

KERALA STATE ELECTRICITY REGULATORY COMMISSION
THIRUVANANTHAPURAM

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

OP No.77/21

In the matter of : Truing up of Accounts of Kanan Devan Hills
Plantations Company Private Limited (KDHPCL) for
the year 2020-21

Applicant : M/s Kanan Devan Hills Plantations Company
Private Limited.

Date of hearing : Hearing on 20.05.2022 at 11.00 A.M

ORDER DATED 03.07.2022

1. M/s Kanan Devan Hill Plantations Company Private Limited (hereinafter referred to as KDHPCL, the petitioner or the licensee) is the distribution licensee supplying electricity in its license area at Munnar. KDHPCL procures electricity from KSEB Ltd for supply to its consumers and for its own consumption. 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. Regulation 10(1) of the said Regulation mandates the filing of yearly petition for truing up of accounts for the respective years. In compliance to the Regulations, the licensee filed the instant petition for the truing up of accounts for third year of the control period, i.e., 2020-21 vide letter dated 07-12-2021.
2. The Commission vide Order dated 11-11-2019 had approved the ARR & ERC for the Control Period from 2018-19 to 2021-22. As per the ARR Order dated 11-11-2019, the Commission had approved a revenue surplus of Rs.15.85 lakh for the year 2020-21 as against a revenue deficit of Rs.115.23 lakh proposed by the Licensee. Now KDHPCL in the petition for Truing Up of the Accounts for the F.Y 2020-21 has claimed a revenue gap of Rs.71.39 lakh. A comparison of the actual amounts claimed for 2020-21, amount approved in the Order on the ARR & ERC for the year 2020-21 and the trued up figures of the previous year 2019-20 is shown below.

Table-1
Comparison of True Up claim with ARR for 2020-21 and Trued up values for 2019-20
(Rs. In lakh)

Particulars	2019-20	2020-21		
	Trued Up	Approved in ARR	For Truing Up	Variance
Revenue from sale of Power	2980.06	3347.00	2884.83	-462.17
Non-tariff Income	88.47	67.79	11.66	-56.13
Total Income	3068.53	3414.79	2896.49	-518.30
Expenses:				
Power Purchase Cost	2755.60	3109.32	2689.53	-419.79
R&M Expenses	36.59	40.12	48.55	8.43
Employee Cost	145.89	138.93	166.07	27.14
Addl. Employee cost for 2018-19	13.22	0	0	0
A&G Expenses	12.09	15.11	10.34	-4.77
Depreciation	17.04	24.76	22.71	-2.05
Interest and finance charges	56.00	66.27	17.73	-48.54
Other Debts	1.17	0.60	12.95	12.35
Return on Equity	3.83	3.83	0.0	-3.83
Total expenditure	3041.43	3398.94	2967.88	-431.06
Revenue Surplus/(Gap)	27.10	15.85	(71.39)	(87.24)

3. Even though the licensee has submitted the Form D.1.1 showing the net revenue gap at Rs.71.39 lakh, the licensee has given revised workings in the petition itself in respect of Other Income and shown as Rs.65.55 lakh. The licensee submits in the petition itself that interest on deposit with KSEB is Rs.14.84 lakhs which is not paid by KSEBL. The same is therefore not reckoned as income and not included under Other Income in Form D.1.1. Further, Interest on accumulated surplus is worked out as Rs 53.89 lakh but the same is not included under Other income in Form D.1.1. Also, the Interest and Finance charges have been reworked by the licensee and shown as Rs.52.47 lakh in the petition itself. Similarly, Return on net fixed assets is worked out and shown as Rs.3.73 lakh. But the Aggregate Revenue Requirement in Form D.1.1 has not been revised/updated by the licensee in the above lines.
4. The Commission sought clarifications from the licensee on the petition at the time of hearing of the Truing up petition on 20-05-2022. The licensee vide their letter dated 01-06-2022 furnished the clarifications. The Commission admitted the

petition as OP No.77/2021.

Hearing on the matter

5. Hearing on the Truing up petition on the of accounts of the licensee for the year 2020-21 was held at the KDHPCL Workshop Recreation Club, Munnar at 11 AM on 20-05-2022. Sri. P.M. Srikrishnan, Executive Director, KDHPCL representing the petitioner, briefed the details of the petition and responded to the queries of the Commission.
6. The main points submitted in the original petition and additional submissions are summarized below: -
 - a) The actual number of consumers for 2020-21 is 16,023 and the energy sale for the year is 418.50 lakh units. During 2019-20, the figures were 16,045 and sale was 436.68 lakh units. The sales were lower compared to the previous year due to lockdown and other restrictions on account of COVID.
 - b) "Other income" for the year at Rs.11.66 lakh was lower than the previous year's trued-up figure of Rs.88.47 lakh and the ARR approved figure of Rs.67.79 lakh.
 - c) Against the Commission approved distribution loss of 10.40% for 2020-21, the actual distribution loss for the year is 10.98%
 - d) The licensee has claimed an actual power purchase cost of Rs. 2689.53 lakh for the purchase of 481.40 lakh units which is lower by Rs. 66.07 lakh when compared to the previous year's trued up figure of Rs.2755.60 lakh.
 - e) The O&M expenses were Rs.224.96 lakh in comparison with the trued-up figure of Rs.194.57 lakh for the previous year (excluding Rs13.22 lakh approved as Addl. Employee cost for 2018-19) and the ARR approved figure of Rs.194.16 lakh.
 - f) The employee cost claimed at Rs.166.07 lakh is the actual expenses incurred which is significantly higher than the ARR approved amount of Rs.138.93 lakh and the trued-up figure of Rs.145.89 lakh for the previous year.
 - g) The licensee submitted that the worker's wage increase is based on the revised Wage Settlement Contract with staff and Dearness Allowance by UPASI every quarter. The licensee has submitted subsequently copy of the Memorandum of settlement to substantiate the claims.
 - h) The actual R&M amount claimed for transmission lines, substations, 11 kV lines and associated works, LT line service etc.is Rs.48.55 lakh as against the ARR approved figure of Rs.40.12 lakh and the trued-up figure of Rs.36.59 lakhs for the previous year.

- i) The actual Administrative and General Expense booked is Rs.10.34 lakh as against the ARR approved amount of Rs.15.11 lakh and the previous year figure of Rs.12.09 lakh.
 - j) The licensee submitted that they may be allowed to exclude interest on deposit with KSEBL from Other Income. This is claimed in the backdrop that the funds set apart for furnishing Bank Guarantees for meeting the cash deposit requirements of KSEB Ltd was not treated as Working capital for claiming the cost of funds thereof under interest and finance charges.
7. The counter points raised by KSEB Ltd vide their letter no: KSEB/TRAC/AE1/KDHPCL-TU 2020-21/2022-23/124 dated 24-05-2022 is the following: -
- a) The Commission in the licensee's ARR & ERC order dated 11-11-2019 had approved a distribution loss reduction target of 10.40% for the year 2020-21. The licensee, however, in the truing up petition claimed the distribution loss for the year at 10.98%. As per Regulation 72, distribution loss is a controllable item and its reduction is an efficiency parameter. The energy requirement and power purchase cost may be limited considering the approved distribution loss at 10.40% only.
 - b) The licensee has not accounted any interest on deposit with KSEBL and notional interest on accumulated surplus as part of the non-tariff income for the year 2020-21 though the Commission had approved the same under other income in earlier Truing up orders.
 - c) The rate of depreciation based on norms for assets may be allowed only after due consideration of the vintage of the assets. The asset register furnished shows that for assets which have completed more than 12 years also depreciation is claimed at higher rates. Further, assets prior to transfer including transformer with GFA Rs 80.38 lakh and distribution line with GFA Rs 40.16 lakh were not shown separately for working out depreciation at the reduced rate of 1.14 %. But Depreciation at the higher rate of 5.28% was claimed. Also, depreciation corresponding to consumer contribution not seen deducted.
 - d) The licensee has claimed O & M expenses higher than the norms approved by the Commission. O & M expenses being controllable expenses, this may be limited to the approved level.
 - e) The licensee has claimed Rs 4.26 lakh towards bank charges for Rs7.75 crore bank guarantee provided to KSEBL as directed by Supreme Court. Though the Commission, in the previous orders have specifically directed the licensee

not to include the above charges in the allowable expenses, the licensee claimed the same. The same may be disallowed.

- f) Interest on working capital has to be calculated on the approved O & M Expense. But the licensee calculated the interest on working capital with actual O & M, which need to be corrected.
- g) The licensee has claimed Rs.11.47 lakh under Section 3(1) Electricity Duty which may be disallowed as was done in the previous Truing up orders.
- h) The Commission had specifically directed the licensee to conduct an age wise analysis of the receivables and to take steps to realise the receivables and to write off the receivables which are bad and uncollectable against the provision already available. Similar stand may be taken this time also.
- i) The quantity of power purchased and claimed by the petitioner is at variance with the KSEBL records as below:

SI No	Particulars	As per True up petition	As per KSEBL records
1	Power purchase of KDHP for the year 2020-21 (MU)	48.14	48.136
2	Total charges-fixed + energy charges (Rs in lakh)	2689.53	2690.63

8. The Commission observed the submissions made by the licensee and remarks of KSEBL and directs as under: -
 - The Commission noted that the power purchase cost as per the petition is Rs. 2689.53 lakh whereas the power purchase cost as per KSEBL records is Rs. 2690.63 lakh. The Commission directs the licensee to reconcile the same.

Analysis and decision of the Commission

9. The Commission considered the petition for truing up of accounts for the year 2020-21 and additional submission furnished by the licensee vide letter dated 01-06-2022. Based on these submissions, proceedings during the hearing and its analysis the Commission's findings on the licensee's truing up petition of accounts for the year 2020-21 are detailed below:

No. of Consumers and Sale of Power

10. The licensee has submitted that the actual number of consumers for the year 2019-20 was 16045. During the year 2020-21, the number of consumers decreased to 16023 ie. recording a reduction of 22. The actual sale of power during 2019-20 was 436.68 lakh units, whereas the sale during the year 2020-21 is only 418.50 lakh Units. The details of the number of consumers and the total sale of power are

given below.

Table-2
Comparison of no. of consumers & sales

Particular	2019-20	2020-21	
	Trued Up	ARR Order	Truing Up
No of Consumers	16045	15884	16023
Sales in lakh units	436.68	490.30	418.50

11. A comparison of the category wise sale of power is tabulated hereunder.

Table-3
Category-wise consumers and sales

Particulars	Trued Up in 2019-20		Truing Up 2020-21	
	No. of Consumers	Sales (lakh units)	No. of Consumers	Sales (lakh units)
HT I A Industrial	22	281.38	22	284.20
HT II General	3	4.45	3	4.10
HT III Agriculture	2	3.01	2	3.30
HT IV Commercial	9	19.93	9	13.00
LT I Domestic	13543	72.99	13538	74.30
LT IV Industries	89	4.77	88	4.00
LT V Agriculture	6	0.08	5	0.10
LT VI Non-Domestic	928	16.09	922	14.10
LT VII Commercial	1179	30.24	1179	17.90
Street Lighting	261	3.65	253	3.40
LT TOD Tariff	3	0.09	2	0.10
Total	16045	436.68	16023	418.50

12. As mentioned in previous para, the licensee has submitted the number of consumers for 2020-21 as 16,023 and the sale for the year is 418.50 lakh units whereas in 2019-20 the number of consumers was 16,045 and sale was 436.68 lakhs unit. The licensee in their petition has submitted that the sale during the year was lower than previous year and considerably lower than what was projected in ARR-ERC 490.30 lakh units which was arrived at by considering a CAGR of 2% per annum over the actuals for the year 2017-18.

13. The licensee further submitted that the deficits were mostly in Industrial and Commercial consumptions arising mainly on account of lack of growth in these sectors for the last few years. It was also submitted that lockdowns and other restrictions on account of Covid 19 had reduced the economic activity contributing to steep decrease in consumption. The Commission further noted that while the

maximum number of consumers falls in the LT I Domestic category, the maximum sale of power was in the HT I A Industrial category. The total sale for the year was lower by 18.18 lakh units for the year 2020-21 when compared to the previous year 2019-20. Thus, the total sale of KDHPCL decreased by around 4.16%, when compared to the previous year. **Considering the details presented and the licensee's clarifications thereof, the Commission hereby approves the sale of 418.50 lakh units for the year 2020-21 as claimed by the licensee.**

Energy Requirement and Distribution Loss

14. The Commission in the licensee's ARR & ERC Order dated 11-11-2019 had approved a distribution loss reduction trajectory for the control period 2018-19 to 2021-22. For the year 2020-21, the approved distribution loss was 10.40%. The licensee in the truing up petition has claimed the distribution loss for the year 2020-21 as 10.98% which is 0.58% higher than the distribution loss target for the year. The details of the distribution loss as per the truing up petition and letter dated 01-06-2022 is given below.

Table-4
Distribution loss claimed for 2020-21 as per the petition

Sl. No	Particulars	2019-20	2020-21	
		Trued Up	Approved in ARR	For Truingup
1	Energy purchased (In lakh Units)	501.13	558.20	481.40
2	KSEB Energy Feedback (In lakh Units)	98.43	95.10	91.20
3	Gross energy in the system (In lakh Units) (1+2)	599.56	653.30	572.60
4	Energy Sales (In lakh Units)	436.68	490.30	418.50
5	Distribution loss (In lakh Units) (1-4)	64.45	67.90	62.90
6	Distribution loss % (5/3)	10.75%	10.40%	10.98%

15. Feedback energy of KSEB Ltd wheeled through the licensee's system is 91.20 lakh units. Feedback is the energy wheeled through the system of KDHPCL for the consumers of KSEB Ltd. Since the feedback is wheeled through the distribution lines of KDHPCL, the same is considered for the computation of distribution loss. As shown above, the actual distribution loss reported by the licensee at 10.98% is higher than the level of 10.40% fixed by the Commission in the ARR.

16. Distribution loss is a controllable parameter as per Tariff Regulations, 2018. Regulation 72(4) clearly specifies the methodology to be considered to account for any variation between the actual level of distribution loss and the approved level of the distribution losses. The relevant portions of the Regulation are as shown below:

72. Distribution loss...

.....
(4) Any variation between the actual level of distribution loss and the approved level of the distribution losses shall be dealt with, as part of the truing up of the respective financial year 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 purchase corresponding to the excess distribution loss for that financial year shall be disallowed at the average cost of power purchase for the respective financial year;*
- (b) if the actual distribution loss is lower than the approved level of distribution loss for any particular financial year of the control period, then the savings in the power purchase cost corresponding to the difference in distribution loss for that financial year at the average cost of power purchase for the respective financial year, shall be shared between the distribution business/licensee and the consumers in the ratio of 2:1*

17. The Commission notes that the licensee was able to bring down the distribution loss from 11.13 % in 2018-19 to 10.47% in 2019-20 (a reduction of 0.66 %) as against the target of 10.75 % approved by the Commission. However, the licensee in their petition has indicated that during 2020-21 the loss increased to 10.98 %. This indicates an increase of 0.51% in the distribution loss from the level of distribution loss attained during the year 2019-20. The licensee submitted that with the available inputs they are not in a position to arrive at a definite reason for the increase in line loss over the target approved by the Commission. The Commission is of the firm view that the licensee should have carried out adequate investigation so as to identify the reason for this excess loss. If required, the licensee could have even availed the services of an expert agency so that the root cause for this excess loss is identified and corrective action taken. The Commission also opines that the licensee is required to take steps for system improvement works so that the loss reduction already achieved is maintained and further reduction in distribution loss as approved by the Commission is adhered to.
18. As clearly brought vide Regulation 72, distribution loss is a controllable item, and its reduction is an efficiency parameter. Hence, the licensee has to take efforts to limit the distribution loss to the approved level or better it. The Commission notes

that though the licensee has achieved better reduction during the previous year, it failed to achieve the target of 10.40% set for the year instead the distribution loss for the year has increased to 10.98%. **Accordingly, against the True up claim of the licensee of 481.40 lakh units, the Commission hereby approves the energy requirement for the year 2020-21 at 477.66 lakh units as shown below:**

Table-5
Approved Energy input & Distribution Loss for the year 2020-21

Sl No	Particulars	Approved in ARR for 2020-21	As per Truing up petition for 2020-21	Approved for Trued up for 2020-21
1	Energy Sales (In lakh Units)	490.30	418.50	418.50
2	KSEB Energy Feedback (In lakh Units)	95.10	91.20	91.20
3	Distribution loss	10.40%	10.98%	10.40%
4	Gross energy (In lakh Units)	653.30	572.60	568.86
5	Distribution loss (In lakh Units) (4x3)	67.90	62.90	59.16
6	Approved Energy Input (in lakh Units) (4-2)	558.20	481.40	477.66

Power purchase cost

19. The licensee has claimed Rs.2689.53 lakh for the purchase of 481.40 lakh units against the Commission approved cost of Rs.3109.32 lakh for 558.20 lakh units in the ARR & ERC. As per the details given, the claim includes an excess demand of 5352 KVA for which Rs.9.10 lakh has been paid as excess demand charges. This payment is the penal charge paid by the licensee for the energy purchased over and above the contract demand.
20. The licensee has submitted that the average rate for the year following the BST revision from July 2019 vide Order of the Commission dated 8th July 2019, works out to Rs. 4.80/kWh for energy charge and demand charge is Rs.340/kVA. The details of Power Purchase cost are tabulated below.

Table-6
Details of the cost of power purchase claimed for 2020-21

Sl.No	Particulars	As per petition 2020-21
1	Total Consumption in lakh units	572.60
2	Less: Feed Back to KSEB in lakh units	91.20
3	Billed Units in lakh units	481.40
4	Demand Charges (Rs. lakh)	379.00
5	Excess Demand Charges (Rs. lakh)	9.10
6	Energy Cost (Rs. lakh)	2310.53
7	Total Power purchase cost (Rs. lakh)	2689.53
8	Average power purchase Cost (Rs. /kWh)	5.59

21. As seen from the above Table, the power purchase cost claimed by the licensee for the year 2020-21 is Rs. 2689.53 lakh. At a distribution loss of 10.98%, the average power purchase cost works out to Rs.5.59 per kWh.
22. The licensee has not stated any reason for increase in the power purchase cost. The Commission noted that there was no change in BST tariff or Demand charges during the year compared to the previous year. The actual average power purchase cost is Rs 5.59 per kWh as against Rs 5.57 per kWh approved by the Commission in the ARR & ERC. The Commission noticed that the increase was due to the Excess Demand charge of Rs 9.10 lakh paid by way of penal charges for the energy purchased over and above the contract demand. ***As against the licensee's claim of Rs. 2689.53 lakh, the Commission hereby approves the power purchase cost as Rs.2668.62 lakh for the year 2020-21 as shown below.***

Table-7
Details of approved power purchase cost for 2020-21

1	Actual distribution loss (In lakh units) (Table 4)	62.90
2	Approved distribution loss (In lakh units) (Table-5)	59.16
3	Excess distribution loss (1-2) (In lakh units)	3.74
4	Average power purchase cost Rs. /kWh	5.59
5	Disallowed cost in power purchase (Rs in lakh)	20.91
6	Actual power purchase cost (Rs. lakh)	2689.53
7	Approved power purchase cost (Rs. lakh) (6-5)	2668.62

Operation & Maintenance expenses

23. Operation & Maintenance expenses are controllable expenses and include expenses of Employee cost, Repair & Maintenance Expenses and Administrative & General Expenses. The relevant portion of Regulation 79(6) of the Tariff Regulations 2018 is reproduced hereunder;

79. Operation and maintenance expenses... ..

(6) The distribution business of Kanan Devan Hills Plantations Company Private Ltd. (KDHPCL) 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.

24. The Commission as per the above Regulation of the Tariff Regulations, 2018 had approved the licensee to recover O&M costs of Rs.194.16 lakh as per norms in the Regulations for the year 2020-21. The licensee has claimed as O&M expenses Rs.224.96 lakh in the petition. The comparison is shown below:

Table-8
O&M Expenses approved in 2019-20 and claimed for 2020-21

Particulars	2019-20	2020-21	
	Trued up Figure (Rs.lakh)	As per Tariff regulations2018/ Approved ARR (Rs. lakh)	As per Petition (Rs.lakh)
Employee Cost	145.89	138.93	166.07
R&M Expenses	36.59	40.12	48.55
A&G Expenses	12.09	15.11	10.34
Total O&M Expenses	194.07	194.16	224.96

25. The Commission has carefully examined each of these items included under the head O & M and has the following decisions.

Employee Cost

26. In their petition, the licensee has claimed Rs.166.07 lakh as employee cost. As per the Regulation 79(6) the Commission had approved an amount of Rs.138.93 lakh in the ARR Order for the year 2020-21. The details of the claim made by the licensee areas shown below:

Table-9
Details of employee cost claimed for the year

Particulars	2019-20 (Rs.lakh)		2020-21 (Rs.lakh)	
	As per petition	Trued Up	As per ARR Order	As per petition
Basic salary	69.06			66.79
DA	11.30			10.02
Leave Travel Allowance	0.32			0.34
Earned Leave Encashment	1.42			1.38
Other Allowance	6.92			8.25
Medical Reimbursement	0.32			0.29
Overtime Payment	27.01			32.95
Bonus/Ex-gratia payments	3.28			5.42
Staff welfare expenses	1.25			0.98
PF Contribution	8.86			9.46
Salary of managers and Executive electrical	11.49			15.26
Share of directors. Mngt Staff salaries	13.99			14.93
Total Employee Expenses	155.22	145.89	138.93	166.07

27. The Commission during the previous years of the control period had approved the employee cost as per the normative amount fixed by the Commission. The employee expenses approved for the licensee as per the Tariff Regulations 2018 for the year 2020-21 is Rs.138.93 lakh. The actual employee cost claimed for the year 2020-21 is Rs.166.07 lakh and is Rs. 27.14 lakh more than the amount approved in the Tariff Regulations 2018.
28. In the truing up petition, the licensee submitted that they have claimed employee expenses for 61 employees as against 64 in the previous year. The licensee has stated in the truing up petition that, out of the above 61 employees, 30 employees are located at various estates spread over the licensed area. The licensee further submitted in the truing up petition that for 25 employees out of the above said 30 employees, only 50% of their cost is charged to the distribution operations. The licensee also submitted that all the employees other than management staff are members of employees' unions and their wage/salary structures are fixed through industry wide triennial wage settlements.
29. The licensee has also submitted in the truing up petition that the triennial wage revision for workers was implemented with effect from 01 January 2019 which was after the approval of ARR & ERC by the Commission. The licensee further submitted that the revised wage rate as per triennial wage settlement was

Rs.308.21 per man day as against the pre-revised wage rate of Rs.256.21 per man day. It was further submitted that the wage rate is subject to Dearness Allowance (DA) which averaged Rs.93.91 per man day during the year. The staff and non-staff salaries were also revised in the triennial wage settlement.

30. In response to the additional clarifications sought by the Commission during hearing, the licensee vide their reply dated 01-06-2022 submitted that there is an increase of Rs.7.85 lakh in basic wages, DA and fixed overtime during the year which is almost 8.35% compared to the previous year. The licensee further submitted that this increase was because, during the year, the wages settlement contract with staff was revised giving effect to a total increase of 12% in their salaries. The licensee also attached a copy of the Settlement on Staff terms effective from 01 January 2020. The licensee further clarified that the DA increase for workers and non-staff category of employees was almost 3% on an average.
31. The licensee in their reply dated 01-06-2022 further submitted that the increase in Bonus amounting to Rs.2.14 lakh due to provision of bonus at 14% during the year as against 8.33% during the previous as a result of good financial performance in their other operations.
32. The licensee has submitted in their truing up petition for 2020-21 that there are two types of overtime expenses included in the employee costs which are fixed and variable overtime. Fixed overtime is paid to staff and non-staff category of workers as per Industry-wise Staff settlement purely on their attending to duty and without having to work beyond the office hours. The amount of Fixed Overtime during the year is Rs.22.55 lakh. Variable Overtime is paid for working beyond normal working hours and weekends, holidays which is required to restore line faults happening after working hours. The Variable Overtime during the year is Rs.10.40 lakh which was substantially higher than that of the previous year (Rs.6.02 lakh) and the increase of Rs.4.38 lakh was mainly on account of substantial damage to the distribution network during the peak monsoon seasons. The licensee submitted that they continue to monitor and maintain close control on overtime payouts and substantial reduction in the amount as suggested by the Commission. The Licensee further submitted that the salary structure is as per industry-wide wage settlement.
33. The category-wise split up of the employee costs claimed by the licensee is shown below:

Table-10
Category-wise split up of the employee costs claim by the licensee

Particulars	Actual for 2019-20		Truing up claim 2020-21	
	No.	Rs. lakh	No.	Rs. lakh
Junior Technical Officers	3	13.47	3	15.58
Switching Station Operations	4	12.85	4	16.60
Technical Staff	41	75.55	40	75.26
Other Workers	13	15.66	11	15.73
Non-Technical Staff	3	9.58	3	9.47
Share of Management Staff Expenses		25.48		30.19
Other Allowances, Medical & Welfare Expenses		2.63		3.24
Total	64	155.22	61	166.07

34. The licensee also furnished the complete details of all the 61 workers/staff, showing their qualification, place of deployment, category, etc, engaged during the year 2020-21 as stated above vide their letter dated 01-06-2022. The licensee also submitted that the increase of Rs.4.71 lakh during the year in the proportionate share of expenses of Management Staff involved in the operations is on account of increase in their salary and allowances.
35. The Commission has examined the details furnished by the licensee. The Commission notes that employee cost of Rs. 166.07 lakh claimed by the licensee during the year 2020-21 is higher than Rs.145.89 lakh, the trued-up figure for 2019-20 and the ARR approved amount of Rs.138.93 lakhs for 2020-21. However, the Commission has also noted that the licensee has made earnest efforts and reduced the number of employees further to 61 during the year. The Commission also noted that during this period, the impact of triennial wage revision for workers amounting to Rs.7.85 lakh also escalated the total employee cost which is to be allowed as per the provisions of Tariff Regulations 2018. Further, the variable overtime during the year has been increased by Rs.4.38 lakh to Rs 10.40 lakh from Rs.6.02 lakh in 2019-20 which was due to extensive damages caused to the distribution network by severe monsoon rains. Hence, the Commission is of the view that, the amount of Rs.4.38 lakh towards increase in variable overtime and Rs.7.85 lakh towards wage revision is to be allowed in addition to the amount approved in ARR Order dated 11-11-2019.
36. The licensee, as part of additional details furnished on the employee cost for the year 2020-21 submitted that there is increase in the employee cost on account of increase in contribution to PF (Rs.0.60 lakh) and increase in other allowances (Rs.1.01 lakh) which was on account of increase in salaries and wages due to

revision of wages and salaries. This being the impact of triennial wage revision, the Commission is of the view that these also to be allowed as per the provisions of Tariff Regulations 2018.

37. The licensee further submitted that Bonus for the workers in the electricity operations is paid in line with the employees in the tea operations. The licensee also clarified that during the year 2019-20 bonus provision was made at 8.33% whereas during 2020-21 provision of 14% was made as there was good financial performance in other operations. The additional provision on this account is Rs.2.14 lakh. As clarified by the licensee, this additional bonus is the share given to the employees out of the profit earned by the licensee as a result of good financial performance during the year and is not an expenditure to be pass through. Hence, the Commission disallows the amount of Rs.2.14 lakh claimed as additional provision for bonus.
38. The licensee claimed an amount of Rs. 30.19 lakh towards the share of Management Staff expenses for Distribution Operations during the year and submitted that there is an increase of Rs.4.71 lakh during the year which is on account of the increase in their salaries and allowances. The Commission examined the details furnished by the licensee. It is to be noted that the Commission has, while determining the norms for the control period 2018-19 to 2021-22, additionally allowed the cost for the management staff adequately during the base year 2016-17. Hence the same cannot be considered additionally. However, as per the provisions of Regulation 14(3) of Tariff Regulations 2018, expenses relating to pay revision, if any, during the control period for the same level of employees as admitted in the truing up of accounts for the year 2016-17 of the distribution licensee may be considered as pass through after due prudence check. Therefore, the Commission is allowing the increase of Rs.4.71 lakh paid due to revision of salary and allowances in addition to the amount approved in the ARR.
39. ***Accordingly, the Commission against the licensee's claim of Rs. 166.07 lakh hereby approves the employee expenses of Rs. 157.48 lakh for the year 2020-21 as shown below.***

Table-11
Employee Cost approved for the year 2020-21

Particulars	Approved Employee Cost for 2020-21 (Rs.in lakh)
Employee Cost approved in ARR Order dated 11-11-2019	138.93
Variable Over-time paid	4.38
Impact of wage revision for Workers	7.85
Increase in contribution to PF due to wage revision	0.60
Increase in Other allowances due to wage revision	1.01
Increase in share of salaries and allowances of Management Staff due to wage revision	4.71
Total	157.48

Repair and Maintenance Expenses:

40. The licensee in their truing up petition for the year 2020-21 has claimed Rs.48.55 lakh, for the repair and maintenance of transmission lines, substations, 11 kV lines & associated works, LT line service etc. As per the Tariff Regulations 2018, the approved R&M expense for 2020-21 is Rs.40.12 lakh. The split up of the R&M expenses as per the petition is shown below.

Table-12
Details of R&M expenses claimed by the licensee

Particulars	2019-20 Rs.lakh		2020-21 Rs.lakh	
	As per petition	Trued Up	As per ARR order	As per petition
Maintenance of Building	2.01	36.59	40.12	6.11
Cable, HT Lines	23.46			27.84
LT lines	6.95			10.07
Vehicles/fuel	3.16			3.29
Plant & Machinery	1.01			1.24
Total	36.59	36.59	40.12	48.55

41. As seen above, the licensee's claim for the year 2020-21 at Rs. 48.55 lakh is higher than the trued-up amount of Rs.36.59 lakh for the previous year by Rs.11.96 lakh. The licensee has submitted vide their letter dated 01-06-2022 that out of this claim of the year 2020-21, Rs.27.84 lakh is on account of repair and maintenance works of cables and line works for maintaining the distribution system. They have furnished breakup of the amount of Rs.27.84 lakh as under.

Table 13

Details of expenses incurred for R&M works of cables and line works

Particulars	Rs.lakh
Transformer service charges paid to power link services	1.11
Cost of sand & rubbles	1.17
Cost of MS Angles, Transformer oil, paint & painting charges	11.30
Under growth cutting charges	10.37
Employee's transportation charges	0.29
Cost of refreshments to workers	0.08
Transformer inspection charges	0.95
Additional labour from estates	2.57
Total	27.84

42. The Commission sought the reason for the repairs and maintenance expenses being on the higher side in comparison with the previous year. The licensee submitted vide their letter dated 01-06-2022 that, during the year 2020-21, the licensee had undertaken works to clear the undergrowth in 7.77 lakh sq. m incurring Rs.10.37 lakh as against 1.83 sq. m cleared during the previous year incurring Rs.2.29 lakh. Similarly, it was also submitted that though there was the practice of utilizing estate workers for removing overhanging trees, etc they were not charging the additional expenses for that to the electricity distribution business. This year they included such expenses amounting to Rs.2.57 lakh in R & M expenses. The licensee submitted that this year they incurred Rs.3.73 lakh towards repair of Switching station including painting work due to the damage caused by monsoon. The licensee also submitted that during the year they had to replace substantial number of old and aging electric posts and 63 new posts were fabricated during the current year incurring a total expenditure of Rs.5.26 lakh.
43. The licensee also submitted that the repairs and maintenance to plant and machinery was Rs.1.24 lakh compared to Rs.1.01 lakh during the previous year. This was incurred for repair, maintenance and upkeep of fire extinguishers, electrical machinery, lighting installations and purchase of loose tools and implements.
44. The licensee further submitted that the cost of repairs and maintenance of Vehicles/fuel during the year was Rs.3.29 lakh as against Rs.3.16 lakh during the previous year. The licensee also clarified that this expenditure includes cost of changing tyres, tubes, oil, other mechanical, electrical and body works and cost of fuel for vehicles used exclusively for the electricity distribution business.

45. The Commission has carefully examined the details of the claim of R&M expenses. The clarifications submitted by the licensee vide their letter dated 01-06-2022 was also considered. The Commission noticed that during the previous year the R&M expenses was considerably on the lower side as there was no severe monsoon damages as clarified by the licensee. The Commission further noticed that the cost of labour engaged from estates for removing overhanging tree branches over the lines, etc is a new item of expense which was consistently not claimed by the licensee though the work was carried out every year. As removing of overhanging branches of trees is an essential work necessary for maintain the power supply, the Commission allows the expenses of Rs.2.57 lakh claimed by the licensee. **Based on the clarifications and explanations submitted by the licensee, the Commission hereby approves the R&M expenses Rs. 48.55 lakh for the year 2020-21 as claimed by the licensee.** The Commission would however advice the licensee that, it is duty bound to maintain the reliability and quality of their service and must take timely action to ensure this commitment.

Administration and General Expenses:

46. As per the Tariff Regulation 2018, the approved A&G expenses are Rs.15.11 lakh. The licensee in their petition has claimed A&G expense of Rs.10.34 lakh. A comparison of the Administrative and General expenses claimed for over the previous years is tabulated hereunder.

Table 14
Details of A&G expenses claimed over the years

Particulars	2019-20 Rs. lakh		2020-21 Rs.lakh	
	As per petition	Trued Up	As per ARR order	As per petition
Rents, Rates and Taxes	0.39	12.09	15.11	0.40
Security Arrangement	1.83			0.89
Insurance	0.62			0.38
Telephone/Telex charges	0.04			0.05
Audit fees	0.50			0.50
Legal charges	1.02			1.02
Travelling expenses	0.20			0.07
Conveyance and vehicle charges	0.80			0.89
Fees and subscription	0.85			0.89
Printing and Stationery	2.04			0.72
Electricity charges	0.57			0.46
Miscellaneous expenses	4.25			4.07
Total	13.11			12.09

47. As seen from the Table above, the claim of the petitioner for the current year at Rs.10.34 lakh is lower than the ARR approved amount of Rs.15.11 lakh and trued up figure of Rs. 12.09 lakh by Rs.4.77 lakh and Rs. 1.75 lakh respectively. The Table above reveals that, the A&G expenses for the current year is about 14.5% lower than the previous year. The major reduction was in expenses booked under the head printing and stationery. The Commission noticed that during the previous year Rs 0.84 lakh was incurred towards purchase of consumer bills stationery to replenish stock and Rs 0.97 lakhs towards computer stationery. These expenses are not recurring every year and hence reduction in expenditure during the year.
48. The licensee in the truing up petition claimed Rs.1.02 lakh as Legal Charges incurred towards fee and expenses paid to the advocates to file appeal before the Appellate Tribunal for Electricity against the orders of KSERC. During the previous year also the licensee claimed similar expenses and the Commission has taken a consistent stand that the expenses incurred towards legal proceedings cannot be charged to the A&G expenses unless there is an order from the respective Courts regarding payment of costs. **Hence this amount of Rs.1.02 lakh is disallowed by the Commission.**

Table -15
Details of A&G expenses Approved for 2020-21

Particulars	As per petition 2020-21 Rs. Lakh	As per ARR order 2020-21	Approved for 2020-21 Rs. Lakh
Rents, Rates and Taxes	0.40	15.11	0.40
Security Arrangement	0.89		0.89
Insurance	0.38		0.38
Telephone/Telex charges	0.05		0.05
Audit fees	0.50		0.50
Legal charges	1.02		0.00
Travelling expenses	0.07		0.07
Conveyance and vehicle charges	0.89		0.89
Fees and subscription	0.89		0.89
Printing and Stationery	0.72		0.72
Electricity charges	0.46		0.46
Miscellaneous expenses	4.07		4.07
Total	10.34		15.11

49. **Based on the details furnished by the licensee, as against the licensee's claim of Rs.10.34 lakh, the Commission hereby approves Rs.9.32 lakh as the A&G expenses for the year 2020-21.**

Summary of O&M Expenses approved for 2020-21

50. The summary of O&M expenses approved by the Commission for the year 2020-21 is shown below.

Table -16
Approved O & M expenses for the year 2020-21

Particulars	2020-21		
	ARR Approved	Truing Up petition	Approved for Truing Up
	(Rs. in lakh)	(Rs. in lakh)	(Rs. in lakh)
Employee Cost	138.93	166.07	157.48
R & M expenses	40.12	48.55	48.55
A & G expenses	15.11	10.34	9.32
Total	194.16	224.96	215.35

Capital expenditure

51. The Commission had approved Rs.42.77 lakh in the ARR Order dated 11-11-2019 for the year 2020-21. The in-principle approval was granted in the ARR order for Rs.42.77 lakh with a condition that the works proposed shall be executed as per the proposed time frame with due prudence and the licensee shall furnish the details, including the source of funds, details of execution of works while filing the petition for truing up of accounts. In the truing up petition, the licensee has claimed only Rs. 4.72 lakh for the year 2020-21 as shown below.

Table -17
Details of expenditure capitalised for 2020-21

Particulars	Amount (Rs. in lakh)
Switch Meter-11 kv-7 Nos	0.90
Thenmallay R&D line reconductoring	3.82
Total	4.72

52. As per the provisions of Tariff Regulations, capital expenditure beyond Rs. 5 lakh requires Commission's prior approval. **Since the amount capitalized is less than the threshold limit of Rs.5 lakh, the Commission hereby approves Rs. 4.72 lakh as the licensee's Capital Expenditure as claimed by the licensee in the Truing Up of accounts for the year 2020-21.**

Depreciation

53. The licensee in their petition has claimed depreciation in the straight-line method as per the Tariff Regulations, 2018. The relevant provision in the Regulations is 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.....”

54. The Commission notes that the licensee in the truing up petition has claimed depreciation of Rs 22.71 lakh as against Rs.24.76 lakh approved for the year. The claim of the licensee is shown below.

Table -18
Depreciation claimed for the year 2020-21

Asset Group	2020-21			Rate of depreciation
	GFA (Rs.lakh)	Asset Addition (Rs. lakh)	Depreciation (Rs.lakh)	
Transformers	270.83	3.83	14.30	5.28%
Distribution lines	40.16	0.00	2.12	5.28%
Meters	85.25	0.89	4.53	5.28%
Others	25.97	0.00	1.62	6.33%
I T Equipment	0.92	0.00	0.14	15.00%
Total	423.13	4.72	22.71	

55. The licensee vide letter dated 01-06-2022 furnished the details of Assets over 12

years as on 01-04-2020 and Assets less than 12 years as on 01-04-2020 as below:

Table 19
Classification of Assets

Asset group	GFA (Rs. In lakh)	Asset Addition (Rs.lakh)
Assets over 12 years as on 01-04-2020		
Transformers	126.52	
Distribution lines	40.16	
Meters	17.84	
Others	7.96	
IT Equipment	0.00	
Sub-Total	192.48	
Assets less than 12 years as on 01-04-2020		
Transformers	144.31	3.84
Distribution lines	-	-
Meters	67.41	0.89
Others	18.01	-
IT Equipment	0.92	-
Sub-Total	230.65	4.73
TOTAL	423.13	4.73
Less: Consumer Contribution	7.89	--
Total assets excluding Consumercontribution	415.24	4.73

56. The Commission while issuing the order on ARR & ERC and Truing up orders for the year 2019-20 had allowed depreciation on assets which have already completed 12 years at a lower rate for the remaining life period as provided in Regulation 27 of the Tariff Regulations 2018. Accordingly, depreciation of Rs.24.76 lakh was approved in the ARR for the year and Rs.17.04 lakh was approved in the truing up for the year 2019-20. It is seen that the licensee in the petition for 2020-21 has claimed depreciation at higher rate for the entire assets.
57. As mentioned in para 51 above, Commission in its order on the ARR & ERC for the control period had approved an amount of Rs.42.77 lakh towards the capital investment for 2020-21. However, as per the truing up petition, the asset addition claimed is Rs.4.72 lakh only. The Asset addition of Rs.4.72 lakh during the current year is below the threshold limit of Rs.5 lakh, above which prior approval is required to be obtained.

58. As per Tariff Regulations 2018, the depreciation on assets created out of consumer contribution is not allowable. The assets for Rs.14.96 lakh is created out of consumer contribution which the Commission excluded consistently while approving the ARR and Truing up to the year 2019-20 and disallowed depreciation thereon amounting to Rs.0.79 lakh. The licensee vide letter dated 01-06-2022 furnished Consumer contribution as Rs.7.89 lakh. The Commission noted that no asset was scrapped and disposed of during the year and hence there cannot be reduction in the amount of consumer contribution during the year. Therefore, the Commission reckons the same amount of Rs.14.96 lakh as consumer contribution as was considered during the previous year. Considering the lower rate of depreciation for the assets that have completed 12 years and higher rates for rest of the assets and proportionate depreciation for asset additions during the year, the depreciation approved for the year 2020-21 is shown below.

Table -20
Depreciation approved for 2020-21

Asset group	GFA (Rs. lakh)	Asset Addition (Rs.lakh)	Depreciation (Rs.lakh)	Rate of depreciation
Assets over 12 years				
Transformers	126.52		1.44	1.14%
Distribution lines	40.16		0.46	1.14%
Meters	17.84		0.20	1.14%
Others	7.96		0.05	0.61%
IT Equipment	0.00		-	
Sub-Total	192.48		2.15	
Assets less than 12 years as on 01-04-2020				
Transformers	144.31	3.83	7.62	5.28%
Distribution lines	-	-	-	5.28%
Meters	67.41	0.89	3.56	5.28%
Others	18.01	-	1.14	6.33%
IT Equipment	0.92	-	0.14	15.00%
Sub-Total	230.65	4.72	12.46	
Proportionate depreciation on assets created during the year		4.72	0.05	5.8%
TOTAL	423.13	4.72	14.61	
Less: Consumer Contribution	14.96	--	0.79	5.28%
Total assets after excluding Consumer contribution	408.17	4.72	13.82	

59. ***As shown above, the Commission approves a depreciation of Rs.13.82 lakh for the year 2020-21 as against Rs.22.71 lakh claimed by the licensee.***

Interest and Finance Charges

60. In the licensee's ARR & ERC for 2020-21, the Commission had approved Rs.66.27 lakh as interest and finance charges including interest on normative loan, interest on working capital, interest on security deposits and the Bank Charges on Bank Guarantee/L.C to KSEB. The licensee in this petition has claimed Rs.52.47 lakh as interest and finance charges for the year. A comparison of the interest and finance charges claimed is tabulated hereunder.

Table-21
Split up of Interest & Finance charges claimed

Particulars	2019-20	2020-21	
	Trued Up (Rs.lakh)	Approved in ARR (Rs.lakh)	For Truing Up (Rs.lakh)
Interest on Normative Loan	8.74	17.96	6.62
Interest on Working Capital	30.82	28.25	26.12
Interest on Security deposits	11.34	17.39	9.98
Bank Charges on LC to secure cost of monthly power purchase from KSEBL	5.10	2.67	4.26
Bank Charges on Rs 7.18 Cr Bank Guarantee to KSEB	--	-	3.49
Shortfall in interest on security deposit to consumers	-	-	2.00
Total	56.00	66.27	52.47

61. Each of the items claimed under interest and finance charge is examined below.

(a) Interest on normative loan

62. The licensee has in this petition claimed interest on normative loan as shown below.

Table-22
Interest on Normative Loan Claimed

Particulars	ARR Approved 2020-21 (Rs.Lakh)	Claim as per the petition 2020-21 (Rs.Lakh)
GFA eligible for Return/Net Normative loan- 1st April 2020	211.34	95.15
Net Increase decrease of assets during the year ended March 2021.	42.77	4.72
Depreciation during the year ended 31st March 2021	24.76	22.71
Net Normative loan for the year ended 31 st March 2021	229.35	77.16
Average Normative Loan during the year	220.34	86.16
Average Base Rate of SBI during the year (%)	8.15	7.68
Interest on the normative loan for the year	17.96	6.62

63. The licensee has stated that SBI's MCLR as on 31st March 2020 being 8.05% and MCLR as on 31st March 2021 being 7.30% has been considered, to arrive at the 3-year average rate of 7.68% which has been adopted for the computation of interest on normative loan.
64. In the licensee's truing up Orders dated 12-05-2021, the Commission has worked out the closing normative loan for 2019-20 as Rs.95.15 lakh.
65. The Commission has examined the licensee's submission with reference to the provisions of the Regulations. As per Regulation 22(1) of Tariff Regulations 2018, in the case of existing distribution system assets, the capital cost approved by the Commission prior to the First day of April 2018, including additional capitalisation, if any, and the expenditure projected for the respective financial years of the Control Period, shall form the basis for determination of tariff.
66. As per Regulation 27(3) of Tariff Regulations 2018, 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 up to the Thirty First day of March, 2018 from the gross depreciable value of the assets. Further, Regulation 26(4) says that if any fixed asset is capitalised on account of capital expenditure incurred prior to the First day of April, 2018, the debt-equity ratio allowed by the Commission for determination of tariff for the period ending the Thirty First day of March, 2018 shall be considered. In addition, Regulation 29(2) provides that the normative loan outstanding as on the First day of April 2018

shall be worked out by deducting the amount of cumulative repayment as approved by the Commission up to the Thirty First day of March, 2018, from the normative loan.

67. The normative loan for the purpose of interest charges as on 1-4-2020 as approved by the Commission in the Truing up order is Rs.95.15 lakh. Further vide Para 53 of this Order, the Commission has accepted the capital expenditure during 2020-21 as Rs. 4.72 lakh. As per second proviso to Regulation 29 (4) of the Tariff Regulations 2018, if there is no actual loan portfolio, interest charges is to be allowed at the base rate. The base rate is the Marginal Cost of Funds based Lending Rate (MCLR) declared by the State Bank of India as applicable on first day of April of respective financial year for a tenure of one year. The Commission noted that the MCLR declared by State Bank of India as applicable on 01 April 2020 is 7.75%. Based on the asset addition for the year, the normative loan is worked out as shown below.

Table-23
Normative loan approved for 2020-21

	Particulars	2020-21 (Rs. In lakh)
1	GFA eligible for Return as on 01-04-2020	95.15
2	(Normative loan at the beginning of the year)	95.15
3	Asset Addition during the year	4.72
4	Less Depreciation for the year	13.82
5	Closing Normative loan for the year (2+3-4)	86.05
6	Average Loan for the year (2+5)/2	90.60
7	Rate of Interest (MCLR rate as on 01-04-2020 one year tenure)	7.75%
8	Interest charges for the year	7.02

68. ***Accordingly, the Commission hereby approves Rs.7.02 lakh as interest on normative loan for the year 2020-21 as against Rs.6.62 lakh claimed by the licensee.***

(b) Interest on the security deposit

69. The licensee in their petition has submitted that the interest provided on security deposit from consumers at the rate of 4.50% was Rs.9.98 lakh and claimed that as per Regulations 72 of the Kerala Electricity Supply Code 2014, they have to pay to the consumer interest on security deposit at the bank rate prevailing on 1st April of that year. It was also claimed that the prevailing bank rate as on 1st April 2020 was 5.40% and they have to pay Rs.11.98 lakh. They claimed and additional amount of Rs.2.00 lakh (Rs.11.98 lakh- Rs.9.98 lakh) which would be paid to the consumers by

31st December 2021.

70. The Commission has examined the claims on interest on the security deposit of the licensee. In this connection, Regulation 72 of the Kerala Electricity Supply Code, 2014 is reproduced hereunder.

*72. **Interest on security deposit.**- (1) The licensee shall pay to the consumer, interest on the security deposit furnished by him at the bank rate prevailing on the first of April of that year and it shall be payable annually with effect from date of such deposit.*

(2) The interest accrued during the financial year shall be adjusted in the energy bill of the consumer during the first quarter of the ensuing financial year.

(3) If the adjustment of interest is delayed, interest at twice the bank rate shall be payable for the delayed period.

71. As per Regulation 72 of the Kerala Electricity Supply Code, 2014 cited above, the licensee has to pay interest on the security deposit at the bank rate prevailing in the first April of that year. The bank rate is defined in Regulation 2(16) of the Kerala Electricity Supply Code, 2014 as under.

*“2(16) **“bank rate”** means the standard rate notified by the Reserve Bank of India as per Section 49 of the Reserve Bank of India Act, 1934 (Central Act 2 of 1934), at which it is prepared to buy or re-discount bills of exchange or other commercial paper eligible for purchase thereunder”.*

72. As per the website of Reserve Bank of India, the bank rate for April 2020 is 5.40%. The licensee has to pay the interest to the consumers as per the bank rates of RBI applicable for the relevant years. However, as per Regulation 29(8), interest on security deposit actually paid to the consumers shall only be allowed for truing up. **Accordingly, considering the actual interest paid, Commission approves Rs.9.98 lakh being the actual interest paid on security deposit for the year 2020-21 as against Rs.11.98 lakh claimed by the licensee.**

(c) Bank Charges on Bank Guarantee/L.C to KSEB Ltd

73. The licensee has claimed Bank charges amounting to Rs.7.75 lakh for the year 2020-21 out of which Rs.4.26 lakh is relating to the Letter of Credit issued in favour of KSEBL to secure monthly power purchase bills and the balance Rs.3.49 lakh is towards the bank charges on Rs.7.18 crore Bank Guarantee provided to KSEBL as per the directions of the Hon. Supreme Court of India in civil appeal 2144/2011. The split up of the claim is shown below.

Table-24
Bank Charges Claimed

Particulars	(Rs. In lakh)
Bank Charges on LC to secure cost of monthly power purchase from KSEBL	4.26
Bank Charges on Rs. 7.18 crore for Bank Guarantee to KSEB	3.49
Total	7.75

74. The licensee has submitted that the claim of Rs.4.26 lakh is towards the bank charges for opening the letter of credit to KSEB Ltd as per the power purchase agreement. **Considering the same, the Commission approves the bank charges of Rs. 4.26 lakh incurred for opening letter of credit.**
75. In respect of the bank guarantee provided to KSEBL as per the Orders of Hon. Supreme Court, the Commission in the previous orders has specifically directed the licensee that bank guarantee charges for the above purpose shall not be included in the allowable expenses. This is because the licensee has filed first appeal against the order of the Commission approving the arrear amount payable to KSEB Ltd. In the first Appeal, Hon. APTEL has upheld the order of the Commission. The licensee has filed second appeal before the Hon. Supreme Court and Hon. Supreme Court in the interim order, directed to provide bank guarantee for the said amount. The Commission is of the opinion that pending the outcome of the case before the Hon'ble Supreme Court, this amount shall not be considered at present.
76. **Accordingly, the Commission approves only Rs.4.26 lakh, i.e., the Bank Charges on L.C to KSEB Ltd. as part of interest and finance charges as against Rs.7.75 lakh claimed by the licensee.**

(d) Interest on Working Capital

77. In the licensee's truing up petition for 2020-21, they have sought interest on working capital of Rs.26.12 lakh as against the ARR approved amount of Rs.28.25 lakh and the details are shown below.

Table -25
Working capital proposed by the licensee for 2020-21

Particulars	Approved ARR/ERC 2020- 21 (Rs. In lakh)	Claimed for the year 2020-21 (Rs. In lakh)
O & M Expenses- One month	16.18	18.75
Maintenance spares		
Receivables-2 months	556.60	479.44
Less: security Deposit from consumers	278.30	230.25
Total working Capital	278.30	267.94
Interest rate (%)	10.15	*9.75
Interest on working capital	28.25	26.12

*SBI 1 year MCLR 7.75% on 01-04-2020 plus 2% thereof total 9.75%

78. As per the Tariff Regulations 2018, Regulation 32 states that interest on working capital for a distribution licensee is to be computed in the following manner. The relevant portion of Regulation 32 is quoted hereunder;

“32. Interest on working capital. – (1) The generation *business/company or transmission business/licensee or distribution business/licensee or the state load despatch centre shall be allowed interest on the normative level of working capital for the financial year, computed as under,-*

.....

(e) In the case of distribution business/licensee the working capital shall comprise of,-

- I. operation and maintenance expenses for one month; plus*
- II. cost of maintenance spares equivalent to one-twelfth of the average of the book value of stores, materials and supplies at the beginning and end of the financial year; plus*
- III. receivables equal to the expected revenue from sale of electricity for two months at the prevailing tariff:*

Provided that the amount, if any, held as security deposits except the security deposits held in the form of Bank Guarantee from users of the distribution system and consumers shall be reduced while computing the working capital requirement;

Provided further that for distribution business/licensees who supply electricity to their consumers on prepaid metering system, no interest on working capital shall be allowed.”

79. The licensee has worked out the interest on working capital requirement as per the provisions of the Tariff Regulations 2018. Based on the approved O&M expenses

and power purchase cost, the Commission approves interest on working capital for the year 2020-21 at Rs.26.16 lakh as claimed by the licensee as under.

Table -26
Interest on Working capital approved for 2020-21

Particulars	Actual 2020-21 (Rs. lakh)
Approved O & M Expenses for One month (212.78/12)	17.73
Maintenance Spares	---
Receivables-2 months Revenue from sale of power (2884.83/12 x 2)	480.81
Less: Security Deposit from Consumers	230.25
Total Working Capital	268.29
Interest Rate (%) (base rate+2%)	9.75
Interest on Working Capital	26.16

Summary of the interest and finance charges

80. The interest and finance charges approved for the year 2020-21 in the process of truing up is detailed below.

Table – 27
Interest & Finance charges approved for the year 2020-21

Particulars	Amount approved for truing up (Rs. lakh)
Interest on normative loan	7.02
Interest on security deposits	9.98
Bank Charges on Bank Guarantee	4.26
Interest on working capital	26.16
Total	47.42

Other Debits

81. The licensee has given the breakup of Rs.12.95 lakh claimed under 'Any other item' in form D.1.1. as other debits as against Rs.0.60 lakh approved in the ARR Order issued as 'Other debits'. The details of the amount detailed under the head 'Any other item' is as furnished by the licensee in their letter dated 13-01-2021 is as under.

Table-28
Details of Any other items

Particulars	Rs.in lakh		
	2019-20 Truing up	In ARR 2020-21	2020-21 truing up
Duty III	13.12	0.60	11.47
Inspection Charges	1.17		1.13
Provision for doubtful Debt	0.62		0.35
Total	14.91	0.60	12.95

82. As shown above, the licensee has included Section III duty, inspection charges and provision for doubtful debts under other debits. Commission has not been admitting Section 3(1) Duty as a revenue expenditure since as per the Kerala Electricity Duty Act, the Electricity Duty under this Section on the sales of energy should be borne by the Licensee and shall not be passed on to the consumers. Section 3 of the Kerala Electricity Duty Act, 1963 is quoted hereunder,

“3. Levy of electricity duty-(1) on sales

Save as otherwise provided in sub-section (2); every licensee in the State of Kerala shall pay every month to the Government in the prescribed manner, a duty calculated at 6 naye paise per unit of energy sold at a price more than 12 naye paise per unit;

that no duty under this sub-section shall payable by the Kerala State Electricity Board on the energy sold by it to another licensee.

(2) Where a licensee holds more than one license, duty shall be calculated and levied under this section separately in respect of each license.

(3) The duty under this Section on the sales of energy should be borne by the licensee and shall not be passed on to the consumer.”

83. From the above statutory provision, it can be concluded that,

- (1) the Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, is payable by the licensee to the Government
- (2) the Duty shall be calculated at the rate of 6 paise per unit of energy which is sold at a price more than 12 paise per unit.
- (3) Duty shall be calculated only on the energy sold.
- (4) the Duty paid by the licensee under Section 3 (1) cannot be passed on the consumer and therefore it cannot be claimed as an expenditure in the Truing Up petition.

84. The amount of Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act, 1963, cannot be admitted as an item of expenditure in the truing up petition. The Commission has, in its previous orders also, consistently pointed out that the

Electricity Duty payable by the licensee under Section 3 (1) of the Kerala Electricity Duty Act cannot be included in the A&G expenses and passed on to the consumers. Hence, here too the Commission declines to approve the licensee's claim of Rs.11.47 lakh on account of section 3(1) duty. **Hence the Commission disallows the licensee's claim of Rs.11.47 lakh as Duty III.**

85. With regard to the licensee's claim of provision for doubtful debts, while issuing the order on the truing up of accounts for the year 2017-18, Commission had specifically directed the licensee to conduct an age wise analysis of the receivables and to take steps to realise the receivables and to write off the receivables which are bad and uncollectable against the provisions already available. Commission had also stated that unless the direction is complied with, additional provision for doubtful debts will not be considered in future. On scrutiny of the audited Accounts of the licensee for the year 2020-21, the Commission noticed that no amount is written off during the year as Bad debt. The amount claimed is only a Provision created for doubtful debts during the year. The Commission further noticed that the claim for provision for doubtful debts for 2018-19 and 2019-20 was also disallowed vide Commission's Orders dated 24-04-2020 and 12-05-2021. **Since the amount is not declared as Bad debt and not written off in the accounts, the Commission hereby disallows the claim of Provision for doubtful debts of Rs.0.35 lakh in 2020-21 also and approves only the inspection charges of Rs.1.13 lakh under the head of 'Any other item'.**

Return on Equity

86. The licensee in the petition for Truing up of accounts for the year 2020-21 has not claimed any amount under RoE. The Commission while approving the ARR & ERC for the year 2020-21 had approved a RoNFA of Rs.3.83 lakh as against the projection of Rs.10.76 lakh. The Commission in the ARR of the licensee had allowed only for Rs. 127.76 lakh for calculation of RoNFA, since, for the balance amount interest on normative loan is allowed. In the current year 2020-21 also the licensee has been allowed interest on normative basis for gross fixed assets added since transfer of license (after deducting depreciation) treating the same as fully funded through loans. Hence, it is not fair to allow additional return in the form of Return on NFA for the entire assets. The Commission is of the considered view that return is to be allowed only for Rs.127.76 lakh which is the value of assets at the time of transfer for which no return is allowed. **Accordingly, the Commission approves the return on NFA of Rs.127.76 lakhs @ 3% amounting to Rs.3.83 lakh as eligible return for the year 2020-21.**

Table-29
Computation of RONFA for 2020-21

Sl.No.	Particulars	Amount (Rs. In lakh)
1.	GFA as on 01-04-2020	423.13
2	Less: Accumulated Depreciation as on 31.03.2020 (168.22+17.04)	185.26
3	Less: Consumer Contribution	14.96
4	Less: GFA for which Interest charges are allowed on normative Basis	95.15
5	Balance Value of NFA at the beginning of the year	127.76
6	Rate of Return	3%
7	Eligible Return	3.83

Revenue from sale of power

87. A comparison of the category wise revenue from sale of power approved by the Commission for the year 2019-20 and the claim by the licensee for 2020-21 is as shown below.

Table -30
Revenue from sale of power

Particulars	Approved in 2019-20				Truing up 2020-21			
	No. of Consumers	Sales in lakh units	Total Revenue (Rs lakh)	Average Realisation	No. of Consumers	Sales in lakh units	Total Revenue (Rs lakh)	Average Realisation
HT IA Industrial	22	281.38	1922.36	6.83	22	284.20	1979.27	6.96
HT II (Non Ind/Comml)	3	4.45	38.52	8.66	3	4.10	36.63	8.93
HT III Agriculture	2	3.01	14.06	4.67	2	3.30	14.06	4.69
HT IV Commercial	9	19.93	169.87	8.52	9	13.00	169.87	9.65
LT I Domestic	13543	72.99	330.21	4.52	13538	74.30	345.44	4.65
LT IV Industries	89	4.77	31.9	6.69	88	4.00	29.43	7.36
LT V Agriculture	6	0.08	0.18	2.25	5	0.10	0.35	3.50
LT VI Non-Domestic	928	16.09	142.57	8.86	922	14.10	130.29	9.24
LT VII Commercial	1179	30.24	304.11	10.06	1179	17.90	196.37	10.97
LT VIII Public Lighting	261	3.65	17.54	4.81	253	3.40	17.13	5.04
LT TOD Tariff	3	0.09	0.68	7.56	2	0.10	0.80	8.00
Sub Total	16045	436.68	2972	6.81	16023	418.50	2876.65	6.87
Electricity Duty Recovery			132.31				114.46	

Particulars	Approved in 2019-20				Truing up 2020-21			
	No. of Consumers	Sales in lakh units	Total Revenue (Rs lakh)	Average Realisation	No. of Consumers	Sales in lakh units	Total Revenue (Rs lakh)	Average Realisation
Other state Levies Recovery/Fuel Surcharge & Excess Over quota			4.78				4.91	
Miscellaneous Charges from Consumers								
(i) Fuse off calls/New Application Fee			0.02				0.03	
(ii) Reconnection fee			0.43				0.28	
(iii) Public lighting			2.26				0.01	
(iv) Maintenance charges			0.21				0.03	
(vi) Delayed payment Charges			4.81				6.91	
(vii) Other receipts- Power Theft. Etc.			0.33				0.92	
Gross Revenue From Sale of Power			3117.15				3004.20	
Less: i) Electricity Duty Payable to Govt. (Contra)			132.31				114.46	
ii) Other State Levies Payable to Govt. (Contra)			4.78				4.91	
Net Revenue from Sale of Power	16045	436.68	2980.06		16023	418.50	2884.83	

88. As per the details submitted in the petition, during the year 2020-21, the number of consumers has decreased from 16045 to 16023. The total sale has decreased marginally over the previous year. The actual sale of power during 2019-20 was 436.68 lakh units for Rs.2980.06 lakh, whereas the sale during the year 2020-21 is only 418.50 lakh Units for Rs.2884.83 lakh. The licensee has submitted that the sale during the year was almost at the same level as at the previous year, but was much lower than what was projected in ARR-ERC 490.30 lakh units for Rs.3347.00 lakh which was arrived at a CAGR of 2% per annum over the actuals for the year 2017-18. The licensee further submitted that the deficits are mostly in Commercial and Industrial consumptions arising mainly from lack of growth in these sectors for the last two years.

89. The Commission has further noted that while the maximum number of consumers falls in the LT I Domestic category, maximum sale of power was in the HT I Industrial category. The total sale is lower by 18.18 lakh units for the year 2020-21 when compared to the previous year 2019-20, i.e., a reduction by around 4.16 %

when compared to the previous year. **The Commission hereby approves the actual energy sales of 418.50 lakh units and the actual revenue from sale of power of Rs.2884.83 lakh as claimed by the licensee.**

Non-Tariff Income

90. The non-tariff income accounted by the licensee in the application includes interest on KDHPCL deposit with KSEB Ltd and miscellaneous recoveries. A comparison of the non-tariff income is tabulated hereunder.

Table 31
Details of Non-Tariff income claimed

Particulars	2019-20	2020-21	
	Trued Up (Rs. lakh)	In ARR	For Truing Up (Rs. lakh)
Interest on Deposit with KSEB	14.52	13.68	-
Miscellaneous recoveries	10.55	2.35	11.66
Interest on accumulated Surplus	63.40	51.76	-
Total	88.47	67.79	11.66

91. The licensee has submitted in the truing up petition and vide their letter dated 01-06-2022 that the interest of Rs.14.84 lakh on security deposit placed with KSEBL is not included under Other income as KSEBL is not paying the amount to the licensee. It is also submitted that another reason for non-inclusion of interest on security deposit was non-inclusion of the amount of Security deposit provided to KSEBL as working capital for working out interest on working capital.
92. The security deposit to KSEBL was a one time payment which would be increased only when the contract demand was increased by the licensee. The Commission, on scrutiny of the audited accounts, noted that during the year there is no cash outflow by way of security deposit to KSEBL. Thus, the Commission finds no merit in the claim of inclusion of the amount of security deposit for working out interest on working capital.
93. The Commission, has consistently adopted the view that interest on security deposit with KSEBL has to be reckoned as Non-tariff income and accordingly approved Rs.14.52 lakh during the previous year. Regarding the issue of non-receipt of interest on security deposit from KSEBL, the Commission directs the licensee to take up the matter with KSEBL for appropriate action. Therefore, the Commission is approving Rs.14.84 lakh being the amount of interest on security deposit worked out by the licensee and Rs.11.66 lakh claimed by the licensee as Miscellaneous recoveries. Thus, the Commission approves a total Non-tariff

income of Rs.26.50 lakh during the year 2020-21.

94. The Commission further notes that the licensee has not accounted the interest on accumulated surplus as part of the non-tariff income in the Truing Up petition. The licensee has reiterated their earlier stand in their Truing Up petition that Regulatory surplus does not generate any real cash surplus of corresponding amount in the hands of the Licensee for placement of funds. The Commission does not accept this view and has consistently over the years approved notional interest on the accumulated surplus. The cumulative accumulated surplus at the end of the year 2019-20 as per the Truing Up Order dated 12-05-2021 is Rs. 959.51 lakh.
95. The Commission has been approving the notional interest on accumulated revenue surplus at the SBI base rate. However, for the control period from 2018- 19 to 2020-21, the Commission is of the view that the notional interest may be allowed on the SBI fixed term interest for a tenure of one year, considering the current interest rate scenario. Accordingly, the interest on the revenue surplus of Rs. 959.51 lakh is approved at a rate of 5.70% which is the retail term deposit interest rate of SBI for a tenure of one year as on 01.04.2020.
96. **Considering the above, a notional interest of Rs.54.69 lakh on the accumulated surplus is hereby approved by the Commission. Hence, the Commission approves total non-tariff income of Rs.81.19 lakh as per Table 32 given hereunder for the purpose of truing up of accounts for the year 2020-21 as against Rs.11.66 lakh claimed by the licensee.**

Table – 32
Non-Tariff Income allowed for truing up for 2020-21

Particulars	Trued Up (Rs lakh)
Non-Tariff Income	26.50
Interest on accumulated surplus	54.69
Total	81.19

Revenue Surplus/Gap

97. The Commission after considering the petition of the licensee for truing up of the accounts for the year 2019-20, clarifications and additional details submitted by the licensee and the comments of KSEB Ltd, approves the truing up of accounts for the financial year 2019-20 as tabulated below.

Table – 33
Revenue Surplus/ Gap after Truing Up of Accounts for 2020-21

Particulars	2020-21		
	Approved in ARR (Rs. lakh)	For Truing Up (Rs. lakh)	Trued Up (Rs. lakh)
Revenue from sale of Power	3347.00	2884.83	2884.83
Non-tariff Income	67.79	11.66	81.19
Total Income	3414.79	2896.49	2966.02
Expenses:			
Power Purchase Cost	3109.32	2689.53	2668.62
R&M Expenses	40.12	48.55	48.55
Employee Cost	138.93	166.07	157.48
A&G Expenses	15.11	10.34	9.32
Depreciation	24.76	22.71	13.82
Interest and finance charges	66.27	17.73	47.42
Other Debits	0.60	12.95	1.13
Return on Equity/NFA	3.83	0.00	3.83
Total expenditure	3398.94	2967.88	2950.17
Revenue Surplus/(Gap)	15.85	(71.39)	15.85

Orders of the Commission

98. The Commission after considering the application filed by M/s. KDHPCL for truing up of accounts for the year 2020-21, objections raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following;

- a) Total revenue is **Rs. 2966.02 lakh**.
- b) Total expenditure is **Rs.2950.17 lakh**.
- c) The revenue surplus for the year is **Rs.15.85 lakh**.
- d) The cumulative revenue surplus till 2020-21 will be **Rs. 975.36 Lakh (Rs.959.51 lakh + Rs.15.85 lakh)**. The licensee shall keep the surplus arrived at after the truing up process in a separate fund and utilize it as per orders of the Commission.

99. 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