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

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.

May 30, 2018

Agenda

Regulatory Framework
Validity of Filings
Key Objections
Prayer to the Hon’ble Commission

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

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

- **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"*****.**
- Thus the Objector requests the Hon'ble Commission to treat this case as a serious instance of non-compliance of Section 142 of the Electricity Act 2003 and non-adherence to the directions of apex institutions such as Hon'ble Commission and the APTEL.

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

- 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.

- 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 is questionable. 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.

Transmission & Distribution Losses

- As per the directives of the KSERC Order on ARR & ERC for FY12 & FY13, KSEBL should ***study & report voltage level losses*** as well as technical commercial separation of T&D loss. In compliance, KSEBL has reported the results of the T&D loss studies based on simulations taken from three time zones in 2013-2014.
- However, the study was not conducted and consolidated form as directed. The details provided were **not segregated in between Technical & Commercial losses** and the loss study has not been conducted in different load scenarios.
- Also, KSEBL has not provided any details on the **replacement of faulty meters**.
- Hon'ble APTEL's judgment dated 12-11-2009 in Appeal Petition No. 94 of 2008 says that the Commission in the process of truing up shall consider ***the actual loss levels for the previous years as the base for approving the loss levels for the current year concerned.*** The loss target for 2015-16 arrives as 14.07% (14.57%-0.5%).
- Thus, in the absence of credibility of the studies undertaken, the Objector requests the Hon’ble Commission to **enforce the minimum approved loss target, i.e. 14.07% against 14.32% claimed by KSEBL**.

Auxiliary consumption

Hydel generation

- KSEBL has provided net hydel generation for 2015-2016 as 6,605.69 MU from 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

- 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 and recalculated the auxiliary consumption as 28.86 MU against 33.35MU as proposed by KSEBL

- 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.

Auxiliary consumption

Substations

- The KSEBL in the true-up petition has mentioned the auxiliary consumption at the substation to the tune of 14.14 MU.
- The KSERC Tariff Regulations 2014 doesn't allow the treatment of auxiliary consumption separately and it is part of T&D losses only.
- Hence, the Objector requests the Hon'ble Commission to disallow the auxiliary consumption of **Hydel generation and substation to the tune of 18.63 MU (4.49 MU+14.14 MU)** from the energy quantum being procured from the marginal station.

KEY OBJECTIONS 2015-2016

Energy Requirement

- 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 22,753.9 MU vis-à-vis 22,819.44 MU as included by KSEBL.
- Thus, the differential **of 65.54 MU shall be disallowed at the cost of marginal power.**

	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 energy input to KSEB system(MU)	22,819.44	22,753.90
Decrease in power purchase requirement (MU)		**65.54**

Own Generation & Power Purchase

Power Purchase from Central Generating Stations

- The actual power purchase cost as per the true up petition of KSEBL is **INR 3.25/unit**.
- 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 table below:-

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

Own Generation & Power Purchase

Power Purchase from Central Generating Stations

- 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.
- 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.**

Own Generation & Power Purchase

Power Purchase from IPPs

- 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.
- 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).

Own Generation & Power Purchase

Power Purchase from IPPs

- The power purchase cost from IPPs has been reduced on the account of extra energy available due to disallowance of T&D loss (65.54 MU) and auxiliary consumption of hydel and substations (18.63 MU)

Source	As per True up filings				As per Objector		
	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)	Difference over True up petition (MU)
RGCCPP	129.82	279.68	16.27	8.13	50.87	215.48	78.95
BSES	5.15	90.21	71.17	12.06	-	83.99	5.15
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
Total	**279.74**	**421.10**			**195.58**	**350.59**	**84.16**

Own Generation & Power Purchase

Power Purchase from IPPs

- 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 70.51 crore (INR 421.10 crore- INR 350.59 crore) against proposed in the true-up petition.

Own Generation & Power Purchase

Summary of Power Purchase Cost

- The Objector requests Hon'ble Commission to allow only INR 6,370.58 crore as total cost of power purchase & energy generation against INR 6,441.08 crore as proposed by KSEBL.

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 substation.
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)**	-

Interest and Financing Charges

Interest on long term loans

- The interest on loan claimed by the KSEBL is INR 403.33 crore.
- The Hon'ble Commission had observed some discrepancies in the estimates of capital works as proposed by KSEBL in its ARR and ERC order for 2014-2015

"..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.."*

Interest and Financing Charges

Interest on long term loans

- 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 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.***

- The KSERC regulation 2014, Clause no 38, 57 and 71 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.

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 INR 229.34 Crore as an interest on overdraft. The total overdraft drawn from the Bank as per KSEBL is INR 2237.23 Crore.
- The scrutiny of annual accounts reveals that **there is no need for working capital.**
- **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

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	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)**
Change in non-cash working capital = WC borrowings		**(336)**	**(281)**

- Hon’ble Commission shall consider the above argument and is prayed to fully **disallow the interest on working capital of INR 229.43 crore.**

Interest and Financing Charges

Interest on Security Deposit

- KSEBL has claimed INR 167.90 crore as interest on security deposit which is interest provided at rate of 8.50%.
- The Objector noticed that there is a considerable gap between the interest claimed and actually booked
- However, KSEBL has also mentioned that **actual interest disbursed** during the year was INR 153.64 crore.
- 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.
- The Objector wants to highlight that the Hon'ble Commission has taken the similar stand in the past of allowing actual interest disbursed.

Interest and Financing Charges

Interest on provident fund

- KSEBL has claimed INR 106.25 crore interest on PF for the year 2015-16
- 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

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

Interest and Financing Charges

Interest on Master Trust Bond

- 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.

- 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.

Interest and Financing Charges

Summary of 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**

Interest and Financing Charges

- 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 is not possible for the Objector to assess the information in detail.

Depreciation

- 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 clawback depreciation of INR 26.41 crore which is credited to income.
- The Objector has re-estimated based on KSERC Regulations 2014 norms

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)**

Depreciation

- Therefore the Objector 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.

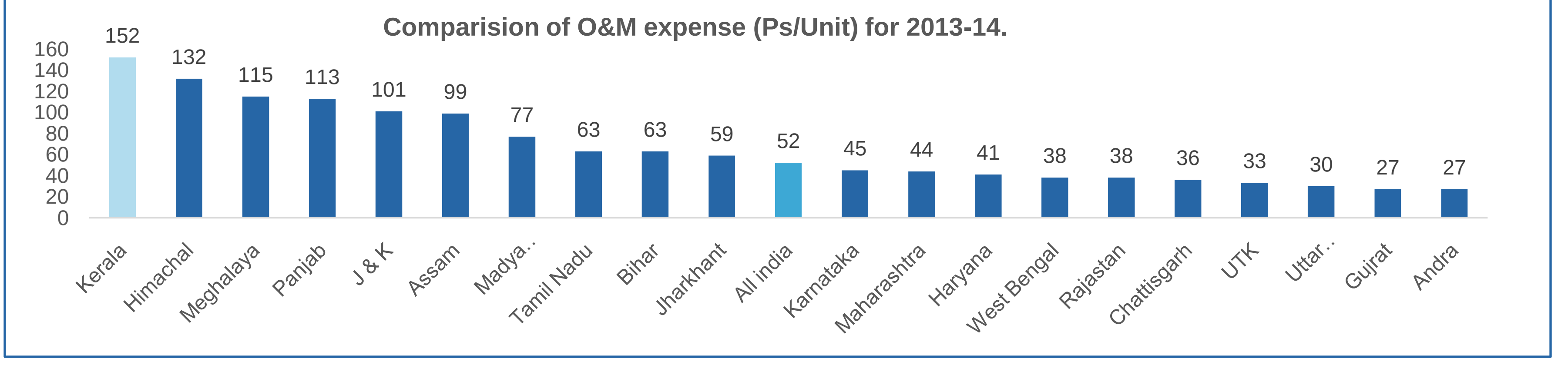
O&M Cost

Employee Cost

- The KSEBL has submitted the amount of INR 3,692.16 crore as an O&M expense as segregated:

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

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



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

O&M Cost

Employee Cost

- The KSEBL has claimed INR 3,104.54 crore as Employee cost for the year 2015-16.
- 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.***
- 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.
- 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.***

O&M Cost

Employee Cost

Employee Cost

- The contribution to the terminal benefits is made by the employee and employer. The KSEBL is not entitled to include the employee’s contribution to the terminal benefits program. Further, the true-up petition doesn’t provide the breakup of terminal benefits contribution from employee and employer. Thus, the Objectors requests the Hon’ble Commission to insist KSEBL to provide additional detail for the review.

- 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 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.

O&M Cost

Employee Cost

- 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

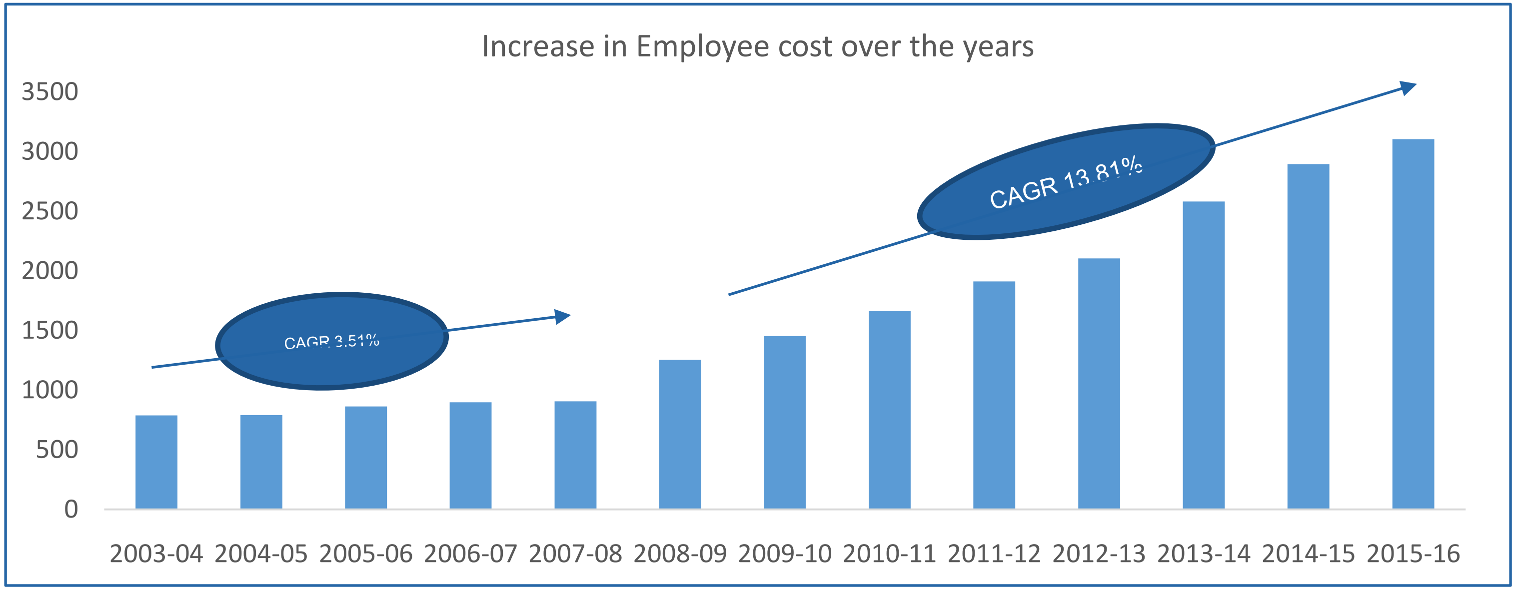
Employee Cost

- 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:-
  - 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.***

O&M Cost

Employee Cost

- The employee cost has increased at CAGR of 3.51% from FY04 to FY08, However, the employee cost has sharply increased at CAGR of 13.80% from FY09 to FY16 Thus, demonstrating **abnormal rise in employee cost** over the years



O&M Cost

Employee Cost

- The employee cost components of the KSEB is comparatively much higher compared to other similar utilities. The uncontrollable increase in employee cost needs urgent attention.

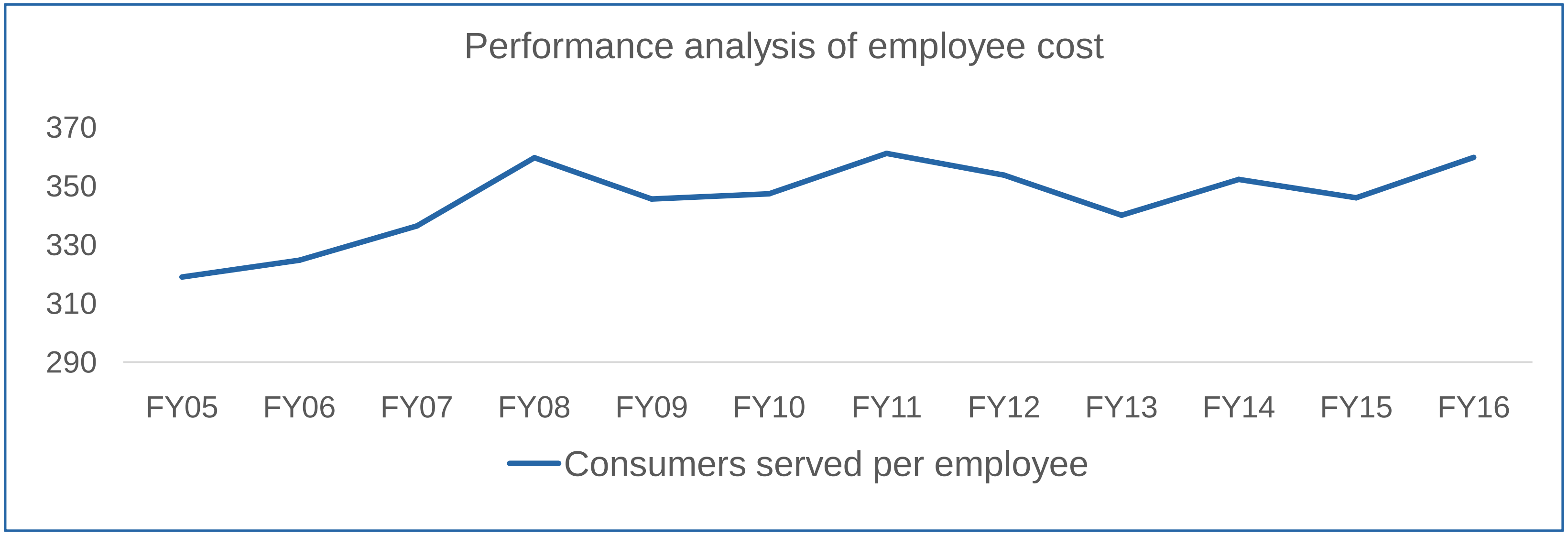
	Year	BSEB	PSEB	JSEB	KSEBL
Employee Cost as % of Total Expenditure	2009-10	13.3%	18.5%	6.84%	23.2%
	2010-11	11.6%	20.3%	8.28%	25.6%
	2011-12	11.4%	22.3%	9.40%	24.6%
	2012-13	17.7%	19.8%	4.37%	18.4%
	2013-14	-	18.7%	3.05%	22.87%
	2014-15	-	17.3%	2.92%	24.78%
	2015-16	-	17.07%	4.00%	25.79%
Employee Cost per unit of energy sold	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.

O&M Cost

Employee Cost

- Number of consumers' served per employee is a standard benchmark and an increasing trend indicates efficient operations.
- The erratic changes in the data clearly indicates that KSEBL is not dedicatedly making efforts to improve its operational efficiency.



O&M Cost

Employee Cost

- 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.

O&M Cost
Employee Cost

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

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

- 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 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

Repair and Maintenance Cost

- The KSEBL has submitted INR 259.75 crore as Repairs and Maintenance Business for the year 2015-16.
- It is seen that 34% of the assets are below six years of age, 81% of the assets are below 15 years of age and considerably new. 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.

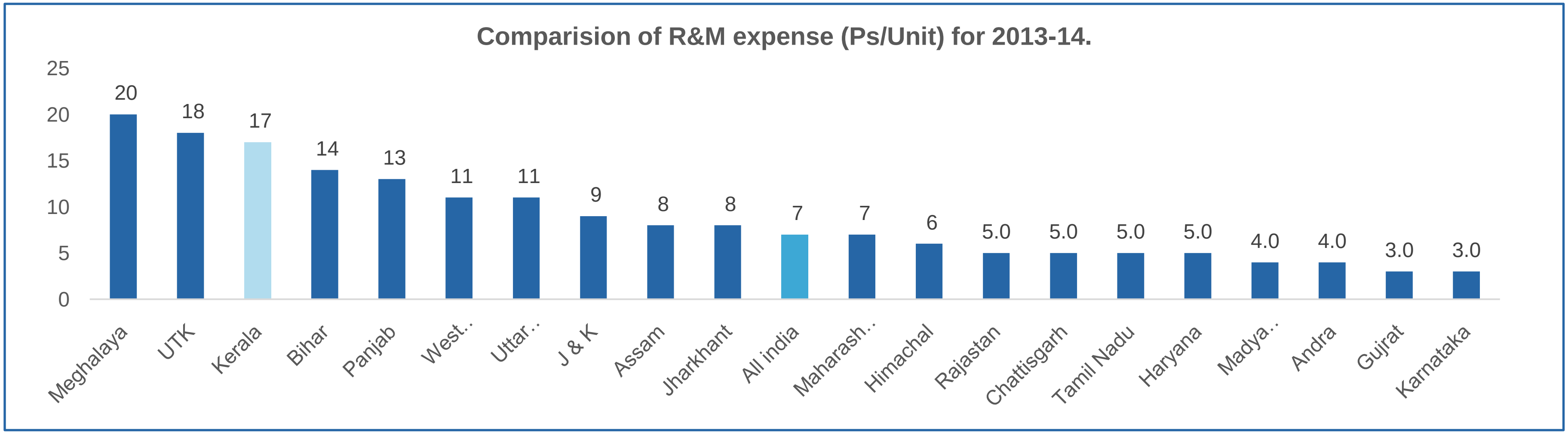
Gross fixed assets as on March 1999 (INR crore)	Apr 1999- Mar 2009	Apr 2009- Mar 2015	Total (INR crore)
2,682.00	6,567.12	4,954.33	14,203.45
18.88%	46.23%	34.88%	100.00%

- 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.

O&M Cost

Repair and Maintenance Cost

- The Repair & Maintenance cost of KSEBL is one of the highest among all Indian states which was 17 paisa /unit of energy sold in 2013-14 whereas the National average was 7 paisa /unit and the major states like , Rajasthan, Chhattisgarh Gujarat and Andhra are in the range of 3 to 7 /unit.



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

O&M Cost

Repair and Maintenance Cost

Comparison of R&M Cost between 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 (INR/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
	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

O&M Cost
Administrative & General Expenses

- **Administrative & General Expenses**
- KSEBL has claimed INR 111.37 crores (out of total INR 261.15 crores) towards electricity duty payable to the government under A&G expenses.
- 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 cost components of the KSEB is comparatively much higher compared to other similar utilities.

	Year	BSEB	HPSEB	PSEB	JSEB	KSEBL
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%	**2.5%**
	2015-16	-	0.9%	0.7%	1.07%	**2.7%**
A&G Cost per unit of energy sold (INR/kWh)	2009-10	0.03	0.06	0.02	0.05	**0.09**
	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**

O&M Cost

Administrative & General Expenses

- 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 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.

O&M Calculation

- 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.
- 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

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*

O&M Calculation

- **O&M Cost for generation business as per the regulation (for new 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**

- 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.

O&M Calculation

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
O&M Cost	353.79*	**Norms**	**Details**	**Total cost**	
		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

- The Objector request the Hon'ble Commission to allow INR 235.92 crore as O&M cost for the transmission business against INR 390.86 crore as proposed by the KSEBL.

O&M Calculation

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

O&M Calculation

- Summary of O&M Calculation

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

- 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 KSEBL.

Return on Equity

- 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.
- 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

- 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 crore (Rs. 1553 crore – Rs. 1269 crore)"

- Accordingly, the Objector humbly submits that the **RoE of 14%should be allowed only on the reduced equity capital of Rs. 283.91 crore**, as worked out by the Consultant based on the detailed analysis of balance sheet of KSEBL.

Return on Equity

- The Objector requests Hon'ble Commission to allow 14% return on equity of INR 283.91 crore (i.e. INR 39.75 crore) as per KSERC (Terms and Conditions for Determination of Tariff) Regulations 2014.

INR Crore	KSEB Petition for true up for 2015-16	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

	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)**

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

- 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 9,601.82 crore against INR 12,036.04 crore as proposed by KSEBL for 2015-16 and ***Revenue surplus of INR 1,625.33 crore against INR Revenue gap of 808.89 crore as proposed by KSEBL.***

Prayer to the Hon’ble Commission

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.

Prayer to the Hon'ble Commission

Parameter	Submissions
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 as per KSERC (Terms and Conditions for Determination of Tariff) Regulations, 2014 • To disallow the Electricity Duty completely. The 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

Prayer to the Hon'ble Commission

Parameter	Submissions
Repairs & Maintenance	• Accept the re-estimated repairs & general expenses by the Objector as 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% of INR 283.91 crore i.e. INR 39.75 crore

Thank you