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

IN THE MATTER OF:

TRUING UP OF COST AND REVENUE OF THE KERALA STATE ELECTRICITY BOARD LIMITED (KSEBL) FOR THE YEAR 2015-2016.

OBJECTIONS FILED BY:

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

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OBJECTIONS OF THE KERALA HT & EHT INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION (THE OBJECTOR)TO THE PROPOSAL OF KERALA STATE ELECTRICITY BOARD LIMITED (THE PETITIONER) IN THE MATTER OF TRUING UP OF COST AND REVENUE FOR THE YEAR 2015-2016 BEFORE THE HON'BLE KERALA STATE ELECTRICITY REGULATORY COMMISSION, THIRUVANANTHAPURAM

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A1: BACKGROUND

OBJECTIONS OF THE KERALA HT & EHT INDUSTRIAL ELECTRICITY CONSUMERS' ASSOCIATION TO THE APPLICATION OF KERALA STATE ELECTRICITY BOARD LIMITED (THE PETITIONER) IN THE MATTER OF TRUING UP OF COST AND REVENUE FOR THE YEAR 2015-2016.

The above-mentioned Objector most humbly begs to prefer the present objection against the application of the Petitioner in the matter of truing up of cost and revenue for the year 2015-2016on the following facts and grounds amongst others.

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

2. In 2015-2016, HT/EHT consumers accounted for about 21% of the total energy sales to consumers by the Kerala State Electricity Board Limited (KSEBL). They contributed around27% to the total revenue from tariffs.[1]

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

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

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

4. Section 61 (g) of the Electricity Act, requires the Hon'ble Commission to determine tariffs reflecting Cost of Supply of electricity and also to reduce cross-subsidies in a manner specified by the Commission. Section 61 (d) also mandates the Commission to encourage the principles of efficiency, economy, and competition. To safeguard the interests of the consumers and in the light of the provisions of the Electricity Act 2003, the Objector opposes truing up of cost and revenue for the year 2015-2016of the Petitioner on various issues which are discussed in this document.

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

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

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

[1] As per KSEBL True up petition 2015-16

A2: VALIDITY OF FILINGS

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

2.1 Filings of truing up petitions before the Hon'ble Commission is the responsibility of the licensees. Truing up is essential to realign the consumers' tariff based on the actual expenditure incurred by the licensees. The submission of the true-up petition by KSEBLfor 2015-2016in the year FY 2019 is not acceptable. In the past also, KSEBL has considerably delayed submission of true up petitions.

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

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

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

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

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

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

"Invariably, the projections at the beginning of the year and actual expenditure and revenue received differ due to one reason or the other. Therefore, truing up is necessary. Truing up can be taken up in two stages: Once when the provisional financial results for the year are compiled and subsequently after the audited accounts are available.."

*"..**It is not desirable to delay the truing up exercise for several years and then spring a surprise for the licensee and the consumers by giving effect to the truing up for the past several years.."***

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

2.5 Further, as per the provision of Companies Act 2013, the KSEBL shall file the annual accounts within seven months of closing financial years. And accordingly as per the MYT framework, file the ARR ERC petition for next year along with the true-up for the previous year. It is to be noted that the Regulatory system in Kerala was established in 2002 (i.e. since15 years) and KSEBL shall be aware of the provisions by now. However, KSEBL has continuously failed in filing the petition on time.

2.6 On the view of above, the Objector requests the Hon’ble Commission to treat this case as a serious instance of non-compliance and to impose a penalty for non-compliance of the directions of the Commission.

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

2.8 The Objector also raises the question to the KSEBL on the validity of the submission of true up filings for the year 2015-16 in absence of ARR and ERC order for the year 2015-16. It shall be noted that in the complete true up petition, the KSEBL has justified its expenses against the ARR proposal for the year 2015-16, which is insignificant in the absence of ARR ERC Order by the Hon’ble Commission. Also, the ARR ERC petition 2015-16 was not available to the other stakeholders/ objectors for the review.

A3: KEY OBJECTIONS

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

Transmission and Distribution (T&D) Losses

3.2 As per the directives of the KSERC Order on ARR and ERC for 2011-2012 & 2012-2013, KSEBLshould study and report the voltage level loss as well as technical and commercial losses in transmission and distribution. The excerpts of the direction on the T&D loss study is given below-

“The Board shall study and report the voltage level loss as well as ***technical-commercial separation*** *of T&D loss within four months from the date of the Order. The frequency of studies shall be increased especially in transmission by periodically taking into consideration* ***seasonal load flow variations*** *and the results may be reported to the Commission in a consolidated form. In the case of loss studies in distribution, the Commission had already issued guidelines for taking up more representative sample studies and making a consolidated report. The consolidated report of loss studies in transmission and distribution shall be submitted to the Commission by 1-10-2012.”*

3.3 In compliance with the directions issued by the Commission, KSEBLhas reported the results of the T&D loss studies based on simulations taken from three time zones in 2013-14.

3.4 Though KSEBLhas given its report on the study on T&D losses, the Objector is of the view that the same was not complete and not in a consolidated form as directed. The details provided were not segregated in between Technical & Commercial losses. Further, the loss study has not been conducted in different load scenarios as the system peak cannot be used to access the actual voltage level losses. The Objector would like to rephrase of the Hon’ble Commission’s view on the loss study below.

“Though the Board has given its report on the study on T&D loss, the same was not complete and not in a consolidated form as directed. In the case of transmission, results of sample studies on power loss were given, but the ***applicability of such studies for the present framework is doubtful****. The attempts made to estimate the losses in distribution are also* ***not satisfactory*** *and objective.”*

3.5 The Hon’ble Commission had also directed in the previous orders that KSEBLshould submit a workable action plan within 6 months to replace the faulty meters with good quality meters. The Commission had also directed to reduce the faulty meters in the system by 2% of the total connections. However, KSEBL has not provided any satisfactory documentation related to replacement of faulty meters.

3.6 The Objector would like to invite the Hon’ble Commission’s attention to the Hon'ble APTEL's judgment dated 12-11-2009 in Appeal Petition No. 94 of 2008 that the Commission in the process of truing up shall considers ***the actual loss levels for the previous years as the base for approving the loss levels for the current year concerned.*** The Hon’ble Commission in ARR ERC Order 2014-15 has also followed similar methodology and approved the loss target based upon the actual loss level of previous year.

3.7 The actual loss level for the year 2014-15 was reported as 14.57%. It has been observed that the Hon’ble Commission in the past has set/approved the loss reduction target of 0.5% in a year. Accordingly, the loss target for 2015-16 shall measure as 14.07% (14.57%-0.5%).

3.8 Thus, in the absence on reliable supporting materials on the T&D losses as discussed above, we request the Hon’ble Commission to enforce the estimated loss target of 14.07% against 14.32% as claimed by KSEBL and disallow the excess T&D loss at the cost of highest marginal cost stations.

Energy Requirement

3.9 The allowed total energy input into the KSEBL system should be arrived at by grossing up the actual sales with the estimated T&D losses by the Objector. Thus, by grossing up the actual sales quantum of 19,552.43 MU with 14.07% T&D loss, the total energy input requirement works out to be 22,753.90 MU vis-à-vis 22,819.44 MU as claimed by KSEBL.

3.10 We request the Hon'ble Commission to disallow the differential 65.54 MU (22,819.44 MU- 22,753.90 MU) at the cost of marginal power. The source wise power purchase quantum and cost to be allowed has been explained in detail in the subsequent sections.

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

	As per true up petition for 2015-2016	**As per Objector**
Energy Sales(MU)	19,552.43	19,552
T&D Loss (%)	14.32%	14.07%
Net Generation and Power Purchase at KSEBL periphery (excl. PGCIL losses)	22,819.44	22,753.90
Decrease in power purchase requirement(MU)		**65.54**

Auxiliary Consumption

Hydel

3.11 KSEBL has provided net hydel generation for 2015-2016 as 6,605.69 MUfrom own hydro plants. The generation is net of auxiliary consumption to an extent of 33.35 MU as proposed by KSEBL. This translates into 0.50% of the auxiliary consumption.

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

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

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

Table 2:Comparison of auxiliary consumption for hydroelectric generation

Name of the Plant	Units generated (MU)	Auxiliary consumption as per KSEBL (MU)	Normative Auxiliary consumption as per KSERC regulation, 2014	Auxiliary consumption as per the Objector (MU)
Edamalayar	275.76	33.35	0.10%	0.28
Lower Periyar	510.97		0.13%	0.66
Sengulam	160.91		0.15%	0.24
Sholayar	210.22		0.18%	0.38
Neriamangalam+NES	352.07		0.18%	0.63
Sabarigiri	1168.95		0.22%	2.57
Kuttiady Tail Race	8.05		0.24%	0.02
Poringalkuthu	170.77		0.44%	0.75
Panniar	173.93		0.53%	0.92
Idukki	2373.27		0.53%	12.58
Kakkad	183.64		0.71%	1.30
Pallivasal	218.60		1.00%	2.19
Kuttiady (Units 1 to 6)	575.89		0.70%	4.03
PLBE	106.43		0.90%	0.96
Kallada	44.81		0.90%	0.40
Peppara	4.71		0.90%	0.04
Madupetty	4.29		0.90%	0.04
Malampuzha	2.03		0.90%	0.02
Chembukadav	9.04		0.90%	0.08
Urumi	9.30		0.90%	0.08
Malankara	32.43		0.90%	0.29
Lower Meenmutty	5.56		0.90%	0.05
Poozhithode	8.62		0.90%	0.08
Ranni-Perinadu	7.66		0.90%	0.07
Peechi	1.43		0.90%	0.01
Vilangad	12.75		0.90%	0.11
Chimony	4.59		0.90%	0.04
Addyanpara	2.36		0.90%	0.02
Total	**6,639.04**	**33.35**	**-**	**28.86**

3.14 The Objector humbly requests to disallow the additional energy used for auxiliary consumption to an extent of 4.49 MU (33.35-28.86) from the energy quantum being procured from the marginal station.

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

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

Substation

3.17 The KSEBL in the true-up petition has mentioned the auxiliary consumption at the substation to the tune of 14.14 MU.

3.18 The Objector wants to highlight that the KSERC Tariff Regulations 2014 doesn't allow the treatment of auxiliary consumption separately and it is part of T&D losses only.

3.19 Thus, the substation auxiliary consumption mentioned by the KSEBL shall be completely disallowed at the cost of marginal power.

3.20 The Objector requests the Hon'ble Commission to disallow the auxiliary consumption to the tune of **18.63 MU** (4.49+14.14) from the energy quantum being procured from the marginal station.

Power purchase

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

3.21 As per the true up petition, KSEBL has purchased 11,048.96 MU from CGS station at a cost of INR 3,596.31 (INR 3.25/kWh). We have compared per unit variable cost for CGS plants as given by KSEBL with per unit cost considered by other southern region states (Tamil Nadu and Karnataka) for 2015-2016.

Table 3: Comparison across states of power purchase from CGS station of variable cost approved by the Commissions (Weighted average)

INR/unit	As per the KSEBL true up petition 2015-16	TANGEDCO True up order for 2015-16	BESCOM Tariff order 2015-16
NTPC	2.25	1.99	2.06
NLC	2.33	2.47	2.21
NPC	3.18	2.50	2.19

3.22 It can be observed in the above table, that KSEBL has submitted higher power purchase cost for CGS stations compared to other states procuring power from the same sources. For providing the plausible impact of such difference, if KSEBL was to procure the energy at the rates as incurred by BESCOM, the savings in cost of energy procured from CGS stations would be to the tune of INR 308 Crore.

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

b. Power Purchase from IPPs

3.24 The KSEBL has purchased 279.74 MU at the cost of INR 421.10 crore. This is largely contributed by liquid fuel station RGCCPP, Wind IPPs and other small hydro plants.

3.25 From RGCCPP, the KSEBL has purchased 129.82 MU at a cost of INR 279.68 crore. The Objector requests Hon'ble Commission to note that the variable cost paid to the RGCCPP stands at INR 8.13/kWh. The KSEBL has also purchased 5 MU power from BSES station at a substantially higher cost (variable cost of INR 12/kWh).

3.26 The Objector has estimated the reduction in power purchase cost from disallowing extra quantum of power from the disallowance of underachieved T&D loss as proposed (65.54 MU) and reduction in auxiliary consumption to an extent of 18.63 MU. Thus, the total reduction in power purchase from marginal station totals to 84.16 MU.

Table 4: Reduction in power purchase cost of IPPs

	As per true up petition				As per Objector			
Source	**Net Energy input(MU)**	**Total Cost (INR Crore)**	**Per unit fixed cost (INR/kWh)**	**Per unit variable cost**	**Net Energy input(MU)**	**Total Cost (INR Crore)**	**Reduction in power purchase (MU)**	**Difference over True up petition (INR crore)**
RGCCPP	129.82	279.68	16.27	8.13	50.87	215.48	78.95	(64.20)
BSES	5.15	90.21	71.17	12.06	-	83.99	5.15	(6.22)
KPCL	7.21	4.88	-	-	7.21	4.88	-	-
Wind	57.40	18.33	-	3.19	57.40	18.33	-	-
Ullumkal	18.26	4.46	-	2.44	18.26	4.46	-	-
MP Steel	0.00	0.00			-	-	-	-
Iruttukkanam	15.69	6.85	-	4.37	15.69	6.85	-	-
Iruttukkananm-II	9.14			-	9.14	-	-	-
Karikkayam	26.99	11.23	-	4.16	26.99	11.23	-	-
Meen vallom	5.56	3.96	-	4.84	5.56	3.96	-	-
INDSIL	4.25	1.33	-	3.13	4.25	1.33	-	-
Kallar	0.21	0.08	-	3.81	0.21	0.08	-	-
Mankulam gramapanchayath	0.06	0.09	-	15.00	-	-	0.06	(0.09)
Total	**279.74**	**421.10**			**195.58**	**350.59**	**84.16**	**(70.51)**

3.27 In view of the above, the Objector requests the Hon'ble Commission to disallow the excess cost and reduce the power procurement cost to the extent of INR 70.51crore (INR 421.10crore- INR 350.59crore) against proposed in the true-up petition.

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

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

Table 5: Summary of Cost of Generation & Power Purchase Cost as per Objector

Particulars	As per True up petition	As per Objector	Difference over true up	Remarks
	Cost (INR Crore)	Cost (INR Crore)	Cost (INR Crore)	
Energy Generation Cost	104.26	104.26	-	-
Total Energy Generation Cost	**104.26**	**104.26**	**-**	**-**
Central Generating Stations	3,596.31	3,596.31	-	-
IPPs	421.10	350.59	(70.51)	Reduction on the account revised cost computation of extra energy available due to disallowance of T&D loss and auxiliary consumption of hydel and substations.
Traders / Exchanges/UI	1,894.97	1,894.97	-	-
Transmission Charges	424.44	424.44	-	-
Sub Total Power Purchase	**6,336.82**	**6,266.32**	**(70.51)**	**-**
Total	**6,441.08**	**6,370.58**	**(70.51)**	**-**

3.29 Thus, the Objector requests Hon'ble Commission to allow only INR 6,370.58crore as total cost against INR 6,441.08 crore as proposed by KSEBL. The total amount requested to be disallowed is INR 70.51crore.

Interest and finance charges

a. Interest on long-term loans

3.30 The KSEBL has claimed the interest on loan claimed by the KSEBL is INR 403.33 crore.

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

3.32 On the scrutiny of annual accounts, the Objector has identified the capital works in progress as on March 2016 is INR 2,109 crore. The Objector has estimated the interest at an average rate of 10.75%. Accordingly, the interest on WIP loans are estimated as ***INR 226.70 crore which shall be disallowed*** in adherence to the regulation. Thus, to summarise, the KSEBL has estimated INR 403.33 crore, whereas the Objector requests the Hon'ble Commission to allow only INR 176.74 crore (403.33-226.70).

3.33 The Objector wants to highlight that in previous year ARR ERC order of 2014-15, the Hon'ble Commission had observed some discrepancies in the estimates of capital works as proposed by KSEBL and had given the following analysis and decision:-

*"..The details available under the capital expenditure programme especially transmission and distribution are **not sufficient to correlate with the purposes such as loss reduction, system stability/reliability, load growth etc**., though there may be multiple or overlapping benefits. The projects given in transmission sector **have not been substantiated with respect to system strengthening or contingencies** etc. with proper data from load flow studies. In the absence of realistic studies on the estimates of transmission and distribution losses, it is difficult to link the adequacy of capital expenditure programme for loss reduction.."*

3.34 The Objector would like to bring the kind attention of Hon'ble Commission to Clause no 38, 57 and 71 of the KSERC (Terms and Condition for Determination of Tariff), Regulations, 2014. The regulation clearly specifies the ***needs of Prudence check*** of the capital cost for the purpose of tariff determination. The Objector requests the Hon'ble Commission 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.

b. Interest on Overdraft drawn from Banks

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

3.36 The KSEBL has claimed INR 229.34 Crore as an interest on overdraft. The total overdraft drawn from the Bank as per KSEBL is INR 2237.23 Crore.

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

Table 6:Assessment of working capital requirement

Particulars	FY14 [INR Crore]	FY15 [INR Crore]	FY16 [INR Crore]
Current assets			
Current Investment	-	-	-
Inventories	278	240	290
Trade receivables	1120	1389	1,593
Cash & cash equivalents (A)	718	215	242
Short term loan and advances	39	50	51
Other current assets	42	56	40
Total Current Assets (B)	**2,197**	**1,950**	**2,216**
Non cash current assets (C = B-A)	**1,479**	**1,735**	**1,974**
Current liabilities			
Short term borrowings	2304	2110	2171
Trade payables	848	609	526
Other short term liabilities	1973	2,987	3530
Short term provisions	33	21	21
Total Current liabilities (D)	**5,158**	**5,727**	**6,248**
Non cash net Current assets (non-cash Working capital requirement) (E = C – D)	**(3,679)**	**(3,992)**	**(4,274)**
Change in non-cash working capital = WC borrowings		**(313)**	**(282)**

3.38 In this regard, theObjector would like the Hon‘ble Commission to note that in its previoustrue up order dated 20th June’2017 on “Truing up of accounts of M/s KSEB Ltd for the financial year 2013-14”, the Commission had disallowed the interest on working Capital for the year 2013-14.

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

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

3.39 Therefore, the Objector requests the Hon’ble Commission to consider the above argument and prays tothe Commission to fully disallow the interest on working capital of INR 229.43 crore.

c. Interest on Security Deposit

3.40 KSEBL has claimed INR 167.90 crore as interest and security deposit which is interest provided on the deposit at an interest rate of 8.50%.However, KSEBL has also mentioned that actual interest disbursed during the year was INR 153.64 crore.

3.41 The Objector noticed that there is a considerable gap between the interest claimed and actually booked.

3.42 Thus the Objector requests Hon’ble Commission to allow only INR 153.64 crore as interest on security deposit against INR 167.90 crore as proposed by KSEBL. The Objector hence opines that only the ***actual payout of interest shall be taken*** and the difference amount of INR 14.27 Crore may be disallowed.

3.43 The Objector wants to highlight that the Hon’ble Commission has taken the similar stand in the past of allowing actual interest disbursed.

d. Interest on Provident Fund

3.44 The KSEBL is claiming INR 106.25 crore interest on PF for the year 2015-16. As per the KSERC True-up order 2013-14, the Hon'ble Commission notes that:-

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

3.45 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.

e. Interest on Master Trust Bond

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

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

3.48 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 crore which will carry interest at the rate of 10% per annum. Accordingly interest on Bonds is estimated as INR 814.40 crore.

3.49 It shall be noted that the KSEBL has claimed the terminal liabilities amounting to INR 1004.50 crore. As per the Objector, this amount shall be completely disallowed in the virtue of prevailing regulations and government order to create separate Master trust.

3.50 It has been observed that the KSEBL has added the terminal liabilities as a part of employee cost, which is not in line with the regulatory requirements. In the interest of time, the Objector opines that the interest of Master trust amounting to INR 814.40 crore to service terminal liabilities shall be allowed under Interest and Financing charges and not as a part of employee cost.

f. Summary of Interest and Financing Charges

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

Table 7:Re-estimated Interest and financing charges

S.No.	Particulars (INR Crore)	Actual as per Accounts	As per True up petition 2015-16	As per Objector	Difference over the true-up claimed
1.	Loan Interest	403.33	837.14	176.74	343.78
2.	Security Deposit Interest	167.90		153.64	
3.	Master Trust Bond Interest	0.00		814.06	
4.	Overdraft interest	229.43		-	
5.	Incentives to consumers	1.61		1.61	
6.	PF interest	106.25		106.25	
7.	Other interests	0.16		0.16	
8.	Cost of finance rising	0.04		0.04	
9.	Guarantee Commission	0.28		0.28	
10.	Bank Charges	0.14		0.14	
11.	**Total**	**909.14**	**837.14**	**1,252.92**	**343.78**

3.52 The Objector would like to point out that the true-up claimed (INR 837.14 crore) on Interest and financing charges is not matching with the expenses booked in the accounts (INR 909.14 crore). The breakup of INR 837.14 crore claimed in the true-up is not provided by the KSEBL in the petition, thus it not possible for the Objector to assess the information in detail.

Depreciation

3.53 The KSEBL has submitted net depreciation of INR 464.81 crore for the year 2015-16 as per CERC norms of depreciation. This amount is net of claw back depreciation of INR 26.41 crore which is credited to income.

3.54 The Objector is of the view that the Depreciation shall be calculated based upon the prevailing KSERC Regulations 2014, instead of CERC norms. The Objector has re-calculated the depreciation based upon the KSERC regulations and provided in the table below:-

Table 8:Re-estimated Depreciation charges as per the Objector

Category	**As per True up petition Depreciation as per CERC norms**		**Objector's analysis Depreciation as per KSERC Regulation 2014 norms**		
	Depreciation %	**Depreciation (INR Crore)**	**Depreciation %**	**Depreciation (INR Crore)**	**Difference over true up petition(INR Crore)**
Land and Rights	0%	0.00	0%	0.00	0.00
Buildings	6.14%	16.49	3.34%	8.69	(7.80)
Hydraulic works	9.65%	41.01	5.28%	21.35	(19.66)
Other Civil works	11.60%	15.11	3.34%	4.10	(11.01)
Plant & Machinery	5.72%	157.27	5.28%	140.93	(16.34)
Lines, Cable networks	7.51%	255.73	5.28%	172.93	(82.80)
Vehicles	3.52%	0.51	9.50%	1.35	0.84
Furniture & fixtures	7.95%	1.17	6.33%	0.90	(0.27)
Office equipment	9.37%	3.93	6.33%	2.53	(1.40)
Total		**491.22**		**352.78**	**(138.44)**
Less: Claw back depreciation		26.41		26.41	-
Net Depreciation		**464.81**		**326.37**	**(138.44)**

3.55 Thus, the Objector humbly requests the Hon'ble Commission to allow the depreciation as INR 326.37 crore against the KSEBL claimed of INR 464.81 crore. The difference amount of INR 138.44 Crores may kindly be disallowed.

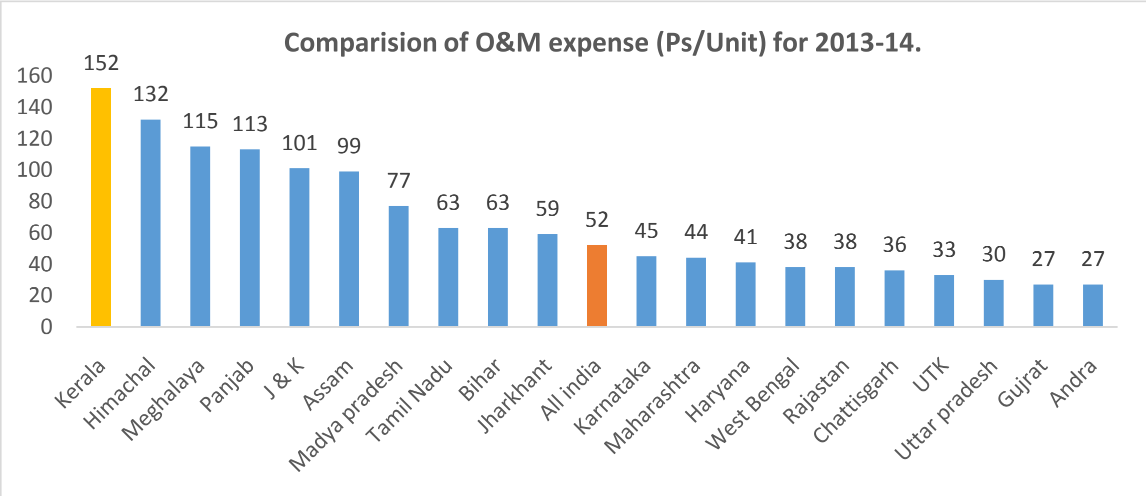
Operation and Maintenance Cost

3.56 The KSEBL has submitted the amount of INR 3,692.16 crore as an O&M expense. The segregation of O&M Expenses as submitted by KSEBL are as follows:

Table 9: Segregation of O&M Cost as per True up petition 2015-16

SBU Cost in INR Crore	**Generation**	**Transmission**	**Distribution**	**Total**
Employee cost	142.17	292.54	2669.83	3104.54
A&G cost	61.31	50.41	261.15	372.87
R&M cost	26.02	47.91	185.82	259.75
Total as per KSEBL (incorrect calculation)	184.50	390.86	3116.80	3,692.16
Correct Calculation	229.50	390.86	3116.8	3737.16

3.57 The Objector wants to highlight that the O & M Expense of the Kerala is the highest in the country with about 3 times the National average.



Source: Annual report 2013-14 on the working of state Power Utilities and Electricity Departments, by Planning commission of India

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

3.58 The KSEBL has claimed INR 3,104.54 crore as Employee cost for the year 2015-16. The Objector is of the view that the Employee cost submitted by the KSEBL is significantly high and proper justification to its cost has not been provided in the true-up petition.

3.59 The employee cost submitted by the KSEBL includes the terminal benefits amounting to INR 1,004.50 crore. In the ARR ERC order 2014-15, 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. Henceforth, the net employee cost shall be estimated as follows:-

Table 10: Employee cost and terminal benefits as per true up petition

Particulars	INR Crore
Total employee cost (including terminal benefits)	3,104.54
Actual terminal benefits	1,004.50
Net employee costs	**2,100.04**

3.60 The Objector is of the view that the matter of terminal benefits shall be dealt separately through Master Trust, and not through the Employee cost.

3.61 The employee cost submitted by the KSEBL includes the terminal benefits amounting to INR 1,004.50 crore. The Objector is of the view that the matter of terminal benefits shall be ***dealt separately through Master Trust, and not through the Employee cost.***

3.62 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.

3.63 Even though the Master Trust to service the terminal liabilities is not created, the Objector has shown the consent to include the interest of Master trust/ Bond under the Interest and Financing charges head.

3.64 The Objector would like to bring the attention of the Hon’ble Commission to increase in Employee cost of KSEBL over the years. The employee cost has increased from INR 788.31 crore in FY04 to INR 904.88 crore in FY 08 at CAGR of 3.51%, Later, the employee cost has sharply increased from INR 1,255 crore in FY09 to 3,104 crore in FY16at CAGR of 13.80%.Thus, demonstrating an abnormal rise in employee cost over the years.

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

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

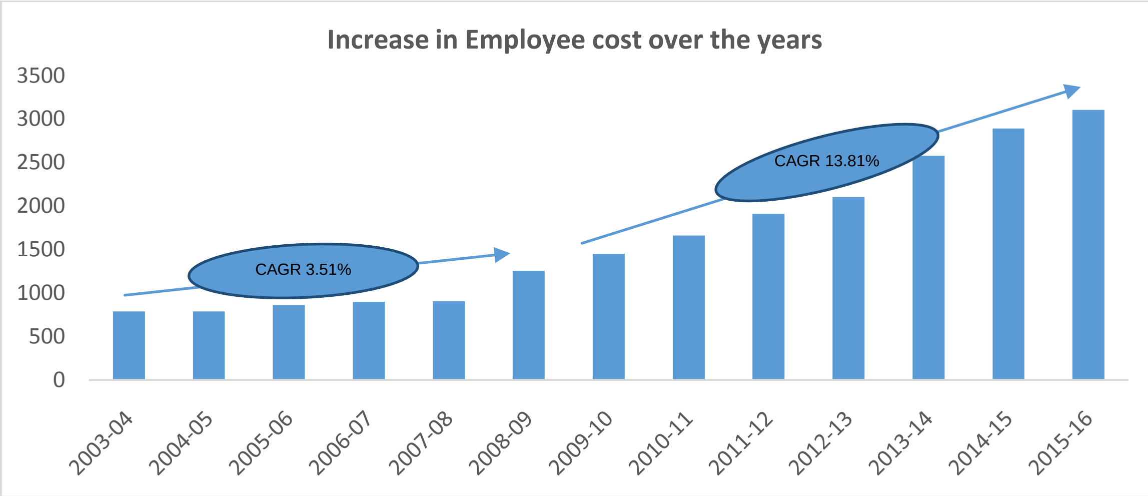
- These ***facts will be brought to the notice of the Kerala State Electricity Regulatory Commission so that the unnecessary part of the expenditure on account of pay revision will not be passed on to the consumers while tariff are re-fixed.***

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

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

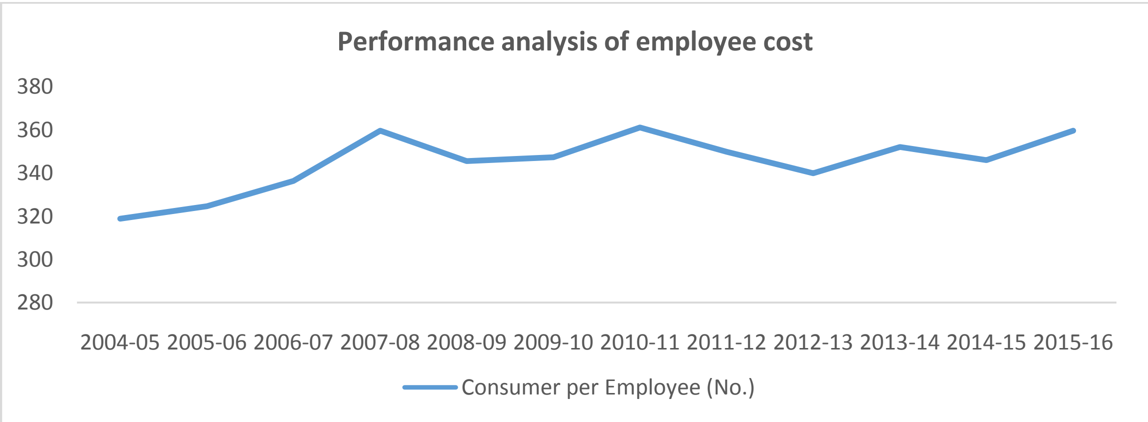
- Finance Department intends to bring this avoidable wastage of resources to the notice of the Kerala State Electricity Regulatory Commission, so that ***this additional expenditure will not be passed on the consumers of the Board.***

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



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

3.68 The numbers of consumers per employee over the years are shown in the graph below. The number of consumers' served per employee is a standard benchmark and an increasing trend indicates efficient operations. The Hon'ble Commission is requested to look into the erratic changes in the data which indicates operational inefficiency in the system. This is a clear indicator that KSEBL is not dedicatedly making efforts to improve its operational efficiency.



3.69 The table below provides a comparison of the KSEBL's employee cost with that of other utilities in other States. It can be observed that the employee cost component of the KSEBL is substantially higher compared to other utilities.

Table 11: Comparison of Employee cost of KSEBL with other utilities

	Year	BSEB	PSEB	JSEB	KSEBL
Employee Cost as % of Total Expenditure	2009-10	13.3%	18.5%	6.84%	23.2%
	2010-11	11.6%	20.3%	8.28%	25.6%
	2011-12	11.4%	22.3%	9.40%	24.6%

	Year	BSEB	PSEB	JSEB	KSEBL
	2012-13	17.7%	19.8%	4.37%	18.4%
	2013-14	-	18.7%	3.05%	22.87%
	2014-15	-	17.3%	2.92%	24.78%
	2015-16	-	17.07%	4.00%	25.79%
Employee Cost per unit of energy sold (Rs./kWh)	2009-10	0.55	0.61	0.23	1.04
	2010-11	0.52	0.70	0.25	1.18
	2011-12	0.75	0.88	0.29	1.19
	2012-13	1.16	0.89	0.27	1.25
	2013-14	-	1.06	0.25	1.48
	2014-15	-	1.06	0.14	1.57
	2015-16	-	1.06	0.21	1.60

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

3.70 The Hon’ble Commission had commented on the employee cost of the KSEBL as quoted below:-

*“An analysis of the cost structure of KSEB in recent years shows that even though the utility has been able to bring down the power purchase cost per unit**, the saving attained in this important head has been negated by the increase in employee costs**. In addition to the changes in the legal environment, the unique mix of the consumer base the utility has also exposes the utility to other competitors and pricing risk - viewed in this background, the utility cannot ignore the importance of controlling the costs."*

3.71 The Commission has repeatedly given directives to control the employee costs. The remark of the Hon’ble Commission in ARR ERC Order 2014-15 is given below for easy reference-

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

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

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

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

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

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

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

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

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

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

ii. Efficiency parameters and achievement of standards of performance.

iii. The additional burden to be funded through efficiency improvements

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

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

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

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

"The Board has to sincerely venture in for ***radical internal reforms*** *to control the costs. The reform measures are not aiming at retrenchment or reducing the existing benefits allowed to the employees but to aim at measures especially at the HR level that includes redesigning the tasks, re-*

training, re-tooling, process re-engineering, infusion of proper IT and technology, intervention aiming at ***improving the efficiency and productivity of employees****."*

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

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

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

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

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

3.81 The KSEBL has submitted INR 259.75 crore as Repairs and Maintenance Business for the year 2015-16. The KSEBL has mentioned that the reasons for such increase are beyond their control and due to factors such as Inflationary factors, the growth of fixed assets and implementation of KSERC Standards of performance regulations

3.82 The Objector is of the view that the reason given by KSEBL is not satisfactory. It can be seen from the table below that 34% of the assets are below six years of age, 81% of the assets are below 15 years of age and considerably new. And hence the reason given by KSEBL that growth in gross assets is triggering the need for an increase in R&M expense doesn't hold true.

Table 12: Gross Fixed Assets of KSEB

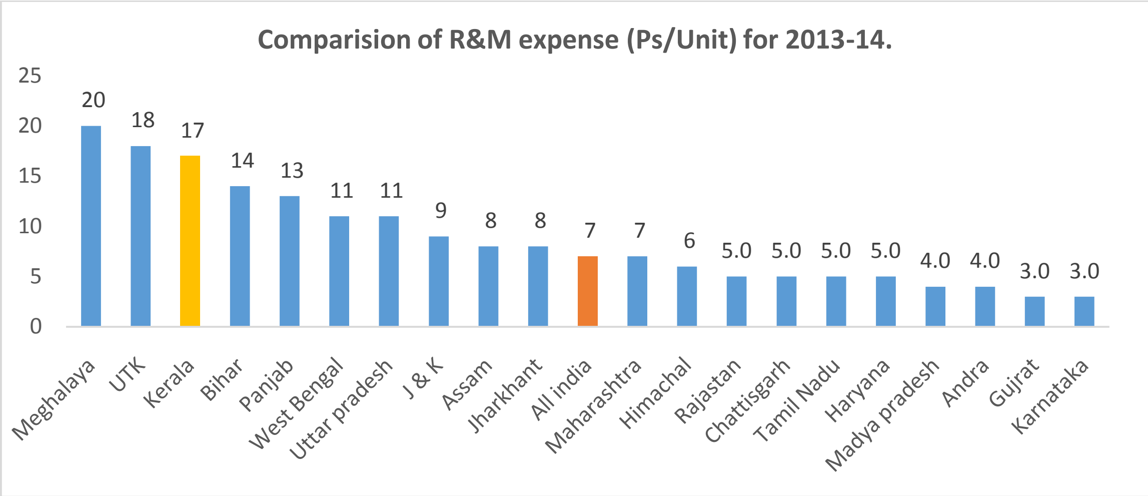
Gross fixed assets as on March 1999 (INR crore)	Apr 1999- Mar 2009	Apr 2009- Mar 2015	Total (INR crore)
2,682.00	6,567.12	4,954.33	14,203.45
18.88%	46.23%	34.88%	100.00%

Source: - True up Petition by KSEBL for year 2015-16

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

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

3.84 The graph below represents the R & M expenses of different utilities in India. The Repair & Maintenance cost of KSEBL is one of the highest among all Indian states which was 17 paise/unit of energy sold in 2013-14 whereas the National average was 7 paise/unit and the major states like, Rajasthan, Chhattisgarh Gujarat and Andhra are in the range of 3 to 7 p/unit.



Source: Annual report 2013-14 on the working of state Power Utilities and Electricity Departments, by Planning commission of India

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

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

Table 13:Comparison of R&M Cost of KSEBL with other utilities

	Year	BSEB	HPSEB	PSEB	JSEB	KSEBL
R&M Cost as % of Total Expenditure	2009-10	1.3%	0.9%	2.7%	2.24%	2.8%
	2010-11	1.2%	1.1%	2.3%	1.45%	3.5%
	2011-12	1.1%	1.3%	2.4%	1.71%	3.3%
	2012-13	0.7%	1.2%	2.0%	2.30%	2.2%
	2013-14	-	0.9%	1.8%	1.27%	2.0%
	2014-15	-	1.1%	1.6%	0.60%	2.1%
	2015-16		1.0%	1.5%	1.24%	2.2%
R&M Cost per unit of energy sold (Rs./kWh)	2009-10	0.05	0.04	0.09	0.08	0.10
	2010-11	0.05	0.07	0.08	0.04	0.13
	2011-12	0.07	0.06	0.09	0.05	0.13
	2012-13	0.05	0.06	0.09	0.06	0.12

	Year	BSEB	HPSEB	PSEB	JSEB	KSEBL
	2013-14	-	0.05	0.09	0.10	0.13
	2014-15	-	0.05	0.08	0.03	0.13
	2015-16	-	0.06	0.09	0.07	0.13

Source: PFC, Report on Performance of State Power Utilities

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

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

3.88 The KSEBL has submitted INR 261.15 crore as Administrative and General Expenses. This includes the Electricity duty amounting to INR 111.37 Crore.

3.89 The Objector request Hon'ble Commission to **disallow the electricity duty** fully as done in previous ARR & ERC and true up orders, abiding by the Kerala Electricity Duty Act 1963 which says that **"the duty under this section on the sales of energy should be borne by the Licensee and shall not be passed on to the consumers".**The Hon'ble Commission shall take strong action against KSEB for making an attempt to pass on the Electricity duty to the consumers in every petition, despite it is being disallowed over the years.

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

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

Table 14:Comparison of A& G cost of KSEBL with other utilities

	Year	BSEB	HPSEB	PSEB	JSEB	KSEB
A&G Cost as % of Total Expenditure	2009-10	0.8%	1.5%	0.6%	1.35%	2.6%
	2010-11	0.8%	1.3%	0.5%	1.45%	2.5%
	2011-12	0.6%	1.0%	0.6%	0.94%	2.5%
	2012-13	0.8%	0.9%	0.7%	1.05%	1.8%
	2013-14	-	0.7%	0.7%	0.96%	2.2%
	2014-15	-	0.8%	0.7%	0.83%	2.46%
	2015-16	-	0.9%	0.7%	1.07%	2.72%
A&G Cost	2009-10	0.03	0.06	0.02	0.05	0.09

	Year	BSEB	HPSEB	PSEB	JSEB	KSEB
per unit of energy sold (Rs./kWh)	2010-11	0.03	0.11	0.02	0.05	0.09
	2011-12	0.04	0.05	0.02	0.06	0.10
	2012-13	0.05	0.04	0.03	0.06	0.10
	2013-14	-	0.04	0.04	0.06	0.15
	2014-15	-	0.04	0.03	0.04	0.16
	2015-16	-	0.05	0.04	0.06	0.17

Source: PFC, Report on Performance of State Power Utilities

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

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

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

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

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

3.96 The Clause no 44, Annexure VII of the KSERC Regulation 2014 specifies the O&M Norms for existing generating stations of generation business of KSEB limited for 2015-16 as detailed below.

Table 15:O&M Cost for generation business as per the regulation (for existing plants only)

Particulars (INR Crore)	As per KSEBL’s True up petition	As per KSERC Regulation 2014	As per the Objector
O&M Cost for the Existing plant			
Employee Expenses*	142.17	45.01	45.01
A&G Expenses	61.31	18.73	18.73
R&M Expenses	26.02	4.34	4.34
Total (in correct calculation)	184.50	68.08	68.08
Total (correct calculation)	229.50	68.08	68.08

**Excluding terminal benefits*

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

Table 16:O&M Cost for newly commissioned 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%	59.49	1.26
Chimmony	22/05/2015		16.62	0.33
Adyanpara	03/09/2015		27.09	0.54
Barapole	29/02/2016		98.38	1.97
Total Cost (INR Crore)				**4.10**

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

3.98 The Objector requests the Hon'ble Commission to allow INR 72.18 Crore (68.08+ 4.10) as O&M cost for the generation business against INR 184.50 Crore proposed by the KSEBL.

3.99 The Clause no 61, Annexure VIII of the KSERC Regulation 2014 specifies the O&M norms for the transmission business of KSEB Limited for 2015-16 as detailed below:-

Table 17:O&M Cost for transmission business as per the regulation

Particulars (INR crore)	As per KSEBL's True up petition	As per KSERC Regulation 2014			As per the Objector
		Norms	Details	Total cost	
O&M Cost	353.79*	Cost per bay in INR 5.23 Lakh	Number of Bays:- 3,471	181.53	181.53
		Cost per Ckm in INR 0.58 crore	Circuit km:- 9377	54.39	54.39
Total	353.79*			235.92	235.92

**Excluding terminal benefits*

3.100 The Objector request the Hon'ble Commission to allow INR 235.92 crore as O&M cost for the transmission business against INR 353.79* crore as proposed by the KSEBL.

3.101 The Clause no 81, Annexure IX of the KSERC Regulation 2014 specifies the O&M Norms for the distribution business of KSEB Limited for the 2015-16 as detailed below:-

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

Particulars (INR Crore)	As per KSEBL's True up petition	As per KSERC Regulation 2014			As per the Objector
		Norms	Details	Cost	
Employee Cost*	1,743.00	Rs lakh per 000 consumers:- 2.4	11,668,031	280.03	280.03
		Rs lakh per distribution transformer:- 0.33	72,460	239.12	239.12
		Rs lakh per Km of HT Line:- 0.4	59,477	237.91	237.91
		Rs per unit of sales:- 0.1	19,325	193.25	193.25
Sub total	1,743.00			950.31	950.31

A&G Costs#	149.78	Rs lakh per 000 consumers :- 0.21	11,668,031	24.50	24.50
		Rs lakh per distribution transformer :- 0.03	72,460	21.74	21.74
		Rs lakh per Km of HT:- 0.03	59,477	17.84	17.84
		Rs per unit of sales:- 0.01	19,325	19.33	19.33
Sub total	149.78			83.41	83.41
R&M Costs	185.82	3% of opening GFA	-	185.82	185.82
Total	2,078.60			1,219.54	1,219.54

**Excluding terminal benefits #excluding Electricity duty*

Summary of O&M cost

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

Table 19:Summary of O&M cost

O&M Cost (INR Crore)	**As per the KSEBL's True up petition**	**As per Objector**	**Difference over true up**
Employee cost excluding terminal benefits	2,100.04	G- 72.18 T- 235.92 D- 1,219.54	
A&G cost excluding Electricity duty	261.50		
R&M Cost	259.75		
Subtotal	2621.29	1,527.64	(1093.65)
Terminal Benefits	1,004.50	0.00	(1,004.50)
Electricity duty	111.37	0.00	(111.37)
Total (incorrect calculation by KSEBL)	3,692.16	1,527.64	(2,164.52)
Total (Correct calculation by Objector)	3,737.16	1,527.64	(2,209.52)

Other Expenses

3.103 KSEBL has shown material cost variance of INR 71.84 crore. The Objector has no way to assess the prudence of these expenses. The Objector requests the Hon'ble Commission to undertake a thorough check on variances provided by the KSEBL.

Return on Equity

3.104 The KSEBL has proposed INR 489.86 crore as Return on Equity for the year 2015-16 wiz. 14% of INR 3,499 Crore of equity base claimed by KSEBL.

3.105 The Hon'ble Commission in its ARR Order for2012-2013has discussed the issue of Return on Equity in detail. The abstract is reproduced below for the easy reference:

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

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

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

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

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

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

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

3.109 Hence, abiding by KSERC Terms and Conditions for Determination of Tariff 2014, the Objector requests Hon’ble Commission to allow 14% return on equity of INR 283.91 crore (i.e. INR 39.75 crore).

3.110 The Objector requests Hon'ble Commission to consider the re-estimated Return on Equity as presented in the table below-

Table 20: Objector’s analysis on Return on Equity

Particulars	KSEB Petition for true up for 2015-16	As per the Objector
Equity(INR Crore)	3499.00	283.91
Return on Equity %	14%	14.0%
Return on Equity(INR Crore)	**489.86**	**39.75**

Summary

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

Table 21: **Summary of ARR as per true up filings and as re-estimated by the Objector**

	Particulars	**As per true up petition for 2015-16 (INR Crore)**		**Re-estimated by Objector for true up of 2015-2016 (INR crore)**	
S. NO.		**As per Accounts**	**Truing up**	**Re-estimated expenses**	**Difference over True up**
1	Generation Of Power	104.25	104.25	104.25	0.00
2	Purchase of power	6,336.82	6,336.82	6,266.32	(70.50)
3	Interest & Finance Charges	851.41	837.15	1,252.92	415.77
4	Depreciation	491.22	491.22	326.37	(164.85)
5	Employee Cost	3,104.53	3,104.53	1,527.64	(2,164.52)
6	Repair & Maintenance	259.76	259.76		
7	Administration & General Expenses	327.87	327.87		
8	Other Expenses	84.58	84.58	84.58	0.00
9	Gross Expenditure	11,560.44	11,546.18	9,562.07	(1,984.11)
10	Return on Equity	0.00	489.86	39.75	(450.11)
11	**ARR (9 + 10)**	**11,560.44**	**12,036.04**	**9,601.82**	**(2,434.22)**
12	Revenue from energy sale	10,487.71	10,487.71	10,487.71	0.00
13	Revenue from non-tariff income	759.44	739.44	739.44	0.00
14	**Total Revenue (12+13)**	**11,247.15**	**11,227.15**	**11,227.15**	**0.00**
15	ARR (11)	11,560.44	12,036.04	9,601.82	(2,434.22)
16	ERC (14)	11,247.15	11,227.15	11,227.15	0.00
17	**Revenue gap (11-14)**	**313.29**	**808.89**	**(1,625.33)**	**(2,434.22)**

3.112 Based on the re-estimation of each head presented is table above, the Objector requests Hon'ble Commission to consider the re-estimated ARR of INR 9,601.82crore against INR 12,036.04 crore as proposed by KSEBL and Revenue surplus of INR 1,625.33crore against INR Revenue gap of INR 808.89 crore as proposed by KSEBL.

A4: PRAYER TO THE HON'BLE COMMISSION

The Objector with averments made above prays that the Hon'ble Commission may please consider the objections made on the KSEBL's petition of truing up of cost and revenue for 2015-2016and consider the following submissions:

Parameter	**Submissions**
T&D Loss	• To enforce the minimum loss target of 14.07% 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.
Interest on long-term loans	• To disallow interest on loan corresponding to work in progress • To carry out the capex prudence check to verify the cost-benefit analysis and progress reports to ascertain the prudent capital expenditure to be approved for the purpose of calculation of interest on loans and bonds • To allow Interest on Master Trust Fund to fund the terminal liability and correspondingly reducing terminal liability from employee costs
Interest on working capital	• Disallow interest on working capital due to the availability of sufficient funds available to meet working capital.
Interest on Security Deposit	• To allow actual interest disbursed during the year and not the provision.
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* • Segregate the terminal benefits from the employee cost section • 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

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.
Return on Equity	• To allow 14% return on equity of INR 283.91 crore i.e. INR 39.75 crore