BEFORE THE HON'BLE KERALA STATE ELECTRICITY REGULATORY COMMISSION, THIRUVANANTHAPURAM

IN THE MATTER OF:

TRUING UP OF COST AND REVENUE OF THE KERALA STATE ELECTRICITY BOARD LIMITED (KSEBL) FOR THE YEAR 2016-2017.

OBJECTIONS FILED BY:

THE KERALA HIGH TENSION AND EXTRA HIGH TENSION INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION, PRODUCTIVITY HOUSE, JAWAHARLAL NEHRU ROAD, KALAMASSERY 683104, ERNAKULAM DISTRICT

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OBJECTIONS OF THE KERALA HT & EHT INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION (THE OBJECTOR) TO THE PROPOSAL OF KERALA STATE ELECTRICITY BOARD LIMITED (THE PETITIONER) IN THE MATTER OF TRUING UP OF COST AND REVENUE FOR THE YEAR 2016-2017 BEFORE THE HON'BLE KERALA STATE ELECTRICITY REGULATORY COMMISSION, THIRUVANANTHAPURAM

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A1: BACKGROUND

OBJECTIONS OF THE KERALA HT & EHT INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION TO THE APPLICATION OF KERALA STATE ELECTRICITY BOARD LIMITED (THE PETITIONER) IN THE MATTER OF TRUING UP OF COST AND REVENUE FOR THE YEAR 2016-2017.

The above-mentioned Objector most humbly begs to prefer the present objection against the application of the Petitioner in the matter of truing up of cost and revenue for the year 2016-2017 on the following facts and grounds amongst others.

1. The Objector is the Kerala HT & EHT Industrial Electricity Consumers' Association, comprising of 166 member consumers, including more than 29 major industries. Of the member HT & EHT industries, about 31 industrial consumers have contracted for a maximum demand of more than 2000 KVA each with the Petitioner and more than 20 industries draw power at HT and EHT level from the Petitioner.

2. In 2016-2017, HT/EHT consumers accounted for about 24.8% of the total energy sales to consumers by the Kerala State Electricity Board Limited (KSEBL). They contributed around 30.6% to the total revenue from tariffs.[1]

3. Some characteristics of the industrial consumers that benefits KSEBL are:

   (a) They are the subsidizing category of consumers for KSEBL. Hence, they are the revenue earners ensuring better returns for KSEBL.

   (b) The Load curve and consumption pattern enable better capacity utilization and low Cost of Service for KSEBL in comparison to LT consumer categories.

[1] As per KSEBL True up petition 2016-17

4. Section 61 (g) of the Electricity Act, requires the Hon'ble Commission to determine tariffs reflecting Cost of Supply of electricity and also to reduce cross-subsidies in a manner specified by the Commission. Section 61 (d) also mandates the Commission to encourage the principles of efficiency, economy, and competition. To safeguard the interests of the consumers and in the light of the provisions of the Electricity Act 2003, the Objector opposes truing up of cost and revenue for the year 2016-2017 of the Petitioner on various issues, which are discussed in this document.

5. That the Objector, without prejudice to all other rights available to it, wants to be heard in person and/or through its duly empowered pleader instructed by it on its behalf, by this Hon’ble Commission.

   Without prejudice to what has been stated herein this petition, the Objector craves leave of this Hon'ble Commission to make further submissions, if necessary, before this Hon'ble Commission, which may please be considered as additional submissions.

   Further, the Objector requests the Hon’ble Commission to provide an opportunity for submission and hearing on KSEBL’s tariff proposal, if it is submitted before the Commission at a later date.

A2: VALIDITY OF FILINGS

Delay in submission of the application for true up of ARR and ERC filing

2.1 Filings of truing up petitions before the Hon'ble Commission is the responsibility of the licensees. Truing up is essential to realign the consumers' tariff based on the actual expenditure incurred by the licensees. The submission of the true-up petition by KSEBL for 2016-2017 in the year FY 2019 is not acceptable. In the past also, KSEBL has considerably delayed submission of true up petitions.

2.2 In 2010, the Hon'ble Commission has imposed the penalty on the Kerala State Electricity Board for non-filing of truing up petition.

As per the order dated August 17, 2010, in the matter of suo-moto proceedings for imposition of penalty under Section 142 of the Electricity Act, 2003 on the Kerala State Electricity Board for non-filing of truing up petition. The Hon'ble commission's view on delay in submission of the true-up petition is reproduced below:

"By not filing and delaying the truing up petitions, the Board is thwarting the efforts of the Commission to update the accounts of the Board as per the approved levels, thereby denying the opportunity to the Commission as well as the consumers to assess the exact revenue surplus/gap position in the previous years and this cannot be viewed lightly *".*

"The Commission, therefore, imposes a **penalty of Rs.1,00,000 (Rs. One lakh only**) *on the Board for not complying with the directions to file truing up petitions for the year 2007-08 and 2008-09. The Board is once again directed to file the above truing up petitions before 6th of September 2010. For any delay thereafter the Board shall pay an additional penalty at the rate of Rs. 5000/- (Rs. Five thousand only) for each day of delay."*

The Objector wants to highlight that the KSEBL has not learned lessons from the past and continued the delay in filing the petition. Thus, the Hon'ble Commission is requested to impose the severe penalty which can monetarily impact the KSEBL.

2.3 The failure of KSEBL in not submitting the truing up petitions is in contravention to the orders of apex institutions namely the Hon'ble Supreme Court and APTEL. In Appeal No. 100 of 2007 (KPCL Vs KERC & Others), Hon. APTEL has remarked as follows:

> *"Invariably, the projections at the beginning of the year and actual expenditure and revenue received differ due to one reason or the other. Therefore, truing up is necessary. Truing up can be taken up in two stages: Once when the provisional financial results for the year are compiled and subsequently after the audited accounts are available.."*
>
> *"..**It is not desirable to delay the truing up exercise for several years and then spring a surprise for the licensee and the consumers by giving effect to the truing up for the past several years..**"*

2.4 Further, Hon. Supreme Court in UPPCL and Others Vs NTPC Limited in (2009) 6 SCC 235 has ruled ***"that additional costs shall not be passed on to the new tariff since some persons who are consumers during the tariff year in question may not continue to be consumers and some new consumers might have been added to the system and there is no reason why they should bear the brunt. Hence, it is clear that timely filing of truing up of accounts is compulsory in a regulatory regime."***

2.5 Further, as per the provision of Companies Act 2013, the KSEBL shall file the annual accounts within seven months of closing financial years. And accordingly as per the MYT framework, file the ARR ERC petition for next year along with the true-up for the previous year. It is to be noted that the Regulatory system in Kerala was established in 2002 (i.e. since 15 years) and KSEBL shall be aware of the provisions by now. However, KSEBL has continuously failed in filing the petition on time.

2.6 As compare to the submission of previous year true up petitions, the KSEBL has submitted the true up petition for the year 2016-17 with less delay. However, if the petition would have been submitted on time (soon after the end of FY 17), it would have been highly appreciated. The Objector requests the Hon'ble Commission to take necessary action on account of delays in submission.

2.7 The Objector also wants to highlight to the Hon’ble Commission that the KSEBL has never mentioned the date of submission in its petition. Thus, it is difficult to assess the actual delay in submission of the petition. The Objector has made a frequent request to the KSEBL and the Hon’ble Commission in this regard. It is requested that the Hon’ble Commission shall insist the KSEBL to mention the date of submission of the petitions.

A3: KEY OBJECTIONS

3.1 With regard to the following key objections, the Objector requests for a detailed response of the Hon'ble Commission and KSEBL and also request the Hon'ble Commission to take measures to implement them for the betterment of the sector.

Transmission and Distribution (T&D) Losses

3.2 The Objector would like to invite the Hon'ble Commission's attention to the Suo moto order for determination of tariff for 2017-18 dated 17th April'2017. The Commission in the order has fixed a reasonable combined T&D loss incremental reduction target of 0.30% for the years 2015-16 & 2016-17 and 0.25% for the year 2017-18, from the loss levels approved for the previous years.

3.3 The approved loss level for the year 2014-15 is 14.50%. Accordingly, the combined loss targets approved for the years 2015-16, 2016-17 and 2017-18 are 14.20%, 13.90% and 13.65% respectively.

3.4 The Objector would like to highlight that in the past, the Hon'ble Commission had mostly set 0.50% as the loss reduction target in a year. Despite setting lower loss reduction target of 0.30% for FY 2016-17, the KSEBL had not made efforts to achieve it. The Hon'ble Commission had directed in the previous orders that KSEBL should submit a workable action plan to replace the faulty meters with good quality meters. The Commission had also directed to reduce the faulty meters in the system by 2% of the total connections. However, KSEBL has not provided any satisfactory documentation related to replacement of faulty meters.

3.5 The Objector wants to highlight that The National Electricity Policy issued under Section 3 of the Act stipulates that the technical loss and commercial loss should be assessed separately. The Hon'ble Commission has been given directives to KSEB Ltd to submit proposal for the approval of separate technical and commercial losses. Recently the Parliamentary Committee on Power and Government of India have also given direction to separate technical and commercial loss. However, the KSEB Ltd has not so far submitted application in this regard with supporting data and documents.

3.6 The KSEBL has claimed 13.93% as T&D losses for the year 2016-17. The Objector would like to highlight that this number is not a true and it is erroneously calculated. The KSEBL has submitted the sales for FY 17 is 20,038.25 MU, corresponding to this, the quantum of power purchased is 23,325.95 MU. Thus, the T&D losses arrived is 14.09% {(23,325.95-20,038.25)/ 23,325.95} and not 13.93% as claimed by the KSEBL.

3.7 The T&D losses is a controllable item. Thus, we request the Hon'ble Commission to enforce the estimated loss target of 13.90% for FY 17 and disallow the excess T&D loss at the cost of highest marginal cost stations. The differential quantum on account of lower T&D losses translates into 52.72 MU of energy.

Energy Requirement

3.8 The allowed total energy input into the KSEBL system should be arrived at by grossing up the actual sales with the estimated T&D losses by the Objector. Thus, by grossing up the actual sales quantum of 20,038.25 MU with 13.90% T&D loss, the total energy input requirement works out to be 23,273.23 MU vis-à-vis 23,325.95 MU as claimed by KSEBL.

3.9 We request the Hon'ble Commission to disallow the differential 52.72 MU (23,325.95 MU- 23,273.23 MU) at the cost of marginal power. The source wise power purchase quantum and cost to be allowed has been explained in detail in the subsequent sections.

Table 1: Reduction in power purchase quantum due to revised T&D losses

	As per true up petition for 2016-2017	**As per the Objector**
Energy Sales(MU)	20,038.25	20,038.25
T&D Loss (%)	13.93%	13.90%
Net Generation and Power Purchase at KSEBL periphery (excl. PGCIL losses) (MU)	23,281.34	23,273.23
As submitted by the KSEBL (MU)	23,325.95	
Actual T&D loss, based upon the KSEBL's power purchase quantum & sales	14.09%	
Decrease in power purchase requirement (MU)		**52.72**

Auxiliary Consumption

3.10 KSEBL has provided net hydel generation for 2016-2017 as 4,292.11 MU from own hydro plants. The generation is net of auxiliary consumption to an extent of 26.97 MU as proposed by KSEBL. This translates into 0.62% of the auxiliary consumption.

3.11 The KSERC (Terms and Conditions for Determination of Tariff) Regulation, 2014 specifies the normative auxiliary consumption for all the existing hydroelectric generating stations in the State. For the new hydroelectric generating stations, the auxiliary consumptions are categorised into four categories as follows:-

- Surface hydro-electric generating stations with rotating exciters mounted on the generator shaft:- 0.7%
- Surface hydro-electric generating stations with static excitation system- 1.0%
- Underground hydro-electric generating station with rotating exciters mounted on the generator shaft:- 0.9%
- Underground hydro-electric generating station with static excitation system:- 1.2%

3.12 It shall be noted that the KSEBL has not provided the auxiliary consumption breakup for all plants. However, the Objector has carefully mapped the plant wise auxiliary consumption as per the prevailing regulation and compared it with the KSEBL's provided auxiliary consumption values. For the new hydroelectric plant, for which the type of stations cannot be ascertained, the average auxiliary consumption of 0.9% is assumed. The table below provides the calculation of auxiliary consumption as per the Objector.

Table 2: Comparison of auxiliary consumption for hydroelectric generation

Name of the Plant	Units generated (MU)	Auxiliary consumption as per KSEBL (MU)	Normative Auxiliary consumption as per KSERC regulation, 2014	Auxiliary consumption as per the Objector (MU) based on the regulatory norms	Difference (Aux con. As per Objector- As per the KSEBL)
Idukki	1,379.05	26.97	0.53%	7.31	10.14
Sabarigiri	797.83		0.22%	1.76	
Kuttiady (Units :1 - 6)	465.44		0.24%	1.12	
Lower Periyar	308.22		0.13%	0.40	

Neriamangalam+NES	196.25		0.18%	0.35	
Poringalkuthu + PLBE	194.94		0.44%	0.86	
Edamalayar	171.96		0.10%	0.17	
Sholayar	167.11		0.18%	0.30	
Pallivasal	166.01		1.00%	1.66	
Kakkad	130.63		0.71%	0.93	
Sengulam	115.58		0.15%	0.17	
Panniar	62.17		0.53%	0.33	
Kallada	44.36		0.90%	0.40	
Malankara	24.74		0.90%	0.22	
Barapole	19.32		0.90%	0.17	
Vilangad	15.78		0.90%	0.14	
Poozhithode	10.45		0.90%	0.09	
Urumi	9.03		0.90%	0.08	
Chembukadav I & II	8.64		0.90%	0.08	
Kuttiady Tail Race	6.35		0.90%	0.06	
Ranni-Perinadu	5.85		0.90%	0.05	

Addyanpara	5.01		0.90%	0.05	
Peppara	3.95		0.90%	0.04	
Vellathuval SHEP	3.05		0.90%	0.03	
Lower Meenmutty	2.48		0.90%	0.02	
Madupetty	2.30		0.90%	0.02	
Chimony	1.56		0.90%	0.01	
Malampuzha	0.63		0.90%	0.01	
Total	**4,319.08**	**26.97**	**-**	**16.83**	**10.14**

3.13 Similarly, the Objector has also estimated auxiliary consumption of KDPP and BDPP plant as per existing regulation, provided below:-

Table 3: Comparison of auxiliary consumption for KDPP and BDPP

Name of the Plant	**Units generated (MU)**	**Auxiliary consumption as per KSEBL (MU)**	**Normative Auxiliary consumption as per KSERC regulation, 2014**	**Auxiliary consumption as per the Objector (MU)**	**Difference (Aux con. As per Objector- As per the KSEBL)**
BDPP	4.59	0.940	4%	0.18	0.76
KDPP	36.34	1.670	2%	0.72	0.95
Total	**40.93**	**2.610**		**0.90**	**1.71**

3.14 The Objector humbly requests to disallow the additional energy used for auxiliary consumption to an extent of 11.85 MU (10.14+1.71) from the energy quantum being procured from the marginal station.

3.15 The Objector also requests the Hon’ble Commission to allow the auxiliary consumption based upon the categories of the new plants and corresponding auxiliary consumptions norms as provided in the KSERC regulations 2014.

3.16 The source wise power purchase quantum and cost to be allowed has been explained in detail in the subsequent sections.

Power purchase

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

3.17 As per the true up petition, KSEBL has purchased 10,205.80 MU from CGS station at a cost of Rs. 3,413.34 Cr. (Rs. 3.34/kWh). We have compared per unit variable cost for CGS plants as given by KSEBL with per unit cost considered by other southern region states (Tamil Nadu and Karnataka) for 2016-2017.

Table 4: Comparison across states of power purchase from CGS station of variable cost approved by the Commissions (Weighted average)
All figures in Rs./unit

Plant	As per the KSEBL true up petition 2016-17	TANGEDCO Tariff order for 2016-17	BESCOM Tariff order 2016-17
RSTPS – I & II	2.24	2.26	2.28
RSTPS – III	**2.25**	**2.16**	**2.35**
TALCHER – II	**1.71**	**1.65**	**1.45**
SIMHADRI TPS-II	**2.82**	**2.68**	**2.44**
NLC II STAGE 1	**2.76**	**2.60**	**2.41**

Plant	As per the KSEBL true up petition 2016-17	TANGEDCO Tariff order for 2016-17	BESCOM Tariff order 2016-17
NLC II STAGE 2	**2.77**		**2.41**
NLC I EXPANSION	**2.64**	**2.49**	**2.50**
NLC II -EXPN	**2.57**	**2.42**	**2.30**
NTPL	**2.70**	**2.56**	**2.57**
VALLUR STPS	**2.57**	**2.40**	**2.05**

3.18 It can be observed in the above table, that KSEBL has submitted higher power purchase cost for CGS stations compared to other states procuring power from the same sources. For providing the plausible impact of such difference, if KSEBL was to procure the energy at the rates as incurred by BESCOM, the savings in cost of energy procured from CGS stations would be to the tune of Rs. 210.87 Cr.

3.19 The Objector is of the view that the plausible impact said above shall be considered by the Hon’ble Commission to arrive at the power purchase cost of the CGS station. Accordingly, the Objector proposes the disallowance of Rs. 210.87 Cr.

3.20 The Objector requests the Hon'ble Commission ***to carefully examine the actual power purchase bills, blending ratio of domestic and imported coal before allowing the variable cost***. For the fixed cost, it is requested to verify the fixed cost approved in the CERC tariff order for the respective plants and allow fixed cost only to the extent of approved in such orders.

b. Power Purchase from IPPs within State

3.21 The KSEBL has purchased 178.20 MU at the cost of Rs. 252.04 Cr. This is largely contributed by liquid fuel station RGCCPP, Wind IPPs and other small hydro plants.

3.22 From RGCCPP, the KSEBL has purchased 14.9 MU at a total cost of Rs. 216.52 Cr. The Objector requests Hon'ble Commission to note that the variable cost paid to the RGCCPP stands at Rs. 7.63/kWh. In the suo moto order for determination of tariff for FY 2017 dated 17th April'2017 ,Commission has stated that "*Since the entire electricity requirement of the State can be met through the energy available from Hydel, CGS, and power purchase from IPPs, renewable energy generators, traders and power exchanges,* ***the Commission does not approve any procurement of energy from liquid fuel stations including BDPP, KDPP, RGCCPP and BKPL during the financial years 2016-17 and 2017-18****, in view of the prohibitive cost of liquid fuel based electricity".* KSEBL has stated in the true up petition that power was scheduled from these sources to meet up the high demand situation in the month of April and May.

3.23 On the power purchase methodology of KSEBL, the Hon'ble Commission in Suomoto order 2017 has marked that KSEBL is not in practice of obtaining prior approval for the purchase of power. Since, the Hon'ble Commission has not approved the purchase of power from RGCCPP, the Objector humbly requests to disallow the complete cost amounting to Rs. 216.52 Cr. The Hon'ble Commission has also not approved the renewal of the PPA with RGCCPP.The cost of quantum of power taken from RGCCPP shall be allowed at the average power purchase cost (Rs. 3.65/kWh), as approved by the Hon'ble Commission in its Suo Moto order 2017 amounting to Rs. 5.45 Cr.

3.24 The Hon'ble Commission may also note that KSEBL has claimed Rs. 26.59 Cr. as KPCL Settlement against settlement deed and differential taxes for five years. The KSBEL has not provided any requisite information to ascertain the prudency of expenses. Thus, in the absence of any detail provided by KSEBL, the objector requests the Hon'ble Commission to disallow the cost of Rs 26.59 Cr. as claimed by KSEBL in the true up petition.

3.25 Thus, the Objector pleads the Hon'ble Commission to reduce the power purchase cost from IPP within State by Rs. 237.67 Cr. (216.52+26.59).

c. Power Purchase through IPP/Traders outside state

3.26 The KSEBL has purchased 7,250.91 MU at a total cost of Rs. 2965.69 Cr. through IPPs outside state/Traders.

3.27 The Objector has estimated the reduction in power purchase cost from disallowing extra quantum of power from the disallowance of underachieved T&D loss as proposed (52.72 MU) and reduction in auxiliary consumption to an extent of 11.85 MU. Thus, the total reduction in power purchase from marginal station totals to 64.57MU.

Table 5: Reduction in power purchase cost of IPPs /Traders outside state

	As per true up petition				As per Objector			
Source	**Net Energy input(MU)**	**Total Cost (Rs. Cr.)**	**Per unit fixed cost (Rs./kWh)**	**Per unit variable cost**	**Net Energy input(MU)**	**Total Cost (Rs. Cr.)**	**Reduction in power purchase (MU)**	**Difference over True up petition (Rs. Cr.)**
Maithon I	1083.43	387.59		3.58	1083.43	387.59	-	-
Maithon II	763.31	272.98		3.58	763.31	272.98	-	-
DVC Mejia	696.13	255.55		3.67	696.13	255.55	-	-
DVC RTPS	224.16	96.93		4.32	224.16	96.93	-	-
DBFOO Jindal	1113.32	431.63		3.88	1113.32	431.63	-	-
DBFOO Jhabua	124.10	52.24		4.21	124.10	52.24	-	-

NVVN	2047.82	923.34		4.51	2047.82	923.34	-	-
BALCO	663.27	268.54		4.05	663.27	268.54	-	-
PTC SIMHAPURI	381.06	222.28		5.83	316.49	184.62	64.57	(37.66)
DVC through PTC for May 2016	28.62	9.25		3.23	28.62	9.25		
JVC through PTC for Mar 2017	125.70	45.37		3.61	125.70	45.37	-	-
Total	**7,250.91**	**2965.69**			**7,186.34**	**2,928.04**	**64.57**	**(37.66)**

3.28 In view of the above, the Objector requests the Hon'ble Commission to disallow the excess cost and reduce the power procurement cost of IPP(outside state) to the extent of ***Rs. 37.66 Cr.*** (Rs. 2965.69 Cr.- Rs. 2928.04 Cr.) against proposed in the true-up petition.

3.29 The Objector has assessed the power purchase from PTC and NVVN traders by Tamil Nadu and Karnataka. The observations are given in the table below:-

Table 6: Comparison of purchase from PTC and NVVN with other States

	Tamil Nadu		Karnataka		Kerala	
Trader	**Energy (MU)**	**Rate (Rs./KWh)**	**Energy (MU)**	**Rate (Rs./KWh)**	**Energy (MU)**	**Rate (Rs./KWh)**

PTC	716.00	3.68	573.00	4.10	1,044.32	4.70
NVVN	272.28	3.91	584.70	4.47	2,047.00	4.51

Source: - PTC India and NVVN website, Form IV, 2016-17

3.30 The Objector wants to highlight that Tamil Nadu and Karnataka has able to purchase the power from PTC and NVVN at much lower rates as compared to Kerala (KSEBL). If the power was purchased at a rate equivalent to Tamil Nadu's rate, the power purchase cost would have been reduced by Rs. 229.34 Cr. The Objector humbly request the Hon'ble Commission to take this significant impact into consideration and disallow the power purchase cost to an extent of **Rs. 229.34 Cr.**

3.31 The Objector requests the Hon'ble Commission to verify the power purchase schedule and actual bills of power purchase from traders and IPPs while allowing the power purchase cost and also check if any foul play is involved.

3.32 Thus, the Objector pleads the Hon'ble Commission to disallow total of **Rs. 267.00 Cr.** (229.34+37.66) from the power purchase cost from IPPs outside State.

d. Summary of Power Purchase Cost as per the analysis by the Objector

3.33 Summary of the cost of generation and power purchase as per the audited accounts and as analysed by the objector is provided in the table below -

Table 7: Summary of Cost of Generation & Power Purchase Cost as per Objector

Particulars	As per True up petition	As per Objector	Difference over true up	Remarks
	Cost (Rs. Cr.)	Cost (Rs. Cr.)	Cost (Rs. Cr.)	
Central Gen. Stations	3413.34	3,202.48	(210.87)	Reduction on account of taking plausible impact of higher power purchase cost as compared to other discoms (Karnataka specific)
Small IPPs within the State	284.24	46.57	(237.67)	Reduction on the account of disallowing RGCCPP power purchase and KPCL settlement deed.
IPPs / Traders outside state	2965.69	2,698.69	(267.00)	Reduction on the account considering impact of high purchase cost from PTC & NVVN and extra energy available due to disallowance of T&D loss and auxiliary consumption of hydel and diesel plant
Traders / Exchanges/UI	384.52	384.52	-	-
Transmission charges	503.62	503.62	-	-
Total	**7551.41**	**6835.89**	**(715.52)**	

3.34 Thus, the Objector requests Hon'ble Commission to allow only Rs. 6,835.89 Cr. as total cost against Rs. 7,551.41 Cr. as proposed by KSEBL. The Hon'ble Commission may kindly disallow the differential amount of Rs. 715.52 Cr.

Interest and finance charges

a. Interest on long-term loans:

3.35 As per the KSERC Tariff Regulation 2014, Clause no 30 (b), *"the interest and financing charges on capital works in progress shall be excluded from such consideration"*.

3.36 KSEBL has claimed the interest on loan amount as Rs. 435.79 Cr. On the scrutiny of annual accounts, the Objector has identified the capital works in progress as on March 2017 as Rs. 1,782 Cr. The Objector has estimated the interest on at an average rate of 11%. Accordingly, the WIP loans estimated as ***Rs. 196.06 Cr. which shall be disallowed*** in adherence to the regulation. Thus, the Objector requests the Hon'ble Commission to allow only Rs. 239.73 Cr. (Rs. 435.79 Cr.- Rs. 196.06 Cr.)

b. Interest on Overdraft drawn from Banks

3.37 The KSEBL has submitted that the reason for an increase in interest on working capital is attributed to the enhanced dependence on overdrafts (OD) during the year coupled with an increase in net-unbridged revenue gap.

3.38 The KSEBL has claimed Rs. 248.94 Cr. as an interest on overdraft. The total overdraft drawn from the Bank as per KSEBL is Rs. 2406.49 Cr.

3.39 The Objector wants to highlight that the scrutiny of annual accounts reveals tha**t there is no need for work**ing capital as the non-cash assets less the current liability is negative. **KSEBL is in excess of current liabilities over non-cash assets, which shows that excess cash is held by KSEBL (due but not paid out), is more than sufficient to cover working capital requirement.** Thus, there is no requirement of interest on working capital. The same has been detailed in the table below based on the numbers from its financial statements.

Table 8: Assessment of working capital requirement

Particulars	FY15 [Rs. Cr.]	FY16 [Rs. Cr.]	FY17 [Rs. Cr.]
Current assets			
Current Investment	-	-	
Inventories	240	290	310
Trade receivables	1389	1,593	1,923
Cash & cash equivalents (A)	215	242	304
Short term loan and advances	50	51	33
Other current assets	56	40	637
Total Current Assets (B)	**1,950**	**2,216**	**3,208**
Non cash current assets (C = B-A)	**1,735**	**1,974**	**2,904**
Current liabilities			-
Short term borrowings	2110	2171	880

Trade payables	609	526	-
Other short term liabilities	2,987	3530	5,844
Short term provisions	21	21	-
Total Current liabilities (D)	**5,727**	**6,248**	6,724
Non cash net Current assets (non-cash Working capital requirement) (E = C – D)	**(3,992)**	**(4,274)**	**(3,821)**

3.40 In this regard, the Objector would like the Hon‘ble Commission to note that in its previous true up order dated 20th June' 2017 on "Truing up of accounts of M/s KSEB Ltd for the financial year 2013-14", the Commission had disallowed the interest on working Capital for the year 2013-14.

As the said order rightfully quotes "*Commission is at a loss as to how to substantiate the interest on working capital as claimed by the KSEB Ltd. It is true that the books of accounts contain these borrowings. However, KSEB has not been able to effectively prove as to why so much working capital loan has been availed. As mentioned elsewhere the concern of the Commission is that the commission has approved and provided the interest on short terms loans and long terms loans and also sufficient provisions have been built in to finance the approved revenue gap.* ***The licensee has failed to give a detailed reasoning for such high levels of borrowings and answer the concerns raised by the commission*** *herein,* ***in a conclusive manner based on prudent reasoning****.*"

In the light of above, the Hon'ble Commission had completely disallowed the Interest on OD/Working capital for the year 2013-14.

3.41 Therefore, the Objector requests the Hon'ble Commission to consider the above argument and prays to the Commission to fully disallow the interest on working capital of Rs. 248.94 Cr.

c. Interest on Provident Fund

3.42 The KSEBL is claiming Rs. 143.45 Cr. interest on PF for the year 2016-17. As per the KSERC True-up order 2013-14, the Hon'ble Commission notes that:-

"It is pertinent to mention that Annexure A to the Auditors Report states that GPF balances are subject to reconciliation and confirmation and ***interest on GPF is provided on the basis of estimated figures due to non-availability of actual interest of individual PF accounts*** *of employees of the Company and GPF balance as on 31-3-2014 is subject to the adjustment in respect of the difference between the actual and estimated interest. In this context, it is to be noted that* ***there is no certainty for the amount booked as interest on GPF balances****.* ***KSEB Ltd is claiming interest on GPF without properly transferring the interest to individual accounts. Hence the actual interest paid on this account is not ascertainable. In the most probability, such provisions will be higher than the actual requirement.*** *In the absence of proper information, the Commission approves the interest on the GPF as per the audited accounts for the year 2013-14. However****, this amount will be subjected to adjustment once GPF balances and interest thereon is reconciled****. KSEB Ltd has also given the details of the other bank charges and guarantee commission and the same is approved in the process of truing up."*

3.43 The Objector requests the Hon'ble Commission to take the similar actions and approve the amount which is subjected to adjustment once GPF balances and interest is reconciled.

d. Interest on Master Trust Bond

3.44 As per the KSERC Tariff Regulations 2014, clause 31, the KSEBL shall issue bonds to service the terminal liabilities. The interest on bonds issued by KSEB Ltd to service the terminal liabilities of its employees shall be allowed to be recovered through tariff, at the rates specified in the relevant orders issued by Government of Kerala.

3.45 The KSEB Ltd. has also not submitted any documentary evidence to substantiate that the Bonds have actually been issued to the Master Trust, as required to have been done in accordance with the second Transfer Scheme.

3.46 As per the G.O (P) No. 2/2015/PD dated 28th January 2015, the total value of bonds to be issued to the Master Trust is Rs.8144.00 Cr. which will carry interest at the rate of 10% per annum. Accordingly interest on Bonds is estimated as Rs. 814.40 Cr.

3.47 It shall be noted that the KSEBL has claimed the terminal liabilities amounting to Rs. 1012.16 Cr. for FY17 separately. As per the Objector, this amount shall be completely disallowed in the virtue of prevailing regulations and government order to create separate Master trust.

3.48 In the interest of time, the Objector opines that the interest of Master trust amounting to Rs. 814.40 Cr. to service terminal liabilities shall be allowed under Interest and Financing charges. This amount was also approved in the Suo Moto order by Commission dated April 17, 2017.

e. Summary of Interest and Financing Charges

3.49 The re-estimated Interest and financing charges as per the Objector is provided in the table below:-

Table 9: Re-estimated Interest and financing charges

S.No.	Particulars (Rs. Cr.)	Actual as per Accounts	As per True up petition 2016-17	As per Objector	Difference over the true-up claimed	Remarks
1.	Loan Interest	435.79	435.79	239.73	(196.06)	Reduction in outstanding loans for Capital WIP
2.	Security Deposit Interest	177.27	163.56	163.56	-	

3.	Master Trust Bond Interest	0.00	0.00	814.40	814.40	Amount added for servicing Terminal benefits
4.	Overdraft interest	248.94	248.94	-	(248.94)	Reduction in Overdraft Interest because of negative working capital
5.	Discount to consumers for advance payment of bills.	1.48	1.48	1.48	-	-
6.	PF interest	143.45	143.45	143.45	-	-
7.	Other interests	17.62	17.62	17.62	-	-
8.	Total	1024.55	1010.84	1,380.24	369.40	-
9.	Less: Interest capitalized	64.63	64.63	64.63	-	-
10.	**Total**	**959.92**	**946.21**	**1,315.61**	**369.40**	-

Depreciation

3.50 The KSEBL has submitted net depreciation of Rs. 617.5 Cr. for the year 2016-17.

3.51 The Objector has re-calculated the depreciation based upon the KSERC regulations 2014 and provided in the table below:-

Table 10: Re-estimated Depreciation charges as per the Objector

Category	As per True up petition of 2016-17	Objector's analysis Depreciation as per KSERC Regulation 2014 norms		
Asset	**Depreciation (Rs. Cr.)**	**Depreciation %**	**Depreciation (Rs. Cr.)**	**Difference over true up petition (Rs. Cr.)**
Land and Rights	617.51	0%	0.00	237.11
Buildings		3.34%	11.50	
Hydraulic works		5.28%	26.10	
Other Civil works		3.34%	1.47	
Plant & Machinery		5.28%	185.94	
Lines, Cable networks		5.28%	148.96	
Vehicles		9.50%	2.25	
Furniture & fixtures		6.33%	1.10	
Office equipment		6.33%	3.08	
Net Depreciation	**617.51**		**380.40**	**(237.11)**

3.53 Thus, the Objector humbly requests the Hon'ble Commission to allow the depreciation as Rs. 380.40 Cr. against the KSEBL claimed of Rs. 617.51 Cr. The difference amount of Rs. 237.11 Cr. may kindly be disallowed.

Operation and Maintenance Cost

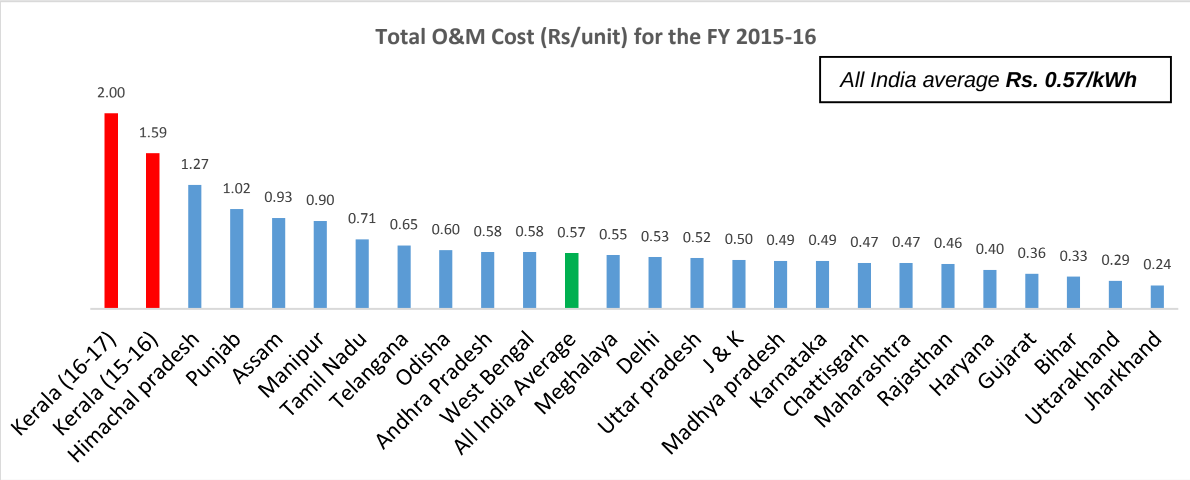
3.54 The KSEBL has submitted the amount of Rs. 2988.53 Cr. as an O&M expense. The segregation of O&M Expenses as submitted by KSEBL are as follows:

Table 3: Segregation of O&M Cost as per True up petition 2016-17

SBU (Rs. Cr.)	Employee Expenses	R&M Expenses	A&G Expenses	True up FY17
Generation	91.16	27.70	9.69	128.55
Transmission	260.29	47.21	64.99	372.49
Distribution	1,788.27	190.21	300.11	2,278.59
Total	2,139.72	265.12	374.79	2,779.63
Calculation as per KSEB (Incorrect calculated corresponding to employee cost)	2,348.62	265.12	374.79	2,988.53
Difference	208.90			208.90

The total O&M cost stands at 2,779.63 Cr., whereas KSEBL has claimed Rs. 2,988.53 Cr. It shall be noted that KSEBL has erroneously calculated O&M cost to an extent of Rs. 208.90 Cr.

3.55 The Objector wants to highlight that the O & M Expense of the KSEBL is the highest



in the country with about 3.5 times the all India average.

Source: Report on the performance of state power utilities for the FY 2013-14 to FY 2015-16 by PFC

3.56 The Hon'ble Commission in Suo-moto order dated April 17, 2017 has marked the following:

"Regulations 44, 60 and 81 of the Tariff Regulations, 2014 stipulate principles for determining the normative O&M expenses for SBU-G, SBU-T and SBU-D of the KSEB Ltd. However, ***KSEB Ltd has been accounting the components of expenditure such as O&M expenses, depreciation, interest and finance charges and return on equity (RoE) in a composite manner as it is a single integrated utility****."*

The Objector's view on the Employee Cost submitted by the KSEBL

3.57 The KSEBL has claimed Rs. 2,348.62 Cr. as Employee cost for the year 2016-17. The Objector is of the view that the Employee cost submitted by the KSEBL is significantly high and proper justification to its cost has not been provided in its true-up petition.

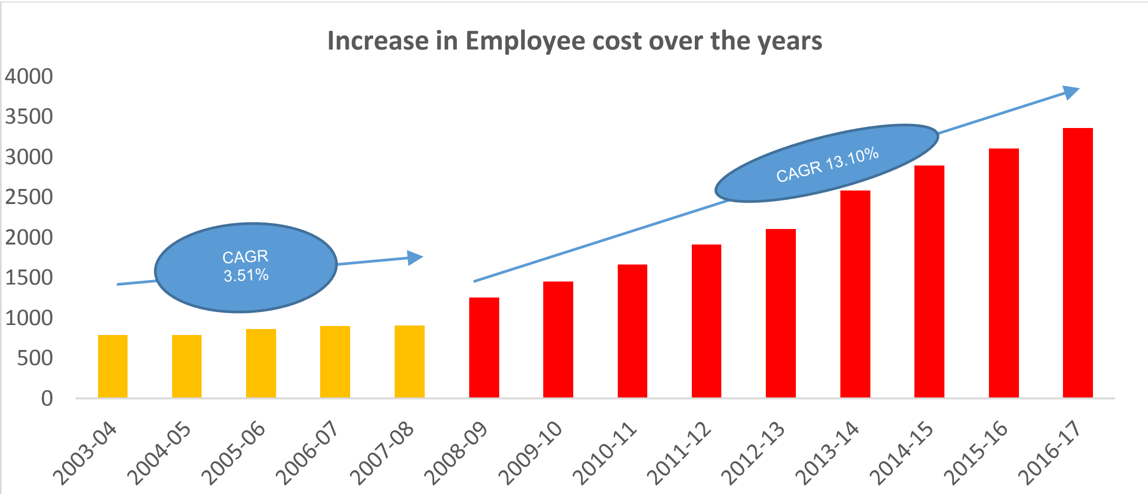
3.58 The SBU wise breakup is provided in the table below:-

Table 11: Segregation of Employee Cost as per True up petition 2016-17

SBU (Rs. Cr.)	Employee Expenses
Generation	91.16
Transmission	260.29
Distribution	1,788.27
Total	2,139.72
Total as per KSEBL (Incorrect calculation)	2,348.62

3.59 The Objector would like to bring the attention of the Hon'ble Commission to increase in Employee cost of KSEBL over the years. The employee cost has increased from Rs. 788.31 Cr. in FY04 to Rs. 904.88 Cr. in FY 08 at CAGR of 3.51%, Later, the employee cost has sharply increased from Rs. 1,255 Cr. in FY09 to 3,360 Cr. (including terminal liabilities) in FY17 at CAGR of 13.10%. Thus, demonstrating an abnormal rise in employee cost over the years.

3.60 The graph below demonstrates an abnormal rise in employee cost over the years, which clearly shows the excessive nature of the employee costs escalation of KSEB, even in comparison to general inflation in the economy.



3.61 The remarks made by <u>the Additional Chief Secretary (Finance), Government of Kerala</u> dated 19 February 2016 on proposal to approve the long term agreement for pay revision:-

- *"The terms of the agreement* ***were not discussed in the Board at sufficient length****. The fact that the settlement was done at the Government level even before the Board was consulted and apprised is highly objectionable and militates against the very concept of the organizations autonomy.*

- *While, it is important to reward employee with a* ***good compensation package, there are components in the package that should have been curtailed to reasonable levels****. It is important to reward employee with a good compensation package, there are the package that should have been curtailed to reasonable levels. Distributing largesse based on such components in an LTA comes at a cost – as this* ***translates into an extra burden for the consumers.***

- *It is understood that both* ***for Non-Technical and Technical Staff the scale of pay in Electricity Board has been fixed at 2 to 4 stages above*** *what is enjoyed by persons holding corresponding posts in government. There is absolutely* ***no justification for doing this****. If the idea is to provide compensation for the extra risk exposure of an employee, the correct approach should have been to compensate this extra risk through an additional risk allowance as is being done in Government.*

- *These* ***facts will be brought to the notice of the Kerala State Electricity Regulatory Commission so that the unnecessary part of the expenditure on account of pay revision will not be passed on to the consumers while tariff are re-fixed.***

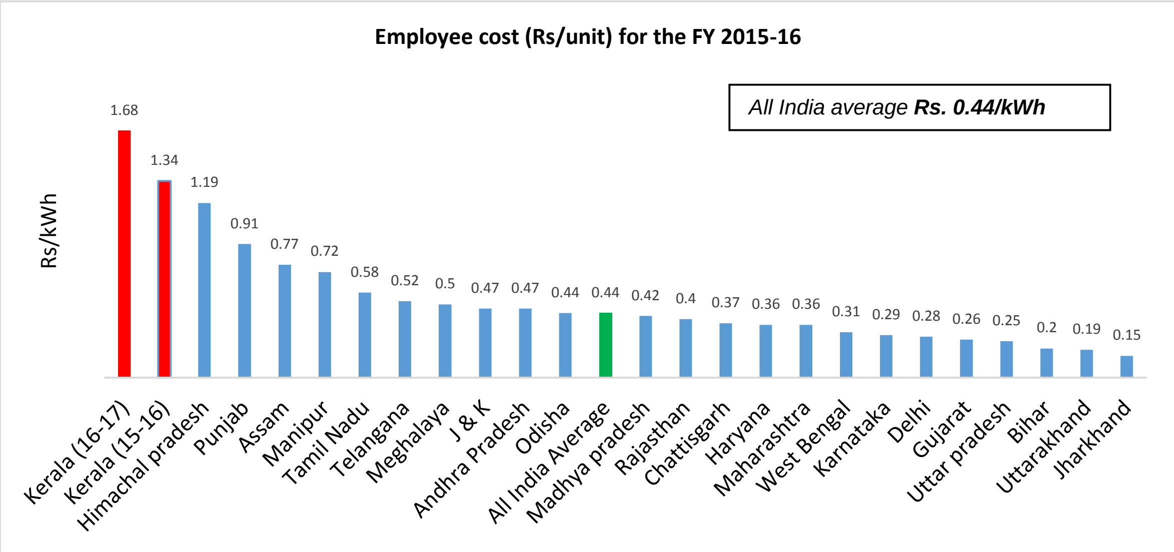
- *The creation of the 27 new Electrical Section Offices in Kerala State Electricity Board Limited is strongly objected to. At a time when the* ***efforts should be to reduce manpower through modernization and computerization,*** *the Board is proposing to open 27 new offices at an estimate total outlay of approximately Rs.29 Cr.*

- *This* ***financial burden will finally be passed on to the people of Kerala who are its consumers.***

- *Finance Department intends to bring this avoidable wastage of resources to the notice of the Kerala State Electricity Regulatory Commission, so that **this additional expenditure will not be passed on the consumers of the Board.”***

3.62 The above analysis shows that the uncontrollable increase in employee cost of KSEBL needs urgent attention. The Hon’ble Commission since inception had issued several directions to KSEBL to control/limit the expenses and to improve the productivity, but the KSEBL has continuously failed to do so and has been unable to justify its high employee costs.

3.63 The graph below provides the per unit (Rs/kWh) employee cost of KSEBL when compared to Distribution utilities of other states. The Objector wants to highlight the employee cost per unit has seen drastic jump from Rs. 1.34/kWh in FY16 to Rs.



1.68/kWh in FY17, with an exorbitant 25% increase in a year.

Source: *Report on the performance of state power utilities for the FY 2013-14 to FY 2015-16 by PFC*

Table 12: Comparison of Employee cost of KSEBL with other utilities

	Year	BSEB	PSEB	JSEB	KSEBL
	2009-10	13.3%	18.5%	6.84%	23.2%

	Year	BSEB	PSEB	JSEB	KSEBL
Employee Cost as % of Total Expenditure	2010-11	11.6%	20.3%	8.28%	25.6%
	2011-12	11.4%	22.3%	9.40%	24.6%
	2012-13	17.7%	19.8%	4.37%	18.4%
	2013-14	-	18.7%	3.05%	22.87%
	2014-15	-	17.3%	2.92%	24.78%
	2015-16	-	17.07%	4.00%	25.79%
	2016-17	4.81%	18.73%	3.5%	24.57%

Source: - PFC Performance Summary of State Utilities, KSEBL True up petition 2015-16. G-Generation, T-Transmission, D-Distribution

3.64 MoP's State Distribution Utilities Sixth annual integrated rating report published in July 2018 also highlighted the following:-

"High employee expenses which stood at 32.2% of total revenue and relatively high O&M cost which stood at 6.0% of total revenue in FY 2017"

As per the said report, the KSEBL is ranked at 23rd position out of 41 utilities across the country. If the employee cost would have been lower, the rank of the KSEBL could have improved drastically.

3.65 The Commission in its earlier Orders has repeatedly directed the Petitioner to control the employee costs. The remark of the Hon'ble Commission in ARR ERC Order 2014-15 is given below for easy reference-

"Through several directions were given for ***controlling the employee cost and conducting the manpower studies*** *for right-sizing the employee strength, through process re-engineering, computerization etc., the licensee has not taken any effective steps to address the issue.* ***No attempts are seen made on cost control and optimizing the cost.*** *While the number of employees is increasing on the one hand, the large number of* ***temporary employees*** *are being engaged in various operations of the licensee. Many of the R&M and routine capital works are seen outsourced. Hence it has to be concluded that the number of employees and the costs incurred thereon, as given in the petition is largely under-reported. The licensee has not provided the details of the number of employees working on the temporary basis even after repeated queries, for the reason known only to the licensee."*

In the light of above, the Objector is of the view that the current employee cost per unit (Rs. 1.68/kWh) does not reflect the cost of all the employees. The actual employee cost could have been much higher.

3.66 Further the Hon'ble Commission in its suo-moto Order dated 17.04.2017 in the matter of ARR & ERC for the FY 2016-17 & FY 2017-18 had expressed grave concern on the inefficiency on the part of the Petitioner in complying with the directives issued by the Hon'ble Commission which includes optimization of the employee cost. The relevant extracts of the suo-moto Order dated 17.04.2017 has been reproduced below:

"The Commission has been continuously expressing serious concerns over the steep and alarming increase in the employee cost and giving directions to optimize the employee cost. Such directions included the following,-

- *Redeployment of underutilized staff.*
- *Training and re-skilling of employees to take up assignments associated with reforms and modernization.*
- *Job enrichment and redesigning of job content.*
- *Computerization of billing using PDA and electronic transfer of billing data to computer to avoid engaging persons for data entry in the section numbering to more than 750.*

- *Computerization of revenue collection and facilitation of e-payment without much additional cost to the consumers, so that the licensee can ensure earlier payment of dues.*
- *Commencement of technical consultancy as is being done by civil engineers of BSNL and Hindustan Life care Ltd.*
- *Constitution of independent committee for pay revision.*
- *Improvement of non-tariff income using the service of underutilized staff.*
- *Computerization of pay and allowances, PF and pension and such other service matters.*
- *Computerization of accounts.*
- *Computerization of inventory management, purchases and tendering system.*

The licensee has not submitted any details to show that it has implemented such directions *with desirable results. On the other hand, the claims of KSEB Ltd towards the employee cost, are increasing disproportionately*

KSEB Ltd is a very important PSU which provides infrastructure required for the development of economy and the improvement of standards of living of the people. ***Unless KSEB Ltd adopts ways and means to improve its efficiency both in terms of providing better service to the people and supplying quality power at affordable rates, it would be difficult for it to withstand the competition in power sector****. Therefore in the long term interest of the institution it would be better for KSEB Ltd to comply with the statutory provisions, regulations, policy guidelines and directives issued by the Commission".*

3.67 The Hon'ble APTEL's view on the employee cost in order to Appeal No. 1 of 2013 and 19 of 2013, followed by the judgement by the Hon'ble Kerala High court.

"The directions of the State Commission on initiating a ***manpower study was not complied*** *with even after two years. Without a specific study on manpower requirements, the recruitments are continuing and about* ***1000 persons are added every year****"*

3.68 On employee hiring, the Objector is of the view that KSEBL is following very ***unscientific recruitment procedures***. In general, in PSUs and large private industrial units, substantial wage revision is provided without a considerable increase in total employee cost, by reducing the employee strength, efficient utilization of reduced manpower, efficient system and work culture. Therefore, there is an urgent need for policy changes in recruitment and compensation.

3.69 The Objector would also like to bring the attention of the Hon'ble Commission to IIM Kozhikode's report on Enhancing Service Quality and Organisational Effectiveness in Kerala State Electricity Board Ltd. The report has provided various recommendation on the organisational structure and have put explicit recommendations for career and training needs. The Objector requests the Hon'ble Commission to insist KSEBL to pursue the recommendation to bring the enhancement in productivity and quality of service.

3.70 The Objector is of the view that directives to undertake manpower studies to determine appropriate staffing levels have not been complied with. Even with unmanageable employee expenses, KSEBL is increasing the staff strength on a continuing basis. Industries, in general, have succeeded in curtailing the employee expenses by increasing productivity and reducing the staff, and simultaneously increasing the production capability.

3.71 Unfortunately, KSEBL has assumed that there is a requirement of increasing manpower to improve operating efficiency and timely service. This is another indication of the anachronistic thinking and way of functioning of KSEBL. An improvement in efficiency and productivity of employees would obviate the need for additional manpower to meet the service obligations of KSEBL, and this has been pointed out by trade unions in other industries as well.

3.72 The Hon'ble Commission in its previous tariff order has discussed this issue of increasing employee cost. Few of the statements of Hon'ble Commission is reproduced below for easy reference:

"Increase in any cost element has to be consistent with the Electricity Act, 2003 which specifically emphasizes the need to secure economy and efficiency in the functioning of the Licensees. Moreover, the financial position of the Licensees shall also be taken into consideration while analyzing the scope for wage revision. Considering the huge revenue gap proposed by the Board, the Commission is of the opinion that the Board should evolve parameters and benchmarks before venturing into any wage revision negotiations. ***The salary revision if any offered shall completely be funded through efficiency gains without any extra burden to the consumers.*** *In its absence, for the reasons already stated, the Commission would not be able to pass on the additional burden to the consumers. Further, the Commission directs that the Board shall keep the following parameters insight if it plans to negotiate a wage revision:*

i. The financial health of the Board and impact on retail tariff

ii. Efficiency parameters and achievement of standards of performance.

iii. The additional burden to be funded through efficiency improvements

iv. Pay scales & allowance in Central/ State Governments and also in similarly placed power utilities.

v. Present high employee cost per unit in comparison with neighbouring states

vi. ***Pay revision to be linked to improvements in productivity since inflation is completely accounted for in DA revisions****".*

3.73 The Hon'ble Commission in the ARR & ERC order for 2012-13, had suggested for taking radical internal reform measures to control the cost. The excerpts from the order are given below-

"The Board has to sincerely venture in for ***radical internal reforms*** *to control the costs. The reform measures are not aiming at retrenchment or reducing the existing benefits allowed to the employees but to aim at measures especially at the HR level that includes redesigning the tasks, re-training, re-tooling, process re-engineering, infusion of proper IT and technology, intervention aiming at* ***improving the efficiency and productivity of employees****."*

3.74 The Objector requests Hon'ble Commission to give the directive to KSEBL to have a comprehensive look at the internal reform measures required and to implement the same in a time-bound manner.

3.75 The APTEL's view on the same point is reproduced below:

Hon Appellate Tribunal for Electricity, in Appeal No 4 of 2005 dated 26 May 2006, M/s Siel Limited Vs PSERC, PSEB and Others, APTEL has observed that:

There is no obligation on the part of the Board to extend same salary and allowances to the employees of the Board as are payable to the employees of the State Government. ***The process of reforms which has been triggered by the Act of1998 and the Act of 2003 will lose its momentum in case salaries/ incentives are not linked to the performance of the employees.*** *There is nothing on record to show that there has been the improvement in the performance of the employees of the Board. The benefit should be made available for rewarding efficiency in performance. Automatic availability of benefits generates inefficiency and indolence".*

3.76 The Objector is of the view that the repeated non-compliance on the part of the Petitioner with respect to optimization of employee cost has resulted in huge increase in employee cost as detailed in earlier paragraph and as such it would not be rational to pass the entire employee cost as incurred by the Petitioner as a pass through.

The Hon'ble Commission has performed a detailed analysis of the past expenses of the Petitioner and had accordingly notified KSERC MYT Tariff Regulations, 2014 after due deliberations with the stakeholders. The Hon'ble Commission has performed proper benchmarking analysis and has accordingly approved O&M Expenses. In view of the same, the Objector humbly requests the Hon'ble Commission to approve the employee expenses and O&M expenses thereon strictly in line with the KSERC MYT Regulations, 2014.

The Objector's view on the Repairs and Maintenance cost submitted by the KSEBL

3.77 The KSEBL has submitted Rs. 265.12 Cr. as Repairs and Maintenance Business for the year 2016-17.

Table 13: Segregation of O&M Cost as per True up petition 2016-17

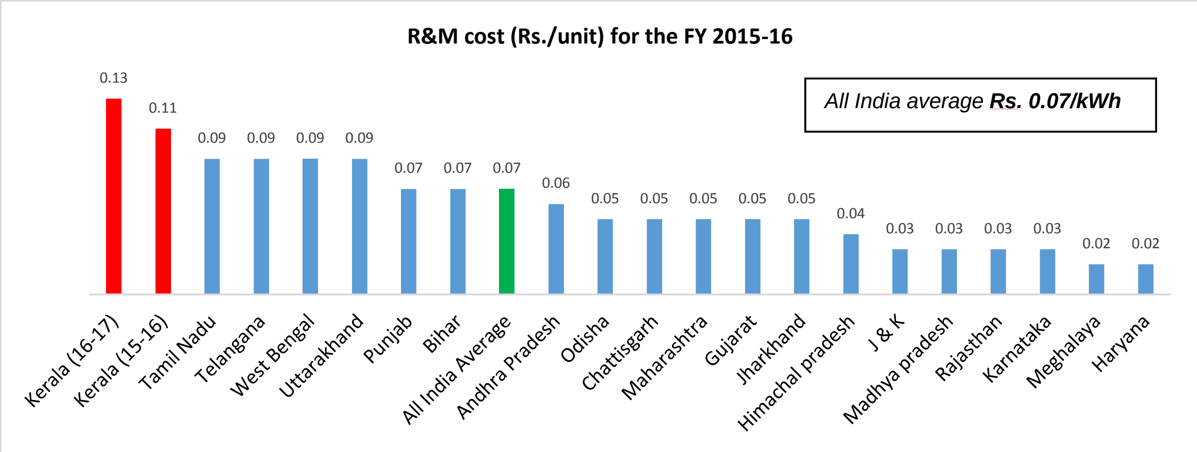
SBU (RS. Cr.)	**R&M Expenses**
Generation	27.70
Transmission	47.21
Distribution	190.21
Total	**265.12**

3.78 The actual R&M expense incurred for distribution is Rs. 190.21 Cr., which is lower than the Commission's approved value of Rs. 195.44 Cr., calculated based on the applicable regulatory norms. However, at many instances, the KSEBL had pointed out that the Hon'ble Commission should revisit the norms since the applicable norms doesn't allow them to recover the cost.

3.79 The Hon'ble Commission remark on increasing R&M cost in ARR ERC Order 2014-15 is given below for easy reference-

*"However, the actual **R&M expenses are always higher than the growth of GFA and inflation**. It is noticed that labor cost for outsourced operational functions is at present charged under the R&M head. Even after repeatedly seeking the information on employees engaged on temporary/HR basis and the information has been withheld or partially provided. Hence it is not ascertainable that the R&M expenses incurred are genuine or part of operations."*

3.80 The graph below represents the R&M expenses of different utilities in India. The Repair & Maintenance cost of KSEBL is one of the highest among all Indian states



which was 11 paisa/unit of energy sold in 2015-16 whereas R&M expenses in the major states like, Rajasthan, Chhattisgarh Gujarat and Andhra is in the range of 3 paisa/unit to 6 paisa/unit.

Source: PFC report 2013-14 on the Performance of state Power Utilities

3.81 The Hon'ble APTEL's in the Appeal No. 1 of 2013 and 19 of 2013 has agreed to the findings of the Hon'ble Commission that the reasons given by the Board primarily inflationary factors, the growth of fixed assets and implementation of KSERC Standards of performance regulations for the increase in R&M Cost is not satisfactory. This has been also acknowledged by the Hon'ble Kerala High court in Judgment dated Feb 28, 2018, in WP(C).No. 465 of 2015.

3.82 The table below presents a comparison of KSEBL's R&M cost with that of bundled utilities in other states. It can be observed that R&M cost structure of the KSEBL is comparatively much higher compared to other similar utilities.

Table 15: Comparison of R&M Cost of KSEBL with other utilities

	Year	BSEB	HPSEB	PSEB	JSEB	KSEBL
R&M Cost as % of	2009-10	1.3%	0.9%	2.7%	2.24%	2.8%
	2010-11	1.2%	1.1%	2.3%	1.45%	3.5%

	Year	BSEB	HPSEB	PSEB	JSEB	KSEBL
Total Expenditure	2011-12	1.1%	1.3%	2.4%	1.71%	3.3%
	2012-13	0.7%	1.2%	2.0%	2.30%	2.2%
	2013-14	-	0.9%	1.8%	1.27%	2.0%
	2014-15	-	1.1%	1.6%	0.60%	2.1%
	2015-16	-	1.0%	1.5%	1.24%	2.2%
	2016-17	-	1.2%	1.39%	0.87%	2.02%

*Source: PFC, Report on Performance of State Power Utilities *Source: True up Petition/Tariff orders of respective states*

3.83 The above analysis shows that the uncontrollable increase in R&M cost of KSEBL needs urgent attention. The Hon'ble Commission since inception had issued several directions to KSEB to control/limit the expenses and to improve the productivity, but the KSEBL has continuously failed to do so and has been unable to justify its high R&M costs.

The Objector's view on the Administrative and General Expenses submitted by the KSEBL

3.84 The KSEBL has submitted Rs. 374.79 Cr. as Administrative and General Expenses. This includes the Electricity duty amounting to Rs. 115.27 Cr.

Table 16: Segregation of O&M Cost as per True up petition 2016-17

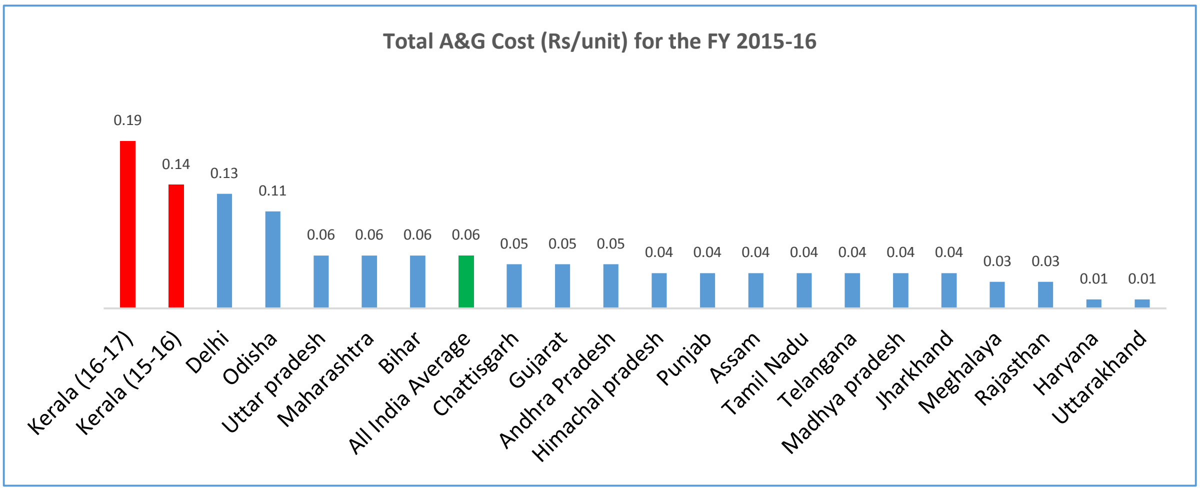
SBU (Rs. Cr.)	A&G Expenses
Generation	9.69
Transmission	64.99
Distribution	300.11
Total	374.79

3.85 The Objector request Hon'ble Commission to **disallow the electricity duty** fully as done in previous ARR & ERC and true up orders, abiding by the Kerala Electricity Duty Act 1963 which says 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".** The Hon'ble Commission shall take strong action against KSEB for making an attempt to pass on the Electricity duty to the consumers in every petition, despite it is being disallowed over the years.

3.86 Thus, the Hon'ble Commission shall disallow electricity duty in complete as done in previous orders, amounting to Rs. 115.27 Cr.

3.87 KSEBL has provided the details of major items/ expenses incurred under A&G head, but the Objector is of the view that KSEBL could not provide any evidence on the steps taken for limiting expenses at the approved level. **In the petition, KSEBL has tried to justify actual expenses rather than the prudence of expenses.**

3.88 The comparison of A&G cost per unit of energy sale across State is shown in the graph below;-



All India average ***Rs. 0.06/kWh***

3.89 The table below presents a comparison of KSEBL's A&G cost with bundled utilities in other states. It can be observed that A&G cost of the KSEBL is comparatively much higher compared to that of other similar utilities.

Table 17: Comparison of A& G cost of KSEBL with other utilities

	Year	BSEB	HPSEB	PSEB	JSEB	KSEB
A&G Cost as % of Total Expenditure	2009-10	0.8%	1.5%	0.6%	1.35%	2.6%
	2010-11	0.8%	1.3%	0.5%	1.45%	2.5%
	2011-12	0.6%	1.0%	0.6%	0.94%	2.5%
	2012-13	0.8%	0.9%	0.7%	1.05%	1.8%
	2013-14	-	0.7%	0.7%	0.96%	2.2%
	2014-15	-	0.8%	0.7%	0.83%	2.46%
	2015-16	-	0.9%	0.7%	1.07%	2.72%
	2016-17	-	0.96%	0.54%	0.92%	2.84%

Source: PFC, Report on Performance of State Power Utilities

3.90 The above analysis shows that the uncontrollable increase in A&G cost of KSEB needs urgent attention. The Hon’ble Commission since inception had issued several directions to KSEB to control/limit the expenses and to improve the productivity, but KSEBL has continuously failed to do so and has been unable to justify high A&G costs

3.91 It has been observed that KSEBL is frequently challenging the order of Commission in APTEL & Supreme Court, resulting in spending a considerable amount as legal fees which is part of A&G head. ***The Objector is of the view that the legal charges paid shall not be passed on to the consumers and KSEBL shall cover this cost from the RoE.***

3.92 Based on the arguments provided above, it can be concluded that the expenses proposed under the O&M head by the KSEBL is not prudent. Thus, the Objector requests Hon’ble Commission to allow the true up based upon the KSERC Regulation 2014. The calculation of O&M norms based upon the regulation is done by the Objector in the next section.

The Objector's calculation of O&M cost as per KSERC Regulation 2014

3.93 The Hon'ble Commission had formulated Terms and Determination of Tariff Regulations in 2014, based on which the Objector has assessed the O&M expense.

3.94 The Clause no 44, Annexure VII of the KSERC Regulation 2014 specifies the O&M Norms for existing generating stations of generation business of KSEB limited for 2016-17 as detailed below.

Table 18 O&M Cost for generation business as per the regulation

Particulars (Rs. Cr.)	**As per KSEBL's True up petition**	**As per the Objector based upon KSERC Regulation 2014**
O&M Cost for the Existing plant		
Employee Expenses*	91.16	47.65
A&G Expenses	9.69	4.59
R&M Expenses	27.70	19.83
O&M of Newly added plants		4.48
Total	**128.55**	**76.55**

**Excluding terminal benefits*

3.95 In addition to the O&M cost for existing plants, the KSERC regulations provides methodology to arrive at the O&M cost for the new plants. As per the KSEBL True-up petition, there are four hydro plants which were commissioned after March 31, 2014. The calculation of O&M cost for the new plants is as under:-

Table 19: O&M Cost for newly commissioned plants (Small Hydro)

Particulars	**COD**	**Norms as per KSERC Regulation**	**Project Cost***	**O&M cost as per the Objector**

Vilanagad	26/07/2014	For Year 1:- 2% of the Capital cost; subsequent years:- Escalation at 5.85%	43.33	0.97
Chimmony	22/05/2015		16.16	0.34
Adyanpara	03/09/2015		22.63	0.48
Barapole	29/02/2016		88.89	1.88
Vellathuval	08/09/2016		23.27	0.26
Total Cost (Rs. Cr.)				**3.94**

**Project cost captured from KSERC ARR ERC Order 2014-15 for KSEBL*

Table 17: O&M Cost for newly commissioned plants (Solar)

Particulars	**COD**	**Norms as per KSERC Regulation**	**Project Cost***	**O&M cost as per the Objector**
Kanjikode	28/08/2015	For Year 1:- 2% of the Capital cost; subsequent years:- Escalation at 5.85%	6.06	0.13
Chaliyur	31/08/2015		0.58	0.01
Peringalkuthu	10/09/2015		0.30	0.01
Banasurasagar Floating	21/01/2016		3.03	0.06
Banasurasagar(tree, flower)	21/01/2016		0.02	0.00
Kollamcode	08/08/2016		5.30	0.07
Padinjarethara	29/08/2016		2.33	0.03

Edayar	05/09/2016		6.63	0.08
Palakkad Adivasi colony (5)	30/11/2016		0.25	0.00
Barapole Canal Bank	07/11/2016		5.30	0.04
Palakkad Adivasi colony (2)	30/11/2016		0.10	0.00
Barapole canal top	17/11/2016		15.90	0.12
Roof Top various locations	15/03/2017		3.71	0.00
Total Cost (Rs. Cr.)			**49.51**	**0.55**

3.96 The Objector requests the Hon'ble Commission to allow Rs. 76.55 Cr. (72.07+ 3.94+0.55) as O&M cost for the generation business against Rs. 128.55 Cr. proposed by the KSEBL.

3.97 The Clause no 61, Annexure VIII of the KSERC Regulation 2014 specifies the O&M norms for the <u>transmission business</u> of KSEB Limited for 2016-17 as detailed below:-

Table 20: O&M Cost for transmission business as per the regulation

Particulars (Rs. Cr.)	**As per KSEBL's True up petition**	**As per KSERC Regulation 2014**			**As per the Objector**
		Norms	**Details**	**Total cost**	
O&M Cost	372.49*	Cost per bay in Rs. 5.54 Lakh	Number of Bays:- 2,466	136.62	136.62

		Cost per Ckm in Rs. 0.61 Cr.	Circuit km:- 9377	57.20	57.20
Total	372.49*			193.82	193.82

Excluding terminal benefits

3.98 The Objector request the Hon'ble Commission to allow Rs. 193.82 Cr. as O&M cost for the transmission business against Rs. 372.49* Cr. as proposed by the KSEBL.

3.99 The Clause no 81, Annexure IX of the KSERC Regulation 2014 specifies the O&M Norms for the distribution business of KSEB Limited for the 2016-17 as detailed below:-

Table 21: O&M Cost for distribution business as per the regulation

Particulars (Rs. Cr.)	**As per KSEBL's True up petition**	**As per KSERC Regulation 2014**			**As per the Objector**
		Norms	**Details**	**Cost**	
Employee Cost	1,788.27	Rs lakh per 000 consumers:- 2.54	11,668,031	296.37	296.37
		Rs lakh per distribution transformer:- 0.35	73,460	257.11	257.11
		Rs lakh per Km of HT Line:- 0.42	59,477	249.80	249.80
		Rs per unit of sales:- 0.11	19,325	212.58	212.58
Sub total	1,788.27			1,015.86	1,015.86
A&G Costs#	184.84	Rs lakh per 000 consumers :- 0.22	11,668,031	25.67	25.67

		Rs lakh per distribution transformer :- 0.03	72,460	22.04	22.04
		Rs lakh per Km of HT:- 0.04	59,477	23.79	23.79
		Rs per unit of sales:- 0.01	19,325	19.33	19.33
Sub total	184.84			90.82	90.82
Electricity duty	115.27			0	0
R&M Costs	190.21		-		190.21
Total	2,278.59				1,296.89

#including Electricity duty

3.100 The Objector would like to point out that in past, the KSEBL, at many instances had pointed that the Hon’ble Commission should revisit the norms since the applicable norms doesn’t allow them to recover the cost. The Objector requests the Hon’ble Commission’s attention to the actual R&M expense incurred in FY 2017 vis-à-vis the applicable norms as per the regulation. The actual R&M expense has remained lower (Rs. 190.21 Cr.) in comparison with Commission’s approved value as per the regulation (Rs. 195.44 Cr.).

Summary of O&M cost

3.101 The summary of O&M cost is provided in the table below:-

Table 22: Summary of O&M cost

O&M Cost (Rs. Cr.)	**As per the KSEBL’s True up petition**	**As per Objector**	**Difference over true up**
Employee cost	2348.62*	G- 76.55	

A&G cost excluding Electricity duty	259.52	T- 193.82 D- 1,296.89	
R&M Cost	265.12		
Electricity Duty	115.27		
Subtotal	2,779.63	1,567.26	(1,212.37)
Impact of erroneous calculation	208.90	-	(208.90)
Total	2,988.53	1,567.26	(1,421.27)

**Includes Erroneous amount of Rs. 208.90 Cr.*

3.102 Thus, the Objector requests Hon'ble Commission to disallow Rs. 1,421.27 Cr. from the O&M Cost claimed by the KSEBL.

Other Expenses

3.103 KSEBL has shown material cost variance of Rs. 64.33 Cr. The Objector has no way to assess the prudence of these expenses. The Objector requests the Hon'ble Commission to undertake a thorough check on variances provided by the KSEBL.

Terminal Liabilities

3.104 The total terminal benefits amount as reported by KSEBL is Rs. 1,221 Cr. (for G,T and D businesses), whereas the KSEBL is claiming only Rs. 1,012.16 Cr.

3.105 In the suo-moto ARR ERC order for the FY 2016-17 dated 17th April, 2017 the Hon'ble Commission had dealt pension liabilities separately through the creation of Master fund while the employee cost has been estimated separately excluding pension liabilities.

3.106 As per the Transfer scheme and KSERC Tariff Regulations 2014, clause 31, the KSEBL shall issue bonds to service the terminal liabilities. The KSEB Ltd. has also not submitted any documentary evidence to substantiate that the Bonds have actually been issued.

3.107 Since, KSEB Ltd. has not issued the Bonds to the Master Trust, the Objector strongly recommends to disallow the terminal benefits amounting to Rs. 1,012.96 Cr.

Return on Equity

3.108 The KSEBL has proposed Rs. 489.86 Cr. as Return on Equity for the year 2016-17 wiz. 14% of Rs. 3,499 Cr. of equity base claimed by KSEBL.

3.109 The Hon’ble Commission in its ARR Order for 2012-2013 has discussed the issue of Return on Equity in detail. The abstract is reproduced below for the easy reference:

"Accordingly, instead of providing a return on net fixed assets, a return was allowed based on the equity shown in the accounts of the Board. However, the Government order subsequent to the conversion of Government loans, and the observation of the ***C&AG revealed that the equity booked by the Board is not proper.*** *Hence, in the absence of having a base for allowing a return, the Commission in the ARR&ERC order for 2010-11 & 2011-12 and in the truing up order for 2006-07, 2007-08 & 2008-09 decided to provide a return on a provisional basis directed the Board to have a study based for arriving at a proper rate base.*

3.110 The Objector wants to highlight the remarks made by Hon’ble Commission on Return on Equity in ARR & ERC order 2014-15. The Commission remarked-

"Though the licensee has claimed that increase in equity is an infusion of capital, ***in fact, it is only accounting entry adjustments to match the increase in assets due to revaluation*** *and to facilitate the repayment of bonds to be issued for funding terminal liabilities.* ***Hence, the equity additionally claimed does not materially enhance any benefits to the consumers****, but the Commission as a matter of principle approves the second transfer scheme and hence the enhancement of equity announced by the Government is recognized."*

3.111 The Objector also wants to highlight the remarks made by Hon’ble Commission on Return on Equity in ARR & ERC order 2013-14. The Commission remarked-

“The Commission has been maintaining a policy that legitimate return should be allowed to the entities to function in a financially viable manner. The Commission in the order dated 13-4-2012 has decided to consider the letter of the Government for providing ***a return on Equity provisionally, till the matter is finalized based on the study reports of the Consultants engaged for developing regulations for determination of Tariff under section 62 of the Act."***

3.112 The Objector would like to invite the kind attention of the Hon'ble Commission to APTEL's Order dated18 November 2015, Appeal No. 247 of 2014 (Kerala HT EHT Industrial Consumers Association v/s KSEBL & KSERC).

The suggestions of the Consultant engaged by the State Commission on Return on Equity are *quoted below:*

"…Further, in the case of new capitalization, RoE is allowed only when actual equity is infused into the Company for incurring capital expenditure, else only interest is allowed on the loan component. According to the consultant even under the Companies Act, 1956 and the relevant Accounting Standards, the Revaluation Reserve is not allowed as a source to increase the equity capital, and only actual paid-up equity capital is considered for all purposes. Hence, they recommended that the ***Commission may allow RoE either on the equity capital allowed earlier by the Commission or on the reduced equity capital of Rs. 283.91 Cr. (Rs. 1553 Cr. - Rs. 1269 Cr.)….”***

“..We are of the view that since the consultant appointed by the State Commission has studied the whole system and recommended the equity value, hence, ***we direct the Commission to consider the equity amount specified by the Consultant and 14% rate of return on this amount has to be considered****..”*

3.113 Thus, the Objector request Hon’ble Commission to consider the RoE either on the equity capital allowed earlier i.e. (Rs. 1553 Cr.) by the Commission or as the reduced equity capital of Rs. 283.91 Cr abiding by the Aptel order. Any equity base taken more than Rs.1,553 cr. will be the violation of APTEL judgement.

3.114 Accordingly, the Objector has considered 14% on reduced equity capital of Rs. 283.91 Cr. for the calculation of return on equity. The RoE amounts to Rs. 39.75 Cr. against Rs. 489.86 Cr. as proposed by the KSEBL. The Objector requests Hon'ble Commission to consider the re-estimated Return on Equity as presented in the table below-

Table 23: Objector's analysis on Return on Equity

Particulars	KSEB Petition for true up for 2016-17	As per the Objector
Equity (Rs. Cr.)	3499.00	283.91
Return on Equity %	14%	14.0%
Return on Equity (Rs. Cr.)	**489.86**	**39.75**

Summary

3.115 The objector has undertaken an ARR component-wise analysis of the true-up filings and provided in detail observations in the above sections. The summary of observations is provided in the table below.

Table 24: **Summary of ARR as per true up filings and as re-estimated by the Objector**

	Particulars	**As per true up petition for 2016-17 (Rs. Cr.)**		**Re-estimated by Objector for true up of 2016-2017 (Rs. Cr.)**	
S. NO.		**Approved as per Tariff order (Suo Moto dated 17 april 2017)**	**True up (As per true up petition 16-17)**	**Re-estimated expenses**	**Difference over Trueup (Objector- True up petition)**
1	Generation Of Power	0.00	23.45	23.45	0.00
2	Purchase of power	7752.76	7551.41	6835.89	(715.52)
3	Interest & Finance Charges	1488.27	946.21	1315.61	369.40
4	Depreciation	414.80	617.50	380.40	(237.10)
5	Employee Cost (excluding terminal benefits)	1596.15	2348.62	1567.26 (G- Rs. 76.55 Cr T- Rs. 193.82 cr D- 1,296.89 cr)	(1421.27)
6	Repair & Maintenance	265.12	265.12		
7	Administration & General Expenses*	374.79	374.79		
8	Other Expenses	0.00	49.75	49.75	0.00

	Particulars	**As per true up petition for 2016-17 (Rs. Cr.)**		**Re-estimated by Objector for true up of 2016-2017 (Rs. Cr.)**	
S. NO.		**Approved as per Tariff order (Suo Moto dated 17 april 2017)**	**True up (As per true up petition 16-17)**	**Re-estimated expenses**	**Difference over Trueup (Objector-True up petition)**
9	Terminal benefits	0.00	1012.16	0.00	(1012.16)
10	**Net Expenditure (A)**	**11251.98**	**13189.01**	**10172.36**	**(3656.56)**
11	Statutory Surplus/ Roe (B)	489.86	489.86	39.75	(450.11)
12	**ARR (C) = (A) + (B)**	**11741.84**	**13678.87**	**10212.11**	(3466.76)
13	Non-Tariff Income	441.00	537.51	537.51	0.00
14	Revenue from Tariff	10900.72	11036.77	11036.77	0.00
15	**Total Income (D)**	**11341.72**	**11574.28**	**11574.28**	**0.00**
16	**Revenue Gap (C-D)**	**400.12**	**2104.59**	**(1362.17)**	**(3466.76)**

**Including Electricity Duty in true up petition and approved orders*

3.116 Based on the re-estimation of each head presented is table above, the Objector requests Hon’ble Commission to consider the re-estimated ARR of Rs. 10,212.11 Cr. against Rs. 13,678.87 Cr. as proposed by KSEBL and Revenue surplus of Rs. 1,362.17 Cr. against Revenue gap of Rs. 2,104.59 Cr. as proposed by KSEBL.

A4: PRAYER TO THE HON'BLE COMMISSION

The Objector with averments made above prays that the Hon'ble Commission may please consider the objections made on the KSEBL's petition of truing up of cost and revenue for 2016-2017 and consider the following submissions:

Parameter	Submissions
T&D Loss	• To enforce the minimum loss target of 13.90% and disallow the excess T&D loss at the cost of highest marginal cost stations.
Own generation and power purchase	• To allow the auxiliary consumption as estimated by the Objector, and disallow the additional quantum from the marginal power stations. • To carefully examine the actual power purchase bills, blending ratio of domestic and imported coal before allowing the variable cost • To verify the purchase from traders and exchanges. • To allow the reduction in CGS power purchase cost on account of taking plausible impact of higher power purchase cost as compared to other discoms (Karnataka specific) • To disallow RGCCPP power purchase and KPCL settlement deed. • Reduction on the account revised cost computation of extra energy available due to disallowance of T&D loss and auxiliary consumption of hydel and diesel plant
Interest on long-term loans	• To disallow interest on loan corresponding to work in progress • To carry out the capex prudence check to verify the cost-benefit analysis and progress reports to ascertain the prudent capital expenditure to be approved for the purpose of calculation of interest on loans and bonds

	• To allow Interest on Master Trust Fund to fund the terminal liability and correspondingly reducing terminal liability from employee costs
Interest on working capital	• Disallow interest on working capital due to the availability of sufficient funds available to meet working capital.
Depreciation	• To consider re-estimated depreciation by Objector as per KSERC Regulation 2014, which is significantly lower than the amount proposed by the KSEBL
Employee Cost	• Accept the re-estimated employee cost by the Objector per *KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014* • Need in policy changes in recruitment and compensation. • To issue directives on improving the employee's operational efficiency in the system.
Administrative & General Expenses	• Accept the re-estimated administrative and general expenses by the Objector per *KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014* • To disallow the Electricity Duty completely. ED should be borne by the Licensee and shall not be passed on to the consumers. • Direct KSEBL to justify the prudence of the expenses
Repairs & Maintenance	• Accept the re-estimated repairs & general expenses by the Objector per *KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014* • To prudently review the reasons for an increase in repairs & maintenance expenses.
Other Expenses	• The details related to material cost variance shall be verified before approving true up.
Terminal Liabilities	• Disallow terminal liabilities completely on account of non-creation of bond mechanism to service.

Return on Equity	• To allow 14% return on equity abiding by the judgement of APTEL in Appeal No. 247 of 2014 dated18 November 2015, i.e. to consider the RoE either on the equity capital allowed earlier i.e. (Rs. 1553 Cr.) by the Commission or as the reduced equity capital of Rs. 283.91 Cr