BEFORE THE HONOURABLE KERALA STATE ELECTRICITY REGULATORY COMMISSION

In the matter of	:	Truing up of Cost and Revenue of the Kerala State Electricity Board (KSEB) for the year 2012-2013.
Petitioner	:	Kerala State Electricity Board Limited, Vydyuthi Bhavanam, Pattom, Thiruvananthapuram - 4

THE PETITIONER HUMBLY STATES THAT:

1. Introduction

1.1 Kerala State Electricity Board (KSEB) had filed the petition for approval of ARR & ERC for the year 2012-13 before the Hon'ble Commission on 31st December 2011. In the ARR&ERC, KSEB had estimated the Aggregate Revenue Requirement (ARR) as Rs 9638.12 crore, Expected Revenue from Charges (ERC) as Rs 6397.87 crore and the revenue gap as Rs 3240.25 crore for the year 2012-13. As against the KSEB proposal, Hon'ble Commission vide the order dated 28thApril 2012 had approved the ARR as Rs 7986.40 crore, ERC as Rs 6097.24 crore and revenue gap as Rs 1889.15 crore.

1.2 While approving the ARR&ERC for the year 2012-13, Hon'ble Commission had disallowed many expense components including cost of generation, cost of power purchase, interest and finance charges, employee cost, Administration and General expenses, section 3(1) duty, Repair & Maintenance Expenses, Return on Equity etc.

1.3 The Comptroller & Auditor General of India (C&AG) had audited and approved the accounts of KSEB for the year 2012-13 and a copy of the same is enclosed as **Annexure 1**.

1.4 As per section 172 (a) of the Electricity Act 2003 and as mutually decided by the Government of India and Government of Kerala, KSEB had continued as the Transmission utility and Distribution licensee till 24-09-2008. In exercise of powers conferred under sub-sections (1), (2), (5), (6) and (7) of section 131 of the Electricity Act, 2003, State Government vide the notification G.O (Ms).37/2008/PD dated 25th September, 2008 had vested all functions, properties, interests, rights, obligations and liabilities of KSEB with the State Government till it is re-vested in a corporate entity. Accordingly, KSEB has continued all the functions as a Generator, State Transmission Utility and a Distribution Licensee in the State during the year 2012-13. However, Government of Kerala, in exercise of powers conferred under section 131 of the Electricity Act 2003, vide order No G.O.(P) 46/2013/PD dated 31.10.2013 has notified the scheme for the re vesting of all the functions, properties and all interests, rights in properties, all rights and liabilities of the Board vested in the Government under first transfer scheme 2008 to a company.

1.5 The table given below compares the summary of the audited Annual statement of Accounts of the Board vis-à-vis the amount projected by KSEB in the ARR&ERC and the same approved by the Hon'ble Commission.

Table-1

Comparison of expenses for the year 2012-13					
	Particulars	KSEB ARR	SERC Approved	Audited Accounts	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Generation Of Power	378.10	193.15	564.99	371.84
2	Purchase of power	5281.09	5008.49	7199.61	2191.12
3	Interest & Finance Charges	521.21	370.19	580.53	210.34
4	Depreciation	607.42	414.62	509.31	94.69
5	Employee Cost	2231.46	1663.66	2103.03	439.37
6	Repairs & Maintenance	326.07	195.95	251.55	55.60
7	Administration & General Expenses	215.24	86.11	202.43	116.32
8	Other Expenses	18.50	18.50	272.73	254.23
9	Gross Expenditure	9579.09	7950.67	11684.18	3733.51
10	Less : Expenses Capitalized	134.60	134.60	150.74	16.14
11	Less : Interest Capitalized	47.09	47.09	116.06	68.97
12	Total Expenditure	9397.40	7768.98	11417.38	3648.40
13	Return on Equity/Statutory Surplus	240.72	217.42	240.72	23.30
14	ARR (12 + 13)	9638.12	7986.40	11658.10	3671.70

Table-2

Comparison of revenue for the year 2012-13					
	Particulars	KSEB ARR	SERC Approved	Audited Accounts	Difference over approval
		(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
1	Revenue from energy sale	6031.72	5711.10	7223.39	1512.29
2	Revenue from non-tariff income	366.14	386.14	435.82	49.68
	Total	6397.87	6097.24	7659.21	1561.97

Table-3

Comparison of Revenue Gap for 2012-13			
KSEB ARR	SERC Approved	Audited Accounts	Difference over approval
(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
-3240.25	-1889.15	-3998.89	2109.74

1.6 The detailed explanation on variations in the ARR, ERC and Revenue gap over the approved level is submitted in the subsequent sections for the kind consideration of the Hon'ble Commission.

2. Energy Consumption

2.1 In the ARR, KSEB had estimated the total energy input into the KSEB system as 19868.66 MU, (excluding auxiliary consumption and external losses in PGCIL lines associated with evacuation of power from Central Generating Stations). Hon'ble Commission had approved the same as 19792 MU. But the actual energy input into KSEB system during 2012-13 was 19879.70 MU, i.e., the actual was more by 86.70 MU from the approval. The details of the energy generation and power purchase approved by the KSERC and the actual are given below.

Table-4

Source	KSEB ARR	SERC Approved	Audited accounts	Actuals over approval
	(MU)	(MU)	(MU)	(MU)
Hydro (excluding aux.consn.)	6992.96	6993.00	4807.06	-2185.94
Wind	1.70	2.00	1.76	-0.24
BDPP(excluding aux.consn.)	122.00	88.00	83.59	-4.41
KDPP(excluding aux.consn.)	237.00	117.00	435.46	318.46
Subtotal KSEB own generation	7353.66	7200.00	5327.87	-1872.13
Power purchase (excluding external losses in the PGCIL lines)	12515.00	12593.00	14538.61	1945.61
Total generation and power purchase	19868.66	19793.00	19866.48	73.48
Swap return			13.22	13.22
Total net Input into KSEB system	19868.66	19793.00	19879.70	86.70

2.2 KSEB has received 13.22 MU as swap return, the balance quantum of swap arrangement made during the year 2011-12.

2.3 The power situation in the State has become most critical due to the combined impact on the following factors.

(i) Failure of the monsoon to the extent up to 40% of the normal and consequent reduction in inflow and hydel generation.
(ii) Excessive increase in energy demand over the same approved by the Commission.
(iii) Reduction in power allocation from Central Generating Stations
(iv) Delay in commissioning of Kudankulam Nuclear Power Project
(v) Excessive increase in the prices of energy exchange and day ahead market.
(vi) Limitations on importing power from outside the State.
(vii) Transmission constraints in the southern region and difficulty in getting open access.

(viii) High price of energy available from liquid fuel stations

2.4 In order to tide over the critical power situation, KSEB was compelled to introduce load shedding and power restriction in the state during 2012-13 due to the failure of monsoon, reduction in energy availability from CGS etc. The details of restrictions are given below.

During the months of April and May 2012

(i) ½ hour cyclic load shedding was imposed wef 02.04.2012 to 23.05.2012.

(ii) 10% restriction on energy usage was imposed on all HT & EHT consumers from 05.04.2012 to 31.05.2012. The excess energy consumption was charged at Rs.10/- per unit.

(iii) 10% restriction was imposed on LT II, LT IV, LT VI (A), LT VI (B), LT VI(C), LT VII (A), LT VII (B) and LT VII(C) categories wef 26.04.2012 to 31.05.2012. The monthly consumption of domestic consumers was restricted at 300 units. For LT consumers also the consumption beyond restriction was charged at Rs.10/- per unit.

For the period from September 2012 to May 2013.

(i) ½ hour cyclic load shedding was imposed during morning and evening peak hours since 27.09.2012 (except during SSLC exam period from 04.03.2013 to 23.03.2013).

(ii) 25% restriction on energy usage was imposed on all HT & EHT consumers wef 15.12.2012 and the excess energy consumption was charged with a penalty at the per unit rate of energy charges.

(iii) 20% restriction was imposed on LT II, LT IV, LT VIA, LT VIB, LT VI C, LT VII A, LT VII B and LT VII C categories. The monthly consumption of domestic consumers was restricted at 300 units. For LT consumers also the consumption beyond restriction was charged with a penalty at the per unit rate of energy charges.

3. Sale of Energy

3.1 In the ARR, KSEB had estimated the restricted annual energy sale as 16386 MU and Hon'ble Commission had approved 16386 MU as unrestricted sale. Even with the power restriction as detailed above, the actual energy sale within the State during 2012-13 was 16838.24 MU, i.e., the actuals was 452.24 MU more than approval. The details are as given below.

Table-5 Details of the category wise energy sale for 2012-13

Category	2011-12	2012-13				Percentage increase over 2011-12
	Actuals	KSEB ARR	SERC Approved	As per audited accounts	Difference over approval	
	(MU)	(MU)	(MU)	(MU)	(MU)	(MU)
LT Domestic	7703.23	8112.75	8116.00	8311.41	-195.41	7.90
Industrial	1097.04	1104.45	1104.00	1101.96	2.04	0.45
Commercial & Non Domestic	2141.22	2186.93	2187.00	2224.06	-37.06	3.87
Irrigation	286.18	247.00	247.00	306.08	-59.08	6.95
Public Lighting	294.26	299.00	299.00	313.20	-14.20	6.44
Sub total	**11521.93**	**11950.13**	**11953.00**	**12256.71**	**-303.71**	**6.38**
HT Industrial	1595.68	1554.00	1554.00	1682.95	-128.95	5.47
Non-Industrial	115.86	120.37	120.00	125.45	-5.45	8.28
Commercial & Non Domestic	866.62	906.50	907.00	870.81	36.19	0.48
Others (Irrigation)	8.11	7.86	8.00	8.35	-0.35	2.96
Subtotal	**2586.27**	**2588.73**	**2589.00**	**2687.56**	**-98.56**	**3.92**
EHT 66KV	360.49	374.63	375.00	1217.59	17.41	-2.05
110 KV	882.63	860.25	860.00			
Railways	154.49	148.00	148.00	173.67	-25.67	12.42
Subtotal	**1397.61**	**1382.88**	**1383.00**	**1391.26**	**-8.26**	**-0.45**
Bulk Supply	472.09	461.59	462.00	500.76	-38.76	6.07
NPG	2.63	3.00	0.00	1.95	-1.95	-25.86
Total	**15980.53**	**16386.30**	**16386.00**	**16838.24**	**-451.24**	**5.37**

3.2 It may be noted that, even with load shedding and restriction on electricity usage, the energy consumption had increased by 5.37% compared to the year 2011-12. For the year 2012-13, the energy consumption of almost all categories has been more than the level approved in the ARR. However, with the power restrictions and load shedding as detailed under paragraph 2.4 above, the growth rate of energy consumption during the year 2012-13 was restricted at 5.37% as against 9.85% during the year 2011-12.

4. <u>T & D Losses</u>

4.1. In the ARR&ERC, KSEB had targeted to reduce the T&D loss during the year 2012-13 from 15.56% to 15.32%, i.e. a loss reduction target of 0.25% during the year 2012-13. While approving the ARR, Hon'ble Commission had approved the loss reduction target as 0.50%, over the previous year's approved level.

4.2. During the year 2012-13, as against the approved target of 0.50%, KSEB was able to reduce the T&D loss by 0.35%. The total energy input into the KSEB system, energy sales and T&D loss reduction targets as per the ARR, KSERC order and the actuals are detailed below.

Table-6 Details of T&D loss reduction for the year 2012-13

Sl No.	Particulars	Unit	KSEB ARR	KSERC Approval	As per Audited Accounts
1	Net Generation and Power Purchase at KSEB periphery (excl. PGCIL	(MU)	19350.84	19235.00	19879.70
2	Energy sales within the State	(MU)	16386.30	16386.00	16838.24
3	T&D Losses (3)- (4)	(MU)	2964.54	2849.00	3041.46
4	T&D Loss as percentage of total energy input	(%)	15.31	14.81	15.30
5	Loss reduction target approved/ achieved	(%)	0.25%	0.50%	0.35%

4.3. As detailed above, as against the loss reduction target of 0.50%, KSEB could achieve a reduction of 0.35% for the year 2012-13.

4.4. Hon'ble Commission may kindly note that, KSEB has been continuously reducing the T&D loss since the year 2001-02 and the details are given below.

Table-7 Achievement of T&D loss reduction from 2001-02 to 2012-13

Year	T&D Loss within KSEB system (%)	Extent of reduction (%)	
		Yearly	Cumulative
2001-02	30.76		
2002-03	29.08	1.68	1.68
2003-04	27.44	1.64	3.32
2004-05	24.95	2.49	5.81
2005-06	22.96	1.99	7.80
2006-07	21.47	1.49	9.29
2007-08	20.02	1.45	10.74
2008-09	18.83	1.19	11.93
2009-10	17.71	1.12	13.05
2010-11	16.09	1.62	14.67
2011-12	15.65	0.44	15.11
2012-13	15.30	0.35	15.46

4.5. As detailed above, KSEB was able to reduce the total T&D loss in the KSEB system including transmission system to the level of 15.30% during the year 2012-13. The approximate loss in the KSEB transmission system is about 4.50% only. Thus the losses in the Distribution system, as a percentage of the total energy input is works out to 13.02% for the year 2012-13, which is one of the lowest among the distribution utilities in the country.

4.6. Consistent T&D loss reduction was one of the major achievements of the Board. It may be noted that, since 2001-02 Board could achieve a cumulative loss reduction of 15.46% from the level of 30.76% in 2001-02 to 15.30% in 2012-13. By reducing the T&D loss by 15.46% over the last ten years, KSEB was able to achieve a savings in Generation and Power purchase by 4438.80 MU during the year 2012-13 alone. At an average purchase rate of Rs 3.50 per unit, this has resulted in reducing the Generation and Power purchase cost by Rs 1553.58 crore. The details are given below.

Table-8 Savings in cost of Generation and Power purchase due to T&D loss reduction

Year	T&D Loss within KSEB system	Extent of reduction (%)		Total Energy sales within the State	Savings in Generation & Power Purchase	Savings in Power purchase cost)*
		Yearly	Cumulative			
	(%)	(%)	(%)	(MU)	(MU)	(Rs.Cr)
2001-02	30.76			8667.32		
2002-03	29.08	1.68	1.68	8873.30	303.58	106.25
2003-04	27.44	1.64	3.32	8910.84	588.85	206.10
2004-05	24.95	2.49	5.81	9384.40	1049.24	367.23
2005-06	22.96	1.99	7.80	10269.80	1501.70	525.60
2006-07	21.47	1.49	9.29	11331.00	1935.94	677.58
2007-08	20.02	1.45	10.74	12049.85	2336.94	817.93
2008-09	18.83	1.19	11.93	12414.32	2635.18	922.31
2009-10	17.71	1.12	13.05	13971.09	3199.90	1119.97
2010-11	16.09	1.62	14.67	14547.90	3673.33	1285.67
2011-12	15.65	0.44	15.11	15980.53	4134.41	1447.04
2012-13	15.30	0.35	15.46	16838.24	4438.80	1553.58

4.7. Hon'ble Commission may kindly note that, as detailed above, KSEB has saved 4438.80 MU under Generation and Power Purchase during the year 2012-13 by way of reducing the T&D loss by 15.46% since the year 2001-02. In other words, had the loss in the KSEB system remained at 30.76% as the loss during the year 2001-02, KSEB would have to procure an additional quantum of 4438.80 MU during the year 2012-13, which would have resulted in additional cost of purchase to the tune of Rs 1553.58 crore at an average purchase rate of Rs 3.50 per unit. KSEB has been continuing its efforts to reduce the T&D loss further and has been passing on the entire savings to the consumers.

5. Cost for internal Generation

(a). Hydro Generation.

5.1 In the ARR, KSEB has estimated the hydro generation for the year 2012-13 as 6958 MU expecting normal monsoon, which was approved by the Hon'ble Commission. The actual hydro generation was 4807.06 MU, i.e. 2186 MU less than the generation approved by the Hon'ble Commission and 3198.96 MU less than the hydel generation for 2011-12.

5.2 The state had faced unprecedented failure of monsoon in the year 2012-13, which resulted in reduction of hydel availability by 3198.96 MU compared to the previous year.

5.3 The month wise details of hydel generation for the year 2012-13 are given below.

Table-9 Month wise details of Hydel Generation for the year 2012-13

Month	KSERC (MU)	Actuals (MU)	Difference (MU)
Apr-12	618.1	550.9	67.2
May-12	628.7	663.3	-34.6
Jun-12	492.9	502.6	-9.7
Jul-12	516.7	423.0	93.7
Aug-12	578.9	424.6	154.3
Sep-12	595.4	497.6	97.8
Oct-12	600.7	330.8	269.9
Nov-12	522.4	250.5	271.9
Dec-12	552.1	322.7	229.4
Jan-13	563.2	218.6	344.6
Feb-13	567.5	199.5	368.0
Mar-13	721.4	436.7	284.7
Total	6958.0	4820.9	2137.1

As detailed above, the actual hydel generation for the year 2012-13 was less by 2137.10 MU from the approved level.

(b) KSEB Thermal Plants

5.4 For the year 2012-13, KSEB had proposed a net generation of 118.95 MU from BDPP at an average variable cost of Rs 10.73 per unit and 231.08 MU from KDPP at an average variable cost of Rs 10.43 per unit. Accordingly, the total fuel cost proposed for generation from BDPP and KDPP for the year 2012-13 was Rs 378.10 crore. However, the Hon'ble Commission had approved only 88 MU from BDPP at a variable cost of Rs 9.11 per unit and 117 MU from KDPP @9.65 per unit. Accordingly, Hon'ble Commission had approved Rs 193.15 crore as fuel cost from BDPP and KDPP for the year 2012-13.

5.5 However, due to unprecedented failure in monsoon and consequent reduction in hydel generation, KSEB was constrained to schedule higher quantum of power from BDPP and KDPP. As against the approval, the actual net generation from BDPP and KDPP was 519.05 MU at a variable cost of Rs 564.99 crore. The month wise details of generation from KDPP and BDPP for the year 2012-13 are given below.

Table-10 Month wise details of energy generation from BDPP and KDPP

Month	BDPP			KDPP		
	Approved	Actuals	Excess over approval	Approved	Actuals	Excess over approval
	(MU)	(MU)	(MU)	(MU)	(MU)	(MU)
Apr-12	5.81	5.67	0.14	4.91	45.13	-40.21
May-12	11.18	1.09	10.09	14.86	28.07	-13.22
Jun-12	5.37	1.20	4.17	7.37	21.20	-13.83
Jul-12	5.63	1.25	4.38	7.61	25.43	-17.82
Aug-12	5.63	3.93	1.70	7.61	37.01	-29.40
Sep-12	5.37	7.47	-2.10	7.37	32.78	-25.41
Oct-12	5.63	7.45	-1.82	7.61	43.21	-35.61
Nov-12	5.37	9.69	-4.33	7.37	35.39	-28.02
Dec-12	5.63	16.03	-10.40	7.61	45.93	-38.32
Jan-13	11.18	10.42	0.75	15.33	42.89	-27.56
Feb-13	10.12	4.31	5.81	13.81	38.93	-25.13
Mar-13	11.18	15.07	-3.90	15.33	53.14	-37.81
Total	88.09	83.59	4.49	116.77	449.11	-332.34

5.6 As detailed above, the actual generation from KDPP plants was more than the approved level, for compensating the short fall in hydel generation to a certain extent. The summary of the generation and the cost from BDPP and KDPP for the year 2012-13 is given below.

Table-11 Summary of the generation and cost from BDPP & KDPP for the year 2012-13

Month	KSERC Approval			Actual			Difference	
	Quantity	Rate	Amount	Quantity	Rate	Amount	Quantity	Amount
	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs/kWh)	(Rs.Cr)	(MU)	(Rs.Cr)
BDPP	88.00	9.11	80.19	83.59	10.81	90.32	4.41	-10.13
KDPP	117.00	9.65	112.96	449.11	10.57	474.67	-332.11	-361.71
Total	205.00	9.42	193.15	532.70		564.99	-327.70	-371.84

5.7 Hon'ble Commission may kindly note that, the actual generation from BDPP and KDPP together was more by 327.70 MU and the cost incurred was Rs 371.84 crore more than the approved level.

6. Power Purchase for the year 2012-13.

(a) Power purchase from Central Generating Stations (CGS)

6.1 In the ARR, KSEB had estimated the net energy availability from CGS as 8984.72 MU at a total cost (fixed cost, variable cost, incentives etc as) of Rs 2818.02 crore. While approving the ARR, Hon'ble Commission had revised the energy availability from CGS as 9650 MU at a cost of Rs.2965.25 crore. However the new Central Stations including Kudamkulam Nuclear Power plant, NLC- Expansion Stage-II, Vallur, Simhadri STPP etc could not start the commercial operation as per the original schedule. The details of the energy scheduled and its cost from CGS as per the audited accounts are detailed below.

Table-12 Comparison of actual and approved purchase from CGS in 2012-13

Station	Approved by the Commission		As per audited Accounts		Difference	
	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)	Energy purchased at KSEB bus (MU)	Cost (Rs in crore)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
Talcher II	2957.74	989.67	2916.39	669.53	-41.35	-320.14
NLC-II Stage -1	369.07	99.73	449.99	118.76	80.92	19.03
NTPC- Ramagundam (old & new)	2241.08	530.56	2405.97	588.88	164.89	58.32
NLC-II Stage-2	525.59	142.00	650.11	170.43	124.52	28.43
NLC-Expansion stg 1	414.46	138.90	494.99	155.38	80.53	16.48
NLC-Expansion II	279.21	82.01			-279.21	-82.01
Simhadry exp	579.32	242.67	422.07	156.63	-157.25	-86.04
MAPS	122.11	25.51	126.84	26.07	4.73	0.56
Kaiga stg 1&2	444.35	141.92	429.26	127.16	-15.09	-14.76
Talcher I	240.61	81.27	0.00		-240.61	-81.27
Vallur	178.18	56.27	23.37	12.36	-154.81	-43.91
ER	632.99	211.44	450.58	139.46	-182.41	-71.98
Jajjar			700.08	342.45	700.08	342.45
Koodamkulam	665.00	223.30	0.00	0.00	-665.00	-223.30
Total	9649.71	2965.25	8704.67	2507.11	-945.04	-458.14

6.2 As detailed above, availability of power from CGS was less by 945.04 MU from approval during the year 2012-13.

6.3 Over and above the shortfall in hydel availability of 2137.10 MU over approval due to failure of monsoon, there was a shortfall in energy availability of 945.04 MU from CGS during the year 2012-13.

(b) Power Purchase from IPPs

6.4 The IPPs in the State includes the liquid fuel stations – NTPC's RGCCPP-Kayamkulam plant (359.58MW), BSES Kochi Plant (157 MW) and KPCL (20MW) plant. Further, KSEB had entered into Power Purchase Agreement (PPA) with Wind IPPs (about 34 MW), Iruutukkanam SHP (3 MW), Ullumkal (7MW) and co-generation plants M/s MP- Steel and M/s Philips Carbon Black Ltd.

6.5 During the year 2012-13, KSEB had procured 1800.17 MU from various IPPs, as against the approval of 835 MU. The details are given below.

Table 13. Energy schedule from IPPs during 2012-13

Station	Approved by the Commission		As per audited Accounts		Increase over approval	
	Energy purchased at KSEB bus (MU)	Cost (Rs. Cr)	Energy purchased at KSEB bus (MU)	Cost (Rs. Cr)	Energy purchased at KSEB bus (MU)	Cost (Rs. Cr)
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)
RGCCPP	622.00	850.24	1517.59	1921.57	895.59	1071.33
BSES	0.00	71.50	131.34	236.84	131.34	165.34
KPCL	20.00	27.28	2.60	6.49	-17.40	-20.79
Wind	74.00	23.09	76.94	24.16	2.94	1.07
Ullumkal	34.00	6.80	14.37	2.87	-19.63	-3.93
MP Steel	41.00	9.42	7.43	1.72	-33.57	-7.70
Iruttukkanam	8.00	2.13	18.55	5.01	10.55	2.88
Philips Carbon Black	36.00	7.27	31.35	6.33	-4.65	-0.94
Total	835.00	997.73	1800.17	2204.99	965.17	1207.26

(i) RGCCPP- Kayamkulam

6.6 Though the variable cost of RGCCPP- Kayamkulam is excessively high, in order to meet the shortfall in hydel generation due to failure of monsoon and also to compensate the reduction in power availability from CGS, KSEB was constrained to schedule power from RGCCPP-Kayamkulam continuously during the year 2012-13.

6.7 The month wise details of the energy scheduled from RGCCPP-Kayamkulam plant is given in Table-14 below.

Table-14. Month wise details of the actual generation from RGCCPP- Kayamkulam

Month	Energy purchased	Fixed cost	Variable cost		Wheeling charges	Total cost
			Total	per unit		
	(MU)	(Rs.Cr)	(Rs.Cr)	(Rs/kWh)		(Rs.Cr)
Apr-12	69.44	18.95	81.05	11.67	0.67	170.11
May-12	8.02	19.52	9.33	11.63	0.69	37.56
Jun-12		19.02			0.67	19.69
Jul-12	63.71	19.72	67.54	10.60	0.69	151.66
Aug-12	180.47	19.35	191.80	10.63	0.69	392.31
Sep-12	160.43	20.05	186.65	11.63	0.67	367.80
Oct-12	177.82	19.03	201.62	11.34	0.67	399.14
Nov-12	199.46	19.03	201.62	10.11	0.67	420.78
Dec-12	232.05	20.17	260.38	11.22	0.69	513.30
Jan-13	217.50	20.28	247.75	11.39	0.68	486.22
Feb-13	121.58	18.03	140.02	11.52	0.63	280.26
Mar-13	87.11	17.63	103.03	11.83	0.69	208.47
Total	1517.59	230.79	1690.78	11.14	8.13	3447.29

(ii) BSES power

6.8 While projecting the ARR for the year 2012-13, KSEB had not proposed to schedule power from BSES plant and Hon'ble Commission had approved the proposal as detailed above.

However, KSEB was constrained to schedule 131.34 MU during the year 2012-13 from BSES plant. The total fixed cost commitment for BSES plant is Rs 88.33 crore and variable cost incurred was Rs 148.51 crore.

(iii) KPCL

6.9 During the year 2012-13, KSEB had proposed to schedule 47.58 MU from KPCL plant at a variable cost of Rs 10.77 per unit, however while approving the ARR, Hon'ble Commission had approved to procure 20 MU @ Rs 10.77 per unit. However, due to the excessive variable cost of KPCL power, KSEB had limited the procurement from KPCL at 2.60 MU.

(iv) Wind

6.10 For the year 2012-13, KSEB had procured 76.94 MU from Wind IPPs @Rs 3.14 per unit.

(v) Ullumkal SHP

6.11 During the year 2012-13, KSEB had procured 14.37 MU @ Rs 2.00 per unit.

(vi) MP steel.

6.12 In the ARR, KSEB has projected the energy availability from MP Steel as 40.80 MU; however the actual availability was 7.43 MU only.

(vii) Iruttukkanam SHP

6.13 In the ARR, KSEB has projected the energy availability from Iruttukkanam SHP (3 MW) as 7.88 MU. However, the actual as per audited accounts was 18.55MU during the year 2012-13.

(viii) Philips Carbon black

6.14 Power procured from Philips Carbon black during 2012-13 has been 31.35 MU.

(ix) Power purchase through traders and power exchange

6.15 In order to meet the shortfall in hydel availability due to failure of monsoon, reduction in energy availability from CGS, KSEB had taken earnest efforts to procure energy from traders/ energy exchanges etc at most competitive rates.

6.16 KSEB had procured 3075.54 MU through traders and energy exchange at an average variable cost of Rs 6.17 per unit during the year 2012-13. The source wise details of energy procured from different traders during the year 2012-13 are given below.

Table-15

Summary of the energy procurement through traders and energy exchanges

Sl No.	Source	Energy purchase at KSEB periphery (MU)	Total bill amount including transmission charges (Rs.Cr)	Unit rate (Rs/kWh)
1	IEX	1242.01	864.64	6.96
2	PXIL	19.36	11.92	6.16
3	IEX (Term Ahead)	52.89	27.78	5.25
4	WARDHA	12.98	7.43	5.73
5	PTC	301.26	138.63	4.60
6	PTC (BALCO)	13.04	7.51	5.76
7	PTC (SEL)	23.89	11.91	4.98
8	Mittal	70.00	47.49	6.78
9	NVVN	569.86	299.96	5.26
10	SHREECEMENT	35.67	15.11	4.24
11	JSWPTC	285.71	189.82	6.64
12	TATA	2.92	1.21	4.14
13	GLOBAL	55.93	30.71	5.49
14	PTC Gridco	230.91	134.49	5.82
15	JSWPTC Global	16.37	12.06	7.36
16	NVVN (CSPDCL)	32.50	15.88	4.89
17	Global (KPTCL)	98.34	72.22	7.34
18	PTC	11.90	8.66	7.28
	Total	3075.55	1897.44	6.17

6.17 The month wise details of energy procured through traders and exchanges are given below.

Table-16

Month wise details of power purchase through short-term market

Month	Quantum (MU)	Amount (Rs. Cr)	Unit rate (Rs/unit)
Apr-12	*59.00*	*44.15*	*7.48*
May-12	99.06	60.79	6.14
Jun-12	190.11	97.54	5.13
Jul-12	359.32	188.66	5.25
Aug-12	310.08	202.25	6.52
Sep-12	217.67	136.24	6.26
Oct-12	269.66	174.28	6.46
Nov-12	358.46	220.31	6.15
Dec-12	216.26	129.81	6.00
Jan-13	309.27	184.80	5.98
Feb-13	368.09	245.01	6.66
Mar-13	318.55	213.60	6.71
Total	3075.55	1897.44	6.17

(x) Energy procurement from UI

6.18 During the year 2012-13, KSEBL had procured 958.21 MU as UI though UI cannot be treated as a source of power and it can be considered only as a means to impose grid discipline. The month wise details of the energy procured through UI are detailed below.

Table-17 Month wise purchase of power from UI

Month	Import (MU)	Export (MU)	Net UI drawal (MU)
Apr-12	121.04	3.50	117.54
May-12	122.71	0.14	122.57
Jun-12	87.42	0.82	86.60
Jul-12	106.46	0.27	106.19
Aug-12	86.53	0.32	86.21
Sep-12	72.82	0.29	72.53
Oct-12	60.25	1.25	59.01
Nov-12	55.81	1.47	54.34
Dec-12	73.52	0.53	72.99
Jan-13	61.34	1.07	60.27
Feb-13	58.20	1.07	57.13
Mar-13	63.42	0.59	62.83
Total	969.52	11.31	958.21

6.19 Transmission charges paid to PGCIL

During the year 2012-13, KSEB had paid Rs 267.19 crore to PGCIL as transmission charges against Rs 325.83 crore approved by the Hon'ble Commission.

6.20 Summary of cost of Power purchase for the year 2012-13

The summary of the cost of power purchase approved by Hon'ble Commission and the actuals are as given below.

Table 18 Power Purchase for the year 2012-13

Particulars	Approved by the Commission		As per Accounts		Excess over approval		Remarks
	Energy purchased at KSEB bus (MU)	Cost (Rs. Cr)	Energy purchased at KSEB bus (MU)	Cost (Rs. Cr)	Energy purchased at KSEB bus (MU)	Cost (Rs. Cr)	
(1)	(2)	(3)	(4)	(5)	(6)= (4) - (2)	(7) = (5)-(3)	
Central Generating Stations	9649.71	2965.25	8704.67	2507.11	-945.04	-458.14	
IPPs	835.00	997.73	1800.17	2204.99	965.17	1207.26	
Traders / Exchanges	1599.00	719.68	3075.55	1897.44	1476.55	1177.76	
UI			958.21	322.89	958.21	322.89	
Swap return			13.22				
Transmission Charges		325.83		267.19			
	12083.71	5008.49	14551.82	7199.62	2454.89	2249.77	

6.21 Considering dedicated efforts from the part of the KSEB to optimize the generation, power purchase and cost by scheduling energy from the cheapest sources available including traders and energy exchanges etc in spite of the monsoon failure, Hon'ble Commission may kindly approve the cost of Generation and Power purchase for the year 2012-13 as detailed above.

7. Interest and finance charges

7.1. While projecting the ARR & ERC for the year 2012-13, KSEB had estimated the interest and finance charges as Rs 521.21 crore, but Hon'ble Commission has approved the same at Rs 370.19 crore. However, as per the audited accounts, the actual expenses incurred under interest and finance charges were Rs 580.53 crore. The details are given below.

Table 19 - Summary of Interest and Finance Charges

SI No	Particulars	KSEB ARR (Rs, Cr)	SERC Approved (Rs, Cr)	Audited accounts (Rs, Cr)	Increase over approval (Rs, Cr)
1	Interest on outstanding Loans and Bonds	252.91	178.14	182.36	4.22
II	a) Interest on Security Deposit	74.55	74.55	113.98	39.43
		327.46	252.69	296.34	43.65
III	**Other Interest and Finance Charges**				0.00
	a) Interest on borrowings for working capital	96.25	20.00	167.94	147.94
	b) Discount to consumers for timely payment of Charges/NVVN	2.50	2.50	-0.11	-2.61
	c) Interest on PF	83.00	83.00	96.33	13.33
	d) Other Interest charges	0.00	0.00	14.56	14.56
	e) Cost of raising finance	1.00	1.00	0.00	-1.00
	f) Guarantee Commission	1.00	1.00	0.91	-0.09
	g)Bank Charges	10.00	10.00	4.56	-5.44
	Total of III	193.75	117.50	284.19	166.69
	Grand Total (I+II+III)	**521.21**	**370.19**	**580.53**	**210.34**

7.2. As detailed above, the interest and finance charges had increased by Rs.210.34 crore over approval, which was mainly under the heads interest on PF, interest on security deposit and interest on working capital etc.

7.3. In the order on ARR, Hon'ble Commission had approved additional borrowings of Rs. 500 crore for the year 2012-13 and however the actual additional borrowings were Rs.777.86 crore. Increase in interest on loans has been due to the increase in loans availed over the approval.

7.4. KSEBL had availed fresh loans amounting to Rs 2499.35 crore during the year 2012-13; however, Board has re-deemed Rs 1721.49 crore.

The source wise details of the loan availed and redeemed during the year 2012-13 is detailed below.

Table 20

Source wise details of loans availed during the year 2012-13

Source	Opening balance (Rs. Cr)	Borrowing (Rs. Cr)	Redemption (Rs. Cr)	Closing Balance (Rs. Cr)
LIC	36.38	0.00	11.19	25.19
REC	299.88	92.43	60.27	332.04
SBI-STL	300.00	300.00	300.00	300.00
SBT-STL	100.00	0.00	100.00	0.00
Vijaya Bank-STL	200.00	400.00	400.00	200.00
Canara Bank	100.00	0.00	100.00	0.00
Federal Bank	100.00	350.00	450.00	0.00
PFC-R APDRP	220.08	30.92	0.00	251.00
SIB-STL	0.00	650.00	300.00	350.00
KSPIFC-STL	0.00	26.00	0.00	26.00
PFC-STL	0.00	500.00	0.00	500.00
REC-STL	0.00	150.00	0.00	150.00
Total	1356.34	2499.35	1721.49	2134.20

7.5. A summary of outstanding loans as per the order on ARR and actual as per accounts is detailed below:

Table 21

Summary of the borrowings and repayments during the year 2012-13

Sl No	Item	Opening Balance		Borrowing		Redemption		Closing Balance		Interest	
		ARR order (Rs. Cr)	As per audited Accounts (Rs. Cr)	ARR Order (Rs. Cr)	As per audited Accounts (Rs. Cr)	ARR Order (Rs. Cr)	As per audited Accounts (Rs. Cr)	ARR Order (Rs. Cr)	Accounts (Rs. Cr)	ARR Order (Rs. Cr)	As per audited Accounts (Rs. Cr)
I	Long term Loans	569.17	556.34	0.00	123.35	71.12	71.49	498.05	608.20	56.64	54.79
II	Short term loans	907.09	800.00	500.00	2376.00	0.00	1650.00	1407.09	1526.00	121.49	127.57
	Total	**1476.26**	**1356.34**	**500.00**	**2499.35**	**71.12**	**1721.49**	**1905.14**	**2134.20**	**178.13**	**182.36**

7.6. Interest on the short term loan during the year 2012-13

(i) Since short-term loans could be obtained at lower rates compared to the interest rates being charged for long term borrowings, KSEB has availed short-term loans for meeting the capital liabilities.

(ii) During the year 2012-13 there has been an increase in STL by Rs.726 crore over last year. Increased level of STL together with higher rates of interest than those prevailed last year have contributed to the increase in interest on STLs. The summary of the STLs and interest thereon are given below.

Table-22 Details of the short-term loans availed for meeting capital liabilities

Short term loans	Rate of interest	Loan outstanding at the beginning of the year	Amount received during year	Repayment during the year	Outstanding at the end of the year
	(%)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
SBI	10.40	300.00	300.00	300.00	300.00
SBT	10.75	100.00	0.00	100.00	0.00
Canara Bank	10.75	100.00	0.00	100.00	0.00
Vijaya Bank	10.65	200.00	400.00	400.00	200.00
Federal Bank	10.75	100.00	350.00	450.00	0.00
South Indian Bank	11.00	0.00	650.00	300.00	350.00
REC STL	13.00	0.00	150.00	0.00	150.00
PFC STL	12.50	0.00	250.00	0.00	250.00
PFC STL	12.75	0.00	250.00	0.00	250.00
KSPIFC STL	11.50	0.00	26.00	0.00	26.00
Total		800.00	2376.00	1650.00	1526.00

(iii) The rate of interest on the short term loan for the year 2012-13.

Interest rates in general have gone up in 2012-13 mainly due to anti inflationary measures implemented by the RBI. Interest on Short term loans for the year 2012-13 has been Rs.127.57 crore as against Rs.63.24 crore incurred during 2011-12. It may kindly be noted that the interest rate approved by the Hon'ble Commission in ARR was 10.50% but the actual interest rate has been more that the rate approved. The increase in interest of short-term loans is attributable to the higher level of borrowings coupled with increase in interest rates in comparison to the rates prevailed in the previous year. The details are given below.

Table-23 Details of short-term loan Interest from 2010-11 to 2012-13.

Bank	Interest for 2010-11		Interest for 2011-12		Interest for 2012-13	
	Rate (%)	Amount (Rs.Cr)	Rate (%)	Amount (Rs.Cr)	Rate (%)	Amount (Rs.Cr)
SBI	8.25	16.61	10.40	30.00	10.40	30.76
UBI	7.25	14.47	0.00	0.00	0.00	0.00
SBT	8.50	0.22	10.75	0.68	10.75	10.00
Canara Bank	0.00	0.00	10.75	12.12	10.75	1.12
Federal Bank	0.00	0.00	10.75	0.70	10.75	21.47
Vijaya Bank	9.50	0.00	10.65	19.74	10.65	20.66
South Indian Bank	0.00	0.00	0.00	0.00	11.00	26.44
REC STL	0.00	0.00	0.00	0.00	13.00	4.63
PFC STL	0.00	0.00	0.00	0.00	12.50	11.16
PFC STL	0.00	0.00	0.00	0.00	12.75	
KSPIFC STL	0.00	0.00	0.00	0.00	11.50	1.33
Total		31.30		63.24		127.57

7.7. Interest on working capital.

Hon'ble Commission had approved an ad hoc provision of Rs.20 crore for meeting interest on working capital for the year 2012-13 but the actuals was Rs 167.94 crore. The reason for increase is due to the enhanced dependence on Overdrafts during the year coupled with increase in interest rates being charged by the banks on OD disbursed. In this matter, the following points may also be kindly noted.

(i) As per the audited accounts for the year 2008-09, the revenue gap was Rs 749.17 crore. Further for the year 2009-10, the same was Rs 1227.50 crore. For the year 2010-11, Hon'ble Commission had approved the revenue gap as Rs 457.47 crore, but as per the audited accounts, the revenue gap increased to Rs 1229.63 crore. For 2011-12 and 2012-13, the deficit had further mounted to Rs.1934.13 crore and Rs. 3998.89 crore respectively. There has been no tariff revision to bridge the revenue gap till 2010-11. Tariff revision was ordered wef 01.07.2012 to fetch additional revenue of Rs. 1257.63 Crore during the period 01.07.2012 to 31.03.2013. It can be seen that the proceeds of tariff revision was very much insufficient to cover the accumulated revenue gap.

(ii) The excessive increase in revenue gap for the year 2012-13 was mainly on account of the increase in cost of power purchase due to failure of monsoon. The increase in cost of power purchase alone for the year 2012-13 was Rs 2249.77 crore over approval.

(iii) The mounting revenue deficit along with monsoon failure has put considerable strain on the Board's finance and has to depend heavily on overdrafts to manage the day to day functions of the Board even after deferring payments wherever possible.

(iv) Enhanced dependence on overdrafts to the extent of Rs.828.48crore, especially at a time when interest rates were going up, had invariably resulted in higher interest cost. The strain on finances of the Board can be read from the increased dependence on OD along with the deferred payments. Hon'ble Commission may kindly note that the OD balance as on 31.03.2013 has gone up by Rs.828.48 crore to Rs. 1942.97 crore as on 31.03.2013 from Rs.1114.49 crore as on 31.03.2012. The month wise details of OD availed from financial institutions and its interest are marked as **Annexure 2**. Month wise break up of OD interest is given below:

Table 24

Summary of the month wise overdraft balance during the year 2012-13

Month	Month end OD Balance (Rs. Cr)	Interest (Rs.Cr)
Mar-12	1114.49	
Apr-12	1275.76	11.46
May-12	992.85	11.71
Jun-12	1329.23	11.41
Jul-12	1479.85	12.77
Aug-12	1414.12	12.08
Sep-12	1368.81	12.47
Oct-12	1568.64	16.40
Nov-12	1511.65	14.11
Dec-12	1624.01	15.02
Jan-13	1761.65	12.09
Feb-13	1842.15	16.96
Mar-13	1942.96	21.46
Total		167.94

(v) Even after availing overdraft as detailed above, Board has not been able to raise sufficient funds in 2012-13 to pay off its liabilities and has to defer payments of Rs 1711.21 Cr till June 2013 as detailed below:

Table 25 **Details of deferred payment of power purchase bills and other claims (Rs. Cr)**

Power purchase NTPC	976.50	
Power purchase NLC	93.15	
Transmission Charges - PGCIL	45.23	
Power purchase APCPL	49.86	
Total cost of power purchase deferred as on 01-06-2013		1164.74
Establishment claims		82.74
Pension claims other than monthly pension		112.89
PF Loan		52.30
PF Closure		13.44
Remittances		3.71
Purchases		161.01
APDRP		10.09
R APDRP		0.27
PPS		0.25
Work bills		90.57
LA Cases		2.84
Others		16.36
Total		1711.21

(vi) Hon'ble Commission may kindly note that, it has always been the endeavor of the Board to avail the overdraft after fully utilizing all the resources available including additional security deposit etc and to raise funds from the cheapest source. The actual interest on working capital borrowings as detailed above may kindly be approved.

(vii) Further, it may also be noted that the accumulated revenue gap approved by the Hon'ble Commission as on 01.04.2013 has been Rs 1737.92 Cr. Further, the additional liability on account of purchase of power was more than Rs 2249.77 Cr over approval during the year 2012-13. Though as per the fuel surcharge formula regulations, 2010, the additional liability incurred for power purchase during the year 2012-13 can be passed on to the consumers as fuel surcharge, KSEB has not filed any proposal on the same before the Hon'ble Commission to avoid tariff shock.

(viii) Kind attention of the Hon'ble Commission is invited to the APTEL judgment dated 10.11.2014 on Appeal no 1 & 19 of 2013 wherein the following direction has been given:

We find that the State Commission in the absence of Regulations have decided the Interest and Finance charges and interest on working capital. The interest on working capital is also decided on adhoc basis only. We feel that there is a need to make Regulations for the financial parameters. Till the Regulations are framed, the State Commission should follow the Central Commissions Regulations. As the FY 2012-13 is already over, we direct the State Commission to true up Interest and Finance charges for the FY 2012-13 based on the audited accounts.

(ix) Attention of the Hon'ble Commission is also invited to the Hon'ble APTEL judgment dated 1^{8th} October-2012 on Appeal petition No. 7 of 2011, 46 of 2011 and 122 of 2011, which has appraised the situation and ordered as follows

"11.5 On the basis of the above findings of the Tribunal we decide as under:

i) When the utility gives its projected expenditure under a head in the ARR, the Commission either accepts it or decides a lower expenditure. However, if in the true up of the ARR subsequently the Commission finds that the expenditure which was denied/reduced earlier under that head needs to be approved then carrying cost may be allowed for such additional expenditure under that particular head which was denied earlier.

ii) The utility is entitled to carrying cost on his claim of legitimate expenditure if the expenditure is: a) accepted but recovery is deferred e.g. interest on regulatory assets,

b) claim not approved within a reasonable time, and

c) disallowed by the State Commission but subsequently allowed by the Superior Authority."

(x) The total unrecovered revenue gap as per the orders of the Hon'ble Commission as on 31-03-2013 is about Rs 1984.75 crore as detailed below.

Table-26 Details of the un-bridged revenue gap

Year	Revenue gap approved	Revenue gap met through tariff revision	Net un-bridged revenue gap	Remarks
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
Till 31-03-2011			424.11	As per the Truing up orders
2011-12	928.62	Nil	928.62	No tariff revision
2012-13	1889.15	1257.13	632.02	Tariff revision effected from 01-07-2012 only.
Total			1984.75	

(xi) As detailed in the Table above, Rs 1984.75 crore is the net un-bridged revenue gap approved by the Commission as per its own orders on ARR till the FY 2012-13. The actual revenue gap as per the audited accounts during the period was much higher than the revenue gap approved by the Commission as detailed below.

Table-27 Comparison of the revenue gap approved and actuals

Year	Un bridged gap as per the order of the Commission	Revenue gap as per audited accounts	Increase over approval	Remarks
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	
2011-12	928.62	1934.13	1005.51	Audited accounts
2012-13	632.02	3999.14	3367.12	Audited accounts
Increase over approval			4372.63	

(xii) As explained in the foregoing paragraphs and in the light of the judgments of the Hon'ble APTEL, Hon'ble Commission may kindly approve the actual interest payment on OD for the year 2012-13.

7.8. **Interest on security deposit:** Hon'ble Commission had approved the interest on security deposit @ 6% at Rs 74.55 crore. However, as per the accounts the interest on security deposit to be disbursed in 2013-14 has been provided on the deposit balance at the beginning of the year @ 8% was Rs 113.98 crore. The increase is mainly due to the increase in Bank rate prevailed as on 01.04.2012.It has already been submitted before the Hon'ble Commission that, KSEB has been maintaining the accounts as per the accrual system.

7.9. **Interest on PF:** While preparing the ARR, KSEB has made a provision of Rs 83 crore towards interest on PF which was fully approved by the Hon'ble Commission. However, as per the audited accounts, the actual interest on PF was Rs.96.38 crore, which was more by Rs.13.38 Crore from the approved amount. The increase was mainly due to the increase in interest rate applicable for the year @ 8.80%.The actuals as per the audited accounts may kindly be approved.

7.10. **Other charges:** KSEB has been reducing the bank charges consistently through negotiations with banks. The detailed brake up of the other charges is given below.

Table-28 Other Bank charges for the year 2010-11 to 2012-13

Particulars	2010-11	2011-12	2012-13
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Bank Charges for fund transfer from Head office to field units. Bank commission for collection from consumers and Other bank charges and interest.	5.32	4.50	4.53
Service tax recovered by bank	0.07	0.08	0.03
Guarantee commission	2.50	1.28	0.91
Total	7.89	5.86	5.47

7.11. Other Interest Rs. 14.56 crore represents interest paid on delayed payment of Gratuity.

7.12. Hon'ble Commission may kindly approve the interest and finance charges as per the audited accounts as detailed above.

8. Depreciation

8.1. In the order on ARR & ERC, Hon'ble Commission has provisionally allowed depreciation amounting to Rs.414.62 crore at CERC rates on the projected GFA at the beginning of the year 2012-13.

8.2. Over the years KSEB had been claiming depreciation as per rates notified by the Ministry of Power, Government of India through the official Gazette and in line with the Electricity (Supply)(Annual Accounts) Rules, 1985 (ESAAR, 1985). KSEB had been continuing as State Electricity Board till the Government vested the assets and liabilities of the Board with it vide the notification G.O (Ms) No. 37/2008/PD dated 25th September-2008. Board was in the transitional stage in 2012-13 and Government has not re-vested the assets and liabilities into a new company. Also, as per the repeal provisions under 184 (2) (d) of the Electricity Act-2003, KSEB has to adopt the ESSAR-1985, the accounting rules until such rules are rescinded or modified. Accordingly, KSEB has been claiming the depreciation in the 'Annual Statement of Accounts' at the rates notified by the Ministry of Power, Government of India vide the official Gazette dated 1994 and the Electricity (Supply)(Annual Accounts) Rules, 1985 (ESAAR, 1985).

8.3. Comparison of the depreciation approved by the Hon'ble Commission for the year 2012-13 at the depreciation rate as per the CERC (Terms and Conditions of Tariff) Regulations 2009 and the depreciation claimed in the C&AG audited accounts are given below.

Table-29 Details of depreciation claimed for the year 2012-13

Sl.No.	Particulars	2012-13			
	Category	KSEB proposed in ARR	SERC Approved	As per audited Accounts	Difference over approval
1	Land and Rights	0.00	414.67	0.00	94.64
2	Buildings	20.23		17.71	
3	Hydraulic works	61.76		27.23	
4	Other Civil works	14.25		12.58	
5	Plant & Machinery	233.60		174.99	
6	Lines, Cable networks	271.66		270.60	
7	Vehicles	1.51		0.95	
8	Furniture & fixtures	1.11		0.66	
9	Office equipment	3.30		4.59	
	Total	607.42	414.67	509.31	94.64

8.4. However, considering the methodology adopted by the Hon'ble Commission for approving depreciation, KSEB had arrived at the depreciation at the 'depreciation rate' notified in the CERC (Terms and Conditions of Tariff) Regulations 2009, duly considering the vintage of assets. The details are given below.

8.4.1. The total assets as on 31-03-2012 have been segregated into two parts.

(i) Part-1: The assets created during the last twelve years from 2000-2001 to 2011-12 and

(ii) Part-2. The assets created prior to 2000-2001.

The details are given as Annexure- 3(a).

8.4.2. As detailed under Annexure- 3(a), Gross Fixed Assets (GFA) as on 31-03-2000, i.e., the assets in service for more than 12 years is Rs 3347.16 crore and the GFA created during the last 12 years during the period from 2000-01 to 2011-12 is Rs 8726.46 crore.

8.4.3. The year wise details of depreciation claimed on the assets created prior to the year 2000-01 (i.e., assets having age of more than 12 years) is given as Annexure- 3(b). The balance value of the assets to be depreciated from the year 2012-13 is also given.

8.4.4. The year wise details of the depreciation claimed on the assets created since 2000-01 is given as Annexure-3(c). The assets created in each year are treated separately for arriving depreciation.

8.4.5. It may be noted that, the depreciation as per truing up orders during the period from 2003-04 to 2010-11 was adopted for assessing the balance depreciation to be claimed since the year 2011-12.

Table-30 Depreciation on the total assets for the year 2012-13

Sl No.	Particulars	Depreciation on assets created every year (Rs.Cr)													Total (Rs. Cr)
		Old assets created prior to 2000-01	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	
1	Buildings	5.54	1.84	0.64	1.55	1.21	1.11	1.14	0.89	0.68	0.34	1.31	0.64	1.77	18.67
2	Hydraulic works	10.07	2.05	1	2.64	1.92	0.74	6.31	1.01	1.61	0.64	3.98	5.22	1.52	38.72
3	Other Civil works	1.43	0.45	0.39	1.39	0.86	1.04	1.62	0.82	0.69	0.97	0.78	2.21	1.03	13.67
4	Plant & Machinery	41.59	8.46	37	9.24	27.41	7.25	7.21	8.13	6.23	10.44	16.55	15.36	14.78	209.67
5	Lines cable networks etc		10.99	9.99	24.69	17.49	14.37	13.45	13.84	14.41	15.14	23.86	27.2	24.54	209.96
6	Vehicles		0	0	0	0	0.03	0.03	0.01	0	0.11	0.03	0.05	0.14	0.4
7	Furnitures & fixture		0	0	0.06	0	0.07	0.02	0.03	0.03	0.05	0.06	0.05	0.07	0.45
8	Office equipment		0	0.03	0.02	0.41	0.11	0.11	0.85	0.1	0.15	0.34	0.46	0.24	2.82
	Total	58.63	23.79	49.05	39.59	49.3	24.72	29.88	25.59	23.76	27.83	46.91	51.19	44.09	494.34

8.4.6. As detailed above, the total depreciation on the assets at the depreciation rate as per the CERC (Terms and Conditions of Tariff) Regulations, 2009 is about Rs 494.34 crore. The function wise allocation of depreciation based on the total assets exists as on 31-03-2013 is detailed below.

Table-31
Function wise allocation of depreciation for the year 2012-13

Functional area	GFA as on 31-03-2012	Depreciation as per accounts for the year 2012-13 (Statement 6)	Depreciation claimed for the year 2012-13
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation	3806.87	49.29	47.84
Transmission	3735.89	215.31	208.98
Distribution	4530.86	244.71	237.52
Total	12073.62	509.31	494.34

8.5. Hon'ble Commission vide the order dated 13th April-2012 has decided the matter of recovery of depreciation on assets created out of Contributions and ordered that:

(i) depreciation need not be allowed on assets created out of contributions and grants by any licensee in the state as a general rule. In the case of KSEB, this will be made applicable from 2010-11 and proposal for clawing back the depreciation already claimed up to 2009-10 is dispensed with.

(ii) In future, all licensees shall provide separate statements under capital works programme for assets to be created out of contributions and grants in their ARR & ERC / truing up petitions. The depreciation estimations in these petitions shall also distinctly indicate the value of assets for which depreciation is claimed and that which is created out of contributions and grants.

8.6. As per the audited accounts, the contribution and grants up to 31.03.2013 amounted to Rs.3997.81 crore. However, the entire amount booked under consumer contribution and grants are not for creating any specific assets, but for giving priority of service connections etc in earlier days under OYEC schemes etc. In response to the Board's argument that out of the total amount of contribution and grants up to 31.03.2009 to the tune of 2504.14 crore, Rs.1535.99 crore was collected under OYEC scheme for providing priority for service connections and these are not attributable to any specific assets directly, Hon'ble Commission has stated as follows:

> "Another claim of the Board is that, of the total amount of Rs.2,504.14 crore, Rs.1,535.99 crore was collected under OYEC scheme for providing priority for service connections and are not linked to any specific assets directly. Hence, the Board argued for a distinction on amount collected under OYEC scheme prior to the year 2003. However, in order to establish the claim the Board has to properly present the case with sufficient evidence so that the claim can be considered in detail. It is up to the Board to present the case before the Commission with all supporting details separately."

8.7. The summary of the amount booked under Contribution is extracted below.

Table-32

Summary of the amount booked under 'Contribution and Grants' as on 31-03-2010

Account Code	Item	Amount (Rs.Cr)
55.101 to 55.102	Consumers Contribution Towards Cost Of Capital Assets	164.89
55.103 to 55.107	Service Connection charges	256.19
55.108 to 55.124	OYEC (Priority) Charges	1764.79
55.201 to 55.311	Government Grants (APDRP, RGGVY etc)	456.50
55.401 to 55.501	Contribution from Local bodies, PWD, Government etc	311.54
	Total	2953.91

8.8. The year wise details of the amount collected as OYEC charges from different categories of consumers is given in the Table below.

Table-33
Details of the amount booked under 'OYEC' charges

Year	Domestic	Commercial	Industrial LT	Industrial HT	HT non Domestic	EHT Industrial	LT/HT Distribution	EHT/for any purpose	Rapid Service connection charge Domestic	Rapid Service Connection Charge -CT Non-Domestic	Total
A/c	55.113	55.114	55.115	55.116	55.117	55.118	55.119	55.12	55.123	55.124	
As on 1988-89	6.32	0.77	0.12	0.16	0.00	0.01	0.49	0.00	0.00	0.00	7.87
1989-90	11.92	1.65	0.72	0.02	0.55	0.03	0.73	0.00	0.00	0.00	15.62
1990-91	11.98	1.07	-0.23	0.17	0.09	0.08	0.51	0.00	0.00	0.00	13.67
1991-92	13.93	1.42	0.17	0.11	0.08	0.06	1.60	0.00	0.00	0.00	17.37
1992-93	15.09	1.51	0.26	0.21	0.03	0.09	0.81	0.00	0.00	0.00	18.00
1993-94	35.20	4.49	0.62	0.82	0.13	0.35	2.00	0.00	0.00	0.00	43.61
1994-95	38.24	3.00	0.14	2.07	0.01	0.24	1.47	0.00	0.00	0.00	45.17
1995-96	39.81	3.20	0.10	1.20	0.30	0.02	0.90	0.00	0.00	0.00	45.53
1996-97	41.98	3.31	0.23	0.88	0.25	0.05	0.96	0.00	0.00	0.00	47.66
1997-98	55.76	6.58	0.15	0.56	-0.40	0.00	1.18	0.01	0.38	0.16	64.38
1998-99	70.56	11.58	0.83	0.43	0.09	0.00	2.70	0.00	0.19	0.01	86.39
1999-00	65.65	11.24	0.29	0.21	0.28	0.00	1.89	0.00	0.00	0.02	79.58
2000-01	61.38	8.79	0.54	0.52	0.37	0.00	2.52	0.00	0.13	0.11	74.36
2001-02	64.76	9.99	0.37	0.38	0.22	0.44	2.06	0.20	0.03	0.00	78.45
2002-03	85.13	9.86	0.62	0.62	0.06	0.21	2.07	-0.20	0.03	0.02	98.42
2003-04	95.39	12.06	1.62	0.19	0.04	0.53	3.78	0.00	0.04	0.02	113.67
2004-05	99.04	10.68	0.41	0.27	0.08	0.01	3.98	0.12	0.02	0.01	114.62
2005-06	97.21	9.82	0.76	0.41	0.40	0.00	10.38	0.00	0.00	0.00	118.98
2006-07	92.67	16.30	2.04	0.71	0.11	0.57	6.71	0.00	0.00	0.01	119.12
2007-08	98.07	23.92	-0.27	0.09	0.39	0.10	7.14	0.00	0.01	0.06	129.51
2008-09	116.83	41.38	2.44	1.34	0.44	0.17	18.33	5.11	0.04	0.01	186.09
2009-10	152.28	48.61	1.42	0.32	0.91	0.19	37.45	5.45	0.00	0.09	246.72
Total	**1369.20**	**241.23**	**13.35**	**11.69**	**4.43**	**3.15**	**109.66**	**10.69**	**0.87**	**0.52**	**1764.79**

8.9. As detailed above, out of the total amount of Rs 2953.91 crore booked under consumer contribution and grants as on 31-03-2011, an amount of Rs 1764.79 crore is collected towards 'Priority of Service Connection' scheme under OYEC. Hon'ble Commission may kindly note that, this amount was not collected for creation of any specific assets, but for giving only for priority for service connection. These charges were collected at the standardized rates approved by the Board in consultation with the Government from time to time.

8.10. The total contribution, grants, subsidies towards cost of capital assets as on Under these circumstances, KSEB humbly request before the Hon'ble Commission that, the amount collected under 'OYEC charges' amounts to Rs 1764.79 crore may be excluded from the purview of consumer contribution for disallowing depreciation. Accordingly out of the total contribution and grants amounting to Rs 3618.61 crore, Rs 1853.82 crore (3618.61-1764.79) only be considered for disallowing depreciation on the assets created out of consumer contribution.

8.11. As detailed above, the total Distribution asset existed as on 31-03-2012 amounting to Rs 4530.86 crore, out of which assets created through consumer contribution amounting to Rs 1853.82 crore cannot be considered for claiming depreciation. Accordingly, the depreciation claimed for the year 2012-13 after duly considering the assets created out of consumer contribution and grant is as detailed below.

Table-34 Depreciation claimed for the year 2012-13

Functional area	GFA as on 31-03-2012	Depreciation claimed for the year 2012-13	Assets created out of consumer contribution	Depreciation on the Assets created out of consumer contribution	Net Depreciation claimed for the year 2011-12
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Generation	3806.87	47.84			47.84
Transmission	3735.89	208.98			208.98
Distribution	4530.86	237.52	1853.82	97.18	140.34
Total	12073.62	494.34			397.16

Hon'ble Commission may kindly admit the depreciation as Rs 397.16 crore for the year 2012-13.

9. Employee Cost

9.1. In the ARR for the year 2012-13, KSEB had estimated the employee cost for the year at Rs 2231.46 crore. However, Hon'ble Commission had approved the employee cost at Rs 1663.66 crore and made a total disallowance of Rs 567.80 crore from the amount proposed by KSEB under various heads.

9.2. A comparison of the various components of the employee cost projected by KSEB and the same approved by the Hon'ble Commission for the year 2012-13 is detailed below.

Table-35

Particulars	Projected by KSEB	Approved by KSERC	Disallowance
	(Rs. Cr)	(Rs. Cr)	(Rs. Cr)
Basic pay	448.26	426.23	22.03
DA including DA revision	627.58	1237.43	545.47
Other allowances (over time, medical allowances etc)	45.03		
EL encashment	82.50		
Pension liabilities	853.97		
Provision for pay revision	174.12		
Total employee cost	2231.46	1663.66	567.80

9.3. It can be seen from the audited accounts, that the actual employee cost for the year 2012-13 was Rs 2103.03 crore. It can also be seen that the actual expenditure under this head was 10.49% higher than the actual for the year 2011-12. The details are given below.

Table 36 - Employee Cost (Rs in crore)

<table>
<tr><th rowspan="2">Sl.No</th><th rowspan="2">Particulars</th><th rowspan="2">2011-12</th><th colspan="4">2012-13</th><th rowspan="2">% Difference over 2011-12</th></tr>
<tr><th>KSEB proposed in ARR</th><th>SERC Approved</th><th>As per audited Accounts</th><th>Actuals over approval</th></tr>
<tr><td>1</td><td>Salaries</td><td>685.98</td><td>448.26</td><td>426.23</td><td>739.38</td><td>313.15</td><td>7.78</td></tr>
<tr><td>2</td><td>DA</td><td>373.28</td><td>627.58</td><td rowspan="7">1237.43</td><td>450.68</td><td rowspan="7">126.21</td><td>20.73</td></tr>
<tr><td>3</td><td>Provision for Pay revision</td><td>0.00</td><td>174.12</td><td>0.00</td><td>0.00</td></tr>
<tr><td></td><td>Total</td><td>1059.26</td><td>1249.96</td><td>1190.06</td><td>12.35</td></tr>
<tr><td>4</td><td>Overtime, other allowances, Bonus.</td><td>44.55</td><td>39.24</td><td>45.71</td><td>2.60</td></tr>
<tr><td>5</td><td>Earned Leave encashment</td><td>81.16</td><td>82.00</td><td>94.25</td><td>16.13</td></tr>
<tr><td>6</td><td>Medical expenses reimbursement, staff Welfare expenses, payment under works men compensation,</td><td>7.32</td><td>6.29</td><td>7.66</td><td>4.64</td></tr>
<tr><td>7</td><td>Terminal benefits (excluding terminal Surrender)</td><td>711.04</td><td>853.97</td><td>765.35</td><td>7.64</td></tr>
<tr><td></td><td>Grand total</td><td>1903.33</td><td>2231.46</td><td>1663.67</td><td>2103.03</td><td>439.36</td><td>10.49</td></tr>
</table>

9.4. As detailed above, the basic salary has increased by Rs 313.15 crore over approval and the DA, pension and other allowance has increased by Rs 126.21 crore over approval.

9.5. Regarding the increase in basic salary, KSEBL may submit that,

(i) The basic salary as per the accounts is the revised basic pay after implementing the pay revision during the year 2011-12, which has been arrived at by merging the 45% DA up to July-2008 with the basic pay at the pre-revised scale and also applicable fitment benefit and service weightage.

(ii) However, Hon'ble Commission has approved the basic pay for the year 2011-12 at the pre-revised scale, i.e., the basic salary for the year 2011-12 was arrived at by escalating the basic salary for the year 2008-09 at the rate of 3% annually.

9.6. Methodology adopted by the Commission for approving the employee cost for the year 2012-13.

9.6.1. While approving the ARR&ERC for the year 2012-13, Hon'ble Commission had adopted the actual employee cost (absolute total) for the year 2008-09 as the base. The basic salary for the subsequent years has been arrived at by escalating the basic salary of 2008-09 by 3% annually. The DA, pension and other allowance were escalated for the subsequent years at the weighted average indices of WPI & CPI at the weigtage of 30:70.

9.6.2. Vide the review petition on ARR order, KSEB had submitted before the Hon'ble Commission, the limitations of the methodology adopted by the Commission, that include (not limited to),

(i) The business growth of the KSEBL including the number of service connections provided, increase in energy sales, assets additions were not considered in the methodology adopted by the Commission.

(ii) Pension and DA are uncontrollable expenses of the utility and the same has been allowed to its employees as per the present practices, as duly clarified by the Hon'ble Commission.

(iii) KSEB has to fulfill the lawful agreements entered into by it with the trade unions.

(iv) The methodology adopted by the Commission is against the prudent utility practices including the methodology followed by CERC; model Tariff regulations notified by Forum of Regulators etc.

9.6.3. It is noticed that, the Hon'ble Commission has addressed the anomaly in the KSERC (Terms and Conditions of Tariff) Regulations, 2014, where in the O&M cost including employee cost, R&M expenses and A&G expenses were arrived at after duly considering the business growth of the utility.

9.7. Statutory binding on KSEB to provide salary, DA and pension to its employees as per the wage settlement agreement entered into with the Trade Unions.

9.7.1. The employee cost of KSEB includes basic salary, DA and other benefits for serving employees and pensioners, terminal benefits etc for retired employees.

9.7.2. The Board has been providing salary and other benefits including earned leave surrender etc. to its employees, as per the wage settlement agreement entered into with the trade unions. As per the agreement DA has to be released as and when the same was released by the State Government to its employees, pension and other benefits as per the rules in force and also as per the directions of court of law. This is the practice followed by the Board. In this context, KSEB may highlight a few extracts from Judgment issued by Supreme Court of India on 3rd October 2002 in the case of West Bengal Electricity Regulatory Commission vs CESC Limited. It is clear from this judgment that it is not appropriate for the Commission to disallow employee expenses made by the licensee under lawful agreement entered into with workmen.

"Employees' cost:
The ASCI in its report in regard to the above item held that the number of employees in New Cossipore and Mulajore is very high by any standard. It observed that the running of these institutions has

become uneconomical and, hence the company has been advised to take action to reduce the number of employees by proper deployment or Voluntary Retirement Schemes (VRS), particularly, in the context of the proposal for closing down the Mulajore plant. It also observed that the overtime payment made to the employees was a worrying feature. It also noticed because of the settlement with the workmen, the Company was paying the workmen overtime irrespective of the need for the same and such payment had no justification especially when the same has to be passed on to the consumers. Therefore, it recommended a drastic cut or alternatively phasing out of this system of overtime payment. The Commission in its report agreed with the views expressed by the consultant. It however did not agree with the consultant as to the closure of Mulajore & New Cossipore plants, unless it was established that the cost of generation of electricity in those plants was higher than the cost of purchase of electricity by the Company from other sources. For the said reason it deferred the finding in regard to closure of the abovementioned two plants. It however agreed with the consultants that the overtime payment that was being made by the company was extremely high and hence for the year 2000-01 it imposed an ad hoc cut from the actual expenditure under this head, to the extent of 447 lacs towards overtime, 600 lacs towards pension contribution and 208 lacs towards provision for leave encashment. ***The High Court reversed this finding on the ground that the payment of wages including overtime and other welfare benefits was made by the Company under lawful agreements entered with the workmen. Therefore, during the pendency of these agreements, it was legally not possible for the Company to stop these payments. Therefore, the amounts spent towards this purpose namely, towards the employees' cost should not be treated as the amounts not properly incurred. The High Court on this basis allowed the entire expenditure incurred by the Company under this head.***

We are in agreement with this finding of the High Court. Since it is not disputed that the payments made to the employees are governed by the terms of the settlement from which it will not be possible for the Company to wriggle out during the currency of the settlement, therefore, for the year 2000-01 the actual amounts spent by the company as employees' costs will have to be allowed"

9.7.3. Regarding the ceiling on employee cost based on the index of Whole Sale Price Index (WPI) and Consumer Price Index (CPI) Hon'ble APTEL vide the judgment dated 18th October-2012 in Appeal petitions Nos. 7 of 2011, 46 of 2011 and 122 of 2011 has held as follows.

'For the year 2009-2010 the Commission considered an increase of 5% on the base of the employee's expenses for the year 2008-2009

but allegedly did not consider the actual employees cost. For Financial Year 2010-2011 and for Financial Year 2011-2012 the normative basis by applying Wholesale Price Index of 7.55% and 8.9% respectively was adopted. A sum of Rs.93.31 Crore as was claimed by the appellant was disallowed by the Commission. Non-allowance of whatever was actually spent without prudence check by the Commission is certainly not desirable. The Commission took the stand that it fails to draw up road maps for rationalisation of man power. It is alleged by the appellant that the Commission considered the old pay scales and did not consider the additional impact on pay revision. In Appeal No. 76 of 2011 we did not approve of blanket reduction 28.48% in all the successive of the years without any reason. ***In the case of the employees of the PSPCL, they are regular staff of the Corporation and it being a Govt. company, they are to be governed by the rules and regulations of the Govt. We find merit in the submission of Mr. Ganeshan as he read out the West Bengal decision. Reduction of Rs. 100 crores does not appear to be based on specific premises.*** *Again, reduction as usual on regular basis in terms of the practice of the past by 28.48 % does not appear to be justified.* ***Our finding on this issue is the same plus the observation that in course of true up in respect of the tariff order for 2011-2012 the Commission will review the matter. The issue is answered in favour of the appellant.'***

9.8 As per the various decisions of the Hon'ble Apex Court and Hon'ble APTEL, State Regulatory Commissions have to approve the O&M cost as per the audited accounts after prudent check.

9.8.1 In the process of truing up, Hon'ble Commission has to admit the actual as per the audited accounts after prudence check. The views of the Hon'ble Supreme Court and Hon'ble APTEL in this matter are extracted below for the kind attention of the Hon'ble Commission.

9.8.2 On the same issue of indexation, Hon'ble APTEL vide judgment dated 11.09.2014 in Appeal No. 174 of 2012 (PSPCL V/S PSERC) has held as follows.

40.1. The State Commission has, in the impugned order, wrongly effected a reduction of 17.22% in the employees cost of the appellant on the ground that the employees cost of the appellant are high. The approach of the State Commission in reducing the employees cost to the extent of 17.22% on the ground that the employees cost of the appellant is higher and the appellant does not have control over its employees cost is erroneous and arbitrary. Further, the State Commission is not justified in applying the Wholesale Price Index (WPI) to increase in employees cost and dearness allowance. We do not approve this approach of the State Commission. We agree to the findings laid down by this Appellate Tribunal in its judgments dated 02.03.2012 & 18.10.2012 delivered in Appeal No. 76 of 2011 and

Appeal No. 7, 46 & 122 of 2011 respectively. Thus, both the issues i.e. Issue Nos. (i) & (ii) are allowed by us directing the State Commission to re-examine both these issues in the light of our findings recorded earlier in the judgments dated 02.03.2012 and 18.10.2012 in Appeal No. 76 of 2011 and Appeal No. 7 of 2011 & batch.

9.8.3 Hon'ble Punjab State Electricity Regulatory Commission had sought review of the above judgment dated 11.09.2014 vide RP 6 of 2015. The review petition was dismissed by the Hon'ble APTEL vide judgment dated 30.03.2015. Relevant extracts of the judgment is given below.

> "11. This Appellate Tribunal while dealing with the issue of Wholesale Price Index, framed the said issue and discussed the same at length and then decided the said issue. This Appellate Tribunal in its previous judgment also considered the Regulations and the <u>Wholesale Price Index and held that actual costs need to be considered.</u> We after considering the previous judgment and discussion on the said issue at length in our judgment dated 11.09.2014 in the said Appeal No. 174 of 2012, <u>after referring to the decision of the State Commission on the Wholesale Price Index, directed that the actual amount spent, subject to prudence check, is to be considered. We do not find any error apparent on the face of our judgment dated 11.09.2014 warranting us to review our aforesaid judgment.</u> For a moment, if we accept the contention of the Review Petitioner/State Commission that the finding in para no. 40.1. of our judgment dated 11.09.2014 is to be deleted, then it would result in the Issue No. (ii) framed being rendered without any finding and would also result in the previous decisions also being overruled/reversed. While disposing of the Issue Nos. (i) & (ii) in our judgment in Appeal No. 174 of 2012, we expressed our view in para nos. 17 & 18 of our judgment which we have already quoted above. 12. In view of the aforesaid discussion, we do not find any merits in the Review Petition, though the aforesaid Review Petition filed by the State Commission is apparently barred by the law of limitation but we have, apart from considering the point of limitation, decided the Review Petition on merits. There is no sufficient ground to review our judgment dated 11.09.2014 delivered in Appeal No. 174 of 2012 as the same is without merits and is liable to be dismissed. Accordingly, the instant Review Petition is dismissed. No order as to costs.

9.8.4 Hon'ble Supreme Court in WBERC vs CERC (2002) 8 SCC 715, further held that, 'There may be any number of instances where an account may be genuine and may not be questioned, yet the same may not reflect good performance of the Company or may not be in the interest of the consumers. Therefore, there is an obligation on the Commission to examine the accounts of the Company, which may be genuine and unchallenged on that count still in the light of the above requirement of Section 29(2)(g) to (h). In the said view of the matter admitting that there is no challenge to the genuineness of the accounts, we think on this score also the accounts of the Company are not ipso facto binding on the Commission. However, we hasten to add that the Commission is bound to give due weightage to such accounts and should not differ from the same unless for good reasons permissible in the 1998 Act.

9.8.5 Hon'ble APTEL vide the judgment dated 7th December-2012 on Appeal No. 186 of 2011 has decided on the pay revision and DA as follows:

9. The issue regarding payment of Arrears on account of 6th Pay Commission and DA as per actual had been raised by the Appellant in Appeal No. 110 of 2010 and the relevant extracts of judgment dated 19.4.2012 is quoted below:

"The Ld. Counsel for the Appellant has submitted that the arrears on account of the 6th Pay Commission report have been paid in two installments during the FY 2009-10 and the FY 2010-11 for Rs.58.85 crores (40%) and 88.28 crores (60%) respectively as per the order of the State Government. Thus, we feel that the payment of arrears should be allowed by the State Commission as per the actual disbursement along with the carrying cost during the true up. The State Commission should also consider the actual payment of DA during the FY 2010-11 in the true-up."

10. The Commission has carried out true up exercise for the year 2010-11 and we are sure that the Commission has implemented the directions issued in the above quoted judgment with regard to carrying cost for arrears on account of 6thPay Commission Arrears.

11. As regards payment of DA is concerned, it is to be noted that the Commission approves ARR and tariff for licensee on certain assumptions and the Commission is expected to carry out true up filling in the gaps between the assumptions and the actual after prudence check. In case payment of DA for FY 2011-12, the Commission has taken weighted average of 55% as against actual of 58% which could be determined only after the end of the year. The Commission would consider the difference in approved DA and actual DA at the time of next true up.

9.8.6 Hon'ble APTEL vide the judgment dated 3rd July 2013 vide the appeal No. 32 of 2012 has decided as follows.

73 (iii) We feel that from the information available before the State Commission, it was not possible to accept the figures projected by the Appellant. Therefore, the O&M expenses for the Control Period have to be decided by the State Commission based on the actual expenses incurred by the Appellant, after prudence check in the true-up of accounts for Financial Years 2011-12 & 2012-13. The State Commission shall thereafter also re-determine the O&M expenses for the FYs 2013-14 to 2015-16 taking into account actual expenses for the previous years and additional expenses on the additional infrastructure proposed during the period. Accordingly directed.

9.8.7 Hon'ble APTEL vide the Judgment dated 10th May 2012 on Appeal No. 14 of 2011, Appeal No. 26 of 2011 and Appeal No. 27 of 2011 has ordered as follows.

13.5 We notice from the impugned order that the Electricity Board had submitted the breakup of Employees Cost for the FY 2008-09 (provisional), FY 2009-10 (estimated) and FY 2010-11 (projection). According to the State Commission, the Electricity Board should have submitted the actual audited figures for the FY 2008-09 instead of the provisional figures. The State Commission also sought the additional information relating to break up of actual expenses for the previous years and the justification for abnormal increase projected for the FY 2009-10 but the Electricity Board failed to provide the same. We also feel that the Electricity Board should have submitted the audited accounts for the previous year and the projected expenditure for the current year based on the actual data for the part of the year. When the requisite data was not furnished by the Electricity Board, the State Commission could not be blamed for estimating the same on the basis of the available data. The State Commission has given detailed explanation in paragraph 4.8.3 of the impugned order to justify the allowance for the Employees Cost. We do not find any reason to interfere with the order. However, the State Commission shall true up the Employees Cost including the terminal benefits, for the FY 2010-11 on the basis of the audited accounts for the for the FY 2010-11 after prudence check. Accordingly directed.

9.8.8 Hon'ble APTEL Judgment on Appeal No 12 of 2009 (Himachal Pradesh State Electricity Board vs Himachal Pradesh Electricity Regulatory Commission) dated 25.01.2011.

"The third issue is determination of employees cost taking into account the impact of Sixth Pay Commission recommendations. We find that the State Commission has given a clear finding on this issue and has stated in the impugned order that the process of actual implementation of the Sixth Pay Commission recommendations would take time and may go beyond the control period. The State Commission has however, acknowledged this as a contingent liability for the future and has stated that any impact on employee cost due to the recommendation of Sixth Pay Commission would be duly trued up as and when it is implemented. ***The learned counsel for the Appellant has submitted that the Sixth Pay Commission recommendations have been actually implemented. In view of this, the State Commission is directed to consider the impact of the same after the Appellant places the requisite material before the State Commission in the true up proceedings."***

9.8.9 Hon'ble APTEL Judgment on Appeal No 28 of 2010 (Delhi Transco Limited vs Delhi Electricity Regulatory Commission)

"23. The next issue relates to Employees cost for MYT from 2007-08 to 2010-11. According to the Appellant, the State Commission allowed only 10% increase in Employees cost though the impact of

the Sixth Pay Commission's Recommendations is much more and merely postponed the consideration of this issue in the truing-up exercise. ***In its reply, the Learned Counsel for the Respondent submitted that the impact of the Sixth Pay Commission's Recommendations was not quantifiable in view of inadequate supporting evidence and in any case the increase will be trued up on the basis of actual****. The State Commission admittedly has not disallowed the employees cost in entirety but on the other hand it has simply postponed the impact of Sixth Pay Commission's Recommendations to the truing-up proceedings. It is pointed out that Sixth Pay Commission's Recommendations have already been implemented by the Appellant and the Appellant is required to incur such expenditure without any recovery in the tariff.* ***We find substance in this contention because the postponement of consideration of the same will only result in cash flow constraints to the Appellant and a burden to consumers in future****. Further, the State Commission does not deny the necessity to consider the employees cost based on the recommendations of the Sixth Pay Commission.* ***It is, therefore, appropriate to direct the State Commission to consider the impact of the Sixth Pay Commission's Recommendations implementation and allow the tariff with a carrying cost in the truing-up proceedings****. This point is answered accordingly."*

9.8.10 *Hon'ble APTEL vide the judgment dated 03rd July 2013 in appeal petitions 26,27,28 of 2009 has held that,*

> *25.4 In our opinion, the arrears of 6th Pay Commission to be paid to the employees is an expense of the Appellants which is required to be allowed in the ARR. The State Commission has also accepted that the arrears of 6th Pay Commission have to be paid to the employees. Thus, the arrears of 6th Pay Commission have to be allowed as expense in truing up of accounts. The recovery of arrears by the Appellants from its consumers will only ease the cash flow of the Appellants. However, the arrears of the Pay Commission is an expense which has to be allowed in the ARR. Accordingly, decided. We also direct the Appellants to act on the directions given by the State Commission recovery of dues from the consumers and furnish the details sought by the State Commission.*

9.8.11 As extracted above, through a number of judgments by Hon'ble Supreme Court and Hon'ble APTEL has clearly held that the Hon'ble Commission has to allow the actual as per the audited accounts after prudence check.

9.8.12 Hon'ble APTEL, in line with its earlier judgments on this issue, has directed the Hon'ble Commission through judgment dated 10.11.2014 on Appeal no 1&19 of 2013 as follows:

8.4 The State Commission has rightly shown concern about the high employees cost but we are not able to appreciate magnitude in the absence of a specific finding about the excess manpower and non-availability of Regulations. <u>We feel that DA increase which is effected as per the Government orders have to be accounted for and allowed in the ARR as it compensates the</u>

employees for the inflation. The pay revision as per the agreements reached between the management and the unions have also to be honoured. The terminal benefits have also to be provided for.

8.5 We find that the State Commission has taken the actual expenses trued-up for FY 2008-09 as the base. The State Commission should have at least allowed the actual basic pay and DA increase, pay revision and terminal benefits over the actual base year expenses without accounting for increase in manpower from 2008-09 to 2012-13. The gratuity directed to be paid as per the judgments of the High court dated 10.03.2003 as the Division bench of the High Court had dismissed the Appeal filed against this judgment, and which were disallowed by the State Commission by order in Appeal no. 1 of 2013 should also be allowed.

8.6 Accordingly, we direct the State Commission to true-up the employees cost from FY 2010-11 to FY 2012-13, as per the above directions.

9.9 Basic salary

9.9.1 Vide the order on ARR & ERC for the year 2012-13, Hon'ble Commission had approved the basic salary for the serving employees as Rs 426.23 crore, arrived at by escalating the basic salary for the year 2008-09 based on audited accounts at the escalation rate of 3% annually.

9.9.2 Board had implemented the pay revision to the workmen category from April-2011 onwards and implemented the same to the officers from June-2011 onwards, with retrospective effect from July/ August-2008. While arriving at the revised pay, the DA up to July-2008 (45% of the basic till July 2008) was merged with the basic salary as on July-2008 along with other pay fixation benefits. Accordingly, the basic salary as per the accounts is the basic pay in the revised pay scale after merging the basic pay with DA as on July-2008. However, the basic pay approved by the Commission is the basic pay arrived by escalating the 'pre-revised basic pay' at the annual escalation of 3%.

9.9.3 KSEB humbly submits that, since the Board has to provide annual increment to the officers and workmen category as per the wage settlement agreement entered into between KSEB and Trade Unions and since the same position was upheld by the Hon'ble ATPEL in judgment dated 10.11.2014, actual basic pay as per accounts may kindly be approved.

9.9.4 KSEB may further submit that, as a distribution utility, STU and the generator of the State, KSEB was constrained to engage additional employees to provide service connections and maintaining quality supply, in addition to the capital investments in generation, transmission and distribution. However, the increase was mainly on the technical staff including lineman, electricity worker, overseer, Sub Engineer etc associated with the distribution of electricity, which account for more than 91% of the increase in staff strength over 2009. The details are given below.

Table-37 Details of technical staff working as on 31-03-2013

Sl No	Category –A	As on 31-03-2009 (Nos)	As on 31-03-2013 (Nos)	Increase
1	Lineman	7389	8865	1476
2	Electricity Worker	3692	3810	118
3	Overseer (Ele)	2900	5129	2229
4	Sub Engineer (Ele)	2133	2646	513
5	Asst Engineer (Ele)	1555	2046	491
6	Meter Reader	1458	843	-615
	Subtotal (1 to 6)	19127	23339	4212
	Total employee strength	27175	31783	4608

9.9.5 Considering the above, KSEBL may humbly request before the Hon'ble Commission to admit the basic salary as per the audited accounts for the year 2012-13 while approving the truing up of accounts for the year.

9.10 <u>Dearness allowances</u>

9.10.1 Dearness Allowances is an uncontrollable expense of the State Distribution Utilities. Dearness Allowance has been provided to State and Central Government employees as a percentage of 'basic pay' to compensate the erosion in value of earnings due to inflation. Considering the inflation, the DA is being approved by the Ministry of Finance, Department of expenditure, Government of India (GoI) once in every six months. The State Government has been releasing the DA to the State Government employees as and when the DA is announced by the Central Government. The DA announced by the Central Government and the same adopted by the State Government to its employees during the year 2012-13 is marked as **<u>Annexure-4(a) to 4 (d)</u>** and **<u>Annexure-5(a) and 5(b)</u>**.

9.10.2 Considering the fact that, KSEB has to release the DA to its employees as and when the DA is allowed to the employees of the State Government, the Hon'ble Commission vide the letter No. 1235/ARR&ERC 10-11/KSERC /2010 dated 28th July-2010 addressed to KSEB, was pleased to communicate that :

"the expenditure on account of DA/DR increases announced by the Government from time to time can be paid to the employees and pensioners without reference to the Commission. <u>Any additional expenditure in this regard over and above the approved expenditure can be considered at the time of truing up as has been done in the previous years".</u>

A copy of the communication dated 28th July 2010 is marked as **<u>Annexure-6.</u>**

9.10.3 Further, the Hon'ble Commission vide the press release dated 28th July-2010 has clarified to all the stakeholders and other concerned as under:

<u>"Existing salary, DA and pension are considered as uncontrollable items in the tariff determination process.</u> In the past also all such

increases in salary and DA have been allowed even if it was higher than the approved level while finalizing each years accounts. In one of the previous Orders, the Commission had stated that "*the increase in DA due to inflation has to be allowed to KSEB employees as and when it becomes due and shall not be permitted to accrue.*" There is also a provision in the Electricity Act that there shall not be any deterioration in the terms and conditions of employees in the reform process."

A copy of the press release dated 28th July 2010 is marked as ***Annexure-7***.

9.10.4 Accordingly, duly considering the prudent practices as well as clarifications issued by the Hon'ble Commission, KSEB has been releasing the DA to its employees as and when the same is released by the Government to its employees.

9.10.5 As extracted under paragraph 9.7.2 to 9.7.7, through various judgments Hon'ble APTEL also clarified that, DA is an uncontrollable expenses and the same may be allowed at actual and a similar stand was taken by the Hon'ble APTEL in judgment dated 10.11.2014.

9.10.6 The DA allowed by KSEB to its employees, as the percentage of basic pay at the pre-revised pay scales and revised scale since the year 2008-09 is detailed below.

Table-38 DA released to KSEB employees

Date of effect	DA as a percentage of pre-revised basic pay		DA as a percentage of revised basic pay after pay revision	
	Rate of DA (percentage of the pre revised basic pay)	Total DA applicable on the Basic Pay (percentage of the pre revised basic pay)		
Jul-08	7% of the pay	45%	Nil	Nil
Jan-09	10% of the pay	55%	7% of the pay	7%
Jul-09	9% of the pay	64%	6% of the pay	13%
Jan-10	14% of the pay	78%	9.048% of the pay	22.048%
Jul-10	16% of the pay	94%	11.310% of the	33.358%
Jan-11	12% of the pay	106%	6.786% of the pay	40.144%
Jul-11	12% of the pay	118%	7.917% of the pay	48.061%
Jan-12	12% of the pay	130%	7.917% of the pay	55.978%
Jul-12	12% of the pay	142%	7.917% of the pay	63.895%
Jan-13	15% of the pay	157%	9.048% of the pay	72.943%

9.10.7 Since the DA is an uncontrollable expenses, and KSEB is legally bound to release the DA as and when the same is released by the State Government and also considering the clarification issued to the Board on releasing DA to its employees, Hon'ble Commission may kindly admit the actual DA as per the C&AG audited accounts for the year 2012-13.

9.11 Pension liabilities

9.11.1 KSEB submits before the Hon'ble Commission that,

(i) Kerala Service Rules and other service conditions as applicable in the Government are applicable to employees of KSEB. During the year 2011-12, the pension liabilities of KSEB remain unfunded and this liability has been met over the years on the principle of "pay as you go" as in Government.

(ii) Pension is a firm liability of KSEB and Board cannot deny pension and other allowances to its retired employees.

(iii) The pension & terminal benefits is the total liability towards existing pensioners as well as employees to be retired in each year.

(iv) It may be noted that number of pensioners increase every year due to retirement and accordingly pension liabilities has also been increasing.

9.11.2 KSEB does not have any control on the pension liabilities to its ex employees. It actually depends on the number of pensioners as on date.

9.11.3 In the ARR& ERC of KSEB for the year 2012-13, KSEB had projected the Terminal benefits including monthly pension, DCRG, provision for pension revision etc as Rs 853.97 crore. While approving the ARR, Hon'ble Commission had not specifically approved any provision towards pension. However, pension, DA etc are allowed over the same approved during the year 2008-09 by escalating at the combined indices of WPI & CPI in the ratio of 30:70. However, as submitted earlier, the pension liability truly depends on the existing pensioners and number of employees retired during the year under consideration.

9.11.4 The details of the terminal benefits as per the audited accounts are detailed below.

Table-39 Pension liabilities for the year 2012-13

Sl.No	Particulars	2011-12	2012-13			
			KSEB ARR	SERC Approved	Actuals	Difference over approval
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Monthly Pension	628.78	692.52	No specific approval for terminal benefits, however based on the actuals for the year 2008-09, the provision for pension is Rs 700.01 crore only.	698.92	
2	Gratuity	25.37	28.6		53.05	
3	Commutation	21.47	37.4		8.42	
4	Medical Allowance	3.52			3.58	
5	Special Festival Allowance	1.49	5.45		1.39	
6	Provision for pension revision	30.41	80		0.00	
	Provision for Gratuity		10.00			
	Total	711.04	853.97		765.35	65.34

9.11.5 As detailed under paragraph 9.7 above, Hon'ble APTEL has also clearly held that, pension is a statutory liability and the same has to be allowed at actual in the process of truing up.

9.11.6 Considering the facts and submission as detailed above, Hon'ble Commission may kindly approve the pension disbursement as per the audited accounts for the year 2012-13.

9.12 Disallowance of other claims including Earned Leave surrender, HRA etc.

9.12.1 **Earned Leave Surrender**:

The actual claim of Earned Leave surrender including Terminal surrender as per the audited accounts for the year 2012-13 was Rs 94.25 crore as detailed below.

Table-40 Details of Earned Leave surrender (Rs in cr)

	Approved by SERC	As per Accounts
Earned Leave surrender of employees	63.93	89.43
Terminal surrender	17.37	4.82
Total	81.30	94.25

9.12.2 Hon'ble Commission may kindly note that the amount of Earned Leave surrender claimed during an year depends on number of employees opt for the same and to be disbursed at revised pay scales. Further, KSEB could not limit the claim of EL surrender as ordered by the Hon'ble Commission. Hence KSEB requests that the claim of EL surrender as per the audited accounts may kindly be approved.

9.13 Bonus, festival allowances etc.

9.14 KSEB could not deny or limit the payment of bonus and festival allowance since the declaration of the same depends on the limits announced by the Government each year during the festival season of Onam. Further certain allowances like HRA, CCA, Local allowances etc has recorded marginal increase after the revision of pay and allowances. Hence, the actual disbursement towards bonus, Medical expenses etc as per the audited accounts for 2012-13, as detailed below, may kindly be approved.

Table-41 Details of Other Allowances Rs in crore

	Actuals 2011-12	Actuals 2012-13	Difference
Overtime / Holiday wages	0.25	0.23	-0.02
Other Allowances			
a) HRA	16.67	17.44	0.77
b) Spread over allowances	3.49	3.39	-0.10
c) Incentive allowances	1.39	0.64	-0.75
d) Local and other allowances	16.95	17.37	0.42
Bonus	5.80	6.62	0.82
Medical Reimbursement	4.55	5.29	0.74
Payment under workmen compensation Act	1.01	0.40	-0.61
Leave Salary and Pension Contribution	0.21	0.34	0.13
Staff welfare expenses			
a) Uniform & Livery expenses	1.53	1.57	0.04
b) Cash award for meritorious service etc	0.03	0.00	-0.03
	51.88	53.29	1.41

10. Repairs and Maintenance (R&M) Expenses

10.1 In the ARR for the year 2012-13, KSEB had projected the R&M expenses for the year at Rs 326.07 crore. While approving the ARR, Hon'ble Commission had limited the same as Rs 195.95 crore. However, as per the audited accounts, the actual R&M expenses incurred for the year 2012-13 was Rs 251.55 crore. The details are given below.

Table-42 Repair and Maintenance cost for the year 2012-13

Sl No	Particulars	2011-12	2012-13				
		Actuals	KSEB ARR	KSERC Approval	Actuals	Difference over approval	Difference over last year
		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)
1	Plant & Machinery	63.81	84.59	195.95	67.41	-55.60	-3.60
2	Buildings	5.78	5.72		5.39		0.39
3	Other Civil works	6.67	7.32		6.61		0.06
4	Hydraulic works	2.12	2.60		3.64		-1.52
5	Lines, Cable networks	168.05	217.20		163.92		4.13
6	Vehicles	4.12	6.69		3.30		0.82
7	Furniture and Fixtures	0.09	0.20		0.08		0.01
8	Office equipment	1.06	1.75		1.20		-0.14
	Total	251.70	326.07	195.95	251.55	-55.60	0.15

10.2 As detailed in Table above, the R&M cost for the year 2012-13 has increased by Rs 55.60 crore over the approval.

10.3 The R&M cost is depends on the Gross Fixed Assets in use at the beginning of the financial year, age of the costs as well as inflation. While approving the R&M expenses as per the orders on ARR, Hon'ble Commission has not allowed the R&M cost for the assets created after the year 2008-09. The details of the assets created after 2008-09 is detailed below.

Table-43 Addition in Gross Fixed Assets over last 4 years

Description of Asset	Up to 31.03.2009	Addition during the year				Addition in 4 years	%	Total
		2009-10	2010-11	2011-12	2012-13			
Land & Land Rights	280.80	25.47	19.35	6.36	16.56	67.74	24.12	348.54
Building	497.30	39.20	19.24	52.90	13.61	124.95	25.13	622.25
Hydraulic Works	899.02	75.34	98.87	28.87	8.79	211.87	23.57	1110.89
Other Civil Works	301.93	23.43	66.05	30.88	14.84	135.20	44.78	437.13
Plant & Machinery	3454.35	313.51	290.84	279.85	139.90	1024.10	29.65	4478.45
Lines, Cable Network etc.	3753.53	451.91	515.16	464.70	415.79	1847.56	49.22	5601.09
Vehicles	13.05	0.52	0.99	1.50	0.58	3.59	27.51	16.64
Furniture& Fixtures	13.92	1.13	1.01	1.06	1.39	4.59	32.97	18.51
Office Equipments	35.22	5.40	7.24	3.74	7.78	24.16	68.60	59.38
11.1	0.01	7.13	0.00	-6.97	-0.16	0.00	0.00	0.01
Total	9249.12	943.05	1018.73	862.89	619.08	3443.75	37.23	12692.87

10.3 As detailed above, out of the total GFA amounts to Rs 12692.87 crore, assets worth Rs 3443.75 crore (27% of the total GFA) was created during the last four years after the year 2008-09.

10.4. The breakup of the expenses incurred towards material cost and payment to contractor is detailed below.

Table-44 Details of expense incurred for 2012-13.

	2011-12			2012-13			Increase over 2011-12	
	Material cost	Payment to contractors	Total	Material cost	Payment to contractors	Total	Rs. in crore	%
Buildings	0.04	5.74	5.78	0.04	5.35	5.39	-0.39	-6.75
Hydraulic Works	0.01	2.11	2.12	0.03	3.61	3.64	1.52	71.70
Other Civil Works	0.06	6.61	6.67	0.05	6.55	6.60	-0.07	-1.05
Plant and Machinery	21.99	41.82	63.81	19.84	47.57	67.41	3.60	5.64
Lines, Cable Network, etc.	90.39	77.66	168.05	85.37	78.55	163.92	-4.13	-2.46
Vehicles	0.24	3.88	4.12	0.05	3.25	3.30	-0.82	-19.90
Furniture and Fixtures	0.00	0.09	0.09	0.01	0.07	0.08	-0.01	-11.11
Office Equipments	0.04	1.02	1.06	0.01	1.19	1.20	0.14	13.21
Total	112.77	138.93	251.70	105.40	146.14	251.54	-0.16	-0.06

10.5. The detailed explanation for the increase over approval is narrated below.

(i) R&M expenses on Lines, Cable Networks etc.

10.6 The function wise breakup of the expenses incurred under Lines, Cable net works as shown below reveals that out of an overall decrease of 2.46% on the R&M cost incurred for lines, cable net works etc, substantially incurred under Distribution functional area.

Table-45
Function wise breakup of R&M expenses on Lines, Cable Networks etc.

Functional area	2010-11			2011-12			2012-13			Increase over 2011-12	
	Material Costs	Payment to contractor	Total	Material Costs	Payment to contractor	Total	Material Costs	Payment to contractor	Total		
	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(%)
Generation	0.005	0.09	0.09	0.02	0.12	0.14	0.09	0.14	0.23	0.09	65.73
Transmission	1.68	1.94	3.62	2.2	2.68	4.88	1.29	2.44	3.73	-1.15	-23.51
Distribution	81.82	66.56	148.38	88.17	74.86	163	83.99	75.96	159.96	-3.07	-1.89
Total	83.51	68.58	152.09	90.39	77.66	168.1	85.37	78.55	163.92	-4.13	-2.46

10.7 It is seen that, about 97% of the R&M cost incurred under Lines, Cable networks etc are contributed by Distribution functional area. The details of the expense incurred under each 'Distribution circle and Electrical Division on lines, Cable networks etc for the year 2012-13 is given as **Annexure-8.** Regarding the R&M cost of lines, cable networks etc, the following points may kindly be considered.

(a) After the implementation of the KSERC Licensees (Standards of performance) Regulations, KSEB has been giving due care and attention on the maintenance of the distribution system.

(b) Through centralized procurement, KSEB has been providing necessary materials for maintenance to the distribution without much time delay.

(c) All the section offices of the Board have converted into 'Model Sections' since January-2011. There is a separate wing for maintenance in each model section with one Sub Engineer, two overseers, two lineman and four electricity workers with vehicle.

(d) The R&M works is highly susceptible to inflation. The inflation during the year was at a high level of 10.43% during the year 2012-13.

(e) Increase in the consumer strength- consumer strength has increased from 104.58 lakhs as on 31-03-2012 to 108.07lakhs as on 31-03-2013.

(f) Increase in the distribution assets from Rs Rs 4530.86 crore as on 31-03-2012 to Rs 5193.78 crore as on 31-03-2013, i.e., an increase of Rs 662.92 crore during the year 2012-13.

(g) Another factor affecting R&M expenses is inflation. The level of inflation prevailed during the year 2009-10 to 2012-13 under CPI (IW) is detailed below.

Table-46 Month wise details of inflation

Month	2009-10	2010-11	2011-12	2012-13
Apr	8.7	13.33	9.41	10.22
May	8.63	13.91	8.72	10.16
June	9.29	13.73	8.62	10.05
July	11.89	11.25	8.43	9.84
Aug	11.72	9.88	8.99	10.31
Sep	11.64	9.82	10.06	9.14
Oct	11.49	9.7	9.39	9.60
Nov	13.51	8.33	9.34	9.55
Dec	14.97	9.47	6.49	11.17
Jan	16.22	9.3	5.32	11.62
Feb	14.86	8.82	7.57	12.06
Mar	14.86	8.82	8.65	11.44
Average	12.32	10.53	8.42	10.43

(h) Inflation under WPI stood at 3.81%, 9.56%, 8.94% and 7.35% respectively for the years 2009-10, 2010-11, 2011-12 and 2012-13.

Considering the details as submitted above, Hon'ble Commission may kindly admit the R&M expenses incurred under Lines, Cable networks etc for the year 2012-13.

(ii) R&M expense incurred under Plant and Machinery

(a) The increase under this sub head was just 5.63% over 2011-12. The function wise breakup of R&M expenses incurred under Plant and machinery for the year 2012-13 is as detailed below.

Table-47 Function wise break up of expenses incurred under Plant and Machinery

	2009-10	2010-11	2011-12	2012-13	Increase over 2011-12	
Functional area		(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(Rs.Cr)	(%)
Generation	15.23	15.87	17.34	23.13	5.79	33.41
Transmission	33.74	40.48	42.2	41.43	-0.77	-1.82
Distribution	3.97	4.93	4.27	2.84	-1.43	-33.52
Total	52.94	61.28	63.81	67.41	3.60	5.63

(b) Circle wise/ division wise details of R&M expenses incurred under plant and machinery for the year 2012-13 is enclosed as **Annexure-9**. Plant and Machinery includes the power stations under Generation wing, substations in the Transmission and transformers under distribution wing etc. The expenses were incurred predominantly under Generation and Transmission sectors.

(c) As detailed above, the main increase of R&M costs under plant and machinery is in the Transmission wing. This is due to the care and efforts taken by the Board to maintain the substations- 33kV, 66kV, 110 kV 220 KV.

(d) Regarding the R&M costs incurred for the year 2012-13, the function wise breakup of R&M expenses as a percentage of GFA has come down to 2.08% from 2.25% in 2011-12 as given below.

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Table-48 Function wise percentage of R&M costs as percentage of GFA

Particulars	GFA at the beginning of the Year	R&M Expenses	Percentage of GFA	Percentage of total
	(Rs. Cr)	(Rs. Cr)	(%)	(%)
Generation	3806.87	27.95	0.73	11.11
Transmission	3735.89	55.70	1.49	22.14
Distribution	4530.86	167.90	3.71	66.75
Total	12073.62	251.54	2.08	100.00

(e) Age of the asset is also a factor influencing R&M cost. A good extent of physical assets in use is old and requires frequent maintenance. Any laxity on the part of the Board on implementing the R&M works may cause breakdowns of the Generating Stations and substations and lines, interruptions in the supply and thus loss to the KSEB and inconvenience to the consumers. Further, the break downs in the Generating Stations, substations and lines are usually the main cause of casualty and hazards to the employees of KSEB.

(f) Considering the importance of the proper maintenance of the assets owned by KSEB in order to provide quality power to the consumers, and factors like increase in asset base, inflation etc the R&M cost as per the audited accounts may kindly be admitted.

11. Administration and General Expenses

11.1 The Administration and General (A&G) expenses consist of rents, taxes, insurance, legal charges, audit fees, Electricity Duty under Section 3 (1) of the Kerala Electricity Duty Act 1963 (KED Act, 1963) and other charges such as travel expenses, freight, purchase related expenses, etc.

11.2 In the ARR for the year 2012-13, Board has projected the A&G expenses at Rs 215.24 crore, including Rs 96.39 crore towards section 3(1) duty payable to the Government. While approving the ARR, Hon'ble Commission has disallowed the section 3(1) duty in full. Further, for the other items of A&G expenses excluding section 3(1) duty, Hon'ble Commission has applied yearly weighted average inflation indices by adopting 2008-09 as base year. Thus, the total A&G expenses approved for the year was Rs 86.11 crore, just Rs.0.37 crore more than the sum approved for 2011-12 amounting to Rs 85.74 crore.

11.1. However, the actual A&G expenses excluding section 3(1) duty has been Rs 105.46 crore for the year 2012-13. The following table summarizes the A&G expenses incurred during the year 2012-13.

Table-49 Administration and General Expenses for the year 2012-13

Sl.No.	Particulars	2011-12	2012-13			
		Actual	As per ARR	Approved	As per audited Accounts	Variation
1	Rent, Rates and Taxes	5.56	5.00		5.24	
2	Insurance	0.41	0.50		0.38	
3	Telephone/telex/internet charges etc.	3.46	4.75		3.46	
4	Legal charges	2.00	3.75		1.54	
5	Audit fees	2.30	2.75		2.30	
6	Consultancy charges	0.18	0.85		0.02	
8	Other Professional charges	4.27	0.33		4.53	
9	Conveyance and vehicle hire charges	34.08	30.09		35.45	
11	Sub Total (Total of 1 to 9)	52.26	48.02		52.92	
12	OTHER EXPENSES					
	a) Fess and subscriptions	0.47	0.80		0.53	
	b) Printing & Stationary	9.18	10.50		7.86	
	c) Advertisements	8.09	9.00		0.91	
	e) Contributions/Donations	1.16	1.20		1.17	
	f) Electricity Charges	5.12	5.50	86.10	5.13	-19.36
	g) Water charges	0.24	0.30		0.16	
	h) Entertainment	0.29	0.30		0.27	
	i)Exhibition/publicity	0.22			0.10	
	j)Sports and related activity	0.28			0.39	
	k)Study tour/Training	0.77	4.50		0.22	
	l)SRPC expenses	0.72			0.57	
	m)DSM expenses	0.96			0.22	
	n)APTS expenses	0.01			0.01	
	o)H&M Data charges	0.00			0.23	
	p)Operating expenses	0.00			9.61	
	q) Miscellaneous expenses	13.71	20.00		13.11	
13	Total of OTHER EXPENSES	41.22	52.10		40.49	
14	Freight	9.33	14.23		6.94	
15	Other purchase related expenses	6.60	4.50		5.11	
	Total (11+13+14+15)	109.41	118.85	86.10	105.46	-19.36
16	Electricity Duty u/s 3(1), KED Act	93.31	96.39	0.00	96.97	-96.97
	GRAND TOTAL	202.72	215.24	86.10	202.43	-116.33

11.2. A&G expenses are also highly susceptible to business growth of the utility as well as inflation. As detailed under Table-34 above, the average inflation for the year 2012-13 was about 10.43%. Further, KSEB has given new service connections to about 3.49 lakh consumers to the State Grid. However, increase in the A&G expenses over approval was noticed on the following items.

Table-50
A&G expense components which recorded increase over approval

Particulars	2008-09	As per Accounts for 2012-13	Increase over 2008-09
Other Professional charges	0.51	4.53	4.02
Conveyance and vehicle hire charges	13.44	35.45	22.01
a) Fess and subscriptions	0.25	0.53	0.28
e) Contributions/Donations	0.33	1.17	0.84
f) Electricity Charges	3.45	5.13	1.68
h) Entertainment	0.13	0.27	0.14
i)Exhibition/publicity	0.05	0.10	0.05
j)Sports and related activity	0.12	0.39	0.27
l)SRPC expenses	0.31	0.57	0.26
m)DSM expenses	0.00	0.22	0.22
n)APTS expenses	0.01	0.01	0.00
o)H&M Data charges	0.00	0.23	0.23
p)Operating expenses	0.00	9.61	9.61
q) Miscellaneous expenses	7.24	13.11	5.87
Total	25.84	71.32	45.48

11.3. The detailed explanation on the reasons for increase under these items is given below.

11.4. Conveyance and Vehicle hire charges: The breakup of conveyance and vehicle hire charges for the year 2012-13 is given below.

Table –51 Breakup of conveyance and Vehicle hire charges for the year 2012-13

Particulars	2010-11 (Rs. cr)	2011-12 (Rs. cr)	2012-13 (Rs. cr)
Conveyance	5.48	3.64	1.72
Traveling expenses to staff	6.69	8.76	9.64
Traveling expenses to Board Members	0.09	0.07	0.06
Vehicle running expenses (except trucks etc.)	6.56	5.44	4.88
Vehicle licenses, registration insurance and taxes	0.51	0.63	0.60
Vehicle hire charges	4.66	15.74	18.56
Total	**23.99**	**34.08**	**35.46**

11.5. Increase in fuel price and vehicle running and maintenance expenses for the hired vehicles in various field offices are the major reason for increase in conveyance expenses including vehicle hire charges. As the Hon'ble Commission is aware, KSEB has drastically reduced the purchase of new vehicles. Hired vehicles are being used instead of own vehicles resulting into increase in vehicle hiring expenses. The rates being quoted for providing vehicles by the contractors are increasing steadily due to increase in fuel prices and operational expenses. Further, KSEB has converted all section offices into model sections during the year 2010-11 and special team for maintenance works were provided with vehicle facility for 24 hours to attend the breakdowns. More vehicles are to be arranged for each section office in order to ensure 24 hour vehicle availability. The impact of general inflation as well as fuel price hike together with increase in the dependence on hired vehicles was much more than the increase allowed by the Hon'ble Commission based on 2008-09 actuals. The following table explains that from 2008-09 to 2012-13, there has been an increase of 71% and 58% respectively in the price of petrol and diesel in the country.

Table –52 Fuel prices in Delhi

Year	Fuel		Change in price		Increase over 2008-09	
	Petrol	Diesel	Petrol	Diesel	Petrol	Diesel
31.03.2009	40.62	30.86				
31.03.2010	47.43	35.47	6.81	4.61	17%	15%
31.03.2011	58.37	37.75	17.75	6.89	44%	22%
31.03.2012	65.64	40.91	25.02	10.05	62%	33%
02.04.2013	69.42	48.63	28.80	17.77	71%	58%
01.04.2014	75.91	55.48	35.29	24.62	87%	80%
Increase over the period from 2008-09 to 2012-13.			35.29	24.62	87%	80%

Source mypetrolprice.com

11.6. It can be seen from the table that there has been substantial hike in petroleum prices during the years 2011-12 and 2012-13. Further, increase in fuel prices over the base year 2008-09 has been phenomenal. Considering the essentiality, the actual expenses incurred towards conveyance as per the audited accounts may kindly be approved.

11.7. Contributions: Expenses under this head being the Board's contribution to the KSEB Employees Welfare Fund, a scheme constituted for providing financial assistance to the families of KSEB employees who die while in harness and to those who retire from service on invalid grounds. The Fund is registered under 'The Travancore Cochin Literary &Scientific Charitable Societies Act, 1955'.

11.8. SRPC expenses: This represents the Board's share of SRPC secretariat expenditure and the sum paid has been as per the demand of the SRPC secretariat.

11.9. While projecting the ARR, KSEB has not made any provision on exhibition, sports and related activities, study tour training etc, expenses on SRPC meetings, Demand Side Management Activities etc. The actual expenses incurred under these heads are detailed in the table-39 above. Board has been imparting large scale training to the

Officers and Staff to improve productivity and efficiency, training on safety measures, computer applications etc. The actual expense under these heads may kindly be admitted.

11.10. KSEB has designed Demand Side Management (DSM) with an aim to create awareness among the consumers to use most efficient electricity equipments/ apparatus and thus either to reduce the electricity consumption especially during peak hours or to shift the use of electricity from peak to off-peak hours. The various activities in the DSM includes campaigns, discussions, issue of pamphlets, distribution of prizes, conducting meetings with major electricity consumers and residents association etc. While projecting the ARR, KSEB has not made any provision for DSM, however as per the audited accounts, the amount spent is Rs 0.22 crore which may kindly be approved.

11.11. Other professional charges include payment made to KSERC Rs.3.73 crore towards fees prescribed for various purposes by the Hon'ble Commission under the conduct of business regulation, as detailed below:

Table –53 Payments made to KSERC Rs. in crore

License Renewal fee for the year 2012-13.	1.67
ARR & ERC Filing fee for the year 2013-14.	1.70
Tariff proposal for 2013-14 filing fee.	0.31
Fee for Fuel Surcharge petitions.	0.02
Fee for other petitions.	0.03
Total	3.73

In addition, payments were also made towards filing of petitions before the Hon'ble APTEL and CERC on various issues to the extent of Rs.0.06 crore.

11.12. Miscellaneous expenses: Expenses for which no specific heads are assigned under A&G expenses are booked here. ARU wise details of miscellaneous expenses along with comparative figures for 2012-13 are furnished as **Annexure-10.**

11.13. Section 3(1) duty.

(a) One of the major expenses booked under A&G expense is the section 3(1) duty payable by KSEB to the State Government. The section 3(1) duty is a statutory levy. While approving the ARR&ERC for the years from 2003-04 to 2006-07, Hon'ble Commission has considered this as revenue expenditure as part of the A&G expenses of the Board. Since the inception of the Board, Comptroller & Auditor General (C&AG) has also certified this as an essential expenditure under A&G expenses. But, while approving the Truing Up of accounts of KSEB since the year 2003-04 and also while approving the ARR since the year 2007-08 onwards, Hon'ble Commission has not been admitting section 3(1) duty as a revenue expenditure quoting the provisions in section 3(3) of the Kerala Electricity Duty Act- 1963 that “the duty under this section on the sales of energy should be borne by the Licensee and shall not be passed on to the consumers”. Accordingly, total expenses disallowed since the year 2003-04 amounted to Rs 648.44 crore so far, as detailed below.

Table-54 Section 3(1) duty not admitted by KSERC

Year	Section 3(1) duty not admitted by KSERC
	(Rs. Cr)
2003-04	51.53
2004-05	54.98
2005-06	63.26
2006-07	71.78
2007-08	77.54
2008-09	74.47
2009-10	80.79
2010-11	84.37
2011-12-ARR order	89.72
2012-13-ARR order	96.39
Total	744.83

(b) Hon’ble Commission may be aware that, KSEB has no business other than electricity distribution. KSEB cannot find an alternate means to meet this huge amount. Disallowing section 3(1) duty is against the provision of the Electricity Act-2003 that, SERC’s should have to ensure reasonable return to the utilities after meeting expenses including taxes and duties. If the section 3(1) duty is not allowed as an expense, the commercial viability of the utility will be affected. Hon’ble Commission may have the option to allow higher return to KSEB so that the net return after meeting section 3(1) duty shall be 15.50 % of the equity of Rs 1553.00 crore. As per the provisions of the Electricity Act-2003, Hon’ble Commission is empowered to ensure financial sustainability of KSEB as a Distribution Utility and with the statutory powers available; the matter of disallowance of section 3(1) duty may kindly be reconsidered.

(c) Considering the details and submissions as above, Hon’ble Commission may kindly approve the A&G expenses as per the audited accounts.

12. Other Expenses

12.1. Other expenses include other debits and prior period charges. The comparison of other debits estimated in the ARR, approved by the Commission and actual expenses as per the audited accounts are given below.

Table-55 Other Debits for the year 2012-13

(Rs. In Crore)						
			2012-13			
Sl No	Particulars	2011-12	ARR	SERC Approved	As per audited Accounts	Difference over approval
1	Research and Development Expenses	0.52	1.50	1.50	0.74	-0.76
2	Sale of Stores Account	0	0.00	0.00	-0.14	-0.14
3	Provision for Bad and Doubtful debts	1.94	14.00	14.00	227.02	213.02
4	Miscellaneous Losses and write-offs	8.82	3.00	3.00	3.87	0.87
5	Sundry expenses	0	0.00	0.00	0.03	0.03
	Total	11.28	18.50	18.50	231.52	213.02

12.2. The provision for Bad and Doubtful debts Rs 227.02 crore represents withdrawal of prior period credits to revenue account. Revenue recognized and accounted in earlier years but remained unrealized were withdrawn from books. During the year, income recognized on account of fixed transmission charges from the former SREB constituents as well as dues of M/s Steel Complex Ltd and M/s Malabar Steel Re rolling Mills were withdrawn. Details are given below:

(a) Erstwhile SREB constituents were used to share the cost of state owned transmission schemes among themselves based on the cost sharing principles formulated by the SREB from time to time. Accordingly, KSEB had demanded fixed transmission charges for the 400 kv transformers at Madakkathara from the SREB constituents. A sum of Rs.68.36 crore had been demanded for the period from 07/1992 to 01/2004. In the 134th meeting of the SREB, it has been decided to drop the whole issue of cost sharing of the state owned transmission schemes. None of the constituents had made any payment towards the demand made and the Board had decided to withdraw the entire arrears outstanding against the erstwhile SREB constituents towards fixed transmission charges of KSEB owned 400 KV transformers at Madakkathara amounting to Rs.68.36 crore from the books. SREB Constituent wise break up is as follows:

Table-56 SREB Constituent wise break up of fixed transmission charges

Rs in crore

(i)	APTRANSCO (07/92 to 01/04)	Rs.24.73
(ii)	TNEB (7/92 to 01/04)	Rs.25.22
(iii)	KPCL (7/92 to 01/04)	Rs.17.32
(iv)	Pondicherry (07/92 to 09/95)	Rs. 1.09
	Total	Rs.68.36

(b) M/s Steel Complex Ltd and M/s Malabar Steel Re rolling Mills had arrears and interest outstanding till September 2008 amounting to Rs.158.47 crore (Arrears Rs.60.86 crore and interest Rs.97.60

crore). Government of Kerala had accorded sanction for procuring the landed property by KSEB as a reciprocal arrangement in settlement of the arrears. Accordingly 72.413 cents of land in Elamkulam village, Ernakulam district and 346.3 cents of land at Venniyoor, Malappuram district valued at Rs.11.36 crore were transferred to KSEB in full settlement of dues till September 2008. Accordingly, outstanding liabilities of M/s Steel Complex Ltd and M/s Malabar Steel Re rolling Mills till September 2008 have been withdrawn from the books.

12.3. The details of miscellaneous losses and write off comprised of the following.

Table-57 Details of Miscellaneous losses and Write off

Sl No	Particulars	Amount (Rs.Cr)
1	Compensation for injuries deaths and Danger - Staff	1.04
2	Compensation for injuries deaths and Danger – Outsiders	2.86
	Total	3.87

12.4. Prior period credit/ charges

12.4.1 Prior period charges include both income as well as expenses relating to the prior periods. Details of the prior period charges as per the audited accounts are detailed below.

Table-58 Net prior period charges (Rs. Cr)

Sl.No.	Particulars	2011-12	2012-13
I. Income relating to previous year			
1	Receipt from consumers	0.68	0.01
2	Excess interest and finance charges	0.29	
3	Other excess provision made in previous year	0.35	0.10
4	Other income relating to prior period	9.41	16.82
	Total	**10.73**	**16.93**
II. Expenditure relating to previous years			
1	Short provision of purchase	66.43	54.99
2	Operating expenses relating to prior period	0.00	0.31
6	Interest & finance charges	0.17	0.45
7	Other charges relating to previous years	6.08	2.38
	Total	**72.68**	**58.13**

12.4.2 Break up of power purchase related prior period expenses are given below:

Table -59 Power purchase related prior period expenses for 2012-13 (Rs. crore)

1	Being the amount on account of capacity charges revision in respect of RSTPS III (2009-2012)	4.40
2	Being the UI charges revision from 4/09 to 5/10 to POSOCO	0.04
3	Being the debit note due to final tariff (2009-2012) LILO associated with Koodamkulam project- PGCIL	2.88
4	Being water cess revision 3/2012- NTPC	0.01
5	Being the deferred tax liability up to 31.03.2009 for central sector ULDC system materialized in 2010-11-PGCIL	0.25
6	Being the capacity charges revision RSTPS I station- NTPC	14.01
7	Being the capacity charges revision Simhadry (9/11-3/12) NTPC	5.77
8	Being the deferred tax liability up to 31.03.2009 for central sector ULDC system materialized in 2011-12 and revision of Transmission tariff 2004-09 for Ramagundam transmission system-PGCIL	10.51
9	Being the revision of capacity charges, FERV and SFC of Farakka station-NTPC	0.37
10	Being the cc revision Thalchar- NTPC	0.01
11	Being the cc revision Thalchar- NTPC	0.01
12	Being the FERV (2009-12) and differential AFC for 2011-12 Kayamkulam trans system- PGCIL	6.80
13	Being the RLDC fees and charges for NTPC stations.	3.74
14	Being the cc revision from 3/2010 Kahalgaon station- NTPC	0.25
15	Being the additional o&m expenses for 2006-09- NTPC	5.94
		54.99

12.5. While approving the ARR, Hon'ble Commission has stated that prior period charges could be covered in the truing up exercise. The same may be admitted as detailed above.

13. Capitalization of Expenses and Methodology

13.1. In the ARR, the Board has estimated Rs 47.09 crore towards capitalization of Interest & Finance charges and Rs.134.60 crore towards capitalization of expenses, which were approved by the Hon'ble Commission. As per the audited annual accounts, Rs 116.06 crore was capitalized from interest and finance charges and Rs 150.74 crore as other expenses. The actuals may kindly be approved.

14. Statutory Surplus

14.1. In the ARR&ERC petition for the year 2012-13, Board has claimed RoE @15.50% for the Government Capital of Rs 1553.00 crore with the Board. However, in the order on ARR, Hon'ble Commission had allowed a return of Rs 217.42 crore for the year 2012-13.

14.2. In this matter, KSEB Ltd further submits that, as per Regulation 15 contained in the CERC (Terms and conditions of Tariff) Regulation, 2009 dated 19.01.2009, the base rate of return on equity is prescribed as 15.50%. In addition 1st proviso to paragraph 5.3(a) of the National Tariff Policy clarifies that "the rate of return notified by the CERC for Transmission may be adopted by the SERCs for Distribution with appropriate modification taking into view higher risks involved.

14.3. Thus as per the Tariff Policy, a return higher than that specified for Transmission can be allowed to the Distribution. However, since KSEB is continuing as a single utility, its claim for RoE has been the base rate notified by the CERC. Section 61 (a) of the Electricity Act,2003 mandates that while specifying terms and conditions for determination of tariff by the appropriate Commissions shall be guided by the methodologies specified by the CERC. Further, Section 61 (i) mandates NEP and NTP as the guiding factors for tariff determination.

14.4. Regarding allowing RoE at CERC (Terms and Conditions of Tariff) Regulations, Kind attention of the Hon'ble Commission is invited to the judgment of Hon'ble APTEL dated 10.11.2014 in appeal petition 1 o 2013 and 19 of 2013, wherein it has been stated that:

> *11.3 We find that the State Commission has allowed ROE at the rate of 14% in its Tariff Regulations for generation and transmission omission. No Tariff Regulations have been framed by the State Commission. Section 61 of the Electricity Act, 2003 provides that the State Commission in specifying the terms and conditions for determining the tariff will be guided by the principles and methodologies specified by the Central Commission for determination of the tariff applicable to the generating companies and transmission licensees. The Central Commission's Regulations provide for ROE of 15.5%. In the absence of State Commission's own Regulations, the State Commission should have followed the Central Commission's Regulations and allowed ROE of 15.5%. However, the State Commission has decided ROE of 14% without giving any reason. Learned Counsel for the State Commission is now giving reasons for not allowing ROE of 15.5% which is not permissible at appellate stage. Accordingly, <u>we direct the State Commission to allow ROE of 15.5%, as per the Central Commission's Regulations.</u>*

14.5. Hence, considering the provisions of the Electricity Act-2003, National Tariff Policy and judgments of the APTEL as referred above, Hon'ble Commission may kindly approve the ROE as Rs 240.72 on the Equity of Rs 1553.00 crore @15.50%.

15. Non- Tariff Income

15.1. In the ARR for the year 2012-13, Board had estimated the non-tariff income as Rs 366.14 crore and Hon'ble Commission had approved the same at Rs.386.14 crore. But as per the audited accounts, the Non-tariff income for the year was Rs 435.82 crore. The details are given below.

Table-60 Non Tariff Income for the year 2012-13 (Rs. In crore)

Particulars	2011-12 (Actual)	2012-13		
		KSEB proposed in ARR	SERC Approved	Actuals
Meter Rent/Service Line Rental	158.14	165.00	165.00	163.40
Miscellaneous charges (UCM, Service connection fee, Fee for maintenance of Public lighting, Testing fee, Reconnection fee, Penalty charges, Minimum Guarantee charges, Charges for Service connection minimum, Meter Box charges, Power allocation charges etc.	60.31	30.00	50.00	60.19
Wheeling charges & Reactive energy charges	6.36	0.00	0.00	0.00
Interest on Staff Loans and Advances	0.36	0.25	0.25	0.31
Interest on Advances to suppliers/ Contractors	2.13	2.75	2.75	1.85
Interest from Banks	65.95	56.14	56.14	60.46
Rebate Received	81.36	40.00	40.00	54.03
Income from Trading	27.25	32.00	32.00	30.58
Miscellaneous Receipts	49.00	40.00	40.00	65.00
TOTAL	450.86	366.14	386.14	435.82

15.2. Non- Tariff Income includes Meter Rent/Service Line Rental, Miscellaneous Charges from Consumers, recoveries through theft etc Hon'ble Commission may please note that, through various efforts taken by the Board including intensive anti power theft detections, penal interest for miscellaneous charges, rebate for prompt payment of electricity dues to CPSUs, income from trading, interest accrued on FD etc, Board was able to earn Rs 435.82 crore as non-tariff income for the year 2012-13.

16. Revenue from Tariff

(a) Revenue from Sale of Power within the State

16.1. In the ARR& ERC for the year 2012-13, KSEB had estimated the Sale of Power (SOP) within the State as 16386.30 MU and the revenue from SOP at Rs 6031.72 crore. While approving the ARR&ERC, the Hon'ble Commission has approved the revenue from sale of power at Rs.5550.00 crore. Further, While approving the ARR the year 2012-13, Hon'ble Commission has considered revenue from fuel surcharge of Rs.161.10 crore .

16.2. Hon'ble Commission vide the tariff order dated 25-07-2012 had enhanced the tariff for all categories of consumers with effect from 01-07-2012. The State Government has exempted the domestic consumers having monthly consumption up to 120 units and agriculture consumers from enhancement in electricity charges.

16.3. Further, considering the critical power situation in the State during the year 2012-13 as explained elsewhere in this petition, KSEB has constrained to impose power restrictions on energy usage and charged the excess usage above the restriction at the penal rates as detailed below.

During the months of April and May 2012

(iv) ½ hour cyclic load shedding was imposed wef 02.04.2012 to 23.05.2012.

(v) 10% restriction on energy usage was imposed on all HT & EHT consumers from 05.04.2012 to 31.05.2012. The excess energy consumption was charged at Rs.10/- per unit.

(vi) 10% restriction was imposed on LT II, LT IV, LT VI(A), LT VI(B), LT VI(C), LT VII(A), LT VII(B) and LT VII(C) categories wef 26.04.2012 to 31.05.2012. The monthly consumption of domestic consumers was restricted at 300 units. For LT consumers also the consumption beyond restriction was charged at Rs.10/- per unit.

For the period from September 2012 to May 2013.

(iv) ½ hour cyclic load shedding was imposed during morning and evening peak hours since 27.09.2012 (except during SSLC exam period from 04.03.2013 to 23.03.2013).

(v) 25% restriction on energy usage was imposed on all HT & EHT consumers wef 15.12.2012 and the excess energy consumption was charged with a penalty at the per unit rate of energy charges.

(vi) 20% restriction was imposed on LT II, LT IV, LT VIA, LT VIB, LT VI C, LT VII A, LT VII B and LT VII C categories. The monthly consumption of domestic consumers was restricted at 300 units. For LT consumers also the consumption beyond restriction was charged with a penalty at the per unit rate of energy charges.

16.4. The category wise energy sale and revenue from sale of power including revenue from sale of power at the tariff approved (at the pre-revised tariff for the consumption from April-2012 to June -2013 and revised rate from July-2012 to March-2013), penal charges for the excess consumption for the restrictions imposed on energy usage and fuel surcharge during the year 2012-13 (including the tariff subsidy allowed by the Government) is detailed below.

Table-61 Revenue from Sale of Power within the State

Category	KSERC order		Actuals	
	Energy sale	Revenue from Tariff	Energy sale	Revenue from Tariff
	(MU)	(Rs.Cr)	(MU)	(Rs.Cr)
Domestic	8116.00	1620.65	8311.41	2154.16
Commercial	2187.00	1178.53	2224.06	1855.38
LT Industrial	1104.00	446.32	1101.96	587.12
LT Agriculture	247.00	22.84	306.08	47.28
Public Lighting	299.00	63.33	313.20	94.32
HT & EHT Total	3824.00	1582.11	3905.15	2146.40
Railway Traction	148.00	58.86	173.67	82.50
Bulk Supply	462.00	178.04	500.76	255.31
NPG	0.00	0	1.95	0.00
Total energy sales within the State	16387.00	5150.68	16838.24	7222.47

16.5. The revenue from sale of Power as stated above is inclusive of the total fuel surcharge demanded during the year and also including the demand raised for domestic consumers with monthly consumption up to 120 units at the tariff approved by the Commission without tariff subsidy.

17. Summary of the ARR, ERC and Revenue Gap for the year 2012-13.

17.1. The item wise comparison of the ARR, ERC and Revenue gap approved by the Hon'ble Commission and the actual as per the truing up petitions are as given below.

Table-62 Summary of the ARR &ERC for the year 2012-13

Particulars	KSERC	KSEB	Variation
	(Order)	As per audited Accounts	(-) decrease/ (+) increase
Generation Of Power	193.15	564.99	371.84
Purchase of power	5008.49	7199.61	2191.12
Interest & Finance Charges	370.19	580.53	210.34
Depreciation	414.62	509.31	94.69
Employee Cost	1663.66	2103.03	439.37
Repair & Maintenance	195.95	251.55	55.60
Administration & General Expenses	86.11	202.43	116.32
Other Expenses	18.50	272.73	254.23
Gross Expenditure (A)	**7950.67**	**11684.18**	**3733.51**
Less : Expenses Capitalized	134.60	150.74	16.14
Less : Interest Capitalized	47.09	116.06	68.97
Net Expenditure (B)	**7768.98**	**11417.38**	**3648.40**
Statutory Surplus/ Roe (C)	217.42	240.72	23.30
ARR (D) = (B) + (C)	**7986.40**	**11658.10**	**3671.70**
Less Non-Tariff Income	386.14	435.82	49.68
Less : Revenue from Tariff	5711.10	7223.39	1512.29
Total Income	6097.24	7659.21	1561.97
Revenue Gap	**1889.16**	**3998.89**	**2109.73**

18. Revenue gap and treatment of revenue gap

18.1. As explained in the preceding paragraphs, Hon'ble Commission vide order dated 28th April -2012 on ARR&ERC for the year 2012-13 had approved the ARR at Rs.7986.40 crore, ERC at Rs.6097.24 crore and revenue gap at Rs 1889.16 crore for the year 2012-13. But the corresponding figures as per the truing up petition are- ARR Rs 11658.10 crore, ERC Rs 7659.21 crore and the revenue gap Rs 3998.89 crore. Actuals may kindly be approved. The Comptroller & Auditor General of India (C&AG) of India has audited the accounts for the year 2012-13 and the truing up petitions for the year is prepared on the basis of the audited accounts.

Prayer

KSEBL requests before the Hon'ble Commission that:

(1) Truing up of Expenses and Revenue as per the Audited Accounts of KSEBL for the year 2012-13 and explained in this petition may kindly be approved, in view of the care and caution taken by the Board for carrying out the functions of the Board as a public utility as per the statutory provisions under the Electricity Act, 2003 and also as per the directions, orders and regulations issued by the Hon'ble Commission, policies and directions issued by the State and Central Government and other statutory bodies within the provisions of the Electricity Act-2003.

(2) The revenue gap as per the accounts may be accounted as regulatory asset or any other appropriate means deemed fit by the Hon'ble Commission according to the provisions of law.

Chief Engineer (Commercial & Tariff)