

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

O.A No.18/2016

In the matter of : Application filed by KINESCO Power and Utilities Private Limited for approval of truing up of accounts for financial year 2012-13

Applicant : M/s KINESCO Power and Utilities Private Limited

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

ORDER DATED 20/03/2017

KINESCO Power and Utilities Private Limited (*hereinafter referred as KPUPL or the licensee*) has, on 01.07.2016, submitted its application for truing up of accounts for 2012-13, in accordance with the KSERC (Terms and Conditions of Tariff for Retail Sale of Electricity) Regulations, 2006 (*hereinafter referred as Tariff Regulations*). The Commission, in exercise of the powers vested in it under Section 61, Section 62 and Section 64 of the Electricity Act, 2003 and all other powers enabling it in this behalf, and after taking into consideration all the submissions made by KPUPL, the matters raised during the public hearing, and all other relevant materials placed before it, orders as follows:

Background

1. KPUPL is a company registered under the Companies Act, 1956 having its office at KINFRA Park Office, Infopark P.O, Kakkanad, Kochi, Kerala – 682042. The licensee has, on 01.07.2016, filed the application for the truing up of accounts for the financial year 2012-13, which was admitted by the Commission as OA No.18/16. The ARR&ERC of the licensee for the FY 2012-13 was approved by the Commission vide order dated 22.06.2012 in OP No.12/2012 (*hereinafter referred to as the ARR order dated 22.06.2012*).
2. KPUPL is a joint venture company established on 17.09.2008 for the distribution of electricity in the industrial parks of KINFRA at Kakkanad, Kalamassery and

Palakkad. The licence for distribution of power was transferred to M/s KPUPL from M/s.KINFRA Export Promotion Industrial Parks Limited (KEPIP), a deemed distribution licensee, as per the first proviso of Section 14 of Electricity Act 2003.

3. In the ARR order dated 22-06-2012 approving the ARR &ERC of the licensee for the financial year 2012-13, the Commission had issued the following directives to the licensee:
 - (a) To provide the details of capital expenditure including cost benefit analysis and source of funding, demarcating the amount to be recovered from the beneficiaries and that to be charged on the ARR to the Commission for approval within two months.
 - (b) Statement regarding transfer deed, position of assets, etc., shall be furnished within a month, failing which, the Commission may initiate proceedings for revocation of transfer of licence, since this direction which also had been given vide order on ARR & ERC for 2011-12 was not complied with.
4. KPUPL has, as per letters dated 07.08.2016 and 30.11.2016, submitted certain additional information required to fill the preliminary data gaps noticed in the initial filing.
5. A comparison between the audited financial statements submitted by the licensee and the ARR approved by the Commission as per ARR order dated 22.06.2012 for the year 2012-13 is given below:

Table-1
KPUPL-Truing up of accounts
Comparison of ARR and Actual as per Truing up application for 2012-13

Particulars	ARR		Truing Up	
	Claimed (Rs.lakh)	Approved (Rs.lakh)	Claimed (Rs.lakh)	Difference (Rs.lakh)
Revenue from Sale of Power	2,527.42	2,667.54	2947.58	280.04
Non – Tariff Income	19.06	19.06	94.26	75.20
Total Revenue	2,546.48	2,686.60	3041.87	
Purchase of Power	2,548.64	2,516.04	3064.93	548.89
Repair & Maintenance	53.74	53.74	45.23	(8.51)
Employee costs	42.00	39.13	83.44	44.31
A & G Expenses	30.72	28.17	64.18	36.01
Depreciation	93.57	55.30	95.88	40.58

Interest & Finance Charges	169.72	-	9.58	9.58
Tax expenses (including deferred tax)	-	-	54.33	54.33
Other Debits	10.61	-		
Sub Total	2,948.98	2,692.38	3417.55	
Less interest Capitalised	(77.30)	-	-	
Total Expenses	2,871.68	2,692.38	3417.55	
Income Tax	213.21	-	-	
Return on Equity	71.10	10.00	61.56	51.56
Aggregate Revenue Requirements	3,155.99	2,702.38	3479.11	
Prior Period Income	-	-	13.19	13.19
Surplus/(Deficit)	(609.51)	(15.78)	(424.05)	

Hearing on the application

6. Hearing on the application for truing up of accounts of the licensee for the financial year was held on 07-12-2016 at the Court Room, Office of the Commission, Thiruvananthapuram. M/s KINESCO Power and Utilities Private Limited (KPUPL) was represented by Sri. S.N. Ashok Kumar (Finance Consultant), Sri. G.Radhakrishna Pilla (Senior Consultant) and other officers of the licensee. Sri. S.N.Ashok Kumar presented the details of the application on the truing up of accounts for the year 2012-13 and gave clarifications on the queries of the Commission.
7. KSEB Ltd. was represented by Sri. BipinSankar, Deputy Chief Engineer (TRAC), Smt. Mehrunisa, Executive Engineer (TRAC) and Sri. Manoj.G, Assistant Executive Engineer (TRAC). Sri.Manoj.G presented the comments of KSEB Ltd and submitted written remarks on the truing up application filed by KPUPL. The main issues raised by KSEB Ltd are summarised below.
 - a. The power purchase cost claimed by the licensee for the year does not tally with the bills generated by KSEB Ltd.
 - b. KPUPL has combined the power purchased at two different locations Kakkand and Kalamassery. In Kakkand, it is a licensee connection with billing done with applicable BST. In Kalamassery, it is an HT connection without PPA and the billing being done as in the case of HT consumer. KPUPL have combined both types of billing in the applications for truing up.
 - c. The Commission may kindly follow a uniform approach on the Section (3) duty claimed by the licensee.

- d. The licensee has claimed a return on equity at the rate of 3% of the value of the net fixed assets employed at the beginning of the year. The Commission has allowed a return of Rs 10 lakh only from 2004-05 to 2008-09 on the reason that the amount of equity cannot be ascertained. The equity/rate base is still to be ascertained. Commission in the ARR order directed the licensee to submit the documents of transfer of assets and liabilities for the approval of the Commission. The Commission may allow RoE after considering the same. It was further submitted that the tax liability claimed on the income is also to be reviewed.
 - e. The licensee has claimed employee cost for the financial year higher than the approved levels. It may be noted that there are only two employees including CEO and the O&M activities in the area are outsourced. Hence the higher employee cost when compared to the low consumer base need to be examined.
8. The Commission directed the licensee to reconcile the cost of power purchase claimed as per the application for truing up and the same as claimed by KSEB Ltd. The Commission also directed the licensee to submit the details on the objections raised by KSEB Ltd. The Commission also mentioned that KSEB Ltd shall present their views on the asset transfer of the licensee. Neither the licensee nor KSEB Ltd has submitted its comments.

Analysis and Decision of the Commission

9. The Commission considered the application of the licensee for truing up of accounts for the financial year 2012-13, the clarifications and the additional details submitted by the licensee thereon along with the comments/ remarks of KSEB Ltd. The analysis and decisions of the Commission on the application submitted by the licensee for truing up of accounts for the year 2012-13 are detailed below:
10. **Sale of energy:** The details of the number of consumers and the actual sales to various categories of consumers (HT connections, DHT consumers, LT consumers and temporary connections) as per **Form-G** of the application submitted by the licensee for truing up of accounts for the FY 2012-13 are given below.

Table - 2
KPUPL– Truing up of accounts
Details of Sale of energy for the FY 2012-13

Category	ARR Approved (MU)	2011-12		2012-13	
		No. of consumers	Actual (MU)	No.of consumers	Actual (MU)
HT/DHT Consumers	61.53	40	49.30	53	52.92
LT Consumers	6.18	131	5.27	149	6.48
Total	67.71	171	54.57	202	59.40

11. The increase in consumer strength for the year 2012-13 over 2011-12 is 31 and the corresponding increase in actual sale of energy as per truing up application is 4.83 MU. However, the energy sale approved by the Commission as per ARR order dated 22-06-2012 is 67.71 MU. Therefore, even though there is an increase in the consumer strength and in the quantum of sale of energy for the year 2012-13 when compared to the financial year 2011-12, Commission is of the view that the actual sale of energy for the year 2012-13 is lesser than compared to the sale of energy approved by the Commission as per ARR & ERC order. The Commission approves the actual energy sales as submitted by the licensee for the purpose of truing up of accounts for the year 2012-13.
12. **Energy Input and Distribution Loss:** The actual claim made by the licensee towards distribution loss is 1.79% when compared to the target of 0.50% as per ARR order dated 22-06-2012, resulting more than threefold increase than that of the target fixed by the Commission. Since, the distribution loss is a controllable factor and lower distribution loss is a measure for better performance of the licensee, the quantum of power purchase to be approved by the Commission in the process of truing up of accounts should be at the distribution loss of 0.50%. As per sub-regulation (2) of regulation 9 of the Tariff Regulations, the Commission shall approve a loss target for the year under consideration based on the opening loss levels, licensee's filings, submissions and objections raised by stakeholders. The distribution loss as approved by the Commission in the ARR order dated 22-06-2012 for approving the ARR&ERC for the year 2012-13 or the actuals, whichever is lower shall be used for computing power purchase/sale of power to consumers for that year.

Table - 3
KPUPL- Truing up of accounts
Actual Power Requirement and Distribution Loss for the FY 2012-13

Particulars	ARR Approved	Truing up	
		Claimed	Approved
Power Purchase (MU)	68.05	60.48	59.70
Energy Sale (MU)	67.71	59.40	59.40
Distribution loss (MU)	0.34	1.08	0.30
Distribution Loss %	0.50%	1.79%	0.50%

13. **Cost of Power Purchase:** The details of power purchase as per the ARR order dated 22-06-2012 and the truing up of application submitted by the licensee in **Form-F** for the financial year 2012-13 are tabled below.

Table - 4
KPUPL- Truing up of accounts
Cost of Power Purchase claimed for the FY 2012-13

	ARR Approved	As per Truing up Application	Difference
Cost of Power purchase (Rs.lakh)	2516.04	3064.93	548.89
Average power purchase cost (Rs./kWh)	3.70	5.06	

14. The licensee has, vide the clarifications dated 30-11-2016, submitted that there is a revision in BST for Demand charge from Rs.245/- to Rs.300/-and energy charge from Rs.3.16 to Rs.4.15 per kWh with effect from 01.07.2012, which resulted in increase of purchase cost for the year 2012-13. As per sub-regulation (2) of regulation 10 of Tariff Regulations, the Commission shall not consider the additional power purchase beyond the approved level of power purchases. Sub-regulation (3) of regulation 10 of Tariff Regulations further states that the loss on account of additional power purchase shall not be passed on to the consumers. (i.e.) the excess purchase of energy consequent to the excess distribution loss over the approved level shall be disallowed and corresponding reduction in the cost of power purchase shall be effected. However, the excess demand charge actually paid by the licensee to KSEB Ltd should be allowed. Therefore, the cost of excess power purchase of 0.78 MU should be reduced from the actual power purchase as per truing up accounts, resulting in a reduction of Rs.39.53 lakh, as given below.

Table - 5
KPUPL- Truing up of accounts
Cost of power purchase approved for the year 2012-13

Sl No	Particulars	Application for truing up (Rs.lakh)	Truing up approval (Rs.lakh)
1	Cost of power purchase	3064.93	3064.93
2	<u>Less</u> Excess cost of power purchase due to under achievement of distribution loss (0.78 MU x Rs. 5.06)		39.47
3	Power purchase cost approved		3025.46

15. As per computation given in Table-5 above, the total cost of power purchase approved for procuring 59.70 MU for the year 2012-13 is Rs.3025.46 lakh.

Table - 6
KPUPL- Truing up of accounts
Details of power purchase cost approved for the FY 2012-13

Particulars	ARR		Truing up	
	Quantity (MU)	Cost (Rs. in lakh)	Quantity (MU)	Cost (Rs. in lakh)
Claimed	69.08	2548.64	60.48	3064.93
Approved	68.05	2516.04	59.40	3025.46

16. **Interest and finance charge:** In the ARR order dated 22.06.2012, the Commission had expressed the view that the licensee had not provided sufficient details relating to the loans and observed that the ownership of the physical assets was still with KEPIP. Unless the process of the transfer is complete, a view on equity cannot be taken. Hence, the Commission had disallowed the estimated interest and finance charges of Rs.169.72 lakh as per ARR order dated 22.06.2012. In the truing up of accounts, the interest and finance charge claimed by the licensees for the year 2012-13 is Rs.9.58 lakh towards the interest on security deposit with KSEB, payable to KEPIP and the interest on security deposit from consumers. As per statutory provisions and the regulations, KSEB Ltd has to pay interest on the security deposit to the licensee. The appropriation of the amount of interest received by the licensee will depend on the agreements between KPUPL and KEPIP. The terms and conditions of transfer has not been submitted on time. There is no mention about

the treatment of this item in the documents submitted before the Commission. Moreover, all consumers are prepaid consumers and hence the reason for collecting the security deposit has not been clearly explained in the submission of the licensee. Therefore, the interest on security deposit has to be necessarily included as an item of non-tariff income. Interest and finance charge, if any, claimed can be approved only on production of documentary evidences. Therefore, the claims of interest and finance charges, which are not supported by documentary evidences, cannot be approved.

Table - 7
KPUPL- Truing up of accounts
Interest and Finance Charge approved for the FY 2012-13

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	169.58	9.58
Approved	-	-

17. **Depreciation:** The depreciation claimed by the licensee in **Form N** forming part of truing up application for the year 2012-13 is given below.

Table - 8
KPUPL- Truing up of accounts
Depreciation claimed for the FY 2012-13

SINo	Item	Gross Fixed Assets (Rs.lakh)	Depreciation	
			ARR Approved (Rs.lakh)	As per Accounts (Rs.lakh)
1	Sub-Stations	1504.74	51.19	38.19
2	11 kV works	-	-	50.35
3	Metering Equipment	50.90	3.05	5.55
4	Others	15.79	1.05	1.79
	Total	1571.43	55.30	95.88

18. The Commission had, in the ARR order dated 22.06.2012, specifically stated that the depreciation can be charged only on the assets that are used by the licensee for providing supply of electricity to the consumers. It is further stated in para 10 of the said order that the Commission cannot, without proper scrutiny, approve for tariff purposes, the capital expenditure for creation of the assets which are not commissioned. Therefore, the claim for depreciation towards the capital investment of 11 kV works, if any made by the licensee, without approval of the Commission

cannot be considered for depreciation. The Commission had in the ARR order dated 22.06.2012, directed the licensee to submit statements regarding transfer deed, geographical position of the assets, etc., and necessary details on the transfer of the assets and liabilities within one month. Any expenditure for depreciation on acquisition or creation of assets in the financial year, can be allowed only if the licensee has actually incurred the same. Since, the transfer deed between KPUGL and KEPIP was executed only on 07.09.2016, the claim for depreciation on such assets transferred subsequently after many years, cannot be approved to pass on to the consumers with retrospective effect. Moreover, it was submitted that assets were originally created from grants from Govt of India/ASIDE. Depreciation on assets created out of grants and assets created by consumers and taken over by the licensee cannot be allowed. Since, the licensee has not produced the documents to substantiate the claim, depreciation cannot be allowed.

Table - 9
KPUGL- Truing up of accounts
Depreciation approved for the FY 2012-13

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	93.57	95.88
Approved	55.30	-

19. **Employee Cost:** The claim made by the licensee in Form-K forming part of truing up application towards employee cost is Rs.83.44 lakh which when compared to Rs.39.13 lakh as per ARR order dated 22-06-2012, results in an increase of more than twofold. The licensee has claimed high employee cost over and above the cost approved by the Commission. KSEB Ltd had, during the hearing, recorded their concern on the high employee cost claimed by the licensee. As the entire repairs & maintenance towards operational business activity of the Licensee is outsourced, such high employee costs cannot be justified. A comparison on the approved employee cost and the actual employee cost incurred by the licensee for the financial year 2012-13 is given below.

Table - 10
KPUGL- Truing up of accounts
Employee Costs claimed for the FY 2012-13

Approved in the ARR (Rs. lakh)	As per Truing up Application (Rs. lakh)	Difference (Rs. lakh)
39.13	83.44	44.31

20. The Commission had, in the ARR order dated 22-06-2012, viewed that the employee cost projected by the licensee is high considering the small scale of operations, especially in a situation where all the O&M work relating to the distribution business has completely been outsourced. The licensee had, its clarifications, stated that the increase in employee cost is due to the provisions given for superannuation benefits of two officers and their medical expense and annual performance incentive to the tune of Rs.31 lakhs.
21. The Commission had also stated that the employee cost claimed by the licensee should be reasonable and just. Accordingly, in para 17 of the ARR order dated 22-06-2016, the Commission had stated that the licensee should endeavour to limit the employee cost to the approved amount.
22. As per the Government of India reports, the inflation based on CPI and WPI recorded in the past is as follows.

Table – 11
KPUPL- Truing up of accounts
Recorded CPI and WPI Indices over the years

Year	WPI	Yearly increase	CPI	Yearly increase	CPI:WPI at 70:30 Basis
2006-07	111.40		125.00		
2007-08	116.60	4.67%	132.75	6.20%	5.74%
2008-09	126.00	8.06%	144.83	9.10%	8.79%
2009-10	130.80	3.81%	162.75	12.37%	9.80%
2010-11	143.30	9.56%	179.75	10.45%	10.18%
2011-12	156.10	8.93%	194.83	8.39%	8.55%
2012-13	167.60	7.37%	215.17	10.44%	9.52%

23. As per clause 15(3) of KSERC (Terms and Conditions of Tariff for Retail Sale of Electricity) Regulations, 2006. O&M Expenditure i.e., employee cost, administration and general expenses, repairs and maintenance expenses and other miscellaneous expenses may be indexed to predetermined indices such as Consumer Price Index, Wholesale Price Index or a combination of both indices to 70% of CPI and 30% of WPI. For the purpose of indexing the employee cost, 2009-10 can be taken as the base year, since the new entity KPUPL has started operation in 2009-10. Accordingly, based on the submissions made by the licensee and the provisions of regulations, the Commission approves the employee costs for 2012-13 based on the weighted average of CPI:WPI in the ratio of 70:30 as given below.

Table - 12
KPUPL- Truing up of accounts
Computation of Employee costs based on CPI:WPI for 2012-13

Particulars	2009-10	2010-11	2011-12	2012-13
Yearly increase at CPI:WPI basis (%)	9.80%	10.18%	8.55%	9.52%
Employee cost (Rs.lakh)	17.92	19.74	21.43	23.47

24. As computed in the above Table, the total employee costs approved for the year 2012-13 is Rs.23.47 lakh.

Table- 13
KPUPL – Truing up of accounts
Employee Cost Approved for the FY 2012-13

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	42.00	83.44
Approved	39.13	23.47

25. **Repairs and Maintenance Charges:** Comparisons of the R&M expenses as per ARR order dated 22-06-2012 and the actual claim made by the licensee in Form-J forming part of the truing up application for the financial year 2012-13 are tabulated hereunder.

Table – 14
KPUPL – Truing up of accounts
R&M Expenses claimed for the year 2012-13

Year	Approved in the ARR (Rs. lakh)	Claimed in the Truing up (Rs. lakh)	Difference (Rs. lakh)
2009-10	65.92	22.52	43.40
2010-11	45.14	29.01	16.13
2011-12	52.22	40.34	11.88
2012-13	53.74	45.23	8.51

26. The R&M expenses projected by the licensee for the financial year 2012-13 is Rs.53.74 lakh which is 2.91% more than the approved expenditure of 2011-12 by Rs.1.52 lakh. The reason stated by the licensee, for decrease in R&M expense as compared to the approved levels is that some of the repair works, painting, overhauling, etc., of electrical equipments envisaged during the year 2012-13 could not be taken up as scheduled.

27. Based on the submissions made by the licensee and the modalities followed by the Commission, the R&M expenses can be worked out as per sub-regulation (3) of regulation 15 of the Tariff regulations, for the financial year 2012-13 based on the weighted average of CPI:WPI in the ratio of 70:30 as given below.

Table - 15
KPUPL- Truing up of accounts
Computation of R&M expenses based on CPI:WPI for 2012-13

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

28. As computed above, the total amount of R&M expenses approved by the Commission for the year 2012-13 is Rs.29.50 lakh.

Table – 16
KPUPL – Truing up of accounts
R&M Expenses approved for 2012-13 (Rs. lakh)

Particulars	ARR (Rs. lakh)	Truing up (Rs. lakh)
Claimed	53.74	45.23
Approved	53.74	29.50

29. **Administration and General Expenses:** The total of actual A&G expenses accounted by the licensee as per Form-M of the truing up of accounts for the financial year 2012-13 is Rs.64.18 lakh which is twofold higher than that of the expenses approved by the Commission in the ARR order dated 22-06-2012. The licensee has stated that the major deviation is due to the payment of Electricity Duty under section 3 of the Kerala Electricity Duty Act and requested to regularize and approve an amount of Rs.64.18 lakh towards Administration and General Expenses, which includes Rs.43.20 lakh being the Electricity Duty under section 3 of the Kerala Electricity Duty Act.

Table - 17
KPUPL- Truing up of accounts
Administration and General Expenses claimed for 2012-13

Approved in the ARR (Rs. lakh)	As per Truing up Application (Rs. lakh)	Difference (Rs. lakh)
28.17	64.18	36.01

30. The duty under Section 3(1) of the Kerala Electricity Duty Act, 1963, is a statutory levy. Section 3 of the said Act is quoted hereunder, -

“3. Levy of electricity duty on sales of energy by licensees. -

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

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

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

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

From the above statutory provision it can be found that, -

- (i) the electricity duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, is payable by the licensee to the Government
- (ii) the duty shall be calculated at the rate of 6 paise per unit of energy which is sold at a price of more than 12 paise per unit.
- (iii) duty shall be calculated only on the energy sold.
- (iv) the duty paid by the licensee under Section 3 (1) cannot be passed on to the consumer and therefore it cannot be claimed as an expenditure in the ARR.

31. The amount of electricity duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, cannot be admitted as an item of expenditure in view of the above statutory provisions. The Commission has, in its previous orders too, taken this consistent stand on the issue relating to electricity duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act. The licensee has claimed high expenses for the year 2009-10 under security arrangements, other professional charges and advertisement charges. The licensee has not incurred expenses on insurance.

32. Based on the submissions made by the licensee and the modalities followed by the Commission, the A&G expenses worked out as per the sub-regulation (3) of regulation 15 of the Tariff Regulations, for the financial year 2012-13 based on the weighted average of CPI:WPI in the ratio of 70:30 as given below.

Table - 18
KPUPL- Truing up of accounts
Computation of A&G expenses based on CPI:WPI for 2012-13

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

33. As computed in the above table, the total amount of A&G expenses approved by the Commission for the year 2012-13 is Rs.27.74 lakh.

Table – 19
KPUPL – Truing up of accounts
A&G Expenses approved for 2012-13

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	30.72	64.18
Approved	28.17	27.74

34. **Return on Equity:** The return on equity claimed by the licensee as per the truing up application for the year 2012-13 is Rs.61.56 lakh. The reason stated by the licensee is that the return on equity is claimed at the rate of 3% of the value of net fixed assets employed at the beginning of the year. No asset was transferred by the then licensee KEPIP to KPUPL during the financial year 2012-13 though KPUPL has taken over the function of supply of electricity within the licensed area with effect from 01.02.2010. Until the asset transfer deed is executed between KEPIP and KPUPL, the value of the physical assets cannot be considered as part of equity of the present licensee. If the licensee had actually invested any amount as equity, return on such amount of equity can be approved subject to a maximum limit of 30% of the capital expenditure. The Commission is, therefore, of the considered view to allow Rs.10 lakh as return on equity for the financial year 2012-13 for the purpose of truing up of accounts, as was done in the earlier years.
35. **Tax Expenses:** The licensee has made a claim of Rs.54.33 lakh on Tax expenses including deferred tax which was neither projected nor approved in the order ARR &ERC of the licensee for the financial year 2012-13. As per the audited financial statements in Form B submitted by the licensee, the reported loss before tax for the financial year 2012-13 is Rs.321.39 lakh. Since tax expense is an uncontrolled item, it can be allowed to pass on to the consumers subject to production of documentary evidence by the licensee. Therefore, the income tax/ MAT expenses

booked by the licensee without producing any documentary evidence cannot be allowed for the purpose of truing up of accounts for the financial year 2012-13.

Table - 20
KPUPL – Truing up of accounts
Tax Expenses approved for the year 2012-13

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	-	54.33
Approved	-	-

36. **Prior period income:** The licensee has accounted Rs.13.19 lakh as prior period income, which is the amount of provision written back in the current year. Since the same pertains to excess provision created in the previous years, now reversed is the same approved for the purpose of truing up.
37. **Total Expenses:** - Based on the submissions made by the licensee in the application for truing up of accounts, responses during the hearing, comments made by KSEB Ltd, the analysis and the decision of the Commission the total expenses approved for the purpose of truing up of accounts for the financial year 2012-13 including the return on equity are tabulated hereunder.

Table - 21
KPUPL – Truing up of accounts
Aggregate Revenue Requirement approved for the year 2012-13

Particulars	ARR Approved (Rs.lakh)	Truing up	
		Claimed (Rs.lakh)	Approved (Rs.lakh)
Power Purchase cost	2516.04	3064.93	3025.46
Repair & Maintenance	53.74	45.23	29.50
Employee costs	39.13	83.44	23.47
A & G Expenses	28.17	64.18	27.74
Depreciation	55.30	95.88	-
Interest & Finance Charges	-	9.58	-
Tax Expenses	-	54.33	-
Return on equity	10.00	61.56	10.00
Less: prior paid income	-	(13.19)	(13.19)
Total Expenses	2702.38	3465.94	3102.98

38. **Revenue from Sale of Energy:** The licensee has reported an amount of Rs.2947.58 lakh towards revenue from sale of energy for the financial year 2012-13. In the ARR & ERC order, the revenue from sale of energy approved by the commission is Rs.2667.54 lakh and the increase in the revenue from sale of energy for the financial year 2012-13 is Rs.280.04 lakh.
39. The consumer category wise revenue approved as per ARR order and the revenue reported in the application for truing up accounts for the financial year 2012-13 are given below.

Table - 22
KPUPL– Truing up of accounts
Details of sale of energy as per truing up account for 2012-13

Sale of Energy	ARR Order		Truing up	
	MU	(Rs.lakh)	MU	(Rs.lakh)
HT/DHT Consumers	61.53	2416.65	52.92	2597.55
LT Consumers	6.18	250.88	6.48	349.15
Total	67.71	2667.53	59.40	2946.70
Recovery of electricity duty and other State levies				101.05
Fuel Surcharge				101.38
Other Receipts				264.90
Gross Revenue from sale of Energy				3414.02
Less: Electricity duty collected u/s 4 of Kerala Electricity Duty Act and payable to Govt.				85.56
Other State levies payable				380.91
Revenue from sale of Energy				2947.58

40. The licensee has not furnished the details regarding Other State levies payable amounting to Rs.380.91 lakh for the year 2012-13 and therefore such 'payable amounts' cannot be allowed to be deducted from the gross revenue from sale of energy. The amount of Gross revenue from sale of energy reported by the licensee includes the following items also,-

- (1) Electricity Duty under Section 4 of the Kerala Electricity Duty Act, 1963, which has to be remitted to the Government
- (2) Fuel Surcharge collected by the licensee which has to be paid to KSEB Ltd.

41. However, the licensee has not furnished any documentary evidence to substantiate the claim towards other state levies payable. Since, the claims made by the licensee are not supported by documentary evidence; such claims cannot be considered for working out revenue gap / revenue surplus. Therefore, the Commission allows only the electricity duty payable under Section 4 of the Act and fuel surcharge to be deducted from the revenue from sale of energy for the purpose of truing up of accounts for the financial year 2012-13. The revenue approved is Rs. 3211.59 lakh as shown below.

Table - 23
KPUPL – Truing up of accounts
Revenue from sale of energy approved for the year 2012-13 (Rs.Lakh)

Particulars	ARR (Rs.lakh)	Truing up (Rs.lakh)
Claimed	2527.42	2947.58
Approved	2667.54	3211.59

42. **Non-Tariff Income:** Non-tariff income as per the truing up application for 2012-13 is Rs.94.29 lakh against the approved amount of Rs.19.06 lakh. The increase in non-tariff income is mainly due to the interest received from bank fixed deposits and miscellaneous recoveries.

Table - 24
KPUPL – Truing up of accounts
Non-tariff income reported for the year 2012-13

Particulars	ARR		Claim as per Truing Up (Rs.lakh)
	Claimed (Rs.lakh)	Approved (Rs.lakh)	
Interest on Bank Fixed Deposits	10.50	10.50	46.53
Other miscellaneous receipts	1.81	1.81	47.72
Other Income	6.75	6.76	0.04
Total	19.06	19.06	94.29

43. However, the interest on the accumulated surplus of Rs.2693.21 lakh for the years from 2004-05 to 2011-12 is not accounted by the licensee under this head. Therefore, an amount of Rs.242.39 lakh, being the interest at the rate of 9% on the

accumulated surplus of Rs.2693.21 lakh is to be accounted after deducting the interest of Rs.46.53 lakh on fixed deposits booked by the licensee. The Commission, therefore, approves an amount of Rs.299.73 lakh towards non-tariff income for the purpose of truing up of accounts for the financial year 2012-13 as detailed below.

Table - 25
KPUPL – Truing up of accounts
Details of Non-Tariff income reported by the KPUPL for the year 2012-13

Particulars	Claimed (Rs.lakh)	Approved (Rs.lakh)
Interest on fixed deposits	46.53	46.53
Other miscellaneous receipts	47.72	47.72
Other income	0.04	0.04
Interest on security deposit held with KSEB		9.58
Interest on accumulated surplus less interest on bank deposits (Rs.242.39 lakh – Rs.46.53lakh)		195.86
Total	94.29	299.73

44. **Revenue Surplus/(gap):** The Commission after duly considering the application of the licensee for truing up of account for the year 2012-13, clarifications and the additional details submitted by the licensee thereon along with the comments/objections of KSEB Ltd, the revenue surplus/gap approved for truing up of accounts for the financial year 2012-13 is tabulated below:

Table - 26
KPUPL- Truing up of accounts
Revenue Surplus/ Gap for the year 2012-13 after truing up

Particulars	ARR		Truing UP	
	Claimed	Approved	Claimed	Approved
	(Rs.lakh)	(Rs.lakh)	(Rs.lakh)	(Rs.lakh)
Revenue from Sale of Power	2,527.42	2,667.54	2,947.58	3,211.59
Non – Tariff Income	19.06	19.06	94.29	299.73
Total Revenue	2,546.48	2,686.60	3,041.87	3,511.32
Power Purchase cost	2,548.64	2,516.04	3,064.93	3,025.40
Repair & Maintenance	53.74	53.74	45.23	29.50
Employee costs	42.00	39.13	83.44	23.47
A & G Expenses	30.72	28.17	64.18	27.74
Depreciation	93.57	55.30	95.88	-

Interest & Finance Charges	169.72	-	9.58	-
Income Tax	213.21	-	54.33	-
Other debits	10.61	-	-	-
Return on Equity	71.10	10.00	61.56	10.00
Less: Interest Capitalized	-77.30	-	-	-
Less: Prior period Income	-	-	-13.19	-13.19
Total Expenses	3,155.99	2,702.38	3,465.94	3,102.92
Revenue Surplus (+) / Deficit (-)	(-)609.51	(-)15.78	(-)424.07	(+)408.40

45. The revenue surplus for the year 2012-13 after truing up of accounts is Rs.408.40 lakh as against a revenue gap of Rs.424.07 lakh presented by the licensee as per the truing up application. The accumulated revenue surplus after truing up till 2012-13 is Rs.3101.61 lakh, which includes Rs.408.40 lakh of revenue surplus approved in this order.

Orders of the Commission

46. After considering the application for approval of truing up of accounts of M/s KPUPL, the clarifications thereon, comments of the KSEB and the explanations thereon submitted by the M/s KPUPL, the Commission hereby determines a revenue surplus of Rs.408.40 lakh for the year 2012-13 after the truing up of accounts. The accumulated surplus at the end of the financial year 2012-13 is Rs. 3101.61 lakh.

47. The application is disposed of. Ordered accordingly.

Sd/-
K. Vikraman Nair
Member

Sd/-
S. Venugopal
Member

Sd/-
T.M. Manoharan
Chairman

Approved for issue

Santhosh Kumar.K.B
Secretary