

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

**OA 11/2017**

**In the matter of Truing up of accounts of M/s Rubber Park India Private  
Limited (RPIL) for the financial year 2015-16**

**Applicant : M/s Rubber Park India Private Limited**

**Respondent : M/s Kerala State Electricity Board Limited**

**PRESENT : Shri K.Vikraman Nair, Member  
Shri S.Venugopal, Member**

**ORDER DATED 26/07/2017**

1. M/s.Rubber Park India (P) Limited (*hereinafter referred to as RPIL or the Licensee*), is a distribution licensee under the Electricity Act, 2003. The Licensee has entered into a PPA with Kerala State Electricity Board Ltd (*herein after referred to as KSEBL*) to purchase power at 110 kV for distribution to the Industrial units within the industrial park at Valayanchirangara near Perumbavoor in Ernakulam District.
2. The Commission had on 03-09-2015 issued order on OA 10/2015 approving the ARR & ERC for the first control period (2015-16 to 2017-18). The licensee has filed the application for truing up of accounts for 2015-16 as per the provision of the KSERC (Terms and Conditions for determination of tariff) Regulations 2014 (*hereinafter referred to as Tariff Regulations 2014*) and the application was admitted as OA No.11/17.
3. The Commission had notified the Tariff Regulations, 2014 applicable for the first control period from 2015-16 to 2017-18 on 14.11.2014 as per notification No.787/SEA/2011/KSERC. The application submitted by the licensee was in accordance with regulation 11 of the said Tariff Regulations, 2014 which is quoted below;

*11. Filing under multi-year tariff (MYT) framework.- (1) every generating business/company or transmission business/licensee or distribution licensee/licensee or state load despatch centre shall file on or before the thirtieth day of November of the current financial year, the following applications for the control period:*

(a) Application for approval of revised aggregate revenue requirement, if any, for the ensuing financial year and determination of tariff for the ensuing financial year:

(b) Application for truing up of aggregate revenue requirement for the previous financial year”

4. Based on the above provisions, all licensees have to submit the application for truing up of aggregate revenue requirements for the previous year. In the application for the **truing up of accounts for 2015-16**, the licensee has reported at a **revenue gap of Rs.146.41 lakh** against a revenue gap of Rs.105.42 lakh approved by the Commission vide order dated 03-09-2015. A comparison on the application for the truing up of accounts and the approved ARR&ERC for 2015-16 as per order dated 03-09-2015 issued by the Commission is tabulated hereunder.

**Table 1**  
**Comparison of Truing Up of accounts and the ARR order for 2015-16**

Particulars	2015-16		
	Approved (Rs.lakh)	For Truing Up (Rs.lakh)	Difference (Rs.lakh)
Purchase of Power	1349.62	1514.36	164.74
Repair and Maintenance cost	24.33	31.91	7.58
Employee Cost	26.10	44.82	18.72
Administrative & General Expenses	18.02	23.72	5.70
Depreciation	50.05	47.03	-3.02
Interest on Normative loan	38.97	40.27	1.73
Interest & Finance Charges		0.43	
Return on Equity	37.93	38.78	0.85
Repayment of principle amount on normative loan	0.00	47.03	47.03
<b>Aggregate Revenue Requirement</b>	<b>1545.02</b>	<b>1788.35</b>	<b>243.33</b>
Less Non-Tariff income	7.00	48.53	41.53
Less income from wheeling charges	0.04	0.00	-0.04
<b>Aggregate Revenue Requirement</b>	<b>1537.98</b>	<b>1739.82</b>	<b>201.84</b>
Revenue from existing tariffs	<b>1432.56</b>	<b>1593.41</b>	<b>160.85</b>
Revenue gap/Surplus	<b>(105.42)</b>	<b>(146.41)</b>	<b>(40.99)</b>

#### Hearing on the matter

5. Public hearing on the application was held at the Court Room, Office of the Commission on 16-05-2017. M/s Rubber Park India (P) Ltd. was represented by Sri.J.Krishna Kumar MD, Rubber Park India (P) Ltd and other officers of the licensee. Sri.Anees.T.M, Resident Engineer, Rubber Park India (P) Ltd. presented the details of the application for truing up of accounts for the year 2015-16 and gave clarifications on the queries raised by the Commission

6. Smt. Mehrunisa, Executive Engineer, TRAC and Sri. Manoj.G, AEE, TRAC, represented for KSEB Ltd. Sri. Manoj.G, Assistant Executive Engineer, TRAC, KSEBL presented the observations of KSEB Limited and submitted written remarks on the application. The summary of the comments of KSEB Ltd are abstracted below:
- a) Distribution Loss - M/s KSEB Ltd submitted that the licensee has claimed a higher distribution loss as against the approved loss of 2.00%. M/s KSEB Ltd requested Commission that the additional cost on power purchase incurred by the licensee on account of higher distribution loss may be disallowed.
  - b) The claim 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.
  - c) KSEB Ltd submitted that the licensee has already claimed the interest on normative loan as 9.7% of 70% of Net Fixed Assets, hence the additional claim of Rs.0.43 lakh as interest and finance charges is not justifiable.
  - d) The depreciation claimed for the whole year on the asset of Rs. 66.49 lakh capitalized during the financial year may be disallowed. It was also mentioned that the claim of Rs.47.03 lakh towards repayment of principal amount of normative loan and depreciation of Rs. 47.03 lakh leads to double recovery which is not allowable in a regulatory regime.
  - e) The quantum of energy purchased and the energy charges for 2015-16 claimed by the licensee tally with records of KSEBL.
  - f) The claim of Rs.53.16 lakh on the interest due to non payment arrears due to BST revision may not be considered as the same was disallowed in the truing up order of 2013-14.
7. The Commission directed the licensee to submit the details before the Commission to substantiate the claims made in the application for the truing up of accounts for the year 2015-16. The licensee vide letter No.RP/E/02/B/12234 dated 25-05-2017 submitted the details sought by the Commission.

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

8. The Commission considered the application of the licensee for truing up of accounts for the year 2015-16, the additional submissions along with the comments of KSEB Ltd. The analysis and decisions of the Commission on the application for truing up of accounts for the year 2015-16 are detailed below:

9. **No. of Consumers and Sale of Power:** - Actual number of consumers during 2015-16 was 54 and the actual sale was 26.69 MU. The Commission in the order on ARR & ERC for the year 2015-16 had approved sales of 24.93 MU.

**Table 2**  
**RPIL-Sale of power to various consumer categories**

Category	2014-15 Trued Up		2015-16 Truing up	
	No. of consumers	Energy sold in MU	No. of consumers	Energy sold in MU
HT Consumers	16	21.95	16	24.78
LT IV	17	1.58	19	1.76
LT VI B	1	0.04	1	0.04
LT VI C	1	0.01	1	0.01
LT VII A	45	0.11	16	0.09
Public lighting	1	0.02	1	0.02
<b>Total</b>	<b>81</b>	<b>23.70</b>	<b>54</b>	<b>26.69</b>

As per the application for truing up for the FY 2015-16, the major quantum of 24.78 MU sale is to the HT category which consists of 16 consumers which is about 93% of total sale of power. The Commission approves the actual energy sales of the licensee as per accounts for the purpose of truing up for the financial year 2015-16.

**Distribution Loss:**

10. The licensee had purchased 27.26 MU from KSEB Ltd for the year 2015-16 as against the approved purchase of 25.44 MU. The distribution loss reported is 2.10% as against the approved loss of 2.00% in the order on ARR & ERC for the year 2015-16. The details as per the application submitted by the licensee are shown below.

**Table 3**  
**RPIL- Details on the distribution loss**

Year	2015-16	
	ARR Approved	Truing up Application
Total Energy sales (MU)	24.93	26.69
Distribution loss(MU)	0.51	0.57
Total Energy Requirement (MU)	25.44	27.26
Distribution loss	2.00%	2.10%

11. 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 2.00% fixed by the Commission. Since the distribution loss

being a performance parameter, the Commission approves the distribution loss at 2.00%, as approved in the order on ARR and ERC for the year 2015-16. Accordingly, for the truing up process, the quantum of power purchase approved based on the distribution loss of 2.00% is detailed below

**Table 4**  
**RPIL -Details of Distribution Loss approved for 2015-16**

Particulars	2015-16		
	ARR Approved	Truing up Application	Trued Up
Total Energy sales (MU)	24.93	26.69	26.69
Distribution loss(MU)	0.51	0.57	0.54
Total Energy Requirement (MU)	25.44	27.26	27.23
Distribution loss	2.00%	2.10%	2.00%

**Power Purchase Cost:**

12. Commission had approved a purchase of 25.44 MU with a purchase cost of Rs.1349.62 lakh in the ARR&ERC order dated 03-09-2015. The actual power purchase cost incurred by the licensee for the year 2015-16 is Rs. 1440.34 lakh against total purchase of 27.26 MU from KSEB Ltd. The Commission had fixed the renewable power purchase obligation at 4.5% of the total consumption of energy within the area of the license in the ratio of 90:10 between the renewable energy from the Non Solar sources and the solar sources vide the KSERC (Renewable Energy) Regulations, 2015.
13. In the application, the licensee has stated that they have purchased 1081 no's of Non Solar and 121 no's of Solar Renewable Energy Certificates (REC's) from the Indian Energy Exchange through the open bidding process for meeting the RPO obligation of the licensee at a total cost of Rs.20.87 lakh.
14. The licensee while calculating the cost of power purchase for 2015-16 has also accounted an amount of Rs.53.16 lakh (interest on arrears of BST) which was not admitted in the truing up of accounts for the year 2013-14. The company had included the interest on arrears of Rs.53.16 lakh as "Other Charges" under the power purchase cost while submitting the Truing up petition for FY 2013-14. The Commission while approving the power purchase cost had excluded this amount of Rs.53.16 lakh. The details of the power purchase cost as per the petition are shown below.

**Table 5**  
**RPIL -Details of the cost of power purchase claimed for 2015-16**

Particulars	ARR	Truing up Application
Energy purchase (MU)	25.44	27.26
Demand Charges (Rs/kVA )	300.00	300
Demand Charges (Rs in Lakh)	192.10	199.96
Energy Charges (Rs/kWh)	4.55	4.55
Energy Charges (Rs in Lakh)	1157.52	1240.38
<b>Total</b>	<b>1349.62</b>	<b>1440.34</b>
RPO Purchase (Rs in Lakh)	0.00	20.87
Power Purchase Cost excluded in Truing Up 2013-14	0.00	53.16
<b>Total</b>	<b>1349.62</b>	<b>1514.36</b>

15. The actual energy purchase approved for the year 2015-16 for the purpose of truing up of accounts is 27.23 MU as against actual purchase of 27.26 MU. The Commission noted that the licensee had purchased **Renewable Energy Certificates (REC)** for Rs.20.87 lakh for the year 2015-16 in lieu of **Renewable Purchase Obligation (RPO)**. In this context, the Commission notes that **RPO** refers to the **obligation** imposed by law on the entities to either buy electricity generated by specified 'green' sources, or buy, in lieu of that, RECs from the market. The obligation imposed by the law on the licensee is to purchase certain percentage of power from renewable energy sources and to create demand for renewable energy. RECs are aimed at addressing the mismatch of renewable energy resources in the State and its RPO requirements. It is, therefore, the statutory duty of the licensee to purchase the specified percentage of power from the renewable energy sources which cannot be fulfilled by means of purchase of RECs alone. If there is any mismatch of renewable energy generation in the State and their RPO requirements, then such mismatch can be addressed by purchase of RECs. Hence, the priority of the licensee should always be to purchase of renewable energy than that of purchase of RECs. Purchase of RECs may simplify the statutory duty of the licensee but will create burden to the consumers. Hence, the licensee shall endeavour to take concrete measures for sourcing renewable energy for meeting the RPO. With this observation the Commission approves the cost of purchase of REC for 2015-16.

16. Regarding the interest on arrears of BST amounting to Rs.53.16 lakh, the Commission had disallowed the same in the truing up process for the year 2013-14 as it was due to the imprudent action of the licensee which cannot be

passed on to the consumers. It is not a good practice to account the disallowed the amount in the subsequent truing up proceedings.

17. Accordingly, based on the distribution approved loss, the Commission approves the power purchase cost for the year 2015-16 with the direction that the licensee shall take earnest efforts for sourcing renewable power to meet the RPO. The power purchase cost approved for the year 2015-16 is as shown below.

**Table 6**  
**RPIL -Details of the cost of power purchase approved for 2015-16**

Particulars	As per the application for truing up	Trued Up
Energy purchase (MU)	27.26	27.26
Demand Charges (Rs/kVA )	300	300
Demand Charges (Rs in Lakh)	199.96	199.96
Energy Charges (Rs/kWh)	4.55	4.55
Energy Charges (Rs in Lakh)	1240.38	1240.38
<b>Total</b> (Rs in Lakh)	<b>1440.34</b>	<b>1440.34</b>
Average power purchase cost(Rs/kWh)	5.28	5.28
<u>Less</u> Additional purchase on account of excess distribution loss (0.3 lakh units x Rs.5.28) (Rs in Lakh)		1.58
<b>Power Purchase cost</b> (Rs in Lakh)	<b>1440.34</b>	<b>1438.76</b>
RPO Purchase (Rs in Lakh)	20.87	20.87
Interest on BST disallowed in 2013-14(Rs in Lakh)	53.16	-
<b>Total</b> (Rs in Lakh)	<b>1514.36</b>	<b>1459.67</b>

**Interest and Finance Charges:**

18. The licensee has claimed a total interest and financing charges of **Rs.40.70 lakh** in the application for truing up for 2015-16 including interest on normative loan and bank charges for the security provided to KSEB Ltd for power purchase. The Commission in the order on ARR&ERC had approved an amount of Rs.38.97 lakh subject to the provisions laid down in the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014. The licensee has not obtained any loans and no interest has been paid so far. In the present application, the licensee claimed interest on normative loan as per the provisions of Tariff Regulations 2014. The details of the claim are tabulated hereunder.

**Table 7**  
**RPIL – Interest and Finance Charges claimed for 2015-16**

Particulars	Approved in the ARR	As per the Truing up
	(Rs.lakh)	(Rs.lakh)
Net fixed asset at beginning of the year	573.90	593.02
70% of net fixed asset	401.73	415.11
Gross Normative loan - Opening		415.11
Cumulative repayment of Normative Loan upto previous year		-
Net Normative loan – Opening		415.11
Increase/Decrease due to ACE/ Retirement/disposal during the Year		-
Repayments of Normative Loan during the year		-
Net Normative loan – Closing		415.11
Average Normative Loan		
Weighted average Rate of Interest of actual Loans (Ruling base rate of SBI)	9.70%	9.70%
<b>Interest on Normative loan</b>	<b>38.97</b>	<b>40.27</b>

19. The licensee has also claimed an amount of Rs.0.43 lakh during the year 2015-16 on account of Bank guarantee and letter of credit charges as demanded by KSEB Ltd. The claim is for the double security mechanism for executing the PPA for additional power of 2200kVA at 110kV.

20. The Commission has examined the details furnished by the Licensee. While approving the ARR&ERC for the control period 2015-16 to 2017-18, the Commission has approved interest charges of Rs.38.97 lakh on the normative loan, based on the claim of the licensee as per the provisions of regulations 27 and 30 of the Tariff Regulations 2014. Relevant portion of the regulations are given below:

**“27. Debt-equity ratio.** – (1) For the purpose of determination of tariff, debt equity ratio as on date of commercial operation in the case of a new generating station, transmission line and distribution line or substation commissioned or capacity expanded on or after the First day of April 2015, shall be 70:30 of the capital cost approved by the Commission:

*Provided that the debt-equity ratio shall be applied only to the balance of such approved capital cost after deducting the financial support provided through consumer contribution, deposit work, capital subsidy or grant, if any.*

(2) Where equity employed is more than thirty percent of the approved capital cost, the amount of equity for the purpose of tariff shall be limited to thirty percent and the balance amount shall be considered as normative loan and



*interest on the same may be allowed at the weighted average rate of interest of the actual loan portfolio.*

*(3) Where actual equity employed is less than thirty percent of the approved capital cost, the actual equity shall be considered.*

*(4) If any fixed asset is capitalised on account of capital expenditure incurred prior to the First day of April, 2015, debt-equity ratio allowed by the Commission for determination of tariff for the period ending the Thirty First day of March, 2015 shall be considered.*

*(5).....”*

**30. Interest and- finance charges.** – *(1) (a) The loans arrived at in the manner indicated in regulation 27 shall be considered as gross normative loan for calculation of interest on loan.*

*(b) The interest and finance charges on capital works in progress shall be excluded from such consideration.*

*(c) In the case of retirement or replacement of assets, the loan amount approved by the Commission shall be reduced to the extent of outstanding loan component of the original cost of the retired or replaced assets, based on documentary evidence.*

*(2) The normative loan outstanding as on the First day of April, 2015, shall be worked out by deducting the amount of cumulative repayment as approved by the Commission up to the Thirty First day of March, 2015, from the normative loan.*

21. As per the details furnished by the licensee, there is no loan portfolio in the accounts of the licensee and the assets are funded by equity. Thus, as per regulation 27(4), in order to qualify **for the normative loan** for the assets capitalised prior to 1-4-2015, the debt equity ratio allowed by the Commission for determination of tariff for the period ending 31-3-2015 shall be considered. Hence the debt-equity ratio or the loan portfolio approved by the Commission in the truing up of accounts for the year 2014-15 shall be used for allowing normative loan if any.

22. In the order dated 9-3-2016 on truing up of accounts of the licensee for the year 2014-15, the Commission has noted that *‘the licensee has not booked any amount under interest and financing charges for the truing up of accounts for the year 2014-15’*. Further, the Commission had allowed only Rs.10 lakh as return on equity stating the reason that there is no convincing reason to substantiate higher return. It is also to be noted that the order on truing up of accounts for 2013-14 dated 1-3-2016 neither considered normative loan nor allowed any interest charges. Hence, as per the provision of the Tariff regulations, the

licensee will be eligible for normative loan for the assets created after 1-4-2015 if the equity is more than 30% of the approved project cost or in the case of existing assets as on 1-4-2015, the debt: equity ratio approved by the Commission is to be considered. In the instant case, as per the orders of truing up for 2014-15, the Commission has not approved any interest cost and hence there is no normative loan existing, as per the regulatory accounts. Accordingly, no interest on normative loan can be admissible.

23. As per the audited accounts submitted by the licensee for the financial year 2015-16, there is no long-term borrowings under the head “Non-current liabilities” and no short-term borrowings under the head “Current Liabilities”. Hence there is no outflow on this account to the licensee.
24. The licensee has claimed an amount of Rs.0.43 lakh during the year 2015-16 on account of bank guarantee and letter of credit charges as demanded by KSEB Ltd. The claim is for the double security mechanism for executing the PPA for additional power of 2200kVA at 110kV. This amount is approved under interest and financing charges for the year 2015-16.

**Table 8**  
**RPIL- Interest and Finance Charges approved for the year 2015-16**

Particulars	As per accounts (Rs. Lakh)	Amount approved for truing up (Rs. Lakh)
Interest and Finance Charges	44.82	<b>0.43</b>

**Depreciation:**

25. The Commission approved a depreciation of Rs.50.05 lakh in the ARR for the year 2015-16. In the application for truing up, the licensee has claimed Rs. 47.03 lakh. The licensee has claimed depreciation for the asset addition of Rs.66.49 lakh for the ABT Meter and related modification of 110/11 kV EHT substation. The Commission had accorded the approval of the investment in respect of the expenditure in connection with the relocation of the metering equipment. Accordingly the company has capitalized the expenditure on 22.07.2015.
26. As per the letter dated 25-05-2017, the licensee has revised the claim on depreciation. As per the revised forms submitted by the licensee, the actual depreciation for the year 2015-16 is Rs.45.95 lakh. The details of the depreciation claimed by the licensee for the year 2015-16 are tabulated below.

**Table 9**  
**RPIL – Depreciation claimed for the year 2015-16**

Particulars	Gross Fixed Assets (Rs.lakh)	Asset Addition (Rs.lakh)	Adjustments and deductions (Rs.lakh)	Depreciation rate	Depreciation (Rs. Lakh)
Land & Rights	26.85	-	-	-	-
Civil works on EHT Substation	9.26	-	-	3.34%	0.31
Transmission lines	99.00	-	-	5.28%	5.23
HT Distribution lines	118.27	-	-	5.28%	6.24
Substations	409.00	66.49	5.96	5.28%	24.03
Switch gear, control gear and protection	30.38	-	-	5.28%	1.60
LT Distribution system	0.28	-	-	5.28%	0.02
Metering Equipment	1.18	-	-	5.28%	0.06
Furniture and fixtures	0.66	-	-	6.33%	-
IT Equipments	0.55	-	-	15.00%	0.08
Others	228.00	-	-		8.38
<b>Total</b>	<b>923.43</b>	<b>66.49</b>	<b>5.96</b>		<b>45.95</b>

27. The details of 'Others' included under Fixed Asset are given below:

**Table – 10**  
**RPIL – Split up details on depreciation claimed under 'Others' for the year**

Particulars	Amount Rs. Lakh	Depreciation %	Depreciation (Rs. Lakh)
Leasehold land	27.00	-	0.00
Building	148.00	3.34	4.95
Plant and machinery	7.00	5.28	0.37
Electronic equipment	18.00	5.28	0.96
Office equipment	0	6.33	0.01
Computers	4.00	15.00	0.53
Furniture and fittings	25.00	6.33	1.56
<b>Total</b>	<b>228.00</b>		<b>8.38</b>

28. Relevant provisions of the Tariff Regulation 2014 on depreciation is as shown below:

**28.Depreciation.** – (1) *The value base for the purpose of depreciation shall be the original capital cost of the asset approved by the Commission: Provided that no depreciation shall be allowed on revaluation reserve created on account of revaluation of assets.*

(2) *The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner:-*

*(a) depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation;*

*(b) the remaining depreciable value as on the Thirty First day of March of the financial year ending after a period of twelve financial years from the date of commercial operation shall be spread over the balance useful life of the assets as specified in Annexure- I;*

*(c) the generating business/company or transmission business / licensee or distribution business/licensee, shall submit all such details and documentary evidence, as may be required under these Regulations and as stipulated by the Commission from time to time, to substantiate the above claims; (d) the salvage value of the asset shall be ten per cent of the allowable capital cost approved by the Commission and depreciation shall be KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014 Page 33 a maximum of ninety per cent of the approved capital cost of the asset.*

*(3) The generating business/company or transmission business/licensee or distribution business/licensee shall be allowed to claim depreciation to the extent of financial contribution in the form of loan and equity, including the loan and equity contribution, provided by them: Provided that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.*

*(4) In the case of existing assets, the balance depreciable value as on the First day of April, 2015, shall be worked out by deducting the cumulative depreciation as approved by the Commission up to the Thirty First day of March, 2015, from the gross depreciable value of the assets.*

*(5) Depreciation shall be chargeable from the first financial year of commercial operation:*

*Provided that in the case of commercial operation of the asset for part of the financial year, depreciation shall be charged on pro-rata basis:*

*Provided further that depreciation shall be re-calculated for assets capitalised during the financial year at the time of truing up, based on documentary evidence for capitalisation of assets submitted by the applicant, subject to the prudence check of the Commission, in such a way that the depreciation is calculated proportionately from the date of capitalisation*

29. As per the provisions, depreciation is to be allowed as per the rates given in the regulation and depreciation for the assets commissioned within the financial year shall be on a prorata basis. Based on the details furnished by the licensee, the depreciation approved for the year 2015-16, is as detailed below.

**Table -11**  
**RPIL- Depreciation approved for 2015-16**

<b>Particulars</b>	<b>Gross Fixed Assets (Rs.lakh)</b>	<b>Asset Addition (Rs.lakh)</b>	<b>Adjustments and deductions (Rs.lakh)</b>	<b>Rate of Depreciation (%)</b>	<b>Depreciation (Rs. Lakh)</b>
Land & Rights	26.85	-	-	-	-
Civil works on EHT Substation	9.26	-	-	3.34%	0.31
Transmission lines	99.00	-	-	5.28%	5.23
HT Distribution lines	118.27	-	-	5.28%	6.24
Substations	409.00	66.49	5.96	5.28%	23.73
Switch gear, control gear and protection	30.38	-	-	5.28%	1.60
LT Distribution system	0.28	-	-	5.28%	0.01
Metering Equipment	1.18	-	-	5.28%	0.06
Furniture and fixtures	0.66	-	-	6.33%	0.04
IT Equipments	0.55	-	-	15.00%	0.08
<b>Others</b>					
Leasehold land	27.00	-	-	-	-
Building	148.00	-	-	3.34%	4.95
Plant and machinery	7.00	-	-	5.28%	0.37
Electronic equipment	18.00	-	-	5.28%	0.96
Office equipment	-	-	-	6.33%	0.01
Computers	4.00	-	-	15.00%	0.53
Furniture and fittings	25.00	-	-	6.33%	1.56
<b>Sub total</b>	<b>228.00</b>	-	-		
<b>Total</b>	<b>923.43</b>	<b>66.49</b>	<b>5.96</b>		<b>45.69</b>

**Employee cost:**

30. In the application for truing up, the licensee has booked an amount of **Rs.44.82 lakh** towards employee cost as against Rs.26.10 lakh approved by the Commission vide the order dated 03-09-2015. The licensee has stated that the company had appointed a full time Managing Director on 06.07.2015 with pay scale and remuneration equivalent to the CEO of class B PSU under Govt. of Kerala which was the reason for the increase in the employee cost. The Commission had arrived at the employee expenses for the MYT period based on the actual employee expenses of the company for the year 2011-12 when there was no full time Managing Director. The licensee had further stated that another reason for the increase is the net effect of wage revision and DA revision. The details of the claim made by the licensee are tabulated hereunder.

**Table 12**  
**RPIL- Details of employee cost claimed for the year 2015-16**

<b>Particulars</b>	<b>As per the Regulations</b>	<b>As per accounts</b>
Basic Salary	<b>26.10</b>	15.97
Dearness Allowance (DA)		17.09
House Rent Allowance		1.13
Conveyance Allowance		0.26
Earned Leave Encashment		2.23
Other Allowances		0.13
Medical Reimbursement		3.63
Staff welfare expenses		0.29
<b>Net Employee Costs</b>		<b>40.74</b>
Provident Fund Contribution		4.09
<b>Gross Employee Expenses</b>	<b>26.10</b>	<b>44.82</b>

31. All components of O&M expenses are controllable expenses. As per regulation 15(2), the aggregate loss on account of controllable factors shall be borne by the distribution licensee and shall not be passed on to the consumer in any manner. The claim is Rs.18.72 lakh higher than that of the norms approved by the Commission and the reasons attributed by the licensee cannot be accepted also. As per the prevailing Tariff Regulations, 2014, the employee cost can be approved only as per regulation 81(5) of the Tariff Regulations, 2014 which states as follows:

*“The distribution business of Rubber Park of India (P) Ltd (RPIL) 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.”*

32. Hence, in the revised application, the Commission approves the employee cost as Rs.26.10 lakh for the year 2015-16, as per the regulation.

**Table 13**  
**RPIL- Employee cost approved for the year 2015-16**

<b>Particulars</b>	<b>As per accounts (Rs. Lakh)</b>	<b>Amount approved for truing up (Rs. Lakh)</b>
Employee cost	44.82	<b>26.10</b>

**Repair and Maintenance Charges:**

33. The amount booked by the licensee for R&M expenses in the truing application is more than that is approved for the year 2015-16. The Commission had approved an amount of Rs.24.33 lakh as R&M cost for the year 2015-16 as per the provisions of the Tariff Regulations 2014 and the actual amount claimed by

the licensee is Rs.31.91 lakh for the repair and maintenance of transmission lines, substations, 11 kV lines & associated works, LT line service etc. The licensee has submitted detailed ledgers of the actual expenses incurred. As per the licensee the increase in the R&M expenses was due to the unavoidable expenditure incurred for maintaining the distribution system.

34. The major part of the R&M expenditure is the cost of the O&M contractor M/s. Electrotek Engineers (P) Ltd. M/s RPIL has stated that the company had outsourced the operation and maintenance of the substation and distribution network to M/s. Electrotek Engineers (P) Ltd through open tendering. The licensee has stated that the O&M cost to the outsourced agency itself (Rs.24.37 Lakh) was higher than the approved R&M cost. The licensee has prayed to consider the importance of the proper maintenance of the assets owned by Rubber Park in order to provide quality power to the consumers, and approve the actual R&M expense of **Rs. 31.91 lakh** incurred by the company for the year 2015-16 as per the audited accounts of the company. The split up details of the claim made by the licensee is shown below.

**Table-14**  
**RPIL- Details of R&M expenses for the year 2015-16**

Particulars	As per accounts
Service Bill of O&M of substation (M/s. Electrotek)	24.38
Relay testing of Substation (Kerala State Electrical inspectorate)	0.69
OLTC Overhauling	2.14
Maintenance of substation	2.64
Consumables and spares from store	2.06
<b>Gross Employee Expenses</b>	<b>31.91</b>

35. The R&M expense is a controllable expense. As per the details furnished by the licensee, the major part of the R&M expenditure is the cost of the O&M contractor M/s. Electrotek Engineers (P) Ltd. The licensee during the hearing and in the application had stated that the company had outsourced the operation and maintenance of the substation and distribution network to M/s. Electrotek Engineers (P) Ltd through open tendering. The company had invited open tender for the work of operation and maintenance of the substation and distribution network on 06.03.2013. The company received only one quotation against this tender which was from the existing contractor M/s. Electrotek Engineers P Ltd. The work was re-tendered on 10.04.2013. The company again received only one tender from the very same contractor M/s Electrotek Engineers and the work was awarded to them with effect from 01/05/2013, with an escalation of about 30% in one year.

36. As per the Regulations, the controllable expenses of RPIL have to be approved only as per the regulation 81(5) of Tariff Regulations, 2014. and as per regulation 15(2) any loss on account of controllable factors shall not be passed on to the consumers. Accordingly, the R&M expenses approved for the year 2015-16 is Rs.24.33 lakh.

**Table – 15**  
**RPIL- R&M expenses allowed for truing up for 2015-16**

Particulars	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
<b>R&amp;M expenses</b>	24.33	31.91	<b>24.33</b>

**Administration and General Expenses:**

37. The A&G expense claimed by the licensee is higher than the amount approved by the Commission. The Commission had approved Rs.18.02 lakh in the ARR for the year 2015-16. The amount booked by the licensee in the truing up application for 2015-16 is **Rs.23.72 lakh**. The details of the claim made by the licensee are tabulated hereunder.

**Table 16**  
**RPIL-Actual details of A&G Expenses**

Particulars	As per the Regulations Rs.lakh	As per accounts Rs.lakh
Rent Rates & Taxes	18.02	0.95
Insurance		1.68
Telephone & Postage, etc.		0.69
Legal charges		0.25
Audit Fees		0.78
Consultancy charges/ Truing up Audit fee		0.90
Other Professional charges		0.23
Conveyance		2.11
Vehicle Running Expenses		5.21
Electricity charges		0.37
Printing & Stationery		0.63
Advertisements, exhibition publicity		0.29
Office Expenses		0.41
License Fee and other related fee		1.77
Security arrangements		6.95
Others		0.50
<b>Gross A&amp;G Expenses</b>		<b>23.72</b>

38. The A&G expenses as per the Tariff Regulations 2014 shall only be admissible to the licensee. The Commission approves only the A&G expenses as per the Tariff



Regulations, 2014 and accordingly the A&G expense approved for truing up is Rs. 18.02 lakh.

**Table – 17**  
**RPIL - A&G expenses allowed for truing up for 2015-16**

Particulars	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
<b>A&amp;G expenses</b>	18.02	23.72	<b>18.02</b>

39. **Other Expenses:** - The licensee has also claimed an amount of Rs.47.03 lakh for the repayment of principal amount on normative loan. The licensee has stated that the claim is as per the regulation 27(2) of the Tariff Regulations, 2014. The licensee in the application has stated that the company can only remit the interest portion of the capital investment from the interest on normative loan approved in the ARR order and has prayed to approve Rs. 47.03 as the repayment of principle amount of normative loan for the year 2015-16

40. The Commission has examined the contentions of the licensee. Regulation 27(2) pertains to normative loan for the new investments created after 1-4-2015 and accordingly, the same is not applicable in the present case. Further, there is no provision for allowing repayment of loan separately as per the regulations.

**Return on Equity:**

41. The licensee had claimed Rs.38.78 lakh towards Return on Equity for the year 2015-16. This amount projected was 14% on the 30% of the gross fixed assets of Rs. 923.43 lakh. The Commission had allowed an amount of Rs. 37.93 lakh in the ARR&ERC for the year 2015-16.

42. Regulation 29 provides for Return on investment.

*“29. Return on investment. – (1) Return on equity shall be computed in rupee terms, on the paid up equity capital determined in accordance with the regulation 27 and shall be allowed at the rate of fourteen percent for generating business/companies, transmission business/licensee, distribution business/licensee and state load despatch centre:*

*Provided that, return on equity for generating business/company, transmission business/licensee, distribution business/licensee and state load despatch centre, shall be allowed on the amount of equity capital approved by the Commission for the assets put to use at the commencement of the financial year and on fifty percent of equity capital portion of the approved capital cost for the investment put to use during the financial year:*

*Provided further that at the time of truing up for the generating business/company, transmission business/licensee, distribution*

*business/licensee and state load despatch centre, return on equity shall be allowed on pro-rata basis, taking into consideration the documentary evidence provided for the assets put to use during the financial year*

43. In the present case in the case of existing assets, as per Regulation 27 (4) any fixed asset capitalized prior to 1-4-2015 shall be as per the debt equity ratio allowed by the Commission for the period ending 31-3-2015. In the Order on truing up of accounts for 2014-15, the Commission has not approved any debt equity ratio and also stated that since in the absence of any convincing reasons given by the licensee to substantiate for a higher return equity, only Rs.10 lakh was approved as RoE. As per the accounts, the assets are funded by equity. As per the details furnished by the licensee, the amount of equity is Rs.900 lakh and 30% of the equity is Rs.270 lakh. As per regulation 27(1) of the Tariff Regulations 2014, the rate of RoE is 14%. Thus, an amount of Rs.37.80 lakh is approved for the year 2015-16.

44. **Gross Revenue requirements:** Based on the above, the Gross revenue requirement for the year 2015-16 after truing up is as shown below:

**Table 18**  
**RPIL -Gross Revenue Requirements after truing up for 2015-16**

Particulars	2015-16		
	Approved (Rs.lakh)	For Truing Up (Rs.lakh)	Trued Up (Rs.lakh)
Purchase of Power	1,349.62	1,514.36	1,459.67
Repair and Maintenance cost	24.33	31.91	24.33
Employee Cost	26.10	44.82	26.10
Administrative & General Expenses	18.02	23.72	18.02
Depreciation	50.05	47.03	45.69
Interest on Normative loan	38.97	40.27	-
Interest & Finance Charges		0.43	0.43
Return on Equity	37.93	38.78	37.80
Repayment of principle amount on normative loan	-	47.03	
Aggregate Revenue Requirement	1,545.02	1,788.35	1,612.04

#### **Revenue from sale of power and Income from wheeling charge**

45. The licensee has claimed total revenue from sale for power of Rs.1593.41 lakh against approved revenue from sale of power of Rs.1432.56 lakh as approved in the Order on ARR. There is an increase in actual revenue from sale of power than the approved value in the order on ARR & ERC in view with the actual increase sale during the year. In the application the licensee had deducted Rs.56.74 lakh towards State levy payable and Electricity under duty Section 3(1) of Kerala Electricity Duty Act from the gross revenue. This duty is not allowed to

be passed on to the consumers. Accordingly the Commission approves the revenue from sale of power of Rs.1609.30 lakh for the purpose of truing up of accounts for the year 2015-16 as shown below.

**Table 19**  
**RPIL- Approved Revenue from Sale of Power for 2015-16**

Particulars	Trued Up		
	Energy Sales (MU)	Revenue in Rs. Lakh	Avg. realisation (Rs/kWh)
HT Consumers	24.78	1483.76	5.99
LT IV Consumers	1.76	110.86	6.31
LT VI B	0.04	3.09	7.74
LT VI C	0.01	0.74	9.77
LT VII A	0.09	10.31	11.31
Public lighting	0.02	0.54	3.57
<b>Total</b>	<b>26.69</b>	<b>1609.30</b>	

**Other revenue:**

46. Revenue other than sale of power includes, wheeling charges recoveries, reactive energy charges and miscellaneous charges from consumers etc., The Commission in the order on ARR for the year 2015-16 had approved an amount of Rs.0.04 lakh as wheeling charges for providing open access to M/s M fuels. In the application for truing up the licensee has in Form D2.2 submitted that they have received an income of Rs 0.062 lakh as wheeling charges to M/s M fuels. The Commission approves the wheeling charges as claimed in the application

**Non tariff income:**

47. The actual non-tariff income accounted by the licensee is Rs 48.53 lakh as against the approved amount of Rs 7.00 lakh. The details of the claim as per the accounts are shown below.

**Table - 20**  
**RPIL- Non tariff income 2015-16**

Interest on investments, fixed and call deposits and bank balances	10.40
Miscellaneous receipts	37.66
Commission for collection of electricity duty	0.40
<b>Total</b>	<b>48.46</b>

48. The licensee has stated that the miscellaneous receipts of Rs.37.66 is the excess demand charge collected during the period 2010 to 2014, which was refunded from M/s KSEB Ltd as per the order of the Commission in OP 36 of

2012. The Commission approves the non-tariff income of Rs.48.46 lakh as claimed by the Licensee for the truing up of accounts for the year 2015-16.

49. Thus the details of Truing up taking into consideration the approved expense and revenue is given below:

**Table 21**  
**RPIL- Details of amounts approved in Truing up for the year 2015-16**

Particulars	2015-16		
	Approved (Rs.lakh)	For Truing Up (Rs.lakh)	Trued Up (Rs.lakh)
Purchase of Power	1,349.62	1,514.36	1,459.67
Repair and Maintenance cost	24.33	31.91	24.33
Employee Cost	26.10	44.82	26.10
Administrative & General Expenses	18.02	23.72	18.02
Depreciation	50.05	47.03	45.69
Interest on Normative loan	38.97	40.27	-
Interest & Finance Charges		0.43	0.43
Return on Equity	37.93	38.78	37.80
Repayment of principle amount on normative loan	-	47.03	-
Aggregate Revenue Requirement	1,545.02	1,788.35	1,612.04
Less Non-Tariff income	7.00	48.53	48.46
Less income from wheeling charges	0.04	-	0.06
Aggregate Revenue Requirement	1,537.98	1,739.82	1,563.52
Revenue from existing tariffs	1,432.56	1,593.41	1,609.30
Revenue (gap)/Surplus	(105.42)	(146.41)	45.78

### Orders of the Commission

50. The Commission after considering the application filed by M/s. RPIL for truing up of accounts for the year 2015-16, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the total expenditure of Rs.1612.04 lakh and total revenue of Rs. 1657.82 lakh with a revenue surplus of Rs.45.78 lakh. The cumulative revenue surplus till 2015-16 will be Rs. 43.22 lakh. The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.

51. The application is disposed of. Ordered accordingly.

**Sd/-**  
**K.Vikraman Nair**  
**Member**

**Sd/-**  
**S.Venugopal**  
**Member**

Approved for issue  
Sd/-

Santhosh Kumar.K.B  
Secretary