

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

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

**November 28, 2011**

***Petition No. OP 14 /2011***

In the matter of  
Truing up of Accounts of Technopark for the year 2009-10

M/s.Technopark, Thiruvananthapuram

- Petitioner

**ORDER**

**Background**

1. M/s Technopark, Thiruvananthapuram (*herein after mentioned as Technopark or the licensee*) is a deemed distribution licensee of the Commission. The Commission issued the Truing up Order for the years 2007-08 and 2008-09 on 11-05-2011. M/s Technopark filed the audited accounts for 2009-10 as a truing up petition vide their letter dated 1-4-2011. The petition was admitted on 26-9-2011 and hearing was fixed along with ARR&ERC petition for the year 2011-12. The licensee did not file any ARR&ERC petition for the year 2009-10 and hence no approved ARR&ERC is available for the year.
2. As per the petition filed by the licensee, the actual expenses reported for 2009-10 are as follows:

Category	2009-10 (Rs.lakhs)	
	Actual	Approved
Power Purchase cost	1,693.09	
Interest & Financing charges	69.63	
Depreciation	65.81	
Employee costs	11.73	
R&M Expenses	60.64	
A&G Expenses	41.65	
Other debits/adjustments	3.14	
Return on investment		
<b>Total expenditure</b>	<b>1,945.69</b>	<b>-</b>

Category	2009-10 (Rs.lakhs)	
	Actual	Approved
Revenue from Tariff	1,966.52	
Other income	36.55	
<b>Total Revenue</b>	<b>2,003.07</b>	
<b>Revenue (Gap)/Surplus</b>	<b>57.38</b>	

3. There is no approved ARR&ERC for 2009-10. The licensee had not formally sought any exemption for filing the ARR&ERC for 2009-10. The Commission would take appropriate steps on this issue in due course.

### Hearing on the petition

4. The hearing on the petition was held on 24-10-2011 at the premises of the Licensee along the ARR&ERC petition for 2011-12. Representatives of licensee and Kerala State Electricity Board were present for the hearing. The Board raised the following objections:
- a. The licensee has not filed the ARR&ERC petition for 2009-10
  - b. The distribution loss level reported by the Licensee is 5.5%, which is higher than the approved level in 2008-09. The excess loss in 2009-10 may be disallowed as per the methodology followed by Hon. APTEL.
  - c. There is mismatch in the purchase quantity and cost as per their records and the accounts presented by Technopark.
  - d. The O&M expenses as per the accounts for 2009-10 are more than 64% when compared to allowed expenses in 2008-09 due to inclusion of expenses of outsourced agency activities other than for distribution of electricity.
  - e. Interest and financing expenses attributable distribution only shall be allowed. The licensee has procured huge secured and unsecured loans and it is to be ascertained that the loans are used for distribution business
  - f. The security charges accounted by the licensee are very high. The breakup of self consumption details and the appropriate tariff have to be provided by the licensee.
  - g. The section 3(1) duty shall not be allowed to the licensee.

5. In reply to the objections/comments, the licensee stated that the repair and maintenance expenses in the licence area are outsourced and the amount of contract only is included as part of the expenses. From 2010-11 onwards, selection of the agency was done on competitive bidding process. In the case of employee costs, only the cost of persons working for the distribution business is charged into the business. The self consumption of electricity for common purposes is charged at the appropriate tariff and income is booked.

### Analysis and decisions of the Commission

6. The Commission considered the objections and the replies and clarifications given by Technopark in finalising the truing up. Each item of the petition is discussed below.

### Energy sales and T&D Loss

7. In 2009-10, as per the accounts of the licensee the distribution losses is for 2009-10 is 5.52% considering the total energy purchase of 46.95 MU and sales of 44.32MU.

	2009-10
	<b>Actual</b>
Energy purchase	46.95
Energy sales	44.32
Distribution loss	5.52%

8. The distribution losses reported for 2008-09 was 3% and the same was allowed for the truing up for 2008-09. The Commission is not in a position to accept a loss figure more than what is allowed for 2008-09. The licensee has not given any specific reason for having higher losses in 2009-10. Hence the Commission fixes the distribution loss for the year 2009-10 as 3% for the purpose of truing up.

	2009-10	
	<b>Actual</b>	Truing up
Energy sales (MU)	44.32	44.32
Distribution loss (%)	5.52%	3.00%
Energy Requirement (MU)	46.95	45.69
Excess Distribution loss (%)		2.52%
Excess Energy purchase (MU)		1.22

**Power purchase:**

9. The actual power purchase cost reported by the licensee was Rs.1693.09 lakhs for 2009-10. The licensee has clarified that the amount booked under power purchase is inclusive of electricity duty under Section 3(1). The split up details filed by the licensee on power purchase cost are as follows:

	(As per accounts)
Energy purchased (MU)	46.95
Fixed charges (Rs.lakhs)	340.18
Variable charges (Rs.lakhs)	1,292.82
Section 3 duty (Rs.lakhs)	25.91
Other charges (Rs.lakhs)	34.18
<b>Total charges (Rs.lakhs)</b>	<b>1,693.09</b>

10. The section 3 duty is not admissible in the ARR. Further, the excess distribution loss shall be disallowed. Accordingly, the power purchase cost net of electricity duty and excess loss allowed for the purpose of truing up is as follows.

	2009-10	
	(As per accounts)	(Truing up)
Energy purchased (MU)	46.95	46.95
Fixed charges (Rs.lakhs)	340.18	340.18
Variable charges (Rs.lakhs)	1,292.82	1,292.82
Section 3 duty (Rs.lakhs)	25.91	
Other charges (Rs.lakhs)	34.18	34.18
<b>Total charges (Rs.lakhs)</b>	<b>1,693.09</b>	<b>1,667.18</b>
Average Power purchase cost (Excluding Section 3(1) duty) (Rs./kWh)		3.55
Excess Power purchase (MU)		1.22
Cost of Excess purchase (Rs.lakhs)		43.32
Power purchase cost allowed (Rs.lakhs)		1,623.86

**Employee costs:**

11. The actual employee costs reported by Technopark for 2009-10 is Rs.11.73 lakhs. As per the methodology used by the Licensee, 25% of the total staff welfare expenses of Technopark is also charged to the distribution business. The Commission noted the apportionment method adopted by the licensee. The Commission has already initiated steps for engaging a consultancy for

apportioning the joint costs of the small licensees. Based on the study, the Commission will finalise its view on joint costs. Till then the present method adopted by the licensee is accepted for the purpose of truing up process for 2009-10.

### **R&M expenses**

12. The R&M operations of the licensee is carried out by an outside agency. The actual R&M expenses booked for 2009-10 was Rs.60.64 lakhs. As per the details provided by the licensee at the time of truing up for 2007-08 and 2008-09, the outsourced agency had been entrusted with the maintenance of total infrastructure. As per the agreement with the agency, contract includes all electrical equipments in the park, including equipments not related to the distribution business such as for water supply and diesel generators. As per the information provided by the licensee, in their letter dated 31-1-2011, about 68% of the contract amount is for electrical distribution, about 22% for plumbing/waterworks and 10% for fire and safety. The Commission notes that the licensee as part of its main operations, separately charges the clients/consumers for water, diesel generation and other miscellaneous services. Considering the fact that the Commission has initiated the process of segregation of joint costs, for the purpose of truing up the estimate of 68% of the R&M costs is allowed for the truing up as has been done in the previous years. Accordingly, the R&M expenses allowed for truing up for 2009-10 is Rs.41.24 lakhs.

13. In this context, the licensee at the time of the hearing has stated that as per the direction of the Commission, from 2011-12 onwards, the outsourcing operations are done by following a transparent bidding process and assets of electricity distribution are segregated for the purpose of contracting out the operation and maintenance.

### **A&G Expenses**

14. The actual A&G expenses booked by the licensee for 2009-10 amounts to Rs.41.65 lakhs. Major item of expenses booked under A&G expenses are security charges, which is about 29% of the total A&G expenses. According to the licensee, security is provided to the substations in addition to the operating persons. The Commission notes that O&M expenses include those for the operation and maintenance of persons engaged round the clock. The Technopark campus is well secured as part of Park operations. There is no

justification for separate security for each substation in a well fortified complex. As such, the Commission is not in a position to accept the provision for security for substations in addition to the maintenance personnel. Other charges under A&G expenses are allocated at 25% of the total business. Another major item of expenses is electricity charges, which is about Rs.15.62 lakhs. The total income accounted as part of self consumption is about Rs.40 lakhs. The licensee in their accounts stated that 40% of the electricity charges booked under self consumption is assigned to the distribution business as electricity charges. This practice was being followed in the previous year also. The Commission notes that the rationale provided by the licensee is not convincing since, the business income generated is not based on the electricity consumption. The Commission directs that as far as possible the consumption on account of distribution business shall be separated and all the consumption on account of the licensee's business (distribution as well as other business) shall be separately metered and billed as per the appropriate tariff. The licensee shall immediately take necessary steps for segregation of the same. From 2010-11 onwards apportionment shall not be allowed. The A&G expenses allowed for truing up for 2009-10 is Rs.29.76 lakhs.

#### **Depreciation:**

15. The depreciation claimed by the licensee is as per the CERC norm. The total addition to the Gross fixed assets and the depreciation claimed for the years are as follows:

Asset class	2008-09		
	GFA beginning of the year (Rs.lakhs)	Depreciation (Rs.lakhs)	Rate of depreciation
Civil works	188.95	3.40	1.80%
Transmission lines	654.96	23.58	3.60%
Substations	967.56	34.83	3.60%
11kV works	83.28	3.00	3.60%
LT lines, service connections	24.41	0.88	3.60%
Metering equipments	2.54	0.09	3.54%
Others	0.91	0.03	3.30%
<b>Total</b>	<b>1,922.61</b>	<b>65.81</b>	<b>3.42%</b>

As per the established regulatory principles, depreciation on assets created out of grants are to be excluded from allowable expenses unless the replacement of capital assets are segregated from routine capital additions. The Commission is

formulating a policy on claiming depreciation on the assets made out of grants and contribution from consumers. Hence a final view on this issue will be taken after the finalisation of the policy. In the source of funds (liabilities) in the opening balance sheet of the licensee as on 1-4-2007 approved by the Commission, based on the due diligence study the grant/contribution of consumers/Government is about 38% and the same percentage of the fixed assets can be treated as funded through contribution. Accordingly, the Commission in the previous truing up order has directed the licensee to keep 38% of the total depreciation booked in a separate account which shall be utilised for additional capital expenditure with the approval of the Commission. The Commission provisionally allows the claim of depreciation in the truing up, which is liable to be clawed back once a final view is taken by the Commission.

**Interest and financing charges:**

16. The interest and financing charges booked for the year 2009-10 is Rs.69.63 lakhs. The licensee has provided the details of the loans availed and the interest thereon. The interest charges booked also include interest on security deposits of the consumers. As per the information provided by the licensee two loans of total worth of Rs.53 crore were taken for the purpose of establishing Bhavani, Gayathri and Tejeswani blocks. Of this, 11.78% and 11.22% are assigned for the distribution assets. Accordingly proportion of the actual interest paid is allocated to the distribution business. Based on the details provided by the licensee, the Commission allows the interest charges as booked by the licensee for the purpose of truing up.

**Interest and expenses capitalised:**

17. The licensee has not booked any item under this head

**Other Expenses:**

18. The licensee has included Rs.2.78 lakhs as excess portion of the provision of doubtful debts written back and Rs.5.92 lakhs as net prior period charges. The prior period income is Rs.2.35 lakhs and expenses Rs.8.27 lakhs consisting of short provision of power charges for March 2009 (Rs.6.49 lakhs) and excess provision for interest on bank guarantee (Rs.1.78lakhs). The Commission accepts the amount booked by the licensee for the purpose of truing up.

## Return on equity

19. The licensee has not booked any return in the books and also not claimed any return. The Commission feels that, as a separate entity, the licensee has to carryout financial operations independently. The proposed consultancy assignment taken up for the licensees will look into the issues of amount of equity in the small licensees' business. Considering this, the Commission decides that a token amount of Rs.10 lakhs per year from the surplus can be transferred to reserves.

## Non tariff Income

20. As per the licensee, the revenue earned under this head is the interest received on the security deposit held by KSEB and interest on bank deposits. The total non-tariff income booked by the licensee is Rs.36.56 lakhs. The Commission approves the non-tariff income as per the actuals for the purpose of truing up.

## Revenue from tariff

21. The revenue from sale of power booked by the licensee for the year is Rs.1966.52 lakhs, which is inclusive, street lighting, delayed payment charges, meter rent etc. The Commission notes that the licensee has not provided the revenue from sale of power according to tariff category. After considering the details submitted by the licensee, the Commission approves the income from tariff as shown by the licensee for the purpose of truing up. However, the licensee shall provide the details of revenue from tariff as per the tariff category separately showing the connections under self consumption in the next truing up.

## Aggregate Revenue Requirements and Revenue surplus after truing up

22. The revenue surplus reported by the licensee for the year was Rs.57.38 lakhs. The revenue surplus arrived at after the truing up exercise for the year 2009-10 is as follows:

Category	2009-10(Rs. Lakhs)		
	Approved	Actual	Truing up
Power Purchase cost		1,693.09	1,623.86
Interest & Financing charges		69.63	69.63
Depreciation		65.81	65.81
Employee costs		11.73	11.73



Category	2009-10(Rs. Lakhs)		
	Approved	Actual	Truing up
R&M Expenses		60.64	41.24
A&G Expenses		41.65	29.76
Other debits		3.14	3.14
Return on investment		-	10.00
<b>Total expenditure</b>		<b>1,945.69</b>	<b>1,855.17</b>
Revenue from Tariff		1,966.52	1,966.52
Other income		36.55	36.55
<b>Total Revenue</b>		<b>2,003.07</b>	<b>2,003.07</b>
<b>Revenue (Gap)/Surplus</b>		<b>57.38</b>	<b>147.90</b>

23. The revenue surplus after the true up is Rs.147.90 lakh. The surplus so arrived at shall be separately held in an account and shall be utilised only as per the direction of the Commission. The surplus may be appropriated for meeting the additional power purchase cost due to revision of BST with the permission of the Commission.

#### Orders of the Commission

24. The Commission after considering the petition filed by the licensee and the objections thereon, additional details and clarifications and other materials placed before it, came to the conclusion that the total revenue surplus of Technopark after the truing up process for the year 2009-10 is Rs.147.90 lakhs. The revenue surplus shall be separately held in an account and shall be utilised as per the directions of the Commission. The Surplus may be utilised for meeting the additional power purchase cost due to revision of BST with the permission of the Commission.

25. The licensee shall progressively replace all the electro-mechanical with accurate electronic meters. A plan may be drawn up for changing the old meters in a time bound manner. The licensee shall install meters for self consumption and such consumption shall be billed in appropriate tariff. The licensee shall provide the details of such connections including consumption and billing category on account of self consumption along with next truing up petition.

26. The licensee shall create a separate fund for crediting the depreciation on account of contributions and grants. The fund may be utilised for capital expenditure with the prior approval of the Commission. The utilisation of the fund

can be taken up along with each ARR&ERC exercise with proper capital expenditure programme.

27. The petition is disposed of . Ordered accordingly.

Sd/-  
**P. Parameswaran**  
**Member**

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

**Approved for Issue**

**Secretary**