

**KERALA STATE ELECTRICITY REGULATORY COMMISSION  
THIRUVANANTHAPURAM**

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

**OP 04/2021**

In the matter of : Truing Up of Accounts of M/s Smart City (Kochi)  
Infrastructure Private Limited for the financial year 2018-19

Petitioner : M/s Smart City (Kochi) Infrastructure Private Limited

Date & No. of Hearing: 1<sup>st</sup> Hearing held on 10-09-2021, Video Conference Mode  
2<sup>nd</sup> Hearing held on 11-03-2022 at Smart City, Kochi.

Represented by : 1. Sri. Jinu Jacob, Company Secretary & Director (Finance)  
2. Sri. Ranjith Lal, Senior Manager, Asset & Infrastructure

**Order Dated 27-04-2022**

1. M/s Smart City (Kochi) Infrastructure Private Limited (SCK) (hereinafter referred to as SCK or the licensee or the petitioner) is an Information Technology Special Economic Zone in Kochi, Kerala. The Kerala State Electricity Regulatory Commission (hereinafter referred to as 'the Commission') had granted Distribution licence to Smart City (Kochi) Infrastructure Private Limited vide Notification No. 1756/C.Engg/SCK/2013 dated 17-07-2014. SCK is a Joint Venture company formed by Government of Kerala (16% holding) and Dubai Holding (84% holding) for development of infrastructure for knowledge-based industries.
2. The licensee vide letter No. SCK/P16-P93/115/2020 dated 04-12-2020 has filed a petition for the Truing Up of Accounts for the financial year 2018-19 as per the provisions of the KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2018 (hereinafter referred to as the Tariff Regulations, 2018). The 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 it 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. Hence, as per second proviso of Regulation 10(1) of the Tariff Regulations, 2018, the petition for Truing Up of Accounts for the year 2018-19 has to be filed by 30-11-2019. However the licensee has filed the petition for Truing Up of Accounts for the Financial Year 2018-19 vide their letter dt. 04.12.2020 based on the direction issued by the Commission to all licensees to file pending Truing Up petitions by 09.09.2020. The licensee has also filed petition for condonation of delay vide letter dated 15-01-2021. The Commission after carefully considering the reasons for the delay of 12 months in the filing, condoned the delay in filing the Truing Up petition vide Order IA No.02/2021 dated 19.01.2021 and the petition was admitted as OP No. 04/2021.
4. Meanwhile, the Commission had issued the Order on the petition for approval of the ARR&ERC for the entire Control Period (2018-19 to 2021-22) on 08-11-2019 in OA No 02/2019. For the year 2018-19, the Commission had approved a Revenue Gap of Rs.20.24 lakh in the ARR&ERC Order dated 08-11-2019. However, the licensee has proposed the Revenue Gap of Rs.77.37 lakh for the year 2018-19 in the petition filed on 04-12-2020. A comparison of the Aggregate Revenue Requirement and Expected Revenue from Charges approved as per the Order on ARR & ERC dated 08-11-2019 and the petition submitted by the licensee for the Truing Up of Accounts for the year 2018-19 is tabulated below.

Table-1  
Comparison of ARR & ERC approved and Truing Up claim for 2018-19

Particulars	2018-19		
	Approved in ARR&ERC (Rs.in lakh) (A)	As per Truing Up Petition (In. lakh) (B)	Variance (In. lakh) (B)-(A)
Revenue from sale of power	241.05	249.84	8.79
Other income	6.36	6.41	0.05
<b>Total income</b>	<b>247.41</b>	<b>256.25</b>	<b>8.84</b>
Purchase of power	224.60	226.13	1.53
R&M Expenses	11.39	16.35	4.96
Employee Cost	19.66	19.57	-0.09
A & G Expenses	12.00	24.24	12.24
Interest and financing charges	-	-	-
Depreciation	-	47.33	47.33
Return on equity	-	-	-
<b>Total Expenditure</b>	<b>267.65</b>	<b>333.62</b>	<b>65.97</b>
<b>Revenue (Gap)/surplus</b>	<b>-20.24</b>	<b>-77.37</b>	<b>-57.13</b>

5. The Commission vide letter dated 18-03-2021 sought clarifications on the petition. The licensee vide letter No. SCK/P16-P93/27/2021 dated 30-03-2021 furnished their reply to the clarifications sought by the Commission. While scrutinizing the petition for the year 2018-19, it was noticed that, the licensee had not filed any Truing Up petitions for the year 2016-17 & 2017-18 even though commercial operation has been started by the licensee from 2016-17 onwards. Hence, the Commission vide letter dated 04-05-2021 directed the licensee to file the pending Truing Up petitions. Accordingly, petitions for Truing Up of Accounts for the years 2016-17 & 2017-18 were filed by the licensee on 02-08-2021.
6. The Commission examined these petitions and conducted a combined public hearing through Video Conference mode on 10-09-2021 at 11.00 A.M. on all the three petitions for the Truing up of Accounts for the financial years 2016-17, 2017-18 & 2018-19. The public hearing was commenced with a remark of the Commission that the petitions filed by the licensee are devoid of required information and the licensee shall take efforts to maintain their Regulatory Accounts as per the Regulations issued by the Commission. After the hearing, the Commission vide Daily Order dated 14-09-2021 sought clarifications and additional information/details for processing the petitions.

7. The licensee vide letter dated 12-10-2021 furnished the additional information required on the petition and also submitted the revised petition for the years 2016-17, 2017-18 & 2018-19. After that, the licensee has subsequently revised the Revenue Gap through additional submissions vide letter dated 18-03-2022 and email dated 22-03-2022 and 29-03-2022. A comparison of the Aggregate Revenue Requirement and Expected Revenue from Charges approved as per the Order on ARR & ERC dated 08-11-2019 with the latest Truing Up claim for the year 2018-19 vide email submission dated 29-03-2022 and the Trued-up figures for 2017-18 are shown below.

Table-2

Particulars	2017-18		2018-19		
	As per Truing Up Petition (In. lakh)	Trued Up (In. lakh)	Approved in ARR&ERC (Rs.in lakh) (A)	As per Truing Up Petition (In. lakh) (B)	Variance (In. lakh) (B)-(A)
Revenue from sale of power	196.75	196.75	241.05	249.84	8.79
Non-Tariff income	6.36	6.36	6.36	6.41	0.05
<b>Total income</b>	<b>203.11</b>	203.11	<b>247.41</b>	<b>256.25</b>	<b>8.84</b>
Purchase of power	190.69	190.69	224.60	226.13	1.53
R&M Expenses	1 0.86	10.85	11.39	16.35	4.96
Employee Cost	9.37	7.22	19.66	9.78	-9.88
A & G Expenses	3.99	3.99	12.00	8.33	-3.67
Interest and financing charges	67.41	0.00	-	67.90	67.90
Depreciation	25.41	0.00	-	25.61	25.61
Return on equity	37.80	0.00	-	42.00	42.00
<b>Total Expenditure</b>	<b>345.54</b>	212.75	<b>267.65</b>	<b>396.10</b>	<b>128.45</b>
<b>Revenue (Gap)/surplus</b>	<b>(142.43)</b>	<b>(9.64)</b>	<b>-20.24</b>	<b>-139.85</b>	<b>-119.61</b>

8. KSEB Ltd. vide their letter No. KSEB/TRAC/Smart City/R1/2021/79 dated 29-04-2021 filed their counter statement/comments regarding the original petition filed by the licensee on 04-12-2020. The major points raised by KSEB Ltd were the following:

- The claim of the licensee on the Operation and Maintenance cost are higher than the same approved by the Commission. There is a 39.74% increase over the ARR&ERC level.
- The R&M expenses is on the higher side considering similarly placed distribution licensee. There is an increase of 43.54% of above the approved value.

- c) The employee cost consists of salary and benefits paid to its own employees. The claim is less than the approved level for 2018-19. KSEB Ltd also stated that, R&M is on the contract basis, the salary of employees projected to serve the limited consumers of around 50 numbers is on the higher side.
  - d) The A&G cost claimed is 102% higher than the approved value. That also may be limited to approved value.
  - e) The petitioner claimed Rs.47.33 lakh as depreciation. With regard to the depreciation, the Commission may consider the same only after submission of the detailed capital expenditure plan with proper details.
  - f) There is a slight difference in fixed charges and energy charges for 2018-19 claimed by the licensee with records of KSEB Ltd. The total charges of power purchase cost of Rs.226.13 lakh is tally with the bills of KSEB Ltd.
9. The Commission noted that the above remarks of KSEB Ltd pertained to the pre-revised petition submitted by the licensee. The licensee has revised the petition based on the directions issued vide Daily Order 14.09.2021 and consequent on the additional information sought by the Commission. As per the revised submission, the licensee considered 50% of salary for employees for Electricity Distribution business and cost of security, Electricity charges for office and conveyance charges were not considered under A & G expenses. Hence the remarks of KSEB Ltd relating to the employee cost and A&G has lost relevance with reference to the changed components of expenditure.

### **Public Hearing on the Petition**

10. The first combined public hearing was conducted through Video Conference mode on 10-09-2021 at 11.00 A.M. on all the three petitions for the Truing Up of Accounts for the financial years 2016-17, 2017-18 & 2018-19. Sri. Jinu Jacob, Company Secretary & Director (Finance) and other officers of Smart City represented the petitioner and responded to the queries of the Commission. The hearing was commenced with a remark of the Commission that, the petitions filed by the licensee is devoid of required information and the licensee shall take efforts to maintain their Regulatory Accounts as per the Regulations issued by the Commission. In reply to the Commission's query regarding the approval for incurring capital expenditure, Sri. Jinu Jacob replied that, the licensee has not obtained the approval of the Commission for the capital expenditure and the petition for the approval of the Capital Investment would be filed shortly.

11. The Commission also pointed out that there are inconsistencies in the data regarding amount claimed towards security arrangements and employee expenditure as huge deviations were noticed in the claims. The Commission further pointed out that the licensee has incurred only Rs.3.77 lakhs and Rs.4.90 lakhs as expenses towards security arrangements for the years 2016-17 and 2017-18 respectively, but claimed Rs.14.47 lakhs in 2018-19 and no proper justification has been given in the petition for the huge increase.
12. The Commission further pointed out that the licensee has shown Rs.16.91 lakhs as head office accounts in Balance Sheet as on 31-03-2018 under shareholders' funds and also enquired whether any approval such as Board Resolution, if any, exists for such allocation.
13. Sri. Ranjith Lal, Senior Manager, Asset & Infrastructure, Smart City submitted that the Distribution system of the licensee is now undergoing technical upgradation. Till 2018-19, the distribution was through 11 kV systems and the licensee has decided to convert the Distribution system to 33 kV in the coming years. The licensee also assured that they would submit all the required details and also file the petition for approval of Capital Investments made. The licensee further submitted that they have also decided to conduct an Energy Audit in the Distribution area of the licensee. With regard to the query of the Commission on the prepaid metering system, the licensee submitted that the building of Smart City is having prepaid metering system and the introduction of Prepaid Metering System in rest of the areas is in progress.
14. Smt. Santhi & Jyothish Kumar, M/s. Sands Infiniti, Smt. Jeethy George & Sri Dileep SA, M/s Mariapps Marine Solutions (I) Ltd, Sri. Gopakumar, Gems International School, Sri. Kandaswamy, M/s IBS Software Solutions also participated in the hearing from the consumers side and submitted that they are satisfied with the services rendered by the licensee.
15. After the hearing, the Commission vide Daily Order dated 14-09-2021 directed the licensee to submit the additional information/clarifications on or before 24-08-2021. The licensee vide letter dated 12-10-2021 furnished the additional information required on the petition and also submitted the revised petition for the years 2016-17, 2017-18 & 2018-19.
16. Thereafter, a second combined public hearing on the petitions was conducted on 11-03-2022 at Smart City Pavilion, Kochi, at 11.00 A.M. The petitioner explained the compliances of the directions given by the Commission vide Daily Order dated 14-09-2021 and also justified the claim of revised petition filed on 12-10-2021. Sri. Jinu Jacob, Company Secretary & Director (Finance) made a presentation on the

Truing Up claim and explained each item in their claim and responded to the queries of the Commission. The main points made by the licensee are:

- a) The licensee has considered the 50% of the salary drawn by Resident Engineer, Accountant & Engineer considering the work load of Distribution Licensee business.
- b) In revised petition, the licensee removed the cost involved for Security arrangement for utility substation, conveyance charges and electricity charges for the licensee office under the head A&G expenses.
- c) Operation and Maintenance are generally outsourced based on competitive tenders. Being IT Park working on 24-hour basis, it is required to engage one shift operator and one shift assistant in all the three shifts. Materials required for maintenance is purchased directly by Smart City (Kochi) based on sealed or open tenders. Same operating staff is arranged for doing preventive and break down maintenance. For specialised breakdown maintenance manpower is outsourced. Since the defect liability period is over for many systems, AMC contracts is signed with contractor which is finalised through competitive bidding process.
- d) Distribution loss for year 2018-19 is 2.23 % against the approved level of 2.20 % in ARR&ERC Order dated 08-11-2019.
- e) The licensee installed prepaid smart metering system at SCK01 building. From November 2018 onwards same was put on trial mode and implemented from February 2019 onwards.
- f) The licensee consciously made sincere efforts were taken to limit the expenditure to the minimum possible. However, the infrastructure being implemented for full occupancy of the building, whereas the occupancy is gradually increasing, there is limit for the reduction. Further, being IT building, as, many companies are working on 24-hour basis SCK need to engage maintenance staff in 3 shifts. This also is a hurdle for minimizing cost of O & M Expenses.

17. During the hearing, the Commission pointed out that, the licensee has not claimed Interest and Finance Charges and Return on Equity in their petition and the common expenses relating to such businesses can be apportioned on a reasonable basis.

### **Analysis and decision of the Commission**

18. The Commission considered the petition of the licensee for Truing Up of Accounts for the year 2018-19, the additional clarifications and submissions furnished by the licensee vide letters dated 30-03-2021, 12-10-2021, 18-03-2022 and email dated 22-03-2022, 23-03-2022 and 29-03-2022 and the clarifications provided in the

public hearings conducted on 10-09-2021 and 11-03-2022 along with the comments of KSEB Ltd for the original petition vide letter dated 29-04-2021. The analysis and decisions of the Commission on the petition for Truing Up of Accounts for the year 2018-19 are detailed below:

### Energy Sales and Consumer mix

19. The licensee in the petition of ARR & ERC for the year 2018-19 had estimated the energy sales of 32.26 lakh units for 35 consumers which were approved by the Commission as such. The energy sale as per the petition for Truing Up of Accounts for the year 2018-19 is 32.68 lakh units for 35 consumers, which is slightly higher than the energy sales approved for the year, i.e., 0.42 lakh units. The actual sale of the licensee during the previous year 2017-18 was 26.09 lakh units. A comparison of the actual sale of power for the different consumer categories for the year 2017-18 and 2018-19 is given below.

Table-3

Comparison of no. of consumers & sales units for the years 2017-18 & 2018-19

Tariff Category	2017-18		2018-19	
	Trued Up		As per Truing Up petition	
	Number of Consumers	Energy sales units (In lakhs)	Number of Consumers	Energy sales units (In lakhs)
LT IV (B) -Industrial IT &IT Enabled	15	7.46	12	11.84
LT VI (F) -Construction	15	2.32	12	3.52
LT VII (A)	-	-	1	0.08
LT III (B)-Temp connection	-	-	8	1.80
HT I (B)	1	16.31	1	14.06
HT II (B)	-	-	1	1.38
<b>TOTAL</b>	<b>31</b>	<b>26.09</b>	<b>35</b>	<b>32.68</b>

20. As per the petition for truing up for the year 2018-19, the sale of 15.44 lakh units is for the HT category which consists of 2 consumers and is about 47.23% of total sale of power. With regard to LT category, the sales is 17.24 lakh units which consist of 33 consumers and is about 52.77% of total sales units of power. In 2017-18, there was only one consumer and sale units of 16.31 lakh units under the HT category. In 2018-19, the number of consumers under HT category has increased to 2 but the sales units has decreased by 0.87 lakh units (16.31 lakh units-15.44 lakh units) compared to 2017-18.
21. The licensee has projected sale of 21.68 lakh units to LT category which consist of 34 consumers for the year 2018-19 and the same was approved by the



Commission in the ARR&ERC Order dated 08-11-2019. However, the actual consumer pattern shows a sales unit of 17.24 lakh to LT category which consist of 33 consumers. **After analyzing the details, the Commission hereby approves the actual energy sales of 32.68 lakh units as per petition for the purpose of Truing Up of Accounts for the financial year 2018-19.**

### Energy Requirement & Distribution Loss

22. In the revised petition, the licensee has claimed a distribution loss of 2.24% for 0.75 lakh units for 2018-19. In 2017-18, licensee has claimed the distribution loss of 4.40% for the year 2017-18 which was approved by the Commission considering the initial period of operation in the Electricity Distribution business. The Commission had approved a distribution loss of 2.20% for the year as per the Order dated 08-11-2019 on ARR&ERC. The details of the distribution loss furnished by the licensee is shown below.

Table-4  
Comparison of Distribution loss for 2017-18 & 2018-19

Particulars	2017-18		2018-19	
	As per Truing up petition	Trued Up	Approved in ARR	As per Truing up petition
Energy Purchased (lakh units)	27.29	27.29	32.98	33.43
Energy Sales (lakh units)	26.09	26.09	32.26	32.68
Distribution Loss (in lakh units)	1.20	1.20	0.73	0.75
Distribution Loss %	4.40%	4.40%	2.20%	2.24%

Both the Forms D 6.2 and the actual energy sales Form D 2.1 shows the energy sales is 32.68 lakh units.

23. In ARR&ERC petition, the licensee stated about their distribution system, i.e., present power supply arrangement was temporary and since the estimated power requirements in 2020 would be about 5 to 6 MVA, construction of 2 nos of 33/11kV substations in Land A and Land B has commenced in order to source power from the 220 kV/33kV substation of Infopark. Further, the licensee stated about the higher losses in the past years was due to the low consumer base and connected load and the no load loss of the transformers resulted in higher distribution loss.
24. In 2018-19, the licensee has reported the distribution loss of 2.24%, which is slightly higher than the norms fixed by the Commission, i.e., 2.20%. In ARR&ERC petition. the projected connected load for 2018-19 was 1640 kW. However, the actual connected load for the year 2018-19 is 2580 kW. The Commission noted that as per the latest data furnished by the licensee, the

actual Energy sales for the 2018-19 is 32.68 lakh units and stated that the distribution loss is 2.24%. The above figures clearly reveal that the licensee has considerably improved in their effort for the reduction of distribution loss percentage in 2018-19, compared to the distribution loss of 4.40% of the previous year 2017-18.

25. The Commission observed that, distribution loss is a controllable parameter as per provision of 12(2) of Tariff Regulations, 2018. Further, the provision 72(4) of this Tariff Regulations 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 loss. After considering the above provision, the Commission notes that, the actual distribution loss reported by the licensee for the year is 2.24%, whereas the loss target for the year was 2.20%. The licensee has not achieved the energy loss target fixed by the Commission for the reason given in paras. ***However, taking into consideration that the licensee was still in the initial period operation with limited consumer mix and the improvement in distribution loss compared to previous years 2016-17 and 2017-18, the Commission hereby approves the actual distribution loss of the licensee for the year 2018-19 as shown below.***

Table-5  
Distribution loss Approved for 2018-19

Particulars	Approved in ARR	As per Truing up petition	Trued up
Energy Purchased (lakh units)	32.98	33.43	33.43
Energy Sales (lakh units)	32.26	32.68	32.68
Distribution Loss (lakh units)	0.73	0.75	0.74
<b>Distribution Loss %</b>	2.20%	2.24%	<b>2.24%</b>

Both the Forms D 6.2 and the actual energy sales Form D 2.1 shows the energy sales is 32.68 lakh units

26. ***The Commission hereby approves the actual distribution loss of 2.24% of the licensee for the year 2018-19.***

### **Power Purchase Cost**

27. The power purchase cost as per the Truing up petition submitted by the licensee is Rs.226.13 lakh for 33.43 lakh units. The Commission in the Order on ARR&ERC had approved the cost of power purchase of Rs.224.60 lakh for a purchase of 32.98 lakh units. The details of the claim made by the licensee are shown below.

Table-6  
Details of the cost of power purchase claimed for 2018-19

Particulars	2017-18	2018-19	
	Trued Up	Approved in ARR	As per Truing up petition
Energy purchase (lakh units) (A)	27.29	32.98	33.43
Contract Demand (kVA)	1500	1500	1500
Maximum Demand (kVA)	648	1125	1125
Demand Charge (Rs in lakh) (B)	40.50	43.20	42.19
Energy Charges (Rs in lakh) (C)	150.19	181.40	183.94
<b>Total Power Purchase Cost (Rs in lakh) (D)= (B)+(C)</b>	<b>190.69</b>	<b>224.60</b>	<b>226.13</b>
Average Power Purchase Cost (Rs. /Per unit) (E)= (D)/ (A)	<b>6.99</b>	<b>6.81</b>	<b>6.77</b>

28. The Commission noted that, in the licensee submissions, variations for the same item existed between the petition figure and figure shown Form D.3.1. The licensee has claimed an amount of Rs.42.19 lakh as demand charges and Rs.183.94 lakh as energy charges on account of power purchase cost in the petition. But in Form D 3.1, an amount of Rs.42.27 lakh as demand charges and Rs.183.86 lakh as energy charges for the same. Though the overall power purchase cost is the same at Rs.226.13 lakh, such variation vitiates the true and fair picture of the accounting entries. Hence the Commission hereby advises the licensee to be more careful while compiling and submitting accounts to the Commission.
29. The power purchase cost claimed by the licensee is tally with the records of KSEB Ltd. The actual average power purchase cost (Rs.6.77) for the year 2018-19 is lower than average power purchase cost (Rs.6.99) in the year 2017-18. **After examining the submission of licensee, considering the actual distribution loss of 2.24% for the year 2018-19, the Commission hereby approves the actual power purchase cost of Rs.226.13 lakh for the year 2018-19.**

### Operation & Maintenance Expenses

30. Operation & Maintenance expenses includes controllable expenses like Employee's cost, Repair & Maintenance expenses and Administrative & General expenses. The Commission had approved Rs.43.05 lakh towards the Operation & Maintenance expenses of Smart City for the Control Period 2018-19 in the ARR&ERC Order dated 08-11-2019. However, the actual expenses claimed by SCK is Rs.34.46 lakh which is lower than the level specified in the ARR&ERC Order dated 08-11-2019. The comparison of the claim made by the licensee and the amount approved in the ARR&ERC Order is tabulated hereunder.

Table-7  
Comparison of the O&M expenses for 2017-18 & 2018-19

O&M Expenses	2017-18		2018-19	
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	Approved in ARR (Rs. lakh)	As per Truing Up Petition (Rs. lakh)
Employee expenses (Rs. lakh)	9.37	7.22	19.66	9.78
R&M expenses (Rs. lakh)	10.85	10.85	11.39	16.35
A&G expenses (Rs. lakh)	3.99	3.99	12.00	8.33
<b>Total O&amp;M expenses (Rs. lakh)</b>	<b>24.21</b>	<b>22.06</b>	<b>43.05</b>	<b>34.46</b>

31. The licensee has claimed in the Truing up petition, the R&M expense is Rs.16.35 lakh which is over and above the ceiling level of Rs.11.39 lakh specified in the ARR&ERC Order dt dated 08-11-2019. However, the licensee could manage to limit the actual Employee cost & A&G Expenses well with in the norms specified in ARR Order for the year 2018-19. Each of these items is discussed below:

### Employee Cost

32. In the petition for the Truing Up of Accounts for the 2018-19, the licensee has claimed an amount of Rs.9.78 lakh against the approved amount of Rs.19.66 lakh in the Order on ARR&ERC as employee cost for carrying out the distribution business. The split up of the employee cost for 2017-18 and 2018-19 as per the truing up petition is shown below.

Table-8  
Comparison of employee cost for the year 2017-18 and 2018-19

Particulars	2017-18		2018-19	
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)
Basic Salary	5.00	4.16	19.66	6.06
House Rent Allowance	2.90	2.34		3.63
Conveyance Allowance	1.40	0.98		1.50
Other Allowances	2.90	1.92		2.83
Medical Reimbursement				0.15
Provision for PF Fund	0.55	0.55		0.77
Gratuity Payment	0.13	0.00		0.25
Others (Personal Accident)	0.14	0.12		0.08
Gross Employee Expenses	13.02	<b>10.07</b>		15.27
Less: Expenses Capitalised	3.65	2.85		5.49
Net Employee Expenses	<b>9.37</b>	<b>7.22</b>		<b>19.66</b>

33. As per the split up of the employee cost submitted by the licensee, the major claims are related to the basis pay, HRA and other allowances to employees. Compared to claim of the previous year 2017-18, there is an increase of Rs.0.40 lakh net employee cost of 4.26% in 2018-19.
34. The Commission observed that at the time of approving ARR&ERC Order, the licensee has claimed the employee cost for 3 persons viz., Resident Engineer, Accountant and an Engineer. However, in the revised petition, the licensee claimed only 50% of the salary employee cost for 3 persons viz., Senior Manager, Asset & Infrastructure, Asst. Manager -MEP and Senior Accountant for the Electricity Distribution Business.
35. Further, the Commission noted that a Civil Engineer was holding the charge of the Executive Project Engineer in the Electricity Distribution Project of the licensee during the months of May and June 2018. The Commission is of the considered view that in an Electricity Distribution Business, only persons qualified in Electrical Engineering shall be appointed. 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. The Commission 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.**
36. Therefore, in view of the clarification furnished by the licensee in their letter dated 12.10.2021 that Executive Project Engineer is BE- Civil”, the Commission decided to disallow the salary and allowances included in the employee expenses claimed in Electricity Distribution business for the year 2018-19 amounting to Rs.0.41 lakh in respect of the Executive Project Engineer, SCK Electricity Distribution Project.
37. ***The Commission has already directed in the Truing Up Order for the year 2016-17 dated 11-04-2022 that the licensee shall take conscious decision in employing appropriate and duly qualified employees in Electrical Engineering for Electricity Distribution business.***
38. The licensee has claimed an amount of Rs.0.25 lakh as gratuity payment. However, during the discussion it has emerged that Rs.0.25 lakh claimed as gratuity payment is only a provision and not a disbursal. The Commission has also

noted that, the licensee is silent about the methodology for the creation of provision and mode/ method for actual payment of gratuity when liability for payment arises. The Commission sought clarification vide Daily Order dated 14.09.2021. In the clarification dated 12-10-2021 the licensee stated that, the provision is done based on Actuarial valuation done year on year basis for Statutory Audit. The apportionment is done based on the basic salary of the employee / total basic salary of company \* the actual gratuity expense arrived by the Actuary. The same is not insured and the same is paid by Smart City when it is payable.

39. The Commission is of the considered view that, any provision created for discharging any future liability cannot be claimed in the truing up petition. Hence, the gratuity payment expenses cannot be allowed for the year 2018-19 mainly on the reason that no actual gratuity payment was made to any employee during this year. However, the Commission will allow the same when the actual disbursement of gratuity is made to the employees. Moreover, the Commission has been flowing the consistent stand that, the expenses of gratuity can only be allowed during the year in which the actual disbursement of gratuity payment is made in the process of Truing Up of Accounts. **Therefore, the amount of Rs.0.25 lakh relating to provision for gratuity payment is disallowed from the employee's cost.**
40. The Commission appreciates the fact that the licensee has limited the employee cost to level lower than the ARR approved cost of Rs.19.66 lakh. Considering the fact that the licensee has maintained only the very essential staff and maintained the same level of employees as that of the previous year during the current year also, the employee cost approved for the year 2018-19 is shown below.

Table-9

Employee cost allowed for Truing Up of Accounts for the year 2018-19

Particulars	Approved ARR (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
Employee Cost	19.66	9.78	<b>9.12</b>

41. **After examining the details furnished by the licensee, the Commission hereby approves the employee cost of Rs.9.12 lakh (Rs.9.78 lakh-Rs.0.41 lakh and Rs.0.25 lakh) towards employee cost for the year 2018-19.**

## R & M Expenses

42. The Repair and Maintenance cost incurred by the licensee for the year 2018-19 is Rs.16.35 lakh as against the approved cost of Rs.11.39 lakh. The claim for Repair & Maintenance expense for the year 2018-19 is higher, by Rs.4.96 lakh, than the amount approved in the ARR&ERC Order dated 08-11-2019. The actual expenses during the year 2016-17 and 2017-18 was Rs.10.76 lakh and Rs.10.86 lakh respectively. The comparison of the R&M for the years 2017-18 and 2018-19 as shown below.

Table-10  
Details of R&M expenses for the years 2017-18 and 2018-19

Particulars	2017-18		2018-19	
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)
Plant & Machinery	-		11.39	2.80
Operation & Maintenance contract	10.85	10.85		13.55
Gross R&M Expenses	10.85	10.85		16.35
Less: Expenses Capitalized	-			-
<b>Net R&amp;M Expenses</b>	<b>10.85</b>	<b>10.85</b>	<b>11.39</b>	<b>16.35</b>

43. The licensee, during the hearing held on 11.03.2022, submitted that Operation and Maintenance is generally outsourced based on competitive tenders. Being IT park working on 24 hour basis, it is required to engage one shift operator and one shift Assistant in all the three shifts. Materials required for maintenance is purchased directly by Smart City based on sealed or open tenders. Same operating staff is arranged for doing preventive and breakdown maintenance. For specialised breakdown maintenance manpower is outsourced. Since the defect liability period is over for many systems, AMC contract is signed with contractor which is finalized through competitive bidding process.
44. The Commission sought justification during the hearing held on 18.03.2021 for the higher amount of R&M cost of Rs.16.35 lakh compared to the approved amount of Rs.11.39 lakh in ARR&ERC Order. The licensee vide letter dated 30-03-2021 stated that, the major increase in the R&M expenses was due to O&M Maintenance contract of Rs.13.56 lakh. The licensee submits the detailed split up of the O&M maintenance cost are shown below.

Table-11  
Month wise O&M Maintenance for the year 2018-19

Month	Tech Executive (1 No.) (Rs. lakh)	HK Staff (2 No.) (Rs. lakh)	Electrician (4 No.) (Rs. lakh)
Apr-18	0.14	0.28	0.66
May-18	0.13	0.28	0.75
Jun-18	0.14	0.26	0.69
Jul-18	0.14	0.28	0.61
Aug-18	0.16	0.29	0.70
Sep-18	0.15	0.29	0.69
Oct-18	0.15	0.29	0.71
Nov-18	0.15	0.30	0.75
Dec-18	0.09	0.28	0.71
Jan-19	0.15	0.30	0.72
Feb-19	0.16	0.28	0.83
Mar-19	0.15	0.25	0.62
<b>Total</b>	<b>1.72</b>	<b>3.40</b>	<b>8.44</b>
<b>Grant Total</b>			<b>13.55</b>

45. In the ARR&ERC petition the licensee stated that, the R&M works are generally outsourced based on competitive tenders. The Commission, during the hearing held on 11.03.2022, sought clarification in this regard and the licensee submitted that no open tender has been called for as per their policy, and tenders were issued only to the short-listed vendors through Email.
46. The licensee further clarified vide email dated 23-03-2022 about the expenses of 2 nos of housekeeping staff deployed for the cleaning of electricity distribution licensee asset. The Smart City has deployed total 17 numbers of housekeeping staff, out of which licensee has considered only 2 staff for distribution business. The total cost of the housekeeping staff is Rs.28.88 lakh for 17 numbers. Out of the total cost of Rs.28.88 lakh the licensee claimed only 2 numbers of housekeeping staff cost of Rs.3.40 in Distribution Business.
47. After considering the details submitted by the licensee, the Commission is of the view that the actual R&M expenses can be allowed for the year 2018-19. **The Commission hereby directs that, R&M works should be outsourced only through competitive bidding process so as to ensure reasonableness of the rates.** The Approved R&M for the year 2018-19 is shown below.



Table-12  
R&M expenses approved for truing up 2018-19

Particulars	ARR Approved (Rs lakh)	As per Truing Up Petition (Rs lakh)	Trued Up (Rs lakh)
R&M expenses	<b>11.39</b>	<b>16.35</b>	<b>16.35</b>

48. **Accordingly, the Commission hereby approves R&M expenses of Rs.16.35 lakh for the year 2018-19.**

### **A&G expenses**

49. The A&G expense claimed by the licensee as per the petition for Truing Up of Accounts is Rs.8.33 lakh as against the approved amount of Rs.12.00 lakh in the Order on ARR&ERC. The amount claimed is lower than the amount approved by the Commission in the ARR&ERC Order. A&G expenses include various items such as rent, rates and taxes, insurance, periodical inspection charges, bank charges, license fee, Security arrangements, and outsourcing of metering billing system etc. The comparison of the A&G expense for the years 2017-18 and 2018-19 is as shown below.

Table 13  
Comparison of A&G expenses for the year 2017-18 and 2018-19

	2017-18		2018-19		
	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	
Rent Rates & Taxes	0.00	0.00	12.00	1.96	
Insurance	0.23	0.23		0.72	
Telephone & Postage, etc.	0.27	0.27		0.25	
Audit Fees	0.00			0.20	
Periodical Inspection charges	0.00			1.94	
Water charges	0.07	0.07		0.07	
Printing & Stationery	0.13	0.13		0.13	
Advertisements, exhibition publicity	0.00			0.18	
Bank Charges	1.00	1.00		1.16	
Office Expenses	0.52	0.52		0.65	
License Fee and other related fee	0.03	0.03		0.04	
Outsourcing of metering and billing system	1.44	1.44		1.98	
V-sat, Internet and related charges	0.30	0.30		0.29	
Books & periodicals	0.00	0.00		0.00	
Computer Stationery	0.00	0.00		0.14	
Others -PPA, ARR	0.00	0.00		0.58	
<b>Gross A&amp;G Expenses</b>	<b>3.99</b>	<b>3.99</b>		<b>12.00</b>	<b>10.29</b>

(Less) Ele. Duty u/s 3(l), KED Act	0.00	0.00	0.00	1.96
(Less) Expenses Capitalised	0.00	0.00	0.00	0
<b>Net A&amp;G Expenses</b>	<b>3.99</b>	<b>3.99</b>	<b>12.00</b>	<b>8.33</b>

50. The major claim booked under A&G expense are Rs.1.96 lakh for Electricity Duty paid u/s 3(1), KED Act, 1963, Rs.1.94 lakh towards periodical inspection charges, Rs.1.98 lakh towards outsourcing of metering and billing system and Rs.1.16 lakh towards bank charges. In the revised petition, the licensee has withdrawn the claim of Cost for Security charges, Electricity charges for Office and conveyance charges under the head A&G expenses.
51. The licensee in their clarification dated 12-10-2021 stated that, Rs.1.98 lakhs paid to third party agency for collection & preparation of bills and which is shown under “outsourcing of metering and billing system” in A& G Expenses. During the hearing held on 11.03.2022, the licensee stated that, the ‘prepaid smart metering system’ was installed at SCK 01 building from November 2018 onwards and the same was put on trial mode and it was implemented from February 2019 onwards. Therefore, the Commission cannot consider these expenses from 2019-20 onwards under the category A&G expenses.
52. The licensee has further clarified about the insurance expenses of Rs.0.72 lakh in their clarifications dated 18-03-2022. The licensee stated that, for the year 2017-18 the insurance premium amount was Rs.0.23 lakh for the Electricity Distribution asset of Rs.495.16 lakh. In 2018-19, the licensee had paid Rs.0.72 lakhs as insurance premium for the Electricity Distribution asset of Rs.1378.67 lakh. The reason for increase in premium amount in 2018-19 is due to asset addition during the year.
53. Regarding the bank charges of Rs.1.16 lakh, the licensee stated in their clarifications dated 12-10-2021 that, the licensee is not availing any Non-Fund Based Credit limit with any banker, hence for any limits, the company has to deposit 100% margin money. The licensee also furnished details of the fixed deposit with State Bank of India. The amount of Rs.30.00 lakhs is for availing Bank Guarantee for Kerala State Electricity Board Limited (KSEB Ltd) against 100% bank guarantee amount and Rs.30.00 lakhs is for availing Letter of credit for KSEB Ltd against 100% guarantee amount for monthly bills.
54. The Commission noted that the bank charges paid by the licensee is very much on the higher side and the possibility of reducing the bank charges shall be explored by floating tenders for Bank Guarantee and Revolving Letter of Credit. The Commission also directed that the result of action taken to reduce the banks

charges shall be intimated to the Commission and the high rate of bank charges cannot be allowed from 2022-23 onwards.

55. The Commission further noted that, some additional expenses were projected for the year 2018-19 which have not been considered by the Commission while approving the A&G expenses for ARR&ERC Order dt.08.11.2019. Those expenses were audit fees of Rs.1.00 lakh, periodical inspection charges of Rs.2.50 lakh, Printing, computer stationery of Rs.0.50 lakh and others (PPA&ARR) of Rs.0.58 lakh. **Therefore, in the truing up, the Commission allows the actual claim of the licensee towards audit fee Rs.0.20 lakh, periodical inspection charges of Rs.1.94 lakh, advertisement of Rs.0.18 lakh, computer stationery of Rs.0.14 lakh and other PPA & ARR of Rs.0.58 lakh totaling Rs.3.04 lakh under A&G expenses.**
56. The licensee during the hearing stated that the Electricity Duty was claimed under the head Rent, rates and taxes. Regarding the Electricity Duty, Commission observed that Duty under Section 3 (1) cannot be passed on to the consumers in view of the statutory provisions of the Kerala Electricity Duty Act, 1963. **Accordingly, the amount paid of Rs.1.96 lakh towards Electricity Duty is not admissible.**
57. **The Commission clearly directs that, all identifiable distribution business A&G expenses shall be booked directly and presented to the Commission with proper details and justification during Truing Up of Accounts. The common expenses relating to such businesses should be apportioned on a reasonable basis.** The A&G expenses approved for the year 2018-19 is shown below.

Table-14  
A&G expenses approved for Truing Up 2018-19

Particulars	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
<b>A&amp;G expenses</b>	<b>12.00</b>	<b>8.33</b>	<b>8.33</b>

58. **After carefully considering the licensee's submission, the Commission hereby approves the A&G expenses as Rs.8.33 lakh for the year 2018-19.**

### **O&M Expenses Approved**

59. The O&M expense, which is inclusive of Employee costs, R&M expenses, and A&G expenses, approved by the Commission for the year 2018-19 is Rs.33.80 lakhs as shown in Table below.

Table 15  
O&M Expenses approved for 2018-19

O&M Expenses	Approved in ARR (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Employee expenses (Rs. lakh)	19.66	9.78	9.12
R&M expenses (Rs. lakh)	11.39	16.35	16.35
A&G expenses (Rs. lakh)	12.00	8.33	8.33
<b>Total O&amp;M expenses (Rs. lakh)</b>	<b>43.05</b>	<b>34.46</b>	<b>33.80</b>

60. ***The Commission hereby approves the O&M expenses of Rs.33.80 lakh for the period 2018-19 against the licensee's claim of Rs.34.46 lakh.***

### Depreciation

61. The depreciation claimed by the licensee in the petition for Truing Up of Accounts for the year 2018-19 is Rs.25.61 lakh. The licensee has made an asset addition of Rs.7.47 lakh for the year 2018-19. The actual depreciation claimed by the licensee included depreciation provided for the existing assets and also pro-rata depreciation for the new assets amounting to Rs.7.47 lakh capitalised during the year 2018-19. The depreciation claimed by the licensee as per the petition for Truing Up of Accounts is detailed below.

Table-16  
Depreciation claimed for the year 2018-19

Asset Group	Rate of depreciation (%)	Gross Fixed assets (Rs. lakh)			Provision for depreciation (Rs. lakh)		
		At the beginning of the year	Addition during the year	At the end of the year	Cumulative up to the beginning of the year	Additions during the year	Cumulative at the end of year
Land & land rights ***	1.01%	21.14	0.00	21.14	1.53	0.21	1.74
HV Distribution system	5.28%	391.30	0.00	391.30	44.77	20.66	65.43
Distribution lines	5.28%	80.86	0.00	80.86	9.25	4.27	13.52
IT Equipment's	15.00%	1.86	7.47	9.34	0.30	0.47	0.77
<b>Total</b>		<b>495.16</b>	<b>7.47</b>	<b>502.64</b>	<b>55.85</b>	<b>25.61</b>	<b>81.46</b>

\*\*\* Leased the land for 99 years for a consideration of Rs.104.00 crore as land lease premium.

62. In the petition, the licensee had provided depreciation for the leased land at a rate of 1.01%. On the verification it is seen that, the company had entered agreement with Government of Kerala for leasing land for period of 99 years in consideration of an amount of Rs.104.00 crores as land lease premium for 246 acres. In the

email dated 29-03-2022, the licensee stated that, out of 246 acres, 0.50 acres of land was used by the licensee for the development of utility substation. So, the licensee charged the proportionate amount of lease premium into the distribution business (104 crores/246 acres\*0.5 acres=21.14 lakh). Total value of lease hold land for Electricity Distribution Business is Rs.21.14 lakh, this was allocated into 99 years i.e., 0.21 lakh (21.14/99).

63. The Commission sought the clarification vide letter dated 18-03-2021 for the source of funding of assets additions made during the year and the details of consumer contribution and grants received by the licensee. The licensee vide clarification dated 30-03-2021 stated that, the funds for assets addition was obtained through term loan facility and the assets addition of Rs.7.47 lakh was made towards the prepaid energy meter system for consumers.
64. The Commission noted that the capital expenditure of Rs.495.16 lakh has been incurred by the licensee without obtaining the approval of the Commission. The Commission has not allowed depreciation for the assets at the ARR&ERC Order due to the non-approval of Capital Investment. The Commission had in the Daily Order dated 14-09-2021 given specific directions to the licensee to file a proper petition for the approval of Capital Investment without any delay. Accordingly, the petition for Capital Investment for the years 2016-17 to 2019-20 along with the petition for the Condonation of delay was filed by the licensee vide letter dated 22-10-2021.
65. The Commission has condoned the delay for the filing and admitted the petition on approval of the Capital Investment Plan for the years 2016-17 to 2019-20 vide Order dated 02-11-2021. On examination of the petition, the Commission observed that, the petition for Capital Investment Plan submitted by the licensee is not in accordance with the Tariff Regulations, 2018. The Regulations 69 and 70 of the Tariff Regulations, 2018, is reproduced below.

*“69. Capital cost. – (1) The capital costs from the date of commencement of each capital project till the date of its commissioning, as approved by the Commission after prudence check, shall be the original capital cost of such project for the purpose of determination of tariff.*

*70. Capital investment plan. –(1) The distribution business/licensee shall ensure optimum capital expenditure in its projects to enhance economy, efficiency and productivity and to meet the Performance Standards specified by the Commission.*

*(2) The distribution business/licensee shall, along with the petition for determination of aggregate revenue requirements the Control Period, submit to the Commission for its approval, a detailed capital investment plan, financing plan and physical targets for meeting the requirement of load*

*growth, reduction in distribution losses, improvement in quality of supply, reliability, metering, consumer services, etc., in accordance with the 'Guidelines for In-principle Clearance of Capital Investment' specified at Annexure-IV.*

*(3) (a) The Capital Investment Plan shall be accompanied by such information, particulars and documents as may be required to substantiate the need and to justify the proposed investments. (b) The Capital Investment Plan shall also include capitalisation schedule and financing plan.*

*(4) The Commission may approve the capital investment plan of the distribution business/licensee, with appropriate modifications, if required or reject the same., Provided that the Commission shall afford to the distribution business/licensee, a reasonable opportunity of being heard, before rejecting the proposal for approval of the Capital Investment Plan.*

*(5) The costs corresponding to the capital investments which are completed as per the approved Capital Investment Plan of the distribution business/licensee for a given financial year shall be considered for its revenue requirement”*

66. Therefore, the Commission vide e-mail dated 31-01-2022 further directed to furnish the complete data and details as sought for in the list send to the licensee by 14-02-2022. The licensee has furnished their clarification vide letter dated 10-02-2022 to the Commission.
67. As per Regulation 70 (2) of Tariff Regulations, 2018, the licensee should file of Capital Investment Plan and as per Regulation 27(1), the depreciation shall be only allowed for the original capital cost of the assets as approved by the Commission. Since the petition for Capital Investment Plan for the years 2016-17 to 2019-20 is under the consideration of the Commission, the concluded decision on the matter cannot be taken right now.
68. ***Under the above circumstances, the Commission is unable to identify the assets on which depreciation can be allowed and hence has decided to defer the approval of depreciation until the approval of Capital Investment Plan.***

### **Interest and Finance Charges**

69. The licensee vide email dated 22-03-2022 has claimed an amount of Rs.67.90 lakh as interest on normative loan under the head Interest and Financing charges for the year 2018-19. The Commission has sought clarification vide letter dated 18-03-2021 on the source of funding of assets additions during the year 2018-19. In the clarifications dated 30-03-2021 the licensee submitted that funds are

obtained through term loan facility. However, the licensee has not given any details of the actual interest paid or terms of loan for the business.

70. As per Regulation 29 of Tariff Regulations, 2018, interest is to be allowed based on normative loan. The Regulation 29(2) states 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. Since the petition for Capital Investment Plan for the years 2016-17 to 2019-20 is under the consideration of the Commission ***the Commission has decided to defer interest on normative loan till the approval of the licensee's Capital Investment Plan.***

### **Return on Equity**

71. The licensee vide letter dated 18-03-2022 has claimed an amount of Rs.42.00 lakh as Return on Equity for the year 2018-19. In ARR&ERC Order, the licensee has not furnished the details of equity capital earmarked for the Electricity Distribution Business and the Commission has not allowed Return on Equity for the licensee. The Commission further stated that, the same can be considered once the relevant details are made available.
72. In the present petition, the Commission noted that the shareholding pattern in Smart City Infrastructure jointly held by Smart City (India) FZ LLC, Dubai and Government of Kerala in the ratio of 84:16 respectively. As the Balance Sheet of parent company shows an amount of Rs.195.00 crore as Equity amount and since there is no mention of creation of such fund either in the notes to the accounts of the company or in the Audited Accounts of the Distribution Business, the Commission sought clarification in this regard vide Daily Order dated 14-09-2021.
73. The licensee has submitted in their clarification dated 12-10-2021 that, "SCK's power licensee is only a business division of the company, i.e., Smart City (Kochi) Infrastructure Pvt. Ltd. It has no separate existence from the company. These financial statements have been prepared to identify the profit & loss and state of affairs of the power licensee division separately. The power licensee business division's assets and losses have been funded by way of transferring funds from the company, Smart City (Kochi) Infrastructure Pvt. Ltd. These funds which have been received from the company's main bank accounts have been disclosed as 'Head office account' in the power licensee's financial statements. The licensee further stated that, the company is making arrangements to split the same and take necessary Board Approvals to show the capitalization amount for Electricity Distribution Licensee Business separately."

74. As per the provision of Regulation 28(1), Return on Equity shall 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.
75. However, the licensee has not furnished the details of actual equity invested in the distribution business. **Hence, the Commission has decided to defer the approval of Return on equity.**

### Revenue from Sale of Power

76. The total revenue from sale for power is Rs.249.84 lakh for 32.69 lakh units as against approved revenue from sale of power of Rs.241.05 lakh for 32.26 lakh units as approved in the Order on ARR&ERC. A category wise comparison of the revenue from sale of power for the year 2018-19 is as shown below.

Table-17  
Details of Revenue from Sale of Power for the year 2018-19

Tariff Category	2017-18- Trued Up			2018-19- As per Truing Up petition		
	Energy sales units (In lakhs)	Revenue from Sales (Rs. lakh)	Avg. realization (Rs/kWh)	Energy sales units (In lakhs)	Revenue from Sales (Rs. lakh)	Avg. realization (Rs/kWh)
LT IV (B) -Industrial IT &IT Enabled	7.46	55.61	7.45	11.84	84.48	7.14
LT VI (F) -Construction	2.32	37.08	15.98	3.52	35.39	10.05
LT VII (A)	-	-	-	0.08	0.74	9.25
LT III (B)-Temp connection	-	-	-	1.81	25.30	13.98
HT I (B)	16.31	104.06	6.38	14.06	86.02	6.12
HT II (B)	-	-	-	1.38	17.91	12.98
<b>TOTAL</b>	<b>26.09</b>	<b>196.75</b>	<b>7.54</b>	<b>32.69</b>	<b>249.84</b>	<b>7.64</b>

77. The Commission examined the claim made by the licensee and noted that, there is an increase of Rs.53.09 lakh (Rs.249.84 lakh- Rs.196.75 lakh) revenue from sale of power in 2018-19 compared to previous year 2017-18. As per the petition, the major revenue (Rs.145.91 lakh) is from the sale to the LT category (58.40%). Considering the actual revenue realized for the year 2018-19, **the Commission hereby approves Rs.249.84 lakh as the revenue from sale of power for 32.69 lakh units.**

### Non-tariff income



78. The Non-tariff income claimed by the licensee in the petition for Truing Up of Accounts for the year 2018-19 is Rs.6.41 lakh as against the approved amount of Rs.6.36 lakh in ARR&ERC Order dated 08-11-2019. The split-up details of Non-Tariff income claimed are shown below

Table 18  
Details of Non-Tariff Income for the year 2018-19

Particulars	2017-18		2018-19
	As per Truing Up petition	Trued Up	Rs. In lakhs
Interest on security deposits	6.32	6.32	6.02
Commission for collection of electricity duty	-	-	0.27
Interest on delayed or deferred payment of bills	0.04	0.04	0.12
<b>Total</b>	<b>6.36</b>	<b>6.36</b>	<b>6.41</b>

79. The licensee has claimed Rs.6.02 lakh as Interest on security deposit under the head non-tariff income. The Balance Sheet of Power Distribution Business of the licensee showed an amount of Rs.30.00 lakh towards security deposits with KSEB Ltd as part of 'long term loan & advances' and Rs.60.00 lakh towards Fixed deposits in bank as part of 'non-current investment'. **Accordingly, the Commission approves Rs.6.41 lakh as actual non-tariff income for the year 2018-19.**
80. Based on the above, the provisionally approved expenditure and revenue for the year 2018-19 after Truing Up is as shown below:

Table 19  
Provisional Income and Expenditure Statement after Truing Up of Accounts for 2018-19

Particulars	2018-19		
	Approved in ARR&ERC (Rs.in lakh)	As per Truing Up Petition (In. lakh)	Trued UP (in. lakh)
Revenue from sale of power	241.05	249.84	249.84
Other income	6.36	6.41	6.41
<b>Total income</b>	<b>247.41</b>	<b>256.25</b>	<b>256.25</b>
Purchase of power	224.60	226.13	226.13
R&M Expenses	11.39	16.35	16.35
Employee Cost	19.66	9.78	9.12
A & G Expenses	12.00	8.33	8.33
Interest and financing charges	-	67.90	-

Depreciation	-	25.61	-
Return on equity	-	42.00	-
<b>Total Expenditure</b>	<b>267.65</b>	<b>396.10</b>	<b>259.93</b>
<b>Revenue (Gap)/surplus</b>	<b>(20.24)</b>	<b>(139.85)</b>	<b>(3.68)*</b>

\*Provisional

### Revenue (Gap)/Surplus for 2018-19

81. Accordingly, as against the approved Revenue gap of Rs.20.24 lakh for the year 2018-19, the licensee in the revised petition for Truing Up of Accounts has claimed a Revenue Gap of Rs.139.85 lakh. The Provisional Income & Expenditure Statement for the year 2018-19 after Truing Up is as shown below.

Table 20  
Provisional Revenue (Gap)/ Surplus Approved for the year 2018-19

Particulars	ARR Approved (Rs. lakh)	As per Truing Up Petition (Rs. lakh)	Trued Up (Rs. lakh)
Total Income	247.41	256.25	256.25
Total Expenditure	267.65	396.10	259.93
<b>Revenue (Gap)/Surplus</b>	<b>(20.24)</b>	<b>(139.85)</b>	<b>(3.68)*</b>

\*Provisional

### Orders of the Commission

82. The Commission after considering the petition filed by M/s. Smart City for Truing Up of Accounts for the year 2018-19, views presented by the licensee during the hearing, comments raised by KSEB Ltd. and the clarifications and details provided by the licensee approves the following:

- a) Total income is Rs. 256.25 lakh**
- b) Total expenditure is Rs.259.93 lakh (Provisional)**
- c) The revenue gap for the year 2018-19 is Rs.3.68 lakh (Provisional)**
- d) Total cumulative revenue gap (Provisional) till 2018-19 will be Rs.47.01 lakh (Rs.43.33 lakh as opening cumulative revenue gap + current year revenue gap of Rs.3.68 lakh)**

## **Directives**

83. The Commission issues the following directives for compliance by the licensee.
- a) The R&M works should be outsourced only through competitive bidding process so as to ensure reasonableness of the rates. (Para 47)
  - b) The identifiable Distribution Business A&G expenses shall be booked directly and presented to the Commission with proper details and justification during Truing Up of Accounts. The common expenses relating to such businesses should be apportioned on a reasonable basis.(Para 57)
  - c) The licensee is also directed to comply with all the pending directions issued by the Commission in the previous Orders of the Commission.
84. The petition is disposed of. Ordered accordingly.

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

**Sd/-**  
**Preman Dinaraj**  
**Chairman**

Approved for issue

**Sd/-**  
**Secretary**