

KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

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

August 3, 2011

Petition OP No.7/ 2011

In the matter of
ARR&ERC of M/s.Rubber Park India (P) Limited for 2011-12

M/s. Rubber Park India (P) Limited - Petitioner

ORDER

Background

1. Rubber Park India Private Limited (RPIL) is a deemed distribution Licensee under the Electricity Act, 2003. Presently, the Rubber Park India (P) Limited (herein after called the *Licensee* or *RPIL*) receives electricity at 110 kV from the Kerala State Electricity Board (herein after called *KSEB* or *the Board*) and supply to the industrial units within the Park area. The licensee filed the petition for approval of ARR &ERC for the Financial Year 2011-12 on 21.02.11, as per their letter No. RP/F/04 dated 18. 02.11. The petition was registered and admitted as OP No. 7 of 2011.
2. A meeting of the representatives of the Licensee was convened in the office of the Commission on 03.05.2011 for clarification on the ARR&ERC petition for 2011-12 and on the Truing up Petitions relating to the previous years. The Licensee promised to submit the details on the clarifications sought by the Commission within two weeks from 03.05.2011. However, the details were submitted only on 12-7-2011. Along with the details the licensee revised the original petition of ARR&ERC for 2011-12 incorporating the clarifications sought by the Commission. In the mean time, the Commission held public hearing on the ARR&ERC petition at the Licensee's premise on 08.07.11. The list of persons who attended the hearing is given in Annexure.
3. As against the revenue gap of Rs.60.84 lakhs (excluding the return on investment) presented in the original petition, the revised revenue gap presented by the Licensee was Rs.30.02 lakhs (excluding the return on investment). The major revisions were in

employee costs, power purchase costs and revenue from sale of power. The comparison of ARR&ERC projected by the licensee is given below:

ARR&ERC Projected by the Licensee for 2011-12

	2009-10 (Actuals) (Rs. Lakhs)	2010-11 (Approved) (Rs.lakhs)	2011-12 (projected) (Rs.lakhs)	2011-12 (Revised) (Rs.lakhs)
Revenue from sale of power	603.37	1,023.27	914.51	971.57
Non-Tariff Revenue	----	33.00	----	11.75
Total Revenue	603.37	1,056.27	914.51	983.32
Expenses				
Purchase of power	519.18	840.48	870.13	921.02
Repair & Maintenance	16.12	25.62	29.46	29.46
Employee costs	22.61	25.11	31.64	18.74
A&G expenses	10.99	14.75	16.96	16.96
Depreciation	27.07	27.16	27.16	27.16
Interest & Financing charges	----	----	----	----
Other debits	----	0.60	----	----
Total Expenses	595.97	933.72	975.35	1,013.34
Surplus/(deficit)	7.40	122.55	-60.84	-30.02

Hearing on the matter

- The licensee has presented the revised petition in the public hearing, which shows a revenue gap of Rs.30.02 lakhs. Kerala State Electricity Board had given written objections on the petition. The representative of the Board presented the main objections in the hearing held on 8-7-2011. According to the Board, the energy sales projection of the Licensee was comparatively high considering the fact that actual energy input in 2009-10 was only 14.95MU. The energy input projected for 2011-12 is 28.39MU. The Board also pointed out that the average realisation projected by the licensee for 2011-12 is low compared to 2010-11. The licensee has installed 25MVA transformer capacity where as the total load is only 3 MVA. Hence huge part of the capacity of the licensee is being unutilised over the years, the cost of which is passed on to the consumers. The Board also pointed out that the employee cost of the licensee is projected to increase by 26%, the rationale for such increase has to be looked into. According to the Board, the Commission has to examine the progress of segregation of assets of the licensee as ordered earlier.

Analysis and decision of the Commission

- The Commission has considered the petition of the licensee and clarifications and objections of the stakeholders for finalising the order on the ARR & ERC for the FY 2011-12.

6. **Energy Sales:** The licensee had 14 consumers during 2005-06. The number of consumers increased to 30 by 2009-10. For 2011-12, it is projected to increase to as 36. The growth in number of consumer is shown below:

Increase in number of consumers over the years

Category	Number of consumers						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (Proj)	2011-12 (Proj)
LT consumers	3	6	7	7	7	14	14
HT consumers	2	4	6	6	12	10	11
Temporary Connections	9	4	8	14	10	10	10
RPL Utilities					1	1	1
Total	14	14	21	27	30	35	36

7. For 2011-12, the licensee has projected sales of 27.82MU, which is about 91% more than the actual sales reported by the licensee for 2009-10, as shown below:

Energy sales projected by the Licensee

Category	2009-10 Actual (MU)	2010-11 Approved (MU)	2011-12 Projected (MU)
LT Consumers	0.81	1.20	1.28
HT Consumers	13.53	21.05	26.10
Temporary Connection	0.09	0.10	0.14
Own consumption	0.11	0.11	0.30
Total	14.54	22.46	27.82

8. The Board has commented that the energy projection of licensee is much higher compared to the previous years. However, the licensee has stated that they expect new HT consumer, which may increase the sales. Based on the argument of the licensee, the Commission is inclined to accept the projections of the licensee for energy sales for 2011-12.
9. **Distribution loss and Energy requirement:** The energy purchase proposed by the licensee for 2011-12 is 27.82 MU and thus the distribution loss projected by the licensee for 2011-12 is 1.97%. The actual loss in 2009-10 is 2.74% as shown below:

Distribution loss projected for 2011-12

Year	Energy Purchase (MU)	Sales (MU)	Distribution Loss (%)
2009-10 (Actual)	14.95	14.54	2.74
2010-11 (Approved)	23.13	22.46	2.90
2011-12 (Projection)	28.39	27.82	1.97

10. The loss level proposed by the licensee is reasonable considering the low capacity utilisation of the substation. Considering the limited area of supply of the licensee, the licensee may not have much option for increasing the demand within the area of supply. However, the Commission notes that a large portion of the 110 KV/11 KV 25 MVA Transformer is remaining unutilised. It is also reported that new Industrial HT consumers in the neighbouring areas are waiting for power connection from KSEB for want of infrastructure facilities. KSEB can utilise the spare capacity of the Licensees substation to meet the load in the neighbouring areas. The Board may render necessary consultation and possibility of exploiting the surplus capacity of the Substation. The Commission considering the present situation is inclined to accept the loss levels proposed by the licensee as shown below.

Approved T&D Loss for 2011-12

Category	2011-12 (Projection)	2011-12 (Approved)
Total Sales (MU)	27.83	27.83
Distribution Loss (MU)	0.56	0.56
Gross energy requirement (MU)	28.39	28.39
Distribution Loss (%)	1.97%	1.97%

11. **AT&C Loss:** In the distribution business, Distribution loss and AT&C loss are the common performance parameters employed. The collection efficiency reported by the licensee is nearly 100% on account of prepayment metering system in the area. Hence the A&TC loss for 2011-12 is fixed as 1.97%.

12. **Power Purchase cost :** In the Revised ARR, the Licensee has projected energy requirement of 283.9 lakhs units during 2011-12 against the approved quantity of 231.27 lakhs units for the previous year (2010-11) and the actual requirement of 149.4 lakhs units in 2009-10. The Commission has revised the BST applicable to the licensees from 1-12-2010. However, the licensee has estimated the power purchase cost based on the pre-revised tariff, stating a reason that the matter is before the Hon. High Court. However, the Commission has noted that there is no stay on the Order on BST, but the stay is on the bill raised by the Board. Accordingly, the Commission proceeds to estimate the power purchase cost based on the revised BST, which is applicable to the licensee for determination of ARR&ERC. The approved power purchased cost for 2011-12 based on the approved power purchase is as follows:

Approved Power purchase Cost for 2011-12

	Proposed by the Licensee	Approved by the Commission
Energy Requirement (lakh Units)	283.9	283.9
Average Demand (kVA)	4771	4771
Fixed charges (Rs./kVA)	245	245
Total Fixed charges (Rs.lakhs) (a)	140.27	140.27

Energy Charges (Rs./kWh)		2.75	3.16
Energy Charges (Rs.lakhs) (b)		780.76	897.12
Total Charges (Rs.lakhs) (a+b)		921.02	1,037.39
Average BST (Rs./kWh)		3.24	3.65

13. **Employee cost** : The licensee has projected the employee cost for 2011-12 as Rs.18.74 lakhs. The actual employee cost in 2009-10 booked by the licensee is Rs.22.61 lakhs. The Licensee in their clarification letter dated 12.07.11, stated that employee cost has been worked out by assigning 80% of the actual employee cost of the Rubber Park to the distribution business. The apportionment was based on the revenue earned from the distribution business and total income of the licensee excluding the premium earned on sub- lease of the land, which is a one time income.
14. The Commission has already decided that the apportionment of joint costs shall be based on a detailed study of the licensee's other business and accordingly a study has been commissioned. The employee cost for the year shall be subject to the outcome of the study and the decision thereon by the Commission. Till such time, the employee cost projected by the licensee is accepted for the purpose of ARR&ERC for 2011-12.
15. **Repair and Maintenance Expenses:** The actual repair and maintenance expenses incurred by the licensee during 2009-10 is only Rs.16.12 lakhs. An amount of Rs.25.62 lakh was approved for 2010-11. The R&M expenses proposed by the licensee for 2011-12 is Rs. 29.46 lakhs, which is Rs.3.84 lakhs (15%) more than the approved amount of for 2010-11 and about 35% more than the actual R&M expenses in 2009-10 on an annual basis. The licensee has not made any asset additions in the last two years. The licensee has outsourced the R&M operations to an external agency. The annual increase proposed for the year 2011-12, based on the actual for 2009-10 is unreasonable. A reasonable increase in R&M expenses based on the actual in 2009-10 may be allowed for 2011-12. Accordingly, the Commission is of the view that a formula based on Wholesale Price Index (WPI) and Consumer Price Index (CPI) with a weightage of 70:30 respectively may be allowed for the licensee. As per the actual inflation based on WPI and CPI in 2010-11, the composite increase is 10.18%. By allowing same, increase for 2011-12, for allowable R&M expense is worked out as follows:

Increase in WPI and CPI for previous years

Year	Wholesale price index		Consumer price index	
	Index	Annual Increase	Index	Annual increase
2008-09	126.0	8.05%	144.83	9.10%
2009-10	130.8	3.81%	162.75	12.37%
2010-11	143.3	9.50%	179.75	10.45%

Estimation of allowable R&M expenses for 2011-12

	2009-10 (Actals) (Rs.lakhs)	2010-11* (Estimate) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
CPI weightage (70%)	11.28	12.46	13.77
WPI weightage (30%)	4.84	5.30	5.80
Total R&M Expenses	16.12	17.76	19.56

** The figures arrived at for the intermediate year 2010-11 are relevant only for estimation purpose cannot be construed as approved figures. Approved figures for these year remain as per the respective ARR&ERC Order*

16. **Administration & General Expenses:** The proposed Administration and General Expenses of the Licensee for 2011-12 is Rs.16.96 lakhs, whereas the actual expense for 2009-10 was Rs.10.99 lakhs. Thus the annual compounded increase proposed by the licensee for 2011-12 is about 24%. The Licensee has stated that the A&G expenses has been apportioned on the basis of the total revenue of the company and the entire direct cost has been charged to the licensed business.

17. As in the case of employee expenses, the A&G expenses also involve joint costs. As mentioned above, the reasonable expenses charged on the licensed business can only be ascertained after a detailed study for which a consultancy assignment has been already awarded. The Commission is of the view that till a decision on the joint cost is taken, WPI-CPI linked increase in expenses can be allowed as an interim basis. Hence, the allowable expenses for 2011-12 is worked out as follows:

Allowable A&G expenses for 2011-12

	2009-10 (Actals) (Rs.lakhs)	2010-11* (Estimate) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
CPI weightage (70%)	7.69	8.50	9.38
WPI weightage (30%)	3.30	3.61	3.95
Total R&M Expenses	10.99	12.11	13.33

** The figures arrived at for the intermediate year 2010-11 are relevant only for estimation purpose cannot be construed as approved figures. Approved figures for these year remain as per the respective ARR&ERC Order*

18. **Interest & Finance charges :** There is no debt component in the capital structure of the Licensee and hence no interest is charged on this account. The Licensee has not received any security deposit from the consumers as the pre-paid meter system is in vogue. Hence there is no interest & finance charge proposed by the licensee.

19. **Depreciation :** The Licensee has projected an amount of Rs.27.16 lakhs towards depreciation for the FY 2011-12 as detailed below:

Depreciation proposed for 2011-12

Description of Asset	2009-10 (actual) (Rs.lakhs)	2010-11 (approved) (Rs.lakhs)	2011-12 (projected) (Rs.lakhs)
Transmission Lines	2.54	2.54	2.54
Substations	14.57	14.57	14.57
11 KV works	3.89	3.89	3.89
LT lines and Service connections etc.	1.09 0.01	1.09 0.01	1.09 0.01
Metering equipment	0.34	0.34	0.34
Others	4.63	4.72	4.72
Total	27.07	27.16	27.16

20. The Commission approves Rs. 27.16 lakhs as depreciation as proposed by the licensee for 2011-12.

21. **Other Debits:** The licensee has not proposed any items under Other debits. .

22. **Statutory Surplus/Return on Equity:** The Licensee has projected Rs. 28.02 lakhs towards statutory return for the FY 2011-12. The statutory return is calculated at 14 % on 30% of NFA. The capital structure of the licensee does not contain any debt component. The Commission is of the view that sufficient return needs to be allowed to the licensee, but the actual amount of equity qualified for allowing return in the business needs to be ascertained. One of the objectives of the consultancy assignment is to determine the amount of equity to be allowed to the licensed business. Until study is complete, the Commission allows a notional return of Rs.10 lakhs for 2011-12.

23. **Aggregate Revenue Requirement:** The Aggregate Revenue Requirements approved for 2011-12 is summarised as given below

Approved ARR for 2011-12

Particulars	As projected by the Licensee (Rs.lakhs)	Approved by the Commission (Rs.lakhs)
Purchase of power	921.02	1,037.39
Repair & Maintenance	29.46	19.56
Employee costs	18.74	18.74
A&G expenses	16.96	13.33
Depreciation	27.16	27.16
Interest & Financing charges	-	-
Other debits	-	-
Return on investment	28.02	10.00
Sub total	1,041.36	1,126.18
Less Expenses capitalised	-	-
Less Interest capitalised	-	-
Aggregate Revenue Requirements	1,041.36	1,126.18

24. **Revenue from Sale of Power** : The licensee has projected the income from sale of power for 2011-12 as Rs.971.57 lakhs for 2011-12 as shown below:

Revenue from sale of power projected by the Licensee for 2011-12

Category	Sales (MU)	Revenue (Rs.lakhs)	Average Tariff (Rs./kWh)
HT consumers	26.10	913.45	3.50
LT consumers	1.28	43.02	3.35
Temporary connections	0.14	8.48	5.89
Rubber park utilities	0.30	19.60	6.53
Total	27.83	984.55	3.54
Recovery of state levies		30.59	
Other receipts		6.60	
Gross Revenue from sale of power		1,021.73	
Electricity duty payable (contra)		33.47	
Other State levies (Section 3 duty)		16.69	
Net Revenue from Sale of power		971.57	

25. The revenue was arrived at by deducting the state levies and section 3 duty and including other receipts. The Commission has considered the revenue projections of the licensee. The average realisation projected by the licensee is comparatively low. The actual revenue from sale of power and approved revenue from previous years is shown below:

Revenue from sale of Power for previous years

Category	2009-10		2010-11		2011-12	
	Sales	Revenue	Sales	Revenue	Sales	Revenue
HT consumers	13.53	520.87	21.05	947.04	26.10	913.45
LT consumers	0.81	29.44	1.20	56.64	1.28	43.02
Temporary connections	0.09	8.25	0.10	10.21	0.14	8.48
Rubber park utilities	0.11	0.55	0.11	6.88	0.30	19.60
Total	14.54	559.11	22.46	1,020.77	27.83	984.55

The average realisation reported by the licensee for the previous years is as shown below:

Average realisation for previous years

Category	2009-10 (Actual) (Rs./kWh)	2010-11 (Approved) (Rs./kWh)	2011-12 (Projected) (Rs./kWh)
HT consumers	3.85	4.50	3.50
LT consumers	3.63	4.72	3.35
Temporary connections	9.17	10.21	5.89
Rubber park utilities	0.50	6.25	6.53
Total	3.85	4.54	3.54

26. As shown above, the average realisation projected by the licensee is low compared to the actuals in 2009-10. But, the average realisation of own consumption which is reported for 2009-10 under Rubber Park utilities was substantially low (Rs.0.50/kWh). In order to ascertain the reason, the Commission sought the category wise revenue and sales and also the segregation of connections under rubber park utilities based on tariff category. The licensee provided the details along with the letter dated 12-7-2011. This was again revised and as per the latest data received later through email, the average consumption and sales are for 2009-10 is reported as shown below:

Revised sales and average tariff for 2009-10

Consumer category	No. of consumers	Sales (lakh units)	Revenue (Rs.lakhs)	Average Tariff (Rs./kWh)
HT- I	7	135.34	540.78	4.00
LT- IV	12	8.05	33.56	4.17
LT- VII A	10	0.85	8.52	10.03
LT- IV C	1	0.07	0.68	10.33
Park Utilities	-	1.45	16.48	11.36
Total	30	145.75	600.02	4.12

27. In the above table, the licensee has used the appropriate tariff category for estimating the revenue from own consumption. Accordingly, the Commission uses the revised actual average tariff for 2009-10 for estimating the revenue from sale of power for 2011-12. Accordingly, the revenue from sale of power for 2011-12 is estimated as follows:

Revenue from sale of power approved by the Commission for 2011-12

Category	Projected by the Licensee			Approved by the Commission		
	Sales (MU)	Revenue (Rs.lakhs)	Average Tariff (Rs./kWh)	Sales (MU)	Revenue (Rs.lakhs)	Average Tariff (Rs./kWh)
HT consumers	26.10	913.45	3.50	26.10	1,042.92	4.00
LT consumers	1.28	43.02	3.36	1.28	53.35	4.17
Temporary connections	0.14	8.48	6.06	0.14	14.05	10.03
Park utilities	0.30	19.6	6.53	0.30	34.08	11.36
Total	27.83	984.55	3.54	27.83	1,144.39	4.11

28. The Licensee has deducted Rs.16.69 lakhs from the Gross revenue towards Section 3 duty. Since duty under Section 3, is not to be passed on to the consumers, the same has not been considered.

29. **Non Tariff Income:** The Licensee has projected Rs.10.75 Lakhs towards interest on Fixed Deposits and Rs.1 lakh towards Miscellaneous receipts. The Commission allows the non- tariff income as projected by the licensee. Accordingly the total approved revenue for 2011-12 is as given below:

	Rs.lakhs
Revenue from sale of Power	1,144.39
Non-Tariff Income	11.75
Total Revenue	1,156.14

30. **Revenue Surplus/gap:** The revenue gap proposed by the licensee for 2011-12 was Rs. 30.02 lakhs before return on investment and Rs. 58.05 lakhs including return on investment. After considering the materials and clarifications of the licensee, the Commission has arrived at a surplus of **Rs.29.95** lakhs for the year 2011-12 as follows:

Approved ARR&ERC for 2011-12

Particulars	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
Purchase of power	921.02	1,037.39
Repair & Maintenance	29.46	19.56
Employee costs	18.74	18.74
A& G expenses	16.96	13.34
Depreciation	27.16	27.16
Interest & Financing charges	0.00	0.00
Other debits	0.00	0.00
Return on investment	28.02	10.00
Total Expenses	1,041.36	1,126.19
Revenue from sale of power	971.57	1,144.39
Other income	11.75	11.75
Total Revenue	983.32	1,156.14
Surplus/(deficit)	-58.05	29.95

Orders of the Commission

31. After the analysis of the ARR&ERC and the clarifications thereon submitted by the licensee, the Commission provisionally approves the ARR of Rs.1126.19 lakhs and estimated revenue of Rs.1156.14 lakhs, leaving a revenue surplus of Rs.29.95 lakh for the year 2011-12 for M/s. Rubber Park India Private Limited as stated above. The licensee shall take earnest efforts to limit the expenses at the approved level. The existing tariffs will continue till further orders.

32. The licensee shall, in co-ordination with KSEB, endeavour to utilise the spare capacity of the 110KV/11KV Transformer. The 110 KV substation of the Licensee may be utilised by KSEB to provide 11KV supply to the neighbouring areas, after paying open access

charges to the Licensee. Both the Licensee and the KSEB may approach the Commission to fix up the open access charges for the Licensee's power systems.

With the above directions, the petition is disposed of. Ordered accordingly.

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

- 1) Baby Kuriakose, Director Research, Rubber Park Limited
- 2) George Joseph, former Managing Director, Rubber Park Limited
- 3) Sooraj Ramachandran, Consultant, Rubber park Limited
- 4) Anil Nair, Rubber park Limited
- 5) Pramod .S.V, Rubber Park
- 6) Aneesh M.K. Jay Jay Intermix, Rubber park Limited
- 7) Rajiv Menon Classic Auto Tubes Ltd, Rubber park Limited
- 8) Sreedevi. B. Deputy Chief Engineer, TRAC, KSEB
- 9) Prasad.S. Assistant Executive Engineer, TRAC, KSEB