

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

OA 10/2018

**In the matter of Truing up of accounts of M/s Thrissur Corporation
Electricity Department (TCED) for the financial year 2016-17**

Applicant : M/s Thrissur Corporation Electricity Department (TCED)

Respondent : M/s Kerala State Electricity Board Limited

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

ORDER DATED 01/08/2019

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 based on the provisions of the KSERC (Terms and Conditions for determination of tariff) Regulations 2014 (*hereinafter referred to as Tariff Regulations 2014*) filed the application for the truing up of accounts for the financial year 2016-17 dated 26-02-2018. Commission vide letter dated 27-04-2018 directed to cure the deficiencies and submit the details/clarifications for processing the application. The licensee vide letters dated 28-05-2018 and 30-08-2018 submitted clarifications. Considering the clarifications and details submitted by TCED, Commission admitted the petition as OA.10/2018
2. The Commission had approved the ARR & ERC for the year 2016-17 vide order dated 21-10-2015 approving a **revenue gap of Rs.98.80 lakh**. In the application for the truing up submitted by TCED for the year 2016-17, the licensee has **arrived at a revenue surplus of Rs.650.38 lakh**. A comparison of the figures for the year 2015-16 and 2016-17 as per the application for truing up is tabulated hereunder.-

**Table -1
Comparison of ARR&ERC for 2015-16 & 2016-17 (Rs.lakh)**

Particulars	2015-16			2016-17		
	Approved in ARR	As per Accounts	Trued Up	Approved in ARR (A)	Truing up (B)	Variance (B-A)
Revenue from Sale of Power	10,499.09	10,798.55	10,798.55	11549.00	11122.77	-426.23
Other Income	662.89	931.96	1,259.31	690.32	891.71	201.39
Total Income	11,161.98	11,730.51	12,057.86	12239.32	12014.48	-224.84

Purchase of Power	9,617.62	9,246.97	9,270.34	10579.39	9334.40	-1244.99
R &M Expenses	51.59	69.00	51.59	54.61	83.19	28.58
Employee Cost	889.37	1,266.69	889.37	941.40	1112.55	171.15
A &G Expenses	243.03	306.82	72.49	257.24	338.64	81.40
Depreciation	221.28	189.01	189.01	221.28	221.02	-0.26
Interest & Finance Charges	206.39	215.34	158.09	226.93	188.86	-38.07
Return on Equity	63.91	82.70	82.70	57.27	85.43	28.16
Total Expenditure	11,293.19	11,376.53	10,713.59	12338.12	11364.10	-974.02
Net Surplus/(Deficit)	-131.21	353.98	1,344.27	-98.80	650.38	

3. Hearing on the matter

Hearing on the application for the truing up of accounts for the year 2016-17 was held at the Court Room, Office of the Commission on 14-11-2018. M/s Thrissur Corporation Electricity Department (TCED) was represented by Sri. Jomon. Sr. Superintendent, Sri. T.S.Jose, Electrical Engineer, Sri. Aebee, Audit Assistant, and other officers. Sri. Jomon, presented the details of the application on the truing up of accounts for the year 2016-17. Sri. Aebee. and Sri. T.S.Jose responded to the queries of the Commission.

The main points made by TCED are:-

- The actual energy sale accounted for the year 2016-17 is 140.64 MU, the energy purchased is 152.21 MU and the actual distribution loss for the year is 7.60%.
- The actual power purchase cost as per the truing up application submitted is Rs.9334.40 lakh for the purchase of 152.21 MU.
- In the application for the truing up of accounts, the employee cost booked by the licensee is Rs.1112.55 lakh.
- An amount of Rs.83.19 lakh has been claimed by the licensee for the repair and maintenance of substations, 11 kV lines & associated works, LT line service etc.
- The A&G expense claimed by the licensee as per the application for truing up was Rs 338.64 lakh which include various items such as rent, rates and taxes, insurance, telephone charges, internet and related charges, legal charges, audit fees, consultancy charges, printing and stationary, advertisement charges, DSM expenses, statutory fee including payments to SERC etc. The major claim booked under A&G expense are towards Rents & taxes and section 3(1) duty amounting Rs.172.03 lakh and Rs.83.32 lakh respectively.

- The licensee had claimed an interest and finance charges of Rs. 188.86 lakh in the trueing up application which is exclusively made for on interest on security deposit.
- TCED has claimed depreciation of Rs.221.02 lakh for the year 2016-17. The licensee stated that depreciation is not claimed for the assets created out of consumer contribution and grants.
- The licensee had claimed a return of Rs.85.43 lakh which is 3% of the net fixed assets.
- Accordingly, the licensee has claimed a total expense of Rs. 11364.10 lakh for the year 2016-17.
- The licensee has claimed revenue from sale of power of Rs.11122.77 lakh for 140.64 MU and a non-tariff income of Rs 891.71 lakh. Thus in the application for trueing up the accounts for 2016-17, TCED claims a revenue surplus of Rs.650.38 lakh

4. Smt. Mehrunisa, Executive Engineer TRAC, Sri. Manoj.G, AEE, TRAC and Sri.Rajesh.R AEE, TRAC, represented KSEB Ltd. Sri. Manoj.G presented the counter statement/comments of KSEB Ltd. and submitted written remarks on the application. The major points raised by KSEB Ltd are the following:

- The licensee has claimed R&M expenses, employee cost and the A&G expenses higher than that approved in the order on ARR&ERC. The Commission may limit the expenses to the approved level.
- The Commission may take uniform approach regarding section 3 duty and the claim of the licensee on Electricity duty may be disallowed. With regard to rent, it was submitted that the Commission in the order for the control period 2015-16 to 2017-18 dated 21.10.2015 had restricted the rent to 10% of the claim. The same approach may be followed to fix the rent.
- Only the actual interest on security deposit paid to consumers during the year be allowed.
- The quantum of the energy purchased from KSEB Ltd and the claim made by the licensee under power purchase tally with the records of KSEB Ltd.
- KSEB Ltd pointed out that the Commission in the true up order for 2015-16, has directed to complete the formalities of signing the PPA with KSEBL at the earliest and submit the initialed PPA before Commission for approval, which TCED has not complied with.

- KSEB Ltd further submitted that as per the true up order for 2015-16, the cumulative revenue surplus is Rs 11312.48 Lakh and requested the Commission to revise the BST of TCED and pass on the surplus to consumers in Kerala.
5. The Commission sought various clarifications based on the presentation made by TCED. The Commission directed TCED to submit the following details.
- Report on energy audit
 - The number of permanent employees and the split up of the salary paid.
 - Arrears of electricity payments due including the due amount pending for more than three years.
6. The licensee vide letter dated 03-12-2018 submitted the summary of energy audit report of three feeders and details of arrears of TCED as sought by the Commission. Further, the details of assets additions during 2015-16 and 2016-17 and the full report of the energy audit study was also provided by TCED through email.

Analysis and decision of the Commission

7. The Commission considered the application of the licensee for truing up of accounts for the year 2016-17, the additional clarifications and submissions along with the comments of KSEB Ltd. The analysis and decisions of the Commission on the application for truing up of accounts for the year 2016-17 are detailed below:
8. **Energy Sales and Consumer Mix:** The actual energy sale accounted for the year 2016-17 is 140.64 MU as against the energy sale of 153.08 MU approved by the Commission in the order on ARR & ERC. A comparison between the actual energy sale for 2015-16 and 2016-17 is tabulated hereunder.

Table -2
Comparison for 2015-16 & 2016-17

Category	Trued up 2015-16		For Truing Up 2016-17	
	No of consumers	Sales (MU)	No of consumers	Sales (MU)
Domestic	20599	38.79	20835	39.79
Non domestic	16109	49.60	16508	51.78
Agriculture	205	0.07	199	0.07
Industry	565	3.52	535	3.74
Street lighting	193	4.01	178	2.02
HT	103	43.08	110	43.10
Self Consumption		0.12		0.13
Total	37774	139.19	38365	140.64

9. Compared to the previous year, there is an increase in the number of consumers of the domestic (1.1%) and non-domestic categories (2.5%) whereas there is only a minor increase (1%) in the sale of power. This is because the increase in the sales is negated by the decrease in street light consumption. The increase in the sales of the licensee is due to the increase in sales to domestic (2.6%) and non-domestic category of consumers (4.4%). The major sales of the licensee is to the LT non-domestic category (40%) followed by the HT (30.64%) and the LT domestic category (28.3%) of consumers. The Commission approves the actual energy sales of 140.64 MU of the licensee as per accounts for the purpose of truing up for the financial year 2016-17.
10. **Revenue from sale of power:** - The licensee has claimed total revenue from sale of power of Rs.11122.77 lakh for 140.64 MU against approved revenue from sale of power of Rs.11549.00 lakh for 153.08 MU. As per the application for truing up of accounts for 2016-17, the major revenue is from the sale to the non-domestic and high tension category of consumers. The reason for the decrease in the revenue is due to the lower sale when compared to the approved sale for the year. The split up details of the revenue from sale of power claimed by the licensee for the year 2016-17 is tabulated hereunder.

Table – 3
Details of revenue from sale of power for 2016-17

Category	No. of Consumers	Sales MU	Revenue Rs.lakh	Avg. Tariff Rs/unit
Domestic	20835	39.79	1982.76	4.98
Non-domestic	16508	51.78	5030.23	9.71
Agricultural	199	0.07	2.11	3.04
Industry	535	3.74	224.96	6.01
Street Lighting	178	2.02	73.12	3.62
HT	110	43.10	3801.40	8.82
Self Consumption		0.13	8.18	6.13
Total	38365	140.64	11122.77	7.91

11. The Commission approves the actual revenue from sale of power of Rs.11122.77 lakh for the purpose of truing up of accounts for the year 2016-17.
12. **Non-Tariff Income:** - The actual non-tariff income accounted by the licensee is Rs .891.71 lakh as against the approved amount of Rs 690.32 lakh. The licensee has included meter rent, interest from deposits, etc under this head. The licensee has

also included charges such as testing fee, recovery consequent to detection of theft of power, meter box charges, pole rental charges etc under non-tariff income. The split-up details of Non-Tariff income claimed are shown below.

Table-4
Non-tariff income for 2016-17 (Rs.lakh)

Particulars	2015-16 Truing Up	2016-17 ARR Approved	2016-17 Truing up
Meter Rent/Service Line Rental	70.62	79.86	70.53
Miscellaneous Charges. Reasonable cost for providing supply, Testing fee, Reconnection fee, Penal charges etc	194.80	151.25	177.62
Interest from SD and FD	569.79	388.63	541.17
Interest from Banks	27.94	-	34.39
Commission for collection electricity duty	9.31	9.68	9.56
Income from sale of scrap etc.	-	2.42	-
Interest on advances to Suppliers	59.51	58.48	58.45
Grand Total	931.96	690.32	891.71

13. As per the order dated 02-06-2017 on the truing up of accounts for 2015-16 the accumulated revenue surplus till 2015-16 is Rs.11312.48 Lakh. During the year 2015-16, the asset addition of TCED for 2015-16, after excluding the consumer contribution is Rs.298.07 lakh and for the year 2016-17 is Rs. 338.50 lakh. The details of the asset additions made during the years are shown in Table 20 & Table 22 below.

14. As per the details in the petition, the licensee has not availed any loans and the asset additions are made from the own funds of TCED. As the asset to the tune of Rs 636.57 lakh are added from own funds, the amount is deducted from the accumulated surplus and interest on accumulated surplus is considered for the balance amount of Rs. 10675.91 lakh. The interest computed at an interest rate of 9.30%, considering the base rate of SBI as on 01-04-2016 works out to Rs 992.86 lakh whereas TCED has accounted Rs 541.17 as interest under non tariff income. Since Rs.541.17 lakh have already been accounted, the balance amount of Rs 451.69 lakh has been included under non-tariff income. Accordingly the non-tariff income approved for the purpose of truing up of accounts for the year 2016-17 is Rs. 1343.40 lakh (Rs 891.71 lakh+ Rs 451.69 lakh).

15. **Energy purchase from KSEB Ltd and Distribution loss:** - As per the application, the licensee purchased 152.21 MU against an approved purchase of 166.10 MU. As per

the application for truing up for the year 2016-17, the actual T&D loss for the year 7.60% as against the T&D loss target of 7.84% approved by the Commission in the order on ARR&ERC. The details of the distribution loss furnished by TCED are shown below.

Table - 5
Energy Requirement and Distribution Loss

Particulars	Approved in ARR 2015-16	Trued Up 2015-16	Approved in ARR 2016-17	For Truing Up 2016-17
Gross energy (MU)	151.00	150.40	166.10	152.21
Total Energy Sales (MU)	139.16	139.19	153.08	140.64
Distribution loss (MU)	11.84	11.22	13.02	11.57
Distribution loss %	7.84%	7.46%	7.84%	7.60%

16. The licensee in its letter dated 03-12-2018 had reported the details of the Energy Audit Study conducted by Kerala State Productivity Council (KSPC) for three feeders in the licence area. Based on the observations made by KSPC for reduction in the distribution loss, the licensee had reported that it had reduced the length of distribution lines, changed the copper conductors to ACSR, re-located distribution transformers to the load centre and installed new transformers so as to reduce the losses. Further, all the faulty meters were replaced with electronic meters. In order to minimize metering errors, routine check reading is carried out for monthly and spot billing consumers. TCED has further stated that they are planning to introduce HVD system.

17. As per the petition, the distribution loss for the year reported is 7.60%. However, the Commission notes that TCED has commissioned a 200kW solar energy project on 16-10-2016 in the year 2016-17. The energy input from the plant has not been accounted in the energy input. The plant was in operation for 5 ½ months during 2016-17. As per the details furnished by TCED the energy generation from the plant is as shown below:

Table- 6
Generation from Solar energy project

Month	Generation (kWh)
Oct, 2016	11960
Nov,2016	23130
Dec,2016	22810
Jabn,2017	23820
Feb,2017	23090
Mar,2017	25030
Total	129840

18. If the generation from the plant is also included the distribution loss would be as shown below:

Table-7
Energy input and distribution loss for 2016-17

Particulars	For Truing Up 2016-17
Gross energy purchase from KSEB Ltd (MU)	152.21
Energy from Solar Energy project (MU)	0.13
Total Energy input (MU)	152.34
Total Energy Sales (MU)	140.64
Distribution loss (MU)	11.70
Distribution loss %	7.68%

As shown above, once the energy input from the plant is included, the distribution loss would be 7.68%. **In this context, the Commission directs that while showing the total energy input, TCED shall include the generation from the own sources such as Solar energy plant as well as purchases from KSEB Ltd.**

19. The Commission has noted the reports of the energy audit conducted by the Kerala State Productivity Council (KSPC) in three feeders namely Paravattani, Ramanilayam and Koorkkencherry. As per the report, the actual loss for Paravattani is 17.02%, for Ramanilayam feeder is 4.26% and for Koorkkencherry is 11.79%. Certain corrective measures were also suggested in the report such as replacement of Copper conductors with ACSR, replacement of faulty meters, relocation of Distribution transformers, and improving HT & LT ratio by suitable means. The licensee has also reported that certain measures were taken as suggested in the report. The Commission notes that the loss levels reported in some of the lines are very high. The licensee is required to take continuous effort in monitoring the level of losses and to maintain the loss levels within the accepted levels. Accordingly it is directed that the licensee shall furnish quarterly reports on faulty meters in the system, replacement of faulty meters, number of check meter reading taken, details of the periodical inspections conducted and irregularities/inconsistencies reported etc., to the Commission. The licensee shall also monitor the losses in the system periodically especially for the feeders for which study has already been conducted and improvements undertaken.

20. The actual distribution loss of the licensee for the year 2016-17 (7.68%) is also lower than the levels approved by the Commission (7.84%), whereas it is higher than the actual distribution loss for 2015-16 (7.46%). Since the distribution loss is a controllable performance parameter, the licensee can retain a portion of the gain as per the provisions of clause 74(4) of the Tariff Regulations, 2014. The relevant portions of the regulation is as shown below:

74. Distribution loss:

.....

(4) Any variation between the actual level of distribution loss and the approved level of the distribution losses shall be dealt with, as part of the truing up of the respective financial year in the following manner:-

(a) if the actual distribution loss is higher than the approved level of distribution loss for any particular financial year of the control period, then the quantum of power purchase corresponding to the excess distribution loss for that financial year shall be disallowed at the average cost of power purchase for the respective financial year;-

(b) if the actual distribution loss is lower than the approved level of distribution loss for any particular financial year of the control period, then the savings in the power purchase cost corresponding to the difference in distribution loss for that financial year at the average cost of power purchase for the respective financial year, shall be shared between the distribution business/licensee and the consumers in the ratio of 2:1

21. Hence, efficiency gain on the controllable parameters has to be shared at the ratio of 2:1 ie, 2/3rd of gain is to be retained by the licensee and 1/3rd is to be passed on to the consumers. The Commission approves the actual distribution loss of 7.68% and accordingly, as per the provision of the regulations, the power purchase cost for the year is computed as shown below.

22. **Power Purchase Cost:** - The actual power purchase cost as per the truing up application submitted is Rs.9334.40 lakh for the purchase of 152.21 MU. The Commission in the order on ARR&ERC had approved the cost of power purchase of Rs.10579.39 lakh for a purchase of 166.10 MU. A comparison of the details of the power purchase cost claimed is shown below.

Table – 8
Details of cost of power purchase

Particulars	As per Accounts 2015-16	ARR Approved 2016-17	As per Accounts 2016-17
Energy requirement (MU)	150.40	166.10	152.21
Rate of Demand charge (Rs./kVA)	300	300	300
Demand charges (Rs.lakh)	1125.14	1609.99	1115.08
Rate of energy charges (Rs./kWh)	5.40	5.40	5.40
Energy charges (Rs.lakh)	8121.83	8969.40	8219.32
Total cost of Power (Rs.lakh)	9246.97	10579.39	9334.40
Average power purchase cost (Rs./kWh)	6.15	6.37	6.13

23. As mentioned above, as per the Tariff Regulations 2014, the licensee has to pass on 1/3rd of the efficiency gain to the consumers and balance can be retained. Accordingly the power purchase cost for the year 2016-17 duly considering the regulation 74(4) is as shown below:

Table 9
Details of the cost of power purchase approved for 2016-17

Actual Energy loss (MU)	7.68%	11.70
Energy loss at approved distribution loss (MU)	7.84%	11.93
Efficiency gain (MU)		0.23
Efficiency gain at average power purchase cost (Rs.lakh) (2.30 lakh units x Rs.6.13/unit)		14.10
Efficiency gain to be retained by licensee (2/3rd) (Rs.lakh)		9.40
Actual Power purchase cost (Rs.lakh)		9334.40
Approved Power purchase cost (Rs.lakh)		9343.80

24. **O&M expenses:** Operation & maintenance includes controllable expenses like cost of Employees, Repair & Maintenance, and Administrative & General expenses. The Commission as per Regulation 81(8) of the Tariff Regulations, 2014 has approved the operation & maintenance cost of Thrissur Corporation Electricity Department for 2016-17. However, the actual expenses claimed by TCED is higher than the level specified in the Regulations. The comparison of the claim and the amount approved in the Regulations is tabulated hereunder.

Table 10
Comparison of the O&M Expenses for 2016-17 (Rs. lakh)

O&M Expenses for 2016-17	As per the Regulations	As per the application for truing up	% above the norms approved
Employee expenses	941.40	1112.55	18%
R&M expenses	54.61	83.19	52%
A&G expenses	257.24	338.64	32%
Total O&M expenses	1253.25	1534.38	22%

25. The details of each of the items are examined below:

26. **Employee cost:** - As per the norms in the Tariff Regulations, 2014, the Commission had approved an amount of Rs 941.40 lakh towards employee cost for the year 2016-17. In the application for the truing up of accounts, the licensee has booked an amount of Rs.1112.55 lakh as employee cost for carrying out the distribution business as shown below.

Table 11
Details of employee cost for 2015-16 & 2016-17 (Rs. lakh)

Particulars	For Truing Up 2015-16	Trued Up 2015-16	ARR Approved 2016-17	For Truing Up 2016-17
Assistant Secretary	6.69	889.37	941.40	5.28
DA Arrear	36.99			20.17
Daily Wages	39.95			89.16
Earned Leave	79.09			92.91
Festival Allowances	3.42			4.22
Medical Aid	-			1.61
Pension Contribution	113.67			112.52
Permanent	0.05			0.04
Pooram Allowance	3.45			4.34
Promotion Arrears	0.29			0.16
Salary	715.19			775.98
Spread Over	2.06			1.90
Stipend	5.54			4.25
Subsistence	1.90			-
Salary Arrears	258.39			-
Total	1266.69			889.37

27. Major portion of the employee cost is towards salary which constitutes 72%. There is an increase of 10.34% in employee cost in 2016-17 compared to the level in 2015-16 (excluding salary arrears Rs.1008.30 lakh). The per unit cost in 2016-17 (79.10 paise per unit) is also higher compared to 2015-16 (72.4 paise per unit). As per the details furnished by the licensee the sanctioned strength of the number of employees is 229 whereas the actual number of employees is 212.

28. The licensee has claimed an amount of Rs.112.52 lakh towards pension contribution for the year. As per letter dated 03-12-2018, TCED submitted that there were 134 pensioners and 84 family pensioners. As per the directions of the Department of Urban Affairs, TCED also disbursed the pension to the pensioners from own fund. The allotment from the Urban affairs department was not received in time and the accumulated arrears receivable from the Government on account of pension disbursements is Rs.25.11 crore. Even after repeated communications to the Government, the amount has not been disbursed fully. The Commission notes that the issue of pension disbursements without the matching contribution from the Government is not correct and the Commission places on record that TCED shall place the matter before the council and steps may be taken urgently to address the issue with Government of Kerala.

29. The salary is the major component which was increased by 8% over the year. The licensee reports that the sanctioned strength of the employees is 229 whereas the actual number of employees is 212. In this context it may be noted that, though the actual number of employees is lower than the sanctioned strength, the cost of daily employees has increased by 123% over the year, showing that the shortfall in no. of employees is more than compensated through daily wage employees. It is also to be noted that the licensee could not furnish any additional reasoning for increase daily wages.
30. Employee cost being a controllable item, the expenses are to be approved based on the norms specified by the Commission in the Tariff Regulations, 2014 can only be allowed. Accordingly the Commission approves only Rs.941.40 lakh as employee cost for the year 2016-17.

Table 12
Employee cost approved for 2016-17

Particulars	For Truing Up 2016-17	Approved 2016-17
	Rs.lakhs	Rs.lakhs
Employee Cost	1,112.55	941.40

31. **Repair and Maintenance Charges:** - The actual amount claimed by the licensee is Rs.83.19 lakh for the repair and maintenance of substations, 11 kV lines & associated works, LT line service etc as against the approved amount of Rs 54.61 lakh as per the order on ARR. The actual claim made by the licensee is on the higher side when compared to the norms in Tariff Regulations, 2014. The claim made by the licensee is tabulated hereunder.

Table-13
Details of R&M expenses for the year 2015-16 & 2016-17 (Rs. lakh)

Particulars	2015-16 Truing Up	Trued Up 2015-16	ARR Approved 2016-17	2016-17 Truing Up
Other civil works	0.75	51.59	54.61	1.23
Substations	3.05			2.59
11kV lines & associated works	4.14			5.24
11/0.4kV transformer	0.40			0.16
LT Lines service connections etc	0.10			-
Vehicles	1.53			4.65
Furniture & fixtures	1.17			0.79
Office Equipment	2.97			4.55
Others	54.90			63.98
Grand Total	69.00			51.59

32.As shown in the Table above out of the total claim of Rs.83.19 lakh amount of Rs.63.98 lakh is claimed under consumption of store. The split up details of the claim made under the head is as shown below.

Table-14
Details of Other R&M expenses for the year 2015-16 & 2016-17 (Rs. lakh)

Particulars	2015-16	2016-17
R & M Mains Underground	26.13	34.41
R & M Store	19.29	20.91
R & M Labour	9.47	8.66
Total	54.90	63.98

33.The licensee has stated that the R & M Mains underground includes retirement of assets during the period 2016-17 (Rs.16.97 Lakh). R & M Stores includes consumables used such as nuts, bolts, oil and items which have been treated as obsolete was charged to P&L in this head (Written off Obsolete items)

34.Since R&M expense being a controllable expense, the expenses approved for the year 2016-17 based on the norms specified by the Commission in the Tariff Regulations, 2014 can only be allowed. Accordingly, the R&M expenses is approved at Rs.54.61 lakh.

Table – 15
R&M expenses allowed for truing up for 2016-17

Particulars	ARR Approved (Rs lakh)	As per accounts (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	54.61	83.19	54.61

35.**Administration and General Expenses:** - The A&G expense claimed by the licensee as per the application for truing up is Rs 338.64 lakh as against the approved amount of Rs.257.24 lakh in the order on ARR&ERC for the year 2016-17. A&G expenses include various items such as rent, rates and taxes, insurance, telephone charges, internet and related charges, legal charges, audit fees, consultancy charges, printing and stationary, advertisement charges, DSM expenses, statutory fee including payments to SERC etc.

Table 16
Actual details of A&G Expenses

(Rs. lakh)

Particulars	2015-16 Truing Up	Trued Up 2015-16	ARR Approved 2016-17	2016-17 Truing Up
Rents, rates and taxes	172.03	72.49	257.24	172.03
Insurance	2.63			2.63
Telephone telex charges, etc	2.05			4.33
Legal charges	0.95			2.06
Consultancy charges	0.62			14.51
Technical fee	1.69			0.83
Other Professional charges	1.84			5.65
Conveyance and Vehicle Exp	3.18			4.38
KSERC Charges	3.11			5.01
Training to Staff	0.18			5.68
Other expenses	6.29			18.08
Section 3 Duty	80.50			83.32
Books & periodicals	0.05			-
Printing & stationery	9.51			5.06
Advertisements	12.96			8.31
Miscellaneous expenses	9.22			6.79
Grand Total	306.82	72.49	257.24	338.64

36. The major claim booked under A&G expense are towards Rents & taxes and section 3(1) duty amounting Rs.172.03 lakh and Rs.83.32 lakh respectively. The expenses that have significantly increased over the previous year are consultancy charges (Rs.14.51 lakh), other professional charges (Rs.5.65 lakh) and other expenses (Rs.18.08 lakh). The licensee has stated that the consultancy charges are towards the engagement of Kerala State Productivity Council for conducting Energy Audit of feeders.

37. The Commission has sought clarification on the high rent component booked in the accounts and TCED submitted that the revenue officer on 31-03-2017 has proposed to appoint a surveyor for determining the rent of offices and space used by TCED. However, the licensee has not yet submitted any further details with regard to the further developments with regard to the same.

38. The Commission while issuing the order on the truing up of accounts for 2015-16 had considered the matter. The relevant portion of the order is quoted hereunder.

“24. The Commission in the ARR&ERC order dated 15-5-2013 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 Commission in the ARR&ERC order dated 15-5-2013 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 object 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

39.The Commission till 2014-15 had approved the rent at 10% of the claim ie., Rs.17.20 lakh since TCED could not substantiate the claim properly. In the truing up

the accounts for the year 2015-16 also, TCED failed to comply with the directions of the Commission regarding the fixation of rent and accordingly the Commission had approved an amount of Rs.18.21 lakh considering an escalation rate of 5.85%. Since the information sought by the Commission is not forthcoming, the Commission, decides to follow the same methodology as followed in the previous year. Accordingly, Rs. 19.28 lakh, which is considering an escalation rate of 5.85% is approved for the year 2016-17.

40. With regard to the claim of section 3(1) duty as part of A&G expenses, the Commission has not been admitting section 3(1) duty as a revenue expenditure as the same should be borne by the Licensee and shall not be passed on to the consumers as per the Kerala Duty Act 1963. As stated in the order on truing up of accounts for 2015-16, the Commission reiterates that electricity duty under section 3(1) shall not be allowed as an expense. The licensee is advised to take up the matter with the State Government.

41. Accordingly, the Commission approves Rs.102.57 lakh A&G expense the year 2016-17 as tabulated below.

Table 17
A&G Expenses approved for 2016-17 (Rs.lakh)

Particulars	2016-17 Truing Up	2016-17 Trued Up
Rents, rates and taxes	172.03	19.28
Insurance	2.63	2.63
Telephone telex charges, etc	4.33	4.33
Legal charges	2.06	2.06
Consultancy charges	14.51	14.51
Technical fee	0.83	0.83
Other Professional charges	5.65	5.65
Conveyance and Vehicle Exp	4.38	4.38
KSERC Charges	5.01	5.01
Training to Staff	5.68	5.68
Other expenses	18.08	18.08
Section 3 Duty	83.32	-
Printing & stationery	5.06	5.06
Advertisements	8.31	8.31
Miscellaneous expenses	6.79	6.79
Grand Total	338.64	102.57

42. **Interest and Finance Charges:** The licensee had claimed an interest and finance charges of Rs. 188.86 lakh in the truing up application. The Commission had approved an amount of Rs.226.93 lakh in the order on ARR&ERC. It is seen from schedule 11 forming part of the application that, the claim is exclusively made for on interest on

security deposit. The licensee has further stated that the total amount of interest paid to the consumers in the financial year is Rs.147.61 lakh which pertains to the year 2015-16. The licensee has stated that the claim is based on the interest rate calculated at 6.50%.per annum

43.As per the provisions of the Kerala Supply Code the licensee is bound to provide interest on the security deposit collected from consumers. The Commission has been taking the consistent stand that, the actual disbursement of interest on security deposit during the year can only be allowed in the process of truing up. Accordingly, for the purpose of truing up, the Commission approves the interest and finance charges of Rs. 147.61 lakh for the year 2016-17.

44. **Depreciation:** The depreciation claimed by the licensee in the application for truing up for the year 2016-17 is Rs.221.02 lakh as against Rs 221.28 lakh approved in the order on ARR&ERC. The licensee has estimated the depreciation as per the rates mentioned in the Tariff Regulations 2014. The details of depreciation claimed by the licensee for the year 2016-17 are shown below.

Table 18
Depreciation claimed for 2016-17 (Rs. lakh)

Asset Class	GFA as on 01-Apr-2016	Depreciation for the Year 2016-17
Land Development	23.39	-
Building	100.48	3.36
Plant & Machinery	2,532.27	111.90
Cables	593.98	27.09
Lines	1,450.33	32.80
Vehicles	53.68	3.77
Office Furniture & Fixtures	15.03	0.60
Office equipment	97.69	1.30
IT Equipments	75.84	12.86
Meter	353.45	23.80
Software	23.62	3.54
Total	5,319.77	221.02

45.The licensee has stated that no depreciation is claimed for the assets created out of consumer contribution and grants. While estimating the depreciation, the licensee has considered the asset additions of Rs.378.97 lakh made during the year 2016-17. In this context, it is to be noted that, in 2015-16, the Commission has not approved the capital additions made during 2015-16 as proper details have not been furnished. Gross fixed assets and asset additions for the years 2015-16 and 2016-17 as

submitted by the licensee as part of the clarification vide letter dated 14-3-2019 is tabulated hereunder.

Table 19
Gross Fixed assets and asset additions for 2015-16 and 2016-17 (Rs. lakh)

Particulars	2015-16				2016-17			
	GFA as on 01-04-2015	Asset Additions	Retirement of assets	Closing GFA	GFA as on 01-04-2016	Asset Additions	Retirement of assets	Closing GFA
Substation Machinerics	1,884.47	161.52	1.68	2,044.31	2,044.31	27.26	10.10	2,061.47
Distribution area Plant & Machinery	2,390.34	145.70	3.75	2,532.28	2,532.28	231.76	6.86	2,757.19
Furniture & Fixtures	12.32	2.71	-	15.03	15.03	0.42	-	15.45
Office equipments	97.69	-	-	97.69	97.69	2.46	-	100.15
Departmental vehicles	53.07	0.61	-	53.68	53.68	-	-	53.68
Land Development	23.39	-	-	23.39	23.39	-	-	23.39
Building	100.48	-	-	100.48	100.48	-	-	100.48
Meter	326.36	27.09	-	353.45	353.45	97.28	-	450.73
Software	23.62	-	-	23.62	23.62	-	-	23.62
IT Equipments	75.18	0.66	-	75.84	75.84	19.78	-	95.62
Total	4,986.91	338.30	5.43	5,319.77	5,319.77	378.97	16.97	5,681.78

46. The Commission has sought the details of the asset additions made during 2015-16 and 2016-17. During the year 2015-16, the licensee made an asset addition of Rs.338.30 lakh. The major additions were Rs.161.52 lakh under substation-machinery and Rs.145.70 lakh under plant and machinery. The details of the assets added in 2015-16 as per letters dated 14-3-2019 are shown below.

Table 20
Asset addition submitted by the TCED for 2015-16

Particulars	Unit	Rs.lakh
RMU's & RMU Cable End Kits	20 RMUs/ 70 RMU Cable end kits	126.39
UG Cable	8146 meters	83.79
Steel Posts	313 nos	28.83
Aluminium Conductors (ACSR Rabbit)	87175 meters	37.40
AB Switches	44 nos	5.48
Electronic Meters	3000 nos	27.09
Lightning Arrestors, Insulators, Cable Kits etc		25.34
Two wheeler vehicle	1 no.	0.61
Office furniture		2.71
Computer Peripheral- UPS		0.66
Total		338.30

47. As per the details furnished by the licensee, total assets are inclusive of assets created out of consumer contribution and grants. The asset addition made through consumer contribution for the year 2015-16 was Rs.40.23 lakh and the closing balance was Rs.420.60 lakh. However, the assets created out of contribution are not clearly identifiable in the books of accounts. The details of consumer contribution and grants received by the licensee as per the accounts is as shown below:

Table-21
Consumer contribution and grants (Rs.lakh)

Year	Opening balance as on 1 st April	Addition during the year	Closing balance as on 31 st March
2015-16	380.37	40.23	420.60
2016-17	420.60	40.47	461.07

48. During the year 2016-17, the licensee has made an asset addition of Rs.378.97 lakh for the year 2016-17. As per the letter dated 30-08-2018 the licensee had furnished the details as shown below for the year 2016-17:

a) Assets forming part of Distribution System

- 17 Transformers have been acquired at a Cost of Rs. 53.40 Lakh [Out of this 1 Transformer of Rs 3.20 Lakh has been issued for Solar Project which has been included in Cost of the Project]
- 240 HT Steel Posts have been acquired at a Cost of Rs 21.00 Lakh
- 8000 Electronic Meters have been acquired at a Cost of Rs 97.28 Lakh
- The Rest of the additions forming part of Distribution System (AB Switches, Cable Joining Kits etc) comes to Rs 12.78 Lakh

b) Assets not forming part of Distribution System (Administrative Purposes)

- IT Equipment being UPS , Photostat Machines and Computer Peripherals have been acquired and installed at a cost of Rs 19.78 Lakh to provide the necessary IT Support Infrastructure.
- Office Equipment worth Rs 2.46 Lakh acquired during the Year being 1 DG Set with Battery and a New Currency Counting Machine.
- Office furniture of Rs 0.42 lakh being Chairs and Tables purchased during the year.

49. The licensee submitted the split up of the asset additions as per the letter dated 14-3-2019 are as shown below.

Table 22
Asset addition submitted by the TCED for 2016-17

Particulars	Unit	Amount (in Lakh)
Solar Project (including value of 1 transformer)		175.05
Transformers	16 nos	50.20
HT Steel Posts	240 nos	21.00
Meters	8000 nos	97.28
Other Distribution Assets [AB Switches, Cable Joining Kits etc]		12.78
IT equipments- UPS, Photostat Machine and Peripherals		19.78
Office equipment- DG Set with Battery and Currency Counting		2.46
Office Furniture		0.42
Total Gross Value of Additions		378.98

50. The asset additions are inclusive of assets created out of contributions and grants to the tune of Rs.40.47 lakhs. As per the details furnished by the licensee, the major item is the New Solar Power Plant at Jaihind Market, Thrissur commissioned to meet RPO requirements (Renewable Purchase Obligation) at a cost of Rs.175.05 lakh. The balance works are part of the additions to the distribution system.
51. Regarding the asset additions, the licensee has stated that the asset additions are necessary for the distribution system and assets have been acquired as part of the Normal Capital Expenditure Programme for ensuring uninterrupted supply of Power and to maintain, enhance and augment the existing distribution System. Based on this, the licensee requested to approve the capital additions for the two year 2015-16 and 2016-17.
52. The Commission has examined the claim of the licensee regarding depreciation and addition to capital assets. The Commission could not approve the capital expenditure for the year 2015-16 due to want of required details. The licensee has now furnished the details of assets acquired during 2015-16 and 2016-17. The major addition during 2016-17 was the Roof top solar power plant established at a cost of Rs.175.05 lakhs. The rest of the additions during 2015-16 and 2016-17 are part of the normal distribution works such as installation of transformers, addition/replacement of new lines and equipment etc., Regarding the solar power plant, the Commission has already given in principle approval for the project. Since the capital additions other than the Solar Power Plant are part of the normal works, the same can be approved as capital additions for the year 2015-16 and 2016-17.

53. The licensee has also stated that the depreciation has been estimated as per the provisions of the Tariff Regulations 2014, with accelerated depreciation for the first 12 years. The licensee has also furnished the fixed asset register as part of the clarifications. The licensee has also confirmed that the total additions made during the year is inclusive of the assets created out of contribution and grants, which is not eligible for depreciation. The Commission has after examining the details furnished by the licensee, approves the depreciation for the year 2016-17 as shown below:

Table-23
Depreciation approved for 2016-17

Particulars	Assets Rs. lakh	Depreciation Rs. lakh
Gross Fixed Assets	5,319.77	221.02
Assets created out of Consumer Contribution and grants	420.60	
Less depreciation @ 5.28% for assets created out of consumer contribution		22.21
Net Depreciation to be allowed for the year		198.81

54. The depreciation on the asset created out of consumer contribution and grants of Rs. 420.60 lakh amounts to Rs 22.21 lakh. Thus the net depreciation allowed for TCED for the year 2016-17 is Rs 198.81 lakh.

55. **Return on Equity:-** The licensee had claimed a return of Rs.85.43 lakh in the application for truing up for the year 2016-17 which is 3% of the net fixed assets at the beginning of the year excluding the consumer contribution. The Commission had allowed a return of Rs.57.27 lakh in the order on ARR&ERC which was 3% of the net fixed assets. Based on the actual accounts, the return on NFA is worked out as shown below:

Table 24
Return on NFA for 2016-17

Particulars	Rs. Lakh
Net fixed assets at the beginning of the year	3268.22
<u>Less</u> Fixed Assets financed by Consumer contribution	420.60
Balance Net Fixed assets on which Returns can be allowed	2847.62
3% on Net fixed assets	85.43

56. As shown above, the return on net fixed assets excluding consumer contribution approved for 2016-17 is Rs.85.43 lakh

57. **Revenue Surplus/Gap for 2016-17 :** Based on the above, the approved expenditure and revenue for the year 2016-17 after truing up is as shown below:

Table 25
Gross Revenue Requirements after truing up for 2016-17 (Rs. lakh)

Particulars	2016-17		
	Approved in ARR	Truing up	Trued Up
Revenue from Sale of Power	11549.00	11122.77	11122.77
Other Income	690.32	891.71	1343.40
Total Income	12239.32	12014.48	12466.17
Purchase of Power	10579.39	9334.40	9343.80
R &M Expenses	54.61	83.19	54.61
Employee Cost	941.40	1112.55	941.40
A &G Expenses	257.24	338.64	102.57
Interest & Finance Charges	226.93	188.86	147.61
Depreciation	221.28	221.02	198.81
Return on Equity	57.27	85.43	85.43
Total Expenditure	12338.12	11364.10	10874.23
Net Surplus/(Deficit)	-98.80	+650.38	+1591.94

Orders of the Commission

58. The Commission after considering the application filed by M/s.TCED for truing up of accounts for the year 2016-17, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the total expenditure of Rs.10874.23 lakh and total revenue of Rs.12466.17 lakh with a revenue surplus of Rs.1591.94. lakh. As per the order dated 02-06-2017 on the truing up of accounts for 2015-16 the accumulated revenue surplus till 2015-16 is Rs.11312.48 lakh. Thus the cumulative revenue surplus till 2016-17 will be Rs.12904.42 lakh. The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.

59. The application is disposed of. Ordered accordingly.

Sd/-
K.Vikraman Nair
Member

Sd/-
S.Venugopal
Member

Sd/-
Preman Dinaraj
Chairman

Approved for issue
Sd/-

G.Jyothichudan
Secretary