

**KERALA STATE ELECTRICITY REGULATORY COMMISSION**  
**THIRUVANANTHAPURAM**

**Present** : Shri. Preman Dinaraj, Chairman  
Adv. A J Wilson, Member

**OA No.19/2020**

**In the matter of** : **Truing up of Accounts of M/s  
Infopark, Kerala for the year  
2018-19.**

**Petitioner** : **M/s Infopark, Kerala**

**Date of hearing** : 1<sup>st</sup> hearing on 19.11.2020  
2<sup>nd</sup> hearing on 23.12.2020

**ORDER DATED 26/06/2021**

1. M/s. Infopark, Kerala, Kochi a Government of Kerala undertaking (hereinafter referred to as Infopark or the applicant or the petitioner or the licensee), engaged in the development of infrastructure for information technology (IT) and information technology enabled services (IT enabled Services) was granted distribution license vide order dated 10-5-2010 of the Commission and the electricity distribution operation was commenced from 1-7-2013. Infopark has filed the instant petition for the truing up of accounts for the year 2018-19 in accordance with the provisions of the KSERC (Terms and conditions for determination of Tariff) Regulations 2018 (hereinafter referred to as Tariff Regulations 2018). The petition was admitted as OA 19/2020 after condoning a delay of 10 months in filing.

**Background**

2. The Commission had issued the Order on the ARR&ERC of the licensee for the Control Period from 2018-19 to 2021-22 on 26-08-2019 approving a revenue surplus of Rs.41.91 lakhs for the period 2018-19. As per Regulation 15 of the Tariff Regulations 2018, the Aggregate Revenue Requirement and Expected Revenue from tariff and Charges of a generating business/company or transmission

business/licensee or distribution business/ licensee or state load despatch centre shall be subject to truing up of expenses and revenue in accordance with the provisions in this Regulation and the licensee shall file a petition for truing up of the ARR and ERC within the time limit fixed by the Regulations. Accordingly, the petitioner filed the instant petition for the truing up of accounts for the year 2018-19. The revenue gap as per the original truing up petition filed on 09-10-2020 was Rs.262.33 lakhs. However, the licensee has subsequently revised the revenue gap twice on 17-12-2020 and 04-01-2021 through additional submissions. A comparison of the ARR approved in the Order dated 26-08-2019 and the latest truing up claim vide submission dated 04-01-2021 along with the trued-up figures for 2017-18 is shown below

**Table-1**  
**Comparison of the truing up of accounts for 2017-18 & 2018-19**

Particulars	2017-18		2018-19 (as per submission dated 04.01.2021)		
	Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	Approved in ARR (In lakhs)	For Truing up (Rs. lakh)	Variance (Rs. lakh)
<b>Revenue</b>					
Revenue from sale of power	537.19	537.19	934.02	620.27	-313.75
Non-Tariff Income	3.46	3.46	4.41	3.02	-1.39
<b>Total Revenue</b>	<b>540.65</b>	<b>540.65</b>	<b>938.43</b>	<b>623.29</b>	<b>-315.14</b>
<b>Expenditure</b>					
Purchase of Power	502.79	502.79	851.40	561.55	-289.85
Employee Cost	17.12	17.12	11.60	19.07	7.47
R & M Expenses	14.19	14.19	20.11	27.38	7.27
A & G Expenses	1.41	1.41	11.24	2.33	-8.91
Interest and finance charges	8.82	2.76	2.16	2.00	-0.16
Depreciation	46.46	0.00	-	46.46	46.46
Return on Equity	30.75	0.00	-	29.36	29.36
<b>Total expenditure</b>	<b>621.54</b>	<b>537.94</b>	<b>896.52</b>	<b>688.14</b>	<b>-208.38</b>
<b>Prior Period Expenses</b>	<b>4.59</b>	<b>4.59</b>		<b>8.17</b>	<b>8.17</b>
<b>Revenue Surplus/(Gap)</b>	<b>(85.48)</b>	<b>(1.88)</b>	<b>41.91</b>	<b>(73.02)</b>	<b>(114.93)</b>

- The licensee has initially claimed a Revenue gap of Rs. 262.33 lakhs for 2018-19 in the truing up petition as against an approved revenue surplus of Rs.41.91 lakh in the ARR Order dated 26-08-2019. After detailed scrutiny of the petition, the Commission vide letter dated 12-11-2020 sought certain clarifications and additional information on the petition and listed the matter for hearing. The petitioner has submitted the

details of power purchase during 2018-19 and clarifications sought vide its submission dated 16-11-2020 and important submissions of the petitioner are

- a) The reason for reduction in power purchase cost is due to the less consumption by major HT consumer M/s. Cognizant Technology Solutions and HT consumer M/s. Transasia shipping services. Further the actual number of consumers was less (83 Nos) from the estimated number (81 Nos.)
- b) The connected load of both the location is low and the number of Consumers in Cherthala has decreased from 31 to 23 during 2018-19 which resulted in a high distribution loss. Further, the auxiliary consumption of around 2% of the total purchase is not considered for the calculation of distribution loss and the actual distribution loss after considering the own consumption is 5.2% only.
- c) Only minimum staff is employed in both the locations of the infopark and further reduction of employee cost is not possible. The percentage-wise high employee cost is due to the low volume of business at both the locations
- d) The increase in vehicle hire charges is due to official trips to KSEB and KSERC offices.
- e) The decrease in interest on security deposits is due to the short payment of interest during the year.
- f) The bank charges are mainly the amount debited by the bank for maintaining Letter of Credit account for the remittances to KSEB Ltd.

### **Hearing on the matter**

4. Taking into consideration the Covid-19 protocol, the first hearing on the application for Truing up of accounts for the year 2018-19 was conducted through Video Conferencing on 19-11-2020. The licensee explained the important submissions in the petitions and items of expenditure resulted in a revenue gap claim of Rs.262.33 lakhs in the original petition and also briefly explained the reason for deviations from the ARR approval. Further, the petitioner submitted that the sale of power could not reach expected levels as the actual demand of the major HT consumers was very low when compared to the contracted demand. The petitioner also pointed out that the depreciation was being disallowed during the truing up for the past two years and requested the Commission to review the issue and to allow the depreciation during truing up.
5. The Commission has made the following observations/remarks on the petition during the hearing.
  - a) There are errors in the grouping of expenses and head of accounts in which the electricity duty and surcharge collected is accounted.

- b) The licensee has to confirm that whether the consumers having leased land from Infopark were following the maximum load limit and whether the load actually connected exceeded the maximum load as per the Kerala Electricity supply code.
  - c) The licensee has to ensure that the capital expenditure for providing additional facilities to consumers is recovered from them and this expenditure should not be included under licensee's own expenditure.
  - d) The employee cost submitted was on the higher side and also in certain cases like earned leave encashment, other allowances, pay revision arrears, etc. proper accounting was not seen done.
6. Shri Manoj, AEE, TRAC, appeared for KSEB Ltd made the following remarks on the petition and also submitted a counter statement on 20-11-2020.
- a) The Distribution loss approved by the Commission is 5% whereas the actual loss claimed by the licensee is 7.2%. The loss may be fixed to the approved level and the cost incurred on account of higher distribution loss may be disallowed.
  - b) The petitioner had incurred O&M cost of Rs.58.32 lakhs for 2018-19 against approved cost of Rs.42.96 lakhs and as a controllable expense the O&M cost may be limited to the approved level.
  - c) The Return on Equity claimed by the licensee may not be allowed as the licensee's assets are created out of external contributions.
  - d) Depreciation claimed by the licensee shows an abnormal hike compared to the previous years. Further, the assets are created out of contributions and hence depreciation may not be allowed.
  - e) The power purchase in units and fixed charges furnished by M/s Infopark are matching with the details available at KSEB Ltd. but there is a slight difference in the variable charges with the accounts of KSEB Ltd.
7. The Commission after hearing both sides had issued the following directions vide its daily Order dated 24-11-2020.
- 1. The licensee has to verify the inconsistencies in the financial statements pointed out by the Commission and to furnish the correct figures so as to have a true and fair view of the accounts. Further, the licensee has to furnish the revised financial statements and all the connected forms duly certified by a practicing chartered accountant.
  - 2. The Distribution loss to be reworked after including the complete power injected into the system so as to get a correct figure of the Distribution loss.

3. The licensee has to give details of consumers including connected load, contract demand, maximum recorded consumption etc whose actual demand is consistently lower than the contracted demand to analyse the deviations in the expected revenue.
  4. The licensee has to furnish authenticated details of loan availed and the proportionate principal portion of the loan utilized for the creation of distribution assets and related interest be re-appropriated from corporate accounts and bring it to the accounts of the power distribution business with Board approval.
  5. The licensee has to furnish details of capital expenditure proposals pending for approval with sources of funding.
8. In compliance to the directions of the Commission's daily Order dated 24-11-2020, the licensee has furnished point-wise reply/compliance vide its submission dated 17-12-2020 which inter alia includes the following.
- a) The licensee has rectified the misclassification in the accounts viz. accounting of electricity duty and surcharge under sales, interest and finance charges under A&G expenses, etc.
  - b) The licensee submitted the details of the revised distribution loss after considering the complete power injected into the system as directed by the Commission.
  - c) Similarly, as per the directions of the Commission, the licensee has made corrections in respect of number of consumers, sale of power, wrongly claimed capital expenditure and depreciation, accounting of leave encashment, pay revision arrears, etc. so as to reflect the accounts a true and fair view. The licensee has also confirmed in the additional submission that the Capital expenditure for additional facilities to consumers is not included in licensee's own expenditure.
  - d) Further, the licensee submitted justifications for high employee cost and repair and maintenance expenses. The licensee submitted that, two pay revisions to employees were pending, the first revision was implemented in 2017-18 in line with that of KSIDC and Technopark and the arrears was paid in the month of March 2018. The second pay revision with an effective date of 01-04-2017 was implemented in the year 2018-19 and the minutes of the 12th Governing body held at Chief Minister's conference hall on 20-12-2018 approving the pay revision of Infopark, Technopark and Cyberpark in line with Kerala Government 10th pay revision also submitted. Regarding the increase in R&M Expense, the licensee submitted that the increase in expense is due to the addition of one shift assistant in the substation in addition to the operator and the annual increase of 11% to the outsourced agency as per the contract conditions.

- e) Regarding the depreciation claim, the licensee submitted that the Assets at Cherthala are created out of debt funds availed from South Indian bank and furnished the details of Fixed Assets created out of term loan at Cherthala. The petitioner also submitted that the fixed assets at Kakkanad-Phase II are created out of Govt. grant and hence not claimed any depreciation and revised the claim accordingly.
  - f) The Licensee also claimed Rs.4.11 lakh towards return on net fixed assets for the year 2018-19.
  - g) As regards to KSEB Ltd's remark on the mismatch of power purchase details with that of KSEB Ltd accounts, the petitioner submitted that the difference was due to wrong accounting of surcharge and has been rectified.
  - h) The licensee has revised the ARR claim and submitted the revised forms showing a revenue gap of Rs.48.49 lakhs.
9. Subsequently, a second public hearing was conducted on 23-12-2020 at Park Office, Infopark, Kochi. The petitioner explained the compliances of the directions given by the Commission vide Order dated 24-11-2020 and also justified the increase in the expenses which resulted in a revenue gap of Rs.48.49 lakh. The Commission after hearing the petitioner issued the following directions vide daily Order dated 06-01-2021.
- a) Separate petition to be filed in respect of the complete Assets and Liabilities for cleaning up the books of accounts of the licensee with the approval of their Board before 10th February 2021
  - b) Details of all Capital expenditure proposals pending for approval to be submitted with sources of funding.
  - c) The loan availed for procuring electricity distribution assets to be segregated from the corporate accounts along with interest thereon and to transfer the same to regulatory accounts.
10. The licensee has once again revised the revenue gap for the year 2018-19 vide submission dated 04-01-2021 to Rs.73.02 lakh and return on equity to 29.36 lakhs.

### **Analysis and decision of the Commission**

11. The Commission has examined in detail, the petition, the additional submissions by the petitioner dated 16-11-2020, 17-12-2020, 29-12-2020 & 04-01-2021 and also the points raised by KSEB Ltd in their counter statement dated 19-11-2020. The analysis and decision of the Commission are detailed in the following paragraphs.

### **Energy Sales and Consumer Mix:**

12. A comparison of the actual number of consumers and the sale of power claimed for the year 2018-19 with that of trued up figures for 2017-18 is shown below.

**Table-2**  
**Comparison on the number of consumers and Sale of power claimed**

Category	2017-18 Actuals		2018-19 Approved ARR		2018-19 Actuals	
	Consumers	Sale (units in lakhs)	Consumers	Sale (units in lakhs)	Consumers	Sale (units in lakhs)
Industrial	43	5.45	62	13.80	64	9.08
Commercial*	16	2.70	15	16.60	13	2.20
Street Lighting	2	0.92	2	1.40	2	1.20
HT 1 B	3	60.70	4	87.90	4	67.80
Total	64	69.77	83	119.70	83	80.28
Increase in Sales Over the previous year						15.06%

\*Includes Construction Power

13. The Commission has noted that the sale recorded as per the original petition was 78.50 lakh units, and later revised to 80.28 lakh units vide revised Form D.2.1 in submission dated 17-12-2020. Similarly, the number of consumers and revenue from sale of power also revised to 83 Nos and Rs.620.27 lakhs respectively from 81Nos and Rs.625.02 lakhs. The licensee submitted that, though it was estimated a sale of 119.70 lakh units for 2018-19 based on the tabulation above, the actual sale was only 80.28 lakh units. As per the licensee, the reason for drop in sale of power and revenue generation was mainly due to drop in the actual consumption of HT consumers M/s. Cognizant Technologies and M/s. Transasia Shipping Services.
14. From the data furnished by the licensee, the major sale for the current year 2018- 19 is seen to be to the HT I B category at 67.80 lakh units which comes around 85% of the total sales volume.

### **Energy Requirement & Distribution Loss**

15. The Commission had observed while approving the ARR & ERC for the Control Period from 2018-19 to 2021-22 that the loss reduction targets proposed by the licensee are arbitrary and without any technical study. However, the Commission had approved provisionally a distribution loss of 5% for the year 2018-19 in the ARR Order dated 26-08-2019 with a direction to the licensee to take necessary steps to limit the distribution loss within the specified limits.
16. The licensee has shown a distribution loss of 7.28% in the original petition and the same was revised to 5.23% vide submission dated 17-12-2020. The licensee also

submitted vide submission dated 16-11-2020 that Commission had approved distribution loss of 6% during the year 2016-17 considering the no load loss of transformers at both the locations and there is no considerable increase in the connected load which resulted in a higher distribution loss. Further, the licensee submitted that the reduction in number of consumers from 31 to 23 at Cherthala also contributed to a higher distribution loss. The details of distribution loss of Infopark for 2018-19 submitted vide letter dated 17-12-2020 is as shown below.

**Table-3**  
**Phase wise distribution loss claimed**

	Cherthala	Phase II Kakkanad	Total
Energy Requirement (in lakh units)	12.70970	72.03300	84.74270
Energy sales (in lakh units)	11.18771	69.11920	80.30691
Distribution loss (in lakh units)	1.52199	2.91380	4.43579
<b>Distribution loss (%)</b>	<b>11.98%</b>	<b>4.05%</b>	<b>5.23%</b>

17. The Commission notes that, though there is a slight increase from the target of 5% the distribution loss has been reduced to 5.23% in the year 2018-19 from the last year loss of 6.04%. While appreciating this fact, the Commission also notes that the licensee has not submitted the details of action taken for the reduction of distribution losses to limit the loss within the specified limits.
18. Further, the Commission is of the view that since, reduction in distribution loss is an important parameter which has a direct impact on power purchase cost and available energy for distribution, licensees should continuously strive to improve upon the target set for this parameter. ***However, taking into consideration the limited geographical area of its operation and the nature of infrastructure build up, and the fall in the number of consumers, the Commission approves the actual loss of 5.23%.***

**Table-4**  
**Distribution loss Approved for 2018-19**

Particulars	2018-19
Energy Requirement (in lakh units)	84.74270
Energy sales (in lakh units)	80.30691
Distribution loss (in lakh units)	4.43579

Approved Distribution loss (%)	5.23%
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### Power Purchase Cost:

19. The power purchase cost claimed for the 2018-19 is Rs.561.55 lakh as against the amount of Rs.851.40 lakh approved by the Commission in the ARR Order dated 26-08-2019. The power purchase cost claimed in the original petition was Rs.582.46 lakhs and it was later revised to Rs.561.55 lakh vide submission dated 17-12-2020. The details of power purchase cost claimed by the licensee are shown below.

**Table-5  
Break-up of Power Purchase Cost for 2018-19**

Particulars	Approved in ARR	Actual claimed by the Licensee		
		Infopark Cherthala	Kakkanad Phase-II	Total
Energy Purchase (In lakh units)	126.00	12.71	72.03	84.74
Contract Demand (KVA)	4650	550	3000	3550
Maximum Demand (KVA)	4200	422	1860	2282
Excess Demand (KVA)	NIL	NIL	NIL	NIL
Demand Charges (Rs/KVA)	300	300	300	300
Total Demand Charges (Rs. In lakh) (A)	152.10	14.90	81.00	95.90
Energy Charges (Rs/ lakh)	5.55	5.50	5.50	5.50
Total Energy Charges (Rs. In lakh) (B)	699.30	69.47	396.18	465.65
RPO purchase, if any (C)	-	-	-	-
<b>Cost of Power purchase (A)+ (B) +(C) (Rs. In lakh)</b>	<b>851.40</b>	<b>84.37</b>	<b>477.18</b>	<b>561.55</b>

20. The power purchase cost is lower than the amount approved by the Commission in the revised ARR Order for the year 2018-19. The energy purchased during the year 2018-19 is only 84.74 lakh units as against 126 lakh units approved in the ARR Order dated 26-08-2019. According to the licensee, the drop in power purchase was mainly due to the lower consumption by its two major HT consumers M/s. Cognizant Technologies and M/s. Trans Asia. Further, the KSEB Ltd vide its submission dated 19-11-2020 stated that the number of units purchased, and fixed charges mentioned in the petition tally with the accounts of KSEB Ltd, but there is a slight difference in variable charges.

21. The Commission has examined in detail the submissions by the petitioner justifying the lower power purchase cost and deviations from the ARR Order. While examining, the Commission notes that, there is no decrease in the total number of consumers as per the data furnished in revised Form D.2.1 submitted on 17-12-2020 vis-à-vis the approved ARR & ERC figures even though the petitioner has mentioned in their submission dated 16-11-2020, the reduction in number of consumers as a reason for lower purchase cost.
22. The Commission has however examined in detail the submissions by the petitioner in respect of lower power purchase cost and deviations from the ARR Order. Considering the actual distribution loss of 5.23% and the justifications by the petitioner for the lower power purchase, ***the Commission hereby approves the power purchase cost of Rs.561.55 lakh for the year 2018-19. The licensee is also directed to reconcile the differences, if any, in the total amount of power purchase with KSEB Ltd***

#### **O & M Expenses:**

23. Operation & Maintenance expenses include controllable expenses like Employee Cost, Repair & Maintenance Expenses & Administrative & General Expenses. The Commission had approved Rs.42.96 lakh towards operation & maintenance cost of the licensee for the control period as per Regulation 79(9) of the Tariff Regulations, 2018 in the ARR Order dated 26-08-2019.
24. The licensee has claimed in the original truing up petition an amount of Rs.58.95 lakh as operation & maintenance expense, but later revised it to Rs. 48.78 lakh vide submission dated 17-12-2020 as shown below.

**Table-6  
Comparison of the O&M expenses**

Particulars	2017-18			2018-19	
	Normative amount approved by Commission (Rs. Lakh)	Claim of Infopark for Truing up (Rs. Lakh)	Trued Up (Rs.Lakh)	Normative amount approved by Commission (Rs. Lakh)	Claim of Infopark for Truing up (Rs. Lakh)
Employee cost	3.70	14.19	14.19	11.60	19.07
R&M Expenses	20.16	17.12	17.12	20.11	27.38
A&G Expenses	4.51	1.41	1.41	11.24	2.33
<b>Total</b>	<b>28.37</b>	<b>32.72</b>	<b>32.72</b>	<b>42.96</b>	<b>48.78</b>

#### **Employee cost:**

25. The licensee has claimed in the original petition, Rs. 27.24 lakhs towards employee cost but later revised the claim to Rs. 19.07 lakhs. The licensee has submitted that

the employee cost of one Resident Engineer at Cherthala and one Resident Engineer at phase II and half salary of an accountant is considered to arrive at the total employee cost of the power distribution business. The Licensee further submitted that this is the minimum cost considering the operations at two locations and the staff strength cannot be reduced further. Citing the above reasons, the licensee requested the Commission to approve the actual employee cost of Rs.19.07 lakh. The details of the actual employee cost claim are shown below.

**Table 7**  
**Comparison of employee cost claimed**

Particulars	2017-18 (Actual) (Rs. Lakh)	2018-19(Actual) (Rs. Lakh)
Basic Salary	3.44	9.02
Dearness Allowance (DA)	8.90	6.39
House Rent Allowance	0.20	0.41
Conveyance Allowance	0.02	0.11
Earned Leave Encashment	1.03	0.68
Medical Reimbursement	-	-
Interim Relief	0.60	2.46
<b>Total</b>	<b>14.19</b>	<b>19.07</b>

26. On clarification sought by the Commission for the increase, the licensee submitted that, the Infopark has considered the cost of one Resident Engineer at Cherthala & One Resident Engineer at Phase-II and half salary of an accountant and is the minimum cost possible considering operations at two locations and the staff strength cannot be reduced further. According to the petitioner, percentage wise employee cost is high due to the low volume of business at both the locations. The licensee also requested to approve the actual employee cost of Rs.19.07 lakh and mentioned that the Commission has taken a lenient view during the Truing Up of 2015-16 & 2016-17 considering the specific scenario at both the locations.
27. The licensee further submitted that, out of the two pending pay revisions as on 2016-17, the first was implemented in the year 2017-18 and the second was implemented in the year 2018-19. The second revision made in 2018-19 was in line with the recommendations of the 10th Pay Commission and the revision was approved on 20-12-2018 in 12th Governing body of the Company with an effective date of 01-04-2017. This increase is also reflected in the employee cost. The licensee has also submitted copies of approvals allowing the revision and drawal of arrears. The licensee further submitted vide letter dated 17-12-2020 that only the arrears pertaining to the current year is booked under employee expenses and the arrears paid pertaining to previous years are booked as prior period expenses.

28. The Commission notes that the employee cost has been increased to 19.07 lakhs in 2018-19 from the last year level of Rs.14.19 lakhs even though the strength was maintained at the same level. The Commission approved Employee cost in the Licensee's Trued Up accounts for 2017-18 was Rs.14.19 lakh. The increase in cost is around 34% and the licensee mentioned that the increase is due to the implementation of the second pending pay revision and DA increases. The Commission has examined the admissibility of the actual employee cost and also the amount booked under prior period expenses vis-à-vis the provisions of Regulations.
29. *As per Regulation 14(3) of Tariff Regulations 2018, expenses relating to pay revision, if any, during the control period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the Generation business/company or Transmission business/licensee or distribution business/licensee may be considered for pass through after due prudence check.*
30. Accordingly, the increase due to pay revision can be considered as pass through item subject to prudence check by the Commission. ***Considering the fact that the license has maintained only the very essential staff and maintained the same level of employees as that of the previous year during the current year also the Commission is of the opinion that the impact of wage/salary revision can be allowed. Accordingly, the Commission hereby approves the actual amount of Rs.19.07 lakhs as employee cost for the year 2018-19.*** Since the amount paid towards arrears of previous years are claimed separately under the head prior period expenses the admissibility of this amount is discussed separately in the Order under prior –period expenses.

### R&M Expenses

31. The details of repairs and maintenance expenses are as under.

**Table-8  
Comparison of R & M Expenses**

Particulars	Actuals 2017-18 (Rs. Lakh)	Trued up 2017-18 (Rs. Lakh)	Normative amount approved for 2018-19 in ARR	Truing Up claim 2018-19 (Rs. Lakh)
Operation and maintenance Cost	17.12	17.12	20.11	27.38

32. The Commission notes that there is an increase of around 60% in the R & M expenses from that approved for the previous year and 36% increase from the normative amount approved in the ARR & ERC Order dated 26-08-2019. In reply to the clarifications sought by the Commission for this huge increase in R & M expenses, the licensee vide letter dated 17-12-2020 submitted that the increase in

cost is due to the addition of one shift assistant in each shift (total 3 shifts) in the 220 KV substations for assisting the operator and also for meter reading work.

33. The licensee further submitted that there is an annual increase of 11% to outsourced agency as well as per the conditions of the contract with them. The licensee also submitted that only minimum staff is engaged for the maintenance of substation and requested the Commission to allow the actual expenditure. ***The Commission is of the view that the reasons for increase furnished by the licensee is not sufficient enough to justify the increase of 60% over previous year. Further, an annual increase of 11% to the outsourced agency is much on the higher side and no proper justification has been provided for allowing this amount. It is also not clear as to whether proper tendering was done and whether sufficient responsive tenders were received. In the absence of these details, the Commission is constrained to limit the R & M expenses as per the norms of Tariff Regulations 2018. Accordingly, the Commission approves Rs.20.11 lakhs as R & M expenses for the year 2018-19. The Commission further directs that in case the licensee so desires, they can file the complete details of R & M tendering/expenses within 3 months of the date of this Order for consideration.***

#### A & G Expenses.

34. The actual A & G Expenses claimed by the licensee includes telephone, postage, audit charge, vehicle expenses, printing & stationery, bank charges, licensee fee etc. The details are shown hereunder.

**Table-9  
Comparison of A&G Expenses**

Particulars	Actuals 2017-18 (Rs. Lakh)	Trued up 2017-18 (Rs. Lakh)	Normative amount approved for 2018-19 in ARR Order	Truing Up claim 2018-19 (Rs. Lakh)
Telephone & Postage	0.27	1.41	11.24	0.22
Audit Fees	0.08			0.10
Vehicle Hiring expenses	0.76			0.98
Printing & Stationery	0.25			0.28
Rates & Taxes	0.05			0.74
<b>Total</b>	<b>1.41</b>	<b>1.41</b>	<b>11.24</b>	<b>2.33</b>

35. The major expenses claimed are towards vehicle hiring expenses, printing & stationery, Rent rates & taxes, Telephone & Postage etc. There is an increase of around 65% in the A&G expenses claim when compared to the last year actuals and

the increase is mainly due to the hike in vehicle hiring expenses and rates & taxes. The licensee has submitted the increase in vehicle hiring charges is due to various official trips to KSERC and KSEB Ltd and in increase in rates and taxes is due to the license fee and filing fee paid for the MYT tariff and truing up petitions.

36. The Commission has examined each component of the A & G Expenses in detail vis-à-vis the justification furnished by the licensee, and the justification furnished by the licensee for the increase appears to be genuine. Further, the total expenditure under A&G expenses is within the norms fixed by the Commission. **Hence, the Commission hereby approves the actual expenditure of Rs.2.33 lakh as A & G expenses for the year 2018-19.**

37. Summary of O & M Expenses approved for the year 2018-19.

**Table-10**  
**O & M Expenses approved for the year 2018-19**

Particulars	2017-18	2018-19		
	Trued Up (Rs. in lakhs)	Approved in ARR & ERC (Rs. in lakhs)	For Truing up (Rs. in lakhs)	Trued Up (Rs. in lakhs)
Employee Cost	14.19	11.60	19.07	19.07
R&M Expenses	17.12	20.11	27.38	20.11
A & G expenses	1.41	11.24	2.33	2.33
<b>Total</b>	<b>32.72</b>	<b>42.96</b>	<b>48.78</b>	<b>41.51</b>

**As shown in Table above, the O & M expenses approved for 2018-19 is Rs. 41.51 lakhs**

### Interest and Finance charges

38. The Commission in the ARR Order dated 26-08-2019 had approved Rs.2.16 lakhs towards Interest and Finance charges for the year 2018-19. The licensee in the revised submission dated 17-12-2020 has claimed Rs. 2.00 lakh under interest and finance charges for the year 2018-19. The interest and finance charges claimed for the year 2018-19 is as shown below

**Table-11**  
**Details of Interest and Finance charges claimed**

Particulars	2017-18	2018-19	
	Trued Up (Rs. in lakhs)	Approved in ARR (Rs. in lakhs)	For Truing up (Rs. in lakhs)
Interest paid to consumers	2.25	1.38	1.28

Bank charges	0.51	0.78	0.72
<b>Total</b>	<b>2.76</b>	<b>2.16</b>	<b>2.00</b>

39. The Commission notes that there is a reduction in the expense when compared to the last year expense and also less than the amount approved in ARR order dated 26-08-2019. ***After examining the details furnished by the licensee the Commission hereby approves Rs.2.00 lakhs as Interest and Finance charges for the year 2018-19.***

### Depreciation

40. The licensee has claimed Rs.46.46 lakhs towards depreciation as per the revised Form D.3.5 submitted vide submission dated 17-12-2020 and the details are as shown below.

**Table-12  
Depreciation claimed for the 2018-19**

Particulars	Cherthala 110 kV substation		
	Asset value (in lakhs)	Depreciation rate (%)	Depreciation Claimed (In lakhs)
Land & Land rights	150.00	0.00%	0.00
Civil works	186.94	3.34%	6.24
Transformers	180.30	5.28%	9.52
Switch gear	288.03	5.28%	15.21
Batteries	13.45	5.28%	0.71
Others	52.70	3.34%	1.76
Distribution Lines	14.61	5.28%	0.77
Transformers	20.26	5.28%	1.07
Switch gear	110.00	5.28%	5.81
Batteries	1.67	5.28%	0.09
Others / DG	99.97	5.28%	5.28
<b>Total</b>	<b>1117.93</b>		<b>46.46</b>

41. The Commission had not approved any depreciation in the ARR Order dated 26-08-2019 as many of the licensee's assets are created out of contribution and proper records are not maintained for such assets, segregating them from other assets of the licensee. The relevant portion of the Order is extracted below.

*“49. Since the assets are created from contribution, depreciation cannot be allowed. The licensee is directed to show details of assets in the books of accounts properly and also maintain a fixed asset register for the distribution licensee operations. The licensee shall submit details, if any, on the assets created out of loans to claim depreciation while truing up the accounts for the respective years of the control period. The licensee is also directed to properly*

*segregate the assets created out of contributions and loans.”*

42. In compliance to the Commission's direction vide daily Order dated 24-11-2020, the licensee has submitted a revised claim of Rs.46.46 lakh towards depreciation for the year 2018-19. The licensee also submitted that the Assets at Cherthala are created out of debt funds availed from South Indian bank and furnished the details of Fixed Assets created out of term loan at Cherthala. However, the petitioner has not claimed any depreciation on fixed assets at Kakkanad Phase-II as these assets are created out of Government grant.

43. The consumer contribution, deposit work, capital subsidy or grants are being dealt by Regulation 25 of the Tariff Regulations 2018 and the relevant provisions are extracted hereunder.

*“25. Consumer contribution, deposit work, capital subsidy or grant. –*

*(1) Works of the following nature carried out by the generation business/company, transmission business/licensee or distribution business/licensee shall be classified under the categories of consumer contribution, deposit work, capital subsidy or grant,-*

*(a) capital works undertaken after obtaining a part or all of the funds from the users/consumers ;*

*(b) capital works undertaken by utilising capital subsidies or grants received from the State and/or Central Governments or any other sources;*

*(c) any other capital subsidy or grant of similar nature received without any obligation to return the same and with no interest costs attached to such subvention.*

*(2) The expenses on such capital assets created out of contribution or grants or deposit works or capital subsidy shall be treated as follows:-*

*(a) O&M expenses as specified in these Regulations shall be allowed;*

*(b) provisions for depreciation, as specified in Regulation 27, shall not be allowed to the extent of financial support provided through consumer contribution, deposit work, capital subsidy or grant; and*

*(c) provisions related to return on equity share capital or net fixed assets as applicable, as per Regulation 28 shall not be allowed to the extent of financial support provided through consumer contribution, deposit work, capital subsidy or grant.”*

44. The Commission had directed the licensee in the Truing up Order for 2017-18 dated 19-06-2021 to submit the complete details of all fixed assets, its year of COD, capital cost, source of funds, etc. within 3 months from the date of issue of the Order. **The Commission reiterates the same as the admissibility of depreciation and interest on loan can be decided only after receiving this information.**

45. Further, the Commission had in the Daily Order dated 06-01-2021 given specific directions to the licensee to sort out the issues related to Fixed Assets and its funding. The directions are as under.
- a) Separate petition to be filed in respect of the complete Assets and Liabilities for cleaning up the books of accounts of the licensee with the approval of their Board.
  - b) Details of Capital expenditure proposals pending for approval to be submitted with sources of funding specified. i.e., whether from own funds, borrowed funds, consumer contributions, Grants or subsidies etc.
  - c) The principal portion of the loan availed for procuring electricity distribution assets be segregated from the corporate accounts along with interest thereon and to transfer the same to the regulatory accounts.
46. ***In the absence of the details of fixed assets as specified in the Truing up Order for 2017-18 dated 19-06-2021, the Commission is unable to identify the assets on which depreciation can be allowed and hence has decided to defer the approval of depreciation until the directions are fully complied with. The direction given by the Commission on the matter in Para 52 of the licensee's Truing up Orders for 2017-18 is reproduced below.***

***“As a Final chance, the Commission hereby directs the licensee to submit the complete details of all fixed assets, its year of COD, capital cost, source of funds, etc. within 3 months from the date of issue of this Order. No further time shall be given to the licensee and non-compliance to the above direction shall be viewed seriously and action initiated against the licensee under section 142 of the Electricity Act, 2003 and provisions of KSERC (Conditions of Licensee for Existing Distribution Licensees) Regulations, 2006.”***

### **Return on Equity**

47. As per Regulation 28(2) of the Tariff Regulations 2018, if there is no equity invested in the business or equity invested in the regulated business of the distribution licensee is not clearly identifiable, return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business. The licensee has claimed a RoNFA of Rs.29.36 lakhs for 2018-19 through its submission dated 04-01-2021 as shown below.

**Table-13  
RoNFA claimed for 2018-19**

Sl.No	Particulars	2018-19 (Rs. Lakh)
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1	NFA at the beginning of the year		978.56
2	Return on NFA at the beginning of the year	3%	29.36
	Total		29.36

48. The Commission noted that the licensee has computed the Return on Net Fixed Assets (RoNFA) not as specified in the Tariff Regulations, 2018. Regulation 28 of Tariff Regulation 2018 provides for computation of Return on Equity Share capital or Net Fixed Assets as shown below.

**“28. Return on Equity Share capital or Net Fixed Assets. –**

- (1) *Return on equity shall be computed in rupee terms, on the paid up equity capital determined in accordance with the Regulation 26 and shall be allowed at the rate of fourteen percent for generating business/companies, transmission business/licensee, distribution business/licensee and state load despatch centre:*

*Provided that, at the time of approving Aggregate Revenue Requirements return on equity share capital for generating business/ company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, shall be allowed on the amount of equity share capital approved by the Commission for the assets put to use at the commencement of the financial year and on fifty percent of equity share capital portion of the approved capital cost for the investment put to use during the financial year:*

*Provided further that at the time of truing up for the generating business/company, transmission business/licensee, distribution business/licensee and State Load Despatch Centre, return on equity share shall be allowed on monthly pro-rata basis, taking into consideration the documentary evidence provided for the assets put to use during the financial year.*

*Provided also that if the equity or any portion of it, is invested in the generating business/company, transmission business /licensee or distribution business/licensee is part of the scheme or programme funded by the Central Government or State Government for which no return is payable, such portion of the equity shall not be eligible for any form of return.*

- (2) *If the equity invested in the regulated business of the generating business/company or transmission business/licensee or distribution business/ licensee or state load despatch centre is not clearly identifiable, return at the rate of three percent shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business:*

*Provided that net fixed assets shall be exclusive of the assets created out*

of consumer contribution, deposit works, capital subsidy or grants”

49. Accordingly, as per proviso to Regulation 28(2), the net fixed assets eligible for returns shall be exclusive of grants/contribution. However, the licensee has not submitted the details of assets created out of funds other than grants/contributions/subsidy in the manner specified by the Commission. Further, in the truing up Order for 2017-18 dated 19-06-2021, the licensee was given an opportunity to prefer the claim for Return on Net Fixed Assets within 3 months of the Order with details to establish that the assets on which return is claimed are created out of funds other than contributions/ grant/ subsidies. **Hence, the Commission has decided to defer the approval of Return on Net Fixed Assets till the licensee submits the details as per the directions in Para 55 of the Truing up Order for 2017-18.**

#### **Prior period expenses**

50. The licensee has claimed Rs.8.17 lakh under prior period expenses being the arrear paid consequent to the pay revision approved in 2018-19. The licensee submitted vide submission dated 17-12-2020 that, out of the two pending pay revisions as on 2016-17, the first was implemented in the year 2017-18 and the second was implemented in the year 2018-19. In the year 2018-19, the salary of the employees has been revised in line with the recommendations of the 10th Pay Commission and the revision was approved on 20-12-2018 in 12th Governing body of the Company with an effective date of 01-04-2017. The licensee has submitted copies of approvals allowing the revision and drawal of arrears. The licensee also submitted vide letter dated 17-12-2020 that expenses pertaining to the current year is booked under employee expenses and the arrears pertaining to the previous years are booked as prior period expenses. The details of arrears paid during 2018-19 consequent to these revisions as per the revised Form D.3.4 (a) is shown below.

**Table 14**  
**Details of arrears paid during 2018-19**

Year	Amount Paid in Rs.lakh
2015-16	1.56
2016-17	1.74
2017-18	4.87
Total	8.17

51. The Commission has examined the details furnished by the licensee. As per Regulation 14(3) of Tariff Regulations 2018, expenses relating to pay revision, if any, during the Control Period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the Generation business/company or

Transmission business/licensee or distribution business/licensee may be considered for pass through after due prudence check. This criteria has been fulfilled by the licensee. Accordingly, being the pay revision arrear paid, the expenses booked under prior period expenses is admissible. **The Commission, therefore, approves Rs.8.17 lakhs as prior period expenses for the year 2018-19.**

### Total Revenue

52. The licensee has submitted that total revenue includes Rs.620.27 lakh from the Sale of Power and Rs.3.02 lakhs from Non-Tariff income totaling Rs.623.29 lakh.

### Revenue from Sale of Power

53. The licensee has submitted the category-wise revenue from sale of power for the year 2018-19 and is tabulated as under.

**Table 15**  
**Details of Revenue from Sale of Power for 2018-19**

Category	No of Consumers	Sales (in lakh units)	Revenue from sale of power (Rs.Lakh)	Average Tariff (Rs./kwh)
Industrial	64	9.08	68.10	7.50
Commercial	6	0.70	7.51	10.73
Construction Power	7	1.50	17.85	11.90
Street lighting	2	1.20	4.59	3.83
HT 1 B (Cherthala)	1	8.80	62.03	7.05
HT 1 B (Kakkanad)	3	59.00	460.19	7.80
<b>Total</b>	<b>83</b>	<b>80.28</b>	<b>620.27</b>	<b>7.73</b>

54. The major revenue is from the sale of power to Phase II- Kakkanad Campus (HT I B). The Commission also noted that there is a decline in revenue from sale of power from the ARR & ERC Order dated 26-08-2019 in which Rs.934.02 lakhs was approved towards revenue from sale of power. As per the submission of the licensee, though they estimated a sale of 119.70 lakh units for 2018-19, the actual sale was only 80.28 lakh units. As per the licensee, the reason for drop in sale of power and revenue generation was mainly due to drop in the actual consumption of HT consumers M/s. Cognizant Technologies and M/s. TransAsia Shipping Services. **After detailed analysis as discussed in para 12 to 14 above, the Commission hereby approves Rs.620.27 lakh as revenue from sale of power for the year 2018-19.**

### Non-Tariff Income

55. The Non-tariff income for 2018-19 as per the certified accounts is Rs.3.02 lakh, which mainly includes interest on security deposit of Rs.2.03 lakh received from

KSEB Ltd and Rs.0.71 lakh interest received from bank. The item-wise details are shown below.

**Table 16**  
**Details of Non-Tariff Income**

Non-Tariff Income	2017-18 (Actual) (Rs. Lakh)	2018-19 (Actual) (Rs. Lakh)
Interest received from bank	0.85	0.71
Interest received from others (KSEB)	2.12	2.03
Meter cost	0.26	0.22
Meter installation charge	0.23	0.05
Others	-	0.01
<b>Total</b>	<b>3.46</b>	<b>3.02</b>

56. *After examining the data furnished by the licensee, the Commission approves the Non-tariff income of Rs.3.02 lakh as claimed by the licensee for the year 2017-18.*

#### Revenue Surplus/Gap

57. Based on the above, the approved expenditure and revenue for the year 2018-19 after truing up is as shown below.

**Table 17**  
**Revenue Requirements after truing up for 2018-19**

Particulars	Approved in ARR (Rs.in lakhs)	For Truing up (Rs. in lakhs)	Trued Up (Rs. in lakhs)
Revenue from sale of power	934.02	620.27	620.27
Non-Tariff Income	4.41	3.02	3.02
<b>Total Revenue</b>	<b>938.43</b>	<b>623.29</b>	<b>623.29</b>
Purchase of Power	851.40	561.55	561.55
Employee Cost	11.60	19.07	19.07
R & M Expenses	20.11	27.38	20.11
A & G expenses	11.24	2.33	2.33
Interest and finance charges	2.16	2.00	2.00
Depreciation	-	46.46	-
Return on Equity	-	29.36	-
<b>Total expenditure</b>	<b>896.52</b>	<b>688.14</b>	<b>605.06</b>
<b>Prior Period Expenses</b>		<b>8.17</b>	<b>8.17</b>

<b>Revenue Surplus/(Gap)</b>	<b>41.91</b>	<b>(73.02)</b>	<b>10.06</b>
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### **Orders of the Commission**

- 58.** The Commission after considering the application filed by M/s. Infopark for truing up of accounts for the year 2018-19, objections raised by KSEB Ltd. and the clarifications and other details provided by the licensee approves the following.
- (1) The total expenditure approved for 2018-19 is Rs.613.23 lakh.
  - (2) The total revenue approved for 2018-19 is Rs.623.29 lakh.
  - (3) During 2018-19, there is a revenue surplus of Rs.10.06 lakh.
  - (4) The cumulative revenue gap of the licensee till 2017-18 was Rs. 125.26 lakh.
  - (5) After accounting of the revenue surplus of Rs. 10.06 lakh, the cumulative revenue gap till 2018-19 will be Rs. 115.20 Lakh.
  - (6) The Commission's direction regarding R &M expenses contained in Para-33 may be seen by the licensee for action as deemed appropriate.
  - (7) The Commission hereby draws the attention of the licensee to the remarks/directions in Depreciation-Para 46 & Return on Equity-Para 49 for compliance.
- 59.** With the above, the petition is disposed of. Ordered accordingly.

Sd/-

**Adv. A. J. Wilson**  
**Member (Law)**

Sd/-

**Preman Dinaraj**  
**Chairman**

Approved for Issue

Secretary