

KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT: Sri.K.J.Mathew, Chairman
Sri.M.P.Aiyappan, Member

November 15, 2010

Petition TP71/2010

In the matter of

ARR&ERC of Kanan Deven Hill Plantations Company Private Limited
(KDHPCL) for 2010-11

Kanan Deven Hill Plantations Company Private Limited - Petitioner

ORDER

Background

1. Kanan Deven Hill Plantations Company Private Limited (*hereinafter referred to as KDHPCL or licensee*) is a distribution licensee supplying electricity in Munnar. The KDHPCL obtained the Licence for distribution through the transfer of licence from M/s Tata Tea limited as per the order dated 9-1-2007 of the Commission. In its petition dated 6-1-2010, the licensee has submitted a petition for the approval of ARR&ERC for the year 2010-11 before the Commission. After receiving the petition, the Commission sought clarifications on the petition vide letter dated 20-3-2010 and the licensee provided the reply vide letter dated 26-3-2010. A public hearing was held at the Licensee's area in Munnar on 15-3-2010. In the petition, KDHPCL has projected ARR of Rs.1207.27 lakhs and total revenue of Rs.1263.08 lakh leaving a surplus of Rs.55.81 lakh. After accounting return on capital Rs.24.58 lakh and tax of Rs.18.98 lakh, the actual surplus was projected as Rs.12.26 lakhs. The licensee has proposed the surplus to be transferred to the reserve.

Hearing on the matter

2. In the hearing held on 15-3-2010 in Munnar, 27 consumers participated. The Commission has considered the comments/suggestions of participants in the hearing.

Analysis and decision of the Commission

3. **Energy Sales:** The licensee has projected total sales for the year 2010-11 as 33.94 MU. Of this, own consumption is estimated as 15.95 MU (47%). The feed back energy is estimated as 5.59MU and the total energy requirement projected is 46.23MU for 2010-11.
4. After considering the past data, the Commission accepts the projections of the licensee on the energy sales. The licensee may note that as per the Order of Hon. Appellate Tribunal, the own consumption of the licensee shall be treated as HT I industrial. Hence, now onwards, the own consumption shall be treated as part of HT I industrial category.

Proposed and approved Energy sales for 2010-11

Category	2008-09	2009-10	2010-11	2010-11
	(Actuals)	(Approved)	(Projection)	(Approved)
	(MU)	(MU)	(MU)	(MU)
HT industrial	23.55	23.4	24.38	24.38
HT IV commercial	0.81	0.54	0.84	0.84
LT Domestic	5.27	6.05	4.39	4.39
LT colonies	1.23	1.26	1.25	1.25
LT industries	0.15	0.47	0.27	0.27
LT non-domestic	0.72	0.7	0.67	0.67
LT Commercial	1.98	1.98	1.90	1.90
Street lighting	0.23	0.24	0.24	0.24
Total Energy sales	33.94	34.64	33.94	33.94
Feed back	5.46	5.57	5.59	5.59
Distribution loss	6.68	6.81	6.70	6.44
Gross energy requirement	46.08	47.02	46.23	45.97
Distribution Loss %	14.50%	14.48%	14.49%	14.00%

5. **T&D loss and Energy requirement:** The energy loss in the past reported by the licensee is in the range of 14.5%. For 2010-11 also the licensee has projected 14.5% losses and did not contemplate any reduction in losses. In the past ARR&ERC Orders, the Commission has directed the licensee to reduce the losses, but it is visible that the loss levels remain unchanged. As per the existing practice, duty on line loss (distribution loss) is levied if the losses are in excess of 13.75%. Considering these facts, the Commission for the purpose of ARR&ERC approves a loss level of 14% for 2010-11. The Commission hereby directs that the licensee may study and submit a detailed proposal on reduction of distribution losses at least by 1% every year along with ARR&ERC for 2011-12. Accordingly,

the loss reduction target for the next two years (2011-12 and 2012-13) shall be 1% every year. Based on the approved sales and approved loss level, the gross energy requirement would be 45.97MU for 2010-11, as against 46.23MU proposed by the licensee. After considering the feedback energy, the net energy to be purchased would be 40.38MU.

6. **AT&C Loss:** In the distribution business, T&D loss and AT&C loss are the common performance parameters employed. The collection efficiency reported by the licensee is 99%. Accordingly, the AT&C loss target fixed for the year is **14.86%**.
7. **Power purchase cost :** In the ARR, the licensee has projected the power purchase cost as Rs.1055.36 lakhs based on the tariff prior to the revision effected in 2007 based on the Order of the Hon. High Court of Kerala. As per this, the demand charge is Rs.255/kVA and energy charge is Rs.2.15/kWh. The Commission in its order dated 25-5-2010 revised the tariff applicable to KDHPCL with effect from 1-12-2007. Accordingly the power purchase rate for the licensee is to be calculated at the revised rates ie., Rs.270/kVA as the demand charges and 285 paise/kWh as energy charges. Accordingly, the Commission revised the power purchase cost as Rs.1324.82 lakhs against Rs.1055.36 lakhs proposed by the licensee.

	Projected by the licensee	Approved by the Commission
Gross Energy Requirement (MU)	46.23	45.97
Less Feed Back energy (MU)	40.64	40.38
Total Energy Charges (Rs.lakhs)	873.76	1,150.69
Contract demand (kVA)	7000	7000
Excess Demand (kVA)	500	
Demand charges (Rs.lakhs)	229.5	226.80
Excess demand charges (Rs.lakhs)	7.65	16.20
Rebate (Rs. Lakhs)	55.55	68.87
Total Power purchase cost (Rs.lakhs)	1055.36	1324.82

8. **Interest and financing charges :** The licensee has projected the interest and financing charges as Rs.12.70 lakhs, which is inclusive of interest on security deposits (Rs.8.7 lakhs), Bank charges (Rs.0.62 lakhs) and interest on deposits against bank guarantee (Rs.3.38 lakhs). The actual interest charges for the year 2008-09 was Rs.19.59 lakhs of which Rs.7.55 lakhs is on account of interest on

security deposit. In 2009-10, the Commission approved Rs.2.41 lakhs as bank charges and Rs.7.67 lakhs as interest on security deposits.

9. In reply to the clarification sought by the Commission, the licensee stated that the total security deposits estimated to be available is Rs.145 lakhs at the end of 2010-11. The bank guarantee charges is lower in 2010-11 as 100% cash margin is retained in the Bank and the licensee has notionally charged Rs.3.38 lakhs as the interest on the cash deposit. The Commission is of the view that, since security deposit is available with the licensee, it shall be used as a source of working capital. As stated by the licensee, substantial amount is available as security deposits, compared to that, the requirement of bank guarantee is only for Rs.90 lakhs. Hence, interest on security deposits alone can be admitted as the interest and financing charges. As per the data provided by the licensee, the security deposit as on 1-4-2010 is Rs.127.80 lakhs. The interest on security deposit at the rate of 6% is worked out as Rs.7.67 lakhs. The Commission directs that interest on security deposit shall be credited promptly to the consumer's account as per the provisions of the Kerala Electricity Supply Code and only the actual interest paid to the consumers alone will be admitted in the truing up process.
10. **Depreciation:** The GFA at the beginning of the year 2010-11 proposed by the licensee is Rs.230.60 lakhs. The total addition to GFA proposed is Rs.35.20 lakhs of which Rs.30 lakhs is for 11kV works. The total depreciation estimated by the licensee is Rs.10.48 lakh. The Commission notes that the GFA stated by the licensee for the year 2009-10 is not in order and substantial deletion of assets are proposed under metering equipments. Hence a thorough scrutiny is required to ascertain the assets on which depreciation is to be allowed. Further the rate of depreciation proposed by the licensee is about 4.5%, which also needs to be verified based on the CERC regulations. The Commission would also verify the assets and asset registers at the time of transfer of license. Further, as per the estimation of the licensee, the contribution for creation of capital assets is Rs.15.75 lakh at the end of 2010-11, for which admissibility of depreciation is to be ascertained. The Commission will in detail analyse these matters as part of the truing up process. Hence, for 2010-11, the Commission provisionally allows the depreciation proposed by the licensee, which will be reworked based on the figures arrived at in the truing up process.
11. **Employee costs:** The employee costs proposed by the licensee is Rs.79.11 lakhs as against Rs. 65.77 lakhs approved for the year 2009-10. The licensee has included 25% of the salary of Manager and Executive director amounting to

Rs.23.34 lakhs as part of employee costs. At the same time the salary of regular staff amounting to about 51 persons is estimated as Rs.49.50 lakhs. It is not properly established that 25% of time of the manager/ED is earmarked in the licensee business, which requires a detailed scrutiny.

12. The argument that proportionate share of the salary of Manager/ED is booked can be allowed only if their time is allowed on a permanent basis. Further, considering the size of operations, the share proposed on an absolute level is not reasonable or comparable with other licensees. There are 31 electricians working in estates and electrical sections. It is to be verified whether they all are working for the distribution of electricity. The Commission in principle is inclined to allow a certain portion of the salaries of the senior management in the electricity business for which a proper study is required to establish allocation factors for assigning the cost of managers/ED in the licensee business. The same principle shall be followed for the expenses where apportioning of indirect costs is resorted (A&G expenses, R&M expenses). In the mean time, a notional provision of Rs.5 lakh is allowed as the proportion of the salary of senior management. Hence the employee costs allowed provisionally for the year would be Rs.58.77 lakhs. The Commission hereby directs that the licensee shall maintain separate rolls and accounts for the employees in the licensed business. All details of employees including their gross emoluments/pay scales, designation, along with duties assigned shall be furnished to the Commission for verification.

13. **Repair and maintenance expenses** : The licensee has projected Rs.25.87 lakhs for repair and maintenance expenses, of this Rs.15 lakhs is proposed as cost of painting distribution assets. It is also noted that the actual expenses in 2008-09 is Rs.10.37lakhs for repair of cables lines and networks. As against this, the approved figure is only Rs. 6.73 lakhs. It is noted that excluding the provision for painting, the R&M for for cable, lines and networks is only Rs.6.65 lakhs. In the clarification meetings, the licensee stated that painting of assets is normally carried out when the tea business is faring well. The Commission is of the view that in the cost plus regime, such reasons are not acceptable. Accordingly, for the Repair and Maintenance expenses the Commission provisionally allows Rs.10.87 lakhs, which is almost comparable with the approved figures for 2009-10. The provision given for painting can be allowed at actuals at the time of truing up process after prudence check.

14. **Administration and General expenses**: The administration and general expenses proposed by the licensee is Rs.9.85 lakhs for 2010-11 where as the

approved expenses for 2009-10 is Rs.6.72 lakhs. The increase is mainly on account of the increased provision (Rs.5 lakhs) made for legal expenses. Since A&G expenses is a controllable item, the Commission would retain the same provision as approved for 2009-10. The licensee shall limit the expenses to the approved level.

15. Other debits: The licensee has included duty on line losses, Section 3 duty and periodical inspection charges under other debits totaling Rs.13.90 lakhs. Section 3 duty shall not be passed on to the consumers and duty on line loss is as part of Section 4 duty. Hence, the Commission is in a position to allow only the inspection charges under other debits, which is Rs.2.77 lakhs..

16. Return on equity: The licensee has projected Rs.24.58 lakhs as return on capital at the rate of 14%. However, based on the details provided by the licensee, the Commission could not arrive at the basis for this estimation. The truing up process of the licensee is in progress. Based on the truing up of accounts, the Commission shall arrive at the presence of eligible equity for allowing return. Till then a provisional return on equity of Rs.5 lakhs is allowed, which will be finalized based on a detailed examination of the accounts of the licensee if necessary with the help of an independent agency.

17. Gross Aggregate revenue requirements: Based on the above, the gross ARR proposed and approved for 2010-11 is given below.

Particulars	Proposed by the licensee (Rs. Lakhs)	Approved by the Commission (Rs. Lakhs)
Power purchase cost	1,055.36	1,324.82
Repair and maintenance	25.87	10.87
Employee cost	79.11	58.77
Interest & financing charges	12.70	7.67
A&G expenses	9.85	6.72
Depreciation	10.48	10.48
Other debits	13.90	2.77
Return on Equity	24.58	5.00
Gross ARR	1,231.85	1,427.10

18. Revenue from tariff : The licensee has projected the revenue from tariff as Rs.1255.56 lakhs based on the tariff existed immediately prior to 1-12-2007. The Commission notes that the average tariff estimated by the licensee for the own consumption is much lower than the average tariff for the similar category. In

2008-09, the actual average tariff for HT industrial category is Rs.4.09/kWh, where as the average tariff reported for own consumption is only Rs.1.98/kWh. The licensee has clarified that it is due to the lower Maximum demand applied for own consumption. However, the Commission is of the view that such a huge difference is not justifiable because of the difference in MD. The licensee had approached Hon. APTEL on this issue and the APTEL in its order dated 18-5-2010 has ordered that there can be no difference in the treatment of own consumption and consumption of similar category of consumers. Further the APTEL has stated that the licensee shall install maximum demand meters within 6months of the order, and allowed the licensee to continue with the present system for the time being as an exceptional case. In view of the order, the Commission has decided that for 2010-11, the billing shall be as per the approved rates for the own consumption and there shall be no difference between own consumption and HT II industrial category.

19. The Commission also notes that there is not much difference in energy sales projected by the licensee compared to 2008-09 actual and 2010-11. But the average tariff estimated by the licensee for 2010-11 is much lower compared to the actual in 2008-09 except for the LT commercial. Hence, the Commission is not in a position to accept the revenue projections. Hence, for the purpose of estimation of revenue, the Commission is of the view that the actual average tariff for 2008-09 may be used, which is more reasonable and reliable. In the case of own consumption, as per the APTEL order, the Commission adopts the tariff same as that of HT industrial in 2008-09. Accordingly, the revenue from tariff provisionally estimated as follows:

Consumer category	Projected by the licensee			Approved by the Commission		
	Energy Sales (MU)	Average Tariff (Rs./kWh)	Revenue (Rs.lakhs)	Energy Sales (MU)	Average Tariff (Rs./kWh)	Revenue (Rs.lakhs)
HT industrial	24.38	3.49	851.57	24.38	4.09	997.14
HT IV commercial	0.84	4.40	36.92	0.84	4.97	41.75
LT Domestic	4.39	1.44	63.24	4.39	1.54	67.61
LT colonies	1.25	5.66	70.75	1.25	5.94	74.25
LT industries	0.27	4.01	10.83	0.27	4.31	11.64
LT non-domestic	0.67	7.87	52.72	0.67	7.91	53.00
LT Commercial	1.90	8.47	161.02	1.90	8.16	155.04
Street lighting	0.24	3.55	8.51	0.24	3.83	9.19
Total	33.94	3.70	1255.56	33.94	4.15	1,409.61

20. **Non Tariff Revenue:** The licensee has estimated Rs.7.52 lakhs as the revenue from non-tariff, which includes Rs.4.99 lakhs as interest on deposit with KSEB, sale of scrap (Rs.1.74 lakhs) and recoveries from malpractices (Rs.0.79 lakhs). The Commission accepts the projection of the licensee on non-tariff income.

21. **Revenue Surplus/gap:** Based on the above the revenue surplus/gap for the year 2010-11 estimated by the licensee and the approved by the Commission is as follows:

Particulars	Proposed by the licensee (Rs. Lakhs)	Approved by the Commission (Rs. Lakhs)
Power purchase cost	1,055.36	1,308.62
Repair and maintenance	25.87	10.87
Employee cost	79.11	58.77
Interest & financing charges	12.70	7.67
A&G expenses	9.85	6.72
Depreciation	10.48	10.48
Other debits	13.90	2.77
Return on equity	24.58	5.00
Income tax	18.98	1.70
Gross ARR	1,250.83	1,410.90
Less Non-tariff income	7.52	7.52
Net ARR	1,243.31	1,403.38
Revenue from sale of power	1,255.56	1,409.61
Revenue Surplus	12.25	6.23

22. The revenue surplus estimated by the licensee is Rs.12.25 lakhs in 2010-11. The Commission based on the reasons given above provisionally approves gross ARR as Rs.1410.90 lakhs and the revenue from tariffs and non-tariffs as Rs.1417.13 lakhs. Thus the net revenue surplus provisionally estimated as Rs.6.23 lakhs, as against Rs.12.25 lakhs proposed by the licensee. The Commission for the time being proposes no adjustment for the additional surplus for the reason that some of the expenses are approved on a provisional basis.

Orders of the Commission

23. After the analysis of the ARR&ERC and the clarifications thereof submitted by the licensee, the Commission provisionally approves the ARR&ERC for the year 2010-11 for the KDHPCL as stated above. The Commission also issues the following directives for compliance.

- The licensee shall submit the audited accounts of the licensee's operations and other business separately with a consolidated statement. The basis of apportioning of joint cost/revenue to the electricity business shall be disclosed in detail.
- The licensee shall furnish the details of the capital works proposed for the year 2010-11.
- The Licensee shall undertake a detailed study of the distribution system in its area of supply and submit a proposal for reduction in losses by a minimum of 1% per year.
- The licensee shall provide quarterly reports on the achievement of standards of performance.
- The licensee shall also furnish the details of consumer contribution proposed in 2010-11

Sd/-

M.P.Aiyappan
Member

Sd/-

K.J. Mathew
Chairman

Approved for Issue

Secretary