

KERALA STATE ELECTRICITY REGULATORY COMMISSION

Thiruvananthapuram

December 31, 2009

Present : Shri. K.J Mathew, Chairman
Shri.M.P.Aiyappan, Member

In the matter of

Separation of Accounts of Electricity Business of M/s Technopark and opening balance sheet as on 1-4-2007

ORDER

1. M/s Technopark is a deemed distribution licensee in the State having exclusive rights for distribution of electricity in the Technopark area in Thiruvananthapuram. Distribution of electricity is in addition to the task of development and management of technology/IT parks by M/s Technopark. The Commission in its order dated 28-2-2008 on the ARR & ERC and tariff of M/s. Technopark had observed certain discrepancies in the segregation of accounts and directed M/s Technopark to appoint an independent auditor for separation of accounts and preparing the opening balance sheet as on 1-4-2007. The terms of reference of the work included detailed verification of the opening balance sheet of the electricity business of M/s Technopark as on 1-4-2007 with reference to underlying documents in compliance with 2nd proviso to section 51 of the Act and conditions of licence to M/s Technopark and to suggest suitable methods for segregation of assets and liabilities of electricity business of M/s Technopark. Further, the consultant has to suggest methods for proper dovetailing of assets and liabilities arising out of grants/other contributions from Government for tariff determination as envisaged under the Electricity Act, 2003. The consultancy work was entrusted to M/s Varma and Varma, Chartered Accountants, Thiruvananthapuram. The consultant furnished the final report on 18-6-2009 and comments of the licensee M/s Technopark were also obtained on the report.
2. The Consultant after detailed study prepared an opening balance sheet of the electricity business (Technopower) of M/s Technopark. The consultant in the process of ascertaining the liabilities of Technopark prepared cash flow statement since the 1993-94 onwards. In their report they suggested that one

time connection charges collected from the consumers is to be credited to the corpus fund. The loan taken from the Central Bank by M/s Technopark shall be apportioned to the electricity business based on the project cost and actual loan availed. The consultant also made suggestions regarding some of the revenue expenses such as on rental charges on trenches, interest on loan received from Technopark etc., The consultant also noted that in the absence of data, submissions of M/s Technopark was relied on regarding the total amount of Rs.7.04crore as Technopower Assets out of the Rs.8.84 crore spent on electrical installation, as the balance being the cost towards DG sets, street lighting, bulb fitting etc., Regarding the expenditure towards construction of 110 kV substation, the consultant opined that treatment of the same as deferred revenue expenditure is not proper as the expenditure incurred is capital in nature on the land presently owned by M/s Technopark. According to them, deferred expenditure needs to be written off over a period not exceeding 10 years as per Accounting Standard No.26. Hence, instead of treating it as deferred expenses, it was added as capital assets and charged depreciation as per rules. The consultant based on the review of accounts concluded that no part of the grants received from the Government of Kerala has been utilised for acquisition of assets of Technopower division. Further, the consultant noted that some of the issues are still unresolved such as the settlement of accounts in connection with construction of 110kV substation ie., Rs.30.41 lakhs receivable from KSEB and the issue of transfer of 4 Acres of land to KSEB for constructing the substation.

3. The report of the Consultant was forwarded to M/s Technopark for comments. Vide letter dated 1-7-2009, M/s Technopark has forwarded their comments. According M/s Technopark, except on the treatment of 110kV substation as capital assets, they are in agreement with the suggestions of the consultant. Regarding the expenditure towards construction of 110 kV substation, which was paid to KSEB, the licensee is of the opinion that the same may be treated as deferred revenue expenditure to be written off @4% per year.
4. After considering the report of the consultant and the comments of the licensee the Commission is of the view that opening balance sheet of the electricity business of M/s Technopark ie., Technopower division as on 1-4-2007 as suggested by the consultant may be adopted for the purpose of regulatory accounting with modifications as given below:

5. The consultant has observed that capital funds have been created entirely out of corpus funds. However, a careful scrutiny of the funds flow from 1993-94 till 2006-07 produced as part of the consultancy report shows that, of the total net corpus funds of M/s Technopark of Rs. 4587.27 lakhs, land lease rent consists of Rs.3479.17 lakh (about 76%), 82% of which came only in the years 2005-06 and 2006-07. As against this, the grant from Govt. of Kerala was received in several tranches of Rs.100 lakhs to Rs.2000 lakhs all through the years since 1993-94, totalling to Rs.11841.91 lakhs. Further, substantial portion of fixed assets of electricity business was added in the years 1997-98, 2000-01, 2002-03 and 2004-05. It is also to be noted that as per the report of the Consultant, the corpus fund consists of receipts viz., interest on deposits, land lease down payments, module rental charges, water/telephone service connection charges, covered car park area charges club membership charges etc., Most of these items would flow in once the client IT units in Technopark commence their operation. However, electrical works of the licensee for distribution of electricity have to be completed before the clients occupy the space. All these establish contrary to the observation of the consultant that no part of grants from Govt. is used for establishment of Electricity business of M/s.Technopark assets. Hence, instead of treating the capital funds completely from corpus funds, a more balanced view would be to treat the capital funds of electricity business ie., Rs.572.95 lakhs in the same proportion of corpus funds and government grants as that in the total Technopark accounts. Accordingly, as per the funds flow accounts, the corpus funds is about 27.9% of Government grants and corpus funds taken together. Same proportion is to be used in the electricity business also for splitting up the capital funds into corpus funds and government grants. The consultant has not made any observation on the prudence of unsecured loan from Technopark (Rs.638.17 lakhs). If it is assumed that the same is used to establish the fixed assets of electricity business, the same might have been sourced or treated in the same manner as capital funds (Government grants & corpus funds), which is source of funds for parent entity Technopark. In the Order dated 28-2-2008, it was made clear that some portion of the unsecured loan is used for working capital needs. In the absence of any material before the Commission, the Commission is forced to accept the amount stated by the Consultant on this account.
6. In the case of expenditure towards depreciation, the Commission concur with the views of the consultant since, views expressed by the licensee and the consultant ultimately differs on the issue of period of amortisation.

7. Based on the above observations, the Commission approves the opening balance sheet of Electricity Business (licensed activity) of M/s Technopark as on 1-4-2007 for the purpose of regulatory accounting as follows:

Source of Funds	Rs. Lakhs	
Capital funds		572.95
Government Grant	412.98	
Corpus fund	159.97	
One time connection charges		118.47
Income & expenditure A/c		(5.31)
Secured loan		161.00
Unsecured loan - Technopark		638.17
Total		1,485.28

Application of funds	Rs. Lakhs	
Fixed Assets as per schedule	1,394.17	
Less depreciation	260.48	1,133.69
Capital works in progress		6.98
Current assets (as per audited B/s)	660.89	
Current Liabilities (as per audited B/s)	316.27	
Net Current Assets		344.62
Total		1,485.28

8. Now on M/s Technopark shall keep separate accounts for the licensed business, which shall be used for preparation of various filings before the Commission. Based on the above, M/s Technopark, shall prepare the annual statements for the year 2007-08 & 2008-09 in terms of the above for the purpose of truing up and also file the ARR & ERC for 2009-10 and 2010-11 for approval. M/s Technopark shall also prepare a financial plan for amortising the secured and unsecured loans on a priority basis. The licensee shall also follow the suggestions of consultant while preparing the accounts wherever necessary. The matter regarding treatment of various items of revenue expenditure to be included in the ARR & ERC shall be as per norms or as directed by the Commission as the case may be. Ordered accordingly.

Sd/-
M.P.Aiyappan
Member

Sd/-
K.J.Mathew
Chairman

Authenticated copy for issue

Sd/-
Secretary