

THE KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT : Shri. K.J.Mathew, Chairman
Shri P Parameswaran, Member
Shri. Mathew George, Member

June 10 2011

Petition No OP 24/2010	Kerala State Electricity Board, Vydyhuthi Bhavanam, Thiruvananthapuram 695004	Petitioner
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In the matter of
Truing up of Accounts of Kerala State Electricity Board for the year 2008-09

ORDER

Background

1. Kerala State Electricity Board (herein after referred to as the *Board or KSEB*) has filed the truing up petition on 6-9-2010 for the years 2007-08 and 2008-09. The Commission had previously, initiated *suo motu* penal proceedings and imposed a penalty of Rs.1,00,000 on the Board for non-compliance of repeated directions of the Commission to file truing up petitions for the year 2007-08 and 2008-09. The Board had approached the Hon. High Court and the Court had admitted the petition for detailed hearing. Based on the plea of the Board, the High Court had allowed the Board to comply with the directions of the Commission, subject to the out come of the result of the writ petition. The petition for truing up for 2007-08 and 2008-09 were filed before the Commission then. This order deals with of the petition for the truing up of the accounts for 2008-09.
2. While the petition was under the consideration of the Commission, the Board has filed a review petition on the Orders of the Commission on truing up for the year 2006-07. In the review petition, the Board requested to reconsider the decision of not allowing return on equity for the amount of Rs.1553 crore, based on a Government Order dated 13-12-2010 in which the Government with retrospective effect reversed the conversion of equity into grant. In the mean time, the two members of the Commission who originally heard the truing up petitions retired.

Considering this and the fact that the decision on the issue of equity had a bearing on the truing up petitions for the succeeding years, the Commission reheard on 16-3-2011 the truing up petition along with the review petition filed by KSEB.

3. The Board had filed the petition with provisional accounts. The audited report for the year 2008-09 was separately forwarded. The Commission in its ARR&ERC Order for 2008-09 of the Board had approved an ARR of Rs.4983.27 crore and ERC of Rs.4979.34 crore with a revenue gap Rs.3.93 crore. As against this, the truing up petition shows a revenue gap of Rs.749.17 crore. A comparison of approved ARR&ERC and actuals as per the truing up petition is given below:

Comparison of Approved and Actual ARR &ERC for 2008-09

Sl. No.	Particulars	ARR Order	Actuals
		(Rs. Cr)	(Rs. Cr)
1	Generation Of Power	207.03	414.96
2	Purchase of power	2,603.92	3,417.23
3	Interest & Finance Charges	365.60	339.60
4	Depreciation	290.69	434.74
5	Employee Cost	1,136.86	1,255.19
6	Repairs & Maintenance	131.05	138.80
7	Administration & General Expenses	63.61	135.46
8	Other Expenses	52.03	(160.95)
9	Gross Expenditure	4,850.79	5,975.03
10	Less : Expenses Capitalised	59.19	70.75
11	Less : Interest Capitalised	25.75	22.71
12	Total Expenditure	4,765.85	5,881.57
13	Return on Equity/Statutory Surplus	217.42	217.42
14	ARR (12 + 13)	4,983.27	6,098.99
15	Revenue from energy sale within the State	4,292.59	4,454.23
16	Revenue from non-tariff income	528.21	456.79
17	Revenue from sale of power through traders	158.54	438.79
18	Total Revenue	4,979.34	5,349.82
19	Revenue gap	3.93	749.17

4. A significant development in 2008-09 was that the Government in exercise of the powers conferred under Section 131 of the Electricity Act 2003, vested all functions, properties, interests, rights, obligations and liabilities of KSEB in Government till it is re-vested in a corporate entity. Re-vesting is not yet complete. In their petition, KSEB stated that though the Electricity (Supply) Act,

1948 stands repealed, the rules made under Section 69(1) of the said Act shall continue to have effect until such rules are rescinded or modified. Accordingly the Electricity (Supply) (Annual Accounts) Rules (ESAAR) 1985, are in force, and the Board is bound to follow the rules and the annual accounts are prepared in accordance with the above rules, which are certified and audited by the Comptroller and Auditor General of India.

5. After receiving the petition, the Commission sought clarifications on many items vide its letters dated 25-10-2010 and 11-11-2010. The Board had provided reply vide letter dated 22-11-2010 for the first set of clarifications. The Commission sought further clarification on actual interest on security deposit paid in 2008-09, year wise provision and appropriation of employee costs, staff related liabilities etc., on 27-12-2010. The clarifications were not yet received from the Board on 26-5-2011.
6. It is also pertinent to bring to light that the Board has approached the Hon. Appellate Tribunal for Electricity, New Delhi against the ARR&ERC order issued by the Commission for the year 2008-09. In their petition, the Board has appealed against the following issues:
 - (i) Disallowance of interest and Finance Charges;
 - (ii) Disallowance of Depreciation
 - (iii) Disallowance of prior period charges;
 - (iv) Fixation of Transmission and Distribution losses
 - (v) Reduction in Power Purchase Cost due to non-achievement of transmission and distribution losses;
 - (vi) Disallowance of Other Debits; and
 - (vii) Disallowance of Administrative and General Expenses/Electricity duty.

Hon. APTEL in the Order dated 18-8-2010 (Appeal No.5 of 2009) after considering the matter in detail had rejected the grounds raised by the Board and concluded that there were no grounds to interfere with the findings of the State Commission with reference to the various claims raised above. The Commission while considering this petition, will give due consideration to the observations made by the Hon. APTEL in the Order dated 18-8-2010. It is also to be recorded that the Board has approached the Hon. Supreme Court against the Order of the APTEL dated 18-8-2010. Though the petition was admitted by the Apex Court no stay was granted.

Public hearing on the petition:

7. The public hearing on the petition was held on 11-11-2010 and on 16-3-2011. On the hearing held on 11-11-2010, Shri. K.G. Madhu representing the Kerala Small Scale Industries Association stated that there was considerable delay in preparation and audit of accounts of KSEB, which needs to be avoided by suitably employing the developments in IT. The capital expenditure of the Board is low and the T&D loss reported is high. KSEB has charged interest on dues to the Government where as interest is not charged for the dues from the Government. According to him writing off of dues from the KWA cannot be accepted. Shri. George Thomas representing the Kerala State HT-EHT Industrial Electricity Consumers Association made a detailed presentation on their objections. As an introduction, he stated that the Commission is not bound by the audited Accounts of the Board as per the Orders of the Hon. Supreme Court and the Appellate Tribunal for Electricity. Regarding the performance, the Association stated that KSEB has not met the loss target of 17.92% fixed by the Commission. The actual level of losses is 0.91% more than the approved level. According to them, as per APTEL Order, once the target is fixed, the Utility is bound to achieve the target. They opposed the claims of the Board on the continuous achievement of loss reduction since 2001-02 and the claim of the Board for incentives for loss reduction. According to them incentives should be given for good performance and the Board now claimed incentive for underperformance. According to them only the approved level of loss ie., 17.92% should be considered as the loss target for 2008-09 and 170MU of power purchase cost should be disallowed which should be based on the marginal cost ie., variable cost of purchase from traders and exchange (Rs.7.53/kWh). Hence the total disallowance shall be Rs.65.93 crore under Generation and power purchase.
8. Regarding interest and financial charges, the Association submitted that the Commission should allow only the actual Rs.272.15 crore in the truing up. They have opposed to charging of interest on electricity duty payable to the Government. In the light of the observations of the Appellate Tribunal, in Appeal No. 5 of 2009, the depreciation is to be determined based on CERC norms and shall allow only Rs.290.69 crore for 2008-09.
9. The Association further stated that the Commission in the ARR allowed 26% increase in employee costs where as the actual was 39%. In the light of global

economic crisis, falling prices and wages, increase of 39% in a single year is irresponsible. The Board in the truing up petition for 2007-08 stated that the total number of employees on the roll had reduced to 24034, but as on 31-3-2009 the number was 27089. Such an increase of 3055 employees in one year is unheard of for an entity operating under competitive conditions. They requested that the Commission should allow only the approved level of employee costs. For repair and maintenance expenses, the Board had exceeded the approved level and only Rs.106.36 crore is to be allowed. Considering the Order of APTEL, in the A&G expenses, the section 3(1) duty shall not be included. The provision for bad debt is an accounting requirement which creates moral hazard as it allows the licensee to adopt a lenient and lazy approach towards recovery of dues. According to the Association, the net amount should be an income of Rs.422 crore under this head.

10. In the case of return on equity, the Board could not produce any justification for claiming return on equity as directed in the truing up order for 2006-07, so the token return given shall be disallowed. On the above grounds, the aggregate revenue requirements worked out by the Association was Rs.5056 crore. The total income including revenue from exports and non-tariff income is Rs. 5350 crore and the revenue surplus for the year 2008-09 worked out by them is Rs.294 Core. They have requested the Commission to initiate suo-motu proceedings for returning the surplus to the consumers.
11. Shri. A.R Satheesh, supporting the contentions of HT-EHT Association, stated that there is difference in the inflow and generation details presented by the Board. He also emphasised the emerging power markets to be used for the advantage of reducing the cost of electricity. Shri. Nawas, also endorsed the views of the Association and stated that the surplus of about Rs.1760 crores would amount to Rs.1.20/kWh reduction in tariff. At least 20 to 30% of the amount should be passed on to the consumers so that cross subsidy reduction is effected.
12. Shri. B. Pradeep, representing the KSEB Officers Association stated that there are three issues such as treatment of surplus, return on equity and employee costs to be addressed by the Commission in the truing up petition. According to him Kerala power sector as a business model is not viable since the number of consumers are increasing and per capita consumption is reducing, which can be attributed to the fact that HT-EHT consumers in the State failed to flourish in the State. The employee cost per consumer in rural areas is about Rs.1 and in the

town it is only 20 ps. According to him there is surplus in the past years. However, Board has used the surplus to repay the debt burden, the benefit of which was passed on to the consumers. In future revenue deficit is expected due to increase in cost and due to revision of CERC norms. The financial restructuring of the Board is progressing and there is a huge burden of unfunded pension liabilities for which resources have to be pooled. A holistic approach then would be to account the surplus to fund the unfunded liabilities rather than adjusting it against the future deficit. Regarding return on equity, the conversion of equity was part of the energy policy announced by the Government in 1998. The C&AG has denied the equity quoting clause 12, where as Section 66A of the Electricity (Supply) Act 1948 is more relevant. If the equity is not available, the return on capital employed should be allowed as a basis for returns rather than denying the return.

13. Shri. Bose V Jose and Shri. Abdul Nusheer representing domestic and small consumers have objected to the petition. According to them, the T&D loss is not achieved so approved level should be considered. The request of the Board for allowing the incentives shall not be allowed.

Analysis and decision of the Commission

14. The Commission has considered the petition, the objections and the arguments of the Board and its findings on various items of the petition are as follows:

Energy Sales:

15. In the order on ARR&ERC, the Commission had approved energy sales of 13261MU, but the actual energy sale within the State during 2008-09 reported by the Board was 12414MU. The detailed energy sales statement is as follows:

Energy sale for 2008-09 (MU)

Category	ARR Order (MU)	Actuals (MU)
Domestic	6200	5931
Industrial	1065	1015
Commercial & Non Domestic	1610	1502
Irrigation	235	225
Public Lighting	270	294
Sub Total LT	9380	8968
HT I Industrial	1517	1326
HT II Non-Industrial/ Non-Commercial	155	108

HT III Agriculture	10	9
HT IV Commercial	560	579
Sub Total HT	2242	2021
EHT 66KV	340	279
EHT 110 KV	790	687
EHT Railways	115	142
Subtotal EHT	1245	1108
Bulk Supply	394	317
Total	13261	12414

16. According to the Board, except for HT IV Commercial category, there was considerable reduction in the sale of power due to power restrictions. Energy consumption was about 6.4% lower compared to the approved level.

T&D Loss

17. The Board in the petition has stated that the actual energy loss for 2008-09 was 18.83%. The loss figure was arrived at as follows.

Actual Transmission and distribution loss

Sl No.	Particulars	Unit	ARR Order	Actuals
(1)	Net Generation and Power Purchase at KSEB periphery	(MU)	16450	15757
(2)	Surplus energy sale through displacement mode	(MU)	295	463
(3)	Net Energy input into the KSEB system = (1) -(2)	(MU)	16156	15294
(4)	Energy sales within the State	(MU)	13261	12414
(5)	T&D Losses (3)- (4)	(MU)	2895	2879
(6)	T&D Loss as percentage of total energy input	(%)	17.92	18.83

18. The loss reduction target approved by the Commission for the year 2008-09 was 1.63%, same as the reduction proposed by the Board in their ARR petition. In the Appeal filed by the Board, the Hon. Tribunal has considered the question whether the Commission had erred in fixing transmission and distribution loss reduction target. The Board had raised the objection that the loss reduction approved by the Commission was mechanical without any proper study, ignoring the fact that the Commission has directed KSEB from 2005-06 onwards to conduct proper loss studies so as to ascertain segregation of voltage level technical losses and technical and commercial losses. The APTEL had rejected the contention of the Board and found that the loss reduction approved by the

Commission was the same as that proposed by the Board and the Board has not complied with the direction of the Commission on loss studies. Accordingly the loss reduction target approved by the Commission was upheld by the APTEL.

19. As noted above, In the ARR&ERC for 2008-09, the loss reduction target approved by the Commission was 1.63%. However, as in previous years, the actual reduction was lower i.e., only 1.19%. The Board in the truing up petition did raise contentions that from 2001-02 to 2008-09, the cumulative loss reduction achieved by the Board was 11.93% which resulted in saving of power purchase cost to the tune of Rs.790.55 Crore. The Board stated that the investments required for further reduction in losses will be much higher and the effort would be to maintain the loss level already achieved. According to the Board, the loss reduction to the tune of 11.93% within 7 years is a credible achievement, and considering this, the Commission may refrain from imposing any penalty for not achieving the loss target.
20. The Commission has considered the request of the Board. In the previous ARR&ERCs the Commission as far as possible retained the loss targets proposed by the Board itself. The plans and investment requirements proposed in all the years have been approved by the Commission without any modification. The Commission had directed KSEB to undertake the technical studies on segregation of voltage level losses and commercial losses so that reasonableness of estimates of the loss reduction targets can be ascertained. However, till recently, Board did not make any efforts to institute proper studies on loss reduction. The APTEL has also noted this aspect, while upholding the decision of the Commission. The Commission is of the view that it is reasonably clear that the loss reduction targets proposed by the Board and the steps initiated including capital expenditure by the Board have not been properly coupled. The Commission in the previous years has noted that the progress in the capital expenditure programme has not been upto the desired level at all.
21. As per the information given by the Board, of the total Rs.858.52 crore, projects worth Rs.538.28 crore were short-closed under the APDRP Scheme. The Commission is of the view that there is substantial loss incurred on account of non-implementation of these projects such as (a) Direct financial loss on account of loss of grant component and the additional interest incurred on account of additional finance required. (b) non-performance of physical assets created.

22. As shown above, of the total projects worth Rs.858.52 crore, projects worth Rs.532.28 crore were short closed. Short closed projects will not qualify for the grant and the concessional rate of interest. From the above information, the total grant lost was about Rs.135 crore (25% of Rs.538 Crore) and the interest thereof. Further additional interest burden is charged on the consumers for availing additional funds for completion of the projects.
23. As per the achievements given, the Board has completed only the 11 kV feeder metering, It is pertinent to note that about 3500 border and about 16000 Distribution transformer meters were installed by the Board under the scheme. Further 29lakh consumers were indexed, 267 computerised billing systems created and 107 computerised data logging centres installed. This being the situation, the Board could not produce the preliminary estimates of energy losses even on a sample basis. The reason given by the Board for not conducting the energy audit was lack of metering facilities and inaccurate panels in the system. This points out to a substantial loss of investments under the scheme, which needs to be viewed seriously. It is also pertinent to note that of the total 45 lakh faulty meters replaced about 24lakh meters were procured under this scheme. Of the total 9931 km of 11kV lines added between 2003-04 to 2008-09, about 4700km are under the scheme. It is also worth noting that of the total 46510 distribution transformers 34% (15943) are metered in addition to the feeder meters installed as part of the programme. However, these meters are not regularly read or energy audit conducted. Now the Board claims that the meters are inaccurate.
24. The Commission also notes that from 2002-03 to 2005-06 (till the netting off done by the Board), the Board has received Rs.154.63 crore from the Government of Kerala as APDRP Assistance in the form of loan at interest rate varying from 11.5% and 9%, which probably may be transferred by Government of India through the State Government. However, transactions beyond 2006-07 either as adjustment to electricity duty or other adjustments are not reflected in the Accounts. The details need to be ascertained to have a complete view of the situation.
25. The progress under RGGVY scheme is still dismal. This programme aims at providing electricity infrastructure in the rural areas. According to the Board, proposal for an outlay of Rs.438.35 crore was forwarded to Gol and sanction was received for implementing the scheme in 7 districts at an estimated cost of

Rs.221.75 crore. However, the scheme was implemented only in Idukki district for Rs.19.75 crore. Of this, as on 29-1-2010, Rs.16.55 Crore was sanctioned by REC and Rs.10 crore was spent. The performance of the Board for a scheme for which 90% of the project cost is grant is by all parameters disappointing. The Board could submit proposals for only 50% of the districts, which was the lowest percentage in India, which also reveals the under performance in project formulation. On an all India basis, of the Rs.19,723 Crore sanctioned, the Board could **get only 0.2%** and in terms of total number of projects the contribution was one project out of 573 sanctioned projects, though based on the discussion with Govt of Kerala and Govt of India, Govt of India directed to consider the 6 northern schemes in the 2nd phase in the 11th plan with revised cost estimates under RGGVY. However the revised scheme **projects worth Rs.106.71 were only approved by Gol instead of Rs.221.76 Crore allowed earlier. In effect projects worth Rs.95.27 crore was lost in the revised scheme** along with 90% grant amount that would have been available in the first phase. **The Commission will take up the performance of APDRP and RGGVY by the Board as separate proceedings.**

26. The achievement under capital expenditure programme by the Board was only 39% of the total capital expenditure projected as shown below:

Year		Generation	Transmission	Distribution	Other works	Total
2008-09	Proposed	540.52	181.00	419.52	5.05	1,146.09
	Revised	310.37	276.88	456.25	4.10	1,047.60
	Actuals	68.89	153.30	223.16		445.35

The physical achievement provided by the Board is as follows:

Year	2008-09 (Proj)	2008-09 (Actual)
Substations (Nos)		
220kV	2	
110 kV	7	2
66kV		
33kV	32	16
Lines (Km)		
220kV	18.5	0
110 kV	119	17.5

66kV	15.5	0
33kV	375.7	169.27
11 kV lines	3941	3018
LT lines	6500	7636
Distribution Transformers (Nos)	4128	4109

27. A comparison of Loss reduction targets proposed by the Board, approved by the Commission and the actuals are given below.

Comparison of loss reduction targets and achievement by the Board

Year	Proposed in the ARR (%)	Approved by the Commission (%)	Actual achieved by KSEB (%)
2004-05	2.33	3.00	2.50
2005-06	2.72	2.72	1.99
2006-07	1.76	2.50	1.50
2007-08	1.83	2.00	1.45
2008-09	1.63	1.63	1.19

28. The figures speak the performance of the Board. The underachievement of loss targets is to be viewed in relation to the performance of the Board in capital expenditure and other measures. The above analysis reveals that the Board could not achieve the targets fixed by the Commission as well as its own target. The main reason may be that the proposed loss targets are fixed in isolation of the works planned. There is no proof of technical studies to support the loss reduction proposal and the planned capital expenditure.

29. Based on the principle followed by the Commission in the previous orders and also in the light of the order of APTEL in 5 of 2009, the loss reduction target for the year 2008-09 shall be 1.63%, which is the approved target for 2008-09. Accordingly, the loss target for 2008-09 would have been 18.39% (Actual T&D loss for 2007-08 less loss target i.e., 20.02%-1.63%).

	2008-09		
	ARR Order	Actual as per Audited accounts	Allowed in True UP
T&D Loss	17.92%	18.83%	18.39%

30. As shown in the table below, at an allowed T&D loss of 18.39%, for meeting the internal energy sale of 12414MU, the energy requirement would be 15212MU. As per the data furnished by KSEB, at the interface point 15294MU was used, which is due to the higher loss of 18.83%. Hence the excess energy purchase of 82MU (15294MU-15212MU) shall be disallowed from power purchase. The cost of additional energy purchase due to non achievement of T&D loss to the tune 82MU is to be deducted from the power purchase cost, as has been done in the previous years in line with the Orders of APTEL

T&D loss allowed for 2008-09 after Truing up

	ARR Order	Actual as per Audited accounts	True up
Net available/required at interface (MU)	16156	15294	15212
Sale within the state (MU)	13261	12414	12414
T&D loss (%)	17.92%	18.83%	18.39%
Excess power purchase (MU)			82

Generation and Power purchase

31. The Commission in the ARR order for 2008-09 had approved hydel generation of 7378MU. The actual hydel generation for 2008-09 was only 5802MU. The difference was met through increased generation from liquid fuel stations and purchase from traders and exchange. The Commission had approved 408MU from the diesel stations at a cost of Rs.206.43 crore. The Board had however, generated 637MU from these stations at a cost of Rs.414.94 crore. KSEB also sold 20MU of energy during off peak season from these stations for Rs.19.49 crore.

32. In 2008-09 as against the projections of KSEB, the central generating stations, Kaiga Stage II, NLC expansion II, and Koodamkulam Nuclear Plant did not commence commercial operation. Further, the coal availability for CGS was also severely affected coupled with the increases in international crude oil prices. The Central stations used imported coal, which increased the variable costs from these plants. In all as against the anticipated 7817MU, the total available energy was 7238MU. From RGCCPP 950MU was scheduled and 111 MU was sold through traders. From BSES, 847MU was scheduled and 259MU was sold through traders.

33. The Commission for 2008-09 had approved the transmission charges for the CTU as Rs.199.65 Crore based on the projections of KSEB. The actual transmission charges paid by the Board was Rs.214.47 Crore. Since, the Board has to pay the charges as per the rates ordered by CERC, the Commission has considered the actual transmission charges paid for the truing up. A comparison of approved and actual power purchase details are given below:

Approved and actual Generation and Power purchase cost 2008-09

	ARR Approval		Actuals	
	Quantity (MU)	Amount (Rs. Cr)	Quantity (MU)	Amount (Rs. Cr)
BDPP	129	66.72	209	138.02
KDPP	279	139.71	428	276.92
Sub Total	408	206.43	637	414.94
Thalcher - II	2909	419.20	2982	463.26
NLC-II - Stage-1	400	75.20	330	61.20
NTPC- RSTPS (including new)	2107	350.80	2376	459.99
NLCII - Stage II	572	101.30	503	78.96
NLC – Exp	433	97.40	465	99.83
MAPS	137	28.10	63	11.91
Kaiga	228	70.20	202	59.43
Kaiga- Stage-II	341	102.10		
NLC- Exp- stage-II	109	23.00		
Kudamkulam	190	61.60		
UI	392	97.90	318	152.14
Sub Total	7818	1426.80	7238	1386.72
IPPs				
KPCL	54	40.19	97	80.86
BSES	28	114.23	847	642.32
Kayamkulam	1094	827.05	949	734.19
Wind			35	11.06
Traders			462	347.61
Sub Total	1177	981.47	2391	1816.04
Transmission Charges				
Eastern Region		-		0.31
Southern Region		163.55		184.99
Kayamkulam		32.30		29.17
Sub total		195.85		214.47
Total	9403	2810.55	10266	3832.17

34. As shown in para above, the cost of excess energy due to non-achievement of T&D loss targets should be disallowed. As per the methodology adopted by the APTEL, additional cost of purchase due to non-achievement of the loss target shall be deducted from the power purchase cost. Accordingly the average power purchase cost is worked out as follows:

Average power purchase cost for 2008-09

Sources	Energy (MU)	Cost (Rs.Crore)
Thalcher – II	2982	463.26
NLC-II - Stage-1	330	61.20
NTPC- RSTPS	2376	459.99
NLCII - Stage II	503	78.96
NLC – Exp	465	99.83
MAPS	63	11.91
Kaiga	202	59.43
KPCL	97	80.86
BSES	847	642.32
Kayamkulam	949	734.19
Wind	35	11.06
Traders	462	347.61
Total	9311	3050.62
Average cost of power (Rs./kWh)		3.28

35. The average power purchase cost works out to Rs.3.28/kWh. Hence the total disallowance of power purchase cost as per the methodology approved by Hon. APTEL for **82MU is Rs.26.89 Crore.**

36. The total generation and power purchase cost allowed for truing up would be Rs.3805.30 Crore as against the Rs.3832.17 Crore as per the actual accounts as shown below.

Power purchase and generation cost allowed for 2008-09

	2008-09(Rs. Crore)		
	ARR Order	Actual	Allowed in True UP
Internal Generation Cost	206.43	414.94	414.94
Power Purchase Cost	2,408.27	3,202.76	3,202.76
Less Power purchase cost disallowed			(26.87)
Transmission Charges	195.85	214.47	214.47
Total Generation & Power Purchase Cost	2,810.55	3,832.17	3,805.30

Interest and finance charges

37. The actual interest and financing charges as per the provisional accounts for 2008-09 was Rs.339.60 Crore as against Rs. 365.60 Crore approved by the Commission as given below:

Actual interest and financing charges for 2008-09

Sl.No	Particulars	ARR Order (Rs. Cr)	Actual (Rs. Cr)
I	Interest on Loans and Bonds		
(a)	Interest on existing loans	166.14	151.31
(b)	Interest on additional borrowing	19.55	
(c)	Interest on Government loans	50.23	
(d)	Total interest on capital liabilities	235.92	151.31
II	Interest on Security Deposit	42.5	50.50
III	Other Interest and Finance Charges		
	a) Interest on borrowings for working capital	5.31	22.15
	b) Discount to consumers for timely payment	4.25	1.70
	c) Rebate allowed for prompt payment to traders		8.76
	c) Interest on PF	60.7	37.92
	d) Other Interest charges	0.01	
	e) Cost of raising finance	1.00	0.03
	f) Guarantee Commission	7.79	6.86
	g) Bank Charges	8.12	60.35
	Total of III	87.18	137.78
	Grand Total (I+II+III)	365.60	339.60

38. The additional borrowing approved was Rs. 587.34 crore, where as the actual borrowing was only Rs.94.49 crore (including Rs.9.34 crore towards exchange rate variation). The total repayment was Rs.850 Crore as against the Rs.503.27 crore proposed in the ARR. The total outstanding liabilities as on 31-3-2009 is reported as Rs.1100.37 crore. Board has retained the electricity duty payable to the Government to the tune of Rs.302.16 crore against the subsidy receivable from the Government. The Board has reported that the netting off of dues from the Government is yet to be finalised even after several discussions with the Government and with the consensus of the Government, the Board has been retaining the electricity duty with the Board. The Chief Electrical Inspector has demanded interest @18% for the electricity duty retained by the Government.

However, the Board has provided 9% interest on the electricity duty retained with the Board. The Board in their petition has stated that had the Board paid electricity duty to the Government, the additional financial requirements would have to be met through borrowing for which interest charges would be payable. Hence Board requested to allow the interest charged on electricity duty. Further the Board contented that, till the issue is settled, there is no meaning in repaying the duty collected. The Board also did not claim the interest on Government loans since the loans and interest accumulated have been netted off in the accounts. The Board in its clarifications to the queries of the Commission stated that the reason for lower interest charges are due to retaining the electricity duty amounting to Rs.293.26 crore in 2007-08 and Rs.302.16 crore in 2008-09; and sale of surplus energy outside the state fetched Rs.383.93 crore for 2007-08 and Rs.49.63 crore in 2008-09. Further the capital investment was less than the ambitious targets projected in the ARR.

39. As part of other interest charges, the interest on security deposits as per the accounts is Rs.50.51 Crore as against Rs.42.50 crore approved in the ARR. The working capital was mostly arranged through overdrafts and short term borrowing of which the actual interest booked was Rs.22.15 crore as against the approved level of Rs.5.31 crore. The Board has given the details of overdraft availed on a monthly basis. The discount allowed on advance payment of electricity charges by consumers was Rs.1.70 crore and the rebate on prompt payment allowed for traders on export of energy at the rate of 2% was booked as Rs.8.76 crore. The guarantee commission to the Government is booked at Rs.6.86 crore. Another major item is the interest on GPF, which was approved at Rs.60.70 crore. Though higher contribution was anticipated towards GPF on account of arrears of pay revision and DA with retrospective effect. However the withdrawals during 2007-08 and 2008-09 were about Rs.305 crore and hence the actual interest on PF was lower than the approved levels. Further, in line with the Government rules, time limit for availing non-refundable advance was reduced from 15 years to 10 years with effect from 18-1-2008, which has contributed to higher withdrawals. Hence the actual interest on GPF is only Rs.37.92 crore.

40. The Commission has considered the claims of the Board on different heads of interest and financing charges. The Commission has approved the interest charges on a provisional basis without going into the merits since the ambiguity of netting off proposal still persists. The Board has appealed against the Orders of the Commission on interest on additional borrowing. The Commission has

allowed Rs.19.55 crore against the proposed Rs.61.49 crore. The Hon. APTEL has upheld the decision of the Commission. The actual borrowing in 2008-09 was limited to Rs.94.49 Crore only and the interest on existing loans was Rs.151.31 crore against Rs.185.69 crore (excluding interest on government loans) approved by the Commission. The difference is on account of the borrowing resorted to by the Board. Accordingly, the Commission allows the interest on existing loans as claimed by the Board in the truing up for 2008-09 (Rs.151.31 Crore).

41. The Commission has sought the details of actual disbursement of interest on security deposits to the consumers. As per the details provided by the Board vide dated 26-5-2011, the actual interest disbursed for the year 2008-09 is Rs.29.19 crore only. Hence, the Commission allows Rs. 29.19 crore under this head.

42. The Board has given the details of interest on short term borrowing (overdraft) taken from different banks. The increase in borrowing was resorted to for meeting the higher expenses on account of increased power purchase from traders and other sources. The Commission allows the interest on working capital booked by the Board (Rs.22.15 crore) for 2008-09. The Board as in the previous years claimed that the rebate allowed at the rate of 2% to traders for prompt payment is as per CERC norms. The Commission in the truing up order for 2007-08 has examined the claim and found that there is no such provision in the CERC regulations which permits rebate for prompt payment to traders for export of energy. The Commission is of the view that the claim can be allowed at actuals only if it is a condition made for prompt payment in a commercial contract. The Commission notes that the payment is not yet made. Accordingly, the same is not included in the approved truing up. It will be allowed as and when it is paid. The Commission further points out that the inappropriateness of booking the rebate allowed under Interest and Financing charges. **The Board shall now on include the item under miscellaneous expenses or other appropriate head.** The Commission also directed KSEB to look for other options on reducing the prompt payment rebate. Rs.1.70 crore booked under the rebate allowed to consumers for advance payment of electricity bills is also allowed in the truing up.

43. The Board has booked Rs.6.86 crore as guarantee Commission. The Commission had sought the details of actual payment of the claims booked and passed on to the consumers. In the reply dated 22-11-2010, the Board stated

that loans in which guarantee Commission is payable as on 31-3-2009 is Rs.391.65 crore against Rs.635.45 crore as on 31-3-2008. The actual guarantee Commission payable to the Government in 2008-09 was Rs.5.06 crore. Till 2008-09 the total guarantee commission booked against the Government was Rs.131.59 crore, of which only Rs.63.31 crore was paid/adjusted with the Government. Hence, it is noted that though the Board is regularly claiming the amount but is kept with the Board without transferring it to the Government.

44. As against Rs.8.12 crore towards bank charges approved, the Board has booked Rs.69.35 crore. Of this, the major item was interest on electricity duty of Rs.50.25 crore claimed by the Chief Electrical Inspector, booked at the rate of 9%. The Board had given the reason that the electricity duty payable to the Government was retained with the Board since there is a substantial sum receivable from the Board. According to the Board, there is no meaning in the timely payment of the duty to the Government. The Board also justified the interest charged on electricity duty payable to the Government. The Commission is not in a position to accept the arguments of the Board in this regard. The Board claims that duty is not paid to the Government because a substantial amount is due from Government. The duty is retained in lieu of this. In such situation, the justification of the Board if additional borrowing is resorted to, interest would have been payable is not maintainable if additional borrowing is necessitated due to non-payment of dues by the Government, for which ordinary consumers cannot be made liable. Secondly, The Board has retained the electricity duty collected from the consumers without transferring it to the Government. Hence the Commission is not in a position to allow interest on electricity duty mainly on the ground that it is a reciprocal arrangement between the Board and the Government for which consumers cannot be penalised. If the Government insist on interest on account of electricity duty, the Board may be in a position to make a counter claim of interest on payments receivable from Government.

45. Based on the above the total interest charges allowed for truing up is as follows.

Interest and financing charges allowed in the Truing up for 2008-09

Sl.No	Particulars	ARR Order (Rs. Cr)	Actual (Rs. Cr)	Truing up (Rs. Cr)
I	Interest on Loans and Bonds during 2008-09			
(a)	Interest on existing loans	166.14	151.31	151.31
(b)	Interest for additional borrowing	19.55		
(c)	Interest on Government loans	50.23		
(d)	Total interest on capital liabilities	235.92	151.31	151.31
II	Interest on Security Deposit	42.50	50.50	29.19
III	Other Interest and Finance Charges			
	a) Interest on borrowings for working capital	5.31	22.15	22.15
	b) Discount to consumers for timely payment of Charges	4.25	1.70	1.70
	c) Rebate allowed for prompt payment to traders (NVVN etc)		8.76	-
	c) Interest on PF	60.70	37.92	37.92
	d) Other Interest charges	0.01	-	-
	e) Cost of raising finance	1.00	0.03	0.03
	f) Guarantee Commission	7.79	6.86	6.86
	g) Bank Charges	8.12	60.35	10.10
	Total of III	87.18	137.77	87.52
	Grand Total (I+II+III)	365.60	339.58	259.26

Depreciation

46. The Board has claimed depreciation of Rs.434.74 Crore in the accounts as per the ESAA Rules 1985. The Board has given detailed arguments in this regard. However, the Commission is of the view that further deliberation on the subject is not necessary. The depreciation is allowed as per the provisions of the Act and Tariff Policy. The approach adopted by the Commission was ratified by the Appellate Tribunal for Electricity in the Order dated 18-8-2010 in Appeal No.5 of 2009. Hence the Commission is not in a position to deviate from the stand taken in the earlier orders. In reply to the clarification sought by the Commission on calculation of depreciation as per the CERC norms, the Board informed that an Appeal on the orders of the Appellate Tribunal is filed before the Hon. Supreme Court and any decision on the matters pending before the court shall be subject to the final decision of the Apex Court. The Commission notes that the Hon. Supreme Court while admitting the Board's petition has specifically mentioned that there is no stay on the Order.

47. As per the calculations provided by KSEB on CERC norms, the depreciation is Rs.291.96 crore and the Commission accepts the same.

Employee Cost:

48. The Commission has approved an employee cost of Rs.1136.86 crore, against which the actual as per the provisional accounts is Rs.1255.19 crore as shown below:

Actual employee cost booked for 2008-09

SI No	Particulars	2007-08	2008-2009	
		Actuals	KSERC Approval	Actuals
1	Salaries	348.41	497.12	429.81
2	DA	97.90	159.08	235.42
3	Overtime, other allowances, Bonus.	27.75	28.65	31.59
4	Earned Leave encashment	36.65	36.20	57.58
5	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,	4.16	4.21	4.97
6	Terminal benefits (including terminal Surrender)	390.01	411.60	495.82
	Grand total	904.88	1,136.86	1,255.19

49. The total employee cost is Rs.118.33 crore more than the approved level. According to the Board the major increase was on account of increase in DA. In the ARR petition, the Board considered DA due upto July 2007, where as in 2008-09 two instalments of DA were given at the rate of 6% and 7% respectively from 1/2008 and 7/2008. In addition, 10% DA due from 1/2009 was also accounted. The Commission has sought the details of employee cost including provisions made by KSEB for the year 2008-09. As per the information given by KSEB total provisions booked are as follows:

Employee cost provisions included for 2007-08 and 2008-09

Categories	2007-08 (Rs. Crore)	2008-09 (Rs. Crore)
Basic pay	348.41	378.70
DA	74.80	173.17
Sub total	423.21	551.87
Overtime/holiday wages	0.06	0.08
Other allowances (HRA etc.,)	24.84	27.33

Bonus	2.85	4.18
Medical reimbursement	2.87	3.55
Earned Leave encashment	36.65	57.58
Payment under workmen compensation Act	0.59	0.46
Leave salary & pension contribution	0.15	0.17
Staff welfare expenses	0.55	0.79
Sub Total Allowances	68.56	94.14
Monthly pension	291.81	378.08
Gratuity	25.08	22.82
Commutation	24.45	25.02
Medical allowance	0.90	1.53
Special festival allowance	0.67	0.62
Sub Total Terminal benefits	342.91	428.07
Provision for pay revision		51.10
Provision for DA	23.10	31.00
Provision for DA for pay revision		31.25
Provision for pension revision	30.00	43.75
Provision for DR revision	17.10	24.00
Total provisions	70.20	181.10
Total Employee costs	904.88	1,255.18

50. In 2008-09, the Board has made provision to the tune of Rs.181 crore. provisions are made for DA and pay/pension revision. The Commission has sought the details of provisions account and its disbursement. The Board has stated that in 2007-08 and 2008-09 the total provisions made was Rs.70.20 crore and Rs.181.10 crore. But the actual disbursement/reversals was Rs.169.66 crore and Rs.111.30 crore respectively. The Commission also notes that the Board has reported that of the total Rs.850.80 crore under staff related liabilities as on 31-3-2009, Rs.830.91 crore was under salaries and bonus etc., payable. **Such high level of receivable will be examined in the subsequent truing up exercise.**

51. The increase in pensions is due to the pension revision effected during the year. There has been an increase of about 30% in the pension amount over the previous year. The terminal benefits is now 40% of the total employee costs. Such alarming proportion of unfunded liabilities cannot be sustainably met out of tariffs. Though the Commission insisted on creation of pension funds, there has been no progress so far except the study by a Consultant. The employee cost continues to be one of the major items in the cost commanding 21%, next to

power purchase. As per the accounts of the Board, employee cost is about 97 paise per unit.

52. According to the Board all claims other than earned leave encashment, medical allowances are below the approved levels. Since Earned Leave is a benefit given to the employees, it cannot be denied. The Commission after considering the matter in details allows the employee costs as given below:

Employee cost allowed in the Truing up for 2008-09

SI No	Particulars	2008-09 (Rs. Crore)		
		ARR Order	Actuals	Truing up
1	Salaries	497.12	429.81	429.81
2	DA	159.08	235.42	235.42
3	Overtime, other allowances, Bonus.	28.65	31.59	31.59
4	Earned Leave encashment	36.20	57.58	57.58
5	Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,	4.21	4.97	4.97
6	Terminal benefits (including terminal Surrender)	411.60	495.82	495.82
	Grand total	1,136.86	1,255.19	1,255.19

Repair and maintenance Expenses

53. The repair and maintenance expenses as per the audited accounts is Rs.138.08 crore, which is higher than Rs.7.75 crore approved by the Commission and nearly 20% higher than the previous year. Interestingly, the Board did not advance any claim that the R&M expenses are linked to GFA, but stated that after the major accident in Panniar Power Station in November 2007, KSEB has been giving due importance to R&M works, which resulted in increase in expenses. A comparison of R&M expenses for 2007-08 and 2008-09 is given below.

R&M expenses as percentage of GFA

Particulars	2007-2008			2008-09		
	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA	Gross Block at the beginning (Rs.Cr)	R&M Expense (Rs.Cr)	% of GFA
Land & Rights	253.76	-	0.0%	256.67	-	0.0%
Buildings	466.61	3.16	0.7%	487.09	3.69	0.8%
Hydraulic Works	856.46	1.24	0.1%	886.94	1.79	0.2%
Other Civil Works	252.23	3.93	1.6%	272.94	4.99	1.8%
Plant and Machinery	3,138.48	29.20	0.9%	3,256.54	41.12	1.3%
Lines, Cable Network, etc.	3,193.90	73.68	2.3%	3,466.86	81.29	2.3%
Vehicles	11.90	4.57	38.4%	11.91	5.18	43.5%
Furniture and Fixtures	12.68	0.08	0.6%	13.17	0.22	1.7%
Office Equipments	30.83	0.40	1.3%	32.43	0.52	1.6%
Total	8,216.85	116.26	1.4%	8,684.55	138.80	1.6%

54. According to the Board, of the total R&M expenses 62.85% is towards distribution and 26.4% for transmission and balance for generation.

Particulars	2007-08	2008-09	%of increase
	(Rs. Cr)	(Rs. Cr)	
Generation	7.0	14.9	112.5
Transmission	29.8	36.7	23.2
Distribution	79.5	87.2	9.7
Overall	116.3	138.8	19.4

55. The Commission analysed the claims of the Board. Over the years, the Commission is giving similar comments on the R&M expenses incurred by the Board. The Commission generally allows the R&M expense projections of KSEB. Usually, the projections are made with necessary increments over previous year. However, the actuals will be always higher than the approved levels and invariably 10 to 20% above the previous year. The Board usually links the R&M expenses with GFA. However, these arguments become unjustifiable since, over the years it can be noticed that the ratio between R&M expenses and GFA is not constant as shown below:

Year	R&M expense as % of GFA
2004-05	1.14%
2005-06	1.33%
2006-07	1.44%
2007-08	1.41%
2008-09	1.60%

56. The Board as part of clarifications stated that ARR is a budgetary document prepared five to six months in advance and the R&M expenses booked in the audited accounts are actual expenses made by the field units. As per the delegation of powers the field officers have the freedom to incur reasonable expenses for maintaining the assets. It is difficult to estimate the exact amount of R&M expenses in advance or stick to the amount approved. The Commission also sought the split up details of R&M expenses. The Board also made following points.

- i) The labour escalation of the State is about 10% which is much higher than the national level
- ii) Material cost escalation is also much higher than the inflation level
- iii) New assets are being added every year.

According to the Board, considering the difficulties in limiting the R&M expenses in advance, CERC and other State Commissions are allowing R&M expenses on normative basis for generation and transmission utilities. The Commission sought the justification for increase in R&M expenses in terms of improvements in system availability and better reliability indices etc., In reply the Board stated that the reliability index for the 11 kV feeders in Thiruvananthapuram and Kochi for 2008-09 is 99.95% and 98.86% respectively. For transmission, 220kV, 110kV and 66kV respectively feeder availability ranges between 97.16 to 99.39, 97.06 to 99.05 and 97.09 to 99.14%. Similarly the substation availability for different voltage levels and generation stations are also provided.

57. The Commission has made an analysis of the claims of the Board regarding R&M expenses in the truing up order for 2007-08. The simple reason attributed to the uncontrollable increase is the lack of control mechanisms in the Board. Proper budgeting of R&M expenses taking into account preventive and need based maintenance and strict budgetary control needs to be exercised. This trend reveals the limitation of cost plus regulation, where there is a tendency to undermine cost control since all actual expenses are ultimately passed on to the

consumers. The present trend calls for immediate institution of incentive-disincentive mechanism for cost control. All the above point out that the unpredictability of R&M expenses as claimed by the Board might be due to lack of preventive maintenance and lack of proper control systems. The Commission feels that such practices are not in the interest of consumers. The Commission is of the opinion that the Board shall engage preferably an external consultant to review and study the repair and maintenance practice being followed in the functional areas for its necessity, adequacy and improvements and to suggest best practices and appropriate systems to be adopted for cost control.

58. With these observations, the Commission allows the R&M expenses for the year 2007-08 as per the audited accounts. The Commission in future may not be in a position to allow the excess in R&M over the approved level without sufficient reasons.

R&M Expenses allowed in Truing up

	2008-09 (Rs. Crore)		
	ARR Order	Actual as per Audited accounts	Allowed in True UP
R&M Expenses	131.05	138.8	138.8

Administration and General Expenses

59. The A&G expenses including electricity duty under section 3(1), is Rs.135.46 Crore for the year 2008-09. The A&G expenses net of electricity duty is Rs.60.99 Crore against the approved level of Rs.63.61 crore. The details are given below:

Particulars	2006-07	2007-08	2008-2009	
	Actual (Rs. Crore)	Actual (Rs. Crore)	ARR order (Rs. Crore)	Actuals (Rs. Crore)
Rent, Rates and Taxes	3.65	3.45	4.05	3.89
Insurance	0.86	0.60	1.10	0.50
Telephone/telex charges, etc.	3.41	3.60	3.97	3.93
Internet and related charges	0.01	0.01	0.06	0.01
Legal charges	4.11	2.42	9.18	1.75
Audit fees	1.85	2.27	1.95	2.25
Consultancy charges& Technical fees	0.21	0.24	0.18	0.46
Other Professional charges/Training	0.21	0.21	0.38	0.11

Conveyance and vehicle hire charges	11.57	11.21	14.31	13.44
Sub Total (Total of 1 to 9)	25.88	24.01	35.18	26.34
OTHER EXPENSES				
a) Fess and subscriptions	0.24	0.48	0.26	0.25
b) Printing & Stationary	3.60	3.91	3.94	7.11
c) Advertisements	0.66	1.22	0.68	3.48
e) Contributions/Donations	1.00	0.78	1.50	0.33
f) Electricity Charges	3.27	3.38	3.40	3.45
g) Water charges	0.10	0.11	0.15	0.27
h) Entertainment	0.47	0.59	0.28	1.09
i) Miscellaneous expenses	4.79	5.78	8.04	7.57
Total of OTHER EXPENSES	14.13	16.25	18.25	23.55
Freight	6.61	5.30	7.10	6.98
Other purchase related expenses	2.87	2.25	3.08	4.12
Total	49.49	47.81	63.61	60.99

60. The Commission verified the difference between actual and approved level. Though the A&G expenses are lower than the approved level the increase over the previous year is about 28% which is much high by any standards. Major increase is under printing and stationery and the Board has explained that it is due to bulk printing of computerised billing stationery. Increase in advertisement charges is on account of 'save energy campaign' initiated by the Board. Since the variations are minor compared to the approved level, the Commission allows the A&G expense at actuals for the purpose of truing up.

	2008-09 (Rs. Crore)		
	ARR Order	Actual	Allowed in True UP
A&G expenses other than Electricity duty	63.61	60.99	60.99

Other expenses

61. The other expenses include 'Other debits' and 'Net prior period charges'. The Board has booked Rs.366.98 Crore under Other debits, against the approved level of Rs.50 Crore. The provision for bad and doubtful expenses comprises of Rs.47.08 crore on account of withdrawal of prior period credits and Rs.317.39 crore as provision for debtors for the year 2008-09 based on an audit observation

of the C&AG during the previous years. The reason for providing Rs.317.39 crore is as follows.

Provision for bad debts claimed by the Board

Age of Debtors	Amount Due	Rate (%)	Provision
More than 5 years	804.9	75	603.68
Between 3 to 5 years	318.71	40	127.48
Between 1 to 3 years	336.37	15	50.46
Between 6 months and 1 years	138.8	5	6.94
Less than 6 months	122.66	0	0
Others	7.53	10	0.75
Total	1728.97		789.31
Already provided			471.92
Balance to be provided			317.39

62. According to the Board, C&AG in its audit observation for the year 2005-06 has observed insufficient provision for bad and doubtful debts and recommended 100% provision for debts ageing more than 5 years. However, the Board has restricted the provision to 75%. In addition, the miscellaneous losses of Rs.2.38 crore is also provided to cover the compensation for injuries and death for staff and outsiders.

63. The Board has stated that Rs.47.08 crore is provided for withdrawal of prior period credits. The Commission has called for the details under withdrawal of credit. In the reply dated 22-11-2010, the Board has given the detailed split up of Rs.47.08 Crore. Of this the major item was withdrawal of excess demand of duty as per the order of Special Officer Revenue for M/s Indian Aluminium Company limited. The Commission is of the opinion that the item may not qualify for passing on to the ARR since, excess duty demanded is to be adjusted against the duty payable to the Government. Accordingly, the claim of Rs.33.51 crore is rejected. Other items under this head mostly withdrawal of credits of consumers, are allowed.

64. The Commission in its order on truing up for 2006-07 had in detail examined the claims of KSEB on the provision for bad debts in the light of the amount written off and the provisions under EASSR 1985 and rejected the claim. The Board has never followed a consistent approach in this regards as shown below:

Age of debtors	2005-06	2006-07	2008-09
More than 5 years	25%	50%	75%
3 to 5 years	20%	30%	40%
1 to 3 years	10%	15%	15%
6 months to 1 year	5%	5%	5%
less than 6 months	5%	0%	0%

The Board in their petition has given the following table which supports the above observation.

Provision for bad debts booked over the years

Year	Total Debtors at the beginning of the year	Provision for bad and doubtful debts			
		Required up to the year	Provided upto beginning of the year	Additional provision made during the year	Bad and doubtful debts as (%) of the outstanding debts
1999-00	690.76	23.32	17.16	6.16	0.89
2000-01	806.71	32.24	23.32	8.92	1.11
2001-02	806.71	40.34	32.24	8.10	1.00
2002-03	1,032.20	51.91	40.34	11.57	1.11
2003-04	1,225.27	61.26	51.91	9.35	0.76
2004-05	1,491.04	74.58	61.26	13.32	0.89
2005-06	1,605.94	195.85	74.58	121.27	7.55
2006-07	1,778.76	471.38	195.85	275.53	15.49
2007-08	1,964.45	471.92	471.38	0.54	0.03
2008-09	1,728.97	789.31	471.92	317.39	18.36

65. As a percentage of outstanding receivables, bad and doubtful debts provided for write off varies from 0.03% to 18.36% in 2008-09. Such variations raise the question of inconsistency of the licensee in their policy of bad debt provisioning. Writing off bad debt is an accounting requirement to restrain entities from overbooking their profits. Generally entities follow a consistent approach in writing off bad debts. There are clear provisions in ESAAR on write off. The issue the Commission has to consider is the impact of such write off on the tariff. The burden of provisions of bad debt much higher than usually expected in similar business cannot be allowed to be recovered from consumers through tariff. In a regime where the actual costs and surplus are passed on, the licensee has a duty to make unrelenting efforts to collect its dues and it should not escape

from such a responsibility with a sizable bad debt provision. There are clear provisions for write off of uncollectable dues and the licensee has not resorted to write off. The Commission feels that, it is the amount that is actually written off should be admitted and passed on. Otherwise the licensee may reduce its effort for proper recovery. Considering these factors, the arbitrariness of the provisions and the reasons given in earlier orders, the Commission is not convinced of the requirements of such huge provision for bad debts. However, the Commission admits Rs.51.86 crore which was approved in the ARR Order for truing up for 2008-09. This practice will be reviewed next year. Accordingly, the other debits allowed for the purpose of truing up is as follows:

Other debits allowed in the truing up

Particulars	2008-09		
	ARR Order	Actuals	True up
Research and Development Expenses	0.17	0.13	0.13
Sale of Stores Account	-	-	-
Withdrawal of credits		47.08	13.57
Provision for Bad and Doubtful debts	51.86	317.39	
Miscellaneous Losses and write-offs		2.38	51.86
Total	52.03	366.98	65.56

66. The Board has booked Rs.630.69 crore as prior period income, of which Rs.524 crore is towards write back of the dues from Kerala Water Authority, which was written off in 2007-08. Total prior period expenses is Rs.102 crore, which includes Rs.49.44 crore towards short provision of power purchase and Rs.50.99 crore towards interest and finance charges. The net prior period income is Rs.527.94 crore as per the accounts.

67. KSEB in its letter dated 18-10-2010 informed the Commission that Government has declined the request of KSEB for reimbursement of the amount adjusted against the dues from KWA, since the settlement was under One time settlement scheme on mutually agreed terms. The Government informed that there is no case for claiming the balance amount as subsidy. The whole episode of settling the dues of KWA was taken off by the Board and KWA in consultation with the Government and no approval was sought for settling such a huge claim. After receiving the letter, the Commission sought details from KSEB vide letter dated 11-11-10. The reply was provided by KSEB on 3-2-2011. In its reply, the Board has stated that the Government in its order dated 26-9-2008 had made 'one time

settlement' of dues of power charges by KWA to KSEB. Accordingly KSEB vide its order dated 19-9-2009 adopted the Government Order, and decided to request the Government to reimburse the balance arrears due from KWA. The Board further in its order dated 25-09-2009 has removed the arrears outstanding against KWA as on 31-3-2008 from the books of accounts. The KWA had paid Rs.250 crore on 31-3-2009. The amount written off as part of OTS is as given below:

Dues accounted as interest and principal as on 31-3-2008	- Rs.346.56 Crore
Electricity duty as on 31-3-2008	- Rs.28.94 crore
Surcharge and other miscellaneous items	- Rs.157.56 crore
Total	- Rs.533.06 crore

The amount remitted by KWA was adjusted as shown below:

Current charges	- Rs.103.34 Crore
Interest	- Rs. 135.45 crore
Surcharge	- Rs.2.24 crore
Electricity Duty	- Rs.8.97 crore
Total	- Rs.250 crore

68. The Board also showed the level of arrears of KWA as on 31-3-2010 after the OTS as Rs.71.18 Crore. The Commission has considered the matter carefully. The entire scheme of events relating to writing off of the dues of KWA was transacted between the Government and the Board. No approval of the Commission was sought by the Board or the Government in this regard. As per the provisions of the Act, the Government can provide relief to any consumer or class of consumers on the tariff determined by the Commission under Section 65 of the Act. The Commission has treated this transaction purely as per Section 65 of the Act. The Board may take immediate steps to take up the matter with the Government for realising the subsidy extended to KWA. If the Government is not releasing the subsidy within reasonable time, the demand written off of KWA may be restored and shown against KWA.

69. The Commission sought the details of prior period expenses and income and the Board has provided the same in their letter dated 22-11-2010. As per the details given by the Board, the interest and financing charges under prior period include Rs.50.25 Crore towards interest on electricity duty and Rs.0.74 crore towards excess cost booked under deferred cost. The Commission has already stated its

position on the interest on non-payment of electricity duty. Hence the claim is declined. The prior period credit/charges accordingly allowed for truing up is as shown below:

Net prior period expenses allowed in truing up

	2008-09 (Rs. Crore)		
	ARR Order	Actuals	True up
Prior Period Income	0	630.69	106.69
Prior Period Charges	0	102.75	102.75
Less Interest on Electricity duty			(50.25)
			52.50
Net Prior period income	0	527.94	54.19

70. Total admissible amount under Other Expenses are as follows:

	2008-09 (Rs. crore)		
	ARR Order	Actuals	True up
Other expenses	52.03	(160.95)	11.37

Expense capitalised

71. The actual expenses capitalised as per the audited accounts is Rs.70.75 Crore and interest capitalised is Rs.22.71 Crore. As per the principle adopted in the first true up order, the Commission allows the provision as per the audited accounts.

Return on equity

72. The Board has stated that Rs.217.42 Crore has been provided as return on equity at the rate of 14%. According to the Board, all power utilities in the country are eligible to earn a reasonable return either on capital employed or on equity. The Board claimed statutory surplus of 3% as per Electricity (Supply) Act 1948 till 2004-05. After the enactment of Electricity Act 2003, the State Government is not providing budgetary support to the Board and the Board is accordingly claiming 14% return on Government's equity of Rs.1553 crore. The Board also mentioned a letter from Secretary, Ministry of Power, Government of India dated 8-10-2009 expressing concern for not claiming permissible return by the State Utilities. In the ARR&ERC for 2008-09, the Commission had allowed the return on equity claimed by the Board.

73. The objectors have stated that as per the C&AG report and Government Order, there is no equity in the accounts of Electricity Board. They requested the Commission to go into the root of this issue since this is an issue of serious concern.

74. In the truing up Order for 2006-07 and the ARR&ERC Order for 2010-11, the Commission had in detail deliberated on this issue. The Commission has not denied the eligible surplus to KSEB. In this context, the Commission in the ARR&ERC Order for 2010-11 mentioned as follows:

“However, the Commission is committed to provide enabling environment for attracting funds in the sector. Hence, as an interim measure, the Commission allows a notional return of Rs.100 Crore to Board. This provision will be treated as provisional and will be refixed on the basis of real equity or what can be treated as equity for the purpose calculating return on investment, which will be submitted by the Board on the basis of a study by a reputed agency with approval of the Commission.”

75. The Board vide letter dated 20-12-2010, has forwarded a Government order amending the G.O.(Ms) NO.25/02/PD dated 9-10-2002. The Order was apparently issued considering the request of KSEB to re-consider the Government Order (Ms).No.35/10/PD dated 13-12-2010. The relevant portion is as follows:

“(5) Government have examined the matter in details together with the package solution suggested by the committee constituted for netting off the dues and are pleased to issue the following orders.

(i) Netting off of the dues will be done after reconciling the final audited figures furnished by KSEB with Government Account

(ii) The equity of Rs.1553 crore ordered in G.O.(Ms) No.27/98/PD dated 14-9-1998 will continue to be treated as Government’s capital in KSEB.”

Based on this Order, the Board has requested to consider the equity and allow return on equity of Rs.217.42 crore. The Commission directed the Board to file a separate petition for considering the request for allowing return on equity.

Accordingly the Board has filed a petition, which was admitted as RP No.4 of 2011.

76. The Commission is of the view that, the Board may be allowed to earn legitimate return so as to have credit worthiness to attract capital. Since the Commission is already considering the separate petition on allowing return on equity in the light of the Government Order dated 13-12-2010, the Commission defers the issue till the disposal of the petition. Till such time, *the Commission allows an adhoc provision of Rs.50 Crore as return for the year 2008-09.*

Non Tariff income:

77. The total non-tariff income for the year 2008-09 is Rs.456.79 Crore, which is inclusive of Meter rent/service line rental (Rs.142.54 Crore), rebate received (Rs.58.50 Crore), interest from banks (Rs.142.84 Crore), service connection, penalty, recovery for theft of energy, etc. (Rs.61.92 Crore). The Commission for the purpose of truing up allows the non-tariff income as per the accounts.

Revenue from tariffs

78. The total revenue from sale of power within the State is Rs.4454.24 Crore for a sale of 12414MU. This amount is inclusive of fuel surcharge and additional revenue earned on account of charging consumption over quota at the marginal rates during the power restriction period. The fuel surcharge collected was Rs.185.13 crore and charges in lieu of marginal rates for excess consumption were Rs.231.25 Crore through the sale of off peak power of 463.34 MU. According to the Board the additional revenue of Rs.49.63 crore was earned through sale of surplus power on account of comfort charges. The Board requested that 50% of the additional income to be retained with the Board.

79. The Commission for the purpose of truing up allows the income from sale of surplus power as per the audited accounts. Hence the total revenue from tariff for the purpose of truing up is given below.

	2008-09 (Rs. Crore)		
	ARR Order	Actual	Allowed in True UP
Revenue from sale of power with in the State	4292.59	4454.24	4454.24
Revenue from sale of power outside	158.54	438.79	438.79

Revenue from Non- Tariff income	528.21	456.79	456.79
Total Revenue	4979.34	5349.82	5349.82

Total Revenue gap/Surplus after Truing up:

80. As per the ARR & ERC order for 2008-09, the total revenue gap approved was Rs.3.93 Crore, against which the revenue gap reported by the Board as per the accounts was Rs.749.17 Crore (Rs.1273.17 crore as per the revised accounts incorporating the write back of dues from KWA). As explained in the previous paragraphs, the Commission arrived at a revenue gap of Rs.429.62 Crore for 2008-09 after the Truing up, as shown below.

	Particulars	2008-09 (Rs. Crore)		
		ARR Order	Actual	True up
1	Generation of Power	207.03	414.96	414.96
2	Purchase of power	2,603.92	3,417.23	3,390.36
3	Interest & Finance Charges	365.60	339.60	259.26
4	Depreciation	290.69	434.74	291.96
5	Employee Cost	1,136.86	1,255.19	1,255.19
6	Repairs & Maintenance	131.05	138.80	138.80
7	Administration & General Expenses	63.61	135.46	60.99
8	Other Expenses	52.03	(160.95)	11.37
9	Gross Expenditure	4,850.79	5,975.03	5,822.89
10	Less : Expenses Capitalized	59.19	70.75	70.75
11	Less : Interest Capitalized	25.75	22.71	22.71
12	Total Expenditure	4,765.85	5,881.57	5,729.43
13	Return on Equity/Statutory Surplus	217.42	217.42	50.00
14	ARR (12 + 13)	4,983.27	6,098.99	5,779.43
15	Revenue from Charges			
16	Revenue from sale within the State	4,292.59	4,454.23	4,454.23
17	Revenue from Export of power	158.54	438.79	438.79
18	Revenue from non-tariff income	528.21	456.79	456.79
19	Total (16+17+18)	4,979.34	5,349.82	5,349.81
20	Revenue Surplus/(gap) (19-14)	(3.93)	(749.17)	(429.62)

Net result of truing up for 2007-08 and 2008-09

Revenue surplus for 2007-08	- Rs.1338.93
Revenue gap for 2008-09	- (Rs.429.62)
Net revenue surplus	- Rs. 909.31

Order of the Commission

81. The Commission after considering in detail, the petition filed by the Board, the objections from stakeholders and other materials placed before it hereby arrives at a **revenue gap of Rs. 429.62 Crore as against a revenue gap of Rs.749.17Crore** presented by the Board based on the provisional accounts. The revenue gap so arrived would be adjusted against the revenue surplus in the previous years and accounts of subsequent years.

82. The petition disposed of. Ordered accordingly.

This order is subject to the final decision on the appeal filed by KSEB in the Hon. Supreme Court against the Orders of the APTEL in Appeal No.5 of 2009 on the ARR&ERC order for 2008-09.

Sd/-

P.Parameswaran
Member

Sd/-

Mathew George
Member

Sd/-

K.J.Mathew
Chairman

Approved for issue

Secretary

ANNEXURE

List of persons attended the public hearing

Shri. K.G Madhu, KSSIA

Shri George Thomas, President, HT-EHT Association

Shri.A.R Satheesh, General Manager, Carborandum Universal

Shri, AAM Nawas, M/s Blnani Zinc Limited

Shri. B. Pradeep, General Secretary KSEB Officers Association

Shri. Bose V. Jose

Shri. Abdul Nusheer, Nalammile Residential Association

Shri. V. Ramesh Babu, KSEB

Shri. P.V Sivaprasad, KSEB

Shri. T.R. Bhuvanendra Prasad, KSEB

Shri. Gireesh Kumar, V.S, KSEB