

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

Present : Shri. T.M.Manoharan, Chairman
Shri. P.Parameswaran, Member

15th May, 2013

Petition No. OP 8 of 2013

In the matter of
ARR & ERC of M/s Rubber Park India (P) Limited, for the FY 2013-14

M/s. Rubber Park India (P) Limited

---- Petitioner

ORDER

1. Rubber Park India Private Limited (*hereinafter called the Licensee or RPIL*) a joint venture company of Rubber Board and KINFRA, is a distribution Licensee under the Electricity Act 2003. The Licensee receives electricity at 110 kV from the Kerala State Electricity Board (*herein after called the Board or KSEB*) and distributes to the Industrial units within the park. M/s RPIL filed the petition for approval of ARR&ERC for 2013-14, on 01.01.2013, vide their letter dated 31.12.2012 against the due date of 30.11.2012. Though, the petition ought to have been filed 4 months before the commencement of the financial year, the RPIL did not submit the petition within the time limit. The Commission had to direct the Licensee, vide letter dated 19.12.12, to file the ARR&ERC petition within seven days from the date of receipt of the communication.
2. The Petition for the approval of ARR & ERC filed by the Licensee shows an Aggregate Revenue Requirement (ARR) of Rs.1424.68 lakh including Return on Equity of Rs.36.07 lakh and an Expected Revenue from Charges (ERC) of Rs.1406.88 lakh and a revenue gap of Rs.17.80 lakh. The actuals for 2011-12 also shows a gap of Rs.175.66 lakhs after considering Return on Equity and Tax Liability. The Licensee submitted clarifications on the points sought by the Commission, vide letter dt.12.02.2013. The summary of the petition filed by the Licensee is given below:

ARR & ERC Projected for the Year 2013-14

Category	2011-12 Actual (Rs.lakhs)	2012-13 Approved (Rs. lakhs)	2013-14 Projected (Rs.lakhs)
Cost of power purchase	749.06	965.89	1282.63
Interest & Finance charges	0.00	0.00	0.00
Depreciation	27.16	27.16	28.38
Employee cost	20.84	22.49	31.64
R&M Expenses	19.43	21.52	24.49
A & G expenses	18.76	14.66	21.47
Total	835.25	1051.72	1388.61
Provision for Income Tax	109.19	-	-
Return on Equity	36.07	10.00	36.07
Total Expenditure	980.51	1061.72	1424.68
Revenue from Tariff	792.11	963.58	1392.91
Non – Tariff Income	12.74	13.00	13.97
Total Revenue	804.85	976.58	1406.88
Revenue Surplus/(Gap)	(175.66)	(85.15)	(17.80)

Hearing on the Petition

3. Public hearing on the petition was held on 27.02.2013 at the Conference Hall, Rubber Park. The Licensee was represented by Shri.J.Krishkumar, Managing Director and Shri. M. Ravindran Nair, Consultant. Kerala State Electricity Board (hereinafter referred to as KSEB or the Board) was represented by Shri.B.Pradeep, Executive Engineer, and Shri. Prasad. S, Asst. Executive Engineer, TRAC, KSEB. Shri. M. Ravindran Nair, presented the petition and responded to the queries. Shri.B.Pradeep presented the comments of KSEB on the petition. The Board also submitted a written statement. The Board pointed out that the projected revenue from sale of power for 2013-14 may be admitted only after considering the impact of tariff revision effective from 01.07.2012. The salary of two non – technical staff is estimated at Rs.9.81 lakh while the actual for 2011-12 was only Rs.1.875 lakh for 5 five employees. Similarly two Executive Engineers are reported to have been posted to cater to the requirements of 44 consumers. As a whole, the Licensee is loading a substantial portion of the cost of employees engaged in the main business to the distribution business. The claim for R&M expense is increased by 26% over the actuals of 2011-12. The A&G expense projected increased by 14% from the actuals for 2011-12. The Consultant appointed by the Commission has suggested that the apportionment of 80% of the A&G expenses of Rubber park on the distribution business is not rational. The Licensee has considered the cost of street lights to be replaced by the end of the financial year for arriving depreciation. The Consultant appointed by the

Commission has suggested to disallow the depreciation on common assets as the Licensee has failed to provide the required data. The deficit, if any in the current financial year may be allowed to be met from the surplus of the previous year.

Analysis and Decision of the Commission

4. The Commission has considered the petition and clarifications filed by the Licensee, oral submissions during the hearing, and the observations presented by the Board on the petition. The decision of the Commission is given in the following sections.

5. **Energy Sales and Distribution Loss:** The estimate of sales for 2013-14 is 27.38MU. Details of the projected sales are as given below

Category	2011-12 (actual)		2012-13(approved)		2013-14(projected)	
	No.of consumers	Energy sold in MU	No. of consumers	Energy sold in MU	No. of consumers	Energy sold in MU
HT industrial	12	17.26	12	23.00	16	26.09
LT IV	11	0.91	13	1.02	12	1.02
LT VI					1	0.01
Temporary connections	19	0.09	17	0.09	14	0.07
Rubber park utilities	1	0.23	1	0.26	1	0.19
Total	43	18.49	43	24.37	44	27.38

6. The projected sales show an average annual growth rate of 21.69% from 2011-12 and an annual growth rate of 12.35% from 2012-13. The sales estimate is based on the actual sales for the year 2012-13 and the expected increase in sales of new consumers. The maximum demand of RPIL for 2012-13 4800KVA. Assuming an increase of 450KVA in maximum demand, due to conversion of two LT Temporary connections to HT category, the estimated maximum demand for 2013-14 will be 5250KVA. The actual consumption upto November 2012 is 15.62 MU. The projection for the whole year, based on the recorded consumption, will be 25.02MU. The additional consumption is estimated at 2.36 MU. Hence the total consumption for 2013-14 is estimated at 27.38 MU. The Commission accepts the projections of the sales estimates of the Licensee for the year 2013-14.

7. The distribution loss projected by the Licensee for 2013-14 is 2.5%. The distribution loss projected and approved for 2012-13 was 1.97%. The Licensee has reported that the actual loss up to November, 2012 is 2.77%. The Commission has noted that the main reason for the high distribution loss is the excess capacity in

the system of the Licensee. The Licensee has initiated action, as per the direction of the Commission, to utilise the unutilised capacity through open access arrangement with KSEB. So there is a chance that distribution loss will decline on a percentage basis. In this circumstance, the Commission is of the opinion that it is not desirable to increase the distribution loss from the already approved level of 1.97%. Accordingly, the energy requirement for 2013-14 will be as follows:

Distribution Loss for 2013-14

Particulars	2011-12 (actual)	2012-13 (approved)	2013-14 (Projection)	2013-14 (Approved)
Total energy sold in MU	18.49	24.37	27.38	27.38
Distribution Loss in MU	0.50	0.48	0.70	0.55
Gross energy requirement in MU	18.99	24.85	28.08	27.93
Distribution Loss in %	2.63	1.97	2.50	1.97

8. **AT&C loss:** In the distribution business, distribution loss and AT&C loss are the common performance parameters. Collection efficiency reported by the Licensee is 100% as the Licensee has installed prepaid meter system. Hence AT&C loss for 2013-14 is fixed as 1.97%.
9. **Cost of Power Purchase:** The Licensee has projected the cost of power purchase as Rs.1282.63 lakhs based on the estimated energy sales of 27.38MU and distribution loss of 2.5%, the gross requirement of energy will be 28.08MU for 2013-14. The Licensee has included Rs.54.75 lakhs towards Fuel Surcharge as part of cost of power purchase. Considering the approved distribution loss, the cost of power purchase for 2013-14 is given below:

Approved Cost of Power Purchase for 2013-14

	Proposed by the Licensee	Approved by the Commission
Energy purchase (MU)	28.08	27.93
Maximum Demand (KVA)	5250	5250
Contract Demand(KVA)	3000	3000
Excess Demand (KVA)	2250	2250
Demand Charges (Rs./KVA)	300	300
Total Demand charges (Rs in lakh) A	189.00	189.00
Energy Charges (Rs./kWh)	3.70	3.70
Total energy Charges (Rs.in lakhs) B	1038.96	1033.41
Fuel surcharge C	54.75	
Cost of power purchase A +B + C	1282.71	1222.41

The cost of power purchase of the Licensee for 2013-14 is approved as Rs.1222.41 lakhs.

10. **Depreciation:** The Licensee has projected Rs.28.38 lakhs towards depreciation as furnished below:

Depreciation Projected by the Licensee

	2011-12 Actual (Rs.lakhs)	2012-13 Approved (Rs.lakhs)	2013-14 Projected (Rs.lakhs)	% of Assets
Transmission Lines	2.54	2.54	2.54	2.56%
Sub stations	14.57	14.57	14.99	3.60%
11 KV works	3.89	3.89	4.41	3.60%
LT Lines	1.09	1.09	1.09	3.60%
Service connections	0.01	0.01	0.01	3.57%
Metering Equipment	0.34	0.34	0.34	6.00%
Others	4.72	4.72	4.99	2.07%
Total	27.16	27.16	28.38	

The Licensee has proposed asset additions amounting to Rs.30.8 lakh as shown below:

Asset additions Proposed for 2013-14

	Rs.in lakh
Substations	11.80
11 KV works	14.50
Others (Solar St. Light Fittings)	4.50
Total	30.80

11. The Licensee has explained in the petition that one current transformer (CT), two potential transformers (PT) and six RMUs are added in the network during 2012-13. It is also proposed to replace 20 numbers of existing damaged streetlights with solar streetlight fittings by the end of this financial year. The Commission notes that the Licensee has not sought the approval for capital investment programme in 2012-13. Further, the proposed asset additions in 2012-13 are also not included in the schedules in the petition for that year. Instead the asset additions are projected in the year 2013-14. Hence, the Commission is not in a position to allow depreciation for the proposed assets as part of the ARR&ERC for 2013-14. However, the same can be considered after prudence check during the truing up process, once the necessary approvals are taken.

12. At present the Commission is following the depreciation as per the CERC (Terms and Conditions of Tariff) Regulations, 2009. However, the depreciation notified by

the CERC is conditional and linked to repayment obligation and useful life. Accordingly, the Commission allows the depreciation for the Licensee as per the CERC norms as revised in 2009. However, the Licensee has to maintain the accounts in line with revised CERC norms. During the truing up process, the Licensee has to provide the details as per the norms and in case the details are not available, the Commission would be constrained to resort to CERC norms applicable for the tariff period 2004-2009. The Commission in its order dated 13-4-2012 decided as follows:

“A. Depreciation need not be allowed on assets created out of contributions and grants by any Licensee in the State as a general rule. In the case of KSEB, this will be made applicable from 2010-11 and proposal for clawing back the depreciation already claimed upto 2009-10 is dispensed with.

B In future, all licensees shall provide separate statements under capital works programme for assets to be created out of contributions and grants in their ARR&ERC / truing up petitions. The depreciation estimations in these petitions shall also distinctly indicate the value of assets for which depreciation is claimed and that which is created out of contributions and grants”

13. Accordingly, the depreciation for assets created out of consumer contribution is not available. However, the Licensee has not given details in the petition on consumer contributions and assets created out of consumer contributions. The Licensee shall provide such details as part of the petition for the approval of ARR&ERC and petition for truing up in future. With the above directions, the Commission approves the depreciation provisionally as shown below subject to the fulfilment of conditions as explained above.

Depreciation Approved for 2013-14

Particulars	Assets at the beginning of the year (Rs.lakh)	Projected depreciation (Rs.lakhs)	Approved Depreciation (Rs.lakhs)	% of Assets
Transmission Lines	99.00	2.54	5.23	5.28%
Substations	404.59	14.99	21.36	5.28%
11 KV works	108.05	4.41	5.71	5.28%
LT lines	30.38	1.09	1.60	5.28%
Service Connections	0.28	0.01	0.01	5.28%
Metering equipment	5.60	0.34	0.35	6.30%

Others(Solar Fittings)	Street Light	228.32	4.99	-	
Total			28.38	34.27	

14. **Interest and Financing Charges:-** The Licensee has not claimed any interest and financing charges.

15. **Employee Cost :** The employee cost projected by the Licensee is Rs.30.10 lakh. Number of employees working and their cost are furnished below:

Employee Cost over the years

Year	No.of employees	Cost (Rs.in lakh)
2011-12 (actual)	12	20.39
2012-13 (approved)	8	22.49
2013-14 (projected)	8	30.10

The **claim for employee cost for the year 2013-14** has increased by 47.62% from the actuals for 2011-12. But the number of employees working has been reduced **in 2012-13** to 8 from 12 **in 2011-12**. According to the Licensee, the reason for the increase is due to the increase in pay and allowances every year on account of increase in DA and it is about 10 to 12%. In addition, the company expects pay revision of its employees. Details of the employee cost are proposed by the Licensee is given below:

Employee cost Proposed for 2013-14

Sl. No.	Particulars	Sanctioned	Working	Cost (Rs.in lakhs)
1	CMD (Part)	1	1	4.21
2	Executive Engineer (Part)	2	2	7.45
3	Resident Engineer	1	1	4.71
4	Technical staff	2	2	3.92
5	Non- Technical Staff	2	2	9.81
	Total	8	8	30.10

16. The Commission provisionally approved the employee cost for 2012-13 as Rs.22.49 lakhs. The Commission notes that the Licensee has projected the employee cost almost the same as that of previous year, except in the case of non-technical staff, but the number of employees proposed for 2013-14 is same as that of 2012-13. In the previous order, the Commission has taken a view that apportionment of salary of senior staff such as CMD & Executive Engineers can be determined once the decision on the consultancy report is taken. Considering all

the above, the Commission approves 10% increase in employee cost approved for 2013-14. Accordingly, the approved employee cost for 2013-14 is Rs.24.74 lakhs.

17. R&M Expenses: The Licensee has projected Rs. 24.49 lakhs towards Repair and Maintenance expenditure. The actual R&M cost for 2011-12 was Rs.19.43 while the approved cost for 2012-13 was Rs.21.52 lakh. The average annual growth from 2011-12 is 23.22% while the annual growth from 2012-13 is 13.80%. The Licensee has explained the reason for the excess that the R&M work has been outsourced and the present contract expires on March 2013. The Commission allows R&M expenses for 2013-14 at 10% over the approved level in 2012-13. Accordingly the approved R&M expense for 2013-14 is Rs.23.67 lakh.

18. Administrative and General Expenses : The A & G expense projected by the Licensee for 2013-14 is Rs.21.47 lakhs against the approved amount of Rs.14.66 lakh for 2012-13 and the actual A&G expense of Rs.18.76 lakh for 2011-12. The projected amount is 46% higher than the approved amount for the previous year. The significant increase is in consultancy charges (Rs.2.80 lakh), conveyance and vehicle hire charges (Rs.6.08 lakh) and travelling expenses (3.03 lakh).

19. A&G expense is a controllable expense and the Licensee should exercise control wherever possible. Hence, as in the case of previous year, the Commission is in a position to allow only 10% increase over the previous year as A&G expenses. Accordingly the amount approved for A&G expenses for 2013-14 is Rs.16.13 lakhs.

20. Other Debits: The Licensee has not proposed any expenses under the head 'Other Debits'.

21. Statutory Surplus/Return on Equity: The Licensee has projected Rs.36.07lakhs towards Return on Equity. The RoE, as per the petition, is 14% on the 30% of the Net fixed asset which is Rs.657.18 lakhs. As per the projected balance sheet of the Licensee for the year ending on 2013-14 entire business is funded by the equity capital of Rs.900 lakh and Reserves & Surplus of Rs.73.88 lakh. However, in the absence of detailed information of the amount to be considered as equity, the Commission allows a notional return of Rs.10 lakhs for 2013-14 as was done in the previous years.

22. Aggregate Revenue Requirement: The Aggregate Revenue Requirement approved for 2013-14 is summarised as given below:

Approved Aggregate Revenue Requirements for 2013-14

Particulars	Projected by the Licensee	Approved by the Commission
	(Rs.in lakhs)	(Rs.in lakhs)
Purchase of Power	1,282.63	1,222.41
R&M Expenses	24.49	23.67
Employee costs	31.64	24.74
A & G expenses	21.47	16.13
Depreciation	28.38	34.27
Interest & Finance charges	-	-
Other debits	-	-
Return on Equity	36.07	10.00
Total expenses	1,424.68	1,331.22

23. **Revenue from Sale of Power:** The Licensee has projected, in the original petition, Rs.1392.91 lakhs towards revenue from sale of power for the year 2013-14. The details of the revenue from tariff are furnished below:

Revenue from sale of power projected by RPIL for 2013-14

Category	No. of consumers	Sales in lakhs units	Revenue (Rs.in lakhs)	Average realisation Rs./kWh
HT- I	16	260.9	1280.86	4.91
LT Consumers	12	10.2	53.01	5.19
Temporary Connections	14	0.70	7.68	10.90
LTVI	1	0.10	0.83	9.77
RPIL Utilities	1	1.90	12.17	6.43
Total	44	273.80	1354.56	4.95
Miscellaneous charges from consumers			0.03	
Fuel surcharge			54.75	
Reconnection fee				
Other Receipts				
Total Revenue			1409.34	
Less other state levies payable			16.43	
Net Revenue from sale of power			1392.91	

24. As required by the Commission, the Licensee has revised the revenue estimates based on the tariffs applicable with effect from 1.07.2012 as shown below:

Revised Revenue Projections for 2013-14

Tariff Category	Connected load/ Billing Demand	Billing Energy	Fixed Charges/ Demand Charges	Energy Charges	Demand Charge/ Fixed Charge	Energy Charge	Total
	KVA/kW	(Lakh Units)	Rs./kW/ kVA/ Month	Rs./Unit	(Rs. lakhs)	(Rs. Lakhs)	(Rs. Lakhs)
Industry (LT-IV)	802	11.16	100	4.25	9.60	47.43	57.03
LT-VI B	35	0.36	70	6.50	0.29	2.34	2.63
LT-VI C	5	0.11	180	8.50	0.11	0.90	1.01
LT-VII A							
Single Phase	41		60		0.29		
Three phase	88		120		1.26		
Up to 100 kWh		0.19		5.45		1.05	
Up to 200 kWh		0.07		6.05		0.40	
Above 500 Units		0.68		8.50		5.81	
Total							8.81
Public Lighting (LT IX)		0.21	30	2.75	0.04	0.56	0.60
High Tension (HT)							
HT-1 Industrial	5100	260.90	300	4.10	183.60	1,069.69	1,253.29
Grand Total		273.80					1323.37

25. In the original petition the Licensee had deducted Rs.16.43 lakhs towards levy payable to the State from the gross revenue, which has not been clarified. As per the revised strategy filed by the Licensee, the total revenue from charges considering miscellaneous charges proposed by the Licensee is Rs. 1323.40 lakhs.

26. **Non – Tariff Income:** The Licensee has projected Rs.13.97 lakhs towards non-tariff income as shown below:

Non tariff income projected for 2013-14

Particulars	2011-12 Actual (Rs.in lakhs)	2012-13 Approved (Rs.in lakhs)	2013-14 Projected (Rs.in Lakhs)
Interest on Bank Fixed Deposits	11.79	10.75	12.97
Misce. Recoveries	0.95	1.00	1.00
Total	12.74	11.75	13.97

The Commission approves the non – tariff income as projected by the Licensee. Accordingly the total revenue approved for 2013-14 will be as follows:

Approved Revenue from Tariffs and Non-Tariffs

	Projected Rs. lakhs	Approved Rs. lakhs
Revenue from sale of power	1392.91	1323.40
Non- tariff income	13.97	13.97
Total	1406.88	1337.37

27. Revenue Surplus/Gap : The revenue gap proposed by the Licensee as per the ARR & ERC for 2013-14 was Rs.17.80 lakh including return on equity. Against this, the Commission has arrived at an Aggregate Revenue Requirement of Rs.1331.22 lakhs and Expected Revenue from Charges of Rs.1337.37 lakhs, leaving a revenue surplus of Rs.6.15 lakhs as shown below:

Approved Revenue gap for 2013-14

Particulars	Projected (Rs.lakhs)	Approved (Rs.lakhs)
Purchase of Power	1,282.63	1,222.41
R&M Expenses	24.49	23.67
Employee costs	31.64	24.74
A & G expenses	21.47	16.13
Depreciation	28.38	34.27
Interest & Finance charges	-	-
Other debits	-	-
Return on Equity	36.07	10.00
Total expenses	1,424.68	1,331.22
Revenue		
Revenue from sale of power	1,392.91	1,323.40
Non-Tariff Income	13.97	13.97
Total Revenue	1,406.88	1,337.37
Revenue Surplus/(Gap)	(17.80)	6.15

The distribution cost (except cost of power purchase) for the year 2013-14 based on the approved ARR for the year is 40 paise per unit, as against the approved distribution cost of 39 paise for 2012-13.

Orders of the Commission

28. After the analysis of the ARR&ERC and the clarifications thereon submitted by the Licensee as well as the objections and observations of the Board, the Commission hereby approves the Aggregate Revenue Requirement of Rs.1331.22 lakhs and Expected Revenue from Charges of Rs.1337.37 lakhs, leaving a revenue surplus of Rs.6.15 lakhs for M/s Rubber Park India Private Limited as stated above. The Licensee shall limit the expenses at the approved level. The tariffs applicable with

effect from 1.07.2012 will continue till 30.04.2013. The tariff approved by the Commission as per its order dated 30.04.2013 will be applicable with effect from 01.05.2013. Orders on Bulk Supply Tariff applicable to the licensee will be issued separately.

29. The petition disposed of. Ordered accordingly.

Sd/-

P. Parameswaran
Member

Sd/-

T.M.Manoharan
Chairman

Approved for issue

Secretary