

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

OA No 4/ 2016

**In the matter of Truing up of accounts of M/s Cochin Port Trust for the
year 2013-14**

Applicant : **M/s Cochin Port Trust**

Present : **Shri. T.M.Manoharan, Chairman**
 Shri. S. Venugopal, Member
 Shri. K.Vikraman Nair, Member

Order Dated 25/07/2016

Background

1. M/s Cochin Port Trust (hereinafter referred to as CPT or the Licensee) is a deemed distribution licensee. The licensee has filed application for truing up of accounts for the financial year 2013-14 vide letter No.FD/Costing/Truing-up 2013-14/2015 dated 24th November 2015. The Commission considered the application for the truing up of accounts for 2013-14 and admitted the same as OA No. 04/16. The Commission, vide letter dated 19-01-2016, sought clarifications from the licensee regarding the accounts submitted by them. The licensee, vide letter dated 05-02-2016, submitted the additional clarifications required on the application .
2. In the application, the licensee has arrived at a revenue gap of Rs.844.37 lakh for the year 2013-14 as against a revenue gap of Rs.249.51 lakh approved by the Commission in the ARR order dated 15-05-2013 in OP 7/13.
3. The comparisons of the approved ARR&ERC for the years 2012-13, amount of expenditure and revenue as approved by the Commission for the year 2013-14 as per ARR order dated 15-05-2013 in OP 7/13 and the corresponding actual amount of expenditure and revenue as per truing up application submitted by the licensee are given below:

Table -1
CPT- Comparison for the year 2012-13 & 2013-14 (Rs.Lakh)

Particulars	2012-13			2013-14		
	Approved in ARR	For Truing up	Trued Up	Approved in ARR	For Truing up	Difference
Purchase of Power	1375.68	1933.82	1933.82	2,349.40	1944.91	404.49
R&M Expenses	5.00	12.52	8.00	5.50	12.08	6.58
Employee costs	275.13	633.63	275.13	302.64	793.27	490.63
A & G expenses	34.17	51.78	38.07	29.16	48.40	19.24
Depreciation	121.18	141.54	121.18	104.74	144.13	39.39
Interest & Finance charges	0.00	389.52	0.00	-	420.54	420.54
Return on Equity	10.00	46.12	10.00	10.00	10.00	0.00
Other debits				-	35.05	35.05
Total expenses	1821.16	3208.93	2386.20	2,801.44	3408.38	
Revenue from sale of power	2093.01	2295.15	2350.92	2,538.60	2528.95	9.65
Non-Tariff Income	8.70	46.12	269.39	12.83	35.05	22.22
Total Revenue	2101.71	2341.27	2620.31	2,551.43	2564.00	
Revenue Surplus/(Gap)	(+)280.55	(-)867.66	(+)234.11	(-)250.01	(-)844.37	

Hearing on the application

4. Hearing on the application for truing up of accounts of the licensee for the year 2013-14 was held on 19-04-2016 at the Court Room, Office of the Commission, Thiruvananthapuram. M/s Cochin Port Trust represented by Sri. M.M.Abdul Rahim, Executive Engineer, Sri. Bhagyanath.B, Financial Adviser and Chief Accounts Officer (i/c) and other officers of CoPT. Sri. Bhagyanath.B presented the details of the application on the truing up of accounts for the years 2013-14. Sri M.M.Abdul Rahim and Sri. Bhagyanath.B responded to the queries of the Commission.
5. Sri. Manoj.G, AEE, KSEB Ltd. presented the objections of KSEB Ltd. and submitted written remarks on the applications for the years 2013-14. The summary of the issues raised by KSEB Ltd is given below.
 - i. The Commission may allow only the reasonable expenses.
 - ii. The licensee claimed depreciation of Rs.3.74 lakh during the year 2013-14 for miscellaneous equipments. KSEB Ltd requested that the depreciation shall be allowed, based on the principle adopted by the Commission while issuing orders on the ARR for the years 2011-12,2012-13 and 2013-14

- iii. The licensee has not given details of the consumer contributions and assets created out of consumer contributions. Hence KSEB prayed that depreciation be allowed after considering the assets created out of consumer contribution.
 - iv. The interest and finance charges claimed by the licensee shall be disallowed as the charges are not paid to the Government of India.
 - v. The Commission shall follow the same modality in approving the employee cost as against the higher projected.
 - vi. The claim of the licensee on the expense for security arrangements may be allowed after considering all the details substantiating the necessity of such expense.
 - vii. It was also submitted that the licensee may be directed to utilize the accumulated surplus to meet the deficit.
6. CPT submitted their counter on 01-04-2016 on the comments submitted by KSEB Ltd.

Analysis and decision of the Commission

7. The Commission considered the application of the licensee for truing up of accounts for the year 2013-14, the clarifications and the additional details submitted by the licensee thereon along with the comments of KSEB Ltd. The analysis and decisions of the Commission on the application for truing up of accounts for the year 2013-14 are detailed below:

Sale of energy

8. The actual sales reported by the licensee as per the application for truing up of accounts for the year 2013-14 are as follows.

Table 2
CPT – Details of sales of energy for 2013-14

Consumer Category	No of	Sales
	Consumers	MU
HT Consumers	21	19.76
LT-I Domestic	631	1.04
LT-II	4	0.34
LT IV	1	0.00
LT VI (A)	10	0.18
LT VI (B)	30	0.28

LT VI (B) (G)	10	0.32
LT VI(C)	10	0.42
LT VI (C)(G)	14	0.07
LT VII A Single	211	0.22
LT VII A Three	195	4.28
LT VII C	3	0.02
Total	1140	26.93
Self consumption		5.10
Total	1140	32.03

6. The actual energy sales for the year 2013-14 is 32.03 MU as against the energy sale of 36.03 MU approved by the Commission vide the order on ARR & ERC for the year 2013-14. HT consumers numbering to 21 account for the major consumption of power sold by the licensee. The energy sold to this category is 19.76 MU accounting for 62% whereas the major numbers of consumers are from the LT-I domestic category with a sale of 1.04 MU. The total sale of 32.03 MU includes the self consumption of 5.10 MU. The Commission approves the actual energy sales as submitted by the licensee for the truing up of accounts for the year 2013-14.

Energy Input and Distribution Loss:

7. As per the application, the licensee purchased 32.84 MU. In the application the licensee has reported a higher T&D loss for the year as against the loss target of 2.10% approved by the Commission vide the orders on ARR&ERC for the year 2013-14. The details on the distribution loss as per the application submitted are shown below.

Table - 3
CPT- Energy Requirement and Distribution Loss

Particulars	Approved in ARR	Application for Truing Up
Total Energy Sales (MU)	36.03	32.03
Distribution loss (MU)	0.77	0.81
Gross energy (MU)	36.80	32.84
Distribution loss %	2.10%	2.47%

8. However in the additional information submitted by the licensee vide letter dated 05-02-2016, it is stated in the split up that they have purchased 32.71 MU at the cost of Rs.1944.90 lakh. When the T&D loss is calculated based on the split up details of the power purchase cost submitted in the letter, the loss is as per the approved level. The Commission approves the T&D loss target of 2.10% as approved in the ARR order as shown below.

Table - 4
CPT- Approved Energy Requirement and Distribution Loss

Particulars	Approved for Truing Up
Total Energy Sales (MU)	32.03
Distribution loss (MU)	0.68
Gross energy (MU)	32.71
Distribution loss %	2.10%

Cost of Power Purchase

9. The actual power purchase cost as per the truing up application submitted is Rs.1944.90 lakh. The Commission had approved a power purchase cost of Rs. 2349.40 lakh. The Commission had revised the BST tariff applicable to the distribution licensees from Rs. 5.30/kWh to Rs. 5.05/kWh and the demand charge from Rs.350 kVA/month to Rs.300 kVA/month with effect from 01-05-2013. The licensee has also stated that the cost of power purchase is in tune with the revision on tariff. The split up details of the power purchase as claimed by the licensee are given below.

Table – 6
CPT - Details of cost of power purchase for the year 2013-14

Particulars	Wellington Island	Vallarpadam	Total
Energy Purchased (MU)	26.28	6.43	32.71
Maximaum Demand (kVA)	6153	1584	7737
Contract Demand	6500	3000	9500
Rate (Rs/kW)	Till April 2013- Rs.350 and from May 2013 onwards - Rs.300		
Total Fixed charges (Rs lakh)	204.08	82.12	286.20
Rate (Rs/kW)	Till April Rs.5.30 and from May Rs.5.05		
Total energy charges (Rs lakh)	1332.84	325.86	1658.70
Total Power Purchase Cost (Rs lakh)	1536.92	407.98	1944.90

10. The cost of power purchase has decreased due to the reduction in the BST rates pertaining to the licensee, during the year. The demand charge applicable to CPT was reduced from Rs.350/ kVA / Month to Rs 300/ kVA/ Month and energy charge from Rs.5.30/Unit to Rs 5.05 / Unit. Taking into consideration, the fact that the actual distribution loss is as per the approved levels, the Commission approves the actual cost of power purchase incurred for the year 2013-14 in the process of truing up.

Interest and finance charges

11. The licensee had claimed the interest and finance charges of Rs. 420.54 lakh for the year 2013-14. The Commission, in the previous truing up orders, has not allowed the interest charges for the Licensee mainly on the reason that the interest claimed were never being paid to the Government of India.

Table – 7
CPT - Interest and finance charge for the year 2013-14 (Rs.lakh)

Particulars	ARR Approved	Application for truing up
Interest and finance charge	-	420.54

12. The licensee has stated that the value of the total gross fixed assets (GFA) is taken on the premise that it was financed by the loan and the licensee has claimed interest on the loan advanced by the Government of India @ 10.5% on Rs.4005.10 lakh. According to the licensee, they do not have any equity and the cost incurred for creation of assets was met from Government of India loan. The licensee vide letter dated 06-05-2016 has submitted a document dated 12th November 1987 showing a loan of Rs16.79 lakh released by the Central Government for the plan expenditure during 1987-88. As per the document, the loan was sanctioned to finance the five year plan schemes of Cochin Port Trust. It is also seen that the mode of repayment shall be twenty equal annual installments of the principal commencing from the sixth anniversary of the drawl of the loan.
13. However the licensee has not submitted any documents to substantiate that the loans are being repaid to Government of India promptly. Hence Commission still holds the view that as long as interest is not paid by CPT to Government of India, it is not proper to approve a notional expenditure in the truing up process. It is also mentioned that talks are on with the Central Government for restructuring the loan and interest has to paid after the restructuring. The Commission shall look into the interest claim after the restructuring exercise is complete and after the licensee starts paying interest. Hence now, the interest charges claimed cannot be allowed.

Repair and maintenance expenses

14. The Repair and maintenance expenses as per the application by the licensee is Rs.12.08 lakh. It is mentioned that this amount have been incurred for the repair and maintenance of transmission lines, substations, 11 kV lines & associated

works, LT line service etc as against the approved amount of Rs 5.50 lakh as per the orders on ARR. The repair and maintenance expenses approved and actual for the year 2013-14 is as shown below

Table – 8
CPT – Details of R&M expenses for 2013-14 (Rs lakh)

Particulars	ARR Approved	Application for truing up
R&M expenses	5.50	12.08

15. It has been submitted that the increase in cost is due to increased O&M cost of powerhouse equipments.ie for consumables and stores and repair cost of 11 kV and associated works. Out of the total expenses of Rs 12.08 lakh, Rs 10.27 lakh was booked under repair cost of 11 kV and associated works. The Commission had in 2012-13 truing up, after considering the inflation rate, approved an amount of Rs.8.00 lakh,.
16. For the year 2013-14, Commission approves an increase of 8.55% (weighted average increase of WPI and CPI in the ratio of 30:70) over the cost approved for the year 2012-13. Accordingly, the Commission approves Rs.8.68 lakh for the year 2013-14. The licensee should take appropriate measures to control the R&M expenses and if there is a major repair to be scheduled which is unavoidable, then the same may be properly explained and proof may also be submitted in future.

Employee Cost

17. The Commission approved Rs 302.64 lakh for employee cost in the ARR order against an estimate of Rs. 450.39 lakh. In the truing up application, the licensee has booked amount of Rs. 793.27 lakh as employee cost for carrying out the distribution business for the year 2013-14 which is very much on the higher side. The Commission observes that there is no increase in the number of employees during the year 2013-14, though the employee cost have gone up by 26% which is totally unacceptable in regulatory process.

Table – 9
CPT - Employee costs claimed for truing up for 2013-14 (Rs.lakh)

Particulars	ARR Approved	Application for truing up
Employee Cost	302.64	793.27

18. The licensee has stated that upward revision of employees wages and DA increase in every quarter are the reasons for this increase. They further stated that they have included BP, DA and HRA components only while computing expenditure against employee cost. The licensee stated that they have not inducted any fresh man power nor done any replacement against retired vacancy. The Commission comes to the conclusion that the employee cost is not properly segregated between the licensed business and other business. Commission cannot allow such increase in employee cost and hence approves an increase of 8.55% (weighted average increase of WPI and CPI in the ratio of 30:70) over the cost approved for the year 2012-13. The Commission had approved an employee cost of Rs.275.13 lakh in the truing up of accounts for the year 2012-13. Henceforth, the licensee may provide the details of the staff sanctioned for distribution works exclusively, along with the sanction order clearly specifying the designation, pay scale and the amount paid, along with the actual number of persons deployed against the sanctioned posts. Accordingly the employee cost allowed for truing up is Rs. 298.65 lakh.

Table – 10
CPT - Employee costs allowed for truing up for 2013-14 (Rs lakh)

Approved in ARR	Application for truing up	Trued up
302.64	793.27	298.65

Depreciation

19. The depreciation claimed by the licensee vide the application for truing up for the year 2013-14 was Rs 144.13 lakh as against Rs 104.74 lakh approved provisionally vide the order on ARR. In the order on the ARR &ERC for the year 2013-14, the Commission had removed assets whose value has been depreciated by 90%. Further, the licensee has specifically mentioned that they have not used consumer's contribution for creation of asset. However licensee has not provided the details of additions separately, after commission had removed some assets which were depreciated by 90%. In the absence of supporting data, the Commission is not in a position to take a decision on consumer contribution and grants. Hence, Commission approves an amount of Rs.104.74 lakh towards depreciation.

Administrative and General Expenses

20. The A&G expense claimed by the licensee as per the application for truing up was Rs 48.40 lakh as against the approved amount of Rs 29.16 lakh vide the

order dated 15-05-2013 on ARR&ERC for the year 2013-14. The Commission at the time of approving the ARR had agreed with the figures forecast given by the licensee and had approved the same. The Commission in the order on ARR had stated

The Commission provisionally approves the A&G expenses as projected by the Licensee for 2013-14. The final allowable A&G expenses shall be decided at the time of truing up based on the final decision on apportionment of joint costs.

21. The details of A&G expenses approved in ARR and actuals claimed by the licensee are given below.

Table – 11
CPT – Details of A&G expenses for 2013-14 (Rs lakh)

Particulars	ARR Approved	Application for truing up
Rent Rates & Taxes	0.12	4.87
Security arrangements	15.43	25.80
Telephone & Postage, etc.	0.16	0.39
Legal charges	0.47	3.04
Insurance	0.20	0.00
Audit Fees	0.05	0.33
Conveyance	0.26	0.33
Vehicle Hiring Expenses		0.34
Electricity charges	7.28	9.21
Water charges	0.52	0.93
Entertainment	0.08	0.08
Fees & subscription	0.17	0.03
Printing & Stationery	0.11	0.13
Advertisements, exhibition publicity	0.68	0.25
Contribution/Donations	0.49	0.00
Miscellaneous Expenses	3.12	0.72
License Fee and other related fee	-	1.73
V-sat, Internet and related charges	0.00	0.20
Books & periodicals	0.00	0.01
Computer Stationery	0.01	0.02
Gross A&G Expenses	29.16	48.40

22. As per the detailed split up, the major share of the A&G expense claimed is for security arrangements amounting to Rs.25.80 lakh. The other major claim is the electricity charges of Rs.9.21 lakh. CPT defends the security charges on the plea that it is mandatory and, security rules pertaining to the International Ship Port

facility Security (ISPS) code is applicable to CPT since CPT is an ISPS compliant Port.

23. The licensee in response to the comments/observations submitted by KSEB Ltd. had submitted a split up of the amount claimed by the CPT under security arrangements which are shown below.

Table – 12
CPT – Details of security arrangements

Particulars	Amount
No. of personnel	522
Salary for CISF personnel	Rs.174.03 lakh
Leave salary contribution	Rs.14.77 lakh
Pension Contribution	Rs.9.02 lakh
Cost/ personnel per month	Rs.35837
Total Cost of 6 personnel per annum	Rs.25.80 lakh

24. The Commission comes to the conclusion that the A&G expense is not properly segregated. Commission cannot allow such increase in the A&G expenses and hence approves an increase of 8.55% (weighted average increase of WPI and CPI in the ratio of 30:70) over the cost approved for the year 2012-13. The Commission had approved an expense of Rs.38.07 lakh in the truing up of accounts for the year 2012-13. Accordingly the A&G expense allowed for truing up is Rs. 41.33 lakh

Return on Equity.

25. The licensee has no equity in their books of accounts for distribution business. The investment for financing distribution business was through Government of India loans and hence licensee is not eligible for ROE. In the truing up order for the year 2012-13, the Commission had allowed a provisional surplus of Rs. 10 lakh for the distribution business and Commission decides to continue the same for the year 2013-14 also. Commission therefore allows an amount of Rs. 10 lakh as Return on Equity, for the year 2013-14.

Revenue from tariff

26. The licensee has claimed total revenue from sale for power of Rs.2528.95 lakh against approved revenue from sale of power of Rs.2538.60 lakh as approved in the Order on ARR for the year 2013-14. The licensee has deducted Rs.172.96

lakh as other state levies including electricity duty. The split up details of actual revenue from sale of power for the year 2013-14 are given below.

Table – 13
CPT – Details of revenue from sale of power for 2013-14

Consumer category	No of consumers	Energy Sold (MU)	Average Tariff (Rs/kwh)	Revenue (Rs lakh)
LT-I	631	1.04	3.17	32.99
LT-II	4	0.34	7.33	24.60
LT IV	1	0.00	13.34	0.16
LT VI (A)	10	0.18	7.49	13.64
LT VI (B)	30	0.28	8.31	23.29
LT VI (B) (G)	10	0.32	8.30	27.07
LT VI(C)	10	0.42	10.41	43.50
LT VI (C)(G)	14	0.07	11.48	7.87
LT VII A Single	211	0.22	11.05	23.83
LT VII A Three	195	4.28	11.09	474.58
LT VII C	3	0.02	10.87	1.85
HT GOVT	2	0.83	6.48	53.93
HT IV Commercial	17	15.61	9.38	1464.68
HT IV Malabar	2	3.32	7.93	263.18
Total	1140	26.93		2455.17
Self Consumption		5.10		244.51
Other Receipts				2.23
Total	1140	32.03		2701.91
Less Electricity Duty				172.96
Total	1140	32.03		2528.95

27. The licensee has submitted the consumer category wise details of revenue from sale of power for own consumption and sales to other consumers. Commission approves the actual revenue from sales as Rs.2528.95 lakh for the purpose of truing up of accounts for the year 2013-14.

Non-Tariff Income

28. The actual non-tariff income accounted by the licensee is Rs 35.05 lakh as against the approved amount of Rs 12.83 lakh. The Commission approves the Non Tariff Income as claimed by the licensee for the purpose of truing up of accounts for the year 2013-14. The licensee is holding an accumulated surplus of Rs.2714.87 lakh in the year 2012-13. The Commission also approves a notional interest at the rate of 9% on the accumulated surplus considering the base rate of SBI, and the same is included under non-tariff income approved for truing up of the year. The non-tariff income approved for the purpose of truing up of

accounts for the year 2013-14 is Rs.279.39 lakh (Rs.35.05 lakh + Rs. 244.34 lakh)

Revenue gap/ surplus after truing up:

29. The summary of the amounts of expenditure and revenue approved in the truing up of accounts for 2013-14 is given below

Table -14
CPT - Summary of Truing up of accounts for the year 2013-14(Rs. Lakh)

Particulars	2013-14		
	Approved in ARR	Application for truing up	Trued up
Purchase of Power	2,349.40	1944.91	1944.91
R&M Expenses	5.50	12.08	8.68
Employee costs	302.64	793.27	298.65
A & G expenses	29.16	48.40	41.33
Depreciation	104.74	144.13	104.74
Interest & Finance charges	-	420.54	0.00
Return on Equity	10.00	10.00	10.00
Other debits	-	35.05	0.00
Total expenses	2,801.44	3408.38	2408.31
Revenue from sale of power	2,538.60	2528.95	2528.95
Non-Tariff Income	12.83	35.05	279.39
Total Revenue	2,551.43	2564.00	2808.34
Revenue Surplus/(Gap)	(-)250.01	(-)844.37	(+)400.03

Order of the Commission

30. (1) The Commission after considering the truing up petitions of Cochin Port Trust for the year 2013-14 and the details and clarifications submitted by the licensee arrives at a total revenue and the clarifications and details submitted by the licensee, hereby approves a total expenditure of Rs.2408.31 lakh, a total revenue

of Rs.2808.34 lakh and a revenue surplus of Rs.400.03 lakh. The revenue surplus from 2004-05 to 2013-14 will be Rs.3114.90 lakh. The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.

(2) The licensee shall maintain separate set of accounts arrange to conduct separate audit of distribution business by C&AG or by a qualified Chartered Accountant and submit the report along with the truing up petition.

The application is disposed of

**Sd/-
S. Venugopal
Member**

**Sd/-
K.Vikraman Nair
Member**

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

Approved for issue

**Sd/-
Santhosh Kumar.K.B
Secretary**