

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

OA 7/2017

In the matter of : Application for the approval of revised ARR & ERC for the year 2017-18 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. S. Venugopal, Member**
Shri. K.Vikraman Nair, Member

ORDER DATED 12/07/2017

1. The KINESCO Power and Utilities Private Limited (hereinafter referred to as *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 Kakkannad, 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 27th 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 into 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. The Commission on 16-12-2015 had issued order in OA 26/2015 finalizing the ARR & ERC for the first control period (2015-16 to 2017-18). The Commission had issued the order on 14-07-2016 in OA 3/2016 on the revised ARR&ERC filed by the licensee for the year 2016-17.
4. M/s KPUPL vide letter No. KPUPL/KSERC/ARR/2016-17 dated 17-01-2017 submitted the revised ARR & ERC for year 2017-18, as per regulation 11 of the KSERC (Terms and Conditions for determination of Tariff) Regulation, 2014 (hereinafter referred to as Tariff Regulation, 2014). The Commission considered and admitted the application as OA No. 07/17. The Commission sought clarifications on the application, vide letter dated 14-03-2017. The licensee submitted the clarifications vide letter dated 23-05-2017 and 02-06-2017.
5. As per the application for revised ARR submitted to the Commission, the licensee has projected a **revenue gap of Rs.246.53 lakh** as against a revenue surplus of Rs.221.48 lakh approved by the Commission in the order dated 16-12-2015. A comparison on the revised ARR&ERC filed by KPUPL for 2017-18 and the approved ARR&ERC as per the order dated 16-12-2015 issued by the Commission for the year 2017-18 is given below.

Table – 1
KPUPL - Revised ARR & ERC for the year 2017-18

Particulars	(Rs.lakh)	
	Approved	Revised ARR & ERC
Revenue from Sale of Power.	5807.47	7551.28
Other Income	30.10	34.00
Total Income	5837.57	7585.28
Purchase of Power	5418.93	6971.88
Depreciation	70.32	156.26
Interest & Finance Charges	-	201.82
Employee Cost	24.54	56.66
Repairs and Maintenance	34.12	159.40
Administration and General Expenses	66.78	151.39
Return on Equity	1.40	99.40
Total Expenditure	5616.09	7796.81
Total Surplus/(Deficit)	(+)221.48	(-)211.53
Tax Expenses	-	35.00
Net Surplus/(Deficit)	(+)221.48	(-)246.53

Hearing on the matter

6. Public hearing on the application for approval of the revised ARR & ERC was held at the Court Room, Office of the Commission, Thiruvananthapuram on 10-05-2017. M/s KINESCO Power and Utilities Private Limited (KPUPL) was represented by Sri. S.N.Ashok Kumar (Finance Consultant), Sri.G.Radhakrishna Pillai (Senior Consultant) and other officers of the licensee. Sri. S.N.Ashok Kumar presented the details of the application for the approval of the revised ARR & ERC for the year 2017-18 and gave clarifications on the queries of the Commission
7. KSEB Ltd. was represented by Sri. K.G.P Nampoothiri, Executive Engineer (TRAC), Sri.Manoj.G, Assistant Executive Engineer (TRAC) and Smt. Bindu.V Assistant Executive Engineer (TRAC). Sri.Manoj.G presented the comments of KSEB Ltd and submitted written remarks on the application. The main issues raised by KSEB Ltd are summarized below.
 - a. As the licensee is having more than one area of supply, it shall submit separate accounts for each area of supply as per Regulation 11(14) of the KSERC (Terms and Conditions for determination of Tariff) Regulations 2014.

- b. KSEB Ltd has submitted that the Distribution loss claimed by the licensee is 1.96% as against the approved loss of 1.50%. KSEB Ltd requested Commission to disallow the claim for distribution loss over the approved level.
 - c. The projection of the licensee on the Operation and Maintenance cost such as R&M expenses, Employee cost and A&G expenses are higher than the same approved by the Commission. It was submitted that the Operation and Maintenance cost may be limited to the norms fixed by the Commission.
 - d. KSEB Ltd stated that the capital expenditure proposed by the licensee is not justifiable and may be considered only after analysis and scrutiny of the investment plans.
 - e. The claim under Interest and Finance Charges amounts to Rs. 201.82 lakh in respect of investments. The Commission had disallowed the claim and directed the licensee to give all the relevant breakup of the expenditure booked under finance charges, at the time of submission of truing up figures. The same may be considered only after scrutiny of such details.
 - f. The Commission may allow depreciation only for the assets created with the approval of the Commission.
 - g. It is submitted that interest for the accumulated revenue surplus till the end of financial year 2014-15 shall be booked in "Other Income".
 - h. The equity/rate base is still to be ascertained and the licensee has not submitted the documents on settlement of consideration nor financial plan properly, the Commission may allow RoE after considering proper documents.
8. During the hearing, the Commission observed that the projection made in the revised ARR&ERC should be in a realistic manner and over estimation of the revenue and expenditure should be avoided. The Commission sought further clarifications on the application vide daily order dated 11-05-2017 which was submitted by the licensee in its submissions dated 23-05-2017 and 02-06-2017.

Analysis and decision of the Commission

9. 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.
10. **No. of Consumers and Sale of Power:** - The licensee, in the ARR, had originally projected the sale of 88.56 MU for 2017-18. The Commission had provisionally approved the projections of the licensee. In the application for revised ARR&ERC, the sale of power projected is 105.64 MU due to the expected increase in the number of consumers in the existing as well as new areas. A comparison of the sale of power as per the approved order on ARR and the application for revised ARR is tabulated hereunder.

Table - 2
KPUPL-Energy Sales projected for 2017-18

Categories	ARR Approved		Revised ARR Application	
	Number of Consumers	Sale in MU	Number of Consumers	Sale in MU
LT Categories				
LT IV A	16	0.62	22	1.17
LT IV B	150	6.79	156	6.67
LT VI A	1	0.10	2	0.07
LT VI C	13	0.06	9	0.05
LT VI F	33	1.00	50	2.31
LT VII A	11	0.15	10	0.25
HT Categories				
HT I A	5	23.03	15	30.78
HT I B	13	37.38	18	48.09
HT II A	1	0.17	2	0.43
HT II B	1	1.11	1	0.13
HT III B	2	0.16	1	0.73
Deemed High Tension (DHT)				
DHT I A	1	0.63	1	0.15
DHT I B	42	16.36	43	13.98
DHT IV	5	1.00	2	0.82
Total	294	88.56	332	105.64

11. As per regulation 11.14 of the KSERC (Terms and Conditions for determination of Tariff) Regulation, 2014, a licensee with more than one area of supply is to submit separate calculation of each area of supply. Vide the clarification dated 23-05-2017, the licensee has stated that they shall be exempted from submitting separate calculation of each area as there is only one account rendering unit operating at the office of KINESCO, Kakkanad. In this context the licensee should note that the regulations issued by Commission is applicable to all licensees, and M/s KPUPL has to comply with the provisions of regulations of the Commission, and to furnish details as per the regulation.
12. The licensee has revised the number of consumers for all the categories. The changes proposed are mainly based on the expected increase in the number of consumers in new license area. Major increase in the number of consumers and the sale of power is projected in the LT VI F, HT I A and HT I B category.
13. Based on the information provided the Commission provisionally approves the revised submission of the increase in the number of consumers and the sale of power for the year 2017-18.

Distribution Loss and Energy Requirement:

14. The licensee has projected an energy requirement of 107.75 MU for the year 2017-18, of which 101.83 MU from KSEB Ltd and 5.92 MU from other sources as against an approved energy requirement of 89.92 MU for the year 2017-18. The Distribution Loss target approved by the Commission was 1.50%. The licensee in the application has projected distribution loss of 1.96% as shown below.

Table 3

KPUPL -Details of Distribution Loss- 2017-18

Year	Approved vide the order on ARR	Revised proposal
Total Energy Requirement (MU)	89.92	107.75
Total Energy sales (MU)	88.57	105.64
Distribution loss(MU)	1.35	2.11
Distribution loss(%)	1.50%	1.96%

15. After taking into consideration the limited geographical area of operation and the consumer mix, the Commission notes that the licensee is capable of attaining the distribution loss of 1.50% fixed by the Commission. Since the distribution loss being

a performance parameter, the licensee shall initiate earnest efforts to limit the Distribution loss at the approved level. Based on the approved distribution loss of 1.50%, the total energy requirement is shown below.

Table 4
KPUPL -Details of Distribution Loss approved for 2017-18

Particulars	2017-18	
	Revised proposal	Approved for the year
Total Energy Requirement (MU)	107.75	107.25
Total Energy sales (MU)	105.64	105.64
Distribution loss(MU)	2.11	1.61
Distribution loss(%)	1.96%	1.50%

16. **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%.

17. **Cost of power purchase:** - The licensee has proposed an increase in the cost of power purchase due to increase in sales as against the cost approved for the year 2017-18. The Commission had approved a power purchase cost of Rs.5418.93 lakh for the year 2017-18 vide order dated 16-12-2015. In the application on the revised ARR&ERC the power purchase cost projected is Rs.6971.88 lakh based on revised tariff. The comparison of the approved power purchase cost as per the order dated 16-12-2015 and cost of power purchase as per the revised application for the year 2017-18 is tabulated below.

Table-5
KPUPL- Details of Cost of Power Purchase

Particulars	Approved vide the order on ARR	Revised proposal
Energy requirement (MU)	89.92	107.75
Maximum Demand Billed (kVA)	18144	-
Rate of demand charge (Rs./kVA)	300	300
Demand charges in Rs. Lakh	653.17	702.00
Rate of energy charges (Rs.kWh)	5.30	5.71
Energy charges in Rs. Lakh	4765.76	6153.48
Projected purchase cost in Rs. Lakh	5418.93	6855.48

18. The licensee in the application has stated that the projected energy of 107.75 MU includes 101.82 MU from KSEB Ltd and 5.93 MU from renewable sources. The licensee has not submitted any details of the purchase from other sources for meeting RPO. The licensee has to submit these details while filing the application for true up of accounts for the year 2017-18. The same shall be considered during the true up process.
19. The Commission has revised the BST applicable to the licensees with effect from 18-04-17 as per the suo-motu tariff order dated 17-04-17 and the applicable tariff of KPUPL is shown below.

Particulars	Old Tariff	New Tariff
Energy Charge	5.30/unit	5.60/unit
Fixed Charge	Rs.300/kVA	Rs.300/kVA

20. The existing bulk supply tariff applicable for the licensee is Rs.300/kVA as demand charges and Rs. 5.60 per kWh as energy charges. Based on the revised tariff, the power purchase cost approved for the year 2017-18 is as shown below.

Table-6
KPUPL- Approved Cost of Power Purchase for 2017-18

Particulars	2017-18
Energy requirement (MU)	107.25
Maximum demand billed (KVA)	19500
Rate of demand charge (Rs./kVA)	300
Demand charges (Rs.lakh)	702.00
Rate of energy charges (Rs.kWh)	5.60
Energy charges (Rs.lakh)	6006.00
Total cost of power purchase(Rs.lakh)	6708.00

21. **Capital Expenditure:** As per the review petition, capital outlay of Rs.1228.01 lakh and Rs.405 lakh are projected for the year 2016-17 and 2017-18 respectively for meeting the following capital expenditure:

Table-7
KPUPL- Proposed Capital Expenditure for 2016-17

Licensee Area	Capital expenditure projected	Brief description and justification
Kakkanad licensee area	Rs.38.00 Lakh	Procurement of Energy meters, relays etc. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.
	Rs.4 lakh	Procurement of Lightning Arrester
	Rs.4 lakh	Procurement of Computers
	Rs.11.93 lakh	For purchase of Furniture and Fixtures to replace the old and unusable items & Civil works.
Kalamassery	Rs.0.56 Lakh	For procurement of Energy meters.
	Rs.8.33 lakh	Procurement of Transformers
	Rs.485.60	Taking over of cable network at Kalamassery park to cater to the future requirement
	Rs.168.00 lakh	Taking over of switchgears at Kalamassery park to cater to the future requirement
Palakkad	Rs. 84.34 Lakh	Transformers for the distribution infrastructure at its licensee area at Palakkad which includes erection and commissioning of a new 22 kV substation along with RMUs
	Rs.132.05 lakh	Cables for the distribution infrastructure at its licensee area at Palakkad which includes erection and commissioning of a new 22 kV substation along with RMUs
	Rs.161.56 lakh	Switchgears for the distribution infrastructure at its licensee area at Palakkad which includes erection and commissioning of a new 22 kV substation along with RMUs
	Rs.97.77 lakh	Civil works for the distribution infrastructure at its licensee area at Palakkad which includes erection and commissioning of a new 22 kV substation along with RMUs
	Rs. 16.64 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.7.57 Lakh	Overhead lines for catering temporary requirements.
	Rs.1.38 Lakh	Procurement of Battery
	Rs.6.28 lakh	Procurement of Energy meters
Total	Rs.1,228.01 lakh	

Proposed source of Funding for capital expenditure:

Rs. 235 lakh towards supply/erection for the 22 kV substations at Palakkad was financed through debt from the promoter (KINFRA). The remaining Rs.993.01 lakh of capital expenditure for the purpose of expansion of the distribution system, augmentation of metering system and the cable network at Kakkanad,

Kalamassery and Palakkad licensee areas are proposed to be met out of equity participation and loan from promoter (KINFRA) and out of internal resources.

Table-8
KPUPL- Proposed Capital Expenditure for 2017-18

Licensee Area	Capital expenditure projected	Brief description and justification	Expected time of completion
Kakkanad licensee area	Rs. 38 Lakh	Procurement of switchgears. This is part of the renovation and modernisation of substation.	By the end of 3 rd Quarter
	Rs.10 lakh	CT has to be replaced with 0.2S Class, PT has to be replaced with 0.2 class. This is part of the renovation and modernisation of substation.	By the end of 1 st Quarter
	Rs.4 lakh	Procurement of LA. This is part of the renovation and modernisation of substation.	By the end of 1 st Quarter
	Rs.49 lakh	Procurement of ABT meter, energy meters and for purchase of new software and modems for updating existing prepaid metering system. KINESCO has obtained enhancement of CD from 11MVA to 18MVA for which the existing metres to be replaced with ABT Compatible metre since the existing meters are having errors more than the permissible limits. Part of the expenditure is for the renovation and modernisation of substation.	By the end of 4 th Quarter
	Rs.35 lakh	For procurement of cables for expanding the distribution network to KEPIP phase 2 area.	By the end of 4 th Quarter
	Rs.20 Lakh	For procurement of switchgears for expanding the distribution network to KEPIP phase 2 area.	By the end of 4 th Quarter
	Rs.10 lakh	For Civil works	By the end of 4 th Quarter
	Rs.50 lakh	Implementing solar projects at the top of control rooms of 110 kV substation, Kakkanad, 11 kV substation Hi Tech Park, Kalamassery and top of 22 KV substation, Palakkad in consultation with M/s ANERT where we have an approximate area of 300msq, 400msq and 450msq respectively. The project is proposed to be implemented as grid connected system. A total of 11.2 KW is expected to be installed during this year.	By the end of 4 th Quarter
Kalamassery	Rs.6 Lakh	For 30 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.	By the end of 3 rd Quarter
	Rs.25 lakh	Procurement of cables, RMUs, 11kV panel for redundancy of the system	By the end of 4 th Quarter
	Rs.10 lakh	Procurement of Transformers for the purpose of giving supply to new LT consumers coming up in different locations at Hi-Tech Park	By the end of 4 th Quarter
Palakkad	Rs.10 lakh	Procurement of cables	By the end of 4 th Quarter
	Rs.62 lakh	Cable trench including civil work, fencing for transformers and RMUs etc	By the end of 4 th Quarter
	Rs.50 lakh	Procurement of RMUs are required for replacing existing feeder panels as per the directions of	By the end of 4 th Quarter

		CEIG, and also for establishing the ring system in distribution system.	
	Rs.20 lakh	Procurement of 6 nos. of distribution transformers for the purpose of giving supply to new LT consumers coming up in different locations at KIITP,Palakkad.	By the end of 4 th Quarter
	Rs.6 Lakh	For 30 Energy meters. Augmentation of the metering system to keep pace with the load growth and in the number of consumers.	By the end of 4 th Quarter
Total	Rs.405 lakh		

22. The Commission notes that the licensee has merely furnished a list of items for capital expenditure. As per the sub-regulation (1) of regulation 72 of Tariff Regulations, 2014, the distribution licensee shall ensure optimum investments in capital expenditure to enhance efficiency and productivity and to meet performance standards specified by the Commission. Such capital investment plan shall be submitted to the Commission for its approval by the licensee on or before 30th September of the current financial year. The investment plan shall be accompanied by such information, particulars and documents as may be required to substantiate the need and to justify the proposed investments. Unless the details as required are furnished, the approval for capital expenditure cannot be granted. In the absence of prior approval such expenditure cannot be considered for granting the depreciation, RoE and interest and finance charges thereon.
23. Accordingly it is hereby directed that the licensee shall furnish the necessary details as per the regulation along with the status of works as on date, separately for the approval of Commission without delay.
24. **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 2017-18. The licensee in the application for revised ARR&ERC for the year 2017-18 has estimated an interest and finance charge of Rs.201.11 lakh which includes interest on unsecured loan and the interest on security deposit. The details of unsecured loan are tabulated hereunder.

Table-9
KPUPL- Interest and finance charges 2017-18

Particulars	Rs.crore
Gross Loan -Opening	17.35
Less: Repayment of Loans during the year	0.47
Net loan - Closing	16.88
Average Net Loan	17.12
Weighted average Rate of Interest on Loans	11.50%
Interest on Loan	1.97

25. The licensee in the clarification submitted on 23-05-2017 has submitted as follows.

“KPUPL has taken a loan from KINFRA during February 2015 for the purpose of Capital Works relating to Phase I of Palakkad licensee area vide agreement dated 19th February 2015. As per the terms of agreement, KPUPL is liable to pay KINFRA, interest at the rate of 11.5% per annum. Hence KPUPL has provided Rs.24 lakhs on account of interest on loan from KINFRA. The Loan agreement and the related documents are annexed herewith. As per the projections prepared, KPUPL is liable to pay KINFRA an amount of Rs.22 Crores on account of capital additions transferred from KINFRA to KPUPL for various licensee areas. Even though the Asset Transfer Agreement was executed between KINFRA and KPUPL, the terms of repayment of consideration was not specified. As per the industrial standard, the proposal of converting the amount into 70% Debt and 30% Equity is under the consideration of KINFRA. Hence the projections is worked out on the basis of assuming Rs.15 Crores out of the Rs.22 Crores as loan and provided interest at the rate of 11.5% per annum. Thus Rs.1.73 Crores has been provided in the ARR on account of interest to this loan from KINFRA.”

26. The licensee has further estimated an amount of Rs.4.29 lakh to be spent for interest on security deposit from consumers.

27. The Commission has examined the details furnished by the licensee. It is to be noted that the Commission has not approved any capital expenditure for phase I so far, as the licensee has not furnished any capital expenditure programme with relevant details. Interest and other financing charges are recognized in the ARR only if assets are commissioned and benefits are realized. The interest charges incurred during the period is to be considered as IDC.

28. Regarding the consideration given on the take over of assets of KEPIP by KPUPL, the final view has not been taken by the Commission. The Commission in the previous truing up orders did not allow interest charges as sufficient details were not furnished by the licensee. In the order dated 10-03-2017 on the truing up for the year 2009-10, the Commission has stated as follows:-

“24. The licensee has booked Rs.37.26 lakh as interest charges for the year. The same was stated to be incurred by M/s KEPIP for the period prior to 1-2-2010. In the balance sheet of KEPIP at the end of 31-1-2010, an

amount of Rs.224.12 lakh was shown as loans whereas no such amount is reported in the balance sheet of KPUPL. The Commission in the previous truing up orders had examined the consolidated balance sheet of M/s KEPIP as well as the balance sheet of distribution business in detail. As per the information given by the licensee, the loan component comprises of loan notionally taken/availed from Govt. / KINFRA and assigned to distribution business. Accordingly interest charges were booked and shown as contingent liabilities since the terms and conditions including the interest and repayment for loan advanced by Kinfra were not ascertained. Further, interest was booked on a notional basis in the distribution business of M/s KEPIP. However, the Commission found that as per the consolidated balance sheet of M/s KEPIP, the complete distribution assets were shown as funded from Grants from Govt. of India/ASIDE. Though in the distribution business of KEPIP, notional loan and interest thereon was shown as the loan from KINFRA/Govt for financing the assets, no interest was actually paid. Further, M/s KEPIP had booked depreciation for the consolidated business as per the provisions of Companies Act following written down value method whereas for the distribution business depreciation rates notified by CERC were used. The difference in depreciation charges was adjusted and booked as loan in the books of accounts of distribution business. Considering these issues, the Commission did not allow interest booked by then licensee to M/s KEPIP in the truing up of accounts for the year 2004-05 to 2008-09.

25. In 2009-10, the period up to 31-1-2010, KEPUP had booked interest to the tune of Rs.37.26 lakhs in the accounts against the outstanding loan (loan taken from others) of Rs.224.12 lakh, whereas no interest was booked by M/s.KPUPL for the balance period of the financial year. Since licensee could not conclusively prove that the interest booked is for the purpose of distribution business and is actually incurred, the Commission is not in a position to approve the same. Interest and finance charge, if any, claimed can be approved only on production of documentary evidences. Therefore, the claims of interest and finance charges, which are not supported by documentary evidences, is not approved.”

29. Thus in this regard, the underlying principle is that any transaction of such matter shall not increase the burden of consumers or increase the ARR without

corresponding benefits. The Commission shall finalise its views when the matter is considered in detail. Hence it is directed that the licensee may take up the matter separately before the Commission. The claim on interest and finance charges is not clearly ascertainable from the details furnished by the licensee. It is also to be noted that as per the provisions of the Companies Act, the details of the loans actually availed, is to be clearly shown in the accounts filed before the Registrar. These details are also not furnished by the licensee. As mentioned above, the licensee has not obtained approval for the capital expenditure. The Commission is of the view that correct figures of interest for the approved capital expenditure relating specifically to the business of distribution of electricity be submitted after proper approval.

30. Regarding interest on security deposit, as per the provisions of the supply code, the interest payable in 2017-18 is based on the security deposit at the beginning of 2016-17. As per the information available, the licensee is following pre-paid metering system in Kakkanad. As per section 47(5) of the Electricity Act 2003, the licensee is not entitled to demand security in respect of the Electricity supplied. It is not clear from the details furnished by the licensee, the purpose to which security was availed. Hence the Commission approves the interest and security deposit only provisionally. During the truing up, the licensee has to provide complete details of security deposit for claiming interest.
31. **Depreciation:** - The depreciation approved for the year 2017-18, vide order on the ARR&ERC dated 16-12-2015 was Rs.70.32 lakh. The depreciation claimed for the year 2017-18 in the revised application is Rs.156.26 lakh. The licensee has stated that the increase in the amount of projected depreciation is on account of the expected addition to the gross fixed assets of Rs.1228 lakh in 2016-17 and Rs.405 lakh in 2017-18. The licensee has claimed depreciation for the assets proposed as part of capital expenditure in 2016-17 and 2017-18. The Commission cannot at present, allow the claim for depreciation for the asset addition proposed. The claims for depreciation will be duly considered as and when the projects are approved and necessary data and details are submitted, with regard to its commissioning/work completion.
32. The licensee in the clarification submitted on 23-05-2017 has submitted that
The agreement entered into with KEPIP and KINFRA, provides KINESCO with full access to the utilities and assets of KEPIP Electricity Licensee with effect from 01st February 2010. The Licensee assets and utilities worth Rs. 13.42

crores has been transferred at book value as on 31.01.2010 where KEPIP followed the depreciation rates as per the Companies Act, 1956. The corresponding Written Down Value of the said assets as per the KSERC norms is Rs.18.02 Crores as on 31st January 2010. For the purpose of truing up, KINESCO has provided depreciation on Rs.18.02 Crores, which is the value of licensee assets as on 1st of February 2010, since the license has been transferred from KEPIP to KINESCO as per KSERC norms and the license continues to exist. The sales consideration of Rs.13.42 Crores and the corresponding value of the assets as per KSERC norms of Rs.18.02 Crores as on 01.02.2010 have been clearly mentioned in the Asset Transfer Agreement.

33. As mentioned above, the Commission is yet to take a considered view on the transfer value of the licensee, for want of clarity with regard to the entire transfer process.

O&M expenses

34. The Commission approved the O&M expenses for the control period in line with the Tariff Regulations, 2014 against the projection of the licensee for the first control period. The licensee in the revised application has proposed high O&M expenses against the approved expenses as per the Tariff Regulations, 2014. A comparison on the O&M norms for distribution business of KPUGL as per the Tariff Regulations, 2014 and the revised application is tabulated below.

Table-10
KPUGL- O&M approved for 2017-18 as per Tariff Regulations, 2014

FY 2017-18 (Rs. lakh)			
O&M Expenses (Rs. lakh)	As per norms	Approved in ARR	Revised ARR
Employee expenses	24.54	24.54	56.66
R&M expenses	34.12	34.12	159.40
A&G expenses	66.78	66.78	151.39

35. **Employee cost:** -. Commission had approved a total employee cost of Rs. 24.54 lakh for the year 2017-18 as per the provisions of the Tariff Regulations, 2014. As per the revised application filed by the licensee the employee expenses estimated is Rs.56.66 lakh for 2017-18. The licensee has also stated that the estimate for the year 2017-18 includes the cost on account of the expansion of business in Palakkad license area. The licensee has not submitted proper split up details on the claim in the application. 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.”

36. Hence, in the revised application, the Commission approves the employee cost as Rs 24.54 lakh for the year 2017-18, as per the regulation.
37. **Repair and Maintenance Charges:** - The Commission had approved an R&M expense of Rs.34.12 lakh for the year 2017-18 as per the provisions of the Tariff Regulations, 2014. In the revised projection made for the year, the licensee has revised the repair and maintenance charges to Rs. 159.40 lakh, which is not in line with the provisions of the Tariff Regulations, 2014. The split up of the R&M as per the revised application is tabulated here under.

Table-11
KPUPL- Proposed Repair & maintenance expenses for 2017-18

R&M Expenses	Rs. In lakh
Operation and maintenance of the substation and Distribution system, pre-paid metering system, communication (GSM) cost, meeting emergency situations etc at Kakkanad	71.50
Operation and maintenance of the substation and Distribution system at Kalamassery	12.34
Operation and maintenance of the substation and Distribution system at Kanjikode, Palakkad	13.78
Renovation of Kakkanad licence area (repair of transformer, relays, breakers, control room, yard, painting etc)	38.40
Renovation of Kalamassery licence area (procurement of spares, repair of transformer, cables, RMUs, fencing, painting etc)	23.00
Repair & Testing charges of equipments etc	0.38
Total	159.40

38. The licensee has stated that the increase 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 20% in maintenance cost anticipated over the last year. The Commission notes that some of the expenditure proposed is in the nature of capital expenditure. As in the case of employee expenses, the Commission can allow the R&M expense only as per Regulation 81(4) of the Tariff Regulation 2014. Hence the

Commission hereby approves the R&M expenses for the year 2017-18 at Rs.34.12 lakh.

39. **Administration and General Expenses:** - The A&G expense approved for the year 2017-18 was Rs.66.78 lakh as per the provision of the Tariff Regulations, 2014. As per the revised application, the licensee claims Rs.151.39 lakh as the A&G expense for the year 2017-18. The A&G expenses projected by the licensee 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 2017-18

Particulars	Rs. in lakh
Rent, Rates and taxes	15.00
Insurance premium	3.00
Telephone expenses	1.00
Legal charges	1.00
Audit fees	1.25
Consultancy charges	15.00
License Fee and other related fee	4.00
Other Professional charges	15.00
Conveyance and vehicle hiring	10.00
Books and stationery	2.00
Miscellaneous expenses	0.14
Bank/ BG charges	15.00
Others	5.00
Electricity duty under section 3	63.00
Total	151.39

40. 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. The licensee should refrain from claiming the electricity duty in the application when the same is against the provisions of the Kerala Electricity Duty Act, 1963.
41. The claim on A&G expenses without the electricity duty under Section 3 (1) is Rs.88.39 lakh. Since the allowable A&G expenses as per Annexure-IX of the Tariff

Regulations 2014 is Rs.66.78 lakh, the Commission approves only the amount as per the norms.

42. **Return on Equity:-** The licensee proposes ROE of Rs.99.40 lakh for 2017-18 as against Rs. 1.40 lakh allowed for 2017-18 as per the 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 submitted by the licensee, the 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. Hence, the Return on Equity approved for the year 2017-18 is Rs.1.40 lakh.

43. **Tax Expenses:** The licensee has estimated an amount of Rs.35.00 lakh as tax expenses. The Commission is not inclined to approve anticipated tax. The Commission shall consider the same while truing up of accounts, once the expense is actually incurred by the licensee.
44. **Aggregate Revenue Requirement:** The Aggregate Revenue Requirements approved for the control period are summarized as given below.

Table 13
KPUPL-Details of Aggregate Revenue Requirement for 2017-18 (Rs in lakh)

Particulars	Approved	Revised ARR & ERC	Revision Approved
Purchase of Power	5418.93	6971.88	6708.00
Depreciation	70.32	156.26	70.32
Interest & Finance Charges	-	201.82	4.29
Employee Cost	24.54	56.66	24.54
Repairs and Maintenance	34.12	159.40	34.12
Administration and General Expenses	66.78	151.39	66.78
Return on Equity	1.40	99.40	1.40
Total Expenditure	5616.09	7796.81	6909.45

45. **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.5807.47 lakh. In the application for the revised ARR for 2017-18, the licensee expects higher revenue in view with the increase in the number of consumers and higher sale of energy as shown below.

Table-14
KPUPL-Revenue Projections for the control period

Tariff category	2017-18 ARR Approved			Tariff category	2017-18 Revised Projection		
	No of consumers	MU	Total charges (Rs.lakh)		No of consumers	MU	Total charges (Rs.lakh)
LT IV A	16	0.62	35.49	LT IV A	22	1.17	69.00
LT IV B	150	6.79	423.02	LT IV B	156	6.67	471.00
LT VI A	1	0.10	6.07	LT VI A	2	0.07	5.00
LT VI C	13	0.06	7.09	LT VI C	9	0.05	7.00
LT VI F	33	1.00	76.67	LT VI F	50	2.31	225.00
LT VII A	11	0.15	18.77	LT VII A	10	0.25	26.00
HT I A	5	23.03	1324.94	HT I A	15	30.78	1894.00
HT I B	13	37.38	2585.91	HT I B	18	48.09	3405.00
HT II	1	0.17	10.87	HT II	2	0.43	35.00
HT III B	1	1.11	40.19	HT III B	1	0.13	12.00
HT V	2	0.16	12.21	HT V	1	0.73	26.00
DHT I A	1	0.63	36.24	DHT I A	1	0.15	3.00
DHT I B	42	16.36	1140.31	DHT I B	43	13.98	1029.00
DHT IV	5	1.00	89.69	DHT IV	2	0.82	121.00
Total	294	88.56	5807.47	Total	332	105.64	7328.00

46. The Commission vide tariff order dated 17-04-2017 revised the tariff applicable to the consumers. The revenue from sale of power projected by the licensee is as per the revised RST applicable to the different categories of the consumers. Based on the revised tariff, the revenue from sale of power for the year 2017-18 is Rs.7328.00 lakh. The Commission has examined the revenue projection of the licensee and approves the revenue from sale of power for the year 2017-18
47. **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 the year. In the revised application, the licensee has estimated a non tariff income of Rs.34.00 lakh for the year. The licensee has mentioned that the estimated non-tariff

income for the year 2017-18 includes Rs.14.00 lakh to be earned from interest on bank fixed deposits and an estimated Rs.20.00 lakh from miscellaneous receipts. The Commission approves the Non tariff income of Rs.34.00 lakh as revised in the application.

48. **Revenue Surplus/Gap:** Based on the above, the revenue surplus/gap for the year 2017-18 estimated by the licensee and that approved by the Commission are as follows

Table -15
KPUPL- Approved by the Commission for 2017-18 (Rs. in lakh)

Particulars	2017-18		
	Approved	Revised ARR & ERC	Revision Approved
Revenue from Sale of Power.	5807.47	7551.28	7328.00
Other Income	30.10	34.00	34.00
Total Income	5837.57	7585.28	7362.00
Purchase of Power	5418.93	6971.88	6708.00
Depreciation	70.32	156.26	70.32
Interest & Finance Charges	-	201.82	4.29
Employee Cost	24.54	56.66	24.54
Repairs and Maintenance	34.12	159.40	34.12
A&G Expenses	66.78	151.39	66.78
Return on Equity	1.40	99.40	1.40
Total Expenditure	5616.09	7796.81	6909.45
Total Surplus/(Deficit)	(+)221.48	(-)211.53	(+)452.55
Less Tax Expenses	-	35.00	-
Net Surplus/(Deficit)	(+)221.48	(-)246.53	(+)452.55

Directives of the Commission

49. The Commission issues the following directives to the licensee for strict compliance.
- (a) The licensee shall submit the application for the truing up of accounts for the year 2015-16 along with phase-wise details as per the Tariff Regulation 2014 at the earliest.
 - (b) The licensee shall also comply with the directives issued vide order dated 16-12-2015 and 14-07-2016 and report compliance to the Commission during the truing up process.

- (c) The licensee shall furnish the details of capital expenditure along with funding plan as per the provisions of the regulation immediately along with the status of work undertaken.

Orders of the Commission

50. 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 2017-18 as stated below,-

Financial Year	2017-18
ARR (Rs. in lakh)	6909.45
ERC (Rs. in lakh)	7362.00
Surplus / (Revenue Gap)	(+)452.55

51. The licensee shall limit the expenditure to the levels approved by the Commission.
52. The application is disposed of and it is ordered accordingly.

Sd/-
K.Vikraman Nair
Member

Sd/-
S.Venugopal
Member

Approved for issue
Sd/-
Santhosh Kumar.K.B
Secretary