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

Reg. No. ER.772/86

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.

July 25, 2018

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Agenda

Regulatory Framework

Validity of Filings

Key Objections

Prayer to the Hon'ble Commission

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Regulatory Framework

Commission	Regulation
KSERC	Kerala State Electricity Regulatory Commission Terms and Conditions for Determination of Tariff Regulations, 2014
	KSERC Terms and Conditions of Tariff for Retail Sale of Electricity Regulations, 2006
	KSERC Terms and Conditions for Determination of Tariff for Distribution and Retail Sale of Electricity under MYT Framework Regulations 2006
CERC	Central Electricity Regulatory Commission Terms & Conditions of Tariff Regulations 2009
Other relevant acts	• The Electricity Act 2003. • Kerala Electricity Duty Act 1963

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Delay in Submission of Application for True up of ARR and ERC filings

- The true up petition of 2016-17 is submitted in 2018-19 by the KSEBL.
- **In 2010, the Hon'ble Commission has imposed penalty on KSEBL for non-filing of Truing up petition under** Section 142 of the Electricity Act, 2003.
- *The Hon'ble APTEL's Remarks* In Appeal No. 100 of 2007 (KPCL Vs KERC & Others)- ***"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 "***
- The 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".***

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Delay in Submission of Application for True up of ARR and ERC filings

- As compared 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 (i.e. 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.

- The Objector requests the Hon’ble Commission to insist the KSEBL to mention the date of submission of the petitions. It may be noted that **KSEBL has never mentioned the date of submission in its petition,** making it difficult to assess the actual delay in submission.

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Transmission & Distribution Losses

- The KSEBL has claimed 13.93% as T&D losses for the year 2016-17, which is erroneously calculated. However, as per the Sales and power purchase requirement submitted by the KSEBL, the ***T&D losses works out to be 14.09% {(23,325.95-20,038.25)/ 23,325.95}.***
- The Hon'ble Commission had set T&D loss for FY 17 as 13.90%. This entails the loss reduction target of 0.30% for FY17, which was not achieved by the KSEBL.
- No significant efforts are made by the KSEBL to reduce the losses. For example, KSEBL has not provided any details on the **replacement of faulty meters** as directed by Commission in previous orders.
- The KSEB Ltd has not so far submitted application for the approval of ***separate technical and commercial losses***, despite giving several directives by the Hon’ble Commission.
- Thus, the objector requests 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

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- 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 submitted by KSEBL.
- Thus, the differential **of 52.72 MU shall be disallowed at the cost of marginal power.**

	As per true up petition for 2016-2017	As per Objector
Energy Sales(MU)	20,038.25	20,038.25
T&D Loss (%)	13.93%	13.90%
Net energy input to KSEB system(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

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Hydel generation

- 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 auxiliary consumption of 0.62%.

- The Objector has carefully mapped the plant wise auxiliary consumption as per the prevailing regulation (Tariff regulation 2014) and compared it with the KSEBL's provided auxiliary consumption values and recalculated the auxiliary consumption as 16.83 MU against 26.97 MU as proposed by KSEBL

- The objector humbly requests to disallow the additional energy used for auxiliary consumption to an extent of 10.14 MU (26.97-16.83) from the energy quantum being procured from the marginal station.

Auxiliary consumption

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Liquid Fuel Stations (KDPP/BDPP)

- The KSEBL in the true-up petition has mentioned the auxiliary consumption for the liquid fuel stations ,BDPP and KDPP, to the tune of 0.94 MU and 1.67 MU respectively, a total of 2.61 MU.
- The objector has compared it with KSERC's Tariff regulation 2014 auxiliary consumption norms and recalculated the auxiliary consumption as 0.90 MU (0.18 MU for BDPP+0.72 MU for KDPP) against 2.61 MU as proposed by KSEBL. The differential quantum is 1.71 MU.
- Hence, 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

Own Generation & Power Purchase

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Power Purchase from Central Generating Stations

- The actual power purchase cost as per the true up petition of KSEBL is **Rs. 3.34/kWh**.
- KSEBL has submitted **higher power purchase cost** for CGS stations compared to the other states procuring power from the same sources.
- Comparison across states of power purchase from CGS station of variable cost approved by the Commissions (Weighted average) are provided in next slide:-

Power Purchase from Central Generating Stations-Continued

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Rs./Unit	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
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

Own Generation & Power Purchase

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Power Purchase from Central Generating Stations

- 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.**

- 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.**

- 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 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.

Own Generation & Power Purchase

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Power Purchase from IPPs within the State

- 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.
- The Hon'ble Commission in Suo moto 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.
- KSEBL has claimed Rs. 26.59 Cr. as KPCL Settlement against settlement deed and differential taxes . 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 the KSEBL.

*The cost of quantum of power (14 MU) 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.

Own Generation & Power Purchase

Power Purchase from IPPs/Traders outside state

- The power purchase cost from IPPs has been reduced on account of higher T&D losses (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.

Source	As per True up filings			As per Objector			
	Net Energy input(MU)	Total Cost (Rs. Cr.)	Per unit variable cost	Net Energy input(MU)	Total Cost (Rs. Cr.)	Difference over True up petition (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**	**2928.04**	**64.57**	**(37.66)**

Own Generation & Power Purchase

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	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

- Utilities of 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.

Own Generation & Power Purchase

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Summary of Power Purchase Cost

- The Objector requests Hon'ble Commission to allow only Rs. 6,835.89 Cr. as total cost of power purchase & energy generation against Rs. 7,551.41 Cr. as proposed by KSEBL.

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.

Own Generation & Power Purchase

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Summary of Power Purchase Cost

Particulars	As per True up petition	As per Objector	Difference over true up	Remarks
	Cost (Rs. Cr.)	Cost (Rs. Cr.)	Cost (Rs. Cr.)	
Traders / Exchanges/UI	384.52	384.52	-	-
Transmission charges	503.62	503.62	-	-
Total	**7551.41**	**6835.89**	**(715.52)**	-

- The objector requests the Hon’ble Commission may kindly disallow the differential amount of Rs. 715.52 Cr.

Interest and Financing Charges

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Interest on long term loans

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

Interest and Financing Charges

Interest on overdraft from Banks

- 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.
- 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.
- The scrutiny of annual accounts reveals that **there is no need for working capital borrowing.**
- **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.**

Interest and Financing Charges

Reg. No. ER.772/86

Interest on overdraft from Banks

- 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.

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**

Interest and Financing Charges

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Interest on overdraft from Banks

Particulars	FY15 [Rs. Cr.]	FY16 [Rs. Cr.]	FY17 [Rs. Cr.]
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)**

- 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.

Interest and Financing Charges

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Interest on provident fund

- KSEBL has claimed Rs. 143.45 Cr. interest on PF for the year 2016-17
- The Hon'ble Commission as per the True-up order 2013-14, notes that-

*"**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."*

- 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.

Interest and Financing Charges

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Interest on Master Trust Bond

- 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.
- 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.
- 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.

Interest and Financing Charges

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Interest on Master Trust Bond

- It shall be noted that the KSEBL has claimed the terminal liabilities amounting to Rs. 1012.16 Cr. for FY16-17. As per the Objector, this amount shall be completely disallowed in the virtue of prevailing regulations and government order to create separate Master trust.

- In the interest of time, the Objector submits that the interest of Master trust amounting to Rs. 814.40 Cr. to service terminal liabilities shall be allowed under Interest and Financing charges and not as a part of employee cost.

Interest and Financing Charges

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Summary of 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

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- The KSEBL has submitted net depreciation of Rs. 617.51 Cr. for the year 2016-17.
- The Objector has re-estimated based on KSERC Regulations 2014, Annexure-I. norms

Category	As per True up petition	Objector's analysis Depreciation as per KSERC Regulation 2014 norms	
	Depreciation (Rs. Cr.)	Depreciation %	Depreciation (Rs. Cr.)
Land and Rights	617.51	0%	0.00
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			**380.40**

- Therefore the Objector 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.

O&M Cost

- The KSEBL has submitted the amount of Rs. 2,988.53 Cr. as an O&M expense as segregated:

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 KSEBL (Incorrect calculated corresponding to employee cost)	2,348.62	265.12	374.79	2,988.53
Difference	208.90			208.90

- As per the Objector, the arithmetic sum of O&M cost total to Rs. 2,779.63 Cr., whereas the KSEBL has claimed Rs. 2,988.53 Cr. The difference of Rs. 208.90 Cr. Is unexplained in the petition.

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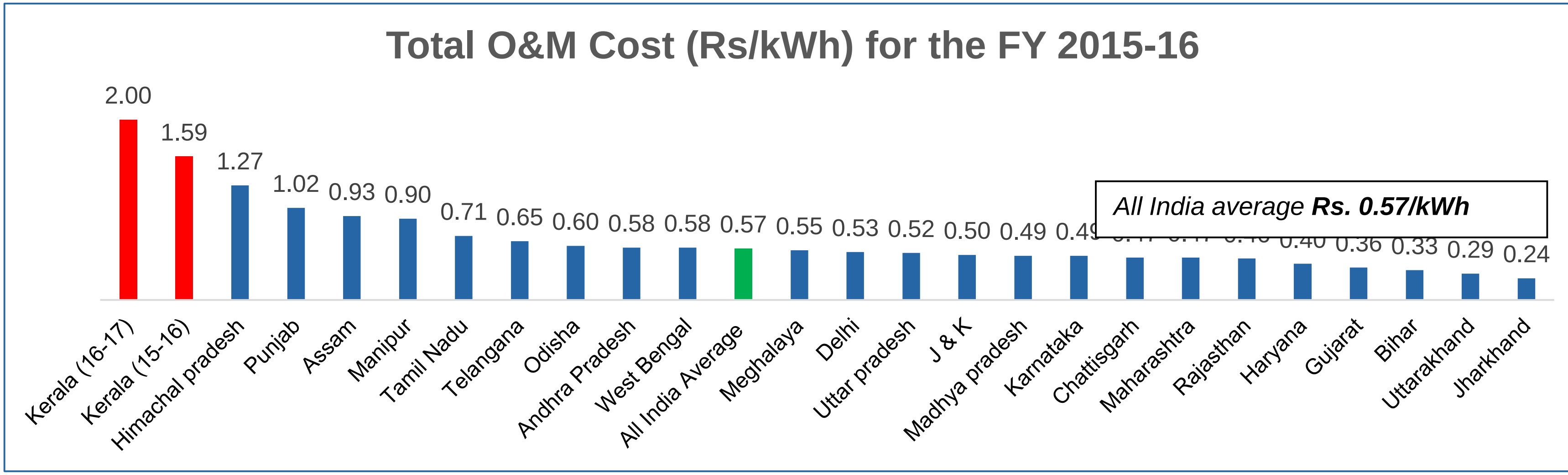
O&M Cost

- The Objector wants to highlight that the O & M Expense of the KSEBL is the highest in the country with about 3.5 times of the all India average.



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

- “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.”

O&M Cost

Employee Cost

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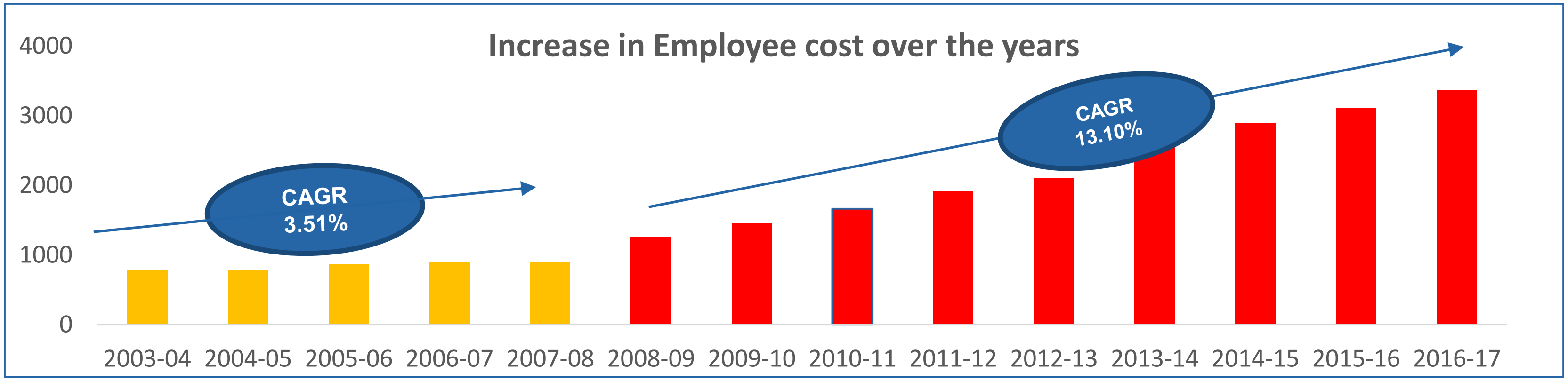
- The KSEBL has claimed Rs. 2,348.62 Cr. as Employee cost for the year 2016-17.

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

- The employee cost has increased at CAGR of 3.51% from FY04 to FY08, However, the employee cost has sharply increased at CAGR of 13.10% from FY09 to FY17 Thus, demonstrating **abnormal rise in employee cost** over the years



O&M Cost
Employee Cost

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- Remarks made by the Additional Chief Secretary (Finance), Government of Kerala 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**. Distributing largesse based on such 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.

O&M Cost
Employee Cost

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- *Continue..*
  - 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.***

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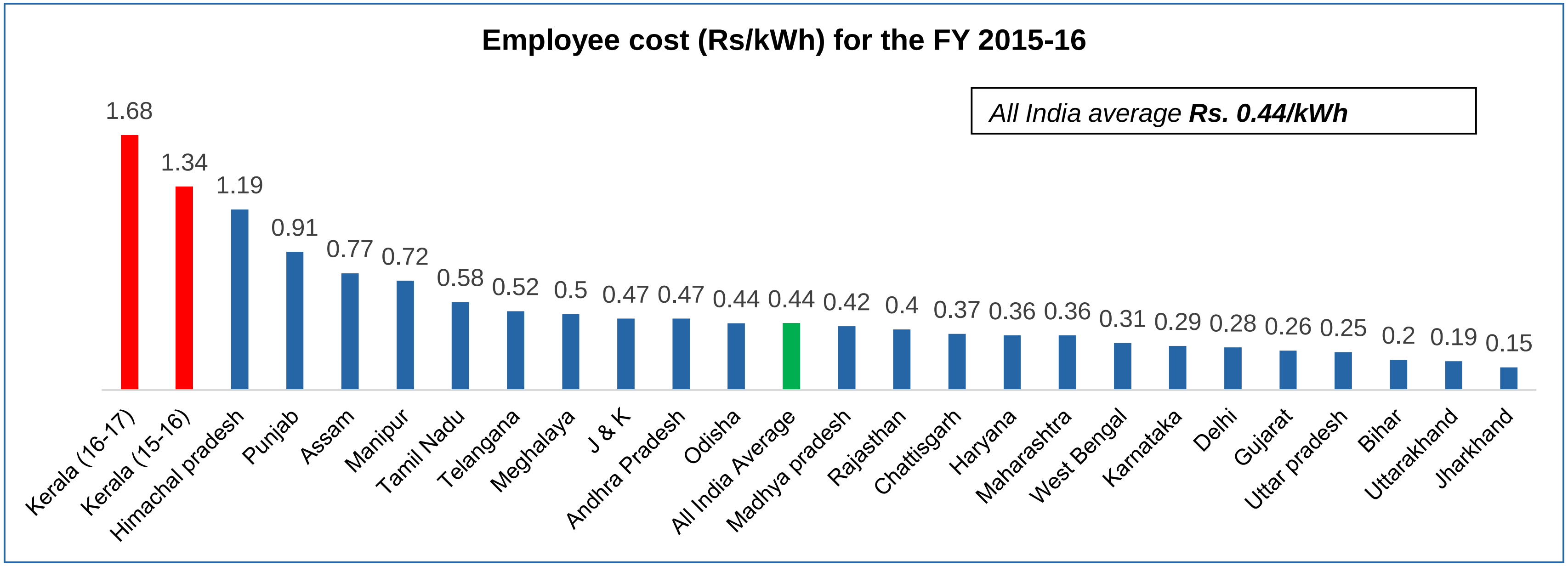
O&M Cost
Employee Cost

- 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

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O&M Cost
Employee Cost

- MoP's State Distribution Utilities Sixth annual integrated rating report published in July 2018 also highlights the following in the case of KSEBL:-

"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 costs were lower, the rank of the KSEBL could have improved drastically.
- In FY 16, the KSEBL was ranked at 12^{th} position out of 41 utilities. The rank of KSEBL has drastically dropped to 23^{rd} position in FY 17, due to high employee cost.

Source: - PFC Performance Summary of State Utilities, KSEBL True up petition 2015-16.

O&M Cost
Employee Cost

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Employee Cost

- The Objector would also like to bring to the attention of the Hon'ble Commission to IIM Kozhikode's report on Enhancing Service Quality and Organisational Effectiveness in KSEBL. The report has provided explicit recommendations on organisational structure, career and training needs. The Objector requests the Hon'ble Commission to persist KSEBL to pursue the recommendation to bring the enhancement in productivity and quality of service.
- The Hon'ble APTEL's view on the employee cost in order on Appeal No. 1 of 2013 and 19 of 2013, followed by the judgement of 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**"*

O&M Cost
Employee Cost

Employee Cost

- The remark of the Hon'ble Commission in ARR ERC Order 2014-15 is given below for easy reference:-

"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"

- 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.

O&M Cost
Employee Cost

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Employee Cost

- The Hon'ble Commission's remarks in the Suo-moto order is:-

"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 cos****t.*

"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".*

O&M Cost

Employee Cost

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- On employee hiring, the Objector is of the view that KSEBL is following very ***unscientific recruitment procedures***.
- 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

- 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**."*

- 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.

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O&M Cost

Repair and Maintenance Cost

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

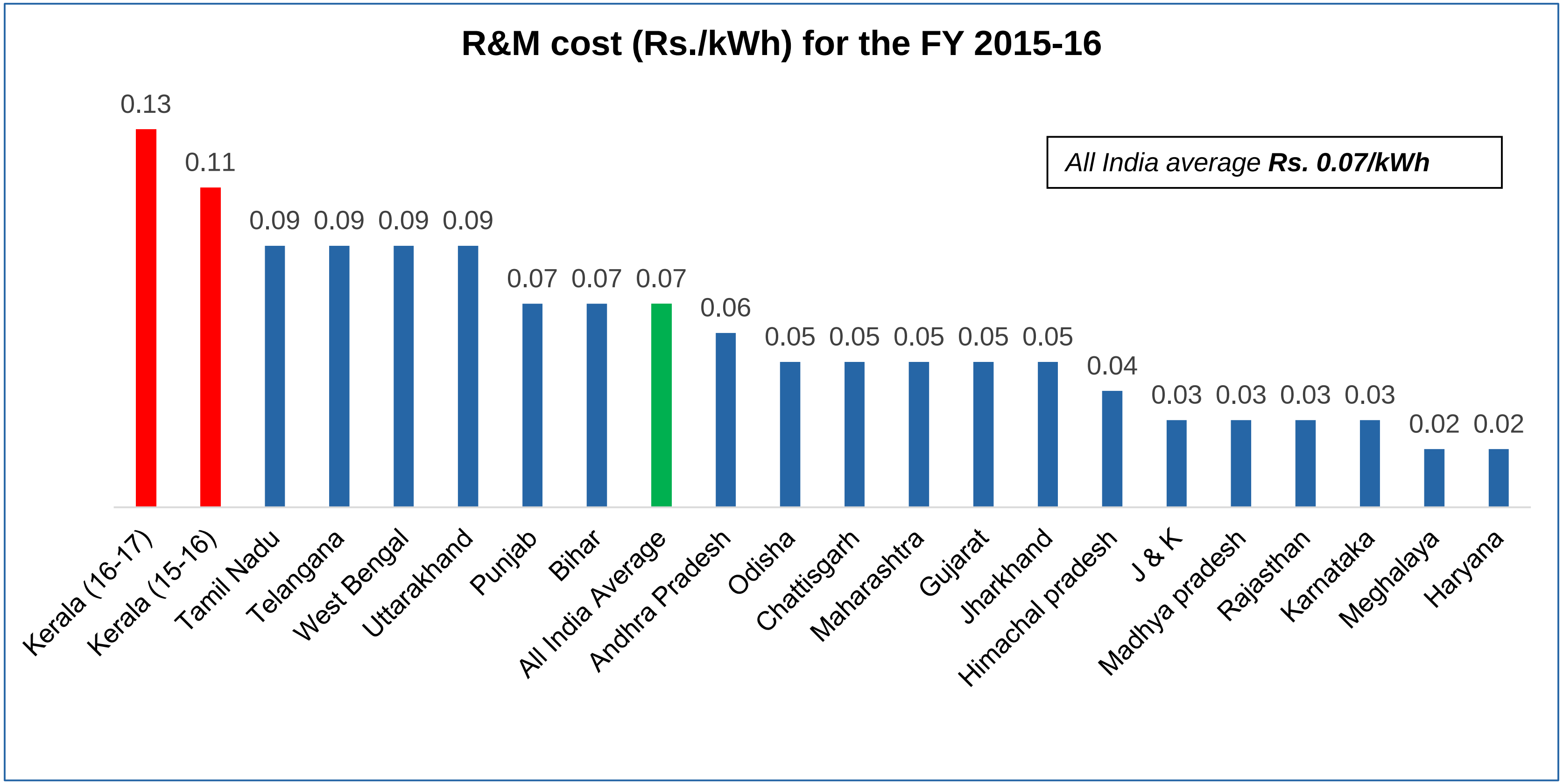
SBU (Rs. Cr.)	R&M Expenses
Generation	27.70
Transmission	47.21
Distribution	190.21
Total	265.12

- 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.

O&M Cost

Repair and Maintenance Cost

- The R&M cost of the KSEBL is higher as compared to other States utilities and national average



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O&M Cost

Administrative & General Expenses

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

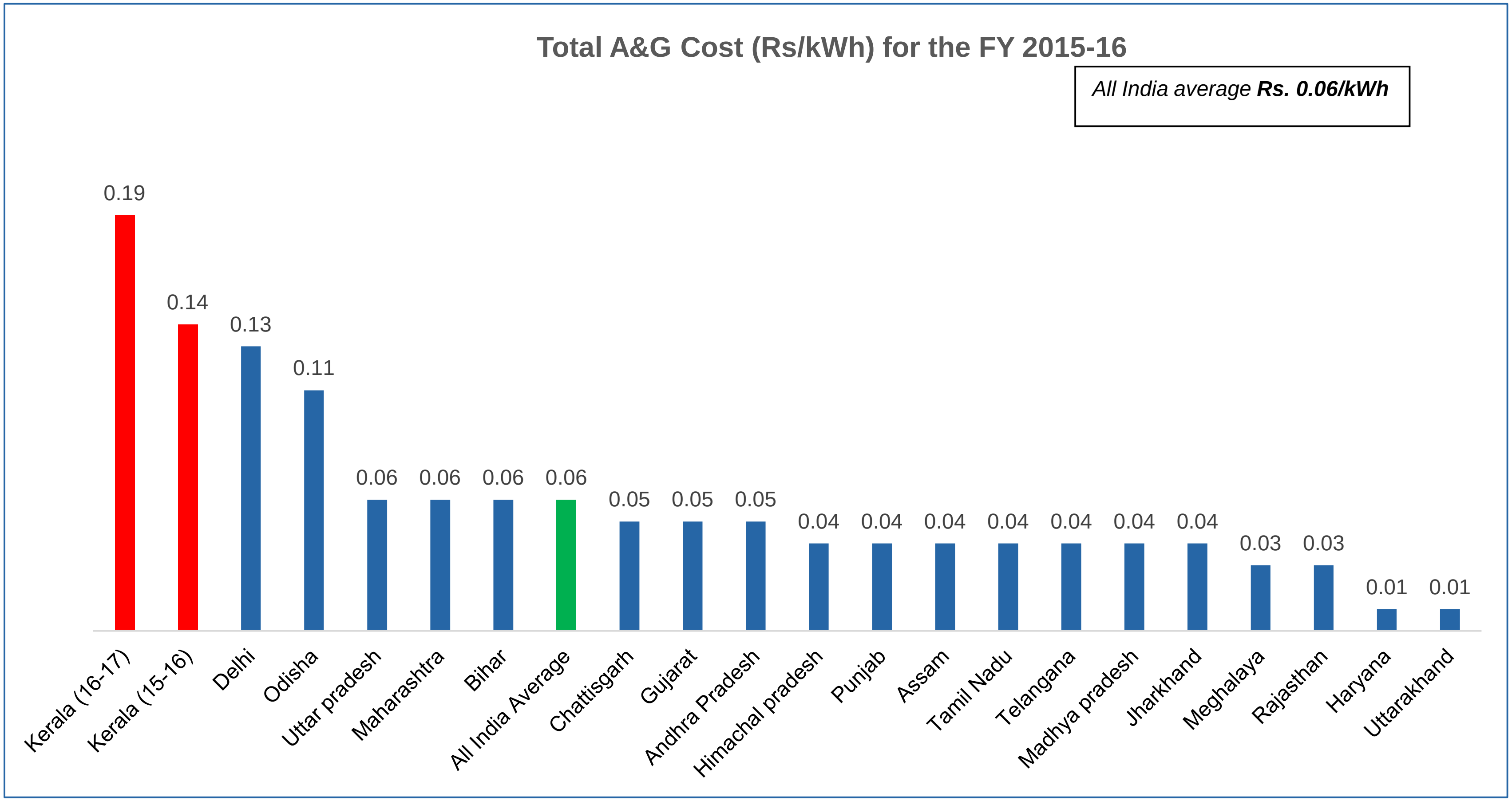
SBU (Rs. Cr.)	A&G Expenses
Generation	9.69
Transmission	64.99
Distribution	300.11
Total	374.79

- As per the KSERC Electricity Duty Act 1963, "***The Electricity duty shall be borne by the Licensee and shall not be passed on to the consumers***".
- The Hon'ble Commission had disallowed the electricity duty fully in true up order for 2013-14. Thus the Commission shall take similar stand and disallow the Electricity Duty fully.
- In the petition, KSEBL has tried to **justify actual expenses rather than the prudency** of expenses.

O&M Cost

Administrative & General Expenses

- The A&G expenses of KSEB is comparatively higher compared to similar utilities.



O&M Cost

Administrative & General Expenses

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- 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.***
- Based on the arguments provided above, it can be concluded that the expenses proposed under the O&M head by the KSEBL are 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.

O&M Calculation

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- The Hon’ble Commission had formulated Terms and Conditions for Determination of Tariff Regulations in 2014, based on which the Objector has assessed the O&M expense.
- The Clause no 44, Annexure VII of the KSERC Regulation 2014 specifies the O&M Norms for existing generating stations of Generation Business of KSEBL for 2016-17

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 on 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**

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O&M Calculation

- **O&M Cost for generation business as per the regulation (for new small hydro plants)**

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**

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O&M Calculation

- **O&M Cost for generation business as per the regulation (for solar plants)**

Particulars	COD	Norms as per KSERC Regulation	Project Cost*	O&M cost as per the Objector
Kanjikode	**COD**		6.06	0.13
Chaliyur	28/08/2015		0.58	0.01
Peringalkuthu	31/08/2015		0.30	0.01
Banasurasagar Floating	10/09/2015		3.03	0.06
Banasurasagar(tree,flower)	21/01/2016		0.02	0.00
Kollamcode	21/01/2016	For Year 1:- 2% of the Capital cost; subsequent years:- Escalation at 5.85%	5.30	0.07
Padinjarethara	08/08/2016		2.33	0.03
Edayar	29/08/2016		6.63	0.08
Palakkad Adivasi colony (5)	05/09/2016		0.25	0.00
Barapole Canal Bank	30/11/2016		5.30	0.04
Barapole canal top	30/11/2016		15.90	0.12
Roof Top various locations	17/11/2016		3.71	0.00
Total Cost (Rs. Cr.)			**49.51**	**0.55**

- 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

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O&M Calculation

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
O&M Cost	372.49	Norms	Details	Total cost	
		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

- 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

O&M Calculation

Reg. No. ER.772/86

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			0.00	0.00
R&M Costs	190.21		-		190.21
Total	**2,278.59**				**1,296.89**

The Kerala HT and EHT Industrial Electricity Consumers' Association

O&M Calculation

Reg. No. ER.772/86

- Summary of O&M Calculation.

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 T- 193.82 D- 1,296.89	(1,097.10)
A&G cost excluding Electricity duty	259.52		
R&M Cost	265.12		
Electricity Duty	115.27	0.00	(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)

- Thus, the Objector requests Hon'ble Commission to allow Rs. 1,567.26 Cr. against Rs. 2,988.53 Cr. as claimed by the KSEBL.
- This translates into a total disallowance of Rs. 1,421.27 Cr. from O&M Cost.

Other Expenses

Reg. No. ER.772/86

- 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 KSEBL.

Terminal Liabilities

Reg. No. ER.772/86

- 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.
- 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.
- 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.
- ***Since, KSEB Ltd. has not issued the Bonds to the Master Trust, the Objector strongly recommends to disallow the terminal benefits amounting to Rs. 1,012.16 Cr.***

Return on Equity

Reg. No. ER.772/86

- 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.
- 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."*

Return on Equity

Reg. No. ER.772/86

- The Objector would like to invite the kind attention of the Hon'ble Commission to APTEL's Order dated 18 November 2015, Appeal No. 247 of 2014 (Kerala HT EHT Industrial Consumers Association v/s KSEBL & KSERC).

“The suggestion of Consultant engaged by the Hon’ble Commission on equity base is reproduced below:-

..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 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****..”*

Return on Equity

Reg. No. ER.772/86

- 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.
- 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.

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

Summary of ARR as per True up filings & re-estimated by the Objector

Reg. No. ER.772/86

S. NO.	Particulars	As per true up petition for 2016-17 (Rs. Cr.)		Re-estimated by Objector for true up of 2016-2017 (Rs. Cr.)	
		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
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)**

Summary of ARR as per True up filings & re-estimated by the Objector

Reg. No. ER.772/86

- Based on the re-estimation of each head presented in 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

SUMMARY

Prayer to the Hon’ble Commission

Reg. No. ER.772/86

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

SUMMARY

Prayer to the Hon’ble Commission

Reg. No. ER.772/86

Parameter	Submissions
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

SUMMARY

Prayer to the Hon'ble Commission

Reg. No. ER.772/86

Parameter	Submissions
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

Thank you