

KERALA STATE ELECTRICITY REGULATORY COMMISSION THIRUVANANTHAPURAM

OA No.29/2015

In the matter of Truing up of accounts of M/s Cochin Special Economic Zone Authority for 2013-14

Applicant : M/s. Cochin Special Economic Zone Authority

Present : **Shri T.M.Manoharan, Chairman**
Shri K.Vikraman Nair, Member
Shri S.Venugopal, Member

ORDER DATED 07.12.2015

Background

1. The Cochin Special Economic Zone Authority (herein after mentioned as CSEZA or the licensee) had filed an application for truing up of accounts for 2013-14 vide letter No.H-12/1/2012:CSEZA/2980 dated 15/06/2015. This application is for truing up of accounts of 2013-14 for which the Commission had approved the ARR & ERC as per its order dated 15-05-2013 in OP No.3/2013. The licensee furnished clarifications vide letter No.H-12/1/2012:CSEZA/4363 dated 04/09/2015 as sought for by the Commission during the hearing held on 21/08/2015. A comparison of the amounts of expenditure and revenue as approved by the Commission as per said order dated 15-05-2013 and the corresponding actual amounts of expenditure and revenues as per truing up application are given below:

Table 1

CSEZA - Summary of Truing up application for 2013-14

Particulars	2012-13			2013-14	
	Approved	Actual	Trued up	Approved	Actual
Total energy sales (MU)	60.00	53.20	53.20	60.00	53.36
Gross energy input (MU)	60.42	51.81	51.81	60.61	53.35
Distribution Loss (MU)	0.42	-1.39	-1.39	0.61	-0.01
Distribution loss (%)	0.70%	-2.68%	-2.68%	1.00%	-0.02%
Revenue (Rs. in Lakh)					
Revenue from sale of power	2371.03	2541.15	2541.15	2934.20	2988.48
Non Tariff income	105.90	131.24	140.38	120.00	150.53
Total revenue	2476.93	2672.39	2681.53	3054.20	3139.01
Expenses (Rs. in Lakh)					
Power purchase	2203.27	2425.85	2425.85	3038.23	2718.63
Interest and Financing Charges	-	-	-	-	-
Depreciation	54.24	41.43	41.43	64.55	59.14
Employee Costs	122.50	128.00	122.50	128.50	128.00
R&M Expenses	15.00	9.78	9.78	16.50	8.77
A&G Expenses	32.16	16.11	16.11	32.16	22.90
Provisional Return	10.00	99.77	10.00	10.00	99.77
Total Expenses	2437.17	2720.94	2625.67	3289.94	3037.21
Surplus/ Gap	39.76	(48.55)	55.86	(235.74)	(101.81)

Approved = Approved in ARR & ERC

Actual = Actual expenditure claimed in the application for truing up

Trued up = Approved as per order in the application for truing up.

Hearing on the application

- Hearing on the application on truing up of accounts M/s. CSEZA for the year 2013-14 was held on 21-08-2015 at the Conference Hall of CSEZA. During the hearing, representatives of CSEZA, M/s.KITCO (the O&M Agency engaged by CSEZ) and KSEBL were present. Sri. Pramod S, Sri. R.C. Seetharaman and Sri. Krishna Varma.K of M/s.CSEZA presented the application on truing up of accounts for the year 2013-14 and responded to the queries of the Commission. Sri. A.R. Satheesh expressed the views of consumers as a member of Managing Committee of CEPZIA (Cochin Export Processing Zone Industries Association). Sri. K. N. Ajayakumar, Secretary in charge of Asst. Development Commission and Sri. Anil Kumar P. C were also present. Sri. B. Pradeep, EE, TRAC presented the views of KSEBL.

3. KSEBL informed the Commission that they had intimated their willingness to provide 5 MVA additional power as requested by M/s. CSEZA. However, M/s. CSEZA neither entered into an agreement above 10,000 kVA nor remitted the demand charges for recorded demands over and above 10,000 kVA. Therefore, KSEBL deducted an amount of Rs.11.75 Lakh being the short remittance made by M/s.CSEZA from dues to M/s.CSEZA. KSEBL further informed that the additional security deposit amounting to Rs.1.74 Crore claimed by KSEBL has not been remitted by M/s.CSEZA, based on the increase in consumption.It was submitted that penal charges for exceeding contract demand shall not be approved as a prudent expenditure.It is further pointed out that the quantum of power purchased by the licensee as per the truing up application for the year 2013-14 is 51.81 MU. However, after hearing, as per the clarification given by the licensee it is recast as 53.36 MU. It was pointed out that the licensee was directed by the Commission to take necessary action for investigating the reasons if any for the discrepancy in metering data and to take corrective actions to rectify the mismatch in quantity of energy sale and energy purchase. The licensee was also directed to submit a copy to the Commission and to share the report to KSEBL. It was further pointed out that the employee costs of Rs.114.00 lakh provided to the O&M Agency is a major component. However, the number of employees deployed for the work is not yet disclosed. It is submitted that the licensee has spent Rs.10.84 lakh against the approval level of Rs.2 lakh for metering equipment and also spent Rs.8.30 lakh towards Rent, Rates & Taxes against the approval level of Rs.7.22 lakh. Similarly, Rs.2.04 lakh was spent for advertisement charges against the approval level of Rs.0.75 lakh. The amount of Rs.6.86 lakh spent towards internet and related charges have no approval. Regarding depreciation, KSEBL submitted that depreciation for only those assets which are created from own funds may be allowed. It was further submitted that an income amounting to Rs.24.70 lakh(Rs.12.95 lakh towards interest on security deposit and Rs.11.75 lakh towards arrear accrued due to excess over demand plus interest) may be taken into account as Non-Tariff income.
4. M/s.CSEZA vide letter No.H-121/1/2012:CSEZA dated 04-09-2015 stated that they have calculated depreciation on the basis of the rates shown in the ARR&ERC order dated 15-05-2013, which in turn resulted in the increase of the amount of depreciation. It is further submitted that as per the notification No.L-7/145(160)/2008-CERC dated 19/01/2009 issued by CERC, the revised

depreciation rate is applicable from 01/04/2009 onwards whereas CSEZA had claimed depreciation at the old rates for the period from 01-04-2009 to 31-03-2013. It is therefore requested by CSEZA that they may be allowed an amount of Rs.66.66 lakhs towards the difference in the depreciation admissible and that claimed, as a cost while trying up of accounts for the year 2013-14. Regarding the purchase of energy during 2013-14, CSEZA submitted that the quantum of energy purchased during 2013-14 was inadvertently shown as 51.81 MU instead of 53.35 MU in Form F while submitting the trying up application and requested for correcting the error.

5. Sri. A.R. Satheesh pointed out that the mismatch between the energy purchased and sold has not been rectified by the licensee in spite of repeated reminders from the Commission. Based on an analysis, it was mentioned that there has been over billing to the extent of 5% and he wanted the amount to be refunded to the consumers either in cash or as adjustments in future bills.

Analysis and Decision of the Commission

6. The Commission considered the application of the licensee for trying up of accounts, the clarifications and the additional details thereon along with comments of KSEBL. The analysis and decisions of the Commission on the application for trying up of accounts are detailed below:
7. **Energy sales:** Energy sales approved and the actual sales reported by the licensee as per the application for trying up of accounts for the year 2013-14 are as follows.

Table 2
CSEZA – Number of consumers and Sale of power over the years

Category	2012-13 (Actual)		2013-14 (Approved)		2013-14 (Actual)	
	No. of Consumers	Sales	No. of Consumers	Sales	No. of Consumers	Sales
		(MU)		(MU)		(MU)
HT Consumers	25	44.63	26	50.45	28	45.22
DHT Consumers	4	1.78	5	2.20	6	2.03
LT industrial Consumers	117	6.58	112	7.18	105	5.93
LT Commercial	6	0.16	6	0.16	6	0.17
Temporary	6	0.05	7	0.01	7	0.01
Total	158	53.20	156	60.00	152	53.36

8. During the financial year 2013-14 there were 34 HT connections including 6 Deemed HT consumers, 118 LT connections comprising of 105 LT industrial connections, 6 LT commercial and 7 temporary connections. The actual energy sold during 2013-14 as per the records of the licensee was 53.36 MU. The Commission approves the actual energy sales for the purpose of truing up.
9. In the ARR&ERC order dated 15th May, 2013 for the year 2013-14 the Commission had directed the licensee to limit the expenses at the approved level. It was further directed that, the excess revenue if any generated on account of discrepancy in metering data, shall be kept as a separate fund and refund/adjustment if any required shall be made as per the order of the Commission.
10. The Commission observed that the actual energy sold during the years 2012-13 and 2013-14 were 53.20 MU & 53.36 MU as against 60.00 MU approved in the orders on ARR for the years 2012-13 and 2013-14. However, the actual quantum of power purchased by the licensee for the years 2012-13 & 2013-14 were 51.81 MU and 53.35 MU respectively. As the energy sales exceed the quantum of power purchase for both the years, it is evident that the metering data for these years appeared to be erratic and in all probability has resulted in over billing of the consumers. It is also to be noted that the Commission in its order on ARR&ERC dated 15th May, 2013 directed the licensee to take necessary action for investigating the reasons for the discrepancy in metering data and to take corrective actions. It was also directed that the compliance should be reported within three months. However the licensee has not complied with the orders issued by the Commission till 2013-14.
11. Energy sales (MU) projected by the licensee for the year 2013-14, is 60 (MU) and it was approved by the Commission vide ARR&ERC order dated 15/05/2013. In the previous year 2012-13, the projected figure was 60 (MU) which was also approved by the Commission. In this context, Commission observes that the mechanism for forecasting of power requirements should be further fine-tuned. The licensee's response was that the actual sale did not reach the forecasted growth due to the slowdown of the business of its consumers. However no statistical details were provided to prove this point. It would be in the best interest of the licensee to call a meeting of the various stake holders to have an idea of the business trends and also to improve the quality of the ARR forecasts. Such a meeting if done once a year will also bring in good feedbacks on the problems

faced by the consumers which, if viewed positively, can be used to improve the efficiency of the licensee's operations.

12. In this context the Commission reiterates that the licensee shall, based on the correct T&D loss figures, clearly work out the amount of overbilling that has taken place and submit to the Commission a report on the amount over billed with all necessary particulars, within a period of one month of this order. The Commission also cautions that a separate rate of T&D loss cannot be used for the estimation of loss for this purpose and future T&D loss that is going to be projected in the ARR.
13. The licensee also claimed that the revenue from own consumption is included in the total revenue from sale of power.
14. **Power Purchase Cost:** The contract demand of the licensee is 10MVA. In the truing up application submitted by the licensee, the no. of units purchased is 51.81 MU and the total cost of power purchase is Rs.2718.63 lakh with an average rate of Rs.5.25 per unit. The approved power purchase cost as per the order of ARR&ERC is Rs.3038.23 lakh. However, the licensee had informed vide their letter No.H-12/1/2012:CSEZA/4363 dated 04/09/2015 that the actual quantum of energy purchased by the licensee for the year 2013-14 is 53.35 MU instead of 51.81 MU and requested for correction. Accordingly, the power purchase cost for 53.35 MU comes to Rs.2726.05 lakh comprising Rs.432.00 lakh as fixed charges and Rs.2294.05 lakh as variable charges. The projected quantity for the year was 60.00 MU where as the actual sale was only 53.36 MU.
15. Based on the information furnished by the licensee, the Commission approves the actual power purchase cost reported by CSEZA.
16. **Distribution Loss:** It can be seen that the actual distribution loss for the year 2013-14 is (-) 0.02% as against the approved level of 1.00%. In the year 2012-13 also the distribution loss as per the truing up order dated 04-12-2014 was (-) 2.68%.

Table 3
CSEZA - Distribution loss reported by the Licensee

Category	2012-13 Actual	2013-14 Approved	2013-14 Actual
Total Energy Sales (MU)	53.20	60.00	53.36
Gross Energy Requirement (MU)	51.81	60.61	53.35
Distribution Loss (MU)	-1.39	0.61	-0.01
Distribution Loss (%)	-2.68%	1.00%	-0.02%

17. The Commission in its order on ARR&ERC for the year 2014-15 had stated that fixing distribution loss at normative level may entail in some excess revenue to the licensee due to metering discrepancies. Hence it is directed that the excess revenue if any generated through the discrepancy in metering data, may be kept as a separate fund and the details reported to the Commission within one month of the date of this order, as was directed earlier.

18. **Employee Cost:** Commission had provisionally approved a total employee cost of Rs.128.50 lakh and the actual employee cost incurred according to the truing up application submitted by the licensee is Rs.128.00 lakh. The major share of the employee cost claimed by CSEZA is for R&M charges for M/s.Kitco Ltd amounting to Rs.114.00lakh and Rs.14 lakh was apportioned as proportionate employee cost of CSEZA staff. The Commission noted that the amount of Rs.114.00 lakh incurred for M/s. Kitco should be booked under R&M Expense instead of "Employee Cost". In this context, Commission considered the view of KSEBL and directs the licensee to disclose the number of contract employees deployed by the contractor and whether their salaries are separately charged by M/s.Kitco. A copy of the contract agreement between the licensee and contractor may be provided along with the copies of the bills raised by the contractor for the year 2013-14. These details too may be submitted within one month of the date of this order. The subject matter may be reviewed by the Commission based on receipt of the information from the licensee.

19. **Repairs and Maintenance Charges:** The actual R&M expense claimed by the licensee for the year 2013-14 is Rs.8.77 lakh against an approved amount of Rs.16.50 lakh. The licensee has stated that the amount represents only the bills that are paid and accounted in the year 2013-14 though a number of bills were settled in 2014-15. This is not a proper system of accounting. The Commission

directs that the licensee shall maintain its books of accounts strictly as per the accrual system of accounts and not based on cash system or some other hybrid system. The system of accounting should be followed consistently. If there is any change in the methodology adopted for recording/recognizing any expenditure, the same may be disclosed properly and the impact of the change should be quantified. The licensee also mentioned that the expenditure on repair work includes overhauling of 11kV VCBs, repainting of transformers, rewinding of OLTC motor, etc., The Commission has already stated before opines that “Repairs and Maintenance expense” is now understated as the amount of Rs.114.00 lakh was booked under “Employee Cost” instead “R&M Expense” and the matter can be decided after obtaining the information from the licensee. However, the Commission provisionally approves the amount of Rs.8.77 lakh.

20. **Administration and General Expenses:** The actual A&G expense is less than the approved amount. The actual amount booked on A&G is Rs.22.90 lakh against Rs.32.16 lakh approved in the order on the ARR for the year. It is stated that the actual amount booked is low mainly on account of not insuring the assets of the Authority. It is further clarified that the assets of the CSEZA has been insured in 2014-15. It will be in the best interests of the licensee to take appropriate risk mitigating measures like insurance etc. promptly, if the licensee feels the need to do so based on evaluation of its operating environment. It is a well accepted costing and accounting principle that the abnormal losses happening in the system cannot be loaded on to the consumers.
21. **Interest and Financing Charges:** The Government has met the entire investment on the infrastructure for the power distribution in CSEZA. The licensee has not claimed any interest and financing charges for 2013-14.
22. **Depreciation:** The actual depreciation claimed by the licensee during 2013-14 is Rs.59.14 lakh which is less than the approved amount of Rs.64.55 lakh. The depreciation rates approved by the Commission were at a lower rate upto 2012-13. The commission while approving the ARR of 2013-14 has adopted the new CERC rates, which is higher than the then prevailing rates. Hence, the depreciation rates taken for truing up of 2013-14 are based on the CERC regulations existing for the tariff period 2009-14. The rates applied for approving the truing up figures for 2012-13 and 2013-14 are given below.

Table - 4
CSEZA – Rates of depreciation

Description of the Assets	Depreciation rates	Depreciation rates
	2012-13	2013-14
Substations	3.60%	5.28%
11kV works	3.60%	5.28%
Distribution Transformer	3.60%	5.28%

The licensee submitted that new capital addition has not happened as envisaged other than addition of metering and allied equipments. The details are given below:

Table 5
CSEZA - Depreciation approved and actual

Description Of Assets	GFA at the end of the year			Depreciation		
	2012-13	2013-14	2013-14	2012-13	2013-14	2013-14
	Actual	Approved	Actual	Actual	Approved	Actual
	(Rs.in lakh)			(Rs. in lakh)		
Substations	484.97	540.47	484.97	17.45	28.54	25.61
11kV works	496.79	525.29	496.79	17.88	27.74	26.23
Distribution Transformer	3.50	25.00	3.50	0.06	1.32	0.18
Metering equipments	97.99	98.31	97.99	5.65	6.19	6.66
Office Equipments	1.38	2.98	1.38	0.21	0.19	0.09
Furniture & Fixtures	0.18	2.18	0.18	0.01	0.14	0.01
Batteries	1.35	1.025	1.35		0.06	0.09
Others		5.93		0.17	0.37	
Total	1086.16	1201.19	1086.17	41.43	64.55	59.14

Approved = Approved in ARR & ERC

Actual = Actual expenditure claimed in the application for truing up

23. Return on Equity: The licensee has claimed Rs.99.77 lakh towards revenue return for the year 2013-14 which was the same for the previous years. The Commission has been allowing only a provisional amount of Rs.10 lakh towards notional RoE for each year. Therefore an amount of Rs.10 lakh is approved towards RoE for the year 2013-14.

24. Total Revenue Requirements: The total expenses approved after truing up process for 2013-14 is as given below:

Table 6
CSEZA - Aggregate Revenue Requirements Approved for 2013-14

Particulars	2013-14 (Rs. in Lakh)		
	ARR Order	Actual	Trued Up
Power Purchase Cost	3038.23	2669.40	2726.05
Interest and Financing Charges	-	-	-
Depreciation	64.55	59.14	59.14
Employee cost	128.50	128.00	128.00
R&M expenses	16.50	8.77	8.77
A&G expenses	32.16	22.90	22.90
Revenue Return	10.00	99.77	10.00
Total Expenses ARR	3289.94	2987.98	2954.86

25. **Revenue from Sale of Power:** The revenue from the sale of power during 2013-14 was Rs.2988.48 lakh which includes the revenue from own consumption. The details as per application submitted are given below:

Table 7
CSEZA - Revenue from Sale of Power for 2013-14

Particulars	No.of consumers	Energy Sales (MU)	Revenue in Rs lakh	Average Realization(Rs)
HT Consumers	28	45.22	2504.72	5.54
DHT	6	2.03	120.58	5.94
LT Consumers	105	5.93	320.72	5.41
LT Commercial	6	0.17	23.28	13.70
Temporary Connections	7	0.01	29.94	299.42
Total	152	53.36	2999.25	
Excess over quota			(0.12)	
Power factor penalty			21.11	
Meter rent			1.48	
Total			3100.04	
Less: Electricity Duty Payable			78.32	
Power factor incentive			33.24	
Total			111.56	
Net Revenue			2988.48	

26. As per the details given by the licensee, the revenue from own consumption is Rs.2.03 lakh include consumption in the electrical labs and substations. The

Commission approved the revenue from sale of power as per the actual accounts for 2013-14.

27. **Non Tariff Income:** Non tariff income as per the truing up application for 2013-14 is Rs.150.53 lakh against the approved amount of Rs.120.00 lakh. The non-tariff income of Rs.146.39 lakh was accrued from investments and Rs.4.14lakh was received as collection charges of duty and surcharge as well as miscellaneous receipts. The Commission noted that the licensee has not included in the non-tariff income, the interest on the security deposit made to KSEBL. The ARR approved income from interest on security deposits with KSEB was Rs. 9.14 lakh. Hence taking the above into consideration the trued up figures of 2013-14 under the head Non tariff income is 159.67. It is once again reiterated that the accounts should be maintained under the accrual system following the relevant accounting standards.

28. **Revenue Surplus/(gap) for 2013-14:** The revenue surplus arrived at by the Commission after the truing up process is Rs.240.80 lakh against Rs.101.81 lakh for the year 2013-14. The revenue gap/surplus after the truing up process is as shown below:

Table 8
CSEZA - Approved Revenue Surplus for 2013-14

Particulars	2013-14 (Rs. in lakh)		
	Approved	Actual	Trued up
Power purchase cost	3038.23	2669.40	2726.05
Interest and financing charge	-	-	-
Depreciation	64.55	59.14	59.14
Employee cost	128.50	128.00	128.00
R&M expense	16.50	8.77	8.77
A&G expense	32.16	22.90	22.90
Revenue Return	10.00	99.77	10.00
Total Expense	3289.94	2987.98	2954.86
Revenue from sale of power	2934.20	2988.48	2988.48
Non Tariff income	120.00	150.53	159.67
Total Revenue	3054.20	3139.01	3148.15
Surplus/ Gap	(235.74)	101.81	193.29

29. The total revenue surplus after truing up process till 2012-13 was Rs.1087.31 lakh, which will now be increased to Rs.1280.60 lakh.

Directive of the Commission

30. The licensee shall, based on the correct T&D loss figures, clearly work out the amount of overbilling that has taken place and submit to the Commission a report on the amount over billed with all necessary particulars, within a period of one month of this order.

Orders of the Commission

31. The Commission after considering the truing up application for the year 2013-14 filed by the licensee M/s. CSEZA, objections thereof, and the clarifications and details provided by the licensee, has arrived at revenue surplus of Rs.193.29 lakh. The total surplus after the truing up process till 2013-14 is Rs.1280.60 lakh.

32. The application is disposed of. Ordered accordingly.

Sd/-

**K.Vikraman Nair
Member**

Sd/-

**S.Venugopal
Member**

Sd/-

**T.M.Manoharan
Chairman**

Approved for issue

Sd/-

**Santhosh Kumar.K.B
Secretary**