BEFORE THE KERALA STATE ELECTRICITY REGULATORY COMMISSION

IN THE MATTER OF:

HON'BLE KSERC'S SUO-MOTU PROPOSAL FOR REVISION OF ELECTRICITY TARIFF IN THE STATE OF KERALA FOR FY 2016-17 AND FY 2017-18

NAME AND FULL ADDRESS OF THE STAKEHOLDER

THE KERALA HIGH TENSION AND EXTRA HIGH TENSION INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION
Productivity House, Jawaharlal Nehru Road,
Kalamassery-683 104
Email: keralahtehtassociation@gmail.com

SUGGESTIONS/OBJECTIONS BY THE KERALA HIGH TENSION AND EXTRA HIGH TENSION INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION

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I. BACKGROUND

1. The Hon'ble Kerala State Electricity Regulatory Commission (KSERC) issued the Public Notice on June 22, 2016 on the Suo-motu tariff revision proposed by the Hon'ble KSERC for FY 2016-17. In the said Public Notice, the Hon'ble KSERC has proposed the Aggregate Revenue Requirement (ARR) of KSEB Ltd. for FY 2016-17 and FY 2017-18. The Kerala High Tension and Extra High Tension Industrial Electricity Consumers' Association ("The Association") has already filed its suggestions and objections on the above said Public Notice issued by the Hon'ble KSERC and the submission of KSEB Limited in this regard.

2. On 9.08.2016, KSEB Limited has filed its Proposal for revision of Cross-Subsidy Surcharge (CSS) and imposing Additional Surcharge for Open Access consumers for the year 2016-17. The Hon'ble commission has admitted the above petition vide OP NO 13/16. The Association has already filed its suggestions and objections on the Proposal of KSEB Limited for revision of Cross-Subsidy Surcharge (CSS) and imposing Additional Surcharge for Open Access consumers for the year 2016-17.

3. The Hon'ble KSERC issued the Public Notice on December 1, 2016 on the Suo-motu re-determination of tariff proposed by the Hon'ble KSERC for FY 2016-17 and FY 2017-18. In the said Public Notice, the Hon'ble KSERC has proposed the revised category-wise tariffs of KSEB Ltd. for the remaining part of FY 2016-17 and FY 2017-18. The Association hereby files its suggestions and objections on the above said Public Notice.

II. PRELIMINARY OBJECTIONS

4. **The Association respectfully submits that there is no need or justification for revising the tariff for the remaining part of FY 2016-17 and FY 2017-18, for the reasons stated below**:
   a. On a stand-alone basis, even if the Hon'ble KSERC's provisional assessment is considered without any changes, there is a revenue surplus of Rs. 167 crore and Rs. 739 crore for FY 2016-17 and FY 2017-18, respectively. Thus, **there is a scope for average reduction of Rs. 0.34/kWh in the tariff** (Surplus of Rs. 739 crore spread over projected Sales of 21840 MU works out to average reduction of 33.8 paise/kWh). **After considering the revised ARR proposed by the Association as detailed subsequently, there is a scope for average reduction of Rs. 1.02/kWh in the tariff**.
   b. The sole cause of the proposed tariff increase is the cumulative Revenue Gap of Rs. 4924 crore "provisionally assessed" by the Hon'ble KSERC,

based on the true-up for FY 2011-12 and FY 2012-13 and prior period adjustments.

c. As per the Companies Act, all Companies are required to finalise their audited Accounts by September 30th of the subsequent year. When the Audited Accounts are available, then there can be no justification for non-submission of the True-Up Petitions, and KSEB Ltd. cannot claim the Revenue Gap on this account after 5-6 years.

d. In accordance with the Judgments of Hon'ble Supreme Court and Hon'ble APTEL, the Hon'ble KSERC should not consider the Revenue Gap on account of true-up for FY 2011-12 and FY 2012-13, as KSEB Ltd. has lost its right to claim this Revenue Gap due to the inordinate delay in filing its Petition. The relevant extract of the Judgments of the Hon'ble APTEL and Hon'ble Supreme Court are reproduced below:

<u>APTEL Judgment dated November 11, 2011 in OP No. 1 of 2011</u>

"Every State Commission has to ensure that Annual Performance Review, true-up of past expenses and Annual Revenue Requirement and tariff determination is conducted year to year basis as per the time schedule specified in the Regulations…

It should be the endeavour of every State Commission to ensure that the tariff for the financial year is decided before 1st April of the tariff year. For example, the ARR & tariff for the financial year 2011-12 should be decided before 1st April, 2011. The State Commission could consider making the tariff applicable only till the end of the financial year so that the licensees remain vigilant to follow the time schedule for filing of the application for determination of ARR/tariff…

Truing up should be carried out regularly and preferably every year. For example, truing up for the financial year 2009-10 should be carried out along with the ARR and tariff determination for the financial year 2011-12*…"*

<u>APTEL Judgment in Appeal No. 100 of 2007 in KPCL vs. KERC & Others</u>

"…The impact of truing up exercises must be reflected in the tariff calculations for the following year. As an example; truing up for the year 2006-07 has to be completed during 2007-08 and the impact thereof has to be taken into account for tariff calculations for the year 2007-08 or/and 2008-09 depending upon the time when truing up is taken up. If any surplus revenue has been realized during the year 2006-07, it must be adjusted as available amount in the Annual

Revenue Requirement for the year 2007-08 or/and 2008-09. ***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****."*

<u>(2009) 6 SCC 235 dated March 3, 2009 in Civil Appeal No. 1110 of 2007 in UPPCL & Others vs. NTPC</u>

"63. Furthermore, the direction of the Tribunal that the additional costs may be absorbed in the new tariff, in our opinion, was not correct. Some persons who are consumers during the tariff year in question may not continue to be the consumers of the appellant. Some new consumers might have come in. There is no reason as to why they should bear the brunt. Such quick-fix attitude, in our opinion, is not contemplated as framing of forthcoming tariff was put subject to fresh Regulations and not the old Regulations. "

e. Another important reason for not considering the Revenue Gap on account of true-up for FY 2011-12 and FY 2012-13 as recoverable from the tariffs of FY 2016-17 and FY 2017-18, is the second Transfer Scheme notified by the Government of Kerala, which created KSEB Ltd. as the successor entity of the erstwhile KSEB with a clean Balance Sheet and no past liabilities/Revenue Gaps. The State Government Notification dated January 2015 shows that there is no outstanding Regulatory Assets. In such a case, KSEB Ltd. cannot have a claim against Regulatory Assets from the consumers, having already adjusted these amounts with the State Government. In fact, allowing KSEB Ltd. to recover this amount from consumers will amount to undue enrichment of KSEB Ltd. and will add to the profits, as there is no corresponding unfunded expense in the Balance Sheet of KSEB Ltd.

f. The true-up for FY 2013-14, FY 2014-15, and FY 2015-16 is pending, and it is not known whether there is a Revenue Gap or Revenue Surplus in these three years.

g. The tariff of KSEB Ltd. has been increased steeply in the recent years, and a compilation prepared by the Government of India, shows that the average tariff increase in Kerala over the 5-year period from FY 2011-12 to FY 2015-16 is the highest in the country, at 16%, as shown in the Table below:

Table 1: Average Tariff Increase in different States over last 5 years

State	*FY2011-12*	*FY2012-13*	*FY2013-14*	*FY2014-15*	*FY2015-16*	*Average Hike (%)*
Kerala	*0%*	*30%*	*7.9%*	*24%*	*3%*	*16%*
Delhi	*22%*	*22%*	*5%*	*8%*	*0%*	*14%*
Nagaland	*34%*	*12%*	*7%*	*0%*	*5%*	*14%*

State	*FY2011-12*	*FY2012-13*	*FY2013-14*	*FY2014-15*	*FY2015-16*	*Average Hike (%)*
Andhra Pradesh	*8%*	*18%*	*23%*	*0%*	*5%*	*13%*
Tamil Nadu	*0%*	*37%*	*0%*	*15%*	*0%*	*12%*
Chhattisgarh	*0%*	*18%*	*0%*	*15%*	*14%*	*11%*
Tripura	*0%*	*17%*	*31%*	*0%*	*0%*	*11%*
Haryana	*4%*	*19%*	*13%*	*0%*	*8%*	*10%*
Meghalaya	*0%*	*13%*	*7%*	*15%*	*8%*	*10%*
Rajasthan	*9%*	*8%*	*9%*	*16%*	*0%*	*10%*
J&K	*15%*	*19%*	*8.5%*	*0%*	*0%*	*10%*
Bihar	*19%*	*12%*	*7%*	*0%*	*2.50%*	*9%*
Uttar Pradesh	*0%*	*18%*	*5%*	*11%*	*5.47%*	*9%*
Odisha	*20%*	*12%*	*2.40%*	*0%*	*4.64%*	*9%*
Goa	*0%*	*12%*	*0%*	*8%*	*14%*	*8%*

Source: Towards Ujwal Bharat; UDAY: The Story of Reforms, published by the Ministry of Power, Coal and New & Renewable Energy

h. Further, though the average tariff increase over the past 5 years for KSEB Ltd. is shown as 16%, the cumulative increase for the subsidising HT and EHT industrial category over the last 3 Tariff Orders is much higher, and ranges between 50% to 60%, as shown in the Table below:

Category	**Average Electricity Tariff (Rs/kWh)**				**% increase**
	June 2012	**July 2012**	**May 2013**	**Aug 2014**	
HT Industrial	4.12	5.21	5.7	6.18	50
EHT 66 kV	3.77	4.97	5.35	5.94	58
EHT 110 kV	3.49	4.70	5.15	5.54	59

i. The significant jump in the revenue of KSEB Ltd. in the recent years on account of steep tariff increase has improved the financial position of KSEB Ltd. Had KSEB Ltd. faced financial difficulties on account of cumulative Revenue Gap as assessed by the Hon'ble KSERC, KSEB Ltd. would have filed the Petition for revision of the ARR and Tariffs in a timely manner. On the contrary, despite repeated directions of the Hon'ble KSERC, KSEB Ltd. has not filed the Tariff Petition, which indicates that if all the Years are considered together, KSEB Ltd. Is comfortably placed and is most likely having a Revenue Surplus.

j. The Association understands that the State of Kerala through the State Government and KSEB Ltd. are likely to sign the UDAY Agreement with the Government of India shortly. Under the UDAY Agreement, 75% of the loan liabilities of KSEB Ltd. shall be taken over by the State Government, and KSEB Ltd. will also have to adhere to stringent loss reduction trajectory. All these measures would reduce the ARR of KSEB Ltd. significantly, and the Revenue Surplus of KSEB Ltd. would increase further. In fact, the Government of India has estimated the potential saving of Rs. 875 crore on account of reduction in AT&C losses alone *(Source: Towards Ujwal Bharat; UDAY: The Story of Reforms, published by the Ministry of Power, Coal and New & Renewable Energy)*. Such benefits should be passed on to the consumers, else, the Reforms will not achieve the intended objective.

k. The overall cost of power purchase is reducing, on account of the cheap surplus power available in the country. As power purchase costs comprise around 67% of KSEB Ltd.'s ARR, it is logical to expect that KSEB Ltd.'s tariffs should also reduce. On the contrary, the Hon'ble KSERC is proposing to increase the tariffs.

5. The Hon'ble KSERC has based its suo-motu tariff revision proposal on the "provisionally re-assessed" ARR of KSEB Ltd. for FY 2016-17 and FY 2017-18 and the revenue gap after "preliminary scrutiny" of the true-up for FY 2011-12 and FY 2012-13. As a result, the Association's comments and suggestions are also based on the tariffs proposed. It is not clear as to when and how the Hon'ble Commission will finalise its analysis of KSEB Ltd.'s ARR for FY 2016-17 and FY 2017-18 and the revenue gap after final scrutiny of the true-up for FY 2011-12 and FY 2012-13. Any revision in amount of cumulative revenue gap/(surplus) for FY 2016-17 and FY 2017-18, may require the proposed category-wise tariffs to also undergo a change. In the past, the Hon'ble KSERC has crystallised the amount of cumulative Revenue Gap before proceeding with the tariff revision process. It is not clear as to why the Hon'ble KSERC has deviated from this standard practice on this occasion, by proposing the tariff revision on the basis of the "provisionally assessed" cumulative Revenue Gap.

6. Without prejudice to the above contentions, the Association presents its comments and suggestions on the suo-motu tariff increase proposed by the Hon'ble KSERC.

III. ARR FOR FY 2016-17 AND FY 2017-18

Transmission Losses

7. In Table 3.5, the Hon'ble KSERC has segregated the overall T&D loss of 13.65% for FY 2017-18 into Transmission Losses of 4.50% and Distribution Losses of 10.42%. However, there is no basis for considering the Transmission Loss as 4.50%. The Transmission Losses for a small State such as Kerala would be significantly lower. The comparison of the Transmission Losses in different States given in the Table below shows that the Transmission Losses being allowed in Kerala at 4.5% are the highest in the country, and much bigger States

are having Transmission Losses lower than 4%, hence, it appears illogical that the Transmission Losses in KSEB Ltd.'s system are 4.50%.

Table 2: Transmission Loss in different States

Sl No.	State	Transmission loss in %
1	Himachal Pradesh	0.75
2	Pondicherry	1.00
3	Tamil Nadu	1.75
4	Uttarakhand	1.82
5	Haryana	2.48
6	Punjab	2.50
7	Madhya Pradesh	2.59
8	Mizoram	3.00
9	West Bengal	3.10
10	Chandigarh	3.38
11	Arunachal Pradesh	3.40
12	Telangana	3.40
13	Karnataka	3.47
14	Uttar Pradesh	3.59
15	Manipur	3.60
16	Assam	3.64
17	Goa	3.64
18	Gujarat	3.66
19	Orissa	3.70
20	Bihar	3.92
21	Maharashtra	3.92
22	Arunachal Pradesh	4.00
23	Jammu & Kashmir	4.00
24	Meghalaya	4.00
25	Kerala	4.50

Source: IEX

8. The Association respectfully submits that the Transmission Losses in KSEB Ltd.'s system cannot be higher than 3.00%. If the Transmission Losses are considered as 3.00%, then the Distribution losses will be higher, and the Voltage-wise Cost of Supply (VCoS) will also undergo a change, as shown subsequently. The recomputed voltage-wise losses are shown in the Table below:

Table 3: Revised Energy Balance for KSEB Ltd.

Sl No	Particulars	Units	KSERC		Association	
			2016-17	2017-18	2016-17	2017-18
1	Net energy input into the SBU-T of the KSEBL system (net internal	MU	23955.52	25292.45	23955.52	25292.45

Sl No	Particulars	Units	KSERC		Association	
			2016-17	2017-18	2016-17	2017-18
	generation + net power purchase at KSEBL periphery)					
2	Transmission loss in percentage	%	4.50%	4.50%	**3.00%**	**3.00%**
3	Transmission loss in MU	MU	1078	1138.16	718.67	758.77
4	EHT sales (MU)	MU	1867.99	1944.01	1867.99	1944.01
5	HT& LT sale (MU)	MU	18757.71	19896.02	18757.71	19896.02
6	Total energy sale	MU	20625.7	21840.03	20625.70	21840.03
7	Net energy input to Distribution system for sale at HT & LT level (MU)= (1)-(3+4)	MU	21009.53	22210.28	21368.86	22589.67
8	Distribution loss in MU = (7)-(5)	MU	2251.82	2314.26	2611.15	2693.65
9	Total Distribution loss in percentage = (8)/(7)	%	10.72%	10.42%	**12.22%**	**11.92%**
10	HT Sale	MU	3299	3448.06	3299.00	3448.06
11	Distribution loss for providing supply at HT level (%)	%	5.50%	5.50%	5.50%	5.50%
12	Distribution loss incurred for HT sale (MU)	MU	192.01	200.68	192.03	200.68
13	Net energy available for LT supply (MU)= (7)-(10)-(12)	MU	17518.52	18561.54	17877.48	18940.93
14	LT sale (MU)	MU	15458.34	16447.94	15458.34	16447.94
15	Distribution loss associated with LT supply = (13)-(14)	MU	2060.18	2113.6	2419.14	2492.99
16	Distribution loss in (%) for providing supply at LT Level= (15/(13)	%	11.76%	11.39%	**13.53%**	**13.16%**
17	Combined Transmission and Distribution loss in MU = (3)+(12)+(15)	MU	3330.19	3452.44	3329.83	3452.44
18	Combined T&D Loss in (%) = (17)/(1)	%	13.90%	13.65%	13.90%	13.65%

9. As can be seen from the above Table, the effective Distribution Loss gets revised from 10.72% and 10.42% to 12.22% and 11.92% for FY 2016-17 and FY 2017-18, respectively. Similarly, the LT losses get revised from 11.76% and 11.39% to 13.53% and 13.16% for FY 2016-17 and FY 2017-18, respectively.

Return on Equity

10. The Association humbly submits that the equity of KSEB Ltd. is not Rs. 3499 crore as considered by the Hon'ble KSERC or even Rs. 1553 crore. The Consultant appointed by the Commission to study and recommend the changes on account of the Transfer Scheme of KSEBL has recommended a lower value of Rs. 283.91 crore. The Hon'ble Appellate Tribunal for Electricity (APTEL), in its

Judgment dated 18.11.2015 in Appeal No. 247 of 2014 (which is attached as **Annexure 1** to this submission for the ready reference of the Hon'ble KSERC) , has ruled as under:

> *"14.4* ***The Consultant engaged by the Commission has suggested that the Commission may allow RoE either on the equity capital allowed earlier by the Commission or as the reduced equity capital of Rs. 283.91 crore (Rs. 1553 crore – Rs. 1269 crore)****.*
>
> *14.5 The Commission as a matter of principle approves the equity specified for the second transfer scheme. The enhancement of equity (Rs. 1553 crore + 1946 crore = 3499 crore i.e. increase over equity base Rs. 3499 crore) has been considered by the Commission and accordingly computed the return on equity at 14% (as per the Regulation of the State Commission) against the Appellant claim of Rs. 15.5% on RoE.*
>
> *14.6 We find controversy regarding the equity amount i.e. the amount specified by the Consultant and the amount submitted by the KSEB in the ARR. The Commission considered the amount proposed by the KSEB. Further, the Appellant is contesting that as per the website of the Ministry of Corporate Affairs, Govt of India, the equity of KSEB is only Rs. 5.00 lakhs.*
>
> *14.7* ***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****."(****emphasis added****)*

11. The Association humbly submits that the Hon'ble APTEL has directed the Hon'ble KSERC to allow 14% rate of return on the equity amount recommended by the Consultant. As recognised by the Hon'ble APTEL, the Consultant has made the recommendations after studying the whole system. Further, the Hon'ble KSERC has accepted the other recommendations of the Consultant, wherein the Consultant had recommended that the other adjustments made in the Transfer Scheme, viz., asset up-valuation, extinguishing of the consumer contribution, etc., are not appropriate. When the Hon'ble KSERC has accepted that the other adjustments are inappropriate, then the conclusion is that the adjustments to the equity capital are also inappropriate. As stated by the Consultant, "*If any or all of the other adjustments are not considered for the purpose of ARR and tariff determination, on account of being inappropriate, then the equity capital to be considered would be reduced*."

12. **It may be noted that the Hon'ble APTEL's Judgment specifically considered the provisions of the KSERC Tariff Regulations, 2014 and the Second Transfer**

Scheme and interpreted that the Equity Base should necessarily be considered as advised by the Consultant appointed by the Hon'ble KSERC. The Hon'ble APTEL Judgment, which interpreted the KSERC Tariff Regulations with reference to the Second Transfer Scheme has not been stayed by any higher Court, and is still the final legal Order on this issue. However, the Hon'ble KSERC has merely stated that it proposed to allow RoE as per the KSERC Tariff Regulations, 2014 and has not addressed the ruling given by the Hon'ble APTEL on this issue. The Association respectfully submits that such a treatment will amount to flouting the Hon'ble APTEL's Judgment on this issue, . The Association respectfully submits that the RoE should be allowed only on the adjusted amount worked out by the Consultant to the Hon'ble KSERC, i.e., the equity should be considered as Rs. 283.91 crore. As regards the Hon'ble KSERC's reliance on the State Government G.O. dated May 13, 2015, the Association respectfully submits that the G.O. merely reiterates that the adjustments made to arrive at the Opening Balance Sheet have resulted in the increase in equity and hence, the increase in equity should be attributed to part of the duty collected. As the Consultant in its Report has already analysed these adjustments and concluded that the correct equity is Rs. 283.91 crore, it is improper to place reliance on the G.O. dated May 13, 2015.

Interest on Loans

13. The Association respectfully submits that the interest of Rs. 814 crore on the Bonds to be issued to the Master Trust should not be allowed, due to the following reasons:

    a. As the Bonds are yet to be issued, there is no question of allowing interest on Bonds that have not been issued. Regulation 31 (1) of the KSERC Tariff Regulations specifies that
    *"The interest **on the bonds issued by KSEB Limited** to service the terminal liabilities of its employees shall be allowed for recovery through tariffs, at the rates stipulated in the relevant orders issued by Government of Kerala"*

    b. In the context of the interest on these Bonds, the Hon'ble Appellate Tribunal for Electricity (APTEL), in its Judgment dated 18.11.2015 in Appeal No. 247 of 2014 (refer **Annexure 1**), has ruled as under:

    "11.4 The Commission has engaged M/s ABPS Infrastructure Advisory to study and recommend the changes on account of transfer scheme of KSEBL including the experience in other states and recommended approach to be adopted by the Commission. The submission of the Consultant regarding long-term loans and terminal liabilities is quoted below:
    "Long-Term Loans and Terminal Liability Funding: …Since the Master Trust is yet to be created and the bonds are yet to be issued, and it may be

expected that the bonds may be issued by September 2014, i.e., the interest expenses on the bonds would be payable only for half of FY 2014-15. Under these circumstances, they suggested that the Commission may take a view whether the entire interest expenses on the Bonds should be allowed, or whether 50% of the same should be allowed, with the actual expenses under this head being allowed for the first half of FY 2014-15…".

11.5 Let us examine the relevant clause of KSERC (Terms and Conditions for distribution and retail sale of electricity under MYT framework) Regulations 2006.

Clause 31. Interest on bonds issued by KSEB Limited to service the terminal liabilities of its employees. –

(1) The interest on the bonds issued by KSEB Limited to service the terminal liabilities of its employees shall be allowed for recovery through tariffs, at the rates stipulated in the relevant orders issued by Government of Kerala.

….

11.6 According to the transfer scheme, in addition to the interest on bonds and repayment of principal has to be shared in the ratio of 35.4:64.6 between Government of Kerala and KSEB.

***Further, the Consultant also pointed out that the Bonds are yet to be issued and it may be expected that the bonds may be issued by September 2014 i.e. the interest expenses on the bonds would be payable only for half of FY 2014-15 and the Consultant has stated that, the Commission may take a view, whether to consider the entire interest expenses on the bonds should be allowed or whether 50% of the same should be allowed**. The consultant also pointed out that the corresponding amount has to be reduced from the employees' expenses being allowed by the Commission in the ARR.*

11.7 As seen from the impugned order, the Commission stated that in principle, the total amount claimed by KSEB (814.44 lakhs) has considered. Further, the Commission did not mention in the impugned order, the date of issue of Master Bonds and the actual interest to be paid towards the bonds in the FY 2014-15. Further, whether this amount was deducted from the employees' expenses or not.

We feel that taking the entire interest amount claimed by KSEB in the ARR of FY 2014-15 is not correct.

*11.8 In view of the above, **we direct the State Commission to work out the actual** and also verify whether the interest amount is deducted from the employees' expenses or not. Accordingly, the Commission is directed to finalize the figures while truing-up exercise pertains to FY 2014-15 and finalize the revenue gap/surplus pertains to FY 2014-15 and carried forward to subsequent financial year."(**emphasis added**)*

c. Based on the recommendation of the Consultant appointed by the Commission to study and recommend the changes on account of the Transfer Scheme of KSEBL regarding long-term loans and terminal liabilities, **the Hon'ble APTEL has ruled that the actual interest expenses on the Bonds actually issued to the Master Trust should only be allowed by the Hon'ble KSERC.**

d. Further, 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.

e. **Since, KSEB Ltd. has not issued the Bonds to the Master Trust, the Association respectfully submits that the interest expenses of Rs. 814 crore should not be allowed as part of the Interest and Finance Charges**.

14. As regards the interest on long-term loans, the Hon'ble KSERC has considered the opening balance of loans as on 31.3.2016, as submitted by KSEB Ltd. In other words, the Hon'ble KSERC has considered the actual addition to loans during FY 2015-16 as submitted by KSEB Ltd. even though KSEB Ltd. had not sought prior approval for the capital expenditure. At the same time, the Hon'ble KSERC has stated that it cannot approve the interest on the additional borrowings for the proposed capital expenditure during FY 2016-17, as KSEB Ltd. has not sought prior approval for the capital expenditure. This is clearly inconsistent. Further, as per the KSERC Tariff Regulations, 2014, the Licensee has to seek prior approval for any proposed capital expenditure, and the Guidelines for prior approval of such capital expenditure are also laid down in the Tariff Regulations. The Association respectfully submits that the entire capital expenditure and associated borrowings after notification of the Tariff Regulations, 2014, should be disallowed, as the same are not in accordance with the Regulations.

15. Hence, the Association respectfully submits that the closing balance of borrowing for FY 2014-15as per the Tariff Order, should be considered as the opening balance of loan for FY 2015-16 and no further capital expenditure and capitalisation should be considered, as KSEB Ltd. has not obtained the Hon'ble KSERC's in-principle approval for the capital expenditure. Thus, there is no increase in the outstanding loans. Further, in accordance with the Tariff Regulations, 2014, the loan repayment has been considered equal to the depreciation, which reduces the outstanding loan to Rs. 2698.07 crore at the beginning of FY 2016-17, and to Rs. 2274.27 crore, at the beginning of FY 2017-18. The average loan in FY 2016-17 and FY 2017-18 thus, works out to Rs. 2481.67 crore and Rs. 2066.87 crore, respectively. Considering the interest rate

at 11% as estimated by the Hon'ble KSERC, the interest on long-term loan works out to Rs. 273 crore and Rs. 227 crore for FY 2016-17 and FY 2017-18, respectively.

Normative O&M Expenses

16. For existing Generating Stations, Tariff Regulations, 2014 specifies the O&M Expenses of Rs. 72.07 Crore for FY 2016-17 and Rs. 76.28 Crore for FY 2017-18. Since, KSEB Ltd. has only now submitted some details of the new Generating Stations commissioned after the notification of Tariff Regulations, 2014, and the original project cost for these Projects has not been approved by the Hon'ble KSERC, no O & M Expenses should be allowed over and above the O&M Expenses allowed for the existing Generating Stations.

17. While allowing normative O&M expenses for Transmission Business and Distribution Business, the Hon'ble KSERC has considered the GFA and number of transmission lines and bays as submitted by KSEB Ltd. However, the capital expenditure incurred by KSEB Ltd. has not been accorded in-principle approval by the Hon'ble KSERC, and hence, it is incorrect to allow O & M expenses for asset addition that has been undertaken without the Hon'ble KSERC's explicit approval. If such O&M expenses are allowed, it will render the procedure for granting in-principle approval meaningless and redundant. Hence, the normative O & M expenses should be allowed by considering only the assets that have been added up to FY 2014-15. The revised normative O & M expenses calculated by the Association is given in the Table below:

Table4: Revised Normative O & M Expenses

Sl.	Business	KSERC Suo-motu Proposal		Kerala HT & EHT Association		Difference	
		FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18	FY 2016-17	FY 2017-18
1	Generation	75.71	80.13	72.07	76.28	3.64	3.85
2	Transmission	193.82	216.78	190.04	201.47	3.78	15.31
3	Distribution	1326.62	1440.36	1291.11	1362.26	35.51	78.10
	TOTAL	**1596.15**	**1737.27**	**1553.22**	**1640.01**	**42.93**	**97.26**

Impact on Overall ARR

18. Based on the above suggested changes to the ARR, the Association has recomputed the allowable ARR and Revenue Surplus for FY 2016-17 and FY 2017-18, as shown in the Tables below:

Table 5: Revised ARR & Revenue Surplus for FY 2016-17 (Rs. Crore)

Particulars	FY 2016-17							
	KSERC suo-motu Petition				Kerala EHT & HT Association			
	SBU-G	SBU-T	SBU-D	Total	SBU-G	SBU-T	SBU-D	Total
Power Purchase			7186	7186			7186.00	7186.00
Interest & Finance Expenses	220.84	285.64	981.79	1488.27	84.20	107.18	394.45	585.83
Depreciation	172.43	184.25	58.12	414.80	172.43	184.25	58.12	414.80
O&M Expenses	75.71	193.82	1326.62	1596.15	72.07	190.04	1291.11	1553.22
Return on Equity	203.63	217.59	68.64	489.86	16.52	17.65	5.57	39.75
Total ARR	**672.61**	**881.30**	**9621.17**	**11175.08**	**345.22**	**499.13**	**8935.25**	**9779.60**
Less: Non-Tariff Income			441.00	441.00			441.00	441.00
Net ARR	**672.61**	**881.30**	**9180.17**	**10734.08**	**345.22**	**499.13**	**8494.25**	**9338.60**
Revenue from Tariff				10900.72				10900.72
Revenue Surplus				**166.64**				**1562.12**

Table6: Revised ARR & Revenue Surplus for FY 2017-18 (Rs. Crore)

Particulars	FY 2017-18							
	KSERC suo-motu Petition				Kerala EHT & HT Association			
	SBU-G	SBU-T	SBU-D	Total	SBU-G	SBU-T	SBU-D	Total
Power Purchase			7091.09	7091.09			7091.09	7091.09
Interest & Finance Expenses	221.29	286.58	998.68	1506.55	72.17	93.10	397.29	562.56
Depreciation	172.43	184.25	58.12	414.80	172.43	184.25	58.12	414.80
O&M Expenses	80.13	216.78	1440.36	1737.27	76.28	201.47	1362.26	1640.01
Return on Equity	203.63	217.59	68.64	489.86	16.52	17.65	5.57	39.75
Total ARR	**677.48**	**905.20**	**9656.89**	**11239.57**	**337.40**	**496.47**	**8914.33**	**9748.20**
Less: Non-Tariff Income			449.00	449.00			449.00	449.00
Net ARR	**677.48**	**905.20**	**9207.89**	**10790.57**	**337.40**	**496.47**	**8465.33**	**9299.20**
Revenue from Tariff				11529.74				11529.74
Revenue Surplus				**739.17**				**2230.54**

<u>Reduction in ACoS</u>

19. Based on the above suggested changes to the ARR and Revenue Surplus, the Association has recomputed the reduction in ACoS possible for FY 2016-17 and FY 2017-18, as shown in the Table below:

Table7: Revised ARR & Revenue Surplus for FY 2017-18 (Rs. Crore)

Particulars	FY 2016-17	FY 2017-18
Surplus assessed by KSERC (Rs. Cr)	166.64	739.17
Addnl. Reduction in ARR (Rs. Cr)	1395.48	1491.37
Total Surplus	1562.12	2230.54
Sales (MU)	20626	21840
Reduction in ACoS with KSERC Proj.	0.08	0.34
Addnl. Reduction in ACoS (Rs./kWh)	0.68	0.68
Total Reduction in ACoS (RS/kWh)	0.76	1.02

IV. TARIFF PROPOSAL

20. Though the Hon'ble KSERC has calculated the Voltage-wise Cost of Supply (VCoS), as directed by the Hon'ble APTEL, the Hon'ble KSERC has not applied the rationale that the EHT and HT tariffs should be lower than the LT tariffs. The Hon'ble KSERC should have at least made a beginning in this regard, rather than merely giving the calculations of VCoS and not using this principle at all while revising the tariff.

21. The ACoS of Rs. 5.60 /kWh appears to be incorrect. The correct ACoS, considering the ARR of Rs. 12163 crore and Sales of 21840 MU, as worked out by the Hon'ble KSERC works out to Rs. 5.57 /kWh. Considering this ACoS, the cross-subsidy levels work out differently, and it is seen that the cross-subsidy levels have not been reduced from existing levels for certain subsidising categories, which is inconsistent with the provisions of the EA 2003 and Tariff Policy. Further, after considering the further reduction of Rs. 0.68 /kWh, the ACoS will reduce further to Rs. 4.89 per kWh.

22. Considering the revised ACoS, Transmission Loss, and LT losses as suggested by the Association, the VCoS also undergoes a change. The Association has recomputed the VCoS based on its suggestions, as shown in the Table below:

Table 8: Revised VCoS for FY 2016-17 (Rs. Crore)

Sl.	Particulars	KSERC Suo-motu Tariff Proposal				Kerala HT & EHT Association			
		EHT	HT	LT	Total	EHT	HT	LT	Total
1	Energy Sale at different Voltage Levels (MU)	1867.99	3299.36	15458.34	20625.69	1867.99	3299.36	15458.34	20625.69
2	Distribution Loss associated with energy sale at different Voltages (%)	0%	5.50%	11.76%		0%	5.50%	13.53%	
3	Distribution Loss associated with energy sale at different Voltages (MU)	0.00	192.03	2059.81	2251.83	0.00	192.03	2419.14	2611.16
4	Energy Input for Sales at different Voltages (MU)	1867.99	3491.39	17518.15	22877.52	1867.99	3491.39	17877.48	23236.85
5	Power Purchase Cost (apportioned to different Voltages in the ratio of energy input) (Rs. Cr.)	713.63	1333.82	6692.47	8739.91	645.55	1206.58	6178.23	8030.36
6	Distribution Cost (apportioned to different Voltages in the ratio of energy input) (Rs. Cr.)	203.72	380.77	1910.52	2495.01	105.17	196.57	1006.51	1308.25
7	Total Cost (Rs. Cr.)	917.35	1714.58	8602.98	11234.92	750.72	1403.15	7184.74	9338.61
8	**Cost per Unit (Rs/kWh)**	**4.91**	**5.20**	**5.57**		**4.02**	**4.25**	**4.65**	

23. For several subsidising categories, where the cross-subsidy levels are in excess of 120% as per the Hon'ble KSERC's own calculation, the Hon'ble KSERC has

merely stated that it has not proposed any tariff revision. However, the Hon'ble KSERC should actually reduce the tariffs in such a way that the cross-subsidy levels are reduced and are closer to the levels of ±120% of ACoS.

24. As stated earlier, the ACoS of Rs. 5.60 /kWh appears to be incorrect. The correct ACoS, considering the ARR of Rs. 12163 crore and Sales of 21840 MU, works out to Rs. 5.57 /kWh. The Association has re-computed the category-wise cross-subsidy levels considering the ACoS of Rs. 5.57/kWh and Rs. 4.89/kWh, as shown in the Tables below:

Table9: Cross-subsidy levels proposed by the Hon'ble KSERC (considering ACoS of Rs. 5.57/kWh)

Sl.	Category	FY18 Sales (MU)	ABR			Cross-subsidy (%)			Tariff Increase proposed by KSERC (%)
			Prev. T.O.	Existing	KSERC Proposal	Prev. T.O.	Existing	KSERC Proposal	
	LT Category	**16447.95**							
1	Domestic (LT I A)	11393.81	3.76	3.76	4.08	71.21%	67.51%	73.26%	8.5%
2	Commercial	3259.44							
3	Industrial (LT IVA)	1116.63	5.96	5.96	6.41	112.88%	107.02%	115.10%	7.6%
4	Industrial (LT IVA)		6.70	6.70	6.70	126.89%	120.31%	120.31%	0.0%
5	Agricultural	287.40	2.39	2.39	2.39	45.27%	42.92%	42.92%	0.0%
6	General (LT VI A)		6.28	6.28	6.28	118.94%	112.76%	112.76%	0.0%
7	General (LT VI B)		7.10	7.10	7.10	134.47%	127.49%	127.49%	0.0%
8	General (LT VI C)		9.00	9.00	9.00	170.45%	161.60%	161.60%	0.0%
9	General (LT VI E)		5.94	5.94	6.33	112.50%	106.66%	113.66%	6.6%
10	General (LT VI F)		8.40	8.40	7.33	159.09%	150.83%	131.62%	-12.7%
11	General (LT VII A)		9.00	9.00	8.33	170.45%	161.60%	149.57%	-7.4%
12	General (LT VII B)		5.48	5.48	5.70	103.79%	98.40%	102.35%	4.0%
13	General (LT VII C)		8.00	8.00	8.00	151.52%	143.65%	143.65%	0.0%
14	Street Lights (LT VIII)	390.67	3.75	3.75	4.35	71.02%	67.34%	78.11%	16.0%
	HT Category	**3448.07**							
15	HT I Industrial (HT I A)	2009.59	6.11	6.11	6.40	115.72%	109.71%	114.92%	4.7%
16	HT I Industrial (HT I B)		6.44	6.44	6.64	121.97%	115.64%	119.23%	3.1%
17	HT II General (HT II A)	766.58	6.67	6.67	6.87	126.33%	119.77%	123.36%	3.0%
18	HT II General (HT II B)		8.36	8.36	8.36	158.33%	150.11%	150.11%	0.0%

Sl.	Category	FY18 Sales (MU)	ABR			Cross-subsidy (%)			Tariff Increase proposed by KSERC (%)
			Prev. T.O.	Existing	KSERC Proposal	Prev. T.O.	Existing	KSERC Proposal	
19	HT III Agriculture (HT III A)	7.05	5.50	4.82	4.82	104.17%	98.76%	86.55%	0.0%
20	HT III Agriculture (HT III B)		4.38	4.38	4.38	82.95%	78.65%	78.65%	0.0%
21	HT IV Commercial	653.11	9.05	9.00	9.00	171.40%	162.50%	161.60%	0.0%
22	HT V Domestic	11.74	7.73	7.73	7.73	146.40%	138.80%	138.80%	0.0%
	EHT Category	**1301.71**							
23	EHT 66 kV	248.03	5.41	5.41	5.70	102.46%	97.14%	102.35%	5.4%
24	EHT 110 kV	700.99	5.48	5.48	5.78	103.79%	98.40%	103.79%	5.5%
25	EHT 220 kV	35.12	6.77	6.77	6.77	128.22%	121.56%	121.56%	0.0%
26	EHT General	75.54	8.17	8.17	8.17	154.73%	146.70%	146.70%	0.0%
27	Railway Traction	242.03	5.75	5.75	6.05	108.90%	103.25%	108.63%	5.2%

Table 10: Cross-subsidy levels proposed by the Hon'ble KSERC (considering ACoS of Rs. 4.89/kWh)

Sl.	Category	FY18 Sales (MU)	ABR			Cross-subsidy (%)			Tariff Increase proposed by KSERC (%)
			Prev. T.O.	Existing	KSERC Proposal	Prev. T.O.	Existing	KSERC Proposal	
	LT Category	**16447.95**							
1	Domestic (LT I A)	11393.81	3.76	3.76	4.08	71.21%	76.89%	83.44%	8.5%
2	Commercial	3259.44							
3	Industrial (LT IVA)	1116.63	5.96	5.96	6.41	112.88%	121.88%	131.08%	7.6%
4	Industrial (LT IVA)		6.70	6.70	6.70	126.89%	137.01%	137.01%	0.0%

Sl.	Category	FY18 Sales (MU)	ABR			Cross-subsidy (%)			Tariff Increase proposed by KSERC (%)
			Prev. T.O.	Existing	KSERC Proposal	Prev. T.O.	Existing	KSERC Proposal	
5	Agricultural	287.40	2.39	2.39	2.39	45.27%	48.88%	48.88%	0.0%
6	General (LT VI A)		6.28	6.28	6.28	118.94%	128.43%	128.43%	0.0%
7	General (LT VI B)		7.10	7.10	7.10	134.47%	145.19%	145.19%	0.0%
8	General (LT VI C)		9.00	9.00	9.00	170.45%	184.05%	184.05%	0.0%
9	General (LT VI E)		5.94	5.94	6.33	112.50%	121.47%	129.45%	6.6%
10	General (LT VI F)		8.40	8.40	7.33	159.09%	171.78%	149.90%	-12.7%
11	General (LT VII A)		9.00	9.00	8.33	170.45%	184.05%	170.35%	-7.4%
12	General (LT VII B)		5.48	5.48	5.70	103.79%	112.07%	116.56%	4.0%
13	General (LT VII C)		8.00	8.00	8.00	151.52%	163.60%	163.60%	0.0%
14	Street Lights (LT VIII)	390.67	3.75	3.75	4.35	71.02%	76.69%	88.96%	16.0%
	HT Category	**3448.07**							
15	HT I Industrial (HT I A)	2009.59	6.11	6.11	6.40	115.72%	124.95%	130.88%	4.7%
16	HT I Industrial (HT I B)		6.44	6.44	6.64	121.97%	131.70%	135.79%	3.1%
17	HT II General (HT II A)	766.58	6.67	6.67	6.87	126.33%	136.40%	140.49%	3.0%
18	HT II General (HT II B)		8.36	8.36	8.36	158.33%	170.96%	170.96%	0.0%
19	HT III Agriculture (HT III A)	7.05	5.50	4.82	4.82	104.17%	112.47%	98.57%	0.0%
20	HT III Agriculture (HT III B)		4.38	4.38	4.38	82.95%	89.57%	89.57%	0.0%
21	HT IV Commercial	653.11	9.05	9.00	9.00	171.40%	185.07%	184.05%	0.0%
22	HT V Domestic	11.74	7.73	7.73	7.73	146.40%	158.08%	158.08%	0.0%
	EHT Category	**1301.71**							
23	EHT 66 kV	248.03	5.41	5.41	5.70	102.46%	110.63%	116.56%	5.4%

Sl.	Category	FY18 Sales (MU)	ABR			Cross-subsidy (%)			Tariff Increase proposed by KSERC (%)
			Prev. T.O.	Existing	KSERC Proposal	Prev. T.O.	Existing	KSERC Proposal	
24	EHT 110 kV	700.99	5.48	5.48	5.78	103.79%	112.07%	118.20%	5.5%
25	EHT 220 kV	35.12	6.77	6.77	6.77	128.22%	138.45%	138.45%	0.0%
26	EHT General	75.54	8.17	8.17	8.17	154.73%	167.08%	167.08%	0.0%
27	Railway Traction	242.03	5.75	5.75	6.05	108.90%	117.59%	123.72%	5.2%

25. From the above analysis, the Association has drawn certain conclusions and makes some suggestions as under.

26. The cross-subsidy levels have effectively been increased for all subsidising HT and EHT categories, which is inconsistent with the provisions of the EA 2003 and Tariff Policy.

27. The cross-subsidy levels have been increased from existing levels for the subsidised LT and HT Agricultural categories, which is inconsistent with the provisions of the EA 2003 and Tariff Policy. The Hon'ble KSERC has cited "adverse problems faced by the farmers" for the proposed increase in cross-subsidy. The Association respectfully submits that the necessity of providing subsidy to any category on account of adverse conditions is the prerogative of the State Government under Section 65 of the EA 2003. The EA 2003 does not permit the Hon'ble KSERC to increase the cross-subsidy for other categories based on such considerations.

28. Though the Hon'ble KSERC has considered sales of 3259 MU to the LT Commercial category, which comprises 15% of the total sales, there is no mention of the existing or proposed tariffs or cross-subsidy for this category. As this category is a subsidising category, the tariffs for this category are very relevant for tariff determination of other categories, and hence, the appropriate tariff for this category needs to be determined.

29. The Association respectfully submits that the cross-subsidy for all categories should be within ±20% of ACoS, and if the State Government desires to subsidise any category, it may do so under Section 65 of the EA 2003. Further, the Association requests the Hon'ble KSERC to re-compute the ACoS as suggested by the Association and accordingly revise the category-wise tariffs, keeping the cross-subsidy reduction trajectory in mind.

30. The Hon'ble KSERC may kindly consider further encouraging installation of solar generation grid connected systems, by way of Generation Based Incentive of Rs. 1.75 /kWh (@50% of Solar REC floor price of Rs. 3.50 /kWh). For off-grid/stand-alone solar installations, the GBI of Rs. 100/kW per month may be considered. KSEB Ltd. can claim Solar Power Obligation (SPO) benefits for such quantum of energy. This will reduce the burden on KSEB Ltd. and also facilitate KSEB Ltd. to achieve its RPO through purchase of renewable energy.

31. While the Association appreciates that the Hon'ble KSERC is required to determine tariffs and reduce the cross-subsidy with respect to ACoS in accordance with Regulation 86(6) and 86(7) of the KSERC Tariff Regulations, 2014, it may be noted that Regulation 86(10) specifies that *"While determining* *the tariff the Commission may also keep in view the cost of supply at different voltage levels and the need to minimise tariff shock to any category of consumers".*

<u>Incentives/ Discounts</u>

32. The Association respectfully requests the Hon'ble KSERC to revisit the incentives/discounts being provided presently, along the following suggested lines:
    a. The consumers have shifted/are shifting their loads/consumption to off-peak hours to avail the off-peak rebates, and reduce the peak load on the system, as desired by the Hon'ble KSERC. The Hon'ble KSERC will appreciate that unless the load is shifted, the consumption cannot be shifted. However, one consequence of shifting the load is that the Recorded Demand of the consumers increases, thereby increasing the Demand Charges payable. Hence, the Association requests the Hon'ble KSERC to exclude the demand recorded during the night off-peak hours from 22:00 hours to 06:00 hours, while considering the Recorded Demand for billing purposes. This will ensure that the consumers are not unduly penalized for shifting their loads/consumption to off-peak hours. The Hon'ble Maharashtra Electricity Regulatory Commission has provided a similar dispensation for several years, as reproduced below:

       "Monthly Billing Demand will be the higher of the following:
       a. Actual Maximum Demand recorded in the month during 0600 hours to 2200 hours;
       b. 75% of the highest Billing Demand recorded during the preceding eleven months, subject to the limit of Contract Demand;
       c. 50% of the Contract Demand.

       Note:
       - Only the Demand registered during the period 0600 to 2200 Hrs. will be considered for determination of the Billing Demand.
       - In case of a change in Contract Demand, the above period will be reckoned from the month following the month in which the change of Contract Demand is effected."

    b. The Power Factor (PF) Incentive is capped at 2.5% for Unity PF, which is quite low. In other States, the PF incentive is given upto 7% (Madhya Pradesh & Maharashtra) for Unity PF. The Hon'ble KSERC may kindly consider increasing the PF incentive such that the maximum incentive that can be earned is up to 7%, as being allowed in other States. For reference, the prevalent dispensation in Maharashtra is reproduced below:

"Whenever the average Power Factor is more than 0.95, an incentive shall be given at the rate of the following percentages of the amount of the monthly electricity bill, excluding Taxes and Duties:

Sl.	***Range of Power Factor***	***Power Factor Level***	***Incentive***
1	*0.951 to 0.954*	*0.95*	*0%*
2	*0.955 to 0.964*	*0.96*	*1%*
3	*0.965 to 0.974*	*0.97*	*2%*
4	*0.975 to 0.984*	*0.98*	*3%*
5	*0.985 to 0.994*	*0.99*	*5%*
6	*0.995 to 1.000*	*1.00*	*7%*

Note: Power Factor shall be measured/computed upto 3 decimals, after universal rounding off."

c. The Hon'ble KSERC may kindly consider introducing Load Factor (LF) Incentive, as has been done in other States, to incentivise consumers to maintain high load factor, which will improve the utilisation of the contracted capacity. For reference, the LF incentive mechanism applicable in Maharashtra, Chhattisgarh, and Orissa are reproduced below:

Maharashtra

"Consumers having Load Factor above 75% and upto 85% will be entitled to an incentive in the form of a rebate of 0.75% on the Energy Charges for every percentage point increase in Load Factor from 75% to 85%. Consumers having a Load Factor above 85 % will be entitled to a rebate of 1% on the Wheeling Charges, Energy Charges, and Regulatory Asset Charge for every percentage point increase in Load Factor from 85%. The total rebate will be subject to a ceiling of 15% of the Energy Charges applicable to the consumer."

Chhattisgarh (HV-4 Steel Industries)

"The consumers of this category shall be eligible for load factor rebate on energy charges, as under:

Monthly Load Factor (LF)	***Rebate***
(a) If monthly Load Factor is between 65% and below 70% on contract demand	*5% rebate on normal energy charges on entire energy consumption.*
(b) If monthly Load Factor is 70% and	*10% rebate on normal energy charges on*

Monthly Load Factor (LF)	***Rebate***
above on contract demand	*entire energy consumption.*

For the purpose of calculation of load factor, hours of load restriction enforced by CSPDCL/CSPTCL shall be excluded.
Provided that in case the monthly Load Factor is 64.99% or below, then no Load Factor Rebate shall be payable in that month."

Orissa

Category	Supply Voltage	Demand Charges (Rs./kVA/month)	Energy Charges (Rs./kWh)	
HV-3: General Purpose, Large Industry, Power Intensive Industry	EHT	250	Load Factor = < 60%	5.20
			Load Factor above 60%	4.15
	HT	250	Load Factor = < 60%	5.25
			Load Factor above 60%	4.20

d. Presently, the consumers in Kerala are entitled to Prompt Payment incentive of 0.3% of total bill excluding duties. However, this rebate is very low. When KSEB Ltd. is entitled to a rebate of 2% on prompt payment of its power purchase bills to the Central Generating Stations, then it is only fair that the consumers, who are enabling KSEB Ltd. to pay the CGS bills on time, should also get Prompt Payment incentive of 2% of total bill excluding duties.

33. The existing Average Tariff of the following categories considered in the Tariff Proposal differs from the Average Tariff approved by the Hon'ble KSERC in the Tariff Order for FY 2014-15, as shown below:

Table11: Difference in Average Tariff

Sl.	Category	Average Tariff as per Tariff Order for FY 2014-15	Average Tariff as per Suo-motu Tariff Proposal
1	HT IA Industrial	6.18	6.11
2	EHT 66 kV	5.94	5.41
3	EHT 110 kV	5.54	5.48
4	EHT 220 kV	Not Mentioned	6.77

The above revision of the Average Tariff values show that there is not much sanctity to the numbers and as the whole cross-subsidy reduction trajectory is based on the Average Tariff, it is a cause for concern.

34. The Association humbly requests the Hon'ble KSERC to clarify that no transaction charges shall be applicable from KSEB Ltd.'s side, for all online payments made through Credit Card/Debit Card/Direct Debit from bank, etc. This will encourage more consumers to pay online, thereby helping to improve the collection efficiency as well as reduce the burden on KSEB Ltd.'s cash collection centres, and will also be in tune with the Government of India's drive to minimise the cash transactions.

CROSS-SUBSIDY SURCHARGE

35. While offering its comments on the Cross-Subsidy Surcharge (CSS), the Association had not commented on the Transmission Loss of 4.50% considered by the Commission. However, as stated above, the Association respectfully submits that the Transmission Losses in KSEB Ltd.'s system cannot be higher than 3.00%. Hence, the Transmission Loss considered for Open Access transactions should be only 3.00% and the CSS should also be re-calculated accordingly.

36. The CSS has to be calculated based on the revised tariffs. As stated above, the Association has made a strong case for reducing the ACoS by Rs. 1.02 per kWh, which will translate to lower tariffs for all categories. The Association humbly requests the Hon'ble KSERC to consider the revised ABR and recalculate the CSS accordingly.

V. PRAYERS

37. The Association respectfully prays that the Hon'ble KSERC may be pleased to:

(i) Reconsider the Transmission Losses, Return on Equity, Interest on Loan, and normative O&M expenses as suggested by the Association, and accordingly reassess the cumulative revenue gap/(surplus) of KSEB Ltd. for FY 2016-17 and FY 2017-18;

(ii) Ensure that the cross-subsidy levels of the subsidising industrial categories are reduced to below existing levels, with respect to the correctly calculated ACoS;

(iii) Consider the cost of supply at different voltage levels as computed by the Association, as the basis while determining the tariffs;

(iv) Reconsider the incentives/discounts being offered based on the Association's suggestions;

(v) Re-calculate the CSS considering the revised Transmission Losses of 3% and the revised Tariffs after considering the reduced ACoS;

(vi) Consider the Association's detailed submissions and reduce the average tariffs by Rs. 1.02 per kWh;

(vii) Provide an opportunity to present our views on any submissions made by KSEB Ltd. during the course of these proceedings;

(viii) Provide clear and sufficient justification for rejecting or not considering any of the Association's submissions in the Tariff Order, especially the submission for not considering the past Truing up for FY 2011-12 and FY 2012-13;

(ix) Condone any inadvertent omissions/errors/shortcomings and permit the Association to add/change/modify/alter this submission and make further submissions as may be required at a future date;

(x) Pass such Orders as the Hon'ble KSERC may deem fit in the facts of the present case.