

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPRAM**

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

January 3, 2012

Petition OP No. 31/2011

In the matter of
ARR&ERC of M/s. KINESCO Power and Utilities Private Limited (KPUPL),
Kakkanad, Kochi, for 2011-12

KINESCO Power and Utilities Private Limited (KPUPL)
Kakkanad , Kochi

-- Petitioner

ORDER

Background

- 1 M/s. KINESCO Power and Utilities, Private Limited, Kakkanad, Kochi, (herein after called *KPUPL or the Licensee*) is a Joint Venture Company established under the Companies Act 1956, for the distribution of electricity in the Industrial parks of KINFRA at Kakkanad, Kalamassery and Palakkad. M/s KPUPL is the successor of KINFRA Export Promotion Industrial Parks Limited (KEPIP), a deemed distribution Licensee as per the first Proviso of Section 14 of Electricity Act 2003. The Govt. of Kerala had accorded sanction for the formation of the joint venture company between KINFRA and NTPC Electric Supply Company Ltd (NESCL) vide Order G.O.(MS) No. 88/2008/ID dated 27th June 2008 with 50% equity held by KINFRA and 50% equity by NESCL. The Commission had approved the transfer of Licence for distribution of electricity in the Industrial Parks of KINFRA at Kakkanad, Kalamassery and Palakkad from M/s.KEPIP to M/s.KPUPL as per Order dated 30.11.2009 based on an application for transfer of Licence.

- 2 M/s KPUPL has submitted its petition for approval of ARR & ERC for the year 2011-12 on 04.10.11. The petition was submitted after almost 11 months of delay and after issuing directions by the Commission. The petition was admitted as OP No. 31/2011. In the petition, the licensee has estimated the total revenue gap as Rs.234.87 lakh for the year 2011-12 with total projected income as Rs.2114.72 lakh and estimated expenditure as Rs.2349.59 lakh including income tax liability of Rs. 46.69 lakh. The licensee has separately claimed a return on investment of Rs.55.95 lakh. Thus the total revenue gap projected including the return is Rs.290.82 lakhs. The summary of the ARR & ERC petition of the Licensee is given below :

Projected ARR&ERC for 2011-12

Particulars	2010-11 (Provisional) (Rs. Lakhs)	2011-12 (Estimated) (Rs. Lakhs)
Revenue		
Revenue from sale of power	1,846.48	2,097.47
Non-Tariff income	13.16	17.25
Total Revenue	1,859.65	2,114.72
Expenses		
Purchase of Power	1,579.92	2,093.09
Repair & Maintenance	29.01	52.22
Employee costs	39.13	46.00
A&G Expenses	23.33	37.43
Depreciation	51.84	55.30
Interest & Financing charges	12.74	18.96
Other debits	(2.06)	5.40
Less Interest capitalised		(5.50)
Total Expense	1,733.91	2,302.90
Income tax	49.00	46.69
Revenue Return	55.85	55.95
Total Expenditure	1,825.60	2,405.54
Surplus/(Deficit)	34.05	(290.82)

3. The Licensee has also submitted a proposal for revision of tariff along with the ARR&ERC petition for meeting the revenue gap. The Commission has not considered the tariff petition as part of this proceedings.

Hearing on the matter

4. The hearing on the petition was held on 06.12.2011 at the Office of the Commission. Representatives of the licensee and KSEB were present for the hearing. Shri.C.R.Kumar, Senior Manager, represented the Licensee and Smt. Sreedevi, Deputy Chief Engineer and Shri.Prasad, Assistant Executive Engineer, represented KSEB. KSEB made several comments on the petition. According to KSEB, the Licensee has taken into account only two months transaction during 2009-10 and projections made on the basis of two months transactions may not be reasonable. They have also commented that separate ARR&ERC for each area of licence may be provided for clear understanding of the petition. KSEB also commented on the revenue projections of the licensee and also stated that the distribution loss projected for the year has been increased considerably compared to that of the previous year. The capital investment of about Rs.500 lakhs proposed by the licensee is huge and the Commission has to ensure the necessity of huge capital expenditure. The Employee cost proposed is also very high compared to the consumer strength especially when the R&M works are being outsourced. The R&M and A&G expenses are not projected in accordance with the previous actuals. The Consultancy charges and travelling expenses need prudence check considering the small area of operation of the licensee. Above all, the Licensee has not submitted the transfer scheme for the approval of the Commission. KSEB requested that the licensee may be directed to provide the transfer scheme for the approval of the Commission.

Analysis and Decision of the Commission

5. The Commission has considered the petition filed by the licensee and the submissions thereon by the licensee and KSEB. Each item of the petition is deliberated in the following sections.
6. **Energy sales:** The Licensee has projected the total sales for the year 2011-12 as 55.11MU and the total energy requirement is projected as 56.82MU. A comparison of energy sales projections of the licensee is given below:

Energy sales projections for 2011-12

Category	2010-11	2011-12
	Provisional (MU)	Projection (MU)
HT Consumers	42.17	50.15
LT consumers	3.99	4.79
Temporary	0.13	0.17
Total	46.29	55.11

The sales for the year 2011-12 is expected to increase by about 19% compared to 2010-11. The higher projections is due to the expected increase in number of consumers in new areas. The Commission is not proposing any changes in the sales estimation of the licensee.

7. **Distribution Loss and Energy Requirement:** The Distribution loss projected by the licensee for 2011-12 is 3%. The licensee has stated that the energy loss is expected to increase since new areas are becoming operational with reduced load, which may increase the losses. The Commission has noted that the actual distribution loss for 2008-09 is only 0.12% The loss level for the year 2010-11 as per the petition is only 0.9%. The Commission is of the opinion that the reason given by the licensee is not sufficient for having higher level of losses especially in a situation where the actual loss level for the year 2010-11 is only 0.9%. Considering this, the target distribution loss for 2011-12 shall not be more than 0.5%.

Approved distribution loss for 2011-12

Particulars	2010-11 (Provisional)	2011 -12 (Projection)	2011-12 (Approved)
Sales (MU)	46.29	55.11	55.11
Distribution Loss (MU)	0.42	1.71	0.28
Gross Energy Requirement (MU)	46.71	56.82	55.39
Distribution Loss (%)	0.90	3.00	0.50

8. Since the collection efficiency of the licensee is 100% owing to the pre-paid metering system, the AT&C loss of the licensee for 2011-12 is fixed as 0.5%.
9. **Power Purchase Cost:** The Licensee has projected the power purchase cost as Rs. 2093.09 lakh for procuring 56.82MU. The licensee has projected the power purchase cost based on the revised BST effective from 1-12-2010. The power purchase cost considering the energy requirement approved for the year is as shown below:

Approved power purchase cost for 2011-12

Particulars	2011-12 projected	2011-12 Approved
Energy Requirement (MU)	56.82	55.39
Fixed charges @ Rs.275/kVA (Rs. lakhs)	297.68	297.68
Energy charges @Rs.3.16/kWh (Rs.lakhs)	1795.41	1750.32
Total Charges	2093.09	2048.00
Average cost/kWh	3.68	3.70

10. **Interest & Finance Charges:** The Licensee has projected Rs.18.96 lakh towards interest and Finance Charges as shown below:

Interest and financing charges proposed for 2011-12

Particulars	Loan Amount Rs. Lakhs	Interest Rate	Interest Amount Rs.Lakhs
Loan from others secured	531.00	11%	14.60
Equity capital in excess of 70%	25.20	10%	2.52
Normative WC interest	18.41	10%	1.84
Total	574.61		18.96

11. The interest and financing charges projected for the year 2011-12 is inclusive of the interest for the loan for the proposed capital expenditure of Rs.531 lakhs and the normative interest on working capital. During the hearing the Commission has sought the details of the loans and the normative equity capital accounted for charging the interest. The representative of the licensee has replied that so far no loan has been availed. Further it is also not reasonably established that additional equity capital of 70% invested in the business. Regarding interest on normative working capital, the licensee is having prepayment metering system and hence requirement of additional working capital is not necessary as charges for the energy is received in advance. The Commission also notes that as per the balance sheet of the licensee given as part of the petition, an amount of Rs.348.85 lakhs as fixed deposits and Rs.14 lakhs as security deposits from consumers. Considering these factors, the Commission is of the view that there is no requirement of interest and financing charges for the year 2011-12. Further, the projections on interest and financing charge capitalised is also not required.

12. **Depreciation:** The licensee has projected depreciation of Rs.55.30 lakh for the year 2011-12 as shown below:

Depreciation projected for 2011-12

Details of Assets	Fixed Asset Value (Rs. lakhs)	Depreciation Amount (Rs. lakhs)
Substations	1504.74	51.19
Metering Equipment	50.90	3.05
Others	15.79	1.05
Total		55.30

Average rate of depreciation claimed is 3.52% which is almost equal to the CERC norms. The Commission approves depreciation as projected by the licensee.

13. **Employee costs:** Employee Costs projected by the Licensee for the year 2011-12 is Rs.46 lakh against the provisional amount Rs.39.13 lakh for 2010-11. The employee cost projected for the year is the cost of two employees as per Form L. The Licensee has clarified that the employee cost projected is the total emoluments /cost to the company for the persons employed from NTPC. The licensee has stated that in order to control the cost, they have decided that no more persons will be employed from NTPC for the operations. The Commission has considered the justification of the licensee regarding the employee costs. 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 been completely outsourced and prepaid metering system has been implemented. The Commission also notes that the employee cost for carrying out the same operations in this year 2008-09 by the previous licensee was only Rs.14.8 lakhs. The employee cost for 2010-11 shown as Rs.39.13 lakhs is itself very high compared to the above figure. The licensee shall take steps to achieve cost savings to substantiate the employee costs. The Commission approves the employee costs of Rs.39.13 lakhs proposed for the year 2010-11 provisionally for 2011-12 also.

14. **Repair & maintenance expenses:** The Repairs and Maintenance charges projected by the licensee for 2011-12 is Rs.52.22 lakhs against Rs.29.01 lakhs for 2010-11. The actual R&M expenditure during 2008-09 was Rs.20.58 lakh. The R&M expenses projected for 2011-12 is about 80% more than from the level in 2010-11 and about 154% more than 2008-09 level. The Licensee has clarified during the hearing that the expenses projected is the actual contract amount for

R&M work awarded through transparent tendering process on limited tender system. In the light of the clarification, the R&M expenses is approved by the Commission as proposed by the licensee for 2011-12, subject to the condition that in the truing up process prudent expenses relating to distribution function alone shall be allowed.

15. **Administrative and General Expenses:** The A&G expenses proposed by the licensee for 2011-12 is Rs.37.43 lakh while the provisional expense on this account for 2010-11 is only Rs.23.33 lakh. Major expenses under this head are Rents Rates and Taxes (Rs.4.67 lakh), Insurance (Rs.4.24), Consultancy charges (Rs.7.74 lakh), Travelling expense (Rs.6.80 lakh), and conveyance and vehicle charge (Rs.4.58 lakh). The Commission is of the view that A&G expense is a controllable item of expenses and the increase proposed by the licensee is not reasonable at all. It is possible to introduce control measures to limit the A&G expenses. Accordingly, the Commission allows 15% increase in A&G expenses over the 2010-11 level. Hence, the A&G expenses allowed for 2011-12 is Rs. 26.83 lakhs. The Commission also note that the total O&M costs of the licensee has increased from Rs.75.66 lakhs in 2008-09 to Rs.118.18 lakhs in 2011-12 even after the above curtailments. The Commission shall scrutinise the expenditure more closely on truing up of the accounts.
16. **Other Debits:** The licensee has projected Rs.5.40 lakh towards premium on leasehold land. The Licensee has not given any details about the land or the purpose for which it is taken, conditions of lease etc. The Commission cannot accept an expense without proper justification for the expenses.
17. **Return on Investment:** The Licensee has projected Rs.55.95 Lakhs as Return on equity for 2011-12. The amount is arrived by computing 14% of the 30% Capital Base/Net Fixed Asset at the beginning of the year less consumer's contribution. The Licensee has not yet given statement regarding transfer deed, position of assets etc. Several discrepancies are noted in the asset details. The licensee has accounted Rs.36 lakh as share capital in the Balance sheet. The licensee so far has not finalised the transfer scheme and accordingly the opening balance sheet of the licensee is still not known. Until such time, the Commission is of the view that a provisional amount of Rs.10 lakhs may be allowed as return on capital for the year 2011-12. The Licensee shall submit the documents of transfer of assets and liabilities for the approval of the Commission within one month.

18. The Licensee has projected Rs.46.69 lakh towards income tax. Though income tax is a pass through in the tariff if it is paid, the projections made by the licensee is not convincing, and hence the matter is deferred till a final view on the basis on which return is to be calculated is finalised.

19. **Aggregate Revenue Requirements:** Based on the above, the projected and approved Aggregate Revenue Requirements (ARR) for 2011-12 is given below:

Projected and approved ARR for 2011-12

Particulars	Projected (Rs.lakhs)	Approved (Rs.lakhs)
Purchase of Power	2,093.09	2,048.00
Repair and Maintenance	52.22	52.22
Employee Cost	46.00	39.13
A & G Expenses	37.43	26.83
Depreciation	55.30	55.30
Interest and Financing Charges	18.96	
Other debits	5.40	-
Total Expenses	2,308.40	2,221.48
Less Interest Capitalised	(5.50)	
Tax expenses	46.69	
Return on investment	55.95	10.00
Total expenditure	2,405.54	2,231.48

20. **Revenue from sale of power:** The projected revenue from sale of power for 2011-12 is Rs.2097.47 lakh, which is net of electricity duties and other state levies payable .as detailed below :

Revenue from sale of power projected for 2011-12

Particulars	2010-11			2011-12		
	Sales (MU)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)	Sales (MU)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)
HT Consumers	42.17	1,696.66	4.02	50.15	1,912.02	3.81
LT consumers	3.99	164.03	4.11	4.79	201.27	4.20
Temporary Connections	0.13	13.11	10.08	0.17	16.53	9.72
Total	46.29	1,873.80	4.05	55.11	2,129.82	3.86
Recovery of electricity Duty & other state levies		68.86			71.93	

Particulars	2010-11			2011-12		
	Sales (MU)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)	Sales (MU)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)
Gross revenue from sale of power		1,942.66			2,201.75	
Less electricity duty payable		68.21			71.21	
Other State levies payable		27.97			33.07	
Net Revenue from sale of power		1,846.48			2,097.47	

21. The Commission has noted the variation in average realisation from HT consumers and total realisation between 2010-11 and 2011-12. The average realisation in 2010-11 was Rs.4.05/kWh, which is reduced to Rs.3.86/kWh in 2011-12. Projected average realisation from HT categories is Rs.3.81/kWh for 2011-12, where as the realisation for the year 2010-11 was Rs.4.02/kWh. The licensee could not explain the difference in realisation for the major category of consumers, though one week time was given to the licensee during the hearing on 6-12-2011.

22. The Commission also notes that the licensee has deducted electricity duties and other state levies collected from the consumers, from the revenue. Since the duties payable to the Government are collected from the consumers directly, the same shall not be part of the revenue from sale of power. The Commission is of the view that since the licensee could not provide the reasons for lower realisation, the average realisation for the previous year can be used as a proxy for estimating the revenue for the year 2011-12. Accordingly, the revenue from sale of power is estimated as follows:

Revenue from sale of power approved for 2011-12

Particulars	2011-12		
	Sales (MU)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)
HT Consumers	50.15	2,017.73	4.02
LT consumers	4.79	196.92	4.11
Temporary Connections	0.17	17.14	10.08
Total	55.11	2,231.79	4.05

23. The licensee has projected Rs.17.25 lakhs as the non-tariff income, which is inclusive of Rs.10.5 lakhs from interest on bank deposits and miscellaneous receipts & recoveries of Rs.6.75 lakhs. The Commission approves estimates of the licensee. Thus, the total revenue for the year 2011-12 is Rs.2249.04 lakhs

24. **Revenue Gap/Surplus:** Based on the above, the Commission arrives at a surplus of Rs.17.56 lakhs as against a gap of Rs.290.82 lakhs projected by the licensee as shown below:

Approved ARR&ERC for 2011-12

Particulars	Projected (Rs.lakhs)	Approved (Rs.lakhs)
Revenue from sale of power	2,097.47	2,231.79
Other income	17.25	17.25
Total income	2,114.72	2,249.04
Purchase of Power	2,093.09	2,048.00
Repair and Maintenance	52.22	52.22
Employee Cost	46.00	39.13
A & G Expenses	37.43	26.83
Depreciation	55.30	55.30
Interest and Financing Charges	18.96	
Other debits	5.40	-
Total Expenses	2,308.40	2,221.48
Less Interest Capitalised	(5.50)	
Tax expenses	46.69	
Return on investment	55.95	10.00
Total expenditure	2,405.54	2,231.48
Revenue Surplus/(Gap)	(290.82)	17.56

Orders of the Commission

25. After considering the ARR&ERC petition and the submissions and clarifications thereon, the Commission approves the ARR&ERC for M/s. KPUPL for the year 2011-12 with a revenue surplus of Rs.17.56 lakhs against the revenue gap of Rs.290.82 lakhs proposed by the licensee. The Licensee shall take earnest effort to limit the expenses at the approved level. The Licensee shall furnish the details of the proposed capital expenditure if any with source of funding along with next ARR&ERC filing. It is also directed that a statement regarding transfer deed, position of assets etc. should also be furnished. The Licensee should also submit clarification, if any, for the low average realisation.

26. The licensee shall submit the ARR&ERC petition within the prescribed time limit in future, failing which the Commission will be constrained to initiate appropriate action as per the Electricity Act 2003 and the connected Regulations.

27. The Commission also orders that the present tariff shall continue till further orders. The petition for revision of tariff filed by the licensee shall be returned with the petition fee. With the above directions, the petition is disposed off. Ordered accordingly.

Sd/-
P. Parameswaran
Member

Sd/-
Mathew George
Member

Sd/-
K.J. Mathew
Chairman

Approved for issue

Secretary