KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

OA No.40/2015

In the matter of Truing up of accounts of Thrissur Corporation for the year 2013-14

Applicant	:	Thrissur Corporation
Present	:	**Shri. T M Manoharan** **Shri K.Vikraman Nair, Member** **Shri S.Venugopal, Member**

ORDER dated 04.05.2016

Background

1. Thrissur Corporation Electricity Department under Thrissur Municipal Corporation (hereinafter referred to the TCED or the Licensee) is a deemed licensee under Electricity Act 2003. The licensee receives power at voltage levels of 110kV and 66 kV from Kerala State Electricity Board Limited. TCED filed the application on 09.02.2015 for the truing up of accounts for the year 2013-14. Thereafter, the licensee had filed a revised application on 23.4.2015 stating that there occurred some errors in the application filed earlier. The Commission accepted the revised application of the licensee for the truing up of accounts for the year 2013-14 as OA No. 40/15.

2. The Commission had, vide letter dated 1-12-2015, sought clarifications from the licensee regarding the accounts submitted by them and sought some additional details from the licensee.

3. The licensee furnished clarifications sought by the Commission vide letter No KSERC – 6484/14 dated 15/12/2015 and presented the same during the hearing held on 18/12/2015. A comparison of the various items of expenditure and revenue approved by the Commission for the year 2013-14 vide the order dated 15-05-2013 on ARR&ERC and the corresponding actual amounts of expenditure and revenue claimed by TCED as per application for truing up are given below:

Table 1

TCED - Summary of Truing up application for 2013-14

Particulars	Approved vide orders on ARR	Application for truing up	Difference over approval*
Total Energy Sales (MU)	128.18	118.21	(-)9.97
Distribution loss (MU)	10.91	13.87	(+)2.96
Gross Energy Requirement (MU)	139.09	132.08	(-)7.01
Distribution loss %	7.84	10.5	(+)2.66
Expenses (Rs.lakh)			
Power Purchase Cost	8526.08	6917.33	(-)1608.75
Interest & Financing Charges	45.03	130.178	(+)85.148
Depreciation	269.67	104.17	(-)165.5
Employee Cost	831.28	1217.05	(+)385.77
R&M Expenses	133.94	176.25	(+)42.31
A&G Expenses	196.82	1063.36	(+)866.54
Other debits	-	-	
Return on Equity	10	70.25	(+)60.25
Gross Revenue Requirements	10012.82	9678.59	(-)334.23
Revenue (Rs.lakh)			
Revenue from sale of power	7943.51	8631.14	(+)687.63
Other Income	262.95	907.26	(+)644.31
Total Revenue	8206.46	9538.4	(+)1331.94
Revenue Surplus/(Gap)	-1806.36	-140.18	(+)1666.18

(+) excess over approval
(-) reduction over approval

Hearing on the application

4. Hearing on the application on truing up of accounts of Thrissur Corporation for the year 2013-14 was held on 18-12-2015 Conference Hall, Ramanilayam, Thrissur. During the hearing, representatives of Thrissur Corporation and KSEB

Ltd were present. Consumers and representatives of consumer associations from the licensing area of the licensee also attended the hearing and offered their comments. The list of participants is attached as Annexure 1. Sri.J.Jose, Electrical Engineer, and Sri. Francis, Assistant Engineer, TCED presented the details of the application on the truing up of accounts for the year 2013-14 filed by Thrissur Corporation and responded to the queries of the Commission.

5. Sri. Anil, Executive Engineer and Prasad. S, AEE, KSEB Ltd. presented the objections of KSEB Ltd. and submitted written remarks on the applications, the important ones being:

(1) *Even though the total consumer strength of the Licensee has increased by 1.53% when compared to the previous year's trued up level, number of consumers under LT Industrial category is seen reduced by 50% and its consumption reduced by 6.52%. In Agriculture category, number of consumers is seen reduced by 18% and its consumption reduced by 27.27%. It may be noted that the consumer strength of domestic category has increased by 2.8% but its consumption has reduced by 3.4%. The consumer strength of non-domestic category (which includes commercial category) increased by 3.9%, while its consumption has reduced by 1.9%. The above figures need to be put to strict regulatory scrutiny.*

(2) *The licensee's T&D loss, approved by the Hon. Commission for the year 2013-14 was 7.85%. The licensee as per the petition has reported a Distribution loss of 10.50%, which is higher than the trued up level for the year 2012-13. The petitioner has requested for sharing of loss at 1:1 ratio with its consumers. The licensee's inefficiency may not be passed on to consumers. Kind attention is invited to the observation of the Hon. Commission while issuing orders on truing up for the previous year of the licensee that "The licensee has not mentioned any measures taken for reduction of distribution loss. The increase in loss is substantial and it is mainly on account of lack of proper monitoring mechanism and measures taken for reduction in loss. As per the Orders of Hon. APTEL, once a*

target for distribution loss is fixed by the Commission, the licensee is bound to achieve the target. The licensee has not mentioned any difficulties or reasons which are beyond its control for limiting the losses at the target level. It is stated by the petitioner that the licensee has approached Kerala State Productivity Council for a detailed Energy Auditing. It is submitted that any study carried out now will be beneficial for future periods. However, the cost of power procurement due to the excessive T&D loss during prior period i.e., 2013-14, may not be admitted.

(3) From the petition, it can be seen that the R&M Charges claimed by the petitioner is higher by 31% than the approved level. Similarly, Employee cost is higher by 46% , A&G expenses are higher by 440% and Interest & Finance Charges are higher by 189% than the approved levels.

(4) Hon. Commission in the approval order for 2013-14 had taken serious note of the high R&M cost and remarked that "The projections given by the Licensee for the year 2013-14 are unreasonably high compared to the provisional amount for 2011-12 and the approved amount for 2012-13. The average annual growth of R&M expenses from 2006-07 is about 27% where the GFA has increased only by 10% during the same period. ……………" and Hon. Commission concluded that "In these circumstances, the Commission is of the considered view that an increase of 10% over the approved expenses can only be allowed as R&M expenses for 2013-14. Accordingly, the Commission approves R&M expenses for 2013-14 as Rs.133.94 lakh. The Licensee has to utilize the available human resource, improve their productivity and limit the R&M expenses to the approved level and properly account them based on the observations made in the order." In the above background it was requested that Hon. Commission may look into the prudence of the present claim.

(5) Regarding "Employee cost", it is submitted that the licensee had projected Rs. 120.90 Lakh towards pension contribution and after detailed analysis,

Hon. Commission had approved the same at Rs. 101.15 Lakh. However, now the petitioner had claimed Rs. 351.89 Lakh as pension contribution, which is 248% higher than the approved level. Hon. Comission while approving the ARR and ERC for 2013-14 had remarked that "The Commission notes that the Licensee already has much lower consumer per employee ratio. Hence the Licensee has to seriously take steps for effective HRM measures to optimize the employee cost. ***<u>Unless such measures are taken to properly justify the expenses, the Commission will be forced to disallow the expenses in future</u>****, as the O&M expenses are considered as controllable."*

(6) It may be noted that the A&G expenses has increased to Rs. 1063.30 Lakh against the approved level of Rs. 196.82 Lakh, due to the following:

a. The petitioner has claimed Section 3 (1) duty amounting to Rs. 68.23 Lakh in this account. KSEB may submit that Hon. Commission may follow uniform approach in allowing the Section 3 (1) duty to all licensees, until the same are reviewed / finalized by the Commission.

b. Vide para 2.3.10 of the petition, the petitioner has stated that an additional liability of Rs. 7.52 Lakh has been incurred as part of Section (4) duty. However, the petitioner has booked an amount of Rs. 752 Lakh towards payment of Section (4) duty under A&G expenses in ***Form - M****. The petitioner may be directed to clarify the discrepancy. Since the A&G expenses as per* ***Form-M*** *and* ***Form-B*** *are same (i.e., Rs. 1063.36 Lakh), it is presumed that the petitioner has claimed Rs. 752 Lakh towards payment of Section (4) duty, which constitutes about 71% of the total A&G expenses. The petitioner in para 2.3.10 of the petition has stated that during the year an additional liability of Rs. 752 Lakh has incurred because of Revenue Recovery Action from the side of Government as part of Section (4) duty. However, the petitioner has not mentioned the period during which this amount of Rs. 752 Lakh towards Section (4) duty has accrued due to non-payment. Section (4)* *duty is the duty payable by every consumer for the energy consumed every month at the rates specified in "The Kerala Electricity Duty Act, 1963". From* ***Form-G*** *(Revenue from sale of power) for the current year (2013-14), it is seen that the petitioner had collected duty from its consumers and the same has been deducted while accounting revenue from sale of power under ARR&ERC. Thus, the Section (4) duty to be remitted to government is not an expense item for the licensee, since the same is already collected from its consumers. Accordingly, the amount collected towards Section (4) duty in the prior period also has to be remitted to the government without loading as an item of expense in the ARR. But the petitioner had booked Rs. 752 Lakh paid as Section (4) duty under A&G expenses, which should not be allowed.*

c. *Exorbitant rent to the tune of Rs. 172.03 Lakh (62% of A&G expenses) is seen booked in the accounts as payable to M/s. Thrissur Municipal Corporation against the office space and land occupied by the licensee. Hon. Commission while issuing the ARR order for the year 2014-15 of the licensee had taken a position on Rent for buildings. Hon. Commission allowed provisionally 10% of the claim for rent with the reasoning that "As per the information filed by the Board, the monthly rent payable in Thrissur as per the PWD Technical circular No. B1/59974/90 dated 25-05-2011 is Rs.51.71 per sq.meter or Rs.4.67 per sq.ft per month. Thrissur Corporation did not objected to the above data furnished by the Board in the said proceedings, but maintained that the Corporation is empowered to fix the rates for its assets. It can be seen that the alternate rent administered by Government agency is about 10% of the rent proposed by the petitioner. On the same parlance, the rent for land can also be considered as 10% of the proposed rates of the petitioner. Accordingly, the rates now arrived at is provisionally used for approving the ARR till the licensee has furnished the information as directed or any alternate decision on rent* *is fixed by the Commission." It is prayed that Hon. Commission may allow only reasonable rent towards building.*

(7) The petitioner has booked Rs. 130 Lakh against the approved level of Rs. 45 Lakh towards Interest & Finance Charges. The claim of the petitioner for Interest & Finance Charges may be disallowed since the licensee is having huge surplus as bank balance and has sufficient internal resource to meet the working capital requirements. Balance Sheet clearly reveals that there is no need for any working capital as there is around Rs. 70 Crores as Bank balance.

(8) In the matter of claim for Return on Capital, it is humbly submitted that Hon. Commission may follow the same approach as done in the case of other licensee's till finalization of methodology for small distribution licensees.

6. Consumer associations which were represented in the hearing have not commented on the accounts of the Thrissur Corporation. The issues raised by them are basically general in nature like delay in execution of works, permanent connection in apartments, need for online application etc:

7. The Commission in its daily order dated 21.12.2015 has *directed TCED to submit the following details for further processing of the application*

(i) A copy of the demand raised for revenue recovery u/s 4 of the Duty Act and the connected documents and reply given.

(ii) Details of the amount booked under Other Current Liabilities under main heading Current Liabilities.

(iii) Details of the opening balance and amount booked under Corporation Current Account. An amount of Rs.530.25 lakh is shown as opening balance (the split up and details of this amount required) and another amount of ₹ 268.78 lakh is shown as being payable to Corporation with the details of the amount. An amount of ₹100 lakh is shown as fund received by Corporation. The details of purpose for which this was received to be submitted. The Corporation Current Account does not tally. It may be re-prepared and submitted with detailed break up of all items booked therein.

(iv) Explanation on decline in depreciation figures booked between 2012-13 and 2013-14 under Sub Stations & Distribution Area P&M, even though the value of Gross Fixed Assets have gone up and there are no retirement of Fixed Assets the value of depreciation is shown at a lower level.

(v) The copy of the work order given to Deloitte for carrying out the Fixed Asset recasting work.

(vi) The copy of Fixed Assets Register prepared by M/s Deloitte along with the vintage of Assets and details of any asset that has been retired from service.

(vii) Reconciliation between Fixed Asset Register and Fixed Asset Schedule, giving clearly the differences if any.

(viii) Details of items and cost of items purchased during the year 2013-14 under inventory and the breakup of its treatment to Capital Spares, utilised for Repairs and set off against OYEC and the reason for classifying all these items as inventory under Current Assets. (In the context of AS-2 definition of inventory).

(ix) The year wise details of consumer contribution collected from 2009-10 and Gross Assets created out of these. It should start with the opening balance of 2009-10 showing the Consumer Contribution and Assets financed by the Contribution and then year wise collection from 2009-10 onwards.

(x) The manner of accounting the duties under section 3 & 4 of Kerala Electricity Duty Act 1963 in the P&L a/c and Balance Sheet.

(xi) Age wise analysis of Sundry Receivables and also giving the details of major defaulters and the number of bills for which payment was not made along with the amounts.

(xii) A detailed analysis of Miscellaneous recoveries of ₹ 275.98 lakh (Page 42)Items shown as income under Non Tariff income

(xiii) Reconcile the schedule of Demand raised collected with the amount shown in the P&L accounts for the years 2012-13 and 2013-14 (Page 59 figures with P&L account figures).

(xiv) Details of pension contribution provided and the pension paid for the years on which there was double payment. (ie where TCED has paid pension contribution and also the pension payments of the retired staff).

(xv) Details of the buildings used of Corporation - the name of the office, area of occupation and rent per month being charged for the same at the existing rates.

(xvi) Clarify the opening figures used for Cash Flow statement of 2013-14 and do also verify whether the same has been prepared properly as per the Accounting Standard 3.
(xvii) In form W1 an amount of ₹678.76 lakh is added to the Capital base (Page 57). The reason and details of the amount so added. The explanation given therein is not clear.
(xviii) The head under which Metering Equipments booked till now and the amount under Metering Equipments presently in the books and the reason for having a new metering equipment head created now.
(xix) Details of number of faulty meters, mechanical meters and number of suspected faulty meters in the system.
(xx) Major items booked under "others" in Operation and Maintenance Cost amounting to ₹160.85 lakh during 2013-14 and the reason for such high increase as compared to ₹44.65 lakh of the previous year.
(xxi) Recheck whether Form G and accounting of duty reflected therein are properly done. (Page 37).
(xxii) The reason for the increase in Interest and Finance Charges in P&L a/c from ₹69.76 lakh in 2012-13 to ₹130.18 lakh in 2013-14 and O&M Expenses.

8. The licensee submitted part of the details vide their letter dated 14.1.2016 and requested extension of time to furnish the balance details. The Commission allowed time up to 31.1.2016 and then up to 28.2.2016 for filing details. The Commission had given further period of time up to 30.3.2016 for submitting the details. However, the licensee could not file all the details even after expiry of this period.

Analysis and Decision of the Commission

9. The Commission considered the application of the licensee for truing up of accounts for the year 2013-14, the clarifications and the additional details thereon along with comments of KSEB Ltd, and other consumers and stakeholders of TCED. The analysis and decisions of the Commission on the application for truing up of accounts are detailed below:

Sale of energy:

10. Energy sales approved and the actual sales reported by the licensee as per the application for truing up of accounts for the year 2013-14 are as follows.

Table 2
TCED - Number of consumers and Sale of power for the FY 2013-14

Category	ARR approval		Proposed in the application for True Up		Difference over approval	
	No of consumers	Sales	No of consumers	Sales	No of consumers	Sales
	(Nos)	(MU)	(Nos)	(MU)	(Nos)	(MU)
Domestic	19667	41.16	19786	33.24	119	-7.92
Non domestic	15588	77.40	15329	42.05	-259	-35.35
Agriculture	389	0.08	305	0.08	-84	0.00
Industry	787	5.03	596	3.44	-191	-1.59
Street lighting	195	4.51	195	3.70	0	-0.81
HT			85	35.70	85	35.70
Total	**36626**	**121.18**	**36296**	**118.21**	-330	-2.97

11. The total energy sales for the year 2013-14 as per the truing up of accounts are 118.21 MU as against the approved sales of 128.18 MU. The licensee has stated that the reason for the lesser energy sales was primarily on account of the decreased consumption in the non domestic category. The number of consumers has not increased as projected. Also, there is a decrease in the number of industrial consumers. The Commission accepts and approves the actual energy sales as reported by the licensee for the truing up of accounts for the year 2013-14, being the actual billed energy by the licensee.

Energy Input and Distribution Loss:

12. As per the application for truing up, the licensee purchased 132.08MU against an approved energy requirement of 139.09MU. The distribution loss reported by the licensee is 10.5 % as against the approved distribution loss of 7.84%. The licensee has requested to share the underachievement of distribution loss with the consumers on 1:1 basis. This request of the licensee is not in accordance

with any regulation. It is a well known principle that abnormal loss of electricity in the distribution system of licensee should not be loaded to the cost of power and passed on to the consumers by way of increased tariff. Such irrational request made by TCED cannot therefore be approved. The Commission anticipates that, TCED being a responsible licensee will refrain from making such illegal and irrational request.

13. It can be seen that, the actual distribution loss is higher than the approved levels. The licensee has not mentioned any successful measures taken by it for reduction of distribution loss. However, the licensee submitted that, they have entrusted the Kerala State Productivity Council for a detailed energy auditing. The increase in loss is substantial and it is mainly on account of lack of proper monitoring mechanism and measures taken for reducing loss. As per the orders of the Hon'ble APTEL, once a target for distribution loss is fixed by the Commission, the licensee is bound to achieve the target. The licensee has not mentioned any difficulties or reasons as to why they were not able to achieve the loss reduction target fixed by the Commission. Hence the Commission is constrained to limit the distribution loss at the approved level for the purpose of truing up. Accordingly, the quantum of power purchase approved in the process of truing up is also limited to the target loss parameters set by the Commission, the details of which are given below.

Table - 3

TCED- Energy Requirement and Distribution Loss for the year 2013-14

Particulars	ARR approval	Application for truing up	Trued up approval
Total Energy sales (MU)	128.18	118.21	118.21
Distribution loss (%)	7.84	10.50	7.84
Distribution loss(MU)	10.90	13.87	10.06
Power Purchase	139.08	132.08	128.27

Thus the quantum of power purchase approved for the year 2013-14 is 128.27 MU.

Cost of Power Purchase

14. As per the details given by the licensee, the cost of power purchase is as given below.

Table – 4

TCED- Details of the cost of power purchase as per the application for truing up

Demand Charge	For Apr-13	Rs 350kVA
	For May-13 to Mar-14	Rs 300/kVA
Total Demand Charge (Rupees Lakh)		1011.33
Energy Charge	For Apr-13	Rs 5.20/kWh
	For May-13 to Mar-14	Rs 4.40/kWh
Total Energy purchased (MU)		132.08
Total Energy Charges (Rs. Lakh)		5906
Total Charges (Rupees Lakh)		6917.33
Average Power Purchase Cost (Rs /kWh)		5.24

15. As stated above, as per the application for truing up filed by the Licensee, the total cost of power purchase is Rs 6917.33 lakh for procuring 132.08MU from M/s KSEB Ltd, at an average cost of power purchase of Rs 5.24/ unit.

16. As detailed under table 3 above, in the process of truing up, the Commission approves the quantum of power purchase as 128.27 MU as against 132.08MU as per the application for truing-up. If the licensee had achieved the target for reduction of T&D Loss, the purchase of power required to sell 118.21MU to the consumers, should have been much lower the present claim for 132.08MU. The cost of purchase of additional power on account of the under achievement of distribution loss cannot be passed on to the consumers. Accordingly, for the purpose of truing up, the Commission approves the cost for procuring 128.27 MU @Rs 5.24/unit as Rs 6721.35 lakh for the year 2013-14. The details are given below.

Table - 5

Power Purchase Cost Approved

Quantum of power purchase approved at the at the T&D loss of 7.84% (it is given as 10.68 above)(MU)	128.27
Average cost of power purchase (Rs/unit)	5.24
Net Power purchase approved in the process of truing up (Rs in lakh)	6721.35

Interest and financing charges:

17. In the application for truing up for the year 2013-14, the licensee has claimed the interest and finance charges on accrual basis as Rs 130.18 lakh, as against the approved amount of Rs 45.03 lakh. The Commission has noted that, the entire amount booked under the interest & finance charges is the interest on security deposit to be paid to the consumer. KSEB Ltd has contended that, since the licensee has fixed deposit with the banks, the interest on security may not be allowed. Since the interest on fixed deposit of the licensee has been accounted under Non tariff income, there is no merit in the contention of the KSEB Ltd. As per the provisions of the Electricity Act-2003 and Kerala Supply Code, 2005, the licensee is bound to provide interest on the security deposit from consumers available with the licensee.

18. Commission has noted that, even though the interest on security deposit claimed by the licensee is Rs 130.18 lakh for the year 2013-14, the actual disbursement made during the year was Rs 37.86 lakh only. Thus it can be seen that only about 30% of the amount due has been paid. This is against the provision of Supply code and it will also result in the payment of penal interest. In case TCED pays the penal interest, the same will not be allowed to be charged to the ARR. The Commission directs the licensee to give the details of the interest paid to the consumers and the date of payment of the same. The Commission has been taking the consistent stand that, the actual disbursement of interest on security deposit effected during the year concerned can only allowed be in the process of truing up. Accordingly, for the purpose of truing up, the Commission approves the interest and finance charges as Rs 37.86 lakh for the year 2013-14.

Table – 6

TCED- Interest and financing charges (Rs. Lakh)

Particulars	ARR approval	Claimed vide Truing up petition	Truing up approval
Interest & Finance Charges	45.03	130.18	37.86

Depreciation:

19. Vide the order on ARR&ERC of M/s TCED dated 15th May-2015, the Commission provisionally approved the depreciation for the year 2013-14 as Rs 269.67 lakh following the depreciation norms as per CERC (Terms and Conditions of Tariff) Regulations, 2009, without considering the vintage of assets. Vide the order on ARR, the Commission has clarified that, deprecation shall not be allowed on the assets created out of consumer contribution.

20. In the process of truing up application for the year 2013-14, the licensee claimed Rs 104.17 lakh as depreciation for the year 2013-14 as per their books of accounts. The licensee has submitted that the depreciation has been calculated on the basis notified as per KSERC (Terms & Conditions of Tariff for Distribution and Retail Sale of Electricity under MYT framework) Regulations, 2006.

21. For approving the depreciation as per the CERC (Terms and Conditions of Tariff) Regulations, 2009, the licensee has to provide the vintage of assets. However, the licensee has not yet submitted the vintage of assets. If the licensee could not provide the vintage of assets, the Commission is constrained to adopt the depreciation norms as per CERC (Terms and Conditions of Tariff) Regulations, 2004, which is same as the depreciation norms as per the KSERC (Terms & Conditions of Tariff for Distribution and Retail Sale of Electricity under MYT framework) Regulations, 2006.

22. Usually, the depreciation during the year allowed only for the assets in service at the beginning of the year. However, while claiming the depreciation for the year 2013-14, the licensee has claimed depreciation on the assets added during the year 2013-14 also. This cannot be allowed.

23. As stated earlier, the Commission has already taken a consistent stand that, depreciation on the assets created out of consumer contribution and grants cannot be allowed. It is noted that M/s TCED had claimed an amount of Rs 26.09 lakh being the amount paid to a consultant for setting right the asset register etc. However, the organisation has not been able to submit the details of the asset register called for by the Commission in the appropriate form. Hence the licensee shall immediately take measures to show the details of the consumer contributions and, assets created using such contribution and grants in the books of accounts separately and the same may be submitted within three months of the date of this order and not later than 31st July 2016. With this direction, the Commission approves the depreciation as detailed below. The depreciation will be revised considering the depreciation on assets created out of consumer contribution subsequently.

Table – 7

TCED – Depreciation approved for the year 2013-14

Particulars	Gross Fixed Assets (Rs. Lakh)) as on 31.3.2013	Depreciation rate (%)	Depreciation approved (Rs. Lakh)
Land Development	23.39		
Building	100.48	1.80	1.81
Substation Machinery	1684.17	1.80	30.32
Distribution P&M	2376.60	2.57	61.08
Furniture and Fixtures	8.26	2.57	0.21
Office Equipment	94.80	1.80	1.71
Departmental Vehicles	46.45	18.00	8.36
Total	4334.15		103.48

Table - 8

TCED - Depreciation approved for the year 2013-14 (Rs.Lakh)

Particulars	ARR		Truing up	
	Projected	Approved	Claimed	Trued up
Depreciation	250.2	269.67	104.17	103.48

Employee Cost:

24. The employee cost claimed vide the application for truing up of accounts is Rs 1217.05 lakh against Rs 831.28 lakh approved by the Commission vide the order on ARR&ERC of the TCED for the year 2013-14. The details are given below.

Table – 9

TCED Details of Employee Cost – 2013-14 (Rs in lakhs)

Sl No	Particulars	2011-12	2012-13	2013-14		
		Trued up	Trued up	ARR Approval	Truing Up claimed	Difference over approval
1	Salary	553.77	681.72	660	758.86	98.86
3	Wages	22.83	18.77	8.2	29.68	21.48
4	Pension Contribution	80.94	127.69	101.15	351.89	250.74
5	Bonus	-	-	2.94		-2.94
6	Others	5.78	5.91	3.13	8.45	5.32
7	Medical expenses			0.02		-0.02
8	Earned Leave Encashment	46.88	48.28	55	68.17	13.17
9	Staff welfare expenses			0.84		-0.84
	Total	**710.2**	**882.37**	**831.28**	**1217.05**	385.77

25. As detailed in the table above, the major increase in employee cost over approved level is mainly on account of pension contribution, salary and wages. The licensee vide letter No KSERC – 6484/14 dated 15.12.2015 has submitted that the practice followed by the Government of Kerala is that the arrear due to pension revision is to be met by TCED, though the pension disbursement is the duty of the Government. The licensee has claimed additional pension liability of Rs 200 lakh during the year 2013-14.

26. As per the details submitted by the licensee, the pension contribution accounts for 44.63% of the total wages and salaries. It seems that, in the truing up of accounts, the licensee has claimed both pension contribution as well as pension disbursements. The Commission cannot allow both. The licensee should take necessary steps to obtain the financial assistance from the government immediately. The pension of municipal employees is governed by "The Kerala Municipality (Employees death cum Retirement Benefit) Rules, 1996. Clause 6,7,9 & 10 of the said rules is reproduced below.

> ***6. Central Pension Fund:-*** *(1) A fund named Central Pension Fund shall be opened on the control and supervision of the Director and shall be operated in the Savings Bank Account of the Government Treasury or in the Savings Bank Account of the Nationalised Banks for the payment of pension under these rules and the amount received under Rule 8 shall be credited to this fund and the amount necessary for payment of pension benefits sanctioned under Rule 9 shall be transferred from this fund from time to time to the Municipal Pension Fund constituted under Rule 10.*
>
> *(2) The amount in the Central Pension Fund other than that necessary for meeting daily expenses may be invested as fixed deposit in the Treasury or Nationalised Bank for getting more interest and the interest so earned shall be credited to the Central Pension Fund.*
>
> *(3) The Central Pension Fund shall not be used for any other purpose except with the sanction of the Government.*
>
> *(4) The accounts and registers of the Central Pension Fund shall be in the form specified by the Director of Local Fund Audit.*
>
> ***7. Liability of the Municipality:-*** *(1) The Municipalities shall meet the financial liability arising out of the implementation of the pension schemes under these rules.*
>
> *(2) Fifteen per cent of the total monthly emoluments of each employee shall be remitted to the Central Pension Fund as pension contribution.*
>
> ***9. Procedure for sanctioning pension:-*** *(1) The Secretary shall prepare the pension papers one year before the retirement of an employee in accordance with the provisions in Part III of the Kerala Service Rules, 1959 and in the specified form and send the same to the Local Fund Audit Director with relevant documents. The employee shall, in the application for pension indicate the Municipality from which he desires*

to draw pension and gratuity. The Local Fund Audit Director shall, after verifying the eligibility under Part III of the Kerala Service Rules, 1959, [2][forward the pension papers together with the verification report regarding the amount that may be sanctioned under items pension and gratuity to the Director for sanctioning the pension].

[3][(2) The Director shall, immediately on receipt of the pension papers together with the verification report of the Local Fund Audit Director under sub-rule (1), issue orders sanctioning pension benefits admissible and at the same time prepare pension payment order in duplicate and send one copy of the same to the pensioner and the other to the Secretary of the Municipality from where the pensioner desires to draw the pension benefits].

(3) The Director shall, on passing orders sanctioning pension under sub-rule (2), withdraw from the Central Pension Fund, the total amount required for the payment of gratuity, commutation, pension and arrears including monthly pension for one year sanctioned to the pensioner and forward the same to the Secretary of the concerned Municipality by demand draft.

(4) The Secretary concerned shall obtain and keep the life certificates of the pensioners allotted to a Municipality for continuing the payment of pension and shall, before the end of the month February every year apply to the Director, along with the schedule of pensioners, for sanctioning the amount required and the Director shall sanction the amount from the Central Pension Fund and give the same to the Secretary before 31st of March.

***10. Municipal Pension Fund:-** The Secretary shall open a Savings Bank Account in the name Municipal Pension Fund in Government Treasury or in Nationalised Bank for the payment of pension benefits to pensioners and credit the amount sanctioned by the director, under sub-rules (3) and (4) of Rule 9 for this purpose to the Municipal Pension Fund. The Amount in this fund shall not be used for any purpose other than the payment of pension benefits.*

From the above, it is very clear that pension contribution is related to Central Pension Fund operated by Director of Municipal Administration and pension will be disbursed by a corporation from the fund allot by the Director to Corporation. Corporation may take steps to get the amount required for pension disbursement from the Director of Municipal Administration so that it is not passed on to the consumers of TCED. The licensee shall account the pension contribution alone under employee cost and the actual pension disbursed to the retired employees shall be accounted under amount receivable from Government.

27. While approving the truing up of accounts for the year 2012-13 vide the order dated 24-12-2014, the Commission had approved the employee cost at Rs 882.37 lakh, where in it was stated that the pension contribution alone was included under the employee cost. For the year 2013-14, Commission approved an increase of 8.55% (weighted average increase of WPI and CPI in the ratio of 30:70 for the year 2013-14 over the employee cost approved for the year 2012-13. The employee cost thus approved for the year 2013-14 is Rs.957.8 lakh.

Table- 10
TCED – Employee Cost Approved in truing up of accounts for 2013-14 (Rs. Lakh)

Particulars	ARR		Truing up	
	Projected	Approved	Claimed	Approved
Employee cost	1047.00	831.28	1217.05	**957.80**

Repairs and Maintenance expenses

28. As per the application of truing up, the R&M cost claimed by the licensee is Rs 176.25 lakh as against the amount of Rs 133.94 lakh approved in the order on ARR dated 15-5-2013. Out of the total amount of Rs 176.25 lakh, Rs 164.62 lakh is accounted under consumption of stores and balance Rs 11.63 lakh under other R&M cost.

29. In this matter, it is worthwhile to mention that, the R&M claimed and approved vide the order dated 24-12-2014 on Truing up of accounts of TCED for the year 2012-13 is Rs 50.68 lakh only including Rs 48.45 lakh under consumption of stores and Rs 2.33 lakh towards other R&M cost. The R&M cost claimed for the year 2013-14 is 248% higher than the R&M claimed and approved in the truing up process for the year 2012-13. The details are given below.

Table-11

TCED- Comparison of R&M cost approved for the year 2012-13 with the R&M cost claimed for the year 2013-14

Particulars	Actual claimed and approved for 2012-13	Claimed for the year 2013-14	Percentage of increase over 2012-13
	(Rs. Lakh)	(Rs. Lakh)	
Store consumption	48.35	164.62	240.48%
Other R&M cost	2.33	11.63	399.14%
Total	50.68	176.25	247.77%

30. The R&M cost claimed by the licensee is about 15 paise unit, which is considered to be excessively high. The licensee has not submitted any explanation on the excessive increase in consumption of stores compared to the previous year. It seems that, most of the amount booked under store consumption is for capital works and which has be excluded from consumption of stores booked under R&M expenses. It will always be in the best interest of the licensee to provide full and fair information of the expenses incurred and explain material differences during a period as compared to the previous periods, so as to enable the Commission to exercise a fair prudence check on the various expenses incurred and take a reasoned decision pertaining to the same.

31. Since the licensee has not provided any convincing reasons for the excessive increase in R&M cost over the year 2012-13, the Commission is constrained to approve only 8.55% increase ((weighted average increase of WPI and CPI in the ratio of 30:70 for the year 2013-14) on the R&M cost approved for the year 2012-13. Accordingly, the R&M cost approved for the purpose of truing up is Rs 55.01 lakh.

Table - 12

TCED – Details of R&M expenses approved in truing up of accounts for 2013-14 (Rs.Lakh)

Particulars	ARR		Truing up	
	Projected	Approved	Claimed	Approved
R&M cost	201.45	133.94	176.25	55.01

Administration and General Expenses:

32. While approving the ARR for the year 2013-14, the Commission provisionally approved the A&G expense as Rs 197.12 lakh. However, vide the application on truing up, the licensee has claimed the A&G expenses as Rs 1063.30 lakh with the detailed split up as follows.

Table-13

TCED- A&G expenses approved for the year 2012-13 and claimed for the year 2013-14

Particulars	Truing up approval for the year 2012-13 (Rs. Lakh)	Claimed vide the application for truing up for the year 2013-14 (Rs. Lakh)
A&G expenses	39.13	70.62
Section 3 duty		68.23
Demand for section-4 duty		752.40
Rent for the year		172.03
Total	39.13	1063.30

33. The Commission has been taking a consistent stand that, the section 3 duty cannot be approved as expenses considering the provisions under subsection (3) of the Section (3) of the Kerala Electricity Duty Act, 1963 that, the section-3 duty cannot be passed on to the consumers. Hence, in the process of truing up, the Commission cannot approve the claim of Rs 68.23 lakh as section 3 duty booked under A&G expenses for the year 2013-14.

34. The licensee has booked Rs 752.40 lakh towards demand for section-4 duty. The Section-4 of the Kerala Electricity Act-1963 (KED Act-1963) mandates that, every consumer shall pay electricity duty at the rates specified in the Schedule under KED Act 1963. Section-5 of the KED Act-1963, empowers the distribution licensee to collect the electricity duty along with the electricity charges and remit the same to the Government. Any default on collecting the section-4 duty from the consumers and remitting the same shall be borne by the licensee only. Hence the demand of section-4 duty amounts to Rs 752.40 lakh claimed by the licensee cannot be approved in the process of truing up of accounts for the year 2013-14. From the information provided, it is understood that the licensee owes an amount of Rs.23.78 crores including penal interest as Section 4 duty to the Government, due to short remittance of collected duty from the period 1997-98 to 2011-12. This has been divided by three and Rs.7.52 crores is included in the current year's account. This amount cannot be passed on to the consumers, since the duty was collected from them on time and was not paid to the Government. Again loading this on the trued up accounts, tantamount to double collection of duty.

35. Another major item claimed under the A&G expenses is the rent for buildings and land, amounts to Rs 172.03 lakh. The Commission in the ARR&ERC order dated 15th May 2013 for the year 2013-14 had clearly indicated the guidelines on which the rent is to be estimated and also directed to furnish the certificate from PWD on fixation of rent. However, no attempt is seen made to consult PWD for fixation of fair rent. The Commission had discussed the matter in detail vide the order

dated 19-05-2014 on ARR&ERC of the licensee for the year 2014-15. The relevant portion of the order is extracted below for ready reference.

"As per the information filed by the Board, the monthly rent payable in Thrissur as per the PWD Technical circular No. B1/59974/90 dated 25-05-2011 is Rs.51.71 per sq.meter or Rs.4.67 per sq.ft per month. Thrissur Corporation did not objecte to the above data furnished by the Board in the said proceedings, but maintained that the Corporation is empowered to fix the rates for its assets. It can be seen that the alternate rent administered by Government agency is about 10% of the rent proposed by the petitioner. On the same parlance, the rent for land can also be considered as 10% of the proposed rates of the petitioner. Accordingly, the rates now arrived at is provisionally used for approving the ARR till the licensee has furnished the information as directed or any alternate decision on rent is fixed by the Commission. Accordingly, the rates now arrived at is provisionally used for approving the ARR till the licensee has furnished the information as directed or any alternate decision on rent is fixed by the Commission. The rent allowable for the year 2014-15 for the purpose of ARR will be Rs.17.2 lakh as shown below:

Rent Proposed and provisionally approved by the Commission for 2014-15

Particulars	*Proposed by the Licensee**			*Approved by the Commission*	
	Area	*Rate (per month)*	*Amount (Rs.) per month*	*Reasonable rate as fixed by PWD (Rs./sq.ft)*	*Rent assessed (Rs.)*
Office space (Sq.ft)	*7000*	*50*	*3,50,000*	*5*	*35,000*
Store building (Sq.ft)	*2000*	*50*	*1,00,000*	*5*	*10,000*
Land area (Sq.mt)	*698*	*250*	*1,74,419*	*25*	*17,450*
33 KV S/s (Sq.mt)	*1214*	*250*	*3,03,450*	*25*	*30,350*
66 /110 KV S/s (Sq.mt)	*2023*	*250*	*5,05,750*	*25*	*50,575*
Rent per month			*14,33,619*		*1,43,375*
Total rent for the year			***172,03,423***		***17,20,500***

Accordingly, for the purpose of truing up for the year 2013-14, the Commission here by approves the rent for the year 2013-14 at Rs 17.20 lakh using the same rates as approved in 2014-15.

36. The A&G expense approved by the Commission (excluding section-3 duty, rent etc) vide the order dated 24-12-2014 on truing up of accounts for the year 2012-13 is Rs 39.13 lakh. Since the A&G expense being a controllable item, only reasonable increase can be allowed on the approved expenditure for the year 2012-13. Hence, the Commission hereby approves an increase of 8.55% increase (weighted average increase of WPI and CPI in the ratio of 30:70 for the year 2013-14) on the A&G cost approved for the year 2012-13. Accordingly, the A&G expenses (excluding other claim) approved for the year 2013-14 is Rs 42.47 lakh.

37. The approved A&G expense for the year 2013-14 is detailed below.

Table - 14

TCED – Details of A&G expenses approved in truing up of accounts for 2013-14 (Rs.Lakh)

Particulars	2012-13	2013-14	
	Truing up approval(Rs. Lakh)	Truing up claim (Rs. Lakh)	Truing Up approval (Rs. Lakh)
A&G expenses	39.13	70.62	42.48
Section 3 duty		68.23	
Demand for section-4 duty		752.40	
Rent for the year		172.03	17.20
Total	39.13	1063.30	59.68

Return on Equity:

38. The licensee has claimed Rs 70.25 lakh as RoE "as per KSERC (Terms and Conditions of Tariff) 2014 dated 14.11.2014, that return on Capital is computed at the rate of 3% on Net Assets at the beginning of the year less consumer contribution". However, as per the calculation sheet under Form E, it is seen that RoE claimed is 14% of 30% capital employed.

39. The licensee has not shown any equity contribution in the distribution business. The Commission had, while issuing the ARR&ERC order, approved Rs 10 lakh as provisional amount as Return on equity. In the absence of actual equity invested in the distribution business, the Commission is not able to revise the

amount of RoE. However, the Commission allows a notional return of Rs 10.00 lakh for the year 2013-14, as was being done during the previous years.

Table - 15
TCED – Details of RoE approved in truing up of accounts for 2013-14 (Rs.Lakh)

Particulars	ARR		Truing up	
	Projected	Approved	Claimed	Approved
Return on Equity	346.81	10	70.25	10

Total Revenue Requirements:

40. The total expenses approved after truing up process for 2013-14 is as given below:

Table - 16
TCED - Approved expenses for 2013-14 (Rs. Lakh)

	ARR		Actual(Trued Up)	
Particulars	Projected	Approved	Claimed	Approved
Power Purchase Cost	8526.08	8526.08	6917.33	6721.35
Interest & Financing Charges	60.00	45.03	130.18	37.86
Depreciation	250.20	269.67	104.17	103.48
Employee Cost	1047.00	831.28	1217.05	957.80
R&M Expenses	201.45	133.94	176.25	55.01
A&G Expenses	320.01	196.82	1063.30	59.68
Return on Equity	346.81	10.00	70.25	10.00
Gross Revenue Requirements	**10761.55**	**10012.82**	**9678.59**	**7945.18**

Revenue from Sale of Power:

41. Vide the application for truing up, the licensee has claimed the revenue from sale of power as Rs 8631.14 lakh as against Rs 7943.51 lakh approved by the Commission vide the order dated 15th May, 2013 on ARR of TCED for the year 2013-14. The initial assessment of revenue was based on the tariff as per the order issued by the commission on 25.7.2012**.** Subsequently, the Commission has increased the tariff as per the order dated 30.4.2013 effective for the period from 1.5.2013. The actual revenue now submitted is as per the realization of

revenue at the increased tariff w.e.f 1.5.2013. It is due to the impact of revised higher tariff rates that the trued up figures of revenue is greater by about 9% than ARR figure even though energy sale in units have come down by about 8% than that approved in the ARR. The details of energy sale and the revenue there from as per application submitted by the licensee are detailed below:

Table - 17
TCED - Revenue from Sale of Power for 2013-14

Particulars	ARR			Trued Up		
	Energy Sales (MU)	Revenue in Rs lakh	Avg. realization (Rs/kWh)	Energy Sales (MU)	Revenue in Rs lakh	Avg. realisation (Rs/kWh)
Domestic	41.16	1476.05	3.59	33.24	1307.85	3.94
Non Domestic	77.40	6071.75	7.85	42.05	3956.95	9.41
Agriculture	0.08	1.54	1.83	0.08	2.17	2.60
Industry	5.03	268.40	5.34	3.44	192.58	5.59
Street Lighting	4.51	124.67	2.77	3.70	112.03	3.03
HT				35.70	3059.56	8.57
Total	128.18	7942.41	6.20	118.21	8631.14	7.30
Recovery of electricity Duty and other state Levies					1075.21	
Other receipts					78.07	
Gross Revenue		7942.41			9784.42	
Less electricity duty payable					717.19	
Less other state levies payable					358.02	
Less other receipts					78.07	
Net Revenue from Sale of Power		**7942.41**			**8631.14**	

The Commission approves the revenue from sale of power as per the actual accounts for 2013-14 as Rs 8631.14 Lakh.

42. **Non Tariff Income:** The actual non-tariff income accounted by the licensee is Rs 907.26 lakh as against the projected and approved amount of Rs 262.95 lakh. The Commission approves Rs 907.26 lakh as the non tariff income for the year 2013-14.

Table - 18
TCED – Details of Non Tariff Income approved in truing up of accounts for 2013-14 (Rs.Lakh)

Particulars	ARR		Truing up	
	Projected	Approved	Claimed	Approved
Non Tariff Income	262.95	262.95	907.26	907.26

43. **Revenue Surplus / (gap) for 2013-14:** The revenue surplus arrived at by the Commission after the truing up process is Rs 1593.22 lakh as against a gap of Rs 140.18 lakh projected by the licensee for the year 2013-14. The revenue gap/surplus after the truing up process is as shown below:

Table- 19
TCED - Approved Revenue Surplus for 2013-14 (Rs. Lakh)

Particulars	ARR		Trued up	
	Projected	Approved	Claimed	Approved
Power Purchase Cost	8526.08	8526.08	6917.33	6721.35
Interest & Financing Charges	60.00	45.03	130.18	37.86
Depreciation	250.20	269.67	104.17	103.48
Employee Cost	1047.00	831.28	1217.05	957.80
R&M Expenses	201.45	133.94	176.25	55.01
A&G Expenses	320.01	196.82	1063.30	59.68
Other debits	10.00	0.00	0.00	0.00
Return on Equity	346.81	10.00	70.25	10.00
Total Expense	**10761.55**	**10012.82**	**9678.59**	**7945.18**
Revenue from sale of power	7523.00	7943.00	8631.14	8631.14
Non Tariff income	262.95	262.95	907.26	907.26
Total Revenue	**7785.95**	**8206.46**	**9538.40**	**9538.40**
Surplus/ (Gap)	**-2975.60**	**-1806.36**	**-140.18**	**1593.22**

44. The revenue surplus for the year 2013-14 after the truing up process is Rs 1593.22 lakh. The accumulated revenue surplus after truing up till 2012-13 is Rs

6835.25 lakh, which will be Rs 8428.47 lakh after the truing up for the year 2013-14.

Orders of the Commission

45. The Commission notes with displeasure that the quality of accounts submitted is not satisfactory and this prompted the Commission to ask for additional details which too were not fully supplied on time.

The reasons for wide variations of figure from the past trends and the licensee's point of view on certain claims raised on the licensee were not explained properly. In future the licensee should ensure that such explanations are submitted in tune. The Corporation Current Account maintained by the licensee includes the amount disallowed as rent and the amount received from corporation amounting to Rs.100 crores is mentioned as paid back by the Corporation towards loan given to them and this is added to the amount of rent payable to the Corporation, rather than setting it off. In spite of having spending a sizable amount to set right the Fixed Assets Register, the Register is still incomplete and important information with regard to the vintage of material assets cannot be determined. The licensee shall submit their reasons or practical difficulties if any, still faced by them in presenting a proper Fixed Asset Register. The licensee has also not provided or has not made a proper age wise analysis of the outstanding due to it. Steps may be taken to set right the above observations and ensure that proper accounts are maintained by the licensee such that a true and fair view of the licensee business is revealed.

47. The Commission, after considering the application filed by the licensee for the truing up of accounts for the year 2013-14, the objections raised by M/s KSEB Ltd and other stakeholders, the clarifications and details submitted by the licensee thereon, hereby approves a total expenditure of Rs 7945.18 lakh, a total revenue of Rs 9538.40 lakh and a revenue surplus of Rs 1593.22 lakh. The accumulated revenue surplus after truing up till 2012-13 is Rs 6835.25 lakh, which will be Rs 8428.47 lakh after the truing up for the year 2013-14. The

licensee shall keep the surplus so arrived at after the truing up process in a separate fund and utilize it as per the orders of the Commission.

The application disposed of. Ordered accordingly.

Sd/-	Sd/-	Sd/-
K.Vikraman Nair **Member**	**S.Venugopal** **Member**	**T M Manoharan** **Chairman**

Approved for issue

Secretary