loss:** The collection efficiency reported by the licensee for the year is almost 100%. According to the licensee, except for some government departments, the collection is almost same as demand. The AT&C loss proposed by the licensee is 13%. Considering the approved distribution loss and collection efficiency, the AT&C loss target fixed for the year 2014-15 is 12%.

13. **Cost of Power Purchase :** In the ARR, the licensee has projected the cost of power purchase at Rs.1906.01 lakh based on the revised BST. Considering the approved energy requirements, the total cost of power purchase approved for the year 2014-15 is as shown below:

Cost of Power Purchase Projected and Approved for 2014-15

	2014-15 (projections)	2014-15 (Approved)
Total Projected Consumption [MU]	50.97	50.40
Less: Feed Back Units [MU]	7.45	7.45
Billed Units (MU)	43.53	42.95
Contract Demand billed [KVA]	84,000	84,000
Excess Demand [KVA]	-	
Total Projected Demand [KVA]	7,000	7,000
	Rs. Lakh	Rs.lakh
Energy Charges (@ Rs.3.70/kWh)	1,654.01	1,589.15
Demand Charges (@Rs.300/kVA)	252.00	252.00
Total Power purchase cost	1,906.01	1,841.15

14. The cost of power purchase approved for the year 2014-15 is Rs. 1841.05 lakh based on the existing BST applicable to the licensee.

15. Interest and Financing Charges : The licensee has projected the interest and financing charges at Rs.8.46 lakh, which consists of the interest on security deposits only. The licensee has estimated the interest on security deposits based on the pre-revised bank rate. Reserve Bank of India has revised the bank rate to 9% which is effective rate from 28-1-2014. Accordingly, the Commission revises the provision for interest for security deposits at Rs.12.50 lakh. The licensee shall ensure that the consumers are credited with interest @9% on their security deposits.

16. Depreciation: The licensee has projected the depreciation for the year 2014-15 at Rs.17.34 lakh. The GFA at the beginning of the year 2014-15 proposed by the licensee is Rs.295.19 lakh. The opening balance of fixed assets has been considered including the projected asset additions and deletions. There is no asset addition planned for 2014-15. The licensee has estimated the depreciation at the rates viz., 5.28% and 6.33% based on the revised CERC norms applicable from 2009-14 tariff period. As mentioned in the previous order, the revised CERC norms for depreciation is linked to vintage of assets. Accordingly, during the truing up, the licensee has to estimate the depreciation as provided in the CERC regulations duly considering the vintage of assets. Depreciation for assets created out of consumer contribution is not allowable. Based on the above, the depreciation allowable for the year 2014-15 is as shown below:

Depreciation Approved for 2014-15

	Average Gross Fixed Assets (2013-14)	Rate of depreciation	Depreciation (Rs.lakh)
11 kV Works	198.48	5.28%	10.48
LT Lines, Service connections, etc	40.16	5.28%	2.12
Metering equipment	34.3	6.33%	2.17
Miscellaneous equipment	22.25	6.33%	1.41
Others		6.33%	-
Grand Total:	295.19		16.18
(Less) Consumer contribution	14.96	5.28%	0.79
Total Depreciation allowable			15.39

17. The depreciation of Rs.15.39 lakh as shown above is worked out based on the GFA proposed by the licensee. However, in the truing up, depreciation estimated based actual GFA considering CERC norms and vintage of assets shall only be admissible after proper prudence checks. In case the licensee is unable to

provide the necessary information for estimating the depreciation, the Commission will resort to the CERC norms effective for the period 2004-2009

18. Employee Cost: The employee cost proposed for the year 2014-15 by the licensee is Rs.120.30 lakh as against Rs. 72.13 lakh approved for the year 2013-14. The licensee has included Rs. 42.83 lakh towards the proportionate share of the salary of Manager and Executive Director/Finance. The salary of regular staff is estimated at Rs.73.84 lakh. The increase in salary proposed by the licensee is Rs.7.38 lakh towards increase in DA and overtime payment. As has been stated in the previous orders, the Commission in principle agrees to provide a portion of salary of Manager/Executive director if their time is allotted on a permanent basis. Accordingly, as has been done in previous years, a notional provision of Rs.5 lakh is allowed as a proportion of salary of senior management. Hence, the employee cost allowed for the year 2014-15 is Rs.78.84 lakh.

19. Repair and Maintenance Expenses : The licensee has been maintaining 174 km of 11kV overhead lines and 184km of 3 phase line with 116 number of distribution transformers having different capacities. The licensee has projected the R&M expenses for 2014-15 for OH lines, buildings, transformers etc., as follows:

Repair & Maintenance Expenses Projected for 2013-14

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	
	Actual (Rs.lakh)	Actual (Rs.lakh)	Actual (Rs.lakh)	Approved (Rs.lakh)	Projected (Rs.lakh)	Annual Increase (%)
Buildings	0.77	0.65	1.08	1.14	1.78	56%
Cable, Lines new works [Upkeep Transmission Line - HT]	8.00	8.37	13.18	13.04	16.18	24%
Upkeep LT Lines	1.87	2.37	4.80	4.63	5.41	17%
Vehicles/ Fuel & aintenance	1.76	1.60	1.52	1.93	2.01	4%
Others (Upkeep lighting installations)	0.39	0.30	0.55	0.31	0.58	87%
Total:	12.79	13.29	21.13	21.05	25.96	23%

20. The licensee has projected Rs.25.96 lakh towards R&M expenses, which is 23% more than the approved expenses for 2013-14. R&M expenses have increased substantially from 2011-12. The R&M expense is a controllable expenses and the licensee has not provided sufficient reason for 23% increase in expenses for 2014-15. Generally the Commission refrains from limiting the R&M expenses considering the importance of upkeep of distribution system for reliable supply

However, the increase proposed by the licensee is unreasonable and the Commission is of the view that 10% increase for covering the inflation can be admitted towards R&M expenses. Accordingly, Rs.23.16 lakh is allowed as R&M expenses for 2014-15.

21. Administration and General Expenses: The administration and general expense proposed by the licensee is Rs.15.81 lakh for 2014-15 whereas the approved expense for 2013-14 was only Rs.8.84 lakh. The increase is mainly on account of the higher provision (Rs.2.5 lakh) made for legal expenses and Bank charges on bank guarantee (Rs.5.00 lakh). The Bank guarantee charges is for the bank guarantee provided to KSEB as per the direction of the Hon. Supreme Court in the Civil Appeal No.2144/2011 against the order dated 25-5-2010 revising the BST retrospectively from 1-12-2011. Therefore the claim of bank guarantee charges is not admissible as such expenses cannot be passed on to the consumers. Since A&G expenses constitute a controllable item Commission would allow 10% increase over the approved level of expenses for 2013-14. Accordingly the approved A&G expenses for the year 2014-15 shall be Rs.9.83 lakh. The licensee shall limit the expenses at the approved level.

22. Other Debits: The licensee has included the duty under Section 3 of the Kerala Electricity Duty Act 1963 and periodical inspection charges under other debits totaling to Rs.12.84 lakh. As per relevant law, the duty under Section 3 of the said Act shall not be passed on to the consumers. Hence, the Commission can allow only the inspection charges under other debits, which is Rs.0.20 lakh as projected by the licensee.

23. Return on Equity: The licensee has not projected any return on capital for the year. The licensee has also mentioned that there is no equity shown against the distribution business. The Commission is of the view that a reasonable level of return shall be allowed to the distribution operations of the licensee for financial viability. The Commission is in the process of ascertaining the eligible level of rate base for allowing return for the licensees through an independent study. Till the outcome of the study a provisional return of Rs.5 lakh is allowed.

24. Aggregate Revenue Requirements: Based on the above, the ARR proposed and approved for 2014-15 is as given below:

Approved ARR of KDHPCL for 2014-15

Particulars	2014-15	2014-15
	Projection (Rs.lakh)	Approved (Rs.lakh)

Expenses		
Power purchase cost	1,906.01	1,841.15
Interest and Finance charges	8.46	12.50
Depreciation	17.34	15.39
Employee cost	120.30	78.54
R&M expenses	25.96	23.16
A&G expenses	15.81	9.83
Other debits	12.84	0.20
Return on Investment		5.00
Total Expenditure	2,106.72	1985.77

As per the approved ARR, the distribution cost is Rs.144.62 lakh, and the per unit cost is worked out to about 39 paise per unit, which is comparable to the distribution cost of 36.7 paise per unit approved for 2013-14.

25. **Revenue from Tariff** : The licensee has projected the revenue from tariff as Rs.1994.02 lakh as shown below:

Estimate of Revenue Given by the licensee for 2014-15

Consumer category-wise	Energy Sales	Revenue (Rs.lakh)	Average Tariff (Rs./unit)
	(lakh units)		
(i) HT I Industrial	23.06	1,312.64	5.69
(ii) HT III Agriculture	0.24	7.23	2.96
(iii) HT IV Commercial	1.86	144.39	7.78
(iv) LT I Domestic	6.96	147.98	2.13
(v) LT II Colonies	0.31	20.42	6.67
(vi) LT III Temporary	0.61	31.47	5.20
(vii) LT IV Industries	0.02	0.35	1.52
(viii) LT V Agriculture	0.79	60.45	7.65
(ix) LT VI A Non-Domestic	2.73	254.48	9.32
(ix) LT VII A Commercial	0.32	8.11	2.50
(x) Other income		6.50	
Total	36.90	1,994.02	5.40

26. The licensee has included the own consumption in the appropriate categories for estimating the revenue from sales. Except for street lighting and domestic category, the average realization is higher than the previous year's approved figures. The Commission approves the revenue from tariff as estimated by the licensee.

27. In addition to the revenue from sale of power, miscellaneous recoveries such as delayed payment surcharge, reconnection fee, etc., are shown as Rs.6.5 lakh. The total revenue from tariffs is Rs.1994.02 lakh.

28. **Non-Tariff Income:** The licensee has estimated Rs.8.46 lakh as the revenue from non-tariff, which is interest on deposit with KSEB. The Commission accepts the projection of the licensee on non-tariff income.

29. **Revenue Surplus/Gap:** Based on the above, the revenue surplus/gap for the year 2014-15 estimated by the licensee and that approved by the Commission are as follows:

Approved ARR&ERC for 2014-15

Particulars	Proposed by the licensee	Approved by the Commission
	(Rs. Lakh)	(Rs. Lakh)
Power purchase cost	1,906.01	1,841.15
Interest and Finance charges	8.46	12.50
Depreciation	17.34	15.39
Employee cost	120.30	78.54
R&M expenses	25.96	23.16
A&G expenses	15.81	9.83
Other debits	12.84	0.20
Return on Investment		5.00
Total Expenditure	2,106.72	1,985.77
Revenue from Tariffs	1,994.02	1,994.02
Non tariff income	8.46	8.46
Total Revenue	2,002.48	2,002.48
Revenue gap(-)/Surplus (+)	-104.24	16.71

30. The revenue gap estimated by the licensee is Rs.104.24 lakh for 2014-15. Based on the reasons discussed above, the Commission approves an aggregate revenue requirement of Rs.1985.77 lakh and total revenue of Rs.2002.48 lakh. Thus the net revenue surplus is approved at Rs.16.71 lakh, as against Rs.104.24 lakh revenue gap projected by the licensee.

Orders of the Commission

31. After the analysis of the ARR & ERC petition and the clarification thereon submitted by the licensee M/s KDHPCL, the Commission approves the ARR of Rs. 1985.77 lakh and estimated revenue of Rs. 2002.48 lakh, leaving a revenue surplus of Rs. 16.71 lakh for the year 2014-15 as stated above. The licensee

shall limit the expenses at the approved level. The existing BST and RST will continue till further orders.

32. The Commission also directs that consumers shall be credited with interest @9% per annum on their security deposits.

33. The licensee shall submit the detailed proposal for extending EHT supply to the licence area, along with implementation plan, proposal for cost sharing with KSEB Limited, etc., before 31-5-2014.

34. Petition disposed of, ordered accordingly.

Sd/-

**P. Parameswaran
Member**

Sd/-

**Mathew George
Member**

Sd/-

**T.M. Manoharan
Chairman**

Approved for issue

Secretary