

**BEFORE THE HONOURABLE KERALA STATE ELECTRICITY
REGULATORY COMMISSION**

In the matter of : Truing up of Cost and Revenue of the Kerala State Electricity Board (KSEB) for the year 2011-2012.

Petitioner : Kerala State Electricity Board Limited, Vidyuthi Bhavanam, Pattom, Thiruvananthapuram - 4

THE PETITIONER HUMBLY STATES THAT:

1. Introduction

- 1.1 Kerala State Electricity Board (KSEB) had filed the petition for approval of ARR & ERC for the year 2011-12 before the Hon'ble Commission on 1st February 2011. In the ARR&ERC, KSEB had estimated the Aggregate Revenue Requirement (ARR) as Rs 7815.77 crore, Expected Revenue from Charges (ERC) as Rs 5607.46 crore and the revenue gap as Rs 2208.31 crore for the year 2010-12. As against the KSEB proposal, Hon'ble Commission vide the order dated 1st June 2011 had approved the ARR as Rs 6512.73 crore, ERC as Rs 5624.92 crore and revenue gap as Rs 887.81 crore. However, vide the order dated 21st November-2011; Hon'ble Commission had re-determined the revenue gap at Rs.928.62 crore.
- 1.2 While approving the ARR&ERC for the year 2011-12, Hon'ble Commission had disallowed many expense components including cost of generation, cost of power purchase, interest and finance charges, employee cost, Administration and General expenses, section 3(1) duty, Repair & Maintenance Expenses, Return on Equity etc. KSEB had made all efforts to contain the expenses to the possible extent as directed by the Hon'ble Commission.
- 1.3 As per section 172 (a) of the Electricity Act 2003 and as mutually decided by the Government of India and Government of Kerala, KSEB had been continuing as the State Transmission utility and Distribution licensee till 24-09-2008. In exercise of powers conferred under sub-sections (1), (2), (5), (6) and (7) of section 131 of the Electricity Act, 2003, State Government vide the notification G.O (Ms).37/2008/PD dated 25th September, 2008 had vested all functions, properties, interests, rights, obligations and liabilities of KSEB with the State Government till it is re-vested in a corporate entity. Accordingly, KSEB had continued all the functions as a Generator, State Transmission Utility and a Distribution Licensee in the State during the year 2011-12.

- 1.4 The Comptroller & Auditor General of India (C&AG) had audited and approved the accounts of KSEB vide the audit report dated 29.08.2013. The C&AG audited accounts of KSEB for the year 2011-12 is enclosed as Annexure-1.
- 1.5 The table given below compares the summary of the audited Annual statement of Accounts of the Board for the year 2011-12 vis-à-vis the amount projected by the KSEB in the ARR&ERC petition and the same approved by the Hon'ble Commission.

Table-1
Comparison of Expenses for the year 2011-12

Sl No	Particulars	KSEB ARR	SERC Approved	As per Accounts	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Generation Of Power	396.57	264.58	281.65	17.07
2	Purchase of power	4031.80	3660.67	4375.31	714.64
3	Interest & Finance Charges	385.05	265.26	340.52	75.26
4	Depreciation	548.39	548.37	466.00	-82.37
5	Employee Cost	1910.62	1541.30	1903.33	362.03
6	Repairs & Maintenance	243.75	185.00	251.70	66.70
7	Administration & General	197.06	85.74	202.72	116.98
8	Other Expenses	12.00	12.00	73.22	61.22
9	Gross Expenditure	7725.24	6562.92	7894.45	1331.53
10	Less : Expenses Capitalized	116.32	116.32	126.61	10.29
11	Less : Interest Capitalized	33.87	33.87	30.51	-3.36
12	Total Expenditure	7575.05	6412.73	7737.33	1324.60
13	Return on Equity/Statutory	240.72	100.00	240.72	140.72
14	ARR (12 + 13)	7815.77	6512.73	7978.05	1465.32

Table-2
Comparison of revenue for the year 2011-12

Particulars	KSEB ARR	SERC Approved	As per Accounts	Difference over approval
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Revenue from energy sale within the State	5217.10	5234.56	5593.02	358.46
Revenue from non-tariff income	390.36	390.36	450.86	60.50
Revenue from subsidies and Grants	0.00	0.00	0.04	0.04
Total	5607.46	5624.92	6043.92	419.00

Table-3
Comparison of revenue gap for the year 2011-12

KSEB proposed in ARR	SERC Approved	As per Accounts	Difference over approval
(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
2208.31	928.62	1934.13	-1005.51

1.6 The detailed explanation on the variations in the ARR, ERC and Revenue gap over the approved level is furnished in the subsequent sections for the kind consideration and approval of the Hon'ble Commission.

2. Energy Consumption

2.1 In the ARR, KSEB had estimated the total energy input into the KSEB system as 18534.53 MU, (excluding auxiliary consumption and external losses in PGCIL lines associated with evacuation of power from Central Generating Stations). Hon'ble Commission had approved the same as 18420 MU. But the actual energy input into KSEB system during 2011-12 was 18946.29 MU, i.e., the actual was more by 525.29 MU from the approval. The details of the energy generation and power purchase approved by the KSERC and the actual are given below.

Table-4
Energy Generation and Power Purchase for the year 2011-12

Source	proposed by KSEB (MU)	Approved by SERC (MU)	As per Accounts (MU)	Actuals over approval (MU)
Hydro (excluding aux.consn.)	7020.37	8217.00	8006.02	-210.98
Wind	3.00	3.00	2.03	-0.97
BDPP(excluding aux.consn.)	177.94	92.00	54.24	-37.76
KDPP(excluding aux.consn.)	355.88	227.00	227.60	0.60
Sub total KSEB own generation	7557.19	8539.00	8289.89	-249.11
Power purchase (excluding external losses in the PGCIL lines)	10977.35	9881.00	10857.50*	976.50
Total generation and power purchase	18534.54	18421.00	19147.39	-726.39
Less : Energy sale outside state of displacement mode	0.00		201.10	201.10
Total Input into KSEB system	18534.53	18420.00	18946.29	-526.29

Include swap return 49.02 MU

3. Sale of Energy

3.1 In the ARR, KSEB had estimated the annual energy sale for the year 2011-12 at 15600.15MU and Hon'ble Commission had approved the same. The actual energy sale within the State during 2011-12 15980.53 MU, i.e., the actual was increased by 380.38 MU over the estimate of KSEB and the same approved by the Hon'ble Commission. The variation was about 2.40% on the estimate of KSEBL. The details are as given below.

Table-5
Category wise energy sale during the year 2011-12

Category	2010-11	2011-12				Percentage increase over 2010-11
	Actuals	KSEB ARR	SERC Approved	Actuals	Difference over approval	
	(MU)	(MU)	(MU)	(MU)	(MU)	
LT Domestic	6877.83	7460.00	7460	7705.86	-245.86	12.04
Industrial	1053.45	1118.84	1118.84	1097.04	21.8	4.14
Commercial & Non Domestic	1951.74	2104.00	2104	2141.22	-37.22	9.71
Irrigation	231.56	260.00	260	286.18	-26.18	23.59
Public Lighting	265.68	307.00	307	294.26	12.74	10.76
Sub total	10380.26	11249.84	11249.84	11524.56	-274.72	11.02
HT Industrial	1516.01	1572.00	1572.00	1595.68	-23.68	5.26
Non-Industrial	101.71	119.30	119.30	115.86	3.44	13.91
Commercial & Non Domestic	756.3	822.00	822.00	866.62	-44.62	14.59
Others (Irrigation)	8	8.36	8.36	8.11	0.25	1.37
Subtotal	2382.02	2521.66	2521.66	2586.27	-64.61	8.57
EHT 66KV	341.17	370.67	370.67	360.49	10.18	5.66
110 KV	839.95	825.00	825.00	882.63	-57.63	5.08
Railways	156.39	169.98	169.98	154.49	15.49	-1.21
Subtotal	1337.51	1365.65	1365.65	1397.61	-31.96	4.49
Bulk Supply	448.11	463.00	463	472.09	-9.09	5.35
Total	14547.90	15600.15	15600.15	15980.53	-380.38	9.85

3.2 It may be noted that, the energy consumption of almost all categories of consumers had increased during the year 2011-12, over the same approved vide the order on ARR. The consumption of LT consumers has increased by 11.02%, HT category by 8.57% and EHT categories by 4.49% over the consumption during the year 2010-11. The growth in electricity consumption during the year 2011-12 was mainly due to the following reasons.

- (i) KSEB has not introduced restriction on energy usage during the year 2011-12.
- (ii) KSEB has been providing quality power at right voltage to its consumers.
- (iii) New service connections added and changes in the consumer habits and preferences.

4. T & D Losses

4.1 In the ARR&ERC, KSEB had targeted to reduce the T&D loss during the year 2011-12 to 15.83% from 16.52% for the year 2010-11, i.e. a loss reduction target of 0.69% during the year 2011-12. While approving the ARR, Hon'ble Commission had approved the loss reduction target as 0.69%, i.e., as proposed by KSEB.

4.2 During the year 2011-12, as against the approved target of 0.69%, KSEB was able to reduce the T&D loss by 0.44%. The total energy input into

the KSEB system, energy sales and T&D loss reduction targets as per the ARR, KSERC order and the actuals are detailed below.

Table-6
Details of T&D loss reduction for the year 2011-12

Sl No.	Particulars	Unit	Actuls for the year 2010-11	Actuals for the year 2011-12
1	Net Generation and Power Purchase at KSEB periphery (excl. PGCIL	(MU)	17337.79	18946.29
2	Energy sales within the State	(MU)	14547.90	15980.53
3	T&D Losses (3)- (4)	(MU)	2789.89	2965.76
4	T&D Loss as percentage of total energy input	(%)	16.09	15.65
5	Loss reduction target approved/ achieved	(%)		0.44

- 4.3 Hon'ble Commissions may kindly note that, KSEB has been continuously reducing the T&D loss since the year 2001-02 and the details are given below.

Table-7.
Achievement of T&D loss reduction from 2001-02 to 2011-12

Year	T&D Loss within KSEB system (%)	Extent of reduction (%)	
		Yearly	Cumulative
2001-02	30.76		
2002-03	29.08	1.68	1.68
2003-04	27.44	1.64	3.32
2004-05	24.95	2.49	5.81
2005-06	22.96	1.99	7.80
2006-07	21.47	1.49	9.29
2007-08	20.02	1.45	10.74
2008-09	18.83	1.19	11.93
2009-10	17.71	1.12	13.05
2010-11	16.09	1.62	14.67
2011-12	15.65	0.44	15.11

- 4.4 As detailed above, KSEB was able to reduce the total T&D loss in the KSEB system including transmission system to the level of 15.65% during the year 2011-12 from 30.76% prevailed during the year 2001-02, i.e., the cumulative T&D loss reduction achieved during the period from 2001-02 to 2011-12 is 15.11%. By reducing the T&D loss by 15.11% over the last ten years, KSEB was able to achieve a savings in Generation and Power purchase by 4134.41 MU during the year 2011-12 alone. At an average purchase rate of Rs 3.50 per unit, this has resulted in reducing the Generation and Power purchase cost by Rs 1447.04 crore. The details are given below.

Table-8
Savings in cost of Generation and Power purchase due to T&D loss reduction

Year	T&D Loss within KSEB system	Extent of reduction (%)		Total Energy sales within the State (MU)	Savings in Generation & Power Purchase (MU)	Savings in Power purchase cost)* (Rs.Cr)
		Yearly (%)	Cumulative (%)			
	(%)	(%)	(%)	(MU)	(MU)	(Rs.Cr)
2001-02	30.76			8667.32		
2002-03	29.08	1.68	1.68	8873.30	303.58	106.25
2003-04	27.44	1.64	3.32	8910.84	588.85	206.10
2004-05	24.95	2.49	5.81	9384.40	1049.24	367.23
2005-06	22.96	1.99	7.80	10269.80	1501.70	525.60
2006-07	21.47	1.49	9.29	11331.00	1935.94	677.58
2007-08	20.02	1.45	10.74	12049.85	2336.94	817.93
2008-09	18.83	1.19	11.93	12414.32	2635.18	922.31
2009-10	17.71	1.12	13.05	13971.09	3199.90	1119.97
2010-11	16.09	1.62	14.67	14547.90	3673.33	1285.67
2011-12	15.65	0.44	15.11	15980.53	4134.41	1447.04

4.5 As detailed above, KSEB has saved 4134.41 MU under Generation and Power Purchase during the year 2011-12 by way of reducing the T&D loss by 15.11% since the year 2001-02. In other words, had the loss in the KSEB system remained at 30.76% of 2001-02 level, KSEB would have to procure an additional quantum of 4134.41 MU during the year 2011-12, which in turn would have resulted in an additional cost of power purchase to the tune of Rs 1447.04 crore at an average purchase rate of Rs 3.50 per unit. KSEB has been passing on the entire benefit of reduction in T&D loss to the consumers as reduction in cost of generation and power purchase.

4.6 Considering the consistent efforts of KSEB on T&D loss reduction, Hon'ble Commission may kindly approve the actual T&D loss as per the C&AG accounts, without imposing any penalty for the underachievement of T&D loss by 0.25% (difference between the target of 0.69% and actual reduction of 0.44%).

5. Cost for internal Generation

(a). Hydro Generation.

5.1 In the ARR, KSEB has estimated the hydro generation for the year 2011-12 as 7056 MU expecting normal monsoon. However, while approving the ARR during June-2011, Hon'ble Commission had re-estimated the hydro generation as 8258 MU. The actual hydro generation was 8058MU, i.e. 200 MU less than the generation approved by the Hon'ble Commission. The month wise details of hydel generation for the year 2011-12 are given below.

Table-9
Month wise details of Hydel Generation for the year 2011-12

Month	KSERC order	Actuals	Difference
	(MU)	(MU)	(MU)
Apr-11	798.80	714.18	-84.62
May-11	786.98	775.94	-11.04
Jun-11	567.14	622.9	55.76
Jul-11	591.71	615.52	23.81
Aug-11	614.99	639.76	24.77
Sep-11	690.40	829.24	138.84
Oct-11	707.60	780.37	72.77
Nov-11	648.24	607.45	-40.79
Dec-11	692.03	617.77	-74.26
Jan-12	665.14	495.21	-169.93
Feb-12	672.30	610.81	-61.49
Mar-12	822.67	749.13	-73.54
Total	8258.00	8058.28	-199.72

After accounting the auxiliary consumption, the net hydel generation to the KSEB system was 8006MU during the year 2011-12.

(a) KSEB Thermal Plants

- 5.2 For the year 2011-12, KSEB had proposed a net generation of 177.94 MU from BDPP at an average variable cost of Rs 7.37 per unit and 355.88 MU from KDPP at an average variable cost of Rs 7.18 per unit. Accordingly, the total fuel cost proposed for generation from BDPP and KDPP for the year 2011-12 was Rs 396.57 crore. However, Hon'ble Commission had approved only 94 MU from BDPP at a variable cost of Rs 8.32 per unit and 233 MU from KDPP @8.27 per unit. As against the approval, the actual generation from BDPP was 54.3 MU (net) at a variable cost of Rs 10.11 per unit and 227.60 MU (net) from KDPP at a variable cost of Rs 9.97 per unit. The month wise details of generation from KDPP and BDPP for the year 2011-12 are given below.

Table-10.
Month wise details of energy generation from BDPP and KDPP

Month	BDPP			KDPP		
	Approved	Actuals	Excess over approval	Approved	Actuals	Excess over approval
	(MU)	(MU)	(MU)	(MU)	(MU)	(MU)
Apr-11	12.1	11.8	-0.2	28.0	28.0	0.0
May-11	9.1	8.9	-0.2	23.3	23.3	0.0
Jun-11	2.7	2.7	-0.1	17.6	17.6	0.0
Jul-11	0.4	0.6	0.2	8.9	8.8	-0.1
Aug-11	0.2	0.2	0.0	8.1	8.0	-0.1
Sep-11	0.0	0.0	0.0	6.4	6.3	-0.1
Oct-11	11.4	7.0	-4.5	23.0	11.3	-11.7
Nov-11	11.1	1.8	-9.3	22.2	12.9	-9.4
Dec-11	11.4	4.4	-7.0	23.0	24.9	1.9
Jan-12	11.4	6.6	-4.8	23.0	21.1	-1.9
Feb-12	10.3	5.6	-4.8	20.7	27.5	6.8
Mar-12	11.4	4.8	-6.7	23.0	37.9	14.9
Total	91.7	54.3	-37.4	227.2	227.6	0.4

- 5.3 As detailed above, the actual generation from BDPP and KDPP plants was less than the approved level. KSEB has replaced the costly energy

from these stations by procuring energy through traders/ energy exchange at most competitive rates. The summary of the generation and the cost from BDPP and KDPP for the year 2011-12 is given below.

Table-11

Summary of the generation and cost from BDPP & KDPP for the year 2011-12

Month	KSERC Approval			Actual			Difference	
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Amount
	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs.Cr)
BDPP	91.65	8.32	76.62	54.29	10.11	54.89	-37.36	-21.73
KDPP	227.16	8.27	187.96	227.55	9.97	226.76	0.40	38.80
Total	318.81		264.58	281.84		281.65	-36.96	17.07

5.4 Hon'ble Commission may kindly note that, the actual generation from BDPP and KDPP together was less by 36.96 MU. However, due to the increase in price of LSHS, the variable cost of generation at BDPP and KDPP together was increased by Rs 17.07 crore over approved level. Hon'ble Commission may kindly approve the actual generation from BDPP and KDPP during the year 2011-12 along with its cost.

6 Power Purchase for the year 2011-12.

(b) Power purchase from Central Generating Stations (CGS)

6.1 In the ARR, KSEB had estimated the energy availability from CGS as 8847.70 MU at a total cost (fixed cost, variable cost, incentives etc as) of Rs 2067.44 crore. While approving the ARR, Hon'ble Commission had revised the energy availability from CGS at 8609.00 MU at a cost of Rs.2043.44 crore. However the new Central Stations including Kudamkulam Nuclear Power plant, NLC- Expansion Stage-II, Vallur, Simhadri STPP etc could not start the commercial operation as per schedule. The details of the energy scheduled from CGS and its cost as per accounts are detailed below.

Table-12. Comparison of actual and approved power purchase from CGS for the year 2011-12

Station	Approved by the Commission		As per Accounts		Difference	
	Energy purchased at KSEB bus	Cost	Energy purchased at KSEB bus	Cost	Energy purchased at KSEB bus	Cost
	(MU)	(Rs. Cr)	(MU)	(Rs. Cr)	(MU)	(Rs. Cr)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
Talcher II	3008	771.26	2969.18	881.57	-38.82	110.31
NLC-II Stage -1	393	71.98	432.35	114.22	39.35	42.24
NTPC- Ramagundam (I,II&III)	2431	549.61	2463.19	587.58	32.19	37.97
NLC-II Stage-2	557	91.9	617.81	167.56	60.81	75.66
NLC-Expansion stg 1	354	105.4	401.61	165.05	47.61	59.65
NLC-Expansion II	175	70.18	0	0	-175.00	-70.18
Simhadry exp	314	89.12	168.02	65.8	-145.98	-23.32
MAPS	129	27.6	112.69	24.54	-16.31	-3.06
Kaiga stg 1	257	84.13				
Kaiga stg 2	240	77	416.85	135.87	-80.15	-25.26
Kudamkulam	242	82.82	0.00	0.00	-242.00	-82.82
Vallur	71.0	22.44	0.00	0.00	-71.00	-22.44
ER			297.07	99.68	297.07	99.68
Total	8171	2043.44	7878.77	2241.87	-292.23	198.43

- 6.2 As detailed above, availability of power from CGS was less by 292.23 MU from the approved level, however on account of the increase in variable cost of generation; the actual cost of power purchase from CGS has increased by Rs 198.43 crore during the year 2011-12.
- 6.3 Further, KSEB has availed 533.42 MU as Unscheduled Interchange at an average rate of Rs 2.49 per unit and incurred Rs.132.65 crore during the year 2011-12. The details are given below.

Table-13
Monthly details of UI

Month	Import	Export	Net UI drawal
	(MU)	(MU)	(MU)
Apr-11	53.78	5.90	47.88
May-11	65.35	2.26	63.09
Jun-11	72.35	2.31	70.04
Jul-11	67.41	2.18	65.22
Aug-11	64.90	5.90	58.99
Sep-11	15.41	45.30	-29.89
Oct-11	39.21	3.92	35.30
Nov-11	23.38	7.24	16.14
Dec-11	44.24	1.85	42.39
Jan-12	49.10	2.30	46.80
Feb-12	63.97	2.29	61.69
Mar-12	57.99	2.20	55.79
Total	617.07	83.65	533.42

(c) Power Purchase from IPPs

- 6.4 During the year 2011-12, KSEB had procured 715.66 MU from IPPs against approval of 1174.00 MU. The details are given below.

Table-14
Comparison of the power purchase from IPPs during the year 2011-12

Station	Approved by the Commission		As per Accounts		Difference	
	Energy purchased at KSEB bus	Cost	Energy purchased at KSEB bus	Cost	Energy purchased at KSEB bus	Cost
	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)- (3)
RGCCPP	1003	974.63	486.36	692.96	-516.64	-281.67
BSES	0	87.72	46.61	132.47	46.61	44.75
KPCL	27	31.81	10.05	18.04	-16.95	-13.77
Wind	62	19.33	74.50	23.34	12.50	4.01
Ullumkal	34	6.8	23.16	4.63	-10.84	-2.17
MP Steel	41	9.42	20.51	4.74	-20.49	-4.68
Iruttukkanam	8	2.13	17.62	4.76	9.62	2.63
Philips Carbon Black	0	0	36.35	7.44	36.35	7.44
Total	1175	1131.84	715.16	888.38	-459.84	-243.46

- (i) **RGCCPP- Kayamkulam**
- 6.5 Hon'ble Commission has approved to schedule 1003 MU from RGCCPP Kayamkulam at the variable cost of Rs 8.79 per unit. However, considering the excessive variable cost, KSEB has restricted the schedule of power from RGCCPP by availing power from alternate sources. As against the approved schedule of 1003MU @Rs 8.79 per unit, the actual schedule was 486.36 MU at the variable cost of @Rs 10.08 per unit.
- (a) **BSES power**
- 6.6 While projecting the ARR for the year 2011-12, KSEB had not proposed to schedule power from BSES plant. However, KSEB has scheduled 46.61 MU from BSES @ Rs 9.76 per unit during the month of April-2011, mainly for selling the unutilized power outside the State at variable cost plus comfort charges.
- (b) **KPCL**
- 6.7 During the year 2010-11, KSEB had proposed to schedule 136 MU from KPCL plant at a variable cost of Rs 8.93 per unit. While approving the ARR, Hon'ble Commission had approved to procure 27 MU from KPCL @ Rs 8.93 per unit. However, due to the excessive variable cost of KPCL power, KSEB had limited the procurement from KPCL at 10.05 MU @Rs 11.20 per unit.
- (c) **Wind**
- 6.8 In the ARR for the year 2011-12, KSEB has proposed to schedule 62 MU from wind projects at an average variable cost of Rs 3.14 per unit; however the actual procurement during the year was 74.50 MU.
- (d) **Ullumkal SHP**
- 6.9 The energy availability projected from Ullumkal SHP was 34MU during the year 2011-12, however the actual availability was 23.16 MU only.
- (e) **MP steel.**
- 6.10 In the ARR, KSEB has projected the energy availability from MP Steel as 41 MU; however the actual availability was 20.51 MU only.
- (f) **Iruttukkanam SHP**
- 6.11 The energy availability projected from Iruttukkanam SHP (3 MW) for the year 2011-12 was 8 MU, however the actual availability during the year was 17.62 MU.
- (g) **Philips Carbon black**
- 6.12 Power procured from Philips Carbon black during 2011-12 has been 36.85 MU.
- (h) **Power purchase through traders and power exchange**
- 6.13 KSEB has been taking earnest efforts to procure energy from short-term markets such as UI, Energy Exchanges and through traders with the following objectives:

- (i) to meet the shortfall in energy availability on account of the delay in commissioning of Kudamkulam and NLC-Exp-Stage-II plants.
- (ii) to reduce the dependence on costly liquid fuel stations.
- (iii) to conserve more water in the KSEB reservoirs for the use of the summer months by way of limiting generation from hydel.
- (iv) to avoid load shedding and power cut etc.
- (v) to overall optimization of generation and power purchase and its costs.

6.14 As detailed under Table-14 above, KSEB had procured 533.42 MU as UI at an average rate of Rs 2.49 per unit. However, there was restriction on availing power as UI when the frequency is below 49.50 Hz. Further CERC has given strict instruction to all the power utilities that UI cannot be treated as a source of power and it can be considered only as a means to impose grid discipline.

6.15 KSEB had procured 1682.62 MU through traders and energy exchange at an average variable cost of Rs 5.07 per unit during the year 2011-12. The source wise details of energy procured from different traders during the year 2011-12 are given below.

Table-15
Summary of the energy procurement through traders and energy exchanges

	Particulars	Energy procured (KSEB periphery) (MU)	Total Amount (Rs.Cr)	Per unit cost (Rs/ kWh)
1	TATA	49.72	30.33	6.10
2	GMRETL	59.99	27.79	4.63
3	JSWPTC	515.03	211.79	4.11
4	IEX	494.42	292.40	8.19
5	PXIL	72.40	37.03	5.11
6	RPTCL	8.56	3.34	3.90
7	RETL	33.58	13.96	4.16
8	Arunachal	0.05	0.02	4.05
9	MPPTCL	13.06	5.30	4.06
10	IEX Term ahead	225.10	122.29	5.43
11	PXIL Term ahead	18.75	9.82	5.24
12	Global	133.44	65.55	4.91
13	TPTCL	6.28	3.27	5.20
14	RPG PTCL	7.02	2.77	3.94
15	Mittal	3.00	1.76	5.85
16	WPCL	42.22	25.22	5.97
	Total	1682.62	852.63	5.07

6.16 The month wise details of energy procured through traders and exchanges are given below.

Table-16 Month wise details of power purchase through short-term market

Month	Quantity	Amount	Per unit cost
	(MU)	(Rs. Cr)	(Rs/ kWh)
Apr-11	3.12	2.03	6.51
May-11	30.40	14.93	4.91
Jun-11	21.51	9.15	4.25
Jul-11	245.70	100.11	4.07
Aug-11	194.15	86.00	4.43
Sep-11	154.28	66.24	4.29
Oct-11	148.41	89.08	6.00
Nov-11	226.90	114.13	5.03
Dec-11	242.86	127.05	5.23
Jan-12	254.70	129.37	5.08
Feb-12	104.78	76.18	7.27
Mar-12	55.81	38.36	6.87
Total	1682.62	852.63	5.07

6.17 Transmission charges paid to PGCIL

During the year 2011-12, KSEB had paid Rs 259.78 crore to PGCIL as transmission charges against Rs 244.40 crore approved by the Hon'ble Commission.

6.18 Summary of the cost of Generation and Power purchase for the year 2011-12

The summary of the cost of power purchase approved by Hon'ble Commission and the actuals are as given below.

Table-17. Summary of the Cost of generation and power purchase for the year 2011-12

Particulars	Approved by the Commission		As per Accounts		Difference		Remarks
	Energy purchased at KSEB bus	Cost	Energy purchased at KSEB bus	Cost	Energy purchased at KSEB bus	Cost	
	(MU)	(Rs. Cr)	(MU)	(Rs. Cr)	(MU)	(Rs. Cr)	
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)	
Central Generating Stations	8171	2043.44	7878.77	2241.87	-292.23	198.43	Table-12
UI			533.42	132.65	533.42	132.65	Table-13
IPPs	1175	1131.84	715.16	888.38	-459.84	-243.46	Table-14
Traders / Exchanges	536	240.99	1682.62	852.63	1146.62	611.64	Table-15
Swap return			49.02		49.02		
Transmission Charges		244.40		259.78		15.38	
	9882	3660.67	10858.99	4375.31	976.99	714.64	

6.19 Considering dedicated efforts from the part of the KSEB to optimize the generation, power purchase and cost by scheduling energy from the cheapest sources available including traders and energy exchanges etc, Hon'ble Commission may kindly approve the cost of Generation and Power purchase for the year 2011-12 as detailed above.

7 Interest and finance charges

7.1 While projecting the ARR & ERC for the year 2011-12, KSEB had estimated the interest and finance charges as Rs 385.05 crore, but Hon'ble Commission has approved the same at Rs 265.26 crore. However, as per the accounts, the actual expenses incurred under interest and finance charges were Rs 340.52 crore. The details are given below.

Table 18 Summary of the interest and finance charges for the year 2011-12

Sl No	Particulars	KSEB proposed in ARR	SERC Approved	As per provisional Accounts	Excess over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Interest on outstanding Loans and Bonds	214.21	109.42	128.63	19.21
II	a) Interest on Security Deposit	64.73	64.73	68.01	3.28
	Total	278.94	174.15	196.64	22.49
III	Other Interest and Finance Charges				
	a) Interest on borrowings for working capital	30.00	15.00	82.25	67.25
	b) Discount to consumers for timely payment of Charges	3.25	3.25	0.97	-2.28
	c) Interest on PF	55.25	55.25	54.80	-0.45
	d) Other Interest charges	0.00	0.00	0.11	0.11
	e) Cost of raising finance	1.00	1.00	0.00	-1.00
	f) Guarantee Commission	1.61	1.61		
	g) Bank Charges	15.00	15.00	5.75	-10.86
	Total of III	106.11	91.11	143.88	52.77
	Grand Total (I+II+III)	385.05	265.26	340.52	75.26

7.2 As detailed above, the actual interest and finance charges for the year 2011-12 had increased by Rs.75.26 crore over approval, which was mainly under the heads interest on loans and bonds and interest on working capital.

7.3 In the order on ARR for 2011-12, Hon'ble Commission had assessed Rs.300 crore as additional borrowings required for 2010-11 based on which opening balance of loans and bonds for the year 2011-12 was determined at Rs.788.38 crore. The actual loan outstanding as on 01.04.2011 was Rs.1066.50 crore. Thus, the total loan outstanding at the beginning of the year was under estimated by Rs 278.12 crore in the order on ARR.

7.4 Further, KSEBL had availed fresh loans amounting to Rs 1380.26 crore during the year 2011-12; however, Board has re-deemed Rs 1090.42 crore. The source wise details of the loan availed and redeemed during the year 2011-12 is detailed below.

Table-19
Source wise details of loans availed during the year 2011-12

Source	Opening Balance	Borrowing	Redemption	Closing Balance
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
KSE Bonds	10.45	0.00	10.45	0.00
LIC	50.39	0.00	14.01	36.38
REC	360.03	0.00	60.15	299.88
SBI-STL	300.00	300.00	300.00	300.00
SBT-STL	0.00	100.00	0.00	100.00
Vijaya Bank-STL	200.00	400.00	400.00	200.00
Canara Bank	0.00	400.00	300.00	100.00
Federal Bank	0.00	100.00	0.00	100.00
PFC	5.79	0.00	5.79	0.00
PFC-R APDRP	139.83	80.26	0.00	220.09
Total	1066.49	1380.26	1090.40	1356.35

7.5 The summary of the outstanding loans and bonds as per the order on ARR and the same as per the audited accounts is detailed below.

Table-20
Summary of the borrowings and repayments during the year 2011-12

Sl No	Item	Opening Balance		Borrowing		Redemption		Closing Balance		Interest	
		ARR order	Accounts	ARR order	Accounts	ARR order	Accounts	ARR order	Accounts	ARR order	Accounts
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
I	Existing Bonds		10.45	0	0		10.45		0		
II	Loans from Financial Institutions	788.38	1056.05	500	1380.26	90.24	1079.97	1198.14	1356.34	109.42	128.63
	Total	788.38	1066.50	500	1380.26	90.24	1090.42	1198.14	1356.34	109.42	128.63

7.6 As detailed above, the opening balance as per the accounts was Rs 1066.50 crore against Rs 788.38 crore considered as per the order on ARR, i.e., an increase of Rs 278.12 crore over the ARR order. Further, the closing balance as per the accounts was Rs 1356.34 crore against Rs 1198.14 crore as per the ARR order, i.e., an increase of Rs 158.24 crore over ARR order. The increase in interest and finance charges is on account of the increase of opening balance as well as the increase of closing balance of the outstanding loans and bonds over the approved level.

7.7 It is further submitted that, in the order on ARR, the closing balance is erroneously written as Rs 1133.81 crore as against the closing balance of Rs 1198.14 crore due to the mistake committed while arriving at the closing balance of unsecured loan

7.8 Board submits that, the capital investment made during the year 2011-12 was Rs 1019.13 crore, however additional borrowings availed for meeting the capital liabilities was Rs 289.84 crore only. Regarding the capital liabilities, the following points may kindly be noted.

- (i) As against the proposed capital investment of Rs 1036 crore, the actual investment during the year 2011-12 was Rs 1019.13 crore (i.e, achieved about 98.37% of the total capital investment proposed).
- (ii) The additional borrowings towards meeting the capital liabilities were Rs 289.84 crore only as against the capital investment of Rs 1019.13 crore.
- (iii) KSEB had met the resources for meeting the capital investment, loan repayment etc as follows.
 - (a) An amount of Rs 300.00 crore under short term loans and Rs.80.26 crore under long term, totaling to Rs.380.26 crore has been borrowed during the year 2011-12 for executing capital works.
 - (b) A sum of Rs 310.12 crore has been received under contribution grants and subsidies during the year 2011-12.
 - (c) KSEB had retained the section-4 electricity duty amounts to Rs 326.37 crore as additional resources and utilized the same for capital resources. Regarding the electricity duty retained by KSEB, the following points may be kindly noted.
 - Section-4 duty retained by KSEB cannot be treated as an internal resource without any cost.
 - Chief Electrical Inspector is demanding interest for the electricity duty retained and a similar view expressed by the C&AG as well. However, in the orders on truing up for previous years, Hon'ble Commission has not been allowing the interest on the duty retained by KSEB.
 - The electricity duty is earmarked for the Government contribution towards creation of Master trust for meeting the pension liabilities.

7.9 Interest on the short term loan during the year 2011-12

- (i) Considering the market opportunity for obtaining short-term loans at lower interest rates compared to the interest rates of long term borrowings, KSEB has availed short-term loans also for meeting part of the capital liabilities.
- (ii) During the year 2011-12, the quantum of short term loan (STL) has increased by Rs.300 crore over last year. The summary of

the STLs availed and redeemed during the year 2011-12 are given below.

Table-21 Details of the short-term loans availed for meeting capital liabilities

Short term loans	Rate of interest	Loan outstanding at the beginning of the year	Amount received during year	Repayment during the year	Outstanding at the end of the year
	(%)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
SBI	10.40	300.00	300.00	300.00	300.00
SBT	10.75	0.00	100.00	0.00	100.00
Canara Bank	10.75	0.00	400.00	300.00	100.00
Vijaya Bank	10.65	200.00	400.00	400.00	200.00
Federal Bank	10.75	0.00	100.00	0.00	100.00
Total		500.00	1300.00	1000.00	800.00

- (iii) The interest on the short term loan for the year 2011-12 Interest rates in general have gone up during the year 2011-12 mainly due to anti inflationary measures adopted by the RBI. Interest on Short term loans for the year 2011-12 has been Rs.63.24 crore as against Rs.31.30 crore incurred during 2010-11. The increase in interest is attributable to the higher level of borrowings coupled with increase in interest rates in comparison to the rates prevailed in the previous year. The details are given below.

Table-22 Details of the interest on short-term loans for the year 2011-12

Bank	Interest for 2010-11		Interest for 2011-12	
	Rate (%)	Amount (Rs.Cr)	Rate (%)	Amount (Rs.Cr)
SBI	8.25	16.61	10.40	30.00
UBI	7.25	14.47	0.00	0.00
SBT	8.50	0.22	10.75	0.68
Canara Bank	0.00	0.00	10.75	12.12
Federal Bank	0.00	0.00	10.75	0.70
Vijaya Bank	9.50	0.00	10.65	19.74
Total		31.30		63.24

7.10 Interest on working capital.

While approving the ARR&ERC for the year 2011-12, Hon'ble Commission had approved an ad hoc provision of Rs.15 crore for meeting interest on working capital, but the actual for the year 2011-12 was Rs.67.25 crore over approval in 2011-12. The reason for increase can be attributed to the enhanced dependence on Overdrafts during the year coupled with increase in interest rates charged by the banks on OD disbursed. In this matter, the following points may also be kindly noted.

- (i) As per the audited accounts for the year 2008-09, the revenue shortfall for that year was Rs 749.17 crore. Further for the year 2009-10, the same was Rs 1227.50 crore. For the year 2010-11, Hon'ble Commission had approved the revenue gap as Rs 457.47 crore, but as per the accounts the same has increased to Rs 1229.63 crore. For 2011-12, the deficit has mounted to Rs.1934.13 crore. Despite the accumulated huge revenue gap, there was no revision of tariff during these years to bridge the revenue gap.
- (ii) Since the revenue from tariff was not sufficient to meet the operating expenses, KSEB had to depend on overdraft from financial institutions. The month wise details of OD availed from financial institutions and its interest are marked as Annexure-2. The summary of the outstanding OD at each month end during the year 2011-12 and the interest thereon are detailed below.

Table-23. Summary of the month wise overdraft balance during the year 2011-12

Month	OD outstanding at the month end	Interest
	(Rs. Cr)	(Rs. Cr)
Apr-11	345.35	3.77
May-11	464.23	3.98
Jun-11	317.99	3.89
July-11	457.58	4.68
Aug-11	600.89	5.6
Sep-11	630.91	6.44
Oct-11	763.95	7.28
Nov-11	837.07	7.18
Dec-11	917.13	8.24
Jan-12	968.53	9.18
Feb-12	1239.33	10.68
Mar-12	1114.36	11.32
Total		82.24

- (iii) There is wide misconception that the Board does not require any working capital, on the basis of current asset- current liability comparison. This is not correct. Except for items like section 4 duty, deposit for electrification etc all other sums disclosed under the head other current liabilities pertain to deferment of payment. The stakeholders have also been vehemently arguing that, since security deposit collected from the consumers are available with the Board; there is no need for providing interest on working capital. However, security deposit as per the book of account is the amount collected by the Board since its inception and the same in the past has been utilized as internal

resources for meeting the capital liabilities etc. In addition, the accumulated un bridged revenue gap has not been considered while making such assessment of working capital. Further, the OD availed by KSEB is mainly for meeting the revenue expenditure due to the huge un bridged approved revenue gap. Hon'ble APTEL vide the judgment dated 1^{8th} October-2012 on Appeal petition No. 7 of 2011, 46 of 2011 and 122 of 2011 has appraised the situation and ordered as follows

“11.5 On the basis of the above findings of the Tribunal we decide as under:

- i) When the utility gives its projected expenditure under a head in the ARR, the Commission either accepts it or decides a lower expenditure. However, if in the true up of the ARR subsequently the Commission finds that the expenditure which was denied/reduced earlier under that head needs to be approved then carrying cost may be allowed for such additional expenditure under that particular head which was denied earlier.
- ii) The utility is entitled to carrying cost on his claim of legitimate expenditure if the expenditure is: a) accepted but recovery is deferred e.g. interest on regulatory assets,
b) claim not approved within a reasonable time, and
c) disallowed by the State Commission but subsequently allowed by the Superior Authority.”

- (iv) Considering the facts and submission as detailed above, KSEBL humbly prays before the Hon'ble Commission to admit the interest on working capital as per the audited accounts of KSEB for the year 2011-12.

7.11 **Interest on security deposit:** Hon'ble Commission had approved the interest on security deposit at Rs 64.73 crore. However, as per the audited accounts the interest on security deposit provided on the deposit balance at the beginning of the year was Rs 68.01 crore. It has already been submitted before the Hon'ble Commission that, KSEB has been maintaining the accounts as per the accrual system. Hon'ble Commissions may kindly approve the interest on security deposit as claimed by KSEB in the accounts. However, actual interest disbursed during the year was Rs.58.19 crore.

7.12 **The discount to consumers on advance payment of electricity charges:**

KSEB has provided Rs 0.69 crore as discount to consumers for prompt payment. At present KSEB has been allowing a rebate of 4% on electricity charges for advance payment for one year or more and 2% on energy charges for the period 6 months to one year. Since, this is an incentive given to consumers; the actuals as per the accounts may kindly be approved.

7.13 During the year 2011-12, KSEB had sold 24.70 MU outside the State for a total amount of Rs.28.26 crore. KSEB has allowed rebate @ 1% for the

prompt payment of electricity charges and accordingly Rs 0.28 crore was allowed as rebate during the year 2011-12.

- 7.14 While preparing the ARR, KSEB has made a provision of Rs 55.25 crore towards interest on Provident Fund balance, which was fully approved by the Hon'ble Commission. However, as per the accounts, the actual interest on PF was Rs.54.80 crore, which was less by Rs.0.45 Crore from the approved amount. The actuals as per the accounts may kindly be approved.
- 7.15 Other charges: KSEB has been reducing the bank charges consistently through negotiations with banks. Guarantee Commission payable to Govt. of Kerala for the year amounted to Rs.1.28 crore against Rs. 1.61 crore approved by the Commission. The detailed brake up of the other charges is given below.

Table-24 Other Bank charges for the year 2008-09 to 2011-12

Particulars	2008-09	2009-10	2010-11	2011-12
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Bank Charges for fund transfer from Head office to field units. Bank commission for collection from consumers and Other bank charges and interest.	9.36	6.56	5.32	4.50
Service tax recovered by bank	0.74	0.12	0.07	0.08
Guarantee commission	6.86	4.02	2.50	1.28
Total	16.96	10.70	7.89	5.86

Hon'ble Commission may kindly approve the interest and finance charges as per the accounts as detailed above.

8. Depreciation for the Year 2011-12

- 8.1 In the order on ARR & ERC for the year 2011-12, Hon'ble Commission had provisionally allowed depreciation amounting to Rs.548.37 crore at CERC rates on the projected GFA at the beginning of the year 2011-12.
- 8.2 Over the years KSEB had been claiming depreciation as per rates notified by the Ministry of Power, Government of India through the official Gazette and in line with the Electricity (Supply)(Annual Accounts) Rules, 1985 (ESAAR, 1985). KSEB had been continuing as State Electricity Board till the Government vested the assets and liabilities of the Board with it vide the notification G.O (Ms) No. 37/2008/PD dated 25th September-2008. Board is still in the transitional stage and Government is yet to re-vest the assets and liabilities into a new company. Also, as per the repeal provisions under 184 (2) (d) of the Electricity Act-2003, KSEB has to adopt the ESSAR-1985, the accounting rules until such rules are rescinded or modified. Accordingly, KSEB has been claiming the depreciation in the 'Annual Statement of Accounts' at the rates notified by the Ministry of Power,

Government of India vide the official Gazette dated 1994 and the Electricity (Supply)(Annual Accounts) Rules, 1985 (ESAAR, 1985).

- 8.3 Comparison of the depreciation approved by the Hon'ble Commission at the depreciation rate as per the CERC (Terms and Conditions of Tariff) Regulations 2009 and the depreciation claimed in the C&AG audited accounts are given below.

Table-25
Details of depreciation claimed for the year 2011-12

Sl.No.	Particulars	2011-12			
		KSEB proposed in ARR	SERC Approved	As per Accounts	Difference over approval
1	Land and Rights	0.00	0.00	0.00	0.00
2	Buildings	19.42	19.42	16.05	-3.37
3	Hydraulic works	55.75	55.75	26.52	-29.23
4	Other Civil works	11.78	11.78	11.65	-0.13
5	Plant & Machinery	215.61	215.61	164.19	-51.42
6	Lines, Cable networks	240.62	240.62	242.11	1.49
7	Vehicles	1.40	1.40	0.77	-0.63
8	Furniture & fixtures	1.03	1.03	0.54	-0.49
9	Office equipment	2.79	2.79	4.17	1.38
	Total	548.39	548.37	466.00	-82.37

- 8.4 However, considering the methodology adopted by the Hon'ble Commission for approving depreciation, KSEB had arrived at the depreciation at the 'depreciation rate' provided in the CERC (Terms and Conditions of Tariff) Regulations 2009, duly considering the vintage of assets. The details are given below.

- 8.4.1 The total assets as on 31-03-2011 have segregated into two parts.

- (i) Part-1: The assets created during the last twelve years from 1999-2000 to 2010-11 and
- (ii) Part-2. The assets created prior to 1999-2000.

The details are given as Annexure- 3(a).

- 8.4.2 As detailed under Annexure- 3(a), Gross Fixed Assets (GFA) as on 31-03-1999, i.e., the assets having age more than 12 years is Rs 2682.03 crore and the GFA created during the last 12 years during the period from 1999-2000 to 2010-11 is Rs 8521.72 crore.

- 8.4.3 The year wise details of depreciation claimed on the assets created prior to the year 1999-2000 (i.e., assets having age more than 12 years) is given as Annexure- 3(b). The balance value of the assets to be depreciated from the year 2011-12 is also given.

8.4.4 The year wise details of the depreciation claimed on the assets created since 1999-2000 is given as Annexure-3(c). The assets created in each year are treated separately for arriving depreciation.

8.4.5 It may be noted that, the depreciation claimed as per truing up orders during the period from 2003-04 to 2010-11 was adopted for assessing the balance depreciation to be claimed since the year 2011-12.

Table-26
Depreciation on the total assets for the year 2011-12

Sl No.	Particulars	Depreciation on assets created every year (Rs.Cr)													Total (Rs. Cr)
		Old assets created prior to 1999-00	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	
1	Buildings	4.83	0.92	1.84	0.64	1.55	1.21	1.11	1.14	0.89	0.68	0.34	1.31	0.64	17.11
2	Hydraulic works	8.65	4.17	2.05	1.00	2.64	1.92	0.74	6.31	1.01	1.61	0.64	3.98	5.22	39.94
3	Other Civil works	1.09	0.44	0.45	0.39	1.39	0.86	1.04	1.62	0.82	0.69	0.97	0.78	2.21	12.75
4	Plant & Machinery	29.59	17.60	8.46	37.00	9.24	27.41	7.25	7.21	8.13	6.23	10.44	16.55	15.36	200.49
5	Lines cable networks etc		10.09	10.99	9.99	24.69	17.49	14.37	13.45	13.84	14.41	15.14	23.86	27.20	195.51
6	Vehicles		0.05	0.00	0.00	0.00	0.00	0.03	0.03	0.01	0.00	0.11	0.03	0.05	0.31
7	Furnitures & fixture		0.06	0.00	0.00	0.06	0.00	0.07	0.02	0.03	0.03	0.05	0.06	0.05	0.44
8	Office equipment		0.00	0.00	0.03	0.02	0.41	0.11	0.11	0.85	0.10	0.15	0.34	0.46	2.58
	Total	44.16	33.34	23.79	49.05	39.59	49.30	24.72	29.88	25.59	23.76	27.83	46.91	51.19	469.14

8.4.6 As detailed above, the total depreciation on the assets at the depreciation rate as per the CERC (Terms and Conditions of Tariff) Regulations, 2009 is about Rs 469.14 crore. The function wise allocation of depreciation based on the total assets exists as on 31-03-2011 is detailed below.

Table-27
Function wise allocation of depreciation for the year 2011-12

Functional area	GFA as on 31-03-2011	Depreciation claimed for the year 2011-12
	(Rs. Cr)	(Rs. Cr)
Generation	3695.15	100.22
Transmission	3441.43	154.16
Distribution	4067.18	214.76
Total	11203.76	469.14

8.5 Hon'ble Commission vide the order dated 13th April-2012 has decided the matter of recovery of depreciation on assets created out of Contributions and ordered that:

- (a) depreciation need not be allowed on assets created out of contributions and grants by any licensee in the state as a general rule. In the case of KSEB, this will be made applicable from 2010-11 and proposal for clawing back the depreciation already claimed up to 2009-10 is dispensed with.
- (b) In future, all licensees shall provide separate statements under capital works programme for assets to be created out of contributions and grants in their ARR & ERC / truing up petitions. The depreciation estimations in these petitions shall also distinctly indicate the value of assets for which depreciation is claimed and that which is created out of contributions and grants.

8.6 In response to the Board's argument that out of the total amount of contribution and grants up to 31.03.2009 to the tune of 2504.14 crore, Rs.1535.99 crore was collected under OYEC scheme for providing priority for service connections and these are not attributable to any specific assets directly, Hon'ble Commission has stated as follows:

“Another claim of the Board is that, of the total amount of Rs.2,504.14 crore, Rs.1,535.99 crore was collected under OYEC scheme for providing priority for service connections and are not linked to any specific assets directly. Hence, the Board argued for a distinction on amount collected under OYEC scheme prior to the year 2003. However, in order to establish the claim the Board has to properly present the case with sufficient evidence so that the claim can be considered in detail. It is up to the Board to present the case before the Commission with all supporting details separately.”

8.7 The summary of the amount booked under Contribution is extracted below.

Table-28

Summary of the amount booked under 'Contribution and Grants' as on 31-03-2010

Account Code	Item	Amount (Rs.Cr)
55.101 to 55.102	Consumers Contribution Towards Cost Of Capital Assets	164.89
55.103 to 55.107	Service Connection charges	256.19
55.108 to 55.124	OYEC (Priority) Charges	1764.79
55.201 to 55.311	Government Grants (APDRP, RGGVY etc)	456.50
55.401 to 55.501	Contribution from Local bodies, PWD, Government etc	311.54
	Total	2953.91

8.8 The year wise details of the amount collected as OYEC charges from different categories of consumers is given in the Table below.

Table-29
Details of the amount booked under 'OYEC' charges

Year	Domestic	Commercial	Industrial LT	Industrial HT	HT non Domestic	EHT Industrial	LT/HT Distribution	EHT/for any purpose	Rapid Service connection charge Domestic	Rapid Service Connection Charge -CT Non-Domestic	Total
A/c	55.113	55.114	55.115	55.116	55.117	55.118	55.119	55.12	55.123	55.124	
As on 1988-89	6.32	0.77	0.12	0.16	0.00	0.01	0.49	0.00	0.00	0.00	7.87
1989-90	11.92	1.65	0.72	0.02	0.55	0.03	0.73	0.00	0.00	0.00	15.62
1990-91	11.98	1.07	-0.23	0.17	0.09	0.08	0.51	0.00	0.00	0.00	13.67
1991-92	13.93	1.42	0.17	0.11	0.08	0.06	1.60	0.00	0.00	0.00	17.37
1992-93	15.09	1.51	0.26	0.21	0.03	0.09	0.81	0.00	0.00	0.00	18.00
1993-94	35.20	4.49	0.62	0.82	0.13	0.35	2.00	0.00	0.00	0.00	43.61
1994-95	38.24	3.00	0.14	2.07	0.01	0.24	1.47	0.00	0.00	0.00	45.17
1995-96	39.81	3.20	0.10	1.20	0.30	0.02	0.90	0.00	0.00	0.00	45.53
1996-97	41.98	3.31	0.23	0.88	0.25	0.05	0.96	0.00	0.00	0.00	47.66
1997-98	55.76	6.58	0.15	0.56	-0.40	0.00	1.18	0.01	0.38	0.16	64.38
1998-99	70.56	11.58	0.83	0.43	0.09	0.00	2.70	0.00	0.19	0.01	86.39
1999-00	65.65	11.24	0.29	0.21	0.28	0.00	1.89	0.00	0.00	0.02	79.58
2000-01	61.38	8.79	0.54	0.52	0.37	0.00	2.52	0.00	0.13	0.11	74.36
2001-02	64.76	9.99	0.37	0.38	0.22	0.44	2.06	0.20	0.03	0.00	78.45
2002-03	85.13	9.86	0.62	0.62	0.06	0.21	2.07	-0.20	0.03	0.02	98.42
2003-04	95.39	12.06	1.62	0.19	0.04	0.53	3.78	0.00	0.04	0.02	113.67
2004-05	99.04	10.68	0.41	0.27	0.08	0.01	3.98	0.12	0.02	0.01	114.62
2005-06	97.21	9.82	0.76	0.41	0.40	0.00	10.38	0.00	0.00	0.00	118.98
2006-07	92.67	16.30	2.04	0.71	0.11	0.57	6.71	0.00	0.00	0.01	119.12
2007-08	98.07	23.92	-0.27	0.09	0.39	0.10	7.14	0.00	0.01	0.06	129.51
2008-09	116.83	41.38	2.44	1.34	0.44	0.17	18.33	5.11	0.04	0.01	186.09
2009-10	152.28	48.61	1.42	0.32	0.91	0.19	37.45	5.45	0.00	0.09	246.72
Total	1369.20	241.23	13.35	11.69	4.43	3.15	109.66	10.69	0.87	0.52	1764.79

8.9 As detailed above, out of the total amount of Rs 2953.91 crore booked under consumer contribution and grants as on 31-03-2011, an amount of Rs 1764.79 crore is collected towards 'Priority of Service Connection' scheme under OYEC. Hon'ble Commission may kindly note that, this amount was not collected for creation of any specific assets, but for giving only for priority for service connection. These charges were collected at the standardized rates approved by the Board in consultation with the Government from time to time.

8.10 The total contribution, grants, subsidies towards cost of capital assets as on Under these circumstances, KSEB humbly request before the Hon'ble Commission that, the amount collected under 'OYEC charges' amounts to Rs 1764.79 crore may be excluded from the purview of consumer contribution for disallowing depreciation. Accordingly out of the total contribution and grants amounting to Rs 3308.49 crore, Rs 1543.70 crore (3308.49-1764.79) only be considered for disallowing depreciation on the assets created out of consumer contribution.

8.11 As detailed under paragraph 8.4.6 above, the total Distribution asset exists as on 31-03-2011 amounting to Rs 4067.19 crore, out of the same

assets created out of consumer contribution amounting to Rs 1543.70 crore cannot be considered for claiming depreciation. Accordingly, the depreciation claimed for the year 2011-12 after duly considering the assets created out of consumer contribution and grant is as detailed below.

Table-30
Depreciation claimed for the year 2011-12

Functional area	GFA as on 31-03-2011	Depreciation claimed for the year 2011-12	Assets created out of consumer contribution	Depreciation on the Assets created out of consumer contribution	Net Depreciation claimed for the year 2011-12
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation	3695.15	100.22			100.22
Transmission	3441.43	154.16			154.16
Distribution	4067.18	214.76	1543.40	81.50	133.27
Total	11203.76	469.14			387.64

Hon'ble Commission may kindly admit the depreciation as Rs 387.64 crore for the year 2011-12.

9. Employee Cost

- 9.1 In the ARR for the year 2011-12, KSEB had estimated the employee cost for the year at Rs 1910.62 crore. However, while approving the ARR, Hon'ble Commission had limited the employee cost at Rs 1582.10 crore as detailed below.

Table-31
Employee cost approved for the year 2011-12

Particulars	KSEB ARR	KSERC Approval	Disallowance
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Basic pay	430.12	413.82	16.30
DA	481.73	1168.28	312.22
Other allowances (HRA, EL encashment etc)	106.52		
Provision for Pay revision	141.58		
Terminal benefits	750.67		
Total	1910.62	1582.10	328.52

- 9.2 It can be seen from the accounts, that the actual employee cost for the year 2011-12 is Rs 1903.33 crore, which is very much close to the Board's projection. It can also be seen that the actual expenditure under this head was just 11.12 % over the corresponding figures for 2010-11. The actual employee cost as per the audited accounts for the year 2011-12 is detailed below.

Table-32 Details of employee cost for the year 2011-12

Sl.No	Particulars	2010-11	2011-12			
			KSEB proposed in ARR	SERC Approved	As per Accounts	Increase over approval
			(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Salaries	406.59	430.12	413.82	685.98	272.16
2	DA	357.93	481.73	1168.29	373.28	49.06
3	Provision for Pay revision	107.15	141.58		0	
4	Overtime, other allowances, Bonus.	33.19	37.69		44.55	
5	Earned Leave encashment	63.45	64		81.16	
6	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,	5.29	4.83		7.32	
7	Terminal benefits (excluding terminal Surrender)	739.2	750.67		711.04	
	Grand total	1712.8	1910.62		1582.11	

9.3 As detailed above, the basic salary has increased by Rs 272.16 crore over approval and the DA, pension and other allowance has increased by Rs 49.06 crore over approval.

9.4 Regarding the increase in basic salary, KSEBL may submit that,

(i) The basic salary as per the accounts is the revised basic pay after implementing the pay revision during the year 2011-12, which has been arrived at by merging the 45% DA up to July-2008 with the basic pay at the pre-revised scale and also applicable fitment benefit and service weightage.

(ii) However, Hon'ble Commission has approved the basic pay for the year 2011-12 at the pre-revised scale, i.e., the basic salary for the year 2011-12 was arrived at by escalating the basic salary for the year 2008-09 at the rate of 3% annually.

9.5 Methodology adopted by the Commission for approving the employee cost for the year 2011-12.

9.5.1 While approving the ARR&ERC for the year 2011-12, Hon'ble Commission had adopted the actual employee cost (absolute total) for the year 2008-09 as the base. The basic salary for the subsequent years has been arrived at by escalating the basic salary of 2008-09 by 3% annually. The DA, pension and other allowance were escalated for the subsequent years at the weighted average indices of WPI & CPI at the weightage of 30:70.

9.5.2 Vide the review petition dated 06-07-2011, KSEB has submitted before the Hon'ble Commission, the limitations of the methodology adopted by the Commission, that include (not limited to),

- (i) The business growth of the KSEBL including the number of service connections provided, increase in energy sales, assets additions were not considered in the methodology adopted by the Commission.
- (ii) Pension and DA are uncontrollable expenses of the utility and the same has been allowed to its employees as per the present practices, as duly clarified by the Hon'ble Commission.
- (iii) KSEB has to fulfil the lawful agreements entered into by it with the trade unions.
- (iv) The methodology adopted by the Commission is against the prudent utility practices including the methodology followed by CERC, model Tariff regulations notified by Forum of Regulators etc.

9.5.3 It is noticed that, the Hon'ble Commission has addressed the anomaly in the Draft KSERC (Terms and Conditions of Tariff) Regulations, 2014, where in the O&M cost including employee cost, R&M expenses and A&G expenses were arrived at after duly considering the business growth of the utility.

9.6 **Statutory binding on KSEB to provide salary, DA and pension to its employees as per the wage settlement agreement entered into with the Trade Unions.**

9.6.1 The employee cost of KSEB includes basic salary, DA and other benefits for serving employees and pensioners, terminal benefits etc for retired employees.

9.6.2 The Board has been providing salary and other benefits including earned leave surrender etc. to its employees, as per the wage settlement agreement entered into with the trade unions. As per the agreement DA has to be released as and when the same was released by the State Government to its employees, pension and other benefits as per the rules in force and also as per the directions of court of law. This is the practice followed by the Board from its inception in 1957. In this context, KSEB may highlight a few extracts from Judgment issued by Supreme Court of India on 3rd October 2002 in the case of West Bengal Electricity Regulatory Commission vs CESC Limited. It is clear from this judgment that it is not appropriate for the Commission to disallow employee expenses made by the licensee under lawful agreement entered into with workmen.

“Employees’ cost:

The ASCI in its report in regard to the above item held that the number of employees in New Cossipore and Mulajore is very high

by any standard. It observed that the running of these institutions has become uneconomical and, hence the company has been advised to take action to reduce the number of employees by proper deployment or Voluntary Retirement Schemes (VRS), particularly, in the context of the proposal for closing down the Mulajore plant. It also observed that the overtime payment made to the employees was a worrying feature. It also noticed because of the settlement with the workmen, the Company was paying the workmen overtime irrespective of the need for the same and such payment had no justification especially when the same has to be passed on to the consumers. Therefore, it recommended a drastic cut or alternatively phasing out of this system of overtime payment. The Commission in its report agreed with the views expressed by the consultant. It however did not agree with the consultant as to the closure of Mulajore & New Cossipore plants, unless it was established that the cost of generation of electricity in those plants was higher than the cost of purchase of electricity by the Company from other sources. For the said reason it deferred the finding in regard to closure of the abovementioned two plants. It however agreed with the consultants that the overtime payment that was being made by the company was extremely high and hence for the year 2000-01 it imposed an ad hoc cut from the actual expenditure under this head, to the extent of 447 lacs towards overtime, 600 lacs towards pension contribution and 208 lacs towards provision for leave encashment. The High Court reversed this finding on the ground that the payment of wages including overtime and other welfare benefits was made by the Company under lawful agreements entered with the workmen. Therefore, during the pendency of these agreements, it was legally not possible for the Company to stop these payments. Therefore, the amounts spent towards this purpose namely, towards the employees' cost should not be treated as the amounts not properly incurred. The High Court on this basis allowed the entire expenditure incurred by the Company under this head.

We are in agreement with this finding of the High Court. Since it is not disputed that the payments made to the employees are governed by the terms of the settlement from which it will not be possible for the Company to wriggle out during the currency of the settlement, therefore, for the year 2000-01 the actual amounts spent by the company as employees' costs will have to be allowed”

- 9.6.3 Regarding the ceiling on employee cost based on the index of Whole Sale Price Index (WPI) and Consumer Price Index (CPI) Hon'ble APTEL vide the judgment dated 18th October-2012 in Appeal petitions Nos. 7 of 2011, 46 of 2011 and 122 of 2011 has held as follows.

‘For the year 2009-2010 the Commission considered an increase of

5% on the base of the employee's expenses for the year 2008-2009 but allegedly did not consider the actual employees cost. For Financial Year 2010-2011 and for Financial Year 2011-2012 the normative basis by applying Wholesale Price Index of 7.55% and 8.9% respectively was adopted. A sum of Rs.93.31 Crore as was claimed by the appellant was disallowed by the Commission. Non-allowance of whatever was actually spent without prudence check by the Commission is certainly not desirable. The Commission took the stand that it fails to draw up road maps for rationalisation of man power. It is alleged by the appellant that the Commission considered the old pay scales and did not consider the additional impact on pay revision. In Appeal No. 76 of 2011 we did not approve of blanket reduction 28.48% in all the successive of the years without any reason. In the case of the employees of the PSPCL, they are regular staff of the Corporation and it being a Govt. company, they are to be governed by the rules and regulations of the Govt. We find merit in the submission of Mr. Ganeshan as he read out the West Bengal decision. Reduction of Rs. 100 crores does not appear to be based on specific premises. Again, reduction as usual on regular basis in terms of the practice of the past by 28.48 % does not appear to be justified. Our finding on this issue is the same plus the observation that in course of true up in respect of the tariff order for 2011-2012 the Commission will review the matter. The issue is answered in favour of the appellant.'

9.7 As per the various decisions of the Hon'ble Apex Court and Hon'ble APTEL, State Regulatory Commissions have to approve the O&M cost as per the audited accounts after prudent check.

In the process of truing up, Hon'ble Commission has to admit the actual as per the audited accounts after prudence check. The views of the Hon'ble Supreme Court and Hon'ble APTEL in this matter are extracted below for the kind attention of the Hon'ble Commission.

9.7.1 Hon'ble Supreme Court in WBERC vs CERC (2002) 8 SCC 715, further held that,

'There may be any number of instances where an account may be genuine and may not be questioned, yet the same may not reflect good performance of the Company or may not be in the interest of the consumers. Therefore, there is an obligation on the Commission to examine the accounts of the Company, which may be genuine and unchallenged on that count still in the light of the above requirement of Section 29(2)(g) to (h). In the said view of the matter admitting that there is no challenge to the genuineness of the accounts, we think on this score also the accounts of the Company are not ipso facto binding on the Commission. However, we hasten to add that the Commission is bound to give due weightage to such accounts and should not differ from the same unless for good reasons permissible in the 1998 Act.

9.7.2 Hon'ble APTEL vide the judgment dated 7th December-2012 on Appeal No. 186 of 2011 has decided on the pay revision and DA as follows:

9. The issue regarding payment of Arrears on account of 6th Pay Commission and DA as per actual had been raised by the Appellant in Appeal No. 110 of 2010 and the relevant extracts of judgment dated 19.4.2012 is quoted below:

“The Ld. Counsel for the Appellant has submitted that the arrears on account of the 6th Pay Commission report have been paid in two installments during the FY 2009-10 and the FY 2010-11 for Rs.58.85 crores (40%) and 88.28 crores (60%) respectively as per the order of the State Government. Thus, we feel that the payment of arrears should be allowed by the State Commission as per the actual disbursement along with the carrying cost during the true up. The State Commission should also consider the actual payment of DA during the FY 2010-11 in the true-up.”

10. The Commission has carried out true up exercise for the year 2010-11 and we are sure that the Commission has implemented the directions issued in the above quoted judgment with regard to carrying cost for arrears on account of 6th Pay Commission Arrears.

11. As regards payment of DA is concerned, it is to be noted that the Commission approves ARR and tariff for licensee on certain assumptions and the Commission is expected to carry out true up filling in the gaps between the assumptions and the actual after prudence check. In case payment of DA for FY 2011-12, the Commission has taken weighted average of 55% as against actual of 58% which could be determined only after the end of the year. The Commission would consider the difference in approved DA and actual DA at the time of next true up.

9.7.3 Hon'ble APTEL vide the judgment dated 3rd July 2013 vide the appeal No. 32 of 2012 has decided as follows.

73 (iii) We feel that from the information available before the State Commission, it was not possible to accept the figures projected by the Appellant. Therefore, the O&M expenses for the Control Period have to be decided by the State Commission based on the actual expenses incurred by the Appellant, after prudence check in the true-up of accounts for Financial Years 2011-12 & 2012-13. The State Commission shall thereafter also re-determine the O&M expenses for the FYs 2013-14 to 2015-16 taking into account actual expenses for the previous years and additional expenses on the additional infrastructure proposed during the period. Accordingly directed.

9.7.4 Hon'ble APTEL vide the Judgment dated 10th May 2012 on Appeal No. 14 of 2011, Appeal No. 26 of 2011 and Appeal No. 27 of 2011 has ordered as follows.

13.5 We notice from the impugned order that the Electricity Board had submitted the breakup of Employees Cost for the FY 2008-09 (provisional), FY 2009-10 (estimated) and FY 2010-11 (projection). According to the State Commission, the Electricity Board should have submitted the actual audited figures for the FY 2008-09 instead of the provisional figures. The State Commission also sought the additional information relating to break up of actual expenses for the previous years and the justification for abnormal increase projected for the FY 2009-10 but the Electricity Board failed to provide the same. We also feel that the Electricity Board should have submitted the audited accounts for the previous year and the projected expenditure for the

current year based on the actual data for the part of the year. When the requisite data was not furnished by the Electricity Board, the State Commission could not be blamed for estimating the same on the basis of the available data. The State Commission has given detailed explanation in paragraph 4.8.3 of the impugned order to justify the allowance for the Employees Cost. We do not find any reason to interfere with the order. However, the State Commission shall true up the Employees Cost including the terminal benefits, for the FY 2010-11 on the basis of the audited accounts for the for the FY 2010-11 after prudence check. Accordingly directed.

9.7.5 Hon'ble APTEL Judgment on Appeal No 12 of 2009 (Himachal Pradesh State Electricity Board vs Himachal Pradesh Electricity Regulatory Commission) dated 25.01.2011.

“The third issue is determination of employees cost taking into account the impact of Sixth Pay Commission recommendations. We find that the State Commission has given a clear finding on this issue and has stated in the impugned order that the process of actual implementation of the Sixth Pay Commission recommendations would take time and may go beyond the control period. The State Commission has however, acknowledged this as a contingent liability for the future and has stated that any impact on employee cost due to the recommendation of Sixth Pay Commission would be duly trued up as and when it is implemented. The learned counsel for the Appellant has submitted that the Sixth Pay Commission recommendations have been actually implemented. In view of this, the State Commission is directed to consider the impact of the same after the Appellant places the requisite material before the State Commission in the true up proceedings.”

9.7.6 Hon'ble APTEL Judgment on Appeal No 28 of 2010 (Delhi Transco Limited vs Delhi Electricity Regulatory Commission)

“23. The next issue relates to Employees cost for MYT from 2007-08 to 2010-11. According to the Appellant, the State Commission allowed only 10% increase in Employees cost though the impact of the Sixth Pay Commission's Recommendations is much more and merely postponed the consideration of this issue in the truing-up exercise. In its reply, the Learned Counsel for the Respondent submitted that the impact of the Sixth Pay Commission's Recommendations was not quantifiable in view of inadequate supporting evidence and in any case the increase will be trued up on the basis of actual. The State Commission admittedly has not disallowed the employees cost in entirety but on the other hand it has simply postponed the impact of Sixth Pay Commission's Recommendations to the truing-up proceedings. It is pointed out that Sixth Pay Commission's Recommendations have already been implemented by the Appellant and the Appellant is required to incur such expenditure without any recovery in the tariff. We find substance in this contention because the postponement of consideration of the same will only result in cash flow constraints to the Appellant and a burden to consumers in

future. Further, the State Commission does not deny the necessity to consider the employees cost based on the recommendations of the Sixth Pay Commission. It is, therefore, appropriate to direct the State Commission to consider the impact of the Sixth Pay Commission's Recommendations implementation and allow the tariff with a carrying cost in the truing-up proceedings. This point is answered accordingly."

9.7.7 Hon'ble APTEL vide the judgment dated 03rd July 2013 in appeal petitions 26,27,28 of 2009 has held that,

25.4 In our opinion, the arrears of 6th Pay Commission to be paid to the employees is an expense of the Appellants which is required to be allowed in the ARR. The State Commission has also accepted that the arrears of 6th Pay Commission have to be paid to the employees. Thus, the arrears of 6th Pay Commission have to be allowed as expense in truing up of accounts. The recovery of arrears by the Appellants from its consumers will only ease the cash flow of the Appellants. However, the arrears of the Pay Commission is an expense which has to be allowed in the ARR. Accordingly, decided. We also direct the Appellants to act on the directions given by the State Commission recovery of dues from the consumers and furnish the details sought by the State Commission.

9.7.8 As extracted above, through a number of judgments by Hon'ble Supreme Court and Hon'ble APTEL has clearly held that the Hon'ble Commission has to allow the actual as per the audited accounts after prudence check.

9.8 Basic salary

9.8.1 Vide the order on ARR & ERC for the year 2011-12, Hon'ble Commission had approved the basic salary for the serving employees as Rs 413.82 crore, arrived at by escalating the basic salary for the year 2008-09 based on audited accounts at the escalation rate of 3% annually.

9.8.2 Board had implemented the pay revision to the workmen category from April-2011 onwards and implemented the same to the officers from June-2011 onwards, with retrospective effect from July/ August-2008. While arriving at the revised pay as per the pay revision, the DA up to July-2008 (45% of the basic till July 2008) was merged with the basic salary as on July-2008 along with other pay fixation benefits. Accordingly, the basic salary as per the accounts is the basic pay in the revised pay scale after merging the basic pay with DA as on July-2008. However, the basic pay approved by the Commission is the basic pay arrived by escalating the 'pre-revised basic pay' at the annual escalation of 3%.

9.8.3 KSEB humbly submits that, the Board has to provide the annual increment to the officers and workmen category as per the wage settlement agreement entered into between KSEB and Trade Unions.

9.8.4 KSEB may further submit that, as a distribution utility, STU and the generator of the State, KSEB was constrained to engage additional employees to provide service connections and maintaining quality supply, in addition to the capital investments in generation, transmission and distribution. However, the increase was mainly on the technical staff including lineman, electricity worker, overseer, Sub Engineer etc associated with the distribution of electricity. The details are given below.

Table-33
Details of technical staff working as on 31-03-2012

Sl No	Category -A	As on 31-03-2009 (Nos)	As on 31-03-2012 (Nos)	Increase
1	Lineman	7389	8375	986
2	Electricity Worker	3692	4083	391
3	Overseer (Ele)	2900	4766	1866
4	Sub Engineer (Ele)	2133	2681	548
5	Asst Engineer (Ele)	1555	2084	529
6	Meter Reader	1458	818	-640
	Subtotal (1 to 6)	19127	22807	3680
	Total employee strength	27175	31113	3938

9.8.5 Considering the above, KSEBL may humbly request before the Hon'ble Commission to admit the basic salary as per the audited accounts for the year 2011-12 while approving the truing up of accounts for the year 2011-12.

9.9 **Dearness allowances**

9.9.1 Dearness Allowances is an uncontrollable expense of the State Distribution Utilities. Dearness Allowance has been providing to State and Central Government employees as a percentage of 'basic pay' to compensate the erosion in value of earnings due to inflation. Considering the inflation, the DA is being approved by the Ministry of Finance, Department of expenditure, Government of India (GoI) once in every six months. The State Government has been releasing the DA to the State Government employees as and when the DA is announced by the Central Government. The DA announced by the Central Government and the same adopted by the State Government to its employees during the year 2011-12 is marked as **Annexure-4(a) to 4 (d)** and **Annexure-5(a) and 5(b)**.

9.9.2 Considering the fact that, KSEB has to release the DA to its employees as and when the DA is allowed to the employees of the State Government, the Hon'ble Commission vide the letter No. 1235/ARR&ERC 10-11/KSERC /2010 dated 28th July-2010 addressed to KSEB, was pleased to communicate as under:

“the expenditure on account of DA/DR increases announced by the Government from time to time can be paid to the employees and pensioners without reference to the Commission. Any additional expenditure in this regard over and above the approved expenditure

can be considered at the time of truing up as has been done in the previous years”

A copy of the communication dated 28th July 2010 is marked as **Annexure-6.**

9.9.3 Further, the Hon’ble Commission vide the press release dated 28th July-2010 has clarified to all the stakeholders and other concerned as under:

“Existing salary, DA and pension are considered as uncontrollable items in the tariff determination process. In the past also all such increases in salary and DA have been allowed even if it was higher than the approved level while finalizing each years accounts. In one of the previous Orders, the Commission had stated that *“the increase in DA due to inflation has to be allowed to KSEB employees as and when it becomes due and shall not be permitted to accrue.”* There is also a provision in the Electricity Act that there shall not be any deterioration in the terms and conditions of employees in the reform process.”

A copy of the press release dated 28th July 2010 is marked as **Annexure-7.**

9.9.4 Accordingly, duly considering the prudent practices as well as clarifications issued by the Hon’ble Commission, KSEB has been releasing the DA to its employees as and when the same is released by the Government to its employees.

9.9.5 As extracted under paragraph 9.7.2 to 9.7.7, through various judgments Hon’ble APTEL also clarified that, DA is an uncontrollable expenses and the same may be allowed at actual.

9.9.6 The DA allowed by KSEB to its employees, as the percentage of basic pay at the pre-revised pay scales and revised scale since the year 2008-09 is detailed below.

Table-34
DA released to KSEB employees

Date of effect	DA as a percentage of pre-revised basic pay		DA as a percentage of revised basic pay after pay revision	
	Rate of DA (percentage of the pre revised basic pay)	Total DA applicable on the Basic Pay (percentage of the pre revised basic pay)		
Jul-08	7% of the pay	45%	Nil	Nil
Jan-09	10% of the pay	55%	7% of the pay	7%
Jul-09	9% of the pay	64%	6% of the pay	13%
Jan-10	14% of the pay	78%	9.048% of the pay	22.048%
Jul-10	16% of the pay	94%	11.310% of the pay	33.358%
Jan-11	12% of the pay	106%	6.786% of the pay	40.144%
Jul-11	12% of the pay	118%	7.917% of the pay	48.061%
Jan-12	12% of the pay	130%	7.917% of the pay	55.978%

9.9.7 Since the DA is an uncontrollable expenses, and KSEB is legally bound to release the DA as and when the same is released by the State Government and also considering the clarification issued to the Board on releasing DA to its employees, Hon'ble Commission may kindly admit the actual DA as per the C&AG audited accounts for the year 2011-12.

9.10 Pension liabilities

9.10.1 KSEB may submit before the Hon'ble Commission that,

- (i) Kerala Service Rules and other service conditions as applicable in the Government are applicable to employees of KSEB. During the year 2011-12, the pension liabilities of KSEB remain unfunded and this liability has been met over the years on the principle of "pay as you go" as in Government.
- (ii) Pension is a firm liability of KSEB and Board cannot deny pension and other allowances to its retired employees.
- (iii) The pension & terminal benefits is the total liability towards existing pensioners as well as employees to be retired in each year.
- (iv) It may be noted that number of pensioners increase every year due to retirement and accordingly pension liabilities has also been increasing.

9.10.2 The number of pensioners as on 31-03-2012 was 31225. KSEB does not have any control on the pension liabilities to its ex employees. It actually depends on the number of pensioners as on date.

9.10.3 In the ARR& ERC of KSEB for the year 2011-12, KSEB had projected the Terminal benefits including monthly pension, DCRG, provision for pension revision etc as Rs 750.67 crore. While approving the ARR, Hon'ble Commission had not specifically approved any provision towards pension. However, pension, DA etc are allowed over the same approved during the year 2008-09 by escalating at the combined indices of WPI & CPI in the ratio of 30:70. However, as submitted earlier, the pension liability truly depends on the existing pensioners and number of employees retired during the year under consideration. Accordingly, by taking the terminal benefits amounting to Rs 495.82 crore is taken as the base, the approved amount of terminal benefits for the year 2011-12 as per the order on ARR&ERC was Rs 660.88 crore.

9.10.4 The details of the terminal benefits as per the audited accounts are detailed below.

Table-35 Pension liabilities for the year 2011-12

Sl.No	Particulars	2010-11 (Rs.Cr)	2011-12			
			KSEB ARR	SERC Approved	Actuals	Difference over approval
			(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Monthly Pension	518.39	616.14	Not specifically approved pension, however based on the actuals for the year 2008-09, the provision for pension is Rs 660.88 crore only.	628.78	50.16
2	Gratuity	23.01	23.5		25.37	
3	Commutation	31.54	45		21.47	
4	Medical Allowance	3.55			3.52	
5	Special Festival Allowance	0.97	6		1.49	
6	Provision for pension revision	30.41	60.03		30.41	
7	Provision for Gratuity	131.34	0			
	Total	739.21	750.67		711.04	

9.10.5 As detailed under paragraph 9.7 above, Hon'ble APTEL has also clearly held that, pension is a statutory liability and the same has to be allowed at actual in the process of truing up.

9.10.6 Considering the facts and submission as detailed above, Hon'ble Commission may kindly approve the pension disbursement as per the audited accounts for the year 2011-12.

9.11 **Earned Leave surrender, HRA etc.**

9.12 Earned Leave Surrender: In the ARR, KSEB had estimated the Earned Leave surrender for the year 2011-12 at Rs 62.75 crore under pre revised scale. However, the actual claim of Earned Leave surrender including Terminal surrender as per the accounts for the year 2011-12 was Rs 81.16 crore as detailed below.

Table-36 Details of Earned Leave surrender

(Rs. Cr)

Particulars	As per Accounts
Earned Leave surrender of employees	69.56
Terminal surrender	11.60
Total	81.16

9.13 Hon'ble Commission may kindly note that the amount of Earned Leave surrender claimed during an year depends on number of employees opt for the same. Further, KSEB cannot deny the earned leave surrender. Hence KSEB request that the claim of EL surrender as per the accounts may kindly be approved.

9.14 KSEB also allows bonus/ festival allowances to its employees at the rate approved by the State Government. Further certain allowances like HRA, CCA, Local allowances etc has been increased along with revision of pay and allowances. Hence, the actual disbursement towards bonus, Medical expenses etc as per the accounts for 2011-12, as detailed below, may kindly be approved.

Table-37 : Details of other allowances claimed for the year 2011-12

Particulars	Actuals
	(Rs. Cr)
Overtime / Holiday wages	0.25
Other Allowances	
a) HRA	16.67
b) Spread over allowances	3.49
c) Incentive allowances	1.39
d) Local and other allowances	16.95
Bonus	5.8
Medical Reimbursement	4.55
Payment under workmen compensation Act	1.01
Leave Salary and Pension Contribution	0.21
Staff welfare expenses	
a) Uniform & Livery expenses	1.53
b) Cash award for meritorious service etc	0.03
Total	51.88

Considering the facts and submission as above, Hon'ble Commission may kindly admit the employee cost including pension as per the C&AG audited accounts for the year 2011-12.

10. Repairs and Maintenance (R&M) Expenses

10.1 In the ARR for the year 2011-12, KSEB had projected the R&M expenses for the year at Rs 243.75 crore. While approving the ARR, Hon'ble Commission had limited the same as Rs 185.00 crore. However, as per the accounts, the actual R&M expenses incurred for the year 2011-12 was Rs 251.70 crore. The details are given below.

Table-38
Repair and Maintenance cost for the year 2011-12

Sl No	Particulars	2010-11	2011-12				
		Actuals	KSEB ARR	KSERC Approval	Actuals	Difference over approval	Difference over last year
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Plant & Machinery	61.28	76.22	185.00	63.81	-66.70	2.53
2	Buildings	5.06	5.38		5.78		0.72
3	Other Civil works	5.63	6.52		6.67		1.04
4	Hydraulic works	1.99	2.44		2.12		0.13
5	Lines, Cable networks	152.09	144.50		168.05		15.96
6	Vehicles	4.7	6.78		4.12		-0.58
7	Furniture and Fixtures	0.12	0.61		0.09		-0.03
8	Office equipment	0.98	1.30		1.06		0.08
	Total	231.85	243.75		251.70		19.85

10.2 KSEB may submit that, the R&M expenses incurred during the year 2011-12 was increased by just '8.56%' higher than the same incurred during the previous year.

- 10.3 Hon'ble Commission is yet to finalize appropriate norms for claiming R&M expenses. In this matter, Hon'ble APTEL vide its judgment dated 13-01-2011 in appeal petition No. 177 of 2009 has ordered that:

25..... However, for future it would be desirable for the State Commission to determine the norms for R&M Expenses with appropriate escalation factors which is a better approach as scrutiny of actual R&M expenses for prudence check is cumbersome and approach based on norms will give correct commercial signal to the Electricity Board. Accordingly, we direct the State Commission to decide the norms within a period of 6 months.

- 10.4 Further, Hon'ble APTEL vide the judgment dated 4th September-2012 in appeal petition No. 190 of 2009 and 46 of 2010 (KSEB vs KSERC) had dealt with the matter and held as under.

10.4 Learned counsel for the Appellant submitted a normative approach should be followed in all these matters instead of adopting a new approach each year. There is a point in the submission of the Appellant. We also feel that suitable Regulations regarding normative parameters for various expenses may be framed by the State Commission so that there is Regulatory certainty about the allowable costs under various heads. Accordingly, directed.

13.4 We find that there are presently no Regulations providing for norms for various expenses including A&G expenses. The State Commission has allowed an increase of 10% over the approved expenses for the FY 2008-09 for various heads of A&G expenses while allowing some assumed figure for legal expenses. We agree with the point raised by the Appellant regarding norms to be specified through statutory Regulations by the State Commission. We have already given a direction to the State Commission regarding specifying the Regulations providing for norms for various expenses.

However, the State Commission is yet to finalize the norms.

- 10.5 Hon'ble APTEL in appeal no. 250 of 2006 dated 07.02.2008 between Bangalore Electricity Supply Company Ltd and others v/s KERC and KPTCL has decided that:

Para 49 Repairs and maintenance is very important for optimal utilization of machinery and equipments on long term basis. It is important that proper repair, overhaul and maintenance is carried out regularly and wherever replacements are required, the same are effected to ensure reliable supply of power and to achieve the fair life of the equipment. Therefore it should be left to the wisdom of the management of the utility to make cash projections required for R&M. Concedingly, the Commission has fairly stated that the actual expenses for 2006-07, which are already available, shall be considered subject to prudence check after the truing up proposals are filed by the Appellant. **We expect the Commission takes up this exercise expeditiously and allows actual R&M expenses with carrying cost subject to prudence check.**

- 10.6 As observed by the Hon'ble APTEL, the R&M is essential for maintaining the assets in good condition. Over and above the assets added every year, R&M cost also depends on the age of the assets and inflation.
- 10.7 While approving the ARR, Hon'ble Commission has limited the R&M expenses for the year 2011-12 to that incurred during the year 2008-09 for the assets as on 31-03-2008, and increase was provided only for accounting inflation over the same incurred during the year 2008-09. No increase in R&M cost was allowed for the assets added thereafter. Further, the age of the assets also not considered.
- 10.8 KSEB has been adding assets every year. The details of the assets added since the year 2008-09 is detailed below.

Table-39
Assets added during the period from 2008-09 to 2011-12

Description of Asset	Existing as on 31-03-2009	Assets added during the year					Percentage increase over 2008-09	GFA as on 31-03-2012
		2009-10	2010-11	2011-12	Addition in 3 years			
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
Land & Land Rights	280.80	25.47	19.35	6.36	51.18	18.23	331.98	
Building	497.30	39.20	19.24	52.90	111.34	22.39	608.63	
Hydraulic Works	899.02	75.34	98.87	28.87	203.08	22.59	1102.10	
Other Civil Works	301.93	23.43	66.05	30.88	120.36	39.86	422.29	
Plant & Machinery	3454.35	313.51	290.84	279.85	884.19	25.60	4338.54	
Lines, Cable Network etc.	3753.53	451.91	515.16	464.70	1431.77	38.14	5185.31	
Vehicles	13.05	0.52	0.99	1.50	3.01	23.04	16.05	
Furniture & Fixtures	13.92	1.13	1.01	1.06	3.20	22.98	17.11	
Office Equipments	35.22	5.40	7.24	3.74	16.38	46.51	51.60	
Total	9249.12	943.05	1018.73	862.89	2824.67	30.54	12073.79	

- 10.9 As detailed above, the Gross Fixed Assets has increased by 30.54% over 2008-09. The R&M cost also increased in proportion to the assets addition over and above the inflation every year.
- 10.10 Out of the total GFA amounting to Rs 12073.79 crore, about 82% is being contributed by 'Plant & Machinery and Line Cable network etc'.
- 10.11 The breakup of the R&M expenses incurred towards material cost and payment to contractor is detailed below.

Table-40 Details of expense incurred for 2011-12.

Particulars	2010-11			2011-12			Increase over 2010-11		
	Material cost	Payment to contractor	Total	Material cost	Payment to contractor	Total	Material cost	Payment to contractor	Total
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Buildings	0.08	4.98	5.06	0.04	5.74	5.78	-0.04	0.76	0.72
Hydraulic Works	0.05	1.94	1.99	0.01	2.11	2.12	-0.04	0.17	0.13
Other Civil Works	0.27	5.36	5.63	0.06	6.61	6.67	-0.21	1.25	1.04
Plant and Machinery	25.48	35.80	61.28	21.99	41.82	63.81	-3.49	6.02	2.53
Lines, Cable Network, etc.	83.51	68.58	152.09	90.39	77.66	168.05	6.88	9.08	15.96
Vehicles	0.06	4.64	4.70	0.24	3.88	4.12	0.18	-0.76	-0.58
Furniture and Fixtures	0.00	0.12	0.12	0.00	0.09	0.09	0.00	-0.03	-0.03
Office Equipments	0.01	0.97	0.98	0.04	1.02	1.06	0.03	0.05	0.08
Total	109.46	122.39	231.85	112.77	138.93	251.70	3.31	16.54	19.85

10.12 The details of the R&M expenses incurred are detailed below.

(i) **R&M expenses incurred under Lines, Cable Networks etc.**

10.13 The function wise break up of the expenses incurred under Lines, Cable net works is detailed below.

Table-41
Function wise breakup of R&M expenses incurred under Lines, Cable networks etc.

Functional area	2010-11			2011-12			Increase over 2010-11
	Material Costs	Payment to contractor	Total	Material Costs	Payment to contractor	Total	
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
Generation	0.005	0.09	0.09	0.02	0.12	0.14	0.05
Transmission	1.68	1.94	3.62	2.2	2.68	4.88	1.26
Distribution	81.82	66.56	148.38	88.17	74.86	163.03	14.65
Total	83.51	68.58	152.09	90.39	77.66	168.05	15.96

10.14 It is seen that, about 97% of the R&M cost incurred under Lines, Cable networks etc are contributed by Distribution functional area. The details of the expense incurred under each 'Distribution circle and Electrical Division on lines, Cable networks etc for the year 2011-12 is given as Annexure-8. It can also be seen that, there has been a uniform increase on R&M expenses under lines, cable networks etc in each division during the year 2011-12. This is due to the following reasons.

(i) After the implementation of the KSERC Licensees (Standards of performance) Regulations, KSEB has been giving due care and attention on the maintenance of the distribution system.

- (ii) Through centralized procurement, KSEB has been providing necessary materials for maintenance to the distribution without much time delay.
- (iii) All the section offices of the Board have converted into 'Model Sections' since January-2011. There is a separate wing for maintenance in each model section with one Sub Engineer, two overseers, two linemen and four electricity workers with vehicle.
- (iv) The R&M works is highly susceptible to inflation. The inflation during the year was about 8.42% during the year 2011-12.
- (v) Increase in the consumer strength- consumer strength has increased from 101.28 lakhs as on 31-03-2011 to 104.58 lakhs as on 31-03-2012.
- (vi) Increase in the distribution assets from Rs Rs 4067.19 crore as on 31-03-2011 to Rs 4530.86 crore as on 31-03-2012, i.e., an increase of Rs 463.67 crore during the year 2011-12.

10.15 Another important factor influencing the R&M cost is the inflation. The level of inflation prevailed during the year 2009-10 to 2011-12 under CPI (IW) is detailed below.

Table-42. Month wise details of inflation

Month	2009-10	2010-11	2011-12
Apr	8.70	13.33	9.41
May	8.63	13.91	8.72
June	9.29	13.73	8.62
July	11.89	11.25	8.43
Aug	11.72	9.88	8.99
Sep	11.64	9.82	10.06
Oct	11.49	9.7	9.39
Nov	13.51	8.33	9.34
Dec	14.97	9.47	6.49
Jan	16.22	9.30	5.32
Feb	14.86	8.82	7.57
Mar	14.86	8.82	8.65
Average	12.32	10.5	8.42

10.16 Inflation under WPI stood at 3.90%, 9.60% and 9.00% respectively for the years 2009-10, 2010-11 and 2011-12.

Considering the details as submitted above, Hon'ble Commission may kindly admit the R&M expenses incurred under Lines, Cable networks etc for the year 2011-12.

(ii) R&M expense incurred under Plant and Machinery

10.17 The function wise breakup of R&M expenses incurred under Plant and machinery for the year 2011-12 is detailed below.

Table-43 Function wise break up of expenses incurred under Plant and Machinery

Functional area	2010-11	2011-12	Increase over 2010-11	
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(%)
Generation	15.87	17.34	1.47	9.26
Transmission	40.48	42.20	1.72	4.25
Distribution	4.93	4.27	-0.66	-13.39
Total	61.28	63.81	2.53	4.13

- 10.18 Circle wise/ division wise details of R&M expenses incurred under plant and machinery for the year 2011-12 is enclosed as **Annexure-9**. Plant and Machinery includes the power stations under Generation wing, substations in the Transmission and transformers under distribution wing etc. The expenses were incurred predominantly under Generation and Transmission sectors.
- 10.19 As detailed above, predominant part of the R&M costs under plant and machinery is in the Transmission wing. This is due to the care and efforts taken by the Board to maintain the substations- 33kV, 66kV, 110 kV 220 KV.
- 10.20 Regarding the R&M costs incurred for the year 2011-12, the function wise breakup of R&M expenses as a percentage of GFA is also quite marginal as given below.

Table-44
Function wise percentage of R&M costs as percentage of GFA

Particulars	GFA at the beginning of the Year	R&M Expenses	Percentage of GFA	Percentage of total
	(Rs. Cr)	(Rs. Cr)	(%)	(%)
Generation	3695.14	21.68	0.59	8.61
Transmission	3441.44	56.19	1.63	22.33
Distribution	4067.19	173.83	4.27	69.06
Total	11203.77	251.70	2.25	100.00

- 10.21 Age of the asset is also a factor influencing R&M cost. A good extent of physical assets in use is old and requires frequent maintenance. Any laxity on the part of the Board on implementing the R&M works may cause breakdown of the Generating Stations and substations and lines, interruptions in the supply and thus loss to the KSEB and inconvenience to the consumers. Further, the break downs in the Generating Stations, substations and lines are usually the main cause of casualty and hazards to the employees of KSEB.
- 10.22 Considering the facts and submission as detailed above including the judgments of Hon'ble APTEL and the importance of the proper maintenance of the assets owned by KSEB in order to provide quality power to the consumers, and factors like increase in asset base, inflation etc the R&M cost as per the accounts may kindly be admitted.

11 Administration and General Expenses

11.1 The Administration and General (A&G) expenses consist of rents, taxes, insurance, legal charges, audit fees, Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act 1963 (KED Act, 1963) and other charges such as travel expenses, freight, purchase related expenses, etc. The following table summarizes the A&G expenses incurred during the year 2011-12.

Table-45 Administration and General Expenses for the year 2011-12

Sl.No.	Particulars	2010-11	2011-12			
		Actual	As per ARR	Approved	As per Accounts	Increase over approval
1	Rent, Rates and Taxes	4.30	5.39	85.73	5.56	21.55
2	Insurance	0.38	0.48		0.41	
3	Telephone/telex/internet charges etc.	3.46	4.83		3.46	
4	Legal charges	3.24	3.61		2.00	
5	Audit fees	2.30	3.00		2.30	
6	Consultancy charges	0.25	0.82		0.18	
8	Other Professional charges	0.58	0.33		4.27	
9	Conveyance and vehicle hire charges	23.99	21.84		34.08	
11	Sub Total (Total of 1 to 9)	38.50	40.30		52.26	
12	OTHER EXPENSES					
	a) Fess and subscriptions	0.53	0.71		0.47	
	b) Printing & Stationary	7.65	10.46		9.18	
	c) Advertisements	7.50	8.46		8.09	
	e) Contributions/Donations	1.09	0.61		1.16	
	f) Electricity Charges	5.26	5.36		5.12	
	g) Water charges	0.28	0.27		0.24	
	h) Entertainment	0.27	0.28		0.29	
	i)Exhibition/publicity	0.19			0.22	
	j)Sports and related activity	0.26			0.28	
	k)Study tour/Training	1.58	2.37		0.77	
	l)SRPC expenses	0.84			0.72	
	m)DSM expenses	0.92		0.96		
	n)APTS expenses	0.02		0.01		
	o) Miscellaneous expenses	10.67	17.11	13.71		
13	Total of OTHER EXPENSES	37.06	45.63	41.22		
14	Freight	11.27	17.50	9.33		
15	Other purchase related expenses	3.31	3.85	6.60		
	Total (11+13+14+15)	90.14	107.28	109.41		
16	Electricity Duty u/s 3(1), KED Act	84.42	89.78	0.00	93.31	93.31
	GRAND TOTAL	174.56	197.06	85.73	202.72	116.99

11.2 In the ARR for the year 2011-12, Board has projected the A&G expenses as Rs 197.06 crore, which includes Rs 89.78 crore towards section 3(1) duty payable to the Government. While approving the ARR, Hon'ble Commission has disallowed the section 3(1) duty in full. Further, Hon'ble Commission has not approved item wise expenses of A&G expenses for the year 2011-12, but allowed a lump sum amount by escalating the total A&G expenses (excluding section 3(1) duty) for the year 2008-09 at the weighted average indices of WPI and CPI in the ratio 30:70. As detailed above, the A&G expenses (excluding section 3(1) duty) as per the audited accounts has increased by 23.68 crore over approved level.

10.23 Regarding the A&G expenses, Hon'ble APTEL vide the judgment dated 4th September-2012 in appeal petition No. 190 of 2009 and 46 of 2010 (KSEB vs KSERC) had dealt with the matter and held as under.

10.4 Learned counsel for the Appellant submitted a normative approach should be followed in all these matters instead of adopting a new approach each year. There is a point in the submission of the Appellant. We also feel that suitable Regulations regarding normative parameters for various expenses may be framed by the State Commission so that there is Regulatory certainty about the allowable costs under various heads. Accordingly, directed.

13.4 We find that there are presently no Regulations providing for norms for various expenses including A&G expenses. The State Commission has allowed an increase of 10% over the approved expenses for the FY 2008-09 for various heads of A&G expenses while allowing some assumed figure for legal expenses. We agree with the point raised by the Appellant regarding norms to be specified through statutory Regulations by the State Commission. We have already given a direction to the State Commission regarding specifying the Regulations providing for norms for various expenses.

11.3 The A&G expenses of a utility are directly linked to the business growth of the utility. The business growth of the utility including number of consumers, consumption and revenue from sale of power etc since the year 2008-09 is detailed below

Table-46. Growth of KSEB system during the period 2008-09 to 2012-13

Year	Consumer strength		Annual energy sale		Connected load		Revenue from sale of Power	
	(Lakhs)	(%) of increase over 2008-09	(MU)	(%) of increase over 2008-09	MW	(%) of increase over 2008-09	(Rs. Cr)	(%) of increase over 2008-09
2008-09	94		12414.32		15267		4893.02	
2009-10	97	4	13971.09	12.54	15867	3.93	4747.17	-2.98
2010-11	101	8	14547.90	17.19	16682	10.27	5641.26	15.29
2011-12	105	12	15921.53	28.25	17518	14.74	5984.60	22.31

11.4 A&G expenses also highly susceptible to business growth of the utility as well as inflation. As detailed under Table-42 above, the average inflation for the year 2011-12 was about 8.42%. However, the increase in the A&G expenses over previous years is mainly on the following items.

Table-47 A&G expense components which recorded increase over approval

Particulars	2008-09	2011-12	
	Actual	As per Accounts	Increase over 2010-11
Conveyance and vehicle hire charges	13.44	34.08	20.64
Miscellaneous expenses	7.24	13.71	6.47
Advertisements	3.3	8.09	4.79
Other Professional charges	0.40	4.27	3.87
Other purchase related expenses	4.11	6.6	2.49
Electricity Charges	3.44	5.12	1.68
Rent, Rates and Taxes	3.89	5.56	1.67
DSM expenses	0	0.96	0.96
Contributions/Donations	0.33	1.16	0.83

The detailed explanation on the reasons for increase under these items is given below.

11.5 Conveyance and Vehicle hire charges: The breakup of conveyance and vehicle hire charges for the year 2011-12 is given below.

Table -48. Breakup of conveyance and Vehicle hire charges for the year 2011-12

Particulars	2008-09(Rs. cr)	2011-12 (Rs. cr)
Conveyance	2.25	3.64
Traveling expenses to staff	4.37	8.76
Traveling expenses to Board Members	0.11	0.07
Vehicle running expenses (except trucks etc.)	6.21	5.44
Vehicle licenses, registration insurance and taxes	0.50	0.63
Vehicle hire charges	0.00	15.74
Total	13.44	34.08

11.6 Increase in fuel price and vehicle running and maintenance expenses for the hired vehicles in various field offices are the major reason for increase in conveyance expenses. KSEB has drastically reduced the purchase of new vehicles and hired vehicles are being used instead of own vehicles resulting into increase in vehicle hiring expenses. The rates being quoted for providing vehicles by the contractors are increasing steadily due to increase in fuel prices and operational expenses. The impact of general inflation as well as fuel price hike together with increase in the dependence on hired vehicles was much more than the increase allowed by the Hon'ble Commission based on 2008-09 actuals.

11.7 Advertisement charges: For the last few years, KSEB has been giving publicity through print and visual media on 'the importance of energy conservation' and the message on energy conservation in addition to the advertisement on tenders, public notice etc.

11.8 Contributions: Expenses under this head being the Board's contribution to the KSEB Employees Welfare Fund, a scheme constituted for providing financial assistance to the families of KSEB employees who die while in harness and to those who retire from service on invalid grounds. The Fund is registered under 'The Travancore Cochin Literary & Scientific Charitable Societies Act, 1955'. The Board's contribution amounts to Rs 1.13 crore. Hon'ble Commission may kindly admit the same.

11.9 KSEB has designed Demand Side Management (DSM) with an aim to create awareness among the consumers to use most efficient electricity equipments/ apparatus and thus either to reduce the electricity consumption especially during peak hours or to shift the use of electricity from peak to off-peak hours. The various activities in the DSM includes campaigns, discussions, issue of pamphlets, distribution of prizes, conducting meetings with major electricity consumers and residents association etc. As per the audited accounts,

the amount spent is towards DSM activities Rs 0.92 crore which may kindly be approved.

- 11.10 Other professional charges include payment made to KSERC Rs.3.84 crore towards fees prescribed for various purposes by the Hon'ble Commission under the conduct of business regulation, as detailed below:

Table -49.Details of fees paid to KSERC

Particulars	Amount incurred
	(Rs. Cr)
License Renewal fee for the year 2011-12.	1.51
ARR & ERC Filing fee for the year 2012-13.	1.28
Truing up petition fee for 2009-10 & 2010-11.	0.42
Cost of consultancy assignment.	0.21
Tariff proposal for 2012-13 filing fee.	0.31
Fee for Fuel Surcharge petitions.	0.1
Fee for other petitions.	0.01
Total	3.84

- 11.11 Other purchase related expenses: As per the ESSAR-1985, the accounting standard followed by KSEB, the material cost including taxes and duties are accounted under 'cost of material' where as the transportation and related charges are accounted under 'freight'. Over the last few years, the quantum of material procurement has increased and there has been consequent increase in transportation charges. Freight has to be paid for inter store material movement also. Further, there has been increase on the fuel and operational expenses associated with transportation. All this has lead to increase in the freight charges as per the audited accounts compared to the approved amount. Hon'ble Commission may kindly admit the same.

- 11.12 Miscellaneous expenses: Expenses for which no specific heads are assigned under A&G expenses are booked here. ARU wise details of miscellaneous expenses along with comparative figures for 2010-11 are furnished as Annexure-10.

- 11.13 Section 3(1) duty.

(i) One of the major expenses booked under A&G expense is the section 3(1) duty payable by KSEB to the State Government. The section 3(1) duty is a statutory levy. While approving the ARR&ERC for the years from 2003-04 to 2006-07, Hon'ble Commission has considered this as revenue expenditure as part of the A&G expenses of the Board. Since the inception of the Board, Comptroller & Auditor General (C&AG) has also certified this as an essential expenditure under A&G expenses. But, while approving the Truing Up of accounts of KSEB since the year 2003-04 and also while approving the ARR since the year 2007-08 onwards, Hon'ble Commission has not been admitting section 3(1) duty as a revenue expenditure quoting the provisions in section 3(3) of the Kerala Electricity Duty Act- 1963 that "the duty under this section on the

sales of energy should be borne by the Licensee and shall not be passed on to the consumers”. Accordingly, total expenses disallowed since the year 2003-04 amounted to Rs 648.44 crore so far, as detailed below.

Table-50. Section 3(1) duty not admitted by KSERC

Year	Section 3(1) duty not admitted by KSERC	Remarks
	(Rs. Cr)	
2003-04	51.53	As per orders on truing up
2004-05	54.98	
2005-06	63.26	
2006-07	71.78	
2007-08	77.54	
2008-09	74.47	
2009-10	80.79	
2010-11	84.42	
2011-12	89.72	
Total	648.49	

- (ii) Hon’ble Commission may be aware that, KSEB has no business other than electricity distribution. KSEB cannot find an alternate means to meet this huge amount. Disallowing section 3(1) duty is against the provision of the Electricity Act-2003 that, SERC’s should have to ensure reasonable return to the utilities after meeting expenses including taxes and duties. If the section 3(1) duty is not allowed as an expense, the commercial viability of the utility will be affected. Hon’ble Commission may have the option to allow higher return to KSEB so that the net return after meeting section 3(1) duty shall be 15.50 % of the equity of Rs 1553.00 crore. As per the provisions of the Electricity Act-2003, Hon’ble Commission is empowered to ensure financial sustainability of KSEB as a Distribution Utility and with the statutory powers available; the matter of disallowance of section 3(1) duty may kindly be reconsidered.

11.14 Considering the details and submissions as above, Hon’ble Commission may kindly approve the A&G expenses as per the accounts.

12. Other Expenses

12.1 Other expenses include **other debits and prior period charges**. The comparison of other debits estimated in the ARR, approved by the Commission and actual expenses as per the accounts are given below.

Table-51. Other Debits for the year 2011-12

Sl No	Particulars	2010-11	2011-12			
			ARR	SERC Approved	As per Accounts	Difference over approval
1	Research and Development Expenses	0.39	1.50	1.50	0.52	-0.98
2	Provision for Bad and Doubtful debts	36.09	7.50	7.50	1.94	-5.56
3	Miscellaneous Losses and write-offs	8.69	3.00	3.00	8.82	5.82
	Total	45.17	12.00	12.00	11.28	-0.72

12.2 The provision for Bad and Doubtful debts Rs 1.94 crore represent on account of withdrawal of prior period credits to revenue account.

- 12.3 The details of miscellaneous losses and write off comprised of the following.

Table-52 Details of Miscellaneous losses and Write off

Sl No	Particulars	Amount (Rs.Cr)
1	Compensation for injuries deaths and Danger - Staff	1.08
2	Compensation for injuries deaths and Danger - Outsiders	3.69
3	Loss on obsolescence of spares at generating stations	4.04
4	Loss on sale of store	0.01
	Total	8.82

Hon'ble Commission may kindly admit the other expenses as per the audited accounts for the year 2011-12 as detailed above.

13. Prior period credit/ charges

- 13.1 Prior period charges include both income as well as expenses relating to the prior periods. Details of the prior period charges as per the accounts are detailed below.

Table-53 Net prior period charges

(Rs. In crore)

Sl · N o ·	Particulars	2010-11	2011-12		
		Actuals	ARR	SERC Approved	As per Accounts
	I. Income relating to previous year				
1	Receipt from consumers	65.61			0.68
2	Excess interest and finance charges	1.30			0.29
3	Other excess provision made in previous year	0.07			0.35
4	Other income relating to prior period	32.68			9.41
	Total	99.66			10.73
	II. Expenditure relating to previous years				
1	Short provision of purchase	25.32			66.43
2	Operating expenses relating to prior period	0.35			0.00
3	Interest & finance charges	0.02			0.17
4	Other charges relating to previous years	0.41			6.08
	Total	26.10			72.68
	Net prior period credit/charges (I-II)	73.56	0.00	0.00	-61.95

- 13.2 Break up of power purchase related prior period expenses are given below:

Table-54. Details of Prior Period Expenses for 2011-12 (Rs. Cr)

Being the purchase of power from Synthite from 28/02/11 to 30/04/11.	0.05
Being the net debit on account of approval of transmission tariff as per CERC 2009-14 Vijayawada-Gazuwaka line.	2.05
Being the EC payable to VIYYAT for 05/11 and arrear from 25/10/10 to 04/11/10.	0.18
Being the debit on account of approval of transmission tariff as per CERC order 400 KV Jevpore-Gazuwaka and Ramagundam –Hyderabad DC line.	5.25
Being the transmission charges payable from 4/2009 to 3/2011.	0.36
Being the monthly bill of PGCIL	0.03
Being the capacity charges and incentive revision from 3/2005 to 3/2011 of RSTPS I	41.46
Reversal entry of Jl. No.53 of 3/2004 correctly accounted in CB on 12/3/04-1352400 &	0.47
Being the FBT admitted on 2/8/2009 for MAPS not recorded in Journal	0.96
Being the omission of orig. Jl. entry in 41107 rectified by proposing the RE charges to 83100	0.02
Being the transmission charges payable for the period from 4/2009 to 3/2011.	1.90
Being the rectification entry for Jl.No.41 of 9/2003.	0.03
Being the deferred non liability of 2009 up to 3/09-PG/SR/KSEB/11-12 DNOTE/13 Dtd.	13.55
Being the payment to NTPC (bill dtd. 06/01/2010)	0.10
Sub Total	66.43

13.3 While approving the ARR, Hon'ble Commission has not approved the prior period charges projected by KSEB and stated that the same could be covered in the truing up exercise. The same may be admitted as detailed above.

14. Capitalization of Expenses and Methodology

In the ARR, the Board has estimated Rs 33.87 crore as capitalization of Interest & Finance charges and Rs.116.32 crore as other Expenses, which were approved by the Hon'ble Commission. As per the annual accounts, Rs 30.51 crore was capitalized from interest and finance charges and Rs 126.61 crore as other expenses. The actuals may kindly be approved.

15. Statutory Surplus

15.1 In the ARR&ERC petition for the year 2011-12, Board has claimed RoE @15.5% for the Government Capital of Rs 1553.00 crore with the Board, but while approving the ARR, Hon'ble Commission had allowed only a return of Rs 100.00 crore for the year 2011-12. However, Hon'ble Commission vide order dated 13-04-2012 on petition No. RP No. 4/2011 has allowed the return at 14% on the equity of Rs 1553.00 crore.

15.2 KSEB may further submit that, as per Regulation 15 contained in the CERC (Terms and conditions of Tariff) Regulation, 2009 dated 19.01.2009, the base rate of return on equity is prescribed as 15.50%. In addition, 1st proviso to paragraph 5.3(a) of the National Tariff Policy clarifies that "the rate of return notified by the CERC for Transmission may be adopted by the SERCs for Distribution with appropriate modification taking into view higher risks involved. Thus as per the Tariff Policy, a return higher than that specified for Transmission can be allowed to the Distribution. However, since KSEB is continuing as a single utility, KSEB has been claiming the RoE at the base rate notified by the CERC. Section 61 (a) of the Electricity Act,2003 also mandates that while specifying terms and conditions for determination of tariff by the appropriate Commissions shall be guided by the methodologies specified by the CERC. Further, Section 61 (i) of the Electricity Act-2003 also provides that, the National Electricity Policy and Tariff Policy are the guiding factors for the SERC while determining the tariff.

15.3 Hon'ble Commission is yet to notify the terms and conditions for the determination of tariff under section 61 of the Act. It may also be noted that the Commission is following CERC rates for allowing depreciation and adopted the new rates applicable from 2009.

15.4 Hon'ble APTEL vide the judgment dated 2nd March-2012 in Appeal No. 76 of 2011 has held that, RoE can be allowed at the CERC rates in the absence of proper regulations.

15.5 Hence, considering the provisions of the Electricity Act-2003 and National Tariff Policy and also the fact that KSEB is continuing as a single utility, Hon'ble Commission may kindly approve the RoE amounting to Rs 240.72 crore claimed for the year 2011-12 at the rate of 15.50% on the Equity of Rs 1553.00 crore.

16. Non- Tariff Income

16.1 In the ARR for the year 2011-12, Board had estimated the non-tariff income as Rs 390.36 crore and Hon'ble Commission had approved the same as such. But as per the accounts, the Non-tariff income for the year was Rs 450.86 crore. The details are given below.

Table-55. Non- Tariff Income for the year 2011-12

Particulars	2010-11 (Actual)	2011-12 (Rs. In crore)		
		KSEB proposed in ARR	SERC Approved	Actuals
Meter Rent/Service Line Rental	154.38	160.00	160.00	158.14
Miscellaneous Charges (UCM, Service connection fee, Fee for maintenance of Public lighting, Testing fee, Reconnection fee, Penalty charges, Minimum Guarantee charges, Charges for Service connection minimum, Meter Box charges, Power allocation charges etc.	50.86	50.00	50.00	60.31
Wheeling charges & Reactive energy charges	0.00	0.00	0.00	6.36
Interest on Staff Loans and Advances	0.40	0.30	0.30	0.36
Income from Investments	0.01	0.00	0.00	0.00
Interest on Advances to suppliers/ Contractors	3.71	3.00	3.00	2.13
Interest from Banks	84.43	64.06	64.06	65.95
Rebate Received	72.65	60.00	60.00	81.36
Income from Trading	26.47	15.00	15.00	27.25
Miscellaneous Receipts	49.83	38.00	38.00	49.00
TOTAL	442.74	390.36	390.36	450.86

16.2 Non- Tariff Income includes Meter Rent/Service Line Rental, Miscellaneous Charges from Consumers, recoveries through theft etc. KSEB may submit that, through various efforts taken by the Board including intensive anti power theft detections, penal interest for miscellaneous charges, rebate for prompt payment of electricity dues to CPSUs, income from trading, interest accrued on FD etc, Board was able to earn Rs 450.86 crore as non-tariff income for the year 2011-12.

17. Revenue from Tariff

17.1 Revenue from Sale of Power within the State

- (i) In the ARR& ERC for the year 2011-12, KSEB had estimated the Sale of Power (SOP) within the State as 15600.15 MU and the revenue from SOP as Rs 5217.10 crore. While approving the ARR&ERC, the Hon'ble Commission had approved the same as proposed by KSEB.
- (i) While approving the ARR the year 2011-12, Hon'ble Commission has ordered to charge the consumers at the existing tariff.

However, in addition to the normal tariff, Hon'ble Commission had allowed to charge Rs 0.25 per unit as fuel surcharge on the consumption from 1st August-2011 to 31st January-2012.

- (ii) The category wise energy sale and revenue from sale of power including fuel surcharge during the year 2011-12 is detailed below.

Table-56 Revenue from Sale of Power within the State

Category	KSERC order		Actuals	
	Energy sale	Revenue from Tariff	Energy sale	Revenue from Tariff
	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)
Domestic	7456.00	1444.08	7703.23	1531.84
Commercial	2104.00	1488.69	2141.22	1592.83
LT Industrial	1118.84	447.32	1097.04	461.39
LT Agriculture	260.00	23.56	286.18	30.77
Public Lighting	307.00	58.83	294.26	63.86
HT & EHT Total	3717.33	1507.29	3829.39	1600.75
Railway Traction	169.98	67.89	154.49	61.68
Bulk Supply	463.00	179.44	472.09	183.27
NPG	4.00	0.00	2.63	0.00
Total energy sales with in the	15600.15	5217.10	15980.53	5526.39

- (iii) The revenue from sale of Power as stated above and also as provided under Statement -1 of the account is inclusive of the total fuel surcharge demanded during the period from August-2011 to January-2012 including the demand raised for domestic consumers with monthly consumption up to 120 units.
- (iv) It may be noted that, as ordered by the State Government, KSEB had exempted domestic consumers with monthly consumption up to 120 units from payment of fuel surcharge and Government has given Rs 54.60 crore as subsidy for meeting the revenue shortfall on account of the same. However, as ordered by the Hon'ble Commission, the Revenue from sale of power given in the Schedule-1 of the accounts is inclusive of the fuel surcharge demanded including the same to the domestic consumers with monthly consumption up to 120 units per month. Hence, the revenue from sale of power as per the audited accounts may kindly be admitted.

17.2 Revenue from Sale of Power Outside the State

- (i) KSEB has been taking all efforts to sell the unutilized power from liquid fuel stations especially from BSES and BDPP at actual variable cost plus comfort charges basis.
- (ii) However, except during the extreme summer months - April-2011 there was no takers for the high cost power from liquid fuel stations.

- (iii) KSEB has sold 24.7 MU from liquid fuel stations to TNEB during the year 2011-12 for Rs. 28.26 crore and 35.67 MU through power exchange for Rs.38.37 crore totaling to Rs.65.31 crore. The details are given in the following table.

Table-57 Details of sale during the year 2011-12

Month	IEX		PXIL		TNEB				Total	
	Quantum (MU)	Amount (Rs.Cr)	Quantum (MU)	Amount (Rs.Cr)	Quantum (MU)	VC (Rs.Cr)	Comfort charge (Rs.Cr)	Total	Quantity (MU)	Amount (Rs.Cr)
Apr-11	26.87	32.61	1.69	2.17	24.70	25.79	2.47	28.26	53.26	63.03
May-11									0.00	0.00
Jun-11									0.00	0.00
Jul-11									0.00	0.00
Aug-11	0.03	0.01	0.06	0.02					0.09	0.02
Sep-11	5.53	1.95	1.46	0.30					6.98	2.25
Total	32.43	34.57	3.21	2.49					60.33	65.31

18. Summary of the ARR, ERC and Revenue Gap for the year 2011-12.

The item wise comparison of the ARR, ERC and Revenue gap approved by the Hon'ble Commission and the actual as per the truing up petition are as given below.

Table-58
Summary of the ARR & ERC for the year 2011-12

Particulars	KSERC	KSEB	Variation
	(Order)	As per Accounts	(-) decrease/ (+) increase
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation Of Power	264.58	281.65	17.07
Purchase of power	3660.67	4375.31	714.64
Interest & Finance Charges	265.26	340.52	75.26
Depreciation	548.37	466.00	-82.37
Employee Cost	1582.11	1903.33	321.22
Repair & Maintenance	185.00	251.70	66.70
Administration & General Expenses	85.74	202.72	116.98
Other Expenses	12.00	73.22	61.22
Gross Expenditure (A)	6603.73	7894.45	1290.72
Less : Expenses Capitalized	116.32	126.61	10.29
Less : Interest Capitalized	33.87	30.51	-3.36
Net Expenditure (B)	6453.54	7737.33	1283.79
Statutory Surplus/ Roe (C)	100.00	240.72	140.72
ARR (D) = (B) + (C)	6553.54	7978.05	1424.51
Less Non-Tariff Income	390.36	450.86	60.50
Less : Revenue from Tariff			
(a) With in the State	5234.56	5526.39	291.83
(b) Outside the State	0.00	66.63	66.63
Revenue from subsidies and grants	0.00	0.04	0.04
Total Income	5624.92	6043.92	419.00
Revenue Gap	928.62	1934.13	1005.51

19. Revenue gap and treatment of revenue gap

As explained in the preceding paragraphs, Hon'ble Commission vide order dated 1st June -2011 had approved the ARR& ERC for the year 2011-12 and approved the ARR at Rs.6553.54 crore, ERC at Rs.5624.92 crore and revenue gap at Rs 928.62 crore for the year 2011-12. However, as per the C&AG audited accounts, the ARR is Rs 7978.05 crore, ERC is Rs 6043.92 crore and the revenue gap is Rs 1934.13 crore.

Prayer

KSEB requests before the Hon'ble Commission that:

- (1) Truing up of Expenses and Revenue as per the Annual Statement of Accounts for the year 2011-12 (copy enclosed) and explained in this petition may kindly be approved, in view of the care and caution taken by the Board for carrying out the functions of the Board as a public utility as per the statutory provisions under the Electricity Act, 2003 and also as per the directions, orders and regulations issued by the Hon'ble Commission, policies and directions issued by the State and Central Government and other statutory bodies within the provisions of the Electricity Act-2003.
- (2) The revenue gap as per the accounts may be accounted as regulatory assets or any other appropriate means deemed fit by the Hon'ble Commission according to the provisions of law.

Chief Engineer (Commercial & Tariff)

