

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

**OA 5/2018**

**In the matter of** : Truing up of accounts of M/s Cochin Special Economic Zone Authority (CSEZA) for the financial year 2016-17

**Applicant** : M/s Cochin Special Economic Zone Authority

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

**PRESENT** : Shri. R. Preman Dinaraj, Chairman  
Shri K.Vikraman Nair, Member  
Shri S.Venugopal, Member

**ORDER DATED 04/10/2018**

**Background**

1. The Cochin Special Economic Zone Authority (hereinafter referred to as CSEZA or the licensee) vide letter No.H.12/01/2018:CSEZA/755 dated 31-01-2018 has filed a petition for the truing up of accounts for the financial year 2016-17 as per the provisions of the KSERC (Terms and Conditions for determination of Tariff) Regulations 2014 (*hereinafter referred to as the Regulations*). The licensee has submitted the accounts audited by C&AG of India. The licensee has stated that C&AG does the audit of the complete CSEZA operations which includes segments viz; estate, power distribution system and integrated water management system. The Commission after considering the same admitted the petition as OA No.5/18.
2. The Commission had issued the order on the approval of the ARR&ERC for the entire control period (2015-16 to 2017-18) on 09-09-2015. A comparative statement of the various expenses approved for the year 2016-17 as per the order dated 09-09-2015 and the actual expenses claimed by the licensee for the year 2016-17 as per the petition for truing up is tabulated below.

**Table 1  
Comparison of approved and actual figures for the year 2016-17**

Particulars	2016-17 (Rs.Lakh)			
	Projected	Approved (A)	For Truing Up (B)	Difference (B)-(A)
Revenue from Sale of Power.	3285.67	3285.67	3405.92	120.25
Other Income	163.94	163.94	128.68	-35.26
<b>Total Income</b>	<b>3449.61</b>	<b>3449.61</b>	<b>3534.60</b>	84.99
Purchase of Power	3342.80	3333.26	3371.04	37.78
Repairs and Maintenance	8.47	8.26	2.70	-5.56
Employee Cost	157.50	161.22	143.60	-17.62
A&G Expenses	74.13	26.92	53.41	26.49

Depreciation	90.66	58.68	71.89	13.21
Interest & Finance Charges	12.39	-	-	-
Return on Equity	114.03	22.83	114.03	91.20
<b>Total Expenditure</b>	<b>3799.98</b>	<b>3611.17</b>	<b>3756.67</b>	145.50
<b>Net Surplus/(Gap)</b>	<b>(350.37)</b>	<b>(161.56)</b>	<b>(222.07)</b>	<b>60.51</b>

3. In the petition, the licensee has arrived at a **revenue gap of Rs.222.07 lakh** for the year 2016-17 as against a revenue gap of Rs.161.56 lakh approved by the Commission in the order dated 09-09-2015. A comparison between the figures for 2015-16 and 2016-17 is also tabulated hereunder.

**Table 2**  
**Comparison of figures for 2015-16 & 2016-17**

Particulars	2015-16(Rs Lakh)			2016-17 (Rs Lakh)	
	ARR Approved	For Truing Up	Trued up	ARR Approved	For Truing Up
Revenue from Sale of Power.	3280.06	3523.76	3523.76	3285.67	3405.92
Other Income	148.82	176.38	176.38	163.94	128.68
<b>Total Income</b>	<b>3428.88</b>	<b>3700.14</b>	<b>3700.14</b>	<b>3449.61</b>	<b>3534.60</b>
Purchase of Power	3317.54	3476.69	3479.08	3333.26	3371.04
Interest & Finance Charges	-	-	-	-	-
Depreciation	58.68	65.21	65.17	58.68	71.89
Employee Cost	152.31	132.40	145.67	161.22	143.60
Repairs and Maintenance	7.80	0.22	5.27	8.26	2.70
A&G Expenses	25.43	62.24	24.68	26.92	53.41
Return on Equity	24.59	114.03	23.50	22.83	114.03
<b>Total Expenditure</b>	<b>3586.35</b>	<b>3850.79</b>	<b>3743.37</b>	<b>3611.17</b>	<b>3756.67</b>
<b>Net Surplus/(Deficit)</b>	<b>(157.47)</b>	<b>(150.65)</b>	<b>(43.23)</b>	<b>(161.56)</b>	<b>(222.07)</b>

4. While processing the petition, the Commission had noted certain deficiencies and had directed the licensee to cure the same and sought clarifications on the petition for truing up for the year 2016-17 vide letter dated 14-03-2018. The licensee cured the defects in the application and furnished the clarifications on 26-03-2018.

#### **Public Hearing on the matter**

5. Public Hearing on the petition for truing up of accounts for 2016-17 was held at the Court Room, Office of the Commission on 25-04-2018. M/s CSEZA was represented by Sri. K.C.Ramakrishnan, Secretary i/c, Sri. K. C, Seetharaman, Chartered Accountant, Officers and consultants of CSEZA. Sri. K. C Seetharaman presented the details of the petition on the truing up of accounts for the year 2016-17 and responded to the queries of the Commission.
6. The main points presented by the licensee are,-

- (a) Revenue from Sale of Power claimed is Rs 3405.92 lakh for the energy sale of 55.20 MU and the Non Tariff Income is Rs 128.68 lakh which includes interest on investments, fixed and call deposits and bank balances, interest on advances, commission for collection of electricity duty, meter/service line rentals, etc.
- (b) The power purchase cost for the year 2016-17 is Rs 3371.04 lakh for a purchase of 56.08 MU. The approved level of distribution loss as per the order was 1.50% whereas the actual distribution loss is 1.56%.
- (c) The employee cost booked by the licensee for carrying out the distribution business is Rs. 143.60 lakh as against Rs. 161.22 lakh approved by the Commission.
- (d) The repair and maintenance expense booked by the licensee for carrying maintenance of plant and machinery and civil works is Rs. 2.70 lakh as against Rs. 8.26 lakh approved by the Commission.
- (e) The A&G expense claimed by the licensee for truing up is Rs 53.41 lakh as against the approved amount of Rs 26.92 lakh. A&G expense includes the duty payable by the licensee to the Government under Section 3(1) of the Kerala Electricity Duty Act 1963 amounting to Rs.33.02 lakh.
- (f) Asset addition of Rs.58.55 lakh was made during the year 2016-17. The asset additions made are CT-PT & ABT meters of Rs. 25.12 lakh and a new software for prepaid metering system of Rs.33.43 lakh
- (g) The depreciation claimed by the licensee is Rs 71.89 lakh as against Rs 58.68 lakh approved by the Commission
- (h) A return on equity of Rs.114.03 lakh is claimed on the basis of debt equity ratio of 70:30 as against the approved amount of Rs.22.83 lakh as per ARR order dated 09-09-2015

Accordingly the licensee has claimed an Aggregate Revenue Requirement (ARR) of Rs 3756.67 lakh and an Expected Revenue from Charges (ERC) of Rs. 3534.60 lakh with a revenue gap of Rs 222.07 lakh for the year 2016-17.

7. Sri. Bipin Shankar, Deputy Chief Engineer (TRAC), Smt. Mehrunisa, Executive Engineer, TRAC and Sri. Rajesh.R, AEE, TRAC, represented KSEB Ltd. Sri. Bipin Shankar presented the counter statement/comments of KSEB Ltd. and submitted written remarks on the petition. The major points raised by KSEB Ltd are the following:

- a. The actual T&D loss claimed for the year 2016-17 is 1.561% which is higher when compared to 1.50% approved by the Commission. However the actual distribution loss for 2015-16 was only 1.40%. Since distribution

loss is a controllable item and the area of operation of CSEZA is limited, the distribution loss for the year 2016-17 should have been less than the actual loss in 2015-16.

- b. The R&M expense claimed is much less than the approved amount. This may be due to either no real work was carried out in the area or the approved amount is substantially higher than what is actually required. The reduction in the R&M cost was not due to any effort taken by the licensee and the same cannot be treated as an efficiency gain.
  - c. The employee cost claimed by the CSEZA for the year 2016-17 is lower than that claimed in the year 2015-16 whereas the salary and the benefits paid to the employees & contract employees is showing an increasing trend. Therefore the reduction in the employee cost cannot be taken as an efficiency gain for attracting incentives.
  - d. The Commission may take uniform approach of disallowance on the claim of the licensee regarding section 3 duty and the interest on Section 3(1) Electricity duty.
  - e. The asset addition of Rs.33.43 lakh made during the year for developing new software for prepaid metering system cannot be considered as it was not approved by the Commission and reasonable GFA and depreciation for the year 2016-17, may be approved.
  - f. The licensee has claimed return on equity of Rs.114.03 lakh which is 403% higher than the approved amount for 2016-17 and Return for the year 2016-17 may be limited to 3% of net fixed assets.
  - g. The claim made by the licensee under power purchase is consistent with the accounts of KSEB Ltd.
8. The Commission during the hearing had sought further clarifications on the accounts and directed the licensee to submit documentary evidence/details, if any to substantiate the claims made in the petition on or before 31-05-2018. The licensee on 31-05-2018 submitted the clarifications.

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

9. The Commission considered the petition of the licensee for truing up of accounts for the year 2016-17, the additional submissions/clarifications along with the comments of KSEB Ltd. The analysis and decisions of the Commission on the petition for truing up of accounts for the year 2016-17 are detailed below:

## Income

### Revenue from Sale of Power:

10. The licensee has accounted total revenue from sale for power of Rs.3405.92 lakh for a sale of 55.20 MU against approved amount of Rs. 3285.67 lakh for a total sale of 54.59 MU. The details of the revenue from sale of power for 2016-17 are tabulated below.

**Table 3**  
**Details of Revenue from Sale of Power for 2016-17**

Particulars	Number of consumers	Units Sold (MU)	Total Revenue	Avg. realisation
<b>LT Categories</b>				
LT-IV(A) Industry	68	4.53	280.55	6.19
LT-IV(B) IT & IT Enabled Service	33	2.42	166.89	6.89
LT-VI General (A)	1	0.01	0.30	5.90
LT-VI General (B)	1	0.02	1.70	7.07
LT-VI General(D)	1	0.0002	0.003	1.80
LT-VI General (F)	15	0.49	47.08	9.56
LT-VII(A)	1	0.01	1.04	10.62
LT-VIII B Metered Streetlights	1	0.03	1.25	3.61
<b>LT Sub Total (A)</b>	<b>121</b>	<b>7.52</b>	<b>498.82</b>	<b>6.63</b>
<b>HT Categories</b>				
HT-I Industrial (A)	24	38.72	2370.15	6.12
HT-I Industrial (B)	2	6.19	386.50	6.24
HT-III(B) Agricultural	1	1.53	53.77	3.52
DHT1 Industrial (A)	5	1.24	96.69	7.80
<b>HT/DHT Sub Total (B)</b>	<b>32</b>	<b>47.68</b>	<b>2907.10</b>	<b>6.10</b>
<b>TOTAL (A+B)</b>	<b>153</b>	<b>55.20</b>	<b>3405.92</b>	<b>6.17</b>
Electrical Duty Recovery			110.16	
Other State Levies Recovery			11.15	
<b>Gross Revenue</b>			<b>3527.23</b>	
Less: Electricity Duty payable to Govt			110.16	
Less: Other State Levies payable to Govt			11.15	
<b>Net Revenue</b>			<b>3405.92</b>	

### Analysis and Decision of the Commission

11. The total revenue from tariff as reported by the licensee as per the accounts is Rs. 3405.92 lakh for the sale of power to 153 consumers. The energy sale as per the petition for truing up is 55.20 MU as against the approved sale of 54.59 MU. As per the petition for truing up for the year 2016-17 there were 32 HT (including six DHT), 121 LT industrial, consumers. As per the details, 38.72 MU is sold to HT-I Industrial (A) category representing about 70% of the sale of power. The

Commission has analysed the power consumption pattern and it is seen that about 88% of the consumption of power is accounted for 32 consumers in the HT industrial category. Considering the actual sale of 55.20 MU at an average tariff of Rs.6.17 per kWh, the total revenue is Rs.3405.92 lakh.

12. The Commission views that there is a decrease in the actual revenue from sale of power during the year 2016-17 as against the actual revenue during 2015-16. The actual revenue from sale of power during 2015-16 was Rs. 3523.76 lakh for a sale of 57.25 MU. A comparison of the revenue from sale of power for 2015-16 and 2016-17 is tabulated below.

**Table 4**  
**Comparison of the revenue from sale of power for 2015-16 and 2016-17**

Particulars	No. of Consumers		Energy Sale (MU)		Revenue (Rs Lakh)		Avg. Realisation (Rs/kWh)	
	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17
HT Consumers	32	32	50.32	47.68	3056.46	2907.10	6.07	6.10
LT Consumers	119	121	6.94	7.52	467.30	498.82	6.73	6.63
<b>Total</b>	<b>151</b>	<b>153</b>	<b>57.25</b>	<b>55.20</b>	<b>3523.76</b>	<b>3405.92</b>	<b>6.16</b>	<b>6.17</b>

13. From table 4 above it is seen that there is a reduction in the sale of 2.05 MU and reduction in the total revenue of Rs.117.84 lakh in the year 2016-17 compared to 2015-16. It is seen that the decrease in the revenue is contributed by the reduction in the sale to the HT consumers. During the year 2016-17, the sale to the HT consumers has reduced to 47.68 MU compared to 50.32 MU in 2015-16, where as there is an increase in the sale towards the LT Consumers. Accordingly in 2016-17, there is a decrease in the revenue in HT category of Rs.149.36 lakh when compared to 2015-16. The increase in the revenue from the LT consumers is Rs.31.52 lakh.

**14. The Commission approves the actual energy sales of 55.20 MU and the revenue from sale of power of Rs.3405.92 lakh as per the petition for the year 2016-17.**

**Non- Tariff Income:**

15. The actual non-tariff income accounted by the licensee is Rs 128.68 lakh as against the approved amount of Rs 163.94 lakh. The non tariff income for the year 2015-16 was Rs.176.38 lakh. The split up details are given below.

**Table 5**  
**Comparison of Non Tariff income for the year 2015-16 & 2016-17 (Rs Lakh)**

Particulars	2015-16 Trued up	2016-17 ARR Approved	2016-17 For Truing up
Interest on investments, fixed deposits and bank balances.	159.77	135.00	110.09
Interest on advances	13.71	17.28	15.59
Miscellaneous Receipts	1.18		0.87
Commission for collection of electricity duty	1.05	1.00	1.22
Meter/service line rentals	0.67	10.66	0.91
Non Tariff income	176.38	163.94	128.68

16. As per the details submitted, the non tariff income include interest on investments, fixed and call deposits and bank balances, interest on advances, miscellaneous receipts, commission for collection of electricity duty and meter/service line rentals. It can be seen that the interest on investments, fixed and call deposits and bank balances in 2016-17 (Rs.110.09 lakh), was substantially lower compared to the interest in 2015-16 (Rs.159.77 lakhs). The reduction in interest charges is due to the reduction in the balances in the deposit account as per Schedule 5 of the financial statements, as submitted by the licensee. The details are given below:

**Table 6**  
**Comparison of Cash and bank balances in the deposit account for the years 2014-15, 2015-16 & 2016-17 (Rs Lakh)**

Particulars	As on 31-03-2015	As on 31-03-2016	As on 31-03-2017
Balances in the deposit account	1902.40	1682.43	1327.53

17. As per the Table 5 above, there is a reduction in the balances in the deposit account over the years. As per the details furnished by the licensee vide letters dated 26-3-2018 and 31-5-2018, the major reason for the reduction is on account of the amount of Rs.457.92 lakh spent towards installation of roof top solar power plant which would be capitalised in 2017-18.

18. The Commission notes that as per the details furnished by the licensee, the cash balance in the deposit account as on 31-3-2016 is Rs.1682.43 lakh and the interest charges of Rs.110.09 lakh on this amount has been accounted as part of the non-tariff income. As per the truing up order for the year 2015-16, dated 11-07-2017, the Commission has approved an amount of Rs.1321.71 lakh as the accumulated surplus at the end of 2015-16 after true up. Since the amount outstanding as per the deposit account is higher than the accumulated surplus

approved by the Commission, separate amount of notional interest on accumulated surplus is not necessary. Considering this, **Commission approves the actual nontariff income of Rs.128.68 lakh as claimed by the licensee for truing up of accounts of 2016-17.**

### Total Income

19. Based on the above, the total income for the year 2016-17 after truing up is as shown below.

**Table – 7**  
**Total Income approved after truing up for 2016-17**

Particulars	2016-17		
	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued up (Rs lakh)
Revenue from Sale of Power.	3285.67	3405.92	3405.92
Other Income	163.94	128.68	128.68
<b>Total Income</b>	<b>3449.61</b>	<b>3534.60</b>	<b>3534.60</b>

### Expenditure

#### Energy purchase from KSEB Ltd and Distribution loss

20. The licensee purchased 56.08 MU units as against an approved purchase of 55.42 MU in 2016-17. The total cost of power for the purchase of 56.08 MU from KSEB Ltd is Rs 3371.04 lakh. The licensee has stated that the increase in the power purchase cost over the approved level is due to the increase in the actual purchase of energy during the year. The Commission while approving the power purchase cost as per the order dated 09-09-2016 had considered a distribution loss level at 1.50% for each year of the control period. The distribution loss claimed as per the petition for truing up for the year 2016-17 is 1.56%. The details of the claim for the year 2016-17 are tabulated hereunder.

**Table-8**  
**Cost of power purchase for the year 2016-17**

Particulars	Claim by the licensee
Energy Requirement (MU)	56.08
Energy Sales (MU)	55.20
Distribution loss (MU)	0.88
<b>Distribution loss %</b>	<b>1.56%</b>

#### Analysis and Decision of the Commission

21. As mentioned above, the actual distribution loss reported by the licensee is higher than that was approved by the Commission. A comparison of the distribution loss for 2015-16 and 2016-17 are shown below.



**Table 9**  
**Distribution loss and energy input for the year 2015-16 & 2016-17**

Particulars	2015-16			2016-17	
	Approved in ARR	Actual as per True up application	Trued Up	Approved in ARR	Actual as per True up application
Energy Requirement (MU)	55.30	58.06	58.06	55.42	56.08
Total Energy Sales (MU)	54.48	57.25	57.25	54.59	55.20
Distribution loss (MU)	0.82	0.81	0.81	0.83	0.88
<b>Distribution loss %</b>	<b>1.50%</b>	<b>1.40%</b>	<b>1.40%</b>	<b>1.50%</b>	<b>1.56%</b>

22. The actual distribution loss for 2015-16 was 1.40% which was lower than the approved level of 1.50%. While truing up the accounts for 2015-16, the Commission had approved the actual distribution loss of 1.40% and had allowed the licensee to retain the portion of the efficiency gain. Distribution loss is a controllable parameter and the licensee has to take all earnest efforts to limit the distribution loss at the approved level. ***Since the distribution loss is a controllable item, the Commission decides to retain the approved distribution loss of 1.50% for the purpose of truing up also.*** Accordingly based on the approved distribution loss the energy requirement approved for the year 2016-17 for the purpose of truing up of accounts is as shown below.

**Table 10**  
**Distribution loss and energy input for the year 2016-17**

Particulars	Approved in ARR	For Truing Up	Trued Up
Energy Requirement (MU)	55.42	56.08	56.04
Total Energy Sales (MU)	54.59	55.20	55.20
Distribution loss (MU)	0.83	0.88	0.84
<b>Distribution loss %</b>	<b>1.50%</b>	<b>1.56%</b>	<b>1.50%</b>
<b>Excess Distribution loss (MU)</b>	<b>0.88 MU - 0.84 MU = 0.04 MU</b>		

### **Power Purchase Cost**

23. As per the petition for truing up, the total cost for 56.08 MU purchased from KSEB Ltd is Rs 3371.04 lakh. The claim includes Rs.13.01 lakh towards excess demand charges. The Commission had in the order on ARR approved a power purchase of 55.42 MU at a purchase cost of Rs.3333.26 lakh. The licensee has stated that the increase in the power purchase cost over the approved cost is due to the increase in the actual purchase during the year. The details of the power purchase cost claimed by the licensee are shown below.

**Table-11**  
**Cost of power purchase for the year 2016-17**

Sl.No	Particulars	Claim by the licensee
1	Energy Requirement (MU)	56.08
2	Maximum Billed Demand (kVA)	128674
3	Rate of Demand Charge (Rs/kVA)	300
4	Demand charges (Rs.lakh) (2x3)	386.02
5	Excess Demand Charges (Rs.lakh)	13.01
6	Rate of Energy charge (Rs.kWh)	5.30
7	Energy charges (Rs.lakh) (1x6)	2972.01
<b>8</b>	<b>Total (Rs. Lakh) (4+5+7)</b>	<b>3371.04</b>
9	Average power purchase cost (Rs./kWh) (8/1)	6.01

### Analysis and Decision of the Commission

24. The total power purchase cost claimed by the license for 2016-17 is Rs.3371.04 lakh, which includes an amount of Rs.13.01 lakh towards excess demand charges. The excess demand charge is a penal charge for exceeding the contract demand as per the PPA. The Commission notes that the licensee is consistently exceeding the contract demand, which results in payment of excess demand charges to KSEB Ltd. In this context, the Commission is of the view that the licensee has to either review the existing contract demand and take necessary steps to increase the contract demand or examine the demand pattern of its consumers and manage the load within the contract demand. It is not desirable to continue the situation of consistently breaching the existing contract demand and paying excess demand charges. The licensee is directed to take appropriate steps in this regard.

25. As per Regulation 73(4)(a) of Tariff Regulations, 2014, the quantum of power purchase corresponding to the excess distribution loss shall be disallowed at the average cost of power purchase. Accordingly, based on the approved distribution loss of 1.50%, the power purchase cost approved for the year is as shown below.

**Table 12**  
**Details of the cost of power purchase approved for 2016-17**

1	Energy Requirement at actual distribution loss (MU)	56.08
2	Energy Requirement at approved distribution loss (MU)	56.04
3	Excess Distribution loss (MU) (1-2)	0.04
4	Total Cost of power purchase claimed	3371.04
5	Average power purchase cost(Rs./kWh) (4/1)	6.01
6	Excess power purchase cost to be deducted (Rs.lakh) [0.04 MU *6.01]	0.24
<b>7</b>	<b>Approved Power purchase cost (Rs.lakh) (4-6)</b>	<b>3370.80</b>

26. Considering the approved distribution loss of 1.50% and details furnished by the licensee, ***the Commission approves the power purchase cost of Rs.3370.80 lakh for the year 2016-17***

### Capital expenditure

27. The details of the expenditure capitalised for 2016-17 as per the petition for the truing up of accounts is as shown below:

**Table 13  
Details of expenditure capitalised for 2016-17**

Particulars	Amount (Rs.lakh)
CT-PT & ABT meters	25.12
New software for prepaid metering system	33.43
<b>Total</b>	<b>58.55</b>

28. As shown above, the licensee has claimed capital addition of Rs.58.55 lakh only for the year 2016-17.

### Interest and Finance Charges:

29. As the Government of India has met the entire investment on the infrastructure for the power distribution in CSEZA, the licensee has not claimed any interest and finance charges for 2016-17.

### Depreciation:

30. The licensee in the petition has claimed a depreciation of Rs.71.89 lakh as against an amount of Rs.58.68 lakh approved by the Commission. The licensee has stated that the increase in depreciation is due to the asset addition of Rs.58.55 lakh. The asset addition made during the year are CT-PT & ABT meters of Rs. 25.12 lakh and a new software for prepaid metering system of Rs.33.43 lakh. The depreciation claimed by the licensee as per the petition for truing up is detailed below.

**Table 14  
Depreciation claimed for 2016-17 (Rs Lakh)**

Asset group	Rate of depreciation	GFA			Depreciation claimed
		At the beginning 2016-17	Asset additions	Total	
Distribution lines	5.28%	496.79	-	496.79	26.23
Distribution transformer	5.28%	3.50	-	3.50	0.18
Substations	5.28%	484.97	25.12	510.09	26.71
LT distribution system	5.28%	15.56	-	15.56	0.82
Switchgears, Control gear & Protection-	5.28%	1.35	-	1.35	0.07
Communication Equipment	6.33%	54.41	-	54.41	3.44
Metering Equipment	5.28%	164.75	-	164.75	8.70

Plant & Machinery	5.28%	9.84	-	9.84	0.52
Furniture & Fixtures	6.33%	0.44	-	0.44	0.03
Office Equipments	6.33%	1.38	-	1.38	0.09
New soft ware for prepaid metering			33.43	33.43	5.09
<b>Total</b>		<b>1233.01</b>	<b>58.55</b>	<b>1291.56</b>	<b>71.89</b>

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

31. The Commission in the order on truing up of accounts for 2015-16 had approved a depreciation of Rs.65.17 lakh considering the asset additions made till 2015-16. The Commission had not allowed depreciation on the asset addition made towards plant and machinery worth Rs.9.84 lakh as the date of asset addition was not provided.
32. As per the petition for truing up for 2016-17, the higher claim of depreciation of the licensee for the year is due to the asset additions made during the year. As mentioned in para 22, the asset addition made during the year are CT-PT & ABT meters of Rs. 25.12 lakh and a new software for prepaid metering system of Rs.33.43 lakh. The Commission had given in principle approval for the CT-PT & ABT meters of Rs. 25.12 in the review order dated 18.07.2016 as a part of the capital investment for 2015-16. The licensee has submitted that the asset was commissioned only on 31.05.2016. The investment on the new software for prepaid metering system of Rs.33.43 lakh has been done without the approval of the Commission. In the clarifications submitted on 26-03-2018, licensee has stated that the prepaid metering system for recording, processing and billing of data from electronic meters was revamped due to the urgency involved and the whole software had to be developed again due to the exit of the O&M agency, M/s KITCO in November 2016. The new software for prepaid metering system was commissioned on 02-01-2017.
33. As per Regulation 28 of Tariff Regulations 2014, licensees shall be permitted to recover depreciation on the value of fixed assets used in their business provided that no depreciation shall be allowed on revaluation reserve created on account of revaluation of assets. Depreciation shall not be allowed on the assets funded through consumer contribution, deposit works, capital subsidies and grants. As per the clause (a) of sub-regulation 2 of Regulation 28, depreciation shall be computed annually based on straight line method at the rates specified in the Regulations. The second proviso to the sub regulation (5) of Regulation 28 regulation further specifies that depreciation shall be re-calculated for the 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 deprecation is calculated proportionately from the date of capitalisation.

34. Thus depreciation is calculated proportionately from the date of capitalisation for the new assets and accordingly, the depreciation approved for the purpose of truing up of accounts for the year 2016-17 is shown below.

**Table 15**  
**Depreciation approved for the truing up of 2016-17 (Rs.lakh)**

Asset group	Rate of depreciation	GFA			Depreciation approved
		At the beginning 2016-17	Asset additions	Total	
Distribution lines	5.28%	496.79	-	496.79	26.23
Distribution transformer	5.28%	3.50	-	3.50	0.18
Substations	5.28%	484.97	25.12	510.09	26.93
LT distribution system	5.28%	15.56	-	15.56	0.82
Switchgears, Control gear & Protection-	5.28%	1.35	-	1.35	0.07
Communication Equipment	6.33%	54.41	-	54.41	3.44
Metering Equipment	5.28%	164.75	-	164.75	8.70
Plant & Machinery	5.28%	9.84	-	9.84	0.52
Furniture & Fixtures	6.33%	0.44	-	0.44	0.03
Office Equipments	6.33%	1.38	-	1.38	0.09
New soft ware for prepaid metering	15.00%		33.43	33.43	1.26
<b>Total</b>		<b>1232.99</b>	<b>58.55</b>	<b>1291.54</b>	<b>68.27</b>

35. **Commission approves a depreciation of Rs.68.27 lakh for the year 2016-17. The licensee is also directed to promptly inform the Commission on the asset additions prior commissioning of the same.**

**O&M expenses:**

36. The details of the O&M expenses claimed by the CSEZA for 2016-17 in comparison with the amounts as per the Tariff Regulation 2014 is as shown below:

**Table 16**  
**O&M Expenses for 2016-17 (Rs. lakh)**

	As per the Regulations	As per the petition for truing up
Employee expenses	161.22	<b>143.60</b>
R&M expenses	8.26	<b>2.70</b>
A&G expenses excluding Electricity Duty	26.92	<b>20.39</b>
<b>Total</b>	<b>196.40</b>	<b>166.69</b>

37. As shown above, the actual O&M expenses were lower than the amount as per the Regulations 81(2). Regulation 15 of the Tariff Regulations, 2014 details the mechanism for sharing of gains or losses on account of controllable factors which is quoted hereunder.

**15. Mechanism for sharing of gains or losses on account of controllable factors.** – (1) The aggregate gain to the generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre, as approved by the Commission, on account of controllable factors shall be dealt with in the following manner:-

(a) one-third of the amount of such gain shall be passed on to consumers as a rebate in tariffs;

(b) the balance two-third of the amount of such gain, may be utilised at the discretion of the generating business/company or transmission business/licensee or distribution business/licensee:

Provided that the net gain or loss to the generating business/company on account of normative operational parameters specified in sub-regulations (5), (6), (7), (8), and (9) of regulation 47 shall be shared as specified in regulation 41 of these Regulations.

(2) The aggregate loss to the generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre, as approved by the Commission, on account of controllable factors shall be borne by such generating business/company or transmission business/licensee or distribution business/licensee or state load despatch centre and shall not be passed on to the consumer in any manner.

38. Each item of O&M expenses is dealt with in subsequent section.

**Employee cost:**

39. In the order on ARR & ERC for the year, the Commission had approved a total employee cost of Rs.161.22 lakh as per regulation 81(2) the Regulations and the actual employee cost incurred as per the petition for truing up of accounts submitted by the licensee is Rs.143.60 lakh. As per the split up of the employee cost submitted by the licensee, the major claim is for the charges of the O&M agency amounting to Rs.126.10 lakh.

**Table 17  
Details of employee cost claimed for the year 2016-17**

Particulars	As per the Regulations	As per accounts
Employee Expenses		17.50
Charges to O & M Agency		126.10
<b>Total Employee Cost</b>	161.22	<b>143.60</b>

40. The Regulations, being in force, the Commission is to allow the employee costs as per the provisions of the Regulation. Based on the Regulation 15 of the Tariff Regulations, 2014, the efficiency gain on the controllable parameters has to be shared at the ratio of 2:1 ie, 2/3<sup>rd</sup> of gain is to be retained by the licensee and 1/3<sup>rd</sup> is to be passed on to the consumers.

41. The total efficiency gain of the licensee is Rs.17.62 lakh. Accordingly as per the said Regulations, 2/3<sup>rd</sup> of the efficiency gain ie Rs. 11.75 lakh is allowed to

be retained by the licensee. **Thus the employee cost approved for the year 2016-17 is Rs.155.35 lakh (Rs.143.60 lakh + Rs. 11.75 lakh)**

**Table 18**  
**Employee cost approved for the year 2016-17 (Rs Lakh)**

<b>Particulars</b>	<b>ARR approved</b>	<b>Truing up Claimed</b>	<b>Approved for Truing up</b>
Employee cost	161.22	143.60	155.35

**Repair and Maintenance Expenses:**

42. The actual Repair and Maintenance expenses claimed by the licensee in the petition for truing up of accounts for 2016-17 is Rs.2.70 lakh as against the approved amount of Rs 8.26 lakh as per the ARR&ERC order. The actual repair and maintenance for 2015-16 is Rs.0.22 lakh. The expense is for the spares and maintenance. The Commission in the order on the truing up of accounts for 2015-16 had directed to undertake the maintenance activities as planned for maintaining the reliability of the system. Commission had sought clarifications on the expenses claimed by the licensee. The licensee submitted the split up details of the R&M activities done to ensure reliable performance of the power distribution system as shown below.

**Table 19**  
**Details of R&M expenses for the year 2016-17**

<b>Particulars</b>	<b>Rs.lakh</b>
Testing charges for power transformer and replacement of bearing of OLTC motor	0.21
Repair and service of UPS in 110 kV Substation	0.46
Transformer oil filtration in RMU	0.24
Refilling of fire extinguisher and replacement of rubber mat in substation	0.65
Consumption of spares	1.14
<b>Total</b>	<b>2.70</b>

43. Commission directs the licensee to undertake the maintenance activities as planned for maintaining the reliability of the system. Accordingly as per the norms approved in the Tariff Regulations, the R&M expenses for the year 2016-17 were Rs.8.26 lakh. As specified in Regulation 15 of the KSERC (Terms and conditions for determination of tariff) Regulations, 2014, the gain on the controllable parameters has to be shared at the ratio of 2:1 ie, 2/3<sup>rd</sup> of gain is to be retained by the licensee and 1/3<sup>rd</sup> is to be passed on to the consumers.
44. The total efficiency gain of the licensee is Rs.5.56 lakh. Accordingly as per the said Regulations, 2/3<sup>rd</sup> of the efficiency gain ie Rs. 3.71 lakh is allowed to be

retained by the licensee. **Thus the repair and maintenance approved for the year 2016-17 is Rs.6.41 lakh (Rs.2.70 lakh + Rs. 3.71 lakh)**

**Table 20  
R&M Expenses approved for the year 2016-17 (Rs Lakh)**

<b>Particulars</b>	<b>ARR approved</b>	<b>Truing up Claimed</b>	<b>Approved for Truing up</b>
R&M Expenses	8.26	2.70	6.41

**Administration and General Expenses:**

45. The Administrative & General expense claimed is Rs.53.41 lakh as against Rs.26.92 lakh approved by the Commission. The claim is Rs.26.49 lakh, which is higher than the approved amount. The major expense item 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 amounting to Rs.33.02 lakh. The A&G expenses excluding the claim under Section 3(1) duty is Rs.20.39 lakh which is lesser than the approved amount as per the Regulations. The split up details of the expenses claimed by the licensee as per truing up petition for the year 2016-17 is shown below.

**Table 21  
A&G Expenses claimed for 2016-17**

<b>Particulars</b>	<b>Rs.lakh</b>
Rent Rates & Taxes	9.13
Insurance	1.61
Telephone & Postage, etc.	0.04
Electricity charges & Water charges	1.60
Fees & subscription	2.04
Licensee fee and other related fee	1.09
Printing & Stationery	0.00
Advertisements, exhibition publicity	0.00
Bank Charges	0.00
V-sat, Internet and related charges	3.56
Others	0.30
Travelling Expenses	0.46
Meeting Expenses	0.57
<b>Gross A&amp;G Expenses</b>	<b>20.39</b>
Ele. Duty u/s 3(I), KED Act	33.02
Interest on Sec 3 Duty	0.00
<b>Net A&amp;G Expenses</b>	<b>53.41</b>

46. The amount of electricity duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963 cannot be admitted as an item of expenditure as per the statutory provisions in the said Act. The Commission has, in its previous orders also, taken this consistent stand on the issue relating to electricity duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act.



47. Based on Regulation 15 of the Tariff Regulations, 2014, the gain on the controllable parameters is to be shared at the ratio of 2:1 ie, 2/3<sup>rd</sup> of gain is to be retained by the licensee and 1/3<sup>rd</sup> is to be passed on to the consumers.
48. The total efficiency gain of the licensee is Rs.6.53 lakh. Accordingly as per the said regulations, 2/3<sup>rd</sup> of the efficiency gain ie Rs. 4.35 lakh is allowed to be retained by the licensee. **Thus the A&G expense approved for the year 2016-17 is Rs.24.74 lakh (Rs.20.39 lakh + Rs. 4.35 lakh)**

**Table 22**  
**A&G Expenses approved for the year 2016-17 (Rs Lakh)**

Particulars	ARR approved	Truing up Claimed	Approved for Truing up
A&G Expenses (excluding electricity duty)	26.92	53.41	24.74

49. Based on the Regulation, the Commission approves O&M expenses for the year 2016-17 as shown below.

**Table 23**  
**O&M Expenses approved for the year 2016-17 (Rs. Lakh)**

Particulars	As per the petition for truing up	As per the Regulations	Efficiency Gain to be retained by the licensee	Trued Up
Employee expenses	143.60	161.22	11.75	155.35
R&M expenses	2.70	8.26	3.71	6.41
A&G expenses (excluding electricity duty)	20.39	26.92	4.35	24.74
<b>Total O&amp;M Expenses</b>	<b>166.69</b>	<b>196.40</b>	<b>19.81</b>	<b>186.50</b>

**Return on Equity:**

50. The licensee has claimed return on equity on the basis of debt equity ratio of 70:30. The licensee projects Rs.114.03 lakh as RoE for the year 2016-17. The details of the claim of the licensee is shown below.

**Table-24**  
**Return on Equity claimed for the year 2016-17 (Rs. Lakh)**

Particulars	Claim
Equity at the beginning of the year	1018.13
Return on equity for equity portion (14% of 30%)	42.76
Return on equity for normative loan portion (10% of 70%)	71.27
<b>Total Return on equity</b>	<b>114.03</b>

51. The licensee has stated that the amount of Rs.1018.13 lakh represent the net assets transferred by the Government of India to the CSEZ Authority of the time of formation of the Authority. CSEZA in the clarifications has submitted

that the Government has issued ordinance for the creation of the CSEZ Authority which specifies that the assets of the erstwhile Cochin SEZ shall be transferred to the CSEZ Authority.

52. The Commission in the previous orders had viewed that the distribution infrastructure of CSEZA has been funded by a proprietary grant and it was used for the development of the entire zone and there is no documentary proof to prove that the same has been exclusively given for the setting up of distribution business of the licensee. As per sub-regulation (2) of Regulation 29, if the equity invested in the regulated business is not clearly identifiable, return at the rate of 3% shall be allowed on the net fixed assets at the beginning of the financial year for such regulated business. Hence, RoE allowable can be assessed and approved on the basis of fixed assets at the rate of 3% of NFA as shown below.

**Table-25**  
**Return on Equity approved for the year 2016-17 (Rs. Lakh)**

Particulars	2016-17	
	ARR order	Trued up
Gross Fixed Assets	1097.89	1233.01
Opening cumulative Depreciation	336.88	504.49
Net Fixed Assets	761.01	728.52
Rate of Return	3%	3%
<b>Eligible Return</b>	<b>22.83</b>	<b>21.86</b>

53. *The Commission allows a return on equity of Rs.21.86 lakh while approving the truing up of accounts for the year 2016-17.*

54. **Gross Revenue requirements:** Based on the above, the Gross revenue requirement for the year 2016-17 after truing up is as shown below:

**Table 26**  
**Gross Revenue Requirements after truing up for 2016-17**

Particulars	2016-17		
	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued up (Rs lakh)
Purchase of Power	3333.26	3371.04	3370.80
Interest & Finance Charges	0.00	0.00	0.00
Depreciation	58.68	71.89	68.27
Employee Cost	161.22	143.60	155.35
R&M Expenses	8.26	2.70	6.41
A&G Expenses	26.92	53.41	24.74
Return on NFA	22.83	114.03	21.86
<b>Total Expenditure</b>	<b>3611.17</b>	<b>3756.67</b>	<b>3647.43</b>

## Summary of Truing up of Accounts 2016-17

55. Based on the above details of Truing up taking into consideration the approved expense and revenue is given below:

**Table 27**  
**Details of amounts approved in Truing up for the year 2016-17**

Particulars	2016-17		
	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued up (Rs lakh)
Revenue from Sale of Power.	3285.67	3405.92	3405.92
Other Income	163.94	128.68	128.68
<b>Total Income</b>	<b>3449.61</b>	<b>3534.60</b>	<b>3534.60</b>
Purchase of Power	3333.26	3371.04	3370.80
Interest & Finance Charges	0.00	0.00	0.00
Depreciation	58.68	71.89	68.27
Employee Cost	161.22	143.60	155.35
R&M Expenses	8.26	2.70	6.41
A&G Expenses	26.92	53.41	24.74
Return on NFA	22.83	114.03	21.86
<b>Total Expenditure</b>	<b>3611.17</b>	<b>3756.67</b>	<b>3647.43</b>
<b>Net Surplus/(Deficit)</b>	<b>(161.56)</b>	<b>(222.07)</b>	<b>(112.83)</b>

### Orders of the Commission

56. The Commission after considering the petition filed by M/s. CSEZA for truing up of accounts for the year 2016-17, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the total expenditure of Rs.3647.43 lakh and total revenue of Rs.3534.60 lakh with a revenue gap of Rs.112.83 lakh. The cumulative revenue surplus till 2016-17 will be Rs.1208.88 Lakh (Rs.1321.71 lakh - Rs.112.83 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.
57. The petition is disposed of. Ordered accordingly.

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

Sd/-  
**S.Venugopal**  
Member

Sd/-  
**Preman Dinaraj**  
Chairman

Approved for issue

Santhosh Kumar.K.B  
Secretary