

# KERALA STATE ELECTRICITY REGULATORY COMMISSION

## THIRUVANANTHAPURAM

### OA 3/2016

In the matter of : Application for the approval of revised ARR & ERC for the year 2016-17 filed by M/s KINESCO Power and Utilities Private Limited (KPUPL) as per the provisions of KSERC (Terms and Conditions for Determination of Tariff) Regulations 2014.

Applicant : M/s KINESCO Power and Utilities Private Limited (KPUPL)

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

### ORDER DATED 14/07/2016

1. The KINESCO Power and Utilities Private Limited (hereinafter called *KPUPL* or *the licensee*) was a joint venture company established by M/s Kerala Industrial Infrastructure Development Corporation (KINFRA), M/s KINFRA Export Promotion Industrial Parks Limited (KEPIP) and M/s NTPC Electric Supply Company Limited (NESCL) on 17.09.2008, under the Companies Act, 1956, for the distribution of electricity in the industrial parks of KINFRA at Kakkanad, Kalamassery and Palakkad. The license for distribution of power was transferred to M/s KPUPL from M/s. KEPIP, a deemed distribution licensee, as per the first proviso of Section 14 of Electricity Act 2003. Government of Kerala had, vide G.O (P) No.18/2003/PD dated 08.05.2003, granted a licence to M/s KEPIP in exercise of the powers conferred under section 19 of the Indian Electricity Rule, 1956. M/s KEPIP was functioning as a distribution licensee in the park from 16-1-2004. As per the orders of Government of Kerala vide G.O (MS) No.88/2008/ID dated 27<sup>th</sup> June 2008, a joint venture company was formed between KINFRA and NESCL to take over the retail distribution of power in the industrial

areas/parks/economic zones run by KINFRA. It was stated in the said government order that the main objective of the joint venture company was distribution of power as a licensee in the Industrial Parks, Special Economic Zones and other Industrial Projects. In terms of the government order dated 27.06.2008 the joint venture company namely M/s KINESCO Power and Utilities Private Limited (KPUPL) was incorporated with 50% equity held by M/s KINFRA and 50% equity held by M/s NESCL.

2. Subsequently, Government of Kerala, vide GO (Rt) No.756/2014/ID dated 07-07-2014 allowed KINFRA to withdraw from the joint venture agreement entered among KINFRA,KEPIP & NESCL and to enter into a termination agreement from the Joint Venture agreement with NESCL. A termination agreement was signed on 15.12.2015 among KINFRA, KEPIP & NESCL. Joint Venture has since been terminated and the company is now fully owned by KINFRA. NESCL has handed over the operation of the licensed distribution activities to KINFRA with effect from 01.01.2016
3. M/s KPUPL vide letter dated 29-12-2015 has submitted the revised ARR & ERC for the subsequent years of the Control Period 2015-16 to 2017-18, and the projections for the year 2018-19. As per the KSERC (Terms and Conditions for determination of Tariff) Regulation, 2014, (herein after Tariff regulation 2014) the first control period ends on 2017-18 and hence the projection for the year 2018-19 does not come in the purview of the annexures VII,VIII & IX of the KSERC (Terms and Conditions for Determination of Tariff) Regulations 2014. The Commission sought clarifications on the application, vide letter dated 18-01-2016. The licensee submitted the clarifications vide letter dated 05-02-2016. The Commission considered the application, the clarifications submitted and admitted the application as OA No. 03/16.
4. The Commission on 16-12-2015 had issued order in OA 26/2015 finalising the ARR & ERC for the first control period (2015-16 to 2017-18). As per the revised application submitted, the licensee has proposed changes under all heads in the revenue and expenditure sides which are tabulated here under:

**Table – 1**  
**Revised ARR & ERC for the year 2016-17 & 2017-18 (Rs.lakh)**

Particulars	2016-17			2017-18		
	Initial Filing	Approved	Revised Projection	Initial Filing	Approved	Revised Projection
<b>Income</b>						
Revenue from Sale of Power.	5457.00	5457.00	<b>5920.00</b>	5807.47	5807.47	<b>6485.00</b>
Other Income	30.10	30.10	<b>20.00</b>	30.10	30.10	<b>22.00</b>
<b>Total Income</b>	5487.10	5487.10	<b>5940.00</b>	5837.57	5837.57	<b>6507.00</b>
<b>Expenditure</b>						
Purchase of Power	5200.00	5090.82	<b>5375.00</b>	5535.00	5418.93	<b>5773.00</b>
Depreciation	84.75	70.32	<b>75.00</b>	84.32	70.32	<b>77.00</b>
Interest & Finance Charges	-	-	<b>27.00</b>	-	-	<b>24.00</b>
Employee Cost	54.63	23.18	<b>83.50</b>	54.63	24.54	<b>98.30</b>
Repairs and Maintenance	64.00	32.23	<b>91.00</b>	75.00	34.12	<b>66.00</b>
Administration and General Expenses	82.30	63.09	<b>97.18</b>	87.39	66.78	<b>101.89</b>
Return on Equity	45.46	1.40	<b>52.00</b>	42.92	1.40	<b>53.00</b>
<b>Total Expenditure</b>	5531.14	5281.04	<b>5800.68</b>	5879.26	5616.09	<b>6193.19</b>
<b>Net Surplus/(Deficit)</b>	(-)44.04	(+)206.06	<b>(+)139.32</b>	(-)41.69	(+)221.48	<b>(+)313.81</b>

5. The licensee has filed the application for the approval of the revised ARR & ERC for the years 2016-17 and 2017-18. As per clause (a) of sub regulation (2) of regulation 11 of the KSERC (Terms and conditions for determination of tariff) Regulations 2014, the licensee shall submit application for approval of revised aggregate revenue requirement, if any, for the ensuing financial year and determination of tariff for the ensuing financial year:
6. As per the regulation quoted above, the licensee is allowed to revise only the aggregate revenue requirement for the ensuing financial year, i.e, for the year 2016-17. Hence the Commission has considered only the revised estimates for the year 2016-17 in the present proceedings.

## Hearing on the matter

7. Public hearing was on 04-03-2016 at the Conference Hall, KINESCO Power and Utilities Private Limited (KPUPL), Kakkanad, Ernakulam. In the hearing representatives of the licensee and KSEB Limited were present. Smt. D.S. Girija Devi, CEO, KPUPL presented the details of the application on revised ARR & ERC for the year 2016-17 and responded to the queries of the Commission on the application.
8. Sri.Anil J, Executive Engineer and Sri. Prasad.S, Assistant Executive Engineer, TRAC, KSEBL presented the comments of KSEBL and submitted written remarks on the application. The summary of the comments is abstracted below:
  - a. KSEBL stated that the scope of the application is limited for the year 2016-17 and not for the year 2017-18 as per the KSERC (Terms and Conditions for determination of Tariff) Regulations 2014.
  - b. The licensee may be directed to provide separate accounts for each of its area of operation viz. Kakkanad, Kalamasery and Palakkad as per the Regulation 11.14 of the KSERC (Terms and Conditions for determination of Tariff) Regulations 2014 as the licensee is having more than one area of supply.
  - c. The distribution loss claimed by the licensee for control period is higher than the approved level for 2016-17. T&D loss being an important performance parameter, the Commission may disallow the claim for increased target for T&D loss than the approved level for the year 2014-15(i.e 1.50%).
  - d. It is submitted that KSERC (Terms and Conditions for determination of Tariff) Regulations 2014 does not provide for revising the O&M expenses for the control period. The variation in the O&M cost may be considered during the truing up process only within the framework of the regulation and hence the plea for revising the O&M expenses is not maintainable at the stage.
  - e. Interest and finance charges may be considered only for the assets created with the approval of the Commission.
  - f. The assets created out of government funds are not eligible for depreciation.

- g. The discrepancy on the decreasing trend in the per unit realization even after anticipating a growth in consumption may be clarified.
  - h. The interest on the accumulated surplus shall be booked under other income.
  - i. The claim on RoE which is higher than the approved amount may be disallowed as the licensee has not substantiated the claim.
  - j. The licensee is yet to comply with the terms and conditions of the PPA executed on 01-09-2014.
9. The Commission remarked that in spite of repeated reminders, the licensee has failed to settle the accounts and the legal matters arising from the transfer of licensed business from KEPIP to KPUPL which was completed during 2009 and also mentioned that the same had significant role in the claims made by the licensee. The claims and other financial implications based on the assets can be scrutinised and considered for allowing the claims only when the process of asset transfer is complete. It was also made clear to the licensee that the applications for the truing up of accounts and for the approval of ARR&ERC, will be processed by the Commission without further waiting for the details of asset transfer, and such an action, if taken by the Commission will adversely affect the commercial interests of the licensee . Hence it would be in the best interest of the licensee to settle these issues at the earliest and to submit details to the Commission for approval. The expenses based on the value of assets will be approved only after the completion of all legal and financial formalities connected with the transfer of assets. The Commission also directed M/s KINESCO Power and Utilities Private Limited (KPUPL) to submit additional details. The licensee has submitted additional clarifications vide the letter dated 30-03-2016.

### **Analysis and decision of the Commission**

10. The Commission has considered the application and clarifications filed by the licensee, oral submissions during the hearing and the observations presented by the KSEB Ltd on the application. The decisions of the Commission on various issues are given in the following paragraphs.

**11. No. of Consumers and Sale of Power:** - The licensee in the ARR for the control period had projected the sale of power as 83.16 MU for 2016-17. The Commission had provisionally approved the projections of the licensee. In the revised submission the sale is revised to 86.27 MU for 2016-17. It is stated that the higher projection is due to the expected increase in the number of consumers. As per the application submitted by the licensee, the revised sale of power and the number of consumers for year 2016-17 of the control period, is as follows.

**Table - 2**  
**KPUPL-Energy Sales for 2016-17**

Consumer Category	ARR Approval		Revised Submission	
	No.of consumers	Sales MU	No.of consumers	Sales MU
HT	20	58.08	22	60.78
DHT	47	16.89	51	16.77
LT	205	8.19	229	8.72
<b>Total</b>	<b>272</b>	<b>83.16</b>	<b>302</b>	<b>86.27</b>

12. From the details provided in the application the maximum number of consumers are in the LT category whereas, approximately 90% of the power purchased is sold to the HT and deemed high tension (DHT) consumers. The Commission provisionally approves the revised submission of the increase in the number of consumers and the sale for the year 2016-17

**Distribution Loss and Energy Requirement:**

13. The licensee has projected an energy requirement of 87.99 MU for the year 2016-17. The projection of energy demand are made based on the consumption pattern of the consumers. The Commission in the order on ARR dated 16-12-2015 for the control period 2015-16 to 2017-18 had approved the sale of 84.44 MU considering a loss reduction target of 1.50%. The T&D loss reduction target proposed in the revised application is 1.96%. The details are given below.

**Table 3**  
**KPUPL -Details of Distribution Loss**

Particulars	2016-17	
	Approved vide the order on ARR	Revised proposal
Total Energy Requirement (MU)	84.44	<b>87.99</b>
Total Energy sales (MU)	83.17	<b>86.27</b>
Distribution loss(MU)	1.27	<b>1.72</b>
Distribution loss(%)	1.50%	<b>1.96%</b>

14. The Commission notes that taking into consideration the limited geographical area of operation and the consumer mix, the licensee is capable of attaining the loss reduction targets fixed by the Commission. Since the distribution loss being a performance parameter, the licensee shall initiate earnest efforts to limit the T&D loss to the approved level of 1.50%.Based on the approved loss reduction target of 1.50%, the total energy requirement is shown below.

**Table 4**  
**KPUPL -Details of Distribution Loss approved for 2016-17**

Particulars	2016-17	
	Revised proposal	Approved for the year
Total Energy Requirement (MU)	87.99	<b>87.58</b>
Total Energy sales (MU)	86.27	<b>86.27</b>
Distribution loss(MU)	1.72	<b>1.31</b>
Distribution loss(%)	1.96%	<b>1.50%</b>

15. **AT&C Loss:** Since the licensee has prepaid metering system the collection efficiency is 100%. Hence the AT&C loss for the year is fixed at 1.50%.
16. **Cost of power purchase:** - The licensee has proposed an increase in the cost of power purchase for the year 2016-17 in line with the increase in quantum of power purchase. Vide the order dated 16-12-2015, the Commission had approved the cost of power purchase cost amounts to Rs.5090.82 lakh for 2016-17. Based on the prevailing BST, demand charge @Rs 300.00/kVA/month and energy charge @Rs 5.30 per unit, the licensee has claimed the revised cost of power purchase for the year 2016-17 at Rs. 5375.33 lakh. The comparison of the approved power

purchase cost vide the order dated 16-12-2015 and revised cost of power purchase as per the revised application for the year 2016-17 is tabulated below.

**Table-5**  
**KPUPL- Details of Cost of Power Purchase**

2016-17		
Particulars	Approved vide the order on ARR	Revised proposal
Energy requirement (MU)	84.44	<b>87.99</b>
Maximum demand billed (KVA)	17097	<b>19773</b>
Rate of demand charge (Rs./kVA)	300	<b>300</b>
Demand charges (Rs.lakh)	615.50	<b>711.83</b>
Rate of energy charges (Rs.kWh)	5.30	<b>5.30</b>
Energy charges (Rs.lakh)	4475.32	<b>4663.50</b>
Total cost of power purchase	5090.82	<b>5375.33</b>

17. After considering the approved loss reduction target of 1.50% and the present rate of power purchase of Rs.300/- as fixed charge per KVA and Rs.5.30 per unit as energy charge, the approved power purchase cost for the year 2016-17 is tabulated hereunder.

**Table-6**  
**KPUPL- Approved Cost of Power Purchase**

Particulars	2016-17
Energy requirement (MU)	87.58
Maximum demand billed (KVA)	19773
Rate of demand charge (Rs./kVA)	300
Demand charges (Rs.lakh)	711.83
Rate of energy charges (Rs.kWh)	5.30
Energy charges (Rs.lakh)	4641.74
<b>Total cost of power purchase</b>	<b>5353.57</b>

18. **Capital Expenditure: Capital Expenditure:-** As per the write up submitted the licensee proposes a capital expenditure which is shown below:

**FY: 2015-16 :** A Capital outlay of Rs 422 lakh is projected for the year 2015-2016 for meeting the following capital expenditure:



**Table-7**  
**KPUPL- Proposed Capital Expenditure for 2015-16**

Licensee Area	Capital expenditure projected	Brief description and justification
Kakkanad licensee area	Rs.2 Lakh	For 10 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
	Rs. 2 lakh	For purchase of Furniture and Fixtures to replace the old and unusable items.
Kalamassery	Rs.1 Lakh	For 5 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
Palakkad	Rs. 401 Lakh	The licensee operations at Palakkad will be commenced in this year itself. Anticipating demand for power at Palakkad the company is in the process of setting up a distribution infrastructure at its licensee area at Palakkad which includes erection and commissioning of a new 22 kV substation along with RMUs. The work is arranged on a turnkey basis, which would be from concept to commissioning such substation. The work is expected to be completed by March 2016. The estimated cost of the substation for Phase-1 is expected to be around Rs 401 lakh.
	Rs. 14 lakh	The cost of land comprising of 0.5 acres for 30 years lease, on which the electrical assets of Palakkad licensee area are situated is proposed to be capitalized during the year.
	Rs.1 Lakh	For 5 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
	Rs.1 Lakh	For purchase of Furniture and Fixtures for new office at Palakkad Textile Park.
Total	Rs. 422 lakh	

**Proposed source of Funding:**

Rs. 235 lakh towards supply/erection for the 22 kV substations at Palakkad is proposed to be financed through debt from the promoter (KINFRA) and the remaining Rs. 187 lakh of capital expenditure for the purpose of augmentation of metering system and the cable network at Kakkanad licensee area is proposed to be met out of internal resources.

**FY : 2016-17** : A Capital outlay of Rs 124 lakh is projected for the year 2016-2017 for meeting the following capital expenditure:

**Table-8**  
**KPUPL- Proposed Capital Expenditure for 2016-17**

Licensee Area	Capital expenditure projected	Brief description and justification
Kakkanad licensee area	Rs. 64 Lakh	KINESCO has applied to KSEB for enhancement of CD from 11MVA to 18MVA for which the CT has to be replaced with 0.2S Class, PT has to be replaced with 0.2 class and existing meters to be replaced with ABT Compatible meter since the existing are having errors more than the permissible limits. The renovation and modernisation of substation would require an approximate cost of Rs.64 lakh.
	Rs.15 Lakh	For 75 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
	Rs. 3 lakh	For purchase of Office Equipments.
	Rs. 2 lakh	For purchase of IT Equipments at Kakkanad office. The system in use at present is outdated.
Kalamassery	Rs. 5 Lakh	For 25 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
Palakkad	Rs. 30 lakh	The licensee operations at Palakkad will commence by March 2016. For setting up of distribution infrastructure at its licensee area at Palakkad as per anticipating demand in future, it requires additional transformers amounting to 30 lakh.
	Rs.5 Lakh	For 25 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
<b>Total</b>	<b>Rs. 124 lakh</b>	

**Proposed source of Funding:**

Rs 124 lakh of capital expenditure is proposed to be met out of internal resources.

19. However, as per the details submitted, the licensee has not actually executed the work and it has not incurred any expenditure. The Commission has been following the principle that the assets created out of grants or consumer contribution will not be eligible for depreciation, or interest and finance charges or return on equity. In the absence of such inevitable details, the proposed expenditure prior to actual incurring of the expenditure and the commissioning of the project cannot be considered for granting the depreciation, RoE and interest and finance charges thereon. The depreciation on the assets actually created will be duly considered at

the time of truing up of accounts as per the provisions of the Tariff Regulations, 2014.

20. The Commission approves the Capital expenditure proposed to be incurred for purchase of energy meters, furniture at Kakkanad and Palakkad for the year 2015-16. However for the expenditure proposed (Rs. 401 lakh) for installation and commissioning of substation at Palakkad, the Commission directs the licensee to provide the detailed estimate of the work, with the anticipated start date and end date of the work and whether the work is tendered and the source of finance and with regard to the cost of land proposed (Rs.14 lakh), the Commission directs the details of proposed transaction and whether it is already incurred.
21. The Commission approves the Capital expenditure proposed to be incurred for the year 2016-17 for purchase of meters in Kakkanad, Kalamessary and Palakkad and the expenditure proposed for IT equipments and Office equipments at Kakkanad. With regard to the Rs.64 lakh proposal for enhancement of CD from 11 MVA to 18 MVA and the proposal of Rs.30 lakh for setting up distribution infrastructure at Palakkad, the details called for as in the earlier paragraph pertaining to the installation of Sub-station at Palakkad may be provided.
22. The licensee may keep the Commission updated on the status of the expenditure approved herein as to whether the same has actually been incurred and if incurred the actual amount incurred under the various heads for which approval has been given.
23. **Interest and Finance Charges:** - In the original application on the ARR & ERC for the first control period, the licensee has not claimed interest and finance charges for the year 2016-17. However in the revised application, the licensee has proposed an interest and finance charge of Rs. 27.00 lakh for the year 2016-17. In the ARR&ERC order for the year 2014-15 the Commission had noted that:

*It is to be mentioned that from 2012-13, the licensee has been maintaining the proposal of 22kV substation and associated works in Palakkad, but no signs are visible on the commencement of the work. The Commission has been allowing the interest charges in the last three ARR&ERC Orders and no progress of work could be shown by the licensee. Hence, the Commission is of the view that the licensee may roll out its investments in a feasible and prudent*

*manner and the cost thereof will be allowed after prudence check during the truing up process. Hence, interest and financing charges proposed is disallowed for the time being.*

The Commission was of the same view and the claim of interest and finance charges was disallowed.

24. It will be considered during the truing up process of the relevant years, if the correct figures of interest relating specifically to the business of distribution of electricity are submitted after audit. The licensee is directed to give all the relevant break-up of the expenditure booked under finance charges , at the time of submission of truing up figures, so as to enable the Commission to take an informed decision.
25. **Depreciation:** - Vide order on the ARR&ERC for the first control period dated 16-12-2015 the depreciation approved for the each year of the control period was Rs.70.32 lakh. In the revised application, the depreciation claimed for the year 2016-17 is Rs.74.62 lakh. The licensee has stated that the increase in the depreciation is on account of addition to the Gross Fixed Assets. The claim is mainly on the account of deprecation of substation equipments. The licensee has claimed in addition to the existing assets, depreciation for the additional asset planned to be created. The Commission cannot at present allow the claim for depreciation for the planned assets. The claims for depreciation will be duly considered as and when the project is commissioned and necessary data and details are submitted.

### **O&M expenses**

26. The O&M norms for distribution business of KPUPL as per the KSERC (Terms and Conditions for Determination of Tariff) Regulation 2014 tabulated below.

**Table-9**  
**KPUPL- O&M approved for 2016-17 in KSERC (Terms and Conditions for Determination of Tariff) Regulation 2014 (Rs. lakh)**

O&M Expenses (Rs. lakh)	FY 2016-17
Employee expenses	23.18
R&M expenses	32.23
A&G expenses	63.09

27. The Commission had approved the O&M expenses for the control period strictly in line with the KSERC (Terms and Conditions for Determination of Tariff) Regulation 2014 against a highly escalated projection for the first control period. The licensee in the revised application has proposed high O&M expenses against the approved expenses as per the KSERC (Terms and Conditions for Determination of Tariff) Regulation 2014. The details are submitted below
28. **Employee cost:** -. Commission had approved a total employee cost of Rs. 23.18 lakh for the year 2016-17 as per the provisions of the Tariff Regulations, 2014. As per the revised application filed by the licensee the employee expenses estimated is Rs.83.50 lakh for 2016-17. The licensee has stated that the projection is as per the pay and allowances admissible as per the service conditions of the employees. The details of the claim of the licensee are shown below.

**Table-10**  
**KPUPL-Proposed Employee Cost for 2016-17 (Rs. in lakh)**

Particulars	Amount
Basic Salary	37.00
DA	30.20
Medical Reimbursement	3.50
Staff welfare expenses	1.00
Terminal Benefits	6.80
Others	5.00
Total	83.50

According to the prevailing Tariff Regulations, 2014, the employee cost can be approved only as per regulation 81(4) of the Tariff Regulations, 2014 which states as follows:

*“Kinesco Power and Utilities Private Limited (KPUPL) shall be allowed to recover operation and maintenance expenses as per the norms specified in Annexure-IX to these Regulations for each financial year of the control period.”*

29. The Commission can allow the employee cost, only in line with the KSERC (Terms and conditions for determination of tariff) Regulations 2014. As per Regulation 81 (4), the allowable employee costs for the year 2016-17 is Rs.23.18 lakh. Hence,

in the revised application, the Commission approves the employee cost for the year 2016-17 as Rs 23.18 lakh.

30. **Repair and Maintenance Charges:** - Commission had approved an R&M expense of Rs.32.23 lakh for the year 2016-17 as per the provisions of the Tariff Regulations, 2014. In the revised projection made for the year, the licensee has re-estimated a repair and maintenance charge of Rs. 91.00 lakh, without adhering to th provisions of the Tariff Regulations, 2014. The licensee has stated that the increases in the projections have been made taking into account the increased area of operations, ageing factor and consequential increase in maintenance activities. The licensee has also considered a nominal increase of about 15% in maintenance cost anticipated over the last year. The split up of the R&M as per the revised application is tabulated here under.

**Table-11**  
**KPUPL- Proposed Repair & maintenance expenses for 2016-17**

Particulars	Rs. In lakh
1. Operation and maintenance of the substation and Distribution system at Kakkanad, Kalamassery and Palakkad	56.00
2. O&M of the Pre-paid metering system, GSM Network etc.	5.00
3. Painting of yard	1.00
4. Repair of office equipments	1.00
5. Overhauling of substation equipments	28.00
<b>Total</b>	<b>91.00</b>

31. As in the case of employee expenses, the Commission can allow the R&M expense only as per Regulation 81(4) of KSERC (Terms and Conditions for Determination of Tariff) Regulation 2014. Hence the Commission hereby approves the R&M expenses for the year 2015-16 at Rs.32.23 lakh.
32. **Administration and General Expenses:** - The A&G expense approved for the year 2016-17 was Rs.63.09 lakh as per the provision of the Tariff Regulations, 2014. As per the revised application, the licensee claims Rs.97.18 lakh as the A&G expense for the year 2016-17. The A&G expenses projected include the electricity duty payable under section 3 of the Kerala Electricity Duty Act, 1963. The details of the revised projection of A&G expenses are tabulated hereunder.

**Table 12**  
**KPUPL- Administration and General Expenses proposed for 2016-17**

Particulars	Rs. in lakh
Rent, Rates and taxes ,Section 3 duty	57.83
Insurance	2.00
Telephone expenses	0.53
Audit fees	1.24
Consultancy charges	0.50
License Fee and other related fee	2.37
Other Professional charges/legal charges	7.00
Cost of services procured	0.17
Conveyance and vehicle hiring	17.78
Office Expenses	0.30
Books and stationery	0.47
Advertisement	0.30
Entertainment	0.20
Miscellaneous expenses	1.50
Bank charges	4.00
Others	1.00
<b>Total</b>	<b>97.18</b>

33. One of the major expenses booked under A&G expense is the duty payable by the licensee to the Government under Section 3(1) of the Kerala Electricity Duty Act 1963. The amount of electricity duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, cannot be admitted as an item of expenditure in the ARR, as the duty under this section on the sales of energy should be borne by the licensee and shall not be passed on to the consumers. As per the revised application, the energy sale for the year 2016-17 estimated is 86.27 MU. Duty under Section 3(1) estimated at the rate of 0.06 ps/unit works out to Rs.51.76 lakh. Thus the eligible claim of the licensee excluding electricity duty under Section 3(1) as per application for revised ARR for the year 2016-17 would be 45.42 lakh (i.e Rs.97.18 lakh-Rs.51.76 lakh). Since the ceiling on A&G expenses as per Annexure-IX of the KSERC (Terms and Conditions for Determination of Tariff) Regulations 2014 is Rs.63.09 lakh, the Commission approves the eligible claim of Rs.45.42 lakh towards A&G expenses for the year 2016-17.
34. **Return on Equity:-** The licensee proposes ROE of Rs.52.00 lakh for 2016-17 as against Rs. 1.40 lakh allowed for each year control period vide order dated 16-12-2015. The Commission in the ARR Order had stated that

*As per the audited statements its share Capital is Rs.10 lakh and in its notes to accounts it is mentioned that "Operational activities of the Company related to distribution of power are carried out by the external agencies on contract basis and such expenses incurred are booked as Operation and Maintenance expenses". Hence, RoE allowable can be assessed only at 14% of its paid up capital.*

The licensee has stated that the RoE projected, has been arrived at by computing 3% of the Net fixed assets at the beginning of the year less consumer contribution. As per the balance sheet of the licensee, share Capital is Rs.10 lakh. The Commission is of the same view that RoE allowable can be assessed only at 14% of its paid up capital. The Return on Equity approved for the year 2016-17 is Rs.1.40 lakh.

35. **Aggregate Revenue Requirement:** The Aggregate Revenue Requirements approved for the control period are summarised as given below.

**Table 13**  
**KPUPL-Details of Aggregate Revenue Requirement for 2016-17 (Rs in lakh)**

Particulars	ARR Approved	Revised Projection	Revision Approved
Purchase of Power	5090.82	5375.00	<b>5353.57</b>
Depreciation	70.32	75.00	<b>70.32</b>
Interest & Finance Charges	-	27.00	-
Employee Cost	23.18	83.50	<b>23.18</b>
Repairs and Maintenance	32.23	91.00	<b>32.23</b>
Administration and General Expenses	63.09	97.18	<b>45.42</b>
Return on Equity	1.40	52.00	<b>1.40</b>
<b>Total Expenditure</b>	<b>5281.04</b>	<b>5800.68</b>	<b>5526.12</b>

36. **Revenue from Tariff:** The Commission, vide the ARR order dated 16-12-2015 for the control period 2015-16 to 2017-18 had approved the Revenue Projections for the control period as given by the licensee as Rs.5457.00 lakh. In the application for the revised ARR for 2016-17, the licensee expects higher revenue in view with the increase in the number of consumers and higher sale of energy. The Commission



provisionally approves the revised projection for the year 2016-17 as estimated by the licensee.

**Table-14**  
**KPUPL-Revenue Projections for the control period**

2016-17 ARR Approved				2016-17 Revised Projection			
Tariff category	No of consumers	MU	Total charges (Rs.lakh)	Tariff Category	No of consumers	MU	Total charges (Rs.lakh)
LT IV A	15	0.58	33.33	LT IV A	17	0.59	46.00
LT IV B	138	6.37	397.32	LT IV B	150	6.65	582.00
LT VI A	1	0.10	5.70	LT VI A	3	0.08	5.00
LT VI C	11	0.05	6.67	LT VI C	12	0.08	8.00
LT VI F	30	0.94	72.01	LT VI F	36	1.14	61.00
LT VII A	10	0.15	17.65	LT VII A	11	0.18	22.00
HT I A	4	21.63	1244.85	HT I A	5	18.37	1225.00
HT I B	12	35.10	2430.08	HT I B	13	40.99	2506.00
HT II	1	0.16	10.22	HT II A	1	0.59	16.00
HT III B	1	1.04	37.76	HT II B	2	0.16	11.00
HT V	2	0.15	11.47	HT III B	1	0.67	33.00
DHT I A	1	0.59	34.04	DHT I A	1	0.58	37.00
DHT I B	42	15.36	1071.62	DHT I B	46	15.30	1257.00
DHT IV	4	0.94	84.28	DHT IV	4	0.89	111.00
<b>Total</b>	<b>272</b>	<b>83.16</b>	<b>5457.00</b>	<b>Total</b>	<b>302</b>	<b>86.27</b>	<b>5920.00</b>

37. **Non-Tariff Income:** The Commission vide the order dated 16-12-2015 had approved the Non tariff income of Rs.30.10 lakh as proposed by the licensee for each year the control period. In the revised application, the licensee has estimated a non tariff income of Rs.20.00 lakh for the year 2016-17 without assigning reasons for the decrease. The licensee has only mentioned that the estimated non-tariff income for the year 2016-17 includes Rs.11.00 lakh to be earned from interest on bank fixed deposits and an estimated Rs.9.00 lakh from miscellaneous receipts, trading and recoveries. As the licensee has not substantiated the reasons for the decrease, the Commission approves the Non tariff income of Rs.30.10 lakh as approved in the ARR order for the control period and directs the licensee to submit the details in the audited accounts and the subsequent filings.

38. **Revenue Surplus/Gap:** Based on the above, the revenue surplus/gap for the year 2016-17 estimated by the licensee and that approved by the Commission are as follows

**Table -15**  
**KPUPL- Approved by the Commission for 2016-17 (Rs. in lakh)**

Particulars	2016-17		
	ARR Approved	Revised Projection	Revision Approved
<b>Income</b>			
Revenue from Sale of Power.	5457.00	5920.00	<b>5920.00</b>
Other Income	30.10	20.00	<b>30.10</b>
<b>Total Income</b>	<b>5487.10</b>	<b>5940.00</b>	<b>5950.10</b>
<b>Expenditure</b>			
Purchase of Power	5090.82	5375.00	<b>5353.57</b>
Depreciation	70.32	75.00	<b>70.32</b>
Interest & Finance Charges	-	27.00	-
Employee Cost	23.18	83.50	<b>23.18</b>
Repairs and Maintenance	32.23	91.00	<b>32.23</b>
Administration and General Expenses	63.09	97.18	<b>45.42</b>
Return on Equity	1.40	52.00	<b>1.40</b>
<b>Total Expenditure</b>	<b>5281.04</b>	<b>5800.68</b>	<b>5526.12</b>
<b>Net Surplus/(Deficit)</b>	<b>(+)206.06</b>	<b>(+)139.32</b>	<b>(+)423.98</b>

### Directives of the Commission

39. The Commission vide order dated 16-12-2015 has issued following directives to the licensee for strict compliance.

*The licensee shall,*

- (i) *Promote demand side management and energy efficiency measures within its area of licence.*
- (ii) *Promote renewable energy either by generation or by purchase of renewable energy certificates.*
- (iii) *Bring down the distribution loss to the approved level.*
- (iv) *Submit the results of the Energy Audit conducted and the steps taken to reduce the distribution loss.*

- (v) *Submit the details of assets taken over from KEPIP and KINESCO and the detailed valuation and the financing mix in which the takeover was put through.*
- (vi) *Submit the details of Consumer's contribution collected year wise and accumulated amount till date along with the details of the assets to which it pertains to.*
- (vii) *Submit necessary details of the existing assets and their vintage and the details of projects commissioned during the control period for proper assessment of depreciation, interest and finance charges and return on equity, and*
- (viii) *Submit the capital investment plan to the Commission and obtain the approval of the Commission.*
- (ix) *Submit the truing up accounts from 2010-11 onwards.*
- (x) *Submit the details of units sold to consumers, category wise for the last five years.*
- (xi) *The assets created out of the consumer contribution shall be accounted separately every year and submitted to the Commission along with the application for approval of ARR and for Truing up of accounts.*
- (xii) *The details of the actual capital expenditure incurred on the capital proposals cleared by the Commission.*

40. However the licensee is yet to provide the detailed action taken report on the compliance of the directions issued by the Commission. It is directed that, the licensee shall strictly comply the directions and submit an action taken report within one month from the date of this order.

### **Orders of the Commission**

41. (1) After carefully considering the claims of the applicant and the views expressed by M/s KSEB Ltd the Commission hereby approves provisionally the revision in the ARR and ERC for the licensee for the year 2016-17 as stated below,-

<b>Financial Year</b>	<b>2016-17</b>
ARR (Rs. in lakh)	<b>5526.12</b>
ERC (Rs. in lakh)	<b>5950.10</b>
Surplus / (Revenue Gap)	<b>(+)423.98</b>

(2) The licensee shall limit the expenditure to the levels approved by the Commission.

(3) The existing RST and BST shall continue until further orders.

42. The application is disposed of and it is 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