

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

O.A No.19/2016

In the matter of : Application filed by KINESCO Power and Utilities Private Limited for approval of truing up of accounts for financial year 2013-14

Applicant : M/s KINESCO Power and Utilities Private Limited

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

ORDER DATED 20/03/2017

KINESCO Power and Utilities Private Limited (*hereinafter referred as KPUPL or the licensee*) has, on 20.07.2016, submitted its application for truing up of accounts for 2013-14, in accordance with the KSERC (Terms and Conditions of Tariff for Retail Sale of Electricity) Regulations, 2006 (*hereinafter referred as Tariff Regulations*). The Commission, in exercise of the powers vested in it under Section 61, Section 62 and Section 64 of the Electricity Act, 2003 and all other powers enabling it in this behalf, and after taking into consideration all the submissions made by KPUPL, the matters raised during the public hearing, and all other relevant materials placed before it, orders as follows:

Background

1. KPUPL filed the application for the truing up of accounts for the financial year from 2013-14 vide letter No. KINESCO/KPUPL/Truing up/2016/84 dated 20-07-2016. The Commission had sought clarifications on the application, and on the submission of the required documents, the application was admitted as OA NO.19/16. The Commission had, on 15-5-2013, issued the order on the ARR&ERC of M/s KPUPL for the year 2013-14 in OP 9/2013 (hereinafter referred to as the ARR order dated 15.05.2013). The Commission in the order had approved an ARR of Rs.3405.88

lakh and ERC of Rs.3345.21 lakh, leaving a revenue gap of Rs.60.67 lakh for the year.

- The licensee in the application filed for the truing up of accounts for the year 2013-14 has shown a revenue surplus of Rs135.38 lakh. A comparison on the amounts of expenditure and revenue as approved by the Commission for the year as per ARR order dated 15.05.2013 and the corresponding actual amounts of expenditure and revenue as per truing up application submitted by the licensee is given below:

Table-1
KPUPL - Truing up of accounts
Comparison for the year 2013-14

Particulars	Projection in the ARR (Rs.lakh)	Approved in the ARR Order (Rs.lakh)	As per the application for truing up (Rs.lakh)	Difference (Rs.lakh)
Revenue from Sale of Power	3,322.09	3,322.21	4006.46	684.24
Non – Tariff Income	23.00	23.00	32.10	9.10
Total Revenue	3,345.09	3,345.21	4038.56	
Purchase of Power	3,283.52	3,215.54	3733.66	518.12
Repairs and Maintenance	73.64	41.81	54.20	12.39
Employee costs	46.24	39.13	66.28	27.15
A & G expenses	75.79	26.08	60.09	34.01
Depreciation	99.24	73.32	90.06	16.74
Interest & financing charges	61.97	37.77	18.16	19.61
Tax expenses (including deferred tax)	-	-	(174.59)	(174.59)
Sub total	3,640.40	3,433.65	3847.86	
<u>Less</u> Interest charges capitalized	61.97	37.77	-	37.77
Total	3,578.43	3,395.88	3847.86	
Return on Equity	77.64	10.00	55.32	45.32
Aggregate Revenue Requirements	3,656.07	3,405.88	3903.18	
Surplus(+)/Deficit(-)	(-)310.98	(-)60.67	(+)135.38	

Hearing on the application

3. Hearing on the application for truing up of accounts of the licensee for the year 2013-14 was held on 07-12-2016 at the Court Room, Office of the Commission, Thiruvananthapuram. M/s KINESCO Power and Utilities Private Limited (KPUPL) was represented by Sri. S.N.Ashok Kumar (Finance Consultant), Sri.G.Radhakrishna Pilla (Senior Consultant) and other officers of the licensee. Sri. S.N.Ashok Kumar presented the details of the application on the truing up of accounts for the year 2013-14 along with the details from 2009-10 to 2014-15 and also gave clarifications on the queries of the Commission.
4. KSEB Ltd. was represented by Sri.Bipin Sankar, Deputy Chief Engineer (TRAC), Smt. Mehrunisa, Executive Engineer (TRAC) and Sri.Manoj.G, Assistant Executive Engineer (TRAC). Sri.Manoj.G presented the comments of KSEB Ltd and submitted written remarks on the applications. The main issues raised by KSEB Ltd is summarised below.
 - a. The power purchase cost claimed by the licensee for the years does not tally with the bills generated by KSEB Ltd.
 - b. KPUPL has combined the power purchased at two different locations Kakkanad and Kalamassery. In Kakkand, electricity connection is billed under applicable BST. In Kalamassery, the licensee holds a HT connection without PPA and the billing was done under HT tariff. KPUPL have combined both types of billing in applications for truing up.
 - c. The Commission may kindly follow a uniform approach on the Section (3) duty claimed by the licensee.
 - d. The licensee has claimed a return on equity at the rate of 3% of the value of the net fixed assets employed at the beginning of the year. The Commission has allowed a return of Rs 10 lakh only from 2004-05 to 2008-09 on the reason that the amount of equity cannot be ascertained. The equity/rate base is still to be ascertained. Commission in the ARR orders directed the licensee to submit the documents of transfer of assets and liabilities for the approval of the Commission. The Commission may allow RoE after considering the same. It was further submitted that the tax liability claimed on the income is also to be reviewed.
 - e. The licensee has claimed employee cost for the financial years higher than the approved levels. It may be noted that there are only two employees

including CEO and the O&M activities in the area are outsourced. Hence the higher employee cost when compared to the low consumer base need to be examined.

5. The Commission directed the licensee to reconcile the cost of power purchase claimed as per the application for truing up and the same as claimed by KSEB Ltd. The Commission also directed the licensee to submit the details on the objections raised by KSEB Ltd. The Commission also directed KSEB Ltd to present their views on the asset transfer. Neither the licensee nor KSEB Ltd has submitted its comments.

Analysis and Decision of the Commission

6. M/s. KPUGL, a joint venture company established on 17.09.2008, under the Companies Act, 1956, for the distribution of electricity in the industrial parks of KINFRA at Kakkanad, Kalamassery and Palakkad. The licence for distribution of power was transferred to M/s KPUGL from M/s.KINFRA Export Promotion Industrial Parks Limited (KEPIP), a deemed distribution licensee, as per the first proviso of Section 14 of Electricity Act 2003.
7. The Commission in the orders on the ARR for the year 2011-12, 2012-13 and 2014-15, had directed the licensee to submit the statement regarding transfer deed, geographical position of assets etc. The licensee failed to comply with the directions issued by the Commission. Since the licensee did not comply with the directions of the Commission and to the conditions of licence, the Commission initiated action under section 19(3) of the Electricity Act 2003 and issued a show cause notice on 8-12-2013, as to why the license for distribution of electricity should not be revoked. The Commission conducted a public hearing on 03-06-2014 on the matter. Representatives of the licensee and those of the joint venture participated in the hearing. The Commission issued an order on 5-6-2014 directing the licensee to submit detailed plan with timelines for the actions to be taken by the licensee. In compliance of the directions issued by the Commission in the matter on 05-06-2014, M/s KINFRA, had filed an affidavit on the road map with time lines for the compliance on the licensing conditions and other directions of the Commission. However, the licensee filed the details of asset transfer only on 7-9-2016.
8. The Commission considered the application of the licensee for truing up of accounts for the financial 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 are detailed below:

9. **Sale of energy:** The details of the number of consumers and the actual sales to various categories of consumers (HT connections, DHT consumers, LT consumers and temporary connections) reported by the licensee as per the application for truing up of accounts for the year are tabulated hereunder.

Table 2
KPUPL - Truing up of accounts
Actual Number of Consumers and Energy sold for 2013-14

Particulars	No.of Consumers	Energy Sold (MU)
HT I A	3	18.72
HT I B	10	25.54
HT II	1	0.12
HT III B	1	0.63
HT V	1	0.07
DHT I A	1	1.30
DHT I B	41	11.26
DHT IV	3	0.64
LT IV A	13	0.85
LT IV B	108	4.41
LT VI A	1	0.07
LT VI C	8	0.06
LT VII A	25	1.27
LT VIII	3	0.08
Total	219	65.01

10. Compared to the sale of 65.27 MU approved by the Commission in the order on ARR&ERC, the actual sale for the year 2013-14 was 65.01MU. The actual sale of energy of the licensee for the previous year was 59.40 MU. There is an increase in the consumer strength and in the quantum of sale of energy over the years. The major sale of the licensee is to the HT/DHT consumer category. The actual sales and the number of consumers of the licensee over the years are tabulated hereunder.

Table 3
KPUPL - Truing up of accounts
Number of Consumers over the years

Category	2009-10	2010-11	2011-12	2012-13	2013-14
HT/DHT Consumers	24	28	40	53	61

LT Consumers & Temp. Connections	88	92	131	149	158
Total	112	120	171	202	219

Table 4
KPUPL - Truing up of accounts
Actual Sale of power over the years (Rs lakh)

Category	2009-10	2010-11	2011-12	2012-13	2013-14
HT/DHT Consumers	36.14	42.17	49.30	52.92	58.28
LT Consumers & Temp. Connections	3.93	4.12	5.27	6.48	6.73
Total	40.07	46.28	54.57	59.40	65.01

11. After examining the details furnished by the licensee, the Commission approves the actual sale of energy reported by the Licensee for the year 2013-14 for the purpose of truing up.
12. **Energy Input and Distribution Loss:** As per the details furnished in the application for truing up, the licensee had purchased 66.19 MU from KSEB Ltd and distributed 65.01 MU, with a distribution loss of 1.78%, as against the approved loss level of 1.50%. The comparison on the actual energy input and the actual distribution loss as submitted by the licensee over the years from 2009-10 to 2013-14 are tabulated below.

Table - 5
KPUPL - Truing up of accounts
Actual Energy Requirement and Distribution Loss

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
Energy Purchased (MU)	40.38	46.71	55.55	60.48	66.19
Energy Sold (MU)	40.07	46.28	54.57	59.40	65.01
Distribution loss(MU)	0.31	0.43	0.99	1.08	1.18
Distribution Loss %	0.77%	0.92%	1.78%	1.79%	1.78%

13. The actual distribution loss of the licensee is increasing over the years. A comparison on the approved distribution loss target fixed by the Commission and the actual distribution loss claimed over the years is shown below.

Table - 6
KPUPL- Truing up of accounts
Comparison between Approved and Actual Distribution Loss

Particulars	ARR Approved	Actual claim
2009-10	2.60 %	0.77 %

2010-11	2.74 %	0.92 %
2011-12	0.50 %	1.78 %
2012-13	0.50 %	1.79 %
2013-14	1.50 %	1.78 %

14. It is visible that the actual claim made by the licensee towards distribution loss is within the reduction target fixed by the Commission for the years 2009-10 to 2010-11. The claim made by the licensee from 2011-12 onwards is higher than the target fixed by the Commission.
15. As per sub-regulation (2) of regulation 9 of the Tariff Regulations, the Commission shall approve a loss target for the year under consideration based on the opening loss levels, licensee's filings, submissions and objections raised by stakeholders. The distribution loss as approved by the Commission in ARR order dated 15.05.2013, for the year 2013-14 or the actuals, whichever is lower shall be used for computing power purchase/sale of power to consumers for that year. Accordingly, the distribution loss approved for the year is 1.5%

Table - 7
KPUPL- Truing up of accounts
Approved Energy Requirement and Distribution Loss

Particulars	2013-14
Energy Purchased (MU)	66.00
Energy Sold (MU)	65.01
Distribution loss(MU)	0.99
Distribution Loss %	1.50%

16. **Cost of Power Purchase:** The licensee has claimed a total power purchase cost of Rs.3734.00 lakh for the year 2013-14 for a purchase of 66.19 MU from KSEB Ltd. The Commission in the ARR order dated 15.05.2013, had approved a power purchase cost of Rs.3215.54 lakh for an energy input of 66.26 MU. The licensee vide the clarifications dated 30-11-2016 submitted the reasons for the variation against the approved costs. The licensee has stated that the average cost of sourcing of power increased from the approved rate of Rs.4.85 per kWh to Rs.5.64 per kWh. The licensee has further stated that an amount of Rs.82 lakh was released to KSEB on 08.11.2013 against the retained bills for the period from January 2011 to June 2012. The details of power purchase by the licensee from KSEB Ltd are given below.

Table - 8
KPUPL- Truing up of accounts
Power Purchase Cost (Rs. Lakh)

Particulars	2013-14
Energy purchase (MU)	66.19
Maximum Demand (KVA)	14812
Contract Demand (KVA)	9000
Excess Demand (KVA)	5812
Demand Charges (Rs./KVA)	300
Total Demand charges (Rs lakh) (A)	584.00
Energy Charges (Rs./kWh)	4.15/4.75
Total Energy Charges (Rs.lakh) (B)	3150.00
Cost of power purchase	3734.00
Average cost of purchase (Rs./kWh)	5.64

17. The licensee in its clarifications dated 30-11-2016 has submitted the month wise details of the energy purchased from KSEB Ltd, as shown below.

Table - 9
KPUPL- Truing up of accounts
Month-wise details of the Power Purchase Cost (Rs. Lakh)

Month	Quantum in MU	Billing demand (KVA/MVA)	Demand charges Rs. lakh	Energy charges. Rs. Lakh	Penal demand charges Rs. Lakh	Total amount Rs. lakh
Apr-13	5.63	13,836	41.39	233.81	3.90	279.11
May-13	5.70	13,868	41.60	280.04	4.02	325.66
Jun-13	5.34	12,635	37.90	253.86	2.14	293.91
Jul-13	5.62	12,133	36.40	266.77	1.39	304.56
Aug-13	5.15	12,445	37.33	244.49	1.77	283.60
Sep-13	5.24	12,557	37.67	249.07	2.04	288.78
Oct-13	5.64	12,659	38.06	343.33	2.15	383.55
Nov-13	5.34	13,399	40.20	254.69	3.22	298.12
Dec-13	5.54	13,042	39.13	263.66	2.69	305.47
Jan-14	5.51	12,881	38.64	276.02	2.45	317.11
Feb-14	5.35	13,336	40.01	260.56	3.13	303.70
Mar-14	6.13	14,812	44.44	300.32	5.34	350.09
	66.19		472.77	3226.62	34.24	3733.66

18. The Commission has scrutinized the details of power purchase and based on the distribution loss target approved for the year, the power purchase cost approved for the year 2013-14 is as tabulated below.

Table - 10
KPUPL- Truing up of accounts
Details of cost of power purchase approved for 2013-14

SI No	Particulars	Claimed in truing up	Approved in truing up
1	Cost of power purchase (Rs. lakh)	3733.66	3733.66
2	<u>Less</u> - Excess cost of power purchase due to under achievement of distribution loss (0.19 MU x Rs. 5.64)		10.72
3	Power purchase cost (Rs. lakh)		3722.94

19. KSEBL has reported that the licensee is holding a HT connection in the Kalamassery Park. The Commission notes that it is not common for a licensee to hold connections at the terms and conditions applicable to the consumers. Accordingly, it is hereby directed that the licensee and KSEBL should immediately sort out the issue and execute a PPA in this regard.
20. **Interest and financing charges:** The Commission in the order on ARR&ERC had approved an interest and finance charge of Rs.37.77 lakh. The amount was allowed based on the average loan for the year (Rs.343.47 lakh) at an interest rate of 11%. In the application for the truing up of accounts for the financial year; the licensee has claimed an interest and finance charge of Rs.18.16 lakh. In the details furnished by the licensee, it is also mentioned that the interest and finance charge claimed by the licensees for the year 2013-14 is towards the interest on security deposit with KSEB, payable to KEPIP and the interest on security deposit from consumers. It is to be noted that the licensee is following a prepayment metering system and hence there is no requirement of security deposits from consumers. Further, as per statutory provisions and the regulations, KSEB Ltd has to pay interest to the licensee for the security maintained with it. The appropriation of the amount of interest received by the licensee will depend on the agreements between KPUPL and KEPIP. Therefore, the interest on security deposit has to be necessarily included as an item of non-tariff income. Interest and finance charge, if any, paid to consumers can be approved only on production of documentary

evidences. Therefore, the claims of interest and finance charges, which are not supported by documentary evidences, cannot be approved.

Table - 11
KPUPL- Truing up of accounts
Interest and Finance Charge approved for the FY 2013-14

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	61.97	18.16
Approved	37.77	-

21. **Depreciation:** The licensee has claimed depreciation of Rs.90.06 lakh as against Rs.73.32 lakh approved as depreciation for the year 2013-14. The licensee has stated that the increase is due to the increase in the value of fixed assets from 01.09.2011 is from commencement of operation at Kalamassery.
22. As early as on 22.06.2012, in the order on the ARR&ERC of M/s KPUPL for the year 2012-13, the Commission had directed the licensee to submit the statement regarding transfer deed, geographic position of assets etc. The licensee failed to comply with the directives and the Commission initiated action under section 19(3) of the Electricity Act, 2003 for revocation of licence and the public hearing was held on 03-06-2014. In the order dated 05-06-2014 the Commission directed the licensee to submit the timelines for compliance of directives. In compliance of the directions issued by the Commission, M/s KINFRA, had filed an affidavit laying down the road map with time lines for the compliance on the licensing conditions and other directions of the Commission. However, the licensee could not submit the details on time and filed the details of transfer deed, position of assets etc only on 07-9-2016 and that too after repeated directions
23. As per the application submitted by the licensee the details of the Gross Fixed Assets are tabulated hereunder.

Table - 12
KPUPL- Truing up of accounts
Details of Gross Fixed Assets

Particulars	GFA at the beginning of the year as on 01-04-2013 (Rs.lakh)	Asset additions made during 2013-14 (Rs.lakh)	Retirement of assets during the year (Rs.lakh)	GFA at the end of the year 31-03-2014 (Rs.lakh)
Sub-stations	1226.70	11.42	0	1238.12
11kv Works	1426.59	1.80	0	1428.40

Metering equipments	103.91	0	0	103.91
Others	10.55	0.29	0.06	10.77
Total	2767.75	13.51	0.06	2781.20

24. As per the balance sheet of the licensee, the consumer contribution, grants and subsidies towards cost of capital assets is Rs.375.88 lakh. The details of the claim of the licensee under depreciation are shown below.

Table - 13
KPUPL- Truing up of accounts
Details of Depreciation claimed

Particulars	Gross Fixed Assets (Rs.lakh)	% depreciation claimed	Depreciation (Rs.lakh)
Sub-stations	1226.70	3.60	44.17
11kv Works	1426.59	3.60	51.36
Metering equipments	103.91	6.67	6.93
Others	10.55	17.00	1.80
Total	2767.75		104.26
Less Consumer Contribution/Grants	375.88	3.78	14.21
Net GFA	2391.87		90.06

25. Considering the fact that the asset transfer deed between KPUPL and KEPIP was executed only on 07.09.2016, the claim for depreciation on such assets which were not actually transferred during the financial year 2013-14, cannot be approved to be passed on to the consumers with retrospective effect. Hence, the Commission is not inclined to grant depreciation for the year 2013-14.

Table - 14
KPUPL- Truing up of accounts
Depreciation approved for the year 2013-14

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	99.24	90.06
Approved	73.32	-

26. **Employee Cost:** The licensee has claimed employee cost over and above the amount approved by the Commission. KSEB Ltd during the hearing had expressed their concern on the high claims made by the licensee. The Commission while issuing the orders on the ARR had viewed that, as the entire R&M operation of the Licensee is outsourced; such high level of employee costs is not justified. In the

application for the truing up of accounts, the licensee has claimed an employee cost of Rs.66.28 lakh as against an approved cost of Rs.39.13 lakh.

27. The Commission in the ARR&ERC orders had expressed its view that the employee cost projected by the licensee is much on the higher side considering the small scale of operations, especially in a situation where all the O&M works relating to the distribution business have been completely outsourced. The Commission had also stated that the employee cost claimed by the licensee on the ARR should be just and reasonable. The Commission had approved and limited the employee cost to Rs.39.13 lakh for 2011-12, 2012-13 and 2013-14.
28. The licensee has, vide the clarifications submitted, stated that the increase is due to revision of salary, annual increment and DA increase, superannuation benefits, medical expenses and employee cost increased on an average of 15 to 20 percent per annum. The details of the claim of the licensee are shown below.

Table - 15
KPUPL- Truing up of accounts
Details of employee cost claimed for the year 2013-14

Particulars	2013-14 (Actual) (Rs.lakh)
Salaries	52.63
Staff Welfare expenses	1.12
Terminal benefits	12.53
Grand Total	66.28

29. As per Form-L of the application, submitted by the licensee, the employee cost claimed is for two employees. The details are given below.

Table-16
KPUPL- Truing up of accounts
Salary details of the employees working for the year 2013-14

Category	working strength	Salary and other claims (Rs lakh)
CEO	1	39.77
Non technical staff	1	26.51
Total	2	66.28

30. As per clause 15(3) of KSERC (Terms and Conditions of Tariff for Retail Sale of Electricity) Regulations, 2006 O&M Expenditure ie., employee cost, administration

and general expenses, repairs and maintenance expenses and other miscellaneous expenses may be indexed to predetermined indices such as Consumer Price Index, Wholesale Price Index or a combination of both indices to 70% of CPI and 30% of WPI. For the purpose of indexing the employee cost, 2009-10 can be taken as the base year, since the new entity KPUPL has started operation in 2009-10. Accordingly, based on the submissions made by the licensee and the provisions of regulations, the Commission approves the employee costs for 2013-14 based on the weighted average of CPI:WPI in the ratio of 70:30 as given below.

Table - 17
KPUPL- Truing up of accounts
Computation of Employee costs based on CPI:WPI for 2013-14

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh
Yearly increase at CPI:WPI basis		10.18%	8.55%	9.52%	8.57%
Employee cost	16.25	17.90	19.44	21.29	23.11

31. **Repairs and Maintenance Charges:** The licensee has claimed a repair and maintenance cost Rs.54.20 lakh as against an approved cost of Rs.41.81 lakh. The licensee has stated that the increase is due to a wage settlement with the operators of the sub-station.

Table-18
KPUPL- Truing up of accounts
Actual R&M expenses claimed for truing up (Rs. Lakh)

Particulars	2013-14
Substations	53.82
11kV lines & associated works	
11/0.4kV transformers	
LT Lines, service connections etc	
Vehicles	
Furniture & fixtures	
Office equipment	
Others	0.38
Total	54.20

32. The licensee has not submitted the detailed split up of the repair and maintenance expenses incurred for the year 2013-14. Based on the submissions made by the

licensee and the modalities followed by the Commission, the R&M expenses can be approved as per sub-regulation (3) of regulation 15 of the Tariff regulations, for the financial year 2013-14 based on the weighted average of CPI:WPI in the ratio of 70:30 as given below.

Table - 19
KPUPL- Truing up of accounts
Computation of R&M expenses based on CPI:WPI for 2013-14

Particulars	2009-10	2010-11	2011-12	2012-13	2013-14
	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh
Yearly increase at CPI:WPI basis	9.80%	10.18%	8.55%	9.52%	8.57%
R&M Expenses	22.52	24.81	26.93	29.50	32.52

33. As computed above, the total R&M expense approved by the Commission for the year 2013-14 is Rs.32.52 lakh.

Table – 20
KPUPL – Truing up of accounts
R&M Expenses approved for 2013-14(Rs. lakh)

Particulars	ARR	Truing up
Claimed	73.64	54.20
Approved	41.81	32.52

34. **Administration and General Expenses:** The actual amount booked on A&G expense for the years is higher than the expenses approved by the Commission for the respective years. The licensee has claimed an amount of Rs.60.09 lakh as the actual A&G expense for 2013-14 as against an approved expense of Rs. 26.08 lakh. The licensee has stated that the increase was due to the payment of Electricity duty under Section 3 of the Kerala Electricity duty Act 1963 which is incurred by the licensee. An amount of Rs.42.21 has been claimed under this head.
35. The Duty under Section 3(1) of the Kerala Electricity Duty Act is a statutory levy. Section 3 of the said Act is quoted hereunder,-

“3. Levy of electricity duty on sales of energy by licensees.- (1) Save as otherwise provided in sub-section (2); every licensee in the State of Kerala shall pay every month to the Government in the prescribed manner, a duty calculated at 6 nayepaise per unit of energy sold or a price more than 12 nayepaise per unit;

Provided that no duty under this sub-section shall be payable by the Kerala State Electricity Board on the energy sold by it to another licensee.

(2) Where a licensee holds more than one licence, duty shall be calculated and levied under this section separately in respect of each licence.

(3) The duty under this Section on the sales of energy should be borne by the licensee and shall not be passed on to the consumer.”

From the above statutory provision it can be found that,

- (i) the electricity duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, is payable by the licensee to the Government
 - (ii) the duty shall be calculated at the rate of 6 paise per unit of energy which is sold at a price of more than 12 paise per unit.
 - (iii) duty shall be calculated only on the energy sold.
 - (iv) the duty paid by the licensee under Section 3 (1) cannot be passed on the consumer and therefore it cannot be claimed as an expenditure in the ARR.
36. The amount of electricity duty under Section 3 (1) of the Kerala Electricity Duty Act,1963, cannot be admitted as an item of expenditure in view of the above statutory provisions. Based on the submissions made by the licensee, the A&G expenses approved as per the sub-regulation (3) of regulation 15 of the Tariff Regulations, for the financial year 2013-14 based on the weighted average of CPI:WPI in the ratio of 70:30 as given below.

Table - 21
KPUPL- Truing up of accounts
Computation of A&G expenses based on CPI:WPI for 2013-14

	2009-10	2010-11	2011-12	2012-13	2013-14
	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh	Rs.lakh
Yearly increase at CPI:WPI basis	9.80%	10.18%	8.55%	9.52%	8.57%
A&G expenses		23.33	25.33	27.74	30.11

37.As computed in the above table, the total A&G expense approved by the Commission for the year 2013-14 is Rs.30.11 lakh.

Table – 22
KPUPL – Truing up of accounts
A&G Expenses approved for 2012-13

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	75.79	60.09
Approved	26.08	30.11

38. **Return on Equity:** The Commission has been approving only a provisional amount of Rs. 10.00 lakh towards Revenue on Equity for each year. As per the applications for truing up of accounts submitted by the licensee, the return on equity claimed for the year 2013-14 is Rs.55.32 lakh. The licensee has in the application stated that the RoE is computed based on 3% of the NFA at the beginning of the year. The NFA at the beginning of the year is Rs.2235.84 lakh. The computation of the licensee is not proper and the value of the assets cannot be considered as part equity of the licensee as the details of the assets transfer etc was submitted only recently.
39. No asset was transferred by the then licensee KEPIP to KPUPL during the financial year 2013-14 though KPUPL has taken over the function of supply of electricity within the licensed area with effect from 01.02.2010. The licensee was managing the system under an agreement of operations with KEPIP and was not owning any assets. Since there were no proper asset transfer deed executed between KEPIP and KPUPL during the year, the value of the physical assets now claimed cannot be considered for allowing returns for the licensee. If the licensee had actually invested any amount as equity, return on such amount of equity can be approved subject to a maximum limit of 30% of the capital expenditure. The Commission is, therefore, of the considered view to allow Rs.10 lakh as return on equity for the financial year 2013-14 for the purpose of truing up of accounts.
40. **Tax credits :-** The licensee has made a claim on Tax credits including deferred tax for an amount of Rs.174.59 lakh which was not projected nor approved in the order ARR &ERC for the financial year 2013-14. In the present case, the licensee is claiming tax credits. Since the Commission has not approved any tax components, nor the licensee provided proof of having paid the tax, the same is not approved in this order.

Table 23
KPUPL - Truing up of accounts
Tax credits for the year 2013-14 (Rs.lakh)

Particulars	ARR	Truing up
Claimed	-	-174.59
Approved	-	-

41. **Total Expenses:** - Based on the submissions made by the licensee in the applications for truing up of accounts, responses during the hearing, comments

made by KSEB Ltd, the analysis and the decision of the Commission the total expense approved for the purpose of truing up of accounts of the years including the revenue return is tabulated hereunder.

Table - 24
KPUPL - Truing up of accounts
Approved expenses for 2013-14

Particulars	Approved in the ARR Order	As per the application for truing up	Trued Up
Purchase of Power	3,215.54	3733.66	3722.94
Repairs and Maintenance	41.81	54.20	32.52
Employee costs	39.13	66.28	23.11
A & G expenses	26.08	60.09	30.11
Depreciation	73.32	90.06	0.00
Interest & financing charges	37.77	18.16	0.00
Tax expenses (including deferred tax)	-	(174.59)	0.00
Sub total	3,433.65	3847.86	3808.68
<u>Less</u> Interest charges capitalised	37.77	-	
Total	3,395.88	3847.86	3808.68
Return on Equity	10.00	55.32	10.00
Aggregate Revenue Requirements	3,405.88	3903.18	3818.68

42. **Revenue from Sale of Power:** The licensee has claimed revenue of Rs.4006.46 lakh for a sale of 65.01 MU. The Commission had approved revenue of Rs.3322.21lakh for a sale of 65.27 MU. The details of the revenue actually realized during the year are shown below.

Table - 25
KPUPL- Truing up of accounts
Revenue from Sale of Power for 2013-14

Sale of Power	2013-14 Rs.lakh
HT/DHT Consumers	3552.74
LT Consumers	452.71
Total	4005.45
Recovery of electricity duty and other State levies	116.88
Misc. charges from consumers Penalty+Marginal Cost+Meter Rent	
Other Receipts	155.58
Gross Revenue from sale of Power	4277.91
Less	
Electricity duty payable	100.06
Other State levies payable	171.38
Revenue from sale of Power	4006.46

43. The amount of gross revenue from sale of energy reported by the licensee includes the Electricity Duty under Section 4 of the Kerala Electricity Duty Act, 1963, which has to be remitted to the Government. The licensee has not furnished the details regarding Other State levies amounting to Rs.171.38 lakh claimed for the year 2013-14 and therefore such amount cannot be allowed to be deducted from the gross revenue from sale of energy. Therefore, the revenue from sale of energy for the purpose of truing up of accounts for the financial year 2013-14 is approved at Rs.4177.85 lakh as shown below.

Table - 26
KPUPL – Truing up of accounts
Revenue from sale of energy approved for the year 2013-14

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	3322.09	4006.46
Approved	3322.21	4177.85

44. **Non Tariff Income:** The licensee has claimed a non tariff income of Rs. 32.10 lakh as against an approved income of Rs.23.00 lakh. The licensee has stated that the non-tariff income includes interest on investments on fixed deposits as well as miscellaneous receipts. The split up details of the non-tariff income as specified in the applications for truing up is shown below.

Table- 27
KPUPL- Truing up of accounts
Actual Non-tariff income for 2013-14(Rs. Lakh)

Particulars	2013-14
Interest on Bank Fixed Deposits	22.83
Profit on sale/hire etc. of apparatus / transfer of assets	
Other miscellaneous receipts	9.20
Interest from income tax refunds	
Other Income	0.07
Total	32.10

45. While reporting the non-tariff income, the licensee has not reported the interest income from the deposits made to KSEB. As per the details furnished Rs.18.16 lakh is booked as interest to be payable to KEPIP. The same amount is accounted towards the interest on deposit with KSEB. The licensee is also holding the accumulated surplus of Rs. 3101.61 lakh for the years from 2004-05 to 2012-13. Therefore, interest at the rate of 9% on the accumulated surplus of Rs.3101.61 lakh

amounting to Rs. 279.14 lakh is to be accounted after deducting the interest on bank fixed deposits booked by the licensee amounting to Rs.22.83 lakh. The Commission, therefore, approves an amount of Rs.306.57 lakh towards non-tariff income for the purpose of truing up of accounts for the financial year 2013-14 as detailed below.

Table - 28
KPUPL – Truing up of accounts
Details of Non-Tariff income reported by the KPUPL for the year 2013-14

Particulars	Claimed (Rs.lakh)	Approved (Rs.lakh)
Interest on Bank Fixed Deposits	22.83	22.83
Other miscellaneous receipts	9.20	9.20
Other income	0.07	0.07
Interest on security deposit held with KSEB		18.16
Interest on accumulated surplus less interest on bank deposits (Rs.279.14 lakh – Rs.22.83 lakh)		256.31
Total	32.10	306.57

46. **Revenue Surplus:** The Commission after duly considering the application 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 Commission hereby approves a revenue surplus of Rs. 605.74 lakh in the truing up of accounts for the year 2013-14 as tabulated below:

Table- 29
KPUPL- Truing up of accounts
Approved for the year 2013-14

Particulars	2013-14	
	As per the application for truing up	Trued Up
	(Rs.lakh)	(Rs.lakh)
Revenue from Sale of Power	4,006.46	4,117.85
Non – Tariff Income	32.10	306.57
Total Revenue	4,038.56	4,424.42
Purchase of Power	3,733.66	3,722.94
Repairs and Maintenance	54.20	32.52
Employee costs	66.28	23.11
A & G expenses	60.09	30.11
Depreciation	90.06	-
Interest & financing charges	18.16	-
Tax expenses (including deferred tax)	-174.59	-
Sub total	3,847.86	3,808.68
<u>Less</u> Interest charges capitalized	-	

Total	3,847.86	3,808.68
Return on Equity	55.32	10.00
Total Expenses	3,903.18	3,818.68
Surplus (+)/Deficit(-)	135.38	605.74

Orders of the Commission

47. After considering the application filed by KPUPL for the approval trueing 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 Commission hereby approves the ARR at Rs 3818.68 lakh, ERC at Rs. 4424.42 lakh and the revenue surplus at Rs 605.74 lakh for the year 2013-14. Total revenue surplus as on 31.03.2014 is Rs.3707.35 lakh including the amount of revenue surplus of Rs.605.74 lakh approved as per this order.

48. The application is disposed of. Ordered accordingly

Sd/-
K. Vikraman Nair
Member

Sd/-
S. Venugopal
Member

Sd/-
T.M. Manoharan
Chairman

Approved for issue

Santhosh Kumar.K.B
Secretary