

# KERALA STATE ELECTRICITY REGULATORY COMMISSION

## THIRUVANANTHAPURAM

PRESENT: Sri.T.M.Manoharan, Chairman  
Sri.P.Parameswaran, Member  
Sri.Mathew George, Member

**26<sup>th</sup> August, 2013**

**Petition OP No. 21/2013**

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2011-12

Rubberpark India (Private) Limited

- **Petitioner**

## ORDER

### Introduction

1. M/s.Rubber Park India Private Limited (RPIL) (*hereinafter referred to as the Licensee or RPIL*) filed its petition for truing up of accounts for 2011-12 vide its letter dated 31-12-2012. After initial scrutiny, the petition was admitted on 22-6-2013 and the Commission sought for certain clarifications vide letter dated 26-6-2013. The clarifications were provided by the licensee vide its letter dated 12-7-2013. The hearing on the petition was held on 23-7-2013 at the office of the Commission at Thiruvananthapuram.
2. The petition on truing up of accounts for the year filed by the licensee shows an aggregate revenue requirements (ARR) of Rs.871.32 lakhs including a return on equity of Rs.36.07 lakhs and total revenue of Rs. 780.12 lakhs, leaving a revenue gap of Rs.91.20 lakhs. Though the licensee has stated that the petition for truing up is based on audited accounts, no separate audit was conducted for the distribution business. The abstract of the petition is as given below:

## Summary of Approved and Actual ARR&ERC for 2011-12

	2009-10 (Actuls)	2010-11 (Actual)	2011-12 (Approved)	2011-12 Actual
<b>Particulars</b>				
Total Energy Sales MU	14.57	14.23	27.83	18.49
Distribution Loss MU	0.38	0.38	0.56	0.50
Gross Energy MU	14.95	14.61	28.39	18.99
<b>Distribution Loss in %</b>	2.5%	2.6%	1.97%	2.6%
<b>Revenue</b>				
Revenue from Sale of power	619.29	568.35	1,144.39	767.38
Non – Tariff Income	-	9.08	11.75	12.74
<b>Total Revenue</b>	619.29	577.43	1,156.15	780.12
<b>Expenses</b>				
Purchase of Power	494.14	542.22	1,037.39	749.06
Repair & Maintenance	16.12	15.73	19.56	19.43
Employee costs	22.61	20.68	18.74	20.84
A & G Expenses	10.99	16.40	13.33	18.76
Depreciation	27.07	27.73	27.16	27.16
Interest & Finance Charges	-	-		
<b>Total Expenses</b>	570.93	705.16	1,116.18	835.25
Return on Capital	10.00	32.18	10.00	36.07
<b>Aggregate Revenue Requirements</b>	580.93	737.34	1,126.18	871.32
<b>Surplus/(Deficit)</b>	38.36	(159.91)	29.97	(91.20)

### Hearing on the matter

3. Hearing on the petition was held on 23-7-2013 at the Office of the Commission, Thiruvananthapuram. In the hearing, Shri. M. Ravindran Nair, Consultant, M/s.RPIL presented the details on the petition. He stated that the revenue gap for the year is Rs.91.20 lakhs and if the deferred taxation liability is included the total gap would be Rs.-172.56 lakhs. The estimated RoE for the year is Rs. 36.07 lakhs, which is 14% of the 30% net fixed assets (NFA).
4. The views of KSEB on the petition were presented by Shri. B. Pradeep, Executive Engineer. According to the Board, though the licensee has worked out the return on equity, it come to 17.46% of the of 30% NFA as against the claim of 14%. The Board requested that the Commission may allow the RoE as per the existing practice until the methodology for allowing the RoE for small licensees are notified after due process.

5. In the A&G expenses, after including all items, the licensee has claimed Rs.3.73 lakhs as miscellaneous expenses, which requires prudence check. It can be seen that the actual A&G expenses have increased by 14.39% over the previous year (2010-11) and 40.63% over the approved level. The licensee has been apportioning the A&G expenses arbitrarily between the distribution business and park business. The claims of the licensee on employee costs, A&G expenses and R&M expenses may be approved provisionally and the final approval may be as per the finalisation of the reports of the consultant. The Commission has directed the licensee to furnish separate audit report on the distribution function, which has not been furnished. The Commission may allow the O&M expenses based on the CPI-WPI basis. The Board further pointed out that the per unit realisation has decreased for almost all consumer categories and the overall realisation has been declined to Rs.3.99 from Rs.4.05 per unit. The self consumption by RPIL has been decreased by 7.83%, where as the overall consumption has increased by 28%.
  
6. The distribution loss has increased from 2.6% in the year 2010-11 to 2.68% in 2011-12 though the approved loss is only 1.97%. The Commission may allow only the approved loss and disallow the excess power purchase cost. The licensee is holding Rs.37.86 lakhs as surplus as per the truing up orders of the Commission for the years from 2005-06 to 2011-12. The deficit if any after the truing up process may be adjusted against this surplus. The Board has also pointed out that the licensee has obtained a stay order from Hon. High Court of Kerala in WP(C)13454 of 2011 against the revision of bulk supply tariff order effective from 1-12-2010. The licensee has to remit an amount of Rs.120.23 lakhs for the period from 12/2010 to 6/2012, being the short remittance in electricity charges calculated at revised tariff. Though the Board based on the direction of the Commission, has requested M/s RPIL vide letter dated 20-6-2013 to clear the arrears, the licensee has not responded yet. The Board requested that the Commission may approve the power purchase cost subject to the disposal of the above mentioned writ petition.

### **Analysis and Decision of the Commission**

7. The Commission has considered the petition and the clarifications submitted by licensee. Each item is taken up in the following sections.

8. **Energy Sales and Distribution Losses:** As per the details provided by the licensee sales for different consumer categories are as follows:

**No. of Consumers and Energy Sales for 2011-12**

	Approved		Actual	
	No. of consumers	Energy sales (MU)	No. of consumers	Energy sales (MU)
HT Consumers	11	26.10	12	17.27
LT consumers	12	1.26	11	0.91
Temporary connections	17	0.14	19	0.09
Rubber park utilities	1	0.30	1	0.23
<b>Total</b>	<b>41</b>	<b>27.82</b>	<b>43</b>	<b>18.49</b>

9. The licensee has separately provided the details of the energy booked under own consumption as part of the clarifications. The licensee in its petition stated that the reduction in sales during the year is due to the fact that expected sales did not take place. Based on the explanation, the Commission approves the actual energy sales reported by the licensee for the purpose of truing up.

10. **Energy Input and Distribution Loss:** As per the petition the energy input and distribution loss for the year furnished by the licensee is as shown below:

**Energy Input and Distribution Loss**

	Approved	Actual
Sales to consumers (MU)	27.83	18.49
Energy Purchase (MU)	28.39	18.99
Distribution loss (%)	1.97%	2.63%

11. The distribution loss reported by the licensee is 2.63% against 1.97% approved by the Commission. The loss levels approved by the Commission for the year 2011-12 is same as the loss levels proposed by licensee in the petition for ARR&ERC for 2011-12. The Commission allows the approved losses for the purpose of truing up. Accordingly, the additional power purchase on account of excess distribution loss is 0.125 MU.

**Expenses :**

12. **Cost of Power purchase:** As per the details given by the licensee, the cost of power purchase is as shown below:

Average Annual Maximum Demand	3582
Demand Charge (Rs./kVA)	245
Demand Charges (Rs.lakhs)	112.44
Energy purchased (lakh units)	190.00
Energy Charge (Rs./kWh)	3.16
Energy Charges (Rs.lakhs)	600.40
<b>Total Charges (Rs.lakhs)</b>	<b>712.64</b>
Excess Demand Charges (Rs.lakhs)	12.12
Fuel surcharge (Rs.lakhs)	24.10
<b>Total Billed Amount (Rs.lakhs)</b>	<b>749.06</b>
Average Power purchase cost (Rs./kWh)	3.95
Excess Energy on account of distribution loss (lakh units)	1.25
<b>Excess power purchase cost (Rs.lakhs)</b>	<b>4.94</b>
<b>Net Power purchase Cost allowed (Rs.lakhs)</b>	<b>744.12</b>

13. As per the details given by the licensee, the cost of power purchase is arrived at as per the tariff ordered by the Commission periodically. The Commission for the purpose of truing up allows the cost towards power purchase as per the accounts for the year 2011-12, subject to the final decision of the Hon. High Court of Kerala. However, considering the excess distribution loss, the net cost for power purchase allowed for the purpose of truing up is Rs.744.12 lakhs.

**14. Depreciation:** The depreciation booked as per the accounts for the year 2011-12 is as shown below:

#### Depreciation for the year 2011-12

	Gross Fixed Assets (Rs.lakhs)	Depreciation (Rs.lakhs)	Rate of depreciation (%)
Land and rights	26.85	-	0
Transmission lines	99.00	2.54	2.6%
Substations	404.59	14.57	3.6%
11kV Works	108.05	3.89	3.6%
LT Lines	30.38	1.09	3.6%
Service connections	0.28	0.01	3.6%
Metering equipments	5.60	0.34	6.1%
Others	228.32	4.72	2.1%
Total	903.07	27.16	

15. There is no asset addition reported by the licensee for the year 2011-12. The depreciation accounted for the distribution business is based on the rates as per the CERC regulation on terms and conditions of tariff applicable for the tariff period 2004 to 2009. Based on the details submitted by the licensee, the depreciation booked is allowed for the purpose of truing up process.

16. **Interest and Financing Charges:** The licensee has not booked any amount under interest and financing charges since all the assets are developed without incurring any loans.

17. **Repair and Maintenance Charges:** The comparison of approved and actual repair and maintenance expenses booked by the licensee is as shown below:

**Approved and Actual R&M expenses**

	<b>Approved (Rs.lakhs)</b>	<b>Actual (Rs.lakhs)</b>
Substations	15.46	15.59
11kV Works	3.59	2.70
Others	0.50	1.14
<b>Total</b>	<b>19.55</b>	<b>19.43</b>

18. The licensee has outsourced the R&M activities. The R&M expenses for the year is almost same as that of the approved level. The Commission allows the R&M expenses as per the accounts for the purpose of truing up.

19. **A&G Expenses:** The A&G expenses booked by the licensee for the distribution business is Rs.18.76 lakhs, which is higher by Rs.5.43 lakhs over the approved expenses of Rs. 13.33 lakhs. The reason given by the licensee for higher A&G expenses is increase in cost of security service personnel, legal expenses, consultation charges and audit fees. The cost of security has increased on account of increase in wages for the security staff. The Commission notes that most of the items under the A&G expenses are controllable and also joint costs, which is allocated to the distribution business from the main business. The Commission also notes that consultancy charges of Rs.1.06 lakhs is the proportionate cost for assignment on the separation joint costs etc., for developing tariff regulations, which was not included in the ARR & ERC approved for 2011-12. Considering this, the Commission allows the A&G expenses at the approved level, with additional provision for towards charges for consultancy

assignment. Thus the total A&G expenses allowed for 2011-12 is Rs.14.39 lakhs.

20. **Employee costs:** The employee costs booked for the distribution business for the year was Rs.20.84 lakhs as against the approved cost of Rs.18.74 lakhs. The licensee has clarified that the increase is due to the increments in salary and DA revision, which is marginal considering the previous year actuals. The employee cost allowed for 2010-11 was Rs.20.68lakhs. Thus the employee cost for the year 2011-12 is not substantially higher. Hence for the purpose of truing up employee cost booked as per the accounts is allowed.

21. **Return on equity:** The licensee has claimed return on equity for the business at 14% of the 30% of NFA, which works out to Rs.36.07 lakhs. The licensee has stated that the business of Rubber park is entirely funded by the equity contribution from Kinfra and Rubber Board with Rs.10 crore each. The company has not availed any loans. The total equity earmarked for the licensed business is Rs.900 lakhs. The net fixed assets at the beginning of the financial year was Rs. 751.70 lakhs. In order to ascertain the reasonable level of equity in the distribution business of the licensees, the Commission has already initiated a consultancy study. The exact level of ratebase for providing the return can be ascertained only based on the report of the consultants. Till such time, the Commission allows a provisional return of Rs.10 lakhs for the years for which truing up of accounts is made.

22. **Revenue from sale of power :** The revenue from sale of power booked by the licensee is as shown below:

#### **Details of Revenue from Sale of Power for 2011-12**

	No. of consumers	Energy sales (MU)	Revenue (Rs.lakhs)
HT Consumers	12	17.27	681.72
LT consumers	11	0.91	33.60
Temporary connections	19	0.09	8.25
Rubber park utilities	1	0.23	13.26
<b>Total</b>	<b>43</b>	<b>18.50</b>	<b>736.83</b>
Recovery of electricity duty			24.72
Meter Rent, penalty & marginal charges on power purchase			6.77
Fuel surcharge			22.93
Reconnection fee			0.20

Other receipts			0.66
<b>Gross revenue</b>			<b>792.11</b>
Less Electricity Duty payable			24.72
<b>Total</b>			<b>24.72</b>
<b>Net Revenue from sale of power</b>			<b>767.39</b>

23. The Commission notes that the average realisation for the year 2011-12 has marginally decreased. The licensee has explained that the decrease in average realisation is on account of increase in sales to different consumers. The revenue from sale of power for the year 2011-12 is allowed as per accounts.

24. **Other income :** The licensee has shown Rs.12.74 lakhs under other income. Out of this, Rs.11.79 lakhs is interest from bank deposits including interest on security deposit to KSEB. The Commission approves the other income as per the accounts.

25. **Summary of ARR&ERC after truing up:** The total revenue gap after the truing up of accounts for the year 2011-12 is Rs 55.82 lakhs as shown below:

Particulars	2011-12		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	True up (Rs.lakhs)
<b>Revenue</b>			
Revenue from Sale of power	1,144.39	767.38	767.38
Non – Tariff Income	11.75	12.74	12.74
<b>Total Revenue</b>	1,156.15	780.12	780.12
<b>Expenses</b>			
Purchase of Power	1,037.39	749.06	744.12
Repair & Maintenance	19.56	19.43	19.43
Employee costs	18.74	20.84	20.84
A & G Expenses	13.33	18.76	14.39
Depreciation	27.16	27.16	27.16
Interest & Finance Charges	---	----	---
<b>Total Expenses</b>	1,116.18	835.25	825.94
Return on Capital	10.00	36.07	10.00
<b>Total Expenses</b>	1,126.18	871.32	835.94
<b>Revenue Surplus/(Deficit)</b>	29.97	(91.20)	(55.82)

26. The revenue surplus as per the approved ARR&ERC for 2011-12 was Rs.29.97 lakhs and the revenue gap as per the accounts submitted by the licensee is Rs.



91.20 lakhs. The Commission has arrived at a revenue gap of Rs.55.82 lakhs for the year 2011-12 after the truing up of accounts. The revenue surplus up to the year 2010-11 after truing up was Rs.37.85 lakhs. Accordingly the net revenue gap after the considering the balances in previous years at the end of 2011-12 is Rs.17.97 lakhs.

**Orders of the Commission:**

27. The total revenue gap arrived at after the truing up of accounts for 2011-12 is Rs.55.82 lakhs against the revenue gap of Rs.91.20 lakhs as per the accounts furnished by the licensee. The net revenue gap after adjusting the revenue surpluses of previous years is Rs.17.97 lakhs.
28. The Commission directs that the licensee shall furnish separate audit report on the distribution operations as part of the truing up process. Further, apportionment if any used for allocating the joint cost under different heads has to be clearly stated in the petition.
29. Petition disposed of. Ordered accordingly.

**Sd/-  
P.Parameswaran  
Member**

**Sd/-  
Mathew George  
Member**

**Sd/-  
T.M. Manoharan  
Chairman**

Approved for issue

Secretary