

KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT: Sri.K.J.Mathew, Chairman
Sri.P.Parameswaran, Member
Sri.Mathew George, Member

October 4, 2011

Petition OP No. 43/2010

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2005-06

Petition OP No. 44/2010

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2006-07

Petition OP No. 45/2010

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2007-08

Petition OP No. 46/2010

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2008-09

Petition OP No. 47/2010

In the matter of

Truing up of Accounts of Rubberpark India (Private) Limited for 2009-10

Rubberpark India (Private) Limited

- **Petitioner**

ORDER

Procedural background

1. Rubber Park India Private Limited (RPIL) is a deemed distribution Licensee under the first proviso of section 14 of Electricity Act , 2003. Based on the direction of the Commission for filing the truing up petition, the Licensee had submitted truing up petition for 2008-09, vide letter dt. RP/F/04 dt. 22.12.09. Subsequently, as per the letter dated 18-08-2010, details for 2005-06 to 2008-09 were submitted. The Commission held a Public hearing on the petition at the Commission's office on 06.10.10. During the public hearing, representatives of the licensee clarified that the accounts of the distribution business had not been separated. Non-separation of accounts is in violation of the second proviso to section 51 of the Electricity Act 2003 and clause 9 of the KSERC (Conditions of Licence for existing Distribution Licensees) Regulations 2006 issued by the Commission. Further several inconsistencies were also pointed out to the licensees. Considering these factors, the Commission rejected the petitions for truing up in its order dated 14.10.2010 and directed the licensee to separate the accounts of distribution business and revise the petitions for truing up petitions for 2005-06 to 2009-10 before 15.11.2010. Accordingly, the Licensee submitted revised truing up petitions for the year 2005-06 to 2008-09 vide letter dated 08.12.10. The petition for 2009-10 was filed vide letter dated 25-1-2011. The Commission sought clarification on the petition vide letter dated 31-1-2011. The reply to the clarifications were submitted by the licensee vide letter dated 17-2-2011. A hearing on the truing up petitions for 2005-06 to 2009-10 was conducted on 03.03.11. List of participants attended the hearing is given as annexure. Subsequently a clarification meeting with representatives of the Rubber Park was held on 3.05.11 at the office of the Commission. The licensee has provided the reply to the additional clarifications as per the letter dated 12-7-2011. The abstract of the petitions are as given below:

Summary of Approved and Actual ARR&ERC of M/s.Rubber park Limited

Particulars	2005-06		2006-07		2007-08	
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)
Power purchase cost	255.45	100.59	281.98	276.58	319.08	333.81
Interest & Finance Charges	-	-	-	-	-	-
Depreciation	28.22	18.95	23.53	25.65	33.91	26.37
Employees cost	16.30	6.42	19.72	7.37	20.71	6.94
R& M Expenses	8.80	8.06	10.50	9.58	21.13	12.93
A& G Expenses	15.04	5.50	11.44	9.95	12.02	5.59
Other Debits		0.27	-	0.49	-	0.25
Total Expenses	323.81	139.79	347.17	329.62	406.85	385.89
Less other Income	-	-	23.64	-	25.01	-
Net ARR	323.81	139.79	323.53	329.62	381.84	385.89
Revenue from Tariff	283.79	177.15	356.76	315.20	429.74	389.20
Net surplus/(Gap)	(40.02)	37.36	33.23	(14.42)	47.90	3.31

Particulars	2008-09		2009-10	
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)
Power Purchase Cost	539.85	351.30	890.23	519.18
Interest & Finance Charges	-	-	-	-
Depreciation	35.46	27.07	36.05	27.07
Employee cost	21.74	4.55	22.83	22.61
R & M Expenses	22.18	18.75	23.29	16.12
A & G Expenses	12.62	9.22	13.25	10.99
Other debits	-	0.29	-	-
Total Expenses	631.85	411.18	985.65	595.97
Less Other Income	26.49	-	28.10	-
Net ARR	605.36	411.18	957.55	595.97
Revenue from Tariff	652.02	386.30	961.86	603.37
Net Surplus/ (Gap)	46.66	(24.88)	4.31	7.40

Hearing on the matter

2. The hearing on the petitions was held on 3-3-2011. In the hearing, the representatives of the licensee presented the details of the petition. The licensee

has stated that R&M activities are outsourced and the increase in expenditure is about 5% every year. The higher employee costs in 2009-10 is due to wrong classification. The total fixed assets included the substations, transformer stations and underground cable & lines. The main issue is the under loading of the transformers and substations which has excess capacity. While objecting to the petition, the representatives of Kerala State Electricity Board mentioned that the figures given by the licensee is not reliable and cannot be accepted. Regarding segregation of accounts, the licensee has not given complete details. The over capitalisation of the system is the major burden to the consumers of the system. Under GFA, the 'other assets' is Rs.182 lakhs for which details are not provided. The licensee has not given the details of segregation of accounts hence the same is not acceptable.

Analysis and decision of the Commission

3. The Commission has considered the petitions and the clarifications submitted by licensee. In the present proceedings, the Commission is taking up the truing up from 2005-06 to 2009-10 together. Each item is taken up in the following sections.

Energy Sales and T&D Losses

4. The licensee has not separately provided in the petition the energy booked for own consumption. As per the details provided by the licensee sales for different consumer categories are as follows:

Energy Sales of M/s Rubber Park (lakh units)

	2005-06	2006-07	2007-08	2008-09	2009-10
LT IV		2.04	3.85	3.60	8.05
HT		76.96	92.46	79.99	135.34
Temporary		0.21	0.28	0.76	0.92
Rubber park utilities					1.12
Total		79.21	96.59	84.36	145.43

5. The details of sales in 2005-06 and the consumption of Rubber park utilities were sought separately. The licensee as per their reply dated 12-7-2011 has provided the separate details of consumption for own utilities and the revenue booked. The own utilities includes office, conference hall, sewage plant, etc. The Commission has noted several discrepancies in the data especially the split-

up details of sales/revenue provided by the licensee. The licensee clarified that details are not kept in a consolidated form and have to be aggregated from the individual records, which resulted in discrepancy. Since the licensee could not provide the correct split up details, the Commission relied on the information from the additional submissions given as per the letter dated 12-7-2011 only for the missing data i.e., for own consumption for the years and for the gross sales in 2005-06. Accordingly the actual energy sales and distribution losses are arrived at as follows:

Energy sales and distribution losses (lakh units)

	2005-06	2006-07	2007-08	2008-09	2009-10
Sales to consumers	20.11	79.21	96.59	84.36	144.30
Rubber park utilities	0.12	1.05	1.38	1.10	1.45
Total sales	20.23	80.26	97.97	85.46	145.75
Energy Purchase	22.63	83.91	100.19	87.97	149.47
Distribution loss (%)	10.61%	4.35%	2.22%	2.86%	2.49%
Approved Losses (%)		2.91%	2.92%	2.41%	2.79%

6. The Commission notes that the distribution losses in 2006-07 and 2008-09 are higher than the approved level of losses. The licensee has stated that higher level of losses is due to the excess capacity of the power transformers, which can be brought down only if loading is improved. Considering this reason, the Commission allows the actual losses for the purpose of truing up.

Expenses :

7. **Power purchase cost** : As per the petition, the details of actual power purchase is as given below.

Approved and actual power purchase cost

	Approved	Actuals			
	Total power purchase cost	Energy	Fixed charges	Total variable charges	Total
	Rs.lakhs	Lakh units	Rs.lakhs	Rs.lakhs	Rs.lakhs
2005-06	255.45	22.63	41.57	59.10	100.59
2006-07	281.98	83.91	46.64	229.94	276.58
2007-08	319.08	100.19	41.70	292.11	333.81
2008-09	539.85	87.97	54.79	296.50	351.29
2009-10	890.23	149.47	80.93	438.25	519.18

8. The licensee has given separately the details of Electricity duty paid under Section 3 and Section 4 of the Kerala Electricity Duty Act. As part of the clarification during the hearing, the licensee has stated that section 3 and section 4 duty have been accounted as part of the power purchase cost. Further, upto 2009-10, interest on deposits on the cash margin with KSEB was adjusted against the monthly bills on power purchase and the net amount was accounted in the books of accounts of the licensee. The details of Section 3 and Section 4 duty provided by the licensee are given below.

Electricity Duty under Section 3 and Section 4 of KED Act

	Section 3 Duty (Rs. Lakhs)	Section 4 Duty (Rs.lakhs)	Total (Rs.lakhs)
2005-06	1.20	2.21	3.41
2006-07	4.75	8.38	13.14
2007-08	5.80	10.53	16.33
2008-09	5.06	9.59	14.65
2009-10	8.63	16.41	25.04

9. The Section 3 duty is payable by the licensee to the Government, which cannot be passed on to the consumers. The Section 4 duty is collected from the consumers and transferred to the Government. Hence both these items cannot be part of the power purchase cost and hence deducted. In the case of interest on the deposits held with KSEB, the licensee has to account the same separately as miscellaneous/other income. Since the credit for the interest is already reflected in the accounts as reduction in power purchase costs, the interest on deposits are excluded from other income. Now on the license shall account the interest income in a proper manner. The power purchase cost allowed for the purpose of truing up is as follows:

Power purchase cost allowed after Truing up

	Actual Power purchase cost booked	Less Section 3 and Section 4 duty	Power Purchase cost allowed for truing up
	Rs. Lakhs	Rs. Lakhs	Rs.lakhs
2005-06	100.59	3.41	97.18
2006-07	276.58	13.14	263.44
2007-08	333.81	16.33	317.48
2008-09	351.30	14.65	336.65
2009-10	519.18	25.04	494.14

10. Depreciation: The depreciation booked as per the actual accounts and the approved depreciation are as follows:

Approved and actual Depreciation

	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2005-06	28.22	18.95
2006-07	23.53	25.65
2007-08	33.91	26.37
2008-09	35.46	27.07
2009-10	36.05	27.07

11. The depreciation accounted for the distribution business is based on the rates as per the CERC regulation. The licensee has apportioned 37% of the total other assets such as buildings, furniture, fixtures, computers, plant & machinery including office equipments etc., in the distribution business. The composition of GFA from 2005-06 to 2009-10 accounted by the licensee is as shown below:

Composition of yearwise Gross Fixed Assets

Category	2005-06 (Rs.lakhs)	2006-07 (Rs.lakhs)	2007-08 (Rs.lakhs)	2008-09 (Rs.lakhs)	2009-10 (Rs.lakhs)
Land and rights	26.85	26.85	26.85	26.85	26.85
Transmission lines	99.00	99.00	99.00	99.00	99.00
Substations	225.60	404.59	404.59	404.59	404.59
11kV lines	108.05	108.05	108.05	108.05	108.05
LT lines	30.38	30.38	30.38	30.38	30.38
Service connections	0.28	0.28	0.28	0.28	0.28
Metering equipments	4.42	5.60	5.60	5.60	5.60
Others	151.75	156.17	181.62	169.34	181.62
Total	646.33	830.92	856.37	844.09	856.37

12. Based on the details submitted by the licensee, the depreciation booked as per CERC norms for the years 2005-06 to 2009-10 is allowed provisionally for the purpose of truing up process. The details of assets booked by the licensee and the rationale for the apportionment of common assets will be examined by the Consultants.

13. **Interest and financing charges:** The licensee has not booked any amount under interest and financing charges since all the assets are developed without incurring any loans.

14. **Repair and maintenance charges:** The licensee has outsourced the repair and maintenance of assets. The comparison of approved and actual repair and maintenance expenses booked by the licensee is as shown below:

	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2005-06	8.80	8.06
2006-07	10.50	9.58
2007-08	21.13	12.93
2008-09	22.18	18.75
2009-10	23.29	16.12

15. The Commission has sought the details of apportionment of R&M expenses if any for the years. The licensee has stated that R&M expenses includes repairs relating to the distribution system only. The details provided by the licensee is as given below:

Split up details of R&M expenses (Rs.lakhs)

	2005 - 06	2006 - 07	2007 - 08	2008 - 09	2009-10
Operation & Maintenance					
Repairs - Sub Station	6.42	7.99	11.64	16.73	13.76
Insurance Premium - Sub Station	1.49	1.57	1.02	1.37	1.07
Repairs – Electrical	0.14	0.02	0.27	0.65	0.91
Total Direct Repairs (A)	8.06	9.58	12.93	18.75	15.74
Repairs - Others (Office / Building)					0.62
Total Repairs – Others	-	-	-	-	
Grand Total (as per RPIL Accounts)	8.06	9.58	12.93	18.75	16.35
Allocation to Licensee : Repairs - Others (B)	-	-	-	-	0.38
Total (A + B)	8.06	9.58	12.93	18.75	16.12
As Per Form J (Amount accounted in the Books of the Licensee)	8.06	9.58	12.93	18.75	16.12

16. As shown above, according to the licensee, the total R&M expenses booked is on account of repair of electrical assets. Only in 2009-10, Rs. 0.38 lakhs were spent on repairs building and other assets. The Commission allows the R&M expenses of the licensee for the purpose of truing up

17. **A&G expenses:** The A&G expenses as per the books of accounts and the approved expenses are given below:

Approved and Actual A&G Expenses

Year	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2005-06	15.04	5.50
2006-07	11.44	9.95
2007-08	12.02	5.59
2008-09	12.62	9.22
2009-10	13.25	10.99

18. The Commission has sought the details of apportionment and direct expenses booked towards A&G expenses. As per the details given by the licensee, except the vehicle hire cost, all other components of A&G expenditure are allocated based on the share of licensee revenue to total revenue of Rubber Park Limited. The Commission notes that in some heads, it may not be possible to directly assign the expenses, but for many heads it is possible to have direct assignment of expenses. It is also noted that even in the case of direct assignment of cost, the licensee has included a portion of the expenses on allocation method. Further, method of allocation of cost is also not reasonable since allocation has to be based on the cost drivers. The licensee stated that accounts were not separated till 2009-10 and from 2010-11 accounts have been separated. Hence the Commission directs that appropriate account heads may be created for distribution business for booking direct costs and suitable methods for apportioning the joint costs may be arrived at. The final decision on the parameters for allocation will be decided based on the inputs from the consultancy assignment. Accordingly, the Commission allows the A&G expenses booked by the licensee for the purpose of truing up.

19. **Employee costs:** The comparison of approved and actual employee costs is as shown below:

Approved and actual employee costs

Year	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2005-06	16.30	6.42
2006-07	19.72	7.37
2007-08	20.71	6.94
2008-09	21.74	4.55
2009-10	22.83	22.61

20. In the case of employee costs also, the licensee has used the apportionment for allocating the expenses to the distribution business for the period under consideration. According to the licensee 80% of the total employee costs are allocated to the distribution business considering the fact that 80% of the revenue is from the distribution business and the time spent on the licensed business is also constitute about 80% of the total time. Accordingly the assumption of 80% is reasonable. The Commission examined the details of employee costs provided by the licensee. The licensee is operating in a limited area and total operations of the licensee other than the licensed business are not substantial. Further the share of employee cost in total cost is also not substantial (less than 5%). Hence for the purpose of truing up the allocation method suggested by the licensee is accepted for time being.

21. **Other debits:** The other debits booked by the licensee for the years 2005-06 to 2008-09 ranging from Rs.0.25 lakhs to Rs.0.29 lakhs is allowed for the purpose of truing up.

22. **Return on equity:** The licensee has booked return for the business at 14% of the 30% of NFA. The licensee has stated that the business of Rubber park is entirely funded by the equity contribution from Kinfra and Rubber Board with Rs.10 crore each. The company has not availed any loans. In 2009-10, the total equity earmarked for the licensed business is Rs.900 lakhs, which comprises of Rs.648 lakhs for the investment in substations and Rs.210 lakhs towards the land and other assets. The balance amount is towards the cash deposit and bank guarantee given to KSEB for power allocation. The Commission notes the explanation of the licensee on the equity investments. As per the audited accounts of the licensee, so far the company has not given any dividend for the shareholders stating the reason that so far the level of operations are not stabilised. In order to ascertain the reasonable level of equity in the distribution business of the licensees, the Commission has already initiated a consultancy

study. The exact level of ratebase for providing the return can be ascertained based on the report of the consultants. Till such time, the Commission allows a provisional return of Rs.10 lakhs for the years for which truing up of accounts is made.

23. **Revenue from sale of power** : The revenue from sale of power booked by the licensee is as shown below:

Revenue from sale of power approved and booked

	Approved (Rs.lakhs)	Actual (Rs.lakhs)
2005-06	283.79	177.15
2006-07	356.76	315.20
2007-08	429.74	389.20
2008-09	652.02	386.30
2009-10	961.86	603.37

24. The split up details of total revenue from sale of power reported by the licensee is as follows:

Details of Revenue from Sale of Power

	2005-06	2006-07	2007-08	2008-09	2009-10
	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)
LT IV		8.34	16.20	16.42	29.44
HT		295.89	365.86	357.35	520.87
Temporary		2.20	4.60	7.85	8.25
Rubber park utilities					0.55
Total	108.29	306.43	386.66	381.62	559.11
Recovery of electricity duty	1.29	7.99		2.41	26.05
Reconnection fee		0.72	0.01	2.27	0.15
Service connection charges	68.86		2.52		9.96
Delayed payment surcharge		0.06	0.01		0.10
Other receipts					10.64
Gross Revenue from sale of power	178.44	315.20	389.20	386.30	606.01
Less					
Electricity duty payable	1.29				2.65
Net Revenue from sale of Power	177.15	315.20	389.20	386.30	603.36

25. The Commission has noted that the licensee has not properly accounted the revenue from own consumption i.e., the utility services provided by the Park for their consumers/stakeholders. In reply to the details sought on the consumption and revenue estimated based on the appropriate tariff category, the details provided by licensee is as follows:

26. Rubber park utilities included substation, street light and high mast, workers dormitory, executive hostel, guest house, pumphouse, effluent treatment plant, and commercial complex. Appropriate tariff category is applied for the above installations and revenue estimated by the licensee for various years is as shown below:

Sale to Rubber park utilities and estimate revenue

	Energy (lakh units)	Revenue (lakhs)	Average realisation (Rs./kWh)
2005-06	0.12	0.54	4.52
2006-07	1.05	5.62	5.36
2007-08	1.38	14.43	10.44
2008-09	1.11	16.80	15.19
2009-10	1.45	16.48	11.37

27. Based on the above, the revenue from sale of power for the truing up is taken as follows:

Revenue from sale of power allowed for truing up

	Net Revenue from sale of Power	Revenue from Own consumption	Total
	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)
2005-06	177.15	0.54	177.69
2006-07	315.20	5.62	320.82
2007-08	389.20	14.43	403.63
2008-09	386.30	16.80	403.10
2009-10	602.81	16.48	619.29

28. **Aggregate Revenue requirements and Income:** The revenue gap/surplus after the truing up process is as shown below:

Summary of ARR&ERC after truing up

Particulars	2005-06			2006-07		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Truing up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Truing up (Rs.lakhs)
Revenue from sale of power	283.79	177.15	177.69	356.76	315.20	320.82
Other income				23.64	-	-
Total income	283.79	177.15	177.69	380.40	315.20	320.82
Expenses						
Power purchase cost	255.45	100.59	97.18	281.98	276.58	263.44
Interest & Finance Charges	-	-	-	-	-	-
Depreciation	28.22	18.95	18.95	23.53	25.65	25.65
Employees cost	16.30	6.42	6.42	19.72	7.37	7.37
R& M Expenses	8.80	8.06	8.06	10.50	9.58	9.58
A& G Expenses	15.04	5.50	5.50	11.44	9.95	9.95
Other Debits		0.27	0.27	-	0.49	0.49
Return on investment			10.00			10.00
Total Expenses	323.81	139.79	146.38	347.17	329.62	326.48
Net surplus/(Gap)	(40.02)	37.36	31.31	33.23	(14.42)	(5.67)

Particulars	2007-08			2008-09		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Truing up (Rs.lakhs)	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Truing up (Rs.lakhs)
Revenue from sale of power	429.74	389.20	403.63	652.02	386.30	403.10
Other income	25.01	-	-	26.49	-	-
Total income	454.75	389.20	403.63	678.51	386.30	403.10
Expenses						
Power Purchase Cost	319.08	333.81	317.48	539.85	351.30	336.65
Interest & Finance Charges	-	-	-	-	-	-
Depreciation	33.91	26.37	26.37	35.46	27.07	27.07
Employee cost	20.71	6.94	6.94	21.74	4.55	4.55
R & M Expenses	21.13	12.93	12.93	22.18	18.75	18.75
A & G Expenses	12.02	5.59	5.59	12.62	9.22	9.22
Other debits	-	0.25	0.25	-	0.29	0.29
Return on investment			10.00			10.00
Total Expenses	406.85	385.89	379.56	631.85	411.18	406.53
Net Surplus/ (Gap)	47.90	3.31	24.06	46.66	(24.88)	(3.43)

Particulars	2009-10		
	Approved (Rs.lakhs)	Actual (Rs.lakhs)	Truing up (Rs.lakhs)
Revenue from sale of power	961.86	603.37	619.29
Other income	28.10	-	-
Total income	989.96	603.37	619.29
Expenses			
Power Purchase Cost	890.23	519.18	494.14
Interest & Finance Charges	-	-	-
Depreciation	36.05	27.07	27.07
Employee cost	22.83	22.61	22.61
R & M Expenses	23.29	16.12	16.12
A & G Expenses	13.25	10.99	10.99
Other debits	-	-	-
Return on investment			10.00
Total Expenses	985.65	595.97	580.93
Net Surplus/ (Gap)	4.31	7.40	38.36

29. Based on the above, the total revenue gap/surplus after the truing up process is as follows:

Surplus after truing up

	Actual (Rs.lakhs)	True up (Rs.lakhs)
2005-06	37.36	31.31
2006-07	(14.42)	(5.67)
2007-08	3.31	24.06
2008-09	(24.88)	(3.43)
2009-10	7.40	38.36
Total	8.77	84.64

30. The total revenue surplus after the truing up of accounts for the year 2005-06 to 2009-10 is Rs 84.64 lakhs against Rs.8.77 lakhs as per the accounts of the licensee.

Orders of the Commission:

31. The total revenue surplus arrived at above after the truing up process shall be kept in a separate fund and utilized as per the Orders of the Commission, The additional cost due to change in Bulk Supply Tariff may be utilized from this fund and the utilisation shall be intimated to the Commission periodically.

32. Petitions disposed of. Ordered accordingly.

**Sd/-
P.Parameswaran
Member**

**Sd/-
Mathew George
Member**

**Sd/-
K.J.Mathew
Chairman**

Approved for Issue

Secretary

Annexure

List of persons attended the Public Hearing

- 1) Shri. M.S.Samuel, Asst. Secretary, Rubber Park Limited
- 2) Shri.Sooraj Ramachandran, Consultant, Rubber park Limited
- 3) Shri.Pramod .S.V, Resident Engineer, Rubber Park
- 4) Smt.Sreedevi. B. Deputy Chief Engineer, TRAC, KSEB
- 5) Shri. B. Pradeep, Exe. Engineer, TRAC, KSEB
- 6) Shri.Prasad.S. Assistant Executive Engineer, TRAC, KSEB