

KERALA STATE ELECTRICITY BOARD

TRAC, O/o the Chief Engineer (Commercial & Tariff),
Vydyuthi Bhavanam, Pattom, Thiruvananthapuram-695004
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KSEB/TRAC/ ARR&ERC 2011-12/

25-11-2010

To

The Secretary,
Kerala State Electricity Regulatory Commission
KPFC Bhavanam,
C. V. Raman Pillai Road,
Vellayambalam, Trivandrum.

Sir,

Sub: ARR&ERC of KSEB for the year 2011-12 -reg.

Ref: 1. KSEB Order dated 17-05-2010 on petition No. TP 70/2010.
2. KSEB order B.O (FM) No. 3043/2010 (KSEB/TRAC/ARR 2011-12)
Tvp, dtd 23.11.2010

1. Hon'ble Commission vide the order under reference has directed KSEB to prepare separate ARR&ERC for each functional areas for the year 2011-12 and also directed to propose transmission tariff, SLDC charges, and open access charges along with the ARR for 2011-1.
2. KSEB has engaged M/s Power Finance Corporation as the consultants to segregate the total assets and liabilities of KSEB into Generation, Transmission and Distribution, but the process is in progress. Only on segregation of assets and liabilities into the three functional units, it may be possible to realistically estimate the ARR&ERC for each functional areas separately.
3. However, as directed by the Hon'ble Commission, Board vide the order read as reference-2 has decided to prepare separate ARR&ERC for the year 2011-12 and the methodology proposed to estimate the components of the ARR&ERC is detailed below.

(a) Cost of Power Purchase.

The cost of power purchase may be shown as an input into Distribution. However, the total energy handled by the transmission functional area includes the total power purchase and internal Generation.

(b) **Repair and Maintenance cost, Administration and General Expenses and Depreciation.**

The R&M cost, A&G expense and Depreciation may be apportioned into Generation, Transmission and Distribution based on the past actuals as per Statement-6 of the Annual Accounts.

(c) **Employee cost**

The employee cost and terminal benefits may be apportioned among Generation, Transmission and Distribution on the basis of the employee strength and cost as on 31-03-2010 as per the provisional accounts for the year 2009-10.

(d) **Interest and Finance charges**

The interest and finance charges as on 31-03-2010 may be apportioned in the ratio of capital liabilities allocated to each profit center. The capital liabilities as on 31-03-2010 may be apportioned in the 'proportion of Gross Fixed Asset-Contributions and Grants & Subsidies assigned towards cost of capital assets'.

For new capital investments made after the base year 2009-10, the capital liabilities may be apportioned on the basis of capital investment made/ proposed in each functional area on normative basis at the normative debt-equity ratio of 70:30.

(e) **Equity and Return on equity**

The total equity as on 31-03-2010 may be booked into Generation, Transmission and Distribution as per the formula detailed below.

“The equity shall be allocated in the ratio of (net fixed assets + net current assets + CWIP + investment - capital liabilities - borrowings for working capital)”

The equity for the investments made after the base year 2009-10 may be apportioned on the basis of capital investment made/ proposed in each functional area on normative basis at the debt-equity ratio of 70:30.

The Return on Equity may be claimed as per the CERC (Terms and Conditions of Tariff) Regulations applicable from time to time. For the year 2011-12, the RoE @15.5% as per CERC regulations, 2009 may be adopted.

(f) **Interest on Fixed Deposit**

The interest on FD for meeting the capital liabilities may be apportioned on the ratio of capital liabilities. However, the

entire FD investments as on 31-03-2011 will be available for meeting the pension fund commitments only.

(g) Revenue Gap/ Regulatory Asset

In the ARR, the revenue gap/ regulatory asset may be booked under distribution.

(h) Revenue from Tariff and other Income

The total revenue including non-tariff income may be accounted under distribution.

(i) CERC Norms

As per the section-61(a) of the Electricity Act-2003, KSEB may adopt the tariff norms as per CERC (Terms and Conditions of Tariff) Regulations, 2009 to the possible extent for preparing the ARR&ERC for the year 2011-12.

A copy of the Board Order is enclosed as Annexure-1.

4. KSEB is in the process of preparation of ARR&ERC for the year 2011-12. But the process is getting delayed for want of details from various functional units and also the finalization of the methodology for preparing the separate ARR&ERC for each functional units etc. Hence, KSEB may request for a time extension of at least one month from 1st December-2010 to finalise the ARR&ERC for the year 2011-12.

Yours faithfully,

Chief Engineer (Commercial & Tariff)

Acc.
Boarder dated 25-11-2010

KERALA STATE ELECTRICITY BOARD

ABSTRACT

Preparation of ARR&ERC for the year 2011-12. Filing separate ARR for Generation, Transmission and Distribution functions - Sanction accorded- Orders issued

Corporate Office (Tariff & Regulatory Affairs Cell)

B.O (FM) No. 3043/2010 (KSEB/TRAC/ARR 2011-12)
23.11.2010

Tvpm, dtd

Read: 1. Minutes of the meeting held by Board with M/s PFC on 03-11-2010.
2. Note No. KSEB/TRAC/ ARR 2011-12/861 dated 16-11-2010 of the Chief Engineer (Commercial & Tariff)

ORDER

Kerala State Electricity Regulatory Commission (KSERC) vide the order dated 17-05-2010 had directed KSEB to file separate ARR &ERC for each licensed business from the year 2011-12 and also directed to propose transmission tariff, SLDC and Open Access charges along with the ARR & ERC for the year 2011-12.

2. Chief Engineer (Commercial & Tariff) vide the note read above has reported that, hitherto KSEB had been preparing the ARR&ERC as a single entity. KSEB has entrusted M/s. Power Finance Corporation (PFC) as consultant for the process of segregating total assets and liabilities of KSEB into Generation, Transmission and Distribution functions and the work is in progress. Until the assets and liabilities are segregated, it is difficult to realistically estimate the ARR&ERC of the each functional unit separately. The matter was discussed by the Board with the M/s PFC on 03-11-2010 and recommended to prepare the separate ARR&ERC for each functions for the year 2011-12 as detailed below.

- (j) **Cost of Power Purchase.**
The cost of power purchase may be shown as an input into Distribution. However, the total energy handled by the transmission wing includes the total power purchase and internal Generation.
- (k) **Repair and Maintenance cost, Administration and General Expenses and Depreciation.**

The R&M cost, A&G expense and Depreciation may be apportioned into Generation, Transmission and Distribution based on the actuals as per Statement-6 of the Annual Accounts.

(l) Employee cost

The employee cost and terminal benefits may be apportioned among Generation, Transmission and Distribution on the basis of the employee strength and cost as on 31-03-2010 as per the provisional accounts for the year 2009-10.

(m) Interest and Finance charges

The interest and finance charges as on 31-03-2010 may be apportioned in the ratio of capital liabilities allocated to each profit center. The capital liabilities as on 31-03-2010 may be apportioned in the 'proportion of Gross Fixed Asset- Contributions and Grants & Subsidies assigned towards cost of capital assets'.

For new capital investments made after the base year 2009-10, the capital liabilities may be apportioned on the basis of capital investment made/ proposed in each functional area on normative basis at the normative debt-equity ratio of 70:30.

(n) Equity and Return on equity

The total equity as on 31-03-2010 may be booked into Generation, Transmission and Distribution as per the formula detailed below.

“The equity shall be allocated in the ratio of (net fixed assets + net current assets + CWIP + investment - capital liabilities - borrowings for working capital)”

The equity for the investments made after the base year 2009-10 may be apportioned on the basis of capital investment made/ proposed in each functional area on normative basis at the debt-equity ratio of 70:30.

The Return on Equity may be claimed as per the CERC (Terms and Conditions of Tariff) Regulations applicable from time to time. For the year 2011-12, the RoE @15.5% as per CERC regulations, 2009 may be adopted.

(o) Interest on Fixed Deposit

The interest on FD for meeting the capital liabilities may be apportioned on the ratio of capital liabilities. However, the entire FD investments as on 31-03-2011 will be available for meeting the pension fund commitments only.

(p) Revenue Gap/ Regulatory Asset

In the ARR, the revenue gap/ regulatory asset may be booked under distribution.

(q) Revenue from Tariff and other Income

The total revenue including non-tariff income may be accounted under distribution.

(r) CERC Norms

As per the section-61(a) of the Electricity Act-2003, KSEB may adopt the tariff norms as per CERC (Terms and Conditions of Tariff) Regulations, 2009 to the possible extent for preparing the ARR&ERC for the year 2011-12.

3. Having considered the recommendation of the Chief Engineer (Commercial & Tariff), Board here by orders to:

- (i) file separate ARR&ERC for Generation, Transmission and Distribution for the year 2011-12.
- (ii) prepare the separate ARR&ERC for Generation, Transmission and Distribution for the year 2011-12 as per the methodology detailed under para-2 above.
- (iii) adopt the tariff norms as per CERC (Terms and Conditions of Tariff) Regulations, 2009 to the possible extent for preparing the ARR&ERC for the year 2011-12.

By order of the Board
Sd/-
B.Mohanan
Secretary

To
The Chief Engineer (Commercial & Tariff)
Financial Advisor

Copy to
The Chief Internal Auditor
The Legal Advisor & Disciplinary Enquiry Officer
Director (IT) & SPIO
TA to Chairman/Member (Dist. /Trans./Gen)
PA to Member (Finance)/ Sr. CA to Secretary
FO, restructuring committee
Public Relations Officer
Fair Copy Superintendent / Library

Forwarded / By order

Asst. Engineer