

KERALA STATE ELECTRICITY REGULATORY COMMISSION

THIRUVANANTHAPURAM

PRESENT : Shri. K.J.Mathew, Chairman
Shri P Parameswaran, Member
Shri. Mathew George, Member

December 8, 2011

Petition OP No.28 / 2011

In the matter of
ARR&ERC of Thrissur Corporation for 2011-12

Thrissur Corporation - Petitioner

ORDER

Background

1. Thrissur Corporation (hereinafter called the *Corporation* or *licensee*) is a deemed Distribution Licensee of the Commission. The licensee has filed the ARR&ERC petition for the year 2011-12 on 26-9-2010 with a delay of around 10 months from the due date, and after issuing directions by the Commission for filing the ARR&ERC petition. The Commission admitted the petition on 4-10-2011 and informed the licensee. As per the petition, the total revenue requirements for 2011-12 is projected as Rs.6500.84 lakhs and the total revenue as Rs.6845.50 lakhs, thereby showing a revenue surplus of Rs.344.66 lakhs. The summary of the petition is given below:

Summary of ARR&ERC projected for 2011-12

Particulars	2009-10 (Actual)	2010-11 (Actual)	2011-12 (Projected)
	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)
Power purchase cost	3886.02	4,181.03	5,048.49
Repair and maintenance	149.41	152.66	176.32
Employee cost	676.47	614.45	833.34
Interest & financing charges	0.00	0.00	0.00
A&G expenses	79.35	124.29	86.59
Depreciation	180.75	188.48	198.10
Other debits	138.32	142.97	158.00
Return on equity			

Particulars	2009-10 (Actual)	2010-11 (Actual)	2011-12 (Projected)
	(Rs. Lakhs)	(Rs. Lakhs)	(Rs. Lakhs)
Gross ARR	5,110.32	5,403.88	6,500.84
Less Non-tariff income	671.02	812.38	686.17
Net ARR	4,439.30	4,591.50	5,814.67
Revenue from sale of power	5532.72	5,718.75	6,159.33
Revenue Surplus	1,093.42	1,127.25	344.66

2. After receiving the petition the Commission sought clarifications on the petition vide letter dated 9-11-2011. The clarifications were received on 25-11-2011.

Hearing on the matter

3. The hearing on the petition was held on 25-11-2011 at the M.O. John memorial Hall, Chamber of Commerce Building, Thrissur. A large number of consumers as well as Kerala State Electricity Board presented their objections on the petition. In their objections, the Board has stated that the Corporation has not filed the ARR&ERC for 2010-11 and the time limit given for filing the ARR&ERC for 2011-12 was also not adhered to. The Board requested that such instances should be seriously viewed and suitable steps are to be initiated so that the same is not repeated in future. The Board has commented on the unnecessarily large number of employees in the Corporation for the distribution business. The consumer strength of about 36,000 projected by the licensee is equivalent to the consumer strength of one or two sections in KSEB which are managed with much less staff. Hence the Board submitted that the reasonableness of the employee expenses needs to be ascertained. The licensee has projected lower average realization for the year 2011-12 for industrial and non-domestic categories, which may undermine the revenue. The licensee has high average realization of Rs.6.27/unit whereas the average power purchase cost is only Rs.3.54/unit. The margin of Rs.2.73/unit available for the licensee is very high, which resulted in undue surplus, and hence it is to be transferred to KSEB. The licensee has to segregate the accounts and accounts of the distribution business. While approving depreciation, asset additions for the current year shall not be considered. The collection efficiency is given as 97.5% and 2.5% of the collection is treated as bad debts. The accrued arrears as on 31-3-2011 is Rs.19.09 crore and stringent arrear collection measures are to be adopted by the licensee. The reasonableness of audit fees projected under A&G expenses and other expenses under R&M expenses is to be verified before approval. The

approach taken by the Commission on Section 3(1) duty shall be applied to the Corporation also. The Board also pointed out certain discrepancies in the figures in the petition.

4. In addition to the Board certain consumers also raised objections on the petition. Shri.Paul Thomas, Poothole, stated that the Corporation has collected and retained large sums of money under delayed payment charges as against the provisions in the Supply Code. According to him certain clauses in the Supply Code need to be amended for fair treatment. Shri. Rajagopal, Chief Electrical Inspector (Rtd), stated that there is already a report prepared as per the directions of the Government on the employee strength of the Corporation. Shri. Gopalakrishnan, stated that the Corporation shall be allowed a reasonable return for the investment made in the business. Shri. Jiji Anto, suggested several steps for improving the accountability of the licensee and suggested that employees shall be personally accountable for the lapses made. Shri. Sreedharan, Therambil commented that though large number of employees are available, for the basic manual works persons are not available. The licensee has not yet registered a theft case, and no machinery is available for preventing theft of electricity. The entire approval process for the electricity service is through the Corporation councilors and Standing Committees, which create scope for delay and corruption. About 1500 cases are pending in the CDRF and the licensee is going on appeal in all cases settled in the CDRF, thereby denying justice to the consumers and unnecessarily increasing the expenses at the cost of consumers. Hence, he advocated that there should be a ceiling on the legal expenses of the licensee. :

Analysis and decision of the Commission

5. The Commission views with grave concern the inordinate delay in filing the ARR&ERC by the licensee. The Commission also notes that the licensee is repeatedly failing in discharging the statutory functions under the Regulatory Regime envisaged in the Electricity Act 2003.
6. The Commission has considered the petition of the licensee and the objections of the stakeholders. The decision on each of the components in the petition is discussed below
7. **Energy Sales:** The licensee has projected total sales for the year 2011-12 as 105.59 MU. units. The Commission has noted several discrepancies in the sales figures given in the petition. As part of the clarifications, the licensee has given following details.

Proposed Energy sales for 2011-12

	2009-10 (Actual)		2010-11 (actual)		2011-12 (projected)	
	No. of installations	Energy Sales (MU)	No. of installations	Energy Sales (MU)	No. of installations	Energy Sales (MU)
Domestic	18295	29.78	18297	31.03	18347	32.25
Non-Domestic	16439	62.53	16451	65.93	16490	69.56
Agricultural	524	0.11	524	1.09	528	0.11
Industry	875	4.06	875	3.94	882	3.97
Total	36133	96.48	36147	101.99	36247	105.89

8. As per the revised figures, the sales projected for 2011-12 is 105.89MU. The Commission pointed out that consumption of own buildings and street lighting are not included in the sales. In reply, the licensee has clarified that the sales to own buildings have been included, where as street lighting is not included. The licensee has estimated that energy for street lighting as 3.47MU. During the hearing, the licensee has stated that metering of street lighting installations has been planned and in most of the street light installations, meters have been installed. However, meter readings are not taken so far. As per the estimates of the licensee sales growth projected is about 3.82% for 2011-12 and the growth in number of consumers is 100. The licensee has not provided any additional details and rationale for the projections. The Commission is of the view that at the fag end of the year, the projections of the licensee need not be changed. Hence, the Commission approves the energy projections of the licensee as shown below:

Approved Energy sales for 2011-12

	2010-11 (Actual)		2011-12 (projected)		2011-12 (Approved)	
	No. of installations	Energy Sales (MU)	No. of installations	Energy Sales (MU)	No. of installations	Energy Sales (MU)
Domestic	18297	31.03	18347	32.25	18347	32.25
Non-Domestic	16451	65.93	16490	69.56	16490	69.56
Agricultural	524	1.09	528	0.11	528	0.11
Industry	875	3.94	882	3.97	882	3.97
Street lighting						3.47
Total	36147	101.99	36247	105.89	36247	109.36

9. **Distribution loss and Energy requirement:** The distribution loss as per the data furnished by the licensee is 13.59%. The loss reported for the previous years is 16.56% in 2009-10 and 16.58% in 2010-11. The loss reduction proposed is 0.41%. Based on the revised figures, the distribution loss projected by the licensee is given below.

Distribution loss projected for 2011-12

	2009-10	2010-11	2011-12
	Actual	Actual	Projected
Energy Purchase (MU)	115.58	118.19	122.13
Energy Sales (MU)	96.49	101.99	105.89
T&D Loss (MU)	19.09	16.20	16.24
T&D Loss in %	16.52%	13.71%	13.30%

10. The licensee has clarified that consumption of streetlight is not included in the total sales. It was further stated that if the street lighting is also included, the distribution loss will be only 10.74%. Further, the licensee has also stated that the following measures are taken to reduce distribution loss:

- a. Commissioning of 33kV new substation at Ikkandawarrior Road, which will reduce the length of 3 feeders by 6 km.
- b. The over loaded Poothole feeder was reduced by 60% by charging a new feeder in the western side.
- c. Instructed the consumers to install capacitors for power factor improvement
- d. Installed six 250 kVA transformers in the distribution network which reduced the length of LT distribution lines.

11. During the hearing, the representative of the licensee stated that commissioning of 33kV substation could not be completed due to cable faults and that it is being rectified. About 15,000 electro-mechanical meters were replaced with electronic meters and all new connections are provided with electronic meters. The licensee has also stated that about Rs.45 lakhs is provided under capital expenditure for meter replacement. However, the licensee could not provide any plan for meter replacement or meter purchase. Further, meter replacement is not included under the capital expenditure programme given as part of petition. It was stated by the licensee that about 1250 new 3 phase meters with ToD facility were purchased. But no request from the consumers is received for shifting to ToD tariff. As part of the capital expenditure programme, the licensee has included Rs.281.77 lakhs, which includes commissioning of the 10th feeder and for conversion of UG cable for new 33kV substation. The Commission is of the view that the licensee should have a comprehensive capital expenditure plan justifying its cost for implementation. **Hence, it is directed that the licensee shall include such a**

plan as part of the ARR&ERC for 2012-13. Based on the above, the distribution loss approved for 2011-12 considering the details furnished by the licensee is as given below:

Approved Distribution Loss for 2011-12

	2010-11	2011-12	2011-12
	Actual	Projected	Approved
Energy Purchase (MU)	118.19	122.13	122.13
Energy Sales (MU)	101.99	105.89	109.36*
T&D Loss	16.20	16.24	12.77
T&D Loss in %	13.71%	13.30%	10.46%

*including street lights consumption

12. AT&C Loss: In the distribution business, distribution loss and AT&C loss are the common performance parameters employed. As part of the clarifications, the collection efficiency reported by the licensee is nearly 99.2% against the current demand. As per the information provided by the licensee total receivable as on 31-3-2011 is Rs.1909 lakh, which is high considering the limited area of operation. **The licensee shall take immediate actions for collection of arrears.** The Commission fixes the collection efficiency for the year 2011-12 as 100%. Hence approved AT&C loss for 2011-12 shall be 10.46%.

13. Power purchase cost : In the ARR, the licensee has projected the power purchase cost as Rs.5048.49 lakhs considering the average power purchase cost of Rs.4.13 per unit. The Commission has sought the details of the calculation of the power purchase cost. The licensee has provided following details.

Estimate of power purchase cost for 2011-12

	2011-12 (Estimate)		
	66kV	110kV	Total
Total Maximum Demand (kVA)	102770	199510	
Rate (Rs./kVA)	260	245	
Demand Charges (Rs.lakhs)	267.20	488.80	756.00
Energy purchased (lakh units)	387.15	834.23	1221.38
Rate (Rs./kWh)	3.16	3.16	
Total Energy charges	1,223.39	2,636.17	3,859.56
Total Charges	1,490.60	3,124.97	4,615.56

14. The licensee has used the revised BST for estimation of power purchase cost. As per the calculations, the power purchase cost is revised to Rs.4615.16 lakhs, which is Rs.433 lakhs less than the original projection. The Commission approves the power purchase cost of Rs.4615.56 lakhs for the year 2011-12.
15. **Interest and financing charges :** The licensee has not included any expenses under this head. However, as part of the clarifications, the licensee has stated that interest on security deposit was omitted by mistake, which is about Rs.38 lakhs. The Commission includes the same under interest and financing charges.
16. **Depreciation:** The depreciation estimated by the licensee for the year 2011-12 is Rs.197.92 lakhs. The GFA at the beginning of the year is Rs.5301.59 lakhs. The licensee has proposed asset addition of Rs.281.77 lakhs. The asset addition proposed is the 33kV substation and UG cables. The details provided by the licensee are given below:

Depreciation projected for 2011-12

	GFA as on 31-3-2011	Additions	Total GFA	Depreciation
	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)	(Rs.lakhs)
Substation-machineries	2,585.47	36.91	2,622.38	93.74
Distribution Plant and machinery	2,587.37	241.30	2,828.67	97.49
Furniture & fixtures	6.85	0.78	7.63	0.43
Computer accessories	94.09	2.77	96.86	5.73
Vehicles	14.00		14.00	
Tools & testing equipments	12.64		12.64	0.46
Photostat machine& duplicator	1.17		1.17	0.07
Total	5301.59	281.76	5583.35	197.92

17. The Commission notes that the categories in the table above are not in the format specified. The licensee shall provide the same categorization as per the format specified. The licensee has estimated the depreciation as per the CERC rates. The Commission approves the depreciation proposed by the licensee for the purpose of ARR&ERC for 2011-12. Detailed verification on the accounts will be taken up during the truing up process to firm up the actual depreciation.
18. **Employee cost:** The employee cost proposed by the licensee for 2011-12 is Rs.833.34 lakhs. The licensee has given the actual employee cost for 2010-11 as Rs.614.45 lakhs. For the year 2011-12, the licensee has included a provision of Rs.175 lakhs for pay revision arrears. As per the information furnished by the licensee, pay revision effected in KSEB is adopted by the licensee after the

approval of the Government. During the hearing, some of the consumers and KSEB raised objection on the high employee cost. The Board has stated that when compared to the number of consumers served by the licensee, number of employees is high. In reply, the licensee has stated that in comparison with the electrical section in the Board, they are managing substations, stores, purchase etc., Hence the comparison is not reasonable. As per the information provided in the petition, the number of employees in 2010-11 was 229, whereas the number of employees projected for 2011-12 is 181. As per the additional details provided by the licensee, total working employees is 142. Thus, the licensee has provided inconsistent data regarding number of employees. As per the information provided by the licensee, the salary details (Rs.512.94 lakhs) are as follows:

Details of estimation of employee cost for 2011-12

Category	Number of employee (Nos)	Average monthly salary/ employee (Rs.)	Total monthly salary (Rs.)	Annual salary (Rs.)
Electrical Engineer	1	46333	46333	555996
Asst. Engineer (Grade AE)	15	46850	702747	8432964
Sr. Supt. (Grade SS)	9	43336	390025	4680300
Sr. Asst. and others	33	23790	785067	9420804
Lineman I & II, Drivers, Workers, Watchmen	84	27980	2350328	28203936
Total	142			51294000

19. The licensee has projected one month salary of the employees as leave encashment and 15% of the total one year salary and leave encashment is taken as pension contribution. The licensee has also clarified that the actual pension payment to the retired employees is not included in the employee costs. However, the licensee has stated in the public hearing that though pension contribution is paid to the Government, the actual disbursement of pension is made by the Corporation/licensee.

20. The licensee has included Rs.175 lakhs as provision for pay revision arrears. As per the details provided by the licensee, arrears is for 34 months for the employees (Rs.166.98 lakhs) and Rs.8.12 lakhs for the retired employees. In addition to Rs.175 lakhs, the licensee has included additionally Rs.80.64 lakhs @Rs.8000 per month for 42 months for the officer category. During the hearing, the representative of the licensee explained that though the pay revision is due from 2008 onwards, appropriate provisions are not made in the accounts as the

single entry system is being used. It was also clarified that revision is not yet effected. The Commission notes that providing 99 technical persons and 42 non-technical employees to serve around 36000 consumers in and around 100sq.km area is unacceptable. Even if the administrative functions such as materials/stores management, HRM etc., are accounted for, the Licensee should be able to manage the business with less than 1/3rd of the staff strength. The Commission shall not allow this exorbitant employee cost to be passed on to the consumers. The licensee shall take appropriate action for reduction of this cost component immediately. However, considering the explanation of the licensee, the Commission approves employee costs for 2011-12 as projected by the licensee. The licensee shall provide complete details of arrear payment if any on account of pay revision during the truing up process.

21. Repair and maintenance expenses : The licensee has projected Rs.176.32 lakhs as R&M expenses. Against this, the actual for 2010-11 is Rs.152.66 crore. Of the total Rs.176.32 lakhs, Rs.93.03 lakhs is for consumption of stores etc., and Rs.83.29 lakhs for other expenses. The licensee has stated that Section 3(1) duty is included as part of the R&M expenses. The licensee has clarified that the increase in R&M expenses is due to the ongoing process of conductor replacement, replacement of meters, changing of poles and R&M expenses of street lights.

22. The R&M expenses projected by the licensee is about 3.325% of the Gross Fixed Assets at the beginning of 2011-12. On a per unit basis, R&M expense is about 17 paise, which is high. The Commission is of the view that Section 3(1) duty shall not be part of the R&M expenses, and the same has to be included under appropriate head. In any case, Section 3(1) duty is not admissible. Further, the clarification of the licensee shows that many of the capital works such as replacement of conductors and replacement of meters are included as part of the R&M expenses, which is not correct. The expenses towards maintenance of streetlights is also not admissible as part of the R&M expenses of the distribution licensee. The same has to be funded by the Corporation. However, in the absence of split up details, the Commission provisionally allows the R&M expenses projected by the licensee less the Section 3(1) duty. In the truing up process only eligible expenses shall be passed on to the consumers. The approved R&M expenses for 2011-12 is as shown below:

Approved R&M expenses for 2011-12

R&M expenses projected by the licensee (Rs.lakhs)	176.32
Sales projected (lakh units)	1093.6
Section 3(1) duty @6 ps/unit (Rs.lakhs)	65.62
R&M expenses allowed (Rs.lakhs)	110.70

23. Administration and General expenses: The Administration and General expenses proposed by the licensee is Rs.86.59 lakhs. The major item of expenses is audit fees of Rs.63.22 lakhs, which is 1% of the revenue from sale of power. Other items projected under A&G expenses are not substantial. The Commission allows A&G expenses as projected by the licensee.

24. Other debits: The licensee has included Rs.158 lakhs as provision for doubtful debts. Since the licensee has all powers to recover the electricity charges, the Commission is not in a position to allow such higher provision for bad debts. However, considering the commercial nature of the business, the Commission allows Rs.5 lakhs as a token provision for doubtful debts.

25. Return on equity: The licensee has not projected any return. The Commission is of the view that a reasonable level of profits is allowable for commercial operation of the distribution business. However, the basis on which return is to be provided is still not clear. The Commission has already initiated a study for determining the appropriate ratebase for allowing return. Till then a provisional return of Rs.10 lakhs is allowed for the year 2011-12. The reasonable level of return can be considered once the decision based on the results of the consultancy assignment is taken.

26. Gross Aggregate revenue requirements: Based on the above, the Aggregate Revenue Requirements proposed and approved for 2011-12 is as given below.

Approved Aggregate Revenue Requirements for 2011-12

Expenses	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
Purchase of power	5,048.49	4,615.56
Repair & Maintenance	176.32	110.70
Employee costs	833.34	833.34
Interest & Financing charges	-	38.00

Expenses	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
A& G expenses	86.59	86.59
Depreciation	198.10	197.92
Other debits	158.00	5.00
Return on investment		10.00
Total Expenses	6,500.84	5,897.11

27.Revenue from tariff : The licensee has projected the revenue from tariff as Rs.6159.33 lakhs.. The projection of the licensee is as shown below:

Revenue from sale of power projected for 2011-12

Revenue	Energy Sold (million units)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)
Domestic	32.25	996.3	3.09
Non-Domestic	69.56	5390.9	7.75
Agricultural	0.11	2.56	2.33
Industry	3.97	231.78	5.84
Total	105.89	6621.54	6.25
Reconnection fee		7.25	
Delayed payment charges		26.8	
Total Gross Revenue		6655.59	
Less duty payable		409.2	
Less other State levies		6.65	
Net Revenue from sale of power		6239.74	

The Commission notes several discrepancies in the original filing. The revenue projected is inclusive of electricity duty payable to the Government. During the hearing the licensee clarified that the revenue from street lighting has not been included in the revenue. However, billing for the own building has been made. The Commission likes to point out that the revenue projection of the licensee is not robust. The revenue projections shall be based on the category wise tariff excluding the electricity duty. The Commission directs that from next filing onwards, the licensee shall provide category wise tariff revenue details as part of the ARR&ERC filing. The revenue projection for the purpose of ARR&ERC approved for the year 2011-12 is as shown below:

Approved Revenue for 2011-12

Revenue	Energy Sold (Million units)	Revenue (Rs.lakhs)	Average Realisation (Rs./kWh)
Domestic	32.25	996.30	3.09
Non-Domestic	69.56	5,390.90	7.75
Agricultural	0.11	2.56	2.33
Industry	3.97	231.78	5.84
Street lighting	3.47	69.40	2.00
Total	109.36	6,690.94	6.12
Reconnection fee		7.25	
Delayed payment charges		26.80	
Total Revenue		6,724.99	
Less duty payable		409.20	
Less other State levies		6.65	
Net Revenue from sale of power		6,309.14	

28. Non- Tariff income: The licensee has projected Rs.686.17 lakhs as non tariff income which includes Rs.475.09 lakhs towards interest on fixed deposits, Rs.67.01 lakhs towards meter rent and Rs.133.58 towards miscellaneous recoveries. The Commission approves the other income projected by the licensee.

29. **Total revenue:** The total approved revenue for the year 2011-12 is Rs.6995.31 lakhs.

30. **Revenue Surplus/gap:** The revenue surplus proposed by the licensee is Rs. 344.66lakhs. After considering the materials and explanation by the licensee and the views of stakeholders, the Commission has arrived at a surplus of **Rs.1098.20** lakhs for the year 2011-12 as follows:

Approved ARR&ERC for 2011-12

Expenses	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
Purchase of power	5,048.49	4,615.56
Repair & Maintenance	176.32	110.70
Employee costs	833.34	833.34
Interest & Financing charges	-	38.00
A& G expenses	86.59	86.59

Expenses	2011-12 (projected) (Rs.lakhs)	2011-12 (Approved) (Rs.lakhs)
Depreciation	198.10	197.92
Other debits	158.00	5.00
Return on investment	-	10.00
Total Expenses	6,500.84	5,897.11
Revenue from sale of power	6,159.33	6,309.14
Other income	686.17	686.17
Total Revenue	6,845.50	6,995.31
Revenue Surplus	344.66	1,098.20

Orders of the Commission

31. After the analysis of the ARR&ERC and the clarifications thereon submitted by the licensee, the Commission provisionally approves the ARR of Rs.5897.11 lakhs and estimated revenue of Rs.6995.31 lakhs, leaving a revenue surplus of Rs.1098.20 lakhs for the year 2011-12 for Thrissur Corporation as stated above. The licensee shall take earnest efforts to limit the expenses at the approved level. The existing Retail Supply tariffs will continue till further orders. The licensee shall retain the surplus funds in a separate and independent account of the Electricity Department.

Directions

- a) The licensee shall immediately set up an inspection squad for prevention of electricity theft and periodic inspection shall be carried out. In case internal team is could not be set up, services of inspections teams of KSEB (APTS) may be sought on a temporarily basis, on mutually agreed terms immediately..
- b) The licensee shall separately raise bills for streetlights and Corporation buildings and revenue shall be realised from the Corporation. The expenses towards maintenance of street lights also shall be charged to the Corporation.
- c) The licensee shall take immediate steps for streamlining the operations of CGRF. Necessary facilities may be provided for proper functioning of the CGRF and a compliance report on this matter should be submitted to the Commission within 15 days from the date of this order.
- d) The licensee shall install display Boards showing the various services and the charges for the information of the public within one month and submit a compliance report.

- e) The licensee shall take immediate action for collection of arrears. .
- f) The licensee shall provide the following along with ARR&ERC filing for 2012-13.
- The consumption and revenue from Corporation buildings and street lights
 - Category wise list of employees, duties assigned to the employees and employee expenses
 - Action Taken Report on collection of arrears and future plans.
 - Detailed capital investment plan including financing plan with cost benefit analysis
 - Detailed plan for replacement of Electro-mechanical meters with static meters.

32. The petition is disposed of. Ordered accordingly.

Sd/-
P.Parameswaran
Member

Sd/-
Mathew George
Member

Sd/-
K.J.Mathew
Chairman

Approved for Issue

Secretary