

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

Petition No. : OP 14/2014

In the matter of : Truing up of accounts of M/s Cochin Special Economic Zone Authority for 2012-13

Petitioner : M/s Cochin Special Economic Zone Authority

PRESENT : Shri. T.M.Manoharan, Chairman
Shri. Mathew George, Member

ORDER DATED 04-12-2014

Background

1. The Cochin Special Economic Zone Authority (herein after mentioned as CSEZA or the licensee) had filed the petition for truing up of accounts for 2012-13 vide letter No.H-12/1/2011:CSEZA dated 08-01-2014. The Commission sought additional details vide letter No.058/SEA/KSERC/2014 dated 20-06-2014 and the licensee furnished the details vide letter No.H-12/1/2011:CSEZA/3905 dated 13-08-2014 as sought by the Commission. After scrutiny, the petition was admitted as OP.No.14/2014. A comparison of the approved and the actual figures are given below:

Summary of Truing up Petition for 2012-13

Particulars	2011-12			2012-13	
	Approved	Actual	True up	Approved	Actual
Total energy sales (MU)	65.00	57.21	57.21	60.00	53.20
Gross energy input (MU)	65.46	55.92	55.92	60.42	51.81
Distribution loss (MU)	0.46	(-) 1.3	(-)1.3	0.42	(-) 1.39
Distribution loss %	0.70%	(-) 2.32%	(-)2.32%	0.69%	(-) 2.68%
Revenue (Rs. Lakhs)					
Revenue from sale of power	2580.00	2267.11	2267.11	2371.03	2541.15
Non tariff income	5.42	74.50	74.50	105.90	131.24

Total revenue	2585.42	2341.61	2341.61	2476.93	2672.39
Expenses (Rs. Lakhs)					
Power purchase	2362.48	2078.79	2078.79	2203.27	2425.85
Interest and financing charges	–	–	–	–	–
Depreciation	46.76	40.63	40.63	54.24	41.43
Employee cost	110.76	121.63	121.63	122.50	128.00
R&M expenses	12.96	6.23	6.23	15.00	9.78
A&G expenses	31.88	26.21	20.31	32.16	16.11
Revenue return	10.00	99.77	10.00	10.00	99.77
Total expenses	2574.84	2373.27	2277.59	2437.17	2720.94
Surplus/Gap	10.58	(31.66)	64.02	39.76	(48.55)

Hearing on the petition

2. Hearing of the petition on truing up of accounts of M/s CSEZA for the year was held on 24-09-2014 at the court room of the Commission office. During the hearing, representatives of CSEZA, M/s KITCO (the O&M Agency engaged by CSEZ) and KSEBL were present. Sri.R.C.Seetharaman and Sri.Krishna Varma.K of M/s.CSEZA presented the petition on truing up of accounts for 2012-13 and responded to the queries of the Commission. Sri. C.S Sarmakumar, Dy CE, presented responses of KSEBL.

3. According to KSEBL, M/s CSEZA operates on the funds provided by Government as grant and the Commission had allowed a provisional return on equity of Rs.10 lakhs in the ARR&ERC for the year 2012-13 and suggested that the same principle may be followed for the truing up also. KSEBL pointed out that the quantum of power purchased by the licensee is 51.81MU and the energy sold is 53.20 MU for the year 2012-13 and stated that the issue may be noted since the metering of data appears to be erratic. It was further pointed that the licensee has only initiated action for testing and calibrating the meters and CTs/PTs to rectify the mismatch in the quantity of energy sale and purchase and the Commission may direct the petitioner to complete the process in a time bound manner. KSEBL stated that the licensee's claims on employee cost are higher than the amount approved by the Commission which may be disallowed considering the number of consumers being served. It was submitted that the Commission may allow depreciation only for the assets which were created from own funds and also pointed out that the Commission may call for data on the vintage of each asset

and depreciation may be allowed only based on the same. KSEBL further commented that the Commission may examine the discrepancy in the realization from consumer categories and the revenue while allowing the truing up of the accounts.

Analysis and Decision of the Commission

4. The Commission considered the truing up petition of the licensee, clarifications, additional details thereon, and the comments of KSEBL. The analysis and the decision of the Commission on the petition is detailed below:
5. **Energy Sales:** Energy sales approved and the actual sales reported by the licensee for the year 2012-13 is as follows:

Category	2011-12 (Actual)		2012-13 (approved)		2012-13 (Actual)	
	No. of consumers	Sales (MU)	No. of consumers	Sales (MU)	No. of consumers	Sales (MU)
HT Consumers	25	49.08	30	52.00	25	44.63
DHT Consumers	4	1.97	-	-	4	1.78
LT industrial Consumers	108	5.99	110	7.75	117	6.58
LT Commercial	6	0.16	-	-	6	0.16
Temporary	7	0.01	5	0.25	6	0.05
Total	150	57.21	145	60.00	158	53.20

6. During the financial year 2012-13 there were 29 HT connections including 4 Deemed HT Consumers, 129 LT connections comprising of 117 LT industrial connections, 6 LT commercial and 6 temporary connections. The actual energy sold during 2012-13 was 53.20MU. The Commission approves the actual energy sales for the purpose of truing up.
7. In the ARR&ERC order for the year 2012-13 the Commission had directed the licensee to provide details of own consumption along with the truing up filing. The licensee submitted the details of own consumption vide letter dated 13-8-2014 as shown below:

Details of own consumption for 2012-13

Consumer	Fixed charge (Rs.)	Energy sales in units	Energy charges (Rs)	Others* (Rs.)	Total (Rs.)
Electrical lab	1095	10	43	2158	3296
Sub station	16230	35333	141219	18027	175476
Total	17325	35343	141262	20185	178772

* includes fuel surcharge, charges for excess consumption over Quota, Meter rent etc

8. The licensee also claimed that the revenue from own consumption is included in the total revenue from sale of power.
9. **Distribution Loss:** It can be seen that the distribution loss is negative in the previous years. In 2012-13 the licensee has purchased 51.81MU and has sold 53.20 MU, ie the licensee is selling more than the purchase. The distribution loss is (-) 2.68% against the approved level of 0.7%.

Distribution loss reported by the Licensee

Category	2011-12 Actual	2012-13 Approved	2012-13 Actual
Total Energy Sales (MU)	57.21	60.00	53.20
Gross Energy Requirement (MU)	55.92	60.42	51.81
Distribution Loss (MU)	-1.29	0.42	-1.39
Distribution Loss (%)	-2.3%	0.70%	-2.68%

10. The Commission in its order on ARR&ERC for the year 2014-15 had stated that fixing distribution loss at normative level may entail in some excess revenue to the licensee due to metering discrepancies. Hence it is directed that, the excess revenue if any generated through the discrepancy in metering data, may be kept as a separate fund and refund/adjustment if any required shall be made as per the orders of the Commission.
11. The Commission had directed the licensee to test all the energy meters. The licensee had clarified that the testing is being done for all consumers inside CSEZA. The licensee stated that CTs/PTs and Meters of all 11kV consumers have been completed and test reports are compiled. According to the licensee all meters, CTs and PTs shall be tested/calibrated before October 2014 and detailed report shall be submitted to the Commission. The Commission had approved

Rs.32.74 lakhs for testing and calibration of meters. The licensee submitted an initial report on the testing of the CTs/PTs and meters of all the consumers of CSEZA and found that energy meters are having errors within a permissible limit. It was further stated that the entire work will be completed within the stipulated time itself. In the letter dated 18-11-2014, the licensee further reported that 73 CTs have found to be defective and needs to be replaced with required accuracy class. In this connection, the licensee may note that the Commission has allowed time till October, 2014 for completing the works relating to testing and calibration of meters and metering system. The licensee so far has only completed testing and about 73 CTs have to be replaced. The Commission notes with displeasure that the licensee has not been able to keep the time limit for completion of the work. The licensee shall replace the defective items as reported and furnish a report within one month including the details of expenses incurred for the same.

12. **Power Purchase Cost:** The contract demand of the licensee is 10MVA. The actual power purchase cost for the 2012-13 is Rs.2425.85 lakh against the approved amount of Rs.2203.27 lakh. The power purchase cost has increased compared to the approved level mainly on account of increase in BST. The BST was increased with effect from July 2012. The demand charge was increased from Rs.245/kVA to Rs.300/kVA and energy charges increased from Rs.3.16 per unit to Rs.4.30 per unit. The details of the cost of power purchase of the licensee are given below.

Total billing Demand kVA		10000
Rate (Rs./kVA)	(April-June 2012)	245
	(July 2012-March 2013)	300
Demand charges (Rs./lakh)		347.04
Excess demand charges (Rs./lakh)		3.35
Total demand charges (Rs.lakh)		350.39
Energy purchased (lakh units)		518.11
Rate (Rs.kWh)	(April-June 2012)	3.16
	(July 2012-March 2013)	4.30
Total energy charges (Rs.lakhs)		2078.81
Other charges		—
Total charges (Rs.Lakh)		2425.85

13. Based on the information furnished by the licensee, the Commission approves the actual power purchase cost reported by CSEZA.
14. **Employee Cost:** Actual employee cost in 2012-13 is higher than the amount approved by the Commission for the year. The approved amount of employee cost is Rs.122.50 lakhs comprising of Rs. 108 lakh O&M charges to M/s Kitco Ltd. and Rs.14.50 lakhs as the share of salaries. As per the truing up petition submitted by the licensee the employee cost amounts to Rs 128 lakh which includes operation & Management charge to M/s Kitco for running the power distribution system amounting to Rs.114 lakh and Rs.14 lakh apportioned as proportionate employee cost as salaries of persons from CSEZA. The increase of O&M charge to M/s Kitco is the reason for the increase in the employee cost. The licensee had clarified that the increase was owing to inflation in the previous year, which ranged between 10 to 12%, Accordingly, the O&M charges were enhanced by approximately 5%. The licensee also stated that all CTs, PTs and meters of all consumers in CSEZA are being tested under the support and supervision of the existing O&M agency. It was also stated that since the works on implementation of SCADA and web enabled pre-paid monitoring system are ongoing CSEZA was not in a position to invite offers again. All the above factors contributed to continuance of the agency without any considerable hike in their agency charges.
15. In this connection it may be noted that the Commission has directed to appoint the O&M agency through competitive bidding only. This direction was so far not been complied with and the reason given by the licensee for continuation with present agency is not fully justifiable in this context. The directives and the references issued by the Commission in this regard are clear and unambiguous. In the ARR&ERC Order for 2012-13 dated 25-4-2012 it was observed as follows:

“The Commission has considered the detailed argument of the licensee for engaging M/s Kitco. The arguments given by the licensee supporting the selection of O&M agency are not only unconvincing, but weak too. Selection of the agency for maintenance of distribution is entirely an internal affair of the licensee on which the Commission does not wish to intervene. However, the Commission has to ensure that the expenses incurred are reasonable, prudent and economical. The Commission is not against engaging any particular agency for O&M work. However, it is prudent and reasonable to ensure that such engagement is carried out in an economical manner and hence the Commission has insisted on having transparent competitive bidding process for

selecting the agency. The justification given by the licensee is only hypothetical and is not entirely convincing.

In the Order dated 15-1-2013 on the ARR&ERC 2013-14, the Commission has directed as follows:

“The Commission in the previous order has also expressed the view that O&M agencies are to be selected through transparent competitive bidding process. The progress reported is not satisfactory. The Licensee shall give necessary publicity and selection has to be made in time bound manner”

In the Order dated 1-7-2013 on the truing up of accounts for 2010-11 & 2011-12, the Commission observed as follows:

“The Commission in the previous truing up order dated 6-5-2011 for the years from 2006-07 to 2008-09, had directed the licensee to select the O&M agency through transparent bidding process. However, the licensee has not complied with the direction entirely and selected the same agency stating the reason that response to the tender was lukewarm. However, it is a fact that most of the other licensees, same procedures is being followed for O&M operations and agencies are selected based on competitive tendering process. The Commission allows the employee costs as per the accounts on the condition that the licensee strictly follows the direction now on in awarding the work relating to O&M operations.”

The Order dated 30-4-2014 on the ARR & ERC for 2014-15 had mentioned as follows:

“The Commission has directed in the earlier orders to select the O&M agency through competitive bidding process. The licensee in the previous year also stated that steps are being taken for selecting agency through transparent competitive bidding process. However, it is unfortunate to note that even after the lapse of three years, the licensee has not implemented the direction. The Commission views the lack of progress in this regard seriously. The licensee shall give necessary publicity for the tender so that adequate competition is ensured. The process has to be completed in a time bound manner. The approval of employee cost in the truing up will be subject to the satisfactory implementation of the directions.”

16. It can be seen from the above that, even after repeated directions, the licensee is not prepared to comply with the directive of the Commission to engage the O&M agency after transparent bidding process. All similar licensees in the State are

following transparent procedure or selection of O&M agency. The repeated arguments given by the licensee in this regard are not convincing and hence cannot be accepted at face value. Considering the above situation, the Commission has no alternative but to accept only the approved level of cost for the year 2012-13 for the purpose of truing up ie. Rs.122.50 lakhs. The licensee is further warned that unless the directives are complied with its spirit and tenor, the expenses will not be considered for passing through in the tariff.

17. **R&M expenses:** The actual R&M expense incurred for 2012-13 is Rs.9.78 lakh against Rs.15 lakh approved by the Commission. The licensee explains that the amount represents only the amount which has been paid and accounted in 2012-13. The repair work included filtration of transformer, purchase & installation of PBS, refilling of fire extinguishers. The licensee also stated that many works were carried out during the year 2012-13, the bills were settled in 2013-14. The Commission approves the actual R&M expenses for the purpose of truing up
18. **A&G Expenses:** Actual A&G expense during 2012-13 is Rs.16.11 lakh against the approved amount of Rs.32.16 lakh. The main difference is on account of insurance charges (Rs.12 lakh) legal charges (Rs.3 lakhs), other professional charges (Rs.2 lakh) allowed in the ARR&ERC for 2012-13. Rs.12 lakh was approved for insurance charges for the assets of the authority. The assets were not insured and the amount was not utilized. In the clarifications, the licensee has stated that insurance coverage has not been provided, but action has been initiated in this respect and expression of interest were invited from various insurance agencies. According to the licensee, since the insurance aspect would cover the entire assets including power distribution assets of the authority, the process is taking time for completion.
19. The Commission notes that the difference in approved and actual expenses is on account of insurance charges, which was claimed in the ARR&ERC exercise has not been materialized. This practice has to be dispensed with. The licensee has to insure the distribution assets immediately as no risk can be taken on this account. The Commission allows the A&G expenses as per the accounts for the purpose of truing up.
20. **Interest and Financing Charges:** The licensee stated that the total investment made for the distribution assets are part of the grants received from the

Government. Hence there is no interest charges booked for the distribution business.

21. **Depreciation:** The actual depreciation claimed by the licensee during 2012-13 is Rs.41.43 lakh against the approved depreciation of Rs.54.24 lakh. The difference in depreciation is on account of actual GFA less than the approved level and lower depreciation rate as per actual accounts. The details are given below:

Depreciation approved and actuals

Description of assets	GFA at the end of the year			Depreciation claimed		
	2011-12	2012-13	2012-13	2011-12	2012-13	2012-13
	(Actual)	(Approved)	(Actual	(Actual)	(Approved)	(Actual
	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)
Substations	484.97	558.97	484.97	17.45	20.77	17.45
11kV works	496.79	496.79	496.79	17.88	17.88	17.88
Distribution Transformer			3.50			0.06
Metering equipments	88.91	80.07	97.99	5.14	4.77	5.65
Office Equipments	0.98	15.34	1.38	0.15		0.21
Furniture& Fixtures	0.18	0.18	0.18		0.01	0.01
Others		60.98	1.35	0.01	10.81	0.17
Total	1,071.83	1,212.33	1,086.16	40.63	54.24	41.43

22. After considering the above details, the Commission approves the depreciation as per the accounts. As directed in the earlier orders, the licensee shall keep the approved depreciation amount in the fund created for transferring depreciation and the same can be utilised for additional capital expenditure/replacement of assets with prior approval of the Commission.

23. **Return on equity:** The licensee has not booked any equity in the books but claimed return of 14% of the 30% of the net fixed assets as Rs.99.77 lakh for 2012-13. The Commission in the previous truing up process in respect of licensee had considered the matter and allowed Rs.10 lakhs per year as surplus which is to be transferred to the reserves. The Commission in the ARR&ERC order of the licensee for the year 2012-13 had also allowed Rs.10 lakhs towards notional RoE. The same policy is being followed in this year also accordingly, a notional RoE as Rs.10 lakhs is allowed for 2012-13.

24. **Total Revenue Requirements:** As mentioned in the above sections, the total expenses allowed after the truing up process for 2012-13 are as given below:

Aggregate Revenue Requirements Approved for 2012-13

Particulars	2012-13 (Rs. Lakh)		
	ARR Order	Actual	Trued up
Power purchase cost	2,203.27	2,425.85	2,425.85
Interest and financing charges	-	---	---
Depreciation	54.24	41.43	41.43
Employee cost	122.50	128.00	122.50
R&M expense	15.00	9.78	9.78
A&G expense	32.16	16.11	16.11
Revenue return	10.00	99.77	10.00
Total expenses ARR	2,437.17	2,720.94	2,625.67

25. **Revenue from Sale of Power:** The revenue from the sale of power during 2012-13 was Rs.2541.15 lakh, which includes the revenue from own consumption. The details are given below:

Revenue from Sale of Power for 2012-13

Particulars	No. of consumers	Energy sales	Revenue in lakhs	Average realization
HT Consumers	25	44.63	2128.58	4.77
DHT Consumers	4	1.78	97.26	5.46
LT Consumers	117	6.58	281.44	4.28
LT Commercial	6	0.16	14.23	8.89
Temporary connections	6	0.05	15.50	31.00
Total	158	53.20	2537.01	
Recovery of electricity duty			79.37	
Excess over quota			158.74	
Power factor penalty			22.05	
Meter rent			1.56	
Fuel surcharge			91.42	
Total			353.14	
Less : Electricity duty payable			79.37	
SMS Charges			2.26	

Power factor incentive			16.95	
Fuel surcharge			91.68	
Excess over quota paid			158.74	
Total			349.00	
Net Revenue			2541.15	

26. As per the details given by the licensee, the revenue from own consumption is Rs.1.78 lakhs which include consumption in the electrical labs and substations. The Commission approves the revenue from sale of power as per the actual accounts for 2012-13.

27. **Non Tariff Income:** Non-tariff income as per the truing up petition for 2012-13 is Rs.131.24 lakh against the approved amount of Rs.105.90 lakh. The non-tariff income of Rs.129.76 lakh was accrued from investments and Rs.1.48 lakh was received as collection charges of duty and surcharge. The Commission notes that the licensee has not included the income from security deposit to KSEBL as part of the non-tariff income. As per the information furnished by the licensee vide letter dated 13-8-2014, an amount of Rs.152.32 lakhs is maintained as security deposit with KSEBL. The interest accrued on the amount is to be part of the non-tariff income. Accordingly the non-tariff income for the year approved for the purpose of truing up is Rs. 140.38 lakhs. The licensee may follow up the matter with KSEBL for realizing the interest on security deposit.

28. **Revenue surplus/(gap) for 2012-13:** The revenue surplus arrived at by the Commission after the truing up process is Rs. 55.86 lakh against Rs.48.55 lakh reported by the licensee for the year 2012-13. The revenue gap/surplus after the truing up process is as shown below:

Approved Revenue Surplus for 2012-13

Particulars	2012-13 (Rs.lakhs)		
	Approved	Actual	Trued up
Power purchase cost	2,203.27	2,425.85	2,425.85
Interest and financing charge	—	—	
Depreciation	54.24	41.43	41.43
Employee cost	122.50	128.00	122.50
R&M expense	15.00	9.78	9.78
A&G expense	32.16	16.11	16.11

Revenue return	10.00	99.77	10.00
Total expenses	2,437.17	2,720.94	2,625.67
Revenue from sale of power	2,371.03	2,541.15	2,541.15
Non tariff income	105.90	131.24	140.38
Total Revenue	2,476.93	2,672.39	2,681.53
Surplus/Gap	39.76	-48.55	55.86

29. The total revenue surplus after truing up process till 2011-12 was Rs. 1031.45 lakh, which will now be increased to Rs.1087.31 lakh.

Order of the Commission

30. The Commission after considering the truing up petition for the year 2012-13 filed by the licensee M/s CSEZA, objections thereof, and the clarifications and details provided by the licensee, has arrived at revenue surplus of Rs.55.86 lakh. The total surplus after the truing up process till 2012-13 is Rs. 1087.31 lakh.

31. It is directed that the licensee shall furnish a detailed report as directed in para 11 of this order

32. The petition is disposed of. Ordered accordingly.

Sd/-

Mathew George
Member

Sd/-

T.M. Manoharan
Chairman

Approved for issue

Secretary