

KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

Present : Shri. R. Preman Dinaraj, Chairman
Adv. A.J. Wilson, Member (Law)

OP 61/2021

In the matter of : Truing Up of Accounts of M/s Rubber Park India Private Limited for the Financial Year 2019-20.
Petitioner : M/s Rubber Park India Private Limited (RPIL)
Represented by : Sri. M S Samuel, CFO & CS
Sri. Anees T M, Asst. Manager (Electrical)
Date of hearing : 10-02-2022

ORDER DATED 26-03-2022

1. M/s. Rubber Park India (P) Limited (hereinafter referred to as RPIL or the licensee or petitioner), is a distribution licensee of the Kerala State Electricity Regulatory Commission (herein after referred to as the Commission) under the Electricity Act, 2003 for distribution of electricity to the Industrial units within the industrial park at Valayanchirangara near Perumbavoor in Ernakulam District.
2. The Commission had notified the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 (hereinafter referred to as Tariff Regulations, 2018) for the Control Period 2018-19 to 2021-22 vide notification in the Official Gazette dated 26-10-2018. As per second proviso of Regulation 10(1) of the said Regulation mandates the filing of yearly petition for Truing Up of Accounts for the respective years and is reproduced below:

(1) Every generating business/company or transmission business/licensee or distribution business/licensee or State Load Despatch Centre shall file, on or before the thirty first day of October 2018, the following petitions for the Control Period:

a) Petition for approval of Aggregate Revenue Requirement and determination of tariff for each year of the Control Period

b) Petition for truing up of Aggregate Revenue Requirement for the financial years till 2016-17:

Provided that the truing up for the respective financial years shall be carried out under the relevant Regulations applicable to the respective years.

Provided further that every generating business/company or transmission business/licensee or distribution business/licensee or State Load Despatch Centre shall on or before the first day of January, 2019 file the petition for Truing up of Aggregate Revenue Requirement for the financial year 2017-18 and shall file on or before the Thirtieth day of November of every subsequent financial years during the Control Period, the petition for Truing up of Aggregate Revenue Requirement for the financial years subsequent to 2017-18.

3. The licensee vide letter No. RP/F/04/015173 dated 01-10-2021 has filed a petition for the Truing Up of Accounts for the financial year 2019-20 along with the accounts audited under the Companies Act, 2013. A copy of the Statutory Audit Report and letter from C&AG was also enclosed. In the Comments of CAG it has been stated that CAG has decided not to conduct the supplementary audit of the financial statements of the licensee for the year ended 31 March 2020 under Section 143(6)(a) of the Companies Act, 2013.
4. As per second proviso to Regulation 10(1) of the Tariff Regulations 2018, the petition for Truing Up of Accounts for 2019-20 is to be filed by the licensee on or before 30-11-2020. However, the licensee has filed the petition for the Truing Up of Accounts for the year 2019-20 only on 01-10-2021 with a delay of 305 days. The licensee has also filed the petition for condonation of delay along with the petition for the Truing Up of Accounts. The Commission after due consideration of the reason for the delay condoned it vide Order dated 08-10-2021 and admitted the petition as OP No. 61/2021.
5. The Commission had approved the ARR&ERC of the licensee for the Control Period from 2018-19 to 2021-22 as per Order dated 08-11-2019. As per this Order, the Commission had approved a revenue surplus of Rs.80.68 lakh for the period 2019-20. In the present petition, the licensee has arrived at a revenue deficit of Rs.2.03 lakh for the year 2019-20, as against a revenue surplus of Rs.80.68 lakh approved by the Commission in the ARR Order dated 08-11-2019. The revenue gap as per the original Truing Up petition filed on 01-10-2021 was Rs.2.03 lakhs. However, the licensee subsequently revised the revenue gap vide letter dated 28-12-2021 through additional submissions. A comparison of the ARR approved in the Order dated 08-11-2019 and the latest Truing Up claim vide submission dated 28-12-2021 along with the Trued-Up figures as per the Order dated 22-04-2021 for the year 2018-19 is shown below.

Table-1
Comparison of ARR&ERC for the period 2018-19 and 2019-20

Particulars	2018-19		2019-20		
	Truing Up Petition	Trued Up	Approved in ARR (A)	Truing Up Petition (B)	Difference (C)=(B)-(A)
	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)
Revenue from Sale of Power	1882.09	1882.09	2002.93	1734.05	-268.88
Income from wheeling charges	10.81	10.81	0.21	2.66	2.45
Non-Tariff Income	1.17	21.36	12.69	2.24*	-10.45
Total Income	1894.07	1914.26	2015.83	1738.95	-276.88
Purchase of Power	1685.18	1589.26	1735.58	1442.16	-293.42
Employee Cost	67.64	59.55	53.41	71.12	17.71
R&M Expenses	42.64	42.64	36.85	37.41	0.56
A &G Expenses	50.92	16.18	21.86	47.11	25.25
Depreciation	48.41	48.76	42.37	30.12	-12.25
Interest & Finance charges/ Bank Charges	0.49	0.49	2.19	0.77	-1.42
Interest on Normative Loan	61.90	6.59	1.28	59.03	57.75
Return on Equity	42.70	37.80	41.61	43.31	1.70
Tax on ROE	-	-	-	11.63	
Total Expenditure	1999.88	1801.27	1935.15	1742.67	-192.48
Net Surplus/(Deficit)	-105.81	112.99	80.68	-3.72	-76.96

*Subsequently Non-Tariff Income was revised to Rs.2.24 lakh from Rs.3.92 lakh as given in the original petition

6. The Commission vide letter dated 21-12-2021 sought clarifications from the licensee under the respective heads and directed the licensee to submit replies to the clarifications latest by 28-12-2021. The licensee furnished the details vide letter RP/F/04/015319 dated 28-12-2021.

Public Hearing on the Petition

7. The hearing on the petition was held on 10-02-2022 at 11.00 AM through video conference. Shri. M S Samuel, CFO &CS and Shri Anees T M, Asst. Manager (Electrical) participated in the hearing representing the licensee. Shri. Anees, presented the details of the petition on the Truing Up of Accounts for the year 2019-20. The important submissions made by licensee during the hearing are summarized below.
- a. The energy sale for the year 2019-20 as per the petition is 258.20 lakh units, the power purchased amounts to 263.40 lakh units and the distribution loss for the year is 1.98%.
 - b. The power purchase cost incurred for the year 2019-20 is Rs.1442.16 lakh for a purchase of 263.40 lakh units
 - c. The employee cost booked for the year 2019-20 amounts to Rs.71.12 lakh including one time employee cost of Rs.10.23 lakh.

- d. The Repair and maintenance cost claimed by the licensee for the year 2019-20 amounts to Rs 37.41 lakh including one time R&M expenditure of Rs. 0.84 lakh on account of implementation of GST.
 - e. The A&G expenses booked by the licensee during the year 2019-20 is Rs. 31.83 lakh.
 - f. The depreciation claimed by the licensee for the year 2019-20 is Rs 30.12 lakh.
 - g. The return on equity claimed by the licensee amounts to Rs 43.31 lakh which is calculated at the rate of 14% on 30% of the equity at the beginning of the year and on pro rata basis for the assets put to use during the financial year.
 - h. The tax on RoE claimed by the licensee for the year is Rs. 11.63 lakh
 - i. The interest and finance charges claimed by the licensee for the year amounts to Rs.59.80 lakh. This includes interest on normative loan amounting to Rs.59.03 lakh and BG and LC charges demanded by KSEB Ltd.
 - j. The total revenue from sale of power for sale of 256.50 lakh units accounted by the licensee is Rs.1734.05 lakh. The licensee has also accounted wheeling charge of Rs. 2.66 lakh for wheeling power to M/s M Fuel.
 - k. The non-tariff income booked by the licensee amounts to Rs.2.24 lakh which includes interest income, miscellaneous receipts and commission for collection of Electricity Duty.
 - l. There is a revenue gap of Rs.3.72 lakh for the year 2019-20.
- 8.** During the hearing, the Commission observed that, the Manager Technical is not an Electrical Engineer. Considering the risk involved in dealing with electrical substation and systems, the Commission remarked that any person discharging the functions of Manager Technical in the Electricity Distribution Business should have the necessary qualification in Electrical Engineering. However, in this case, the Commission noted that the Manager (Technical) is a Civil Engineer. Since he does not have requisite qualification, his salary and allowance shall not be allowable in Electricity Distribution Business. Further, the salary of Accounts Officer should be apportioned between Electricity Distribution Business and Park Business and the percentage of apportionment is left to be decided by the licensee based on the relative work load. Hence, the Commission is not prescribing the percentage at present. Even though security cost is higher it is allowed as the only Agency qualified in meeting the requirement of Minimum Wages Act.
- 9.** The KSEB Ltd, vide letter no. KSEB/TRAC/RP/R1/711 dated 10-02-2022 furnished the following counter statement/remarks upon the Truing Up of Accounts petition for the year 2019-20 filed by RPIL. The major points raised by KSEB Ltd are the following:

- a. To limit the O&M expenses to the norms of Rs.112.12 lakh as specified in the approved ARR&ERC Order dated 08-11-2019.
- b. In the ARR&ERC Order, the Commission had approved an RoE of Rs 41.61 lakhs for the eligible gross assets of Rs 990.70 lakhs. There is no increase in paid up capital. In the true up petition RPIL has claimed RoE of Rs 43.31 lakhs for an equity of Rs 1031.36 lakhs and Rs 9.47 for capitalization on pro rata basis. RoE may be limited to 14% on 30% of the paid-up capital.
- c. The demand charges and energy charges for 2019-20 claimed by the licensee shows slight difference with the KSEB Ltd records.
- d. RPIL has claimed the interest on normative loan as 8.55% of 70% of Net Fixed Assets i.e., Rs 59.03 lakhs against the ARR approved value of Rs 1.28 lakhs. The Commission in the review order on true up for 2015-16 & 2016-17 had given detailed explanation in the claim on interest on normative loan claimed by the licensee and had disallowed the claim. Also, as per Regulation 26(4) of KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 " If any fixed asset is capitalized on account of capital expenditure incurred prior to first day of April 2018, the debt equity ratio allowed by the Commission for determination of Tariff for period ending the Thirty First day of March 2018 shall be considered" It is stated in the ARR&ERC Review petition Order dated 24.04.2020 that the licensee is not eligible for normative loan upto 31.03.2018. As per regulations, the licensee is eligible for interest on normative loan for the assets created after 01-04-2018. The licensee has claimed normative loan of 70% of entire amount capitalized.

Analysis and decision of the Commission

10. The Commission has carefully considered the licensee's petition for Truing Up of Accounts for the year 2019-20, the additional clarifications submitted by the licensee vide letter dated 13-12-2021 and 28-12-2021, email dated 23-02-2022, the views presented by the licensee during the hearing held on 10-02-2022 and the counter statements furnished by the KSEB Ltd vide their letter dated 10-02-2022. The licensee has also submitted the details vide letter dated 29-07-2021 as directions issued by the Commission vide Order dated 22-04-2021, while finalising the Truing Up of accounts for the year 2018-19 in OP No. 35/2020. As part of the disposal of the Truing Up petition, the claim of the licensee towards each of the components has been analysed in detail. The analysis and decisions of the Commission as per the provisions of the Tariff Regulations 2018 on the petition for Truing Up of Accounts for the year 2019-20 are detailed below:

Sales and Consumer mix

11. The total energy sale as per the petition for Truing Up of Accounts for 2019-20 is 259.50 lakh units including open access sales units of 1.70 lakh as against the approved sale of 307.80 lakh units as per ARR&ERC Order dated 08-11-2019. The licensee has subsequently revised the total energy sales including open access energy consumption by vide letter dated 13-12-2021 and email dated 23-02-2022 through additional submissions. In the submission dated 13-12-2021 the licensee stated that, an inadvertent mistake had occurred in the page no.5 of the petition detailing the sale of power for the year 2019-20. The open access energy consumption of the HT-1A consumer M/s. Classic Auto tubes was added both under the energy sales of HT-1A consumers and under open access sale in Table-2 of the petition.
12. A comparison of the actual sale of power and number of consumers category wise for the year 2018-19 and 2019-20 (based on revised submissions) is given below.

Table 2
Comparison of Energy Sales and No of Consumers for 2018-19 and 2019-20

Particulars	As per Trued Up 2018-19		As per Truing Up Petition 2019-20	
	No. of Consumers	Sales (lakh units)	No. of Consumers	Sales (lakh units)
LT IV	24	33.20	23	31.20
LT VI B	1	0.10	1	0.20
LT VI F	2	1.10	2	1.00
LT VII A	14	1.80	15	3.30
Street Light	6	0.20	6	0.30
HT-1	15	260.20	18	219.20
Sub Total	62	296.70	65	255.20
Open Access KSEB (M/s M Fuel)		0.78		1.70
Open Access Classic Auto Tube Ltd		7.30		1.30
Total		304.78		258.20*

*Subsequently was revised to 258.20 lakh units from 259.50 lakh units as given in the original petition

13. The Commission examined in detail the submission of the licensee and noted that the actual sale of 258.20 lakh units for the year 2019-20 is lower than the previous year sale of 304.78 lakh units by 46.58 lakh units. The Commission sought the clarification from the licensee regarding the reason for difference in the actual amount of power purchase cost as per the petition is Rs.1442.164 lakh as against the approved power purchase cost of Rs.1735.58 lakh in the ARR& ERC Order dated 08-11-2019. In their clarification vide letter dated 28-12-2021, the licensee stated that, the licensee had projected the energy sales & power purchase cost for

the Control Period from 2018-19 to 2021-22 in the ARR & ERC petition based on the actual energy sales during the year 2017-18. The actual energy sales during the year 2018-19 was 304.80 lakh units which was almost near to the projected sale of 307.80 lakh units in the ARR & ERC petition.

14. Further, licensee submitted that the covid pandemic resulted in general industrial slowdown during the year 2019-20 and resulted in lower energy sales during the year compared with the energy sales proposed in the ARR & ERC petition. As such, the energy sales and power purchase cost are approved in the ARR & ERC for the year 2019-10 was 307.90 lakh units and Rs.1735.58 lakhs. However, the actual energy sales and power purchase cost was only 258.20 lakh units and Rs.1442.16 lakh.
15. The Commission further noted that the major reduction of sale units was under the category of HT-1 consumers by 41.00 lakh units (260.20 lakh units - 219.20 lakh units) compared to the previous year 2018-19. **After examining the details furnished by the licensee, the Commission hereby approves the licensee's energy sales of 255.20 lakh units for the year 2019-20 as per the petition.**

Distribution loss: -

16. The distribution loss as per the petition for Truing Up of Accounts for the year 2019-20 is 1.98%. The Commission had approved a distribution loss of 1.90% for the year 2019-20 as per the Order dated 08-11-2019 on ARR&ERC. As per the petition, the total energy input is 263.40 lakh units, which is inclusive of 260.40 lakh units of energy purchased from KSEB Ltd and 3.00 lakh units for open access consumption. The licensee has estimated the distribution loss based on the total energy input and output (including wheeled energy), i.e., the energy wheeled through their system to the M/s. M Fuel and M/s. Classic Auto Tubes Ltd had also been taken into consideration while estimating the losses.
17. The details as per the petition are tabulated below:

Table-3
Comparison of Distribution loss

Particulars	2018-19			2019-20	
	ARR Approved	As Per Truing Up Petition	Trued Up	ARR Approved	As Per Truing Up Petition
Energy Requirement (lakh units)	313.80	310.60	310.68	313.80	263.40
Total Energy Sales (lakh units)	307.80	304.78	304.78	307.80	258.20
Distribution loss (lakh units)	6.00	5.82	5.90	6.00	5.20
Distribution loss %	1.90%	1.87%	1.89%	1.90%	1.98%

18. In 2018-19, the Commission had approved 1.89% distribution loss including the wheeled energy. The Commission noted that, there is an increase of 0.11% of

distribution loss in 2019-20, compared to the actual loss of 1.87% claimed by the licensee for 2018-19. The distribution loss approved in the ARR & ERC Order dated 08-11-2019 was 1.90%. The licensee has not given any justification for the higher distribution loss (1.98%) compared to the ARR & ERC approved distribution loss of 1.90% and the previous years figure of 1.87% claimed in their Truing Up petition.

19. The Commission notes that, the reduction of distribution loss is an important performance parameter which has a direct impact on power purchase cost and energy available for distribution; it is a criterion that the licensees should continuously strive to improve upon. Regulation 12 of the Tariff Regulations, 2018 require that, if the actual distribution loss is higher than the approved level of distribution loss, then the quantum of power purchased corresponding to the excess distribution loss shall be disallowed at the average cost of power purchase as per the provisions of Clause 72(4) of the Tariff Regulations 2018. The relevant portion of the Regulations is shown below

“72. Distribution loss:

(4) Any variation between the actual level of distribution losses and the approved level of distribution losses shall be dealt with, as part of the truing up of the respective financial year in the Control Period, 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 purchased corresponding to the excess distribution for that financial year shall be disallowed at the average cost of power purchase for the respective financial year”

20. As seen from the above Regulation, the licensee is required to adhere to the distribution loss as approved by the Commission in the ARR & ERC Order for the respective year. However, due to the Covid-19 pandemic there was general industrial slowdown during the year 2019-20 resulting in lower energy sales during the year compared with the energy sales proposed in the ARR & ERC petition. Keeping this factor in mind, based on the approved distribution loss, the energy requirement approved for the year 2019-20 for the purpose of Truing Up of Accounts is as shown below:

Table-4
Approved distribution loss for 2019-20

Particulars	ARR Approved	As Per Truing Up Petition	Approved in Trued Up
Energy Requirement (lakh units)	313.80	263.40	263.40
Total Energy Sales (lakh units)	307.80	258.20	258.20
Distribution loss (lakh units)	6.00	5.20	5.20
Distribution loss %	1.90%	1.98%	1.98%

21. The Commission hereby approves the actual distribution loss of 1.98% as submitted in the Truing Up of Accounts petition. The Commission hereby states that this deviation has been given considering the pandemic condition as a one-time exception. The Commission further directs the licensee to strictly adhere to the approved ARR percentages of distribution loss as mentioned in the Commission's Order dated 08-11-2019 for the rest of the Control Period.

Power Purchase Cost

22. The power purchase cost claimed by the licensee as per the Truing Up petition is Rs.1442.16 lakh for 260.40 lakh units. The Commission in the ARR&ERC Order dated 08-11-2019 had approved the cost of power purchase of Rs.1735.58 lakh for a purchase of 313.80 lakh units. Compared to the previous year 2018-19 (Rs.5.53/per unit) average power purchase cost has increased by Rs.0.01/per unit in the year 2019-20 (Rs.5.54/per unit). The details of the claim made by the licensee are shown below.

Table-5
Power Purchase Cost claimed for 2019-20

Particulars	Approved in ARR 2019-20	As per Truing Up Petition 2019-20
Energy purchase (lakh units) (A)	313.80	260.40
Demand Charge (Rs in lakh) (B)	261.88	220.70
Energy Charge (Rs/kWh) (C)	4.55/4.75	4.55/4.75
Energy Charges (Rs in lakh) (D)	1473.70	1221.46
Total Power Purchase Cost (Rs in lakh) (E)= (B)+(D)	1735.58	1442.16
Average Power Purchase Cost (Rs. /Per unit) (F)= (E)/ (A)	5.53	5.54

23. As per 72(4) of the Tariff Regulations, 2018, the quantum of power purchased corresponding to the approved distribution loss only is allowed at the average cost of power purchase. In view of the approval of actual distribution loss of 1.98% for 2019-20 as per Para 21 of this Order, **the Commission hereby approves Rs. 1442.16 lakhs as power purchase cost for 260.40 lakh units in the year 2019-20.**

Operation & Maintenance expenses

24. Operation & Maintenance expenses are controllable items of expenditure and includes expenses like Employee Cost, Repair & Maintenance Expenses and Administrative & General Expenses. The admissibility of Operation & Maintenance expenses to RPIL are governed by Regulation 79(5) of Tariff Regulations 2018 and the relevant portion of the regulation is extracted below:

“79. Operation & Maintenance expenses.....

(5) The distribution business of Rubber Park of India (P) Ltd (RPIL) shall be allowed to recover operation and maintenance expenses as per the norms specified in Annexure-IX to these Regulations for each financial year of the Control Period.”

25. The Commission as per Regulation 79(5) of the Tariff Regulations, 2018 had approved the Operation & Maintenance cost of RPIL for the Control Period in the ARR Order dated 08-11-2019 and Rs.112.12 lakh was approved for the year 2019-20. The Commission however noted that, while Truing Up of Accounts for the year 2018-19, the Commission had approved Rs.118.37 lakh towards Operation & Maintenance expenses against the licensee claim of Rs.161.20 lakh. In the Truing Up petition for 2019-20, the licensee has claimed Rs.155.64 lakh as Operation and Maintenance expenses. This exceeds by Rs.43.52 lakh (Rs.155.64 lakh- Rs.112.12 lakh) when compared to the ARR&ERC approved amount of Rs. 112.12 lakh. A comparison of the claim made by the licensee and the amount approved by the Commission is shown below.

Table-6
Comparison of the O&M expenses for the year 2018-19 and 2019-20

O&M Expenses	2018-19		2019-20	
	As Per Truing Up Petition	Trued Up	As per Regulations	As per Truing Up Petition
	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)
Employee expenses	67.64	59.55	53.41	71.12
R&M expenses	42.64	42.64	36.85	37.41
A&G expenses	50.92	16.18	21.86	47.11
Total	161.20	118.37	112.12	155.64

26. From the above, it can be seen that the Operation & Maintenance expenditure claimed by the licensee has decreased by Rs.5.56 lakh to Rs.155.64 lakh in 2019-20 from the licensee claim of Rs.161.20 lakh in 2018-19. However, it is pertinent to note that the actual trued up amount approved by the Commission for 2018-19 was limited to Rs.118.37 lakh. Further, an analysis of the three items constituting the head O&M expenses indicates the nature of each of the three items and its relevance to the actual operational requirement of the Electricity distribution business. Each component of the Operation & Maintenance Expense is taken up separately for analysis.

Employee cost

27. The licensee in the petition of Truing Up of Accounts has claimed employee cost for Rs.71.12 lakh for the year 2019-20 as against the approved employee cost of Rs.53.41 lakh in the Tariff Regulations, 2018. A comparison of the employee cost for the current year 2019-20 and previous year 2018-19 is shown below.

Table-7
Comparison of Employee Cost for the year 2018-19 and 2019-20

Particulars	2018-19		2019-20	
	Audited (Rs. lakh)	Trued Up (Rs. lakh)	As per Regulations (Rs lakh)	Actual (Rs. lakh)
Basic Salary	26.69	59.55	53.41	28.29
Dearness Allowance (DA)	16.73			19.61
House Rent Allowance	1.74			1.82
Conveyance Allowance	1.32			1.40
Earned Leave Encashment	5.53			4.75
Other Allowances	0.15			0.15
Medical Reimbursement	2.70			5.47
Staff welfare expenses	0.54			0.54
Net Employee Costs	55.40			62.03
Provident Fund Contribution	4.94			5.50
Gratuity Payment	7.30			3.59
Gross Employee Expenses	67.64			71.12
Less: Expenses Capitalised	-			-
Net Employee Expenses	67.64			59.55

28. The Major Portion of the Employee Cost is towards Basic salary, DA, Earned leave encashment, Medical Reimbursement and Provident fund contribution etc. In the petition the licensee stated that, the licensee has incurred an additional one-time expenditure of Rs.4.55 lakh for pay revision during the year 2019-20. The licensee had implemented the pay revision of the employees on 01/07/2016 in line with the pay revision order of the State Government vide GO (P) No.85/2011/Fin dt. 26.02.2011 with effect from 01-07-2012. The licensee further stated that, as the pay revision of the employees was implemented in the financial year 2016-17, the effect of the increase in the salary of the employees was not covered in the normative employee expenditure arrived by the Commission from the base year 2015-16'
29. In addition to above licensee claimed an amount of Rs.1.68 lakh for the salary of Managing Director which is not reflected in normative employee cost. In this regard licensee mentioned that, the salary of MD for the year 2015-16 was only covered salary for 9 months (i.e., Rs.4.23 lakh) and which is covered only with the normative amount approved by the Commission. This uncovered salary of Rs.1.41 lakh of (3-month Salary) is claimed by the licensee with escalation rate up to 2019-20 (i.e., Rs.1.68 lakh).
30. The licensee claimed an amount of Rs.4.65 lakh on account of pay revision. But in Annexure 2, the same is shown as Rs.4.55 lakh. Further, the medical reimbursement expense has increased by Rs.2.77 lakh from Rs.2.70 lakh in 2018-19 and to Rs.5.47 lakh in 2019-20. The Commission sought the clarification in this regard among other clarifications on employee cost vide letter dated 21-12-2021.

31. The licensee vide their letter dated 28-12-2021 clarified that, the licensee had incurred a one-time expense of Rs.4.55 Lakhs towards pay revision. However, in the petition it was stated as Rs.4.65 Lakhs whereas in Annexure 2 it was shown correctly as Rs.4.55 Lakhs. Regarding the medical reimbursement, the licensee stated that, all employees of the licensee are eligible for reimbursement of the medical expenses incurred by them for their own treatment or/and their families. The eligibility for reimbursement as stated above is limited to one month's basic pay plus DA. The balance lying to the credit of the employee at the end of each year can be carried forward. But it can never be uncashed on retirement. The amount so brought forward could be used in case of any major treatment. The amount lying to the credit of the employee at the time of leaving service (by resignation, dismissal, retirement or death) shall not be paid by the Company. As such, the employees can reimburse medical expenses from their accumulated credit in the medical reimbursement account. The company had paid Rs.3.64 lakhs towards medical reimbursement of the employees during the year 2017-18 and at the same time the medical reimbursement paid to the employees during the next year 2018-19 was Rs.2.70 lakhs, which was 25% less than the previous financial year. As such the medical reimbursement cost paid by the company to employees will increase when the employees claim reimbursement for any major treatments and decrease vice versa. The comparative statement of the medical reimbursement paid to employees is detailed below.

Table-8

Details of Medical Reimbursement paid during the year 2018-19 & 2019-20

Designation	2018-19	2019-20
	Truing Up petition (Rs. lakhs)	Truing Up petition (Rs. lakhs)
Managing Director	0.28	0.44
Manager-Technical	0.64	0.88
Asst. Manager (Adm)	0.39	0.52
CFO & Company Secretary	0.49	0.51
Accounts Officer	0.22	0.38
Resident Engineer	0.45	2.10
Asst. Resident Engineer	0.23	0.64
Total	2.70	5.47

32. The licensee has further clarified the reason for increase the salary of Manager Technical. The basic salary plus DA of the Manager Technical for the year 2018-19 was Rs. 13.59 Lakhs and for the year 2019-20 was Rs. 14.95 Lakhs with an increase of Rs. 1.36 Lakhs which is inclusive of the DA revision arrear of Rs. 52338/- with effect from 01.01.2018. The Kerala govt. had revised the Dearness allowance from 112% to 115% with effect from 01.01.2018 and to 121% from 01.07.2018 vide the order G.O (P) No. 44/2019/Fin. Dated 04.04.2019. As such, the salary had increased on account of the DA revision during the year 2019-20

compared to the previous year 2018-19. Moreover, the company had released the DA revision arrears from 01.01.2018 to 01.04.2019 during the year 2019-20. The company had released DA revision arrears of Rs.52,338/- to the Manager Technical during the FY 2019-20. The percentage increase in the salary of Manager Technical excluding the DA arrears was only 6.18 %.

33. The Manager Technical is holding the charge of CGRF Chairperson and Nodal Officer of the power distribution business for reporting to Bureau of Energy Efficiency. The licensee stated that, the Commission had arrived the normative employee expenses of the company for the Control Period in the MYT tariff Regulation inclusive of the 100 percent salary of the Manager Technical. As such, the 100 percent salary of the Manager Technical was booked in the electricity distribution business of the company in the past years too.
34. The Commission has examined the details furnished by the licensee regarding each of the items of employee cost. The licensee has clarified that an expenditure of Rs.4.55 lakh on account of pay revision had been incurred an additional one-time expenditure during the year 2019-20.
35. ***The Commission is at a loss to understand the accounting principles adopted by the licensee. The pay revision was effected during 2016. Once the pay revision is over and the new pay and allowances fixed, the question of arrears on account of this pay revision or as a one-time expenditure does not arise. It should be the consistent accounting practice of the licensee to book the actual expenditure incurred year on year on account of employee expenses and include the actual expenditure in their truing up petition. Hence, the practice of the licensee of indicating a portion of the salary and allowances as pay revision arrears as late as in their 2019-2020 Truing Up petition is incorrect and must be rectified henceforth.***
36. Regarding the expenditure incurred towards pay and allowances, DA, HRA etc. of Manager Technical, on query by the Commission, the licensee clarified that, the Manager Technical is not an Electrical Engineer. As mentioned in Para 8 of this Order, the Commission is at a loss to understand as to how the licensee has appointed a Civil Engineer to handle the electrical systems of the licensee. It is a recognised fact that electricity distribution business is inherently risky to life and property. This risk has also been admitted by the licensee as per their submission mentioned at Paras 55 and 56 of this Order, wherein the licensee has drawn the Commission's attention to the EHT substation risks. In fact, the licensee themselves have appreciated the risks vide their clarification letter dated 28-12-2021, which is reproduced below:

"The major portions of the labours engaged by the consumers inside the park were un skilled Guest labours from various parts of the country. Most of these

labours are not aware of the hazardous condition of the substation and this will create severe safety issues for the licensee to operate the substation without proper security. Since inception, the distribution licensees including the KSEB Ltd were providing the protection for the substation for the general safety of the individuals and plants. In view of the fact that the substation is considered as a prohibited area, it is necessary for us to protect the substation for the general safety of the individuals.”

- 37.** The above submission of the licensee appropriately sums up their concern for safety. The Commission fully appreciates this concern and is of the strong view that only duly and appropriately qualified engineers and staff must be deployed for electricity distribution business. Utilizing the services of engineers and technicians who are not qualified in the electrical stream is not correct and cannot be permitted, considering the risk involved in the electricity distribution business. The Commission hereby directs that deployment of inappropriately qualified officers and technicians in the electricity distribution business must be stopped forthwith.
- 38.** The licensee has further submitted that the Manager Technical is also holding the charge of CGRF chairperson and Nodal officer of the power distribution business for reporting to Bureau of Energy Efficiency. However, the deployment of Manager Technical for these duties does not justify the inclusion of his salary and allowances in the Electricity Distribution business. Instead, the licensee can entrust these responsibilities to one of the other duly qualified officers posted in the licensee's Electricity Distribution Business, without any additional cost. Vide clarification letter dated 28-12-2021, the licensee in their submission of employee wise cost apportionment has admitted that Rs.19.93 lakh has been paid as salary and allowances to the Manager Technical. As explained above, there is no justification for including this expenditure in the Electricity Distribution Business. Under such circumstances, the Commission is constrained to disallow Rs.19.93 lakh paid as the salary and allowance to Manager Technical from the Electricity Distribution Business. ***Therefore, the Commission hereby disallows the Salary and related expenses amounting to Rs.19.93 lakh pertaining to Manager Technical from the employee cost.***
- 39.** Regarding the medical reimbursement, it is seen that the expense has increased by Rs.2.77 lakh from Rs.2.70 lakh in 2018-19 to Rs.5.47 lakh in the year 2019-20. The Commission notes that only 6 number of employees are borne on the strength of the electricity distribution business. ***Hence, the Commission recommends that the licensee explore the possibility of taking medical insurance for these 6 employees.***

Table – 9
Employee cost approved for the year 2019-20

Particulars	As per Regulations (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
Employee Cost	53.41	71.12	51.19

40. Accordingly, the allowable employee expenses is approved as Rs.51.19 lakh (Rs.71.12 lakh- Rs.19.93 lakh). The Commission also noted that the licensee vide their clarification dated 28-12-2020 has given the apportionment of salary and allowances to the electricity distribution business, wherein 100% of the accounts officer's expenses, 60% of the CFO & Company Secretary and 50% of the M.D's salary and allowances have been apportioned. The Commission hereby directs the licensee to review these apportionments and to arrive at an objective basis, since these employees are also being utilized for the park business. This apportionment ratio shall be filed before the Commission within 3 months of the date of issue of this Order.

R & M Expenses

41. The actual amount of Repair and maintenance cost claimed by the licensee is Rs.37.41 lakh as against the approved amount as per the Tariff Regulation, 2018 of Rs.36.85 lakh for the year 2019- 20. The actual claim made by the licensee is slightly higher by Rs.0.56 lakh (Rs.37.41 lakh- Rs.36.85 lakh) when compared to the norms in Tariff Regulations, 2018. The licensee has explained that the R&M expenses excluding GST amounted (Rs.0.83 lakhs) to Rs.36.58 lakhs (37.41- 0.83). The comparison of the R&M for the years 2018-19 and 2019-20 as shown below.

Table – 10
Details of R&M expenses for the years 2018-19 and 2019-20

Particulars	2018-19		2019-20	
	As Per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	As per Regulations (Rs lakh)	As per Truing Up Petition (Rs. lakh)
Lines & Cable Networks	42.64	42.64	36.85	37.41
Total	42.64	42.64	36.85	37.41

42. In the clarification dated 28-12-2021 the licensee stated that, the R&M expenses of Rs. 37.41 lakhs, booked under the line and cable network, are the expenses incurred in the nature of regular and routine maintenance. The major expense coming under the said R&M expenses is the service bill payment to the O&M contractor amounting to Rs.32.97 lakh towards the operation and maintenance of

substation and distribution network of the company. The licensee further stated that, tendering of the operation and maintenance of substation and distribution network is for a period of three years. The licensee had tendered the work in 2016 and work order issued was up to 31-06-2019. The company had invited tender during the year 2018-19 and the work was awarded to the lowest bidder with effect from 01-07-2019 for three years. As such, the basic charge of R&M has changed with effect from 01-07-2019 on account of the new work order. The licensee also stated that, they were demanding additional labour on per day basis as and when required from the contractor. The monthly amount will vary if the company engages any additional labours during that month. The rate effective from 01-07-2019 as per the work awarded to the lowest bidder is detailed below.

a) Monthly Contract price for Operation & Maintenance

Table – 11
Monthly Contract price for Operation & Maintenance

Sl. No.	Year	Monthly contract price (Rs. lakh)
1	First Year	2.35
2	Second Year	2.50
3	Third Year	2.65

b) The unit price for the supply of skilled and unskilled additional labours as and when required basis.

Table – 12
Unit price for the supply of skilled and unskilled additional labours

Sl. No.	Item Description	Unit Price/Basic Rate (Rs. per day) for 3 years (Includes all taxes and duties, excluding GST)
1	The personnel having diploma in Electrical Engineering with 3 years experience in the design, wiring and trouble shooting of control panel wiring and relay circuit	1,200
2	Electrician/Wireman (ITI/ITC National Trade Certificate Holder) with one year experience in the relevant trade	6,00
3	Skilled Labour (Welder, Fitter, cable jointer etc.)	1,500
4	Unskilled Labour	1,000
5	Labour for earth excavation work	1,000

43. Regarding the tendering process the licensee stated that, tendering the operation and maintenance of substation and distribution network was done for a period of three years. The licensee had tendered the work in 2016 and work order issued

was up to 30.06.2019. The company had invited tender during the year 2018-19 and the work was awarded to the lowest bidder with effect from 01.07.2019 for three years. Both the tenders are invited through the e tender site of Govt. of Kerala. The licensee had given wide publicity for the tender through one Malayalam daily and one English daily and published the tender document in the website of the company. The tender for the years 2016 and 2019 were advertised in all Kerala edition of Indian Express and Mathrubhumi newspapers. The details regarding the tender are furnished below.

Table – 13
Details of Participants and others details of Tender

Sl. No.	Tender No.	Name of the Work	Name of participants
1	RPE-01/2016(R)	Operation and maintenance of 25 MVA (2 x 12.5 MVA), 110/11 KV Substation, HT < power distribution network at Rubber Park, Irapuram in Kunnathunadu Taluk, Ernakulam Dist, Kerala State.	L-1. Electrotek Engineers (P) Ltd. L-2. Sree Bhadra Electrical Services & Traders (P) Ltd
2	RPE-01/2019	Operation and maintenance of 25 MVA (2 x 12.5 MVA), 110/11 KV Substation, HT & LT power distribution network at Rubber Park, Irapuram in Kunnathunadu Taluk, Ernakulam Dist, Kerala State.	L-1. Geresh Electricals (P) Ltd. L-2. Electrotek Engineers (P) Ltd. L-3. Sterling and Wilson (P) Ltd.

Table – 14
Name of the selected contractors

Period of contract	Name of the selected contractor	Monthly Rate
01/07/2016 to 30/06/2019	Electrotek Engineers (P) Ltd.	First year per month- Rs. 1,95,185 + Tax Second year per month- Rs. 2,09,238 + Tax Third Year- Rs. 2,24,303 + Tax
01/07/2019 to 30/06/2022	Geresh Electricals (P) Ltd.	First year per month- Rs. 2,35,000 + Tax Second year per month- Rs. 2,50,000 + Tax Third Year- Rs. 2,65,000 + Tax

- 44.** The Commission has carefully examined the submission of the licensee and approves the R&M expenses for the year 2019-20 is shown below.

Table-15
R&M expenses approved for truing up 2019-20

Particulars	As per Regulations (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	35.85	37.41	37.41

45. The Commission considering the above clarification submitted hereby approves the R&M expenses as claimed by the licensee Rs.37.41 lakh for the year 2019-20

Administration & General expenses

46. The A&G expense claimed by the licensee as per the petition for Truing Up of Accounts is Rs.47.11 lakh as against the approved amount of Rs.21.86 lakh in Tariff Regulations, 2018. **The Commission notes that A&G expenses are those items of expenditure which are supplementary to and support the actual operation of the licensee. Hence, there is a requirement to keep such directly non-operational expenditure to its absolutely required limits.** The Commission also noted that A&G expenses include various items such as rent, rates and taxes, insurance, legal charges, vehicle running expenses, license fee, security arrangement and electricity duty payable etc. The details of claim made by the licensee are furnished below.

Table 16
Comparison of A&G expenses for the year 2018-19 and 2019-20

Particulars	2018-19		2019-20	
	Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	Approved (Rs. lakh)	Truing Up Petition (Rs. lakh)
Rent Rates & Taxes	0.50	0.50	21.86	0.41
Insurance	2.76	2.76		2.98
Telephone & Postage, etc.	0.30	0.30		0.21
Legal charges	3.47	1.52		1.03
Audit Fees	1.39	1.39		1.31
Other Professional charges	-	-		1.95
Conveyance	0.66	0.66		0.49
Vehicle Running Expenses Truck / Delivery Van	4.87	0.00		6.07
Electricity charges	0.98	0.98		1.30
Water charges	0.71	0.71		0.42
Printing & Stationery	0.63	0.63		0.67
Advertisements, exhibition publicity	-	-		0.44
Training expenses	0.15	0.15		0.20
Miscellaneous Expenses	1.28	1.28		1.16
Office Expenses	0.36	0.36		0.70
License Fee and other related fee	2.74	2.74		2.54
V-sat, Internet and related charges	0.20	0.20		0.18
Security arrangements	9.68	0.00		9.76
Others	2.00	2.00		-
Gross A&G Expenses	32.68	16.18		

Ele. Duty u/s 3(l), KED Act	18.24	0.00		15.28
Net A&G Expenses	50.92	16.18	21.86	47.11

- 47.** In the petition the licensee stated that, the licensee had incurred an actual A&G expenditure of Rs.31.83 lakh which is 2.60% lower than the actual A&G expenditure of Rs. 32.68 lakh incurred by the company during the year 2018-19. The major item of expense booked under A&G expense is the electricity duty payable by the licensee to the Government under Section 3(1) of the Kerala Electricity Duty Act 1963 which is Rs.15.28 lakh. The A&G expenses excluding the claim under Section 3(1) Duty is Rs.31.83 lakh.
- 48.** Another major expense is Rs.9.76 lakh towards security arrangements, Rs.1.03 lakh towards legal charges, Rs.6.07 lakh towards vehicle running expenses, Rs.2.54 lakh towards license fee and other related fee and Rs.2.98 lakh towards insurance. The Commission sought the clarification regarding the details and justification of vehicle running expense of Rs.6.07 lakh (around 25% increase compared to the previous year) given in Form D 3.4(b) and details of other professional charges of Rs.1.95 lakh and legal charges of Rs.1.03 lakh given in form D 3.4(b)
- 49.** In the clarification's furnished vide letter No. RP/F/04/015319 dated 28-12-2021, licensee stated that, the licensee had hired a car for official use of the Managing Director and another vehicle for the maintenance and administrative activities of the Park. The licensee has been booking only fifty percentage of the vehicle running expenditure of the general vehicle and the vehicle hired for Managing Director in the vehicle running expenditure in distribution business. The licensee had incurred vehicle running expense of Rs.4.87 Lakhs and Rs.6.07 Lakhs in FY 2018-19 and FY 2019-20 respectively. The amount Rs.1.95 lakhs of Professional charges represent 50% of the retainer fee paid to the legal advisor on a monthly basis and fee paid to Chartered Accountants for appearing in various income tax cases. The amount Rs.1.03 lakhs represent fee paid to APTEL for filing appeal against Truing Up of Accounts Order of FY 2016-17.
- 50.** In the previous Truing Up of Accounts Order dated 22-04-2021, the Commission had directed the licensee that, the licensee shall submit full details and justification for allowing vehicle running expenses separately within 3 months of the Order. The licensee submitted the details vide letter dated 29-07-2021 and stated that, the licensee has been booking fifty percentage of the vehicle running expenditure of the general vehicle and fifty percentage of the vehicle running expenditure of the vehicle hired for Managing Director in the vehicle running expenditure column of the A&G expenditure.
- 51.** The licensee has been following prepaid billing system for the consumers from the inception. The licensee had used power line communication system for the

automatic meter reading purpose till the year 2010 and the said communication system failed during 2010. The licensee is following manual meter reading in 2 days interval for updating the prepaid balance of the consumers and for which the licensee is using the hired vehicle. The licensed area of the company is spread over in two geographical locations namely Site B where office locates and Site A which is at a distance of 2 KM from the office. The company officials are depending on the general vehicle for site visits in connection with the inspection and supervision of the works.

- 52.** The licensee further stated that, 'the Hon. Commission is also aware that the company is located in a very remote area with very less public transportation facility'. The licensee mainly depends on Perumbavoor and Kolenchery towns which are at a distance of 10-12 KM away from the office for stationary and other material purchases. Similarly, for banking related services including check clearance, the company officials have to travel daily to the bank branches which are located at a distance of 5 KM and government treasury located at a distance of 12 Km. As such, the general vehicle is very much necessary for the company for the day-to-day activities.
- 53.** The licensee has provided chauffeur driven car for the use of Managing Director. The fifty percentage of the salary of the Managing Director is booked in the power distribution business. As such the fifty percentages of the total vehicle hire charges of the said vehicle used for the managing director is booked in the vehicle running expenditure coming under the A&G expenditure. The details of the total vehicle running expenditure incurred by the company during the year 2018-19 is tabulated below.

Table 17
Details of the total vehicle running expenditure incurred year 2018-19

Sl. No.	Particulars	Total cost incurred by the company (Rs.lakh)	Percentage apportioned	Incurred for the power distribution (Rs.lakh)
1	General vehicle Hire charges	4.06	50%	2.03
2	MD vehicle hire charges	5.67	50%	2.83
3	Total	9.74	50%	4.87

- 54.** In the previous Truing Up of Accounts Order dated 22-04-2021, the Commission had disallowed the security expenses of Rs.9.68 lakh which was nearly 30% of A&G expense (excluding Section 3(1) Duty) and the licensee had not submitted justification for such high expenditure.
- 55.** The licensee however submitted the details on this regard vide letter dated 29-07-2021 and letter dated 28-12-2021. The licensee stated that, the Commission is aware that the Extra High-Tension substations are potentially high- risk

environments. One step in the wrong direction can bring people too close to live equipment, an accidental stretch of an arm flipping a control switch can bring the entire facility to a grinding halt, or a dropped wrench can trigger an explosion. There are simply so many ways in which things can go wrong. These not only cause damage to assets and infrastructure but also compromise the safety and lives of personnel, apart from interrupting power transmission or distribution.

- 56.** In order to avoid such instances all the EHT substations of KSEB Ltd were made under the prohibited area classification. The major portions of the labours engaged by the consumers inside the park were un skilled Guest labours from various parts of the country. Most of these labours are not aware of the hazardous condition of the substation and this will create severe safety issues for the licensee to operate the substation without proper security. Since inception, the distribution licensees including the KSEB Ltd were providing the protection for the substation for the general safety of the individuals and plants. In view of the fact that the substation is considered as a prohibited area, it is necessary for us to protect the substation for the general safety of the individuals. The licensee had outsourced the security services to third party service providers through open tendering.
- 57.** The licensee further stated that, the loss to the licensee in the input tax credit on the apportioned expenditures after the implementation of GST was brought to the notice of the Hon. Commission during the Truing Up hearing of the year 2017-18 and the Hon. Commission had directed us vide the paragraph 34 of the Truing Up of Accounts 2017-18 Order dated 24-03-2020 to segregate the common expenditure in the A&G expenses towards the distribution business in further truing up submissions. As such, the licensee had implemented separate billing of the security expenditure towards the power distribution business from the financial year 2021-22.
- 58.** The licensee had outsourced a total of 8 numbers of security personnel for the company and in which 3 number of security personnel were deployed for substation protection. The company had booked 50% of the total security cost of the company to the power distribution business in the year 2018-19 and 2019-20. The company has been ensuring the minimum wages as per the notification no. 28448/E1/2013/LBR dt. 21.01.2016 (G.O (P) no. 38/2017/LBR dt. 09.05.2017) during the time of tendering stage itself.
- 59.** The licensee also stated the tendering process of Security services in the submissions. The licensee had published an Advertisement inviting fresh tenders for the supply of Security Services in the Mathrubhumi and Indian Express on 13.01.2017 complying with the Minimum Wages Act and other statutory compliances. As the proposed notification for revision of minimum wages for security services was published and were expecting the final notification on revised minimum wages for security services very soon, the Company had invited tenders

in two price bids – one as per the present minimum wages and the other as per the proposed minimum wages.

- 60.** Accordingly, three tenders were received. Two tenderers were disqualified at the prequalification level due to non submission of relevant documents as per the tender conditions even after giving them sufficient time for submitting the documents. And only one Tenderer was qualified and their price bid was opened on 16.01.2017. M/s. Broadview Security & Manpower Services (P) Ltd have quoted Rs. 91600/- (as per existing minimum wages rate) and Rs. 103600/- (as per proposed minimum wages rate), excluding Service Tax. Since both the rates quoted by them were not based on the present and proposed minimum wages, their tender was not considered after obtaining legal opinion.
- 61.** The licensee submitted that again the security service was retendered as decided by the Board at its Meeting held on 27.02.2017. Accordingly, four tenders were received. One tender was disqualified at the prequalification level due to non submission of relevant documents. Price bids of the remaining three tenderers were opened on 23.03.2017 and details are shown below.

Table 18
Details of tender quoted for Proposed Min. Wages/8 Guards

	M/s. Ideal Support Services (P) Ltd (Rs. lakh)	M/s. Broadview Security & Manpower Services (P) Ltd (Rs. lakh)	M/s. Elegant Associates (Rs. lakh)
Basic	0.99	0.71	0.81
DA	0.08	0.1	0.08
EPF	0.14	0.11	0.12
ESI	0.05	0.04	0.04
Service Charge	0.06	0.3	0.39
Total	1.32	1.26	1.44

- 62.** While comparing the rates quoted by three tenderers, M/s. Broadview Security have quoted lowest, second lowest M/s. Ideal Support Services and the third lowest M/s. Elegant Associates. But the rates of M/s. Ideal Services and M/s. Broadview Security cannot be considered as they have not quoted as per the notification no. 28448/E1/2013/LBR dt. 21.01.2016 (G.O (P) no. 38/2017/LBR dt. 09.05.2017).M/s. Ideal Support Services have quoted for the Supervisor grade which is higher than the unarmed security grade. And the rates quoted at Rs. 5632/- by them towards service charge was too low to meet the administrative expenses and overhead costs, Reliever charges, Overtime charges, Uniform Allowance, Washing Allowance, Night Duty Allowance, bonus, gratuity, employers' contribution towards Welfare Fund etc for eight guards. In the case of M/s. Broadview Security & Manpower Services, the amount they have quoted was not as per the notification.
- 63.** The matter was discussed with legal advisor of the licensee and according to him

the tender submitted by M/s. Broadview Security and M/s. Ideal Support Services cannot be considered as their quotes are not in accordance with the minimum rates of wages. And as the price bid submitted by M/s. Elegant Associates are as per the minimum rates of wages, their tender can be considered and hence work can be awarded to them. On negotiation, M/s. Elegant Associates have finally reduced their rates from Rs. 1,44,072/- to Rs. 1,37,296/- for eight guards by reducing their service charges from Rs. 38,640/- to Rs.31,864/-. As there was an increase in VDA after the tendering of work, the same was considered while awarding the contract and hence the company had awarded the work for Rs. 1,40,168/- (17521*8) pm.

64. The Commission has examined the details furnished by the licensee. As per the Tariff Regulations, 2018, the A&G expenses approved for the year was Rs.21.86 lakh. The A&G expense claimed by the licensee for the year 2018-19 is Rs.31.83 lakh (excluding Section 3(1) duty). The Commission has examined each of the expenditure listed in Table 16 and has the following comments.
65. The Commission notes that the legal charges of Rs.1.03 lakhs were expended by the licensee for challenging the Commission's APTEL litigation, the Commission is of the firm view that such expenditure unless otherwise Ordered by Hon APTEL in their judgement, cannot be allowed. **Hence this expenditure of Rs.1.03 lakh is disallowed.**
66. Further security expenses of Rs.9.76 lakh is nearly 31% of A&G expense (excluding Section 3(1) duty). The Commission observed that, the licensee has outsourced the security services to third party services providers through open tendering process and the licensee had been ensured the minimum wages as per the notification no. 28448/E1/2013/LBR dt. 21.01.2016 (G.O (P) no. 38/2017/LBR dt. 09.05.2017) during the time of tendering stage itself. In view of the licensee's clarification and after verification of the relevant documents, the Commission is of the view that the cost of security services can be allowed on prorata basis to the total number of securities personal engaged in Distribution Business. As per the petition, the total number of security persons engaged were 8 for the combined business and only 3 persons were engaged to Distribution Business. So only proportionate cost on security expenses can be allowed to the Distribution Business.
67. The total cost of security charges booked for the combined business was Rs.19.36 lakh and Rs.19.52 lakh for 2018-19 and 2019-20 respectively. This expense was for 8 security personnel. On apportion to 3 security personnel the amount of 3 security personnel for the year 2018-19 is Rs.7.26 lakh (19.36/8*3) and for the year 2019-20 is Rs.7.32 lakh (19.52/8*3). **Accordingly, the Commission here by approves the actual cost of Rs. 7.26 lakh for the year 2018-19 as prior period item and Rs.7.32 lakh for the year 2019-20 towards security arrangement under the head A&G expenses.**

68. Further Rs.4.87 lakhs and Rs.6.07 lakh has claimed as Vehicle Running Expenses /Truck/ Delivery Van for the years 2018-19 and 2019-20. **The Commission after examining the submission of the licensee and necessity of the expenditure hereby approves the amount of Rs.6.07 lakh for 2019-20 and Rs.4.87 lakh prior period items as Vehicle Running Expenses /Truck/ Delivery Van.**
69. The licensee has booked Rs.15.28 lakh towards Electricity Duty under A&G expenses. The Commission in the previous orders had stated that Duty under section 3 cannot be passed on to the consumers in view of the statutory provisions of the Kerala Electricity Duty Act, 1963. **Hence the claim of Rs.15.28 lakh amount is disallowed.**
70. The total employee cost approved for the year 2019-20 is shown below.

Table-19
A&G expenses approved for the year 2019-20

Particulars	2019-20		
	Approved in Regulations (Rs. lakh)	Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Rent Rates & Taxes		0.41	0.41
Insurance		2.98	2.98
Telephone & Postage, etc.		0.21	0.21
Legal charges		1.03	0.00
Audit Fees		1.31	1.31
Other Professional charges		1.95	1.95
Conveyance		0.49	0.49
Vehicle Running Expenses Truck / Delivery Van		6.07	6.07
Electricity charges		1.30	1.30
Water charges	21.86	0.42	0.42
Printing & Stationery		0.67	0.67
Advertisements, exhibition publicity		0.44	0.44
Training expenses		0.20	0.20
Miscellaneous Expenses		1.16	1.16
Office Expenses		0.70	0.70
License Fee and other related fee		2.54	2.54
V-sat, Internet and related charges		0.18	0.18
Security arrangements		9.76	7.32
Gross A&G Expenses		31.83	28.35
Ele. Duty u/s 3(l), KED Act		15.28	0.00
Net A&G Expenses	21.86	47.11	28.35
Prior Period Items (2018-19)			
Security arrangements			7.26
Vehicle Running Expenses Truck / Delivery Van			4.87
Total			40.48

71. Accordingly, the Commission hereby approves Rs.40.48 lakh as A&G for the year 2019-20 including prior period expenses of Rs.7.26 lakh on account security arrangement and Rs.4.87 lakh on account of Vehicle Running Expenses /Truck/ Delivery Van for the year 2018-19.

O&M Expenses Approved

72. The O&M expenses, which includes Employee costs, R&M expenses and A&G expenses, totaling into Rs.126.81 lakh is approved by the Commission for the year 2019-20 as shown in Table below.

Table-20
O&M Expenses approved for 2019-20

O&M Expenses	As per the Regulations (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
Employee expenses	53.41	71.12	51.19
R&M expenses	36.85	37.41	37.41
A&G expenses	21.86	47.11	28.35
O&M expenses for 2019-20	112.12	155.64	116.95
Prior Period A&G Expenses 2018-19			12.13
Total O&M expenses			129.08

73. The Commission hereby approves the O&M expenses of Rs.129.08 lakh including Rs.12.13 lakh prior period expenses in this Truing Up Order as against the licensee's claim of Rs.155.64 lakh.

Asset Additions during the year 2019-20

74. In the petition for Truing Up of Accounts, the licensee has claimed only Rs.3.76 lakhs for the year 2019-20. The Commission had in the Order dated 08-11-2019 approved Rs.9.10 lakh as Asset addition for the year 2019-20 while approving the capital expenditure for the MYT period. The split-up details of the asset additions during the year 2019-20 are shown below.

Table 21
Assets additions during the year 2019-20

Particulars	Date of Purchase	Amount (Rs. lakhs)
Augmentation of USS	18-03-2020	5.27
IPS Aluminium Conductor	10-10-2019	0.71
Fluke Earth Ground Tester Kit	18-04-2019	3.49
Total		9.47

75. The Commission vide order dated 08-11-2019 in OA 10/2019 had approved an

amount of Rs.20.15 lakh for the capital addition for the year 2018-19 in the MYT period. Out of the Rs.20.15 lakh capital addition for the year 2018-19, the Commission in the Order dated 29-08-2018 had approved an amount of Rs.19.60 lakh for the year 2018-19 based on the capital investment plan for 2018-19 already submitted to the Commission.

76. The item 'Augmentation of USS' of above table, the Commission had only approved Rs.3.50 lakh with a condition that licensee shall execute the work after completing all due procedures and the details is to be submitted with the Truing Up of Accounts petition. The licensee has not submitted the any details regarding this item. The item 'Fluke Earth Ground Tester Kit' of above table, the Commission had provisionally approved the purchase of Earth Tester for the year 2018-19 and the Commission observed that, the R&M works in the licensed area of RPIL are outsourced and it is the responsibility of the R&M contractor to carry out the R&M works with necessary equipment etc. The item of 'IPS Aluminium Conductor', the Commission had approved an amount of Rs.0.75 lakh as spares.
77. The Commission noted that, the capital expenditure of Augmentation of USS the approved amount is only Rs.3.50 lakh with a condition that licensee shall execute the work after completing all due procedures and the details is to be submitted with the Truing Up of Accounts petition. ***The Commission cannot approve such claims without documentary evidence, and hence the claim of Rs.5.27 lakh is not admitted at present. If the licensee so desires, they can produce the complete documentary evidence including the tender documents, bid evaluation table etc. within 3 months of the date of this Order. Considering the above facts, the Commission here by approves the capital addition of Rs.4.20 lakh (Rs. 0.71 lakh for IPS Aluminium Conductor and Rs.3.49 lakh for Fluke Earth Ground Tester Kit) for the year 2019-20.***

Depreciation

78. The deprecation claimed by the licensee in the petition for Truing Up of Accounts for the year 2019-20 is Rs.30.12 lakh as against Rs.42.37 lakh approved in the Order on ARR&ERC. The licensee has claimed an asset addition of Rs.9.47 lakh for the year 2019-20. The details of claim made by the licensee are shown below.

Table-22
Depreciation claimed for the year 2019-20

Particulars	Rate (%)	Gross fixed assets			Depreciation		
		At the beginning of the year	Additions during the year	At the end of the year	Cumulative upto the beginning of the year	Additions during the year	Cumulative at the end of the year
Land & land rights	0	26.85		26.85			
Civil works for EHT Substation	3.34	9.26		9.26	4.97	0.42	5.39
HV Distribution system/Transmission line	5.28	99.00		99.00	56.68	1.80	58.48
HT Distribution lines	5.28	122.03		122.03	68.59	2.62	71.22
Sub-station equipments	5.28	483.07	5.98	489.05	267.19	15.82	283.01
Transformers	5.28	0.00		0.00	0.00		0.00
Switchgears, Control gear & Protection	5.28	3.50		3.50	0.32	0.22	0.54
Batteries	5.28	0.00		0.00	0.00		0.00
Others (Testing Equipments)	5.28	19.88	3.49	23.37	0.89	1.23	2.12
LT Distribution System	5.28					0.00	
Distribution lines	5.28	0.28		0.28	0.16		0.16
Sub-station equipments	5.28	0.00		0.00	0.00		0.00
Transformers	5.28	0.00		0.00	0.00		0.00
Switchgears, Control gear & Protection	5.28	31.20		31.20	19.14	1.07	20.21
Batteries	5.28	0.44		0.44	0.01	0.02	0.03
Others	5.28	0.00		0.00	0.00		0.00
Communication equipment	6.33	0.00		0.00	0.00		0.00
Meters	5.28	1.18		1.18	0.72	0.11	0.84
Vehicles	6.33	0.00		0.00	0.00		0.00
Furniture & fixtures for Substation	6.33	0.77		0.77	0.32	0.04	0.36
Office Equipments	6.33	0.00		0.00	0.00		0.00
Capital spares of HV & LT transmission	5.28	0.00		0.00	0.00		0.00
IT Equipments	15	2.02		2.02	0.89	0.27	1.16
Any other items		228.00	0.00	228.00	101.41	6.49	107.90
Gross Asset		1027.48	9.47	1036.95	521.29	30.12	551.41
Net Asset considered for depreciation		1027.48	9.47	1036.95	521.29	30.12	551.41
Work in progress			5.75	5.75			
Net Assets		1027.48	15.22	1042.70	521.29	30.12	551.41

79. In response to the Commission letter dated 21-12-2021 seeking clarifications, the licensee vide their reply dated 28-12-2021 submitted among other the split-up details of 'Any other items' included in fixed assets register. The details are furnished below.

Table-23
Details of Asset shown under “Others”

Sl. No	Particulars	Amount (Rs. lakh)	Depreciation (%)
1	Leasehold land (including land development)	27.00	
2	Building	139.00	7.00
	Building (12 Year completed)	8.99	3.34
3	Plant and machinery	6.30	7.00
	Plant and machinery (12 Year completed)	0.70	5.28
4	Electrical and electronic equipment	18.00	5.28
5	Office equipment	0.00	6.33
6	Computers	4.00	15.00
7	Furniture and fittings	25.00	6.33
	Total (Rs. lakhs)	228.00	

- 80.** In the Previous Truing Up Order dated 22-04-2021 the Commission has directed to the licensee to submit a statement of Fixed Assets indicating therein, its procurement cost, date of procurement, life of the Asset, depreciation claimed till date etc. within three months from the date of issue of the Order.
- 81.** The licensee submitted the details of statement of fixed assets vide letter dated 29-07-2021 and the Commission has examined the details submitted by the licensee. On examination of the details of Fixed Assets furnished it has been noted that the data furnished are not reliable and dependable form for considering depreciation. E.g., There are some assets viz. substations, ‘Others (Testing Equipments)’ with minus balances and some assets the useful life of it have been expired. The Commission has noted that, the depreciation has to be calculated as per the provisions of Tariff Regulations applicable. The relevant provisions of Tariff Regulations 2018 are extracted below.

27. Depreciation. – (1) The value base for the purpose of depreciation shall be the original capital cost of the asset as approved by the Commission:

Provided that no depreciation shall be allowed on increase in the value of assets on account of revaluation of assets.

Provided further that depreciation shall not be allowed on assets funded through consumer contribution, deposit works, capital subsidies and grants.

(2) The generation business/company or transmission business/licensee or distribution business/licensee shall be permitted to recover depreciation on the value of fixed assets used in their respective business, computed in the following manner: -

(a) depreciation shall be computed annually based on the straight line method at the rates specified in the Annexure-I to these Regulations for the first twelve financial years from the date of commercial operation;

(b) the remaining depreciable value as on the Thirty First day of March of the financial year ending after a period of twelve financial years from the date of commercial operation shall be spread over the balance useful life of the assets as specified in Annexure- I;

(c) the generating business/company or transmission business / licensee or distribution business/licensee, shall submit all such details and documentary evidence, as may be required under these Regulations and as may be required by the Commission from time to time, to substantiate the above claims;

(d) the salvage value of the asset shall be ten per cent of the allowable capital cost as approved by the Commission excluding cost of assets created out of contributions and grants and depreciation shall be a maximum of ninety per cent of such approved capital cost of the asset.

(3) In the case of existing assets, the balance depreciable value as on the First day of April, 2018, shall be worked out by deducting the cumulative depreciation approved by the Commission upto the Thirty First day of March, 2018, from the gross depreciable value of the assets.

(4) Depreciation shall be chargeable from the first financial year of commercial operation:

Provided that in the case of commercial operation of the asset for part of the financial year, depreciation shall be charged on pro-rata basis:

Provided further that depreciation shall be re-calculated for assets capitalised during the financial year at the time of truing up, based on documentary evidence for capitalization of assets submitted by the applicant, subject to the prudence check of the Commission, in such a way that the depreciation is calculated proportionately from the date of capitalisation.

(5) In case a single tariff needs to be determined for all the units of the generating station, the depreciation shall be computed from the effective date of commercial operation of each of the unit taking into consideration the depreciation of individual generating units thereof.

82. From the above, it is clear that the licensee is eligible for depreciation at the rate specified in the Regulations for first twelve financial years from the date of Commercial Operation, and after twelve years, the remaining depreciable value shall be spread over the balance useful life of the assets. The salvage value of the asset is ten per cent and depreciation shall be a maximum of ninety per cent of the asset. The Commission is not in a position to really estimate the actual percentage of depreciation applicable for assets from the information given by the licensee. Hence, in the absence of this information, the Commission is not in a position to determine the depreciation admissible as per the provisions of Regulations.

83. Under these circumstances, the Commission is of the considered view that till such time, complete information on the Fixed Assets is furnished by the licensee; the approval of depreciation is to be deferred. ***The licensee is therefore directed to furnish the complete information on the Fixed Assets indicating therein, its Assets category, procurement date and cost, salvage value, useful life of assets, capitalisation date, completed years as on 01-04-2019, remaining life of the assets, depreciation claimed till date etc. with two category viz. (a) Assets below 12 years of age and (b) Assets with more than 12 years of age within a period of three months from the date of this Order for the determination of depreciation admissible as per the provisions of 27 Regulations. Accordingly, the Commission has decided to defer depreciation for the year 2019-20 till the above details are made available as per time schedule mentioned.***

Interest and Finance Charges

84. The licensee has claimed the total interest and financing charges of Rs.59.80 lakh in the Truing Up of Accounts petition for 2019-20 including interest on normative loan of Rs.59.03 lakh and Rs.0.77 lakh as bank charges for the security provided to KSEB Ltd. The details are given below:

Table-24
Interest and Finance Charges claimed for the years 2018-19 and 2019-20

Particulars	2018-19		2019-20	
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)
Interest on Normative Loan	61.90	6.59	1.28	59.03
Bank Charges	0.49	0.49	2.19	0.77
Total	62.39	7.08	3.47	59.80

a) Interest on Normative Loan

85. The licensee has claimed the normative interest of Rs.59.03 lakh for the year 2019-20, which is inclusive of the additional capitalization made during the year. The interest charges claimed by the licensee are shown below.

Table-25
Interest on normative loan claimed for 2019-20

Gross Normative loan – Opening	1027.48
Net Additions during the Year	9.47
Net Additions during the year on pro- rata basis	3.88
70% Capital cost approved by Commission	721.95
Cumulative repayment of Normative Loan up to previous year	15.08
Net Normative loan – Opening	704.15
Increase/Decrease due to ACE/de-capitalization during the Year	3.88

Repayments of Normative Loan during the year	30.12
Net Normative loan – Closing	676.75
Average normative loan	690.45
Weighted average Rate of Interest.	8.55%
Interest on Normative loan	59.03

- 86.** The licensee has claimed the opening balance of gross fixed assets of Rs.1027.48 lakh as opening gross normative loan. In this context, the directions in the Order of the Hon. APTEL dated 18-06-2020 in Appeal No.114 of 2018 filed by M/s Rubber Park India (P) Ltd against the Orders dated 26-07-2017 and 13-12-2017 of the Commission in the matter of Truing up of Accounts for the year 2015-16 and the Review thereof is relevant.
- 87.** In the said appeal, the appellant, RPIL raised two issues, (1) Disallowance of interest on normative loan for the existing assets for the year 2015-16 (2) Disallowance of Return on Equity for the addition of assets during 2015-16, in connection with the Truing Up of Accounts of the licensee for the year 2015-16. The Hon. APTEL in its remand Order dated 18-06-2020 directed remission of the issues to the State Commission for re-consideration and fresh adjudication in accordance with law.
- 88.** After examining the matter in detail in the light of directions by Hon. APTEL the Commission based on the material placed before the Commission and the provisions of the Tariff Regulation 2006 and 2014, the Commission vide Order dated 19-10-2020 ordered that the interest charges for the assets created from the year 2015-16 alone can be allowed. The relevant portion of the Order is given below.

“48. After examining the matter in detail in the light of directions by Hon. APTEL vide its Order dated 18.06.2020 and the material placed before the Commission and the provisions of the Tariff Regulation 2006 and 2014, the Commission came to the conclusion;

- (i) that the interest charges for the assets created during the year 2015-16 alone can be allowed, considering the fact that the licensee could not produce any material evidence for funding of the said assets using paid up equity capital.***
- (ii) Asset addition of Rs.66.49 lakh during 2015-16 is hereby treated as normative loan and interest is allowed on pro rata basis as mentioned in Para 40 ibid.***
- (iii) Regarding the contention of interest on normative loan for the existing assets as on 01.04.2015, considering the provisions of Tariff Regulation 2006 & Tariff Regulations 2014 and other facts as explained in para 29 to 37, interest charges on***

normative basis is not allowed. However, the same is subject to the observations mentioned in para 21 above.”

“21. Thus there were no provisions for treatment of funding of existing assets as on 01.04.2007 in a normative manner, and the only treatment mentioned in the Regulation is on allowing actual basis or as approved by the Commission in case there is any loans. In other words, in the case of existing assets, whatever is approved in the previous occasions are to be taken as a base. On the other hand the future addition of assets that is assets added after 01.04.2007 can be treated with normative debt -equity ratio of 70:30. Hence, normative treatment is possible for the addition of assets from 01.04.2007 to 31.03.2014 as per Regulations and interest charges on the said loan is allowable.”

- 89.** In 2018-19, the Commission has allowed interest on normative loan of Rs.6.59 lakh during the year 2018-19 on the average normative loan balance of Rs.80.82 lakh. Therefore, the Commission decided to continue the same decision as per the Order dated 22-04-2021. In the present petition the Commission has deferred the depreciation till the submission of complete information on the Fixed Assets by the licensee. Based on this, the Commission has allowed interest on normative loan during the year 2019-20 on the normative loan balance of Rs.86.53 lakh as on 01-04-2019, without considering the asset additions during 2019-20 as loan addition and the depreciation for the year 2019-20 as the repayment of normative loan.
- 90.** As per second proviso to Regulation 29(4) of Tariff Regulations, 2018, if the licensee does not have any actual loan portfolio, interest charges shall be calculated at Base rate. The relevant portion of Regulations is shown below.

29. Interest and finance charges. –

(4) The rate of interest allowed shall be the weighted average rate of interest calculated on the basis of the actual loan portfolio at the beginning of each financial year applicable to the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre:

Provided that if there is no actual loan for a particular financial year of the control period but normative loan is still outstanding, the weighted average rate of interest on the last available loan shall be considered:

Provided further that if the regulated business of the generating business/company or the transmission business/licensee or the distribution business/licensee or State Load Despatch Centre does not have actual loan, but normative loan is outstanding, then interest shall be allowed at the base rate.

91. The interest on normative loan approved for the year 2019-20 is shown below;

Table-26
Interest on normative loan for approved in 2019-20

Sl No	Particulars	Rs. In lakh
1	Gross Normative loan – Opening on 01-04-2019	86.53
2	Cumulative Depreciation up to 01-04-2019	15.08
3	Net Normative loan – Opening on 01-04-2019 (1) – (2)	71.45
4	Assets Addition during the year 2019-20	-
5	Proportionate depreciation of Assets Addition during the year 2019-20	-
6	Net Normative loan – Closing on 31-03-2020 (3) + (4) –(5)	71.45
7	Average Normative loan [(3) + (6)] / 2	71.45
8	Base Rate of interest as on 1-04-2019	8.55%*
9	Total Normative Interest charges for 2018-19 (Rs. lakhs)	6.11

**Marginal Cost of funds-based Lending Rate (MCLR) declared by the SBI as applicable on first day of April of respective financial year for a tenor of one year*

92. **Accordingly, the interest on normative loan of Rs.6.11 lakh approved for the year 2019-20 under the head Interest and Finance charges.**

b) Bank charges

93. The licensee has claimed an amount of Rs.0.77 lakh during the year 2019- 20 on account of bank guarantee and letter of credit charges as demanded by KSEB Ltd and other bank charges. The claim bank guarantee and letter of credit charge is for the double security mechanism proposed in Article 8.9 and 8.12 of the PPA. The details of the bank charges are shown below.

Table-27
Bank charges claimed for the years 2017-18 and 2018-19

Particulars	2018-19	2019-20
	Trued Up (Rs. lakh)	As per Truing up Petition (Rs. lakh)
LC & BG charges	0.45	0.67
Other Bank Charges	0.04	0.10
Gross Bank Charges	0.49	0.77

94. The Commission noted that, the L.C. and Bank Guarantee charges for 2019-20 is increased by Rs.0.22 lakh (Rs.0.67 lakh-Rs.0.45 lakh) compared to the previous year 2018-19. In this regard, the licensee stated in their clarification that in 2018-19 the Letter of Credit (LC) was not renewed and hence the bank charges for bank guarantee alone were incurred during the year 2018-19. The LC was renewed in

the FY 2019-20 only. Hence, the total LC and bank guarantee charges increased during the year 2019-20 compared with the previous year 2018-19. **After examining the details furnished by the licensee, the Commission hereby approves Rs.0.77 lakh as Bank Charges for the year 2019-20.**

95. The Interest and Finance charges for the year 2019-20 is shown below.

Table-28
Interest and Finance Charges approved for the year 2019-20

Particulars	As per Truing up petition (Rs. lakh)	Trued Up (Rs. lakh)
Interest on Normative Loan	59.03	6.11
Bank Charges	0.77	0.77
Total	59.80	6.88

96. Accordingly, the Interest and Finance charges approved for the year 2019-20 is Rs.6.88 lakhs as shown above.

Return on Equity

97. The licensee has claimed Return on Equity of Rs.43.31 lakh in the petition for Truing Up of Accounts for the year 2019-20. The Commission had approved a return on equity of Rs.41.61 lakh in the Order on ARR&ERC which was 14% of equity share capital. While Truing Up of Accounts for the year 2018-19, the Commission had approved an amount of Rs.37.80 lakh as against Rs.42.70 lakh claimed by the licensee. The licensee worked out return on equity for the year 2019-20 as shown below:

Table-29
Return on Equity claimed for the year 2019-20

Particulars	(Rs. Lakh)
Opening level of GFA/Equity at the beginning of the year	1027.48
Capitalisation during the year	9.47
Capitalisation on pro rata basis	3.88
Equity at the end of the year on pro rata basis	1031.36
Return on equity at the beginning of the year	43.15
Return on equity portion of capitalization	0.16
Total Return on equity	43.31

98. As per Regulation 28, Return on equity is to be “computed in rupee terms, on the **paid-up equity share capital** determined in accordance with the Regulation 26 and shall be allowed at the rate of fourteen percent for generating business/companies, transmission business/licensee, distribution business/licensee and State Load Despatch Centre”.

99. The Commission in its Order dated 19-10-2020 confirmed that the licensee is eligible for the return on equity on 30% of Rs.900 lakhs only and not on any additions unless there is an increase in the paid-up equity capital corresponding to the GFA additions claimed. This was on account of the fact that the licensee had not produced any document to establish that the Board had approved and enhanced the paid-up capital after due approval of MCA and CLB to the extent of increase in value of assets. The Commission had therefore approved an amount of Rs. 37.80 lakh towards Return on Equity for the year 2015-16 at the time of truing up considering Rs.900 lakhs as the share of total paid up capital for the distribution business. The licensee has now claimed ROE for year 2019-20 an amount of Rs.43.31 lakh, which is calculated at the rate of 14% on 30% of the equity at the end of the year on prorata of Rs1031.36 lakh.
100. As mentioned above ROE on increased equity can be allowed only when there is an increase in equity share capital and corresponding issue of shares to the shareholders. Here, no such documents to substantiate any such increase has been produced by the licensee in spite of the Commission observation in para 70 of the licensee Truing Up Order dated 22-04-2021. The licensee is well aware of this requirement but has not complied with it, if they were to claim additional ROE.
101. Further the Commission had vide Order dated 19-10-2020 considered for return on equity 30% of Rs.900 lakhs which according to the licensee is the segregated portion of the paid-up capital for distribution business. The Commission has already allowed interest on normative loan for the entire portion of the cost of assets additions from 2015-16 onwards. In the previous Truing Order dated 22-04-2021 the Commission admitted ROE on this basis only. Since the licensee has not been able to produce any documents to prove the increase in paid up equity, the licensee is only eligible for the ROE for the actual capital employed of Rs. 900 lakhs. RoE of 14% shall be applicable for 30% of the equity i.e., Rs.900 lakh. **Thus, an amount of Rs.37.80 lakh is approved as Return on Equity for the year 2019-20.**

Tax on Return on Equity

102. The licensee has claimed an amount of Rs.11.63 lakh as Tax on Return on Equity. The licensee stated that, the ROE is calculated as 14% of gross fixed assets, which amounts to Rs 43.31 lakhs. Whereas the net profit according to the statement of the profit and loss account of the company prepared for the purpose of statutory audit is Rs 1000.05 lakhs. The difference between Net profit and ROE of Rs 956.74 lakhs (Rs.1000.05 lakh- Rs.43.31 lakh) attributes to the profits from other businesses of the company. The licensee has paid a total of Rs 268.58 lakhs as income tax based on the Net profit of the company. On the basis of the above, tax expenditure for Truing Up of Accounts has been taken in the ratio of ROE to Net profits (43.31:956.74) which amounts to Rs.11.63 lakhs ($268.58 \times 43.31 / 1000.05$).

103. The Commission examined the submission of the licensee with the provision of Tariff Regulations, 2018. The Relevant portion of Regulations is given below.

31. Tax on returns. – (1) The Commission shall provisionally approve Income Tax payable for the appropriate years of the Control Period, if any, based on permissible return on equity share capital or return on net fixed assets, as approved by the Commission relating to the generating business/company or transmission business/licensee or distribution business/licensee or the State Load Despatch Centre, as the case may be and included in the Aggregate Revenue Requirements:

Provided that no Income Tax on the amount of efficiency gains or incentive earned by the generating business/company or transmission business/licensee or distribution business/licensee or State Load Despatch Centre shall be approved for recovery through tariff or charges from the consumers or beneficiaries:

(2) The difference between the Income Tax on regulated business actually paid and that approved by the Commission in the Aggregate Revenue Requirement of the generating business/company or transmission business/licensee or distribution business/licensee or the State Load Despatch Centre shall, subject to prudence check, be adjusted in the truing up process in the respective years.

(3) The tax on any income other than from the regulated business, shall not in any circumstances be allowed to be recovered through Aggregate Revenue Requirements.

(4) Changes if any in taxes other than income tax otherwise allowed as a pass through in tariff, shall be considered for determination of aggregate revenue requirements after prudence check

104. Regulation 31(2) of the Tariff Regulations, 2018, states that the difference between the Income Tax on regulated business actually paid and that approved by the Commission in the Aggregate Revenue Requirement can be allowed subject to prudence check in the Truing Up process. The Commission noted that the licensee has not claimed any amount as Tax on Returns from Equity in the ARR&ERC petition. Hence, the Commission approved the licensee's ARR & ERC for 2019-20 without any tax on return on equity. Further the Commission noted that, as per Regulation 31(3), the tax on any income other than from the regulated business, shall not in any circumstances be allowed to be recovered through Aggregate Revenue Requirements.

105. The Commission has carefully examined the licensee's claim in the petition and the audited financial statements of the Company and Form D P&L Profit & Loss Account of the Distribution Business. The audited financial statements reveals that the Company is not maintaining any separate or segment accounts for the electricity distribution business. Further, as per Form D submitted by the licensee,

there is a provision of Rs.11.63 for income tax, whereas the Company has claimed to have paid total income tax of Rs. 268.58 lakh for the combined business. From the above documents it cannot be authentically established as to whether any income tax has actually been paid on the claimed return on equity, especially since it is still shown as a provision more than a year of closure of the financial year. ***In order to establish this payment, the Commission hereby directs that the licensee shall produce documentary evidence to prove that income tax on account of the electricity distribution business has actually been paid, within 3 months of the date of this Order.***

Revenue from Sale of Power

- 106.** As per the petition, the licensee has claimed total revenue from sale for power of Rs.1734.05 lakh for a sale of 256.50 lakh units against approved amount of Rs.2002.93 lakh for a sale of 307.80 lakh units in the Order on ARR.
- 107.** Further, in the petition the revenue from sale of power as per petition and form D.2.1 was Rs. 1734.05 lakh whereas the same was shown as Rs.1735.73 lakh in form D.1.1, the Commission sought clarification on the same. The licensee vide letter dated 28-12-2021 replied that the Revenue from sale of power is Rs.1734.05 lakh as shown in Form D 2.1 which was stated in the petition also. The licensee further stated that in Form D1.1, the revenue from sale of power was shown inadvertently as Rs.1735.73 lakhs instead of Rs.1734.05 lakhs. They further requested that the Commission may kindly condone the same and consider the 'Revenue from sale of power as Rs.1734.05 Lakh as correctly stated in the petition and Form D.2.1.
- 108.** The licensee further submitted vide letter dated 13-12-2021 that the open access units (1.30 lakh units) of M/s Classic Auto tubes was mistakenly taken in both open access units as well as sale units in HT-1A category and they requested to kindly condone the same and consider the units under HT-1A category. However, the Commission noted that this is not a fair practice to include open access units under other categories as revenue from Sale of Power. Further, wheeling charges for such open access purchases are to be computed separately. The Commission informed the same to the licensee and the licensee vide e-mail dated 23.02.2022 submitted the clarification regarding the energy sales during the year 2019-20 as follows:

Table-31
Details of Sales units as per the revised submission

Category	Sales (lakh units)
LT IV	31.20
LT VI B	0.20
LT VI F	1.00
LT VII A	3.30
Street Light	0.30

HT-1	219.20
Sub Total	255.20
Open Access KSEB (M/s M Fuel)	1.70
Open Access Classic Auto Tube Ltd	1.30
Total	258.20

109. A category wise comparison of the revenue from sale of power for the years 2018-19 & 2019-20 is as shown below:

Table-32
Details of Revenue from Sale of Power for 2018-19 & 2019-20

Particulars	2018-19				2019-20			
	Trued up				Truing up Petition			
	No. of Consumers	Energy Sales (Lakh Units)	Revenue Rs. Lakh	Avg. realisation (Rs/k Wh)	No. of Consumers	Energy Sales (Lakh Units)	Revenue Rs. Lakh	Avg. realisation (Rs/k Wh)
LT IV	24	33.20	211.34	6.37	23	31.20	209.01	6.70
LT VI B	1	0.10	1.00	10.00	1	0.20	1.43	9.05
LT VI F	2	1.10	10.13	9.21	2	1.00	9.74	9.41
LT VII A	14	1.80	17.88	9.93	15	3.30	32.65	9.80
Street Light	6	0.20	0.75	3.75	6	0.30	1.14	4.37
HT-1	15	260.20	1640.99	6.31	18	219.20	1480.09	6.71
Total	62	296.70	1882.09		65	255.20	1734.05	

110. As per the above table, the majority of sales (219.20 lakh units) pertain to the HT category which consists of 18 consumers and is about 86% of total sale of power. It is seen that the actual sale for the year is lower than the previous year. According to the licensee, the decrease in sales is due to the Covid-19 pandemic which resulted in general industrial slowdown during the year 2019-20 and resulted in lower energy sales during the year compared to the previous year as well as energy sales proposed in the ARR & ERC petition. Based on careful consideration of the figures given in the Truing Up of Accounts petition and the clarification proceedings thereof ***the Commission hereby approves the revenue from sale of power at Rs.1734.05 lakh for the purpose of Truing Up of Accounts for the year 2019-20.***

Wheeling Charges

111. The licensee has claimed wheeling charge of Rs.2.66 lakh for wheeling power of 3.00 lakh units to M/s M Fuel and M/s Classic Auto Tubes Ltd in the petition. The revenue from energy wheeled through the open access by KSEB Ltd (to M/s. M Fuel) is Rs.0.87 lakh for 1.70 lakh units and open access by M/s. Classic Auto Tubes Ltd is Rs. 1.79 lakh for 1.30 lakh units. **After careful consideration, the Commission hereby approves the wheeling charges of Rs.2.66 lakhs received for the year 2019-20.**

Non-tariff Income

112. The non-tariff income claimed by the licensee in the petition for the year 2019-20 is Rs.3.92 lakh as against the approved amount of Rs 12.69 lakh in the ARR dated 08.11.2019. The Commission vide letter dated 21-12-2021 sought clarification as the total amount of 'non-tariff and other income' and 'wheeling charges' as per petition was Rs.6.58 lakh (Rs.3.92 lakh and wheeling charge Rs.2.66 lakh) whereas the same was taken as Rs.4.90 lakh in Regulatory form D.1.1. The licensee submitted that "the company earned Rs.4.90 lakhs as Other Income and Non-tariff Income (Wheeling charge). However, it was erroneously stated as Rs.6.58 lakhs in the petition. The licensee further stated that, the Commission may kindly condone the same and consider the 'Other income and Non-tariff income' of Rs.4.90 lakhs as in Form D1.1. The split-up details of Non-Tariff income claimed are shown below.

Table-33
Details of Non-Tariff Income for the years 2018-19 and 2019-20

Particulars	2018-19		2019-20
	As per Truing Up Petition	Trued Up	As per Truing up Petition
	(Rs. lakh)	(Rs. lakh)	(Rs. lakh)
Income from sale of scrap	0.58	0.58	-
Miscellaneous receipts	-		0.84
Commission on collection of electricity duty	0.54	0.54	0.49
Interest on delayed payment	0.05	0.05	-
Interest on investments, fixed and call deposits and bank balances	-		0.91
Interest on security deposit with KSEB Ltd	-	11.70	-
Interest on Accumulated Surplus	-	8.49	-
Total	1.17	21.36	2.24

113. Since the petition was silent on the interest on deposit with KSEB Ltd, the Commission sought clarification on the same vide letter dated 21-12-2021 and the licensee submitted that during FY 2019-20, the licensee received Rs.10.84 lakh as interest on cash deposit from KSEB Ltd. **The Commission strongly disapproves**

the fact that the licensee did not disclose this receipt in their Truing Up petition. This is a very serious lapse and even casts doubt regarding the true and fair view picture of the Affidavit submitted by the licensee. *The licensee is hereby directed to be more careful in its submissions before the Commission. Any further dereliction shall be dealt with seriously as per the relevant provision of the Act/Regulations/CPC.*

114. Accordingly, the Commission hereby approves Rs.10.84 lakh as the interest income received on security deposit with KSEB Ltd for the year 2019-20.

115. As per the Order of the Commission dated 22-04-2021, the licensee is holding an accumulated surplus of Rs.245.61 lakh at the end of the year 2018-19. Accordingly, the interest on the revenue surplus is approved at a rate of 6.80% per annum (the retail term deposit rate of SBI for a tenor of one year as on 01-04-2019) for an amount of Rs.245.61 lakh amounting to Rs.16.70 lakh (Rs.245.61 lakh x 6.80%) is to be provided.

Table-34
Details of Non-Tariff Income approved for 2019-20

Particulars	2019-20	
	As per Truing Up Petition	Trued Up
	(Rs. lakh)	(Rs. lakh)
Miscellaneous receipts	0.84	0.84
Commission on collection of electricity duty	0.49	0.49
Interest on investments, fixed and call deposits and bank balances	0.91	0.91
Interest on security deposit with KSEB Ltd	-	10.84
Interest on Accumulated Surplus	-	16.70
Total	2.24	29.78

116. Accordingly, the total non-tariff income of Rs.29.78 lakh is approved for the year 2019-20.

117. Based on the above, the approved expenditure and revenue for the year 2019-20 after Truing Up of Accounts is as shown below:

Table-35
Total Income and Expenditure after Truing Up of Accounts for 2019-20

Particulars	2019-20		
	Approved in ARR&ERC (Rs. lakh)	Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Revenue from Sale of Power	2002.93	1734.05	1734.05
Income from wheeling charges	0.21	2.66	2.66
Non-Tariff Income	12.69	2.24*	29.78
Total Income	2015.83	1738.95	1766.49
Purchase of Power	1735.58	1442.16	1442.16
Employee Cost	53.41	71.12	51.19
R&M Expenses	36.85	37.41	37.41
A &G Expenses	21.86	47.11	28.35
Prior Period A&G Expenses	-	-	12.13
Depreciation	42.37	30.12	0.00
Interest & Finance charges/ Bank Charges	2.19	0.77	0.77
Interest on Normative Loan	1.28	59.03	6.11
Return on Equity	41.61	43.31	37.80
Tax on ROE	-	11.63	0.00
Total Expenditure	1935.15	1742.67	1615.92
Net Surplus/(Deficit)	80.68	-3.72	150.57

*Subsequently Non-Tariff Income was revised to Rs.2.24 lakh from Rs.3.92 lakh as given in the original petition

Orders of the Commission

118. The Commission after considering the petition filed by M/s. RPIL for Truing Up of Accounts for the year 2019-20, comments raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following:

- a) Total income is Rs. 1766.49 lakh
- b) Total expenditure is Rs.1615.92 lakh
- c) The revenue surplus for the year is Rs.150.57 lakh
- d) The accumulative revenue surplus up to 2018-19 is Rs.245.61 lakh. Total accumulative revenue surplus till 2019-20 will be Rs.396.18 lakh (Rs.245.61 lakh + Rs.150.57 lakh).

119. The Commission issues the following directives for compliance by the licensee.

- a) The licensee is to strictly adhere to the approved ARR percentages of distribution loss as mentioned in the Commission's Order dated 08-11-2019 for the rest of the Control Period (Para 21).

- b) The licensee is to review the apportionment of employee cost and to arrive these at an objective basis, since these employees are also being utilized for the park business. The apportionment ratio shall be filed before the Commission within 3 months of the date of this Order (Para 40).
- c) The licensee's claim of Rs.5.27 lakh for Asset's addition is not approved at present. If the licensee so desires, they can produce the complete documentary evidence including the tender documents, bid evaluation table etc. within 3 months of the date of this Order (Para 77)
- d) The licensee shall furnish the complete information on the Fixed Assets indicating therein, its Assets category, procurement date and cost, salvage value, useful life of assets, capitalisation date, completed years as on 01-04-2019, remaining life of the assets, depreciation claimed till date etc. with two category viz. (a) Assets below 12 years of age and (b) Assets with more than 12 years of age within a period of three months from the date of this Order for the determination of depreciation admissible as per the provisions of 27 Regulations. (Para 83)
- e) The licensee shall produce documentary evidence to prove that income tax on account of the electricity distribution business has actually been paid, within 3 months of the date of this Order. (Para 105)

120. With the above, the petition is disposed of. Ordered accordingly.

Sd/-
Adv. A.J. Wilson
Member (Law)

Sd/-
Preman Dinaraj
Chairman

Approved for issue

Sd/-
Secretary