KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present : Shri. T.M. Manoharan, Chairman
Shri. P.Parameswaran, Member
Shri. Mathew George, Member

15th January, 2014

Petition OP No. 20/2013

In the matter of
Truing up of Accounts of Thrissur Corporation for the Year for the 2011-12

The Thrissur Corporation,
Thrissur …………………….. Petitioner

ORDER

Background

1. Thrissur Corporation, Thrissur, (*herein after called the Corporation or licensee*) filed truing up petitions for the year 2011-12 on 17-4-2013 based on the unaudited accounts. The licensee has stated that a preliminary true up may be carried out based on the unaudited accounts and final truing up can be made once the audited accounts are available. The petition was filed in compliance of the directions issued by the Commission in the orders dated 8-12-2011, 17-9-2012 and 3-5-2013 and for streamlining and revamping the accounts of the electricity department. The petition was prepared based on an accrual method derived from the existing cash based accounting system using many assumptions.

2. The Commission admitted the petition on 13-6-2013 and sought clarifications vide letter dated 13-6-2013. The licensee has furnished the clarifications vide

letter dated 28-6-2013. The hearing on the petition was held on 24-9-2013 at the office of the Commission. The abstract of the petition is as given below:

Abstract of the petition filed by the licensee

Particulars	2010-11 (Actual) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)	2011-12 (Actual) (Rs.lakhs)
Revenue from sale of power	5,624.37	6,309.14	6,034.11
Revenue Subsidies and Grants	-	-	-
Other income	887.69	686.17	779.13
Total Revenue	**6,512.06**	**6,995.31**	**6,813.24**
EXPENDITURE			
Purchase of power	4,181.03	4,615.56	4,701.45
Repair & Maintenance expenses	112.44	110.70	41.20
Employee Costs	667.46	833.34	710.21
Admin. & General Expenses	134.38	86.59	258.58
Depreciation	129.06	197.92	138.81
Interest & Finance Charges	45.95	38.00	53.09
Other Debits	144.06	5.00	860.25
Interest on working capital		-	172.00
Return on capital			481.00
Total Expenditure)	**5,414.38**	**5,887.10**	**7,416.59**
Surplus /(gap)	**1,097.68**	**1,108.21**	**(603.35)**

Hearing on the petition

3. The petition was heard on 24-9-2013. During the hearing, representatives of the licensee and KSEB were present. The licensee was represented by following persons for the hearing:

Shri. I.P Paul, Worshipful Mayor, Thrissur Corporation
Shri.Kiran Vergis, Consultant, TCED
Shri. Hariharan P. Consultant, TCED
Shri. Yogesh Sharma, Consultant, TCED
Shri. R. Sudheer Raj, Asst. Secretary, TCED
Shri. T.S Jose, Electrical Engineer, TCED
Shri. Sathi Devi K.S. SS, TCED
Shri. Thressiama, SS, TCED

KSEB was represented by the following persons:

Shri.Dinesh, D, CE (Commercial &Tariff) KSEB
Smt. Sreedevi.Dy.CE (TRAC)
Shri. Prasad.S. AEE, TRAC, KSEB

4. Shri. Hariharan. P and Shri. Kiran Vergis, consultants of the petitioner presented the petition in detail and responded to the queries of the Commission. Shri. Hariharan explained the adjustments made in the accounts prepared based on the legacy system using single entry method, which were now converted into double entry system. Adjustments were made in the provisions for outstanding liabilities, accounting of loans and advances, capitalisation of liabilities etc., As per the filing, the revenue gap for the year 2011-12 is Rs.603.35 lakhs against a revenue surplus of Rs. 1108.21 lakhs approved for the year. He also mentioned that the present accounts are unaudited and as soon as the audited reports are available, petition for final truing up will be submitted.

5. Shri. Dinesh, Chief Engineer, presented comments of KSEB and filed written remarks. The Board pointed out that the accounts submitted by Thrissur Corporation are provisional and hence requested the Commission to direct the licensee to submit the audited accounts. According to the Board, the per unit realisation from all categories have gone down drastically when compared to the trued up figures of previous year, which warrants proper regulatory scrutiny to ascertain the correct figures. The A&G expenses reported by the petitioner have increased from the approved level of Rs. 86.59 lakhs to Rs.258.58 lakhs. The increase was mainly on account of claiming electricity duty under Section 3(1) of Electricity Duty Act and the exorbitant rent charged by the Corporation for the space used by the licensee. The Board has pointed out that even in prime areas in Kochi, where Board has taken rented buildings, the rent is only Rs.12/sqft per month, where as the licensee has claimed Rs.50/sqft for office space and Rs.250/sqmt for land utilised for substations. The licensee is claiming rent with retrospective effect from 2006. On the other hand, repair charges and energy charges for street lighting has not been charged till 2010-11. The interest on security deposits is to be allowed on the opening balance of security deposits and not on the average security deposits held during the year. The Commission may allow only the actual security deposit paid by the licensee. As the licensee is holding surplus cash, claim on interest on working capital is to be rejected. Further the claim of interest on normative debt also need not be allowed. The Board has also given detailed comments on the methodology followed by the Corporation to move to accrual based accounting. According to the Board, definite methodology for recognising revenue from unbilled energy at the end of the year and it is not clear whether expense relating to previous years were segregated and recognised properly in the accounts. Further, comments on valuation of stock, provision for bad and doubtful debts, valuation of equity,

CWIP, capitalisation of assets, value of land, netting off of liabilities against reserves and surplus, advance given to Thrissur Corporation etc., were also provided by the Board.

6. The licensee has given its reply vide letter dated 11-10-2013 on the comments of the Board along with the reply on queries of the Commission. The licensee has stated that the status of account ie., unaudited accounts, has been mentioned in the filing itself and already requests were made to Local Fund Audit Dept to conduct the audit for 2011-12. Regarding the comments of the Board on fall in revenue realisation, the licensee clarified that in 2010-11, duties and levies were included as part of revenue demand, this mistake was rectified in 2011-12 while preparing the accounts. Hence, the licensee stated that the comparison made by the Board is not reasonable. Regarding the comment that exorbitant rent is being charged, the licensee stated that accounting of rent has been done on a 'arms length' basis, based on fair value principles and after considering all matters of propriety and appropriateness in a fair manner. In the case of interest on security deposits, unless the average of the year is not taken, interest paid by the new consumers may not be included. The licensee has also disclosed in the accounts, the fact that interest is claimed on accrual basis and not on the actual interest paid. Further reconciliation process is going on, the specific consumers for which interest is not paid is not ascertainable at present. Regarding the maintenance of street lights, the same can be charged on the corporation's current account along with the legitimate revenue due to Thrissur Corporation. The Corporation is also accounting the electricity consumption in its own building, and in many cases, these buildings have been rented out. The Corporation also reiterated the requirement of working capital, return on equity, and interest for normative debt for carrying out the business. The Corporation also agreed to some of the comments made by the Board such as on valuation of inventory, closing stock, unbilled revenue, provision for bad and doubtful debts, netting of the dues from the Government etc.,

Analysis and Decision of the Commission

7. The Commission has considered the petition of the licensee, objections of KSEB and clarifications thereon given by the petitioner in detail. The following sections, analyse the different items in the petitions:

Energy Sales

8. Actual energy sales reported by the licensee for 2011-12 are as follows:

Number of consumers and Energy sales for 2011-12

Consumer category	Approved		Actual	
	No. of consumers	Sales (MU)	No. of consumers	Sales (MU)
Domestic	18347	32.25	19219	33.64
non-domestic	16490	69.56	14685	70.80
Agriculture	528	0.11	372	0.12
Industry	882	3.97	1100	3.82
Street lighting		3.47		3.64
Total	**36247**	**109.36**	**35376**	**112.02**

9. The actual energy sales reported for the year is slightly higher than the approved figures. The licensee has stated that there is some change in number of consumers on account of the measures taken by the licensee for identification of defunct connections. In the case of agricultural consumers, there has been a reduction in number of consumers as many service connections were discontinued as being non-agricultural. Similarly disconnection drive for connections which are unpaid for long period and inactive were undertaken. Majority of the disconnections were in non-domestic category.

Number of consumers from 2006-07 to 2011-12

Category	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Domestic	17600	17748	17937	18055	18405	19219
Non- Domestic	14970	15600	15625	15673	15613	14685
Agricultural	521	520	522	535	433	372
Industry	1062	1090	1098	1098	1105	1100
Total	34153	34958	35182	35361	35556	35376

10. The Commission has analysed the data furnished by the licensee. The reduction in services pointed out is mainly on account of cleaning up exercise. The licensee has to continue such operation at regular intervals and also have to streamline and update the consumer database periodically. Based on the details given by the licensee, the Commission accepts the energy sales for the year 2011-12 as reported by the licensee. ***In this context, it is directed that the licensee on has to report the HT sales based on the tariff category and sales to buildings of Thrissur Corporation be metered and billed properly.***

Distribution Loss

11. The licensee has estimated the distribution loss as 10.17% against the 10.46% approved for the year. Distribution loss reported is as follows:

	Approved	Actuals
Power purchase	122.13	124.72
Sales	109.36	112.03
Loss (%)	**10.46%**	**10.17%**

According to the licensee, the distribution loss has been lower than the approved levels showing the better performance of the licensee. The actual loss over the years is as shown below:

Actual distribution loss reported by the licensee

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
	Actual	Actual	Actual	Actual	Actual	Actual
Energy Sales (MU)	74.33	81.58	84.32	96.49	101.12	124.72
Energy input (MU)	95.3	101.17	104.82	115.58	118.19	112.03
Distribution loss (%)	**22**	**19.36**	**19.56**	**16.52**	**14.44**	10.17%

12. As shown above, the distribution loss has been showing a downward trend especially in 2011-12. The reduction in loss over the years is appreciated. The licensee has reported the sales to streetlights separately. However, more than the efforts taken for loss reduction as claimed by the licensee, the accounting of streetlights consumption in sales appears to be the major reason for reduction in losses for the year 2011-12. Since the street lights are unmetered, method of estimation and accounting of consumption to street lights is important. ***Accordingly it is directed that the methodology adopted for estimation of street lights consumption along with the actual number of different types of street lights and their burning hours shall also be furnished along with next filing.*** The distribution loss for the purpose of truing up is accepted as furnished by the licensee

Power Purchase Cost

13. The 'approved' and 'actual' power purchase cost of the licensee for the year 2011-12 is as shown below:

Approved and Actual power purchase cost

	Approved	Actuals
Units purchased (MU)	122.19	124.72
Variable charges (Rs.lakhs)	4615.67	3941.02
Total Charges (Rs.lakhs)	4615.67	4701.45
Average realisation (Rs./kWh)	3.78	3.78

14. The actual power purchase is higher due to increase in sales and accordingly the power purchase cost for the year is higher than the approved levels. The split up details of power purchase cost is as shown below:

Split up details of power purchase cost

	2010-11	2011-12
Total billing demand (kVA)	291243	304126
Rate (Rs./kVA)	250	250
Demand charges (Rs.lakhs)	729.87	760.43
Excess demand charges if any	35.75	
Total Demand charges (Rs.lakhs)	764.62	760.43
Energy purchased lakh units	1181.93	1247.16
Rate (Rs./kWh)	2.89	3.16
Total energy chares (Rs.lakhs)	**3416.01**	**3941.02**
Delayed payment (Rs.lakhs)	0.4	
Total Charges (Rs.lakhs)	**4181.03**	**4701.44**

15. The power purchase cost as per accounts is based on the approved bulk supply tariff applicable for the year. Hence, the power purchase cost is approved for the purpose of truing up.

Interest and Financing Charges

16. The interest and financing charges claimed by the licensee for the year is Rs.53 lakhs as against the approved level of Rs.38 lakhs. The licensee has stated that the increase is on account of the fact that the interest charges comprises only interest on security deposits, which is being calculated based on the accrual principle. The interest payable is actually payable only in the first quarter of the next financial year, the interest due is estimated based on the Bank rate and average balance of security deposit. The average balance is worked out as the average of opening and closing balance. The licensee has also stated that, out of the total amount, only Rs.25 lakhs is actually paid to the consumers and the

licensee is in the process of identifying the security deposit outstanding in respect of all consumers so that interest can be paid to them.

17. The Commission has examined the claim of interest charges. The licensee has not availed any loans and the interest charges claimed is only the interest on security deposits. As per the Kerala Electricity Supply Code, interest is to be paid to the consumer for each financial year in the first quarter of the financial year. Further, the licensee has paid only Rs.25 lakhs towards interest on security deposits. Hence, for the purpose of truing up interest actually paid to the consumers is only allowable. The licensee has stated that interest payable is not fully ascertained. Accordingly it is directed that the license shall identify and ascertain the security deposit accounts of the consumers immediately and credit the interest as per law. As and when the amount is paid, the same shall be admissible in the respective year. Accordingly, for the purpose of truing up only Rs.25 lakhs is allowed under interest and financing charges.

Interest on working capital:

18. The licensee has included Rs.172 lakhs towards interest on working capital based on a normative estimation as shown below:

Interest on working capital for 2011-12

	Rs. Lakhs
O&M expenses (1 month)	84.00
Maintenance of spares	36.00
Receivables (2 months)	1,106.00
Total	**1,226.00**
Interest @14%	**172.00**

19. The licensee has not shown any payments towards interest on working capital. As per the accounts, the licensee has not availed any loan so far either short term or long term for the business. Hence, the claim for interest on working capital is not justified and hence cannot be admitted.

Depreciation

20. The licensee has claimed the depreciation of Rs.138.81 lakhs for the year as shown below:

Depreciation claimed for 2011-12

Sl. No.	Particulars	2011-12 (Actual)		
		Balance of depreciation at the beginning of the year	Depreciation provided for the year	Rate of depreciation
I	Substation - Machineries	286.63	57.28	20.0%
II	Distribution area - P&M	1,033.15	79.02	7.6%
III	Furniture & Fixtures	4.45	0.46	10.3%
IV	Computer & Accessories	83.16	1.52	1.8%
V	Departmental vehicles	14.00	-	0.0%
VI	Tools & testing equipments	7.76	0.46	5.9%
VII	Office Equipment	0.91	0.07	7.7%
		1,430.06	**138.81**	9.7%

21. The licensee has stated that the depreciation is prepared as per the depreciation rates published by the Commission. The licensee has stated during the hearing that the fixed asset register has been completed and also presented a fixed asset register. The fixed asset register has been prepared considering the field data and verification. The summary of the fixed asset register as submitted by the licensee is as shown below:

Depreciation as per Fixed Asset Register

Assets	Gross block as on 1-4-2011	Additions for the year 2011-12	Gross block as on 31-3-2012	Depreciation for the year 2011-12	Average rate of depreciation
	Rs.lakhs	Rs.lakhs	Rs.lakhs	Rs.lakhs	(%)
Land development		23.39	23.39		
Buildings	67.22	33.26	100.48	1.51	2.2%
Plant and machinery	1,967.91	307.80	2,275.71	74.56	3.8%
Cables	341.18	83.41	424.59	9.52	2.8%
Lines	1,167.10	61.95	1,229.05	42.48	3.6%
Vehicles	14.00		14.00		0.0%
Office Furniture and fixtures	6.91		6.91	0.23	3.3%
Office equipment	89.95		89.95	0.70	0.8%
Total	**3,654.27**	**509.81**	**4,164.08**	**129.00**	**3.5%**

22. The licensee has furnished a revised fixed asset register vide letter dated 12-12-2013. However, the same has not been authenticated or audited. The Commission has also noted that the details in the fixed asset register and the data filed as part of the petition are significantly different from the original filing. The licensee in the original filing has mentioned that the cost of land earlier

included as part of the fixed assets has now been removed as the land belongs to Thrissur Corporation. The land is now treated as the one taken on lease and lease rent is being charged as part of A&G expenses. The accumulated depreciation already charged on this asset has been written back in the accounts.

23. The Commission has analysed the claim of the licensee. At the outset, the task undertaken by the licensee pursuant to the direction of the Commission on pre paration of the asset register deserves appreciation. As stated by the licensee, the cost of land has not been included in the revised fixed asset register and cost of land development only has been included. The value of assets as per the asset register and the earlier furnished data as part of ARR&ERC exercise are different and has to be reconciled. Unless a re-conciliation statement giving comparison of the changes in the revised asset register and the earlier approved details of assets are furnished, final approval of the asset register is not possible. Further, as given in the asset register, some of the assets are funded through capital contribution from consumers. Depreciation on such assets are not allowed. The details of such assets and the depreciation thereof are to be furnished separately. Accordingly, on a provisional basis the Commission approves the depreciation of Rs. 128 lakhs as claimed by the licensee, which will be suitably finalised along with the final truing up. ***In order to facilitate, the licensee shall furnish the following along with the final truing up petition:***

a. Authenticated and audited copy of fixed register
b. List of changes made in the new asset register
c. A re-conciliation statement showing the differences with earlier filing
d. Details of assets created out of consumer contribution and depreciation thereof
e. Actual amount of depreciation claimed in the previous years for land (which was included as part of land & machinery), and the adjustments made in the accounts while removing the same from accounts
f. The method in which the depreciation already claimed is to be adjusted in the truing up.

Employee cost

24. The licensee has claimed Rs.710.21 lakhs as employee expenses for the year 2011-12 against Rs.833.34 lakhs approved for the year. The expenses have been taken from the salary expense in the general ledger accounts and appropriate adjustments have been made for accrual adjustments. As per the

methods now followed, the salary and other employee costs are recognised on accrual method and retirement expense other than pension is considered on cash basis. The pension disbursement made to the retired employees are accounted as loans and advances receivable from government and not included in the employee costs. Similarly, payment made by the Corporation for special duties have been included in the Corporation's current account and excluded in the employee cost. The details of salary for the year 2011-12 given by the licensee are as shown below:

Employee cost claimed for 2011-12

	Amount (Rs.lakhs)	
Particulars	Approved	Actual
Salary	512.94	553.76
Wages	9.62	22.83
Stipend		0.80
Pension contribution	83.59	80.94
Earned leave surrender	46.44	46.88
Allowances	5.74	5.68
Salary arrears	175.00	
Total	**833.33**	**710.20**

25. The major difference between approved and actual employee cost is on account of salary arrears, which is now adjusted against the provisions. The employee cost is increasing over the years. The number of consumers served per employees has been falling and now it is only 217. As a percentage of total revenue, employee cost is about 9 to 12% as shown below:

Employee cost as percentage of total revenue

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Employee cost	428.35	411.44	485.5	699.13	656.4	710.2
Revenue as per the filing	3931.48	4302.73	5165.26	5596.83	5778.6	6034.11
Percentage	10.89%	9.56%	9.40%	12.49%	11.36%	11.77%

Employee strength reported by the licensee

Particulars	Sanctioned strength	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Asst. Exe. Engineer	1	1	1	1	1	1	1
Asst. Engineers	9	9	7	6	7	7	5
Other Technical staff	152	112	101	95	96	96	105
Non –Technical Staff	67	40	48	46	46	46	52
Total	229	162	157	148	150	150	163

26. The licensee had in the previous years included both the pension contribution as well as the actual pension paid as part of the employee cost, which has been corrected now. However, the licensee has to take urgent steps to realise the dues on account of pension already paid. With this observation, the employee cost reported by the licensee is allowed for the purpose of truing up.

Repairs and Maintenance Expenditure

27. Under R&M expenses, the licensee has accounted Rs.41.19 lakhs as against Rs.111 lakhs approved for the year. The significant reduction between the approved and actual are on account of many factors including accounting of capital expenses under revenue items. The licensee has stated that the accounts are now being cleaned up and such errors have been corrected. Further, R&M expenses included as part of street light maintenance has been now removed and included in the Corporation's Capital Current Account. The details of R&M expenditure for year includes Rs.32.85 lakhs towards consumption of stores and Rs.8.33 lakhs towards labour and equipment charges. The Commission for the purpose of truing up approves the R&M expenses as per the accounts.

A&G Expenses

28. The A&G expenses accounted for the year is Rs.258.62 lakhs for the year 2011-12 as against Rs. 86.59 lakhs approved for the year.

Actual and approved A&G expenses

Particulars	2010-11 (Actual)	2011-12 (Approved)	2011-12 (Actual)
Rents, rates and taxes	60.67	-	172.00
Section 3 duty		-	64.51
Insurance		2.73	
Telephone telex charges, etc		1.56	
Legal charges		0.83	
Audit fees		63.20	
Technical fee		0.18	
Other expenses	-	8.34	22.07
Books & periodicals		0.04	
Printing & stationery		2.75	

Advertisements	64.10	6.95	
Miscellaneous expenses	9.61	0.00	
Total of other Expenses		**9.74**	
Freight			
Grand Total	**134.38**	**86.59**	**258.58**

29. In majority of heads, the actual expenses are reasonable except under some heads where approval was not given in the previous years. These expenses include rent for the buildings and duty under section 3(1) of the Electricity Duty Act. The balance expense under A&G expense is Rs.22.07 lakhs for which no separate details were provided. As can be seen from the table above that, rent for buildings and land is the major component. The licensee has stated the rationale for the rent as it has been estimated based on the market value. However, the Commission in the ARR&ERC order for 2013-14 has clearly indicated the guidelines on which rent has to be estimated and also directed to furnish the certificate from PWD on fixation of rent. The licensee in the petition has reiterated the statements given earlier for justification of the rent charged. It is seen as a reciprocal arrangement for separating the street lighting undertaken by the Thrissur Corporation. The Commission is not in agreement with such arrangement. Hence, the licensee has to have a reasonable arrangement which would satisfy the principles of regulatory process. Accordingly, the Commission can only allow the rent estimated by the licensee provisionally for the purpose of first stage of truing up. The licensee has to furnish the details as directed vide order dated 15-5-2013 along with the final truing up so as to claim the expense.

30. As has been held by appellate forum, section 3(1) duty cannot be a pass through and accordingly disallowed. Thus, the A&G expenses approved for the purpose of truing up is Rs.194.07 lakhs.

Other Debits:

31. The licensee has included Rs. 860 lakhs under other debits, which is the accumulated rent to be payable to the Thrissur Corporation from 2007 onwards. The license has not included anything under the provision for bad debts, though Rs.5 lakhs was allowed along with the approved ARR&ERC for 2011-12. According to the licensee, the reconciliation of balance of sundry debtors as per the consumer master files in the computerised billing system and manual register is in progress. The outstanding balance will be adjusted once the reconciliation process is complete.

32. The licensee claimed Rs.860.25 lakhs towards the rent demanded from 2006-07 to 2010-11 as prior period expenses. The Commission has already explained its position on charging of rent. Hence, issue is finally settled, the accumulated amount claimed cannot be passed on in the truing up. Hence for the purpose of truing up no allowance is given under other debits for 2011-12.

33. In this regard, it is directed that the licensee may take the following steps and submit an Action Taken Report along with the final truing up petition for 2011-12.

1. Details of disconnection and dismantling done for defaulted consumers
2. Details of re-conciliation of consumer demand registers and the adjustments made
3. Final position of receivables against sale of power
4. Adjustment of Security Deposit against the dues of dismantled consumers.
5. Details of action for clearing the amount in disputed cases / court cases and the results thereof.

Reasonable Return

34. The license has claimed that about Rs. 40.40 crore has been invested in the distribution business as owner's capital over the years. According to the licensee, till now the owner's funds are represented as the reserves and surplus in the balance sheet. Along with the cleaning up and conversion of balance sheet, separate capital account has now been created the owners funds has been determined as the sum of opening GFA and opening capital works in progress (CWIP). Based on this a normative basis, the total equity investment in the electricity department is taken as Rs.1212 lakhs and Rs.2828 lakhs as normative debt. Based on the normative cost of capital, the licensee has claimed Rs.481 lakhs as the reasonable return for the year 2011-12 as shown below:

Reasonable return claimed for 2011-12

	2011-12 (Rs.lakhs)	Return (Rs.lakhs)	percentage
Equity	1212	170	14.0%
Debt	2828	311	11.0%
Total	4040	481	11.9%

35. The licensee further stated that once the fixed asset registers are audited, there may be changes in the estimates. In the reply dated 28-6-2013, on the

clarification sought by the Commission on the accumulated surplus and capital, the licensee has stated as follows:

"All capital expenditure incurred by TECD has been funded by transfer of money from the Corporation's Account or from TCED's internal accruals. Since the inception from of TCED from the year 1937, the corporation has provided to TCED as and when the funds are required for capital expenditure and other business purposes.
The total capital (including reserves and surplus) as on 31-5-2006 was 42.65 crore (amount taken from the Opening balance sheet provided as part of TCED's truing up petition for the year 2006-07). This capital and accumulated surplus represented the equity of the parent body ie, Corporations as a sum total of all funds brought in by the Corporation till that date and the internal accruals representing the return on capital invested.

During the period from 2006-07 to 2011-12 the total capital expenditure incurred by the TCED is Rs.23.75 crore. This has been funded by payments made by the Thrissur corporation to the tune of Rs.5.08 crores and the balance from internal accruals.

The capital and accumulated surplus as per annual accounts of electricity department as on 31-3-2012 is Rs.68.52 crore. The cash and bank balance held for utilisation in the business by the electricity business as on 31-3-2012 is Rs.53 crore. Thus the entire amount accumulated surplus remaisn invested in the electricity business.

.... any fund invested by the Corporation (being a parent entity) will qualify as equity, unless specifically termed as a loan at the time of such funds transfer. Further, funds retained in the electricity business (since inception) and specifically used for capital expenditure (represented by the Asset block) and net working capital cold be termed as equity as the same has not been withdrawn from the business (as a return) but has been used to create new assets/ replace old assets."

36. In this connection it is also important to examine the transaction between Thrissur Corporation and the Electricity Department captured in the 'Corporation current account' created as part of cleaning up process. Regarding transfer of funds to Thrissur Corporation the licensee has clarified vide letter dated 28-6-2013 that :

".... There is no transaction between TCED and the Corporation which can be defined in the nature of a loan. No interest has been charged to the

Corporation for amounts transferred to them.. The corporation is the parent body of the Electricity Department, and hence the amount paid to the Corporation is not in the nature of a loan on which interest can be charged. Instead these are in the nature of ongoing transactions and to some extent it is in the nature of a withdrawl of surplus due to them on the capital employed in the Electricity Business."

37. The licensee has furnished the adjustment in the Corporation's Current Account, which is created for netting off the transactions between TCED and Thrissur Corporation. The details are given below:

Corporation Current Account

	Rs. Lakhs
Amount receivable from Thrissur Corporation	**593.35**
AMC charges for passenger lift in Corporation building borne by TCED	1.09
Electrical maintenance of Corporations buildings, lighting	0.89
Installation of street lights within TECD limits	41.38
Repairs and maintenance of Street lights	28.35
Repairs and maintenance of street lights outside TECD limits	2.63
Extra wages/Duty allowance paid for extra work done by TCED employees for pooram festivals	2.22
Street light items in opening inventory	18.95
Energy consumed by street lights	72.84
Funds transferred to Thrissur corporation (net)	425.00
Amount payable to Thrissur Corporation	**1,032.97**
Rent on land and buildings charged by Corporation to TCED for 2011-12	172.05
Rent on land and buildings charged by Corporation to TCED from 2006-07 to 2010-11	860.25
Quarters rent collected by TCED from its employees	0.67
Net balance of Corporation current Account (payable to Thrissur Corporation	**439.60**

38. The major item being towards payment to Thrissur Corporation is the rent for the year 2011-12 and the accumulated rent from 2006-07 to 2010-11. Of the major item receivable to TCED is the funds transferred to Thrissur corporation. On this transaction, the licensee has maintained that there is no transaction in the nature of loans and no interest has been charged. The cost of maintenance of streetlights and energy charges for street lights are also accounted.

39. The Commission has examined the estimates given by the licensee. The licensee has claimed the return for the capital employed based on the opening

balance as on the beginning of the year. The contribution of Thrissur Corporation is taken as 30% of the capital employed and the balance is treated as debt and interest is being charged. At the outset, the proposal of the licensee is not acceptable as it is difficult to establish direct contribution of Thrissur Corporation in the business. Till 2010-11, the licensee has presented the accounts in such a way that capital consisted of reserves and surplus, instead, now owners contribution has been included to the tune of about Rs.4040 lakhs. As has been evident from the accounts, the reserves and surplus have been accumulated mainly due to the advantage of favourable consumer mix of the licensee. If the tariffs (retail or the bulk supply) were adjusted timely or the benefits were passed on to the consumers, there would have been no surplus. The surplus so accumulated has been ploughed back in the business for construction of substations and other assets, which other wise would have been legitimately been returned to the consumers. Hence, it cannot be entirely treated as equity in the business, as there is no evidence to show fresh infusion of equity. In order to claim equity, the licensee has to reasonably show that the Corporation has invested money in the business other than that generated out of surplus more than the reasonable level. In this context, the claim of the licensee that transfer of funds to Thrissur Corporation from the electricity department (licensed business) is in the nature of withdrawl of surplus due to them as being the return on capital employed is also not acceptable as so far the investment in the business can only from the excess surplus which is ploughed back to the business, which in case had to be returned to the consumers.

40. The licensee has also claimed interest for the notional debts, which is also not admissible as it is notional only and there is no matching cash outflow towards interest. In this circumstance, the Commission is inclined to continue the principles adopted in the earlier years till a new method is approved for allowing return. Accordingly, Rs.10 lakhs is allowed as return for the year 2011-12.

41. In this connection the Commission wishes to pointed out that the TECD accounts should reflect the transactions in full and transparent manner. At present the licensee is accounting only the net expenses (net of expenses in favour of other entities/ Thrissur Corporation). Though it is perfect on the accounting sense, it may not reflect the actual expenses/investments in the business. ***Hence, the Commission is of the view that in such cases, the entire expenses and investment should be booked in the electricity business and proper credit/debit may be given to the respective accounts so as to arrive at the net expenditure.***

42. It is also noticed that the rent to be payable to the staff quarters is treated as one of the items for adjustment. ***However, rent for staff quarters is to be adjusted against the employee costs as the employees are liable to pay the rent, which cannot be charged to ARR.***

43. The present method of accounting consumer contribution is also not proper, as the assets created out of consumer contribution (service lines etc.) are being netted out in the accounts, thereby not properly reflected in the stock of assets. In this case also, the licensee's accounts should properly reflect the assets created out of consumer contribution. The maintenance of assets created out of consumer contribution are also being undertaken by the licensee and charged in the ARR. ***Hence, it is absolutely necessary that the stock of fixed assets should properly reflect the assets created out of consumer contribution and its balancing entries.***

44. In the regulatory perspective, depreciation on the assets created out of consumer contribution, is not taken into consideration for the purpose of tariff determination, as the replacement of such assets are funded in the normal capital expenditure.

45. While accounting for loans and advances, it is stated that Rs.1435.33 lakhs mentioned as loans to general section has been adjusted against the opening balance of reserves and surplus and restructuring has been made. ***Since, the infusion of owners equity and returns thereof is not established, the Commission is not in a position to approve the adjustment proposed by the licensee for Rs.1435.33 lakhs as adjustment against 'owners funds'.***

46. In this connection, it is pointed out that the Commission is not inclined to accept the adjustments in inventories and adjustments against the consumer contribution and OYEC charges. ***The contribution by the consumers towards capital works and assets created thereof (whether it is for service line or otherwise) has to form part of the assets of the licensee which should be properly charged against the liabilities under consumer contribution, and should remain in the accounts properly. The licensee has mentioned that capital works in progress on account of capital works for consumers undertaken by the licensee is not separately shown due to want of details. This is also not acceptable, as these details have to be properly shown in the accounts while filing final true up.***

Aggregate Revenue Requirements:

47. Based on the above, the Aggregate Revenue Requirements allowed by the Commission based on the truing up is given below:

ARR approved after truing up

Particulars	Approved (Rs.lakhs)	Actuals (Rs.lakhs)	Allowed in the Truing up (Rs.lakhs)
EXPENDITURE			
Purchase of power	4,615.56	4,701.45	4,701.45
Operation & Maintenance	110.70	41.20	41.20
Employee Costs	833.34	710.21	710.21
Admin. & Costs	86.59	258.58	194.07
Depreciation	197.92	138.81	129.00
Interest & Finance Charges	38.00	53.09	25.00
Other Debits	5.00	860.25	-
Interest on working capital	-	172.00	-
Return on capital		481.00	10.00
Total Expenditure	5,887.10	7,416.59	5,810.93

Revenue from Tariff

48. The revenue from sale of power reported by the licensee is shown below

Revenue from sale of power reported by the license

	2010-11			2011-12 approved			2011-12 actual		
Consumer category-wise	Sales (MU)	Revenue (Rs.lakhs)	Avg. realsiation (Rs./kWh)	Sales (MU)	Revenue (Rs.lakhs)	Avg. realsiation (Rs./kWh)	Sales (MU)	Revenue (Rs.lakhs)	Avg. realsiation (Rs./kWh)
Domestic	31.04	809.67	2.61	32.25	996.30	3.09	33.64	864.19	2.57
Non-domestic	66.03	4,609.40	6.98	69.56	5,390.90	7.75	70.8	4,903.57	6.93
Agricultural	0.11	1.78	1.63	0.11	2.56	2.33	0.12	1.75	1.45
Industry	3.95	203.51	5.15	3.97	231.78	5.84	3.82	191.76	5.02
Street lighting			2.00	3.47	69.40	2.00	3.64	72.84	2.00
Total of I	101.13	5624.36	5.45	109.36	6,690.94	6.12	112.02	6,034.11	5.39

49. The licensee has clarified that the revenue from sale of power is the total demand excluding electricity duty, Surcharge, Thermal surcharge, Fuel Surcharge etc. So electricity duty and other state levies are deducted from the gross revenue. The licensee has furnished the details of annual demand statement including electricity duty and other charges payable, which are being excluded from the revenue from sale of power. The revenue from street lighting is also included on

a notional basis. KSEB has raised objections on the lower average realisation compared to the previous year. According to the licensee, in the previous years, revenue from sale of power was inclusive of taxes and duties, which has been corrected now. Hence there is a reduction in average realisation.

50. The licensee has furnished the split up details of revenue demand for the year 2011-12. The summary of the same is give below:

Split up details of revenue from sale of power for 2011-12

	Rs. Crore	
Energy charge	51.41	
Fixed charges	8.47	
Minimum Guarantee	0.09	
Excess consumption	0.02	
Lighting charges	0.02	
Arrears	0.01	
Total		**60.34**
Electricity Duty		
Section 4 duty	3.87	
Surcharge	0.07	3.94
Thermal Surcharge	1.15	1.15
Non-Tariff income		
Meter rent	0.60	
Penal interest	0.33	0.93
Total Revenue	**66.04**	

51. As shown above, the revenue from sale of power is Rs.6034 lakhs, and 93 lakhs is accounted in the non-tariff income. Balance is towards electricity duty which is payable to the Government and fuel surcharge payable to KSEB. Based on the details furnished by the licensee, the revenue from sale of power is approved for the purpose of truing up.

Non-Tariff Income

52. Non – tariff income reported by the licensee as per the filing is as follows:

Details of non-tariff income

	Rs. Lakhs
Interest income from the Bank	420.22
Interest on security deposit with KSEB	14.07
Late payment surcharge	38.04
Collection charges on section 4 duty	3.94
Income from Rental on Poles etc.,	61.16
OYEC charges	52.88

Anti Power Theft squad penalty	3.00
Miscellaneous income	125.76
Meter rent	60.05
Total	779.12

53. The major portion of the non-tariff income is from interest on Fixed Deposits. As per the details, the non-tariff income is accounted based on the accrual method. The Commission allows the non-tariff income as reported by the licensee for the purpose of truing up.

Revenue Surplus/gap after truing up

54. The ARR & ERC and revenue surplus after truing up is as given below:

Revenue Surplus after Truing up

Particulars	Approved (Rs.lakhs)	Actuals (Rs.lakhs)	Allowed in the Truing up (Rs.lakhs)
Purchase of power	4,615.56	4,701.45	4,701.45
Operation & Maintenance	110.70	41.20	41.20
Employee Costs	833.34	710.21	710.21
Admin. & Costs	86.59	258.58	194.07
Depreciation	197.92	138.81	129.00
Interest & Finance Charges	38.00	53.09	25.00
Other Debits	5.00	860.25	-
Interest on working capital	-	172.00	-
Return on capital		481.00	10.00
Total Expenditure	**5,887.10**	**7,416.59**	**5810.93**
Revenue from sale of power	5,624.37	6,034.11	6,034.11
Other income	887.69	779.13	779.13
Total Revenue	6,512.06	6,813.24	6,813.24
Revenue Surplus/(Gap)	**624.96**	**-603.35**	**1002.31**

55. The revenue surplus for the year 2011-12 after first stage truing up is Rs.1002.31 lakhs as against Rs.603.35 lakhs presented by the licensee as per the petition. The accumulated revenue surplus after truing up for the years 2006-07 to 2010-11 was Rs.5712.85 lakhs. Therefore the total revenue surplus till 2011-12 is Rs.6715.06 lakhs.

Orders of the Commission

56. The Commission after considering the truing up petitions of Thrissur Corporation for the year 2011-12 and the details and clarifications furnished by the Corporation thereon, ***hereby arrive at a total revenue surplus of Rs.1002.31 lakhs provisionally subject to the directions given in different sections above***. The Licensee shall keep the surplus so arrived at after the truing up process in a separate fund and utilise it as per the Orders of the Commission. The licensee has to take appropriate steps for updating the accounts as directed and report on such adjustments giving full details have to be filed as part of the final truing up. As soon as the accounts are audited, the same may be furnished with details for final truing up.

57. It is also directed that the licensee has to take steps for updating the skills of the staff so as to equip them to properly move towards new system. The management has to oversee the process so that migration to the new system is sustainable and trouble free.

58. The Petition disposed of. Ordered accordingly.

Sd/-	Sd/-	Sd/-
P.Parameswaran	Mathew George	T.M.Manoharan
Member	Member	Chairman

Approved for issue

Secretary