

BEFORE THE KERALA STATE ELECTRICITY REGULATORY COMMISSION

In the matter of : Petition for Truing up of Cost and Revenue of the Kerala State Electricity Board for the year 2003-04.

Petitioner : Kerala State Electricity Board, Vydyuthi Bhavanam , Pattom,
Thiruvananthapuram

THE PETITIONER HUMBLY STATES THAT:

1. Introduction

- 1.1 The Board filed its maiden petition before the Kerala State Electricity Regulatory Commission, on the ARR & ERC for the year 2003-04 on 1.8.2003 with an estimated revenue requirement of Rs. 3850.30 crore, expected revenue from charges of Rs. 2924.23 crores and estimated revenue gap of Rs. 926.07 crores. But the Commission after processing the petition determined the revenue gap as Rs. 556.46 crores, by reducing the ARR to Rs. 3697.83 crores and increasing the ERC to Rs.3141.37 crores, vide its order dated 31.12.2003. The Commission recommended to the Government of Kerala (GOK) to allow revenue subsidy to the Board for an amount of Rs. 556.46 crores to bridge the revenue gap. The Commission also approved continuance of the existing tariffs and other charges. Further, the Commission agreed to the Board's proposal for truing up of costs and revenues at the end of the financial year. GOK released revenue subsidy to the Board for an amount of Rs. 556.46 crores as recommended by the Commission. However, by the end of the financial year (2003-04), when compilation of the Board's accounts was completed, the actual revenue gap of the Board for the year 2003-04 increased to Rs 1007.43 crore i.e. Rs 450.97 crore more than that (Rs 556.46 crore) determined by the Commission.
- 1.2 Though the Electricity Supply Act, 1948 stands repealed, as per section 185 (2)(d) of the Electricity Act, 2003, all rules made under subsection (1) of Section 69 of the Electricity Supply Act, 1948 shall continue to have effect until such rules are rescinded or modified. Since the Annual Accounts Rules 1985 notified by the Government of India under the Act, 1948 have not been rescinded so far, the Board is bound to follow the said Rules. The Annual Statement of Accounts of the Board for 2003-04 prepared in accordance with

the above rules has been audited by the Comptroller and Auditor General of India (CAG). After due audit, it has been certified by the CAG that subject to the observations in the audit report, **the accounts give a true and fair view of the state of affairs of the Board.**

- 1.3 Hence the Board hereby submit this petition for the truing up of the expenses and the revenue for the year 2003-04 for the approval of the Commission on the basis of the audited Accounts for the year.
- 1.4 The table given below gives summary of the actuals vis-à-vis the estimates approved by the Commission for the year 2003-04.

Aggregate Revenue Requirement and Revenue from charges 2003-04 (Rs in crores)

No	Particulars	Original ARR	Order of SERC	Actual (Accounts)
1	Purchase of power	1592.63	1775.13	1887.11
2	Generation of power	263.17	153.32	143.70
3	R&M	102.53	66.70	63.79
4	Employee cost	750.50	693.64	788.31
5	Admn. & Genl	71.74	55.88	84.74
6	Depreciation	334.52	334.52	326.19
7	Interest and finance	741.69	679.26	726.32
8	Other Expenses	143.53	76.28	143.35
9	Total	4000.31	3834.73	4163.51
10	Less Exp. Capitalised	151.93	119.80	109.05
11	Less: Int. Capitalised	122.05	108.93	78.11
12	Sub Total (10+11)	273.98	228.73	187.16
13	Total Expenditure (9-12)	3726.33	3606.00	3976.35
14	Add: Statutory Surplus	99.25	91.83	91.83
15	Total Rev Requirement (13+14)	3825.58	3697.83	4068.18
16	Non Tariff Income	200.00	240.37	304.65
17	Revenue from Tariff	2683.86	2901.00	2756.09
18	Total Revenue (16+17)	2883.86	3141.37	3060.74
19	Revenue Gap (15-18)	941.72	556.46	1007.44
20	Subsidy & Grant recommended/received	0.00	556.46	556.49
21	Balance Revenue Gap (19-20)	941.72	0.00	450.95

The item- wise details are discussed below:-

2. COST OF GENERATION AND POWER PURCHASE

(a) Energy Demand

- 2.1 KSEB had estimated the demand for gross energy for the year 2003-04 as 12647 Million Units (MU) in the revised ARR &ERC. The Commission

determined the gross energy requirement as 12328 MU based on the average eight months consumption starting from April-2003. But the actual gross energy requirement (including auxiliary consumption) was 12503.60 MU. The reason for the small shortfall in the actual consumption as compared to the estimate of the Board was mainly due to the surrender of power by M/s INDAL.

Gross Energy Demand for the year 2003-04

As per ARR & ERC	As per SERC Order	As per provisional Accounts
12647.00	12328.00	12503.60

The details of the source wise generation and power purchase made in the year 2003-04 is given below.

(b) KSEB own generation

2.2 The year 2003-04 was one of the very bad monsoon years in the recent history of Kerala. In the revised ARR&ERC, the Board expected only an annual Hydro generation of 4314.70 MU for the year 2003-04, even though the hydro generation in a normal monsoon year was about 6600MU. SERC's estimation was also 4314.70 MU. But the actual Hydro generation for the year 2003-04 was only 3910.68 MU. Thus there was a shortfall of 404.02 MU from the hydro target estimated by the Board and approved by SERC . This shortfall was met by generating more energy from the KSEB's own thermal stations as well as by way of additional power purchase from the Central Power Stations.

The details of the Boards own generation is given below.

KSEB own Generation details

	As per ARR & ERC	As per SERC Order	As per Accounts
Hydel	4314.70	4314.70	3910.68
Wind -Kanjikode	2.00	2.00	2.49
BDPP	244.20	244.20	263.21
KDPP	275.80	275.80	311.68
Sub Total	4836.80	4836.80	4488.06

2.3 It can be seen that, the generation from BDPP was increased from 244.20 MU to 263.21 MU and that of KDPP was increased from the target of 275.80 MU to 311.68 MU. Thus there was an additional generation of 54.89MU from the

KSEB's own diesel stations to meet the part of the short fall in hydel generation.

(c) Power Purchase

2.4 The details of the power purchase as estimated in the ARR, the power purchase approved by the Commission and the actual power purchase for the year 2003-04 are given in the following table.

Energy Generation and Power Purchase details in Million Units

Power Purchase	As per ARR & ERC	As per SERC Order	As per Accounts
Ramagundam (Old)	2194.60		2271.22
MAPS	121.90		80.13
NLC - I	520.10		431.97
NLC - II	717.20		662.58
Kaiga	407.90		373.60
ER	481.00		467.52
Kayamkulam	1021.00		1034.95
BSES	928.20		992.21
KPCL	127.20		77.21
NLC (NEW)	188.30		253.56
Talcher - II	409.50		605.06
UI	622.20		682.15
PTC	71.20		71.20
GEL			12.03
Total	7810.20	7491.20	8015.40

2.5 As per the order on ARR for the year 2003-4, the Commission had approved the power purchase as 7491.20 MU, but the actual power purchase was 8015.39 MU, an increase of 524.19 MU. This increase in power purchase was due the following reasons.

- (i) Shortfall in hydro generation from the estimate of 4314.70 MU to 3910.68 MU, i.e. a short fall of 404.02 MU.
- (ii) Actual increase in the demand for energy from the Commission's estimate of 12328.00 MU to 12503.60 MU. i.e. there was an increase of 175.60 MU from the estimate of the Commission.

2.6 Thus an increase of 579.60 MU was required to be met from thermal stations of KSEB and power purchase from external sources. KSEB had generated additional generation of 54.89 MU from own diesel stations. The balance, 524.20 MU was purchased from CGS, by way of availing UI and additional power purchase.

(d) Cost of internal Generation

2.7 As per the commission's approval, the estimated cost of generation from the KSEB stations was Rs. 153.30 crores including Rs. 13.70 crores as variable cost for hydel generation. But the actual cost of generation was Rs. 143.70 crores excluding the variable cost of hydel generation. The details of the cost of generation from the KSEB stations are given below.

KSEB Own Generation (incl. Aux. Consumption)	As per ARR & ERC		As per SERC Order		As per provisional Accounts	
	Energy (MU)	Cost (Rs.Cr)	Energy (MU)	Cost (Rs.Cr)	Energy (MU)	Cost (Rs.Cr)
Hydel	4314.70	13.20	4314.70	13.20	3910.68	0.00#
Wind -Kanjikode	2.00	0.40	2.00	0.40	2.49	0.50
BDPP	244.20	67.90	244.20	67.90	263.21	67.80
KDPP	275.80	71.80	275.80	71.80	311.68	75.40
Sub Total	4836.80	153.30	4836.80	153.30	4488.06	143.70

In the Board's accounts variable cost of hydel generation is included in the other heads of accounts.

(e) Cost of power purchase

2.8 The details of the power purchase cost as per the ARR, as approved by the Commission and the actuals are given in the following table.

POWER PURCHASE AND COST FOR THE YEAR 2003-04

Power Purchase	As per ARR & ERC		As per SERC Order		As per Accounts	
	Energy (MU)	Cost (Rs.Cr)	Energy (MU)	Cost (Rs.Cr)	Energy (MU)	Cost (Rs.Cr)
Ramagundam (Old)	2194.60	296.60	7491.20	1622.50	2271.22	266.23
MAPS	121.90	25.10			80.13	21.71
NLC – I	520.10	74.30			431.97	73.71
NLC – II	717.20	113.00			662.58	120.81
Kaiga	407.90	137.30			373.60	125.34
ER	481.00	50.10			467.52	83.88
Kayamkulam	1021.00	393.00			1034.95	399.46
BSES	928.20	331.70			992.21	362.46
KPCL	127.20	54.50			77.21	42.62
NLC (NEW)	188.30	52.40			253.56	27.80
Talcher – II	409.50	63.40			605.06	63.90
UI	622.20	99.90			682.15	112.90
PTC	71.20	14.10			71.20	14.60
GEL					12.03	1.70
PGCIL Charges						

Power Purchase	As per ARR & ERC		As per SERC Order		As per Accounts	
	Energy (MU)	Cost (Rs.Cr)	Energy (MU)	Cost (Rs.Cr)	Energy (MU)	Cost (Rs.Cr)
Eastern Region		7.70		7.70		8.71
Southern Region		101.10		101.10		121.18
Kayamkulam		43.80		43.80		40.10
Sub total	7810.20	1858.13	7491.20	1775.13	8015.40	1887.11

2.9 The actual power purchase cost for the year 2003-04 was increased by Rs.111.98 crores from that approved by the Commission. This is due to the increase in power purchase of 524.20 MU more than that approved by the Commission. From the above table it can also be seen that KSEB had imported 682.20 MU as UI at an average cost of Rs. 1.66 per unit by judicially scheduling the generation and power purchase.

2.10 The components of power purchase cost such as fixed cost, variable cost, incentive, taxes and wheeling charges etc are given in the following table.

Source	Energy Produced / Purchased	Fixed Cost	Incentive, Tax, etc.*	Variable cost	Total Cost
	MU	Rs. Cr	Rs. Cr	Rs. Cr	Rs. Cr
Ramagundam (Old)	2271.22	72.04		194.20	266.20
MAPS	80.13		4.76	17.00	21.70
NLC - I	431.97	22.85	18.97	31.90	73.70
NLC - II	662.58	54.88		65.90	120.80
Kaiga	373.60			125.30	125.30
ER	467.52	38.52		45.40	83.90
Kayamkulam	1034.95	127.27		272.20	399.50
BSES	992.21	120.00		242.50	362.50
KPCL	77.21	18.45		24.20	42.60
NLC (NEW)	253.56	4.33		23.50	27.80
Talcher - II	605.06	36.10		27.80	63.90
UI	682.15			112.90	112.90
PTC	71.20			14.60	14.60
GEL	12.03			1.70	1.70
PGCIL Charges					0.00
Eastern Region		8.10			8.10
Southern Region		121.20	0.62		121.80
Kayamkulam		40.10			40.10
Total power purchase	8015.40	663.80	24.35	1198.90	1887.11

Note

For the year 2003-04, CPS claimed Rs. 74.89 crores as income tax, incentive etc, but KSEB had admitted Rs. 24.35 crores only and the balance is under dispute and the same may be payable in subsequent years.

2.11 Had KSEB restricted the power purchase strictly in accordance with the approval of the Commission, i.e. the power purchase was limited to 7491.20 MU instead of the actual 8015.40 MU, there would have been shortage of 524.20 MU in the year 2003-04, i.e about 1.44 MU/day, which would have resulted in additional load shedding /power cut. But the policy of the Government was not to impose any power cut in the state. So the Board was forced to purchase more thermal power in tune with the increase in the demand for energy. But by judiciously scheduling the generation and power purchase, KSEB could limit the power purchase and power purchase cost to the maximum extent possible. The Commission may appreciate the steps taken by the Board to limit the power purchase and generation cost and approve the actual power purchase of 8015.40 MU and power purchase cost of Rs. 1887.11 crores

3. Repairs and Maintenance (R&M) Expenses

3.1 The table below shows the expenses on this account for each asset class estimated in the ARR and the actual as per the Accounts for the year 2003-04.

Repairs and Maintenance Expenses (Rs. Cr)

R&M Expense on	2003-04	
	Approved by SERC	Accounts
Buildings	1.60	1.26
Hydraulic Works	0.89	0.75
Other Civil Works	3.26	1.82
Plant and Machinery	17.57	15.36
Lines, Cable Network, etc.	40.55	41.96
Vehicles	2.66	2.45
Furniture and Fixtures	0.03	0.02
Office Equipments	0.14	0.17
Total	66.70	63.79

3.2 With a view to contain the expenditure, it was decided to curb the R & M expenditure on buildings, civil works, vehicles, and furniture & office equipments. . In the case of Lines, cable network, which need appropriate maintenance to keep the system for properly functioning, the expenditure had exceeded marginally from the estimate of 2003-04. However, the overall R&M expenditure was lower than the approved limit.

3.3 The following table indicates the R&M expenses as percentage of opening balance of the respective asset classes.

R&M Expenses as a %ge of OB of Gross Block

Particulars	Average of last 3 years	2003-04
Buildings	1.02	0.37
Hydraulic Works	0.26	0.11
Other Civil Works	4.59	1.49
Plant and Machinery	1.36	0.70
Lines, Cable Network, etc.	3.03	2.02
Vehicles	26.33	21.78
Furniture and Fixtures	2.55	0.31
Office Equipments	2.94	2.27
Total	1.89	1.18

3.4 It is pointed out that during the year 2003-04, R&M expenditure was lower than the approved limit primarily because of a severe funds crunch and liquidity problems. The Commission may approve the actual expenditure.

4. Employees Cost

Employee's Cost (Rs. Crores) 2003-04				
	Particulars	ARR	SERC	Accounts
1	Salaries	303.37		212.94
2	Dearness Allowances			151.75
3	Sub total (1+2)			364.69
4	Overtime / Holiday Wages	0.13		0.12
5	Other Allowances	21.34		16.37
6	Bonus			2.51
7	Medical Expenses /Reimbursement			1.90
8	Reimbursement of stamp duty/staff welfare			0.03
9	Staff welfare			0.10
10	Payment under workmen Compensation Act			0.32
11	Leave Salary and Pension Contribution to other Dept,			0.07
12	Subtotal (5 to 11)	21.34		21.30
13	Terminal EL surrender	25.00		11.41
14	Pension & Terminal Benefits	343.80		357.30
15	Provision for pension Fund			33.49
16	Subtotal (13 to 15)	368.80		402.20
17	Total (3+4+12+16)	693.64	693.64	788.31

- 4.1 The expenses towards employee cost as estimated in the ARR for the year 2003-04 was Rs. 693.64 Crores as compared to the actuals of Rs. 670.81 Crores in the previous year (FY 2002-03). The Commission approved the amount of Rs. 693.64 crores for the FY 2003-04. But the actual employees' cost during the year was Rs. 788.31 crores. Thus there was an increase of Rs. 94.67 crores in the employee cost as compared to the amount estimated in the ARR and Commission's approval. The increase is attributable to the increase in the quantum of DA allowed to the employees and also to the increase in the quantum of terminal benefits. As far as the DA component, it may please be noted that the rate of DA being paid with effect from 1.1.2000 was 38%. Keeping with the release of DA by the Government, the Board ordered revision in the rate of DA by 7 installments. i.e., for every 6 months from 1.7.00 to 1.7.03 as detailed below.

Sl. No	Date from which payable	% Increase of DA/month	Revised DA	BO No.
1	1.7.2000	3	41%	BO(FB)No. 603/04(PS1/1904/2002) dt 08.03.04
2	1.1.2001	2	43%	
3	1.7.2001	2	45%	BO(FB)No.2221/04(PS1/1904/2002) dt 7.9.04
4	1.1.2002	4	49%	
5	1.7.2002	3	52%	BO(FB)No.2578/04(PS1/1904/2002) dt 16.10.04
6	1.1.2003	3	55%	
7	1.7.2003	4	59%	

The quantum of expenditure towards DA was Rs. 151.75 crores as shown in the following table.

Employee Cost - Details of DA paid during 2003-04

Sl. No	Item	Amount (Rs. in Crores)
1	DA claimed @ of 38% applicable (w.e.f 01.01.99)	109.14
2	Increase on account of DA revision w.e.f 01.07.00 and 1.1.01 (total 5%)	10.71
3	Increase on account of DA revision w.e.f 01.07.01 and 01.01.02, 01.07.02, 01.01.03 and 01.07.03 (total 16%)	31.90
4	Total	151.75

- 4.2 Similarly in the case of terminal benefits also there was substantial increase. The details of pension and terminal benefits accounted for the year as against the approval of SERC are given below :-

Details of Terminal Benefits

Sl. No.	Item	Approve by SERC	Amount (In crores)
1	Gratuity		81.81
2	Commutation of pension		77.34
3	Monthly Pension		174.20
4	Festival Allowance, Medical Allowance etc		1.10
5	Interim relief		0.18
	Subtotal		334.63
6	Pension fund		33.49
7	Increase in monthly pension due to DA revisions with effect from 01.07.2000, 01.01.2001, 01.07.2001, 01.01.2002, 01.07.2002, 01.01.2003 & 01.07.2003 loaded		22.67
	Total	343.80	390.79

4.3 As in the case of DA to the regular staff, necessary provision for the revision of dearness relief to the pensioners was also made in the accounts as shown in the above table.

4.4 DA revision and terminal benefits in the case of Board employees are determined periodically in line with the policy of GOK and hence the Board does not have any control in granting such benefits. In this connection it may be noted that in the original ARR for 2003-04 the Board estimated the employee cost as Rs. 750.50 crores. In the light of the Commission's observations vide letter dated 15-10-2003 the Board re-estimated the amount to 693.64 crores in which the DA taken into account was Rs.88.55 crores only. However the actuals as per the then ruling rates itself came to Rs. 109.14 crores besides the additional hikes ordered by the Board. The Employee cost as per the audited account was Rs.788.31 crores.

4.5 The amount of employees' cost capitalized has been estimated on the basis of the past trends. During 2002-03 and 2003-04, the Board has made sincere efforts to reduce the Staff Costs and Administrative & General Expenditure through measures such as:

- Improving the productivity of existing employees.
- Drastic reduction of payment of Over Time charges.
- Abolition of redundant posts of staff and officers
- Limiting the increase in the officers' salary to the end of the pay scale
- Redeployment of employees to vacant posts.

- Cutting down certain allowances such as leave surrender salary and holiday wages and reducing disbursement expenses pension Money Order.

4.6 Had these measures been not taken, the cost would have been still more. It is to be observed that there has been practically no increase in working strength of the employees during the past few years, despite increase in the number of service connections, substations and networking.

5. Administration and General Expenses

5.1 The Administration and General (A&G) expenses consist of rents, taxes, insurance, legal charges, audit fees, Electricity Duty under Section 3 (i) of the Kerala Electricity Duty Act (KED Act) and other charges such as travel expenses, freight, purchase related expenses, etc. The following table summarises the A&G expenses.

Administration & General Expense 2003-04(Rs in crores)

No.	Particulars	2003-04 (ARR Projection)	2003-04 (Accounts)
1	Rent, Rate tax etc.	3.06	2.92
2	Insurance	2.32	1.05
3	Legal Charges	3.73	0.98
4	Audit Fees	1.43	1.35
5	Consultancy, Technical, Other Charges & Reforms	23.47	0.17
6	Conveyance and Travel		6.51
7	Fees, Subscriptions, books		0.21
8	Printing & Stationary		2.55
9	Data Processing		0.03
10	Advertisements		1.48
11	Exhibition, Publicity & Contribution		0.87
12	Ele. Charges		2.29
13	Water Charges		0.18
14	Sports& Entertainment		0.15
15	Study Tour & Training		0.32
16	Freight & Purchase related Expenses		4.8
17	Miscellaneous		4.36
18	Other Expenses		
19	Ele. Duty u/s 3(I), KED Act	21.87	51.53
20	P&T Charges		2.99
	Total	55.88	84.74

5.2 In the ARR for 2003-04, an amount of Rs. 55.88 crores was estimated towards A&G expenses and the Commission had approved the same. A significant part of the actual Administration and General expenses during the year was the Electricity Duty under section 3 (i) of the Electricity Duty Act payable to GOK at the rate of 6 Ps per unit of net energy sold to the consumers paying more than 12 paise per kWh. Hitherto, the Board was paying duty for the energy generated only and sold within the state. But as per letter No 2619/C2/03/PD dated 24.8.04 of the Govt. of Kerala, Board was compelled to pay Electricity duty under Section 3 (i) of the Act for the electrical energy both generated within the State and also purchased from other states. As per this changed norm, the actual duty payable by the Board was Rs. 51.53 crores against Rs. 21.87 crores estimated in the ARR. Thus, the increase in the amount of Section 3(1) duty accounts for the entire increase in the actual A&G expenses as compared to the amount allowed by the Commission. As the electricity duty is an inevitable liability, the actual A&G expenses of Rs.84.74 crores be admitted.

6. Depreciation

6.1 Depreciation for the year was computed for each class of assets at the rate notified by the Govt. of India under the Electricity Supply Annual Accounts Rules, 1985. The actual depreciation was worked out to be Rs. 326.19 crores as against Rs. 334.52 crores estimated in the ARR and approved by the Commission. Thus the actual amount of depreciation is less to the extent of Rs. 8.33 crores during the year. The small difference is due to slight reduction in the capitalized amount from the estimated value.

7. Interest and Finance Charges

7.1 An amount of Rs.741.68 crores was estimated as interest and finance charges in the original ARR for the year 2003-04. The Board subsequently revised it to Rs.721.54 crores and the Commission, however, approved only Rs.679.26 crores. But the actual amount of interest and finance charges is Rs.726.32 crores. The difference between the Commission's order and the actual is due to the following reasons.

7.2 In the original ARR for 2003-'04 which was prepared and submitted to the Commission on 1-8-'03, i.e. prior to the finalization of Accounts for FY 2002-'03, the Board projected a total borrowing of Rs.1207.99 crores for the year 2003-'04. After the estimated repayment of bonds and loans to the tune of

Rs.868.67 crores, the Board estimated an outstanding closing balance of Rs.5241.31 crores at the end of the year, as shown in the following table.

Loans & Debentures projected in the ARR for 2003-04(Rs. in crores)				
Particulars	OB (1.4.03)	Borrowings during 2003-04	Repayment	Closing Balance (31.3.04)
Bonds	2101.85	0.00	280.46	1821.39
Financial Institutions	2412.30	0.00	541.97	1870.33
Foreign Currency Loans	334.68	0.00	46.24	288.44
Addl. Borrowing for capital Expenditure	0.00	673.98	0.00	673.98
Addl. Market Borrowing for revenue deficit	0.00	148.75	0.00	148.75
Loans to finance Regulatory Assets		385.26		385.26
Govt. Loan	53.16	0.00	0.00	53.16
Total	4901.99	1207.99	868.67	5241.31

7.3 But during finalization of the Accounts for the year 2002-'03, it was noticed that the loan of Rs. 199.89 Crores granted by GOK, loans to the extent of Rs. 4.37 crores from Financial institutions and reduction in the amount of foreign currency loans amounting to Rs. 3.34 crores due to foreign exchange rate variation were found to be included in the OB as on 1-4-2003. After adjusting all these elements, the Board reassessed the fund requirement for 2003-'04 as Rs. 1423.37 crores with a scheduled repayment of Rs. 1312.33 crores during 2003-'04. The outstanding balance of loans and bonds at the end of 2003-04 was estimated to be Rs. 5205.19 crores against the closing balance of Rs. 5241.31 crores projected in the original ARR. Accordingly, the revised programme of borrowing and repayment for the year 2003-'04 was submitted to the Commission along with the ARR &ERC for the year 2004-'05 on 15-12-'03. A comparative statement of the revised borrowing programme (as furnished in the ARR &ERC for 2004-'05) and the actual borrowings and repayments made during 2003-04 as per the Accounts of 2003-04 is furnished below.

Actual Borrowings and Repayments during 2003-04 (Rs. in Crores)							
Item	OB	Borrowing		Repayment		Closing Balance	
		ARR	Account	ARR	Account	ARR	Account
Bonds	2101.85	0.00	0.00	450.65	750.65	1651.20	1351.19
Loans from financial Institutions	2408.96	1364.90	1990.68	812.65	938.32	2961.19	3461.30
Foreign currency	330.31	0.56	7.07	49.02	62.93	281.84	274.46
Govt. Loan	253.05	57.91	15.64	0.00	0.00	310.96	268.70
Total	5094.17	1423.37	2013.39	1312.32	1751.90	5205.19	5355.65

7.4 It may be observed from the above table that during 2003-04, the Board had to borrow Rs. 590 crores in excess over Rs. 1423 crores envisaged in the revised estimate. Out of Rs. 2013 crores borrowed, Rs.1752 crores was utilized for repayment of past loans alone. The additional borrowings & repayments were necessitated on account of the following reasons.

- (i) For the year 2003-04, the Board had estimated a revenue gap of Rs.926.08 crores against which the Commission approved Rs. 556.46 crores only. As per the Board's accounts, the actual revenue gap for 2003-04 was Rs. 1007.43 crores, which was very close to the Board's estimate. The Board had to borrow to meet the un bridged revenue gap.
- (ii) As against the Commission's Recommendation to the Government to release subsidy of Rs. 375 Crores in cash to the Board in 2003-04, the Board did not get any amount from the Government during that year and obviously the Board had to borrow on this account too.
- (iii) In March 2004, the Board decided and redeemed high cost bonds worth Rs. 300 Crores (interest rate 15.25 percent) by exercising the call options. For this purpose, the Board had to borrow Rs. 300 crores in March 2004 at an interest rate of 7.50 Percent and on further negotiation got the rate reduced to 7.00 percent. The total gain in interest by this redemption is estimated to be Rs. 133.29 Crores and the net gain per annum works out to Rs. 26.60 crores.
- (iv) Out of the total borrowing of Rs. 2013.39 Crores in 2003-04, Short Term Loans constituted as much as Rs. 655 Crores which was repaid

to the extent of Rs. 544.36 Crores during the year itself as shown below:

Institution	Opening Balance (Rs. R)	Amount Borrowed (Rs. cr)	Amount Repaid (Rs. cr)	Closing Balance (Rs. Cr)
STL – REC	350.82	200.00	337.99	212.83
STL – PFC	-	200.00	144.81	55.19
STL - Comm. Banks	-	255.00	61.56	193.44
Total	350.82	655.00	544.36	461.46

- 7.5 So it is to be appreciated that despite a revenue gap of Rs. 1007.43 crores, which was not compensated by the Government in the relevant year by way of cash subsidy etc in spite of recommendation by the Commission, the Board was able to make repayment of loans to the tune of Rs. 1752 Crores, besides meeting the expenditure on capital works. In other words, the heavy borrowings particularly the short term ones were to be resorted to meet the cash deficit that resulted from non release of subsidy by the Govt. and the vast difference between the actual revenue deficit and the revenue gap estimated by the Commission. This can be observed from the following table.

Total Borrowings: in Rs. Cr.		2013.39
Less :		
(i) Repayment of Bonds by exercising call option 31.3.04	300.00	
(ii) STL availed and repaid during the year	336.36	
(iii) Borrowing due to non release of cash subsidy by the Govt.	375.00	
(iv) Borrowings to meet the addl. revenue gap	450.94	1462.30
Balance		551.09

- 7.6 The Board projected in the ARR a total capital expenditure of Rs. 773.98 Crores with a base capital expenditure of Rs. 500 Crores and subsequently revised it to Rs. 688.65 crores during 2003-'04 and as observed by the Commission in its order on the ARR&ERC for the year, the Board had proposed the borrowings for the following purposes.

	(Rs. in crores)
1.Loan for financing capital projects	673.98
2.Loan for meeting the deficit	148.75
3.Loan for meeting regulatory assets	<u>385.26</u>
Total	<u>1207.99</u>

- 7.7 However, the Commission in its order dated 31-3-03 disallowed the items 2 & 3 above and held the view that the Board would be in a position to incur only a base capital expenditure of Rs. 350 crores during 2003-04 as against Rs. 500 crores projected by the Board for the purpose in the ARR and accordingly made a cut in the interest on borrowings to the tune of Rs.10.58 crores. The Commission in its order on the ARR & ERC for the year 2004-05 reviewed the above and fixed the ceiling on borrowing for the year 2003-04 at Rs. 878 crores. The Commission presumably arrived the amount on the following basis.

Base capital expenditure during 2003-04	-	Rs. 350.00 crores.
Capitalization of Expenses	-	Rs. 122.00 crores.
Subtotal	-	Rs. 472.00 crores.
Excess over the scheduled repayment	-	<u>Rs. 406.00 crores.</u>
Total	-	<u>Rs. 878.00 crores</u>

- 7.8 However as the per the Board's account for 2003-04, the actual capital expenditure during the year exceeded the revised estimate of the Board and also the assessment made by the Commission and it amounted to Rs.809.09 crores as shown in the following table.

Rs. in Crores		
Particulars	ARR (revised)	Accounts
OB (01.04.03)	1502.90	1502.90
Total Capital Expenditure	688.65	809.09
Base investment	453.40	621.93
Interest capitalised	115.45	78.11
Expense capitalised	119.80	109.05
Capitalised (Transferred to fixed Asset)	924.28	968.51
CB (31.03.04)	1267.27	1343.48

- 7.9 In spite of the above mentioned additional liabilities caused by the Commission's arbitrary pruning of the deficit for the year 2003-04, non-release of the Commission's recommended amount of subsidy by the Government and one of the worst monsoon years when the Board had to buy huge

quantity of costly thermal power due to the ever lowest hydel generation in 2003-04, the Board's closing balance of outstanding Bonds and Loans (Rs. 5355 crores) as on 31.03.2004 increased by Rs. 115 crores only as compared to the balance (Rs. 5241 cr) projected in the original ARR and by Rs. 150 Crores, as compared to the closing balance (Rs. 5205 cr) mentioned in the revised estimate as on 31-03-'04. Thus for the first time, the outstanding debt has been contained in 2003-04 and the Board has taken all efforts to reduce the outstanding debts further in 2004-05. This is one of the significant and vital performance improvement achieved by the Board. The Board anticipates that the Hon'ble SERC would appreciate these facts.

- 7.10 In the original ARR, the Board projected a total amount of Rs. 741.69 crores towards Interest and finance charges for the year 2003-04. Subsequently, the charges were reduced to Rs. 721.54 crores. The Commission in its order dated 31-12-2003, determined the amount to be Rs. 679.26 crores. However, due to the facts mentioned earlier, the borrowing had increased and as a result, the interest and finance charges also increased to Rs. 726.32 crores as detailed below.

Interest and Finance Charges 2003-04			
Amount (Rs. in Crores)			
	ARR	SERC	Accounts
Interest on Govt. Loans	612.00	612.00	29.13
Interest and Public Bonds			9.43
Interest on Non SLR Bonds			238.87
Foreign Currency Loans			20.98
IDBI			36.08
SIDBI			1.80
LIC			23.07
HDFC			0.10
Can Fin Homes			0.42
Medium Term Loan for KDPP			9.09
REC			118.61
REC-OECF			3.08
PFC			11.92
KPFC			71.53
Commercial Banks-RES			5.02
REC-STL			28.12
PFC - STL			8.61

Syndicate Bank-STL			2.86
South Indian Bank-STL			0.95
IOB-STL			0.11
UBI-STL			2.38
Borrowings for capital projects	30.00	19.42	
Interest on borrowings for working capital	15.00	15.00	11.03
Discount to consumers for timely payment			4.05
Interest on PF			29.29
Borrowings for Revenue Deficit			
Loans to finance Regulatory asset			
Other Interest			0.17
Cost of raising finance			3.54
Premium payment for swapping of loans			31.90
Other Charges	64.54	32.84	24.18
Total	721.54	679.26	726.32

7.11 Thus there was an increase of Rs. 4.78 crore only over the amount estimated by the Board in the ARR but Rs. 47.06 crore over that approved by the Commission. In view of the facts presented above, it is requested that the actual interest and finance charges be allowed by the Commission.

8. Other Expenses

8.1 The other expenses included the "Other Debits" and "Net prior period charges" as given in the following tables:

Other Debits (Rs. in Crores)

No	Particulars	ARR	SERC	Account
1	Research and Development			0.17
2	Bad and doubtful debts written off/ provided for			14.18
3	Miscellaneous losses and write offs			8.37
	Total	43.53	17.41	22.72

Net Prior period Charges (Rs. in Crores)

	ARR	SERC	Account
(A). Prior Period Expenses / Losses			
Short provision of purchase			17.36
Fuel related expenses			0.17
Operating expenses			1.5
Employees cost			79.47
Depreciation under provided			68.19

Interest & Finance charges			6.40
Other charges relating to prev. years			218.61
Total (A)			391.70
(B). Income relating to previous years			
Receipt from Consumers			122.96
Excess provision for depreciation in prior period			0.09
Excess Int & Fin charges			24.87
Other excess provision			0.44
Other income relating to Prior period			12271
Total (B)			271.07
Net Prior period Charges (A) - (B)	66.47	58.87	120.63

8.2 As shown above, the actual total amount of other expenses was Rs.143.35 crores (22.72+ 120.63) crore as against Rs. 76.28 crore approved by the Commission. The reasons for the increase in the net prior period charges were the increase in the amount of employee cost due to arrears on account of DA revision, depreciation related to prior periods accounted in compliance of audit objection and also due to increase on account of section 3 (1) Duty payable on imported energy. The item wise details are furnished in the following tables.

(1) Prior Period charges - Employee Cost

Sl. No.	Details	Amount (Rs. in crores)
1	DA Arrears on account of revision of DA w.e.f 1.7.2000 & 1.1.2001 as per B.O. (FB) No. 603\04 (PS1/1904/2002) dated 8.3.04 upto 31.3.2003.	42.61
2	DA Arrears on account of DA revisions with effect from 1.7.2001(2%), 1.1.2002(4%), 1.7.2003(3%), 1.1.2003 (3%)& 1.7.2003 (4%) as per BO dated 7.9.2004 & 16.10.04 upto 31.3.2003	36.86
	Total	79.47

(2) Prior period charges - Details of 'Depreciation'

Sl. No.	Details	Amount (Rs. in Cr)
1	Short provision of Depreciation on assets capitalised in KDPP during 2001-02, for the period from the year of commissioning. ie 1999-00 to the date of capitalisation	65.2
2	Short provision of depreciation for 2002-03 on the assets (erection of breakers at 110KV s/s at Ottappalam, placing of panels and metering boxes at s/s Pattambi etc. under Transmission Circle, Palakkad) commissioned during 2001-02 but capitalised during 2002-03 as per draft audit report of the AG (para 2.1(iii))	0.05

3	Short provision for depreciation for the period from 1998-99 to 2001-02 in respect of assets commissioned during 1998-99, but capitalised during 2002-03 relating to MSHEP Scheme as per audit report para 1.7 (a) of the AG 2001-02.	0.46
4	Short provision of depreciation in respect of PLB Scheme which was commissioned during 1998-99 but capitalised during 2003-04 & 2004-05 as per AG's audit report para 1.9 item 1.11 for 2002-03.	0.29
5	Short provision for the assets commissioned during earlier period but capitalised during 2003-04 under transmission circle, Thrissur as per para 1.11, items 14 to 17 of AG's audit report 2002-03	0.27
6	Short provision for the assets commissioned during earlier period but capitalised during 2003-04 under transmission circle, Kottarakkara as per para 1.11, items 6 to 13 of AG's audit report 2002-03	1.92
	Total	68.19

(3) Prior period charges - Details of ' other charges'

Sl. No.	Details	Amount (Rs. in crores)
1	Amount of liability on account of Section 3 (1) duty payable, out standing as on 1.4.99 but withdrawn during 1999-00, re-accounted as per audit report para 2.4(v)C of draft audit report of the AG in 2001-02	47.37
2	Provision of Section 3(1) duty payable on power purchased as per AG's audit report for 2001-02, Para 2.4 (a) and Govt. letter dated 24.8.04	169.57
3	Other items	1.67
	Total	218.61

9. Revenue from Tariff

- 9.1 In the original ARR for 2003-04, KSEB had estimated the energy consumption (Sales) in 2003-04 as 9080 MU. Subsequently during the course of considering the ARR, the Commission directed the Board to rework the consumer's category wise consumption with reference to a total consumption of 8900 MU. But as per the actuals, the total energy consumption in 2003-04 was 8910 84 MU, the total revenue from sale of power was Rs. 2756.09 crores and the overall rate of realization was Rs.3.09 /unit as furnished below.

Revenue from Tariff 2003-04				
No	Particulars	Amount (Rs. in Crores)		
		ARR	SERC	Accounts
1	Domestic	598.30		703.72
2	Commercial	582.72		578.61
3	Public Lighting	25.49		28.17
4	Irrigation & Dewatering	18.43		19.68
5	Industrial LT	294.96		305.51
6	Railway Traction	16.88		16.80
7	Bulk Supply	53.73		57.96
8	HT	1093.35		644.85
9	EHT			400.79
	Total	2683.86	2901.00	2756.09

The Commission may take into account the actual revenue and approve the same.

10. Non Tariff Income

10.1 In the case of non-tariff income, the actuals were more than the estimate as detailed below.

No	Particulars	SERC	Actual as per Account (Rs. Cr)
1	Meter Rent /Service Line Rental		109.87
2	Line Rent		
3	Sub total		109.87
4	Recoveries for theft of power		0.18
5	Sub total		0.18
6	Wheeling Charge Recoveries		1.06
7	Sub total		1.06
8	Miscellaneous charges from consumers		102.03
9	Sub total		102.03
10	Ele. Duty recovery from consumers		158.82
11	Other state levies / Surcharge		8.17
12	Sub total		166.99
13	Less Duty recovery payable to Govt.		158.82
14	Other state levies / Surcharge		8.17
15	Net Revenue (3+5+7+9+13-14-15)		213.14
16	Interest on staff loans & advances		1.76
17	Income from investments		0.18
18	Interest on advances to suppliers/ Contractors		0.53
19	Interest from Banks		11.81
20	Rebate received		52.69
21	Income from trading		6.91
22	Misc. Receipts		17.64
23	Subtotal (16+17+18+19+20+21+22)		91.52
	Total (15+23)	240.37	304.66

11. Government Subsidy and Grants

- 11.1 The Commission in their order on the ARR & ERC for 2003-04, interalia recommended to the GOK to allow concessions and subsidies to the Board for Rs. 556.46 Crores to bridge the revenue gap determined by the Commission. Accordingly, the GOK issued orders for adjustment of the guarantee commission and electricity duty of Rs 195.46 crores payable to GOK and release of subsidy of Rs. 361.00 crores to the Board. The adjustment of duty and guarantee commission was implemented on 27.3.2004. But the cash subsidy of Rs. 361.00 crores was not received till 31.3.04. The amount of subsidy was got released from the Government in the subsequent year as detailed below: -

4/2004	- Rs 105.80 Cr
5/2004	- Rs 50.00 Cr
6/2004	- Rs 81.17 Cr
7/2004	- Rs 12.06 Cr
8/2004	- Rs 26.46 Cr
9/2004	- Rs 10.32 Cr
10/2004	- Rs. 23.67 Cr
2/2005	- Rs. 29.22 Cr
3/2005	- Rs. 22.30 Cr
Total	Rs 361.00 crores

12. Summary

- 12.1 The following table shows the item wise variation of expenses and income as per the order of the Commission and the actuals for the year 2003-04.

ARR & Revenue from charges during 2003-04 (Rs in crores)

No	Particulars	Actual (Accounts)	SERC Order	Variation (+/-)
1	Purchase of power	1887.11	1775.13	(+)111.98
2	Generation of power	143.70	153.32	(-) 9.62
3	R&M	63.79	66.70	(-) 2.91
4	Employee cost	788.31	693.64	(+) 94.67
5	Admn.& Genl	84.74	55.88	(+) 28.86
6	Depreciation	326.19	334.52	(-) 8.33
7	Interest and finance	726.32	679.26	(+) 47.06
8	Other Expenses	143.35	76.28	(+) 67.07
9	Total	4163.51	3834.73	(+) 328.78

No	Particulars	Actual (Accounts)	SERC Order	Variation (+/-)
10	Less Exp. Capitalised	109.05	119.80	(-) 10.75
11	Less: Int. Capitalised	78.11	108.93	(-) 30.82
12	Sub Total (10+11)	187.16	228.73	(-) 41.57
13	Total Expenditure (9-12)	3976.35	3606.00	(+) 370.35
14	Add : Statutory Surplus	91.83	91.83	0.00
15	Total Rev Requirement (13+14)	4068.18	3697.83	(+) 370.35
16	Non Tariff Income	304.66	240.37	(+) 4.29
17	Revenue from Tariff	2756.09	2901.00	(-) 144.91
18	Total Revenue (16+17)	3060.75	3141.37	(-) 80.62
19	Revenue Gap (15-18)	1007.43	556.46	(+) 450.97
20	Subsidy & Grant recommended/ received	556.46	556.46	0.00
21	Balance Revenue Gap (19-20)	450.97	0.00	(+) 450.97

12.2 From the above, it can be seen that there was a net increase of Rs. 370.35 crores in the aggregate expenses and net decrease of Rs.80.62 crores in the revenue from charges and thus a net revenue gap of Rs 450.97 crores as per the actuals as compared to the amount admitted by the Commission.

12.3 The reasons for the deviation of each item has been described in para 2 to 11 above. The summary of the deviation is given below.

- (a) The Commission is aware that the year 2003-04 was one of the worst monsoon years in the recent history of Kerala. The average hydro generation during the year was 3910.70 MU against the average of 6000 MU in a normal monsoon year. The Commission, in the order had considered a hydro availability of 4314.70 MU. Thus, the actual hydro generation was less by 404 MU as compared to the order of the Commission. This short fall was met through additional power purchase from the Central Generating Stations.
- (b) The Commission had considered a total generation and power purchase of 12328.00 MU whereas the actual was 12503.60 MU, i.e the actual consumption was 175.60 MU higher than the estimate of the Commission. The Board had met the increase in consumption through additional power purchase from the Central Generating Stations (CGS). Had the Board restricted the generation and power purchase within the limit allowed by the Commission, it would have resulted in severe power cut and load shedding.

- (c) Thus, in order to meet the increase in energy consumption of 175.60 MU and the shortfall of hydel generation of 404.02 MU, KSEB had generated additional generation of 54.89 MU from its own diesel stations and resorted to additional power purchase of 524.2 MU from CGS stations. The total power purchase was 8015.4 MU against 7491.20 MU approved by the Commission leading to increase in the expenditure on power purchase.
- (d) The Commission had approved a total power purchase cost of Rs 1775.13 crores for the power purchase of 7491.20 MU at an average power purchase cost of Rs 2.37 per unit. But, the actual power purchase cost was Rs 1887.11 crores for 8015.4 MU at an average unit cost of Rs 2.35 per unit.
- (e) KSEB had restricted the R&M costs during the year 2003-04 by postponing/ attending only the very essential works due to the severe financial crunch and liquidity problems faced by the Board. So, the actual R&M costs was Rs 2.91 cross less as compared to the approval of the Commission.
- (f) The actual employee cost during 2003-04 was Rs 94.67 crores higher than the same approved by the Commission. This increase was mainly on account of the additional DA released by the Board during the period. In the order of the Commission, the DA considered was Rs 88.55 crores only whereas the actual DA incurred during the year was Rs 151.75 crores, an increase of Rs 63 cores over the approval of the Commission. Also, the terminal benefits was increased from the approved figure of Rs 343.80 crores to Rs 390.78 crores, an increase of Rs 46.98 crores. But, there was decrease in Leave Encashment and other allowances /benefits. As explained in section-4, the Board cannot deny the DA and other benefits to the serving as well as retired employees. So, the Commission may kindly approve the actual employee cost as per the audited accounts of the Board.
- (g) There was an increase of Rs 28.86 crores in A&G expenses over the amount allowed by the Commission and this was due to the increase in electricity duty payable to the State Government. As per the order of the Commission, the section 3(1) duty considered was Rs 21.87 crores

whereas the actual duty payable was Rs 51.53 crores, an increase of Rs 29.96 crores. The Board has no control over the same. So, the Commission may kindly approve the actual A&G expenses.

- (h) The interest and finance charges was increased by Rs 47.06 crores over the approval of the Commission. The increase was mainly on the account of
 - (i) additional borrowing to meet the increase in power purchase cost due to the short fall in monsoon as well as increase in energy consumption.
 - (ii) Additional borrowing to meet the capital expenditure.
In the order on ARR, the Commission had considered the base capital expenditure as Rs 350 crores, but the actual base capital expenditure was Rs 621.93 crores, an increase of Rs 271.93 crores.
 - (iii) Borrowing due to non release of cash subsidy by the Government in time. Even though the Commission had directed the Government to release Rs 556.46 crores as concessions and subsidies, the Government did not release the amount in 2003-04. This resulted in additional borrowing to meet the revenue gap
- (i) The other expenses also had increased by Rs 67.07 crores against the approval of the Commission. The increase was mainly due to the increase in the prior period charges in employee cost (Rs 79.47 crores) on account of the DA increase allowed with retrospective effects. Also, there is an increase of Rs 68.19 crores in depreciation related to prior periods required to be provided on account of the audit objections. Since, the Board has no control over these, the Commission may kindly approve the actuals.
- (j) The Commission has approved a total revenue from tariff as Rs 2901 crores from the sale of 8900 MU of energy at an average realization of Rs 3.26 per unit. The actual revenue receipt was Rs 2756.09 crores from the sale of 8910.84 MU at an average realization of Rs 3.09 per unit. The Commission has not allowed any tariff increase during 2003-04. It may also be noted that the average realization from the sale of power was Rs 3.11 per unit during 2004-05. So, the estimate of the Commission for the

year 2003-04 was not correct. The Commission may approve the actual revenue receipt as per the accounts of the Board.

- (k) As explained in the preceding paragraphs, the Board had taken earnest and sincere efforts to contain the expenditure on various items, despite the worst monsoon and consequent over dependence on thermal power. Even though, the Board had been passing through severe financial crunch and liquidity problem, Board did not introduce any additional power cut or additional load shedding during the period. It may be noted that the revenue gap during 2001-02 was Rs 1316.43 crores and the same during 2002-03 was Rs 1015.56 crores. Despite the worst ever monsoon, and with out any additional power cut or load shedding, the Board could contain the revenue gap to Rs 1007.43 crores in 2003-04. The Commission may appreciate the efforts taken by the Board and approve the actual expenses on various items and the revenues as per the audited accounts of the Board.
- (l) It is submitted that the revenue gap of Rs.450.97 crores in excess of the amount estimated and admitted by the Commission (Rs.556.46 crores) was met by the Board by way of additional borrowing in 2003-04 as discussed in this petition and the cost (interest) of such borrowing have already been carried over to the accounts/ ARR&ERC of the subsequent years. Hence, the Board do not seek any compensation on this account except the Commissions' approval for the actual expenses & revenue of the Board for the year 2003-04.

Prayer

KSEB request before the Commission to admit the following :-

- (1) Truing up of expenses and revenues as per the Annual Statement of Accounts for the year 2003-04 vis a vis the figures approved by the Commission vide its order dated 31.12.2003 be admitted.

- (2) The actual revenue deficit of Rs. 1007.43 Crores which was Rs. 450.97 Crores in excess of Rs. 556.46 Crores allowed by the Commission had been met by the Board by way of borrowing etc, which may be admitted.
- (3) The cost of borrowings to meet the deficit in excess of the one allowed by the Commission in 2003-04 had already been built into the ARR & ERC and accounts of the Board for the subsequent year 2004-05 and hence the Board do not intent to raise any other claim on the same.
- (4) The truing up of expenses & revenue as per this petition and audited accounts of the board for the year 2003-04 may be admitted.

Chief Engineer (Commercial & Tariff)