

**KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM**

OA No.11/2016

In the matter of Truing up of accounts of M/s Cochin Special Economic Zone
Authority (CSEZA) for the financial year 2014-15

Applicant : M/s. Cochin Special Economic Zone Authority
Present : Shri T.M.Manoharan, Chairman
Shri K.Vikraman Nair, Member
Shri S.Venugopal, Member

ORDER DATED 09.11.2016

Background

- The Cochin Special Economic Zone Authority (hereinafter mentioned as CSEZA or the licensee) had submitted an application dated 07-01-2016 before the Commission for truing up of accounts for the financial year 2014-15. A comparative statement of the various expenses approved as per the order dated 30-04-2014 in OP No. 40/2013 in the matter of ARR&ERC of CSEZA for the year 2014-15 and the actual expenses claimed as per the application for truing up of accounts for the year 2014-15 is furnished below.

Table 1
Summary of application for Truing up of accounts for 2014-15
(Rs in lakh)

Particulars	ARR order	Application for truing up	Difference over approval
Total Energy Sales (MU)	55.22	53.66	-1.56
Distribution loss (MU)	0.55	0.91	0.36
Gross energy (MU)	55.77	54.57	-1.2
Distribution loss %	1.00%	1.69%	0.69%
Power Purchase Cost	2,851.00	3094.86	243.86
Depreciation	58.38	61.55	3.17
Employee Cost	135	129	-6
R&M Expenses	18.15	17.26	-0.89
A&G Expenses	32.03	21.06	-10.97
Return on Equity	10	99.77	89.77
Gross Revenue	3,104.56	3423.5	318.94
Revenue from sale of power	3,118.69	3217.07	98.38
Other Income	129.96	176.11	46.15
Total Revenue	3,248.65	3393.18	144.53
Revenue Surplus/(Gap)	144.09	-30.32	

Hearing on the application

2. Hearing on the application on truing up was held on 13-07-2016 at the Court Room, Office of the Commission. M/s CSEZA represented by Sri. Saju K Surendran, Deputy Commissioner CSEZA, Sri. K. C, Seetharaman, Chartered Accountant and Sri Krishna Varma, Resident Engineer of CSEZA. Sri. K. C Seetharaman presented the details of the application for the truing up of accounts. Sri Krishna Varma and Sri. K. C Seetharaman responded to the queries of the Commission.
3. Sri. Manoj.G, AEE,TRAC,KSEB Ltd. presented the comments of KSEB Ltd. and submitted written remarks on the application for the truing up of accounts which are summarized below.
 - (a) As per the records submitted by CSEZA, the initial investment of CSEZA was provided by Government of India as grant, which does not qualify for any returns. The Commission had approved a notional RoE of Rs.10.00 lakh, while truing up the accounts for the year 2013-14. KSEB Ltd submitted that since there is no debt and the entire amount invested is grant given by the Government of India, it is requested that the Commission may continue the same principle while approving the RoE for the year 2014-15.
 - (b) It is submitted that the T&D loss claimed by the licensee is 1.69% as against the approved loss of 1.00%.
 - (c) The licensee has claimed an employee cost of Rs.129 lakh wherein Rs.114.00 lakh is for the O&M charges for KITCO. The details of the employees engaged by M/s KITCO for O&M activities are not disclosed.
 - (d) The licensee has made a capital expenditure of Rs117.67 lakh without any approval. The internet and related charges of Rs.4.29 lakh was not approved by the Commission.
 - (e) Depreciation may be disallowed for the assets created out of consumer contribution and grants and only assets created from own funds may be considered for allowing depreciation.
 - (f) KSEB Ltd also submitted that the accumulated surplus of the licensee shall be allowed to be utilized in case of any deficits in future years

Analysis and Decision of the Commission

4. The Commission considered the application of the licensee for truing up of accounts, the clarifications and the additional details thereon along with comments of KSEB Ltd. The analysis and decisions of the Commission on the application for truing up of accounts are detailed below:
5. **Number of consumers and Sale of Power:** The actual energy sale as per the application for truing up was 53.66 MU as against the approved sale of 55.22 MU. The consumption of the different consumer categories are detailed below. The licensee had mentioned that the load pattern is not uniform throughout the year since the power distribution is to a multi-product Zone consisting of continuous process industries, seasonal industries and other industries whose power depends on demand from foreign buyers.

Table 2
CSEZA – Number of consumers and Sale of power for the year 2014-15

Category	ARR order		Application for true up	
	No.of consumers	MU	No.of consumers	(Actuals) MU
HT – Industrial [HT-I(A) & I(B)]	27	45.48	25	44.20
HT- Agricultural [HT-III(B)]	1	1.65	1	1.64
DHT – Industrial	6	2.05	6	1.26
LT – Industrial [LT-IV(A) & IV(B)]	10	0.19	100	6.16
LT – Commercial [LT-VII(A)]	100	5.80	1	0.01
LT – Other categories	4	0.05	17	0.39
[LT-VI(A),VI(B),VI(D),VI(F) & VIII(B)]				
Total consumption	148	55.22	150	53.66

6. The Commission has analysed the power consumption pattern and it is seen that 82% of the consumption is accounted for by the 25 consumers in the HT Industrial category. It is also noted that there has been some mix up in the categorization of consumers in the LT category as mentioned in the ARR orders which has been rectified in the True up. The Commission approves the actual sales of the licensee as claimed, for the purpose of truing up of accounts for the financial year 2014-15
7. **Distribution Loss:** -While approving the ARR of the licensee vide the order dated 30-04-2014, the Commission had approved the loss level as 1%, but the actual distribution loss as per the application for truing up was 1.69%. The distribution loss is a controllable factor. Further, the Commission has been taking a consistent stand that the excess power purchase on account the non-achievement of distribution loss cannot be passed on to the

consumers in the process of truing up. The details of the energy sale, distribution loss and energy purchase etc as per the order on ARR, actual as per the application for truing up and the same approved in the process of truing up by the Commission are detailed below.

Table 3
CSEZA - Distribution loss reported by the Licensee

Particulars	ARR order	Actual as per the application for true-up	Approved in the true up
Energy sale (MU)	55.22	53.66	53.66
Distribution loss (%)	1.00%	1.69%	1.00%
Distribution loss (MU)	0.55	0.91	0.54
Energy Purchased MU	55.77	54.57	54.20
Excess power purchase on account of non-achievement of distribution loss (MU)			0.37

8. **Power Purchase Cost:** As per the application for truing up, the total cost of power purchase for the year 2014-15 was Rs. 3094.86 lakh as against the approved power purchase cost of Rs.2851.00 lakh. According to the licensee, the increase in the power purchase cost was on account of the revision of BST of CSEZA from Rs.4.40/ unit to Rs.5.30/unit with effect from 16-8-2014. The details of the power purchase cost claimed by the licensee are shown below.

Table.4
Estimated Cost of Power Purchase for 2014-15

Particulars	Claimed by Licensee
Energy purchase (MU)	54.57
Demand charges (Rs.lakh)	378.79
Energy charges (Rs.lakh)	2716.07
Total cost of power purchase (Rs lakh)	3094.86
Average cost (Rs./kWh)	5.67

9. As detailed under Table-3 above, the excess power purchase on account of the non-achievement of the distribution loss level approved by the Commission for the year 2014-15 is 0.37 MU and accordingly the quantum of power purchase approved for the purpose of truing up is 54.20 MU only. Thus, the cost of power purchase approved for the purpose of truing up at the average cost @ Rs 5.67 /unit is Rs 3073.14 lakh.

Table-5
Approved Cost of Power Purchase for 2014-15

Particulars	Trued Up
Energy requirement (MU)	54.20
Average cost (Rs./kWh)	5.67
Total cost of power purchase (Rs.Lakh)	3073.14

10. **Employee Cost:**, The Commission had vide the order on ARR&ERC approved a total employee cost of Rs.135.00 lakh and the actual employee cost incurred according to the application for truing up of accounts submitted by the licensee is Rs.129.00 lakh. The major share of the employee cost claimed by CSEZA is for the O&M charges to M/s Kitco Ltd, amounting to Rs.114.00 lakh. The balance Rs.15.00 lakh only is claimed as employee cost of the staff of CSEZA. While approving the ARR of CSEZA for the year 2014-15, the Commission had issued following directions to select the O&M agency through competitive bidding process. The relevant portion of the order is extracted below.

“18.Employee Cost: The employee cost proposed by the licensee is Rs.135 lakh as against Rs. 128.50 lakh approved for the year 2013-14. The licensee has given the actual employee costs for 2012-13 as Rs.128 lakh mainly on account of O&M charges payable to M/s. KITCO Limited. The O&M charges to M/s KITCO is proposed at Rs.120.00 lakh for 2013-14. The proportion of cost of CSEZ employee is taken as Rs.15 lakh. The licensee in the filing stated that action has been taken to invite bids for appointing agency to operate and manage the power distribution system from the next financial year onwards. 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.

19.The licensee has proposed Rs.135 lakh as the employee cost for 2014-15, as against the approved expenses of Rs.128.50 lakh for

2013-14. The increase proposed is about 5% only. The Commission approves the increase projected by the licensee.”

11. However, the licensee has not submitted any details on the action taken to select the O&M agency through bidding process. The commission directs the licensee that the expenses given to the O&M agency should be booked under Repairs & Maintenance head, rather than the employee cost. It was also mentioned that the employee cost of Rs.15 lakh, shown under this head has been apportioned to the electricity business from the main business. The details of the apportionment and the base used for apportionment may also be shown in future submissions.
12. The licensee has not provided proof for claiming the amount paid to M/s KITCO as O&M expenses. The Commission direct the licensee to provide a copy of the contract agreement executed with M/s KITCO and the proof for the amount paid to M/s KITCO. Since the licensee is a Central Government institution and its accounts are audited by the C&AG, the Commission provisionally approves the employee cost as claimed by the licensee including the O&M charges paid to M/s KITCO during the year 2014-15, subject to the condition that, the licensee has to provide a copy of the contract agreement executed with M/s KITCO and the proof for the amount paid to M/s KITCO, within one month from the date of this order. If the licensee fails to provide the details, the Commission shall claw back the amount claimed as O&M charges to M/s KITCO. The summary of the employee cost provisionally approved for the year 2014-15 in the process of truing up is detailed below.

Table.6

CSEZA-Details of Employee Cost (Rs.lakh)

Particulars	ARR Approved	Truing up claimed	Approved for Truing up
Employee Cost	135.00	129.00	129.00

13. **Repairs and Maintenance Charges:** The actual R&M expense claimed by the licensee for the year 2014-15 is Rs 17.26 lakh against an approved amount of Rs.18.15 lakh vide the order on ARR&ERC. It is noted that, the labour portion of the R&M cost are booked under employee cost as O&M charges paid to M/s KITCO. Hence, the R&M cost claimed by the licensee may be the cost of materials only.

14. In the petition including the 'Data Form-J' submitted along with the petition, the licensee has not provided the details of the R&M claimed. However in the background document it is mentioned that the repair works included R&M of substation, CT/PT meter testing and calibration charges, replacement of roofing sheets of RMUs/ Switch Boards etc. The licensee has booked Rs 17.26 lakh under 'spares and maintenance'. The Commission approves the actual expenses claimed under the Repair and maintenance expenses for the year 2014-15.

Table.7
CSEZA-Details of R&M (Rs.lakh)

Particulars	ARR Approved	Truing up claimed	Approved for Truing up
R&M expenses	18.15	17.26	17.26

15. **Administration and General Expenses:** The actual amount booked on A&G expense is Rs.21.06 lakh against Rs. 32.03 lakh approved in the order on the ARR for the year 2014-15. It was stated that, though Rs.12.00 lakh was projected for insurance, only Rs.2.25 lakh was actually incurred for the same. The Commission approves the actual A&G expenses incurred as claimed by the licensee for the purpose of truing up.

Table.8
CSEZA-Details of A&G (Rs.lakh)

Particulars	ARR Approved	Truing up claimed	Approved for Truing up
A&G expenses	32.03	21.06	21.06

16. **Interest and Financing Charges:** The Government has met the entire investment on the infrastructure for the power distribution in CSEZA. The licensee has not claimed any interest and financing charges for 2014-15.
17. **Depreciation:** The actual depreciation booked for the year is Rs.61.55 lakh as against the approved amount of Rs.58.38 lakh vide the order on ARR&ERC. The details of the depreciation claimed in the application are tabulated hereunder.

Table.9
CSEZA- Depreciation claimed for truing up for 2014-15

Particulars	Details of GFA for the year 2014-15			Depreciation
	Asset at the beginning of the year	Asset added during the year	Total GFA at the end of the year	
	(Rs.lakh)	(Rs.lakh)	(Rs.lakh)	
Substations	484.97	-	484.97	25.61
11kV Works	496.79	-	496.79	26.23
Distribution transformer	3.50	-	3.50	0.18
Metering equipment	106.47	58.28	164.75	7.24
Batteries	1.35	-	1.35	0.07
Miscellaneous equipment	10.84	43.57	54.41	1.78
Furniture & Fixtures	0.18	0.26	0.44	0.01
Office Equipment	1.38	-	1.38	0.09
Distribution transformer LT	15.56	-	15.56	0.34
Total	1105.49	117.67	1223.16	61.55

18. As detailed above, as per the application for truing up submitted by the licensee, the assets addition amounts to Rs 117.67 lakh added during the year 2014-15 and depreciation has been claimed for the assets added during the year. However, while approving the ARR&ERC for the year 2014-15, the Commission has not considered the assets added during the years 2013-14 and 2014-15. The relevant portion of the order is extracted below.

15.Depreciation: *The licensee has claimed depreciation of Rs.62.24 lakh for the year 2014-15, which is inclusive of depreciation on assets to be created during the year on a proportionate basis. The GFA at the beginning of the year 2014-15 proposed by the licensee is Rs.1252.23 lakh. The total addition to GFA proposed for the year 2014-15 is Rs.382 lakh, which includes the solar power plant also.*

16. As per the filing of the licensee, the addition to GFA for 2013-14 is mainly on the metering equipment. As per the details given by the licensee, the addition to metering equipments include commissioning of SCADA and web enabled system and purchase of meters and testing equipments for calibration of meters. However, the licensee has not completed the calibration of meters so far and the process is going on. So that asset additions proposed for 2013-14 cannot be considered now. Further, the asset additions proposed for 2014-15, mainly consists of solar power plant for which the Commission has yet to accord approval. Hence for the purpose of estimation of

depreciation, GFA at the end of 2012-13 is considered. As such the depreciation allowed for the licensees is based on the revised CERC norms applicable from 2009 onwards. The Commission allows the depreciation to the licensee as per the CERC norms applicable for the tariff period 2009-14, on the condition that during the truing up process, the licensee has to show that the accounts are maintained to reflect the depreciation as per the CERC norms. In its absence, the depreciation as per the CERC norms applicable for the period from 2004 - 2009 will only be allowed in the truing up. The depreciation allowed for the year 2014-15 is as shown below:

Approved Depreciation for 2014-15 (Rs.lakh)

	Value of Assets at the beginning of 2013-14	Depreciation rate	Allowable depreciation
Substations	484.97	5.28%	25.61
11kV Works	496.79	5.28%	26.23
Distribution transformer	3.5	5.28%	0.18
Metering equipment	97.99	6.30%	6.17
Batteries	1.35	6.30%	0.09
Furniture & Fixtures	0.18	6.30%	0.01
Office Equipments	1.38	6.30%	0.09
Solar Plant (Not allowed)			
Total	1086.16		58.38

17. In the truing up of accounts for the years 2006-07 to 2009-10 the Commission had allowed depreciation and directed the licensee to create a fund for depreciation reserve. It is further directed that the amount of depreciation now allowed by the Commission also to be deposited in the said fund.”

19. Since the asset addition during the years 2013-14 and 2014-15 was done without the approval of the Commission, the depreciation on the same cannot be approved. Hence, in the process of truing up of accounts, the Commission approves the depreciation for the year at Rs 58.38 lakh for the assets existing at the beginning of the year 2013-14 at the depreciation as per CERC norms. The Commission directs the licensee to provide all the details of the assets added during the above years with proper justification to enable the Commission to evaluate the necessity of the capital expenditure. The Commission will allow the depreciation on these assets only after the above documents are submitted. It is in the best interest of the licensee to get the capital expenditure plan approved by the Commission before incurring the same.

Table.10
CSEZA- Depreciation (Rs.lakh)

Particulars	ARR Approved	Truing up claimed	Approved for Truing up
Depreciation	58.38	62.55	58.38

20. **Return on Equity:** The licensee has claimed Rs.99.77 lakh towards return on equity for the year 2014-15. The Commission has been allowing only a provisional amount of Rs.10 lakh towards notional RoE for each year.. From the available records before the commission, it is seen that the licensee is neither re-investing the surplus nor is it giving any returns to the Government by way of dividends on the equity. It is seen that all capital expenditure is being incurred by the Grants-in-aid received from the Government and there is a substantial amount of grants remaining unutilized with the licensee as per the audit report of CAG and hence an amount of Rs.10.00 lakh only is approved towards RoE for the year 2014-15. Moreover there are no borrowings too incurred by the licensee.
21. **Total Revenue Requirements:** The total expenses approved after truing up process for 2014-15 is as given below:

Table 11
CSEZA - Aggregate Revenue Requirements Approved for 2014-15

Particulars	2014-15 (Rs. in Lakh)		
	ARR Order	Actual	Trued Up
Power Purchase Cost	2,851.00	3,094.86	3,073.14
Interest and Financing Charges	-	-	-
Depreciation	58.38	61.55	58.38
Employee cost	135.00	129.00	129.00
R&M expenses	18.15	17.26	17.26
A&G expenses	32.03	21.06	21.06
Revenue Return	10.00	99.77	10.00
Total Expenses ARR	3,104.56	3,423.50	3,308.84

22. **Revenue from Sale of Power:** The revenue from the sale of power claimed by the licensee as per the application for truing up for the year 2014-15 is Rs.3217.07 lakh. The details as per application submitted are given below:

Table 12
CSEZA - Revenue from Sale of Power for 2014-15

Particulars	No.of consumers	Energy Sales (MU)	Revenue in Rs lakh	Avg. realisation (Rs/ kWh)
HT Consumers	26	45.84	2729.10	5.95
DHT	6	1.26	99.20	7.85
LT Consumers	118	6.56	412.35	6.29
Total	150	53.66	3240.65	6.04
Recovery of electricity duty and other state levies			87.19	
Power factor penalty			12.87	
Total			3340.71	
Less: Electricity Duty Payable			87.19	
Less Power factor incentive			36.45	
SubTotal			123.64	
Net Revenue			3217.07	

23. The Commission approves the revenue from sale of power as claimed as per the actual accounts for the year 2014-15.
24. **Non Tariff Income:** Non tariff income claimed as per the application for truing up of accounts is Rs.176.11 lakh, as against Rs.129.96 lakh approved vide the order dated 30-04-2014 in the matter of ARR&ERC for the year 2014-15. The non-tariff income claimed by the licensee includes interest on investments in fixed deposits and Security Deposit with KSEB Ltd as well as miscellaneous receipts. The non-tariff income of Rs.159.27 lakh was from interest from bank fixed deposits and Rs.12.95 as interest on securities with KSEB Ltd. The Commission approves the non-tariff income actually claimed by the licensee and directs the licensee to maintain the accounts under the accrual system following the relevant accounting standards.

Table 13
CSEZA - Non Tariff Income for 2014-15

Particulars	ARR Approved	Truing up claimed	Approved
Non tariff income (Rs.lakh)	129.96	176.11	176.11

25. **Revenue Surplus/(gap) for 2014-15:** The revenue gap/surplus after the truing up process for the year 2014-15 is as shown below:

Table 14
CSEZA - Approved Revenue Surplus for 2014-15

Particulars	2014-15 (Rs. in lakh)		
	Approved	Actual	Trued up
Power Purchase Cost	2,851.00	3,094.86	3,073.14
Depreciation	58.38	61.55	58.38
Employee Cost	135.00	129.00	129.00
R&M Expenses	18.15	17.26	17.26
A&G Expenses	32.03	21.06	21.06
Return on Equity	10.00	99.77	10.00
Gross Revenue Requirements	3,104.56	3,423.50	3,308.84
Revenue from sale of power	3,118.69	3,217.07	3,217.07
Other Income	129.96	176.11	176.11
Total Revenue	3,248.65	3,393.18	3,393.18
Revenue Surplus/(Gap)	144.09	-30.32	84.34

26. The total revenue surplus after truing up process till 2013-14 was Rs.1280.60. After the truing up of accounts for the financial year 2014-15 the accumulated surplus is Rs.1364.94 lakh.
27. In addition to the directives given by the Commission as stated elsewhere in this order the Commission, based on audit observation of CAG issues the following directives:
- a. To conduct timely internal audit of the accounts by a qualified Chartered Accountant of the distribution business and submit the internal audit report along with future filings of True up.
 - b. To conduct timely physical verification of fixed assets and submit its report.
 - c. Conduct physical verification of inventory of power distribution segment and submit its report.

Orders of the Commission

28. The Commission after considering the application filed by the licensee M/s. CSEZA for truing up of accounts for the financial year 2014-15, objections thereof, and the clarifications and details submitted by the licensee, has approved the aggregate revenue requirements at Rs.3308.84 lakh, the actual revenue realized at Rs.3393.18 lakh with a revenue surplus of Rs.84.34 lakh. The total surplus after the truing up accounts for the financial year 2014-15 is assessed at Rs.1364.94 lakh including the revenue surplus of Rs.1280.60 lakh till 2013-14.
29. The application is disposed of Ordered accordingly.

Sd/-
K.Vikraman Nair
Member

Sd/-
S.Venugopal
Member

Sd/-
T.M.Manoharan
Chairman

Approved for issue

Sd/-
Santhosh Kumar.K.B
Secretary